

# Goldilocks Picks

— LEE W. APPLETON, CFA, VICE PRESIDENT & PORTFOLIO MANAGER

In this environment, owning stocks that are neither too defensive, nor too offensive is the challenge. Finning International Inc., purchased in Q3, and longtime holding, CIBC, fit the bill.

## Finning International Inc. (\$3.86 billion market capitalization)

- The company is “the world’s largest Caterpillar equipment dealer, selling, renting and servicing equipment. Caterpillar Inc. is known as the world’s largest and most recognized heavy equipment manufacturer.”<sup>(1)</sup>
- We see this stock as a derivative play on commodities and mining, construction and energy businesses.
- Finning is very profitable and presents excellent balance between growth and income without overpaying.
- Finning currently trades at 14x trailing earnings and 11x earnings given analysts’ expectations of \$2.04 for 2012 earnings.<sup>(2)</sup>
- It has an excellent history of growing its dividends, showing 43 increases since the early 1990s recession. Over the past five years, dividends increased an average of 12.0% per annum.
- Looking at the short term, Finning’s most recent quarterly earnings report beat expectations, showing growing revenues and a rising backlog of orders.
- Relative to 2008, Finning is stronger today with a leaner cost structure and more deposits against mining orders and backlogs.



## CIBC (\$29.5-billion market capitalization)

- The smallest of Canada’s “big five” banks, CIBC is organized into two lines of business: retail and wholesale banking.
- The company presents an excellent combination of value, growth and income.
- CIBC currently trades at 10x trailing earnings and 9x earnings given analysts’ expectations of \$7.94 for 2012.<sup>(3)</sup>
- CIBC increased their quarterly dividend 3.0% to \$0.90 and has a current yield of 4.9%. Over the past 30 years, CIBC dividends have increased 63 times. There has never been a dividend cut.
- CIBC’s balance sheet is considered excellent with tier one capital ratios at 14.6%, which “exceeds the new regulatory capital requirements for global banks.”<sup>(4)</sup> ■

(1) www.finning.com

(2) CPMS Estimate Service

(3) CPMS Estimate Service

(4) www.CIBC.com

KEY INVESTMENT CHARACTERISTICS		MATCO CANADIAN EQUITY INCOME	FINNING INTERNATIONAL INC.	CIBC	S&P/TSX COMPOSITE INDEX
Quality	Profitability Return-on-Equity (%)	20.1	20.8	21.7	14.2
	Reinvestment Rate (%)	10.7	15.2	11.1	7.2
Income	Yield (%)	3.7	2.3	4.9	2.8
Growth	Bottom-Line Growth (%)	6.8	18.4	3.6	9.0
Value	Price-to-Earnings	11.7	14.0	10.2	15.3
Risk	Beta-5 Years vs S&P/TSX	0.9	1.2	0.7	1.0

As of October 25, 2011 - CPMS