



Economics

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TSX Q1 Earnings Expected to Post Strongest Advance in Seven Years

by Peter Buchanan

The week of April 26th through 30th is the first busy one of the Q1 reporting cycle for TSX-listed companies, with 16 members of the "Sixty" and 22 other Composite components due to be heard from. "Bottom-up" expectations currently are for an impressive 45% year on year rise in Composite earnings in Q1, based on our tabulation of firm-level, analysts' estimates. That would represent the largest year-on-year increase since the first quarter of 2003, modestly surpassing the 39% increase reported in Q4, which marked the end of the 4-quarter long earnings recession (Chart 1). It compares with the rise of just under 40% expected for the S&P 500.

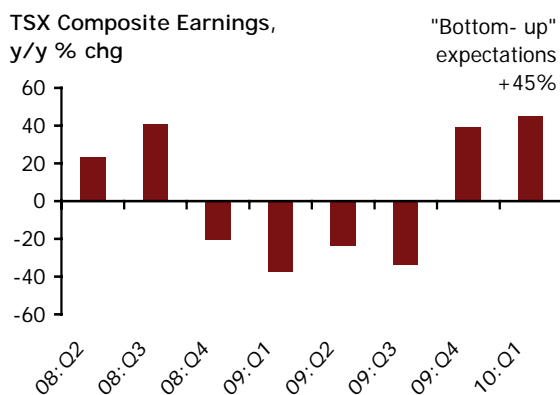
The first quarter of 2009 was the low point of the TSX earnings cycle, as prices for oil and a number of other resources troughed, and loan losses and writedowns hurt the

financials. As in Q4, the upcoming reports should consequently benefit not only from sturdier domestic economic growth, but fairly easy year-on-year comps.

Along with the financials group, the materials sector (dominated by metal mining and chemicals) contributed pivotally to earnings momentum in Q4. Those two sectors are expected to be key drivers in Q1 as well, accounting for approximately three quarters of the year-on-year rise in total earnings (in dollar terms). That compares with their 52% share of index earnings and just over 50% slice of market cap.

In percentage terms, earnings are expected to be up in nine of 10 GICS sectors, led by the materials, utilities and financial segments (Table 1). In year-to-year earnings growth, the TSX is expected to outpace the S&P 500

Chart 1



Source: CIBC, Thomson Reuters

Table 1

Historical & Expected Earnings Growth

yr/yr % change	TSX Composite		S&P 500
	2009:Q4	2010:Q1	2010:Q1
Energy	-14.8	-0.3	49
Materials	NM	104.8	175
Industrials	-0.1	32.9	5
Consumer Discretionary	-26.9	69.5	121
Consumer Staples	9.7	33.3	9
Health Care	38.5	9.4	3
Financials	101.1	76.6	211
Info Tech	24.6	37.7	53
Telecom Svcs	6.4	1.9	0
Utilities	57.1	170.2	-4
TSX Composite	39.0	44.9	39

NM=not meaningful, -ve yr ago

Note: Feb, Mar or Apr quarter end

Source: Thomson Reuters, CIBC

<http://research.cibcwm.com/res/Eco/EcoResearch.html>

in six of ten sectors, with industrials and utilities showing the greatest relative outperformance.

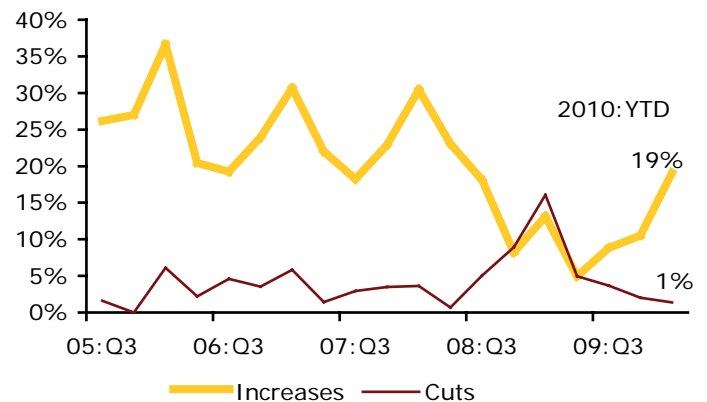
On a sequential basis, the analysts' consensus implies little change in index-adjusted earnings from Q4's level. That, and a more or less equal number of upward and downward revisions, suggest expectations may be somewhat conservative, implying that the actual results could come in higher. That could help valuations, mirroring patterns south of the border.

Q4 revenues are expected to lag earnings growth, rising by about 10% from year-earlier levels. That pattern is not unusual, however, for the early stages of a recovery. The resource-dominated materials (+35% yr/yr), info tech (+18% yr/yr) and utilities sectors (+16% yr/yr) are expected to lead in sales momentum.

After cutting back in many cases in 2009, firms are responding to better earnings prospects by increasing dividends and share buybacks. So far this year, 19% of dividend announcements have involved hikes, up from 11% in Q4 (Chart 2).

Chart 2

Better Earnings Prospects Prompt Dividend Hikes



The high C\$ is likely to continue to pressure some companies, but is prospectively less of a hurdle for the TSX than the overall Canadian economy. Nearly half of the TSX's market cap is resources, roughly four times the resource sector's GDP weight. Just 6-7% of market cap in contrast is in non-resource manufacturing, which is most burdened by the currency.

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