

Bell Aliant meets cable: Analyst expects competition will erode earnings at new trust

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Illustration: Colour Photo: Peter J. Thompson, National Post File Photo / Workbrain, led by chief executive David Ossip, above, added only four new customers in the second quarter.

Chart/Graph: WORKBRAIN CORP.: (See hard copy for chart/graph).

Chart/Graph: BELZBERG TECHNOLOGIES: (See hard copy for chart/graph).

When Bell Aliant Regional Communications Income Fund launched earlier this summer, investors drove up the unit prices partly on the belief that the trust will find growth, either through acquisitions or expansion into areas such high-speed Internet access.

John Henderson, an analyst at Scotia Capital, disagrees. In a research note yesterday, he argued that guidance appears too optimistic, and reality should bring the unit prices down.

Bell Aliant -- which has 3.4 million local phone customers and 400,000 high-speed subscribers in six provinces -- was formed earlier this year when BCE Inc. combined Bell Canada's rural lines in Ontario and Quebec with Aliant Inc.'s business and a 63.4% stake in Bell Nordiq.

But while the trust's management believes that earnings before interest, taxes, depreciation and amortization will grow modestly over the next couple of years, Mr. Henderson believes EBITDA will actually decline -- by 2% to 3% between 2007 and 2009, thanks to rising competition from cable companies.

"Our detailed analysis demonstrates future cable telephony competition should exceed 50% of Bell Aliant homes by 2007 and 60% by 2008, up from 12% in 2005," Mr. Henderson said. As well, this competition could lower the trust's distributable cash per unit by 3% to 5% a year.

The good news is that distributions should remain stable in the near term, since the trust's 90% payout ratio and ability to tap more debt give it some wriggle room.

He maintained a \$33 price target on the units, but downgraded his recommendation to "underperform" from "sector perform," based on the recent rise in the unit price. The units, which fell 10 cents yesterday to \$35.35, began trading in July at \$33. David Berman

Workdrain Investors were none too pleased when

Workbrain Corp. missed its already-lowered guidance this week, driving its share price down sharply when it reported a bigger-than-expected second quarter loss.

Paul Steep, an analyst at Scotia Capital, downgraded his recommendation to "underperform" from "sector perform" and cut his 12-month price target on the shares to \$9.50 from \$14 previously -- a 32% cut -- based on the company's inability to improve operating profits. The shares closed yesterday at \$10.50, down 78 cents or 6.9%.

"Our view is that Workbrain's second-quarter results were disappointing and highlight the risk related to delayed software deals while the firm continues to invest in infrastructure," Mr. Steep said in a research note.

Workbrain, which develops human resources management software, added just four new customers in the quarter, down from eight in the previous quarter and nine in the same quarter last year. As Mr. Steep noted, that's the weakest quarter in terms of new customers in more than three years.

"As a result, the firm's committed backlog declined to \$26-million from \$29-million at the end of the previous quarter, reducing revenue visibility for the next several quarters," he said. David Berman

Another Goodwood play Belzberg Technologies Inc., a small-cap trading-systems company, put itself up for sale late Wednesday in a "strategic review." The market cap of this company is only a little more than \$100-million, but some interesting players are involved.

According to Bloomberg, the largest shareholder is activist hedge fund Goodwood at 14.2%. Belzberg family members appear to own about as much as Goodwood does, followed by Stephen Sadler at 6.9% and RBC Global Investments at 4.6%.

Mr. Sadler is a director at Belzberg, but he has a

reputation of a shrewd dealmaker in the software sector. He was formerly the chief executive and then vice-chairman of Geac Computer Corp., is a director of Open Text Corp. and now is the CEO of Enghouse Systems Ltd.

Greg Smith, analyst at Haywood Securities, believes Belzberg is worth \$10.50 per share or more. The stock rose 10 cents to \$7.90 yesterday. The stock has about tripled over the past year and a half.

His target is \$10.50, based on 16 times estimated 2007 earnings per share (excluding interest income) plus \$1 per share in cash. Comparables are trading at 20 times earnings, Mr. Smith added. Comparable deals have been done at 3.8 times to 4.5 times forward revenue, while his target is 3.9 times the current rate of sales. He believes the company's intellectual property could offer a further 20% premium.

Potential buyers include U.S. and European banks or Investment Technology Group Inc. Scott Adams

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