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B U I L D I N G W E A L T H

THE INCOME INVESTOR

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NICE GAIN FOR INCOME PORTFOLIO

By Gordon Pape, Editor and Publisher

Two years ago, in May 2015, I launched an income portfolio designed for Tax-Free Savings Accounts (TFSAs). At that point, the annual TFSA contribution limit was $10,000, making these plans highly attractive to income investors.

Since then the limit has been rolled back $5,500 a year but even at that level TFSAs can provide a valuable source of tax-free income to investors who structure their portfolios properly.

At present, the maximum lifetime contribution for an individual who was 18 or older at the start of 2009, the year TFSAs were launched, is $52,000. However, at the time this portfolio was created the maximum was $41,000 so that was the initial starting value.

This portfolio has a goal of generating cash flow of at least 5%. Income is the key to its success; any capital gains are a bonus. Note that because the securities chosen have above-average yields, risk is on the high side. So this is not a good model for very conservative investors.

I selected 10 securities from the Income Investor Recommended List. All are traded on the TSX so currency exchange is not a factor, except for the distributions from the limited partnerships, which are in U.S. dollars. I gave each security an initial weighting of approximately 10% for diversification and balance. Here are the components of the portfolio with a brief report on how they have performed since the last update in December. Prices are as of the close of trading on May 19.

BCE Inc. (TSX, NYSE: BNS). BCE shares have rallied since their winter lows, touching $63 last month before pulling back to the current price of $60.40. The dividend was increased by 5.1% effective with the March payment. The stock yields 4.75% at the current price.

Bank of Nova Scotia (TSE, NYSE: BNS). After a great run last fall, Scotiabank shares are off $1.39 from the last review. That was just about offset by dividends totaling $1.50 per share during the period. The dividend was raised by $0.02 to $0.74 per quarter in March. The stock yields 4.1%.

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Income portfolio – continued from page 1…

Brookfield Infrastructure Limited Partnership (TSX: BIP.UN, NYSE: BIP). This Bermuda-based limited partnership is a spin-off company from Brookfield Asset Management, which owns a majority stake. The units split three for two last September, which means you received an additional half unit for every one you owned previously. The stock has been a strong performer since the split and is up $10.50 per unit since the last review in December. Due to timing, we received only one distribution during the period of US$0.435 per unit. The payout was raised by 11.6% at the start of the year. The current yield is 4.5%.

Brookfield Renewable Partners (TSX: BEP.UN, NYSE: BEP). This is another Brookfield spin-off, but with a focus on renewable energy, mainly hydro but also some wind projects. The units are up a healthy $4.93 from the time of our last review. The quarterly distribution was increased by 5.1% to US$0.4675 per unit, effective with the February payment. The units yield 5.6% at the current price.

Inter Pipeline (TSX: IPL, OTC: IPPLF). This stock pulled back by $1.22 in the latest period. However, we received dividends of $0.675 per unit, which partially offset that. With the price retreat, the yield is up to 6.2%.

North West Company (TSX: NWC, OTC: NWTUF). After a sell-off last fall, the shares recovered well and gained $5.56 during the latest review period. The quarterly dividend was raised by a penny to $0.32 per share, effective with the March payment. The current yield is down to 4%, due to the rise in the share price.

Sienna Senior Living Inc. (TSX: SIA, OTC: LWSCF). Sienna's share price rebounded by $1.48 per share during the latest review period and the monthly dividends of $0.075 per share continued to roll in. The current yield is 5.2%.

TransAlta Renewables Inc. (TSX: RNW, OTC: TRSWF). The stock has recovered nicely since last fall's slump and is up $1.79 since the last review. The monthly dividend remains at $0.0733 ($0.88 per year) for a yield of 5.7%.

Firm Capital MIC (TSX: FC). This mortgage investment corporation saw its share price slide to as low as $12.29 in reaction to the problems at Home Capital. However, it has since recovered to $13.24 as investors realized this small company is well capitalized and conservatively managed. The stock offers a monthly payment of $0.078 ($0.936 per year) to yield 7.2%.

SmartREIT (TSX: SRU.UN, OTC: CWYUF). This is the only REIT in the portfolio. The shares are almost flat since my last review, with a gain of just $0.05. The monthly distribution was increased by 3% in October to $0.1416 ($1.70 per year), to yield 5.4%.

We received interest of $14.71 during the latest period from our EQ Bank savings account.

The table below shows how the portfolio looked at the close of trading on May 19.

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TFSA Income Portfolio (a/o May 19, 2017)

Security	Weight %	Total Shares	Average Price	Book Value	Market Price	Market Value	Income Retained	Gain/ Loss
BCE	9.6	80	$53.81	$4,304.50	$60.40	$4,832.00	$119.31	15.0
BNS	9.0	60	$65.41	$3,924.60	$75.48	$4,528.80	$345.60	24.2
BIP.UN	12.7	120	$36.37	$4,364.78	$53.54	$6,424.80	$52.20	48.4
BEP.UN	9.5	110	$37.94	$4,173.40	$43.77	$4,814.70	$264.21	21.7
IPL	7.5	140	$30.19	$4,226.25	$27.01	$3,781.40	$314.88	-3.1
NWC	10.7	170	$24.77	$4,211.05	$31.81	$5,407.70	$268.35	34.8
SIA	10.0	290	$15.10	$4,379.40	$17.50	$5,075.00	$189.65	20.2
RNW	11.2	360	$12.47	$4,490.70	$15.69	$5,648.40	$199.62	30.2
FC	9.7	370	$12.57	$4,651.90	$13.24	$4,898.80	$144.30	8.4
SRU.UN	9.4	150	$29.88	$4,482.00	$31.61	$4,741.50	$184.56	9.9
Cash	0.7			$335.99		$350.70		
Total	100.0			$43,544.57		$50,503.80	$2,082.68	20.8
Inception				$41,000.00				28.3

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Income portfolio - continued from page 2…

Comments: The overall value of the portfolio increased from $48,130.16 in December to $52,586.48 now. That was a profit of 9.3% in the latest period. Since inception two years ago, the portfolio has gained 28.3% for an average annual compound growth rate of 13.25%.

The yield in the last period was 2.1%, which is slightly below target. However, this only covers a little over five months so the one year objective of 5% remains intact.

Changes: I am not pleased with the performance of SmartREIT and the fact it operates in the shopping mall space is a concern given the growing trend towards e-commerce. Therefore, I am selling our position in SRU.UN and investing the proceeds in Dream Global REIT (TSX: DRG.UN), which invests in office, industrial, and mixed-use properties in Europe. Dream's price has been trending higher recently and it is currently trading at $10.40. The units yield 7.5% at the current price.

Selling SmartREIT will net us a total of $4,926.06, including retained earnings. That will buy us 470 units of Dream, at a cost of $4,888. We will add the remaining $38.06 to our cash account.

We will also make a few other small purchases, using retained income, as follows.

IPL – We will buy 10 shares at $27.01 for a cost of $270.10. That will reduce our retained cash to $44.78 and bring our total position to 150 shares.

SIA – We'll add 10 more shares at $17.50 for an investment of $175. This brings our position to 300 shares and reduces our retained income to $14.65.

RNW – We will buy another 10 shares at a price of $15.69 for an outlay of $156.90. This brings our share count to 370 and reduces the cash to $42.72.

FC – Finally, we will invest another $132.40 to buy 10 more shares of Firm Capital at $13.24 each. We now own 380 shares, with cash remaining of $11.90.

Remember, don't do small trades unless you have a fee-based account. Use dividend reinvestment plans instead.

We will keep our cash of $1,552.48 in the EQ Bank savings account, which pays 2%. I'll review the portfolio again in November.

Here is the revised portfolio.

TFSA Income Portfolio (revised May 19, 2017)

Security	Weight %	Total Shares	Average Price	Book Value	Market Price	Market Value	Income Retained
BCE	9.4	80	$53.81	$4,304.50	$60.40	$4,832.00	$119.31
BNS	8.8	60	$65.41	$3,924.60	$75.48	$4,528.80	$345.60
BIP.UN	12.5	120	$36.37	$4,364.78	$53.54	$6,424.80	$52.20
BEP.UN	9.4	110	$37.94	$4,173.40	$43.77	$4,814.70	$264.21
IPL	7.9	150	$29.98	$4,496.35	$27.01	$4,051.50	$44.78
NWC	10.5	170	$24.77	$4,211.05	$31.81	$5,407.70	$268.35
SIA	10.2	300	$15.18	$4,554.40	$17.50	$5,250.00	$14.65
RNW	11.3	370	$12.56	$4,647.60	$15.69	$5,805.30	$42.72
FC	9.8	380	$12.59	$4,784.30	$13.24	$5,031.20	$11.90
DRG.UN	9.5	470	$10.40	$4,888.00	$10.40	$4,888.00	$0
Cash	0.7			$388.76		$388.76	
Total	100.0			$43,544.57		$51,422.76	$1,163.72
Inception				$41,000.00			

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ATTENTION INVESTORS: U.S. RETAIL OPPORTUNITY!

By Gavin Graham, Contributing Editor

The rise of Internet retailing through such giants as Amazon, eBay, and Tencent in China has led many observers to forecast the death of traditional "bricks and mortar" retailing. Certainly, the struggles experienced by many traditional retailers lend support to the view of traditional retailing as an area for investors to avoid. Just consider the fate of once-respected names like K-Mart and Sears, to say nothing of the numerous smaller department store chains and specialty retailers, especially those in small or lightweight categories such as fashion, books, jewellery, and personal electronics.

However, there are reasons for believing that a blanket dismissal of the entire retail space as a disaster is too sweeping. Some Canadian retailers have manged to deliver excellent returns for their investors over the last decade, and it's worth examining these success stories in a little more detail to see if there are any common threads to their survival and success.

The three best performing retailers over the last decade have been supermarket chain Metro Inc., convenience store operator Alimentation Couche-Tard Inc., and auto, houseware, and apparel chain Canadian Tire Corp. Ltd. Although it's only been listed for five years, one should also add Dollarama Inc., a discount-store chain to the list.

Over the past 10 years, Couche-Tard has returned an average 23.2% annually before taking dividends into account. Metro has gained 13.8% and Canadian Tire 6.8%. Over the last five years, Couche-Tard and Dollarama have risen an average 35.4% and 35% annually, respectively, while Metro has grown 22% and Canadian Tire 18.6%.

The common thread that links these success stories is that they sell reasonably-priced items that encourage repeat purchases, or have a particular niche (very low prices, exclusive product lines) that make it difficult for them to be bypassed by Internet retailers.

Another good example of this approach to successful retailing is Shoppers' Drug Mart, which delivered excellent returns and therefore caught the eye of supermarket behemoth Loblaw's Cos. Ltd. as a takeover target in 2014.

When the merchandise is the much the same through a store, as it is with books, electronics, and clothing, the simplicity and convenience of Internet shopping wins the day, helped by lower prices, at least initially. When the product line is differentiated, perishable, or bulky, traditional retailers can still compete successfully.

The most obvious area where this is the case is food retailing. While some online groceries have had success in Europe, most shoppers seem unwilling to trust something as important as their daily meals to a third party.

Although non-perishables such as cereals and canned goods are essentially undifferentiated goods, similar to books or electronics, they're also low-priced and often bulky or heavy, making them unattractive as categories for the online retailers. In addition, the economics of home delivery is typically not cost effective in North America. In Europe and Japan, densely populated cities in relatively compact geographic areas make the economics of home delivery at least manageable, if not entirely cost effective. However, apart from a few cities such as New York, North America's wide population distribution makes cost-effective grocery delivery almost impossible.

As a result, food anchored retailing is still an area that has some protection form the rise of online retailers. Of the Canadian successes, four of the five (Couche-Tard, Metro, Dollarama, and Shoppers Drug Mart) have food as a major component of their sales. It's interesting that Canadian Tire, which has repeat purchase categories such as homewares, lighting, and garden, but not food, has been the weakest performer among these stocks, although it's still a successful company overall.

Carrying on with the food retailing theme, this month I want to focus on food-anchored shopping centres, a sector that is a defensive play within the larger retailing sector in general. My top pick this month is Slate Retail REIT, which specializes in food-anchored shopping centres in the U.S. The particular area that Slate invests in sells at a discount to the sector as a whole. Furthermore, Slate itself trades at a discount to its net asset value (NAV), providing more protection in the event of slowing growth or a change in the competitive landscape. It also provides investors with U.S. dollar income in a tax-effective form, as all of its revenues and earnings are in U.S. dollars.

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TOP PICK

Here is our Top Pick for this month. Prices are as of the close of trading on May 19.

Slate Retail REIT (TSX: SRT.UN, SRT.U)

Type: Real Estate Investment Trust
Exchange: TSX
Trading symbols: SRT.UN, SRT.U
Current price: $15.15, US$11.15
Entry level: Current price
Annual payout: US$0.81
Yield: 7.33%
Risk rating: Moderate
Website: www.slateam.com/reit/retail

The business: This is a relatively new REIT, which went public in April 2014. It owns 71 properties across 21 states in the U.S., totalling 8.5 million sq. ft. and had $1 billion in assets under management as of March 31 (all figures in U.S. dollars unless otherwise stated). However, the preceding investment partnerships, which were rolled into this public REIT, started buying U.S. grocery-anchored properties in 2011.

Led by founder and co-CEO Blair Welch, Slate has a successful 12-year track record in North American property investment. For example, it assembled a 3.2 million sq. ft. Canadian office portfolio in partnership with Blackstone between 2006 and 2011, which it later sold for $831 million. Slate also manages another listed Canadian REIT, Slate Office Properties (TSX: SOT.UN). Slate Retail's strategy is to build scale in grocery-anchored properties in overlooked, large (one million-plus population) metropolitan areas in the U.S.

The security: There are two versions of the REIT, both listed on the TSX, SRT.UN is denominated in Canadian dollars, while SRT.U is denominated in U.S. dollars. As both own the same assets and receive U.S. dollar cash flow, the only difference is that the trading volume for SRT.UN (30,000 shares per day) is around double that for SRT.U (15,000 per day).

Why we like it: Groceries are among the retailing sectors that have proven most resilient in the face of growing competition from online merchants. The situation is made more attractive for Slate Retail by the drastic decline in the number of grocery-anchored retail malls that have been built since the financial crisis. From 1999 to 2009, an average of between 650 and 850 community and neighbourhood shopping centres were built annually. That number plummeted 90%, to 89 in 2012 and 69 in 2013, and has risen to only 84 in 2016. Meanwhile, occupancy in grocery-anchored centres declined only marginally, to 93% in 2010 from 94.5% in 2007, and has now recovered to 95.2%. High occupancy and historically low new supply is creating upward pressure on rentals, which are rising well above inflation. While the bulk of investors focus on the top six markets with their lower operational proficiency, Slate concentrates on smaller, but still sizeable, cities where capital is scarce, and it can therefore purchase properties well below replacement cost.

Financial highlights: Slate Retail's revenue for the three months ended March 31 rose 12.5%, to $27.2 million, while net operating income (NOI) rose 13.7%, to $19.4 million. NOI from properties owned for 12 months rose 4.5%, to $16.2 million and adjusted funds from operations (AFFO) – the REIT equivalent of earnings per share – rose 54.1%, to $11.6 million. A 5.6 million unit equity issue at C$14.35 per unit in January 2017 raised C$79.8 million, increasing the weighted average number of units outstanding by 25%, to 39.8 million.

AFFO per unit rose 20.8%, to $0.29 against $0.24. However, the AFFO payout ratio (AFFO divided by NOI) fell to 71.7% from 82.5%. Total assets rose 12%, to $1.16 billion, while net debt was essentially unchanged at $597 million, giving a debt-to-book value ratio of 51.6%. Occupancy declined slightly, to 93.2% from 94.4%, reflecting new properties acquired.

New issue: On May 24, Slate did an equity issue of 4.4 million shares at $14.75 to raise $65 million, to be used for debt repayment and acquisitions. The management company, Slate Asset Management, subscribed for 170,000 shares, or 3.7% of the issue, for $2.5 million.

Risks: As with all REITs, higher interest rates are a concern for Slate. But with no maturities for three years, one of the industry's lowest weighted cost of debt at 3.2%, and fixed-rate debt at 68% by year-end 2016, up from 25% early in the year, Slate Retail is fairly well insulated from rate risk. As with Target's withdrawal from Canada, the loss of a major tenant could cause rentals to fall. However, the largest supermarket tenant, Kroger, accounts for only 7.7% of its base rentals.

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Top pick – continued from page 5…

Slate's portfolio is well diversified, with 71 properties in 21 states and 23 metropolitan areas.

Distribution policy: Slate Retail pays a monthly distribution of US$0.0675 per unit (US$0.81 annually), for a yield of 7.33%. While on the high side, this reflects the REIT's short track record, smaller size ($623 million), and investors' unfamiliarity with the group, as well as concerns over the future of U.S. retailers. Slate Retail raised its dividend by 3% in 2015 and 4% last year.

Tax implications: Half the 2016 distribution was return of capital, and the rest deemed "other income."

Who it's for: Slate Retail REIT is for investors who are looking for a relatively high US-dollar income with some tax efficiencies, and who are comfortable with its 100% exposure to the U.S. grocery sector.

Action now: Buy now for above average yield with some growth and the potential that Slate Asset Management could sell the portfolio to a larger strategic investor, as it did with its Canadian office properties in 2011.

MISCONCEPTIONS ABOUT HOME CAPITAL

In the wake of the collapse in the share price of alternative mortgage lender Home Capital Group at the end of April, other mortgage lenders and even mortgage insurers were also badly affected. As detailed in our Special Alert of April 28, fears of possible bankruptcy arose from an old-fashioned run on the bank. Home Capital saw $1.875 billion of the total $2 billion deposits in its High Interest Savings Accounts vanish in the two weeks after the Ontario Securities Commission (OSC) announced it was bringing charges against the company and three of its present or former executives. The company was forced to secure a $2 billion emergency loan from a consortium of lenders to cover the outflows, at an effective 22.5% interest rate on the first $1 billion.

Home Capital's share price fell 65% on April 26, after the company revealed that depositors were withdrawing funds. The news affected other companies perceived as being in the same alternative mortgage field, such as Equitable Group (TSX: EQB), whose shares fell 31.7% the same day, First National Financial (TSX: FN), down 10.7%, and Street Capital Group (TSX: SCB), off 9.8%. Even mortgage insurer Genworth MIC (TSX: MIC), which I update below, was down 8.2% on the day.

And Canadian chartered banks were not immune from the selloff, with those perceived as having a more domestic focus seeing share prices decline. National Bank (TSX: NB) slipped 3.3% on the day and CIBC (TSX: CM) edged down 2.2%. Canadian Western Bank (TSX: CWB), which I also update below, was down 6.5%.

The selloff represents a fundamental misconception about the reasons for Home Capital's problems. The mortgages that Home Capital provided to borrowers who cannot meet the major banks lending criteria, such as recent immigrants and the self-employed, remain current and continue to pay interest. In fact, the default rate on these mortgages is near 10-year lows.

Genworth's main rival, the government-owned Canada Mortgage and Housing Corporation (CMHC), which insures around 70% of all Canadian mortgages where the buyer's deposit is less than 20% of the house price, issued a statement on the day of Home Capital's share price collapse, stating: "We have no significant concerns about the quality of the mortgages in the Home Capital portfolio. We are not concerned about either the current state of our financial exposures nor with the Canadian housing finance system in general." It's difficult to imagine a stronger expression of confidence.

One thing is certain: mortgage rates are still at multi-year lows. And according to the Teranet-National Bank House Price Index, prices were up 13.4% nationally in the 12 months to end of April, with prices in large urban markets like Toronto and Victoria up well over 20%. It's no wonder that mortgage defaults are at near-decade lows.

The pace of the increase in Canadian house prices, at least in the big cities, has led to fears of a possible housing bubble and a repeat of the U.S. sub-prime lending crisis of the mid-2000s. Many short sellers (who bet on a stock's price falling) therefore targeted Home Capital and other alternative mortgage lenders on the view that Canada, which had largely escaped the real estate collapse that hit the U.S., was due for a similar fall.

However, unlike the U.S., where outright fraud was rampant and where borrowers in most states could abandon their property with no liability, Canadian lending standards are much tighter. In fact, borrowers retain

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Home Capital – continued from page 6…

exposure to the debt even if the mortgage is foreclosed. The business models of companies like Home Capital and Equitable rest on lending to non-compliant borrowers, that is, those who don't have a long enough credit history or are self-employed or work in industries with a variable annual income. This doesn't make them bad credit risks – in fact, they are probably better credit risks because they receive relatively low loan-to-value mortgages and are required to make larger deposits.

Below, I update Genworth MIC and Canadian Western to see how they have been performing at the operational level and whether the recent selloff is justified.

GAVIN GRAHAM'S UPDATES

Genworth MIC (TSX: MIC; OTC: GMICF)

Type: Common stock
Exchanges: TSX, OTC
Trading symbols: MIC, GMICF
Current price: $32.93, US$23.64
Originally recommended: May 10/11 at $26.16, US$27.12
Annual payout: $1.76
Yield: 5.3%
Risk rating: Moderate
Recommended by: Gavin Graham

Website: www.genworth.ca

Comments: Genworth, the second-largest mortgage insurer in Canada for those borrowers who cannot make a 20% deposit when buying a home, guarantees 90% of the mortgage for the lender. As house prices have risen, the government has tightened the conditions for mortgage insurance. In October 2016, Finance Minister Bill Morneau strengthened the rules so that borrowers who need mortgage insurance must use the posted Bank of Canada mortgage rate of 4.64% rather than the actual rates available, many of which were at 2% or lower. As I noted at the time, Genworth estimated that one third of existing insured borrowers "would struggle to meet the new standards," and its share price fell 11% on the announcement.

At the beginning of May, Genworth announced that it expected these tighter rules would cause transactional mortgage insurance volumes, its core product, to fall between 15% and 25% this year. It also expected a significant decline in the value of new portfolio insurance, which is bulk insurance provided to lenders for mortgages not already insured under the 20% down payment rules.

However, Genworth said these declines would be offset by premium increases it introduced in March to offset the higher capital requirements. The high volumes of insurance it wrote between 2014 and 2016 would ensure that "its premiums earned in 2017 should be modestly higher." This is because Genworth books its premiums over a three-year period to smooth out its earnings and reflect credit losses, making its earnings fairly predictable. In fact, its loss ratio in the first quarter ended March 31 fell to 0.15 from 0.24 the previous year. It also announced that Home Capital mortgages represented only 1% of its total mortgages insured, and their delinquency rate was below that of Genworth's total portfolio of 0.21 at the end of December 2016.

For the first quarter of 2017, Genworth earned a net profit of $106 million, up 21% from $88 million the previous year. Earnings per share of $1.17 were up 17%. Premiums written were $167 million, up 9%, and its claims losses fell to $26 million from $37 million last year. Book value was $39 a share, and the company remained rated BBB+ by S&P and A (stable) by Dominion Bond Ratings. As Genworth's CEO Stuart Levings always points out, the most important determinant of losses is the unemployment rate, which is declining, even in Alberta, which represents only 20% of Genworth's insurance portfolio.

Action now: With the contagion effect from Home Capital and the changes to mortgage insurance implemented last year, share price is off only 2% year to date. Genworth becomes a Buy for its cheap rating, strong balance sheet, and conservative financing.

Canadian Western Bank (TSX, CWB, OTC: CBWBF)

Type: Common stock
Trading symbols: CWB, CBWBF
Exchanges: TSX, OTC
Current price: $25.57, US$18.88
Originally recommended: March 26/15 at $27.71, US$22.06
Annual payout: $0.92
Yield: 3.5%
Risk: Moderate
Recommended by: Gavin Graham
Website: www.cwbank.com

Comments: Alberta-based Canadian Western Bank (CWB) is Canada's eighth-largest bank after the Big Six

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Updates – continued from page 7…

and Laurentian Bank. Last year it diversified away from its geographical base through the $49.5 million acquisition of Ontario-focused finance and leasing company Maxium Finance, with its $1 billion in assets. It followed this with purchase of GE's Canadian Franchise Financing business in August, which has $345 million in assets. As a result, 55% of its $22 billion in loans is now split between B.C. (35%) and Ontario (20%) compared with 36% in Alberta, and the rest spread over Saskatchewan and Manitoba.

In a presentation in March, CWB's CEO Chris Fowler said he expects Maxium to grow its loan book to $2.5 billion over the next five years. He also projected its franchise finance division, which specializes in hotels and restaurants (60% in Ontario and Quebec), to gain a 10%-20% market share and be responsible for 5% of the bank's profits by the end of that period.

The issue CWB faces is its Optimum alternative mortgage division, with $2 billion in loans, half of them in Ontario. CWB's plans to double the size of this business may now need to be re-examined, as concerns caused by Home Capital's problems could affect CWB's sources of finance. Over the last year, CWB's personal loan and mortgage book grew 17%, to $4.2 billion (19% of its loan book).

For the first quarter ending Feb. 28, CWB earned $94.9 million, up 12% on slightly lower net interest margins of 2.47%. However, earnings per share were down 8%, to $0.61, a result of a $150 million share issue used to fund its acquisitions. While provision for credit losses rose in the first quarter to 0.27% from a five-year average of 0.23%, this only puts it in line with the Big Six banks' average of 0.29% even with the much greater impact for CWB of the slowdown in Alberta's resource-based economy. Its cost ratio (costs as percentage of revenues) remains well below the Big Six, at 46%, compared with 55.5%. CWB's dividend increased by 35% between 2013 and 2017, behind only RBC (up 38%) and TD (up 48%), while it aims to return its payout ratio to around 30%, down from the elevated 43% ratio seen in 2015-16, which resulted from energy loan write-offs.

Action now: While CWB's share price tracked the increase in its book value per share ($23.77 at the end of the first quarter) and dividends until 2014, it has subsequently declined sharply as the price of crude oil fell 50%. With its sound balance sheet (A-rated by DBRS), low costs, cheap valuation (a price/book ratio of 1.1), conservative management, and geographical diversification, CWB remains a Buy, having sold off by 14% year-to-date on the fallout from Home Capital.

GORDON PAPE'S UPDATES

Chartwell Retirement Residences REIT (TSX: CSH.UN, OTC: CWSRF)

Type: Real estate investment trust
Trading symbol: CSH.UN, CWSRF
Exchange: TSX, Grey Market
Current price: C$16.03, US$11.72
Originally recommended: Jan. 15/16 at C$12.34, US$9.20
Annual payout: $0.576
Yield: 3.6%
Risk: Conservative
Recommended by: Gordon Pape
Website: www.chartwell.com

Comments: Chartwell's first-quarter results came in slightly below expectations but the share price still moved up from our last review in April. Funds from operations (FFO), one of the key metrics used in assessing the performance of REITs, came in at $42.1 million ($0.22 per unit, fully diluted). In dollar terms that was up from $40.3 million a year ago but the per unit basis was unchanged at $0.22 due to an increase in the number of shares outstanding.

Management said the tepid results were due to increased general and administrative expenses, which were up $2.2 million compared to the same period of 2016, primarily due to higher staffing costs.

"These investments were primarily required to support communities acquired in 2015 and 2016 as well as development activities," the statement said.

Same property net operating income increased to $63.2 million from $61 million last year even though same property occupancy dropped half a point to 93%.

The units pay a monthly distribution of $0.048 ($0.576 per year) to yield 3.6% at the current price. The payment was increased by 2.6% effective with the April distribution. Chartwell is the largest owner of senior's residences in the country.

Action now: Buy.