Slips and spills at Sleeman

Profit warning no surprise

Carrie Tait and Kevin Restivo, Financial Post
Wednesday, October 26, 2005

CREDIT: Jeff Wasserman, National Post
A bottle of Sleeman beer.

This week's profit warning from Sleeman Breweries Ltd. came as no surprise to **Peter Holden**. **The Veritas Investment Research** analyst and longtime Sleeman bear, however, doesn't think the beer company went far enough.

The Guelph-based brewer cut its normalized earnings guidance to 81 cents a share to 85 cents a share from earlier projections of at least 99 cents a share, blaming intense competition from discount beers.

Prior to Monday's profit warning, **Mr. Holden** expected the company to post a profit of 54 cents. If all the stars aligned and Sleeman had a blockbuster second half, then perhaps it could reach 72 cents, he said in a research note date Sept. 30. He's not changing his tune in light of Sleeman's warning.

"I'll be surprised if they make 81 cents," **Mr. Holden** said yesterday. "That would be a significant improvement over their performance in the first half [of the year]."

Here's the math: For Sleeman to make the low end of its revised guidance -- 81 cents -- it will have to earn about 56 cents in the third and fourth quarters combined.

That won't be easy. Sleeman made 10 cents in the first quarter, including a 3.5 cents one-time gain, and 15 cents in the second quarter. In the second half of 2004, Sleeman whipped up 50 cents and in 2003, it generated 51 cents. Sleeman reports its third quarter Friday.
CREDIT: Jeff Wasserman, National Post
A bottle of Sleeman beer.

Even in light of the brewer's profit confession, **Mr. Holden** said the long-term trends of the industry -- Cheers to imports! Here's to dirt-cheap domestics! -- are still against Sleeman.

And there's more: "[Sleeman] has yet to demonstrate any ability to generate free cash or cut costs. [Sleeman] is staring at a large amount of debt coming due in a year and a half and not much ability to repay it."

And even if the company hits 81 cents, the stock still isn't cheap, he said. Prior to Sleeman's profit warning, **Mr. Holden** said two possibilities could make its previous 99 cents earnings expectations reasonable: "Sell a whole lot more beer at current prices," and "sell the same amount of beer for a whole lot more money." His prediction at the time: "Neither possibility seems likely in the current circumstances." Carrie Tait

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AWFUL TREE STOCKS West Fraser Timber Co. Ltd. missed its third quarter by a mile. When extraordinary items are sifted out, the company posted a loss of 29 cents a share, according to UBS Investment Research analyst Jaret Anderson's calculations. The analyst expected the company to post a profit of 10 cents a share and the rest of the Street had pencilled in profit of 24 cents a share.

"West Fraser has now missed consensus earnings per share estimates for each of the last three quarters since the closing of the Weldwood transaction in December, 2004. Our 2006 earnings per share estimate is materially below consensus ($1.34 versus consensus of $3.13). We expect to see consensus estimates move lower on these results."

For West Fraser shareholders, it's too late. The stock (WFT/TSX) fell $1.80 to $40.95 yesterday to a fresh year-and-a-half low. But other paper and forest investors may learn from West Fraser's troubles and escape before others report similarly soggy results.

"We believe the Street has underestimated the impact of higher energy prices and the stronger Canadian dollar," Mr. Anderson said in a research note yesterday. "Look for seven of eight names in our Canadian paper and forest coverage universe to miss consensus estimates this earnings season."

Seven of eight? Mr. Anderson follows Abitibi-Consolidated Inc.., Canfor Corp., Cascades Inc., Catalyst Paper Corp., Domtar Inc., Norbord Inc., Tembec Inc. and West Fraser. In a research note setting up the third quarter, all his estimates were below the Street except for Norbord. Carrie Tait

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ADDING VALUE Canaccord Capital analyst Peter Misek believes CGI Group Inc. is ready to buy back the 29.3% stake owned by BCE Inc. in coming weeks. CGI, whose shares have increased a mere 4% this year, is looking for ways to increase shareholder value.

Mr. Misek said such a move as buying the BCE stake could add another $2 per share to the stock price. CGI class A shares (GIBa/TSX) finished at $8.31, down 8 cents, yesterday.

Mr. Misek said CGI's stock would get a lift because of the share reduction and a tax shield created from a debt financing. "Additionally, this plan could promote further operational discipline at CGI," he said in a research note yesterday.

BCE cleared the way to sell its stake in CGI in July, 2003, when the two firms announced a new shareholder agreement that replaced a complicated deal struck in 1998. BCE is CGI's biggest outside shareholder and customer, accounting for over $500-million of CGI revenues per year.

Michael Sabia, BCE's chief executive, meanwhile, may want to sell the telecom giant's CGI stake as part of the company's focus on cost reduction and the sale of non-core assets.

Cash-rich CGI is less likely to convert into an income trust, as some observers have speculated, in light of Ottawa's decision last month to stop issuing advance tax rulings for potential trusts. Kevin Restivo