Top News

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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

Amazon.com Inc. (AMZN) 1Q EPS $0.10, vs $0.04 ests on revenues $1.08bln, vs $1.05bln ests. Company sees 2Q sales $1-$1.05bln, vs $963.3mln ests. AMZN rose as much as $3.61, or 14%, to $28.73 in after-hours trading. (Bloomberg)

Applied Micro Circuits (AMCC) 4Q ($0.05), in-line with ests. Company sees additional restructuring charges in 1Q of $20-25mln. (Bloomberg).

AMR Corp. (AMR) told its unions it will file for bankruptcy protection Friday morning if its flight attendants don't accept revised cost-cutting concessions & names Gerard Arpey CEO. AMR fell as much as $1.39, or 34%, to $2.65 in after-hours trading. (WSJ).

Openwave Systems (OPWV) 3Q ($0.13), vs ($0.12) est. Co sees 4Q revenue $63mln plus or minus 10%, vs $67.9mln est. OPWV fell as much as 34 cents, or 17 percent, to $1.68 after hours. (Bloomberg).

Flextronics International (FLEX) 4Q $0.05, vs $0.06 est, on revenue of $3.06bln, vs $3.14bln est. Co sees 1Q $0.05-$0.08, vs $0.09 est. (Bloomberg).

NBF HOT CHARTS
New orders of capital goods jump in Q1

The U.S. durable goods report released Thursday suggests that the business investment cycle is gathering steam. New orders for nondefence capital goods (excluding the volatile aircraft category) rose strongly in March for the second time in three months. As shown in today's Hot Chart, Capital goods orders were up 12.8% in Q1 (annual rate), the best sequential performance in nearly three years. This points to a significant contribution to Q1 GDP growth from business investment (report scheduled for release Friday at 8:30 a.m.).

FIRST EDITION CONFERENCE CALL :
You are invited to attend Today's First Edition as Jim Kelleher, a technology and industrial analyst from Argus will be with us with some investment ideas.
Replay also available on The First Edition Icon on the Intranet.

Analysts' Comments

"NBF Analyst"

BCE INC. – BCE (TSX) $28.25 SECTOR PERFORM
RISK RATING: LOW TARGET: $32.00
Q1 Preview: Focus Remains on Diversified Cash Flows and Efficiency

Our recommendation and target reflect our view that the telecom industry will continue to face cyclical and secular hurdles in 2003 and that investors will ultimately be rewarded most by being overweight stocks with lower financial leverage and secure dividends. BCE looks attractive on relative dividend and forward free cash flow yields, while maintaining one of the most attractive growth profiles in the group.

FORDING CAN. COAL TRUST – FDG.UN (TSX) $26.50; FDG (NYSE) US$18.30 SECTOR PERFORM
RISK RATING: AVERAGE TARGET: $27.75 (WAS $32.00)
Fording Disappoints Again and Guides Lower on Higher Costs…

We are reducing our target price and maintaining the rating based on lower cash distribution in the next two years as the company announced lower coal realization prices and higher costs. The new target price of $27.75 is based on our 2004 distribution forecast of $3.33 per unit and a yield of 12%. Our target is an 8% discount to our revised net asset value.

NORTEL NETWORKS – NT (TSX) $3.75; (NYSE) US$2.58 OUTPERFORM
RISK RATING: ABOVE AVERAGE TARGET: CDN$4.50/ US$3.00
Fork in the Road

Nortel has done it – effectively reaching breakeven (with a little one-time help). What does it do now? Should it continue to focus on maximizing profit and improving the balance sheet? Or should it shift to maximizing share and product leadership? We still see an improving story for long-term investors but maybe some caution for shorter-term players. Still, we have raised our trading range and estimates slightly.

OPEN TEXT – OTC (TSX) $49.25; OTEX (NASDAQ) US$33.62 SECTOR PERFORM
RISK RATING: ABOVE AVERAGE TARGET: US$33.00 (RAISED)
Reports Strong Q3 2003 Results, Raises Guidance

Open Text reported strong results for Q3 f2003, slightly ahead of guidance. Further, the company increased guidance for f2003 and f2004. Fiscal 2004 pretax guidance, in fact, increased by about 15%. We note that this is the third time in nine months that OTC management has done this. We also note however that rumours of very large contracts did not come to fruition. We are increasing our target to US$33.

QLT INC. – QLT (TSX) $17.05; QLTI (NASDAQ) US$11.70 SECTOR PERFORM
RISK RATING: AVERAGE TARGET: US$14.00 (WAS US$11.80)
Q1 2003 FINANCIAL RESULTS BEYOND EXPECTATIONS

Revenues from Visudyne sales for Q1 were $31.4 million, compared with our expectation of $28.00 million, and total revenues were $33.0 million, compared with our expectation of $29.3 million. Bottom line, net income was $11.5 million or $0.17 per share compared with consensus of US$0.10 per share. Operating earnings per share is therefore US$0.14. Our expectations for Q1 was net income of US$5.2 million or $0.08 per share. As a result of changes to our model, our EPS estimates for 2003 change to US$0.48 per share from $0.38, and for 2004 to US$0.64 from US$0.55.

QUEBECOR WORLD – IQW (TSX) $23.94; IQW (NYSE) US$16.40 SECTOR PERFORM
RISK RATING: AVERAGE TARGET: CDN$28.00/US$19.50 (WAS CDN$27.50/US$19.00)
Q1 At Low End of Pre-Announcement – Dutch Auction Trumps Lack of Guidance

A proposed Dutch Auction for 10 million shares at Cdn$24-$27 saves the day, providing a silver lining amidst ugly Q1 results at the low end of management's March 19 pre-announcement and the company's unwillingness or inability to provide 2003 guidance as we'd suspected/feared. The share repurchase/cancellation is expected to be accretive by roughly $0.10 on a pro forma basis and will, at least in the interim, provide much needed support for a stock that otherwise seemed likely to trade within a $15 to $17 range in the very near term.

SUNCOR ENERGY – SU (TSX) $24.15; (NYSE) US$16.64 PERFORM
RISK RATING: AVERAGE TARGET: $29.00
Cold Weather Production Hiccup…Maintaining Target

Suncor Energy reported Q1 2003 diluted operating EPS of $0.77, well short of our estimate of $0.89 owing to lower than expected oil sands production and higher than expected Oil Sands operating costs. Based on Q1 results and company guidance, we have revised upwards our operating cost assumption, updated our hedge book and nudged upward natural gas production for 2003. This has generated a lower 2003 EPS estimate of $1.98 from $2.10 while our 2004 estimate remain largely unchanged.

SUPERIOR PLUS INCOME FUND – SPF.UN (TSX) $21.48 OUTPERFORM
RISK RATING: AVERAGE TARGET: $24.00 (UNCHANGED)
Q1 Results Beat Estimates on Higher Propane Volumes and Margins

Superior Plus reported fully diluted cash flow of $0.98 /unit for the first quarter of 2003, $0.16 /unit higher than our estimate of $0.82 /unit. Higher than expected results from the Propane Business were offset by lower results from the Pulp Chemical business. Stronger propane volumes and margins helped by colder than normal weather in Eastern Canada contributed to the higher cash flow. **We are maintaining our 12-month target of $24.00 and our Outperform rating**. Superior has a potential total return (capital and cash yield) of 22.2%.

TELUS – T (TSX) $19.43 UNDERPERFORM
RISK RATING: ABOVE AVERAGE TARGET: $17.00

Q1 Preview: Can Wireless Do it Again?

If Aliant and Rogers Wireless first quarter results are any indication, wireless continues to be a major driver of consolidated growth for Canadian telecom operators. Given Telus's higher than average wireless mix (28% of revenues versus 14% for Bell Canada), we expect wireless metrics will continue to be a key focus in the quarter.

TRANSALTA CORPORATION – TA (TSX) $16.11 OUTPERFORM
RISK RATING: ABOVE AVERAGE TARGET: $22.75 (WAS $22.65)

Q1 2003 Operating Results Lower Than Expectation…

TA's Q1 2003 earnings from continuing operations of $48.7 million or $0.28 per share were lower than expected but higher than the $42.8 million or $0.25 per share in Q1 2002. TA benefited from better plant operating performance, higher electricity spot prices, cost controls, the addition of new power plants (i.e., Sarnia co-generation plant, CE Generation plants and Big Hanaford), and improving results from energy marketing activities.

"CSFB Analyst"

McDonald's Corp (MCD) Outperform Industry Weighting: Overweight
CP: $ 15.85 TP: $ 21 CAP: $ 20.2b

A New Accountability...A New Value?

- Shares now rated Outperform. We recently (on April 8) upgraded the shares of MCD from Neutral to Outperform based on our belief that management is finally starting to put together the important pieces of a turnaround. In particular, this would include reducing capital expenditures and focusing on building sales per store. This is what we believe is needed to drive a higher share price.
- Lower capital outlays. Capital expenditures are being cut from $1.9 billion to $1.2 billion. The former number was artificially high, and most investors knew that. But the cuts were steeper than expected, with our own estimate at $1.5-1.6 billion. Expenditures are expected to stay at this level, or lower, until same-store sales improve.
- More accountability and fewer stores should help boost sales. We expect same-store sales (the key driver of value) to pick up over the coming year for a couple of reasons. One is simply that fewer new stores mean less cannibalization at existing stores. This is a short-term phenomenon but paves the way for longer-lasting gains. On that front, we are more convinced that this management team can instill a deeper culture of accountability in the field, resulting in improved operations at the store level, which should be enough to deliver continued sales momentum into 2004.
- Lowering 2003 EPS and introducing 2004 estimates. We lowered our 2003 EPS estimate from $1.36 to $1.30 to reflect our expectations for a more sluggish environment in Europe, in part owing to the weak first quarter where same-store sales fell 4.4%. In addition, we introduced a 2004 earnings estimate of $1.40.
- The share price only factors in the good spending news. We believe the current share price now factors in the lower level of capital spending. But better same-store sales and profits are not being priced in. If MCD can convince investors that it can grow operating profits by 7% (2% new unit growth, 2% same-store sales growth, 3% margin leverage), we believe a share price of $21 would be warranted. Therefore, we raised our rating on the shares.

AT&T Corporation (T) Neutral Industry Weighting: Market Weight
CP: $ 16.53 TP: $ 16 CAP: $ 13b

Lowering Estimates & Target Price to $16 from $18; Earnings Not Sustainable

- AT&T reported better-than-expected 1Q results however we believe these results are not sustainable at these levels due to several factors: 1) Continued declines in data, 2) Tougher revenue compares in business, and 3) Need for increased Consumer marketing spending.
- 1Q Rev was in-line but stronger margins & lower D&A drove EPS of $0.62, $0.12 ahead of our $0.50 est. T made no change to its previously released '03 rev & margin targets but did lower its '03 cap-ex budget from $3.3-3.5B to $3B.
- Following the strong 1Q results we are raising our '03 EBITDA by $150M to $8.44B. We are also raising our EPS by $0.27 to $1.80 largely due to lower D&A forecasts due to the impact of FAS 143, and lowering '03 cap-ex by $400M to $3B.

- However, we are lowering our longer-term EBITDA forecasts due to two disturbing trends at AT&T Business: 1) declining data revenue, and 2) an increasing mix of wholesale voice revenue. We believe a reduced outlook for high margin data revenue and increasing mix of low margin wholesale will put increasing pressure on AT&T Business margins going forward.
- As a result of our model revisions we're lowering our DCF-based target to $16 from $18 and maintain our Neutral rating.
- Regarding the 4/23 WSJ article suggesting a potential T-BLS ($23.49, Outperform, $30 TP) merger, we believe that an RBOC-incumbent LD merger is unlikely over at least the next 12 mnths due to potential LD & Local share related regulatory obstacles. Further, from a strategic standpoint until the LD incumbent model stabilizes its consumer share loss & the uncertain enterprise pricing outlook associated with WorldCom's return is resolved, we believe RBOCs are more likely to focus on other sectors where they have greater exposure - such as wireless.

Dow Chemical Company (DOW) Outperform Industry Weighting: Overweight

CP: $ 31.48 TP: $ 55 CAP: $ 28.4b (212) 538-8922

1Q EPS Positive Surprise; Reaffirm Outperform

- Dow Chemical reported 1Q EPS of $0.09 versus $0.07; the CSFB forecast was a loss of $.08, with the consensus at a loss of $0.09. The positive surprise reflected the firm's success in achieving substantial price hikes in basic chemicals and plastics plus strong sales in agchem.
- While margins advanced in basics despite costly energy and hydrocarbons, they not surprisingly suffered in perfor- mance chemicals and plastics. It's harder to boost netbacks quickly in downstream items given the nature of contracts and the smaller hydrocarbon content. Agchem income was robust in 1Q, but there was some catch-up from a weak 4Q and the prior year results were relatively soft. Also the weak dollar played a key role for the company overall, but especially in ag, since exports from the US are quite important in this segment.
- Dow entered 2Q with positive margin momentum in many items, but just OK volumes. We expect higher prices and profitability for such critical products as polyethylene, polystyrene, vinyl chloride, caustic soda, phenol, epoxies, and polyurethanes. Also, despite the strong 1Q result, 2Q agchem earnings should be comparable with last year's.
- We are boosting our 2003 EPS estimate from $0.85 to $1.10, assuming a healthy economy and no substantial impact from SARS. Dow should generate about $300 MM of free cash flow this year (see attached model), and we remain confident the $1.34 dividend will be maintained.
- Our EPS progression is $3.10 for 2004 and $5.35 for 2005, given the tighter supply/demand envisioned for so many of Dow's products, especially in the chlorine and ethylene chains. Our 12-18 month target price remains $55.

VeriSign Inc. (VRSN) Outperform Industry Weighting: Overweight

CP: $ 10.09 TP: $ 14 CAP: $ 2.4b (212) 325-7156

Q1 Results: Deferred Revenues Show Growth; Raising price target from $12 to $14

- VeriSign reported Q1 revenues and EPS results of $270 million and $0.14, respectively-slightly ahead of our expectations of $265 million and $0.13. Operating cash flow came in strong at $100 million, as compared with $83 in the prior quarter.
- We are reducing our revenue expectations slightly, leaving our EPS estimates unchanged and raising our free cash flow expectations. Our Q2 2003 revenue estimate decreases to $260.0 million from $275 million, and for the full year, we are lowering revenue estimates to $1,067 million from $1,103 million. Our FCF estimate increases from $74 million to $152 million for 2003.
- The big development this quarter was an increase in deferred revenues (we were forecasting a 5% sequential decline). Deferred revenues have been declining consistently, as the domain name market degraded. For the first time in over a year, we are seeing signs of growth in this market. We maintain our Outperform rating and raise our price target from $12 to $14 driven by our DCF analysis. We continue to recommend this stock to investor with 12-month time horizons. Short-term volatility will remain high but long-term growth drivers remain intact. VeriSign currently trades at 18.4x our 2003 earnings estimate.

SBC Communications. Inc. (SBC) Outperform Industry Weighting: Market Weight

CP: $ 22.52 TP: $ 25 CAP: $ 74.8b

1Q03 Add'l Details: Strong Data/DSL/LD, Ok Wireline

- Similar to peers BellSouth (BLS, $23.49, Outperform, TP $30) and Verizon (VZ, $36.30, Outperform, TP $42) SBC reported 1Q results that were broadly in line with or better than our forecasts. 1Q revenues were slightly below our forecast, but EBITDA and EPS were both ahead, largely due to better Cingular results reported on Wednesday.
- For '03, we have made small changes to revenues and EBITDA, including SBC's 60% interest in Cingular Wireless. We are raising revenues by 0.5% to $49.6B or -4.6% y/y and EBITDA by 0.6% to $17.4B or -13% y/y, largely to reflect better Cingular results. No change to our '03 EPS of $1.45 due to a higher '03 share count.

- Similar to Verizon, SBC's wireline segment missed our revenue forecast ($9.3B, declined 5.6% y/y versus our -5.3% forecast) but beat our EBITDA forecast ($3.3B, declined 19% vs our 21% forecast) indicating an continued ability to cut costs in the core business despite increased pressure from employee benefits/pensions. However, we remain cautions about higher costs associated with DSL and LD entry (in the Ameritech region) later this year.
- Like BellSouth and Verizon, SBC saw some relief in its retail access line losses in 1Q, which improved to 748k from 938k in 4Q, beating our forecast of a 975k loss. While we believe we may be nearing a bottom in retail access line losses, we remain cautious as AT&T recently announced plans to enter 12 more local markets this year.
- Within wireline, local voice revenues ($5.8B, -9.3% y/y) and LD voice revenues ($578M, -2% y/y) fell 1% and 4% below our forecasts, respectively and data revenues ($2.5B, +3.7% y/y) were 4% above ,our forecast. DSL (+275k) and LD (+1.5M) line adds also beat our forecasts, indicating that SBC is seeing some success from bundling efforts.