

## CI FINANCIAL INCOME FUND (\$22.90 CIX.UN -TSX)

**Recommendation**

BUY

**Risk**

Low

**Target Price**

\$25.00

**Price**

\$22.90

**52-Week Range**

\$21.12 - \$30.75

**% Below High**

-25.5%

**% Above Low**

8.4%

**Shares O/S**

282 million

**Market Cap**

\$6.5 billion

**Average Daily Volume**

636,000

**Year-End**

December 31

C\$	EPU	P/EPU
2007a	\$2.21	10.4x
2008e	\$2.15	10.6x
2009e	\$2.40	9.5x
AUM \$ bill	\$64.3	

	Amount	Yield
Current Ann. Distrib.	\$1.92	8.4%

**Analysts**

Robin Cornwell



Data Source: www.BigCharts.com

### Q4/07 EARNINGS IN LINE BUT OUTLOOK WEAKER AS AUM GROWTH SLOWS WITH LITTLE ROOM FOR COST CUTTING

**CONCLUSION: BUY - 12 MONTH TARGET LOWERED TO \$25.00**

CI Financial Income Fund (CIX) reported EBITDA basically in line with our expectations for Q4/07 at \$176 million or \$0.64 per unit down from \$0.65 last quarter and up 2% Y/Y. CIX reported EPU (Earnings Per Unit) of \$0.65 which was well above our estimate, however, that included a tax recovery of \$0.13 per share. Adjusted EPU was about \$0.01 below our estimate. The earnings were impacted by flat asset growth and lower margins.

For the fiscal year ended December 31, 2007, CIX reported EBIDA of \$738 million or \$2.60 per unit up 17% Y/Y. Assets Under Management (AUM) as at year-end increased by 7% to \$67.2 million. EPU increased to \$2.21. Assets Under Administration (AUA) which includes all earning assets increased to \$103.6 billion or 13% Y/Y. The AUA included the acquisition of Blackmont's AUA of \$9.1 million and KBSH's \$3.0 million of AUM earlier in fiscal 2007. Excluding Blackmont, AUM and AUA would have increased by 2% and nil respectively. Cash Distributions Per Unit (CDPU) increased to \$2.28 from a \$2.01 annualized rate in 2006. As noted above, management announced on January 24, 2008 a decrease in CDPU to an annual rate of \$1.92.

Management stressed that market the current market volatility would limit earnings growth over the near term and was the rational behind the decrease in distributions to \$0.16 per unit (\$1.92 annually) from \$0.19 per unit (\$2.28 annually) made last month. However after having net redemptions of \$490 million in January, early signs are for positive net sales of \$350 million this month. In addition segregated fund sales remain good driven by the new products launched

by both Manulife and Sun Life in guaranteed funds. As there is little room for significant cost cutting measures, other than some marketing expenses, we expect margins to be under modest downward pressure. CIX still remains probably the most efficient mutual fund company in Canada.

For fiscal 2008, we have lowered our EBITDA per unit forecast to \$2.70 per unit and our estimated EPU to \$2.15. For 2009, we have introduced our forecast EBITDA at \$2.95 per unit and our estimated EPU at \$2.40. Our forecast is based on modest AUM growth of 3% to 5% annually. We continue to recommend CIX as a Buy and our estimated total 12 month return is 17.5%. Estimated CDPU (Cash Distributions Per Unit) in 12 months is expected to be increase modestly to the \$2.04 per unit level (\$0.17 per unit monthly) from \$1.92 currently.

### Valuation

CIX remains one of the best run mutual fund companies in Canada, however margins are now likely to remain under pressure on the mutual fund side as competition particularly from the banks remains tough. We have lowered our 12 month share price target for CIX at \$25.00 which implies an EBITDA per share multiple of 8.5x on our 2009 forecast with a current yield of 8.4%.

### Other Quarterly Highlights

- EBITDA (including includes equity based compensation expense) for Q4/07 was \$176 million or about flat from \$182 million in Q3/07 but up 2% over the 3 month period ended December 31, 2006.
- The quarter saw net mutual fund sales (long-term funds) of \$144 million up from \$124 million in the same period last year. Gross sales of all funds were reasonably good at \$2.6 billion in the quarter.
- Total AUM as at the end of January decreased sequentially to \$64.3 billion from \$67.2 billion as at the end of December. AUA decreased to \$99.2 billion from \$103.6 billion.
- Management fees increased to \$322 million up 5% Y/Y but down modestly from the previous period. Operating margins declined to 1.05% down from 1.10% last year largely due to downward pressure on management fees and slightly higher trailer fees.

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