Volume 8 - No. 1 DECEMBER 2016

INSTITUTIONAL EQUITY 2017 OUTLOOK

ECONOMICS

DIVERSIFIED AGRICULTURE

DIVERSIFIED TECHNOLOGY

FINANCIAL SERVICES

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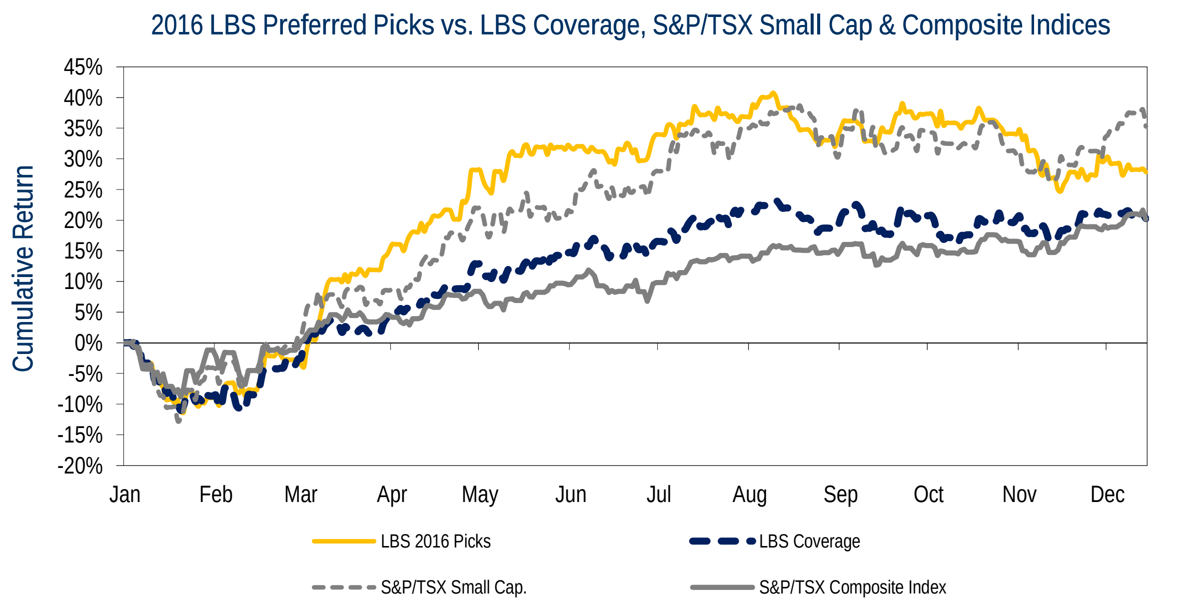
LAURENTIAN BANK SECURITIES

2017 LBS Outlook

Our Annual Institutional Equity Outlook summarizes our best investment ideas for 2017 as well as our outlook for each name in the Laurentian Bank Securities coverage universe.

Year to date, our 2016 preferred picks underperformed the S&P/TSX Small Cap Index (35.3%), as did our overall coverage universe. However, LBS's 2016 picks, which included Ag Growth International, Reservoir Minerals, Halogen Software, Chesswood Group, Integra Gold, Cipher Pharmaceuticals, Stella-Jones, Milestone Apartments REIT, and Uni-Select, returned 27.8% (equal weighted) which was better than the S&P/TSX Composite Index's return of 20.2%. Our LBS coverage universe returned a strong 20.3%.



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 2017 we expect an environment of moderate 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, strong organic growth, continued weakness in the Canadian Dollar and a low interest rate environment. Noteworthy, the strength of the S&P/TSX Composite Index was primarily driven by a rebound in resource sectors during 2016, while LBS coverage is relatively underexposed to materials and did not include energy during 2016 (these sectors returned +34.6% and +30.7% within the index, respectively).

Sector	Analyst	Company	Ticker	Rating	Risk Rating	Mkt Cap (M)	Price	Target	Div. Yield	1-yr RoR
Base Metals	Pierre Vaillancourt	Trevali Mining	TV-T	Buy	High	$510	$1.27	$1.70	na	33.9%
Diversified Agriculture	John Chu	Rocky Mountain Dealerships	RME-T	Buy	Medium	$183	$9.44	$11.00	4.9%	21.4%
Diversified Technology	Nick Agostino	Solium Capital Inc.	SUM-T	Buy	High	$403	$8.03	$10.00	na	24.5%
Financials	Marc Charbin	goeasy Ltd.	GSY-T	Buy	High	$314	$23.54	$28.00	2.1%	21.0%
Gold	Pierre Vaillancourt	Integra Gold Corp.	ICG-V	Buy	High	$263	$0.55	$1.30	na	136.4%
Healthcare	Joseph Walewicz	Theratechnologies Inc.	TH-T	Buy	High	$201	$2.82	$4.50	na	59.6%
Industrials (Transportation & Infrastructure)	Mona Nazir	IBI Group Inc.	IBG-T	Buy	Medium	$187	$6.00	$8.00	na	33.3%
Real Estate	Ewa Kiwa	Milestone Apartments REIT	MST.UN-T	Buy	Medium	$1,424	$17.70	$21.00	4.1%	22.7%
Special Situations	Elizabeth Johnston	Uni-Select Inc.	UNS-T	Buy	Medium	$1,235	$29.25	$37.00	1.1%	27.6%

T - Toronto Stock Exchange, V - TSX Venture Stock Exchange — *Pricing as of Dec. 14, 2016.*
Source: Capital IQ; LBS estimates. — *(MST.UN-T pricing as of Dec. 15, 2016.*

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

Economic and Financial Market Outlook

2017 Economic and Financial Outlook

For most of 2016, until mid-Fall, the US$ retreated from the gains it had made in 2015. Following the late 2014 Fed's guidance that it would raise the Federal Funds rate eight times over the following two years, the US$ quickly appreciated against all major currencies. However, after having raised its policy rate only once by the end of 2015, the market discounted the Fed’s guidance for more rate increases. Eventually, early in 2016, the Fed announced much more modest targets for the Federal funds rate for the rest of the year. As a result, in 2016, the U.S. dollar gave back some of the gains it had made in 2015. The strong dollar in 2015 had contributed to lower the U.S. growth outlook for 2016 and justified the Fed’s less aggressive policy stance, going forward.

By the end of 2016, the U.S. dollar resumed its upward trajectory when it became clear that the Fed would finally tighten again. The removal of monetary accommodation and the greenback appreciation should continue in 2017. We expect the Fed to remain prudent in terms of the number of hikes it is anticipating for next year and beyond. The Fed will want to avoid provoking another disproportionate US$ appreciation which could force it, once again, to backtrack from its guidance. Depending on the fiscal measures Donald Trump and the U.S. Congress will agree on in early 2017, U.S. growth could surprise to the upside. Yet, we expect that, this time, the Fed will remain behind the curve to prevent another surge in the U.S. dollar.

Domestically, the Bank of Canada is likely to keep short term rates low and, potentially, even ease further if Canada’s growth outlook deteriorates. Yet, Canadian long term rates will continue to face upward pressures. The Bank of Canada may have effective control on the very short end of the yield curve but the country remains largely a “price-taker” for longer term maturity bond instruments, for which prices are determined on the global bond market. In 2017, expansionary U.S. fiscal policy and a tampering of Quantitative Easing in Europe, will contribute to increasing long term interest rates globally and Canada will have a difficult time escaping it.

At the end of 2015, we turned neutral on equities and advised investors to proceed with caution in the near-term as our dashboard of financial and economic indicators pointed to a worrying set of signals. This recommendation proved profitable as global equities largely underperformed bonds early in 2016 as rising speculation of a possible U.S. recession, a deterioration in global economic prospects and market volatility all weighted on investors’ outlook.

On the other hand, following the Brexit vote, we noted in late June that market sentiment had turned extremely bearish, with key indicators reaching levels similar to those achieved during past recessions and financial crises. With the economic backdrop then more positive than in 2008-09, for instance, and many leading economic indicators already on the upswing, we then recommended to overweight equities. This recommendation proved profitable, with equities largely outperforming bonds since late June.

We remain overweight equities as we expect earnings growth to continue to accelerate in the quarters ahead. The still-rising S&P 500 forward profit margins, steepening yield curve and the rebounds in both the ISM Manufacturing and the Global ZEW Current Conditions indices, are all supportive of a continued pick-up in earnings growth.

Moreover, despite the recent surge in bond yields, 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. Finally, market internals remain positive with corporate spreads still in tightening mode and capital market, transportation and weak balance sheet stocks, continuing to outperform.

In terms of regional allocation, U.S. and Canadian equities still figure as our favored regions since we decided to implement an overweight position in equities. This proved to be a profitable decision with both regions outperforming global equities during the period. Accelerating EPS growth and hopes for corporate tax reform and infrastructure spending should continue to stimulate U.S. outperformance. Also, late during the month of November, OPEC reached an agreement to cut oil production by 1.2 mb/d from October levels, which was the first cut in eight years. This deal should be supportive of higher oil prices and should contribute to the outperformance of Canadian equities.

For the most part, we believe that, in spite of the heightened uncertainty, global growth will pick up in 2017 and benefit equities.

- We expect the commodity rally to continue in 2017, especially in the oil sector. We forecast the WTI to reach $US68 per barrel by year-end. Our positive oil outlook for 2017 is, of course, conditional on OPEC members holding to the promised cuts as well as non-OPEC countries joining the agreement to reduce production, to swiftly reduce excess oil inventories.
- We expect gold prices to continue falling in 2017 with a mid-year target of US$1100. Yet, if the Fed remains behind the curve and inflation expectations start increasing, this trend could see a reversal in the second half.
- After another bad year, *forestry and agriculture stocks* (e.g. fertilizers) should recover in the U.S. and Canada amid the strong demand growth for such products, in emerging countries. A reversal should provide a good entry point.
- So far, with two weeks to go before year-end, the financial sector offered the second best performance in the S&P 500, beating the index by more than 10% and slightly outperforming the 17.1% return offered by the TSX. The financial sector should continue its ascent in the new year.
- While we caution investors against the sector due to the rising rate environment, REITs are excellent hedges against inflation and their yield is expected to remain higher than that of long term government bonds. We recommend establishing positions in the REITS sector on weaknesses and as a diversifying strategy in a very volatile market.
- We expect consumer staples and discretionary to outperform in the U.S. and to underperform in Canada.
- The Canadian dollar, which regained some ground due to higher oil prices, but which remains weak compared to where it stood less than two years ago, should trade within a wide range during 2017. If the CA$ were to cross the 1.25 threshold, we think that the Bank of Canada would be inclined to lower rates.
- The bottom line is that while the Canadian dollar will be volatile next year, it should remain sufficiently weak to increasingly benefit large Canadian exporters at the expense of domestically oriented businesses.

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 China and the U.S. enter a trade war. And second, US$ borrowing in emerging markets to take advantage of low U.S. interest rates could cause havoc on the markets as the domestic value of these debts risks swelling to unstainable levels as the US$ appreciates.

Financial Forecasts

	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
Canada													
Overnight Rate Target	**1.00**	**0.75**	**0.75**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
3-Month Treasury Bills	0.91	0.55	0.58	0.43	0.51	0.45	0.50	0.52	0.50	0.50	0.50	0.50	0.60
2-Year Bond	1.01	0.51	0.49	0.53	0.48	0.54	0.52	0.54	0.60	0.60	0.65	0.70	0.80
5-Year Bond	1.34	0.77	0.81	0.81	0.73	0.68	0.57	0.61	0.95	1.00	1.10	1.15	1.10
10-Year Bond	1.79	1.36	1.68	1.45	1.39	1.23	1.06	1.19	1.60	1.65	1.75	1.80	1.85
30-Year Bond	2.33	1.99	2.31	2.21	2.15	2.00	1.71	1.85	2.25	2.35	2.45	2.50	2.55
United States													
Federal Funds Rate Target*	**0.125**	**0.125**	**0.125**	**0.125**	**0.375**	**0.375**	**0.375**	**0.375**	**0.625**	**0.625**	**0.875**	**0.875**	**1.125**
3-Month Treasury Bills	0.04	0.03	0.01	0.00	0.16	0.21	0.22	0.33	0.55	0.60	0.75	0.80	1.00
2-Year Bond	0.67	0.56	0.64	0.64	1.06	0.76	0.59	0.76	1.10	1.25	1.40	1.50	1.60
5-Year Bond	1.65	1.37	1.63	1.37	1.76	1.21	1.00	1.24	1.75	1.80	1.90	2.00	2.10
10-Year Bond	2.17	1.94	2.35	2.06	2.27	1.78	1.46	1.59	2.30	2.35	2.45	2.55	2.65
30-Year Bond	2.75	2.54	3.11	2.87	3.01	2.61	2.28	2.31	3.00	3.10	3.20	3.30	3.40
Canadian Dollar (US$/C$)	**0.86**	**0.79**	**0.80**	**0.75**	**0.72**	**0.77**	**0.76**	**0.76**	**0.76**	**0.77**	**0.78**	**0.79**	**0.80**
S&P 500 Index	2059	2068	2063	1920	2044	2060	2099	2168	2300	---	---	---	2500
TSX Index	14632	14902	14553	13307	13010	13494	14064	14726	15000	---	---	---	16500
Oil WTI (US$/barrel)	53.5	47.7	59.5	45.1	37.0	38.3	48.3	48	55.0	60.0	65.0	70.0	70.0

Quarter-end data and annual averages

Updated: November 2016 * midpoint of the target range for the Fed funds

Luc Vallée, Ph.D. | Chief Strategist

Eric Corbeil, M. Sc. | Senior Economist

AGRICULTURE | John Chu, MBA, CFA

- Broadly speaking, the agriculture environment in Canada should be positive in 2017. On the back of a robust 2016 crop harvest, Farm Credit Canada (FCC) is forecasting 2016 and 2017 total farm cash receipts to remain strong and on a continued up trend, which would mark seven consecutive years of y/y increases. Continued low interest rates should keep affordability of credit low, which should also help support farmer spending on inputs and equipment.
- Canadian farm equipment sales primed for a nice rebound. For 2017, Farm Credit Canada (FCC) forecasts Canadian farm cash receipts to be modestly up y/y, which continues an upward trend since 2010. Solid farm cash receipts, both for the past several years as well as forecasted for 2017, along with pent-up demand from weak farm equipment sales in 2015 and 2016 should drive ag equipment sales higher in 2017. FCC is forecasting total farm equipment sales in 2017 to be up 7%, driven mainly by an 8.9% y/y increase in higher-priced combines. FCC believes farmer sentiment is improving and anecdotally, based on Q3/16 results from various ag equipment players and industry-related monthly sales data, we have seen signs to support this view. We also believe the robust 2016 harvest and the early snow and wet conditions during harvest put higher wear and tear on equipment, which should drive higher-margin parts and service sales in 2017.
- Grain storage and grain handling should be solid in 2017. Similar macro developments (improving Canadian total farm cash receipts and a strong crop harvest) should benefit Canadian storage and handling sales as well. Grain storage sales should also benefit from continued soft crop prices, as farmers look to increase storage capacity in hopes that they can sell their crops at higher prices at a later point in the year. The robust harvests, more specifically in Canada and the U.S., should drive a faster replacement cycle for portable grain handling sales, which should be realized in the coming years, including 2017. Lastly, USDA projections for U.S. farm income suggests a bottoming taking place in 2016 and a modest recovery in 2017, which should provide some optimism that farm equipment spending will soon start to rebound.
- Our preferred pick is Rocky Mountain Dealerships (RME-T). Rocky Mountain has the highest exposure to the Canadian ag equipment sector at ~95% of revenues. As such, it should have the largest leverage to our expectations of a rebound in the ag equipment sector. Rocky's exposure is also more weighted towards large combines, which is the area that FCC is expecting to see the biggest rebound (vs. smaller 4 Wheel Drive tractors). Recent cost-cutting initiatives along with an industry rebound should not only drive 2017 results higher but it should also drive its valuation higher as it has been trading at a meaningful discount to its peer group.

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

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

  Entering 2017, we believe SUM is moving into its next growth phase. In recent quarters the company has announced meaningful wins around the globe that highlight its international reach, emphasize its differentiated global design, and position the company to be a vendor of choice for the large-enterprise wealth managers. In particular we reference strategic wins with BHP Billiton (Australia), adidas (Germany), Morgan Stanley (U.S.) and TDAmeritrade (U.S.). With robust RFP activity on a global scale, growing mindshare, an ability to leverage its 2016 win momentum, and a recently announced new investment phase, we expect more large reference-client wins in 2017. Adding to this organic subscriber growth, we believe the background of healthy capital markets, particularly in North America, could foster renewed trading activity as witnessed in the last 2 quarters, particularly from a recovering resource market.

  While the increased investment initiative is reflected in the stock with shares trading at 21.3x NTM EV/EBITDA, this is a discount to SaaS peers at 31.2x despite both having similar EBITDA margins of ~15%; furthermore we believe any increased trading activity for SUM is not fully reflected in the shares. Adding to this, we believe strategic client wins are not priced into the shares as the stock trades at 2.9x NTM EV/Sales (growing at ~15%) vs. SaaS peers at 4.6x (growing at ~20%).

- Two key themes that drive our investment theses 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 (KXS-T), human resources software vendor Halogen (HGN-T), e-commerce solution provider Mediagrif (MDF-T), stock options administration vendor Solium Capital (SUM-T), fleet tracking provider BSM Technologies (GPS-T), healthcare logistics software producer TECSYS (TCS-T), and revenue cycle management software provider Syncordia (SYN-V) all fit the bill.
  2. An aging population is driving the need for increased healthcare equipment/services. This theme is a positive sales driver for sterilization manufacturer TSO3 (TOS-T), lift equipment manufacturer Savaria (SIS-T), healthcare logistics software producer TECSYS (TCS-T), and revenue cycle management software provider Syncordia (SYN-V).

FINANCIAL SERVICES | Marc Charbin, CPA, CA, CFA

- Recent changes to government regulations in the mortgage market are a major potential headwind to regulated lenders, which comprise the majority of our coverage universe. Currently, this is where the value lays, but it's uncertain that multiples will expand in the 2017 with the prospect of additional regulation on risk-sharing by the federal government, in addition to localized policy action. Furthermore, it's difficult to find value in the pool of high-growth non-lenders in the financial services sector. We believe that our preferred pick provides above-average EPS growth and can currently be purchased at a substantial discount to peers and long-term valuation averages.
- Our preferred pick is goeasy Ltd (GSY-T). Despite the highest EPS growth rate in our coverage universe (a forecast 25% increase in 2017 versus an average of 9%) GSY still trades at a significant discount to other lenders (1.6x P/E discount to small cap lenders and 4.3x P/E discount to large cap lenders), whereas most of the last decade the stock traded at a premium due to its growth profile.
- Sector commentary. On a macro level, GSY has benefited from increasing market share by non-regulated lenders since the financial crisis. Recent industry reports have estimated that non-bank lenders have increased market share 100% since 2009 due to lower access to traditional financial institutions, as well as service and convenience.
- Our investment thesis is as follows: 1) GSY will continue to benefit from store maturation. We calculate the weighted average store maturity to increase to 4.7 years from 3.9 years through 2017. Typically a single store will increase its loan book 15% between its fifth and fourth year in operation; 2) the Company's accelerated growth plan will be announced along with Q4/16 results which will likely highlight increased long-term loan book growth as well as new financial products and funding sources; and 3) valuation. As noted above, GSY trades at a significant discount to peers, yet its EPS growth profile is the highest in our coverage universe.

HEALTHCARE | Joseph Walewicz, MBA, CFA

- The largest pharma companies in Canada (based on market cap at the start of 2016) have had a horrendous year, which has generated significant negative media coverage, but on average (excl. VRX) the Canadian pharma sector is off just 3.4% YTD, with a number of pharma stocks (MPH, TH, GUD) outperforming the broader TSX. For growth companies, we continue to believe that deal activity in 2015 and 2016 will deliver strong organic growth on the back of multiple new product launches. Moreover, for those companies that have underperformed we expect multiple "strategic reviews" and management changes (two pharma CEOs have changed in 2016) – given depressed valuations for the sector vs. historical (and vs. other sectors) this strategic activity could set pharma up for a bounce in 2017.
- Focused on organic growth. In 2016, we highlighted that an increased cost of capital, and moves to block tax inversion-driven M&A, would negatively impact deal-driven growth. At the end of 2016 the prospect of higher interest rates (and lower trading multiples for pharma stocks) should continue to depress the cost of capital for specialty pharmaceutical companies so acquisition-driven growth should remain out of favour. We note that in 2016 the best performing pharma companies had strong organic growth stories – we expect organic growth to remain a focus for investors in 2017, with those stocks best positioned for organic growth expected to outperform their peers.
- Theratechnologies Inc. (TH-T) is our preferred Healthcare name for 2017. Focusing on our expectations for organic growth stories in 2017, Theratechnologies has a strong balance sheet, is net cash positive, has growing sales, and a potential game changing product (ibalizumab) set to launch in late 2017. Growing sales, positive ibalizumab clinical data, and regulatory progress are all expected to drive the stock in 2017.
- The turnaround of the firm's key marketed product, EGRIFTA, has been a great success, with EGRIFTA on a quarterly revenue run rate of >C$9 million and growing, generating profitability and strong cash flows. The EGRIFTA success has allowed the company to in-license ibalizumab, a new anti-HIV therapy that – if approved – could generate sales of more than US$300M per year. Conservative expectations for ibalizumab and continued growth for EGRIFTA set the stock up for continued outperformance in 2017 and beyond.

MINING | Pierre Vaillancourt

Base Metals

- Strong macroeconomic drivers such as GDP and PMI growth have been supporting the appreciation of base metals prices. In the U.S., GDP growth of 3.2% beat expectations for Q3/16, unemployment is low, and manufacturing was also strong in November. In China, manufacturing grew at its strongest pace in two years in November. With the OECD projecting 3.3% global GDP growth in 2017 and for 3.6% in 2018, we believe this macroeconomic strength continues into 2017.
- Positive outlook for metals. We maintain our bullish fundamental thesis on zinc, as tight concentrate supply continues to put pressure on treatment charges and supply deficits grow. We believe the supply shortage will continue into 2017, as the incentive zinc price needed for new projects is estimated at US$1.60/lb. After a moribund start to the year, copper is now up over 25% from six-year lows in mid-January this year, thanks to a strong Q4/16, which we believe will continue into 2017. Chinese concentrate imports hit an all-time high of 1.76mt, with YTD shipments up 31% YoY, driven in part by restocking of inventories. We also believe the supply picture will improve, with fewer new projects coming on stream in 2017, limiting new capacity. For now, we note that global copper stocks are +6.5% YTD and +10.9% YoY, suggesting an overhang in inventories could dampen the enthusiasm for the metal in the near term.
- Our top pick in the base metals sector is Trevali Mining (TV-T). Given the strong run by the TSX base metals index in 2016 (+70%), particularly since November, and the resultant valuations, it may be challenging for companies to replicate this performance in 2017, but fundamentals remain attractive, particularly for zinc. As a result, we believe Trevali can maintain momentum, underpinned by the strong performance from the Santander mine in Peru. In addition, the Caribou mine is off to a good start, with further optimizations to come. We expect that the Santander mine expansion will go ahead in H2/17, effectively doubling capacity at the mill. Among larger companies with broader appeal, we like Lundin Mining for its strong balance sheet, organic growth, diversified asset base and metals production.

Gold

- The gold price reached a 10-month low in December, its worst monthly decline in three years, following the recent increase in the Federal funds rate by 0.25%. The announcement was expected, however, the more hawkish tone of the Fed statement suggesting three more hikes in 2017, followed by two or three in 2018 and three in 2019 will give pause to gold investors. Not surprisingly, gold ETF sales have intensified, and the U.S. dollar is now at a 14-year high.
- More downside? The pending rate hikes will weigh on the outlook for gold, however, the prospect of higher inflation, potentially rising more rapidly than bond yields, could keep real rates low and favour gold. We note that a high proportion (over 30%) of sovereign debt still has negative real returns. As well, higher government spending to pay for infrastructure programs could lead to higher U.S. budget deficits, putting pressure on the U.S. dollar. With the U.S. dollar accounting for over 60% of central bank foreign exchange reserves, central banks could be motivated to increase their gold holdings. While we do not expect a gold rally like we saw in early 2016, we believe there is a better prospect for gold to recover in H2/17.
- Integra Gold (ICG-V) is our top pick. While we are cautiously optimistic for gold later in 2017, we recognize the valuation of gold equities may continue to suffer in the short term. Investors will be defensive on the sector, favouring companies that are fully financed, with the ability to generate free cash at US$1,100/oz or less. Among producers, we like Detour Gold, as we expect the stock to recover from a bad year. Among development companies, we favour Integra Gold for its potential to deliver at the Lamaque project. Given the lack of new projects or gold discoveries, and talk of "peak gold", we believe that Integra is well positioned to capitalize on the demand for new supply. Key events to watch for include the PEA, an updated resource in Q1/17, and the bulk sample in Q3/17.

REAL ESTATE | Ewa Kiwa, CFA

- Given the geopolitical uncertainty and Canada's commodity exposure, we expect economic growth to be subdued in 2017 and look a lot like 2016. We believe the most exciting growth opportunities in the real sectors relate to new demographic trends and technology. The 75.4M Millennials who are hitting their 30s are driving rental demand in the multi-residential sector in the U.S. We believe the U.S. multi-family sector offers an attractive investment alternative for Canadian investors looking for high growth and yield. Thus, our preferred pick is Milestone Apartment REIT.
- Milestone Apartment REIT (MST.UN-T) is the largest TSX-listed REIT focused solely on the U.S. multi-family sector.
  1. Over half of its rental units are located in Texas, one of the largest and healthiest economies in the U.S. We believe U.S. multi-family assets, and in particular, those located in the MST's key target markets would experience stronger cash flow growth and property value appreciation in the near term relative to Canadian multi-family assets. Milestone is targeting high-growth cities in the U.S. Sunbelt markets with strong renter demand, above-average population and employment growth. These factors help the REIT to ensure that it maximize its occupancy and rents, which is the key to strong and predictable cash flows.
  2. The REIT's portfolio targets the mid-market renter, which represents the largest multi-family renter segment in the U.S. Management estimates the target market comprises 60% of the total U.S. renter pool. The mid-market renter tends not to be prime candidates for home ownership. With suite offerings focused on one- and two-bedroom units, the REIT is positioned to capitalize on Millennials, whose lifestyle choices are showing a greater propensity to rent.
  3. The U.S. national rental vacancy rate is currently at 6.8%, the lowest level in more than 25 years.
  4. Milestone is highly acquisitive and has quickly grown its portfolio over the past three years. Thus far in 2016, Milestone has completed US$791.2 million of acquisitions, bringing the cumulative total since its IPO to US$1.3 billion. We view the REIT's acquisition growth pipeline as an important potential driver of future cash flow growth. Management's extensive experience in the U.S. multi-family business provides the REIT with extensive relationships with brokers, lenders, investors and owners from which to source acquisitions.
  5. The REIT's property portfolio consists of multi-family garden-style residential properties, these properties typically offer lower major expenditures and maintenance costs versus high-rise multi-family properties and they appear to be subject to lower competitive threats as much of the new rental construction in high-rise urban product is within U.S. cities.
- We believe the Canadian real estate assets will continue to face headwinds related to weak oil and gas prices. However, given the geopolitical uncertainty, Canada, with its stable real estate market, will continue to be in demand. CBRE's forecasts that full-year 2016 investment activity will exceed $35B to set a new Canadian record. We believe Canada's low-interest rate environment will continue in 2017. We expect demand and low-interest rate environment will continue to support current valuation levels. We see the industrial sector as an attractive opportunity for growth, especially within the warehousing space, as its performance is driven by high-growing e-commerce. Asset classes that we view as being negatively impacted by e-commerce include the retail sector, specifically shopping mall assets. We also believe demographic trends such as aging population will continue to drive demand for the healthcare and senior housing sectors in 2017.

TRANSPORTATION & INFRASTRUCTURE | Mona Nazir, MBA

- U.S. exposure remains an important topic within our coverage universe given 1) revenue and related cost exposure for majority of our names (ranging from 30% to 80%) and 2) increased infrastructure spend on the back of the U.S. election. While we expect the foreign currency translation impact that we saw in 2016 to taper off on top line results, we expect such to be offset by higher organic growth as infrastructure funding begins to flow through in Canada ($120B over 10 years, up from $65B previously) and the U.S. (FAST Transportation Act) by plans be put in place on the back of the U.S. Presidential Election.
- Stock price appreciation in infrastructure space. The rally in U.S. industrials is directly correlated to the U.S. President Elect's win and his broad promises to invest heavily in infrastructure: $500B up to $1T. U.S. based peer infrastructure companies' stock prices have appreciated 15% to 60% post the U.S. election, while companies in our coverage universe have increased up to 25% (STN-T). We continue to believe that financial results and the stock prices should benefit from an increase in infrastructure funding, however we expect such would take time to flow through. Peer companies have stated that they do not expect the U.S. election win to have a material impact on financial results until 2018. We turn to Canada's federal government infrastructure stimulus plan that was announced in the March, 2016 budget. Although infrastructure spend was pegged to double, to $120B over a 10 year period, up from $60B, we have not seen any material contribution to companies within our coverage universe.

- Given increased infrastructure spend in Canada and the U.S. below we highlight names in our coverage universe and their related exposure to each country:
  - Napec (75% U.S./ 25% Canada)
  - WSP Global (30% U.S./ 20% Canada)
  - Stantec (50% U.S./ 30% Canada)
  - IBI Group (30% U.S./ 55% Canada)
  - Stella-Jones (80% U.S./ 20% Canada)
  - TransForce (48% U.S./ 52% Canada)
  - Pure Technologies (70% U.S./ 25% Canada)
  - Canam (65% U.S./ 35% Canada)
  - Exchange Income Corp (30% U.S. exposure via Regional One and PAL contracts)
- IBI Group, preferred pick. Although we discuss infrastructure names getting an advantage post the U.S. election, we highlight IBI Group as our preferred pick in the space. While the company saw significant challenges over the 2012-2015 time period, the management team put in place in 2013/2014 have successfully executed a strong turnaround strategy. Leverage has been reduced from ~7x (net debt/ EBITDA) to ~3x, DSO's have been slashed from 184 days in 2011 to 82 days while EBITDA margins have increased to ~12% (from 5% in 2011) and organic growth has come in at the higher end of the industry peer group range at approximately 7% for the first nine months of the year versus -0.5% for WSP Global and -7% for Stantec. Furthermore, despite strong financial results and successful execution of its strategic plan the company trades at a 2 turn discount to peers, on an EV/EBITDA basis while the valuation gap expands when we look at it on a P/E basis (4.5x+ variance between IBI and peers).

SPECIAL SITUATIONS | Elizabeth Johnston, CFA

- Our preferred pick is Uni-Select Inc. (UNS-T). Post-divestiture of the U.S. Parts segment in mid-2015, management has focused on growing the Automotive (Canada) and Paint segments (FinishMaster; U.S.). M&A activity is key to the growth strategy, and we have seen UNS increase the pace of acquisitions, with approximately 50% more locations added in 2016 YTD compared to 2015. We expect the company to remain active in M&A in both the U.S. and Canada, given the indicated strong pipeline of opportunities and strong balance sheet that can support continued acquisitions. Despite a weak stock performance in 2016, we believe that our thesis is intact and we remain positive on our outlook for 2017.
- Within the restaurant sector, 2016 was an active year for M&A in Canada with Cara Operations (CARA-T) and MTY Food Group (MTY-T) both making large acquisitions.
  - For Cara, the focus in 2017 will be on their digital marketing strategy, as well as focusing on the St-Hubert acquisition (there are several new product launches planned for the grocery channel under the Swiss Chalet banner).
  - Over the next 12 months, MTY plans to expand selected brands in the U.S. through the Kahala platform; debt repayment is also an important focus, depending on potential M&A activity.
  - In terms of the other restaurants in our coverage universe, SSSG has remained strong from A&W Revenue Royalties IF (AW.UN-T) and The Keg Royalties IF (KEG.UN-T), despite the ongoing headwinds from a weaker economic environment in energy-related regions (i.e. Alberta) which have continued to impact nearly all the restaurants in our coverage universe (to varying degrees). Boston Pizza IF (BPF.UN-T) has the highest relative exposure in Alberta by store count (29%), with Imvescor Restaurant Group (IRG-T) and SIR Royalty (SRV.UN-T) with the lowest at 0% and 1.7% (one location) respectively. Given the ongoing commentary regarding Alberta from restaurant operators, we do not anticipate any meaningful turn in growth results from this region in 2017. Therefore, restaurants will need to remain focused on driving SSSG from menu innovation and marketing / promotional activity, as well as offsetting from stronger growth from other regions in Canada.

LBS Coverage Universe

AGRICULTURE

DIVERSIFIED TECHNOLOGY

FINANCIAL SERVICES

HEALTHCARE

MINING

TRANSPORTATION & INFRASTRUCTURE

REAL ESTATE

SPECIAL SITUATIONS

All pricing as of December 14, 2016 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	$139	$1.65	$2.75	na	66.7%
BSM Technologies	GPS-T	Buy	High	$112	$1.36	$1.75	na	28.7%
Halogen Software Inc.	HGN-T	Buy	High	$180	$8.40	$11.50	na	36.9%
Kinaxis Inc.	KXS-T	Buy	High	$1,494	$60.18	$75.00	na	24.6%
Mediagrif Interactive Technologies Inc.	MDF-T	Buy	High	$283	$18.86	$21.00	2.1%	13.4%
Savaria Corporation	SIS-T	Restricted	Restricted	$386	$10.77	Restricted	2.3%	
Solium Capital	SUM-T	Buy	High	$403	$8.03	$10.00	na	24.5%
Syncordia Technologies and Healthca	SYN-V	Spec. Buy	High	$5	$0.23	$0.65	na	182.6%
TECSYS Inc.	TCS-T	Buy	High	$118	$9.60	$12.00	1.8%	26.8%
TSO3 Inc.	TOS-T	Spec. Buy	High	$230	$2.50	$5.00	na	100.0%
Marc Charbin, CPA, CA, CFA – Financial Services								
Canadian Western Bank	CWB-T	Hold	Medium	$2,721	$30.88	$30.00	3.1%	0.3%
Chesswood Group Ltd.	CHW-T	Buy	High	$188	$11.48	$14.00	7.3%	29.3%
Currency Exchange International	CXI-T	Buy	Medium	$171	$28.00	$40.00	na	42.9%
DirectCash Payments Inc.	DCI-T	Tender	High	$332	$19.05	$19.00	7.6%	n/a
Equity Financial Holdings Inc.	EQI-T	Buy	High	$102	$9.98	$12.00	na	20.2%
goeasy	GSY-T	Buy	High	$314	$23.54	$28.00	2.1%	21.0%
Grenville Strategic Royalty Corp.	GRC-V	Hold	High	$16	$0.16	$0.15	na	-6.3%
Home Capital Group Inc.	HCG-T	Buy	Medium	$1,885	$29.23	$31.00	3.5%	9.6%
People Corporation	PEO-V	Buy	High	$221	$4.45	$5.25	na	18.0%
Street Capital Group Inc.	SCB-T	Hold	Medium	$238	$1.96	$2.10	na	7.1%
Terra Firma Capital Corporation	TII-V	Buy	High	$39	$0.63	$1.10	na	74.6%
John Chu, MBA, CFA – Diversified Agriculture								
Ag Growth International	AFN-T	Buy	Medium	$787	$53.30	$59.00	4.3%	15.0%
Cervus Equipment Corp.	CVL-T	Hold	Medium	$253	$16.08	$16.00	1.8%	1.3%
Rocky Mountain Dealerships Inc.	RME-T	Buy	Medium	$183	$9.44	$11.00	4.9%	21.4%
Elizabeth Johnston, CFA – Special Situations								
A&W Revenue Royalties Income Fund	AW.UN-T	Hold	Medium	$439	$36.22	$33.75	4.4%	-2.4%
Boston Pizza Royalties Income Fund	BPF.UN-T	Hold	Medium	$457	$22.54	$18.50	6.2%	-11.7%
Boyd Group Income Fund	BYD.UN-T	Buy	High	$1,518	$83.10	$96.00	0.6%	16.1%
Cara Operations Ltd.	CARA-T	Buy	High	$1,485	$25.25	$32.00	1.7%	28.4%
CCL Industries Inc.	CCL.B-T	Buy	Medium	$7,942	$228.03	$275.00	0.9%	21.5%
DIRTT Environmental Solutions	DRT-T	Buy	High	$506	$5.97	$7.00	na	17.3%
Imvescor Restaurant Group Inc.	IRG-T	Buy	Medium	$178	$3.17	$3.50	2.8%	13.2%
K-Bro Linen Inc.	KBL-T	Hold	Medium	$320	$40.44	$42.00	3.0%	6.9%
Keg Royalties Income Fund	KEG.UN-T	Buy	Medium	$233	$20.50	$23.00	5.4%	17.6%
MTY Food Group Inc.	MTY-T	Hold	High	$1,041	$48.72	$43.00	0.9%	-10.8%
SIR Royalty Income Fund	SRV.UN-T	Hold	Medium	$119	$14.25	$13.50	8.1%	2.9%
Uni-Select Inc.	UNS-T	Buy	Medium	$1,235	$29.25	$37.00	1.1%	27.6%
Ewa Kiwa, CFA – Real Estate								
Milestone Apartments REIT	MST.UN-T	Buy	Medium	$1,424	$17.70	$21.00	4.1%	22.7%

Source: Capital IQ; LBS estimates.

Pricing as of Dec.14, 2016.
Pricing for GPS, MST.UN, TRZ as of Dec. 15, 2016.

Coverage Universe (Cont'd)

Coverage	Ticker	Rating	Risk Rating	Mkt Cap ($M)	Price	Target	Div. Yield	1-Yr RoR
Mona Nazir, MBA – Transportation & Infrastructure								
Canam Group Inc.	CAM-T	Buy	High	$445.0	$9.52	$11.00	1.6%	17.1%
Exchange Income Corp.	EIF-T	Restricted	Restricted	$1,212.0	$42.30	Restricted	4.7%	
Hydro One Ltd.	H-T	Buy	Low	$13,864.0	$23.30	$27.00	3.6%	19.5%
IBI Group Inc.	IBG-T	Buy	Medium	$187.0	$6.00	$8.00	na	33.3%
NAPEC Inc.	NPC-T	Restricted	Restricted	$99.0	$0.95	Restricted	na	
Pure Technologies Ltd.	PUR-T	Buy	High	$274.0	$5.04	$7.00	2.4%	41.3%
Stantec Inc.	STN-T	Hold	High	$4,100.0	$35.98	$36.50	1.3%	2.7%
Stella-Jones Inc.	SJ-T	Buy	High	$2,974.0	$42.93	$52.00	0.9%	22.0%
Transat A.T. Inc.	TRZ-T	Hold	High	$195.0	$5.68	$6.50	na	14.4%
TransForce Inc.	TFI-T	Hold	High	$3,123.0	$34.20	$32.00	2.2%	-4.2%
WSP Global Inc.	WSP-T	Buy	High	$4,748.0	$46.84	$50.00	3.2%	10.0%
Pierre Vaillancourt, MBA – Mining								
Avnel Gold Mining Ltd.	AVK-T	Buy	High	$67.0	$0.22	$0.60	na	172.7%
Capstone Mining Corp.	CS-T	Buy	High	$484.0	$1.25	$1.60	na	28.0%
Detour Gold Corp.	DGC-T	Buy	High	$3,001.0	$17.19	$30.00	na	74.5%
Eastmain Resources Inc.	ER-T	Buy	High	$80.0	$0.46	$1.25	na	174.7%
Hudbay Minerals Inc.	HBM-T	Hold	High	$2,034.0	$8.61	$10.00	0.2%	16.1%
Integra Gold Corp.	ICG-V	Buy	High	$296.0	$0.62	$1.30	na	109.7%
Jaguar Mining Inc.	JAG-T	Buy	High	$175.0	$0.58	$1.00	na	72.4%
Lundin Mining Corp.	LUN-T	Buy	High	$4,902.0	$6.77	$8.00	na	18.2%
Semafo Inc.	SMF-T	Buy	High	$1,218.0	$3.75	$6.50	na	73.3%
Taseko Mines Ltd.	TKO-T	Hold	High	$222.0	$1.00	$1.15	na	15.0%
Teranga Gold Corp.	TGZ-T	Buy	High	$392.0	$0.73	$1.50	na	105.5%
Trevali Mining	TV-T	Buy	High	$510.0	$1.26	$1.70	na	34.9%
Joseph Walewicz, MBA, CFA – Healthcare								
Acerus Pharmaceuticals Corp.	ASP-T	Hold	High	$28.0	$0.13	$0.14	na	7.7%
Cardiome Pharma Corp.	COM-T/CRME-C	Buy	High	$115.0	$2.74	US$5.50	na	100.7%
Cipher Pharmaceuticals Inc.	CPH-T	Buy	Medium	$110.1	$4.20	$8.00	na	90.5%
Concordia International Corp.	CXR-T/CXRX-O	Reduce	High	$146.0	$2.17	US$1.60	na	-26.3%
Knight Therapeutics Inc.	GUD-T	Restricted	Restricted	$1,316.0	$9.92	Restricted	na	
Merus Labs International Inc.	MSL-T/MSLI-O	Buy	Medium	$129.0	$1.10	$1.65	na	50.0%
Nuvo Pharmaceuticals	NRI-T	Buy	Medium	$64.0	$5.52	$8.00	na	44.9%
Theratechnologies Inc.	TH-T	Buy	High	$201.0	$2.82	$4.50	na	59.6%

Pricing as of Dec.14, 2016.

Source: Capital IQ; LBS estimates. *Pricing for GPS, MST.UN, TRZ as of Dec. 15, 2016.*

DIVERSIFIED AGRICULTURE | John Chu, MBA, CFA

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John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

Ag Growth International (AFN-T – $53.30) Buy – Target Price: $59.00

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)	14.7
Rating	Buy	Market Cap (M)	$782
Risk	Medium	Float O/S (M)	14.5
Price	$53.30	Float Value (M)	$775
1-Yr Target	$59.00	Avg Daily Volume (K)	33.2
Dividend	4.5%	Enterprise Value (M)	$1,008
1-Yr ROR	15.2%	Control Blocks:	Mgmt & Dir
52 Wk High-Low	$57.69 - $24.68	*Voting*	1.0%
BVPS	$15.88	*Equity*	1.0%
Valuation	16x Q4/17-Q3/18 P/E	Net Debt/Cap	59%
Year End	31-Dec	Next Reporting	Feb-17

EPS (FD), ex-Fx	Q1		Q2		Q3		Q4		Annual		P/E
F2015	$0.56	A	$0.88	A	$0.56	A	$0.18	A	$2.18	A	24.4x
F2016	$0.38	A	$0.61	A	$1.07	A	$0.28		$2.34		22.8x
F2017	$0.40		$0.72		$1.19		$0.76		$3.07		17.4x

EBITDA, ex-Fx ($M)	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
F2015	$17.3	A	$22.3	A	$19.9	A	$13.2	A	$72.7	A	13.9x
F2016	$19.8	A	$26.0	A	$36.4	A	$15.8		$98.0		10.3x
F2017	$21.5		$28.9		$37.7		$28.5		$116.5		8.6x

Source: Company reports; Bloomberg; LBS estimates.

Looking for Continued Momentum off of a Banner 2016

We rate Ag Growth a Buy with a one-year share price target of $59.00. The target is based on a 16x forward P/E target multiple applied to our Q4/17 – Q3/18 earnings. The stock has had a fantastic run in 2016 (up ~61%), especially towards year-end as it continued to hit new 52-week high levels and stayed near these levels. On the back of an improving macro backdrop and a conservative valuation multiple, we believe Ag Growth can continue its momentum in 2017. We highlight the following:

- Expecting solid activity on the back of a robust 2016 crop harvest. Despite early snow and rain, the crop in Canada is expected to be strong. Similarly, the crop in the U.S. is expected to be near historical highs. Typically, sales activity for Ag Growth is driven by volume rather than crop prices. As such, we believe this should have a positive impact on 2017 sales. The Canadian ag macro outlook is expected to be solid (total farm cash receipts up for the seventh year in a row), while the USDA is forecasting U.S. net farm income to see a modest rebound in 2017. As such, we expect both markets to help drive AFN sales higher in 2017.
- International rebound for 2017? YTD (as of Q3/16), organic international sales have been weak on a y/y basis, despite having experienced very strong sales over the past 5+ years. However, business can be choppy and often times delayed as we saw throughout 2016. With a broader international network, less reliance on the unpredictable Ukraine region, and a better product portfolio, we expect a more normal sales year from the international market. Management also expects its international backlog to return closer to 2015 levels based on recent bidding activity.
- M&A transactions to drive 2017 and beyond. The company continued to round out its product portfolio having made six transactions since mid-2015. We forecast these transactions to contribute over $300M to sales, and just over $60M to EBITDA to our 2017 estimates. The company also did not rule out additional tuck-in acquisitions should the opportunity arise.
- Brazil is a wildcard. While still a very small component, it has potentially the biggest upside given the size of the Brazilian market and the upside growth opportunity. Progress seems to be ahead of schedule and its first major contract award (or series of smaller wins) could act as a strong growth catalyst for the stock.
- Better balanced heading into 2017. On the back of acquisitions made over the past few years, the company has a more balanced product offering (i.e. more grain storage and new fertilizer storage), which should help smooth out some of the seasonality inherent in the business. Similarly, the company is more diversified geographically, which should help reduce the sales volatility from some regions.

John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

Cervus Equipment Corp.
(CVL-T – $16.08)
Hold – Target Price: $16.00

COMPANY PROFILE

Cervus acquires and manages authorized agricultural, commercial, industrial and transportation equipment dealerships with interests in 72 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	CVL-T	Shares O/S (M)	16.0
Rating	Hold	Market Cap (M)	$257
Risk	Medium	Float O/S (M)	11.7
Price	$16.08	Float Value (M)	$188
1-Yr Target	$16.00	Avg Daily Volume (K)	5.8
Yield	1.7%	Enterprise Value (M)	$408.4
1-Yr ROR	1.2%	Control Blocks:	Mgmt & Dir
52 Wk High-Low	$16.52 - $10.41	*Voting*	27%
BVPS	$11.93	*Equity*	27%
Valuation	11.5x Q4/17-Q3/18 P/E	Net Debt/Cap	40%
Year End	31-Dec	Next Reporting	Feb-17

EPS (FD, ex-FX, gains)

	Q1	Q2	Q3	Q4	Annual	P/E
F2015	($0.08) A	$0.18 A	$0.43 A	$0.33 A	$0.86 A	18.7x
F2016	($0.15) A	$0.15 A	$0.64 A	$0.32	$0.96	16.8x
F2017	$0.03	$0.23	$0.57	$0.32	$1.19	13.5x

EBITDA ($M, ex-FX, gains)

	Q1	Q2	Q3	Q4	Annual	EV/EBITDA
F2015	$3.5 A	$12.0 A	$14.9 A	$13.3 A	$43.5 A	9.4x
F2016	$9.7 A	$10.8 A	$22.0 A	$13.7	$54.9	7.4x
F2017	$7.2	$11.6	$19.1	$13.3	$51.2	8.0x

Source: Company reports; Bloomberg; LBS estimates.

Focusing on Execution; M&A Back on the Table?

We rate Cervus Equipment Corp. a Hold with a one-year share price target of $16.00. The target is based on a 11.5x forward P/E target multiple applied to our Q4/17 – Q3/18 earnings estimate. The company finished the year on an incredible run, up ~39% since late September and hitting 52-week highs, on the back of a strong Q3/16 beat, which saw all three segments contributing to the beat. We believe the company will need to continue the momentum it reported in Q3 to maintain its share price and valuation at these levels. We do note that the macro backdrop is improving for CVL and that M&A could be a nice catalyst for 2017. We highlight the following:

- Well positioned for 2017 ag equipment rebound. For 2017, Farm Credit Canada (FCC) forecasts Canadian farm cash receipts to be modestly up y/y, which continues an upward trend since 2010. Solid farm cash receipts along with pent-up demand from weak farm equipment sales in 2015 and 2016 should drive ag equipment sales higher in 2017. FCC believes farmer sentiment is improving and anecdotally, based on Q3 results from various ag equipment players and recent industry sales data, we have seen signs to support this view. As such, CVL is well positioned for a rebound in the ag equipment sector in Canada.
- Transportation (27% of 2015 sales) now focused on sales growth. With Peterbilt of Ontario now starting to hit its stride, the company is comfortable with the stability of the parts and service business and will look to drive new sales in 2017. This in turn should help maintain a steady stream of business for the higher margin parts and service segment going forward.
- Construction and Industrial (11% of 2015 sales) waiting for a market recovery. On the back of heavy cost-cutting initiatives, the segment was profitable in Q3, which is encouraging despite a depressed market environment. With the operations operating on a bare-bones basis, any market recovery in western Canada should fall mostly to the bottom line. However, we expect the market to remain weak in 2017.
- M&A activity to pick up? While M&A is generally predicated on a willing seller, the company, on the back of the closing of its recent sale leaseback transaction (net free cash flow proceeds of ~$27M) is now in a better position to act on any potential opportunities, whereas before, with a stretched balance sheet, it may have been a little handcuffed to do so. As such, we would not be surprised to see CVL become active on the M&A front again in 2017.
- Story remains on track. The ag segment is primed for a solid market rebound in Canada, while the transportation segment should show continued momentum, and the C&I segment is essentially in a holding pattern until energy prices and the western Canadian economy starts to pick up again.

John Chu, MBA, CFA | DIVERSIFIED AGRICULTURE

Rocky Mountain Dealerships Inc.
(RME-T – $9.44)
Buy – Target Price: $11.00

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)	$183.0
Risk	Medium	Float O/S (M)	15.1
Price	$9.44	Float Value (M)	$142.7
1-Yr Target	$11.00	Avg Daily Volume (K)	36.1
Yield	4.9%	Enterprise Value (M)	$200.5
1-Yr ROR	21.4%	Control Blocks:	Mgmt & Dir
52 Wk High-Low	$9.89 - $5.50	*Voting*	22%
BVPS	$8.68	*Equity*	22%
Valuation	9x Q4/17-Q3/18 P/E	Net Debt/Cap	15%
Year End	31-Dec	Next Reporting	Feb-17

Adjusted EPS (FD)

	Q1	Q2	Q3	Q4	Annual	P/E
F2015	$0.03 A	$0.09 A	$0.35 A	$0.24 A	$0.71 A	13.3x
F2016	$0.02 A	$0.21 A	$0.37 A	$0.30	$0.90	10.4x
F2017	$0.03	$0.26	$0.40	$0.38	$1.07	8.8x

Adjusted EBITDA ($M)

	Q1	Q2	Q3	Q4	Annual	EV/EBITDA
F2015	3.2 A	4.7 A	11.7 A	9.0 A	28.6 A	7.0x
F2016	2.7 A	8.5 A	12.2 A	10.6	34.0	5.9x
F2017	3.2	9.5	13.3	12.9	38.9	5.2x

Source: Company reports; Bloomberg; LBS estimates.

Highly Levered to a Rebound in the Ag Equipment Sector

We rate Rocky Mountain a Buy with a one-year share price target of $11.00. The target is based on a 9x forward P/E target multiple applied to our Q4/17 – Q3/18 earnings estimate. Rocky was one of the best performing ag equipment stocks in Canada up ~53%, which was mostly driven by a very strong Q2/16 beat. On the back of an improving macro backdrop and Rocky's high exposure to the ag equipment sector, we believe Rocky could be poised for a strong 2017. We highlight the following:

- Macro environment improving. For 2017, Farm Credit Canada (FCC) forecasts Canadian farm cash receipts to be modestly up y/y, which continues an upward trend since 2010. Solid farm cash receipts along with pent-up demand from weak farm equipment sales in 2015 and 2016 should drive ag equipment sales higher in 2017. FCC believes farmer sentiment is improving and anecdotally, based on Q3 results from various ag equipment players and recent industry sales data, we have seen signs to support this view.
- Highly levered to an ag equipment rebound. Rocky, which generates ~95% of its revenue from the Canadian ag equipment sector, has the highest exposure versus any of its Canadian ag equipment peers. As such, if the market in Canada rebounds, we expect Rocky to be the biggest beneficiary.
- Cost-cutting initiatives mostly done. The company has done a very good job at reducing its cost structure with most of the major cost cutting projects having already been implemented; although, some savings may still flow through the upcoming quarters. The company is well positioned for a market rebound in both the ag and the construction side given its low cost structure.
- Growing high-margin parts and service business (~15% of 2015 sales). The company is looking to hire more service technicians in 2017, which should help drive the overall margin profile of the company higher as parts and service generates margins that are considerably higher than wholesale goods sales (3-5x higher).
- Likely to be quiet on the M&A front. While there remain opportunities to engage in ag-related tuck-in acquisitions in both Western Canada as well as the U.S., the company is taking a cautious approach, especially in the U.S. as management believes the U.S. market remains weak. Rocky also believes valuations are a little high at this time.

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

5N Plus Inc.
(VNP-T – $1.65)
Buy – Target Price: $2.75

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)	84.0
Rating	Buy	Shares-FD O/S (M)	97.9
Risk	High	Market Cap (US$M)	$104.4
Price	$1.65	Float O/S (M)	58.8
1-Yr Target	$2.75	Avg Daily Volume (K)	54.0
Yield	0.0%	Enterprise Value (US$M)	$125.6
1-Yr ROR	66.7%	Cash (US$M)	$23.2
52 Wk High-Low	$2.35 - $1.06	Net Debt (US$M)	$21.2
Valuation	7.5x 2017 EV/EBITDA	Ownership	
Year End	Dec. 31	Manag. & Dir.	27%
Next Reporting	Mar-17	Institutional	26%
		Net Debt/Total Cap	19%

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	17.0x
F2015A	($0.06)	A	($0.04)	A	($0.06)	A	($0.19)	A	($0.35)	n.m.
F2016E	($0.01)	A	($0.01)	A	$0.01	A	$0.01		($0.00)	n.m.
F2017E	$0.01		$0.01		$0.02		$0.01		$0.05	n.m.

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	3.6x
F2015A	$0.3	A	$1.9	A	$1.0	A	$1.1	A	$4.3	29.4x
F2016E	$4.3	A	$4.7	A	$6.9	A	$5.6		$21.4	5.9x
F2017E	$6.3		$6.5		$6.9		$6.0		$25.7	4.9x

Source: Company reports; Bloomberg; LBS estimates.

All Eyes on Maintaining Sustainable EBITDA Growth

We rate 5N Plus (VNP) a Buy with a one-year share price target of $2.75, implying a total return of 66.7% from current levels. Our target is based on 7.5x 2017 EV/EBITDA. We highlight the following:

- New management making its mark. February 2015 saw the start of new CEO Arjang Roshan's tenure. This has included the introduction of a 5-year plan, 5N21, in September, which is designed to forego sales growth and market share in exchange for increased profitability / margin, predictable / consistent operating results, reduced earnings volatility, and earnings diversity. Overall, the plan picks up where prior management left off with an emphasis on execution.
- Plan achievements so far. While sales have stayed stable QoQ in the last 6 months on solid demand and stable metal prices, we have seen EBITDA improve consistently, reaching YTD EBITDA of US$15.8M vs. US$3.2M over the comparable 9 months in 2015. The improvement reflects in part plant consolidation, with 2 regions set to undergo footprint optimization in 2017, and record unit EBITDA margins for both divisions, Eco-Friendly and Electronic Materials, as VNP looks to enter into or keep only contracts that yield a ROCE of at least 12%, and exit mid-stream products where it sees no opportunity for differentiation.
- Focus on sustainable EBITDA growth. VNP is targeting 2017 adj. EBITDA of US$21-27M at July 2016 metal prices (we model US$25.7M vs. consensus of US$26.0M, and vs. 2016E of US$21.4M). By 2019 it expects to reduce earnings volatility by 50% and by 2021 reach adj. EBITDA of US$40-60M with ROCE at industry-best rates >15% (vs. current WACC of 11-12%) and without any significant growth in revenues. We look for continued EBITDA / margin momentum in 2017 to illustrate the benefits of VNP's plan, and look for progress on upstream material sourcing efforts and downstream new market initiatives. Alongside this, we look for profitability growth excluding First Solar within VNP's Electronic Materials division as a further indication of sustainable long term growth for the overall company.
- Balance sheet improved. Similar to 2015, VNP maintained its focus on improving its balance sheet throughout 2016, with net debt decreasing by US$12M YTD vs. 2015 to US$21.2M, including eliminating its bank debt component with proceeds stemming from reduced working capital requirements and CF generation.

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

BSM Technologies Inc.
(GPS-T – $1.36)
Buy – Target Price: $1.75

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 solutions are marketed under the Sentinel FM, Quadrant and InterFleet brands. The company has >150,000 subscribers with over 500 customers.

Source: BigCharts.com

Market and Company Data

Ticker	GPS-T	Shares-basic O/S (M)	82.6
Rating	Buy	Shares-FD O/S (M)	86.1
Risk	High	Market Cap (M)	$112.3
Price	$1.36	Float O/S (M)	71.4
1-Yr Target	$1.75	Avg Daily Volume (K)	111.1
Yield	0.0%	Enterprise Value (M)	$107.4
1-Yr ROR	28.7%	Cash (M)	$18.1
52 Wk High-Low	$1.47 - $0.79	Net Debt (M)	-$5.0
Valuation	12x C2017 EBITDA	Ownership	
Year End	Sep-30	Manag. & Dir.	6.4%
Next Reporting	Feb-17	Institutional	14.1%
		Net Debt/Total Cap	n/a

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.02	A	$0.01	A	($0.00)	A	$0.00	A	$0.03	43.3x
2015A	($0.00)	A	($0.00)	A	($0.01)	A	$0.02	A	$0.01	n.m.
2016A	($0.00)	A	$0.00	A	($0.00)	A	$0.09	A	$0.09	n.m.
2017E									$0.04	38.7x

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$1.5	A	$1.1	A	$0.5	A	$1.0	A	$4.1	26.1x
2015A	$0.8	A	$0.9	A	$0.8	A	$0.8	A	$3.3	32.5x
2016A	$2.1	A	$2.3	A	$1.9	A	$2.0	A	$8.4	12.9x
2017E									$10.8	10.0x

Source: Company reports; Bloomberg; LBS estimates.

Pricing as of Dec. 15, 2016.

Focus on Mobi, Pipeline and Churn

We rate BSM Technologies (GPS) a Buy with a one-year share price target of $1.75, implying a total return of 28.7% from current levels. We derive our target by applying a 12x EV/EBITDA multiple to our C2017 estimates. We note the following:

- 2016 defined by synergies. Since its acquisition of WebTech Wireless in September 2015, GPS has done a good job of quickly realizing the cost synergies associated with this transaction, having recognized ~$4M in synergies thus far; target remains $4-5M. We note achieving the upper end should come from technology platform integration efforts through the course of 2017. Synergy gains in F2016 have seen EBITDA margin expand to 14.2% vs. 10.8% in F2015.
- Mobi acquisition could positively influence results in 2017. GPS acquired Mobi, a provider of dynamic real-time scheduling, route optimization, dispatch and data analytics software to SME and large enterprise customers, in October 2016. The transaction is complementary to GPS's exisitng data collection operation and offers many cross-selling opportunities. As Mobi is a SaaS-based company with very strong recurring revenues (>80% typically vs. ~67% for GPS.), we believe the recurring revenue shift may offer valuation multiple expansion upside as traction is gained. As it stands Mobi's LTM EBITDA margin is 12.1% just below GPS's overall margin. However, the Mobi transaction offers earn-out upside based on meeting recurring revenue and EBITDA targets over the next 2 years (commencing with the onset of F2017). Achieving the top end of the earn-out would, all else equal, expand EBITDA margin to 22.1% over the 2 next years vs. 14.2% in F2016. In 2017, we will be monitoring Mobi's progress to gauge what level of earn-out is attainable. At present we do not model any earn-out upside in our estimates leaving the opportunity for earnings / margins / valuation upside.
- Pipeline strong. On the Q4/F16 conference call, GPS noted positive pipeline metrics and highlighted opportunities across all targeted segments, including the railcar sub-market, with the U.S. government's GSA department, and within the construction sector (where a recent win has the potential to be GPS's largest unit customer - suggesting a potential deployment of >10k units upon full deployment). We look to F2017 results to gauge traction with these opportunities.
- Churn a drag on results – but there's promise. Q4/F16 churn of 8.0% is an improvement from the 12.5% in Q3/F16 and the "teens" levels posted in the prior ~6 quarters. In fact FQ4 is at the top end of the company's targeted 6-8% range. GPS has seen churn of 11% over the 12 months following the Webtech acquisition, which has been a drag on subscriber growth and recurring revenue growth. We believe this elevated rate is attributable to the acquisition, discontinued support for legacy platforms, and carrier network shutdowns. We expect churn to sustain the company's targeted range over time given GPS's recent customer improvement initaitives are being well received.

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

Halogen Software Inc.
(HGN-T – $8.40)
Buy – Target Price: $11.50

COMPANY PROFILE

Ottawa-based Halogen Software Inc. offers a complete software-as-a-service (SaaS), cloud-based talent management solution targeted at mid-market customers, both in North America and abroad. HGN's highly functional, cost-effective TalentSpace solution (11 modules) provides performance management and feedback access, automation of compensation processes, employee development and training plans, streamlined recruitment procedures, and meeting collaboration tools. 2015 sales were ~US$66M, including ~US$60M recurring (91%) with 79% from the U.S. and 10% from Canada. HGN has ~2,200 customers and has ~450 employees situated in North America, the U.K. and Australia.

Source: BigCharts.com

Market and Company Data

Ticker	HGN-T	Shares-basic O/S (M)	21.5
Rating	Buy	Shares-FD O/S (M)	23.5
Risk	High	Market Cap (US$M)	$135.9
Price	$8.40	Float O/S (M)	11.5
1-Yr Target	$11.50	Avg Daily Volume (K)	16.1
Yield	0.0%	Enterprise Value (US$M)	$100.7
1-Yr ROR	36.9%	Cash (US$M)	$35.4
52 Wk High-Low	$10.45 - $6.52	Net Debt (US$M)	-$35.2
Valuation	2x blend 2017/18 EV/Sales	Ownership	
Year End	Dec-31	Manag. & Dir.	46.5%
Next Reporting	Feb-17	Institutional	53.5%
		Net Debt/Total Cap	n/a

Sales (US$M)

	Q1		Q2		Q3		Q4		Annual	EV/Sales
2014A	$13.5	A	$13.6	A	$14.4	A	$15.1	A	$56.7	1.8x
2015A	$15.9	A	$16.1	A	$16.6	A	$17.2	A	$65.7	1.5x
2016E	$17.7	A	$18.0	A	$17.9	A	$18.3		$71.9	1.4x
2017E									$75.8	1.3x

EBITDA (US$M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	($1.1)	A	($2.4)	A	($2.6)	A	($2.6)	A	($8.7)	n/a
2015A	($0.3)	A	($1.6)	A	($0.6)	A	($0.1)	A	($2.6)	n/a
2016E	$0.8	A	$1.9	A	$2.9	A	$1.9		$7.5	13.5x
2017E									$9.7	10.4x

Source: Company reports; Bloomberg; LBS estimates.

Focus Shifts from EBITDA / Margins to Sales Growth

We rate Halogen Software Inc. (HGN) a Buy with a one-year target price of $11.50, implying a total return of 36.9% from current levels. We derive our target by applying a 2x EV/Sales multiple to blended 2017/18 estimates. We note the following:

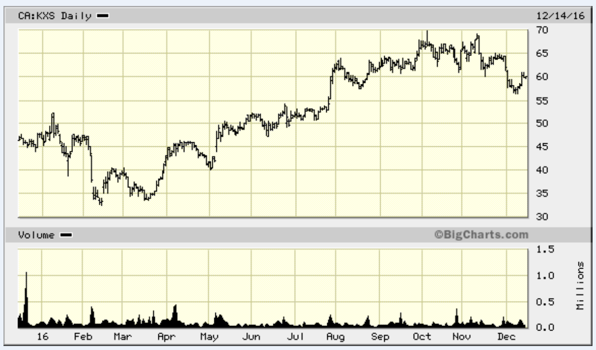
- 2016 better than expected. Throughout the year HGN met sales expectations and consistently beat on EBITDA as improved sales efficiencies and cost management had a positive impact on the bottom line. This includes S&M at 36% of revenue in Q3 below the 2016 target of 45% (since revised to the low 40s). More importantly for 3 sequential quarters the company raised full year EBITDA guidance to a range of $7-7.5M from $0.5-1M at the onset of the year. The strong 2016 EBITDA performance also helped HGN achieve its stated goal of being CF positive for the first time in its history.
- 2017 outlook a mixed bag; EBITDA margin continues to expand… On the Q3/16 conference call management provided preliminary 2017 guidance. Encouraging EBITDA margin guidance of 11-13% is a continued improvement from the ~10% expected for 2016 and materially higher than the 8.5% we had originally modeled. Overall the margin expansion remains on track.
- …of focus however for 2017 is the overall sales growth rate. HGN is guiding to a preliminary rate of ~5% (recurring revenue growth at ~6%) as dollar retention rates are trending downward; the rate is expected to break below 100% for the first time in the company's public history in Q4/16, a direct cause of the lowered 2016 sales guidance on the Q3 call. The company is taking action to reverse this course during 2017. HGN plans to introduce new tool kits and its next generation talent management suite, as well it plans to make better use of client data and educate its client base/prospects on its superior product offering when compared to integrated HRIS platforms. The company remains committed to additional partnerships to augment its current offering (including data analytics) and, if necessary, leverage HRIS partnerships to target clients requesting a full end-to-end solution. Reversing these trends, including international growth expansion from the 4% posted in Q3/16, would be well received. We look to quarterly guidance updates as catalyst opportunities including Q4/16 results likely by late February 2017.

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

Kinaxis Inc.
(KXS-T – $60.18)
Buy – Target Price: $75.00

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)	24.8
Rating	Buy	Shares-FD O/S (M)	27.5
Risk	High	Market Cap (US$M)	$1,125.9
Price	$60.18	Float O/S (M)	16.9
1-Yr Target	$75.00	Avg Daily Volume (K)	88.1
Yield	0.0%	Enterprise Value (US$M)	$1,014.2
1-Yr ROR	24.6%	Cash (US$M)	$111.7
52 Wk High-Low	$69.85 - $32.60	Net Debt (US$M)	-$111.7
Valuation	8x 50/50 2017/2018 EV/Sales	Ownership	
Year End	Dec-31	Manag. & Dir.	31.8%
Next Reporting	Feb-17	Institutional	41.3%
		Net Debt/Total Cap	n/a

Sales (M)

	Q1		Q2		Q3		Q4		Annual	EV/Sales
2014A	$15.6	A	$17.9	A	$17.7	A	$18.8	A	$70.1	14.5x
2015A	$19.7	A	$23.7	A	$23.7	A	$24.2	A	$91.3	11.1x
2016E	$27.0	A	$28.7	A	$29.9	A	$30.3		$116.0	8.7x
2017E	$32.9		$35.8		$38.2		$37.8		$144.7	7.0x
2018E									$179.8	5.6x

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$3.8	A	$3.3	A	$5.2	A	$3.8	A	$16.1	63.1x
2015A	$5.6	A	$9.2	A	$8.0	A	$7.1	A	$30.0	33.8x
2016E	$8.0	A	$7.3	A	$6.8	A	$6.9		$29.0	35.0x
2017E	$8.4		$10.0		$11.5		$11.3		$41.1	24.7x
2018E									$54.8	18.5x

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

Accelerating Growth on the Way

We rate Kinaxis Inc. (KXS) a Buy with a one-year share price target of $75.00, implying a total return of 24.6% from current levels. We derive our target by applying an 8x EV/Sales multiple to blended 2017/18 estimates. We highlight the following:

- Another strong year. KXS has shown strong YTD sales growth (+28%), however YoY EBITDA has remained flat as the company ramped opex by 48% over the comparable period to support its channel partners Accenture and the more recent addition, Deloitte, to expand its international data centres and to cover higher variable commission expenses associated with larger deals (e.g. Samsung, European win). Strong sales performance was driven by new client wins including Samsung and further penetration into existing accounts including Ford. Supporting this, Professional Services revenues are up 43% YTD vs. a comparable 38% in 2015 for the same period.
- SI contributions gaining traction. SIs account for ~20% of the LTM deal pipeline vs. 15% a year ago. While KXS anticipates ~80% of the pipeline to stem from SIs in the near- to medium term, we expect meaningful progress in 2017 as Deloitte gains further traction. Furthermore, given the current 12-18 month sales cycle, the +1 year collaborative relationship with Accenture, and the strong pipeline with this SI, we would expect accelerated deal wins through this channel over the coming 6+ months, including multiple large account wins.
- Leveraging beachhead wins in 2017. In Q3/16, KXS announced back-to-back beachhead wins in geographies where the company had limited presence in 1H/16; these include Samsung in S. Korea and a major win in Europe in an existing vertical. In Q2/16, Asia (ex. Japan) and Europe represented ~2% of total sales combined, while N. America represented ~90% of sales. KXS anticipates fast adoption from the Asian/Korean markets leveraging its Samsung win, and we expect similarly rapid adoption in Europe.
- New verticals are becoming increasingly meaningful. KXS continues to push into Life Sciences (estimate <30% top line contributor in 2016 vs. 12% in 2015) as the company sees faster adoption due to peer responses, and more recently into the consumer products (~6%) market. We expect these sectors to be meaningful contributors to 2017 Subscription revenues and overall top line growth.
- All eyes on 2107 guidance. Beyond contract announcements, the next major catalyst is 2017 guidance which should be delivered alongside Q4/16 results in February 2017. Noting the Q3/16 adjusted Subscription revenue growth rate of 34% and the on-going strong Professional Services revenue run-rate, we look for total sales of US$144.7M and EBITDA of US$41.1M, reflecting an US$8M or 15% YoY increase in opex.

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

Mediagrif Interactive Technologies Inc. (MDF-T – $18.86) Buy – Target Price: $21.00

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)	15.0
Rating	Buy	Market Cap (M)	$282.9
Risk	High	Float O/S (M)	11.1
Price	$18.86	Float Value (M)	$209.6
1-Yr Target	$21.00	Avg Daily Volume (K)	5.4
Dividend	$0.40	Enterprise Value (M)	$309.8
1-Yr ROR	13.5%	Control Blocks:	
52 Wk High-Low	$19.55 - $14.47	*Mgmt. % Dir*	25.9%
Valuation	10x EV/EBITDA (C2017E)	*Institutional*	37.9%
BVPS	$8.61	Net Debt/Cap	17.2%
Year End	Mar. 31	Next Reporting	Feb-17

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	16.8x
F2017E	$0.26	A	$0.29	A	$0.28		$0.30		$1.13	16.7x
F2018E									$1.27	14.9x

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	10.5x
F2017E	$7.1	A	$8.1	A	$7.8		$8.2		$31.2	9.9x
F2018E									$34.1	9.1x

FCF ($M)

	Q1		Q2		Q3		Q4		Annual	EV/FCF
F2016A	$3.4	A	$5.3	A	$5.6	A	$2.6	A	$16.8	18.5x
F2017E	$5.1	A	$5.5	A	$5.4		$4.5		$20.5	15.1x
F2018E									$18.5	16.7x

Source: Company reports; ThomsonONE; LBS estimates.

More M&A in 2017?

We rate Mediagrif (MDF) a Buy with a one-year share price target of $21.00. Combined with an annual dividend of $0.40 per share, this implies a total return of 13.5% from current levels. We derive our target by applying a 10x EV/EBITDA multiple to our C2017 estimates. We note the following:

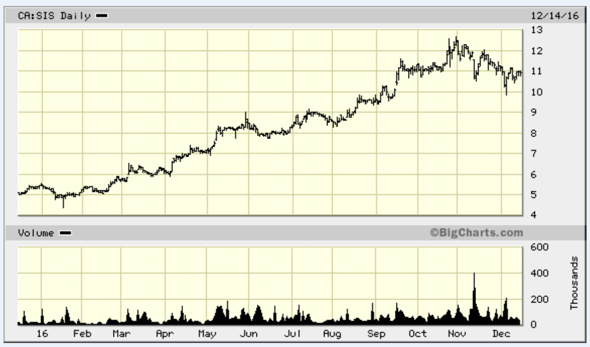
- 2016 – growth vs. margin tradeoff gaining traction. The year included strong organic growth in 1H/16 of ~5% reflective of MDF's aim to generate higher organic growth. On an LTM basis, organic growth has averaged 2% per quarter vs. -1% in the prior period. The EBITDA margin tradeoff is only 50bps as LTM EBITDA margin sits at 39.7%. This tradeoff also includes a slight drag on margins associated with the ASC transaction, which began in late Q1/F17, due to deferred accounting treatment on recurring revenues. The primary driver is MDF's increased focus on MERX and InterTrade, and the U.S. market. At the same time, net debt is a very manageable $26.8M with net debt / LTM EBITDA at 0.9x (below management's upper boundary of 2.5x; covenant 3x) and management (CEO) has been very active with share purchases.
- We got one deal....more coming. After a roughly two year hiatus MDF announced the acquisition of Advanced Software Concepts (ASC) in May 2016. MDF has been active in evaluating potential acquisitions, in some cases juggling 3 prospects, and in 2016 delivered on this effort. ASC compliments the MERX platform, offers sizable cross border clients, increases MDF's U.S. exposure, offers high recurring revenues and strong organic growth and attractive margins, is synergistic and immediately accretive. The transaction was well received in the marketplace and we believe offers a blueprint for potential follow-on deals that may arise in 2017. Nevertheless MDF has ample financial flexibility for more M&A with $41M left on its $60M revolver + a $40M accordion.
- A defensive name. Beyond M&A, we still maintain the view MDF is a good defensive name to own in uncertain economic times given its diversified top line exposure (including cyclical and counter-cyclical sectors), recurring revenue stream, solid top and bottom line predictability, and strong margins profile.

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

Savaria Corp.
(SIS-T – $10.77)
Restricted

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 two reporting segments: Accessibility (lifts) and Adapted Vehicles (van conversions). SIS is headquartered in Laval, QC with regional sales/installation offices in Calgary, AB and London, ON, and manufacturing/assembly facilities in Brampton, ON, Montreal, QC, and Huizhou, China. The company employs ~380 people.



Source: BigCharts.com

Market and Company Data

Ticker	SIS-T	Shares-basic O/S (M)	35.5
Rating	Restricted	Shares-FD O/S (M)	38.2
Risk	Restricted	Market Cap (M)	$381.9
Price	$10.77	Float O/S (M)	21.7
1-Yr Target	Restricted	Avg Daily Volume (K)	82.5
Yield	2.4%	Enterprise Value (M)	$357.6
1-Yr ROR	Restricted	Cash (M)	$46.5
52 Wk High-Low	$12.68 - $4.37	Net Debt (M)	-$24.2
Valuation	Restricted	Ownership	
Year End	Dec-31	Manag. & Dir.	38.7%
Next Reporting	Mar-17	Institutional	22.9%
		Net Debt/Total Cap	-45.0%

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.05	A	$0.05	A	$0.07	A	$0.05	A	$0.23	47.4x
2015A	$0.05	A	$0.07	A	$0.07	A	$0.08	A	$0.27	39.2x
2016E	$0.07	A	$0.10	A	$0.10	A	n/a		n/a	n/a
2017E	n/a		n/a		n/a		n/a		n/a	n/a
2018E									n/a	n/a

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$2.2	A	$2.7	A	$3.3	A	$2.9	A	$11.2	32.1x
2015A	$2.9	A	$3.5	A	$3.8	A	$4.3	A	$14.5	24.6x
2016E	$4.0	A	$5.1	A	$5.6	A	n/a		n/a	n/a
2017E	n/a		n/a		n/a		n/a		n/a	n/a
2018E									n/a	n/a

Source: Company reports; Bloomberg; LBS estimates.

Restricted

We are currently RESTRICTED on Savaria Corp. (SIS).

Solium Capital
(SUM-T – $8.03)
Buy – Target Price: $10.00

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. SUM 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)	50.2
Rating	Buy	Shares-FD O/S (M)	53.7
Risk	High	Market Cap (M)	$403.0
Price	$8.03	Float O/S (M)	28.4
1-Yr Target	$10.00	Avg Daily Volume (K)	58.4
Yield	0.0%	Enterprise Value (M)	$323.6
1-Yr ROR	24.5%	Cash (M)	$79.7
52 Wk High-Low	$8.88 - $5.76	Net Debt (M)	-$79.4
Valuation	13x 2018 EV/EBITDA	Ownership	
Year End	Dec-31	Manag. & Dir.	35.3%
Next Reporting	Mar-17	Institutional	8.2%
		Net Debt/Total Cap	-159.5%

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.07	A	$0.06	A	$0.03	A	$0.02	A	$0.18	43.7x
2015A	$0.07	A	$0.05	A	$0.03	A	$0.00	A	$0.15	54.1x
2016E	$0.04	A	$0.06	A	$0.05	A	$0.05		$0.20	39.2x
2017E									$0.13	61.5x

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$7.3	A	$5.4	A	$3.7	A	$2.9	A	$19.2	16.8x
2015A	$6.4	A	$4.4	A	$3.9	A	$2.8	A	$17.5	18.5x
2016E	$4.4	A	$4.9	A	$4.9	A	$4.6		$18.8	17.2x
2017E									$14.7	22.0x

Source: Company reports; Bloomberg; LBS estimates.

Active RFP Activity, International Growth and M&A Remain at the Forefront

We rate Solium Capital (SUM) a Buy with a one-year share price target of $10.00, implying a total return of 24.5% from current levels. We derive our target by applying a 13x EV/EBITDA multiple to our 2018 estimates. We note the following:

- Growth moving in the right direction. In 2016, SUM saw steady subscription growth in the U.S. and international markets while absorbing some early headwinds associated with headcount reductions in the resource space, namely in Canada. Trading, however, overcame 1H hurdles with a strong increase in 2H activity on pent-up demand, particularly in Canada and the U.S. driven in part by a recovery in resources, primarily gold. We expect subscription growth to remain steady in 2017, with a YoY uptick in trading activity aided by stable resource markets and improving oil and gas markets. For 2017 we model YoY growth of 15.8% vs. an expected 11.6% in 2016.
- Notable global opportunities may come to bear in 2017. SUM is seeing a very strong global pipeline; as a result, it is building to aggressively pursue large opportunities it believes may not become available again for another ~3 years; hence it is increasing investment in headcount and R&D into 2017 to put the appropriate infrastructure in place (the result is an expected 600bps contraction in 2017 EBITDA margins YoY). We view the recent strategic Morgan Stanley white label agreement as an example of this, while more strategic opportunities could be announced in 2017. We note RFP activity has increased in the UK and Australia (following a muted LTM), as well as in Europe, where SUM has capitalized on its recent adidas win by gaining mindshare in Germany. We expect international growth initiatives to offer similar returns, including in APAC, where SUM has placed its first Hong Kong employee to pursue visible opportunities while further gauging prospects. TD Ameritrade has yet to drive wins, although TD is investing in the channel and SUM is optimistic on wins in early 2017.
- Waiting for acquisitions. The market continues to await a SUM acquisition to strengthen its European and/or North American (U.S.) market position. We believe SUM may target: 1) Employee Share Purchase Plan (ESPP) businesses in Canada, 2) private-market tuck-in acquisitions in the U.S., 3) options management books of business in the U.K./U.S., and 4) a European competitor. Any announcement in this regard could be a catalyst for the shares. SUM has US$66M in cash (no debt) available for M&A.

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

Syncordia Technologies and Healthcare Solutions Corp.
(SYN-V – $0.23)
Spec. Buy – Target Price: $0.65

COMPANY PROFILE

Incorporated in January 2014, SYN is a Revenue Cycle Management (RCM) software innovator and market consolidator, focused on underserved niche segments of the healthcare billing industry, and targeting small/medium sized businesses (SMBs). The company operates a high margin, transactional model and continues to augment its business to include a SaaS-based solution. SYN targets organic growth augmented by consolidation strategy to add technology capabilities and bolster market presence. The company has corporate offices in Toronto, Ontario and Wilmington, North Carolina with regional offices in Dublin, Ireland, Santa Rosa, California and Edina, Minnesota with 134 employees currently.

Source: BigCharts.com

Market and Company Data

Ticker	SYN-V	Shares-basic O/S (M)	19.7
Rating	Spec. Buy	Shares-FD O/S (M)	24.5
Risk	High	Market Cap (US$M)	$3.9
Price	$0.27	Float O/S (M)	15.4
1-Yr Target	$0.65	Avg Daily Volume (K)	9.4
Yield	0.0%	Enterprise Value (US$M)	$16.0
1-Yr ROR	140.7%	Cash (US$M)	$3.0
52 Wk High-Low	$0.69 - $0.25	Net Debt (US$M)	$12.1
Valuation	6x F2018 EV/EBITDA	Ownership	
Year End	Mar-31	Manag. & Dir.	21.7%
Next Reporting	Feb-17	Institutional	78.3%
		Net Debt/Total Cap	62.8%

Sales (US$M)

	Q1		Q2		Q3		Q4		Annual	EV/Sales
2015A	n/a		n/a		$1.7	A	$2.7	A	$4.4	3.6x
2016A	$3.4	A	$3.9	A	$3.7	A	$2.9	A	$13.9	1.2x
2017E	$4.1	A	$3.6	A	$4.1		$4.3		$16.2	1.0x
2018E									$22.3	0.7x

EBITDA (US$M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2015A	n/a		n/a		($0.3)	A	$0.0	A	($0.3)	n/a
2016A	$0.6	A	$0.7	A	$0.7	A	($0.1)	A	$1.9	8.4x
2017E	($0.1)	A	($0.2)	A	$0.1		$0.2		($0.1)	n/a
2018E									$3.8	4.2x

Source: Company reports; Bloomberg; LBS estimates.

Managing the Debt the Primary Focus

We rate Syncordia Technologies (SYN) a Speculative Buy with a one-year share price target of $0.65, implying a total return of 182.6% from current levels. We derive our target by applying a 6x EV/EBITDA multiple to F2018 estimates. We highlight the following:

- Making progress on operational efficiencies. SYN's pipeline opportunities have been slow to materialize during C2016 causing the company to lag in its efforts to replace its lost AMGH contract. The company however has made good strides in competitively lowering its claims costs. It has shifted its HSI cost structure from a billing-centric model to an operator-centric model as used by its Paragon division. The aim is to cut HSI's ground ambulatory cost per encounter from US$25 to US$10, currently at US$18; similarly air ambulatory costs per claim stand at US$84 as of Q2/F17 vs. US$114 QoQ. The overall aim is to take HSI blended ambulatory costs from US$45 to US$20. We look for continued progress in F2017 and F2018, along with operating leverage, helping HSI unit EBITDA margins recover from Q2/F17 lows, similarly for Paragon.
- Billing Solutions acquisition quickly delivering value. Acquired in March 2016 for US$8M in cash/debt for an 80% interest, Billing Solutions is currently operating at an annualized EBITDA run-rate of US$2.6M vs. US$0.9M in the prior quarter, a ~200% QoQ improvement. We expect Billing Solutions to be a meaningful contributor to F2017 and F2018 EBITDA accounting for ~65% of total unit EBITDA contributions.
- Debt overhang/restructuring remains the focus. The company ended Q2/F17 with US$3.0M cash and US$15.0M in debt. SYN obtained relief on principal payments, paying US$1.3M rather than US$2.2M toward its November 2016 payment. The shortfall is to be paid in combination with the scheduled principal repayment in May 2017, as well as a US$300k fee payable at end of debt term or settlement. The balance of US$8.6M is scheduled for payment in November 2017. Management is exploring strategic options to refinance the entire company; these could include refinancing its senior debt either with its existing lender or a new lender, a business divestiture or M&A (in part or in whole). We believe a sound resolution to the overhanging debt could be a meaningful catalyst for the shares. As well a switch from cash- to accrual-based accounting by Q4/F17 or Q1/F18 should benefit results and possibly the shares as the revenue-expense matching should allow investors to get a better understanding of the company's earnings potential.

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

TECSYS Inc.
(TCS-T – $9.60)
Buy – Target Price: $12.00

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 single-source 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)	12.3
Rating	Buy	Shares-FD O/S (M)	12.3
Risk	High	Market Cap (M)	$118.2
Price	$9.60	Float O/S (M)	7.3
1-Yr Target	$12.00	Avg Daily Volume (K)	4.9
Yield	1.9%	Enterprise Value (M)	$109.4
1-Yr ROR	26.9%	Cash (M)	$11.5
52 Wk High-Low	$12.00 - $6.35	Net Debt (M)	-$8.8
Valuation	12x blend C2017/18 EV/EBITDA	Ownership	
Year End	Apr-30	Manag. & Dir.	41.0%
Next Reporting	Mar-17	Institutional	32.0%
		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	57.6x
2016A	$0.01	A	$0.03	A	$0.04	A	$0.30	A	$0.38	25.2x
2017E	$0.01	A	$0.08	A	$0.10		$0.11		$0.30	32.5x
2018E	$0.08		$0.14		$0.15		$0.16		$0.54	17.9x
2019E									$0.69	13.9x

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2015A	$1.2	A	$1.2	A	$1.3	A	$1.2	A	$4.8	22.6x
2016A	$0.8	A	$1.2	A	$1.3	A	$3.8	A	$7.1	15.3x
2017E	$0.8	A	$1.7	A	$2.2		$2.4		$7.1	15.4x
2018E	$2.0		$2.8		$3.1		$3.2		$11.0	9.9x
2019E									$12.9	8.4x

Source: Company reports; Bloomberg; LBS estimates.

New Market Opportunities and Hospital SIs Coming into Focus

We rate TECSYS Inc. (TCS) a Buy with a one-year share price target of $12.00, implying a total return of 26.9% from current levels. We derive our target by applying a 12x EV/EBITDA multiple to our C2017 estimates. We note the following:

- New pipeline opportunities offer varying opportunities for growth. In C2017, new revenue should begin to flow from:
  1. The company's OneSprint WMS SaaS initiative announced in Q4/F16 continues to be well received in the marketplace, with revenue contribution expected to begin in 2H/F17.
  2. TCS's OR solution went live in Q2/F17 at its first hospital and the company is already building an order backlog for this new product. We expect follow-on orders during the new year.
  3. Its pharma solution, completed as of mid-summer 2016, is slated to go live with its first hospital in mid-2017 with TCS noting many clients are following its progress. A successful product launch could double the revenue potential from the company's targeted 300 IDN customer base. TCS's current healthcare module offering targets the medi-surg side of the hospital market.
  4. Management continues to target 6-8 new IDN wins per year; an industry leading 32 wins to date. While the current pace is slower than recent quarters, equally important TCS is witnessing growing deal sizes and incremental sales from its existing IDN base, which should benefit C2017 sales.
- On implementation, hospitals are playing a bigger role. The hospital SI announced in Q4/F16 (ending April 2016) continues to be of increased importance to TCS. The SI was working on its second project in Q2/F17 and TCS has already identified 3-4 additional projects for this channel partner. This is welcome news as the medium-term margin expansion potential, as well as revenue acceleration, for TCS is in part predicated on increased SI implementation support. We could see more hospital SI channel partners added in C2017. This is in addition to smaller SIs already working with TCS and a more efficient use of new Services employees. With this we expect F2018 EBITDA margins (ending April) to expand 420bps YoY.

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

TSO3 Inc.
(TOS-T – $2.50)
Spec. Buy – Target Price: $5.00

COMPANY PROFILE

Founded in 1998, TSO3 Inc. is developing and marketing a low-temperature sterilization process for heat/moisture sensitive medical devices used in healthcare facilities. TSO3'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. TSO3 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)	97.3
Rating	Spec. Buy	Market Cap (US$M)	$181.9
Risk	High	Float O/S (M)	96.1
Price	$2.50	Float Value (US$M)	$179.7
1-Yr Target	$5.00	Avg Daily Volume (K)	216.5
Dividend	$0.00	Enterprise Value (US$M)	$161.1
1-Yr ROR	100.0%	Control Blocks:	
52 Wk High-Low	$1.42 - $3.82	Manag. & Dir.	1.2%
BVPS ($US)	$0.21	FTQ	9.6%
Valuation	10-yr DCF @ 11%	Net Debt/Cap	n/a
Year End	Dec. 31	Next Reporting	Mar-17

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.
2016E	$3.1	A	$3.0	A	$3.5	A	$3.8		$13.3	12.1x
2017E									$24.1	6.7x

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.
2016E	($0.6)	A	($1.1)	A	($1.0)	A	($1.0)		($3.7)	n.m.
2017E									$0.0	n.m.

Adjusted EPS (FD)

										P/E
2014A	($0.02)	A	($0.02)	A	($0.02)	A	($0.02)	A	($0.08)	n.m.
2015A	($0.02)	A	($0.02)	A	($0.01)	A	($0.03)	A	($0.09)	n.m.
2016E	($0.01)	A	($0.01)	A	($0.01)	A	($0.01)		($0.05)	n.m.
2017E									($0.00)	n.m.

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

Focus on Consumables

We rate TSO3 a Speculative Buy with a one-year share price target of $5.00, implying a total return of 100.0% from current levels. We derive our target from a 10-year DCF analysis (11% discount rate, 3% terminal growth). We highlight the following:

- In 2016 TOS transitioned to become an operating company. The company has shipped 80 VP4 units in the first 9 months of the year, recorded US$9.6M in revenues YTD vs. US$1.4M in the prior year period, and attained standalone FDA approval to treat scope >850mm for colonscope and endoscopic procedures. Exiting the year, TOS has received its initial purchase order from its exclusive channel partner Getinge for 2017 unit shipments totaling US$18M; we equate this to ~180 units.
- 2017 focus on consumables. For 2017, we currently estimate sales of 191 units, sales of US$24.1M and break-even on an EBITDA basis. More important for investors, and as a support of sell-through progress, we look for consumables revenue of US$4.9M assuming a ~6 month lag between sell-in and installs.
- Key catalysts: We believe the next key catalysts for the shares include: 1) An investor update scheduled for January 2017 that may include sell-through rates and installation rates in addition to the backlog already provided, 2) initial shipments to Europe starting as early as Q4/16 including a double-door model for the France market, 3) FDA approval of TOS's duodenoscope claims (expected 1H/17), and 4) quarterly results.
- Balance sheet sufficient to support expansion. As we move through 2017, we expect TOS to finalize and announce plans to accommodate annual unit production beyond the current (stretched) 250 unit capacity. With TOS's cash balance currently at >US$20M, we believe the company is well financed to support working capital requirements for this expansion. We also believe a formal announcement regarding manufacturing expansion plans could act as a catalyst for the shares as a further signal of sell-in demand.

FINANCIAL SERVICES | Marc Charbin, CPA, CA, CFA

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Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Canadian Western Bank (CWB-T – $30.88) Hold – Target Price: $30.00

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	HOLD	Next Reporting	Mar-16
Risk	Medium	Shares-basic O/S (M)	88.1
Price	$30.88	Shares-FD O/S (M)	93.3
1-Yr Target	$30.00	Market Cap (M)	$2,719
Yield	3.1%	Float O/S (M)	85.9
1-Yr ROR	0.3%	Avg Daily Volume (K)	337.2
52 Wk High	$32.29	Ownership	
52 Wk Low	$19.26	Manag. & Dir.	2.5%
Valuation	11.0x 2018E EPS	Institutional	45.3%

EPS (FD)	Q1		Q2		Q3		Q4		Annual		P/E
F2015A	$0.65	A	$0.64	A	$0.64	A	$0.66	A	$2.59	A	11.9x
F2016A	$0.65	A	$0.40	A	$0.55	A	$0.54	A	$2.14	A	14.4x
F2017E	$0.55		$0.57		$0.58		$0.60		$2.30		13.4x
F2018E									$2.74		11.3x

BVPS	Q1		Q2		Q3		Q4		Annual		
F2015A	$21.55	A	$21.76	A	$23.55	A	$23.73	A	$22.18	A	1.4x
F2016A	$22.17	A	$22.62	A	$23.19	A	$23.59	A	$23.59	A	1.3x
F2017E	$23.91		$24.24		$24.60		$24.97		$24.97		1.2x
F2018E									$26.79		1.2x

Source: Company reports; CapitalIQ; LBS estimates.

Stock is Up, But No Big Change to the Story

With a weak economic environment in Alberta, CWB turned to B.C. and Ontario to generate loan book growth of 13% in F2016. Unfortunately, with spreads contracting, provisioning increasing sharply related to energy exposure, ongoing cost pressure and dilution, EPS fell 17% y-y in F2016. But with most of the damage done to the stock price in 2015, shares reached current levels from a low of $19.26 as CWB continues to provide credible guidance on loan book growth and trading multiples expanded from the results of the U.S. election and the rebounding price of oil.

For the time being, it seems that impaired loans have leveled off in the Company's energy book at ~7% and the trend in impairments among other energy lenders suggests that the worst may be over. Yet CWB has said that impaired loans could continue to rise in the Company's non-energy book and there was evidence of this in Q4/F16 as personal impaired loans increased to 0.54% from 0.34% q-q and the commercial book impaired increased to 0.59% from 0.52% q-q. We do not currently see any issues that could increase the Company's loss experience above historical levels heading into F2017, but rising impairment rates could create some headwinds for CWB in the near-term.

What to expect in 2017

- Double-digit loan book growth is still very realistic for CWB and we forecast growth of 10.6% in F2017. We expect that the growth will be fairly evenly distributed throughout the loan book and that, geographically, B.C. and Ontario will likely be the Company's targets for deploying new capital. In F2016 Alberta exposure declined from 41% to 36% and we expect for this trend to continue in F2017.
- EPS growth to $2.30 from $2.14. Management has guided to EPS growth below its medium-term guidance range in F2017 and we have reflected that in our forecast. Again, net interest margin pressure and provisioning are weighing against earnings growth, but if the Company can provide comfort throughout the year that the worst is over, investors should gain confidence in earnings tailwinds from improvements to the metrics in F2018.
- If there's a dividend increase, it will likely be towards the end of the year. Management has given payout ratio guidance of ~30% and with the current dividend yielding a 43% payout ratio in F2016, down to 40% in F2017 and 34% in F2018, it is possible that there is no dividend increase this year at all. Then again, if the loan book grows faster than expected and initiatives to enhance yield and decrease funding cost translate to EPS above our forecast, perhaps a dividend increase will be in store in H2/17.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Chesswood Group Limited
(CHW-T – $11.48)
Buy – Target Price: $14.00

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'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)	17.9
Rating	Buy	Shares-FD O/S (M)	19.8
Risk	High	Market Cap (M)	$205.0
Price	$11.48	Float O/S (M)	11.6
1-Yr Target	$14.00	Avg Daily Volume (K)	21.1
Yield	7.3%	Enterprise Value (M)	$369.8
1-Yr ROR	29.3%	Cash (M)	$5.4
52 Wk High-Low	$12.71 - $8.80	Net Debt (M)	$164.8
Valuation	10.0x 2017E EPS	Ownership	
Year End	Dec-31	Manag. & Dir.	24.9%
Next Reporting	Mar-17	Institutional	19.0%

Adjusted EPS

	Q1		Q2		Q3		Q4		Annual	P/E
F2015A	$0.22	A	$0.28	A	$0.20	A	$0.28	A	$1.00	11.5x
F2016E	$0.25	A	$0.26	A	$0.23	A	$0.31		$1.05	10.9x
F2017E									$1.39	8.3x

BVPS

	Q1		Q2		Q3		Q4		Annual	P/BV
F2015A	$8.73	A	$7.27	A	$7.63	A	$8.16	A	$8.63	1.3x
F2016E	$7.90	A	$7.88	A	$7.75	A	$7.90		$7.93	1.4x
F2017E									$8.73	1.3x

Source: Company reports; CapitalIQ; LBS.

Entering Prime Space in U.S. Should be a Welcome Move

CHW was our Preferred Pick for 2016. The share price increased 24% over the last year and dividends contributed another $1.30/share, for a total return of 38%.

The past year has been quite active for CHW. In February, it divested its consumer finance subsidiary, EcoHome, and become a purely commercial equipment finance company. The sale was done at a significant premium to CHW's valuation at the time and injected $30 million in cash, plus other consideration. Part of the proceeds were used to pay a one-time dividend of $0.50, the balance was retained to grow receivables.

In the first three quarters of 2016, CHW's Pawnee subsidiary has increased its receivables 28%, and the pace of growth should be maintained as the Company has begun building a prime book in the U.S. using the distribution network it has built to originate non-prime loans over the last 35 years. We should note too that charge-offs have been downward trending, therefore growth has not come at the expense of credit quality.

Most recently, CHW has also increased its credit facility to US$250 million, which we believe can sustain growth through to 2018.

What to expect in 2017

- Our forecast is for the Company's gross receivables to increase 13% in 2017, up from a targeted 19% in 2016. This is expected to be driven by the Company's Pawnee subsidiary. The level of growth should be reasonably achievable if CHW continues to grow its prime book.
- Once the impact of lower net interest margin and lower write-offs are taken into account, we calculate that EPS will increase to $1.39 in 2017, from an adjusted $1.05 in 2016. A significant variable to this rate of earnings growth is the change in the U.S. dollar, but so long as Pawnee grows as expected, we believe investors should be pleased.
- Possible dividend increase. With one dividend increase in 2016 (to $0.07/month from $0.065/month), we can likely expect another increase in 2017 given the Company's relatively clear growth trajectory and comfortable funding position. We calculate the payout ratio declining to 52% from 67% in 2016.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Currency Exchange International (CXI-T – $28.00) Buy – Target Price: $40.00

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)	$171.3
Price	$28.00	Float O/S (M)	4.1
1-Yr Target	$40.00	Avg Daily Volume (K)	12.0
Yield	0.0%	Enterprise Value (M)	$171.3
1-Yr ROR	42.9%	Cash (M)	$66.5
52 Wk High-Low	$34.00-$16.00	Net Debt (M)	N/A
Valuation	15.0x F2018E EBITDA	Ownership	
Year End	Oct-31	Manag. & Dir.	23.5%
Next Reporting	Jan-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	18.5x
F2016E	$0.9	A	$1.2	A	$2.6	A	$2.5		$7.2	18.3x
F2017E									$9.3	14.1x
F2018E									$10.8	12.2x

EPS (US)	Q1		Q2		Q3		Q4		Annual	
F2015A	$0.06	A	$0.11	A	$0.33	A	$0.08	A	$0.59	36.4x
F2016E	$0.05	A	$0.08	A	$0.23	A	$0.22		$0.61	35.4x
F2017E									$0.77	27.9x
F2018E									$0.93	23.2x

Source: Company reports; CapitalIQ; LBS.

Got the Bank, Penetration into Payments the Next Major Move

CXI received its letters patent for its Canadian subsidiary to continue as Exchange Bank of Canada in September 2016 after four years through the application process. But the heavy lifting isn't over. The bank application was meant to win more wholesale clients that can only source currency from other banks and to become more competitive in the foreign payments sector.

Thus far no large contract announcements have been made, but that is forgivable considering CXI increased its number of transacting locations 24% in the first nine months of F2016, and that translated to y-y revenue growth of 15% in its most recent quarter. We expect for this momentum to continue as the Company continues to roll-out two significant contract wins that were announced in February and August of 2016.

Consistent with the previous year, the increase in revenue in 2016 did not translate to profitability. CXI continued to make investments in personnel to secure a successful application for the Exchange Bank of Canada, and it's likely that the Company will continue to invest to establish itself in the payments vertical.

What to expect in 2017

- Contract wins. CXI is surely making a full court press to all the wholesale clients that have delayed decisions until the Company announced that it could operate as a bank and will be making much stronger applications once other contracts come up for tender. We believe it is likely that material contracts will be announced throughout the year and growth in transacting locations should continue to grow at a double-digit pace.
- Potential catalysts on the payments business are more difficult to count on. CXI has been developing the user interface of its software to be more accommodating to corporate users and we can expect more investments will be made in personnel and other infrastructure in anticipation of a growing payments business. However, we would not be surprised if we have to wait past the next fiscal year to see material evidence of growth in this market.
- Our forecast is for revenue to grow to US$30 million in F2017, up from $27 million in F2016. It's likely that our number are a light if more large wholesale clients are captured, however the translation of any incremental revenue to profitability may have to wait given the costs the Company may have to absorb.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

DirectCash Payments Inc.
(DCI-T – $19.05)
Tender – Target Price: $19.00

COMPANY PROFILE

DirectCash Payments Inc. (DCI) earns revenue primarily from processing ATM transactions and related services in North America, Australasia and Europe. In North America, the Company also provides a variety of payment outsourcing services for credit unions and small financial institutions.

Source: BigCharts.com

Market and Company Data

Ticker	DCI-T	Shares-Basic O/S (M)	17.5
Rating	Tender	Shares-FD O/S (M)	17.7
Risk	High	Market Cap (M)	$334
Price	$19.05	Float O/S (M)	15.4
1-Yr Target	$19.00	Avg Daily Volume (K)	28.7
Yield	7.6%	Enterprise Value (M)	$604
1-Yr ROR	N/A	Cash (M)	$26
52 Wk High-Low	$19.11 - $10.06	Net Debt (M)	$270
Valuation	Acquisition value of $19.00/share	Ownership	
Year End	Dec-31	Manag. & Dir.	12.2%
Next Reporting	N/A	Institutional	27.8%

Revenue (M)

	Q1		Q2		Q3		Q4		Annual
F2015A	$66.0	A	$70.1	A	$75.5	A	$72.1	A	$283.7
F2016E	$68.7	A	$69.5	A	$73.0	A	$77.5		$288.6
F2017E									$321.1

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
F2015A	$16.5	A	$16.6	A	$17.5	A	$16.6	A	$67.2	9.0x
F2016E	$15.7	A	$16.1	A	$17.2	A	$17.7		$66.7	9.1x
F2017E									$73.3	8.2x

Source: Company reports; CapitalIQ; LBS.

Sold!

With revenue flat-lining and EBITDA grinding down in the first nine months of 2016, DCI announced its sale to Cardtronics Inc. (CATM-US, not rated) on October 3, 2016 for $19.00/share.

DCI's stock had previously been range bound between $11.00 and $13.00 per share for the year prior to the acquisition announcement and with revenue/terminal in Australia presenting a material headwind to earnings growth, the sale to CATM represents great value for shareholders.

What to expect in 2017

- We expect that in 2017, DCI will have completed its sale to Cardtronics in Q1/17.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Equity Financial Holdings Inc. (EQI-T – $9.98) Buy – Target Price: $12.00

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	Buy	Shares-FD O/S (M)	10.2
Risk	High	Market Cap (M)	$95.1
Price	$9.98	Float O/S (M)	7.4
1-Yr Target	$12.00	Avg Daily Volume (K)	2.4
Yield	0.0%		
1-Yr ROR	20.24%	Ownership	
52 Wk High-Low	$10.50 - $6.75	Manag. & Dir.	1.9%
Valuation	1.2x 2017E P/BV	Smoothwater Capital	27.3%
Year End	Dec-31	Institutional	20.5%
Next Reporting	Feb-17		

EPS	Q1	Q2	Q3	Q4	Annual	P/E
F2015A	($0.03) A	($0.10) A	($0.06) A	($0.03) A	($0.22) A	N/A
F2016E	$0.02 A	$0.00 A	$0.04 A	$0.08	$0.15	68.1x
F2017E					$0.73	13.7x
F2018E					$1.29	7.8x

BVPS	Q1	Q2	Q3	Q4	Annual	P/BV
F2015A	$9.94 A	$9.86 A	$9.82 A	$9.30 A	$9.30 A	1.07x
F2016E	$9.82 A	$9.54 A	$9.31 A	$9.40	$9.61	1.04x
F2017E					$10.20	0.98x
F2018E					$11.48	0.87x

Source: Company reports; CapitalIQ; LBS.

Record Year in Originations, Momentum Likely to Continue

With its dissident shareholder action clearly in the rear view, additions to personnel and the Board, a comfortable capital position and an accommodating real estate market, EQI is set to record near $500 million in originations in 2016, having realized $390 million in the first nine months of the year. EQI has also demonstrated profitability throughout the year, which it had not previously done since 2011 and the current pace of originations suggest the Company could be approaching industry-average ROE within the next two to three years.

What to expect in 2017

- **Another record in originations.** We forecast that originations will increase to $600 million from $500 million in 2016. We believe this is quite realistic given the Company's relatively small size compared to its target market and the traction it has been able to demonstrate to date. This level of originations should be able to translate into loan book growth of 46%, to ~$1.0 billion from an expected $696 million as of Q4/16.
- **Impact of new mortgage rules unlikely to impact EQI.** While the Department of Finance has made a concerted effort to dissuade marginal buyers from the market and additional rules around risk-sharing are still a possibility, EQI still has plenty of room in its core market (southern Ontario) and will be able to have its choice of new markets to enter if growth were to slow or if competition intensifies.
- **Continued profitability is also expected for 2017 as we forecast EPS increasing to $0.73 from $0.15 in 2016.** This forecast EPS calculates to an ROE of 7%, which could increase to 12% in 2018 if the current pace of originations remains intact. We estimate that over this period the Company's leverage ratio will decline to 8.6% from 11.2% in Q3/16, which is still comfortably above regulatory minimums.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

goeasy Ltd.
(GSY-T – $23.54)
Buy – Target Price: $28.00

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)	13.5
Rating	BUY	Shares-FD O/S (M)	14.0
Risk	High	Market Cap (M)	$318.3
Price	$23.54	Float O/S (M)	9.8
1-Yr Target	$28.00	Avg Daily Volume (K)	25.7
Yield	2.1%	Cash (M)	$29.8
1-Yr ROR	21.07%	Net debt (M)	$225.2
52 Wk High-Low	$27.00 - $15.34	EV (M)	$543.6
Valuation	10.0x 2017E EPS		
Year End	Dec-31	Manag. & Dir.	27.4%
Next Reporting	Feb-17	Institutional	33.5%

Revenue (M)

	Q1		Q2		Q3		Q4		Annual
F2015A	$70.5	A	$72.9	A	$78.0	A	$82.9	A	$304.3
F2016E	$82.3	A	$89.1	A	$87.8	A	$90.3		$349.5
F2017E									$382.2

EPS

	Q1		Q2		Q3		Q4		Annual	P/E
F2015A	$0.35	A	$0.36	A	$0.45	A	$0.53	A	$1.69	13.9x
F2016E	$0.52	A	$0.77	A	$0.36	A	$0.61		$2.26	10.4x
F2017E									$2.82	8.4x

Source: Company reports; CapitalIQ; LBS.

No Citi Book, No Problem

Management continues to produce results in-line with its guidance as the loan book at easyfinancial is on pace to increase 27% in 2016. Guidance on operating margin in this segment was also increased in 2016 and now should reach close to 38%, up from 31% in 2015. Investors were sufficiently pleased with the performance at easyfinancial that they could accept the continued decline in the easyhome segment which continues to be impacted by store closures and a lackluster environment for retail spending in electronics and furniture (as described on the Q3/16 conference call).

In August, when a Canadian newspaper reported that Citi's installment loan book in Canada was up for sale, GSY's stock jumped as it was expected to be the logical suitor for this portfolio. GSY incurred $5.3 million in due diligence costs related to this potential acquisition (it has not confirmed it was the Citi book, but it very likely was), but did not come away with the portfolio. Instead, management was able to obtain additional visibility on future funding options and decided that a go-it-alone strategy was best. We trust that management has calculated its best course of action correctly and are keen to hear details of its accelerated growth plan along with Q4/16 results.

What to expect in 2017

- Accelerated growth plan in Q4/16. Currently, the Company is targeting gross consumer loan receivables of $500 million by the end of 2018. This could very well be increased if the Company elects to accelerate store count or gives guidance on loan book growth from recently announced retail partnerships. The accelerated growth plan could also provide visibility into future product lines.
- Future funding sources. Management has been quite clear that its current credit facilities and retained earnings are likely only to support growth through to H1/17. With the due diligence costs incurred on the Citi loan book, it's likely that management has more options to consider and could announce more details in the coming months.
- EPS growth to $2.82 from $2.26. GSY is on pace to increase earnings 34% in 2016 and we forecast that that the Company could register another 25% in 2017. This is principally from store maturation and margin expansion at easyfinancial, while easyhome contribution is expected to continue declining. GSY's accelerated growth plan could add more to our earnings forecast, which already has the highest levels of expected growth in our coverage universe.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Grenville Strategic Royalty Corp. (GRC-V – $0.16) Hold – Target Price: $0.15

COMPANY PROFILE

Grenville Strategic Royalty Corp. (GRC) was founded in July 2013 to provide non-dilutive royalty financing to small and medium size enterprises in North America. GRC intends to invest in the cleantech, technology, services, healthcare and manufacturing industries.

Source: BigCharts.com

Market and Company Data

Ticker	GRC-V	Shares-Basic O/S (M)	106.3
Rating	Hold	Shares-FD O/S (M)	119.4
Risk	High	Market Cap (M)	$17.0
Price	$0.16	Float O/S (M)	99.0
1-Yr Target	$0.15	Avg Daily Volume (K)	415.4
Yield	0.0%	Enterprise Value (M)	$25.6
1-Yr ROR	-6.3%	Cash (M)	$7.8
52 Wk High-Low	$0.80 - $0.10	Net Debt (M)	$8.6
Valuation	0.5x 2017E P/BV	Ownership	
Year End	Dec-31	Manag. & Dir.	8.3%
Next Reporting	Mar-17	Institutional	6.6%

EBITDA (M) (1)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
F2015A	$1.1	A	$0.6	A	$4.2	A	($1.9)	A	$4.0	6.3x
F2016E	($1.5)	A	$0.4	A	($2.3)	A	$0.9		($2.5)	N/A
F2017E									$4.1	6.2x

EPS

	Q1		Q2		Q3		Q4		Annual	P/E
F2015A	$0.00	A	$0.00	A	$0.03	A	($0.00)	A	$0.04	3.9x
F2016E	($0.03)	A	($0.01)	A	($0.02)	A	$0.00		($0.07)	N/A
F2017E									$0.01	12.7x

(1) Adjusted for one-time costs and foreign exchange.

Source: Company reports; CapitalIQ; LBS.

Dividend Gone, But is That Enough?

After reporting an ROE of 10% in 2015, highlighted by some impressive contract buy-outs, credit quality had a dismal performance in 2016 and GRC is on pace to report an ROE of (19)%. Furthermore, in order to secure two new investment partners, the Company cut its dividend before it ever reached a sustainable payout ratio. The capital strategy was very aggressive to begin with and the share price was rightfully punished.

Furthermore, there was turnover at the senior management level with one of the Company's co-founders leaving the firm (ostensibly to pursue other opportunities) and GRC appears to be refining its due diligence process (this has been ongoing since inception). It's safe to say that little could have gone worse for GRC shareholders that remained invested throughout 2016.

What to expect in 2017

- Investment book growth. Royalty investments are set to decline y-y in 2016 as the Company has dealt with credit quality and capital issues. With two new partners that have options on future deal flow, GRC has some additional capacity and, perhaps more importantly, a second (and third) set of eyes over any new deal originated. With cash of $8 million currently, but no more outflow from a dividend, it's possible that the royalty book could start growing again in 2017. For now, we have kept our forecast flat given the lack of clarity on further impairments.
- Impairments and buyouts. While impairments should decline, it's evident that management has had difficulty with assertions around this metric, so investors should adopt a wait-and-see approach. Contract buyouts are expected too, but not at previous rates and the timing of these cash inflows are difficult to estimate.
- Share price appreciation. If all goes well for GRC in 2017, its share price could rebound. Book value per share is currently $0.36, without including dilution from the Company's convertible debt and without making any allowance for future impairments or buyouts. If impairments can temper, or even remain near zero for a quarter or two, it's possible that shares could inch closer to book value. Our Hold recommendation currently does not reflect this view as we believe the risk/reward is not sufficiently compelling relative to other investments in our coverage universe. But the trade is worth considering for those that have the risk tolerance.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Home Capital Group Inc.
(HCG-T – $29.23)
Buy – Target Price: $31.00

COMPANY PROFILE

Home Capital Group Inc. is a Canadian lender focused on mortgages that do not meet bank criteria. These loans are extended to self-employed individuals, small business owners, individuals with poor or limited credit history and newly arrived immigrants.

Source: BigCharts.com

Market and Company Data

Ticker	HCG-T	Year End	Dec. 31
Rating	Buy	Next Reporting	Feb-17
Risk	Medium	Shares-basic O/S (M)	64.6
Price	$29.23	Shares-FD O/S (M)	65.7
1-Yr Target	$31.00	Market Cap (M)	$1,887.1
Yield	3.6%	Float O/S (M)	60.1
1-Yr ROR	9.7%	Avg Daily Volume (K)	274.8
52 Wk High	$39.84	Ownership	
52 Wk Low	$22.87	Manag. & Dir.	6.9%
Valuation	8.0x 2017E diluted EPS	Institutional	50.6%

EPS (FD)	Q1		Q2		Q3		Q4		Annual		P/E
F2015A	$1.03	A	$1.03	A	$1.03	A	$0.99	A	$4.08	A	7.2x
F2016E	$1.01	A	$1.03	A	$1.03	A	$0.98		$3.91		7.5x
F2017E									$3.90		7.5x

BVPS	Q1		Q2		Q3		Q4		Annual		
F2015A	$21.11	A	$21.79	A	$22.30	A	$22.94	A	$22.99	A	1.3x
F2016E	$23.67	A	$23.60	A	$24.46	A	$25.25		$24.57		1.2x
F2017E									$28.60		1.0x

Source: Company reports; CapitalIQ; LBS estimates.

Things Didn't Get Much Easier in 2016

After terminating broker relationships representing over 10% of mortgage volume in 2015 (and its first ever y-y decline in net income), the Company was not able to return originations to previous levels as turnaround times to brokers suffered with new processes put in place. Over HCG's strongest seasonal periods (Q2 and Q3), the Company was only able to increase originations of its Traditional mortgage products 3% y-y, while it also contended with non-interest expenses rising 17%. 2016 is expected to be another down year in net income, with the impact on EPS helped by a $150 million Dutch Auction which concluded in April 2016.

Some headwinds remain for HCG as it contends with the impact of new and impending mortgage rules on its Accelerator product (and potentially elsewhere in its business) and the relentless increase in expenses. Yet, there are still reasons to be constructive. HCG remains a top lender to non-prime consumers, the real estate market remains strong in Ontario (HCG's core market) and it is still in a position of excess capital, which will likely be put to use through further share buybacks and dividend increases.

What to expect in 2017

- **Revised guidance.** With two successive years of net income decline, it became apparent (to us in Q2/16) that the Company was unlikely to achieve its medium-term guidance of 8% to 12% in EPS growth. As part of its Q4/16 results, it's likely that the Company will address this in a detailed manner, providing investors with more visibility.
- **Deployment of capital.** In addition to the $150 million Substantial Issuer Bid, HCG remained active with its share buyback program, purchasing a further $34 million in the market in Q3/16. The Company has the capital to sustain this level of share purchase and we would expect it to do so for as long as the shares trade in the range of book value (currently $24.46, but rising to $28.60 by the end of 2017). We forecast for the payout ratio to remain in the 25% to 26% range for 2016 and 2017 (at the top end of its guidance range of 19% to 26%), but any improvement to originations or decline to expenses could give impetus to increase the dividend further.
- **EPS flat to up.** We forecast $3.90 in EPS in 2017, compared to $3.91 in 2016. There could be upside to our estimates if the Company can make substantive operational improvements aimed at reducing turnaround times, is able to make cost reductions and/or if share repurchases maintain the current rates.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

People Corporation
(PEO-V – $4.45)
Buy – Target Price: $5.25

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)	50.6
Rating	Buy	Shares-FD O/S (M)	52.1
Risk	High	Market Cap (M)	$225.3
Price	$4.45	Float O/S (M)	39.5
1-Yr Target	$5.25	Avg Daily Volume (K)	24.7
Yield	0.0%	Enterprise Value (M)	$251.4
1-Yr ROR	18.0%	Cash (M)	$14.4
52 Wk High-Low	$4.70 - $2.30	Net Debt (M)	$26.1
Valuation	10.0x FY2018E EV/EBITDA	Ownership	
Year End	Aug-31	Manag. & Dir.	24.5%
Next Reporting	Jan-17	Institutional	20.7%

Revenue (M)	Q1		Q2		Q3		Q4		Annual		P/Rev.
F2015A	$11.1	A	$12.0	A	$10.5	A	$15.8	A	$49.3	A	4.6x
F2016A	$16.3	A	$18.3	A	$20.2	A	$24.9	A	$79.8	A	2.8x
F2017E	$23.8		$25.9		$26.5		$26.4		$102.6		2.2x
F2018E									$108.7		2.1x

EBITDA (M)	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
F2015A	$2.2	A	$2.5	A	$2.1	A	$2.9	A	$10.3	A	24.3x
F2016A	$3.0	A	$3.5	A	$3.3	A	$3.7	A	$11.4	A	22.1x
F2017E	$3.7		$4.3		$4.8		$4.6		$17.4		14.4x
F2018E									$19.1		13.2x

Source: Company reports; CapitalIQ; LBS.

Solid Year, Expect More of the Same

At the time of writing, PEO shares are up 44% in 2016. Not only did management deliver another material acquisition (BPA which we estimate added a run rate of ~$25 million to revenue and ~$4 million to EBITDA), but organic growth was 10.5% in a very tepid Canadian employment market. PEO has demonstrated an ability to grow by creating business development opportunities for its investees and formalizing processes to drive revenue growth further.

Having raised $20 million in September 2016, we estimate the Company has net debt of only $4 million, and has the capacity to deploy up to $60 million towards its next acquisition targets.

What to expect in 2017

- Another acquisition. If the last two years are any indication, the most recent equity financing will be followed by another acquisition in short order. We estimate the Company's existing resources and future cash flow could add 40% to 60% to forecast EBITDA, and the most recent financing only diluted investors by 11%.
- Continued organic growth. We forecast organic growth of 6% in F2017 and F2018, but the Company has produced an average of 8% in the last three years. In our view, this metric is equally as important as the quality of future acquisitions. If our expectations can be surpassed (once again), the share price appreciation is likely to continue and capacity for future acquisitions will be able to be generated (at least partially) from free cash flow.
- We forecast that the acquisition of BPA and an organic growth rate of 6% will result in EBITDA increasing to $17 million in F2017, up from $11 million in F2016. These factors should also result in PEO breaking through the $100 million mark in revenue in F2017. Any further acquisitions will add to this forecast.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Street Capital Group Inc.
(SCB-T – $1.96)
Hold – Target Price: $2.10

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 and through securitization conduits.

Source: BigCharts.com

Market and Company Data

Ticker	SCB-T	Year End	Dec. 31
Rating	Hold	Next Reporting	Mar-17
Risk	Medium	Shares-basic O/S (M)	121.8
Price	$1.96	Shares-FD O/S (M)	124.9
1-Yr Target	$2.10	Market Cap (M)	$238.7
Yield	0.0%	Float O/S (M)	91.7
1-Yr ROR	7.1%	Avg Daily Volume (K)	27.6
52 Wk High	$2.44	Ownership	
52 Wk Low	$1.09	Manag. & Dir.	15.3%
Valuation	9.0x 2018E P/E	Institutional	47.0%

EPS	Q1		Q2		Q3		Q4		Annual	P/E
F2015A	$0.03	A	$0.09	A	$0.05	A	$0.02	A	$0.19	10.2x
F2016E	$0.02	A	$0.04	A	$0.06	A	$0.02		$0.14	14.2x
F2017E									$0.15	13.3x
F2018E									$0.22	8.7x

BVPS	Q1		Q2		Q3		Q4		Annual	P/BV
F2015A	$1.13	A	$0.93	A	$0.99	A	$0.96	A	$0.96	2.0x
F2016E	$0.98	A	$1.02	A	$1.08	A	$1.11		$1.11	1.8x
F2017E									$1.26	1.6x
F2018E									$1.49	1.3x

Source: Company reports; CapitalIQ; LBS estimates.

Bank License May Come, Earnings Trajectory Should Improve

The management team at Street Capital remained steadfast in its belief regulatory approval to continue as a bank was forthcoming by the end of 2016, and was proved correct early last week. This was the biggest catalyst for SCB and patient shareholders were rewarded.

SCB's stock was unscathed throughout the period where new mortgage rules were announced by the Department of Finance and digested by investors. Even though SCB depends heavily on insurance (both portfolio and transactional), the Company believes the impact to new originations will only be up to 10% in 2017 and that earnings will rebound through increasing renewal volume and, consequently, higher spreads. The government may very well announce further risk-sharing measures, which could impact volumes as well, but it appears renewals and entering the non-prime market could return EPS to 2015 levels by the end of 2018.

What to expect in 2017

- Mortgages sold are expected to remain flat at $8.8 billion, as our forecast for a 5% decline in new originations should be offset from increasing renewals (to $2.0 billion, from $1.5 billion in 2016). It's likely that investors will get a better sense of the impact of new mortgage rules after Q2/17, but will have to wait patiently until August to see reported results.
- Uninsured mortgage lending. It's likely that SCB will be prepared to raise deposit funding sometime in Q1/17 and will match those with originations of uninsured mortgages. The Company is targeting near-prime customers (inches away from being prime customers, as oppose to yards away) and investors should get a sense of origination volume in this product line throughout Q2/17 and Q3/17.
- We forecast EPS growth to increase to $0.15 from $0.14 in 2016. If our forecast is short in earnings, it could likely be attributable to stronger originations than the forecast 5% decline (compared to management's guidance of up to a 10% decline). However, to reach these estimates, management must only contain nominal cost growth to 6%. This could be achievable given most of its personnel is in place to operate as a bank, but it would represent a very low rate of expense growth relative to peers. Regardless, chances are that investors will be looking out to 2018/2019 to measure the impact of entering new markets.

Marc Charbin, CPA, CA, CFA | FINANCIAL SERVICES

Terra Firma Capital Corporation
(TII-V – $0.63)
Buy – Target Price: $1.10

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)	60.1
Rating	Buy	Shares-FD O/S (M)	66.2
Risk	High	Market Cap (M)	$37.9
Price	$0.63	Float O/S (M)	47.7
1-Yr Target	$1.10	Avg Daily Volume (K)	116.4
Yield	0.0%	Enterprise Value (M)	$45.7
1-Yr ROR	74.60%	Cash (M)	$7.9
52 Wk High-Low	$0.81 - $0.50	Net Debt (M)	$7.8
Valuation	10.0x 2018E EPS	Ownership	
Year End	Dec-31	Manag. & Dir.	20.8%
Next Reporting	Mar-17	Institutional	3.0%

EPS	Q1		Q2		Q3		Q4		Annual	P/E
F2015A	$0.02	A	$0.02	A	$0.03	A	$0.01	A	$0.07	8.5x
F2016E	$0.02	A	$0.01	A	$0.01	A	$0.01		$0.06	10.3x
F2017E									$0.08	7.4x
F2018E									$0.11	5.6x

BVPS	Q1		Q2		Q3		Q4		Annual	P/BV
F2015A	$0.56	A	$0.64	A	$0.67	A	$0.70	A	$0.70	0.9x
F2016E	$0.70	A	$0.72	A	$0.73	A	$0.74		$0.74	0.9x
F2017E									$0.83	0.8x
F2018E									$0.96	0.7x

Source: Company reports; CapitalIQ; LBS.

Stock Hit by Headlines Rather than Fundamentals

While Terra Firma has now recouped $5 million of its $16 million exposure to Urbancorp, the investment community has responded and TII's share price remains below book value. The remainder of the investment should be collected by the end of Q4/16, if not Q1/17, but the whole experience has seemed to deter new investors.

TII's loans and mortgages receivable are set to increase 10% y-y by the end of 2016 and the current pipeline is supportive of growth well above this rate. This is a respectable year given a lot of time has likely been allocated by the management to dealing with problem loans.

What to expect in 2017

- Collection of the remaining balance of Urbancorp loans. The Company could wait until its quarterly reporting to provide investors an update, or a press release could be issued as the funds are collected. Either way, we believe there will be increased visibility in the coming months.
- We forecast the loans and mortgages receivable book to increase to $140 million from $105 million throughout 2017. This estimate includes management's most recent estimate of its pipeline and scheduled loan repayments. We believe the Company is sufficiently funded to finance this growth through its syndication partners and other financial resources. Loan book growth is likely to be driven by the U.S. as the Company has found that conditions in the GTA are overly competitive.
- EPS is set to increase to $0.08 from $0.06 in 2016. We expect that the growth in loans and mortgages receivable book, combined with steady margins and expense growth of 10%, should translate to rising income throughout the year.
- Book value per share is $0.74 and we believe the share price is likely to return to at least this level.

HEALTHCARE | Joseph Walewicz, MBA, CFA

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Joseph Walewicz, MBA, CFA | HEALTHCARE

Acerus Pharmaceuticals Corp.
(ASP-T – $0.13)
Hold – Target Price: $0.14

COMPANY PROFILE

Founded in 2008, Acerus (formerly Trimel) Pharmaceuticals Corp. is a Canadian specialty pharmaceutical company that is developing and commercializing proprietary products for international markets, as well as acquiring and in-licensing products for commercialization in Canada. In the U.S. ASP's Natesto is approved and will be marketed by Aytu BioScience (AYTU-OTCBB). In Canada, ASP markets Estrace and Natesto. ASP also has products in development for areas of unmet medical need.

Source: BigCharts.com

Market and Company Data

Ticker	ASP-T	Shares-basic O/S (M)	213.1
Rating	Hold	Shares-FD O/S (M)	222.4
Risk	High	Market Cap (C$M)	C$27.7
Price	C$0.13	Float O/S (M)	85.4
1-Yr Target	C$0.14	Avg Daily Volume (K)	276.9
Yield	0.0%	Enterprise Value (M)	$22.9
1-Yr ROR	7.7%	Cash (M)	$5.1
52 Wk High-Low	C$0.25 - C$0.08	Net Debt (M)	$2.25
Valuation	2.5x EV/Sales (2017E)	Ownership	
Year End	Dec-31	Manag. & Dir.	59.9%
Next Reporting	Mar-17	Institutional	0.2%
		Net Debt/Total Cap	7.5%

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	($0.01)	A	($0.04)	A	($0.02)	A	($0.05)	A	($0.13)	n.m.
2015A	($0.00)	A	($0.01)	A	$0.01	A	($0.04)	A	($0.04)	n.m.
2016E	$0.03	A	$0.03	A	($0.00)	A	($0.01)		$0.05	n.m.
2017E	($0.00)		($0.00)		($0.00)		($0.00)		($0.02)	n.m.
2018E									($0.01)	n.m.

Adj. EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	($2.5)	A	($4.4)	A	($3.6)	A	($8.1)	A	($6.4)	n.m.
2015A	($0.2)	A	($0.4)	A	($0.3)	A	($0.0)	A	($0.9)	n.m.
2016E	$0.3	A	$0.1	A	($0.5)	A	($0.7)		($0.8)	n.m.
2017E	($0.3)		($0.5)		($0.5)		($0.4)		($1.8)	n.m.
2018E									$0.2	n.m.

Figures in US$ unless otherwise stated.

Source: Company reports; S&P Capital IQ; LBS estimates.

Transitioning from Estrace to Natesto in 2017

We rate Acerus (ASP) a Hold with a one-year target price of $0.14 based on an EV/Sales (2017E) multiple of 2.5x, a discount to the peer group multiple of 3.2x reflecting the recent generic competition for its largest product. We highlight the following:

- Estrace. Estrace sales were negatively impacted by the launch of a generic competitor in 2016 (sales down 30% YoY in Q3/16). While management commentary suggests that Estrace erosion may be limited, we are forecasting continued erosion in 2017.
- Natesto. Partner AYTU is demonstrating early success in the U.S. re-launch of Natesto. According to Bloomberg/Symphony Rx data, AYTU has already exceeded former partner Endo's weekly prescription run rate and ASP expects continued robust growth for the product in the coming quarters. In Canada, the product was launched in October 2016 and management is bullish on Natesto's prospects in this region.
- Natesto international expansion. ASP is reviewing multiple term sheets for Natesto partnerships in international markets (outside the U.S and Canada). The company is in late stage discussions with parties and hopes to conclude at least one agreement in the near term.
- Balance Sheet. At the end of the last quarter net debt was ~US$2.25M, which excludes the US$2M AYTU payment received in October. With another US$4M AYTU payment expected in January 2017 ASP has enough capital to meet its debt obligations.
- Trading at a discount to peers. The uncertainty regarding the Estrace sales trajectory and Natesto growth continues to weigh on the stock. At present the strong Natesto U.S. momentum is not sufficient to offset Estrace sales erosion, but could be in 2017 as the U.S. and Canadian launch of Natesto gains steam. Stabilization in Estrace sales and growing Natesto revenues are necessary for the shares to move higher.

Catalysts for 2017

- Estrace sales decline slowing? Management stated that Estrace sales erosion declined over the months of September and October. If this trend continues we expect the shares to react positively.
- Natesto international opportunity. ASP is evaluating potential agreements with interested parties (primarily in Europe, Asia and South America) - any new agreements would be positive for the stock.
- Other products: Shares of Acerus would react positively to positive feedback from Health Canada on GYNOFLOR (which is expected to be submitted in early 2017), or any successful clinical trials for Tefina (none currently underway).

Joseph Walewicz, MBA, CFA | HEALTHCARE

Cardiome Pharma Corp.
(CRME-O– US$2.74; COM-T –$3.62)
Buy – Target Price: US$5.50

COMPANY PROFILE

Founded in 1992, the company changed its name in 2001 to Cardiome Pharma Corp. and over the next decade Cardiome successfully brought its lead drug program (vernakalant IV) to market. Cardiome has since reinvented itself as a specialty pharmaceutical company, marketing multiple IV treatments for serious cardiac and other acute care conditions in over 60 countries worldwide, with a current focus on the European market.

Source: BigCharts.com

Market and Company Data

Ticker	CRME-O; COM-T	Shares-basic O/S (M)	31.9
Rating	Buy	Shares-FD O/S (M)	33.9
Risk	High	Market Cap (M)	US$87.3
Price	US$2.74	Float O/S (M)	18.2
1-Yr Target	US$5.50	Avg Daily Volume (K)	85.5
Yield	0.0%	Enterprise Value (M)	US$75.2
1-Yr ROR	100.7%	Cash (M)	US$31.5
52 Wk High-Low	US$8.26 - US$2.35	Net Debt (M)	-US$12.2
Valuation	3.2x 2017 EV/Sales + Opt. Val	Ownership	
Year End	Dec-31	Manag. & Dir.	2.2%
Next Reporting	Mar-17	Institutional	39.6%
		Net Debt/Total Cap	0.0%

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	($0.20)	A	($0.26)	A	($0.26)	A	($0.39)	A	($1.12)	n.m.
2015A	($0.23)	A	($0.43)	A	($0.31)	A	($0.37)	A	($1.35)	n.m.
2016E	($0.06)	A	($0.37)	A	($0.19)	A	($0.13)		($0.72)	n.m.
2017E	($0.03)		(0.07)		(0.05)		(0.04)		($0.20)	n.m.
2018E									$0.27	10.0x

EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	($2.1)	A	($3.4)	A	($3.0)	A	($5.9)	A	($14.4)	n.m.
2015A	($2.1)	A	($6.9)	A	($4.5)	A	($6.4)	A	($19.9)	n.m.
2016E	($0.6)	A	($3.8)	A	($3.3)	A	($2.9)		($10.5)	n.m.
2017E	$0.2		($1.0)		($0.5)		($0.2)		($1.5)	n.m.
2018E									$13.6	5.5x

Share price, results, and estimates in US$
Source: Company reports; S&P Capital IQ, LBS estimates.

XYDALBA and Other Key Product Launches to Drive Growth in 2017 and Beyond

We rate Cardiome (CRME) a Buy with a one-year target price of US$5.50 based on a sum of the parts approach. The pharma business (US$4.50/share) is valued using an EV/Sales (2017E) multiple of 3.2x, and we value the U.S. Brinavess "option" at US$1.00. We highlight the following:

- Multiple product launches point to a revenue acceleration in 2017. Over the last three years, CRME has managed to build an integrated specialty pharmacy business with specific acute-care in-hospital products to complement Brinavess which was developed internally. With the current product pipeline we expect multiple new product launches over the next two years will drive strong revenue growth.
- XYDALBA the next leg up. The company has already increased its sales and marketing team to prepare for the launch of XYDALBA, its most important product. Key markets (U.K., Germany and France) are launching / will launch in the near term, with other countries to be added throughout 2017. We expect 2017 XYDALBA sales to show progress as the product is launched across the EU.
- Canadian sales operation. CRME has the Canadian rights to Aggrastat, Brinavess, XYDALBA and Trevyent. Cardiome's Canadian operation not only addresses one of the world's largest pharmaceutical markets, it is also a value-added proposition for potential partners. Management expects a decision on Brinavess NDS in Q1/17. If positive, the product could be launched by the end of 2017.
- Brinavess (U.S). While progress has been slow, Cardiome has engaged in discussions with the FDA in an attempt to remove the clinical hold on Brinavess in the U.S. Management expects to re-engage the FDA in 2017 with the results of the animal studies (performed in 2016) and other data.
- Attractive valuation. CRME has an attractive valuation with an EV/Sales of ~2.3x (2017E) compared to a peers multiple of 3.2x.

Catalysts for 2017

- Successful launch of XYDALBA in the EU. Given the large market opportunity, initial data showing a successful launch of the product would positively impact the stock.
- Regulatory progress on Brinavess U.S. Potential lifting of the clinical hold by the FDA would be a positive for the stock.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Cipher Pharmaceuticals Inc.
(CPH-T – $4.20)
Buy – Target Price: C$8.00

COMPANY PROFILE

Spun out of CML Healthcare in 2004 to develop novel, lower risk, pharmaceutical products, Cipher is now a specialty pharma company with three commercial products and one product in late stage development. Cipher has signed 8 commercial agreements for its products in international markets and established Canadian operations to commercialize its dermatology products. Cipher is actively evaluating both product & company acquisitions, with a goal of establishing a U.S. commercial presence.

Source: BigCharts.com

Market and Company Data

Ticker	CPH-T	Shares-basic O/S (M)	26.3
Rating	Buy	Shares-FD O/S (M)	28.1
Risk	Medium	Market Cap (C$M)	$110.4
Price	$4.20	Float O/S (M)	16.0
1-Yr Target	$8.00	Avg Daily Volume (K)	36.8
Yield	0.0%	Enterprise Value (US$M)	$152.2
1-Yr ROR	90.5%	Cash (US$M)	$30.6
52 Wk High-Low	$8.25 - $3.48	Net Debt (US$M)	$5.72
Valuation	SOTP	Ownership	
Year End	Dec-31	Manag. & Dir.	39.0%
Next Reporting	Mar-17	Institutional	28.4%
		Net Debt/Total Cap	4.8%

EPS (FD), US$

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.13	A	$0.16	A	$0.30	A	$0.12	A	$0.71	4.4x
2015A	$0.09	A	($0.02)	A	($0.08)	A	$0.08	A	$0.07	47.2x
2016E	($0.10)	A	($0.13)	A	($0.79)	A	($0.07)		($1.10)	nm
2017E	($0.07)		($0.01)		($0.00)		$0.02		($0.07)	nm
2018E									$0.49	6.5x

Adjusted EBITDA (US$ M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$4.9	A	$5.9	A	$4.8	A	$4.5	A	$19.8	7.7x
2015A	$4.0	A	$2.1	A	$2.6	A	$1.8	A	$9.8	15.5x
2016E	($0.3)	A	$2.7	A	$1.2	A	$2.1		$5.7	26.7x
2017E	$1.9		$3.7		$3.1		$3.5		$12.1	12.6x
2018E									$30.1	5.1x

Results and estimates in US$
Source: Company reports; S&P Capital IQ; LBS estimates.

Strategic Review Underway, Significant Value to Unlock in 2017

We rate Cipher (CPH) with a Buy rating and a one-year target price of C$8.00 based on a sum of the parts approach. We highlight the following:

- Strategic review. In July 2016, the company initiated a strategic review process requesting changes to the Board, a review of management and the development of cost saving initiatives. While the first two have been completed, CPH is still working on its cost saving objective and management disclosed that they expect more savings going forward, including the recent decision to de-list from the Nasdaq.
- U.S. business. With growth and profitability lagging initial expectations, CPH has engaged an investment bank with a primary objective to review options for the U.S. business. While the timing of a decision is unknown at this time, a sale of this business would likely be viewed positively by investors as it would shine the light on the profitability of the rest of the business.
- Canada & Royalties. The performance of the Canadian business and the royalties has held up relatively well over the recent quarter driven by Absorica's growth. Contributions from new product launches Vaniqa, Actikerall and Beteflam remain minimal but have the potential to increase in 2017 with marketing initiatives.
- Product launches. In Canada, Dermadexin (SD Cream) and Pruridexin (AD Cream) have been approved and Cipher expects to launch these two products in the first half of 2017. Management is also expecting to launch Ozenoxacin and Sitavig in late 2017 (pending regulatory approval). In the U.S, the company received an Acceptance Review Notification from the FDA regarding Dermadexin and Pruridexin and is expected to respond in the coming months.
- Balance sheet. With over US$30M in cash on the balance sheet (and net debt of ~US$6M), CPH's leverage remains low. A potential sale of the U.S business in 2017 would provide additional capital to the company and increase operating cash flows.
- Valuation. Cipher is currently trading at 7.0x our (2017E) EBITDA which is a ~12% discount to the peers' multiple of 8.0x. Our SOTP valuation approach using conservative estimates for the various pieces of Cipher's business values the company at C$8.00 (nearly double its current share price) – with an ongoing strategic review we expect CPH's value to become clearer to investors over the coming months.

Catalysts for 2017

- Strategic review. Regardless of the ultimate decision, we expect improved profitability in 2017 and beyond. We expect shares of Cipher to react positively to any successful resolution of the decline in profitability.
- Business development. While the U.S. business is a primary concern for the Board, with improved profitability we would expect the company to invest in the rest of the business. Any new product news would be positive for the stock.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Concordia International Corp. (CXRX-O – US2.17; CXR-T - $2.86) Reduce – Target Price: US$1.60

COMPANY PROFILE

Founded in 2013, Concordia International Corp. (CXR) is a diversified global healthcare company with a focus on legacy pharmaceuticals and orphan drugs. CXR's product portfolio currently includes over 200 pharmaceutical products commercialized in over 100 countries worldwide.

Source: BigCharts.com

Market and Company Data

Ticker	CXRX-O; CXR-T	Shares-basic O/S (M)	51.0
Rating	Reduce	Shares-FD O/S (M)	53.4
Risk	High	Market Cap (US$M)	$ 110.7
Price	US$2.17	Float O/S (M)	49.3
1-Yr Target	US$1.60	Avg Daily Volume (K)	3,441.5
Yield	0.0%	Enterprise Value (US$M)	$ 3,409.8
1-Yr ROR	-26.3%	Cash (US$M)	$ 162.6
52 Wk High-Low	US$44.00 - US$1.69	Net Debt (US$M)	$ 3,299.1
Valuation	6.1X EV/adj. EBITDA 2017E	Ownership	
Year End	Dec-31	Manag. & Dir.	3.4%
Next Reporting	Mar-17	Institutional	44.8%
		Net Debt/Total Cap	96.8%

Adj. EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.05	A	$0.38	A	$0.57	A	$0.74	A	$1.75	1.2x
2015A	$0.54	A	$0.93	A	$0.79	A	$1.24	A	$4.38	0.5x
2016E	$1.35	A	$1.38	A	$0.69	A	$0.58		$4.06	0.5x
2017E	$0.70		$0.93		$0.90		$0.96		$3.55	0.6x
2018E									$3.98	0.5x

Adj. EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A									$59.5	57.3x
2015A	$19.3	A	$54.9	A	$71.4	A	$120.1	A	$265.7	12.8x
2016E	$140.8	A	$142.3	A	$104.4	A	$106.3		$493.9	6.9x
2017E	$119.4		$131.1		$131.4		$134.9		$516.8	6.6x
2018E									$552.5	6.2x

Balance sheet as of Q3/16. Results and estimates in US$

Source: Company reports; S&P Capital IQ, LBS estimates.

New Leadership Takes the Reins, Outlook Uncertain

We rate Concordia (CXRX) with a Reduce rating and a one-year target price of US$1.60 based on an EV/EBITDA (2017E) multiple of 6.1x, a discount to the peer group multiple of 6.9x. We highlight the following:

- New leadership. In early November Concordia named Jordan Kupinsky the Chairman of the Board, and appointed Allan Oberman as its new CEO. Mr. Oberman brings years of international pharmaceutical experience to Concordia.
- Substantial leverage is cause for concern. On their latest conference call, management stated that managing the debt is a key priority. The company's net debt of ~US$3.3 billion, ~6.4x our 2017E adj. EBITDA, doesn't give CXRX much flexibility to reduce leverage over the next 12 months.
- North American business weak, international growth offset? CXRX's key North American products (Donnatal, Dibenzyline, Nilandron and Plaquenil) are facing competition from new entrants/generics, with Q3/16 down sequentially vs. Q2/16 (second quarterly decline in a row) and we have limited visibility on what CXRX could do to counter the decline. On the international side, multiple product launches (24 products launched since Oct 2015) could drive growth, but a recently introduced UK drug pricing bill and the UK's CMA investigation could mute CXRX's international growth prospects.
- Valuation. While CXRX's shares are trading at a discount to U.S specialty pharma peers, we see no near term catalysts for the stock to move higher. Concordia will have to demonstrate growth from its international business, stability in its North American business and a substantial de-leveraging before investors could regain confidence in the name.

Catalysts for 2017

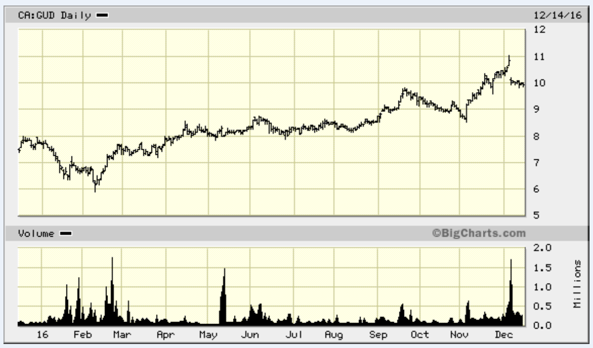
- Successful product launches. Concordia intends to launch 36 products over the next two years (initial target of 60 products of which 24 have already been launched). While CXRX could benefit from successful launches and growth of these products, we remain cautious on such given the low visibility that we have at this time.
- Additional orphan indications. CXRX is currently pursuing two new indications for Photofrin (peripheral lung cancer and CCA). While this business only represents a very small portion of CXRX's revenues, successful trial results could be a positive catalyst for the stock.
- UK legislation, CMA investigation. Any news on the UK drug pricing bill and the UK's CMA investigation could move the stock in 2017.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Knight Therapeutics Inc.
(GUD-T – $9.92)
Restricted

COMPANY PROFILE

Knight Therapeutics is a specialty pharmaceutical company that was spun out of the Paladin Labs / Endo Pharmaceuticals merger. Led by Paladin founder and long-time CEO, Jonathan Ross Goodman, Knight is focused on acquiring, in-licensing, selling and marketing innovative prescription and over-the-counter pharmaceutical products for the Canadian market. To augment its business development efforts, Knight is dedicating part of its capital to investments in life sciences funds, as well as selectively lending to life sciences companies.



Source: BigCharts.com

Market and Company Data

Ticker	GUD-T	Shares-basic O/S (M)	132.7
Rating	Restricted	Shares-FD O/S (M)	135.8
Risk	n/a	Market Cap (M)	$1,316.4
Price	$9.92	Float O/S (M)	105.3
1-Yr Target	n/a	Avg Daily Volume (K)	405.1
Yield	0.0%	Enterprise Value (M)	$671.4
1-Yr ROR	n/a	Cash (M)	$645.1
52 Wk High-Low	$11.03 - $5.89	Net Debt (M)	-$645.1
Valuation	n/a	Ownership	
Year End	Dec-31	Manag. & Dir.	20.6%
Next Reporting	Mar-17	Institutional	19.6%
		Net Debt/Total Cap	0.0%

EPS (FD)

	Q1	Q2	Q3	Q4	Annual	P/E
2014A					$2.20	4.5x
2015A	$0.15 A	$0.09 A	$0.07 A	$0.06 A	$0.35	28.0x
2016E	$0.00 A	$0.04 A	$0.04 A			
2017E						
2018E						

EBITDA (M)

	Q1	Q2	Q3	Q4	Annual	EV/EBITDA
2014A					($4.9)	n.m.
2015A	($2.9) A	($2.7) A	($3.8) A	($1.8) A	($11.2)	n.m.
2016E	($1.7) A	($2.1) A	($1.3) A			
2017E						
2018E						

Source: Company reports; S&P Capital IQ; LBS estimates.

Restricted

We are currently RESTRICTED on Knight Therapeutics.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Merus Labs International Inc.
(MSL-T - $1.10; MSLI-O - US$0.84)
Buy – Target Price: $1.65

COMPANY PROFILE

Founded in 2011, Merus is a specialty pharmaceutical company that is acquiring products that are mature, niche, under promoted, and/or with sales that make the products non-strategic for major pharmaceutical companies. The company's current portfolio of twelve products is marketed in Canada, Europe and other countries worldwide. Merus operates in a near virtual structure, using consultants and third parties for many manufacturing, regulatory and other operational activities.

Source: BigCharts.com

Market and Company Data

Ticker	MSL-T; MSLI-O	Shares-basic O/S (M)	117.0
Rating	Buy	Shares-FD O/S (M)	126.7
Risk	Medium	Market Cap FD (M)	$139.4
Price	C$1.10	Float O/S (M)	110.6
1-Yr Target	C$1.65	Avg Daily Volume (K)	485.1
Yield	0.0%	Enterprise Value (M)	$286.2
1-Yr ROR	50.0%		
52 Wk High-Low	C$2.40 - C$1.07	Net Debt (M)	$146.9
Valuation	6.5x C2017E EBITDA	Ownership	
Year End	Sep-30	Manag. & Dir.	5.5%
Next Reporting	Mar-17	Institutional	46.7%
		Net Debt/Total Cap	51.3%

EPS (FD, continuing ops.)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	($0.05)	A	($0.04)	A	($0.00)	A	($0.06)	A	($0.15)	n.m
2015A	($0.00)	A	$0.03	A	($0.02)	A	($0.00)	A	$0.01	n.m
2016A	($0.01)	A	($0.03)	A	($0.04)	A	($0.00)	A	($0.09)	n.m
2017E	($0.04)		($0.03)		($0.01)		($0.01)		($0.09)	n.m
2018E	($0.02)		($0.01)		($0.00)		($0.00)		($0.03)	n.m

adj. EBITDA (M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	$2.7	A	$2.6	A	$3.5	A	$3.3	A	$13.3	21.4x
2015A	$7.6	A	$10.4	A	$5.8	A	$8.8	A	$32.6	8.8x
2016A	$8.5	A	$11.0	A	$12.0	A	$11.6	A	$43.2	6.6x
2017E	$9.8		$10.1		$12.2		$12.2		$44.4	6.4x
2018E	$12.3		$12.3		$12.8		$12.5		$49.9	5.7x

Source: Company reports; S&P Capital IQ; LBS estimates.

Recent F2017 Guidance Suggests a Slower Ramp, Valuation Still Compelling

We rate Merus Labs (MSL) a Buy with a one-year target price of $1.65 based on an EV/EBITDA multiple of 6.5x our C2017E (a ~20% discount to peer CY multiples). We highlight the following:

- Margin expansion pushed to the second half of F2017. While there has been delays in the Sintrom tech transfer in F2016, management expects the full $2M per quarter of savings to be reached by Q4/F17 which should boost the firm's EBITDA margin. Other cost savings are also expected by the end of F2017, including those related to third party consulting contracts.
- Expecting slight volume erosion in F2017. Following the company's annual results, we have adjusted our forecasts based on the new guidance which calls for mid-single digit volume erosion for the company's portfolio. Overall, for F2017 we expect mid-single digit volume erosion for the portfolio, with some new launches and growth initiatives offsetting declines elsewhere.
- Portfolio expansion. While the firm's low valuation reduces its ability to acquire assets, Merus remains committed to expand MSL's portfolio. On their latest conference call, management highlighted that growth assets - with potential peak sales between EUR 25M and EUR 125M – are a key focus. As opposed to legacy type assets, growth assets generally have smaller upfront payments and larger milestone payments which would be ideal for Merus at present.
- Debt reduction to continue but at a slower pace. Following another quarterly debt repayment, Merus ended the quarter with net debt of ~$147M, a slight decrease from the previous quarter. Going forward, our lowered EBITDA forecast suggests deleveraging at a slower pace.
- Low valuation and strong FCF yield. With the stock retracing ~50% YTD, Merus is trading at a large discount to its peers and has an attractive (~30%) FCF yield (2017E). While it will take time for investors to come back to the stock the upside remains.

Catalysts for 2017

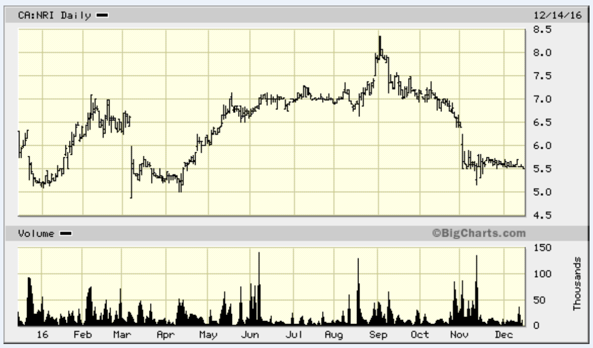
- Platform transfer. New contract manufacturing suppliers and new external support providers should the profitability in the back half of 2017, which should drive the stock higher.
- Product pipeline. The company is actively evaluating new product opportunities and we expect announcements in 2017 could drive the stock.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Nuvo Pharmaceuticals Inc.
(NRI-T – $5.52)
Buy – Target Price: $8.00

COMPANY PROFILE

Nuvo Pharmaceuticals Inc. is a profitable Canadian pharmaceutical company with three commercial products and commercial pharmaceutical manufacturing capabilities. The company is seeking to further expand the number of markets in which its products are commercialized, as well as looking for new contract manufacturing opportunities and acquisitions to increase its commercial product portfolio.



Source: BigCharts.com

Market and Company Data

Ticker	NRI-T	Shares-basic O/S (M)	11.5
Rating	Buy	Shares-FD O/S (M)	12.9
Risk	Medium	Market Cap ($M)	$63.5
Price	$5.52	Float O/S (M)	10.9
1-Yr Target	$8.00	Avg Daily Volume (K)	23.0
Yield	0.0%	Enterprise Value ($M)	$46.1
1-Yr ROR	44.9%	Cash ($M) + ST invetsments	$17.4
52 Wk High-Low	$8.35 - $4.88	Net Debt ($M)	-$17.4
Valuation	FCF	Ownership	
Year End	Dec-31	Manag. & Dir.	5.1%
Next Reporting	Mar-17	Institutional	11.6%
		Net Debt/Total Cap	0.0%

EPS (FD)

	Q1	Q2	Q3	Q4	Annual	P/E
2014A	($0.31) A	($0.22) A	$4.44 A	($0.58) A	$3.85	1.4x
2015A	($0.02) A	($0.55) A	($0.11) A	$0.03 A	($0.65)	n/a
2016E	$0.15 A	$0.21 A	$0.11 A	$0.14	$0.63	8.8x
2017E	$0.15	$0.17	$0.22	$0.24	$0.78	7.1x
2018E					$0.81	6.8x

EBITDA (M)

	Q1	Q2	Q3	Q4	Annual	EV/EBITDA
2014A	($2.5) A	($1.8) A	($3.4) A	($5.0) A	($12.8)	n/a
2015A	($0.6) A	($6.0) A	($1.6) A	($0.0) A	($8.2)	n/a
2016E	$1.9 A	$2.5 A	$1.3 A	$2.2	$7.9	5.8x
2017E	$2.9	$2.9	$3.7	$4.2	$13.7	3.4x
2018E					$14.5	3.2x

Share price, results and estimates in C$.

Source: Company reports; S&P Capital IQ; LBS estimates.

International Expansion the Next Phase for Pennsaid 2%

We rate Nuvo Pharmaceuticals (NRI) a Buy with a one-year target price of $8.00 based on our DCF analysis (WACC of 8.49%, no terminal value after 2029). We highlight the following:

- Pennsaid 2% (U.S). Since the re-launch of the product by Nuvo's partner Horizon Pharma, Pennsaid 2% has shown substantial growth in volume and sales. While the recent quarterly results were weak, prescription data continues to be encouraging and management expects continued YoY Pennsaid 2% growth in coming years.
- Pennsaid 2% (International). Part of NRI's growth story is to get Pennsaid 2% approved outside the U.S., with a focus on the key EU, Canadian and Australian markets. NRI expects the results from its German Phase III trial for Pennsaid 2% in Q2/17 – the company is in active discussions with numerous potential international licensees for Pennsaid 2% and expects to sign an agreement in early 2017. While international revenues may not arrive before 2018, the international opportunity is at least as large as the U.S market.
- Healthy balance sheet. With ~$17M in cash ($1.51 per share) and no debt on the balance sheet, the company is in a strong position to expand its product portfolio. While Nuvo's focus remains on the success of Pennsaid, NRI has ample room to acquire products that could enhance its revenue and profitability.
- Attractive valuation. NRI is currently trading at 3.4x our 2017E EBITDA (vs. peers at ~8.0x). We believe the shares have the potential to move higher as investors appreciate the company's valuation discount, its healthy balance sheet and attractive growth prospects.

Catalysts for 2017

- Pennsaid 2% international. Given the attractive market opportunity, we expect shares of Nuvo to react positively to clinical trial results out of Germany, or any Pennsaid 2% agreements for international markets. Note that we do not have international sales in our estimates.
- Strategic acquisition. NRI shares could react positively to a strategic acquisition announcement as any agreement would be expected to increase revenues and profitability (leveraging NRI's existing plants and fixed costs) while diversifying its revenue base.

Joseph Walewicz, MBA, CFA | HEALTHCARE

Theratechnologies Inc.
(TH-T – $2.82)
Buy – Target Price: $4.50

COMPANY PROFILE

Theratechnologies is a profitable specialty pharmaceutical company that is focused on niche products for HIV patients. The Company's key marketed product is EGRIFTA, which is currently the only approved therapy for the reduction of excess abdominal fat in HIV-infected patients with lipodystrophy. In 2016 TH in licensed ibalizumab, a novel treatment for HIV patients which (if approved) should launch in 2017. TH announced positive Phase III results for ibalizumab and is preparing for a commercial launch.

Source: BigCharts.com

Market and Company Data

Ticker	TH-T	Shares-basic O/S (M)*	71.8
Rating	Buy	Shares-FD O/S (M)*	75.0
Risk	High	Market Cap (C$M)*	$202.6
Price	$2.82	Float O/S (M)*	70.7
1-Yr Target	$4.50	Avg Daily Volume (K)	206.6
Yield	0.0%	Enterprise Value (M)*	$191.3
1-Yr ROR	59.6%	Cash / equivalents (M)*	$24.1
52 Wk High-Low	$3.74 - $1.26	Net Debt (M)*	-$11.3
Valuation	DCF	Ownership	
Year End	Nov-30	Manag. & Dir.	1.6%
Next Reporting	Feb-17	Institutional	20.5%
		Net Debt/Total Cap	n.m

EPS (FD)

	Q1	Q2	Q3	Q4	Annual	P/E
2014A	($0.06) A	$0.02 A	($0.07) A	($0.06) A	($0.17)	n.m.
2015A	($0.01) A	$0.01 A	$0.02 A	$0.01 A	$0.02	n.m.
2016E	($0.00) A	($0.01) A	$0.01 A	$0.01	$0.01	n.m.
2017E	$0.01	$0.02	$0.02	$0.02	$0.06	47.8x
2018E					$0.16	17.4x
2019E					$0.43	6.6x

EBITDA (M)

	Q1	Q2	Q3	Q4	Annual	EV/EBITDA
2014A	($2.63) A	$1.03 A	($3.36) A	($1.51) A	($6.47)	n.m.
2015A	($0.25) A	$1.89 A	$2.62 A	$2.19 A	$6.44	29.7x
2016E	$1.10 A	$1.36 A	$1.30 A	$1.60	$5.36	35.7x
2017E	$1.59	$2.26	$2.47	$2.50	$8.82	21.7x
2018E					$16.36	11.7x
2019E					$36.32	5.3x

*Pro Forma Nov/16 equity offering

Source: Company reports; S&P Capital IQ; LBS estimates.

Growth, Clinical Data and a Product Launch to Drive the Stock in 2017

We rate Theratechnologies (TH) a Buy with a one-year target price of $4.50 based on our DCF analysis (WACC of 10.21%, terminal growth rate of 2%, adjusted for the 2023 EGRIFTA patent expiry). We highlight the following:

- **Continued EGRIFTA organic growth.** While EGRIFTA growth is moderating, management expects continued single digit volume growth for the product into 2017. In future periods we believe that the launch of ibalizumab could further enhance EGRIFTA growth (bigger sales force), and other international markets should also begin to contribute to EGRIFTA growth. Of note, an estimated 57,000 patients could benefit from the drug in the EU, which is EGRIFTA's next largest potential market.
- **Ibaluzimab, a transformational product.** Thera expects ibalizumab to be filed with the FDA in early 2017, which could result in a product launch in the second half of 2017 given the "breakthrough therapy" status of the drug. We estimate the market opportunity in the U.S. for ibalizumab to be more than US$300 million (using our more conservative estimates for pricing and market size), and larger if pricing is better and the patient pool is larger vs. our forecast.
- **Strong balance sheet.** With the recent ~$15.5M financing, the company has ample capital to cover its remaining payments to Serono (US$12 million over the next three years), and to fund the expected strong growth that we forecast. Thera has a net cash position of ~$11M and is expected to remain cash flow positive for the foreseeable future.
- **Platform for expansion into the HIV market.** With a sales team targeting key North American healthcare professionals treating AIDS patients, TH is an attractive partner for developers in this field. A successful launch of ibalizumab and continued EGRIFTA performance could put the company in an even better position to attract additional partners to expand its product pipeline.
- **Recent pullback an attractive entry point.** Following the recent equity financing TH is now trading at 2.4x (2018E) on an EV/Sales basis vs. the peer multiple of 2.6x, but with a substantially more attractive growth profile over the next three years.

Catalysts for 2017

- **Conference on Retroviruses and Opportunistic Infections.** TH and its partner TaiMed will have more data to present on Ibalizumab at the CROI conference in February 2017 - given the positive data we have seen so far we expect this to be a further catalyst for the stock.
- **EGRIFTA's international growth.** Thera continues to seek out licensing agreements for EGRIFTA and has thus far secured agreements in a number of EU countries and South Korea. Any positive news relating to partners' EGRIFTA developments could be a positive for the stock.

MINING | Pierre Vaillancourt

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Avnel Gold Mining Ltd.
(AVK-T – $0.22)
Buy – Target Price: $0.60

COMPANY PROFILE

Avnel Gold Mining Ltd. is a London-based, TSX-listed mining company engaged in the exploration, development and production of gold. Avnel's principal asset is an 80% equity interest in SOMIKA, which is the owner of the Kalana Gold Mine, and is the holder of the Kalana Permit in Mali. Avnel has operated the small-scale underground Kalana Gold Mine since 2004 and is advancing plans for open pit development of the deposit.

Source: BigCharts.com

Market and Company Data

Ticker	AVK-T	Shares-basic O/S (M)	309.9
Rating	Buy	Shares-FD O/S (M)	414.0
Risk	High	Market Cap (M)	C$68.2
Price	C$0.22	Float O/S (M)	21.7
1-Yr Target	C$0.60	Enterprise Value* (M)	C$39.7
Valuation Method	0.8x NAV	Control Blocks:	
Dividend Yield	0.0%	Elliot Management	61.0%
1-Yr ROR	172.7%	Year End	Dec. 31
52 Wk High-Low	$0.39 - $0.18	NAVPS	C$0.73
Avg Daily Vol (K)	211	P/NAV	0.3x

Estimates	2014	2015	2016E	2017E	2018E
EBITDA (US$M)	($8.2)	($1.1)	($2.5)	($2.8)	$41.7
EPS (US$ fd)	($0.04)	($0.00)	($0.02)	($0.02)	$0.06
CFPS (US$ fd)	($0.02)	($0.01)	($0.02)	($0.02)	$0.08
Valuation Metrics	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EV/EBITDA	NA	NA	NA	NA	0.8x
P/E	NA	NA	NA	NA	3.2x
P/CFPS	NA	NA	NA	NA	2.2x
Operating Data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Au (US$/oz)	$1,262	$1,164	$1,150	$1,200	$1,225
Au prodn (oz)	9,548	9,679	4,937	-	53,943

Source: Company reports; Capital IQ; LBS.

Awaiting Financing and Construction

- **Financing moving ahead.** Management is expecting to receive a structured finance proposal in Q1/17, possibly closing in March 2017. The company has outlined plans to raise approximately $100m in debt, with up to another $100m to be divided in a streaming or royalty deal, and an equity financing. The equity component would likely be taken up pro-rata by the Elliott Group, which owns 61% of the common shares.
- **Optimization leading to lower capex.** The feasibility study has been optimized, resulting in capex savings of $25m from the original $196m construction cost. The lower cost is a result of the utilization of third party providers for the power plant, changes to the gold circuit, and to the oxygen plant. The updated economics of the project will be released in January 2017.
- **Exploration results are expected in Q1/17.** We believe the regional potential from Kalana exploration prospects could make a significant addition to the resource and mine life in the long term. Kalana has a reserve of 1.964m oz grading 2.8g/t Au, contained within a M&I resource of 3.1m oz grading 4.1 g/t Au.
- **Warrants to be exercised.** We expect that 66.3m warrants held by majority shareholder Elliott Group, expiring in January 2017 at $0.20/sh, will be exercised, resulting in proceeds of $13.3m to the company. In addition to these warrants, the company has 37.8m additional warrants, options and employee performance units at exercise prices ranging from $0.20 to $0.50. Of these warrants, a total of 24.6m, including 21.5m warrants at $0.40, expire in 2017. If all the warrants were exercised, Avnel Gold would have 414.0m common shares outstanding and proceeds of $19.1m.
- **Key catalysts ahead.** The completion of the structured finance proposal, the optimization of the feasibility study, followed by construction should help make 2017 a transition year for the project and the company. The construction period, which could start in late 2017, would be over 18 months, leading to production in 2020.

Capstone Mining Corp.
(CS-T – $1.25)
Buy – Target Price: $1.60

COMPANY PROFILE

Capstone Mining is an intermediate base metals producer with 100% interests in three operating mines: the Pinto Valley mine in Arizona, the Minto mine in the Yukon, and the Cozamin mine in Mexico. Capstone also owns a 70% interest in the Santo Domingo development project in Chile with partner KORES (Korea Resources Corp), and 100% of the Kutcho project in British Columbia.

Source: BigCharts.com

Market and Company Data

Ticker	CS-T	Shares-basic O/S (M)	383.9
Rating	Buy	Shares-FD O/S (M)	383.9
Risk	High	Market Cap (M)	C$479.9
Price	C$1.25	Float O/S (M)	341.7
1-Yr Target	C$1.60	Enterprise Value (M)	C$998.9
Valuation Method	4.3x 2017 CF	Control Blocks:	
Dividend Yield	0.0%	KORES	12.6%
1-Yr ROR	28.0%	Year End	Dec. 31
52 Wk High-Low	C$1.4 - C$0.27	NAVPS	$2.45
Avg Daily Vol (K)	1,238	P/NAV	0.5x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	$68.5	$207.8	$54.2	$118.2	$125.2
EPS (US$ fd)	($0.02)	($0.06)	($0.11)	($0.06)	($0.09)
CFPS (US$ fd)	$0.22	$0.52	$0.16	$0.28	$0.28
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	11.7x	3.8x	14.7x	6.8x	6.4x
P/E	nmf	nmf	nmf	nmf	nmf
P/CFPS	4.4x	1.9x	6.4x	3.6x	3.5x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Cu (US$/lb)	$3.30	$3.03	$2.35	$2.20	$2.30
Zn (US$/lb)	$0.87	$0.87	$0.88	$0.90	$1.10
Cu prodn (k lbs)	113,782	227,854	209,411	242,474	192,121
Zn prodn (k lbs)	17,825	14,350	12,912	9,168	11,318

Source: Company reports; Capital IQ; LBS.
All figures in US$ unless noted otherwise

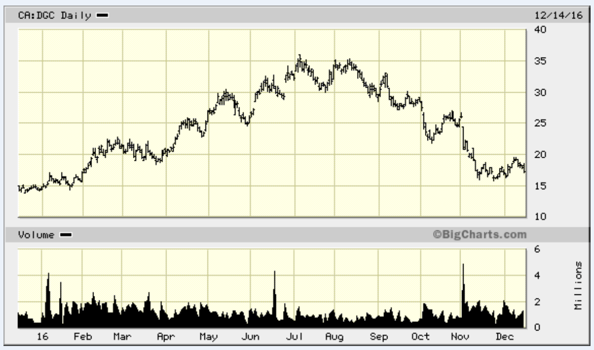
Capitalizing on the Copper Price

- **Pinto Valley performing well.** Q3/16 was the fourth consecutive quarterly throughput record of 57.3ktpd. Daily throughput has been ahead of plan, and the company is now budgeting 57ktpd in 2017. We expect the expansion study will lead to production in excess of 60ktpd. Longer term, the PV3 mine plan more than doubles the mine life to 23 years, but there will be no major decision on the first PV3 pushback until 2020.
- **Regional potential of PV is interesting.** Capstone is evaluating nearby properties operated by BHP as a possible new district development. The key will be what liabilities the company would have to carry from these past producers which were last in production in the 1970s.
- **Operations are normalizing at Cozamin** after adjustments made to mining operations following the rockburst in 2015. Costs in 2017 will decrease as a result of the end of the silver stream deal in April, but benefits will be offset by overall higher costs. The company will pursue more zinc-rich targets to capitalize on the zinc price.
- **The Minto mine life has been extended further into 2017**, with underground and stockpile processing into Q3/17; potential for open pit development could take operations through 2017. At a long term copper price of $2.50/lb, the mine life goes beyond six years with underground operations.
- **Evaluating Santo Domingo.** The company is assessing the merits of a copper-only project, and the economics of combining with another copper deposit. At this point, the project provides optionality, but no clear path to production.
- **Restrictive hedges, but balance sheet improving.** While the copper collars (43kt) between $2.28-$2.53/lb and forward sales (30kt) of $2.22/lb will limit the upside; at $2.60/lb Cu, the price received by Capstone is $2.47/lb - approximately 50% of H2/17 production is unhedged. The company now expects to repay $40m in debt in the next two quarters, and another $65m during the balance of 2017, reducing the existing long term debt of $344.6m.
- **Looking to catalysts for the long term.** As production winds down at Minto in 2017, we look for Capstone to make strategic changes in its portfolio in order to maintain, if not grow, its production profile.

Detour Gold Corp.
(DGC-T – $17.19)
Buy – Target Price: $30.00

COMPANY PROFILE

Detour Gold Corp. is a Toronto-based intermediate gold producer. The company's main asset is the wholly-owned Detour Lake Mine located in the Abitibi Greenstone Belt, northeast of Cochrane, Ontario. Detour Gold has outlined a 21-year mine plan with production expected to be in excess of 600,000oz per annum during the first ten years of operation. Current reserves are estimated at nearly 15Moz.



Source: BigCharts.com

Market and Company Data

Ticker	DGC-T	Shares-basic O/S (M)	174.5
Rating	Buy	Shares-FD O/S (M)	175.4
Risk	High	Market Cap (M)	C$2,999.4
Price	C$17.19	Float O/S (M)	151.8
1-Yr Target	C$30.00	Enterprise Value (M)	C$3,287.6
Valuation Method	11x 2017 CF	Control Blocks:	
Dividend Yield	0.0%	BlackRock, Inc.	13.0%
1-Yr ROR	74.5%	Year End	Dec. 31
52 Wk High-Low	C$35.93 - C$13.85	NAVPS	$26.36
Avg Daily Vol (K)	1,165	P/NAV	0.7x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	($36.9)	$111.7	$141.4	$253.0	$348.6
EPS (US$ fd)	($0.10)	($0.97)	($0.97)	$0.20	$1.00
CFPS (US$ fd)	($0.13)	$0.83	$0.96	$1.40	$2.07
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	na	na	na	9.7x	7.1x
P/E	na	na	na	63.8x	12.9x
P/CFPS	na	15.4x	13.4x	9.2x	6.2x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Au (US$/oz)	$1,402	$1,257	$ 1,169	$ 1,272	$ 1,450
Au prodn (oz)	232,287	456,995	505,559	540,000	575,079

Source: Company reports; Capital IQ; LBS.

Ready to Rebound

- **Coming off a weak quarter.** Detour Gold is recovering, following flooding of the pit and saturation of the surrounding watershed resulting from heavy rainfalls in August.
- **Measures were taken to address the flooding.** The company increased its water pumping capacity for the pit and added stand-by pumps. The company is expecting to have an updated water management plan by year-end, which will address future sump design and ultimate pumping capacity in each development phase of the pit.
- **Guidance adjusted downward.** Gold production guidance was revised down in 2016 to 525-540koz at AISC of $970-$1,020/oz, from 540-570koz at AISC of $920-$980/oz; and revised down in 2017 to 540-590koz from LOM plan of 614koz. The preliminary outlook for gold production in 2018 is expected to range from 600-670koz compared to LOM plan of 658koz.
- **We believe the market has largely absorbed the revised outlook.** The stock is down 47% since July, and is back at levels from February 2016, when the 2016 gold rally was taking off. With shares trading at 2017 P/CF of 6.2x, and EV/EBITDA of 7.1x, the valuation has come back in line with peers.
- **Despite the setback, we like the fundamentals.** Detour Lake is a very significant asset underpinned by a long reserve life. Although many investors will remain critical until operations are fully normalized, the long term fundamentals are solid and, barring further natural events, should justify a higher valuation. The resource at Detour West and South Detour provide attractive optionality in a stronger gold market.
- **Catalysts.** The key focus for the company will be to re-establish consistency at the mine and demonstrate future potential. West Detour will be a priority as the company finalizes its mining approach and updated cost estimate. Management is still planning to re-finance $358m of convertible notes.

Pierre Vaillancourt | MINING

Eastmain Resources Inc.
(ER-T – $0.46)
Buy – Target Price: $1.25

COMPANY PROFILE

Eastmain Resources is a TSX-listed Canadian exploration company with 100% interest in the Clearwater project, hosting the Eau Claire gold deposit, and the Eastmain Mine project, hosting the Eastmain mine gold deposit. The projects are located within the James Bay District of Québec, and have access to superior infrastructure within a favourable mining jurisdiction. Eastmain also holds a pipeline of exploration projects in this emerging mining district, and is a 37% partner in the Éléonore South Joint Venture.

Source: BigCharts.com

Market and Company Data

Ticker	ER-T	Shares-basic O/S (M)	175.1
Rating	Buy	Shares-FD O/S (M)	192.3
Risk	High	Market Cap (M)	$79.7
Price	$0.46	Float O/S (M)	152.3
1-Yr Target	$1.25	Enterprise Value (M)	$60.3
Valuation Method	1x NAV	Control Blocks:	
Dividend Yield	0.0%	Integra Gold Corp.	9.1%
1-Yr ROR	174.7%	Year End	31-Oct
52 Wk High-Low	$0.97 - $0.29	Diluted NAVPS	$1.21
Avg Daily Vol (K)	1,246	P/NAV	0.4x

Cash: $19m
Debt: Nil

Gold Resources	Eau Claire Deposit (April 2015)	Eastmain Mine Project (Historical)
Reserve (Moz)	NA	NA
Resource (M&I)	0.951m oz @ 4.09g/t	0.256m oz @ 10.0g/t
Resource (Inf.)	0.633m oz @ 3.23g/t	NA

Eau Claire Project Economics (LBS estimate)

NPV 10%:	$133.5
NPV 5%:	$279.0
IRR:	24%
LT gold price:	US$1,400/oz

Source: Company reports; Capital IQ; LBS.
All dollar figures in C$ unless noted otherwise

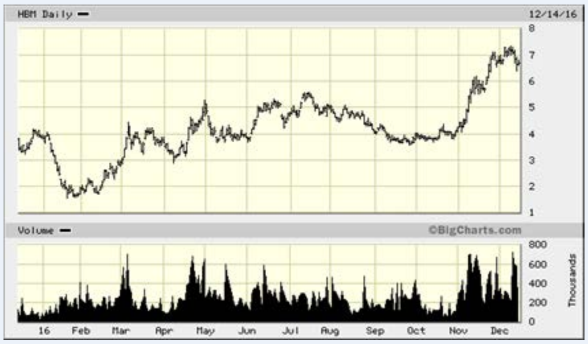
Showing Promise in James Bay

- **Dominant presence in James Bay.** The company is launching the most ambitious exploration program in the James Bay mining camp since the discovery of Goldcorp's Éléonore deposit. We view James Bay as one of the more prospective regions for gold exploration in the Canadian shield.
- **New management, new direction.** A new management and technical team, led by CEO Claude Lemasson, has ramped up exploration activity and is making Eastmain one of the most active gold exploration companies in Canada. Management is also backed by a revamped board and technical advisors.
- **Aggressive exploration on three strong projects** with attractive land packages. The budget for H2/16 is $12.6m, focusing on: (1) the Clearwater project, which hosts the company's flagship Eau Claire deposit, (2) the Eastmain Mine project, and (3) the Éléonore South project, near Goldcorp's Éléonore gold mine. These projects provide a solid foundation for the company to build on. Eastmain has also assembled attractive land positions (8 other land packages in total) around the projects, which add regional potential.
- **...Good start to program.** Initial results have been encouraging. We note in particular the success with infill drilling at Eau Claire and the regional targets for the Clearwater project. Results from the long dormant Eastmain project are also showing potential.
- **Resource and PEA at Eau Claire coming into focus.** The Clearwater project is undergoing a significant 63km drill program, including 55.7km at the Eau Claire deposit that will lead to a new resource estimate in Q1/17 and a PEA in H2/17.
- **Positive outlook, key catalysts ahead.** While a faltering gold price has had a negative impact on the share price, we expect ongoing success from drill results at Clearwater, Eastmain Mine and Eleonore South projects, as well as key development catalysts at the Eau Claire deposit, to add value in the long term.

Hudbay Minerals Inc.
(HBM-T – $8.61)
Hold – Target Price: $10.00

COMPANY PROFILE

Hudbay Minerals is an intermediate base metals producer with three mines in Manitoba (777, Lalor, and Reed) and the Constancia mine in Peru, which entered commercial production in April 2015. The company also owns the Rosemont project in Arizona, which is advancing toward permitting status, as well as a portfolio of exploration and development properties.



Source: BigCharts.com

Market and Company Data

Ticker	HBM-T	Shares-basic O/S (M)	236.2
Rating	Hold	Shares-FD O/S (M)	236.2
Risk	High	Market Cap (M)	C $2,034.0
Price	C$8.61	Float O/S (M)	235.8
1-Yr Target	C$10.00	Enterprise Value (M)	C $3,505.8
Valuation Method	5.5x 2017 CF	Control Blocks:	
Dividend Yield	0.2%	Franklin Templeton	11.0%
1-Yr ROR	16.4%	Year End	Dec. 31
52 Wk High-Low	$9.75 - $2.26	NAVPS	$10.14
Avg Daily Vol (K)	2,246	P/NAV	0.8x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	$77.8	$44.5	($182.0)	$358.5	$473.1
Adj. EPS (US$ fd)	($0.59)	$0.34	$0.01	$0.07	$0.32
CFPS (US$ fd)	$0.06	$0.35	$0.94	$1.47	$1.36
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	45.1x	78.8x	na	7.6x	5.8x
P/E	na	19.6x	na	98.3x	21.0x
P/CFPS	117.4x	19.4x	7.1x	4.6x	4.9x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Cu (US$/lb)	$3.23	$2.97	$2.31	$2.17	$2.30
Zn (US$/lb)	$0.93	$1.06	$0.97	$0.94	$1.00
Cu prodn (k lbs)	65,984	82,991	324,697	379,926	348,442
Zn prodn (k lbs)	190,759	181,974	226,898	240,933	251,101

Source: Company reports; Capital IQ; LBS.

Gaining Momentum in 2017

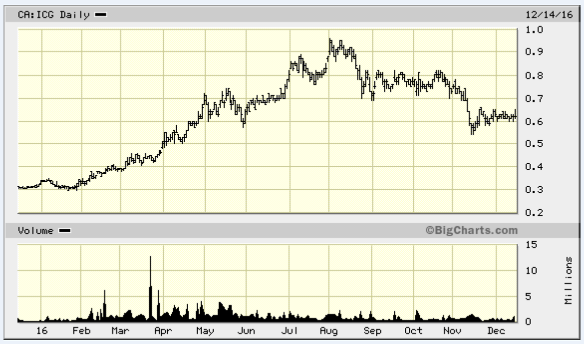
- **Capacity growth at Lalor.** The mine is set to increase throughput from 3,000tpd to 4,500tpd over the next few years. We look for additional contribution from zinc ore, to coincide with a strong zinc price. The zinc profile will also benefit from higher grades at the 777 mine.
- **New Britannia mill will boost gold production.** Although the company will release a technical report in Q1/17, we believe a refurbishment will go ahead, possibly in 2018. The addition of the gold mill would add 1500tpd of capacity and improve recoveries from 60% to 90%, leading to an increase in Au Eq production from 50koz to 100koz per year.
- **Strong cash flow from Constancia.** With the addition of the Pampacancha deposit, Hudbay expects annual production from Constancia to remain at 110kt with a throughpout of 90ktpd, with AISC of $1.27/lb, for at least 5 years.
- **Peru capital costs will drop significantly in 2018.** 2017 will be the last big year of capex at Constancia ($120m), as the tailings dam raise is completed, before settling at $50-$60m/yr on a sustaining basis. The construction of Pampacancha will add another $54m in costs, mostly in 2018. Land acquisition costs will also need to be factored.
- **Rosemont to benefit from Trump?** The appointment of a new, more pro-development EPA director and Secretary of the Interior, under President-elect Donald Trump, could result in a more accelerated and streamlined permitting process for resource projects, including Rosemont.
- **More financial flexibility.** The new senior note offering at better terms and longer maturity will provide more financial flexibility, especially if the company intensifies its spending program at Rosemont. Current liquidity is approximately $300m.
- **Catalysts.** In Manitoba, we look for Lalor to provide upside as capacity ramps up and for the New Britannia mill study to demonstrate upside for gold production. In Peru, Pampacancha is expected to extend higher grade production from Constancia.

Pierre Vaillancourt | MINING

Integra Gold Corp.
(ICG-V – $0.62)
Buy – Target: $1.30

COMPANY PROFILE

Integra Gold Corp. is a gold development company focused on advancing the Lamaque South Gold project located near Val-d'Or, Quebec, adjacent to the past producing Sigma-Lamaque gold mines. Integra also owns the nearby Sigma Mill, a permitted 2,200 tpd mill and tailings facility.



Source: BigCharts.com

Market and Company Data

Ticker	ICG-V	Shares-basic O/S (M)	439.9
Rating	Buy	Shares-FD O/S (M)	471.5
Risk	High	Market Cap (M)	$272.8
Price	$0.62	Float O/S (M)	382.8
1-Yr Target	$1.30	Enterprise Value* (M)	$239.5
Valuation Method	0.9x NAV	Control Blocks:	
Dividend Yield	0.0%	Eldorado Gold Corp.	13.0%
1-Yr ROR	109.7%	Year End	31-May
52 Wk High-Low	$0.96 - $0.3	Diluted NAVPS	$1.43
Avg Daily Vol (K)	710	P/NAV	0.4x

Cash:	$50m
Debt:	Nil

Resources	Lamaque South	Triangle Zone
Reserve (Moz)	NA	NA
Resource (Ind.)	1.164 Moz 6.78g/t	0.627 Moz 7.37g/t
Resource (Inf.)	1.028 Moz 7.03g/t	0.871 Moz 6.89g/t

Project Economics (LBS est.)	
NPV 5%:	$575.3
NPV 8%:	$382.8
IRR:	25%

Source: Company reports; Capital IQ; LBS.
All dollar figures in C$

After Progress in 2016, A Milestone Year Ahead

- Strong progress in drilling during 2016... Overall, drilling was successful in delineating and expanding C structures of the Triangle zone. While C4 remains the dominant zone, significant progress was also made with shallower C1 and C2 structures, which will positively impact the upcoming PEA. Integra also added definition with secondary splay structures and continued to drill the No. 4 Plug.
- ...Which led to an updated resource. The global Indicated resource of 1.18m oz at 6.78g/t Au and the Inferred resource of 1.35m oz at 6.81 g/t Au reported in November represent an increase of 1.5% and 31.8%, respectively, over the last resource estimate in November 2015 (at 3g/t cut-off).
- Project remains active, and new targets are being tested. Work continues with six rigs currently active on the Lamaque property. The Lamaque Deep hole has reached a target depth of 2,200m and the first wedge is planned to start shortly. The exploration decline has advanced 400m towards the Triangle zone.
- Key catalysts coming soon. Results from the preliminary economic assessment (PEA) are expected in January 2017, followed by an updated resource in March 2017. We expect work will advance toward a bulk sample in Q3/17, providing valuable information on grade reconciliation. We believe the PEA will help to enhance the value of the asset, in support of our valuation. Ultimately, the dearth of development stage gold projects with significant resources, particularly in Canada, underscores the value of this project.

Jaguar Mining Inc.
(JAG-T – $0.58)
Buy – Target Price: $1.00

COMPANY PROFILE

Jaguar Mining is a TSX-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 Caete Gold mine complex (MSOL) with the Pilar and Roca Grande mines providing feed to the mill. Combined, the mines produce more than 90koz of gold annually. Jaguar also owns the Paciencia Gold mine complex, and the Gurupi project in Maranhao State, which are inactive.

Source: BigCharts.com

Market and Company Data

Ticker	JAG-T	Shares-basic O/S (M)	302.6
Rating	Buy	Shares-FD O/S (M)	319.3
Risk	High	Market Cap (M)	C$175.5
Price	C$0.58	Float O/S (M)	122.8
1-Yr Target	C$1.00	Enterprise Value (M)	C$219.7
Valuation Method	4.0x 2017 CF	Control Blocks:	
Dividend Yield	0.0%	Eric Sprott	21.8%
1-Yr ROR	72.4%	Year End	Dec. 31
52 Wk High-Low	C$0.85 - C$0.14	NAVPS	C$1.05
Avg Daily Vol (K)	561	P/NAV	0.6x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	$162.4	$177.7	$14.0	$16.0	$69.6
Adj. EPS (US$ fd)	($2.91)	$1.64	($0.10)	($0.23)	$0.11
CFPS (US$ fd)	$0.00	($0.08)	$0.12	$0.11	$0.19
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	1.0x	0.9x	11.8x	10.3x	2.4x
P/E	NA	0.3x	NA	NA	3.8x
P/CFPS	NA	NA	3.6x	4.1x	2.3x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Au (US$/oz)	$1,414	$1,261	$1,145	$1,274	$1,400
Au prodn (oz)	95,595	92,057	90,421	98,436	111,490

Source: Company reports; Capital IQ; LBS.

The Turn-Around Continues

- Operations are turning around. A new approach at the Turmalina mine, and better practices at Pilar are improving productivity and lowering costs.
- Attractive outlook for production growth. We expect the success of mine optimization and drilling programs to contribute to expanded production. Jaguar is aiming for production to grow from 95koz in 2016, to 140koz in 2018, to 190koz in 2020, and keep AISC under $1,000/oz.
- Exploration will be a priority. Jaguar is pursuing an aggressive $8m exploration program at its mines and nearby brownfield sites, which have already resulted in the mine life extension of the Pilar and Roca Grande mines. We look for regular results from the drill program starting in early 2017.
- Strong balance sheet, debentures converted. Despite capital and exploration expenditures to rehabilitate mines and improve reserves, the company has maintained a strong cash balance ($17.3m at Q3/16), and has generated modest free cash flow.
- Catalysts. We look for continued optimization of operations as well as growth of production. The exploration program could generate longer term potential. Successful renegotiations of terms for the Paciencia mine with AngloGold could also open up new production potential.

Pierre Vaillancourt | MINING

Lundin Mining Corp.
(LUN-T – $6.77)
Buy – Target Price: $8.00

COMPANY PROFILE

Lundin Mining is an intermediate Canadian base metals producer with interests in five operating mines: the Candelaria mine in Chile, the Eagle mine in Michigan, the Neves Corvo mine in Portugal, the Aguablanca mine in Spain, and the Zinkgruvan mine in Sweden. Copper production is anchored by the Candelaria mine. Lundin also has a 24% interest in the Tenke Fungurume Cu-Co mine in the DRC, which was recently sold to a Chinese private equity firm.

Source: BigCharts.com

Market and Company Data

Ticker	LUN-T	Shares-Basic (M)	719.9
Rating	Buy	Shares-FD (M)	719.9
Risk	High	Market Cap (C$M)	$4,873.9
Price (C$)	$6.77	Float O/S (M)	622.7
1-Yr Target (C$)	$8.00	Enterprise Value (M)	C $4,138.9
Valuation Method	5.8x 2017 EV/EBITDA	Control Blocks:	
Dividend Yield	0.0%	BlackRock, Inc.	8.8%
1-Yr ROR	18.2%	Year End	Dec. 31
52 Wk High-Low (C$)	$7.15 - $2.98	NAVPS (C$)	$5.31
Avg Daily Vol (K)	2,505	P/NAV	1.3x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	$296.4	$319.6	$478.0	($136.6)	$704.3
EPS (US$ fd)	$0.23	$0.19	($0.44)	($0.07)	$0.11
CFPS (US$ fd)	$0.47	$0.52	$0.79	$0.55	$0.70
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	10.5x	9.7x	6.5x	na	4.4x
P/E	21.7x	27.2x	na	na	na
P/CFPS	10.9x	9.7x	6.5x	9.2x	7.3x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Cu (US$/lb)	$3.30	$2.86	$2.26	$2.17	$2.30
Zn (US$/lb)	$0.87	$0.99	$0.84	$0.92	$0.95
Ni (US$/lb)	$6.27	$7.67	$4.79	$4.44	$5.50
Cu prodn (k lbs)	146,047	145,787	514,249	463,913	469,486
Cu prodn, Tenke (k lbs)	110,993	107,265	107,919	116,150	119,640
Zn prodn (k lbs)	275,022	319,871	320,490	338,455	349,392
Ni prodn (k lbs)	16,698	28,508	75,795	54,439	41,737

Source: Company reports; Capital IQ; LBS.
All figures in US$, unless otherwise noted

Cashed Up After Tenke Sale

- Positive outlook. For 2017, Lundin is projecting an increase in copper production at Candelaria and an increase in zinc production at Neves-Corvo, driven by internal growth projects. There is also exploration potential at all mines.
- Higher copper production underpinned by Candelaria. Attributable copper production guidance for 2017 and 2018 has increased from last year's three-year guidance on an improved production profile and extended mine life at Candelaria. Studies are underway to increase production from five underground deposits. The Los Diques tailings facilities construction is progressing on schedule.
- Zinc production guidance for 2017 and 2018 has improved from last year's three-year guidance primarily on operational improvements at Neves-Corvo achieved in 2016. The zinc production profile does not yet include potential additional zinc production from the Neves Corvo zinc expansion project, pending its formal approval. It would double zinc production within 28 months from full project approval. At Zinkgruvan, the 1350 zinc expansion project is on schedule for mid-2017 commissioning.
- Strong balance sheet... Lundin has a liquidity position of $1.0b based on cash of $691m and $350m of undrawn credit, against net debt of $309m. The sale of its interest in the Tenke Fungurume mine for $1.36b provides Lundin with plenty of financial flexibility to consider its options. We expect management will be patient before making an acquisition. In the meantime, the company will commit to capex of $405m in 2017, including $265m at Candelaria.
- Well positioned. With ongoing improvements, Lundin will be set for long term performance at its mines. The diversification of mines in low political risk jurisdictions, the reduction of risk with the sale of Tenke, and the new dividend policy should help to broaden the investor base and establish Lundin as a core name in the base metal sector.

SEMAFO Inc.
(SMF-T – $3.75)
Buy – Target Price: $6.50

COMPANY PROFILE

SEMAFO is a Canadian-based mining company with gold production and exploration activities in West Africa. The company operates the Mana Mine in Burkina Faso, which includes the satellite Siou and Fofina deposits. SEMAFO is also advancing several exploration and development projects in the country, notably the Natougou project, where construction is expected to start in 2017. The company also has a presence in the Ivory Coast.

Source: BigCharts.com

Market and Company Data

Ticker	SMF-T	Shares-basic O/S (M)	324.6
Rating	Buy	Shares-FD O/S (M)	325.8
Risk	High	Market Cap (M)	C$1,217
Price	C$3.75	Float O/S (M)	293.1
1-Yr Target	C$6.50	Enterprise Value* (M)	C$957
Valuation Method	8.5x EV/EBITDA	Control Blocks:	
Dividend Yield	0.0%	Van Eck Associates	15.8%
1-Yr ROR	73.3%	Year End	Dec. 31
52 Wk High-Low	$7.46 - $3.19	NAVPS	$6.27
Avg Daily Vol (K)	1,896.7	P/NAV	0.6x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	($20.8)	$118.6	$153.8	$158.5	$158.5
EPS (US$ fd)	($0.31)	$0.02	$0.15	$0.14	$0.21
CFPS (US$ fd)	$0.33	$0.43	$0.47	$0.42	$0.43
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	NA	6.1x	4.7x	4.5x	4.5x
P/E	NA	NA	18.8x	19.8x	13.7x
P/CFPS	8.5x	6.5x	6.0x	6.7x	6.5x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Au (US$/oz)	$1,402	$1,257	$1,175	$1,284	$1,400
Au prodn (oz)	197,100	234,300	255,900	244,150	241,710

Source: Company reports; Capital IQ; LBS.

Bringing on Natougou

- **Natougou development on time and on budget.** Drill results have been good, supporting the resource of 1.28m oz of reserves, in addition to resources. The feasibility study projects annual production of 226koz for the first three years at AISC of $374/oz.
- **On target to meet guidance.** Based on gold production of 185k oz to the end of Q3/16, the company expects to meet guidance of 225-245koz for 2016. For the first three quarters of this year, the cash cost of $542/oz and AISC of $730/oz were higher than in 2015, but within 2016 cost guidance ranges.
- **Attractive production growth beyond 2017.** While production is expected to remain flat YoY in 2017 at 225-245koz, Natougou is expected to contribute to production growth, to 300koz in 2018 and to 426koz in 2019.
- **Catalysts. Permitting at Natougou is anticipated by year-end 2016.** Suppliers for earthworks and contract mining have been selected for a construction start in 2017. Recent drill results from the West Flank will be used to evaluate the potential for underground development.

Pierre Vaillancourt | MINING

Taseko Mines Ltd.
(TKO-T – $1.00)
Hold – Target Price: $1.15

COMPANY PROFILE

Taseko Mines is a Vancouver-based copper producer that operates the Gibraltar Mine in British Columbia, and is 75%-owner. In addition, Taseko owns 100% of the Aley Niobium project, the New Prosperity copper-gold project, and the Harmony gold project, all located in British Columbia. Taseko is also advancing the Florence in-situ leach copper asset in Arizona, currently in the permitting phase.

Source: BigCharts.com

Market and Company Data

Ticker	TKO-T	Shares-basic O/S (M)	221.8
Rating	Hold	Shares-FD O/S (M)	221.8
Risk	High	Market Cap (M)	$221.8
Price	$1.00	Float O/S (M)	200.3
1-Yr Target	$1.15	Enterprise Value (M)	$564.9
Valuation Method	4.8x 2017 CF	Control Blocks:	
Dividend Yield	0.0%	SailingStone Capital	10.4%
1-Yr ROR	15.0%	Year End	Dec. 31
52 Wk High-Low	$1.32 - $0.35	NAVPS	$2.14
Avg Daily Vol (K)	318	P/NAV	0.5x

Estimates	2013	2014	2015E	2016E	2017E
EBITDA (C$M)	$33.6	$25.5	($8.2)	$10.4	$63.0
EPS (C$ fd)	($0.18)	($0.27)	($0.18)	($0.23)	($0.09)
CFPS (C$ fd)	$0.28	$0.17	$0.18	$0.09	$0.24
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	16.8x	22.2x	na	54.3x	9.0x
P/E	na	na	na	na	na
P/CFPS	3.6x	5.8x	5.7x	11.7x	4.2x
Operating Data	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Cu (US$/lb)	$3.27	$2.97	$2.38	$2.15	$2.30
Mo (US$/lb)	$9.53	$11.11	$9.00	$9.00	$10.05
Cu prodn (k lbs)	91,050	100,800	106,350	99,371	118,595
Mo prodn (k lbs)	1,089	1,749	722	-	-

Source: Company reports; Capital IQ; LBS.

Benefiting from Grade, Copper Price and C$

- **Gibraltar at steady state.** After six years of expansion activities, the Gibraltar mine is operating at steady state, with optimized operating costs. The reserves of 722mt grading 0.272% Cu, sufficient for a 23-year mine life at a milling rate of 85ktpd (All dollar figures in C$, unless noted otherwise).
- **Rising grades will lift production...** at steady state. After six years of expansion activities, the Gibraltar mine is operating at steady state, with optimized operating costs. The reserves of 722mt grading 0.272% Cu, sufficient for a 23-year mine life at a milling rate of 85ktpd (All dollar figures in C$, unless noted otherwise).
- **Rising grades will lift production...** Gibraltar is now in a period of above average copper grades which will benefit the mine's cost structure and operating margins. With higher grades expected to last well into 2017 (0.3% in 2017 v. 0.26% in 2016), copper production should improve significantly over the next year. Gibraltar's copper production for 2016 is expected to be in the range of 130 to 140m lbs.
- **...And lower cash costs.** Operating costs will be positively impacted by the 2017 copper grade and ongoing cost reduction initiatives. The production profile has also benefited from a revised mine plan with a lower strip ratio.
- **Double benefit from the copper price and the C$.** With the copper price up over 20% in the last month – benefiting sales, and the C$ down to US$0.75 – benefiting costs (80% of costs are C$ denominated), the company is ideally positioned for profitability. As a result, Taseko's leverage to a change in the copper price is higher than that of its peers.
- **Catalysts.** The future for Taseko is considerably improved thanks to a higher copper price and higher grades. The contribution from molybdenum and possibly, from deeper gold mineralization, could also make a difference.

Teranga Gold Corp.
(TGZ-T – $0.73)
Buy – Target Price: $1.50

COMPANY PROFILE

Teranga Gold Corporation is a Toronto-based gold company which operates the Sabodala gold mine, in the Republic of Senegal, West Africa. The Sabodala mine has the only gold mill in the country. The company is currently exploring nine exploration licenses covering 1,055km2 in Senegal, comprising the regional land package surrounding the Sabodala gold mine. In 2015, the company produced 182.3koz at a cash cost of $642/oz, at all-in sustaining costs of $965/oz. Teranga is also developing the Banfora gold project in Burkina Faso and exploring properties in Cote d'Ivoire.

Source: BigCharts.com

Market and Company Data

Ticker	TGZ-T	Shares-basic O/S (M)	392.0
Rating	Buy	Shares-FD O/S (M)	407.5
Risk	High	Market Cap (M)	C$286.2
Price	C$0.73	Float O/S (M)	354.0
1-Yr Target	C$1.50	Enterprise Value* (M)	C$348.3
Valuation Method	4.4x 2017 P/CF	Control Blocks:	
Dividend Yield	0.0%	Tablo Corporation	17.4%
1-Yr ROR	105.5%	Year End	Dec. 31
52 Wk High-Low	$1.40-$0.38	NAVPS	C$2.07
Avg Daily Vol (K)	1,716	P/NAV	0.4x

Estimates	2013	2014	2015	2016E	2017E
EBITDA (US$M)	$155.8	$105.6	($6.8)	$125.9	$139.9
EPS (US$ fd)	$0.19	$0.05	($0.14)	$0.08	$0.13
CFPS (US$ fd)	$0.26	$0.14	$0.10	$0.16	$0.26
Valuation Metrics	**2013**	**2014**	**2015**	**2016E**	**2017E**
EV/EBITDA	1.7x	2.5x	na	2.1x	1.9x
P/E	2.9x	10.5x	na	6.5x	4.1x
P/CFPS	2.1x	3.8x	5.5x	3.5x	2.1x
Operating Data	**2013**	**2014**	**2015**	**2016E**	**2017E**
Au (US$/oz)	$1,264	$1,274	$1,157	$1,278	$1,400
Au prodn (oz)	207,034	211,823	182,283	218,395	214,124

Source: Company reports; Capital IQ; LBS.

Stepping Out Beyond Senegal

- **Production on track...** Planned production for 2016 of 200-215k oz at a cash cost of $600-$650/oz and AISC of $900-$975/oz remains on target due to increased ore recovery during the year, better recovery rates in the mill, and a buildup of higher grade stockpile.
- **...With upside potential.** The company anticipates maintaining a production profile of at least 200koz gold from 2012-2024, but there is prospect for greater production with plans for additional satellite deposits, greater material movement, underground development, and optimizing higher grade feed to Sabodala.
- **Developing potential in Burkina Faso.** The company has completed the initial phase of a substantial exploration program undertaken to support its three growth objectives for the Gryphon assets acquired last year: (1) confirm and increase the resource base at Banfora, (2) commence exploration programs at Golden Hill and Gourma projects, and (3) complete an updated feasibility study at Banfora by the end of Q2/17.
- **Strong cash position to undertake expansion plans**, underpinned by a cornerstone investor. In November, Teranga completed a C$65m equity offering to bolster its cash position of $57.8m at the end of Q3/16. Teranga is supported by Tablo Corporation, controlled by David Mimram, with 17.4% of shares.
- **Catalysts.** We believe the prospect of optimized operations at Sabodala, and the potential from growth opportunities in Burkina Faso and Côte d'Ivoire, provide attractive upside, as Teranga transitions into a regional gold producer.

Pierre Vaillancourt | MINING

Trevali Mining
(TV-T – $1.26)
Buy – Target Price: $1.70

COMPANY PROFILE

Trevali Mining Corporation is a zinc-focused, base metals mining company with one producing mine in Peru and another mine starting up in Canada. In Peru, the company is actively producing zinc and lead-silver concentrates from its 2,000tpd Santander mine. In New Brunswick, Trevali's 3,000tpd Caribou mine and mill, is now in commercial production. Trevali also owns the past-producing Halfmile mine and Stratmat deposit, which, like Caribou, are located in the Bathurst Mining Camp of northern New Brunswick.

Source: BigCharts.com

Market and Company Data

Ticker	TV-T	Shares-basic O/S (M)	390.7
Rating	Buy	Shares-FD ITM O/S (M)	393.0
Risk	High	Market Cap (M)	$492.2
Price	$1.26	Float O/S (M)	347.7
1-Yr Target	$1.70	Enterprise Value (M)	$460.0
Valuation Method	5.5x 2017 CF	Control Blocks:	
Dividend Yield	0.0%	Glencore	5.2%
1-Yr ROR	34.9%	Year End	Dec. 31
52 Wk High-Low	$1.41 - $0.325	NAVPS	$1.14
Avg Daily Vol (K)	1,755	P/NAV	0.6x

Estimates	2014	2015	2016E	2017E	2018E
EBITDA (C$M)	$18.1	$16.3	$57.5	$139.9	$154.3
EPS (C$ fd)	($0.03)	($0.05)	$0.05	$0.22	$0.21
CFPS (C$ fd)	$0.06	$0.06	$0.15	$0.31	$0.29
Valuation Metrics	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EV/EBITDA	25.4x	nmf	8.0x	3.3x	3.0x
P/E	nmf	nmf	27.3x	5.7x	6.0x
P/CFPS	20.6x	nmf	8.6x	4.1x	4.3x
Operating Data	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Zn (US$/lb)	$0.96	$0.84	$0.94	$1.10	$1.05
Zn prodn (k lbs)	50,449	54,148	145,701	166,001	163,078

All dollar figures are C$, unless noted otherwise
Source: Company reports; Capital IQ; LBS.

Capitalizing on Zinc

- **Caribou off to a good start.** The contribution from the first quarter of commercial production in Q3/16 at the Caribou mine was in line with expectations, with room for improvement. As efficiencies take hold, costs are expected to decrease. Performance in Q4/16 has been good, with throughput averaging just under capacity of 3,00tpd. The addition of the copper circuit in 1H/17 should help improve profitability.
- **Santander continues to improve...** Higher grades and higher throughput are boosting production ahead of guidance. Cash costs have benefited from attractive by-product credits.
- **...With an expansion ahead.** Management has yet to commit to expanding Santander, but the combination of a strong zinc price, along with improving grades to depth and growing cash flow should lead to a decision to double throughput capacity at Santander in H2/17. We believe that, at an estimated capital cost of approximately $30m, the Santander expansion would have strong economics relative to other brownfield or greenfield projects.
- **The Halfmile-Stratmat PEA is expected in Q1/17.** We anticipate that Trevali will continue to move ahead with its evaluation of the project, likely with the support of Glencore.
- **Positive outlook for zinc.** With the closure of major zinc producers and lack of new production, the supply deficit is expected to grow in 2017. Among the base metals, we like the fundamentals for zinc the most, particularly as treatment charges continue to fall and are currently in the $40-$50/t range.
- **Catalysts.** We are encouraged by the production at Caribou, supported by ongoing performance at Santander. We look for continued improvement of operations along with further drilling success at Santander, in a rising zinc price environment. In H2/17, we expect Trevali will announce that it is going ahead with an expansion at Santander to 4,000tpd.

TRANSPORTATION & INFRASTRUCTURE | Mona Nazir, MBA

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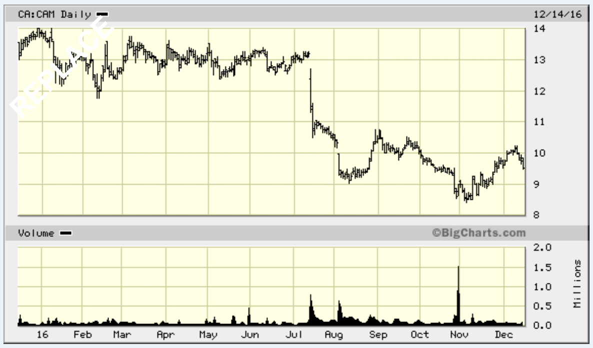
Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Canam Group
(CAM-T – $9.52)
Buy – Target Price: $11.00

COMPANY PROFILE

Canam Group engages in the design of construction solutions and the fabrication of products in Canada, U.S., Europe and Asia. It operates via 3 divisions 1) Buildings (steel joists and decks) 2) Structural steel (heavy and light structural steel) 3) Bridges. The company employees 4,300 individuals and is headquartered in Saint-Georges, Quebec, Canada.



Source: BigCharts.com

Market and Company Data

Ticker	CAM-T	Shares O/S (M)	46.6
Rating	Buy	Market Cap (M)	$443.9
Risk	High	Float O/S (M)	43.4
Price	$9.52	Avg Daily Volume (K)	200.3
1-Yr Target	$11.00	Enterprise Value (M)	$715.1
Dividend	$0.16	Net Debt/Cap	32.1%
Dividend yield	1.7%	BVPS	$12.30
1-Yr ROR	17.3%	Next Reporting	Mar. 2017
52 Wk High-Low	$14.00 - $8.41	Year End	Dec-31
Valuation	6.5x 2017 EBITDA		

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
F2013A	$0.07	A	$0.18	A	$0.24	A	$0.26	A	$0.74	12.7x
F2014A	$0.01	A	$0.11	A	$0.25	A	$0.33	A	$0.70	18.1x
F2015A	$0.10	A	$0.24	A	$0.35	A	$0.39	A	$1.07	12.1x
F2016E	$0.17	A	($0.61)	A	$0.19	A	$0.29		$0.05	nmf.
F2017E									$0.96	9.9x

EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
F2013A	$12.9	A	$17.6	A	$23.3	A	$20.1	A	$73.9	8.6x
F2014A	$9.6	A	$16.2	A	$24.3	A	$27.9	A	$78.0	10.8x
F2015A	$17.3	A	$27.4	A	$33.6	A	$34.4	A	$112.7	7.0x
F2016E	$21.8	A	($35.4)	A	$23.8	A	$32.5		$42.8	16.7x
F2017E									$114.7	6.2x

Source: Company reports; Bloomberg; LBS.

Trading Below Book Value, Market Softness Calls for Some Margin Compression in 2017

We rate shares of Canam with a Buy rating and a one-year target price of $11.00. Our target price is based on a 6.5x EV/EBITDA multiple applied to our 2017 estimate. We highlight the following:

- Expecting margin pressures to persist. While we continue to expect some improvement in 2017 as the significant multi-purpose stadium project in the U.S. winds down ($55M EBITDA write down in Q2/16) competition has intensified and this is likely to pressure CAM's top line growth and margins (290 b.p YoY margin contraction in Q3/16 and top line growth tapering). Furthermore, on their latest call, management provided somewhat bearish commentary on their ability to generate consistently higher and stable margins across segments.
- Forecasting 5.6% top line growth and a 5.7% margin in 2017. Our $2.02B revenue forecast for next year factors in a conservative growth assumption relative to the company's double digit historical annual growth rate. With 70%+ of revenues stemming from the U.S, Canam could benefit from the expected spending in infrastructure under President-elect Trump.
- Canam Bridges showing signs of improvements. The Canadian Bridge division results continue to improve quarter over quarter since the beginning of 2016 with key indicators on the Champlain bridge construction trending at or better than budget. While the U.S Bridge division continues to face challenges on some projects, management expects a return to profitability in 2017 as projects of high complexity near completion and unwind from the backlog.
- Backlog remains strong. The 12.2% decline in backlog in the latest quarter was mainly due to progress/ completion of two large projects 1) Champlain Bridge project ($225M) and a 2) a U.S large scale project ($250M). Management commented that its current backlog of $1,095M remains healthy given the related project composition. We note that in August, 2016 the company reorganized its Heavy segment which should result in fewer large projects and a higher number of smaller projects with a somewhat higher margin profile and less related risk.
- Trading at a slight discount relative to peers. Canam's shares have somewhat recovered ~15% post U.S election and are now trading at a slight discount compared to peers (6.3x vs 6.5x EV/EBITDA 2017E). We note that the current book value per share sits at $12.30, implying a ~23% discount to the current market price.

Catalysts

- Wind down of U.S. multi-purpose stadium (related to write downs).
- Large contract wins.
- Backlog growth.
- Margin improvements.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Exchange Income Corp.
(EIF-T – $42.30)
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)	28.6
Rating	Restricted	Market Cap (M)	$1,209.0
Risk	n/a	Float O/S (M)	25.7
Price	$42.30	Float Value (M)	$1,086.9
1-Yr Target	n/a	Avg Daily Volume (K)	207.0
Dividend	$2.10	Enterprise Value (M)	$1,804
Yield (%)	5.0%	Control Blocks:	
1-Yr ROR	n/a	Manag & Dir	3%
52 Wk High-Low	$45.28 - $21.21		
BVPS	$13.17	Net Debt/Cap	57%
Valuation	n/a	Next Reporting	Mar-17
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	20.5 x
2016E	$0.43	A	$0.74	A	$0.81	A				
2017E										
2018E										

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	10.1 x
2016E	$44.3	A	$56.9	A	$60.0	A				
2017E										
2018E										

Source: Company reports; Bloomberg; LBS.

Restricted

We are RESTRICTED on Exchange Income Corp.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Hydro One Ltd.
(H-T – $23.30)
Buy – Target Price: $27.00

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)	$13,874
Risk	Low	Float O/S (M)	156.1
Price	$23.30	Float Value (M)	3,638
1-Yr Target	$27.00	Avg Daily Volume (K)	963.9
Dividend	$0.84	Enterprise Value (M)	$23,789
Yield (%)	3.6%		
1-Yr ROR	19.5%	Control Blocks:	
52 Wk High-Low	$26.80- $21.71	Government of Ontario	71.9%
BVPS	$16.84	Manag & Dir	1.9%
Valuation	20.5x P/E	Net Debt/Cap	49%
Year End	31-Dec	Next Reporting	Mar, 2017

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2013A	$0.43	A	$0.27	A	$0.36	A	$0.26	A	$1.32	15.5x
2014A	$0.40	A	$0.18	A	$0.28	A	$0.36	A	$1.23	16.7x
2015A	$0.38	A	$0.22	A	$0.32	A	$0.24	A	$1.16	18.8x
2016E	$0.35	A	$0.26	A	$0.39	A	$0.27	E	$1.26	18.5x
2017E	$0.34	E	$0.27	E	$0.36	E	$0.28	E	$1.25	18.6x
2018E									$1.32	17.7x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2013A	$541	A	$428	A	$502	A	$477	A	$1,946	10.9x
2014A	$531	A	$408	A	$476	A	$522	A	$1,936	11.1x
2015A	$560	A	$443	A	$515	A	$434	A	$1,952	11.3x
2016E	$534	A	$481	A	$572	A	$480	E	$2,067	11.5x
2017E	$539	E	$490	E	$562	E	$505	E	$2,097	11.3x
2018E									$2,207	10.8x

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

Stable Rate Base Growth Limits Downside, Upside Driven by Efficiencies

We rate shares of Hydro One with a Buy rating and a one-year target price of $27.00. Our target price is based on a 20.5x P/E multiple applied to our 2018 estimate. We highlight the following:

- Stability name of the game. 99% of Hydro One's distribution and transmission network are rate-regulated and fall under a cost of service model. As per the 60% debt: 40% equity ratio approved by the OEB, the allowed ROE for both the distribution and transmission divisions stands at 9.19% (8.78% % for 2017). Cash flows stemming from the core business are highly predicable and provide stability to investors.
- 4.9% rate base growth should correlate to similar dividend increases. Near 5% rate base CAGR growth, up until at least 2020E, is driven by $1.6B in capital investments annually. Given the consistency of the business model we expect that the current annual dividend of $0.84 should increase at a similar growth rate, in line with guidance.
- Government support as silent partner. We believe that the Ontario government's block ownership provides silent support to the company and shareholders. While its current ownership sits at 71% the Government is restricted from reducing its holding to sub- 40%, as per current legislation. We have seen how a majority interest from a strong partner provides backstop support during acquisitions or investments. Lastly, government ownership essentially blocks Hydro One from being a takeout target.

Outlook

- 2017-2018 transmission application. The Transmission rate application (submitted May 31, 2016) is going through the normal due processes with the OEB. Management has presented their case with the hearing having occurred at the end of November. A decision is expected in early 2017, and rates would be prorated to January 1, 2017. We view this as a positive catalyst given the company is seeking rate base approvals of $10,554M for 2017 and $11,226M for 2018. The YoY increase of 6.4% is ahead of their current 4.9% rate base growth.
- OEB rates for 2017. On October 27th, 2016 the OEB released their approved 2017 ROE of 8.78% which compares to the 2016 allowed ROE of 9.19%. The 40 basis point decline is expected to have a $30M reduction in net income ($0.05/ share). Management was confident that this could be partially or mostly offset by increases to the rate base (currently not accounted for; organic growth or M&A) and further efficiency extraction (lower OM&A costs).

Catalysts

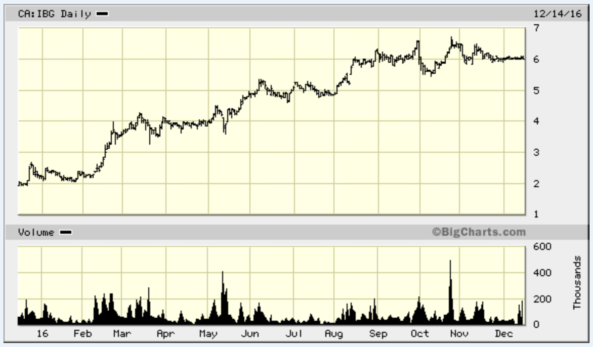
- Dividend increases.
- M&A: larger transformational acquisition and continued tuck-in's.
- Uptick in capital expenditures.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

IBI Group Inc.
(IBG-T – $6.00)
Buy – Target Price: $8.00

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)	30.6
Rating	Buy	Market Cap* (M)	$183.6
Risk	Medium	Float O/S (M)	20.5
Price	$6.00	Float Value (M)	$123.0
1-Yr Target	$8.00	Avg Daily Volume (K)	111.6
Dividend	$0.00	Enterprise Value (M)	$351.6
Yield (%)	0.0%	Control Blocks:	
1-Yr ROR	33.4%	Manag & Dir*	33%
52 Wk High-Low	$6.73-$1.92		
BVPS	neg.	Net Debt/Cap	118%
Valuation	14.0x P/E (2018)	Next Reporting	March, 2017
Year End	31-Dec		

*Includes employee ownership in IBI

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014	$0.08	A	$0.07	A	$0.07	A	($0.14)	A	$0.03	nmf
2015	$0.11	A	$0.07	A	$0.27	A	$0.04	A	$0.49	12.3x
2016	($0.12)	A	$0.14	A	$0.18	A	$0.07		$0.33	18.4x
2017	$0.11		$0.17		$0.14		$0.09		$0.51	11.8x
2018									$0.55	10.9x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014	6.1	A	8.8	A	5.6	A	5.1	A	25.6	13.7x
2015	6.6	A	10.2	A	9.5	A	8.3	A	34.4	10.2x
2016	9.5	A	12.3	A	10.2	A	8.7		40.6	8.7x
2017	9.9		11.9		11.2		9.5		42.6	8.3x
2018									44.9	7.8x

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

Source: Company reports; Bloomberg; LBS.

Turnaround Strategy Executed, Stock Valuation Remains Below Peers

We rate shares of IBI with a Buy rating and a one-year target price of $8.00. Our target price is based on a 14x P/E multiple applied to our 2018 estimate. We highlight the following:

- Infrastructure spending opportunity north and south of the border. We expect IBG to be well positioned to reap the benefits from the increased infrastructure spending in Canada ($120 billion infrastructure commitment) and the U.S. (US $305B FAST Act and President-elect Trump's infrastructure spending plan). Transit is expected to remain a strong sector for the company given the increase in LRT projects in the coming quarters. Of note, management stated they are already seeing opportunities from the U.S FAST Act flow through results.
- Deleveraging commitment. IBI has made significant strides in its debt reduction/restructuring plan whereby the company has been able to extend its debt maturity schedule, de-leverage its balance sheet and lower interest expense. Current leverage stands at ~3x (net debt/ EBITDA) down from near 7x in 2015. We expect the company to remain committed to debt reduction and capable of reducing leverage further toward the peer group average (2x), which could provide further upside to the stock price.
- Organic growth blows away peers + margin improvement. Despite a challenging Western Canadian environment and a delay in expected infrastructure spend to flow through in Canada, IBI's reported organic growth of ~7% (for the first nine months of 2016) comes in significantly ahead of peers WSP of -0.5% and STN of -7%. IBI's headquarter location in Ontario and increased spend in the GTA region have provided some downside protection. EBITDA margins have increased to the ~12% range from 5% in 2013.
- Unique Intelligence Offering should yield higher valuation with time. Representing 16% of revenues, IBI's intelligence unit was organically created and is unique to the firm. The segment has a growth potential via cross selling opportunities with the company's existing offerings (Building and infrastructure). Management expects that the intelligence segment could grow to ~20% of revenue with time on a 5% recurring revenue base. With time, we believe that the segment could command a higher valuation multiple (technology software companies trade at 13x+ EBITDA).
- Continue to believe that upside remains. Despite the 170% increase in the stock price YTD it is important to note that IBI continues to trade at a discount to its peers (2 turns lower on EV/EBITDA basis and 4+ turns lower on P/E). We believe the ongoing deleveraging should open the door for multiple expansion.

Catalysts

- Award of sizeable contracts.
- Continued deleveraging.
- Stronger than expected organic growth (3%+).

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

NAPEC Inc.
(NPC-T – $0.95)
Restricted

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)	104.0
Rating	Restricted	Market Cap (M)	$106.0
Risk	n/a	Float O/S (M)	79.8
Price	$0.95	Float Value (M)	$40.2
1-Yr Target	n/a	Avg Daily Volume (K)	130.0
Dividend	$0.00	Enterprise Value (M)	190.0
1-Yr ROR	n/a	Control Blocks:	
52 Wk High-Low	$1.27-$0.68	Manag & Dir	2%
BVPS	$1.26	Fonds FTQ	22%
Valuation	n/a	Net Debt/Cap	52.2%
Year End	31-Dec	Next Reporting	Mar-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014	$0.02	A	($0.01)	A	($0.02)	A	($0.02)	A	($0.01)	nmf
2015	($0.02)	A	$0.01	A	$0.02	A	$0.02	A	$0.03	34.0x
2016	$0.00	A	($0.01)	A	($0.00)	A				
2017										
2018										

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014	4.5	A	2.1	A	0.7	A	3.6	A	11.4	16.7x
2015	1.7	A	5.1	A	6.9	A	7.6	A	21.3	8.9x
2016	6.6	A	4.8	A	6.2	A				
2017										
2018										

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

Source: Company reports; Bloomberg; LBS.

Restricted

We are RESTRICTED on NAPEC.

Pure Technologies Inc.
(PUR-T – $5.04)
Buy – Target Price: $7.00

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 (inservice 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)	54.2
Rating	Buy	Market Cap (M)	$273.2
Risk	Medium	Float O/S (M)	47.6
Price	$5.04	Float Value (M)	$240.1
1-Yr Target	$7.00	Avg Daily Volume (K)	118.8
Dividend	$0.12	Enterprise Value* (M)	$266.2
1-Yr ROR	41.2%	Control Blocks:	-
52 Wk High-Low	$6.49 - $3.80	Manag & Dir	12.1%
BVPS	$2.30	Next Reporting	Mar-17
Valuation	16x 2018 EBITDA	Year End	Dec. 31

EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
F2014A	$0.01	A	$0.01	A	($0.01)	A	$0.09	A	$0.11	46.2x
F2015A	($0.04)	A	$0.01	A	$0.02	A	$0.02	A	$0.00	nmf
F2016E	($0.05)	A	$0.02	A	$0.02	A	$0.05		$0.04	nmf
F2017E	($0.02)		$0.02		$0.03		$0.08		$0.11	45.6x
F2018E									$0.20	25.7x

EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
F2014A	0.6	A	4.2	A	2.1	A	8.4	A	15.6	17.0x
F2015A	(2.1)	A	4.6	A	3.9	A	6.9	A	13.3	20.0x
F2016E	1.1	A	4.6	A	4.2	A	6.4		16.3	16.4x
F2017E	1.6		4.2		5.4		8.3		19.4	13.7x
F2018E									24.0	11.1x

Source: Company reports; Bloomberg; LBS.

Contract Delays Push out 2016 Profitability, Expecting Double Digit Growth to Continue into 2017

We rate shares of PUR with a Buy rating and a one-year target price of $7.00. Our target price is based on a 16x EV/EBITDA multiple applied to our 2018 estimate. We highlight the following:

- **Positive industry fundamentals remain intact.** Despite the lackluster stock performance and the consecutive revenue misses in Q2 and Q3/2016, we believe Pure is poised to benefit from municipalities'/ utilities' need to address aging infrastructure and increasing environmental regulation. Management reiterated their positive tone on the latest conference call as the company is seeing an increase in the number of RFP's combined with the largest RFP of its kind by a Californian agency. As of Q3/16, the firm's backlog was at $65M.
- **PureHM, a bright spot.** PureHM remains the company's fastest growing vertical and this positive momentum is expected to continue despite a challenging oil and gas sector, particularly in Western Canada. We view the 23 new field services hiring in H2/16 as a positive sign of stronger demand going forward. On their latest conference call, management noted that the division has over $30M in potential opportunities which bodes well for the segment's revenue growth in 2017.
- **Cost reduction plan underway.** Pure expects cost optimization initiatives to result in an annual cost reduction of $6M. While a high fixed cost structure and lower than expected quarterly revenue caused lower than expected EBITDA margins, higher than expected revenues and successful implementation of the cost reduction strategy should have a positive impact on financial results.
- **Business Intelligence opportunity.** Over its years of experience in multiple verticals, Pure has gathered data from its clients across the world and this is likely to improve its services offering. We believe the company's data management business may be a key competitive advantage to adapt to clients' constantly changing needs.
- **No substantial competition threat.** With its diversified offering and expertise, Pure remains a unique company in its space. As the company has shifted from one-off pipeline assessment to an integrated underground infrastructure network assessment solution, revenues are expected to trend upward. In addition, the transition towards a recurring revenue based model should decrease the lumpiness of quarterly results and improve visibility.

Catalysts

- Potential contract win on largest RFP from a California regional water agency.
- Strong quarterly performance; high organic growth and margin expansion.
- Strategic M&A.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Stantec Inc.
(STN-T – $35.98)
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)	114.2
Rating	Hold	Market Cap (M)	$4,111
Risk	Medium	Float O/S (M)	113.0
Price	$35.98	Float Value (M)	$4,065
1-Yr Target	$36.50	Avg Daily Volume (K)	468.5
Dividend	$0.44	Enterprise Value (M)	$5,052
Yield (%)	1.2%		
1-Yr ROR	2.7%	Control Blocks:	
52 Wk High-Low	$36.85 - $27.98	Manag & Dir	1.1%
BVPS	$16.93		
Valuation	16.75x P/E (2018)	Net Debt/Cap	33%
Year End	31-Dec	Next Reporting	Mar-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.36	A	$0.47	A	$0.51	A	$0.40	A	$1.74	19.5x
2015A	$0.40	A	$0.46	A	$0.53	A	$0.27	A	$1.66	21.6x
2016E	$0.40	A	$0.37	A	$0.55	A	$0.43		$1.76	20.5x
2017E	$0.55		$0.58		$0.44		$0.53		$2.10	17.1x
2018E									$2.19	16.4x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	61.7	A	78.2	A	84.8	A	69.7	A	294.4	14.2x
2015A	76.1	A	82.2	A	93.6	A	54.6	A	306.5	16.5x
2016E	70.2	A	84.6	A	113.7	A	96.2		364.7	13.9x
2017E	115.0		113.0		96.5		108.9		433.3	11.7x
2018E									442.2	11.4x

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

STN Should Benefit from Increased Infrastructure Spend, Will Take Time to Flow Through

We rate shares of Stantec with a Hold rating and a one-year target price of $36.50. Our target price is based on a 16.75x P/E multiple applied to our 2018 estimate. We highlight the following:

- Near term uncertainty remains; optimism surrounding infrastructure programs. STN's stock price saw a 25% lift off the U.S. election, and the President Elect's promises to invest in infrastructure. While we continue to believe that Stantec's financial results and stock price should benefit from increased infrastructure funding (and/ or increase in oil prices), we expect such would take time to flow through. Peer companies have stated that they do not expect the U.S. election win to have a material impact on financial results until 2018.
- Negative organic growth persists. Starting off 2016 management was optimistic that we would see flat to +2% organic growth, however with the passage of time outlook commentary shifted as conditions in Western Canada remained weak. We note that with Q2/16 results management withdrew guidance (prior organic growth -2%). Q3/16 organic growth retraction of 8.7% was lower than anticipated and soft guidance calls for continued retraction heading into the fourth quarter and a challenging comp period in Q1 of 2017.
- MWH provides diversification and geographic expansion. In a highly anticipated move, STN went global, purchasing MWH Global for US$795M on the back of a $604M public equity offering (April, 2016). We believe the acquisition diversifies its service offering on a geographic (international) and end market basis (water). The transaction moves the company closer to its goal of becoming a top 10 global design firm (pro-forma 12th position). While it remains early days post transaction, we believe that the acquisition should provide downside protection to STN, and increase organic growth given the geographic diversity (South America, Asia, Europe, Africa, etc.) and high growth profile of the water sector (high single digit/ low double digit growth anticipated outside of North America).

Catalysts

- M&A; Larger acquisitions on hold for next 12 months tuck-ins to continue.
- Margin expansion.
- Organic growth shifting to positive territory.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Stella-Jones Inc.
(SJ-T – $42.93)
Buy – Target Price: $52.00

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)	69.2
Rating	Buy	Market Cap (M)	$2,969.0
Risk	Medium	Float O/S (M)	42.6
Price	$42.93	Float Value (M)	$1,830.1
1-Yr Target	$52.00	Avg Daily Volume (K)	192.2
Dividend	$0.40	Enterprise Value (M)	$3,604.2
Yield (%)	0.9%	Control Blocks:	
1-Yr ROR	22.1%	Stella Int'l S.A.	38%
52 Wk High-Low	$54.15 - $39.00		
BVPS	$14.31	Net Debt/Cap	37%
Valuation	19.0x P/E (2018)	Next Reporting	March, 2017
Year End	31-Dec		

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.33	A	$0.43	A	$0.43	A	$0.33	A	$1.51	19.9x
2015A	$0.44	A	$0.56	A	$0.57	A	$0.48	A	$2.05	21.0x
2016E	$0.51	A	$0.79	A	$0.66	A	$0.49		$2.44	17.6x
2017E	$0.54		$0.80		$0.74		$0.53		$2.61	16.4x
2018E									$2.74	15.7x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	39.1	A	46.8	A	51.3	A	37.6	A	174.8	2.5x
2015A	52.9	A	66.7	A	69.4	A	54.2	A	243.2	14.8x
2016E	61.8	A	89.8	A	78.6	A	59.0		289.2	12.5x
2017E	64.7		91.2		80.5		63.1		299.6	12.0x
2018E									308.6	11.7x

Source: Company reports; Bloomberg; LBS.

Top Line Growth to Abate in 2017; May be Offset by M&A

We rate shares of Stella Jones with a Buy rating and a one-year target price of $52.00. Our target price is based on a 19x P/E multiple applied to our 2018 estimate. We highlight the following:

- Tie growth to remain under pressure heading into 2017. According to the most recent rail data for October, tie purchasing activity decreased 41% YoY (33% QoQ) while production was down 18% (33% QoQ). The inventory buildup we have seen in recent months has increased in pace as inventories reached 21.3M in October 2016 representing a 20% increase YoY (5.2% QoQ). Despite Class 1 and short line operators' commitment to maintenance programs, the freight recession and lower CAPEX programs are likely to continue to weigh on the demand side in 2017.
- Normalization in the pole segment in 2017. While we are factoring flat organic growth for the segment in 2017, we note that despite the short term uncertainty and the weaker than expected results, fundamentals remain strong. Management anticipates a gradual return to normal maintenance demand patterns next year while the replacement cycle program should impact results positively in the coming years.
- Residential lumber momentum expected to continue. Following the acquisition of RAM Forest Products in October, 2015, SJ's Residential offering increased by $90M to ~$250M combined. We note that since the closing the company's Residential lumber category has illustrated significant growth with YTD revenues coming in at $301M (up 112% YoY). In Q3/2016 the segment saw 44% YoY organic growth and Q2/16 saw over 60% YoY organic growth. Management stated they are not seeing changes in the demand environment and we expect this segment to continue its momentum as the company continues its transition to a direct service offering to its customers (without an intermediary).
- Soft guidance from management. While SJ remains a strong defensive story that is well positioned to benefit from the eventual pole replacement cycle and continued consolidation efforts (2.2x leverage), the soft guidance and the firm's lower organic growth profile in 2017 causes us to somewhat pause in the near term. We do note that the company has a active M&A history (6 acquisitions in a 24 month time period).

Catalysts

- Strategic M&A.
- Materialization of the utility replacement super-cycle.
- Stronger than expected organic growth and margin expansion.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

Transat A.T. Inc.
(TRZ-T – $5.68)
Hold – Target Price: $6.50

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)	36.8
Rating	Hold	Market Cap (M)	$209.2
Risk	High	Float O/S (M)	35.5
Price	$5.68	Float Value (M)	$201.9
1-Yr Target	$6.50	Avg Daily Volume (K)	30.8
Dividend	$0.00	Enterprise Value [1]	$524.6
1-Yr ROR	14.4%	Manag & Dir	3.5%
52 Wk High-Low	$8.70 - $5.50	Next Reporting	Mar-17
Valuation	NAV		

Adjusted EPS (FD)

	Q1	Q2	Q3	Q4	Annual	P/E
F2013A	($0.56) A	($0.04) A	$0.80 A	$1.40 A	$1.63	1.0x
F2014A	($0.60) A	($0.19) A	$0.69 A	$1.27 A	$1.17	1.0x
F2015A	($0.83) A	($0.17) A	$0.71 A	$1.41 A	$1.11	1.0x
F2016A	($1.00) A	($0.32) A	$0.07 A	$0.66 A	($0.61)	neg.
F2017E	($1.20)	($0.42)	$0.33	$1.33	$0.03	n.m.

EBITDA ($M)

	Q1	Q2	Q3	Q4	Annual	EV/ EBITDA
F2013A	(21.2) A	6.49 A	54.3 A	80.7 A	120.3	4.4x
F2014A	(23.8) A	0.00 A	47.7 A	75.9 A	99.9	5.3x
F2015A	(37.0) A	3.39 A	46.5 A	87.0 A	99.9	5.3x
F2016A	(41.8) A	(5.0) A	16.0 A	46.4 A	15.6	33.6x
F2017E	(52.0)	(19.3)	25.6	73.2	27.5	19.1x

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

Pricing as of Dec. 15, 2016.

Challenging Environment Impacts Profitability, Management to Move Forward with Strategic Plan

We rate shares of Transat with a Hold rating and a one-year target price of $6.50. Our target price is based on a NAV valuation methodology. We highlight the following:

- Strategic plan underway. Following the divestiture of its France/ Greece operations for €63M, Transat is looking to move forward with its strategic plan to have a larger exposure to the hotelier market (higher profitability segment compared to the airline sector) via M&A, organic growth or 100% ownership of its Oceans JV. Despite significantly reduced profitability in the summer season and net losses in F16, management expects that the current business model should yield positive earnings going forward.
- Expectations set for softer H1F17. We expect challenges to persist for TRZ's key sun destination market (85% of revenue) in H1 FY17. Transat's total seats are expected to be 3% lower relative to last year while total capacity for the market is expected to increase by 4%. While bookings and load factors are both on the rise (2.2% and 3.3% respectively), we believe the increased capacity will continue to put pressure on prices in F2017. On the costs side, we expect the weakening of the Canadian dollar (35% of TRZ's winter cost base is in US$) and the increasing fuel prices to continue to be headwinds for the firm as management expects a 3% increase in opex and a 1.5% margin compression YoY in H1 FY17.
- Foray into hotel market. Discussions are being held with the JV partner, H10, to 1) purchase the entire "Ocean" JV outright or 2) divest of its current 35% ownership ($98M BV). One certainty that came out of the call was TRZ's intention to move into the hotelier market and discussions with parties remain ongoing. Management expects some sort of decision by the spring time frame in 2017. We note that U.S. tour operators/ and hoteliers trade at a significant premium to TRZ (11x EBITDA vs. TRZ's 4-5x) and as such we could see a re-rating in the stock price, should the acquisition and related profitability flow through (Exhibit 3). Current cash of $300M is expected to go towards the acquisition of a hotelier or U.S. tour operator and additional funds may be tapped into (mortgage financing, partnership, etc).
- Trading at a discount to the NAV. The company's valuation and the 25% stock price retracement YTD are reflective of investors' concern on TRZ's business model. While we continue to believe in TRZ's staying power and positioning given it is a low cost producer, a continued challenging competitive environment and reduced profitability in its core business causes us to maintain our Hold rating.

Catalysts

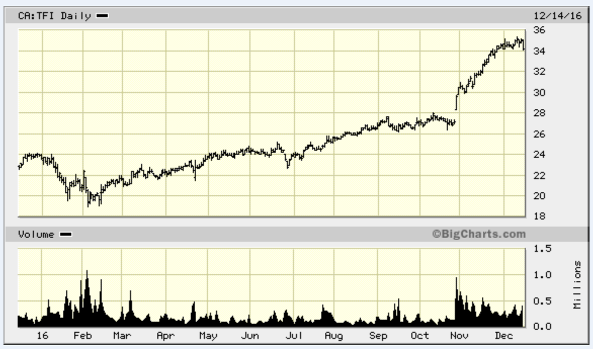
- Higher than expected results and margin improvements.
- Strategic acquisition that brings with it greater profitability.

Mona Nazir, MBA | TRANSPORTATION & INFRASTRUCTURE

TransForce Inc.
(TFI-T – $34.20)
Hold – Target Price: $32.00

COMPANY PROFILE

TransForce 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-Than-Truckload, 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	TFI-T	Shares O/S (M)	94.0
Rating	Hold	Market Cap (M)	$3,216
Risk	Medium	Float O/S (M)	89.3
Price	$34.20	Float Value (M)	$3,054
1-Yr Target	$32.00	Avg Daily Volume (K)	471.3
Dividend	$0.76	Enterprise Value (M)	$4,824
Yield (%)	2.2%	Control Blocks:	
1-Yr ROR	-4.2%	Manag & Dir	5%
52 Wk High-Low	$35.34-$18.92	Net Debt/Cap	38%
Valuation	7.75x EV/EBITDA (2018)	BVPS	$15.11
Year End	Dec. 31	Next Reporting	Mar-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.24	A	$0.47	A	$0.53	A	$0.45	A	$1.73	19.7 x
2015A	$0.28	A	$0.69	A	$0.60	A	$0.43	A	$2.04	16.8 x
2016E	$0.32	A	$0.47	A	$0.54	A	$0.64		$1.97	17.3 x
2017E	$0.54		$0.64		$0.62		$0.73		$2.54	13.5 x
2018E									$2.65	12.9 x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	56.8	A	107.4	A	116.5	A	129.4	A	410.1	11.8 x
2015A	95.2	A	137.7	A	136.1	A	105.6	A	474.7	10.2 x
2016E	82.5	A	112.7	A	111.7	A	138.5		445.4	10.8 x
2017E	133.5		153.0		147.6		160.6		594.7	8.1 x
2018E									603.3	8.0 x

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

Source: Company reports; Bloomberg; LBS.

Despite TFI Being Ahead of the Pack, Fragile Market Conditions Persist

We rate shares of TransForce with a Hold rating and a one-year target price of $32.00. Our target price is based on a 7.75x EV/EBITDA multiple applied to our 2018 estimate. We highlight the following:

- Guidance remains soft heading into 2017. Despite the run up in the stock price it is important to note that the U.S truckload sector remains challenged amid excess capacity, and volumes and pricing are to remain pressured in 2017. Management has provided soft guidance outlook commentary of "fragile market conditions" and Q3/16 (-4% organic contraction) and YTD results were reflective of such. Revenue could contract up to 5% in 2017. While we continue to remain cautious we believe that TFI is well positioned to benefit from a pivot or pick up in market conditions driven by a weak C$ or infrastructure spend.
- Margin upside in 2017. Given the higher margin profile of the recently acquired XPO (~21.7% EBITDA margin) versus TFI (expected ~10.8% EBITDA margin in 2016), the combined business should yield a higher margin profile. Furthermore synergies driven by broader TL N.A. coverage and continued efficiency extraction in its legacy businesses are expected to increase EBITDA by $20M in 2017.
- Future acquisitions in 2017 remain possible. Management has stated their intentions to continue M&A activity heading into 2017 with 1 or 2 transactions expected in H1/2017. Potential targets include the TL and LTL markets that are characterized by excess capacity and pricing pressures. We note that TFI has a history of making strategic and accretive acquisitions as evidenced by the acquisition of XPO for sub 5x EBITDA. During the 2013/2014 time period the company made 8 acquisitions.

Valuation. As a result of the recent price appreciation, TFI is trading relatively in line with peers (8.1x for TFI) vs peers 8.0x EV/EBITDA. We note that the company generates $300M in FCF and boasts a 9.2% FCF yield.

Catalysts

- Strategic M&A.
- Spin-off of the TL division.
- Increasing margins.

WSP Global Inc.
(WSP-T – $46.84)
Buy – Target Price: $50.00

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)	101.8
Rating	Buy	Market Cap (M)	$4,766
Risk	Medium	Float O/S (M)	53.7
Price	$46.84	Float Value (M)	$2,516
1-Yr Target	$50.00	Avg Daily Volume (K)	335.9
Dividend	$1.50	Enterprise Value (M)	$5,639
Yield (%)	3.2%	Control Blocks:	
1-Yr ROR	9.9%	Manag & Dir	18%
52 Wk High-Low	$48.50 - $35.11	CPPIB & CDP	29%
BVPS	$28.09	Net Debt/Cap	21%
Valuation	17.5x P/E (2018)	Next Reporting	Mar-17
Year End	31-Dec		

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual	P/E
2014A	$0.33	A	$0.40	A	$0.55	A	$0.64	A	$1.92	18.6x
2015A	$0.36	A	$0.51	A	$0.69	A	$0.55	A	$2.11	22.2x
2016E	$0.33	A	$0.56	A	$0.76	A	$0.64		$2.30	20.4x
2017E	$0.65		$0.70		$0.67		$0.69		$2.70	17.3x
2018E									$2.84	16.5x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual	EV/EBITDA
2014A	42.1	A	55.0	A	66.4	A	90.1	A	253.6	22.2x
2015A	85.3	A	106.0	A	126.2	A	124.0	A	441.5	12.8x
2016E	91.5	A	125.0	A	147.2	A	137.0		500.7	11.3x
2017E	132.3		137.8		137.1		145.5		552.7	10.2x
2018E									581.0	9.7x

Source: Company reports; Bloomberg; LBS.

Practice Makes Perfect, WSP to Continue with M&A Strategy; Positive Organic Growth Expected in 2017

We rate shares of WSP with a Buy rating and a one-year target price of $50.00. Our target price is based on a 17.5x P/E multiple applied to our 2018 estimate. We highlight the following:

- Organic growth returns to positive territory. After a challenging H1/2016 period (-1% organic growth) Q3/16 saw 1.7% positive organic growth as the company benefited from strong growth in the Americas as monies began to flow through the FAST Act. We are expecting 4% organic growth in 2017 as a result of increased infrastructure spending in Canada and the U.S.
- Margin expansion remains focus, post PB. The company has shown significant progress on the margin front post its acquisition of Parsons Brinckerhoff in October, 2014. Recall PB margins of 7% were below WSP's legacy 11%+ margins and as per the 2018 strategic plan a key focus was margin expansion back to historic levels. We expect the company to end 2017 with a 10.8% margin profile, up from 10.3% margin in 2016 and 9.8% in 2015.
- M&A mandate remains healthy. A key takeaway from WSP's post earnings conference calls is that its M&A mandate remains robust. In 2016 alone the company has made 6 acquisitions and added 2,500 individuals to the workforce. While tuck-ins and mid-size acquisitions continue to contribute to top line growth, management has not hesitated in their discussions of making another larger transformational acquisition which may be funded via additional financing. At the end of the Q3/16 leverage stood at 1.9x (inclusive of Mouchel Consulting).
- Valuation. We continue to believe that WSP merits a premium valuation relative to its US peers trading at 11x and European peers at 17x 2017 EPS given 1) Pure globally diversified engineering design business with low resources exposure (no construction risk vs. Aecon, SNC, STN), 2) stronger organic growth, 3) higher dividend yield (3.5% vs. 1.1% for U.S. peers and 1.5%+ for STN) and 4) Proven M&A strategy with $700M in available funding.

Catalysts

- Strategic M&A.
- Higher than expected organic growth and margin expansion.
- Large contracts wins and backlog growth.

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Milestone Apartments REIT (MST.UN-T – $17.70) Buy – Target Price: $21.00

COMPANY PROFILE

Milestone Apartments REIT owns and operates 78 multi-family garden-style residential properties, comprising ~24,000 units in 16 major metropolitan markets throughout the U.S. Sunbelt. Milestone is the largest REIT listed on the TSX focused solely on the U.S. multi-family sector. REIT's vertically integrated management platform employs more than 1,200 employees and manages a portfolio of ~50,000 apartment units across 16 major metropolitan markets the United States.

Source: BigCharts.com

Market and Company Data

Ticker	MST.UN-T	Units O/S (M)	91.6
Rating	Buy	Market Cap (M)	C$1,621
Risk	Medium	Float O/S (M)	80.8
Price	C$17.70	Float Value (M)	C$1,430
1-Yr Target	C$21.00	Avg Daily Volume (K)	249.0
Yield	4.6%	Enterprise Value (M)	C$3,404
1-Yr ROR	23.2%	Control Blocks:	Mgmt & Dir
52 Wk High-Low	C$21.33 - C$13.83	*Voting*	11.8%
NAV	C$20.00	*Equity*	11.8%
Valuation	5% Premium to NAV	Debt/GBV	47.9%
Year End	31-Dec	Next Reporting	Mar-17

FFO (FD, US$)	Q1	Q2	Q3	Q4	Annual	P/FFO
F2015	US$0.26 A	US$0.27 A	US$0.26 A	US$0.26 A	US$1.05 A	12.6x
F2016	US$0.25 A	US$0.28 A	US$0.28 A	US$0.30	US$1.11	11.9x
F2017	US$0.30	US$0.31	US$0.29	US$0.31	US$1.21	10.9x
F2018	US$0.31	US$0.32	US$0.30	US$0.32	US$1.26	10.5x
AFFO (FD, US$)	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**P/AFFO**
F2015	US$0.23 A	US$0.23 A	US$0.22 A	US$0.22 A	US$0.92 A	14.4x
F2016	US$0.23 A	US$0.25 A	US$0.25 A	US$0.27	US$1.02	13.0x
F2017	US$0.28	US$0.28	US$0.27	US$0.29	US$1.12	11.8x
F2018	US$0.29	US$0.29	US$0.28	US$0.30	US$1.17	11.3x

Source: Company reports; Bloomberg; LBS estimates.

Expecting Another Great Year in 2017

We rate Milestone Apartments REIT a Buy with a one-year target price of C$21.00. Milestone has outperformed its Canadian and U.S. peers through 2016 and we anticipate this momentum to carry into 2017.

- **2016 was a Milestone year.** In 2016, MST increased its size dramatically, its equity market capitalization stands at C$1.6B, ~45% increase YTD, its assets stand at US$2.8B, ~30% increase YTD. MST was highly acquisitive in 2016 with US$791M of acquisitions totaling 22 properties (5,907 units), bringing the cumulative total acquisitions since the IPO to US$1.3B. MST internalized its asset management resulting in a net reduction in its annual G&A of ~US$9.5M. MST announced a 10% increase to its monthly cash distributions effective January 2017.
- **Acquisitions in high growth markets and active management to continue with strong rent growth and stable occupancy.** Over half of MST's rental units are located in Texas, one of the largest and healthiest economies in the U.S. We believe U.S. Sunbelt multi-family assets will experience stronger cash flow growth and property value appreciation in the near term relative to Canadian multi-family assets, as we see many positive drivers of rental fundamentals including solid economic outlook, population and GDP growth, rental affordability. We expect rental rate growth of ~4.2% in 2017, conservative given same-property rent increases of ~6.0% y/y. Given the fragmented nature of U.S. multi-family market and its high liquidity (LTM transactions of US$120B+), we believe MST remains well positioned to continue to be acquisitive in 2017.
- **Recent demographic trends continue to make a strong contribution to the growing popularity of renting.** We are bullish on the U.S. multi-family sector, given the high number of Millennials (~75.4M) with homeownership rates at 35.2% (an average of 63.5% for all age groups), down from 39.1% in 2010. Millennials, predominantly renters, are a bigger population cohort than the Baby Boomers (~74.9M), many of whom are also entering this rental market as they look to downsize their homes.
- **Strong AFFO growth to drive distribution increases.** Our 2016, 2017 and 2018 AFFO estimates are US$1.02, US$1.12, and US$1.17, respectively (an implied annual growth of 10.6%, 10.1%, and 4.3%). Given its strong AFFO growth and its conservative payout ratio of 54.1%, we expect Milestone to continue to increase its distributions in the future.
- **Attractive entry point into a name focused on high-growth markets.** Given the recent market pullback, MST's unit price represents an attractive entry point for investors given the strength of the U.S. multi-family sector and sound internal management platform with a proven track record of strong growth. MST provides a unique opportunity to gain 100% exposure to the outperforming U.S. Sunbelt multi-family region, at an attractive AFFO valuation: 11.8x 2017 AFFO vs Canadian peers at ~15.2x and U.S. peers at ~20.3x. In addition, MST trades at an 11.5% discount to NAV vs Canadian peers at 9.7% and U.S. peers at 7.7%. Given the MST's growth profile versus peers, we view the current unit price as overly low.

SPECIAL SITUATIONS | Elizabeth Johnston, CFA

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Elizabeth Johnston, CFA | SPECIAL SITUATIONS

A&W Revenue Royalties IF (AW.UN-T – $36.22) Hold – Target Price: $33.75

COMPANY PROFILE

A&W Revenue Royalties Income Fund earns a royalty stream based on the system sales of the 838 A&W restaurants included in the fund's royalty pool. In 2015, the A&W restaurants contained within the royalty pool generated system sales of over $1 billion 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)	15.5
Rating	Hold	Market Cap (M)	$560.8
Risk	Medium	Float O/S (M)	12.1
Price	$36.22	Float Value (M)	$439.4
1-Yr Target	$33.75	Avg Daily Volume (k)	18.8
Dividend	$1.60	Enterprise Value (M)	$617.1
Yield	4%	Control Blocks:	
1-Yr ROR	-2.4%	*Mgmt & Dir*	*21.0%*
52 Wk High-Low	$37.49-$25.74	Debt/EBITDA	1.7x
Valuation	5.0% yield target	Next Reporting	Feb-17
Year End	Dec. 31		

Distributable Cash per Unit

	Q1		Q2		Q3		Q4		Annual		P/DCF
2015	$0.27	A	$0.38	A	$0.39	A	$0.52	A	$1.56	A	23.2x
2016E	$0.33	A	$0.37	A	$0.40	A	$0.50		$1.55		23.4x
2017E									$1.68		21.6x
2018E									$1.71		21.2x

EBITDA (M$)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2015	$5.8	A	$7.4	A	$7.7	A	$10.3	A	$31.3	A	19.7x
2016E	$7.1	A	$7.9	A	$8.3	A	$10.4		$33.7		18.3x
2017E									$35.5		17.4x
2018E									$37.4		16.5x

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

SSSG Benefitting from "Natural" Strategy

We rate A&W a Hold with a one-year target price of $33.75, which is based on a target yield of 5.0%. Our target yield 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 strong growth strategy. A&W has outperformed peers through 2016 and we anticipate this momentum to carry into 2017.

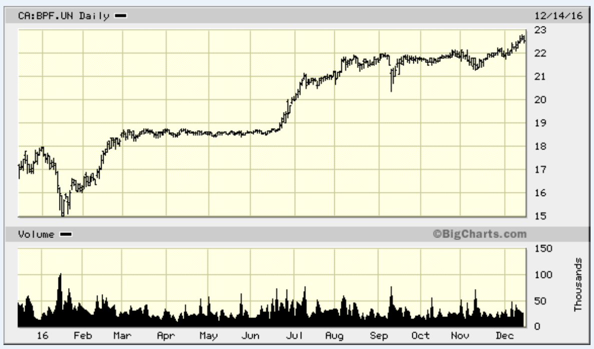
- Menu innovation key SSSG driver. In 2016, A&W continued to benefit from the "natural repositioning" which has driven SSSG. This is a key aspect to A&W's strategy which began with Better Beef in Sept. 2013 (and now includes Better Egg / Poultry, organic & fair trade coffee, and bacon from pork raised without the use of antibiotics). A&W continues to look at ways to improve its menu offerings, and we would anticipate that any new items will focus on more "natural" product offerings.
- QSR environment highly competitive; economic weakness in Alberta remains a headwind. While we have seen SSSG slow in Q2 and Q3 2016, A&W has continued to outperform the peer group. We expect headwinds related to this economic weakness to continue into 2017 (Alberta makes up 21% of locations / ~25% of sales). We are forecasting SSSG of +2.5% for Q4/16 (implies +4.0% for 2016), and +2.0% in 2017, which we believe is conservative.
- Plans to accelerate new store development. A&W is looking to increase the pace of new store development, and is targeting 300 new openings over the next 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 remains relatively underrepresented in Ontario and Quebec, compared to Western Provinces, and these provinces remain key growth regions. We are forecasting 30 net new locations in 2017; note that there were 24 net new openings in 2015 and we are forecasting the same for 2016.
- Distribution increases forecast to continue. At the end of Q3/16, the LTM payout ratio was 96.1%. Factoring in the distribution increase in 2016, the pro-forma LTM payout ratio was 98.9%. We believe that A&W can afford further distribution increases, and we have included an incremental +4% increase in our 2017 forecast (and +3.5% in 2018).

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

Boston Pizza Royalties IF
(BPF.UN-T – $22.54)
Hold – Target Price: $18.50

COMPANY PROFILE

Boston Pizza Royalties Income Fund earns a royalty stream based on the franchise system sales of the 372 Boston Pizza restaurants included in the fund's royalty pool. In 2015, these restaurants generated over $1 billion in gross system sales with the royalty pool generating $814M 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)	23.8
Rating	Hold	Market Cap (M)	$536.4
Risk	Medium	Float O/S (M)	20.3
Price	$22.54	Float Value (M)	$457.2
1-Yr Target	$18.50	Avg Daily Volume (k)	34.6
Dividend	$1.38	Enterprise Value (M)	$620.5
Yield	6.1%	Control Blocks:	
1-Yr ROR	-12%	*BP International*	*14.8%*
52 Wk High-Low	$22.79-$15.02	Net Debt/EBITDA	2.0x
Valuation	7.5% target yield	Next Reporting	Feb-17
Year End	Dec. 31		

Distributable Cash per Unit

	Q1		Q2		Q3		Q4		Annual		P/DCF
2014	$0.27	A	$0.31	A	$0.34	A	$0.31	A	$1.23	A	18.4x
2015	$0.29	A	$0.31	A	$0.37	A	$0.35	A	$1.33	A	16.9x
2016E	$0.32	A	$0.35	A	$0.38	A	$0.33		$1.38		16.4x
2017E									$1.39		16.2x

EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2014	$7.2	A	$7.6	A	$7.8	A	$7.6	A	$30.3	A	20.5x
2015	$7.5	A	$10.5	A	$10.9	A	$10.6	A	$39.5	A	15.7x
2016E	$10.2	A	$10.9	A	$11.1	A	$10.8		$43.0		14.4x
2017E									$44.2		14.0x

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

Menu Innovation, Marketing/Promotional Activity and Off-premise Sales Key to SSSG

We rate BPF.UN a Hold with a one-year target price of $18.50, based on a target yield of 7.5%. This is above the current peer group average of ~6%, which we view as representative of its higher Alberta exposure. Given ongoing economic weakness from Alberta, we remain cautious on the growth outlook for BPF overall, and would be looking for an improvement in SSSG as well as in the overall commentary on Alberta before updating our outlook.

- SSSG driven by menu innovation, marketing / promotional activity. Additionally, BPF 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 is expected to remains a headwind in 2017; 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 Q4/16 (implies +0.4% for 2016), and 2% in 2017.
- Off-premise sales (i.e. take-out and delivery) represent a meaningful opportunity for growth, with the potential to move towards 20% of sales (vs 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 6 locations in 2017 (compared to an estimated 6 in 2016 and 6 in 2015).
- Payout ratio remains below 100%; with the 6.2% increase in the distribution in early 2016, we have seen the LTM payout ratio tick higher through the year. For 2017, we are not forecasting any distribution increases and given our current forecast, we anticipate that the company will exit 2017 with a payout ratio of 99.2%.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

Boyd Group IF (BYD.UN-T – $83.10) Buy – Target Price: $96.00

COMPANY PROFILE

The Boyd Group is the largest corporate-owned multi-location operator in North America's $30-40B collision repair industry, with a total of 42 locations in Canada and 353 in the United States. Boyd currently operates two main 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) *	18.5
Rating	Buy	Market Cap (fd) (M)	$1,537
Risk	High	Float O/S (M)	17.2
Price	$83.10	Float Value (M)	$1,426
1-Yr Target	$96.00	Avg Daily Volume (k)	50.9
Dividend	$0.52	Enterprise Value (M)	$1,693
1-Yr ROR	16%	Control Blocks:	
52 Wk High-Low	$91.31-$54.16	*Mgmt. % Dir*	4%
Valuation	12.5x 2017E/2018E EBITDA		
BVPS	$14.35	Net Debt/EBITDA	1.0x
Year End	Dec. 31	Next Reporting	Mar-17

Adjusted EPU (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
2015	$0.48	A	$0.66	A	$0.60	A	$0.55	A	$2.30	A	36.2x
2016E	$0.70	A	$0.76	A	$0.71	A	$0.81		$3.00		27.7x
2017E	$0.81		$0.92		$0.95		$0.93		$3.61		23.0x
2018E									$4.12		20.2x

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	16.7x
2016E	$29.5	A	$30.5	A	$31.6	A	$32.2		$123.8		13.7x
2017E	$32.6		$35.8		$36.5		$36.2		$141.1		12.0x
2018E									$156.9		10.8x

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

Continuing to be Active in M&A

We rate Boyd Group IF a Buy with a one-year target price of $96.00, which is based on 12.5x our 2017E/2018E EBITDA and ahead of the peer group average of ~11x 2017. We believe that a premium multiple for BYD.UN is deserved, given the strong outlook for M&A and the company's continued growth. We believe that our revenue forecast remains conservative, reflecting the lower end of management's guidance which we continue to view as highly achievable.

- 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 are consolidated into a smaller number of shops (and this is increasingly performance-based). Boyd has been implementing its WOW Operating Way (to improve operations) across its network of shops, and as of Q3/16, it has been implemented in nearly all locations (except those acquired in the last 12 months).
- Plans to double business in 5 years. This is expected to come from both SSSG and M&A activity. M&A will include multi-store acquisitions (which are used to expand into new regions; leverage platform in existing markets) and single-store adds (to infill markets, build scale). YTD (2016), Boyd has added 55 locations compared to 29 locations added in 2015 (~23 from single stores). This is a meaningful increase in activity y/y, and we anticipate that Boyd will continue to transact at a similar pace in 2017. In terms of SSSG for 2017, we are forecasting +3.0% in the U.S. (which represents >90% of total revenue) and +1% in Canada.
- Balance sheet well-positioned for further M&A. We forecast that Boyd will exit 2016 with leverage of ~0.9x (net debt / EBITDA), which includes the $57.5M convertible debenture. Boyd remains well-capitalized with management indicating $340M of 'dry powder' for acquisitions. Recall that Boyd has a US$150M revolving credit facility (with an accordion feature for up to US$250M).

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

Cara Operations Ltd.
(CARA-T – $25.25)
Buy – Target Price: $32.00

COMPANY PROFILE

Cara Operations Ltd. is a multi-banner full-service restaurant company with 13 banners in operation. Approximately 81% of its 1,227 units are franchised, with 55% of restaurants located in Ontario. Their two largest banners by location count are Swiss Chalet and Harvey's. LTM system sales are approximately $1.9B.

Source: BigCharts.com

Market and Company Data

Ticker	CARA-T	FD Shares O/S (M)*	63.8
Rating	Buy	Market Cap (M)*	$1,610
Risk	High	Float O/S (M)*	24.4
Price	$25.25	Float Value (M)*	$616.7
1-Yr Target	$32.00	Avg Daily Volume (k)	58.5
Dividend	$0.41	Enterprise Value (M) ***	$1,917
Yield	1.6%	Equity Ownership:	
1-Yr ROR	28%	*Fairfax:*	*40%*
52 Wk High-Low	$33.59-$22.60	*Phelan Family:*	*25%*
Valuation	12x 2017E EBITDA	Net Debt/EBITDA	2.5x
Year End	Dec. 31	Next Reporting	Mar-17

EPS (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
2014	*$0.20*	A	*$0.26*	A	*$0.11*	A	*($0.18)*	A	*$0.39*	A	64.7x
2015	*$0.19*	A	$0.32	A	$0.38	A	$0.42	A	$1.30	A	19.4x
2016E	$0.27	A	$0.33	A	$0.27	A	$0.43		$1.30		19.4x
2017E	$0.39		$0.41		$0.43		$0.44		$1.68		15.1x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2014	*$17.8*	A	*$22.0*	A	*$21.7*	A	*$22.1*	A	*$83.3*	A	23.0x
2015	*$24.9*	A	$28.0	A	$28.9	A	$29.2	A	$111.0	A	17.3x
2016E	$27.5	A	$32.8	A	$36.9	A	$47.2		$144.4		13.3x
2017E	$43.4		$45.2		$47.2		$47.6		$183.5		10.4x

*Cara's IPO was April 10, 2015; 2014 and Q1/15 figures (*italics*) are pre-IPO
Source: Company reports; Thomson; Bloomberg; LBS estimates.

Digital Marketing Initiatives a Key Focus in 2017

We rate Cara Operations a Buy with a one-year target price of $32.00, which is based on 12x our 2017E EBITDA. This compares to the peer group average of ~11x 2017.

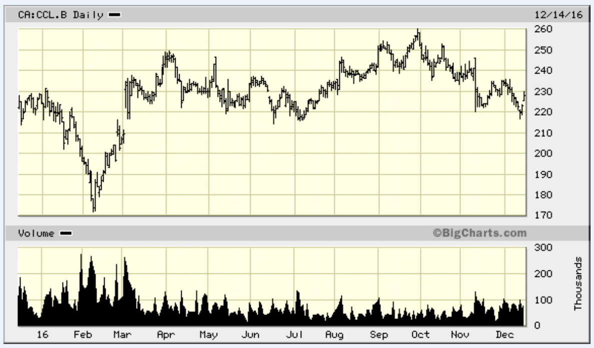
- SSSG under pressure from Alberta; certain banners underperforming. We have seen Cara's SSSG tick sequentially lower to -1.2% in the first three quarters of 2016 (compared to +2.4% in 2015 and +2.6% in 2014). Results continue to be impacted by negative SSSG in Alberta, a trend that we expect to continue into 2017, and also by varying SSSG performance from different brands. In order to improve SSSG, Cara is focused on multiple initiatives, including: ramping up restaurant renovations, increasing digital marketing spending, menu innovation, and launching of off-premise business for more brands (via mobile app; goal is to have all banners with an off-premise business by 2018).
- Digital marketing and strategy to be a focus in 2017, and Cara plans to triple its digital marketing spend in 2017 (though traditional marketing is still expected to make up the majority of marketing spending). Cara's digital technology team currently includes 4 people, and is set to expand to 9 people in the beginning of 2017. In addition to the increased digital marketing presence, Cara's digital initiatives include launching of a new CRM, updating/optimization of brand websites, optimization of mobile applications, and digital coupons.
- Ramping up renovation activity and new store growth. The company is looking to have a better distribution of openings in 2017, compared to 2016 which were back-end skewed; target is to add +30 net new. In terms of renovation activity, over 100 locations are scheduled for renovation in 2017 (vs 70 in 2016), with the majority planned for Q2 and Q3 (~2/3 of the locations). Renovations are planned for restaurants across all brands, particularly within East Side Mario's and Kelsey's; there are also plans to renovate 10 corporate Milestone's.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

CCL Industries Inc.
(CCL.B-T – $228.03)
Buy – Target Price: $275.00

COMPANY PROFILE

CCL Industries is a global specialty packaging company with four business segments: (1) CCL Label; (2) Avery; (3) CCL Container; and (4) Checkpoint. CCL operates 119 manufacturing facilities in 31 countries and has over 13,000 employees. In 2015 the business generated $3.04 billion in sales.



Source: BigCharts.com

Market and Company Data

Ticker *	CCL'B-T	FD Shares O/S (M)	35.5
Rating	Buy	Market Cap (M)	$8,095
Risk	Medium	Float O/S (M)	28.4
Price	$228.03	Float Value (M)	$6,471
1-Yr Target	$275.00	Avg Daily Volume (k)	108.5
Dividend	$2.00	Enterprise Value (M)	$9,283
1-Yr ROR	21%	Control Blocks:	
52 Wk High-Low	$260.00-$171.51	*1281228 Ontario Inc.*	20.3%
Valuation	12.0x 2017E/2018E EBITDA		
BVPS	$49.84	Net Debt/EBITDA	1.6x
Year End	Dec 31	Next Reporting	Feb-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
2015	$1.96	A	$2.08	A	$2.30	A	$2.10	A	$8.46	A	27.0x
2016E	$2.61	A	$2.50	A	$2.93	A	$2.42		$10.08		22.6x
2017E	$2.58		$3.30		$2.97		$2.80		$11.65		19.6x
2018E									$12.20		18.7x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		
2015	$143.1	A	$148.9	A	$163.2	A	$153.2	A	$608.4	A	15.3x
2016E	$185.9	A	$194.2	A	$208.0	A	$199.9		$788.0		11.8x
2017E	$199.0		$234.7		$215.3		$207.1		$855.4		10.9x
2018E									$873.8		10.6x

* Represents primary ticker; Voting shares trade under the ticker CCL'A-T
Source: Company reports; Thomson; Bloomberg; LBS estimates.

M&A Drives Top-line Growth; Integration of Checkpoint Acquisition Ongoing

We rate CCL Industries a Buy with a one-year target price of $275.00, which is based on 12x our 2017E/2018E EBITDA and compares to the peer group average of ~10x 2017. We believe that the premium multiple takes into consideration future benefits and growth from Checkpoint, CCL's strong balance sheet and potential for additional M&A.

- Top-line sales growth largely driven by M&A, with contribution from organic growth and FX. We are forecasting consolidated organic growth of +2.8% for Q4/16 (+3.6% for 2016) and +2.8% for 2017. In 2016, CCL's sales were boosted by FX currency gains, which tapered going into H2/16. For 2017, if current FX levels persist we would expect a smaller tailwind compared to 2016.
- CCL Label: consistent results with strong performance from Food & Beverage (sleeves, W&S). In terms of our margin forecast, we are forecasting 21.7% for 2017 (vs an estimated 21.5% in 2016); we would note that CCL has experienced some margin pressure from acquisitions (apart from the Checkpoint acquisition, most M&A has fallen under the Label segment). We are forecasting CCL Label organic growth of +4.0% for Q4/16 (+6.5% in 2016) and +4.0% in 2017.
- Mix shift in Avery segment. We have seen EBITDA margin improvement following the repositioning to web-based customized printing (and away from office products, which are lower margin). We are forecasting Avery EBITDA margin of 22.9% for 2017 (vs an estimated 22.9% in 2016 and 21.4% in 2015). We are forecasting organic growth of 0% for Q4/16 (-3.4% for 2016) and 1% for 2017. For the smaller CCL Container segment, we are forecasting organic growth of 0% for Q4/16 (+2.1% for 2016) and +2.0% for 2017.
- Integration of Checkpoint acquisition ongoing. Q3/16 was the first full quarter of results from the Checkpoint acquisition which closed in May 2016, and the integration was indicated to be progressing well. Restructuring related to the acquisition is expected to continue into 2017, with total estimated costs of $30M (previously $40M). Recall that the Checkpoint business is highly seasonal, with the strongest results seen in H2.
- Balance sheet remains strong and positioned for further acquisitions. At the end of Q3/16, net debt was $1.2B (net debt / EBITDA of 1.6x), with US$582M in available credit. We are forecasting leverage of 1.4x at the end of 2016 and 0.5x in 2017.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

DIRTT Environmental Solutions (DRT – $5.97) Buy – Target Price: $7.00

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)	90.1
Rating	Buy	Market Cap (M)	$538.0
Risk	High	Float O/S (M)	84.7
Price	$5.97	Float Value (M)	$505.6
1-Yr Target	$7.00	Avg Daily Volume (k)	279.0
Dividend	$0.00	Enterprise Value (M)	$463.7
Yield	0.0%	Ownership:	
1-Yr ROR	17%	*Mgmt and Directors*	*4%*
52 Wk High-Low	$7.07-$4.58		
Valuation	12x 2017E/2018E EBITDA	Debt/EBITDA	nm
Year End	Dec. 31	Next Reporting	Mar-16

EPS (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
2015	$0.06	A	($0.02)	A	$0.06	A	$0.10	A	$0.20	A	30.1x
2016E	$0.00	A	($0.02)	A	$0.04	A	$0.06		$0.10		61.7x
2017E	$0.01		$0.02		$0.08		$0.07		$0.18		32.9x
2018E									$0.21		28.9x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2015	$8.7	A	$2.3	A	$11.2	A	$9.6	A	$34.7	A	13.4x
2016E	$4.6	A	$4.4	A	$11.1	A	$11.3		$31.5		14.7x
2017E	$6.2		$7.1		$15.2		$14.6		$43.2		10.7x
2018E									$46.1		10.1x

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

Diverse Customer Base Underpins our Outlook

We rate DIRTT Environmental a Buy with a one-year target price of $7.00, which is based on 12x our 2017E/2018E EBITDA. This compares to the average peer group multiple of 10.5x. We apply a 12x multiple to reflect the longer-term growth profile for the business, although we would highlight the potential for volatility in results on a quarter to quarter basis.

- Growth in new and key existing industry verticals. Healthcare and education represent two focus verticals for growth, with residential representing a more medium to long term opportunity. Energy has historically represented a meaningful portion of total sales, though we have seen this decline over the last 12-18 months on the back of economic weakness in energy-related end markets. During this time, the company has been able to grow their business in other verticals, increasing their diversification. Healthcare has previously been highlighted as a key growth vertical, though we have not seen meaningful growth in this vertical as a percentage overall (represented 18% in Q3/16 vs 16% in 2015).
- Targeted approach to new geographies. The new London Green Learning Centre (GLC) is now open, and will serve as a gateway to Europe as well as support for Middle Eastern markets. International revenues currently make up a small percentage of total sales (~3% LTM; included within the U.S. segment).
- ICE Software: continuing investment. Virtual reality headsets (Oculus) have been rolled out to the Distribution Partners; this was previously only available in Calgary. The next evolution to this part of the technology is mixed reality, which was unveiled at the annual Connext event (held in June). The mixed reality overlays virtual reality with the user's real environment, allowing the user to view the two simultaneously. DRT continues to invest in technology and the ICE software, which are core to delivering the DIRTT solution and an important tool in the sales process.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

Imvescor Restaurant Group
(IRG-T – $3.17)
Buy – Target Price: $3.50

COMPANY PROFILE

Imvescor Restaurant Group is a full-service restaurant franchisor with 4 banners in operation. Approximately 98% of its 223 units are franchised, with 57% of restaurants located in Quebec and 32% in Atlantic Canada. Their two largest banners by location count are Pizza Delight and Mikes. As of Q3/F16, IRG had LTM system sales of approximately $389 million.

Source: BigCharts.com

Market and Company Data

Ticker	IRG-T	FD Shares O/S (M)*	62.3
Rating	Buy	Market Cap (M)*	$197.6
Risk	Medium	Float O/S (M)*	56.0
Price	$3.17	Float Value (M)*	$177.7
1-Yr Target	$3.50	Avg Daily Volume (k)	108.3
Dividend	$0.09	Enterprise Value (M) *	$196.7
Yield	2.8%	Ownership: *	
1-Yr ROR	13%	*Mgmt and Directors:*	*12%*
52 Wk High-Low	$3.33-$2.00		
Valuation	9.5x 2017e/2018e EBITDA	Net Debt/EBITDA *	0.0x
Year End	Oct. 30	Next Reporting	Jan-17

EPS (FD) *

	Q1		Q2		Q3		Q4		Annual		P/E
2014	$0.05	A	$0.04	A	$0.03	A	($0.01)	A	$0.11	A	28.8x
2015	$0.03	A	$0.04	A	$0.04	A	$0.06	A	$0.16	A	19.2x
2016	$0.04	A	$0.04	A	$0.05	A	$0.04		$0.18		18.0x
2017									$0.20		16.1x
2018									$0.21		14.9x

Adjusted / Operating EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2014	$4.1	A	$3.7	A	$4.5	A	$3.8	A	$16.0	A	12.3x
2015	$3.3	A	$3.8	A	$4.3	A	$4.6	A	$15.9	A	12.3x
2016	$4.3	A	$4.3	A	$4.8	A	$4.5		$17.9		11.0x
2017									$19.7		10.0x
2018									$21.7		9.1x

* Market cap and enterprise value calculations fully diluted for warrants outstanding
Source: Company reports; Thomson; Bloomberg; LBS estimates.

Increased Pace of Renovations Expected in 2017

We rate Imvescor Restaurant Group a Buy with a one-year target price of $3.50, which is based on 9.5x our F2017E/F2018E EBITDA. This represents a discount to the peer group which reflects the relative size and liquidity of the company, and the early stages of the rejuvenation plan.

- 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; a focal point for all brands). Ongoing improvements include menu rationalization / new menus (new Mikes menu launched in Sept./2016), marketing activity (focused on driving traffic), increasing food quality / execution, and franchisee restaurant profitability training. In terms of take-out / delivery, as of October there were 40 Mikes using an online platform; Scores will also be moving to online ordering in 2017.
- Renovation activity ongoing; increased pace anticipated in 2017. There are 45 locations anticipated to be completed in each of F2017 and F2018. This is the main driver of improvements under the "ambience" pillar, which seeks to address the large number of restaurants in the network due for a renovation.
- Financial targets: IRG continues to target SSSG of +3-5% by F2018 as well operating EBITDA of >$20M. In terms of new store openings, this target has been more challenging (IRG has continued to have net closures). However, there are plans to open 5 new Mikes locations in F2017 and 5 more the year after. IRG currently has 5 corporate locations, with the intent of using these as training stores in the future.
- Pursuing M&A opportunities. Management is pursuing potential opportunities, and have indicated that a potential target would have a strategic fit with existing IRG brands, be franchised (or have the potential to be franchised), located close to the company's existing store base (i.e. in Canada) and have potential for clear synergies. IRG's balance sheet remains strong, with net debt / EBITDA of ~0x and $30M available on the credit facility, at the end of Q3/F16.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

K-Bro Linen Inc.
(KBL-T – $40.44)
Hold – Target Price: $42.00

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 approximately 1,650 employees and operates nine laundry and linen processing facilities in most major centers across Canada.

Source: BigCharts.com

Market and Company Data

Ticker	KBL-T	FD Shares O/S (M)*	8.0
Rating	Hold	Market Cap (M)	$322.1
Risk	Medium	Float O/S (M)	7.7
Price	$40.44	Float Value (M)	$310.9
1-Yr Target	$42.00	Avg Daily Volume (k)	15.9
Dividend	$1.20	Enterprise Value (M)	$333.0
1-Yr ROR	7%	Control Blocks:	
52 Wk High-Low	$51.13-$39.98	*Mgmt & Dir*	3.5%
Valuation	11x 2018E EBITDA		
BVPS	$14.63	Net Debt/ LTM EBITDA	0.4x
Year End	Dec. 31	Next Reporting	Mar-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
2015	$0.38	A	$0.38	A	$0.48	A	$0.27	A	$1.51	A	26.8x
2016E	$0.32	A	$0.42	A	$0.43	A	$0.45		$1.62		24.9x
2017E									$1.76		23.0x
2018E									$1.96		20.7x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2015	$6.3	A	$7.1	A	$7.6	A	$6.2	A	$27.1	A	12.3x
2016E	$6.8	A	$7.5	A	$7.5	A	$7.9		$29.7		11.2x
2017E									$31.9		10.4x
2018E									$35.1		9.5x

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

Increased Capacity in 2017 from New Toronto Plant

We rate K-Bro Linen a Hold with a one-year target price of $42.00, which is based on 11x 2018E EBITDA. We remain cautious on the longer term growth outlook for the company, given the significant CAPEX spending planned into 2018. However, we believe that there is a meaningful opportunity for organic growth within the Toronto region once the new plant is completed and operational (i.e. beginning in 2017).

- Top-line revenue growth in 2017 driven by both new contracts and organic growth. This includes incremental volumes from the recently announced contract win in Ontario as well as partial volume from the contract renewal in the Vancouver region. In terms of organic growth, we forecast +3.5% in the Healthcare segment and +2.0% in the Hospitality segment.
- Toronto facility ($35M CAPEX) nearing completion; transitioning expected through Q1/17. Construction on this facility is ongoing, with the transition of volume to begin in late 2016. Recall that this new 100,000 sq. ft. facility replaces the existing plant (38,500 sq. ft.) where capacity has been constrained, and will allow for more aggressive bidding in the region. In that regard, KBL announced a new contract, to be processed by this new facility, with William Osler Health System ($3.6M in annual revenue; to begin in H1/17). We view this recent contract win as positive for the outlook in this region and believe that it speaks to KBL's ability to bid and win more business for the new plant.
- Vancouver facility ($50M total CAPEX) spending to begin in H1/17. A site has been identified for the new plant (South Burnaby), with spending to begin in 2017 through 2018 (approximately half of the spending in each year; H2/17 and H1/18). 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. With the Q3/16 results, KBL announced that it had renewed its credit facility and increased it to $85M (from $50M). The company intends to finance the new Vancouver facility with debt; we forecast that KBL will exit 2017 with leverage of 1.4x (vs an estimated 0.7x at the end of 2016).

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

The Keg Royalties IF (KEG.UN-T – $20.50) Buy – Target Price: $23.00

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 2015, The Keg restaurants generated $574M 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)	14.9
Rating	Buy	Market Cap (M)	$304.7
Risk	Medium	Float O/S (M)	11.4
Price	$20.50	Float Value (M)	$232.7
1-Yr Target	$23.00	Avg Daily Volume (k)	13.3
Dividend	$1.10	Enterprise Value (M)	$316.61
Yield	5.4%	Control Blocks:	
1-Yr ROR	18%	*Keg Restaurants Ltd.*	*23.4%*
52 Wk High-Low	$22.10 - $15.02	Net Debt/EBITDA	0.5x
Valuation	5% yield target	Next Reporting	Feb-17
Year End	Dec. 31		

Distributable Cash per Unit

	Q1		Q2		Q3		Q4		Annual		P/DCF
2015	$0.29	A	$0.26	A	$0.27	A	$0.27	A	$1.08	A	18.9x
2016E	$0.32	A	$0.27	A	$0.27	A	$0.29		$1.16		17.7x
2017E	$0.30		$0.27		$0.29		$0.30		$1.15		17.8x
2018E									$1.17		17.5x

EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2015	$5.8	A	$5.3	A	$5.5	A	$6.2	A	$22.8	A	13.9x
2016E	$5.8	A	$5.4	A	$5.7	A	$6.2		$23.1		13.7x
2017E	$6.0		$5.5		$5.9		$6.4		$23.8		13.3x
2018E									$25.0		12.7x

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

Well-positioned for Distribution Increases on Strong Performance

We rate KEG.UN a Buy with a one-year target price of $23.00, which is based on a 5.0% 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 has continued to post positive, consistent SSSG, although the growth did see some slowdown in Q2/16 and Q3/16 (similar to A&W). While the Keg does have a relatively lower exposure to Alberta (16% of locations), SSSG has also benefitted from menu re-pricing which we believe represents a meaningful portion of the growth. Additionally, the USD translation gains from the U.S. stores (~10% of the network) have been a modest tailwind, although we have seen this impact moderate as the CADUSD has stabilized y/y. We are forecasting consolidated SSSG of +2.5% for Q4/16 (implies +2.2% for 2016), and +2.0% in 2017.
- 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. For the 2017 vend-in in January, we anticipate one new restaurant. In Keg Restaurant's fiscal 2017 year, the company currently plans to open 6 new restaurants (3 corporate / 3 franchised).
- Forecasting additional distribution increases. At the end of Q3/16, the LTM payout ratio was 93.4% (96.8% pro-forma the distribution increases in 2016; which were 5% in aggregate). We believe that KEG.UN can afford further distribution increases, and have included a 2% increase in 2017 and another 2% increase in 2018. We forecast a payout ratio of 97.0% at the end of 2017.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

MTY Food Group Inc.
(MTY-T – $48.72)
Hold – Target Price: $43.00

COMPANY PROFILE

MTY Food Group is a multi-brand quick service restaurant (QSR) franchisor with approximately 57 distinct 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 and globally. Through a series of acquisitions and the continued development of new concepts, at Q3/F16 reporting the company had 5,534 locations.

Source: BigCharts.com

Market and Company Data

Ticker	MTY-T	FD Shares O/S (M)	21.4
Rating	Hold	Market Cap (M)	$1,041.4
Risk	High	Float O/S (M)	15.7
Price	$48.72	Float Value (M)	$765.9
1-Yr Target	$43.00	Avg Daily Volume (k)	35
Dividend	$0.46	Enterprise Value (M)	$1,258.6
1-Yr ROR	-10.8%	Control Blocks:	
52 Wk High-Low	$50.99-$27.74	*Mgmt & Dir*	26.5%
Valuation	11.5x F2017E EBITDA		
BVPS	$13.31	Net Debt/EBITDA (F2016)	3.4x
Year End	Nov. 30	Next Reporting	Feb-17

Adjusted EPS (FD)

	Q1		Q2		Q3		Q4		Annual		P/E
F2014	$0.29	A	$0.38	A	$0.38	A	$0.41	A	$1.45	A	33.6x
F2015	$0.33	A	$0.44	A	$0.43	A	$0.47	A	$1.68	A	29.0x
F2016	$0.41	A	$0.44	A	$0.52*	A	$0.55		$1.92*		25.4x
F2017	$0.52		$0.56		$0.76		$0.58		$2.42		20.2x

Adjusted EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
F2014	$9.5	A	$11.4	A	$10.5	A	$11.3	A	$42.7	A	29.5x
F2015	$10.4	A	$13.4	A	$13.3	A	$13.5	A	$50.7	A	24.8x
F2016	$12.1	A	$12.8	A	$18.0	A	$21.5		$64.5		19.5x
F2017	$20.9		$21.9		$27.9		$22.4		$93.1		13.5x

*Adjusted to exclude $8M pre-tax gain on fx derivative. Including gain, EPS is $0.82
Source: Company reports; Thomson; Bloomberg; LBS estimates.

U.S. Presence Opens up Opportunities for M&A

We rate MTY a Hold with a one-year target price of $43.00, which is based on 11.5x F2017E EBITDA. This compares to the peer group at ~11x 2017. While MTY has continued to be active in M&A and has historically had a strong return on invested capital, we do not anticipate that MTY will be active in major M&A in the near term, and therefore believe that an in line multiple is appropriate.

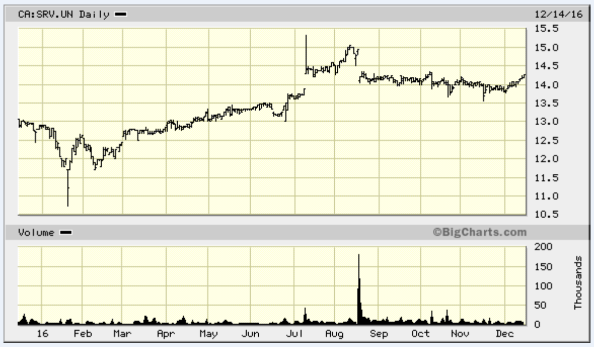
- Plans to expand selected MTY brands in the United States. Initially, this is to include Thai Express and Sushi Shop; there are 10 Thai Express restaurants sold with expected openings over the next 12 months (one under construction in the Mall of America, Minnesota). MTY believes that there is a meaningful opportunity to grow Thai Express in the U.S. at a similar pace to the growth of the brand in Canada.
- M&A to remain an important component of growth. MTY continues to look at potential acquisitions in both the U.S. and Canada and believes that opportunities remain in both countries (though highlighted the deeper market in the U.S.). Since acquiring Kahala, MTY acquired Baja Fresh (Sept/2016; 183 locations), effectively made possible given that the Kahala platform was already in place. Management believes that their scalable model will allow for tuck-in acquisitions to be easily integrated, not only in Canada but now in the U.S. as well.
- Kahala's strong marketing program to benefit MTY. Kahala has a dedicated team for digital marketing initiatives and MTY plans to leverage this knowledge to benefit their brands in Canada (applications, websites, social media). MTY has also been working on a mobile application, which will span all of MTY's brands and be a comprehensive solution (i.e. ordering, payments, notifications).
- Balance sheet: near term focus to pay down debt. Dependent on potential future M&A activity, we anticipate that MTY will be able to pay down ~$60M of debt over the next 12 months. In terms of leverage, the company is comfortable below 3x (net debt / EBITDA) but would consider exceeding that in the short term for a larger acquisition. At the end of Q3/F16, we calculate LTM leverage of 3.5x (excludes the gift card liability on the balance sheet).

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

SIR Royalty IF (SRV.UN-T – $14.25) 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 2015, these restaurants generated approximately $268M 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)	$148.7
Risk	High	Float O/S (M)	8.4
Price	$14.25	Float Value (M)	$119.4
1-Yr Target	$13.50	Avg Daily Volume (k)	12.1
Dividend	$1.14	Enterprise Value (M)	$148.7
Yield	8.0%	Control Blocks:	
1-Yr ROR	3%	*SIR Corp.*	*19.7%*
52 Wk High-Low	$15.31-$10.72		
Valuation	8.5% target yield	Debt/EBITDA	0.0x
Year End	Dec. 31	Next Reporting	Mar-17

Distributable Cash per Unit

	Q1		Q2		Q3		Q4		Annual		P/DCF
2014	$0.25	A	$0.30	A	$0.29	A	$0.28	A	$1.12	A	12.7x
2015	$0.26	A	$0.30	A	$0.30	A	$0.28	A	$1.13	A	12.6x
2016E	$0.26	A	$0.31	A	$0.28	A	$0.28		$1.13		12.6x
2017E									$1.17		12.1x

EBITDA ($M)

	Q1		Q2		Q3		Q4		Annual		EV/EBITDA
2014	$3.4	A	$4.0	A	$3.9	A	$3.7	A	$15.0	A	9.9x
2015	$3.4	A	$4.1	A	$4.1	A	$3.9	A	$15.6	A	9.5x
2016E	$3.7	A	$4.4	A	$4.2	A	$4.1		$16.4		9.1x
2017E									$17.1		8.7x

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

Results Impacted by Regional Weakness

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. In that regard, in the last few quarters regional weakness in Alberta and Newfoundland have negatively impacted the stores located in those regions (one location in each) and we would anticipate this headwind to persist in 2017. Forecasting Q4/16 SSSG of +1.3%; +1.2% in 2017 and +2.0% in 2018.
- New store development, renovation activity. SIR has two lease commitments in place to open one Red's (2017) and another restaurant in 2018 (Jack Astors). There are also plans to convert the remaining two Alice Fazooli's to Scaddabush by the end of 2017. In terms of renovations, given that the Jack Astor's renovation program have been indicated to be going well, we anticipate that the company will continue to renovate locations though the timing remains uncertain.
- Underlying restaurant operation more capital intense, given that 100% of locations are corporately owned (compared to other royalty funds, which are largely franchised; A&W and Boston Pizza are 99% franchised, The Keg is roughly 50/50 split). Given this structure, we anticipate continued muted growth for the business in the near-term, in terms of both SSSG and new store openings.

Elizabeth Johnston, CFA | SPECIAL SITUATIONS

Uni-Select Inc.
(UNS-T – $29.25)
Buy – Target Price: $37.00

COMPANY PROFILE

Uni-Select is a large commercial distributor of automotive parts, operating within two key segments: Aftermarket Replacement Parts (Canada) and Automotive Refinish Paint (FinishMaster U.S). Following the sale of its U.S. Parts business, the company has a North American distribution network of 13 warehouses and over 255 corporate stores. Additionally, there are over 1,150 independent jobbers in the Canadian network.

Source: BigCharts.com

Market and Company Data

Ticker	UNS-T	FD Shares O/S (M)	42.2
Rating	Buy	Market Cap (M)	C$1,235
Risk	Medium	Float O/S (M)	41.2
Price	C$29.25	Float Value (M)	C$1,204
1-Yr Target	C$37.00	Avg Daily Volume (k)	232.1
Dividend	C$0.34	Enterprise Value (M)	C$1,056
1-Yr ROR	28%	Ownership:	
52 Wk High-Low	C$37.45-$26.59	*Mgmt & Dir*	2.5%
Valuation	11.0x 2017e/2018e EV/EBITDA		
BVPS	$10.66	Net Debt/EBITDA	1.3x
Year End	Dec. 31	Next Reporting	Feb-17

Adjusted EPS (FD)	Q1		Q2		Q3		Q4		Annual		P/E
2015 *	$0.24	A	$0.47	A	$0.37	A	$0.26	A	$1.33	A	16.4x
2016e	$0.27	A	$0.40	A	$0.41	A	$0.30		$1.37		15.9x
2017e	$0.31		$0.38		$0.41		$0.31		$1.42		15.4x
2018e									$1.48		14.8x
Adjusted EBITDA ($M)											
2015*	$19.5	A	$31.1	A	$26.0	A	$20.0	A	$96.6	A	10.9x
2016e	$21.7	A	$29.7	A	$30.8	A	$24.4		$106.7		9.9x
2017e	$25.2		$30.1		$31.9		$25.6		$112.9		9.4x
2018e									$116.8		9.0x

** 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 s

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

M&A Activity Important Growth Driver

We rate Uni-Select a Buy with a one-year target price of $37.00, which is based on 11.0x our 2017E/2018E EBITDA, compared to the peer group average of ~11 x 2017.

- Further to the sale of the U.S. Parts business in June 2015, UNS is focused on growing its two segments: Automotive (Canada) and FinishMaster (U.S).
- FinishMaster. In the U.S., organic growth is benefitting from Multi-shop operator (MSO) relationships and the ongoing consolidation of body shops (which yields market share gains). FinishMaster is the largest distributor of automotive refinish paint in the U.S. with a market share in the +25% range. In addition to organic growth, FinishMaster is growing through M&A – transaction multiples in the U.S. paint segment are indicated to be in the 6-9x range, with multiples at the higher end for larger transactions. YTD in 2016, UNS has acquired 55 locations (>80% of these in the U.S.). This compares to 37 locations acquired in 2015; we anticipate that the company will remain active in M&A going forward. In terms of organic growth, we are forecasting SSSG of +3.0%.
- Canada Parts. The strategy in Canada is to grow the corporate store base, under the "Bumper to Bumper" banner, in addition to serving independent jobbers. Over the last year, the weaker economic environment in the Prairies has negatively impact results, and we would expect this trend to continue at least in the near term. Therefore, we are opting to be conservative with our SSSG estimate and are forecasting 0% for both 2017 and 2018 for the Automotive segment.
- Balance sheet positioned to support M&A activity. At the end of Q3/16, UNS had total debt of $154.6M ($133.6M net) for leverage of 1.3x (net debt / EBITDA) and $260M in available credit.

Appendix – Important Disclosures

Company		Ticker	Disclosures*
5N Plus Inc.	Nick Agostino (Special Situations)	VNP-T	U, V
A&W Revenue Royalties Income Fund	Elizabeth Johnston (Special Situations)	AW.UN-T	N/A
Acerus Pharmaceuticals Corp.	Joseph Walewicz (Healthcare)	ASP-T	V
Ag Growth International	John Chu (Diversified Agriculture)	AFN-T	U
Avnel Gold Mining Ltd.	Pierre Vaillancourt (Mining)	AVK-T	N/A
Boston Pizza Royalties Income Fund	Elizabeth Johnston (Special Situations)	BPF.UN-T	U
Boyd Group Income Fund	Elizabeth Johnston (Special Situations)	BYD.UN-T	N/A
BSM Technologies	Nick Agostino (Special Situations)	GPS-T	N/A
Canadian Western Bank	Marc Charbin (Financial Services)	CWB-T	N/A
Canam Group Inc.	Mona Nazir (Transportation & Infrastructure)	CAM-T	P, V
Capstone Mining Corp.	Pierre Vaillancourt (Mining)	CS-T	V
Cara Operations Ltd.	Elizabeth Johnston (Special Situations)	CARA-T	U, V
Cardiome Pharma Corp.	Joseph Walewicz (Healthcare)	COM-T/CRME-O	U
CCL Industries Inc.	Elizabeth Johnston (Special Situations)	CCL.B-T	N/A
Cervus Equipment Corp.	John Chu (Diversified Agriculture)	CVL-T	N/A
Chesswood Group Ltd.	Marc Charbin (Financial Services)	CHW-T	U
Cipher Pharmaceuticals Inc.	Joseph Walewicz (Healthcare)	CPH-T	V
Concordia International Corp.	Joseph Walewicz (Healthcare)	CXR-T/CXRX-O	V
Currency Exchange International	Marc Charbin (Financial Services)	CXI-T	U, V
Detour Gold Corp.	Pierre Vaillancourt (Mining)	DGC-T	U, V
DirectCash Payments Inc.	Marc Charbin (Financial Services)	DCI-T	V
DIRTT Environmental Solutions	Elizabeth Johnston (Special Situations)	DRT-T	U
Eastmain Resources Inc.	Pierre Vaillancourt (Mining)	ER-T	P, V
Equity Financial Holdings Inc.	Marc Charbin (Financial Services)	EQI-T	V
Exchange Income Corp.	Mona Nazir (Transportation & Infrastructure)	EIF-T	U, V
Goeasy	Marc Charbin (Financial Services)	GSY-T	V
Grenville Strategic Royalty Corp.	Marc Charbin (Financial Services)	GRC-V	U, V
Halogen Software Inc.	Nick Agostino (Special Situations)	HGN-T	N/A
Home Capital Group Inc.	Marc Charbin (Financial Services)	HCG-T	V
Hudbay Minerals Inc.	Pierre Vaillancourt (Mining)	HBM-T	A, 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 (Special Situations)	IRG-T	V
Integra Gold Corp.	Pierre Vaillancourt (Mining)	ICG-V	P, V
Jaguar Mining Inc.	Pierre Vaillancourt (Mining)	JAG-T	P, V
K-Bro Linen Inc.	Elizabeth Johnston (Special Situations)	KBL-T	U
Keg Royalties Income Fund	Elizabeth Johnston (Special Situations)	KEG.UN-T	N/A
Kinaxis Inc.	Nick Agostino (Special Situations)	KXS-T	N/A
Knight Therapeutics Inc.	Joseph Walewicz (Healthcare)	GUD-T	U, V
Lundin Mining Corp.	Pierre Vaillancourt (Mining)	LUN-T	V
Mediagrif Interactive Technologies Inc.	Nick Agostino (Special Situations)	MDF-T	N/A
Merus Labs International Inc.	Joseph Walewicz (Healthcare)	MSL-T/MSLI-O	U, V
Milestone Apartments REIT	Ewa Kiwa (RealEstate)	MST.UN-T	U
MTY Food Group Inc.	Elizabeth Johnston (Special Situations)	MTY-T	V
NAPEC Inc.	Mona Nazir (Transportation & Infrastructure)	NPC-T	L, U
Nuvo Pharmaceuticals	Joseph Walewicz (Healthcare)	NRI-T	V
People Corporation	Marc Charbin (Financial Services)	PEO-V	U
Pure Technologies Ltd.	Mona Nazir (Transportation & Infrastructure)	PUR-T	V
Rocky Mountain Dealerships Inc.	John Chu (Diversified Agriculture)	RME-T	N/A
Savaria Corporation	Nick Agostino (Special Situations)	SIS-T	U, V
Semafo Inc.	Pierre Vaillancourt (Mining)	SMF-T	V
SIR Royalty Income Fund	Elizabeth Johnston (Special Situations)	SRV.UN-T	U
Solium Capital	Nick Agostino (Special Situations)	SUM-T	N/A
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
Syncordia Technologies and Healthcare Solutions Corp.	Nick Agostino (Special Situations)	SYN-V	V
Taseko Mines Ltd.	Pierre Vaillancourt (Mining)	TKO-T	V
TECSYS Inc.	Nick Agostino (Special Situations)	TCS-T	U, V
Teranga Gold Corp.	Pierre Vaillancourt (Mining)	TGZ-T	V
Terra Firma Capital Corporation	Marc Charbin (Financial Services)	TII-V	N/A
Theratechnologies Inc.	Joseph Walewicz (Healthcare)	TH-T	U, V
Transat A.T. Inc.	Mona Nazir (Transportation & Infrastructure)	TRZ-T	D, V
TransForce Inc.	Mona Nazir (Transportation & Infrastructure)	TFI-T	N/A
Trevali Mining	Pierre Vaillancourt (Mining)	TV-T	U, V
TSO3 Inc.	Nick Agostino (Special Situations)	TOS-T	U, V
Uni-Select Inc.	Elizabeth Johnston (Special Situations)	UNS-T	V
WSP Global Inc.	Mona Nazir (Transportation & Infrastructure)	WSP-T	U

Last Updated: *Dec. 14, 2016*

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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.
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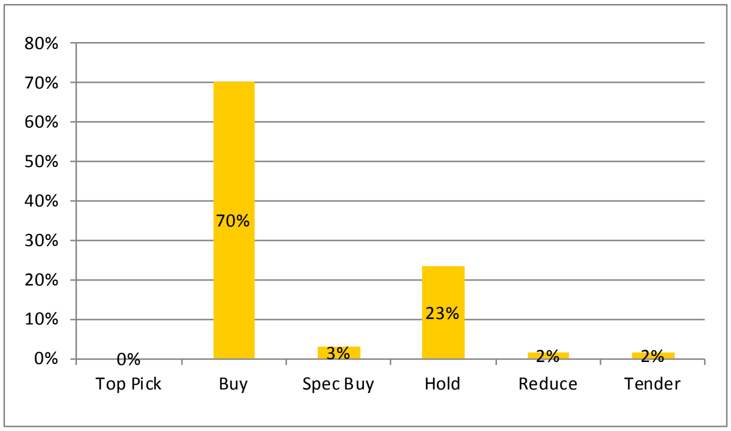

Source: Laurentian Bank Securities

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Terminology	LBS (Laurentian Bank Securities) recommendation/risk terminology is as follows:	
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	High	High financial/operational risk, low predictability of financial performance, high stock volatility.

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