

## IGM FINANCIAL (\$43.30 IGM-TSX)

### Recommendation

BUY

### Risk

Low

### Target Price

\$58.00

### Price

\$43.30

### 52-Week Range

\$41.18 - \$56.34

### % Below High

-23.1%

### % Above Low

5.1%

### Shares O/S

264 million

### Market Cap

\$11 billion

### Average Daily Volume

321,000

### Year-End

December 31

C\$	EBITDA	Multi.
2007a	\$6.29	6.9x
2008e	\$6.70	6.5x
2009e	\$7.25	5.8x
AUM \$ bill	\$106.8	10.7%

	Amount	Yield
Dividend	\$1.95	4.5%

### Analysts

Robin Cornwell



Data Source: www.BigCharts.com

### Q4/07 EARNINGS MARGINALLY BELOW EXPECTATIONS DIVIDEND INCREASED BY 6% OUTLOOK DECIDEDLY WEAKER FOR 2008

#### CONCLUSION: BUY - 12 MONTH TARGET LOWERED TO \$58.00

IGM reported Q4/07 results about 3% weaker than expected. EBITDA per share increased by 5% Y/Y to \$1.56 but were lower than last quarter at \$1.60. EPS (fd) was reported at \$0.82, a 9% Y/Y gain. ROE was marginally lower at 21.2%. The Y/Y increase in EBITDA was largely due to an increase in average mutual fund AUM of 10% Y/Y. Total AUM as at the end of the quarter amounted to \$123 billion up 3% Y/Y but down flat from the previous quarter. Dividend per share was increased by 6% to \$1.95 annually from \$1.84.

EPS for fiscal 2007 was reported at \$3.23 (excluding the tax benefit) up from \$2.90 or 11% reported in fiscal 2006. EBITDA in fiscal 2007 was reported at \$6.29 per share up from \$5.68 per share last year, a Y/Y gain of 11%. Total revenues increased 11% Y/Y. IGM increased its dividend by 16% Y/Y in fiscal 2007.

Mutual funds experienced net redemptions in January as equity markets remained quite volatile. We expect this volatility to continue for some time and we have lowered our AUM growth expectations for fiscal 2008. Accordingly, we have lowered our 2008 EBITDA per share estimate to \$6.70 from \$6.90 and have introduced our 2009 EBITDA per share estimate at \$7.25 a gain of 8%. Our EPS estimate for 2008 has been lowered to \$3.45 from \$3.62. Our 2009 EPS estimate has been set at \$3.70. This forecast assumes a modest share repurchase program in each year. ROE for 2008 is expected to decline to the 20.0% level in 2008 down from 21.5% in fiscal 2007. We expect a dividend payout ratio in closer to the 60% of EPS in 2008 which would imply a dividend in 12 months time of about \$2.05 to \$2.10 per share or an increase of 6% to 8%. We expect a 12-month total return of 38%. The shares are recommended as a BUY.

### Valuation

We consider IGM as the premier asset management company in Canada and well positioned in its distribution channels with Investors Group (strong & growing captive sales force) and Mackenzie (independent sale channel). We believe IGM is deserving of a premium EBITDA multiple based on its superior positioning and good profit margins (impressive expense controls) which will enable it to successfully compete in what is becoming an increasingly competitive environment including increased competition from the major banks. As noted, the outlook for AUM growth in fiscal 2008 has turned decidedly negative recently and we have lowered our earnings outlook. Accordingly, we have lowered our 12-month target price for IGM to \$58.00 from \$63.00 which represents a multiple of 8.5x our 2008 EBITDA forecast.

### January Mutual Funds Experience Big Redemption & AUM Declines

IGM recorded net mutual fund redemptions in January of \$343 million with long-term funds experiencing net redemptions of \$320 million. Mackenzie had redemptions of \$387 million with Investors Group having net sales of \$39 million. Total mutual funds as at the end of January decreased to \$104 billion down 3% Y/Y.

### Other Quarterly Highlights

- IGM reported Q4/07 cash operating earnings of \$219 million or \$0.82 per share, a Y/Y gain of 9%. This excludes a non-cash income tax benefit of \$15.3 million. Revenues increased Y/Y by 7% with management fees increasing 6%. Expense growth was 9% making for a negative operating leverage of 2% this quarter. EBITDA in Q4/07 was \$416 million or \$1.56 per share, a 5% Y/Y gain. EBITDA continues to be our preferred measure of performance for mutual fund companies as it excludes the amortization of commissions which can be erratic particularly in periods of strong sales.
- EBITDA margin of 58% in Q4/07 was unchanged from Q4/06 last year.
- Total mutual fund AUM for IGM as at the end the quarter increased to \$107 billion down marginally from \$109 billion as at the end of last quarter and up 2% Y/Y. Gross mutual fund sales in the quarter were \$4.6 billion with net sales of \$534 million. Total AUM increased to \$123 billion, a Y/Y increase of 3%.
- IG had gross long term fund sales of \$1.6 billion in Q4/07 with net sales of \$386 million, a relatively good quarter considering the market environment. Total mutual fund AUM as at the end of the quarter was \$60.2 billion up 3% Y/Y.
- Mackenzie experienced gross long term fund sales of \$1.4 billion in the quarter with net long term redemptions of \$0.3 billion. Total mutual fund gross sales were \$3.0 billion with net sales of \$0.2 billion. Total mutual fund AUM as at quarter end was \$46.6 billion flat Y/Y. Mackenzie had net sales of \$46 million its money market funds. Total AUM including institutional AUM and the Cundill AUM increased to \$63.3 billion up 3% Y/Y.
- Counsel Fund Management had net redemptions of \$1 million (gross sales of \$66 million) in Q4/07, a decent quarter given the market volatility. AUM increased by 3% Y/Y to \$2.3 billion.
- IG redemption rates remained at a record low of 7.3% down from over 8.0% last year and well below industry average of 14.6%.
- Mackenzie's redemption rate on long term assets was stable at 14.1% and slightly above the IFIC industry average (ex Mackenzie).
- The number of IG consultants increased 414 over last year or 11% Y/Y, to 4,331 and are at the highest level in IG history.

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