Founder's move may spark change at Chateau
His departure from the CEO slot may hasten sale of fashion chain

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Does a changing of the guard at fashion house Le Chateau Inc. spell uncertainty for the Montreal retailer?

The decision of founder Herschel Segal on Thursday to step aside as chief executive and hand the role over to his wife, Jane Silverstone Segal, "introduces many new uncertainties," analyst Jelena Neylan of GMP Securities wrote in a research note to clients. The management shift could prompt the departure of president Emilia Di Raddo, Ms. Neylan noted, who has been "instrumental in Le Chateau's strong performance over the past five-plus years."

The uncertainty was exacerbated by the fact that the company made no comment about the progress of its ongoing strategic review, she said.

Nevertheless, Mr. Segal's decision will give him more time as executive chairman to focus on the possible sale of the company and maximizing value, the analyst said.

Perhaps for that reason, Le Chateau shares (CTUa/TSX) jumped 75 cents, or 2%, to $40.50 on Friday.

The shares are a bargain, trading at just 10.5 times estimated 2007 earnings, said Ms. Neylan, who rates Le Chateau a "buy" with a target price of $68.

"At the current stock price, we believe the potential upside is very attractive, given the improving results and the likelihood that the company will be sold, converted to an income trust, or some other measure that improves shareholder value will be implemented." Hollie Shaw

Salad days on the way? Loblaw Cos. shares may rise as much as 20% as the company starts to reap the benefits of investment in its stores and fixes its supply-chain problems, according to an analysis of the grocery giant's prospects by Veritas Investment Research.

"If management shows even a shadow of former growth, then we see upside to at least $60," wrote Veritas retailing analyst Peter Holden in a recent report.

Veritas estimates that even with no growth and no rebound in margins, Loblaw is worth about $53, around where the stock is trading lately after a long slump as the company's troubled implementation of a new distribution system has hit profits.

Still, there are some investors who have trouble valuing Loblaw because of its lack of free cash flow. Basically, after Loblaw pays for its constant investment in stores, which is much bigger than at rivals, the company has historically had little cash left over. If, as many investors believe, the value of a company is the present value of its future cash flows, then a company with not much in the way of cash generation isn't worth a whole lot.

But according to Mr. Holden, Loblaw may be at an inflection point where three decades of investment give way to "harvesting" of cash.

"In recent years, the long-established pattern of complete reinvestment has begun to reverse," said Mr. Holden. While the famously taciturn management at Loblaw hasn't been very forthcoming on why that is, "on balance, it seems likely that the principal driver is the obvious one: After 30 years of expansion, the market is pretty much saturated with Loblaw and affiliate stores and the time has come to start harvesting cash."

Mr. Holden also believes Loblaw's real estate holdings are worth about $40 a share, which also provides a support for the stock.

"In order to think Loblaw a buy, and we do, one has to believe management is capable of both fixing the supply-chain disruptions and easing up on capex [capital expenditures] as investment opportunities in a well-developed marketplace decline," Mr. Holden wrote.

Loblaw's management has a long track record of success and, while that's no guarantee that the future will be bright, "our view is that, as it has been for most of the past 30 years, Loblaw is an attractive investment," Mr. Holden wrote. Boyd Erman

Western bull It doesn't take a highly-trained economist or bank analyst to figure out that Western Canada is booming right now. But with the good times rolling, it's hardly surprising that Western-focused financial-services business are surging too.

Just take Edmonton-based Canadian Western Bank, for instance. CWB reported another record quarter on Thursday, with earnings of 59 cents per share, above most analysts' expectations. Loans were up 25% from last year, and deposits were up 27%.

Following the results, Scotia Capital analyst Kevin Choquette raised 2006 and 2007 earnings estimates by 5 cents and 10 cents respectively, to $2.25 per share and $2.60 per share.

Low loan losses, increasing insurance revenue and an expanding sub-prime mortgage business fuelled by self-employed local entrepreneurs who can't get credit with traditional lenders all contributed to the bank's strong results.

"CWB has a high growth profile situated in the strong economies of Alberta and B.C., with valuation fairly reflecting this," said Mr. Choquette in a note.

Although CWB stock is already riding high, Mr. Choquette still found room to raise his target for the bank's 12-month share price to $55 from $45, making him the most bullish analyst of the ones that have updated their target prices on Bloomberg. Duncan Mavin

Too lite for prime time? Who's afraid of Virginia Wolf ... or, for that matter, Toronto Hydro?

Vince Valentini, an analyst with TD Newcrest, said Rogers Communications Inc. should have no worries about last week's launch of Toronto Hydro's WiFi service called One Zone, which offers wireless Internet access for people with laptops and devices such as PDAs.

The service, which will be offered at no cost for the next six months, will initially be available in the downtown core before eventually being expanded to other parts of Toronto over the next three years.

"We do not believe that WiFi service has the quality, reliability, speed or marketing scale to compete head-on with broadband services to the home from cable/phone companies," Mr. Valentini said in a research report.

Just to make sure he's really being clear about Toronto Hydro's service, Mr. Valentini created a list of seven reasons why it is "borderline ridiculous" to think WiFi can be an alternative to mobile wireless service from companies such as Rogers in the near future.

This includes issues such as the network's limited coverage, lack of security, lack of brand awareness, as well as the utility's inability to bundle WiFi service with other products such as local telephone service and television.

Mr. Valentini also has questions about the speed and pricing of Toronto Hydro's WiFi service. Although Toronto Hydro claims it can offer speeds of up to seven megabits per second, Mr. Valentini believes average speeds will be one Mbps or less -- 80% slower than the basic high-speed service offered by Rogers and Bell Canada.

Toronto Hydro plans to eventually sell the service for $29 a month, which is comparable to high-speed "lite" products sold by Rogers and Bell. Mark Evans

Hot target Uranium producer Denison Mines Inc. rose 60 cents to close at $16 Friday. The stock gained 6% last week as the market speculated the Toronto-based company could be a prime takeover target.

Denison is a rare find, one of only a handful of publicly traded uranium producers, through its 22.5% stake in the McLean Lake mine in Saskatchewan.

According to Ux Consulting Co. LLC, as of Aug. 28 the spot price of uranium was US$52 a pound. That's up more than 40% since the beginning of the year, and it has predators wringing their hands. The Ux price is just a guideline; most uranium producers sell their output at fixed prices using long-term contracts.

Parties rumoured to be interested in Denison include Toronto-based sxr Uranium One Inc. and Vancouver-based International Uranium Corp.

Canada has about 12% of the world's resources of uranium, behind Kazakhstan, which has 17%, and Australia, which has 30%.