Canadian Market Summary by Warren Hastings and Sunny Singh

Scotiabank GBM Comment
Imperial Oil Limited
Ticker: IMO-CA
Price: $37.12
Rating: Sector Perform
Target: $44.00

Q4/17 Results - Modest CFPS Miss on Higher Opex; Production Beat, Lower Capex

- IMO announced Q4/17 results with CFPS coming in 3% below consensus ($1.11/sh vs $1.15/sh), while production came in 2% above consensus at 399 mboe/d (vs 393 mboe/d). Capex for Q4/17 was $216M, 27% below consensus of $294M. The CFPS miss was mainly due to higher operating costs: total production expenses of $1,460M were 9% higher than our estimate of $1,337M.
- ***Production.*** Kearl Q4/17 production came in at 176 mbbl/d gross, or 125 mbbl/d IMO's share, 4% below our estimate of 130 mbbl/d (net to IMO). Q4/17 Kearl production was affected by planned turnaround activity (~25 mbbl/d gross, 18 mbbl/d net). IMO expects Kearl production to be 200 mbbl/d gross in 2018 and reach 240 mbbl/d by 2020. The production increase will be made possible partially by a $400M (IMO's share) investment in supplemental crushing capacity and front-end flowline redundancy, which will improve reliability. This work is expected to be complete by year-end 2019. We currently estimate Kearl production of 134 mbbl/d in 2018, ramping up to 161 mbbl/d in 2021 (net to IMO), and operating costs of C$30/bbl dropping to ~C$26/bbl from 2018 to 2021 respectively. In Q4/17, Cold Lake production of 168 mbbl/d was within 1% of our estimate, while Syncrude volumes of 81 mbbl/d (IMO's share) were previously disclosed.
- ***Downstream.*** Downstream throughput was 391 mbbl/d, 1% higher than our estimate of 385 mbbl/d. Refinery utilizations were 92%, 1% higher than our estimate. Downstream utilizations were affected by planned maintenance and would have been 99% without the downtime. Downstream operating profit was $1,098M, 2% higher than our estimate of $1,076M.
- ***Capex.*** 2017 capex was $671M, and 2018 capex is expected to range between $1.5B and $1.7B. In 2018, we currently estimate $1.6B vs consensus of $1.76B.
- ***Returning value to shareholders.*** IMO declared dividends of $0.16/sh (unchanged from last quarter) or $134M, and also repurchased approximately 6.3M shares for $250M in Q4/17. In 2017, IMO returned $627M to shareholders through share repurchases and anticipates a further $250M of share repurchases in Q1/18.

SGBM Rating Changes
- **None to report**

Earnings
- **None to report**

Other News/ Rating Changes
- **None to report**

U.S. Market Summary by Paul Bhangu and Rakesh Gupta

Credit Suisse Comment
Wells Fargo & Company
Ticker: WFC-US
Price: US$64.07
Rating: Neutral
Target: US$65

First Thoughts on the Consent Order... One More/Last (?) Bump on the Long Road Forward

- On Friday night Wells Fargo announced that it had entered into a consent order with the Federal Reserve. We're not surprised that the Fed has taken formal action; what's new is the imposition of an asset cap limiting the bank's growth. Importantly, (i) this consent order is not related to any new issues, and (ii) the remediation required pales in comparison to efforts undertaken over the last 12 months. Risks are twofold: (i) the mandated remediation and timeline indicate potential for relatively quick resolution; still the Fed can delay relief for any number of reasons, and (ii) headline/reputational risk/lack of balance sheet flexibility could impair growth prospects beyond the direct impact of the asset cap. Our estimates were conservative to begin with; we're reducing our 2018 estimate modestly, to $4.70 per share from $4.75; 2019 is unchanged at $5.35 with an assumption that the consent order is largely satisfied and the asset cap is lifted within the next 12 months. Our $65 target price is unchanged; this is a setback, it ought to prove manageable. In the best case scenario, this marks the beginning of the end of the bank's sales practice related issues; we'll revisit our recommendation to the degree that a measure of the downside risk is captured in the share price.
- Financial impact should prove manageable: (i) expense guidance is unchanged—the $53.5-$54.5bn in 2018 noninterest expense guidance already contemplated increased risk management spend; the $4bn expense save target is unchanged; (ii) the incremental cost of balance sheet management to satisfy the asset cap, with some cushion, is estimated at $300-400mn or $0.06-0.08 per share; we've expressed that in our estimates via reductions in cash and securities balances, with less impact on core loan growth; (iii) there is no capital order and thus no impact on capital return expectations.

Credit Suisse Comment
Square, Inc.
Ticker: SQ-US
Price: US$43.61
Rating: Neutral
Target: US$37

Squaring up the International Growth Opportunity

- Positive on long-term opportunity in int'l: As SQ's int'l portfolio expands and with recent news that "PIN-on-glass" (entering your credit card PIN directly into a mobile device) is now compliant with card network rules, we provide (as best we can) an international volume and revenue model. While we believe SQ is merely laying the groundwork for int'l growth at this stage, we are positive on the long term opportunity, and note SQ could find itself favorably positioned for the eventual adoption of integrated point-of-sale in int'l markets.
- Int'l could be 13% of volume by 2024 with positive spread impact: We forecast total payment volume of $224b by 2024 - a 19% CAGR from 2017. We estimate int'l volume currently amounts to about 5% growing to 13% by 2024 ($28b) - a 35% CAGR. We estimate int'l net revenue (revenue less transaction fees) currently amounts to 4% of the total, growing to 13% by 2024. While lower int'l take rates could have a negative impact on gross take rates, lower processing fees in most countries could positively impact net revenue take rate, helping offset our expectation for gradual net take rate declines in the U.S. from gradual price erosion and customer mix.
- Expect slower int'l growth relative to U.S.: We see several reasons why it may take longer for SQ to grow int'l market-share relative to how it grew in the U.S. These include: 1) more competition for mobile payments acceptance whereas SQ enjoyed first-mover advantage in the U.S.; 2) Customer/merchant resistance to mobile-PIN - at least in the early years as this has only just become Payment Card Industry (PCI) compliant; and 3) more penetrated markets relative to when SQ entered the U.S. Offsetting these

headwinds is the fact that SQ is a larger and more sophisticated operation than it was nine years ago. We believe strong brand recognition, scale, and an ability to identify opportunities and execute on strategy should improve its competitive positioning in new markets.

Rating Changes

- **Wells Fargo & Co (WFC)** – Cut to Neutral from Buy at Citi
- **Wells Fargo & Co (WFC)** – Cut to Underperform from Outperform at RBC Capital Markets
- **Wells Fargo & Co (WFC)** – Cut to Underweight from Neutral at JPMorgan Chase & Co.
- **Wells Fargo & Co (WFC)** – Cut to Market Perform from Outperform at Keefe, Bruyette & Woods
- **Wells Fargo & Co (WFC)** – Cut to Underweight from Overweight at Morgan Stanley
- **Amgen Inc. (AMGN)** – Cut to Neutral from Overweight at Atlantic Equities LLP
- **Lowe's Cos Inc. (LOW)** – Raised to Buy from Hold at Jefferies

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