

## IGM FINANCIAL (\$47.25 IGM-TSX)

### Recommendation

Buy

### Risk

Low

### Target Price

\$57.00

### Price

\$47.25

### 52-Week Range

\$40.11 - \$56.34

### % Below High

-16.1%

### % Above Low

17.8%

### Shares O/S

264 million

### Market Cap

\$11.8 billion

### Average Daily Volume

20 day: 298,500

### Year-End

December 31

C\$	EBITDA	Multi.
2007a	\$6.29	7.5x
2008e	\$6.50	7.3x
2009e	\$7.15	6.6x
AUM \$ bill	\$122.2	11.6%

	Amount	Yield
Dividend	\$1.95	4.1%

### Analysts

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Data Source: www.BigCharts.com

## Q1/08 EARNINGS BELOW EXPECTATIONS

### CONCLUSION: BUY - 12-MONTH TARGET LOWERED TO \$57.00

IGM reported Q1/08 results about 5% weaker than expected. EBITDA per share decreased by 4% Y/Y and sequentially to \$1.50, about \$0.06 lower than expected. EPS (fd) were reported at \$0.79, down from \$0.82 last quarter and flat Y/Y. ROE was marginally lower at 19.5%. The Y/Y decrease in EBITDA was largely due to a decline in average mutual fund AUM of 4%. Total AUM as at the end of the quarter amounted to \$119 billion, but subsequently increased to \$122 billion by the end of April.

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 \$6.50 from \$6.70 and have lowered our 2009 EBITDA per share estimate to \$7.15 from \$7.25. Our EPS estimate for 2008 has been lowered to \$3.38 from \$3.45 and our 2009 EPS estimate has been lowered to \$3.65 from \$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, down from 21.5% in fiscal 2007. We expect a dividend payout ratio closer to 60% of EPS in 2008, which would imply a dividend in 12 months time of about \$2.03 to \$2.05 per share or an increase of 4% to 6%. We expect a 12-month total return of 25%. We continue to recommend IGM 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 and 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). Although we expect AUM growth to be muted in 2008, we expect better growth in fiscal 2009. We have lowered our

12-month target price for IGM slightly to \$57.00 from \$58.00 which represents a multiple of 8.0x our 2009 EBITDA forecast, a premium to AGF at 7.2 times but lower than CIX at 8.5 times (CIX yields 8.2% vs about 4.0% for IGM and AGF).

### April AUM Increase Driven by Market Performance

Total mutual funds as at the end of April increased to \$108 billion, down 3% Y/Y but up 2% over quarter end as market performance accounted for an increase of \$2.6 billion in April. The AUM level now equals that of Q4/07. IGM recorded net mutual fund redemptions in April of \$185 million, with long-term funds experiencing net redemptions of \$130 million. Mackenzie had redemptions of \$124 million, with Investors Group having net sales of \$52 million.

### Other Quarterly Highlights

- IGM reported Q1/08 cash operating earnings of \$211 million or \$0.79 per share, flat Y/Y. Revenues decreased Y/Y by 1%, with management fees decreasing 4%. Expenses increased 6% making for a negative operating leverage of 1% this quarter. However, about \$6 million of the increase was the result of higher fund absorption costs resulting from IGM moving to a fixed-rate fee structure (which requires IGM to absorb more expenses if AUM declines).
- EBITDA in Q1/08 was \$400 million or \$1.50 per share, a 5% Y/Y decline. 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 Q1/08 was unchanged from the same period last year.
- Total AUM at quarter end was reported at \$119 billion, a Y/Y decrease of 4%.
- Total mutual fund AUM for IGM as at the end the quarter increased to \$105 billion down marginally from \$107 billion as at the end of last quarter and down 5% Y/Y. Gross mutual fund sales in the quarter were \$4.1 billion, with net sales of \$262 million.
- IG had gross long-term fund sales of \$1.6 billion in Q1/08 with net sales of \$352 million, a relatively good quarter considering the market environment. Total mutual fund gross sales were \$1.9 billion with net sales of \$514 million. Total mutual fund AUM as at the end of the quarter was \$58.6 billion down 3% Y/Y.
- Mackenzie experienced gross long term fund sales of \$1.5 billion in the quarter, with net long term redemptions of \$375 million. Total mutual fund gross sales were \$2.0 billion, with net sales of \$254 million. Total mutual fund AUM as at quarter end was \$44.5 billion, down 7% Y/Y. Total AUM including institutional AUM and the Cundill AUM decreased 5% to \$61.0 billion Y/Y.
- Counsel Fund Management had net sales of \$3 million (gross sales of \$84 million) in Q1/08, a decent quarter given the market volatility. AUM decreased by 5% Y/Y to \$2.2 billion.
- IG redemption rates remained near record lows of 7.4%, down from over 8.0% last year and well below the industry average of 15.4%.
- Mackenzie's redemption rate on long-term assets was stable at 14.4% and slightly below the IFIC industry average (ex Mackenzie) of 14.7%.
- The number of IG consultants increased 357 over last year, or 9% Y/Y, to 4,342, and are at the highest level in IG history.

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