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Investor's Digest of Canada

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EDITOR'S NOTES

Market watchers continue to debate whether or not cannabis is a long-term play. Cannabis stocks have certainly had something of a rocky start post-legalization in Canada, but many players are intrepidly forging ahead to establish a clear brand identity and hopefully gain an advantage among consumers.

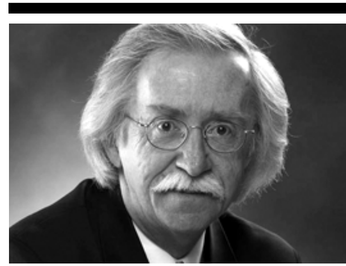
A major game changer will be the legislation on edibles and other refined cannabis products taking effect on Oct. 17, 2019 (when the second year of marijuana legalization begins). Makers of cannabis-infused products are already forming relationships with leading beverage companies (such as the HEXO Cannabis Corp. deal with Molson Coors Inc., and the Coca-Cola Co. investment in Aurora Cannabis Inc.), inspiring thrilling speculation about the possibilities, among pot consumers and investors.

At HEXO's annual general meeting Jan. 16, CEO Sébastien St-Louis was keen to discuss promotional opportunities (such as offering samples at music festivals) and forays into green cuisine (it has developed a THC extract powder that can be added directly to food).

He and his colleagues were keen to underline HEXO's international expansion efforts as well, pointing to another path toward growth for mid-range pot stocks. – **R.P.**

What is your advisor doing about it?

Devastating losses are coming



NICK BARISHEFF

I hold financial professionals who recommend monetary gold to their clients in the highest esteem. It is their sage advice that will protect investors from the unprecedented dangers they face today in the markets. However, many advisors are no longer permitted to recommend physical gold or precious metals in client portfolios as a result of the new rules defining risk in mutual funds.

Many clients who had been holding gold for years were forced to reduce their positions last year by their investment advisor's dealer. The timing for this couldn't have been worse, as the resulting rise in their gold holdings would have reduced the losses in their portfolios from the market carnage we have witnessed since late September.

The equity selloff that began in October is intensifying and threatens advisors, MFDA (Mutual Fund Dealers Association) dealers and investors with a high probability of a 50 per cent to 70 per cent loss of capital and a corresponding loss of income in 2019. A decline of this magnitude will have devastating effects on retirement portfolios. Many investors will not recover in their lifetimes.

This could snowball into advisors and investment dealers no longer being viable. The Everything Bubble appears to be bursting and, as history has shown, investors' fears can easily grow into a panic.

The final quarter in 2018 was a textbook display of why investors must own gold. There is no liquid asset more negatively correlated to the financial markets. Investors who do not own monetary gold may find themselves dangerously exposed to market volatility without the much-needed diversification/portfolio insurance that gold offers. If the current downturn in the market continues, as the world's leading financial experts predict, this asset may be the only form of wealth preservation that works.

Experienced financial professionals understand that gold bullion is an alternative to cash. Ray Dalio, chairman of the largest hedge fund in the world (Bridgewater & Associates), once stated, "If you don't own gold…there is no sensible reason other than you don't know history or you don't know the economics of it."

In the final quarter of 2018, in Canadian dollars, the price of moved upward by 13.8 per cent. The NASDAQ return was -12.8 per cent and S&P 500 return was -8.9 per cent over the same period, while the return on the TSX was -10.1 per cent.

Based on those figures, securities regulators have made a grave mistake in re-rating monetary gold to a medium-high risk relative to 'Know Your Client' (KYC) forms. These regulators, fund dealers and, by extension, their various compliance enforcement departments have ignored the fact that the Bank for International Settlements (BIS), which sets the rules for central banks and commercial banks, has stated that "monetary gold is a risk-free asset on par with U.S. Treasuries and U.S. dollars." They have also hamstrung investment professionals

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2019 OUTLOOK

Banks banking on credit trends continuing

By Doug Young and Gary Ho

Looking back on the Canadian financial sector in 2018, the life insurance companies lagged the banks, contrary to our call, while the asset managers underperformed both. Desjardins Capital Markets' financial sector "top picks" this year are **Sun Life Financial Inc.** (SLF-TSX, $48.02; SLF-NYSE, US$35.97) (life insurers, or lifecos), **Toronto-Dominion Bank** (TD-TSX, $72.20; TD-NYSE, US$54.10) (banks) and **Alaris Royalty Corp.** (AD-TSX, $18.80) (alternative lenders).

For the Canadian banks, the focus in fiscal 2019 will be acutely on credit and whether we finally see credit trends start to turn, given we are arguably in the late stages of the credit cycle and household debt levels are elevated.

Otherwise, net interest margin (NIM) expansion should continue (partially offset by deposit betas and increased competition in the commercial segment), and we believe the banks will further reduce expense ratios in order to offset slowing loan growth.

For the lifecos, a sustained increase in 10- and 30-year bond yields would be favourable, and we

See Young and Ho on page 46

New tax rules hit entrepreneurs hardest

By Mark Halpern

Let me begin by wishing you and your family a happy, healthy and prosperous new year. Business owners and incorporated professionals may not be aware of Ottawa's latest tactic to collect more taxes by changing the rules regarding tax on passive income.

Examples of passive income include rental income and any business activities in which the earner does not materially participate during the year. Passive income differs from active income, which is any earned income including all the taxable income and wages the earner gets from working. Passive income can include things such as rental income, interest income, royalties, dividends or pensions.

New rules: The tax rules that became effective on Jan. 1, 2019 target Canadian-controlled private corporations (CCPCs). The hardest-hit are business owners, entrepreneurs and incorporated professionals such as doctors, lawyers and accountants.

Corporations with more than $50,000 of annual passive income will now lose all or part of their Small Business Deduction and then get highly taxed for every dollar of excess passive income. This could amount to an additional tax grab of $55,000 to $70,000 unless you plan now.

In brief, the federal government set an annual maximum of $50,000 of annual passive income for CCPCs. Failure to stay below that amount could be costly. Now, for every $1 of passive income over $50,000, the small business deduction level of $500,000 will be reduced by $5. This equates to a full reduction of the small business deduction when passive income is greater than or equal to $150,000.

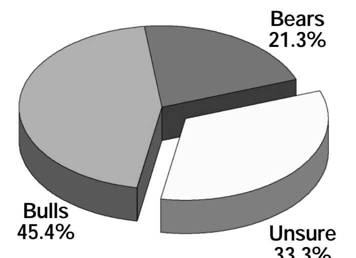
The good news is that the amount resets the following year with no carryover. Even better, there are a few tax-efficient strategies that can help you keep more income for yourself and your family instead of the tax department. Here are some of them:

Individual Pension Plans (IPPs) let you deposit significant corporate funds for the shareholders' benefit. These deposits are tax-deductible for the CCPC, a non-taxable benefit to the shareholder and provide tax-effective access to money from a corporation when you retire.

You can save significantly more with an IPP than under current RRSP rules – up to 65 per cent more – depending on your T4 income and years of prior service.

See Halpern on page 46

THE SENTIMENT PIE



These are some stubborn bulls. After a very brief spell in second place, they retake the largest share of our Sentiment Pie with a 45.4 per cent slice, up from 34.8 per cent two weeks ago. Last issue's dominant group, the unsure, shrink back to 33.3 per cent from 35.8 per cent. The bears, which put up a good fight last time, when they jumped to 29.4 per cent of the pie, have since receded to 21.3 per cent. Source: ***Investor's Intelligence.***

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TD: Higher U.S. exposure than peers

Young and Ho from front page

see a few catalysts that should drive core earnings per share (EPS) growth; however, sentiment could be negatively impacted if equity market volatility remains elevated.

For the asset managers, we expect industry net flows to be flat-to-slightly higher than in 2018, ETFs to continue their momentum, and investors to pay greater attention to both alternative assets and expense management.

Our 'top picks' in detail

There are four drivers behind our positive views on Sun Life.

First, we anticipate core EPS growth of nine per cent in 2019 (in line with management's medium-term EPS growth target of eight per cent to 10 per cent), driven by U.S. group insurance, Canadian operations (including expense actions), getting to scale in more Asian markets, and capital deployment.

Second, the company has about $4.1 billion in excess capital and debt capacity, by our math. This includes $2.2 billion of excess holding company cash, $900 million of excess operating company capital assuming a 125 per cent LICAT (Life Insurance Capital Adequacy Test, a measure used by financial regulators) ratio and roughly $1 billion in debt capacity, assuming a 25 per cent debt-to-capital ratio.

It also generates about $800 million of excess capital a year net of dividends and funding organic growth. If this is put to work, core EPS growth could surpass our forecast. And we believe SLF could buy back about $800 million of stock in 2019, which at the current stock price equates to roughly three per cent EPS accretion.

Third, we acknowledge MFS net flows have been hurt by certain popular funds being capped, along with a shift to passive (versus active) strategies as well as a shift to fixed income (from equity) mandates.

To cut to the chase, MFS remits between $400 million and $500 million of cash to SLF annually, and even if earnings flatline, management believes the eight per cent to 10 per cent medium-term EPS growth target is achievable.

Fourth, we believe SLF has the most attractive Canadian insurance franchise of the group.

We set a target share price of $58 for Sun Life.

There are five drivers behind our positive view on TD. First, we like its scale in Canadian personal and commercial banking, with the opportunity to build market share in certain areas such as commercial lending (currently No. 3) and mortgages (currently No. 2). Of note, TD has about 22 per cent of all demand and notice deposits in Canada, a strong tie to consumers.

Second, in our view, TD has high-quality franchises in Canada and the U.S. (both in terms of personal and commercial banking as well as wealth management).

Third, it offers higher relative exposure to U.S. markets compared to its Canadian peers.

Fourth, it has lower exposure to capital markets versus peers, a business we believe should command a lower valuation multiple.

Fifth, it has the highest CET1 ratio of the group, which positions it well from a defensive perspective, but also offensively if acquisition opportunities arise (for example, in the U.S.).

TD gets an $82-per-share target price.

Alaris Royalty has a diverse portfolio, solid track record of dividend growth, and deployed capital strongly in 2018 (which we expect to continue into 2019). In addition, within our coverage, Alaris stands out as a name that benefits from a rising interest rate environment (reduces competition for deals by private equity firms and mezzanine-debt alternatives).

Our bullish thesis is predicated on several factors: noise related to its underperforming files is largely behind it; our belief that the environment is changing in Alaris' favour, with interest rate hikes increasing the appeal of its royalty structure; net capital deployment could pick up, reducing the payout ratio to 80 per cent by year-end; and its valuation is attractive, trading at 1.1 times price-to-book value (compared to a historical average of 1.6 times), with a compelling 9.1 per cent dividend yield.

We assign a price target of $21.50 per share for Alaris.

Doug Young and Gary Ho are financial analysts at Desjardins Capital Markets in Toronto.

IPPs have better creditor protection than RRSPs

Halpern from front page

One of the unique characteristics of an IPP is that it can act either as a defined benefit pension plan or a defined contribution plan, and you can switch every year depending on your company's cash flow.

Mark Halpern

Take the example of Brenda, a 55-year-old business owner, incorporated for 10 years. She has saved $285,715 in RRSPs and plans to make the maximum contributions every year until she turns 65. Staying in RRSPs, she will accumulate a total of $1,570,905 by the time she turns 65. But if she invests in an IPP instead and makes the higher annual contributions, she will have more than $2,272,000 at age 65. That's 45 per cent more than had she used only RRSPs to save for retirement, a big difference that can't be ignored.

Unlike her RRSP, IPP assets enjoy greater creditor protection from provincial legislation. On top of that, she will have access to a wider selection of investment vehicles, and options not allowable in an RRSP, including shares of private businesses and real estate.

Many unmarried Canadians, whether they're single, divorced, or widowed, don't realize their RRSP savings will be fully taxed when they die. So, a $1,000,000 RRSP would only be worth $460,000 to heirs other than a spouse. An RRSP can only be rolled over on a tax-deferred basis to a spouse or disabled child. For married taxpayers, the same thing occurs on the death of the second spouse.

With an IPP, if your spouse or children are employed in your business and earning T4 income, they are eligible to become members of your IPP, and those IPP assets can pass to the next generation without incurring tax or probate fees.

Shared Ownership Critical Illness (CI) Insurance can provide important protection for the business owner, their families and their business, and deliver a substantial guaranteed return on investment.

Often confused with Disability Insurance, CI covers more than two dozen conditions like heart attack, cancer, stroke and bypass surgery, and pays up to $2 million in a tax-free, lump sum 30 days after the diagnosis of a covered condition. There are no strings attached on how you use that money.

If you buy the Return of Premium (ROP) rider and don't make a claim, you can get back all the money you paid for those premiums after 15 years. It's a forced savings bundled with vital protection.

You can designate your company (rather than the insured owner) and its shareholders, key people and executives, as the beneficiary of the CI policy. Using this strategy, your corporation pays the insurance premiums for the CI benefit only, using tax-effective corporate dollars. The insured individual pays only the premium for the ROP rider with their after-tax personal income.

Let's take the example of Richard, a 45-year-old dentist with a professional corporation who wants to buy $500,000 of CI insurance. Ninety per cent of the total premiums can be paid by his company, and he pays the balance personally for the remaining 10 per cent that covers the ROP rider. After 15 years, just for remaining healthy, the insurance company will return to Richard all the money he paid for that ROP rider, plus all the premiums that his corporation paid for the insurance.

Using this CI shared ownership strategy, shareholders can receive significant funds from their corporation in a tax-effective manner. The rates of return are high, currently in the range of 15 per cent to 30 per cent, with no interest rate risk or exposure to the volatile stock market.

In Richard's case, if he gets diagnosed with a covered condition along the way, the $500,000 will be paid into his corporation and would have to come out as a taxable dividend or salary. If he has any shareholder loans, then it comes out tax-free.

You may prefer to use a different ownership structure — perhaps owning the policy individually or corporately in its entirety, or in a shared ownership arrangement. Those options should be considered only after consulting with a professional.

Tax-Exempt Corporate-Owned Life Insurance is a no-limit TFSA for your company.

Investor's Digest readers use TFSAs because investments grow without being taxed, and funds can be accessed tax-free, but you can deposit no more than $6,000 a year.

Corporate-Owned Life Insurance enjoys the tax-exempt attributes of a TFSA, with no upper limit.

Life Insurance continues to enjoy unique treatment under Cana-

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RECENT CHANGES DEFY REASON IN LIGHT OF EQUITY BULL MARKET'S SCALE

Risk rules restrict both advisors and investors

Barisheff from front page

and their clients from protecting themselves with an asset that has done just that for over 3,000 years.

For a concrete case, in spite of nothing having changed within funds from BMG, my company, the new rules mandated by the provincial regulators across the country raised our official risk rating, making BMG funds unsuitable to many clients who have held these funds for years.

An investor in a typical balanced portfolio should be concerned with not being properly diversified. For example, an equity portfolio can be diversified by style, capitalization and sector – but all equities are categorized as the same asset class. Gold, however, is an asset class unto itself with no substitute, no counterparty risk, no management risk and no default risk. Therefore, concentration limits in the traditional sense do not apply to monetary gold.

There is no issue if a client chooses to hold 100 per cent of his or her portfolio in a money market fund. It should be equally risk-rated for an investor to hold 100 per cent of their portfolio in the BMG Gold Fund. Currently, investors would be prevented from holding more than 20 per cent in their MFDA portfolio.

The only choice investors would have is to move their account to a discount brokerage account, and purchase Class D units. Class D units have a 1.5 per cent management fee instead of the retail fee of 2.25 per cent, which includes a one per cent trailer fee to the advisor.

Financial advisors are under the microscope for the unpalatable commission fees they receive. Many investors have already left their advisors due to this and switched to a do-it-yourself (DIY) discount brokerage account. They switched into fund classes (such as D-class) where they aren't paying high commissions to an advisor.

When an investor is told that they cannot hold the investments they want because of obtuse rules and are compelled to pay high fees to an advisor for financial products they don't want (or, alternatively, should have a greater allocation to), it leaves the investor wondering why they have an advisor in the first place.

In addition, the last year has been infuriating for investors and financial professionals due to the arbitrary, misguided and potentially disastrous rule changes relating to measuring investment risk. Essentially, many investors were told they were no longer in control of their own wealth and were barred from holding monetary gold. In summary, the regulators mandated that the sole criterion for measuring an investment's level of risk was Standard Deviation. This elementary investment tool measures both upside and downside moves, over a 10-year period, and finds an average of the two.

The irony is, of course, that investors do not consider positive returns as risk – that is the objective. Investors only worry about downside risk. Investors are now being penalized for above-average returns even if downside risk is extremely low. I am not alone in the view that downside risk is the best way to gauge the level of risk in an investment. Gold has a very low risk when measured this way.

This presents an irreconcilable paradox for an advisor who had recommended this asset for years as an essential component of a balanced and diversified approach to wealth preservation. Gold's ability to offset losses in traditional asset classes (such as stocks and bonds) in times of uncertainty, like we see today, is a key reason to own it. These rules were implemented with protecting the investor but are actually the exact opposite, and now put the investor at risk.

"Gold's ability to offset losses (elsewhere) is a key reason to own it."

The unfortunate timing of last year's rule change flies in the face of reason as we witnessed an equity bull market achieve three times the size of the last two bull markets and global debt reach an alarming US$241 trillion – over three times global GDP. Mean reversion is inevitable, and the magnitude of a market unwind is unthinkable to the average investor today.

Financial professionals were told that if they did not comply with the new risk-rating rules that they could be terminated – meaning that they would lose their clients and livelihood. In many instances, this was the case. In conjunction with the financial professional's dilemma, many investors were livid upon being told that they had to reduce or redeem all of their physical precious metals investments.

Some investors, who were forced to switch to another advisor, or a discount brokerage account after theirs had been forcibly terminated, had their entire gold position liquidated. These activities have the makings of a class-action lawsuit, as investors' portfolios were made less diversified and left investors more exposed to market risks and losses.

The advisor's position, and rightly so, was that one of the tenets of modern portfolio theory is predicated on the notion of diversification – that is, a blend of assets that move in different directions. Investors who were forced to sell their gold remained in overvalued stocks and bonds, which studies suggest are more positively correlated now than ever.

Gold is well-known as a safe-haven asset during times of uncertainty. Since late September, it has outperformed all traditional asset classes. This trend is likely to continue for the foreseeable future, as the world's central banks seek to unwind the effects of their unprecedented and deleterious monetary policies introduced after the last financial crisis. Those who ignore what is happening right now are placing their financial well-being in harm's way.

If your financial advisor, in addition to recommending monetary gold for diversification purposes, continues to advise on estate planning, tax planning, insurance options and other financial recommendations, then you are being guided by a true financial professional worth their trailing commission compensation.

If you don't feel like your advisor offers you any real value, then why do you continue to pay them out of your fund's management fee?

Investors need to be very wary of financial advice that does not follow, or runs contrary to, these empirically proven risk-management practices. You have a choice. If your investment advisor, as a result of these new restrictions, cannot implement an effective risk management strategy, or fails to grasp the basics of modern portfolio theory, then I strongly recommend that you contact us about DIY investing and BMG Class D funds.

The headwinds investors and advisors face regarding the outlook for 2019 and beyond is daunting enough. They don't need the added problem of restricted advice not based on financial acumen but on arbitrary rules and faulty logic.

You have worked your entire life for your vision of a retirement lifestyle. Don't let the regulators and fund dealers tell you that you aren't in charge of your own money and leave you unprotected against the greatest threat to your retirement dreams in 2019.

Nick Barisheff is the founder, president and CEO of BMG Group, a company dedicated to providing investors with a secure, cost-effective, transparent way to purchase and hold physical bullion. BMG is an Associate Member of the London Bullion Market Association (LBMA) and an Associate Member of the Responsible Investment Association (RIA) as well signatory to the Six Principles of Responsible Investments (United Nations-endorsed Principles for Responsible Investment – PRI).

Corporate tax rates far lower than individuals'

Halpern from page 46

da's Income Tax Act, in contrast to every other financial investment (stocks, bonds, GICs, real estate, cryptocurrencies, other portfolio investments, etc.).

Why would a business owner want it?

Business owners use corporate-owned life insurance as a tax-effective way to accumulate passive wealth inside a company, to access that wealth tax-free and to transfer it tax-free to surviving beneficiaries. It can also be used to fund buy-sell agreements when other shareholders are involved.

Businesses usually invest retained profits or surplus cash in taxable investments. This usually occurs when the business owner doesn't need the extra income and has a higher marginal tax rate than their business. They take advantage of the low corporate tax rates on active business income by saving money in their corporations, if they don't require it for personal purposes.

This accomplishes a tax deferral only. Eventually, these assets will come out of the corporation and be taxed at high dividend tax rates.

Invest some of the retained profits in tax-exempt permanent life insurance. There are two main benefits to making such an investment.

The savings component of the life insurance policy can grow on a tax-free basis and a significant portion, if not all, of the policy proceeds payable at death can be paid to the shareholder's estate as a tax-free capital dividend.

Other income tax advantages: Premiums are paid with corporate after-tax dollars, which are taxed at a much lower rate than the individual shareholder's personal rate. The corporate tax rate applicable to active business income in Ontario is approximately 15 per cent and to investment income is 50 per cent. The top individual marginal tax rate in Ontario is approximately 53.5 per cent.

Upon death, an individual is deemed to dispose of his or her property at its fair market value. As it pertains to shares of a corporation that owns a life insurance policy, the Income Tax Act dictates to value the life insurance policy at its cash surrender value immediately before death. This value will typically be significantly less than the policy's payout following death, and far less than the value of the property that would have otherwise been accumulated by the corporation had it not purchased the life insurance policy.

As a result, purchasing life insurance can reduce the tax payable at death in respect of shares of a private corporation, as it usually leads to a lower valuation for the corporate shares than had no life insurance been purchased. (Please see my September 2018 article, "Business Owner? Get Life Insurance")

An **Immediate Financing Arrangement (IFA)** is a strategy to get Life Insurance without tying up your money paying premiums, securing your tax and estate planning liquidity needs.

It is most commonly used by business owners, real estate investors and developers, high-income professionals, and people with substantial investment portfolios.

A 65-year-old business owner needed Permanent Life Insurance but wasn't prepared to pay the premiums. He was earning over 20 per cent annually on his business investments and reluctant to reduce his returns to buy Life Insurance.

We structured an IFA to cover 100 per cent of his insurance premiums. He continues to invest his money in his business. The effective net cost of his Life Insurance is the tax-deductible interest cost only, amounting to two per cent annually of the true premium.

The insurance policy serves as collateral to secure a loan with a Canadian chartered bank. The loan is used to pay the premiums and the insured pays only the interest on the loan, which is tax-deductible. The loan will be paid off at death with the Life Insurance proceeds. The balance will go to his family and charity, virtually tax-free.

Other benefits to consider

- Convert fully taxable dividends into tax free dividends through the Capital Dividend Account (CDA) less the adjusted cost base.
- Make charitable gifts without affecting cash flow or the capacity to make investments.
- Increase an estate and transfer wealth tax-free.

Don't do this alone.

Get advice from an experienced team that includes your accountant, lawyer and a Certified Financial Planner or Trust & Estate Practitioner. Our advisors across Canada are available to help you. Contact us for a free, no-obligation consultation.

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®. He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you act. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 o Mark@WEALTHinsurance.com. Visit WEALTHinsurance.com. Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html. Visit MarkHalpernBlog.com.

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INVESTING 101
EXPANDING YOUR INVESTMENT KNOWLEDGE

Ensuring the next generation builds on the last's good work

Former Vancouver Canucks co-owner and chartered accountant Emily Griffiths-Hamilton shares lessons from her career and firsthand experiences with wealth transition

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A vast body of knowledge has been generated by business cholars and researchers investigating how successful family enterprises remain robust across generations. My goal is to consolidate this information, giving you and your family a useful entry point for building a multigenerational family enterprise. I'll also share suggestions, tips and strategies based on the common patterns found within successful families.

In the decades over which my career developed, I began to focus on the topic of how successful family enterprises thrive for generations. As a chartered accountant working with other families who, like my own, had used the traditional tax- and control-driven tools to deal with family enterprise transitions, resulting in complex family corporate structures that often included trusts and holdcos, and later, as a family enterprise advisor, I started to see that successful families shared a number of traits. However, in so much of the information flooding the market on the subject of successful multigenerational family enterprises, these traits seemed lost in a sea of unnecessary complications.

The importance of a mission or a vision—and more specifically, I would add, a shared vision—can't be overstated in the context of a successful family enterprise. A strong, compelling, shared vision will energize a unified, committed ownership base. With a unified ownership base, harmony is achieved, which means a family business is less likely to be torn apart by the seeds of discontent. I compare the work a family does here to a game of tug-of-war. When family members are on the same side of the table, pulling in the same direction, they will win the game. When family members start pulling in opposite directions, they will lose, ending up in the mud. An epic battle in a high-profile family is the stuff of stories of failed family business transitions that gain significant, often embarrassing, media attention.

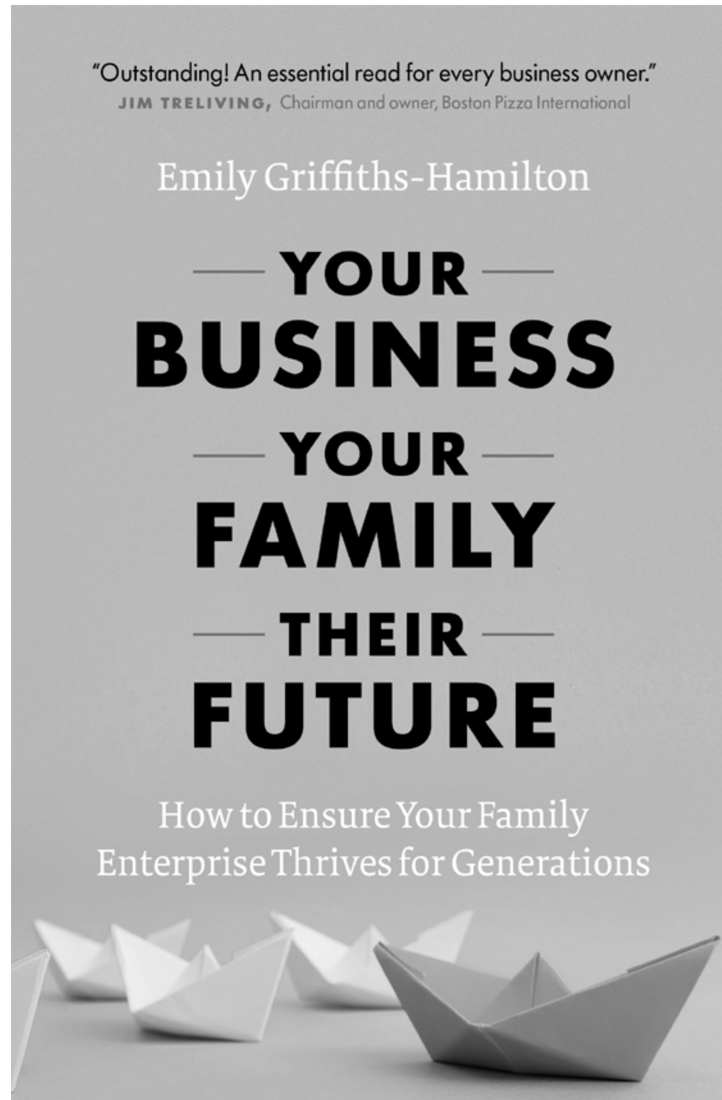
As you move from privately owning your business toward creating a multigenerational family enterprise, I'd like to pass along something a friend of mine, Chelsea Welch, once said to me: "It's not that the grass is greener on the other side. It's that the grass is greener where you fertilize it." In other words, it's not that other family enterprises are coincidentally successful.

It's that the family members in successful family enterprises proactively tackle, through the process of working together, the primary reasons for failure by strengthening trust and communication within the family, preparing the upcoming generation for their potential future roles and responsibilities, and creating a compelling and energizing shared vision. Family enterprises that fertilize the grass in this way have a far greater likelihood of achieving a multigenerational family enterprise that sprawls across acres of luscious, rolling green lawns.

A family business leader is someone who has aspired to and earned the leadership role. It's that person's name at the top of your family business organizational chart. They're the individual ultimately accountable for the success or failure of the business, and they play an integral role in successful family business transition plans.

From a business perspective, this is the person who has likely charted a life course to earn their role as leader of the family business ownership and/or management group, gaining leadership skills inside and/or outside the family business, reading books written by the greats, pursuing an applicable education like a professional business degree, joining a peer-to-peer leadership organization, working with a mentor or a coach, etc. The family leader, on the other hand, is the glue in a united family.

Unity is something a multigenerational family can't have too much of. And yet the importance of a family leader is often overlooked, not recognized until the family begins to rupture at its weakest points when the current family leader is gone. Family members follow a family leader not because of coercion but out of respect and loyalty for everything the family leader has done to support individual family members and the family as a whole.



No one is born to leadership, and this is just as true for family leaders. One of the challenges for the family leader is that those in later generations may not automatically follow the leader as the second generation (children) often does of the first generation (parents). Children follow parents first out of a need for security and safety and later, for some, as a result of a lifetime habit. In later generations, a family leader is less likely to enjoy such unquestioning acceptance.

Your Business, Your Family, Their Future: How to Ensure Your Family Enterprise Thrives for Generations

By Emily Griffiths-Hamilton

Figure 1 Publishing
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Members of a larger, more diverse cousin group may question and challenge decisions being made—and this is actually good news. The family enterprise is strengthened when the upcoming generation is open-minded and questions the status quo. A good family leader will encourage this questioning from those who have earned a voice, understanding that differing talents and expertise will be the building blocks for the success of their multigenerational family enterprise.

The upcoming family leader will have to earn followers. The skill set of a family business leader is fairly easy to assess. The skills of the family leader, on the other hand, are harder to evaluate, but by gaining the family members' trust, the family leader can earn their respect. Without trust, family members will not follow the family leader.

The role of the family leader is a thoughtful and sometimes emotional one, something not entered into lightly—in fact, many family leaders discover doing the right thing is not always the easy thing. Being an effective family leader means putting the needs of the entire family, as well as of individual family members, before their own. It means nurturing the development of each family member while maintaining a focus on the collective good. It means showing you have everyone's back by ensuring accountability to whatever the family's collective goal might be. It means having tough conversations with individuals who threaten the good of the collective family, not to punish them but to help them to get back on course.

Family enterprises are special entities. To run them successfully requires paying attention to the three fundamental systems at work: the family, family business ownership and family business management. Management is the system that is most easily addressed, since it is taught in business schools across the globe. Less attention has been devoted to ownership, but that system too can be easily handled once the critical role of ownership is understood. The family factor is more challenging because emotions can get in the way of making good decisions. However, by having family enterprise leaders who ensure that family members at the table have earned a qualified voice and schedule regular family meetings to manage the expectations of the upcoming generation, educate the upcoming generation and provide a forum to deal with family issues outside of the family business, the family factor can also be effectively managed. Success can be achieved.

Understanding the cycle of communication—which includes intent, action and effect—can be very useful. It might interest you to know that every conversation we enter into stands a two-thirds chance of being misunderstood. When we are communicating, only one-third of our communication process, the action part, is public: the words we speak or write, the gestures we make.

The other two-thirds, our intent as the communicator and the effect our communication has on the listener and the listener's assumptions, is private. In other words, in two-thirds of communication, you don't know the thinking behind what the speaker is saying and the speaker can't read the listener's mind, including knowing the assumptions the listener is making about the speaker's intentions.

For instance, let's say you are the family member responsible for drafting and circulating minutes after each family meeting. One senior family member always reminds you to get this job done on a timely basis. Let's look at this senior family member's possible intent, what they might be thinking:

"Hey, I know how easy it would've been for me to forget something like this at your age. Maybe a little reminder from me will help." That doesn't sound so bad, right? But what if the senior family member communicates this with a snappy comment like "Don't forget to get the minutes out ASAP." Yikes! The effect on you could be something like an irritated and defensive, "Does he think I'm useless? I always get the minutes out fast!" Do you see where I'm going here? The effect our communication does not necessarily line up with our intentions.

Communication easily breaks down when we, as listeners, start by assuming the intention behind someone's words is negative. However, when, as speakers, we pay attention to the effects of our communication and when, as listeners, we assume positive intentions, we increase the likelihood of having positive, dynamic conversations.

It's important to recognize the effect that various forms of communication have on trust. Firing off texts and short emails can work well when trust is high and everyone assumes that everyone has the best of intentions. However, when trust is low or a particularly thorny issue needs to be resolved, it's best to meet in a face-to-face environment where there is less chance of miscommunication. Furthermore, showing up in person and demonstrating a genuine commitment to working together to resolve tricky issues gives family members an opportunity to build trust.

Essential information on the most widely covered income trusts by leading analysts across Canada

REITS

Chemtrade Logistics

Global slowdown worries lead to target cut

Citing concerns about a global slowdown in the chemicals space, CIBC World Markets analysts Jacob Bout, Rahul Malhotra and Ioan Ilea substantially cut their target price for **Chemtrade Logistics Income Fund** (CHE.UN-TSX, $10.80).

In addition to reducing their recommendation to "neutral" from "outperformer," the analysts slash their 12-month target price to $14 per share from $20. They also lower their earnings before interest, taxes, depreciation and amortization (EBITDA) projection.

"Similar to the rest of our chemicals coverage, we are taking down our target multiple to reflect ongoing concerns of a global slowdown (target multiple goes from 8.5 times to seven times), along with the current uncertain economic environment / cyclicality of chlor-alkali," say Messrs. Bout, Malhotra and Ilea in a Jan. 9, 2019 research note.

"Leverage also remains a concern, with net-debt-to-EBITDA multiple of 4.1 times as of the third quarter of 2018. We believe that CHE.UN will continue to be a 'show me' story, given the number of operational/WSSC (Water Solutions and Specialty Chemicals) legal reserve issues in 2018."

Getting back to their EBITDA projection, the analysts reduce the number to $75 million from $78 million for the fourth quarter of 2018, and they cut their 2019 EBITDA estimate to $348 million from $372 million. Their initial EBITDA estimate for 2020 is $365 million.

The analysts, after conducting a stress test, also suggest that Chemtrade's dividend may very well be at risk.

"Chemtrade's current annual dividend of $1.20 per share is yielding about 11 per cent," they say. "While free cash flow (FCF) covers dividend in our base case (payout of approximately 70 per cent), there is a risk of inadequate FCF generation to cover the dividend in our downside scenario.

"We do not anticipate the firm breaking its financial covenants; net debt-to-EBITDA (excluding $627 million in convertible debt) remains well clear of the five times covenant."

Summit Industrial Income

REIT closes out the year strongly with industrial portfolio buys

In a Dec. 12, 2018 research note, IA Securities analysts Brad Sturges, Carl Burton and Ian Ho cover **Summit Industrial Income REIT's** (SMU.UN-TSX, $9.50) deal to buy three industrial portfolios for around $329 million as well as its move to issue approximately 15.1 million units as part of a common equity offering that raised gross proceeds of about $140 million.

The three industrial portfolios, which include 15 industrial facilities, are located in the Greater Toronto Area, Ottawa, Montreal and Alberta.

"The three Canadian industrial portfolios include a strong mix of recently constructed Class A industrial facilities, enhancing the REIT's portfolio quality," say Messrs. Sturges, Burton and Ho. "Average in-place rents for the 15 industrial assets to be purchased by Summit are below estimated market rents. Furthermore, the lease-up of vacant space in the Ottawa-based assets provides further rental income upside potential."

The analysts rate the REIT a "buy," and they boost their 12-month target price to $10.75 from $10. Summit's units, they add, are trading at 15.1 times 2019 their funds from operations per unit ($0.63), approximately six per cent above their projected net asset value (NAV) of $9.

"Summit is the only Canadian-listed REIT that provides investors with focused exposure to improving Canadian (particularly GTA) industrial real estate sector fundamentals, combined with a niche investment in the development of Canadian data centre properties," say the analysts.

"Summit offers investors an attractive long-term NAV per unit growth profile, reflecting the potential for further Canadian industrial cap rate compression, accelerating rent growth, and the stabilization of its initial data centre investments (approximately six per cent of 2018 year-to-date NOI)."

PRO REIT

REIT lands 'special situations' top pick

PRO REIT (PRV.UN-TSX/VEN, $1.98) nets the top spot in Haywood Securities' "Special Situations" space due to some catalysts expected this year, says analyst Colin Healey in a Dec. 12, 2018 research note.

"North American equity markets experienced rising volatility in 2018 as the nearly decade-long bull market wavers in the face of tightening monetary policy and a deteriorating growth outlook. We believe that greater equity market volatility in the coming quarters should increase the payoff from bottom-up fundamental analysis in stock selection as the results of passive investment strategies deteriorate. Sectors with more deep value include REITs as they remain in a strong upward trend.

"Upcoming catalysts over the next few months include closing of latest transactions that will bring it through the $500 million gross book value (GBV) threshold; internalization of its property management function to allow for greater scalability and cost savings; and graduation to the Toronto Stock Exchange from the TSX Venture," says the analyst.

"Combined with accelerating per-unit accretion, an improving payout ratio, and a stable balance sheet, we believe these catalysts should drive PRV.UN to deliver strong risk-adjusted returns in 2019.

"PRO's portfolio as of third-quarter 2018 consists of 76 properties (will be 84 upon close of the most recent transactions) comprising three million square feet of gross leasable area (will be approximately 3.7 million square feet) with a 98 per cent occupancy rate, 6.5-year average lease term, and approximately 50 per cent exposure to investment grade tenants. Base rent exposure by asset class as of the third quarter was roughly 54 per cent retail, 13 per cent mixed-use, seven per cent office, and 26 per cent industrial; along with 51 per cent Maritimes, 20 per cent Quebec, 22 per cent Western Canada, and seven per cent Ontario."

Mr. Healey notes that the REIT's debt-to-GBV for the third quarter of 2018 was 51 per cent, which was better than the 60 per cent figure the quarter prior. The analyst, moreover, models this figure going to 58 per cent by the end of 2019.

"We model $85 million of new acquisitions being done throughout 2019, financed through a combination of free cash flow, mortgage debt ($55 million), and an equity issuance ($27 million)," says the analyst. "This supports adjusted funds from operations (AFFO) of $27 million (up 85 per cent year-over-year) and AFFO per unit of $0.28 (up 47 per cent)."

In addition to reiterating his "buy" recommendation, the analyst sticks with his target price of $2.55.

INCOME TRUST LAB

Essential information on the most widely covered income trusts by leading analysts across Canada

BUSINESS TRUSTS

Finance

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
Brookfield Infra. Partners L.P.*	BIP.UN	39.02	41.23-33.01	14228	1.74	1.88	2.16	4.34	4.82	5.54	68.00

Industrial Products

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
Chemtrade Logistics I.F.	CHE.UN	10.57	17.75-10.03	979	1.20	1.20	1.20	7.78	11.35	11.35	66.00

Merchandising

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
A&W Revenue Royalties	AW.UN	36.02	37.74-28.36	450	1.60	1.69	1.75	4.54	4.69	4.86	102.02
Boston Pizza Royalties I.F.	BPF.UN	17.09	21.63-13.82	374	1.38	1.38	1.39	6.30	8.07	8.13	100.00
Boyd Group I.F.	BYD.UN	119.37	133-97.99	2348	0.52	0.53	0.53	0.51	0.44	0.44	10.02

REAL ESTATE INVESTMENT TRUSTS (REITS)

Real Estate

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
Agellan Commercial REIT	ACR.UN	14.23	14.40-10.55	469	0.78	0.81	0.81	5.50	5.69	5.69	91.00
Allied Properties REIT	AP.UN	46.01	46.08-38.71	4779	1.53	1.56	1.56	3.64	3.39	3.39	72.20
American Hotel Income Prop. REIT *	HOT.U	5.28	7.63-4.30	412	0.65	0.65	0.65	8.96	12.31	12.27	90.90
Artis REIT	AX.UN	10.10	14.42-8.75	1534	1.08	0.54	0.54	7.66	5.35	5.35	75.50
Automotive Properties REIT	APR.UN	9.87	11.47-8.45	215	0.80	0.80	0.80	7.37	8.11	8.11	82.50
Boardwalk REIT	BEI.UN	39.92	52.43-36.47	1844	2.15	1.00	1.00	4.80	2.51	2.51	106.80
BSR REIT *	HOM.U	8.96	9.70-7.12	149	-	0.50	0.52	-	5.58	5.80	-
BTB REIT	BTB.UN	4.59	4.94-4.03	254	0.42	0.42	0.42	9.15	9.15	9.15	93.70
Cdn Apt. Properties REIT	CAR.UN	44.73	49.45-34.43	6781	1.27	1.32	1.33	3.42	2.95	2.97	70.30
Cdn. Tire REIT	CRT.UN	12.47	14.55-11.26	1197	0.70	0.71	0.73	4.84	5.69	5.85	76.00
Chartwell Retirement Residences	CSH.UN	14.71	16.00-13.42	3123	0.55	0.59	0.59	3.53	4.00	4.00	61.68
Choice Properties REIT	CHP.UN	12.32	13.26-11.19	3427	0.73	0.74	0.76	5.47	6.01	6.17	68.10
Cominar REIT	CUF.UN	11.91	14.95-10.41	2167	1.33	0.74	0.72	9.25	6.21	6.05	94.70
Crombie REIT	CRR.UN	13.49	13.70-12.14	1209	0.89	0.89	0.89	6.45	6.60	6.60	73.60
Dream Hard Asset Alt. Trust	DRA.UN	6.75	7.09-5.90	490	0.33	0.33	0.40	4.78	4.89	5.92	-
Dream Industrial REIT	DIR.UN	10.56	10.98-8.85	972	0.70	0.70	0.70	6.70	6.63	6.63	77.30
Dream Office REIT	D.UN	22.93	26.01-20.72	1361	1.25	1.00	1.00	4.20	4.36	4.36	75.20
Dream Global Int'l REIT	DRG.UN	12.69	15.43-11.40	2444	0.80	0.80	0.80	6.55	6.30	6.30	48.20
Granite REIT	GRT.UN	57.30	58.97-47.93	2621	2.60	2.72	2.72	5.30	4.75	4.75	78.00
H&R REIT	HR.UN	21.95	22.16-18.94	6271	1.38	1.38	1.38	6.46	6.29	6.29	75.00
Inovalis REIT	INO.UN	10.01	10.60-9.12	235	0.82	0.83	0.83	8.27	8.29	8.29	99.70
InterRent REIT	IIP.UN	13.21	13.61-8.77	1400	0.25	0.27	0.29	2.72	2.04	2.20	65.80
Invesque Inc.*	IVQ.U	7.64	9.53-6.20	405	0.74	0.74	0.74	8.40	9.69	9.69	147.30
Killam Apartment REIT	KMP.UN	16.46	17.02-12.59	1417	0.62	0.64	0.66	3.60	3.89	4.01	86.00
Melcor REIT	MR.UN	7.71	8.64-7.96	102	0.68	0.68	0.68	7.93	8.82	8.82	86.00
Minto Apartment REIT	MI.UN	18.43	19.79-15.45	292	-	0.41	0.41	-	2.22	2.22	-
Morguard REIT	MRT.UN	12.33	14.09-10.46	748	0.96	0.96	0.96	7.31	7.79	7.79	91.40
Morguard N.A. Res. REIT	MRG.UN	16.78	18.50-13.17	566	0.64	0.66	0.66	4.28	3.93	3.93	54.70
Nexus REIT	NXR.UN	1.96	2.08-1.81	182	0.16	0.16	0.16	7.92	8.16	8.16	86.10
Northview Apartment REIT	NVU.UN	26.17	27.88-22.87	1471	1.63	1.63	1.63	6.52	6.23	6.23	44.40
Northwest Healthcare Prop. REIT	NWH.UN	10.59	11.71-9.27	1097	0.80	0.80	0.80	7.05	7.55	7.55	119.90
Plaza Retail REIT	PLZ.UN	3.98	4.40-3.68	409	0.27	0.28	0.28	6.50	7.04	7.04	77.10
PRO REIT	PRV.UN	2.19	2.45-1.80	187	0.21	0.21	0.21	9.13	9.59	9.59	111.00
Pure Multi-Family REIT L.P.*	RUF.U	6.19	7.40-5.67	475	0.38	0.38	0.38	4.97	6.14	6.14	119.90
Riocan REIT	REI.UN	24.71	25.82-22.97	7527	1.41	1.44	1.44	5.79	5.83	5.83	80.50
Slate Office REIT	SOT.UN	6.85	8.20-5.65	479	0.75	0.75	0.75	9.21	10.95	10.95	76.80
Slate Retail REIT	SRT.UN	12.49	13.10-11.20	527	0.82	0.85	0.85	6.26	6.81	6.81	62.50
SmartCentres REIT	SRU.UN	32.57	32.64-28.14	4370	1.71	1.80	1.80	5.54	5.53	5.53	82.80
Summit Industrial Income REIT	SMU.UN	10.16	10.35-7.51	959	0.51	0.57	0.52	6.97	5.61	5.12	90.70
True North Commercial REIT	TNT.UN	6.28	6.98-5.30	359	0.59	0.59	0.59	8.85	9.39	9.39	99.00
WPT Industrial REIT *	WIR.U	12.95	14.49-12.10	607	0.76	0.76	0.76	5.97	5.87	5.87	91.40

RESOURCE TRUSTS

Oil & Gas - Producers

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
Crius Energy Trust	KWH.UN	4.87	9.47-4.01	276	0.81	0.82	0.84	11.45	16.84	17.25	63.80

UTILITY TRUSTS

Utilities

Income Trust	Symbol	Jan. 21 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018E	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
Brookfield Ren. Energy Partners L.P.*	BEP.UN	28.23	31.31-24.98	5048	1.87	1.96	2.06	5.48	6.94	7.30	98.40

Explanation of Terms

Market Capitalization is calculated by multiplying the current unit price by the number of units outstanding as of January 2019. **Distribution** is the amount of cash the income trust pays or is expected to pay annually. **Yield** is the annual distribution expressed as a percentage of the latest unit price. **Payout ratio** is the proportion of earnings paid out as dividends to shareholders.

*Distribution and unit price listed in U.S. dollars.

THREE-MONTH FOLLOWUP

How September research has fared

Updated recommendations from our Oct. 5, 2018 edition

AltaGas Ltd.
ALA-TSX, $14.10 ($25.14*)

AltaGas Ltd.'s entry into definitive agreements with Kelt Exploration Ltd. to provide an energy infrastructure solution for the liquids-rich Inga Montney development in northeast British Columbia was the topic up for discussion in a Sept. 5, 2018 research note by IA Securities analyst Michael Charlton.

AltaGas said that commercial arrangements underpinned the expansion of its Townsend Complex, including the addition of 198 million cubic feet per day of processing capacity at the Townsend Deep Cut Facility. Commercial operations were set to commence in the fourth quarter of 2019.

Mr. Charlton reiterated his "buy" recommendation and his $29.50 per share target price.

In a Jan. 11, 2019 research note, IA Securities analysts Elias Foscolos, Chelsea Bedrejo and Matthew Weekes say that they expect that the company, with a new CEO at the helm and after closing its merger with WGL Holdings Inc., will execute well in 2019.

"Looking into 2019, AltaGas offers investors tremendous upside but simultaneously carries a significant amount of execution risk in terms of asset sale valuations and operational performance," say the analysts. "Over the next two quarters we are expecting to see a significant contribution to EBITDA from WGL along with the tailwind boost from the commissioning of the Ridley Island Propane Export Terminal."

Messrs. Foscolos and Weekes as well as Ms. Bedrejo stick with their "buy" recommendation and $21 target price.

Village Farms International Inc.
VFF-TSX, $5.57 ($6.17*)

Village Farms International appointed Mandesh Dosanjh to the president and CEO posts at cannabis joint venture Pure Sun Farms (PSF), according to Beacon Securities analysts Doug Cooper and David Kideckel in an Aug. 21, 2018 research note.

"We believe this an excellent hire," said the analysts. "The appointment of Mr. Dosanjh marries the two most important aspects of the business. The current management team of Village Farms has, without a doubt, the greatest experience in terms of agricultural growing. Village Farms also has experience in branding, packaging and selling produce through retail channels."

The analysts added that the appointment could, among other things, point to a substantial strategy shift for PSF to a vertically integrated producer from a pure wholesaler.

Messrs. Cooper and Kideckel reiterated their "buy" recommendation but boosted their 12-month target share price to $13.50 from $12.

Fast-forwarding a few months later, Mr. Cooper and fellow Beacon Securities analyst Susan Xu say in a Dec. 13, 2018 research note that the 2018 Farm Bill was recently okayed by the U.S. Congress.

"The U.S. Congress approved the 2018 Farm Bill and has been passed by President Trump," say the analysts.

"As part of the bill, hemp with low amounts of THC (0.3 per cent) will be removed from the Controlled Substances Act, which will open-up interstate commerce for hemp products including cannabidiol (CBD) as well as banking capabilities. We believe this is a hugely positive development for the industry and Village Farms in particular.

"In a press release this morning, the company indicated that the full and unambiguous legalization of hemp, and especially hemp-derived CBD products, creates a tremendous global opportunity and Village Farms intends to be a leader in the nascent industry.

"We continue to believe Village Farms will be one of the most meaningful suppliers."

Mr. Cooper and Ms. Xu — who say that the company's stock does not adequately reflect the worth of its Canadian holdings and does not reflect any of the value of its U.S. assets — stick with their "buy" recommendation and $13.50 target price.

Zymeworks Inc.
ZYME-TSX, $17.48 ($18.28*);
ZYME-NYSE, US$13.14 (US$13.48*)

When Raymond James Financial analyst David Novak covered Zymeworks in a Sept. 5, 2018 research note, he said that the Vancouver-based biotechnology company disclosed that Eli Lilly & Co. had earlier that same month sent in an investigational new drug (IND) for a bispecific antibody developed using Zymework's Azymetric platform.

The analyst said that the development triggered a US$2 million milestone payment as required due to the 2013 agreement between the two aforementioned companies. Mr. Novak reiterated his "outperform" recommendation and 12-month target share price of US$27.

In a research note on Dec. 10, 2018, Mr. Novak and fellow Raymond James Financial analyst Archit Kshetrapal cover a development that saw Zymeworks shed some light on recent studies.

"On Saturday, ZYME presented its Good Lab Practice toxicology and IND-enabling efficacy studies utilizing its HER2-targeted biparatopic ADC, ZW49, at SABCS18," say the analysts.

"The data contains incremental new insights into the preclinical characterization of ZW49 supporting its potential of representing a best in class HER2-targeted antibody drug conjugate."

The analysts, who stick with their "outperform" recommendation with "high risk/speculation" rating, add that the company's announcement was a positive.

"Overall, we view the preclinical data presented by ZYME as strongly supporting ZW49's potential position in the clinic as a best-in-class HER2-targeted ADC," say Messrs. Novak and Kshetrapal.

"In the press release, ZYME once again reiterated that its IND has been filed, in-line with former guidance and as articulated on Nov. 27, 2018. We anticipate first patient dosed within the first quarter of 2019 and believe recruitment is likely to be more rapid than we would typically expect for a new clinical therapeutic, as ZYME will likely be able to leverage the current clinical sites involved in the ZW25 ongoing trial."

* Price three months ago

ANNUAL FOLLOWUP

What was said 12 months ago

Updated recommendations from our Feb. 9, 2018 edition

Neo Performance Materials Inc.
NEO-TSX, $16.59 ($17.90*)

Neo Performance Materials officially joined CIBC World Markets' coverage universe when, in a Jan. 3, 2018 research note, analyst Scott Fromson kicked off coverage with a "neutral" recommendation and a $19 price target.

The analyst explained that there were substantial opportunities for the company to grow revenues and cash flow in the rare earth space. He explained that his view was tempered by NEO's exposure to China, which he said was by far the world's largest rare earths player.

Said Mr. Fromson, "NEO's growth strategy is three-pronged: Organic growth from market share gains and new product applications; new products, leveraging NEO's research and development capabilities and strong customer relationships; and acquisitions financed with its cash-positive balance sheet."

In a followup research note on Dec. 18, 2018, Mr. Fromson and fellow CIBC analyst Ace Mirali cover the friendly deal between NEO and Luxfer Holdings PLC, a U.K.-based producer of highly engineered advanced material.

"NEO and Luxfer Holdings announced a friendly cash and share deal today, with the latter as the surviving entity," explain the analysts. "In the current environment – a jittery market (particularly for small caps), an unrelenting U.S./China trade dispute and a softening vehicle sales outlook – we see the deal as positive for NEO and its shareholders.

"We are reducing our price target from $20.50 to $18, in line with implied transaction valuation. Further, we are downgrading the stock from 'outperformer' to 'neutral' to account for a potentially prolonged deal closing, as well as our limited familiarity with Luxfer's business prospects. While our new price target implies an approximately nine per cent return from the current price (approximately 16 per cent on an annualized basis, assuming an end of second quarter 2019 deal closing), we see the investment case as one better suited to investors with higher-risk tolerances."

Pembina Pipeline Corp.
PPL-TSX, $43.26 ($45.43*);
PBA-NYSE, US$36.62 (US$36.54*)

When IA Securities covered Pembina Pipeline in a Jan. 3, 2018 research note, analyst Elias Foscolos said that the Calgary-based energy infrastructure company had added four new positions to its executive team due to enhanced scale and scope at the company.

With the announcement, Pembina doubled the size of its executive team to eight members from four members, adding four newly-created senior vice-president positions.

Mr. Foscolos, who reiterated his "buy" recommendation but refrained from issuing a target share price, interpreted the news as a positive sign of Pembina's progress in integrating operations with Veresen Inc. The two companies merged in October 2018.

In a followup research note on Dec. 11, 2018, Mr. Foscolos, Chelsea Bedrejo and Matthew Weekes cover Pembina's capital program and its 2019 earnings before interest, taxes depreciation and amortization (EBITDA) guidance.

"Pembina reported a capital budget for 2019 of $1.6 billion, of which approximately $1.25 billion is sanctioned projects and $350 million is unsanctioned," say the analysts."The variance in our estimate of $975 million for unsanctioned projects is primarily due to the timing of Pipeline projects coming online.

"The capital budget is weighted 53 per cent towards the Pipeline division, 25 per cent to the Facilities division, and six per cent to the marketing and new ventures division. The pipeline capital spending will be allocated to the Phase VI and Phase VII expansions of the Peace Pipeline to be in service in the second half of 2019 and the first half of 2021, respectively."

The company also reported adjusted EBITDA guidance for 2019 of between $2.8 billion and $3 billion, which is in line with the analysts' and the consensus estimate of $2.9 billion.

The analysts reiterate their "strong buy" recommendation.

Andrew Peller Ltd.
ADW.A-TSX, $14.45 ($16.25*)

In a Jan. 10, 2018 research note, Acumen Capital analyst Brian Pow said that Andrew Peller saw margin expansion driven by organic growth and operational improvements.

With regards to sales, the analyst noted that they benefited "from solid growth across the majority of Andrew Peller's trade channels, selective price increases, and the introduction of new products and new product categories."

According to the analyst, the company wrapped up the acquisitions of three wineries located in British Columbia in October 2018. The acquisitions catapulted the company into the top spot in terms of producers of official Ontario wines in the province.

"We spoke with management about the integration of the three wineries in British Columbia," said Mr. Pow. "Management indicated that they are extremely happy with the acquisitions, the integration is on track, and the financial performance to-date is in line with previous expectations."

Andrew Peller's results for the second quarter of 2018 were south of what the analyst expected. Mr. Pow added that he expected another solid quarter with the third quarter of 2018, which wrapped up on Dec. 31, 2017.

Mr. Pow opted for a "buy" recommendation and $17.25 target price.

In a followup research note on Jan. 10, 2019, Mr. Pow says that Andrew Peller demonstrated strong performance in 2018.

"Andrew Peller showed strong operational improvements in 2018 from a focus on higher priced premium wines and spirits," he says. "Although this drove gross margin improvements, a step up in operating expenses resulted in weaker than expected EBITDA performance.

"A big focus for the company was also the integration of the three B.C. wineries acquired October 2017. The efforts by management to rationalize the portfolio should have lasting positive effects on margin performance that will create value as the company scales."

The analyst keeps his "buy" recommendation and $19 target share price.

* Price one year ago

VIEWS OF LEADING CANADIAN ANALYSTS

Every issue of Investor's Digest contains upwards of 50 digested research reports from Canada's top analysts. The reports listed below can be found on pages 52 to 61.

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Sangoma Technologies
Acumen Capital .... *Buy*
SEMAFO
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SilverCrest Metals
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AltaCorp Capital ...... *Outperform*
Village Farms International
Beacon Securities .... *Buy*
WSP Global
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Zymeworks
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Financial .... *Outperform*

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WSP Global

RAYMOND JAMES FINANCIAL
What's in store for 2019

Digested from a Jan. 9 report by analysts Frederic Bastien and Ben Cherniavsky

Messrs. Bastien and Cherniavsky say they are comfortable signing up for what promises to be a volatile 2019 with **WSP Global Inc.** (WSP-TSX, $60.57).

They assert, "Critical to our selection process was the above-average visibility on revenue growth that this pure-play engineering firm currently offers. For one, WSP's ongoing role as trusted advisor on some of the world's most complex and long-cycle transportation projects, combined with its limited exposure to highly cyclical energy and resource sectors, provide a supportive backdrop for continued organic growth.

"What's more, the company can count on newly acquired Louis Berger to contribute an incremental 10 per cent to its top-line this year, leaving very little in our financial forecasts to chance."

As such the analysts give the stock an "outperform" rating and $80 target share price.

With regards to Canadian engineering companies, the analysts did point out that, "On balance, our view is that the group will continue to capitalize on powerful long-term trends favouring infrastructure investments, increased urbanization and connectivity.

"We also believe there is a lot more consolidation to be done, which should provide WSP Global, Stantec and SNC-Lavalin with opportunities to further their leadership of the sector. But with rising interest rates and trade frictions pointing to a global growth slowdown, we expect design and engineering activity levels to follow suit in 2019.

Putting aside the fact that all four engineering stocks we cover look deceivingly attractive at current valuations, we believe investors will be best served owning large-cap companies with solid track records of revenue and earnings growth, pristine balance sheets, diversified revenues and proven management. Enter WSP, our Best Pick for 2019, which we estimate has a clear path to mid-teen revenue growth and room for continued margin improvement.

"For proof consider that of the $7 billion in net revenues we project for 2019, only about $100 million (less than two per cent) stems from additional tuck-ins we expect WSP to complete in the second half of 2019. That may ultimately prove conservative, in our view, considering the strength of the firm's balance sheet.

"On the home front, WSP is shortlisted for a number of P3 projects that will soon be awarded. These include the Trillium and Confederations light rail transit extensions in Ottawa as well as the expansion of Highway 401 in Toronto, providing the basis for particularly strong organic growth in Ontario.

"We expect further momentum in the Americas, with the U.S. transportation markets still in great shape and the Latin American operations now better aligned following last year's integration of the Poch, Concol and legacy Genivar businesses.

"Across the pond WSP has been retained for the integration of Crossrail's complex railway systems, a large mandate that not only eases concerns over Brexit and decelerating economic growth in the Nordics, but also supports a positive outlook for the EMEIA region. Similarly, we take some comfort in knowing WSP is operating prudently in Asia and the Middle East, where visibility on growth is often as clear as mud. This is allowing the company to outperform its peers on both margins and DSOs, and attract new talent.

"We are increasing our adjusted EPS forecasts for the fourth quarter of 2018 and 2019 to the tune of $0.01 and $0.05, respectively, to 0.81 and $3.70."

WSP is one of the world's leading professional services firms, working with governments, businesses architects and planners and providing integrated solutions across many disciplines.

Stingray Group

CIBC WORLD MARKETS
Music streamer lands Altice USA

Digested from a Jan. 2 report by analysts Robert Bek and Kulveer Grewal

Stingray Group Inc.'s (RAY.A-TSX, $6.68) new deal with Altice USA is a strong positive lever for further organic growth in the years ahead, as per Messrs Bek and Grewal. While the company's the failure to acquire Music Choice Co. was disappointing to the analysts, they do assert it reduces some near-term risk. The analysts give the stock an "outperformer" recommendation and $11 target share price.

Providing further details the analysts note, "In the final hours of 2018, Stingray announced a new content deal with Altice USA, the former Cablevision base and the fourth-largest U.S. multiple systems operator (MSO). Stingray will bring its 50 music channels and hundreds of on-demand music videos to Altice USA's subscribers.

"Altice USA also gets rights to other Stingray offerings, such as linear music, streaming video on demand (SVOD) and TV apps. This is a strong deal for Stingray, as it materially expands its reach in the U.S. cable market, which is a key element of our positive thesis on the company. We have not adjusted numbers specifically, but we believe that our inherent organic growth assumptions are now well supported.

"In addition to the Altice USA deal, Stingray has announced that it is abandoning pursuit of Music Choice (in whole or in part), its primary competitor in the U.S. market. Although the lack of success on Music Choice is disappointing, we had not built in positive expectations that Stingray would receive more than a token ownership position at this point; therefore, this announcement is certainly not an issue for the story. In fact, given the management focus required to integrate Newfoundland Capital Corp., and the pursuit of organic growth (such as Altice USA), we would regard the abandoned Music Choice deal as a positive for the story right now.

"Stingray continues to generate strong revenue growth (bolstered by an active and targeted M&A strategy), with strong flow-through to FCF given operating leverage in the business model and limited capex requirements.

"We continue to see runway for the company to materially grow FCF over the next few years, and see the acquisition of NCC (and its strong FCF) acting as a funding vehicle for future growth opportunities, both organic and acquired."

Stingray is a leading business-to-business multi-platform music and in-store media solutions provider operating on a global scale, reaching an estimated 400 million Pay-TV subscribers (or households) in 152 countries. Geared towards individuals and businesses alike, Stingray's products include the leading digital music and video services. Stingray also offers various business solutions, including music and digital display-based solutions through its Stingray Business division, and is now a material player in the terrestrial radio market given its acquisition of NCC.

CannTrust Holdings

BEACON SECURITIES
Coming to America

Digested from a Jan. 8 report by analyst Russell Stanley

CannTrust Holdings Inc. (TRST-TSX, $7.24) - a licensed producer of cannabis products - announced it has applied for a New York Stock Exchange (NYSE) listing. The company had previously indicated plans to pursue such a listing, but its announcement is still positive as it demonstrates to Mr. Stanley that progress is being made. He keeps his "buy" recommendation and $21-per-share target price.

"TRST has lagged its closest peers of late: HEXO Corp. is up 23 per cent over the last month, while OrganiGram Holdings Inc. is up 17 per cent. Over the same period, TRST is down seven per cent, so the stock is due for a rally just to keep pace with the peers. Progress on the NYSE listing should put a charge into the stock.

"A U.S. exchange listing would significantly expand the compa-

Continued on next page

Continued from preceding page

ny's profile and investor audience, and should support meaningful multiple expansion for TRST. There are currently just five Canadian licensed producers trading on U.S. exchanges. The multiple range is considerable, ranging from eight times the earnings forecast for Aphria Inc. on the low end up to 187 times for Tilray Inc., with Canopy Growth Corp. at 38 times, Cronos Group Inc. at 38 times, and Aurora Cannabis Inc. at a multiple of 20 rounding out the group.

"We already view CannTrust as significantly undervalued. It currently trades at approximately six times our 2020 estimated earnings before interest, taxes, depreciation and amortization (EBITDA) forecast, a 62 per cent discount to the multiple of 17 (average) for the broad peer group, and an 82 per cent discount to the 35-multiple average amongst companies with over $1 billion of market capitalization (until the recent stock selloff, TRST was a part of this group).

"A successful U.S. listing should benefit TRST on scarcity alone in the near-term, and mid/long-term through the development of a much broader and deeper investor pool. With its large-scale production platform of current annualized capacity of 50,000 kilograms, and fully-funded expansion plan to 100,000 kilograms underway, you should invest.

"Other reasons to invest are TRST's leadership in value-added products, with 64 per cent of cannabis revenue from higher value (that is, non-dried flower) products; and multiple near-term catalysts – such as the potential U.S. exchange listing, logistical partnerships, and strong quarterly results.

"Also, on Dec. 28, the company disclosed that it has appointed Big Four auditor KPMG LLP as the new auditor of the company in order to facilitate the transition to the NYSE. We view the transition to a Big 4 auditor positively, as it demonstrates the company's growth and it supports building additional credibility with existing and new investors."

CannTrust Holdings is a licensed producer of cannabis products, including dried flower, oils and capsules.

Nutrien

CIBC WORLD MARKETS

Well-positioned to deliver growth

Digested from a Jan. 8 report by analysts Jacob Bout, Rahul Malhotra, and Ioan Ilea

Subsequent to the merger with Agrium and PotashCorp, **Nutrien Ltd.** (NTR-TSX, $65.31; NTR-NYSE, US$47.74) is now the largest crop nutrient company in the world. Analysts Jacob Bout, Rahul Malhotra, and Ioan Ilea, believe the company is set for a strong 2019 and 2020 and have rolled out their 2020 EBITDA (earnings before interest, taxes, depreciation, and amortization) estimate of US$5.1 billion – a 30 per cent increase compared to 2018. They maintain their "outperformer" recommendation and 12-month target price of US$70.

While the analysts have taken down their 2018 fourth quarter estimates slightly to account for a weaker fall application, these are still at the higher end of the 2018 guidance. They have increased the 2019 EBITDA from US$4.69 billion to US$4.81 billion due to a slightly higher potash and nitrogen price forecast and the fall application demand moving to spring of 2019. The increased 2020 EBITDA is based on higher potash volumes, full realization of synergies, and a ramp up in U.S. retail acquisitions.

Nutrien announced in mid-December its intention to increase its NCIB (normal-course issuer bid) to repurchase up to 50.4 million shares from 32.2 million that have already been purchased. At the current share price, the analysts state that the additional 18.2 million shares would cost approximately US$820 million.

The analysts think that Nutrien is in a good position to"deliver on growth and increase shareholder returns" based on several factors. First, fertilizer fundamentals are positive (specifically potash at approximately 40 per cent EBITDA). Second, Nutrien will receive about US$5 billion in cash in the 2018 fourth quarter from equity sales and internally generated FCF (free cash flow). Lastly, the 2019 run-rate $600 million "synergy target is achievable and should benefit profitability" as the year progresses. With Nutrien's diversified business model (nitrogen and retail adding defensiveness) and strong balance sheet, the analysts believe that the company will stand strong even if there is a global slowdown.

With its head office in Saskatoon and corporate offices in, Saskatoon and Calgary, Nutrien is the largest crop nutrient company in the world and the third largest natural resource company in Canada.

Auxly Cannabis Group

ALTACORP CAPITAL

Model offers exposure to high-margin segments

Digested from a Jan. 7 report by analyst David Kideckel

Mr. Kideckel's first impression of **Auxly Cannabis Group Inc.** (XLY-TSX/VEN, $0.87) is positive, as he says this vertically-integrated cannabis business (founded in 2017 under the name Cannabis Wheaton Income Corp.) with assets and operations across each segment of the value chain has exposure to high-margin segments. His initial recommendation for it is "outperform" with a $1.50-per-share target price.

Mr. Kideckel says that Auxly's operations are diverse and offer optionality (that is, it can pick and choose which industries it needs to focus on) which he says is important for a budding cannabis company.

"Although Auxly's business encompasses upstream, midstream and downstream activities, we believe their midstream and downstream activities will be the major drivers of value, including branding, value-added product manufacturing, research and development, and distribution.

"We believe Auxly's business model positions the company for success in the rapidly evolving cannabis market, offering investors' exposure to value-added activities that are expected to drive higher and more defensible margins.

"The strategy is focused on owning the activities that are expected to drive greater margin, specifically the midstream and downstream (i.e. distribution) activities, while offloading the majority of the operational risks associated with the upstream (i.e. cultivation) activities, which are expected to generate lower margins, as the market develops.

"What we believe to be the centerpiece of Auxly's midstream business strategy is Dosecann, their wholly-owned subsidiary, and Licensed Dealer, located in Charlottetown, PEI...The Dosecann asset is pivotal to Auxly's ability to drive value in the mid-stream vertical, and add significant margin to their supply of raw cannabis by producing branded derivative products.

"The site has been retrofitted with capabilities to manufacture higher-margin products such as vape cartridges, edibles, capsules and others. The facility is designed to be Good Manufacturing Practices compliant, and the company has indicated they expect to receive their certification sometime in 2019.

While the facility is primarily intended to be leveraged internally in order to manufacture higher-margin products for their own product offerings, the site is also equipped to provide extraction and white label manufacturing services to third parties, providing an additional revenue stream for the company."

The analyst continues, "Auxly's business model provides the business with a de-risked supply chain, compared to many other vertically-integrated producers, who have operational risk concentrated within a single cultivation or production site. Auxly's diversified supply chain, via their streaming agreements and wholly-owned subsidiaries, sources raw product from over a dozen partners located across the country, and internationally.

"In addition, the streaming model allows for scalability and optionality, as the company may elect to purchase product for use in its own production of branded products, or direct the supply to the distribution channels that allow them to achieve the highest margins.

"We view the company's management favourably, as one of the more experienced teams in the sector. Led by CEO Chuck Rifici, co-founder of Tweed Marijuana Inc, the predecessor of Canopy Growth, and a pioneer of the Canadian cannabis industry...the company's management has global experience and proven track records of executing in the cannabis, pharmaceutical and consumer packaged goods industries.

"Auxly's team has taken steps to develop international distribution channels for their products, as well as off-take agreements, and a production asset in Uruguay for cannabidiol-extract products. While our model only assumes marginal revenues from the Uruguayan operation, this leaves significant upside in our estimates should the company announce future supply agreements for international markets."

Auxly Cannabis Group is an investment and merchant company. It seeks to provide investor returns through streams and capital appreciation in the cannabis industry of Canada.

People

ACUMEN CAPITAL

Analysts' 'top idea' in 2019? Just trust People

Digested from a Jan. 10 report by analysts Brian Pow and Nick Corcoran

People Corp. (PEO-TSX/VEN, $7.64) finished 2018 on a solid note and built strong momentum entering 2019, say Messrs. Pow and Corcoran, who tout the human resources company as their "top idea" in 2019.

Messrs. Pow and Corcoran reiterate that investors should "buy" People. They also stand by their previous target share price of $9.50 for the company.

The analysts say, "People is now in the top 3 in Canada in terms of benefit books, with annual benefit premiums of $1.7 billion."

According to Messrs. Pow and Corcoran, "The growth of People's book has benefited from leveraging their third-party administrator (TPA) platforms, which make up 65 per cent to 70 per cent of their business, and their value proposition.

They add that People has demonstrated solid organic growth while taking over other companies at a healthy clip.

"Management remains comfortable with an annual organic revenue growth rate of five per cent to 10 per cent, supported by premium inflation and the company's sales initiatives, which target to gain new clients and increase product and service penetration with existing clients.

"The company continues to benefit from a strong acquisition pipeline, reflecting increased awareness of People's credibility as an acquirer and solid business development execution.

"We expect People to continue to be active in the consolidation of the industry which will help drive revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) growth in the future.

"Management expects another three years to five years of runway in Canada as the market remains fragmented with many independent brokers.

"Based on fourth-quarter fiscal 2018 results (quarter ended Aug. 31, 2018), People had an unused acquisition credit facility of $63.8 million to fund future acquisitions that could add $8 million of EBITDA."

Reflecting on key company highlights in 2018, Messrs. Pow and Corcoran point to the acquisition of Lane Quinn Benefit Consultants Ltd. in May, along with a round of financing and the takeover of the Silverberg Group, formally known as Silverberg & Associates Inc., in August.

People acquired 100 per cent of Lane Quinn shares for $19.5 million. Based in Calgary, Lane Quinn serves more than 500 clients in Al-

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berta and British Columbia.

Several months later, the company bought 100 per cent of Silverberg's voting shares and a 75 per cent economic interest for $29 million. It offers employee group benefits consulting to more than 800 businesses through offices in Calgary, Edmonton, and Lethbridge, Alta.

People raised gross proceeds of $40.4 million through its August financing, announced alongside the Silverberg acquisition. It issued 5.2 million shares priced at $7.70 each.

People is a Winnipeg-based company supplying employee group benefit consulting, third-party benefits administration, retirement consulting, human resource consulting, and recruitment services, generally to small and mid-sized companies. It has built a national presence through a series of acquisitions.

Flower One

MACKIE RESEARCH

Size and place matters

Digested from a Dec. 18 report by analysts Greg McLeish and Nicola McFadden

The analysts initiate coverage of **Flower One Holdings Inc.** (FONE-CSE, $1.37; FLOOF-OTC, US$1.03) – a vertically-integrated cannabis company that is targeting the medical and recreational cannabis markets in the state of Nevada - is currently in the process of retrofitting its 455,000 square-foot NLV Greenhouse into a cannabis cultivation and production facility (producing more than 63,500 kilograms of cannabis per year).

When it is completed in the first quarter of 2019, it will be the largest cannabis production facility in Nevada. Flower One is currently using leading technology and knowledge of high-density agriculture to accelerate its scale-up of cannabis cultivation to a commercial, high-volume capacity.

Mr. McLeish and Ms. McFadden also note that Nevada continues to experience strong market growth post legalization; and Flower One is positioned for strong growth in higher-margin cannabis products. The analysts give a "buy" recommendation with a $4.50-per-share target price.

They comment, "Since originally legalized for recreational use in July 2017, the market for cannabis in Nevada has been booming. Revenue for the first fiscal year totalled US$529.9 million, including US$424.9 million for recreational alone, and state officials continue to predict future growth (with annual tourism traffic totalling more than 55 million people per year).

"We believe that market dynamics will remain strong through our forecast period and we estimate that the value of the Nevada cannabis market in 2020 to be approximately US$750 million. If the Nevada market follows some of the trends seen in the U.S. states where recreational cannabis is legal, products derived from cannabis oils should become a large and growing segment of the market.

"Flower One is currently in the process for building out a cannabis oil processing facility that will position the company for growth in (higher-margin) cannabis oils and derivative products.

"This facility is scheduled to come online in the second quarter of 2019 and it will have processing capacity of up to 420,000 pounds of cannabis, with the ability to produce up to 20,000 litres of distillate, 50,000 litres of concentrates, 60,000 pounds of wax, 12 million auto-fill packages and 61 million pre-rolls."

Flower One Holdings is an experienced greenhouse operator in the state of Nevada.

Petrus Resources

RAYMOND JAMES FINANCIAL

Cautious and flexible in the 2019 energy market

Digested from a Jan. 7 report by analyst Jeremy McCrea

Petrus Resources Ltd. (PRQ-TSX, $0.61) is riding on the Canadian mid-cap energy industry theme of being "cautious and flexible in 2019". Shifting away from the traditional approach of announcing the full-year capital budget, Petrus instead announced its first-quarter 2019 capital budget only, with the intent to determine successive quarterly capital investment as the year unfolds.

Mr. McCrea maintains his "outperform" recommendation, hoping sentiment improves for the sector, and his $1.25-per-share target price.

With Petrus taking a price assumption of US$53.03 per barrel of West Texas Intermediate crude oil, $1.31 per gigajoules of Alberta Energy Company crude, and a US$7.55 per barrel Canadian differential, Petrus expects to generate funds flow in the range of $10 million to $11 million in the first quarter of 2019. According to Mr. McCrea, this should allow for two net wells against capital spending of between $8 million and $10 million.

Additionally, continuing on its 2018 push to lower debt, the company plans to reduce its debt in the range of about $1-to-$2 million in the quarter.

"Considering the volatility in both oil and gas markets, we believe the bigger takeaway with the press release was the recent Ferrier Cardium well results (with average condensate rates at 345 barrels per day). With high condensate rates, overall production mix should continue to increase, weighted likely at about 37 per cent in 2019 (versus about 33 per cent in 2018 and about 28 per cent in 2017)," Mr. McCrea says.

"Overall, with Petrus keeping its 2019 capital-expenditure spending within expected funds flow - that is expected to keep production flat year-over-year – we believe the company is remaining prudent in light of the current volatility. With high economic well results and plenty of inventory, we do believe there remains upside when overall sentiment improves for the sector."

Speaking on the operations update, as announced during the third-quarter 2018 release, the analyst highlights five (2.9 net) Cardium wells drilled in the second half of 2018, completed with 76 stages per mile (average) of a frac design – which the analyst says is a meaningful step up from prior well completion designs.

"Overall, these wells came on production at 345 barrels per day of condensate (or 690 barrels of oil equivalent per day including other natural gas liquids and gas). Considering third-quarter 2018 light oil/condensate production was 1,243 barrels per day, we think the initial combined production test (14 days) rate of 1,000 barrels per day for the 2.9 net wells is rather encouraging. Ultimately, we will see how these wells decline over the next few months but we think investors should be relatively pleased with the results."

Petrus Resources is a Calgary-based natural-gas producer with a production base in the Ferrier area focused on Cardium Development.

SilverCrest Metals

PI FINANCIAL

Success in expanding Area 51

Digested from a Jan. 7 report by analysts Philip Ker and Neehal Upadhyaya

SilverCrest Metals Inc.'s (SIL-TSX/VEN, $3.87) on-going exploration success continues to define new high-grade mineralized zones, the analysts say. Meanwhile its definition drilling of the Area 51 zone continues to expand on known zones of high-grade mineralization at the company's Las Chispas property in Mexico.

Messrs. Ker and Upadhyaya maintain their "buy" recommendation, "speculative" risk rating, and $5.65-per share target price.

They say, "As further success is demonstrated with infill drilling, we anticipate SilverCrest to increase resource confidence from inferred to indicated, and with further high-grade hits, we expect the overall grade to increase and add tonnes via additional intercepts which continue to exceed average widths modelled in the existing resource."

SilverCrest has been completing its Phase 3 infill drill program currently with nine rigs in order to increase the overall resource confidence on 25-metre spacing. Approximately 5,000-to-10,000 metres of new drilling is planned to be included in an updated resource expected in the first quarter of 2019.

The analysts elaborate, "The tighter drill spacing is aiding in identifying mineralized shoots such as Shoot 51 and Shoot 43 which have returned multi-kilogram silver-equivalent average intercepts in recent assay results. The on-going success continues to support a greater average vein width compared to the current resource estimate.

"Of the 28 holes completed at the zone, average estimated true widths and grades are now 3.9 metres of 11.36 grams of gold per tonne of ore and 1,064 grams of silver per tonne of ore, compared to the current resource model of 2.7 metres wide of 7.13 grams of gold per tonne of ore and 614 grams of silver per tonne of ore.

"Highlight intercepts from today's batch of assay results at Area 51 include: 9.3 metres of 39.66 grams gold per tonne of ore and 3,361 grams of silver per tonne of

Continued on next page

'Best Buys' from leading analysts

Analysts follow as many as 20 stocks, most of which are rated "buys". Of those buys, an analyst has one or two special favourites seen as most suitable for new buying. This column is devoted to those one or two favourite "best buys".

Financial professional and frequent BNN Bloomberg media personality Greg Taylor says he has focused on growth strategies throughout his career; nevertheless, value is at the top of his mind at the moment.

Asked if he believes volatility since last fall indicates the arrival of a long-term, secular bear market, he responds, "That's the big debate among everybody right now."

In any case, he advises, "Investors need to get used to the volatility." Mr. Taylor argues that recent rockiness could reflect a sea change in the markets, one that would leave runaway speculative growth-oriented prospects in the dust.

Mr. Taylor is a portfolio manager, chartered investment manager (CIM), and chartered financial analyst (CFA) at Purpose Investments in Toronto, which he joined in December 2017. He began his career in 1999 at Aurion Capital, which was acquired by the Bank of Nova Scotia in 2014. In 2016, he moved to Front Street Capital as part of a fund divestment by Scotiabank; Front Street later evolved into LOGIQ Asset Management, then Purpose Investments.

In the decade since the global economic crisis, central banks have aimed to create stability through quantitative easing (when central banks purchase government bonds or other assets to raise liquidity), by keeping interest rates very low, and even by giving "dovish" statements about the possibility and pace of rate hikes in an effort to keep the capital markets calm. Mr. Taylor argues that, since economic data has become stronger, central banks have pulled back and offered more hawkish remarks about interest increases to "let the markets walk on their own."

Nevertheless, he concedes, "We've had a good rebound in the last few weeks," since U.S. Federal Reserve Chair Jerome Powell's gentler followup to relatively aggressive interest-related commentary in January. The analyst says investors witnessed "a really narrow market in the last year dominated by the FAANG names." However, he adds, "We've seen a bit of a crack in that trade," such as when Apple Inc. shares plummeted after giving bad guidance.

In the last few months, technology has retreated from the front of the stock market pack. "We've had a bit of a rotation toward value. Value-oriented stocks had been doing badly for the last few years." As growth-focused businesses struggle, investors are becoming more willing to pick up undervalued companies again.

Cyclical sectors of the market, such as the financial, materials, and energy segments, boast solid potential.

Poor U.S. dollar performance could speed up sector rotation toward commodities, the analyst adds. "The U.S. dollar has become kind of a crowded trade."

Mr. Taylor also notes, "Canadian small caps have been ignored and left for dead and that's created a lot of volatility in that sector and also setting up some opportunities….but it might be a little early to tell on some of those."

Mr. Taylor recommends his first "best buy", the **Purpose Premium Yield Fund** (PYF-TSX, $18.76), because of the safety and stability of its underlying assets.

"It's a good diversifier…that has a little more safety built into it."

The analyst explains that the fund includes a combination of stocks with covered calls and cash-covered put options to protect against volatility. Made up of options tied to larger-cap U.S. companies, the fund tends to perform well when the market is restless. It also offers a yield of 5.3 per cent annually.

Mr. Taylor's second "best buy", the **Purpose Marijuana Opportunities Fund** (MJJ-NEO, $27.04) is based on "the one" growth area in Canadian markets recently, cannabis.

"There's a lot of excitement about it…but people are going about it the wrong way," says the analyst, who points out that MJJ is the first actively-managed cannabis fund in the world.

Many have purchased Horizons ETFs' passive marijuana index fund (trading under HMMJ on the TSX) or bought individual stocks, says Mr. Taylor. That leaves investors either over- or underexposed to the major marijuana names.

MJJ, on the other hand, is made up of about 30 per cent U.S. cannabis companies and 60 per cent Canadian peers, plus around 10 per cent in cash at present. However, that allocation can shift completely as necessary; the fund takes profits and holds onto the extra cash from gains so it can purchase more pot company shares when they retreat anew. "The sector does have the periods where it goes parabolic," says Mr. Taylor. Since it started trading on Feb. 1, 2018, the fund has been about 40 per cent ahead of HMMJ.

The fund includes such dominant marijuana names as Canopy Growth Corp. and Tilray Inc., but the rest of the underlying companies have smaller capitalizations, such as HEXO Cannabis Corp. and OrganiGram Holdings Inc. and thus more room to grow.

Briefly Noted

PI FINANCIAL

GT Gold Corp. (GTT-TSX/VEN, $0.74)unveiled drill results for the final, "outstanding" and deepest hole at Saddle North (TTD109) in northern B.C. Analysts Chris Thompson and Justin Stevens' say the numbers support their view of Saddle North's tonnage and grade. They maintain a "buy" stance on GT and target share price of $3.70.

Hole 109 demonstrates the existence of "high-grade mineralization extents at depths" (including 0.5 per cent copper for 538 metres and 1.04 grams of gold per tonne of ore from 624 metres). These results are similar to the nearby Red Chris deposit's reserve grades – 0.36 per cent copper and 0.27 grams of gold per tonne of ore. The analysts state the results back their modelled tonnage estimate.

While mineralization was seen over an expanded length of 600 metres and to a depth of more than 1,100 metres, the results are still comparable with the modelled resource of about 200,000 metric tonnes. Additional results from 22 holes at Saddle South (epithermal vein target) are expected by the end of January 2019.

ACUMEN CAPITAL

Questor Technology Inc. (QST-TSX/VEN, $3.92) has earned a $5.8-million purchase order to supply incinerator units along with accompanying power generators that use waste heat as fuel at three oil facilities in Mexico (from a single client).

The generators will power the facilities, which are off the grid, while users of the technology in Mexico receive "Green" (environmentally-friendly) certificates. The sale comes on the back of updated initiatives in Mexico, including a 75 per cent reduction target for methane emissions by 2025. This is Questor's first commercial sale of waste heat-to-power units, a division management says has significant upside in areas of the world that are off the grid or face power shortages, analyst Trevor Reynolds notes.

"The sale results in upward revisions to our estimates while the business potential in Mexico is significant given new (Green) regulations," he agrees. He increases his target price to $5.35 per share from $4.75, and keeps his "buy" recommendation for Questor.

PI FINANCIAL

Canopy Rivers Inc. (RIV-TSX/VEN, $4.49) has made a $9-million investment in a plant-based food and beverage company, Greenhouse Juice Co. The investment goes towards Greenhouse's expansion and development of health and wellness beverages infused with cannabidiol (CBD). Analysts Devin Schilling and Jason Zandberg say this is positive since CBD-infused products are a large opportunity in the Natural Health and Wellness market. The analysts maintain their "buy" recommendation and target price of $9 per share.

Canopy's financing package consists of secured and unsecured debt, warrant coverage, and board representation rights. It includes a $6-million senior (that is, to be repaid first) secured convertible debenture with a 12 per cent yield for a three-year term and fixed conversion price, and a $3-million unsecured convertible debenture with an automatic conversion mechanism based on Greenhouse's sales milestones. Canopy Rivers will also receive incremental warrants allowing an increase in its Greenhouse stake.

Greenhouse, founded in January 2014, has grown from one retail outlet to 15 corporate-owned stores in the Greater Toronto Area. Its distribution network also reaches hundreds of other locations.

RAYMOND JAMES FINANCIAL

Equinox Gold Corp.'s (EQX-TSX/VEN, $1.04) guidance for 2019 calls for the commissioning of its Aurizona gold mine in Brazil and more production from Mesquite in California than analysts Tara Hassan and Jeremy Poon forecast. While the guidance fell short of Ms. Hassan and Mr. Poon's expectations overall, they maintain their position that the company is stepping into "a potentially catalyst-heavy period" and reiterate an "outperform" recommendation for it with a 12-month target share price of $2.

The Aurizona gold mine is set to start commercial production at the end of 2019's first quarter. Equinox expects the mine to produce 85,000 to 105,000 ounces annually. Mesquite's production guidance includes a year-over-year increase target of four per cent to 14 per cent, with a focus on exploring opportunities to increase production, decrease operating costs, and extend mine life. Castle Mountain's construction starts in the second half of 2019.

Ending 2018 with a strong cash balance, the analysts say they expect Equinox Gold will revise that balance in the first quarter of 2019 to reflect adjustments related to the Mesquite acquisition.

Continued from preceding page

ore; 2.4 metres of 4.3 grams of gold per tonne of ore and 1,572 grams of silver per tonne of ore; and three metres of 5.37 grams of gold per tonne of ore and 998 grams of silver per tonne of ore."

SilverCrest Metals is a precious-metals exploration company that is focused on new discoveries, value-added acquisitions and targeting production in Mexico's historic precious metal districts.

Valens GroWorks

ALTACORP CAPITAL

Flying under the radar, until now…

Digested from a Jan. 7 report by analyst David Kideckel

Valens GroWorks Corp. (VGW-CSE, $1.76) is one of the premier cannabis companies when it comes to extracting active medical ingredients from marijuana, then manufacturing products from the same, asserts Mr. Kideckel.

At the same time, he says, "We also view Valens as amongst the most undervalued businesses in the cannabis sector, offering investors extremely favourable gross margins and EBITDA (earnings before interest, taxes, depreciation and amortization) margins, as well as a capital-light model that, based on our estimates, will generate significant free cash flows on an annual basis beginning in fiscal 2020 (year beginning Dec. 1, 2019)."

This perfect storm is enough to push Mr. Kideckel to start covering ValensGroWorks on behalf of AltaCorp. The analyst assigns Valens GroWorks an initial recommendation of "outperform" and a 12-to-18-month target price of $5 per share.

The analyst comments:

"Valens is a best-in-class extraction and manufacturing company focused on advanced R&D and analytical testing, proprietary extraction processes, product development and cultivation activities within the cannabis sector.

"We believe that the company is ideally positioned to benefit from the expected evolution of cannabis consumer consumption patterns, namely, the shift from dried flower towards consumer packaged goods (CPG) extract products, such as vape pens, edibles, and beverages."

Elaborating on Valens' valuation relative to its earning ability, he says, "We forecast that Valens will generate one of the most attractive EBITDA margin profiles we have seen in the sector, with margins of 47 per cent in fiscal 2019, 58 per cent in fiscal 2020, and 52 per cent by fiscal 2021.

"In addition, the company's business model requires relatively low capital investment in comparison those of most vertically integrated cannabis producers, allowing them to generate meaningful free cash flows by fiscal 2020.

Valens has received its dealer's licence (May 2017) under the Controlled Drugs and Substances Act, its licensed producer (LP) status for cultivation and oil production (October 2018) from Health Canada under the Access to Cannabis for Medical Purposes Regulations (ACMPR), and its standard processing and standard cultivation licences under the Cannabis Act (November 2018), allowing it to begin sales to other cannabis companies licensed under the Cannabis Act, and execute on its contract extraction business.

Mr. Kideckel stresses, "It is one of the only companies to hold both licences, which is a nod to management's ability to identify a key differentiation strategy amongst peers in the cannabis sector."

The analyst points out that the company has formed key relationships with two industry-leading businesses in Thermo Fisher Scientific Inc., a laboratory equipment and medical instrument manufacturer, and Tarukino Inc., a U.S.-based private cannabis beverage manufacturer and leader in emulsification technology.

Valens has been named a "centre of excellence in plant-based science" by Thermo Fisher, and has obtained the exclusive Canadian rights to use Tarukino's Sorse emulsification technology and beverage brands, he adds.

"Given the relatively high margins on extraction services, larger cannabis producers are incentivized to internalize these processes," suggests Mr. Kideckel.

"With our view of Valens as an industry leader, we see them as an attractive takeover target by larger cannabis companies looking to acquire industry-leading extraction and laboratory testing capabilities."

As to the prospect of the company's early-mover advantage fading in the future, the analyst says, "We expect that over time, new entrants will move into the (extraction) segment and potentially drive margins lower. To guard against this, Valens has developed built-in optionality through a diversified strategy that allows them to shift into further downstream activities, specifically, the development and marketing of their own branded products."

Valens GroWorks was incorporated in 2014, and began operations the same year, as a dealer's licence applicant under the Narcotic Control Regulations. In 2016, the company entered into a binding commitment to execute a reverse takeover of a shell company, and officially began trading as Valens GroWorks on the Canadian Securities Exchange in November 2016.

Theratechnologies

MACKIE RESEARCH

Hold tight

Digested from a Jan. 9 report by analysts André Uddin and Yue Toby Ma

Messrs. Uddin and Ma are downgrading their recommendation for **Theratechnologies Inc.** (TH-TSX, $9.18) as they lower sales estimates for medications Egrifta and Trogarzo. The analysts give the stock a "hold" recommendation and make a substantial decrease to their target share price down to $10.20 from a previous $19.50.

As to why the analysts remain less than optimistic about the stock's future, the analysts note, ", Egrifta's total Rx volume in the U.S. has flatlined. The F4 formulation (more concentrated, less administration volume) of Egrifta was approved by the FDA in November 2018 – we expect Theratechnologies to switch patients to the F4 formulation which should be more user friendly.

"Massachusetts General Hospital is conducting a NAFLD-NASH trial with Egrifta, with results expected in the first half of 2019 – positive outcomes of this study should drive the off-label use of Egrifta to treat NASH. To be conservative, we are lowering our Egrifta sales estimates from fiscal 2019 to 2023

"Trogarzo (Theratechnologies' key growth driver) was launched in the U.S. in May 2018. The uptake of Trogarzo has been increasing – however, the rate is slower than our original expectations - likely due to lack of sufficient reimbursement that is expected to take full effect in 2019.

"Theratechnologies incurred

Emily Griffiths-Hamilton
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JIM TRELIVING, Chairman and owner, Boston Pizza International
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Figure.1

net losses in fiscal 2017 – and likely in fiscal 2018 as well – as the company ramped up its preparation efforts for the Trogarzo launch. We believe the launches of Trogarzo in the U.S. and Europe should start bringing profits back to Theratechnology in 2019. Our adjusted EBITDA and fully diluted EPS forecasts for Theratechnology in fourth quarter of fiscal 2018 and the following years have been significantly lowered."

Theratechnologies is an emerging specialty pharma company specialized in the HIV field. Theratechnologies launched its multi-drug resistant HIV drug Trogarzo in the U.S. in late April 2018. The company also sells Egrifta, the only approved drug for HIV-related lipodystrophy, in the U.S.

SEMAFO

HAYWOOD SECURITIES

A golden stock pick

Digested from a Dec. 12 report by analyst Kerry Smith

SEMAFO Inc. (SMF-TSX, $2.52) boosts its Boungou full-year production targets for 2019, which will inevitably drive cash-flow growth. Also, SMF is one of Mr. Smith's "top picks" given its strong balance sheet, production growth and inexpensive valuation, adding that SEMAFO provides investors with exposure to unhedged gold production (three mines in six years) from West Africa.

The analyst estimates production will grow from 255,000 ounces of gold this year to 415,000 ounces next year with all-in-sustaining costs dropping 25 per cent from US$985 per ounce to US$740 per ounce. He reiterates his "buy" recommendation and $6-per-share target price.

SEMAFO recently released a maiden reserve estimate for the Siou Underground Zone as well as the results of a pre-feasibility study at Mana that incorporates the Burkina Faso zone into the mine plan.

The new mine plan provides visibility on the production profile at Mana with a current eight-year reserve life and improves on Haywood's previously modelled production profile, with an average of 413,000 ounces from both Mana and Boungou over the 2019-to-2023 timeframe.

With the analyst expecting cash flow to total US$215 million in 2019, he says SEMAFO is well positioned to further strengthen its balance sheet. At spot gold price of US$1,255 per ounce, he claims SEMAFO will generate US$195 million of cash flow in 2019.

He comments further, "As of Sept. 30, 2018, SEMAFO's cash balance stood at US$101 million, and its debt balance stood at US$120 million, with quarterly repayments of US$15 million starting March 31, 2019. SEMAFO currently trades at a consensus estimate 2019 share price-to-cash flow per share multiple of 2.5.

The peer group currently trades at a multiple of 4.9. Boungou will deliver its first full quarter of production in the fourth quarter, and a full production year in 2019 should close this valuation gap.

"We recommend investors accumulate shares now ahead of 2019 guidance in February and the increased cash flow from an approximate 75 per cent increase in production, which should become more tangible with the release of first-quarter 2019 results. The current valuation is lower than justified given the production, cash-flow growth and declining costs offset by increased security and political risk in Burkina Faso."

SEMAFO has two gold mines in Burkina Faso – the Mana and Boungou operations plus exploration assets in Burkina Faso and Ivory Coast.

Altura Energy

BEACON SECURITIES

Management expects 2018 production decline

Digested from a Dec. 24 report by analyst Kirk Wilson

Altura Energy Inc. (ATU-TSX/VEN, $0.37) provides a fourth-quarter 2018 production guidance, with the company expecting December production to be only 600 barrels of oil equivalent (BOE) per day due to the shut-in of volumes in response to weak Western Canadian Select (WCS) crude oil prices. Mr. Wilson drops his target price by a nickel to $0.80 a share but keeps his "buy" recommendation.

Altura's 2018 fourth-quarter (between October and December) guidance of 1,400 BOE per day is lower than the analyst's expectation of 1,840 BOE per day. However, he notes the WCS price has recovered as of late, and Altura's management expects to be producing at full capacity in January. For context, the analyst also notes production reached an average of 2,053 BOE per day in October.

"Our current 2019 forecast does not include any wells to be drilled until spring break-up ends in June. An active summer program should drive significant growth in the second half of 2019.

"While we foresee a stronger oil market next year relative to current due to influence from OPEC (Organization of the Petroleum Exporting Companies) and the Alberta government, we believe it is possible that the company undertakes a more conservative budget than we forecast as balance-sheet strength is a key focus for Altura," Mr. Wilson says.

Alberta Premier Rachel Notley announced that her administration would slash oil production temporarily by 8.7 per cent starting in January, amounting to about 325,000 barrels per day. With the lower level of Altura's production in the fourth quarter, it inherently brings a lower level of cash flow and a higher level of year-end net debt for the small-cap company (which the analyst describes as being "well-capitalized").

Based on an interim review of Altura's reserves after the additional seven wells that were brought on production from the summer drilling program, the credit facility was increased from $3 million to $6 million, which should allow the company to complete its 2019 program, the analyst states. He expects the company's 2019 guidance should be released fairly soon.

Risks that could negatively affect Altura in 2019 include commodity-price fluctuations; foreign-exchange and interest-rate fluctuations; cost overruns; weather and seasonal factors; fluctuations in royalty or tax rates; and overall well performance.

Altura Energy is a small-cap oil-and-gas company primarily focused on exploration and development of Upper Mannville formations in east and central Alberta.

AGT Food and Ingredients

CIBC WORLD MARKETS

Depressed lentil pricing makes for gloomy outlook

Digested from a Jan. 8 report by analysts Jacob Bout, Rahul Malhotra and Ioan Ilea

According to Messrs. Bout, Malhotra and Ilea, the focus for **AGT Food and Ingredients Inc.** (AGT-TSX, $17.28) in 2019 will remain on the proposal from AGT's insiders to privatize AGT for consideration of $18 in cash for each common share. The analysts also believe that fundamentally the depressed lentil markets will likely continue to weigh on profitability over the course of 2019.

Going into further detail the analysts say, "A special meeting of AGT's shareholders is to be held early this year to vote on the proposed transaction.

"The prospective buyer group, which includes the Arslan family, CEO, and Point North, represent approximately 27 per cent of AGT's current shares outstanding. But we note that the top three non-insiders currently have a 30 per cent interest. This is important as the transaction requires that two-thirds of the vote cast by all common shareholders at the meeting, as well as a simple majority of AGT public shareholders, agree to the transaction."

Other concerns regarding the company include, "A weak Indian rabi crop may be the necessary catalyst to see India return to pulse markets, but it remains unclear at this point whether such an event will transpire.

"Given high leverage, large debt refinancing in 2020, and a delayed lentil market recovery, we believe our price target of $18, decreased from $19, is closer to fair value. We remain 'neutral' rated.

"So far, Indian lentil rabi planting is three per cent behind year-over-year, but still eight per cent above the five-year average. But precipitation has been dismal, which could impact yields. In the scenario that India does return to the market at some point in 2019, there would be intense competition from other former suppliers such as Australia and the U.S. that have also accumulated relatively large carryovers, and hence pricing improvement may be limited.

"Our fourth-quarter 2018 estimate of $20 million is unchanged but we are taking down our 2019 EBITDA estimate to $80 million from $89 million to reflect the delayed recovery in lentil markets. With this report, we are rolling out our 2020 EBITDA estimate of $91 million.

"We assume that the pulse oversupply situation modestly improve but still below what we saw

Continued on next page

Briefly Noted

CIBC WORLD MARKETS

EXFO Inc.'s (EXF-TSX, $4.08; EXFO-NASDAQ, US$3.10) results and outlook were largely in line with analysts Todd Coupland and Amy Dyck's forecasts. Bookings of US$81.2 million, the second-highest in the company's history, are particularly encouraging, they add. However, the analysts say they continue to expect exposure to the 5G wireless upgrade cycle will not take place until late 2019 at the earliest (EXFO's shipments for these upgrades should begin then).

For that reason, they do not advise buying the stock for now, keeping their "neutral" recommendation and US$3.50-per-share target price. First-quarter (period ended November 2018) fiscal 2019 sales were about US$69 million, versus the CIBC expectation of US$70 million and consensus of US$68.5 million. Revenue growth was flat quarter-over-quarter, but up 9.2 per cent year-over-year.

According to the analysts, EXFO's strong bookings were due to calendar year-end spending from U.S. communications service providers, with robust demand for 100G test solutions for ongoing fibre deployment, high-speed upgrades, and data-centre growth.

PI FINANCIAL

Endeavour Silver Corp. (EDR-TSX, $3.01; EXK-NYSE, US$2.27) reported actual fourth-quarter 2018 production that was seven per cent below the company's guidance, analysts Chris Thompson and Justin Stevens point out. The analysts blame the shortfall on delayed commercial production at El Compas; lower-than-expected gold grades at Bolañitos; and lower mine production at Guanacevi (all three sites are in Mexico).

Endeavour delivered 1.418 million ounces of silver and 14,900 ounces of gold in the quarter, slightly less than PI Financial's estimate of 1.572 million ounces of silver and 15,000 ounces of gold. At El Compas, a ball-mill-pinion failure in late December stopped all plant operations. Production at Guanacevi and Bolañitos showed lower-than-anticipated throughput and grades, though management expects grades to improve with steady production through 2019.

Management has not revealed fourth-quarter costs as of yet. However, the company intends to release financial results for the period by Feb. 25. The analysts keep their "buy" recommendation and $3.75-per-share target price unchanged.

BEACON SECURITIES

On Dec. 30, 2018, **iAnthus Capital Holdings Inc.** (IAN-CSE, $5.96) opened the first marijuana dispensary in Brooklyn. Analysts Russell Stanley and Susan Xu make no material changes to their $16 share price target and "buy" recommendation, saying they had already included New York operations in their valuation.

Operating under the Citiva brand, the dispensary is located across from the Barclays Center and Atlantic Terminal. Being the first to open in Brooklyn positions iAnthus well in a 2.6-million-strong market (the New York City area has a total population of about 20 million). The company plans to open its second New York dispensary in Wappingers Falls in late January, with locations in Staten Island and Chemung County planned for later in 2019. The company will also launch a delivery service covering Brooklyn, expanding its market.

New York is currently a medical-only market, but Gov. Andrew Cuomo's administration has placed an emphasis on legalizing recreational marijuana. Ten companies are licensed to operate in the state, iAnthus among them, with each allowed four dispensaries.

CIBC WORLD MARKETS

Constellation Software Inc. (CSU-TSX, $877) has expanded its credit facility to US$700 million from US$460 million. Analysts Stephanie Price and Varun Choyah say this signals an improving mergers-and-acquisitions (M&A) environment. They retain their "outperformer" recommendation and $1,350-per-share price target.

They say, "Constellation is one of the few companies under our coverage that increased its M&A spend year-over-year in 2018, with a new 'keep your capital' focus giving operating groups more M&A autonomy. Given market volatility, we expect the M&A environment to continue to improve and see Constellation as well-positioned.

"Constellation has noted a difficult M&A environment for the past several years – with valuations stretched given the low interest rate environment and prevalence of competing private equity acquirers."

Ms. Price and Mr. Choyah reported that, as of Dec. 20, Constellation's acquisition spending was up significantly year-to-date, at US$459 million versus US$178 million in the year-ago period. Constellation has significantly staffed up its M&A team, they also noted.

Continued from preceding page

in 2015 and 2016. Our 2020 estimates also assume modest volume and margin expansion within the other segments."

AGT is a global leader in pulse processing and distribution, with over 40 facilities in Canada, U.S., Turkey, Australia, Europe, India, South Africa and China. The company operates through three segments: Pulses & Grains Processing, Bulk Handling and Distribution, and Food Ingredients & Packaged Foods.

Pollard Banknote

ACUMEN CAPITAL

Positive 2019 outlook

Digested from a Jan. 10 report by analysts Brian Pow and Nick Corcoran

Pollard Banknote Ltd. (PBL-TSX, $21.91) returns as Messrs. Pow and Corcoran's top pick list in 2019. With North American instant ticket retail sales growing at a compound annual growth rate of six per cent from 1995 to 2016, Pollard will continue to benefit from industry momentum. The analysts maintain their "buy" rating and give the stock a $27.50 target share price.

Providing further details the analysts say, "Pollard completed two acquisitions in 2018 that help support growth in 2019 and beyond. Demand for instant tickets has historically not been impacted by slower economic periods. Instant tickets drive north of 80 per cent of Pollard's revenue.

"Pollard earns a significant portion of its revenue from its U.S. operations with Pollard's share of the U.S. instant ticket market approaching approximately 22 per cent.

"On Oct. 31, 2018, Pollard acquired Schafer Systems Inc. for US$23.5 million (approximately $30.6 million) which will contribute two months to the 2018 results.

"Pollard has contracts as a primary or secondary supplier of instant tickets for 27 of the 44 U.S. lotteries that sell instant tickets. With the acquisition of Schafer, Pollard receives many existing long-term relationships and a complementary product to its instant ticket division.

"Pollard offers a compelling valuation and attractive return to our target price. The shares have traded off almost 26.5 per cent since reaching a high of $27.93 achieved in early November 2018 following a strong third quarter 2018 report. Pollard is currently trading at 9.5 times 2019 EBITDA."

Pollard Banknote provides products and services to lottery and charitable gaming industries around the world. Pollard Banknote maintains a dominant market position for instant-win scratch tickets in Canada, and is the second largest producer of instant tickets in the world.

Correvio Pharma

MACKIE RESEARCH

Getting cold

Digested from a Jan. 9 report by analysts André Uddin and Yue Toby Ma

As they do not expect **Correvio Pharma Corp.** (CORV-TSX, $3; CORV-NASDAQ, US$2.25) to turn profitable in the near future, Messrs. Uddin and Ma downgrade their stock rating. The analysts give Correvio a "hold" recommendation and a US$2.70 target share price, down from US$4.70.

Other reasons giving the analysts cause to turn from the stock include them expecting, "Correvio to conduct up to a US$30 million equity financing in 2019 that would cause equity dilution. We are also lowering our sales outlook for the company.

"On Correvio's balance sheet, the company had $16.8 million in cash and $40.7 million in debt by the third quarter of 2018 end – debt principal repayments would begin in June 2020 and Correvio would have to pay off its debt in 2022. The company has been incurring losses – we do not expect Correvio to have positive cash flow in 2019 either. Thus, we believe it should be logic to assume Correvio would conduct a $30 million equity financing in the second half of 2019 at a price of US$2. We have also assumed the company would raise $15 million and $10 million in 2021 and 2022, respectively, via equity offerings."

Correvio Pharma (formerly Cardiome Pharma) is a commercial-stage specialty pharmaceutical company specialized in cardiology with a key marketing focus on the EU markets.

Obsidian Energy

ALTACORP CAPITAL

Cardium drilling program ahead of schedule

Digested from a Dec. 17 report by analysts Thomas Matthews and Nick Koch

Obsidian Energy Ltd. (OBE-TSX, $0.60) is ahead of schedule on its Cardium drilling program, say Messrs. Matthews and Koch.

The analysts, who stick with their "outperform" recommendation but reduce their 12-month target share price to $1.50 from $2.15, note that the company recently announced a second half of 2018 status report on its drilling program for the asset.

"Overall, production continues to meet type-curve expectation with average individual well rates on two pads producing 419 to 587 barrels of oil equivalent (BOE) per day (69 per cent– 83 per cent oil), with another five wells expected to be on production by mid to late December," say the analysts.

"The expectation for 10 wells on production by year end is higher than initially forecast as the initial expectation was early 2019.

"Although this will not have much bearing on 2018 production volumes, we believe it is positive as it indicates Obisidan can met and exceed guidance targets, and completion costs are less than initially anticipated allowing the company to push ahead with its program."

The analyst stress that the release was positive as the initial production rates and oil cuts and all lined up with expectations – and expenses were actually south of expectations.

According to the analysts, the company, at its investor day in November, detailed a capital budget for 2019 of approximately $120 million. It also announced the option of boosting its spending for the second half of 2019 by $40 million if prices improve.

"At strip, we believe that Obsidian will be competitive in 2019," say the analysts."Based on the $120 million assumption, we forecast Obsidian to grow CFPS by 52 per cent, ranking it fourth behind select higher cost heavy oil producers. In addition, we are of the view that Obsidian's 2019 budget remains conservative with a payout ratio of approximately 77 per cent and show risks to other operators given current budget estimates."

Obsidian Energy is a mid-sized oil and natural gas production company based in Calgary.

Essential Energy Services

RAYMOND JAMES FINANCIAL

Lower budget and estimates; still undervalued

Digested from a Jan. 9 report by analysts Andrew Bradford and Michael Shaw

According to analysts Messrs. Bradford and Shaw, it doesn't take fancy arithmetic to conclude **Essential Energy Services Ltd.'s** (ESN-TSX, $0.33) stock is wildly undervalued at $0.325. However, lower energy prices will result in sharp reductions in rig counts, along with lower revenue and earnings forecasts. The analysts keep their "outperform" recommendation and reduce his target price to $0.65 from $1.05 per share.

Speaking on its stock being undervalued, Messrs. Bradford and Shaw reveal Essential has $0.45 per share of working capital, which after deducting $0.17 in total debt per share, still leaves shareholders with $0.28 of net working capital per share. The remaining $0.04 per share difference between the share price and net working capital is all that remains for Essential's property, plant and equipment (valued at $6 million).

Commenting further, they say, "Regardless of the carrying value or what ESN paid, even the stingiest of investors would have to concede assets that generated $7 million of earnings before interest, tax, depreciation and amortization (EBITDA) in third-quarter 2018 alone are probably worth more than $6 million, irrespective of their outlook.

"Tactically, consensus estimates will come down, but we doubt this will have much impact on the stock as it's already down 35 per cent over the last 90 days (Toronto Stock Exchange index is down 11 per cent). We appreciate not all investors can avail themselves of a $46-million market-cap company, but for those who can, we recommend buying these shares."

Speaking on the production and budget forecast, they say, "We are reducing our 2019 rig count to 160. The entirety of the change is the consequence of curtailments (producers don't need to drill new wells if they are curtailing the production). The magnitude of this impact has proven difficult to gauge ahead of time but because the curtailments are temporary, implications for going concern value should be near-zero.

"We are reducing our 2019 EBITDA estimate to $14 million from our prior $32 million forecast. This implies a 35 per cent sequential drop from our 2018 estimated EBITDA, a 24 per cent drop from 2017, and is almost 50 per cent below the current consensus.

"Also, Essential set its 2019 capital budget at $6 million - down from an expected $16 million in spending in 2018. The reduction is hardly surprising given most of its explorer-and-producer customers have yet to outline their own spending plans for 2019 - which is a good indicator their spending will be down as well."

Essential Energy Services provides well production and completion services via coil tubing, fluid pumpers and nitrogen units. The company also provides downhole tool services and rentals.

Barkerville Gold Mines

PI FINANCIAL

Distinguished gold deposit at Cariboo

Digested from a Jan. 8 report by analyst Philip Ker

Calling **Barkerville Gold Mines Ltd.'s** (BGM-TSX/VEN, $0.41) Cariboo Gold project one of the only "3-million-ounce gold (or more) deposits capable of producing over 250,000 ounces per year, while having the potential to attract the appetite of a mid-to-large cap gold producer", Mr. Ker initiates coverage of BGM with a "buy" recommendation and $1.30-per-share target price.

"Barkerville is at the top of a short list of multimillion-ounce gold development plays in Canada. With an updated resource estimate and feasibility study expected for delivery in 2019, in addition to more expansion and definition drilling, Barkerville should be on the radar of investors as its Cariboo Gold project advances towards construction. With a limited pool of attractive, multi-million ounce development projects in Canada, Barkerville is positioning themselves to become an attractive takeover candidate.

"The Cariboo district has an extensive mining history dating back to the mid-1800's. Barkerville has already completed test-mining operations at a small scale rate of about 30,000 ounces a year from Bonanza Ledge, with the goal of bringing Cow and Island Mountain online by 2021 (BGM recently completed a $29.5-million equity financing to further drill there).

"Barkerville currently has a permitted and operating mill which they plan to use for initial processing of Cariboo ore.

"The project scope calls for a new mill to be built at site but could alternatively expand the QR project. We expect the project fea-

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sibility study to fully evaluate those trade-off studies.

"Additionally, mineralized vein corridors comprising the resource have an average width of 4.5 metres with a near-vertical dip making them amenable to long-hole stope mining.

"Recent results from the Cariboo 2018 campaign demonstrated the down-dip potential to expand and define new vein corridors where assays returned 10.5 grams of gold per tonne of ore (g/t) over 7.8 metres located 50 metres down-dip of a hole with 9.33 g/t over 2.7 metres. Clearly, significant potential exists to find new vein corridors; use their 3D litho-structural model which controls mineralization across the district 67-kilometre long strike length; upon receipt of their mining permit, develop underground drill stations to test down-dip of known vein corridors; and use favorable soil sample data in the southeast extension for future upside.

"In early 2018, Barkerville tabled an impressive 3.75 million ounce resource and have since completed another 123,000 metres of primarily infill drilling. This new data should help support increased confidence of measured and inferred resources and conversion of inferred ounces en route to our target of 5 million ounces over the next 18 months (from 1.6 million to 2 million ounces). This size of resource considerably distinguishes them from its peers both globally and within Canada."

Barkerville Gold Mines is engaged in the production and sale of gold - along with the exploration, development, and acquisition of mineral properties in British Columbia.

Aphria

HAYWOOD SECURITIES

Could be taking over the green world

Digested from a Dec. 28 report by analysts Neal Gilmer and Ethan Spence

Green Growth Brands Inc. (GGB) has proposed taking over **Aphria Inc.** (APHA-TSX, $7.57; APHA-NYSE, US$5.57). The analysts suggest the merger would provide a strategic fit for both companies and create a global force in the cannabis space.

They recommend risk-tolerant investors "buy" shares of Aphria as they expect either this transaction to close or another bidder to emerge. However, Messrs. Gilmer and Spence lower their price target to $17 per share from $13, as they believe that the approximate $11-per share offer undervalues the fundamental valuation of Aphria.

The all-stock offer would provide Aphria shareholders with 1.5714 common shares of Green Growth Brands (with an implied priced at $7 per share) for each common share of Aphria. This offer translates to a 45.5 per cent premium to the closing price of Aphria on Dec. 24, 2018 and a 46 per cent premium to Aphria's 10-day volume-weighted average price on the Toronto Stock Exchange, assuming an implied price of GGB of $7.

"This would value Aphria at approximately $2.8 billion based on $7 per share for GGB. In addition, GGB announced that it expects to complete a private placement to raise $300 million at a price of $7 to show support for the valuation," the analysts say.

"We believe that Aphria will trade close to the implied $11 share price based on both short covering but also potential for a higher price in GGB following this announcement. This has potentially put Aphria in play at depressed valuation levels and does not eliminate the possibility of another suitor emerging. However, we think GGB is in the driver's seat and presents excellent synergy with Aphria and potential to execute a friendly transaction subject to further discussions."

Aphria is a licensed producer with greenhouse operations in Ontario. The company has current capacity of 30,000 kilograms with expansion plans towards 250,000 kilograms per year including its strategic partnership.

Kraken Robotics

BEACON SECURITIES

Cashed up to execute on strong order pipeline

Digested from a Jan. 8 report by analyst Gabriel Leung

Analyst Gabriel Leung updates his estimates for **Kraken Robotics Inc.** (PNG-TSX/VEN, $0.39) estimates to reflect the company's recent equity financing and to provide an update on operations. The analyst gives the stock a "buy" recommendation and downgrade their target share price to $0.70 from a previous $0.75. The price downgrade is largely due to dilution from the financing, Mr. Leung explains.

Providing further commentary, the analyst notes, "On Dec. 20, the company announced the close of an equity financing where it raised $6 million at $0.40 per share. Post transaction, we estimate that the company has about 137 million basic shares outstanding and approximately 15 million options and warrants. We also estimate the company's current cash position at approximately $6 million.

"Looking into the fourth quarter of 2018 and beyond, the company is sitting with a $13-million backlog (and approximately $4 million in business where the company has been notified it has been awarded), which should help to support our financial forecast over the near-term. Included in this backlog is approximately $9 million in batteries to Ocean Infinity and AquaPix sonar sensors to military and commercial customers.

"The company also continues to operate with a large pipeline of opportunities, particularly across North American and European Navies for mine-hunting sonars. The company is also preparing to submit a three-year, $30 million contract to provide ultra-high definition seabed and subsea asset data via the Canadian Ocean Supercluster initiative.

Newfoundland-based Kraken is a marine technology company providing ultra-high resolution, software centric-sensors and underwater robotic systems. Kraken was founded with the objective of commercializing a software-centric version of Synthetic Aperture Sonar (SAS) to compete with more hardware-dependent and expensive SAS solutions.

Knight Therapeutics

MACKIE RESEARCH

Taking a rest

Digested from a Jan. 9 report by analysts André Uddin and Yue Toby Ma

In what seems like a series of downgrades, Messrs. Uddin and Ma advise investors to take a "hold" position on **Knight Therapeutics Inc.** (GUD-TSX, $7.79). The analysts downgraded their recommendation from a previous "buy" and reduce their target price for the stock to $8, from $10.65.

Providing further colour, the analyst notes, "we expect the company to go through a period of flat growth in 2019, and we do not expect the company to conduct major BD transactions as management is still awaiting product acquisition prices to drop – Knight may in-license/acquire small products down the road.

"Probuphine was launched in Oct. 2018. Iluvien, Netildex, Mytesi, TX-004/001 and tenapanor are slated to be launched between 2019 and 2020 – among which we believe TX-004/001 should be the most important one. Our product sales estimates suggest Knight would have flat growth in 2019 relative to 2018 – the momentum should come back in 2020 following the launch of TX-004/001.

"By the third quarter of 2018 end, Knight had $651 million in free cash ($4.56 free cash per share) which can be deployed to acquire/in-license products. However, Knight's management is price sensitive and is still awaiting product acquisition prices to cool down. We expect no major transactions for the company in 2019.

"However, we believe Knight could serve as a defensive play for investors during a market downturn as Knight has arguably the strongest balance sheet in the Canadian specialty pharma sector."

Knight Therapeutics is a commercial-stage specialty pharmaceutical company focused primarily on the Canadian market, as well as, other lower competitive rest of the world jurisdictions.

Painted Pony Energy

ALTACORP CAPITAL

2019 guidance modestly negative

Digested from a Dec. 18 report by analysts Patrick O'Rourke and Kyle Styner

Messrs. O'Rourke and Styner say that **Painted Pony Energy Ltd.'s** (PONY-TSX, $1.33) 2019 guidance and capital budget was modestly negative. But they add that management is doing the right thing despite a difficult macroeconomic environment for gas producers in Canada.

"PONY has announced a 2019 capital budget of $95 million to $110 million which it expects to approximate its 2019 cash flow (somewhat thematic across industry), this compares with our previous estimate for fiscal 2019 capital spending of $118.2 million and consensus of $125.3 million," say the analysts. "Cash flow guidance for 2019 of $95 million $110 million compares with our previous estimate of $116.8 million (albeit using higher commodity input price assumptions) and consensus of $115.8 million.

"With this note we have made model adjustments which see our fiscal 2019 cash flow go to $109 million on our current (but dated) price deck, and $91 million on current strip pricing in 2019.

"PONY has provided guidance for 2019 production of 54,000 to 56,000 barrels of oil equivalent (BOE) per day, slightly below our previous estimate of 57,300 BOE per day and consensus of 58,100 BOE per day – with this note we have revised our 2019 production estimate to 54,700 BOE per day.

"PONY expects a 2019 liquids weighting of nine per cent, inline with estimate of nine per cent but slightly below consensus of 10 per cent. Our 2019 modeling now indicates an approximately five per cent decline in production per share relative to 2018."

Messrs. O'Rourke and Styner, who are adjusting their projections to take into account the updated guidance for 2019, reiterate their "sector perform" recommendation. But they also reduce their 12-month target share price to $2.25 from $3.

Painted Pony Energy is a growth-oriented public natural gas producer, operating in the Montney formation in Northeast British Columbia.

Leagold Mining

CIBC WORLD MARKETS

Better costs; upward earnings revisions

Digested from a Jan. 4 report by analysts Bryce Adams and Eve Hurowitz

Leagold Mining Corp. (LMC-TSX, $1.92) recently reported its 2018 fourth-quarter production. With the announcement of these results, analysts Bryce Adams and Eve Hurowitz have updated their model for the fourth quarter and lowered their cost expectations. They maintain their "outperformer" rating and 12-to-18-month target price of $3.50.

The production results this quarter came in at 93,800 ounces, which were directly in line with the estimated 93,700 ounces. Management noted that the all-in sustaining costs (AISC) for the full year will

Continued on next page

Of Special Interest

Barrick Gold

CIBC WORLD MARKETS

New era for a new Barrick

Digested from a Jan. 2 report by analysts Anita Soni and Terry Tsui

As an investment thesis, Ms. Soni and Mr. Tsui state the 2018 merger of **Barrick Gold Corp.** (ABX-TSX, $18.43; ABX-NYSE, US$13.54) and Randgold Resources Ltd. has created the world's largest gold producer by all relevant metrics. The newly combined company will create a platform of the highest concentration of Tier 1 assets, combined with a strong management team known for delivering industry-leading returns for investors.

"While Barrick shares have outperformed peers by 11 per cent since the deal announcement, there remains a 26 per cent return to our price target at current multiples, and the potential for further upside opportunity with delivery of the strategic plan," the analysts say as they resume coverage of Barrick Gold with a recommendation upgrade of "outperform" and a target price boost to US$17 per share from US$14.50.

Barrick owns five of the world's top-10 Tier 1 gold assets and extensive land positions in major gold districts. The diverse asset portfolio of 21 mines and six projects across North and South America, Australasia and Africa "offers significant opportunities for production growth, asset rationalization, operational improvement, and optimization through exploration additions and mineral resources management," according to the analysts.

These Tier 1 gold assets (that is, 500,000 ounces of gold per annum, with over 10-year mine life) include Goldstrike, Kibali, Pueblo Viejo, Loulo-Gounkoto and Cortez. The combination of Barrick and Randgold provides an industry-leading platform for Barrick to maintain a production profile of 4.5-to-5 million ounces of gold.

The analysts expect new CEO Mark Bristow "to continue his disciplined approach to assessing new projects, with high after-tax hurdle rates, which should drive improved shareholder returns". The Randgold team delivered an industry-leading return on invested capital of 9.4 per cent, on average, between the years 2013 to 2017, consistently outperforming other North American seniors.

The new management team has reiterated the company's drive for further improvement in efficiency through ongoing business process improvements, supply-chain management, technological innovations and corporate-cost containment.

Noteworthy to Ms. Soni and Mr. Tsui is that Barrick is now amongst the lower-cost senior gold producers with all-in-sustaining costs estimates below US$800 per ounces, compared to the peer average of a per-ounce price in the mid-US$800s.

Barrick Gold is the world's largest gold producer.

Continued from preceding page

be in line with US$979 per ounce. The analysts' full-year AISC estimate is now at US$986 per ounce.

Leagold's Los Filos mine in Mexico had a strong quarter with 58,200 ounces, compared to the estimated 55,300 ounces due to consistent recovery rates in December. The RDM mine in Brazil produced lower than expected results at 4,900 ounces against the estimated 7,400 ounces. Fazenda and Pilar mines (also in Brazil) both delivered in line with the analysts' model – 19,000 ounces and 11,600 ounces, respectively.

Over the course of the year, Leagold Mining has produced 302,600 ounces, achieving the higher end of the company's revised guidance of 295,000 to 305,000 ounces. The guidance was updated in August to take into account the Brio assets' acquisition and revised downwards in November due to RDM's temporary shut-down.

A technical study is expected soon for a CIL plant at Los Filos for the underground ore with the 2019 guidance to follow shortly thereafter.

It is expected that Leagold Mining will refinance corporate debt this year, which could "improve the balance sheet and refocus the story on operational improvements and production growth".

Given that the nature of mining is risky, there can be key risks to the target price such as commodity prices, exchange rate, technical, or political issues, which can affect operations.The analysts clarify that their target price is based on mining operations continuing without interruptions.

Based in Vancouver, Leagold Mining is building a mid-tier gold producer with focus on Latin America. The company has four mines plus two developing projects, in Mexico and Brazil.

Sangoma Technologies

ACUMEN CAPITAL

Big leap with Digium pays off

Digested from a Jan. 10 report by analysts Nick Corcoran and Brian Pow

Messrs. Corcoran and Pow tout **Sangoma Technologies Corp.** (STC-TSX/VEN, $1.24) as the strongest performer in their coverage universe in 2018 with a 77.1 per cent return. The analysts see the positive momentum continuing in 2019 since the financial results reflect the transformative acquisition of software company Digium Inc. As such, the analysts give the stock a "buy" recommendation and a $2.30 target share price.

With regards to financial results in 2019 the analysts go on to highlight, "EBITDA (earnings before interest, taxes, depreciation and amortization) margins in the first quarter of fiscal 2019 (quarter ended Oct. 31, 2018) were stronger than anticipated. We view this as positive given that the first-quarter results included only one month of the higher contribution from Digium. Based on our estimates, we believe that organic growth in fiscal 2018 was above 12 per cent.

"Management reiterated its guidance for fiscal 2019 and fiscal 2020 with the first quarter of fiscal 2019 results. For fiscal 2019, revenue is expected to be $100 million with EBITDA margins of 10 per cent (35 per cent recurring/services revenue). For fiscal 2020, EBITDA margins are expected to improve to 13 per cent. We believe that Sangoma is tracking ahead of its guidance.

"The sales split from higher margin; recurring revenue for cloud-based services is expected to grow through 2019. This is expected from the full contribution of Digium (estimated to be 40 per cent services), and continued growth in Sangoma's existing services segment. This was partially reflected in the first quarter results.

"While mergers and acquisitions activity has slowed as Sangoma integrates Digium, we believe that acquisitions remain a core pillar of Sangoma's strategy.

"Acquisition costs related to Digium were $2.1 million in fiscal 2019's first quarter. This includes legal, financing, and other closing costs. Management indicated that most of the one-time costs associated with the acquisition of Digium were accounted for in the first quarter. However, the company will likely have additional integration costs associated with the acquisition of $500,000 to $700,000 in the second fiscal quarter of 2019.

Sangoma Technologies is a provider of unified communications solutions based out of Markham, Ontario. The Company has developed or acquired products and services that offer a unified communications solution targeting small- to mid-size businesses, enterprises and telecom providers.

CGI Group

RAYMOND JAMES FINANCIAL

Does strong cash generation spell dividend?

Digested from a Jan. 8 report by analyst Steven Li

Since fiscal 2014, **CGI Group Inc.'s** (GIB.A-TSX, $81.89; GIB-NYSE, US$62.88) strong cash generation/growth has been strong, making new highs in fiscal 2018 with $1.5 billion of cash flow from operating activities (CFO) and $1.35 billion of free cash flow. In recent years, CGI has been paying down debt, but as Mr. Li looks at CGI's upcoming debt maturities, there is not much debt repayment scheduled in the next few years.

CGI has also been quite active buying back its shares. Mr. Li sees that there is room to remain opportunistic in its buybacks going forward, but the level of buyback may be a little more muted as shares creep higher. The analyst gives the stock an "outperform" rating and $94 target share price.

Mr. Li goes on to further highlight, "CGI is going to start accumulating cash quickly on its balance sheet. CGI has always publicly stated that they constantly review their priorities how to deploy free cash flow and we think a discussion around a dividend is probably timely now.

"We compare CGI versus the S&P/TSX Canadian Dividend Aristocrats Index. What yield? We think it is more likely CGI would start in the bottom quartile, like OTEX did when it initiated its dividend in 2013, and grow the dividend consistently over the years. We think a $1 per share dividend would be a start (approximately 1.2 per cent yield costing $290 million or about 19 per cent of CFO).

"How would a dividend-paying CGI stack up? Its free cash flow, compound annual growth rate (over 10 years) at 16 per cent would rank 12 out of 75 (versus Aristocrats constituents) which could bode well for future dividend growth."

CGI provides a full range of IT services including traditional IT outsourcing, systems integration, IT consulting and BPO across a number of different industry verticals and geographic regions.

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GENERAL MOTORS

GM-NYSE, $33.33
BMO Capital Markets
Richard Carlson

Analyst Mr. Carlson upgrades his view of the shares of General Motors Co. from "market perform" to "outperform" while raising his target price to $41 per share from $38. The two key factors to his more constructive view are: An expectation of a brighter spotlight to be placed on GM Cruise (a department of autonomous driving technology) in 2019, leading to a more appropriate value for this business being priced into the shares; and restructuring efforts that will drive better profitability and free cash flow, as well as improve cyclical resilience.

Speaking on the auto industry as a whole, Mr. Carlson says, "We entered the past two years quite bullish...With macro uncertainty high and investor sentiment low, we are now making a bit of shift to a more tactical approach (but still favour the auto industry). We believe a higher weighting should be placed on companies that have already built momentum for nearer-term profit performance than those that would still be waiting for an inflection point even in a more stable end-market environment."

BRISTOL-MYERS SQUIBB

BMY-NYSE, $45.12
BMO Capital Markets
Vamil Divan

Surprising the Street, Bristol-Myers Squibb Co. delivered a surprise when announcing its intent to acquire Celgene Corp. and gave the analyst cause for positivity. The deal is expected to close in the third quarter of 2019, and upon closure BMY shareholders will represent 69 per cent of the combined company.

Providing further commentary, the analyst says, "BMY shareholders reacted negatively to the deal today Jan. 3, with BMY down between 10 to 15 per cent on heavy trading volume. However, the deal does what many investors have been looking for BMY to do, expanding the near-term pipeline beyond just new Opdivo (cancer medication) indications. On the other hand, buying Celgene raises new questions, comes with its own risks, and is not a complete solution to the issues that we believe Bristol has been facing.

"We and investors have many questions about this deal, but after speaking with the company our overall view is that this deal looks like it could be a positive move for the company, although the degree of success will be heavily dependent on both execution of the pipeline as well as the ability to successfully integrate Celgene and extract the estimated synergies. "

Bristol-Myers is the eight largest drug developer in the United States, with an annual revenue of $20.8 billion in 2017. Celgene is ninth largest with 2017 revenue of $13 billion. Combined the companies have nine different drugs, six from BMY and three from Celgene.

The analyst gives the sotck a "neutral" rating and a $59 target share price.

NOTA BENE

MPL's Investment Planning Committee recommends that around 25 per cent of a Canadian investor's stock portfolio be in U.S. equities. This allows greater diversification. But when investing in the U.S., the focus should be on companies that Canada lacks or has in short supply.

CARETRUST

CTRE-NASDAQ, $18.91
BMO Capital Markets
John Kim

Although the skilled-nursing facilities (SNF) sector continues to face structural headwinds, analyst John Kim believes CareTrust REIT is well-protected with a strong cash rent coverage ratio. This is highlighted by excellent coverage from its largest tenant and former parent, Ensign Group, a strong, well-funded operator. As such the analyst upgrades the stock to an "outperform" rating with a $22 target share price.

The analyst highlights, "CareTrust has a strong balance sheet (3.6 times net debt to EBITDA), and thus we believe acquisition volume increases to $265 million average annually in 2019 to 2020, up from $108 million in 2018, leading to accelerated funds from operations per share growth in 2019 to 2020, to 8.9 per cent.

"CareTrust's management has deep experience in the industry and is selectively acquiring assets at attractive yield spreads.

"We estimate CareTrust's forward net asset value at $14.85 utilizing an 8.5 per cent cap rate. Our discounted cash flow estimate is $23.26, which values five-year free cash flow to equity, using an approximately six per cent equity risk premium (plus a 1.75 per cent small cap premium) and a three per cent perpetuity growth rate."

NOKIA

NOK-NYSE, $5.74
BMO Capital Markets
Tim Long

With the telecommunications spending environment improving, analyst Tim Long sees Nokia Corp. as well positioned to take advantage of this dynamic in 2019, particularly as 5G begins to take shape.

The analyst also notes that the recent Huawei controversy may free up billions in telecommunications capital expenditure that Nokia can seize upon. Mr. Long is upgrading his recommendation from "market perform" to "outperform", and raises the target share price to $7.50 from $5.

The analyst goes on to highlight, "After a better than-expected 2018, we anticipate two per cent year-over-year growth in telecommunication spending for 2019, with some of this growth stemming from initial 5G deployments in North America and parts of Asia. This better capex environment stands to benefit many of the equipment vendors in our coverage, particularly Nokia, whose portfolio is diversified across both radio-access-network and wireline.

"We believe the ongoing Huawei controversy presents a significant opportunity for Nokia to take share over the next few years. Several Tier-1 service providers have signaled their intent to abandon Huawei as a vendor, freeing up billions of dollars for Nokia to capture.

"We estimate that Nokia could gain an additional $1 billion in incremental sales, aiding top-line growth after two years of declines.

"Both Nokia's IP Routing and Optical Networks segments are positioned well for a strong 2019. Demand appears to be growing from both telco and non-telco customers, and new products like the FP4 and PSE-3 chipsets should drive further momentum.

"In the Optical segment we anticipate increased demand from web scale customers.

"The current trading levels present an attractive buying opportunity for Nokia shares. We are raising our 2019 EPS estimate to $0.40 from $0.38, and introducing 2020 EPS of $0.50.

"While we aren't as optimistic, Nokia believes that 5G will ramp sooner than expected - targeting acceleration in 2019, particularly at the network edge - spurring recovery in this struggling Networks segment should these opportunities materialize."

HCP

HCP-NYSE, $28.61
BMO Capital Markets
John Kim

Analyst John Kim upgrades his HCP REIT Inc.'s stock rating to "outperform" from a previous "market perform" and raising the target share price to $33 from a previous $30. This comes from HCP's balance sheet improvement where net debt to EBITDA is 5.5 times.

With the recent $1 billion Mountain View asset sale to Google; its asset base has been repositioned under new management to represent a healthy mix of senior housing, life sciences, and Medical Office.

HI-CRUSH PARTNERS

HCLP-NYSE, $3.66
AltaCorp Capital
Tim Monachello and Patrick Tang

Soft fourth-quarter 2018 volumes and uncertain markets prompt Hi-Crush Partners LP to suspend its distribution as of Jan. 7 – forcing the analysts Messrs. Monachello and Tang to reduce their target price to $3.50 per share from $6.50 and keeping their "underperform" recommendation.

The analysts reduce their forward estimates based on their expectation for meaningful pricing reductions for Hi-Crush's "in-basin" production from its Kermit facilities (in the Permian Basin of Texas) during the first half of 2019.

Analysts believe a full suspension (as opposed to a reduction) of its $0.225-per share quarterly distribution is a prudent decision "given the high level of uncertainty regarding proppant demand, supply and pricing at this juncture".

"Hi-Crush's soft fourth-quarter volumes were at least, in part, caused by transitory factors which negatively impacted demand and 2019 is likely to provide a material rebound in Hi-Crush's sales volumes.

"We believe the most important consideration for investors today is the negative momentum building in proppant pricing including on Hi-Crush's fixed price in-basin proppant contracts; we believe this dynamic presents significant risk to 2019 cash flow. Given this risk we believe the suspension of Hi-Crush's distribution was a prudent and disciplined decision by its board.

"Hi-Crush reported roughly 2 million tons of sand sold in the fourth quarter, down 29 per cent quarter-over-quarter from 2.8 million tons and below management's guidance of between 2.3 million and 2.5 million tons.

"As a reflection of Hi-Crush's lower-than-expected sales volumes we are reducing our fourth-quarter operating profit estimate by roughly $10 million to end with $13 million (was $46 million in the third quarter and $84 million in the quarter before that)."

DOMTAR

UFS-NYSE, $44
CIBC World Markets
Hamir Patel and Roshni Luthra

Commodity price erosion has the analysts more cautious on their position of Domtar Corp. Domtar is the largest North American producer of white papers, a major market pulp producer and manufacturer of personal care products.

The analysts say, "With Domtar recently trading below what we had previously deemed a downside scenario valuation of $36, we have also trimmed our price target to $47 from a previous $51. This is due to the increased uncertainty in global pulp markets (due to China). Concerns on the pulp side are not that surprising when one considers that China is expected to represent approximately 75 per cent of projected softwood pulp demand growth over the next five years.

"The Pulp and Paper Industry Intelligence reported unabated pricing erosion in China where pulp buyers (traders and mills) have forced price cuts from suppliers given weak demand and 'massive national downtime.'

"At the same time, the trade magazine noted that many Chinese buyers have reduced purchase volumes, with some even declining their contracted purchase volumes over the past two months."

The analysts maintain a "neutral" recommendation.

Resetting expectations

MICRON TECHNOLOGY

MU-NASDAQ, $34.11
Deutsche Bank
Sidney Ho

Micron Technology Inc.'s guidance of the fiscal second quarter of 2019 was quite a bit worse than what the analyst expected. The analysts also see oversupply headwinds continuing through the first half of 2019. The spot of encouraging news comes from Micron's management reacting swiftly by reducing capital spending and planned bit shipment output. This, along with capital expenditure push-outs by other memory suppliers, should set up for a recovery starting in mid-2019.

The analyst goes on to highlight, "While the pace of demand recovery is debatable, we also note that Micron is likely to be much more profitable at the bottom of this cycle - we model trough earnings per share (EPS) at approximately $1.50 in the fiscal third quarter of 2019 - than previous cycles. With book value likely going up, we believe Micron is an attractive investment over a 12-month period. We maintain our 'buy' rating but lower our price target to $48 from a previous $60.

"Micron executed well in the first fiscal quarter of 2019 with record revenues in its mobile, auto and industrial end markets. In the NAND storage technology department, mix shift continues to move towards high-value solutions, with over 50 per cent of NAND bits shipped in high-value solutions, supporting a NAND gross margin of over 45 per cent despite the market oversupply.

"Fiscal first quarter (ended November) revenues and EPS of $7.91 billion and $2.97 were consistent with preannounced results, as compared to our estimate of $7.95 billion and $2.88 and Street's $8 billion and $2.94 respectively. Micron expects fiscal second quarter 2019 (ending Feb.) revenues of $5.7 to $6.3 billion, which is below ours and the Street's estimates of $7.17 billion and $7.27 billion due to a combination of inventory adjustments, CPU shortages and pricing decline.

"As the oversupply situation worsened during the quarter, MU was quick to make strategic decision to cut fiscal 2019 capital expenditure from $10.5 billion to $9-9.5 billion, while significantly reducing bit shipment for the second fiscal quarter (now expect bit shipment to decline quarter-over-quarter) and for calendar 2019. The company is hopeful that demand will recover in second half of calendar 2019 based on solid demand growth, depleted inventory and price elasticity.

"Overall EPS guidance of approximately $1.75 is well below Deutsche Bank and the Street's estimates at about $2.40 and also below buyside whisper of about $2. On the second fiscal quarter of 2019's guidance, we lower our EPS estimates from $2.40 to $1.80, calendar year 2019 estimates from $8.50 to $7.20 and calendar year 2020 estimates from $8.50 to $7.60."

WHAT THE MARKET LETTERS SAY

Markets bounce back from late 2018 downturn

The markets aren't as bullish nowadays, and the Toronto Stock Exchange is hardly an exception. In mid-December, it reached its lowest mark in two years. Greater oil price differentials between crude oil in the U.S. and Canada, along with falling crude prices overall are widely cited as the biggest cause for a weak Canadian stock market. However, energy still offers paths to profit, such as investing in one of North America's fastest-growing independent marketers of fuel and petroleum, Parkland Fuel Corp. Though its stock has gained 55 per cent since January 2018, *Keystone's Income* remains bullish. – **E.A.**

The Bowser Report, P.O. Box 5156, Williamsburg, VA, 23188, U.S.A., (757)-877-5979, US$59 a year. www.thebowserreport.com

Major indexes rallied for the fourth consecutive week (as of Jan. 18) and the Dow Jones Industrial Average led the way (up three per cent for the week). Banks kicked off the earnings season, with **Goldman Sachs Group Inc.** (GS-NYSE, US$199.09) and **Bank of America Corp.** (BAC-NYSE, US$28.99) reporting outstanding financial results. These strong earnings and the recent trade headlines resulted in a continuation from equities. Bowser stocks (up 1.8 per cent for the week) slightly underperformed despite having another positive week. **Galaxy Gaming Inc.** (GLXZ-OTC, US$1.65) was the week's top gainer and hit a new 52-week high. The stock gained 24 per cent on the week and is now up 148 per cent since Bowser's recommendation in May 2017. "While small caps did underperform as a whole, the 2019 rally has yet to lose steam," the advisory suggests. In other news, **Dynasil Corp. of America** (DYSL-NASDAQ, US$1.06) announced that its Evaporated Metal Films Corp. subsidiary achieved ISO 9001:2015 certification for its original manufacturing location in Ithaca, NY. **Iteris Inc.** (ITI-NASDAQ, US$3.97) announced a strategic partnership with **Cisco Systems Inc.** (CSCO-NASDAQ, US$44.21) that will promote Cisco's Connected Roadway solution through several initiatives between the two companies. **Socket Mobile Inc.** (SCKT-NASDAQ, US$2.03) announced the expansion of the DuraCase product line to support Apple's iPhone and iPhone Plus mobile phones. **CPS Technologies Corp.** (CPSH-NASDAQ, US$1.44) announced that it expects revenues for the fourth quarter ended Dec. 29, 2018 will approximate US$6 million, compared with US$3.8 million in the fourth quarter of 2017. **Smith-Midland Corp.** (SMID-OTC, US$6.88) was chosen to manufacture and install a SlenderWall envelope system for a new project in Weehawken, NJ. This project marks the largest deployment of SlenderWall panels in the product's 27-year history. **VirTra Inc.** (VTSI-NASDAQ, US$3.85) updated its operational progress and set its 2019 strategic priorities. VTSI intends to focus more of its resources on enhancing and diversifying its technological suite as well as expanding its sales presence and footprint in the military market in 2019.

Wall Street's Best Daily, P.O. Box 2049, 176 North Street, Salem, MA 01970 U.S.A., (978) 745-5532. cabotwealth.com/daily

After cratering in the last three months of 2018, crude oil prices are back on the rise, poking their head above US$50 a barrel after dipping as low as US$43 a barrel on Christmas Eve. Oil ETFs are starting to look appealing again after getting pummeled during the recent market correction. Oil is becoming a good momentum play again, and the most efficient way to play it is through an oil ETF. One oil ETF to buy is **iShares U.S. Oil & Gas Exploration & Production ETF** (IEO-BATS, US$58.41). As the name suggests, this ETF holds oil and gas companies specifically focused on exploration and production. It counts **ConocoPhillips** (COP-NYSE, US$67.06), **Devon Energy Corp.** (DVN-NYSE, US$26.39) and **EOG Resources Inc.** (EOG-NYSE, US$99.05) among its 10 largest holdings (out of 100). IEO is up 20 per cent in the last three weeks (as of Jan. 21), rising to US$57 after bottoming at US$47 on Christmas Eve. A second oil ETF to buy is the **United States Oil Fund LP** (USO-NYSE/Arca, US$11.03). USO is the best pure-play fund that tracks crude oil prices; it's the largest, most liquid of futures-backed oil ETFs, with 23 million shares exchanging hands daily and roughly US$2 billion in assets. The USO is up more than 17 per cent in the last three weeks – riding the coattails of the big run-up in oil prices. In fact, over the past five years USO has had a 0.96 correlation (1.0 is the highest) with crude. That's a good thing now that oil prices are surging again. A third oil ETF to buy is **Invesco DB Oil Fund** (DBO-NYSE, US$9.64). This one's a bit more niche, but it's based on the value of crude oil futures contracts, which is where the DBO invests all of its assets. Lately, that strategy has been working: the DBO is up 17 per cent in the last three weeks. This one tends to move fast when oil prices are on the rise, advancing 60 per cent in the year prior to the collapse in crude that began in October.

Cabot Emerging Markets Investor, c/o Cabot Heritage Corporation, 176 North Street, Salem, MA 01970 U.S.A., (978)-745-5532. Introductory one-year rate: US$397. www.cabotwealth.com

The biggest concern that new chief analyst of Cabot Emerging Markets Investor, Carl Delfeld hears from investors about emerging markets is they pose too much risk. But the fact is, in the markets, many supposedly "safe" stocks (and markets) that attract conservative investors actually pose more risk than believed. To highlight his case, he points to two of America's bluest blue chips - **Kraft Heinz Co.** (KHC-NASDAQ, US$47.08) and **FedEx Corp.** (FDX-NYSE, US$173.27). Mr. Delfeld states, "These are truly great companies. But both stocks have faced steep declines in their share prices as the companies have warned about slowing growth. Kraft Heinz has gone from US$80 a share to the low US$40s and FedEx has lost a shocking US$100 per share in the last year to trade at around $165!" For long-term investors, both FedEx and Kraft Heinz are probably solid ideas, though odds favor both stocks need bottoming processes before getting going. "That is exactly what I'm seeing in emerging markets, with Chinese stocks in particular getting hit (the Shanghai composite index lost 25 per cent in 2018). This pullback has resulted in a bushel of Chinese stocks that have begun what I call 'value bounces' in early 2019." One of his examples of a "value bounce" idea is **iQIYI Inc.** (IQ-NASDAQ, US$17.56), the subsidiary of Baidu Inc. that he owned for part of last year. IQ provides online entertainment services and operates a platform that provides a collection of Internet video content. Its share price went from around US$40 a share in June 2018 to just US$15 in late 2018. Since then, like many other Chinese stocks, it has begun an uptrend - rising to US$19. Another one of his "value bounce" examples is a new recommendation - **TAL Education Group** (TAL-NYSE, US$29.76)—which fell from US$47 in June to US$21 in October, and after steadying itself for a few weeks, is back up to US$29.

Cabot Undervalued Stocks Advisor, c/o Cabot Heritage Corporation, 176 North Street, Salem, MA 01970 U.S.A., (978)-745-5532. Introductory monthly rate: US$29.97. www.cabotwealth.com

Analyst Crista Huff frequently mentions the benefits of buying big-dividend stocks while their prices have been temporarily pushed down by bearish stock market trends. In that light, the company with the biggest current yield on her "waiting-in-the-wings" Buy List is **Apollo Global Management LLC** (APO-NYSE, US$27.88), an alternative investment company that operates in a similar fashion to **Blackstone Group LP** (BX-NYSE, US$32.64) within her Growth & Income Portfolio. It is the world's largest and most diversified alternative asset manager with US$456.7 billion in client assets. Speculative investors have an opportunity for outsized capital gains if BX converts from an L.P. to a C-corp. next year. Dividend investors should lock in this extraordinary BX yield, thus it is one of Ms. Huff's "strong buy". Apollo's assets under management total US$270 billion, broken down as follows: credit (68 per cent), private equity (27 per cent) and real estate (five per cent). APO is a mid-cap stock with a market capitalization of US$4.9 billion. For comparison, BX has a market cap of US$36 billion. The most recent four quarterly dividend payouts totaled US$1.93. At a share price of US$23.95, the stock is therefore yielding 8.06 per cent. What's more, the stock traded as high as US$35.50 in October, so there's 48 per cent capital gain potential for new investors if the stock rebounds to its 2018 highs. "As the dividend yield increases in relation to the falling share price, the prospect of owning APO shares becomes more compelling for both individual and institutional investors. During the last week of 2018, Tiger Global Management LLC reported a recent purchase of 1.1 million APO shares at an approximate cost of US$26 million. APO joins Ms. Huff's Growth & Income Portfolio today, with the caveat that the share price will likely continue to stagnate for a while. She's giving APO a "buy" recommendation and encouraging income investors and patient growth investors to buy now."

Short takes, pro, con, maybe: The Canadian big banks are expected to earn more this year and next, but their earnings per share are expected to grow by a slower rate this year, according to The MoneyLetter advisory. That's because they likely face some headwinds in fiscal 2019. More stringent regulations are making mortgages more difficult for consumers to obtain. This reduces profits from this lucrative market. Then, too, low oil prices could push some oil and gas companies, as well as their employees, over the brink. The banks then may have to eat rising loan losses if people lose their jobs.

Canadian MoneySaver, 55 King Street West, Suite 700, Kitchener, ON N2G 4W1, 519-772-7632, $24.95 a year for nine issues. www.canadianmoneysaver.ca

Investors with holdings in the Canadian energy sector have lost money on even the safest bets. A global oil glut, partly fueled by increased U.S. energy production, has depressed oil prices around the world. In Canada, where opposition to new pipelines has made it difficult for oil and gas producers to get their products to market, the slump has been especially painful. Figures at OilPrice.com show global oil prices are at a long-term low, with the slump especially painful in Canada, where pipeline opponents currently hold sway. As a result, Canadian crude oil futures trade at only a fraction of West Texas Intermediate (WTI). As of early December, the

INVESTOR'S DEFENCE AGAINST RECESSION

Mind Over Markets, C/O Investing Daily, 7600A Leesburg Pike, West Building, Suite 300, Falls Church, VA 22043 U.S.A., (800) 832-2330. www.investingdaily.com/mind-over-markets

When thinking about the most reliable equity names out there, we were led to the defense sector. It's a shame, but our species will always be at conflict. Regardless of economic outlooks, technological advances, or government treaties, robust defense spending will remain a constant throughout. Indeed, the Pentagon currently enjoys huge budget increases, despite growing federal deficits.

When looking at some of the largest public companies in the defense sector, they performed relatively well during the Great Recession as illustrated by these three industry giants: **Lockheed Martin Corp.** (LMT-NYSE, US$278.80), whose operations encompass everything from aircraft and missile systems to space operations and energy, grew earnings per share (EPS) by six per cent in 2008 and three per cent in 2009; **Raytheon Co.** (RTN-NYSE, US$162.84), best known for its missile defense systems and cyber warfare assets, posted EPS growth of 23 per cent in 2008 and 20 per cent in 2009; and **Northrop Grumman Corp.** (NOC-NYSE, US$264.08), which makes the famous B-2 stealth bomber and command and control systems, saw its EPS grow by two per cent in 2008, and fall by just seven per cent in 2009, only to recover with a huge 39 per cent growth year in 2010.

All three of these names continue to be leaders in their respective fields. Their sales and earnings are fairly predictable due to massive government spending in defense, something that should only increase with President Trump asking NATO allies to up their defense budgets. They also trade at bargain levels, down double digits from 2018 highs.

HOTLINE

The hotline number for *Investor's Digest* is 416-869-2777 ext. 800. The hotline is intended to keep readers abreast of information in *Investor's Digest*. It will be updated regularly on Fridays by 6 p.m. eastern time. The hotline will inform readers about the forthcoming issue and, when necessary, provide updates on information in the *Digest* that might have been superseded by events.

WHAT THE MARKET LETTERS SAY

NEWMONT REPLACES BARRICK AS WORLD'S LARGEST GOLD MINER

The Investment Reporter, MPL Communications, 133 Richmond St. W., Toronto, ON M5H 3M8, (800) 804-8846, $337 a year. www.investmentreporter.com

Newmont Mining Corp. (NEM-NYSE, US$31.62) is acquiring **Goldcorp Inc.** (G-TSX, $13.78; GG-NYSE, US$10.34). The shareholders of both companies should profit, says editor Marc Johnson. The acquisition will create the world's largest gold producer, with production of six-to-seven million ounces of gold for years to come and even more as it develops new mines. Newmont will issue 0.328 of its own shares for each of your Goldcorp shares.

This "represents a 17 per cent premium based on the companies' 20-day volume weighted average share prices". Also, Goldcorp shareholders will get a better management team. Newmont chief executive officer Gary Goldberg said, "The combination is expected to be immediately accretive to Newmont's net asset value and cash flow per share." Also, newly named Newmont Goldcorp will develop most of its future mines in mining-tolerant jurisdictions governed by rule of law.

Of the company's reserves and resources, three-quarters are in the Americas, 15 per cent in Australia and 10 per cent in Ghana, which is a member of the Commonwealth. Newmont Goldcorp will start by developing the mines with the largest potential returns and the lowest level of risk. It will also divest assets of US$1-to-US$1.5 billion over the next couple of years.

The divestments are thought to include some of Goldcorp's less-productive Canadian mines. The company believes this will "optimize gold production". Newmont Goldcorp also expects its integration to save up to US$100 million a year in costs, before income taxes. This should enable Newmont to retain its investment-grade credit rating, and lift share prices and earnings.

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price for Western Canadian Select (WCS) oil was just US$26 per barrel, less than half the US$53 WTI price and near its 2016 lows, the site says. As of early December **Canadian Natural Resources Ltd.** (CNQ-TSX, $36.51) and **EnCana Corp.** (ECA-TSX, $9.34) were at their lowest since 2016, **Tourmaline Oil Corp.** (TOU-TSX, $19.18) was trading at less than the $20 price at which it went public in 2010 and both **Seven Generations Energy Ltd.** (VII-TSX, $10.58) and **PrairieSky Royalty Ltd.** (PSK-TSX, $19.62) were below their 2014 issue prices. Some companies in the energy sector appear to be good turnaround candidates for risk-tolerant investors who can afford to wait for a recovery. The recent record low price for most of the ETFs looks like a good buying-in point, but the risk is high — the funds could still go much lower. Here is a look at a few ETFs. The largest energy fund in Canada with $768-million in assets is **iShares S&P/TSX Capped Energy Index ETF** (XEG-TSX, $9.78). The fund had 37 holdings, with fully 24.8 per cent of its assets in Suncor Energy Inc. and 23 per cent in CNQ. The 12-month trailing yield of 2.16 per cent is eligible for a dividend reinvestment plan (DRIP) the iShares site says. Others recommended are the "thinly-traded" **BMO Junior Oil Index ETF** (ZJO-TSX, $9.62) with $70.8-million in net assets and its annualized distribution yield of 0.4 per cent. **Horizons S&P/TSX Capped Energy Index ETF** (HXE-TSX, $16.53). This fund's units were $25 when it launched in 2013, fell to a low near $15 in 2016 and have slipped again to near $16. The fund has about $21.7-million in assets as of Nov. 30. The fund officially pays no distributions, which the Horizons site points out is a tax advantage.

Short takes, pro, con, maybe: Despite a near-10 per cent drop in the S&P/TSX 60 index last quarter, 56 per cent of advisors have maintained their bullish outlook on Canadian equities going into the first quarter of 2019. Nearly two-in-three investors are bullish on gold bullion, and 48 per cent are bullish on silver bullion (both of which delivered positive returns last quarter). Bullish sentiment on energy dropped significantly for both advisors and investors, which can be attributed to stalled energy infrastructure projects across the country. - The Investment Executive

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Energy & Income Advisor, c/o Capitalist Times, LLC, 6841 Elm St. #1057 McLean, VA 22101, (877)-302-0749, US$649 annually or $194 quarterly. www.energyandincomeadvisor.com

The energy sector rally that began in the last days of 2018 has continued into early January. The long-suffering Alerian MLP Index is 15 per cent higher than its post-Christmas Day low. The S&P 500 Energy Index is better by almost 14 per cent, as is North American oil benchmark West Texas Intermediate (WTI) Cushing. Natural gas by the Henry Hub benchmark is flat after plunging more than one-third last month. But by and large, buyers are pushing up prices of energy stocks, including many of the higher yielding fare that took the biggest hits in late 2018. Is this a rally with legs? Or will it prove to be just a bounce in a continuing decline? There are several encouraging signs that the energy sector has not only bottomed, but will be a strong outperformer in the New Year. "Certainly not every sector stock will prosper. For example, since our last EIA issue, two Endangered Dividends List members have eliminated distributions. And a company third is set to do the same later this month," says analyst Elliot Gue. "With North American oil and gas drilling activity expected to wane in the first half of the year, the door to accessing capital markets on economic terms remains slammed shut in the faces of all but the largest and strongest energy companies. That's forcing companies to self-fund virtually all capital spending, and in many cases debt refinancing as well." The good news for investors is four-and-a-half years after oil cracked under US$100 a barrel, the survivors of this battered industry are doing the job. Shale focused producers will adjust output with price swings. "But the big capital investments continue to move forward, driving sector earnings and dividend paying power. The only question is when a critical mass of investor dollars will flood back to the energy sector."

Dow Theory Forecasts, 7412 Calumet Ave., Hammond, IN 46324-2692, U.S.A., (800)-233-5922, US$289 a year. www.dowtheory.com

Large-caps have been sitting at the lead table for five years. Don't count on that trend continuing forever. The lower volatility of mid-caps gives them a higher return/risk ratio. Midcaps offer much of the nimbleness and growth of small-caps, but benefit from the stability of larger, more established businesses. Some midcaps have become leaders in their markets and consistent growers, a fact that inspired the phrase "light-blue chips." Four are reviewed below: **Ciena Corp.** (CIEN-NYSE, US$38.04), a maker of computer-network equipment, encouraged by record orders and bookings that exceeded revenue, plus management's projection of three years of 20 per cent-plus growth in per-share earnings, analysts expect continued gains and is rated an "upside best buy". **ON Semiconductor Corp.** (ON-NASDAQ, US$17.82) fell 45 per cent in the seven months ended Oct. 22, feeling the heat along with the rest of the industry, including Ciena. Since the October low, the shares have risen 21 per cent, though the ride along the way has been bumpy but is still considered a "long-term buy". **Performance Food Group Co.** (PFGC-NYSE, US$33.71), the third-largest whole-sale food distributor in the U.S., serving over 150,000 customers, grew per-share profits and operating cash flow at least 30 per cent in the 12 months ended September. The consensus projects flat profits for the December quarter but growth of 15 per cent for full-year 2018 and 13 per cent for 2019. The company's aggressive expansion into new geographic markets is driving much of that growth, and is rated as an "upside best buy". **UGI Corp.** (UGI-NYSE, US$55.35) operates a natural-gas utility that serves about 640,000 customers in Pennsylvania, but the traditional utility contributes only about 10 per cent of the company's revenue, versus 70 per cent from the sale of propane, half in the U.S. and half in Europe. The remaining 20 per cent of revenue comes from a mix of power generation, power marketing, and pipeline or storage operations. UGI is a "long-term buy" with a 1.9 per cent yield.

The Energy Letter, C/O Investing Daily, 7600A Leesburg Pike, West Building, Suite 300, Falls Church, VA 22043 U.S.A., (703)-394-4931, US$399 a year. www.investing-daily.com/the-energy-letter

Uranium is one of the most specialized chemical elements on the planet. Its commercial use is limited to fueling power plants and making weapons. The nuclear energy sector has undergone considerable change during the past decade. You may recall that a nuclear power plant in Fukushima, Japan melted down in 2011. As a result, many countries cut back or curtailed their plans to expand nuclear energy. The price of uranium fell steadily over the next several years, bottoming out below $20 a pound in November 2016. In addition, demand for all types of power, including nuclear, is expected to surge in Asia over the next 10 years. By 2035, the demand for electricity is projected to increase by 50 per cent over recent levels. Six countries account for nearly 90 per cent of the world's uranium production. Of those, we prefer companies operating primarily in North America and Australia. Avoid companies operating in Africa and Russia due to increased security threats and political instability. Below are the advisory's picks for the best uranium stocks to buy now. **Cameco Corp.** (CCO-TSX, $15.73; CCJ-NYSE, US$11.83), a Canadian miner with strong ties to China. Cameco has partnered with China, which has 17 nuclear reactors in development. China's reliance on coal to fuel its power plants has resulted in some of the worst smog conditions in the world. Now, the country is spending heavily on nuclear power to provide a much cleaner alternative to coal. Second is **Energy Fuels Inc.** (UUUU-NYSE/Arca, US$2.87), a Colorado company with an inside track on U.S. defense spending. The U.S. government is putting enormous pressure on other countries to discontinue their uranium production, to reduce the risk of nuclear weapons falling into the wrong hands. Instead, the U.S. would prefer that uranium for nuclear energy be obtained only from trusted sources (i.e. from within the U.S.) Lastly there is **Global X Funds** (LIT-NYSE/Arca, US$28.18), a uranium exchange-traded fund (ETF) that provides diversification. Mining for uranium is an inherently risky business, so owning an ETF of dozens of companies reduces the overall volatility of your portfolio. It also ensures that you will participate in an uptick in global demand for uranium products.

LETTER OF THE WEEK

Bob Carlson's Retirement Watch, P.O. Box 9009, Waldorf, MD 20604-9009, (800)-552-1152, US$99 a year. www.retirementwatch.com

Market volatility continued in the last month of 2018, and most of that volatility has been on the downside. Floating rate bonds (or leveraged loans) joined the negative trend.

Editor Bob Carlson owns them through **Double Line Floating Rate Class 1 Shares** (DBFRX-NASDAQ, US$9.67), and for him, the fund has been a reliable diversifier for his portfolios the last few years. Companies that issue leveraged loans tend to have lower credit ratings. DBFRX, however, seeks safety of principal first. During the downturn, it has been among the top-performing funds in the floating-rate bond category. Though down 1.98 per cent in December, it still manages a 1.9 per cent return for 2018. For now, Mr. Carlson recommends "selling" DBFRX, and putting proceeds towards conservative near-cash investments. He recommends Vanguard Treasury Money Market Fund (VUSXX) with a current yield of 2.22 per cent, or even certificates of deposit from your local bank. Mr. Carlson then suggests owning global growth stocks through **WCM Focused International Growth Fund** (WCMRX-NASDAQ, US$14.59). The fund is down 5.16 per cent for December and six per cent for 2018, but like DBFRX, it is ahead of most funds in its category.

"It holds companies that it believes are great long-term investments, with low or no debt, and high returns on capital," Mr. Carlson remarks. The fund owns 33 stocks and has 26 per cent annual turnover. He recommends "holding" WCMRX as it is "one of the top funds in good and bad markets." For those betting on infrastructure stocks (i.e. pipelines, utilities, cell towers, etc.), Mr. Carlson suggests the closed-ended fund **Cohen & Steers Infrastructure Fund Inc.** (UTF-NYSE, US$21.99). The fund uses 30 per cent leverage and yields 8.67 per cent. Of note, the fund hasn't made any return of capital distributions this year or last.

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