5i Research

- Integrity
- Independence
- Insight
- Individually-focused
- Investments

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5i Report Card

Metric	Value	Grade
Industry	Consumer Disc.	
Expected 1 year Revenue Growth	24.3%	A
5 Yr. Revenue Growth	32.4%	A+
5 Yr. EPS Growth	55.4%	A+
5 Yr. ROE	7.9%	B
Gross Margin	53.8%	A
Net Margin	6.1%	B
Current Ratio	0.43	C
Debt/Equity	1.61	C+
Insider Ownership	<1%	C+
Recessionary EPS (2008/2009)	0.4/0.44	A-
5 Yr Dividend Growth	6.5%	A-
Qualitative	De-risked, income + growth potential	B+
Rating -		B+

COMPANY REPORT / 5i OPINION

Enercare Inc.

- Acquisitions moving along smoothly
- Multiple levers for growth
- Attractive, sustainable dividend
- Just started tapping Service Expert potential?
- Rating maintained at 'B+'

MARCH 7, 2017

Traded as:	ECI (TSX)
Price:	C$19.20
Dividend:	4.84%
Debt:	High
Market Cap:	$2 Billion
Stability:	Medium

"B+"

Company Profile

Enercare Inc. (ECI) provides energy efficient products and intelligent energy solutions and services for consumers in select Canadian and US markets. It operates in 3 segments: Home Services (HS) owns a portfolio of water heaters and other assets which are primarily rented or sold to customers in Ontario and which they now fully service and support with a portfolio of protection plans. Sub-Metering (SM) provides sub-metering services for electricity, thermal, gas and water to condominiums and apartments in Canada and the US. SM also designs and manufactures advanced, utility-grade energy management meters for multi-unit residential, commercial and institutional applications. Energy Services (SE) provides sales, installation, maintenance and repair of HVAC systems directly to residential and light commercial customers in 29 US states and 3 provinces in Canada.

Revenue Mix

In 2016, HS provided 44% of revenue (72% of which was from rentals), SE at 41% (78% of which is from residential service) and SM amounted to 15%. HS contributed $245 million, or 82% to EBITDA for the year at a roughly 25% margin. SE contributed only 13% at a ~4% margin and SM ~4% of EBITDA at 1.4% margin. On its acquisition in May 2016, SE became a material business with respect to revenue, but HS is still carrying most of the reported net income contribution. SM revenue is growing the fastest at 6.5%.

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Growth Plans

Home Services continues to experience improved results through improved rental customer retention and increased average monthly rental rates, largely as a result of its emphasis on rentals over sales. HS is also adjusting the product mix more toward HVAC units, which tend to have three to five times the amount of revenue compared to water heaters. The Sub-metering segment is growing strongly as the number of contracted units is seeing strong growth. Billable units were also up which suggests the backlog has grown which bodes well for the future. Growth should also come from cross-selling in future. The growth strategy for ECI is concentrated on growing the HVAC segment with a focus on recurring revenues and cross selling between businesses. A stronger economy can arguably benefit ECI as homeowners are more comfortable in replacing old HVAC units that have been deferred in the past. Turning away from operations, ECI continues to have some room to grow through dividend increases (normalized payout ratio of 77%) and further acquisitions but given past purchases, we think the company will be more concerned with organic growth over the next year (notwithstanding smaller tuck-in acquisitions). ECI also has the ability to slowly increase the average rental rate, as exhibited by a 3.1% increase as of January 2017, which should help to support revenues.

Valuation

With no real peers to compare to, the shorter-term historical relative valuation proves to be much more useful with the changes the company has undergone over the last year or two. With that, we think the valuation trades in a reasonable range after considering a growing dividend in the 5% range that is becoming more sustainable over time, revenue growth expectations just under 25% and an acquisition that looks to be going smoothly. Add in growth potential from cost reductions, cross-selling and improved product mix and a growing base of recurring revenues, and we would view the shares as having further potential from here. Finally, we would view the dividend as offering some downside protection to the shares.

Recent Financial Results

The recent Q4 earnings release looked strong with the company beating estimates on both the top and bottom line and increasing the dividend by 4%. We note ECI has beat EPS expectations for the last three quarters. EPS came in at $0.17 and revenue was $293.2 million. Over 2016, revenues grew by 77%, EBITDA grew by 20%. Sub-metering grew by 50% and HVAC grew by 31%. Looking forward, the company continues to emphasize recurring revenues through rental plans over outright sales while trying to support offerings with mobile and digital enhancements. ECI is targeting cap-ex in the range of $167 million and $192 million in 2017.

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Key Risks

Some of the main risks relating to ECI's HS segment, include billing arrangements, customer credit and attrition, regulatory changes, competition, buyouts and returns and new home construction risks due to the economic environment. Risks relating to ECI's SM segment include capital expenditures and financial support in the early stages of development, changes to any electrical code regulations, and contract risk. The largest risk to SE would have been that of acquisition integration but we think recent results help to alleviate a lot of the concerns here.

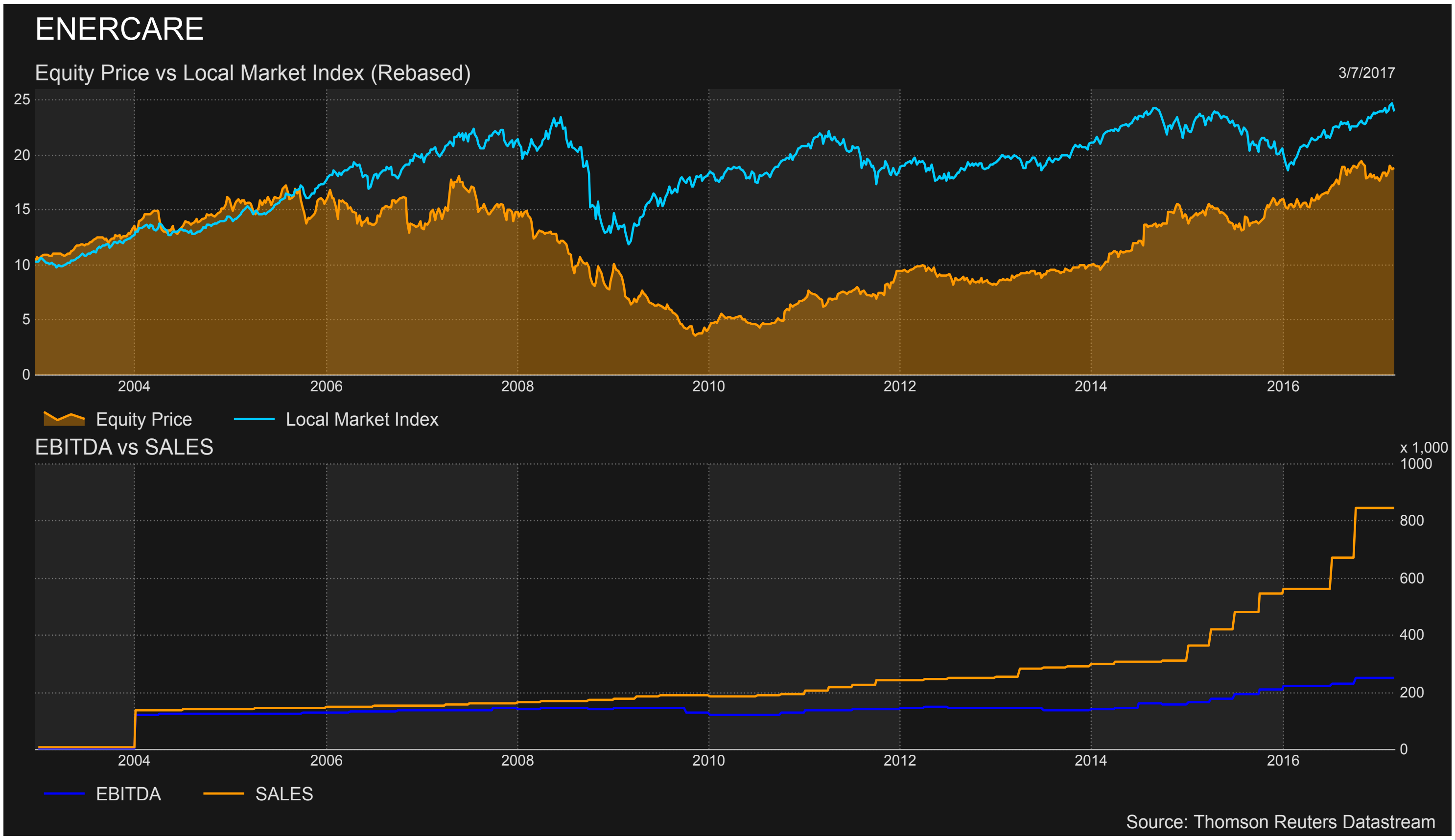
RECOMMENDATION:

- Good valuation on dividend alone
- Stability in volatile market
- Good for income with some growth

"B+"

SUMMARY AND INVESTMENT RECOMMENDATION

Having returned 37% since our last report and 102% since we began covering the company in January 2012 (not including dividends), we are happy with the returns from ECI. It is a great example of a company that has a long-term strategy and has taken calculated steps to deliver on this strategy. We believe the company offers a strong growth and income opportunity to investors and while the valuation may look expensive on some metrics, we think it looks quite reasonable after accounting for the growth and dividend relative to cash flows. We are maintaining the rating at 'B+'.



Peer Relative Valuation								
Ticker	Company Name	Fwd P/E	EV/EBITDA	FWD EV/EBITDA	P/B Ratio	Price to Sales Ratio	Fwd Price to Sales Ratio	Dividend Yield
ECI.TO	Enercare Inc	29.18	11.62	9.59	3.32	2.36	1.62	4.84%
Peers:								
EIF.TO	Exchange Income Corp	15.20	8.38	7.42	2.19	1.29	1.20	5.68%
FCR.TO	First Capital Realty Inc	23.20	23.11	20.91	1.17	7.27	6.86	4.26%
SPB.TO	Superior Plus Corp	21.07	11.09	8.17	1.93	0.89	0.75	5.73%
VNR.TO	Valener Inc	15.67	-	9.97	0.79	609.18	-	5.31%
Average		**18.79**	**14.19**	**11.62**	**1.52**	**154.66**	**2.94**	**5.24%**
Median		**18.37**	**11.09**	**9.07**	**1.55**	**4.28**	**1.20**	**5.49%**
Premium(Discount) based on Peers		**58.82%**	**4.74%**	**5.72%**	**113.80%**	**-44.83%**	**34.86%**	**-11.99%**

Historical Relative Valuation					
Ticker	Company Name	EV to EBITDA	P/B Ratio	Price to Sales Ratio	Dividend Yield
ECI.TO	Enercare Inc	11.62	3.32	2.36	4.84%
Current Vs 2 Yr Median		9.48	3.60	2.60	5.18%
Current Vs 5 Yr Median		8.07	4.88	2.28	5.26%
Premium (Discount) to 2 Year		**23%**	**-8%**	**-9%**	**-7.39%**
Premium (Discount) to 5 Year		**44%**	**-32%**	**3%**	**-8.13%**

Implied Price Based On Peers		
Peer Based Target Price	**$**	**21.13**
Implied Price Return		**10.0%**

*Please note, the price target is based on multiples of peers and does not reflect a price that 5i Research necessarily expects the stock to reach. Please do not view this as an outright buy or sell target.

5i Research Ratings:

Buy	**A+**	We expect very few A+ ratings. This would represent a near perfect stock. This is a great company in good or bad markets.
	A	A great company over long timeframes, with strong fundamentals and management. Near perfect, but missing one or two factors.
	A-	Similar to an 'A', with one or two small areas that could be improved. A great company, sensitive to external factors.
	B+	Fundamentally strong. Usually a great company in a bad sector. Good for the long-term, but some risks exist.
	B	Some fundamental issues, but still strong. Likely to face risks outside company control. A good company with less financial flexibility.
	B-	A company with higher risk or declining results. Likely to be volatile. Often a company in transition, for better or worse.
Hold	**C+**	A company we do not expect much growth from. It may pay a dividend that we would view as sustainable, in which case we would own for income, but this company needs to be watched closely.
Sell	**C / C-**	Typically, this is a bad company with deteriorating results. It may have some turnaround potential but generally this is a name to avoid.
	D+ / F	There are very few positives to this company. Use this company as a case study on what to avoid.

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