

Recommendation

Buy

Target Price

\$17.50

Risk

Low

Average Daily Volume

150 day: 169,400

Quick Facts

Recent Price C\$12.99
Symbol DW-T
Shares O/S 117 million
52 Wk. Range \$17.38-\$11.70
Year End December 31

	<u>EBITDA</u>	<u>Mult</u>
2005a	\$1.95	6.7x
2006e	\$1.00	10.8x
2007e	\$1.70	7.6x
AUM \$ Bill	\$28.5	5.3x

	<u>Rate</u>	<u>Yield</u>
Dividend	\$0.08	0.6%

DUNDEE WEALTH INC.



Data Source: BigCharts.com

Dundee Wealth Inc. provides investment management, securities brokerage, financial planning and investment advisory services to individuals, financial advisors, institutions, corporations, and foundations.

ABCP LIQUIDITY PROBLEM PROVIDES SCOTIABANK WITH A STRATEGIC OPPORTUNITY TO ACQUIRE Foothold FULL ACQUISITION OF DW IS NOW VERY PROBABLE

Event: DW To Sell 18% Ownership To Scotiabank

Dundee Wealth Inc. (DW) announced an agreement yesterday with Scotiabank whereby the Bank has:

- Signed a definitive agreement to buy 18% of Dundee Wealth Inc. (DW) with the right to acquire up to 20%. Scotiabank will purchase 27.3 million newly-issued common shares and non-voting shares at \$12.76 for \$348 million. Scotiabank will get 3 DW board seats.
- Negotiated with Dundee Corporation (parent of DW) the right of first offer and a right to match any third-party offers "when" Dundee Corporation decides to sell its shares in DW.
- Agreed to acquire 100% of Dundee Bank of Canada (Dundee Bank) for \$260 million and provide white label banking solutions to DW to support its products distributed through the independent advisor channel.
- Deal expected to close before the end of September.

Background To The Transaction

On August 22, 2007 DW announced that it had transferred at par approximately \$400 million of 3rd party Asset-Backed Commercial Paper (ABCP) from Dundee Bank to DW. To facilitate this transaction DW increased its bank credit facility to \$500 million. The market for 3rd party ABCP's remains essentially illiquid while a proposed restructuring of the paper is negotiated. It is expected that if the approximately \$35 billion of 3rd party ABCP's is successfully restructured there will be a significant term extension involved and we believe a subsequent impairment of value of all 3rd party ABCP's.

Impact On DundeeWealth

The events of both the Scotiabank transaction and the ABCP asset transfer to DundeeWealth from Dundee Bank are expected to impact DundeeWealth as follows:

- EPS dilution from the \$384 million equity issue in Q4/07 and fiscal 2008.
- Annual expected EBITDA loss of \$15 million from Dundee Bank will disappear.
- Expect \$70 million after-tax loss from the sale of Dundee Bank to be recorded in calendar 2007.
- Potential of a permanent value impairment charge on the \$400 million 3rd party ABCP portfolio held by DW of approximately \$75 to \$100 million pre-tax to 2007 or 2008 earnings (\$0.35 to \$0.45 per share).
- DW is expected to use the proceeds from these transactions to reduce outstanding debt.

Conclusion: BUY – 12-Month Target Increased To \$17.50

The deal provides \$609 million of liquidity to DW from the proceeds of the Dundee Bank sale (\$260 million) and the equity injection (\$348 million) to help resolve the funding of the \$400 million of Asset-Backed Commercial Paper (ABCP) purchase with sufficient excess capital available for future growth in DW's core businesses. It is a rather disappointing conclusion to the Dundee Bank saga, however, on the brighter side, expected future operating losses from the Bank will disappear. We strongly believe a write-down of the 3rd party ABCP portfolio is inevitable in either 2007 or 2008 and has not been reflected in our earnings forecast.

We expect this transaction will lead to an offer by Scotiabank for 100% of DW. Unlike Sun Life (which owns 36.5% of CI Financial) we do not expect Scotiabank will be content with owning a small minority stake in DW. However any transaction of this nature would likely occur once the ABCP problems have been quantified.

Our EBITDA per share forecast (fd) for 2007 has been lowered to \$1.00 per share from \$1.85 per share reflecting the expected \$70 million after-tax loss from the sale of Dundee Bank and dilution from the equity issue in Q4/07. Our 2008 EBITDA forecast has been revised downward to \$1.70 per share from \$1.95 also reflecting the dilution. These estimates assume more modest performance fees of \$20 million annually (\$126.3 million in 2006). We have revised our 2007 EPS estimate to a loss of \$0.10 from a profit of \$0.75 and for 2008 our EPS estimate has been reduced to \$0.55 from \$0.72. We are maintaining out 12 month target of \$17.50 per share and BUY rating with an expected 12-month total return of 35.2%.

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) performance fee potential and (4) proven track record including strong sales and distribution. 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) and some consideration to a possible takeover by Scotiabank. We have established a share price target of \$17.50 over the next 12 months which assumes an EBITDA multiple of slightly over 10.0x our 2008 EBITDA per share forecast (a modest premium to the average of CIX and IGM of 9.5x).

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