COOPER FINANCIAL RESEARCH

Cooper Cash Flow Monitor

November 2011

Quick Facts

Atlantic Power

In October, Atlantic Power (TSX: ATP) (NYSE: AT) sold about C$168 million in shares and US$460 million in long-term debt, with proceeds earmarked for the acquisition of Capital Power Income LP. The US$1.2 billion purchase increases Atlantic Power's net generating capacity by 143%. With expectations of strong growth in the electricity sector, Atlantic Power is investing aggressively and generating marginal FCF. This utility does not currently generate enough cash to cover its generous dividend, so it has been tapping the markets for debt and equity financing options.

Sources: ENP Newswire, Canadian Government News, National Post

ATCO

The Alberta-based utility ATCO (TSX: ACO.X) (TSX: ACO.Y) prompted a tightening of regulations to prevent disconnection of natural gas customers who fall behind on their bills during winter months. ATCO announced a 24% increase in adjusted 3Q earnings due to higher power prices, and strong demand for its structures and logistics services. Strong growth expectations in the natural gas transmission and distribution sector have caused ATCO to invest heavily and generate negative FCF in the recent past. We doubt investors will turn off the tap on ATCO but might lighten up on their stock holdings.

Sources: Calgary Herald, ATCO website

Armada

Oct. 11 the TSX Venture micro-cap Armada Data (TSX.V: ARD) closed the acquisition of The Big & Easy Bottle Brewing Company, maker of the Mister Beer beer-making kit. The 25-employee company, known for selling car-pricing data to consumers and insurance companies, is diversifying in a Big & Easy way. Over four years ended May 31, 2011, the company's revenue grew 77%, and total shareholder equity rose 146%.

Sources: Armada website, Globe & Mail

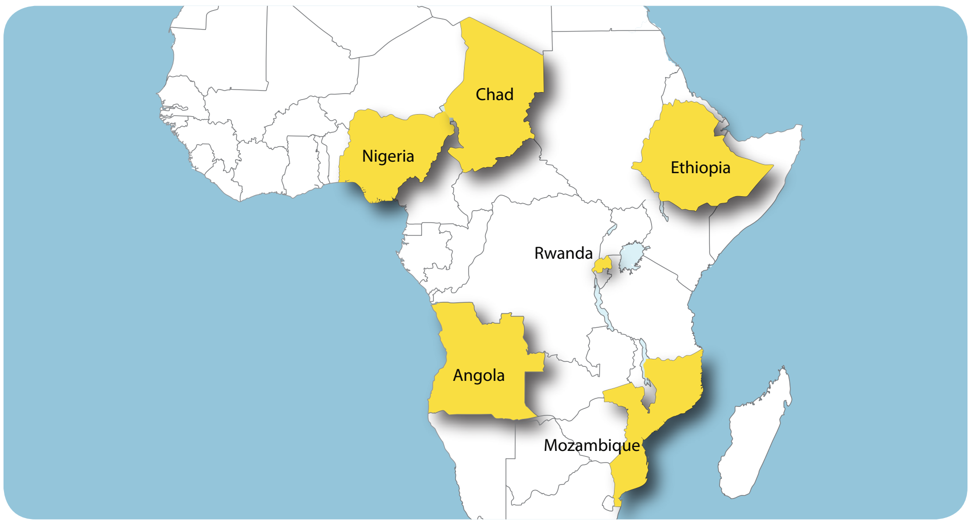
Africa offers alternative to Euro Zone trouble

In early November, Italy's ten-year bond yields broke 7%, signalling a rapid breakdown in market confidence in European sovereign debt. The erosion of confidence has rippled through Italy and Greece to Spain, France, and beyond, causing the yields to spike. "Confidence in the Italian and Spanish economies is evaporating even as their governments accelerate the cuts. The rot is spreading. Fears have risen about Belgium, even France. The crisis is clearly getting worse rather than better," states *The Economist* (Sept. 17, 2011). Gone are the safe havens of risk-free sovereign debt and the conventional assumptions of a risk-free rate of return. Investors are jolted into seeking out new sources of return and re-evaluating how, where, and when they assess risk in their portfolios. Fortunately, new frontier markets without high debt loads and without the starting assumptions of risk-free debt provide a more attractive environment for cash flow growth and capital appreciation.

Untapped African growth

While African nations have individually restructured their economies and debt loads over the past couple decades, Europe's monetary union has allowed strong and weak members alike to borrow on equal terms at the risk-free rate. This encouraged weak countries to finance through the debt markets at artificially low rates. Recent events show how wrong-headed that assumption can be, and investors are selling off European sovereign securities. "[An] implicit assumption behind Europe's financial integration–that sovereign debt was risk-free–has been overturned, and no one knows what to assume instead," states *The Economist* (Sept. 17, 2011). While investors muddle through, cash flows, growth prospects, and capital values are all being revalued to take true risk into account, and new investment options are being sought.

Europe's debt soared while Africa's debts shrank. "[Emerging-market] countries eschew short-term debt and keep debt



Of the ten world's fastest-growing economies from 2001 to 2010, six are in Africa: Angola, Nigeria, Ethiopia, Chad, Mozambique, and Rwanda.
Source: *The Economist* online, Daily Charts (Jan 6, 2011).

Welcome to Cooper Cash Flow Monitor, a publication for investors who plan and manage their own investment portfolios with hopes to one day end their daily commute into the office and retire with security and prosperity. We focus our search for quality stocks on the prime driver of investment returns: free cash flow (FCF).

Cash flow should be the baseline for your investment decisions. Why? Because cash flow represents the cash produced by companies that is available to either pay out returns to investors, or, to grow the company operations and therefore increase future payouts. Either scenario should increase your wealth and enhance your security.

As a point of comparison, look at the free cash flow generated by your bank account. Current bank accounts generate a meagre return to account holders which actually increases your risk of loss to inflation over time.

In these pages we present some high quality stocks that might offer more lucrative options to grow your savings.

Michael Cooper, CFA
President

Typical Canadian Bank Deposit Rates

Annual Returns	
Under $5000	Over $5000
0.00%	1.3%

ratios low," states *The Economist*. So too do frontier markets throughout Africa, probably from necessity. Nigeria's debt is 18% of GDP while Italy's debt is 120% of GDP (*CIA World Factbook*, 2010 estimates).

Europe's economies are stagnating while individual African economies are growing. Since 2003, Rwanda has had an average annual growth of 7-8% and inflation in the single digits, while the Democratic Republic of the Congo (DRC) grew 6% in 2010. (*CIA World Factbook*)

In autumn 2011 we are witnessing an historic re-rating of European debt. We also appear to be witnessing a re-rating of African prospects. Usman Hayat, a CFA Institute contributor writing in *SeekingAlpha.com* (Nov. 8, 2011), reports:

> "...Clifford D. Mpare, CFA ...outlined the bullish case for Africa last week before more than 200 investment professionals.
>
> Mpare showed that, of the world's ten fastest-growing economies from 2001 to 2010, six — Angola, Nigeria, Ethiopia, Chad, Mozambique, and Rwanda — were African. Ghana's economy, Mpare explained, is likely to grow at 17.5% in 2011, the highest GDP growth rate in the world. Meanwhile Nigeria, the most populous country in Africa, had a debt-to-GDP ratio of just 18% in 2010, compared to 100% for Greece."
>
> .... "Sustained economic growth supported by commodities is increasing the purchasing power of consumers in Africa, and is both feeding and fuelling further growth, Mpare said. For instance, he noted that "mobile phone penetration was over 50% in 2010, having grown from 1% in 1998." Africa's demographics also favor growth as the continent is young — even younger than Asia — and its economic growth will create demands in other sectors, such as education and health care, Mpare contended.

This encouraging African performance offers investors an alternative to the debt-induced turmoil of developed markets. We therefore expect to devote considerable time and attention to companies with exposure to Africa.

Canadians are extending their expertise and capital into the new frontier markets. According to the TSX, there were 180 TSX and TSX-V listed mining companies in Africa conducting work across 709 properties in 34 different countries. As the table shows, C$1.8 billion was raised on the Canadian exchanges last year for African mining projects. The diversity of options should attract new investor attention.

Mining Companies on the Toronto Stock Exchange Involved in Africa

TSX listed mining companies with African operations	TSX V listed mining companies with African operations	Number of African based projects	Capital raised on Canadian exchanges for African mining
71	109	709	C$1.8 billion

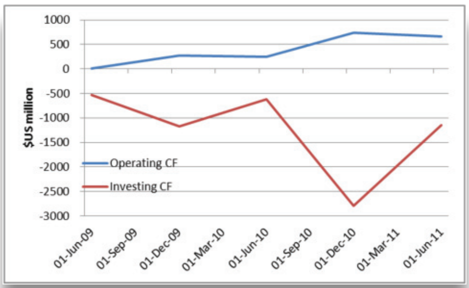
Source: TSX (as at Dec 31, 2010)

Companies throughout the world are staking claims on Africa's rich resources. Europeans are leading the way in search of diversification and growth. This month we will examine two European companies who have well developed African operations and strong cash generating histories.

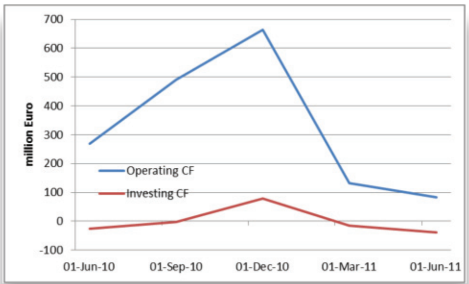
European investments in Africa

Examples of European companies generating significant returns and new cash flows from Africa include Tullow Oil PLC of Ireland and Wärtsilä of Finland. The investment potential of these two companies was recently analyzed by Daniel Fridson at Cooper Financial Research and we report the highlights here.

Tullow Oil PLC announced an oil discovery in sandstone reservoirs off the coast of Ghana. Pressure data indicates a continuous oil column of 365 meters. Tullow's launch of the Jubilee field in December of 2010 was the first major onstream oil production in the country. In addition, Tullow has a significant presence in West Africa with production in Gabon, Côte D'Ivoire, Mauritania and Equatorial Guinea in addition to exploration projects in Senegal, Sierra Leone and Liberia. The stock was recently listed on the Ghanaian Bourse, in addition to English and Irish listings. The company has five-year averages of 9.39% ROE and 4.06% ROA.



The two-year cash flow summary for Tullow Oil PLC, in US$ millions.

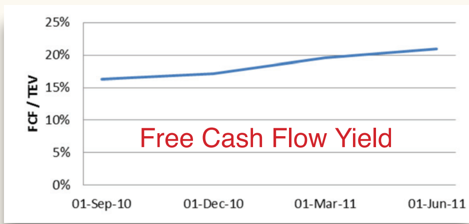


The five-quarter cash flow summary for Wärtsilä, in € millions.

Finnish manufacturing giant Wärtsilä was recently awarded a project to expand two power plants in Senegal that it had previously built. The project is valued at approximately €84.1 million. Wärtsilä's West African operations are headquartered in Dakar, Senegal, and include projects in Guinea and Togo. The firm has five-year averages of 26.76% ROE and 8.95% ROA.

For investors looking to escape the carnage of Europe and the uncertainty of North American markets, the frontier markets of Africa offer a whole new set of conditions to support cash flow growth requirements. These new opportunities come with new risks. However these risks are highly apparent and, in the wisely chosen cases, are already priced into securities. ■

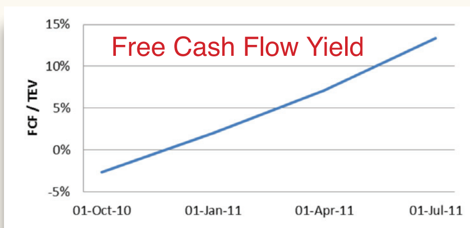
Quick Analysis



Domtar Corporation (TSX:UFS)

Paper-making giant Domtar is one of our favourite current cash flow generators. Although the company is in a slowly declining industry (secular decline), management is well aware of this environment and is producing prodigious amounts of cash along the way. Over the last four quarters Domtar has produced approximately C$900 million FCF. Although inflation will drive up costs in the coming year, as North America's largest uncoated paper manufacturer, Domtar should be able to pass along price increases. The total enterprise value (TEV) is so low that the FCF yield amounts to around 21%. The purchase of Domtar stock should be timed around evidence of 1) the rate of decline in paper demand, and 2) the inflation impact on costs of energy, chemicals, and pulp. ■

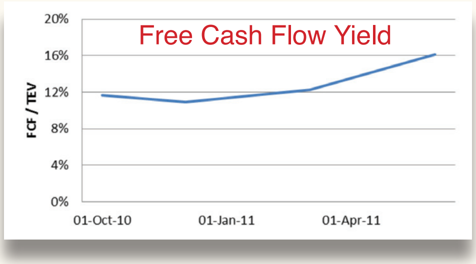
Source: Domtar website



Canadian Tire Corporation (TSX:CTC.A)

Canadian Tire ranked 27th among 30 service shops in J.D. Power's 2010 customer satisfaction survey, prompting an overhaul whose prototype was unveiled Oct. 20 in nearby Bowmanville. Refurbished CT stores will have a larger automotive department that includes a drive-in reception, a sound booth to test car audio entertainment systems, and a "family solution zone" with products such as GPS and safety electronics. A new "tire wall" will show off tire treads and contain detailed tags. Four thousand employees are getting trained in the Way of the Tire. CT aims to grow its auto division by 4 to 6% by 2015. ■

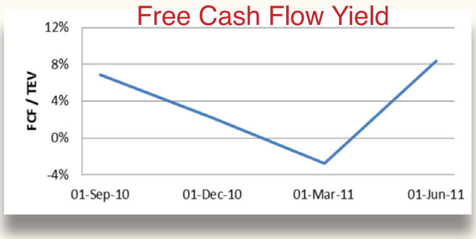
Sources: Calgary Herald, Globe & Mail



George Weston Limited (TSX:WN)

George Weston has two operating segments, Weston Foods and Loblaw. Weston Foods, facing significant cost pressures and a competitive pricing environment, could mitigate higher commodity and energy costs through cost reduction initiatives and increasing prices. Loblaw remains focused on opportunities for growth. From the Q2 report: "unpredictable and competitively intense market conditions continue to put Loblaw retail sales at risk." We expect pressure on these high yields, however we expect FCF to remain in double-digit territory. ■

Sources: CNW Group, George Weston reports



A.O. Smith Corporation (NYSE:AOS)

A.O. Smith presents strong potential for cash flow as it increases its focus on water technologies. Sept. 18 A.O. Smith completed the US$418 million acquisition of Lochinvar Corporation, a privately held manufacturer of high-efficiency boilers. A.O. Smith closed the sale of its electrical products business to Regal Beloit on Aug. 19, a US$730 million deal. Sales for Q3 were up 9.2% year over year, including Lochinvar results. A.O. Smith reported higher sales in China and India, and expects a large pre-buy of commercial water heaters in Southern California as a result of new air quality regulations. Management reacted to declining FCF by restructuring the company and focussing on their growth prospects and this should produce more FCF going forward. ■

Sources: ENP Newswire, Benzinga.com, Insurance Business Weekly

About Us

Cooper Financial Research provides two rare and valuable inputs to help you with your investment decision making process: independent idea generation, and clarity.

Independent Idea Generation

We understand that profitable investing requires independence, creative ideas, and an unwavering long-term commitment. Independence allows you to stand out from the crowd and appreciate mis-priced securities for what they are: opportunities to turn nickels and dimes into dollars. We perform in-depth analysis on companies and sectors and only after fully understanding all the pertinent issues do we meet with management, get to know all the relevant leaders and work with investors to map out a highly profitable investment path. Once we have identified strong investment candidates, we introduce these opportunities to additional investors.

Clarity

Clarity supports your investment decisions, reduces risks and provides you with sound nights of sleep. We provide clarity through detailed analysis in a simple, clear and honest approach to examining investment options. As we build our proprietary network of industry and investment experts and industry correspondents, our function is to distill incoming data and present you with conclusions which either reinforce or suggest changes to our investment direction. In keeping with our philosophy, we manage a small number of investment candidates over long periods of time. In this way, we can all fully understand our investments and the people behind them.

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