Tembec Inc. cut down to size

Lori McLeod & Carrie Tait, Financial Post
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Timberrrrrrr! Tembec Inc.'s target has been felled to zero from $1 by RBC Capital Markets analyst Mark Bishop.

His call is the company could soon be forced to liquidate its assets, leaving nothing for equity holders once its liabilities are factored in. "While we expect the company should have adequate liquidity to meet peak near-term cash requirements in the second quarter of fiscal 2006, we estimate there are just four quarters of liquidity remaining in the absence of a positive liquidity event," Mr. Bishop said in a research note yesterday.

If Tembec is forced to sell its assets, Mr. Bishop's model puts its implied equity value (assets minus liabilities) at a range of negative $362-million to negative $620-million. He expects the company's free cash flow to plunge to negative $102-million by the second quarter of fiscal 2006, from the current negative $22- million. "We are disappointed the company has not yet secured any non-core asset sales to generate additional near term liquidity," Mr. Bishop said. It also has no clear cost-reduction plan and weak fundamentals, he added.

Tembec's engineered wood, oriented strandboard and resin assets would be easiest to sell, and could fetch $200-million for the company. But even the short-term gain from such an asset sale, or potential help from a federal government loan insurance program, probably won't be enough to stave off the restructuring, he added. Tembec shares closed in Toronto yesterday down 14 cents to 84 cents. Five years ago the stock was trading at about $16. Lori McLeod

In the targets Cardiome Pharma Corp. may be considered prey for potential bidders, but if it is valued as richly as analysts estimate then the company could end up a willing victim. The likely take-out value of the company is in the region of $20 per share, or $1-billion, Canaccord Adams analyst Karl Keegan said in a research note yesterday.

"Big Pharma groups are willing to pay significant sums for companies whose most advanced assets are yet to show proof of concept," he said. This could bode well for Cardiome, whose lead product is in late stage clinical trials.

The drug, RSD-1235 IV, is a potential intravenous treatment for irregular heartbeat.

Other analysts have guessed Japan's Astellas Pharma Inc., which holds the marketing rights for an injectable version of the drug, could be a likely candidate to buy Cardiome.

An acquiror would have to assume the drug will be approved by the United States Food and Drug Administration, Mr. Keegan said. This would put Cardiome's value at $17.50 per share, he said. Add European approval to the mix, and the value will rise to $19.90 per share, according to Mr. Keegan's calculations.

Both of these valuations assume a 20% chance of success for an oral version of the drug, which is in earlier stage clinical trials.

If you make a 50/50 bet the oral version will be approved, the firm's fair value comes out at $23.80 per share, or $1.24-billion, Mr. Keegan said. That's a significant premium to the $12.84 per share the stock is currently trading at.

Even without a takeover deal, Cardiome's share price should gain this quarter, said Mr. Keegan, who has a "buy" recommendation on the stock. Lori McLeod

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DUD SUDS It's been a tough haul for Sleeman Breweries Ltd. lately. To get suds off the shelves of the Beer Store and into your fridge, the company has dropped its prices. The results have been ugly: With its margins pinched, Sleeman lowered its profit expectations Tuesday -- the second downward adjustment in a little over three months.

To Sleeman's credit, it made the necessary price adjustments in order to sell beer. The analysts following the stock have also made adjustments. But the changes to their thoughts on Sleeman comes too little, too late for investors.

Seven analysts made downward adjustments to their Sleeman calls in the wake Tuesday's news. Those shifting from "buy" to either "sell" or "hold" include Octagon Capital's Robert Gibson, TD Newcrest's Michael Van Aelst, Raymond James' Raymond Lai, and Desjardins Securities analyst Keith Howlett. This entire group all dropped their target prices to reflect Sleeman's woes.

Over at BMO Nesbitt Burns, analyst Karim Salamatian lowered Sleeman to "underperform" from "market perform," with a target price cut to match. National Bank analyst Jim Durran made a similar move, dropping Sleeman to "underperform" from "sector perform." The bravest of this group of seven is Blackmont Capital's David Hartley. He's sticking with Sleeman, calling it a "buy" with a target price of $14, down from $15.

Of all the analysts following Sleeman, one didn't have to budge this week. Vertias Investment Research number-cruncher **Peter Holden** snubbed Sleeman in August, predicting it would earn just 54 cents a share, including unusual items, in 2005. He turned out to be on the money, as Sleeman now indicates it will earn 48 cents to 52 cents per share (including unusual items). Carrie Tait

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EXPECTATIONS CLIMB FOR MR. Z Is it time to climb on the Nortel Networks Corp. bandwagon?

It might be if you believe a couple bubbly analyst research notes as the telecom equipment maker prepares to post its fourth-quarter and 2005 results in the next week or two. Yesterday, Scotia Capital analyst Gus Papageorgiou made his enthusiasm clear with a report entitled "Time to Wade In", while RBC Capital Markets' Mark Sue simply uses "Like Mike" to show his colours.

So what's got Mr. Papageorgiou and Mr. Sue so excited?

Both are optimistic about changes being made by Mike Zafirovski, who was hired as Nortel's president and chief executive last October after Bill Owens decided to retire. Mr. Sue is impressed with Mike Z.'s effort torevamp his management team. Mr. Papageorgiou believes the fundamentals for the telecom equipment market are "relatively strong" and expects Nortel's fourth-quarter sales to climb 17% year-over-year and 15% sequentially. Nortel is down 4% this year, closing at $3.41 yesterday. Mark Evans