

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

DuPont Co., the second-biggest U.S. chemical maker, said it had a first-quarter profit of \$535 million as sales of agricultural products rose.

U.S. stocks advanced in Europe before a report that economists said will show consumer confidence in the world's biggest economy rebounded in April as the war in Iraq ended. Wal-Mart Stores Inc. and 3M Co. led gains.

Barrick Gold Corp., the world's third-biggest gold producer, said first-quarter profit fell 37 percent because the company shut five mines and dug lower- grade ore, raising the cost of production.

Canada's benchmark 10-year bond rose for a third day as investors speculated growth may be curbed by a slowdown in travel to Canada because of a deadly respiratory disease.

REIT MONITOR

- ❖ The S&P/TSX Canadian REIT Index has remained relatively flat since the beginning of 2003, with a slight pull back by 0.8%. This compares with a 0.7% decline for the S&P/TSX Composite. The real estate sectors that are underperforming and have shown signs of weakness are the national hotel segment, the national office sector, Toronto and Calgary apartments, and Ontario nursing/retirement homes. This is also evident from the unit price declines on a year-to-date basis of all the hotel REITs, some of residential REITs, office REITs and Retirement REIT.
- ❖ Legacy REIT is among the first REITs within our coverage universe to report its Q1 2003 results. The key takeaways are that the lodging industry is operating under uncertain and difficult conditions. There are four factors that are contributing negatively to the industry—war in Iraq, SARS, a fragile airline industry and weakness in the US economy.
- ❖ We caution that distribution cuts for REITs with overly high payout ratios are a distinct possibility. These would include Legacy, Royal Host and Retirement REITs. We continue to recommend a few select names that are best-of-class and that operate in a sector with a positive outlook. They include RioCan REIT, Cominar REIT and Summit REIT.

NBF HOT CHARTS

World Economy

Just as the fog of war lifts, the global economic recovery is again put to the test, this time by a fearful disease. SARS appears to be inflicting heavy damage in Asia, where most cases have been reported. Business travel and tourism to the region have been brought to a halt. There is growing evidence that manufacturing supply chains are being affected. However, it is too soon to forecast a major blow to the global economy. As of April 25, the World Health Organization (WHO) reports a cumulative total of 4,649 cases of SARS in 26 countries, with 274 deaths. This is very small as pandemics go, and the latest reports suggest that the worst is behind us. Virtually every outbreak or epidemic follows a classic bell-curve pattern, and WHO data show the curve falling for the past four weeks.

FIRST EDITION CONFERENCE CALL :

You are invited to attend Today's First Edition as Paul D'Amico will be with us to talk about the Steel Industry
Replay also available on The First Edition Icon on the Intranet.

Analysts' Comments

“NBF Analyst”

ATI TECHNOLOGIES INC. – ATY (TSX) \$8.90; ATYT (NASDAQ) US\$6.15 Sector Perform

Risk Rating: Above Average Target: US\$6.50 Industry Rating: Market Weight

Q1 Market Share Data: Effectively No Change from Q4

According to data released by Mercury Research, ATI did not gain any significant graphics market share. Given the barrage of positive press for the company's new products, we are slightly disappointed, but not really surprised. The company's newest products are aimed at the high-end performance segment, which represents less than 10% of the market. Only recent the company introduced its newest desktop mainstream Radeon 9200 product. We believe that the company should see its market share increase in Q2, as its mainstream product will have been in the market for more than a quarter and as it wins an increasing number of desktop sockets during the spring refresh cycle that the OEMs go through. Remember that the Mercury data is a trailing indicator and that ATI's last quarter includes the first two months of the year. The numbers do highlight that there could be risk in increasing channel inventory. We maintain our Sector Perform stock rating and US\$6.50 target.

BARRICK GOLD – ABX (TSX) \$21.72; ABX (NYSE) US\$15.08 Outperform

Risk Rating: Above Average Target: Cdn\$35.00 (Was Cdn\$37.00) Industry Rating: Underweight

Hedge Book Moving Lower

The market's focus over the next 12 months will be on Barrick delivering on operating and financial targets set out by management, whose credibility has been tarnished and can only be regained through delivering on its targets. Once this occurs, the market will start to focus on and pay up for the development projects expected to provide the company's future growth. In addition, Greg Wilkins (newly appointed President and CEO) provided investors and analysts with insights into Barrick's strategy, particularly with respect to hedging, exploration/acquisition, growth pipeline and his objectives to help regain confidence and improve the valuation level. We have the stock rated an Outperform because of the low valuation level (trading at 1.14x NAV at \$350 gold price) and its better growth prospects relative to its peers. We have not changed our net asset value (NAV) of \$13.15 per share. However, our lowering Cdn\$:US\$ exchange rate has resulted in our target being reduced by Cdn\$2 per share to \$35.00 per share.

BROOKFIELD – BPO (TSX) \$29.65; (NYSE) US\$20.48 Outperform

Risk Rating: Average Target: US\$22.75; Cdn\$33 Industry Rating: Underweight

Brookfield Proposes Purchase of All Remaining Interest in BPO Properties Ltd.

- ❖ BPO Properties Ltd. is the Canadian commercial operating company, and owns all of the Canadian assets (except BCE Place). BPP trades on the TSX under the symbol BPP, and its results are consolidated into BPO's overall financial results.
- ❖ BPO currently owns 92% of BPO Ltd. On Friday April 25, 2003, BPO announced that it acquired 574,900 shares of BPP for Cdn\$27.00 in a private transaction, which effectively increased its ownership interest to 92% from 87%. The shares were acquired by issuing Cdn\$15.5 million of retractable preferred shares.
- ❖ The current transaction for the remaining 8% interest (3.1 million shares) is based on an offer price of Cdn\$27.83 for a total consideration of Cdn\$86.7 million. The offer to shareholders of BPP is Cdn\$13.00 in cash plus 0.5 BPO common shares based on its closing price of Cdn\$29.65 on Friday, April 25.
- ❖ The offer price represents a 5% premium over BPP's closing price of Cdn\$26.50 on April 25. In the last 52 weeks, BPP traded at a high of Cdn\$28.10 and a low of Cdn\$20.51.
- ❖ BPP can elect to receive consideration in cash or common shares or a combination. The maximum cash consideration is Cdn\$40.2 million and the maximum BPO share consideration is 1.55 million.
- ❖ Analysis: Neutral Impact on BPO
- ❖ The transaction is expected to have little to no impact on BPO from a valuation and operational standpoint. The intention is to streamline and simplify the ownership structure of BPO and alleviate having two publicly traded entities. We do not expect any impact on 2003 FFO. BPO shares outstanding will increase by a maximum of 1.55 million, but any dilution will be offset by a reduction in minority interest. We maintain our Outperform stock rating and target of Cdn\$33.00.

FINNING INTERNATIONAL INC. – FTT (TSX) \$27.00 Outperform
Risk Rating: Low Target: \$32.00 (Was \$30.00) Industry Rating: Overweight
Acquiring at Right Phase of the Cycle

Finning has been an active acquirer over the last year. We welcome these steps as the company is not only buying strategic assets that make sense, but it is also buying them at what we believe is the trough of equipment markets. Timing is an important aspect of making an acquisition pay off, as it makes more sense to buy an asset when it isn't doing so well, as opposed to paying 50% or 100% more when it is doing well. Finning's pending U.K. purchase of Lex Harvey, a provider of materials handling equipment, makes sense on many fronts:

1. It consolidates the industry, with Finning vaulting to No. 2 spot from No. 5.
2. It allows Finning to implement its centralized, low cost operating structure on a larger asset, thereby providing significant synergies.
3. The purchase price is essentially at book value.
4. It builds on Finning's relationship with Caterpillar.
5. It deploys some of Finning's excess capital to allow ROE growth.
6. It expands the percentage of Finning's revenue and income that comes from rental and service.

With low after-tax cost of money since the transaction will be financed with term debt, accretion of \$0.17 to \$0.20 in EPS should be possible in 18 to 24 months as per management. Given this acquisition is being handled by one of Finning's strong operators, we believe this income will be reaped, perhaps earlier than outlined. This acquisition of Lex Harvey gives us greater confidence in our \$2.20 EPS forecast for 2004 and we have consequently raised our target price to \$32 from \$30.

KASTEN CHASE APPLIED RESEARCH – KCA (TSX) \$0.65 Underperform
Risk Rating: Speculative Target: \$0.60 Industry Rating: Overweight
Weak Q1 Results – Government Purchases Not Happening

- ❖ The company reported poor Q1 results that were below our expectations. The results continue to highlight delays in U.S. government spending on IT security solutions and the company's difficulties in gaining traction in the enterprise market.
- ❖ The company's cash balance continued to be fairly healthy at \$20.6 million at the end of the quarter with no debt.
- ❖ Note that the company did not provide any guidance for Q2 2003 or beyond. We believe that the visibility for 2003 is currently very low as the government funding for security continues to be erratic and it is too early to forecast meaningful revenue streams from KCA's new product initiatives.
- ❖ Additionally, the company is not expected to breakeven any time soon and on its conference call did not give any timeline for profitability.
- ❖ We are maintaining our Underperform stock rating and our \$0.60 target. Our target is based on 1x the company's book value.
- ❖ Catalysts for any recommendation and target change would include evidence of spending on U.S. homeland security initiatives, traction in the enterprise market and profitability. Currently, the stock is expensive at 3.0x our 2003 sales estimate or 1.4x on an EV-to-f2003 sales basis.

NEXFOR INC. – NF (TSX) US\$ 5.28 Sector Perform
Risk Rating: Average Target: US\$6.00 Industry Rating: Market Weight
Nexfor Posts Solid Gains in Q1; Beat Both Streets' and Our Expectations

Nexfor reported earnings of \$1 million or \$0.00 per share in Q1 2003. The Q1 earnings were better than our estimate of a \$(0.03) loss and much better than the Street's consensus loss of \$(0.06) for the quarter. We continue to expect that the recovery of both demand and pricing will be relatively slow through 2003/04 resulting in continued weak earnings in 2003. Nexfor's priorities for 2003 include continued margin improvement (target \$34 million for 2003), integration of the I-P mills acquired in 2002 and debt reduction through the divestment of non-strategic assets (e.g., two Quebec sawmills and related woodlands and the Thurso pulp mill). We remain confident that the high dividend payout (5.2%) will be maintained and continue to support the company's share price going forward. We expect Nexfor's share price to experience little momentum during 2003. We continue to maintain our Sector Perform recommendation on Nexfor with a US\$6.00 per share target.

SAMUEL MANU-TECH INC. – SMT (TSX) \$7.16 Sector Perform (Was Outperform)**Risk Rating: Average Target: \$8.00 (Was \$9.00) Industry Rating: Market Weight****Downgrading Back to Sector Perform**

We had been encouraged by Samuel's earnings delivery in Q3 and Q4 of 2002, to the point that we recently upgraded the stock to Outperform (March 2, 2003). We are downgrading back down to Sector Perform as Q1 results reversed the progress hitherto made. Samuel's Q1 of \$0.08 was less than half of our expectation, for the following reasons:

1. Pickling activity has come off sharply;
2. Pricing of steel strapping has come off on the back of lower steel costs; and
3. The specialty steel distribution business continues to post significant losses.

We had patiently waited for Samuel's earnings to build before prematurely upgrading the stock to Outperform two months ago. With the earnings outlook now significantly diminished, and with little opportunity to excite investors other than through earnings growth (now delayed), we need to downgrade back to Sector Perform. The stock has patiently traded at \$7.00 ? \$0.50 over the last 12 months, so there should be plenty of time to recommend it when and if warranted.

SHAWCOR – SCL.A (TSX) \$12.26 Sector Perform**Risk Rating: Average Target: \$17.25 Industry Rating: Market Weight****First-Quarter Results Ahead of Expectations**

ShawCor reported first-quarter results on Friday, April 25. The company earned \$0.15 (diluted) per share, up 67% from EPS of \$0.09 in Q1 2002. Our estimate for the quarter was \$0.13 and as such ShawCor beat our expectations. Turning to our model, we believe that ShawCor is on track to meet our revenue expectations this year. Overall, we look for continued improvement in the Pipeline segment throughout 2003/04 and do not feel the need to adjust our numbers at this time. We thus leave our 2003 and 2004 EPS estimates of \$0.77 and \$1.22 (respectively) unchanged. It follows that we also leave our target price of \$17.25 unchanged as well as our Sector Perform rating. We believe that the stock will respond in tandem with improving margins in the Pipeline segment. The company should benefit from a global drilling upcycle in the next couple of years. Indeed, what ShawCor needs most is a concurrence of North American and international activity upcycles.

STILLWATER MINING – SWC (NYSE) \$2.60 Underperform**Risk Rating: Speculative Target: \$2.75 (Was \$3.00) Industry Rating: Underweight****Awaiting Approvals for Norilsk Transaction**

Stillwater reported another disappointing quarter; well below our forecast. We continue to rate Stillwater stock an Underperform and have adjusted our target downward by \$0.25 per share to \$2.75 to reflect changes in our platinum/palladium price forecast for 2003 and 2004. The company is in process of dealing with a merger with Norilsk and has set a tentative date for shareholder vote on June 16, 2003 (approvals pending).

TRANSFORCE INCOME FUND – TIF.UN (TSX) \$7.35 Outperform**Risk Rating: Average Target: \$8.10****Q1 Operational Results In Line With Expectations**

TransForce generated more cash than we expected, but the difference does not stem from operations, as more capital assets were sold than acquired in Q1. Given the operational results and taking into consideration higher net capex for the remainder of the year, as such high asset divestitures are unlikely to happen again and more rolling stock will be acquired in busier periods, we are leaving our cash generation estimates unchanged. At the current unit price of \$7.35, TransForce trades at a current yield of 15.5%, significantly above Contrans (CSS.UN-TSX) current yield of 14%. We maintain our Outperform stock rating on TransForce, with a 12-month target of \$8.10.

“CSFB Analyst”

CVS Corporation (CVS, \$24.16, NEUTRAL) Target (12 Months): \$27 First Quarter Earnings Preview

CVS will report first quarter earnings and April sales on Tuesday, May 6, 2003. We are raising our first quarter estimate by \$0.02 to \$0.48 versus \$0.43, in line with guidance. However, we remain cautious on the shares due to earnings risk later in 2003. With just one week to go before the scheduled EPS report date and with full quarter sales reported, management is unlikely to deliver a negative surprise on first quarter earnings. With this in mind, and without increased confidence in fundamental trends, we are increasing our estimate in line with guidance. Our comparable store sales growth estimate for April is 6.0%, based on pharmacy comps of 6.5% and front-end comps of 5.0%. (Please see our drugstore April sales preview from today.) CVS's earnings recovery was built on two trends – generic mix shift and improving shrink – which offset a deteriorating sales trend. Both sources of these improvements will be less beneficial in 2003. At 12.7 times our new 2003 estimate of \$1.90, we view CVS as a fairly valued stock with potential risk to earnings in the second half of 2003. Maintain Neutral.

Wireless Telecommunications Equipment - Global Handsets Market Strong, but Who Benefits?

- ❖ **Downgrading Sector.** We are downgrading the Wireless Equipment Sector from Market Weight to Under Weight because we believe the trading opportunities we identified in February are reflected in the stock prices at these levels. We still believe this sector is a structural Underweight given significant Asian share gains, moderating unit growth, and continued ASP declines.
- ❖ **They Say, We Say.** As we have highlighted on numerous occasions, we believe OEMs are dramatically underestimating the size of the handset market. Units publicly released indicate that sell-in/sell-thru was 115M/120M in March, above our estimates of 111M/115M and way above MOT's estimates of 86-87M/90-93M and NOK's 94-95MM/98M. For the fourth quarter in a row, units exceeded our expectations. We estimate that units actually grew 17% year/year in Q1:03.
- ❖ **Why the Difference? – Simply Share.** Our analysis shows that Asian vendors gained ~670 bp of market share sequentially and ~450 bp y/y in the March quarter. We estimate that Asian (Korean, Japanese, Chinese, brands now stand at a global market share of 36%, compared to 32% in 1Q:02 and 27% in 1Q:01. We believe this number will continue to rise over the next several years.
- ❖ **Long-term Thesis Intact.** We estimate that ASPs declined by 2-3% sequentially in the March quarter, and that our 5% annual ASP declines are reasonable. Applying these ASP declines with our 10% unit growth yields ~5% revenue growth. However, we believe Asian vendors, who should gain about 2 points of share per year, will absorb this revenue growth.
- ❖ **No Changes to Company Estimates/Ratings.** There are no changes to the earnings models for Motorola (MOT, \$8.01, N, TP\$7), Nokia (NOK, \$16.57, O, TP\$18) Qualcomm (QCOM, \$31.06, N, TP\$33) or Ericsson (\$7.45, U, TP\$4.5) based on this analysis. Our Sector Weighting is lowered from Market Weight to Under Weight following the share appreciation of some of the key names. We continue to look for inventory stabilization, better seasonality, and attractive valuations to get more constructive on the group.

Apple Computer Inc. (AAPL-\$13.86-Cap \$5B-PT \$18.00-NEUTRAL) Apple Announces Online Music Service & New iPod 9/03E: \$0.15

- ❖ After weeks of speculation, Apple finally introduced its online music subscription service, named “iTunes Music Store”. In the beginning, the store will carry over 200,000 titles, which will cost \$0.99 each. This announcement represents a more modest and investor friendly initiative as opposed to previous rumors of an outright acquisition of Vivendi Universal's (EAUG.PA-?13.7-Restricted) music business. Apple does have some proprietary content in an attempt to distinguish its service from competing Wintel offerings.
- ❖ We believe the financial impact of this endeavor will be small. For example, if all 12 million active Apple users downloaded 10 songs each, we estimate Apple would record approx \$36 million in profit. Obviously, Apple hopes that the proprietary song content along with its own digital hub software will drive audiophiles to the Mac platform.
- ❖ Apple also introduced a lighter and slimmer version of the iPod yesterday. The new model comes in 10 GB, 15 GB and 30 GB models at price points of \$299, \$399 and \$499, respectively. The \$299 price point is critical for Apple in our opinion because iPod unit sales fell from 250k in December to 78k in March quarter, in large part due to the lack of a \$299 price point (which was basically sold out for most of the quarter).
- ❖ We view yesterday's announcement as an incremental positive but not enough to alter Apple's overall market position or profit profile. Maintain Neutral.

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