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QUIC RESEARCH REPORT

Industrials

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Stella-Jones Inc. (TSX:SJ)

Strong Roots Provide Stability & Growth Opportunities

Introduction

After experiencing margin contraction in Q3 of 2016, Stella-Jones Inc. share price has decreased by more than 10% to date. Despite this, the company has maintained its market position as the North American leader in both of its core markets: railroad ties and utility poles. Commanding more than 40% share in both markets, Stella-Jones has sustained double-digit growth despite short-term headwinds and appears likely to weather the storm.

Valuation

Without a proper set of comparable companies, relative valuation techniques were applied to the Company's historical multiples. Forward EV/EBITDA and P/E multiples were blended with a discounted cash flow valuation at a 50/50 weighting to arrive at a target price of $50.00 per share, implying an all-in-return of 18.3% over a one-year period.

Proposed Action

Industrials is proposing the purchase of roughly 220 shares of TSX:SJ, representing 19% of the pro-forma portfolio. At a cost of $42.60, this will increase the value of the Industrials Canadian holdings to $49,895.

QUIC Research Reports focus on emerging investment themes that affect current portfolio companies and companies under coverage.

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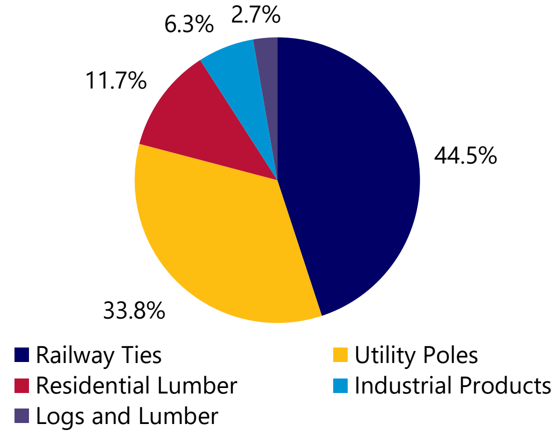
Company Overview I

Stella-Jones Inc. ("Stella-Jones", "SJ", "the Company") is a Canadian-based producer and marketer of wood treated products. Stella-Jones has a market capitalization of $3.0 billion and is currently trading at $42.60 per share. The Company's 52 week high and low are $52.29 and $39.00 respectively, and the company recorded $1.6 billion of sales during fiscal year 2015. On these sales, Stella-Jones earned $141.1 million in net income and paid a quarterly dividend of $0.08 to shareholders. As of Q3 2016, Stella-Jones has recorded $1.5 billion in sales, an increase of 25.0% from one year ago. This increase has resulted in a Q3 net income surge of 24.9%, at $135.4 million. Stella-Jones has also raised their quarterly dividend to $0.10 per share. In addition, 2015 marked the company's 15th consecutive year of growth, a pattern we expect to continue.

The Company supplies North American railroad operators with railroad ties and limbers, electrical utility and telecommunication companies with utility poles, retailers and wholesalers with lumber for outdoor applications, and offers industrial products used in foundations and structural construction. In 2015, Stella-Jones recorded 45.5% of its sales from railroad ties, 33.8% from utility poles, 11.7% from residential lumber, and the remainder from logs, lumber, and industrial products.

EXHIBIT 1

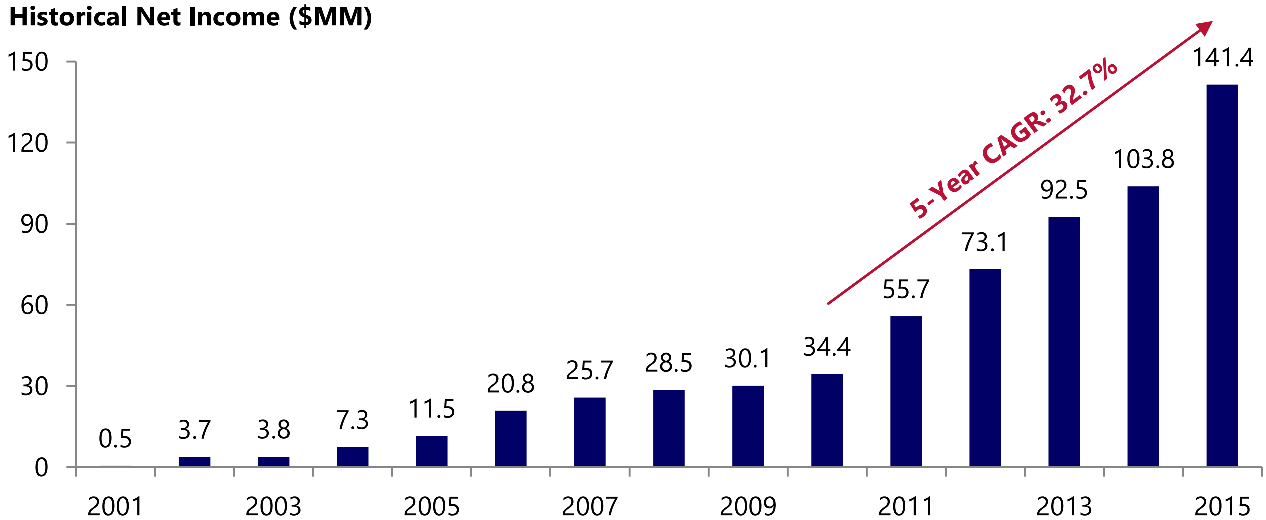
Segmented Revenue Breakdown (2015)



Source: Company Reports

EXHIBIT 2

Historical Net Income ($MM)



Source: Company Reports

Company Overview II

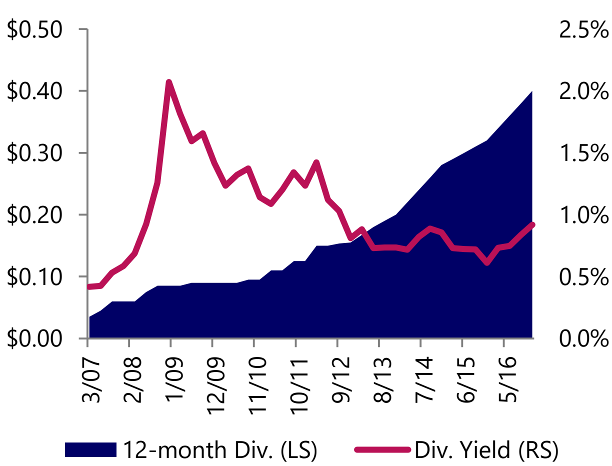
Stella-Jones operates 34 wood treating plants, 11 pole peeling facilities, and a coal tar distillery. These facilities are located in 5 Canadian provinces and across 17 American states. The Company maintains an extensive distribution network in between these facilities and across North America. The Company's size has allowed it to develop key competitive advantages in the lumber industry, these include large resource stockpiles, effective distribution channels and a solid financial position necessary in fulfilling larger orders. SJ's significant experience with railway and telecommunication companies has allowed the company to establish relationships with key players and government municipalities in the form of long-term contracts.

Stella-Jones has been rapidly broadening its geographic reach through a series of smaller acquisitions. In 2015, the company completed a variety of acquisitions which included purchasing an Ontario-based lumber plant, a pole-peeling company based out of Oregon, and two pole treatment companies found in Arkansas and South Carolina. The total cost of these acquisitions was a combined $67 million. As of Q3 2016, the Company has acquired two more pole-based companies out of the United States at a combined cost of $92.6 million. Excluding these acquisitions, Stella-Jones reported organic growth of 4.4% during Q3 2016.

The Company's management team has significant internal experience and personal investment in the performance of the company. President, CEO, and Director, Brian McManus, has worked as a Director since 2001 and was previously the COO. SJ's current CFO, Eric Vachon, has been in the role since 2012 and holds a CPA, CA designation. Stella-Jones' Chairman of the Board has been a Director since 1993. As of March 21, 2016, the Directors and executive officers owned or exercised control of 38.8% of the Company's outstanding shares.

EXHIBIT 3

Dividend History



Source: Company Reports

EXHIBIT 4

Management Team – Summary Table

Brian McManus	Eric Vachon	Tom A. Jones
President, CEO, Director	Senior VP, CFO	Chairman of the Board, Director
Since: 2001	Since: 2012	Since: 1993
Previously served as Stella-Jones COO	Holds CPA and CA designations	Co-Founder of Stella-Jones Inc.

Source: Company Reports

Industry Overview I: Railway Ties

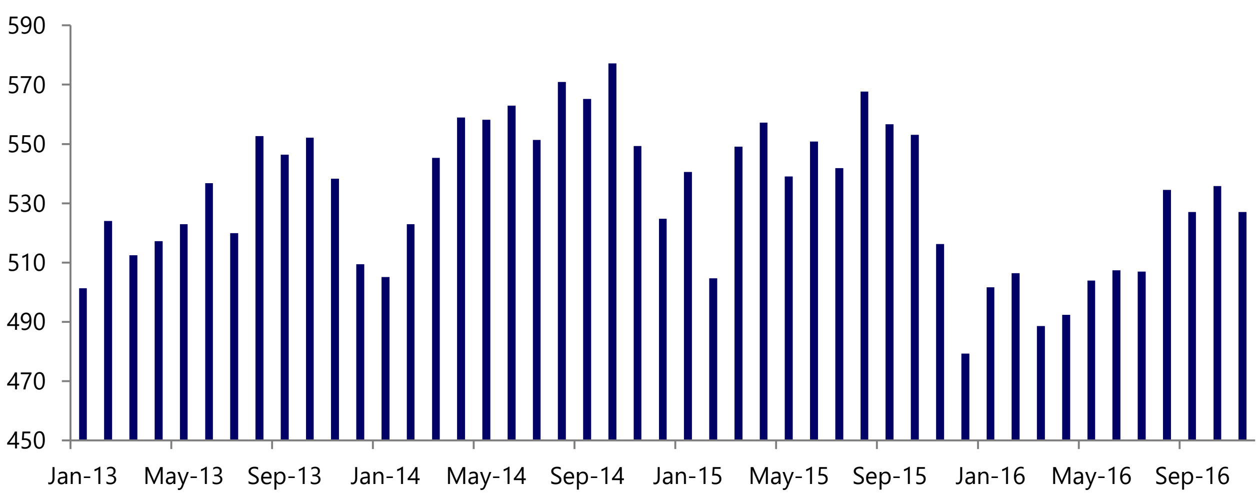
The U.S. Railway Track Construction industry supplies and constructs railway track, railway ties and other infrastructure for both Class I and smaller regional railroads. There are currently 700 – 800 million railway ties installed in the U.S, approximately 93% being wooden crossties. Wood continues to be the material of choice for railroads due to its properties being ideal for flexible application and its long-term lifecycle. The major railroads install approximately 19 million ties each year (22 million if regional railroads are considered), with less than one million being used in the construction of new track. Instead, the majority of new ties simply replace ties on existing track; approximately 3% of ties are replaced each year, giving each tie an approximate lifespan of 33 - 42 years. While capex spending was reduced in 2016 due to low volumes and poor investor sentiment, the replacement of rail ties continues to be essential, and the industry's revenue has remained flat (0.4% growth) amidst the decline in rail volumes. Still, long-term growth is fueled by the health of North American rail operators, therefore an understanding of the industry must be gained in order to understand the future outlook for Stella Jones rail tie segment.

Declining Rail Volumes

North American railroads have struggled over the past two years due to declining volumes and weak demand from key sectors. Weak global growth has led the U.S. dollar to appreciate more than 20% since 2014, reducing the level of U.S. exports and harming American manufacturers across the board. The level of U.S net exports as a contribution to percentage change in real GDP was down an average 0.55% during this period. Furthermore, low commodity prices have caused U.S. and Canadian oil producers to cut back production, leading to a decline in both crude and infrastructure/material volumes shipped by rail. While the U.S. coal industry has long been one of the primary drivers of North American rail growth, new climate change policies have led to EPA regulations targeting utilities providers using coal to generate power. While coal once accounted for 50% of U.S. power generation in 2006, this number now hovers around the 30%

EXHIBIT 5

Average Weekly Rail Carloads



Source: Association of American Railroads

Industry Overview II: Railway Ties

mark. Given that historically 93% of U.S. coal has been used in domestic power production, the share of coal as an energy source has been on a permanent decline. Even if commodity prices were to rebound, it is unlikely that coal volumes will ever return to previous levels. On the upside, the same Omnibus spending bill that hurt coal producers by promoting renewable energy has promising benefits for regional railroads in the U.S. New tax incentives combined with the 2020 extension of the government's PTC (positive train control) compliance deadline should increase rail tie demand by giving smaller railroads the flexibility to invest in infrastructure.

Maintenance Capex Remains Healthy

Macroeconomic trends in 2015 and 2016 have caused North American railways to reduce their capital expenditure spending for the first time since the GCC. All Class I railroads (except CNR) saw reductions in their planned level of capex in 2016: BNSF by 28%, Norfolk Southern by 12%, CSX by 6%, and UNP and KCS both by 10% each. While near-term volumes are certain to have some effect on capex spending, much of the YoY decline in expenditures can also be attributed to several Class I railroads wrapping up large-scale projects, effectively being "beyond the capex phase". However, it is important to put the 16% decline in 2016 rail capex into perspective; while this year saw its first decline in a century (excluding the GCC), it was still the third highest year of capex spending on record (after 2014 and 2015). Furthermore, the reduction in total capex spend affected mostly new initiatives rather than MOW (maintenance of way) spending, which remained unchanged YoY.

Past is Not Prologue

Understandably, the negatives trend affecting North American rail and its supplier industries over the past two years has made investors weary. Although counterintuitive to most, investor sentiment is one of the primary drivers of rail capex planning. The management of Class I railroads often adjusts planned spending based on shareholder expectations rather than long-term needs, opting to shift spending to future years. Fortunately, 2016 seems to have been the bottom of the trough with most experts predicting U.S. economic growth spurring a return to volume growth. A report released by the American Railway Tie Association forecasted a base, downside, and upside scenario for tie demand in 2016 and 2017 (all of which predicted declines for 2016 and a rebound in 2017). A surprisingly resilient U.S. economy has posted growth figures in-line with the upside scenario. While coal volumes are likely to remain low, commodity prices have begun to stabilize and oil producers are bringing sites back on line. Both domestic and intermodal shipments continue to be a bright spot. Operating ratios are at an all-time low as operators usher in a new era of productivity. Overall, rail continues to be the stable industry favoured by value-investors, and the railway construction industry is predicted to grow at an annualized rate of 4% in the five years to 2021.

EXHIBIT 6

Railway Tie Demand Forecast

	Downside Scenario		
Year	**GDP**	**Demand**	**Growth**
2016E	1.3%	22.5M	(3.0%)
2017E	1.7%	23.2M	+1.9%
	Base Scenario		
Year	**GDP**	**Demand**	**Growth**
2016E	2.7%	23.3M	(6.4%)
2017E	2.6%	23.7M	+3.2%
	Upside Scenario		
Year	**GDP**	**Demand**	**Growth**
2016E	3.5%	23.6M	(1.6%)
2017E	3.1%	24.2M	+2.6%

Source: American Railway Tie Association

Industry Overview III: Electrical Utilities

The U.S utilities space consists of an aging T&D network (transmission and diffusion) characterized by decades of underinvestment, increasing demand, and regulatory tailwinds. T&D facilitates the delivery of electricity from power plants to end-consumers through a series of transformers and substations, all of which are connected through 450,000 miles of cables and utility poles. Projects in the space are usually large-scale initiatives and require significant investments in infrastructure and equipment. Driven by new regulatory requirements and incentives for higher earnings, utilities companies have recognized the need to improve the reliability and capacity of the North American T&D network in recent years. Over the next 20 years, an estimated $880 billion in the U.S. and $100 billion in Canada will be spent on utilities projects in order to ensure capacity can meet rising demand. An estimated $50 billion was spent on improvement projects in 2016 alone, a 75% increase since 2009.

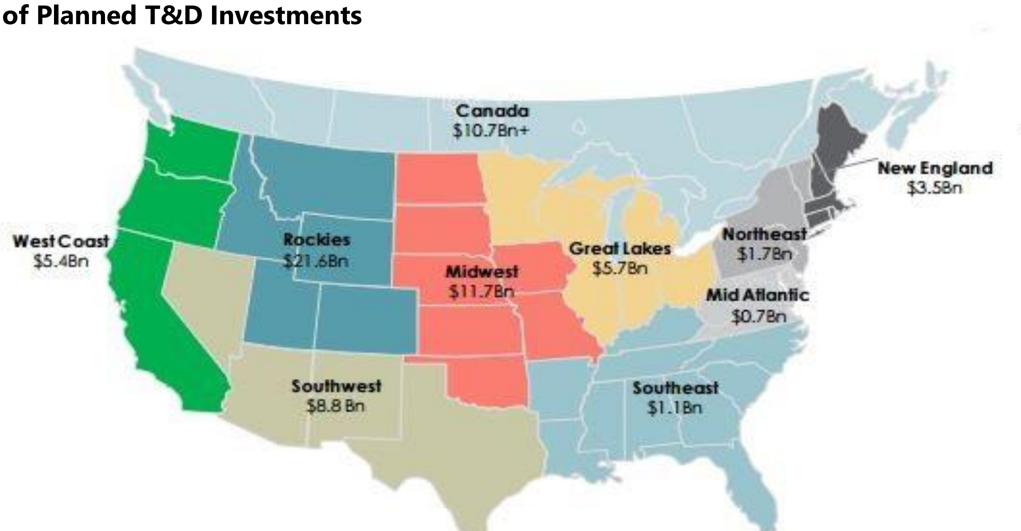
U.S. Network Gets a D+

A 2013 report by the American Society of Civil engineers gave the U.S electrical grid a D+ and stated “the need to maintain and update existing electric energy infrastructure will impose significant requirements for new energy infrastructure investment.” U.S electricity demand has increased by 82% since 1980 and is expected to increase by another 24% by 2040. Much of the current network uses technology from the 1950’s and struggles to meet the needs of an increasing population. The U.S. department of energy estimates that over 60% of utility poles were installed between 1945 and 1975 and are nearing the end of their useful life of 50 years. Furthermore, a poll of 147 utility companies reported that between 35% and 48% of T&D assets are in need of replacement.

This combination of inadequate infrastructure and increasing demand has put significant pressure on the North American electrical grid, increasing the likelihood of power outages and failure. These failures have increased by approximately 7% annually since 1999 with an estimated annual cost of $150 billion nationwide. Costs associated with such failures are inherently high given the essence of electricity as a service, the subsequent economic

EXHIBIT 7

Distribution of Planned T&D Investments



Source: Harris Williams & Co.

Industry Overview IV: Electrical Utilities

loss, customer intolerance, and even risks associated with homeland security.

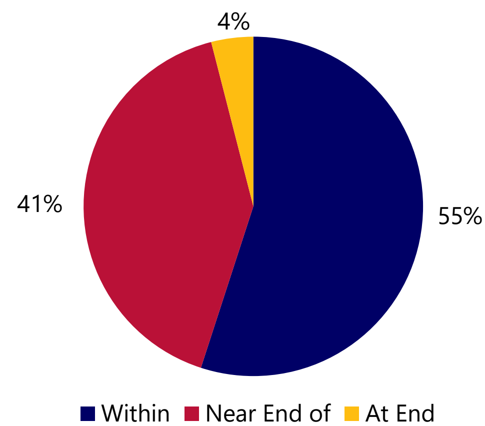
Wood vs. Steel Utility Poles

Utility poles are constructed from four main materials: wood, steel, concrete and polymers. There are an estimated 180 million poles in the U.S., of which 130 million are made out of wood. Two to four million poles are installed annually due to new construction, damage or poles nearing the end of their useful lives. Wood has long been the preferred material for these poles dues to its versatility and significantly lower cost to purchase, install, and maintain. Wooden utility poles are treated with preservatives and chemicals for protection against animals and weather, making them quite durable with a lifecycle of 40 – 50 years. Nonetheless, wooden poles lose strength with time due to rot and decay. Furthermore, the supply of high quality wood has been diminishing due to deforestation.

Although significantly more expensive, steel poles have been growing in popularity with many utilities providers. Steel is more lightweight and is not biodegradable, making it more durable than traditional wooden poles. Furthermore, there is significant evidence emerging that steel utility poles are significantly more environmentally friendly. However, corrosion from chemicals and pollution can decrease its lifespan.

EXHIBIT 8

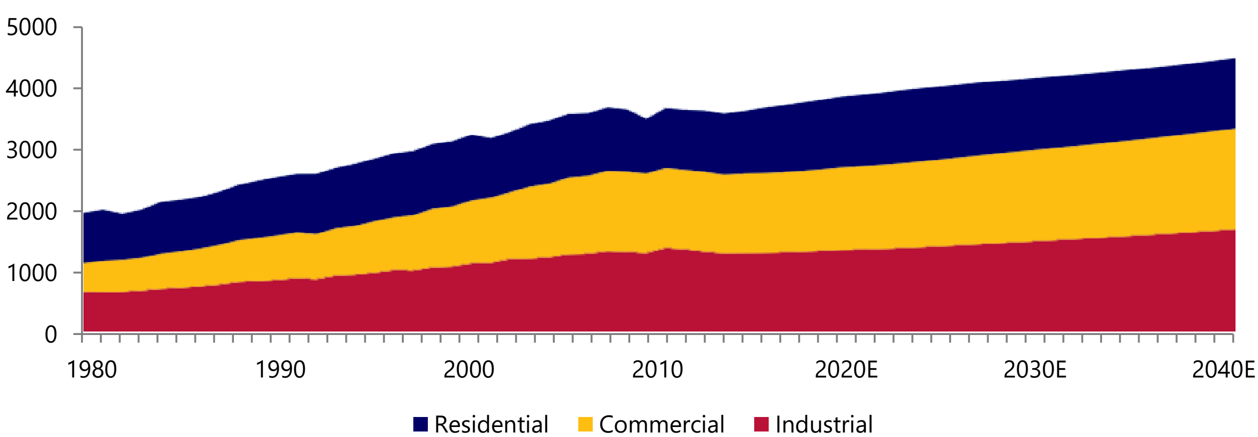
T&D Infrastructure Lifecycle Stages



Source: Harris Williams & Co.

EXHIBIT 9

Annual Electricity Demand by Sector (kwh in billions)



Source: Deloitte

Investment Thesis I: Diverse Network Provides Competitive Advantage

Since going public in 1994, Stella-Jones has grown from $60 million in revenue to over $1.8 billion. As the Company continues to expand, it has developed a sizable economic moat that we believe significantly improves SJ's defensibility – something that the market has yet to fully appreciate.

With 40-50% share in both the North American railroad ties and wooden utility poles markets, SJ has emerged as the clear market leader. With only one other major player within the market (Koppers Holdings Inc.: ~30% market share), the industry is relatively fragmented with many smaller, local competitors. Truly in a class of its own, we expect SJ to thrive in the years to come as it develops into an increasingly dominant market position.

With a network of 34 wood treatment plants and 11 pole peeling facilities, SJ maintains an unparalleled comprehensive network that allows it to bid more competitively on projects. With close proximity between production plants and work sites, SJ is able to reduce transportation costs while also improving the timelines of its offerings and its responsiveness to changing customer needs.

SJ's large size also allows it to acquire timber more affordably than competitors. With limited barriers to entry, lumber markets operate in near perfect competition with numerous, small producers offering undifferentiated products. As such, SJ is able to leverage its size to negotiate favorable supply contracts. Furthermore, since timber must be stored for nine months before it can be processed, SJ's size affords it the opportunity to place larger orders at discounted prices, tying up large amounts of capital in the process.

As Stella-Jones expands geographically, it develops the ability to shift resources and production from facilities in regions of low demand to those in areas of high demand. This allows the Company to maintain more consistent sales and production levels, effectively leading to higher margins.

The Company's geographic diversity also enables it to provide a complete suite of offerings to large, international customers, such as Class 1 railroads. As Stella-Jones continues to build on existing and new relationships, it will develop increased stability surrounding operational cash flows.

EXHIBIT 10

Operating Locations

Source: Company Reports

Investment Thesis II: Stability & Opportunity

With a strong market position, diverse revenue mix, and dual-pronged expansion strategy, Stella-Jones is a unique investment opportunity that offers both stability and growth opportunity.

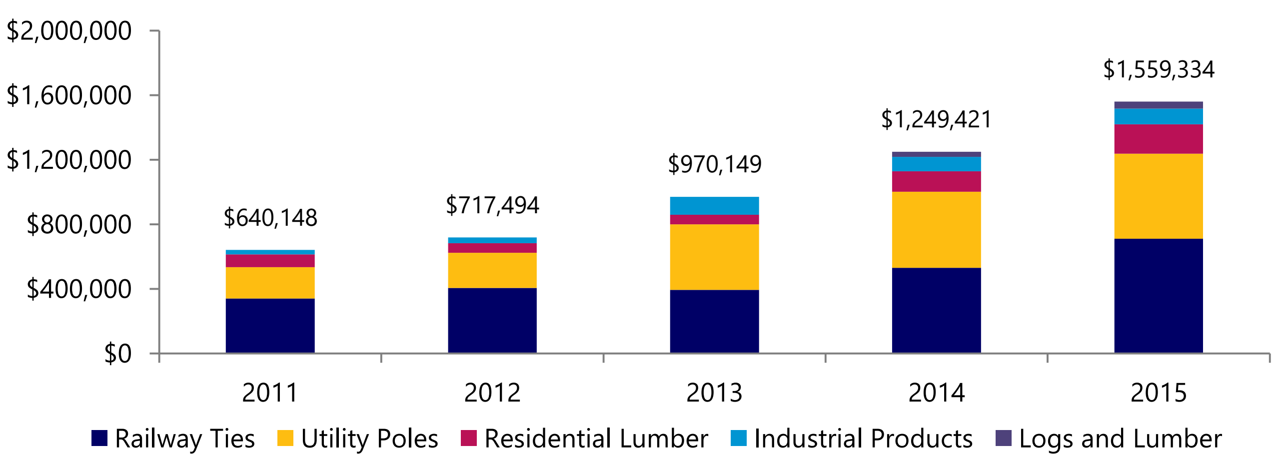
To the railroad and utilities industries, Stella-Jones provides a mission-critical product to industries that offer services considered necessary for life in North America today. As such, demand for Stella-Jones' products is fuelled by a need to maintain essential infrastructure (maintenance capex). Furthermore, existing infrastructure in these industries deteriorates in large part not due to usage, but instead as a result of wear and tear caused by weather over time. As such, while projects may be delayed in the short-term, they are inevitable in the long-term. In times of financial hardship, customers may revert to low-cost suppliers, putting pressure on many players within the market to reduce prices; however, we believe that this benefits SJ. As the market leader and lowest cost producer in the industry, SJ may experience temporary margin contraction. However, the Company is likely to win a disproportionate percentage of contracts, forcing other players out of the market and improving their market position in the long-run.

While nearly 80% of revenues can be attributed to Stella-Jones' core markets, the Company has recently made headway in its industrial products and residential lumber segments. In order to gain traction within these segments, the Company has experienced margin contraction as management reduces prices in order to establish relationships with potential long-term customers.

As SJ's segmented revenue mix shifts to reflect this development, the Company's margins have decreased, causing concern amongst investors. We view Stella-Jones' current situation differently. As the Company continues to generate strong cash flows, pays down outstanding debt, and begins to build relationships in these new markets, we expect margins to rise as the Company used both organic and acquisition growth strategies to establish itself as a prominent player. With a strong track record, we have confidence in management's ability to once again position SJ as the market leader.

EXHIBIT11

5-Year Analysis of Segmented Revenue (000's)



Source: Statistics Canada

Investment Thesis III: History of Strong Capital Allocation Overlooked

After reporting Q3 2016 earnings, SJ's share price has decreased by more than 10% as investors fixate on weakened operating margins and potential headwinds expected to reduce railroad tie revenue in the first half of 2017. As the market dwells on recent developments, we believe the Street has priced in short-term pain rather than long-term gains, providing an attractive margin of safety.

Without meaningful, long-term change to the Company's management team, market position, or business model, it is our belief that the Street has overlooked SJ's historical ability to deliver excellent returns, in favour of more recent information.

As the Street focuses on reduced operating margins, we have chosen to analyse the Company's ability to generate cash flow from operations. While SJ's operating margin decreased from 14.5% to 13.1% of sales, operating income increased by 7.0% on a per share basis.

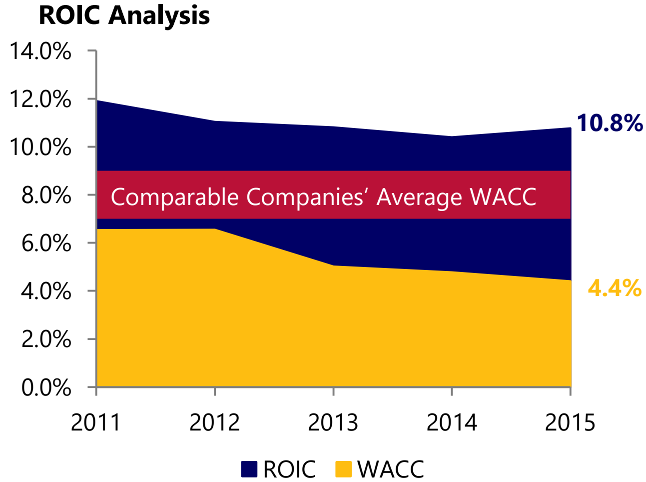
Our decision to consider the Company's ability to generate operational cash flows, rather than its margins, is twofold.

First, we believe that current margin contraction is a reflection of short-term capital deployment reduction in the railroad industry that is not reflective of its long-term demand for the Company's offerings. Moreover, we believe that reduced margins in SJ's growing industrial products and residential lumber segments will expand as the Company penetrates its way into these industries, establishing long-term customer relationships.

In addition, management has historically allocated capital with shareholders' best interests in mind - a trend that we expect to continue so long as capital is available to deploy. After consistently sustaining ROIC levels well above the company's cost of capital over the past decade (11.0%), we have concerned ourselves with SJ's ability to generate cash – something management has succeeded at to date. Moving forward, we expect that the Company history of strong capital allocation will continue, leading to superior returns.

EXHIBIT 12

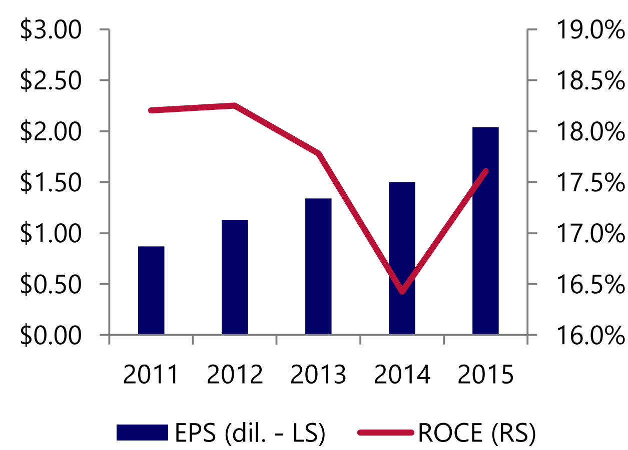
ROIC Analysis



Source: Capital IQ, Company Reports

EXHIBIT 13

Common Equity Holder Returns



Source: Capital IQ

Catalysts

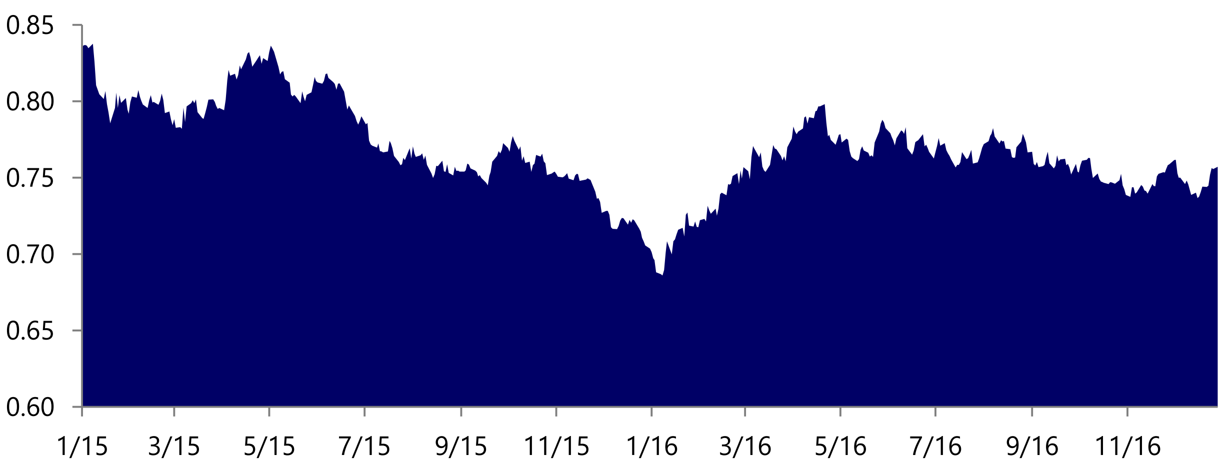
1) **Wood is Good:** As previously mentioned, approximately 130 million of the 180 million existing utility poles across the U.S. are made of wood. As these poles are replaced at a rate of two to four million poles per year, there is an opportunity for wood to increase in popularity. As the most economic alternative, additional activity combined with increased price sensitivity could result in strong demand for Stella-Jones' products.

2) **Make America Great Again:** As President-Elect Donald Trump prepares to transition into the White House on January 20th, there is the potential that spending on his $1 trillion infrastructure plan could begin shortly thereafter. As a key pillar of Trump's platform, infrastructure improvements appear to be on the forefront of the President-Elect's mind and, unlike many of his social policies, it is relatively uncontentious in nature. Thus, there appears to be a possibility that Trump could begin to address this promise sooner than many are expecting. Should the U.S. release request for proposals on many large, industrial projects, such as roadside barriers or bridge construction, Stella-Jones could experienced expedited growth in its industrial products segment.

3) **FX Conversion:** Listed on the TSX and reporting in CAD, Stella-Jones is a Canadian company with significant U.S. exposure at 81% of sales. While management employs a hedging strategy to mitigate FX risk, there is still some exposure to fluctuating currency values. As the U.S. economy continues to strengthen, while the Canadian economy remains stagnant, there exists the potential for above-expected returns resulting from favorable FX conversions.

EXHIBIT 14

CAD/USD Exchange Rate



Source: Bloomberg

Risks

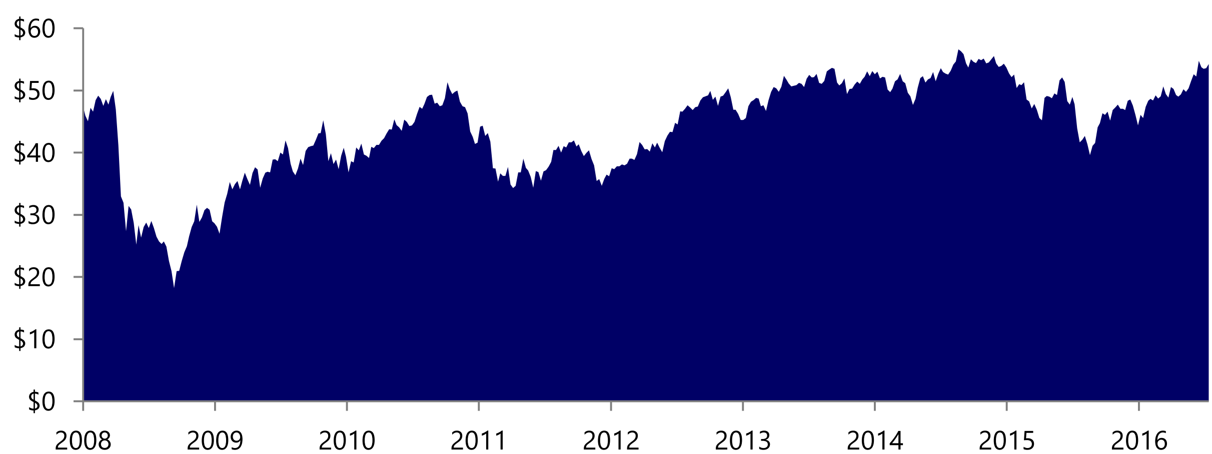
1) **Dependence on Major Customers:** In 2015, Stella-Jones' top 10 customers accounted for 46.3% of the company's sales with the two largest customers representing 10.1% and 6.7% respectively. This significant dependence on major customers poses a notable risk to SJ's earnings stability and the bargaining power. Further, due to the scale and scope of the contracts, credit repayment and the financial stability of said customers is critical to Stella-Jones' success. With no assurance that outstanding accounts receivable will be paid in a timely manner, Stella-Jones is exposed to the liquidity of its customers. A series of payment receival issues could quickly limit the company's cash position, and its financial performance.

2) **Environmental Risk:** Due to the geographic scale, number of different operational facilities, and nature of SJ's business, the Company has significant exposure to environmental regulation and the varying environmental laws found in North America. Although SJ is relatively shielded from provincial and state-bound regulation due to its size, regulation at the federal level in both Canada and the United States could severely impact Stella Jones' performance. These risks not only include environmental changes put into law that force SJ to adjust its business model, but also the possible fines, capital expenditure, and brand value costs incurred in the event of an environmental disaster. Additionally, increases in law and regulation tend to generally increase the cost of corporate compliance.

3) **Availability and Cost of Raw Materials:** Potential fluctuations in the price of wood can have a severe impact on Stella Jones' input and output costs, affecting the willingness of customers to purchase its goods. Due to the size and length of their contracts with lumber suppliers, shortages in wood could render the Company unable to supply its services. Additionally, many of preservatives Stella Jones uses in its production have a limited number of suppliers. These concerns put pressure on management to trim costs, and inherit risk exists when aiming to maximize profits in an environmentally-sensitive space.

EXHIBIT 15

iShares Global Timber and Forestry Index



Source: Bloomberg,

Discounted Cash Flow Analysis

DCF Output							
(In CAD 000s)	2015A	2016E	2017E	2018E	2019E	2020E	2021E
Revenue	**1,559,334**	**1,894,591**	**1,960,901**	**2,102,086**	**2,236,620**	**2,346,214**	**2,410,735**
YoY Growth	24.8%	*21.5%*	*3.5%*	*7.2%*	*6.4%*	*4.9%*	*2.8%*
EBITDA	**246,571**	**287,515**	**303,660**	**329,727**	**357,540**	**379,751**	**392,605**
% of Revenue	15.8%	*15.2%*	*15.5%*	*15.7%*	*16.0%*	*16.2%*	*16.3%*
EBIT	**223,237**	**257,472**	**272,565**	**296,394**	**322,073**	**342,547**	**354,378**
Less: Tax Expense	61,585	64,111	67,869	73,802	80,196	85,294	88,240
NOPAT	**161,652**	**193,362**	**204,697**	**222,592**	**241,877**	**257,253**	**266,138**
Plus: Depreciation and Amortization	23,334	30,043	31,094	33,333	35,466	37,204	38,227
Less: Capital Expenditure	(37,363)	(42,542)	(44,031)	(47,201)	(50,222)	(52,683)	(54,132)
Less: Change in Working Capital	(312,232)	(159,178)	(39,930)	(85,017)	(81,012)	(65,994)	(38,853)
Unlevered Free Cash Flow	**(164,609)**	**21,685**	**151,829**	**123,706**	**146,109**	**175,780**	**211,381**
Unlevered Free Cash Flow for Discounting		**5,421**	**151,829**	**123,706**	**146,109**	**175,780**	**211,381**
Discount Period		0.125	0.75	1.75	2.75	3.75	4.75
Discounted Unlevered Free Cash Flow		**5,379**	**144,834**	**110,814**	**122,904**	**138,849**	**156,793**

Sensitivity Analysis

Discount Rate (%)	Terminal Growth Rate (%)				
	2.50%	2.75%	3.00%	3.25%	3.50%
5.5%	$58.04	$63.44	$69.92	$77.85	$87.77
6.0%	$49.80	$53.73	$58.32	$63.74	$70.25
6.5%	$43.63	$46.62	$50.04	$53.99	$58.60
7.0%	$38.83	$41.19	$43.84	$46.84	$50.28
7.5%	$34.99	$36.90	$39.02	$41.38	$44.05

Discount Rate (%)	EV/EBITDA NTM Exit Multiple				
	11.0x	12.0x	13.0x	14.0x	15.0x
5.5%	$50.32	$54.85	$59.37	$63.90	$68.43
6.0%	$49.21	$53.64	$58.07	$62.49	$66.92
6.5%	$48.14	$52.47	$56.79	$61.12	$65.45
7.0%	$47.09	$51.32	$55.56	$59.79	$64.02
7.5%	$46.07	$50.21	$54.35	$58.49	$62.63

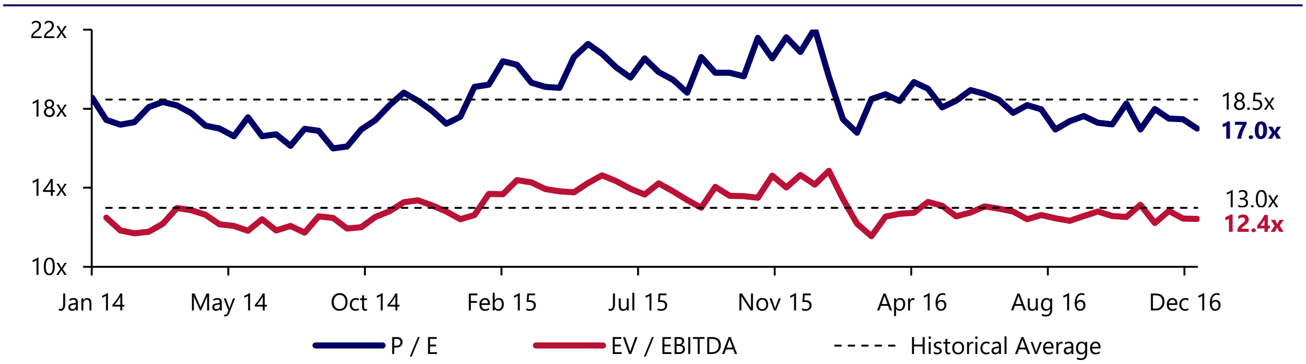
WACC & DCF Share Price Calculations

WACC Calculation	
Risk-Free Rate	2.42%
Market Risk Premium	6.25%
Beta	0.82
Cost of Equity	7.53%
Cost of Debt	3.10%
Tax Rate	24.90%
After Tax Rate Cost of Debt	2.33%
Capital Structure	
Equity	80.00%
Debt	20.00%
Total	100.00%
WACC	**6.49%**

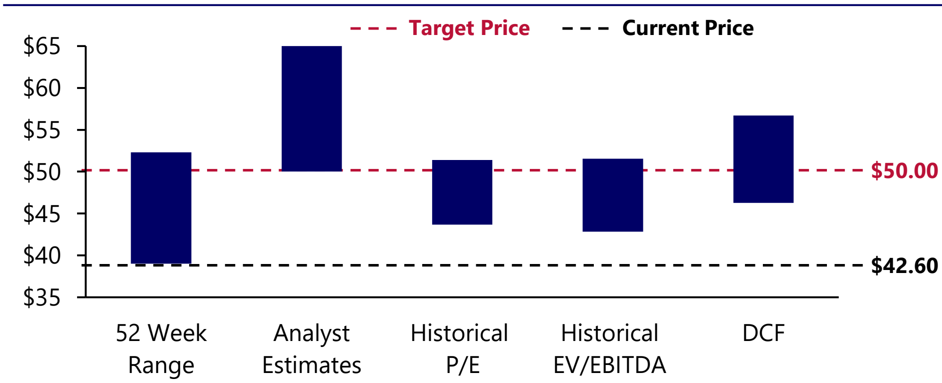
Share Price Calculation	
2022 EBITDA	404,384
EV/NTM EBITDA Exit Multiple	13.0x
Terminal Value	5,256,986
PV of Terminal Value	3,604,607
PV of UFCF	679,573
Enterprise Value	4,284,180
Less: Total Debt	643,140
Implied Equity Value	3,641,040
Shares Outstanding	69,300
Implied Share Price	$52.54
Current Share Price	$42.60
Dividend Yield	0.94%
All-in Return	**24.27%**

Share Price Calculation	
Terminal Growth Rate	3.00%
Discount Rate	6.49%
PV of Terminal Rate	3,431,392
PV of UFCF	679,573
Enterprise Value	4,110,965
Less: Total Debt	643,140
Implied Equity Value	3,467,825
Shares Outstanding	69,300
Implied Share Price	$50.04
Current Share Price	$42.60
Dividend Yield	0.94%
All-in Return	**18.41%**

Historical Forward Multiples Analysis



Football Field Valuation



Target Price	
Forward P/E	$ 47.55
Forward EV/EBITDA	$ 47.19
DCF	$ 53.42
Target Price	$ 50.00
Current Price	$ 42.60
Capital Return	17.37%
Dividend Yield	0.94%
All-in Return	**18.31%**

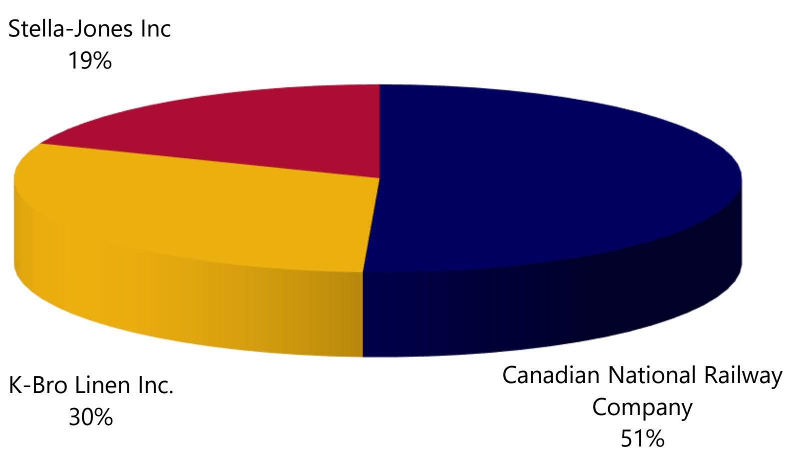
Valuation Commentary

Stella-Jones' leading market position, exposure to the U.S. and current valuation creates a unique opportunity to enter into a reliable and defensible name at a reasonable price. Due to a lack of comparable companies, the firm's historical P/E and EV/EBITDA multiples were used, at which it currently trades at a significant discount. After conducting a discounted cash flow analysis, it is clear that the firm is currently undervalued. As seen in previous analyses, Stella-Jones is trading close to its 52-week low and analyst target prices are well above the firm's current price. When considering historical P/E, historical EV/EBITDA, and DCF analyses, a target price of $50.00 is achieved. After accounting for the firm's 0.9% dividend, a one-year return of 18.3% is expected – a figure that the Industrials sector is extremely satisfied with, given the firm's market leading position, defensibility, and potential for diversified growth.

Portfolio Fit

Currently, Industrials is overweight Transportation and Industrial Services due to our two concentrated holdings in K-Bro Linen (TSX:KBL) and Canadian National Railway Company (TSX:CNR). We believe entering into Stella-Jones diversifies our Canadian portfolio and provides our team with exposure to a market leader in the Heavy Equipment & Manufacturing sector.

Moving forward, we propose using our existing cash position to purchase approximately 220 shares of Stella-Jones. Although this will dilute our weightings in K-Bro Linen and Canadian National Railway, we are comfortable with a 51% and 30% weighting in the Transportation and Industrial Services sectors, figures that are closer in line with benchmark weightings. With the addition of Stella-Jones, the Industrials team is extremely confident in all its holdings, yet will actively monitor opportunities in the Aerospace & Defense and Engineering & Construction sectors.



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