

# *Waste firm is anything but garbage*

**John Heinzl**

**Globe and Mail | Thursday June 4, 2009**

Hauling trash can be a stinky business. Ask investors who suffered through the recent travails of IESI-BFC Ltd. (BIN-T11.46-0.17-1.46%) .

Last summer, when the company - then called BFI Canada Income Fund - slashed its distributions and announced plans to convert to a corporation, the units were run through a trash compactor.

From a 52-week high of more than \$24 last June, they sank to less than \$8 by December, as income-oriented investors abandoned the shares and the credit crisis hammered companies with leveraged balance sheets.

The stench has been lifting slowly since then - to the point that analysts think the beat-up stock offers good value. Recently, the trash hauling and disposal company has been taking steps to win back the faith of investors, and its stock has responded, climbing nearly 50 per cent from its lows.

"They're doing the right things," said Rick Stuchberry, portfolio manager with Blackmont Capital, which owns the shares.

In February, for example, the company completed an \$81-million equity offering that enabled it to retire a U.S. credit facility, removing concerns about a possible breach of debt covenants.

Last week, with an eye on potential U.S. acquisitions, the company applied for a listing on the New York Stock Exchange and announced a second public offering that will raise an estimated \$125-million (U.S.). It also formally changed its name to IESI-BFC, reflecting its IESI brand in the U.S. South and Northeast and its BFI Canada operations.

With its balance sheet issues behind it, the future looks promising for IESI-BFC, analysts and money managers say. The fact that it pulled off a share issue in the heat of the credit crisis speaks to its strength, Mr. Stuchberry said.

"These guys are going to try to consolidate, they're going to try to take the weak sisters out and take opportunities when they can," he said.

The stock is also appealing for income investors, he added. Trash hauling and disposal is a "Steady Eddy kind of business," and the stock's yield of 4.4 per cent - excluding special dividends - is attractive.

Blackmont started buying the shares at about \$9.50 (Canadian) and has a price target of \$14 to \$15. They closed yesterday at \$11.40 on the Toronto Stock Exchange.

Reflecting the improved outlook, all eight analysts surveyed by Bloomberg rate the stock a "buy," with an average target price of about \$16.

"We believe the company has excellent acquisition growth opportunities," Wunderlich Securities analysts Brian Butler and Michael Hoffman said in a report last month. (Wunderlich is among the brokers co-managing IESI-BFC's U.S. offering of 13 million common shares.) "The current economic downturn has materially depressed waste industry valuations across the board, creating a very attractive buyer's market for waste assets," the analysts said.

One of IESI-BFC's first priorities will be to address weak results in its U.S. Northeast operations, said **Darryl McCoubrey, an analyst with Veritas Investment Research**. Specifically, he believes IESI-BFC will

acquire waste collection companies to feed its landfills, particularly the large Seneca Meadows site in upstate New York.

"The U.S. [Northeast] is a highly competitive disposal market due to excess capacity," he said in a report. "A more established network of collection and transfer station assets would give the company additional routing control which would likely translate to stronger pricing at its landfills in the future."

Another wild card for investors is the Canadian dollar, which has been surging relative to the U.S. greenback. Because of the company's extensive U.S. operations, a rising loonie hurts its bottom line.

Citing the Canadian dollar's recent strength, **Mr. McCoubrey** reduced his intrinsic value estimate for IESI-BFC to \$13 a share from \$14, but maintained his "buy" on the stock.

Every 1-cent increase in the Canadian dollar would shave 15 cents off his estimate, but a strengthening U.S. dollar would have the opposite effect, he said.

\*\*\*\*\*

### **By the numbers**

1.8 million: Number of IESI-BFC commercial, industrial and residential customers in North America

\$1.1-billion: Company's annual revenue for 2008, the first year it passed the \$1-billion revenue mark

35: Number of transfer stations the company operates

22: The number of landfills owned and/or operated by the company - five in Canada and 17 in the United States

*Source: Company reports*