THE GLOBE AND MAIL

May 16, 2012

Canadian fund managers lining up for piece of Facebook

By SHIRLEY WON
From Thursday's Globe and Mail

They are ignoring critics who suggest the stock could be an expensive bust

Several Canadian fund managers are queuing up for a slice of Facebook Inc.'s initial public offering, ignoring critics who suggest the stock could be an expensive bust.

CI Investment Inc.'s Boston-based Cambridge Advisers unit has placed an order for a million shares of the social media giant, which begins trading Friday on the Nasdaq Stock Market. Given the excitement over the latest Internet stock party, CI expects its request to be scaled back.

"It's a highly sought after IPO," says CI fund manager Brandon Snow. "I seriously doubt that we will get anywhere close [to a million] ... There are few assets out there that have that much growth potential."

This week Facebook raised the expected price of the IPO to between $34 (U.S.) and $38 a share from an earlier level of $28 to $35. The IPO will receive its final pricing Thursday.

An offering at the high end of the pricing range would value the entire Menlo Park, Calif.-based company at more than $100-billion. The stock would start trading at around 100 times 2011 earnings, a level more than five times higher than the broad stock market.

On Wednesday Facebook boosted the size of its IPO by nearly 25 per cent, but Canadian institutions could still find it difficult to get a slice of the enlarged offering. Managers say it helps to have a U.S. office, and trading relationships with the offering's U.S.-based lead underwriters, such as Morgan Stanley and J.P. Morgan Chase & Co.

The funds that are buying say they are not necessarily investing for the long term.

Mr. Snow said he has been impressed by Facebook's success at increasing its advertising revenue from a growing base of nearly one billion users, but acknowledges the jury is still out as to whether the company's increasingly ad-driven focus will make it "uncool" among its fans.

The manager said he could lock in his profit if Facebook's stock price pops upward. "It's worthwhile to take the gain while you have it, and sit back and wait for another opportunity," he said. "We think it will trade up after the deal comes out."

Formula Growth Ltd., a Montreal-based hedge fund operator with a New York office, has also put in an order for Facebook shares. "We think it is an excellent play on the explosive social media growth that we are seeing globally," said fund manager Nelson Cheung.

Facebook shares should surge coming out of the gate because of demand from institutional investors unable to fill their IPO orders. "If retail investors also plow in, there is going to be bit of a frenzy," Mr. Cheung said.

But he will be happy to sell his Facebook stock if it hits his target of $55 a share. "We would be selling it because we think it is fully valued at that point in time," he said.

Manulife Financial Corp., which has a Boston-based subsidiary, is eyeing Facebook for some of its mutual funds. "We are participating in the IPO process," said Dana Cease, a Boston-based senior investment analyst with fund company Manulife Asset Management.

Facebook is "attractively valued" given its potential to attain $10-billion in revenue by 2015 and "perhaps $6-billion in EBITDA [earnings before interest, taxes, depreciation and amortization], suggested Mr. Cease. "We view their platform as an incredible asset."

But other Canadian managers are sitting on the sidelines, deterred by concerns about Facebook's slowing revenue growth. "While the company has an incredible franchise, we are concerned about its ability to live up to the promise implied by the proposed valuation," said Ian Ainsworth of Mackenzie Financial Corp.

Stephen Rogers, a portfolio manager with Horizons Investments Inc., expects there will be a better opportunity to buy Facebook once the frenzy has quieted down. "There will probably be just as much shorting of the shares right out of the gate too," he said. "There is too much hype around it."