Weekly Trends

Private Client Solutions

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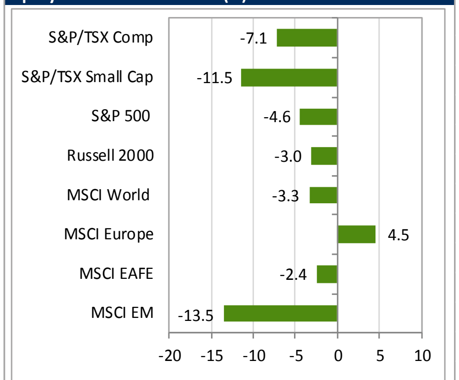
What Caught Our Eye

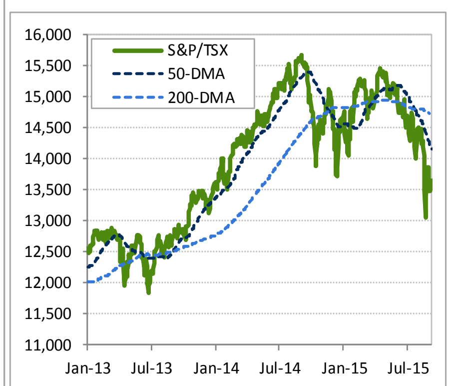
Americans are set to receive yet another tax break this fall as weaker oil prices filter their way down to pump prices. The US national average for gasoline sits just below US$2.30/gallon (that's ~CAD$0.81/litre) and may potentially break the 2-handle later this year. The renewed weakness couldn't come at a better time for an economy that is largely driven by consumer spending – Black Friday and Christmas are only a few short weeks away. According to Bloomberg, US drivers spent $44 bln less on gasoline in H1/15 than they did a year ago and these savings may accelerate in autumn amid falling demand for refiner products plus the continued weakness in oil prices (consensus call for WTI to average US$47/bbl in Q3/15 and $50/bbl in Q4/15). A continued slide in gasoline prices may result in the average US driver saving US$38 a month in Q4/15. As for the investment implication, fuel costs represent a significantly larger proportion of lower- and middle-income earner's disposable income compared to high-income earners, thus it would be reasonable to assume those retailers that focus on this consumer segment stand to benefit the most. Looking at the US consumer discretionary sector during the last 5 instances when gasoline prices were falling, we find the following equities consistently ranked among the top performers: Newell Rubbermaid (NWL-US), Discovery Communication (DISCA-US), Home Depot (HD-US), Time Warner (TWX-US), TJX Cos (TJX-US) and Whirlpool (WHR-US).

Equity Market YTD Returns (%)



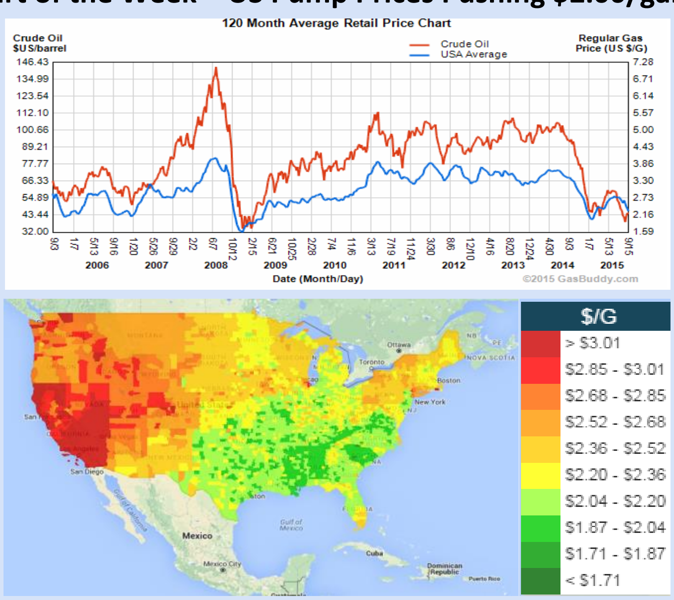
Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	7.0	Overweight
Consumer Staples	4.4	Market weight
Energy	18.5	Market weight
Financials	35.7	Market weight
Health Care	6.3	Market weight
Industrials	8.2	Overweight
Information Technology	2.9	Overweight
Materials	9.5	Underweight
Telecom	5.3	Market weight
Utilities	2.2	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	13,590.1	
50-DMA	14,038.7	Downtrend
200-DMA	14,657.7	Downtrend
RSI (14-day)	51.1	Neutral



Source: Bloomberg, Raymond James Ltd.

Chart of the Week – US Pump Prices Pushing $2.00/gallon



Source: Gasbuddy.com

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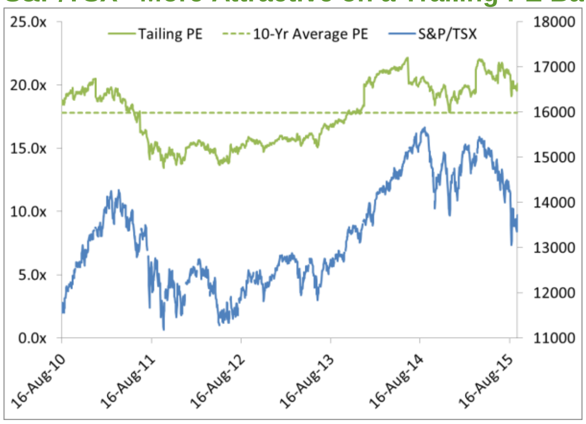
A "Multiple" of Opportunities

Market pullbacks are never fun to experience; however, they do create opportunities. The S&P/TSX is off 11% from this year's high achieved mid-April with a lot of that damage being done by energy and materials sectors. At the time the S&P/TSX traded at 22.0x trailing earnings, a similar multiple that was achieved in May 2014. Over the course of the next 6 months the multiple contracted to 17.8x. Given the recent pullback, the S&P/TSX's price to earnings (PE) multiple has contracted to 20.0x, which is still about 2-points higher than its 10-year average.

S&P/TSX –More Attractive on a Trailing PE Basis

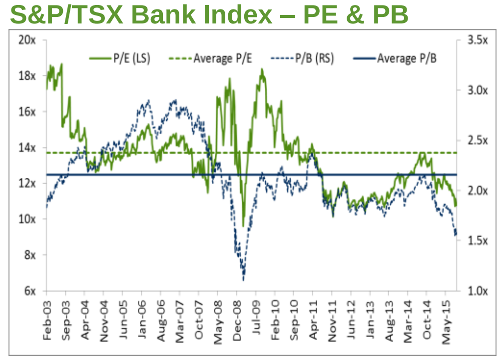


Source: Bloomberg

While the Canadian market may appear slightly overvalued, we do see selective opportunities; for one, Canadian banks appear cheap trading at an attractive PE and PB multiples. We highlighted earlier this week:

> *"Over the last 21 weeks, Canadian banks have drifted lower amid multiple concerns including the Canadian economy slipping into a technical recession, weak oil prices which will ultimately hit certain parts of the bank's loan book and the continued rise in consumer debt levels. Canadian banks are not without risk; however, at current valuations levels the market appears to have priced in a lot of bad news. A base case for the banks would be to expect mid-single digit returns – 2-3% from earnings growth plus the average 4% from dividends. If all the bad news doesn't playout, bank multiples may expand and investors can expect a return in excess of the base case. Regardless, long-term investors should find Canadian banks interesting at these levels, but given the weaker economic outlook in Canada we prefer those banks exposed to US. Top of this list would be Royal Bank (RY-T) and Toronto Dominion (TD-T)."*

S&P/TSX Bank Index – PE & PB



Source: Bloomberg, Raymond James Ltd.

Outside of the Canadian banks, where else can we find opportunities? We looked at the S&P/TSX individual members to determine the PE they traded at when the market was trading near its peak valuation earlier this year. We then compared the PE value with the current valuation to identify equities that have exhibited a multiple contraction (i.e. may be cheap). While multiple compression may often be an indication that there is something fundamentally wrong with the company this is not always the case. To identify those companies that may have been unfairly punished, we combined the 6-month change in consensus earnings estimates. The resulting screen illustrates the largest PE multiple contraction since May combined with positive earnings revisions.

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	Ticker	PE ratio on May 1st	PE ratio on Sept 14th	Chg in 6mth EPS
Consumer Discretionary				
RONA Inc	RON	24.3x	17.8x	4.6
EnerCare Inc	ECI	36.8x	31.8x	21.4
Great Canadian Gaming Corp	GC	21.0x	17.0x	3.2
Linamar Corp	LNR	13.3x	11.1x	15.2
Martinrea International Inc	MRE	11.1x	9.1x	10.8
Thomson Reuters Corp	TRI	32.6x	30.7x	-
Cogeco Cable Inc	CCA	13.8x	12.9x	0.1
Consumer Staples				
Cott Corp	BCB	29.2x	27.6x	77.6
Metro Inc	MRU	18.7x	17.5x	3.9
Energy				
Veresen Inc	VSN	90.4x	53.4x	19.4
Inter Pipeline Ltd	IPL	29.1x	23.7x	5.0
Pembina Pipeline Corp	PPL	46.1x	43.0x	7.2
Crew Energy Inc	CR	10.0x	8.0x	36.0
Surge Energy Inc	SGY	10.9x	10.2x	30.3
Ensign Energy Services Inc	ESI	15.7x	15.3x	292.3
Financials				
Alaris Royalty Corp	AD	19.3x	15.3x	5.0
CI Financial Corp	CIX	18.5x	15.2x	0.4
Industrial Alliance Insurance & Financial Services Inc	IAG	10.6x	8.9x	0.6
Bank of Nova Scotia/The	BNS	12.3x	10.6x	0.1
Genworth MI Canada Inc	MIC	8.8x	7.6x	1.0
National Bank of Canada	NA	10.1x	9.0x	0.3
Toronto-Dominion Bank/The	TD	13.1x	12.0x	1.3
Canadian Imperial Bank of Commerce/Canada	CM	10.8x	10.3x	1.9
Sun Life Financial Inc	SLF	12.6x	12.2x	6.2
Health Care				
Concordia Healthcare Corp	CXR	77.7x	70.2x	58.4
Industrials				
Aecon Group Inc	ARE	31.3x	18.8x	0.4
CAE Inc	CAE	19.8x	17.8x	-
Ritchie Bros Auctioneers Inc	RBA	24.8x	24.0x	8.5
Toromont Industries Ltd	TIH	19.5x	19.5x	3.1
Information Technology				
Enghouse Systems Ltd	ESL	41.6x	39.1x	-
Materials				
OceanaGold Corp	OGC	8.2x	6.9x	165.0

Source: Bloomberg; Highlights denote Guided Portfolio holdings

In our August 14th *Weekly Trends*, we highlighted Aecon Group (ARE-T), which appears in the table above. While shares have bucked the market downward trend, advancing 13.4%, we continue to see value in owning shares ahead of the seasonally strong period for the company. We also highlighted Cott Corp (BCB-T) in our April *Insights & Strategies* and we continue to see upside in these shares given its transformative acquisition.

From the names held across our Guided Portfolios (highlighted in green), we find Sun Life Financial (SLF-T), Toronto-Dominion Bank (TD-T) and Linamar (LNR-T) particularly attractive at these levels.

The screen above offers a number of interesting opportunities, however, we focus on EnerCare (ECI-T) on the subsequent page.

EnerCare (ECI-T)

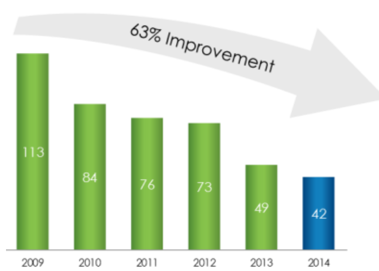
EnerCare, Inc. is engaged in the water heater rental and sub-metering businesses. It operates through two segments: Rentals and Sub-metering. The Rentals segment consists of a portfolio, which installs water heaters and other assets. The Sub-metering segment provides equipment and services to allow sub-metering for condominiums, apartment buildings and commercial properties in Ontario.

Company Name	Last	Yield	Consensus Target Price	Upside to Target	Fiscal Year 2014a	2015e	2016e	FY1 P/E
EnerCare Inc	$14.03	6.0%	$ 16.00	14.0%	$ 0.34	$0.55	$0.62	22.6x

Reasons to buy

- **Transformative acquisitions.** ECI acquired Direct Energy Marketing Home Services in October 2014 diversifying the company across HVAC, electrical, plumbing and other services. The aquistion has created synergies and additional growth initiatives, allowing ECI to launch new products, extended protection plans on HVAC sales, new rental water softener offerings and a HVAC financing program (introducing later this year). Of particular interest, a shift in mix has resulted in vastly improved growth rates. HVAC rental rates run up to 5x higher than water heater rentals, which will continue to have a significant positive impact on revenue, margins and cash flow. Additionally, ECI has seen a shift from outright sales to HVAC rentals which are worth about 2.5x the value of an outright sale. The addition of Home Services has also greatly improved ECI's cross-sell opportunities. For example, ECI has had success in selling protection plans for HVAC units purchased outright, extending their client relationship. Protection Plans now represent about 20% of ECI's Home Services, creating a reacurring revenue stream for the firm. In other instances, the installations of a water heater can be complimented with the sale of a water softer unit (if the customer has hard water), which extends the life of the water heater and relationship with the firm.
- **A little legislative help.** ECI will continue to benefit for the introduction of Bill 55, which went into effect April 1, 2015. The bill reduces door-to-door competition, doubles the 10-day cooling off period and introduces consumer friendly cancellation terms. As a result, ECI's attrition rate should continue to improve – attrition rates have steadily declined since 2009. Interestingly, the revenue spread between one client lost to attrition and a new client rose to $14/month in Q2/15 meaning new rental products were worth 1.6x compared to old rental agreements.
- **Balance sheet improving.** ECI has cash of $37 mln, working capital of $72 mln, a significant increase over Q1/15 and an undrawn revolver on the amount of $100 mln. ECI's credit position has improved as interest coverage and leverage ratios are now 8.6x and 3.1x, respectively. The improved position has allowed ECI to boost its dividend by 6% earlier this year and introduce a NCIB for ~10% of public float. ECI has grown its dividend at an annual rate of 3.8% over the last 5 years and its estimated payout ratio on 2015 earnings stands at 60%.

ECI Attrition Rate



Source: Company report

Bottom line: A transformative acquisition has vastly improved ECI's fundamental prospects; the stock offers an attractive 6% dividend.

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