cardinal UPDATE

SEPTEMBER 2016

DIVIDEND INCREASES

Company	Increase
Royal Bank of Canada	+2.5%
Bank of Nova Scotia	+2.8%

(During the period: August 1 – 31, 2016)

RISK: SO FAR, BUT NO FURTHER

On September 12, Agrium (AGU) and Potash Corp. (POT) announced a merger plan to create the largest crop nutrient company in the world, three times the size of its nearest competitor. While impressive, we believe the merger increases AGU's exposure to commodity prices and raises the risk profile of the company. We feel that the merger will result in a company that does not serve the best interests of our clients, thus leading us to exit our position in the company.

Our rationale for owning AGU centered on the following three points: 1) the stability offered by the retail business, 2) strong free cash flow generation to drive consistent dividend increases, and 3) the locational advantage of AGU's nitrogen assets, which generate best-in-class margins.

Over the last year many commodity-based companies have cut their dividends as they were not sustainable in a depressed commodity pricing environment. POT cut their dividend twice in the last 9 months, by a combined 74%. AGU was able to avoid cutting its dividend as the retail business offered earnings and cash flow stability throughout the ag cycle. Currently, retail comprises about 50% of AGU's earnings. In a merger with POT, retail would make up only 20% of total company earnings and an even lesser portion if/when the nutrient pricing environment improves. Therefore, the stability offered by the retail business will be diluted by the merger, creating a significantly more commodity-reliant company. Potash prices have fallen by 40% over the last year and recent mine expansions should keep the market oversupplied into the future. An oversupplied market will put downward pressure on prices. Potash is also a much more elastic nutrient so if farm incomes are strained, potash application may be skipped altogether.

All of POT and AGU's large capital expenditures have been completed, thus there is merit to the merger from a free cash flow standpoint. However, we cannot be certain that dividend increases will be the priority at the new firm as they were at AGU. POT's failed attempt to buy K+S may be a symptom.

Nitrogen is an inelastic nutrient that needs to be applied each year to drive crop yields. The location of AGU's nitrogen facilities in Western Canada offers both cost and pricing advantages. POT's nitrogen assets do not have the same advantages given their location in the southeastern United States and South America.

The rationale for owning AGU was negatively impacted by the announced merger with POT. The result of the increased risk means that AGU is no longer a fit in Cardinal client portfolios.

COMPANY FOCUS:

WPP PLC

We have recently added WPP PLC (WPP) to our buy list for Canada Plus and Foreign accounts.

London based WPP is the world's leading advertising agency holding company by both market capitalization (£22.1B) and revenues (£12.9B).

The majority of WPP's business is creating advertisements, planning advertising and marketing campaigns, and purchasing media inventory. Its customers include over 350 of the Fortune Global 500 companies and it generates revenues equally spread between North America, Western Europe, and the rest of the world.

While you may not have heard of WPP or its agencies, you have definitely seen their advertisements: a current example is Dove's Real Beauty campaign, while some iconic creations include "I wish I were an Oscar Mayer Weiner" and the Toys R Us campaign, "I don't want to grow up".

We are attracted to the industry because growth in advertising spending should continue as a reflection of global consumerism. The industry is a global oligopoly with over 50% share concentrated in just four firms and has proven to be immune from disruptive changes in media consumption.

WPP is well-positioned to capitalize on this with high customer retention (Unilever has used the company since 1902), scale in media buying, high exposure to emerging markets, and a history of acquisitions. The business trades at a valuation discount to the broader market and should provide strong long-term total returns including a 3% and growing dividend.

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400 - 1780 Wellington Avenue
Winnipeg, Manitoba R3H 1B3

Phone: (204) 783-0716
Fax: (204) 783-0725
Toll Free: (800) 310-4664

www.cardinal.ca

CARDINAL CAPITAL MANAGEMENT, INC.