

SNC-Lavalin Group Inc. (SNC C\$55.67, TSX)

A window of opportunity from situation in North Africa? Maintaining Buy rating and C\$65 target

Pierre Lacroix, CFA
 David Rochow, Associate
 Jeremy Rosenfield, Associate

(514) 281-4231
 (514) 985-3576
 (514) 985-1862

pierre.lacroix@vmd.desjardins.com
 david.rochow@vmd.desjardins.com
 jeremy.rosenfield@vmd.desjardins.com

SNC-Lavalin Group Inc.

Rating	Buy—Average Risk	
Target	C\$65.00	
Symbol	SNC	
Exchange	TSX	
Sector	Engineering & Construction	
Closing price	C\$55.67	
Potential return	18%	
52-week range	C\$41.59–63.23	
Shares O/S	151m basic, 152m FD	
Market cap	C\$8,405m	
Year-end	Dec-31	
EBITDA*	2009A	C\$482m
	2010A	C\$491m
	2011E	C\$536m
EPS*	2009A	C\$2.13
	2010A	C\$2.20
	2011E	C\$2.28
	2012E	C\$2.55
P/E*	2009A	16.3x
	2010E	15.8x
	2011E	15.2x
	2012E	13.6x
EPS*	1Q11E	C\$0.56
	2Q11E	C\$0.56
	3Q11E	C\$0.56
	4Q11E	C\$0.60
Consol EPS	1Q11E	C\$0.73
	2Q11E	C\$0.72
	3Q11E	C\$0.73
	4Q11E	C\$0.76
	2010A	C\$2.57
	2011E	C\$2.94
	2012E	C\$3.34

* Excluding ICI
 Source: Desjardins Securities



Highlights

SNC reports 4Q10 results that are above our expectations. SNC reported 4Q10 consolidated adjusted EPS of C\$0.74 and core E&C EPS (ex ICI) of C\$0.70, which compare favourably with our estimates of C\$0.72 and C\$0.62, respectively. Meanwhile, after removing Libya-related projects totalling ~C\$934m from the backlog, SNC reported a total backlog as of December 2010 of C\$13.0b, compared with our unadjusted forecast of C\$13.2b.

Margins lower than in previous quarters but in line with our expectations. Operating performance was largely in line with our expectations as margins for the Infrastructure & Environment, Power and Mining & Metallurgy divisions returned to more normal levels. The Chemicals & Petroleum division was weak again in 4Q10, but this was offset by better-than-expected results in the Other Industries division.

Outlook—expect more of the same, adjusting for one-time items. Management's outlook for 2011 is more cautious than implied by current consensus forecasts as core EPS growth (ex one-time gains) is expected to be flat relative to 2010. At the division level, management expressed lower expectations for ICI and Infrastructure & Environment (~40% of 2010 revenue) but forecast better results from Chemicals & Petroleum, Power and Mining & Metallurgy for 2011.

Valuation

We use a sum-of-the parts method to value SNC. We continue to use a target price of C\$44.00 for the engineering business, which implies a ~17x multiple (unchanged) on our 2012 EPS forecast of C\$2.55 (19x our 2011 forecast). Our E&C valuation is a little more stretched than in the past, given the downward revision in 2011 EPS, but it continues to be supported by a promising outlook and solid balance sheet, including C\$900m of freehold cash. We value the ICI portfolio at C\$21.00, including C\$10.00 for Highway 407, C\$6.00 for AltaLink and ~C\$5.00 for the remaining concessions. We recognize freehold cash in two ways: (1) it is implied in our E&C P/E valuation, and (2) when money is actually deployed into new investments. The business environment for investment opportunities continues to be strong and could unlock potential upside to our target.

Recommendation

We are of the view that the current situation in Libya has a limited impact on SNC-Lavalin and believe that recent market pressure presents investors with an interesting buying opportunity. We continue to see promise in SNC's fundamentals as the company demonstrates the ability to take advantage of buoyant market conditions across a variety of industries and in different regions around the world. As economic conditions continue to improve, we expect the company will be awarded new projects that could compensate for Libya. In the longer term, further upside should be possible as business conditions return to normal in the Middle East and North Africa. However, the broader impact of volatile commodity prices (eg oil, copper) and the sustainability of profit margins that are above historical norms remain risk factors that could impact our investment thesis. We are maintaining our Buy—Average Risk recommendation and C\$65 target price.

This report was prepared by an analyst(s) employed by Desjardins Securities Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. Please see disclosure section at the end of this publication for company specific disclosures, analyst certification and legal disclaimers.

Details

SNC reports 4Q10 results that were above our expectations. SNC reported 4Q10 headline EPS of C\$0.91, up from C\$0.65 for the same period last year. Excluding one-time gains from the company's sale of Valener shares and Trencap partnership units, consolidated EPS was C\$0.74, and excluding the Infrastructure Concession Investments (ICI) business, EPS was C\$0.70. These results compared favourably with our EPS forecast of C\$0.72 on a consolidated basis and C\$0.62 for the core E&C business.

Exhibit 1: Quarterly results summary

Year-end Dec-31 (C\$m)	4Q09	1Q10	2Q10	3Q10	4Q10	4Q10E	Comment
Operating income							
Infrastructure & Environment	30	43	55	72	67	71	
Power	27	16	25	48	27	31	
Chemicals & Petroleum	35	13	10	-3	-1	7	Unfavourable cost reforecasts hurt profitability
Mining & Metallurgy	5	12	14	17	16	16	
Others	13	5	5	5	23	7	
E&C total	109	88	109	140	133	132	
Operations & Maintenance	11	12	2	12	13	11	
ICI	23	9	25	17	32	16	After-tax gain of C\$26.1m from Trencap/VNR sale
Total	143	108	136	169	178	159	
Operating margin (%)							
Infrastructure & Environment	7.1	13.1	13.2	14.5	12.0	12.0	
Power	10.0	9.1	15.4	24.4	12.0	12.0	Margins return to sustainable levels
Chemicals & Petroleum	15.8	6.4	4.0	-1.3	-0.4	4.0	Margins hurt by cost reforecasts
Mining & Metallurgy	2.7	8.0	8.7	10.1	8.1	10.0	
Others	18.5	7.7	8.6	7.0	19.9	8.0	
E&C total	9.5	9.7	10.5	12.1	9.8	10.3	
Operations & Maintenance	3.4	3.1	0.9	3.9	3.5	3.5	
ICI	21.9	8.9	18.9	12.3	21.0	25.0	
Total	9.0	7.8	9.5	10.5	9.4	9.6	
Bottom-line results							
EPS consolidated	0.65	0.47	0.64	0.71	0.74	0.72	Earnings +8.9% in 2010 (ex one-time gains)
EPS ex ICI	0.50	0.42	0.48	0.60	0.70	0.62	
EBITDA ex ICI	120	102	98	136	155	142	
Margin (%)	8.1	7.9	7.6	9.3	8.9	8.9	
Cash on hand	1,218	1,231	1,130	1,049	1,288	1,024	
Net cash position	727	736	643	655	870	781	
Freehold cash	600	799	800	700	900	875	
ROE ex ICI (annualized) (%)	42.6	33.6	36.1	42.2	45.3	40.0	SNC's profitability ranks near top of peer group

Source: Desjardins Securities, company reports

Backlog affected by political upheaval in Libya. SNC ended 4Q10 with a backlog of C\$13.0b, including C\$7.3b from core E&C activities, which was in line with the previous quarter's total of C\$7.2b. This result compares favourably with our forecast of C\$13.2b; in our view, management took a conservative approach in swiftly removing Libya-related business totalling ~C\$934m from its backlog until the political and social situation is resolved. Two ongoing projects in the country are the Benghazi Airport contract awarded in September 2008 and the Al Kufa Wellfield (Great Man Made River) contract awarded in October 2010. Thus, while the company sits on a strong backlog of diverse projects in end markets with good prospects, SNC's upside may be capped by country risk until investors become more comfortable with the situation in the Middle East.

Margins lower than in previous quarters but in line with our expectations. Operating performance was largely in line with our expectations, with total operating income of C\$178m, up 25% yoy. At the division level, operating margins for the Infrastructure & Environment, Power and Mining & Metallurgy divisions were below previous-quarter levels but in line with our forecasts; we note that profitability had been running at above-normal levels for the past few quarters. The Chemicals & Petroleum division was weak again in 4Q10, but this was offset by better-than-expected results in the Other Industries division.

Exhibit 2: Operating margins

Year-end Dec-31 (%)	2006	2007	2008	2009	2010	2011E	2012E
Segment							
Infrastructure & Environment	5.3	5.3	6.6	13.3	13.2	9.5	10.0
Power	-1.5	-16.5	-2.0	9.5	15.3	10.0	10.0
Chemicals & Petroleum	8.7	10.1	7.7	2.5	2.0	8.0	8.0
Mining & Metallurgy	12.1	15.2	13.6	9.4	8.7	10.0	10.0
Others	4.9	6.6	12.2	13.3	12.3	12.0	12.0
E&C total	4.3	0.7	6.4	9.8	10.5	9.6	9.8

Source: Desjardins Securities, company reports

Outlook for 2011—expect more of the same, adjusting for one-time items. Management's outlook for 2011 appears to be more cautious than implied by current consensus forecasts as the company indicated that its 2011 results (ex one-time gains) are expected to be in line with 2010 (C\$2.55–2.60/share on a consolidated basis). Pointing to a number of positive developments on its 4Q10 conference call, including prospective projects related to nuclear power in Ontario and potash mining in Saskatchewan, management expressed lower expectations for the Infrastructure & Environment division (~40% of 2010 revenue) and ICI, but forecast better results from the Chemicals & Petroleum, Power and Mining & Metallurgy divisions for 2011.

Exhibit 3: Trend in backlog and new orders

Year-end Dec-31 (C\$m)	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	Comment
Backlog							
Infrastructure & Environment	2,255	2,713	2,816	2,848	4,263	3,486	
Power	582	690	983	1,054	1,116	1,916	
Chemicals & Petroleum	1,659	1,724	1,595	1,355	1,219	1,073	
Mining & Metallurgy	353	298	262	305	297	441	
Others	216	238	234	272	299	407	
E&C total	5,065	5,662	5,890	5,834	7,193	7,323	~29% yoy (~2% qoq) growth in core E&C
Operations & Maintenance	2,587	2,597	2,915	2,809	2,621	2,733	
ICI	2,543	2,579	2,637	2,741	2,846	2,950	
Total	10,196	10,838	11,441	11,383	12,661	13,006	~20% yoy growth, ~3% qoq growth
Services backlog breakdown							
Infrastructure & Environment	695	678	645	624	632	665	
Power	263	254	243	293	256	220	
Chemicals & Petroleum	183	171	178	166	165	166	
Mining & Metallurgy	353	298	262	305	297	274	
Others	76	65	85	98	79	87	
Total	1,570	1,465	1,413	1,485	1,429	1,411	~4% yoy decline in services
Packages backlog breakdown							
Infrastructure & Environment	1,560	2,035	2,171	2,224	3,631	2,821	
Power	319	436	740	761	860	1,697	
Chemicals & Petroleum	1,476	1,554	1,418	1,189	1,054	907	
Mining & Metallurgy	0	0	0	0	0	167	
Others	140	173	149	174	219	321	
Total	3,495	4,198	4,477	4,348	5,764	5,912	~41% yoy growth in packages
New orders							
Infrastructure & Environment	208	877	428	448	1,914	-219	Libya-related projects removed from backlog
Power	64	374	465	235	259	1,028	Waneta Dam, Tunisia power plants ~C\$760m
Chemicals & Petroleum	132	287	65	-2	84	107	
Mining & Metallurgy	167	113	114	204	162	347	
Others	81	90	61	98	99	226	
E&C total	652	1,741	1,132	983	2,518	1,488	
Operations & Maintenance	894	345	701	150	121	495	
ICI	158	139	157	234	247	257	
Total	1,704	2,226	1,990	1,368	2,885	2,240	
Services	494	452	405	574	435	472	
Packages	158	1,290	727	409	2,082	1,575	3Q spike attributable to MUHC contract

Source: Desjardins Securities, company reports

Implication

Management guidance—underpromise to overdeliver? We had made a number of adjustments to arrive at normalized earnings for SNC's core and consolidated business in 2010. Excluding ICI and after-tax gains on the disposal of ECS (C\$19.6m in 3Q10), we estimate that SNC's core E&C business delivered EPS of C\$2.20. Removing non-recurring items on the sale of Valener shares and Trencap partnership units, we estimate that SNC delivered EPS of C\$2.57 on a consolidated basis. Management guided investors to 2011 bottom-line performance on par with 2010 levels for both its consolidated and core E&C operations. Despite growth in other segments, the removal of Libya-related projects from the backlog and the corresponding decline in revenue from Libya (6.6% of 2010 revenue) lead us to believe that core EPS growth could be flat in 2011. If we take into account that Libya-related projects would have contributed revenue of ~C\$450m with an estimated operating margin of 10% in 2011, the EPS impact of the suspended operations is approximately C\$0.20—which is equivalent to the difference between our previous forecast of C\$2.44/share and management's new guidance of ~C\$2.20/share. However, we do not believe Libya will be 'out of business' for a long period of time, given that many of the projects are important to the country and are financed through steady cash flows from oil exports. As a result, we are removing C\$0.16/share related to Libya from our 2011 EPS forecast but have assumed that relative stability will return and allow activities to proceed in that country in 2012.

We have made two major adjustments to our consolidated EPS forecasts. First, given that SNC will now record its Highway 407 investment under the equity method, results will reflect SNC's proportionate share of dividends from Highway 407 instead of its share of Highway 407's net income. Assuming Highway 407's results for 2011 are unchanged from 2010 net income of C\$77m and assuming dividends of C\$300m, SNC should record an additional C\$0.25 in EPS. In addition, all things equal, we estimate that SNC's 100% ownership of AltaLink would add C\$0.10 to 2011 EPS. Accounting for these changes as well as the impact from the recent upheaval in Libya, our consolidated EPS forecast is relatively unchanged at C\$2.94 in 2011 and C\$3.34 in 2012 (see Exhibit 4 below).

Exhibit 4: Financial forecast summary

Year-end Dec-31 (C\$m)	2009	2010	2011	2012
Revenue	6,102	6,315	7,169	7,872
Gross margin	1,151	1,279	1,395	1,523
% of revenue	19	20	19	19
EBITDA ex ICI	482	491	536	576
Margin (%)	8	8	8	8
Income margin (%)	504	592	623	698
% of revenue	8	9	9	9
EPS consolidated (C\$)	2.37	2.57	2.94	3.34
EPS ex ICI (C\$)	2.13	2.20	2.28	2.55

Source: Desjardins Securities, company reports

Recommendation

We are of the view that the current situation in Libya has a limited impact on SNC-Lavalin and believe that recent market pressure presents investors with an interesting buying opportunity. We continue to see promise in SNC's fundamentals as the company demonstrates the ability to take advantage of buoyant market conditions across a variety of industries and in different regions around the world. As economic conditions continue to improve, we expect the company will be awarded new projects that could compensate for Libya. In the longer term, further upside should be possible as business conditions return to normal in the Middle East and North Africa. However, the broader impact of volatile commodity prices (eg oil, copper) and the sustainability of profit margins that are above historical norms remain risk factors that could impact our investment thesis.

We are maintaining our Buy–Average Risk recommendation and C\$65 target price.

Exhibit 5: Engineering/design global comparables

	Country	Ticker	Oil/gas (%)	Share price (\$)	Mkt cap (\$m)	EV (\$m)	EPS						EV/EBITDA (x)		EBI TDA chg ² (%)		CY EBITDA chg (%)		Sales chg ² (%)		Backlog			Trend
							P/E (x) CY	P/E (x) NY	chg ² (%)	CY	EPS	chg (%)	4w	3m	6m	CY	NY	4w	3m	P/B (x)	P/S (x)	chg ² (%)	Mar ³ (\$)	
Civil/building/mechanical																								
SNC-Lavalin (C\$) ¹	Canada	SNC	20	55.67	8,407	10,703	16.4	15.1	10	2	0	3	9.9	8.6	3	1	1	5.30	1.33	5	11.44	11.38	12.66	Stable
Hochtief AG (EUR)	Germany	HOT	1	68.60	5,282	7,209	20.7	15.6	33	4	4	1	6.1	5.4	13	2	4	1.97	0.24	5	36.74	42.52	41.43	Up
URS (US\$)	US	URS	~15	46.59	3,757	3,968	12.7	11.7	9	0	-1	0	5.3	5.1	5	0	1	0.93	0.41	6	17.50	16.50	17.20	Stable
Aecom Technology (US\$)	US	ACM	0	28.07	3,333	4,171	12.0	10.1	18	2	2	2	7.6	6.7	15	-4	-3	1.46	0.46	15	9.90	9.25	14.70	Up
Tetra Tech (US\$)	US	TTEK	0	23.11	1,440	1,517	16.6	14.6	14	0	0	2	8.0	7.4	8	2	6	1.83	0.93	3	1.67	1.68	1.85	Up
Stantec (C\$)	Canada	STN	17	28.74	1,316	1,570	12.7	11.3	12	0	-1	-2	7.9	7.2	10	-1	0	2.10	1.07	9	0.94	1.00	1.01	Stable
Shaw Group (US\$)	US	SHAW	15	41.05	3,492	2,774	23.9	15.6	54	3	-10	-30	8.7	6.4	37	1	-11	2.24	0.52	11	21.30	20.31	20.12	Down
Michael Baker Co. (US\$)	US	BKR	0	29.91	276	189	15.5	12.3	26	-24	-31	-37	3.9	4.2	-7	-6	-7	1.41	0.53	6	1.53	1.60	1.59	Stable
Arcadis NV (EUR)	Netherlands	ARCAD	0	17.13	1,159	1,420	14.7	13.0	13	0	-2	-2	8.7	8.0	8	0	-2	3.09	0.57	4	NA	NA	NA	Up
Poyry OYJ (EUR)	Finland	POY1V	32	10.20	607	612	NM	NM	NM	11	3	-34	NM	NM	NM	11	4	3.35	0.88	8	0.53	0.57	0.54	Up
Atkins (GBP)	UK	ATK	14	700.00	701	445	9.7	9.1	6	1	0	1	3.4	3.0	12	0	0	NA	0.50	17	NA	NA	NA	NA
GENIVAR (C\$)	Canada	GNV	0	33.20	864	982	16.0	16.3	-2	-5	-1	6	10.9	9.2	19	0	0	2.11	1.01	15	0.38	0.40	0.40	Stable
IBI Group (C\$)	Canada	IBG	0	15.39	199	394	16.4	12.9	27	-2	-1	-7	9.2	7.2	28	0	0	1.45	0.70	15	NA	NA	NA	Up
Average					2,372	2,766	15.6	13.1	18	-1	-3	-7	7.5	6.5	12	0	-1	2.27	0.71	9				
Hydrocarbons/commodities																								
Fluor (US\$)	US	FLR	32	71.31	12,590	10,408	21.7	18.3	18	-1	-1	-1	8.9	7.7	15	2	3	3.60	0.61	12	25.70	30.16	32.98	Up
Worleyparsons Ltd (A\$)	Australia	WOR	80	31.00	7,458	8,000	23.9	19.2	24	-1	-1	-8	14.6	12.0	21	3	3	4.46	1.42	13	NA	NA	NA	Stable
Jacobs (US\$)	US	JEC	35	49.60	6,269	5,319	18.9	16.4	15	0	3	0	8.7	7.6	14	0	6	2.12	0.63	9	14.65	13.46	13.46	Down
Fugro NV (EUR)	Netherlands	FUR	75	61.54	4,940	5,705	18.3	15.8	15	0	0	2	10.1	8.8	14	0	0	3.65	2.29	11	NA	1.04	NA	Down
Foster Wheeler (US\$)	US	FWLT	90	36.50	4,558	3,713	20.5	15.2	34	-15	-15	-25	10.3	8.2	25	-7	-7	4.68	1.13	11	4.03	3.71	3.97	Down
Technip (EUR)	France	TEC	100	71.64	7,876	6,566	18.2	15.0	22	0	-1	1	7.9	6.7	18	1	0	2.48	1.29	13	8.13	8.26	8.50	Up
KBR (US\$)	US	KBR	40	35.37	5,350	4,623	15.9	14.3	11	2	10	14	7.3	6.6	10	1	3	2.38	0.55	0	13.34	12.42	12.33	Down
AMEC (GBP)	UK	AMEC	42	1,192	3,963	3,226	17.5	15.3	14	1	4	8	10.4	9.2	13	0	2	3.11	1.32	10	3.55	3.50	NA	Stable
Technica Reunidas (EUR)	Spain	TRE	90	42.72	2,388	1,862	14.6	12.9	13	0	-2	-9	9.9	9.0	10	-1	-3	7.00	0.86	11	6.23	6.23	NA	Stable
Average					6,155	5,491	18.8	15.8	19	-2	0	-2	9.8	8.4	16	0	1	3.72	1.12	10				
Average engineering/design					3,919	3,881	17.0	14.3	19	-1	-2	-5	8.5	7.3	14	0	0	2.89	0.88	9				

¹ Based on Desjardins Securities estimates (ex ICI): 2010 EPS of C\$2.20 and 2011 EPS of C\$2.28. Based on 2010 EBITDA of C\$491m and 2011 EBITDA of C\$536m. We exclude C\$21.00 for the value of concessions from the stock price in both P/E and EV/EBITDA calculations. We use a net cash position of C\$5.75/share in our EV calculation (ex ICI); ² Next year vs current year; ³ 2010 Source: Desjardins Securities, Bloomberg, company reports

DISCLOSURES

Distribution of ratings					
Rating category	Desjardins rating	Desjardins coverage universe (# of stocks)	% distribution	Desjardins Investment Banking (# of stocks)	% distribution
Buy	Top Pick/Buy	103	71	35	67
Hold	Hold	42	29	16	31
Sell	Sell	1	1	0	0
Total		146	100	51	100

COMPANY SPECIFIC DISCLOSURES

Legend

1. Desjardins Securities makes a market in the securities of the issuer.
2. Desjardins Securities has performed investment banking services for the issuer in the past 12 months.
3. Desjardins Securities has received compensation for investment banking services from the issuer within the past 12 months.
4. Desjardins Securities has managed or co-managed a public offering of securities for the issuer in the past 12 months.
5. Desjardins Securities beneficially owned 1% or more of the common equity (including derivatives exercisable or convertible within 60 days) as of the month end preceding this report.
- 6a. The Desjardins Securities research analyst(s) and/or associate(s) who covers the issuer discussed has a long position in its common equity securities.
- 6b. A member of the household of the Desjardins Securities research analyst(s) and/or associate(s) who covers the issuer has a long position in its common equity securities.
- 7a. The Desjardins Securities research analyst(s) and/or associate(s) has viewed a material operation of the issuer, and the related travel expenses have not been paid for by the issuer.
- 7b. The Desjardins Securities research analyst(s) and/or associate(s) has viewed a material operation of the issuer, and the related travel expenses have been paid for partially by the issuer.
- 7c. The Desjardins Securities research analyst(s) and/or associate(s) has viewed a material operation of the issuer, and the related travel expenses have been paid for fully by the issuer.
8. Desjardins Securities has received compensation for non-investment banking, non-securities-related services from the company in the past 12 months.
9. The issuer is a client for which a Desjardins Securities company has performed non-investment banking, non-securities related services in the past 12 months.
10. The issuer is (or was) a client of Desjardins Securities or an affiliate within the Desjardins Group within the past 12 months and received non-securities related services.
11. A partner, director or officer of Desjardins Securities or any analyst(s) involved in the preparation of this publication has provided services (other than for investment advisory or trade execution purposes) to the issuer for remuneration within the past 12 months.
12. An officer or director of Desjardins Securities, outside of the Equity Research Department, or a member of his/her household is an officer or director of the issuer or acts in an advisory capacity to the issuer.
13. The Desjardins Securities research analyst(s) and/or associate(s) had communication with the issuer regarding the verification of factual material in this research publication.
14. The Desjardins Securities research analyst(s) and/or associate(s) had communication with Investment Banking regarding the verification of material in this research publication.
15. A director or officer of the issuer (or any of its affiliates) serves on the board of the Desjardins Group.
16. The issue date for this research publication is within the restricted period for any recent IPO, secondary offering or lock-up agreement between the issuer and Desjardins Securities.
17. The Desjardins Securities supervisory analyst serves as an officer, director or employee of the issuer or acts in an advisory capacity to the issuer.

Disclosures for issuers discussed in this publication

GENIVAR Inc.: 7a

SNC-Lavalin Group Inc.: 2, 3, 4, 6a-6b, 7a

IBI Group Inc.: 2, 3, 7a

Stantec Inc.: 7a

Price graphs: For full disclosure, please visit our website at <https://www.desjardins-securities.ca>

Full disclosures for research of all companies covered by Desjardins Securities can be viewed at <http://www.desjardins-securities.ca/Disclosures/English.aspx> or <http://www.desjardins-securities.ca/Disclosures/Francais.aspx>

STOCK RATING SYSTEM

Top Pick

Desjardins' best investment ideas – stocks that offer the best risk/reward ratio and that are expected to significantly outperform their respective peer group* over a 12-month period

Buy

Stocks that are expected to outperform their respective peer group* over a 12-month period

Hold

Stocks that are expected to perform in line with their respective peer group* over a 12-month period

Sell

Stocks that are expected to underperform their respective peer group* over a 12-month period

Not Rated

Stock is being covered exclusively on an informational basis

RISK QUALIFIERS

Average Risk

Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability

Above-average Risk

Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability

Speculative

High degree of risk represented by the stock, marked by an exceptionally low level of predictability

* Peer group refers to all of the companies that an analyst has under coverage and does not necessarily correspond to what would typically be considered an industry group. Where an analyst's coverage universe is such that 'relative' performance against a 'peer group' is not meaningful, the analyst will benchmark the rating against the most appropriate market index

DESJARDINS SECURITIES INC. LEGAL DISCLAIMERS

Dissemination of Research

Desjardins Securities makes all reasonable effort to provide research simultaneously to all eligible clients. Research is available to our institutional clients via Bloomberg, FactSet, FirstCall Research Direct, Reuters and Thomson ONE. In addition, sales personnel distribute research to institutional clients via email, fax and regular mail.

Analyst Certification

Each Desjardins Securities research analyst named on the front page of this research publication, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this publication and all other companies and securities mentioned in this publication that are covered by such research analyst, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this publication.

Additional Disclosures

Desjardins Securities' equity research analysts are compensated from revenues generated by various Desjardins Securities businesses, including Desjardins Securities' Investment Banking Department. Desjardins Securities will, at any given time, have a long or short position or trade as principal in the securities discussed herein, related securities or options, futures, or other derivative instruments based thereon. The reader should not rely solely on this publication in evaluating whether or not to buy or sell the securities of the subject company. Desjardins Securities expects to receive or will seek compensation for investment banking services within the next three months from all issuers covered by Desjardins Securities Research.

Legal Matters

This publication is issued and approved for distribution in Canada by Desjardins Securities Inc., a member of the Investment Industry Regulatory Organization of Canada (IIROC) and a member of the Canadian Investor Protection Fund (CIPF). In the US, this publication is issued via the exemptive relief described in SEC Rule 15a-6, and through reliance on Desjardins Securities International Inc., a member of FINRA and SIPC.

This publication is provided for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this publication may not be suitable for all types of investors; their prices, value and/or income they produce may fluctuate and/or be adversely affected by exchange rates. This publication does not take into account the investment objectives, financial situation or specific needs of any particular client of Desjardins Securities. Before making an investment decision on the basis of any recommendation made in this publication, the recipient should consider whether such recommendation is appropriate, given the recipient's particular investment needs, objectives and financial circumstances. Desjardins Securities suggests that, prior to acting on any of the recommendations herein, you contact one of our client advisors in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this publication to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

This publication may contain statistical data cited from third party sources believed to be reliable, but Desjardins Securities does not represent that any such third party statistical information is accurate or complete, and it should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this publication and are subject to change without notice.

US institutional customers: Desjardins Securities International Inc. (a wholly owned subsidiary of Desjardins Securities Inc.) accepts responsibility for the contents of this report subject to the terms and limitations set out above. Institutions receiving this report should effect transactions in securities in the report through Desjardins Securities International Inc., an institutional broker/dealer registered with FINRA and the US Securities and Exchange Commission.

Although each company issuing this publication is a wholly owned subsidiary of Desjardins Group, each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of Desjardins Group, (iii) will not be endorsed or guaranteed by Desjardins Group, and (iv) will be subject to investment risks, including possible loss of the principal invested.

The Desjardins trademark is used under licence.

© 2011 Desjardins Securities Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of Desjardins Securities is prohibited by law and may result in prosecution.

OFFICES

Montreal

1170 Peel Street
 Suite 300
 Montreal, Quebec H3B 0A9
 (514) 987-1749

Toronto

145 King Street West
 Suite 2750
 Toronto, Ontario M5H 1J8
 (416) 867-6000

Calgary

110 9th Avenue SW
 Suite 410
 Calgary, Alberta T2P 0T1
 (877) 532-6601