What's ACE really worth?

As Air Canada parent winds down, analysts say shares may grow in value

BRENT JANG, TRANSPORTATION REPORTER
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ACE Aviation Holdings Inc., the parent of **Air Canada,** is preparing for its disappearing act this summer, fuelling intrigue about ACE's final value to shareholders.

Veritas Investment Research Corp. analyst ***Peter Holden*** pegs ACE's net asset value at $27.94 a share, or 30 per cent higher than yesterday's close of $21.49 on the Toronto Stock Exchange. His estimate is based on ACE completing a $500-million share buyback at $22.50 apiece on June 18.

Mr. Holden cautions that Montreal-based ACE isn't suited for risk-averse investors because of the uncertainty surrounding how exactly to wind down the holding company in a volatile industry that is battling high oil prices.

Robert Milton, ACE's chairman and chief executive officer, is poised to close down ACE nearly four years after it was created in October, 2004, to hold Air Canada, loyalty program Aeroplan, regional airline Jazz and an aircraft maintenance, repair and overhaul operation.

Mr. Milton is seeking to either find an outside buyer for ACE's 75-per-cent stake in Air Canada, or do some type of share swap that would cancel ACE stock.

ACE sold off its remaining interests last week in Aeroplan Income Fund and Jazz Air Income Fund, but maintains its majority stake in Air Canada and 22.8-per-cent interest in ACTS Aero Technical Support & Services Inc.

"While we cannot predict the precise path to dissolution, it seems to us that, so long as the company is able to successfully redeem shares at a price below the intrinsic value, the best option is likely to hold on," ***Mr. Holden*** said in a research note to clients.

Air Canada's class B shares for Canadians fell 10 cents to $8.65 yesterday on the TSX.

"History suggests to us that people who want to own airlines are not value investors," ***Mr. Holden*** said. But for those who believe that Air Canada is worth at least $8 a share, "then it makes sense to stay in for as many rounds as your risk appetite will allow."

Other analysts agree that ACE could produce some gains for investors not yet inclined to tender their stock to ACE's current share buyback plan.

Research Capital Corp. analyst Jacques Kavafian likes the "sum-of-the-parts" valuation on ACE, setting a target of $29, while RBC Dominion Securities Inc. analyst Nick Morton's target is $25.

CIBC World Markets Inc. analyst Chris Murray, whose ACE target is $28, notes that original ACE investors who acquired shares in the holding company for $20 in 2004 are now up 120 per cent, including special payouts and counting returns and distributions from Aeroplan and Jazz.

If those ACE shareholders had cashed out last fall, before oil prices surged, the gains would have been greater.

Aeroplan accounts for the lion's share of ACE's strategy to "unlock hidden value," with the loyalty program now boasting a stock market value of $3.4-billion - four times higher than Air Canada's market capitalization.

Mr. Murray said it's possible that ACE will attract a buyer for the airline, or that ACE repurchases Air Canada shares, even though ACE management has stated it prefers to avoid buying back stock - issued at $21 during the airline's initial public offering in November, 2006.

While ACE hopes to dissolve itself this summer, it could stretch into the fall if Mr. Milton is determined to find an outside buyer, analysts say.

ACE AVIATION (ACE.B)

Close: $21.49, down 1¢