



BEST VALUE STOCKS

Hunting for value stocks these days can be a dangerous game. Not only are valuations generally on the high side, but the market is peppered with traps, ready to ensnare the careless investor. In other words, it's not enough to simply set your sights on classic value metrics such as a low price-to-earnings or price-to-book ratio. While those measures can be a good starting point to flag cheap stocks, they can also camouflage a company's deeper troubles.

In the case of Intrawest Corp., however, it seems the international resort developer and operator is the real deal. With a price-to-book ratio of 1.1 and a reasonably low P/E of 12.7, it certainly meets the initial screen for good value. Upon closer scrutiny, the company looks fundamentally sound as well. Intrawest has a market cap of more than \$1 billion and assets totalling \$3.4 billion—a diverse collection of ski and sun resorts around the world (most notably, Whistler Blackcomb, site of the 2010 Winter Olympics). In the latest four quarters, the company generated gross revenue of nearly \$2 billion and an 8.6% return on equity. Earnings growth is forecast at 5.8% over the next twelve months.

More important, Intrawest has made considerable strides toward increasing cash flow and reducing the high debt levels that typically accompany resort development. Through a recent partnership, Intrawest has split the bulk of its capital-intensive real estate development operations into two new companies, Leisura Developments Canada and Leisura Developments US. The new business model is expected to result in a higher percentage of income for Intrawest coming from management

Company	Ticker	Price-book	Price-earnings	ROE
Atco Ltd.	ACO.X	1.3	11.1	12.0
Bell Nordinq Income Fund	BNQ.U	1.4	13.7	10.2
Brampton Brick Ltd.	BBL.A	1.4	7.9	18.6
CAE Inc.	CAE	1.5	14.3	12.1
Empire Co. Ltd.	EMPA	1.2	12.0	5.1
Enerplus Resources Fund	ERF.UN	1.9	9.9	19.3
FirstService Corp.	FSV	2.2	17.9	13.2
Flint Energy Services	FES	1.3	17.6	7.8
Hollinger Canadian Newspapers LP	HCN.UN	0.8	6.2	14.2
Husky Injections Molding Systems Ltd.	HKY	1.3	13.9	9.0
Intrawest Corp.	ITW	1.1	12.7	8.6
Melcor Developments Ltd.	MRD	1.0	8.1	13.6
Penn West Petroleum Ltd.	PWT	2.0	11.5	20.2
Sherritt International Corp.	S	0.6	10.1	6.1
Sico Inc.	SIC	1.5	10.7	16.2

YOU'LL HAVE A TOUGH TIME FINDING BARGAIN STOCKS IN TODAY'S MARKET—THE SORT BENJAMIN GRAHAM WOULD LOVE. BUT WE THINK THE 15 COMPANIES IN THE TABLE ABOVE MERIT FURTHER INVESTIGATION. THEY ARE UNDERVALUED IN RELATION TO THEIR PEERS ON A PRICE-TO-EARNINGS AND PRICE-TO-BOOK BASIS, BUT THEIR FIVE-YEAR AVERAGE RETURN ON EQUITY IS GREATER THAN THE INDUSTRY MEAN, ACCORDING TO THOMSON BASELINE. WE ALSO INSISTED ON A REASONABLE EARNINGS MULTIPLE AND A PRICE-TO-BOOK RATIO OF 1.5 OR LESS (BUT MADE AN EXCEPTION IN THE CASE OF SERVICE COMPANIES).

services, as well as higher returns on capital.

It's tough to say whether the shift to a management-based model will pay off in the long run, but Intrawest's preliminary progress looks promising. In the second quarter of 2004, the company reported a \$128-million positive swing in cash flow from continuing operations. Revenue was up 87% over the same period last year, and debt dropped by almost US\$60 million. Going forward, Deutsche Bank analysts are expecting substantial debt reduction to continue in the second half of the fiscal year. In short, while Intrawest isn't a bargain at current prices, it seems to present better value than a lot of other firms out there.

WILL SECCOMBE