Analysts line up to handicap movie fund: Takeover race National Post Tuesday,

August 15, 2006
Boyd Erman, Carrie Tait and David Berman

Financial Post

For analysts who follow Movie Distribution Income Fund, those CFA designations and the ability to guesstimate profit outlooks are suddenly a lot less important than the ability to handicap a takeover race.

There's a pretty good consensus that, on its own, after recently losing key executive Victor Loewy and his Rolodex of industry movers who provide movies to distribute, Movie Distribution is worth $5 or $6 a unit. But with a bid of as much as $10.50 a unit on the way from U.K.-based Marwyn Investment Management LP, which plans to bring back Mr. Loewy, what matters is being able to correctly call the outcome of the bid.

Movie Distribution's controlling shareholder, Alliance Atlantis Communications Inc., has been outwardly cool to selling the fund, but may have little choice, as minority investors clamour for an auction.

A flurry of research hit the street yesterday, with varying predictions of what the outcome will be. The most optimistic was Walter Spracklin of RBC Capital Markets, who concluded that "while we believe that Alliance Atlantis's preferred option would be to delay responding to the Marwyn proposal, we believe that there will be a transaction whereby the motion-picture business is sold." That confidence led Mr. Spracklin to boost his target to $10.50 from $5.

Over at TD Newcrest, Adina Bloom is less confident. She pegs the probabilty of a sale that fetches $10.50 at 70%, leading her to put a target of $9 on the units, to reflect the chance that nothing happens.

The pessimists of the pack are at Scotia Capital, where the analysts who follow Alliance Atlantis see a 40% to 50% chance that the bid triggers a sale.

"Alliance Atlantis has fiduciary duties to its own shareholders and is under no obligation to accept that offer," they wrote. Boyd Erman

It's a cold business Could Atlas Cold Storage Income Trust find a white knight in George Armoyan?

Veritas Investment Research analysts Mike Palmer and Rahim Bapoo think it's possible. Mr. Armoyan, the head of Clarke Inc. and an activist investor in what he believes are undervalued companies and income trusts, controls 10.5% of Atlas's units through Clarke and Geosam Investments Ltd. Clarke also holds about 20.1% of Atlas competitor Versacold Income Fund. The Veritas analysts say Mr. Armoyan could push for a combination of Versacold and Atlas, the second of which is the target of a $7 a unit bid from Avion Group of Iceland.

While other analysts have raised competition issues in combining the two, the Veritas analysts note the combination of Atlas and Versacold would be a good strategic fit and would allow them to compete against U.S. cold-storage giant AmeriCold, which has three times the capacity of its next U.S.
competitor.

The other option is that Mr. Armoyan could put in a bid for Atlas alone. If he wins, it would fit with Clarke's trucking and warehousing business (Atlas outsources its trucking, so that is its lowest-margin business). If he doesn't win that bid, at least he would run up the price.

"As a major holder of Versacold, it is hardly in [Mr. Armoyan's] interests to watch as a new competitor gets bargain pricing," the Veritas analysts wrote in a recent research note.

"That could depress the potential value of his own holdings, and it leaves more cash than necessary in the hands of the people who will become competitors," the Veritas analysts added.

Mr. Armoyan has used similar tactics before -- he took a 10% stake in Consolidated Properties Ltd., then one month later made an all-cash bid for the rest of the company. Eventually, a white knight, Aspen Properties, bought Consolidated for a 51% premium.

Mr. Palmer and Mr. Bapoo estimate that Atlas should garner between $7.80 and $9 a unit. The units closed yesterday at $7.50, down 5 cents.

"One way or another, for Mr. Armoyan this deal is a win-win," Veritas said.
"Expect things to get hotter for cold storage when he makes his move." Boyd Erman

Hitting the eject button When an income trust cuts its distributions, the response is usually pretty straightforward: Analysts lower their recommendations and target prices, if they haven't done so already.

On the other hand, distribution increases are usually met with smiles and fanfare. Analysts may pat themselves on the back for talking up a good trust, or they can start talking up the company because now it has proved itself a worthy investment.

Cinram International Income Fund is an anomaly. The company last week increased distributions to $3.25 per unit per year from $3, but analysts couldn't care less. Downward revisions followed Cinram's second-quarter results as the number crunchers zeroed in on lower-than-expected EBITDA (earnings before interest, taxes, depreciation and amortization) and a forecasted decline in distributable cash flow per unit.

Perhaps most frightening, DVD sales -- the reason for Cinram's existence -- slowed. Jeff Rath, an analyst at Canaccord Adams, lowered his target price to $23 from $28. Prior to the results, Mr. Rath called Cinram a "hold." He's sticking with that call.

"Management attributed the decline of DVD sales to a 26% decline in DVD-units shipment by its main customer, Time Warner," Mr. Rath said in a note yesterday. "However, Time Warner's market share of 19.4% has not changed since last year, implying a market-wide downturn in DVD shipments -- not an isolated case, as management may have suggested."

David McFadgen, an analyst at Sprott Securities Inc., lowered his target to $25 from $27, but upgraded his recommendation to "market perform" from "reduce."

"Nonetheless, we recommend a switch to other high-quality trust names," he said. Cinram closed at $22.45 yesterday and is down 26% from its peak of $30.30 in March. Carrie Tait

Foreign shorts The end of interest rate hikes by the U.S. Federal Reserve has been good news for emerging markets -- many are rallying.

Despite the rebound, though, Merrill Lynch global emerging-markets equity strategist Michael Hartnett believes it's time for investors to turn cautious on the sector. "The cyclical drivers of liquidity, commodities and risk appetite have become less powerful and 2006 is thus a year of lower returns and higher volatility," he said in a research note.

He believes the iShares MSCI Emerging Markets Index Fund -- which tracks a basket of emerging markets -- could rally to US$104. It closed yesterday at US$95.85, up US38 cents, meaning the exchange-traded fund could rise another 8% or so. After that, Mr. Hartnett believes, the ETF will become a good short-selling opportunity, with worries about U.S. economic growth putting downward pressure on equities.

"Whether U.S. growth worries take emerging-markets equities down sharply or modestly, sometime between now and yearend, will depend on the inflation numbers," he said. "The sooner inflation fears subside, the less downside."

He added that the best way to play emerging markets is by overweighting countries that enjoy current-account surpluses and have low price-to-earnings ratios. These countries include Brazil, Russia, Korea and Indonesia. He also likes Turkey, a "fallen angel" whose tumbling currency has eased inflation and interest-rate concerns.