Financial firms had strong quarter

Most companies had improved earnings, but slower growth will mean smaller increases in profits

BY CATHERINE HARRIS

ALMOST TWO-THIRDS OF financial services firms reported higher earnings in their most recent fiscal quarter for which data are available vs the corresponding quarter a year earlier, reflecting continued healthy growth in Canada's economy.

Canada's economic growth is expected to be somewhat slower this year. (See story on page 1.) That probably will be reflected in lower increases in financial services firms' earnings in 2019, but they should not be dramatic.

Of the 43 companies in *Investment Executive*'s quarterly profit survey, 28 reported higher earnings and three reported positive net income vs a loss in the corresponding quarter in 2017. Of the remaining firms, nine reported lower net income and three were in a loss position. On average, the companies had an 11.7% increase in net income. (These figures exclude **Great-West Lifeco Inc.** [GWL] and **IGM Financial Inc.**, as the results of both are consolidated in those of **Power Financial Corp.**)

Seven companies increased their quarterly dividends, while two made cuts.

Five of the increases were among the banks: **Bank of Montreal** (BMO), to $1 from 96¢; **Equitable Group Inc.**, to 28¢ from 27¢; **Laurentian Bank of Canada**, to 65¢ from 64¢; **National Bank of Canada**, to 65¢ from 62¢; and **VersaBank**, to 1.5¢ from 1¢.

In addition, **Sun Life Financial Inc.** raised its quarterly dividend to 50¢ from 47.5¢, and **First National Financial Corp.** increased its monthly dividend to 15.8¢ from 15.4¢. First National also paid a special $1 dividend on Dec. 17, 2018.

The two firms that lowered their dividends were **Element Fleet Management Corp.**, to 4.5¢ from 7.5¢, and **MCAN Mortgage Corp.**, to 32¢ from 37¢.

A news release from Element explains that the dividend's reduction is needed to "fund the $150-million investment our value-creating transformation requires" and that the transformation will "bring our leaders closer to our customers, facilitate faster decision-making and foster greater collaboration and information sharing."

Meanwhile, MCAN's 2018 financial report states the decline in the

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FINANCIAL SERVICES PROFIT SURVEY

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPT. 30, UNLESS OTHERWISE NOTED

Banks

	ASSETS ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	EFFICIENCY RATIO (%)[3] '17	EFFICIENCY RATIO (%)[3] '18	CASH FLOW[4] ($MIL.)	% CHG.	ROE (%)[5] '17	ROE (%)[5] '18
Bank of Montreal (Oct. 31)[1]	774	9.1	5,989	2.7	1,708	33.1	1.90	2.59	61.0	60.8	4,022	N/A	13.0	13.5
Bank of Nova Scotia (Oct. 31)[1]	998	9.1	7,448	9.3	2,316	11.9	1.64	1.75	51.7	52.2	18,305	N/A	14.6	14.8
CIBC (Oct. 31)[1]	597	5.6	4,482	4.1	1,275	0.9	2.81	2.81	58.4	57.3	-1,212	N/A	17.6	17.3
Canadian Western Bank (Oct. 31)	29	9.7	209	6.9	68	5.3	0.68	0.72	46.7	46.8	268	-39.0	10.0	11.2
Equitable Group	23	14.5	103	23.0	48	26.2	2.21	2.80	36.5	37.6	-25	N/A	17.1	15.1
Home Capital Group	18	-5.2	105	10.2	33	8.7	0.37	0.41	52.9	62.7	-590	N/A	2.6	7.0
HSBC Bank Canada	104	11.2	588	11.4	198	22.2	0.31	0.38	54.1	61.4	2,177	160.1	14.0	15.2
Laurentian Bank of Canada (Oct. 31)	47	0.5	256	-2.4	52	-11.6	1.42	1.15	69.6	68.3	-629	N/A	11.2	10.7
National Bank of Canada (Oct. 31)[1]	262	6.8	1,876	6.6	569	7.2	1.40	1.53	56.0	56.0	647	N/A	18.5	18.7
Royal Bank of Canada (Oct. 31)[1]	1,335	10.0	10,811	0.6	3,254	14.3	1.89	2.20	57.3	58.5	-6,072	N/A	16.6	17.7
Toronto-Dominion Bank (Oct. 31)[1]	1,335	4.4	10,150	9.2	2,985	17.3	1.33	1.59	56.1	55.2	1,846	-87.0	14.6	16.2
VersaBank (Oct. 31)[6]	2	4.9	14	20.0	5	83.0	0.11	0.21	46.5	65.1	16	-72.0	11.3	8.7
Subtotal	5,524	7.6	42,031	5.3	12,510	14.8			56.5	56.7	18,754	-3.8	15.1	15.9

Finance companies

	ASSETS ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
Accord Financial[1]	0.3	37.8	13	56.7	3.0	41.3	0.26	0.34	-37.6	N/A	-5.49	-4.55	8.2	11.9
Callidus Capital	0.8	-14.4	90	65.5	-20.4	N/A	-0.35	-0.36	8.9	-41.3	0.30	0.16	N/A	N/A
ECN Capital (US$)[1,7]	2.4	-29.0	86	99.7	24.2	154.7	0.02	-0.04	27.4	-91.3	0.81	0.08	NC	1.9
Element Fleet Management[1,7]	17.5	-0.7	221	-6.4	-313.0	N/A	0.15	-0.85	242.0	-56.7	1.43	0.61	NC	N/A
First National Financial[8]	35.6	12.8	153	-2.0	52.0	-11.6	0.96	0.85	-92.8	N/A	-2.06	-1.56	52.3	37.3
MCAN Mortgage	2.2	-0.3	14	-2.2	11.0	11.0	0.42	0.47	-16.3	N/A	-0.28	-0.69	13.5	14.7
Timbercreek Financial[8]	1.9	10.7	25	0.5	13.7	3.5	0.18	0.17	18.7	-12.7	0.27	0.23	8.1	7.5
Subtotal	60.7	-28.3	603	12.1	-229.5	N/A			150.4	-79.6			NC	N/A

Life insurers

	ASSETS UNDER MGMT. ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
E-L Financial	9	-1.2	294	103.6	114	172.7	10.37	20.95	127	4.4	28.54	23.96	10.4	9.9
Great-West Life[1,9]	514	7.7	12,027	17.7	779	26.3	0.59	0.75	2,611	53.5	1.68	2.60	14.5	13.9
Industrial Alliance[1]	52	4.3	1,980	22.0	171	12.5	1.38	1.50	551	-11.7	5.79	4.95	12.7	12.4
Manulife Financial	643	8.5	8,043	-32.6	1,905	51.7	0.54	0.77	5,643	120.6	2.22	2.65	9.4	6.7
Sun Life Financial[1]	821	0.0	5,998	8.0	888	2.4	1.35	0.95	1,118	77.5	0.97	1.33	14.0	11.0
Subtotal	2,039	4.6	28,342	-3.9	3,857	31.5			10,050	30.9			11.9	9.8

Property & casualty and mortgage insurers

	ASSETS ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	COMBINED RATIO (%)[10] '17	COMBINED RATIO (%)[10] '18	CASH FLOW[4] ($MIL.)	% CHG.	ROE (%)[5] '17	ROE (%)[5] '18
Co-operators General Insurance	6.6	11.8	789	13.3	12.9	N/A	-0.40	0.48	108.9	104.1	127	13.5	12.1	5.3
Echelon Financial Holdings	0.7	11.9	99	58.1	0.2	-79.0	0.07	0.02	102.8	97.8	25	189.7	N/A	5.1
Fairfax Financial Holdings (US$)	64.4	0.8	4,441	-9.5	149.2	-59.7	16.42	3.34	130.2	97.6	1,320	-30.2	1.2	15.8
Intact[1]	28.5	0.0	2,681	18.7	207.0	2.0	1.49	1.39	91.8	93.8	552	30.8	12.3	11.4
Genworth MI Canada	7.0	1.9	233	-7.2	127.8	-8.4	1.52	1.42	33.2	32.4	136	-9.8	14.3	12.8
Subtotal	107.1	1.3	8,243	0.8	497.0	-29.6					2,160	-16.4	7.1	13.6

Mutual fund and investment-management companies

	ASSETS UNDER MGMT. ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
AGF Management (Aug. 31)	38.8	11.1	116.5	5.6	20.7	78.0	0.15	0.26	19.8	-25.3	0.34	0.24	5.4	8.1
Brookfield Asset Management (US$)	331.6	17.1	14,858.0	21.0	941.0	-5.1	0.20	0.11	476.0	-59.5	0.38	-0.37	2.0	11.1
CI Financial	136.5	12.2	569.0	12.9	158.3	3.1	0.60	0.62	174.0	-9.6	0.75	0.68	NP	37.8
Fiera Capital[1]	143.5	16.6	137.1	28.0	3.6	-45.8	0.08	0.04	28.5	49.9	0.22	0.27	5.0	2.1
Gluskin Sheff[8]	8.9	-0.4	30.3	2.9	7.8	35.0	0.19	0.25	-7.2	N/A	-0.45	-0.23	38.5	59.0
Guardian Capital Group	29.2	10.8	68.0	14.8	35.1	179.4	0.42	1.21	18.1	11.7	0.54	0.61	12.5	13.6
IGM Financial[1,9]	159.7	6.5	832.0	7.6	217.1	23.7	0.72	0.89	243.7	26.6	0.79	1.00	17.6	17.6
Integrated Asset Management[8]	2.3	-6.7	5.0	54.9	1.2	794.7	0.00	0.04	2.1	303.7	0.02	0.08	6.2	17.6
Sprott	10.1	40.0	17.9	-63.9	2.0	-93.4	0.13	0.01	14.5	-78.2	0.27	0.06	10.1	7.0
Subtotal	860.6	13.6	16,633.9	19.6	1386.8	-0.1			969.5	-42.1			NP	13.2

Brokerages

	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
Canaccord Genuity Group[1]	300.0	56.6	14.3	N/A	-0.03	0.12	115.1	N/A	-0.05	1.16	4.2	15.5
GMP Capital[1]	59.2	72.5	11.1	N/A	-0.06	0.15	43.4	N/A	-0.25	0.64	N/A	10.0
Oppenheimer Holdings (US$)	237.8	5.1	5.1	-35.6	0.57	0.36	107.0	197.1	2.61	7.57	0.0	8.1
Subtotal	597.1	32.1	30.5	537.8			265.5	1,336.0			N/A	11.7

Stock exchanges

	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
TMX Group[1]	192.8	26.7	57.5	9.7	0.94	1.02	100.4	58.4	1.14	1.79	7.4	7.3

Holding companies

	ASSETS ($BIL.)	% CHG.	REVENUE ($MIL.)	% CHG.	NET INCOME ($MIL.)	% CHG.	EPS ($)[2] '17	EPS ($)[2] '18	CASH FLOW[4] ($MIL.)	% CHG.	CF/SHARE[2] '17	CF/SHARE[2] '18	ROE (%)[5] '17	ROE (%)[5] '18
Desjardins Group[1]	295.3	6.9	4,051	10.2	570	12.2	NC	NC	1,376	N/A	NC	NC	8.0	7.7
Dundee	0.9	-24.2	43	-16.2	-56	N/A	0.17	-0.92	-2	N/A	0.11	-0.04	N/A	N/A
Power Financial[1]	448.5	5.1	12,787	17.0	884	13.8	0.65	0.80	2,773	48.8	2.17	3.44	12.7	12.3
Subtotal	744.7	5.8	16,881	15.2	1,398	8.7			4,147	985.4			9.6	9.0

N/A = NOT APPLICABLE; NC = NOT CALCULABLE BECAUSE COMPARABLE DATA WERE NOT PROVIDED AND, IN THE CASE OF DESJARDINS GROUP, THERE ARE NO COMMON SHARES; NP = NOT PROVIDED

1. UNUSUAL, NON-RECURRING ITEMS HAVE BEEN EXCLUDED WHERE POSSIBLE. IN SOME CASES, THESE FIGURES HAVE BEEN ESTIMATED
2. PER SHARE DATA ARE FULLY DILUTED EXCEPT WHEN THERE IS A LOSS OR NEGATIVE OPERATING CASH FLOW IN EITHER THIS QUARTER OR THE CORRESPONDING QUARTER A YEAR EARLIER, IN WHICH CASE THE NUMBER OF BASIC SHARES ARE USED IN THE CALCULATION
3. CALCULATED AS NON-INTEREST EXPENSES EXCLUDING AMORTIZATION AS % OF REVENUE EXCLUDING INSURANCE REVENUE & UNUSUAL EXPENSES (SUCH AS FOR LEGAL SETTLEMENTS)
4. OPERATING CASH FLOW AFTER CHANGE IN NON-CASH WORKING BALANCES
5. CALCULATED USING NET INCOME EXCLUDING UNUSUAL, NON-RECURRING ITEMS FOR THE PAST 12 MONTHS AS % OF AVERAGE OF BEGINNING AND ENDING SHAREHOLDERS' EQUITY
6. VERSABANK MERGED WITH PARENT PWC CORP. ON JAN. 31, 2017, WITH THE NEW ENTITY CONTINUING UNDER THE NAME VERSABANK
7. ECN CAPITAL CORP. AND ELEMENT FLEET MANAGEMENT CORP. WERE CREATED THROUGH THE SPLITTING OF ELEMENT FINANCIAL CORP. INTO TWO COMPANIES, AS OF OCT. 3, 2016
8. FIRST NATIONAL FINANCIAL CORP.'S, TIMBERCREEK FINANCIAL CORP.'S, GLUSKIN SHEFF & ASSOCIATES INC.'S AND INTEGRATED ASSET MANAGEMENT CORP.'S NET INCOME INCLUDES COMPREHENSIVE INCOME
9. GREAT-WEST LIFECO INC.'S AND IGM FINANCIAL INC.'S RESULTS ARE CONSOLIDATED WITH POWER FINANCIAL CORP.'S RESULTS
10. CALCULATED AS LOSSES AND OPERATING EXPENSES AS % OF NET EARNED PREMIUMS

SOURCES: COMPANY REPORTS

INVESTMENT EXECUTIVE CHART