

DUNDEEWALTH INC.

(DW – TSX \$13.10)

Recommendation

Speculative Buy

Risk

High

Target Price

\$16.50

Price

\$13.10

52-Week Range

\$12.01 - \$22.31

% Below High

41.2%

% Above Low

9.1%

Shares O/S

145 million

Market Cap

\$1.814 billion

Average Daily Volume

615,400

Year-End

December 31

C\$	EBITDA	Multi.
2006A	\$1.95	6.7x
2007E	\$2.10	7.5x
2008E	\$1.70	7.7x
AUM \$ bill	\$28.2	6.7%

	Amount	Yield
Dividend	\$0.08	0.6%

Analysts

Robin Cornwell



Data Source: www.BigCharts.com

DW TERMINATES TAKE-OVER DISCUSSIONS ONE YEAR TARGET LOWERED TO \$16.50 2 YEAR TARGET \$20 DW STILL CONSIDERED IN PLAY

EVENT:

On January 18, 2008, DundeeWealth Inc. (DW) announced that the process to review certain unsolicited expressions of interest (in acquiring 100% of DW) has been terminated. On September 24, 2007, CI Financial (CI) made an offer for 100% of DundeeWealth (DW) at \$20.25 per share. Subsequent to that announcement it was speculated but not confirmed that DW received expressions of interest from Manulife Financial, Power Financial and Scotiabank.

CONCLUSION - ONE YEAR TARGET LOWERED TO \$16.50 PER SHARE

Although this announcement is disappointing and over the near term negative, we believe it is inevitable that DW will be acquired. We believe that the CI offer likely ran into difficulty due to CI's trust status and uncertainty as to the tax consequences (based on the Goodman's accepting CI shares in exchange for its DW shares) if CI were to convert back to an incorporated company by 2011. Furthermore we muse as to whether the remaining \$410 million of ABCP and CLO's (see Valuation below) caused a valuation problem for some of the speculated bidders.

We have lowered our 12 month price target to \$16.50 per share which assumes a further possible write-down of ABCP investments held by DW of \$150 million. We believe DW should still be considered in play as it is one of the few large mutual fund companies remaining and consequently we have set a 2 year price target per share of \$20.00.

Revised EBITDA & EPS Outlook

Our 2007 EBITDA forecast (excluding the write-downs for securities and the Dundee Bank in Q3/07) has been revised upwards to \$2.10 per share from \$1.95 per share as a result of the recently announced \$74.6 million in performance fees for fiscal 2007. The latter was well above our estimate. We are maintaining our 2008 EBITDA estimate at \$1.70 per share and our EPS estimate at \$0.55. The latter estimates assume a more modest \$25 million of performance fees and, of course, includes the dilution from the recent 18% position purchased in DW by Scotiabank.

Valuation

The attributes of DW include: (1) strong mutual fund group with top quartile management performance, (2) largest distribution network of financial planners in Canada, (3) potential for future dividend growth (payout ratio for DW is 14% of estimated 2007 EPS vs over 50% for the other majors), (4) performance fee potential and (5) proven track record including strong sales, distribution and acquisition prowess.

Investors must however keep a mindful eye on the remaining exposure to the non-bank Asset Backed Commercial Paper (ABCP) position of \$340 million (after write-downs) and Collateralized loan obligations (CLO) of \$90 million as further write-offs could be required.

Our valuation gives consideration to DM's in-house financial planning distribution network which in our view places it in the league of IGM Financial and CI Financial. We have established a share price target of \$16.50 over the next 12 months which assumes an EBITDA multiple of 9.5x (which is a premium to CI and IGM as we believe performance fee based companies will become much more in favour) and implies a more meaningful 8.0% market cap. to AUM ratio. We continue to rate DW as a BUY with an expected 12-month total return of 26.1%.

RATINGS HISTORY

The following table shows the extent of the eResearch research material on the Company:

<u>Date</u>	<u>Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
January 25, 2007	Commentary	Buy	\$14.31	\$17.50
September 20, 2007	Commentary	No Change	\$12.99	No Change
September 20, 2007	Commentary	No Change	\$17.50	\$22.00
January 21, 2008	Commentary	No Change	\$13.10	\$16.50

High-Low Since Initiating: \$22.31 - \$12.01

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