

YPG value tumbles \$500M after study: Key markets showing fast slippage: Veritas says

Friday, July 28, 2006
Financial Post

Boyd Erman and Barbara Shecter

Yellow Pages Income Fund has shed almost half a billion dollars of market value after analysts at Veritas Investment Research counted thousands of pages of advertisements and concluded the fund's directory publishing business is in "unmitigated decline."

Veritas Investment Research, a Toronto-based company that provides analysis on stocks, went through 33,649 pages of Yellow Pages directories published in Toronto, Montreal, Calgary, Vancouver and Victoria from 2003 to 2006 and found that major markets are showing fast slippage. The report said Toronto directory pages are down 8.7% so far this year, while Montreal pages have dropped 5.7% and Victoria pages have slumped 12.2%.

"We firmly believe that those investors who sell their YPG units now will reap the rewards of their decision at leisure, while others that hang on for more gains might find the exit door shut in the face of a stampede a year or two down the road," Veritas analysts Neeraj Monga and Chris Silvestre said in the report, which went on to say the units were worth \$13.

Yellow Pages units have fallen every day but one since the analysts published their report on July 19, dropping from \$15.73 that day to a six-month low of \$14.83 yesterday. During that time, the benchmark index of income funds that trade on the Toronto Stock Exchange has risen.

The Veritas analysts were also critical of Yellow Pages' purchases of Trader Media and Trader Classified, the companies that publish books such as Auto Trader, saying the deals "provided testimony to the increasing desperation at YPG to mask the declining trend in its underlying business operations."

Montreal-based Yellow Pages declined to comment when contacted by the Financial Post. However, the fund's management did address the issue in a message Wednesday to the investment community, which has been a strong backer of Yellow Pages.

In the note, which also gave analysts information about the company's planned quarterly conference call Aug. 9, Yellow Pages said it wanted to respond to "recently published research questioning trends and future prospects of the directory publishing industry."

The message emphasized Yellow Pages' strengthened online business and extended directory categories, as well as the increased productivity of its sales force.

"What counts most, in our opinion, is how management positions the company to take advantage of the positive market forces and to avoid or minimize the impact of any negative forces," the note said. "We believe that we are executing well on both counts."

Yellow Pages, the country's second-largest business trust, has been a favourite of investors and analysts. The company has had no trouble issuing extra units to fund acquisitions, selling more than \$1.6-billion worth in the past two years, and nine of the 11 analysts tracked by Bloomberg rate the company's units a "buy."