



Building a better working world

Canadian capital markets briefing

What's happening in capital markets?

Q3 2018 update

Market insights

With the signing of the new US-Mexico-Canada Agreement (USMCA), trade uncertainty in the Canadian market has reduced. The Canadian economy continues to push ahead at a steady pace with the underlying fundamentals continuing to be positive, including steady employment, economic outlook and wage growth. The Bank of Canada has increased interest rates five 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.

As per [EY's 2018 Growth Barometer report](#), the top 3 growth priorities for companies are:

- ▶ Entry into new geographic market (within Canada)
- ▶ Grow into an adjacent business sector (move into an adjacent business activity or subsector)
- ▶ Increase market share (organic growth or M&A acquisition)

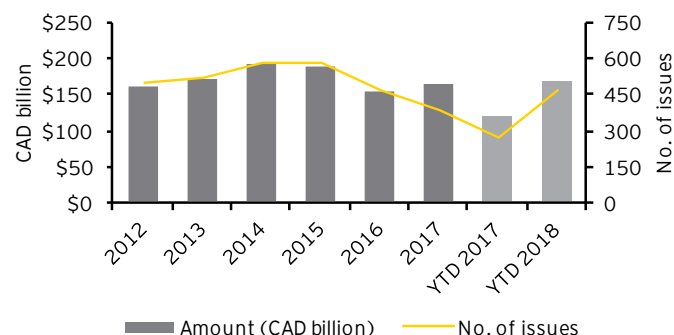
Which of the following growth strategies is a strategic priority for your company and do you have the required capital to realize on your business strategies?

Canadian debt capital market

Domestic banks continue to have resources to pursue the Canadian lending market aggressively with year-to-date loan issuance outpacing 2017.

Canadian loan issuances, 2012 to YTD'18

Source: Loanconnector

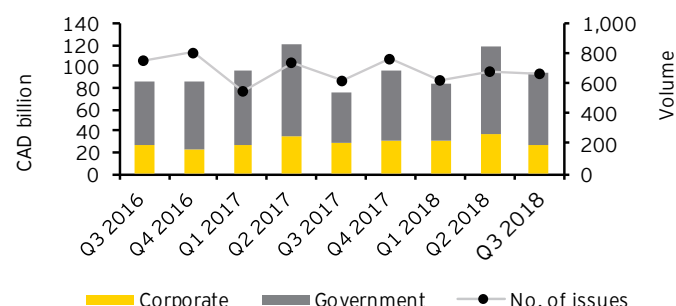


- ▶ Total loan issuance value in Q3 stood at C\$50b, a decline of 36.7% compared to C\$79b in Q2 2018, while it increased by 37.7% compared to Q3 2017.
- ▶ According to sources, the largest loan in the third quarter of 2018 was Constellation Brands, C\$3.1b 364-day bridge loan backing its US\$4b investment into Canada's top cannabis producer Canopy Growth.
- ▶ Oil and gas continues to be the most dominant sector so far in 2018, with more than C\$45.9b of loan issuances, followed by the power and utilities sector with C\$24.5b and financial services with C\$22.7b.

Canadian bond market

Canadian bond issuances, Q2'16 to Q2'18

Source: Bloomberg

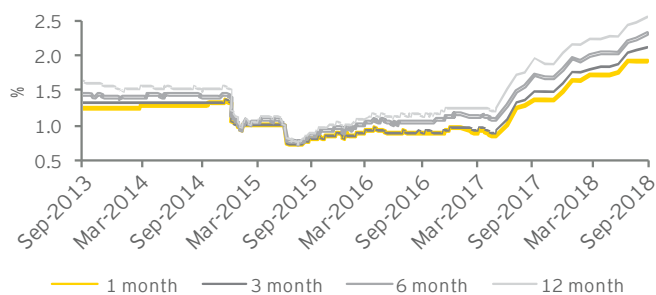


- ▶ Total issuance value in Q3 2018 was C\$94.9b, down by 20.5% compared with Q2 2018, following a similar trend to the loan market.
- ▶ Issuances in the corporate sector in Q3 2018 were dominated by the financial sector (58.0% of total issuances). The issuances in financial sector was primarily driven by large issues from Royal Bank of Canada, Toronto-Dominion Bank, Canadian Imperial Bank of Commerce, Bank of Nova Scotia and HSBC Bank Canada.
- ▶ Communications sector was the next most active sector with 11.4% of total issuances primarily driven by large issues from AT&T Inc. and Bell Canada Inc.

Canadian interest rates and bond yields

CDOR prices

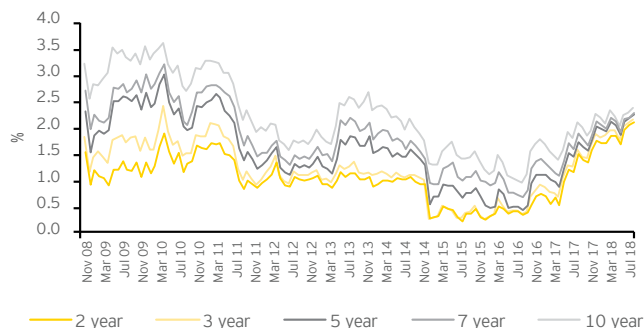
Source: Bloomberg



- ▶ On October 24, 2018, the Bank of Canada increased its benchmark rate to 1.75%, the fifth 0.25% increase since July 2017, citing a strong economy and inflation close to the bank's target rate. The bank also noted that USMCA will reduce trade policy uncertainty in North America, which should increase general business confidence and investment.

Canadian benchmark bond yields

Source: Bloomberg



- ▶ The yield on benchmark 10-year notes touched to 2.427% as of September 28, 2018, the highest since April 2014. Yields on 2-year notes reached a decade high of 2.214%. The yields of various maturities seem to be converging which reflects a decline in premium for long-term bonds.
- ▶ Canadian bonds joined a global sell-off in Q3 2018 as traders were anticipating speedier interest rate hikes after the signing USMCA.

Canadian issuers in the US leverage loan market

- ▶ According to available sources, eight Canadian companies accessed the US leveraged loan market in Q3 2018 compared to 11 and 21 issuances in Q3 2017 and Q2 2018 respectively.
- ▶ Total loan issuances value in Q3 2018 was significantly higher at US\$9.8b, compared to US\$2.8b in the same period last year.
- ▶ In Q3 2018, Canadian companies tapped the US leveraged loan market for LBO purposes, accounting for 96% of total issuance value, with remaining for refinancing and acquisition activity.
- ▶ In general, it can be seen that loan issuance have been higher than bond issuance. 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 fed rates and volatility.

Canadian issuers in the US high-yield bond market

- ▶ According to available sources, only 3 Canadian issuers accessed the US HY market in Q3 2018 compared with 9 issuers in Q2 2018. Total bond issuance value in Q3 2018 was at US\$3.0b compared with US\$4.0b and US\$4.3b in Q3 2017 and Q2 2018 respectively. Overall, year-to-date high yield bond value is down compared to 2017.

Equity markets

In a historically quiet quarter and feeling the full force of geopolitical tensions, trade issues between the US, EU and China and the looming exit of the UK from the European Union, Q3 2018 global IPO activity was notably lower than Q2 2018 and significantly down from Q3 2017 volumes. However, an increase in unicorn IPOs in Q3 2018 pushed YTD 2018 global IPO proceeds 9% above YTD 2017. The US was the predominant producer of IPOs in Q3 2018, accounting for 47 of the 59 IPOs (80%) on Americas exchanges, and US\$11.9b of the US\$12.6b (95%) by Americas' proceeds. The Toronto Stock Exchange and TSX Venture Exchange posted 12 IPOs in the first nine months of 2018, down 14% from last year.

Source: EY Global IPO trends report

If you want to discuss, please contact:

Bill Wu, CPA, CMA
Partner & Senior Vice President
+1 416 943 2545
bill.wu@ca.ey.com

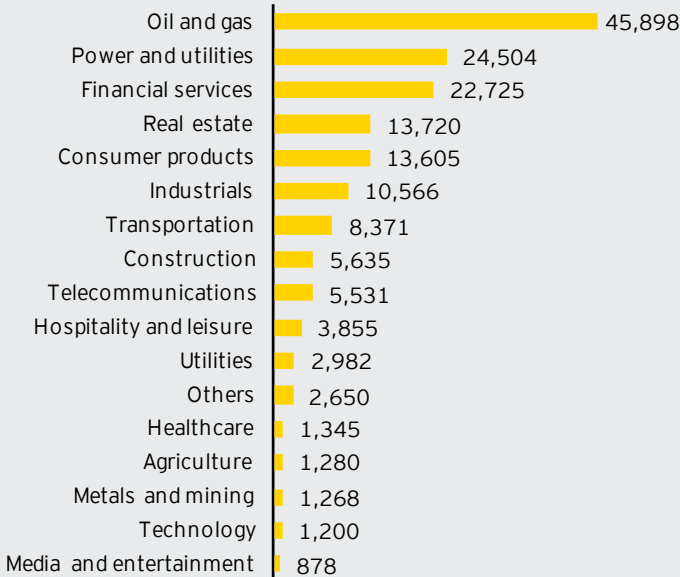
Roger Leslie
Vice President
+1 416 941 1811
roger.f.leslie@ca.ey.com

Appendix

Canadian loan issuances

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

Source: Loanconnector



Top corporate loan issuances, Q3'18

Source: Loanconnector

| Issuer | Industry | Tranche amount (CAD billion) | Maturity (in months) | Spread |
|--|--|------------------------------|----------------------|---------------|
| Constellation Brands Inc. | Beverage, food, and tobacco processing | 3.1 | 12 | LIBOR + 112.5 |
| Enbridge Pipelines | Oil and gas | 3.0 | 24 | LIBOR + 100 |
| Rogers Communications | Telecommunications | 2.5 | 60 | |
| Enbridge Inc. | Utilities | 2.1 | 61 | LIBOR + 125 |
| Public Sector Pension Investment Board [PSP Investments] | Financial services | 2.0 | 37 | |
| Canadian Tire Corp Ltd. | Automotive | 2.0 | 60 | LIBOR + 120 |
| Vermilion Resources Ltd. | Oil and gas | 1.7 | 45 | |
| Enbridge Inc. | Utilities | 1.5 | 12 | LIBOR + 112.5 |
| REM Rail Network Project | Infrastructure | 1.3 | 180 | |
| Cameco Corp. | Mining | 1.3 | 50 | LIBOR + 120 |

US leverage finance market conditions

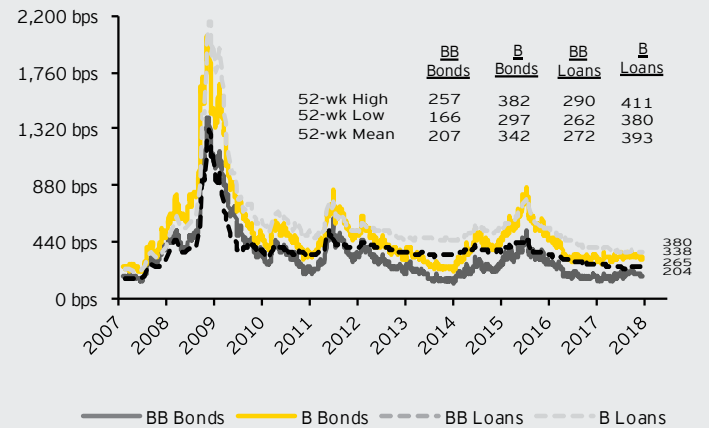
Leverage multiples

Source: S&P LCD Comps



Leveraged loan and high-yield secondary spreads⁽¹⁾

Source: S&P LCD Comps



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

(1) Yields based on 30-day average

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

For more information about our organization, please visit ey.com/ca.

© 2018 Ernst & Young LLP. All Rights Reserved.

A member firm of Ernst & Young Global Limited.

2944448

ED None

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact EY or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.

ey.com/ca