News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

PORTLAND INVESTMENT COUNSEL®

Established in 2007

Our views on economic and other events and their expected impact on investments. February 12, 2018

Owner Operated Companies

Fortive Corporation reported fourth quarter results, which included net earnings of $336.9 million. For the same period, adjusted net earnings were $288.6 million. Diluted net EPS for the fourth quarter ended December 31, 2017 was $0.95. For the same period, adjusted diluted net EPS was $0.82. For the fourth quarter of 2017, revenues increased 11.0% year/year to $1.8 billion, with core revenue growth of 3.0%. For the first quarter of 2018, Fortive anticipates diluted net EPS to be in the range of $0.66 to $0.70 and adjusted diluted net EPS to be in the range of $0.72 to $0.76. For the full year 2018, Fortive expects diluted net EPS to be in the range of $3.13 to $3.23 and adjusted diluted net EPS to be in the range of $3.35 to $3.45.

Brookfield Infrastructure Partners L.P. (BIP) earned $574 million on revenue of $3,535 million in 2017. BIP reported net income for the year of $125 million compared with net income of $474 million in the prior year. Net income was higher across all of the partnership's operating segments compared with 2016, however, the results were offset by the foreign currency hedges and prior-year period's non-recurring gains of $190 million related to the partnership's toll road and ports businesses. Funds from operations (FFO) of $1.17 billion increased by 24%. Results reflect the contribution of new investments, as well as organic growth of 10% across the company. The partnership's payout ratio for the period was 68%, which remains within its target range of 60% to 70%. "Two thousand seventeen was a strong year for Brookfield Infrastructure, completing a successful decade for the business. We posted solid financial results, acquired a large marquee utility, invested almost $1 billion across our various networks and strengthened our balance sheet," said Sam Pollock, chief executive officer of BIP. "Upon completion of the sale of our Chilean electricity transmission operation, corporate liquidity is expected to be approximately $3 billion. We are well positioned to fund our organic growth project backlog and execute on several interesting new investment opportunities that we are currently pursuing." Subsequent to quarter-end, a preferred unit issuance was completed for $200 million, capitalizing on BIP's investment-grade credit rating and strong market demand. BIP increased its quarterly distribution to 47 cents per unit, an 8% increase compared with the prior year.

Energy Sector

U.S. Rigs – U.S. energy companies added 26 oil rigs this week, boosting the count to 791, its highest since April 2015, even as crude pulled back from three-year highs with drillers expecting higher prices for their output in 2018 than last year. More than half of those oil rigs were located in the Permian basin in west Texas and eastern New Mexico where the number of active units increased by 10 this week to 437, the most since January 2015. The U.S. Energy Information Administration in February projected U.S. production would rise to a record high annual average of 10.6 million barrels per day (bpd) in 2018 and 11.2 million bpd in 2019, up from 9.3 million bpd in 2017.

Financial Sector

BNP Paribas S.A. boosted its profit targets even as its fourth quarter results came in below expectations, held back by a weak trading environment and provisioning. The French bank confirmed its 2020 targets and said it now aimed at a ROE above 10% on the back of an acceleration of growth in Europe and higher levels of interest rates versus assumptions in its original plan. Its previous target under its 2020 plan was for a ROE of 10%. BNP's fourth quarter net income came it at €1.43 billion, down 1.1% on the previous year and below analysts' expectations of €1.59 billion according to data from Reuters. (Source: Financial Times). CET 1 ratio was 11.9% vs consensus 11.8%. Divisionally, French retail revenues good +3% on consensus, Global markets revenue 5% below consensus, Fixed Income Currency & Commodities revenues down 27% quarter/quarter.

Brookfield Property Partners L.P. (BPY.UN, BPY) reported Q4 results, posting Funds from operations per unit of $0.41 vs. $0.32 year/year and ahead of $0.36 consensus - excluding ~$25 million of "one-time-ish" fees (condo sales, development fees), recurring FFO per unit was closer to $0.37-$0.38, still strong in our view, reflecting ~15% year/year growth. The office portfolio is showing positive trends, with occupancy +100 bps quarter/quarter to 92.6% and a sizeable 33% rent increase on completed leases during the quarter – BPY's dividend increased +7% to $1.26 (last year the increase was 5.4%), slightly above the target range mid-point of 5-8% - International Financial Reporting Standards (IFRS) net asset value (NAV) per unit was +$0.04 quarter/quarter (essentially flat) to $30.56 - operationally, this was a solid quarter, but the proposed GGP Inc. transaction will continue to dominate sentiment, in our view, pending greater clarity. Asset sales continue to close at prices above the IFRS NAV, which supports our view that the units remain dramatically undervalued. Therefore, we believe the best use of BPY's capital from asset sales is to repurchase units. During Q4 2017, BPY did not repurchase any outstanding units which we assume is largely due to it being blacked out of the market for much of the quarter. Going forward, we expect BPY to repurchase units to take advantage of this opportunity. Overall, during 2017, BPY purchased 5.9 million units at an average price of $22.95 per unit, equating to an average discount to BPY's IFRS NAV of 21%.

IGM Financial Inc. earned $601.9 million on revenue of $3.15 billion in 2017. The company earned $770.45 million on revenue of $3.04 billion in 2016. Overall, net sales in the fourth quarter were $1.8 billion and for the year ended December 31, 2017, were $4.8 billion, the best results in IGM's history. Fourth quarter investment fund net sales were $749 million, up significantly from net sales of $334 million during the fourth quarter of 2016. "IGM's investment fund net sales of $749 million represented the best fourth quarter net sales in over a decade," said Jeffrey R. Carney, president and chief executive officer of IGM Financial. "This net sales result combined with robust financial markets has led to the company's all-time high quarter end level of assets under management of $156.5 billion." Net earnings were $50.6 million or 21 cents per share compared with $233 million or 97 cents per share for the comparative period in 2016. Adjusted net earnings were $191.4 million or $0.79/share cents per share compared with $199 million or $0.83/share in 2016.

Activist Influenced Companies

Nothing significant to report.

Dividend Payers

BCE Inc. reported Q4 with EBITDA a bit lighter than expected, although EPS was slightly ahead. However, the highlights were strong net adds in both wireless and wireline. In wireless, Bell appears to have capitalized on some lost ground by Rogers Communications Inc. and posted an impressive 175.2 thousand postpaid net adds. Consolidated revenue of $5,958 million was in line with forecasts and up 4.5% year/year. At $2,217 million, adjusted EBITDA was a little below consensus $2,234 million and up 4.5% year/year. Adjusted EPS of $0.76 was ahead of consensus $0.75. BCE turned in another solid wireless performance with adjusted EBITDA up 9.2% to $736 million, helped by strong service revenues and despite a 16.5% increase in postpaid gross adds. Wireline revenue of $3,222 million were up 2.7%year/year, but down an estimated 2.7% on an organic basis. EBITDA guidance for 2018 came in at 2-4% growth. In terms of FCF, guidance indicates a range of 3-7% growth. BCE set its EPS target at $3.42-3.52. As expected, the dividend was raised 5.2% to $3.02/share from $2.87/share.

Economic Conditions

U.S. – U.S. consumer credit expanded by $18.45 billion in December, falling short of expectations for a $20 billion increase and a significant slowdown from November's $27.95 billion reading.

Canada – 88,000 jobs were lost in Canada in January, a big negative surprise, given that the consensus expectations were looking for about 10,000 new positions to be filled. The headline unemployment rate moved up a couple of notches to 5.9% from 5.7%. All jobs lost were part time, as full-time positions actually advanced in the month. Largest declines were experienced in the education and financial services sectors.

Financial Conditions

The Bank of England (BoE) announced unanimously the decision not to adjust interest rates, as expected. The Minutes cited a stronger near-term outlook for the global economy (i.e. the Euro Area, China and the U.S., with a specific mention to the tax reform legislation that had been signed into law), and judged that the prospect was for continued growth in the U.K. during the first quarter. There was more evidence of "a rotation in demand away from household consumption and towards net trade and business investment" — Governor Carney described exporters as being in the "sweet spot", benefitting from robust global demand and the past depreciation of sterling. The Quarterly Inflation Report also released upwardly revised forecasts for GDP growth: 2018 is now at 1.8% (November forecast was +1.6%), which is still at or near the bottom of the G7 ladder, 2019 is 1.8% (was +1.7%) and 2020 was steady at 1.7%. Inflation projections (on a Q4 basis) were largely unchanged: Q4 2018 is now 2.42% (November forecast was 2.37%), Q4 2019 is now 2.18% (was 2.21%) and 2020 is 2.11% (was 2.15%) but the BoE cited a risk that CPI could rise above 3% again in Q1. But what financial markets honed in on immediately was the line at the bottom of the Monetary Policy Summary…."were the economy to evolve broadly in line with the February Inflation Report projections, monetary policy would need to be tightened somewhat earlier and by a somewhat greater degree over the forecast period than anticipated at the time of the November Report, in order to return inflation sustainably to the target." That was what sent the GBP sharply higher and pulled forward expectations for the next rate rise, depending of course, on how the Brexit negotiations fare.

The Reserve Bank of Australia (RBA) In its quarterly Statement on Monetary Policy (SoMP) left inflation and economic growth forecasts unchanged from three months earlier. The only significant change was a cut in the unemployment rate forecast to 5.25% in 2018 and 2019, down from its previous forecast of 5.5% in December last year. We remain of the view that persistently weak inflation is likely to stay the RBA's hand on rates until at least the end of 2018.

Reserve Bank of New Zealand (RBNZ), as expected held its official cash rate (OCR) unchanged at 1.75%. In the short statement accompanying the decision, RBNZ Governor Grant Spencer concluded that "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". In the Monetary Policy Statement (MPS) and data supplement that was also published this morning, the RBNZ's outlook for the OCR has not changed. It continues to forecast a steady OCR over the coming year or so, followed by perhaps one 25bp OCR hike in late 2019 and one more over the subsequent year.

The U.S. 2 year/10 year treasury spread is now .78% and the U.K.'s 2 year/10 year treasury spread is .92% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.32% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 3.9 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 26.41(compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

And finally

Fidelity Investments, one of the largest retail brokerages in the U.S., has temporarily stopped clients from buying an exchange-traded fund that bets on markets remaining calm and was a victim of last week's market rout. The decision comes after the ETF, run by ProShares, suffered a 90% decline in its value this week as the widely tracked measure of market gyrations, called the VIX, shot higher. The ETF is designed to profit when the VIX remains low or falls. The sharp decline in value of products that use derivatives to bet on the direction of the VIX has led to calls that the trading vehicles should not have been open to retail investors in the first place. Two similar ETFs, the largest going by the ticker "XIV", have already announced their closure as a result of losses, leaving the Proshares product, which goes by the name "SVXY", as one of the few retail vehicles available for betting the VIX will now fall. (Source: Financial Times)

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund
- Portland 15 of 15 Fund

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- Portland Advantage Plus - Everest and McKinley Funds
- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Global Aristocrats Plus Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Private Growth Fund
- Portland Private Income Fund
- Portland Special Opportunities Fund
- Portland Value Plus Fund

Individual Discretionary Managed Account Models - SMA

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at http://www.portlandic.com/prices/default.aspx

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

Portland Investment Counsel Inc. portlandinvestmentcounsel Portland Investment Counsel Inc. @PortlandCounsel

Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC18-010-E(02/18)