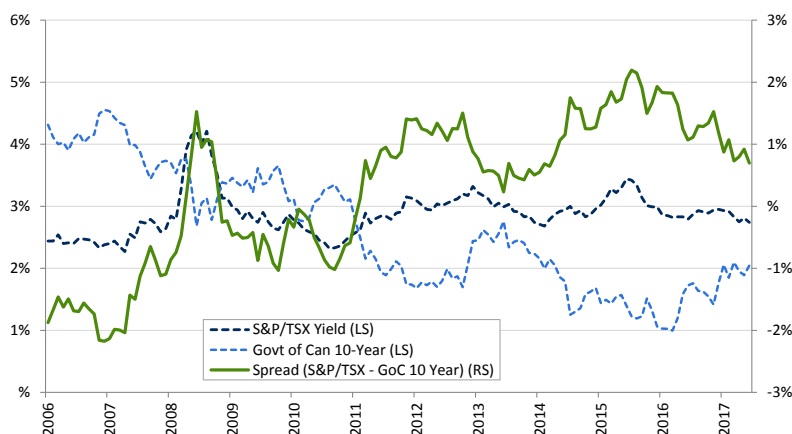


Better Than Bonds

Bond rates have remained lower longer than investors expected since the 2008 crisis. The BoC raised the overnight rate twice in 2017 to 1.0% following two cuts in 2015, but is still nowhere close to pre-recession highs of 4.5%. With rates coming off record lows, we believe investors will continue looking to dividend paying equities for income needs. Compared to the 10-year Government of Canada (GoC) bond that is yielding 2.19%, the S&P/TSX Composite Index indicated dividend yield is at 2.89%, or 70 bps above the GoC bond. The adjacent chart shows that this phenomenon of stocks yielding more than bonds has now become the norm.

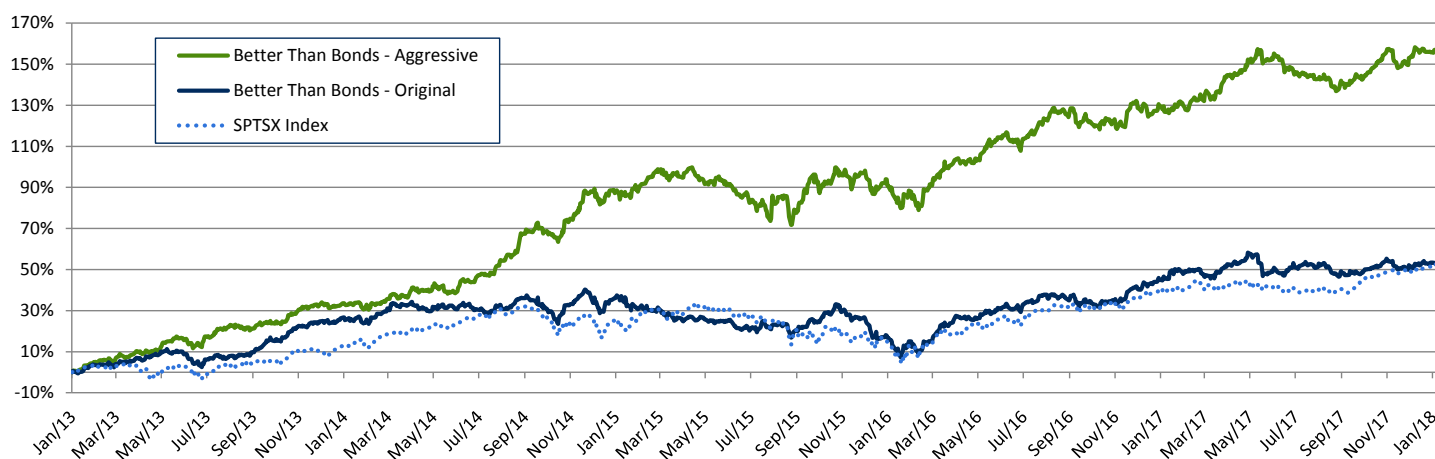
As such, we revisit the “Better than Bonds” screen ran in the past. We look for stocks yielding more than the ten-year average 10-year GoC yield of 2.36%, a beta relative to the S&P/TSX Composite Index of 0.85 or less, and a market capitalization of \$500 mln or higher. We then assess each company’s balance sheet strength and operating efficiency by looking for an interest coverage ratio of greater than 1.5x, a dividend coverage ratio greater than 1.0x and the ability to generate revenue from their fixed assets (i.e properties, plants or any equipment), namely a net fixed asset turnover greater than 1.0x. Below we show the results from implementing this “original” strategy over the past five years rebalanced quarterly; the strategy would have returned a mean annualized return of ~13.79%, or 56 bps greater than the S&P/TSX. We also show a more aggressive screen , using the five-year average 5-year GoC yield of 1.2% to lower our hurdle rate (lower yield allows for growthier companies), a dividend coverage ratio greater than 1.5x and a net fixed asset turnover greater than 1.5x. The aggressive strategy would have returned a mean annualized return of 31.0%, or 1573 bps greater than the S&P/TSX.

S&P/TSX’s Dividend Yield > GoC 10-Year Yield



Source: Bloomberg, Raymond James Ltd.

“Better Than Bonds” Screen Outperforms the S&P/TSX Composite Index



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 3.

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If we were to run both the Original and Aggressive screens, we would find the names below. We note that Morneau Shepell (MSI-T), Intertape Polymer (ITP-T), Western Forest Products (WEF-T) and WSP Global (WSP-T) show up in both screens.

Original "Better Than Bonds" Screen – Sorted by Dividend Yield

| Ticker | Name | Dividend Yield | Market Cap (blns) | 3-Month Beta | Net Fixed Asset Turnover | Interest Coverage | Dividend Coverage |
|---------|-----------------------------|----------------|-------------------|--------------|--------------------------|-------------------|-------------------|
| T-T | Telus Corp | 4.36% | \$27.6 | 0.42 | 1.2x | 4.5x | 1.3x |
| NWC-T | North West Co Inc/The | 4.35% | \$1.4 | 0.34 | 4.8x | 11.2x | 1.3x |
| SJR/B-T | Shaw Communications Inc-B | 4.24% | \$14.0 | 0.79 | 1.2x | 3.6x | 1.0x |
| MSI-T | Morneau Shepell Inc | 3.52% | \$1.2 | 0.54 | 17.3x | 5.0x | 2.7x |
| LUC-T | Lucara Diamond Corp | 3.53% | \$1.1 | 0.73 | 1.2x | 94.5x | 4.3x |
| ITP-T | Intertape Polymer Group Inc | 3.39% | \$1.2 | -0.06 | 3.3x | 10.7x | 2.3x |
| TRI-T | Thomson Reuters Corp | 3.22% | \$38.9 | 0.47 | 12.2x | 5.5x | 1.4x |
| WEF-T | Western Forest Products Inc | 3.08% | \$1.0 | 0.64 | 3.9x | 30.7x | 1.7x |
| RCI/B-T | Rogers Communications Inc-B | 3.07% | \$32.1 | 0.40 | 1.3x | 4.5x | 1.9x |
| WSP-T | Wsp Global Inc | 2.50% | \$6.2 | 0.42 | 24.4x | 12.2x | 1.9x |

Source: Bloomberg, Raymond James Ltd. Priced as at 01/10/2018.

Aggressive "Better Than Bonds" Screen – Sorted by Dividend Yield

| Ticker | Name | Dividend Yield | Market Cap (blns) | 3-Month Beta | Net Fixed Asset Turnover | Interest Coverage | Dividend Coverage |
|---------|-----------------------------|----------------|-------------------|--------------|--------------------------|-------------------|-------------------|
| MSI-T | Morneau Shepell Inc | 3.52% | \$1.2 | 0.54 | 17.3x | 5.0x | 2.7x |
| ITP-T | Intertape Polymer Group Inc | 3.39% | \$1.2 | -0.06 | 3.3x | 10.7x | 2.3x |
| WEF-T | Western Forest Products Inc | 3.08% | \$1.0 | 0.64 | 3.9x | 30.7x | 1.7x |
| WSP-T | Wsp Global Inc | 2.50% | \$6.2 | 0.42 | 24.4x | 12.2x | 1.9x |
| CTC/A-T | Canadian Tire Corp-Class A | 2.16% | \$11.5 | 0.46 | 3.2x | 8.7x | 4.0x |
| WN -T | Weston (George) Ltd | 1.70% | \$13.7 | 0.43 | 4.2x | 8.0x | 7.2x |
| L-T | Loblaw Companies Ltd | 1.61% | \$26.0 | 0.21 | 4.5x | 8.2x | 8.3x |
| MRU-T | Metro Inc | 1.58% | \$9.4 | 0.59 | 7.9x | 12.9x | 4.1x |
| UNS-T | Uni-Select Inc | 1.35% | \$1.2 | 0.69 | 22.7x | 4.7x | 2.9x |
| MFI-T | Maple Leaf Foods Inc | 1.28% | \$4.4 | 0.04 | 3.2x | 42.8x | 2.7x |

Source: Bloomberg, Raymond James Ltd. Priced as at 01/10/2018.

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