

Canadian capital markets briefing

What's happening in capital markets?

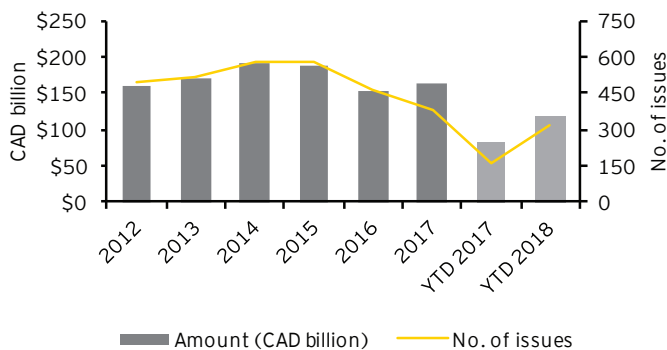
Q2 2018 update

Canadian debt capital market

As the domestic Canadian banks approach their highest capital strength in the past five years, it leaves them with the resources to pursue the Canadian lending market aggressively. This provides an excellent opportunity to enhance Canadian loan issuances, 2012 to YTD'18.

Canadian loan issuances, 2012 to YTD'18

Source: Loanconnector

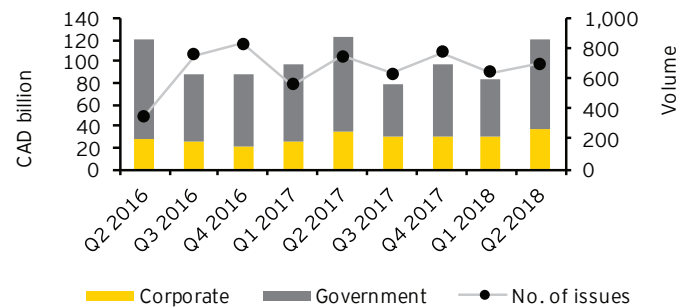


- ▶ Total loan issuance value in Q2 2018 stood at C\$79.0b, a 111.8% rise compared to C\$37.3b in Q1 2018 and a 62.6% rise from C\$48.6b in Q2 2017.
- ▶ According to sources, the largest loan deal in the second quarter of 2018 was the Crescent Point Energy Trust C\$3.4b revolving credit facility, which the group will utilize for general corporate purposes.
- ▶ Oil and gas has been the most dominant sector so far in 2018, with more than C\$39.1b of loan issuances, followed by the power and utilities sector with C\$16.5b and financial services with C\$15.2b.

Canadian bond market

Canadian bond issuances, Q2'16 to Q2'18

Source: Bloomberg

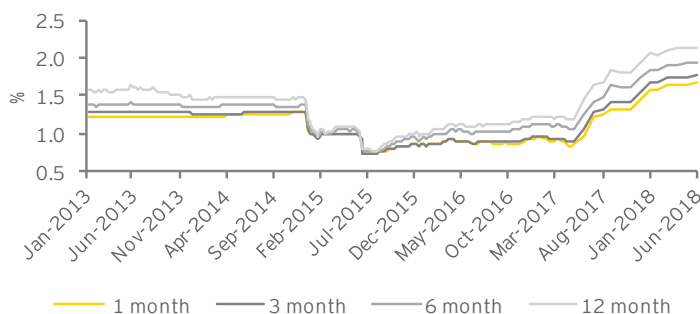


- ▶ The growth in value of loan issuances (111.8%) compared to bond issuances (42.0%) from Q1 2018 has been higher primarily due to the expected rate hike of CDOR, which makes loans more attractive compared to bonds that offer fixed returns.
- ▶ Issuances in the corporate sector in Q2 2018 were dominated by the financial services sector (64.1% of total issuances). The issuances in the financial services sector were primarily driven by large issues from the Bank of Nova Scotia, Bank of Montreal, Toronto-Dominion Bank and Royal Bank of Canada.
- ▶ Industrial and consumer discretionary were the next most active sectors with 13.7% of total issuances each, primarily driven by large issues from 407 International Inc., Nouvelle Autoroute 30 Financement Inc. and Caterpillar Financial Services.

Canadian interest rates and bond yields

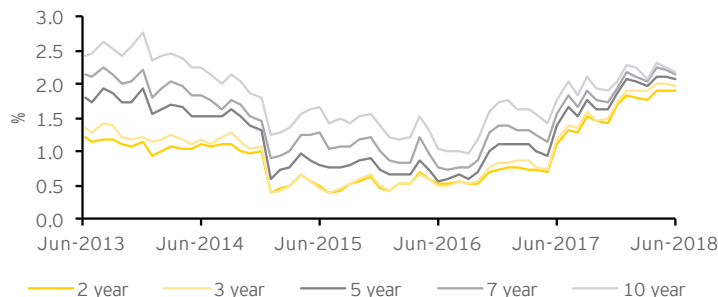
CDOR prices

Source: Bloomberg



Canadian benchmark bond yields

Source: Bloomberg



- ▶ On July 11, 2018, the Bank of Canada increased its benchmark rate to 1.5%, the fourth 0.25% increase since July 2017, citing a strong economy and the inflation close to the bank's target rate.
- ▶ Prior to the July 11, 2018 rate increase, the Bank of Canada raised its interest rates in January 2018, marking the third 0.25% increase since July and the first time the rate rose above 1.00% in nine years.

- ▶ The bonds of various maturities seem to be converging, which reflects a decline in premium for long-term bonds.

Canadian issuers in the US leverage loan market

According to available sources, 21 Canadian companies accessed the US leveraged loan market in Q2 2018 compared to 16 and 8 issuances in Q2 2017 and Q1 2018, respectively.

Total loan issuance value in Q2 2018 was significantly higher at US\$18.1b, compared to US\$9.7b in the same period last year.

In Q2 2018, Canadian companies accessed the US leveraged loan market largely for refinancing purposes followed by mergers and acquisitions (M&A).

In general, it can be seen that loan issuances have been higher than bond issuances. A higher demand can be witnessed for floating loans as they are more attractive than high-yield fixed rate bonds for investors, given rising US federal rates and volatility.

Canadian issuers in the US high-yield bond market

According to available sources, 9 Canadian issuers accessed the US high-yield market in the second quarter of 2018, lower than the 10 issuers in Q2 2017.

Total bond issuance value in Q2 2018 was lower at US\$4.3b compared to US\$5.4b in Q1 2018 and US\$6.0b in Q2 2017.

Canadian companies primarily accessed the US market for refinancing purposes, followed by M&A-driven financings.

Equity markets

After a strong start in the first two months of 2018, market volatility toward the end of Q1 2018 tempered IPO activity somewhat through Q2 2018; yet, both deal volumes and proceeds in H1 2018 were higher compared with H1 2017, with an increase of 18% and 31%, respectively.

US exchanges continue to lead the charge, with the NYSE and NASDAQ ranked among the top three exchanges by proceeds globally and in the Americas for H1 2018.

The Toronto Exchange and TSX Venture Exchange posted 7 IPOs in H1 2018, compared with 11 IPOs in H1 2017.

Source: EY Global IPO trends report

What does this mean?

Despite uncertainty around current trade measures, the Canadian economy continues to push ahead at a steady pace with the underlying fundamentals continuing to be positive, including steady employment and wage growth. The Bank of Canada has increased interest rates four times since July 2017 and there could be further increases ahead; however, rates still remain at historical lows and the lending environment remains favourable. It's a good time for companies looking to optimize and recapitalize their balance sheet for strategic future needs.

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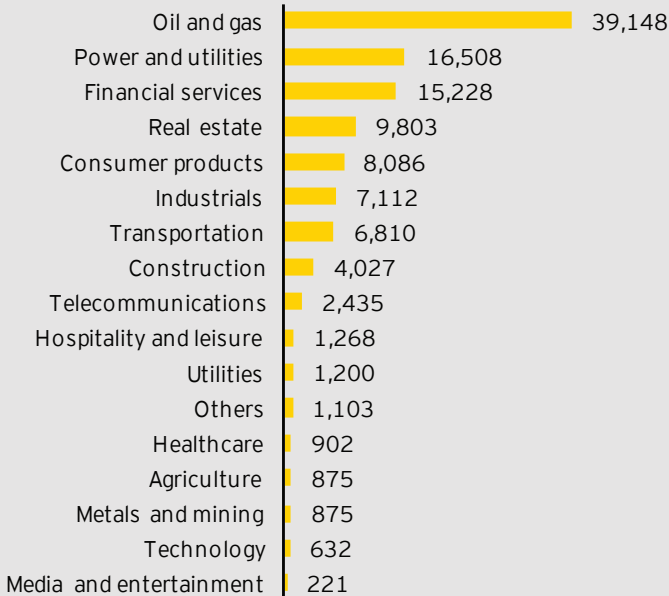
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Appendix

Canadian loan issuances

Canadian loan issuances by sector (CAD billion), YTD'18

Source: Loanconnector



Top corporate loan issuances, Q2'18

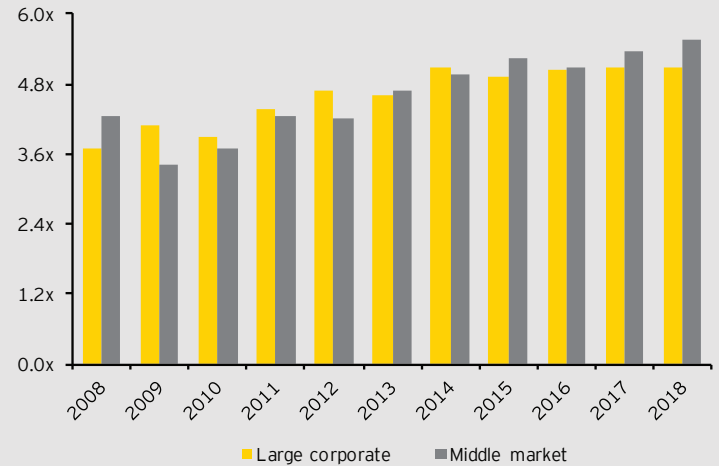
Source: Loanconnector

| Issuer | Industry | Tranche amount (CAD billion) | Maturity (in months) | Spread |
|-----------------------------|---------------------|------------------------------|----------------------|-------------|
| Crescent Point Energy Trust | Oil and gas | 3.4 | 36 | |
| Canadian Natural Resources | Oil and gas | 2.9 | 23 | |
| Veresen Midstream LP | Oil and gas | 2.6 | 48 | |
| Canadian Natural Resources | Oil and gas | 2.4 | 48 | LIBOR + 120 |
| Telus Corp. | Telecom | 2.3 | 60 | |
| Canadian Natural Resources | Oil and gas | 2.2 | 28 | LIBOR + 100 |
| AltaGas Ltd. | Power and utilities | 2.0 | 3 | LIBOR + 145 |
| Tourmaline Oil Corp. | Oil and gas | 1.8 | 61 | |
| Vermilion Resources Ltd. | Oil and gas | 1.6 | 48 | |
| Choice Properties REIT | Real estate | 1.5 | 60 | LIBOR + 145 |

US leverage finance market conditions

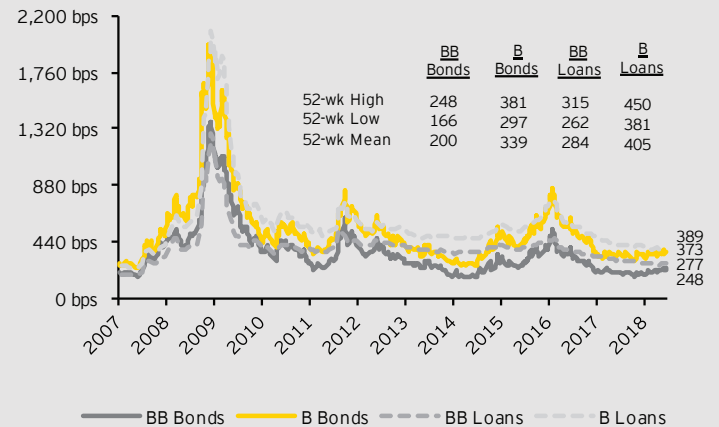
Leverage multiples

Source: S&P LCD Comps



Leveraged loan and high-yield secondary spreads⁽¹⁾

Source: S&P LCD Comps



Note: Year-to-date as of June 30, 2018

(1) Yields based on 30-day average

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