Companies hit back at Bank of Canada Governor Carney

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Some of the country's largest corporations are striking back at Bank of Canada Governor Mark Carney, arguing he is wrong to assert that domestic companies are hindering economic growth by socking away cash.

Companies in a variety of industries, ranging from energy to technology, argue that they are doing just what Mr. Carney wants: Investing in major projects and handing money over to shareholders.

And for some struggling companies, a cash cushion is proving vital as they transition for hopefully better days ahead.

The spat started Wednesday, when Mr. Carney said the $526-billion Canadian companies have in their collective bank accounts is "dead money," and that Canadian companies are being too cautious about investing for future expansion.

The issue highlights how urgently Mr. Carney wants to rev up growth at home, particularly with consumers saddled with large debt loads. But companies say they are doing their part, while being mindful that cash also insulates them should the economy sour further. Many companies were caught off guard by the global recession that battered corporate balance sheets a few years ago.

Open Text Corp., Canada's largest software company, ended the fiscal year with about $560-million of cash on hand. Chief executive officer Mark Barrenechea said profitability has allowed the company to build up cash to invest in research and development and that Open Text has hardly been overly cautious with its money. Indeed, the firm has spent about $1-billion over the past four years on major acquisitions alone – spending $310-million this summer to buy EasyLink Services International Corp.

"We've demonstrated at Open Text that we're very disciplined in cash allocation. … If [Mr. Carney's] macro point is, 'Put the cash to work and show a return on capital' – those are principles we endorse."

At the end of the first quarter, Canadian companies had 43 per cent more cash on hand than they did when the recession ended in 2009.

Many energy companies enjoy large cash positions, but they argue that their multibillion expansion projects, coupled with commodity price volitility, justify their bursting bank accounts.

Suncor Energy Inc., like many of its competitors, has costly growth plans. It intends to spend $7.5-billion in 2012, with half earmarked for growth projects. Expenses for labour and materials are rising. Suncor had $5.166-billion of cash at the end of June, and over $10-billion in long-term debt.

"For the first time in our history, we are in a position not only to grow production significantly, but also to steadily grow the cash we return to shareholders," Steve Williams, Suncor's CEO, said during his company's second-quarter conference call at the end of July. "We have built a balance sheet that has demonstrated our ability to fund our growth program, while also funding significant dividend increases and share buybacks."

"We have been very clear that our intention is to invest significant capital over the next decade in order to grow the company, while also steadily increasing the cash we return to shareholders through dividends and share buybacks," said Sneh Seetal, a spokesperson for Suncor, said after Mr. Carney's comments. "At the same time, we will maintain a prudent balance sheet that will see us through the inevitable cycles in commodity pricing."

Suncor launched its first-ever stock buyback program in September, 2011, spending $1.4-billion to cancel over 46 million shares. That represents 3 per cent of the company's float.

For BlackBerry maker Research In Motion Ltd., a healthy cash balance is giving the company time to try to retool after getting clobbered by competitors and turning unprofitable.

RIM had roughly $2.2-billion when it last reported, but the Waterloo, Ont.-based smartphone company is in the middle of an arduous restructuring and is attempting to shave $1-billion in savings by the end of the fiscal year. Now observers are closely watching RIM's cash level to see if it can avoid burning through it as it funds severance costs and invests in new technology.

And natural gas giant Encana Corp.'s cash balance of $1.87-billion at the end of June appears big, but the company has obligations and investment needs.

"We have a perfectly good reason to have $1.8-billion in the bank," said Encana spokesman Jay Averill. "That is what is going to fund our shift to [natural gas] liquids, pay our dividend, and repay debt" as natural gas prices remain weak.

Encana expects its debt to reach $7.7-billion by the end of 2012, according to a company presentation delivered in July. The company is under pressure as natural gas trades at low levels, and it wants to have $2.5-billion on hand by the end of the year.

Encana pays a 20-cent quarterly dividend – a payment is has fiercely guarded through years of depressed natural gas prices. Now, it is spending millions on exploring for products like butane and propane, known as natural gas liquids. The shift toward liquids comes with a big price tag.

"Companies need to manage their balance sheet well, and balance sheet strength is what helps give you that flexibility to reach you longer-term strategic plan," Mr. Averill said.

But some money managers agree with Mr. Carney's view that too many companies are not deploying their cash quickly enough.

Mason Granger, a fund manager at Sentry Investments in Toronto, believes significant piles of cash signal a lack of strategy, regardless of industry. He wants executives to hand the money over to investors.

"Hoarding cash is a tacit admission you don't have projects and investments that will earn shareholders acceptable rate of returns," he said. "So pay it back to shareholders."