

# FP INVESTING

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### CASCADES TO BENEFIT FROM M&A: ANALYST

Quebec-based packaging company **Cascades Inc.** (CAS/TSX) was among the names that jumped on Monday after RockTenn Co. made a US\$3.5-billion bid for Smurfit-Stone Container Corp.

Smurfit-Stone, one of the largest integrated producers of containerboard and corrugated packaging, as well as one of the world's leading paper recyclers, accepted the takeover offer for US\$35 per share from its rival. The price tag represents a 27% premium of Smurfit-Stone's closing price on Jan. 21, 2011.

Applying these takeover multiples to Cascades implies a potential target on a possible takeout of \$13 to \$14 per share, says Dundee Securities analyst Richard Kelertas. That represents a 102% premium to Cascades' closing price of \$6.88 on Monday, a 25% premium to Mr. Kelertas' \$11 target price on the stock.

"We reckon that there is a substantial value in the paper & paperboard sectors, and we believe that as M&A activity accelerates in these sectors (especially as companies are trying to secure fibre supply and market share), pricing power will improve," he told clients. "This should finally unlock value for some industry players including Cascades, which had a very disappointing performance last year." *Jonathan Ratner, Financial Post*

### GREEN BAY: A SPORTS TEAM WITH A HUNDRED THOUSAND OWNERS

The Green Bay Packers are an anomaly in the world of U.S. professional sports. Unlike the average sports team — usually helmed by a millionaire owner pulling the strings — the Packers are owned by more than a hundred thousand of their fans.

That unusual ownership structure makes them the only publicly owned, not-for-profit U.S. sports team, says Dave Zirin of *The New Yorker*.

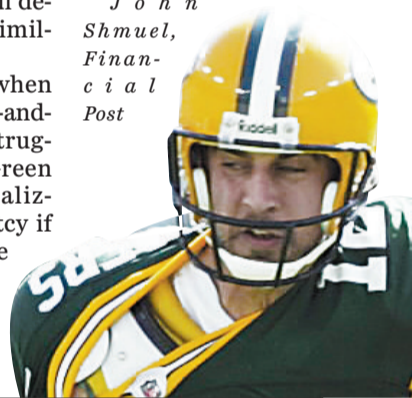
So how does Green Bay manage to stay successful despite the lack of a multimillionaire owner?

It all began in 1923, when the Packers were a rough-and-tumble football team struggling to stay solvent. Green Bay's management, realizing they faced bankruptcy if something wasn't done about their financial situation, decided they would open up the team to stakeholders by issu-

ing shares — much the way a public company would. A few hundred shares were issued for a couple of dollars, and the team scraped together the funds it needed to stay alive.

Today, the team's ownership has grown to more than a hundred thousand stockholders, holding a total of four million shares. To prevent anyone from getting majority control, a person who owns Packers stock is limited to two hundred shares.

*John Shmuel, Financial Post*



### SLIM CHANCE SEEN OF RIVAL THOMPSON BID

Analysts view the \$4.9-billion takeover bid for **Consolidated Thompson Iron Mines Ltd.** (CLM/TSX) as a very good one, and a rival offer is not expected.

Still, there's always a chance. UBS Securities analyst Chris Lichtenheldt has priced in a 15% chance of a second offer worth \$18.25 a share. By his estimates, that price tag reflects a long-term benchmark iron ore price of US\$100 a tonne, compared to the current spot price of al-

most US\$170 a tonne.

With that 15% chance factored in, Mr. Lichtenheldt raised his target on Consolidated Thompson to \$17.40 a share from \$17.25 a share (the current bid price). He still downgraded the stock to "neutral" (from "buy") because of limited upside potential in the new target. *Peter Koven, Financial Post*

**CONSOLIDATED THOMPSON IRON MINES LTD.**  
CLM/TSX, \$17.26, unchanged

## 'We're starting to see reinvestment in growth'

### LISTINGS

*Continued from Page FP1*

The exchange — heavy in technology listings — already has a decent pipeline for 2011, said Mr. McCooney, the Nasdaq's senior vice-president of listings. "We will spend a lot of time in Canada this year. We've got good prospects with the revival in technology and biotech — two of Nasdaq's strengths. We also have a mineral and mining focus."

The NYSE, the oldest and largest stock exchange in the United States, and the American Stock Exchange — the much smaller competitor it acquired in 2008 — also are seeing growing demand from Canada.

In 2010, four Canadian companies joined the NYSE, a division of holding company NYSE Euronext, including cooper miner HudBay Minerals Inc., while three joined the Amex. That's a jump from

a total of three at both exchanges in 2009 and two in 2008.

Prospects look much better for 2011, said Scott Cutler, NYSE's head of listings. "Our pipeline is developing very nicely. It's against a backdrop of a real recovery in the capital markets. It's a trend that we've seen globally, particularly over the last six months."

The NYSE currently is in talks with 15 Canadian companies about possible listings.

As many as six of those are Canadian miners, which could end up listing soon as they seek to capitalize on demand for commodity-related investments that continues to run high with U.S. investors.

But the interest runs beyond mining companies, a good sign for the overall recovery, said Mr. Cutler. "If you look at where these companies are coming from, it's not just one industry. It reflects a broader recovery in the corporate community fuelled by better visibility and more stable balance sheets. We're starting to see a reinvestment in growth."

TMX Group, parent of the Toronto Stock Exchange and TMX Venture Exchange, is also making good headway in wooing foreign listings to the exchanges. A record 71 foreign listings were added last year, 21 of which were by U.S. companies, a 30% jump over 2009.

*Financial Post*  
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## BUY & SELL

BIG PICTURE VIEWS, CURRENT ISSUES, OUTLOOK AND PICKS. BY JONATHAN RATNER



"We still have three years of this expansion ahead of us"

TIM FRASER FOR NATIONAL POST FILES

"If there is a risk to the outlook one way or the other, we think it is more to the upside than the downside," says Daniel Bain, right, who with Andrew Pink manages the Thornmark Alpha Fund.

### Alpha managers see strength in rebounding economies



### BUYS

**ARCAN RESOURCES LTD.**  
ARN/TSX, \$5.70, down 8¢

**Why do you like it?** Arcan has an extensive land position near other successful companies, its executive team has shown financial discipline and capital requirements can be financed internally. Initial production rates should continue to surprise on the upside and the valuation should expand as the company transitions into an intermediate development company with additional reserves.

**What's the upside?** One-year projected return of 40% or more to a target price of \$8. Catalysts include additional analyst coverage and a TSX listing in 2011.

**The biggest risks?** The risk of equity issuance to finance expansion of the 2011 exploration program has been substantially mitigated since a November equity raise and coordinated expansion of their banking syndicate in December.

**Describe the position** Bought within the past year, long-term investment horizon.

**RESEARCH IN MOTION LTD.**  
RIMM/NASDAQ, US\$61.40, down US\$1.29, P/E 10.46

**Why do you like it?** The company is strategically positioned to capitalize on the global proliferation of smartphones. RIM has excellent brand awareness, good carrier support in North America and is aggressively expanding its international presence. It will also benefit from having one of the most robust operating systems in the market, notoriously superior security, substantial cash flow generation and an appealing valuation.

**What's the upside?** One-year total return of more than 45% to a US\$94 target price. EPS growth is expected to be at least 15%, with upside on the back of a mid-2011 PlayBook tablet launch.

**The biggest risks?** PlayBook expectations are high and the product launch is a critical event. Ongoing risks include inventory build at carriers, service blockages in certain internationally disputed countries (being resolved), competitive pressures on average selling prices, competitor innovations eroding market share, product launch delays and patent litigation.

**Describe the position** Trading position, although fundamental outlook is positive.

**TYCO INTERNATIONAL LTD.**  
TYC/NYSE, US\$44.72, down US\$2¢, P/E 16.62

**Why do you like it?** Tyco has a compelling valuation and a recurring revenue model with high visibility. Its strategic acquisition of Brinks Home Security thrusts the existing ADT Security Services into a global leadership position. Expect incremental dividend and share buyback announcements.

**What's the upside?** One-year total return of 17% to US\$52 target price. Investors will likely re-rate its historically discounted valuation on its improved business.

**The biggest risks?** May be subject to tax increases stemming from political pressures in the United States. Emerging economies exposure is 25% of revenues.

**Describe the position** Purchased in August 2010.



### SELLS

**ANALOG DEVICES INC.**  
ADI/NYSE, US\$38.78, down US\$57¢, P/E 16.43

**Why don't you like it?** Its valuation is stretched and earnings growth should slow in 2011 and 2012.

**What is the downside?** Conservative guidance signalled the potential for slower revenue growth. There is also a risk of an inventory build and increased competition from peers. The margin peak in 2010 and lower bookings present a clear risk to the company's growth profile.

**A potential positive?** Sustained lower interest rates coupled with improving consumer confidence leading to higher end-market industrial and consumer demand trends.

**Describe the position** Recently began to exit position on price appreciation.

# Global outlook: bullish

### MANAGERS PROFILE

**Managers Daniel Bain and Andrew Pink, Thornmark Asset Management**

**Fund Thornmark Alpha Fund**  
**Description** Tactical 'Top Picks' fund that aims to achieve a high rate of capital appreciation  
**Firm's assets under management** \$360-million  
**Performance** 1-year +12.5%, 3-year +6.8%, 5-year +12.7% (Dec. 31, 2010)  
**MER** 2.72%

While Europe is currently the weakest link in the global economy, Daniel Bain and Andrew Pink of Thornmark Asset Management believe global economic momentum is sustainable and there will be a re-synchronization of the world's economies.

The portfolio managers also believe the U.S. economy will perform better than many expected three or six months ago, anticipating GDP growth around 3.5%.

"If there is a risk to the outlook one way or the other, we think it is more to the upside than the downside," says Bain, the firm's chief investment officer.

"We currently expect the U.S. market to outperform the Canadian market, but that is not dependent on underlying economic trends, which are positive in both countries. Rather, the valuation of the U.S. market is better right now than the Canadian market."

He points out that as the economic engine of Europe, Germany is benefiting from

the impaired euro that is a result of sovereign debt issues and banking problems. Germany's strength is one factor Bain and Pink believe will allow Europe as a whole to emerge from the region's difficult position.

This top-down assessment has prompted a roughly 20% levered position for the Thornmark Alpha Fund. The managers are also focusing on mid-expansive sectors, noting that the economic cycle has passed through the early expansive phase, which generally lasts about 18 months.

"We still have three years of this expansion ahead of us," Bain says, pointing out that the S&P 500 and S&P/TSX composite have risen roughly 80% or more from their March 9, 2009 lows. He also noted that interest rates are at generational lows and global industrial production has rebounded more than 10% year-over-year. "This cycle has been a very classic cycle in that it unfolded pretty much as one would have expected."

This mid-expansive economic phase is considered the sweet-spot for stock picking and the managers focus on industrials, energy and to some degree technology and materials.

"Energy and materials do best in the latter part of an economic cycle when you have rising inflation, rising interest rates and possibly a weakening U.S. dollar. Opportunities exist when multiples actually look relatively high before earnings reaccelerate," Bain says.

*Financial Post*  
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