

Accord Financial Corp.

(ACD - \$6.75, TSX)

Recommendation: BUY

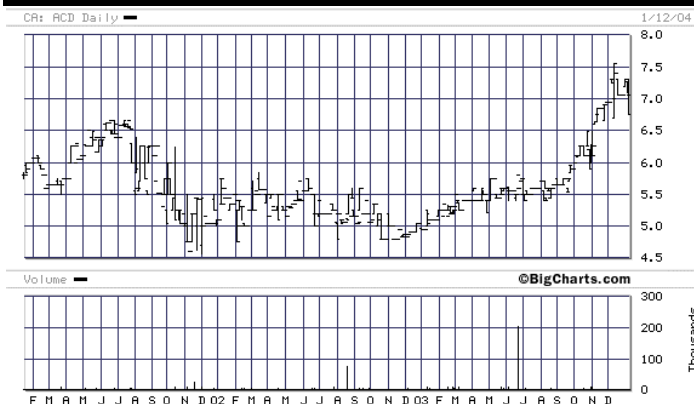
Target Price: \$9.20

Figure 1 **Estimates**

YE Dec. 31	2001A	2002A	2003E	2004E	2005E
EPS – FD	\$0.30	\$0.49	\$0.64	\$0.77	\$0.96
P/E – FD	--	--	10.5x	8.8x	7.0x
BVPS	\$4.48	\$4.80	\$4.60	\$5.19	\$5.96
P/Book	--	--	1.5x	1.3x	1.1x
ROAE	7.1%	10.4%	13.6%	15.8%	17.2%

Source: Company reports, Sprott Securities estimates

Figure 2 **Price Chart**



Source: BigCharts (January 12/04)

Figure 3 **Statistics**

Stock Symbol	ACD, TSX
Target Price	\$9.20
Shares Outstanding:	
Basic	9.6 MM
Fully Diluted	9.6 MM
Management	6.6 MM
Market Capitalization	\$64.8 MM
Market Float	\$11.3 MM
Long-term Debt	\$14.3 MM
Average Daily Trading Volume	101,978
High-Low (52 Week)	\$7.55 - \$5.00

Source: Company reports, Sprott Securities estimates

What Does Accord Do?

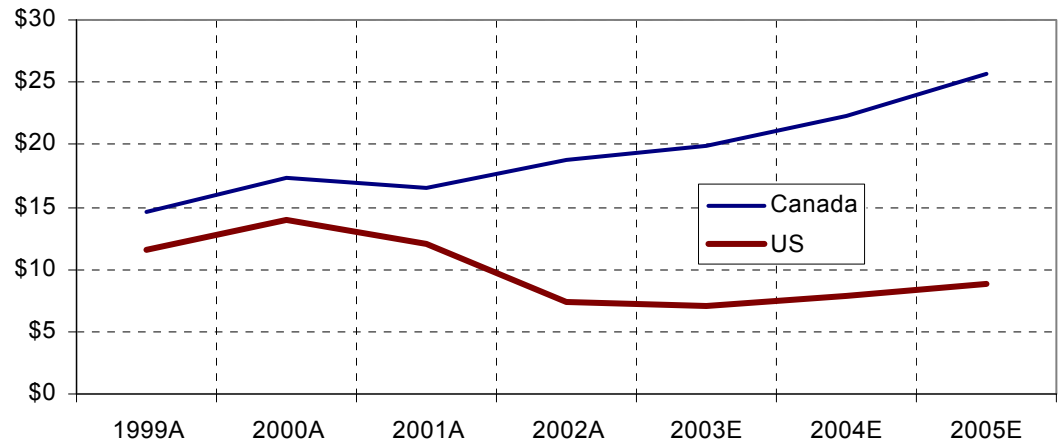
Accord Financial is one of the more interesting niche financial services companies in Canada. Accord's main business is factoring, the purchasing of company's receivables. Accord Financial is a holding company for three closely related businesses, and when all three businesses are performing well, the company has the ability to earn an ROAE in excess of 20%, which it has done in eight of the last 15 years.

Accord operates two businesses in Canada, Accord Business Credit and Montcap. Accord Business Credit is based in Toronto and is engaged in a variety of non-recourse factoring services, including credit protection, record keeping, collections and optional financing to companies based in Canada. Montcap Financial Corp, which is based in Montreal, is engaged in recourse financing to small and medium-sized Canadian businesses by purchasing invoices at a discount. Accord Financial, Inc (formerly JTA Factors) is based in Greenville, South Carolina and finances small and medium-sized businesses throughout the USA by purchasing its clients' receivables and therefore providing them with immediate cash for working capital needs.

Key Issues for 2004

There are really two important themes for Accord in 2004, both of which have positive implications for investors. First, Accord's US business, which has faced a myriad of problems over the past 24 months, began to turn around in 2003 and is poised for an extremely strong year in 2004. This turnaround is being driven by personnel changes, the addition of several new client relationships in the second half of 2003 which will only begin to contribute meaningfully in 2004, and better economic conditions in the US.

The other potential story for Accord in 2004 is its capital structure. Management believes that the Company is overcapitalized and in 2004 this issue will almost certainly be addressed.

Figure 4**US Versus Canadian Revenue (\$MM) - 1999A - 2005E**

Source: Company reports

Ideally, management will likely use its excess capital to acquire another company or issue a special dividend. As for the rumours that the Company is contemplating converting to an income trust, management (which is the controlling shareholder) persistently denies this likelihood. Nonetheless, if Accord was to convert to an income trust, the Company could probably distribute in excess of \$1.25 on an annual basis, which in today's market could drive the valuation of the stock to the \$14.00 level.

Key Risks

The biggest risk for investors in Accord is illiquidity. Further, Accord is a factoring company, which means that it lends money against accounts receivable at times on a non-recourse basis. Bad debt losses are a given in this business and while they have never been large enough to push the Company into a loss-making position, this possibility always exists.

Valuation

Accord is a well-managed Company with an excellent long-term track record but it is probably too illiquid for most institutional investors. That being said, Accord's valuation makes it return to the top of many investors' screens, a point that is emphasized in the peer valuations presented in figure 5. Accord's valuation is further emphasized in our EEVA analysis, which shows that the Company is undervalued and suggests a fair value of \$9.20. Given the stock's illiquidity, it might not quite reach this target price. However, given the stock's inclusion in the Nesbitt Burns small cap index and the likelihood that something "interesting" will happen to its capital structure in 2004, we expect the stock to perform.

Figure 5 Comparative Valuations Among Canada's Key Lenders

Bank	Price	Mkt Cap (\$MM)	EPS			BVPS			P/E			P/Book			ROAE
			2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005	
RBC	\$61.70	40,850	\$4.44	\$5.11	\$5.61	\$26.74	\$30.13	\$34.02	13.9x	12.1x	11.0x	2.3x	2.0x	1.8x	18.0%
BNS	\$65.13	32,877	\$4.66	\$5.40	\$5.98	\$27.34	\$31.06	\$35.36	14.0x	12.1x	10.9x	2.4x	2.1x	1.8x	18.5%
TD	\$43.05	28,252	\$1.52	\$3.39	\$3.75	\$17.64	\$19.87	\$22.46	28.3x	12.7x	11.5x	2.4x	2.2x	1.9x	18.1%
BMO	\$54.68	27,280	\$3.46	\$4.00	\$4.52	\$22.09	\$24.76	\$27.93	15.8x	13.7x	12.1x	2.5x	2.2x	2.0x	17.1%
CIBC	\$65.11	23,443	\$4.15	\$4.98	\$5.70	\$28.78	\$32.12	\$36.18	15.7x	13.1x	11.4x	2.3x	2.0x	1.8x	16.4%
National	\$42.70	7,455	\$3.37	\$3.62	\$3.62	\$21.32	\$23.86	\$26.82	12.7x	11.8x	11.8x	2.0x	1.8x	1.6x	16.0%
Laurentian	\$28.10	659	\$1.76	\$1.44	\$2.26	\$28.73	\$29.05	\$30.17	16.0x	19.5x	12.4x	1.0x	1.0x	0.9x	5.0%
Home Cap	\$36.30	606	\$1.71	\$2.30	\$3.00	\$7.23	\$9.36	\$12.12	21.2x	15.8x	12.1x	5.0x	3.9x	3.0x	27.7%
CWB	\$39.55	514	\$2.79	\$3.39	\$4.13	\$24.32	\$27.50	\$31.42	14.2x	11.7x	9.6x	1.6x	1.4x	1.3x	13.1%
B2B Trust	\$8.00	194	\$0.58	\$0.53	\$0.64	\$7.71	\$8.18	\$8.74	13.8x	15.1x	12.5x	1.0x	1.0x	0.9x	6.7%
VFC	\$10.40	151	\$0.60	\$0.70	\$0.96	\$4.13	\$4.90	\$5.95	17.3x	14.9x	10.8x	2.5x	2.1x	1.7x	15.5%
Accord	\$6.75	64	\$0.65	\$0.77	\$0.95	\$4.60	\$5.19	\$5.96	10.4x	8.8x	7.1x	1.5x	1.3x	1.1x	15.7%
Sector Average									16.1x	13.4x	11.1x	2.2x	1.9x	1.7x	15.6%

Source: Bloomberg, Sprott Securities estimates

Figure 6 Accord Financial Key Assumptions and Multiples**Key Assumptions**

Cost Of Equity	8.5%
Shareholders' Equity Today	43.9
NPV Of EEVA	34.3
Value Of Company	78.2
Shares In Issue	9.6
Value Per Share Today	\$8.14
Value Per Share - 12 Month Forward	\$9.17

Implied Fair Value Multiple

P/Book	1.8x
P/E	10.6x

Source: Sprott Securities estimates

Figure 7 Accord Financial EEVA Valuation

Year	Net Profit	Equity	Div	ROAE	K(e)	Payout Ratio	EEVA	PV Factor	PV EEVA
1	7.4	43.9	-1.8	15.8%	8.5%	25.0%	3.9	0.9	3.6
2	8.0	49.4	-2.0	15.3%	8.5%	25.0%	4.1	0.8	3.5
3	8.7	55.5	-2.2	14.9%	8.5%	25.0%	4.2	0.8	3.3
4	9.4	62.0	-2.4	14.4%	8.5%	25.0%	4.4	0.7	3.2
5	10.1	69.1	-2.5	13.9%	8.5%	25.0%	4.5	0.7	3.0
6	10.8	76.7	-2.7	13.4%	8.5%	25.0%	4.5	0.6	2.8
7	11.5	84.8	-2.9	12.9%	8.5%	25.0%	4.5	0.6	2.6
8	12.2	93.4	-3.0	12.4%	8.5%	25.0%	4.5	0.5	2.3
9	12.8	102.6	-3.2	12.0%	8.5%	25.0%	4.3	0.5	2.1
10	13.4	112.2	-3.4	11.5%	8.5%	25.0%	4.1	0.4	1.8
11	14.0	122.3	-3.5	11.0%	8.5%	25.0%	3.8	0.4	1.5
12	14.5	132.8	-3.6	10.5%	8.5%	25.0%	3.3	0.4	1.3
13	14.9	143.7	-3.7	10.0%	8.5%	25.0%	2.8	0.3	1.0
14	15.2	154.9	-3.8	9.5%	8.5%	25.0%	2.2	0.3	0.7
15	15.5	166.3	-3.9	9.0%	8.5%	25.0%	1.4	0.3	0.4
Terminal	16.0	177.9	-4.0	9%	8.5%	25.0%	0.4	0.3	1.3

Source: Sprott Securities estimates

Figure 8 Accord Financial Corp. - Canadian GAAP Income Statement

Fiscal YE December 31 (\$000s)	2003E								
	2001A	2002A	Q1A	Q2A	Q3E	Q4E	2003E	2004E	2005E
Total Revenue	\$28,197	\$26,200	\$6,197	\$6,280	\$6,577	\$7,700	\$26,754	\$29,990	\$34,284
Expenses									
Interest	1,570	661	146	174	196	196	713	1,026	1,147
General & Administrative	14,421	13,989	3,993	3,320	3,452	3,600	14,365	15,514	16,755
Credit & Loan Losses	6,754	2,322	222	399	450	300	1,371	1,146	1,261
Amortization	828	400	89	88	88	88	352	370	389
Provision for Lawsuit	-	1,400	-	712	-	-	712	-	-
Total Expenses	23,573	18,772	4,450	4,693	4,186	4,184	17,513	18,056	19,552
EBIT	4,624	7,428	1,747	1,587	2,391	3,516	9,241	11,934	14,731
Income Taxes	1,705	2,823	618	468	852	1,231	3,169	4,535	5,598
Net Earnings	\$2,919	\$4,605	\$1,129	\$1,119	\$1,539	\$2,285	\$6,072	\$7,399	\$9,133
Shares Outstanding									
Basic	9,503	9,513	9,550	9,550	9,550	9,550	9,550	9,550	9,550
Fully Diluted	9,598	9,567	9,630	9,630	9,630	9,630	9,630	9,630	9,630
Earnings Per Share									
Basic	\$0.31	\$0.49	\$0.12	\$0.12	\$0.16	\$0.24	\$0.64	\$0.77	\$0.96
Fully Diluted	\$0.30	\$0.49	\$0.12	\$0.12	\$0.16	\$0.24	\$0.63	\$0.77	\$0.95
MARGIN ANALYSIS									
PCL's / Average Loans	4.1%	1.3%	0.4%	0.7%	0.7%	0.5%	0.7%	0.6%	0.6%
Efficiency Ratio (EBIT/REV)	16.4%	28.4%	28.2%	25.3%	36.4%	45.7%	34.5%	39.8%	43.0%
Leverage	1.8x	1.6x	1.5x	1.5x	1.6x	1.6x	1.6x	1.6x	1.5x
Book Value per Share	\$4.48	\$4.80	\$4.63	\$4.47	\$4.54	\$4.60	\$4.60	\$5.19	\$5.96

Source: Company reports, Sprott Securities estimates