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I'm not going to dip bananas in chocolate and call them dessert. The banana business hasn't exactly been sweet over the past half-dozen years. Higher European Union banana tariffs have dented profitability, severe natural disasters have wiped out entire banana farms, and fuel prices a key cost in transporting bananas have gone through the roof.

Chiquita's situation five years ago was especially ugly. On top of the industry headwinds, in 2006, the company was looking at net debt of nearly $1 billion (for a company with a market cap of less than $700 million!), a recently canceled dividend, and negative earnings. My, how things have changed! The banana business is still facing challenges, but Chiquita today is a world away from the Chiquita of 2006. Led by CEO Fernando Aguirre, who took over in 2004, Chiquita's business has transformed from smushy and bruised to firm and ripe for our picking.

Aguirre has tackled every issue head-on. Reacting to industry headwinds, he geographically reworked the company's banana sources. Chiquita grows about one-third of its own bananas and buys the rest, mostly from Latin America. In the past five years, Chiquita has spread out its farms both within that region (mitigating the effects of any one tropical storm) and outside the region (mitigating the effects of the EU tariffs, which apply to bananas grown in Latin America). Even better, those tariffs are now being gradually reduced over the coming years.

Chiquita is also better positioned to withstand rising fuel costs. In 2007, Chiquita sold its fleet of refrigerated cargo ships and leased them back. In addition to receiving some cash to pay down debt and extending maturities on its loans, the transaction freed Chiquita of the burden of dealing with ship ownership, thereby allowing management to focus on reworking the banana business.

Ripening up the business:- Besides dealing with industry headwinds, Aguirre has retooled the core Chiquita business. In 2005, bananas accounted for 98% of operating profit; in 2009, that figure was down to 72%. But banana sales haven't declined; Chiquita added salads and healthy snacks to its repertoire. Under the Fresh Express brand, Chiquita commands a dominant 38% of the U.S. pre-packaged salad market, 16 percentage points more than the second-place brand from Dole (NYSE: DOLE).

Chiquita's fresh snacks include prepackaged fruit, such as Chiquita Apple Bites and Chiquita Pineapple Bites, and the most popular fruit smoothie drink in Europe, Just Fruit in a Bottle, for which Chiquita has partnered with Danone to expand distribution. Chiquita has become a healthy snack innovator; in fact, Aguirre has a standing goal of generating 5% of revenue from products launched in the previous three years.

Chiquita's balance sheet is unrecognizable compared with that of five years ago. In 2006, net debt stood at $964 million even before taking into account operating leases on its cargo ships; in the latest quarter, it was a mere $454 million -- a whopping 53% lower in less than four years. Chiquita continues to devote cash flow to paying down its debt, and lower interest payments will continue to make the business more profitable.

Chiquita's valuation is all about margins. Banana supply and therefore, prices is volatile, but generally, operating margins have run about 8%, and I see no reason for any permanent decline, especially with the EU tariffs slowly evaporating. Margins on salads and healthy snacks, on the other hand, have been climbing they've run 12.5% for the year to date, finally surpassing those on bananas.

For my base case, I assume a conservative 7% margin on bananas and 10% on salads, giving an intrinsic value of about $15.50. Even if banana and salad margins fall to 6% and 7%, respectively, the value holds around $11.50, only about 15% below today's price. On the other hand and here is where it gets interesting if Chiquita can keep salad margins around 12% and hold banana margins at 2009 levels of 8.2%, we're staring at a $25 stock, almost a double from today's price.

A lovely bunch of oh, that's coconuts:- Chiquita is a small, niche business led by an able CEO with a plan. I'll be starting with a roughly 2% position and recommend you do the same. If we continue to see improvement debt levels coming down, margins increasing and stabilizing you can expect me to add to our position. In the meantime, share your thoughts, questions, and concerns on our discussion boards.

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