

Canadian capital markets briefing

What's happening in capital markets?



Building a better working world

Q4 2018 update

Market insights

With cautious optimism for 2019, companies are looking at their strategic priorities. As per EY's Global Capital Confidence Barometer report, Canadian executives are still bullish on economic and deal metrics. M&A continues to be one of the top priorities for 2019 should the right opportunity arise. The headline number of EY's Global Capital Confidence Barometer finds nearly half of Canadian executives (~46%) are planning to pursue M&A in the next 12 months. 77% of global executives indicated improving credit availability conditions. In order to realize on corporate strategy, companies are focusing their capital allocation initiatives on the following strategic priorities:

1. Improve working capital management
2. Investment in existing operations
3. Digital transformation
4. Improve capital structure in response to changing conditions
5. M&A/JVs/Divestitures

Capital markets outlook 2019

For the last quarter of 2018, the global economy lost momentum and has affected the outlook for 2019. According to IMF's recent economic update, 2018 global growth remained close to post-crisis highs, the global expansion is slowing at a rate that is somewhat faster than expected. The IMF updated the World Economic Outlook (WEO) which projects global growth at 3.5% in 2019 and 3.6% in 2020.

The US economy had a strong 2018 and growth is expected to slow as domestic growth forecasted by economists range from 2% to 2.3%.

Canada is cautiously optimistic for 2019 as a lower Canadian Dollar, a still-solid US economy maybe offset by the slowing Chinese economy. Bank of Canada will continue to look at key data to ensure inflation is within acceptable norms. In the Annual Economic Outlook 2019 Panel Discussion among the Canadian Banks' chief economists, they believe Bank of Canada may increase rates one to two times in 2019.

Canadian debt capital markets

After five interest rate increases since July 2017, the Bank of Canada maintained its benchmark rate at 1.75% on 9 January, 2019. The Canadian economy continues to perform well with underlying fundamentals continuing to be positive, including employment and economic growth. However, there is some uncertainty with the global economic environment with trade tension between US and China and declining oil prices. Despite the uncertainties, the lending environment remains favourable in Canada, as a result, it's a good time for companies looking to optimize and recapitalize their balance sheets for strategic initiatives.

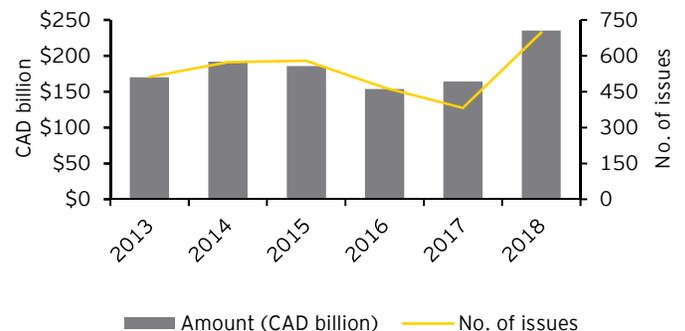
- ▶ As per EY's October 2018 Capital Confidence Barometer, confidence remains positive with respect to equity valuations and credit availability.
- ▶ 60% of the Canadian respondents indicated credit availability was improving, up from 48% in April 2018 and 83% of the Canadian respondents indicate improving confidence in equity valuations.

For Debt capital markets the number of loan issuance increased from Q3 to Q4 from US\$50 billion to US\$69 billion, respectively.

Debt capital market for fiscal 2018 finished at an all-time high for the past 5 years. Total loan issuance value increased by 43.4% to C\$235 billion in 2018 as compared to C\$164 billion in 2017. Domestic banks continue to have resources to pursue the Canadian lending market aggressively.

Canadian loan issuances, 2013 to 2018

Source: Loanconnector

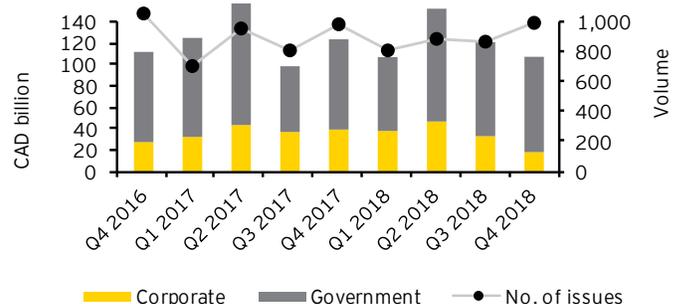


- ▶ Canadian public loan issuance continue to be dominated by oil and gas, power and utilities and the financial services industries. The aggregate of these industries representing 57% of total Canadian loan issuance.

Canadian bond market

Canadian bond issuances, Q4 2016 to Q4 2018

Source: Bloomberg

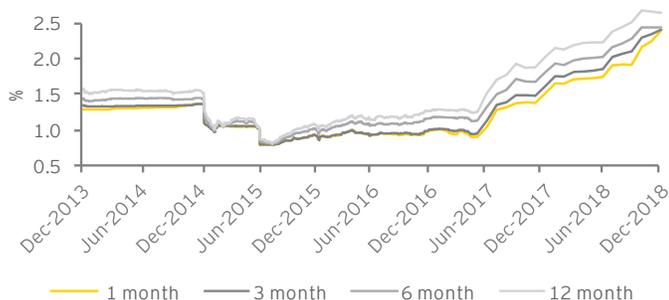


- ▶ For Canadian Bond market, total issuance value fell by 3.3% in 2018 to C\$382.5 billion from C\$395.6 billion in 2017. The fourth quarter of 2018 recorded a dip of 11.3% as compared to the third quarter.
- ▶ Corporate issuance value stood at C\$108.0 billion in 2018 down from C\$120 billion in 2017. The last quarter recorded C\$14.7 billion of corporate bond issuance in terms of value, the lowest since 2008.
- ▶ Issuances in the corporate sector in 2018 were dominated by the financial sector (60.8% of total issuances). Industrials sector was the next most active sector with 7.7% of total issuances.

Canadian interest rates and bond yields

CDOR prices

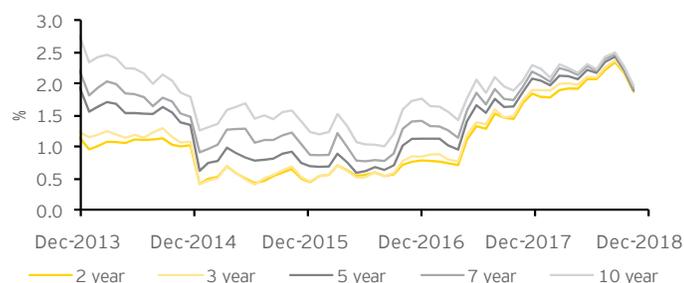
Source: Bloomberg



- ▶ On 9 January, 2019, the Bank of Canada maintained its benchmark rate at 1.75%. Canada's economy continues to perform well, however uncertain global economic environment with trade tension between US and China and declining oil prices contributed to the decision to maintain the rate at 1.75%.
- ▶ The Bank of Canada indicated the appropriate pace of rate increase will depend on a number of factors including developments in oil prices, the Canadian housing market and global trade policy, while indicating interest rates will need to rise over time into a neutral range to achieve the inflation target.

Canadian benchmark bond yields

Source: Bloomberg



- ▶ The Canadian benchmark bond yields fell sharply in Q4 2018 as compared to the previous quarter.
- ▶ The yield on benchmark 10-year notes fell to 1.967% as of 31 December, 2018, the lowest since November 2017. Yields have declined as investors are moving towards treasury bonds on fear of rising oil prices and continued US-China trade conflict.
- ▶ Yields on bonds of both long term and short term maturity can be seen to be merging as the yield curve continues to flatten.

Canadian issuers in the US leverage loan market

- ▶ According to available sources, 9 Canadian companies accessed the US leveraged loan market in Q4 2018 compared to 6 issuances in Q4 2017.
- ▶ Total loan issuances by Canadian borrowers has increased to US\$41.3 billion in 2018 from \$39.9 billion in 2017, however the number of issues have fallen from 50 in 2017 to 46 in 2018.
- ▶ In Q4 2018, Canadian companies tapped the US leveraged loan market primarily for refinancing, accounting for 53.2% of total issuance value, with the remaining for M&A and recapitalization purposes.
- ▶ In general, it can be seen that loan issuance has been significantly 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 interest rates and volatility.

Canadian issuers in the US high-yield bond market

- ▶ According to available sources, only 1 Canadian issuer tapped the US HY market in Q4 2018 compared 3 issuances in Q3 2018 and 12 issuances in the fourth quarter last year.
- ▶ Total bond issuances fell by 51.1% on a year-over-year basis to C\$13.1 billion in 2018 from C\$26.7 billion in 2017. The number of issues also fell to half with 21 issuers tapping the US HY market as compared to 42 issuers last year.

Equity markets

Through a fog of uncertainty, IPO candidates have found a path to market in 2018, supported primarily by investor confidence, large pools of liquidity, strong valuations and low interest rates, despite equity market volatility, geopolitical tensions and ongoing trade issues between the US, the EU and China. While 2018 global IPO volumes declined by 21% from 2017, proceeds are up by 6%. This can be largely attributed to a number of unicorns (40 IPOs, raising US\$32.2 billion in total) and mega IPOs that went public. Despite the volatility, Americas IPO markets are ending on a high as year-over-year deal volumes and proceeds from 2018 exceeded 2017 numbers by 14% and 16%, respectively¹.

- ▶ Canada's Toronto Stock Exchange and Venture Exchange saw 23 IPOs in 2018 versus 28 in 2017. 2018 saw a reduction in both proceeds and the number of IPOs compared to 2017.

Toronto Stock Exchange and TSX Venture Exchange 2018	
	Change on prior year
23 IPOs ²	-18%
C\$2,808.9 million capital raised through initial public offerings	-54%

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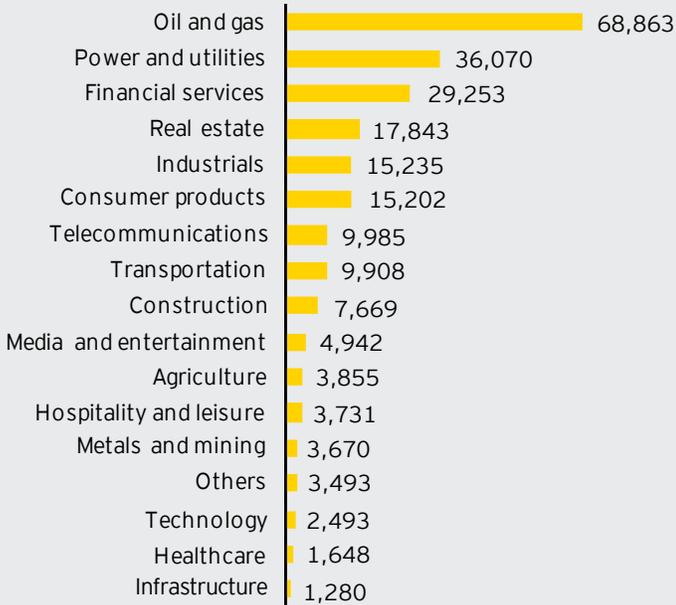
¹Q4 2018 and Q4 18 refer to the fourth quarter of 2018 and cover priced IPOs from 1 October to 5 December 2018 plus expected IPOs by end of December. YTD 2018 and 2018 refer to the full year of 2018 and cover priced IPOs from 1 January to 5 December 2018 plus expected IPOs by end of December. Source: EY Global IPO Trends: Q4 2018

²Source: The MiG Report, Toronto Stock Exchange and TSX Venture Exchange December 2018 (excludes Capital Pool Companies, ETFs, Closed-End Funds and Special Purpose Acquisition Companies)

Appendix

Canadian loan issuances by sector (CAD billion), FY18

Source: Loanconnector



US leverage finance market conditions Leverage multiples

Source: S&P LCD Comps



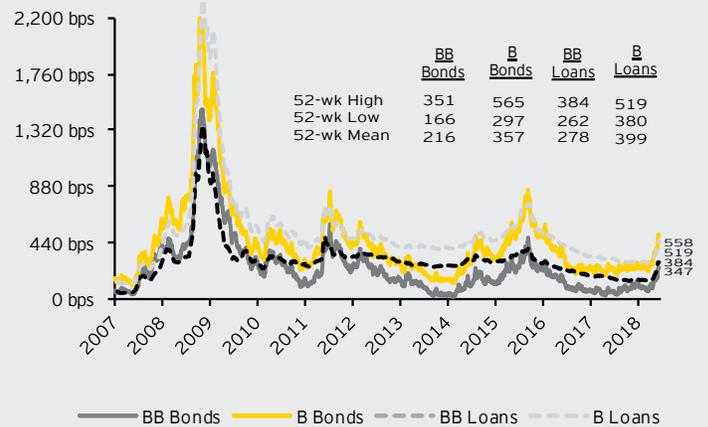
Top corporate loan issuances, Q4'18

Source: Loanconnector

Issuer	Industry	Tranche amount (CAD billion)	Maturity (in months)
Cenovus Energy Inc	Oil and Gas	3.3	49
TransCanada Pipelines Ltd	Oil and gas	3.0	60
Bell Canada	Telecommunications	2.5	61
Inter Pipeline Inc	Oil and Gas	1.6	48
bciMC Realty Corp	Financial services	1.5	32
CGI Group Inc	Technology	1.5	61
Inter Pipeline Inc	Oil and gas	1.5	60
Keyera Partnership	Power & Utilities	1.5	60
Shaw Communications Inc	Media and entertainment	1.5	61
Videotron Ltee	Media and entertainment	1.5	56

Leveraged loan and high-yield secondary spreads⁽¹⁾

Source: S&P LCD Comps



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