

# Double Dip continued

## Picking Strong Defensive and Offensive Players

Moving through these tumultuous and indecisive times, we draw on companies that demonstrate strong earnings power and can cover both sides of the market environment. Here are just two, one relatively new and one that has been a longstanding holding in our Canadian portfolios.

### Producing Paper – Domtar Corporation (\$2.72 billion market capitalization)

- Domtar is the “largest integrated manufacturer of uncoated freesheet paper in North America and ranks second in the world in terms of production capacity.”
- Added to portfolios in June 2010 on the thesis that it’s a cyclical firm well-positioned to continue benefitting from the economic recovery.
- As illustrated below, the firm fits well within our key characteristics, trading at only 9x earnings—a 48.0% discount to the overall market—and a reinvestment rate of 10.8%, which is double that of the overall market. It’s also demonstrating strong bottom-line earnings.
- Showing positive developments, Domtar’s most recent quarterly earnings report showed \$2.78 in operating earnings, beating analyst expectations of \$1.65.\* Following this strong report, analysts increased 2010 earnings expectations and, in the last 90 days, increased earnings estimates for Domtar by 21.0%.\*
- We anticipate earnings trends to accelerate post-recession with earnings-per-share expectations for 2010 currently sitting at \$8.00.\*
- With \$514 million in cash, Domtar’s strong short- and long-term balance sheets present further flexibility for long-term debt repayment, future acquisitions, dividend increases or continued company share buybacks.
- Trading at .95x assets, Domtar presents a unique value opportunity—in other words, we’ve bought \$1.00 worth of assets for \$.95.



### More than Milk – Saputo Inc. (\$6.7 billion market capitalization)

- “Saputo is Canada’s largest dairy processor and one of North America’s leading cheese producers. It’s the 12th largest dairy processor in the world with operations in Argentina and Europe. Offering a full spectrum of dairy, juice and whey by-products, the firm’s brands include Neilson, Stella, Dairyland and Armstrong.”
- A long-time holding, Saputo provides a solid defence in down markets and ongoing growth driven by positive catalysts in stronger markets.
- Over time, we’ve seen the company’s solid earnings trends weather good and challenging economies. According to Saputo’s most recent quarterly reports, earnings of \$.54 per share exceeded analyst expectations of \$.50. Following the good report, analysts increased their 2011 earnings expectations and, in the last 90 days, increased earnings estimates for Saputo by 3.0%.\*
- Saputo’s strong, consistent earnings over the years have set the stage for rising dividends. Since June 1998, dividend payments have increased 43 times from \$.01 in that year to \$.145 quarterly or \$.58 annually.
- As illustrated below, Saputo is a high-quality company with a profitability level 8.0% above the overall market, which is trading at a slight discount. Though slightly more expensive than its peer group in the consumer staples sector, we believe its strong attributes more than compensate for its price. ■

\* Operating earnings and estimates from CPMS.

KEY INVESTMENT CHARACTERISTICS		SAPUTO INC.	DOMTAR CORP.	S&P/TSX COMPOSITE
Quality	Profitability Return-on-Equity (%)	20.5	11.2	12.4
	Reinvestment Rate (%)	13.9	10.8	5.4
Income	Yield (%)	2.0	1.6	2.8
Growth	Bottom-Line Growth (%)	6.9	112.7	7.8
Value	Price-to-Earnings	16.0	8.7	18.2
Risk	Beta-5 years vs. S&P/TSX	0.3	n/c	1.0

As of August 9, 2010, CPMS