



October 15, 2004

FINANCIAL SERVICES SECTOR

ROE Revisited

Identifying and owning high ROE stocks in the financial services sector remains the secret to out performance.

ROE and the Canadian Financial Services Sector: 1 - 24

ROE remains the Holy Grail of equity investors.

Accord Financial Corp.: 25 - 28

Factoring in profits.

Canaccord Capital Inc.: 29 - 34

High beta play.

Canadian Western Bank: 35 - 39

No longer cheap.

Equitable Group Inc.: 40 - 45

Emerging blue chip.

GMP Capital Corp.: 46 - 50

Best of breed.

Home Capital Group Inc.: 51 - 56

Home run.

Kingsway Financial Services Inc.: 57 - 61

Risk versus reward.

Laurentian Bank of Canada: 62 - 66

Pray to St. Jude.

Northbridge Financial Corporation: 67 - 71

Well managed.

SEAMARK Asset Management Ltd.: 72 - 75

Terrific value creation.

TSX Group Inc.: 76 - 80

Never sell this stock.

VFC Inc.: 81 - 85

Gearing up.

Xceed Mortgage Corp: 86 - 91

Priced to Xceed.

Disclosure statements located at the back and inside back cover

Accord Financial Corp.

(ACD - \$8.50, TSX)

Recommendation: BUY

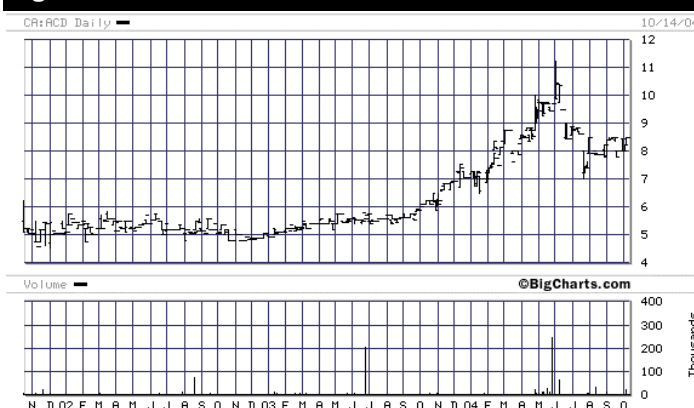
Target Price: \$10.00

Figure 1 **Estimates**

YE Dec. 31	2002A	2003A	2004E	2005E	2006E
EPS - FD	\$0.49	\$0.61	\$0.75	\$0.88	\$1.10
P/E - FD	--	--	11.3x	9.7x	7.7x
BVPS	\$4.80	\$4.64	\$3.89	\$4.62	\$5.57
P/Book	--	--	2.2x	1.8x	1.5x
ROAE	10.4%	12.9%	18.3%	21.4%	22.1%

Source: Company reports, Sprott Securities estimates

Figure 2 **Price Chart**



Source: BigCharts (October 14/04)

Figure 3 **Statistics**

Stock Symbol	ACD, TSX
Shares Outstanding:	
Basic	9.8 MM
Fully Diluted	10.0 MM
Management	5.8 MM
Market Capitalization	\$83.3 MM
Market Float	\$34.0 MM
Long-term Debt	\$27.0 MM
Average Daily Trading Volume	2,885
High-Low (52 Week)	\$11.25 - \$5.90

Source: Company reports, Sprott Securities estimates

What Does Accord Do?

Accord Financial is a factoring company that enjoys one of the best long-term ROAE track records of any financial services company in Canada. Factoring is defined as the purchase of a company's receivables as opposed to a loan using the receivables as collateral. Accord operates three wholly owned subsidiary companies in Toronto, Montreal and the US and when all three businesses are performing well, the company has the ability to earn an ROAE in excess of 20% which we expect it will do in 2005.

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 business throughout the USA by purchasing its clients receivables and therefore providing its clients with immediate cash for working capital needs.

Quality of Management

We rate the quality of Accord management highly. Besides the Company's outstanding long-term ROAE track record, other highlights of the company include significant ownership by management (to the point where the stock is fairly illiquid) and a strong board that once again has a large financial interest in the Company. Ken Hitzig, founder of the Company and President and CEO, leads Accord Financial. Hitzig started the Company in the early 1970's and has built Accord into the leading independent factoring company in Canada. Hitzig is supported by Fred Moss, who runs Montcap Financial in Montreal, Tom Henderson who runs Accord's US business and Mark Perna who runs Accord Business Credit out of Toronto. Stuart Adair, who recently joined Accord, is the Chief Financial Officer.

Accord's Board, which is active in the business and approves all major financial commitments of the company, includes Austin Beutel (who is also the Chairman of the Equitable Group), Thomas Beck, Frank White, Ben Evans, John Lamont and Robert Beutel. Senior management and directors own in excess of 50% of Accord stock.

Return on Equity Track Record

Accord's long-term ROAE performance has been excellent although the Company does tend to experience sharply lower ROAE during economic downturns. However, the Company has been in recovery for the past three years and we expect 2004 earnings to come close to matching its previous record earnings level of \$7.4MM which occurred in 2000. In terms of ROAE, the Company should easily return to the 20% or better level in 2005 in part because of its recent decision (Q2/04) to pay out \$1.50 in excess capital in the form of a special dividend. This payout of excess cash from the balance sheet has allowed the Company to attain a more appropriate level of leverage. It should also be noted that Accord went public in 1992 through a reverse takeover and has never issued equity. The Company has never had a loss making year post start-up with its least profitable year in history being 2001 when its ROAE fell to the 7.1% level.

Figure 4

Accord Financial's ROAE Report Card

Fiscal YE December 31	2000A	2001A	2002A	2003A	2004E	2005E	2006E
ROAE	21.0%	7.1%	10.4%	12.9%	18.3%	21.4%	22.1%
Fin Svcs Industry ROAE	14.2%	12.1%	11.0%	13.6%	14.7%	NA	NA
ROAE Over / Under	6.8%	-5.0%	-0.6%	-0.7%	3.6%	NA	NA
ROAE Quartile	1	3	3	3	2	NA	NA
SGR	17.2%	3.9%	7.5%	9.1%	14.1%	17.2%	18.6%
Dividend per Share	\$0.14	\$0.14	\$0.14	\$0.18	\$0.18	\$0.18	\$0.18
Year-End Price	\$5.60	\$5.10	\$5.05	\$7.05	\$8.50	NA	NA
Dividend Yield	2.5%	2.7%	2.8%	2.6%	2.1%	2.1%	2.1%
TRP (SGR + Div Yield)	19.7%	6.6%	10.2%	11.7%	16.2%	19.3%	20.7%

Source: Company reports, Sprott Securities estimates

Industry Attractiveness and Competitive Position

The current environment for factoring companies in Canada is positive. Most asset-based lenders will not consider loans of less than \$3MM to \$5MM and this has created a substantial market opportunity for recourse factors such as Accord. Further adding to the attractiveness of the factoring market has been the reduced willingness of the Canadian Banks to lend and/or extend credit to small enterprises in the current economic environment, which has provided substantial growth opportunities for Montcap in particular.

There are four major companies in Canada that provide non-recourse factoring with the two largest being GMAC Commercial Credit Corp and Accord Business Credit, with a combined market share of 94%. Approximately 30 companies in Canada provide recourse factoring and Accord via Montcap holds approximately 24% market share. Accord and Montcap's key competitive advantages include stringent internal controls (which minimizes bad credit decisions) and its extensive base of contacts within the factoring industry.

Outlook

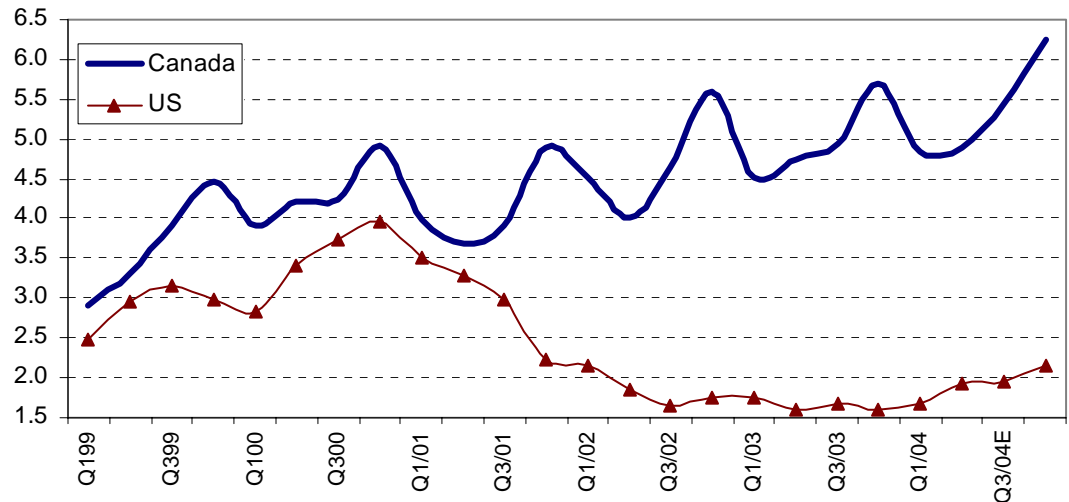
Accord Financial recently released its Q2/04 results that came in slightly better than we had expected. Overall, there were no major surprises in Q2/04 on the revenue front but Accord's costs (including credit losses) were even lower than we had expected. As a result, year over year earnings growth was up close to 50%.

Looking into 2H04, most of Accord's businesses are quite stable with Montreal based Montcap having been the star over the past 2-3 years. However, Accord's US operations, which have undergone a major restructuring over the past three years have finally begun to shine once again and we expect ongoing improvement in 2H/04. In Canada, the most

interesting development within the Company is “Liquid Capital”, which is a back-office outsourcing service for “one man factor shops”. While this business does not as yet represent 10% of Accord’s overall revenues, it is the fastest growing part of the Company and could begin to influence overall corporate results in a meaningful way in 2005. This business is operated out of Montreal and has an active list of 25 small or “micro” factors operating throughout Canada.

Figure 5

Accord Financial’s Canadian Revenue Versus US Revenue (C\$)



Source: Company reports, Sprott Securities estimates

Key Risks

The biggest risk for investors in Accord is illiquidity. Beyond illiquidity, 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. Accord’s US business, which represents roughly one quarter of its revenues and profits is US\$ based and thus the Company faces currency risk from a translation and repatriation perspective.

Valuation

Accord remains one of the best managed and reasonably priced financial services stocks in Canada. In our view much of this valuation discount stems from the low level of share liquidity in the stock. However, with its recent dividend now paid out, we expect that some long-term investors will begin to lighten up over time and that decent size blocks of the stock will become available from time to time. Given a more normal liquidity profile and an ROAE that should average close to the 20% level in 2004-2006, we believe the stock could trade higher than the valuation implied by our 12-month target price of \$10.00. We expect that Accord will deliver top quartile ROAE performance in 2005 and has a reasonable chance of attaining “franchise” status next year.

Figure 6 Comparative Valuations Among Canada's Key Lenders

Bank	Mkt Cap (\$MM)	P/E			P/Book			ROAE			Reten. 2005	SGR* 2005	SGR/PE 2005
		2004	2005	2006	2004	2005	2006	2004	2005	2006			
RBC	40,200	13.1x	11.7x	10.3x	2.1x	1.9x	1.7x	16.8%	16.8%	17.0%	65.0%	10.9%	0.9x
BNS	39,004	14.0x	12.7x	12.1x	2.6x	2.4x	2.1x	19.4%	19.7%	18.7%	65.0%	12.8%	1.0x
TD	31,062	12.8x	11.8x	10.9x	2.3x	2.1x	1.8x	19.5%	18.5%	17.7%	70.0%	13.0%	1.1x
BMO	29,327	13.4x	12.8x	12.0x	2.3x	2.1x	1.8x	18.4%	17.1%	16.1%	70.0%	12.0%	0.9x
CIBC	25,769	12.6x	11.7x	10.6x	2.2x	1.9x	1.7x	18.6%	17.4%	17.1%	70.0%	12.2%	1.0x
National	8,239	12.0x	11.2x	10.9x	1.9x	1.7x	1.5x	17.0%	16.2%	14.8%	70.0%	11.3%	1.0x
Home Cap	822	19.1x	14.7x	11.5x	5.1x	3.8x	2.9x	30.4%	29.7%	28.8%	90.0%	26.8%	1.8x
Laurentian	602	16.7x	16.1x	10.8x	0.9x	0.9x	0.8x	5.3%	5.5%	7.9%	50.0%	2.7%	0.2x
CWB	613	14.9x	12.6x	10.3x	1.7x	1.5x	1.3x	12.0%	12.7%	13.8%	85.0%	10.8%	0.9x
Equitable	208	14.6x	10.7x	8.5x	2.1x	1.8x	1.5x	15.5%	18.0%	19.5%	75.0%	13.5%	1.3x
Xceed	134	11.5x	10.0x	7.6x	1.9x	1.6x	1.3x	19.5%	17.4%	18.8%	100.0%	17.4%	1.7x
VFC	123	14.6x	9.5x	7.1x	1.8x	1.5x	1.2x	13.0%	16.7%	18.4%	100.0%	16.7%	1.7x
Accord	85	11.3x	9.7x	7.7x	2.2x	1.8x	1.5x	17.6%	20.7%	21.6%	75.0%	15.5%	1.6x
Sector Average		13.9x	11.9x	10.0x	2.2x	1.9x	1.6x	17.2%	17.4%	17.7%	75.8%	13.5%	1.2x

*Sustainable Growth Rate (SGR = ROAE x Earnings Retention Rate)

Source: Bloomberg, Sprott Securities estimates

Figure 7 Accord Financial Corp. - Canadian GAAP Income Statement

Fiscal YE December 31 (\$000s)	2000A	2001A	2002A	2003A	2004E	2005E	2006E
Total Revenue	\$31,031	\$28,197	\$26,200	\$26,214	\$28,883	\$32,378	\$36,292
Expenses							
Interest	2,516	1,570	661	772	1,473	1,565	1,176
General & Administrative	14,421	14,421	13,989	14,175	14,220	15,059	15,947
Credit & Loan Losses	1,329	6,754	2,322	1,231	1,255	1,678	1,812
Amortization	654	828	400	418	390	410	430
Provision for Lawsuit	-	-	1,400	712	-	-	-
Total Expenses	18,920	23,573	18,772	17,308	17,338	18,712	19,366
EBIT	12,111	4,624	7,428	8,905	11,545	13,666	16,927
Income Taxes	4,683	1,705	2,823	3,066	3,979	4,783	5,924
Net Earnings	\$7,427	\$2,919	\$4,605	\$5,839	\$7,566	\$8,883	\$11,002
Shares Outstanding							
Basic	9,437	9,470	9,511	9,557	9,700	9,750	9,750
Fully Diluted	-	9,598	9,567	9,609	10,037	10,037	10,037
Earnings Per Share							
Basic	\$0.79	\$0.31	\$0.49	\$0.61	\$0.78	\$0.91	\$1.13
Fully Diluted	\$0.76	\$0.30	\$0.49	\$0.61	\$0.75	\$0.88	\$1.10
MARGIN ANALYSIS							
Net Spread	8.2%	10.5%	9.8%	9.0%	8.8%	9.2%	10.0%
PCL's / Average Loans	1.9%	10.8%	3.6%	1.8%	1.8%	2.3%	2.4%
EBIT Margin	39.0%	16.4%	28.4%	34.0%	40.0%	42.2%	46.6%
Tax Rate	38.7%	36.9%	38.0%	34.4%	34.5%	35.0%	35.0%
Leverage	2.0x	1.8x	1.6x	1.6x	1.8x	1.8x	1.6x
Book Value per Share	\$4.15	\$4.48	\$4.80	\$4.64	\$3.89	\$4.62	\$5.57

Source: Company reports, Sprott Securities estimates

Disclosure

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