



CI FINANCIAL CORP.

(TSX: CIX)

eResearch Corporation (eResearch) and **Catalyst Equity Research Inc. (Catalyst)** have reached an agreement whereby **eResearch** will distribute all reports provided by **Catalyst** to **eResearch** throughout its extensive electronic distribution network.

eResearch and **Catalyst** share a common mission: to provide quality investment research analysis, by ensuring that the research is a credible resource that investors can rely on.

eResearch was established in 2000 as Canada's first equity issuer-sponsored research organization. Our various research packages allow corporate management to choose the form of research coverage that best meets their company's needs.

Catalyst, which was founded in 2003, is Canada's sole independent equity research company specializing exclusively in the financial services sector. Headed by Robin Cornwell, who has more than 30 years of experience in research and investment analysis of financial companies, **Catalyst** provides comprehensive investment research and advisory services to the investment community.

eResearch Corporation is pleased to provide a **Catalyst** report on: **CI FINANCIAL CORP.**

Bob Weir, CFA
Managing Director, Research Services,
eResearch Corporation

August 11, 2011

Note: Information and opinions expressed in Catalyst Equity Research Inc. reports and presented on the eResearch Corporation web-site are those of the contributing author and are provided in good faith and without legal responsibility. No representations, express or implied, are made by eResearch Corporation as to the accuracy, completeness, or correctness of this research. Such information and opinions expressed are as of the date of publication, and are subject to change without notice. Neither eResearch Corporation nor Catalyst Equity Research Inc. accepts any liability whatsoever for any direct or indirect loss resulting from any use of the research or the information it contains. Further, eResearch Corporation offers no opinion, express or implied, on the commentary herein, nor does it endorse the views and opinions expressed in this research report, which are those of Catalyst Equity Research Inc. only.

CI FINANCIAL CORP.

(CIX – TSX \$20.40)

Recommendation: BUY
Target Price (1 Year): C\$24.00
Prior: C\$26.00
Total Return (1 Year): 22.1%
Risk: Low

Market Data

Current Price \$20.40
 52-Wk Range \$18.27-24.02
 Mkt. Cap. (mm) \$5,900
 Indicated Dividend \$0.90
 Implied Yield 4.4%

Financial Data

Fiscal Y/E December 31
 Shares O/S (mm) 288.0
 Total AUA (bill) \$97.2
 Mkt. Cap. as % AUM 6.1%
 Total AUM (bill) \$74.3
 Mkt. Cap. as % MF-AUM 7.9%

Estimates (f.d.)

Year	2010A	2011E	2012E
EPS	\$1.14	\$1.35	\$1.45
EBITDA/Shr.	\$2.32	\$2.60	\$2.80

Valuations

Year	2010A	2011E	2012E
EPS Mult.	17.9x	15.1x	14.1x
P/EBITDA Mult.	8.8x	7.8x	7.3x

CI Financial Corp.



Chart Courtesy Big Charts

Robin Cornwell

416-910-7985

rcornwell@catalystresearch.ca

Notes:

All figures in Canadian dollars, unless otherwise specified.
 * Under Review

Please see the final pages of this document for important disclosure information.

Q2/11 Earnings In Line With Expectations AUM Outlook Has Been Lowered More Moderate Growth Should be Expected

Conclusion: BUY – 12-Month Target Lowered to \$24.00

CI Financial Corp. (CIX) reported adjusted Q2/11 EBITDA (excluding stock compensation) of \$0.65 per share, up 18% Y/Y and flat sequentially. Overall, the quarter was right in line with our expectations driven by higher management fee revenue. EPS was reported at \$0.34, up 10% Y/Y but were flat sequentially. CIX's annual dividend per share was maintained at \$0.90 (CIX pays dividends on a monthly basis at the rate of \$0.075 per share).

Assets Under Management (AUM) were higher by 16% Y/Y. Excluding the \$1.75 billion of Hartford AUM (acquired in December), AUM growth would have increased by about 12% Y/Y. Total assets, including Assets Under Administration (AUA) of \$22.9 billion, increased by 18% Y/Y to \$97.2 billion.

CIX continues to maintain solid operating margins and good cost control. The recent Hartford acquisition should be marginally accretive to earnings in fiscal 2011, however, the prospects for future larger acquisitions no longer seems very high as acquisition candidates are few. Management indicated that its initiative into institutional fund management is going well with ten new mandates having been won. This initiative translated into over \$250 million of new inflows with more to come in the near-term.

For 2011, we have lowered our EBITDA per share forecast to \$2.60 from \$2.70. In addition, our EPS estimate has been lowered to \$1.35 from \$1.40 based on lower average AUM over the balance of this year, excluding the AUM acquired from the Hartford acquisition (see detail below). Our 2012 EBITDA per share forecast has been lowered to \$2.80 from \$2.95 to reflect a lower level of AUM than previously assumed. Our EPS estimate for 2012 has been reduced to \$1.45 from \$1.55. Our forecasts assume no further acquisitions.

CIX continues to throw off excellent free cash flow. Based on our 2012 projections, the current dividends being paid out are less than 60% of free cash flow. Further dividend increases of 5% to 7% over the next 12 months are very likely.

We have lowered our 12-month share price target for CIX to \$24.00 from \$26.00. We continue to recommend CIX as a Buy.

Valuation

Our 12-month share price target for CIX implies an EBITDA per share multiple of 8.6x on our 2012 forecast which is a premium to AGF at 5.7 times and more or less in line with IGM's valuation on an EBITDA multiple and EV(Equity Value)/AUM basis.

Other Quarterly Highlights

- **Adjusted EBITDA** (excluding equity-based compensation expense) for Q2/11 was \$188 million, up 18% Y/Y but down 1% sequentially. Total revenue increased by 14% Y/Y to \$386 million. Expenses increased 6% Y/Y for positive leverage of 8% in the quarter.
- **Management fee revenue increased by 15% Y/Y** to \$337 million and increased 2% sequentially.
- **SG&A expense (excluding stock compensation) increased 6% Y/Y**, which included the acquisition of Castlerock Investments (formerly Hartford Investment Group).
- **EBITDA margin** was 48.5% in the quarter versus 48.7% in the same period last year and 47.5% last quarter. The EBITDA margin is expected to be under some pressure going forward as a result of a change in asset mix to lower margin institutional AUM over the period.

- **Institutional mandate is gaining momentum** as CIX won ten new mandates. Request for proposal activity has been strong. Although this is a lower margin business, it is an area of potentially high growth as many smaller asset managers in the business struggle with succession issues. Management believes it can add over \$500 million of new inflows this year with \$300 million currently in place year-to-date.
- **Asset Administration (Assante operations)** reported pre-tax income of \$0.6 million, down from \$0.9 million last quarter and \$0.8 million in the same period last year. The dealer gross margin (administration fees less investment dealer fees as a percentage of administration fees) was 20.8%, down from 20.9% in the same period last year but up from 20.3% last quarter. The lower Y/Y margin relates to financial advisors earning a higher average investment dealer fee rate on their administration fees.
- **Total AUM**, including all mutual funds and institutional AUM, as at the end of the quarter was reported at \$74.3 billion, up 16% Y/Y. Excluding the Hartford AUM of about \$1.75 billion, AUM growth would have approximated 12% Y/Y. Total AUM, adjusted to reflect the recent market decline, is expected to have declined to about \$70.0 billion or about 5% as over 65% of AUM are in equities.
- **Total AUA as at the end of Q2/11 was reported at \$23.1 billion, up 10% Y/Y** (AUA is now largely Assante).
- **Total client assets (AUM + AUA) was \$97.2 billion as at the end of Q2/11.**
- **Gross sales in Q2/11 of all funds were good** at \$2.5 billion but about 16% lower than the \$3.0 billion reported in the prior quarter.
- **Net sales in the quarter, overall, were disappointing at \$300 million, down from \$500 million in the prior quarter.**
- **Gross Debt as at the end of the period was about \$847 million**, down from \$870 million in the same period last year. We expect the debt levels to continue to decline in 2011.

Impact of IFRS Adoption

Management indicated that the most significant impact of the new IFRS accounting rule changes is related to the amortization rate on its deferred sales commissions (DSC). Presently CIX amortizes its DSC over 7 years. Under the new rules, DSC will be amortized over the actual life of the asset which is a maximum of 7 years but averages less than that. The ongoing earnings impact is not significant.

CIX Completes Acquisition of Hartford Investment Group Assets

CIX announced on December 15, 2010 that it had completed the purchase of \$1.75 billion of mutual fund business from Hartford Financial Services Group Inc. (Hartford) for \$109 million (net of cash). Management expects immediate cost synergies and, although not a large deal, it should be accretive to CIX's earnings in 2011 by about \$0.03 to \$0.04 per share. Hartford funds are understood to be higher margin than CIX but, additionally, Hartford is the preferred supplier to Edward Jones which accounts for some 50% of sales which will be a new source of sales for CIX. Hartford has been re-branded as Castlerock Investments.

Definition of Risk Rankings

Low: Low financial and operational risk, high predictability of financial results with stronger than average balance sheet and strong free cash flows. Company may pay substantial dividends or have an active share repurchase program.

Medium: Moderate financial and operational risk, moderate predictability of financial results, positive free cash flows and may or may not pay a dividend.

High: High financial and/or operational risk, low predictability of financial results. Limited financial history, negative free cash flows, adequate working capital and no dividends.

Definition of Research Ratings

The Catalyst research recommendation structure consists of the following categories:

Buy: The stock's total return, including dividends paid, is expected to exceed a minimum of 15% on a risk-adjusted basis, over the next 12 months.

Hold: The stock's total return, including dividends paid, is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

Sell: The stock's total return, including dividends paid, is expected to be negative over the next 12 months.

Speculative: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

Note: Analysts have discretion within 500 basis points of the upper and lower limit of each rating to maintain the recommendation.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The information contained in this report has been compiled by Catalyst Equity Research Inc. ("Catalyst") from sources believed to be reliable, but no representation or warranty, express or implied, is made by Catalyst, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report represent Catalyst's judgment as of the date of this report and are subject to change without notice and are provided in good faith but without legal responsibility. This report is not an offer to sell or a solicitation to buy any securities. Catalyst and its affiliates may have a relationship or may receive compensation for services with some or all of the issuers mentioned. Catalyst or its affiliates or officers, directors, representatives, associates may have a position in the securities mentioned herein, and may make purchases or sales of these securities from time to time in the open market or otherwise. The securities discussed may not be eligible for sale in all jurisdictions. To the full extent permitted by law neither Catalyst nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of Catalyst. This report is not for distribution in the United States of America.