Atlas Cold warms up: Warehouse trust's units recovering nicely from 2003 scandal

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Atlas Cold Storage Income Trust, which scrapped its cash distributions amid an accounting scandal almost two years ago, might not look like the most tantalizing investment at first.

But scratch the surface and what you will find is a rarity in Canada's booming income trust sector these days: an undervalued investment that could blow past expectations.

Atlas, which operates a series of cold storage warehouses and trucking operations in Canada and the United States, has a new management team led by former Canada Life Assurance executive David Williamson. It has new financing, thanks to an agreement with Brascan Bridge Lending Inc., a division of Brascan Corp. And it has a customer base that has remained intact during this tumultuous period.

Already, the units of the distressed trust (FZRu/TSX) have bounced off their all-time low of $4.50 last November. They closed yesterday at $5.80 on the Toronto Stock Exchange.

Still, **Guy Gottfried**, an analyst at **Veritas Investment Research**, believes there is plenty of upside left -- in part because the trust has not yet reinstated regular cash distributions, which it suspended in 2003.

"The Street wants little to do with this distribution-less income trust -- and that is precisely why we believe that Atlas is a buying opportunity," he said in a recent report.

For sure, it's easy to understand why investors ran screaming from Atlas in 2003. Management had fraudulently inflated the trust's earnings, which meant that financial results had to be restated. The company was hit with $71.5-million in goodwill write-downs, which throttled earnings.

Perhaps most alarming, Atlas violated debt covenants, which caused creditors to cut off access to cash. Suddenly, there was a realistic chance that the company would be pushed into insolvency, leaving investors holding worthless units.

The units hit a high of $13.42, shortly before the scandal unfolded in September, 2003. Since then, the price has fallen to the point where most of the downside risk of investing in Atlas appears to have disappeared.

Last September, the company announced a $250-million financing agreement with Brascan, which let Atlas eliminate its old debt and gain access to new funding.

"The recapitalization assuages the bankruptcy fears that previously plagued the company after the troubles it experienced with its previous lenders," **Mr. Gottfried** said.

The accounting scandal, followed by the firings of key executives, certainly damaged the company's reputation among investors. Yet its relationships with customers appears to have survived more or less intact.

"Based on our conversations with CFO Kevin Glass and industry contacts, we are confident that customer and supplier relationships were unaffected," said **Mr**. **Gottfried**, who believes the company's accounting and disclosure is now top-notch.

As a result, Atlas' numbers are improving. For example, at its once-troubled U.S. refrigerated warehousing division, the profit contribution margin rose to 29% in the third quarter of 2004, up from 22% in 2003.

Mr. **Gottfried** believes the trust's units have an intrinsic value of about $7 each, based on estimated discounted distributable cash. This intrinsic value implies a potential gain of about 20% from the current unit price.

Perhaps more important to yield-hungry investors, he said the trust should be able to resume cash distributions sometime this year. "The absence of distributions is the only remaining relic of Atlas' past problems, and that too will be resolved soon."