



Global Securities Market Bulletin

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COMMENTARY: Searching for direction

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The rally that took both the TSX Composite and S&P 500 up 43.4% from their March 6 lows to their interim highs on June 11 seems to have stopped dead in its tracks. The TSX is now down 9% from its June 11 high of 10,726, while the S&P 500 has declined 8% from its high of 956. With both indexes skirting the 10% level that would put this down move in official correction territory, it is apparent that the markets are at a critical inflection point.

While the rally had stalled since the beginning of June, last week's US job numbers seem to have led many investors to reassess the outlook for the economy and financial markets. While the numbers were disappointing, with June payrolls falling by 467,000, rather than the 365,000 consensus forecast and up from a revised loss of 322,000 in May, the pall that this single data point has cast over the markets appears to be disproportionate.

In our opinion, a combination of the summer doldrums and the anticipation of the historically volatile months of September and October are likely to impart a sideways to lower directional bias to the markets until fall. But, unless incoming economic data in the interim period are exceptionally soft, we forecast a strong end to 2009 as investors look forward to an imminent end to the US / global recession.

Self-employment / part-time jobs mask true employment situation in Canada

Canadian employment numbers released today indicate that the economy lost only 7,400 jobs in June, well below the average decline of 35,000 jobs expected by economists. The economy had lost 41,800 jobs in May. The unemployment rate also rose less than expected in June, from 8.4% to an 11-year high of 8.6%, compared with economists' 8.7% forecast.

These numbers are at odds with recent comments from Finance Minister Flaherty and Bank of Canada Governor Carney; both expect the job market will continue to worsen this year because companies are reluctant to expand.

But a cursory glance through the data reveals that the headline numbers masks the true nature of the employment situation in Canada. The employment report does not distinguish between full-time and part-time jobs; in other words, the report treats a full-time job paying \$50,000 per year the same as a job that involves 20 hours of work at \$10 per hour. In the case of the June report, while full-time employment fell by 47,500 positions across Canada, that decline was offset considerably by an increase in 40,100 part-time positions.

An increase in self-employment by 37,200 also offset to a significant extent the loss of 44,600 salaried positions. At a time when full-time jobs are hard to find, the logical step for many unemployed people after a period of time is to hang out their shingle and join the growing ranks of the self-employed. Again, this masks the true extent of job losses.

(Trade Update) Shaw Communications – reiterate Buy, target lowered to \$23

We reiterate our Buy rating on Shaw Communications (TSX:SJR/B, \$18.00), first recommended at \$19.26 on May 8. However, the 6.5% decline in the stock since our initial recommendation leads us to lower our price target from \$24.50 to \$23.00.

On June 26, Shaw announced results for fiscal Q3 ended May 31. Service revenue increased by 9% from a year earlier to \$861 million, while service operating income (before amortization) rose 11% to \$395 million. Fund flow from operation also rose 14% to \$356 million. The company generated \$154 million in free cash flow for the quarter, compared with \$81 million a year

earlier. Net income was little changed from a year earlier at \$132 million or \$0.31 per share, missing analysts' average forecast by a penny.

The company continued to enjoy strong subscriber growth in most segments during the quarter, except for basic cable, where subscribers increased only 0.4% to 2.28 million.

Shaw also said there was no change to its 2009 guidance, which was first disclosed in October, for an increase of about 10% in service operating income before amortization for the Cable division, modest growth in the Satellite division, and free cash flow of at least \$500 million.

According to news reports, there is speculation that Shaw may eventually add wireless services to its suite of offerings. Some analysts believe that the huge start-up costs and competitive wireless landscape may increase the uncertainty of the company's earnings and cash flows.

Analysts' average EPS estimates are little changed over the past two months. EPS is currently forecast at \$1.25 for FY09, rising 8% to \$1.35 in FY10. On that basis, the stock trades at a forward multiple of 13.3x forecast FY10 EPS.

On the basis of a 17x multiple applied to FY10 EPS of \$1.35, we are revising our target price to \$23.00 (from \$24.50 earlier), and reiterate our Buy rating on Shaw. The stock pays a monthly dividend of \$0.07, for an indicated dividend yield of 4.7%.

Market Snapshot at 12:10 am

| S&P TSX | 9737.03 | -36.89 | Commodities | | | Yields (%) | Can. | US |
|-------------|---------|--------|----------------|--------|-------|---------------|------|------|
| TSX Venture | 1042.98 | +0.16 | Canadian \$ | 85.91 | -0.12 | 90 Day T-Bill | 0.14 | 0.17 |
| DJIA | 8123.77 | -59.40 | Gold (Spot) | 912.64 | +0.29 | 2-Year Bond | 1.15 | 0.89 |
| S&P 500 | 877.28 | -5.40 | Oil (WTI-Aug.) | 59.86 | -0.55 | 10-Yr. Bond | 3.25 | 3.29 |
| NASDAQ | 1751.99 | -0.56 | CRB Index | 233.45 | -1.08 | 30-Yr. Bond | 3.85 | 4.19 |

Thought for the Day

"Knowledge is the only instrument of production that is not subject to diminishing returns."

– John Maurice Clarke

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