EQUITY RESEARCH

Monthly Stock Monitor
October 3, 2007

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HIGHLIGHTS

CarMax…………………………………………………………………...…Lowers earnings guidance
Media General………………………………….….Initiating coverage with OUTPERFORM rating
Penn Virginia Resource Partners…………..…………..Diversifies revenue stream, Raises dividend
Progress Energy…………………………...…………….Reaffirmed 2007-2008 earnings guidance
Smithfield Foods……………………...……………………………………………….Going into China
Suburban Propane……..…………………………………….Selling property, Improved earnings
Market Commentary………………………………………...………….“The Bulls are back in town”

COMMENTS AND UPDATES

CarMax (KMX--$21.63)

CarMax dropped recently after management lowered current year guidance from $1.03-$1.14/share to $0.92-$0.98/share. This was done due to lower than expected auto sales and weakening macroeconomic conditions. Management noted same store sales rose only 3%, vs. a 7% growth rate from last year's comparable period, and expects current fiscal year (2008) sales to grow only 1%-3%. We rate KMX NEUTRAL feeling the stock was overvalued when we initiated coverage a few months ago, and may still be so. Even though KMX's stock has fallen into the low-$20s, and below its 50-day moving average, investors should wait to see if the stock holds this important technical level or falls towards its next major support of $17-$18/share. If the US consumer pulls back on spending during the next few months then KMX's stock could come under additional selling pressure. These shares are rated NEUTRAL. (SFM)

Media General (MEG--$29.83)

We recently initiated coverage of Media General with an OUTPERFORM rating. This multi-media company, headquartered in Richmond VA, owns 25 daily newspapers including "The Tampa Tribune" and "The Richmond Times Dispatch". MEG also owns/operates 23 network-affiliated TV stations located primarily throughout the southeast United States. Additionally, the company has approximately 75 websites used to cross market/brand its product offerings, TV stations, and newspapers. MEG, as with all US newspaper companies, have altered their business model to deal with declining newspaper circulation numbers, as many individuals now use alternative media sources for news information. To this end, the company's strategy now implements using its newspapers, TV stations, and websites to cross brand/market its products/advertising services with the goal of adding new revenue sources to replace declining newspaper circulation. These shares are recommended for growth/income investors seeking above average appreciation potential in an out-of-favor industry. MEG currently trades at a 10-year low, a 24% discount to book value, and pays an attractive dividend yield of 3.1%. These shares are rated OUTPERFORM and our price target is $38. (SFM)

For Important Disclosure information regarding the Firm’s rating system, valuation methods and potential conflicts of interest, please refer page 4 of this report.

Penn Virginia Resource Partners (PVR--$27.31)

Penn Virginia Resource Partners, LP announced it was acquiring approximately 62,000 acres of forestland from MeadWestvaco Corp (MWV-$29.82). The land is in West Virginia and was purchased for $93.1 million. PVR estimates this property has approximately $240 million board feet of hardwood saw timber, plus two million tons of hardwood and conifer pulpwood. Management anticipates cash flow to be around $8 million during the next year, potentially adding $0.02/share towards PVR's earnings. This acquisition increases the company's timber business and adds additional non-coal revenues to PVR's predominant coal oriented business. PVR's revenues come from coal, natural gas, and timber operations. Consistent cash flow growth has allowed the company to consistently raise its dividend. Recently, management increased the annual shareholder distribution 2.5% to $1.68/share. Given its 6.2% distribution yield, PVR is rated OUTPERFORM and is recommended for income/growth investors. Our price target is $29. (SFM)

Progress Energy (PGN--$47.38)

Progress Energy reaffirmed its earnings guidance, from core earnings, of $2.70-$2.90/share for 2007. Furthermore, the company's CFO, Peter Scott, said the North Carolina headquartered utility is targeting 3%-5% earnings growth and expects 2008 profits of approximately $3.05/share. PGN worked its way through a recent difficult period when its non-regulated businesses were generating losses and imperializing its balance sheet. Since 2004, management has exited non-regulated businesses and has based its operating model on focusing on core regulated utility operations in North Carolina and Florida. The success in this strategy appears to be paying off for PGN, evidenced by management's projected earnings growth from 2007-2008. The company idled its majority-owned synthetic fuels plant since the high-price of oil makes it uneconomical to operate, however, this move will not affect core earnings. The high dividend yield of 5.2% makes PGN attractive to utility investors. Next year's projected earnings growth could allow PGN to raise its dividend for the 20th consecutive year. These shares are rated OUTPERFORM and our price target is $49. (SFM)

Smithfield Foods (SFD--$31.53)

More news from Smithfield Foods during the past month. After reporting solid 1Q08 earnings, the company announced it had reached an agreement to sell its product into China. SFD entered into an agreement with a major Chinese trading company which will purchase 60 million pounds of paylean-free pork by year end. The potential exists for increased purchases of pork by the Chinese in the future. In other news, SFD announced it would focus more on reducing debt on its balance sheet versus seeking additional growth opportunities in attempts to increase its overall profitability. Additionally, due to the outbreak of swine fever in its Romanian operations, SFD raised its inventory write down/disposal costs to $12 million-$13 million, up from prior estimates of $4 million-$5 million. While short term profits will be penalized by these charges, SFD's operations continues to set the stage for earnings growth this fiscal year (2008), and the stock should continue to trade between $28-$35/share. Earnings growth should materialize as its pork, packaged meats, beef, and international operating margins improve going forward. SFD's stock is susceptible to price swings in 4 commodities: PORK, BEEF, CORN, & SOYBEAN. We currently rate SFD OUTPERFORM with a target price of $41.25. (SFM)

Suburban Propane (SPH--$44.90)

Suburban Propane Partners, LLP announced it was selling its Tirzah SC underground granite propane storage cavern to Plains All American Pipeline, LLP (PAA-$53.08) for $55 million in cash. The Tirzah property has storage capacity of 57.5 million gallons and is connected to the Dixie Pipeline. SPH will use these sale proceeds for general corporate purposes and expects it to add to overall cash flow. This news comes on the heels of a recent positive earnings report. For its recently completed quarter, SPH narrowed its operating loss to ($0.03)/share versus ($0.33)/share during last year's comparable quarter. EBITDA improved $8.2 million to $15.3 million when comparing the two quarters due to continued operational efficiencies and cost saving efforts embarked upon by SPH during the past two years. Cost of products sold declined to $167.2 million from $192.0 million, operating expenses declined to $77.4 million from $88.2 million, and general/administrative expense fell to $12.6 million from $13.8 million. The warmer months of the year traditionally generate operating losses for companies like SPH given the bulk of its business comes from selling fuel products to homeowners for heating during the winter season. These shares are rated NEUTRAL. (SFM)

MARKET COMMENT~THE BULLS ARE BACK IN TOWN

Following the subprime market scare of mid-August, the stock market rallied from those lows to set new recent highs. The rally came on the heels of the Federal Reserve's lowering of interest rates, and the belief the US economy would avoid a recession despite a continuing slowing of the real estate market. Bullish sentiment has descended upon Wall Street as investors have laid their criteria for a further potential rise in the equity markets.

The subprime market meltdown this past August spread into world credit markets and eventually into equities. The sell-off in equities climaxed on 8/16 as the Dow Jones Industrial Average (DJIA), the S&P 500 (S&P), and the NASDAQ all hit recent lows. Seeing the need to assist the seized-up credit markets, negative sentiment sweeping through the equity markets, and consumer sentiment, the Federal Reserve lowered interest rates by 1/2 point on September 18. This move, in addition to the Fed lowering its Fed Funds rates, caused the Dow to rally off its August low of 12,517 and propel it to a new high above 14,000. For the month of September the DJIA rallied 4%, the S&P was higher by 3.6%, and NASDAQ rose 4%. Going forward, the bulls hope past 4Q stock market performance will repeat this year. According to a recent "Barron's" magazine article, the DJIA has advanced in the 4Q for nine consecutive years, and 24 of the past 27 years. Meanwhile the S&P has rallied during the 4Q in 13 of the past 15 years.

Wall Street bulls frequently lay-out future scenarios needed to materialize in order to generate further gains in the market. Given the rapid rally from the mid-August lows, as the Fed lowered rates, it appears institutional investors (and hedge funds) have maintained their appetites for risk still believe there are further positive returns in the future for the equity markets. The economic scenario laid-out by the investors for a continued bull run in stocks is S&P 500 earnings growth of 4% during the 3Q, 11% during 4Q, and 10% during 1Q08. Additionally, many believe the Federal Reserve will lower rates by another 1/4 – 1/2 point, consumer spending avoids contracting thereby avoiding a US recession, continued job growth, and benign inflation. This scenario assumes the slowing real estate markets have minimal impact on the US economy.

The real estate markets continued to produce negative industry reports during the past month. The Commerce Department reported a 21.2% decline in August new single-family home sales, the slowest in 7 years, to an annualized rate of 795,000. The median price of new homes fell 7.5% to $225,700 from a year ago. According to the National Association of Retailers, existing home sales declined 13% during August, however, the inventory of unsold homes fell 1.5% to 529,000. Given the release of these numbers, many real estate experts are not expecting the housing market to bottom until either late 2008 or 2009. Another issue facing the housing market will be foreclosures during the next 12-18 months. According to Gary Schilling & Associates, approximately $750 billion in adjustable rate mortgages will reset (likely higher) during the next 9 months, versus the $197 billion which adjusted during 1H07.

The bulls on Wall Street do not see declining real estate markets as a threat to their positive stock market scenario. They point to the August report showing US real consumer spending increased to 0.6%, the fastest growth in two years, pointing towards continued consumer spending going into 4Q07. This potentially will help upcoming company profits grow during the next few quarters. Additionally, while the US dollar has declined against world currencies, US companies selling overseas stand to benefit. These companies' products become cheaper on the world market with a falling US dollar thereby increasing foreign demand for their products, and potentially being the driver for earnings growth going forward into 2008. Many multi-national US stocks could benefit from this scenario and we suggest investors contact their Anderson & Strudwick Financial Consultant to learn which might be appropriate for their investment portfolios.

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For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

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