

# Yellow Pages strikes back at analyst

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MONTREAL - Top management of Yellow Pages Income Fund yesterday hit back at an analyst whose negative report on the business in July sent the stock tumbling.

"Call me 'from Missouri' on this one, but so many people can't be that wrong," chief executive Marc Tellier said in an interview, after Canada's second-largest income trust released solid second-quarter results and said investors should expect stable growth this year and in 2007. "I mean, 11 out of 12 analysts that cover us have 'buy' recommendations."

The dissenting analyst, Neeraj Monga of Veritas Investment Research, said he stood by his claim the outlook for growth for Yellow Pages is cloudy, because of rising competition from Internet search firms, which could provide stiffer competition for Yellow Pages' fast-growing online ventures than its near-monopoly phone book business.

"It's not clear as to what the print revenue growth in the directories business is," Mr. Monga said.

"My general thesis hasn't changed," Mr. Monga said. "If people are expecting 5% to 6% annualized distribution growth over the next three to five years, they will be disappointed."

The appearance of Mr. Monga's report three weeks ago led some investors to flee the stock, after he said it was worth \$13 per unit. YP shed close to \$500-million in market value as the units fell from \$15.73 to about \$14.50.

They closed up 15 cents yesterday to \$15.30.

Since YP's initial public offering three years ago, it has raised its distribution per unit to \$1.03 annually from 82.5 cents, for a compound annual growth rate of 7.5%. Yesterday, YP said it would increase payments to investors by 6% this year and next. It also pledged to grow revenue in its directories business by 4% to 5% in each of 2006 and 2007 and operating earnings by 4% to 7%, while pledging higher growth (6% to 7% for revenue, 7% to 9% for operating profits) at its newly acquired classified publications group.

YP said net earnings grew 78% in the quarter ended June 30 to \$114-million as revenue rose 58% to \$340-million on the strength of acquisitions.

Factoring out the new businesses, revenue grew 4.7% as operating earnings grew 8%. Some analysts have said Mr. Monga raised a few valid points, particularly about the threat from online players, but most dismissed concerns the business could decline. One, RBC Capital Markets analyst Dirk Lever, went as far as to mock Mr. Monga's exercise of counting tens of thousands of pages in Yellow Pages directories.

Mr. Tellier questioned the methodology of counting pages, adding "you can't [make] the kind of loose extrapolations [Veritas] was doing" as they don't provide a whole picture of the business, since Yellow Pages has been adding neighbourhood directories as well as growing its online offerings. "The momentum in our results speak for itself."

Chief financial officer Christian Paube added Yellow Pages has been public for 12 quarters and "we've always met our commitments. We may fail, we haven't done so yet, and we sure don't intend to do it."

Mr. Tellier acknowledged the amount of small display ads in his phone books had dropped, but said the number of large display ads had increased, as had "most of our item counts."