News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. December 18, 2017

Owner Operated Companies

Linamar Corporation announced the acquisition of MacDon Industries Ltd., a family owned leading manufacturer of agricultural equipment (combine harvesting heads for small grains and oilseeds, self-propelled windrowers and pick-ups) located in Winnipeg. The deal helps diversify the company further into agriculture, which looks poised for long-term growth as the global population expands, Linamar CEO Linda Hasenfratz said. "The agriculture market is in early stages of cyclical recovery, so it's a great time to step in," she said on a conference call. Linamar paid $1.2 billion, all debt or 7.8x EV/EBITDA, a fair price in Linamar's view, with most publicly listed peers trading around 8.5x. MacDon boasts industry leading margins and prospects for high single digit growth in revenues and is expected to be immediately accretive, though synergies are likely modest and potentially involve distribution arrangements for parts with SkyJack. MacDon's key market is North America, which shows very good short term prospects, though international expansion, partly through the company's Oros (Hungary) in Europe, is another avenue of growth. The additional debt moves the leverage to 1.7x from 0.9x. Linamar expects to drop back to below 1.0x in 18 to 24 months, similar to the similarly sized Montupet acquisition from a couple of years back. Linamar has been involved in agricultural machinery in the past, owned White Farm back in the '80s and build combines for Massey-Ferguson in the 90s. It had been looking to get back in the sector in a meaningful way for a while. It appears Linamar is acquiring a well-run business at the beginning of a new agricultural growth cycle (industry wide restocking picked up in the past 12 months or so) at a fair price. We like the deal and so does the broader market, apparently, as the company's stock price jumped about 12% subsequent to the announcement.

Liberty Latin America – Liberty Global plc announced that, in connection with the previously announced split-off of its subsidiary Liberty Latin America Ltd., which comprises Liberty Global's operations in Latin America and the Caribbean that are currently attributed to its "LiLAC Group", it has set a record date of 5:00 p.m. New York City time, on December 26, 2017 and a distribution date of 5:00 p.m., New York City time, on December 29, 2017, for the distribution of Liberty Latin America common shares. As a result of the split-off, holders of LiLAC Group Class A, Class B and Class C ordinary shares will receive a distribution of one Liberty Latin America share of the same class for each such LiLAC Group ordinary share held as of the Record Date. Following the split-off the tracking stock structure will no longer exist.

Oracle Corporation forecast current-quarter cloud revenue growth that missed street expectations after reporting disappointing second-quarter sales in the same business. Oracle said growth in its cloud-computing business would slow to 21% to 25% in the third quarter, down from the 44% growth in the preceding quarter. Oracle, which inked cloud deals with AT&T Inc. and Bank of America Corporation this year, is a late entrant to the cloud-based business and has been stepping up efforts to catch up with rivals such as Amazon.com, Microsoft and Salesforce.com.

Oracle, which increased its share buyback program by $12 billion, said net income rose to $2.23 billion, or 52 cents per share, in the second quarter ended Nov. 30, from $2.03 billion, or 48 cents per share, a year earlier. Total adjusted revenue rose 6.2% to $9.63 billion, beating expectations of $9.57 billion, according to Thomson Reuters. Revenue in Oracle's traditional software licensing business, by far still its largest, rose 3% to $6.31 billion. On an adjusted basis, Oracle earned 70 cents per share, topping analysts' estimate of a profit of 68 cents.

Australia's Aconex Limited said it had received an AUD$1.56 billion ($1.2 billion), or AUD$7.80 in cash-per-share, buyout offer from U.S. software major Oracle. The Australian company specialises in web-based project management software that allows input from different teams. Its technology has been used on global projects including the Panama Canal extension.

Energy Sector

U.S. land rig count remained flat week/week at 909, breaking five consecutive week of gains. The rig count was driven by increases in Horizontal Gas (+3) and Horizontal Oil (+2), offset by declines in Vertical Oil (-4) and Directional Oil (-1), as Vertical Gas and Directional Gas remained flat week/week.

Canada rigs up 19 rigs week/week.

Cardinal Energy Ltd. announced a capital expenditure budget for 2018 that focuses on maintaining a sustainable dividend and development of its existing asset base. The 2018 capital budget is designed to achieve significant growth in adjusted funds flow per share and maintaining the company's annualized dividend at $0.42/share. Cardinal's 2018 budget is expected to produce pre-hedging adjusted funds flow of $132 million, assuming an oil price of $55/bbl. Cardinal's base capital program results in cash flow net of development capital expenditures of $69.5 million which will be used to fund the dividend and to fund the cash portion of future acquisitions within Cardinal's existing asset base. All acquisitions done in 2018 will be funded with excess operating adjusted funds flow and Cardinal will not incur additional debt for these acquisitions. Cardinal's total payout ratio, which represents the capital program plus its dividend, is expected to be 84% prior to any acquisitions. Production is expected to average 21,000 to 21,500 boed for 2018 with capital spending weighted to the first 6 months of 2018 and production growth is expected to occur in the fourth quarter of 2018.

Whitecap Resources, Inc. announced that it has closed its previously announced acquisition of high quality light oil assets in southeast Saskatchewan, which includes current production of approximately 14,800 boed for cash consideration of $940 million before closing adjustments. The acquisition is accretive on all key operational and financial measures and is an underpinning asset that will provide significant free funds flow annually. Concurrent with closing of the acquisition, Whitecap's borrowing base has been increased to $1.7 billion from $1.3 billion. Whitecap continues to maintain a strong balance sheet with 2018 estimated net debt to funds flow of 1.6 times and considerable financial flexibility with approximately 50% of its net debt under long-term notes and approximately $500 million of unutilized credit capacity based on it estimated 2018 net debt. As a result of the acquisition and Whitecap's reduced decline profile, lower payout ratio, funds flow per share growth and free funds flow, the monthly dividend of $0.0245 per common share will be further increased by 5% to $0.0257 per share ($0.3084 per share annualized) effective for the January 2018 dividend as previously announced on November 13, 2017.

Financial Sector

Barclays PLC's unpopular bet on investment banking seems to be paying off in the UK as the bank closes in on the top spot in the UK's annual investment banking league tables for the first time since 2012. New data from industry monitor Dealogic, which was compiled for the Financial Times, suggest that the strategy is bearing fruit in the UK at least. Barclays earned fees of $352 million in the year to date from mergers and acquisitions (M&A) and capital markets, giving it a 9.1% market share, comfortably ahead of JPMorgan Chase & Company's 7.8% share and Goldman Sachs' 6.6%. In 2016, Barclays had a market share of 6.5%, behind both JPMorgan and Goldman. (Source: Financial Times)

HSBC Holdings PLC confirms expiration of 2012 deferred prosecution agreement. HSBC announced that its 5-year Deferred Prosecution agreement entered on 11-Dec-12 with the U.S. Department of Justice has expired. HSBC lived up to all of its commitments, and, therefore, under the DPA, the Department of Justice will file a motion with the U.S. District Court for the Eastern District of New York seeking the dismissal of the charges deferred by the agreement

Nordea Bank AB has started layoff talks in Finland aiming to cut around 420 jobs in the country. The planned reductions are part of a programme in which Nordea is looking to cut at least 6,000 jobs due to automation and digitalisation. (Source-Reuters)

Royal Bank of Scotland Group PLC's chances of reaching a deal this year with the US Department of Justice over its mis-selling of toxic mortgage-backed securities are "diminishing", its chief executive said in a Bloomberg TV interview. Ross McEwan had said several times this year he expected to reach a settlement in 2017, a key step in allowing the bank to return to full-year profit in 2018. (Source: Reuters)

Activist Influenced Companies

Nomad Foods Limited announced that it will reprice its $610 million and €500 million term loan facilities. Closing is expected for December 20, 2017, subject to execution of definitive agreements. Following the closing, the margin will be reduced by 50 basis points on the US dollar-denominated term loan and 25 basis points on the euro-denominated term loan, which is expected to result in approximately €4 million of annual cash interest savings. The company also announced that its term loan facilities will be increased by $50 million and €58 million, respectively, to be used for general corporate purposes. There are no changes to the maturities as a result of this amendment.

Dividend Payers

Ares Capital Corporation – Ares Management LP promoted its co-founder and president, Michael Arougheti, to chief executive officer, making it the latest private equity firm to lay out its succession plan this year. Arougheti will succeed co-founder Tony Ressler, who will continue as the company's executive chairman, the firm said. "Mike Arougheti was instrumental in building and growing our Credit Group and expanding our businesses in the US and Europe, and now is the time for him to assume greater oversight of all of Ares," Ressler said in a statement. The private equity industry - which buys companies with the aim of selling them at a profit, usually after three to five years - rose to prominence in the 1980s and 1990s. Several such firms are now outlining plans for the next generation of managers. Ares was founded in 1997. Carlyle Group LP and KKR & Co. LP both announced succession plans earlier this year. Ares, which also has a big credit investment business, had approximately $106 billion of assets under management at the end of September. Its investments include US department store operator Neiman Marcus Group Inc. and US discount retailer 99 Cents Only Stores. Michael Arougheti is the Co-Chairman of Ares Capital Corp. and acted as its CEO and President of Ares since 2004 until 2014.

Bunzl PLC trading is in line with expectations at the time of the third quarter in October. Revenue growth is expected to be about 15% for the full year, made up of organic growth of about 4-4.5%, acquisition contribution of about 5% and foreign exchange impact of about 5%. The trading update implies organic growth was about 5% in Q4. The group has purchased 'Lightning packaging' in the UK, a business which distributes industrial packaging products with revenue of £14 million in 2016 and margins (about 5-6%) slightly below the group average. This year has seen a record spend on M&A with total spend of about £600 million, well above the previous record of £327 million in 2015 and nearly four times more than the £150 million of spend in 2016. Management says the pipeline for further acquisitions remains active.

The Walt Disney Company to acquire 21st Century Fox assets for U.S.$52.4 billion - Disney announced last week that it has entered into a definitive agreement to acquire 21st Century Fox (after the spin-off of Fox Broadcasting network and stations, Fox News, Fox Business, FS1, FS2 and Big Ten Network) for U.S.$52.4 billion in an all-stock transaction. Fox shareholders will receive 0.2745 Disney shares for each share held at an implied a takeout price of U.S.$28 per share. Including net debt, the total transaction values Fox at an Enterprise Value of U.S.$66.1 billion and an adjusted Enterprise Value (EV) of U.S.$55.5 billion (excluding equity investment in SKY and other equity investments), or 11.9x management's estimated 2018 EBITDA (8.3x incl U.S.$2 billion estimated synergies). The deal is expected to close in 12-18 months and is subject to approval by FOX and Disney shareholders, regulatory approvals and other customary closing conditions. Disney has already announced plans to launch direct to consumer (DTC) platforms for ESPN and its own Disney family content. The acquisition of a control stake in BAMTech was also a key initiative in this direction. We suspect that Disney, along with other major media conglomerates, is looking at the success of Netflix, Amazon, etc. with some degree of frustration considering that these platforms in effect leverage these media companies' own content. Against that backdrop, DTC is a key initiative for all the major media entities. The acquisition of the Fox assets positions Disney with a broadened base of brands and content, not just from the 21st Century Fox Studio (e.g. Avatar, X-Men, Deadpool), but also platforms like FX (Fargo, The Americans), National Geographic and brands like The Simpsons. In our view, all of this further promotes and extends the ongoing race for premium content.

Dufry AG in our view the recent share price decline (-10% since early November) is mainly explained by the uncertainty about the financial situation of the Chinese conglomerate HNA Group Co., Ltd., which owns 20.9% in a combination with a collar (put/call) structure (other shareholders: Travel Retail 20.6%, Richemont 7.5%, Qatar Inv. 6.9%). On August 21, HNA announced its 20.9% ownership in Dufry which included a call/put option for 12.7%. 4.7% is in a call/put with exercise prices of CHF 188 and CHF 138.8 and 8.0% has a call/put with exercise prices of CHF 167.5 and CHF 142.6. Last week Standard & Poor's put HNA's subsidiary Swissport on a junk rating (B-) which had a strong impact on HNA bonds. Beside the Dufry stake (CHF 1.5 billion) HNA also owns for example 10% in Deutsche Bank (value CHF 4.0 billion) and 25% in Hilton (value CHF 6.2 billion) and Gategroup (100% owned) which is up for an IPO. Focusing on Dufry, rather than its shareholder and we see that recent figures from its main airports show that the business continues to be strong in Q4. Heathrow was for Oct./Nov. +3.1% (Nov. +3.5%), Madrid +5.4% (Nov. +6.2%), Barcelona +4.4% (Nov. +5.0%), Athens +12.6% (Nov. +8.7%), Antalya +19% (Nov. +10%) and Zurich +3.5% (Nov. +3.4%).

Gilead Sciences, Inc. its pioneering cancer treatment is showing positive results to keep the sickest lymphoma patients alive for at least a year. The effectiveness of chi-meric antigen receptor therapy (Catr-T) had previously been a concern but the one-time treatmet has prodced impressive results in blood cancer patients who previously had just weeks or months to live. The results of the study were presented last week at the annual meeting of the American Society of Hematology in Atlanta.

Northland Power Inc.'s board of directors has declared the December dividend to be 10 cents per share. The dividend, payable in January, 2018, is an increase of 11% cent over its previous nine cents per share. John Brace, Northland's chief executive officer, commented: "This is a very meaningful announcement for us. The dividend increase is a direct result of the company's strong performance, including the success of our offshore wind strategy, and reflects our confidence and excitement about Northland's future."

Economic Conditions

U.S. tax - the final tax reform bill has been agreed upon and will likely be put to a vote in the House on Tuesday and then the Senate on Wednesday. Some key features of the bill: Corporate tax rate is being cut permanently to 21% from 35% effective Jan. 1, 2018. Prior, the proposals had 20% and started in 2019; One off tax on profits held overseas will be 15.5% for cash and 8% for more illiquid assets. Current law had 35% but impact is expected to be minimal given most of the tax is likely to be paid in USD and will be spread out over several years; Seven income brackets with the top individual tax rate to be down to 37% from 39.6% and will kick in at a higher $500,000 level. This is more generous than the Senate proposal which had it at 38%; and individuals will be able to deduct up to $10,000 in state and local taxes (SALT) for property and income/sales taxes.

U.S. retail sales jumped 0.8% in November, twice expectations, on widespread gains across outlets and a fillip from inflated gas station receipts.

Japan exports continued to grow at double-digit pace at 16.2% year/year in November (up from 14% in October). This was the 12th consecutive month of export expansion since November 2016. Despite the faster pace of import growth versus export expansion, Japan still managed to etch out a small trade surplus of JPY113.4bn (down from October's surplus of JPY284.6bn) but well beating Bloomberg median expectations for a trade deficit of JPY40bn).

U.K./EU Brexit discussions continue today to discuss the goals of the next phase of talks, mainly on the trading relationship with the EU as well as the transition period. General goal posts are for a deal on a transition period by the end of March and a trade agreement by Autumn 2018.

Financial Conditions

The Federal Reserve Open Markets Committee raised policy rates by 0.25% last week, as was widely expected. This was the third rate hike this year and the fifth since rate hikes started two years ago. Apart from mentioning the rate hike and hurricanes-related distortions to the data, the policy statement's reference to labor market conditions strengthening further was adjusted to conditions just remaining strong, a nod to the fact that the U.S. is essentially at full employment, with slower-but-still-strong and, hopefully, wage-accelerating job growth ahead; and the previous reference to "the balance sheet normalization program initiated in October 2017 is proceeding" was dropped. In our view the Fed clearly wants to keep this on-auto-pilot program out of the market's mind, which could be tougher when assets start shrinking as much as $50 billion per month by next October.

European Central Bank (ECB) made no changes to monetary policy: the refi rate remained at 0.00%; the marginal lending facility was unchanged at 0.25%; and the deposit rate was left at -0.4%. And, the forward guidance was left untouched: For rates….. ECB say they will stay where they are "for an extended period of time, and well past the horizon of the net asset purchases"; and for asset purchases…..yes they will continue to make them at a monthly pace of €30 billion until the end of September, "or beyond, if necessary". And, "the Governing Council stands ready to increase the Asset Purchase Program in terms of size and/or duration".

The U.S. 2 year/10-year treasury spread is now .53% and the U.K.'s 2 year/10-year treasury spread is .71% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30-year mortgage market rate has increased to 3.93% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 3.9 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 9.89 (compares to a post-recession low of 9.36 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund
- Portland 15 of 15 Fund

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- Portland Advantage Plus - Everest and McKinley Funds
- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Global Aristocrats Plus Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Private Growth Fund
- Portland Private Income Fund
- Portland Special Opportunities Fund
- Portland Value Plus Fund

Individual Discretionary Managed Account Models - SMA

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at http://www.portlandic.com/prices/default.aspx

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

TO SUBSCRIBE TO THIS NEWSLETTER, AND MORE, SIGN-UP HERE
www.portlandic.com/subscribe.html

Portland Investment Counsel Inc. | portlandinvestmentcounsel | Portland Investment Counsel Inc. | @PortlandCounsel

Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC17-096-E(12/17)