



Journal: H: Hiding Places; QBR.B: Gift Horses; Welcome to the bear market

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HIGHLIGHTS FROM THE WEEK

May 13 2022

H: Hiding Places

Utilities can be poor places to hide when interest rates are rising, but this cycle may offer opportunities for the selective stock picker.

As Darryl explained this week, Hydro One's (TSX: H) utility operations are regulated by the Ontario Energy Board (OEB) and are subject to an automatic adjustment mechanism (AAM) that governs cost of capital parameters, including allowed return on equity.

The AAM measures changes in bond yields, government and utility, to annually adjust the allowed ROE. Using April data, Darryl expects the AAM to increase H's allowed ROE to more than 9.0% in Q4, as compared to 8.3% last year.

Higher allowed ROE, ~5% annual rate base growth and best-in-class debt service metrics underpin Darryl's expectation for 5% annual dividend growth at H through 2027.

See the report for more: [Q1-F22: Automatic Relief](#).

QBR.B: Looking a Gift Horse in the Mouth

Quebecor (TSX: QBR.B) might look like it's in the driver's seat to acquire Freedom, but Desmond says that investors, quite rightly, should stay cautious about that prospect.

Freedom generated \$168 million in simple free cash flow (EBITDA less capital expenditures less lease payments) over the last 12 months, which looks great versus negative cash flow in previous years.

But Shaw has drastically pulled back on capex since March 2021 when the deal with Rogers was announced.

Furthermore, Shaw added barely 1/10th of the postpaid wireless subscribers it added a year ago, and fewer new subscribers means fewer device subsidies to underwrite, which also boosted EBITDA.

The bottom line is that QBR.B could be paying 40x-60x free cash flow for an asset at a time of rising interest rates.

See the report for Desmond's calculations: [Q1-F22: Fearing Freedom Deal](#).

Welcome to the Bear Market

We all can see that the speculative excesses of the past two years are unwinding.

Fortunes are being lost ([How More Than \\$1 Trillion of Crypto Vanished in Just Six Months](#)) and if Charles Mackay was still with us, he could add a new chapter to his book first published in 1841: [Extraordinary Popular Delusions and the Madness of Crowds](#).

Our most recent Fact Finder with Bob Seeman was a timely reminder.

Mr. Seeman had a first-row seat to the Dot-Com Bust and saw the same mania beginning in crypto in 2017.

"That was when the price was taking off again. It was beginning to make headlines. I started going to a number of blockchain cryptocurrency conferences. I met a lot of these companies and it really seemed like this was dot-com over again. I had been in the dot-com. I founded a dot-com company which went bust like almost all the others. I didn't see a lot there [in these new crypto companies]. I saw a lot of hype, just like in the dot-com."

Mr. Seeman, not one for euphemisms, went on to [author a series of books about Bitcoin](#) (Bitcoin: The Coinmen; Bitcoin: Unlicensed Gambling; Bitcoin: The Mother of all Scams: Lies, manipulation and gambling; Bitcoin: The New Gambling Addiction).

Whether cryptocurrencies have a future beyond moving money around for organized crime or duping [financially illiterate retail traders](#) remains to be seen.

As he said: "Bitcoin is gambling. It's not an investment. It's not even an asset. It has no cash flow or utility."

Watch the replay: [Fact-Finding Video 91: Why Bitcoin Isn't Digital Gold - With Bob Seeman](#).

Note this was one of our best-attended Fact Finders ever.

The Mood of the Markets on Twitter This week

From [Scott Barlow of The Globe and Mail](#):



Scott Barlow @SBarlow_ROB · May 11



TAM is dead



Ivan the K™ @IvanTheK · May 11



From [Jacob Silverman, a journalist writing about crypto:](#)



Jacob Silverman 
@SilvermanJacob



Jokes about crypto madness aside, this is going to get very grim and very materially real for some people.



FY 
@fy_crypto



lost my life savings.. lost my life

definitely not feeling good

\$BTC \$LUNA \$ETH

3:57 AM · May 11, 2022 · Twitter for iPhone

9:05 AM · May 11, 2022 · Twitter Web App

Accounting Training

We've had a great response so far to our new accounting training module: Growth Companies: Is the Growth Real?

We are hosting a group session on June 8 or we can arrange a private session for your firm.

Please [contact sales](#) to find out more and discuss options.

Veritas Advanced Accounting Training for 2022

Growth Companies Accounting:
Is the Growth Real?



We'll help you separate the companies with long-term growth staying power from the ones that are using tricks to fool investors.

With Dimitry Khmelnitsky and Anthony Scillipoti

Weekend Reading

[KPMG faces £14.4mn fine for misleading UK regulators over Carillion audit](#): A UK tribunal ruled that during the inspections KPMG auditors created documents, including meeting minutes, spreadsheets and assessments of goodwill, but passed them off as having been produced before the accounts were signed off. - *Financial Times*

Note that we covered Carillion in our 2021 training module: Staying Vigilant.

[CFA Institute calls for tougher disclosure rules for Spac sponsor](#)s: The CFA's recommendation regarding sponsors goes further than the regulator's proposals by urging more detailed information from Spac executives. - *Financial Times*

We'll leave you this week with this quote from Mr. Mackay that is as true now as it was during the 1840s when he wrote his book:

"Of all the offspring of Time, Error is the most ancient, and is so old and familiar an acquaintance, that Truth, when discovered, comes upon most of us like an intruder, and meets the intruder's welcome."

Have a great weekend,

Scott

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Our analysts rate stocks based on their view of how the stock will perform over the next 12 months relative to their sector of coverage.

Rating	Description
Buy	Expected to generate a meaningful positive return or outperform analyst's sector coverage over the next 12 months
Reduce	Expected to underperform analyst's sector coverage over the next 12 months
Sell	Expected to generate a negative return over the next 12 months

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