

Healthy rise in income for firms

The average increase in earnings was a strong 21% thanks to Fairfax's and Brookfield's big gains in the quarter

BY CATHERINE HARRIS

EARNINGS ROSE FOR THE majority of financial services companies in the most recent quarter for which data are available, and six companies increased their quarterly dividends. However, prospects are much dimmer now, due to the deterioration in Canada/U.S. relations and the possible commencement of a trade war that could push Canada's economy into recession.

Twenty-six of 44 companies in *Investment Executive's* quarterly profit survey had higher net income, while 13 had lower earnings and five were in a loss position in the fiscal quarter ended between Feb. 28 and April 30. (These figures exclude Great-West Lifeco Inc. [GWL] and IGM Financial Inc., as the results of both are consolidated with those of Power Financial Corp.)

The average increase in earnings for the 44 firms was 21%, but that figure is somewhat misleading because two large companies — Fairfax Financial Holdings Inc. and Brookfield Asset Management Inc. — had very significant gains. In dollar terms, Fairfax reported a US\$962.7-million increase in net income, while Brookfield had a gain of \$1.3 billion. If Fairfax and Brookfield are excluded, the average increase would be only 6.6%.

Among the industries, only two had lower earnings as a group: finance companies, down by 24.6%; and life insurers, down by 8.8%. Just two companies in each group had higher net income.

Four banks increased their quarterly dividend: Bank of Montreal (BMO), to 96¢ from 93¢; Equitable Group Inc., to 27¢ from 26¢; Laurentian Bank of Canada, to 64¢ from 63¢; and National Bank of Canada, to 62¢ from 60¢. The remaining firms that increased their quarterly dividends were: Sun Life Financial Inc., to 47.5¢ from 45.5¢; and TMX Group Ltd., to 58¢ from 50¢. Canaccord Genuity Group Inc. is paying a special dividend of 11¢ on top of its 1¢ quarterly dividend, and Integrated Asset Management Inc. (IAM) introduced a quarterly dividend of 2¢.

Interestingly, both Equitable and Sun Life increased their dividends despite reporting lower earnings in the quarter, as

FINANCIAL SERVICES PROFIT SURVEY

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, UNLESS OTHERWISE NOTED

Banks												
	ASSETS (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	EFFICIENCY RATIO (%) ¹	'17	'18
Bank of Montreal (Apr. 30) ¹	744	3.4	5,678	-4.6	1,440	14.2	1.86	2.16	61.5	60.7	-888	N/A
Bank of Nova Scotia (Apr. 30)	926	0.5	7,058	7.2	2,177	5.6	1.62	1.70	53.1	51.1	1,788	N/A
CIBC (Apr. 30) ¹	591	11.7	4,429	15.9	1,326	24.5	2.62	2.91	60.7	57.4	6,614	133.1
Canadian Western Bank (Apr. 30)	28	14.8	197	14.0	64	24.8	0.54	0.68	47.7	45.4	-171	N/A
Equitable Group	21	9.1	90	-0.3	40	-7.4	2.54	2.34	33.2	37.7	88	-31.1
Home Capital Group ¹	17	-16.8	104	-30.1	35	-45.9	0.99	0.43	38.4	49.5	-322	N/A
HSBC Bank Canada	98	2.5	541	6.9	183	-1.6	0.35	0.35	61.1	58.4	100	N/A
Laurentian Bank of Canada (Apr. 30) ¹	48	4.8	255	6.6	57	12.6	1.37	1.29	67.4	67.6	-380	N/A
National Bank of Canada (Apr. 30) ¹	256	7.2	1,820	10.0	551	12.0	1.30	1.45	57.6	55.3	-685	N/A
Royal Bank of Canada (Apr. 30) ¹	1,275	6.0	10,205	-2.9	3,063	8.8	1.85	2.06	56.1	55.5	-6,541	N/A
TD Bank (Apr. 30) ¹	1,284	2.5	9,484	6.2	2,989	19.4	1.31	1.58	57.5	53.5	-6,144	N/A
VersaBank (Apr. 30) ^{1,6}	2	3.7	12	23.1	4	31.0	0.13	0.18	61.4	53.1	61	N/A
Subtotal	5,289	4.3	39,872	3.3	11,929	12.6			57.2	55.2	-6,480	N/A
Finance companies												
	ASSETS (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ² '17 '18
Accord Financial ¹	0.3	73.7	10.0	54.3	1.8	38.1	0.16	0.17	-34.0	N/A	-1.84	-4.14
Callidus Capital	0.7	-19.8	56.2	78.1	-7.0	N/A	-0.07	-0.13	-25.9	N/A	2.40	-0.50
ECN Capital (US\$) ^{1,7}	2.1	-67.1	46.0	-15.5	3.5	-69.3	0.02	0.00	-70.3	N/A	0.03	-0.19
Element Financial ^{1,7}	18.1	-3.9	211.3	-11.4	56.0	-33.5	0.20	0.12	-29.7	N/A	-0.70	-0.11
First National Financial ⁸	33.8	13.2	111.6	2.6	35.9	-0.6	0.58	0.59	22.8	-90.7	4.06	0.37
MCAN Mortgage	2.2	-3.9	15.3	0.7	10.6	3.4	0.44	0.45	-51.9	N/A	-0.36	-2.21
Timbercreek Financial ^{1,8}	1.9	15.0	22.0	5.9	11.7	-9.9	0.17	0.15	20.9	90.9	0.15	0.27
Subtotal	59.1	-34.8	472.4	-0.7	112.4	-26.4			-168.1	-265.4		NC
Life insurers												
	ASSETS UNDER MGMT. (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ² '17 '18
E-L Financial	9	-3.2	309	-56.2	72	-76.1	60.41	15.15	61	-33.8	12.83	12.56
Great-West Life ^{1,9}	507	6.8	9,693	-24.9	764	13.9	0.62	0.74	1,159	-21.5	1.43	1.14
Industrial Alliance ¹	51	-0.8	2,572	-10.0	143	24.3	1.04	1.29	-228	N/A	-0.13	-2.15
Manulife Financial ¹	629	6.7	8,746	-35.5	1,377	-2.3	0.67	0.67	3,848	20.8	1.56	1.91
Sun Life Financial ¹	815	6.3	5,993	-14.5	620	-19.4	0.93	1.12	430	N/A	-1.31	0.81
Subtotal	2,011	6.3	27,313	-26.2	2,976	-8.8			5,270	27.7		10.6
Property & casualty and mortgage insurers												
	ASSETS (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	COMBINED RATIO (%) ¹⁰	'17	'18
Co-operators General Insurance	5.8	1.7	663.6	-1.5	-27.8	N/A	1.55	-1.35	102.5	107.5	-15.0	N/A
Echelon Financial Holdings	0.6	9.3	73.5	27.8	5.6	2,749.5	0.02	0.48	94.1	95.5	-8.6	N/A
Fairfax Financial Holdings (US\$)	65.0	48.5	4,926.4	80.0	1,038.0	1,278.5	3.03	23.60	94.6	96.0	-3,325.5	N/A
Intact ¹	27.3	21.2	2,543.0	17.0	123.0	-18.0	1.08	0.68	98.2	99.2	-247.0	N/A
Genworth MI Canada	6.8	2.6	232.5	10.7	127.6	20.1	1.15	1.38	35.7	31.8	-10.9	N/A
Subtotal	105.6	33.2	8,439.0	44.2	1,266.5	245.8					-3,607.1	N/A
Mutual fund and investment management companies												
	ASSETS UNDER MGMT. (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ² '17 '18
AGF Management (Feb. 28)	37.0	5.3	110.9	3.5	21.0	192.2	0.11	0.27	-27.1	N/A	-0.28	-0.33
Brookfield Asset Management (US\$)	282.7	-0.1	13,261.0	121.0	1,855.0	258.1	-0.08	0.85	1,272.0	136.0	-0.05	0.25
CI Financial	139.2	15.3	573.5	14.1	159.1	8.7	0.55	0.59	80.5	-5.2	0.32	0.30
Fiera Capital ¹	131.4	7.6	120.0	19.3	0.8	-86.9	0.08	0.01	-25.7	N/A	0.09	-0.29
Gluskin Sheff ⁸	8.9	0.9	28.7	5.1	6.9	15.0	0.19	0.22	14.5	-57.1	1.08	0.46
Guardian Capital Group	29.5	9.2	41.5	7.5	-5.3	N/A	1.21	-0.23	-5.4	N/A	-0.03	-0.23
IGM Financial ⁹	155.8	5.6	809.6	2.5	187.8	4.7	0.74	0.77	129.7	11.2	0.48	0.53
Integrated Asset Management ^{1,8}	2.3	-8.0	5.3	32.2	1.1	141.1	0.02	0.03	0.1	-94.1	0.07	0.00
Sprott	11.6	19.6	31.5	-7.9	13.7	54.9	0.04	0.05	25.0	212.8	0.03	0.88
Stone Investment Group	0.5	-10.1	2.5	-6.2	-0.1	N/A	-0.01	0.00	-0.5	N/A	-0.01	-0.02
Subtotal	798.9	5.5	14,984.5	97.0	2,239.9	147.2			1,463.0	90.9		8.6
Brokerages												
	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ²	'17	'18
Canaccord Genuity Group ¹	322.1	18.6	24.2	-21.9	0.29	0.18	265.6	29.9	2.08	2.82	N/A	13.3
GMP Capital	52.5	7.5	4.1	17.2	0.03	0.04	-66.1	N/A	0.28	-0.86	N/A	N/A
Oppenheimer Holdings (US\$)	234.5	10.0	6.7	N/A	-0.36	0.51	-27.5	N/A	-3.14	-2.08	N/A	5.7
Subtotal	609.2	14.1	35.0	17.7			172.0	-7.5			N/A	4.6
Stock exchanges												
	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ²	'17	'18
TMX Group ¹	207.2	21.0	64.5	36.4	0.85	1.15	58.6	-12.5	1.20	1.05	7.4	9.0
Holding companies												
	ASSETS (\$BIL.)	% CHG.	REVENUE (\$MIL.)	% CHG.	NET INCOME (\$MIL.)	% CHG.	EPS (\$) ¹	'17	'18	CASH FLOW ⁴ (\$MIL.)	% CHG.	CF/SHARE ² '17 '18
Desjardins Group ¹	282	5.3	4,298	2.6	501	24.0	NC	NC	111	-96.0	NC	NC
Dundee	1	-25.9	34	-10.4	-25	N/A	0.47	-0.45	-19	N/A	-0.32	-0.34
Power Financial ¹	452	6.4	10,440	-23.2	918	12.4	0.70	0.82	1,227	-21.0	1.73	1.25
Subtotal	736	5.9	14,772	-17.1	1,394	11.6			1,319	-69.5		8.3

N/A = NOT APPLICABLE; NA = NOT AVAILABLE BECAUSE THE COMPANY HAS NEGATIVE SHAREHOLDERS' EQUITY; NC = NOT CALCULABLE BECAUSE COMPARABLE DATA WAS NOT PROVIDED

1. UNUSUAL, NON-RECURRING ITEMS HAVE BEEN EXCLUDED WHERE POSSIBLE. IN SOME CASES, THESE FIGURES HAVE BEEN ESTIMATED

2. PER-SHARE DATA ARE FULLY DILUTED EXCEPT WHEN THERE IS A LOSS OR NEGATIVE OPERATING CASH FLOW IN EITHER THIS QUARTER OR THE CORRESPONDING QUARTER A YEAR EARLIER, IN WHICH CASE THE NUMBER OF BASIC SHARES ARE USED IN THE CALCULATION

3. CALCULATED AS NON-INTEREST EXPENSES EXCLUDING AMORTIZATION AS % OF REVENUE EXCLUDING INSURANCE REVENUE. UNUSUAL EXPENSES (SUCH AS FOR LEGAL SETTLEMENTS) AND UNUSUALLY HIGH REVENUE ITEMS (SUCH AS WRITEDOWNS OR LARGE GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS) ARE EXCLUDED FROM THE CALCULATION

4. OPERATING CASH FLOW AFTER CHANGE IN NON-CASH WORKING BALANCES

5. CALCULATED USING NET INCOME EXCLUDING UNUSUAL, NON-RECURRING ITEMS FOR THE PAST 12 MONTHS AS % OF AVERAGE OF BEGINNING AND ENDING SHAREHOLDERS' EQUITY.

6. VERSABANK MERGED WITH PARENT PWC CORP. ON JAN. 31, 2017, WITH THE NEW ENTITY CONTINUING UNDER THE NAME VERSABANK

7. ECN CAPITAL CORP. AND ELEMENT FLEET MANAGEMENT CORP. WERE CREATED THROUGH THE SPLITTING OF ELEMENT FINANCIAL CORP. INTO TWO COMPANIES, AS OF OCT. 3, 2016.

8. TIMBERCREEK FINANCIAL CORP. WAS CREATED THROUGH THE MERGER OF TIMBERCREEK MORTGAGE INVESTMENT CORP. AND TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORP. AS OF JUNE 30, 2016

9. FIRST NATIONAL FINANCIAL CORP.'S, TIMBERCREEK FINANCIAL CORP.'S, GLUSKIN SHEFF & ASSOCIATES INC.'S AND INTEGRATED ASSET MANAGEMENT CORP.'S NET INCOME INCLUDES COMPREHENSIVE INCOME

10. GREAT-WEST LIFE CO INC.'S AND IGM FINANCIAL INC.'S RESULTS ARE CONSOLIDATED WITH POWER FINANCIAL CORP.'S RESULTS

11. CALCULATED AS LOSSES AND OPERATING EXPENSES AS % OF NET EARNED PREMIUMS

SOURCES: COMPANY REPORTS

INVESTMENT EXECUTIVE CHART