

CANAM GROUP INC.
(TSX: CAM)

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Portsmouth Equity Research is a new source for insightful retail-oriented research, aiming to bring to investors' attention under-followed companies with good fundamentals and whose shares are selling at attractive parameters.

eResearch Corporation is pleased to provide a **Portsmouth Equity Research** report on:
Canam Group Inc. (TSX: CAM).

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Managing Director, Research Services

October 16, 2009

The Value Perspective

October 16, 2009

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CANAM GROUP INC.

TSX: CAM

Price (October 16, 2009): \$7.30

52-Week High-Low: \$8.12 - \$4.19

Shares O/S: 45.37 million

Market Cap: \$331.2 million

**OVERVIEW**

Canam Group is a Canadian diversified industrial company specializing in the design and fabrication of construction products and solutions. This includes heavy steel construction for bridge and highway infrastructure and steel-joists and building systems for industrial, commercial, and multi-unit residential customers.

Headquartered in Quebec, Canada, Canam employs more than 2,000 people in North America and Europe and has partnerships in the Middle East and China.

Based on the 5-year average of earnings per share, Canam is trading at 10 times earnings. The price to book value ratio is .79 indicating the market valuation is less than the balance sheet's net asset value. The 5-year ROE is 11.14% and the dividend yield is 2.2%.

RECENT NEWS & NOTES

1. Structal-Bridges, a division of Canam, recently landed a bridge construction contract worth \$45 million from a Quebec-based public-private partnership.
2. The division was also awarded a \$16.5 million contract to reconstruct the Dominion Bridge near Quebec City, Canada.
3. As of 2007, Canada's bridges had passed 57% of their useful life. In recent years, 30% of investment has been towards refurbishment while the remainder has been towards new construction.

2009 PERFORMANCE

Compared to 2008, second quarter earnings fell 57% from \$12.1 million (\$0.25/ share) to \$5.2 million (\$0.12/ share). Sales fell 20%.

In the first quarter, earnings fell 29% from \$7.6 million (\$0.12/share) to \$5.4 million (\$0.16/ share). Sales were 11% higher than in the first quarter of 2008.

The decline in sales in the second quarter had a greater effect on sales year to date, which are approximately \$15 million (4%) lower.

Year over year, second quarter gross and operating margins also declined from 22% to 18% and 9% to 4%, respectively.

PRICE TO EARNINGS RATIO

Based on the current market price of \$7.25 per share, the trailing 12-month PE is 8.40. If we expand this analysis to include the 5-year average of earnings from 2004 to 2008, Canam is valued at 10 times earnings.

Earnings have grown from \$(5.9) million to \$48.4 million during that period. The increase from 2004 to 2005 was substantial (>\$40 million); removing this effect, earnings have grown by an average of 5.4%. However, an increase in shares outstanding has somewhat muted this effect, with EPS growth averaging 2% per year

If we remove the anomaly year from the average PE calculation, the market value is less than 8 times earnings.

The TSX is currently trading at approximately 21 times earnings.

PRICE TO BOOK VALUE

At the end Q2 2009, the current book value (or net asset value) was \$9.15 per share, approximately 26% higher than today's market close. The price to book value ratio is 0.79.

DIVIDEND HISTORY

Canam pays an annual dividend of \$0.16 per share, which yields the business owner 2.2% from the current share price. The company began paying a dividend in 2006 and it has remained steady at \$0.16 per share per annum.

Since 2006, the amount of earnings paid out as dividends has averaged 17% allowing the remainder to be reinvested into the business.

5-YEAR ROE

Return on Equity helps determine whether management uses the equity invested in the company to earn a reasonable return for shareowners. The trailing 12-month Return on Equity is 10.28% and the 5-year average is 11.14%.

DEBT & LIQUIDITY CONSIDERATIONS

At Canam, the levels of debt to equity have changed dramatically since 2004. Total debt has been reduced from \$242 million to \$74 million at the end of the second quarter. In 2004, debt was 124% of equity; today, it is only 18%. Total long-term debt has declined 70% and the equity value has increased more than 100%.

Since 2004, capital expenditures have averaged 38% of cash flow from operations permitting management to significantly reduce long-term debt outstanding and return cash to shareholders.

As of the second quarter of 2009, current assets were nearly 3 times current liabilities.

SEGMENTED SALES BY REGION

Canam has diversified operations throughout North America and a presence in European, Asian, and Middle Eastern markets.

The following table identifies the sources of revenue by region:

Percentage of Sales by Region	
Country	Percent
Canada	48.2%
United States	41.6%
Mexico	4.6%
Europe & Asia	5.6%

OTHER NOTES OF INTEREST

- Third party relationships: The Chairman of the Board and Chief Executive Officer controls two companies that have lending and/ or ownership relationships with Canam;
- Order backlog was \$239 million as of June 2009 or about 29% of 2008 sales; significant portion of backlog is bridge and infrastructure contracts;
- Exited Russian and Mexican markets in 2009;
- Share repurchases: A recent normal course issuer bid repurchased nearly 4.1 million shares at an average price of \$6.46. Total value of repurchased shares: \$26.3 million;
- Registered to repurchase up to 10% of common shares outstanding from August 2009 to August 2010;

Third quarter results will be released on October 28, 2009.

PROFILE (FROM REUTERS)

Canam Group Inc. is an industrial company operating 12 plants specialized in the design and fabrication of construction products and solutions marketed by eight units.

Canam Canada specializes in the fabrication of steel joists, joist girders and steel deck. Canam United States designs and fabricates open-Web joists and structural trusses.

Canam International exports the capability by developing partnerships with firms located outside North America.

Hambro designs and fabricates concrete floor system designed for the multi-unit residential construction market. Murox designs building envelope systems for the commercial, industrial and institutional construction markets.

Structal-Heavy Steel Construction specializes in the fabrication of heavy structural steel components. Structal-Bridges designs and fabricates steel bridges, and Goodco Z-Tech structural bearings and expansion joints.

Technyx markets outsourcing services in the drafting and building information modeling support sectors.

www.canamgroup.ws

FIVE-YEAR STOCK PRICE CHART



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