CANAM GROUP INC.
(TSX: CAM)

***e*Research Corporation** and **Portsmouth Equity Research** have agreed to collaborate in the distribution of research reports and analyst articles.

***e*Research** and **Portsmouth Equity Research** share a common mission: to provide their Subscribers and the investing public with quality investment research analysis, both written corporate research and insightful analyst articles, by ensuring that the research is a credible resource that investors can rely on.

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. Our various research packages allow corporate management to choose the form of research coverage that best meets their company's needs.

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.

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

Bob Weir, CFA
Managing Director, Research Services

November 2, 2009

Note: *e*Research Corporation offers no opinion, express or implied, on the commentary herein, nor does it endorse the views and opinions expressed in this research report, which are those of Portsmouth Equity Research only.

The Value Perspective

October 30, 2009

www.portsmouthequity.com

CANAM GROUP INC.

TSX: CAM
Price (November 2, 2009): $6.83
52-Week High-Low: $8.12 - $4.54
Shares O/S: 45.37 million
Market Cap: $309.9 million

OVERVIEW

The following is our original *The Value Perspective* report on Canam Group updated to reflect available second quarter data, which were released October 28, 2009, and expanded for the new reader to include additional colour on historical operating performance.

Canam remains profitable and continues to maintain a very healthy balance sheet despite the slowdown in construction. Management forecast continued pressure on sales and margins for the remainder of 2009 and into 2010. Nevertheless, the company is positioned to benefit when North American economies emerge from the recession.

Third quarter revenue declined to $144.7 million from $218.2 million year over year. Quarterly earnings were $0.10 per share compared to $0.31 per share last year. The cash balance continues to grow improving to $66.5 million from $44.2 million in the second quarter.

Canam also announced that the Structal-Heavy Steel Construction division was awarded a $100 million contract for the construction of a cable-supported retractable roof at BC Place Stadium in Vancouver. BC Place is the home to the CFL's BC Lions and the future home of Vancouver's recently awarded MLS franchise. Including the BC Place contract, the total order backlog stands at $390 million.

Finally, Canam is registered to repurchase up to 10% of outstanding common shares between now and November 2010. Perhaps in a sign of things to come for the share price, management indicated during the conference call that they are not pursuing that option at the moment.

THE COMPANY

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.

Canam operates 12 manufacturing facilities in Canada and the United States and employs nearly 2,600 people in 8 business units. The company has offices in Canada, United States, Europe and Asia, including partnerships in the Middle East and China.

Based on the 5-year average of earnings per share, Canam is trading at roughly 10 times earnings. As of Q3 2009, the price to book value ratio is 0.78x 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 2.3%.

PERFORMANCE REVIEW

Since fiscal 2004, revenues have increased a cumulative 23% from $678.7 million to $833.7 million in 2008 or an average of 4.6% per year. At the end of 2008, 48% of sales were from Canada and 42% from the United States. However, the economic downturn continues to put downward pressure on 2009 sales, which are 15.8% lower than last year through the first 9 months.

Net earnings (loss) have increased from ($5.9 million) in 2004 to $48.4 million in 2008. Excluding the large change from 2004 to 2005, earnings have increased 25% or 6.3% per year. While that figure will decline when 2009 annual results are released, it is expected that cyclical firms like those involved in construction will experience lower sales and profitability during recessions. Net earnings through the first 9 months of 2009 are $0.33 per share compared to $0.71 a year ago.

Canam began paying a quarterly dividend of $0.04/ share in 2006 representing a 2.3% annual yield. The company has registered to repurchased up to 10% of outstanding shares between August 2009 and August 2010.

Since 2004, cash flows have averaged roughly 5 times capital expenditures (with significant variation however). In 2009, the cash balance has begun to increase (currently at $66.5 million) due to less working capital requirements.

Further, the balance sheet changes have been dramatic, specifically the levels of debt to equity. Debt has been reduced from $242 million to $8 million at the end of the third quarter. In 2004, debt was 124% of equity; today, it is roughly 2%.

The current ratio has gradually worked its way above 2 and was 2.92 at the end of Q2. The cash balance, reduced debt, and low capital expenditure requirements leaves Canam in a comfortable and enviable position - plenty of cash for share repurchases, acquisition opportunities, and/ or future working capital/ expenditure requirements.

So what started in all? In 2003, management made strengthening the balance sheet a top priority and, as the reader can see, they have continued to improve their financial health. High amounts of debt can be a nightmare for cyclical industries, especially during periods of slower economic activity. Canam appears to have the balance sheet and experience to weather this economic downturn.

VALUE ANALYSIS

Based on the current market price of $6.94 per share, the trailing 12-month PE is 11. If we expand this analysis to include the 5-year average of earnings from 2004 to 2008, Canam is valued at roughly 10 times earnings.

$CAD	08	07	06	05	04
Net Income (M)	48.4	47.5	40.7	38.7	(5.9)

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 6.3%. However, an increase in shares outstanding has somewhat muted this effect, with EPS growth averaging 2% per year.

The TSX is currently trading at approximately 21 times earnings.

As we move closer to the end of fiscal 2009, we begin to attribute less weight to the earnings deficit in 2004. Our preference is for a minimum of 5-years of positive earnings but since the financial health of Canam has changed for the better, it is hard to attribute significance to what seems like a completely different operating company.

So, ignoring 2004, earnings per share have grown 8% since 2005 or 2% per year. When looking at sustainability, we would like to see maximum 30% over 5-years and minimum 30% over 10 years. The 10-year trend is slightly better averaging 4.2% but with significant cyclical variations including losses. The trailing 12-month return on equity is 10.28% and the 5-year average is 11.14%.

Clearly, the trend in recent years has been profitable operations but as mentioned earlier, 2009 will undoubtedly be a year of lower sales and lower earnings. Since we continue to emphasize multi-year performance and strong fundamentals, we are not overly concerned about lower profitability today.

At the end Q3 2009, the current book value (or net asset value) was $8.88 per share, approximately 28% higher than today's market close. The price to book value ratio is 0.78x.

Canam pays an annual dividend of $0.16 per share, which yields the business owner 2.3% on the current share price. The company began paying a dividend in 2006 and it has remained steady at $0.16 per share per annum. Our preference is 5-years at minimum and, obviously, the longer the better.

Since 2006, the amount of earnings paid out as dividends has averaged 17% allowing the remainder to be used at manager discretion. A recent normal course issuer bid repurchased nearly 4.1 million shares at an average price of $6.46.

Indicated share repurchases in 2010 will effectively return unused cash to business owners without committing to a higher dividend.

As mentioned earlier, Canam has done much to improve its financial health. As of Q3 2009, the debt-to-equity ratio is 2%, which is below our maximum of 50%. Current assets are sufficiently higher than current liabilities and include $66 million in cash. Again, we emphasize the importance of a solid balance sheet for cyclical companies.

CONCLUSION

In short, no surprises, and nothing fancy at Canam. Simple, straightforward results and no illusions of grandeur for a well-positioned company.

POSTSCRIPT

Risks & Uncertainties

- Operate in a very competitive construction environment, which is experiencing a prolonged downturn;
- Activity in non-residential construction closely follows economic cycles;
- Exposure to steel prices.

Strengths

- Strong balance sheet;
- Trading below net tangible asset value;
- Flexible operating facilities – can produce different products depending on demand;
- Opportunities in public infrastructure investment from stimulus packages, specifically regarding aging infrastructure.

Weaknesses

- Continued expectation of lower earnings in the short run;
- Uncertainty over length and depth of slow economic activity;
- Short-dividend history.

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 $290 million as of September 2009 compared with $239 million in June; adding the BC Place contract, the oder backlog grows to $390 million;

- Exited Russian and Mexican markets in 2009.

www.canamgroup.ws