



Invest like a pro, with the pros.



We've got the fourth and final part today of *Market Insight* by Capital Ideas Contributor *John O'Connell* who asks 16 questions about the banking sector that have arisen due to COVID-19.

# Morning Need to Know

Getting you ready for your investing day

April 2, 2020

Written & compiled by Mark Bunting, Publisher,  
Capital Ideas Media

---



---

## CANADIAN ANALYSTS' CALLS

---

### INITIATIONS

**Goodfood Market (TSX:FOOD).** Raymond James starts coverage with an "outperform" rating and a price target of \$4.70 (Canadian), calling the company a *"benefactor of the stay-at-home trade"*. The stock closed at \$3.44.

\*\*

**AirBoss of America (TSX:BOS).** Cormark Securities hikes the target to \$17.75 from \$12.75 and maintains a "buy" while TD Securities moves the target to \$15 from \$11 and maintains a "buy" after the company announced the largest defense contract in its history.

**New Gold (TSX:NGD).** BMO Nesbitt Burns upgrades to "outperform" and lifts the target to \$1.50 from \$1.25.

**Slate Office REIT (TSX:SOT.UN).** Industrial Alliance Securities raises the rating to "strong buy" and lowers the price target to \$6.25 from \$6.50.

**Tervita (TSX:TEV).** RBC cuts the price target to \$4.50 from \$8.50.

---



---

## U.S. ANALYSTS' CALLS

---

**Zoom Video (NYSE:ZM).** RBC raises the target to \$125 from \$110 on potential upside to revenue. More on Zoom below.

---

## STOCKS THAT MAY MOVE

---

**Cenovus (NYSE:CVE)** will cut spending by another \$150 million and has suspended its dividend.

**Badger Daylighting (TSX:BAD)** said it has been designated an essential service provider and has taken actions to protect the health and safety of its employees, *“although anticipated to be temporary, could materially disrupt Badger’s business operations in the short term.”*

The company is also withdrawing its 2020 financial outlook for adjusted EBITDA and hydrovac builds and that *“We continue to target doubling the revenue in our U.S. business and growing our adjusted EBITDA by a 15-per-cent compound annual growth rate over the next three to five years.”*

**Zoom Video (NYSE:ZM).** SpaceX CEO Elon Musk has

told employees to stop using the company's video conferencing platform due to "*significant security and privacy concerns*". Zoom saw user growth surge 20-fold in March from about 10 million users to 200 million as people work from home.

**Altria (NYSE:MO).**

The U.S. Federal Trade Commission's Bureau of Competition has filed a complaint to force the tobacco company to sell its stake in e-cigarette maker Juul because it said the companies have collaborated to eliminate competition. Altria's stake is now believed to be worth about \$4.2 billion, down from \$12.4 billion.

---

## **MARKETS**

---

**S&P/TSX and U.S. equity indices** have turned negative as investors absorb another stunning U.S. jobless claims number of 6.648 million applications, more than twice the estimate, after 3.2 million last week.

---

## **CURRENCIES**

---

**The Canadian dollar** is down slightly to 0.70 (U.S.).

---

## **COMMODITIES**

---

**West Texas Intermediate** is higher by 10% to \$22.36 a barrel as President Trump said he expected Saudi Arabia and Russia to reach an agreement soon to end their price war.

**Gold** is up 1.8% to \$1,620.90 an ounce.

---

## **Market Insight**

---



by **John O'Connell**, Capital Ideas Media Contributor  
Chairman & CEO, Davis Rea Investment Counsel

Signup for the free newsletter:  
[www.davisrea.com](http://www.davisrea.com)

---

*Today, the fourth and final part of an internal letter written by John O'Connell to Davis Rea's Investment Committee.*

*The thoughts expressed, insights provided and questions asked shed light on what this manager of hundreds of millions of dollars of client money is thinking about during this truly unprecedented time.*

---

## **The Easter Bunny Rally and April Fools Day, Part Four**

Thoughts for an Investment Committee Meeting

### **16 Questions About the Banking Sector**

I think we need to have a frank discussion about this banking issue with our clients and let them know that **this could get substantially worse.**

We should discuss if they are prepared to see their holding potentially down 50%. None of us know what we are about to experience. What we do know is that governments are about to subsidize in a big way:

**1. Consumers owe banks a lot of money. Canadians are the most indebted group of consumers in the OECD. We the people, think the government is broke and stupid.**

Canada is one of the only countries in the world with AAA rating. Thank god the Government is stupid because they will soon be bailing out the banks (directly or not, via consumer and business bailout programs) who lent all these geniuses the money because they cannot now make the monthly payments after 30 days.

**2. Businesses owe banks a lot of money.**

**3. Businesses owe investors via bonds a lot of money and the capital markets are effectively closed so banks can't easily sell their problem to others for profit.**

**4. The credit markets are very illiquid right now.**

**5. There is a lot of leverage in the whole system and that ultimately comes from banks or people who don't understand the value of socialized risk. There is a reason bankers make a lot of money.**

**6. Government is stepping in and bailing out business and consumers so they can pay their bills.**

7. **The biggest bills are wages, interest and dividends for companies. Any company getting government assistance will likely not be paying dividends. The biggest dividend payers....YEP, Banks.**

8. **Consumers biggest bills are interest, rent, food.**

9. **Banks and landlords are allowing people to EXTEND PAYMENTS building more debt.**

10. **In 2009 Royal bank fell 80% and yielded 10%.**

11. **Royal today yields about 5.2% and pays about \$6 billion to shareholders every year.**

12. **Is it reasonable to think that some might speculate that it *may be* possible that banks are not allowed to pay dividends if the government is basically bailing out their customers?**

13. **If the government pays out \$82 billion to support the system and banks pay out \$30 billion in dividends this *year how do feel as a taxpayer? Not an investor.***

14. **If you are 70+ and you are an owner of Canadian bank stock woud you want to discuss this?**

15. **Banks have bounced 20% from their lows. Do our clients know this?**

16. **If banks were still down at the recent lows or lower would they think differently? I bet they would.**

I think we should ask what they would do and how they feel.

---

See the new [Capital Ideas Digest](#) for which financials will fare the best during and after the COVID-19 pandemic.

And is this virus causing a **growth scare, a credit event or a crisis?** Hamilton ETFs does the research and has answers.

---

Disclosure: Bunting Media has provided marketing services to Davis Rea.

---

Please email questions, comments or concerns to:

[customercare@capitalideasresearch.com](mailto:customercare@capitalideasresearch.com)

---

Access, insight and ideas.

Mark Bunting  
Publisher,  
[Capital Ideas Media](#)

[www.capitalideasmedia.com](http://www.capitalideasmedia.com)







---

The information and recommendations made available here (“Information”) by CIR and/or all affiliates is for informational purposes only and not to be used or construed as an offer to sell or a solicitation of an offer to buy any services or securities. You further agree that neither Capital Ideas Research will be liable for any losses or liabilities that may be occasioned as a result of the information or commentary provided in the letter. By accessing the site and reading this note, you accept and agree to be bound by and comply with the terms and conditions set out herein. If you do not accept and agree to the terms, you should not use this site or accept this email.

CIR is not registered as an adviser under the securities legislation of any jurisdiction of Canada and provides the Information pursuant to an exemption from the registration requirements that is available in respect of generic advice. The recommendations contained on the site and in this email are not tailored to the needs of particular persons and may not be appropriate for you depending on your financial position or investment goals or needs. You should apply your own judgment in making any use of the Information, especially as the basis for any investment decision. Prior to making any investment decision, we

recommend that you seek outside advice from a qualified and registered investment advisor.

In no event will CIR be responsible or liable to you or any other party for any damages of any kind arising out of or relating to the use of, misuse of or inability to use this site and email. The Information is directed only at persons resident in Canada. Nothing in this site shall constitute an offer or solicitation to anyone in the United States of America or any jurisdiction where such offer or solicitation is not authorized or to any person to whom it is unlawful to make such a solicitation. If you choose to access this site or email from outside of Canada, you acknowledge that the Information is intended for use by persons resident in Canada only.

This is not an investment advisory, and should not be used to make investment decisions. Information in CIR is often opinionated and should be considered for information purposes only. No stock exchange anywhere has approved or disapproved of the information contained herein. There is no express or implied solicitation to buy or sell securities. The writers and editors of CIR may have positions in the stocks discussed above and may trade in the stocks mentioned. Don't consider buying or selling any stock without conducting your own due diligence.

*Copyright © 2016 Capital Ideas Research, All rights reserved.*

You are receiving this email because you are part of our investment network.

---

This email was sent to <<Email Address>>

[why did I get this?](#) [unsubscribe from this list](#) [update subscription preferences](#)

Capital Ideas Research · HSBC Bank Place · 10250 101 Street Suite 1803 · Edmonton, Alberta T5J 3P4 · Canada