



## Q&A HOTLINE

**Questions on Accounting (or governance issues)?** [Click here to submit](#) to hear from one of Veritas' accounting experts.

## MATERIAL NEWS

**HBC | If it's broke, fix it |** ([Email Kathleen](#))

Just in: [Land and Buildings \("L&B"\) issues a letter to HBC shareholders](#) including a potential call for a Special Meeting to remove directors. The real estate investment firm indicates a recent meeting with management where HBC leadership claimed all options to improve value have been examined. L&B disagrees and suggests: a) reinvestment in Saks Fifth Avenue flagship; b) focus in Canada; c) exit Europe; d) monetize real estate JV, and more. *Much of this appears reasonable at first glance.*

## HOUSING WATCH

**GTA HOUSING | Covering your AAA's |** ([Click to read our Jun 22 GTA Housing Market Update](#))

Interesting quote from the [CMHC's latest report](#) (re: GTA home prices): "The continued rise in house prices could not be explained by fundamental economic drivers alone..." The CMHC tags the GTA (and Vancouver, of course) as "overvalued". Meanwhile, the [FT goes after 2012 legislation](#) ([more here](#)) which enhanced Europe's interest (now €55B) sitting in Canadian covered bonds (rated triple A, from double A banks with triple A sovereign credit, says an investor); these account for 10% of our \$1.5T mortgage market.

## TRENDING REPORTS

**SUNCOR | SELL—\$36.50 | Downside:10% | N2K;Q2-F17 | OIL SANDS ARE A DOUBLE-EDGED SWORD |** ([Click to read](#) | [Email Nima](#))

Yet another fire at Syncrude and 29% partner TOTAL S.A. is balking at picking up the \$2B cost overrun tab on the original wildfires from last year. With the resultant uncertainty, we question the reliability of the SU's oil sands. At an 8% FCF yield, SU is fully valued. *SELL.*

**CENOVUS | BUY—\$21.50 | Upside:103% | N2K;Q2-F17 | CAN CENOVUS DE-LEVER |** ([Click to read](#) | [Email Nima](#))

Assuming the market does not hate the assets—investors liked half of FCCL well enough at \$17.45—then, if CVE can de-lever, we think it can conceivably recapture much of its lost value. Forgiveness can have very high returns. *BUY.*

**CONSTELLATION | Top SELL—\$600.00 | Downside:10% | N2K;Q2-F17 | CSU'S ACQUISITION MULTIPLES |** ([Click to read](#) | [Email Howard](#))

CSU's mystery multiple for acquisitions gets exposed via our analysis. 0.8x Price-to-Sales and 1.3x Price-to-Maintenance multiples are lower than expected on recent acquisitions. Despite our higher valuation, CSU is still ambitiously priced with PE and other strategic buyers dogging deals. *SELL.*

**CAPITAL POWER | Top BUY—\$29.50 | Upside:19% | N2K;Q2-F17 | CREATING A CATALYST |** ([Click to read](#) | [Email Darryl](#))

We await investor confidence toward electricity market reform in Alberta—a catalyst to reach \$29.50. While robust electricity demand in Alberta, planned PPA terminations, and TransAlta's decision to mothball Sundance Units 1 and 2 provided a boost to forward electricity prices, the final capacity market design is uncertain. *BUY.*

**LOBLAW | BUY—\$81.00 | Upside:19% | N2K;Q2-F17 | MINIMUM WAGE INCREASE TRIMS INTRINSIC |** ([Click to read](#) | [Email Kathleen](#))

Tacking \$190M to F18E costs (minimum wage increases) and assuming no potential cost savings to offset, we take our valuation down to \$81 (from \$85). The breakdown is \$68 from Retail, \$2 from Financial Services and \$1 from the 82.7% interest in CHP.UN. *BUY.*

**HOME CAPITAL | Top SELL—\$12.50 | Downside:11% | FLASH | NO CLEAR LANDING |** ([Click to read](#) | [Email Mike](#))

We're cautious as earnings power may diminish materially with the residential mortgage market cooling and 70% annual portfolio churn with still-elevated funding costs. Strong regulatory capital doesn't insulate vs. our "what-if" scenario analysis and regulatory risks. *SELL.*

## ACCOUNTING UPDATES

**Our Monthly Vigil: The Mechanics of Banks' Restructuring Charges** ([Click to read](#)). We look closely at restructuring charges that are excluded from adjusted reported earnings (only RY integrates these costs). Exclusions provide a material earnings boost to NA and CM. Our analysis also uncovers the timing mismatch between reported earnings and actual cash earnings, and partial reversals associated with estimation risk. *Call us for a lesson on restructuring reporting—we can help you find the true costs of doing (away with) business.*

## CLIENT OUTREACH

Meeting and call invitations are coming later this week. *Stay tuned!*

## TOP IDEAS

**Top Ideas and Intrinsic Value:** Our Top Ideas are high conviction calls to BUY or SELL a stock. Valuations should be considered accurate the day of issuance, but are fluid as time progresses—Our BUY and SELL calls rarely use valuation as a primary input.

- **Top SELL CSU increases intrinsic:** Lower than expected Price-to-Sales acquisitions reduces the downside for now.
- **Top SELL HCG updated intrinsic:** Cooling housing market and regulatory headwinds translate into diminished earnings.
- **Top SELL IMAX intrinsic lowered:** Challenging box office environment and new lows for its PSA highlight the downside.
- **Top BUY NEM upped intrinsic:** A healthy cash balance and LT gold outlook at \$1,300/oz key our +\$1 increase.

**NOTE: If Google Chrome is your default browser, the links below will work. Mozilla's Firefox appears to be less reliable.**

### TOP BUYS (Click to read more)

	Symbol	Price	Intrinsic Value	Exp. Return	Yield	Mkt Cap (\$B)	30 Day Chg
<a href="#">Husky Energy Inc.</a>	HSE	14.58	21.50	47.5%	0.0%	14.7	-1.0%
<a href="#">Goldcorp Inc.</a>	GG	US 13.05	US 19.00	45.6%	0.6%	US 11.3	1.1%
<a href="#">Barrick Gold Corp.</a>	ABX	US 16.87	US 21.00	24.5%	0.7%	US 19.7	6.0%
<a href="#">Metro Inc.</a>	MRU	42.09	51.00	21.2%	1.5%	9.6	-1.4%
<a href="#">Capital Power Corp.</a>	CPX	24.78	29.50	19.0%	6.7%	2.6	1.9%
<a href="#">Allied Properties REIT</a>	AP.UN	38.45	45.00	17.0%	4.0%	3.3	-1.2%
<a href="#">Shaw Communications Inc.</a>	SJR.B	27.59	31.50	14.2%	4.3%	13.7	-2.5%
<a href="#">Canadian Imperial Bank of Commerce</a>	CM	107.57	121.00	12.5%	4.7%	46.9	2.1%
<a href="#">Telus Corp.</a>	T	45.19	50.00	10.6%	4.4%	26.8	0.9%
<a href="#">Newmont Mining Corp.</a>	NEM	US 37.06	US 41	10.6%	0.8%	US 19.8	14.4%
<a href="#">CGI Group Inc.</a>	GIB.A	65.84	71.00	7.8%	0.0%	19.2	-0.6%
<a href="#">Quebecor Inc.</a>	QBR.B	43.97	45.00	2.3%	0.5%	5.3	2.4%

### TOP SELLS (Click to read more)

	Symbol	Price	Intrinsic Value	Exp. Return	Yield	Mkt Cap (\$B)	30 Day Chg
<a href="#">Valeant Pharmaceuticals Intl., Inc.</a>	VRX	US 16.84	US 9.00	-46.6%	0.0%	US 5.9	-2.7%
<a href="#">Aimia Inc.</a>	AIM	1.53	0.90	-41.2%	0.0%	0.2	-11.6%
<a href="#">Hudson's Bay Company</a>	HBC	10.60	7.00	-34.0%	1.9%	1.9	-8.4%
<a href="#">Artis REIT</a>	AX.UN	13.07	9.00	-31.1%	8.3%	2.0	-0.2%
<a href="#">Badger Daylighting Ltd.</a>	BAD	26.56	20.50	-22.8%	1.5%	1.0	-0.2%
<a href="#">Bombardier Inc.</a>	BBD.B	2.52	2.00	-20.6%	0.0%	5.5	6.8%
<a href="#">Amaya Inc.</a>	AYA	22.23	19.00	-14.5%	0.0%	3.3	-4.1%
<a href="#">IMAX Corp.</a>	IMAX	US 21.95	US 19.00	-13.4%	0.0%	US 1.4	-0.2%
<a href="#">Home Capital Group</a>	HCG	14.01	12.50	-10.8%	7.4%	1.1	-17.5%
<a href="#">Constellation Software Inc.</a>	CSU	669.99	600.00	-10.4%	0.7%	14.2	-1.2%
<a href="#">Element Fleet Management</a>	EFN	9.53	9.25	-2.9%	3.1%	3.7	7.1%

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2016 - #3 OVERALL TOP STOCK PICKER

2015 - #1 BANKS, #2 OVERALL TOP STOCK PICKER

2014 - #3 BANKS

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