



## **Global Securities Market Bulletin**

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### **COMMENTARY – US payroll numbers confirm job market improvement**

**Elvis Picardo, CFA**

The US jobs data for February released today confirm that the jobs market is indeed improving, as payrolls fell less than forecast despite temporary business closures due to the East Coast snowstorms. A summary of the jobs numbers follows:

- The US economy lost 36,000 jobs last month, compared with a revised loss of 26,000 jobs in January. The average forecast in a Bloomberg survey was for a decrease of 68,000.
- The unemployment rate stayed at 9.7% for the second month, compared with 10.0% in the last two months of 2009. Economists had forecast a marginal increase to 9.8%.
- Construction employment fell by 64,000 in February, in line with the average monthly job loss over the prior six months despite the severe winter weather. Employment in the information sector fell by 18,000, bringing job losses in the sector since December 2007 to 297,000. Manufacturing payrolls were little changed.
- The number of temporary workers rose by 48,000, the seventh straight monthly gain.
- The average workweek fell to 33.8 hours last month from 33.9 hours in January, while average hourly earnings rose 0.1% to \$22.46. Average weekly earnings fell marginally, to \$759.15 from \$760.38 in January (Note: The weekly earnings average of \$756.44 for December was incorrectly reported in our February 5 Bulletin as \$575.46).
- On a negative note, the underemployment rate or the U-6 measure – the broadest measure of US unemployment – rose to 16.8% from 16.5% in January.

The jobless numbers would probably have looked much better had they not been skewed by the bad weather, with as many as a million people saying it prevented them from getting to work during the survey period. According to other recent reports from ADP Employer Services and Challenger, Gray & Christmas, employers last month announced the fewest job cuts in two or three years. In our opinion, US jobs growth may be just around the corner.

### **TRADE UPDATES**

#### **Galleon continues to sail ahead – Raising target price to \$9.00, Hold rating unchanged**

**Galleon Energy (TSX: GO, \$7.70)** continues to surge, trading today at its highest levels since October 2008 and bringing its YTD gains to 46%. **The stock has advanced 66% since we recommended it as a Buy at \$4.62 on December 11, 2009.**

Given that the stock traded in the double-digits for three years (reaching a record high of \$25 in April 2006) prior to the market meltdown of October 2008, we believe it may be poised to break out into a higher trading range. While the average target price of 11 analysts who cover the stock is \$8.07, the two most recent analysts' targets are \$10 and \$11 (from Cormark and Macquarie respectively). We are raising our target price on Galleon to \$9.00, from \$8.00 previously, but are maintaining our Hold rating in light of the stock's huge move in recent weeks.

Galleon this week posted a corporate presentation on its website (see link below), and should report fiscal Q4 and 2009 results late next week. Although there is always a risk of a pullback if earnings or outlook disappoint, we believe this risk may not be unduly high in the case of Galleon.

<http://www.galleonenergy.com/documents/GO-Presentation-2010-03.pdf>

## **Yamana Gold – Reiterate Buy after pullback this week, target \$14**

**Yamana Gold (TSX: YRI, \$10.77)** has slumped 6.5% after reporting Q4 results that may have disappointed some investors. **Nevertheless, we continue to view it as one of the few undervalued gold stocks and reiterate our Buy rating, with a \$14 target price.**

For fiscal Q4 ended December 31, Yamana reported total production from continuing operations of 289,456 gold equivalent ounces (GEO), bringing its 2009 production to 1,025,677 GEO. Cash costs from continuing operations excluding Alumbraera were US\$111 per GEO for Q4 and US\$170 for the year. Q4 revenues were US\$400 million, while 2009 revenues were US\$1.2 billion, with mine operating earnings of US\$36.2 million and US\$192.6 million respectively. Adjusted earnings came in at US\$100.9 million or US\$0.14 per share for Q4, and at US\$346.1 million or US\$0.47 per share for 2009.

Yamana also announced its mineral reserves and resources as at end-2009. The company said it replaced mined ounces in 2009 with proven and probable mineral reserves for continuing operations of 17.6 million ounces of gold, consistent with 2008 levels.

Yamana also reiterated its production outlook, previously announced in January. It forecast production from continuing operations to be in the range of 1,030,000 to 1,145,000 gold equivalent ounces (GEO) in 2010, and 1,045,000 to 1,150,000 GEO in 2011, an overall increase of 12% from 2009. It expects growth to ramp up substantially in 2012 to about 1.3 million GEO as four development stage projects where construction decisions have already been made begin production. Yamana expects 2013 production to reach a level of 1.5 million GEO, which would represent a 46% increase from 2009 production.

Analysts' average EPS estimates are forecast to surge 55% to US\$0.73 in FY10, from US\$0.47 in FY09, but are expected to stay flat at US\$0.73 in 2011. On that basis, the stock trades at less than 15x forecast FY10 EPS.

The fact that Yamana's production and earnings are forecast to be little changed in 2011 from 2010 levels may account for the stock's recent weakness. **We perceive this as a buying opportunity for longer-term investors who are prepared to wait until production ramps up once again. Our bullish outlook for gold leads us to believe that Yamana is a compelling buy at current levels.**

### **Market Snapshot at 12:35 pm**

| <b>S&amp;P TSX</b> | <b>11969.71</b> | <b>+144.74</b> | <b>Commodities</b> |         |       | <b>Yields (%)</b> | <b>Can.</b> | <b>US</b> |
|--------------------|-----------------|----------------|--------------------|---------|-------|-------------------|-------------|-----------|
| <b>TSX Venture</b> | 1555.78         | +13.94         | Canadian \$        | 97.11   | +0.19 | 90 Day T-Bill     | 0.17        | 0.14      |
| <b>DJIA</b>        | 10560.91        | +116.77        | Gold (Spot)-US\$   | 1132.94 | +0.74 | 2-Year Bond       | 1.51        | 0.89      |
| <b>S&amp;P 500</b> | 1138.15         | +15.18         | Oil (WTI-Apr.)     | 81.68   | +1.47 | 10-Yr. Bond       | 3.46        | 3.68      |
| <b>NASDAQ</b>      | 2324.99         | +32.68         | CRB Index          | 276.93  | +2.13 | 30-Yr. Bond       | 4.05        | 4.64      |

### **Thought for the Day**

"The secret to my success is that I bit off more than I could chew and chewed as fast as I could."–  
Paul Hogan

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