

▶ NATURAL RESOURCES

Noranda's comeback potential

A weak resource sector and a flagging stock give shareholders little reason to smile now, but when metals, paper and gas prices pick up, the company will recoup with a spectacular bang

By Andy Willis
Staff Writer

LONG-SUFFERING shareholders in giant Noranda Inc. are holding a stronger hand than may be apparent these days. Noranda's shares may be sputtering now, but they have traditionally rebounded smartly in a recovery. By the end of the year, then, stockholders could well be smiling.

Shares in the Toronto-based metals, forest products, oil and natural-gas group, 50% held by Peter and Edward Bronfman and their partners through Brascan Ltd., have been battered by low commodity prices and high debt-servicing costs. But in the past, Noranda has bounced back spectacularly with improvement in the economy. Coming out of the 1982 recession, for instance, its shares jumped from \$12 to \$28 in the space of a year.

Metal and forest product prices are now at the bottom of the cycle. As a result, Noranda's stock wallows at \$18.50 — it has traded within \$2 of that price since last

January — and a 75-cent a share loss is expected for 1991. But the question for investors is: when does the economy turn? Don't look to the securities analysts for answers. Seventeen research houses were recently surveyed, and they gave Noranda projections ranging from profits of \$1.50 a share to a \$1.30 loss.

The resource giant soared after the '82 recession, and history could repeat itself this year

Which leaves a great many money managers still ruminating over the well-documented internal problems hounding Noranda's managers: debts of \$4.4-billion, traumatic assets sales and restructuring, a cash flow crunch created in part by a \$1 per-share dividend many feel is overly generous in these lean times.

Those of little faith say management is running flat out just to stay in place. Why buy for the long term when a key asset may be sold to meet a \$350-million projected shortfall in 1992 cash flow? Word on some parts of the Street is wait.

But the Street may wait too long. The reasons? Start with the debt burden. It is getting

easier to bear, because interest rates are down and still dropping — Noranda saves \$20-million in interest expenses for every percentage-point drop in rates. With \$3.4-billion in floating rate debt, the downward pressure on rates is yielding big savings. Noranda's interest bill in the third quarter of 1991 was \$105 million, down 20% from \$132 million a year earlier.

When it comes to restructuring, Noranda chief executive David Kerr is showing the same attention to detail that the 48-year-old Montreal native is known for as coach of his daughter's hockey team. Capital spending in the first nine months of 1991 was \$226-million, one third of 1990 levels. And unprofitable operations are being mothballed. Analysts say that up to \$600-million in forest product companies are now on the block, along with \$150-million in manufacturing ventures. But remember, this is a firm with more than \$14-billion in assets.

Restructuring could also boost stock prices if Kerr can strike a joint venture along the lines of the \$2.5-billion partnership done with Trelleborg AB of Sweden to acquire the nickel producer Falconbridge Ltd. An encouraging sign

would be a deal that adds to Noranda's copper operations. It is one of the few metals whose price is actually on the rise.

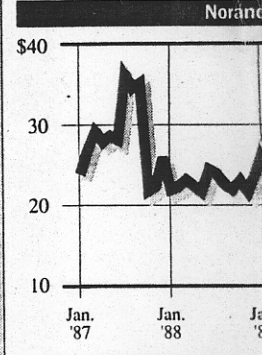
Another option Kerr is considering is simplifying the maze of nine mineral companies under the Noranda umbrella. Some combination of the publicly traded subsidiaries Brenda Mines Ltd., Kerr Addison Mines Ltd. and Minnova Inc. has been mentioned. All the companies in the mineral group trade at a discount to book value — parent Noranda trades at 90% of its \$20.53 book — and restructuring may bring out some of the value now hidden in these discounted assets.

Finally, for investors there is that attractive \$1 common share dividend. While it hurts cash flows, dividends are sacrosanct in the Bronfman group. And for the average investor, the 5% yield provides some support for the stock's price.

The fundamental support, of course, is still the price Noranda gets for its metals, paper and oil and gas. And here there remains that historically enticing leverage. When Noranda comes back, it comes back fast. For example, if zinc rises 10% above current prices of 45 cents a pound, Noranda

WAITING ON A C...

Noranda shareholders hope prime markets will kickstart



	1990	1989
Revenue	\$9.6b	\$9.3b
Earnings per share	\$0.36	\$2.19
Cash flow per share	\$5.31	\$7.36
Book value per share	\$20.53	\$21.03

Listed on the Toronto Stock Exchange

Source: Eastern Datacom Systems Ltd.

earns an extra \$33 million. copper goes up 10%, earnings go up \$30 million. There \$21 million to be made from 10% jump in lumber, while the oil patch, a 10% move natural gas is worth \$13 million in earnings. That's the beauty of leverage.

For those who believe in strong recovery for Canada's resource sector late in 1991 there are two ways to play Noranda and its far-flung operations. Conservative investors may want the parent company's diversification. If zinc can move to 55 cents a pound and forest products prices

Hitting paydirt at Westmin Resources

By Alan Bayless
Vancouver Bureau Chief

WESTMIN Resources Ltd. of Vancouver has found another high-grade-ore zone, code-named "Battle" at its Myra Falls zinc and copper mine, located in Strathcona provincial park on Vancouver Island. Great news, though the shares trade at just \$3.50 in Toronto, far from the 1991 peak of \$6.25 and up only 30 cents since the news was announced in mid-December.

It makes sense to exercise some caution with Westmin, which also owns a small B.C. gold mine and other assets. The company has \$140-million of debt and probably won't be able to meet a big scheduled debt repayment this year. As well, in a break from the usual practice, it hasn't yet declared if it will pay its regular five-cent quarterly dividend at the end of February.

The good news: the Battle discovery, which has shown grades as high as 29% zinc,

and 2.9% copper, is just 1.3 kilometres from existing underground workings at Myra Falls. Better still, Battle lies between existing workings and the rich Gap zone, discovered last spring. Workers are already driving a 1.5-kilometre tunnel to Gap, which will produce ore by year-end 1992.

That should result in profits in 1993 after years of losses — a turnaround with staying power, in the opinion of Westmin's president, Walter Segsworth. Westmin's official estimate gives Gap, "very, very conservatively," at least 250,000 tons of reserves grading 16.6% zinc and 2.7% copper, plus gold and silver. That's an impressive grade improvement over Myra Falls' pre-Gap reserves of 10.8 million tons with just 3.7% zinc and 1.8% copper.

Given current production at Myra Falls of about one million tons of ore annually, the official Gap reserves would only last three months if mined all at once. That isn't much compared with the 10 years of reserves elsewhere on the property. Even so, the Gap

and other small pockets of high-grade ore discovered last year, are crucial. At current metal prices of about 53 cents (US) a pound for zinc and 98 cents (US) a pound for copper, the pre-Gap reserves weren't profitable. The firm lost an estimated \$1 a share in 1991, despite reducing costs through new mining techniques and a staff cut to 450 from 560. Without higher metal prices, the company expects to incur another loss, albeit smaller, in 1992 — until the Gap kicks in at year-end.

That means Westmin must amend debt agreements, which call for repayment of \$52.2-million this year and \$37-million next year. Changes should be easy, since half of the debt is owed to Brascan Ltd. of Toronto, which owns 73% of Westmin's stock.

Even so, it is conceivable that other creditors may ask Westmin to suspend its policy of paying \$7.8-million of annual dividends. Westmin is clearly being cautious about the dividend, which will be discussed in a telephone con-

ference of directors later this month. Westmin usually announces the dividend in its quarterly report, but quietly changed the practice in the 1991 third quarter, when the February dividend would otherwise have been disclosed.

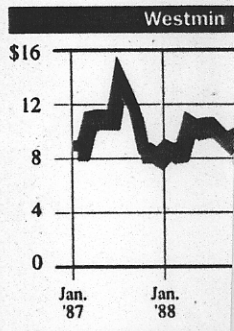
Meanwhile, Myra Falls suffers extra hassles because of its location inside B.C.'s Strathcona Park. The company recently obtained approval for 16 new exploratory holes but had to endure a public meeting and accept "stringent conditions," according to the new NDP Lands and Parks minister, John Cashore. Among other things, Westmin can't explore outside the boundaries of its lease.

Segsworth is undaunted. Although he would prefer not to be in a park, he says Myra Falls has lived with it for 25 years. Westmin has explored only 40% of its lease, so the boundary restrictions aren't a problem "in the short to medium term," he says.

More importantly, he says that the Gap ore zone may ultimately hold "significantly

A MINER

Westmin's latest still not enough



	1990	1989
Revenue	\$140m	\$180m
Earnings per share	(\$2.50)**	\$1.00
Cash flow per share	\$0.33	\$0.00
Book value per share	\$7.65	\$1.00

*Includes discontinued operations

Listed on the Toronto Stock Exchange

Source: Eastern Datacom Systems Ltd.

more" than the official reserve. Segsworth adds that the new Battle zone isn't yet included in any reserve estimates, because only holes have been drilled.

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