MoneyDigest

THIS COLUMN OFFERS EXCERPTS FROM PUBLISHED SOURCES TO PROVIDE OTHER VIEWPOINTS.

Making Busses More Efficient

Tony Jasansky writes: "New Flyer Industries, Inc. (NFI.UN 9.80 Toronto) is a major North American manufacturer of customized heavy duty buses powered by efficient, low or no emission engines. In the quarter ending September 2009, consolidated revenue of $303.6 million was 19% higher than for the same period in 2008, but NFI reported a net loss of $9.2 million ... primarily due to the non-cash charges of $21.3 million related to unrealized foreign exchange losses and fair value adjustments to assets and liabilities. NFI units, called income deposit securities (IDS), consist of one common share of NFI and C$5.53 principal amount of 14% subordinated notes of NFI ULC, an indirect subsidiary of NFI. Holders of IDS are both common shareholders and creditors to NFI. In the last quarter, 64.9% of the distributable cash of C$22.2 million was paid out to IDS holders. The current monthly payout is $0.0975/unit. In the last three months four insiders added 27,600 units to their holdings, paying $8.10 to $9.70 per unit. No insider sales were reported in the last 12 months. Over the last 12 months NFI has formed a large triangular bottom that would be completed by a decisive breakout above $10.10-$10.20. On the downside a major support can be expected in the $7.60-$8.10 range."

***Dick Davis Digest* (US$180, 24 issues), 978-745-5532, www.dickdavis.com (12/09)**

Media Will Recover

Thomson Reuters Corp. $34 (Toronto symbol TRI; Conservative Growth Portfolio, Consumer sector; Shares outstanding: 829.7 million; Market cap: $28.2 billion; Price-to-sales ratio: 2.0; Dividend yield: 3.5%; SI Rating: Above Average) has two main divisions: Markets accounts for 60% of revenue and sells financial information products to banks and other financial institutions. Professional (40% of revenue) sells specialized information to professionals in the legal, accounting, scientific and health-care fields. The company gets about 60% of its revenue from the Americas, followed by Europe (30%) and Asia (10%).

The financial crisis prompted banks and brokerage firms to cut spending on information products. As a result, Thomson Reuters' revenue fell 3.7% in the third quarter of 2009 to $3.2 billion from $3.3 billion a year earlier (all amounts except share price and market cap in U.S. dollars). Earnings fell 8.5% to $0.43 a share (or a total of $359 million) from $0.47 a share (or $392 million).

Thomson is taking advantage of the slump in the financial industry to expand its operations. For example, it will pay an undisclosed sum for breakingviews.com, a privately held website that supplies financial news and commentary.

Breakingviews' main clients are in the banking, wealth management and legal professions. The site mainly sells its information through online subscriptions. It also sells its articles to major newspapers and magazines.

The company has also done a good job of cutting its costs since it merged with the U.K.-based Reuters news agency nearly two years ago. It has already lowered its yearly expenses by $975 million, and should easily reach its target of $1.4 billion in annual savings by the end of 2011.

The shares trade at 16.6 times the $1.94 U.S. a share that Thomson should earn this year. That's a reasonable p/e ratio when you consider that Thomson's highly specialized information products face little competition from free news on the Internet. As well, bankers and portfolio managers rely on this information to run their businesses, so demand should rebound with the economy.

Thomson is a buy.

***The Successful Investor* ($139, 12 issues), 416-756-0888, www.tsinetwork.ca (01/10)**

IESI-BFC Ltd's Expansionary Tendencies

In a very short span of time, this company has converted from an income trust to a corporation, changed its name, obtained a U.S. stock listing, raised capital in the U.S. and made a significant acquisition ...In mid-November, IESI-BFC Ltd. (BIN 15.03 NYSE - yield 3.20%) acquired Canadian garbage hauler Waste Services Inc. for $370 million in an all-stock deal, making the combined company the third biggest in North America.

...IESI-BFC has been a favorite of mine since the days when it was an income trust. It was a solid performer financially back then, and has continued to be a solid performer financially throughout. When it switched from a trust to a corporation it planned to reduce its distribution rate. The unit holders squawked, so it stayed the same. I like that too: responsiveness to what the shareholders actually want. My advice: Buy. – David West

***Income Digest* (US$197, 12 issues), 978-745-5532, www.dickdavis.com (12/09)**

PrefLetter Recommendation

CIU.PR.A - Redeemable at $26.00 commencing 2012-6-1; redemption price declines by 0.25 p.a. until 2016-6-1; redeemable at $25.00 thereafter. Next ex-date: 2010-2-5 (estimated).

CU Inc. is a holding company subsidiary of Canadian Utilities and should be considered exposure to CU despite the difference in ticker symbols. ACO (Atco), the ultimate parent, should also be considered a member of this issuer group. The 3Q09 Financial Statements show that dividend coverage is very good, despite a somewhat convoluted capital structure in which its parent directly holds some preferred shares issued by its subsidiaries – all of which are regulated by the Alberta Utilities Commission (AUC). A recent AUC decision on generic cost of capital (see http://www.auc.ab.ca/applications/decisions/Decisions/2009/2009-216.pdf) noted that it believes that the decision "will allow Alberta utilities on a stand-alone basis to target credit ratings in the lower A range"; the decision is viewed as "steady as she goes" by DBRS (see http://www.dbrs.com/research/230603).

As a utility, CIU is not bound by the Basel rules for banks' Tier 1 Capital and the shares are cumulative – a feature I consider overrated, but important to some.

***PrefLetter*, Hymas Investment Management Inc, ($210, 12 issues) 416-604-4204, www.prefletter.com (1/10). A 15% discount for *MoneySaver* members at www.canadianmoneysaver.ca/tt_benefits_pub.aspx**

Russel's Cost Controls

Russel Metals $17.80 (Toronto symbol RUS; SI Rating: Speculative) 905-819-7777; www.russelmetals.com; Shares outstanding: 59.7 million; Market cap: $1.1 billion; Dividend yield: 5.6% is one of North America's largest metal distributors. Russel serves its roughly 18,000 customers through a network of 58 Canadian and 12 U.S. locations.

In the three months ended September 30, 2009, Russel reported earnings of $12.5 million or $0.21 a share. Excluding an inventory writedown, earnings were $0.24 a share. A year earlier, the company posted a profit of $91.5 million or $1.45 a share. Revenue fell 54.5% to $434.3 million from $954.9 million.

The weak economy has cut prices for the company's steel products. However, Russel has already taken measures to control its costs and conserve cash. Earlier this year, it cut 500 jobs (or 16.7% of its workforce), lowered executive pay by 10% and cut its remaining employees' hours.

The company has also cut its quarterly dividend by 44.4% to $0.25 a share from $0.45. The stock now yields 5.6% a year. Russel holds cash of $47.1 million or $0.79 a share. Its $223.7 million of long-term debt is a reasonable 20.3% of its market cap.

Russel's exposure to volatile steel prices and the resource sector adds risk in the near term. However, the long-term outlook remains positive.

The company is well positioned to gain as the economy continues to recover. Meanwhile, Russel plans to take advantage of current weak steel demand to buy heavily indebted competitors, likely at bargain prices.

Russel Metals is a buy.

***Stock Pickers Digest* ($168, 12 issues), 416-756-0888, www.tsinetwork.ca (01/10)**