

Tiny RailPower may be a target Deal raises RailPower's profile

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RailPower Technologies Corp., a small Vancouver manufacturer of hybrid locomotives, may have suddenly landed on the radar of industry heavyweights after U.S. giant Union Pacific Railroad decided to invest heavily in RailPower's green technology.

MacMurray Whale, an analyst at Sprott Securities, said Union Pacific Corp.'s decision to purchase 98 of RailPower's hybrid switcher locomotives, which reduce the use of diesel fuel by 40% to 60% and are valued at about \$900,000 each, is a strong endorsement of RailPower's technology -- and could make the tiny company an acquisition target for large industry players such as Alstom, General Electric, Siemens or Wabtec.

"Such a large order for the higher horsepower road switcher means RailPower can now be considered a legitimate manufacturer of locomotives -- not just a supplier of technology to the yard switching niche market," said Mr. Whale, in a recent research report Friday after the Union Pacific deal was announced.

In response, he raised his target price on the shares (P/TSX) to \$8.50 from \$7. He has a "buy" rating on RailPower's shares

"If acquisition interest arises, we would expect an offer significantly higher than \$8.50," he said.

"At 250 units a year (which we are forecasting in 2008), about one quarter of the overhaul market in North America, RailPower could earn \$42-million in net income as its operating expenses are relatively stable. Such income is worth a market cap of \$630-million at a 15 times price to earnings multiple, or \$14.70 per share."

RailPower's hybrid switcher locomotive models -- dubbed the Green Goat and Green Kid -- are meant to replace heavy-polluting diesel engines used to make up and disassemble trains, and to set out and pick up freight cars.

Although the company is relatively small, with a market cap of \$245-million, several observers



CREDIT: Jon Murray, CanWest News Service

Nigel Horsley, vice president and director of Railpower Technologies, aboard a hybrid freight switcher locomotive.

have been bullish on the technology because of higher energy prices and stiffer environmental regulations in the United States and Canada.

The Union Pacific order could also give RailPower traction in other markets as it prepares to begin testing a branch line locomotive, according to Blake Hossack, an analyst at Versant Partners.

He warned, however, that RailPower may face increasing competition for its hybrids as other players develop their own prototypes and that there are concerns about RailPower's ability to meet near-term production targets.

The stock fell 7 cents to \$5.73 yesterday after rising 49 cents Friday. Chris Sorensen

U.S. auto fallout spreads north Canadian insurers have some significant exposure to the ailing North American auto industry, said Jamie Keating, a financial services analyst at RBC Capital Markets.

In a research note to clients yesterday, Mr. Keating said Sun Life Financial participated in a variety of bond and debt deals with Delphi Corp., which filed for bankruptcy protection from creditors this month.

"Sun's ultimate credit exposure is difficult to gauge without management's confirmation," the analyst wrote.

Another analyst, Tom MacKinnon of Scotia Capital Markets, took a stab at tabulating the exposure of Canada's insurers to Ford and GM bonds using the most recent data available.

He pegs Sun Life's exposure to GM and Ford bonds at 80 cents per share at the end of the fourth quarter of 2004.

Great-West Lifeco's exposure stood at 27 cents per share, while Manulife Financial Corp.'s stood at 56 cents a share at the end of the first quarter with about 95% of that secured, Mr. MacKinnon wrote.

Manulife, Canada's biggest insurer, inherited auto credit exposure through the acquisition of U.S. insurer John Hancock last year. But Mr. Keating says Manulife has no exposure to Delphi and "management aggressively (and fortuitously) culled its exposure since closing the Hancock transaction."

Mr. Keating tallies Manulife's exposure to the auto sector at \$1.2-billion, including \$450-million involving Ford and General Motors. But, he notes, the bulk is secured or otherwise hedged.

Last week, Mr. Keating told his clients Bank of Nova Scotia has the highest loan exposure to the auto sector among Canada's big banks, with about \$4.2-billion. Barbara Shecter

Matters of the heart The war of the stents continues, and some analysts see Angiotech Pharmaceuticals Inc. as having sustained heavy damage lately, while others say it's only a flesh wound.

Competition from Johnson & Johnson (JNJ) is the key factor behind flagging numbers for the tiny device, which holds arteries open after heart surgery, and is coated with a drug that keeps scar tissue from forming and creating blockages.

Angiotech partner Boston Scientific Corp., which sells the "Taxus" stent and pays royalties to Angiotech, said sales of the device declined for the third consecutive quarter. Worldwide sales slumped by almost 10% to US\$601-million in the third quarter, compared to US\$663-million in the second quarter. Not good news, as analysts had expected quarter-to-quarter sales to remain flat.

The weakness "was primarily due to significantly lower than forecasted" U.S. sales, according to Canaccord Capital analyst Prakash Gowd. This soft performance "supports the market issues we have been highlighting for the last year (competition, pricing and market size)," he added.

Mr. Gowd maintained a "hold" rating and US\$12.60 target.

In addition to competition from JNJ, Boston Scientific said it also sees a sequential decline in U.S. market growth overall.

The competition could also become more heated if Medtronic Inc.'s competing Endeavor stent gets U.S. approval, Mr. Gowd noted. Despite disappointing clinical data yesterday showing its stent was less effective than JNJ's product, Medtronic could still gain U.S. approval and a piece of that market. Yesterday, Angiotech closed down a penny to \$15.89 in Toronto and up US7 cents to US\$13.56 on the Nasdaq. Lori McLeod

Limping into the year-end The long, hot summer is just a fading memory, unless you're Celestica Inc. UBS Research analyst Martin Cecchetto cut his third-quarter earnings forecast for the manufacturing services provider US11 cents per share, from US14 cents per share, versus third-quarter guidance of US9 cents per share to US19 cents per share.

In a research note, he said summer slowness, "lumpy demand for telco buildouts, and slower business in the high-end infrastructure market" were behind his reduced estimates. He cut his target to US\$15 from US\$17.

Nevertheless, there are some positives on the horizon. The company's restructuring plan, expected to produce annual savings of US\$125-million to US\$150-million, is on target to produce full benefits by the second quarter of 2006, Mr. Cecchetto said, adding that Celestica's plans to diversify is also positive.

Celestica rose US3 cents to US\$10.71 in New York yesterday. Duncan Mavin