Canam Group Incorporated (TSX:CAM)

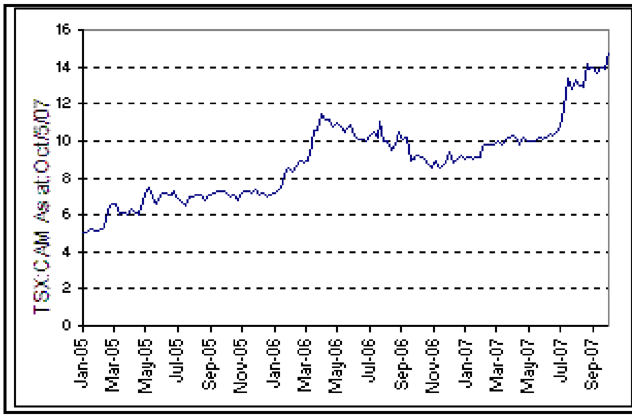
THE COMPANY

Headquartered in Saint-Georges, Quebec, Canam Group Incorporated designs, fabricates and markets construction products, such as steel decking and joists, composite flooring, bridges and steel building systems. The Company is organized into eight business units that serve the commercial, industrial and residential markets in Canada and the United States. Canam Group operates 12 plants with an annual production capacity of nearly 615,000 tonnes and employs almost 3,000 people.

FINANCIAL DATA

	2004	2005	2006
Earnings per Share ($)	(0.31)	0.96	0.88
Price to Earnings (times)	n/m	10.41	11.35
Dividend ($)	0.00	0.16	0.16
Dividend Yield (%)	0.00	1.60	1.60
Book Value ($)	5.71	6.53	7.02
Price to Book Value (times)	1.75	1.53	1.42

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT CANAM GROUP

Canam Group can trace its history back to 1960 with the founding of the Canam Steel Works, a 12,000 square foot facility in Quebec. Over the years, the Company broadened its interests to include the manufacture of steel joists and decking, semitrailers and logging equipment, composite flooring, bridges and pre-engineered buildings. With the appointment of Marc Dutil to the position of President and Chief Operating Officer in 2003, the Company began a serious restructuring effort. The logging equipment and semitrailer divisions were sold, along with underperforming plants in such places as Lafayette, Indiana, Orangeville, Ontario and Ciudad Juarez, Mexico. Significantly, profit growth took over from revenue growth as the key measure used to evaluate progress of the remaining business segments.

The restructuring effort has also shifted the emphasis from production volume growth to an emphasis on construction products and solutions. Now that Canam Group is no longer a commodity steel producer, the Company's fortunes do not track the price of steel. We have found that non-residential construction indices in both Canada and the United States are better indicators of Canam Group's outlook. According to StatsCan, investment in non-residential building construction bottomed around the fourth quarter of 2000 and has climbed steadily to record highs. For the second quarter of 2005, total spending reached an all-time high of $7.6 billion, up 2.6 % from the first quarter. On a year to date basis, non-residential construction is up 4.1% compared to the first 6 months of 2004. Similarly, non-residential construction is up 6.5% on a year to date basis in the United States. These trends are mirrored in Canam Group's backlog, which has reached $200 million at the end of the second quarter of 2005, an increase of 23.5% from the end of the first quarter of this year.

The positive impact of both the Company's restructuring efforts and the growth in non-residential construction is evident in Canam Group's results. In fiscal 2004, revenue totaled $683.6 million, an increase of 16.4% from revenue of $587.1 million in 2003. Although the Company lost $0.31 per share in 2004, entirely due to restructuring charges, it was a vast improvement from a loss of $1.10 per share from continuing operations in 2003. For the first half of 2005, Canam Group earned $0.29 per share, compared to a loss of $0.75 in the first six months of 2004. In the most recent quarter, before a $0.04 charge related to early repayment of debt, Canam Group earned $0.23 per share. Based on our outlook for non-residential construction and the improving financial results, we believe that Canam Group could earn at least $1.00 per share at the peak of the earnings cycle.

We purchased most of our shares of Canam Group at the March 2005 secondary issue at $5.75 and added to our position in the open market. Trading at approximately $7.00 today, the Company's shares are well below 10 times forward earnings and only 1.2 times book value of $5.98. Although steel prices have corrected dramatically over the past few months, Canam Group's margins improved to 23.7% in its most recent quarter compared to 22.8% in the first quarter of 2005 and 17.0% in the second quarter of 2004. For those concerned about declining steel prices, our confidence in Canam Group's ability to maintain its margins is based on tracking the spread between selling prices and input prices through publicly available data. As investors come to understand the story better and the Company puts together a few solid quarters we expect the shares to continue to strengthen.

ABC Funds
August 26, 2005

UPDATES

Proving that you don't have to be in the oil and gas or metals and mining sector to generate blow out numbers, Canam Group recently reported financial results for fiscal 2005. The Company earned $38.7 million or $0.96 per share in 2005, compared to a loss of $5.9 million or $0.17 per share a year ago. The return to profitability was achieved through sales growth of 4.8% to $711.5 million, despite the negative impact of the strengthening Canadian dollar. Gross profit increased 49% to $175.1 million in 2005 and EBITDA grew to $93.7 million, up more than 70% from last year. Marc Dutil's focus on the bottom line, through cost control and emphasis on higher margin, value-added products is materializing with tangible results. With a backlog of $210 million, up from $138 million a year ago, we look for continued strong performance in 2006.

Two other items of note occurred in the quarter. Canam announced the redemption of its Convertible Unsecured Subordinate Debentures in the amount of $27 million, bearing interest of 9.25%. On the conference call, management suggested that Company's effective interest rate would fall to approximately 5.5% after redeeming this high cost, quasi debt instrument. Second, the Company's Board of Directors announced the resumption of a quarterly dividend in the amount of $0.04 per share for the first time since 2002.

Interestingly, while its share price has appreciated almost 50% from our original purchase, Canam Group is still not expensive. At approximately $9.00 per share, the stock actually trades below 10 times last years earnings. With the dividend announcement, investors now receive a yield of 1.8% on their shares, not an insignificant amount. The Company is well positioned to continue to benefit from strength in the non-residential construction markets. In fact, Nucor Corporation, a US-based competitor, released a positive profit warning today indicating, "overall demand and, in particular, the non-residential construction markets continue to improve". Relative to its peers, there is plenty of room for multiple expansion as new investors discover this under followed and undervalued name.

ABC Funds
March 10, 2006

On August 2, Canam Group reported results for the second quarter of 2006 that seemed to have disappointed some investors. However, we tend to look through temporary blips or unusual events that can occur from time to time. Our investments are always made based on the longer term fundamentals and the intrinsic value of the underlying business.

To recap the quarter, consolidated sales dipped slightly to $172.2 million compared to $180.3 million in the second quarter of 2005. The gross profit margin totaled 22.1% in the second quarter of 2006 compared with 23.4% in 2005. The EBITDA margin totaled 11.6% of sales compared to 13.0% of sales a year ago. Net earnings were $9.9 million or $0.22 per share compared to net earnings of $7.9 million or $0.19 per share for the same period in 2005.

So what caused the flattish sales and the weaker gross and EBITDA margins? Management indicated that the appreciation of the Canadian dollar, and difficult weather conditions, especially during May, led to the softer results. They also firmly indicated that delayed deliveries were returning to normal and that the results would show an improvement. Given management's excellent track record over the past several quarters, we are willing to give them the benefit of the doubt. At current price levels, the stock is trading at only ten times forward earnings.

We believe that the outlook for Canam Group remains positive for the balance of the year. Non-residential construction, especially in Alberta, continues to trend upwards. The value of non-residential permits issued in March, May and June were above $2 billion in each month. In the industrial segment of non-residential construction, permits hit the highest level in 17 years, related to the surge in activity in Alberta. Not surprisingly, these macro trends are evident in Canam's backlog, which totaled $237 million at the end of the quarter compared with $180 million last year.

ABC Funds
August 18, 2006

We have finally seen the overhang lifted from Canam Group's shares. Marcel Dutil, Chairman of the Board and CEO of Canam Group, had been trying to sell a large amount of his stock since April. Unfortunately, when "the Street" knows that a large block is available investors typically demand a significant discount to the market price. Canam's stock slowly drifted lower from the $11.00 level as the spread between buyers and the seller widened. Thankfully, on December 20, Canam reported that the sale of Mr. Dutil's 3,500,000 share block at $8.75 had been completed successfully. It is important to note that Marcel Dutil still holds 8,018,541 shares, which represents approximately 16.4% of the Company.

Looking at the metrics, we can see why Mr. Dutil was so reluctant to part with stock at a discount. Currently, Canam trades at only 9.4 times 2006 consensus earnings and approximately 8.5 times 2007 consensus earnings. At 1.3 times book value and six times EBITDA, the stock is undervalued.

UPDATES (cont'd)

The attractive valuation is supported by a positive outlook with good visibility. Recent contract wins include an $11.5 million order for a casino in Alberta and two warehouses in Quebec, a $40 million contract to supply steel for the New York Yankee's stadium and a $70 million contract for the New York Mets' new ballpark. Spending on non-residential construction and infrastructure, including bridge work, looks firm in 2007. In fact, Canam's backlog has increased to $297 million from $226 million, a 31% increase year over year. We look forward to a solid 2007 from this Company.

ABC Funds
December 22, 2006

As we surmised in our last comment on Canam Group, the sale of Marcel Dutil's block removed the overhang on the stock. The shares have recovered almost 25% from their 52-week low of $8.15, reached early November 2006. In fact, Canam's shares have actually risen slightly through the late-February correction on the TSX. Investors have correctly assumed that government spending on bridges, roads and infrastructure is not highly correlated to global growth expectations or the US sub-prime housing market.

The share price advance was further supported by the Company's fourth quarter and fiscal 2006 results, released on March 6, 2006. Sales increased 8.4% to $740.6 million in 2006 from $683.4 million in 2005. For the full year, Canam reported net earnings of $40.7 million or $0.88 per share compared to $38.7 million or $0.96 per share in the comparable period a year ago. The year over year decline in reported net earnings was exacerbated by $7.7 million in pre-tax charges related to foreign currency contracts, plant closings and losses on the disposal of fixed assets. This cut approximately $0.08 to $0.10 per share from the years' earnings. Adjusted for this charge, earnings would have been very similar on a year over year basis.

The fiscal 2006 report also updated the Company's backlog, which has grown 37% to $287 million from $210 million one year ago. In the first three months of 2007, several significant contracts were added to the backlog. The largest of these was a contract to build the structure of the New York Giants' and the Jets' football stadium. Fabrication for the $100 million job will begin in the summer of 2007 and will be completed by the end of 2008. Canam was also recently awarded a contract for 1,575 tons of joists and girders for Loblaws' new distribution centre in Ajax, Ontario.

Despite the nice share price recovery, the stock is still relatively inexpensive for a Company that generated a 13.5% return on equity in 2006. Today, it is harder and harder to find solid businesses such as Canam Group, that trade at 11 times unadjusted 2006 earnings and 1.4 times book value. With a growing backlog and two solid years of financial performance, we remain optimistic for 2007.

ABC Funds
March 16, 2007

Our last comment on Canam Group highlighted the successful placement of Marcel Dutil's block that had been overhanging the stock and the relief rally that ensued. We also discussed the Company's attractive valuation at 11 times trailing earnings and 1.4 times book value. Since then, the shares have continued their ascent, moving almost 30% higher. Construction and infrastructure plays have obviously regained favour with investors and funds, as we discussed in our update on another Value Favourite: Polaris Minerals.

So what other stock-specific events have been driving the shares higher? On March 23, the Company announced a small, but significant, acquisition of a 49% interest in United Steel Structures Limited (USSL), a bridge and structural steel plant in Guangzhou, China. For the relativity small investment of US$9.2 million, Canam now has an interest in one of the fastest growing regions in the world. The Company then announced a second significant acquisition on July 17, this time south of the border. The Company purchased the majority of the assets of Eastern Bridge, located in Claremont, New Hampshire. Although the Company reported sales of only US$10 million last year from its 180,000 sq. ft. plant, the acquisition was necessary for Canam to bolster its physical presence in the United States due to "Buy American" legislation. We like these acquisitions for the same reason: both involved a relatively low capital expense in exchange for access to a strategically important market.

Canam also reported operating and financial results for the first quarter of 2007, which were cheered by investors. In the seasonally weak quarter, the Company reported consolidated sales of $161.1 million, up 8.3% compared with $148.8 million last year. Reported net earnings of $6.4 million, or $0.13 per share, increased 17.1% from $5.4 million, or $0.13 per share in the previous year. We expect a solid performance in the second half of the year for two key reasons. First, the Company's order back log was $411 million at the end of the first quarter of 2007, compared to $223 million in 2006, an increase of 84%.

Second, the Company's results in the third and fourth quarters of 2006 were abnormally weak due to competitive pressures, accounting treatment of foreign currency transactions, expenses related to plant closing and losses on the disposal of fixed assets. On a year over year basis, the results for the balance of 2007 will look much better and should support the recent share price move.

ABC Funds
July 27, 2007

It has been just over two and a half years since we made our original investment in Canam Group. We initiated our position on March 30, 2005, when the Company raised $40 million at a price of $5.75 per share. Subsequently, we added to our holdings in the open market but managed to keep our average cost in the $6.00 to $6.50 range.

In the ensuing years we witnessed some very important strategic changes and corporate developments. Under the leadership of Marc Dutil, management shifted the Company's focus from revenue growth to profit growth. The Company streamlined its operations, sold unprofitable assets and became much more disciplined when bidding on contracts. Importantly, Canam's founders also converted their multiple voting shares into common shares, which was well-received by the minority shareholders.

Financial statement analysis confirmed that management's efforts translated into results. Although tons of construction products declined from 365,965 in 2004 to 336,819 in 2006, revenue increased from $649.7 million to $740.6 million. Over this three year period, the gross margin improved from 18.5% to 23.5%. Net earnings from continuing operations improved from a loss of $9.0 million in 2004 to profits of $41.8 million in 2006. On a per share basis, earnings from continuing operations dramatically improved from ($0.26) to $0.90.

From a valuation perspective, Canam has traditionally traded in a range between 8 and 10 times earnings during the peak of the non-residential construction cycle. However, the higher profit margins and the removal of the multiple voting class of stock deserve a better earnings multiple. We believe that a range between 10 and 12 times earnings is more realistic and is more inline with the Company's peers. Currently the 2008 consensus estimate is $1.30 per share, which implies a target price of $15.60 for the stock at the upper end of the trading range.

Because the shares are relatively thinly traded, we made the difficult decision to begin to liquidate our holdings as the stock approached our target. Essentially, the profitability had improved, the trading discount had narrowed, investors were excited about the potential to rebuild bridges across North America and the analysts were raising their targets. Our discipline as value investors compels us to take advantage of other's bravado. We have sold our entire position in Canam Group, more than doubling our money over the course of two and a half years.

ABC Funds
October 5, 2007