VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

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Editor's Notes

As of press time, the S&P/TSX composite index was still hovering near the all-time high it set on April 22, up almost 16 per cent year-to-date, and the second quarter has hardly started!

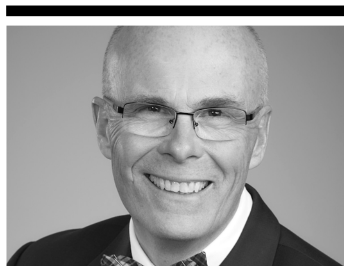
Market euphoria is not just confined to Canada. The S&P 500 is up more than 17 per cent year-to-date; so is the Euro Stoxx 50. Japan's Nikkei 225 has gained more than 13 per cent as well. Anyone biting their nails over China woes may find peace in the fact that Chinese stocks have bounced back too. All of that recovery has occurred in 2019; the Shanghai composite is up nearly 30 per cent year-to-date.

Tech stocks are clearly benefiting from the optimism. Microsoft Corp. joined the exclusive "four-comma club" on April 25. Microsoft shareholders cheered as its latest quarterly results pushed market capitalization above US$1 trillion for the first time, the third company to do so (Apple Inc. and Amazon.com Inc. surpassed that mark in 2018).

While many investors may be weighing the hottest stocks' potential to reach even-higher all-time highs, they may want to consider Canadian preferred shares, which are still smarting from their last market pummelling despite being tied to some of Canada's strongest companies (read more in our "best buys" section). – **R.P.**

Aggressive securities demand you invest with different trading rules than more stable equities

Three strategies for high-growth stocks



KEITH RICHARDS

I've been in the investment industry since 1990. In my early years, I was an investment advisor working with IIROC (Investment Industry Regulatory Organization of Canada) firms like Midland Walwyn, Merrill Lynch and CIBC Wood Gundy.

In 2007, I became a discretionary portfolio manager and began running a platform that we at ValueTrend continue to run as an equity model. Prior to becoming a portfolio manager and eventually moving to operate my own firm under OSC (Ontario Securities Commission) regulation, I used to trade some very select stocks in a different manner than the "regular" strategy I used for the majority of my clients. These early clients fondly remember my trading these lower liquidity growth orientated securities during the 1990s. Some have inquired about such an offering at ValueTrend.

The current challenge that ValueTrend faces in providing such an offering is liquidity. Back in the early 1990s, I had a small group of clients who had committed a relatively small amount of capital to this more aggressive trading style.

It was easy to get in and out of the positions given the smaller amounts of capital I was trading.

ValueTrend didn't want to launch this platform until we were fully confident of the strategy – one that would have the potential to provide better returns than a conservative strategy, yet still offered ample liquidity within our now much-larger greater asset base. And now, at long last, we are offering this strategy to the appropriate clients.

Today's article will outline the three strategies we will be utilizing within this platform. Rather than being a "product pitch" – I would expect that you will gain some insight on how you can incorporate some trading rules suited to the more aggressive securities that you might be exploring. Below is a description of our strategies with a few examples of how we might utilize them. I hope you gain insight for your own trading from our strategies.

Swing trades (3 days-4 weeks): Swing trades will typically involve very short holding periods –often only days or weeks.

Buys within the swing trading strategy will be determined by concurrently occurring oversold signals on a daily chart via:

• Lower Bollinger Band touch (2 standard deviations from a 20-day Simple Moving Average)

• Lower Zone RSI (Mid-termed oversold price momentum, lower zone below 30)

• Lower Zone Full Stochastics (Short-termed price momentum, lower zone below 20)

Sells are determined by the opposite signals from a buy per the above. That is, a touch of the upper Bollinger Band, and movements by RSI above 70, Stochastics above 80. We do not use stop-loss orders, however a stop-loss sell signal will be a move below the last significant support level on the daily chart.

The top chart on the next page illustrates the S&P/TSX composite index from May 7, 2018 to April 1, 2019. On it are marked the buy/sell signals for that index using this system. By legging in and

See Richards on page 179

REAL ESTATE ON RISE

National Bank REIT outlook gets hawkish

By Matt Kornack and Tal Woolley

Real estate equities are tracking the index relatively closely year-to-date. As a group, they are up 15 per cent on a total return basis, slightly under the TSX composite at 16 per cent (the underperformance a result of a very weak trading day on April 16). The performance of some rate-sensitive sectors has been consistent (such as financials, up 15 per cent, and utilities at 17 per cent). Others have been weaker (such as communication services, up 11 per cent).

With lower capitalization rates, we have a little more "gas in the tank" to rethink valuation; consequently, we have realigned our target prices. Our base case continues to be that rates remain low, but will grind slowly higher over time in tandem with economic growth, and that the sector will ebb and flow on this rate volatility.

Our National Bank Financial economics team has reduced their rate expectations over the last year, but still remains more hawkish on yields going forward (for example, estimating a 2.83 per cent 10-year yield one year out).

We do see a few themes that

See Kornack and Woolley on page 179

You sold your business; now what?

By Mark Halpern

You worked for years to build your business and then you sold it when the time was right. Daily rituals have changed irrevocably as you embark on the next chapter of your life, no longer unlocking the doors every morning, chatting with staff, pumping up your sales team and a hundred other things before locking up at the end of the day. Life has certainly changed, and you may feel a bit uncertain about your financial future.

Hopefully, the sale of your business garnered the financial rewards you wanted. Your family needs your help and you've been thinking for some time about how to pass on your wealth to your children and grandchildren in the most tax-efficient way possible. Regular readers already know that choosing to be charitable means the tax department will get less of your money, so it just makes sense to build a charitable legacy into your plans while demonstrating philanthropic values to your family.

OK, but how do you do this?

First, be prepared for what could be a great adjustment. Recognize your new reality as a retiree and take a deep, long breath. If you had been building up your business for decades, not getting up every morning to go to work can cause major disruptions and create a void that you hadn't expected.

Indeed, many entrepreneurs find the first 12 months after the sale to be the period of greatest uncertainty, as they consider what to do with the sale proceeds and how to move on with life. The more a business owner is tied to his or her company or associated with its brand, the more difficult it is to make the transition.

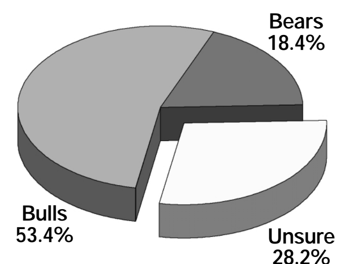
Then there are those who have sold their business and stayed on to work for the new owners. Coming in to work every day as an employee could be tough after years of being the boss, but having the sale proceeds in your bank account eases the adjustment (pain) of listening to the new person in charge.

Many entrepreneurs and business owners build other, parallel assets like real estate, private equity and investments. If someone in the business was looking after those assets for you, you may be forced to seek an outside trusted professional to help you.

Experts say a good transition is a process, not an event, and should take place over a few years

See Halpern on page 178

THE SENTIMENT PIE



The bullpen has shrunk slightly in the two weeks since we last examined the Sentiment Pie. At 53.9 per cent last issue, the bulls' share shrinks 50 basis points to 53.4 per cent. Meanwhile, the bears have also retreated somewhat. The bear cave now makes up 18.4 per cent of the pie, down from 19.2 per cent. The uncertain market watchers' ranks grew from 26.9 per cent to 28.2 per cent.

Source: ***Investor's Intelligence.***

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Next issue May 24

Translate plans into a dollar figure

Halpern from front page

Mark Halpern

to allow entrepreneurs to think about what they want to do and how to go about it. According to a recent study, for two-third of post-sale entrepreneurs, it takes at least two years to make the transition.

When it comes to dealing with the financial aspects of your future, a smart first step is sitting down with an experienced professional planner to develop financial and estate plans. This is the time to get personal, determine your needs and set priorities in retirement with a new plan to help accomplish your goals.

A study by RBC Wealth Management reported that just over half the people canvassed had a will in place. Meanwhile, one in three had done nothing at all to prepare for passing their wealth on to the next generation.

What to do with the proceeds

According to one survey, many entrepreneurs who sold their businesses invested at least some of the profits from the sale within the first 12 months; others put the money in the bank for a year. About 20 per cent invested the funds in a new business.

After you have set your retirement objectives, evaluated your risk tolerance and calculated how much income you will require every year, the sale proceeds can be invested confidently in a well-planned asset mix with appropriate rates of return and tax considerations.

The next step in the process is to translate your plans into a solid number – how much you will need to fund your retirement.

Much has been written about how much money is needed for retirement. Estimates range from 46 per cent to 70 per cent of your pre-retirement income. There is no cookie-cutter solution, because all of it depends on you, what you want to do in retirement and how you want to spend your money.

When it comes to their financial plan, people in retirement (including those who didn't have a business to sell) are sometimes too risk-averse to invest in anything other than ultra-conservative, low-yield and highly-taxed assets like GICs. This approach, they reason, will provide much-needed stability, limit downside risk and deliver reasonably consistent rates of return overall. Unfortunately, the net after-tax returns are paltry.

In these days of low interest rates and high taxes, you might want to consider alternative investments in unique financial instruments that continue to enjoy special tax-free treatment under Canada's Income Tax Act, namely Life Insurance products.

These products are worth considering:

- Annuities;
- Insured Annuities;
- Segregated Funds;
- Permanent Life Insurance;
- Joint and Last-To-Die Life Insurance;
- Long-Term Care Insurance; and
- Best Doctors® Insurance Global Medical Care™.

Comfort is a key consideration in any investment plan. The last thing you need to do is stay awake nights worrying about the soundness of your investments.

Managing your own business was a full-time job at which you excelled. You may not be quite as astute, or successful, in your new role as portfolio manager presiding over the proceeds of your business sale. Consider engaging professional help to manage that hard-earned money.

A sound plan needs professional help

Many people believe that they can sell their current home, especially in this overheated housing market, then downsize and use the difference for investing. But that all hinges on where you live, your preferred lifestyle and your general financial position.

It's quite possible that your current estate plan, including your will and insurance arrangements, don't match your new life. The life insurance you bought in the past may not be appropriate today. Figuratively speaking, your old financial furniture doesn't fit your current architecture.

A proper will puts you in charge of what eventually happens to your assets. You can direct who gets what and when. In many provinces, if you die without a will, the courts alone will decide how to divide your assets. Your spouse and children will have no say in those decisions.

A recent study of wealthy Canadians revealed that only one in four had a full strategy in place for transferring their wealth to subsequent generations. One in three said they hadn't done anything in that regard.

Developing an estate plan while you are alive will preserve and protect your assets as well as direct how they are distributed upon death. Most importantly, your plan will maximize the size of your estate by incorporating strategies to minimize the taxes that can quickly erode your financial legacy.

Former business owners should check out products such as prescribed rate loans to help in income splitting to reduce the overall family tax bill. You may want to consider an alter-ego trust that allows you to defer tax of capital gains until the assets are sold or you pass away. You must be 65 or older and the sole beneficiary of all income or capital of the trust during your lifetime.

These trusts also avoid probate and legal fees on death, provide potential creditor protection and enable the transfer of assets to the trust without being taxed on capital gains.

Be charitable

Several opportunities to be charitable (and tax-savvy) are available. The CPP Philanthropy™ strategy, explained in my November 2017 Investor's Digest article, allows you to use your monthly CPP benefits to fund a large life insurance policy whose proceeds will benefit both your estate and the charitable causes you care about.

Many options are available to save on taxes now, or later, when your estate is being settled.

As a society, we are all very fortunate to be living longer. But from a financial perspective, we need much more money to live longer. Many financial planners make their recommendations based on a life expectancy of age 90. What happens if you live to 100? Where's the money coming from to cover those unexpected years?

As we age, our topics of conversation with friends and family also mature to include health issues, medical appointments, medications and treatments. Naturally, we become concerned about looking after ourselves.

There is a 30 per cent chance you will need long-term care at age 65 and a 50 per cent chance by age 75. Going into a long-term care facility easily costs $10,000 per month.

Staying put in your own home gets very expensive if you require 24-7 care. Many people mistakenly believe that our overworked universal health-care system will cover the health costs associated with eye care, drugs, physiotherapy and nursing homes.

Long-Term Care Insurance is an inexpensive defensive strategy to preserve your capital, and some policies feature a return of premium (ROP) option that pays back all of your premiums if you don't make a claim.

You have gone through a major change – you've sold the business that took up a huge part of your life. Just as you made careful decisions while building, growing and then selling your company, this is the time to consult a professional advisor to guide you through the process of making thoughtful decisions for the rest of your life.

Give us a call. We would be more than happy to help.

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 take action. 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 or Mark@WEALTHinsurance.com. Visit WEALTHinsurance.com and get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html. The 2018 Toolkit now includes: Estate Directory Estate Planning Checklist Executor Duties ChecklistBusness Owners Planning Guide . Visit MarkHalpernBlog.com and sign up for free updates.

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KWEB may be forming typical mid-term setup

Richards from front page

out in two- to three-trade increments (i.e. _ to 1/3rd of the allotted capital for this trade deployed/signal), it provided good short-termed entry and exit strategies, had one used an ETF that mimicked the index. The manager's discretion will determine if the trade will be done in increments and at what percentage allocation.

Mid-termed trades (4 weeks-6 months): Technical analysis will bias decisions, but fundamentals will be respected as value or growth catalysts. Buys and sells within the mid-termed trading strategy will be determined by chart patterns on a weekly and/or daily chart. These patterns include:

- Traditional breakout patterns from a technical base; or
- A bounce off the lower support zone within a sideways trading pattern.

Equities, ETFs and commodity ETFs will be reviewed for these trades. A fundamental undervaluation or higher growth potential are criteria in the case of an individual equity (that is, not a commodity or ETF).

If we believe a catalyst is imminent in the next 30 days to six months, we will buy a position in the security so long as the technical profile is bullish. Sell at technical targets. Stop-loss sell signal will be a move below the last significant support level on the chart.

The China Internet fund that KraneShares offers, the **KraneShares CSI China Internet ETF** (KWEB-NYSE/Arca, US$48.50) looks to be a typical mid-termed trading setup *(see middle chart)*. After breaking out of a technical base that followed a downward trend (lower dashed line), the ETF targets the higher dashed line.

The relatively fast movements on this chart indicate that future targets, should they be met, may occur over a few months.

Longer-termed trades (6 months-plus):

Longer termed trades will typically have an equally weighted bias of technical and fundamental analysis for entry or exit timing.

The strategy will examine traditional technical basing patterns, or contained trading patterns. A test of a mid- to long-termed trend line will signal buys. Fundamental analysis will focus on longer-term undervalued stocks or those with mid- to-longer-termed growth potential. A longer-term track record of continuous proven growth and stability is not necessary.

We will be looking for the future growth potential which may be underappreciated in the current environment. Our intention will be to invest in securities that have an intrinsic value much higher than current valuation. As with mid-termed trades: Sell at technical targets which could include technical resistance or upper trend channel lines. A sell will also be triggered by a break in trend.

The stop-loss sell signal will be a move below the last significant support level on the chart. **BlackBerry Ltd.** (BB-TSX, $12.04; BB-NYSE, US$8.91) *(see bottom chart)* is a good example of a stock that traded between 2012-19 within a trend channel. You can see the buy and sell points on its chart below.

The swings typically occur over a one- to two-year time frame.

For those interested

Our ValueTrend Aggressive Growth Strategy (VTAGS) officially goes live on June 1, 2019. The VTAGS strategy will not be offered as a standalone product for new clients; you must hold a minimum of $500,000 in family assets with us diversified through our other platforms. If you are interested, please contact either Craig Aucoin, our fundamental analyst, or myself at ValueTrend for a full description of the VTAGS and to discuss how we can administer your entire portfolio needs.

Keith on BNN Bloomberg

Keith's next BNN Bloomberg television appearance is on Wednesday, May 1 at 6 p.m. Keith appears regularly on BNN Bloomberg's Market Call to answer viewer questions about the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management. (Note: Times and dates may be subject to change.)

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions to Keith during the show. Call toll-free at 1-855-326-6266 or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca.

Keith Richards is Chief Portfolio Manager & President of ValueTrend Wealth Management. He can be contacted at info@valuetrend.ca. He may hold positions in the securities mentioned.

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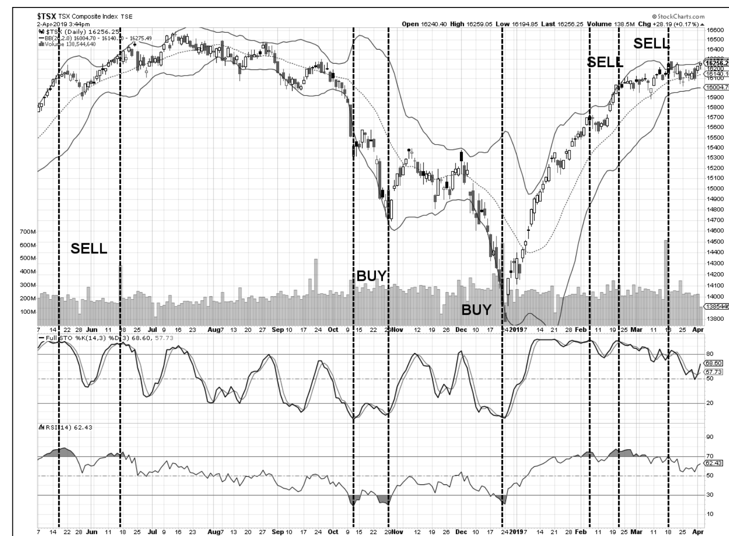

Crombie, RioCan projects key 'proofs of concept'

Kornack and Woolley from front page

may stand out in the first quarter:

- Multi-family vs. Old Man Winter: The winter weather may have put some modest pressure on operating expenses throughout the first three months of the year, which could create some variance versus consensus, but this is unlikely to be enough of a factor that would really change our views. This risk can also extend to **Cominar REIT** (CUF.UN-TSX, $11.37) and **BTB REIT** (BTB.UN-TSX. $4.86), since they still have some gross leasing exposure in Quebec.
- Senior housing vs. the flu: Nationwide flu outbreaks in long-term care facilities are down significantly this year. As well, dominant flu strains this year impact the young more than the elderly. This could lead to some operational upside across the group and aid in leasing.
- Development completions in 2019: There are a few names where we think positive development completions over the balance of 2019 could enhance a more bullish view, or even alter sentiment.

These include **Crombie REIT** (CRR.UN-TSX, $14.36), which is building Davie in Vancouver; **RioCan REIT** (REI.UN-TSX, $25.76) with its Kingly, ePlace and eCentral projects in Toronto, **H&R REIT** (HR.UN-TSX, $22.64), building Jackson Park in New York City; **Tricon Capital Group Inc.** (TCN-TSX, $10.70) with The Selby in Toronto; and **Chartwell Retirement Residences** (CSH-TSX, $14.68) with The Sumach in Toronto.

The Crombie and RioCan developments are important as "proofs of concept" for their nascent multi-family businesses.

H&R's Jackson Park project will be interesting to follow given its size and the euphoria/disappointment cycle it went through with the Amazon HQ2 saga.

Tricon's Selby is important to establishing credibility for and enhancing the valuation of the balance of its future Canadian multi-family development pipeline. And finally, The Sumach is important, as it is Chartwell's first chance to see how a more "Quebec-style" seniors apartment building works in Ontario.

We do not expect a material departure in 2019 first-quarter operations relative to 2018's fourth quarter. Looking at each segment:

Retail: Over the past several years, the Canadian retail REITs have had to work through several large, challenging retail bankruptcies (Sears, Target). While some smaller retailers have announced bankruptcies and store closures (Payless, Ann Taylor), we note that these store closures should generally be more manageable, given smaller footprints and lower exposure within the publicly traded universe.

Overall, we expect stable organic growth from our retail universe, consistent with what we saw in the last three months of 2018, namely average same property net operating income (SP-NOI) growth of 2.1 per cent.

Office: Fundamentally speaking, downtown Toronto and Vancouver should remain strong, with leasing spreads on renewal and turnover in the high-single- to low-double-digit percentages. This is mostly a downtown phenomenon as suburban markets continue to see higher vacancy rates (nationally, not just in these two regions).

Allied Properties REIT (AP.UN-TSX, $47.81) should see some slowing in organic growth levels, however, as occupancy gains will be limited going forward (the portfolio is essentially full) – the mission critical portfolio being a wild card. The market will continue to grapple with pricing development deliveries after 2021 and how this will impact vacancy and rent appreciation for Allied and **Dream Office REIT** (D.UN-TSX, $23.24) in particular.

Industrial: Industrial remains a "hot" asset class nationally, not just regionally. Availability rates in multiple Canadian markets are at historic lows, and rents have been adjusting faster than we would have previously expected.

This gives us some confidence that 2019 organic growth figures for **Summit Industrial Income REIT** (SMU.UN-TSX, $11.57) will accelerate from somewhat disappointing results in 2018. **WPT Industrial REIT** (WPT.U-TSX, US$13.65) should put up solid figures as well, but potentially lagging its Canadian peers.

While near-term prospects are bright, the prospect of an economic correction or reduction in duplicative space requirements by retailers rationalizing their supply chains in an e-commerce dominated world could possibly threaten the long-term outlook.

Multi-family: While weather may muddy the waters when looking at multi-family performance in 2019's first three months, we focus more on rent growth than margins (and our estimates are reflective of this as we aren't building in significant improvement in margins going forward). Regardless, we expect this to again be the segment with the best operating performance given shorter lease duration and positive fundamentals (notwithstanding the slower turnover and snowy or generally cold weather).

Matt Kornack and Tal Woolley are equity research analysts at National Bank Financial.

INVESTOR'S DIGEST

INVESTING 101

EXPANDING YOUR INVESTMENT KNOWLEDGE

Forget about share price and keep your eyes on income instead

Retired Edmonton certified management accountant and Investor's Digest *reader Henry Mah reminds us that steady dividends keep paying even when markets are rough*

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Even with severe market fluctuations, the benefits of income growth investing are real and substantial. Remember, with income investing we are not watching the price of the stocks, but the income those stocks provide. And this is what I want you to understand.

By investing in "income-earning" stocks (which I will discuss later in this book), you will see your income grow each year regardless of how much you invest, whether the market is up or down, even if you stop adding funds to your holdings. Of course, your income will grow faster the more you invest, but the ultimate goal is always income growth. Did I forget to mention price? No, because our eyes are on the income.

Once you've started saving for your future, I suggest the next step is to develop an investment strategy. Here you have lots of choices, but where to start and which to choose? Do I start buying stocks and try to sell when they rise 15 per cent? Do I follow BNN *Market Call* and select their recommended three picks? Do I buy a group of exchange-traded funds (ETFs) and hope for market returns, or do I try to figure out how to start a Value or Growth portfolio because my ultimate goal is to beat the market return?

That's the problem many investors face and, unfortunately, the majority will lose money trying to make guesswork their market strategy. Yes, money can be made, it has been done, but those that succeed will often be a small minority.

Investing for income (dividends) means you will look for companies that pay you dividends for buying and holding their shares. To achieve a growing income, the company should increase the dividend over time, thereby providing you with more income for each share you own, and not requiring you to sell shares to receive the higher income. Your income will be generated from holding "individual" stocks, not a bundle (i.e., exchange-traded funds) which will most likely include mediocre stocks.

My strategy works when you hold only quality equities with at least 10 years of positive growing earnings and a history of passing along a percentage of those earnings to the shareholder.

Why not just buy an ETF?

ETFs are fast becoming the choice of many investors. They are a way to have a diversified portfolio of stocks or bonds in a single investment and can be traded just like a stock. The fees are low and they offer vast diversification, a way to "cover all the bases", if you will.

Some suggest that if you own around three to five ETFs you'll cover the entire Canadian, U.S., Emerging and International markets. However, there are now about 22 Canadian ETF providers and 495 ETFs available to choose from, with new ETFs coming out almost weekly. Considering ETFs can contain hundreds, if not thousands of individual stocks, it is no longer a simple choice, is it?

Let me say that there is no best method to invest and ETFs may be a reasonable choice for those who have set market returns as their objective. But, from an "income" perspective, I do have a few objections to them, mainly because: They hold too many stocks, the good, bad and in-between, which must result in average or lower income and returns,

You have no control over the stocks chosen or their weighting within the ETF (for example, one stock may be 3.5 per cent, while another .05 per cent). The fund needs to trade (constant buying and selling) to rebalance.

Most ETFs try to match the performance to the market or index they represent. Since the financial crisis of 2008, the market has generally been on an upswing. But I do wonder how ETFs will do during the next major correction or extended sideways market.

Personally, I do not think they will do well. Remember, if our objective is long-term income growth, you will find that ETFs don't provide the income growth that individual stocks do.

As I've said before, not all dividend growth stocks are created equal, and after my own successes and failures at "stock picking" I began to direct my research specifically to figure out just how to minimize risk and maximize results. If, like me, you've read other investing books, you may wonder how anyone could simplify the process of selecting and evaluating stocks. Well, you are in for a surprise, because I found it so simple I wonder why everyone does not do it.

Your Ever Growing Income: The Rising Yield on Investments

By Henry Mah

Henry Mah
Copyright 2018
$17.33, 148 pages

The steps are so simple, that if you answer "yes" to the very first question on any stock you're researching, then you do not need to proceed further. The stock would be immediately eliminated as a quality dividend growth (DG) stock.

The other three questions can be considered guidelines and are not as fixed as the first.

The Four Guiding Rules: Has the company cut their dividend in the past 10 years, Yes or No?

Has the company paid a dividend for a minimum of 10 years (25 or more is even better)?

Has the company had a consistent record of raising their dividend for 10 years (The more often the increase, the better the stock).

Has the dividend grown over the past 10 years by at least 75 per cent?

When there is a sudden or extended drop in the dividend growth rate one should try to find out why. Have earnings dropped? Has the company made some large capital expenditure? Has there been a large loss or lawsuit? The question is, can the decrease be explained, and is it expected to continue or is it a short-term adjustment?

The lower the yield, the less current income, but if the dividend growth is at a higher rate, then over the long term, the dividend growth will likely drive the price of the stock higher.

Payout ratio is the portion of the company's annual earnings being paid out as dividends. Let's consider a company's payout ratio. For most companies 60 per cent to 75 per cent is a reasonable maximum, but utility companies usually go higher, around 80 per cent. Because they often have long-term agreements and regulated prices, they can afford to pay more of their earnings out as dividends.

An example of such a company would be Fortis Inc. Their payout ratio has ranged from 65 per cent to 91 per cent, but the company has still managed to raise its dividend for over 44 years to date. In my opinion, this makes utilities an attractive stock purchase.

Avoid cyclical stocks

I mentioned avoiding cyclical stocks earlier, now I'd like to explain further. Cyclical stocks are those affected by the ups and downs in the overall economy, such as airlines, autos, technology, most energy, retail, consumer and mining. Dividends are real and relevant markers, meaning the company either has the cash to pay the dividend or it does not. Reported earnings, on the other hand, may or may not be actual.

What should the dividend yield be when buying? I feel that a high yield, above seven per cent and higher, is too high. These stocks will either be speculative (offering a high yield to entice investors), or stocks which may be experiencing financial difficulty (the perception of the stock is negative, driving down the price). However, there are still a couple of choices to be made involving yields below seven per cent.

Two possible scenarios to consider are the following: 1. A stock with a low dividend yield of 1.5 per cent and less, but with a fairly high dividend growth rate of around 10 per cent to 12 per cent per year, or 2. A stock with an average dividend yield of 2.5 per cent to five per cent with an average dividend growth rate of around five per cent to eight per cent.

I recommend that there is a place in one's portfolio for both, but my preference would be to hold a majority of stocks with a starting dividend yield of between 2.5 to five per cent. Average-dividend yield stocks offer higher income from the start than low-yield stocks, and likely more sustainable dividend growth over time. This is especially true if the stock has a long history of growing the dividend at a reasonable rate, around five per cent to eight per cent.

For example, a stock with an initial dividend yield of four per cent which grows its dividend five per cent per year would have a yield of 7.92 per cent after 15 years, which I feel is very reasonable. Low initial dividend yield around 0.62 per cent and growth of 15 per cent per year would result in a 4.4 per cent dividend yield after 15 years.

Not a great yield after 15 years, but price growth may be higher. Stocks with a low yield and high dividend growth usually do offer higher capital appreciation (the price of their shares growing), provided they can continue to maintain their high dividend growth rate (usually over 10 per cent).

We can't predict the future growth rate of each stock, but we do have support for our assumptions every time they pay and raise their dividend. If the low-yield, high-growth company can maintain its high growth rate, then the stock will offer a higher total return than the average-yield stocks in the long run.

I feel comfortable with the handful of steps I have provided and my experience with this method over the years.

The point I am trying to make is that my strategy is about simplification, but again I must stress that your comfort level is the priority, feel free to research as many forms of analysis as you wish. I have narrowed a fairly large selection of companies to a few key dividend growth stocks using yield and dividend growth as our key evaluation measurement.

I then applied even more tests for further consideration. It isn't a perfect test, but I do believe that by following the process I've outlined and by adding some common sense for good measure, you should feel comfortable with your results.

INCOME TRUST INSIDER

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

REITS

PROREIT

Bigger and better things ahead

PROREIT (PRV.UN-TSX/VEN, $2.32) is a commercial properties investor with a lot going for it.

"In our view, PROREIT is a fast-growing, well diversified commercial REIT with a number of attractive characteristics," say BMO Capital Markets analysts Jenny Ma and Michael Hoang in a March 29, 2019 research note. "We believe that the REIT has the team in place to continue its rapid growth into a larger diversified commercial REIT with a presence across Canada."

They reiterate their "market perform" recommendation and their $2.25 target unit price. The target, they explain, equates to their net asset value (NAV) projection and implies a six per cent forecasted total return that includes a yield of 9.1 per cent.

For the fourth quarter of 2018, PROREIT reported funds from operations (FFO) per diluted unit of $0.041, which was up 10 per cent versus the year-earlier quarter. It was also in line with Ms. Ma and Mr. Hoang's estimate of $0.039 and the consensus projection of $0.041. Same property net operating income (SP NOI), meanwhile, was up 10.6 per cent year-over-year, which marked the second consecutive quarter of internal expansion.

"By segment, the strongest SP NOI growth was from retail, showing 9.8 per cent growth year-over-year, and the industrial segment showed 4.4 per cent growth year-over-year."

"PROREIT has exercised the option to internalize its asset management function, which became effective Apr. 1, 2019," say the analysts. "Mr. James Beckerleg, president and chief executive officer, and Mr. Gordon Lawlor, chief financial officer, will be employed directly by the REIT.

"The terms of the REIT's management agreement stipulates that the fee to terminate the agreement is equal to one times management fees and expenses paid in the most recent fiscal year ($2.3 million or $0.024 per unit in 2018). We note that the internalization fee is extremely unitholder friendly when compared to other internalization transactions observed in the Canadian REIT sector over the past number of years," Ms. Ma and Mr. Hoang conclude.

Summit Industrial Income REIT

Internalization deal announced

Summit Industrial Income REIT (SMU.UN-TSX, $11.85) has entered a deal to internalize its asset and property management services, according to National Bank Financial analysts Matt Kornack and Hussam Maqbool in a March 26 research note.

"Summit has entered into an agreement with its external manager (Sigma Asset Management) to internalize its property and asset management functions," say the analysts."The Internalization agreement is expected to cost $95 million ($20 million will be paid in cash using the REIT's credit facility while $75 million will be satisfied via an equity issuance of 6.7 million units at $11.25 per unit). The transaction is expected to close by May 17, 2019 subject to unitholder approval.

"Internalization of the REIT's external management structure is on the whole a positive event, albeit we note that it doesn't come without a cost and while the amount being paid can be supported by historical precedents it is still a significant figure that would have accrued to shareholders under an internal structure. Management could have been internalized earlier without having a negative financial impact on the REIT and ultimately equity investors financed the growth that led to a higher fee on internalization," according to the analysts.

They add that the internalization is a bit dilutive to National Bank's net asset value (NAV) but neutral to funds from operations (FFO) per unit.

"We would recommend voting in favour of the internalization as it is fair in the context of the contractual terms of the agreement given the growth profile of the REIT and the cost of internalization (as well as the financial impact of the ongoing fees) would be greater in the future as SMU.UN continues to increase in size," say Messrs. Kornack and Maqbool.

They stick with their "sector perform" recommendation with a $11 target unit price and a 19 times adjusted funds from operations (AFFO) multiple.

Minto Apartment REIT

2018 fourth-quarter performance strong

Minto Apartment REIT (MI.UN-TSX, $19.51) reported funds from operations (FFO) of $0.28 per unit for the fourth quarter of 2018.

But IA Securities analysts Brad Sturges, Carl Burton and Ian Ho say in a March 20, 2019 research note that the property investor's FFO for the quarter, was actually $0.21 per unit after excluding $0.01 per unit in non-recurring gains connected to debt retirement. The tally was still a bit north of the analysts' estimate of $0.20 and PROREIT's IPO forecast of $0.19 per unit.

"MI.UN remains well positioned to capture above-average growth in net asset value (NAV) per unit and adjusted FFO per unit from both internal and external growth avenues," say Messrs. Sturges, Burton and Ho. "The REIT also may benefit from its strong sponsorship from the Minto Group of Companies that provides significant operating, acquisition and development expertise and an extensive network of industry relationships.

"While MI.UN has recently added greater operating scale in the Calgary rental market through recent acquisitions, the REIT benefits from attractive exposure to strong underlying apartment property fundamentals in its largest markets of Ottawa and Toronto."

As per the final quarter of last year, Minto signed 250 new leases at average monthly rent (AMR) increases of eight per cent compared to previous AMRs. The REIT projects that the weighted average in-place AMR of its apartment rental units in Canada are still approximately eight per cent south of estimated market AMRs.

"MI.Un's fourth quarter rental income was over 7.5 per cent above the REIT's IPO forecast, reflecting over 250 basis points greater-than-expected average occupancy of 98.8 per cent on Dec. 31, 2018.

"MI.UN's units trade at 22.1 times our estimated 2019 FFO, approximately three per cent above its estimated NAV of $18.75 (using a 4.25 per cent annual cash net-operating-income cap rate), and yield 2.1 per cent (based on estimated 2019 adjusted FFO payout ratio: approximately 56 per cent)," say the analysts.

"In 2019, MI.UN does not have any principal debt maturities, while in 2020, approximately 12 million of the REIT's debt matures at a 3.59 per cent weighted average intereset rate. Notably about 85 per cent of the REIT's total principal maturities occur after 2022.

"MI.UN may have the capacity to generate above-average organic cash flow growth over the next few years, partly reflecting the REIT's below-market in-place AMRs.

"Our unchanged 12-month price target of $21 is equal to approximately 28.5 times our estimated 2019 adjusted FFO of $0.74 per unit. We maintain our 'buy' rating."

INCOME TRUST LAB

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

Income Trust	Symbol	Apr. 22 Price $	52 - wk Range $	Market Cap (m) $	Distributions $ 2017A	Distributions $ 2018A	Distributions $ 2019E	Yield % 2017A	Yield % 2018E	Yield % 2019E	2017 Payout Ratio %
BUSINESS TRUSTS											
Finance											
Brookfield Business Partners L.P.	BBU.UN	51.45	59.66-40.56	3405	0.33	0.33	0.33	0.69	0.64	0.64	16.00
Brookfield Infra. Partners L.P.	BIP.UN	55.13	57.06-44.04	15413	2.32	2.51	2.68	4.34	4.55	4.86	94.00
Industrial Products											
Chemtrade Logistics I.F.	CHE.UN	9.19	16.75-8.75	851	1.20	1.20	1.20	7.78	13.06	13.06	0.00
Merchandising											
A&W Revenue Royalties	AW.UN	39.96	39.98-30.26	506	1.60	1.67	1.76	4.54	4.19	4.40	90.30
Boston Pizza Royalties I.F.	BPF.UN	17.30	20.68-13.82	379	1.38	1.38	1.39	6.30	7.98	8.03	103.30
Boyd Group I.F.	BYD.UN	146.77	153.06-102.59	2916	0.52	0.53	0.54	0.51	0.36	0.37	10.02
REAL ESTATE INVESTMENT TRUSTS (REITS)											
Real Estate											
Allied Properties REIT	AP.UN	47.86	49.64-40.50	5221	1.53	1.56	160.00	3.64	3.26	334.31	87.60
American Hotel Income Prop. REIT *	HOT.U	5.19	7.17-4.30	405	0.65	0.65	0.65	8.96	12.52	12.49	99.70
Artis REIT	AX.UN	10.53	13.75-8.75	1565	1.08	0.54	0.54	7.66	5.13	5.13	102.10
Automotive Properties REIT	APR.UN	10.71	11.47-8.45	233	0.80	0.80	0.80	7.37	7.47	7.47	88.50
Boardwalk REIT	BEI.UN	38.91	52.43-36.47	1798	2.15	1.00	1.00	4.80	2.57	2.57	45.40
BSR REIT *	HOM.U	9.67	9.90-7.12	160	-	0.50	0.52	-	5.17	5.38	78.50
BTB REIT	BTB.UN	4.81	4.94-4.03	267	0.43	0.42	0.42	9.15	8.73	8.73	102.00
Cdn Apt. Properties REIT	CAR.UN	47.84	52.10-36.86	7286	1.27	1.31	1.38	3.42	2.74	2.88	65.70
Cdn. Tire REIT	CRT.UN	14.00	14.48-11.26	1357	0.70	0.73	0.76	4.84	5.20	5.41	76.00
Chartwell Retirement Residences	CSH.UN	14.75	15.70-13.42	3137	0.55	0.59	0.60	3.53	3.99	4.07	65.11
Choice Properties REIT	CHP.UN	13.70	14.37-11.19	3807	0.73	0.74	0.76	5.47	5.40	5.55	89.50
Cominar REIT	CUF.UN	11.35	12.95-10.41	2066	1.33	0.74	0.72	9.25	6.52	6.34	87.80
Crombie REIT	CRR.UN	14.38	14.63-12.14	1289	0.89	0.89	0.89	6.45	6.19	6.19	86.50
Dream Hard Asset Alt. Trust	DRA.UN	7.70	7.79-5.90	556	0.33	0.37	0.40	4.78	4.81	5.19	111.10
Dream Industrial REIT	DIR.UN	11.48	12.09-9.25	1225	0.70	0.70	0.70	6.70	6.10	6.10	81.70
Dream Office REIT	D.UN	23.17	26.01-21.56	1368	1.25	1.00	1.00	4.20	4.32	4.32	32.00
Dream Global Int'l REIT	DRG.UN	13.80	15.43-11.58	2668	0.80	0.80	0.80	6.55	5.80	5.80	27.80
Granite REIT	GRT.UN	62.00	64.66-49.51	2832	2.60	2.72	2.80	5.30	4.39	4.52	91.00
H&R REIT	HR.UN	22.70	23.66-18.94	6490	1.38	1.38	1.38	6.46	6.08	6.08	79.40
Inovalis REIT	INO.UN	10.18	10.60-9.12	239	0.82	0.83	0.83	8.27	8.15	8.15	95.70
InterRent REIT	IIP.UN	13.44	14.79-9.93	1428	0.25	0.27	0.29	2.72	2.01	2.16	58.70
Invesque Inc.*	IVQ.U	7.10	9.10-6.20	377	0.74	0.74	0.74	8.40	10.42	10.42	86.00
Killam Apartment REIT	KMP.UN	18.67	19.60-13.89	1706	0.62	0.64	0.66	3.60	3.43	3.54	84.00
Melcor REIT	MR.UN	7.81	8.47-6.76	103	0.68	0.68	0.68	7.93	8.71	8.71	99.00
Minto Apartment REIT	MI.UN	19.05	20.58-15.45	470	-	0.20	0.41	-	1.05	2.15	56.25
Morguard REIT	MRT.UN	12.35	13.61-10.46	750	0.96	0.96	0.96	7.31	7.77	7.77	83.50
Morguard N.A. Res. REIT	MRG.UN	17.67	18.57-13.85	596	0.64	0.66	0.68	4.28	3.74	3.84	55.20
Nexus REIT	NXR.UN	2.02	2.08-1.77	202	0.16	0.16	0.16	7.92	7.92	7.92	83.30
Northview Apartment REIT	NVU.UN	27.82	29.51-23.93	1566	1.63	1.63	1.63	6.52	5.86	5.86	93.30
Northwest Healthcare Prop. REIT	NWH.UN	11.38	11.84-9.27	1334	0.80	0.80	0.80	7.05	7.03	7.03	98.00
Plaza Retail REIT	PLZ.UN	4.13	4.40-3.68	425	0.27	0.28	0.28	6.50	6.78	6.78	95.70
PRO REIT	PRV.UN	2.30	2.45-1.80	198	0.21	0.21	0.21	9.13	9.13	9.13	115.10
Pure Multi-Family REIT L.P.*	RUF.U	6.52	7.40-5.67	500	0.38	0.38	0.38	4.97	5.83	5.83	116.50
Riocan REIT	REI.UN	25.80	26.75-22.97	7859	1.41	1.44	1.44	5.79	5.58	5.58	85.70
Slate Office REIT	SOT.UN	5.83	8.08-5.65	404	0.75	0.75	0.40	9.21	12.86	6.86	116.90
Slate Retail REIT	SRT.UN	12.50	13.10-11.20	528	0.82	0.85	0.85	6.26	6.80	6.80	99.50
SmartCentres REIT	SRU.UN	33.90	35.23-28.14	4821	1.71	1.80	1.80	5.54	5.31	5.31	83.30
Summit Industrial Income REIT	SMU.UN	11.55	12.28-8.27	1113	0.51	0.57	0.52	6.97	4.94	4.50	81.80
True North Commercial REIT	TNT.UN	6.61	6.90-5.30	380	0.59	0.59	0.59	8.85	8.93	8.93	104.00
WPT Industrial REIT *	WIR.U	13.66	14.69-12.10	778	0.76	0.76	0.76	5.97	5.56	5.56	91.10
RESOURCE TRUSTS											
Oil & Gas - Producers											
Crius Energy Trust	KWH.UN	8.66	8.98-4.01	491	0.81	0.82	0.84	11.45	9.47	9.70	90.80
UTILITY TRUSTS											
Utilities											
Brookfield Ren. Energy Partners L.P.*	BEP.UN	31.48	31.86-24.99	5630	1.87	1.96	2.06	5.48	6.23	6.54	95.00

Explanation of Terms

Market Capitalization is calculated by multiplying the current unit price by the number of units outstanding as of April 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 November research has fared

Updated recommendations from our Jan. 4, 2019 edition

BlackBerry Ltd.

BB-TSX, $13.47 ($11.82*);
BB-NYSE, US$10.13 (US$8.97*)

BlackBerry announced an acquisition late last year that promised to strengthen its presence in the cybersecurity space, said CIBC World Markets analysts Todd Coupland and Amy Dyck in a Nov. 18, 2018 research note.

The company acquired Cylance, an artificial intelligence-based cybersecurity company for US$1.4 billion. While the price was 10.8 times fiscal 2018 revenue at a time when cyber rivals traded at about nine times fiscal 2019, the analysts said that the deal fit BlackBerry's strategic goal of securing any end point.

Mr. Coupland and Ms. Dyck added that the deal was expected to be earnings per share (EPS) accretive later in fiscal 2020. They upgraded their stock recommendation to "outperform" and issued a US$14 target share price then.

In a followup research note on March 29, 2019, Mr. Coupland and Ms. Dyck say that BlackBerry reported better-than-expected results for the fourth quarter of its 2019 fiscal year (period ended Feb. 28). They add, moreover, that the company's guidance for fiscal 2020 matches expectations.

BlackBerry's revenue for the quarter was US$99 million while its adjusted sales were US$257 million, compared to the analysts' estimate of US$232 million and the Street's estimate of US$51 million. Its adjusted EPS was US$0.11, compared to the analysts' prediction of US$0.08.

"The outlook for fiscal 2020 called for 23 per cent to 27 per cent revenue growth, or about $1.15 billion in revenue at the mid-point," say the analysts. "The outlook for Enterprise Solutions, Licensing and Cylance met our expectations. QNX operating system growth should be approximately 16 per cent, slightly lower than our prior forecast of 20 per cent."

Mr. Coupland and Ms. Dyck reiterate their "outperformer" recommendation but lower their target share price by a loonie to $13.

Superior Gold Inc.

SGI-TSX/VEN, $0.79 ($0.87*)

PI Financial analyst Philip Ker's Nov. 28, 2018 research note focusing on Superior Gold, marked the resumption of coverage.

Assigning a "buy" recommendation and a target share price of $1.95, the analyst said he expected to see a growing production profile (110,000 more ounces of gold in 2019) as SGI targeted higher-grade ore zones and as management aimed to fill its mill with the best available grade of ore.

He added, however, that successful growth hinged on some catalysts. These include positive operations and sustained cash flow; and positive exploration supporting mine-life longevity.

Meanwhile, Superior's results for the fourth quarter of 2018 lined up with projections, say Mr. Ker and Akin Akinwale in a March 13, 2019 research note.

They add that the company's operations were adversely impacted in a number of ways during the final quarter of last year and these factors led to an anemic quarter as well as a $4.6-million net cash burn.

The company reported earnings per share (EPS) of -$0.07 per share or -$6.7 million, which was in line with the analysts' estimate and the consensus projection.

"Previously, Superior noted that several factors impacted production during the quarter including: repairs to the crusher, equipment availability (mechanical and contractor), and weather-related power interruptions to the borefields," say the analysts.

"All controllable factors have now been rectified and management maintains its goal of delivering and achieving maximum cash generation during 2019.

"Superior managed to mitigate the bleeding reasonably well despite the weak quarter and ended the year with $17.3 million in cash after a net cash loss of $4.6 million.

"The current cash balance leaves Superior in a solid position to continue improving operations while maintaining its focus on exploration to increase its resource and reserve base."

Messrs. Ker and Akinwale reiterate their "buy" recommendation and $1.50 target share price.

Acreage Holdings Inc.

ACRG.U-CSE, US$20.43 (US$20.50*)

The macroeconomic picture for U.S. cannabis operators "has never been stronger" for businesses like Acreage Holdings, said Beacon Securities analysts Russell Stanley and Susan Xu in a Nov. 20, 2018 research note that initiated coverage of the company.

They added that the company was on track to exit 2018 with interests in 18 states, giving it the broadest footprint – in terms of scale and reach – of any publicly-traded multi-state operator (MSO).

"While cannabis itself is still illegal at the federal level in the United States, we believe that continued improvement in voter support for legalization, and President Donald Trump's April 2018 commitment to back congressional efforts to protect states that have legalized cannabis, will continue to de-risk cannabis companies with an operational focus on the United States," they say.

Mr. Stanley and Ms. Xu kicked things off with a "buy" recommendation and a US$40 target share price.

In an April 2, 2019 research note, Mr. Stanley and Ms. Xu say that Acreage's buildout is building speed - and they refer to its new openings in March as evidence.

"Acreage announced that two The Botanist-branded dispensaries opened in March in New York and North Dakota," say the analysts. The New York dispensary is located on Long Island in Farmingdale, and is the company's fourth location in the state (the maximum allowed by current regulations). The Fargo location is the first operational dispensary in North Dakota.

"With the addition of these locations, Acreage now owns or has management services agreements in place (including pending acquisitions) for 25 open dispensaries across 12 states – including nine of which are The Botanist-branded. We view these openings positively as they reflect the continued buildout of the retail network, which we expect to translate into strong revenue and earnings improvement."

The analysts stick with their "buy" recommendation and US$40 target share price.

* Price three months ago

ANNUAL FOLLOWUP

What was said 12 months ago

Updated recommendations from our May 11, 2018 edition

VersaPay Corp.

VPY-TSX/VEN, $1.45 ($2.19*)

When PI Financial analyst David Kwan covered VersaPay in an April 13, 2018 report, he said that the company's revenue growth continued to accelerate.

Its total revenue grew 126 per cent year-over year and 36 per cent quarter-over-quarter to $1.1 million in its fourth fiscal quarter of 2017. The tally exceeded Mr. Kwan's earlier estimate of $900,000 and the consensus estimate of $1 million.

Revenue from VersaPay ARC, a cloud-based accounts receivable automation platform, remained solid, climbing 72 per cent year-over-year and 24 per cent quarter-over-quarter.

The analyst, who said he remained bullish on the stock and expected revenue growth to continue to accelerate, reiterated his "buy" recommendation, $3.50 target share price and "speculative" risk rating.

In an April 4, 2019 research note, Mr. Kwan and Neehal Upadhyaya say VersaPay reported strong results for the fourth quarter 2018, which suggests that growth is on the verge of re-accelerating.

The company's revenues were up 37 per cent year-over-year and 28 per cent quarter-over-quarter to $1.5 million, which was north of the analysts' projection and the consensus estimate of $1.3 million

"In addition to record revenue, VersaPay achieved its strongest single sales quarter with approximately $1.5 million in new ARC annual recurring revenue (ARR), driven by strong contribution from the electronic channel, particularly Royal Bank of Canada," say Messrs. Kwan and Upadhyaya.

"Meanwhile total ARC ARR hit $3.3 million (up 86 per cent year-over-year and 30 per cent quarter-over-quarter) while total ARR was $5.3 million (up 55 per cent year-over-year and 19 per cent quarter-over-quarter.

"The ARR backlog jumped 46 per cent quarter-over-quarter to a record $1.8 million, which when combined with the aforementioned strong revenue metrics, indicates that growth is poised to reaccelerate going forward."

The company's adjusted EBITDA was in line with projections, adjusting for about $1.2 million worth of one-time expenses, say the analysts.

They reiterate their "buy" recommendation, $2.30 target share price and "speculative" risk rating.

Axis Auto Finance Inc.

AXIS-TSX/VEN, $0.48 ($0.70*)

Axis Auto Finance's move to acquire Trend Financial Corp. for $29.3 million was the topic up for discussion in an April 3, 2018 research note by PI Financial analyst Bob Gibson.

According to the analyst, the deal equated to 1.9 times the price to book ratio. Trend's owners received $20.9 million in cash, $5.4 million in equity and $3 million in convertible debentures.

Mr. Gibson increased his target share price to $1.70 from $1.40, and reiterated his "buy" recommendation.

Fast-forwarding about a year later, Mr. Gibson says in a March 26, 2019 research note that Axis recently announced the closing of its new $100 million senior secured revolving debt facility.

"The credit facility has a four-year term," says the analyst."It replaces the existing senior debt facility priced at prime rate plus 7.5 per cent. Management noted the 525-basis point reduction in borrowing costs would result in over $5 million in interest cost savings annually on a fully drawn facility. Presently, that facility is $30 million, so we estimate it will add $2.4 million in savings in fiscal 2020.

"Management is very prudent when providing loans, so we would not expect an overnight increase in receivables and therefore debt, as evidenced by the fact the legacy facility was only three-quarters drawn."

Mr. Gibson says that PI Financial had been expecting the company to make an announcement about a new bank line for quite a while. The development, he adds, is of the game-changer variety since interest costs will decrease and the extra leverage will permit receivables to ramp up.

"Fiscal 2020, (period ending June 2020) should be a year of dramatic growth," says the analyst. "With all the new hires, the bank line was the last remaining piece."

The analyst reiterates his "buy" recommendation and "above average" risk rating. He also boosts his target share price by a dime to $1.35 per share.

Park Lawn Corp.

PLC-TSX, $25.53 ($24.69*)

While Park Lawn's results for the last quarter of 2017 were mixed compared to consensus estimates, Acumen Capital analyst Brian Pow said the long-term outlook for the owner and operator of cemeteries, crematoriums and funeral homes remained positive.

He added that Park Lawn was capable of driving margins up and boosting operational improvement in 2018 with the integration of recent acquisitions.

Mr. Pow reiterated his "buy" recommendation and boosted his 12-month target share price to $29.50 from $29.

In a March 27, 2019 research note, Mr. Pow and Nick Corcoran cover Park Lawn's results for the final quarter of 2018. On the whole, the company's performance was in line with their projections.

"Total revenue was $50.6 million versus $25.9 million for 2017's fourth quarter, up 95.2 per cent year-over-year. Management estimates fourth-quarter 2018 revenue from comparable business units was up 10.8 per cent year-over-year. Year-over-year changes were driven by an increase in pre-need sales, revenue associated with various aspects of the cemetery business and higher revenue from lower contributions to trust funds.

"Management noted that there was a large bulk cemetery property sale in Lafayette, N.Y. which contributed approximately five per cent of the quarterly growth."

The company's adjusted earnings before interest, taxes depreciation and amortization (EBITDA) for the quarter was $11.3 million compared to $5.6 million a year ago, and its adjusted earnings per share (EPS) was $0.21 compared to $0.183 for the year-ago period.

"The fourth-quarter 2018 results were in line with expectations," say Messrs. Pow and Corcoran. "We maintain our 'buy' rating and with a revised target price of $29 (from $28). Risks to our outlook include the timing of at-need services and the ability to drive accretion from recent acquisitions."

* 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 184 to 193.

COMPANIES IN THIS ISSUE

3M
Credit Suisse .... *Outperform*

Acreage Holdings
Beacon Securities .... *Buy*

Akumin
PI Financial .... *Buy*

Ascendant Resources
Beacon Securities .... *Buy*

AutoCanada
AltaCorp Capital .... *Neutral*

Axis Auto Finance
PI Financial .... *Buy*

Barrick Gold
Deutsche Bank .... *Buy*

BlackBerry
CIBC World Markets ... *Outperform*

Brookfield Asset Management Preference Shares Series 26
Purpose Investments .... *Buy*

BRP
Desjardins Capital Markets .... *Buy*

Calian Group
Acumen Capital .... *Buy*

Centric Health
Beacon Securities .... *Buy*

Cogeco Communications
CIBC World Markets ... *Outperform*

Conifex Timber
CIBC World Markets .... *Neutral*

Corus Entertainment
BMO Capital Markets .... *Market perform*

Cresco Labs
PI Financial .... *Buy*

Delta 9 Cannabis
Mackie Research .... *Buy*

Dow
Credit Suisse .... *Outperform*

Encana
AltaCorp Capital ...... *Outperform*

Fortress Global Enterprises
Raymond James Financial .... *Outperform*

Gibson Energy
Raymond James Financial .... *Outperform*

Goodfood Market
Acumen Capital .... *Buy*

HEXO
AltaCorp Capital ...... *Outperform*

Jaguar Mining
PI Financial .... *Buy*

Largo Resources
CIBC World Markets ... *Outperform*

Lightspeed POS
CIBC World Markets ... *Outperform*

MediPharm Labs
Mackie Research .... *Buy*

Mosaic
CIBC World Markets .... *Neutral*

NEO Lithium
Beacon Securities .... *Buy*

Neo Performance Materials
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Nike
Goldman Sachs .... *Neutral*

Onex
Odlum Brown .... *Buy*

Park Lawn
Acumen Capital .... *Buy*

PFB
Acumen Capital .... *Buy*

Roots
CIBC World Markets .... *Neutral*

Roxgold
Raymond James Financial .... *Outperform*

SNC-Lavalin Group
AltaCorp Capital ...... *Outperform*

Stornoway Diamond
BMO Capital Markets .... *Underperform*

Superior Gold
PI Financial .... *Buy*

Terra Firma Capital
Acumen Capital .... *Buy*

Tesla
Goldman Sachs .... *Sell*

Theratechnologies
Mackie Research .... *Hold*

TransCanada Corp. Preferred Shares Series 9
Purpose Investments .... *Buy*

Trulieve Cannabis
Beacon Securities .... *Buy*

VersaPay
PI Financial .... *Buy*

Village Farms International
Beacon Securities .... *Buy*

Wajax
Raymond James Financial .... *Market perform*

Walt Disney
Goldman Sachs .... *Buy*

Wingstop
BMO Capital Markets .. *Outperform*

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Trulieve Cannabis

BEACON SECURITIES

Growing faster than most had anticipated

Digested from a April 11 report by analyst Russell Stanley

Mr. Stanley says **Trulieve Cannabis Corp.** (TRUL-CSE, $19.30) is growing quicker than he (and TRUL's management guidance) had anticipated. In fact, the Florida-based marijuana company reported better-than-expected fourth-quarter 2018 revenue and earnings, leading Mr. Stanley to boost his estimates for 2020 (but leaving 2019 estimates unchanged).

The bump in his earnings forecast results in the analyst's target price rising to $32 per share from $28. The company also has plans to open up more dispensaries in Florida than he had previously forecast.

Florida is the third-most populated state in the U.S. where management estimates to have 60-to-70 per cent market share .

Furthermore, Trulieve is expanding into California and Massachusetts via acquisitions, thus increasing its geographic and market range. So Mr. Stanley leaves his "buy" recommendation as it is.

"Driven by an increase in our fiscal 2020 earnings before interest, taxes, depreciation and amortization (EBITDA) estimate from US$124 million to US$142 million, in turn driven by upward revisions to our revenue drivers, the company reported better-than-expected fourth-quarter revenue/EBITDA, and reiterated its 2019 guidance for revenue of US$214 million and adjusted EBITDA of US$92 million.

"However, we stress that management's current guidance does not reflect the additional 14 dispensaries TRUL can open under a recently announced settlement, nor the recent legalization of smokable cannabis products, which should significantly increase the addressable market and support an upward revision to our revenue/dispensary assumptions," the analyst states.

As an investment thesis, Mr. Stanley claims U.S. operators trade at significant discounts to Canadian peers, despite improving federal environment down south. He adds that the first half of 2019 should be catalyst rich, with the legalization of smokable products likely to drive patient growth.

Trulieve is now trading at 12 times his 2020 EBITDA estimate. This represents a 37 per cent discount to the 20-time average for the broad peer group, and a 67 per cent discount to the 37-time average for companies with over $1 billion in market capitalization.

As for Trulieve's push into Massachusetts and California, Mr. Stanley reports that the TRUL acquired Life Essence for $4.4 million in cash during Dec. 2018. Life Essence has state-approvals required to develop a cultivation/processing operation, and three dispensaries in Massachusetts. During the month prior, TRUL acquired 80 per cent of Leef Industries for $4 million. According to Mr. Stanley, this added an operating adult-use dispensary license in Palm Springs, Calif.

Regarding the number of dispensaries opened, the analyst states, "We previously assumed that Trulieve would exit 2019 with 35 dispensaries operating, and 2020 with 40 dispensaries open. We have increased those assumptions to 36 and 45, respectively. We believe there is more upside to these estimates, given that the company's license now allows it to open up to 49 dispensaries."

Trulieve Cannabis is the first and largest fully-licensed cannabis company in the State of Florida.

Gibson Energy

RAYMOND JAMES FINANCIAL

Storyline playing out as expected

Digested from an April 3 report by analyst Chris Cox

Investor day for **Gibson Energy Inc.** (GEI-TSX, $23.43) showed that the company's underlying story is still playing out as expected.

Mr. Cox says that Raymond James' thesis on the company, which operates a diverse portfolio of assets in many North American basins, is still more or less the same post-investor day. He adds that he left feeling confident in the company's financial strength and its ability to deliver strong per share growth.

"In particular, the U.S. strategy really seems to be gaining prominence; while this remains somewhat of a 'show me' aspect to the story, the potential upside if Gibson can replicate its terminal success south of the border could be a compelling source of upside for the shares longer-term," says Mr. Cox, who sticks with his "outperform" recommendation but boosts his 12-month target share price to $25 from $23.

"Offsetting our fundamental enthusiasm for the story, we believe near-term upside could be capped with the stock outperforming peers by 5.4 per cent year-to-date, despite the significant contraction in heavy oil differentials."

The analyst says that Gibson announced a deal to divest its Canadian truck transportation business for $100 million during its investor day. Now that the company's asset sale strategy has wrapped up and with the solid support of its marketing segment last year, DBRS issued a BBB (low) rating for Gibson.

"In addition to an improved cost of capital, the new rating should allow Gibson to lengthen the tenor of its debt maturities to reflect the duration of its contracts in the terminals business, as well as opening up the preferred market as an alternative source of capital," says Mr. Cox.

"A key topic of this year's investor day was the increased attention of the U.S. strategy, with guidance of $50 million-$100 million per annum of capital deployment (versus $25 million-$50 million previously). While we believe the U.S. strategy remains a 'show me' component of the story, the guiding vision appears to be centered on replicating some version of the Hardisty business model at the Wink hub."

Gibson Energy is a Calgary-based midstream oilfield service company in the oil and gas industry.

Roots

CIBC WORLD MARKETS

Stable quarter but questions remain

Digested from an April 3 by analyst Matt Bank

Roots Corp. (ROOT-TSX, $4.20) returned to comparable sales growth, but the broader backdrop makes it difficult to get overly excited. Analyst Matt Banks says the company still has work to do after a malaise in brand resonance, and needs to demonstrate its ability to release relevant, seasonally-robust product through a full year, all while navigating a macro environment at risk of turning. He remains at the low end of guidance ranges, although his share price target moves to $5 (from $4.50 formerly), and his rating stays "neutral".

The financial results are as follows, "Comparable sales growth of three per cent with positive gross margin percentages is a welcome, stable fourth quarter for Roots in a tough market, though staying positive will be a quarterly challenge. Store traffic was negative in the fourth quarter and has stayed so in the first quarter of 2019, with no indications of this trend improving. We are optimistic that price/mix, conversion, and online growth can overcome negative retail traffic, but consistent product and brand execution is somewhat unproven. We are forecasting 3.6 per cent 2019 comparable sales growth (after a 1.3 per cent decline in 2018).

"Roots closed more stores in Canada than it opened in 2018. While it is positive that the company is willing to close underperforming stores, square footage growth will be less of a boost to sales, and the optimal store count in Canada remains a question.

"Roots is guiding towards selling, general and administrative growing slightly slower than sales in 2019, overcoming higher advertising expenses (target is four per cent of sales). For the first half of the year gross margins will be challenged as the company clears out seasonal inventory and shifts to its new distribution centre. For the year we expect modestly better margins, driving 10 per cent EBITDA (earnings before interest, taxes, depreciation and amortization) growth.

Continued on next page

Continued from preceding page

"2018 was a volatile year where the company saw some slippage in its brand momentum and product assortment as it had many initiatives on the go. After the 2018 reset, the company is back on a path for double-digit growth, but limited visibility on company initiatives.

"We continue to use six times enterprise value-to-EBITDA to value Roots, in the range of slower-growth apparel peers given Roots' difficult 2018 and limited visibility on 2019.

"Guidance has been cut and growth has been pushed out. Though there are multiple drivers of potential upside, we balance these against a challenging and rapidly changing industry, and conclude that risks and reward are appropriately priced in today's valuation. We see limited upside until there is better visibility on growth materializing."

Roots is a Canadian lifestyle brand that sells direct-to-consumer through 117 stores in North America and through 139 partner-operated stores in Asia.

AutoCanada

ALTACORP CAPITAL

U.S. auto sector weighing down expectations

Digested from a March 18 report by analyst Chris Murray

The performance of the U.S. auto sector is weighing down on market expectations for **AutoCanada Inc.** (ACQ-TSX, $11.74) forcing management to reduce its earnings expectations, Mr. Murray claims. While the company may achieve its goals in Canada, a less favourable cost structure in the U.S. business is proving to be a drag on operations, according to management.

The analyst keeps his "neutral" recommendation as is. But buoyed by management's recent initiatives to control growth and grow revenues, he bumps his target price up by 50 cents to $18 per share,

Mr. Murray comments, "Overall, while we continue to see improvement in Canadian operations driven by the 'Go Forward' plan (which focuses on retailing used cars over new), the cost structure of the U.S. business is weighing on our forecasts.

"Although the U.S. auto environment remains uncertain (especially for new cars because many customers cannot afford financing at the higher federal interest rates), management sees an approximate $10-million loss in 2018 in the U.S. and is looking to drive that to $0 by the end of 2019. ACQ is implementing its plan to create operational efficiencies and grow revenues, with a particular focus on creating a sustainable platform with U.S. assets that can weather a challenging economic climate.

"Material profit share is expected from AutoCanada's new offerings in finance and insurance for used vehicles at its dealerships. The company also recently created a new special finance division, which will arrange loans for customers who cannot qualify for traditional loans offered by banks and affiliates of vehicle manufacturers. It includes a new wholesale division, with which ACQ expects to capitalize on arbitrage opportunities in the sale of used vehicles between different geographies."

Overall, AutoCanada's fourth-quarter 2018 results were mixed compared to analyst estimates, showing consolidated revenue, adjusted earnings before interest, tax, depreciation and amortization (EBITDA) and adjusted fully-diluted earnings per share (EPS) of $782.8 million (up 6.8 per cent year-over-year), $22.6 million and -$0.34, as compared to analyst expectations for $776.1 million, $25.1 million and $0.40, respectively. ACQ also declared a quarterly dividend of $0.10 per common share payable on March 15.

"Our 2019 and 2020 adjusted EBITDA estimates revise to $100.2 million and $111.6 million as compared to $103.3 million and $110.9 million, previously (after management hedged its own $100-million or greater EBITDA forecasts). Correspondingly, our estimates for 2019 and 2020 adjusted fully-diluted EPS revise to $1.63 and $2.01 from $1.71 and $2.04 previously.

"Management noted that its near-term focus will be on the company's Go Forward Plan and that there are no plans for mergers or acquisitions until later in 2019. They cite a renewed interest in purchasing collision repair shops in addition to traditional dealerships. Management also expects to dispose of non-core real estate assets sometime during the first half of 2019," Mr. Murray concludes.

AutoCanada operates car dealerships in Canada. The company offers new and used vehicles, spare parts, maintenance services, and customer financing.

Roxgold

RAYMOND JAMES FINANCIAL

Company wraps 2018 on high note – and tune could be even better this year

Digested from a March 27 report by analyst Tara Hassan

Roxgold Inc. (ROXG-TSX, $0.90) wrapped up 2018 on a high note, according to Ms. Hassan.

In fact, the analyst says Raymond James updated its model to reflect the junior gold producer's performance in 2018, which was in line with their projections.

"With Roxgold forecasting increased production in 2019 with the completion of Bagassi South, we expect free cash flow to increase materially," she says. "We reiterate our view that Roxgold's current valuation does not accurately reflect its superior free cash flow profile relative to its junior producing peers."

The company, whose flagship holding is its 90 per cent-owned Yaramoko project in Burkina Faso, reported adjusted earnings per share (EPS) last year of US$0.10 versus the analyst's estimate of US$0.09. Its adjusted cash flow per share (CFPS) was US$0.24. This was in line with Ms. Hassan's estimate of US$0.24 and north of the consensus estimate of US$0.19.

"Roxgold's 2018 production of 133,000 ounces at all-in-sustaining-costs (AISC) of US$740 ounce, topped the company's increased guidance of 120,000 to 130,000 ounces (up from original guidance of 110,000 to 120,000 ounces) at AISC of US$740 to US$790 per ounce," says the analyst, who adds that production numbers should rise this year.

"While processed grade declined in 2018, the company reduced per tonne costs by 12 per cent. Fourth quarter 2018 production of 26,000 ounces was pre-released and in-line with our estimate. Record throughput topped our expectations and offset lower than expected head grade. Fourth quarter 2018 AISC of US$836 per ounce was just above our estimate of US$815 per ounce."

As far as the company's financial health is concerned, Ms. Hassan says that Roxgold's balance sheet not only is solid, but also is set to get even better. The company, in fact, concluded last year with US$59.8 million in balance sheet cash and US$24.2 million in long-term debt, which is down 13 per cent quarter-over-quarter.

"Subsequent to quarter end, Roxgold announced it completed the purchase of 4.9 million shares for cancelation under its previously announced NCIB program," says the analyst. "We expect Roxgold to continue to improve its balance sheet during 2019 as free cash flow increases over 2018."

Ms. Hassan reiterates her "outperform" recommendation and $2.15 target share price.

Roxgold is a Canadian-based gold mining company with assets located in West Africa.

Jaguar Mining

PI FINANCIAL

Company announces results for fourth quarter of 2018

Digested from a March 28 report by analyst Philip Ker

Jaguar Mining Inc. (JAG-TSX, $0.15) reported a production miss for the final quarter of last year on the heels of a pre-release saying pretty much the same thing.

Mr. Ker, who reiterates his "buy" recommendation and his $0.40 12-month target share price, says PI Financial continues to wait for things to get better at the company's Turmalina operations.

The company announced a net loss of -$15.1 million, or -$0.05 per share, for the final quarter of 2018 compared to the analyst's estimate of a net loss of $600,000, or $0.00 per share.

"Consolidated cash costs of $795 per ounce for the fourth quarter of 2018 were pre-released while annual cash costs of $732 per ounce were a 12.5 per cent improvement year-over-year," says Mr. Ker. "This was led by Pilar where cash costs declined 34 per cent year-over-year to $702 per ounce.

"Reported AISC (all-in sustaining costs) for the fourth quarter of 2018 and fiscal 2018 not previously reported were: $1,279 per ounce, and $1,244 per ounce compared to our estimate of $1,118 per ounce and $1,193 per ounce, respectively. Increased sustaining capital expenditure continues to be related to development efforts to achieve a full turnaround at Turmalina."

The company wrapped up 2018 with $6.3 million in cash versus $6.7 million at the previous quarter conclusion.

"Considering the recent bridge facility completed in first quarter of 2019, we continue to be wary of the capital layouts at Turmalina and gradual increase in production and cash flow," says the analyst. "At year-end, Jaguar had a negative working capital position of $2.4 million.

"No annual guidance has been provided by Jaguar at this time. Our outlook projects consolidated gold production of 87,600 ounces at cash costs of $710 per ounce and AISC of $1,150 per ounce for 2019.

"Our $0.40 per share target is generated using a 0.6 times NAVPS multiple ($1,300 per ounce gold at five per cent on under a DCF analysis of Jaguar's operations."

Jaguar Mining is a Canadian-listed junior gold mining, development, and exploration company operating in Brazil.

NEO Lithium

BEACON SECURITIES

Company's wholly-owned brine project in Argentina on right track

Digested from an April 1 report by analyst Ahmad Shaath

NEO Lithium Corp. (NLC-TSX/VEN, $0.86) is advancing what promises to be the next major brine project.

Mr. Shaath says that Beacon recently attended a two-day visit to see the site of the company's 3Q project in Catamarca, Argentina.

"We visited NLC's newly commenced pilot plant in Fiambalá, which is currently testing the entire flowsheet from a four per cent brine feed concentrated at 3Q's pilot ponds," says the analyst. "The plant will be producing lithium carbonate samples from the 3Q deposit in approximately two months' time.

"We view this as a critical turning point for the project as it will firstly give the company samples to prove the project's credentials as a viable source of battery-grade lithium carbonate on its efforts to secure strategic partners. This in turn will increase confidence in management's technical credentials, and help the team further enhance their understanding of the process flow sheet."

The analyst says that Beacon was duly impressed with what the technical team has achieved as far as the development level at the 3Q Salar as well as how knowledgeable they were about the reserves and the resources.

"The company's work includes analysis of optimal well locations, sizes, production rates and the various evaporation conditions (rain, snow, wind, solar radiation) across different seasons," says Mr. Shaath. "We believe NLC's technical team, led by CEO Mr. Waldo Perez, has the right technical expertise to progress the 3Q project and realize its economic value. The next catalyst from this front should be results from the recently-completed 20-day pump test."

NEO recognizes that community engagement is important, says

Keith Richards speaks about
Technical Analysis and the Current Market Outlook

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July 16, 2019 @ 6:00pm

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the analyst, who adds the company is taking care of the locals. During the pilot plant tour, a government official discussed the importance of the project to the province as well as to future employment options in nearby towns.

The analyst sticks with his "buy" recommendation and $2.20 target share price.

NEO Lithium has become a prominent new name in lithium brine exploration by virtue of its 3Q project and experienced team.

Goodfood Market

ACUMEN CAPITAL

Opportunity abounds in early-stage growth business

Digested from an April 4 report by analyst Jim Byrne

Goodfood Market Corp.'s (FOOD-TSX, $3.72) strategy has been to invest in incentives and marketing

in order to drive subscriber growth at the expense of profitability in the near term. The company's subscriber count at the end of the second quarter of fiscal 2019 were 159,000, up from 126,000

at the end of first quarter of fiscal 2019. In addition, Mr. Byrne maintains that investments in automation this year will pay off over time with higher margins and lower labour costs in the future. The analyst continues to give the stock a "buy" recommendation and $4.80 target share price.

With regards to financial reporting, the analysts say, "Reported net revenue of $36.6 M compared with our estimate of $37.9 million and consensus of $38.3 million. Revenue growth was very strong, up approximately 133 per cent year-over-year and approximately 24 per cent quarter-over-quarter.

"Gross profit margins in the second quarter of fiscal 2019 were 20.9 per cent, slightly below our estimate of 23 per cent and analysts' consensus of 23.2 per cent. Adjusted gross margins, adding back credits, and incentives, were 37.8 per cent, in-line with our estimate of 37.9 per cent.

"Goodfood reported an adjusted EBITDA loss of $5.5 million, compared with our estimate for a loss of $4.5 million. EBITDA margins were impacted by some weather impacts in the quarter that increased costs.

"Management indicated that automation in their Montreal facility has reached 50 per cent. The expansion in Montreal is ahead of schedule and under budget with completion expected before the end of the third quarter of fiscal 2019 (May). Capital expenditures were $2.8 million in the second quarter. The company will expand their Calgary facility to increase sales capacity to $200 million, up from current levels of $100 million. Automation investments have begun in Calgary.

"One of the most attractive aspects of Goodfood's business model is the built-in negative working capital. Subscribers pay the company up front for a delivery that arrives a few days later. The company does not pay their suppliers for about 10 days to 90 days, which allows the company to utilize that working capital for investments in adding new subscribers.

"In the second quarter of fiscal 2019 the company used $400,000 from cash flow from operations. For the last four quarters the company has generated about $4.2 million in cash flow from operations. Given the anticipated weakness in the fourth quarter of fiscal 2019 we forecast slightly negative operating cash flows for the fiscal year.

"We anticipate moderate growth of subscribers and net revenue in third quarter of fiscal 2019. For the fourth quarter we anticipate subscribers will remain relatively flat while net revenues will drop slightly given the lower order rate in the summer time.

"Goodfood offers investors an opportunity at a relatively attractive valuation."

Goodfood Market is the leading home meal solutions company in Canada. The company delivers ingredients to its subscribers weekly to prepare meals at home. The Company has its main production and head offices in Montreal with a second production facility in Calgary. It began operations in 2014 in Quebec as Culiniste and began trading on the TSX in June 2017.

Delta 9 Cannabis

MACKIE RESEARCH

Grow Pod technology offers low costs to pot growers

Digested from a April 4 report by analysts Greg McLeish and Nicola McFadden

The analysts initiate coverage of **Delta 9 Cannabis Inc.** (NINE-TSX/VEN, $1.56) with a "buy" recommendation and $4 per-share target price, saying its growing methods provides low-cost stable production.

Delta 9's proprietary production methodology involves the use of a modular, scalable, and stackable production unit called a Grow Pod. Grow Pod technology is a proprietary system developed with scalability and cost efficiency in mind. The systems are modular for ease of assembly, and stackable up to three units high, allowing for more efficient use of available floor space. In some cases, Grow Pods can more than double production capacity.

The company currently operates an 85,000 square-foot production facility in Winnipeg, Manitoba that is capable of producing more than 4,000 kilograms of cannabis per year. Through the balance of 2019 the company plans to add more than more than 450 grow pods and this will increase annual production capacity to over 16,000 kilograms per year.

Each pod costs $25,000 to retrofit and is capable of producing over 32 kilograms dried cannabis per year. First cultivation is expected by management in the third quarter of 2019 and full-operational capacity is projected for the first quarter of 2020. The total cost of Phase 2 is approximately $25.5 million and will likely be complete by the end of 2019.

As for its retail history, it is quite short. Delta 9 was also one of four legal producers to be awarded licenses to operate retail cannabis stores in Manitoba. On Oct. 17, 2018 the company opened up its first retail store. During the first week following legalization, Delta 9 reported almost 9,600 transactions and $736,124 in revenue at this retail location.

On March 21, the company announced the opening of a second retail location in the Osborne Village area of Winnipeg; a densely populated area that sees significant daily foot traffic and over 50,000 vehicles per day.

Additionally, on April 2, the company announced the grand opening of its 4,500 square-foot Delta 9 Cannabis Superstore in Brandon. Through the balance of 2019 the company will be open one additional retail store in Thompson. Once these stores are fully operational, the analysts believe that they will generate revenue of approximately $30 million or more per year.

Furthermore, management believes that international expansion is fundamental to its long-term growth and in March 2018, the company signed a letter of intent with German pharmacy companies CanPharma GMBH and Global Group Kalapa S.L. for the export of medical cannabis.

Established in 2012, Delta 9 Cannabis is one of Canada's only vertically integrated cannabis companies with licensed production, processing, distribution and retail operations.

Conifex Timber

CIBC WORLD MARKETS

Dawn of an all-American lumber producer

Digested from a March 29 report by analysts Hamir Patel and Roshni Luthra

The analysts question whether or not **Conifex Timber Inc.** (CFF-TSX, $1.55) will source all its lumber south of the border. They say its earnings from its legacy Canadian operations will be challenged in the near term, adding that its profitability is going to be constrained throughout 2019 as its U.S. mills are still in the midst of ramping up.

Shipments of Conifex-produced products from the U.S. grew 25 per cent, thus offsetting an 11 per cent reduction in shipments from mills in British Columbia. Plus, with lumber markets overall remaining challenged, Mr. Patel and Ms. Luthra maintain their "neutral" recommendation on Conifex. They also reduce their price target to $1.75 per share from $2 due to their significantly lower earnings forecast for 2019 alongside a bleak downside scenario.

Earnings from its legacy Canadian operations will be challenged by elevated log costs and weak Western Spruce-Pine-Fir prices, the analysts state. The latter is currently US$350 per thousand board feet (mfbm) or only US$290 per mfbm after 20 per cent tariffs.

"With fiber scarcity leading to unsustainable operating losses for many smaller operators in British Columbia, we suspect Conifex's Annual Allowable Cut (is the annual amount of timber that can be harvested on a sustainable basis within a defined forest area) in the

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".

Contrary to their name and unlike other parts of the market, which have raced to new highs since correcting last year, Canadian preferred shares remain unjustly neglected, argues portfolio manager Sandy Liang. "It's kind of perverse. Some of the highest-quality shares from the highest-quality issuers were hit the hardest," he says, citing Royal Bank of Canada and Toronto-Dominion Bank as examples.

Mr. Liang is head of fixed income at Purpose Investments, as well as a portfolio manager and a chartered financial analyst (CFA). Starting out in the financial industry in 1991, he has specialized in fixed-income investments since the mid-'90s.

To illustrate the scale of the decline since September, Mr. Liang notes that the S&P/TSX Preferred Share Index, which he stresses is based on share prices rather than returns, was steady throughout 2018, ranging between 700 and 720 points. As of September 2018's end, it stood at about 710 points. "When the market volatility hit…the index went straight down for the fourth quarter," says the portfolio manager. "Right now it's sitting at about 630," which has not been the case since mid-2016, he told *Investor's Digest* in an April 22 interview. "This year-to-date, it hasn't done much."

A Purpose report prepared by Mr. Liang and fellow analyst Jeremy Lin notes, "As a result of the sell-off in...an investor can generate a pre-tax equivalent income stream of six per cent to eight per cent from the most credit-worthy corporations in Canada."

Blue chips such as Manulife Financial Corp. and the major Canadian banks were "hit pretty disproportionately" in the sell-off, Mr. Liang says. The portfolio manager attributes the beating they have taken to the influence of passive, index-based ETFs. Given the highest-quality companies (based on market capitalization) have the highest weighting on the preferred share index, when it began to drop, passive fund managers indiscriminately sold those shares to match the index, leading to a vicious cycle, he argues. "The whole market is about $80 billion, which is not that big," the analyst notes.

On a long-term basis, he says the outlook for preferred shares is healthy because of the high likelihood of interest rates rising. Central banks have backed away from the quantitative easing that drove up bond prices before the shift to a bond bear market in mid-2016. While many still adhere to negative interest rate policies, again to drive up bonds, those rates are unsustainable in the long run and make bond prices unrealistic, he asserts. "The fixed-income bubble has gotten out of hand." Even if interest rates do not improve in the short term, preferred shares will continue to pay out coupons (periodic interest payments on the principal investment) like clockwork, says Mr. Liang. "The instances where high-quality companies miss interest payments are almost non-existent. There are no better companies in this country than the ones that issue prefs."

Buying preferred shares is also more appealing than buying bonds because most preferred shares are "rate-reset", meaning the rate paid out on coupons changes periodically in line with Canadian government bond yields. Thus, their investors can benefit from higher rates and inflation, Mr. Liang explains.

The analyst names the **Brookfield Asset Management Inc. Preference Shares Series 26** (BAM.PR.T-TSX, $16.58) and **TransCanada Corp. Preferred Shares Series 9** (TRP.PR.E-TSX, $16.82) as his "best buy" recommendations.

"It's one of our top picks among the issuers," he says of Brookfield. "Brookfield is bar-none one of the strongest credit profiles in Canada." The Series 26 shares' par value is $25 each and it has an internal rate of return of 6.0 per cent, translating to a taxable equivalent of 7.8 per cent. "This is a preferred share that trades at a deep discount to par," says the analyst.

At present, the company has only about $10 billion in preferred shares and debt on a market capitalization of more than $60 billion. "There's a lot of value cushion in these preferreds but on top of that, Brookfield has been creating shareholder value for decades," Mr. Liang says. In addition to direct asset management (namely real estate, renewable power, infrastructure, and private equity), Brookfield owns asset managers and makes fees from them, incurring relatively little cost to themselves.

TransCanada's Series 9 shares offer an internal rate of return of 6.1 per cent, translating to a taxable equivalent of 7.9 per cent.

"The pipeline business is actually very favourable right now because the return on pipeline investments is very strong," says Mr. Liang. Low oil prices in Canada have forced producers to pump it to other markets, raising pipeline demand.

TransCanada's market capitalization is also around $60 billion. Mr. Liang admits that it has slightly more debt than Brookfield, but adds that most of its business is regulated and under long-term contracts, so earnings are not volatile.

Briefly Noted

ACUMEN CAPITAL

While **Terra Firma Capital Corp.** (TII-TSX/VEN, $0.55) still faces headwinds, the long-term outlook for the real estate financier remains positive to analysts Nick Corcoran and Brian Pow. Those headwinds were ever-present in its fourth-quarter 2018 results, which showed capital deployment of only $7 million – much softer than the $34 million they expected. They have revised their gross capital deployment estimate for 2019 downward to $60 million.

Even though one of their few positive takeaways from the quarter was greater-than-expected foreign exchange gains from U.S. operations, the analysts say Terra Firma continues to build long-term shareholder value by growing its book value. They note the company also repurchased about three million shares in the quarter (about 58 million shares are outstanding as of mid-April).

The analysts keep their "speculative buy" recommendation for the company. They say the next catalyst for its share price will be the release of its first-quarter 2019 results in May. Meanwhile, they reduce their target price by a dime to $0.70 per share.

ODLUM BROWN

Onex Corp. (ONEX-TSX, $76.12) will purchase investment manager Gluskin Sheff + Associates Inc. for $445 million, or $14.25 per share. Gluskin Sheff closed at $11.17 per share on March 22, shortly before the companies announced the takeover.

Gluskin manages roughly $8.2 billion, 89 per cent of which is on behalf of high net worth clients. The firm has struggled in recent years – since the beginning of 2017, net outflows have totalled about US$750 million. Accordingly, the acquisition hurts Onex's revenue mix, but analyst Benjamin Sinclair lays out several reasons to support the deal. Firstly, Onex paid a reasonable price, he says. Secondly, it will pay for Gluskin with cash on hand, so the transaction will immediately add to earnings and cash flow. Thirdly, Onex and Gluskin together can offer more of a one-stop-shop solution to institutional investors. Finally, there is little chance of integration hiccups because Gluskin will stay largely independent after the merger.

Mr. Sinclair recommends investors "buy" Onex and reiterates a $100 per-share target price.

ACUMEN CAPITAL

Calian Group Ltd. (CGY-TSX, $32.76) has taken over German-based satellite communications company, SatService GmbH as of April 1 for 6.5 million euros (or $9.7 million) in cash, plus a potential $5-million earnout on the table. Analysts Brian Pow and Nick Corcoran applaud the acquisition, Calian's first international takeover.

SatService annual revenues are about $10 million with a margin profile that's stronger than Calian's Systems Engineering Division segment, according to Calian. SatService has grown around 15 per cent annually with some variability from year to year, the analysts note. Its primary markets are Germany, Switzerland and Austria, with secondary markets in the United Kingdom and France.

The SatService business has a smaller backlog than Calian, namely around six months' visibility on orders, and revenue is more variable. On the bright side, 80 per cent of SatService's customers are new to Calian, providing opportunities for cross-selling.

Arguing that SatService creates a platform for future growth in European markets, the analysts maintain their "buy" stance and raise their target share price for Calian to $37.50 from $36.

BEACON SECURITIES

Village Farms International Inc. (VFF-TSX, $19.36) could double your returns since it is doubling the capacity of its marijuana-growing joint venture, analysts Doug Cooper and Susan Xu argue. They increase their target price to $60 per share from $32 and reiterate that investors should "buy" the stock.

In late March, Village Farms announced that its 50 per cent-owned joint venture, Pure Sunfarms, had exercised its option on the existing 1.1-million-square-foot Delta 2 greenhouse facility in Delta, B.C., which Village Farms owns, doubling Pure's footprint to 2.2 million square feet. "We believe this catapults Pure to top-3 status in terms of scale of all of the Canadian licensed producers in domestic capacity…and could ultimately have 30 per cent to 40 per cent market share in Canada," say Mr. Cooper and Ms. Xu. "In terms of total production, our recent site visit confirmed that Pure is currently on a 50,000-kilogram to 55,000-kilogram run-rate (up to 75,000 kilograms in the third quarter of 2019) making it one of, if not the largest Canadian licensed producers right now," the analysts exclaim.

Continued from preceding page

province would have greater value to larger producers in the company's operating regions with lower manufacturing costs. Extracting value from its legacy Canadian operations would allow the company to accelerate high-return capital projects across its three-mill platform in the U.S. South," Mr. Patel and Ms. Luthra say.

Conifex Timber is a North American lumber producer with five sawmills. The company also produces renewable power.

Neo Performance Materials

RAYMOND JAMES FINANCIAL

Neo shares deal dead

Digested from a March 12 report by analyst Frederic Bastien

Mr. Bastien asserts that the Street overreacted to the termination of **Neo Performance Materials Inc.'s** (NEO-TSX, $10.16) acquisition agreement with Luxfer Holdings PLC, as well as its disappointing fourth-quarter 2018 results. Mr. Bastien plunges his target price to $15 per share from $19.25 to acknowledge its poor performance of late, but keeps his "outperform" recommendation.

NEO and Luxfer agreed to cancel the previously announced transaction under which Luxfer would have acquired NEO for US$612 million in cash and stock. No specific reasons for the split-up were given, but since the deal had received the blessing of both board of directors and NEO's majority shareholder, Oaktree Capital, the analyst was left to speculate on why it ran into a sea of regulatory red tape.

"Overall, we acknowledge that the macro backdrop for NEO has weakened in recent months, and that the stock may remain under pressure until it rotates from arbitrage funds back into the hands of fundamental investors, but our job is to call out asymmetric return opportunities when we see them," says Mr. Bastien.

The March 11 one-day 37 per cent price plunge (versus the overall TSX rising one per cent) has notably pushed NEO's valuation to 3.5 times forward operating profits, versus an average of 7.8 times for a group of advanced material and chemical firms.

"That's overly punitive (the stock price fall), in our view, for a firm that continuously drives product innovation, generates healthy and growing free cash flow, and makes the electrification of the US$2 trillion auto industry possible. Accordingly we encourage patient, value investors to buy NEO today," Mr. Bastien adds.

The analyst goes on to comment about the poor fourth-quarter results. "Adjusted operating profits of US$13 million for the quarter compared unfavourably to both our target and the consensus forecast of US$17 million. Of the negative variance to our forecast, US$3 million was attributable to Magnequench (magnetic-powders) division. The segment not only suffered more than expected from the slowing Chinese economy and global auto sector, but also experienced declining rare earth prices and lagging pass-through pricing agreements."

Neo Performance Materials is a leading global manufacturer of functional materials derived from rare earth elements.

HEXO

ALTACORP CAPITAL

Cannabis revolution includes branding, beverages and more

Digested from a April 4 report by analyst David Kideckel

Mr. Kideckel adds **HEXO Corp.** (HEXO-TSX, $8.76) to his coverage universe because he likes its focus on strategic partnerships. This includes partnerships for distribution and specialized products such as cannabis-infused beverages made in collaboration with the beer giant Molson Coors Canada.

Add in brick-and-mortar sales as legalization hits full swing, and he expects revenues to really blossom by more than fifteen-fold year-over-year. The analyst gives an initial recommendation of "outperform" with a 12-month target price of $10.50 per share.

"The company's trend-setting partnership with Molson Coors is a major step in HEXO's quest towards enhanced market leadership… HEXO sees opportunities for major additional partnerships across various industries (e.g. pharmaceuticals, tobacco and beverages).

"However, unlike the cannabis sector, these are mature industries with well-established players, and as a result, the barriers to entry are significantly high in comparison. By pursuing partnership opportunities with leaders in these respective industries to develop products derived from cannabis supplied by HEXO, the company effectively penetrates multi-billion dollar markets, creating a top cannabinoid-derived product with the 'Powered by HEXO' brand," Mr. Kideckel states.

He adds that HEXO has developed award-winning products and continues to focus on developing innovative products in anticipation of the cannabis derivative market that management expects to come online later this year. The company has also invested in their 579,000 square foot Belleville, Quebec facility which will provide the company and their future Fortune 500 partners with a fully licensed, state-of-the-art facility to conduct product research and development.

HEXO also has strong retail distribution across Canada, and has secured the single largest forward-supply contract among the Canadian licensed producers with Quebec's Société québécoise du cannabis (SQDC). Add in the recent acquisition of Newstrike Brands Ltd., the company will have established distribution agreements in nine provinces. With this acquisition, HEXO will add 470,000 square feet in production space when completed, additional public and private retail channels, and a branding relationship with members of The Tragically Hip - one of Canada's most revered musical acts.

HEXO generated $13.4 million in net revenue for the second quarter of fiscal 2019 (period ending Jan. 2019), which management expects to stay relatively flat in the following quarter. For the fourth fiscal quarter, the analyst provides a substantial lift in his net-revenues forecast, growing to $29.4 million, which reflects the contribution from the Newstrike acquisition, coupled with a significant increase in supply as the new 1-million square-feet facility known as B9 scales up.

He also anticipates some revenue uplift for the Canadian cannabis sector as a whole as brick-and-mortar retailers come online in Ontario. He estimates that the company will generate $62.6 million in net revenue for fiscal 2019, up from gross sales of $4.9 million in 2018.

HEXO creates and distributes innovative, easy-to-use and easy-to-understand products to serve the Canadian cannabis market.

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Corus Entertainment

BMO CAPITAL MARKETS

Television advertising rebounds in second fiscal quarter, but will it last?

Digested from an April 5 report by analyst Tim Casey

While many might think the traditional television advertising platform is withering away, **Corus Entertainment Inc.** (CJR.B-TSX, $6.44) reported a second consecutive quarter of growth in television advertising. Furthermore, Mr. Casey predicts this growth will continue into the third quarter of fiscal 2019, albeit at a more subdued rate versus the 11 per cent it posted in the second quarter of fiscal 2019. The key question Mr. Casey poses for investors is whether this is sustainable. As he continues to be cautious and sees longer-term growth challenges for the company, Mr. Casey gives the stock a "market perform" rating and $7 target share price.

Mr. Casey further highlights structural headwinds such as cord-cutting/shaving, online platforms gaining share of advertising budgets, and Hollywood launching direct-to-consumers streaming services. That being said he notes that the dividend cut in fiscal 2019 and disciplined debt repayments provide margin and free cash flow support and reduce balance sheet risk.

With regards to financial reporting the analyst notes,"Corus' second-quarter fiscal 2019 results (period ended Feb. 28) were above expectations. Television advertising revenues (a key metric) was the bright spot in the quarter (11 per cent growth versus a loss of three per cent last year). Management attributes the outperformance to roughly a third from a weak comp last year (Winter Olympics), another third from pricing, and the remainder from advertisers recalibrating media mix budgets (i.e., digital versus television).

"Looking ahead, management expects TV advertising growth to remain positive in the third quarter of fiscal 2019, but visibility beyond that remains limited. Subscriber revenues, and merchandising, distribution and other revenues were both down on a year-over-year basis. Radio remains soft.

"Consolidated revenue increased four per cent to $384 million (consensus of $374 million), and adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) was flat at $113 million (consensus $109 million).

"Adjusted EPS were $0.07 versus $0.05 consensus and $0.20 last year. All in, reported free cash flow was $84 million versus $82 million last year. Television revenue was up five per cent to $353 million (consensus $341 million) and adjusted EBITDA grew 10 per cent to $114 million (consensus $108 million).

"As a reminder, with third-quarter fiscal 2018 results, Corus announced the dividend will be cut 79 per cent to $0.24 per share annualized in fiscal 2019 (to be paid quarterly instead of monthly), which implies annualized cash savings of approximately $187 million that could help de-lever the balance sheet (the changes imply about 0.35-times in net debt to EBITDA per year, absent a recession) and/or fund organic growth initiatives.

"We forecast relatively flat EBITDA growth through fiscal 2020. The EPS profile reflects higher (non-cash) depreciation and amortization charges for television licenses going forward as the amortization period has been reset from an indefinite period to between three and twenty years."

Corus Entertainment is the largest non-vertically integrated television broadcaster in Canada. Corus owns a portfolio of radio stations across most of the country, including station clusters in Toronto, Ottawa, and several major western markets. Corus' entertainment brands include kids, family, and women's brands such as YTV, Treehouse, and W Network.

Ascendant Resources

BEACON SECURITIES

Coverage initiated

Digested from an April 2 report by analyst Jacob Willoughby

Mr. Willoughby initiates coverage of **Ascendant Resources Inc.** (ASND-TSX, $0.52) with a "buy" recommendation and a target share price of $1.80.

The analyst says that the company has boosted production at its wholly owned El Mochito mine located in Honduras and is presently concentrating on profitably expanding production and slashing expenses.

He adds that the possible expansion at the project has a preliminary economic assessment (PEA) demonstrating a 58 per cent internal rate of return (IRR) that may be accomplished without resorting to equity dilution.

"Ascendant is a well-managed, base metals producer with 2018 output of roughly 63 million pounds of zinc, 22 million pounds of lead along with 1 million ounces of Ag (or roughly 91 million pounds of zinc equivalent)," says the analyst. "The company expects 2019 production of approximately 70 million pounds of zinc, 23 million pounds of lead and one million ounces of silver (roughly 100 million pounds of zinc equivalent). This increased production will further lower the unit cost of production.

"Later this year, we expect the companywill close on a project debt package of $35 million to fund an expansion at El Mochito that should allow it to produce over 90 million pounds of zinc, 22 million pounds of lead and 740,000 ounces of silver annually at a capital expenditure of $32.8 million for at least 10 years after a two-year construction and commissioning period.

"We have not yet made these assumptions in our model, but will once a formal announcement is made to proceed with the project. The expansion would add roughly $55 million in net present value to our NAV, or approximately $0.55 per share to our target price. Additionally, the company is earning into an 80 per cent interest in the highly prospective Lagoa Salgada zinc-copper-lead-silver deposit in southern Portugal that could become its second mine."

Ascendant Resources is a Toronto-based mining company that owns and operates the zinc-lead-silver El Mochito Mine in Honduras.

Barrick Gold

DEUTSCHE BANK

Favourable catalysts could shine on gold behemoth

Digested from a April 9 report by analyst Chris Terry

Based on a more favourable gold pricing outlook on the horizon, as well as synergies from its recent mergers, along with strategic divestments in hand, Mr. Terry upgrades his view on **Barrick Gold Corp.** (ABX-TSX, $17.29; GOLD-NYSE, US$12.97) from "hold" to "buy", and raises his target share price from US$12.75 to US$15. He adds that he has a preference for Barrick amongst the large-cap precious equities miners.

"Since our last update, Barrick has also announced the Nevada joint venture with Newmont Mining Corp. (in February). Our new gold price forecast is an improvement to US$1,350 per ounce in the fourth quarter of this year with an average price of US$1,319 per ounce in 2019 and US$1,375 per ounce in 2020 - both up seven per cent from our previous estimates," the analyst says.

He notes that year-to-date, gold is up slightly at about two per cent to land at approximately US$1,308 per ounce, as of the date of his report. He claims it has shown signs of moving higher with a mid-February price reaching US$1,341 per ounce.

Regarding synergies and divestments, Mr. Terry states that since the merger with Randgold Resources Ltd. in early January, Barrick management has now had some time to focus on integrating all assets while reviewing opportunities to divest non-core assets - one of which could be Lagunas Norte in South America where it has incurred losses due to operational problems.

The company is also putting further energy into cost reductions, optimizing existing assets and to work with Newmont on the recently announced joint venture in Nevada, which should close by mid year. In early March, Barrick and Newmont agreed to form a joint venture to combine their assets in gold-rich Nevada. Barrick will own 61.5 per cent and be the sole operator, and will also control three seats of the board of directors (on a pro-rata basis), while Newmont will own 38.5 per cent and will have two seats.

Estimates for synergies have been announced by management at about US$4.7 billion at a net present value over the next 20 years, which in theory would imply an approximate US$2.9 billion and a US $1.65 per share uplift for Barrick. Newmont could benefit by US$2.90 per share, according to Mr. Terry.

The analyst also believes further upside could come from Barrick's copper business, which he suggests is likely under appreciated with copper now moving up close to US$3 per pound (from US$2.63 at the turn of the year).

Barrick Gold is one of the world's largest gold producers.

Continued on next page

Briefly Noted

CIBC WORLD MARKETS

Following fiscal 2019 second-quarter (period ended February 2019) revenue, operating profits and subscription numbers that beat their forecasts at **Cogeco Communications Inc.** (CCA-TSX, $91.57), analysts Robert Bek and Kulveer Grewal predict the cable company's recent recovery momentum will continue.

Underpinned by solid subscription momentum for its phone, Internet and cable television packages (particularly in Canada) – earnings before interest, taxes, depreciation and amortization (EBITDA) of $280.6 million for the quarter were 3.4 per cent ahead of the analysts' $271.2-million forecast, buoyed by much better-than-expected margins at its Canadian cable division (at 53.5 per cent compared to the analysts' forecast of 51.6 per cent).

Cogeco reiterated its fiscal 2019 (period ending August 2019) year-over-year growth guidance of six per cent to eight per cent for revenue and eight per cent to 10 per cent for EBITDA, while increasing its free cash flow guidance on the back of lower capital expenses. The analysts boost their target price to $98 per share from $94 and keep their "outperformer" recommendation.

MACKIE RESEARCH

Theratechnologies Inc. (TH-TSX, $8.74) could not remedy poor sales, leading to fiscal 2019 first-quarter (period ended February 2019) revenue and earnings that missed Mackie Research's mark. Analysts André Uddin and Yue Toby Ma have reduced their U.S. sales estimate for Trogarzo, an entry inhibitor HIV medication from the company, in turn prompting a lower target price for Theratechnologies, $9.25 compared to $9.65 previously.

In the quarter, Trogarzo's U.S. sales were US$6.1 million, significantly weaker than the analysts' estimate of US$13.3 million. A slower-than-expected drug launch "would be very difficult to be turned around," they add. In response, for the second time this year, they lower their U.S. sales estimates of Trogarzo between fiscal 2019 and fiscal 2023 and reduce their U.S. peak sales outlook from US$248 million to US$180 million.

Revenues in the first quarter totalled US$15.1 million, much lower than the analysts' estimate of US$21.7 million. A net income loss per share of -US$0.02 also missed their expectation of US$0.02 a share in earnings. The analysts keep their "hold" recommendation.

BMO CAPITAL MARKETS

Stornoway Diamond Corp. (SWY-TSX, $0.10) delivered relatively weak production sales, and revenue due to weather-related plant issues, and poor (albeit rising) diamond prices during the first quarter of 2019, analysts Edward Sterck and Kodees Waran say.

Stornoway reported first-quarter production of 445,000 carats, eight per cent less than the BMO forecast of 482,000 carats. The analysts say throughput was six per cent less than they predicted, while an average grade of 76 carats per hundred tonnes of ore was two per cent lower. However, with operations now running at or above capacity levels, Stornoway plans to catch up on production during the remainder of 2019, the analysts say. They keep their "underperform" recommendation but offer no target price.

The company reported quarterly gross revenue of $47 million, falling short of the analysts' forecast by 15 per cent. The realized diamond price of US$83 per carat in the first quarter missed their forecast by four per cent, although it was eight per cent higher than the fourth-quarter 2018 price - and within the company's 2019 guidance range of US$80 per carat to US$105 a carat.

ALTACORP CAPITAL

SNC-Lavalin Group Inc. (SNC-TSX, $34) will sell a 10.01 per cent interest in the Highway 407 Express Toll Route concession to the Ontario Municipal Employees Retirement System (OMERS), one of Canada's largest defined benefit pension plans with $97 billion in assets. It will receive gross proceeds of up to $3.25 billion, $3 billion to be paid on closing, and retain a 6.76 per cent interest in the highway.

Analysts Chris Murray and Marko Tesanovic say the cash will protect SNC's credit rating and give it a chance to create shareholder value by buying back shares. They estimate the transaction will net the company about $27 per SNC share on a 100 per cent basis assuming a tax rate of 13.3 per cent (the Quebec provincial capital gains rate).

This was above their last published estimate of $25.24 per share reinforcing the value contained in the Highway 407 asset, they note.

Messrs. Murray and Tesanovic reiterate that SNC will 'outperform' peers and raise their target share price for it to $50 from $48.

Continued from preceding page

Akumin

PI FINANCIAL

Strong growth trajectory makes year-over-year comparisons unnecessary

Digested from a March 29 report by analyst Robert Gibson

Akumin Inc. (AKU-TSX, US$3.28) reported revenue of US$45.45 million, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of US$9.2 million and net income attributable to shareholders of US$2.2 million, or US$0.05 per share, for the fourth quarter of 2018.

The analyst, who reiterates his "buy" recommendation and US$7.50 target share price, says that the company's substantial growth renders year-over-year comparisons unimportant. That said, the revenue, EBITDA and net income totals were south of the consensus estimates of US$47 million for sales, US$11.3 million for adjusted EBITDA and US$0.07 for adjusted EPS.

"As a measure of growth, management is reporting the volume of procedures performed in its diagnostic imaging centers based on relative value units (RVUs)," says Mr. Gibson. "Akumin volume was 1,020,000 RVUs in the quarter versus 850,000 RVUs in the third quarter of 2018, a 20 per cent increase. They noted that some of this growth was because the operations were broken when acquired, so were coming off a low base.

"However, excluding acquisitions made in 2018, revenue fell 3.4 per cent, due to the lower contribution from the Texas operations after Akumin acquired the non-controlling interest. We are lowering our projected revenue per center in Texas and in Florida."

"EBITDA margin fell to 20.2 per cent from 21.2 per cent. With a full quarter of the Rose acquisition, employee compensation jumped 30.8 per cent or 42.4 per cent of sales, versus 37.7 per cent last quarter. Management noted that Rose employees their own radiologists. Management is working to integrate the operations of the Rose and Broward County acquisitions."

PI Financial updates its estimates for 2019 with revenue expected to come in at US$200.9 million – compared to US$224.9 million previously – adjusted EBITDA to come in at US$49.7 million – compared to US$56.7 million – 2020 revenue expected to come in at US$243.4 million and 2020 adjusted EBITDA expected to come in at US$62.4 million.

Akumin is a leading provider of freestanding, fixed-site outpatient diagnostic imaging services in the U.S.

Lightspeed POS

CIBC WORLD MARKETS

Let there be light

Digested from an April 2 report by analysts Todd Coupland and Amy Dyck

Founded in 2005, **Lightspeed POS Inc.** (LSPD-TSX, $21.38) has a competitive, cloud-based, point-of-sale (POS) software system for small to medium-sized (SMB) retailers or restauranteurs. On average, SMBs on Lightspeed's POS add 20 per cent, or approximately $100,000 in annual sales. Recently, the company added fully integrated payments to its offering. Together, according to Mr. Coupland and Ms. Dyck, POS and Payments strengthen Lightspeed's platform and position it for strong financial results over our forecast period. The analysts initiate coverage of the company with an "outperformer" recommendation and $26 target share price.

As per the analysts given that presently the SMB market for POS innovation is large with a low cloud adoption rate. The total available market for Lightspeed's POS system is 47 million SMBs. Lightspeed has only 47,000 customer locations today. The analysts further highlight that, "Less than 20 per cent of the 47 million SMBs in the retail and restaurant industries have migrated to a cloud-based POS software system. The benefits and financial returns reaped by access to the easy-to-use technology at a compelling price are encouraging market adoption.

"Competitive market reviews and our own due diligence support the general view within the industry that Lightspeed's cloud-based POS software system is a reliable choice for retailers and restaurateurs with complex needs and a desire to leverage its omni-channel capabilities (for in-store and e-commerce). Lightspeed is consistently ranked among the top three platforms. Its strong market share positions in retail verticals such as biking, pets, apparel and jewelry support our conclusion.

"We expect approximately 50 per cent annual revenue growth over the next two years. Lightspeed's strong cloud offering supports the achievement of our forecast, and a valuation of 10-times forward revenue.

"The valuation is attractive, with upside on payments adoption. Lightspeed trades at eight times our conservative fiscal 2021 revenue. Peers trade at 10-times. Our forecast assumes only seven per cent of customer locations adopt payments. We expect full potential of 50 per cent to be reached in a few years.

"Holding all other assumptions constant, at 20 per cent adoption the share price could be $33 and at 50 per cent adoption up to $55 using a straight nine times enterprise value to sales multiple.

"Lightspeed's founder-led management team and board has a high pedigree and a strong track record, with a competitive product offering and compelling opportunities that can be leveraged with the company's business plan. Lightspeed is led by its founder and CEO, Dax Dasilva, who owns 17.9 per cent of the shares and 46.6 per cent of the votes on a fully diluted basis and including the full over-allotment.

"Our baseline forecasts for fiscal 2020 and 2021 assume an average of two per cent and 7.4 per cent of total customer locations, respectively, are using Payments. This assumes an average of 1,225 merchant locations in fiscal 2020 and 5,500 merchant locations in fiscal 2021. For context, Lightspeed's customer location count grew by approximately 7,300 and 6,400 in fiscal 2017 and 2018, respectively.

"We forecast growth of approximately 8,100, 11,350, and 13,900 in fiscal 2019, 2020 and 2021, respectively. We forecast revenue of $103 million in fiscal 2020 and $155 million in fiscal 2021. We expect Payments revenues to be US$5.8 million in fiscal 2020 and $32.5 million in fiscal 2021. We estimate EPS of -US$0.13 in fiscal 2020 and -$0.09 in fiscal 2021."

Lightspeed provides an easy-to-use, omni-channel commerce-enabling SaaS platform. Its software provides customers with the functionality to engage with customers, manage operations, accept payments and grow their businesses. Lightspeed's platform is currently used at 47,000 customer locations and processes over $13 billion in gross transaction value.

PFB

ACUMEN CAPITAL

Strong results from top to bottom

Digested from a March 11 report by analysts Nick Corcoran and Brian Pow

PFB Corp. (PFB-TSX/VEN, $10.65) released strong fourth-quarter 2018 results which were well above Messrs. Pow and Corcoran's estimates, as well as the consensus. They cite rising demand south of the Canadian border for the beat.

This is also the third consecutive quarter that PFB has beaten the analysts' estimates. They maintain their "speculative buy" rating with an increased $13 per-share target price (from $11.25).

Believing the good quarterly results "have set the stage for a strong 2019", the analysts list organic growth and price increases having been the main driving force for top-line revenue growth in the past and moving forward. Meanwhile strategic initiatives and styrene prices have driven margin improvement, helping to maximize its bottom line too, the analysts proclaim.

Importantly to them, management is on track to reach its target of $200 million in revenues. For the fourth quarter, revenue of $35.3 million (up 25.8 per cent year-over-year) beat the Acumen's estimate of $29.1 million and consensus of $29.4 million.

The various in estimates was due to geography, Messrs. Pow and Corcoran state, pointing to the U.S. segment increasing 42 per cent (excluding foreign exchange) year-over-year, while the Canadian segment rose 12 per cent. The American segment came in well above their estimates of $10.3 million at $16 million.

As a percent of revenue general and administrative costs related to sales were 14.4 per cent this year, down from 16.2 per cent last year. This, according to the analysts, "reflects the operational leverage in the business with increased scale". As a result of better top-and-bottom line performance, earnings per share of $0.31 beat their estimate of $0.15 and consensus of $0.20.

Furthermore, Styrene costs in the fourth quarter softened due to higher global inventories, lower global demand related to the ongoing U.S./China trade dispute; and no unplanned production disruptions. Styrene prices in the first quarter are below levels of first-quarter 2018 and appear relatively stable to Acumen's analysts, and expecting it to have a positive effect on gross margin for its near-term results.

PFB is a vertically-integrated manufacturer of high-quality insulation products across North America.

Fortress Global Enterprises

RAYMOND JAMES FINANCIAL

Near-term headwinds dissolve target price

Digested from a March 28 report by analyst Daryl Swetlishoff

Fortress Global Enterprises Inc. (FGE-TSX, $1.20) misses Mr. Swetlishoff's expectations for the fourth quarter of 2018, saying that it is facing headwinds in the dissolving pulp market (DP). As such he reduces his DP forecast resulting in a $1 decrease to his target price to $2 per share. Note, DP is bleached wood pulp or cotton linters, which can be spun into textile or plastic-like fibers or films.

His "outperform" recommendation for Fortress Global Enterprises, however, is a function of strong leverage to DP prices with additional upside from the acquired Xylitol venture (under the subsidiary of Fortress Xylitol Inc.). Xylitol is an organic sweetener. FGE entered into a Technology License and Collaboration Agreement with Mondel_z International Inc. of Illinois, one of the world's largest snacking companies.

The analyst notes that DP markets have come under pressure recently leading to his tempered near-term outlook. DP prices pulled back throughout the fourth quarter averaging roughly US$915 per metric tonne (down by about two per cent quarter-over-quarter) while the slightly lower Canadian dollar value resulted in relatively flat prices.

Pressure on dissolving pulp has been apparent, however, with flex mills in China producing more DP and increased imports from Indonesia to China. This has resulted in downward pressure on hardwood DP, with selling in the US$870-to-US$880 per metric tonne range of late.

For the fourth quarter, Fortress reported operating profits of $4.2 million (from continuing operations), lower than the analyst's estimate of $5.5 million. Relative to the third quarter mark of $7.5 million, results were down 44 per cent quarter-over-quarter due to lower sales and higher costs.

Fortress Global Enterprises is a growth oriented pulp manufacturer focusing on the production of specialty cellulose for sale in world markets.

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MediPharm Labs

MACKIE RESEARCH

Solid results for cannabis oil extractor

Digested from a April 4 report by analysts Greg McLeish and Nicola McFadden

The analysts keep their thesis for **MediPharm Labs Corp.** (LABS-TSX/VEN, $3.62) intact, saying the cannabis oil extraction company delivered solid fourth-quarter 2018 results. They keep their "buy" recommendation and $6 per-share target price.

On April 3, MediPharm Labs reported its fourth-quarter results for the period ended Nov. 30, 2018. The results for quarter and the year are outlined with quarterly revenue of $10.2 million - which was in line with the analysts' estimate.

Operating profit for the quarter was $2.1 million (21 per cent margin) and this was significantly higher than their $1.4 million (14 per cent margin) forecast. This beat was primarily attributable to lower-than-forecast general and administrative expenses, as well as sales and marketing expenses.

Net loss for the quarter was -$3.5 million (or -$0.04 per fully-diluted share). It is normal for marijuana companies today to show a loss, they add. However, this figure included a $4.2 million expense related to the company's qualifying transaction that occurred in October 2018. After removing expense from the company's earnings the analysts estimate that the company would have reported net income of approximately $500,000, which breaks even at $0 per share.

The company also reported a net cash position of $7.9 million. Subsequent to the quarter a number of options and share purchase warrants were exercised which increased the cash position of the company by approximately $3.2 million. Furthermore, like many marijuana companies, MediPharm is significantly increasing its production levels and offering more exposure for its retail branding.

MediPharm produces pharmaceutical-grade cannabis concentrates using proprietary supercritical carbon dioxide and ethanol extraction processes. The company's five primary extraction lines operate in 10,000 square feet of its facility and produce 10-to-15 kilograms of resin per day, with an average active cannabinoid content of 75 per cent.

Construction of the facility's Phase 2 is underway and fully-funded. Management expects it to be operational in the second half of 2019. The addition of 100,000 kilograms annual capacity with this phase will bring the company's total production capacity to 250,000 kilograms per year, positioning MediPharm as one of the largest extraction service providers in the industry.

MediPharm also recently launched its White Label Solutions platform. On April 1st, the company launched a new program as a strategy to capture the expected demand for derivative products this year. MediPharm's White Label program will provide formulation, processing, packaging, and distribution to its partners, fulfilling growing consumer demand for branded products, the analysts state.

The White Label platform will be of greater use when the federal government legalizes cannabis edibles and concentrates in Canada (set for October 2019). According to market data, cannabis flower sales in Colorado and Oregan dominated market share upon legalization, but saw a rapid decline and a subsequent increase in concentrated oils market share through 2018. If this trend for cannabis oils happens in Canada as well post legalization of cannabis edibles, the analysts suggest MediPharm is very capable of profiting from it.

A first mover in extraction services, MediPharm Labs received its oil production license in March 2018 and was the first exclusively licensed for cannabis oil extraction in Canada.

BRP

DESJARDINS CAPITAL MARKETS

Sentiment and fundamentals disconnected: analyst

Digested from a March 25 report by analyst Benoit Poirier

The analyst headlines his fourth-quarter fiscal 2019 (period ended Jan. 31) recap of **BRP Inc.** (DOO-TSX, $35.61) by stating there is a disconnect between market sentiment and fundamentals. He suggests its lower share price (was over $70 in Sept. 2018) is undeserved, and provides a buying opportunity for investors.

While he remains bullish on the recreational-vehicle maker, with a "buy" recommendation - especially after it posted strong fourth-fiscal quarter (period ending Jan. 2019) results - he reduces his earnings per share forecast for the coming years. The downward estimates forced him to reduce his target price to $65 per share from $74.

"We remain bullish on the name in light of its unmatched retail sales momentum, potential growth opportunity associated with the Can-Am Ryker (three-wheeled side-by-side vehicles), proven track record of market share gains through innovation, and attractive valuation. We also expect that management will be active with (share buybacks) to create value for long-term shareholders," Mr. Poirier states.

Revenue of $1.506 billion (up 23 per cent year-over-year) during the fourth quarter beat the analyst's forecast of $1.359 billion and consensus of $1.417 billion. Normalized fully-diluted earnings per share (EPS) of $0.88 also beat his estimate of $0.77 and the consensus mark of $0.83. All segments contributed to the year-over-year revenue increase, with strong growth in seasonal products (up 32 per cent year-over-year) and year-round products (up 17 per cent year-over-year).

For fiscal 2020, BRP guided to seven-to-11 per cent year-over-year revenue growth and normalized EPS of $3.50 to $3.70. Mr. Poirier expects adjusted fully-diluted EPS of $3.59 in fiscal 2020 (down from $3.61) and $3.81 in fiscal 2021 (versus $4.08 initially). For fiscal 2020, he expects revenue and normalized operating profits to increase seven per cent and 19 per cent, respectively.

BRP designs, develops, manufactures, distributes, and markets snowmobiles, all-terrain vehicles, and personal watercraft vessels.

Encana

ALTACORP CAPITAL

Coverage transferred after deal completion

Digested from an April 8 report by analyst Thomas Matthews

AltaCorp transferred coverage of **Encana Corp.** (ECA-TSX, $7.16; ECA-NYSE, US$7.27) to Mr. Matthews after the Calgary-based company, firstly, completed the Newfield Exploration deal and, secondly, issued a formal capital deployment guidance.

"With the acquisition of Newfield, Encana is now firmly in the cross-border resource play coverage group (rather than Canadian Oil Sands and Integrated names)," says the analyst.

"Although it is the largest of the cross-border names under coverage, it will still be important to monitor changes to productivity, completion styles, cost trends, area specific infrastructure challenges and most importantly cube development results in order to answer the ultimate question: does Encana create value for shareholders?"

According to the analyst, AltaCorp doesn't really believe in expansion for the sake of expansion, and has backed this up by showing that past production expansion does not always translate to value creation. While this is particularly evident in Canada, it is more and more becoming the case in the lower 48 south of the border.

For investors looking to invest in Encana, Mr. Matthews focuses on what they are actually paying for.

"Most energy companies trade at a value higher than the blow down cash flow of the current assets, implying that the market is giving credit for future inventory, land value or drilling upside," says the analyst.

"Based on our PDP methodology, we attempt to quantify which assets are fully baked into the stock and which assets can be had for 'free'. Based on our assumptions for Newfield's base PDP and a five-year development program at the current pace in the Permian, Eagle Ford, Williston Basin and Duvernay, we calculate that the Anadarko, Montney and Uinta can be had for 'free' with an investment in Encana at today's share price."

The company is projected to achieve an average of about five per cent free cash flow (FCF) as well as a dividend yield over the coming 24 months while also expanding production per share by approximately 15 per cent.

"Encana's FCF yield is below that of the integrated Canadian names, however Encana is forecast to deliver significantly larger growth rates (PPS and PDP) than the largest Canadian names while trading at 4.8 times," says the analyst. "In addition, Encana's FCF yield and growth rate is in line with some of the consensus 'top pick' US/Permian names but is trading at a significant consensus EV/EBITDA discount of 4.9 times."

Mr. Matthews reiterates his "outperform" recommendation but boosts his target share price by a loonie to $11.

Encana is a Calgary-based natural gas company engaged in hydrocarbon exploration.

Centric Health

BEACON SECURITIES

The turnaround we have been waiting for is upon us

Digested from a March 29 report by analyst Doug Cooper

Centric Health Corp. (CHH-TSX, $0.30) is looking to discontinue its surgical segment, which analyst Doug Cooper sees as the next key catalyst for the stock. Mr. Cooper believes Centric will obtain a material price for the surgical assets of $50 million to $60 million, which will enable it to materially de-lever.

Mr. Cooper gives the stock a "buy" rating and $0.75 target share price, down from $0.90.

Mr. Cooper provides further details on the financial results, "While the fourth-quarter fiscal 2018 results were down on a year-over-year basis (as expected given the regulatory changes earlier in 2018), the results were much improved versus the third quarter of fiscal 2018. In particular, fourth quarter revenue was $30.9 million versus $29.7 million in the third quarter (four per cent growth) driven by a 2.2 per cent sequential growth in the bed count (29,761 as of Dec 31).

"Segment EBITDA (earnings before interest, taxes, depreciation and amortization) margin (before corporate overhead) also improved by 210 basis points to 6.9 per cent. The company indicated that first quarter of fiscal 2019's margin was nine per cent (on anticipated higher revenue as first quarter ended bed count was approximately 31,000) and that it expects margins thereafter to be 'double-digit'.

"Historically, this segment enjoyed annualized EBITDA margins

Continued on next page

Of Special Interest

Largo Resources

CIBC WORLD MARKETS

Compelling risk-to-reward scenario

Digested from a April 1 report by analysts Bryce Adams and Eve Hurowitz

The analysts' initiate coverage of **Largo Resources Ltd.** (LGO-TSX, $2.10) by declaring it one of the few pure plays on the vanadium markets, offering a "compelling risk-reward scenario". They give Largo an "outperformer" rating and a 12- to 18-month price target of $4 per share. Their upside-case outlook assumes that the new stricter standards in China are implemented quickly and firmly, leading to higher demand for vanadium in rebar and a more significant supply deficit. China accounts for 45 per cent of total consumption.

Largo is a high-purity vanadium producer. The high-purity market comprises roughly 10 per cent of the total vanadium market, and Largo can supply about 60 per cent of this specialized demand. High-purity vanadium yields a price premium over and above standard vanadium, and Mr. Adams and Ms. Hurowitz explain that it can benefit from China opting for purer vanadium. They see demand for vanadium exceeding supply until 2023.

With Largo being low-cost in an elevated pricing market, the analysts model a 2019 free cash flow yield of 20 per cent (and even greater for the next five years). With that cash, they expect Largo to focus on shareholder returns, buybacks or special dividends.

"We estimate Largo will be debt free and still be able to pay out a $0.30 dividend by 2019 year-end. This represents a dividend yield of over 10 per cent, greater than the industry average of 2.5 per cent," they say.

As of Dec. 31, 2018, Largo held $206 million in cash and cash equivalents, total working capital of $135 million, and debt of $117 million. The company has since reduced its debt significantly by repurchasing and retiring amounts during this first quarter - with the plan to retire the remainder of the outstanding debt by the second quarter.

"We forecast a steadily increasing cash balance going forward, with the company generating cash flows from operations (before working capital) of about $230 million in 2019 and about $430 million in 2020 and no further debt repayments following the second quarter, when the senior notes are fully retired," they remark.

Another highlight for the analysts is Largo's 100 per cent offtake agreement with Glencore PLC (the Swiss-British commodity trading company). As per the agreement, Largo does not control the end-market distribution of its products - for now. The offtake expires in May 2020. Thereafter its expiration, the analysts say they conservatively expect Largo to receive a US$1.50 per pound premium price for its high-purity product compared to management's expectation of US$3-to-US$4 per pound - when they expect prices to rise in their aforementioned upside-case scenario until 2023 when vanadium supply meets demand.

Their downside-case outlook assumes new stricter standards are not implemented in China, a global economic slowdown, and increased niobium substitution (with deposits being dug in Nebraska by NioCorp Developments Ltd.), resulting in excess supply by 2021.

Largo Resources is a mineral company focused on the production of high-purity vanadium products at the Maracás Menchen mine in Brazil.

Continued from preceding page

of 12 per cent to 14 per cent. A return to such double digit margins would be a return to levels last seen in the third quarter of fiscal 2017. We are now modeling segment margin of 11 per cent in fiscal 2019 and 14 per cent in fiscal 2020.

"Concentrating our forecast therefore on the specialty pharmacy segment, we are now modeling period ended beds of 32,500 (31,250 average for year) and 36,000 (34,350 average) for fiscal 2019 and fiscal 2020 respectively. Using the fourth quarter fiscal 2018 annualized revenue per bed ($4,150), we arrive at revenue of $130 million and $142.6 million respectively. At an 11 per cent and 14 per cent segment margin and four per cent corporate overhead, we arrive at EBITDA of $9.1 million in fiscal 2019 and $14.3 million in fiscal 2020. This would mark a dramatic improvement from the third quarter of fiscal 2018 annualized nadir level of $5.6 million thanks to the operational improvements the company has made over the past six months."

Centic Health primarily focuses on two core health-care businesses: Specialty Pharmacy services a growing network of fulfilment centres that deliver high-volume solutions to seniors' residences and the Surgical and Medical division is Canada's largest independent surgical provider operating six facilities across four provinces.

Cresco Labs

PI FINANCIAL

Building a cannabis empire in the U.S.

Digested from an April 4 report by analysts Jason Zandberg, Devin Schilling and Fayassir Haqna

Being a multi-state operator (MSO) with cannabis operations in eleven U.S. states, the analysts claim **Cresco Labs Inc.** (CL-CSE, $16.70) is building an empire. They initiate coverage with a "buy" recommendation and $23 per-share target price.

Cresco operates, or will soon operate, in states with a combined population of 151 million or 68 per cent of the total population of 220 million people in medical/recreational states. Cresco also has licences in seven limited licensed states. According to the analysts, this allows Cresco to establish a market presence early in these state's cannabis evolution before full recreational use is implemented (Illinois and New York are two prime examples). Cresco manufactures and packages a wide spectrum of over 500 cannabis products. Furthermore, Origin House, a recent acquisition, has over 50 brand relationships.

The Origin House includes the largest California distributor network. In total, Cresco has distribution in over 725 dispensaries in the U.S. including 500 in California alone (or about 60 per cent of the market share) - "where a professional distribution company is essential for long-term success," the analysts state.

They add, "Origin House has consolidated two successful distributors (RVR and Alta Supply) and quickly became the industry leader. This distribution arm has been built by Ted Simpkins, who had been successful as an alcohol distributor building Southern Wine and Spirits into California largest wine and spirit distributor.

"We expect dispensary counts to grow considerably in the next few years and we believe that the company's exposure will maintain or increase from its current 60 per cent market penetration level."

Revenue growth is driven by both dispensary sales as well as its wholesale revenue for branded product sold in third-party dispensaries. The analysts believe this approach will drive superior growth relative to some other MSOs.

Cresco's reported operating profit margins of 44 per cent in its recent quarterly financial disclosure (third quarter of 2018). This margin is the second highest of any of the U.S. multi-state operators reported to date. The analysts forecast sales of US$42.9 million, US$335.4 million and US$774.9 million for fiscal 2018, 2019 and 2020, respectively. Net earnings forecasts for the same period are US$10.2 million, US$77.3 million and US$227.2 million.

Cresco Labs (formerly Randsburg International Gold Corp.) is engaged in the cultivation and distribution of cannabis.

Wajax

RAYMOND JAMES FINANCIAL

Quarterly results are a grinding setback

Digested from a March 25 report by analyst Ben Cherniavsky

The analyst says he saw so many problems with **Wajax Corp.'s** (WJX-TSX, $16.26) fourth-quarter 2018 results that he claims he doesn't know where to start. He lowers his target price to $17 per share from $26.50, but keeps his "market perform" recommendation.

"The stock's (recent one-day) 17 per cent decline says it all. This quarter marked a major setback to the 'One Wajax' strategy," Mr. Cherniavsky says.

For the fourth quarter, results missed Mr. Cherniavsky's forecast by nearly every measure. Wajax reported adjusted earnings per share (EPS) of $0.41, well below consensus of $0.62, and the analyst's forecast of $0.69. It also came in below last year's fourth-quarter EPS of $0.45.

Revenues of $390 million were 11 per cent below his forecast; gross profit margin ratio of 17.2 per cent was 100 basis points as well. General, sales and administrative costs as a percent of revenue was 14.1 per cent, compared to their estimate of 13.3 per cent, with interest expenses was $700,000 above his expectation.

On top of the major earnings miss, Wajax noted non-cash accounting errors that resulted in overstated earnings for prior years! Management revised its 2017 and nine-month 2018 unadjusted EPS down to $1.50 from $1.35, and from $1.60 to $1.47, respectively. Furthermore, net debt closed the year at $236 million, up 20 per cent quarter-over-quarter. The increase was primarily driven by the $52-million acquisition of the Quebec-based electromechanic company, Groupe Delom Inc. last fall.

"We expressed concerns about the company's (One Wajax) efforts to gain market share through aggressive pricing, a tactic that effected gross margin erosion last quarter. We also warned about the complexities of managing conflicting brands in the same product categories, which has since manifested itself into some related supply problems in forestry (i.e. falling lumber prices leading to declining production)," Mr. Cherniavsky says.

"Add slowing growth in end markets, increased leverage and an over-statement of past earnings to the equation and we see no reason to alter our cautionary thesis or change our recommendation on this stock," he concludes.

Wajax is a distributor engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and power systems.

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Also late last year Canada Post said it was ending home delivery service and replacing it with distant community mailboxes. And there's more. One university study has urged Canada Post to drop to 3-day-a-week delivery as use of mail continues to decline. Mail delivery is ailing.

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DOW

DOW-NYSE, $53.50
Credit Suisse
Christopher Parkinson

The analyst initiates coverage of Dow Inc. with an "outperform" stance and $62 target share price. Mr. Parkinson's favourable thesis is based on his belief that cash flow generation will improve to about 90 per cent of EBITDA (earnings before interest, taxes, depreciation and amortization), up from a 77 per cent average between 2015 and 2017, representing $1 billion in additional free cash flow.

The analyst goes into further details noting positives such as "Dow's diversified portfolio across its three segments, Performance Materials & Coatings, Industrial Intermediates & Infrastructure and Packaging & Specialty Plastics should mitigate downside risk versus peers, while offering ample opportunity to outperform over the cycle, all while improving cash conversion. This supports a valuation level at the high end of the comp group, equating to approximately seven times our 2020 EBITDA estimate and a 4.5 per cent dividend yield.

"Our expectation that plastics margins will steadily improve on stable global demand and 'balanced' new supply. There should also be steady improvement in the II&I segment during second half of 2019 (off of a low second half of 2018 base). We anticipate in the first half of 2019 'headline' risk due to trade noise and Euro macro stagnation, but believe DOW's $2.81 per share dividend and $3 billion buy-back should limit downside risk until second half conditions improve. In the long-term, we anticipate improving execution (versus historical precedent), refined disclosure, and disciplined capital deployment are cause for enthusiasm."

NIKE

NKE-NYSE, $88.01
Goldman Sachs
Alexandra Walvis

Nike Inc. played reasonably well, reporting fiscal third-quarter 2019 earnings per share of $0.68, above the analyst's estimate of $0.66. The analyst does point out that this quarter's beat was largely driven by taxes, other income (foreign exchange gains and losses), and a timing shift on supply chain investments within gross margins.

The analyst highlights that sales in the critical North America segment fell short of expectations. This, combined with weaker results at subsidiary Converse, was only partially offset by stronger revenue delivery across Europe, the Middle East, Africa, China, Asia Pacific and Latin America. "Looking forward, Nike's fourth-quarter guide is weaker than expectations. On balance, we remain optimistic on Nike's revenue growth opportunities and believe the company is showing healthy growth as a result of several innovation initiatives across key product families. That said, our conversations with investors suggest this top-line story is well-understood.

"Selling, general and administrative as a percent of sales was heavy relative to expectations at 32.2 per cent versus analyst and consensus estimate of 31.6 and 31.7 per cent, with Nike highlighting elevated spend in technology and direct-to-consumer to fuel growth. Other income related to foreign exchange losses also was a critical tailwind in the quarter, driving the majority of the EBIT (earnings before interest and taxes) beat." The analyst gives the stock a "neutral" recommendation and $84 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.

TESLA

TSLA-NASDAQ, $291.81
Goldman Sachs
David Tamberrino

Tesla Inc.'s vehicles, the Model S/X and Model 3 first-quarter 2019 deliveries came in well below the analyst's estimates and consensus expectations, and both declined from fourth-quarter 2018 levels. Mr. Tamberrino believes that demand will likely be hindered by the phasing-out of the U.S. federal electric vehicle tax credit. More negative news includes production levels that disappointed in the quarter. The Model 3 weekly production achieved an average of approximately 4,800, only slightly higher than the 4,700 in fourth quarter of 2018 and below the analyst's estimate of 5,500 per week for the first quarter of 2019.

The analyst gives the stock a "sell" recommendation and a $210 target share price.

He notes, "Despite the delivery results falling sequentially, the company said that they continue to see Model 3 orders in the U.S. outpacing what they can deliver (although we think this was likely helped by price reductions and the introduction of the $35,000 Model 3) and reaffirmed their 2019 delivery guidance of 360,000 to 400,000. The company also noted that first quarter 2019 net income would be negatively impacted by these lower delivery results. However, we think the disappointing results likely put pressure on consensus estimates for the full year especially for Model S/X deliveries.

"Altogether, the delivery results will put pressure on Tesla's shares, and corroborates our belief volume expectations for its products in 2019 are too high with consumer demand likely lower as subsidies phase out," says Mr. Tamberrino.

"Further, this likely puts downward pressure on our EBITDA (earnings before interest, taxes, depreciation and amortization) and free cash flow estimates, as well as consensus, given the lower volume levels and worse utilization than anticipated."

WINGSTOP

WING-NASDAQ, $71.76
BMO Capital Markets
Andrew Strelzik

Analyst Mr. Strelzik compares Wingstop Inc. to a unicorn, saying the nostalgic, aviation-themed restaurant has unique characteristics as a stock investment. Though expensive at over $70 per share, he still feels it is undervalued. He initiates coverage of Wingstop with an "outperform" rating and $85 per share target, offering 15-to-20 per cent potential upside.

So what makes WING so unique to Mr. Strelzik? Well he says it offers the "desirable combination of long-tailed unit growth and superior operating/growth metrics, but in an asset-light model that enables cash returns to shareholders at levels usually reserved for slower growth mature peers".

According to him, these characteristics make Wingstop "among the most attractive long-term growth investment opportunities" in the restaurant sector. He expects WING to modestly exceed consensus 2019 and 2020 earnings estimates, with strong comparables momentum starting in late 2019.

"We expect WING to realize at least mid-teen system sales growth and 15 per cent or greater in operating-profits growth for the foreseeable future, with strong cash returns to shareholders on top.

"Our discounted cash flow model implies upside to our price target as we derive current value of $100 and estimate WING could achieve our price target by reaching only 5,000 units. Proprietary real estate analysis provides confidence in the U.S. target of 3,000 units/locations (about 1,125 currently)"

He adds that profit margins will improve dramatically starting in the fourth quarter of this year due to the expected expansion of the U.S. chicken industry. Thereafter, he suggests restaurant margins should improve thanks to better labour and operating costs.

MOSAIC

MOS-NYSE, $27.14
CIBC World Markets
Jacob Bout and Rahul Malhotra

Messrs. Bout and Malhotra attended the Mosaic Co.'s 2019 Analyst Day in Florida on March 28, where management spoke to its 2021 operational targets. It also provided an outlook for phosphate and potash markets, which the analysts describe as "balanced" supply-and-demand-wise.

All in all, they are assuming flat pricing and about eight per cent compounded annual growth rate (CAGR) over Mosaic's 2019 midpoint guidance. The company made no changes to its 2019 guidance, but expects weakness in the early part of 2019 due to the late start in spring activities.

Even the wildcard of Chinese phosphate export levels in 2019 does not change their model for Mosaic, so the analysts maintain their "neutral" recommendation and $34 share price target.

Overall, Mosaic expects reasonable earnings before interest, taxes, depreciation and amortization (EBITDA) growth, in the form of a $600 million EBITDA increase in 2021 versus the midpoint of 2019. The EBITDA guidance lists $2.3 billion for 2021.

But about $200 million of this $600-million EBITDA increase is price driven. Assuming flat pricing, this implies an overall $400-million EBITDA - or about eight-to-nine per cent CAGR over a two-year period. About half of the EBITDA growth will come from MOS' internal operational and strategic improvements while about a $100-million increase is driven by higher volumes, according to management's expectations.

Lastly, Mosaic forecasts 2019 potash markets to be in a slight deficit by about 300,000 tonnes, with demand growing by about one per cent, or 800,000 tonnes.

3M

MMM-NYSE, $215.41
Credit Suisse
John Walsh

In March, 3M Co.'s CEO Michael Roman confirmed first-quarter 2019 organic growth was flat-to-slightly negative through February due to continued weakness in automotive and electronics in the Asia-Pacific region. The company has dropped its calendar 2019 growth estimates for its automotive sector, normally highly profitable. Analyst John Walsh predicts "mixed pressure" for the company overall in the very near term with a recovery soon after. The analyst keeps his "outperform" recommendation and target price of $220 per share.

"We see risk to the high end of fiscal 2019 earnings per share (EPS) guidance based on lower organic sales growth (current guidance is one-to-four per cent). In aggregate, we see 70-to-90 basis points of earning downside risk at the mid-point of 2019," says Mr. Walsh.

The analyst modestly reduces his first-quarter EPS forecast to $2.50, which results in a 2019 EPS forecast drop of a dime to $10.65. He decreases his 2020 and 2021 forecast to $11.50 and $12.55 per share, respectively.

The $220 target price equates to a 10 per cent peer premium, largely based on 3M's ability to "accelerate organic sales growth driven by product differentiation, easier second-half 2019 comparables, and cyclical-versus-secular pressures in the automotive and electronics segments," says the analyst. The company's 2019 free cash flow yield will be 4.9 per cent, according to his estimates.

The company has also announced it will realign from five segments to four segments (in the second quarter).

A market darling once again

WALT DISNEY

DIS-NYSE, $112.52
Goldman Sachs
Drew Borst

A new era has been dawning at Walt Disney Co. since the company closed its $70-billion acquisition of 21st Century Fox in March and the approaching debut of its streaming service in late 2019. The company continues to pack a punch in the analyst's eyes as he reinstates the stock's "buy" recommendation and sets a $142 target share price, a potential upside of 28 per cent.

The analyst notes, "We see the Fox acquisition resulting in economies of scale, increased bargaining power with distributors, content diversification (i.e., Fox's edgy adult programming), and increased international reach. We estimate $2 billion in cost synergies by the two-year anniversary, or 11 per cent of fiscal 2019 pro-forma operating income."

With regards to the streaming platform the analyst sees this as the mark of a momentous shift in the company's norm of content monetization from third-party licensing to direct-to-consumer streaming. They go on to note, "Despite our expectation for near-term investment headwinds, we view Disney+ streaming as a positive long-term strategy given the rising importance of developing direct-to-consumer relationships, with higher long-run margins (from absorbing third-party distributor profits) and better customer data about consumption.

"Although there are inherent risks in entering the competitive U.S. subscription video on demand (SVOD) market, DIS should be able to leverage its brand strength and robust portfolio of content to create a mass market streaming bundle with Disney+ (for families as well as science-fiction and super hero superfans), Hulu (with edgier programming for adults) and ESPN+ (sports), all for a competitive retail price.

"With so much attention on Fox and direct-to-consumer, we think the market may be underappreciating growth in Disney's core Parks and Film businesses. The domestic parks (still 25 per cent of pro-forma operating income) are poised for accelerating growth in fiscal 2019 and 2020 driven by a 10 per cent ticket price increase - which is nearly two times the trailing run-rate. Major new theme park attractions are a boost, both the recently launched (Pandora: World of Avatar in 2017, Toy Story Land in 2018) and soon-to-launch Star Wars Land in 2019. History shows that major new attractions drive a meaningful and sustained improvement in park attendance. The park price increase is obfuscated by the implementation of seasonal pricing for Walt Disney World multi-day tickets and appears underappreciated by the consensus. Our fiscal 2019 and 2020 domestic parks operating income is seven per cent above consensus estimates.

"The calendar 2019 film slate is especially robust, with franchise films with ample consumer products opportunities."

WHAT THE MARKET LETTERS SAY

Infrastructure attracts market buzz

Over the past two weeks, a recurring theme has repeatedly come up among the letters and analysts we follow: infrastructure spending. The world needs to revamp its infrastructure, according to various studies. In the next couple of decades, the cost of bringing the world's infrastructure up to code will easily add up to trillions of dollars. One can invest in those companies that lay down the foundations of infrastructure, or the brokerage houses that finance these initiatives. Below, there is also analysis for the burgeoning U.S. cannabis market, as well as a few medical innovations hitting the market. - **E.A.**

The KonLin Letter, 5 Water Road, Rocky Point, NY 11778 U.S.A., (631)-744-8536, US$95 a year. www.konlin.com

Using its focus on the pharmaceutical industry, The KonLin Letter points to **Novan Inc.** (NOVN-NASDAQ, US$0.90) as its Featured Stock of the Month. NOVN is a clinical-stage biotechnology company aiming to leverage nitric oxide's natural antiviral and immunomodulatory mechanisms of action to treat dermatological and oncovirus-mediated diseases (i.e. a virus that can cause cancer). Nitric oxide has become one of the most studied molecules in human physiology. In fact, the 1998 Nobel Prize-winning discovery triggered an eruption of research that now confirms its natural ability to prevent clotting, regulate inflammation, revitalize tissue, kill invading microorganisms, and even eradicate cancer cells - making it an ideal form of dermatological therapy. For example, molluscum contagiosum is a common, highly contagious skin infection affecting roughly 6 million Americans annually, with the greatest incidence in children between the ages of 1-to-14 years old. There are no approved therapies for molluscum yet, with patients requiring painful physical procedures or over-the-counter products and prescriptions. NOVN recently announced that results from its Phase 2 clinical trial to evaluate SB206 - a test treatment for molluscum demonstrated a clear treatment effect on the complete clearance of all molluscum skin lesions after 12 weeks, with signs of efficacy evident within a fortnight. This is encouraging to the advisory. Looking at the financial numbers, it reports that for the first nine months of 2018, the company had a net loss of -US$0.77 earnings per share (EPS) versus -US$1.79 for the same period prior. Cash and cash equivalents amounted to US$12.2 million. The stock declined from its October high of US$3.24 to a December low of US$0.65. The advisory is holding for a target of US$3.50, and will buy into it when breaks above US$1.25. It expects an ultimate target of US$7-to-US$8, as it expands into the Japanese market for the treatment of acne vulgaris - a long-term skin disease that occurs when hair follicles are clogged with dead skin cells and oil from the skin - via Sato Pharmaceuticals Co. Ltd.

Cabot Dividend Investor, c/o Cabot Heritage Corporation, 176 North Street, Salem, MA 01970 U.S.A., (978)-745-5532. Introductory one-year rate: US$297.

Chief analyst Tom Hutchinson suggests investors profit from the "Great Global Infrastructure Crisis". The American Society of Civil Engineers reviews 15 infrastructure categories every four years and issues an overall grade. The last was in 2017. The grade was a D+. The G-20's Global Infrastructure Hub estimates that a global investment of US$94 trillion will need to be invested over the next several decades. That's trillion with a T. Governments don't have all those trillions of dollars lying around. The only way to possibly answer the need is with private money. Governments will have to do some investing of course but are also partnering with private companies on certain projects as well. "Infrastructure is becoming a hot investment for private funds to the extent that it is almost becoming its own asset class. Limited partnerships, giant sovereign-wealth funds, multilateral and development-finance institutions are raising by some measurements trillions of dollars a year for infrastructure investments. Amidst this great opportunity the question is where to invest," Mr. Hutchinson states. In our last issue, we included his top pick of the month, which he says proved itself to be among the most worthy players in the space - **Brookfield Infrastructure Partners LP** (BIP.UN-TSX, $55.39; BIP-NYSE, US$41.59). That said however, many of the dividend paying defensive studs are trading at high historical valuations. So it's tough to buy a defensive stock after a great year and near the 52-week high. The analyst has been able to pluck rare value stocks that rise above the current conundrum, such as **Altria Group Inc.** (MO-NYSE, US$56.18), **AbbVie Inc.** (ABBV-NYSE, US$77.98) and **Enterprise Product Partners LP** (EPD-NYSE, US$28.87) which he claims are all fantastic companies that offer deep discounts, high yields and downside protection. He provides two other nice opportunities in the portfolio right now. **American Express Co.** (AXP-NYSE, US$111.76) which operates in an obscenely profitable business with strong tailwinds over the intermediate and longer term. It also sells at a cheap valuation and has fantastic momentum. **NextEra Energy Inc.** (NEE-NYSE, US$189.65), which offers both steady, reliable income and growth from its leadership in clean energy "might be the best utility stock of all time," according to Mr. Hutchinson.

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

Hilton Worldwide Holdings Inc. (HLT-NYSE, US$87.24) has built its company around selling its founder's name and other brands that have come under its control, such as Hampton, DoubleTree, Embassy Suites, and Waldorf Astoria. Under an umbrella of about 15 brands, Hilton now operates roughly 5,700 hotels and resorts in 113 countries. Hilton owns about one per cent of these properties and manages about 12 per cent of them; the rest are franchised hotels. However, Hilton shares aren't cheap. At 31 times trailing earnings, the stock trades below its five-year median of 38, yet carries a lofty premium to its industry median of 14. Still, Hilton is a "Buy" and a "Long-Term Buy" for the advisory. Hilton focuses on the midscale, upscale, and luxury travel markets. The U.S. is Hilton's biggest geographic market, accounting for 77 per cent of sales last year, up from 65 per cent in 2014. In 2018, Hilton grew per-share profits 55 per cent, sales 10 per cent, and operating cash flow 36 per cent. Free cash flow jumped 49 per cent to US$1 billion. Seeking to press its advantage, Hilton's pace of expansion ranks among the fastest in the hotel industry. Hilton opened more than 450 hotels last year and has another 2,400 in its development pipeline. More than half of those forthcoming hotels will be outside the U.S., with about one-fifth in Europe, the Middle East, or Africa. The company has a 20 per cent global market share of rooms under construction. Hilton generates most of its business from licensing its name to franchises, which requires a low asset base and capital investment. Hilton is expected to report per-share profits of US$0.76, up 38 per cent, on revenue of US$2.2 billion, up six per cent. Average estimated growth for hotel, resort, and cruise stocks in the S&P 1500 Index is five per cent for earnings per share and 14 per cent for sales.

Short takes, pro, con, maybe: "Buy a half" position of **Carvana Co.** (CVNA-NYSE, US$62.98), says *Cabot Growth Investor*. Carvana is revolutionizing the used car buying process, making it as easy, quick and low risk as possible to buy a vehicle online. Throw in relatively quick deliveries (next day in some markets) and it's proven to be a hit - Carvana's revenues have been kiting higher at triple-digit rates for many quarters as it stampedes into a ton of new U.S. markets (85 markets last December, up to 140 by year-end 2019).

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.

The joint Global Infrastructure Hub and Oxford Economics report estimates that total spending on infrastructure will be US$94 trillion in the next two decades. That's a staggering figure. To put it in perspective, this number is considerably more than total world GDP in 2018. And in just the next five years, some experts expect the amount of cash injected into global infrastructure to reach US$26 trillion, or more than the annual GDP of the U.S., Canada and Mexico combined. Analyst Carl Delfeld says, "And that's why our new recommendation is **Largo Resources Ltd.** (LGO-TSX, $1.76; LGORF-OTC, US$1.33), which produces an ingredient that turns ordinary steel into 'super steel' and is playing an increasingly important role in electrifying the grid." Largo is a strategic mineral company focused on the production of vanadium flake at the Maracás Menchen Mine located in Bahia State, Brazil. Headquartered in Toronto, Largo's stock has been on a bit of a roller-coaster lately. Just a dollop of vanadium added to steel doubles its strength and reduces its weight by 30 per cent. About 80,000 tons of vanadium are produced per year, with China accounting for about half of production followed by Russia, South Africa and then Brazil (all emerging markets). As vanadium prices have gone up, so has Largo's share price. During the past year, LGORF went from US$1.09 to a high of US$3.39 on Nov. 5, 2018. Since then it has come crashing back to earth, trading at a mere US$1.39 per share, or about 5.3 times trailing earnings. As the world's lowest-cost producer of vanadium, Largo seems undervalued right now at less than six times trailing earnings. Mr. Delfeld recommends buying only a small position right now while he waits for first-quarter 2019 numbers to roll in. "I will become more aggressive as the stock develops an uptrend, or at prices below US$1.30 a share. Either way, our target price is US$2 a share or 60 per cent higher than its current price," the analyst concludes.

Global Investing, 1040 First Ave, suite 318, New York, NY 10022 U.S.A., US$495 for one year, $888 for two years. www.global-investing.com

To editor, Vivian Lewis' amazement, the local Irish-based bookie chain **Paddy Power Betfair PLC** (PPB-LSE, £6,646; PDYPY-OTC, US$44.05) has crashed by over five per cent in one day. Apparently it took the counterpart side of bets that Britain would leave the EU (during mid April) and now faces huge payouts. In other British Isles news, she reports that **Glaxo-**

DOCUMENTING PROGRESS AND GROWTH

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

The advisory's Company of the Month is **ARC Document Solutions Inc.** (ARC-NYSE, US$2.45) which is given a nine-out-of-10 score. ARC is a leading document-solutions company serving businesses of all types, with an emphasis on the nonresidential segment of the architecture, engineering and construction industries. The company helps customers reduce costs and increase efficiency in the use of their documents.

ARC Document Solutions' sales slowly grew year-over-year. Although revenue isn't growing at a rapid rate, 2018 showed an upturn from the poor guidance initiated in 2015. Management noted pressure from implementation delays in key managed print services contracts and lower demand for large-format printing. Since then, share price has dropped 77 per cent, while revenue per share has slightly increased to US$8.91 per share.

According to the advisory, the company's high revenue per share and recent decrease in price per share show a clear undervaluation relative to its competitors. Additionally, ARC dominates the document solutions industry and has consistently high sales. Comparing ARC's revenue and net income to its competitors' exemplifies just how effective the company is in its niche. Its $400 million in revenue represents eight per cent of the total sales for the industry.

ARC is beating the industry average for three main valuation metrics (price-to-earnings, price-to-sales and price-to-cash flow) by a long shot (by 35, 50 and 70 per cent respectively). Its price/cash flow ratio is most impressive and rare for a company within the industry.

With the drop in share price over the past four years, ARC sits near its all-time low and offers a great buying opportunity. As long as management continues to focus on new accounts and a strong bottom line, expect ARC to be trading back over US$3 per share.

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

INFRASTRUCTURE MUTUAL FUND HIGHLIGHTED

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

Editor Bob Carlson notes that REITs are outpacing the stock indexes, after introducing them to his portfolio in early 2017 through **Cohen & Steers Realty Shares Fund** (CSRSX-MUTF, US$66.99). It has returned 12.77 per cent year-to-date (writing as of late March). Over 12 months, it returned 17.45 per cent. The top sectors in the fund were apartments (15 per cent), health care (12 per cent), data centres (11 per cent), offices (10 per cent), and industrial buildings (eight per cent). Top holdings were **Welltower Inc.** (WELL-NYSE, US$73.24) and **UDR Inc.** (UDR-NYSE, US$44.23), among others (45 in total).

Mr. Carlson adds that the year-to-date stock rally is global, and as such, he has benefitted from owning another mutual fund in **WCM Focused International Growth Fund Investor Class** (WCMRX-MUTF, US$16.28). The managers of this fund own only a few stocks that they consider to be great companies with high and sustainable growth. They start by looking for companies with little or no debt, with high returns on capital.

He also likes global infrastructure stocks. He owns these stocks through the closed-end fund, **Cohen & Steers Infrastructure Fund Inc.** (UTF-NYSE, US $23.98). It is up 20.37 per cent since the turn of the year (till late March).

The discount to net asset value is down to 5.67 per cent, while the six-month average is 7.01 per cent. The top-two sectors of this fund are electric utilities (28 per cent) and midstream pipeline companies (12 per cent), with **Enbridge Inc.** (ENB-TSX, $49.79; ENB-NYSE, US$37.18) being one of his top picks.

SmithKline PLC (GSK-NYSE, US$39.85; GSK-LSE, £1,540.80), as expected, won U.S. FDA approval of its ViiV sub's Dovato, a once-daily two-drug tablet for HIV in adults. It contains dolutegravir and lamivudine. Ms. Lewis is also keeping tabs on **Standard Life Aberdeen PLC** (SLA-LSE, £277; SLFPY-OTC, US$14.57) after Jefferies Financial chopped its target price from £488 to £361. Another fan is Goldman Sachs which has a "buy" rating too, but a lower target price of only £244. "Given that the closed-end fund group gives business to banks, you can take all these tips with a grain of salt," she concludes. Looking into the oil patches, **BP PLC** (BP-LSE, £572; BP-NYSE, US$44.39) was given a new target price of £615 by Deutsche Bank and one of £610 by Jefferies Financial. The latter also lowered its target price for **Royal Dutch Shell PLC ADR** (RDSA-LSE, £2,481.50; RDS.A-NYSE, US$64.20) to £2950 from £3360 but kept it at "buy". Dutch Antillean **Schlumberger Ltd.** (SCL-LSE, £46.30; SLB-NYSE, US$45.56) at under US$46 yields 4.38 per cent. It expects 2019 capital expenses to fall in North American upstream by about 10 per cent hurting its production arm. But SLB says exploration and production will grow in the North Sea, the Middle East, Russia, Africa, and Latin America. "As oil prices rise, this will boost drilling. Also it does plenty of share buybacks. I have owned SLB forever and if the rating improves, I will buy more," Ms. Lewis claims.

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

One of editor Marc Johnson's Key Stock is **Shaw Communications Inc.** (SJR.B-TSX, $27.29; SJR-NYSE, US$20.40) - which did better in the first half of fiscal 2019 (period ending Feb. 2019). But he says it may look to battle the entrenched Big Three wireless service providers in Telus Corp., Rogers Communications Inc. and BCE Inc. A good strong fight with the big telecom players provides opportunity but also raises risk. If you can accept this risk, he says to "buy" Shaw for gains and attractive dividends. Calgary-based Shaw Communications did much better in first six months to Feb. 28. It earned net income of $341 million, or 66 cents a share. This was a turnaround from a net loss of $64 million, or 13 cents a share, a year earlier. Much higher cash flow confirmed Shaw's higher profits. In the first half of fiscal 2019, the company generated cash flow of $883 million. This was up sharply from cash flow of $318 million, a year earlier. Both Shaw's Wireless and Wireline segments grew in the second quarter of fiscal 2019. The Wireless segment added a net 65,000 postpaid subscribers. This brought the Freedom Mobile customer base to more than 1.5 million by the end of February. Another positive development was higher revenue from customers. Shaw's average revenue (billing) per unit advanced by 7.5 per cent to $41.34 a month. At the same time, Mr. Johnson says going up against the Big Three would prove costly as it needs to invest in its business (i.e. marketing and infrastructure). On Feb. 28, Shaw held cash of $1.288 billion. Subtract total debt of $5.346 billion and its net debt stands at $4.058 billion. This was 2.2 times the cash flow of $1.804 billion over the three previous quarters. This, he says, is acceptable as the company generates utility-like predictable and stable cash flow. It expects free cash flow to hit $500 million this year. In addition, Shaw can sell its subsidiary asset, **Corus Entertainment Inc.** (CJR.B-TSX, $7.70) if the right offer comes along. In fiscal 2019, Shaw expects that its consolidated income before restructuring costs and amortization will grow by between four and six per cent.

Short takes, pro, con, maybe: *Bob Carlson's Retirement Watch* has a recommendation that is tied to U.S. infrastructure spending. It is the **Wasatch-Hoisington U.S. Treasury Fund** (WHOSX-MUTF, US$16.10). The fund owns primarily long-term U.S. Treasury bonds. The fund managers there believe the economy is weaker than many realize. The fund will lose value if interest rates increase. Mr. Carlson agrees, and also doesn't believe there's a high risk of a lasting rise in interest rates. The fund declined 0.49 per cent between January and March so now may be a good time to jump in.

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

Analyst John Persinos takes a look at two pot stocks, telling readers whether or not they should invest in **MedMen Enterprises Inc.** (MMEN-CSE, $4.03; MMNFF-OTC, US$3.02) or **Aphria Inc.** (APHA-TSX, $10.25; APHA-NYSE, US$7.65). Exemplifying the mainstreaming of Mary Jane is cannabis dispensary operator MedMen. The company has greatly expanded beyond its initial markets of California, Nevada, and New York. Upon the close of various pending transactions and acquisitions, MedMen will have 32 operational dispensaries, and licenses for 19 factories across 12 states. MedMen has 16 new locations scheduled to open in 2019. All the while normalization of marijuana continues apace. In March 2019, the U.S. House Financial Services Committee voted to pass legislation that would make it easier for marijuana businesses to access banking services - though it is still federally illegal in the U.S. Admittedly, operating results for the first and second quarters of fiscal 2019 have shown huge revenue growth, also with net losses of -US$2.77 per share. However, as it reaps synergies from vertical integration, the company should soon start posting profits. MedMen posted preliminary results for its fiscal 2019 third quarter that are encouraging. Across the company's operations in California, Nevada, New York, Arizona and Illinois, revenue reached US$36.6 million, representing a 22 per cent quarter-over-quarter increase over its fiscal 2019 second quarter. "MedMen just might realize its dream of becoming the Whole Foods of pot-buying. It's a compelling growth story," Mr. Persinos concludes. Meanwhile, the Aphria stock got torpedoed in Dec. 2018, in the wake of a devastating short-seller report from Quintessential Capital Management founder Gabriel Grego. He called the stock a "black hole". Aphria reported operating results that reveal a growing sea of red ink too. For the third quarter ending Feb. 28, 2019, the company posted revenue of US$73.6 million, an increase of 240 per cent from the previous quarter and 617 per cent from 2018. Sounds impressive, right? Well, the company still reported a net loss of US$108 million versus last year's net income of US$12 million for the same time period. The company's profit margin in the quarter stood at -30.9 per cent. Mr. Persinos calls it a "toxic investment" - one you should avoid.

Investment Executive Newspaper, 37 Front St. E. Suite 200, Toronto, ON M5E 1B3, 416-847-5100. www.investmentexecutive.com

A pair of ETFs focused on U.S.-based cannabis companies — one fund actively managed, the other passive — is set to begin trading on NEO Exchange during mid April. Evolve Funds Group Inc. announced it had filed its final prospectus to launch the Evolve U.S. Marijuana ETF, an actively managed fund investing in the U.S. cannabis industry. Horizons ETFs Management (Canada) Inc. issued a release announcing it had filed a final prospectus for the Horizons U.S. Marijuana Index ETF. Evolve's ETF will trade under the ticker USMJ and invest in equity securities of companies with business activities in the U.S. recreational and/or medical cannabis industry. In its release, Evolve said "active management is essential in the burgeoning cannabis space given the ongoing regulatory environment and the significant volatility of the cannabis sector." Horizons' ETF will trade under the ticker HMUS (and HMUS.U in U.S. dollar units) and provide unitholders with exposure to an index of U.S.-based companies that serve as producers, developers or suppliers of cannabis or hemp-based products. Unlike Canada, the U.S. hasn't legalized recreational or medical cannabis, although a number of individual states have. Both Evolve and Horizons expressed optimism that the U.S. cannabis industry will continue to grow. "We believe there are significant near-term catalysts that will cause the U.S. market to expand rapidly," Raj Lala, president and CEO of Evolve, said in a statement. "There are several laws currently making their way through Congress that would expand legalization of recreational cannabis and give those companies better access to banking and capital." In a statement, Steve Hawkins, president and CEO of Horizons ETFs, said "As the U.S. continues to further liberalize its marijuana regulations, we anticipate that more investors will be looking to invest in companies with significant business operations in the U.S. market, and HMUS will provide a diversified and liquid way to gain that exposure in one ETF."

LETTER OF THE WEEK

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

Tandem Diabetes Care Inc. (TNDM-NASDAQ, US$54.41) looks like it has the best insulin pump on the market, and that market has begun a major growth wave as technological advancements are attracting many diabetics who are tired of sticking themselves with multiple injections per day.

Tandem thinks just 28 per cent of Type 1 diabetics in the U.S. currently use any pump, but that could grow to 50 per cent over time (about half of Tandem's users are new to the pump market, with the others coming from competing pumps). The company has penetrated just a fraction of its potential market, but even that has caused revenues to explode (growth of 60 per cent, 71 per cent and 89 per cent over the past three quarters). Tandem has pulled back sharply, but held its 50-day line.

Another little-known name that the advisory is enthused about is **InVitae Corp.** (NVTA-NYSE, US$22.86). Thanks to years of heavy investments that put all available genetic information onto one platform, the firm is now bringing genetic testing to the masses by driving down costs (down 24 per cent last year alone). The days of genetic tests done on a case-by-case basis and costing thousands are being replaced by more commonplace testing (much of it in oncology, but the firm is moving into reproductive health in a big way) for just hundreds of dollars.

Three years ago, Invitae's platform processed 59,000 tests, but that grew to 149,000 in 2017, 303,000 last year, and management is looking for 500,000 tests (likely conservative) this year, with revenue growth around 50 per cent both this year and in 2020.

Both stocks are very volatile and NVTA is a bit thinly traded, too. But chief analyst Michael Cintolo loves the potential of each—they're on his watch list, and you could start with a half-sized position until you see a good setup for more.

12 - MONTH COMPANIES INDEX (MAY 2018 - APRIL 2019)

This index covers the previous 12-month period to the current date.
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