

August 8<sup>th</sup>, 2014

## THE WEEK IN NUMBERS (August 4<sup>th</sup> – August 8<sup>th</sup>)

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INDEX	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
Dow Jones Industrial	16,428.73	-64.64	-0.39%	-0.89%	6.19%	15.1
S&P 500	1,916.54	-8.61	-0.45%	3.69%	13.34%	17.3
Nasdaq Composite	4,343.38	-9.26	-0.21%	3.99%	18.87%	41.1
S&P/TSX Composite	15,139.68	-75.58	-0.50%	11.15%	21.97%	19.9
Dow Jones Euro Stoxx 50	3,006.83	-65.74	-2.14%	-3.29%	7.60%	21.6
FTSE 100 (UK)	6,567.36	-111.82	-1.67%	-2.69%	0.86%	17.8
DAX (Germany)	9,009.32	-200.76	-2.18%	-5.68%	9.07%	16.6
Nikkei 225 (Japan)	14,778.37	-744.74	-4.80%	-9.29%	6.90%	19.3
Hang Seng	24,331.41	-201.02	-0.82%	4.40%	12.70%	10.7
MSCI World	1,684.71	-21.02	-1.23%	1.42%	10.89%	17.7
MSCI EAFE	1,883.02	-35.06	-1.83%	-1.70%	7.47%	17.7

S&P TSX SECTORS	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
S&P TSX Consumer Discretionary	1,663	37.10	2.28%	11.72%	23.79%	20.8
S&P TSX Consumer Staples	2,947	-33.83	-1.14%	14.94%	16.32%	22.7
S&P TSX Energy	3,342	-6.11	-0.18%	14.60%	22.63%	25.4
S&P TSX Financials	2,268	-25.97	-1.13%	8.48%	22.21%	13.7
S&P TSX Health Care	1,492	-101.23	-6.35%	-4.09%	6.89%	115.7
S&P TSX Industrials	2,299	5.71	0.25%	14.31%	35.27%	23.3
S&P TSX Info Tech.	162	-3.56	-2.15%	12.35%	22.96%	91.8
S&P TSX Materials	2,431	14.49	0.60%	17.36%	23.06%	34.0
S&P TSX Telecom Services	1,167	-12.41	-1.05%	1.11%	12.72%	15.9
S&P TSX Utilities	1,869	8.40	0.45%	5.99%	3.40%	23.4

COMMODITIES	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	NBF 2014E
Oil-WTI futures (US\$/Barrels)	\$97.41	-0.47	-0.48%	-1.03%	-6.67%	\$99.00
Natural gas futures (US\$/mcf)	\$3.88	0.08	2.05%	-8.37%	19.37%	\$4.45
Gold Spot (US\$/OZ)	\$1,311.60	18.27	1.41%	8.79%	1.86%	\$1,250.00
CRB Index	292.08	-0.40	-0.14%	4.25%	3.74%	NA

CURRENCIES in US\$	Last price	Curr. Net Change	% Change Week	% Change YTD	%Change 1 Year	NBF 4Q 2014E
Cdn\$	0.9110	-0.0051	-0.56%	-3.23%	-5.04%	0.92
Euro	1.3416	-0.0011	-0.08%	-2.38%	0.60%	1.29
Pound	1.6778	-0.0043	-0.26%	1.33%	8.32%	1.68
Yen	0.0098	0.0001	0.73%	3.37%	-5.42%	0.0094

Source: Bloomberg, NBF Research

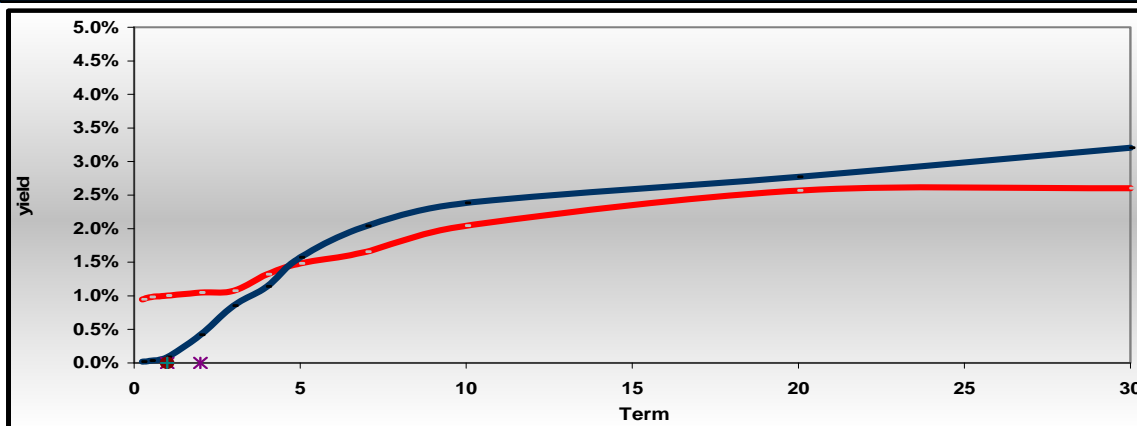
Approximate time: 11:30am

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**FIXED INCOME  
NUMBERS**

**THE WEEK IN NUMBERS**  
(August 4<sup>th</sup> – August 8<sup>th</sup>)

CANADIAN YIELD CURVE				
	Last yield	Change Week in bps	Change YTD in bps	Change One Year in bps
CDA Overnight	1.00%	0.0	0	0
3 Month T-Bill	0.95%	-0.4	4	-4
2 Yr Canada Government	1.05%	-2.2	-9	-9
5 Yr Canada Government	1.48%	1.7	-46	-28
10 Yr Canada Government	2.04%	-7.5	-72	-46
30 Yr Canada Government	2.60%	-5.3	-63	-41
CANADIAN BOND - TOTAL RETURN				
		Change Week		Change Y-T-D
DEX Universe Bond Index		0.59%		6.10%
DEX Short Term Bond Index		0.20%		2.11%
DEX Mid Term Bond Index		0.60%		6.58%
DEX Long Term Bond Index		1.15%		11.98%
US YIELD CURVE				
	Last yield	Change Week in bps	Change YTD in bps	Change One Year in bps
U.S. FED Funds	0.25%	0.0	0	0
3 Month T-Bill	0.02%	0.0	-5	-2
2 Yr US Bonds	0.42%	-5.2	4	12
5 Yr US Bonds	1.57%	-9.2	-17	20
10 Yr US Bonds	2.38%	-11.0	-65	-22
30 Yr US Bonds	3.20%	-7.7	-76	-48
CURRENT YIELD CURVE				



CANADIAN 5YR SPREADS				
	Last spread in basis points (bp)	Change Week in bps	Change YTD in bps	Change One Year in bps
CAD Housing Trust AAA	24	-8.4	-3	-12
Province Quebec	55	-8.4	8	16
Province Ontario	47	-1.5	7	-12
Canada Corp BBB	123	-3.0	-13	-14
Canada Corp Bank AA	78	-5.4	-16	-22
CDN & US 10 YR SPREADS				
	Last spread in basis points (bp)	Change Week in bps	Change YTD in bps	Change One Year in bps
Province Quebec	91	1.6	2	-5
Province Ontario	84	1.6	5	-5
Canada Corp BBB	160	4.9	-37	-41
US Finance AA	72	1.6	-2	-31
US Corp BBB	140	6.3	-19	-28

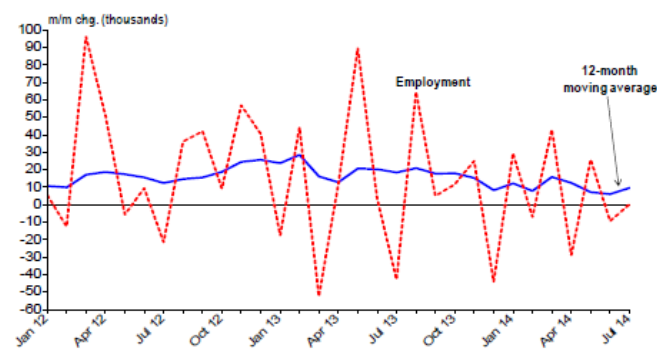
Sources: Bloomberg & PC Bonds

## Weekly Economic Watch - Week in Review

**Canada – Employment** was roughly flat in July according to the Labour Force Survey, disappointing consensus which was expecting a 20K increase. The jobless rate, nonetheless managed to drop one tick to 7% (from 7.1%) thanks to the two-tick decline in the participation rate to 65.9%. Employment gains in the private sector (+26K) and in government (+3K) were exactly offset by decreases in selfemployment (-29K). All in all, paid employment i.e. total employment excluding self-employed, jumped 29K. The goods sector lost 34K jobs (the fifth decline in a row) as sharp losses in construction more than offset gains in resources and manufacturing. Services sector employment advanced 34K. Full-time employment fell 60K, while part-time employment was up 60K. Still, the LFS says that hours worked grew 0.5%. All told, the July report, while disappointing on the surface, was better in the details. The private sector created jobs, and paid employment recouped most of the prior month's losses. Given how choppy the series has been this year, it's best to look at the longer-term trend for a more reliable picture of the Canadian labour market. On a 12-month moving average basis, Canada is creating on average roughly 10K/month, mostly in the private sector, although all on a part-time basis.

### Canada: LFS volatility extended to July

Employment according to the Labour Force Survey



NBF Economics and Strategy (data via Statistics Canada)

The **merchandise trade surplus** rose to roughly C\$1.9 bn in June, the highest since December 2011. The improvement was due to rising nominal exports (+1.1%) and falling nominal imports (-1.8%). The export increase was driven by energy (+2.5%), metals, industrial machinery and consumer goods, which more than offset declines for autos, aircraft equipment, forestry products and electronics. The energy trade surplus rose to an all-time high of C\$8.22 bn, while the non-energy trade deficit narrowed to C\$6.4 bn, the best since April last year. In real terms, Canada's exports rose 0.9%, while imports were down 1.1%. For Q2 as a whole, the goods trade surplus was C\$2 bn, the largest since 2011Q4. Real exports grew 20% annualized in Q2, the best performance since 2011Q3. In contrast, real imports rose 12.3%, which implies that merchandise trade contributed to GDP in Q2. Investment spending also seems to have contributed to Q2 growth based on healthy imports of machinery and equipment in the quarter. Those results are consistent with an acceleration of Canada's GDP growth in Q2 after a soft first quarter.

**Building permits** expanded a consensus-topping 13.5% in dollar terms in June. Consensus was looking for a decrease of 1.9%. The soaring permits were driven by the non residential sector (+32.5% helped by solid gains in industrial permits), complemented by a 0.4% increase in the value of residential permits (+5.5% for singles offsetting a 6% drop for multist). In real terms, residential permits fell 4.6% with a 10.7% drop for multist offsetting a 6.9% increase for singles.

**United States –** The **ISM's non-manufacturing** index rose to 58.7 in July (from 56 in the prior month), the highest since 2005. A reading above 50 implies the services sector is expanding. Buoyed in part by exports, the new orders subindex soared to 64.9, also the highest since 2005. The employment sub-index rose further in expansion territory to a six-month high of 56. The overall ISM, which takes into account both manufacturing and services, rose more than two points to reach 58.3 in July.

The **factory report** showed a consensus-topping 1.1% increase in orders in June, after a downwardly revised 0.6% decline in the prior month. Transportation orders rose 1.3%, erasing about half of the prior month's drop. Excluding transportation, new factory orders rose a healthy 1.1%, more than offsetting the small decline in the prior month. Total factory shipments rose 0.5% in June, helped in part by nondurables +0.6%.

The **trade deficit** narrowed to \$41.5bn in June, from a \$44.7bn deficit in the prior month (revised from \$44.4 bn deficit). That's the smallest trade deficit in five months. The improvement in the trade balance was due to a 0.1% increase in exports and a 1.2% drop in imports in nominal terms. In real terms, exports rose 0.3%, while real imports slumped 1.7%. Overall, June's trade results were better than expected. Note that in its "advance estimate" of Q2 GDP growth (which was reported as 4%), the BEA had assumed exports growing 8.1% annualized and imports growing 13.1% in the quarter. June's trade report shows that exports actually grew 9.3% and imports rose 11.4% in Q2. In other words, the drag from trade was smaller than assumed by the BEA, implying a likely upgrade to Q2 GDP growth, assuming of course that nothing else changes.

**Business non-farm labor productivity** rose 2.5% annualized in the second quarter of the year, better than the 1.6% expansion expected by consensus. That came after a downwardly revised Q1 productivity contraction of 4.5% (previously reported as -3.2%). The increase in Q2 productivity was a result of output (+5.2%) growing faster than hours worked (+2.7%). Unit labour costs rose just 0.6% in Q2 after a sharp 11.8% increase in the prior quarter. The increase in productivity is good news in that it provides another element of support to the already strengthening US labour market.

**Weekly jobless claims** data for the week of August 2<sup>nd</sup> showed initial claims falling to 289K, from an upwardly revised 303K. The more reliable 4-week moving average fell to a multiyear low of 293.5K. Continuing claims for the prior week fell 24K to 2.518 million.

**World** – July data showed China's trade surplus rising to US\$47 bn. Exports were up a consensus-topping 14.5% on a year-on-year basis, while imports were 1.9% lower than yearago levels. The Bank of Japan kept monetary policy unchanged at its meeting this week. The BoJ says that inflation expectations are rising and expects the economy to continue on its moderate recovery. It estimates that the year-on-year rate of increase in the consumer price index (all items less fresh food), excluding the direct effects of the consumption tax hike, is around 1.25%. In Germany, factory orders fell 3.2% in June after a 1.6% drop in the prior month. Italy's real GDP contracted for the second consecutive quarter in Q2. The 0.2% unannualized drop in output was the eleventh decline in the last 12 quarters.

**The European Central Bank** left the interest rate on the main refinancing operation at 0.15% and the interest rate on the deposit facility at -0.10%. The ECB thought that the policy measures decided earlier have already led to an easing of the monetary policy stance and said that monetary operations to take place over the coming months will add to this accommodation and support bank lending. The ECB remains confident that those measures will contribute to a return of inflation rates to levels closer to 2%. The ECB also kept its forward guidance i.e. "the key ECB interest rates will remain at present levels for an extended period of time in view of the current outlook for inflation". The ECB says that its Governing Council is unanimous in its commitment to using unconventional instruments within its mandate to further address risks of too prolonged a period of low inflation if necessary. The risks surrounding the economic outlook for the euro area remain on the downside.

In the press conference, Mr Draghi said that implementation of the ABS purchase plan depends on action of many actors (e.g. regulators), but reiterated that the ECB is proceeding with its work, e.g. design of the program, regardless of timing of regulatory changes. To a question about why an annual inflation rate of just 0.4% isn't enough to prompt ECB action, Mr Draghi said that while inflation is currently low, long term inflation expectations remain firmly anchored. There was a question about deflation concerns in the periphery. Mr Draghi said that this is due to lack of demand and relative price adjustment. He said the ECB doesn't see self-fulfilling expectations of price declines which would cause deflation to persist over the longer term. Commenting on the euro's recent slump, Mr Draghi said that markets now perceive that monetary policy in the eurozone and the US "will diverge for a long period of time".

Asked about Italy's return to recession, Mr Draghi pointed to low level of private investment, but was quick to note that this isn't unique to that country. He says that investment is weak because of expected demand but also due to general uncertainty stemming from the lack of structural reforms. He prescribed "growth-friendly fiscal consolidation", in the form of lower taxes, lower government current expenditures and, if possible, higher government investment.

With regards to downside risks to the outlook, Mr Draghi said that geopolitical risks are now higher and the Ukraine/Russia crisis will have a bigger impact on the euro area than on the rest of the world. He acknowledged that it was hard to assess the economic impact given the sanctions and countersanctions involving Russia and the eurozone.

Mr Draghi said that the zone's money and credit dynamics are "less bad" than in the past. He said that bank lending surveys show a pick-up in demand for loans and less tightness on the supply side. He thinks that the TLTRO will happen at the right time, i.e. when there is demand for loans and hence will cause a significant expansion of credit.

## IN THE NEWS



### U.S. and Canadian News



#### **Monday August 4<sup>th</sup>, 2014**

- [Fed Says U.S. Banks Eased Loans Amid Broad Pickup in Demand](#)

Banks in the U.S. eased lending requirements amid a widespread increase in demand during the second quarter.

- [U.S. Borrowing Needs Hit 7-Year Low on Stronger Growth](#)

The U.S. Treasury said its borrowing needs this quarter declined to the lowest level for the period since 2007 as stronger economic growth boosts tax receipts.

- [KKR Lifts Bid for Grange-Maker Treasury to \\$3.2 Billion](#)

KKR & Co. and Rhone Capital LLC raised an offer for Treasury Wine Estates Ltd. (TWE) to A\$3.4 billion (US\$3.2 billion), adding 11 percent to a previous bid that the maker of Penfolds Grange rejected earlier this year.

#### **Tuesday August 5<sup>th</sup>, 2014**

- [Services in U.S. Expand at Fastest Pace Since 2005](#)

The Institute for Supply Management's non-manufacturing index increased to 58.7, exceeding the highest estimate of economists, from the prior month's 56. The median estimate called for 56.5.

- [Walgreen Said Not to Exit U.S. in Deal to Buy Boots](#)

Walgreen Co., the biggest U.S. drugstore chain, plans to buy all of Alliance Boots Holdings Ltd. and won't use the deal to move its tax address abroad.

- [NorthStar to Buy Griffin-American REIT for \\$3.4 Billion](#)

NorthStar Realty Finance Corp. agreed to buy Griffin-American Healthcare REIT II for about \$3.4 billion, gaining medical-office buildings and senior housing in the biggest health-care real estate deal in three years.

- [Consumer Outlook About Canadian Economy Falls Again](#)

The share of Canadians who think the economy will improve over the next six months declined to 17.8 percent in the week ended Aug. 1, from 21.2 percent the previous week and as high as 23.7 percent in early July.

- [Imperial Plunges After British Columbia Mine Waste Spill](#)

Imperial Metals Corp. dropped the most since it began trading in 2002 after the waste storage facility burst at its British Columbia copper and gold mine, releasing millions of gallons of material and prompting bans on water use in the area.

#### **Wednesday August 6<sup>th</sup>, 2014**

- [U.S. Trade Gap Shrinks to Five-Month Low](#)

The gap shrank 7 percent to \$41.5 billion, the smallest since January, from May's \$44.7 billion.

- [Canada Trade Surplus Biggest Since 2011 on Record Exports](#)

The surplus was \$1.86 billion in June, the widest since December 2011, Statistics Canada said. Economists forecast the trade account would be balanced. The agency revised the May figure to a \$576 million surplus, from a \$152 million deficit.

- [Dish's Ergen Says Sprint's Dropped T-Mobile Bid Adds Options](#)

Dish Network Corp. Chairman Charlie Ergen said Sprint Corp.'s decision to drop its bid for T-Mobile US Inc. has opened up more options for his satellite-TV carrier as it looks for ways to expand into the wireless business.

- [Murdoch's Fox Withdraws Time Warner Takeover Offer](#)

Rupert Murdoch's 21st Century Fox Inc. withdrew its unsolicited takeover offer of \$75 billion for Time Warner Inc., giving up after the attempt to reshape the media industry sent Fox shares tumbling.

#### **Thursday August 7<sup>th</sup>, 2014**

- [Jobless Claims Fall as Average Drops to Eight-Year Low](#)

Jobless claims decreased by 14,000 to 289,000 in the week ended Aug. 2 from 303,000 in the prior period. The median forecast of economists called for an increase to 304,000.

- [Consumer Credit in U.S. Rises on Demand for Car, Student Loans](#)

The \$17.3 billion increase in consumer credit followed a \$19.6 billion May advance. Non-revolving loans, including borrowing for cars and college tuition, climbed \$16.3 billion.

- [Facebook to Buy PrivateCore to Strengthen Data Defenses](#)

Facebook Inc. is acquiring PrivateCore, a startup that makes software for protecting data, to strengthen the security of its systems. Terms of the deal weren't disclosed.

- [Montreal Leads Surprise Gain in Canadian Building Permits](#)

The increase paced a 13.5 percent gain in nationwide permits to \$7.99 billion in a month where economists predicted a decline of 1.9 percent.

#### **Friday August 8<sup>th</sup>, 2014**

- [U.S. Carries Out Airstrikes Against Islamist Militants in Iraq](#)

American warplanes struck against militants from Islamic State in Iraq, pulling the U.S. back into a conflict three years after its last combat troops left.

- [Productivity Rises More Than Forecast, Limiting U.S. Costs](#)

The measure of employee output per hour increased at a 2.5 percent annualized rate, after a revised 4.5 percent decrease in the prior three months that was the biggest since 1981. The median forecast called for a 1.6 percent advance. Expenses per worker increased at a 0.6 percent pace, less than estimated.

- [Canada Paltry 200 Jobs in July Spurs Labor Market Exodus](#)

Canada created 200 new jobs last month and the feeble state of the nation's labor market provoked more job hunters to abandon the search. Another 35,400 people dropped out of the labor market in July, cutting the participation rate to 65.9 percent, the lowest since October 2001. The shrinking workforce was the main factor in the unemployment rate's decline to 7 percent from 7.1 percent. Economists predicted a 20,000 jobs increase and a 7.1 percent unemployment rate.

- [CMHC Says Investors Own 17% of Toronto, Vancouver Condos](#)

Among investors, 58 percent expect to keep their most recently purchased unit more than 5 years, while 18 percent anticipate keeping it 2 to 5 years and 7.6 percent intend to retain it less than two years.

## IN THE NEWS



### International News

#### Monday August 4<sup>th</sup>, 2014

- [Banco Espirito Santo Junior Bonds Slide as Bailout Forces Losses](#)

The Bank of Portugal will take control of Banco Espirito Santo's assets and deposit-taking operations by transferring them to a new company, Novo Banco, into which it will inject money from its Resolution Fund.

- [U.K. Homebuilding Expands at Fastest Rate Since 2003](#)

U.K. homebuilding expanded at the fastest pace in more than a decade in July as record-low interest rates and government stimulus measures helped construction grow for a 15th month.

- [PBOC's \\$162 Billion Loan Spurs Speculation on Easing](#)

A Chinese central bank loan that's almost the size of the U.S. bailout of American International Group Inc. has spurred speculation that policy makers have adopted a new form of monetary easing to shore up growth.

#### Tuesday August 5<sup>th</sup>, 2014

- [U.K. Services Surge at Fastest Pace in Eight Months](#)

Markit Economics said its Purchasing Managers' Index for services jumped to 59.1 from 57.7 in June, exceeding the median forecast for a reading of 58. That's the highest since November and the 19th straight month above the 50 level that divides expansion from contraction.

- [China Services Index Falls to Record Low](#)

The services Purchasing Managers' Index declined to 50.0 from June's 53.1, HSBC Holdings Plc and Markit Economics said today. A similar official gauge released Aug. 3 dropped to a six-month low of 54.2.

- [Euro-Area Services Grew Less Than Initially Estimated in July](#)

Markit Economics's Purchasing Managers Index rose to 54.2 from 52.8 in June, below the 54.4 reading published on July 24. A composite index of services and manufacturing increased to 53.8, also lower than previously estimated.

- [Indonesian Economic Growth Slows in Challenge to Widodo](#)

Gross domestic product rose 5.12 percent in the three months ended June 30 from a year earlier. The increase was less than the median 5.20 percent estimate of economists, and a revised 5.22 percent pace in the first quarter.

- [Rajan Holds Rates for Third Meeting in India Inflation Fight](#)

Governor Raghuram Rajan kept the benchmark repurchase rate at 8 percent, a move predicted by most economists.

- [RBA Holds Rate at Record Low to Spur Jobs Amid Rebalancing](#)

The overnight cash rate target was held at 2.5 percent for a 12th month, Governor Glenn Stevens and his board announced in Sydney in a largely unchanged statement. The decision was predicted by all economists.

#### Wednesday August 6<sup>th</sup>, 2014

- [Italy's Second-Quarter GDP Declines, Showing Recession](#)

Gross domestic product fell 0.2 percent from the previous three months, when it declined 0.1 percent. That compares with the median forecast of a 0.1 percent expansion.

- [U.K. Industrial Production Increases Less Than Forecast](#)

Production increased 0.3 percent from May, when it fell 0.6 percent. The median forecast of economists was for an increase of 0.6 percent. Output in the second quarter rose 0.3 percent, below the 0.4 percent estimate published in last month's gross domestic product data.

- [U.K. House Prices Rise at Fastest Pace Since 2006](#)

Values jumped 3.6 percent compared with the previous three months to an average 186,322 pounds. From June, prices rose 1.4 percent, compared with the 0.4 percent gain forecast by economists.

- [Thailand Holds Rate a Third Time as Growth Outlook Improves](#)

The Bank of Thailand held its one-day bond repurchase rate at 2 percent, with monetary policy committee members voting unanimously in favor of the decision. All economists predicted the outcome, which extended the pause since a cut in March.

#### Thursday August 7<sup>th</sup>, 2014

- [Putin Ban Hits Cold War Foes as Developing Nations Gain](#)

President Vladimir Putin countered U.S. and European sanctions over Ukraine with a ban on a range of food products, opening the door for developing nations such as Brazil to fill the \$9.5 billion hole created by the curbs.

- [ECB Holds Rates as Ukraine Turmoil Menaces Recovery Hopes](#)

The European Central Bank kept interest rates unchanged at record lows as the Ukraine crisis strengthened the headwinds facing the euro area's recovery.

- [Australian Jobless Rate Tops U.S.](#)

Australia's jobless rate jumped to a 12-year high in July, surpassing the U.S. level for the first time since 2007. The unemployment rate rose to 6.4 percent from 6 percent, versus the median estimate for unemployment to hold steady.

#### Friday August 8<sup>th</sup>, 2014

- [China Reports Record Trade Surplus](#)

Overseas shipments increased 14.5 percent from a year earlier, beating all estimates that had a median projection of 7 percent. Imports dropped 1.6 percent, leaving a trade surplus of \$47.3 billion, bigger than all analyst estimates.

- [BOJ Holds Stimulus as Weaker Economy Challenges Kuroda](#)

The central bank stuck with a pledge to increase the monetary base at an annual pace of 60 trillion yen to 70 trillion yen (US\$687 billion), the bank said in a statement today, as forecast by all economists.

- [U.K. House Prices Rise to Record as Sales Surge](#)

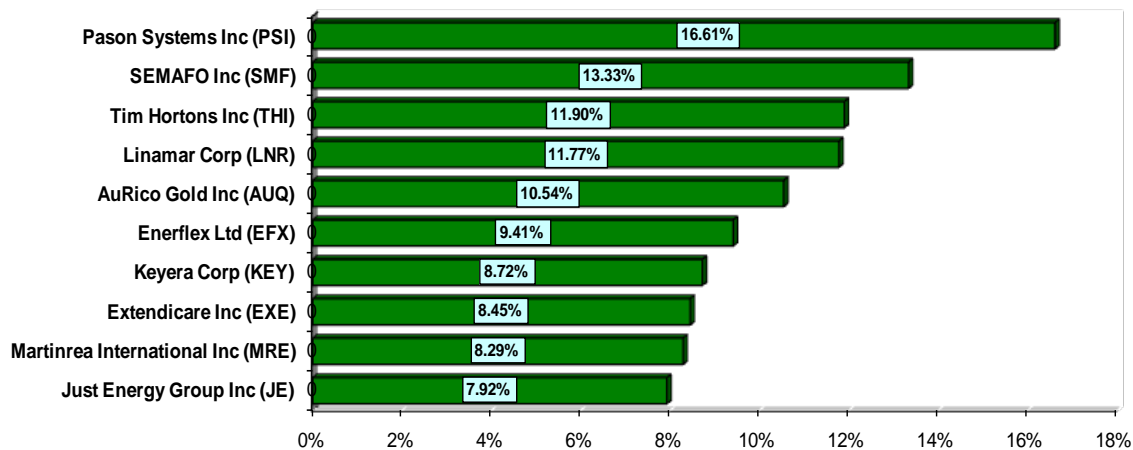
Values rose 0.6 percent from June and were up 9.9 percent compared with a year earlier, pushing the average price to 270,636 pounds (US\$456,000). About 90,000 properties were sold, marking a 21 percent surge over the past year.

- [RBA Lowers Growth, Inflation Forecasts; Says Rates on Hold](#)

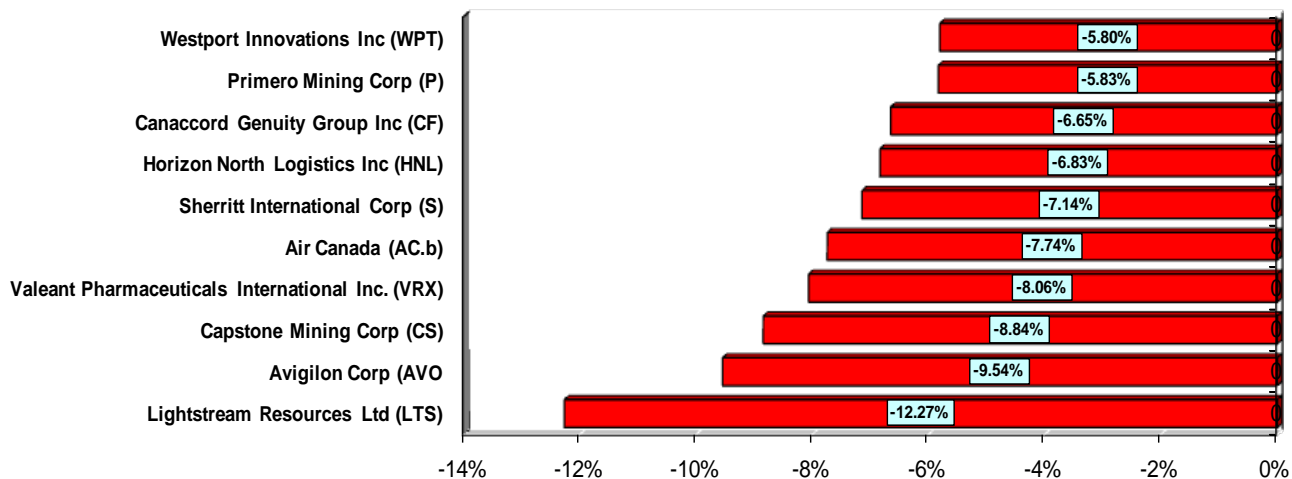
The central bank projected gross domestic product of 2 percent to 3 percent in the year through June 2015, down from a range of 2.25 to 3.25 percent forecast three months earlier. On core inflation, the RBA lowered its forecast to 1.75 percent to 2.75 percent from 2.25 percent to 3.25 percent in May.

## S&P/TSX WEEKLY PERFORMERS

S&P/TSX weekly best performers



S&P/TSX weekly worst performers



The performance is calculated from the close of Friday's previous week until Friday 11:30 a.m. of this week.

Source: Bloomberg, NBF Research

## NBF Ratings & Target Price Changes

Company	Symbol	Current Rating	Previous Rating	Current Target	Previous Target	Closing Price
5 N Plus Inc.	VNP	Outperform	Outperform	C\$5.00	C\$5.50	C\$3.65
Air Canada	AC.A	Outperform	Outperform	C\$11.00	C\$12.00	C\$8.49
ARC Resources Ltd.	ARX	<b>Outperform</b>	<b>Sector Perform</b>	C\$35.00	C\$35.00	C\$29.80
Augusta Resource Corporation	AZC	<b>Not Rated</b>	<b>Tender</b>	<b>C\$0.00</b>	<b>C\$3.45</b>	C\$3.83
Avigilon Corporation	AVO	Outperform	Outperform	<b>C\$35.00</b>	<b>C\$40.00</b>	C\$24.89
Bellatrix Exploration Ltd.	BXE	Outperform	Outperform	<b>C\$11.00</b>	<b>C\$13.00</b>	C\$7.74
Bonavista Energy Corporation	BNP	Outperform	Outperform	<b>C\$19.00</b>	<b>C\$19.50</b>	C\$13.56
Canadian Tire Corporation, Limited	CTC.A	Outperform	Outperform	<b>C\$126.00</b>	<b>C\$118.00</b>	C\$107.26
Canam Group Inc.	CAM	Outperform	Outperform	<b>C\$16.50</b>	<b>C\$17.50</b>	C\$12.12
Canexus Corporation	CUS	<b>Sector Perform</b>	<b>Underperform</b>	<b>C\$4.50</b>	<b>C\$4.25</b>	C\$4.99
Capstone Mining Corp.	CS	Outperform	Outperform	<b>C\$3.40</b>	<b>C\$3.50</b>	C\$2.75
Chinook Energy Inc.	CKE	Outperform	Outperform	<b>C\$2.50</b>	<b>C\$2.75</b>	C\$2.09
Cineplex Inc.	CGX	Outperform	Outperform	<b>C\$46.50</b>	<b>C\$45.50</b>	C\$39.99
Conifex Timber Inc.	CFF	Outperform	Outperform	<b>C\$11.50</b>	<b>C\$12.00</b>	C\$7.62
Constellation Software Inc.	CSU	<b>Sector Perform</b>	<b>Outperform</b>	C\$300.00	C\$300.00	C\$270.85
Copper Mountain Mining Corporation	CUM	<b>Outperform</b>	<b>Sector Perform</b>	C\$3.10	C\$3.10	C\$2.75
Crocotta Energy Inc.	CTA	<b>Not Rated</b>	<b>Outperform</b>	<b>C\$0.00</b>	<b>C\$6.05</b>	C\$4.42
Dalradian Resources Inc.	DNA	<b>Outperform</b>	<b>Restricted</b>	<b>C\$1.20</b>	<b>C\$0.00</b>	C\$0.84
Donnycreek Energy Inc.	DCK	Outperform	Outperform	<b>C\$3.25</b>	<b>C\$3.50</b>	C\$2.34
Dorel Industries Inc.	DII.B	Sector Perform	Sector Perform	<b>C\$40.00</b>	<b>C\$42.00</b>	C\$36.85
Dream Global REIT	DRG.UN	Sector Perform	Sector Perform	<b>C\$10.25</b>	<b>C\$10.00</b>	C\$9.12
Encana Corporation	ECA	Outperform	Outperform	<b>US\$29.00</b>	<b>US\$30.00</b>	C\$23.25
Enerplus Corporation	ERF	Outperform	Outperform	<b>C\$30.00</b>	<b>C\$29.00</b>	C\$24.29
Essential Energy Services Ltd.	ESN	<b>Outperform</b>	<b>Sector Perform</b>	<b>C\$3.15</b>	<b>C\$2.90</b>	C\$2.46
Etrion Corporation	ETX	<b>Sector Perform</b>	<b>Underperform</b>	<b>C\$0.65</b>	<b>C\$0.50</b>	C\$0.51
Franco-Nevada Corporation	FNV	Sector Perform	Sector Perform	<b>C\$62.00</b>	<b>C\$60.00</b>	C\$65.62
Gibson Energy Inc.	GEI	Outperform	Outperform	<b>C\$35.00</b>	<b>C\$34.00</b>	C\$33.63
GLV Inc.	GLV.A	Outperform	Outperform	<b>C\$4.50</b>	<b>C\$4.75</b>	C\$3.25
Great-West Lifeco Inc.	GWO	Sector Perform	Sector Perform	<b>C\$34.00</b>	<b>C\$33.00</b>	C\$31.40
Grenville Strategic Royalty Corp.	GRC	Outperform	Outperform	<b>C\$1.15</b>	<b>C\$1.20</b>	C\$0.75
IGM Financial Inc.	IGM	Sector Perform	Sector Perform	<b>C\$57.00</b>	<b>C\$58.00</b>	C\$50.12
Keyera Corp.	KEY	Outperform	Outperform	<b>C\$88.00</b>	<b>C\$80.00</b>	C\$88.20
Lightstream Resources Ltd.	LTS	Sector Perform	Sector Perform	<b>C\$7.00</b>	<b>C\$8.00</b>	C\$6.30
Long Run Exploration Ltd.	LRE	<b>Outperform</b>	<b>Restricted</b>	<b>C\$8.00</b>	<b>C\$0.00</b>	C\$5.18
Luna Gold Corp.	LGC	<b>Underperform</b>	<b>Outperform</b>	<b>C\$0.75</b>	<b>C\$1.50</b>	C\$0.98
Manulife Financial Corporation	MFC	Outperform	Outperform	<b>C\$26.00</b>	<b>C\$24.00</b>	C\$21.70
Melcor Real Estate Investment Trust	MR.UN	Sector Perform	Sector Perform	<b>C\$11.00</b>	<b>C\$11.50</b>	C\$10.15
Metro Inc.	MRU	Outperform	Outperform	<b>C\$73.00</b>	<b>C\$70.00</b>	C\$71.86
Morneau Shepell Inc.	MSI	Outperform	Outperform	<b>C\$18.00</b>	<b>C\$17.50</b>	C\$16.95
Mosaic Capital Corporation	M	<b>Outperform</b>		<b>C\$15.50</b>	<b>\$0.00</b>	C\$12.80
New Flyer Industries Inc.	NFI	Outperform	Outperform	<b>C\$14.00</b>	<b>C\$12.50</b>	C\$13.31
New Look Eyewear Inc.	BCI	<b>Restricted</b>		<b>Restricted</b>		C\$21.40
Newalta Inc.	NAL	Outperform	Outperform	<b>C\$23.00</b>	<b>C\$22.00</b>	C\$19.90
Pason Systems Inc.	PSI	Outperform	Outperform	<b>C\$36.00</b>	<b>C\$35.00</b>	C\$31.68
Penn West Exploration	PWT	Sector Perform	Sector Perform	<b>C\$10.00</b>	<b>C\$11.00</b>	C\$7.97
Premium Brands Holding Corporation	PBH	<b>Outperform</b>	<b>Sector Perform</b>	<b>C\$24.50</b>	<b>C\$22.00</b>	C\$22.40



## NBF Ratings & Target Price Changes

Company	Symbol	Current Rating	Previous Rating	Current Target	Previous Target	Closing Price
Pure Multi-Family REIT LP	RUF.U	Outperform	Outperform	US\$5.25	US\$5.50	US\$4.53
RONA Inc.	RON	Sector Perform	Sector Perform	C\$12.00	C\$11.50	C\$12.00
Royal Gold Inc.	RGLD	<b>Outperform</b>	<b>Sector Perform</b>	<b>US\$86.00</b>	<b>US\$82.50</b>	US\$78.36
Sandstorm Gold Ltd.	SSL	Sector Perform	Sector Perform	C\$7.25	C\$8.00	C\$6.56
Saputo Inc.	SAP	Sector Perform	Sector Perform	C\$66.00	C\$65.00	C\$66.58
Sulliden Gold Corp.	SUE	<b>Not Rated</b>	<b>Tender</b>	C\$0.00	C\$1.12	C\$1.45
Sun Life Financial	SLF	<b>Sector Perform</b>	<b>Outperform</b>	C\$43.00	C\$41.00	C\$40.10
Supremex Inc.	SXP	Sector Perform	Sector Perform	C\$2.75	C\$2.50	C\$2.80
TMX Group	X	Sector Perform	Sector Perform	C\$63.00	C\$60.00	C\$54.79
Trinidad Drilling Ltd.	TDG	Outperform	Outperform	C\$13.50	C\$14.50	C\$10.01
Vicwest Inc.	VIC	<b>Outperform</b>	<b>Sector Perform</b>	C\$13.00	C\$12.00	C\$10.25
Whitecap Resources Inc.	WCP	Outperform	Outperform	C\$20.50	C\$19.50	C\$16.14

## Veritas Ratings & Target Price Changes

Company	Symbol	Current Rating	Previous Rating	Current Intrinsic Value	Previous Intrinsic Value	Closing Price
Baytex Energy	BTE	Buy	Buy	C\$48.00	C\$48.50	C\$44.94
Bell Aliant	BA	Hold*	Sell	C\$31.00	C\$24.50	C\$30.80
Bonavista Energy	BNP	Buy	Buy	C\$18.00	C\$14.00	C\$13.56
Brookfield Renewable Energy	BEP.un	Sell	Sell	C\$32.50	C\$32.00	C\$31.88
Canadian Natural Resources	CNQ	Buy	Buy	C\$50.00	C\$51.00	C\$44.82
Canadian Tire Corp.	CTC.a	Buy	Buy	C\$125.00	C\$123.00	C\$107.26
CT REIT	CRT.UN	Buy	Buy	C\$12.00	C\$11.80	C\$11.22
Goldcorp	G	<b>Sell</b>	<b>Buy</b>	US\$25.00	US\$25.00	US\$28.32
Manulife Financial	MFC	Buy	Buy	C\$22.50	C\$21.50	C\$21.70
Pengrowth Energy	PGF	Sell	Sell	C\$6.30	C\$6.75	C\$6.82
Sun Life Financial	SLF	Buy	Buy	C\$41.00	C\$38.00	C\$40.09
Valeant Pharmaceuticals	VRX	Sell	Sell	US\$100.00	US\$112.00	US\$106.73
Vermilion Energy	VET	Sell	Sell	C\$66.50	C\$63.00	C\$67.70

## STRATEGIC LIST - WEEKLY UPDATE

(August 5<sup>th</sup> – August 8<sup>th</sup>)

**No Changes this Week:**

**Comments:**

**Energy (Overweight)**

**Canadian Natural Resources (CNQ)**

CNQ reported in-line Q2 results and tweaked FY production guidance down slightly to account for minor operational delays at Primrose and Kirby. CFPS of \$2.39 was up 23% q/q and in line with NBF's \$2.40 estimate and consensus of \$2.41, while production reached a record level of 817.5 mboe/d (+19% q/q) as it included the integration of the acquired Devon assets and record production from Horizon, Pelican Lake, Primary heavy and North American Light Crude. Minor delays at Primrose and Kirby resulted in a 10 mbbbl/d (or 1%) reduction to midpoint production guidance of 804 mbbbl/d. CNQ remains NBF's favourite large cap energy name due to its significant FCF growth curve, and it reiterated its Outperform rating and \$55 target.

CNQ's Q2 financial results were also in-line with Credit Suisse's (CS) estimates of \$1.02 EPS and \$2.45 CFPS. Production came in slightly ahead of CS' 805.1 kboe/d estimate. In addition to updating its guidance, CNQ maintained that it intends to monetize its royalty properties by year end 2014. Given the company's strong financial balance sheet and cash generating power, CS thinks it is less likely that CNQ would just perform an outright sale of the properties as opposed to a possible spin-out or IPO. CNQ remains one of CS' top picks given the company's free cash flow generating potential (CS is forecasting >C\$1 billion in FCF after dividends in F14/F15). It believes CNQ's shares are attractive, trading at 5.9x 2015E EBIDAX compared with historical levels, on average, at ~6.5x.

Veritas thinks investors should look past CNQ's weaker production guidance and instead focus on the Company's growing cash profile after sustaining capital. Veritas calculates that CNQ's free cash flow generates a yield of 9.0% before growth capital, rising to 10.5% next year. Given that CNQ has multiple streams of liquids growth, Veritas expects the Company to continue to grow this free cash as it progresses towards the completion of Phase 2B and Phase 3 of Horizon, in late 2016 and late 2017, respectively; and estimates these phases will bump up Horizon's cash flow potential by more than \$2.50 per share annually, from \$2.20 to \$2.50 per share currently. Veritas maintained its Buy rating and slightly lowered its intrinsic value estimate by \$1.00 to \$50.00/share.

**Inter Pipeline Corp. (IPL)**

IPL reported AFFO/sh (FD) of \$0.36 versus NBF estimate and consensus (per ThomsonOne) of \$0.35. In July, IPL completed the \$1.1- bln first phase expansion of its Polaris pipeline on schedule, kicking off \$90 mln of long-term contracted take-or-pay annual EBITDA. The remaining \$0.3- bln segment of the Polaris expansion continues on track to be commissioned in phases between late 2014 and mid-2017, increasing total annual EBITDA from the Polaris expansion to \$130 mln. Once fully commissioned IPLs ~\$3.3 bln of secured oil sands infrastructure growth is expected to generate ~\$450 mln of incremental annual EBITDA– representing an attractive capital deployment multiple of 7.2x – versus IPL's trading multiple of ~16x.

NBF bumped up its 2015e AFFO/sh (FD) \$0.05 (2%) to \$2.28 (payout ratio: 68%); and NBF now calls for a 15% dividend increase (was 10%) to \$1.48/sh annually for Q4 2014e and another 15% increase to \$1.71/sh for Q4 2015e. Based on its revised estimates and revised dividend growth outlook, NBF's target increased by \$2 to \$36. Combined with ~\$3.0 bln of additional oil sands growth opportunities, representing \$4.00/sh (~10%) unrisks upside to its current valuation. NBF reiterated its Outperform rating.

**Materials (Market Weight)**

**Barrick Gold (ABX)**

In Veritas' view, ABX is the most compelling name in the sector (and is the only Buy rated gold stock) for its rerating potential; but the balance sheet remains a concern. Veritas estimates that ABX has finally started to generate FCF- US\$51 mln in Q2 (adjusted cash from operations of US\$667 mln vs. capex of \$616 mln). Veritas thinks that ABX

## ***The Week at a Glance***

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will continue to generate FCF going into 2015, with cash from Jabal Sayid, Lumwana, Goldstrike, and opportunities in Nevada. Veritas maintained its Buy rating on Barrick Gold and its US\$21.00 intrinsic value estimate.

### **Consumer Staples (Underweight)**

#### **Metro Inc. (MRU)**

NBF published a Q3 F2014 preview note for Metro, which is scheduled to report earnings on August 13. NBF is projecting EPS of \$1.64, in line with consensus (10% growth y/y largely reflecting significant share repurchases over the past 12 months.); same store sales growth (sssg) of 1.3% vs. -1.5% last year and 1.0% last quarter. NBF expects sssg to be aided by higher internal inflation, improving trends in Food Basics (recovery program) and favourable y/y comparisons (negative sssg last year). It forecasts positive basket growth to be partially offset by negative traffic growth (in part due to higher gas prices). NBF forecasts sales of \$3.64 bln vs. \$3.57 bln last year; gross margin of 18.8% (flat y/y); EBITDA margin (excl. ATD) of 7.1% (-25 bps y/), and EBITDA of \$256.6 mln vs. \$261.0 mln last year. NBF maintained its Outperform rating and increased its target price to \$73.00 (from \$70). The target is based on a 13.0x multiple on blended F2015/F2016 EPS.

### **Financials (Market Weight)**

#### **CI Financial Corp. (CIX)**

Q2 results: EPS of \$0.45 vs. NBF estimate and consensus of \$0.47. EBITDA of \$222 mln fell short of NBF \$227 mln forecast, mainly on account of a lower-than-expected average management fee rate. As expected, the monthly dividend of \$0.10/share was unchanged. Gross fund sales increased 4% y/y to \$3.5 billion, the highest level for any Q2 in CI's history. Net sales of \$996 million represented the highest level for any Q2 in over a decade. All major sales channels contributed to the positive result. Coupled with strong investment returns, this drove growth in AUM of 4% q/q to \$100 bln. Although Q2 EBITDA fell short of NBF forecast, trailing 12-month net sales reached a new record and was significantly higher than those for other publicly-traded mutual fund companies. In NBF's view, CI remains well positioned to deliver superior earnings growth and it reiterated its Outperform and \$40.00 target price.

#### **Manulife Financial Corp. (MFC)**

MFC reported Q2 F2014 fully-diluted EPS of \$0.49, versus NBF estimate of \$0.40/share. Core EPS came in at \$0.41, just missing its forecast of \$0.43. MFC announced a quarterly dividend increase of 2.5 cents per share or 19% to 15.5 cents per share. Management also raised its target dividend payout range to 30%-40% from 25%-35%. These changes demarcate the front end of new era at MFC, one in which the company will focus less on building a fortress balance sheet and more on creating shareholder value. This viewpoint forms the basis of NBF Outperform thesis. In the third quarter of each year, MFC undertakes an annual review of actuarial methods and assumptions. While its review is not complete, the impact should be near last year's outcome (a charge of \$252 million). In addition, in the fourth quarter of F2014, MFC will implement new actuarial standards for economic reinvestment assumptions used in the valuation of insurance contract liabilities. Assuming June 30, 2014 interest rates (and other assumptions) hold, MFC estimates these revisions will result in a charge to net income of up to \$200 million. NBF maintains Outperform rating; its price target increased to \$26.00 from \$24.00.

Credit Suisse slightly trimmed its core earnings estimate for F2014 and kept its F2015 and F2016 earnings estimates unchanged. Credit Suisse maintains Outperform rating based on earnings growth profile from wealth management, Asia and cost reduction and balance sheet management. Its target price is unchanged at \$26.00.

Veritas maintains its Buy recommendation on MFC and expects core earnings will continue to make steady progress despite taking a breather in Q2. Its intrinsic value estimate of \$22.50 incorporates a target multiple of 1.5x and an F2016E BV/share of \$17.70.

#### **Sun Life Financial (SLF)**

SLF reported Q2 F2014 EPS (excl. - Sun Life Exchangeable Capital Securities (SLEECs) conversion) of \$0.69, versus \$0.65 in Q1 F2014 and \$0.64 in Q2 F2013 (on a continuing operations basis). Earnings just missed NBF forecast of \$0.70. Despite a drop in institutional sales, MFS handily beat NBF estimate for core earnings as the U.S. investment manager reported an efficiency ratio of 75% (including fair value adjustments for share-based payments), beating NBF forecast by 100 bps. NBF thinks the company will sustain this improved efficiency well into the future.

## *The Week at a Glance*

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In Q4 F2014 SLF will implement new actuarial standards and expects to book \$300 million in gains (after-tax). This gain will largely be offset by SLF increasing its reserves for longevity risk. SLF's stock price has appreciated 11% since NBF's upgrade in April and although NBF remains long-term bulls on the SLF story it thinks this optimism is fairly reflected in the price. As such, NBF downgraded SLF to Sector Perform from Outperform. NBF elected to raise its price target to \$43 from \$41. The price target P/E multiple is 12.5x NBF NTM EPS one-year from today, an 8% premium to peers. SLF currently trades at 13.0x NBF forecasted EPS over the next twelve months (NTM), a 3% premium to peers. Estimate Changes: EPS (excluding SLEECs conversion) drops to \$2.83 from \$2.84 in F2014, but rises to \$3.33 from \$3.25 in F2015, and to \$3.62 from \$3.58 in F2016.

Credit Suisse increased its F2014e EPS based on the better than expected Q2 results and balance sheet management. Credit Suisse also increased its target price to \$45.00 from \$43.00 reflecting the 3% increase to its 2015E EPS.

Veritas' issue with SLF's quarter is (mostly) unrelated to performance, and is more concerned with valuation. SLF has returned 10.9% since the beginning of Q1 reporting on May 2<sup>nd</sup> (vs. 5.2% at Manulife and 3.1% at Great-West). Veritas believes that SLF has good clarity on exceeding the F2015 earnings objective of \$1.85 bln, but the above noted price increase has provided for a relatively expensive stock. The current price implies a multiple of 1.7x its F2015E BV/share, while Veritas projected ROE suggests 1.5x might be more appropriate based on historical multiples. Still, Veritas does not see significant downside for the name, barring an extraneous event, and believes that a turn in rates could provide for additional gains. Veritas maintains its Buy recommendation, for now, and increased its intrinsic value estimate to \$41.00 (Veritas does not employ hold recommendations).

### **Information Technology (Overweight)**

#### **Constellation Software (CSU)**

CSU reported Q2 revenue of \$416 mln, in line with consensus for y/y growth of 39% (5-6% y/y organic growth). EBITDA margin of 20.5% rebounded nicely from 16.9% last quarter and was just below the 20.7% achieved in the same quarter last year. This margin is very strong despite the lower margin from Total Specific Solutions (TSS) that accounted for 14% of total Q2 revenue vs. zero last year. EPS of \$3.07/sh beat consensus of \$2.93/sh. Five acquisitions were closed in the quarter for gross payments of \$20 mln compared with six in Q1 (for \$18 mln) and 14 in H1 2013 (for \$178 mln). In NBF's view we are in a tech bull market. Valuations are moving higher and vendors may be more reluctant to sell their businesses or will push for higher valuations. This is obviously a headwind for CSU. NBF's F2015 revenue estimate assumes a healthy amount of M&A over run-rate levels; around \$200 mln. This revenue would need to be acquired sooner than later or else consensus estimates are at risk of coming down. This would require a lot of deals in the ~\$4 mln size range (typical for the company) or the successful conclusion of some larger deals (that are likely much more competitively bid, riskier and potentially offer a lower return). CSU currently trades at ~17x on NBF 2015e EPS; a premium to the S&P/TSX. The company is very well run, offers a globally diversified basket of vertical software exposure, and upside from the continued execution of M&A. NBF's \$300.00 target price equates to ~19x P/E on 2015 estimates. While it can't get too excited about adding to positions up here, NBF believes the stock offers an attractive dividend for patient investors and upside from potential M&A.

### **Telecommunication Services (Underweight)**

#### **BCE Inc. (BCE)**

Bell reported Q2 revenues of \$4.649 bln vs. NBF at \$4.623 bln (consensus \$4.637 bln). EBITDA of \$1.830 bln compared with NBF at \$1.822 bln (consensus \$1.820 bln). FCF of \$815 mln missed NBF's \$879 mln estimate (consensus \$929 mln) due to higher capex and lower working capital. Adj. EPS of \$0.82 missed NBF's \$0.84 estimate (consensus \$0.83). Wireline Residential RGU performance improved y/y (-43K versus -54K in Q213), but was weaker than NBF's estimate for a net loss of 37K due to lower Internet adds. Wireline Revenues of \$2.485 bln beat NBF estimate of \$2.472 bln (consensus \$2.479 bln) and reflected BCE's third consecutive quarter of positive Residential Services growth. Media Revenues of \$761 mln were below NBF estimate of \$771 mln while EBITDA of \$210 mln was in line, with implied margins of 27.6%. NBF's unchanged \$51.50 target price is based on the average of a straddling of the 2014E/2015E metrics in its DCF to which it adds \$0.89 to capture the value of various investments and a straddling of the 2015E/2016E values in its NAV. The implied EV/EBITDA multiples are 7.5x 2015e and 7.2x 2016e. With potential capital appreciation of 6.0% complemented by a dividend yield of 5.1% for a total potential return of 11.1%, NBF maintained its Outperform rating on BCE.

## ***The Week at a Glance***

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Credit Suisse's Neutral rating reflects its view that BCE is reasonably valued at 7% FCF yield as consumer Fibe and wireless traction offsets continued caution on overall organic revenue growth trends (estimated at 1% y/y pro-forma in the quarter). With the Bell Aliant acquisition, BCE should remain on track for 5% dividend per annum growth in 2015, although ongoing momentum in residential wireline will remain key to the longer-term story in light of the company's pro-forma asset mix.

Veritas is maintaining its Buy recommendation for BCE and Sell for TELUS. Roughly 30% of BCE's EBITDA is generated from the wireless segment, compared to 65% for TELUS. With BCE's wireline results turning positive in the second half of this year, there will be less reliance on the wireless segment to fuel dividend growth. Some of the improvement in Bell's wireless business, such as that from mobile TV growth, is also unaffected by new entrant expansion. Finally, TELUS has a 40% and 50% market share in BC and AB, respectively and Veritas expects that any renewed efforts by a new entrant would focus on these high-ARPU provinces. BCE's market share in these provinces is 18% and 23%, lowest amongst the incumbents. Veritas estimates that TELUS trades at a slight premium of 7.7x F14 EBITDA, compared to 7.3x for BCE. TELUS' F15 FCFE yield equates to 5.7%, versus 7% for BCE.

### **TELUS Corp. (T)**

Q2 revenues of \$2.951 bln beat NBF estimate of \$2.942 bln (consensus \$2.940 bln) with EBITDA of \$1.073 bln comparing with NBF forecast of \$1.067 bln (consensus \$1.071 bln). FCF of \$210 mln missed NBF estimate of \$298 mln due to higher capex of \$636 mln (NBF estimate \$540 mln). EPS of \$0.62 was above NBF estimate of \$0.59 (consensus \$0.58). Wireless Revenues of \$1.604 bln beat NBF estimate of \$1.583 bln, mainly due to higher equipment sales and to a lesser extent as a result of better than anticipated Network Revenues. Wireline Revenues of \$1.347 bln missed NBF estimate of \$1.359 bln (consensus \$1.363 bln), primarily due to weaker than expected Voice Revenues. Following minor adjustments to its forecasts and moving forward the basis of its valuation to the average of a straddling of the 2014e/2015e metrics in its DCF and a straddling of the 2015e/2016e values in its NAV, NBF \$41.00 target remains unchanged. Implied EV/EBITDA multiples are 7.5x 2015e and 6.9x 2016e. With potential capital appreciation of +7.2% complemented by a dividend yield of 4.0% for a total potential return of +11.2%, NBF maintained its Outperform rating on TELUS.

### **Utilities (Underweight)**

#### **Northland Power Inc. (NPI)**

NPI reported distr. CFPS of \$0.22 versus NBF's estimate of \$0.24 and consensus of \$0.23 on adj. EBITDA of \$78 mln vs. NBF's \$83 mln estimate. Management increased its 2014 adj. EBITDA guidance range to \$350 to \$360 mln (from \$345 to \$355 mln), while maintaining its 2015 adj. EBITDA guidance of \$380 to \$400 mln. NPI's Gemini project in full swing as construction continues to progress on the EUR2.8 bln (gross; ~\$4.3 bln), 600 MW offshore wind project in the Netherlands. Overall, horizontal directional drilling in the ocean is expected to begin in August and the project remains on track to be completed in 2017. NBF ascribes ~\$2.00/sh in value to the project; however, it is conservatively awaiting the achievement of major construction milestones through 2015 prior before including the project in its estimates and valuation.

Following NPI's Q2 results Veritas maintained its Buy recommendation and \$18.75 per share value estimate.

Source: NBF Research, Veritas Research, Credit Suisse Research, Bloomberg, Thomson One

NBF Strategic List (August 8, 2014)								WEIGHT*		NOTES**
Ticker	ADDITION DATE	ADDITION PRICE	CLOSE PRICE	YIELD (%)	BETA	Strategic List %	% SPTSX			
<b>Consumer Discretionary</b>								<b>4.8</b>	<b>5.5</b>	
Gildan Activewear	GIL	21-May-14	\$ 58.18	\$ 63.21	0.7	1.0	2.4			
Thomson Reuters Corp.	TRI	27-Feb-14	\$ 38.31	\$ 40.70	3.5	0.8	2.4			
<b>Consumer Staples</b>								<b>2.3</b>	<b>2.7</b>	
George Weston Ltd.	WN	31-Jul-12	\$ 59.25	\$ 86.34	1.9	0.7	1.2			
Metro Inc.	MRU	4-Dec-13	\$ 63.62	\$ 71.17	1.7	0.6	1.2			
<b>Energy</b>								<b>30.9</b>	<b>26.3</b>	
AltaGas Ltd.	ALA	30-Oct-13	\$ 38.19	\$ 49.10	3.6	0.7	5.2			
Can. Natural Resources Ltd.	CNQ	31-Jul-12	\$ 27.35	\$ 45.49	2.0	1.5	5.2			
Crescent Point Energy Corp.	CPG	3-Oct-12	\$ 43.00	\$ 43.85	6.3	1.0	5.2			
EnCana Corp.	ECA	9-Jul-14	\$ 24.05	\$ 23.76	1.3	1.2	5.2			
Inter Pipeline Ltd.	IPL	5-Jun-13	\$ 23.71	\$ 34.14	3.8	0.7	5.2			
Suncor Energy Inc.	SU	31-Jul-12	\$ 30.66	\$ 42.75	2.6	1.5	5.2			
<b>Financials</b>								<b>33.9</b>	<b>34.1</b>	
CI Financial Corp.	CIX	6-Mar-13	\$ 26.97	\$ 34.36	3.5	0.8	4.8			
First Capital Realty	FCR	12-Feb-14	\$ 17.22	\$ 18.84	4.6	0.6	4.8			
Intact Financial	IFC	10-Oct-12	\$ 59.36	\$ 72.21	2.7	0.6	4.8			
Manulife Financial Corp.	MFC	26-Mar-14	\$ 21.42	\$ 21.73	2.9	1.3	4.8			
Royal Bank of Canada	RY	19-Jun-13	\$ 60.69	\$ 78.92	3.6	0.9	4.8			
Sun Life Financial	SLF	4-Jun-14	\$ 38.02	\$ 40.35	3.6	1.1	4.8			
Toronto Dominion Bank	TD	31-Jul-12	\$ 39.46	\$ 55.41	3.4	0.9	4.8			
<b>Health Care</b>								<b>0.0</b>	<b>3.1</b>	
<b>Industrials</b>								<b>7.9</b>	<b>7.8</b>	
CAE Inc.	CAE	5-Mar-14	\$ 15.31	\$ 13.81	1.7	0.8	4.0			
Progressive Waste Solutions	BIN	31-Oct-12	\$ 19.33	\$ 26.90	2.4	0.6	4.0			
<b>Information Technology</b>								<b>2.2</b>	<b>1.7</b>	
CGI Group Inc.	GIB.A	22-Aug-12	\$ 25.83	\$ 37.03	0.0	0.8	1.1			
Constellation Software	CSU	30-Oct-13	\$ 189.57	\$ 269.97	1.6	0.5	1.1			
<b>Materials</b>								<b>12.2</b>	<b>12.0</b>	
Barrick Gold Corp.	ABX	31-Jul-12	\$ 33.01	\$ 20.55	1.1	1.2	6.1			
First Quantum Minerals	FM	3-Apr-13	\$ 17.96	\$ 24.69	0.6	2.0	6.1			
<b>Telecom Services</b>								<b>4.1</b>	<b>4.9</b>	
BCE Inc.	BCE	23-Jan-13	\$ 43.92	\$ 48.11	5.1	0.6	2.1			
TELUS Corp	T	31-Jul-12	\$ 31.31	\$ 38.01	4.0	0.7	2.1			
<b>Utilities</b>								<b>1.7</b>	<b>2.0</b>	
Canadian Utilities Ltd.	CU	31-Jul-12	\$ 35.00	\$ 38.39	2.8	0.7	0.9			
Northland Power Inc.	NPI	8-May-13	\$ 19.43	\$ 17.52	6.2	0.7	0.9			

Source: Bloomberg, Thomson One (Priced August 8, 2014 at 12:47pm EDT)

\* Individual position weights reflect an adjustment for Health Care. The Health Care weighting has been reallocated to sectors rated "overweight" with any remaining weight reallocated proportionally to the remaining sectors.

As such, the individual position weights will exceed the total sector weights and may not sum to 1

# The Economic Calendar

(August 11<sup>th</sup> – August 15<sup>th</sup>)

## U.S. Indicators

Date	Time	Release	Period	Previous	Consensus
12-Aug	07:30	NFIB Small Business Optimism	Jul	95	--
12-Aug	10:00	JOLTS Job Openings	Jun	4635	--
12-Aug	14:00	<b>Monthly Budget Statement</b>	Jul	--	-\$100.0B
13-Aug	07:00	MBA Mortgage Applications	Aug 8	1.60%	--
13-Aug	08:30	<b>Retail Sales Advance MoM</b>	Jul	0.20%	0.30%
13-Aug	08:30	Retail Sales Ex Auto MoM	Jul	0.40%	0.40%
13-Aug	08:30	Retail Sales Ex Auto and Gas	Jul	0.40%	--
13-Aug	08:30	Retail Sales Control Group	Jul	0.60%	--
13-Aug	10:00	Business Inventories	Jun	0.50%	0.40%
14-Aug	08:30	<b>Initial Jobless Claims</b>	Aug 9	289K	--
14-Aug	08:30	<b>Import Price Index MoM</b>	Jul	0.10%	-0.40%
14-Aug	08:30	Continuing Claims	Aug 2	2518K	--
14-Aug	08:30	Import Price Index YoY	Jul	1.20%	--
14-Aug	08:45	Bloomberg Aug. United States Economic Survey			
14-Aug	09:45	Bloomberg Consumer Comfort	Aug 10	36.2	--
15-Aug	08:30	<b>Empire Manufacturing</b>	Aug	25.6	20
15-Aug	08:30	<b>PPI Final Demand MoM</b>	Jul	0.40%	0.10%
15-Aug	08:30	PPI Ex Food and Energy MoM	Jul	0.20%	0.20%
15-Aug	08:30	PPI Final Demand YoY	Jul	1.90%	1.70%
15-Aug	08:30	PPI Ex Food and Energy YoY	Jul	1.80%	1.60%
15-Aug	09:00	Net Long-term TIC Flows	Jun	\$19.4B	--
15-Aug	09:00	Total Net TIC Flows	Jun	\$35.5B	--
15-Aug	09:15	<b>Industrial Production MoM</b>	Jul	0.20%	0.40%
15-Aug	09:15	<b>Capacity Utilization</b>	Jul	79.10%	79.20%
15-Aug	09:15	<b>Manufacturing (SIC) Production</b>	Jul	0.10%	--
15-Aug	09:55	<b>Univ. of Michigan Confidence</b>	Aug P	81.8	82.8

## Canadian Indicators

Date	Time	Release	Period	Previous	Consensus
11-Aug	08:15	<b>Housing Starts</b>	Jul	198.2K	--
11-Aug	10:00	Bloomberg Nanos Confidence	Aug 8	58.9	--
13-Aug	09:00	<b>Teranet/National Bank HPI MoM</b>	Jul	0.90%	--
13-Aug	09:00	Teranet/National Bank HPI YoY	Jul	4.40%	--
13-Aug	09:00	Teranet/National Bank HP Index	Jul	163.98	--
14-Aug	08:30	New Housing Price Index YoY	Jun	1.50%	--
14-Aug	08:30	<b>New Housing Price Index MoM</b>	Jun	0.10%	--
15-Aug	08:30	<b>Manufacturing Sales MoM</b>	Jun	1.60%	--
15-Aug	09:00	<b>Existing Home Sales MoM</b>	Jul	0.80%	--
15-Aug	09:00	Bloomberg Aug. Canada Economic Survey			

Source : Bloomberg

## S&P/TSX QUARTERLY EARNINGS CALENDAR

### Monday August 11<sup>th</sup>, 2014

COMPANY*	SYMBOL	EPS ESTIMATE
Aecon Group Inc	ARE	0.118
Emera Inc	EMA	0.313
Ensign Energy Services Inc	ESI	0.149
Legacy Oil + Gas Inc	LEG	0.085

### Tuesday August 12<sup>th</sup>, 2014

COMPANY*	SYMBOL	EPS ESTIMATE
Allied Properties Real Estate Investment Trust	AP.un	0.53
Black Diamond Group Ltd	BDI	0.307
Element Financial Corp	EFN	0.108
Fortuna Silver Mines Inc	FVI	0.054
Ithaca Energy Inc	IAE	0.082
Northern Property Real Estate Investment Trust	NPR.un	0.596
RONA Inc	RON	0.334
Russel Metals Inc	RUS	0.47
Tahoe Resources Inc	THO	0.213

### Wednesday August 13<sup>th</sup>, 2014

COMPANY*	SYMBOL	EPS ESTIMATE
Aimia Inc	AIM	0.245
ATS Automation Tooling Systems Inc	ATA	0.143
<b>CAE Inc</b>	<b>CAE</b>	<b>0.183</b>
China Gold International Resources Corp Ltd	CGG	N/A
<b>Crescent Point Energy Corp</b>	<b>CPG</b>	<b>0.413</b>
First Majestic Silver Corp	FR	0.063
IAMGOLD Corp	IMG	0.025
<b>Metro Inc</b>	<b>MRU</b>	<b>1.641</b>
Onex Corp	OCX	N/A
Pan American Silver Corp	PAA	0.019
Silver Wheaton Corp	SLW	0.199
TransGlobe Energy Corp	TGL	0.223

### Thursday August 14<sup>th</sup>, 2014

COMPANY*	SYMBOL	EPS ESTIMATE
Algonquin Power & Utilities Corp	AQN	0.063
Argonaut Gold Inc	AR	0.021
B2Gold Corp	BTO	0.019
Boardwalk Real Estate Investment Trust	BEI.un	0.864
Pacific Rubiales Energy Corp	PRE	0.441

### Friday August 15<sup>th</sup>, 2014

None

Source: Bloomberg, NBF Research

\*Companies of the S&P/TSX index expected to report. Stocks from the Strategic List are in Bold.



## S&P500 INDEX QUARTERLY EARNINGS CALENDAR

### Monday August 11<sup>th</sup>, 2014

<b>COMPANY*</b>	<b>SYMBOL</b>	<b>EPS ESTIMATE</b>
Priceline Group Inc/The	PCLN	12.026
Sysco Corp	SYU	0.501
Ventas Inc	VTR	1.099

### Tuesday August 12<sup>th</sup>, 2014

<b>COMPANY*</b>	<b>SYMBOL</b>	<b>EPS ESTIMATE</b>
Fossil Group Inc	FOSL	0.963

### Wednesday August 13<sup>th</sup>, 2014

<b>COMPANY*</b>	<b>SYMBOL</b>	<b>EPS ESTIMATE</b>
Cisco Systems Inc	CSCO	0.528
Deere & Co	DE	2.224
Macy's Inc	M	0.858

### Thursday August 14<sup>th</sup>, 2014

<b>COMPANY*</b>	<b>SYMBOL</b>	<b>EPS ESTIMATE</b>
Agilent Technologies Inc	A	0.743
Applied Materials Inc	AMAT	0.269
Autodesk Inc	ADSK	0.285
Kohl's Corp	KSS	1.072
NetApp Inc	NTAP	0.568
Nordstrom Inc	JWN	0.944
Perrigo Co PLC	PRGO	1.554
Wal-Mart Stores Inc	WMT	1.214

### Friday August 15<sup>th</sup>, 2014

<b>COMPANY*</b>	<b>SYMBOL</b>	<b>EPS ESTIMATE</b>
Estee Lauder Cos Inc/The	EL	0.559

Source: Bloomberg, NBF Research

\* Companies of the S&P500 index expected to report. Stocks from the Credit Suisse U.S. Focus List are in Bold.