

ALGOMA CENTRAL CORPORATION (TSX: ALC)

Price (August 30, 2011)	\$89.00
52-Week Range	\$102.00 - \$81.00
Shares O/S	3.89 million
Market Cap	\$346.2 million
50-day Average Volume	464 shares
200-day Average Volume	937 shares
Fiscal Year-End	December 31
Symbol	TSX-ALC
Website	www.algonet.com

Financial Data

Selected Income/Cash Flow

CS'000s: 12 months ended	Dec-09	Dec-10	Jun-11
Revenues	\$520,147	\$536,373	\$587,162
EBITDA	\$71,710	\$80,667	\$86,770
Net Income	\$38,845	\$32,602	\$39,348
Cash Flow (CF) From Ops	\$57,872	\$69,195	\$72,003

Selected Balance Sheet

	At Dec-09	At Dec-10	At Jun-11
Cash (& Equivalents)	\$12,156	\$45,537	\$30,534
Total Debt	\$112,953	\$118,369	\$211,583
Shareholders' Equity	\$438,733	\$452,522	\$398,214
Total Assets	\$694,306	\$741,450	\$751,484
Working Capital	(\$2,786)	(\$68,742)	(\$73,276)
Working Capital Ratio	0.97x	0.69x	0.64x

Key Ratios

	At Dec-09	At Dec-10	At Jun-11
EBITDA Margin	13.8%	15.0%	14.8%
Return on Equity (ROE)	8.9%	7.2%	9.9%
Return on Assets (ROA)	5.6%	4.4%	5.2%
Total Debt/Total Capital	20.5%	20.7%	34.7%
Cash Flow/Total Debt	0.51x	0.58x	0.34x
Earnings Per Share	\$9.98	\$8.38	\$10.11
Cash Flow Per Share	\$14.87	\$17.78	\$18.50
Cash Per Share	\$3.12	\$11.70	\$7.85
Equity Per Share	\$112.75	\$116.29	\$102.34

Multiples

	At Dec-09	At Dec-10	At Jun-11
Price/EPS	7.86x	11.16x	9.69x
Price/EBITDA	4.26x	4.51x	4.39x
Price/Cash Flow	5.28x	5.26x	5.30x

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THE COMPANY

Algoma Central Corporation (“Algoma Central” or the “Company”) owns and operates the largest Canadian-flag fleet of dry and liquid bulk carriers operating on the Great Lakes and St. Lawrence Seaway.

The Domestic Dry-Bulk operation consists of a fleet of 30 dry-bulk ships.

The Product Tankers operation comprises a fleet of seven tankers.

The Ocean Shipping operation owns two ocean-going self-unloading vessels, and a 50% interest in a joint venture with a fleet of five self-unloaders.

The Real Estate operation includes the ownership and management of various properties in Ontario, in Sault Ste. Marie, St. Catharines, and Waterloo.

INVESTMENT CONSIDERATIONS

Strengths

The Company has undertaken three major steps to expand its position as the leading Canadian-flag shipping company on the Great Lakes. These are:

- Algoma Central acquired its partner's interest in Seaway Marine Transport ("SMT"), adding approximately 16 ships to its fleet.
- The Company has ordered six new Equinox Class, next-generation, bulk carriers for delivery over the next three years. They will be faster and more fuel efficient than existing ships. This is in addition to two new ships added to the fleet since April 2010.
- The Company has strengthened its balance sheet and share liquidity position. It issued \$69 million of convertible debentures which, if converted, will increase the shares outstanding by approximately 11%, a positive move by adding extra shares to a small float. The Company has also completed a refinancing of its credit facilities to provide funds for its fleet renewal program, the SMT acquisition and general corporate purposes.

Challenges

- The Canadian bulk shipping industry is impacted by changes in economic activity in both the manufacturing and agricultural sectors.
- Algoma Central needs to diversify its revenue base. With a limited number of major customers, the loss of any one would negatively affect overall revenues. For 2010, two customers accounted for over 10% of revenues, and four for between 5% and 10% each.
- The shares are closely held with approximately 74% of the 3.89 million shares held by directors and management. The float is extremely thin; the average daily volume over the last 200 days is only 937 shares.

OPERATIONS

The Company's activities are carried out through four main operations, as described below. The following table shows each operation's contribution to revenue and gross profits.

	Revenue			Gross Profit		
	<u>2010</u>	<u>Q2/2011</u>	<u>H1/2011</u>	<u>2010</u>	<u>Q2/2011</u>	<u>H1/2011</u>
Domestic Dry-Bulk	65%	68%	57%	38%	62%	9%
Product Tankers	14%	15%	19%	28%	20%	43%
Ocean Shipping	16%	13%	17%	23%	15%	37%
Real Estate	<u>5%</u>	<u>5%</u>	<u>7%</u>	<u>11%</u>	<u>2%</u>	<u>12%</u>
Total	100%	100%	100%	100%	100%	100%

1. Domestic Dry-Bulk Operations

These are the largest of the Company's operations and provided 65% of 2010 revenue and 38% of gross profits. For the latest quarter, these activities provided 68% of revenue and 62% of gross profit. The current fleet consists of 30 ships, of which 20 are self-unloaders, and the remaining 10 are conventional bulk carriers. The dry-bulk fleet carries cargoes such as coal, iron ore, grain, and aggregates between ports on the Great Lakes and the St. Lawrence Seaway. The Company also owns Fraser Marine and Industrial Inc., which provides ship and diesel engine repair services.

2. Product Tankers

This operation provided 14% of 2010 revenues and 28% of gross profit. It consists of a fleet of seven tankers operating on the Great Lakes, the St. Lawrence Seaway, and the east coast of North America. The Company also owns one product tanker which operates internationally through Hanseatic Tankers.

3. Ocean Shipping

This operation has two segments, Marbulk Canada Inc., a joint venture with CSL Group Inc., which owns four ocean self-unloaders, and a fifth self-unloader owned jointly with Bernhard Schulte. The second is a wholly-owned subsidiary, Algoma Shipping Inc., which owns two ocean self-unloaders. The Ocean Shipping operation provided 16% of 2010 revenue and 23% of gross profits.

4. Real Estate

Property ownership and management, all in Ontario, provided 5% of 2010 revenue and approximately 11% of gross profit. It owns the Delta Sault Ste. Marie Waterfront Hotel and Conference Centre, and owns and manages the Station Mall shopping centre, an apartment building, and two office buildings in Sault Ste. Marie. It also owns and manages three office buildings, two commercial plazas, and a light industrial plaza in St. Catharines, and three office buildings in Waterloo.

RECENT DEVELOPMENTS**Corporate Acquisition**

On April 14, 2011, the Company acquired the approximate 41% partnership interest in Seaway Marine Transport from Upper Lakes Group Inc. ("Upper Lakes"). As a result of the transaction, the Company now retains 100% of SMT's earnings compared to 59% previously. Under the transaction, the Company acquired 11 bulk freighters previously owned by Upper Lakes as well as its interests in five other ships, which had been owned jointly, and a contract for a bulk freighter to be built in China. Total cash consideration for the acquisition was \$88.3 million.

Financing

In April, the Company issued \$69 million of 6% convertible debentures maturing March 31, 2018 and convertible at any time into common shares at \$154.00 per share. It subsequently arranged for a new \$150 million five-year revolving credit facility with six banks, and issued two tranches of ten-year senior secured notes, one for US\$75 million, and the other for C\$75 million. A portion of the proceeds was used to repay the Company's former credit facility, which included funds for the Upper Lakes acquisition. The balance of the funds available will be used for the Equinox program and for general corporate purposes.

FINANCIALS**(1) Q2/2011 Results**

For Q2/2011, Algoma Central reported earnings of \$4.50 per share compared with \$2.81 per share for the same period in 2010. Revenue increased 44.8% to \$156.2 million. The revenue gain was primarily due to an 85% gain in the Domestic Dry-Bulk operations revenues as a result of the acquisition of the Company's share of the SMT joint venture which it did not own. In the recent period, Domestic Dry-Bulk operations also benefited from a contribution from three ships which had been transferred from the Ocean Shipping operations in 2010. However, this led to a 21.5% decline in revenue in the Ocean Shipping area. The Product Tanker operation achieved a 7.2% revenue gain as a result of increased market demand. Real Estate revenues were approximately the same as in the year earlier quarter.

The increase in gross profit, coupled with somewhat higher general and administrative costs, a \$3.6 million increase in financial costs and a \$1.7 million gain on revaluation of an asset, led to the earnings gain to \$17.5 million in the latest quarter from \$10.9 million in the 2010 quarter.

Table 1: Q2/2011 Results

(\$000s)	<u>Q2/2011</u>	<u>%</u>	<u>Q2/2010</u>	<u>%</u>	<u>Change</u>
Revenue					
Domestic Dry-Bulk	106,514	68%	57,635	53%	84.8%
Product Tankers	22,712	15%	17,860	17%	27.2%
Ocean Shipping	19,872	13%	25,299	23%	-21.5%
Real Estate	<u>7,122</u>	<u>5%</u>	<u>7,058</u>	7%	<u>0.9%</u>
Total	156,220	100%	107,852	100%	44.8%
Operating Expense					
Domestic Dry-Bulk	79,235	70%	35,625	49%	122.4%
Product Tankers	13,935	12%	11,186	15%	24.6%
Ocean Shipping	13,087	12%	20,641	28%	-36.6%
Real Estate	<u>6,153</u>	<u>5%</u>	<u>5,903</u>	<u>8%</u>	<u>4.2%</u>
Total	112,410	100%	73,355	100%	53.2%
Gross Profit					
Domestic Dry-Bulk	27,279	62%	22,010	64%	23.9%
Product Tankers	8,777	20%	6,674	19%	31.5%
Ocean Shipping	6,785	15%	4,658	14%	45.7%
Real Estate	<u>969</u>	<u>2%</u>	<u>1,155</u>	<u>3%</u>	<u>-16.1%</u>
Total	43,810	100%	34,497	100%	27.0%
Gross Profit Margin					
Domestic Dry-Bulk	25.6%		38.2%		
Product Tankers	38.6%		37.4%		
Ocean Shipping	34.1%		18.4%		
Real Estate	<u>13.6%</u>		<u>16.4%</u>		
Combined	28.0%		32.0%		

(2) Six Months ended June 30

For H1/2011, the Company reported earnings of \$0.12 per share compared with a loss of \$1.61 per share for the first six months of 2010. Revenue increased 31.2% to \$213.4 million. Domestic Dry-Bulk revenues rose 78% to \$122.4 million as a result of the factors which increased second quarter 2011 revenues, namely, the addition of its share of SMT revenues which it did not include in the year earlier period and the additional revenues from the three vessels transferred from the Ocean Shipping sector. The latter change led to a 22% decline in Ocean Shipping revenue in the latest six month period. Product Tanker revenues increased approximately 22% to \$39.6 million and Real Estate revenue rose 9% to \$14.4 million as a result of higher occupancy and rates at the hotel in Sault Ste. Marie.

For the first half of 2011, the increase in gross profit together with a \$5.1 million reversal of an impairment charge taken in an earlier period, was partially offset by higher general and administrative costs and a \$7.5 million increase in financial expense. This led to slightly positive net earnings in the latest six-month period compared with a loss of \$6.2 million in the 2010 first half.

Table 2: Six Months ended June 30

(\$000s)	<u>6mo/2011</u>	<u>%</u>	<u>6mo/2010</u>	<u>%</u>	<u>Change</u>
Revenue					
Domestic Dry-Bulk	122,440	57%	68,618	42%	78.4%
Product Tankers	39,574	19%	32,496	20%	21.8%
Ocean Shipping	36,991	17%	47,397	29%	-22.0%
Real Estate	<u>14,401</u>	<u>7%</u>	<u>14,106</u>	<u>9%</u>	<u>2.1%</u>
Total	213,406	100%	162,617	100%	31.2%
Operating Expense					
Domestic Dry-Bulk	119,420	66%	69,015	50%	73.0%
Product Tankers	25,261	14%	21,491	16%	17.5%
Ocean Shipping	24,744	14%	36,812	27%	-32.8%
Real Estate	<u>10,555</u>	<u>6%</u>	<u>10,470</u>	<u>8%</u>	<u>0.8%</u>
Total	179,980	100%	137,788	100%	30.6%
Gross Profit					
Domestic Dry-Bulk	3,020	9%	-397	-2%	nmf
Product Tankers	14,313	43%	11,005	44%	44%
Ocean Shipping	12,247	37%	10,585	43%	43%
Real Estate	<u>3,846</u>	<u>12%</u>	<u>3,636</u>	<u>15%</u>	<u>15%</u>
Total	33,426	100%	24,829	100%	1.3
Gross Profit Margin					
Domestic Dry-Bulk	2.5%		-0.6%		
Product Tankers	36.2%		33.9%		
Ocean Shipping	33.1%		22.3%		
Real Estate	<u>26.7%</u>		<u>25.8%</u>		
Combined	15.7%		15.3%		

(3) Quarterly Trends

As shown in Table 3 below, the Company's first quarter results are adversely affected by winter and the resultant closure of the St. Lawrence Seaway and other Great Lakes canal systems.

(\$000s except EPS)	<u>Q3/09</u>	<u>Q4/09</u>	<u>Q1/10</u>	<u>Q2/10</u>	<u>Q3/10</u>	<u>Q4/10</u>	<u>Q1/11</u>	<u>Q2/11</u>	<u>CAGR</u>
Revenue	151,454	167,059	54,765	107,852	108,111	122,974	57,186	156,220	0.4%
Gross Income			(9,668)	34,497			(10,384)	43,810	
Gross Profit Margin			-17.7%	32.0%			-18.2%	28.0%	
Net Income	20,620	23,169	(17,202)	10,939	17,126	7,693	(17,013)	17,496	-2.3%
Net Profit Margin	13.6%	13.9%	-31.4%	10.1%	15.8%	6.3%	-29.8%	11.2%	
Shares O/S (million)	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89	
EPS	\$5.30	\$5.95	(\$4.42)	\$2.81	\$4.40	\$1.98	(\$4.37)	\$4.50	-2.3%

* Under IFRS accounting standards. Gross Income only available for Q1 & Q2 2010 and 2011 on this basis.

(4) Trailing 12 Months

Table 4 below, shows the trailing twelve month revenue, net earnings and earnings per share results for the past six quarters.

Table 4: Trailing 12-Month Results Q2/2010 to Q2/2011 *

12 Months Ending: (\$000s)	<u>Q2/10</u>	<u>Q3/10</u>	<u>Q4/10</u>	<u>Q1/11</u>	<u>Q2/11</u>
Revenue	481,130	437,787	393,702	396,123	444,491
Net Earnings	37,526	34,032	18,556	18,745	25,302
Net Profit Margin	7.8	7.8	4.7	4.7	5.7
EPS	\$8.74	\$8.74	\$4.77	\$4.82	\$6.51

* IFRS accounting standards from Q4/10, distorted by GAAP accounting in first two periods.

MANAGEMENT AND DIRECTORS**1. MANAGEMENT**

Duncan N.R. Jackman: Chairman

Greg D. Wight: President and CEO since May 1, 2008. Previously, Executive VP and CFO.

Peter D. Winkley: Vice-President and CFO since May 1, 2008. Previously, VP Finance and CFO of Therapure Biopharma Inc., and VP Corporate Finance of MDS Inc.

Al J. Vanagas: Senior VP, Technical. Previously, VP Technical and VP–Marine and General Manager.

Wayne A. Smith: Senior VP, Commercial since May 1, 2008. Previously, VP Marketing & Traffic at Seaway Marine Transport.

2. DIRECTORS

H. Michael Burns, Richard B. Carty, Tim S. Dool, E.M. Blake Hutcheson, Duncan N.R. Jackman, Clive P. Rowe, Harold S. Stephen, William S. Vaughan, Greg D. Wight

CORPORATE INFORMATION**Algoma Central Corporation**

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Analyst Affirmation: I, Bill Campbell, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of Algoma Central Corporation.

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