

Sell TransAlta, Yellow Pages, Veritas analysts say

Jonathan Ratner, Financial Post

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Veritas Investment Research analyst Darryl McCoubrey thinks "stability and growth may be a thing of the past" for TransAlta Power LP. He justifies his "sell" rating on its units to an estimated 10% decline in distributable cash by 2007, which yields a value of less than \$7 per unit.

Mr. McCoubrey points to the fact TransAlta has been receiving discounted natural gas from a sponsor since December, 2000 -- but these handouts will end Nov. 1, 2007 -- as a primary reason behind the projected sharp decline in distributable cash.

He also says investors should expect payouts and unit values to tumble because of faltering plants in Ontario and the looming federal tax on distributions.

"In the short term, unit repurchases and credit facilities could help keep payouts stable, but the long-term outlook is bleak," Mr. McCoubrey wrote, calling TransAlta "a company powered for opportunity ... the opportunity to sell."

Meanwhile, analyst Neeraj Monga maintained Veritas' "sell" rating for Yellow Pages Income Fund (YLOun/TSX). Ottawa's decision to tax trusts "will prove far more detrimental to YPG's prospects than many of its less levered brethren," he wrote in a research note. "YPG will need to reinvent itself in a world where the playing field has been leveled for all."

Veritas sees Yellow Pages units falling lower and says they are fully valued at \$12, recommending investors sell every time its units hit that number.

"We are confident of the ceiling; the bottom could be significantly lower," he wrote.

Mr. Monga sees two options for Yellow Pages: his preferred option of buying back units, which could provide a cushion to its current unit price; or paying down debt.

Yellow Pages closed yesterday at \$12.97, up 7 cents.

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