

# Firms weather stormy markets

Brokerages took a hit, but banks remained solid and can expect tempered earnings growth

BY CATHERINE HARRIS

TURMOIL IN THE FINANCIAL markets at the end of 2018 affected Canadian financial services firms, although not as much as might have been expected.

The three brokerages were hit the hardest, with earnings down by an average of 41.9%. But the banks, which also are major players in the capital markets, had an average increase in net income of 10%.

Looking ahead, a report from credit-rating agency DBRS Inc. states it “expects earnings growth for the large Canadian banks to be tempered, given the weaker than expected start to the year and slowing economic growth.” But the report also notes the “highly diversified core earnings power of the large Canadian banks.”

Twenty-one of the 43 firms in *Investment Executive's* financial services profit survey had improved results in the most recent fiscal quarter, which ended between Nov. 30, 2018, and Jan. 31, 2019, compared with the corresponding period a year earlier.

In addition, **Manulife Financial Corp.** and **Echelon Financial Holdings Inc.** reported positive net income vs a loss. That left 12 firms with lower earnings and eight with losses. (These figures exclude **Great-West Lifeco Inc.** [GWL] and **IGM Financial Inc.**, as the results of both are consolidated in **Power Financial Corp.**'s.)

There still is optimism in the industry, however, as 15 companies increased their dividends, including six banks. **Bank of Nova Scotia** increased its quarterly dividend to 87¢ from 85¢; **Canadian Imperial Bank of Commerce's** (CIBC) dividend rose to \$1.40 from \$1.36; **Canadian Western Bank's** rose to 27¢ from 26¢; **Equitable Group Inc.**'s rose to 30¢ from 28¢; **Royal Bank of Canada's** rose to \$1.02 from 98¢; and **Toronto-Dominion Bank's** (TD) dividend rose to 74¢ from 67¢.

Other companies that raised their dividends include: **ECN Capital Corp.**, to 2¢ from 1¢; GWL, to 41.3¢ from 38.9¢; Manulife, to 25¢ from 22¢; **Intact Financial Corp.**, to 76¢ from 70¢; **Brookfield Asset Management Inc.**, to 16¢ from 15¢; **Fiera Capital Corp.**, to 21¢ from 20¢; **Guardian Capital Group Ltd.**, to 15¢ from 12.5¢; **TMX Group Ltd.**, to 62¢ from 58¢; and Power Financial, to 45.55¢ from 43.3¢.

Interestingly, four of the firms that increased their dividends did so despite earnings declines or a loss in the quarter. Scotiabank's net income was down by only 2.9%, but Fiera's earnings were down by 62.1%. ECN and Guardian Capital both had substantial losses as well.

In Fiera's case, it still is growing and acquisitions can take time to become integrated.

ECN's loss comes from discontinued business. The company is changing its business model to provide services to consumer finance companies rather than providing financing directly to

Financial Services Profit Survey														
Financial results for the three months ended Dec. 31, 2018, unless otherwise noted														
BANKS														
	Assets		Revenue		Net income		EPS (\$) <sup>2</sup>		Ratio (%) <sup>3</sup>		Cash flow <sup>4</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	2017	2018	mil.	% Chg.	2017	2018
Bank of Montreal (Jan. 31) <sup>1</sup>	807	10.8	6,584	14.3	1,514	55.1	1.43	2.28	62.3	61.8	6,376	-22.5	12.3	14.7
Bank of Nova Scotia (Jan. 31) <sup>1</sup>	1,034	12.0	7,604	7.3	2,269	-2.9	1.86	1.73	47.7	52.5	-11,609	N/A	15.2	14.1
CIBC (Jan.31) <sup>1</sup>	615	4.7	4,606	-0.1	1,342	1.6	2.93	2.96	56.2	55.9	5,816	124.3	17.6	16.5
Canadian Western Bank (Jan. 31)	29	5.1	212	9.9	70	6.9	0.69	0.75	45.6	44.4	-244	N/A	10.5	11.0
Equitable Group	25	21.3	95	285.7	40	-0.8	2.36	2.33	134.7	41.4	-210	N/A	15.8	14.2
Home Capital Group	18	3.1	109	-1.0	36	17.0	0.38	0.46	59.8	51.3	183	N/A	1.4	7.7
HSBC Bank Canada	103	7.3	565	4.6	157	3.3	0.28	0.29	60.6	56.5	-147	N/A	13.4	14.2
Laurentian Bank (Jan. 31) <sup>1</sup>	45	-4.9	242	-9.2	42	-30.9	1.42	0.91	66.8	76.5	48	N/A	11.1	8.8
National Bank (Jan. 31)	263	4.9	1,862	-0.2	552	0.4	1.46	1.50	55.8	56.1	1,118	-69.6	18.4	18.2
Royal Bank of Canada (Jan. 31) <sup>1</sup>	1,366	7.0	11,696	7.1	3,172	5.0	2.02	2.15	54.7	55.6	11,227	-23.0	17.0	17.5
TD Bank (Jan. 31)	1,323	4.9	10,019	5.7	2,886	19.0	1.28	1.53	53.8	55.9	-3,307	N/A	14.8	16.3
Versabank (Jan. 31)	2	2.3	13	8.5	5	24.0	0.16	0.21	55.5	51.7	-33	N/A	5.9	8.8
Subtotal	5,630	7.5	43,607	6.7	12,085	10.0			54.7	56.0	9,217	-77.8	15.3	15.8
FINANCE COMPANIES														
	AUM		Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018
Accord Financial <sup>1</sup>	NP	NP	13.0	30.4	3.8	33.6	0.29	0.50	NP	NP	NP	NP	9.0	NP
ECN Capital (US\$) <sup>1</sup>	1.7	-37.4	10.7	N/A	-92.7	N/A	-0.01	-0.32	-161.1	N/A	-0.72	-0.54	N/A	N/A
Element Fleet Management <sup>1</sup>	19.0	7.9	221.5	-3.6	70.0	600.0	0.00	0.14	-352.8	N/A	0.40	-0.86	5.7	N/A
First National Financial <sup>6</sup>	36.0	9.9	312.0	15.6	32.2	-29.9	0.75	0.53	435.3	-13.8	8.41	7.25	48.4	39.4
MCAN Mortgage	2.1	-3.4	9.0	-43.2	3.5	-67.2	0.47	0.15	21.4	11.2	0.82	0.90	13.8	12.0
Timbercreek Financial <sup>6</sup>	1.9	16.8	26.7	14.9	15.3	18.5	0.17	0.18	19.5	9.6	0.23	0.22	8.0	7.8
Subtotal	60.8	-30.0	592.9	39.1	32.1	-59.9			-37.7	N/A			10.8	N/A
LIFE INSURERS														
	AUM		Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018
E-L Financial	8.0	-10.1	-13	N/A	-259	N/A	64.47	-61.62	104	66.5	2.82	30.93	12.8	0.3
Great-West Lifeco <sup>1,7</sup>	494.5	-0.4	11,699	-9.4	743	34.8	0.52	0.72	1,565	-31.6	2.28	1.55	12.5	14.5
iA Financial <sup>1,8</sup>	49.3	-3.2	2,587	-29.7	131	-6.3	1.26	1.12	22	N/A	-1.79	0.12	11.6	11.9
Manulife Financial <sup>1</sup>	605.4	-1.4	8,514	-47.6	379	N/A	-0.83	0.31	4,736	-7.8	2.61	2.51	5.2	12.3
Sun Life Financial <sup>1</sup>	782.4	-3.7	8,180	-5.4	687	124.5	0.44	1.00	1,883	189.7	0.99	2.97	11.4	12.5
Subtotal	1,939.6	-2.1	30,968	-27.0	1,681	N/A			8,310	4.5			8.8	12.9
PROPERTY & CASUALTY AND MORTGAGE INSURERS														
	Assets		Revenue		Net income		EPS (\$) <sup>2</sup>		Ratio (%) <sup>9</sup>		Cash flow <sup>4</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	2017	2018	(\$mil.)	% Chg.	2017	2018
Co-operators General Insurance	6.7	13.1	747.4	2.1	-18.2	N/A	2.84	-0.95	100.3	102.2	84.4	334.8	8.0	N/A
Echelon Financial Holdings	0.7	13.1	81.5	19.5	0.2	N/A	-0.42	0.01	117.2	102.1	-38.8	N/A	N/A	6.9
Fairfax Financial Holdings (US\$) <sup>1</sup>	64.4	0.4	4,179.9	-21.5	-453.2	N/A	-5.78	-17.89	100.8	99.3	-989.5	N/A	6.5	2.7
Intact <sup>1</sup>	28.5	2.2	2,732.0	3.9	244.0	2.1	1.65	1.67	92.6	91.7	211.0	817.4	12.7	10.5
Genworth MI Canada	6.9	-0.5	179.9	-23.4	80.1	-39.3	1.45	0.88	28.8	37.1	129.7	-3.8	13.9	11.4
Subtotal	107.1	1.6	7,920.7	-11.9	-147.1	N/A					-603.2	N/A	9.5	6.0
MUTUAL FUND AND INVESTMENT-MANAGEMENT COMPANIES														
	Under mgmt.		Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018
AGF Management (Nov. 30)	37.7	1.1	108.5	-10.2	15.1	-9.9	0.21	0.19	23.8	-20.5	0.37	0.30	5.6	7.8
Brookfield Asset Management (US\$)	354.7	25.3	16,006.0	22.5	3,028.0	45.4	1.02	1.87	1,063.0	408.6	-0.88	-0.14	5.7	13.8
CI Financial	124.4	-13.1	529.2	-11.0	140.4	0.7	0.51	0.57	178.3	24.7	0.52	0.72	30.1	37.1
Fiera Capital <sup>1</sup>	136.7	6.0	157.0	10.5	3.0	-62.1	0.09	0.03	62.8	32.4	0.56	0.63	4.5	1.3
Gluskin Sheff <sup>6</sup>	8.2	-8.2	28.4	-50.8	7.6	-60.5	0.61	0.24	14.1	-54.9	1.00	0.45	24.9	27.0
Guardian Capital Group	27.0	-1.1	44.3	13.3	-69.7	N/A	1.51	-2.63	17.5	22.9	0.49	0.63	15.9	N/A
IGM Financial <sup>1,7</sup>	149.1	-4.8	791.5	-0.2	182.1	-5.9	0.79	0.75	204.3	5.9	0.79	0.84	16.5	22.1
Integrated Asset Management <sup>6</sup>	2.3	-5.6	4.6	34.3	0.8	80.7	0.02	0.03	0.9	N/A	-0.07	0.03	9.1	20.2
Sprott	10.6	44.4	30.5	26.1	9.8	290.3	0.01	0.04	25.4	N/A	-0.06	0.10	10.7	8.8
Stone Investment Group	0.5	0.5	2.4	-7.3	-0.2	N/A	0.01	-0.01	0.8	-17.0	0.04	0.03	NA	NA
Subtotal	851.1	7.0	17,702.4	19.3	3,317.0	32.3			1,590.9	144.0			8.9	15.4
BROKERAGES														
			Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
			(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018	2017	2018
Canaccord Genuity Group <sup>1</sup>			331.6	7.2	34.0	-7.1	0.29	0.26	202.0	136.8	0.72	1.56	3.1	17.1
GMP Capital			38.3	-27.4	-5.0	N/A	0.08	-0.09	31.8	-74.0	1.78	0.44	N/A	3.6
Oppenheimer Holdings (US\$)			243.3	-8.2	8.3	-61.0	1.54	0.59	50.3	175.6	1.33	3.56	4.4	5.4
Subtotal			613.2	-2.2	37.3	-41.9			284.0	25.9			N/A	10.5
STOCK EXCHANGES														
			Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
			(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018	2017	2018
TMX Group <sup>1</sup>			207.6	21.5	64.2	29.7	0.88	1.14	68.4	15.2	1.06	1.22	7.1	7.5
HOLDING COMPANIES														
	Assets		Revenue		Net income		EPS (\$) <sup>2</sup>		Cash flow <sup>4</sup>		CF/share <sup>2</sup>		ROE (%) <sup>5</sup>	
	(\$bil.)	% Chg.	(\$mil.)	% Chg.	(\$mil.)	% Chg.	2017	2018	(\$mil.)	% Chg.	2017	2018	2017	2018
Desjardins Group <sup>1</sup>	295	7.4	4,145	11.0	578	32.3	NC	NC	182	-81.0	NC	NC	7.6	8.1
Dundee Corp.	1	-30.6	35	-19.9	-50	N/A	-1.20	-0.78	-14	N/A	-0.17	-0.21	N/A	N/A
Power Financial <sup>1</sup>	447	1.6	12,438	-8.9	762	27.6	0.56	0.65	1,728	-28.7	3.12	2.00	11.6	12.5
Subtotal	743	3.7	16,618	-4.6	1,290	34.6			1,896	-44.0			9.0	9.4

N/A = not applicable; NA = not available because the company has negative