

AGF MANAGEMENT LIMITED (AGF.B – TSX \$19.85)

Recommendation

Buy

Risk

Low

Target Price

\$26.00 (Lowered)

Price

\$19.85

52-Week Range

\$36.83 – \$17.48

% Below High

46.1 %

% Above Low

13.6 %

Shares O/S

89 million

Market Cap

\$1.77 billion

Average Daily Volume

20 day: 234,144

Year-End

November 30

C\$	EBITDA	Multi.
2007a	\$3.89	5.1x
2008e	\$3.75	5.3x
2009e	\$3.95	5.0x
AUM \$ bill	\$48.7	3.6%

	Amount	Yield
Dividend	\$1.00	5.1%

Analysts

Robin Cornwell B.A. (Economics),
MBA



THIRD QUARTER REVIEW

HIGHLIGHTS

- Q3-2008 Earnings Lower Than Expected
- Mutual Fund Sales Continue In Net Redemption
- Share Repurchase Program To Slow
- Dividend Growth To Slow
- Forecasts Lowered

CONCLUSION

BUY Maintained - Target Lowered To \$26.00 From \$30.00

AGF Management (AGF) reported earnings lower than expectations on an EBITDA basis. EPS was slightly better than expected helped by a lower tax rate and lower amortization expense. AUM growth slowed due to lower equity markets and net mutual fund redemptions. Trust operations continued to demonstrate strong growth.

Q3/08 EPS (fd), reported at \$0.46 per share, increased 7% from \$0.43 last year. EBITDA was reported at \$0.91 per share (fd) for the quarter, down 8% Y/Y and more representative of the quarters overall performance. Investment management EBITDA in the quarter decreased 14% Y/Y while the EBITDA from the trust operations increased by 10% Y/Y. Assets Under Management (AUM) decreased 9% Y/Y while AGF Trust assets increased 34% Y/Y.

Investors could see a dividend increase to about \$1.06 to \$1.10 per share over the next 12 months but we believe management will remain in a capital conservation mode and limit the increase to the lower end of the range. We also expect the share repurchase program announced last quarter to err on the conservative side as well. We expect total AUM growth to approximate 3% to 5% over the next 15 months. This lower growth is driven by more volatile equity markets and weaker

net sales. AGF Trust should experience good EBITDA growth in 2008 of 30% Y/Y (excluding securitization gains in fiscal 2007) but see much slower growth in fiscal 2009 and probably more in the order of 12% to 15% on a Y/Y basis.

COMMENT: *We have lowered our 2008 EBITDA per share forecast to \$3.75 from \$3.95 as well as our EPS forecast to \$1.87 from \$2.00. For 2009, we have lowered our EBITDA per share estimate to \$3.95 from \$4.20 and our EPS estimate to \$2.00 from \$2.15. For both years the changes reflect the impact of slower than expected share repurchases as well as slower expected AUM growth.*

Valuation and Recommendation

Our 12-month Target Price has been lowered to \$26.00 from \$30.00 for a total 12-month return of 36.0%. This valuation reflects the slower expected AUM growth and concerns over slower net fund sales. The lack of an affiliated distribution network and the lower profit margins, in our view, warrants AGF an overall valuation discount to its peers. Our target values AGF at 6.6 times our 2009 EBITDA forecast versus IGM and CIX at 7.9 and 8.9 times respectively. AGF currently trades at almost 3.7% of AUM versus 9.0% and 9.4% for CIX and IGM respectively. The latter valuation is lower for AGF as almost 40% of AGF's assets are institutional in nature and generally are valued less than retail assets. Our recommendation is maintained as a BUY.

Net Redemptions Rose In The Quarter

AGF experienced net redemptions in the quarter of \$572 million versus net redemptions of \$259 million in the prior quarter. Market performance was a negative \$1.4 billion versus a positive \$1.2 billion in the prior quarter.

Investment Management Continues To Slow

Investment management operations (fund management) reported an 11% Y/Y decline in total revenue and a 12% decline in management and advisory fees. The latter was slightly weaker than forecast but in line with the decrease in average AUM of 9%. Mutual fund AUM decreased by 12% Y/Y to \$26.4 billion. Total AUM including institutional and Private Investment Management (PIM) was reported at \$48.7 billion, down from \$51.8 billion last quarter and \$53.8 billion in the same quarter last year.

EBITDA was reported at \$66.0 million, down from \$71.5 million last quarter and down 14% Y/Y. The EBITDA margin (EBITDA as a % of management and advisor fees) decreased to 42.5% from 44.2% in the same period last year. SG&A declined 10% Y/Y for a negative change in operating leverage on management fees and a negative overall operating leverage of 3% (including deferred sales charges). Management indicated that fund absorption expenses have increased by about 20% Y/Y.

Trust Operation Now Beginning To Slow

The trust operations reported another good quarter with EBITDA increasing to \$14.4 million up 10% Y/Y. This level of EBITDA was better than expected by about \$1 million principally due to a lower provision for credit losses (PCL) than expected. However, there was further spread compression in the quarter resulting from an increase in GIC funding costs and no increase in loan yields. The average net interest margin decreased to 2.33% from 2.55% last year.

Total assets increased to \$5.4 billion up 34% from \$4.0 billion a year earlier. Secured loan and RSP loan growth were the principal drivers behind the asset growth. Provisions for loan losses increased to \$3.4 million up from \$2.4 million in the same quarter last year, largely due to volume growth but were slightly lower than our forecast.

We expect volumes to remain good but nonetheless slow to the 12%-17% annual rate of growth range. Interest margins are expected to remain compressed as the shift continues to lower risk assets (with lower yields) and as well the continued pressure from higher deposit costs. EBITDA is expected to benefit over the next several quarters as efficiency ratios improve. AGF seems well ahead of the other major mutual fund companies in its quest to enter the banking business. However, the expansion of the trust operations will continue to require capital infusions and earnings could exhibit more volatility if loan quality deteriorates and if spreads decline more than we expect. EBITDA is expected to increase by 28% in fiscal 2008 but slow in fiscal 2009 to an increase of 15% Y/Y (previously expected 20% growth).

Smith & Williamson (S&W)

AGF owns 30% of S&W, a U.K. financial services company, which was considering a public financing but has put that option on hold due to market conditions. The book value of AGF's investment is slightly over \$100 million. The deal could eventually surface \$100 to \$200 million of value to AGF or \$1 to \$2 per AGF share. Pre-tax profit increased by 26% YTD. The contribution to AGF's Q3/08 increased 20% Y/Y.

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