



STOCK OF THE WEEK - OCTOBER 17, 2005

Home Depot (nyse: [HD](#))

David Fried, editor of [The Buyback Letter](#) and [The Buyback Letter Premium Edition](#), recommends buying shares of Atlanta-based home improvement superstore **Home Depot** (nyse: [HD](#)).

On Friday, Home Depot shares closed at \$38.41, down 3.5% over the past 12 months. Although the stock has fallen, earnings per share for the full year (ending January 2006) are expected to grow 16.3% from last year's EPS of \$2.26 per share. Based on Friday's close, Home Depot trades for 14.6 times analysts' consensus 2006 EPS forecast of \$2.63.

Over the past 12 months, Home Depot earned \$5.37 billion on sales of \$76.86. Revenue for the quarter ended July 31, 2005 were up 11.7% over the quarter the year before, while net income was up 14.4%. The company has a market capitalization of \$82.2 billion and pays 10 cents per quarter in dividends, yielding 1.04% annually.

Fried keys in on value stocks and focuses on companies buying back enough of their own stock to reduce shares outstanding on a year-over-year basis. In Home Depot, he has a stock that meets several of his criteria.

Home Depot has repurchased 2.5% of its shares in the past 12 months, which Fried says is "a tremendous statement" given the size of the company. "For the world's largest home improvement retailer, and second largest retailer in the United States, to buy back that much of its own stock tells you management believes the stock is seriously under-priced, and they know it will rise significantly in the future."

Since the company's share repurchase program began in late 2002, the company has purchased 250 million shares, or \$8.6 billion of its \$10 billion share repurchase program (figures as of mid-August).

Fried sees the weakness in Home Depot shares partially as a function of high gas prices, which he views as a good buying opportunity. "There are a lot of worries about consumer spending slowing down, partially based on the high price of gas, so Home Depot and other retailers such as Wal-Mart and AutoZone have had their price beaten down," says Fried, "but the cost of gas won't stay high forever, and ultimately Home Depot and these others will bounce back."

Fried notes that Home Depot is selling at an all-time low, on the basis of operating earnings over the past 12 months. Growth, he says, is poised to continue at a strong pace.

“Home Depot’s push to develop growth drivers beyond its do-it-yourself business is paying off,” says Fried. “As of mid-August, the company operated a total of 1,940 stores, which included 1,881 Home Depot stores in the U.S., Canada and Mexico, 34 EXPO Design Centers, 11 Home Depot Landscape Supply stores, two Home Depot Floor Stores, five The Home Depot Supply stores and seven Contractors' Warehouse stores.”

Fried sees the potential for Home Depot shares to appreciate by 50% over the next 18 months.

Click here for more information and analysis from David Fried, and to subscribe to [The Buyback Letter](#) or [The Buyback Letter Premium Edition](#).