

## Gas market too bloated to be saved?

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Byline: Claudia Cattaneo and Lori McLeod  
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National Post / WEST FRASER TIMBER CO.: WFT/TSX: Oct. 30 close: \$38.00, +56 cents Vol. 83,793.

The natural gas market may be too bloated to be saved, despite an early bout of winter that has pushed gas prices back to the US\$8 to US\$8.50 per thousand cubic feet for winter contracts, according to RBC Capital Markets.

In a report to clients yesterday, analyst Gordon Gee said gas storage inventories are so full they will stay at the median to upper level even if the winter in North America is the worst in 13 years, based on an analysis of storage inventories and withdrawals over that period.

Winter weather would have to be the coldest in a generation for inventories to dip below the median, he said.

"It appears that it is too early to be buying natural gas stocks and service producers en masse," he wrote in a research note. As well, "the lack of reduction in U.S. drilling activity so far does not appear to be constructive toward reducing future inventory levels."

The brokerage expects gas prices to average US\$7.25 per thousand cubic feet in 2007, but warns there is downside risk if the winter is warm.

RBC said investors should play it safe with the gas market and favour names like EnCana Corp. that have strong balance sheets, low capital capital budgets relative to cash flow and strong future prospects to drive out the storm.

"Generally, the equity values of the gas levered trusts and junior producers are highly vulnerable to a normal winter and lower gas prices." Claudia Cattaneo

### WEST FRASER RATES A LUKEWARM 'BUY' AS TARGET LOWERED

Investors have grown wary of Canada's paper and lumber industries these days, but should West Fraser Timber Co. Ltd. be an exception?

John Duncanson, an analyst at Jennings Capital, thinks so -- but he tempered his enthusiasm for the

forest products company in a note to clients yesterday.

Although he maintained his "buy" recommendation on the stock, he lowered his 12-month price target to \$48 from \$52.50 previously, based largely on lower earnings expectations. The shares closed yesterday in Toronto at \$38, up 56 cents.

Mr. Duncanson now expects West Fraser will generate earnings of \$1.80 a share this year, down from an earlier estimate of \$2.50 a share -- a 28% cut. He slashed his earnings expectations for next year, too, estimating the company will generate \$3.10 a share, down from \$4 earlier.

These cuts are linked to tumbling lumber prices. Lumber averaged just US\$278 per thousand board feet (mfbm) in the third quarter of this year, down from US\$316 per mfbm in the second quarter.

However, Mr. Duncanson remains enthusiastic about West Fraser partly because he expects the price of lumber will rebound moderately in 2007.

Why? He forecasts that lumber production will fall 10% to 12% lower in 2007 from 2006, there will be more consolidation within the industry, the U.S. housing market will begin to recover and a new softwood lumber agreement will keep lumber supplies tight.

At the same time, West Fraser could use its strong cash position to scoop up bargains next year, perhaps bidding for Norbord Inc.

"We believe Norbord and West Fraser have similar operating philosophies, and both are the low cost producer in most of their product lines," Mr. Duncanson said. David Berman

Printer Banta silent as US\$1.2B offer from Cenveo set to expire

Cenveo Inc.'s US\$1.2-billion bid for fellow printer Banta Corp. is set to expire today.

Even though there's a US\$50 per share bid on the

table, the stock (BN/NYSE) closed yesterday at US\$45.01, putting the company's market capitalization at just over US\$1-billion. Investors may be betting that Banta, which prints books and catalogs, will again reject Cenveo's advances.

It has declined two previous, lower bids and has not yet responded to the richer US\$50 per share offer made earlier this month by Cenveo. Instead Banta continues to unfold details of its previously announced plan to lower costs by US\$35-million per year through plant closures and workforce cuts.

While they haven't reached the bid price, Banta's shares have still managed to climb dramatically after plunging to the US\$34 range in July following weak second-quarter results.

The brains behind the bid for Banta are turnaround specialist Robert Burton and hedge fund Goodwood Inc., which teamed up last year to take over Cenveo. Cenveo's stock (CVO/NYSE) has more than doubled since the Burton/Goodwood takeover, closing yesterday at US\$20.06 per share in New York.

In a letter sent to Banta in August, Mr. Burton said together the complementary firms could create a US\$3-billion "print powerhouse," and that such a deal would provide substantial benefits for the shareholders of both companies.

Mr. Burton, who now holds the top job at Cenveo, has previously run printing companies Moore Corp. and World Color Press Inc. Lori McLeod