

# Top News



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Sebouh Kermadjian (514) 879-5358 Luc Girard (514) 879-2218 Philippe Heymans (514) 879-3637 Michelle Côté (514) 390-7362

**Important notice :** Full comments are available in the NBF Daily Bulletin, CSFB Daily as well as in the NBF Stocks List

## *The news that caught our eyes*

**Billionaires Kirk Kerkorian, Edgar Bronfman Jr., Marvin Davis and John Malone are preparing for battle** as Vivendi Universal SA, the world's second-biggest media company, seeks buyers for its U.S. entertainment assets.

**U.S. stocks gained in Europe on speculation the Federal Reserve will cut borrowing costs, spurring profit growth.** General Motors Corp. and International Business Machines Corp. climbed.

**Intel Corp. and Dell Computer Corp. are considering paying workers with more share awards and cash** after being criticized for handing out more than 500 million shares of stock options during the second half of the 1990s, according to interviews and company filings.

**H.J. Heinz Co. said fourth-quarter earnings declined 54 percent** because of the spin off of the company's tuna and pet food businesses.

**The Bank of Canada will lower interest rates this year** because a strengthening currency will slow inflation and hurt exports, said four economists that last month had predicted rates to rise or remain unchanged.

**Abitibi-Consolidated Inc. cut its dividend for the first time in eight years** because a strengthening Canadian dollar will reduce earnings this quarter.

## NBF HOT CHARTS Canada Watch

The Operating profits of Canadian corporations jumped 10.6% in Q1, the largest increase in a year. Half of this was attributable to the energy sector, in which operating earnings surged 57%. Looking ahead, however, times are likely to be more challenging for Canadian firms. Energy prices have come down recently and foreign demand remains soft. In non-energy manufacturing, where operating earnings have already begun to fall, margins will also be squeezed by the very sharp appreciation of the Canadian dollar (up 16% year-to-date). In this context, Thursday's speech by Bank of Canada Governor David Dodge on recent economic developments might offer some indication about the future course of monetary policy.

### **FIRST EDITION CONFERENCE CALL :**

You are invited to attend Today's First Edition as Al Capra will be with us to talk about the Canadian Insurance Companies  
Replay also available on The First Edition Icon on the Intranet.

## *Analysts' Comments*

### *“NBF Analyst”*

**AGRICORE UNITED – AU (TSX) \$6.70 Outperform (Was Sector Perform)**  
**Risk Rating: Above Average Target: \$9.00 (Was \$5.00) Industry Rating: Market Weight**  
**Hope Springs Eternal as Rain Lifts Spirits Across Prairies**

Agricore United reported Q2 f2003 FD EPS of a loss of \$(0.51) versus our estimate of a loss of \$(0.40). We believe the worst of the drought is behind us. Higher soil moisture levels, coupled with anticipated above average precipitation across the Prairies bodes well for the 2003 growing season, which could lead to higher grain handling in f2004. Annual cost savings in the order of \$125 million, because of merger related synergies, coupled with a relatively strong balance sheet, should lead to strong free cash flow of \$85.7 million in f2004. We believe the industry has turned the corner and is headed for recovery,

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providing the weather continues to improve. We reiterate our f2003 and f2004 estimates of -\$0.38 and \$0.96, respectively. In addition, we are raising our stock rating to Outperform from Sector Perform and our target price to \$9.00 from \$5.00.

**BORALEX INC. – BLX.a (TSX) \$3.87 Outperform**  
**Risk Rating: Speculative Target: \$5.25 (Was \$6.00)**  
**Second-Quarter Results In Line With Our Estimates**

Boralex Inc. reported a net income of \$0.04 /share for the second quarter of 2003 (fiscal year ending Sept. 30, 2003) versus our estimate of \$0.05 /share. Overall actual net income was in line with our estimate, but there were some differences. Higher than estimated operating costs (\$2.7 million) were offset by higher equity income (\$0.9 million) and lower administrative costs (\$0.5 million), amortization costs (\$0.4 million) and cash taxes (\$1.0 million). We are revising our 12-month target of Boralex Inc. to \$5.25 from \$6.00 primarily as a result of the increase to net debt (see above). We are maintaining our Outperform stock rating and our Speculative risk rating, as we believe this reflects Boralex Inc.'s current risk profile.

**BROOKFIELD – BPO (TSX, NYSE) CDN\$30.06; US\$22.40 Outperform**  
**Risk Rating: Average Target: \$33.50 (Was \$33.00) Industry Rating: Underweight**  
**Increasing Target Price**

- ❖ We are raising our 12-month target to \$24.85 from \$22.75 and maintaining our Outperform rating on the stock. Our target is based on 12.0x 2004 AFFO of \$2.07.
- ❖ While the near term outlook for the U.S. office market is still weak, investors clearly believe the worst is over. In the meantime, BPO's low lease maturity exposure and financially strong tenant base shield the company from poor market conditions.
- ❖ Even with BPO's strong share price performance, it is still inexpensive on a relative basis. Our 12.0x target AFFO multiple is 0.6x lower than that of the peer group average and what BPO currently trades at. Moreover, the multiple is at a significant discount to the current multiples of its closest peers, BXP (14.6x) and EOP (12.5x).

**OPEN TEXT – OTC (TSX) \$41.01; OTEX (NASDAQ) US\$30.57 Sector Perform**  
**Risk Rating: Above Average Target: US\$33.00 Industry Rating: Overweight**  
**Comments on Documentum Patent; Roadshow with OTEX Executives**

While we will closely watch the DCTM patent for any potential conflicts with Open Text products or services, we believe that the narrowness of the claim will mean little harm to OTEX. In fact, although Open Text does offer a similar feature, one of the Open Text executives told us the feature could be de-provisioned from installations, and that the feature had not been considered essential in any deals, and is not much used by customers. The reason? Simply, human intervention is always required in classification, just to make sure. Clearly, the NTP/RIM patent litigation may weigh heavily on investors' minds. In that case, the court found that patent to be broad and fundamental to RIM's core technology and assessed what investors judged to be a high royalty rate on the technology. Our preliminary analysis is that there are few similarities. Notwithstanding, we will closely monitor any action by Documentum and for now consider this a minor risk factor going forward. We continue to recommend Open Text a Sector Perform, with a US\$33 target price.

**PERSONA INC. – PSA (TSX) \$4.30 Sector Perform (Was Underperform)**  
**Risk Rating: Speculative Target: \$7.00 Industry Rating: Market Weight**  
**Upgrading to Sector Perform**

We are upgrading Persona to Sector Perform and maintaining our \$7 one-year target. Persona has been noticeably absent from the recent strong recovery in Cable valuations. We believe above-average subscriber erosion in Canada, combined with refinancing risk has continued to weigh on the stock. So what has changed? Investors should note that we maintain a speculative risk rating on Persona given its higher than average operating and financial leverage. We highlight four main reasons for our upgrade. 1. Industry operating fundamentals are improving. 2. Credit markets have warmed considerably. 3. Management has taken action to improve the balance sheet. 4. The stock does not reflect these potential positives. Given the current operating and capital market trends, we believe it is quite possible that a positive catalyst could develop for the company that would allow the stock to gain some upward traction. Based on this view, we take comfort in changing our Stock Rating to Sector Perform, while maintaining our \$7.00 target and Speculative Risk Rating.

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**SUPERIOR PLUS INCOME FUND – SPF.UN (TSX) \$20.82 Outperform****Risk Rating: Average Target: \$23.75 (Was \$24.00)****Completes \$94 million Treasury (Primary) Issue**

Superior closed an equity issue that raised \$94.1 million (4.5 million units at \$20.90 /unit). Net proceeds of \$89.2 million were used to repay debt incurred from the US\$375 million (Cdn\$590 million) acquisition of the Pulp Chemical Business from Sterling Chemical Inc. in late 2002. We have revised our 2003 fully diluted cash flow estimate to \$2.28 /unit from \$2.33 /unit, reflecting the increased units outstanding and a strengthening Canadian dollar. Approximately 40% of Superior's operations are exposed to the U.S. dollar. We are revising our 12-month target to \$23.75 from \$24.00, reflecting the increased units outstanding and the financial impact of the U.S. dollar on operations. We are maintaining our Outperform rating. Superior has a potential total return (capital and cash yield) of 24.8%.

**TRANSCANADA CORPORATION – TRP (TSX) \$24.98 Sector Perform****Risk Rating: Average Target: \$25.75 Industry Rating: Underweight****To Build 550-MW Cogeneration Electricity Plant In Quebec...**

- ❖ On Wednesday (June 11), TRP announced that it had agreed to build a 550-MW natural-gas-fired cogeneration electricity plant in the Bécancour Industrial Park located near Trois-Rivières, Quebec. The cost of the Bécancour Cogeneration Project will be about \$500 million and construction is expected to begin in 2004. Commercial operation is expected to start in late 2006 with the entire electricity output going to Hydro-Québec Distribution under a 20-year power purchase agreement which will have an average electricity price of about \$61 per MWh in 2007 including transmission costs.
- ❖ We view the project favourably. It is expected to be accretive to EPS once in full operation, and will have a 50/50 debt/equity structure. We are currently assessing the preliminary EPS impact for fiscal 2006 and future years. Accordingly, the support price is \$20.34. Based on a retained-EPS-multiple of 10x, the residual price is \$5.40, and the target price is \$25.75 (rounded).

**TRANSCONTINENTAL INC. – TCL.A (TSX) \$19.44 Sector Perform****Risk Rating: Average Target: \$22.50 (Was \$21.00) Industry Rating: Market Weight****Q2 In Line as Acquisitions More Than Mitigate Mexico/Spectra Weakness**

Buoyed by acquisitions, management succeeded in perpetuating its track record of earnings growth with FD EPS of \$0.42 versus \$0.39. Netting the adjustments, EPS came in at \$0.41 as we expected with consensus at \$0.40. Following the company's Q1 results and reflecting on the valuation multiples across the printing/publishing landscape in North America, we contracted our valuation to 12x earnings from 13.5x. We're now raising our target to \$22.50 from \$21 with \$0.50 of this move attributable to the \$0.04 increase in our 2004 estimate and the remainder to an expansion in our multiple to just over 12.5x. We continue to believe that the company's strong track record of success, industry-leading margins in print, and growing content platform (a 31.5% of H1 revenues and 41% of EBITDA) warrant a premium valuation to its printing peers.

*“CSFB Analyst”*

**Abitibi Consolidated (ABY, \$7.03, OUTPERFORM) Target (12 Months): \$11****Dividend Cut Offers No Clear Message**

Abitibi cut its quarterly dividend from C\$0.10 to C\$0.025 per share, which reduces its annual yield from 3.7% to 0.9%. That move, unfortunately, pushes the covenant issue front and center—investors have been increasingly concerned by the balance sheet deterioration that pushed the company to junk status, and the company's refusal to discuss covenant details. Management has said repeatedly that there are no covenant issues but won't share covenant details to allow investors to judge for themselves. Abitibi also expects second quarter earnings to be “slightly lower than Q1”. Abitibi reported a Q1 loss of C\$(0.20) and the Q2 consensus estimate is C\$(0.12). We have cut estimates for the year and next year and lowered our price target for ABY shares to US\$11 (from \$12), to reflect a slower earnings recovery and the lost dividend income. Newsprint stocks have been underperforming the group because of unanswered investor concerns and the recent Canadian dollar weakness. We think those concerns are largely in the stock at this point, and believe newsprint fundamentals have already begun to turn the corner. We continue to rate ABY Outperform.