Volume 9 DECEMBER 2017

# INSTITUTIONAL EQUITY
# 2018 OUTLOOK

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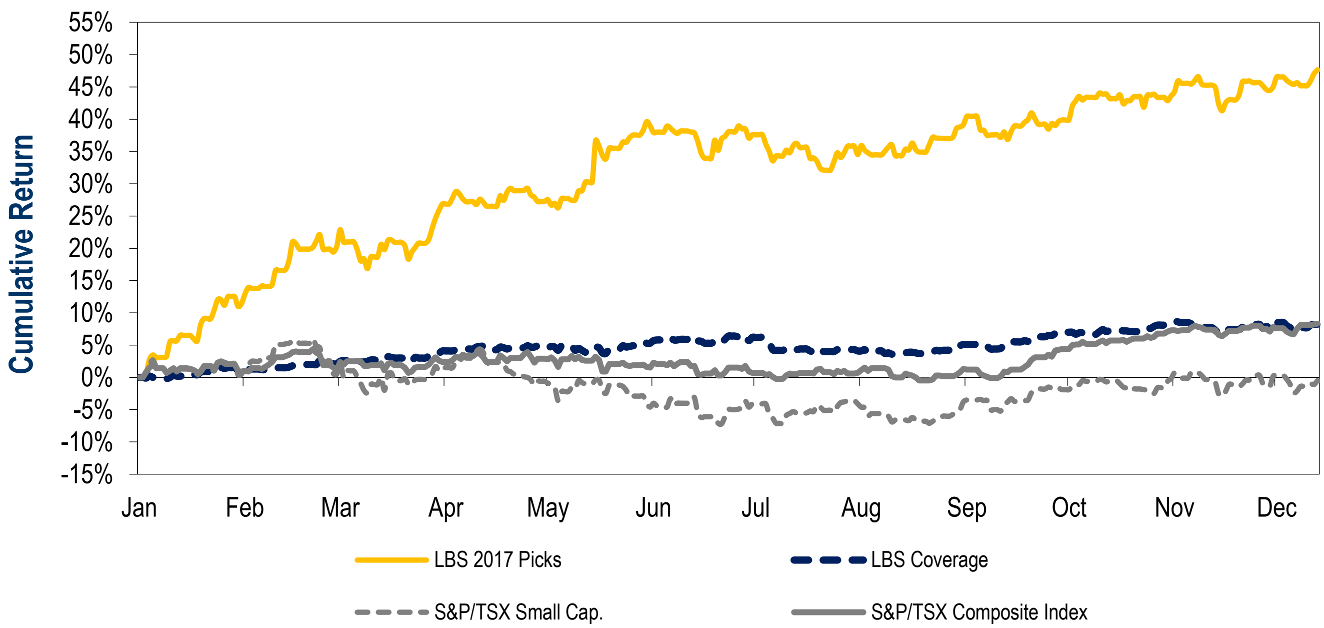
LAURENTIAN BANK SECURITIES

# 2018 LBS Outlook

Our Annual Institutional Equity Outlook summarizes our best investment ideas for 2018 as well as our outlook for each name in the Laurentian Bank Securities coverage universe.

Year to date, our 2017 preferred picks outperformed both the S&P/TSX Index and the S&P/TSX Small Cap Index while our overall coverage universe performance was similar to the S&P/TSX performance at 8.3% but demonstrated less volatility. LBS's 2017 picks, which included Theratechnologies (best performer with over 140% return YTD), goeasy, Rocky Mountain Dealerships, Integra Gold, IBI Group, Trevali Mining, Solium Capital, Milestone Apartments REIT and Uni-Select, returned 47.7% (equal weighted) and 46.2% (market cap weighted) which was significantly ahead of the S&P/TSX Composite Index's return of 8.3%. We note that LBS continues to have a solid track record of identifying early investment opportunities with a potential for strong upside for shareholders. Such performance can be brought on via solid organic growth, M&A and in some instances as companies under coverage are acquired. In 2017, we saw evidence of such with the announced/completed takeovers of: Milestone Apartments REIT, Integra Gold, Richmont Mines, AuRico Metals, Equity Financial, NAPEC, amongst others. In fact, in 2017 alone, 10 of our coverage names were acquired with an average return of ~49% since initiation; over the last 3 years, a total of 21 companies were acquired with an average return of ~60% since initiation. Notably, excluding the performance of Theratechnologies and acquired companies in 2017, our LBS 2017 picks returns remained strong at 36.7% (equal weighted) and 35.6% (market cap weighted).

**2017 LBS Preferred Picks vs. LBS Coverage, S&P/TSX Small Cap & Composite Indices**




Note: LBS Coverage, S&P/TSX Composite and S&P/TSX Small Cap indexes are capitalization weighted and include dividends. LBS Picks are equal weighted and include dividends. Top Pick ratings are reported as 200% of returns plus dividends, Buy ratings reported as 100% of returns plus dividends, Hold ratings are not considered in the return calculation and Reduce ratings reported as -100% of returns plus dividends; LBS coverage does not include discontinued companies.
Source: Bloomberg, Capital IQ, Thomson One; LBS.

For 2018 we expect an environment of solid economic growth to provide a firm backdrop for our coverage universe, with our basket of preferred picks expected to benefit from recent and ongoing M&A activity, solid organic growth, steady earnings growth and a low interest rate environment.

| Sector | Analyst | Company | Ticker | Rating | Risk Rating | Mkt Cap (M) | Price | Target | Div. Yield | 1-yr RoR |
|---|---|---|---|---|---|---|---|---|---|---|
| Diversified Agriculture | John Chu | Brick Brewing Co. Ltd. | BRB-T | Buy | Medium | $127 | $3.60 | $4.70 | 2.2% | 32.8% |
| Diversified Technology | Nick Agostino | Solium Capital Inc. | SUM-T | Buy | High | $594 | $10.64 | $12.75 | 0.0% | 19.8% |
| Financial Services | Marc Charbin | People Corporation | PEO-V | Buy | High | $412 | $7.51 | $9.00 | 0.0% | 19.8% |
| Industrials (Transportation & Infrastructure) | Mona Nazir | IBI Group Inc. | IBG-T | Buy | High | $248 | $7.95 | $9.50 | 0.0% | 19.5% |
| Mining (Explorers) | Ryan Hanley | Rubicon Minerals Corp | RMX-T | Buy | High | $76 | $1.30 | $3.00 | 0.0% | 130.8% |
| Mining (Producers) | Barry Allan | Wesdome Mines Ltd | WDO-T | Buy | High | $241 | $1.80 | $4.50 | 0.0% | 150.0% |
| Oil & Gas | Todd Kepler | Paramount Resources | POU-T | Top Pick | High | $2,407 | $17.82 | $35.00 | 0.0% | 96.4% |
| Consumer Products & Special Situations | Elizabeth Johnston | DIRTT Environmental Solutions | DRT-T | Buy | High | $522 | $6.21 | $8.75 | 0.0% | 40.9% |

T - Toronto Stock Exchange, V - TSX Venture Stock Exchange

*Pricing as of Dec. 13, 2017.*

Source: Capital IQ; LBS estimates.

## Ben Vendittelli, MBA, CFA | Senior Vice President, Institutional Equity

# 2018 Economic and Financial Outlook

## A Slowly Maturing Business Cycle?

During the first half of 2017, the US$ gave up much of the strong gains it had made in late 2014 and 2015, especially after it became clear that it was the central banks of other developed economies that were thinking about tightening their own monetary policies. Since last January — earlier than many observers had expected — the ECB has been reducing its QE interventions as its economic outlook is improving. The Bank of Canada, somewhat unexpectedly, raised rates twice this summer on the acceleration in economic momentum observed in 2017H1; and the Bank of England, starting to confront rising inflation, has recently increased its policy rate for the first time since the summer of 2007, more than 10 years ago.

However, the tide appears to have turned once again. On the one hand, the ECB remains timid in its intentions to scale down bond purchases (it is buying less assets but has extended the buying period further into the future), the Bank of Canada recently announced that it will remain prudent given the low inflation outlook and the numerous risks ahead (NAFTA being the elephant in the room) and the BOE, while inflation is creeping up, is stuck dealing with the risks that Brexit will slow down the UK economy. On the other hand, the Fed is largely expected to raise short term rates in December and it has started to shrink its balance sheet in the context of strong growth, tightening labour markets and potential tax cuts, which could further boost growth.

This asymmetry could lead to another bout of appreciation of the U.S. dollar as the relatively faster removal of monetary accommodation in the U.S will continue to favour the greenback. However, higher short term and long term interest rates, as well as appreciating currency could lead to tightening financial conditions in the U.S. beyond what is currently desired by the Fed. This, in turn, could have significant negative impacts on U.S. growth and on the American trade deficit. It could also potentially create financial instability in countries heavily indebted in the U.S. dollar as well as incite the Trump administration to increasingly favour protectionist policies.

For these reasons, we believe that the Fed will tamper its expectations. We expect two more hikes in 2018 (the dots point to three more rate increases in 2018 after the largely baked-in December hike) and that the Fed's QE reversal targets will be revised lower, early in the New Year, to avoid provoking financial tightening, another disproportionate US$ appreciation, global economic uncertainty and political backlash against free-trade.

Domestically, the Bank of Canada is likely to keep short term rates low. Given the elevated 100% household debt-to-NGDP ratio, the back-to-back 25 basis points hikes of July and September have already prompted a retrenchment in retail sales. Moreover, the Canadian economy is even less likely than the U.S. economy to see inflationary pressures, preventing the BoC from raising its policy rates multiple times.

Even though we perceive the risks of an economic slowdown to be increasing, unless very unfavorable developments regarding NAFTA negotiations fail to be compensated by a lower CAD we don't expect a recession. We now see, at best, the Bank of Canada raising its policy rate once by 25 basis points in 2018, later during the year. However, Canadian long term rates will continue to face some upward pressures because of increasing long term interest rates on the U.S. bond market. As we mentioned last year in our 2017 Outlook, the Bank of Canada may control the very short end of the Canadian yield curve but the country remains largely a "price-taker" on the long term bond market, where prices are determined globally.

In March 2017 we turned our overweight equity position into a neutral one and advised investors to remain cautious. U.S. earnings growth beat our expectations but recently it has been the prospect of U.S. tax cuts that fuelled equity prices. Although there remain many obstacles, we believe that a tax cut will become reality towards year-end or early in 2018. Any significant correction of U.S. equity prices at this point would provide an attractive entry point to position one's portfolio with an overweight in US equity. Meanwhile, we remain globally neutral with an underweight on U.S. equity and overweight positions in Canada, other developed markets and emerging markets.

Finally, stocks still appear cheap relative to bonds as the S&P 500 earnings yield remains historically high relative to the effective yield of U.S. corporate high-yield issuers. In addition, the odds of a recession remain relatively low at the moment as credit conditions remain very accommodative. Yet corporate spreads, in tightening mode for the entirety of 2017, could see some reversal and we recommend to remain underweight.

For the most part, we believe that, in spite of heightened uncertainty, global growth has picked up significant momentum in 2017 and we expect it to remain robust in 2018 and beyond. The latest IMF economic outlook pencils in real GDP growth at 3.7% in 2018, a low estimate in our opinion. This should benefit global equities even in a rising interest rate environment.

- **We expect the commodity rally to continue in 2018, especially in the oil sector. We forecast WTI to reach $US67 per barrel by year-end.** Our positive oil outlook for 2018 is, of course, conditional on OPEC members extending their agreement to cut production until December 2018 as well as participating non-OPEC countries sticking to the agreement. So far, the one-year agreement has helped reduce excess inventories by 50%. Extending the agreement until the end of next year would be enough to swiftly eliminate the remaining excess oil inventories by next Fall. This should be supportive of higher oil prices throughout the year.
- In turn, this should contribute to the outperformance of Canadian equities and the Canadian dollar. The **Canadian dollar**, which regained some ground since last summer due to higher oil prices, remains weak compared to where it stood less than two years ago. It traded within a wide range of 1.20 to 1.37 during 2017. **We expect volatility to persist but the trading range to move towards a lower band of 1.15 to 1.30 next year. Obviously, the complete derailment of NAFTA negotiations would push the CA$ out of this range, towards 1.35-1.40.**
- **We are neutral on gold.** We had expected gold prices to fall in 2017 but had cautioned investors that if the Fed remained behind the curve and inflation expectations started to increase, gold prices could be supported. And, indeed, the hesitation of the Fed in raising rates during the last two years supported the price of gold. **This lukewarm situation for gold should persist in 2018. Again, gold prices should be inversely correlated to the mood at the Fed: tightening bias early in the year followed by capitulation in the second-half.**
- After another bad year (the 3rd in a row), **forestry and agriculture stocks** (e.g. fertilizers) should **recover in the U.S. and Canada amid the strong demand growth** for such products in emerging countries, now that the global economy is growing at a faster clip than during the previous 10 years.
- While we caution investors against the sector due to the monetary policy tightening environment, REITs are excellent hedges against inflation and their yield is expected to remain higher than that of long term government bonds. **We recommend establishing positions in the REITS sector on weakness and as a diversifying strategy. Last summer provided an excellent opportunity to do so. We expect that the situation will present itself again this year.**
- **The U.S. Financials sector figures among our top overweight sectors as relative valuation appears attractive and 2018 expected earnings growth is elevated relative to other sectors.** Financials stocks should also outperform in a rising rate scenario and a steepening yield curve and the sector is likely to deliver strong dividend growth. Moreover, part of the Republican deregulation agenda, which is aimed specifically at reducing the regulatory burden on U.S. financial institutions, represents another source of upside for banks. Finally, lowering the U.S. corporate tax rate from 35% to 20%, as currently proposed by Republicans, should be particularly beneficial to U.S. banks.
- The **Canadian Financials sector should also outperform in 2018** as relative valuation appears attractive and the sector should benefit from a rising rate scenario, a steepening yield curve and a growing global economy which should encourage business investment. The sector also provides dividend growth.
- **The global economic recovery and rising technology capex spending should benefit both the U.S. and Canadian information technology sector.** In the U.S., the sector will be the largest contributor to overall EPS in 2018. In Canada, the pick-up in relative upward earnings revisions should also prove to be a tailwind to the sector's performance.
- As we remain confident that Washington will ultimately enact a tax reform, we are of the view that a **lower corporate tax rate should lead to higher investment and capital expenditures, hence benefitting the Industrials sector.**
- **We also expect defensive sectors, such as Consumer Staples in the U.S. and Canada and Pharma in the U.S., to outperform next year.**

The bottom line is that, in spite of strong global growth, the risks are such that the Canadian economic environment and the Canadian dollar should remain volatile next year. Because we expect the price of oil to increase and NAFTA to be renewed, but U.S. tax cuts to favour U.S. competitiveness, the Canadian dollar should end the year only marginally stronger than it currently is. This should continue to benefit large **Canadian exporters at the expense of domestically oriented businesses, more dependent on highly leveraged domestic consumers.**

Finally, as in previous years, we caution readers there are risks to the above economic perspectives and market forecasts. First, global growth could falter as the U.S. enters trade wars with its principle trading partners, namely Canada, Mexico and China. These could cause real havoc on the markets if the domestic value of U.S. denominated debt held outside the U.S. swells to unsustainable levels as the US$ appreciates. Second, political risks in the Middle-East and Asia are numerous and tensions have reached new highs recently. These would cause flights to quality which would favour U.S. assets and the U.S. dollar.

## Financial Forecasts

| | 15Q4 | 16Q1 | 16Q2 | 16Q3 | 16Q4 | 17Q1 | 17Q2 | 17Q3 | 17Q4 | 18Q1 | 18Q2 | 18Q3 | 18Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | | |
| **Overnight Rate Target** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **0.50** | **1.00** | **1.00** | **1.25** | **1.25** | **1.25** | **1.25** |
| 3-Month Treasury Bills | 0.51 | 0.45 | 0.50 | 0.52 | 0.48 | 0.54 | 0.71 | 1.00 | 0.95 | 1.20 | 1.25 | 1.25 | 1.25 |
| 2-Year Bond | 0.48 | 0.54 | 0.52 | 0.54 | 0.74 | 0.75 | 1.09 | 1.52 | 1.55 | 1.75 | 1.80 | 1.85 | 1.90 |
| 5-Year Bond | 0.73 | 0.68 | 0.57 | 0.61 | 1.11 | 1.11 | 1.38 | 1.75 | 1.75 | 2.00 | 2.05 | 2.10 | 2.15 |
| 10-Year Bond | 1.39 | 1.23 | 1.06 | 1.19 | 1.72 | 1.62 | 1.75 | 2.10 | 1.92 | 2.05 | 2.15 | 2.30 | 2.40 |
| 30-Year Bond | 2.15 | 2.00 | 1.71 | 1.85 | 2.31 | 2.30 | 2.14 | 2.47 | 2.20 | 2.40 | 2.55 | 2.65 | 2.80 |
| **United States** | | | | | | | | | | | | | |
| **Federal Funds Rate Target*** | **0.375** | **0.375** | **0.375** | **0.375** | **0.625** | **0.875** | **1.125** | **1.125** | **1.375** | **1.375** | **1.625** | **1.625** | **1.875** |
| 3-Month Treasury Bills | 0.16 | 0.21 | 0.22 | 0.33 | 0.61 | 0.74 | 1.01 | 1.10 | 1.30 | 1.35 | 1.55 | 1.60 | 1.85 |
| 2-Year Bond | 1.06 | 0.76 | 0.59 | 0.76 | 1.18 | 1.25 | 1.38 | 1.48 | 1.80 | 1.80 | 1.90 | 1.95 | 2.05 |
| 5-Year Bond | 1.76 | 1.21 | 1.00 | 1.24 | 1.93 | 1.93 | 1.89 | 1.93 | 2.15 | 2.20 | 2.30 | 2.40 | 2.50 |
| 10-Year Bond | 2.27 | 1.78 | 1.46 | 1.59 | 2.44 | 2.39 | 2.30 | 2.38 | 2.40 | 2.50 | 2.65 | 2.80 | 3.00 |
| 30-Year Bond | 3.01 | 2.61 | 2.28 | 2.31 | 3.07 | 3.01 | 2.83 | 2.86 | 2.75 | 2.90 | 3.10 | 3.20 | 3.40 |
| **Canadian Dollar (US$/C$)** | **0.72** | **0.77** | **0.76** | **0.76** | **0.75** | **0.75** | **0.77** | **0.80** | **0.79** | **0.80** | **0.81** | **0.81** | **0.82** |
| **S&P 500 Index** | 2044 | 2060 | 2099 | 2168 | 2239 | 2366 | 2423 | 2519 | 2650 | 2700 | 2735 | 2780 | 2800 |
| **TSX Index** | 13010 | 13494 | 14064 | 14726 | 15288 | 15548 | 15350 | 15635 | 16500 | 16900 | 17300 | 17600 | 18000 |
| **Oil WTI (US$/barrel)** | 37.0 | 38.3 | 48.3 | 48.2 | 53.7 | 50.7 | 46 | 52 | 60 | 62 | 64 | 66 | 67 |

Quarter-end data and annual averages

Updated: December 2017 *midpoint of the target range for the Fed funds

**Luc Vallée, Ph.D. | Chief Strategist**

**Eric Corbeil, M. Sc. | Senior Economist**

# Preferred Picks

## CONSUMER PRODUCTS & SPECIAL SITUATIONS | Elizabeth Johnston, CFA

- **Our preferred pick is DIRTT Environmental Solutions (DRT-T).** The company has reported strong revenue growth (~22% CAGR 2017E/2013), and we anticipate this to continue in 2018. Small to medium sized contracts continue to make up the majority of contracts, though larger contracts are expected to contribute next year (Sutter Health and the Fortune 100 company). DIRTT continues to invest in both its team and technology; we are anticipating some SG&A leverage going forward. We are also anticipating additional growth in Healthcare revenue, further to investments in this team in 2017; in Q3/17 Healthcare reached 21% of sales and the company was awarded a ~$10M contract with Sutter Health (for H2/18 delivery). Multiple verticals support strong growth outlook for DIRTT and there is the potential for larger contracts to provide a meaningful increase in revenue which is not captured in our revenue growth forecast.
- **Within the restaurant sector**, results in 2017 continued to be negatively impacted by headwinds from a weaker economic environment in energy-related regions (i.e. Alberta, Saskatchewan) as well as further headwinds in Saskatchewan as a result of the implementation of provincial sales tax on restaurants (6%) in April. We note that commentary from operators regarding the energy-related regions has improved somewhat in recent quarters; we remain cautious but will be looking for continued positive commentary as we head into 2018. Additionally, we will be focused on the impact of minimum wage increases (particularly in Ontario, which will increase by +20% on Jan. 1/18) and the impact on restaurants in our coverage universe. We anticipate restaurants will be increasing prices in order to make up for the significant labour cost increase; while price increases are positive drivers of SSSG, we would note that there is potential for traffic to be negatively impacted (and thus an offset). Restaurants in our universe with the highest Ontario exposure include **SIR Royalty IF (SRV.UN-T)** (~88%) and **Cara Operations Ltd. (CARA-T)** (~55%); the lowest are **MTY Food Group (MTY-T)** (~17%) and **Imvescor Restaurant Group Inc. (IRG-T)** (~10%).
- **Within our coverage universe overall, M&A remains key part of revenue growth for multiple companies:**
  1) **Boyd Group IF (BYD.UN-T), CCL Industries (CCL.B-T)** and **Uni-Select (UNS-T)** are anticipated to remain active in 2018 to varying degrees, with each company historically utilizing tuck-in acquisitions to further their growth.
  2) Within the restaurant sector, **Cara Operations Ltd. (CARA-T), MTY Food Group (MTY-T)** and **Imvescor Restaurant Group (IRG-T)** have each used M&A to grow system sales. In particular, we will be focused on the transaction between MTY and Imvescor (announced Dec.12/17) which subject to IRG shareholder vote in February 2018.

## DIVERSIFIED AGRICULTURE | John Chu, MBA, CFA

- **Our preferred pick is Brick Brewing Co. Ltd. (BRB-T).** Despite industry headwinds (beer losing market share), craft beer and Brick specifically have continued to show very good growth and market share gains driven by its legacy brands (Laker, Waterloo) and new products (Landshark and Margaritaville). We believe recent industry reforms (more shelf space and in-store promotions/displays at TBS) and more grocery stores as a new distribution outlet (from ~280 currently to 450 by C2018YE) can be a catalyst for BRB's C2018 sales and beyond. We also believe margins should rebound from one-time integration-related issues in Q3/F18 (ending Oct.) and should benefit from ongoing gradual improvement from the new plant (cost-saving initiatives) and product mix.

- **For the rest of our coverage universe, we highlight several key factors that should help shape C2018:**

  1) **Healthy and/or improving macro conditions:** Canadian farm economics remain healthy, which should continue to support an ongoing market recovery in the ag equipment sector (more so farm tractors) for 2018, which should benefit **Cervus Equipment Corp. (CERV-T)**, **Rocky Mountain Dealerships Inc. (RME-T)** and to a lesser extent **Ag Growth International (AFN-T)**. It appears U.S. net farm income hit a market bottom in 2017, which we believe should help drive ag equipment demand/replacement sales as well as input demand (fertilizer, seed, pesticides) in 2018, which should help **AFN**, **Agrium Inc. (AGU-T), and Potash Corp. (POT-T).** The international market is also showing signs of improvement, which should bode well for input demand as well as ag equipment. Excess supply (fertilizers, pulse/row crops) and other headwinds (low crop/fertilizer prices, India trade policy) remain a risk in 2018 but could start to sort itself out by as early as the spring, which are factors for **AGU, POT** and **AGT Food and Ingredients Inc. (AGT-T).**

  2) **Food and drink should continue to see growth in niche areas.** Pulse ingredients should continue to show good growth globally, which is positive for **AGT.** Natural and organic food should continue to show very strong growth in Canada and we expect to see distribution points and shelf space increasing across Canada, which bodes well for **GreenSpace Brands Inc. (JTR-T).** Craft beer should continue to show strong growth and win market share despite declining industry beer sales. Wine, whisky and cider should continue to see above-industry growth rates and market share gains, which is positive for **BRB** and **Andrew Peller Limited (ADW-T).**

  3) **Industry consolidation and higher valuations:** We expect M&A to be an ongoing focus as well in several of our sectors (fertilizers, alcohol, natural/organic, ag equipment), which in turn could push valuations higher due to scarcity value, which is positive for all companies in our universe.

## DIVERSIFIED TECHNOLOGY | Nick Agostino, MBA, CFA, P.Eng.

- **Our preferred pick is Solium Capital (SUM-T).**

  Entering 2018, SUM is moving through its next growth phase. The onboarding process for both the Morgan Stanley and UBS white label agreements are set to commence in Q4/17, initially with smaller accounts, and accelerate through 2018. At the same time spending for Morgan Stanley is believed to have peaked in 2H/17 with UBS-related spending expected to peak in 1H/18. That said, we believe 2018 will demonstrate both meaningful sales growth as these sizeable contracts are onboarded, as well as EBITDA/margin expansion as we move through 2H/18. Adding to this growth, opportunities exist to leverage strategic reference wins with BHP Billiton (Australia), Adidas (Germany), and Morgan Stanley / UBS (U.S.). We note a recent win with Snap was delivered by leveraging its working relationship with Morgan Stanley. We also see growth potential in the private market, including by leveraging the recent CapShare acquisition and the launch of the Solium Analytics solution. Both initiatives open up a new addressable market estimated at $55M annually. Finally, we believe opportunities exist for more sizable white label agreements as well as strategic M&A activity (SUM has US$93M in net cash).

- **Two key themes that drive our investment thesis within our coverage universe are:**

  1) **Top line predictability, recurring revenue / subscriber base, solid EBITDA / margins / CF.** Within our universe, this includes supply chain planning software provider **Kinaxis Inc. (KXS-T),** e-commerce solution provider **Mediagrif Interactive Technologies Inc. (MDF-T),** stock options administration vendor **Solium Capital Inc. (SUM-T),** fleet tracking provider **BSM Technologies Inc. (GPS-T)** and healthcare logistics software producer **TECSYS Inc. (TCS-T).**

  2) **An aging population is driving the need for increased healthcare equipment/services.** This theme is a positive sales driver for sterilization manufacturer **$TSO_3$ Inc. (TOS-T)**, lift equipment manufacturer **Savaria Corporation (SIS-T),** and healthcare logistics software producer **TECSYS Inc. (TCS-T).**

## FINANCIAL SERVICES | Marc Charbin, CPA, CA, CFA

- **Our preferred pick is People Corporation (PEO-V).** People Corporation currently provides employee benefits to over a million Canadians and that number should continue to rise as employers add to headcount. Our organic growth rate assumption is for 10% in F2018, as not only should PEO benefit from economic conditions, it also creates organic growth from companies previously acquired that benefit from the implementation of operating processes. Furthermore, the Company recently completing an equity financing and increased capacity under its credit facilities. We estimate PEO has the resources to make acquisitions totaling $80 million to $100 million, which could add between 30% to 50% to our F2019E EBITDA estimate of $31.3 million. Acquisitions were material catalysts in F2017 as PEO continued to add to its track record of shareholder value, and we believe M&A will continue to drive the stock in C2018 as the increase to financial capacity suggests that the Company still has a large pipeline of deals to follow. We will also remind readers that insiders at PEO own 20.1% of shares outstanding, proving a great deal of alignment with other shareholders.
- **Sector commentary.** With real estate prices still a concern in two of Canada's largest markets and increasing government regulation taking shape attempting to address housing affordability, the path of least resistance for investors is likely away from regulated balance sheet lenders. While these companies currently trade at valuations that are reasonably attractive on a long-term basis, there are many unknowns that may impact earnings growth. Yet, the Canadian economy is continuing to add to jobs at a reasonable pace, providing a solid underpinning to financial performance for other companies that stand to benefit from favourable economic conditions.

## MINING | Barry Allan, MBA & Ryan Hanley

- **2017 was not a good year for producers or explorers for gold and precious metals.** An overall back-drop of rising interest rates and a stronger US dollar conspired to dampen enthusiasm for either the commodity or valuation within the gold sector. As we move in 2018, the poor sentiment for the prospects of a higher gold price will likely remain poor, eroding general support for sector valuations. However, within this malaise, companies that execute on delivering growth through either increased production or expanded reserves and resources will perform in spite of prospects for the commodity price, and are preferred equities to own. Two such equities are profiled below.
- **Our preferred producer pick is Wesdome Mines Ltd (WDO-T).** In 2018 there are a number of milestones which we expect WDO to achieve. Not only should Wesdome continue to define high-grade mineralization at its Eagle River mine, but a material new discovery at the Kiena site has the prospect of supporting a reopening of the mine by 2020. As more drill information is obtained in 2018, come end of the year we expect to know how big this new discovery may be. In addition, the entire C-suite management group has changed, and a new corporate culture has taken root. While 2018 will be more about exploration results and verification of high-grade mineralization at the Kiena and Eagle River mines, Wesdome corporately is in the best position of its 21-year production history to deliver value through the drill bit and from good operating results.
- **Our preferred exploration pick is Rubicon Minerals Corp (RMX-T).** The year ahead will be a very important one for RMX, which continues to move through its previously outlined exploration & development program. The company has now completed 10,000m of core re-logging and 23,500m of new drilling, with an additional 5,000m of drilling now planned for targets at depth. Further drill results and an initial structural interpretation from the company and its consultants are expected shortly; however results to date have already returned assays with higher grades when compared to the existing resource block model, as well as additional mineralization in areas that were previously modelled as void. In addition, trial mining is expected to begin shortly, which will test the implementation of various mining methods (both selective and bulk), with ore to be stockpiled and batch processed beginning in mid-2018. While mapping, drilling, and trial mining will all generate key catalysts in 2018, it is also important to note that over $770mm has been spent on the project to date, which now consists of a commissioned headframe and hoist, a shaft down to 930m below surface, a 200 person camp, and a 1,250tpd mill. Based on our view, RMX continues to trade below our calculated break-up value of $1.45/sh. The company also remains in good financial shape with C$25mm in cash as of mid-November. Should the ongoing exploration & development program prove the potential for positive economics, which would be confirmed by the completion of a feasibility study, we would expect a significant re-rating to occur.

## OIL & GAS | Todd Kepler, CFA

- **Our preferred pick is Paramount Resources Ltd. (POU-T).**

  Last year was transformational for Paramount, as the Company completed the acquisition of Apache Canada Ltd. and the merger with Trilogy Energy. Those two deals strategically strengthened POU's condensate-rich natural gas exposure in the Montney and Duvernay. With a production base approaching 100,000 boe/d entering 2018, POU has identified growth potential to double production within five years from five core plays: Karr, Wapiti, and Kaybob in the Montney, and Kaybob South/Smoky in the Duvernay.

  We have a $35.00 target on POU, attainment of which implies a 2018E EV/EBITDA multiple of 10.4x, but we would note that the contribution from the Company's planned growth on its five core Duvernay plays and Montney plays occurs after 2018, and is therefore partially reflected in our target price multiple. We can decompose our $35.00 target into $24.00 representing a peer group consensus target multiple of 7.5x 2018E EV/EBITDA, plus $11.00 representing a 66% risking of our estimated $32.00 PV10 value of POU's free cash flow generation from its five core Montney/Duvernay plays. We fully expect additional upside potential to the stock price as POU executes on these plays.

- **Two key themes that drive our investment thesis within our coverage universe are:**

  1) **Lower expected oil price volatility should lead to increased investor confidence in the sector.** As the oil market continues to move toward supply/demand equilibrium, we expect the forward oil price curve will remain in backwardation along with lower volatility than experienced in the last three years. We would expect the lower volatility to renew investor confidence in oil-weighted equities, and believe that **Whitecap Resources Inc. (WCP-T), Surge Energy (SGY-T), Tamarack Valley Energy Ltd. (TVE-T)** and **InPlay Oil Corp. (IPO-T)** are well positioned to benefit.

  2) **Gas producers exposed to western Canada pricing will be challenged until fundamentals improve.** North America has experienced a slow start to the 2017/2018 heating season, which has placed downward pressure on all gas benchmarks, however Alberta and B.C. prices have been especially hit hard. While the best cure for low prices is low prices, we believe investor appetite for gas-weighted producers will first require improved fundamentals and AECO prices back to the ~$2.50/mcf level. Producers that have material operations in condensate-rich gas plays are a good way to maintain a position in this sub-group while still being able to participate in the upside when gas pricing improves. Within that thesis we recommend **Paramount Resources Ltd. (POU-T), Crew Energy Inc. (CR-T),** and **Iron Bridge Resources Inc. (IBR-T).**

## TRANSPORTATION & INFRASTRUCTURE | Mona Nazir, MBA

- **The infrastructure/ industrials sector saw strong stock price performance across the board, despite lacklustre organic growth.** With the S&P 500 Industrials sector up 16.7% YTD and our coverage universe up 30% YTD, 2017 was witness to multiple expansions despite lack of infrastructure tailwinds and top line growth. Rather than a blanketed positive uptick in the sector, as previously expected, we have seen that each company's performance has varied driven by intrinsic ability to extract revenue synergies, M&A integration, margin expansion/ compression, etc. On an organic growth basis in our coverage universe **TFI International Inc. (TFII-T)** experienced -1% YTD revenue decline, **Stantec Inc. (STN-T)** reported a -2.5% net revenue reduction, **Stella-Jones Inc. (SJ-T)** reported -1.6% revenue contraction while **SNC-Lavalin Inc. (SNC-T)** reported a near 10% reduction in E&C revenue (stripping out Atkins). Despite lower than expected results and lackluster top line growth, investors remain committed and supportive of current rich multiples on the back of 2018 optimism and relatively strong margin performance. We view our diversified industrials coverage as a relatively "safe bet" with "limited downside" risk. Looking forward to 2018 we are looking for a return to top line organic growth, while M&A activity and take outs continue to fuel upside potential.

- **Industry consolidation remains topical (E&C, Utilities, Trucking, Materials).** Despite the increase in consolidation we have seen over the last few years, **WSP Global (WSP-T)** has recently stated it views the E&C market as fragmented with the top 5 players representing ~7% of the industry revenue. Despite making 8 acquisitions over the 2015/2016 time period and having a majority position in the tie and pole end market, **SJ** management has spoken about $350M in near term acquisitions with a much larger potential residential transaction pegged at US$1B (off current $2B revenue base). We continue to believe the runway for further consolidation is long as larger players continue to look to add scale while diversifying their platforms across sectors/geographies (Hydro/Avista transaction). Notably, the M&A trend we have seen of late was followed by a pick-up in valuation multiples. The recently proposed acquisition of Aecon (ARE-T) by CCCC International Holding Limited (CCCI) implies an EV/ LTM EBITDA of 9.2x. While such multiple does not look rich at first glance, we note that Aecon bears construction risk, which is not the case for **WSP** and **IBI Group Inc. (IBG-T)** while exhibiting a sub-par margin profile vs. peers.
- **IBI Group (IBG-T), preferred pick once again, valuation gap remains.** Despite the 30%+ stock price appreciation of IBG YTD, we believe that upside exists from the current levels, on the back of a valuation gap versus peers (2x on EV/EBITDA basis and 4x on P/E basis). The management team put in place in 2013/14 has made significant strides to return margins to industry levels (11.5% achieved, up from 7%), reduce DSOs from 150 days to ~80 days currently while leverage has reduced to 2.8x from 6x+ in 2015. With ~40% insider ownership (via partnership structure) we continue to believe that shareholder interests are well aligned. Our conversations with management indicate a strong desire to return the stock price back to the $10 level (prior financing completed at $15/sh in 2012). Applying Aecon's recent 9.2x EBITDA take out multiple to our 2018 EBITDA estimate for IBG would imply a target price of $9.00. We view such scenario as conservative given IBG's margin profile is double that of ARE's and its technology offering (16% of revenue) provides further multiple expansion (13x+ EBITDA multiples). Near term catalyst may be the reinstatement of a dividend or potential M&A transaction.

# LBS Coverage Universe

### CONSUMER PRODUCTS & SPECIAL SITUATIONS



### DIVERSIFIED AGRICULTURE



### DIVERSIFIED TECHNOLOGY



### FINANCIAL SERVICES



### MINING



### OIL & GAS



### TRANSPORTATION & INFRASTRUCTURE



*All pricing as of December 13, 2017 unless otherwise indicated.*

## Coverage Universe

| Coverage | Ticker | Rating | Risk Rating | Mkt Cap ($M) | Price | Target | Div. Yield | 1-Yr RoR |
|---|---|---|---|---|---|---|---|---|
| **Nick Agostino, MBA, CFA, P.Eng. – Diversified Technology** | | | | | | | | |
| 5N Plus Inc. | VNP-T | Buy | High | $232 | $2.77 | $3.60 | na | 30.0% |
| BSM Technologies | GPS-T | Buy | High | $109 | $1.25 | $1.90 | na | 52.0% |
| Kinaxis Inc. | KXS-T | Buy | High | $1,905 | $74.87 | $88.00 | na | 17.5% |
| Mediagrif Interactive Technologies Inc. | MDF-T | Hold | High | $160 | $10.79 | $14.00 | 3.7% | 33.5% |
| Savaria Corporation | SIS-T | Buy | Medium | $694 | $17.28 | $19.75 | 2.1% | 16.4% |
| Solium Capital | SUM-T | Buy | High | $594 | $10.64 | $12.75 | na | 19.8% |
| TECSYS Inc. | TCS-T | Buy | High | $217 | $16.60 | $18.25 | 1.2% | 11.1% |
| TSO3 Inc. | TOS-T | Spec. Buy | High | $237 | $2.55 | $4.50 | na | 76.5% |
| **Barry Allan, MBA – Mining** | | | | | | | | |
| Eastmain Resources Inc. | ER-T | Buy | High | $59 | $0.31 | $1.15 | na | 277.0% |
| Jaguar Mining Inc. | JAG-T | Buy | High | $114 | $0.35 | $0.65 | na | 85.7% |
| Klondex Mines Ltd. | KDX-T | Buy | High | $571 | $3.18 | $5.80 | na | 82.4% |
| Wesdome Gold Mines | WDO-T | Buy | High | $241 | $1.80 | $4.50 | na | 150.0% |
| Balmoral Resources Ltd. | BAR-T | Buy | High | $57 | $0.42 | $1.00 | na | 141.0% |
| **Marc Charbin, CPA, CA, CFA – Financial Services** | | | | | | | | |
| Canadian Western Bank | CWB-T | Buy | Medium | $3,333 | $37.66 | $45.00 | 2.6% | 22.1% |
| Chesswood Group Ltd. | CHW-T | Hold | High | $190 | $11.46 | $12.50 | 7.4% | 16.5% |
| Currency Exchange International | CXI-T | Buy | Medium | $162 | $25.93 | $32.00 | na | 23.4% |
| DealNet Capital Corp. | DLS-V | Hold | High | $25 | $0.09 | $0.10 | na | 11.1% |
| Enercare Inc. | ECI-T | Buy | Medium | $2,158 | $20.34 | $25.00 | 4.7% | 27.6% |
| Equitable Group Inc. | EQB-T | Buy | Medium | $1,158 | $70.29 | $72.00 | 1.4% | 3.9% |
| Equity Financial Holdings Inc. | EQI-T | Tender | High | $98 | $10.22 | $10.25 | na | 0.3% |
| First National Financial Corporation | FN-T | Hold | Medium | $1,674 | $27.92 | $27.00 | 6.6% | 3.3% |
| goeasy | GSY-T | Hold | High | $484 | $35.95 | $35.00 | 2.0% | -0.6% |
| Home Capital Group Inc. | HCG-T | Buy | Medium | $1,389 | $17.31 | $20.00 | na | 15.5% |
| Morneau Shepell Inc. | MSI-T | Buy | Medium | $1,210 | $22.49 | $25.00 | 3.5% | 14.6% |
| People Corporation | PEO-V | Buy | High | $412 | $7.51 | $9.00 | na | 19.8% |
| Street Capital Group Inc. | SCB-T | Hold | Medium | $128 | $1.05 | $1.20 | na | 14.3% |
| Terra Firma Capital Corporation | TII-V | Buy | High | $42 | $0.66 | $1.00 | na | 51.5% |
| **John Chu, MBA, CFA – Diversified Agriculture** | | | | | | | | |
| Ag Growth International | AFN-T | Restricted | Restricted | $861 | $53.30 | Restricted | 4.5% | |
| Agrium Inc. | AGU-N | Buy | Medium | $15,442 | US$111.90 | US$125.00 | 3.2% | 14.9% |
| AGT Food and Ingredients Inc. | AGT-T | Buy | Medium | $612 | $20.44 | $24.00 | 3.0% | 20.4% |
| Andrew Peller Limited | ADW.A-T | Buy | Medium | $627 | $14.15 | $15.50 | 1.3% | 10.8% |
| Brick Brewing Co. Ltd. | BRB-T | Buy | Medium | $127 | $3.60 | $4.70 | 2.2% | 32.8% |
| Cervus Equipment Corp. | CERV-T | Hold | Medium | $239 | $15.30 | $16.00 | 1.8% | 6.4% |
| GreenSpace Brands Inc. | JTR-V | Buy | High | $78 | $1.19 | $2.20 | na | 84.9% |
| Potash Corp. | POT-N | Hold | Medium | $16,773 | US$19.97 | US$20.50 | 2.0% | 4.7% |
| Rocky Mountain Dealerships Inc. | RME-T | Buy | Medium | $265 | $13.65 | $14.00 | 3.4% | 6.0% |
| **Ryan Hanley – Mining** | | | | | | | | |
| AuRico Metals Inc. | AMI-T | Tender | High | $290 | $1.79 | $1.80 | na | 0.6% |
| Argonaut Gold Inc. | AR-T | Buy | High | $415 | $2.34 | $3.00 | na | 28.2% |
| Rubicon Minerals Corp. | RMX-T | Buy | High | $76 | $1.30 | $3.00 | na | 130.8% |

Pricing as of Dec.13, 2017.
Pricing for DRT as of Jan. 2, 2018.
Pricing for IRG as of Dec. 20, 2017.
Pricing for: GPS, TRZ, SIS as of Dec. 14, 2017.

Source: Capital IQ; LBS estimates.

# Coverage Universe (Cont'd)

| Coverage | Ticker | Rating | Risk Rating | Mkt Cap ($M) | Price | Target | Div. Yield | 1-Yr RoR |
|---|---|---|---|---|---|---|---|---|
| **Elizabeth Johnston, CFA – Consumer Products & Special Situations** | | | | | | | | |
| A&W Revenue Royalties Income Func | AW.UN-T | Hold | Medium | $431 | $34.45 | $34.50 | 4.8% | 4.9% |
| Boston Pizza Royalties Income Fund | BPF.UN-T | Hold | Medium | $486 | $22.22 | $20.00 | 6.2% | -3.8% |
| Boyd Group Income Fund | BYD.UN-T | Buy | Medium | $2,007 | $101.81 | $115.00 | 0.5% | 13.5% |
| Cara Operations Ltd. | CARA-T | Hold | High | $1,455 | $24.76 | $26.00 | 1.6% | 6.6% |
| CCL Industries Inc. | CCL.B-T | Buy | Medium | $10,443 | $59.59 | $69.00 | 0.8% | 16.6% |
| DIRTT Environmental Solutions | DRT-T | Buy | High | $514 | $5.72 | $7.50 | na | 31.1% |
| Freshii Inc. | FRII-T | Hold | High | $215 | $6.97 | $7.00 | na | 0.4% |
| Imvescor Restaurant Group Inc. | IRG-T | Hold | Medium | $264 | $4.23 | $4.25 | 2.1% | 3.0% |
| K-Bro Linen Inc. | KBL-T | Hold | Medium | $442 | $42.50 | $43.00 | 2.8% | 4.0% |
| Keg Royalties Income Fund | KEG.UN-T | Buy | Medium | $226 | $19.87 | $24.00 | 5.7% | 26.4% |
| MTY Food Group Inc. | MTY-T | Hold | High | $1,119 | $52.35 | $46.00 | 0.9% | -11.2% |
| SIR Royalty Income Fund | SRV.UN-T | Hold | Medium | $123 | $14.68 | $13.50 | 7.8% | -0.3% |
| Uni-Select Inc. | UNS-T | Buy | Medium | $1,174 | $27.78 | $33.00 | 1.3% | 20.1% |
| **Todd Kepler, CFA – Oil & Gas** | | | | | | | | |
| Birchcliff Energy Ltd. | BIR-T | Buy | High | $1,087 | $4.09 | $9.00 | 2.5% | 122.5% |
| Crew Energy Inc. | CR-T | Buy | High | $524 | $3.52 | $6.00 | na | 70.5% |
| InPlay Oil Corp. | IPO-T | Buy | High | $90 | $1.42 | $2.75 | na | 93.7% |
| Paramount Resources Ltd. | POU-T | Top Pick | High | $2,407 | $17.82 | $35.00 | na | 96.4% |
| Iron Bridge Resources Inc. | IBR-T | Spec. Buy | High | $99 | $0.63 | $1.00 | na | 58.7% |
| Tamarack Valley Energy Ltd. | TVE-T | Buy | High | $606 | $2.66 | $5.00 | na | 88.0% |
| Surge Energy Inc. | SGY-T | Buy | High | $454 | $1.95 | $2.80 | 4.9% | 48.5% |
| Whitecap Resources Inc. | WCP-T | Buy | High | $3,162 | $8.55 | $13.00 | 3.7% | 55.7% |
| **Mona Nazir, MBA – Transportation & Infrastructure** | | | | | | | | |
| Exchange Income Corp. | EIF-T | Restricted | Restricted | $1,095 | $35.27 | Restricted | 5.9% | |
| Hydro One Ltd. | H-T | Buy | Low | $13,390 | $22.49 | $28.00 | 3.9% | 28.4% |
| IBI Group Inc. | IBG-T | Buy | Medium | $248 | $7.95 | $9.50 | na | 19.5% |
| NAPEC Inc. | NPC-T | Tender | Medium | $207 | $1.99 | $1.95 | na | -2.0% |
| Pure Technologies Ltd. | PUR-T | Tender | High | $492 | $8.95 | $9.00 | 1.3% | 1.9% |
| SNC-Lavalin Group Inc. | SNC-T | Buy | Medium | $9,792 | $55.80 | $67.00 | 1.9% | 22.0% |
| Stantec Inc. | STN-T | Hold | High | $4,005 | $35.15 | $36.50 | 1.4% | 5.3% |
| Stella-Jones Inc. | SJ-T | Buy | Medium | $3,458 | $49.88 | $55.00 | 0.9% | 11.1% |
| Transat A.T. Inc. | TRZ-T | Buy | High | $335 | $10.24 | $13.00 | na | 27.0% |
| TFI International Inc. | TFII-T | Hold | High | $2,851 | $31.69 | $31.00 | 2.6% | 0.5% |
| WSP Global Inc. | WSP-T | Buy | High | $5,947 | $57.65 | $65.00 | 2.6% | 15.3% |

Pricing as of Dec.13, 2017.
Pricing for DRT as of Jan. 2, 2018.
Pricing for IRG as of Dec. 20, 2017.
Pricing for: GPS, TRZ, SIS as of Dec. 14, 2017.

Source: Capital IQ; LBS estimates.

# CONSUMER PRODUCTS & SPECIAL SITUATIONS

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Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# A&W Revenue Royalties IF (AW.UN-T – $34.45) Hold – Target Price: $34.50

## COMPANY PROFILE

A&W Revenue Royalties Income Fund earns a royalty stream based on the system sales of the 861 A&W restaurants included in the fund's royalty pool. In 2016, the A&W restaurants contained within the royalty pool generated system sales of approximately $1.1B in Canada. A&W is a hamburger quick-service restaurant and is 99% operated by franchisees.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | AW.UN-T | **FD Shares O/S (M)** | 16.0 |
| **Rating** | Hold | **Market Cap (M)** | $551.7 |
| **Risk** | Medium | **Float O/S (M)** | 12.5 |
| **Price** | $34.45 | **Float Value (M)** | $430.8 |
| **1-Yr Target** | $34.50 | **Avg Daily Volume (k)** | 15.0 |
| **Dividend** | 1.63 | **Enterprise Value (M)** | $608.0 |
| **Yield** | 4.7% | **Control Blocks:** | |
| **1-Yr ROR** | 4.9% | *Mgmt & Dir* | *21.5%* |
| **52 Wk High-Low** | $42.16-$30.11 | **Debt/EBITDA** | 1.6x |
| **Valuation** | 5% yield target, 2018/19E dist. | **Next Reporting** | Feb-18 |
| **Year End** | Dec. 31 | | |

**Distributable Cash per Unit**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/DCF |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.33 | A | $0.37 | A | $0.39 | A | $0.49 | A | $1.58 | A | 21.8x |
| **2017E** | $0.33 | A | $0.38 | A | $0.42 | A | $0.52 | | $1.65 | | 20.9x |
| **2018E** | $0.34 | | $0.39 | | $0.43 | | $0.53 | | $1.69 | | 20.4x |
| **2019E** | | | | | | | | | $1.74 | | 19.7x |

**EBITDA (M$)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $7.1 | A | $7.9 | A | $8.3 | A | $10.3 | A | $33.5 | A | 18.1x |
| **2017E** | $7.1 | A | $8.1 | A | $8.8 | A | $10.9 | | $34.9 | | 17.4x |
| **2018E** | $7.4 | | $8.6 | | $9.4 | | $11.6 | | $37.1 | | 16.4x |
| **2019E** | | | | | | | | | $39.5 | | 15.4x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## SSSG Driven by 'Natural' Strategy; Fewer Opportunities for Large Menu Changes

**We rate A&W a Hold with a one-year target price of $34.50,** which is based on a target yield of 5.0%. AW.UN continues to trade at higher multiples compared to its restaurant royalty peers, historically related to the relatively stronger growth. While we believe that the strong growth strategy and opportunity for distribution increases remain, we remain conservative in our SSSG forecast.

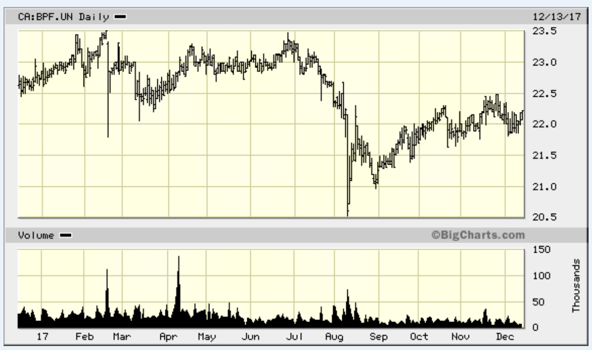
- **Menu innovation key SSSG driver.** Through 2016 and into 2017, we saw SSSG slow, though there was a meaningful rebound in Q3/17. Menu innovation (through natural repositioning) has been driving the SSSG, and there are now fewer opportunities for larger changes to the menu. We anticipate that A&W will continue to look at ways to improve its menu offerings, through smaller more incremental menu changes (with a 'natural' focus).
- **QSR environment highly competitive; improvement in AB though weakness continues in SK.** We will be looking for continued commentary regarding improvement in sales in Alberta; Saskatchewan is anticipated to remain under pressure given recent addition of provincial sales tax on restaurants (AB ~21% locations; SK ~5%). **We are forecasting SSSG of +2% for 2018.**
- **New store pipeline strong.** A&W has previously indicated a target of 300 new openings over 5-7 years (i.e. ~40-60 per year). These new stores will include freestanding, urban and small town/convenience locations, with locations planned for all regions. **A&W continues to be relatively underrepresented in Ontario and Quebec**, compared to Western Provinces, and these provinces remain key growth regions. We are forecasting 40 net new locations in 2018; note that there were 35 net new openings in 2017 and 24 in 2016 (cut-off date for royalty pool vend-in is prior to year-end).
- **Forecast includes distribution increases.** At the end of Q3/17, the LTM payout ratio was 98.1%. Our estimates include distribution increases in 2018 **We believe that A&W can afford further distribution increases**, and we have included an incremental +4.7% increase in our 2018 forecast (and +2% in 2019).

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# Boston Pizza Royalties IF
# (BPF.UN-T – $22.22)
# Hold – Target Price: $20.00

## COMPANY PROFILE

Boston Pizza Royalties Income Fund earns a royalty stream based on the franchise system sales of the 383 Boston Pizza restaurants included in the fund's royalty pool. In 2016, these restaurants generated $1.1B in gross system sales with the royalty pool generating $829M in franchise system sales. Boston Pizza is a moderately priced dual casual dining restaurant / sports-bar concept. 99% of restaurant units are franchised.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | BPF.UN-T | **FD Shares O/S (M)** | 24.4 |
| **Rating** | Hold | **Market Cap (M)** | $541.6 |
| **Risk** | Medium | **Float O/S (M)** | 21.9 |
| **Price** | $22.22 | **Float Value (M)** | $486.3 |
| **1-Yr Target** | $20.00 | **Avg Daily Volume (k)** | 45.0 |
| **Dividend** | $1.38 | **Enterprise Value (M)** | $624.8 |
| **Yield** | 6.2% | **Control Blocks:** | |
| **1-Yr ROR** | -3.8% | *BP International* | *10.2%* |
| **52 Wk High-Low** | $23.50-$20.52 | **Net Debt/EBITDA** | 2x |
| **Valuation** | 7% target yield | **Next Reporting** | Feb-18 |
| **Year End** | Dec. 31 | | |

**Distributable Cash per Unit**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/DCF |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.32 | A | $0.35 | A | $0.38 | A | $0.34 | A | $1.39 | A | 16.0x |
| **2017E** | $0.31 | A | $0.35 | A | $0.39 | A | $0.33 | | $1.35 | | 16.4x |
| **2018E** | $0.34 | | $0.35 | | $0.37 | | $0.33 | | $1.38 | | 16.1x |
| **2019E** | | | | | | | | | $1.42 | | 15.6x |

**EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $10.2 | A | $10.9 | A | $11.1 | A | $10.5 | A | $42.7 | A | 14.6x |
| **2017E** | $10.4 | A | $10.9 | A | $11.5 | A | $11.0 | | $43.7 | | 14.3x |
| **2018E** | $10.8 | | $11.4 | | $12.0 | | $11.4 | | $45.6 | | 13.7x |
| **2019E** | | | | | | | | | $47.5 | | 13.2x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## SSSG Driven by Marketing Activity, Menu Repricing

**We rate BPF.UN a Hold with a one-year target price of $20.00,** based on a target yield of 7%. We remain conservative with our forecast given ongoing challenges in Western Canada as well as the competitive industry environment. We will look for continued improvement in SSSG, and reduction in payout ratio, before upgrading our outlook.

- **SSSG driven by menu innovation, marketing / promotional activity.** Boston Pizza refreshes its menu (nationally) once a year, which provides the opportunity to introduce new items and regional price adjustments (~2-3% on average). Economic weakness in Alberta has been a headwind for approximately 8 quarters, but recent commentary indicates that there has been improvement. Recall that Boston Pizza has 29% of its locations in Alberta which is the highest relative exposure compared to the other restaurants in our coverage universe. **We are forecasting SSSG of +0.5% in Q4/17 (for full year of -0.3% for 2017),** and 1.4% in 2018.
- **Off-premise sales (i.e. take-out and delivery) represent a meaningful opportunity for growth,** with the potential to move towards 20% of sales (15.5% in 2016; 15.8% in 2015). Off-premise sales are an important component of sales in Western Canada, but represent a much lower percentage in Eastern Canada (i.e. <10%). BPF continues to work to improve these participation rates through marketing campaigns (and the "my BP" app) and we have seen over time, the percentage of sales increase.
- **New store development.** BPF has historically seen modest rates of net restaurant growth (i.e. ~2% of the network, on a net basis). We are forecasting net new openings of 10 locations in 2018 (compared to an estimated 10 in 2017 and 6 in 2016).
- **Payout ratio hovers around 100%.** For 2018, we are not forecasting any distribution increases and given our current forecast we anticipate that the fund will exit 2018 with a payout ratio of 99.7%.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# Boyd Group IF
# (BYD.UN-T – $101.81)
# Buy – Target Price: $115.00

## COMPANY PROFILE

Boyd Group is the largest corporate-owned multi-location operator in North America's $30-40B collision repair industry, with 116 locations in Canada and 377 in the United States. Boyd currently operates three brands as well as an auto glass repair referral network. Repair services are offered to commercial and individual vehicle owners, and focus heavily on insurance repair claims.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | BYD.UN-T | **FD Shares O/S (M)** | 20.1 |
| **Rating** | Buy | **Market Cap (fd) (M)** | $2,044 |
| **Risk** | Medium | **Float O/S (M)** | 18.7 |
| **Price** | $101.81 | **Float Value (M)** | $1,908 |
| **1-Yr Target** | $115.00 | **Avg Daily Volume (k)** | 55 |
| **Dividend** | $0.53 | **Enterprise Value (M)** | $2,332 |
| **1-Yr ROR** | 13.5% | **Control Blocks:** | |
| **52 Wk High-Low** | $103.00-$80.45 | *Mgmt. % Dir* | 4% |
| **Valuation** | 13x 2018E/2019E EBITDA | | |
| **BVPS** | $16.66 | **Net Debt/EBITDA** | 2.0x |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Adjusted EPU (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | $0.48 | A | $0.66 | A | $0.60 | A | $0.54 | A | $2.28 | A | 44.7x |
| **2016** | $0.70 | A | $0.76 | A | $0.71 | A | $0.71 | A | $2.95 | A | 34.6x |
| **2017E** | $0.71 | A | $0.83 | A | $0.67 | A | $0.84 | | $2.95 | | 34.6x |
| **2018E** | $0.84 | | $0.96 | | $0.93 | | $0.97 | | $3.70 | | 27.5x |
| **2019E** | | | | | | | | | $4.13 | | 24.7x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | $21.2 | A | $25.5 | A | $26.4 | A | $28.6 | A | $101.7 | A | 22.9x |
| **2016** | $29.5 | A | $30.5 | A | $31.6 | A | $32.6 | A | $124.3 | A | 18.8x |
| **2017E** | $32.8 | A | $35.5 | A | $35.6 | A | $40.4 | | $144.2 | | 16.2x |
| **2018E** | $41.0 | | $44.8 | | $43.8 | | $45.7 | | $175.3 | | 13.3x |
| **2019E** | | | | | | | | | $192.7 | | 12.1x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## M&A-driven Growth Strategy On Track

**We rate Boyd Group IF a Buy with a one-year target price of $115.00,** which is based on 13x our 2018E/2019E EBITDA. We believe that a premium multiple for BYD.UN is deserved, given the strong outlook for M&A and the company's continued growth.

- **Collision repair industry remains fragmented:** Consolidation in the industry is driven by increased use of direct repair programs (DRPs) by insurance companies, as repair volumes continue to be consolidated into a smaller number of shops (increasingly performance-based).
- **Goal to double business by 2020 (on 2015 base).** Revenue growth is expected to come from both SSSG and M&A activity. M&A includes multi-store acquisitions as well as single store additions, which represent a meaningful portion of new locations. YTD 2017, Boyd has added 109 locations (68 through the acquisition of Assured). We continue to anticipate that Boyd will transact at a similar pace (in terms of smaller sized deals) in 2018. Organic growth has been under pressure in 2017, with milder winter weather negatively impacting results in H1/17 and hurricane-related closures weighing on Q3/17. **Looking ahead to 2018, we are forecasting consolidated organic growth of +3.8%.**
- **Balance sheet positioned for M&A.** We forecast that Boyd will exit 2017 with leverage of ~1.5x (net debt / EBITDA) and 2018 at 1x. Boyd remains well-capitalized with management indicating $400M of 'dry powder' for acquisitions at the end of Q3/17. Recall that Boyd has a US$300M revolving credit facility (with an accordion feature to increase up to US$450M).

# Cara Operations Ltd.
# (CARA-T – $24.76)
# Hold – Target Price: $26.00

## COMPANY PROFILE

Cara Operations Ltd. is a multi-banner full-service restaurant company with 16 banners in operation. Approximately 83% of its 1,249 units are franchised, with 55% of restaurants located in Ontario. Their two largest banners by location count are Swiss Chalet (215 restaurants) and Harvey's (277 restaurants). In 2016, Cara had total system sales of ~$2 billion.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | CARA-T | **FD Shares O/S (M)** | 63.0 |
| **Rating** | Hold | **Market Cap (M)** | $1,560 |
| **Risk** | High | **Float O/S (M)** | 24.4 |
| **Price** | $24.76 | **Float Value (M)** | $604.8 |
| **1-Yr Target** | $26.00 | **Avg Daily Volume (k)** | 35 |
| **Dividend** | $0.41 | **Enterprise Value (M)** | $1,941 |
| **Yield** | 1.6% | **Equity Ownership:** | |
| **1-Yr ROR** | 6.7% | *Fairfax:* | *40%* |
| **52 Wk High-Low** | $27.47-$21.20 | *Phelan Family:* | *25%* |
| **Valuation** | 10x 2018E/2019E EBITDA | **Net Debt/EBITDA** | 2.3x |
| **Year End** | Dec. 31 | **Next Reporting** | Mar/18 |

| **EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.27 | A | $0.33 | A | $0.27 | A | $0.31 | A | $1.18 | A | 20.9x |
| **2017E** | $0.68 | A | $0.27 | A | $0.34 | A | $0.39 | | $1.67 | | 14.9x |
| **2018E** | $0.35 | | $0.38 | | $0.44 | | $0.41 | | $1.58 | | 15.7x |
| **2019E** | | | | | | | | | $1.65 | | 15.0x |

| **Adj EBITDA (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **EV/EBITDA** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $27.5 | A | $32.8 | A | $36.9 | A | $46.7 | A | $144.0 | A | 13.5x |
| **2017E** | $42.9 | A | $41.6 | A | $48.0 | A | $48.0 | | $180.5 | | 10.8x |
| **2018E** | $44.5 | | $46.7 | | $53.0 | | $49.8 | | $193.9 | | 10.0x |
| **2019E** | | | | | | | | | $199.8 | | 9.7x |

*Cara's IPO was April 10, 2015; 2014 and Q1/15 figures (*italics*) are pre-IPO

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Limited Outlook for System Sales Growth

**We rate Cara Operations a Hold with a one-year target price of $26.00,** which is based on 10x our 2018/2019E EBITDA. Looking ahead to 2018, our forecast reflects a limited outlook for organic growth, modest new store openings, as well as a lower corporate segment contribution margin.

- **SSSG shows improvement, but limited outlook.** YTD 2017, SSSG has been flat, and slightly negative on an LTM basis. While this is an improvement compared to 2016, we remain conservative in terms of our outlook for 2018 given the competitive industry environment and inclusion of Original Joe's (in the SSSG calculation). We note that results in Alberta were indicated to have improved in Q3/17, which we believe bodes well for results heading into 2018. **We are forecasting SSSG of +1% in 2018,** compared to an estimated +0.3% in 2017E.
- **Progress on digital initiatives in 2017 – benefits likely to come in 2018.** Cara plans to continue to grow off-premise sales with e-commerce apps, which are anticipated to be rolled out over all Cara brands over two years. A new app was launched in Q3/17 for Swiss Chalet; new website to follow in Q4/17. Cara continues to build relationships with media partners (including Facebook, Google, the Weather Network) and will continue to roll out relationships with online aggregators (i.e. UberEats; Foodora) across its restaurants (at Q3/17 >470 restaurants).
- **New store outlook remains modest.** YTD 2017 there was 0 net new openings. For 2018, given that we have lapped the acquisition of St-Hubert and Original Joe's, new store openings are an important source of system sales growth, in the absence of M&A. Our forecast includes 20 net new openings, which we believe is achievable.

# CCL Industries Inc.
# (CCL.B-T – $59.59)
# Buy – Target Price: $69.00

## COMPANY PROFILE

CCL Industries is a global specialty packaging company with five business segments: (1) CCL; (2) Avery; (3) CCL Container; (4) Checkpoint; and (5) Innovia (specialty films). CCL operates 154 manufacturing facilities in 36 countries and has over 20,000 employees. In 2016 the business generated $3.9 billion in sales.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker *** | CCL.B-T | **FD Shares O/S (M)** | 178.0 |
| **Rating** | Buy | **Market Cap (M)** | $10,607 |
| **Risk** | Medium | **Float O/S (M)** | 170.9 |
| **Price** | $59.59 | **Float Value (M)** | $10,183 |
| **1-Yr Target** | $69.00 | **Avg Daily Volume (k)** | 110 |
| **Dividend** | $0.46 | **Enterprise Value (M)** | $12,564 |
| **1-Yr ROR** | 16.6% | **Control Blocks:** | |
| **52 Wk High-Low** | $71.32-$43.33 | *1281228 Ontario Inc.* | 17% |
| **Valuation** | 12.5x 2018E/2019E EBITDA | | |
| **BVPS** | $11.30 | **Net Debt/EBITDA** | 2.2x |
| **Year End** | Dec 31 | **Next Reporting** | Feb. 2018 |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.52 | A | $0.55 | A | $0.59 | A | $0.59 | A | $2.25 | A | 26.5x |
| **2017E** | $0.56 | A | $0.67 | A | $0.60 | A | $0.63 | | $2.46 | | 24.2x |
| **2018E** | $0.77 | | $0.73 | | $0.73 | | $0.74 | | $2.97 | | 20.1x |
| **2019E** | | | | | | | | | $3.19 | | 18.7x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $185.9 | A | $194.2 | A | $208.0 | A | $204.3 | A | $792.3 | A | 15.9x |
| **2017E** | $211.4 | A | $248.4 | A | $240.1 | A | $243.2 | | $943.1 | | 13.3x |
| **2018E** | $249.6 | | $266.7 | | $263.7 | | $265.2 | | $1,045 | | 12.0x |
| **2019E** | | | | | | | | | $1,087 | | 11.6x |

* Represents primary ticker; Voting shares trade under the ticker CCL.A-T
Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Focused on Integration of Acquisitions

**We rate CCL Industries a Buy with a one-year target price of $69.00,** which is based on 12.5x our 2018E/2019E. We believe that CCL's premium multiple remains warranted considering future benefits, growth from recent acquisitions and the potential for further M&A.

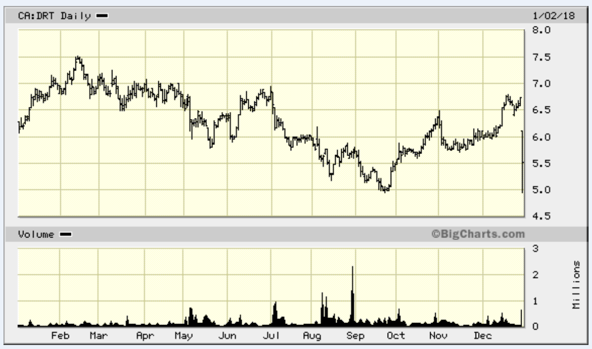
- **More modest top-line growth anticipated in 2018, driven by organic gains.** In 2017, we saw strong revenue growth, largely driven by the acquisitions of Innovia (closed Feb 2017) as well as Checkpoint (May 2016). Looking into 2018, in the absence of additional large M&A activity, organic growth will be the largest driver and we are forecasting 3.8% on a consolidated basis. The biggest contributor is the CCL segment, which makes up ~60% of revenue and has an organic growth forecast of +5%. FX also has the potential to meaningfully impact top-line growth on translation; our 2018 includes a slightly negative impact overall (-0.6%); CCL's largest currency exposure is the USD (~50% of sales).
- **Integration of acquisitions ongoing.** Checkpoint acquisition nearly complete, with restructuring related to the acquisition expected to be finished in early 2018 (at Q3/17 $27.5M spent of $30M). Regarding Innovia, this segment has been impacted by rising resin prices – going forward we anticipate volatility in this segment (there are pricing pass through mechanisms, but still a lag).
- **Balance sheet remains positioned for further acquisitions.** At the end of Q3/17, net debt / EBITDA was 2.2x. We are forecasting leverage of 2x at the end of 2017 and 1.3x in 2018.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# DIRTT Environmental Solutions (DRT-T – $5.72) Buy – Target Price: $7.50

## COMPANY PROFILE

DIRTT Environmental Solutions is a manufacturer of customizable prefabricated building interiors, created with its proprietary ICE software product, and distributed through a network of 104 Distribution Partners who employ approximately 550 direct sales representatives in 8 countries. DIRTT has four manufacturing facilities in Alberta, British Columbia, Arizona and Georgia. The company has just over 860 total employees.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | DRT-T | **FD Shares O/S (M)** | 89.9 |
| **Rating** | Buy | **Market Cap (M)** | $514.3 |
| **Risk** | High | **Float O/S (M)** | 84.0 |
| **Price** | $5.72 | **Float Value (M)** | $480.6 |
| **1-Yr Target** | $7.50 | **Avg Daily Volume (k)** | 275 |
| **Dividend** | $0.00 | **Enterprise Value (M)** | $457.7 |
| **Yield** | 0.0% | **Ownership:** | |
| **1-Yr ROR** | 31% | *Mgmt and Directors* | *4%* |
| **52 Wk High-Low** | $7.51-$4.94 | | |
| **Valuation** | 10x 2018E/2019E EBITDA | **Debt/EBITDA** | nm |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.00 | A | ($0.02) | A | $0.04 | A | $0.05 | A | $0.08 | A | 71.5x |
| **2017E** | ($0.02) | A | ($0.03) | A | $0.05 | A | $0.04 | | $0.04 | | 156.6x |
| **2018E** | $0.01 | | ($0.01) | | $0.11 | | $0.11 | | $0.23 | | 25.4x |
| **2019E** | | | | | | | | | $0.30 | | 19.3x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $4.6 | A | $4.4 | A | $11.1 | A | $11.2 | A | $31.2 | A | 14.7x |
| **2017E** | $4.0 | A | $2.1 | A | $10.8 | A | $10.1 | | $27.0 | | 17.0x |
| **2018E** | $6.4 | | $4.2 | | $19.4 | | $20.0 | | $50.0 | | 9.1x |
| **2019E** | | | | | | | | | $59.0 | | 7.8x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

Pricing as of Jan. 2, 2018.

## Top-line Revenue Growth to Remain Strong

**We rate DIRTT Environmental a Buy with a one-year target price of $7.50,** which is based on 10x our 2018E/2019E EBITDA. Our valuation multiple reflects the longer-term growth profile for the business.

- **2017 was a strong year for top-line growth.** Looking into 2018, we forecast strong revenue growth supplemented by larger contract wins. We estimate that the recently upsized Fortune 100 contract will contribute $25.8M to sales in 2018 ($9.3M YTD 2017); Sutter Health contract (~$10M) in H2/18.
- **Sales growth across multiple verticals, Healthcare gaining momentum.** In terms of sales by vertical, healthcare remains an important opportunity and we saw this segment reach 21% of sales in Q3/17 (vs 16% in 2016). Long sales cycles persist in this end market, and sales as a percentage of total revenue has not moved meaningfully. However, we would reiterate that over the last year, sales from multiple verticals have increased and helped to make up for the decreasing sales flow from energy-related customers. An expanded team over the last year has aided in developing this segment, and the company views healthcare (and education) as key verticals for growth going forward.
- **Macro trends continue to support DIRTT.** DIRTT offers a compelling proposition for labour-constrained markets, given that the majority of the cost goes into materials (versus labour), which DIRTT has indicated is the reverse in conventional construction. Additionally, DIRTT offers a more sustainable solution where less waste is created during the construction process as well as in subsequent changes in the environments.
- **Innovation at the core of development.** The ongoing investment in product offerings allows DIRTT to be on the leading edge and continue to offer compelling, relevant solutions for multiple industry verticals. Recent investments in product innovations include Leaf (foldable wall system; Feb/17) which uses existing DIRTT panels and can be retrofitted to existing DIRTT environments.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

## Freshii Inc.
## (FRII-T – C$6.97)
## Hold – Target Price: C$7.00

### COMPANY PROFILE

Freshii Inc. is a single-banner limited-service majority-franchised restaurant company, with a focus on a healthy and customizable menu. Approximately 99% of its 345 locations are franchised, with ~40% of locations in each of Canada and the United States.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | FRII-T | **Total Shares O/S (M)** | 30.9 |
| **Rating** | Hold | **Market Cap (M)** | C$215.1 |
| **Risk** | High | **Float O/S (M)** | 12.6 |
| **Price** | C$6.97 | **Float Value (M)** | C$88.0 |
| **1-Yr Target** | C$7.00 | **Avg Daily Volume (k)** | 200 |
| **Dividend** | $0.00 | **Enterprise Value (M)** | $142 |
| **Yield** | 0% | **Equity Ownership:** | |
| **1-Yr ROR** | 0.4% | *Jaxii Holdings* | *17%* |
| **52 Wk High-Lo** | $15.09-$5.28 | *Other insiders* | *42%* |
| **Valuation** | 14x 2018E EV/EBITDA | **Net Debt/EBITDA** | nm |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

| **EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | ($0.07) | A | nm |
| **2016** | *$0.01* | A | *$0.05* | A | *$0.02* | A | *($0.02)* | A | $0.06 | A | 92.4x |
| **2017E** | ($0.03) | A | ($0.01) | A | ($0.03) | A | $0.06 | | ($0.01) | | -1053.5x |
| **2018E** | $0.04 | | $0.05 | | $0.05 | | $0.05 | | $0.19 | | 28.5x |
| **2019E** | | | | | | | | | $0.23 | | 24.0x |

| **Adj EBITDA (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **EV/EBITDA** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | $4.2 | A | nm |
| **2016** | *$0.8* | A | *$2.7* | A | *$1.6* | A | *$1.7* | A | $6.8 | A | 21.0x |
| **2017E** | $1.4 | A | $2.1 | A | $1.6 | A | $2.4 | | $7.5 | | 19.0x |
| **2018E** | $2.0 | | $2.6 | | $2.7 | | $2.7 | | $10.0 | | 14.2x |
| **2019E** | | | | | | | | | $11.9 | | 12.0x |

**Results in italics are pre-IPO (Jan. 2017). All financials in USD unless indicated.*

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Looking for Acceleration in New Store Openings

**We rate Freshii a Hold with a one-year target price of C$7.00,** which is based on 14x our 2018E EBITDA. This represents an approximate inline valuation multiple with QSR and Fast Casual peers. While we believe that strong SSSG and net new store openings deserve a premium multiple, given that we have yet to see an acceleration of openings and the ongoing execution risk, we believe that these factors are largely offsetting this premium.

- **Waiting for acceleration in new store openings.** The Q3/17 results provided confirmation that SSSG continues to be strong and that SG&A costs increased (recall investments made both externally and internally, announced with the guidance revision on Sept. 25/17). Q4/17 guidance of 24-31 new stores does not represent a ramp up in the pace of new openings, which needs to occur in order to meet the company's targets. Despite the outlook for 375 stores under contract to be built (over 3-5 years), given the recent guidance revision, we are opting to remain conservative and not include the full number in our forecast (we forecast 100 net new openings in 2018).
- **Strong SSSG outlook.** On an LTM basis, average SSSG of +5.9% remains above peers and we are forecasting +4% in 2018. Organic growth continues to benefit from menu innovation and growing new customer visits; expanding daypart and menu mix represents another opportunity for growth longer term (recently announced roll out of "coffii" in select Ontario locations (~23% of network); breakfast represents ~2% of system wide sales).

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# Imvescor Restaurant Group Inc.
# (IRG-T – $4.23)
# Hold – Target Price: $4.25

## COMPANY PROFILE

Imvescor Restaurant Group is a full-service restaurant franchisor with 5 banners in operation. Approximately 97% of its 262 units are franchised, with the majority of restaurants located in Quebec. Their two largest banners by locations are Pizza Delight and Mikes.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | IRG-T | **Shares O/S (M)** | 60.5 |
| **Rating** | Hold | **FD Shares O/S (M)** | 62.3 |
| **Risk** | Medium | **Market Cap (M)** | $263.6 |
| **Price** | $4.23 | **Float O/S (M)** | 60.5 |
| **1-Yr Target** | $4.25 | **Float Value (M)** | $256.1 |
| **Dividend** | $0.09 | **Avg Daily Volume (k)** | 110 |
| **Yield** | 2.1% | **Enterprise Value (M)** | $277.4 |
| **1-Yr ROR** | 3% | **Ownership:** | |
| **52 Wk High-Low** | $4.30-$3.16 | *Mgmt and Directors:* | *12%* |
| **Valuation** | 11.5x Purchase price / F2018 EBITDA | **Net Debt/EBITDA** | 0.7x |
| **Year End** | Oct. 30 | **Next Reporting** | Mar-18 |

| **EPS (FD) *** | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.04 | A | $0.04 | A | $0.05 | A | $0.05 | A | $0.19 | A | 22.8x |
| **2017** | $0.04 | A | $0.04 | A | $0.06 | A | $0.03 | A | $0.17 | A | 25.1x |
| **2018E** | $0.06 | | $0.04 | | $0.06 | | $0.06 | | $0.22 | | 19.6x |
| **2019E** | | | | | | | | | $0.25 | | 17.1x |
| **Adjusted / Operating EBITDA ($M)** | | | | | | | | | | | |
| **2016** | $4.3 | A | $4.3 | A | $4.8 | A | $4.4 | A | $17.8 | A | 15.6x |
| **2017** | $3.8 | A | $4.2 | A | $5.9 | A | $5.4 | A | $19.4 | A | 14.3x |
| **2018E** | $5.6 | | $4.2 | | $6.3 | | $5.9 | | $22.0 | | 12.6x |
| **2019E** | $6.2 | | $4.6 | | $6.8 | | $6.4 | | $24.0 | | 11.5x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

Pricing as of Dec. 20, 2017.

## MTY to Acquire IRG; Subject to Shareholder Vote

**We rate Imvescor Restaurant Group a Hold with a $4.25 target price.** Using our F2018E EBITDA of $22M and no synergies, $4.25 equates to ~11.5x purchase price multiple. Regarding the recently announced acquisition of IRG by MTY, we await further details which are expected in the circular (anticipated in January).

- **MTY to Acquire IRG for $4.10 per share; we believe IRG is worth more.** Further to the press release by Imvescor on Oct. 27, 2017 we provided an analysis of potential takeout values for IRG, and calculated a range of $4.25 - $4.65 per share (see note: IRG Receives Preliminary Offer). If an outside bidder were to come in now and bid for IRG, we believe that $4.25 is the minimum price that would be needed (in order to cover the $8M termination fee). If a higher offer were to come from MTY, it would need to include either a higher price and/or a higher cash component. **IRG shareholders are scheduled to vote on the transaction in February 2018 (66 2/3 % approval required).**
- **Executing on four pillars of its strategic plan.** These include quality of food, quality of service, value and ambience (i.e. through the restaurant rejuvenation program). In F2017, there were 34 renovations, with 16 completed in Q4/F17. Franchisee interest in the program remains strong and we are seeing the benefits of the renovations in reported SSSG. For F2018, we would anticipate a similar number of restaurants to be completed.
- **New store openings represent another avenue for growth.** This has more recently been a challenge, with IRG reporting net store closures in F2017 (excluding the Ben & Florentine acquisition). While there were no net openings in the recent quarter, post Q4/F17 end 3 Ben & Florentine's were opened, along with 1 Mikes and 1 (corporate) Scores. There is the expectation for additional restaurants to open in Q1/F18 (which ends in January). Regarding the corporate stores, longer term the intention is to refranchise locations that do not serve as training restaurants.
- **Pursuing M&A opportunities.** Part of the capital allocation strategy includes pursing M&A opportunities, further to the acquisition of Ben & Florentine (announced Dec/2016), and the balance sheet remains strong (net debt / EBITDA 0.7x at Q4/F17). Key acquisition criteria include: franchised (or have the potential to be franchised), located close to the company's existing store base, and have potential for clear synergies.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# K-Bro Linen Inc.
# (KBL-T – $42.50)
# Hold – Target Price: $43.00

## COMPANY PROFILE

K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada. The company provides a range of services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The company has nearly 1,800 employees and operates nine laundry and linen processing facilities in most major centers across Canada, along with the recently acquired Fishers Laundry in the UK (7 facilities).


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | KBL-T | **FD Shares O/S (M)*** | 10.4 |
| **Rating** | Hold | **Market Cap (M)** | $441.4 |
| **Risk** | Medium | **Float O/S (M)** | 10.0 |
| **Price** | $42.50 | **Float Value (M)** | $426.1 |
| **1-Yr Target** | $43.00 | **Avg Daily Volume (k)** | 25.0 |
| **Dividend** | $1.20 | **Enterprise Value (M)** | $471.4 |
| **1-Yr ROR** | 4% | **Control Blocks:** | |
| **52 Wk High-Low** | $45.00-$36.69 | *Mgmt & Dir* | 3.5% |
| **Valuation** | 11.5x 2018E/2019E EBITDA | | |
| **BVPS** | $19.74 | **Net Debt/ LTM EBITDA** | 1x |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.32 | A | $0.42 | A | $0.43 | A | $0.27 | A | $1.44 | A | 29.6x |
| **2017E** | $0.16 | A | $0.26 | A | $0.36 | A | $0.25 | | $0.92 | | 46.2x |
| **2018E** | $0.32 | | $0.32 | | $0.39 | | $0.37 | | $1.40 | | 30.3x |
| **2019E** | | | | | | | | | $1.63 | | 26.1x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $6.8 | A | $7.5 | A | $7.5 | A | $6.4 | A | $28.2 | A | 16.7x |
| **2017E** | $4.8 | A | $6.7 | A | $8.1 | A | $7.4 | | $27.7 | | 17.0x |
| **2018E** | $7.6 | | $7.3 | | $8.2 | | $7.9 | | $39.6 | | 11.9x |
| **2019E** | | | | | | | | | $43.2 | | 10.9x |

**Pro-forma acquisition of Fishers.*

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## New Region, New Growth Opportunities

**We rate K-Bro Linen a Hold with a one-year target price of $43.00,** which is based on 11.5x 2018E/2019E EBITDA.

- **YTD 2017, revenue growth was largely driven by incremental volume from new contract wins,** particularly within the Toronto region (William Osler and Trillium Health). In 2018, new contracts will continue to be the main revenue growth driver with the recently acquired Fishers segment the main driver (forecasted to add +31% to revenue y/y).
- **EBITDA margin to be impacted by Fishers, transition costs.** EBITDA margin was under pressure through 2017 given the transition costs associated with moving volumes into the new Toronto facility. Looking into 2018, we continue to forecast transition costs, which will impact EBITDA margin again as the company transitions volumes in Vancouver (beginning in Q2/18). Furthermore, the addition of the UK business will dilute the consolidated EBITDA margin as it comes at a lower margin. There are opportunities for margin improvement in UK, though these are expected to be fairly limited in 2018. In Canada, EBITDA margin improvements to longer-term run rate levels are not expected to return until 2019 when the bulk of Vancouver transition is completed.
- **Toronto facility complete; Vancouver build-out underway.** As of Q3/17, $17.6M has been spent in Vancouver (of an estimated $50-55M). Recall that this facility will at least partially consolidate volumes from the two existing facilities in the region, and provide for equipment upgrades/replacement at existing facilities.
- **Balance sheet remains conservative.** In terms of leverage (net debt / EBITDA), we forecast 1.1x at the end of 2017 and 1.3x at the end of 2018. This includes the incremental debt for the Fishers acquisitions as well as the remaining capex for the Vancouver facility.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# The Keg Royalties IF (KEG.UN-T – $19.87) Buy – Target Price: $24.00

## COMPANY PROFILE

Keg Royalties Income Fund earns a royalty stream based on the system sales of the 100 Keg restaurants included in the fund's royalty pool. In 2016, The Keg restaurants generated $577M in system sales. The Keg is a higher-end casual dining / full service steakhouse concept. Of the 100 restaurants in the royalty pool, approximately half are corporately owned.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | KEG.UN-T | **FD Shares O/S (M)** | 15.0 |
| **Rating** | Buy | **Market Cap (M)** | $297.8 |
| **Risk** | Medium | **Float O/S (M)** | 11.4 |
| **Price** | $19.87 | **Float Value (M)** | $225.6 |
| **1-Yr Target** | $24.00 | **Avg Daily Volume (k)** | 15 |
| **Dividend** | $1.135 | **Enterprise Value (M)** | $309.10 |
| **Yield** | 5.7% | **Control Blocks:** | |
| **1-Yr ROR** | 26% | *Keg Restaurants Ltd.* | *24.2%* |
| **52 Wk High-Low** | $23.15 - $19.68 | **Net Debt/EBITDA** | 0.5x |
| **Valuation** | 4.75% yield target | **Next Reporting** | Mar-18 |
| **Year End** | Dec. 31 | | |

| **DCPU** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/DCF** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.32 | A | $0.27 | A | $0.27 | A | $0.26 | A | $1.13 | A | 17.6x |
| **2017E** | $0.32 | A | $0.28 | A | $0.30 | A | $0.28 | | $1.18 | | 16.8x |
| **2018E** | $0.31 | | $0.28 | | $0.29 | | $0.28 | | $1.17 | | 17.0x |
| **2019E** | | | | | | | | | $1.20 | | 16.6x |
| **EBITDA($M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **EV/EBITDA** |
| **2016** | $5.8 | A | $5.4 | A | $5.7 | A | $5.8 | A | $22.7 | A | 13.6x |
| **2017E** | $6.1 | A | $5.8 | A | $5.9 | A | $6.0 | | $23.8 | | 13.0x |
| **2018E** | $6.4 | | $6.0 | | $6.1 | | $6.4 | | $24.9 | | 12.4x |
| **2019E** | | | | | | | | | $26.0 | | 11.9x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Positioned for Further Distribution Increases

**We rate KEG.UN a Buy with a one-year target price of $24.00,** which is based on a 4.75% target yield. This is below the average peer group yield of ~6%, which we view as representative of the fund's relative stronger SSSG outlook, lower payout ratio and lower relative exposure to Western Canada.

- **SSSG driven by menu re-pricing, traffic.** Despite the ongoing weaker economic environment in Alberta, The Keg reported positive SSSG for full year 2016 (+1.6%) and YTD 2017 (+4.6%). SSSG continues to benefit from menu re-pricing which we continue to estimate represents a meaningful contribution to organic growth. This has been offset by USD translation losses from U.S. stores (~10% of the network) which have been a modest headwind in 2017 (versus a tailwind in 2016). **We are forecasting consolidated SSSG of +3% in Q4/17 (for full year 2017 of +4.2%) and +2% in 2018.**
- **New store development.** Over the last few years, The Keg has had difficulty growing the store count on a net basis, with the 2016 vend-in including a reduction of 2 restaurants, and the 2017 vend-in net zero (one opening / one closing). For the 2018 vend-in in January, we anticipate three new restaurant additions. KRL (the operating company) currently plans to open 2 corporate and 1 franchised restaurant in 2017 (which would fall in their fiscal 2018).
- **Forecasting additional distribution increases.** At the end of Q3/17, the LTM payout ratio was 94.7% (97.6% pro-forma the 3.1% distribution increase announced in the quarter). We believe that KEG.UN can afford further distribution increases, and have included a 2% increase in 2018 and another 2% increase in 2019. We forecast a payout ratio of 98.4% at the end of 2018.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# MTY Food Group Inc.
# (MTY-T – $52.35)
# Hold – Target Price: $46.00

## COMPANY PROFILE

MTY Food Group is a multi-brand quick service restaurant (QSR) franchisor with over 60 banners in operation. With a large franchise base, representing ~99% of its total units, the company is focused on expanding its footprint into new markets throughout Canada, the U.S. and globally. Through a series of acquisitions and the continued development of new concepts, the company has approximately 5,500 locations.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | MTY-T | **FD Shares O/S (M)** | 21.4 |
| **Rating** | Hold | **Market Cap (M)** | $1,119.0 |
| **Risk** | High | **Float O/S (M)** | 15.7 |
| **Price** | $52.35 | **Float Value (M)** | $823.0 |
| **1-Yr Target** | $46.00 | **Avg Daily Volume (k)** | 24 |
| **Dividend** | $0.46 | **Enterprise Value (M)** | $1,396.4 |
| **1-Yr ROR** | -11.3% | **Control Blocks:** | |
| **52 Wk High-Low** | $55.98-$44.75 | *Mgmt & Dir* | 26.5% |
| **Valuation** | 11.5x F2018E/19E EBITDA | | |
| **BVPS** | $14.74 | **Net Debt/EBITDA** | 2.3x |
| **Year End** | Nov. 30 | **Next Reporting** | Feb-18 |

| **EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2016** | $0.41 | A | $0.44 | A | 0.52* | A | 0.57* | A | $1.94* | A | 27.0x |
| **F2017E** | $0.44* | A | $0.48* | A | $0.68 | A | $0.62 | | $2.21* | | 23.7x |
| **F2018E** | $0.48 | | $0.62 | | $0.54 | | $0.52 | | $2.16 | | 24.2x |
| **F2019E** | | | | | | | | | $2.46 | | 21.3x |
| **EBITDA ($M)** | | | | | | | | | | | |
| **F2016** | $12.1 | A | $12.8 | A | $18.0 | A | $23.1 | A | $65.6 | A | 21.3x |
| **F2017E** | $16.3 | A | $24.6 | A | $25.6 | A | $26.5 | | $93.0 | | 15.0x |
| **F2018E** | $22.5 | | $27.5 | | $23.8 | | $23.7 | | $97.5 | | 14.3x |
| **F2019E** | | | | | | | | | $105.9 | | 13.2x |

*Adjusted figure.

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## MTY to Acquire IRG; Need Increased M&A Activity

**We rate MTY a Hold with a one-year target price of $46.00,** which is based on 11.5x F2018E/F2019E EBITDA. Though MTY has historically been very active in M&A and had a strong return on invested capital, as we have fully lapped the acquisition of Kahala (which closed in July 2016) y/y growth drops off meaningfully with larger transactions needed in order to maintain similar growth levels.

- **M&A is main growth driver; need higher pace of acquisitions to maintain growth rates.** In F2017 YTD system sales has grown 85% y/y, benefitting from the acquisitions of Kahala and Baja Fresh. In F2017, MTY has made 5 acquisitions, deploying ~$55M (and adding ~$175M in annualized system sales). Looking ahead to F2018, we are forecasting system sales growth of 5% y/y (mostly M&A, offset by forecasted headwind of $32M from CADUSD translation). **Our consolidated organic growth forecast is 0% for 2018.**
- **MTY to acquire IRG for $4.10 per share (total consideration of $248M).** The transaction is attractive for MTY given (1) the favourable purchase price multiple; (2) Improved regional diversification in Canada (slightly decreases MTY's Ontario exposure to 16.7% from ~17%; QC/Maritimes increases to 20.3% from 17%); (3) Opportunities for synergies (initially from combining shared services and public company cost savings); and (4) Potential for knowledge sharing with respect to casual FSR restaurants and the retail royalty segment (MTY is largely QSR focused). Regarding Imvescor senior management, no decision has been taken and discussions between MTY and IRG have yet to occur. **Given that the transaction is subject to a shareholder vote, our estimates/target price does not include Imvescor.** IRG shareholders are scheduled to vote on the transaction in February 2018 (66 2/3 approval required).
- **Financials restated.** On November 22, 2017 MTY announced a restatement of its financial results for F2016 and YTD F2017, relating to valuation and revenue recognition of Kahala gift cards. While the restatement is non-cash in nature, looking ahead into F2018, revenue and EBITDA are anticipated to be negatively impacted while gift card sales (post-Kahala) continue to ramp up; U.S. segment revenue (as a percentage of sales) is anticipated to return to more normalized levels in F2019.
- **Balance sheet capable of supporting M&A.** At the end of Q3/F17, net debt / EBITDA had decreased to ~2.3x (from 3.4x at the end of F2016). We currently forecast leverage of 1.6x at the end of F2018.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# SIR Royalty IF
# (SRV.UN – $14.68)
# Hold – Target Price: $13.50

## COMPANY PROFILE

SIR Royalty IF earns a royalty stream based on the system sales of the 57 restaurants included in the fund's royalty pool. In 2016, these restaurants generated approximately $278M in system sales. The largest restaurant concept in the royalty pool is Jack Astor's, which contributes ~75% of system sales. Other concepts include Reds, Alice Fazooli's (Scaddabush), and Canyon Creek.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SRV.UN-T | **FD Shares O/S (M)** | 10.4 |
| **Rating** | Hold | **Market Cap (M)** | $152.0 |
| **Risk** | High | **Float O/S (M)** | 8.4 |
| **Price** | $14.68 | **Float Value (M)** | $123.0 |
| **1-Yr Target** | $13.50 | **Avg Daily Volume (k)** | 15 |
| **Dividend** | $1.14 | **Enterprise Value (M)** | $152.0 |
| **Yield** | 7.8% | **Control Blocks:** | |
| **1-Yr ROR** | 0% | *SIR Corp.* | *19.1%* |
| **52 Wk High-Low** | $15.68-$13.57 | | |
| **Valuation** | 8.5% target yield | **Debt/EBITDA** | 0x |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Distributable Cash per Unit**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/DCF |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.26 | A | $0.31 | A | $0.28 | A | $0.28 | A | $1.13 | A | 13.0x |
| **2017E** | $0.28 | A | $0.32 | A | $0.31 | A | $0.28 | | $1.18 | | 12.4x |
| **2018E** | $0.27 | | $0.31 | | $0.32 | | $0.28 | | $1.18 | | 12.4x |
| **2019E** | | | | | | | | | $1.20 | | 12.2x |

**EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $3.7 | A | $4.4 | A | $4.2 | A | $4.0 | A | $16.3 | A | 9.3x |
| **2017E** | $3.9 | A | $4.4 | A | $4.4 | A | $4.0 | | $16.6 | | 9.1x |
| **2018E** | $4.0 | | $4.5 | | $4.6 | | $4.2 | | $17.2 | | 8.8x |
| **2019E** | | | | | | | | | $18.3 | | 8.3x |

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Positive Outlook for SSSG; Potential Near-term Volatility with Jack's Renovation Activity Ongoing

**We rate SRV.UN a Hold with a $13.50 target price,** which is based on a target yield of 8.5%. This represents a discount to peers and is largely related to the inherent capital intensity of the underlying operating company.

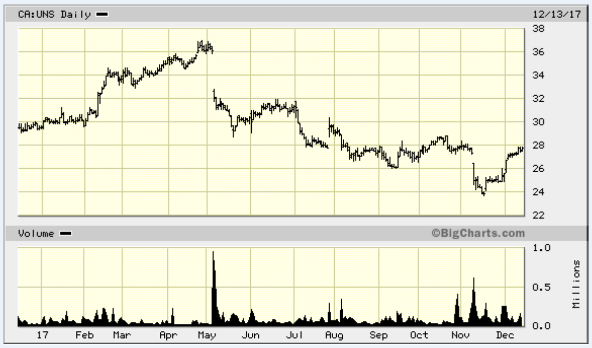
- **Consolidated SSSG driven by Jack Astor's,** which represents ~75% of total system sales. Given the small size of the restaurant network (58 locations), results from individual locations have the ability to meaningfully impact the consolidated results overall. Through 2017, results were impacted by regional economic weakness in Alberta and Newfoundland (total of two locations); though we would anticipate this to less impactful in 2018.
- **Renovation activity driving results, SSSG volatility anticipated.** Given our expectation for continued renovation activity at Jack Astor's, there is the potential for further volatility in SSSG quarter to quarter. While renovation activity generally provides a sales lift upon reopening, given our limited insight on anticipated renovation activity, we remain more conservative with our SSSG forecast. **We are forecasting 2018 SSSG of +1% for Jack's and +1.3% on a consolidated basis.**
- **Limited outlook for new store development.** SIR is opening one new Red's location in 2017 and a new Scaddabush will be opened at the location of the recently closed Canyon Creek restaurant (Etobicoke, ON). There is no guidance as to potential new openings for 2018 and all Alice Fazooli's have now been converted into Scaddabush locations. Recall that SIR restaurants are all corporately owned; given this structure we anticipate continued muted growth in terms of new store openings in the near-term, particularly given the ongoing renovation program at Jack Astor's.

Elizabeth Johnston, CFA | CONSUMER PRODUCTS & SPECIAL SITUATIONS

# Uni-Select Inc.
# (UNS-T – C$27.78)
# Buy – Target Price: C$33.00

## COMPANY PROFILE

Uni-Select is a large commercial distributor of automotive parts, operating within three segments: Aftermarket Replacement Parts (Canada), Automotive Refinish Paint (FinishMaster U.S), and European Automotive (The Parts Alliance UK). The company has nearly 440 corporate stores across all segments.




Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | UNS-T | **FD Shares O/S (M)** | 42.4 |
| **Rating** | Buy | **Market Cap (M)** | C$1,178 |
| **Risk** | Medium | **Float O/S (M)** | 41.4 |
| **Price** | C$27.78 | **Float Value (M)** | C$1,149 |
| **1-Yr Target** | C$33.00 | **Avg Daily Volume (k)** | 200 |
| **Dividend** | C$0.37 | **Enterprise Value (M)** | $1,364.1 |
| **1-Yr ROR** | 20.1% | **Ownership:** | |
| **52 Wk High-Low** | C$37.03-$25.50 | *Mgmt & Dir* | 2.5% |
| **Valuation** | 10x 2018E/2019E EBITDA | | |
| **BVPS** | $12.14 | **Net Debt/LTM EBITDA** | 3.8x |
| **Year End** | Dec. 31 | **Next Reporting** | Feb-18 |

| **Adjusted EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.27 | A | $0.40 | A | $0.41 | A | $0.31 | A | $1.40 | A | 15.5x |
| **2017E** | $0.26 | A | $0.39 | A | $0.36 | A | $0.31 | | $1.32 | | 16.5x |
| **2018E** | $0.36 | | $0.43 | | $0.39 | | $0.33 | | $1.51 | | 14.5x |
| **2019E** | | | | | | | | | $1.58 | | 13.8x |
| **Adjusted EBITDA ($M)** | | | | | | | | | | | |
| **2016** | $21.7 | A | $29.7 | A | $30.8 | A | $25.4 | A | $107.6 | A | 12.7x |
| **2017E** | $23.2 | A | $32.5 | A | $33.9 | A | $33.1 | | $122.6 | | 11.1x |
| **2018E** | $35.8 | | $41.8 | | $37.0 | | $34.2 | | $148.7 | | 9.2x |
| **2019E** | | | | | | | | | $153.6 | | 8.9x |

** 2014 and 2015 results include contribution from divested U.S. Auto Parts segment*

***Amounts in USD. Share price in CAD. Historical figures adjusted for June/16 2-for-1 stock split.***

Source: Company reports; Thomson; Bloomberg; LBS estimates.

## Growth Opportunity in the UK

**We rate Uni-Select a Buy with a one-year target price of C$33.00,** which is based on 10x our 2018E/2019E EBITDA.

- **Recent UK Investor Day reiterated the strong opportunity for growth.** The UK aftermarket parts market remains highly fragmented, with the top 5 companies representing less than 50% of the market. With 171 corporate stores, The Parts Alliance is the #2 player, with 7% market share, serving national accounts and covering the majority of the UK. The company expects to grow this segment both organically and through M&A, and are targeting organic growth of 3-4% for 2018, which will include greenfield store openings. In terms of M&A, the company will pursue further acquisitions with the UK indicated to be a priority for capital allocation. **Our forecast includes 3% organic growth (begins in Q3/18E) and 2018 segment EBITDA margin of 6.5%,** which we believe remains conservative.

- **FinishMaster focus on organic growth.** Within the U.S. the focus is on returning the segment to positive organic growth; recall that results through 2017 have been negatively impacted by the product line changeover (which as at Q3/17 has largely been lapped). For 2018, Uni-Select is targeting organic growth of 3-4%; we are forecasting +3%. Growth is also expected to come from greenfield locations and selected acquisitions.

- **Automotive (Canada) focused on Bumper to Bumper brand.** This will include further corporate store additions (largely through M&A) as well as getting more independent customers to add the banner. Additionally, there continues to be the opportunity to expand the FinishMaster brand in Canada (through corporate stores). Uni-Select is targeting organic growth of 2.5-3.5%; we are forecasting +3%.

- **Balance sheet can support limited M&A.** Uni-Select intends to reduce leverage to <2.5x over the next 24 to 36 months. We expect that tuck in activity will still be possible; we forecast FCF (net of dividends) of $58M in 2018 (and leverage of 2.8x). At the end of Q3/17, UNS had total debt of $490M and $234M in available credit, with leverage (net debt / EBITDA) of 3.8x.

# DIVERSIFIED AGRICULTURE | John Chu, MBA, CFA

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John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

# Andrew Peller Limited
# (ADW.A-T – $14.15)
# Buy – Target Price: $15.50

## COMPANY PROFILE

Andrew Peller is Canada's second largest producer and marketer of wines with a 14.6% market share in English Canada. It is engaged in the production, bottling and marketing of wines and spirits in Canada. It also imports wines from around the world and produces wine kits for the home winemaking market. It has wineries in British Columbia, Ontario and Nova Scotia and has products that service the premium, ultra-premium, and popularly priced market segments. The products are sold mostly in Canada with export sales consisting mostly of its icewine and personal winemaking products.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | ADW.A-T | **Shares O/S (M)** | 44.6 |
| **Rating** | Buy | **Market Cap (M)** | $631 |
| **Risk** | Medium | **Float O/S (M)** | 30.6 |
| **Price** | $14.15 | **Float Value (M)** | $433 |
| **1-Yr Target** | $15.50 | **Avg Daily Volume (K)** | 28.0 |
| **Yield** | 1.3% | **Enterprise Value (M)** | $756.4 |
| **1-Yr ROR** | 10.8% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $14.23 - $10.3 | *Voting* | 67% |
| **BVPS** | $4.48 | *Equity* | 33% |
| **Valuation** | 13.5x Q3/F19-Q2/F20 EBITA | **Net Debt/Cap** | 40% |
| **Year End** | March | **Next Reporting** | Feb-18 |

| **EPS (FD, Class A, ex-FX, gains)** | | | | | | |
|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Annual** | **P/E** |
| **F2017** | $0.21 A | $0.18 A | $0.20 A | $0.05 A | $0.64 A | 22.3x |
| **F2018** | $0.20 A | $0.22 A | $0.16 | $0.02 | $0.60 | 23.7x |
| **F2019** | $0.16 | $0.18 | $0.22 | $0.07 | $0.62 | 22.7x |
| **F2020** | | | | | $0.74 | 19.2x |
| **EBITA ($M, ex-FX, gains)** | | | | | | |
| | **Q1** | **Q2** | **Q3** | **Q4** | **Annual** | **EV/EBITA** |
| **F2017** | $14.8 A | $12.6 A | $11.9 A | $5.9 A | $45.1 A | 16.8x |
| **F2018** | $14.5 A | $16.3 A | $14.6 | $7.1 | $52.5 | 14.4x |
| **F2019** | $15.0 | $16.4 | $18.8 | $10.2 | $60.4 | 12.5x |
| **F2020** | | | | | $67.7 | 11.2x |

Source: Company reports; Bloomberg; LBS estimates.

## Momentum to Continue into the New Year

**We rate Andrew Peller a Buy with a one-year target price of $15.50.** Following a strong performance in C2017, we expect more of the same in C2018. Industry trends continue to look very favourable for wine and we believe ADW is well positioned to take advantage. Operationally, the company recorded very strong margin improvement in H1/F18, which management believes is sustainable going forward, with ongoing improvement as well. The recent acquisition of 3 B.C. wineries along with ongoing new wine products and its recent foray into spirits (whisky) and cider should also act as very nice growth catalysts in C2018 and beyond.

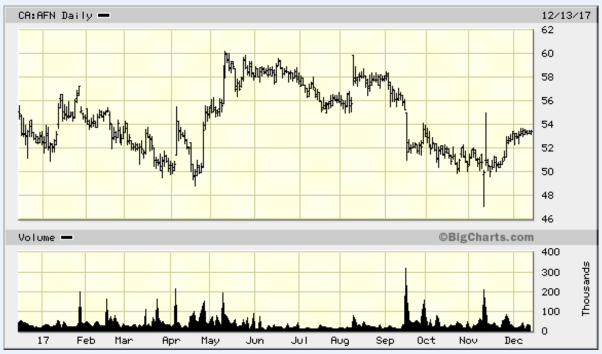
- **Favourable industry dynamics:** Wine has been gaining market share in the Canadian and global alcoholic beverage sector for the past 10+ years and recent trends suggest no signs of letting up. Canadian wine sales volume per capita is up over 30% during that period while total alcohol sales, along with beer and spirits sale volumes were essentially flat (or in the case of beer, down) during that same period. Canadian whisky sales growth was twice that of the spirits category and cider saw explosive growth, twice that of the cider/cooler/other category recently.
- **Wine outlook is positive with upside:** LCBO forecasts are calling for continued strong sales momentum through to 2018/19. Recent trends also suggest Canadian consumers are moving to higher priced wines (e.g. VQA) and domestically produced as well, which should benefit ADW. In Ontario, ADW's largest market, domestic wine sales have grown at ~2x the rate of imported wines over the past couple of years.
- **Growth and expansion:** Sales growth should be driven by ongoing wine market share gains, new wine products, new distribution channels (grocery), and recent new product introductions into the fast-growing cider category as well as the spirit category (with Wayne Gretzky-branded whisky). Recent M&A should also help drive sales growth going forward.
- **Margin improvement and an improving margin profile:** The company has made strong strides recently to improve its margins through cost cutting initiatives and a focus on higher margin products. We expect this trend to continue driven by ongoing efficiency improvements as well as through recent higher-margin acquisitions.

John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

# Ag Growth International
# (AFN-T – $53.30)
# Restricted

## COMPANY PROFILE

Ag Growth is a leading manufacturer of portable and stationary grain handling, storage and conditioning equipment, including grain augers, conveyor belts, grain storage bins and grain aeration equipment. Ag Growth's sales, marketing and distribution system is comprised of approximately 1,400 dealers and distributors in 48 U.S. states, nine provinces, and internationally.




Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | AFN-T | **Shares O/S (M)** | 15.9 |
| **Rating** | Restricted | **Market Cap (M)** | $847 |
| **Risk** | Restricted | **Float O/S (M)** | 15.7 |
| **Price** | $53.30 | **Float Value (M)** | $839 |
| **1-Yr Target** | Restricted | **Avg Daily Volume (K)** | 53.2 |
| **Dividend** | 4.5% | **Enterprise Value (M)** | $1,292 |
| **1-Yr ROR** | Restricted | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $60.26 - $47.08 | *Voting* | 1.0% |
| **BVPS** | $18.80 | *Equity* | 1.0% |
| **Valuation** | Restricted | **Net Debt/Cap** | 64% |
| **Year End** | 31-Dec | **Next Reporting** | Mar-18 |

**EPS (FD), ex-Fx**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $0.38 | A | $0.61 | A | $1.07 | A | $0.30 | A | $2.44 | A | 21.8x |
| **2017** | $0.48 | A | $0.84 | A | $0.79 | A | n/a | | n/a | | n/a |
| **2018** | n/a | | n/a | | n/a | | n/a | | n/a | | n/a |
| **2019** | n/a | | n/a | | n/a | | n/a | | n/a | | n/a |

**EBITDA, ex-Fx ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | $19.8 | A | $26.0 | A | $36.4 | A | $18.2 | A | $100.4 | A | 12.9x |
| **2017** | $25.7 | A | $40.1 | A | $36.1 | A | n/a | | n/a | | n/a |
| **2018** | n/a | | n/a | | n/a | | n/a | | n/a | | n/a |
| **2019** | n/a | | n/a | | n/a | | n/a | | n/a | | n/a |

Source: Company reports; Bloomberg; LBS estimates.

## Restricted

**We are currently RESTRICTED on Ag Growth International (AFN).**

# AGT Food and Ingredients Inc.
# (AGT-T – $20.44)
# Buy – Target Price: $24.00

## COMPANY PROFILE

AGT Food and Ingredients is a global leader in pulse, staple food and food ingredient processing and distribution. Headquartered in Regina, SK, it owns and operates over 40 value-add processing facilities in Canada, the U.S., Turkey, India, China, Australia and South Africa. It also has merchandising offices, and European sales offices and a Russian origination office. AGT services a global and broad customer base spanning over 120 countries.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | AGT-T | **Shares O/S (M)** | 24.2 |
| **Rating** | Buy | **Market Cap (M)** | $495 |
| **Risk** | Medium | **Float O/S (M)** | 20.6 |
| **Price** | $20.44 | **Float Value (M)** | $421 |
| **1-Yr Target** | $24.00 | **Avg Daily Volume (K)** | 20,360.0 |
| **Yield** | 2.9% | **Enterprise Value (M)** | $786 |
| **1-Yr ROR** | 20.4% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $37.54 - $18.81 | *Voting* | 15% |
| **BVPS** | $18.11 | *Equity* | 15% |
| **Valuation** | 13x Q4/18-Q3/19 P/E | **Net Debt/Cap** | 25% |
| **Year End** | 31-Dec | **Next Reporting** | Mar-18 |

**EPS (FD, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **2016** | $0.20 A | $0.55 A | $0.31 A | $0.72 A | $1.78 A | 11.5x |
| **2017** | $0.28 A | $0.10 A | $0.06 A | $0.07 | $0.51 | 40.2x |
| **2018** | $0.11 | $0.19 | $0.11 | $0.56 | $0.97 | 21.1x |
| **2019** | $0.45 | $0.42 | $0.39 | $0.60 | $1.86 | 11.0x |

**EBITDA ($M, ex-X, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2016** | $31 A | $25 A | $27 A | $35 A | $119 A | 6.6x |
| **2017** | $20 A | $19 A | $10 A | $16 | $65 | 12.0x |
| **2018** | $17 | $20 | $18 | $32 | $87 | 9.0x |
| **2019** | $29 | $28 | $27 | $34 | $118 | 6.7x |

Source: Company reports; Bloomberg; LBS estimates.

## Looking for Gradual Improvement; Macro Headwinds may still Persist

**We rate AGT Food and Ingredients a Buy with a one-year target price of $24.** 2017 was a very challenging year with macro headwinds led by India (record supply, fumigation and import duty-related issues) and weak pulse prices, which directly or indirectly negatively impacted the company's Q1, Q2 and Q3 results (all EPS misses). The company believes we are exiting 2017 at near-trough levels and expects a gradual market recovery. However, near-term headwinds (excess supply, weak pulse prices) and uncertainty (Indian fumigation fees and import duties) persist, which suggests near-term headwinds for AGT. The upcoming planting season for key pulse producing countries (India, Canada, Australia, U.S.) should provide some signs regarding the supply/demand outlook for 2018 and the extent to which the market can rebound.

- **Excess supply remains – looking for signs in 2018:** India exited its Kharif (summer) season with a very strong pulse crop, although, not as strong as the record levels it saw in 2016. The key for 2018, in our opinion, is to what extent we may see farmers (globally but especially in key producing countries such as India and Canada) switch from growing pulse crops to other more profitable crops. Despite India's government efforts to encourage ongoing pulse plantings, we understand farmers have been very frustrated with the minimum selling price (MSP) program and are considering switching crops. Similarly, recent reports from Reuters suggest recent initiatives by India (import duty on peas and fears of one on lentils) could lead to a drop in planted acres of >30% for both pulse crops in Canada. A reduction in planted acres in the top two pulse producing countries could help ease the supply/demand dynamics, as could unfavourable growing conditions. We will be keeping a close eye on the planting situations for all key pulse producing countries.
- **India's goal for pulse self-sufficiency:** The government has put in several mechanisms to support this goal by implementing a MSP program, restrictive import policies (fumigation fees, import duties), removing a ban on pulse exports and purchasing excess supplies to help support prices and demand. While these measures failed to provide the necessary support to farmers in 2017 (prices fell well below the MSP) the government continues to push for this goal with a recent increase in the MSP. This will be a key development to monitor and the impact it could have on the global pulse market.
- **Pulse ingredients should continue to ramp up:** Sales volumes continue to grow and line #4 was at ~90% in Q3/17. As such, we believe AGT could announce plans for line #5 with its Q4/17 results (scheduled for Mar/18).

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# Agrium Inc.
# (AGU-N – $111.90)
# Buy – Target Price: US$125.00

## COMPANY PROFILE

Agrium is a major global producer and distributor of agricultural products and services. The company has a wholesale division which supplies products (i.e. fertilizers) to distributors around the world. Agrium also has a retail division which is the number one retail distributor in North America and globally by a considerable margin. This division provides advice (e.g. agronomic and application services) and products (e.g. crop nutrients, crop protection, and seeds) directly to farmers.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | AGU-N, AGU-T | **Shares O/S (M)** | 138.0 |
| **Rating** | Buy | **Market Cap (M)** | $15,442 |
| **Risk** | Medium | **Float O/S (M)** | 138.0 |
| **Price** | $111.90 | **Float Value (M)** | $15,441 |
| **1-Yr Target** | $125.00 | **Avg Daily Volume (K)** | 294 |
| **Yield** | 3.1% | **Enterprise Value (M)** | $25,434 |
| **1-Yr ROR** | 14.8% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $111.88 - $87.82 | *Voting* | 0% |
| **BVPS** | $62.16 | *Equity* | 0% |
| **Valuation** | 9.7x Q4/18-Q3/19 EBITDA | **Net Debt/Cap** | 49% |
| **Year End** | 31-Dec | **Next Reporting** | Feb-18 |

**EPS (US$ FD, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **2016** | $0.02 A | $4.08 A | ($0.12) A | $0.49 A | $4.34 A | 25.8x |
| **2017** | ($0.08) A | $4.05 A | ($0.23) A | $0.93 | $4.67 | 24.0x |
| **2018** | ($0.05) | $4.55 | $0.45 | $1.33 | $6.28 | 17.8x |
| **2019** | $0.22 | $5.27 | $0.62 | $1.27 | $7.37 | 15.2x |

**EBITDA (US$M, ex-X, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2016** | 187 A | 993 A | 145 A | 303 A | 1,628 A | 15.6x |
| **2017** | 196 A | 1,012 A | 100 A | 386 | 1,694 | 15.0x |
| **2018** | 194 | 1,097 | 313 | 481 | 2,085 | 12.2x |
| **2019** | 255 | 1,232 | 340 | 465 | 2,292 | 11.1x |

Source: Company reports; Bloomberg; LBS estimates.

All figures in US$

## Nutrien will be the Focus as will Nitrogen & Retail

**We rate Agrium a Buy with a one-year target price of US$125.** The stock saw some pressure in H1/17 on the back of challenging macro conditions (weak fertilizer prices) but managed to find momentum on the back of a strong rebound in nitrogen prices as well as strong operating results in its retail segment. Looking ahead to 2018, the primary focus will be on the merged entity, Nutrien, and the integration process and generating synergies. Of course, the macro environment, especially nitrogen and the U.S. farm economy (where a lot of Agrium's retail segment is based) will be other areas of focus. We believe the integration process and synergies will progress well. An uptick in the U.S. farm economy should help the retail segment as well as wholesale fertilizer demand. The extent this can offset nitrogen pricing pressure from new supply remains key.

- **Nutrien:** We expect the U.S., the last country yet to grant merger approval, to give its approval before year-end, upon which, the merger with Potash Corp. should be completed and should begin trading as the merged entity in the new year. We expect Nutrien will look to quickly address its capital allocation priorities (e.g. retail growth, dividend, buyback, pay down debt) early in the new year. The company will then focus on integration and realizing its previously stated target of ~$500M in annualized synergies.
- **Retail to remain robust:** Despite weather headwinds in Q3/17, Q3 performance was strong. Low channel inventories combined with what is expected to be a good fall and spring application season, based on order bookings, should translate to improving margins for the next couple of quarters at least. The M&A pipeline also remains full and we expect the company to remain very active on this front.
- **Nitrogen outlook:** Tight markets in Q3/17 resulted in prices spiking >50%. AGU expects the market to remain tight through 2018 on the back of an estimated 2% global demand growth (in line with historical growth rates). Inventory restocking in N.A. should act as a demand driver as well but will be at least partially offset by new capacity coming online, which could act as a potential headwind in H1/18, in our opinion. China exports, which have been constrained recently, remain a wildcard for 2018 as well.
- **Potash outlook:** Global demand is expected to grow ~3% in 2018, which should help somewhat offset new capacity coming online. Canpotex is sold out through to Feb/18. We will need to keep a close eye on the supply/demand dynamics for 2018 as substantial new capacity is expected to come online in the coming years. Whether demand grows enough to help offset the new supply, is the key question to monitor throughout 2018.

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# Brick Brewing Co. Ltd.
# (BRB-T – $3.60)
# Buy – Target Price: $4.70

## COMPANY PROFILE

Brick Brewing is the fourth largest brewery in Ontario and is Ontario's largest Canadian-owned brewery. It produces, sells, markets and distributes bottled, canned and craft premium beer under a variety of different brands and under different price point categories. Its new Kitchener facility is state of the art and can perform primary packaging, warehousing and distribution. The company is involved in co-packing as well.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | BRB-T | **Shares O/S (M)** | 35.1 |
| **Rating** | Buy | **Market Cap (M)** | $126 |
| **Risk** | Medium | **Float O/S (M)** | 19.3 |
| **Price** | $3.60 | **Float Value (M)** | $70 |
| **1-Yr Target** | $4.70 | **Avg Daily Volume (K)** | 28.6 |
| **Yield** | 2.2% | **Enterprise Value (M)** | $135.9 |
| **1-Yr ROR** | 32.8% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $4.26 - $2.55 | *Voting* | 45% |
| **BVPS** | $1.09 | *Equity* | 45% |
| **Valuation** | 13x Q4/F19-Q3/F20 EBITDA | **Net Debt/Cap** | 20% |
| **Year End** | 31-Jan | **Next Reporting** | Apr-18 |

**EPS (FD, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **F2017** | $0.02 A | $0.05 A | $0.02 A | $0.02 A | $0.11 A | 31.5x |
| **F2018** | $0.02 A | $0.03 A | $0.01 A | $0.02 | $0.09 | 40.4x |
| **F2019** | $0.04 | $0.05 | $0.04 | $0.04 | $0.17 | 21.0x |
| **F2020** | $0.05 | $0.06 | $0.05 | $0.04 | $0.20 | 17.7x |

**EBITDA ($M, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **F2017** | $1.9 A | $3.1 A | $2.0 A | $1.8 A | $8.8 A | 15.4x |
| **F2018** | $2.1 A | $3.0 A | $1.8 A | $2.0 | $7.8 | 17.4x |
| **F2019** | $2.7 | $3.4 | $3.0 | $2.7 | $11.8 | 11.5x |
| **F2020** | $3.1 | $4.0 | $3.3 | $3.0 | $13.5 | 10.1x |

Source: Company reports; Bloomberg; LBS estimates.

## Ongoing Market Share Gains; Margins to Rebound

**We rate Brick Brewing a Buy with a one-year target price of $4.70.** Despite industry headwinds (beer losing market share to wine and domestic beer losing market share to imports), the craft beer industry and Brick Brewing continued to show very good growth and market share gains the past several years. While industry trends still point to continued market share losses for the beer industry as a whole for 2018, we expect Brick to show ongoing sales volume growth and market share gains. We expect its new products (Landshark and Margaritaville) to show continued strong growth. We also believe recent industry reforms (e.g. more shelf space, instore displays/promos at TBS) and the introduction of grocery stores as an additional retail outlet should gain more momentum in 2018 and act as a nice sales growth driver for craft beers as well as Brick. We should also see ongoing margin improvements from higher capacity utilization, product mix and integration into its recently commissioned Kitchener facility.

- **Market share gains:** Despite declining y/y industry beer sales volumes in Ontario (five of the past eight quarters), Brick has recorded y/y growth for the past seven quarters with its traditional brands (Laker, Waterloo), suggesting it has been gaining market share. We expect Brick to continue to grow sales volumes for its traditional brands and increase its market share in 2018.
- **New products to help drive growth:** The addition of Landshark and Margaritaville to its product portfolio (spring 2016), has provided additional volume momentum for the foreseeable future. These new products have been very successful from the beginning and we expect this to continue to be a strong performer for 2018 and beyond.
- **New reforms and grocery stores to act as catalysts for 2018:** 2017 was still a transition year for increased shelf space for craft beers at The Beer Store as well as more in-store promotional opportunities. Grocery stores are still ramping up the sale of beer, with 450 grocery stores expected to be granted licenses by the end of C2018 (vs. ~280 currently). These developments should help drive craft beer sales (including Brick) higher in Ontario. We should note that Brick has very strong representation at the mainstream grocery stores as well.
- **Facility integration to drive margins:** The company moved into its new facility in Sep/17 and this is expected to drive margins higher through ~$0.6M in estimated annual savings. We also believe margins should improve as production volumes increase through economies of scale (it is operating at a ~60% utilization rate) and product mix.

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# Cervus Equipment Corp. (CERV-T – $15.30) Hold – Target Price: $16.00

## COMPANY PROFILE

Cervus acquires and manages authorized agricultural, commercial, industrial and transportation equipment dealerships with interests in 64 dealerships in Western Canada, New Zealand and Australia. The primary equipment brands represented by Cervus include John Deere agricultural equipment; Bobcat and JCB construction equipment; Clark, Sellick and Doosan material handling equipment; and Peterbilt transportation equipment.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | CERV-T | **Shares O/S (M)** | 15.8 |
| **Rating** | Hold | **Market Cap (M)** | $241 |
| **Risk** | Medium | **Float O/S (M)** | 11.5 |
| **Price** | $15.30 | **Float Value (M)** | $176 |
| **1-Yr Target** | $16.00 | **Avg Daily Volume (K)** | 12.8 |
| **Yield** | 1.8% | **Enterprise Value (M)** | $299.8 |
| **1-Yr ROR** | 6.4% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $16.12 - $10.98 | *Voting* | 27% |
| **BVPS** | $13.45 | *Equity* | 27% |
| **Valuation** | 10.5x Q4/18-Q3/19 P/E | **Net Debt/Cap** | 21% |
| **Year End** | 31-Dec | **Next Reporting** | Mar-18 |

**EPS (FD, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **2016** | ($0.15) A | $0.15 A | $0.64 A | $0.03 A | $0.67 A | 22.8x |
| **2017** | ($0.10) A | $0.46 A | $0.55 A | $0.22 | $1.20 | 12.7x |
| **2018** | ($0.04) | $0.47 | $0.63 | $0.31 | $1.46 | 10.5x |
| **2019** | ($0.03) | $0.50 | $0.75 | $0.34 | $1.65 | |

**EBITDA ($M, ex-X, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2016** | $5.7 A | $10.0 A | $22.0 A | $8.8 A | $46.5 A | 6.4x |
| **2017** | $4.1 A | $17.5 A | $18.7 A | $10.5 | $47.0 | 6.4x |
| **2018** | $4.9 | $16.9 | $20.7 | $12.9 | $55.4 | 5.4x |
| **2019** | $5.0 | $17.3 | $23.2 | $13.3 | $58.8 | |

Source: Company reports; Bloomberg; LBS estimates.

## 2018 Should be Solid; Transport Remains a Wildcard

**We rate Cervus Equipment Corp. a Hold with a one-year share price target of $16** (based on a 10.5x forward P/E target multiple applied to our Q4/18 – Q3/19 period). For the second year in a row, the company finished the year on an incredible run, up ~39% since late September (vs. up 39% for the same period last year). This year, the ag and C&I segments did well (unlike last year where all three segments exited the year performing well). We believe the company will need to continue the momentum on the ag and C&I side and see the transportation segment improve to see upside in its share price and valuation. We do note that the macro backdrop is improving. While CERV is <60% exposed to the Canadian ag equipment sector it should benefit from an ongoing ag equipment market recovery in 2018. We also highlight the following:

- **Well positioned for 2018 ag equipment rebound but keep an eye on combine sales.** For 2018, Farm Credit Canada (FCC) forecasts Canadian farm cash receipts to be down modestly, but expects total tractor sales to be up in 2018 driven by healthy cash receipts along with pent-up demand from weak farm equipment sales in 2015 and 2016. FCC is forecasting combine sales to decline in 2018; CERV typically sells larger equipment, including combines. But, CERV's sales have typically correlated very well to industry total tractor sales rather than combine sales.
- **Transportation (26% of 2016 sales) still looking to hit its stride.** Peterbilt of Ontario still remains constrained (sales down in Q3) but the Ontario market may be showing some signs of life. Margins are still constrained in Ontario and we should see gradual improvement in 2018 but we expect it to remain a margin drag in the short-term at least. Saskatchewan performed well, showing solid growth in Q3 and should see continued momentum if W. Canada continues to improve.
- **Construction and Industrial (8% of 2016 sales) should continue to improve.** On the back of heavy cost-cutting initiatives, the segment saw three consecutive improving (y/y) quarters in sales and EBITDA to start 2017, which was encouraging. With the operations operating on a bare-bones basis, any 2018 market recovery in western Canada should fall mostly to the bottom line.
- **Valuation upside:** An improvement in the transportation segment (Peterbilt Ontario, in particular), along with our belief of what should be a solid ag and C&I segment could drive CERV's valuation higher. It is currently trading at a 16% discount to its historical average and has upside as we move deeper into a market recovery.

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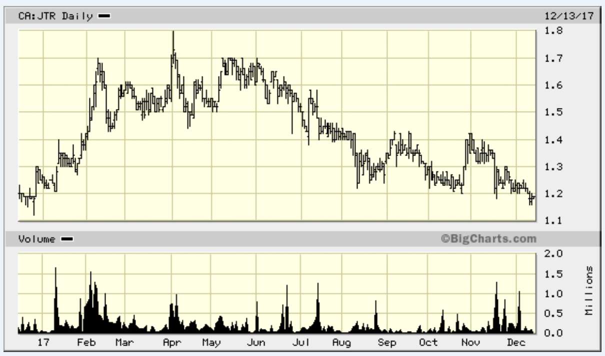
# GreenSpace Brands Inc.
# (JTR-V – $1.19)
# Buy – Target Price: $2.20

## COMPANY PROFILE

GreenSpace Brands Inc. is an early entrant in the rapidly emerging natural and organic food sector in Canada. Its goal is to internally develop, acquire and sell high-quality natural and organic food brands within North America. It plans to focus on products made with simple ingredients and use innovative branding to bring the products to market. Ultimately, the objective is to become a leading marketer, manufacturer and seller of natural and organic food products while providing quality, innovation, value and convenience.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | JTR-V | Shares O/S (M) | 60.9 |
| Rating | Buy | Market Cap (M) | $73 |
| Risk | High | Float O/S (M) | 53.7 |
| Price | $1.19 | Float Value (M) | $64 |
| 1-Yr Target | $2.20 | Avg Daily Volume (K) | 177 |
| Yield | 0.0% | Enterprise Value (M) | $78.5 |
| 1-Yr ROR | 84.9% | Control Blocks: | Mgmt & Dir |
| 52 Wk High-Low | $1.8 - $1.12 | *Voting* | 12% |
| BVPS | $0.73 | *Equity* | 12% |
| Valuation | 2.0x Q3/F19-Q2/F20 EV/Sales | Net Debt/Cap | 19% |
| Year End | 31-Mar | Next Reporting | Mar-18 |

| Net Sales ($M) | Q1 | Q2 | Q3 | Q4 | Annual | EV/Sales |
|---|---|---|---|---|---|---|
| F2017 | $8.4 A | $8.6 A | $9.0 A | $11.1 A | $37.1 A | 2.1x |
| F2018 | $12.4 A | $13.1 A | $14.8 | $15.6 | $56.0 | 1.4x |
| F2019 | $16.9 | $16.5 | $17.7 | $18.7 | $69.9 | 1.1x |
| F2020 | | | | | $81.8 | 1.0x |

| EBITDA ($M, ex-FX, gains) | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| F2017 | $0.36 A | $0.35 A | $0.29 A | $0.34 A | $1.35 A | 58.3x |
| F2018 | $0.42 A | $0.48 A | $0.61 | $0.71 | $2.21 | 35.5x |
| F2019 | $0.62 | $1.10 | $1.14 | $1.51 | $4.37 | 17.9x |
| F2020 | | | | | $6.05 | 13.0x |

Source: Company reports; Bloomberg; LBS estimates.

## Expect Continued Sales Growth and M&A Activity

**We rate GreenSpace Brands a Buy with a one-year target price of $2.20.** Sales growth remains our focus for this company as it continues to ramp up its product portfolio and increase penetration with existing and new distribution outlets. 2017 saw a year of very strong sales growth (YTD C2017 saw net revenue up 73% y/y and we estimate organic growth up ~50% for the same period). For C2018, we expect continued strong sales growth driven by organic growth and M&A. We also see margin improvement as higher sales and a relatively high fixed cost base continues to work in the company's favour.

- **Management has a vision of a sales path to $100M.** Two years ago, Love Child (LC) had $5.5M in sales at the time of the acquisition and now has ~4x that amount with a clear path to $40M. They feel very confident with their Love Child, Central Roast (CR), Rolling Meadows, Kiju and CEDAR brands to help reach that goal (with each brand targeted for $20M in sales; Central Roast is already there as is Love Child – sales target is now $40M). JTR expects to increase its bank line to $10M from $7.5M and sees an active M&A pipeline; we expect C2018 to be an active year for the company on this front.
- **Ongoing distribution wins and new product launches:** In Nov/17, the company announced distribution wins equating to 14,054 new product facings in Canadian retailers across all of their brands. It also launched new products as well as launched new sku's in various regions across Canada. This should help drive sales higher in C2018 (and more so C2019 and beyond). The company believes there is still considerable upside with distribution wins in existing and new distribution outlets. We expect to see continued new distribution wins and product launches in C2018.
- **Quebec and Hong Kong as potential catalysts:** JTR has put an emphasis on increasing market share in Quebec, where sales for JTR were <2% of total sales. According to Vision Critical, Quebec has one of the highest percentages of consumers who buy organic groceries weekly and will spend on average a higher percentage of their grocery budget on organic. JTR's Nov/17 distribution win update announced several distribution wins in Quebec for its Love Child, Central Roast and Kiju brands, which is encouraging. Quebec could be a very interesting sales driver for C2018 and Hong Kong could be an interesting wildcard going forward.
- **Margin momentum:** Baby food wars has put some pressure on its Love Child margins (rebates, discounts, promotion) but recent price increases (Love Child and Central Roast) should help offset rising costs. Higher sales should help drive margins against a high fixed cost base. Warehouse integration should help margins in H2/C18.

John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

# Potash Corp.
# (POT-N; POT-T – US$19.97)
# Hold – Target Price: US$20.50

## COMPANY PROFILE

Potash Corp. (POT) is the world's largest fertilizer producer by total capacity, which involves the three main nutrients (nitrogen, potash, and phosphate). POT is the largest potash player by nameplate capacity with an estimated 22% of global potash capacity. Its nitrogen and phosphate operations are considerably smaller representing 2% and 3% of global capacity respectively.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | POT-N; POT-T | **Shares O/S (M)** | 839.9 |
| **Rating** | Hold | **Market Cap (M)** | $16,773 |
| **Risk** | Medium | **Float O/S (M)** | 839.9 |
| **Price** | $19.97 | **Float Value (M)** | $16,773 |
| **1-Yr Target** | $20.50 | **Avg Daily Volume (K)** | 3,772 |
| **Yield** | 2.0% | **Enterprise Value (M)** | $18,972 |
| **1-Yr ROR** | 4.7% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $20.265 - $15.74 | *Voting* | 0% |
| **BVPS** | $10.11 | *Equity* | 0% |
| **Valuation** | 12x Q4/18-Q3/19 EBITDA | **Net Debt/Cap** | 34% |
| **Year End** | 31-Dec | **Next Reporting** | Jan-18 |

**EPS (US$, FD, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **2016** | $0.09 A | $0.14 A | $0.10 A | $0.07 A | $0.40 A | 50.5x |
| **2017** | $0.18 A | $0.24 A | $0.09 A | $0.03 | $0.53 | 37.3x |
| **2018** | $0.11 | $0.19 | $0.19 | $0.18 | $0.66 | 30.1x |
| **2019** | | | | | | |

**EBITDA (US$M, ex-FX, gains)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2016** | $385 A | $402 A | $402 A | $402 A | $402 A | 47.2x |
| **2017** | $402 A | $368 A | $354 A | $268 | $1,344 | 14.1x |
| **2018** | $360 | $440 | $436 | $421 | $1,658 | 11.4x |
| **2019** | | | | | | |

Source: Company reports; Bloomberg; LBS estimates.

All figures in US$

## Nutrien will be the Focus as will the Potash Outlook

**We rate Potash Corp. a Hold with a one-year target price of US$20.50.** The stock saw some pressure in H1/17 on the back of challenging macro conditions (weak fertilizer prices) but managed to find momentum on the back of a strong rebound in nitrogen prices as well as improving potash prices. Looking ahead to 2018, the primary focus will be on the merged entity, Nutrien, the integration process, and generating synergies. We believe the integration process and synergies will progress well. The key will be how the potash supply/demand dynamics unfold as substantial new supply is coming online in the next few years and we wonder to what extent can demand growth offset this new supply. As such, the potash sector is likely to be flat to soft and that could make POT range bound going forward.

- **Nutrien:** We expect the U.S., the last country yet to grant merger approval, to give its approval before year-end, upon which, the merger with Potash Corp. should be completed and should begin trading as the merged entity in the new year. We expect Nutrien will look to quickly address its capital allocation priorities (e.g. retail growth, dividend, buyback, pay down debt) early in the new year. The company will then focus on integration and realizing its previously stated target of ~$500M in annualized synergies.
- **Potash outlook:** Global demand is expected to grow ~3% in 2018, which should help somewhat offset new capacity coming online. While Canpotex is sold out through to Feb/18, we will need to keep a close eye on the supply/demand dynamics for 2018 as substantial new capacity is expected to come online in the coming years. Can demand grow enough to help offset the new supply is the key question to monitor throughout 2018. POT forecasts global demand at 63 – 67M tonnes.
- **Potash inventory restocking a wildcard:** POT indicated inventory restocking was not a key demand driver in 2017 and that inventories in key regions had actually declined in 2017. This is an interesting development given that 2016 inventories for key regions had declined as well. With potash prices on a gradual rise lately, this should spur inventory restocking in 2018, which could act as a nice demand growth driver as well.
- **Nitrogen outlook:** Tight markets in Q3/17 resulted in prices spiking >50%. POT expects volatility to remain in the sector for the next 18-24 months as substantial new supply comes online in North America. China exports, which have been constrained recently, remain a wildcard for 2018 as well. If China exports begin to increase, to historical levels, it could put pressure on global prices.

INSTITUTIONAL EQUITY

2018 OUTLOOK

John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

# Rocky Mountain Dealerships Inc.
# (RME-T – $13.65)
# Buy – Target Price: $14.00

## COMPANY PROFILE

Rocky Mountain is one of Canada's largest independent dealers of CNH equipment including Case Construction, Case IH Agriculture and New Holland equipment. The company owns and operates over 40 full-service dealership branches across the Canadian Prairie provinces, through which they sell and service new and used agriculture and construction equipment.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | RME-T | **Shares O/S (M)** | 19.4 |
| **Rating** | Buy | **Market Cap (M)** | $264.6 |
| **Risk** | Medium | **Float O/S (M)** | 15.1 |
| **Price** | $13.65 | **Float Value (M)** | $206.4 |
| **1-Yr Target** | $14.00 | **Avg Daily Volume (K)** | 46.6 |
| **Yield** | 3.4% | **Enterprise Value (M)** | $258.8 |
| **1-Yr ROR** | 5.9% | **Control Blocks:** | Mgmt & Dir |
| **52 Wk High-Low** | $13.97 - $9.18 | *Voting* | 22% |
| **BVPS** | $9.07 | *Equity* | 22% |
| **Valuation** | 9.5x Q4/18-Q3/19 P/E | **Net Debt/Cap** | 15% |
| **Year End** | 31-Dec | **Next Reporting** | Mar-18 |

**Adjusted EPS (FD)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **2016** | $0.02 A | $0.21 A | $0.37 A | $0.23 A | $0.83 A | 16.4x |
| **2017** | $0.04 A | $0.29 A | $0.44 A | $0.34 | $1.11 | 12.3x |
| **2018** | $0.05 | $0.34 | $0.49 | $0.46 | $1.34 | 10.2x |
| **2019** | $0.09 | $0.39 | $0.51 | $0.49 | $1.49 | 9.2x |

**Adjusted EBITDA ($M)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2016** | 2.7 A | 8.5 A | 12.2 A | 8.2 A | 31.6 A | 8.2x |
| **2017** | 3.3 A | 10.0 A | 14.1 A | 11.1 | 38.5 | 6.7x |
| **2018** | 3.4 | 11.3 | 15.4 | 14.5 | 44.6 | 5.8x |
| **2019** | 4.7 | 12.8 | 16.0 | 15.3 | 48.8 | 5.3x |

Source: Company reports; Bloomberg; LBS estimates.

## Highly Levered to a Rebound in the Ag Equip. Sector

**We rate Rocky Mountain a Buy with a one-year share price target of $14.00.** The stock price has been on a very nice trajectory for the past two years (stock was <$7 in Jan/16). RME will exit C2017 with two consecutive earnings beats and Q3/17 commentary that farmer sentiment, quoting activity and the overall outlook is finally improving. RME is ~95% exposed to the Canadian ag equipment market, which suggests it should be the biggest beneficiary of an ag equipment rebound in Canada. The company should also see a modest uptick from an improving construction market in W. Canada. We believe there could be valuation upside as well. We also highlight the following:

- **Well positioned for 2018 ag equipment rebound but keep an eye on combine sales.** For 2018, Farm Credit Canada (FCC) forecasts Canadian farm cash receipts to be down modestly, but expects total tractor sales to be up in 2018 driven by healthy cash receipts along with pent-up demand from weak farm equipment sales in 2015 and 2016. FCC is forecasting combine sales to decline in 2018; RME typically sells larger equipment, including combines, although, we should note that there has not been a good correlation between Rocky's sales and industry sales. .
- **Growing high-margin parts and service business (~15% of 2016 sales).** The company plans to add 25 technicians for both 2017 and 2018 (or ~10% increase per year in parts and service staff), which should help drive revenues in this high margin segment (3-5x higher vs. its wholesale goods sales).
- **Likely to be active on the M&A front.** The company took a cautious approach to M&A in 2017 but has been active in reviewing opportunities in both Canada and the U.S. Rocky also believes valuations remain a little high at this time. It typically pays 2-4x EBITDA for tuck-ins, ~4x+ for larger acquisitions.
- **Construction and Industrial segment (~5% of 2016 sales) could provide some upside:** Despite having modest exposure to this segment, improving oil prices could drive this segment's performance higher and would add incremental contribution to the company's bottom line.
- **Valuation upside:** Continued improvement in the ag and industrial segments could drive RME's valuation higher. It is currently trading at a modest 5% discount to its historical average but has upside as we move deeper into a market recovery.



LAURENTIAN BANK SECURITIES

# DIVERSIFIED TECHNOLOGY | Nick Agostino, CFA, MBA, P. Eng.

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Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# 5N Plus Inc.
# (VNP-T – $2.77)
# Buy – Target Price: $3.60

## COMPANY PROFILE

Following a transformational acquisition of MCP Group, Montreal-based 5N Plus Inc. has become a fully integrated primary / secondary leading refiner of commercial and ultra-high purity metals and compounds used in the pharmaceutical, electronic, industrial and solar markets. The company is the leading supplier of bismuth and a leader in the market for gallium, germanium, tellurium and indium. We estimate the targeted specialty metals market to be ~$2.0B/year, using current spot prices.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | VNP-T | **Shares-basic O/S (M)** | 83.9 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 94.5 |
| **Risk** | High | **Market Cap (US$M)** | $180.9 |
| **Price** | $2.77 | **Float O/S (M)** | 71.9 |
| **1-Yr Target** | $3.60 | **Avg Daily Volume (K)** | 67.2 |
| **Yield** | 0.0% | **Enterprise Value (US$M)** | $194.5 |
| **1-Yr ROR** | 30.0% | **Cash (US$M)** | $35.1 |
| **52 Wk High-Low** | $3.71 - $1.58 | **Net Debt (US$M)** | $13.6 |
| **Valuation** | 7.5x 2018/2019 EV/EBITDA | **Ownership** | |
| **Year End** | Dec. 31 | Manag. & Dir. | 3% |
| **Next Reporting** | Feb-18 | Institutional | 52% |
| | | **Net Debt/Total Cap** | 12% |

**EPS (FD, US$)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2014A** | $0.05 | A | $0.04 | A | $0.02 | A | ($0.01) | A | $0.07 | 29.5x |
| **F2015A** | ($0.06) | A | ($0.04) | A | ($0.06) | A | ($0.19) | A | ($0.35) | n.m. |
| **F2016A** | ($0.01) | A | ($0.01) | A | $0.01 | A | ($0.00) | A | ($0.01) | n.m. |
| **F2017E** | $0.01 | A | $0.05 | A | $0.02 | A | $0.02 | | $0.09 | 23.2x |
| **F2018E** | | | | | | | | | $0.12 | 18.3x |
| **F2019E** | | | | | | | | | $0.15 | 14.1x |

**EBITDA (US$ M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2014A** | $10.5 | A | $10.8 | A | $8.1 | A | $5.8 | A | $35.2 | 5.5x |
| **F2015A** | $0.3 | A | $1.9 | A | $1.0 | A | $1.1 | A | $4.3 | 45.5x |
| **F2016A** | $4.3 | A | $4.7 | A | $6.9 | A | $4.3 | A | $20.2 | 9.6x |
| **F2017E** | $6.1 | A | $6.8 | A | $6.2 | A | $5.8 | | $24.9 | 7.8x |
| **F2018E** | | | | | | | | | $28.6 | 6.8x |
| **F2019E** | | | | | | | | | $32.8 | 5.9x |

Source: Company reports; Bloomberg; LBS estimates.

## Streaming Along

**We rate 5N Plus (VNP) a Buy with a one-year share price target of $3.60**, implying a total return of 30.0% from current levels. Our target is based on 7.5x 2018/2019 EV/EBITDA. We highlight the following:

- **Successes so far.** Since the introduction of its 5-year strategic plan 5N21 in 2016, VNP has exited unprofitable contracts (ROCE<12%), implemented pricing hedges in its client contracts where possible, commenced sourcing of some metals from upstream sources, exited commoditized mid-stream products and recently completed its footprint consolidation (margins benefit to be realized in 2018). The net benefit, overall YTD EBITDA margin has increased to 11.4% from 9.0%, up 240bps, while adjusted EBITDA has grown 21% to US$19.1M YTD; 2017 target US$21-27M.
- **What's to come, possibly starting in 2018.** While we look for VNP to build on its EBITDA/margins performance in 2018 to illustrate the benefits of its business model, we look for progress on upstream material sourcing efforts (surrounding such metals as bismuth, tellurium, germanium) and new downstream market initiatives (low-melting alloy including markets such as pharmaceuticals, healthcare imaging, power generation, paints, solar and IoT). Out of the gate, we look for VNP's AM&M subsidiary to have more of an impact on sales and margins starting in 2018. Adding to this, the company recently announced plans to enter the animal feed market (initial market opportunity $100M), leveraging its purification and pharmaceuticals expertise. Sample products are expected to be ready ending 2018 with revenue as early as 2019 through an announced European distribution channel (Jadis Additiva). For the overall business, in 2018 we look for sales to remain relatively flat while EBITDA margins expand 220bps to 13.6% and EBITDA grows 15% to US$28.6M. We look to 2018 guidance as a reconfirmation of this view with potential upside.
- **Balance sheet continues to improve.** We look for VNP to exit 2017 with a solid balance including net debt of US$10.6M and net debt / EBITDA of 0.4x. During 2018, we expect VNP to move into a net cash position for the first time since 2010 benefitting from US$19.9M in CFO (ex. w/c) generated during the year.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# BSM Technologies Inc.
# (GPS-T – $1.25)
# Buy – Target Price: $1.90

## COMPANY PROFILE

Founded in 1999, BSM Technologies Inc. is a leader in the design, manufacturing and distribution of fully integrated, end-to-end SaaS based fleet management and asset tracking solutions targeting railroad, construction, energy, utilities and government verticals in North America. Its flagship solution is marketed under the Sentinel FM brand. The company has ~160,000 subscribers with over 500 customers. BSM currently has 103 employees.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | GPS-T | **Shares-basic O/S (M)** | 82.2 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 88.0 |
| **Risk** | High | **Market Cap (M)** | $102.7 |
| **Price** | $1.25 | **Float O/S (M)** | 71.1 |
| **1-Yr Target** | $1.90 | **Avg Daily Volume (K)** | 146.4 |
| **Yield** | 0.0% | **Enterprise Value (M)** | $113.0 |
| **1-Yr ROR** | 52.0% | **Cash (M)** | $0.9 |
| **52 Wk High-Low** | $1.80 - $1.18 | **Net Debt (M)** | $10.3 |
| **Valuation** | 12x F2019 EBITDA | **Ownership** | |
| **Year End** | Sep-30 | Manag. & Dir. | 6.4% |
| **Next Reporting** | Feb-18 | Institutional | 14.1% |
| | | **Net Debt/Total Cap** | n/a |

**EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016A** | ($0.00) | A | $0.00 | A | ($0.00) | A | $0.09 | A | $0.09 | 13.7x |
| **2017A** | $0.00 | A | ($0.01) | A | ($0.00) | A | ($0.00) | A | ($0.01) | n.m. |
| **2018E** | ($0.00) | | ($0.00) | | $0.01 | | $0.01 | | $0.01 | 139.4x |
| **2019E** | | | | | | | | | $0.05 | 27.2x |

**EBITDA (M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016A** | $2.1 | A | $2.3 | A | $1.9 | A | $2.0 | A | $8.4 | 13.5x |
| **2017A** | $2.8 | A | $2.2 | A | $2.2 | A | $1.2 | A | $8.3 | 13.6x |
| **2018E** | $1.9 | | $2.1 | | $2.9 | | $2.9 | | $9.8 | 11.5x |
| **2019E** | | | | | | | | | $14.0 | 8.1x |

Source: Company reports; Bloomberg; LBS estimates.

Pricing as of Dec. 14/17.

## Focus on Costs, Churn and Pipeline

**We rate BSM Technologies (GPS) a Buy with a one-year share price target of $1.90**, implying a total return of 52.0% from current levels. We derive our target by applying a 12x EV/EBITDA multiple to our F2019 estimates. We note the following:

- **Costs to weigh on 1H/F18 results.** With a new CTO, the decision was made to accelerate development velocity and bring about platform technology consolidation (this includes both devices and back-end systems) sooner onto the Mobi platform. This stepped-up effort includes an increase in R&D investment dollars which we model to run at peak rates of $2.7M through 1H/F18 in line with Q4/F17, before tapering back to $2.5M. The net benefit will largely be realized in F2019.

- **Churn remains a drag on results.** Normalized churn has ranged from 6-9% over the last year, coming in at the upper end (9%) in Q4/F17 after adjusting for an atypical event, and exceeding the company's targeted 6-8% range. Not included in this range is a spike to 30% in Q2/F17 as a result of 2G network shutdowns by AT&T and a lag effect on FQ4 where unadjusted churn was 14%. A similar situation is expected in F2018 with a Canadian carrier expected to shut down its 2G network which is estimated to impact 4k GPS subscribers (company working to minimize this impact) and further in F2020 when a second Canadian carrier is expected to shut is 2G network; impacting a further 4k GPS subs.

- **Pipeline strong and translating into results.** On the Q3/F17 conference call, GPS noted positive pipeline metrics and highlighted a growing backlog which included: 1) 2k units for the rail market, 2) interest in recently launched container/rail monitoring, 3) ~1k units from a new government win, 4) 3k unit rollout with existing government clients, 5) anticipated Mobi cross selling wins during F2018, and 6) ongoing construction rollouts. Given the nature of deployments we note that full rollout of these contracts/opportunities will occur over multiple quarters. Recent FQ4 results were supported by this solid pipeline with 6,300 subscriber gross additions added, surpassing a recent peak in Q4/F16.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# Kinaxis Inc.
# (KXS-T – $74.87)
# Buy – Target Price: $88.00

## COMPANY PROFILE

Founded in 1984, Kinaxis Inc. is a supplier of cloud-based subscription software, RapidResponse®, which provides end-to-end visibility, planning, and co-ordination of supply chain networks. The company is headquartered in Ottawa, ON, with satellite/virtual offices in Chicago, Tokyo, Hong Kong and Eindhoven, and data hosting centers in Virginia and Ontario. As of 2015, Kinaxis derives 83% of its revenues from the U.S., 8% from abroad, and the balance from Canada.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | KXS-T | **Shares-basic O/S (M)** | 25.4 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 27.6 |
| **Risk** | High | **Market Cap (US$M)** | $1,482.7 |
| **Price** | $74.87 | **Float O/S (M)** | 17.4 |
| **1-Yr Target** | $88.00 | **Avg Daily Volume (K)** | 99.4 |
| **Yield** | 0.0% | **Enterprise Value (US$M)** | $1,331.2 |
| **1-Yr ROR** | 17.5% | **Cash (US$M)** | $151.4 |
| **52 Wk High-Low** | $91.98 - $58.91 | **Net Debt (US$M)** | -$151.4 |
| **Valuation** | 9x 2018/2019 EV/Sales | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 31.8% |
| **Next Reporting** | Feb-18 | Institutional | 41.3% |
| | | **Net Debt/Total Cap** | n/a |

**Sales (US$M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $19.7 | A | $23.7 | A | $23.7 | A | $24.2 | A | $91.3 | 14.6x |
| **2016A** | $27.0 | A | $28.7 | A | $29.9 | A | $30.3 | A | $116.0 | 11.5x |
| **2017E** | $32.5 | A | $32.9 | A | $33.5 | A | $34.9 | | $133.8 | 9.9x |
| **2018E** | | | | | | | | | $160.7 | 8.3x |
| **2019E** | | | | | | | | | $196.6 | 6.8x |

**EBITDA (US$M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $5.6 | A | $9.2 | A | $8.0 | A | $7.1 | A | $30.0 | 44.4x |
| **2016A** | $8.0 | A | $7.3 | A | $6.8 | A | $6.4 | A | $28.5 | 46.7x |
| **2017E** | $8.5 | A | $9.6 | A | $10.8 | A | $9.5 | | $38.4 | 34.7x |
| **2018E** | | | | | | | | | $51.6 | 25.8x |
| **2019E** | | | | | | | | | $69.6 | 19.1x |

Source: Company reports; Bloomberg; CapIQ; LBS estimates.

## Business Model/Thesis Surfacing in Operating Results

**We rate Kinaxis Inc. (KXS) a Buy with a one-year share price target of $88.00**, implying a total return of 17.5% from current levels. We derive our target by applying a 9x EV/Sales multiple to blended 2018/19 estimates. We highlight the following:

- **Not a bad performance for a transition year.** In what we categorize as a transition year, as SIs increasingly drive new customer additions (leading to lower Professional Services fees), and despite the fallout from an Asian contract breach, KXS still managed to deliver strong YTD sales growth (+15%) and even stronger YTD subscription sales growth (+25%), along with operating leverage which drove EBITDA growth of +31% YTD, and saw YTD EBITDA margin at 29.2% vs. 25.8% in the prior year period.

- **SI contributions gaining traction.** New customers now account for $^2/_3$ of incremental revenue growth vs. 50% previously, with growth coming from SI channel partners. The result YTD, is flat S&M costs as KXS leverages its channel partners. This is in line with our thesis and KXS's business model, it is a little earlier than we, and even the company, had expected (we speculate by ~1 year). As KXS anticipates ~80% of the pipeline to stem from SIs in the near- to medium term; we expect further progress in 2018 as Bain gets on board, and more channel partners are added.

- **New verticals are becoming increasingly meaningful.** While KXS's initial penetration was in the High Tech industry, strong pent up demand in Life Sciences has seen that vertical now become the biggest revenue generator as of Q2/17 (vs. <30% top line contributor in 2016 vs. 12% in 2015). Our channel checks suggest this vertical continues to see strength, with strong adoption now emerging from recent entries into the Automotive and Consumer Product industries. We expect these sectors to be meaningful contributors to 2018 Subscription revenues and overall top line growth, particularly as CPG suppliers feel the crunch from their customers for just-in-time delivery.

- **All eyes on 2018 guidance.** Beyond contract announcements, the next major catalyst is 2018 guidance which should be delivered alongside Q4/17 results in February 2018. Noting the Q3/17 across-the-board upward revisions in 2017 guidance (total sales, subscription growth, EBITDA margin), for 2018 we look for total sales of US$160.7M and EBITDA of US$51.6M (32.1% margin), reflecting only a US$7M or 12% YoY increase in opex despite >20% expected total sales growth. Overall, we look to 2018 as a validation of accelerated adoption by larger players as the solution is increasingly deployed, as well as a gradual uptick in operating leverage as the 2017 "transition year" ends.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# Mediagrif Interactive Technologies Inc.
# (MDF-T – $10.82)
# Hold – Target Price: $14.00

## COMPANY PROFILE

Mediagrif is a Montreal-based operator of e-business networks and a provider of e-commerce solutions. Through 16 separately branded platforms, the company offers procurement/publishing solutions (targeting governments and private corporations), online marketplaces in many market verticals (automotive, IT/telecom, electronics, wine and spirits, and jewelry), as well as SaaS business solutions. The company employs 340 individuals situated in 9 locations, namely in North America.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | MDF-T | **Shares O/S (M)** | 14.8 |
| **Rating** | Hold | **Market Cap (M)** | $160.7 |
| **Risk** | High | **Float O/S (M)** | 11.0 |
| **Price** | $10.82 | **Float Value (M)** | $119.1 |
| **1-Yr Target** | $14.00 | **Avg Daily Volume (K)** | 11.0 |
| **Dividend** | $0.40 | **Enterprise Value (M)** | $184.0 |
| **1-Yr ROR** | 33.1% | **Control Blocks:** | |
| **52 Wk High-Low** | $19.18 - $10.66 | *Mgmt. % Dir* | 25.9% |
| **Valuation** | 8.5x EV/EBITDA (C2018E) | *Institutional* | 37.9% |
| **BVPS** | $8.95 | **Net Debt/Cap** | 14.9% |
| **Year End** | Mar. 31 | **Next Reporting** | Feb-18 |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.24 | A | $0.31 | A | $0.30 | A | $0.26 | A | $1.12 | 9.6x |
| **F2017A** | $0.26 | A | $0.31 | A | $0.27 | A | $0.26 | A | $1.09 | 9.9x |
| **F2018E** | $0.18 | A | $0.16 | A | $0.18 | | $0.18 | | $0.69 | 15.7x |
| **F2019E** | | | | | | | | | $0.84 | 12.8x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $6.8 | A | $7.7 | A | $8.0 | A | $6.9 | A | $29.4 | 6.3x |
| **F2017A** | $7.1 | A | $8.1 | A | $7.1 | A | $6.8 | A | $29.4 | 6.3x |
| **F2018E** | $6.4 | A | $6.3 | A | $6.8 | | $6.6 | | $26.0 | 7.1x |
| **F2019E** | | | | | | | | | $27.5 | 6.7x |

**FCF ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/FCF |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $3.4 | A | $5.3 | A | $5.6 | A | $2.6 | A | $16.8 | 11.0x |
| **F2017A** | $5.1 | A | $5.5 | A | $5.3 | A | $4.0 | A | $19.9 | 9.2x |
| **F2018E** | $4.5 | A | $2.2 | A | $3.0 | | $2.3 | | $12.0 | 15.3x |
| **F2019E** | | | | | | | | | $12.2 | 15.0x |

Source: Company reports; ThomsonONE; LBS estimates.

## Headwinds to Persist into C2018

**We rate Mediagrif (MDF) a Hold with a one-year share price target of $14.00.** Combined with an annual dividend of $0.40 per share, this implies a total return of 33.1% from current levels. We derive our target by applying an 8.5x EV/EBITDA multiple to our C2018 estimates. We note the following:

- **2017 headwinds driving tax loss selling.** MDF shares are down >40% YTD on both limited organic sales growth and EBITDA margin compression. Organic growth stood at -4% in Q2/F18 (ending September). Historically, only non-core assets have been a drag on sales growth but during F2018 previously high growth units MERX and InterTrade also saw a slowdown in sales growth. This, coupled with increased opex spend, has led to EBITDA margin compression from historic highs of ~40% to ~31%. We expect the latter to persist for a few quarters.
- **Slow but pointed tuck-in activity.** After a roughly 2 year hiatus MDF announced the acquisition of Advanced Software Concepts (ASC) in May 2016, filling a gap in its e-Purchasing (MERX/BidNet) product suite. In 2017, MDF acquired Orckestra, a single PaaS (Platform-as-a-Service) that centralizes commerce experiences, data exchanges and workflows to enchain the shopping experience; in essence an InterTrade tuck-in. MDF remains active in evaluating potential acquisitions, and has ample financial flexibility for more M&A with $25M left on its $60M revolver + a $40M accordion. Among targets, the company is seeking a "spent management" solution to provide BI (business intelligence) data for its MERX/BidNet platforms. We could see an announcement on this front in C2018.
- C2018 should offer more of the same. While we await growth to re-emerge from completed redevelopment work on B2C/C2C platforms, we look for continued work on B2B platforms (MERX/InterTrade) to capture growth opportunities. Specifically, we expect MDF to continue its ASC and Orckestra integration and cross-selling efforts, and further its webEDI for InterTrade (scheduled for Q1/F19 launch). That said, we await indications of a return to double-digit growth for main platforms MERX and InterTrade; potentially in 2H/F19. In the meantime, we model low organic growth at ~2%. This, coupled with elevated opex, including retention bonuses for Orckestra and for R&D, should result in a continued depressed EBITDA margin at 32.5%. We also note the shares could see a bit of tax loss selling relief as we start the new year. We await signs of a sustained turnaround before becoming more constructive on the shares.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# Savaria Corporation
# (SIS-T – $17.28)
# Buy – Target Price: $19.75

## COMPANY PROFILE

Founded in 1979, Savaria Corporation (SIS) offers a product line to assist the mobility challenged, targeting commercial/residential markets in North America. Operations are divided into three reporting segments: Accessibility (lifts), Adapted Vehicles (van conversions) and Span (medical products/equipment). SIS is headquartered in Laval, QC with manufacturing/assembly facilities in Brampton and Beamsville, ON, Laval and Magog, QC, Greenville, SC, Huizhou, China and across Australia. The company operates a network of 400 retailers and employs ~800 people.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SIS-T | **Shares-basic O/S (M)** | 41.2 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 41.2 |
| **Risk** | Medium | **Market Cap (M)** | $711.5 |
| **Price** | $17.28 | **Float O/S (M)** | 26.1 |
| **1-Yr Target** | $19.75 | **Avg Daily Volume (K)** | 98.4 |
| **Yield** | 2.1% | **Enterprise Value (M)** | $743.6 |
| **1-Yr ROR** | 16.4% | **Cash (M)** | $11.0 |
| **52 Wk High-Low** | $18.23 - $10.18 | **Net Debt (M)** | $32.0 |
| **Valuation** | 16x 2019 EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 36.7% |
| **Next Reporting** | Mar-18 | Institutional | 27.5% |
| | | **Net Debt/Total Cap** | 19.5% |

**EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.05 | A | $0.07 | A | $0.07 | A | $0.08 | A | $0.27 | 62.9x |
| **2016A** | $0.08 | A | $0.10 | A | $0.10 | A | $0.10 | A | $0.37 | 46.3x |
| **2017E** | $0.09 | A | $0.11 | A | $0.13 | A | $0.12 | | $0.45 | 38.2x |
| **2018E** | | | | | | | | | $0.59 | 29.2x |
| **2019E** | | | | | | | | | $0.72 | 24.1x |

**EBITDA (M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $2.9 | A | $3.5 | A | $3.8 | A | $4.3 | A | $14.5 | 51.2x |
| **2016A** | $4.1 | A | $5.2 | A | $5.7 | A | $5.8 | A | $20.8 | 35.7x |
| **2017E** | $5.2 | A | $6.7 | A | $9.6 | A | $9.8 | | $31.4 | 23.7x |
| **2018E** | | | | | | | | | $46.1 | 16.1x |
| **2019E** | | | | | | | | | $54.0 | 13.8x |

Source: Company reports; Bloomberg; LBS estimates.

Pricing as of Dec. 14/17.

## More M&A on the Docket?

**We rate Savaria Corp. (SIS) a Buy with a one-year share price target of $19.75**, implying a total return of 16.4% from current levels. We derive our target by applying a 16.0x EV/EBITDA multiple to our 2019 estimates. We highlight the following:

- **M&A at the forefront in 2017…** Augmenting its core operations, SIS made 4 acquisitions during 2017 including Premier Lifts, Span, Visilift and more recently Master Lifts. Span was particularly interesting as it delivered increased U.S. exposure, a diversified product set including beds and foam products, and an entry into the institutional and government markets as a distribution channel for the company's new ceiling lift products. As well Master Lifts gives SIS a strategic entry into the Australian market and offers a good distribution footprint with its 10 locations throughout the country.

- **…and more is expected in 2018.** With access to ~$80M in capital as of Q3/17, we expect M&A to remain an ongoing theme with SIS. We look for potential product expansion into door openers, distribution expansion to the U.S. west coast, and/or further beachhead transactions similar to Master Lifts into new geographies like Asia to add to its nominal China revenues. For 2017, the EV/EBITDA multiple range paid was 7-11x; using the mid-point (9x), the full capital deployed could add ~$9M in incremental EBITDA not currently included in our estimates.

- **2018 guidance aligns with our expectations.** Excluding M&A and the recent Master Lifts acquisition (Dec. 14/17), Savaria is guiding to 2018 sales of $260M, implying 40% YoY growth (~12% organic growth including any F/X), with an EBITDA range of $42-44M; guidance implies an EBITDA margin range of 16.2-16.9%. Guidance is in-line with our expectations. According to guidance, incremental sales from the Span and Premier acquisitions and contributions from the more recent Visilift transaction are expected to drive 28% YoY growth. We expect the implied organic growth however to stem from many avenues: 1) renewed demand for stairlifts, 2) the expected January 2018 introduction of a new porch platform lift, 3) a normalization of van conversions following the move to a new facility in Toronto in Q3/17, 4) growth in elevator units including the new TeleCab, and 5) the rollout (through Span's distribution network) of a full-suite ceiling lift product line in Q2/18. We expect unit prices to remain relatively unchanged despite the potential re-emergence of thyssenkrupp as a competitor in North America.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# Solium Capital Inc.
# (SUM-T – $10.64)
# Buy – Target Price: $12.75

## COMPANY PROFILE

Solium Capital is a leading global provider of cloud-enabled services to automate and administer all stock option and equity purchase plans, as well as simplify their financial reporting and regulatory compliance, and facilitate trade execution with their platform. Solium offers a wide range of products and service models, including Shareworks®, StockVantage™, and Express Options Equity Suite™, catering to both public and private corporations. The company operates in the U.S., Canada, the U.K. and Australia, with its innovative SaaS proprietary technology currently being used by over 3,200 firms with more than 1M participants in over 150 countries.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SUM-T | **Shares-basic O/S (M)** | 55.8 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 59.5 |
| **Risk** | High | **Market Cap (US$M)** | $462.3 |
| **Price** | $10.64 | **Float O/S (M)** | 31.5 |
| **1-Yr Target** | $12.75 | **Avg Daily Volume (K)** | 53.2 |
| **Yield** | 0.0% | **Enterprise Value (US$M)** | $369.3 |
| **1-Yr ROR** | 19.8% | **Cash (US$M)** | $93.1 |
| **52 Wk High-Low** | $11.15 - $7.32 | **Net Debt (US$M)** | -$93.0 |
| **Valuation** | 3.5x 2018/2019 EV/Sales | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 35.3% |
| **Next Reporting** | Mar-18 | Institutional | 8.2% |
| | | **Net Debt/Total Cap** | -182.6% |

**Sales (US$M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016A** | $18.6 | A | $19.9 | A | $19.9 | A | $18.9 | A | $77.2 | 4.8x |
| **2017E** | $21.3 | A | $21.6 | A | $20.8 | A | $22.2 | | $85.9 | 4.3x |
| **2018E** | $24.5 | | $25.3 | | $26.8 | | $28.4 | | $105.1 | 3.5x |
| **2019E** | | | | | | | | | $127.5 | 2.9x |

**EBITDA (US$M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016A** | $3.3 | A | $3.7 | A | $3.8 | A | $2.6 | A | $13.4 | 27.6x |
| **2017E** | $4.3 | A | $3.1 | A | $1.5 | A | $1.6 | | $10.6 | 34.9x |
| **2018E** | $2.1 | | $2.2 | | $3.3 | | $4.5 | | $12.2 | 30.3x |
| **2019E** | | | | | | | | | $26.9 | 13.7x |

Source: Company reports; Bloomberg; LBS estimates.

## Thesis Intact; Costs Tapering to Growth; M&A a Catalyst

**We rate Solium Capital (SUM) a Buy with a one-year share price target of $12.75**, implying a total return of 19.8% from current levels. We derive our target by applying a 3.5x EV/Sales multiple to blended 2018/19 estimates. We note the following:

- **2017 validates the thesis.** Picking up on the Morgan Stanley (MS) deal from November 2016, during 2017 the company added UBS as a white label client, which we view as a further validation of our thesis. SUM has levered its leading ESOP market share in Canada to penetrate both Europe and Australia, and has now come full circle with U.S. enterprise clients now being onboarded through the MS and UBS channels. We believe further large U.S. white label deals could be garnered in 2018, as a further validation of SUM's global technology platform lead.

- **Private market a nice feeder pool.** With SUM already having a meaningful position in the U.S. private market, the company acquired Capshare and introduced Solium Analytics (for 409A private market business valuations) in late 2017. Combined, we estimate the two initiatives open up a +US$50M market for SUM. We look for further penetration into the private market in 2018, including leveraging its recent Nasdaq Private Market client win.

- **Waiting for a sizable acquisition(s).** On the back of a recent C$46M bought deal, SUM now has an estimated US$93M in cash (no debt). We believe the company could undertake a sizeable strategic acquisition in 2018, either by acquiring a meaningful book of business in the U.S. or Europe or acquiring a company (most likely in Europe) to broaden its geographic reach.

- **2018 should see spending taper and sales grow through the year.** Barring another sizeable white label client, we expect opex to grow 23% YoY similar to our forecast sales growth. However we expect opex to taper in 2H/18 with growth of 19% vs. 2H/17 as compared to 28% growth in 1H/18 vs. 1H/17. In essence, we look for opex to peak in 1H/18 with the completion of hiring for the UBS contract (MS contract hiring complete). Conversely, we look for sales growth to accelerate through the back half of the year, up 28% vs. 2H/18 with 1H/18 up 16% vs. 1H/17. The driver is the steady progression through the onboarding process for both MS and UBS, starting with the smaller clients in Q4/17. Our estimates assume a slight deterioration in participant trading activity as witnessed in 2H/17 with trading dollars flat to up on a growing client base in general.

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# TECSYS Inc.
# (TCS-T – $16.60)
# Buy – Target Price: $18.25

## COMPANY PROFILE

Founded in 1983, TECSYS Inc. (TCS) develops, markets and sells enterprise-wide supply chain management (SCM) software for distribution, warehousing, and transportation logistics, targeting primarily the North American market. The offering is a singlesource solution that combines proprietary software and with third-party hardware. TCS is headquartered in Montreal, QC, operating 4 offices and one storage facility, with 3 locations in Quebec and 2 in Ontario. As of F2016, TCS derives 66% of its revenues from the U.S., 31% from Canada, and the balance from abroad. The company employs ~365 people with ~190 in services.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TCS-T | **Shares-basic O/S (M)** | 13.1 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 13.1 |
| **Risk** | High | **Market Cap (M)** | $217.2 |
| **Price** | $16.60 | **Float O/S (M)** | 8.9 |
| **1-Yr Target** | $18.25 | **Avg Daily Volume (K)** | 7.8 |
| **Yield** | 1.2% | **Enterprise Value (M)** | $194.9 |
| **1-Yr ROR** | 11.1% | **Cash (M)** | $22.5 |
| **52 Wk High-Low** | $17.18 - $9.24 | **Net Debt (M)** | -$22.3 |
| **Valuation** | 13x C2019 EV/EBITDA | **Ownership** | |
| **Year End** | Apr-30 | Manag. & Dir. | 31.9% |
| **Next Reporting** | Feb-18 | Institutional | 38.1% |
| | | **Net Debt/Total Cap** | n/a |

**EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.04 | A | $0.04 | A | $0.04 | A | $0.05 | A | $0.17 | 99.5x |
| **2016A** | $0.01 | A | $0.03 | A | $0.04 | A | $0.30 | A | $0.38 | 43.5x |
| **2017A** | $0.01 | A | $0.08 | A | $0.08 | A | $0.11 | A | $0.20 | 84.4x |
| **2018E** | $0.01 | A | $0.11 | A | $0.07 | | $0.09 | | $0.27 | 60.8x |
| **2019E** | | | | | | | | | $0.53 | 31.5x |

**EBITDA (M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $1.2 | A | $1.2 | A | $1.3 | A | $1.2 | A | $4.8 | 40.3x |
| **2016A** | $0.8 | A | $1.2 | A | $1.3 | A | $3.8 | A | $7.1 | 27.3x |
| **2017A** | $0.8 | A | $1.7 | A | $2.0 | A | $2.5 | A | $7.0 | 27.8x |
| **2018E** | $0.7 | A | $2.2 | A | $1.9 | | $2.0 | | $6.8 | 28.7x |
| **2019E** | | | | | | | | | $11.5 | 17.0x |

Source: Company reports; Bloomberg; LBS estimates.

## Expect to be Firing on all Cylinders in 2018

**We rate TECSYS Inc. (TCS) a Buy with a one-year share price target of $18.25**, implying a total return of 11.1% from current levels. We derive our target by applying a 13x EV/EBITDA multiple to our C2019 estimates. We note the following:

- Firing on the "other" cylinder. While historically Healthcare has been the primary sales growth driver, C2017 saw reinvigorated growth in Complex Distribution aided by past efforts to set a separate sales team for the unit; YTD the division is tracking 50% above expectations. Conversely, with Affordable Care Act repeal an ongoing debate in the U.S. government, new Healthcare wins have stalled; F2018 YTD we have seen one new IDN win at the start of FQ3. However, sales from existing Healthcare clients remain solid. With only 1 unit showing growth, calendar YTD TCS has posted EBITDA margin of 10.3% vs. 11.7% in the prior comparable period, reflective of Complex Distribution's lower margin profile.
- Both cylinders expected to be firing in C2018. We look for Complex Distribution to maintain its renewed growth trajectory in the new-year. More importantly, we look for Healthcare to re-establish its growth footing in C2018; as per above, post FQ2 TCS won one new IDN as an indication of forward progress. The company expects solid deal activity going into C2018 in both markets. Adding to this, TCS is witnessing growing deal sizes and incremental sales from its existing IDN base, which should benefit C2018 sales. As well, the recently established pharma solution is expected to garner increased sales interest, along with TCS's revamped SaaS One Sprint solution. With these, we look for C2018 sales growth of >8%, but more importantly anticipate >300bps increase in EBITDA margin on Healthcare rejuvenation and operating leverage.
- Potential M&A activity could add upside. The company is being proactive in the M&A market given its valuation differential vs. targets, but has nothing imminent. Management is looking for a Healthcare acquisition in North America; and a beachhead Complex Distribution acquisition in Europe, ideally with revenues of $5-20M as part of a strategy to build a global footprint. Any announcement in this regard in C2018 would add upside to our estimates, and possibly to the share price. We note as of Q2/F18, TCS has $22.5M in cash on hand (no debt).

Nick Agostino, MBA, CFA, P.Eng. | DIVERSIFIED TECHNOLOGY

# $TSO_3$ Inc.
# (TOS-T – $2.55)
# Spec. Buy – Target Price: $4.50

## COMPANY PROFILE

Founded in 1998, $TSO_3$ Inc. is developing and marketing a low-temperature sterilization process for heat/moisture sensitive medical devices used in healthcare facilities. $TSO_3$'s next generation STERIZONE® 125L+ Sterilizer uses a combination of hydrogen peroxide and ozone technology, and has been cleared in Canada and Europe, and known as the VP4 in the U.S. $TSO_3$ is also developing a smaller-scale sterilizer to meet operating-room requirements, the STERIZONE® 80L, with regulatory approval review processes to be undertaken.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TOS-T | **Shares O/S f.d. (M)** | 99.0 |
| **Rating** | Spec. Buy | **Market Cap (US$M)** | $185.1 |
| **Risk** | High | **Float O/S (M)** | 97.9 |
| **Price** | $2.55 | **Float Value (US$M)** | $195.0 |
| **1-Yr Target** | $4.50 | **Avg Daily Volume (K)** | 120.9 |
| **Dividend** | $0.00 | **Enterprise Value (US$M)** | $170.1 |
| **1-Yr ROR** | 76.5% | **Control Blocks:** | |
| **52 Wk High-Low** | $2.05 - $3.36 | Manag. & Dir. | 1.2% |
| **BVPS ($US)** | $0.15 | | |
| **Valuation** | 10-yr DCF @ 11% | **Net Debt/Cap** | n/a |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Sales (M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/Sales |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014A** | $0.1 | A | $0.1 | A | $0.1 | A | $0.1 | A | $0.4 | n.m. |
| **2015A** | $0.1 | A | $0.1 | A | $1.2 | A | $0.2 | A | $1.6 | n.m. |
| **2016A** | $3.1 | A | $3.0 | A | $3.5 | A | $3.7 | A | $13.3 | 12.8x |
| **2017E** | $4.2 | A | $4.6 | A | $5.1 | A | $6.0 | | $20.0 | 8.5x |
| **2018E** | | | | | | | | | $33.2 | 5.1x |

**Adjusted EBITDA (M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014A** | ($1.4) | A | ($1.2) | A | ($1.3) | A | ($1.5) | A | ($5.4) | n.m. |
| **2015A** | ($1.7) | A | ($1.5) | A | ($1.1) | A | ($2.7) | A | ($6.9) | n.m. |
| **2016A** | ($0.6) | A | ($1.1) | A | ($1.0) | A | ($1.3) | A | ($4.1) | n.m. |
| **2017E** | ($1.2) | A | ($1.4) | A | ($0.7) | A | ($0.5) | | ($3.8) | n.m. |
| **2018E** | | | | | | | | | $0.3 | n.m. |

*2014 & 2015 figures in C$, US$ otherwise.
Source: Company reports; ThomsonONE; LBS.

## Outlook Built on Four Pillars

**We rate $TSO_3$ a Speculative Buy with a one-year share price target of $4.50**, implying a total return of 76.5% from current levels. We derive our target from a 10-year DCF analysis (11% discount rate, 3% terminal growth).

**TOS has delivered on its 2017 purchase order to Getinge, namely shipping 120 VP4 units in the first 9 months of the year**, up 50% YoY. The company has recorded US$13.9M in revenues YTD vs. US$9.6M in the prior year period, up 45% YoY including flat Accessories, Consumables and Other Revenue of $1.3M. As of Q3, TOS began disclosing its installed base (at ~50 units). We/investors would have liked to see a higher install base along with higher consumables revenue at this stage in the Getinge partnership.

**2018 focus on four key variables as follows:**

- **FDA duodenoscope approval.** The response to the FDA's request for additional information on labeling and further testing of specific scope features was submitted on November 16. While TOS remains optimistic a positive decision could be rendered before year end 2017, we see this as a Q1/18 event at the earliest. Regardless of the timing, this approval should be monumental for TOS's long-term growth prospects.
- **Growing install base…and consumables.** On the Q3 call, management offered a high level of visibility in reaching an installed base of 70 units by year-end, implying 40% QoQ growth. It was noted on the conference call that Getinge has some large "double-digit" orders in hand, and TOS anticipates at least one coming through by year-end. We look to Q4/17 and 2018 results as validation of this momentum and indications of sustained growth, including on the consumables side.
- **New high-capacity production plant.** The company is moving forward with its plans for a high-capacity facility in South Carolina to complement its Quebec facilities. This plant is expected to open in Q3/18 and requires immaterial capex owing to its nature as an assembly-only facility, offering long-term upside to margins as volume ramps. Advancements on this front during 2018, alongside installed base growth, should provide positive demand-pull read-through.
- **Progress on mandating sterilization.** AAMI meets January 8, 2018 ahead of its annual sterilization committee meeting in March. These meetings offer an opportunity to further a recommendation of the Spaulding Classification system, to render endoscopes 'critical' as opposed to 'semi-critical' thereby mandating they be sterilized as opposed to high level disinfection.

# FINANCIAL SERVICES | Marc Charbin, CPA, CA, CFA

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Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

## Canadian Western Bank
## (CWB-T – $37.66)
## Buy – Target Price: $45.00

### COMPANY PROFILE

Canadian Western Bank, based in Edmonton, Alberta, is principally a commercial lender, specializing in asset-based lending. Alberta and British Columbia are the Company's two core markets. In addition to commercial lending, CWB also offers a full suite of consumer loans, mortgages and deposits, trust services and wealth management products.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | CWB-T | **Year End** | Oct. 31 |
| **Rating** | Buy | **Next Reporting** | Mar-18 |
| **Risk** | Medium | **Shares-basic O/S (M)** | 88.4 |
| **Price** | $37.66 | **Shares-FD O/S (M)** | 92.4 |
| **1-Yr Target** | $45.00 | **Market Cap (M)** | $3,328 |
| **Yield** | 2.5% | **Float O/S (M)** | 86.2 |
| **1-Yr ROR** | 22.0% | **Avg Daily Volume (K)** | 424.7 |
| **52 Wk High** | $37.36 | **Ownership** | |
| 52 Wk Low | $23.68 | Manag. & Dir. | 2.5% |
| **Valuation** | 13.0x 2019E EPS | Institutional | 49.7% |

| **EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.66 | A | $0.39 | A | $0.55 | A | $0.57 | A | $2.19 | 17.2x |
| **F2017A** | $0.59 | A | $0.59 | A | $0.67 | A | $0.68 | A | $2.55 | 14.7x |
| **F2018E** | $0.70 | | $0.75 | | $0.76 | | $0.74 | | $2.95 | 12.8x |
| **F2019E** | | | | | | | | | $3.47 | 10.8x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $22.17 | A | $22.62 | A | $23.19 | A | $23.59 | A | $23.59 | 1.6x |
| **F2017A** | $23.82 | A | $24.27 | A | $24.31 | A | $24.84 | A | $24.84 | 1.5x |
| **F2018E** | $25.30 | | $25.81 | | $26.33 | | $26.83 | | $26.83 | 1.4x |
| **F2019E** | | | | | | | | | $29.34 | 1.3x |

*Source: Company reports; CapitalIQ; LBS estimates.*

## Moving Closer to Target ROE

**We rate Canadian Western Bank a Buy with a one-year target price of $45.00.** CWB delivered 5.8% loan book growth in F2017 as momentum started picking up in the back-half of the year from what is still a relatively tepid economy in Alberta and Saskatchewan. CWB's share price surged on the back of two rate increases by the Bank of Canada, which should help deliver EPS growth through F2018. And while the personal and real estate portfolios have slowed their pace of growth, commercial and equipment financing, particularly in Ontario, are expected to sustain a double-digit pace of growth going forward.

**Looking forward:**

- We expect for CWB to increase the loan book by 14.0% in F2018E, which includes the addition of a $900 million portfolio in Q1/F18.
- Net interest margins rose 6bps in Q4/F17 from the Bank of Canada's first rate hike, and we expect margins to expand further throughout the year from the second rate hike and higher concentration of higher-yielding loans. We expect net interest margins to increase to 2.59% in F2018E, from 2.49% in F2017.
- With EPS moving steadily higher, investors can reasonably expect another dividend increase next year, perhaps even two, especially once the Company gains more comfort on capital relief from moving to AIRB.
- Meeting its mid-term objectives for ROE is quite likely by 2019E (we forecast ROE of 11.4% in 2018E and 12.4% in 2019E) and, as a result, should justify continued dividend increases as well.
- We value CWB applying a P/E multiple of 13.0x on our F2019E EPS of $3.47. For the last ten years, CWB has traded at a premium of 0.2x to 1.8x relative to the "Big 6."

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Chesswood Group Ltd.
# (CHW-T – $11.46)
# Hold – Target Price: $12.50

## COMPANY PROFILE

Chesswood Group Limited is a specialty finance company focused on equipment leases to non-prime and prime small businesses in the U.S. and Canada. Chesswood also services the market for working capital loans to small businesses in the U.S. Chesswood's operating companies include: Pawnee Leasing and Blue Chip Leasing.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | CHW-T | Shares-Basic O/S (M) | 18.0 |
| Rating | Hold | Shares-FD O/S (M) | 19.9 |
| Risk | High | Market Cap (M) | $206.8 |
| Price | $11.46 | Float O/S (M) | 11.8 |
| 1-Yr Target | $12.50 | Avg Daily Volume (K) | 11.6 |
| Yield | 7.3% | Enterprise Value (M) | $441 |
| 1-Yr ROR | 16.4% | Cash (M) | $9.4 |
| 52 Wk High-Low | $14.60 - $11.17 | Net Debt (M) | $234 |
| Valuation | 11.0x 2018E EPS | Ownership | |
| Year End | Dec-31 | Manag. & Dir. | 24.6% |
| Next Reporting | Mar-18 | Institutional | 18.8% |

| EPS | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $0.25 | A | $0.26 | A | $0.23 | A | $0.17 | A | $0.92 | 12.5x |
| F2017E | $0.25 | A | $0.24 | A | $0.21 | A | $0.17 | | $0.87 | 13.1x |
| F2018E | | | | | | | | | $1.13 | 10.2x |
| F2019E | | | | | | | | | $1.17 | 9.8x |

| BVPS | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/BV |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $7.90 | A | $7.88 | A | $7.75 | A | $8.12 | A | $8.89 | 1.3x |
| F2017E | $8.88 | A | $8.71 | A | $8.44 | A | $8.42 | | $8.43 | 1.4x |
| F2018E | | | | | | | | | $8.85 | 1.3x |
| F2019E | | | | | | | | | $9.30 | 1.2x |

*Source: Company reports; CapitalIQ; LBS.*

## Finance Receivables Growing, But Profit Lagging as CHW High-Grades Quality

**We rate Chesswood Group a Hold with a one-year target price of $12.50.** Consolidated receivables are on pace to increase 22% in 2017 and the portfolio is high-grading as CHW continues to originate more receivables in the prime segment of the market. Yet, as the prime business grows, finance margin has not kept pace. We estimate finance margin will have increased to $57 million, from $56 million by the end of the year. Perhaps this trend has caused investors to take a more wait-and-see approach to CHW.

**Looking forward:**

- We forecast that the finance receivables should grow 12% in each of the next two years. This can easily be done if CHW continues to focus on the prime market. The question resides in profitability.
- We forecast that finance margin will increase 9% in 2018, which reflects ongoing prime originations to an extent. If growth is principally in the prime market and the non-prime market remains mispriced in management's view, actual results could come in below expectation.
- Impaired loans remain lower than prior years given the increased concentration of prime loans and economic indicators suggest the credit environment will remain supportive for CHW.
- The dividend was increased in Q4/16, but has not been touched in 2017. With expected EPS of $0.87 this year (which includes an up-tick in provisioning in the seasonally difficult collection period of Q4), the $0.84 dividend calculates to a payout ratio of 96%. Therefore, investors shouldn't expect another dividend increase until earnings catch up to growth in receivables.
- We value CHW applying an 11.0x P/E multiple to 2018E EPS of $1.13, consistent with the long-term average valuation in the lease finance sector. This calculates to a target price of $12.50 per share. CHW's valuation remains on the high-end relative to Canadian small-capitalization financials (approximately 8.0x P/E on 2018E EPS), but well below U.S. lease finance peers, which average 15.0x P/E.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Currency Exchange International (CXI-T – $25.93) Buy – Target Price: $32.00

## COMPANY PROFILE

Currency Exchange International, Corp. (CXI) is a provider of foreign currency banknote and related services to wholesale clients (banks and hotels) and retail clients (through wholly-owned retail outlets and affiliate relationships) in North America.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | CXI-T | **Shares-Basic O/S (M)** | 6.1 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 6.5 |
| **Risk** | Medium | **Market Cap (M)** | $158.6 |
| **Price** | $25.93 | **Float O/S (M)** | 4.1 |
| **1-Yr Target** | $32.00 | **Avg Daily Volume (K)** | 4.7 |
| **Yield** | 0.0% | **Enterprise Value (M)** | $158.6 |
| **1-Yr ROR** | 23.4% | **Cash (M)** | $57.8 |
| **52 Wk High-Low** | $34.00-$20.01 | **Net Debt (M)** | N/A |
| **Valuation** | 12.0x F2018E EBITDA | **Ownership** | |
| **Year End** | Oct-31 | Manag. & Dir. | 23.5% |
| **Next Reporting** | Dec-17 | Institutional | 9.8% |

**EBITDA (US M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | $1.2 | A | $1.3 | A | $2.2 | A | $2.3 | A | $7.1 | 18.2x |
| **F2016A** | $0.9 | A | $1.2 | A | $2.6 | A | $2.2 | A | $6.9 | 18.9x |
| **F2017E** | $0.3 | A | $1.4 | A | $3.6 | A | $2.6 | | $7.9 | 16.5x |
| **F2018E** | | | | | | | | | $11.1 | 11.7x |

**EPS (US)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | $0.06 | A | $0.11 | A | $0.33 | A | $0.08 | A | $0.59 | 35.9x |
| **F2016A** | $0.05 | A | $0.08 | A | $0.23 | A | $0.21 | A | $0.57 | 37.0x |
| **F2017E** | ($0.01) | A | $0.10 | A | $0.31 | A | $0.23 | | $0.64 | 33.1x |
| **F2018E** | | | | | | | | | $1.03 | 20.6x |

*Source: Company reports; CapitalIQ; LBS.*

## Can CXI Deliver on Payments in 2018?

**We rate Currency Exchange a Buy with a one-year target price of $32.00.** CXI delivered an unexpected rebound in its revenue growth rate in its seasonally strong periods in F2017. With a 44% y-y increase in transaction volume (to 300,073 total transactions), CXI grew revenue by 28% in Q3/F17. The increase in transaction volume is attributable to growth in transacting locations (19% y-y), and was likely aided by recent strength in U.S. tourism. These results follow revenue growth of 23% in Q2/F17, and represent the Company's highest YoY revenue increase in 10 quarters.

**Looking forward:**

- Investors should be most keenly focused on the payments business in 2018. In January, the Company will report Q4/F17 results and management has indicated that the payments business should be break-even by now, and this will be the first test in this respect. The payments market is very large and CXI can leverage its bank status to offer competitive pricing in addition to its high service levels. Success in this business could see the stock price return to prior highs, but at the moment there is little visibility in that regard.
- Regarding its core business, we forecast growth of 15.0%. This balance is lower than the revenue growth delivered in CXI's two most recent quarters, but our expectations remain tempered given revenue growth prior to the latest "hot streak" was running at ~11%.
- EBITDA margins should improve in F2018. Our forecast is for expansion to 30%, from 25% in F2017E, as the Company should be able to capture operating leverage given the investments it has made in prior years.
- We continue to value CXI applying a 12.0x EV/EBITDA multiple on our 2018E EBITDA of US$11.1 million. This valuation is consistent with that of peers in the money services sector.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# DealNet Capital Corp.
# (DLS-V – $0.09)
# Hold – Target Price: $0.10

## COMPANY PROFILE

DealNet Capital Corp. focuses on household equipment finance (which including water heaters, furnaces, air conditioners, water treatment equipment, windows, doors, etc.) in Canada. It aims to provide timely credit decisions for its network of equipment dealer partners through it live and mobile engagement platforms, which also act as an outsourced customer service tool.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | DLS-V | **Shares-Basic O/S (M)** | 281.2 |
| **Rating** | Hold | **Shares-FD O/S (M)** | 307.3 |
| **Risk** | High | **Market Cap (M)** | $25.3 |
| **Price** | $0.09 | **Float O/S (M)** | 264.2 |
| **1-Yr Target** | $0.10 | **Avg Daily Volume (K)** | 349.6 |
| **Yield** | 0.0% | **Cash (M)** | $9.8 |
| **1-Yr ROR** | 11.1% | | |
| **52 Wk High-Low** | $0.60 - $0.09 | **Ownership** | |
| **Valuation** | Sum-of-parts | Manag. & Dir. | 7.0% |
| **Year End** | Dec-31 | Institutional | 19.3% |
| **Next Reporting** | Apr-18 | | |

| **Revenue (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** |
|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $6.9 | A | $8.2 | A | $8.4 | A | $7.1 | A | $30.7 |
| **F2017E** | $7.9 | A | $7.9 | A | $7.9 | A | $7.5 | | $31.1 |
| **F2018E** | | | | | | | | | $30.7 |
| **F2019E** | | | | | | | | | $31.9 |

| **Adj. EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.00 | A | ($0.01) | A | ($0.00) | A | ($0.02) | A | ($0.03) | N/A |
| **F2017E** | ($0.01) | A | ($0.01) | A | ($0.04) | A | ($0.01) | | ($0.06) | N/A |
| **F2018E** | | | | | | | | | ($0.03) | N/A |
| **F2019E** | | | | | | | | | ($0.02) | N/A |

*Source: Company reports; CapitalIQ; LBS.*

## Turnaround In Progress

**We rate Dealnet Capital a Hold with a one-year target price of $0.10.** In 2017, DLS was mired in arrears inexplicably above reasonable levels, originations down by over 50%, unprofitable funding and management terminations. In Q3/17, DLS took asset impairment charges, made additions to funding capacity, and implemented cost reductions aimed at delivering profitability in H2/18.

**Looking forward:**

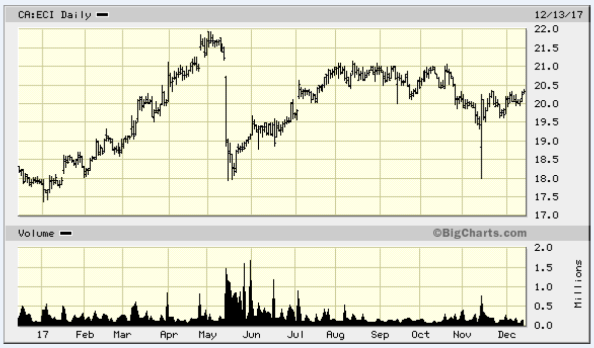
- In our view, earnings sustainability is possible if the Company is able to dispose of its Live Engagement subsidiary, further reduce corporate costs and achieve success in regaining lost originations.
- With respect to originations, we may not see evidence of an improvement until H2/18, when the Company reports results for the seasonally strong Q2. Our view is that it's unlikely originations can be increased to a level that will utilize its current funding in 2018, but perhaps the new management team's efforts can make that possible in the long-term.
- We value DLS applying a sum-of-the-parts analysis. The Mobile Engagement segment is the only segment which is profitable and is worth between $0.07/share (2.0x revenue) and $0.10 (10x P/E). DLS also has $0.03/share in tax-loss carryforwards and we estimate the consumer finance business is worth $0.03 on a tangible book value basis, but up to $0.06 if it can be restructured profitably. This results in a valuation between $0.13 and $0.19, but hinges on not incurring any dilution or other material costs. While the reductions to the Company's cost structure are a positive development, we are skeptical that they are sufficient to stave off dilution. Consequently, we have added $5M equity financing at the current share price to obtain our target price of $0.10.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Enercare Inc.
# (ECI-T – $20.34)
# Buy – Target Price: $25.00

## COMPANY PROFILE

Enercare Inc. is a provider of water heater and HVAC sales and services to residential and commercial customers in Canada and the U.S. Its core business is water heater rentals to residential customers in Ontario. The Company also provides sub-metering services to residential and commercial clients in Canada.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | ECI-T | **Shares-basic O/S (M)** | 105.4 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 106.5 |
| **Risk** | Medium | **Market Cap (M)** | $2,143 |
| **Price** | $20.34 | **Net debt (M)** | $1,000 |
| **1-Yr Target** | $25.00 | **Enterprise value (M)** | $3,143 |
| **Yield** | 4.7% | **Float O/S (M)** | 104.6 |
| **1-Yr ROR** | 27.6% | **Avg Daily Volume (K)** | 201.3 |
| 52-week H/L | $21.94/$17.38 | | |
| **Valuation** | 11.0x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 0.8% |
| **Next Reporting** | Mar-18 | Institutional | 33.4% |

| **EBITDA (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **EV/EBITDA** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $54 | A | $70 | A | $75 | A | $72 | A | $270 | 11.6x |
| **F2017E** | $52 | A | $84 | A | $78 | A | $80 | | $294 | 10.7x |
| **F2018E** | | | | | | | | | $318 | 9.9x |
| **F2019E** | | | | | | | | | $342 | 9.2x |
| **EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
| **F2016A** | $0.08 | A | $0.17 | A | $0.19 | A | $0.17 | A | $0.62 | 32.8x |
| **F2017E** | ($0.03) | A | $0.20 | A | $0.19 | A | $0.19 | | $0.55 | 37.2x |
| **F2018E** | | | | | | | | | $0.74 | 27.6x |
| **F2019E** | | | | | | | | | $0.88 | 23.2x |

*Source: Company reports; CapitalIQ; LBS estimates.*

## Delivering Steady Growth

**We rate Enercare a Buy with a one-year target price of $25.00.** Operationally ECI continues to perform exceptionally well. Rentals continue to increase at peak rates (0.9% increase y-y as of Q3/17) and protection plan contracts are also increasing at peak growth rates (1.1% increase y-y as of Q3/17) as ECI benefits from the launch of electrical protection plans. And while weather conditions continue to fluctuate from favourable to unfavourable, Service Experts increased unit installations by 12.3% y-y. All told, EBITDA is set to increase 8.7% in 2017 to $294 million. For long-term investors, a misunderstanding by others of the Company's seasonality and the unfavourable impact of weather conditions can provide opportunities to establish or increase a position in ECI at attractive levels.

**Looking forward:**

- For 2018, we forecast that growth rates to operating metrics (number of rentals and number of protection plans) consistent with 2017, which should contribute to steadily rising EBITDA.
- ECI has made $36 million in tuck-in acquisitions in 2017, and we expect this pace should continue in 2018. The North American HVAC market is highly fragmented and ECI has one of the biggest balance sheets to deploy capital. We expect all acquisitions will be accretive, in addition to providing increased geographical penetration and enhanced services.
- A review by the Competition Bureau in Ontario was disclosed by management in Q3/17. Management views this review as normal course and our due diligence on Enercare suggests the Company is generally fair with consumers, therefore we do not expect a material impact to ECI's operations. There should be further developments on this regulatory review in 2018.
- We value ECI applying a 11.0x EV/EBITDA multiple on 2018E EBITDA of $318 million, using a multiple consistent with long-term valuation multiples in the HVAC sales and services sector. Readers should recall that in H1/17, ECI's primary competitor was sold for 12.6x EV/EBITDA.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Equitable Group Inc.
# (EQB-T – $70.29)
# Buy – Target Price: $72.00

## COMPANY PROFILE

Equitable Group Inc. operates through its wholly-owned subsidiary Equitable Bank, a Schedule I chartered bank in Canada. The Company's core product is residential mortgages to the self-employed, new immigrants and those with imperfect credit. The Company also offers multi-unit and commercial mortgages.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | EQB-T | **Year End** | Dec. 31 |
| **Rating** | Buy | **Next Reporting** | Mar-18 |
| **Risk** | Medium | **Shares-basic O/S (M)** | 16.5 |
| **Price** | $70.29 | **Shares-FD O/S (M)** | 17.1 |
| **1-Yr Target** | $72.00 | **Market Cap (M)** | $1,158 |
| **Yield** | 1.4% | **Float O/S (M)** | 14.3 |
| **1-Yr ROR** | 3.9% | **Avg Daily Volume (K)** | 379.7 |
| **52 Wk High** | $74.66 | **Ownership** | |
| 52 Wk Low | $36.15 | Manag. & Dir. | 13.5% |
| **Valuation** | 7.5x 2018E P/E | Institutional | 45.3% |

| **EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $1.68 | A | $1.98 | A | $2.13 | A | $2.56 | A | $8.35 | 8.4x |
| **F2017E** | $2.50 | A | $2.26 | A | $2.18 | A | $2.36 | | $9.32 | 7.5x |
| **F2018E** | | | | | | | | | $9.63 | 7.3x |
| **F2019E** | | | | | | | | | $10.30 | 6.8x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $51.05 | A | $52.80 | A | $55.01 | A | $61.13 | A | $56.59 | 1.2x |
| **F2017E** | $56.24 | A | $58.44 | A | $60.63 | A | $62.77 | | $62.97 | 1.1x |
| **F2018E** | | | | | | | | | $71.73 | 1.0x |
| **F2019E** | | | | | | | | | $81.16 | 0.9x |

*Source: Company reports; CapitalIQ; LBS estimates.*

## Outlook for Growth Despite B-20

**We rate Equitable Group a Buy with a one-year target price of $72.00.** At a high level, it was not evident that EQB was dealing with a potential liquidity crisis in Q2/17, but that threat was very concerning at the time and management has clearly taken steps to defend against this risk going forward. The impact of B-20 guidelines remains unclear with the stress test expecting to make a meaningful impact relative to a portion of EQB's addressable market. But, as in the past, the inflow from changes made by larger lenders could prove to be an offset, and retention rate are also expected to rise. With all that EQB has contended with recently, it is still set to increase EPS by 12% in 2017, to $9.32 from $8.35 in 2016.

**Looking ahead:**

- With the Company expecting slower asset growth, we calculate an implied decrease to originations of 15% y-y due to the implementation of B-20 guidelines. Yet, making up for the lost income from lower rates of growth are higher expected margins, higher gains on sale of securitized assets and an efficiency ratio in the high-30s% range. Given management's credibility with forward looking information, we have no reason to doubt the guidance it has provided investors.
- Considering the uncertainties regarding the impact of revised B-20 guidelines in 2018, the outlook for EQB remains reasonably compelling, as net interest income is still expected to increase 8% to 10%. If originations come in lower than expected, the Company can curtail costs. Even in the face of up to a 15% decline in originations, EQB is still likely to increase EPS and deliver a very attractive ROE relative to its relatively inexpensive valuation of 1.1x P/BV. We remind investors that the Company is still carrying stand-by fees related to its $2.0 billion credit facility and has seen an up-tick to deposit funding as well. Looking forward to 2019E and beyond, the cessation and normalization of these non-recurring items should provide EPS a boost.
- We value EQB applying a 7.5x P/E multiple to 2018E EPS of $9.63, which calculates to $72.00. The valuation multiple represents a 4.0x P/E discount to the "Big 6" Canadian Banks, which is in line with the historical average for EQB.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Equity Financial Holdings Inc.
# (EQI-T – $10.22)
# Tender – Target Price: $10.25

## COMPANY PROFILE

Equity Financial Holdings Inc. is a non-prime residential mortgage lender in Canada, operating through its wholly-owned subsidiary Equity Trust. Equity Trust is a deposit-taking institution and is regulated by the Office of the Superintendent of Financial Institutions.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | EQI-T | **Shares-Basic O/S (M)** | 9.5 |
| **Rating** | TENDER | **Shares-FD O/S (M)** | 10.3 |
| **Risk** | High | **Market Cap (M)** | $98 |
| **Price** | $10.22 | **Float O/S (M)** | 6.7 |
| **1-Yr Target** | $10.25 | **Avg Daily Volume (K)** | 2.5 |
| **Yield** | 0.0% | | |
| **1-Yr ROR** | 0.29% | **Ownership** | |
| **52 Wk High-Low** | $10.00 - $6.85 | Manag. & Dir. | 3.0% |
| **Valuation** | Offer price of $10.25 | Smoothwater Capital | 32.0% |
| **Year End** | Dec-31 | Institutional | 20.4% |
| **Next Reporting** | Feb-18 | | |

| **EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | ($0.03) | A | ($0.10) | A | ($0.06) | A | ($0.03) | A | ($0.22) | | N/A |
| **F2016A** | $0.02 | A | $0.00 | A | $0.04 | A | $0.11 | A | $0.18 | | 56.8x |
| **F2017E** | $0.12 | A | $0.16 | A | $0.17 | A | $0.22 | | $0.69 | | 14.9x |
| **F2018E** | | | | | | | | | $1.17 | | 8.7x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/BV** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | $9.94 | A | $9.86 | A | $9.82 | A | $9.30 | A | $9.30 | A | 1.1x |
| **F2016A** | $9.82 | A | $9.54 | A | $9.31 | A | $9.45 | A | $9.65 | | 1.1x |
| **F2017E** | $9.41 | A | $9.60 | A | $9.74 | A | $10.01 | | $10.03 | | 1.0x |
| **F2018E** | | | | | | | | | $11.38 | | 0.9x |

*Source: Company reports; CapitalIQ; LBS.*

## Going Private

**We rate Equity Financial a Tender with a one-year target price of $10.25.** Smoothwater Capital increased its bid for EQI to $10.25 from $9.75 (which was first announced on October 30, 2017) and independent shareholders appear supportive of this go-private transaction. EQI's BVPS excluding out-of-the-money options was $9.74 as of Q3/17, therefore the increased bid represents a 5% premium to BVPS. The agreement between the two parties has also been amended to terminate EQI's right to solicit superior proposals and a $3 million termination fee payable to Smoothwater has been added. It turns out that two other parties have made expressions of interest in EQI for prices between $11.50 and $13.50, however this has not persuaded the Special Committee to formally proceed with other offers.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# First National Financial Corporation
# (FN-T – $27.92)
# Hold – Target Price: $27.00

## COMPANY PROFILE

First National Financial Corporation is a mortgage originator, underwriter and servicer in Canada. Founded in 1988, FN currently has $99 billion of mortgages under administration. The Company is Canada's largest non-bank originator of prime single family mortgages. It also originates multi-unit residential and commercial mortgages.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | FN-T | Shares-Basic O/S (M) | 60.0 |
| Rating | Hold | Shares-FD O/S (M) | 60.0 |
| Risk | Medium | Market Cap (M) | $1,674 |
| Price | $27.92 | Net debt (M) | $355 |
| 1-Yr Target | $27.00 | Enterprise value (M) | $2,029 |
| Yield | 6.6% | Float O/S (M) | 15.8 |
| 1-Yr ROR | 3.3% | Avg Daily Volume (K) | 22.5 |
| 52 Wk High-Low | $32.23 - $22.18 | Ownership | |
| Valuation | 9.0x 2018E P/E | Insiders | 73.6% |
| Year End | Dec-31 | Institutional | 4.8% |
| Next Reporting | Feb-18 | | |

| EBITDA (M) | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $57 | A | $68 | A | $67 | A | $61 | A | $254 | 8.0x |
| F2017E | $53 | A | $68 | A | $66 | A | $58 | | $231 | 8.8x |
| F2018E | | | | | | | | | $251 | 8.1x |
| F2019E | | | | | | | | | $249 | 8.1x |

| EPS | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $0.64 | A | $0.79 | A | $0.80 | A | $0.71 | A | $2.94 | 9.5x |
| F2017E | $0.62 | A | $0.81 | A | $0.77 | A | $0.69 | | $2.71 | 10.3x |
| F2018E | | | | | | | | | $3.01 | 9.3x |
| F2019E | | | | | | | | | $2.99 | 9.3x |

*Source: Company reports; CapitalIQ; LBS.*

## Calm in the Middle of a Storm

**We rate First National a Hold with a one-year target price of $27.00.** Over a year since the Department of Finance announced curtailments to mortgage insurability, First National has demonstrated remarkable earnings sustainability. Earnings have proven to be in-line with management's guidance and only placement fees have declined in light of a 22% decline in originations in Q2/17. Revenue from servicing and investment income has increased in 2017 and net interest income from securitization was unchanged from 2016. All considered, mortgages under administration have increased 1.6% y-y, which is supportive of future recurring cash flows from securitization and servicing income.

**Looking forward:**

- We expect that total originations will be down 3% in 2018 as the commercial mortgage originations subside and as single-family residential maintains current levels.
- The revisions to B-20 guidelines mostly impact balance sheet lenders and FN does not forecast a material impact to originations from these changes, yet resale activity has declined and FN's outlook may be shaded by ongoing government intervention.
- Until investors get the sense that the real estate market becomes more balanced and that risks have subsided, share price appreciation may be limited for FN.
- We value FN by applying a 9.0x P/E multiple to 2018E EPS of $3.01, which calculates to $27.00. Our target represents a 2.0x P/E discount to the Big 6 banks, reflecting the average P/E discount over the last five years.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

## goeasy
## (GSY-T – $35.95)
## Hold – Target Price: $35.00

### COMPANY PROFILE

goeasy Ltd. is a financial services company offering financing alternatives to non-prime consumers in Canada. GSY is comprised of two operations: (1) established in 1990, easyhome leases home entertainment products, computers, appliances and furniture through corporate and franchise retail stores; and (2) in operation since 2006, easyfinancial provides installment loans between 9 and 48 months from $500 and up to $15,000 from in-store kiosks, retail stores and online.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | GSY-T | **Shares-Basic O/S (M)** | 13.3 |
| **Rating** | Hold | **Shares-FD O/S (M)** | 13.8 |
| **Risk** | High | **Market Cap (M)** | $479 |
| **Price** | $35.95 | **Float O/S (M)** | 9.7 |
| **1-Yr Target** | $35.00 | **Avg Daily Volume (K)** | 29.6 |
| **Yield** | 2.0% | **Cash (M)** | $22.4 |
| **1-Yr ROR** | -0.6% | **Net debt (M)** | $276 |
| **52 Wk High-Low** | $36.78 - $16.25 | **EV (M)** | $755 |
| **Valuation** | 10.0x 2018E EPS | | |
| **Year End** | Dec-31 | Manag. & Dir. | 27.4% |
| **Next Reporting** | Mar-18 | Institutional | 33.5% |

| **Rev. (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $82 | A | $86 | A | $88 | A | $91 | A | $348 | |
| **F2017E** | $95 | A | $98 | A | $104 | A | $107 | | $404 | |
| **F2018E** | $112 | | $117 | | $121 | | $125 | | $475 | |
| **F2019E** | | | | | | | | | $532 | |
| **EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
| **F2016A** | $0.53 | A | $0.59 | A | $0.63 | A | $0.68 | A | $2.46 | 14.6x |
| **F2017E** | $0.72 | A | $0.62 | A | $0.77 | A | $0.77 | | $2.77 | 13.0x |
| **F2018E** | $0.81 | | $0.88 | | $0.91 | | $0.93 | | $3.53 | 10.2x |
| **F2019E** | | | | | | | | | $4.52 | 7.9x |

*Source: Company reports; CapitalIQ; LBS.*

## Growth Intact and Now Fully Funded

**We rate goeasy a Hold with a one-year target price of $35.00.** GSY has executed well in 2017 and the share price has returned 42% (plus the dividend) since we made GSY our Preferred Pick for 2017. The Company is on pace to increase EPS 13%, it has performed ahead of its guidance and has closed a financing package which should fund growth well past 2018 and potentially for most of 2019.

**Looking forward:**

- The most recent highlight from GSY was the introduction of 2020E guidance and increases to guidance ranges for 2017E to 2019E. 2019E guidance for consumer finance receivables increased to a range of $875 million to $950 million (from $775 million to $800 million previously, a 16% increase) and 2020E guidance was introduced for receivables in the range of $1.0 billion to $1.1 billion. This represents 24%+ compound growth in the next three years and we estimate this can be largely funded with existing resources and future earnings, in all material respects. Management continues to forecast 20%+ ROE in 2018E and beyond.
- In H1/18, investors will likely be provided with an update on the Government of Ontario's review of installment lending. In July 2017, the Ministry of Government and Consumer Services launched an industry consultation reviewing price and processes in installment lending. GSY has confirmed that everything is on the table and that a detailed proposal will be tabled in the New Year.
- We value GSY applying a 10.0x P/E multiple on 2018E EPS of $3.53, which calculates to a target price of $35.00.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Home Capital Group Inc.
# (HCG-T – $17.31)
# Buy – Target Price: $20.00

## COMPANY PROFILE

Home Capital Group Inc. (HCG) is a Canadian mortgage lender operating through its wholly-owned subsidiary, Home Trust Company. Traditionally, the Company has focused on mortgages that do not meet bank criteria. These loans are typically extended to self-employed individuals, small business owners, individuals with poor or limited credit histories and newly arrived immigrants.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | HCG-T | **Year End** | Dec. 31 |
| **Rating** | Buy | **Next Reporting** | Feb-18 |
| **Risk** | High | **Shares-basic O/S (M)** | 80.2 |
| **Price** | $17.31 | **Shares-FD O/S (M)** | 81.3 |
| **1-Yr Target** | $20.00 | **Market Cap (M)** | $1,389 |
| **Yield** | 0.0% | **Float O/S (M)** | 79.7 |
| **1-Yr ROR** | 15.5% | **Avg Daily Volume (K)** | 730 |
| **52 Wk High** | $32.26 | **Ownership** | |
| **52 Wk Low** | $5.06 | Manag. & Dir. | 0.6% |
| **Valuation** | 0.9x Q3/17 BVPS | Institutional | 61.0% |

| **EPS (FD)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $1.01 | A | $1.03 | A | $1.03 | A | $0.79 | A | $3.87 | A | 4.5x |
| **F2017E** | $0.90 | A | ($1.73) | A | $0.37 | A | $0.33 | | $0.04 | | 404.3x |
| **F2018E** | | | | | | | | | $1.34 | | 12.9x |
| **F2019E** | | | | | | | | | $1.95 | | 8.9x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $23.67 | A | $23.60 | A | $24.46 | A | $25.27 | A | $25.28 | A | 0.7x |
| **F2017E** | $25.94 | A | $21.64 | A | $22.21 | A | $22.54 | | $22.54 | | 0.8x |
| **F2018E** | | | | | | | | | $23.88 | | 0.7x |
| **F2019E** | | | | | | | | | $25.83 | | 0.7x |

*Source: Company reports; CapitalIQ; LBS estimates.*

## Back to Book

**We rate Home Capital a Buy with a one-year target price of $20.00.** HCG saw more than headwinds in 2017, it essentially survived the eye of a hurricane in a tenuously built haul of liquidity. But its liquidity event is now in the past; the Company has emerged with a world-class shareholder and it has bought itself time to reposition for the long-term. Originations were down 85% from $2.5 billion in Q3/17, but management noted that it had turned down approximately 70% of applications in Q3/17. In most cases it seems HCG was not able to "turn-around" an application in a timely manner given the implementation of new systems and processes, tightened underwriting criteria and having tested two mortgage products during the quarter. We believe these issues are addressable and a rebound to volumes should be forthcoming.

**Looking forward:**

- We forecast originations of $4.9 billion in 2018, up from $4.6 billion in 2017. This assumes that HCG will be able to regain market share by reducing operational constraints. We note, however, there is a degree of forecasting risk with this metric (both on the low- and high-side) given the challenges facing the Company and the implementation of the revised B-20 guidelines in January 2018.
- It's also possible that at some time in 2018, given the Company's excess capital position, that a dividend is back on the table and that the normal course issuer bid is resumed.
- We continue to value HCG applying a 0.9x P/BV multiple on Q3/17 BVPS of $22.21 and our target price of $20.00 remains unchanged. The discount to book reflects an expected ROE of ~6% in 2018E. A share price closer to our target price could be realized in Q2/18 when the Company is expected to disclose its long-term business plan and targets.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Morneau Shepell Inc.
# (MSI-T – $22.49)
# Buy – Target Price: $25.00

## COMPANY PROFILE

Morneau Shepell is a provider of human resource outsourcing and consulting services, based in Toronto, Canada. The Company specializes in pension plan administration and employee and family assistance programs (EFAP) for public and private organizations, among other services.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | MSI-T | **Shares-Basic O/S (M)** | 55.1 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 55.7 |
| **Risk** | Medium | **Market Cap (M)** | $1,240 |
| **Price** | $22.49 | **Float O/S (M)** | 44.0 |
| **1-Yr Target** | $25.00 | **Avg Daily Volume (K)** | 0.0 |
| **Yield** | 3.7% | **Enterprise Value (M)** | $1,514 |
| **1-Yr ROR** | 14.8% | **Cash (M)** | $0.0 |
| **52 Wk High-Low** | $22.25 - $17.78 | **Net Debt (M)** | $273.8 |
| **Valuation** | 12.0x 2019E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-17 | Manag. & Dir. | 0.5% |
| **Next Reporting** | Mar-18 | Institutional | 39.2% |

| **Revenue (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **P/Rev.** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $149 | A | $149 | A | $145 | A | $149 | A | $592 | A | 2.1x |
| **F2017E** | $158 | A | $161 | A | $154 | A | $161 | | $633 | | 2.0x |
| **F2018E** | $167 | | $170 | | $163 | | $171 | | $671 | | 1.8x |
| **F2019E** | | | | | | | | | $712 | | 1.7x |

| **EBITDA (M)** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | | **EV/EBITDA** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $29 | A | $30 | A | $27 | A | $27 | A | $112 | A | 13.5x |
| **F2017E** | $31 | A | $32 | A | $29 | A | $29 | | $121 | | 12.5x |
| **F2018E** | $34 | | $35 | | $28 | | $30 | | $128 | | 11.9x |
| **F2019E** | | | | | | | | | $137 | | 11.0x |

*Source: Company reports; CapitalIQ; LBS.*

## Likely More of the Same in 2018

**We rate Morneau Shepell a Buy with a one-year target price of $25.00.** With a highly-recurring revenue stream, it's unlikely that the Company's revenue and earnings will produce much variability from forecasts in 2018, but the trajectory of long-term growth will still be of importance. MSI continues to be well positioned in a growing market as pension sponsors are strained in managing pensions and as employers must increasingly address mental health. We have found that the market size of MSI's two core services (pension administration and employee assistance programs) is ~$13B in North America and industry growth should continue to benefit from demand for outsourced solutions, particularly as they relate to SaaS solutions, and increasing labour laws and employment regulation requiring outsourced solutions for complex and specialized tasks.

**Looking forward:**

- 2017 organic growth is tracking to 5.9% and we have forecast 6.0% growth long-term. We believe growth rates above this level should be well received by investors, especially if MSI is able to deliver on M&A to contribute to growth above this level.
- Given our view that MSI's growth is expected to moderate to 6.0% organic growth, in-line with the Company's peer group, we ascribe a 12.0x EV/EBITDA multiple to 2019E EV/EBITDA, consistent with peer group valuation. We note that the 10-year average valuation for this sector is between 9.3x and 12.1x EV/EBITDA, therefore current valuations may represent peak multiples.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# People Corporation
# (PEO-V – $7.51)
# Buy – Target Price: $9.00

## COMPANY PROFILE

People Corporation offers group benefits, group retirement and human resources services to small and medium size enterprises (SMEs) across Canada. In the past several years, the Company has expanded its service offering in order to create a platform for organic growth from existing customers and acquired companies.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | PEO-V | Shares-Basic O/S (M) | 54.9 |
| Rating | Buy | Shares-FD O/S (M) | 56.1 |
| Risk | High | Market Cap (M) | $412 |
| Price | $7.51 | Float O/S (M) | 43.8 |
| 1-Yr Target | $9.00 | Avg Daily Volume (K) | 41.4 |
| Yield | 0.0% | Enterprise Value (M) | $412 |
| 1-Yr ROR | 19.8% | Cash (M) | $33 |
| 52 Wk High-Low | $7.93 - $4.10 | Net Debt (M) | $(0) |
| Valuation | 11.0x FY2019E EV/EBITDA | Ownership | |
| Year End | Aug-31 | Manag. & Dir. | 22.2% |
| Next Reporting | Jan-18 | Institutional | 26.5% |

| Revenue (M) | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/Rev. |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $16 | A | $18 | A | $20 | A | $25 | A | $80 | 5.2x |
| F2017A | $23 | A | $26 | A | $28 | A | $29 | A | $106 | 3.9x |
| F2018E | $30 | | $34 | | $36 | | $35 | | $134 | 3.1x |
| F2019E | | | | | | | | | $142 | 2.9x |

| EBITDA (M) | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| F2016A | $3.4 | A | $4.0 | A | $4.0 | A | $3.7 | A | $13.5 | 30.5x |
| F2017A | $3.5 | A | $5.0 | A | $5.2 | A | $5.5 | A | $19.3 | 21.3x |
| F2018E | $6.0 | | $7.0 | | $7.6 | | $7.2 | | $27.8 | 14.8x |
| F2019E | | | | | | | | | $31.3 | 13.1x |

*Source: Company reports; CapitalIQ; LBS.*

## Count on Both M&A and Organic Growth

**We rate People Corporation a Buy with a one-year target price of $9.00.** PEO recently completed a $25M equity financing and has increased total borrowing capacity under its credit facilities to $98 million, from $76 million previously. This increase in capacity suggests to us that PEO continues to have a large pipeline of deals that are expected to close in the next 12 months**.** We estimate PEO has $33 million in pro-forma cash, against $33 million in loans and borrowing, for a net cash position of nil. If this sounds familiar, it's because this has essentially been the case for the last three years: expand credit facilities, close an acquisition or two, deliver organic growth and then raise equity if necessary. 2017 has especially been a standout given that organic growth has been the highest since the Company began reporting that metric at 11.2%.

**Looking forward:**

- We forecast organic growth of 10.0% throughout 2018E, before returning to an industry-average of 6.0% in 2019E. However, if PEO maintains its pace of M&A, that organic growth forecast may prove too low as PEO has a demonstrated competence at improving productivity for its target companies.
- Assuming PEO's tolerable debt:EBITDA ratio is 3:1, the Company could conceivably acquire another $80M to $100M worth of employee benefits operations (which would contribute $11M to $16M in additional EBITDA), and it has the capital to do so.
- We value PEO applying an 11.0x EV/EBITDA multiple on F2019E EBITDA of $31M. This multiple is consistent the Company's peer group. We adjust our EBITDA used in our valuation upwards by 30% to reflect PEO's acquisition capacity (we estimate existing financial resources could add between $11M to $16M, 30% to 50%, over F2019E forecast EBITDA). Long-term average EV/EBITDA multiples typically range between 9.0x and 12.2x for the sector.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

# Street Capital Group Inc.
# (SCB-T – $1.05)
# Hold – Target Price: $1.20

## COMPANY PROFILE

Street Capital is a financial services company focused on residential mortgage lending in Canada. The Company sources its mortgages through the mortgage broker channel and funds the mortgages through direct sale to institutional investors, securitization conduits and deposits. Street Capital Bank of Canada is a wholly-owned subsidiary of SCB.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SCB-T | **Year End** | Dec. 31 |
| **Rating** | Hold | **Next Reporting** | Mar-18 |
| **Risk** | Medium | **Shares-basic O/S (M)** | 122.0 |
| **Price** | $1.05 | **Shares-FD O/S (M)** | 124.7 |
| **1-Yr Target** | $1.20 | **Market Cap (M)** | $128 |
| **Yield** | 0.0% | **Float O/S (M)** | 91.9 |
| **1-Yr ROR** | 14.3% | **Avg Daily Volume (K)** | 76.8 |
| **52 Wk High** | $2.44 | **Ownership** | |
| 52 Wk Low | $1.08 | Manag. & Dir. | 15.3% |
| **Valuation** | 9.0x 2018E P/E | Institutional | 47.0% |

| **EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.02 | A | $0.04 | A | $0.06 | A | $0.01 | A | $0.13 | 8.2x |
| **F2017E** | $0.00 | A | $0.01 | A | $0.04 | A | $0.04 | | $0.07 | 14.5x |
| **F2018E** | | | | | | | | | $0.13 | 7.9x |
| **F2019E** | | | | | | | | | $0.19 | 5.4x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/BV** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.98 | A | $1.02 | A | $1.08 | A | $1.09 | A | $1.09 | 1.0x |
| **F2017E** | $1.06 | A | $1.06 | A | $1.12 | A | $1.16 | | $1.17 | 0.9x |
| **F2018E** | | | | | | | | | $1.30 | 0.8x |
| **F2019E** | | | | | | | | | $1.50 | 0.7x |

*Source: Company reports; CapitalIQ; LBS estimates.*

## Proof on Concept Key in 2018

**We rate Street Capital a Hold with a one-year target price of $1.20.** SCB realized a 57% y-y decline in earnings as a result of mortgage rule changes made by the Federal Government in September 2017, curtailing the insurability of mortgages. In addition, two of its co-founders departed the Company and the mortgage sector was shunned for part of the year as HCG dealt with a liquidity crisis. What hasn't changed is that SCB still has a large addressable market and an underutilized balance sheet that it will deploy further in 2018.

**Looking forward:**

- Management has maintained its guidance for 2018 and 2019 and we have reflected the guidance for the uninsured mortgage product which we believe is easily attainable given the Company's distribution capability. Investors should see uninsured mortgage originations increasing to over $600 million in 2018, from under $200 million in 2017.
- The Company is undergoing a strategic review which will include a plan to offer digital solutions, the acquisition and implementation of a core banking system and adding personnel where appropriate. While positive operating leverage from current levels is attainable, it is also reasonable to assume that the magnitude of this leverage may have diminished given the trajectory of originations and new costs that may be incurred.
- The trajectory of EPS growth through to 2019E remains realistic ($0.19 in EPS is our estimate), yet there are a number of challenges the Company still needs to juggle. New funding partners will be critical to help place prime and uninsured mortgages and moving towards a digital product offering (which includes a new core banking system) is a significant and necessary endeavour. The state of the residential real estate market is also a material unknown. Results in 2018 should add more clarity to the long-term picture.
- We continue to value SCB applying a 9.0x P/E multiple to 2018E diluted EPS of $0.13. The multiple is consistent with SCB's closest comparable, First National. However, we note that as SCB's earnings shift towards on-balance sheet lending, a lower multiple commensurate with those comparable companies may become more appropriate.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

## Terra Firma Capital Corporation
## (TII-V – $0.66)
## Buy – Target Price: $1.00

### COMPANY PROFILE

Terra Firma is a real estate finance company that provides short-term financing (one to five years) secured by investment properties and development projects in Canada and the U.S. The use of proceeds by a borrower is for development or redevelopment, property repairs or the purchase of an investment property.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TII-V | **Shares-Basic O/S (M)** | 64.3 |
| **Rating** | Buy | **Shares-FD O/S (M)** | 74.0 |
| **Risk** | High | **Market Cap (M)** | $42.4 |
| **Price** | $0.66 | **Float O/S (M)** | 51.9 |
| **1-Yr Target** | $1.00 | **Avg Daily Volume (K)** | 52.2 |
| **Yield** | 0.0% | **Enterprise Value (M)** | $59.6 |
| **1-Yr ROR** | 51.52% | **Cash (M)** | $9.3 |
| **52 Wk High-Low** | $0.82 - $0.55 | **Net Debt (M)** | $17.1 |
| **Valuation** | 10.0x 2018E EPS | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 20.8% |
| **Next Reporting** | Mar-18 | Institutional | 3.0% |

| **Adj. EPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.02 | A | $0.01 | A | $0.01 | A | $0.00 | A | $0.03 | 26.3x |
| **F2017E** | $0.01 | A | $0.01 | A | $0.01 | A | $0.01 | | $0.02 | 31.3x |
| **F2018E** | | | | | | | | | $0.10 | 6.8x |
| **F2019E** | | | | | | | | | $0.16 | 4.1x |

| **BVPS** | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/BV** |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2016A** | $0.72 | A | $0.74 | A | $0.75 | A | $0.74 | A | $0.74 | 0.9x |
| **F2017E** | $0.73 | A | $0.81 | A | $0.80 | A | $0.81 | | $0.81 | 0.8x |
| **F2018E** | | | | | | | | | $0.88 | 0.7x |
| **F2019E** | | | | | | | | | $1.06 | 0.6x |

*Source: Company reports; CapitalIQ; LBS.*

## Back to Growth in 2018?

**We rate Terra Firma a Buy with a one-year target price of $1.00.** Terra Firma continues to post profitable quarters even though earnings have been weighed down by portfolio arrears and higher prepayments. The loan and mortgage investment portfolio increased to $116 million in Q1/17, from $93 million in Q4/16, but it has not since delivered a new high. TII's pipeline remains full of opportunities, particularly in the U.S., and its new partnership with Great Gulf Group should increase the pace of new business.

**Looking forward:**

- Of particular interest in 2018 should be the repayments of the Urbancorp loans. TII currently has $14.0 million of principal and interest owing from this borrower and it is expected that the balance will be collected in full by Q2/18. This capital can then be redeployed towards interest-earning activities.
- We believe the momentum of EPS growth should begin to accelerate in Q4/17 as the prepayments subside to more sustainable levels and throughout 2018 as TII recognizes earned income from loans in arrears and as its Valermo JV moves through the construction phase and contributes to income through home sales.
- We forecast that the mortgage loan and investment book will increase to $122 million in Q4/17, based on the current pipeline and expected payments. But we have learned that payments can be unpredictable, so investors would be right to wait and see what the Company delivers.
- We continue to value TII applying a 10.0x P/E multiple to 2018E diluted EPS of $0.10, which calculates to a target price of $1.00.

# MINING | Barry Allan, MBA & Ryan Hanley

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# Argonaut Gold Inc.
# (AR-T – $2.34)
# Buy – Target Price: $3.00

## COMPANY PROFILE

Argonaut Gold (AR-T) is a Canadian gold company which holds a portfolio of assets, including three operating mines and two development projects. The company's primary assets include the El Castillo mine and construction stage San Agustin project in Durango, Mexico, as well as the La Colorada mine in Sonora, Mexico. AR's development assets include the San Antonio project in Baja California Sur, Mexico as well as the Magino project in Ontario.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | AR-T | Shares-basic O/S (M) | 177.2 |
| Rating | Buy | Shares-FD (M) | 181.9 |
| Risk | High | Market Cap (M) | C$414.7 |
| Price | C$2.34 | Float O/S (M) | 177.2 |
| 1-Yr Target | C$3.00 | Ave Daily Vol (M) | 1.06 |
| Valuation Method | 1.0x NAV/sh | 52-Wk High-Low | C$1.48-C$2.98 |
| NAVPS | C$2.91 | Year-end | December |
| Div. Yield | 0.0% | Next Reporting | March |
| 1-Yr ROR | 28.2% | Working Cap ($mm) | $64.3 |

| | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| Gold Price US$/oz | $1,250 | $1,300 | $1,325 | $1,350 |
| Gold Prod'n (koz Au Eq) | 130.1 | 190.4 | 223.7 | 212.6 |
| Op. Cost (US$/oz Au) | $758 | $697 | $680 | $707 |
| EPS (C$/sh) | $0.16 | $0.29 | $0.40 | $0.34 |
| P/EPS | 14.6x | 8.1x | 5.8x | 6.8x |
| CFPS (C$/sh) | $0.30 | $0.53 | $0.64 | $0.60 |
| P/CFPS | 7.9x | 4.4x | 3.6x | 3.9x |

*All figures in US$ unless specified otherwise.

## El Castillo Complex Should Continue to Yield Results

**We rate Argonaut Gold a BUY with a one-year target price of $3.00.** Looking ahead to 2018, we continue to see the release of updated technical reports and mine plans for the El Castillo complex (which includes the El Castillo and San Agustin mines) and La Colorada mine as key catalysts.

- **San Agustin ramps-up better than expected.** Following first gold from the San Agustin mine in September 2017, and the declaration of commercial production in October 2017, the El Castillo complex continues to be a large focus for AR. San Agustin exceeded our ramp-up expectations, having produced 2.9koz Au Eq in Q3/17 (vs. our 2.7koz forecast), and more importantly, with construction costs coming in 25% below the original budget. Moving into 2018, the focus will be on the continued ramp-up to steady state production, as well as further exploration and infill drilling.
- **Recently added El Castillo claims should extend mine life**. The recent addition of claims adjacent to the El Castillo mine should result in further mine life extension, with drilling to date on these new claims returning similar to slightly higher grades vs. what has been mined over the last few years. Crushing capacity is expected to increase in early 2018 as one of the crushers currently running at 5,000tpd is expected to be upgraded to 14,000tpd by the end of Q1/18.
- **La Colorada moving into a higher grade year.** At La Colorada, mining is expected to transition to the higher grade El Creston pit beginning in Q1/18. Although a lower priority than San Agustin, exploration drilling will also be conducted at La Colorada, with a focus on drilling from the bottom of the previously mined out Gran Central pit in order to test for the potential for underground mining.
- **Updated technical reports expected in Q1/18.** The release of updated technical reports on AR's operating mines and updated three year guidance is expected to be released in Q1/18. This update will be important in confirming our growth forecasts for the company, as well as provide additional clarity as to the magnitude of mine life extension at El Castillo from the acquisition of adjacent claims.

# AuRico Metals Ltd.
# (AMI-T – $1.79)
# Tender – Target Price: $1.80

## COMPANY PROFILE

AuRico Metals (AMI-T) was created as a 'SpinCo' following the acquisition of AuRico Gold by Alamos Gold in July 2015. The company started out with $20mm in cash, a royalty portfolio which included a newly created 1.5% NSR on the Young-Davidson mine, and the Kemess copper-gold project in BC. Since being spun out, AuRico Metals has advanced Kemess through an updated feasibility study, EA approval, and signing of an IBA with local First Nations groups, all while also acquiring additional cash flow generating royalties.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | AMI-T | **Shares-basic O/S (mm)** | 162.1 |
| **Rating** | Tender | **Shares-FD (mm)** | 171.8 |
| **Risk** | High | **Market Cap (mm)** | C$290 |
| **Price** | C$1.79 | **Float O/S (mm)** | 141.4 |
| **1-Yr Target** | C$1.80 | **Ave Daily Vol (mm)** | 0.2 |
| **Valuation Method** | n/a | **52-Wk High-Low** | C$0.82-C$1.80 |
| **NAVPS** | C$1.97 | **Year-end** | December |
| **Div. Yield** | 0.0% | **Next Reporting** | March |
| **1-Yr ROR** | 0.6% | **Est. Working Capital** | $26.8 |

| | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| **Gold Price US$/oz** | $1,250 | $1,300 | $1,325 | $1,350 |
| **Gold Prod'n (koz)** | n/a | n/a | n/a | n/a |
| **Op. Cost (US$/oz)** | n/a | n/a | n/a | n/a |
| **EPS (C$/sh)** | ($0.00) | $0.01 | $0.00 | ($0.03) |
| **P/EPS** | n/a | n/a | n/a | n/a |
| **CFPS (C$sh)** | $0.01 | $0.03 | $0.02 | ($0.01) |
| **P/CFPS** | n/a | n/a | 76.7x | n/a |

*All figures in US$ unless specified otherwise.

## AuRico to be Acquired by Centerra for $1.80/sh

**We rate AuRico Metals a TENDER with a one-year target price of $1.80.** On November 7th, Centerra Gold (CG-T) and AuRico Metals announced that they had entered into a friendly agreement whereby Centerra would acquire all of the issued and outstanding shares of AuRico Metals for C$1.80/sh in cash, representing an aggregate transaction value of C$310mm.

- **A strong offer from Centerra.** Centerra's bid equates to 0.91x on a P/NAV basis, which we believe is a strong offer given that AuRico had previously received little to no value for Kemess.
- **Shareholder support should result in minimal hurdles.** Management & Directors of AuRico, as well as AuRico's largest shareholder (Alamos Gold), combine to hold ~11.4% of the shares outstanding, and are in favour of the transaction. We see the potential for a competing bid as low, and believe that Centerra will be successful with its bid for AuRico.
- **Transaction expected to close in early 2018.** AuRico shareholders will vote on the transaction at a special meeting to be held on December 22 at 10:00am, where 66.67% of the votes cast must be in favour of the transaction in order for the deal to proceed. Assuming that AuRico obtains the required votes for the transaction to proceed, we would expect closing of the deal to occur in early 2018.

Barry Allan, MBA | MINING

# Balmoral Resources Ltd.
# (BAR-T – $0.42)
# Buy – Target Price: $1.00

## COMPANY PROFILE

Balmoral Resources Ltd. is a Quebec-focused exploration and development company whose primary assets are located in the Sunday Lake-Detour Lake Fault Zone in the prolific Abitibi Greenstone Belt of the James Bay Lowland. Balmoral has assembled one of the largest land positions in the Abitibi and control over 700 sq. kilometres of land. Balmoral has made two new discoveries of mineralization – the Grasset nickel deposit and the Martiniere gold project – but the primary focus in the Martiniere gold project. Management are well-known as being very good at early stage exploration, having been previously recognized by the mineral industry for new discoveries in both Quebec and Ontario.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | BAR-T | **Shares-basic O/S (M)** | 138.5 |
| **Rating** | Buy | **Shares-FD (M)** | 148.8 |
| **Risk** | High | **Market Cap (M)** | $58.2 |
| **Price** | $0.42 | **Float O/S (M)** | 133.5 |
| **1-Yr Target** | $1.00 | **Ave Daily Vol (K)** | 201.5 |
| **Valuation Method** | 1 X NAVPS | **52-Wk High-Low** | $0.98-$0.43 |
| **NAVPS** | $1.12 | **Year-end** | Dec |
| **Div. Yield** | 0.0% | **Next Reporting** | March, 2018 |
| **1-Yr ROR** | 138.1% | **Working Cap (M)** | $8.6 |

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| **Gold Price US$/oz** | $1,241 | $1,250 | $1,300 | $1,350 |
| **Gold Prod'n (koz)** | 0.0 | 0.0 | 0.0 | 0.0 |
| **Op. Cost (US$/oz)** | $0 | $0 | $0 | $0 |
| **EPS (C$/sh)** | ($0.00) | ($0.01) | ($0.02) | ($0.02) |
| **P/EPS** | n.m. | n.m. | n.m. | n.m. |
| **CFPS (C$/sh)** | ($0.02) | ($0.02) | ($0.02) | ($0.03) |
| **P/CFPS** | n.m. | n.m. | n.m. | n.m. |

Source: Company reports; Thompson One; LBS estimates

## Drill, Drill, Drill – A Well Established Explorer

**We rate Balmoral Resources a BUY with a one-year target price of $1.00.** Balmoral is well recognized as being good at early stage exploration with an excellent property holding in an under-explored portion of the Abitibi Greenstone Belt. Having being previously recognized in Quebec for new discoveries of nickel and gold, the company's focus is on the Martiniere property where drilling continues to intersect a large, but complex series of gold zones. The challenge is now to drill-out a gold resource of sufficient size to justify economic development.

- **Existing success is being over looked**. Balmoral has already made two new discoveries in the Abitibi – one gold and one nickel – and has received industry recognition for both new discoveries. With a decline in nickel prices, the company opted to focus on its gold discovery on the Martiniere property. While drilling in 2017 continued to outline a large, but complex gold system on the property, equity markets have failed to take notice or care. We interpret this lack of market recognition as an inability of investors to visualize a single, competent resource block which may support the possibility of economic development, and a general market malaise for early stage exploration. With time, there is a very high probability this interpretation will change as additional drill data is collected.
- **Right street address for gold enrichment**. The Abitibi Greenstone Belt is Canada's most prolific region of mineral endowment, hosting major deposits of gold and base metals. Immediately on strike with the Martiniere gold property to the west, for example, is Detour Gold Corp. – the largest single operating gold mine in Canada and clear illustration the Sunday Lake-Detour Lake Fault Zone is a known geological structure that is enriched in gold. In other words, Balmoral has the right street address to look for new gold resources.
- **Fully funded 2018 exploration campaign.** Balmoral has already stated the intent in 2018 to spend $8.2 million on continued drilling of the Martiniere property and to conduct initial exploration work on additional claims on the Sunday Lake-Detour Lake Fault Zone. The 2018 program is fully funded and will not require any additional equity financing.
- **Management has a very good track record and reputation.** Balmoral management has an exceptionally good track record on creating value from early-stage exploration projects, and has a rather loyal shareholder group – characteristics not usually found in a company with this level of risk or market cap size. In our opinion, for an exploration company to be successful, it is more about the "horses" not the "courses".

Barry Allan, MBA | MINING

# Eastmain Resources Inc.
# (ER-T – $0.31)
# Buy – Target Price: $1.15

## COMPANY PROFILE

Eastmain Resources (ER.TSX) is a Canadian exploration company actively exploring for gold in the James Bay region of Quebec. The company's flagship asset, the Clearwater gold project, has been initially identified as a high-grade, open-pit resource with an underground component that has yet to be fully quantified. Eastmain is also exploring the past-producing Eastmain mine and the Eleonore South JV project. In early 2016, senior management changed, providing new energy and focus to exploration. In 2017, the company clearly established the Eau Claire gold deposit on the Clearwater property was a high-quality resource that has yet to be fully defined. In addition, early success by the Eleonore South JV has also highlighted a new, potentially high-grade, gold discovery near the Eleonore gold mine of Goldcorp Inc.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | ER-T | **Shares-basic O/S (M)** | 193.0 |
| **Rating** | Buy | **Shares-FD (M)** | 210.0 |
| **Risk** | High | **Market Cap (M)** | $59.8 |
| **Price** | $0.31 | **Float O/S (M)** | 173.7 |
| **1-Yr Target** | $1.15 | **Ave Daily Vol (K)** | 430 |
| **Valuation Method** | 1 X NAVPS | **52-Wk High-Low** | $0.64-$0.28 |
| **NAVPS** | $1.22 | **Year-end** | Oct |
| **Div. Yield** | 0.0% | **Next Reporting** | March, 2018 |
| **1-Yr ROR** | 271.0% | **Working Cap (M)** | $8.20 |

| | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| **Gold Price US$/oz** | $1,250 | $1,300 | $1,325 | $1,350 |
| **Gold Prod'n (koz)** | 0.0 | 0.0 | 0.0 | 87.6 |
| **Op. Cost (US$/oz)** | $0 | $0 | $0 | $352 |
| **EPS (C$/sh)** | ($0.02) | ($0.02) | ($0.02) | $0.33 |
| **P/EPS** | n.m. | n.m. | n.m. | 0.9x |
| **CFPS (C$/sh)** | ($0.03) | ($0.03) | ($0.03) | $0.49 |
| **P/CFPS** | n.m | n.m | n.m | 0.6x |

Source: Company reports; Thompson One; LBS estimates

## How Long Until Gone? A Take-Over Candidate

**We rate Eastmain Resources Inc. a BUY with a one-year target price of $1.15.** Eastmain has defined the high-quality Eau Claire resource on its Clearwater property, which has the potential to expand further. When a preliminary economic assessment (PEA) is completed in early 2018, we expect to see positive economic merits supporting the decision to advance the project further. However, along with the recently defined potential of the Eleonore South JV property, there is a very high probability Eastmain is absorbed by Goldcorp – the owner of the major operating gold mine in the immediate area. The target price is based on our valuation of a gold mine that may be supported by the Eau Claire resource.

- **Eau Claire is a well-defined, high-quality resource that has potential to expand**. Incorporating ~70,000 metres of additional in-fill and definition drill data, Eastmain updated the 43-101 resource for the Eau Claire deposit (on the Clearwater property). With more rigorous economic assumptions on operating costs, minimum mining widths, capping limits and strip ratio than the prior resource, the contained resource declined by 18% to 1.3 Moz, but the average grade increased 57% to 6.3 g/t – clearly defining a higher grade gold deposit which should yield good economic returns. However, prior to completion of a PEA in 1H/18, additional drilling will more fully flesh-out high-grade veins encountered to depth. Our expectation is the resource will increase to ~1.6 Moz at a comparable grade, and that the PEA will justify advancing the project further. At that point in time, the operating gold mine owned by Goldcorp 40 kms away, may well see merits of incorporating the Eau Claire deposit as a satellite source of mill feed.
- **Eleonore South JV has developed a significant wild-card component to potential valuation**. In 2017, initial exploration on the Eleonore South JV (36.7%) has yielded evidence of a high-grade structure that has the potential to materially change the nature of the market's valuation of this early-stage project. Trench results have indicated grades of 13.5 g/t to 79.6 g/t over a strike length of 36 metres – clear evidence of a high-grade mineralizing system. Additional exploration is required, but given the close proximity of the property to the Eleonore gold mine, which is also 36.7% owned by Goldcorp, this has the potential to be a major wild-card to Eastmain's valuation.
- **Just a matter of time before taken over**. In our opinion, given the difficulty of the Eleonore gold mine to achieve initial expectations of operating performance, as Eastmain de-risks the Eau Claire resource and more exploration work is completed on the Eleonore South JV property, there is a high probability Goldcorp will see merit in taking over Eastmain in an effort to optimize the Eleonore processing facility.

Barry Allan, MBA | MINING

# Jaguar Mining Inc.
# (JAG-T – $0.35)
# Buy – Target Price: $0.65

## COMPANY PROFILE

Jaguar Mining is a TSX-T listed junior gold mining, development, and exploration company operating in Brazil with three gold mining complexes, and a large land package with exploration potential. The company's principal operating assets are located in the state of Minas Gerais and include the Turmalina gold mine and the Caeté gold complex with the Pilar and Roça Grande mines providing feed to a common mill. Jaguar also owns the Paciência gold mine, which is inactive, and has optioned out the Gurupí project in Maranhao State. After experiencing ground control problems at the main Turmalina mine in 2017, operating performance is expected to rebound late 2017 and improve throughout 2018, illustrating good operating stewardship by new management.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | JAG-T | **Shares-basic O/S (M)** | 325.1 |
| **Rating** | Buy | **Shares-FD (M)** | 340.0 |
| **Risk** | High | **Market Cap (M)** | $113.8 |
| **Price (C$)** | $0.35 | **Float O/S (M)** | 497.3 |
| **1-Yr Target** | $0.65 | **Ave Daily Vol (K)** | 505.7 |
| **Valuation Method** | 1.00 X NAVPS | **52-Wk High-Low** | $0.75-$0.22 |
| **NAVPS (C$)** | $0.70 | **Year-end** | Dec |
| **Div. Yield** | 0.0% | **Next Reporting** | April, 2018 |
| **1-Yr ROR** | 85.7% | **Working Cap (US$ M)** | $6.0 |

| | **2015A** | **2016A** | **2017E** | **2018E** |
|---|---|---|---|---|
| **Gold Price (US$/oz)** | $1,145 | $1,239 | $1,250 | $1,300 |
| **Gold Prod'n (Koz)** | 90.4 | 96.6 | 87.0 | 118.6 |
| **Op. Cost (US$/oz)** | $779 | $724 | $877 | $668 |
| **EPS (US$/sh)** | ($0.10) | ($0.50) | ($0.04) | $0.02 |
| **P/EPS** | n.m. | n.m. | n.m. | 16.0x |
| **CFPS (US$/sh)** | $0.10 | $0.16 | $0.06 | $0.16 |
| **P/CFPS** | 2.8x | 1.7x | 5.1x | 1.8x |

Source: Company reports; Thompson One; LBS estimates

## About Getting It Right, Again – A Return to Growth

**We rate Jaguar Mining Inc. a BUY with a one-year target price of $0.65.** An unanticipated ground problem at the main Turmalina mine in early 2017 materially impinged on operating performance for the first three quarters of 2017, causing a sharp sell-off in the share price. However, new management in early 2016 showed Jaguar could produce gold at a good cost, and while 2017 production was hampered by the impact of having to unexpectedly reschedule mining at the Turmalina mine, Jaguar is now positioned to resume good operating performance. Along with exploration results that illustrate significant down-plunge potential at both the Turmalina and Pilar mines, reserves and resources are also expected to expand – further illustrating that 2017 was an unfortunate anomaly in an otherwise well-conceived growth strategy.

- **Turmalina mine problems overcome and production should return to normalized levels in 1Q/18.** In 1Q/17 ground in the high-grade portion of the Turmalina mine failed, causing Jaguar to rely on a lower-grade orebody. At the same time, Jaguar accelerated development of additional high-grade areas, which only now has been sufficiently developed to augment mill feed. However, the impact was materially negative to output, and the mine suffered for the first three quarters of 2017. By 4Q/17 better grade ore was being sourced, which should continue to improve into 2H/18, causing the mine to return to being the major contributor of operating cash flow.
- **Pilar mine also positioned to improve in 2018**. In 3Q/17 ore grades at the Pilar mine improved, and are expected to continue to do so into 1H/18 as the mine accesses deeper, higher grade ore. Not only are better ore grades a function of improved grades with depth, but a corporate training program of Operating Excellence has begun to take hold, causing unit costs to improve.
- **More reserves and resources to add additional value.** A strategy in 2017 was to drill the depth extensions of both the Turmalina and Pilar mines based on a re-interpretation of geological data that suggested both deposits improved with depth. Exploration drilling completed in 2017 has indeed confirmed that both deposits have material extensions to depth that are of better grade than existing resources, which should allow for a significant increase in resources and reserves when recalculated in early 2018.
- **2018 about returning to a growth strategy.** It is our expectation that Jaguar returns to a growth strategy in 2018 after a year of scrambling to overcome operating issues. Given that Jaguar had a major restructuring in 2014 that wiped-out shareholder value, legacy issues abound which unduly hurt the share price in 2017 when operating issues surfaced.

Barry Allan, MBA | MINING

# Klondex Mines Ltd.
# (KDX-T – $3.18)
# Rating – Target Price: $5.80

## COMPANY PROFILE

Klondex Mines Ltd. is a junior gold producer who own and operate four producing gold mines, three in Nevada (Fire Creek, Midas and Hollister) and one in Manitoba (True North). Klondex Mines has established a reputation for an ability to successfully operate narrow-vein underground deposits. Volatile operating results in 2017 caused huge shareholder dislocation driven mostly by the inability of passive funds to see beyond short-term results, accentuated by the influence of hedge fund activity to realize short-term returns.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | KDX-T | **Shares-basic O/S (M)** | 175.2 |
| **Rating** | Buy | **Shares-FD (M)** | 200.8 |
| **Risk** | High | **Market Cap (M)** | $557.2 |
| **Price (C$)** | $3.18 | **Float O/S (M)** | 175.2 |
| **1-Yr Target** | $5.80 | **Ave Daily Vol (K)** | 1001.1 |
| **Valuation Method** | 1.00 X NAVPS | **52-Wk High-Low** | $7.73-$2.81 |
| **NAVPS (C$)** | $5.83 | **Year-end** | December |
| **Div. Yield** | 0.0% | **Next Reporting** | April, 2018 |
| **1-Yr ROR** | 82.4% | **Working Cap (US$ M)** | $17.4 |

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| **Gold Price (US$/oz)** | $1,245 | $1,252 | $1,300 | $1,325 |
| **Gold Prod'n (Koz - GEO)** | 161.3 | 213.7 | 279.9 | 302.2 |
| **Op. Cost (US$/oz)** | $683 | $684 | $614 | $562 |
| **EPS (US$/sh)** | $0.11 | $0.11 | $0.38 | $0.51 |
| **P/EPS** | 23.1x | 22.8x | 6.8x | 5.0x |
| **CFPS (US$/sh)** | $0.31 | $0.45 | $0.73 | $0.92 |
| **P/CFPS** | 8.2x | 5.7x | 3.5x | 2.8x |

Source: Company reports; Thompson One; LBS estimates

## Deliver As Promised and Re-establish Value

**We rate Klondex Mines a BUY with a one-year target price of $5.80.** Structural market changes in the relative influence of active and passive funds on share price movements had a materially negative impact on the market's recognition of volatile operating results in 2017. A combination of poor weather in 1Q/17 and a delay in conversion of the Midas mill in 3Q/17 caused substantial quarter-to-quarter variability in ounces mined verses ounces actually sold, which combined with buying and selling activity associated with passive fund (ETF) inclusion or exclusion, upset the recognition of value by the market. With a 4Q/17 operating result poised to be a record quarter in a year that has been materially better than 2016, there is a potential for a sudden realization of value with a flow of buying activity to cover short positions. 2018 for Klondex will be about smoothing the quarter-to-quarter volatility in operating results.

- **Optimized operating performance of assets in Nevada for 2018.** In 2017, Klondex added a third operating mine in Nevada (Hollister mine) to augment ore flow to the Midas mill. While ore produced by the Fire Creek and Midas mine was well established, newly supplied ore from Hollister required modification to the Hollister mine, disrupting ore processing at the Midas mill in 3Q/17. For 4Q/17, stock piled ore as a result of the disruption, along with ore production from Fire Creek and Midas mines, are to be processed by the Midas mill – allowing for a record level of output. Going into 2018, ore production at each mine and operating performance of the Midas mill are to stabilize quarter-to-quarter, providing a steady level of operating performance. Optimization is to come from an overall increased mining rate for all three mines, and a more efficient process capability of the Midas mill.
- **True North mine to add additional production.** For 2017, the newly acquired True North mine in Canada had not ramped up to a steady level of operating performance due to a need to correct under-development of the ore body for mining. However, starting in 4Q/17, operating results from this mine should begin to slowly increase quarter-over-quarter as more working areas underground become available for ore extraction.
- **2017 to be a dramatic improvement over 2016, showing good growth.** Setting aside share price performance, production in 2017 should increase by ~32% and operating cash flow should increase by ~45% - excellent growth metrics and tangible evidence that Klondex management are getting it right. We expect 2018 growth will be more of the same, just at a lower, less volatile rate.

Ryan Hanley | MINING

# Rubicon Minerals Corp.
# (RMX-T – $1.30)
# Buy – Target Price: $3.00

## COMPANY PROFILE

Rubicon Minerals (RMX.T) is an exploration and development company with a primary focus on gold exploration in the Red Lake camp. Following start-up issues in 2015, the company moved through a restructuring process which resulted in the hiring of management with a proven track record and the reorganization of the capital structure in order to remove past onerous debt and royalty components. RMX is now in much better shape and holds an asset (the Phoenix project) which has seen over $770mm of capital investment.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | RMX-T | **Shares-basic O/S (mm)** | 57.9 |
| **Rating** | Buy | **Shares-FD (mm)** | 60.7 |
| **Risk** | High | **Market Cap (mm)** | $75.3 |
| **Price** | $1.30 | **Float O/S (mm)** | 44.5 |
| **1-Yr Target** | $3.00 | **Ave Daily Vol (mm)** | 0.03 |
| **Valuation Method** | 1.0x NAV/sh | **52-Wk High-Low** | $1.27-$2.39 |
| **NAVPS** | $3.04 | **Year-end** | December |
| **Div. Yield** | 0.0% | **Next Reporting** | March |
| **1-Yr ROR** | 130.8% | **Working Cap ($mm)** | $27.7 |

| | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|
| **Gold Price US$/oz** | $1,250 | $1,300 | $1,325 | $1,350 |
| **Gold Prod'n (koz)** | n/a | n/a | n/a | 102.8 |
| **Op. Cost (US$/oz)** | n/a | n/a | n/a | 747.1 |
| **EPS ($/sh)** | ($0.22) | ($0.10) | ($0.10) | $0.86 |
| **P/EPS** | n/a | n/a | n/a | 1.5x |
| **CFPS ($/sh)** | ($0.20) | ($0.10) | ($0.10) | $0.95 |
| **P/CFPS** | n/a | n/a | n/a | 1.4x |

## Trial Mining & Processing to Begin in Mid-2018

**We rate Rubicon Minerals a BUY with a one-year target price of $3.00.** Rubicon continues to move through its 2017 & 2018 exploration and development program with a significant amount of drilling having already been completed.

- **Majority of new drill program now complete.** As of December, Rubicon had completed the re-logging of 10,000m of historical drill core, 3,500m of structural drilling, and 20,000m of additional infill and step-out drilling. Given that drilling so far has been under budget and ahead of schedule, the company elected to complete an additional 5,000m of drilling at depth, between the 610m and 685m levels. Additional drill results and a revised structural interpretation from the company and its consultants are expected to be released in H1/18.
- **Initial results demonstrate discrepancies with existing resource model.** Although it may be too early to draw hard conclusions as structural analysis remains ongoing, it is important to note that data collected from mapping, core re-logging, and additional drilling has returned grades which are higher than those in the 2016 block model, as well as intercepts which were encountered outside of the block model. Additionally, drilling at depth continues to return higher grades.
- **Trial mining to begin shortly.** Moving into 2018, exploratory development work into the main F2 deposit is already underway, with trial mining to commence in H1/18. Given that it is too early to determine the optimal mining method, it is likely that a variety of methods will be tested (longhole, shrinkage, etc.). Each stope is expected to be batch processed at the mill beginning in mid-2018.
- **Balance sheet remains in good shape.** Rubicon remains in good financial shape with $25mm in cash as at November 16, 2017. We expect the company to release more detailed plans and a budget for 2018 in early January.
- **Substantial infrastructure already in place.** With over $770mm having been historically spent on the project (head frame and hoist commissioned, shaft complete down to 930m below surface, 200 person camp, tailings management facility, new 1,250tpd mill, etc.) we believe that RMX is very well positioned to re-start operations should the deposit be proven to be economical

Barry Allan, MBA | MINING

# Wesdome Mines Ltd.
# (WDO-T – $1.80)
# Rating – Target Price: $4.50

## COMPANY PROFILE

Wesdome Gold Mines own and operate the Eagle River Complex in Ontario, which consists of two high-grade gold mines (Eagle River underground mine and Mishi open-pit) feeding a centrally located 900 tpd mill. The company also has the Kiena mine in Quebec which was closed 2013. Successful discoveries at each mine suggest the Eagle Complex may be expanded and that the Kiena mine may be re-started by 2020, providing good growth in annual production.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | WDO-T | **Shares-basic O/S (M)** | 133.9 |
| **Rating** | Buy | **Shares-FD (M)** | 139.6 |
| **Risk** | High | **Market Cap (M)** | $240.9 |
| **Price** | $1.80 | **Float O/S (M)** | 133.9 |
| **1-Yr Target** | $4.50 | **Ave Daily Vol (K)** | 705.3 |
| **Valuation Method** | 1.25 X NAVPS | **52-Wk High-Low** | $4.40-$1.50 |
| **NAVPS** | $3.66 | **Year-end** | Dec |
| **Div. Yield** | 0.0% | **Next Reporting** | Oct |
| **1-Yr ROR** | 150.0% | **Working Cap (M)** | $17.8 |

| | **2016A** | **2017E** | **2018E** | **2019E** |
|---|---|---|---|---|
| **Gold Price (US$/oz)** | $1,265 | $1,263 | $1,300 | $1,325 |
| **Gold Prod'n (koz)** | 47.7 | 57.0 | 71.6 | 80.0 |
| **Op. Cost (US$/oz)** | $901 | $830 | $831 | $803 |
| **EPS (C$/sh)** | $0.04 | $0.05 | $0.11 | $0.19 |
| **P/EPS** | 45.0x | 38.3x | 16.2x | 9.6x |
| **CFPS (C$/sh)** | $0.15 | $0.13 | $0.21 | $0.28 |
| **P/CFPS** | 12.0x | 13.7x | 8.5x | 6.5x |

## Organized for Growth in Reserves and Production

**We rate Wesdome Mines a BUY with a one-year target price of $4.50.** 2017 was a big year. Not only did Wesdome continue to discover high-grade mineralization at its Eagle River mine, but a material new discovery at the Kiena site has the prospect of supporting a reopening of the mine by 2020. In addition, the entire C-suite management group has changed, and a new corporate culture is taking root. While 2018 will be more about exploration results and verification of high-grade mineralization at the Kiena and Eagle River mines, Wesdome corporately is in the best position of its 21-year production history to deliver value through the drill bit and from good operating results.

- **Eagle River mine has a new lease on life – and a dramatic one at that**. Ongoing exploration on the newly discovered Zone 3 and 7 parallel structures continues to verify significant ore-bearing structures of high-grade gold that have the potential to materially increase the mine-life. In the shorter term, development on these structures has opened up new areas for mining, providing a greater flexibility in ore supply, but also yielding higher grade material. For 2018, we expect not only a better ore grade, but also a greater volume of ore to be supplied to the mill, allowing for steadily improving quarterly production and cash flow.
- **High likelihood Kiena mine is reopened by 2020**. In 2018, ongoing exploration from a newly driven ramp will define the size and shape of the deep high-grade discovery at the Kiena mine. Come end of 2018, not only should we have a good understanding of how big the mineralized body is, but there should be tangible access to the ore body and initial drifting data should provide direct evidence of the mineability of the resource. With sufficient underground development expected to be completed in 2019, the mine should return to operational status by the end of 2019. Given the high-grade indication of mineralization and the size of the Kiena mill, corporate output has the potential to triple (3x) in 2020 (along with expansion of the Eagle River mine).
- **Financing overhang to be removed.** 2018 will continue to be a capital intensive year with ramp and underground development at Kiena, and underground development and exploration at the Eagle River mine. Our forecast indicates that Wesdome will require additional funding to complete its development plan, and we believe this financing overhang has unduly hurt the share price. However, we believe this overhang will have to be solved in 2018, after which time we fully expect the share price to more adequately reflect the underlying value and start discounting the growth potential in reserves and production.

# OIL & GAS | Todd Kepler, CFA

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Todd Kepler, CFA | OIL & GAS

# Birchcliff Energy Ltd.
# (BIR-T – $4.09)
# Buy – Target Price: $8.50

## COMPANY PROFILE

Birchcliff is a midcap producer developing primarily Montney natural gas and light oil in NW AB. Its production is ~77% natural gas, and it operates in two core areas: Pouce Coupe and Gordondale. In 2016 BIR completed a major acquisition of Montney light oil and natural gas from Encana, materially expanding its position at Gordondale.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | BIR-T | **Shares-basic O/S (mm)** | 265.8 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 283.1 |
| **Risk** | High | **Market Cap (mm)** | $1,087.1 |
| **Price** | $4.09 | **Float O/S (mm)** | 257.8 |
| **1-Yr Target** | $8.50 | **Avg Daily Volume (mm)** | 1.2 |
| **Yield** | 2.4% | **Enterprise Value (mm)** | $1,703.5 |
| **1-Yr ROR** | 110.3% | **Net debt (mm)** | $574.9 |
| **52 Wk High-Low** | $10.50/$4.92 | **Net Debt/Total Cap** | 25.4% |
| **Target Valuation** | 7.2x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 2.2% |
| **Next Reporting** | Feb-14 | Institutional | 31.7% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.21 | A | $0.27 | A | $0.26 | A | $0.29 | A | $1.04 | 6.4x |
| **2016A** | $0.13 | A | $0.09 | A | $0.18 | A | $0.27 | A | $0.73 | 9.7x |
| **2017E** | $0.25 | A | $0.33 | A | $0.24 | A | $0.33 | | $1.15 | 3.6x |
| **2018E** | $0.34 | | $0.31 | | $0.32 | | $0.40 | | $1.37 | 3.0x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 37.6 | A | 47.5 | A | 46.5 | A | 52.0 | A | 186.8 | 9.1x |
| **2016A** | 27.3 | A | 21.1 | A | 49.8 | A | 79.6 | A | 177.7 | 14.0x |
| **2017E** | 75.1 | A | 95.5 | A | 71.3 | A | 95.1 | | 337.0 | 5.1x |
| **2018E** | 99.2 | | 89.8 | | 92.9 | | 114.6 | | 396.5 | 4.2x |

Source: Company reports, Thomson Reuters, LBS estimates

## Flexible 2018 Spending Plans

**We rate Birchcliff a Buy with a one-year target price of $8.50.** The target is based on a 7.2x 2018E EV/EBITDA multiple. BIR's stock is down over 50% year to date, which in our opinion was impacted by a deterioration in gas prices and more importantly, the sudden and complete divestment by BIR's major shareholder.

- Operationally, BIR hit most of its targets for 2017, with modest misses to production attributed to third-party outages in Q3. **The Company completed its fifth expansion at its wholly-owned gas plant at Pouce Coupe,** and successfully completed non-core asset divestitures for cash proceeds of $132 mm, further strengthening its balance sheet.
- BIR plans to issue its full 2018 budget and guidance in mid-February, but has provided a spending range of $250 - $450 mm, tied to cash flow and dependent mainly on gas prices this winter. The lower end of the range holds production flat at 80,000 boe/d, while the upper end adds drilling to fill the Phase VI expansion and exit next year at 100,000 boe/d. **In both cases the balance sheet and total payout ratio remain strong**.
- The Company's gas marketing mix is currently allocated ~73% to AECO, 19% to Dawn, ON, and 8% on Alliance. The Company has hedges in place on 210,000 gj/d, which represents ~2/3 of its AECO-marketed production, until the end of 2017. The averaged fixed price on the hedges is $3.05/gj, which based on BIR's heat content of its Montney gas equates to a fixed price of ~$3.50/mcft. **BIR anticipates layering in new hedges on its 2018 gas production during the winter months when the forward strip is seasonally at its highest.**
- As per our macro thesis on natural gas, the fundamentals for the commodity need to improve before investors come back en masse to the gas-weighted producers. **When the environment returns, we believe BIR will be one of the better sector performers**. As such, we recommend investors with a minimum 12-month investment horizon accumulate BIR at its current depressed level.

Todd Kepler, CFA | OIL & GAS

# Crew Energy Inc.
# (CR-T – $3.52)
# Buy – Target Price: $5.75

## COMPANY PROFILE

Crew is a midcap producer developing primarily Montney condensate-rich natural gas and light oil in NEBC. It is in the midst of a long-term plan to de-risk and develop its massive Montney inventory, replicating its Septimus capacity five-fold.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | CR-T | **Shares-basic O/S (mm)** | 149.0 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 153.3 |
| **Risk** | High | **Market Cap (mm)** | $524.3 |
| **Price** | $3.52 | **Float O/S (mm)** | 144.5 |
| **1-Yr Target** | $5.75 | **Avg Daily Volume (mm)** | 1.5 |
| **Yield** | na | **Enterprise Value (mm)** | $971.4 |
| **1-Yr ROR** | 63.4% | **Net debt (mm)** | $338.7 |
| **52 Wk High-Low** | $8.10/$3.40 | **Net Debt/Total Cap** | 28.1% |
| **Target Valuation** | 7.4x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 2.9% |
| **Next Reporting** | Feb-08 | Institutional | 50.0% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.16 | A | $0.18 | A | $0.12 | A | $0.14 | A | $0.60 | 8.4x |
| **2016A** | $0.08 | A | $0.11 | A | $0.16 | A | $0.19 | A | $0.54 | 10.1x |
| **2017E** | $0.18 | A | $0.14 | A | $0.17 | A | $0.23 | | $0.73 | 5.8x |
| **2018E** | $0.25 | | $0.21 | | $0.21 | | $0.28 | | $0.95 | 3.7x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 24.8 | A | 28.9 | A | 21.5 | A | 23.7 | A | 98.9 | 9.6x |
| **2016A** | 16.0 | A | 20.5 | A | 27.4 | A | 32.3 | A | 96.2 | 10.9x |
| **2017E** | 32.8 | A | 26.8 | A | 30.7 | A | 39.5 | | 129.8 | 7.5x |
| **2018E** | 42.7 | | 37.0 | | 37.0 | | 46.7 | | 163.4 | 5.4x |

Source: Company reports, Thomson Reuters, LBS estimates

## Focus on Condensate-Rich Montney

**We rate Crew a Buy with a one-year target price of $5.75.** The target is based on a 7.4x 2018E EV/EBITDA multiple. CR's stock has decreased over 50% year to date, which we believe is due to the deterioration in gas prices and negative revisions to the Company's 2017 guidance, prompted by third-party outages and the managed shut-in of uneconomic non-Montney gas production.

- At its ultra condensate-rich Montney play at West Septimus, Crew continues to improve its performance, with the latest wells on stream at an average well rate of 1,445 boe/d, of which 824 b/d or 57% is condensate, for an average condensate-gas ratio of 192 b/mmcf. **The Company notes that these wells are tracking ahead of the type curve, and at current condensate prices of ~$70.00/b**, would pay out in less than eight months. Crew has identified 512 Montney locations on its lands at West Septimus, of which over 150 locations are in the ultra condensate-rich window.
- Crew completed its 60 mmcf/d expansion of its West Septimus gas facility in October, below the budgeted $63 mm cost. Ongoing tie-ins of already-drilled and completed Montney wells are expected to grow production to ~31,000 boe/d by the end of 2017, of which ~5,000 b/d is expected to be condensate, which is over 2x the corporate condensate production before the plant expansion.
- The Company plans on releasing its 2018 budget in mid-December, but **in the current gas price outlook the Company is guiding to a cash flow based capex budget**. Under that scenario we expect Crew to generate modest growth, with a quarterly production profile similar to 2017, or relatively flat for the first three quarters with new production adds in Q4/18 when gas pricing is seasonally stronger.
- Overall, Crew's ongoing solid well results in the ultra condensate-rich play, combined with a conservative capex program next year to navigate volatile natural gas markets is positioning the Company for better growth and improved cash netbacks. **Additional upside may be recognized through further non-core asset sales similar to the Goose divestiture in Q2, allowing the Company to accelerate development on its existing large liquids-rich Montney portfolio**.

INSTITUTIONAL EQUITY

**2018 OUTLOOK**

Todd Kepler, CFA | OIL & GAS

## InPlay Oil Corp.
## (IPO-T – $1.42)
## Buy – Target Price: $2.75

### COMPANY PROFILE

InPlay is a junior producer operating in the Cardium oil play in central Alberta. It went public in late 2016 through the reverse takeover of Anderson Energy. The Company brings operational expertise to this high value oil play, and has acquired a material land position on the emerging East Basin Duvernay oil play.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | IPO-T | **Shares-basic O/S (mm)** | 67.8 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 72.7 |
| **Risk** | High | **Market Cap (mm)** | $96.3 |
| **Price** | $1.42 | **Float O/S (mm)** | 37.7 |
| **1-Yr Target** | $2.75 | **Avg Daily Volume (mm)** | 0.1 |
| **Yield** | na | **Enterprise Value (mm)** | $161.9 |
| **1-Yr ROR** | 93.7% | **Net debt (mm)** | $49.5 |
| **52 Wk High-Low** | $2.34/$1.28 | **Net Debt/Total Cap** | 20.0% |
| **Target Valuation** | 6.3x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 1.5% |
| **Next Reporting** | Mar-14 | Institutional | 45.0% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.26 | A | $0.35 | A | $0.33 | A | $0.39 | A | $1.33 | na |
| **2016A** | $0.24 | A | $0.18 | A | $0.11 | A | $0.00 | A | $0.34 | 5.9x |
| **2017E** | $0.10 | A | $0.10 | A | $0.08 | A | $0.10 | | $0.37 | 4.4x |
| **2018E** | $0.12 | | $0.12 | | $0.13 | | $0.14 | | $0.50 | 2.8x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 3.5 | A | 4.7 | A | 4.3 | A | 5.1 | A | 17.7 | na |
| **2016A** | 3.3 | A | 2.6 | A | 1.8 | A | 3.7 | A | 11.4 | 13.9x |
| **2017E** | 6.7 | A | 6.5 | A | 5.1 | A | 7.4 | | 25.8 | 6.3x |
| **2018E** | 9.0 | | 9.2 | | 9.7 | | 10.7 | | 38.5 | 3.9x |

Source: Company reports, Thomson Reuters, LBS estimates

## Material Exposure to East Basin Duvernay

**We rate InPlay Oil a Buy with a one-year target price of $2.75.** The target is based on a 5.7x 2018E EV/EBITDA, plus $0.50 attributed to our valuation of the Company's Duvernay land position.

- IPO's core oil play remains the bio-turbated Cardium, on which it holds a material position in the Greater Pembina area and Willesden Green. **The Company this summer brought on stream its first two-mile horizontal Cardium well at Willesden Green, with an IP90 rate over 400 boe/d (91% oil).** Activity in 2018 will focus on this play, where it holds over 30 sections of Cardium rights, and has identified 78 one-mile lateral locations, of which a significant number may be redesigned as two-milers.
- The Company increased its land position on the East Basin Duvernay oil play to 36.25 net sections from 16.25 sections at 100% WI. Its cumulative land cost has been $15.4 mm or ~$425 thousand per section, versus recent land sale costs on the play of $1.3 mm per section. IPO drilled its first horizontal well on the play, and plans on completing it in 2018. We expect a lot of industry well data to be released on this play in 2018, which will help frame investor expectations as to its value potential. **There are only a few public companies with exposure to the East Basin Duvernay, of which IPO is one that now provides material exposure for investors.**
- IPO had not released its 2018 budget at time of writing (scheduled for mid-December release). We are forecasting production in 2018 to average 4,700 boe/d (70% liquids), which represents 16% debt-adjusted production per share growth over our 2017 forecast. We forecast 2018 capex of $40 mm, and cash flow generation of $34 mm or $0.50 per share, diluted, based on US$56.00/b WTI, $0.78 FX, and $2.00/mcf AECO.

Todd Kepler, CFA | OIL & GAS

# Iron Bridge Resources Inc.
# (IBR-T – $0.63)
# Spec. Buy – Target Price: $1.00

## COMPANY PROFILE

Iron Bridge is a smallcap producer targeting Montney light oil and liquids-rich gas in the Elmworth region of northwest Alberta. 2017 was transformational for the Company, including a reconstituted management team and board of directors, the divestiture of non-core assets, and the corporate name change from RMP Energy to Iron Bridge.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | IBR-T | **Shares-basic O/S (mm)** | 156.5 |
| **Rating** | Spec. Buy | **Shares-FD O/S (mm)** | 173.0 |
| **Risk** | High | **Market Cap (mm)** | $98.6 |
| **Price** | $0.63 | **Float O/S (mm)** | 137.7 |
| **1-Yr Target** | $1.00 | **Avg Daily Volume (mm)** | 0.3 |
| **Yield** | na | **Enterprise Value (mm)** | $72.2 |
| **1-Yr ROR** | 58.7% | **Net debt (mm)** | ($26.4) |
| **52 Wk High-Low** | $0.90/$0.42 | **Debt/Total Cap** | -24.0% |
| **Target Valuation** | 15.2x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 12.0% |
| **Next Reporting** | Mar-14 | Institutional | 15.0% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.20 | A | $0.25 | A | $0.14 | A | $0.15 | A | $0.75 | 3.5x |
| **2016A** | $0.07 | A | $0.05 | A | $0.06 | A | $0.02 | A | $0.20 | 5.8x |
| **2017E** | $0.02 | A | $0.02 | A | ($0.02) | A | $0.01 | | $0.02 | 33.7x |
| **2018E** | $0.01 | | $0.01 | | $0.02 | | $0.02 | | $0.07 | 9.6x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 25.2 | A | 31.3 | A | 16.9 | A | 18.8 | A | 92.1 | 5.0x |
| **2016A** | 10.4 | A | 8.4 | A | 10.3 | A | 3.7 | A | 32.7 | 5.5x |
| **2017E** | 2.5 | A | 3.1 | A | (3.1) | A | 0.9 | | 3.3 | 21.9x |
| **2018E** | 1.7 | | 2.1 | | 2.5 | | 3.7 | | 10.0 | 9.4x |

Source: Company reports, Thomson Reuters, LBS estimates

## Elmworth Montney Pure Play

**We rate Iron Bridge Resources a Spec. Buy with a one-year target price of $1.00.** The target is based on a 15.2x 2018E EV/EBITDA multiple. IBR's stock has decreased approximately 10% year to date, however it has appreciated over 50% since late August once the new management announced its non-core property disposition and go-forward strategy.

- In late-October, IBR announced a 6-month winter capex budget of $25 mm, which entails the drilling of five wells at Elmworth, including two 2,400-metre lateral development wells, two land-retention delineation wells that will continue half the Company's Montney lands through 2020, plus one water disposal well into the Belloy formation. The two development wells will be completed with 80 frac stages at a total estimated cost of $5.7 mm each. Upon completion, the wells will be tied into IBR's existing 2-23 facility before spring break-up. As a reminder, **the latest Montney well at location 15-23 was completed with 30 frac stages along a 1,466-metre lateral, and had an unrestricted IP30 rate of 1,180 boe/d (~38% oil and NGLs), and as such these new longer wells should be capable of higher rates.**
- The Montney fairway around Elmworth has seen significant land sale activity as the industry continues to acquire acreage on this high value play. We observe average bonus payments ranging from $625 - $3,125 per acre. **We assign a valuation of ~$1,000 per acre to IBR's ~82 net sections or 52,000 acres at Elmworth, which equates to ~$52 mm or ~$0.35 per share.**
- On valuation, our $1.00 target is decomposed into a core value of $0.65, which implies a 2018E EV/EBITA of 9.7x versus the peer group average of 4.3x, plus the $0.35 undeveloped land valuation. Although the market multiple assigned to our 2018 EBITDA estimate is significantly higher than its peers, we point out that this is a very early stage property with only three producing wells, and therefore expect the Company to "grow" into its multiple.

Todd Kepler, CFA | OIL & GAS

# Paramount Resources Ltd.
# (POU-T – $17.82)
# Top Pick – Target Price: $35.00

## COMPANY PROFILE

Paramount Resources is a midcap producer targeting liquids-rich gas and light oil in Alberta and B.C. It's acquisition of Apache Canada and merger with Trilogy Energy has positioned Paramount as a major producer in the high-value liquids-rich gas and light oil Montney and Duvernay Plays in Alberta.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | POU-T | **Shares-basic O/S (mm)** | 134.9 |
| **Rating** | Top Pick | **Shares-FD O/S (mm)** | 140.7 |
| **Risk** | High | **Market Cap (mm)** | $2,404.6 |
| **Price** | $17.82 | **Float O/S (mm)** | 87.3 |
| **1-Yr Target** | $35.00 | **Avg Daily Volume (mm)** | 0.4 |
| **Yield** | na | **Enterprise Value (mm)** | $3,011.2 |
| **1-Yr ROR** | 96.4% | **17E Net Debt (mm)** | $606.6 |
| **52 Wk High-Low** | $25.57/$13.99 | **Debt/Total Cap** | 19.9% |
| **Target Valuation** | 10.4x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 38.2% |
| **Next Reporting** | Mar-08 | Institutional | 13.5% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.15 | A | $0.19 | A | $0.35 | A | $0.20 | A | $0.88 | 23.8x |
| **2016A** | $0.21 | A | -$0.05 | A | $0.04 | A | $0.14 | A | $0.34 | 30.8x |
| **2017E** | $0.26 | A | $0.33 | A | $0.40 | A | $0.83 | | $1.92 | 9.3x |
| **2018E** | $0.91 | | $0.88 | | $0.80 | | $1.04 | | $3.64 | 4.9x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 33.9 | A | 40.5 | A | 59.4 | A | 45.1 | A | 178.8 | 23.0x |
| **2016A** | 51.8 | A | 21.5 | A | 20.8 | A | 18.8 | A | 112.9 | 4.7x |
| **2017E** | 26.1 | A | 33.7 | A | 46.9 | A | 120.2 | | 227.0 | 13.3x |
| **2018E** | 130.9 | | 128.4 | | 117.8 | | 150.9 | | 527.9 | 6.0x |

Source: Company reports, Thomson Reuters, LBS estimates

## It's All About the Condensate

**We rate Paramount Resources a Top Pick with a one-year target price of $35.00.** We derive our $35.00 target by applying a consensus target multiple of 7.5x 2018E EV/EBITDA to our 2018 forecast, which equates to $24.00, plus $11.00 representing a 66% risking of our estimated $32.00 PV10 value of POU's free cash flow generation from its five core Montney/Duvernay plays. We fully expect additional upside potential to the stock price as POU executes on these plays.

- In Q3/17 POU closed the strategic acquisition of Apache Canada Ltd. and the merger with Trilogy Energy Corp. The two deals added significant complementary assets in the Montney and Duvernay condensate-rich gas and light oil plays, **positioning POU to potentially double its production base within five years**.
- With current weakness in western Canadian gas prices, producers with NGLs and condensate in their production mix are somewhat insulated from low gas-weighted netbacks. **POU's current production is over 90,000 boe/d, weighted ~35% to liquids, or ~31,500 b/d. Within the liquids volume, ~80% or just over 25,000 b/d are light oil and condensate**. Further, Paramount's wellhead liquids (i.e. field condensate and light oil) ratios at its five core growth plays in the Montney and Duvernay are 90 b/mmcf at Wapiti (Montney), 120 b/mmcf at Karr (Montney), 220 b/mmcf at Kaybob (Montney), 100 b/mmcf at Duvernay South, and 220 b/mmcf at Duvernay Smoky.
- POU has identified growth potential on its five core plays of 139,500 boe/d by 2021, of which 60,500 b/d or 43% would be wellhead liquids. **We forecast the Company's corporate gas/liquids ratio improving from 65/35 to 60/40 over the next couple years.**
- In November, POU released its 2018 budget and guidance. The Company set a capex budget of $600 mm plus $28 mm in asset retirement obligations. Capital will be allocated ~25% to Wapiti, ~27% to Karr, ~13% to Kaybob Montney oil, and up to 20% on the Duvernay (other plays plus optimization capital makes up the rest). It expects production to average ~100,000 boe/d.

Todd Kepler, CFA | OIL & GAS

# Surge Energy Inc.
# (SGY-T– $1.95)
# Buy – Target Price: $3.00

## COMPANY PROFILE

Surge Energy is a producer of medium and light oil in southwest Sask., southeast Alberta, and northwest Alberta. The Company targets conventional reservoirs with large original-in-place oil volumes, enabling a sustainable dividend model in a low commodity price environment.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SGY | **Shares-basic O/S (mm)** | 232.9 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 245.3 |
| **Risk** | High | **Market Cap (mm)** | $454.2 |
| **Price** | $1.95 | **Float O/S (mm)** | 225.9 |
| **Target** | $3.00 | **Avg Daily Volume (mm)** | 0.7 |
| **Yield** | 4.9% | **Enterprise Value (mm)** | $700.7 |
| **1-Yr ROR** | 58.7% | **Net debt (mm)** | $246.5 |
| **52 Wk High-Low** | $3.45/$1.9 | **Net Debt/Total Cap** | 23.8% |
| **Target Valuation** | 7.2x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 6.4% |
| **Next Reporting** | Mar-15 | Institutional | 20.0% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.23 | A | $0.16 | A | $0.08 | A | $0.07 | A | $0.54 | 5.6x |
| **2016A** | $0.03 | A | $0.10 | A | $0.09 | A | $0.10 | E | $0.32 | 7.8x |
| **2017E** | $0.09 | A | $0.12 | A | $0.10 | A | $0.12 | | $0.43 | 4.6x |
| **2018E** | $0.13 | | $0.12 | | $0.13 | | $0.13 | | $0.51 | 3.8x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 56.5 | A | 40.0 | A | 18.7 | A | 16.9 | A | 132.1 | 6.3x |
| **2016A** | 9.1 | A | 23.6 | A | 20.7 | A | 23.3 | E | 76.7 | 9.4x |
| **2017E** | 23.7 | A | 29.5 | A | 25.8 | A | 31.7 | | 110.6 | 6.3x |
| **2018E** | 33.4 | | 32.2 | | 32.3 | | 33.6 | | 131.5 | 5.4x |

Source: Company reports, Thomson Reuters, LBS estimates

## Well-Positioned for More Oil-Weighted Deals in 2018

**We rate Surge Energy a Buy with a one-year target price of $3.00.** The target is based on a 7.2x 2018E EV/EBITDA multiple. The stock is down ~40% year to date, but like most oil-weighted producers we believe it now represents very good value and is expected to generate solid total returns to investors in 2018.

- SGY has identified over 1.6 billion barrels of original oil in place from conventional oil formations, and estimates an ultimate remaining recoverable amount of over 220 mmb, of which only 84 mmb are booked.
- Conventional formations benefit low decline rates and capital efficiencies. Due to its development approach on its captured conventional oil resources (including mono-bore horizontal drilling and water flood recoveries), **Surge has achieved corporate decline rates below 25% and full-cycle capital efficiencies below $22,000 per boe/d, which allows it to deliver a sustainable growth-dividend model for shareholders.**
- SGY has lowered its opcosts at its flagship Eyehill Sparky oil play to under $4.95/boe, versus the corporate opcost currently over $13.70/boe. **As development of the Sparky increases its relative weighting in the production mix, we expect corporate opcosts will decrease, thereby increasing corporate cash flow netbacks.**
- The Company slightly increased its preliminary 2018 capex budget by ~4% to $98.5 mm, citing slightly higher expected service costs for the increase. Production guidance remains unchanged at 16,150 boe/d (~82% liquids), which based on our commodity assumptions of US$56.00/b WTI, US$0.78 FX and $2.00/mcf AECO would generate cash flow of $119 mm or $0.51 per share, diluted. The total payout ratio (capex + dividends) under that outlook is ~102% of cash flow.
- Under our commodity thesis of a more robust and less volatile oil price environment, we believe SGY will be well positioned in 2018 to complement its asset base with strategic acquisitions similar to the two Sparky-oil focussed deals it executed in 2017.

Todd Kepler, CFA | OIL & GAS

# Tamarack Valley Energy Ltd.
# (TVE-T – $2.66)
# Buy – Target Price: $5.00

## COMPANY PROFILE

Tamarack Valley is a light oil producer that has a strategy of growth through the drill bit and complementary acquisitions. Its core Cardium oil play in central Alberta was recently augmented by the transformational acquisition of privateco Spur Resources, which added Viking light oil in eastern Alberta and western Saskatchewan to its portfolio.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TVE | **Shares-basic O/S (mm)** | 227.7 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 237.6 |
| **Risk** | High | **Market Cap (mm)** | $620.5 |
| **Price** | $2.66 | **Float O/S (mm)** | 225.4 |
| **Target** | $5.00 | **Avg Daily Volume (mm)** | 0.8 |
| **Yield** | na | **Enterprise Value (mm)** | $811.7 |
| **1-Yr ROR** | 88.0% | **Net debt (mm)** | $191.3 |
| **52 Wk High-Low** | $3.68/$1.96 | **Net Debt/Total Cap** | 19.4% |
| **Target Valuation** | 6.7x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 8.5% |
| **Next Reporting** | Jan-24 | Institutional | 35.0% |

**CFPS (FD)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/CF |
|---|---|---|---|---|---|---|
| **2015A** | $0.18 A | $0.16 A | $0.15 A | $0.18 A | $0.66 | 5.0x |
| **2016A** | $0.11 A | $0.13 A | $0.12 A | $0.15 A | $0.52 | 6.7x |
| **2017E** | $0.15 A | $0.15 A | $0.15 A | $0.18 | $0.63 | 4.3x |
| **2018E** | $0.21 | $0.20 | $0.21 | $0.22 | $0.84 | 3.2x |

**EBITDA ($mm)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|
| **2015A** | 15.0 A | 15.6 A | 16.0 A | 19.7 A | 66.3 | 6.5x |
| **2016A** | 12.2 A | 16.2 A | 18.1 A | 21.1 A | 67.6 | 7.9x |
| **2017E** | 33.8 A | 35.5 A | 36.6 A | 43.9 | 149.7 | 5.4x |
| **2018E** | 50.6 | 47.6 | 50.6 | 51.9 | 200.7 | 4.0x |

Source: Company reports, Thomson Reuters, LBS estimates

## Ready for a Multiple Expansion in 2018

**We rate Tamarack Valley Energy a Buy with a one-year target price of $5.00.** The target is based on a 7.2x 2018E EV/EBITDA multiple. The stock is down ~40% year to date, but like most oil-weighted producers we believe it now represents very good value and is expected to generate solid total returns to investors in 2018.

- Since entering the Veteran Viking light oil play with its acquisition of Spur in January 2017, TVE has allocated most of its activity to that play, which has now become the Company's flagship property. **The result has been an increase in its corporate oil weighting from ~47% at the beginning of 2017 to over 52% currently.** This higher oil mix is translating into higher cash flow netbacks.
- Beyond the Viking play, TVE also continues to develop its core Cardium light oil assets in central Alberta with its extended-reach horizontal wells (1.5 and 2-mile laterals). **The Company is realizing oil rates in excess of 500 b/d of oil with the 2-milers**, and investors can expect to see more of those in 2018.
- While TVE does not plan on releasing its 2018 budget until mid-January, investors can look forward to further growth from the Veteran Viking play, as well as an expansion of its water flood recovery schemes, and potentially an expanded land position through additional crown and/or tuck-in deals. TVE's Saskatchewan Viking assets are also likely to see significant investment.
- Notwithstanding solid quarterly performance and improving oil cuts in the production mix, TVE continues to trade at an ~1.0x EV/EBITDA discount to its peers. **Under our oil investment thesis of robust pricing and lower volatility, we believe that an investor "risk-on" trade should result in TVE receiving a multiple expansion relative to its peers,** and therefore potentially generate above-average returns for shareholders in 2018.

Todd Kepler, CFA | OIL & GAS

# Whitecap Resources Inc.
# (WCP-T – $8.55)
# Buy – Target Price: $13.00

## COMPANY PROFILE

Whitecap is a midcap, dividend-paying, oil weighted producer operating in western Canada. The Company focuses on high netback, low decline assets to generate sustainable growth for shareholders with a target of 3 - 8% annual per share growth. It focuses on oil development in Saskatchewan, Alberta, and northeast B.C.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | WCP-T | **Shares-basic O/S (mm)** | 418.1 |
| **Rating** | Buy | **Shares-FD O/S (mm)** | 425.6 |
| **Risk** | High | **Market Cap (mm)** | $3,574.9 |
| **Price** | $8.55 | **Float O/S (mm)** | 413.9 |
| **1-Yr Target** | $13.00 | **Avg Daily Volume (mm)** | 1.1 |
| **Yield** | 3.6% | **Enterprise Value (mm)** | $4,874.1 |
| **1-Yr ROR** | 55.7% | **Net debt (mm)** | $1,299.2 |
| **52 Wk High-Low** | $12.90/$8.42 | **Net Debt/Total Cap** | 26.6% |
| **Target Valuation** | 8.1x 2018E EV/EBITDA | **Ownership** | |
| **Year End** | Dec-31 | Manag. & Dir. | 1.5% |
| **Next Reporting** | Feb-26 | Institutional | 42.6% |

**CFPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/CF |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.43 | A | $0.50 | A | $0.38 | A | $0.37 | A | $1.68 | 5.1x |
| **2016A** | $0.22 | A | $0.29 | A | $0.29 | A | $0.31 | A | $1.13 | 8.6x |
| **2017E** | $0.33 | A | $0.33 | A | $0.32 | A | $0.35 | | $1.33 | 6.4x |
| **2018E** | $0.42 | | $0.42 | | $0.44 | | $0.46 | | $1.74 | 4.9x |

**EBITDA ($mm)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 118.4 | A | 153.8 | A | 124.8 | A | 121.1 | A | 518.2 | na |
| **2016A** | 77.6 | A | 102.0 | A | 115.3 | A | 120.6 | A | 415.6 | 10.5x |
| **2017E** | 132.8 | A | 131.3 | A | 128.6 | A | 151.9 | | 544.6 | 8.9x |
| **2018E** | 187.8 | | 188.6 | | 195.2 | | 205.3 | | 776.8 | 6.1x |

Source: Company reports, Thomson Reuters, LBS estimates

## Best-in-Class Oil Company Valued at a Discount to Peers

**We rate Whitecap Resources a Buy with a one-year target price of $13.00.** The target is based on a 8.1x 2018E EV/EBITDA multiple. Despite strong operational execution in 2018, the stock is down ~25% year to date, comparable to the majority of oil-weighted producers.

- WCP announced the $940 mm cash acquisition of 14,800 boe/d (100% liquids) mainly in the Weyburn CO2-flood project in mid-November. The acquisition is being funded 55% by available bank lines and 45% from new equity at $8.80 per share. WCP will have a 62% working interest and operate the asset when the deal closes in mid-December.
- One of the most attractive features of the Weyburn asset is its low base decline rate of less than 4%. WCP plans to expend $60 mm on the play in 2018, and generate $172 mm in cash flow. **Over the next five years, WCP sees growth potential from the assets to ~17,700 boe/d, and expects to generate free cash flow of ~$459 mm based on US$54.00/b WTI.**
- Consistent with WCP's dividend-growth model, the Company announced concurrent with the Weyburn deal that it will increase its monthly dividend by 5% to $0.0245 per share ($0.3084 annualized), effective January 2018. This is on top of the 5% increase announced in early November with the Q3 results. **We estimate a total payout ratio (capex plus dividends) at 95% of our 2018E cash flow, based on a 2018 oil price of US$56.00/b.**
- As per our oil investment thesis, we believe WCP will be one of the first movers in an oil sector recovery, given its best-in-class asset base, sustainable (and growing) dividend, and opportunity for further accretive acquisitions. At time of writing, WCP was trading at a slight discount to its peer group on a 2018 EV/EBITDA basis, which in our opinion represents a mispricing by the market, and therefore is a tremendous buying opportunity.

# TRANSPORTATION & INFRASTRUCTURE | Mona Nazir, MBA

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Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Exchange Income Corp.
# (EIF-T – $35.27)
# Restricted – Target Price: Restricted

## COMPANY PROFILE

Exchange Income Corporation's principal activity is to invest in profitable, well-established companies with strong cash flows operating in niche markets in Canada and the United States. It focuses on acquisition opportunities in the industrial products and transportation sectors. The company's aviation subsidiaries, focus on service to remote Northern regions of Canada including aerospace, passenger, cargo and medical transportation, whereas the company's manufacturing segment is driven by its WesTower subsidiary that designs, builds, maintains and services wireless phone and other communications towers throughout North America.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | EIF-T | **Shares O/S (M)** | 31.2 |
| **Rating** | Restricted | **Market Cap (M)** | $1,100 |
| **Risk** | Restricted | **Float O/S (M)** | 28.4 |
| **Price** | $35.27 | **Float Value (M)** | $1,000.7 |
| **1-Yr Target** | Restricted | **Avg Daily Volume (K)** | 96.6 |
| **Dividend** | $2.10 | **Enterprise Value (M)** | $1,890 |
| **Yield (%)** | 6.6% | **Control Blocks:** | |
| **1-Yr ROR** | | Manag & Dir | 9% |
| **52 Wk High-Low** | $43.00 - $25.80 | | |
| **BVPS** | $16.01 | **Net Debt/Cap** | 57% |
| **Valuation** | Restricted | **Next Reporting** | Mar-18 |
| **Year End** | 31-Dec | | |

**Adjusted EPS**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.14 | A | $0.71 | A | $0.76 | A | $0.46 | A | $2.07 | 17.7 x |
| **2016A** | $0.44 | A | $0.74 | A | $0.81 | A | $0.58 | A | $2.56 | 14.3 x |
| **2017E** | $0.25 | A | $0.77 | A | $0.84 | A | n/a | | n/a | n/a |
| **2018E** | n/a | | n/a | | n/a | | n/a | | n/a | n/a |
| **2019E** | | | | | | | | | | n/a |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $31.1 | A | $48.1 | A | $54.1 | A | $46.1 | A | $179.2 | 10.8 x |
| **2016A** | $44.3 | A | $56.9 | A | $60.0 | A | $51.3 | A | $212.6 | 9.1 x |
| **2017E** | $43.3 | A | $70.1 | A | $72.0 | A | n/a | | n/a | n/a |
| **2018E** | n/a | | n/a | | n/a | | n/a | | n/a | n/a |
| **2019E** | | | | | | | | | | n/a |

Source: Company reports; Bloomberg; LBS.

- **We are RESTRICTED on Exchange Income Corp.**

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Hydro One Ltd.
# (H-T – $22.49)
# Rating Buy – Target Price: $28.00

## COMPANY PROFILE

Hydro One is the largest distributor of electricity in Ontario and owns 98% of the transmission network, in addition ~125,000 km of low-voltage distribution network, serving 75% of the province's geography. The company operates via three segments: i. Transmission, ii. Distribution and iii. Other. The company has over 5,000 employees and is headquartered in Toronto, Ontario.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | H.TO | Shares O/S (M) | 595.4 |
| Rating | Buy | Market Cap (M) | $13,390 |
| Risk | Low | Float O/S (M) | 298.2 |
| Price | $22.49 | Float Value (M) | 6,706 |
| 1-Yr Target | $28.00 | Avg Daily Volume (K) | 427.3 |
| Dividend | $0.88 | Enterprise Value (M) | $28,511 |
| Yield (%) | 3.9% | | |
| 1-Yr ROR | 28.4% | Control Blocks: | |
| 52 Wk High-Low | $24.66- $21.32 | Government of Ontario | 49.9% |
| BVPS | $17.07 | Manag & Dir | 0.0% |
| Valuation | 19.5x P/E (2019E) | Net Debt/Cap | 50% |
| Year End | 31-Dec | Next Reporting | Mar, 2018 |

Adjusted EPS (FD)

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015A | $0.38 | A | $0.22 | A | $0.32 | A | $0.24 | A | $1.16 | 18.8x |
| 2016A | $0.35 | A | $0.26 | A | $0.39 | A | $0.22 | A | $1.21 | 18.6x |
| 2017E | $0.28 | A | $0.20 | A | $0.40 | A | $0.25 | E | $1.12 | 20.0x |
| 2018E | $0.28 | E | $0.23 | E | $0.45 | E | $0.36 | E | $1.31 | 17.1x |
| 2019E | | | | | | | | | $1.42 | 15.8x |

Adjusted EBITDA ($M)

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015A | $560 | A | $443 | A | $515 | A | $434 | A | $1,952 | 11.3x |
| 2016A | $534 | A | $481 | A | $572 | A | $469 | A | $2,056 | 13.9x |
| 2017E | $498 | A | $448 | A | $588 | A | $536 | E | $2,070 | 13.8x |
| 2018E | $551 | E | $531 | E | $688 | E | $724 | E | $2,494 | 11.4x |
| 2019E | | | | | | | | | $2,835 | 10.1x |

Note: Historic ratio uses yr. end closing share price and net debt.
Source: Company reports; Bloomberg; LBS.

## Quarterly Results Relatively Inconsequential, Focus Remains on OEB Decision & Avista

**We rate Hydro One a Buy with a one-year target price of $28.00.** Our target price is based on a 19.5x P/E multiple applied to our 2019 estimate.

- **$6.7B Avista transaction details.** On July 19, Hydro One and Avista Corporation (AVA) announced a definitive merger agreement in which Hydro is expected to acquire AVA for US$53/share in cash (transaction subsequently approved by Avista shareholders). The transaction represents a 24% premium to AVA's closing price as of July 18 (favourable in our opinion). The deal is expected to be mid-single digit accretive in the first full year. The transaction is expected to close in the second half of 2018 and ultimately provides a new geographic footprint for H (foray into U.S. market) and new vertical (natural gas generation).
- **OEB negative decision and related appeal.** Addressing the ongoing TX appeal, filed with the OEB and the divisional court, a decision may be made by Q2 or Q3 of next year. It is important to note that this is H's first appeal in the history of the company and given the ~$24M annual reduction in potential deferred tax benefit ($0.04/sh), and the potential flow through impacts to the DX side, there is foreseeable value in the appeal process. Of note the 12% reduction in TX capex, as per the OEB ruling, stands and has been taken into account by the company.
- **Performance based model to capture efficiencies.** The planned switch to a performance based rate model beyond 2017 on the distribution side and 2019 on the transmission side could provide upside. The plan allows for profit-sharing based upon productivity, efficiency metrics, continuous improvement and value to customers.
- **M&A tuck-ins to continue.** Hydro's tuck-in strategy should continue in the near to medium term, capitalizing on the Ontario government's tax incentive plan and the new U.S. footprint.
- 5% rate base growth should correlate to similar dividend increases. Near 5% rate base CAGR growth, up until at least 2021E, is driven by $1.6B+ in capital investments annually. Given the consistency of the business model we expect that the current annual dividend of $0.88 should increase at a similar growth rate, in line with guidance.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# IBI Group Inc.
# (IBG-T – $7.95)
# Rating Buy – Target Price: $9.50

## COMPANY PROFILE

IBI is a leading, international, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities with over 2,900 employees in 76 offices around the world. IBI focus on four main segments of development: Urban Land, Facilities, Transportation and Systems. The professional services provided by IBI include planning, design, implementation, analysis of operations and other consulting services related to these four main areas of development.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | IBG-T | **Shares O/S* (M)** | 31.2 |
| **Rating** | Buy | **Market Cap* (M)** | $248.0 |
| **Risk** | Medium | **Float O/S (M)** | 19.5 |
| **Price** | $7.95 | **Float Value (M)** | $155.0 |
| **1-Yr Target** | $9.50 | **Avg Daily Volume (K)** | 21.3 |
| **Dividend** | $0.00 | **Enterprise Value (M)** | $360.2 |
| **Yield (%)** | 0.0% | **Control Blocks:** | |
| **1-Yr ROR** | 19.5% | Manag & Dir | 38% |
| **52 Wk High-Low** | $8.09 - $5.65 | | |
| **BVPS** | $0.74 | **Net Debt/Cap** | 83% |
| **Valuation** | 16.0x P/E (2019) | **Next Reporting** | Mar-18 |
| **Year End** | 31-Dec | | |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | $0.11 | A | $0.07 | A | $0.27 | A | $0.04 | A | $0.49 | 16.2x |
| **2016** | ($0.12) | A | $0.14 | A | $0.18 | A | $0.24 | A | $0.47 | 17.1x |
| **2017** | $0.10 | A | $0.13 | A | $0.15 | A | $0.09 | | $0.47 | 16.8x |
| **2018** | $0.12 | | $0.15 | | $0.17 | | $0.12 | | $0.56 | 14.3x |
| **2019** | $0.13 | | $0.16 | | $0.18 | | $0.12 | | $0.60 | 13.2x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | 6.6 | A | 10.2 | A | 9.5 | A | 8.3 | A | 34.4 | 10.5x |
| **2016** | 9.5 | A | 12.3 | A | 10.2 | A | 7.8 | A | 39.8 | 9.1x |
| **2017** | 10.2 | A | 11.8 | A | 11.1 | A | 8.4 | | 41.4 | 8.7x |
| **2018** | 10.2 | | 11.8 | | 11.9 | | 9.6 | | 43.6 | 8.3x |
| **2019** | 10.6 | | 12.3 | | 12.5 | | 10.0 | | 45.5 | 7.9x |

Note: Historic ratio uses yr. end closing share price and net debt

Source: Company reports; Bloomberg; LBS.

## 30%+ Stock Price Appreciation YTD, Run Not Over Yet, in Our View

**We rate IBI Group a Buy with a one-year target price of $9.50.** Our target price is based on a 16x P/E multiple applied to our 2019 estimate.

- The company has made significant strides since new management came into the picture in August, 2013. Since then the company has reduced DSOs from 148 days to under 80 days currently, increased its EBITDA margin profile to 11.5% (YTD) up from 7%, while leverage has reduced drastically from near 7x to under 3x currently. While the stock price appreciation over the last few years continues to close the valuation gap between IBI and peers, the company continues to trade at a 2x EV/ EBITDA discount vs. WSP/ STN and a 4x P/E discount.
- **Deleveraging momentum continues, leverage dipping below the 3x mark.** IBI's net debt stands at ~$112M, down from ~$120M in Q2/17. Net debt/ LTM EBITDA stood at ~2.8x, below the prior quarter ~3x mark and a marked improvement from 6x+ in 2015. Given the solid FCF generation YTD (cash up $7.5M in Q3/17 vs. Q2/17), we believe management's targeted leverage level of 2x to 2.5x by mid-2018 remains within reach.
- **Intelligence unit, a key competitive advantage for IBI.** Through its internally developed intelligence unit, IBI aims at becoming a technology-driven design company where technology will be a key part of its service offering from the planning stage to the delivery and beyond (asset management). Currently representing ~16% of revenue, management anticipates the segment to grow to 20% of revenue in the near term which we believe is achievable. Software firms typically trade at a higher multiple (over 13x EBITDA) vs. pure play design companies which could support a higher multiple for IBI ($10 TP assuming 13x multiple for intelligence unit).
- **Alignment of interests with shareholders:** The management team in place since 2013/2014 has illustrated its execution capability. We note that ~40% of the firm's equity is owned by a partnership group, comprised of 60 to 65 senior IBI members. It is important to note that none of the partnership members have departed and there is a strong alignment of management and investor interests given prior financings were completed at much higher levels (2012 $41M offering at $15/ share).
- With the significant reduction in leverage, low/mid-single digit organic growth, and a return to industry margins, management stated their intention to 1) reinstate the dividend, or 2) take on some M&A in 2018. We believe both would be a welcomed announcement by shareholders.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# NAPEC Inc.
# (NPC-T – $1.99)
# Rating Tender– Target Price: $1.95

## COMPANY PROFILE

NAPEC provides construction and maintenance services for the electricity and heavy industrial markets. The company operates in Québec, Ontario and the northeast and mid-Atlantic United States.


Source: BigCharts.com

## Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | NPC-T | **Shares O/S (M)** | 104.4 |
| **Rating** | Tender | **Market Cap (M)** | $207.7 |
| **Risk** | Medium | **Float O/S (M)** | 82.2 |
| **Price** | $1.99 | **Float Value (M)** | $163.6 |
| **1-Yr Target** | $1.95 | **Avg Daily Volume (K)** | 376.6 |
| **Dividend** | $0.00 | **Enterprise Value (M)** | 315.3 |
| **1-Yr ROR** | -2.0% | **Control Blocks:** | |
| **52 Wk High-Low** | $2.04-$0.86 | Manag & Dir | 1.4% |
| **BVPS** | $1.14 | Fonds FTQ | 20% |
| **Valuation** | 8.7x EV/TTM EBITDA | **Net Debt/Cap** | 86.5% |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Adjusted EPS (FD)**

| | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **P/E** |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | ($0.02) | A | $0.01 | A | $0.02 | A | $0.02 | A | $0.03 | 66.3x |
| **2016** | $0.00 | A | ($0.01) | A | ($0.00) | A | ($0.03) | A | ($0.04) | nmf |
| **2017** | $0.01 | A | $0.01 | A | $0.02 | A | $0.02 | | $0.05 | 37.8x |
| **2018** | $0.02 | | $0.02 | | $0.02 | | $0.03 | | $0.08 | 25.1x |
| **2019** | $0.02 | | $0.02 | | $0.02 | | $0.03 | | $0.10 | 19.5x |

**Adjusted EBITDA ($M)**

| | **Q1** | | **Q2** | | **Q3** | | **Q4** | | **Annual** | **EV/EBITDA** |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | 1.7 | A | 5.1 | A | 6.9 | A | 7.6 | A | 21.3 | 14.8x |
| **2016** | 6.6 | A | 4.8 | A | 6.2 | A | 7.2 | A | 24.9 | 12.7x |
| **2017** | 8.8 | A | 9.1 | A | 11.6 | A | 10.1 | | 39.7 | 7.9x |
| **2018** | 10.1 | | 10.3 | | 9.8 | | 11.2 | | 41.4 | 7.6x |
| **2019** | 10.8 | | 11.0 | | 10.4 | | 11.9 | | 44.2 | 7.1x |

Note: Historic ratio uses yr. end closing share price and net debt

Source: Company reports; Bloomberg; LBS.

## Oaktree's $1.95 Offer for NAPEC, Expect Near Term Closing

**We rate NAPEC a Tender and $1.95 TP.** Our target price is based on a 8.7x EV/TTM EBITDA multiple, in line with Oaktree's recent offer.

- **Oaktree's intention to purchase the company in a transaction valued at ~$320M (including the assumption of NPC's debt).** We view Oaktree's offer price for NAPEC as highly favourable. Despite challenges that have hampered the company over the last 3 to 4 years, results year to date have illustrated significant progress and the offer multiple puts NPC's at a slight premium to peers trading at ~8x EV/EBITDA (2017E). With FTQ's support of the transaction (NPC's largest shareholder with ~19% ownership) alongside Oaktree's commitment to maintain HQ in Quebec, we believe the closing of the transaction is highly likely. On the back of the transaction announcement we revised our rating to Tender while our TP increased to $1.95.
- **Attractive premium and purchase price multiple**. The transaction represents a 35% premium to NPC's closing price as of December 1, 2017 and a 44% premium vs. the 20-day VWAP. The purchase price multiple equates to ~8.7x EV/TTM EBITDA, slightly higher than the peers' multiple of ~8x (2017E), which we view in a favourable light. With NPC's muted bottom line profitability over the last three years and its earnings gap vs. peers, we believe the transaction is even more attractive from a P/E multiple standpoint (equating to a ~39x P/E multiple on our 2017 estimate).
- **Potential for other offers or increased bid?** With the stock price trading above Oaktree's offer price, the possibility of a higher bid is the topic of discussions. Given that Oaktree's offer is fair and favorable in our view from a price/ EBITDA multiple and significantly more positive from a P/E perspective (lack of bottom line profitability at NPC), we do not believe that a higher bid is required/ necessary. From our conversation with management it has been indicated that no other discussions have occurred and no other offers have been made. However if there were to be a competing bid/ offer, we believe it is conceivable for Oaktree to take up the bid quite easily ($385M; 20% premium to current offer) vs. Oaktree's US$100B AUM.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Pure Technologies Ltd.
# (PUR-T – $8.95)
# Rating Tender – Target Price: $9.00

## COMPANY PROFILE

Pure Technologies designs and develops technologies for the assessment, monitoring and management of infrastructure globally. Unique technologies include SoundPrint (acoustic monitoring), PureEM (electromagnetic technology), SmartBall (leak detection and pipe wall assessment) and PipeDiver (in-service condition assessment), etc. The company is headquartered in Calgary, Alberta and employs ~330 individuals across the globe.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | PUR-T | **Shares O/S (M)** | 55.0 |
| **Rating** | Tender | **Market Cap (M)** | $492.6 |
| **Risk** | Medium | **Float O/S (M)** | 48.3 |
| **Price** | $8.95 | **Float Value (M)** | $432.4 |
| **1-Yr Target** | $9.00 | **Avg Daily Volume (K)** | 378.1 |
| **Dividend** | $0.12 | **Enterprise Value (M)** | $484.3 |
| **1-Yr ROR** | 1.9% | **Control Blocks:** | |
| **52 Wk High-Low** | $8.95 - $3.90 | **Manag & Dir** | 12.2% |
| **BVPS** | $2.27 | **Next Reporting** | Mar-18 |
| **Valuation** | 24.5xTTM EBITDA | **Year End** | Dec. 31 |

**EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | ($0.04) | A | $0.01 | A | $0.02 | A | ($0.01) | A | ($0.02) | nmf |
| **F2016A** | ($0.05) | A | $0.02 | A | $0.02 | A | $0.03 | A | $0.02 | nmf |
| **F2017E** | $0.01 | A | $0.02 | A | ($0.00) | A | $0.06 | | $0.09 | 100.0x |
| **F2018E** | $0.00 | | $0.07 | | $0.04 | | $0.08 | | $0.20 | 44.9x |
| **F2019E** | | | | | | | | | $0.26 | 34.4x |

**EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **F2015A** | (2.1) | A | 4.6 | A | 3.9 | A | 6.9 | A | 13.3 | 36.4x |
| **F2016A** | 1.1 | A | 4.6 | A | 4.2 | A | 5.2 | A | 15.9 | 30.4x |
| **F2017E** | 4.9 | A | 5.9 | A | 4.7 | A | 7.8 | | 23.3 | 20.8x |
| **F2018E** | 3.1 | | 7.9 | | 5.9 | | 8.7 | | 25.6 | 18.9x |
| **F2019E** | | | | | | | | | 28.6 | 17.0x |

Source: Company reports; Bloomberg; LBS.

## Xylem Offers $9/ Share for Pure

**We rate Pure Technologies a Tender with a target price of $9, reflecting Xylem's recent offering.**

- **We view Xylem's (XYL-N; US$68.19) $9 offer price for Pure favorably.** Discussions of possible take outs for Pure have flowed into client conversations over the last 6 months plus and given the current partnership, Xylem is a natural acquirer given the similar end market and complementary services. While Pure's stock price has reached the $8.20 peak at various points in 2014 and 2015, challenges with the Wachs Water integration, misses in quarterly figures and lower margins in the oil and gas division, of late, have caused for value erosion and we believe it may take years potentially for Pure to reach the $8 stock price level organically.
- **Attractive premium and purchase price multiple**. The transaction represents a ~103% premium to PUR's closing price as of December 8, 2017 and a 98% premium vs. the 20-day VWAP. On a multiple basis, the offer equates to ~24.5x Price/TTM EBITDA, while peers are trading at 16x (2017E) and 14x (2018E). If we were to factor in the $12M in annual cost synergies (estimated by XYL, to be achieved two years of closing), the price/ EBITDA multiple declines to 15.2x. Looking at the transaction on a P/E basis, we note that Pure's bottom line EPS TTM sits at $0.06 which would equate to a 150x multiple.
- **Unanimous board approval.** The transaction is fully supported by Pure's Board of Directors and a special committee of independent directors. Two-thirds of shareholders are required to vote for the transaction and Pure's directors and executive officers combined hold 12.5% of shares (6.9M). A potential closing timeline of Q1/2018 was stated and in relation to XYL's offer a $25M break fee was put in place.
- **Potential for other parties to increase the offer?** While we believe that Pure has had informal discussions with other parties in regard to a potential transaction or synergies, we believe that the revenue and cost synergies expected to be obtained by XYL are specific to the proposed unification and may not be able to be mirrored by other parties (making take out multiples less attractive). While the possibility of an energy company or even Mueller Water Products (MWA-N) may have been looked at, we believe XYL's position as a US$14B EV firm and existing partnership with Pure provides a unique advantage. With that said if a competing offer were made for Pure (low probability in our view), we believe a 20% price bump by Xylem (to $10.80) would not be out of the question.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# SNC-Lavalin Group Inc.
# (SNC-T – $55.80)
# Rating Buy – Target Price: $67.00

## COMPANY PROFILE

SNC-Lavalin (SNC) is one of the leading engineering and construction companies in the world and the largest E&C firm in Canada. The company provides engineering and construction expertise, operations and maintenance services, as well as investments in infrastructure concessions. The company operates through five segments: Oil & Gas, Infrastructure, Power, Mining & Metallurgy, Capital and Atkins. SNC has a presence in over 50 countries and has ~51,000 employees.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| Ticker | SNC-T | Shares O/S (M) | 174.9 |
| Rating | Buy | Market Cap (M) | $9,759.0 |
| Risk | Medium | Float O/S (M) | 174.8 |
| Price | $55.80 | Float Value (M) | $9,753.2 |
| 1-Yr Target | $67.00 | Avg Daily Volume (K) | 282.6 |
| Dividend | $1.09 | Enterprise Value (M) | $12,407.6 |
| 1-Yr ROR | 22.0% | Control Blocks: | |
| 52 Wk High-Low | $59.63 - $50.28 | Manag & Dir | 0.1% |
| BVPS | $29.15 | Next Reporting | Mar-18 |
| Valuation | Sum-of-the-Parts | Year End | Dec. 31 |

Adjusted EPS (FD)

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015A | $0.62 | A | $0.34 | A | $1.75 | A | $0.67 | A | $3.38 | 16.5x |
| 2016A | $0.98 | A | $0.72 | A | $0.45 | A | $0.75 | A | $2.90 | 19.2x |
| 2017E | $0.70 | A | $0.76 | A | $0.78 | A | $0.79 | E | $3.02 | 18.5x |
| 2018E | $0.93 | E | $0.90 | E | $0.94 | E | $1.00 | E | $3.76 | 14.8x |
| 2019E | | | | | | | | | $4.10 | 13.6x |

Adjusted EBITDA ($M)

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015A | $141 | A | $97 | A | $185 | A | $186 | A | $609 | 20.4x |
| 2016A | $144 | A | $161 | A | $93 | A | $155 | A | $552 | 22.5x |
| 2017E | $149 | A | $135 | A | $250 | A | $270 | E | $803 | 15.4x |
| 2018E | $284 | E | $275 | E | $280 | E | $287 | E | $1,126 | 11.0x |
| 2019E | | | | | | | | | $1,157 | 10.7x |

Source: Company reports; Bloomberg; LBS.

## SNC Valuation Gap Remains, Atkins De-Risks Story While 407 Provides Base Valuation

**We rate SNC-Lavalin a Buy with a one-year target price of $67.** Our target price is based on based on a sum of the parts methodology: 1) 8.4x EV/EBITDA multiple on our blended 2018/19 estimate for the E&C business (~$38/share); DCF for the 407 ETR stake (~$26/share); and 3) 1.5x BV multiple for the remaining capital assets (~$3/share).

- **$5.00 EPS targeted in 2020.** Expectations have been set for over 80% profitability growth in the coming three year period (2020YE). Growth is to stem from continued cost containment efforts (~$100M achieved; SNC legacy business), Atkins acquisition synergies ($120M) augmented by Atkins's higher margin profile. We note that our 2018/19 estimates remain relatively conservative vs. management expectations and consensus.
- **Inherent value in 407 alone attracts attention + strong growth potential.** While there was some discussion surrounding SNC's potential divestiture of a portion of its key 407 project (16.77% ownership), management stated that it is not in their plans. The 407 dividend CAGR alone represents 7%, significantly higher than organic growth in the traditional E&C space. Torque is expected from an uptick in volumes and 20% lane expansion. Our 407 valuation sits at $4.5B (after tax), while management pointed to a potential $6-$7B value by 2026.
- **Compelling valuation with room for upside potential, EBITDA margin guidance illustrates 300bps improvement.** With a continued focus on margin expansion (7% EBITDA baseline threshold for all segments), we believe such is likely to support a higher multiple. In addition, the strong growth prospects for Highway 407 could further support the shares in the medium term while mitigating the inherent volatility of the E&C business. We note that our estimates do not factor in any acquisitions post-Atkins, therefore any potential tuck-ins or capital investments could represent upside to our forecasts.

### Catalysts

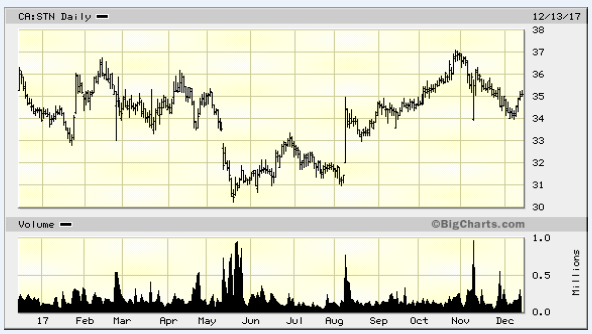
- M&A activity
- Stronger than expected revenue/ cost synergies from Atkins
- Champlain bridge project disclosure/ uncertainty resolved

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Stantec Inc.
# (STN-T – $35.15)
# Rating Hold – Target Price: $36.50

## COMPANY PROFILE

Stantec provides professional consulting services in planning, engineering, architecture, interior design, landscape architecture, surveying, environmental sciences, project management, and project economics for infrastructure and facilities projects. The company offers its services to public and private sector clients in a diverse range of markets including five segments, namely buildings, environment, transportation, industrial and urban land. Stantec has 22,000 employees operating and more than 380 offices in North America, Europe, Asia, South America and Africa.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | STN-T | **Shares O/S (M)** | 114.1 |
| **Rating** | Hold | **Market Cap (M)** | $4,011 |
| **Risk** | Medium | **Float O/S (M)** | 112.9 |
| **Price** | $35.15 | **Float Value (M)** | $3,968 |
| **1-Yr Target** | $36.50 | **Avg Daily Volume (K)** | 192.8 |
| **Dividend** | $0.50 | **Enterprise Value (M)** | $4,623 |
| **Yield (%)** | 1.4% | | |
| **1-Yr ROR** | 5.2% | **Control Blocks:** | |
| **52 Wk High-Low** | $37.13 - $30.24 | Manag & Dir | 1.1% |
| **BVPS** | $16.53 | | |
| **Valuation** | 16.75x P/E (Blended 18/19) | **Net Debt/Cap** | 32% |
| **Year End** | 31-Dec | **Next Reporting** | Mar-18 |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.40 | A | $0.46 | A | $0.53 | A | $0.28 | A | $1.66 | 21.2x |
| **2016A** | $0.40 | A | $0.37 | A | $0.55 | A | $0.35 | A | $1.69 | 20.9x |
| **2017E** | $0.40 | A | $0.51 | A | $0.54 | A | $0.42 | | $1.86 | 18.9x |
| **2018E** | $0.44 | | $0.52 | | $0.57 | | $0.52 | | $2.06 | 17.1x |
| **2019E** | $0.50 | | $0.58 | | $0.70 | | $0.57 | | $2.35 | 15.0x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 76.1 | A | 82.2 | A | 93.6 | A | 54.6 | A | 306.5 | 15.1x |
| **2016A** | 70.2 | A | 84.6 | A | 113.6 | A | 84.0 | A | 352.3 | 13.1x |
| **2017E** | 89.9 | A | 103.5 | A | 106.9 | A | 89.1 | | 389.4 | 11.9x |
| **2018E** | 90.4 | | 108.2 | | 113.7 | | 102.7 | | 415.0 | 11.1x |
| **2019E** | 95.0 | | 113.6 | | 129.3 | | 109.2 | | 447.1 | 10.3x |

Note: Historic ratio uses yr. end closing share price and net debt.
Source: Company reports; Bloomberg; LBS.

## 2018 Estimates May be Ahead of Internal Expectations, Continued Transition Period

**We rate Stantec a Hold with a one-year target price of $36.50.** Our target price is based on a 16.75x P/E multiple applied to our blended 2018/19 estimate:

- Despite muted results, optimism and conviction on the name has remained strong and we have witnessed an uptick in consensus TP's (mean $40; Buy). We continue to believe that significant upside may exist (organic growth, margin expansion), however results thus far cause us to maintain our wait and see approach. A new management team to be led by Gord Johnston (January/ 2018 start date) also sheds some near term uncertainty on the story as investors look to gain confidence and understanding of Gord's management approach.
- Focus for us, going forward, that may cause us to revise our estimates.
- **Gross to net revenue.** While the company reported positive gross organic revenue growth in Q3/17 (6%) and Q2/17 (4%), this ultimately did not translate to net revenue. In Q3/17, 6% gross organic growth shrank to 0.4% on a net basis, due to an increase in sub-consultant costs. Furthermore, subconsultant costs have trended up from 17.5% of gross revenue in 2015, to 27.9% in 2016 and 33% YTD. Going forward we look for net revenue organic growth (2-5% range) and a reduction in sub-consultant costs.
- **Margin expansion to mid-point of guidance**. STN's historic margin profile of 13-15%, has reduced to 11-13% due to lower margin MWH (post Innovyze divestiture), increased competition and uptick in construction (22% of revenue, from 15%). TTM margins are 11.2%. MWH integration is to continue for the entirety of 2018, as it shifts from Americas to the global footprint (Australia/ New Zealand/ U.K.). While integration costs are expected to be lower sequentially we expect some continued pressure throughout 2018. Our estimates factor in a 40bps improvement in margins to 11.6%, however expansion above and beyond such would cause upside to our estimates.
- **M&A Activity.** YTD M&A activity remained slow (216 headcount addition), management painted a positive picture on the pipeline of opportunities heading into 2018. We would not be surprised if STN executes on targets in Australia, New Zealand and/ or the U.K. With leverage currently sitting at 1.6x net debt /EBITDA, we believe the balance sheet provides ample dry powder for acquisitions. Of note, current management's plan calls for a 15% gross revenue growth target through a combination of organic and M&A growth (2/3:1/3 split).

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Stella-Jones Inc.
# (SJ-T – $49.88)
# Rating Buy – Target Price: $55.00

## COMPANY PROFILE

Stella-Jones Inc. is a leading North American producer and marketer of treated wood products, specializing in the production of pressure treated railway ties and timbers, as well as wood poles supplied to electrical utilities and telecommunications companies. It also treats and supplies marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. Stella-Jones operates 34 plants across Canada and the U.S.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | SJ-T | **Shares O/S (M)** | 69.3 |
| **Rating** | Buy | **Market Cap (M)** | $3,458.6 |
| **Risk** | Medium | **Float O/S (M)** | 42.8 |
| **Price** | $49.88 | **Float Value (M)** | $2,132.9 |
| **1-Yr Target** | $55.00 | **Avg Daily Volume (K)** | 74.7 |
| **Dividend** | $0.44 | **Enterprise Value (M)** | $3,897.2 |
| **Yield (%)** | 0.9% | **Control Blocks:** | |
| **1-Yr ROR** | 11.1% | Stella Int'l S.A. | 38% |
| **52 Wk High-Low** | $51.49 - $37.17 | | |
| **BVPS** | $15.35 | **Net Debt/Cap** | 28% |
| **Valuation** | 21.5x P/E (Blended 18/19) | **Next Reporting** | Mar, 2018 |
| **Year End** | 31-Dec | | |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.44 | A | $0.56 | A | $0.57 | A | $0.48 | A | $2.05 | 24.4x |
| **2016A** | $0.51 | A | $0.79 | A | $0.66 | A | $0.27 | A | $2.22 | 22.4x |
| **2017E** | $0.37 | A | $0.71 | A | $0.61 | A | $0.37 | | $2.06 | 24.3x |
| **2018E** | $0.44 | | $0.74 | | $0.71 | | $0.45 | | $2.35 | 21.2x |
| **2019E** | $0.52 | | $0.85 | | $0.78 | | $0.50 | | $2.65 | 18.8x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 52.9 | A | 66.7 | A | 69.4 | A | 54.2 | A | 243.2 | 16.0x |
| **2016A** | 61.8 | A | 89.8 | A | 78.6 | A | 40.1 | A | 270.3 | 14.4x |
| **2017E** | 49.2 | A | 81.3 | A | 71.3 | A | 48.1 | | 250.0 | 15.6x |
| **2018E** | 54.9 | | 84.8 | | 80.0 | | 55.4 | | 275.2 | 14.2x |
| **2019E** | 62.1 | | 94.5 | | 85.7 | | 58.6 | | 300.9 | 12.9x |

Source: Company reports; Bloomberg; LBS.

## Expecting Return to Growth in 2018, Significant Reduction in Leverage May Foreshadow M&A

**We rate Stella-Jones a Buy with a one-year target price of $55.00.** Our target price is based on a 21.5x P/E multiple applied to our blended 2018/19 estimate.

- **Margins continued upward trend, return to historic 15% margin publicized.** The 13.8% EBITDA margin in Q3/17 was a hair below our "in line" 14% estimate. We remain encouraged by margin expansion that has been ongoing since Q4/16 (201bps expansion). We note that SJ's margin profile has been consistently higher than peer Koppers' (KOP-N margin of sub 10% over the same period). Going forward, management reiterated its expectation for continued expansion and a return to the 15% margin level exiting 2018**.**

- **Fruitful M&A pipeline, SJ poised to capitalize on balance sheet strength.** Strong FCF generation drove the meaningful sequential leverage reduction (1.8x from 2.5x) and we expect the capital deployment opportunities to be the key focus in the coming months. Management spoke of a number of smaller sized near term opportunities (sub-$50M mark) while prior discussions have pointed toward a combined $300M to $350M in capital deployment. We believe that further additions could be made to the fragmented pole side (Southern yellow pine, U.S.), tie segment and the Canadian residential side (making SJ whole supplier to large customer, Home Depot). A larger transaction into the U.S. lumber market is a longer term possibility at this point. Given the average purchase price multiple of 1x sales, we estimate that ~$400M in M&A opportunities could be financed solely by dry powder on the balance sheet (assuming margin profile similar to SJ's).

- **Expect return to top line growth going forward, following relatively muted revenue profile in 2017.** The gradual return to a normal demand patterns in the Pole segment is expected to be sustained heading into 2018. On the tie side, current market conditions suggest fairly stable revenue in 2018 vs. 2017 with continued pricing headwinds (H1/18 impact) to be offset by higher volumes. On the Residential side, continued demand for new construction and outdoor renovation projects in the North American residential and commercial markets is expected to positively impact top line performance.

### Catalysts

- M&A
- Dividend increases
- Stronger than expected top line growth, margin profile

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# TFI International Inc.
# (TFII-T – $31.69)
# Rating Hold – Target Price: $31.00

## COMPANY PROFILE

TFI International is a leader in the North American transportation and logistics industry with annual revenues of ~$4.0 billion. The company manages a large network of wholly-owned subsidiaries across Canada and the United States. TransForce companies service four distinct segments: Package and Courier, Less-ThanTruckload, Truckload (specialized truckload and dedicated services), and Specialized Services (energy services sector, logistics, fleet management and personnel services).


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TFII-T | **Shares O/S (M)** | 92.1 |
| **Rating** | Hold | **Market Cap (M)** | $2,919 |
| **Risk** | Medium | **Float O/S (M)** | 87.5 |
| **Price** | $31.69 | **Float Value (M)** | $2,773 |
| **1-Yr Target** | $31.00 | **Avg Daily Volume (K)** | 210.1 |
| **Dividend** | $0.76 | **Enterprise Value (M)** | $4,427 |
| **Yield (%)** | 2.4% | **Control Blocks:** | |
| **1-Yr ROR** | 0.2% | Manag & Dir | 5% |
| **52 Wk High-Low** | $35.83-$26.44 | **Net Debt/Cap** | 53% |
| **Valuation** | 7.5x EV/EBITDA (2018) | **BVPS** | $14.59 |
| **Year End** | Dec. 31 | **Next Reporting** | Mar-18 |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.28 | A | $0.69 | A | $0.60 | A | $0.43 | A | **$2.04** | 15.6 x |
| **2016A** | $0.32 | A | $0.57 | A | $0.60 | A | $0.56 | A | **$2.04** | 15.6 x |
| **2017E** | $0.35 | A | $0.68 | A | $0.53 | A | $0.58 | E | **$2.14** | 14.8 x |
| **2018E** | $0.43 | E | $0.56 | E | $0.46 | E | $0.58 | E | **$2.04** | 15.5 x |
| **2019E** | $0.48 | E | $0.60 | E | $0.50 | E | $0.61 | E | **$2.20** | 14.4 x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 95.2 | A | 137.7 | A | 136.1 | A | 105.6 | A | **474.7** | 9.3 x |
| **2016A** | 82.5 | A | 112.7 | A | 111.7 | A | 124.4 | A | **431.3** | 10.3 x |
| **2017E** | 107.6 | A | 144.2 | A | 128.2 | A | 148.7 | E | **528.6** | 8.4 x |
| **2018E** | 135.9 | E | 152.4 | E | 139.5 | E | 152.9 | E | **580.6** | 7.6 x |
| **2019E** | 139.3 | E | 154.2 | E | 141.4 | E | 154.1 | E | **589.0** | 7.5 x |

Note: Historic ratio uses yr. end closing share price and net debt.

Source: Company reports; Bloomberg; LBS.

## Investors Getting More Positive, Albeit Trucking Recovery Yet to Materialize for TFII

**We rate TFI International a Hold with a one-year target price of $31.00.** Our target price is based on a 7.5x EV/EBITDA multiple applied to our 2018 estimate.

- **The highly anticipated U.S. recovery was not evident in YTD results or near term outlook commentary.** Early indications of a pivot to organic growth on stronger volume/yield was overshadowed by continued internal challenges (TFII illustrated low single digit top line contraction). CFI has proven to be a hindrance on overall profitability with EBITDA declining from US$115M to sub US$50M, over a less than 12 month period. On the P&C side, the contraction further deteriorated to 10%. While management remains optimistic that they are well positioned to capitalize on a recovery, we believe that time remains to turn things around, as evidenced by revised guidance.
- **Guidance reduced once again; 2017 EBITDA guidance $525M-$535M, 2018 EBITDA pegged at $600M.** Despite management's focus on cost reduction, margins missed estimates once again with Q3/17 results. The variance stemmed from a 140bps margin reduction in the TL and LTL segments, marginally offset by an uptick in Logistics and P&C. Guidance took another reduction with 2017 EBITDA now expected to come in at $525M to $535M (from $550M to $560M). The reduction is largely driven by lower performance at CFI (maintenance, rebranding costs, etc.), alongside continued challenges at TCA. 2018 guidance was introduced to be ~$600M, in line with previously expected 2017 guidance (as per Feb./17).
- **TL spin-off, new entity formation remains in the cards, albeit internal issues to be fixed beforehand.** While a potential spin-off or formation of a new TL company has been highlighted as a catalyst for some years, given the challenges with CFI and TCA, we believe this may be pushed out some (previously expected for H2/17). Unlocking value via further asset sales (up to $100M) is expected in Q4/17 and 2018. Funds are expected to reduce leverage (~3x currently) and go towards the NCIB program (4-5M shares)

### Catalysts

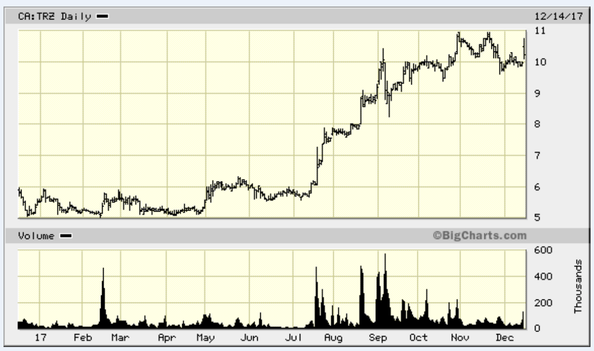
- M&A activity
- Stronger than expected growth and margin expansion
- Spin-out of TL division

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# Transat A.T. Inc.
# (TRZ-T – $10.24)
# Buy – Target Price: $13.00

## COMPANY PROFILE

Transat A.T. Inc. (Transat) is a vertically integrated leisure travel company. Through its subsidiaries, Transat packages vacations to holiday destinations in Europe, Canada, Mexico and the Caribbean. Its subsidiaries include tour operators, travel agencies, destination services, hotels and an airline with 23 wide body aircraft. Transat offers more than 60 destination countries and distributes products in approximately 50 countries.




Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | TRZ-T | **Shares O/S (M)** | 37.0 |
| **Rating** | Buy | **Market Cap (M)** | $379.3 |
| **Risk** | High | **Float O/S (M)** | 35.6 |
| **Price** | $10.24 | **Float Value (M)** | $365.0 |
| **1-Yr Target** | $13.00 | **Avg Daily Volume (K)** | 67.7 |
| **Dividend** | $0.00 | **Enterprise Value [1]** | $446.4 |
| **1-Yr ROR** | 27% | **Manag & Dir** | 3.8% |
| **52 Wk High-Low** | $10.96 - $5.03 | **Next Reporting** | Mar-18 |
| **Valuation** | Sum of the Parts | **Year End** | 31-Oct |

**Adjusted EPS (FD)**

| | Q1 | Q2 | Q3 | Q4 | Annual | P/E |
|---|---|---|---|---|---|---|
| **F2014A** | ($0.60) A | ($0.19) A | $0.69 A | $1.27 A | $1.17 | 8.8x |
| **F2015A** | ($0.83) A | ($0.17) A | $0.71 A | $1.41 A | $1.11 | 9.2x |
| **F2016A** | ($1.00) A | ($0.32) A | $0.07 A | $0.66 A | ($0.61) | neg. |
| **F2017A** | ($0.98) A | ($0.22) A | $0.73 A | $1.24 A | $0.79 | 13.0x |
| **F2018E** | ($0.59) | $0.13 | $0.51 | $0.74 | $0.80 | 12.9x |

**EBITDA ($M)**

| | Q1 | Q2 | Q3 | Q4 | Annual | EV/ EBITDA |
|---|---|---|---|---|---|---|
| **F2014A** | (23.8) A | 0.00 A | 47.7 A | 75.9 A | 99.9 | 4.5x |
| **F2015A** | (37.0) A | 3.39 A | 46.5 A | 87.0 A | 99.9 | 4.5x |
| **F2016A** | (41.8) A | (5.0) A | 16.0 A | 46.4 A | 15.6 | 28.6x |
| **F2017A** | (37.1) A | 1.5 A | 59.1 A | 78.5 A | 102.0 | 4.4x |
| **F2018E** | (15.6) | 24.6 | 40.5 | 46.7 | 96.2 | 4.6x |

1. Net debt used for EV equal to aircraft lease payments net of cash.
Source: Company reports; Bloomberg; LBS estimates.

Pricing as of Dec. 14/17.

## Strong F2017 Performance, Shift to Hotelier Strategy on Track

**We rate Transat a Buy with a one-year target price of $13, based on a sum of the parts valuation methodology.**

- **Another shift in hotelier strategy, US$75M+ in EBITDA**. A shift to the hotelier market, on a larger scale, has been an explicitly stated strategic goal for well over a year now. While the final figure for capital deployment has ranged from $350M (Q4/F16) to US$1-US$1.2B (Q3/F17), the figure was revised down to US$750M. TRZ would effectively put up 50% of the cash with mortgage debt financing coming into play for the balance. EBITDA contribution range, could be in the US$75M+ range on ~3,000 hotel rooms.
- **Looking into 2018, management is expecting total revenue and travellers to increase YoY**. On its core sun destination market, for H1/F18, capacity is up 8% YoY while bookings are ahead by 9.2% and load factors are similar. Currently 50% of the sun destination capacity has been sold, exactly in line with last year's bookings. Driven by the strengthening CAD$, operating expenses are down 2.1%, while margins are up 2%. Turning to the transatlantic market (low season), capacity is up 20% YoY, and to date 47% of the capacity has been sold. Net/net on its transatlantic market routes, margins are currently down 1.6%. Summing the two divisions' together, we should expect stronger performance in H1/F18 than H1/F17 ($1.20 bottom line loss in H1/F17).
- **While we view the stabilization of winter profitability (30% hotelier margins vs. 3% for TRZ) as a positive, coupled with the near doubling of EBITDA (hotelier + winter improvement), we believe that too many uncertainties remain at this time.** Since announcing their intention to move into the hotel market, initial investment has varied by $1B. Furthermore, the plethora of possibilities remains endless in regards to: purchase price, margins generated (mix of price/load factor) management team to lead hotel division, capital deployment time frame (over course of 5-7 years), etc. Lastly, with Jean Marc Eustache, CEO and President, looking to step down and retire in the next 18 months (or sooner), this ultimately adds another layer of uncertainty to the mix. Annick Guérard, current Chief Operating Officer (as of Oct./17) has been appointed to be his successor. That said, should the strategy prove successful, as outlined currently, we believe it conceivable to see a near doubling in the current stock price (two years from capital deployment).

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

# WSP Global Inc.
# (WSP-T – $57.65)
# Rating Buy – Target Price: $65.00

## COMPANY PROFILE

WSP Global is a leading Canadian engineering services firm providing private and public sector clients with a comprehensive and diversified range of professional consulting services through all execution phases of a project including planning, design, construction and maintenance. The company provides services in the buildings, industrial and power, urban infrastructure, transportation and environment segments.


Source: BigCharts.com

### Market and Company Data

| | | | |
|---|---|---|---|
| **Ticker** | WSP-T | **Shares O/S (M)** | 102.8 |
| **Rating** | Buy | **Market Cap (M)** | $5,927 |
| **Risk** | Medium | **Float O/S (M)** | 63.3 |
| **Price** | $57.65 | **Float Value (M)** | $3,649 |
| **1-Yr Target** | $65.00 | **Avg Daily Volume (K)** | 164.5 |
| **Dividend** | $1.50 | **Enterprise Value (M)** | $6,871 |
| **Yield (%)** | 2.6% | **Control Blocks:** | |
| **1-Yr ROR** | 15.4% | Manag & Dir | 1% |
| **52 Wk High-Low** | $60.18 - $43.56 | CPPIB & CDP | 38% |
| **BVPS** | $28.41 | **Net Debt/Cap** | 22% |
| **Valuation** | 18.5x P/E (2019) | **Next Reporting** | Mar-18 |
| **Year End** | 31-Dec | | |

**Adjusted EPS (FD)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | P/E |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | $0.36 | A | $0.51 | A | $0.69 | A | $0.55 | A | $2.11 | 27.3x |
| **2016A** | $0.33 | A | $0.56 | A | $0.66 | A | $0.68 | A | $2.22 | 25.9x |
| **2017E** | $0.49 | A | $0.64 | A | $0.77 | A | $0.67 | | $2.58 | 22.4x |
| **2018E** | $0.66 | | $0.88 | | $0.89 | | $0.78 | | $3.20 | 18.0x |
| **2019E** | $0.71 | | $0.96 | | $0.97 | | $0.87 | | $3.50 | 16.5x |

**Adjusted EBITDA ($M)**

| | Q1 | | Q2 | | Q3 | | Q4 | | Annual | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015A** | 85.3 | A | 106.0 | A | 126.2 | A | 124.0 | A | 441.5 | 15.6x |
| **2016A** | 91.5 | A | 125.0 | A | 147.2 | A | 135.3 | A | 499.0 | 13.8x |
| **2017E** | 114.5 | A | 140.3 | A | 160.4 | A | 140.1 | | 555.3 | 12.4x |
| **2018E** | 138.7 | | 173.8 | | 173.8 | | 156.8 | | 643.1 | 10.7x |
| **2019E** | 150.5 | | 186.1 | | 186.1 | | 169.1 | | 691.8 | 9.9x |

Source: Company reports; Bloomberg; LBS.

## Estimates Continue to Rise for WSP, #1 Global Pure-Play Reaps in Revenue Synergies

**We rate WSP a Buy with a one-year target price of $65.00.** Our target price is based on an 18.5x P/E multiple applied to our 2019 estimate.

- **2017 figures to come in at high end of guidance range (revenue, EBITDA and organic growth basis).** With 4.4% organic revenue growth in Q3/17, 2.4% in Q2/17 and 10%+ in Q1/17, expectations were set for the company to come in at the high end of annual guidance (1-4%; Q4 expected to be negative due to period days). Looking at estimates across the board for WSP the company continues to push the boundaries higher, driven by a robust M&A plan and stronger than expect organic growth and margin expansion.
- **Expect continued M&A, over and above 45,000 2018 target.** Inclusive of the Opus transaction (Q4/17 close), WSP has added ~6,000 employees in 2017 alone with another 3,000 to be added by 2018YE. Management's focus remains on positioning the company for the next 5, 10 and 20 years and while our TP is based on a 12-18 month time period, we believe that longer term investors should look beyond such (potential to add another 15k-20k employees from discussions with Regional division heads).
- **Margin expansion strategy yields results**. WSP has worked to extract margins post the Parsons Brinkerhoff acquisition and successfully delivered (9.2% to 10.7% currently). With a goal of hitting an 11% target by next year, details of increasing EBITDA really came through. The use of complimentary resource centers (CRC's) is picking up with India having 750 individuals with another 250 across other centers. The local expertise is critical and crucial for some clients and allows for a higher margin profile. Tapping into CRC's allows for margins to remain on par with global performance and plans are in place to grow the CRC model. Other avenues to expand margins include reducing the number of offices along with greater client/ project selection and continued project management oversight.

### Catalysts

- M&A
- Stronger than expected organic growth/ margin expansion

# Appendix – Important Disclosures

| Company | | Ticker | Disclosures* |
|---|---|---|---|
| 5N Plus Inc. | Nick Agostino (Diversified Technology) | VNP-T | U, V |
| A&W Revenue Royalties Income Fund | Elizabeth Johnston (Consumer Products and Special Situations) | AW.UN-T | U |
| Ag Growth International | John Chu (Diversified Agriculture) | AFN-T | U |
| Agrium Inc. | John Chu (Diversified Agriculture) | AGU-N | N/A |
| AGT Food and Ingredients Inc. | John Chu (Diversified Agriculture) | AGT-T | N/A |
| Andrew Peller Limited | John Chu (Diversified Agriculture) | ADW'T | N/A |
| Argonaut Gold Inc. | Ryan Hanley (Mining) | AR-T | V, P |
| AuRico Metals Inc. | Ryan Hanley (Mining) | AMI-T | V, P, U |
| Balmoral Resources Ltd | Barry Allan (Mining) | BAR-T | V |
| Birchcliff Energy Ltd. | Todd Kepler (Oil & Gas) | BIR-T | V |
| Boston Pizza Royalties Income Fund | Elizabeth Johnston (Consumer Products and Special Situations) | BPF.UN-T | V |
| Boyd Group Income Fund | Elizabeth Johnston (Consumer Products and Special Situations) | BYD.UN-T | U |
| BSM Technologies | Nick Agostino (Diversified Technology) | GPS-T | N/A |
| Brick Brewing Co. Ltd. | John Chu (Diversified Agriculture) | BRB-T | N/A |
| Canadian Western Bank | Marc Charbin (Financial Services) | CWB-T | N/A |
| Cara Operations Ltd. | Elizabeth Johnston (Consumer Products and Special Situations) | CARA-T | V |
| CCL Industries Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | CCL.B-T | U, V |
| Cervus Equipment Corp. | John Chu (Diversified Agriculture) | CERV-T | N/A |
| Chesswood Group Ltd. | Marc Charbin (Financial Services) | CHW-T | U |
| Crew Energy Inc. | Todd Kepler (Oil & Gas) | CR-T | V |
| Currency Exchange International | Marc Charbin (Financial Services) | CXI-T | U, V |
| DealNet Capital Corp. | Marc Charbin (Financial Services) | DLS-V | V |
| DIRTT Environmental Solutions | Elizabeth Johnston (Consumer Products and Special Situations) | DRT-T | V |
| Eastmain Resources Inc. | Barry Allan (Mining) | ER-T | U, V, P |
| Enercare Inc. | Marc Charbin (Financial Services) | ECI-T | U, V |
| Equitable Group Inc. | Marc Charbin (Financial Services) | EQB-T | V |
| Equity Financial Holdings Inc. | Marc Charbin (Financial Services) | EQI-T | V |
| Exchange Income Corp. | Mona Nazir (Transportation & Infrastructure) | EIF-T | U, V |
| First National Financial Corp. | Marc Charbin (Financial Services) | FN-T | V |
| Freshii Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | FRII-T | V |
| goeasy | Marc Charbin (Financial Services) | GSY-T | U, V |
| GreenSpace Brands Inc. | John Chu (Diversified Agriculture) | JTR-V | U |
| Home Capital Group Inc. | Marc Charbin (Financial Services) | HCG-T | V |
| Hydro One Ltd. | Mona Nazir (Transportation & Infrastructure) | H-T | U |
| IBI Group Inc. | Mona Nazir (Transportation & Infrastructure) | IBG-T | U, V |
| Imvescor Restaurant Group Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | IRG-T | V |
| InPlay Oil Corp. | Todd Kepler (Oil & Gas) | IPO-T | V |
| Iron Bridge Resources Inc. | Todd Kepler (Oil & Gas) | IBR-T | V |
| Jaguar Mining Inc. | Barry Allan (Mining) | JAG-T | N/A |

***Last Updated:*** ***Dec. 13, 2017***

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**A*** A member of equity research department, in his/her own account or in a related account, owns securities of this issuer.
**D** A member of the Board of Directors of LBS sits on the Board of Directors of this issuer.
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**O** The Head/Deputy Head of Equity Research, in his/her own account or in a related account, owns securities of this issuer.
**U** Within the last 24 months, LBS has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, this issuer.
**V** The Analyst has visited material operations of this issuer.
**P** This issuer paid a portion of the travel-related expenses incurred by the Analyst to visit material operations of this issuer

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## Appendix – Important Disclosures (Cont'd)

| Company | | Ticker | Disclosures* |
|---|---|---|---|
| K-Bro Linen Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | KBL-T | U, V |
| Keg Royalties Income Fund | Elizabeth Johnston (Consumer Products and Special Situations) | KEG.UN-T | N/A |
| Kinaxis Inc. | Nick Agostino (Diversified Technology) | KXS-T | N/A |
| Klondex Mines | Barry Allan (Mining) | KDX-T | V, P |
| Mediagrif Interactive Technologies Inc. | Nick Agostino (Diversified Technology) | MDF-T | N/A |
| Morneau Shepell Inc. | Marc Charbin (Financial Services) | MSI-T | V |
| MTY Food Group Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | MTY-T | V |
| NAPEC Inc. | Mona Nazir (Transportation & Infrastructure) | NPC-T | L, U |
| Paramount Resources Ltd. | Todd Kepler (Oil & Gas) | POU-T | V |
| People Corporation | Marc Charbin (Financial Services) | PEO-V | U |
| Potash Corp. | John Chu (Diversified Agriculture) | POT-N | N/A |
| Pure Technologies Ltd. | Mona Nazir (Transportation & Infrastructure) | PUR-T | V |
| Rocky Mountain Dealerships Inc. | John Chu (Diversified Agriculture) | RME-T | N/A |
| Rubicon Minerals Corp. | Ryan Hanley (Mining) | RMX-T | V, P |
| Savaria Corporation | Nick Agostino (Diversified Technology) | SIS-T | U, V |
| SIR Royalty Income Fund | Elizabeth Johnston (Consumer Products and Special Situations) | SRV.UN-T | U |
| SNC-Lavalin Group Inc. | Mona Nazir (Transportation & Infrastructure) | SNC-T | N/A |
| Solium Capital | Nick Agostino (Diversified Technology) | SUM-T | U |
| Stantec Inc. | Mona Nazir (Transportation & Infrastructure) | STN-T | U |
| Stella-Jones Inc. | Mona Nazir (Transportation & Infrastructure) | SJ-T | V |
| Street Capital Group Inc. | Marc Charbin (Financial Services) | SCB-T | V |
| Surge Energy Inc. | Todd Kepler (Oil & Gas) | SGY-T | V |
| Tamarack Valley Energy Ltd. | Todd Kepler (Oil & Gas) | TVE-T | V |
| TECSYS Inc. | Nick Agostino (Diversified Technology) | TCS-T | U, V |
| Terra Firma Capital Corporation | Marc Charbin (Financial Services) | TII-V | N/A |
| TFI International Inc. | Mona Nazir (Transportation & Infrastructure) | TFII-T | N/A |
| Transat A.T. Inc. | Mona Nazir (Transportation & Infrastructure) | TRZ-T | D, V |
| TSO3 Inc. | Nick Agostino (Diversified Technology) | TOS-T | U, V |
| Uni-Select Inc. | Elizabeth Johnston (Consumer Products and Special Situations) | UNS-T | V |
| Wesdome Gold Mines | Barry Allan (Mining) | WDO-T | V |
| Whitecap Resources Inc. | Todd Kepler (Oil & Gas) | WCP-T | V |
| WSP Global Inc. | Mona Nazir (Transportation & Infrastructure) | WSP-T | U |

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**P** This issuer paid a portion of the travel-related expenses incurred by the Analyst to visit material operations of this issuer

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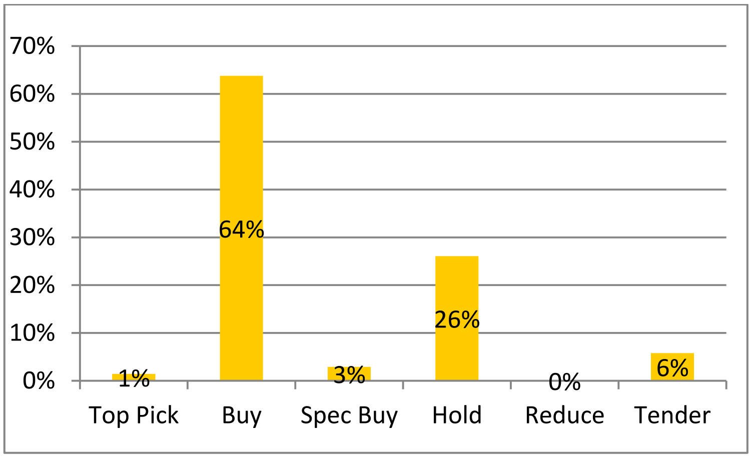


Source: Laurentian Bank Securities

- Percentage of companies covered by Laurentian Bank Securities Equity Research within each rating category.

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|---|---|---|
| **Recommendation** | **Top Pick** | Our best investment idea, the greatest potential value appreciation. |
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Our ratings may be followed by “(S)” which denotes that the investment is speculative and has a higher degree of risk associated with it. Additionally, our target prices are based on a 12-month investment horizon.

| | | |
|---|---|---|
| **Risk Ratings** | **Low** | Low financial/operational risk, high predictability of financial performance, low stock volatility. |
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| | **High** | High financial/operational risk, low predictability of financial performance, high stock volatility. |

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