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eResearch

Analyst: Robin Cornwell

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Recommendation

Buy

Target Price

$29.50

Risk

Low

Average Daily Volume

150 day: 270,600

Quick Facts

Recent Price	C$26.75
Symbol	CIX-UN
Shares O/S	286 million
52 Wk. Range	$23.01-$30.75
Year End	December 31

	EPU	P/EPU
2006A	$2.02	13.2%
2007E	$2.10	12.7
2008E	$2.30	11.6%
AUM $ Bill	$69.0	

	Amount	Yield
DPU $	$2.28	8.5%

CI FINANCIAL INCOME FUND

Data Source: BigCharts.com

CI Financial Income Fund promotes and manages mutual funds and other investment products through its wholly-owned subsidiaries CI Investments Inc. and Assante Corporation.

CONCLUSION: BUY - 12 MONTH TARGET MAINTAINED AT $29.50

CI Financial Income Trust (CIX) reported EBITDA below our expectations for the period ended September 30, 2007. EBITDA was $184 million or $0.64 per unit down from $0.69 last quarter and up 10% over the 3 months ended September 30, 2006. CIX reported EPU (Earnings Per Unit) of $0.50 below consensus and our estimate of $0.56. The lower earnings were largely driven by flat asset growth, lower margins and a lower contribution from newly acquired Rockwater. CIX still remains probably the most efficient mutual fund company in Canada.

CIX reiterated that it is still very interested in acquiring DundeeWealth (DW) and indicated that it is waiting for a response from DW's board of directors on the initial offer sent to DW. If CIX is successful in acquiring DW then we would consider an increase in our share price target as synergies would be considerable and we would expect a very positive accretion to earnings. If the Goodman family who controls DW through Dundee Corp. do not accept the higher share price offered by CIX then not only could the shareholders of DW be upset but there may be problems for the Dynamic Funds. The Dynamic Fund unitholders may view a rejection as unfair causing redemptions in the funds.

For fiscal 2007, we have lowered our EBITDA forecast to $2.40 per unit and our estimated Earnings Per Unit (EPU) to $2.10. For 2008, we have lowered our forecast EBITDA to $2.75 from $2.95 per unit and our estimated EPU to $2.30 from $2.52. We continue to recommend CIX as a Buy and our estimated total 12 month return has increased to 18.8%. Estimated CDPU (Cash Distributions Per Unit) in 12 months is expected to be increased further to $2.40 per unit level ($0.20 per unit monthly) from $2.28 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. An acquisition such as DW would allow CIX management to increase efficiency and increase margins. We have maintained our 12 month share price target for CIX at $29.50 which implies an EBITDA per share multiple of 10.7x on our 2008 forecast with a current yield of 8.5%.

Asset Administration – Pre-tax Income Falls Short

This was the second full quarter of owning Rockwater which is included in this operating unit. Revenue fell by 15% from the previous quarter to $107 million from $124 million largely due to slower deal flow. Pre-tax income fell by 33% to $10 million from $15 million. The quarter was below expectations and was a significant factor in CIX missing our forecast and a large factor in our revised lower EBITDA forecast.

Other Quarterly Highlights

- EBITDA (including includes equity based compensation expense) for Q3/07 was $184 million or $0.64 per unit down from $194 million or $0.69 per unit in Q2/07 but up 10% over the 3 month period ended September 30, 2006. There is no comparable period for comparison due to the year end change.
- The quarter saw net mutual fund sales (long-term funds) of $134 million down from $411 million last quarter and down over 50% from the same period last year. Gross sales of all funds were reasonably good at $2.5 billion however net sales were slower at $149 million.
- Total AUM as at the end of the quarter decreased sequentially to $69.0 billion from $69.5 billion as at the end of June. AUM increased Y/Y by 19%, excluding KBSH and Lakeview, organic AUM growth was up about 11% Y/Y.
- Total fee earning assets (AUA) increased to $96.5 billion up 27% Y/Y, organic growth excluding the recently acquired Blackmont AUA of $9.4 billion, organic growth in AUA would have approximated 15% Y/Y.
- As at the end of October 2007 AUM were unchanged from the previous month and total AUA increased modestly to $97.0 billion.
- Management fees increased to $326 million up 11% Y/Y but down from $330 million in the previous period. Operating margins declined to 1.07% down from 1.11% last year largely due to downward pressure on management fees (decrease from 2.02% last year to 1.98%) and slightly higher trailer fees.

Terms Of CI Financial's $20.25 Bid For DundeeWealth

CIX recently made an offer for 100% of DundeeWealth (DW) at $20.25 per share. DW is controlled by Dundee Corp. which owns a 56% stake in DW and has a total voting interest of 58.4%.

- CI's offer represented a 52% premium over the $13.31 closing price for DW shares on that day.
- The offer is 56% higher than the $12.76 per share purchase of 18% of DW shares by Scotiabank on September 28, 2007.
- CI's offer is based on 0.75 shares of CI's Income Trust Units for every DW share.
- CI could issue 111 million shares for a total purchase price if $3.0 billion. The latter would imply an addition of 39% to the 286 million of CI's current shares outstanding.
- Total AUM of a combined CIX and DW would exceed $100 billion and AUA would exceed $160 billion.

Fact Sheet On DundeeWealth

- Total fee earning assets of $64.3 billion including AUM of $29.3 billion and AUA of $35.0 billion.
- Dynamic mutual funds and structured products having total AUM of $25.5 billion.
- Private Wealth AUM of $2.9 billion.
- Institutional AUM of $0.9 billion.
- Total Financial advisors of 2,192 including 961 MFDA, 309 AMF and 532 IDA financial advisors ($32 billion of Assets Under Administration) and 390 insurance only agents.
- Branches total 645 including 209 IDA, 422 MFDA and 14 AMF.
- Investment dealer (Dundee Securities) including the 532 IDA financial advisors and capital markets.