Mark Bunting
Publisher

COVER STORY

THREE GRADE 'A' STOCKS FROM 5i RESEARCH

WHY VERTEX IS AT AN INFLECTION POINT FOR GAINS OF MORE THAN 120%

LOTS OF DRY POWDER FOR ALITHYA TO BUILD AND BUY WITH 33% UPSIDE

THIS 5G PLAYER WELL POSITIONED FOR A CHART BREAKOUT

CAPITAL IDEAS DIGEST

5iResearch

COMPANY REPORT / 5i OPINION

CCL Industries

- Integrity
- Independence
- Insight
- Individually-focused
- Investments

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5i Report Card

Metric	Value	Grade
Industry	Materials	
Expected 1 year Revenue Growth	5.8%	B-
5 Yr. Revenue Growth	29.4%	A+
5 Yr. EPS Growth	36.4%	A+
5 Yr. ROE	19.1%	A-
Gross Margin	30.2%	A-
Net Margin	10%	B+
Current Ratio	1.62	B+
Debt/Equity	1.02	C+
Insider Ownership	~12%	B+
Recessionary EPS (2008/2009)	1.45/1.28	B+
5 Yr Dividend Growth	24.8%	A+
Qualitative	Valuation risks much lower	B+
Rating -		A-

- Resin prices impacting results
- Growth has been strong across board
- Fundamentals remain fine
- Valuations historically attractive
- Rating upgraded to 'A-'

NOVEMBER 17, 2018

Traded as:	CCL.B (TSX)
Price:	C$53.91
Dividend:	0.98%
Debt:	Medium
Market Cap:	$9.46 Billion
Stability:	Medium

"A-"

Recent Results

Revenue: $1.34 billion versus $1.32 billion expected. EPS: $0.66 versus $0.71 expected. Adjusted earnings were up 8.2% and the CCL segment and Checkpoint still saw 5.3% organic growth but rising resin prices are having an impact on profits. Organic growth was strong in a few segments and revenues were still up year-over-year. Resin prices seem to be the big issue at CCL but these are short-term fluctuations that the company can offset over time through price increases. CCL has also made three tuck-in acquisitions recently, showing the company is still seeking growth opportunities.

Valuation

We think it is the valuation where CCL is getting interesting. The company is trading down to valuations on earnings and cash flows that are right around the five-year average. For an investor that was shy about the stock when it was closer to 20 times earnings, we think they should be looking closely at the shares now. As we often say, premium companies trade at premium valuations and the valuations tend not to come down until there are some 'concerns' around the company. So, while resin prices are causing some concerns in the short-term, this is probably the risk an investor needs to assume to get CCL at a 'cheaper' price. To put this another way, good companies do not go on sale for no reason. There may be further declines with resin prices over the next quarter or two (or three, etc.), but we think this is offering an entry point for a longer-term investor. What we found most interesting was while the quarter was a miss on expectations, results were still pretty strong in most businesses with rising demand.

Summary

Now that CCL has seen its valuation come down on what we view as a short term issue, we think an increase in rating to 'A-' is appropriate. We do not know what the shares will do over the next three months but the rating upgrade highlights that CCL remains a fundamentally strong company with a proven management team and track record that is now trading at a lower multiple than it has in the past. Organic growth still exists and acquisitions are always a possibility to jumpstart growth.

"CCL remains a fundamentally strong company with a proven management team and track record that is now trading at a lower multiple than it has in the past. Organic growth still exists and acquisitions are always a possibility to jumpstart growth."

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5i Report Card

Metric	Value	Grade
Industry	Industrials	
Expected 1 year Revenue Growth	0.08%	C
5 Yr. Revenue Growth	22.5%	A
5 Yr. EPS Growth	69.5%	A+
5 Yr. ROE	14.8%	B+
Gross Margin	19.0%	B
Net Margin	8%	B
Current Ratio	1.95	B+
Debt/Equity	0.79	B
Insider Ownership	~12%	B
Recessionary EPS (2008/2009)	N/A	N/A
5 Yr Dividend Growth	3.09%	B+
Qualitative	Historically low valuation	A
Rating -		A-

COMPANY REPORT / 5i OPINION

NFI Group

• Backlog and orders continue
• Attractive absolute and relative value
• Levers to create value remain
• Margins are seeing pressure
• Rating maintained at 'A-'

NOVEMBER 17, 2018

Traded as:	NFI (TSX)
Price:	C$37.84
Dividend:	4.12%
Debt:	Medium
Market Cap:	$2.27 Billion
Stability:	Medium

"A-"

Recent Results

Revenue: $605.34 million versus $584.16 million expected. EPS: $0.57 versus $0.59 expected. Revenues on the quarter were up 11.7% and 2018 delivery guidance of 4,390 units was reconfirmed. Adjusted EPS was up by 3.6%. Free cash flow was up 43% and the payout ratio sat around 63%. Revenues and deliveries are higher on a quarterly and nine-month basis as well. The primary weak spot in the release was a decline in average selling prices by 5.8% to $476.5. Pressure on selling prices is something to watch but part of this contribution is from the addition of the ARBOC units which have lower selling prices than the traditional businesses. There is also margin pressures in the transit and motor coach business. NFI also has some extra costs as they return buses to Daimler, who they are no longer the distributor for.

Valuation

If there is any company whose drop we have perhaps scratched our heads the most on, it would be NFI Group. While there are business pressures, the company is still strong fundamentally and demand and backlogs remain. On a forward (and trailing) basis, with a P/E of 9.9 (9.1), the valuation has not been this cheap for five years with previous valuation lows being 10.9. In other words, there is a bit of a margin on how cheap the shares look currently. Add in that management has balance sheet flexibility and is being more active in share buybacks, we think management has plenty of levers to pull such as buybacks, dividends, as well as domestic and international acquisitions. Yields have not been this high since 2015 as well.

Summary

Like some other stocks mentioned in this update, we think NFI is showing an attractive entry point for an investor that can look out past a single year holding period (which should be all equity investors). Management track record is strong and shares have not been this cheap for a long time, if ever. Meanwhile the business remains fine with revenues continuing to grow. There is margin pressure but it is far from NFI getting into financial difficulties and an environment we think management will be able to navigate. We remain comfortable with an 'A-' rating on NFI Group and are maintaining the rating.

"NFI is showing an attractive entry point. Management track record is strong and shares have not been this cheap for a long time, if ever. We remain comfortable with an 'A-' rating.

5iResearch

COMPANY REPORT / 5i OPINION

Bank of Nova Scotia

- Integrity
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- Great fundamentals and valuation
- Long-term value creator
- Making strategic acquisitions
- Econ. headwind may exist (oil, housing)
- Rating maintained at 'A-'

NOVEMBER 17, 2018

Traded as:	BNS (TSX)
Price:	C$70.97
Dividend:	4.78%
Debt:	Medium
Market Cap:	$87.4 Billion
Stability:	Good

"A-"

5i Report Card

Metric	Value	Grade
Industry	Financials	
Expected 1 year Revenue Growth	9.8%	B-
5 Yr. Revenue Growth	6.9%	B
5 Yr. EPS Growth	5.1%	B-
5 Yr. ROE	18.7%	A-
Net Interest Margin	2.46%	B
Debt/Equity	1.3	C+
Insider Ownership	<1%	B
Recessionary EPS (2008/2009)	3.05/3.31	A
5 Yr Dividend Growth	6.5%	A-
Qualitative	Valuation is historically attractive	A-
Rating -		A-

Recent Results

Revenue: $7,181 million versus $7,408 million expected. EPS: $1.76 versus $1.75 expected. BNS reports its latest results on November 27th but shares have been underperforming peers over the last 12 months with the help of weaker emerging markets as well as a purchase of MD Financial that many investors felt was richly valued. The purchase of MD financial was valued at $2.58 billion and adds $49 billion in assets under management. This is in addition to the $950 million purchase of Jarislowsky Fraser. Both of these assets are names we would consider premier asset managers and continues the trend of consolidation by the big banks, which we are seeing with recent news that Mawer Investment Management is also looking at strategic options (of which BNS is the advisor for). While these deals may hold the shares back in the short-term we think it is clear that BNS is thinking longer-term strategy with these purchases.

Valuation

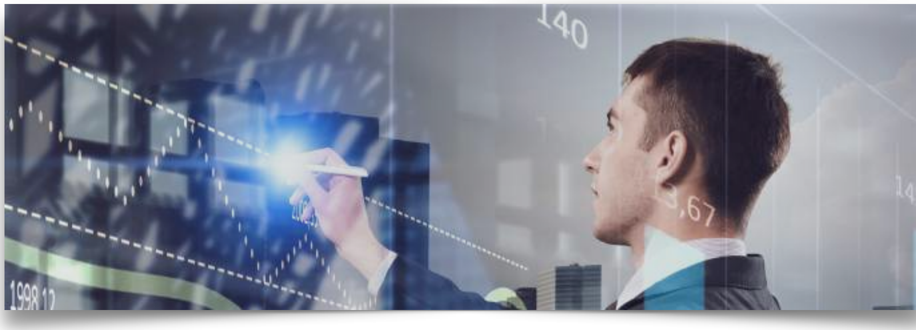
In terms of yield, BNS currently pays 4.9% and the yield has not been this high over the last ten years (excluding 2008) except for one brief period in January 2016 where the yield peaked at 5.3%. On this alone, we think things are looking attractive. Based on the price to earnings ratio (as expected given the yield), the valuation is essentially flirting with 10-year lows at current levels.

Summary

While seeing shares of BNS move lower has not been the ideal result, the valuation and yield is getting to a level that has not been seen outside of a one-off crisis event in the last decade. Considering recent moves focused on the long-term and fundamentals that remain strong, we think shares are offering a long-term entry point at this stage for an investor with a time-frame outside of 12 months. Higher interest rates should actually lift results at the banks which the share prices seem not to reflect. The caveat here is if higher rates cause the economy to turn over through a housing downturn. Also, the oil sector is a bit of an anchor in terms of the Canadian macroeconomy. Fortunately, BNS shares are cheap and the company should be able to survive these 'issues' as they have survived most other 'issues' thrown at the company.

BNS shares are offering a long-term entry point at this stage for an investor with a time-frame outside of 12 months. Higher interest rates should actually lift results at the banks which the share prices seem not to reflect."

INITIATIONS



Beacon Securities analyst Kirk Wilson initiated coverage of **Vertex Resources Group Ltd.** (TSXV:VTX) with a "buy" rating and a target price of $1.05 per share, which implies a return of 126%.

"With the recent, well-publicized downfall of oil prices in western Canada, most publicly listed energy companies have felt selling pressure and Vertex Resources Group is no exception with shares falling 45% since October" Mr. Wilson added in his report.

"Despite market conditions, we believe that investors will eventually differentiate between companies that will be significantly impacted by a potential decrease in western Canada drilling and those that are more insulated from a lower level of oil and gas activity. We believe Vertex is in the latter category."

"The fact that Vertex focuses on environmental services mainly in western Canada is a distinct advantage as this aspect of the oil and gas industry should fare somewhat better due to increasing environmental regulation and stakeholder participation."

"The company appears to be at an inflection point in terms of generating positive returns for investors as we forecast net income and return on invested capital to turn positive this year and free cash flow to be generated in 2019."

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Desjardins Securities analyst Maher Yaghi initiated coverage of **Alithya Group Inc.** (TSX:ALYA) with a "buy" rating and a target price of $7 per share which implies a return of 33%.

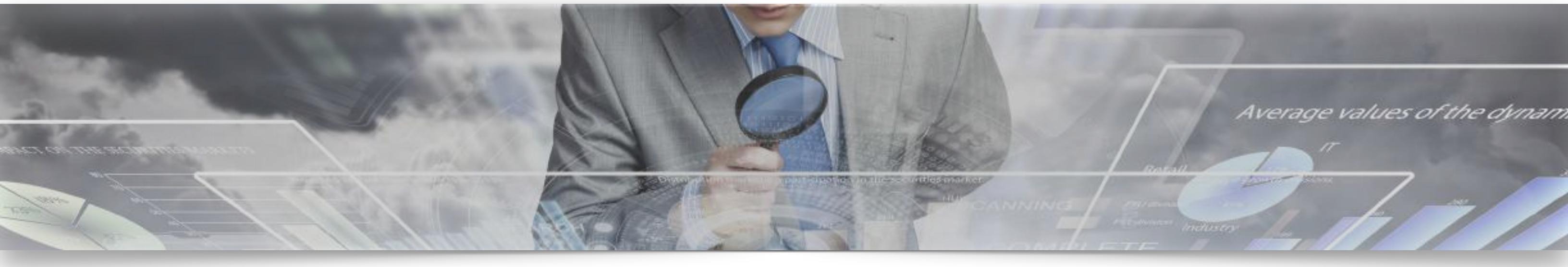
Alithya Group is a Montreal-based information technology and management consulting services provider who recently started trading on the TSX after completing a reverse takeover of Edgewater Technology.

"Alithya also completed a $53 million private placement which we believe will provide management with additional dry powder to continue its build and buy strategy once Edgewater is sufficiently integrated into Alithya's operations" Mr. Yaghi added in his report.

"We project organic growth will grow to 16% by 2021 after Edgewater's revenue stream is stabilized and there is potential for rapid margin improvement as well."

"In addition, the company has the opportunity to growth through acquisitions and the in our view the company has minimal debt thus reducing the risk associated with stock ownership. These factors support a higher valuation for Alithya."

"However we acknowledge that the story includes more risk than the average of peers due to the company's lack of control with regard to the use of third-party software, as well as its small size and customer concentration."



Upgrades

- **Trilogy International Partners Inc. (TSX:TRL)** has been upgraded to "buy" from "hold" by TD Securities analyst Bentley Cross. He has maintained a target price of $3 per share which suggests a return of 106%. The consensus on the Street is $3.30.

- **Kinaxis Inc.** (TSX:KXS) has been upgraded to "buy" from "hold" by Industrial Alliance Securities analyst Blair Abernethy. He has a target price set at $88 per share which implies upside of 29%. The consensus is $96.96.

- **Cameco Corp.** (TSX:CCO) has been upgraded to "buy" from "underperform" by Bank of America Merrill Lynch. They have lifted their target price to $20 from $10.50 which suggests upside of 28%. The consensus is $17.85.

Downgrades

- **Founders Advantage Capital Corp.** (TSXV:FCF) has been downgraded to "hold" from "buy" by Desjardins Securities analyst Gary Ho. He's cut his target price to $1.50 from $2.50.

- **Cardinal Energy Ltd.** (TSX:CJ) has been downgraded to "neutral" from "outperform" by CIBC World Markets analyst Jamie Kubik. He has lowered his target price to $4.50 from $6.25.

- **Guyana Goldfields Inc.** (TSX:GUY) has been downgraded to "sector underperform" from "sector perform" by Scotia Capital analyst Trevor Turnbull. He has slashed his target price to $1 from $3.

Technically SPEAKING by Dwight Galusha

setyourstop.com

I recently attended the National CSTA (Canadian Society of Technical Analysts) Conference where the keynote speaker was Craig Johnson who is the managing director and chief market technician at Piper Jaffray. Craig talked about the push to 5G (the commercialization of 5G cellphone technology slated to begin in early 2019) as a big investment theme going forward. One of the companies that will benefit and has been showing up on my radar is Broadcom (NASDAQ:AVGO). Broadcom has been consolidating over the last year and a half within a descending broadening wedge pattern and is now threatening a breakout as price pushes up against the underside of resistance. Watch for a breakout above $250 as it would suggest a reversal from this area of consolidation and a continuation of the prevailing uptrend which should push prices toward all time highs.