

**PRT Forest Regeneration
Income Fund
(PRT.UN : \$3.07)
Outperform
Target Price: \$5.00**

(reduced from \$6.00)

Over the last month PRT's unit price has fallen from around \$4.00 to \$3.07 currently, or by 23% on balance. We know of no new business reason that would warrant such a decline. At the present annual distribution rate of \$0.24, the yield of 7.8% is near the average for all business trusts. Last year's operating cash flow per unit was \$0.97 before working capital change and \$1.07 after it. We have been expecting PRT's seedling sales to fall by 20% this year – from 205 million to 165 million – before recovering in 2009. Even if operating cash flow were to drop by as much as 40-50% this year, as it did in the first quarter, the distribution would still be covered twice over.

June 5, 2008

Infrastructure funds and private equity funds have responded to hard times in the forest industry by taking an active interest in the sector. PRT, as a major supplier to the industry, has been regarded for some time as an acquisition target. In view of the unit's relative illiquidity, it has occurred to us that an investor intent on taking the group private might engage in tactical selling to create a later buying opportunity. Sales into a thin market, especially if they should prompt selling by others, might significantly reduce the cost of a takeout bid.

Net asset value per unit is \$6.15. If all remaining goodwill were written off, net tangible asset value per unit would exceed \$4.00. It would surprise us greatly if a buyout bid below \$4.00 were to succeed. If some other value-oriented investor should accumulate units with the objective of raising the ante, PRT could prove to be as volatile on the upside as it has been on the downside.

Our minimum expectation, whether PRT is to be taken private or to remain a publicly-traded income trust, is a unit price of \$4.50. This would represent net tangible asset value plus a ten percent premium. Our maximum-likelihood expectation is \$5.00. We maintain an Outperform rating but are lowering our target price from \$6.00 to \$5.00.

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Citadel Securities Inc utilizes a three-tiered rating system.

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