

**Newcrest**

A Division of TD Securities Inc.

# Action Notes

February 26, 2010

Equity Research

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**Transportation**

**Recommendation:** **HOLD**  
*Unchanged*

**Risk:** **HIGH**

**12-Month Target Price:** **C\$9.50**↑

*Prior:* C\$8.00

**12-Month Total Return:** **10.0%**

**Market Data (C\$)**

Current Price	\$9.00
52-Wk Range	\$2.78-\$8.89
Mkt Cap (f.d.)(mm)	\$857.7
EV (\$mm)	\$1,572.0
Dividend per Share	\$0.40
Dividend Yield	4.4%
Avg. Daily Trading Vol. (3mths)	141077

**Financial Data (C\$)**

Fiscal Y-E	Dec
Shares O/S (f.d.)(mm)	95.3
Float Shares (mm)	78.6
Net Debt (\$mm)	\$714.8
Net Debt/Tot Cap	46.9%
Net Debt/EBITDA	2.8x

**Estimates (C\$)**

Year	2008A	2009A	2010E	2011E
Sales (\$mm)	2,261.9	1,846.5	1,904.3	1,956.9
EBITDA (\$mm)	279.9	226.5	247.0	255.3
EBITDA (old)(\$mm)	--	--	253.2	--
EPS (f.d.)	0.92	0.12	0.49	0.53
EPS (f.d.)(old)	--	--	0.83	--

**Valuations**

Year	2008A	2009A	2010E	2011E
EV/EBITDA	5.6x	6.9x	6.4x	6.2x

All figures in C\$, unless otherwise specified.

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## TransForce Inc. (TFI-T) C\$9.00

### Broadly In-line Q4/09 Results

**Event**

TransForce reported in-line Q4/09 revenue and EBITDA of \$488.6mm and \$60.3mm vs. our estimates of \$433mm and \$59.3mm and consensus of \$475.1 and \$60.0mm respectively. The company completed the acquisition of the Retail Solutions Division of ATS Andlauer Transportation Services LP in November 2009. TransForce realized a goodwill impairment charge of \$45.0mm related to the oilfield services group in the Specialized Services segment. The company entered into a sales and leaseback agreement for a total consideration of \$32.0mm. We expect the transaction to close in Q1/10.

**Impact - NEUTRAL**

We are increasing our price target to \$9.50 (from \$8.00) while maintaining our HOLD recommendation on the stock. We have fine-tuned our F2010 estimates and introduced new F2011 estimates. TransForce continues to manage its business reasonably well through the difficult operating environment but we believe that F2010 will be a challenging year.

**Details**Less-than-truckload

The Less-than-truckload division contributed 26% of total revenue in Q4/09 (28% in F2009). Shipping volumes were negatively impacted in western Canada and were down roughly 10-20% as a result of significant activity declines in the energy sector. Overall, the LTL division remains plagued with overcapacity issues and significant pricing pressure.

Package and Courier

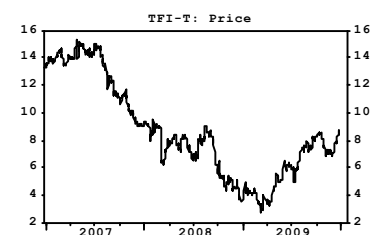
The Package and Courier division contributed 19% of total revenues in Q4/09 (15% in F2009). The ATS acquisition added \$23.2mm in incremental revenue during the quarter. Canpar and ICS continue to perform well despite the economic downturn.

Specialized Services

The Specialized Services division contributed 22% of total revenues in Q4/09 (23% in F2009). Matrec continues to be one of the more profitable divisions at TransForce and we believe that TransForce will continue to grow this division via acquisitions.

**Company Profile**

TransForce is a leader in Canada's transportation and logistics industry. Its companies operate in four well-defined business segments: Less Than Truckload and Parcel Deliver; Specialized Services, which includes its ancillary transportation services and fleet management & personnel services businesses; Specialized Truckload; & Truckload.



**Please see the final pages of this document for important disclosure information.**



Truckload

The Truckload division contributed 33% of total revenues in Q4/09 (34% in F2009). We believe that the company is still in the process of adjusting supply and its cost structure to better match demand. We expect that the Truckload business will continue to decline as we believe the manufacturing industry has been permanently impaired (compounded by a strong C\$) and cross-border activity (particularly southbound) will remain tepid. We do not anticipate this division to generate the type of profitability witnessed back in F2006.

Corporate

The Corporate segment generated intersegment revenue eliminations of \$13.1mm in Q4/09 (vs. \$21.5mm in Q4/08) and \$49.6mm in F2009 (vs. \$62.8mm in F2008).

**Exhibit 1. TransForce Inc.: Segmented Business Results (C\$000s)**

Segmented Results	Revenue			EBITDA			EBITDA %	
	Q4/09A	Q4/08A	yoy	Q4/09A	Q4/08A	yoy	Q4/09A	Q4/08A
Less-than-truckload	\$131,582	\$155,081	-15.2%	\$9,565	\$19,697	-51.4%	7.3%	12.7%
Package and Courier	\$93,886	\$74,515	26.0%	\$16,307	\$11,913	36.9%	17.4%	16.0%
Specialized Services	\$111,943	\$141,353	-20.8%	\$14,016	\$26,302	-46.7%	12.5%	18.6%
Truckload	\$164,357	\$195,036	-15.7%	\$16,169	\$23,183	-30.3%	9.8%	11.9%

Segmented Results	Revenue (ex-fuel)		
	Q4/09A	Q4/08A	yoy
Less-than-truckload	\$117,192	\$131,694	-11.0%
Package and Courier	\$87,017	\$66,987	29.9%
Specialized Services	\$110,775	\$138,912	-20.3%
Truckload	\$150,601	\$169,137	-11.0%

Source: Company reports, TDN.

**Exhibit 2. TransForce Inc.: Quarterly Performance and Financial Forecast (C\$m)**

	TD			Prior Period		F2009	F2010E		F2011E
	Q4/09A	Q4/09E	Var.	Q4/08A	YoY	Actual	OLD	NEW	NEW
Trucking Revenues	488.6	428.0	14%	544.5	-10%	1,846.5	1,904.3	1,904.3	1,956.9
Operating Expenses	351.9	298.8	18%	384.9	-9%	1,308.8	1,344.5	1,349.2	1,386.5
Fixed Costs G&A	75.8	70.2	8%	85.8	-12%	310.3	306.6	308.0	315.1
EBITDA	60.3	59.0	2%	73.8	-18%	226.5	253.2	247.0	255.3
%	12.3%	13.8%		13.6%		12.3%	13.3%	13.0%	13.0%

Source: Company reports, TDN estimates.

Outlook

We believe that TransForce will experience relatively muted financial performance as the company heads into F2010 driven by continued softness in the overall trucking industry, symptomatic of weakness in the macro economic environment. We anticipate that continued strength in the C\$ could exert significant pressure on the manufacturing and export sector in eastern and central Canada which, in turn, could negatively impact TransForce's financial performance, particularly in its Truckload division. We expect depressed O&G activity to apply further pressure to the Specialized Services division which will only be partially offset by Matrec and other better performing business lines. In our view, the LTL segment continues to experience significant volume declines and irrational pricing pressure and we do not believe that improvements will materialize until at least the back-half of F2010 as the potential for an economic recovery in both consumer and business activity levels become more likely.

We anticipate that the company should be able to generate free cash flow of approximately \$100.0mm in F2010 which we believe will be used to further pay down corporate debt. TransForce is currently in discussions with various lending syndicates to renegotiate its existing credit facility. We expect a renewal agreement to occur sometime in Q2/10 which will effectively increase the company's borrowing costs by roughly 200bps based on spreads estimated by management. We believe this would translate into an additional ~\$12.0mm in interest costs on an annualized basis.



We believe that TransForce is currently working on two additional sale and leaseback agreements which could bring in a total of \$50.0mm (in addition to the \$32.0mm generated from the Calgary facility). In total, we believe the company will have approximately \$180.0mm in free cash flow in which to pay down debt.

Overall, we believe that the company's efforts in preparing the business for further macro economic softness have been relatively effective. In F2010, we expect relatively flat top-line growth (inclusive of the ~\$100.0mm contribution from the ATS Retail Solutions division acquisition) with bottom line growth being generated by additional cost management efforts. We believe that when the macro economy inevitably recovers, TransForce will be well positioned to reap the benefits of renewed shipping demand and improving overall business activity in Canada.

**Valuation**

**Exhibit 3. Company Comparables**

	Symbol	Price	Market Cap (\$ mm)	EBITDA Margin	EV/EBITDA			Debt/EBITDA	P/E					
					2009E	2010E	2011E		2009E	2010E	2011E			
<b>Truckload (TL) - Average</b>				15.8%	8.2x	7.1x	6.1x	1.1x	53.7x	23.9x	20.4x			
<b>Less-than-truckload (LTL) Average</b>				9.9%	17.6x	11.3x	5.9x	1.5x	46.2x	26.7x	17.5x			
<b>Logistics Average</b>				7.0%	14.6x	13.8x	11.4x	0.0x	26.0x	26.2x	20.6x			

	Symbol	Price	Market Cap (\$ mm)	EBITDA Margin*	EV/EBITDA			Debt/EBITDA*	P/DCPU			Yield		
					2009E	2010E	2011E		2009E	2010E	2011E	2009E	2010E	2011E
Contrans Group Inc.	CSS-T	7.72	230.8	12.8%	6.5x	6.3x	n/a	1.2x	9.5x	7.4x	n/a	2.7%	0.0%	n/a
Mullen Group Ltd <sup>1</sup>	MTL-T	15.83	1,325.0	21.0%	9.0x	7.2x	n/a	1.9x	10.6x	6.9x	n/a	3.0%	3.2%	n/a
Transforce Inc.	TFI-T	9.00	857.3	13.0%	6.9x	6.4x	6.2x	2.8x	7.1x	11.2x	10.5x	8.9%	4.4%	4.5%
Trimac Income Fund	TMA.UN	4.80	123.5	11.8%	6.3x	5.9x	n/a	1.9x	8.1x	7.5x	n/a	10.0%	10.0%	n/a
Vitran Corporation	VTNC-O	9.38	152.0	4.9%	12.4x	7.7x	6.5x	2.4x	n/a	n/a	n/a	n/a	n/a	n/a
Average (excludes Hi / Low)				16.4%	7.5x	6.6x	6.3x	2.1x	8.2x	5.8x	n/a	4.5%	2.2%	n/a
<b>TD Coverage Universe Average</b>				12.7%	8.3x	6.7x	6.3x	2.1x	8.8x	8.2x	n/a	6.2%	4.4%	n/a

<sup>1</sup>Covered by Roger Serin.

\*Based on F2010E except for Vitran Corporation and TransForce Inc.

Source: Thomson One Analytics, Company reports, TDN estimates.

**Justification of Target Price**

We are increasing our price target to \$9.50 (from \$8.00) which is based on 6.0x (previously 5.9x) our new F2011 EBITDA estimate (previously based on F2010) and forecasted net debt position. We believe our multiple is justified when taking into consideration that other small cap U.S. trucking companies are trading around the 4.0-6.0x range. The company is currently trading in-line with both its U.S. and Canadian trucking peers.

**Key Risks to Target Price**

The key risks to our price target include acquisition risk, foreign exchange exposure, general slowdown in economic activity, regulatory changes, interest rate risk, rising costs (i.e. fuel/labour) and collective agreements.

**Investment Conclusion**

We maintain that the current macro economic environment with soft volumes and extreme negative/irrational pricing pressures will continue to pose as significant risks to TransForce which we believe could dampen the company's growth trajectory moving into F2010. Although we hold the view that it is still premature to become more positive on the company/industry, we believe that TransForce should be well positioned to benefit when the broader economic environment eventually recovers. Maintaining our HOLD recommendation.

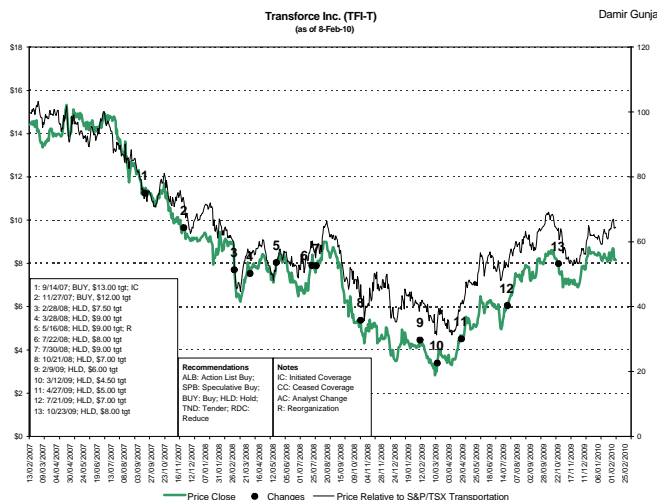


**TD Newcrest Equity Research Disclosures**

Company	Ticker	Disclosures
TransForce Inc.	TFI-T	9

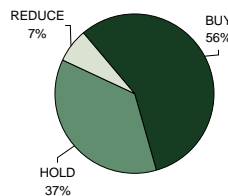
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16. Limited voting shares.

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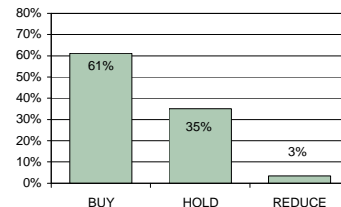


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Distribution of Research Ratings<sup>A</sup>



Investment Banking Services Provided<sup>\*</sup>



Current as of February 4, 2010

<sup>A</sup> Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**Overall Risk Rating in order of increasing risk:** Low (10.4% of coverage universe), Medium (26.8%), High (51.8%), Speculative (11.1%)

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