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Value Crunch Fuels IPO Plans for CI Wealth Management: ECM Watch

By Drew Singer / Bloomberg News / April 7, 2022

A plan by CI Financial Corp. to spin off its U.S. wealth-management represents the next phase of a pivot by management toward stabilization after a spree of acquisitions, according to an analyst who specializes in spinoffs.

Shares in the Canadian wealth management firm jumped the most in three weeks on Thursday after the company confirmed its intent to sell up to 20% of the unit through a U.S. initial public offering, with proceeds earmarked to repay debt. The soon-to-be-carved-out company will have $133 billion under management after acquiring more than 30 asset managers since 2020.

Lower organic growth and pressure on fees have been driving asset managers to reduce debt as the company moves forward with its plans to unlock value in the unit, said Jim Osman, chief executive officer at The Edge Consulting Group. "The low-cost, index-based products pressure seems to be increasing on everyone, including CI, and they look to stabilize the business by this move," he said in an interview.

The stabilization maneuver however, doesn't necessarily mean traders should embrace the shares. "Investors should be cautious about buying these types of IPO when the offering doesn't have a primary value creative focus," Osman said.

CI has declined nearly 40% since reaching a 52-week high in November, making it the worst performer in the five-member S&P/TSX Composite Asset Management & Custody Banks Index in the period.

The IPO plan should be a positive catalyst for CI, Scotiabank analyst Phil Hardie wrote in a note, because it will likely lead to a sum-of-the-parts approach to valuing the remaining company. Hardie has a sector perform rating on CI and a $27 price target, below the Wall Street average of $29.

In 2021, the priority shifted from M&A to a combination of M&A, strong organic growth and the integration of its operating platform, CI Chief Executive Officer Kurt MacAlpine said in an interview. "We had a U.S. business which was nonexistent in January 2020 that hit a couple of critical milestones as it relates to scale, organic growth rate, and profit margin. We felt it hit a place where it can stand on its own as an independent company."

MacAlpine added that he does not believe in fee pressure because people will pay for demonstrated value. Because the firm focuses on high net-worth clients, he said it is more insulated from fee pressure than other asset managers.

Investors in the spinoff will likely view Focus Financial Partners as the closest comparable for valuation purposes, said Hardie at Scotiabank. Down 29% this year, Focus trades at 10.5 times the bank's 2022 EV/Ebitda estimate with a historical average multiple of 12.9. The parent company trades at an estimated 5.7 times the bank's 2022 EV/Ebitda estimate after the recent selloff. MacAlpine said there is a disconnect between the value of the company and its share price because the unit that's being taken public is not sufficiently accounted for.

"We attribute the weakness to a dramatic shift in the operating environment and market conditions with CIX stock likely better positioned to outperform peers in a market rally with an industry tailwind and more prone in a downmarket or period of elevated volatility," the note said.

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