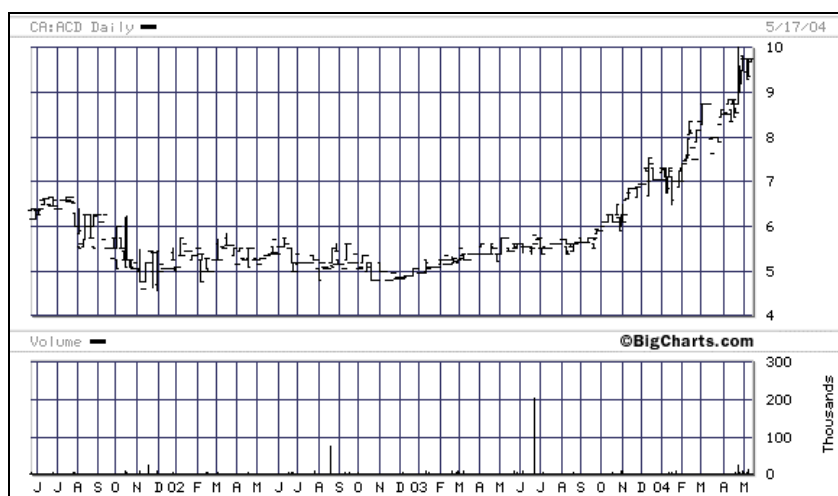


**Recommendation: Buy**  
**Target Price: \$11.15**

**Accord Financial Corp. (ACD-TSX)**  
*Icing on the Cake and Eating it Too*

Current Price	\$9.75	Basic Sh. (O/S)	9.7 MM
52 Wk High	\$9.75	FD (O/S)	9.9 MM
52 Wk Low	\$4.83	Mngt. & Dir.	5.8 MM
Long-term Debt	\$36.0 MM	Market Cap.	\$94.6 MM
		Float	\$26.0 MM

YE Dec. 31	2001A	2002A	2003A	2004E	2005E
ROAE	7.1%	10.4%	12.9%	17.3%	20.8%
EPS – FD	--	--	--	\$0.71	\$0.83
P/E – FD	--	--	--	13.7x	11.7x
BVPS	\$4.48	\$4.80	\$4.64	\$3.74	\$4.40
P/Book	--	--	--	2.6x	2.2x



Source: BigCharts, May 17/04

**Take note of Accord's special dividend** – Accord Financial recently announced that it would pay a special dividend of \$1.50 to shareholders of record as of June 15, 2004. While the stock has moved in anticipation of the dividend, there is still good upside from current levels, as we believe a reasonable twelve-month target price for the stock is \$9.65 on an ex-dividend basis. Thus, combining the special dividend and 12 month ex-dividend target price, we get a twelve-month – cum dividend target price for Accord of \$11.15. That's 14% upside from current levels with much of that upside payable within the next month. While Accord is not the most liquid of names, the current jittery market may make accumulation a little bit easier. Buy if you can.

**Rationale behind the special dividend** – Long-term investors in Accord Financial will recall that the Company achieved a return on average equity (ROAE) in the 20% range for much of the 1990's. Subsequently, the economic slowdown of 2000-2003 combined with a lawsuit resulted in a financial performance that was far more pedestrian than what the Company earned in the last decade. However, with both the lawsuit and weak economic conditions now behind it, the Company is set to enjoy near record profits in 2004 but not necessarily record ROAE. This is because equity has been building up in the Company for many years and management has yet to find a suitable acquisition. As such, Accord management has decided to pay out what it considers to be excess capital (roughly \$14MM) by way of a special dividend.

**The lessons of the TSX Group have not gone unnoticed** - Economic theory suggests that, in an efficient market when a company pays a dividend, its share price should immediately react by precisely the amount of the dividend. This is what happened when the TSX Group recently paid its special dividend. However, if the capital that was paid out was earning paltry returns and thus contributing marginally to earnings, then the impact of the special dividend on earnings estimates is also quite negligible. Assuming the stock returns to its previous earnings multiple, investors are now in the enviable position of having a nice dividend and their stock back at its cum-dividend price. Once again, this is precisely what happened with the TSX Group and what we expect will happen with Accord. Revising Accord's net earnings on the back of this special dividend reduces earnings by about 3% but given that the Company is on an upswing, they have a good chance of beating this revised estimate. As importantly, given weak equity markets, this might be the easiest way to make 15% (\$1.50 dividend divided by \$9.75 share price) over the next 30 days.

**Business is booming** – Besides the dividend, there is at least one other reason to own Accord and that is its improving fundamentals. Accord's US business has been recovering slowly over the past two years and 2004 should represent the first strong year for Accord – USA since 2000. Montreal based Montcap is also performing well, following on the heels of a very strong showing in 2003. The Company has also been nurturing

several small businesses (Factors Canada being the key one) and while these businesses represent around 10% of revenue, they are expected to grow by 35-50% in 2004. All in, we believe that Accord has a good chance of exceeding the record level of profitability achieved in 2000 (\$7.4MM), which would equate to EPS of \$0.73 in 2004.

I, JP Donville, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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<b>Market Perform</b>	expected to perform with its peer group
<b>Reduce</b>	expected to underperform its peer group

Our ratings may be followed by "(S)" which denotes that the investment is *speculative* and has a higher degree of risk associated with it.

Additionally, our target prices are set based on a 12-month investment horizon.

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