News Highlights

Energy Sector

Baytex Energy – Q2 cash flow per share and production broadly in line with the expectations, at $1.49 and 66k boed, respectively. Reported earnings fell short at $0.27/share versus expected $0.58/share, while reported funds from operations came in at $1.21/share versus expected $1.50/share. Revenues, at $476 million were higher than the expected $432 million. Netback, at $40.7/boe, was up 11% on quarter and 28% yoy. Recent North Dakota Bakken announced divestiture accounts for roughly 3% of production, company is to sell further assets to reach 5%-10% of production, as focused is shifting to newly acquired Eagle Ford, Texas, assets.
Canadian Oil Sands Ltd. – second-quarter profit fell by a one-fifth on lower production and higher government payments. The company, which has a 37% stake in the Syncrude project, said net income fell 20% to $176 million, or $0.36/share, from $219 million, or $0.45/share, in the second quarter of 2013. Its profit for the quarter was affected by higher royalties and lower output from the northern Alberta oil sands mining project. Sales volumes averaged 77,064 barrels per day, down 23% from 100,094 bpd in the year-prior quarter, because of an unplanned outage of a coker unit at the site and planned maintenance on a second coker. Operating costs were $418 million, up from $394 million in the year-earlier quarter, because of higher maintenance costs and increased natural gas prices. Canadian Oil Sands' cash flow, a measure of its ability to pay for new projects, fell 29% to $240 million, or $0.50/share, from $340 million, or $0.70/share.

Royal Dutch Shell reported 2Q adjusted net income of US$6.1bn vs consensus of US$5.46bn. The results are up significantly YoY (+33%). The 2Q dividend is US$0.47/sh, unchanged QoQ and up 4% YoY. Upstream adjusted net income was US$4.7bn, a 34% beat vs. year ago as Shell benefited from higher liquids volumes and prices, higher contributions from Deepwater Gulf of Mexico, Iraq and Integrated Gas and the A$/US$ FX benefit on a deferred tax liability. In Downstream, Shell reported adjusted net income of US$1.3bn (vs. consensus of US$1.2bn), +15% YoY. Oil Products performance (US$960m vs. US$830 in 2Q13) was very strong in spite of weak global refining margins as plant utilisation reached 94% (92% a year ago). For the half year Shell has delivered US$22.6bn in free cash flow vs. capex (net of disposals) of US$8.7bn. Shell has promised enhanced financial performance and these results give an early stage indication of the group's potential when all aspects of the operations are performing. If this progress is sustained the group expects to return US$30bn in dividends and buybacks over 2014-15. Dividend yield is 4.5%, in line with the sector.

Suncor Energy Inc - second-quarter profit fell 69% as it took a substantial charge to account for a delayed oil sands mining project. The company, Canada's dominant oil sands producer, reported net income of $211 million, or $0.14 per share, down from $680 million, or $0.45 per share, in the second quarter of 2013. The result included a $718 million non-cash charge to account for its share in the Joslyn Oil Sands Project, which was mothballed by partner Total SA earlier this year. It also wrote down the value of its Libyan assets by $297 million and booked a $223 charge for oil sands assets that no longer fit into the company's future plans while recording $314 million in gains. Adjusted earnings, which exclude most one-time items, rose 18% to $1.14 billion, or $0.77Canadian cents per share, from $934 million, or $0.62. Suncor said output from its northern Alberta operations rose 37% to 378,800 barrels per day due to less maintenance in the quarter and increasing production from its Firebag thermal oil sands operations. However, it said it has cut its capital spending budget by $1 billion, to $6.8 billion, as it plans lower-than-forecast spending on its oil sands projects and at its Libyan operations, due to political unrest in the North African country. In total, the company produced 518,400 barrels of oil equivalent per day, up from 500,100 boepd in the year-prior quarter. Cash flow, a key indicator of the company's ability to pay for new projects and drilling, rose to $2.41 billion, or $1.64 per share, from $2.25 billion, or $1.49.

Total's net adjusted profit fell to $3.15 billion. Russia accounted for about 9% of Total's oil and gas output in 2013. At the end of June, Total owned 18% of Novatek, which has seen one of its shareholders hit by U.S. sanctions. Total bought a 12% stake in Russia's second-largest natural gas producer for $4 billion in 2011 with an option to increase its holding to 19.4% within three years. In the second quarter of the year, Total's oil and gas production fell 10% compared to the same quarter a year ago, to 2.054 million barrels of oil equivalent per day (boepd). The main reasons were heavy maintenance, the deterioration of security in Libya and the loss of the ADCO concession in Abu Dhabi, which the emirate took over in January and is expected to re-award in 2015. De La Chevardiere said he would give an update on the group's long-term production targets - 2.6 million boe/d in 2015 and 3 million boe/d in 2017 - at an annual investor day conference in London in September. The group will also unveil a new cost-cutting plan in September. Total proposed a dividend of 0.61 euro per share for the second quarter. Revenue was up 2% to $62.56 billion.

Financial Sector

Bank of America said on Tuesday it does not expect to have to set aside more than another US$5bn to cover legal expenses, an estimate unchanged from earlier in the year despite a US$4bn addition to its legal reserves in the second quarter. The bank's estimate came in a filing with the SEC. Throughout the first half of 2014, Bank of America had set aside US$10bn to cover litigation-related expenses. (source: Reuters).

Barclays: Published 1st Half 2014 IFRS Profit before tax at £2,501m, c16% (£460m) below consensus £2,961m. However, included £900m additional Principal Protection Insurance impairment. Adjusted Profit Before Tax (excludes restructuring) was £3,843m, c10% (£338m) ahead of expectations. Key drivers were better Revenue (+£222m – including Investment Bank revenue flat on Q1) and better Impairments (+£171m – including write-backs in Investment Bank). Divisional performance look to include generally better divisions (particularly Investment Bank) but surprisingly greater loss in Non-core (Q2 -£320m v Q1 -130m). Non-core includes however good performance in run-off of Risk Weighted Assets down to £87.5bn (£80bn fy forecast). Core Equity Tier 1 ratio 9.9% slightly light against 10.1% forecast despite better Risk Weighted Assets, understandably due to increased Principal Protection Impairment impairment. Net Tangible Asset per share 279p v Q1 284p. Outlook continues to highlight 2014 as transitional year. Overall good underlying performance from divisions should be seen as positive tempered by NTA fall but which is still considerably higher than current share price, so stock is effectively currently priced at just 0.8x tangible NAV and <7x 2016 Estimated Core Earnings Per Share.

BNP: 2Q results: heavily impacted by the US sanctions fine but underlying result looks strong. Reported pre-tax €(3.6)bn vs cons €(3.7)bn, including €5.95bn sanctions charge. On a clean basis ex the fine and other one-offs (restructuring, CVA/FVA) its estimated a pre-tax profit of €2.9bn, a 25% beat vs consensus of €2.3bn. Partly this is down to a large positive swing in Corporate Centre plus signs of revenue momentum across many divisions with Retail Banking revs 3% ahead of consensus and Corporate Investment Banking revs 6% ahead. The Retail performance looks particularly encouraging in the face of continued weak volume trends (France –1.3% YoY, Italy -2.3%) and suggests margin improvement and the benefit of strong deposit inflow. Also, results were helped by lower cost of risk, with the group 2Q charge being 12% below consensus and, at 53bps, well below the 68bps reported for 1Q. Core Equity Tier 1 capital ratio is also a touch ahead at 10% (cons 9.9%) although in line with guidance.

Commerzbank - German financial markets regulator Bafin gives Commerzbank the worst grade out of 4 for its IT systems, including data security, Handelsblatt says, citing a Bafin report. The Probe is part of regular inquiries Bafin makes on routine basis, the newspaper says Separately, Handelsblatt also reports that Commerzbank is widening the scope of its savings programme to outsource parts of its finance department, which includes accounting. The move would affect several hundred jobs, the newspaper said on Monday, citing financial sources. Commerzbank, which is in the midst of a radical cost-cutting programme - its second in four years - last year announced plans to shed 5,200 of its 45,000 staff, pledging to cut management by 20%.

Franklin Resources: a roughly 3.3% Q3 EPS miss, which was driven by a shift in the funds mix towards lower fees institutional and fixed income business and some one-off costs. The company reported strong investment performance in its hybrids strategies, which attracted flows in the mandates, which, in turn, improved the overall inflows to positive territory for the quarter. Some $3 billion of new funds are expected on emerging and global debt mandates over the next two quarters. Exposure to Puerto Rico's muni bonds triggered some $400 million of outflows.

Invesco – Second-quarter profit jumped 35.5% as strong markets boosted assets under management. Net profit rose to $274.5 million, or $0.63/share, from $202.6 million, or $0.45/share, a year earlier. Excluding discontinued operations from the sale of its Atlantic Trust business and other one-time items, Atlanta-based Invesco earned $0.65 /share, ahead of the expected $0.59. Invesco ended the quarter in June with $802.4 billion in assets under management, up $15.1 billion from the end of March. Net long-term outflows at Invesco were $6.9 billion for the quarter, pressured by a single client withdrawal of $13.1 billion, after the company lost a contract to manage funds for wealth manager St. James's Place. Much of the money that left with St. James's Place is following Neil Woodford, a longtime Invesco British fund manager who departed in April.

Lloyds Bank: Published 1st Half 2014 IFRS Profit Before Tax at £863m, c52% (£920m) below consensus £1,783m. However, included £1,100m provision for additional legacy items including £600m additional Principal Protection Insurance. Adjusted Profit Before Tax (excl restructuring) was £3,819m, c7% (£238m) ahead of expectations. Key source of the beat was better Impairments (£758m v £964m forecast). Costs were a bit weak (+1% higher than expected) whereas margins were better (240bps v 235bps forecast; Q1 232bps) and management raised margin guidance for the year to 245bps (from around 240bps). Tangible book value fell to 49.4p, 3% below forecast and -3% on Q1. Fully loaded Core Equity Tier 1 capital ratio of 11.1% (31 Dec 2013: 10.3% pro forma); Fully loaded Basel III leverage ratio increased to 4.5% (31 Dec 2013: 3.8% pro forma). Loan to deposit ratio across the group improved to 109% (31 Dec 2013: 113%) with continued loan growth in key customer segments and deposit growth of 3% over last 12 months driven by relationship brands.

Royal Bank of Scotland: has been formally advised by Morgan Stanley to sell a majority stake in its Irish unit, Ulster Bank, Ireland's Sunday Business Post reported. RBS commissioned the investment bank earlier this year to advise it on potential merger opportunities for Ulster Bank. RBS said last week that attracting private equity firms to inject cash into its Irish arm was one of several options it was considering as part of a restructuring of Ulster Bank. RBS chief executive Ross McEwan told reporters that the bank was looking at the opportunities it had for Ulster Bank and would be in a position to discuss them "probably in the next two or three months." (Source:Reuters).

Canadian Dividend Payers

Barrick Gold: reported a Q2/14 headline loss of $0.23/share. After adjusting for unusual and one-time items (largely a $514 mln impairment charge related to a copper project) its estimated operating earnings of $0.14/sh – i.e. slightly lower than consensus of $0.15/sh. For Q2/14, production of 1.49 Million ounces at cash costs of $594/oz compared to estimates of 1.52 Moz at $603/oz, with production coming in lower across all regions except the Australia Pacific region, while costs were better across all regions. Copper production totaled 67 Mlbs at cash costs of $2.04/lb compared to estimates of 94 Mlbs at cash costs of $2.16/lb. The lower than expected costs were largely attributed to lower processing at Lumwana following the collapse of the main conveyor with the company confirming its repairs were completed ahead of schedule thereby bringing the mine back online weeks ahead of expectations.

Brookfield Property Partners LP It has been reported in the press they agreed to sell 125 Old Broad Street located in London, England, for £320 million (US$543 million) to Blackstone Group LP. It's understood the cap rate is approximately 5.0% and the sale of this property represented an opportunistic transaction. The proceeds will most likely be utilized to reduce leverage and fund Brookfield's significant development pipeline. 125 Old Broad Street consists of 26 floors totaling 328,300 square feet. It is the site of the former London Stock Exchange and was completely redeveloped in 2008. The building is 100% leased with major tenants including DTZ, King & Spalding and Gide Loyrette Nouel. Brookfield acquired 50% of the property in June 2013 as part of a portfolio of properties located in the United Kingdom from Hammerson plc. Brookfield subsequently purchased the remaining 50% stake that it did not own from a GE Real Estate -- Kennedy Wilson joint venture in Q4/13 for £143.8 million, implying a substantial profit in just half a year. The sale is likely to close in Q3/14.

Global Dividend Payers

Hutchison Whampoa/ Cheung Kong Infrastructure – posted a 13% rise in first-half underlying profit, beating analyst estimates, thanks to its growing European telecom and retail businesses. Excluding exceptional items and property valuations, underlying profit totalled HK$13.52 billion ($1.74 billion) in January-June compared with HK$12.01 billion a year earlier. That beat expectations for an underlying profit of HK$13 billion. Including profits from the disposal of investments and property revaluation, profit attributable to shareholders jumped 129% year-on-year to HK$28.44 billion, from HK$12.398 billion a year earlier. Hutchison recorded good growth in its European telecoms business, with a 3% gain in revenue and 23% increase in earnings before interest and taxation (EBIT) in 3 Group Europe. Hutchison saw revenue from its property and hotel division fall 33% in the first half to HK$7.46 billion as contributions from mainland projects declined, in line with a sector slowdown. Hutchison reported 9% revenue growth in its retail division in the first half. The division's health and beauty operations in China grew 14%. The conglomerate controls health and beauty retailer A.S. Watson, which operates more than 11,500 stores across 31 countries. Revenue from ports and related businesses grew 2%. Hutchison was also helped by Cheung Kong Infrastructure which reported half-year net profit of HK$24.12 billion. That was up 367% from a year earlier, thanks to increased profit contribution from Hong Kong-listed Power Assets Holdings Ltd.

Procter & Gamble – reported a better-than-expected quarterly profit as its cost cutting efforts paid off and organic sales rose in its home care business. The maker of Pampers diapers and Tide detergent said it expects organic sales and core earnings to rise for the full year started July. P&G said it would streamline its business and focus on about 70 to 80 "core" brands that are industry leaders and partner, discontinue, or divest the rest of its 90 to 100 brands. Total organic sales, which excludes the impact of divestitures and acquisitions, rose 2% in the quarter ended June 30, but currency headwinds more than offset much the gains. Total net sales fell 1%. A 7% fall in operating expenses helped P&G post core earnings of $0.95/share, which beat the average analyst estimate of $0.91/share.

Rentokil Initial – British services firm said it was looking to buy more businesses in Asia and Latin America, after reporting a 7.7% rise in half year operating profit. Chief Executive Andy Ransom, who took over the role in October last year, told Reuters that he planned to spend up to £80 million on acquisitions this year to boost its core businesses of pest control, hygiene and work wear. The company has undergone a major restructuring programme to improve its performance, disposing of its facilities management arm in February and its parcels delivery business last year. Rentokil, which operates in more than 60 countries, said operating profit in the first half of the year rose to £100.2 million pounds ($169 million) at constant currency rates. It also reported 55.5% rise in profit before tax, to £66.8 million, and raised its interim dividend by 10% to 0.77 pence.

Economic Conditions

Canada – Canadian economy advanced by 0.42% in May, ahead of the expected 0.30% monthly rate of growth and accelerating from April's 0.13% rate, as most of the economic sectors, including manufacturing, transportation, trade, mining and construction all contributed to the economic growth.

U.S. nonfarm payrolls rose a less-than-expected 209,000 in July, slowing from an upwardly-revised 298,000 gain in June. The pace of job creation moderated from the three-month average (245k) and is slightly below the past year's pace (214k), but healthy nonetheless. Gains were reported in all major industries, outside the federal government.The household survey, however, showed a pullback in job growth (131k) after a strong gain in June. Meantime, a sizeable rebound in the labour force (329k) lifted the participation rate a notch (even though the number of discouraged workers rose moderately). Consequently, the unemployment rate ticked up to 6.2%, though this follows the fastest one-year decline in three decades. The average duration of unemployment falling further to 32.4 weeks.

U.S. real GDP grew 4.0% annualized in Q2, benefiting from strong rebounds in virtually all expenditure groups. The biggest surprise was consumer spending, up 2.5%, nearly doubling from the prior quarter's rate even without the benefit of a solid snapback in health care spending. Accelerating auto sales paced a 14% annualized gain in durable goods spending.

US Consumer Confidence : The Conference Board's consumer confidence index unexpectedly jumped for the third straight month, up 4.5 pts in July to a 90.9 (consensus: no change), the highest level since October 2007. Also, views of the "present situation" and "expectations" improved in the month. The former by 2 pts to an >5-year high of 88.3; the latter by 6.3 pts (biggest monthly gain in a year) to a 3½-year high of 92.7.

Portugal - Moody's has raised Portugal to Ba1 From Ba2 with a Stable outlook.

Spain's borrowing costs – as reflected by its benchmark 1o year bond, this week fell below 2.5% for the first time in more than 200 years according to Deutsche Bank data (reported in Financial Times).

Financial Conditions

UK Banking – bonus clawbacks: After years of debate among global regulators and lawmakers about how to structure pay to curb reckless risk-taking, the Bank of England has announced some of its toughest restrictions yet on bonuses while introducing new rules intended to hold managers more accountable. The change will allow banks with headquarters or subsidiaries in England to reclaim, for up to seven years, bonuses paid to bankers who engage in wrongdoing. The rules would allow banks to take back unvested bonuses, and in a new twist, vested ones.

US:US Federal Reserve policymakers remain determined to flatten the yield curve as much as possible, having indicated they expect 'exceptionally low levels of interest through 2014 with the Federal Reserve carefully calibrating the beginning of unwinding quantitative easing and undertaking that the Federal Reserve will keep rates low until mid 2015. The U.S. 2 year/10 year treasury spread is now 2.03% and the U.K.'s 2 year/10 year treasury spread is 1.76% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital. It seems the top tier 6-9 investment banks will continue to command their market and possibly increase their share – as barriers to entry for newcomers have in our view been raised.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.12% - (was 3.31%, end of November 2012 the lowest rate since the Federal Reserve began tracking rates in 1971), as the Federal Reserve effectively continues to give priority to incentivising home ownership. Existing U.S. housing inventory is at 5.5 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, a more promising economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months.

The VIX (volatility index) is 16.95 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland currently offers 5 mutual funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Banks Fund
- Portland Global Income Fund
- Portland Global Dividend Fund

Private/Alternative Products

Portland also currently offers 3 private/alternative products:

- Portland Focused Plus Fund LP
- Portland Private Income Fund
- Portland GEEREF LP

Net Asset Value:

At the close of business each day we publish the Net Asset Values (NAV) of our mutual funds onto our Portland website at http://www.portlandic.com/prices/default.aspx

Closed-End Fund

Spreads on the closed-end fund remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel's 2013 Fourth Quarter Fund update is now available on the website.

At the close of business each day we publish the Net Asset Values (NAV) of our funds onto our Portland website at http://www.portlandic.com/prices/default.aspx

The price details published are replicated here below from which you can see we also highlight whether the funds share prices are trading at a premium or discount to their respective NAV.

Source: Thomson Reuters, Bloomberg, Company reports

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