

# THE GLOBE AND MAIL

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## Goodale Effect Gives Boost to Markets – and Bankers

*Street kicks out Calloway trust deal, just hours after Ottawa holds off on trust tax*

By Andrew Willis and Brent Jang

*With files from Catherine McLean and Heather Scoffield*

Ottawa's decision to increase the dividend tax credit and leave income trusts alone was celebrated yesterday with a rally in the markets and a surge in optimism on Bay Street that the boom in trust financings is back on track.

Bay Street sources said the market is expecting to see between \$3-billion and \$4-billion in new income trust issues or conversions in the coming three months, led by a spin-out of **BCE Inc.**'s rural line assets, and a trust offering by **ACE Aviation Holdings Inc.** of its Jazz regional airline. The Street is expecting secondary offerings in the neighbourhood of \$2-billion in the same time frame.

“I think the trust game is going to be back in full swing now,” said Juliette John, a portfolio manager at Bissett Investment Management in Calgary. “Nothing's been done to change the draw of that -- and there still will be a valuation premium associated with trusts.”

The S&P/TSX composite rose as much as 226.32 points during the day and finished with a gain of 162.02 points or 1.5 per cent. Income trusts, which sold off heavily after Ottawa raised the prospect in September of introducing a tax on income trusts, surged 4.4 per cent yesterday. The other group to enjoy strong gains were high dividend-paying stocks, buoyed by Finance Minister Ralph Goodale's announcement late Monday of a boost to taxpayers' dividend tax credits.

It didn't take Bay Street long to start pumping out its first trust deal. **Calloway Real Estate Investment Trust** hit the market with a \$100-million financing before trading kicked off yesterday.

“Many IPOs [initial public offerings] and conversions were either shelved or put on the slow track pending resolution of the consultation process. I expect that we will see a number of these come to market very soon, perhaps over the next week,” said Jeffrey Singer, a corporate lawyer at Stikeman Elliott LLP.

There's been a cloud over trusts since Sept. 16, when the Finance Department launched a consultation process on trusts that raised the possibility of new taxes on the \$164-billion sector. Those clouds disappeared when Mr. Goodale announced Ottawa would raise the dividend tax credit and leave trusts alone. In what may have been a show of their pent-up hunger, investors snapped up the Calloway offering in less than 40 minutes.

The bump on the road to an IPO is the holiday season. One banker who is dusting off potential deals said: "The timing issue is whether to file now, and begin marketing in January, or wait for year-end financial figures, which means starting the IPO process in February."

Industry sources said ACE Aviation, Air Canada's parent company, could be ready to file the paperwork for a trust offering of its Jazz regional airline as early as next week. Analysts have estimated that the division could be worth \$600-million.

Bell Canada spokesman Mohammed Nakhoda said yesterday the company is "pleased there's now some additional clarity on the issue."

RBC Dominion Securities analyst Jonathan Allen told clients in a note: "BCE is well positioned to move ahead with a 'significant' spin-out of its traditional wire-line business. While the size and structure (trust v. dividend) of such a spin-out is not yet known, BCE has voiced a firm commitment to pursue such a strategy and could surface value by reducing exposure to lower-growth services."

While companies such as **TSX Group Inc.** and **CI Fund Management Inc.** saw their stocks soar yesterday on renewed speculation that they may convert to the trust structure -- a plan CI abandoned in October -- financiers said companies may take a wait-and-see approach, based on what one banker called "a sex-change operation . . .

"We still have to figure out just how investors will value dividend-paying companies in this new regime" said the banker, noting that a U.S. company called Iowa Telecom looked at doing an income trust a year ago, then pulled its IPO when it found it could get the same valuation by simply raising its dividend.

The fact that trusts can raise money more readily is also expected to boost takeover activity in the sector, as larger trusts can sell units to finance acquisitions.

"Part of the fallout from all this will be continued consolidation among trusts in the same sector, as the market leaders bulk up," said takeover specialist Ed Giacomelli of investment bank Crosbie & Co. "We're realizing that there's too many small-cap trusts."

## **Market relief**

Canadian stocks enjoyed a banner session with the S&P/TSX composite soaring as much as 226 points before closing up 162 on the day.

## **Red-hot blue chips**

Dividend - paying stocks in financial services and pipelines led yesterday's advance on the TSX accounting for most of the gain.

## Trust converts rebound

Many of the TSX's largest percentage gainers were candidates for income trust conversion including shares in the TSX itself (up12%)

The underwriting pipeline

Bay Street expects as much as \$6 billion in IPO and secondary income trust financings through to March.

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Juliette John

Portfolio Manager at Bissett Investment Management In Calgary