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Cost-U-Less (Nasdaq: CULS) - \$5.84

Cost-U-Less (CULS) is a warehouse retailer, similar to Costco, but on a smaller scale (about 1/3 the size) and located on island locations like Hawaii and the U.S. Virgin Islands. CULS has a total of eleven stores which predominately carry U.S. branded goods.

CULS continues to remain an attractive investment, even after climbing nearly 80% since our initial recommendation at \$3.25 11-months ago. Current levels continue to pose as a good entry point for a few reasons. One, the stock is still dirt cheap trading at 3.7x Enterprise Value-to-EBITDA (EV/EBITDA). Two, the recent mega retail merger of K-Mart and Sears highlights CULS as a possible buyout opportunity for a big-box retailer looking for quick expansion.

Before plugging in some numbers to decide what proper valuation CULS deserves, two key catalysts to ponder:

- The company's website notes that Q4 sales, which is the largest volume quarter, is set to be announced on 12/30/04. Despite having to top a great Q4 from 2003, the company continues to grow its comps, with the third quarter growing 12.5%. We are anticipating 10% revenue growth, or \$55 million in sales for Q4.
- Store expansion continues to remain on the front burner for CULS management. The company now has a strong balance sheet with over \$4 million in cash to help facilitate future growth. Another important point to remember, which management mentioned in a recent conversation, is that with the current store base only at 11 stores, adding one store automatically increases the company's base by 9%.

So what is CULS worth?

In addition to trading at just 3.7x EV/EBITDA, CULS has a P/E of 9.9x, Price/Sales of 0.11x and Price/Book of 1.1x. Looking at some of the other big-box retailers, most trade for 10x EV/EBITDA, P/E of 25x, Price/Sales of 0.5x and Price/Book of 2x.

For now we will stick with our original valuation of 5x EV/EBITDA, which is half the industry average and yields a price target of \$8 a share, or more than a 35% return based on current prices.

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