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## Market Bulletin

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### Commentary – Goldcorp bid for Osisko rejuvenates struggling gold sector *Does this signal the beginning of more “opportunistic” bids?*

The surprise bid unveiled by Goldcorp (TSX: G, \$25.43) for Osisko Mining (TSX: OSK, \$6.47) a week ago may have been deemed “opportunistic” by the latter, but at least it has had the effect of rejuvenating the struggling gold sector, as speculation mounts about which depressed producer may be the next one in the cross-hairs of a larger rival.

Osisko’s main asset is the Canadian Malartic gold mine in northern Quebec, which commenced commercial production in May 2011 and has one of the biggest gold reserves in production in Canada; it also owns exploration projects in northern Ontario. Goldcorp announced on January 13 that it would commence an offer to acquire all of Osisko’s outstanding shares for \$2.6 billion in cash and shares. Goldcorp is offering 0.146 of its common shares plus \$2.26 in cash for each Osisko share. Based on Goldcorp’s January 10 closing price, this works out to \$5.95 per Osisko share, a 28% premium to OSK’s 20-day VWAP and a small 15% premium to its January 10 closing price.

The slim premium has been dismissed by Osisko’s management as being very low, and Goldcorp’s offer has been termed “opportunistic.” OSK shares have consistently traded above the level implied by Goldcorp’s offer; the stock closed at \$6.47 on Friday, an 8.4% premium to Goldcorp’s offer which was valued at \$5.97 as of Friday. A number of analysts expect Osisko to go for a higher price, with a sweetened bid from Goldcorp the most likely outcome. While the emergence of a rival bidder cannot be altogether ruled out, the challenges facing the industry and strained balance sheets for many producers make this less likely.

But the sector seems to be coming to life, as some of the gold producers that were among last year’s biggest decliners registered the biggest gains last week. Figure 1 shows the one-week change for constituents of the 37-member TSX Global Gold index. The index itself was up 6.7% last week, after a 48.4% plunge in 2013. The top 10 gainers on the index were up by an average 21% for the week (Figure 1), rebounding from an average 53% plunge in 2013. While it’s too early to tell if these gains can be sustained, the prospect of sector consolidation may provide support to beaten-down producers and assist their recovery from a horrendous 2013.

**Figure 1: TSX Global Gold Index – Best and worst performers over past week (Source: Bloomberg)**



## Screen Shots – Canadian dividend payers with solid 5-year EPS growth

We screened for Canadian stocks that satisfied the following basic criteria –

- Diluted EPS from continuing operations – five-year geometric growth of at least 10%
- Current dividend yield > 4%
- Market cap. > \$250 million

The screen generated some interesting names, which are shown in the Table below (ranked by market cap.). There are a disproportionate number of REITs and real estate-related companies among the 22 stocks that satisfied the above criteria. A number of stocks on the list also trade at a forward P/E in the single digits.

The column that shows one-year EPS growth indicates recent earnings momentum, and can be used as an additional filter to identify the stocks with the strongest momentum. The stocks with the best one-year EPS growth are Calloway REIT, Aastra Technologies, and First National Financial. Note that Aastra Tech’s yield of 16.7% is a little misleading, since it includes a special dividend of \$7.20 paid in August. Aastra pays a quarterly dividend of \$0.20, for an indicated yield of 1.7%. There is little point in chasing it, however, as it has doubled in price over the past three months and traded at a record high on Friday.

Short Name	Ticker	Market Cap (\$ mm)	Dvd Yld (%)	Eps - 1 Yr Gr. (ttm %)	Est. EPS Curr.Year	Last Price	Fwd. P/E
CAN IMPL BK COMM	CM	\$35,485	4.3	5.0%	\$8.56	\$88.93	10.4
SHAW COMM-B	SJR/B	\$11,288	4.1	-1.8%	\$1.75	\$24.78	14.2
RIOCAN REIT	REI-U	\$7,486	5.7	-24.0%	\$1.64	\$24.73	15.1
FIRST CAP REALTY	FCR	\$3,619	4.8	-62.6%	\$1.02	\$17.40	17.1
JEAN COUTU GRP-A	PJC/A	\$3,531	4.4	-20.9%	\$1.09	\$18.64	17.1
CALLOWAY REAL ES	CWT-U	\$3,268	6.2	272.6%	\$1.85	\$24.74	13.4
DUNDEE REAL ES-A	D-U	\$3,110	7.6	-13.1%	\$4.25	\$29.10	6.8
COMINAR REA-TR U	CUF-U	\$2,326	7.8	40.8%	\$2.02	\$18.33	9.1
CAN APARTMENT	CAR-U	\$2,286	5.4	-37.5%	\$2.12	\$21.06	9.9
ALLIED PROP REIT	AP-U	\$2,211	4.2	4.0%	\$1.57	\$32.29	20.6
GRANITE REAL EST	GRT-U	\$1,756	5.5	17.7%	\$3.93	\$37.31	9.5
ENBRIDGE INCOME	ENF	\$1,381	5.3	-20.7%	\$1.14	\$24.44	21.4
FIRST NATIONAL F	FN	\$1,377	5.9	74.2%	\$2.35	\$23.09	9.8
MORGUARD-TR UTS	MRT-U	\$1,005	5.9	15.7%	\$2.90	\$16.13	5.6
NORTHERN PROPERT	NPR-U	\$979	7.3	N/A	\$2.16	\$28.49	13.2
SPROTT INC	SII	\$735	5.0	-73.7%	\$0.07	\$3.07	43.9
MORNEAU SHEPELL	MSI	\$697	6.3	15.2%	\$0.61	\$14.72	24.1
PURE INDUSTRIAL	AAR-U	\$608	6.9	-61.4%	\$0.30	\$4.49	15.0
AASTRA TECH LTD	AAH	\$550	16.7	93.2%	\$1.98	\$46.36	23.4
MART RESOURCES	MMT	\$421	21.6	-73.4%	\$0.13	\$1.17	9.0
ESSENTIAL ENERGY	ESN	\$333	7.7	-67.7%	\$0.20	\$2.65	13.3
CARFINCO FINANCIAL	CFN	\$322	4.4	-3.7%	\$0.85	\$12.26	14.4

## Market Snapshot

At close on Friday, January 17, 2014

S&P TSX	13888.21	+56.63	Commodities			Yields (%)	Can.	US
TSX Venture	976.34	+1.80	Canadian \$ (US cents)	91.24	-0.25	90 Day T-Bill	0.88	0.03
DJIA	16458.56	+41.55	Gold (Spot)-US\$	1254.05	+11.66	2-Year Bond	1.02	0.37
S&P 500	1838.70	-7.19	Oil (WTI-Feb.)	94.37	+0.41	10-Yr. Bond	2.50	2.82
NASDAQ	4197.58	-21.11	CRB Index	278.41	-0.01	30-Yr. Bond	3.06	3.75

## Thought for the Day

"Black swans, those rare and unexpected deviations, can be both good and bad events." – Nassim Taleb

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