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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

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 <u>Capital Ideas Digest</u> 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:

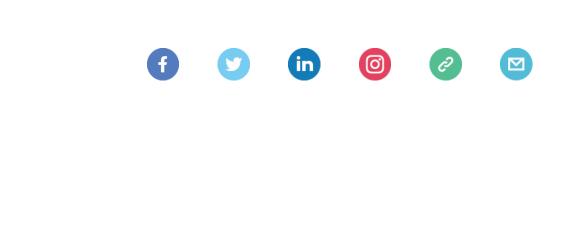
customercare@capitalideasresearch.com

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Mark Bunting Publisher, Capital Ideas Media

www.capitalideasmedia.com





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