

CI FINANCIAL INCOME FUND (\$23.00 CIX.UN -TSX)

Recommendation

Buy

Risk

Low

Target Price

\$25.50

Price

\$23.00

52-Week Range

\$19.20 - \$30.75

% Below High

-25.2%

% Above Low

19.8%

Shares O/S

279 million

Market Cap

\$6.4 billion

Average Daily Volume

20 day: 256,400

Year-End

December 31



Data Source: www.BigCharts.com

Q1/08 EARNINGS REVIEW

OVERVIEW

- Q1/08 Earnings Lower than Expected
- Distribution Increased By 6%
- Expect Early Conversion Back To Corporate Status
- Conclusion: BUY - 12-Month Target Increased to \$25.50

COMMENTARY

CI Financial Income Fund (CIX) reported EBITDA was lower than expected by about \$0.06 per unit. Q1/08 EBITDA was reported at \$182 million or \$0.65 per unit, about flat over last quarter and up 3% Y/Y. However, excluding stock compensation expense, EBITDA was \$166 million or \$0.60 per share. CIX reported EPU (Earnings Per Unit) of \$0.50, which was also below our estimate by \$0.03 and down 2% Y/Y. The lower than expected earnings resulted from lower administration fees and narrower margins, as there was a shift in asset mix to lower fee-based money market funds. The monthly distribution was increased by 6% to \$0.17 per unit from \$0.16 per unit.

Management stressed that it was difficult to determine the best level for distributions due to the market volatility, but seemed positive on the outlook and indicated that this new distribution level is still below the current \$0.18 per unit earning power of CIX.

We expect that there is little room for significant cost-cutting measures, other than some marketing expenses, and therefore margins are unlikely to improve soon. Having said that, CIX remains probably the most efficient mutual fund company in Canada. An acquisition would help; however, the uncertainty surrounding the

	EPU	P/EPU
2007a	\$2.21	10.4x
2008e	\$2.10	11.0x
2009e	\$2.33	9.9x

	P/AUM
AUM\$ bill	\$68.1 9.4%

	Amount	Yield
Current Ann. Distrib.	\$2.04	8.9%

Analysts

Robin Cornwell B.A. (Economics),
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future of the income trust structure makes that more difficult. For this reason, we believe management is now seriously considering converting back to a corporation prior to 2011.

For fiscal 2008, we have lowered our EBITDA per unit forecast to \$2.55 from \$2.70 and lowered our estimated EPU to \$2.10 from \$2.15. For 2009, we have lowered our forecast EBITDA per unit to \$2.85 from \$2.95 and lowered our estimated EPU to \$2.33 from \$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 19.8%. Estimated CDPU (Cash Distributions Per Unit) in 12 months is expected to be increased modestly to the \$2.22 per unit level (\$0.185 per unit monthly) from \$2.04 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. However, the increase in distribution and improved outlook for AUM growth are promising, as are future acquisition possibilities. We have increased our 12-month share price target for CIX to \$25.50 from \$25.00, which implies an EBITDA per share multiple of 8.1x on our 2009 forecast, with a current yield of 8.7%.

OTHER QUARTERLY HIGHLIGHTS

- EBITDA (including equity-based compensation expense) for Q1/08 was \$182 million or about flat from \$184 million in Q4/07 and up 4% over the same period last year. Excluding stock compensation, EBITDA was \$166 million down 7% Y/Y.
- Total AUM as at the end of March decreased sequentially to \$65.8 billion from \$67.2 billion as at the end of December. AUA (all fee-earning assets) decreased to \$99.6 billion from \$103.8 billion.
- Gross sales of all funds were reasonably good at \$3.4 billion, up from \$2.6 billion in the prior quarter with net sales overall of \$475 million.
- Sales of long-term funds were \$3.0 billion with net sales of \$280 million.
- Short-term fund sales were \$449 million and net sales were \$195 million.
- As at the end of April, total AUM increased to \$68.1 billion from \$67.2 billion as at the end of March. AUA increased to \$102.4 billion from \$99.8 billion.
- Management fees decreased to \$301 million, down 4% Y/Y and 7% sequentially. Operating margins declined to 1.03%, down from 1.09% last year, largely due to a higher mix of short-term money market funds and higher fund absorption expenses, lower management fees and slightly lower trailer fees.

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