

INDUSTRIAL PRODUCTS & SERVICES

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SECTOR SUMMARY

COMPANY	TICKER	CUR	PRICE	RETURN	RATING	TARGET
IBI Income Fund					OUTPERFORM 2 =	
	IBG.UN-TSX	C	\$13.00	58%		\$19.00 =
Stantec Inc.					OUTPERFORM 2 =	
	STN-TSX	C	\$26.92	11%		\$30.00 =

Target return includes dividend/distribution
 Sources: Raymond James Ltd., Thomson One

Infrastructure & Construction

Architectural Billings Index Reverses Trend in June

Event

After showing signs of stabilization over the months of March, April and May, architectural billing in the United States declined to 37.7 from 42.9 in June, while new project inquiries fell to 53.8 from 55.2 (see Exhibit 1).

Action

Although the data has negative implications for the U.S. practices of Stantec and IBI Income Fund, we continue to rate both firms **OUTPERFORM**.

Analysis

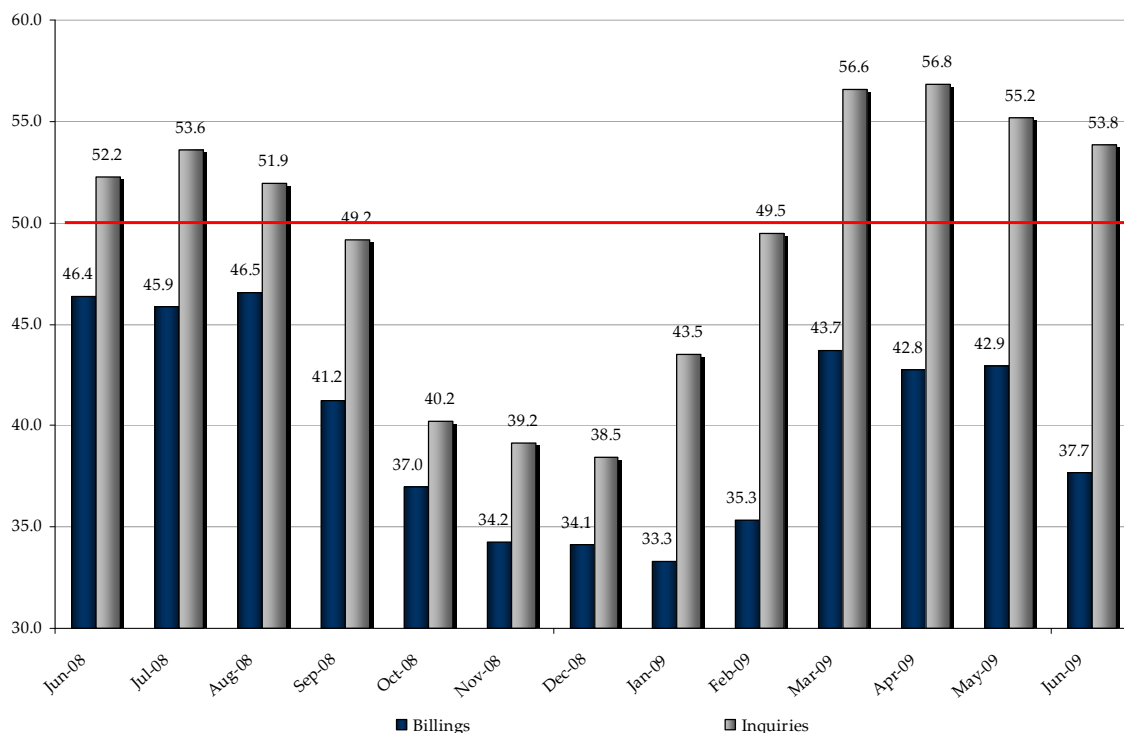
Yesterday the American Institute of Architects (AIA) published its monthly Architectural Billings Index (ABI) results. As a leading economic indicator of construction activity, the ABI reports an approximate 9-12 month lag between architecture billings and construction spending, with any reported value below 50 indicating a contraction. Accordingly, the June data lead us to believe the construction downturn south of the border may not have reached bottom yet. We further opine that: (i) the lack of stimulus funding committed for design work to date may dash the hopes of a quick recovery for architectural firms, and (ii) the high level of project inquiries witnessed over the past several months is more indicative of a market turning increasingly competitive than of one that is on the mend. In our view, this will exert downward pressure on project prices and, consequently, margins. While this development naturally makes us a little nervous about our 2009 forecasts for Stantec (given its high exposure to the U.S. market), we continue to favour its stock based on its diversified exposure to several resilient markets (including environmental), leaner operations, proven acquisition strategy, leading competitive position, and beneficial exposure to stimulus spending. Our constructive rating on IBI, which derives roughly 20% of its fees from the U.S., is predicated on an attractive valuation (see Exhibit 2), juicy yield, synergies with SNC-Lavalin (SNC-TSX, MARKET PERFORM, recent: \$46.50) on recent project bids and growing momentum in the transportation and education sectors.

Valuation

Our \$30.00 target on Stantec equates to an EV/EBITDA multiple of ~8.5x our 2009 estimates (which approximates the engineering peer group's historical trading average). Meanwhile our \$19.00 target on IBI is predicated on an EV/EBITDA multiple of 7.0x. This discount, in our view, is warranted given IBI's relatively elevated debt levels and the units' lack of liquidity.

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Exhibit 1: ABI Index: Billings vs. Inquiries



Source: AIA, Raymond James Ltd.

Exhibit 2: Engineering Peer Group Valuation

Company Name	Ticker	Fx	FY END	Market Price	Shares O/S (mln)	Market Cap (mln)	Net Debt (mln)	Ent. Value (mln)	P/E			EV/EBITDA			Net Debt/Cap (%)	Price/Book	Div. Yield (%)
									2008A	2009E	2010E	2008A	2009E	2010E			
ENGINEERING																	
AECOM TECHNOLOGIES CORP	ACM.US	USD	SEP	\$32.20	109.1	\$3,514	\$49	\$3,564	23.0	19.1	15.8	11.8	9.6	8.3	1.4	2.4	--
AMEC	AMEC.GB	BPN	DEC	£6.93	332.7	£2,305	-£765	£1,540	15.5	14.4	13.1	7.7	6.5	5.9	(49.6)	0.0	2.7
ARCADIS NV	ARCAD.NL	EUR	DEC	€ 13.19	61.9	€ 817	€ 216	€ 1,033	11.4	13.0	12.7	6.6	7.0	6.7	20.9	3.9	3.5
GENIVAR INCOME FUND	GNV-U.CA	CAD	DEC	\$24.17	23.3	\$564	\$31	\$595	17.5	15.2	13.3	8.7	7.4	6.6	5.2	3.1	7.0
IBI INCOME FUND	IBG-U.CA	CAD	DEC	\$13.00	16.3	\$212	\$111	\$323	11.9	9.0	8.0	7.1	6.1	5.3	34.3	1.5	12.3
STANTEC INC	STN.CA	CAD	DEC	\$26.92	45.9	\$1,235	\$328	\$1,563	14.7	12.8	10.8	10.2	8.7	7.4	21.0	2.2	--
TETRA TECH INC	TTEK.US	USD	NOV	\$28.96	60.2	\$1,744	\$62	\$1,806	28.4	23.8	21.5	14.4	12.1	10.7	3.4	n.m.	--
WORLEYPARSONS	WOR.AU	AUS	DEC	\$23.99	234.1	\$5,617	\$841	\$6,458	17.0	14.2	14.8	11.5	9.3	9.6	13.0	4.1	3.6
									17.4	15.2	13.8	9.8	8.3	7.6			

1) Estimates for Genivar, IBI and Stantec are from Raymond James; all other estimates are consensus from Thomson One.
 2) Net debt (cash) positions for Genivar, IBI and Stantec include balances of purchase price payable.
 3) P/E calculations for Genivar and IBI assume earnings are tax effected.

Source: Thomson ONE, Capital IQ, Raymond James Ltd.

Risks

The success of an engineering firm hinges on its ability to attract and retain qualified workers with adequate skills, experience, reputation and established client relationships. As acquisitions are a key driver of growth for the four engineering names under coverage, some related risks include: (i) an inability to identify appropriate acquisition targets at reasonable valuations; (ii) difficulties in integrating the acquired businesses, resulting in a lack of anticipated synergies; and (iii) uncertainties associated with acquisitions or mergers, leading to a loss of customers and/or key employees. More general risks which could materially reduce anticipated profits include cost overruns on a significant number of projects, potential liability claims and contract disputes, unexpected project cancellations, and a damaged reputation due to client dissatisfaction.

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STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
IBI Income Fund	IBG.UN	TSX	1a, 1b, 1e, 3
SNC Lavalin	SNC	TSX	7
Stantec Inc.	STN	TSX, NYSE	7

