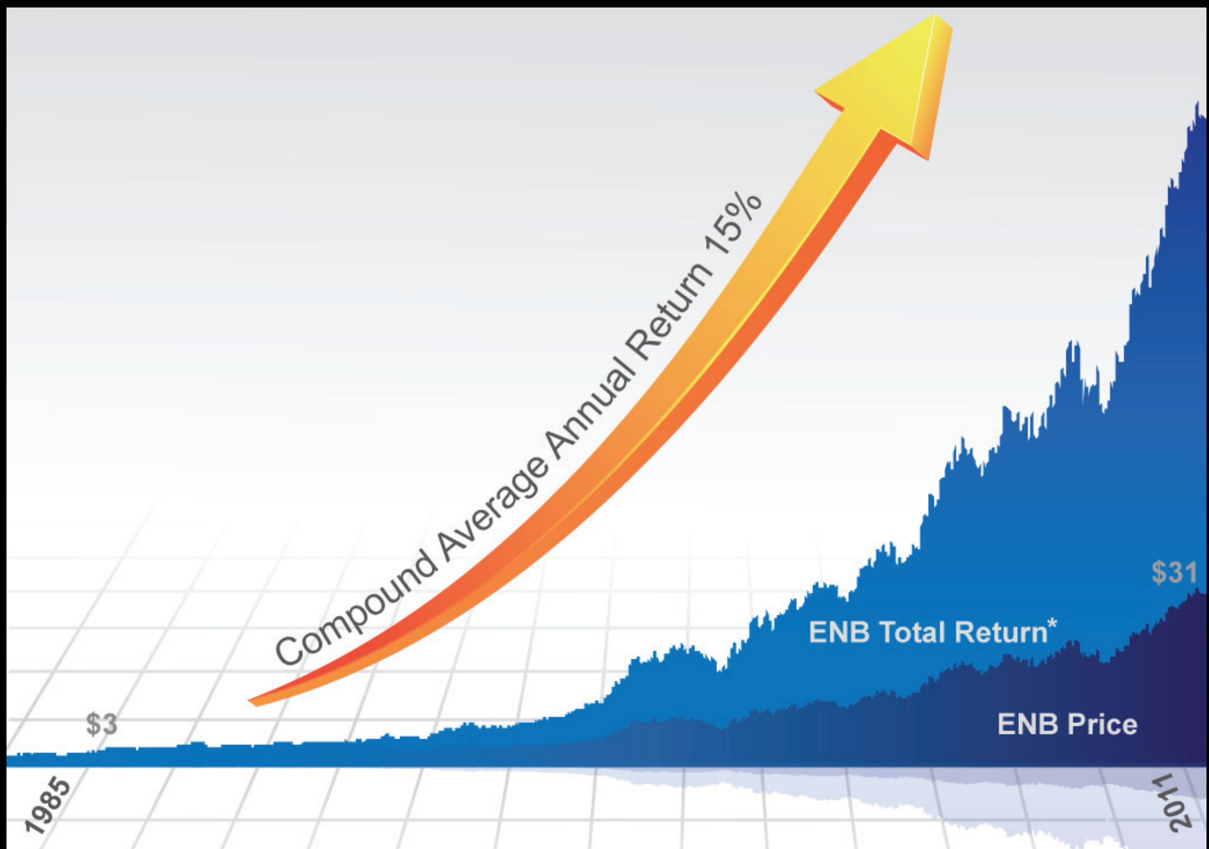
Scotia Capital™

Equity Research **Industry Report** September 19, 2011

Canadian Energy Infrastructure: A Good Long-Term Investment



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Energy Infrastructure

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All share prices as at September 13, 2011.

** Re: ENB total return on cover: past performance is not a valid indicator of future performance.*

Source for cover graph: Bloomberg, Scotia Capital estimates.

Summary and Investment Recommendation

- We have initiated coverage on 22 companies in the energy infrastructure sector. These companies are engaged in all segments of the sector: pipelines, utilities, power generation, renewable power, and midstream energy.
- The investing environment for energy infrastructure remains constructive, in our view. Tens of billions of dollars will likely be invested in the next five years to accommodate unconventional oil and gas production and Canada's renewable power and CO_2 reduction policies.
- While bond yields remain low, we believe investors will continue seeking steady-dividend-paying and dividend-growth stocks. The high free cash yields among the companies in our coverage universe should support annual dividend growth in many cases, and at least steady high dividend yields in others.
- Though dividends are the main catalyst for stock price moves today, mergers and acquisitions in the energy infrastructure sector could also boost shares. We see continued acquisition of U.S. companies and also of small cap, non-dividend-paying development companies.
- The stocks have run hard over the past two years, so we believe valuation expansion potential is probably limited to special cases. In this context, we prefer stocks that offer attractive dividend growth prospects (Enbridge Inc., TransCanada Corporation, Spectra Energy Corp., Gibson Energy Inc., Algonquin Power & Utilities Corp., and Canadian Utilities Limited) or those that still offer premium yields that are likely sustainable (Veresen Inc., Northland Power Inc., Brookfield Renewable Power Fund, Inter Pipeline Fund, and Provident Energy Ltd.).

Exhibit 1: Energy Infrastructure Rating and Target Summary

Ticker	Company Name	Close price 9/13/2011	SC Rating	Target Price	Current Dividend	Projected ROR	Free Cash Flow 2012E	Target Implied 2012E Free Cash Yield	Target Implied 2012E EV/EBITDA
AQN	Algonquin	$5.62	**1-SO**	$7.00	$0.28	30%	$0.59	8.4%	11.0x
ALA	AltaGas	$26.98	**3-SU**	$24.00	$1.32	-6%	$2.18	9.1%	12.9x
ACO.X	ATCO	$61.15	**2-SP**	$66.00	$1.14	10%	$5.06	7.7%	7.3x
ATP	Atlantic	$14.50	**2-SP**	$15.00	$1.09	11%	$1.35	9.0%	9.9x
BRC.UN	Brookfield Renewable	$24.85	**1-SO**	$30.00	$1.30	26%	$1.69	5.6%	14.9x
CU	Canadian Utilities	$60.44	**1-SO**	$67.00	$1.61	14%	$4.66	7.0%	9.5x
CPX	Capital Power	$25.11	**3-SU**	$23.00	$1.26	-3%	$2.29	10.0%	13.1x
CSE	Capstone	$6.72	**2-SP**	$7.25	$0.66	18%	$0.65	8.9%	10.6x
EMA	Emera	$30.90	**2-SP**	$33.00	$1.30	11%	$2.35	7.1%	10.8x
ENB	Enbridge	$31.40	**1-SO**	$40.00	$0.98	31%	$2.87	7.2%	13.6x
FTS	Fortis	$32.12	**2-SP**	$34.00	$1.16	9%	$2.47	7.3%	11.1x
GEI	Gibson	$17.84	**1-SO**	$20.00	$0.96	17%	$1.64	8.2%	9.7x
INE	Innergex	$9.40	**2-SP**	$10.00	$0.58	13%	$0.70	7.0%	13.0x
IPL.UN	Inter Pipeline	$15.80	**1-SO**	$18.00	$0.96	20%	$1.35	7.5%	13.0x
KEY	Keyera	$45.63	**2-SP**	$46.00	$1.92	5%	$3.20	7.0%	13.7x
NPI	Northland	$15.49	**1-SO**	$18.00	$1.08	23%	$1.15	6.4%	14.4x
PPL	Pembina	$24.62	**2-SP**	$25.00	$1.56	8%	$1.75	7.0%	15.0x
PVE	Provident	$8.13	**1-SO**	$9.50	$0.54	23%	$0.77	8.1%	12.6x
SE	Spectra (US$)	$25.14	**1-SO**	$30.00	$1.04	23%	$2.25	7.5%	9.2x
TA	TransAlta	$21.72	**2-SP**	$23.00	$1.16	11%	$1.84	8.0%	9.4x
TRP	TransCanada	$41.31	**1-SO**	$50.00	$1.68	25%	$3.89	7.8%	13.0x
VSN	Veresen	$13.64	**1-SO**	$16.00	$1.00	25%	$1.34	8.4%	10.0x
Average								**7.7%**	**11.5x**

Source: Company reports; Scotia Capital estimates.

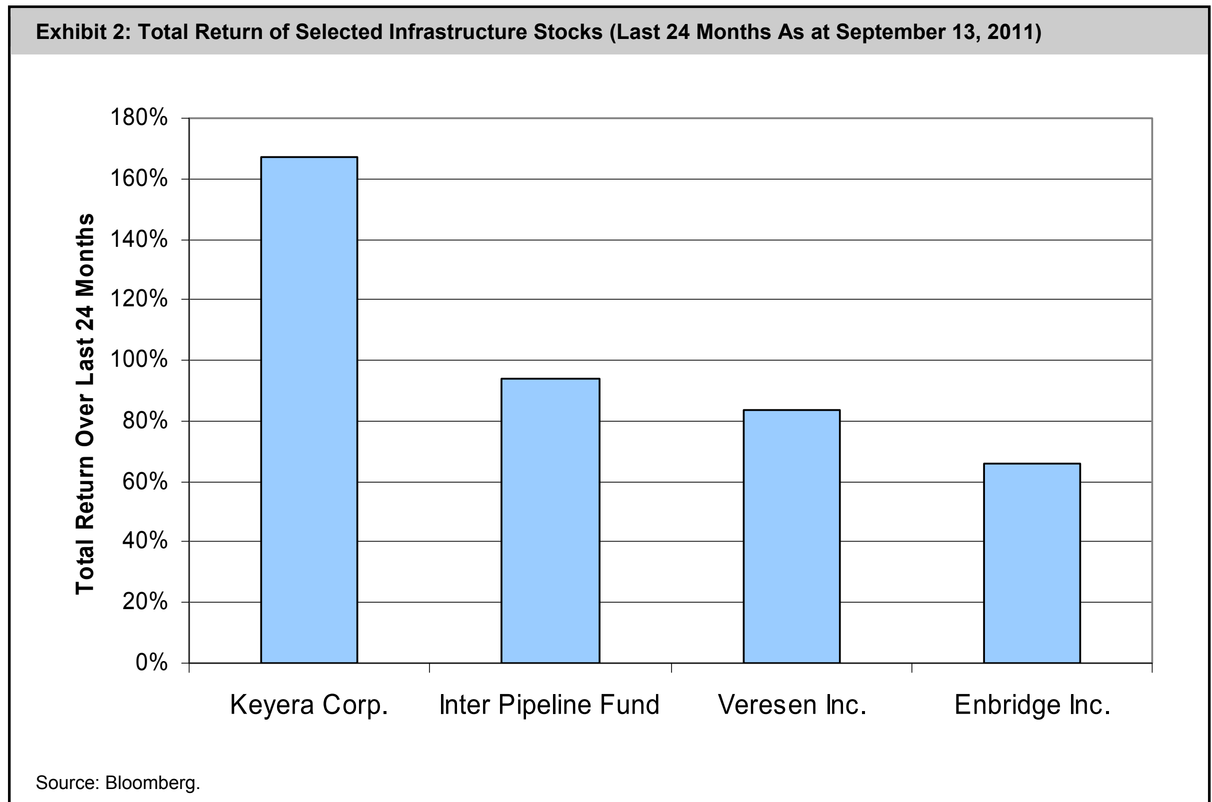
Acquisitions, Oil Price, and Yield Appetite to Drive Stocks

NOT THE UTILITIES YOUR GRANDFATHER USED TO OWN

It is often said that boring companies make for good investments, because their steady, low-risk business models and dividends pay off over time in total returns. No category of investments better fits the "boring" label than utilities. But even Canada's utility stocks have been subjected to the inescapable global forces of increased competition, deregulation, and commodity price fluctuations. Most utilities have proactively diversified into businesses subject to competitive market forces and are now aptly termed "energy infrastructure" companies. And the opposite has happened too: some deregulated companies have diversified into regulated utility businesses. As diversified energy infrastructure companies, the former utilities are still good investments. Their performance is, however, more volatile and varied than it used to be.

Some of the new competitive forces in the energy infrastructure industry have driven significant share price movement – particularly to the upside – as growth in cash flow per share accelerated. For example, companies with exposure to rising oil prices, whether through the related escalation in propane prices or through pipeline volume flows, have seen their shares skyrocket (see Exhibit 2).

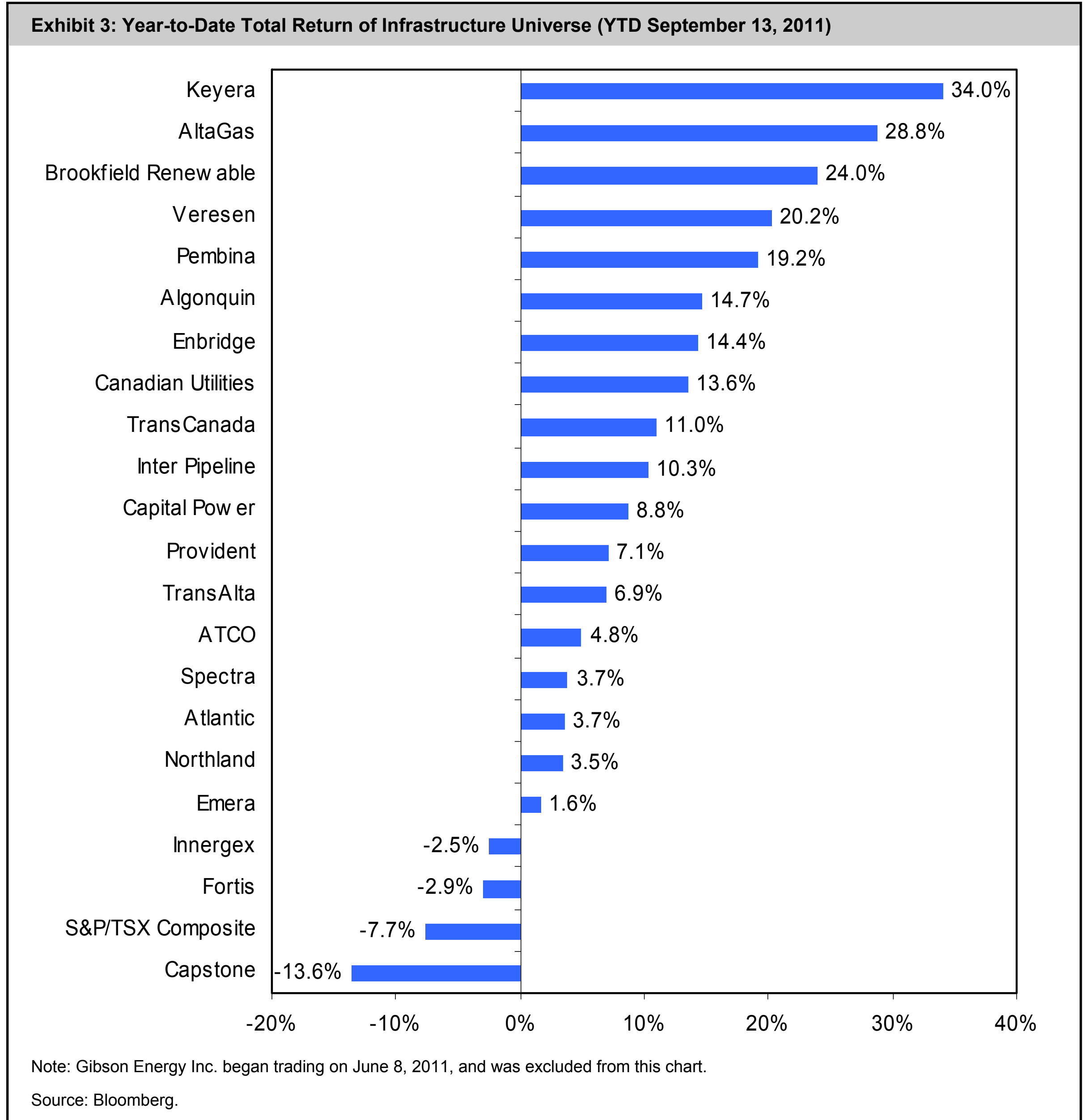
Exhibit 2: Total Return of Selected Infrastructure Stocks (Last 24 Months As at September 13, 2011)



Source: Bloomberg.

In part, the yield rally is behind much of the stock price movement. But share price changes in the sector have as much to do with business models, individual management decisions, and the external forces now bearing on the industry as they do with dividend yields. Some companies with high dividend yields have experienced poor share price performance, while others with low dividend yields have experienced strong performance. In the past nine months alone, share prices among companies in our coverage universe have diverged by over 40% (see Exhibit 3).

Exhibit 3: Year-to-Date Total Return of Infrastructure Universe (YTD September 13, 2011)



Note: Gibson Energy Inc. began trading on June 8, 2011, and was excluded from this chart.

Source: Bloomberg.

Five industry forces and themes are driving these sharp differences in share price movements, in our view:

- **Organic growth.** In general, organic growth among the infrastructure stocks is derived from reinvesting retained cash into new investments with attractive returns. New oil and gas drilling technology, oil sands expansion, and renewable power policies are driving organic growth opportunities across the sector.
- **Commodity price fluctuations.** Many of the companies have direct commodity price exposure via the power price, frac spread, gas storage spread, NGL marketing margin, or light-heavy oil price spread.
- **Regulatory changes.** Canada's regulators have moved away from traditional cost-of-service regulation and toward competitive tolling and incentive regulation, thereby allowing returns on equity (ROEs) to escalate relative to government bond yields.
- **Mergers and acquisitions.** Canadian energy infrastructure companies have a long history of making acquisitions, especially in the United States. That trend appears to have strengthened now that relative valuations and currency are in Canada's favour.
- **Dividend payout policies.** Companies with relatively high dividend payout ratios have generally been rewarded with relatively high valuations. Management teams are seeking ways to surface free cash flow and boost trading multiples.

The extent to which any one of these industry and market forces affects a company's stock depends on its business mix. Regulated utilities are still an important part of the industry, especially for a small handful of companies. But they now make up a minority of the total asset mix in Canada's energy infrastructure sector. Other businesses such as gathering, processing, storage, and handling of energy commodities make up a growing proportion of the sector. And, though pipelines generally still have some component of rate regulation, most of these assets are now under commercial contracts or long-term, commercially derived tolling agreements. These assets can still deliver attractive risk-adjusted returns, but they are not the utilities your grandfather used to own – they are more volatile and complex (see Exhibit 4).

Valuing the various businesses within the companies is as much of a challenge as analyzing and predicting their cash flow profiles. Certainly some businesses have higher volatility or shorter asset lives than others (e.g., contract power plants vs. pipelines). These factors bear on our relative valuation metrics.

But business differences aside, we believe it is "free cash yields" that are primarily driving relative valuations. We define free cash yield as cash flow from operations before working capital changes, minus maintenance capital expenditures. Canada's energy infrastructure stocks tend to trade on the relationship of their free cash yields to high-quality corporate bond yields. In this sense, the valuation of the whole group is still highly sensitive to changes in the underlying risk-free interest rate and in credit spreads.

In our opinion, almost all of the "supernormal" return resulting form the drop in bond yields and compression in credit spreads is already reflected in Canada's energy infrastructure stocks. However, we believe the group should deliver attractive total investment returns in the coming years. Organic and acquisition growth opportunities abound, and the commodity price and regulatory environments still appear constructive. We especially recommend owning shares in Enbridge Inc., TransCanada Corporation, Spectra Energy Corp., Gibson Energy Inc., Algonquin Power & Utilities Corp., Canadian Utilities Limited, Veresen Inc., Northland Power Inc., Brookfield Renewable Power Fund, Inter Pipeline Fund, and Provident Energy Ltd. at this time. On the other hand, in our view AltaGas Ltd. and Capital Power Corporation could underperform over the next 12 months.

Exhibit 4: Businesses of the Business

	Regulated		Midstream			Power			
Company Name	**Regulated Distribution & Generation Utility**	**Regulated Long-Haul Pipeline**	**Liquids, Gathering, Transport & Terminaling**	**Gas Gathering, Processing & Storage**	**Frac-based extraction**	**Traditional Power - LT Contracted**	**Power - ST Contracted and Merchant**	**Power - Renewable (3)**	**Energy Marketing and Other**
Algonquin (2)	55%					15%		30%	
AltaGas (2)	10%			35%	25%		25%	5%	
ATCO (1)	50%			5%	5%	10%	5%		25%
Atlantic (2)						60%	30%	10%	
Brookfield Renewable (2)								100%	
Capital Power (1)						35%	45%	20%	
Capstone (2)	5%						50%	45%	
Canadian Utilities (1)	65%			10%	10%	10%	5%		
Emera (1)	75%	15%				5%			5%
Enbridge (1)	15%	45%	20%	10%	5%			5%	
Fortis (1)	90%							5%	5%
Gibson (2)			55%		10%				35%
Innergex (2)								100%	
Inter Pipeline (2)			55%	15%	30%				
Keyera (2)			30%	35%					35%
Northland (2)						80%		20%	
Pembina (2)		5%	65%	10%					20%
Provident (2)			20%	10%	40%				30%
Spectra (1)	25%	40%		15%	20%				
TransAlta (1)						45%	25%	20%	10%
TransCanada (1)		60%	5%	5%		15%	10%	5%	
Veresen (2)		55%	5%	5%	25%	5%		5%	

Note 1: Expressed as a percentage of earnings.

Note 2: Expressed as a percentage of EBITDA or operating margin.

Note 3: Renewable power in Canada is generally long-term contracted.

Source: Company reports; Scotia Capital estimates.

Certified Organic Growth

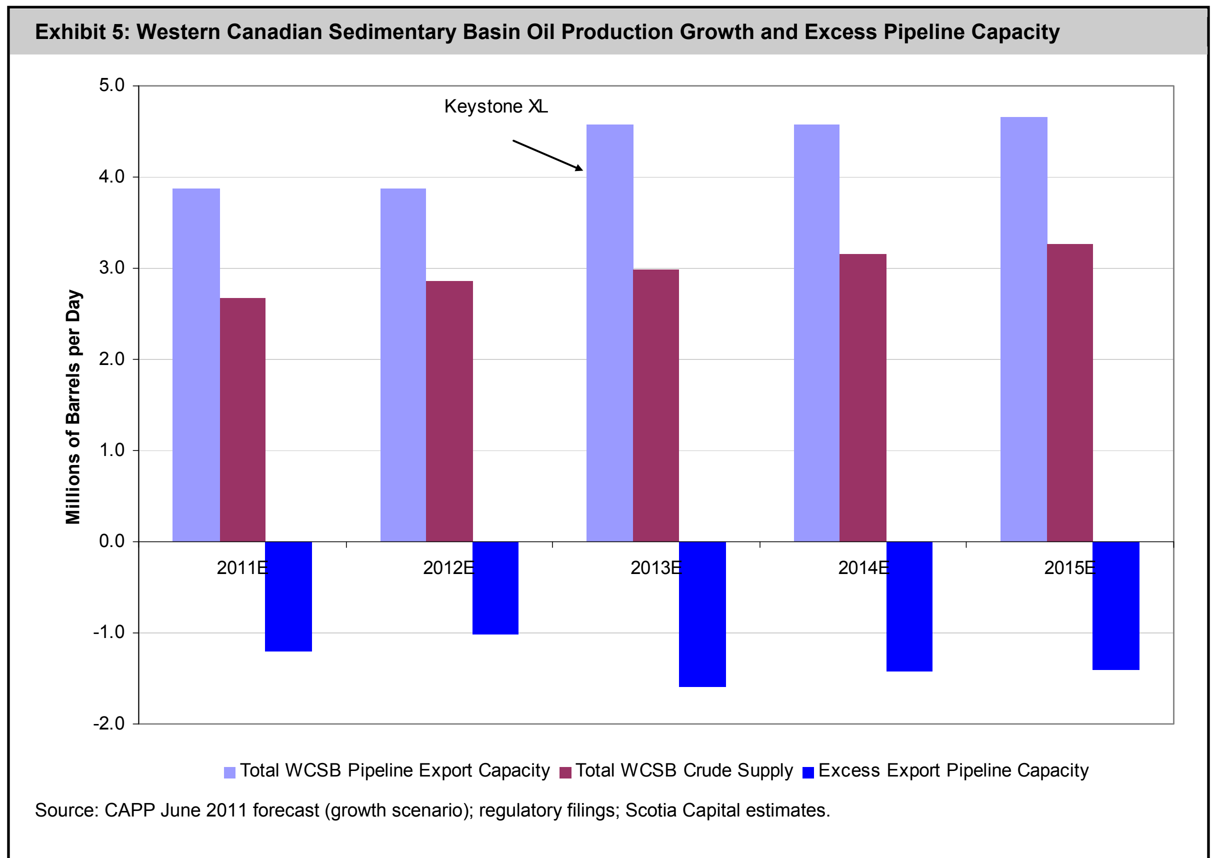
Canada's continued commodity boom spawns infrastructure growth opportunities unique to Canadian companies. Infrastructure development goes hand-in-hand with the exploitation of Canada's oil sands and shale gas plays. The ongoing commitment to renewable energy, while possibly waning in Ontario, remains relatively strong in Canada compared to other jurisdictions. Also, continued economic growth and a stable housing market mean regulated distribution utility expansion persists in Canada while it fades elsewhere.

OIL INFRASTRUCTURE

With all the bad press on oil pipelines lately, one would hardly know that these investments have been a boon to energy infrastructure shareholders. Enbridge's 2010 pipeline leak in Michigan created a flurry of negative news stories that permeated the sector. TransCanada's proposed Keystone XL pipeline has attracted similar ire, becoming a convenient lightning rod for environmental opposition to the carbon-intensive development of Alberta's oil sands. Despite the image problem, we expect pipeline development will continue to be a mostly positive catalyst for energy infrastructure stocks.

Enthusiasm for long-haul oil pipeline development must be tempered, though, by looming overcapacity in the system (see Exhibit 5). In recent years, Enbridge, TransCanada, and Kinder Morgan have all added to Canada's oil export capacity. Production out of the oil sands has failed to keep pace with pipeline capacity additions. Assuming TransCanada's Keystone XL pipeline to the Gulf Coast is approved, there will be roughly 1.5 mmbbl/d of spare oil export capacity out of Canada by the end of 2013. After Keystone is completed, it may be five years or more before another significant expansion of a Canadian oil export pipeline.

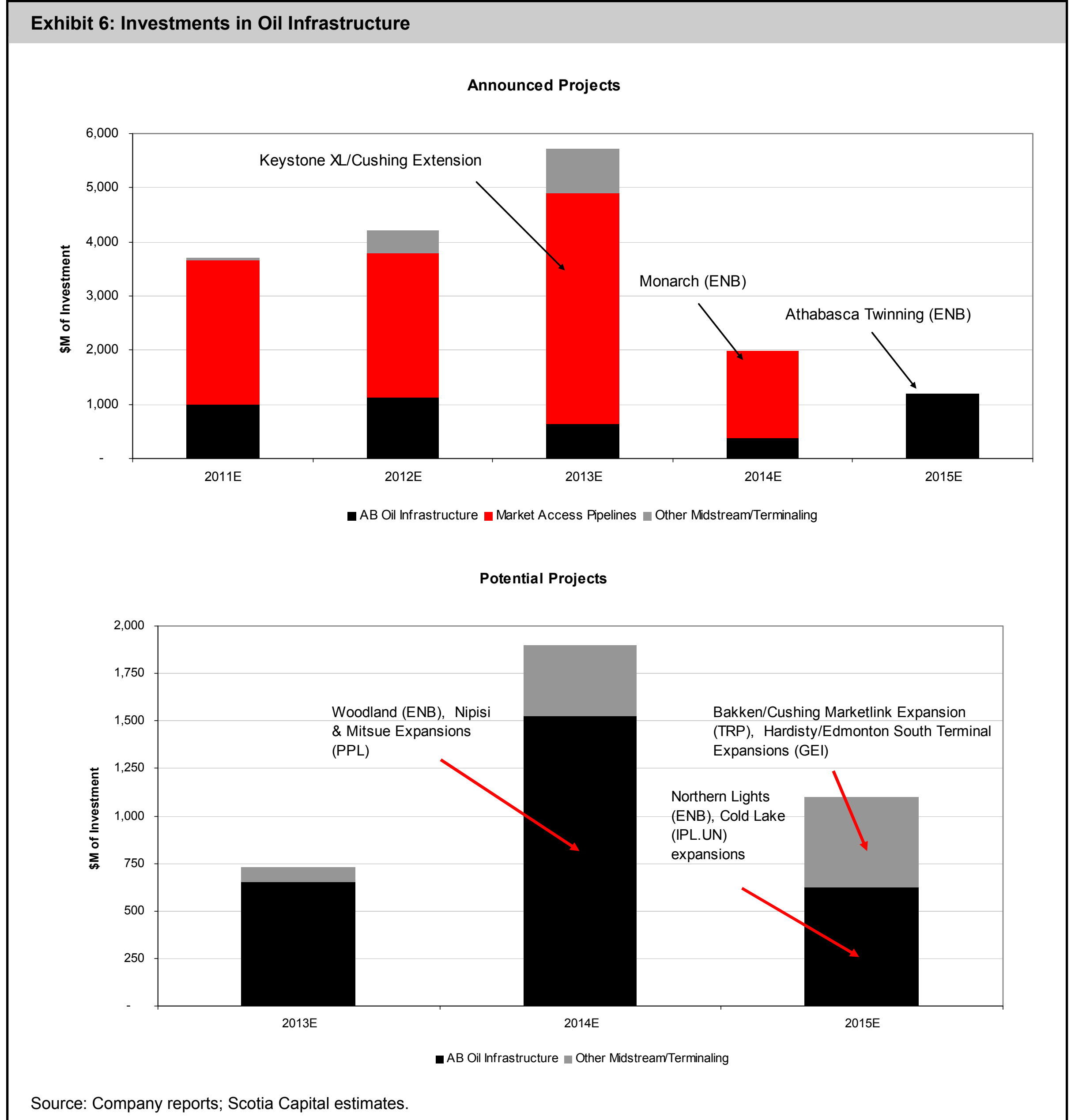
Exhibit 5: Western Canadian Sedimentary Basin Oil Production Growth and Excess Pipeline Capacity



Source: CAPP June 2011 forecast (growth scenario); regulatory filings; Scotia Capital estimates.

Despite the excess capacity, we still believe billions of dollars will be invested each year in related oil infrastructure, including extensions of existing systems to new markets for Canadian oil, intra-Alberta oil pipelines, intra-Alberta diluent pipelines, and liquids terminal and storage facilities (see Exhibit 6). Some of these investments are likely to be large scale, especially intra-Alberta oil pipelines transporting liquids from the oil sands down to the main Edmonton and Hardisty hubs.

Exhibit 6: Investments in Oil Infrastructure



Source: Company reports; Scotia Capital estimates.

GAS INFRASTRUCTURE

The gas infrastructure story in Canada is less clear-cut than the oil infrastructure story. Oil infrastructure in Canada is growing with oil sands production. The future of gas infrastructure is less straightforward because gas productivity out of the Western Canadian Sedimentary Basin (WCSB) has been in decline for several years. Despite the production decline, the reconfiguration of gas infrastructure from serving mostly dry and conventional gas to serving mostly liquids-rich and shale gas requires billions of dollars in new investment.

Large new investments in gas processing plants in both Horn River and Montney are already underway (see Exhibit 7). Spectra had a virtual monopoly on processing gas in the Horn River, but Encana and others have permitted a new plant at Cabin Lake that will likely be acquired by one of the infrastructure companies. Meanwhile, a wide range of companies has announced new projects in and around the Montney. Announced processing plants and expansions will require over $2 billion in new investment. Scotia Capital forecasts that by 2016 gas production in British Columbia will ramp up by another 4 bcf/d, requiring another $3 billion of investment in processing infrastructure.

Exhibit 7: Gas Processing Plants in Horn River and Montney

Announced processing plants or expansions					
Area	**Company**	**Plant**	**Capital Expenditure**	**In-Service**	**Capacity**
Montney	AltaGas	Gordondale	$235M	Late 2012	120 mmcf/d
	Spectra	Dawson	$500M	2011-2013	200 mmcf/d
Horn River	Spectra	Fort Nelson North	$500M	Q2/2012	250 mmcf/d
	Encana	Cabin	$800M-$1B	Q3/2012	800 mmcf/d
Total announced processing plants or expansions			**~$2B**		**1.4 bcf/d**

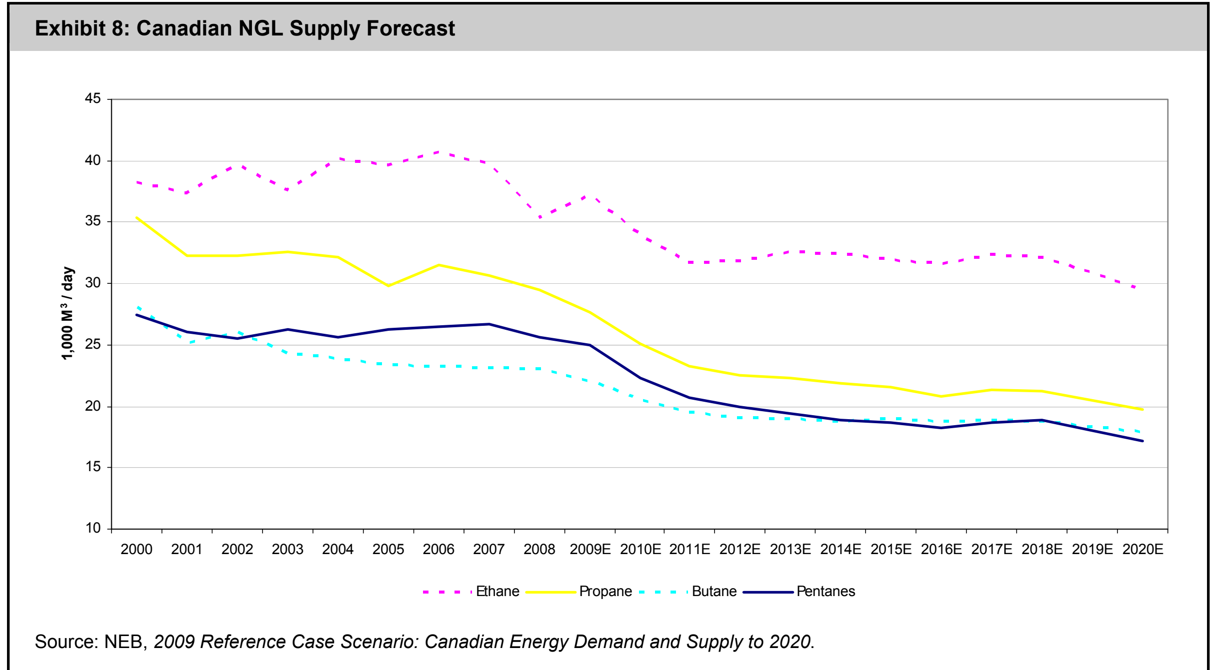
Possible additional processing plant expansions					
Area	**Company**	**Plant**	**Capital Expenditure**	**Timing**	**Expansion Capacity**
Montney	AltaGas / Provident	Younger	$200M	TBA	250 mmcf/d
	AltaGas	Gordondale	$200M	TBA	200 mmcf/d
	Keyera	Simonette	$200M	TBA	200 mmcf/d
	Spectra	Various Plants	$800M	TBA	1 bcf/d
Horn River	Spectra	Fort Nelson & Fort Nelson North	$200M	TBA	250 mmcf/d
	Encana	Cabin Gas Plant	$1B	TBA	1.6 bcf/d
Total 5-yr additional processing plants / expansions			**~$3B**		**~3.5 bcf/d**

Source: Company reports; Scotia Capital estimates.

An entirely new type of investment in natural gas infrastructure is on the horizon as natural gas prices stagnate and natural gas liquids (NGL) prices rise. In these business conditions, producers must capture and maximize the value of NGLs in their gas streams. To this end, midstream companies are adding new NGL extraction equipment to existing processing facilities in the field. It is difficult to quantify the size of the related investment opportunity, but we believe billions of dollars may ultimately be spent in the quest to wring more liquids from the gas stream before it moves into TransCanada's Alberta gathering system.

Asset rationalization, as much as asset expansion, may drive value in Canada's NGL extraction business. In the absence of an increase in WCSB gas productivity, it is difficult to envisage a large increase in NGL production. In fact, most third parties are forecasting a slow decline in overall NGL production for Canada (see Exhibit 8).

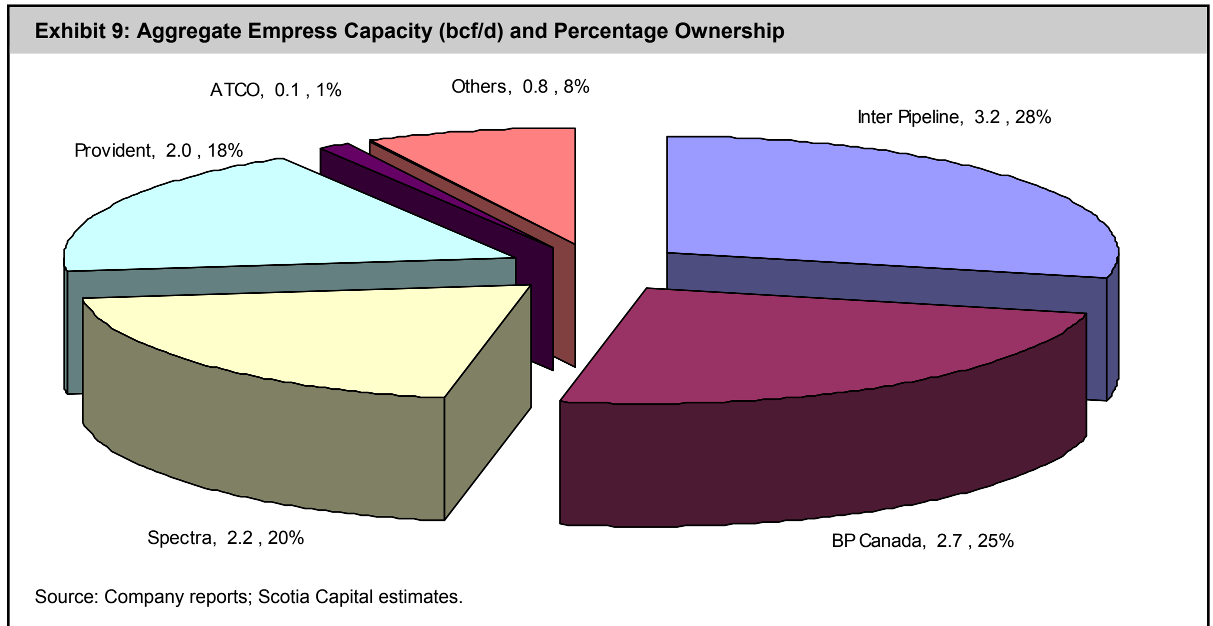
Exhibit 8: Canadian NGL Supply Forecast



Source: NEB, *2009 Reference Case Scenario: Canadian Energy Demand and Supply to 2020.*

In the context of flat or slightly declining NGL production, an increase in NGL extraction in the field will likely necessitate a rationalization of the large-scale NGL extraction plants near Alberta's border (so-called "straddle plants"). In particular, the Empress facilities on Alberta's eastern border have been emptying out and are probably running at more than half of their rated capacity, averaging around 7 bcf/d throughput. We believe consolidation of these assets could improve returns for the Empress owners, especially Spectra and Provident, and that BP Canada's possible sale of its Empress stake could be a catalyst for this consolidation (see Exhibit 9).

Exhibit 9: Aggregate Empress Capacity (bcf/d) and Percentage Ownership

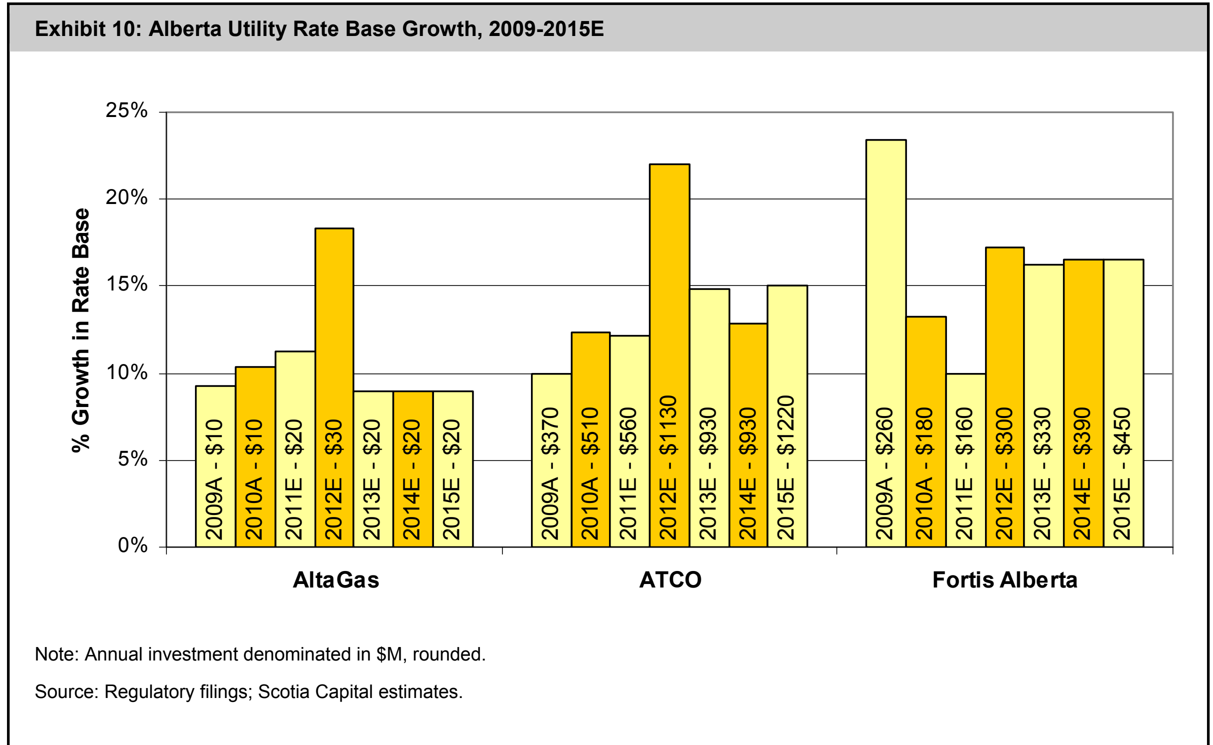


Source: Company reports; Scotia Capital estimates.

REGULATED UTILITIES

Energy production activities in Alberta are driving unprecedented regulated gas and electrical utility expansion in that province (see Exhibit 10). Regulated distribution utilities normally grow at the pace of the economy, or about 2% per year. But in Alberta, new customer attachments, the need to enhance the north-south transmission grid, and advanced metering investments are driving double-digit annual utility asset base growth.

Exhibit 10: Alberta Utility Rate Base Growth, 2009-2015E



Note: Annual investment denominated in $M, rounded.

Source: Regulatory filings; Scotia Capital estimates.

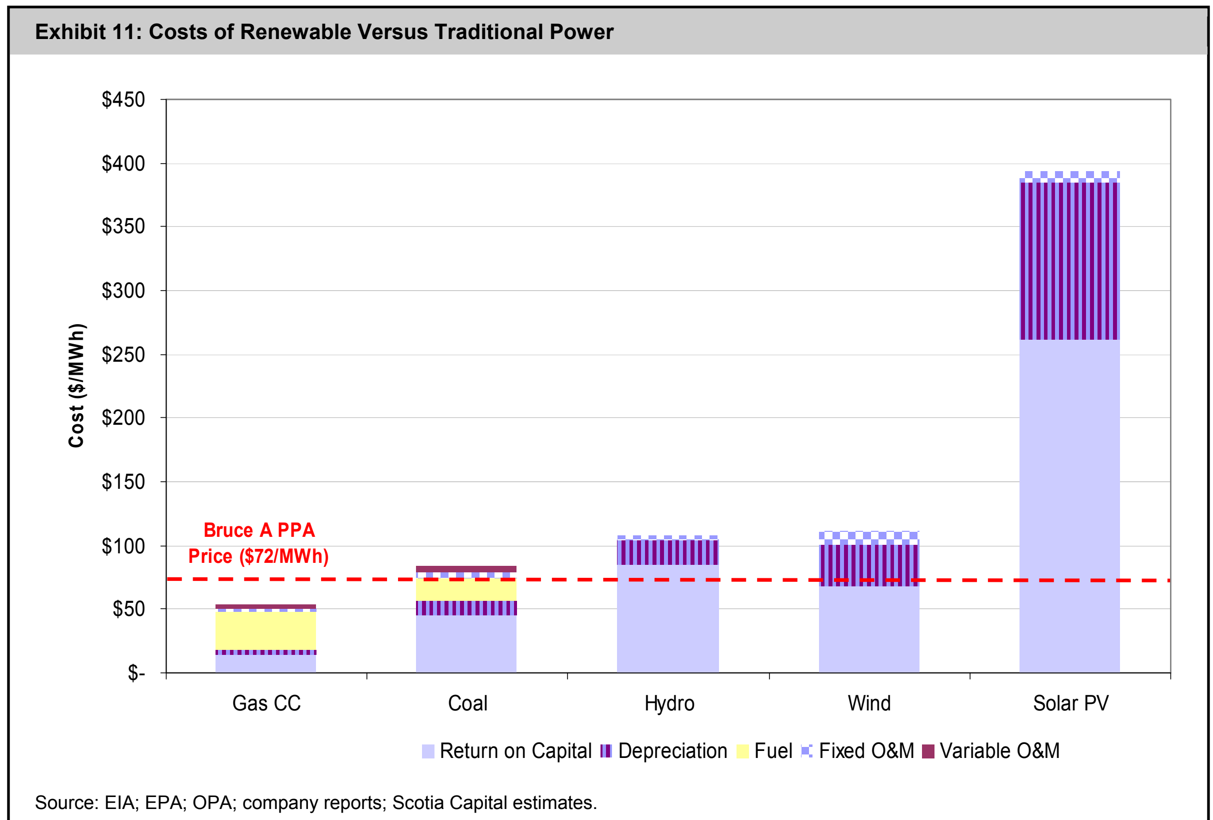
While utility investments are not normally exciting, they do add shareholder value in the current investing climate. We believe regulated utility returns are above the companies' cost of capital due to escalating share valuations and the downward stickiness in allowed returns on equity (more on regulation below). Therefore, the rapid growth in Canada's regulated utilities will likely drive share price appreciation for the infrastructure stocks.

RENEWABLE POWER

Canada's renewable power industry has morphed into a utility-type business in recent years, though it has garnered far more enthusiasm and attention than traditional pipes-and-wires investments. The vast majority of renewable power investments in Canada are made by private companies under long-term government contracts that effectively mirror a regulated utility return structure. Billions of dollars have already been invested in the Canadian renewable sector under these general terms.

Going forward, poor economics and reliability are challenges for renewable power. As natural gas prices have declined across North America, the fully loaded (i.e., fixed and variable) cost of traditional power has fallen. Meanwhile, the fully loaded cost of renewable power has remained stable. As a result, renewable power is now considerably more expensive than traditional power (see Exhibit 11).

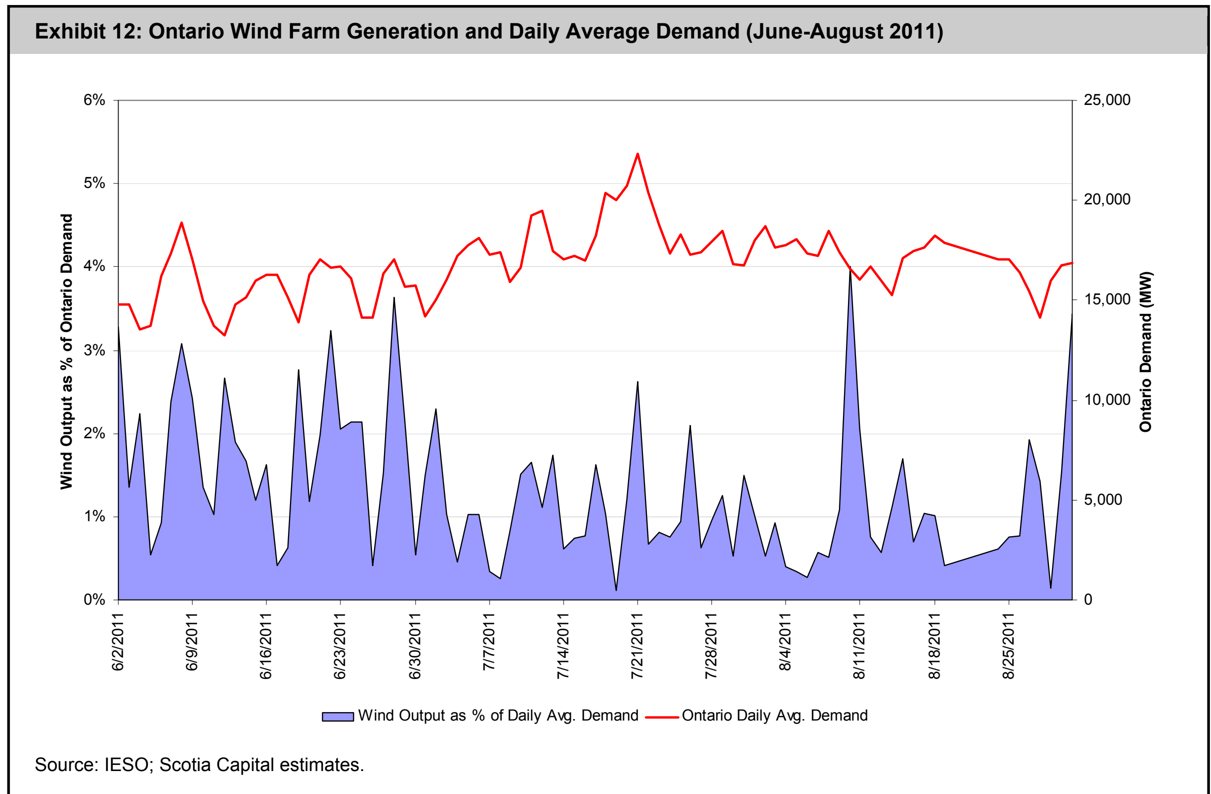
Exhibit 11: Costs of Renewable Versus Traditional Power



Source: EIA; EPA; OPA; company reports; Scotia Capital estimates.

Meanwhile, reliability concerns – particularly for wind power – are well founded. In Ontario, where about 1,400 MW of wind has been installed at a cost of about $3 billion, wind often contributes only about 1% of total supply on hot days during the summer months (see Exhibit 12). As a result, the province must install baseload power in the form of nuclear and gas-fired facilities to ensure reliability on peak load days.

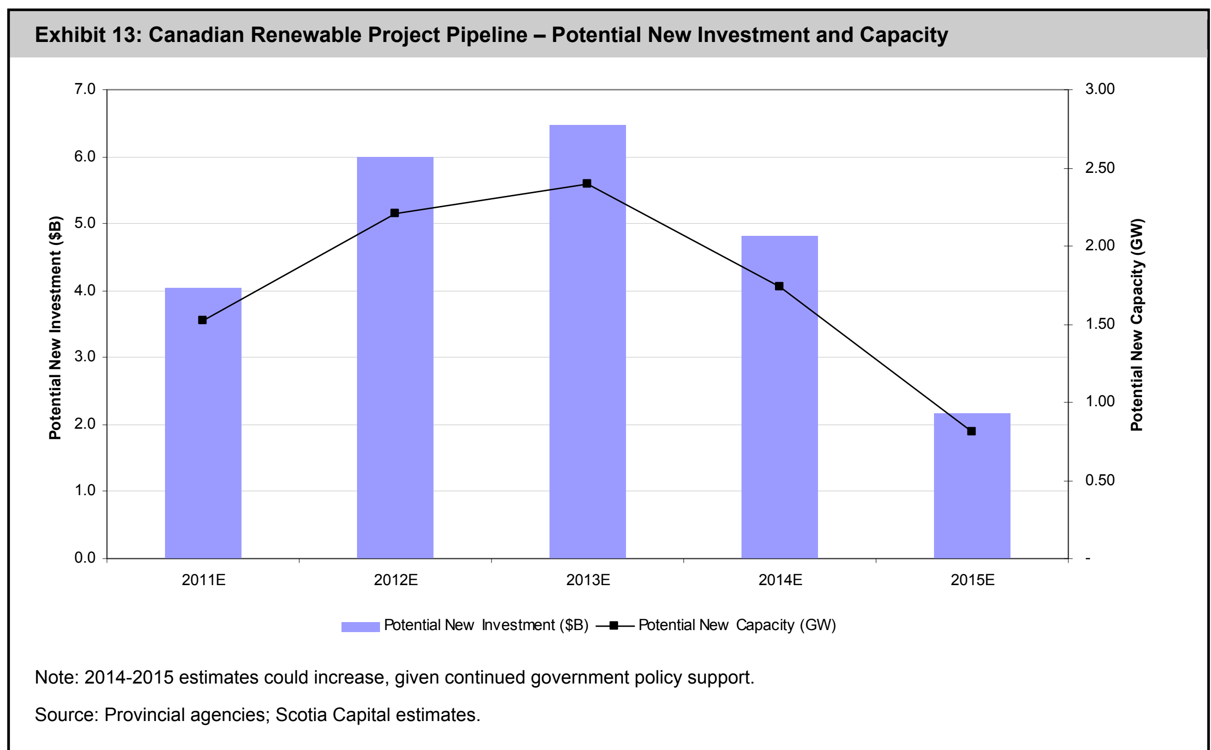
Exhibit 12: Ontario Wind Farm Generation and Daily Average Demand (June-August 2011)



Source: IESO; Scotia Capital estimates.

As a result of cost and reliability concerns and, to a lesser but still meaningful extent, local community opposition, subsidies for renewable power have been reduced or eliminated around the world, and renewable portfolio standards have been capped. In Ontario, the Conservative Party has stated that, if elected this fall, it will cancel the feed-in-tariff (FIT) program for renewable power. Nevertheless, many renewable projects in Ontario and across Canada are in advanced stages of development and will most likely proceed whether or not the FIT program is cancelled (see Exhibit 13).

Exhibit 13: Canadian Renewable Project Pipeline – Potential New Investment and Capacity



Note: 2014-2015 estimates could increase, given continued government policy support.

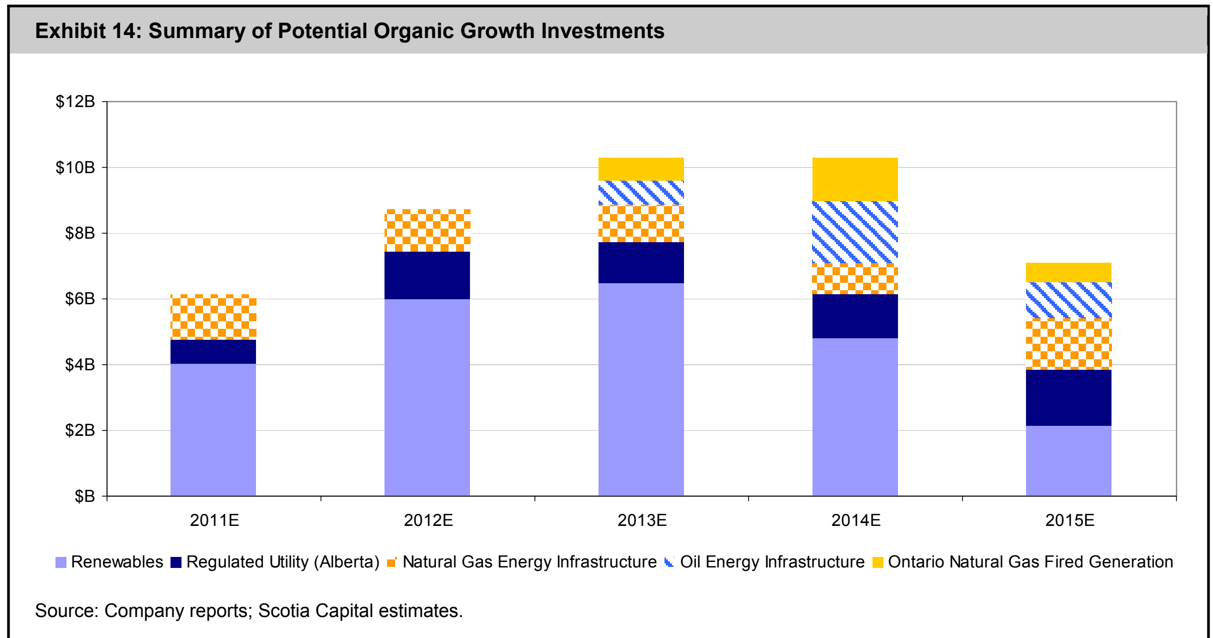
Source: Provincial agencies; Scotia Capital estimates.

We see less potential over the next few years for traditional power project investments than for renewable power investments in Canada. On the other hand, we believe gas-fired power construction will continue at a modest pace. Specifically, Ontario has a 500 MW target for new cogeneration plants and probably requires an additional 1,300 MW of gas-fired power as coal plants are fully phased out. Alberta's market also requires about 300 MW of new gas-fired power annually to maintain the local supply-demand balance. Across Canada, gas-fired power investments may amount to several billion dollars over the next three to five years.

AGGREGATE OPPORTUNITIES

Taken together, the organic growth opportunities for Canada's energy infrastructure companies are impressive. Despite the depressed global economic climate, we expect local oil and gas development and renewable power policies will drive expansion. Over the next five years, we estimate that there will be over $40 billion of attractive investment opportunities available for the companies under our coverage (see Exhibit 14). For investors in Canadian energy infrastructure shares, the organic expansion opportunities should translate into continued dividend growth and shareholder value creation.

Exhibit 14: Summary of Potential Organic Growth Investments



Source: Company reports; Scotia Capital estimates.

Commodity Conundrum

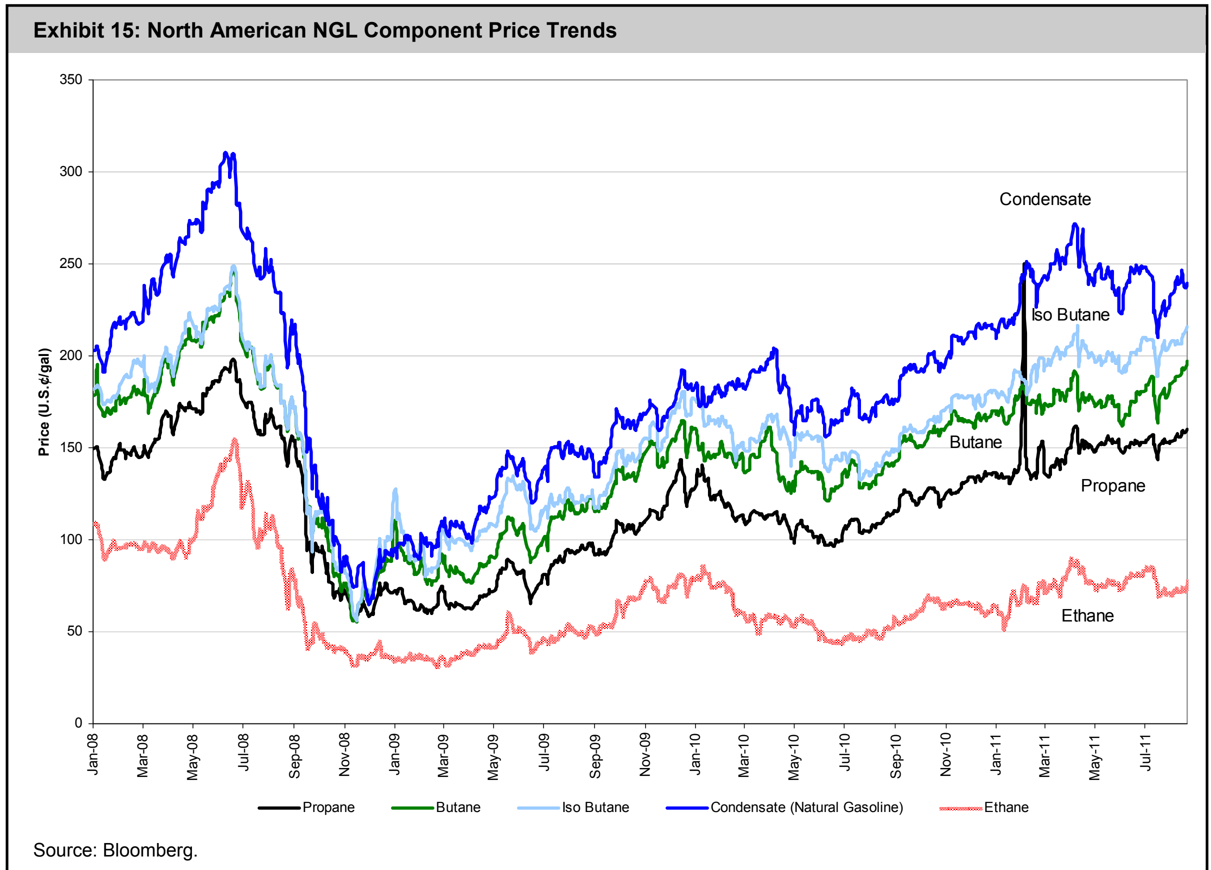
Commodity exposure is generally undesirable to investors in energy infrastructure stocks – unless of course that exposure works in their favour. The desired reduction in volatility on the one hand, contrasted with the increase in commodity-driven cash flow on the other, is an investment conundrum in the sector. Although commodity exposures have generally worked strongly in the sector's favour in recent years, we see minimal further positive impact from commodity price changes going forward.

FRAC SPREADS AND NGL PRICES

It is now widely understood that the so-called "frac spread" (the price difference between NGLs and natural gas) is a significant cash flow driver for several of our covered companies. What is generally less well appreciated is that the NGL price itself – independent of its relationship to gas prices – is also a meaningful cash flow driver for several companies (see Exhibit 15). Power price changes, which have a high correlation with natural gas prices, also impact several of the Canadian energy infrastructure companies.

Frac spreads have had a positive effect on midstream companies across North America, but the widening spreads have had a bigger positive impact on companies with Canadian assets and operations than on those with U.S. assets. That difference in impact is due to Alberta's unique gas processing industry structure. The ethane component of an NGL barrel – which generally makes up about 50% of the total NGL mix – in Alberta is long-term contracted to local chemical companies, whereas in the United States ethane is sold in short-term markets. The Alberta assets thus generally have no exposure to the ethane price whereas the U.S. assets do.

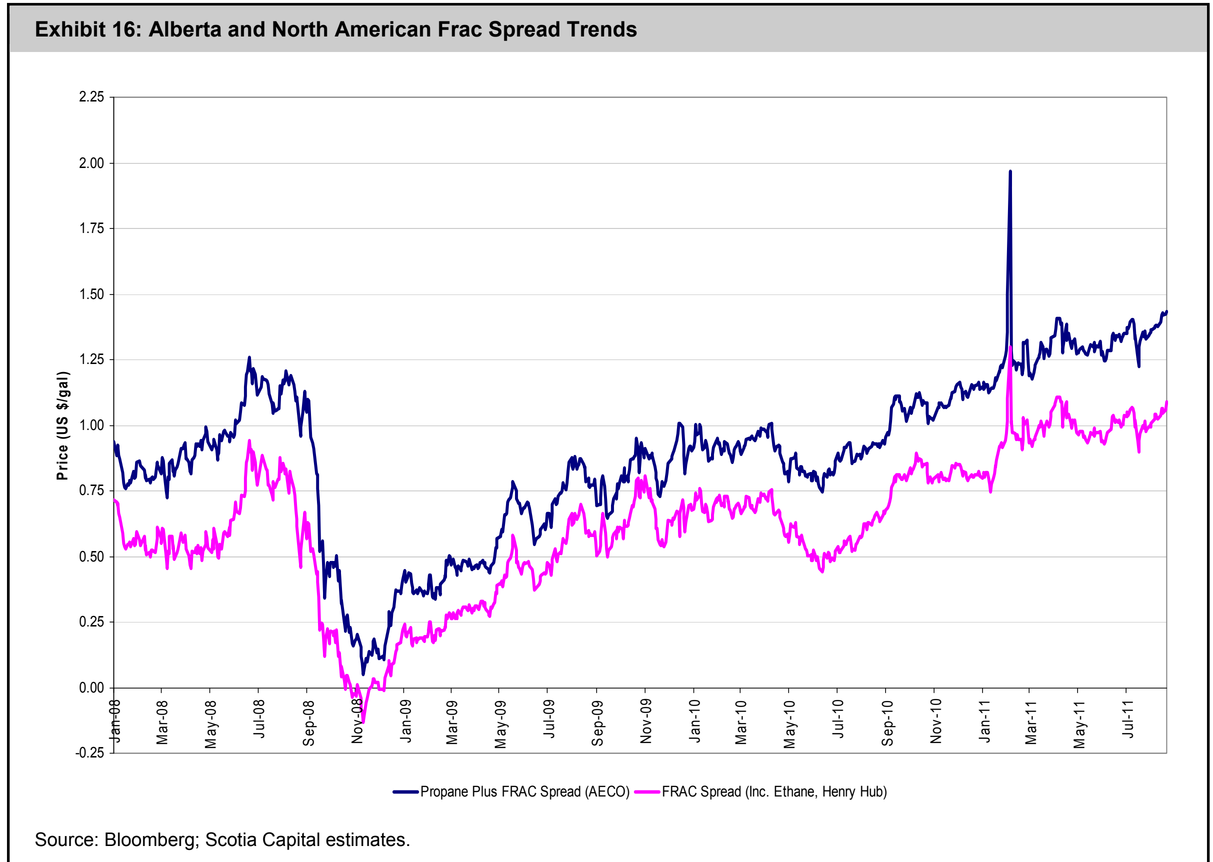
Exhibit 15: North American NGL Component Price Trends



Source: Bloomberg.

Because ethane prices have not lifted as much as other NGLs in recent years due to supply-demand factors, Alberta frac spreads have widened more rapidly than broader North American frac spreads (see Exhibit 16). While all companies in our coverage with frac spread exposure have fared well in recent years, those with Alberta-only exposure (AltaGas, Provident, Inter Pipeline) have realized greater margin expansion than those with U.S. exposure (Veresen, Enbridge, Spectra).

Exhibit 16: Alberta and North American Frac Spread Trends



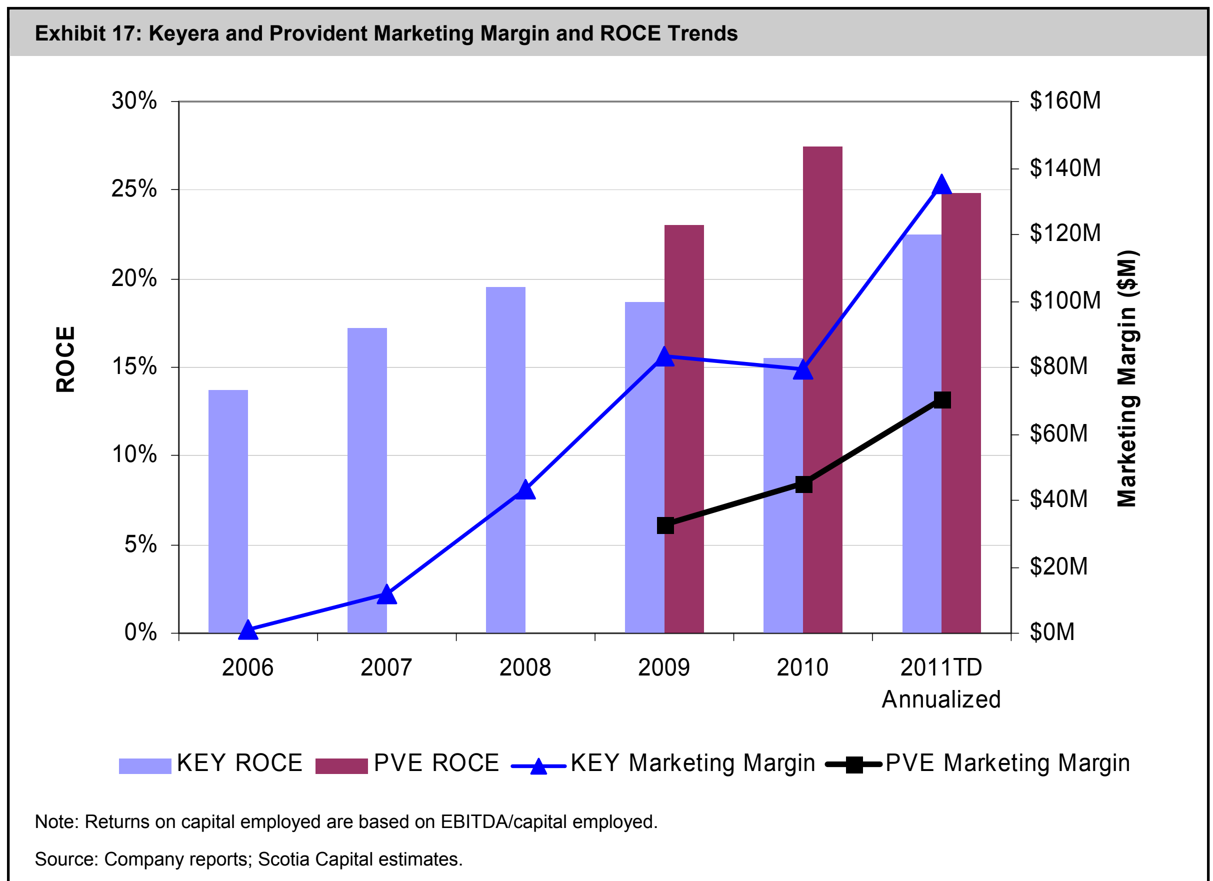
Source: Bloomberg; Scotia Capital estimates.

Barring another big lift in the oil price that may take propane prices still higher, we believe the Alberta frac companies (AltaGas, Inter Pipeline, and Provident) are now realizing peak frac spreads for two reasons. First, natural gas appears to have bottomed. Second, NGL market structure changes and increased competition for NGLs within Alberta could compress frac spreads whether or not commodity prices change.

Growing competition and increased rivalry between midstream companies and their gas producer customers is inevitable, in our opinion, because NGLs constitute a rising share of producer netbacks. This dynamic has already played out at Empress, where shippers have boosted so-called "premiums" (the price extraction plant owners pay to attract gas into their plants) and the owners of the Empress facilities have consequently realized compressed frac spread profit even though the NGL-methane spread has widened.

Possible changes to the NGL extraction convention in Alberta could exacerbate this competitive dynamic. Currently it is the delivery/export shippers (ex-province marketers, utilities, industrial customers) that own NGLs in the common Alberta natural gas stream. If that ownership shifts to the receipt-point shipper (the Alberta producer) as ordered by the Alberta Energy and Utilities Board, gas producers may have even more incentive and leverage to keep the NGL value for their shareholders instead of transferring it to the midstream infrastructure companies. Whether or not the NGL convention is changed, we believe field plants will compete more vigorously with straddle plants, thereby reducing frac-based profits for Alberta midstream companies absent any further commodity price fluctuations (see Exhibit 17).

Exhibit 17: Keyera and Provident Marketing Margin and ROCE Trends

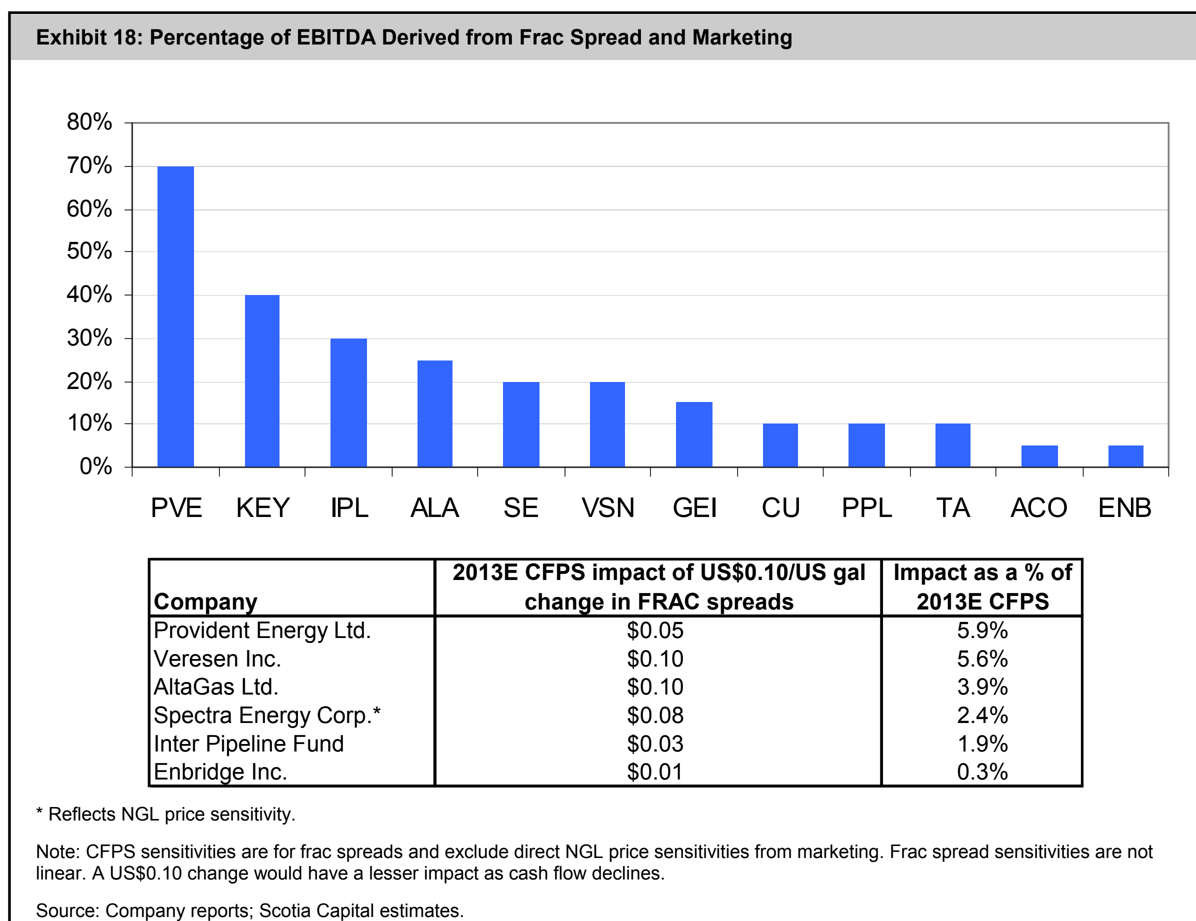


Note: Returns on capital employed are based on EBITDA/capital employed.

Source: Company reports; Scotia Capital estimates.

Profit margins for NGL marketing companies could compress for the same reasons. Historically, Alberta-based marketing companies have purchased non-ethane NGLs from producers or their aggregating agents at some premium to posted Alberta prices. Those premiums are opaque, so local Alberta non-ethane NGL wholesale price transparency has been lacking. As a result of this dynamic and general escalation in NGL prices across North America, marketing margins have widened. We understand that gas producers are seeking greater price transparency for their NGLs, meaning midstream marketing margins may have peaked (see Exhibit 18).

Exhibit 18: Percentage of EBITDA Derived from Frac Spread and Marketing



Company	2013E CFPS impact of US$0.10/US gal change in FRAC spreads	Impact as a % of 2013E CFPS
Provident Energy Ltd.	$0.05	5.9%
Veresen Inc.	$0.10	5.6%
AltaGas Ltd.	$0.10	3.9%
Spectra Energy Corp.*	$0.08	2.4%
Inter Pipeline Fund	$0.03	1.9%
Enbridge Inc.	$0.01	0.3%

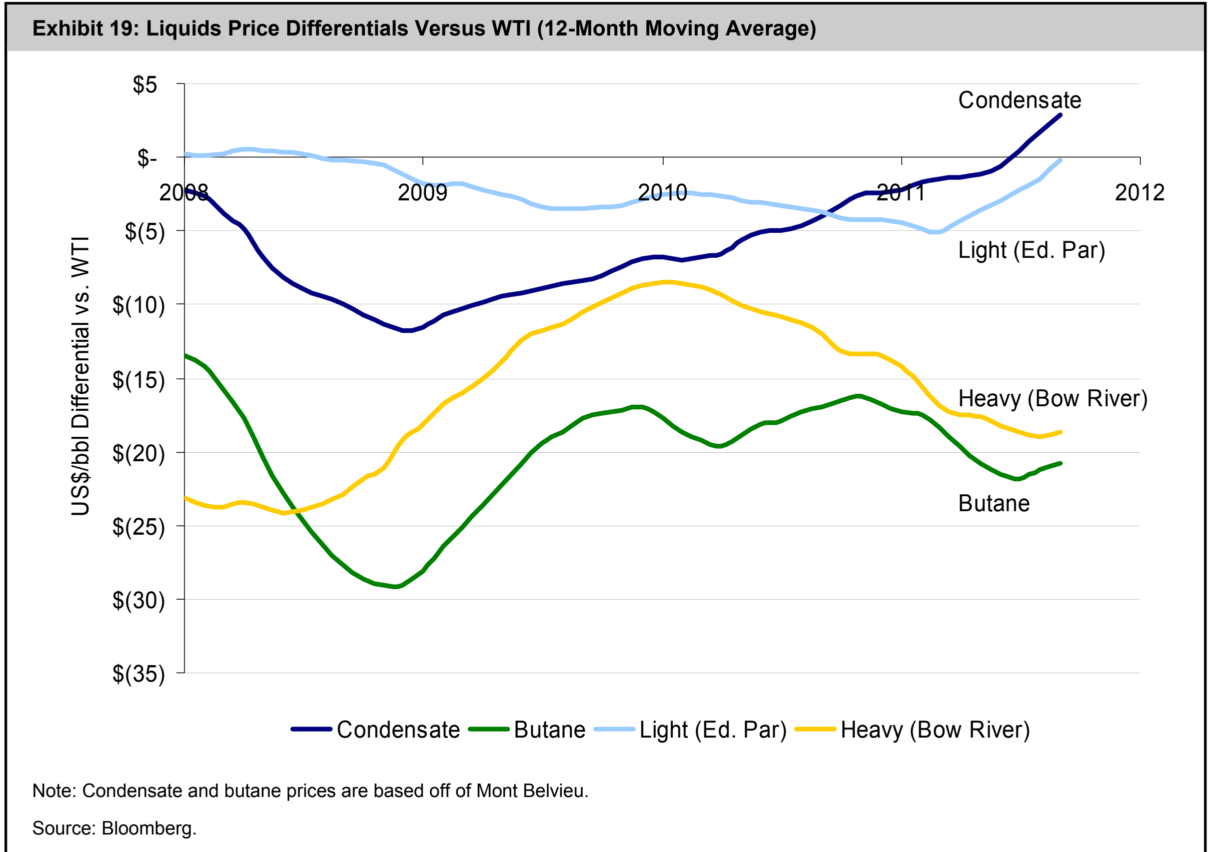
* Reflects NGL price sensitivity.

Note: CFPS sensitivities are for frac spreads and exclude direct NGL price sensitivities from marketing. Frac spread sensitivities are not linear. A US$0.10 change would have a lesser impact as cash flow declines.

Source: Company reports; Scotia Capital estimates.

Light-heavy oil differentials also drive marketing margins for some of the companies (see Exhibit 19). Widening differentials have boosted marketing profits for infrastructure and logistics companies able to pay a discounted price for heavy product and then blend it with lighter product in the pipeline to meet refinery specifications. One way or another, any marketing business within an energy infrastructure company faces significant commodity exposure.

Exhibit 19: Liquids Price Differentials Versus WTI (12-Month Moving Average)



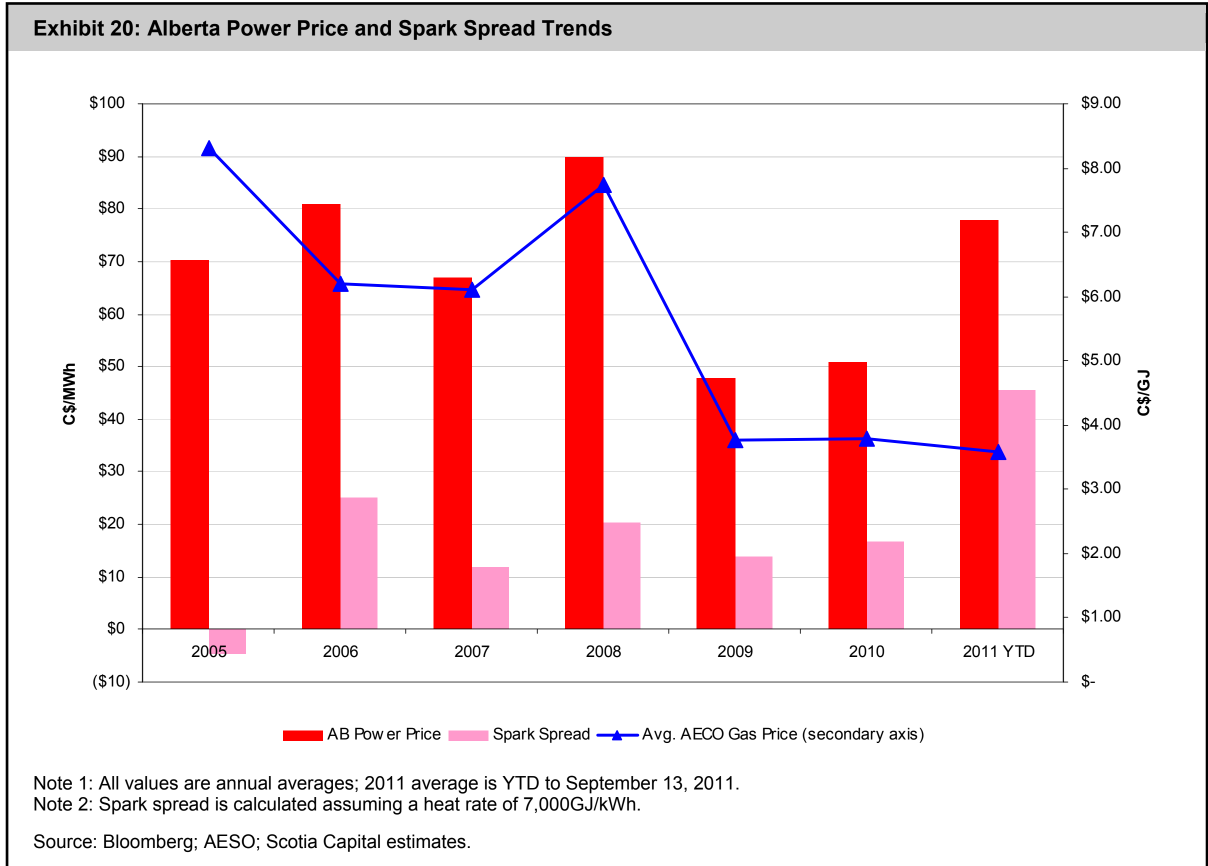
Note: Condensate and butane prices are based off of Mont Belvieu.

Source: Bloomberg.

POWER PRICES

While frac spread trends have generally only improved the fortunes of infrastructure companies in recent years, power prices have at times boosted cash flows and at other times depressed them (see Exhibit 20). Canada's power generation companies have growing exposure to U.S. markets, but their main exposure still lies in Alberta – Canada's only truly deregulated power market. And nowhere in North America are prices and spark spreads (gross margins for gas-fired generation) more volatile than in Alberta's energy-only market, which is dominated by large old coal plants with unreliable production performance.

Exhibit 20: Alberta Power Price and Spark Spread Trends



Note 1: All values are annual averages; 2011 average is YTD to September 13, 2011.
Note 2: Spark spread is calculated assuming a heat rate of 7,000GJ/kWh.

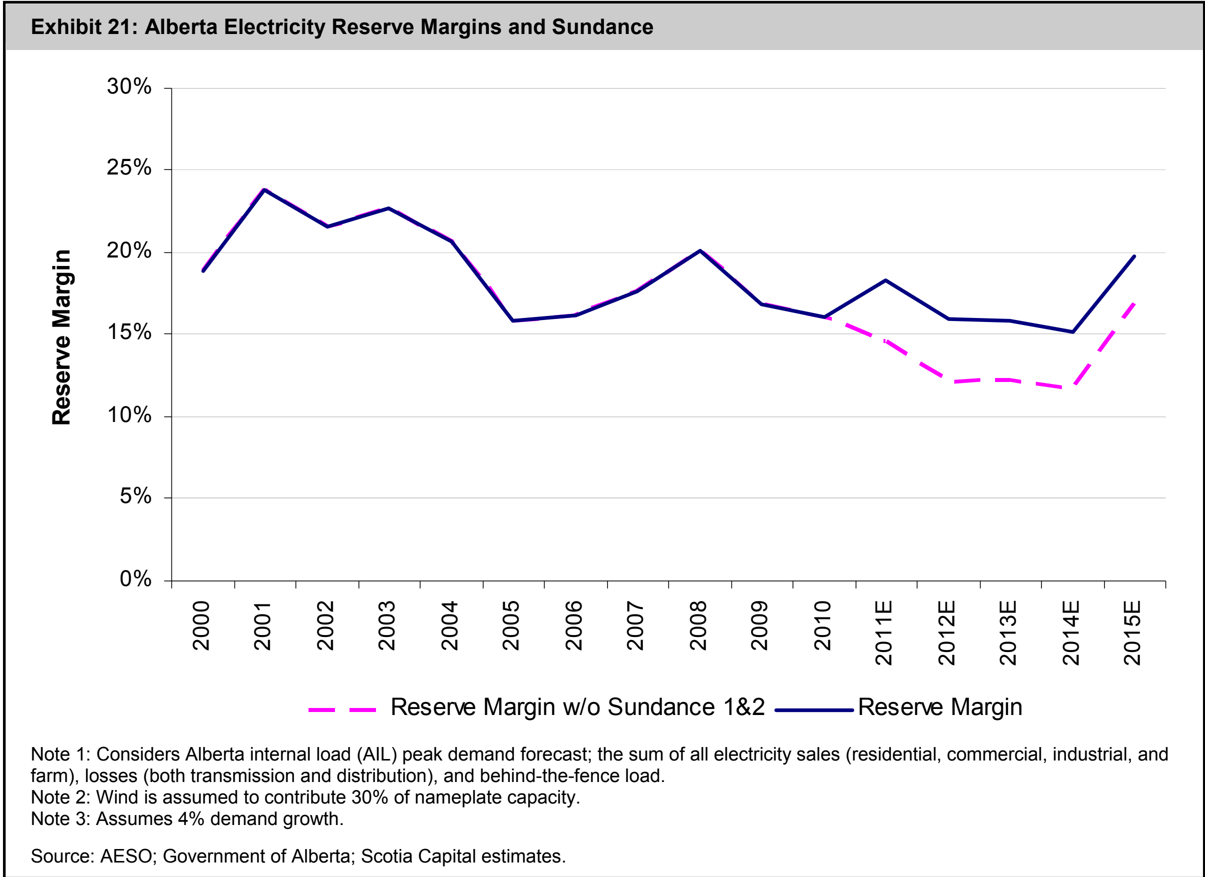
Source: Bloomberg; AESO; Scotia Capital estimates.

In recent months, Alberta power prices have escalated on spot and across the forward curve due primarily to TransAlta's long-term outage at its Sundance 1 and 2 coal-fired units. Because this 560 MW of capacity represents about 7% of average daily demand, their removal from service caused forward prices to spike by about $20/MWh, or about 40%. A major issue in forecasting power prices now, therefore, is whether these units will ever come back online.

We believe the Sundance units could come back online, thereby significantly reducing forward Alberta power prices. The process for negotiating or mandating a restart is complex and involves multiple parties, so the outcome of the negotiation is uncertain. However, if the public interest drives the final outcome at all, then in our opinion the plants will come back online. Our cost estimate for the repair of Sundance 1 and 2 is about $150 million, which pales in comparison to the roughly $10.0 billion of additional cost to Alberta electricity ratepayers of the $20/MWh electricity price increase over the potential remaining useful life of the plants.

If the Sundance plants do come back online, prices could drop back to the $45-$50/MWh level from the current $65-$70/MWh range. That is because, by our forecasts, reserve margins (the excess of supply over peak demand) will remain relatively stable over the forecast period despite demand growth. And, even more important, natural gas prices, which drive the marginal power price in Alberta about half the time, are flat across the forward curve (see Exhibit 21).

Exhibit 21: Alberta Electricity Reserve Margins and Sundance



Note 1: Considers Alberta internal load (AIL) peak demand forecast; the sum of all electricity sales (residential, commercial, industrial, and farm), losses (both transmission and distribution), and behind-the-fence load.
Note 2: Wind is assumed to contribute 30% of nameplate capacity.
Note 3: Assumes 4% demand growth.

Source: AESO; Government of Alberta; Scotia Capital estimates.

Our bearish view on Alberta power prices may contradict conventional wisdom at this time. However, we believe our opinion is well founded given the societal cost-benefit of returning Sundance to service. Even if Sundance remains offline and there is no downside to Alberta power prices, we have difficulty seeing much upside in prices without a significant rise in natural gas prices. At today's natural gas prices, we believe power prices in Alberta are already sufficiently high to entice new plant construction in market equilibrium. Several parties are actively discussing the construction of a new 800 MW gas-fired facility. From an investing perspective, then, given significant downside potential in Alberta power prices and little upside potential, we believe most stocks with significant Alberta power exposure have a poor risk-reward profile (see Exhibit 22).

Exhibit 22: Alberta Spark Spread and Power Price Sensitivity

$10/MWh Δ AB Spark Spread		
Company	Δ 2013 EPS (¢/share)	% of 2013E Earnings
CPX	5.9	5.3%
TA	3.9	3.6%
CU	11.1	2.7%
ALA	1.7	1.6%

$1/MWh Δ in Realized AB Power Price[1]				
Company	Δ 2012 EPS (¢/share)	% of 2012E Earnings	Δ 2013 EPS (¢/share)[2]	% of 2013E Earnings[2]
CPX	2.9	2.4%	4.4	4.0%
TA	1.2	1.1%	2.5	2.3%
ALA	1.4	1.3%	2.0	1.9%
TRP	0.4	0.2%	0.7	0.3%

[1] Considers base load coal plants only.
[2] Assumes no price hedging.
Note: Power price sensitivities are not linear. A $1/MWh change would have a lesser impact as earnings decline.

Source: Company reports; Scotia Capital estimates.

COMMODITY CONCLUSIONS

In addition to the direct commodity price exposures in frac spreads, NGL prices, power prices, and spark spreads, there are countless indirect commodity exposures (see Exhibit 23). That is the nature of the energy infrastructure business as downstream service provider to the energy industry. It is impossible to track all of the indirect commodity exposures, but we can track direct commodity price exposures through earnings and cash flow sensitivities. AltaGas, Provident, Veresen, Capital Power, and TransAlta top the list of those with relatively high direct commodity price sensitivity. We exclude Keyera and Pembina from this list because we do not know specifically how much a change in commodity prices impacts their marketing businesses, but as shown in Exhibit 18, a significant portion of their cash flow is derived from commodity-sensitive activities.

Exhibit 23: Commodity Price Assumptions

Commodity	Units	2010 Avg.	2011 YTD Avg.[1]	2011 FY Estimate	2012 Estimate	2013 Estimate
FRAC Spread (Propane Plus, AECO)	US$/gal	$ 0.94	$ 1.29	$ 1.30	$ 1.15	$ 1.05
FRAC Spread (Inc. Ethane, Henry Hub)	US$/gal	$ 0.67	$ 0.97	$ 1.00	$ 0.90	$ 0.90
AB Spark Spread	$/MWh	$ 24	$ 53	$ 50	$ 35	$ 30
AB Power	$/MWh	$ 51	$ 78	$ 80	$ 65	$ 60

[1] YTD average to September 13, 2011.

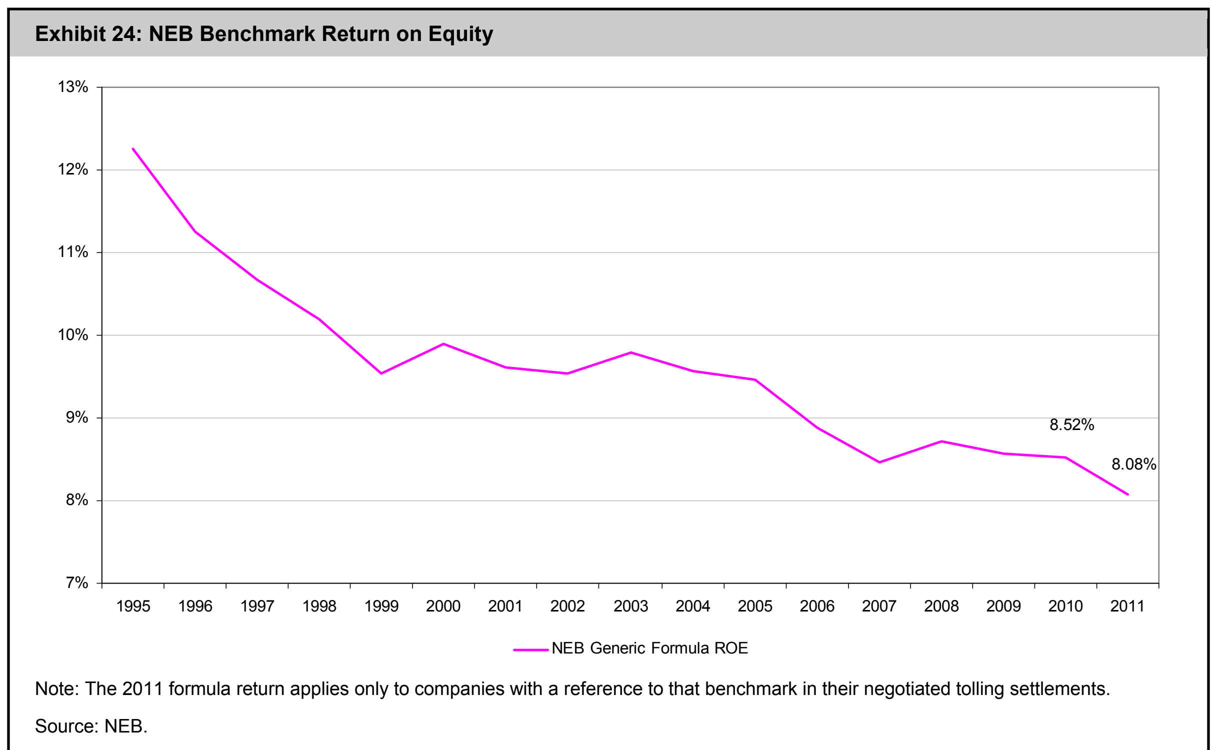
Source: Scotia Capital estimates.

Irregular Regulation

Recent changes in Canada's pipeline and utility rate regulatory framework mark a rare instance in Canadian public policy of fairness trumping simplicity. In an even more unusual occurrence in the Canadian policy landscape, regulators have become more hands-off and reduced involvement in pipeline and utility rate-setting. These trends are so far working in the favour of investors, but uncertainty still lingers over how regulators will establish allowed utility returns in the future.

Canada's regulated utility return-on-capital methodology was simple and relatively consistent from 1998 until 2009 (see Exhibit 24). The National Energy Board's (NEB) landmark 1998 decision that established a formula return based on government bond yield changes was mostly adopted by provincial regulators and applied on a more-or-less uniform basis across the country. Though simple, the formula approach to establishing allowed returns broke down during the credit crisis when the utility cost of capital diverged from the government cost of debt capital. A consensus formed in 2008 that something in how allowed utility returns were established had to change – and it did.

Exhibit 24: NEB Benchmark Return on Equity



Note: The 2011 formula return applies only to companies with a reference to that benchmark in their negotiated tolling settlements.

Source: NEB.

The NEB rejected the formula ROE methodology in 2008 and pushed pipeline toll-setting back to negotiated settlements between pipeline owners and their shippers. Provincial regulators also de-linked allowed utility returns from government bond yields. Most of them held cost-of-capital hearings and boosted allowed returns despite the reduction in risk-free interest rates (see Exhibit 25). The consequence of these changes is that Canadian regulation is now less predictable and more irregular. If the beauty of the old formula return methodology was simplicity, though, we believe the beauty of the new methodology is fairness.

Exhibit 25: Authorized Returns on Equity Across Canada

Utility	Regulator	Location	Authorized ROE (%)
Electric			
AltaLink	AUC	Alberta	9.00
ATCO Electric (T&D)	AUC	Alberta	9.00
ENMAX (T&D)	AUC	Alberta	9.00
EPCOR (T&D)	AUC	Alberta	9.00
FortisAlberta Inc.	AUC	Alberta	9.00
FortisBC Inc.	BCUC	British Columbia	9.90
Hydro One Transmission	OEB	Ontario	9.66
Maritime Electric	IRAC	Prince Edward Island	9.75
Newfoundland Power	NLPub	Newfoundland	8.38
Nova Scotia Power	NSUARB	Nova Scotia	9.35
Ontario Electricity Distributors	OEB	Ontario	9.66
Ontario Power Generation	OEB	Ontario	9.43
		Electric Utility Average	**9.26**
Gas Distribution*			
AltaGas Utilities	AUC	Alberta	9.00
ATCO Gas	AUC	Alberta	9.00
Enbridge Gas Distribution Inc	OEB	Ontario	8.39
Gaz Métro	Régie	Quebec	9.09
Pacific Northern Gas-West	BCUC	British Columbia	10.15
Terasen Gas	BCUC	British Columbia	9.50
Terasen Gas (Vancouver Island)	BCUC	British Columbia	10.00
Union Gas	OEB	Ontario	8.54
ATCO Pipelines*	AUC	Alberta	9.00
		Gas Distribution Average	**9.19**
		NEB 2011 Formula ROE	**8.08**
		Gov. of Canada Benchmark 10Y Bond (Avg. yield, 2010)	**3.17**

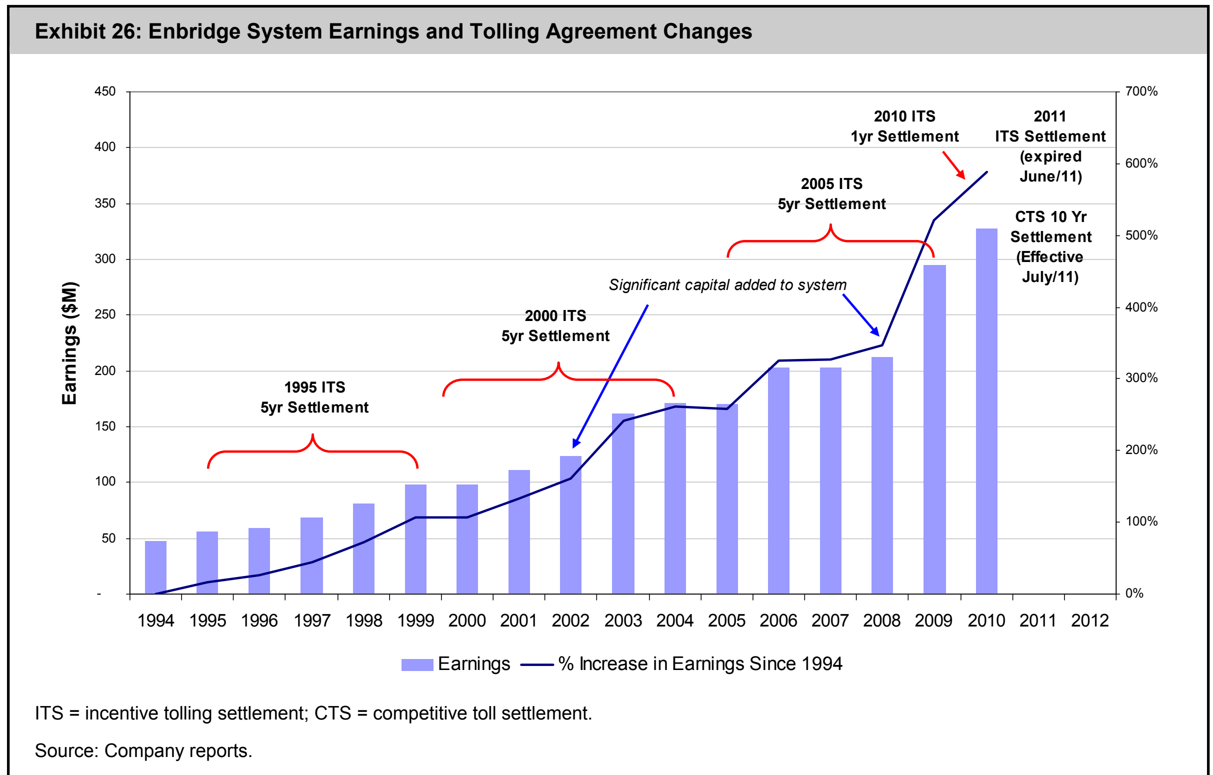
** Includes ATCO pipelines (provincial pipeline) regulated by the AUC*

Source: Regulatory filings.

With a less formal structure for establishing utility returns, the investment risk is that, now that credit spreads have tightened and risk-free rates have remained historically low, provincial regulators could reduce returns in the coming years. Alberta is in a cost-of-capital hearing now and British Columbia has been silent on when it may again review utility cost of capital. Smaller jurisdictions such as Newfoundland and Labrador have already tweaked returns down.

Having no rate regulatory oversight at all may be even better than having one that is in flux. Canadian pipelines increasingly fit this description. The NEB's push to negotiated tolling has now been implemented in earnest as Enbridge for the first time signed a 10-year competitive toll settlement with its shippers. During that period, we believe the NEB is unlikely to get involved in altering returns on Enbridge's core oil pipeline business (see Exhibit 26). This precedent carries risks (particularly on volume flow) but could be good news for pipeline investors if historical earnings performance is any indication of future potential under negotiated tolling agreements.

Exhibit 26: Enbridge System Earnings and Tolling Agreement Changes



ITS = incentive tolling settlement; CTS = competitive toll settlement.

Source: Company reports.

Similarly, on the gas pipeline side, we expect tolls and earnings will be established more by competitive forces than by regulated rates of return. Shippers on the Alliance gas pipeline have generally not committed to take capacity beyond 2015. After that, pipeline profitability will depend on the commercial attractiveness of the pipeline's tolls and related services. TransCanada's main gas pipeline, too, appears headed for a new tolling framework that recognizes competitive dynamics in the North American natural gas industry as much as it does the shareholders' rights to a predictable return on capital.

The Canadian regulatory trends toward allowed returns that accommodate financial market conditions and industry competitive dynamics are so far adding to, rather than detracting from, energy infrastructure shareholder value. Risks are still present as provincial regulators ponder allowed ROEs for 2012 and beyond, as volume-based competition evolves for oil and gas pipelines, and as TransCanada's Mainline gas pipeline hearing unfolds. Nevertheless, in general, we believe Canadian regulatory policy will continue facilitating rather than inhibiting share price appreciation for the group as a whole.

Actually Accretive Acquisitions and Dispositions

Investors often roll their eyes when they hear of companies with acquisition growth ambitions in the name of shareholder value creation. The history of management teams in all industry sectors getting bigger for the sake of it justifies some scepticism. But in the case of Canadian energy infrastructure companies, acquisitions have often added value. And circumstances seem ripe for further accretive acquisitions as well as opportunistic dispositions on several fronts:

- Canadian companies acquiring U.S. assets,
- Large cap and mid-cap companies acquiring small cap companies,
- Consolidation in the midstream sector, and
- Monetization of assets through high-dividend-paying equities.

Canadian infrastructure companies can make accretive acquisitions now because their valuations tend to be higher than North American and global peers. Relatively high share valuations and a strong Canadian dollar are enticing the Canadian companies to acquire assets, especially in the United States. In recent months, the infrastructure companies have been buying regulated utilities and unregulated power plants. We see that trend continuing because U.S. regulated utility returns appear to have bottomed out and U.S. power plant bid-ask spreads have narrowed.

Acquisition of international assets outside the United States could also drive earnings and cash flow growth for Canadian companies (see Exhibit 27). Most of the companies under our coverage are focused only on North America. However, Inter Pipeline and ATCO recently announced international deals that appear additive to shareholder value. We believe Enbridge is also seeking international opportunities, especially in Australia.

Exhibit 27: Recent Acquisitions by Canadian Infrastructure Companies of U.S. and International Assets

Announce-ment Date	Acquirer	Target Assets	Consideration	Closing Status	Purchase Price ($M)	EV / EBITDA
12-Mar-10	EMA	Maine & Maritimes Corp.	Cash	Closed	US$104	n/a
29-Mar-10	AQN	Galveston Texas water utility	Cash	Closed	US$2	n/a
19-Apr-10	JE	Hudson Energy Services	Cash	Closed	US$304	4.4x
3-May-10	EMA	Light & Power Holdings Ltd (38% interest)	Cash	Closed	US$85	n/a
2-Jul-10	ATP	Idaho Wind Partners 1, LLC	Cash	Closed	US$40	n/a
28-Jul-10	EEP (ENB)	Elk City Gathering and Processing System	Cash	Closed	$682	n/a
25-Oct-10	ATP	Cadillac Renewable Energy, LLC	Cash	Closed	US$35	n/a
25-Nov-10	EMA	Light & Power Holdings Ltd (additional 41%)	Cash	Closed	US$92	n/a
2-Dec-10	EMA	Grand Bahama Power Co Ltd (additional 55.4%)	Cash	Closed	US$82	n/a
9-Dec-10	AQN	Granite State Electric Co. & EnergyNorth Natural Gas Inc.	Cash	Q4/11	US$285	6.9x
13-Dec-10	CSE	District Heating Business (33% interest)	Cash	Closed	$109	n/a
17-Feb-11	CPX	Brick Power assets (549 MW gas-fired)	Cash	Closed	US$315	n/a
8-Mar-11	CPX	Bridgeport Energy (520 MW gas-fired)	Cash	Closed	US$355	n/a
19-Apr-11	AQN	3 regulated water utility systems	Cash	Q4/11	US$8	n/a
30-Apr-11	AQN	Northeast Wind JV (25% AQN, 75% EMA)	Cash	Q4/11	US$83	n/a
30-Apr-11	EMA	Northeast Wind JV (25% AQN, 75% EMA)	Cash	Q4/11	US$250	n/a
13-May-11	AQN	Midwest natural gas distribution assets (Atmos Energy)	Cash	Q2/12	US$124	7.8x
20-Jun-11	CPX	North Carolina biomass plants (CPA.un)	Stock	Q4/11	$121	8.1x
20-Jun-11	IPL	4 Petroleum storage terminals (DONG Energy)	Cash	Q4/11	€354	9.3x
23-Jun-11	Gaz Metro L.P.	Central Vermont Public Service	Cash	Q4/11	US$702	9.4x
7-Jul-11	CU	Western Australia Gas Networks (WestNet)	Cash	Closed	A$1,000	7.6x
				Total	~US$5,200	

Note: Excludes BRC's potential merger with Brookfield Renewable Power Inc.

Source: Company reports; Scotia Capital estimates.

The valuation gap between divided-paying companies and non-dividend-paying companies creates another type of acquisition arbitrage opportunity. Since the credit crisis, valuations of small cap, non-dividend-paying corporations have been significantly discounted relative to those of larger, dividend-paying companies. As a result, over the past year or two, several of the larger companies have acquired smaller ones (see Exhibit 28). Some of the small companies acquired have been private, because selling to an already public company with a dividend was more attractive than coming to market via IPO. Few of these small companies are left, but the ones that are appear vulnerable to opportunistic takeouts.

Exhibit 28: Recent Acquisitions of Small Cap Public and Private Infrastructure Companies

Announce-ment Date	Acquirer	Target Companies	Consideration	Closing Status	Total EV ($M)	EV / EBITDA
15-Jan-10	ALA	Landis Energy Corporation	Cash	Closed	n.m.	n.m.
29-Mar-10	INE	Innergex Renewable Energy Inc.	Script	Closed	$420	9.0x
3-May-10	BLX	Boralex Power Income Fund (remaining 77%)	Debt	Closed	$317	8.3x
22-Jun-10	VSN	Swift Power Corp.	Cash	Closed	n/a	n/a
3-Sep-10	ECI	Enbridge Electrical Connections Inc.	Cash	Closed	$21	n/a
22-Sep-10	VSN	Pristine Power Inc.	Script & Cash	Closed	$314	9.9x
14-Feb-11	INE	Cloudworks Energy Inc.	Cash & Stock	Closed	$415	18.1x
9-Apr-11	AQN	Remaining 50% of CalPeco (EMA)	Shares	2H/11	$79	6.9x
20-Jun-11	ATP	Capital Power Income L.P.	Cash & Stock	Q4/11	$1,853	9.9x
11-Jul-11	PVE	Three Star Trucking Ltd.	Cash & Stock	Q4/11	$20	n/a
16-Aug-11	ENB	Tonbridge Power Inc.	Cash	Q4/11	$295	13.4x
				Total	~$3,700	

Source: Company reports; Scotia Capital estimates.

Asset transactions will likely take place between Canadian companies as well, especially in the midstream sector. We believe ATCO's midstream business is non-core to the company and could be sold to raise proceeds for regulated utility investments in Canada and Australia. Certain of the legacy assets, especially at Empress, are now underutilized, and their owners could benefit from consolidation and rationalization. Earlier in the year it appeared BP would sell its entire Canadian midstream portfolio including its stake in Empress. More generally, producers may see gas processing plants as non-core and divest to infrastructure companies. Encana Corp. stated earlier this year that it was considering the sale of its Cabin gas processing plant under development in the Horn River.

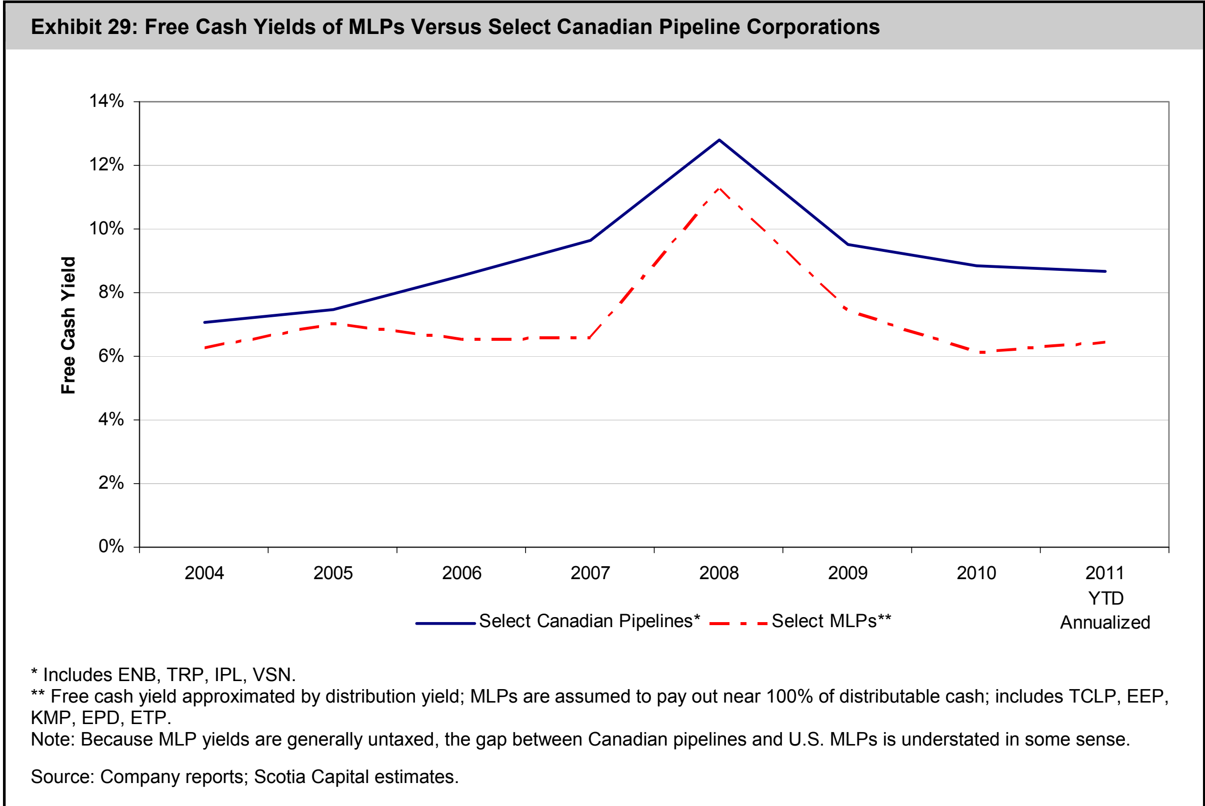
The arbitrage opportunities available to companies are not just between dividend-paying and non-dividend paying entities but also between entities with different payout ratio policies. Companies paying out close to 100% of free cash generally trade at premiums to companies paying out, say, 70% of earnings. Low-payout companies can monetize assets into Canadian high-dividend-paying entities or U.S. master limited partnerships (MLPs), thereby reducing their cost of capital and improving shareholder value through organic growth and third-party acquisitions.

Pipeline companies Enbridge, TransCanada, and Spectra are uniquely positioned within our coverage universe to drop down assets into their own respective high-income vehicles. Recently announced transactions highlight the willingness of these companies to utilize these vehicles for unlocking value:

- On May 4, 2011, Enbridge announced the $1.3 billion transfer of its renewable power assets into Enbridge Income Fund.
- On April 26, 2011, TransCanada announced the US$605 million transfer of a 25% interest in certain of its pipelines into TC PipeLines LP.
- On November 30, 2010, Spectra Energy announced the US$330 million transfer of a 24.5% interest in Gulfstream natural gas pipeline to Spectra Energy Partners LP.

The valuation gap between low-payout corporations and high-payout MLPs in the United States persists. The free cash yield on most U.S. MLPs is only about 6.0%, compared to 9.0%-10.0% free cash yields for Enbridge, TransCanada, and Spectra. Canada's high-dividend-paying corporations also trade at lower free cash yields (valuation premiums) to the lower-payout pipeline stocks (see Exhibit 29).

Exhibit 29: Free Cash Yields of MLPs Versus Select Canadian Pipeline Corporations



* Includes ENB, TRP, IPL, VSN.
** Free cash yield approximated by distribution yield; MLPs are assumed to pay out near 100% of distributable cash; includes TCLP, EEP, KMP, EPD, ETP.
Note: Because MLP yields are generally untaxed, the gap between Canadian pipelines and U.S. MLPs is understated in some sense.

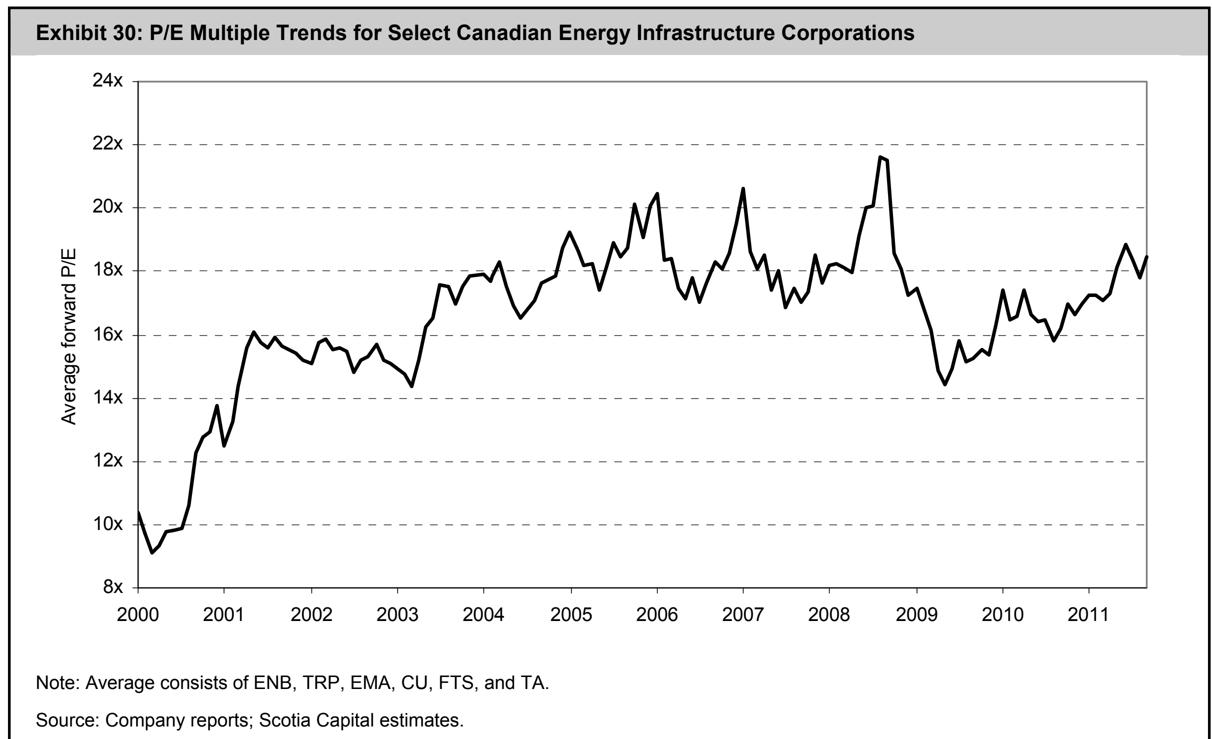
Source: Company reports; Scotia Capital estimates.

The idea that energy infrastructure assets – particularly pipelines – are worth more today in the form of high-payout entities than as traditional dividend growth companies was exemplified by the recent takeout bids for Southern Union Co. The stock is up more than 45% since Enterprise Product Partners LP and then Williams Cos. Inc. made competing bids for the company. We are not arguing that TransCanada, Enbridge, and Spectra are takeout targets but rather that they can unlock value by monetizing assets into related entities.

Yielding to Cash Flow

That dividend-paying stocks deliver higher total returns than non-dividend-paying stocks is a self-fulfilling prophecy as long as investors continue chasing yield. Nowhere has yield-based valuation become more pronounced than in the energy infrastructure sector. This phenomenon has been driven by the fact that many of the companies were once income funds and maintained payout ratios in excess of 100% of earnings following corporate conversion. The premium multiples they sustained based on earnings and EBITDA therefore transferred over to the corporations. In our opinion, P/E multiples are now almost purely derivative of yield-based valuation. Earnings remain relevant only because some of the companies set dividend policies based on adjusted GAAP EPS (see Exhibit 30).

Exhibit 30: P/E Multiple Trends for Select Canadian Energy Infrastructure Corporations



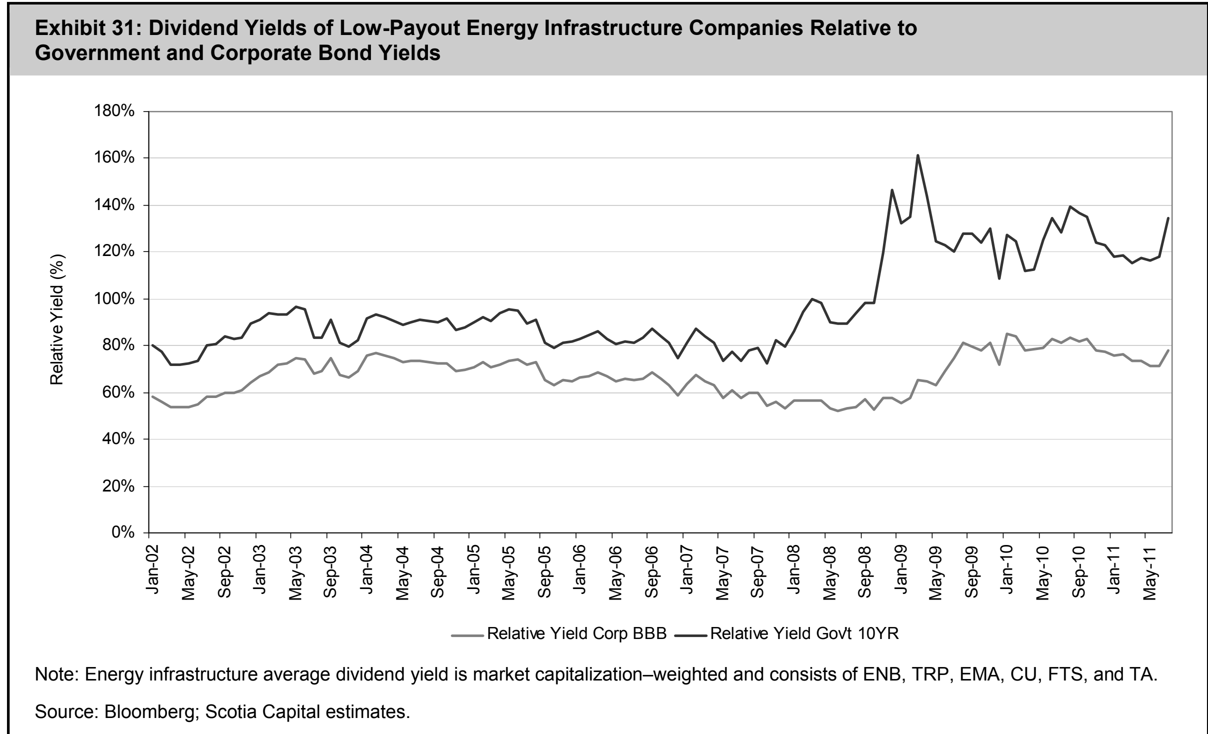
Note: Average consists of ENB, TRP, EMA, CU, FTS, and TA.

Source: Company reports; Scotia Capital estimates.

If yield is driving share price performance, the key questions are what measure of yield and compared to what benchmark? For years it was thought the answers to these questions were “dividend yields” and “government bonds.” We question that conventional wisdom on both counts. It is our view that free cash yields and corporate bonds are the drivers of relative and absolute valuation in the sector today.

The relationship of dividend yields to government bond yields used to predict share price performance reasonably accurately. However, two major factors altered that relationship. First, payout ratios went up as income funds and limited partnerships converted to corporate structures. Second, credit spreads widened, especially during the credit crisis. As a result, dividend yields even of the companies that pay out less than 100% of earnings correlate much more closely to high-quality corporate bond yields than to government bond yields (see Exhibit 31).

Exhibit 31: Dividend Yields of Low-Payout Energy Infrastructure Companies Relative to Government and Corporate Bond Yields

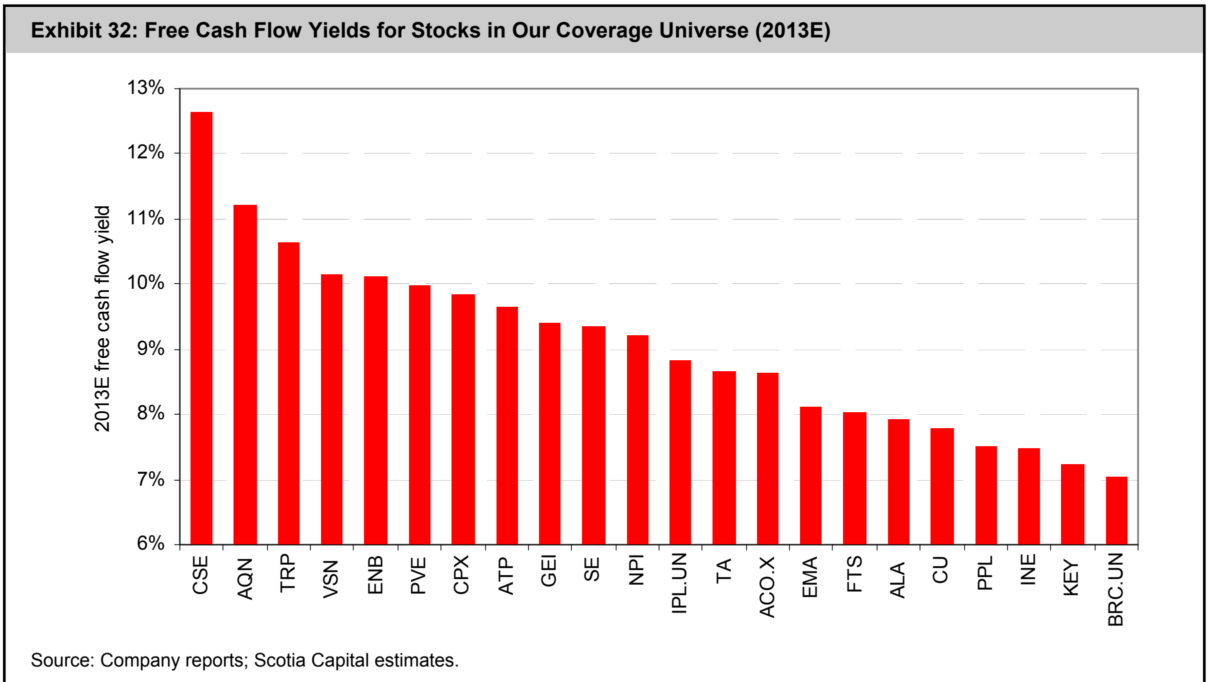


Note: Energy infrastructure average dividend yield is market capitalization–weighted and consists of ENB, TRP, EMA, CU, FTS, and TA.

Source: Bloomberg; Scotia Capital estimates.

Given a wide range of payout ratios, a payout-neutral measure of cash flow is required for relative valuation analysis. We refer to that measure as "free cash yield" and define it as cash flow from operations before working capital changes minus maintenance capital expenditures. Maintenance capital is defined as that amount of capital expenditure the firm must invest annually, on average, in order to hold cash flow flat in perpetuity (or for a very long time). By definition, then, maintenance capital equals regulated depreciation for regulated utilities with annual or regular cost-of-service filings. Using this methodology, we can calculate yields for each of the stocks in our coverage universe on a payout-neutral basis (see Exhibit 32).

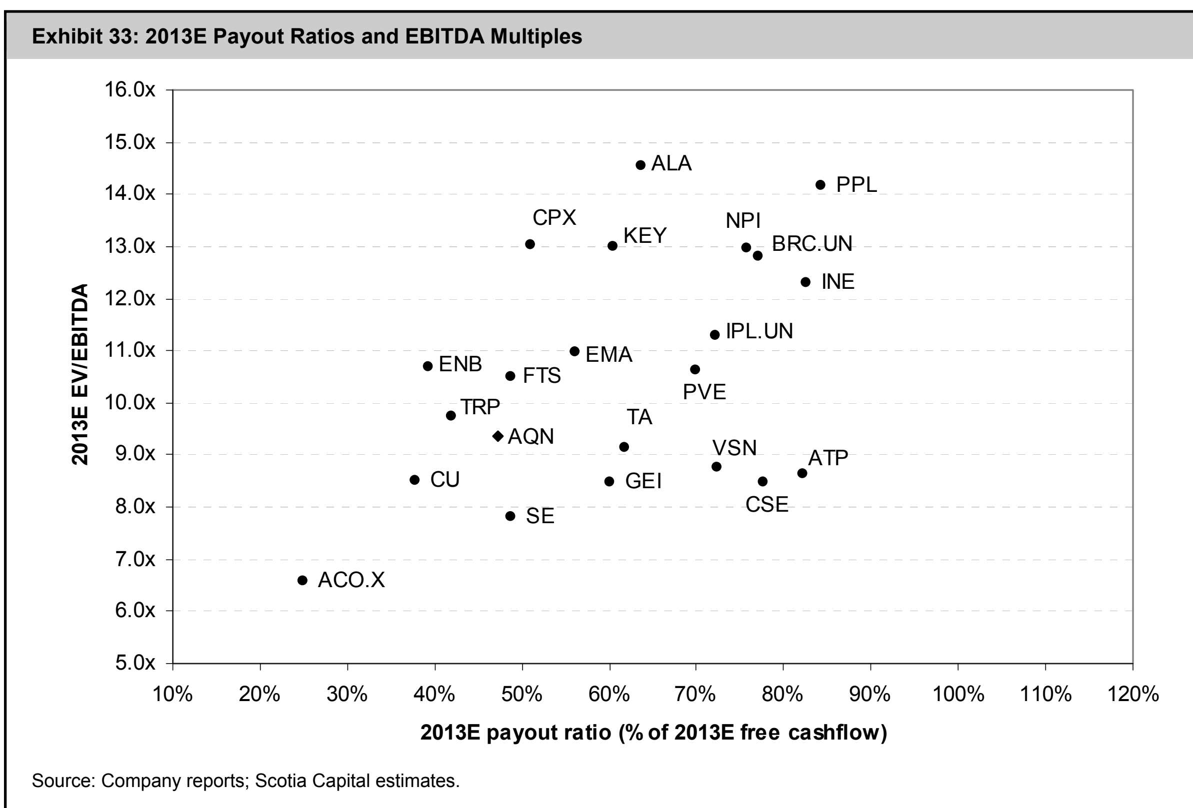
Exhibit 32: Free Cash Flow Yields for Stocks in Our Coverage Universe (2013E)



Source: Company reports; Scotia Capital estimates.

Stock prices will not necessarily adjust until all free cash flow yields are equal. Inequality persists because companies with relatively high volatility and/or high levels of leverage, and also those with relatively short asset lives, should trade with relatively high free cash yields. In theory, companies with relatively low payouts and attractive investment opportunities should trade with relatively low free cash flow yields due to their superior growth prospects. In practice, this rule does not necessarily hold due to the preference in today's investing climate for high payout ratios. Some of the best arbitrage opportunities in the sector, in our view, arise from stocks that are relatively overvalued or undervalued due to their relatively low or high payout ratios (see Exhibit 33).

Exhibit 33: 2013E Payout Ratios and EBITDA Multiples



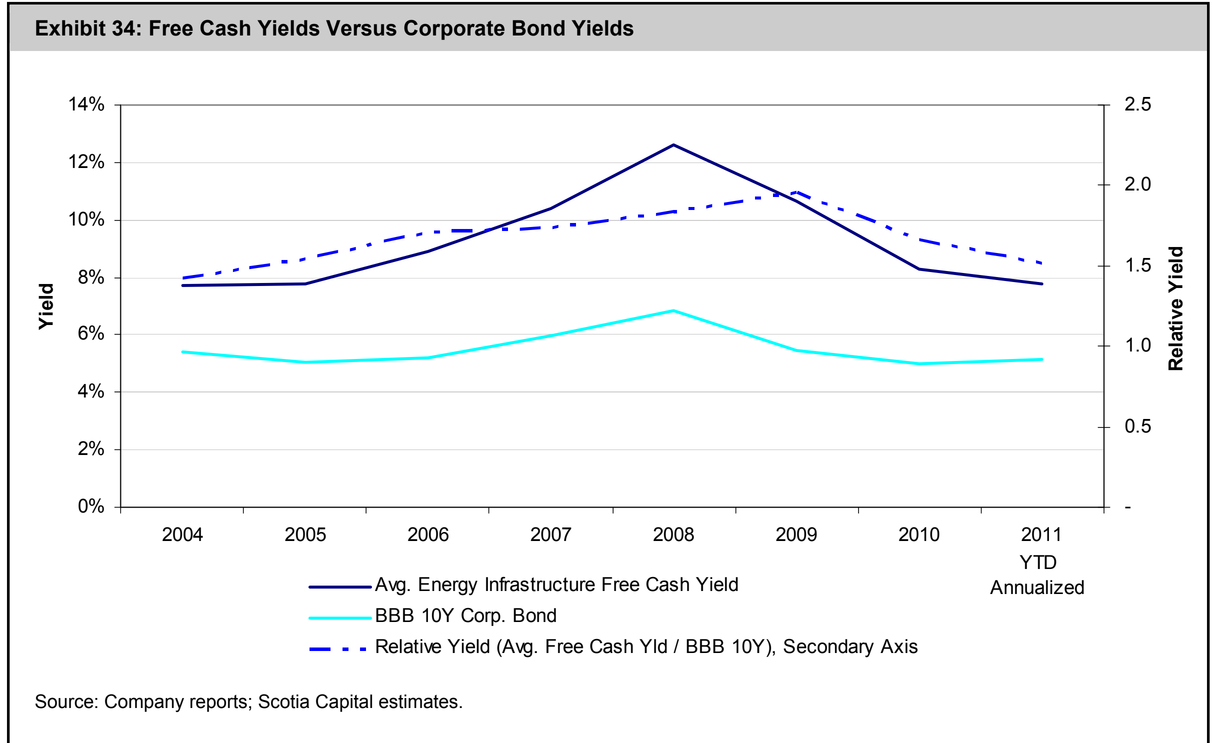
Source: Company reports; Scotia Capital estimates.

Knowing when those arbitrage opportunities will play out is impossible, but we believe they will do so in a reasonable (one to two year) time frame. That is because, as discussed above, we expect companies that remain relatively undervalued will ultimately monetize assets into high-income vehicles or sell them to high-payout companies. Consequently our stock ratings are generally biased in favour of companies with a low dividend payout of free cash yield.

Knowing when stocks are cheap or expensive relative to others in the same industry group is useful, but so is knowing whether the group as a whole is overvalued or undervalued. If free cash yields among the group define relative valuation, then free cash yields relative to a broader market benchmark must define absolute valuation. The stocks appear tightly correlated with high-quality corporate bond yields (as demonstrated to some extent in Exhibit 31). If so, then the free cash yield of the group should be correlated with these bond yields.

Going back over the last 10 years, we find the average free cash yield of the group generally equals somewhere between 1.5x and 2.0x the BBB corporate bond yield. Today's corporate bond yield levels thus imply the free cash yield of the group should be 7.5%-8%. Having said that, the group may trade at a slight discount to that (i.e., at a higher free cash yield) because its commodity exposure has risen in recent years as NGL prices have lifted and frac spreads have widened (see Exhibit 34).

Exhibit 34: Free Cash Yields Versus Corporate Bond Yields



Source: Company reports; Scotia Capital estimates.

Looking at current valuation, we believe low-double-digit annual total returns are still available in the energy infrastructure sector. Over the past two years, a "yield normalization" trade in energy infrastructure stocks drove supernormal returns. That trade is mostly over, in our opinion. Going forward, we believe performance will be driven by dividend (free cash flow) sustainability and growth. In this sense, fundamentals more than dividend yield should dictate relative performance. On this basis, as outlined in Exhibit 1, we especially recommend owning shares in Enbridge Inc., TransCanada Corporation, Spectra Energy Corp., Gibson Energy Inc., Algonquin Power & Utilities Corp., Canadian Utilities Limited, Veresen Inc., Northland Power Inc., Brookfield Renewable Power Fund, Inter Pipeline Fund, and Provident Energy Ltd. at this time. On the other hand, in our view AltaGas Ltd. and Capital Power Corporation could underperform over the next 12 months.

Exhibit 35: Comparative Valuation of Energy Infrastructure Universe of Coverage

			Price	Adjusted Earnings per share				P/E ratios				Cash tax earnings per share				Dividend		Target	Total
Company	Ticker	Rating	09/13/11	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E	Rate	Yield	Price	Return
Pipelines & Midstream																			
Enbridge Inc.	ENB	1-SO	$31.40	$1.33	$1.47	$1.65	$1.83	23.6	21.3	19.0	17.2	$1.65	$1.94	$2.17	$2.40	$0.98	3.1%	$40.00	30.5%
Gibson Energy Inc.	GEI	1-SO	$17.84	$0.45	$0.47	$0.85	$0.94	39.6	37.9	21.0	19.0	$0.56	$0.58	$1.02	$1.06	$0.96	5.4%	$20.00	17.5%
Inter Pipeline Fund	IPL.UN	1-SO	$15.80	$0.93	$0.89	$0.94	$0.97	17.1	17.7	16.9	16.3	$0.94	$1.02	$1.06	$1.10	$0.96	6.1%	$18.00	20.0%
Keyera Corp.	KEY	2-SP	$45.63	$1.97	$2.58	$1.79	$1.84	23.2	17.7	25.5	24.8	$1.96	$2.57	$2.32	$2.39	$1.92	4.2%	$46.00	5.0%
Pembina Pipeline Corporation	PPL	2-SP	$24.62	$1.14	$0.90	$0.92	$1.00	21.6	27.4	26.7	24.7	$1.12	$1.22	$1.25	$1.36	$1.56	6.3%	$25.00	7.9%
Provident Energy Ltd.	PVE	1-SO	$8.13	$0.01	$0.44	$0.44	$0.46	n.m.	18.5	18.6	17.7	n.m.	$0.60	$0.62	$0.66	$0.54	6.6%	$9.50	23.5%
Spectra Energy Corp. (US$)	SE	1-SO	$25.14	$1.57	$1.80	$1.90	$2.00	16.0	14.0	13.3	12.6	$1.89	$2.19	$2.23	$2.34	$1.04	4.1%	$30.00	23.5%
TransCanada Corporation	TRP	1-SO	$41.31	$1.97	$2.25	$2.45	$2.60	21.0	18.4	16.8	15.9	$2.73	$2.74	$2.94	$3.12	$1.68	4.1%	$50.00	25.1%
Veresen Inc.	VSN	1-SO	$13.64	$0.51	$0.58	$0.73	$0.75	26.9	23.7	18.7	18.1	$0.60	$0.61	$0.85	$0.88	$1.00	7.3%	$16.00	24.6%
Pipelines & Midstream average								***23.6***	***21.8***	***19.6***	***18.5***						***5.3%***		
Power & Utilities																			
Algonquin Power & Utilities Corp.	AQN	1-SO	$5.62	$0.20	$0.25	$0.30	$0.37	28.6	22.7	18.6	15.1	n.m.	$0.25	$0.31	$0.38	$0.28	5.0%	$7.00	29.5%
AltaGas Ltd.	ALA	3-SU	$26.98	$1.35	$1.06	$1.09	$1.06	20.1	25.4	24.8	25.4	$1.37	$1.42	$1.45	$1.41	$1.32	4.9%	$24.00	-6.2%
ATCO Ltd.	ACO.X	2-SP	$61.15	$4.91	$5.55	$5.55	$5.80	12.5	11.0	11.0	10.5	$4.78	$5.55	$5.55	$5.80	$1.14	1.9%	$66.00	9.8%
Atlantic Power Corporation	ATP	2-SP	$14.50	($0.06)	$0.41	$0.18	$0.17	n.m.	35.3	78.9	85.6	$0.23	$0.59	$0.32	$0.30	$1.09	7.5%	$15.00	11.0%
Brookfield Renewable Power Fund	BRC.UN	1-SO	$24.85	$0.51	$0.17	$0.36	$0.45	49.2	n.m.	69.5	55.8	$0.32	$0.62	$0.36	$0.45	$1.30	5.2%	$30.00	26.0%
Canadian Utilities Ltd.	CU	1-SO	$60.44	$3.35	$3.85	$3.90	$4.10	18.1	15.7	15.5	14.7	$3.29	$4.16	$4.13	$4.34	$1.61	2.7%	$67.00	13.5%
Capital Power Corporation	CPX	3-SU	$25.11	$1.40	$1.20	$1.20	$1.10	17.9	21.0	21.0	22.8	$1.37	$1.45	$1.44	$1.17	$1.26	5.0%	$23.00	-3.4%
Capstone Infrastructure Corp.	CSE	2-SP	$6.72	$0.23	$0.07	$0.19	$0.35	29.1	95.0	34.9	19.3	n.m.	$0.09	$0.25	$0.45	$0.66	9.8%	$7.25	17.7%
Emera Inc.	EMA	2-SP	$30.90	$1.76	$1.70	$1.85	$2.00	17.6	18.2	16.7	15.4	$2.06	$1.78	$1.96	$2.11	$1.30	4.2%	$33.00	11.0%
Fortis Inc.	FTS	2-SP	$32.12	$1.65	$1.70	$1.75	$1.80	19.5	18.9	18.4	17.9	$1.64	$1.69	$1.75	$1.80	$1.16	3.6%	$34.00	9.5%
Innergex Renewable Energy Inc.	INE	2-SP	$9.40	$0.17	($0.04)	($0.02)	($0.04)	56.4	n.m.	n.m.	n.m.	$0.14	n.m.	n.m.	n.m.	$0.58	6.2%	$10.00	12.6%
Northland Power Inc.	NPI	1-SO	$15.49	$0.05	$0.06	$0.26	$0.47	n.m.	n.m.	59.7	33.1	n.m.	$0.08	$0.39	$0.62	$1.08	7.0%	$18.00	23.2%
TransAlta Corp.	TA	2-SP	$21.72	$0.98	$1.20	$1.10	$1.10	22.2	18.1	19.7	19.7	$1.11	$1.65	$1.42	$1.42	$1.16	5.3%	$23.00	11.2%
Power & Utilities average								***26.5***	***28.1***	***32.4***	***27.9***						***5.3%***		

Notes:

"Cash tax earnings" is defined as earnings tax-effected by cash tax rates instead of accounting tax rates.

Figures for Canadian companies in C$; figures for US companies in US$.

Atlantic Power is listed on a Canadian exchange but reports earnings in US$ and distributable cash/dividends in CAD$. We convert EPS numbers to CAD$, which may differ from published results.

All companies have a December 31 year-end.

Source: Company reports; Scotia Capital estimates.

Exhibit 35: Comparative Valuation of Energy Infrastructure Universe of Coverage (cont'd)

Company	Ticker	Rating	Price 09/13/11	Shares Out (M)	MC ($B)	Free cash flow per share 2011E	Free cash flow per share 2012E	Free cash flow per share 2013E	Free cash flow yield 2011E	Free cash flow yield 2012E	Free cash flow yield 2013E	Book value	Price/ book	Debt to EBITDA 2011E	Debt & Pref to Cap 2011E	EV/EBITDA 2010	EV/EBITDA 2011E	EV/EBITDA 2012E	EV/EBITDA 2013E
Pipelines & Midstream																			
Enbridge Inc.	ENB	1-SO	$31.40	776.4	$24.4	$2.65	$2.87	$3.18	8.4%	9.1%	10.1%	$10.41	3.0	4.6x	65%	14.1	12.0	11.7	10.7
Gibson Energy Inc.	GEI	1-SO	$17.84	93.5	$1.7	$1.19	$1.64	$1.68	6.7%	9.2%	9.4%	$8.54	2.1	2.9x	43%	n.m.	10.9	8.9	8.5
Inter Pipeline Fund	IPL.UN	1-SO	$15.80	259.2	$4.1	$1.30	$1.35	$1.40	8.2%	8.6%	8.8%	$5.41	2.9	5.8x	70%	18.3	13.0	12.1	11.3
Keyera Corp.	KEY	2-SP	$45.63	70.6	$3.2	$3.28	$3.20	$3.30	7.2%	7.0%	7.2%	$11.96	3.8	2.1x	42%	16.6	13.4	13.6	13.0
Pembina Pipeline Corporation	PPL	2-SP	$24.62	167.6	$4.1	$1.65	$1.75	$1.85	6.7%	7.1%	7.5%	$5.77	4.3	4.6x	63%	16.9	15.7	14.8	14.2
Provident Energy Ltd.	PVE	1-SO	$8.13	269.8	$2.2	$0.72	$0.77	$0.81	8.8%	9.5%	10.0%	$2.09	3.9	2.1x	47%	11.6	11.2	11.1	10.6
Spectra Energy Corp. (US$)	SE	1-SO	$25.14	650.0	$16.3	$2.12	$2.25	$2.35	8.4%	8.9%	9.3%	$12.99	1.9	3.4x	58%	9.2	8.5	8.3	7.8
TransCanada Corporation	TRP	1-SO	$41.31	702.6	$29.0	$3.56	$3.89	$4.40	8.6%	9.4%	10.6%	$22.59	1.8	4.1x	57%	12.9	10.8	11.6	9.8
Veresen Inc.	VSN	1-SO	$13.64	163.6	$2.2	$1.26	$1.34	$1.38	9.2%	9.8%	10.1%	$4.91	2.8	4.8x	71%	10.4	10.1	9.1	8.8
Pipelines & Midstream average									***8.0%***	***8.7%***	***9.2%***		***2.9***	***3.8x***	***57%***	***13.7***	***11.7***	***11.2***	***10.5***
Power & Utilities																			
Algonquin Power & Utilities Corp.	AQN	1-SO	$5.62	119.2	$0.7	$0.61	$0.59	$0.63	10.9%	10.5%	11.2%	$3.62	1.6	5.0x	56%	13.6	10.8	9.6	9.4
AltaGas Ltd.	ALA	3-SU	$26.98	83.2	$2.2	$2.08	$2.18	$2.13	7.7%	8.1%	7.9%	$12.38	2.2	4.5x	57%	13.1	13.6	13.8	14.5
ATCO Ltd.	ACO.X	2-SP	$61.15	57.7	$3.5	$4.91	$5.06	$5.28	8.0%	8.3%	8.6%	$39.87	1.5	3.1x	66%	7.1	7.1	7.0	6.6
Atlantic Power Corporation	ATP	2-SP	$14.50	69.0	$1.0	$1.05	$1.35	$1.40	7.4%	9.3%	9.7%	$5.54	2.6	4.1x	65%	10.0	9.5	9.1	8.6
Brookfield Renewable Power Fund	BRC.UN	1-SO	$24.85	104.7	$2.6	$1.48	$1.69	$1.75	6.0%	6.8%	7.0%	$24.68	1.0	5.6x	41%	17.8	15.9	13.3	12.8
Canadian Utilities Ltd.	CU	1-SO	$60.44	127.5	$7.7	$4.69	$4.66	$4.71	7.8%	7.7%	7.8%	$29.17	2.1	3.2x	59%	10.3	9.0	8.9	8.5
Capital Power Corporation	CPX	3-SU	$25.11	97.1	$2.4	$2.68	$2.29	$2.47	10.7%	9.1%	9.8%	$11.94	2.1	3.0x	59%	12.3	10.2	13.4	13.0
Capstone Infrastructure Corp.	CSE	2-SP	$6.72	61.8	$0.4	$0.51	$0.65	$0.85	7.6%	9.6%	12.6%	$4.82	1.4	5.6x	57%	10.6	12.8	10.1	8.5
Emera Inc.	EMA	2-SP	$30.90	121.9	$3.8	$2.14	$2.35	$2.51	6.9%	7.6%	8.1%	$14.90	2.1	5.8x	70%	11.3	11.2	10.5	11.0
Fortis Inc.	FTS	2-SP	$32.12	186.3	$6.0	$2.36	$2.47	$2.58	7.4%	7.7%	8.0%	$20.52	1.6	5.1x	65%	10.9	10.6	10.8	10.5
Innergex Renewable Energy Inc.	INE	2-SP	$9.40	80.4	$0.8	$0.57	$0.70	$0.70	6.0%	7.5%	7.5%	$3.25	2.9	6.0x	73%	16.4	14.0	12.7	12.3
Northland Power Inc.	NPI	1-SO	$15.49	77.6	$1.2	$1.00	$1.15	$1.43	6.5%	7.4%	9.2%	$7.83	2.0	6.5x	65%	13.4	14.8	13.4	13.0
TransAlta Corp.	TA	2-SP	$21.72	222.9	$4.8	$1.90	$1.84	$1.88	8.8%	8.5%	8.7%	$12.70	1.7	3.5x	58%	10.3	8.7	9.1	9.2
Power & Utilities average									***7.8%***	***8.3%***	***8.9%***		***1.9***	***4.7x***	***61%***	***12.1***	***11.4***	***10.9***	***10.6***

Notes:
Figures for Canadian companies in C$; figures for US companies in US$.
Atlantic Power is listed on a Canadian exchange but reports earnings in US$ and distributable cash/dividends in CAD$. We convert EPS numbers to CAD$, which may differ from published results.
Free cashflow is defined as cashflow from operations after maintenance capex.
All companies have a December 31 year-end.

Source: Company reports; Scotia Capital estimates.

Algonquin Power & Utilities Corp.

Premium Utility Growth Play

(AQN-T)

Sep 13, 2011:	$5.62	**1-Yr Target:**	$7.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	29.5%	Shares O/S (M)	119.2
Risk:	Medium	**2-Yr Target:**	$7.25	Total Value ($M)	669.9
IBES EPS 2011E	$0.21	**2-Yr ROR:**	39.0%	Float O/S (M)	98.7
IBES EPS 2012E	$0.31	**Div. (Curr.):**	$0.28	Float Value ($M)	554.6
		Yield	5.0%		

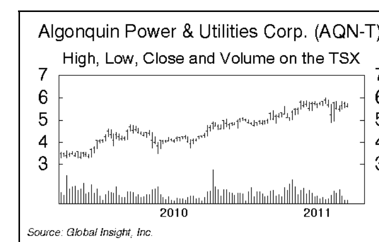
Valuation: 8.4% 2012E free cash yield and 11.0x 2012E EV/EBITDA

Key Risks to Target: Interest rates; FX; hydrology; regulated ROE; power prices

Qtly Adj EPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.03A	$0.00A	$0.01A	$0.15A	$0.20	25.5x
2011E	$0.04A	$0.07A	$0.05	$0.08	$0.25	22.7x
2012E	$0.06	$0.09	$0.08	$0.07	$0.30	18.6x
2013E	$0.04	$0.06	$0.06	$0.21	$0.37	15.1x

	2009A	2010A	2011	2012	2013
FCFPS	$0.53	$0.33	$0.61	$0.59	$0.63
CFPS	$0.63	$0.48	$0.74	$0.75	$0.83
EBITDA (M)	$79	$72	$111	$163	$196
Total Debt + Preferreds (M)	$419	$444	$556	$671	$843
Enterprise Value (M)	$742	$913	$1,196	$1,569	$1,829



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Algonquin Power & Utilities Corp. (Algonquin) with a 1-Sector Outperform rating and one-year target of $7.00 per share.
- From the depths of the credit crisis and dividend cut at the end of 2008, Algonquin has rapidly transformed into a stable power and utility company with attractive growth prospects. We see this growth continuing both through organic expansion of the acquired utility assets and through acquisitions of small utilities.
- Meanwhile, the new governance structure should promote, not inhibit, this continued value-creation process, as management has been internalized and is fully incentivized through share ownership.
- Algonquin shares have performed well but still trade at a significant discount to the group on 2011E free cash yield (10.9% vs. group at 7.9%). We believe the market will ultimately value the shares in line with or at a premium to peers because the asset quality is high and growth is at a premium pace. Our $7.00 one-year target price is premised on a target 8.4% 2012E free cash yield, at a slight discount to the group, and 11.0x 2012E EV/EBITDA. We believe the stock will outperform the sector and we recommend accumulating shares at this level.

Algonquin Power & Utilities Corp.

COMPANY DESCRIPTION

Algonquin is a diversified, small utility holding company with a growing renewable power business. Initially a small power developer, Algonquin still owns 300 MW of installed renewable power and 200 MW of mostly cogeneration. There are 113 net MW of wind power in late-stage development and the company is acquiring 25% of a 370 MW Northeast U.S. wind company. In recent years, the company has expanded its regulated distribution utility business. It already has about 120,000 U.S. water and electricity utility customers served by several small utilities in states ranging from Arizona to Texas to California. Two U.S. utility acquisitions are pending with a total of 210,000 gas and electric utility customers. Emera has assisted in funding Algonquin's growth by subscribing for shares in acquisitions that should ultimately amount to a 25% interest by the middle of next year.

INVESTMENT THESIS

From the depths of the credit crisis and dividend cut at the end of 2008, Algonquin has rapidly transformed into a stable power and utility company with attractive growth prospects. During 2009, management cleaned up the balance sheet and maximized returns on underperforming assets (water utility, energy from waste). Then, in 2010, the company surfaced organic growth in Canadian wind development and acquisition growth in U.S. utilities. We see this growth continuing both through organic expansion of the acquired utility assets and through acquisition of small utilities that are meaningfully accretive to Algonquin shareholders but are non-core to their current owners and unattractive to larger prospective buyers. Meanwhile, the new governance structure should promote, not inhibit, this continued value-creation process, as management has been internalized and is fully incentivized through share ownership.

POSSIBLE POSITIVE CATALYSTS

1. Acquisition accretion. Since acquisition targets are small and non-core to sellers, Algonquin has managed to buy them at only small premiums to regulated asset base. Moreover, allowed equity ratios and therefore returns on capital tend to be higher than they are in Canada. As a result, we anticipate the announced acquisitions will be accretive to earnings and cash flow.
2. Development success. Final approvals for construction of renewable power plants in Canada (Ontario, Quebec, Saskatchewan) should boost financial forecasts and share valuation.
3. Dividend growth. Having cut the dividend in 2008, the dividend increase announced early this year surprised the market and appeared to bolster share valuation. We believe expectations for dividend growth are still modest due to the 2008 cut, and that future dividend growth will move the stock still higher.

POTENTIAL RISKS

1. Regulatory decisions. Achieving attractive returns on newly acquired utilities will require rate hearings in several jurisdictions. For example, Calpeco in California must recover new investments through higher rates. Granite State Electric in New Hampshire is under-earning and has a rates freeze until 2012. Algonquin succeeded in achieving fair returns in Arizona but regulators are always unpredictable.
2. U.S. dollar exposure. By the time the announced acquisitions close next year, we forecast that at least 70% of the company's EBITDA will be exposed to movements in the U.S. dollar.
3. Power contract renewal. The largest cogeneration plant in the company's fleet, Windsor Locks, has been without a long-term contract since April 2010. Company attempts to re-contract the plant with utilities may not pan out. In 2012, however, the plant will probably contribute less than 5% of cash flow.

VALUATION AND RECOMMENDATION

Algonquin shares have performed well but still trade at a significant discount to the group on 2011E free cash yield (10.9% vs. group at 7.9%). We believe the market will ultimately value the shares in line with or at a premium to peers because the asset quality is high (regulated utility and renewable power) and growth is at a premium pace. Furthermore, there is no longer any rationale for a discount on the basis of corporate governance. Our $7.00 target price is premised on an 8.4% 2012E free cash yield, at a slight discount to the group, and 11.0x 2012E EV/EBITDA. We believe the stock will outperform the sector and we recommend accumulating shares at this level.

Algonquin Power & Utilities Corp. Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Revenues	$181	$222	$507	$559
Expenses & Other	($94)	($96)	($328)	($348)
Operating income	$86	$126	$179	$212
Administrative expenses	($15)	($15)	($16)	($16)
EBITDA	**$72**	**$111**	**$163**	**$196**
Depreciation and amortization	($46)	($49)	($68)	($77)
Other (FX & Derivatives)	$1	$0	$0	$0
EBIT	$26	$62	$95	$119
Interest expense	($26)	($29)	($45)	($51)
Minority interest	($0)	($4)	($0)	($0)
Earnings before taxes	($0)	$29	$49	$67
Current income tax expense	$0	$0	$0	$0
Future taxes	$20	($0)	($0)	($1)
Net earnings - Normalized	**$20**	**$29**	**$49**	**$66**
Net earnings - Reported	**$20**	**$29**	**$49**	**$66**
Adjusted earnings (excluding fx & deriv instr.)	**$20**	**$29**	**$49**	**$66**
Weighted average shares	**94.3**	**115.0**	**161.1**	**178.1**
Adjusted EPS (excluding fx & deriv instr.)	**$0.20**	**$0.25**	**$0.30**	**$0.37**
Dividends per share	**$0.24**	**$0.27**	**$0.28**	**$0.30**

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net income	$20	$29	$49	$66
Amortization	$49	$52	$70	$80
Other	($25)	$4	$1	$1
Cash flow from operations before working capital	$44	$85	$120	$147
Changes in working capital	$1	$0	$0	$0
Cash provided by operating activities	**$45**	**$85**	**$120**	**$147**
Cash distributions	($19)	($31)	($46)	($53)
Other financing activities	$21	$186	$282	$251
Cash used in financing activities	**$2**	**$155**	**$237**	**$198**
Purchase of PP&E/Investment in assets	($45)	($237)	($354)	($338)
Other	($1)	($1)	($1)	($1)
Cash provided by (used in) investing activities	**($45)**	**($238)**	**($355)**	**($339)**
Effect of FX differences on cash	($0)	$0	$0	$0
Increase / (decrease) in cash from operations	$2	$1	$1	$7
Cash and cash equivalents, beginning of period	$3	$5	$6	$8
Cash and Cash Equivalents, End of Period	**$5**	**$6**	**$8**	**$14**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash	$5	$6	$8	$14
Other Current Assets	$49	$51	$50	$50
PP&E	$729	$984	$1,336	$1,663
Intangibles & Goodwill	$74	$74	$74	$74
Other Assets	$123	$111	$111	$111
Total Assets	**$981**	**$1,226**	**$1,580**	**$1,912**
Current Portion of Long Term Liabilities	$85	$85	$85	$85
Other Current Liabilities	$40	$93	$158	$224
Long-Term Debt (inc. Convertible Debentures)	$360	$471	$586	$758
Other Liabilities	$148	$145	$145	$145
Total Liabilities	**$632**	**$794**	**$974**	**$1,212**
Total Shareholders' Equity	**$349**	**$432**	**$605**	**$701**
Total Liabilities & Shareholders' Equity	**$981**	**$1,226**	**$1,580**	**$1,912**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

AltaGas Ltd.

Commodity Upside Could Reverse

(ALA-T)

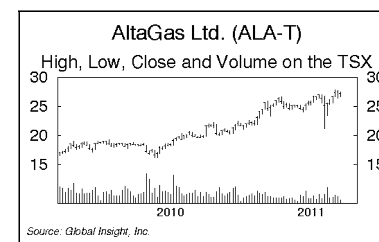
Sep 13, 2011:	$26.98	**1-Yr Target:**	$24.00	**Capitalization**	
Rating:	3-Sector Underperform	**1-Yr ROR:**	-6.2%	Shares O/S (M)	83.2
Risk:	Medium	**2-Yr Target:**	$24.00	Total Value ($M)	2,244.0
IBES EPS 2011E	$1.02	**2-Yr ROR:**	-1.3%	Float O/S (M)	79.2
IBES EPS 2012E	$1.21	**Div. (Curr.):**	$1.32	Float Value ($M)	2,136.8
		Yield	4.9%	TSX Weight	0.16%

Valuation: 9.1% 2012E free cash yield and 12.9x 2012E EV/EBITDA

Key Risks to Target: Power prices; interest rates; project costs; gas volumes & NGL margins

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.40A	$0.33A	$0.20A	$0.41A	$1.35	16.1x
2011E	$0.32A	$0.26A	$0.23	$0.26	$1.06	25.4x
2012E	$0.31	$0.18	$0.24	$0.36	$1.09	24.8x
2013E	$0.30	$0.18	$0.23	$0.36	$1.06	25.4x



	2009A	2010A	2011	2012	2013
FCFPS	$2.53	$2.12	$2.08	$2.18	$2.13
CFPS	$2.60	$2.39	$2.51	$2.61	$2.53
EBITDA (M)	$244	$251	$266	$277	$277
Total Debt + Preferreds (M)	$1,015	$1,099	$1,387	$1,557	$1,682
Enterprise Value (M)	$2,487	$2,866	$3,644	$3,848	$4,050

Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of AltaGas Ltd. (AltaGas) with a 3-Sector Underperform rating and one-year target of $24.00 per share.
- AltaGas shares have bounced hard from the bottom since the company announced a dividend cut in April 2010. Apart from the loosening of credit, securing the Forrest Kerr contract has played a major role in share performance. We concur that the hydroelectric project has potential to add significant shareholder value, but that project alone can not explain the rise in ALA shares. At least one of the factors contributing to the share price escalation – namely power prices – is not sustainable, in our view.
- AltaGas shares trade at a slight premium to the group on 2011E free cash yield (7.7% vs. group at 7.9%). We believe the market will ultimately value the shares at a discount (higher free cash yield) in part due to high commodity exposure and in part due to short (nine-year) asset life on the Alberta PPA, which currently makes up about 30% of company EBITDA.
- We believe there is insufficient yield support to protect downside. As the company has just recently cut the dividend, we see limited potential for any dividend growth over the next few years. Our $24.00 one-year target price is premised on a target 9.1% 2012E free cash yield, at a discount to the group, and 12.9x 2012E EV/EBITDA. We believe the stock will underperform the sector and we recommend reducing holdings at this level.

AltaGas Ltd.

COMPANY DESCRIPTION

AltaGas is one of Canada's largest midstream natural gas companies with a growing power business. Net interests in seven NGL extraction plants have nearly 1.6 bcf/d of capacity and produce about 38,000 bbl/d of NGLs. Separate field gathering facilities have 1.2 bcf/d of capacity. Two small, regulated gas distribution companies with 75,000 customers have been added to the mix in recent years. The core power business today is 353 net MW of coal-fired contract expiring in 2020 and one 102 MW wind farm in B.C. AltaGas has major growth ambitions in both midstream and power segments. The midstream growth program is anchored by a $130 million, 250 mmcf/day expansion at Harmattan and a $235 million, 120 mmcf/d new plant in Montney. The $700 million, 195 MW Forrest Kerr Hydro in B.C. is the flagship power project, with a target in-service date of mid-2014.

INVESTMENT THESIS

AltaGas shares have bounced hard from the bottom since the company announced a dividend cut in April 2010. Apart from the loosening of credit, securing the Forrest Kerr contract has played a major role in share performance. We concur that the hydroelectric project has potential to add significant shareholder value. Our DCF analysis suggests it might add $4/share at current interest rates, but that project alone cannot explain the rise in ALA shares. Widening frac spreads and rising power prices are the other factors. At least one of the factors – namely the power prices – is not sustainable, in our view. We estimate the company could generate $70 million-$80 million of EBITDA this year from the PPA contract. If the Sundance plants come back online, that number could be cut in half, with a $0.40+/share impact on cash flow and a commensurate impact on the share price.

POSSIBLE POSITIVE CATALYSTS

1. Hydro development success. Hydroelectric developments are attracting high market valuations and AltaGas has several in development. The shares could react positively if the company achieves contracts on the proposed McLymont Creek and Volcano Creek projects in northwest British Columbia (82 MW).
2. Expansion of Montney gas processing. ALA recently announced a meaningful field-processing position in Montney via the Gordondale gas plant. Continued expansion of field plants and potentially the Younger extraction plant (750 mmcf/d capacity almost full) would likely enhance the company's gas business.
3. Construction progress at Forrest Kerr. Success in construction on a major project like Forrest Kerr will tend to de-risk its value and improve share valuation, in our view.

POTENTIAL RISKS

1. Frac spread compression. Alberta Frac spreads (ex-ethane) have widened from about US$0.80/gallon to US$1.30/gallon over the past year. Any significant compression in frac spreads would impact ALA's financial performance. We estimate that a US$0.10/gallon change in frac spreads impacts 2013E CFPS by $0.10.
2. Alberta power price reduction. Alberta power prices have moved to $70/MWh from about $45/MWh in the past six months. We estimate a $1/MWh change in power prices impacts 2013E EPS by $0.02 unhedged.
3. Construction cost escalation. Construction cost escalation is the biggest risk on the Forrest Kerr project. ALA had only 20% of costs fixed at the end of last year and anticipates 75% will be locked in by the end of this year. Any significant cost escalation could reduce returns and shareholder value.

VALUATION AND RECOMMENDATION

AltaGas shares trade at a slight premium to the group on 2011E free cash yield (7.7% vs. group at 7.9%). We believe the market will ultimately value the shares at a discount (higher free cash yield) in part due to high commodity exposure and in part due to short (nine-year) asset life on the Alberta PPA, which currently makes up about 30% of company EBITDA. Furthermore, we believe there is insufficient yield support to protect downside. As the company has just recently cut the dividend, we see limited potential for any dividend growth over the next few years. Our $24.00 one-year target price is premised on a target 9.1% 2012E free cash yield, at a discount to the group, and 12.9x 2012E EV/EBITDA. We believe the stock will underperform the sector and we recommend reducing holdings at this level.

AltaGas Ltd. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Revenue	$1,354	$1,434	$1,491	$1,563
Gas	$99	$119	$143	$142
Power	$79	$77	$56	$54
Utilities	$25	$27	$32	$35
Corporate	($40)	($40)	($39)	($39)
Operating Income	**$162**	**$184**	**$192**	**$192**
Other	($1)	$0	$0	$0
Interest	($49)	($54)	($57)	($58)
EBT	**$112**	**$129**	**$135**	**$134**
Tax recovery/(expense)	$1	($30)	($31)	($31)
Net income before prefs	**$114**	**$99**	**$104**	**$103**
Pref dividends	($4)	($11)	($11)	($10)
Net Income to Common S/H - Adjusted	**$110**	**$88**	**$93**	**$93**
Adjustments	($12)	($4)	$0	$0
Net Income - Reported	**$97**	**$85**	**$93**	**$93**
Shares Outstanding - Basic	82	83	85	88
EPS - Reported	$1.19	$1.01	$1.09	$1.06
EPS - Adjusted	**$1.35**	**$1.06**	**$1.09**	**$1.06**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Net income applicable to common shares	$97	$85	$93	$93
Amortization	$89	$82	$85	$85
Other	$8	$43	$45	$44
CFO Before Changes in Working Capital	$195	$210	$223	$222
Net change in non-cash working capital	($2)	$0	$2	$2
Cash Flow from Operating Activities	**$193**	**$210**	**$225**	**$224**
Capital Expenditures	($157)	($525)	($300)	($290)
Other & Asset Sales/Acquisitions	($5)	$9	$5	$5
Cash Flow from Investing Activities	**($162)**	**($516)**	**($295)**	**($285)**
Distributions to unitholders	($152)	($110)	($113)	($119)
Other Financing Activities	$120	$438	$205	$160
Cash Flow from Financing Activities	**($32)**	**$328**	**$92**	**$41**
Change in cash and cash equivalents	**($2)**	**$21**	**$22**	**($20)**
Cash and cash equivalents, beginning of year	$4	$2	$24	$45
Cash and cash equivalents, end of year	**$2**	**$24**	**$45**	**$25**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$2	$24	$45	$25
Other Current Assets	$302	$284	$284	$284
PP&E	$1,996	$2,433	$2,648	$2,691
Intangibles & Goodwill	$320	$407	$407	$407
Other Assets	$132	$119	$119	$119
Total Assets	**$2,752**	**$3,267**	**$3,503**	**$3,527**
Short-term debt	$11	$4	$4	$4
Other Current Liabilities	$312	$452	$503	$405
Long-term debt and convertible debentures	$893	$1,189	$1,359	$1,484
Other Liabilities	$324	$398	$398	$398
Total Liabilities	**$1,541**	**$2,043**	**$2,265**	**$2,291**
Preferred shares	$194	$194	$194	$194
Common equity	$1,017	$1,029	$1,044	$1,041
Total Shareholders' Equity	**$1,211**	**$1,223**	**$1,239**	**$1,235**
Total Liabilities and Shareholders' Equity	**$2,752**	**$3,267**	**$3,503**	**$3,527**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

ATCO Ltd.

Solid Utility Investment – May Be Better Through CU

(ACO.X-T)

Sep 13, 2011:	$61.15	1-Yr Target:	$66.00	Capitalization	
Rating:	2-Sector Perform	1-Yr ROR:	9.8%	Shares O/S (M)	57.7
Risk:	Low	2-Yr Target:	$68.50	Total Value ($M)	3,528.4
IBES EPS 2011E	$5.32	2-Yr ROR:	15.9%	Float O/S (M)	39.3
IBES EPS 2012E	$5.78	Div. (Curr.):	$1.14	Float Value ($M)	2401.6
		Yield	1.9%	TSX Weight	0.17%

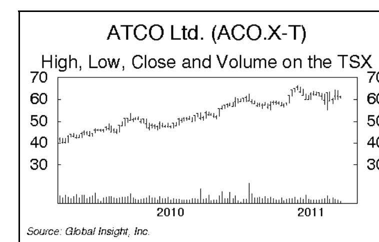
Valuation: 20% discount to NAV

Key Risks to Target: interest rates; regulated ROE; infrastructure construction

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$1.55A	$1.06A	$0.87A	$1.43A	$4.91	12.0x
2011E	$1.86A	$1.08A	$1.05	$1.55	$5.55	11.0x
2012E	$1.90	$1.07	$1.05	$1.52	$5.55	11.0x
2013E	$1.90	$1.07	$1.05	$1.78	$5.80	10.5x

	2009A	2010A	2011	2012	2013
FCFPS	$3.62	$3.48	$4.91	$5.06	$5.28
CFPS	$9.16	$8.86	$11.53	$12.00	$12.62
EBITDA (M)	$1,244	$1,274	$1,403	$1,466	$1,552
Total Debt + Preferreds (M)	$3,805	$3,505	$4,405	$4,655	$4,755
Enterprise Value (M)	$7,685	$8,651	$9,943	$10,468	$10,746



Non-voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of ATCO Ltd. (ATCO) with a 2-Sector Perform rating and one-year target of $66.00 per share.
- The same fundamentals and thesis that apply to Canadian Utilities apply to ATCO. In our view, the company has a fast-growing regulated utility business and unappreciated hidden value in its unregulated midstream business. Commodity exposures are working in its favour and acquisitions should be accretive.
- The historical lack of transparency that (in combination with the non-voting structure) has driven a discounted valuation on underlying holding CU in the past has recently improved with more detailed segmented information. Value on CU should surface in the next 12-18 months, which supports value in ATCO.
- ATCO trades on a net asset value (NAV) basis rather than directly on other trading multiples. Our $66.00 one-year target price is premised on a target NAV ($81/share) discount of about 20%, in line with historical norms. On this basis, we believe the stock will perform in line with the group.

ATCO Ltd.

COMPANY DESCRIPTION

ATCO is primarily a holding company for shares of Canadian Utilities Limited (CU). It owns about 34.2 million of the CU class A non-voting shares (40%) and 33.2 million of the CU class B voting shares (82%) for an aggregate ownership of about 52.8%. ATCO is in turn controlled by Ron Southern, who owns roughly 83.5% of the 6.85 million class II voting shares outstanding (he also owns about 25% of the 51 million class I non-voting shares). In addition to its holdings in CU, ATCO owns a 75.5% interest in ATCO Structures and Logistics. This division provides modular structures primarily to the resources industry globally. It also handles facilities operations and maintenance primarily for the defence industry.

INVESTMENT THESIS

The same fundamentals and thesis that apply to Canadian Utilities apply to ATCO. In our view, the company has a fast-growing regulated utility business and unappreciated hidden value in its unregulated midstream business. Commodity exposures are working in its favour and acquisitions should be accretive. Yet, despite these positive attributes, the shares remain relatively cheap especially on earnings and EBITDA multiples. The historical lack of transparency that (in combination with the non-voting structure) has driven a discounted valuation in the past has recently improved with more detailed segmented information. Value should surface in the next 12-18 months on several fronts, as earnings could surprise on the upside. The board of directors has a long-term consistent track record of raising the dividend at least in line with earnings, and we anticipate this trend will continue.

POSSIBLE POSITIVE CATALYSTS

1. Transmission investment announcements. In 2009, the company was authorized by the Province of Alberta to prepare an application for a transmission line from Edmonton to Calgary. If final approval is granted (Q1/12), the $1.6 billion project could add 35% to the company's rate base by 2014.
2. Monetization of midstream business. We believe the company may monetize its midstream assets to unlock value. CU trades at a discount to the midstream group (8x EBITDA vs. 12x) and, since CU tried to sell midstream in 2006, we believe it is non-core.
3. Alberta spark spread improvements. The outages at the Sundance 1 and 2 coal-fired plants have caused Alberta spark spreads to widen considerably. The company has about 503 MW of merchant gas-fired power in Alberta. So far this year, spreads have averaged around $41/MWh vs. $24/MWh last year. We estimate that a $1/MWh change in spark spreads impacts EPS by about a penny.
4. Battle River contract expiry. When 300 MW of the Battle River power plant capacity contract expires at the end of 2013, the company can sell output into Alberta's merchant market, realizing a potentially large uptick in realized prices, perhaps on the order of $30/MWh.
5. Continued strength in Structures. Earnings from the majority-owned Structures business have risen dramatically in recent years with the persistent development of natural resources.

POTENTIAL RISKS

1. Reductions in allowed ROE. The Alberta regulator held a hearing on allowed returns for distribution and transmission utilities. Given the reduction in bond yields last year, there is a risk ROEs could fall. We estimate that a 50 basis point reduction in Alberta-allowed ROEs would impact EPS by about $0.20.
2. Commodity price exposures. Spark spreads could reverse if Sundance 1 and 2 come back online. Also, the company carries frac spread exposure and storage spread exposure.
3. Downturn in resource markets. Most of the company's assets are located in Alberta or are linked to the resource business in one way or another. Any downturn in the Alberta economy and broader resources markets would likely impact the company's growth/earnings outlook and potentially its valuation.

VALUATION AND RECOMMENDATION

ATCO trades on a net asset value (NAV) basis rather than directly on other trading multiples. Our $66.00 one-year target price is premised on a target NAV ($81/share) discount of about 20%, in line with historical norms. On this basis, we believe the stock will perform in line with the group.

ATCO Ltd. Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Operating Earnings	$291	$321	$322	$338
Unusual/Non-recurring items	$8	$1	$0	$0
Net Income	$299	$322	$322	$338
Preferrred Dividends	$5	$0	$0	$0
Earnings Attributable to Class A & B	$294	$322	$322	$338
Average Shares Outstanding	58.2	57.9	58.0	58.2
Reported Earnings per Share	$5.04	$5.57	$5.55	$5.80
Operating Earnings per Share	**$4.91**	**$5.55**	**$5.55**	**$5.80**
Cash Flow per Share	**$8.86**	**$11.53**	**$12.00**	**$12.62**
Dividends per Share	**$1.06**	**$1.14**	**$1.23**	**$1.32**
EBITDA	$1,273.9	$1,403.2	$1,466.5	$1,551.9

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Earnings	$294	$322	$322	$338
Depreciation	$394	$437	$487	$524
Other	$242	$456	$456	$456
Cash Flow from Operations	$930	$1,215	$1,264	$1,318
Changes in operating assets/liabilities	$12	$0	$0	$0
Cash Provided from Operating Activities	**$942**	**$1,215**	**$1,264**	**$1,318**
Capital Expenditures - net	($916)	($1,950)	($1,360)	($1,160)
Other & Asset Sales	$60	($10)	$0	$0
Cash Used in Investing Activities	**($856)**	**($1,960)**	**($1,360)**	**($1,160)**
Dividends paid to Class I and II shares	($62)	($66)	($71)	($77)
Dividends paid to non-controlling interests	($134)	($108)	($108)	($108)
Other Financing Activities	($254)	$885	$267	$117
Cash Used in Financing Activities	**($450)**	**$711**	**$88**	**($68)**
Foreign Currency Translation	($12)	$0	$0	$0
Increase (decrease) in cash	($375)	($34)	($8)	$90
Cash at beginning of year	$1,020	$645	$611	$604
Cash at end of year	**$645**	**$611**	**$604**	**$694**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Short Term Investments	$645	$611	$604	$694
Other Current Assets	$638	$646	$646	$646
PP&E	$7,706	$9,219	$10,093	$10,728
Intangibles & Goodwill	$493	$342	$342	$342
Other Assets	$672	$616	$616	$616
Total Assets	**$10,153**	**$11,435**	**$12,301**	**$13,027**
Current Liabilities	$807	$229	$452	$675
Long Term Debt	$3,438	$4,367	$4,617	$4,717
Other Liabilities	$1,449	$1,931	$1,931	$1,931
Non-controlling interests	$2,348	$2,608	$2,868	$3,128
Total Liabilities	**$8,042**	**$9,135**	**$9,868**	**$10,451**
Shareholders' Equity	**$2,111**	**$2,300**	**$2,433**	**$2,576**
Total Liabilities and Shareholders' Equity	**$10,153**	**$11,435**	**$12,301**	**$13,027**

Note: December 31 year-end.

Source: Company reports; Scotia Capital estimates.

Atlantic Power Corporation

Re-contracting of Plants to Contain Upside

(ATP-T, AT-N)

				Capitalization	
Sep 13, 2011:	C$14.50	**1-Yr Target:**	C$15.00	Shares O/S (M)	69.0
Rating:	2-Sector Perform	**1-Yr ROR:**	11.0%	Total Value (C$ M)	1,000.0
Risk:	Medium	**2-Yr Target:**	C$15.00	Float O/S (M)	69.0
IBES CFPS 2011E	$1.15	**2-Yr ROR:**	18.9%	Float Value (C$ M)	1,000.0
IBES CFPS 2012E	$1.37	**Div. (Curr.):**	C$1.09	TSX Weight	0.07%
		Yield	7.5%		

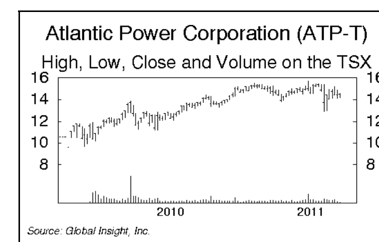
Valuation: 9.0% 2012E free cash yield and 9.9x 2012E EV/EBITDA

Key Risks to Target: FX; power & gas prices; re-contracting; interest rates

Qtly CFPS (Basic) (C$) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.28A	$0.34A	$0.43A	$0.30A	$1.34	11.0x
2011E	$0.26A	$0.46A	$0.42	$0.25	$1.40	10.5x
2012E	$0.30	$0.48	$0.44	$0.56	$1.78	8.2x
2013E	$0.30	$0.53	$0.43	$0.61	$1.87	7.8x

	2009A	2010A	2011	2012	2013
FCFPS (C$)	$1.10	$0.99	$1.05	$1.35	$1.40
Adj EPS (C$)	$-0.66	$-0.06	$0.41	$0.18	$0.17
EBITDA (M)	$151	$152	$171	$367	$378
Total Debt + Preferreds (M)	$518	$674	$710	$2,052	$2,007
Enterprise Value (M)	$1,133	$1,540	$1,635	$3,582	$3,499



Source: Global Insight, Inc.

All values in US$ unless otherwise indicated. Regular voting.
FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Atlantic Power Corporation (Atlantic Power) with a 2-Sector Perform rating and one-year target of $15.00 per share.
- Atlantic Power has a strong acquisition and operations track record. The fuel mix of the combined company will be less risky than most companies as there is little solid fuel relative to natural gas and renewable power. And, with an attractive dividend yield, the company's cost of capital may persist at lower levels than that of its peer U.S. power companies, creating opportunities for accretive acquisitions.
- However, Atlantic Power has material contract expiry in Florida in the next two years and CPILP has material expiry in Ontario within the next five years. In both cases, there is precedent for re-contracting but with a meaningful reduction in cash flow upon contract expiry.
- Atlantic Power shares trade at a premium to the group on 2011E free cash yield (7.4% vs. group at 7.9%). We believe the market will continue requiring a relatively high yield due to uncertainty on contract expiry. Our $15.00 target price is premised on a target 9.0% 2012E free cash yield, at a discount to the group, and 9.9x 2012E EV/EBITDA. Despite the re-contract risk, downside in the stock over our forecast horizon is probably limited due to the high dividend yield. We therefore believe it will perform in line with the sector.

Atlantic Power Corporation

COMPANY DESCRIPTION

Atlantic Power is a diversified power company with 924 net MW of capacity in the United States comprising mostly natural gas-fired but also some solid fuel and renewable power. Atlantic started as an "IDS" structure with external management but converted to a corporate structure and internalized management in late 2009. Recently, Atlantic agreed to acquire Capital Power Income Fund (CPILP) in a stock and cash transaction that is scheduled to close in Q4/11. Excluding assets that will remain with Capital Power post the acquisition, CPILP owns 1,245 net MW of similarly diverse fuel and geographies but with a greater emphasis on Canadian assets. Both Atlantic and CPILP pursued contracted power as opposed to merchant power – though both have short contract durations remaining on certain plants.

INVESTMENT THESIS

Atlantic Power has a strong acquisition and operations track record, but the assets carry relatively high business risk due to the short duration of their contracts. The fuel mix of the combined company will be less risky than most companies as there is little solid fuel relative to natural gas and renewable power. And, with an attractive dividend yield, the company's cost of capital may persist at lower levels than that of its peer U.S. power companies, creating opportunities for accretive acquisitions. However, Atlantic has material contract expiry in Florida in the next two years and CPILP has material expiry in Ontario within the next five years. In both cases, there is precedent for re-contracting but with a meaningful reduction in cash flow upon contract expiry. There are also challenges in efficiently managing a power fleet that is so widespread in its geography (2,160 MW over 12 states and two provinces). Therefore, we believe the shares will continue trading with a relatively high yield due to uncertainty and high payout ratio.

POSSIBLE POSITIVE CATALYSTS

1. Dividend increase. Atlantic has stated that it will raise its dividend by 5% to C$1.15 from C$1.09, concurrent with the closing of the CPILP acquisition. This dividend increase could inspire confidence in dividend sustainability and boost the shares.
2. Acquisition announcements. Atlantic is an active asset acquirer and, although recently the operating asset market has been expensive, we envisage the company acquiring late-stage development projects from companies with inferior access to capital.
3. Asset dispositions. We anticipate Atlantic will rationalize the CPILP portfolio over time, potentially realizing attractive prices for operating assets that provide cash for reinvestment in the business.

POTENTIAL RISKS

1. Contract expiry in Ontario. Three of the CPILP plants have contracts expiring in the 2014-2017 timeframe. While we believe these plants made up no more than 10% of the CPILP cash flow, based on Ontario precedent, we believe there is a material risk of a reduction in their cash flow up to about 50%.
2. Contract expiry in Florida. Two of the Atlantic Power plants have contracts with Progress Energy expiring in 2013. We estimate these plants make up over 50% of Atlantic Power's cash flow (pre-merger). The most recent precedent is for a roughly 50% reduction in cash flow when re-contracted.
3. High payout ratio. We are forecasting a payout ratio this year of over 100%. Though we believe dividend coverage will considerably improve with the CPILP acquisition (to about 85%), the need for a reduction in dividends at some point is not out of the question as contracts expire.

VALUATION AND RECOMMENDATION

Atlantic Power shares trade at a premium to the group on 2011E free cash yield (7.4% vs. group at 7.9%). We believe the market will continue to require a relatively high yield due to uncertainty on contract expiry. This situation is likely to persist, in our opinion, for the next two years as news on re-contracting the Florida assets is unlikely to emerge near term. Our $15.00 one-year target price is premised on a target 9.0% 2012E free cash yield, at a discount to the group, and 9.9x 2012E EV/EBITDA. Despite the re-contract risk, downside in the stock over our forecast horizon is probably limited due to the high dividend yield. We therefore believe it will perform in line with the sector.

Atlantic Power Corporation Financial Statement Summary

Income Statement ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Revenues	$195	$218	$708	$745
Expenses & Other	($137)	($152)	($546)	($579)
Operating income	$58	$66	$162	$166
Project other income (expense)				
Equity earnings/income from long-term investments	$14	$17	$16	$16
Interest, net project consolidated	($18)	($16)	($56)	($61)
Other project income (expense)	($12)	$2	-	-
Project income (loss) as reported	**$42**	**$70**	**$123**	**$121**
Expenses				
Management fees and admin	$16	$16	$30	$30
Interest, net corporate	$12	$13	$43	$43
Other expense, fx, net	($1)	-	-	-
Earnings before taxes	$15	$40	$50	$48
Tax expense (gain)	$19	$12	$15	$14
Preferred share dividends	-	-	$14	$14
Net Income - Adjusted	**($4)**	**$28**	**$21**	**$19**
Income (loss) from discontinued ops	($0)	-	-	-
Net Income - Reported	**($4)**	**$28**	**$21**	**$19**
Project Adjusted EBITDA	**$153**	**$171**	**$367**	**$378**
Shares - Basic	62	69	114	114
EPS - Reported	($0.06)	$0.41	$0.18	$0.17
EPS - Adjusted	**($0.06)**	**$0.41**	**$0.18**	**$0.17**

Cash Flow Statement ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Net income (loss) from continuing operations	($4)	$28	$21	$19
Amortization	$40	$43	$142	$150
Other	$43	$27	$43	$47
CFO before working cap	$80	$98	$206	$216
Change in other operating balances	$7	$2	-	-
Cash Flow from Operating Activities	$87	$100	$206	$216
Common Dividends paid	($65)	($76)	($131)	($131)
Other financing activities	$121	$88	$571	($75)
Cash Flow from Financing Activities	$56	$11	$440	($206)
PP&E / Acquisitions / Divestures	($123)	($102)	($602)	($35)
Other	($24)	$22	$12	$62
Cash Flow from Investing Activities	($147)	($80)	($590)	$28
Change in cash and cash equivalents	($4)	$32	$56	$38
Cash, beginning of period	$50	$45	$77	$133
Cash, end of period	**$45**	**$77**	**$133**	**$171**

Balance Sheet ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Cash	$45	$77	$133	$171
Other Current Assets	$64	$58	$58	$58
PP&E	$275	$334	$1,715	$1,600
Intangibles	$88	$77	$77	$77
Goodwill	$12	$12	$12	$12
Other Assets	$527	$506	$506	$506
Total Assets	**$1,013**	**$1,065**	**$2,503**	**$2,425**
Short-term debt	$22	$22	$22	$22
Other Current Liabilities	$30	$86	$68	$129
Long-term debt	$244	$304	$1,449	$1,422
Convertible Debentures	$231	$210	$210	$210
Other Liabilities	$57	$61	$61	$61
Total Liabilities	**$583**	**$684**	**$1,810**	**$1,845**
Preferred shares	$0	$0	$220	$220
Common equity	$430	$382	$472	$361
Total Shareholders' Equity	**$430**	**$382**	**$692**	**$581**
Total Liabilities and Shareholders' Equity	**$1,013**	**$1,065**	**$2,503**	**$2,425**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Brookfield Renewable Power Fund

Low-Risk Product Belongs in Today's Portfolio

(BRC.UN-T)

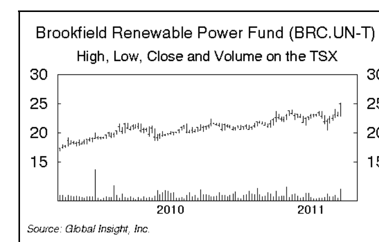
Sep 13, 2011:	$24.85	**1-Yr Target:**	$30.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	26.0%	Units O/S (M)	104.7
Risk:	Low	**2-Yr Target:**	$31.00	Total Value ($M)	2,602.3
IBES CFPU 2011E	$1.72	**2-Yr ROR:**	35.2%	Float O/S (M)	71.4
IBES CFPU 2012E	$1.96	**CDPU (Curr.):**	$1.30	Float Value ($M)	1,774.3
		Yield	5.2%	TSX Weight	0.10%

Valuation: 5.6% 2012E free cash yield and 14.9x 2012E EV/EBITDA

Key Risks to Target: Hydrology; Wind resource; FX; Interest rates

Qtly CFPU (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.52A	$0.18A	$0.02A	$0.52A	$1.25	16.5x
2011E	$0.45A	$0.47A	$0.43	$0.55	$1.90	13.1x
2012E	$0.53	$0.59	$0.50	$0.53	$2.16	11.5x
2013E	$0.54	$0.60	$0.52	$0.55	$2.21	11.2x



	2009A	2010A	2011	2012	2013
FCFPU	$1.56	$0.96	$1.48	$1.69	$1.75
Adj EPU	$2.64	$0.51	$0.17	$0.36	$0.45
EBITDA (M)	$216	$250	$278	$328	$328
Total Debt + Preferreds (M)	$1,670	$1,875	$1,810	$1,759	$1,670
Enterprise Value (M)	$3,031	$4,045	$4,422	$4,371	$4,220

Regular Voting. FCFPU is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the units of Brookfield Renewable Power Fund (BRC) with a 1-Sector Outperform rating and a one-year target of $30.00 per unit.
- BRC has one of the most attractive risk profiles of any company we cover and is backed by a proven sponsor with expertise in operations and finance. While many other renewable power companies carry significant re-contracting and financing risk, BRC carries very little.
- Some of the comparable companies must still grow into their dividend rates, but BRC's payout is already well below 100%. As a result, investors in BRC get a forward free cash yield similar to that received by investors in comparable companies, without taking the same development and financing risk. In addition, growth prospects are improving with the potential for a merger with Brookfield Renewable Power Inc. (BRPI) and its broader international platform.
- BRC trades at a premium to the group on 2011E free cash yield (6.0% vs. group at 7.9%). A premium will likely persist due to proven management, development success that could lead to dividend growth, and a low-risk business model with no merchant power exposure. Our $30.00 one-year target price is premised on a target 5.6% 2012E free cash yield, still at a premium to the group, and 14.9x 2012E EV/EBITDA. Particularly on a risk-adjusted basis, we believe the return potential justifies a 1-Sector Outperform rating, and we recommend owning the units.

Brookfield Renewable Power Fund

COMPANY DESCRIPTION

BRC is a pure-play renewable power company with almost 1,700 MW of mostly hydroelectric and some wind operating assets in Canada. Hydroelectric facilities are located primarily in Ontario and Quebec, with a smaller presence in British Columbia and New England. There is no material commodity price risk in the business because the plants are all under long-term contracts. BRC made a transformational deal in August 2009 when it acquired Brookfield Renewable Power Inc.'s (BRPI) remaining Canadian operating renewable power assets for $945 million. A pending deal would more than double BRC's size by merging with BRPI's international renewable power business, which has assets in the U.S. and Brazil, into a new company called Brookfield Renewable Energy Partners L.P. (BREP). Brookfield Asset Management (BAM) remains the primary sponsor with a 34% ownership interest (possibly moving to 73% if the merger is approved) and as the counterparty to fixed-price PPAs covering over half of the fund's output.

INVESTMENT THESIS

BRC has one of the most attractive risk profiles of any company we cover and is backed by a proven sponsor with expertise in operations and finance. While many other renewable power companies carry significant re-contracting and financing risk, BRC carries very little. None of its Canadian contracts come up until 2019, and the average contract duration of the merged entity would be an industry-best 24 years. Growth prospects could significantly improve because the merged entity would have about 2,000 MW of renewable power assets in development. While many comparable entities must still grow into their dividend rates, BRC's payout is already well below 100%. As a result, investors in BRC get a forward free cash yield similar to that received by investors in comparable companies, without taking the same development and financing risk. The existing Canadian entity is a solid company on its own, but we believe the prospects of rolling BRC units into BREP are even more attractive. The combined company would be a global leader in renewable power and is likely to attract a premium valuation.

POSSIBLE POSITIVE CATALYSTS

1. Bringing development projects into service. The Comber wind project coming into service later this year should be accretive to distributable cash flow (we estimate by $0.10-$0.15 per unit). Other development prospects should follow in Canada, the United States, and Brazil. Dividend increases could follow from successful commissioning of Comber and other facilities.
2. Acquisitions of operating projects. Parent company BAM has a track record of acquiring assets in all three of its three core regions (Canada, United States, Brazil). Given the fund's low cost of capital, it can likely acquire international assets on an accretive basis.

POTENTIAL RISKS

1. Development and construction cost and timing. Returns on investment are contingent on meeting project budgets and timelines. Historically, the fund has taken no significant development risk, but in future, BREP will undertake development as well as construction and operations.
2. Government commitment to renewable power. Global government commitments to renewable power are waning as the economy weakens. For a pure-play renewable company, government commitment to granting new contracts on renewable power projects is critical to future growth and valuation.
3. Brookfield sell-down. Brookfield sold down its interest in the fund last year to 34% from 50.1%. The increase in ownership back up to 73% could precipitate further equity issuance overhang in the future (though that would tend to boost liquidity in the stock).

VALUATION AND RECOMMENDATION

BRC trades at a premium to the group on 2011E free cash yield (6.0% vs. group at 7.9%). A premium will likely persist due to proven management, development success that could lead to dividend growth, and a low-risk business model with no merchant power exposure. Our $30.00 one-year target price is premised on a target 5.6% 2012E free cash yield, still at a premium to the group, and 14.9x 2012E EV/EBITDA. The target valuation implies a large premium to the group, but this premium should compress following the merger because management has noted the deal should be over 10% accretive to free cash flow.

Brookfield Renewable Power Fund Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Revenues	$332	$400	$467	$466
Expenses & Other	($83)	($122)	($139)	($138)
EBITDA	$250	$278	$328	$328
D&A	($106)	($164)	($170)	($167)
EBIT	$144	$113	$158	$161
Interest	($96)	($79)	($101)	($95)
FX and other	($7)	($2)	($4)	($4)
EBT	$41	$32	$53	$62
Taxes	$15	($51)	($2)	($2)
Non-controlling Interest	($2)	($13)	($14)	($14)
Earnings - Adjusted (to unitholders)	**$53**	**$18**	**$37**	**$47**
Unusual items	($18)	($55)	$0	$0
Earnings - Reported (to unitholders)	**$35**	**($38)**	**$37**	**$47**
Avg. Units O/S - basic	105	105	105	105
EPU - Reported	$0.33	($0.36)	$0.36	$0.45
EPU - Adjusted	**$0.51**	**$0.17**	**$0.36**	**$0.45**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Total Earnings	$35	($25)	$51	$60
Amortization	$106	$164	$170	$167
Other	($10)	$59	$5	$5
CFO Before Changes in Working Capital	$131	$198	$226	$232
Non-cash working capital	$1	($11)	$0	$0
Cash Flow from Operating Activities	**$131**	**$188**	**$226**	**$232**
Purchase of PP&E, Investments in assets	($187)	($460)	($25)	($25)
Other	($0)	$0	$0	$0
Cash Flow from Investing Activities	**($187)**	**($460)**	**($25)**	**($25)**
Dividends / Distributions	($142)	($127)	($150)	($150)
Other financing activities	$192	$383	($51)	$6
Cash Flow from Financing Activities	**$50**	**$257**	**($201)**	**($144)**
Effect of FX differences on cash	($0)	($0)	$0	$0
Change in year-end cash	($7)	($15)	($0)	$63
Cash at the beginning of the year	$34	$22	$7	$7
Cash at the end of the year	**$27**	**$7**	**$7**	**$69**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$27	$7	$7	$69
Other Current Assets	$48	$69	$69	$69
PP&E	$2,806	$5,464	$5,319	$5,177
Intangibles & Other	$860	$92	$92	$92
Total Assets	**$3,741**	**$5,632**	**$5,487**	**$5,407**
Short-term debt	$100	$21	$21	$21
Other Current Liabilities	$231	$45	$50	$149
Long-term debt	$1,524	$1,539	$1,488	$1,400
Other Liabilities	$804	$1,192	$1,192	$1,192
Total Liabilities	**$2,658**	**$2,797**	**$2,750**	**$2,761**
Non-controlling Interest	$36	$0	$0	$0
Preferred shares	$252	$250	$250	$250
Unitholders' equity	$795	$2,585	$2,486	$2,397
Total Unitholders' Equity	**$1,083**	**$2,835**	**$2,736**	**$2,647**
Total Liabilities and Unitholders' Equity	**$3,741**	**$5,632**	**$5,487**	**$5,407**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Canadian Utilities Limited

Alberta Activity Boosting Fortunes

(CU-T)

Sep 13, 2011:	$60.44	**1-Yr Target:**	$67.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	13.5%	Shares O/S (M)	127.5
Risk:	Low	**2-Yr Target:**	$69.00	Total Value ($M)	7,705.3
IBES EPS 2011E	$3.60	**2-Yr ROR:**	19.6%	Float O/S (M)	94.3
IBES EPS 2012E	$3.95	**Div. (Curr.):**	$1.61	Float Value ($M)	5,698.7
		Yield	2.7%	TSX Weight	0.25%

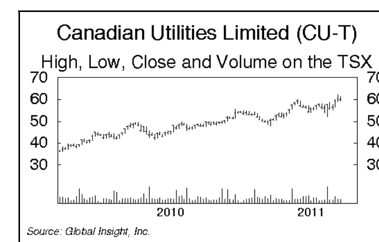
Valuation: 7.0% 2012E free cash yield and 9.5x 2012E EV/EBITDA

Key Risks to Target: Interest rates; Regulated ROE; Spark spreads; FX

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$1.18A	$0.61A	$0.53A	$1.02A	$3.35	16.3x
2011E	$1.30A	$0.71A	$0.68	$1.15	$3.85	15.7x
2012E	$1.31	$0.73	$0.69	$1.17	$3.90	15.5x
2013E	$1.33	$0.74	$0.71	$1.33	$4.10	14.7x

	2009A	2010A	2011	2012	2013
FCFPS	$3.73	$3.28	$4.69	$4.66	$4.71
CFPS	$6.32	$5.87	$7.36	$7.45	$7.92
EBITDA (M)	$1,119	$1,100	$1,381	$1,453	$1,546
Total Debt + Preferreds (M)	$4,294	$4,265	$5,317	$5,717	$5,917
Enterprise Value (M)	$8,994	$10,571	$12,426	$12,890	$13,105



Non-voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Canadian Utilities Limited (Canadian Utilities or CU) with a 1-Sector Outperform rating and one-year target price of $67.00 per share.
- In our view, Canadian Utilities has a fast-growing regulated utility business and unappreciated hidden value in its unregulated midstream business. Commodity exposures appear to be working in its favour, and acquisitions should be accretive. Yet, despite these positive attributes, we believe the shares remain relatively cheap especially on earnings and EBITDA multiples.
- The historical lack of transparency that (in combination with the non-voting structure) had driven a discounted valuation in the past has recently improved with more detailed segmented information. Value should surface in the next 12-18 months on several fronts, as earnings could surprise on the upside. The board of directors has a long-term consistent track record of raising the dividend at least in line with earnings, and we anticipate this trend will continue.
- Canadian Utilities trades in line with the group on 2011E free cash yield (7.8% vs. group at 7.9%). With potential earnings and M&A catalysts, improved disclosure as well as consistent dividend growth, the stock could move still higher. Our $67.00 one-year target price is premised on a target 7.0% 2012E free cash yield, at a premium to the group, given low leverage, low business risk, and visible utility growth, and 9.5x 2012E EV/EBITDA. We believe the stock will outperform and we recommend accumulating at these levels.

Canadian Utilities Limited

COMPANY DESCRIPTION

Canadian Utilities is among the largest utility holding companies in Canada. It owns regulated electric and gas distribution and transmission assets in Alberta with almost 1.4 million retail distribution customers (mostly gas). In addition to regulated utility, the company owns a diverse set of unregulated energy infrastructure assets including a net interest in about 2,800 MW of power capacity, 410 mmcf/day of midstream gas processing, and 43 petajoules of unregulated Alberta gas storage capacity. Recently, Canadian Utilities announced the A$1.0 billion acquisition of a regulated gas utility in Australia (WAGN). Our coverage is of the class A non-voting shares. The class B voting stock is controlled by ATCO (33.2 million of the 40.4 million class B voting shares outstanding) and ATCO is in turn controlled by Ron Southern.

INVESTMENT THESIS

In our view, Canadian Utilities has a fast-growing regulated utility business and unappreciated hidden value in its unregulated midstream business. Commodity exposures appear to be working in its favour, and acquisitions should be accretive. Yet, despite these positive attributes, the shares remain relatively cheap especially on earnings and EBITDA multiples. The historical lack of transparency that (in combination with the non-voting structure) had driven a discounted valuation in the past has recently improved with more detailed segmented information. Value should surface in the next 12-18 months on several fronts, as earnings could surprise on the upside. The board of directors has a long-term consistent track record of raising the dividend at least in line with earnings, and we anticipate this trend to continue.

POSSIBLE POSITIVE CATALYSTS

1. Transmission investment announcements. In 2009, the company was authorized by the Province of Alberta to prepare an application for a transmission line from Edmonton to Calgary. If final approval is granted (Q1/12), the $1.6 billion project could add 35% to the company's rate base by 2014.
2. Monetization of midstream business. We believe the company may monetize its midstream assets to unlock value, which could range from $1.0 billion to $1.3 billion (EV). CU trades at a discount to the midstream group (9x EBITDA vs. 12x) and, since CU tried to sell midstream in 2006, we believe it is non-core.
3. Alberta spark spread improvements. The outages at the Sundance 1 and 2 coal-fired plants have caused Alberta spark spreads to widen considerably. The company has about 503 MW of merchant gas-fired power in Alberta. So far this year, spreads have averaged around $41/MWh vs. $24/MWh last year. We estimate that a $1/MWh change in spark spreads impacts EPS by about a penny.
4. Battle River contract expiry. When 300 MW of the Battle River power plant capacity contract expires at the end of 2013, the company can sell output into Alberta's merchant market, realizing a potentially large uptick in realized prices, perhaps in the order of $30/MWh.

POTENTIAL RISKS

1. Reductions in allowed ROE. The Alberta regulator held a hearing on allowed returns for distribution and transmission utilities. Given the reduction in bond yields last year, there is a risk ROEs could fall. We estimate that a 50 basis point reduction in Alberta-allowed ROEs would impact EPS by about $0.20.
2. Commodity price exposures. Spark spreads could reverse if Sundance 1 and 2 come back online. Also, the company carries frac spread exposure and storage spread exposure.
3. Downturn in oil and gas markets. Most of the company's assets are located in Alberta or are linked to the resource business in one way or another. Any downturn in the Alberta economy would likely impact the company's growth/earnings outlook and potentially its valuation.

VALUATION AND RECOMMENDATION

Canadian Utilities trades in line with the group on 2011E free cash yield (7.8% vs. group at 7.9%). With potential earnings and M&A catalysts, improved disclosure as well as consistent dividend growth, the stock could move still higher. Our $67.00 one-year target price is premised on a target 7.0% 2012E free cash yield, at a premium to the group, given low leverage, low business risk, and visible utility growth, and 9.5x 2012E EV/EBITDA. We believe the stock will outperform and recommend accumulating at these levels.

Canadian Utilities Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Operating Earnings	**$421**	**$491**	**$497**	**$523**
Gain on Asset Sale/Unusuals	$15	$17	$0	$0
Reported Earnings	$436	$508	$497	$523
Average Class A and B Shares o/s (mln)	125.9	127.5	127.5	127.5
Reported Earnings per share	$3.46	$3.98	$3.90	$4.10
Operating Earnings per share	**$3.35**	**$3.85**	**$3.90**	**$4.10**
Dividends Per Share	**$1.51**	**$1.61**	**$1.69**	**$1.78**
EBITDA	$1,100	$1,381	$1,453	$1,546
EBITDA Per Share	$8.74	$10.83	$11.40	$12.13
Cash Flow From Operations	$738	$938	$949	$1,010
Cash Flow Per Share	**$5.87**	**$7.36**	**$7.45**	**$7.92**

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Earnings	$436	$508	$497	$523
Depreciation	$336	$376	$422	$457
Other	($33)	$55	$30	$30
	$738	$938	$949	$1,010
Changes in operating assets/liabilities	$26	$0	$0	$0
Cash Provided from Operating Activities	**$764**	**$938**	**$949**	**$1,010**
Capital Expenditures	($822)	($1,850)	($1,260)	($1,060)
Other & Asset Sales	$45	$110	$110	$110
Cash Used in Investing Activities	**($778)**	**($1,740)**	**($1,150)**	**($950)**
Dividends paid to Class A and B shares	($190)	($205)	($216)	($226)
Other Financing Activities	($42)	$1,008	$352	$152
Cash Used in Financing Activities	**($232)**	**$803**	**$136**	**($74)**
Foreign Currency Translation	($11)	$0	$0	$0
Increase (decrease) in cash	($256)	$1	($64)	($14)
Cash at beginning of year	$796	$540	$541	$476
Cash at end of year	**$540**	**$541**	**$476**	**$462**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Short Term Investments	$540	$541	$476	$462
Other Current Assets	$542	$420	$420	$420
PP&E	$7,036	$8,401	$9,128	$9,621
Intangibles & Goodwill	$461	$537	$537	$537
Other Assets	$836	$467	$467	$467
Total Assets	**$9,415**	**$10,365**	**$11,029**	**$11,507**
Current Liabilities	$467	$528	$510	$492
Long Term Debt	$3,405	$4,469	$4,869	$5,069
Other Liabilities	$1,408	$800	$800	$800
Total Liabilities	**$5,279**	**$5,798**	**$6,180**	**$6,362**
Shareholders' Equity	**$4,136**	**$4,567**	**$4,849**	**$5,145**
Total Liabilities and Shareholders' Equity	**$9,415**	**$10,365**	**$11,029**	**$11,507**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Capital Power Corporation

Alberta Power Upside Could Reverse

(CPX-T)

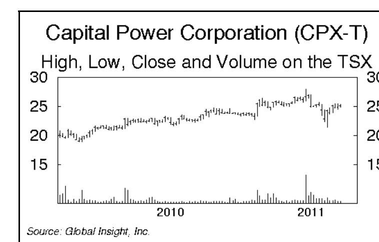
Sep 13, 2011:	$25.11	**1-Yr Target:**	$23.00	**Capitalization**	
Rating:	3-Sector Underperform	**1-Yr ROR:**	-3.4%	Shares O/S (M)	97.1
Risk:	Medium	**2-Yr Target:**	$23.00	Total Value ($M)	2,437.2
IBES EPS 2011E	$1.25	**2-Yr ROR:**	1.6%	Float O/S (M)	49.6
IBES EPS 2012E	$1.61	**Div. (Curr.):**	$1.26	Float Value ($M)	1,246.6
		Yield	5.0%	TSX Weight	0.07%

Valuation: 10.0% 2012E free cash yield and 13.1x 2012E EV/EBITDA

Key Risks to Target: Power prices; growth projects entering service; environmental regulations

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.55A	$0.05A	$0.55A	$0.26A	$1.40	16.8x
2011E	$0.30A	$0.07A	$0.23	$0.59	$1.20	21.0x
2012E	$0.25	$0.22	$0.33	$0.39	$1.20	21.0x
2013E	$0.26	$0.23	$0.31	$0.30	$1.10	22.8x



	2009A	2010A	2011	2012	2013
FCFPS	$0.78	$2.20	$2.68	$2.29	$2.47
CFPS	$1.35	$3.35	$3.91	$3.59	$3.82
EBITDA (M)	$272	$423	$514	$431	$519
Total Debt + Preferreds (M)	$1,719	$1,991	$1,691	$2,068	$3,051
Enterprise Value (M)	$4,196	$4,214	$4,058	$4,645	$5,672

Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Capital Power Corporation (Capital Power) with a 3-Sector Underperform rating and one-year target of $23.00 per share.
- Despite recent acquisitions, Capital Power still has more exposure to Alberta's power market than any other company in our coverage universe. We estimate that on an unhedged basis, every $1/MWh change in Alberta power prices and spark spreads impacts 2012E EPS by $0.03. That exposure has created volatility in the stock that we think could persist.
- Meanwhile, overhang persists on potential share issuance. Equity issuance comes from EPCOR, as it reduces its ownership stake, and from Capital Power, as it acquires assets. This tendency is exacerbated by the company's strategic goal of owning 10,000 MW by 2020.
- Capital Power trades at a significant discount to the group on 2011E free cash yield (10.7% vs. group at 7.9%). We believe it will be difficult for the shares to move higher because earnings on the core assets may stagnate or decline with Alberta power prices and accretion from acquisitions may not pan out. Our $23.00 one-year target price is premised on a target 10% 2012E free cash yield, at a discount to the group due to significant commodity price risk and merchant power market risk, and 13.1x 2012E EV/EBITDA. We believe the stock will underperform and we recommend reducing holdings in favour of other infrastructure stocks.

Capital Power Corporation

COMPANY DESCRIPTION

Capital Power is one of Canada's largest unregulated power companies. It was spun out of EPCOR in July 2009 and still has its core assets in Alberta. Total owned net capacity is about 3,800 MW, of which over 1,000 MW are gas-fired plants in New England acquired this year and about 1,290 MW of which are merchant fossil fuel plants in Alberta. Capital Power has a significant pipeline of wind assets in development and is expected to have 440 MW of wind assets in service by late 2012. EPCOR owns 47.4 million shares or a 48.9% economic interest in the company. It has the right to appoint four of 12 board members and has a stated interest in selling down its ownership interest over time. Also, Capital Power owns 29.6% of Capital Power Income LP but the latter entity is scheduled to merge with Atlantic Power in Q4/11. Assuming the merger succeeds, Capital Power would own about 6.5 million shares of Atlantic.

INVESTMENT THESIS

Despite recent acquisitions, Capital Power still has more exposure to Alberta's power market than any other company in our coverage universe. We estimate that on an unhedged basis, every $1/MWh change in Alberta power prices and spark spreads impacts 2012E EPS by $0.03. That exposure has created volatility in the stock that we think could persist. After the IPO, forward Alberta power prices dropped below $50/MWh and the shares sold off. Recently, the shares jumped as Alberta power prices rebounded. We see risk that the stock could move down again, as we continue to believe Sundance 1 and 2 may come back online and power prices may fall. Meanwhile, overhang persists on potential share issuance. Equity issuance comes from EPCOR, as it reduces its ownership stake, and from Capital Power, as it acquires assets. This tendency is exacerbated by the company's strategic goal of owning 10,000 MW by 2020.

POSSIBLE POSITIVE CATALYSTS

1. Tightness in Alberta's power market. If Sundance does not come back online, Alberta's reserve margin will remain tight and prices may persist above equilibrium levels for several years.
2. Accretive acquisitions. Acquisitions may be perceived to add shareholder value as the company often pays less than replacement value. However, some acquisitions are only accretive contingent on market improvements (Halkirk "neutral" for first five years, Connecticut gas "neutral" for first two years).
3. Reduction in EPCOR's interest. As EPCOR reduces its ownership interest in Capital Power, there should be a perceived reduction in overhang from new equity issuance and influence by EPCOR.

POTENTIAL RISKS

1. Alberta power prices. As hedges on the merchant Alberta coal plants generally extend only through 2012 (17% hedged in 2013), a reduction in forward Alberta power prices could materially impact the market's financial outlook for 2013.
2. Persistent equity issuance. The need for growth-related capital and a reduction in the EPCOR stake could cause frequent equity issuance in the coming 12 to 24 months. There have already been three equity issues all over $200 million during the past nine months.
3. Growing U.S. merchant exposure. Capital Power has acquired over US$650 million of merchant gas-fired assets in the U.S. Northeast recently, most of which are only neutral to earnings at this time. With merchant risk, these assets may never add to earnings due to market dynamics and/or rules.

VALUATION AND RECOMMENDATION

Capital Power trades at a significant discount to the group on 2011E free cash yield (10.7% vs. group at 7.9%). We believe it will be difficult for the shares to move higher because earnings on the core assets may stagnate or decline with Alberta power prices and accretion from acquisitions may not pan out. In that light, dividends are unlikely to grow in the foreseeable future. The 60%-70% of earnings payout policy suggests EPS would have to that rise above $1.80 prior to any dividend increase (2011 guidance of $1.40). Our $23.00 one-year target price is premised on a target 10% 2012E free cash yield, a discount to the group due to significant commodity price risk and merchant power market risk, and 13.1x 2012E EV/EBITDA. We believe the stock will underperform and we recommend reducing holdings.

Capital Power Corporation Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Revenues	$1,760	$2,146	$1,837	$1,909
Energy purchases and fuel	$992	$1,235	$1,058	$1,036
Gross margin	$768	$911	$779	$873
Operations, maintenance, and direct administration	$241	$261	$196	$201
Operating margin	$527	$650	$584	$672
Depreciation, amortization, and asset retirement accretion	$197	$259	$209	$258
Net financing expenses	$74	$101	$87	$140
Income taxes	$8	$39	$39	$35
Non-controlling interest	$84	$62	$57	$52
Other	$133	$135	$133	$133
Normalized net income	**$31**	**$54**	**$59**	**$55**
Reported net income	**$11**	**$69**	**$59**	**$55**
Normalized earnings per share	**$1.40**	**$1.20**	**$1.20**	**$1.10**
Weighted Average Share Count	22.2	43.0	49.6	49.6
Adjusted EBITDA	$423	$514	$431	$519

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net income	$11	$69	$59	$55
Depreciation, amortization, and asset retirement accretion	$197	$259	$209	$258
Other operating activities	$146	$85	$80	$59
	$354	$413	$348	$371
Change in non-cash operating working capital	$16	$0	$0	$0
Cash provided by operating activities	**$370**	**$413**	**$348**	**$371**
Property, plant and equipment and other assets	($542)	($1,075)	($517)	($1,166)
Other investing activities	$39	$684	$0	$0
Cash provided by investing activities	**($503)**	**($391)**	**($517)**	**($1,166)**
Common share dividends	($30)	($54)	($63)	($63)
Other financing activities	$170	$16	$245	$851
Cash provided by financing activities	**$140**	**($38)**	**$183**	**$789**
Foreign exchange (loss) gain	($3)	($6)	$0	$0
Increase (decrease) in cash and cash equivalents	**$4**	**($22)**	**$14**	**($6)**
Cash and cash equivalents, beginning of year	$52	$56	$34	$48
Cash and cash equivalents, end of year	**$56**	**$34**	**$48**	**$41**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Equivalents	$56	$34	$48	$41
Other Current Assets	$498	$322	$349	$342
PP&E	$3,597	$4,413	$4,721	$5,629
Intangibles & Goodwill	$806	$542	$542	$542
Other Assets	$260	$188	$188	$188
Total Assets	**$5,217**	**$5,499**	**$5,847**	**$6,743**
Current Liabilities	$461	$1,229	$1,219	$1,160
Long Term Debt	$1,869	$1,569	$1,946	$2,929
Other Liabilities	$2,063	$1,419	$1,404	$1,384
Total Liabilities	**$4,393**	**$4,217**	**$4,569**	**$5,473**
Preferred Shares	$122	$122	$122	$122
Common Equity	$702	$1,159	$1,156	$1,148
Total Shareholders' Equity	**$824**	**$1,281**	**$1,278**	**$1,270**
Total Liabilities & Shareholders' Equity	**$5,217**	**$5,499**	**$5,847**	**$6,743**

Notes: December 31 year-end. Shares outstanding reflect the outstanding public float.
Source: Company reports; Scotia Capital estimates.

Capstone Infrastructure Corporation

Cardinal Risk a Bit Overdone

(CSE-T)

Sep 13, 2011:	$6.72	**1-Yr Target:**	$7.25	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	17.7%	Shares O/S (M)	61.8
Risk:	Medium	**2-Yr Target:**	$7.75	Total Value ($M)	415.0
IBES CFPS 2011E	$0.35	**2-Yr ROR:**	35.0%	Float O/S (M)	61.8
IBES CFPS 2012E	$0.86	**Div. (Curr.):**	$0.66	Float Value ($M)	415.0
		Yield	9.8%		

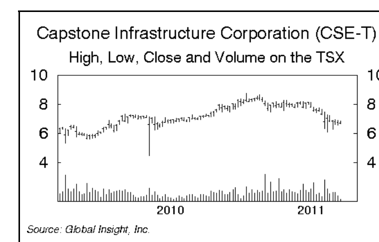
Valuation: 8.9% 2012E free cash yield and 10.6x 2012E EV/EBITDA

Key Risks to Target: Re-contracting; interest rates; FX; hydrology; wind resource

Qtly CFPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.28A	$0.18A	$0.13A	$0.01A	$0.61	13.5x
2011E	$0.23A	$-0.13A	$0.16	$0.06	$0.31	21.7x
2012E	$0.19	$0.17	$0.13	$0.23	$0.73	9.2x
2013E	$0.24	$0.21	$0.17	$0.31	$0.93	7.2x

	2009A	2010A	2011	2012	2013
FCFPS	$0.99	$0.73	$0.51	$0.65	$0.85
Adj EPS	$0.22	$0.23	$0.07	$0.19	$0.35
EBITDA (M)	$52	$54	$58	$74	$87
Total Debt + Preferreds (M)	$271	$294	$401	$401	$401
Enterprise Value (M)	$523	$576	$746	$748	$735



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Capstone Infrastructure Corporation (Capstone) with a 2-Sector Perform rating and one-year target of $7.25 per share.
- In our opinion, Capstone has a group of high-quality assets but must successfully address cash flow uncertainty at the Cardinal power plant before value can surface. The Cardinal contract expires at the end of 2014 and the plant will likely experience a cash flow reduction at that time.
- Based on recent Ontario Power Authority (OPA) directives and activities, we believe a new contract will ensue and that any resulting reduction in margin should not push distributable cash below the dividend level. However, we acknowledge uncertainty regarding the outcome and also note the payout ratio could remain above 100% even in the near term, unless TransCanada’s toll is reduced.
- Capstone shares trade at a slight premium to the group on 2011E free cash yield (7.6% vs. group at 7.9%). We believe a discount is appropriate due to the short duration remaining in the Cardinal contract. Once a sustainable (likely lower) level of cash flow is realized at Cardinal, the shares may trade in line with the group. Our $7.25 one-year target price is premised on a target 8.9% 2012E free cash yield, at a discount to the group, and 10.6x 2012E EV/EBITDA. We believe the stock will perform in line with these levels.

Capstone Infrastructure Corporation

COMPANY DESCRIPTION

Capstone is a small, multi-infrastructure company with a focus on the Canadian power business. Its initial asset – the 156 MW Cardinal cogen plant in Ontario – remains its core asset today, generating about 45% of total company cash flow. Renewable power is a growing focus, with 208 MW of net-owned capacity largely in Ontario, following the June opening of the flagship 20 MW Amherstburg solar farm. Earlier this year, Capstone acquired a 33.3% interest in a Swedish district heating company. The company sells mostly to municipal and industrial customers under long-term contracts. Capstone was until recently controlled and externally managed by the Macquarie Group, but management is now internal to the corporation and Macquarie owns only 1.3% of the outstanding common shares.

INVESTMENT THESIS

In our opinion, Capstone has a group of high-quality assets but must successfully address cash flow uncertainty at the Cardinal power plant before value can surface. The Cardinal contract expires at the end of 2014, and the plant will likely experience a cash flow reduction at that time. Based on recent OPA directives and activities, we believe a new contract will ensue and that any resulting reduction in margin should not push distributable cash below the dividend level. However, we acknowledge uncertainty regarding the outcome and also note the payout ratio could remain above 100% even in the near term unless TransCanada's toll is reduced. That issue may also likely be resolved in Capstone's favour, but uncertainty may overhang the stock for now, likely trading at a discount with a relatively high yield compared with the peer group. Meanwhile, this discounted valuation could undermine Capstone's acquisition growth strategy as it depends on a reasonably valued currency and the access to capital that derives from visible cash flow.

POSSIBLE POSITIVE CATALYSTS

1. TransCanada toll resolution. The rise in TransCanada's toll in recent years has boosted cost and reduced margins at Cardinal. If the toll were to decline back to around $1.65/GJ (2010 level) from $2.24/GJ, we estimate Cardinal would realize an incremental $6 million in operating income ($0.10/share CF).
2. Resolution of Cardinal contract. The government has directed the OPA to renegotiate contracts with small cogeneration plants like Cardinal. We believe the plant will be re-contracted, especially because it is integral to the power grid and supports local jobs in rural Ontario by providing steam to industrial hosts.
3. Improved payout ratio. This year, Capstone will probably wind up paying out over 100% of its cash flow. However, assuming the TransCanada toll drops to 2010 levels and given accretion from the district heating asset, we believe the payout will drop back down toward 80% in 2012.

POTENTIAL RISKS

1. Cardinal contract terms. Like all of Ontario's cogeneration plants, there is uncertainty as to cash flow once new contracts come into place. Given Cardinal's significant contribution to overall company cash flow, a negative outcome on its contract terms could impact the company's ability to pay its dividend.
2. Cancellation of the FIT program. Ontario's Conservative Party has indicated that, if elected, it would cancel the FIT program. Though we do not believe such cancellation would jeopardize projects with contracts, it may reduce the perceived growth in renewable power companies like Capstone.
3. Acquisitions/financing. Capstone has announced its intentions to continue making acquisitions. These may not require external equity financing, as the company has about $60 million available. However, given current volatile market conditions, financing uncertainty could undermine a large acquisition attempt.

VALUATION AND RECOMMENDATION

Capstone shares trade at a slight premium to the group on 2011E free cash yield (7.6% vs. group at 7.9%). We believe a discount is appropriate due to the short duration remaining in the Cardinal contract. Once a sustainable (likely lower) level of cash flow is realized at Cardinal, the shares may trade in line with the group. Our $7.25 one-year target price is premised on a target 8.9% 2012E free cash yield, at a discount to the group, and 10.6x 2012E EV/EBITDA. We believe the stock will perform in line from these levels.

Capstone Infrastructure Corporation Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Revenue	$159	$175	$187	$192
Operating Expenses & Other	($95)	($102)	($105)	($97)
Contribution margin	$63	$73	$81	$94
Administration Expense	($13)	($14)	($14)	($14)
	$51	**$59**	**$67**	**$80**
Depreciation & Amortization	($28)	($33)	($36)	($36)
Other	($13)	($1)	$6	$6
EBIT	**$9**	**$25**	**$38**	**$51**
Net interest expense	($19)	($20)	($23)	($23)
EBT	**($10)**	**$6**	**$16**	**$29**
Current income taxes	($0)	$0	($0)	($1)
Future income taxes	$21	($1)	($3)	($6)
Normalized earnings (loss)	**$12**	**$4**	**$12**	**$22**
Non-recurring items	$0	$15	$0	$0
Reported earnings (loss)	**$12**	**$19**	**$12**	**$22**
EBITDA	**$54**	**$58**	**$74**	**$87**
Weighted average shares	50.2	61.4	61.8	61.8
Normalized Earnings per share	**$0.23**	**$0.07**	**$0.19**	**$0.35**
Dividends Declared per Share	**$0.66**	**$0.66**	**$0.66**	**$0.66**

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net income	$12	$19	$12	$22
Depreciation and Amortization	$28	$33	$36	$36
Other	($3)	($34)	($2)	$0
FFO (Cash Flow before working capital)	$37	$19	$45	$57
Non-cash changes in working capital	($6)	$0	$0	$0
Total cash flows from operating activities	**$31**	**$19**	**$45**	**$57**
Purchase of PP&E/Investment in assets	($28)	($205)	($5)	($5)
Other	$3	$0	$1	$1
Total cash flows from investing activities	**($24)**	**($205)**	**($4)**	**($4)**
Distributions paid to Unitholders	($33)	($41)	($41)	($41)
Other financing activities	$106	$162	$0	$0
Total cash flows from financing activities	**$72**	**$121**	**($41)**	**($41)**
Net Change in Cash and Cash Equivalents	$78	($64)	$0	$13
Cash and Cash Equivalents, Beginning of period	$53	$131	$67	$68
Cash and Cash Equivalents, End of Period	**$131**	**$67**	**$68**	**$81**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash	$131	$67	$68	$81
Other Current Assets	$30	$36	$41	$46
PP&E	$410	$582	$551	$521
Intangibles & Goodwill	$137	$137	$137	$137
Other Assets	$87	$88	$102	$111
Total Assets	**$795**	**$910**	**$898**	**$895**
Loans & Short Term Debt	$94	$163	$163	$163
Other Current Liabilities	$29	$30	$43	$52
Long-Term Debt (inc. Convertible Debentures)	$245	$259	$259	$259
Other Liabilities	$86	$88	$92	$99
Total Liabilities	**$455**	**$540**	**$557**	**$573**
Total Shareholders' Equity	**$341**	**$371**	**$342**	**$323**
Total Liabilities & Shareholders' Equity	**$795**	**$910**	**$898**	**$895**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Emera Incorporated

Sowing Seeds of Expansion

(EMA-T)

Sep 13, 2011:	$30.90	**1-Yr Target:**	$33.00	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	11.0%	Shares O/S (M)	121.9
Risk:	Low	**2-Yr Target:**	$34.50	Total Value ($M)	3,766.4
IBES EPS 2011E	$1.72	**2-Yr ROR:**	20.2%	Float O/S (M)	121.9
IBES EPS 2012E	$1.84	**Div. (Curr.):**	$1.30	Float Value ($M)	3,766.4
		Yield	4.2%	TSX Weight	0.26%

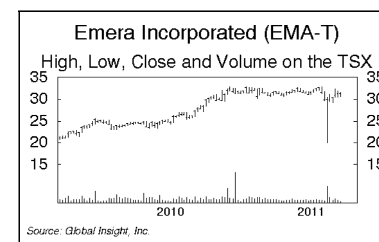
Valuation: 7.1% 2012E free cash yield and 10.8x 2012E EV/EBITDA

Key Risks to Target: Interest rates; regulated ROE; rate cases; growth projects; environmental legislation

Qtly Adj EPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.72A	$0.26A	$0.40A	$0.38A	$1.76	17.8x
2011E	$0.70A	$0.26A	$0.38	$0.36	$1.70	18.2x
2012E	$0.74	$0.32	$0.32	$0.47	$1.85	16.7x
2013E	$0.79	$0.35	$0.35	$0.51	$2.00	15.4x

	2009A	2010A	2011	2012	2013
FCFPS	$1.61	$1.61	$2.14	$2.35	$2.51
CFPS	$2.94	$2.93	$3.50	$3.66	$3.90
EBITDA (M)	$582	$611	$706	$815	$847
Total Debt + Preferreds (M)	$2,865	$3,529	$4,204	$4,709	$5,499
Enterprise Value (M)	$5,665	$7,085	$7,980	$8,567	$9,357



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Emera Incorporated (Emera) with a 2-Sector Perform rating and one-year target of $33.00 per share.
- The Emera management team has transformed the company from what was a low-growth utility into a growing multi-infrastructure enterprise. Having shown virtually no earnings or dividend growth between 1991 and 2006, EPS has increased to $1.76 last year from $1.10 in 2006. Dividends have followed suit, moving to $1.30 from $0.89 during that same period.
- In large part, CEO Chris Huskilson's diversification strategy is working. The Lower Churchill project, if approved, may secure another multi-year growth trajectory. However, rising costs in the legacy utility business and transition issues in the Caribbean may contain investment returns and share performance near term. And earnings growth this year will likely be absent relative to last year's stated EPS.
- Emera now trades at a premium to the group on 2011E free cash yield (6.9% vs. group at 7.9%). Some small premium will likely persist due to the recent track record of earnings/dividend growth and the potential rate base growth at NSPI. Our $33.00 one-year target price is premised on a 7.1% 2012E target free cash yield, still at a premium to the group, and 10.8x 2012E EV/EBITDA. At least until rate matters at NSPI are resolved, we believe the stock will perform in line with the group.

Emera Incorporated

COMPANY DESCRIPTION

Emera is a diversified utility holding company whose core asset remains Nova Scotia Power (NSPI) – the integrated, regulated electrical utility in the Province of Nova Scotia. Today, Emera has significant investments in three other areas: two regulated electrical utilities in New England, with 155,000 customers; a gas pipeline from Saint John, New Brunswick, to the Boston area; and a controlling interest in two Caribbean regulated electric utilities in Barbados and Bahamas. Smaller but growing investments include two merchant Northeast power plants, a minority position in a wind power company, and an 8.2% interest in Algonquin. Late last year, Emera entered into a partnership that would involve a $1.8 billion investment in electricity transmission infrastructure from the Lower Churchill River to Nova Scotia.

INVESTMENT THESIS

The Emera management team has transformed the company from what was a low-growth utility into a growing multi-infrastructure enterprise. Having shown virtually no earnings or dividend growth between 1991 and 2006, EPS has increased to $1.76 last year from $1.10 in 2006. Dividends have followed suit, moving to $1.30 from $0.89 over the same period. In large part, CEO Chris Huskilson's diversification strategy appears to be working. The Lower Churchill project, if approved, may secure another multi-year growth trajectory. However, rising costs in the legacy utility business and transition issues in the Caribbean may contain investment returns and share performance near term. Having expanded broadly, Emera may have to rationalize some small investments to achieve full value for its core assets and large growth projects.

POSSIBLE POSITIVE CATALYSTS

1. Organic growth at NSPI. Renewable power investments have driven growth rates up at NSPI. The company has a $1.2 billion three-year capital plan on an existing rate base of around only $3.2 billion. Further, the potential $1.8 billion investment in Lower Churchill transmission would potentially be added to NSPI rate base over the next six years. Regulatory approval of these investments should boost valuation.
2. U.S. acquisitions. Emera has made several small investments in the U.S., including two regulated utilities. We see potential for other small or mid-sized and accretive regulated utility investments and for investments in unregulated power plants as U.S. power markets remain depressed.
3. Improved returns in Caribbean. Returns on Caribbean investments have hovered in the low single digits last year and in the first half of this year. New fuel pass-through rate-riders should boost returns to low double digits over time, possibly adding $0.10+ to EPS.

POTENTIAL RISKS

1. NSPI rates case. NSPI has applied for a 9% rate increase due to fuel cost and rate base escalations. Fuel costs should be passed through to customers, but NSPI has already built up a receivable of over $100 million for fuel, and coal costs have escalated significantly in the past 18 months. Balance sheet quality is a risk if the receivables continue building, and achieved returns may face downward pressure to contain rates.
2. Approval of Nalcor deal. The Nalcor JV is still subject to approvals including company boards and the UARB (for inclusion in rate base). It may be subject to aboriginal claims, environmental assessment, and federal loan guarantees. We believe share valuation could compress if the Nalcor deal fails.
3. Volatility of services/merchant business. Last year, Emera generated $21 million in EBIT (about 8% of earnings) from merchant and services activities that have a more volatile earnings stream than the company's core regulated utilities and contracted infrastructure assets.

VALUATION AND RECOMMENDATION

Emera now trades at a premium to the group on 2011E free cash yield (6.9% vs. group at 7.9%). Some small premium will likely persist due to the recent track record of earnings/dividend growth and the potential rate base growth at NSPI. Our $33.00 one-year target price is premised on a target 7.1% 2012E free cash yield, still at a premium to the group, and a 10.8x 2012E EV/EBITDA. Much of EMA's medium-term future (Nova Scotia renewable investments, fair regulatory return, Nalcor) is now tied up in the ability to implement rate increases at NSPI. Until these matters resolve, we believe the stock will perform in line with the group.

Emera Incorporated Financial Statement Summary

Earnings and Per Share Data ($M)	2010	2011E	2012E	2013E
Operating earnings for common	**$200**	**$204**	**$229**	**$247**
Unusual items	($9)	$40	$0	$0
Reported earnings for common	$191	$244	$229	$247
Average shares outstanding	113.7	120.7	123.4	123.4
Operating earnings per share	**$1.76**	**$1.70**	**$1.85**	**$2.00**
Reported earnings per share	$1.68	$2.05	$1.85	$2.00
Dividends per share	**$1.16**	**$1.30**	**$1.35**	**$1.41**
EBITDA	$611	$706	$815	$847

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net earnings applicable to common	$191	$244	$229	$247
Depreciation	$174	$195	$200	$210
Other	($32)	($18)	$24	$25
Cash provided by operations before working capital	$333	$421	$452	$482
Working capital changes	$83	$25	$25	$25
Cash provided by operations	**$416**	**$446**	**$477**	**$507**
Common share dividends	($132)	($157)	($167)	($174)
Other financing activities	$598	$997	$500	$785
Net cash provided by financing	**$466**	**$840**	**$333**	**$611**
Property plant and equipment / Investments	($806)	($1,340)	($807)	($1,118)
Other	($89)	$50	$0	$0
Cash Used in Investing Activities	**($895)**	**($1,290)**	**($807)**	**($1,118)**
Effect of exchange rate changes	($2)	$0	$0	$0
Increase (decrease) in cash position	**($14)**	**($4)**	**$3**	**$0**
Cash start year	$22	$7	$3	$7
Cash position at year end	**$7**	**$3**	**$7**	**$7**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash	$7	$3	$7	$7
Other Current Assets	$745	$580	$580	$580
PP&E	$3,451	$4,222	$4,821	$5,721
Intangibles & Goodwill	$179	$174	$169	$164
Other Assets	$1,947	$2,526	$2,503	$2,479
Total Assets	**$6,329**	**$7,506**	**$8,080**	**$8,951**
Short Term Debt	$228	$228	$228	$228
Other Short Term Liabilities	$489	$487	$487	$487
Long Term Debt	$3,020	$3,830	$4,335	$5,125
Other Liabilities	$663	$784	$791	$798
Total Liabilities	**$4,400**	**$5,329**	**$5,841**	**$6,638**
Common Equity	$1,627	$1,816	$1,878	$1,952
Preferred Equity	$282	$147	$147	$147
Non-Controlling Interest	$21	$215	$215	$215
Total Shareholders' Equity	**$1,929**	**$2,177**	**$2,239**	**$2,313**
Total Liabilities & Shareholders' Equity	**$6,329**	**$7,506**	**$8,080**	**$8,951**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Enbridge Inc.

Premium Dividend Growth Play

(ENB-T, ENB-N)

Sep 13, 2011:	$31.40	**1-Yr Target:**	$40.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	30.5%	Shares O/S (M)	776.4
Risk:	Low	**2-Yr Target:**	$44.00	Total Value ($M)	24,380.3
IBES EPS 2011E	$1.45	**2-Yr ROR:**	46.8%	Float O/S (M)	771.9
IBES EPS 2012E	$1.57	**Div. (Curr.):**	$0.98	Float Value ($M)	24,237.7
		Yield	3.1%	TSX Weight	1.69%

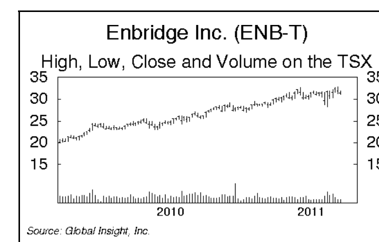
Valuation: 7.2% 2012E free cash yield and 13.6x 2012E EV/EBITDA

Key Risks to Target: Interest rates; growth projects; commodity volumes

Qtly Adj EPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.43A	$0.31A	$0.26A	$0.32A	$1.33	21.2x
2011E	$0.45A	$0.35A	$0.30	$0.38	$1.47	21.3x
2012E	$0.49	$0.39	$0.34	$0.42	$1.65	19.0x
2013E	$0.54	$0.44	$0.40	$0.44	$1.83	17.2x

	2009A	2010A	2011	2012	2013
FCFPS	$1.85	$2.27	$2.65	$2.87	$3.18
CFPS	$2.44	$2.86	$3.27	$3.58	$3.86
EBITDA (M)	$2,875	$2,766	$3,272	$3,391	$3,632
Total Debt + Preferreds (M)	$14,321	$15,297	$15,213	$15,513	$14,713
Enterprise Value (M)	$32,435	$36,533	$39,258	$39,672	$38,811



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Enbridge Inc. (Enbridge or ENB) with a 1-Sector Outperform rating and one-year target price of $40.00 per share. Enbridge holds a unique position within Canada's energy infrastructure sector as a dividend growth play. We believe this long-term trend will continue.

- Attractive pipeline investments are not as plentiful as they were up until 2010 but are still available, especially inside Alberta, where Enbridge already has a strong business position. Also, Enbridge can further enhance its organic growth rate by utilizing its high-income vehicles (EEP in the United States and ENF in Canada) as a source of cheap capital.

- Despite these opportunities for continued superior earnings and dividend growth, the stock remains inexpensive on free cash yield, likely due to its low payout ratio. We believe there is potential for upside in the stock due to earnings growth and due to valuation expansion as dividends continue to rise more rapidly than the other stocks in the sector.

- Enbridge trades at a slight discount to the group on 2011E free cash yield (8.4% vs. group at 7.9%) despite its relatively high growth and low business risk. As dividends grow, we believe that gap will narrow. Our $40.00 one-year target price is premised on a target 7.2% 2012E free cash yield, at a premium to the group, and 13.6x 2012E EV/EBITDA. We believe the stock will outperform based on a combination of capital appreciation and dividend income and recommend accumulating at these levels.

Enbridge Inc.

COMPANY DESCRIPTION

Enbridge is North America's leading oil transportation company. It transports by pipeline about 65% of all Canadian crude oil exports and has about 2.5 million barrels per day of export oil pipeline capacity. Enbridge is also the largest mover of oil from the Alberta oil sands down to major oil hubs in Alberta, namely Edmonton and Hardisty. In addition, it owns Canada's largest gas distribution company with about 1.9 million retail customers and has a significant presence in long-haul gas pipeline from Canada and the U.S. offshore Gulf Coast. In recent years, Enbridge has been building a sizeable renewable power business, with about 490 MW of wind and solar power across Canada and parts of the United States.

INVESTMENT THESIS

Enbridge holds a unique position within Canada's energy infrastructure sector as a dividend growth play. The company has historically retained a portion of its earnings and achieved superior reinvestment returns. We believe this long-term trend will continue for several reasons. Attractive pipeline investments are not as plentiful as they were up until 2010 but are still available, especially inside of Alberta, where Enbridge already has a strong business position. Also, Enbridge can further enhance its organic growth rate by utilizing its high-income vehicles (EEP in the United States and ENF in Canada) as a source of cheap capital. And, with balance sheet room, acquisition growth is likely on the horizon. Despite these opportunities for continued superior earnings and dividend growth, the stock remains inexpensive on free cash yield, likely due to its low payout ratio. We believe there is potential for upside in the stock due to earnings growth and due to valuation expansion as dividends continue to rise more rapidly than the other stocks in the sector.

POSSIBLE POSITIVE CATALYSTS

1. Oil pipeline extensions. ENB could announce more pipeline expansions intra-Alberta and extensions off the Mainline. Over time, we see the potential for hook-ups from existing oil sands projects into Athabasca and Waupisoo. There is also the potential for a common-carrier diluent line. Extensions from the existing Mainline to Eastern Padd II and possibly to the Gulf Coast could deliver high returns.
2. Upside surprises from the new tolling agreement. Enbridge has recently signed a new 10-year tolling agreement on the Mainline oil pipeline that we believe will lead to upside earnings surprises over time. The company has a nearly 20-year track record of earning attractive risk-adjusted returns under incentive tolling that will likely continue and possibly accelerate under the new framework.
3. Asset disposals into high-income vehicles. Enbridge can build assets and then sell them at multiples of book value into EEP and ENF, re-deploy the capital, and re-cycle it into the organic growth program.
4. International acquisitions. Enbridge may re-enter the international business especially in Australia, using its $1.0 billion+ of excess balance sheet equity. Given the past track record of accretive international investing (Spain, Colombia), the market would likely look favourably on new deals.
5. Dividend growth. Enbridge will probably raise dividends by 12%-15% annually for the next several years. As dividends grow, the discount relative to free cash yield should dissipate.

POTENTIAL RISKS

1. Oil volume flow. Under the new Mainline pipeline tolling agreement, Enbridge takes direct volume risk for the first time.
2. Oil price and activity levels. The potential for continued superior organic growth is linked to activity in the oil sands that may drive the need for new intra-Alberta pipeline infrastructure.
3. Frac spread compression. Enbridge has frac spread exposure at Aux Sable and in EEP (though we estimate less than 6% of earnings are derived from frac spreads).

VALUATION AND RECOMMENDATION

Enbridge trades at a slight discount to the group on 2011E free cash yield (8.4% vs. group at 7.9%) despite its relatively high growth and low business risk. As dividends grow, we believe that gap will narrow. Our $40.00 one-year target price is premised on a target 7.2% 2012E free cash yield, at a premium to the group, and 13.6x 2012E EV/EBITDA. We believe the stock will outperform based on a combination of capital appreciation and dividend income and recommend accumulating at these levels.

Enbridge Inc. Financial Statement Summary

Income Statement ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Liquids Pipelines	$512	$564	$639	$734
Natural Gas Delivery and Energy Services	$290	$325	$366	$382
Sponsored Investments	$209	$235	$261	$282
Corporate & Noverco	($27)	($16)	($19)	($19)
Earnings to Common S/H - Adjusted	**$984**	**$1,107**	**$1,247**	**$1,379**
Unusual Items	($9)	$47	$0	$0
Weather Impact	($12)	$11	$0	$0
Gains on Asset Sales	$0	$0	$0	$0
Earnings to Common S/H - Reported	$963	$1,165	$1,247	$1,379
Shares Outstanding - Basic	740	751	755	755
Reported Earnings Per Share	$1.30	$1.55	$1.65	$1.83
EPS - Adjusted	**$1.33**	**$1.47**	**$1.65**	**$1.83**

Cash Flow Statement ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Earnings	$963	$1,165	$1,247	$1,379
Depreciation	$864	$943	$963	$983
Other	$287	$343	$492	$554
CFO before changes in working capital	$2,114	$2,451	$2,702	$2,916
Net change in non-cash working capital	($263)	$0	$0	$0
Cash from Operating Activities	**$1,851**	**$2,451**	**$2,702**	**$2,916**
Additions to PP&E	($2,407)	($1,867)	($2,340)	($1,317)
Other & Asset Sales	($267)	($202)	($58)	($22)
Cash Used in Investing Activities	**($2,674)**	**($2,069)**	**($2,398)**	**($1,339)**
Common share dividends	($426)	($535)	($636)	($745)
Other Financing Activities	$1,175	$90	$342	($758)
Cash Used in Financing Activities	**$749**	**($445)**	**($293)**	**($1,503)**
FX	($11)	$0	$0	$0
Change in cash and cash equivalents	**($85)**	**($64)**	**$10**	**$75**
Cash and cash equivalents, beginning of year	$327	$242	$178	$188
Cash and cash equivalents, end of year	**$242**	**$178**	**$188**	**$263**

Balance Sheet ($M)	**2010A**	**2011E**	**2012E**	**2013E**
Cash	$242	$178	$188	$263
Other Current Assets	$3,519	$3,097	$3,103	$3,110
PP&E	$20,332	$21,256	$22,633	$22,967
Intangibles	$478	$454	$454	$454
Goodwill	$385	$383	$383	$383
Other Assets	$5,164	$4,946	$4,489	$3,936
Total Assets	**$30,120**	**$30,314**	**$31,251**	**$31,112**
Short-term debt	$550	$312	$312	$312
Other Current Liabilities	$2,805	$2,342	$2,354	$2,368
Long-term debt and convertible debentures	$14,622	$14,776	$15,076	$14,276
Other Liabilities	$4,578	$4,677	$4,646	$4,615
Total Liabilities	**$22,555**	**$22,107**	**$22,388**	**$21,571**
Preferred shares	$125	$125	$125	$125
Common equity	$7,440	$8,082	$8,738	$9,417
Total Shareholders' Equity	**$7,565**	**$8,207**	**$8,863**	**$9,542**
Total Liabilities and Shareholders' Equity	**$30,120**	**$30,314**	**$31,251**	**$31,112**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Fortis Inc.

Bad News Now in the Stock

(FTS-T)

Sep 13, 2011:	$32.12	1-Yr Target:	$34.00	Capitalization	
Rating:	2-Sector Perform	1-Yr ROR:	9.5%	Shares O/S (M)	186.3
Risk:	Low	2-Yr Target:	$35.00	Total Value ($M)	5,983.9
IBES EPS 2011E	$1.69	2-Yr ROR:	16.3%	Float O/S (M)	184.9
IBES EPS 2012E	$1.78	Div. (Curr.):	$1.16	Float Value ($M)	5,939.0
		Yield	3.6%	TSX Weight	0.39%

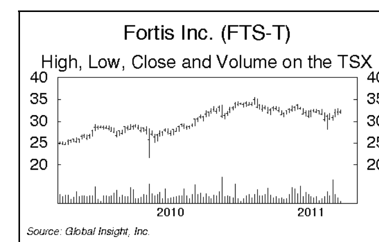
Valuation: 7.3% 2012E free cash yield and 11.1x 2012E EV/EBITDA

Key Risks to Target: Interest rates; rate base growth; regulated ROE; acquisitions; regulatory

Qtly Adj EPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.58A	$0.32A	$0.26A	$0.49A	$1.65	20.6x
2011E	$0.67A	$0.33A	$0.24	$0.46	$1.70	18.9x
2012E	$0.69	$0.33	$0.27	$0.46	$1.75	18.4x
2013E	$0.73	$0.36	$0.30	$0.40	$1.80	17.9x

	2009A	2010A	2011	2012	2013
FCFPS	$1.86	$2.00	$2.36	$2.47	$2.58
CFPS	$3.98	$4.25	$4.47	$4.62	$4.73
EBITDA (M)	$1,067	$1,150	$1,220	$1,258	$1,289
Total Debt + Preferreds (M)	$6,582	$6,935	$7,088	$7,488	$7,513
Enterprise Value (M)	$11,503	$12,859	$12,983	$13,570	$13,594



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Fortis Inc. (Fortis) with a 2-Sector Perform rating and one-year target of $34.00 per share.
- For years during the last decade, Fortis achieved rapid earnings per share and dividend growth. As a result, the shares traded at a premium valuation multiple. Fortis shares have significantly underperformed the peer group this year, as the premium valuation has dissipated with a lower-growth outlook.
- However, risk remains that profit from the Belize hydro assets may decline following the government expropriation of the electric distribution assets. Due to these factors, the relative decline in valuation was an appropriate market adjustment, in our view. Having said that, what remains of Fortis now is mostly a low-risk Canadian regulated utility business.
- Fortis still trades at a slight premium to the group on 2011E free cash yield (7.4% vs group at 7.9%). Some small premium will likely persist due to proven management and an improving business mix as safe, regulated utility investments grow while volatile Caribbean investments shrink. Our $34.00 one-year target price is premised on a target 7.3% 2012E free cash yield, still at a premium to the group, and 11.1x 2012E EV/EBITDA. Having underperformed this year so far, we now believe the stock will perform in line but may deliver modest total returns pending full resolution in Belize and news on acquisitions.

Fortis Inc.

COMPANY DESCRIPTION

Fortis is Canada's largest regulated distribution utility holding company with over 2 million retail natural gas and electricity customers across the country. Ancillary businesses include a small portfolio of real estate holdings and stakes in three Caribbean regulated electricity distribution companies (Cayman, Turks, Belize) and a hydro-power operation (Belize). However, in recent years, the strategic focus has shifted away from the Caribbean and toward the Canadian business both in energy distribution and lately in hydro-electric generation. The flagship 335 MW Waneta Dam is a $900 million project (51% owned) slated for 2015 that could lead to further investments in Canadian contracted renewable power.

INVESTMENT THESIS

For years during the last decade, Fortis achieved rapid earnings per share and dividend growth. As a result, the shares traded at a premium valuation multiple. Since the 2007 acquisition of Terasen's gas distribution assets, growth has remained steady but has slowed. Growing by acquisition has become more challenging as the company has expanded. The strategy of acquiring U.S. regulated utilities has remained unfulfilled for the past three years. Fortis shares have significantly underperformed the peer group this year, as the premium valuation has dissipated with a lower-growth outlook. However, risk remains that profit from the Belize hydro assets may decline following the government expropriation of the electric distribution assets. Due to these factors, the relative decline in valuation was an appropriate market adjustment, in our view.

POSSIBLE POSITIVE CATALYSTS

1. U.S. utility acquisition. The valuations of Canadian infrastructure stocks in general, and Fortis shares in particular, are higher than the valuation on U.S. utilities. In these circumstances, the company may be able to complete an accretive acquisition. Acquisitions are difficult and uncertain, but the recent failed acquisition attempt on Central Vermont should not be taken as a sign that U.S. utility M&A is impossible.
2. Organic Canadian utility growth. Growth rates in Alberta are still 15%+ and 7% growth on the B.C. electric utility. Making these investments at book value is better than paying multiples of book value for acquisitions and is accretive given the company's low cost of capital and today's allowed returns.
3. Hydro project announcements. Fortis has long been involved in small hydro (NE U.S., Belize, Newfoundland), but the Waneta project solidifies the company's positions as a bona fide owner and operator of hydroelectricity assets. As these assets generally attract premium valuations, future announcements on this front would likely add shareholder value.

POTENTIAL RISKS

1. Further impacts in Belize. All of the output from Fortis' 51 MW of hydroelectricity in Belize (BECOL) is sold to Belize Electric, which is now owned by the Government of Belize. There are long-term power purchase agreements in place but we still believe there is a risk the government may attempt to re-price them. We estimate that Fortis derives $0.05-$0.10 in EPS from BECOL.
2. Reduction in allowed ROEs. Provincial regulators may revisit allowed ROEs on regulated utilities in light of the reduction in high-quality corporate bond yields since the last review in 2008. However, currently the regulator governing Fortis' largest asset base (BCUC) is not reviewing the matter.
3. Waneta construction cost. Fortis has never been involved in the construction of large-scale hydro and, although we believe the majority of costs for the Waneta hydroelectricity project are fixed in contract, cost overruns are possible.

VALUATION AND RECOMMENDATION

Fortis still trades at a premium to the group on 2011E free cash yield (7.4% vs. group at 7.9%). Some small premium will likely persist due to proven management and an improving business mix, as safe regulated utility investments grow while volatile Caribbean investments shrink. Our $34.00 one-year target price is premised on a target 7.3% 2012E free cash yield, still at a premium to the group, and 11.1x 2012E EV/EBITDA. Having underperformed this year so far, we now believe the stock will perform in line but may deliver modest total returns pending full resolution in Belize and news on acquisitions.

Fortis Inc. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Newfoundland Power	$35	$34	$34	$34
Alberta & BC Utilities (Electric)	$110	$120	$125	$128
BC Gas	$129	$136	$145	$148
Maritime Electric	$12	$13	$13	$14
FortisOntario (CNP & Cornwall)	$7	$7	$7	$7
Fortis Generation	$19	$19	$19	$19
Regulated Electric Utilities - Caribbean	$23	$23	$24	$24
Fortis Properties	$26	$26	$26	$28
Corporate	($78)	($73)	($67)	($67)
Earnings to Common S/H - Adjusted	**$285**	**$305**	**$326**	**$335**
Unusual items	$0	$0	$0	$0
Earnings to Common S/H - Reported	$285	$305	$326	$335
EBITDA	$1,150	$1,220	$1,258	$1,289
Shares Outstanding - Basic	173	181	186	186
EPS to Common S/H - Reported	$1.65	$1.70	$1.75	$1.80
EPS to Common S/H - Adjusted	**$1.65**	**$1.70**	**$1.75**	**$1.80**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Earnings	$285	$305	$326	$335
Depreciation and Amortization	$410	$470	$500	$513
Other	$39	$34	$34	$34
Cash Flow from Operations	$734	$809	$860	$881
Changes in non-cash Working Capital	$49	$0	$0	$0
Cash from Operating Activities	**$783**	**$809**	**$860**	**$881**
Total Capex	($1,073)	($1,212)	($1,050)	($668)
Other & Asset Sales	$82	$35	$0	$0
Cash Used in Investing Activities	**($991)**	**($1,177)**	**($1,050)**	**($668)**
Dividends - common/pref shares	($244)	($235)	($250)	($259)
Other Financing Activities	$476	$600	$450	$75
Cash Used in Financing Activities	**$232**	**$365**	**$200**	**($184)**
Foreign Currency Translation	$0	$0	$0	$0
Change in cash and cash equivalents	$24	($3)	$11	$29
Cash and cash equivalents, beginning of year	$85	$109	$106	$117
Cash and cash equivalents, end of year	**$109**	**$106**	**$117**	**$146**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$109	$106	$117	$146
Other Current Assets	$1,095	$937	$937	$937
PP&E	$9,593	$10,656	$11,652	$11,959
Intangibles	$324	$327	$327	$327
Goodwill	$1,553	$1,548	$1,548	$1,548
Other Assets	$229	$285	$275	$264
Total Assets	**$12,903**	**$13,859**	**$14,855**	**$15,181**
Short-term debt	$414	$478	$478	$478
Other Current Liabilities	$1,103	$1,287	$1,728	$1,875
Long-term debt and convertible debentures	$5,609	$5,698	$6,098	$6,123
Other Liabilities	$1,560	$1,662	$1,690	$1,718
Total Liabilities	**$8,686**	**$9,125**	**$9,994**	**$10,194**
Preferred shares	$912	$912	$912	$912
Common equity	$3,305	$3,822	$3,949	$4,075
Total Shareholders' Equity	**$4,217**	**$4,734**	**$4,861**	**$4,987**
Total Liabilities and Shareholders' Equity	**$12,903**	**$13,859**	**$14,855**	**$15,181**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Gibson Energy Inc.

Strong Position in Growing Industry

(GEI-T)

Sep 13, 2011:	$17.84	**1-Yr Target:**	$20.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	17.5%	Shares O/S (M)	93.5
Risk:	Medium	**2-Yr Target:**	$21.00	Total Value ($M)	1,668.0
IBES CFPS 2011E	$1.77	**2-Yr ROR:**	28.5%	Float O/S (M)	93.5
IBES CFPS 2012E	$1.81	**Div. (Curr.):**	$0.96	Float Value ($M)	1,668.0
		Yield	5.4%		

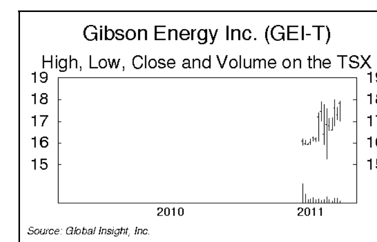
Valuation: 8.2% 2012E free cash yield and 9.7x 2012E EV/EBITDA

Key Risks to Target: Commodity price differentials; oil sands activity; financing

Qtly CFPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A						
2011E	$0.48A	$-0.01A	$0.48	$0.46	$1.41	12.7x
2012E	$0.64	$0.50	$0.59	$0.56	$2.30	7.8x
2013E	$0.67	$0.53	$0.63	$0.59	$2.41	7.4x

	2009A	2010A	2011	2012	2013
FCFPS			$1.19	$1.64	$1.68
Adj EPS			$0.47	$0.85	$0.94
EBITDA (M)	$146	$151	$207	$264	$287
Total Debt + Preferreds (M)	$579	$762	$608	$638	$663
Enterprise Value (M)			$2,260	$2,339	$2,432



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Gibson Energy Inc. (Gibson) with a 1-Sector Outperform rating and one-year target of $20.00 per share.
- We believe Gibson's strong business position, exposure to growth industries, and management track record position the company well for shareholder value creation. The geographic positioning and integrated nature (particularly as it relates to terminals and trucking) of Gibson's business is unique and difficult to duplicate, in our opinion. Organic growth opportunities are better than average due to exposure to oil sands expansion.
- We see rising volume on several pipelines connecting into Gibson's terminals including Athabasca, Cold Lake, and Keystone. It appears to us that the IPO priced largely off of current cash flow. In our opinion, escalation in EBITDA over the next two years due to terminal volume flows, oil storage, and trucking expansion could move the shares higher.
- Gibson trades at a premium to the group on 2011E free cash yield (6.7% vs. group at 7.9%). Our $20.00 one-year target price is premised on a target 8.2% 2012E free cash yield, in line with the group, and 9.7x 2012E EV/EBITDA. Gibson is probably not yet as well understood as other Canadian midstream stocks, which could present an investing opportunity. With the potential for strong cash flow growth and possibly dividend growth by 2013, the shares may likely outperform the group and we recommend building positions at these levels.

Gibson Energy Inc.

COMPANY DESCRIPTION

Gibson Energy is a midstream infrastructure company servicing the oil industry as opposed to the natural gas industry. Its core assets include oil terminals located at Alberta's major hubs – Edmonton and Hardisty. These terminals have about 3.3 million barrels of storage capacity and move about 385,000 bbl/d of product. Gibson integrates truck transportation with the terminals and owns over 2,000 trailors that move liquids to and from the Gibson facilities. A retail propane distribution arm is the second in Canada, moving over 68 million gallons annually, and a wellsite fluids business has 16,000 bbl/d of refinery capacity in Saskatchewan. Gibson's marketing arm manages physical commodity positions and seeks short-term arbitrage opportunities among North American crude grades. The company has been in private operation since 1953 but was recently offered publicly when Riverstone sold a 38% stake in the recent IPO.

INVESTMENT THESIS

We believe Gibson's strong business position, exposure to growth industries, and management track record position the company well for shareholder value creation. The Alberta terminals are second only to Enbridge in storage size and arguably have more growth potential. We believe oil shippers will increasingly use Gibson facilities, as Enbridge's competitor, TransCanada, moves more oil down the Keystone system. The geographic positioning and integrated nature (particularly as it relates to terminals and trucking) of Gibson's business is unique and difficult to duplicate, in our opinion. Organic growth opportunities are better than average due to exposure to oil sands expansion. We see rising volume on several pipelines connecting into Gibson's terminals, including Athabasca, Cold Lake, and Keystone. It appears to us that the IPO priced largely off of current cash flow. In our opinion, escalation in EBITDA over the next two years due to terminal volume flows, oil storage, and trucking expansion could move the shares higher.

POSSIBLE POSITIVE CATALYSTS

1. Terminal expansion announcements. Gibson has 45 acres of undeveloped land at the Edmonton terminal and 185 acres at Hardisty. Announced expansion of storage and other terminal functions will likely follow from oil sands production growth and improved pipeline connectivity.
2. Keystone XL approval. As Keystone connects directly to the Gibson terminal at Hardisty, if Keystone XL achieves a presidential permit later this year, we believe the outlook for the Gibson terminal and trucking business would improve.
3. Product differentials. The marketing business becomes more profitable as differentials widen. Marketing generated a full-year target EBITDA in the first six months of 2011, as the light-heavy differential went to $17/bbl in the first half of this year from about $11/bbl last year.

POTENTIAL RISKS

1. Oil prices and sector activity. Gibson's business has indirect exposure to oil prices. A significant reduction in prices that causes deceleration in production growth would be negative for the stock.
2. Product differentials. Though Marketing could exceed expectations in the coming two years, differentials and margins could narrow by 2014, assuming Canada's oil is linked by pipeline to the Gulf Coast.
3. Broader economic activity. Current profitability in the propane distribution business depends on economic activity in several sectors including construction. An economic recession and/or rising interest rates causing reduced construction activity could impact the propane segment.

VALUATION AND RECOMMENDATION

Gibson trades at a premium to the group on 2011E free cash yield (6.7% vs. group at 7.9%), but at a discount on 2012E (9.2% vs group at 8.5%). This discounted valuation is based on our relatively bullish EBITDA forecasts. However, we are confident management can deliver strong growth based on track record and assuming the current favourable business environment persists. Our $20.00 one-year target price is premised on a target 8.2% 2012E free cash yield, in line with the group, and 9.7x 2012E EV/EBITDA. Gibson is probably not yet as well understood as other Canadian midstream stocks, which could present an investing opportunity. With potential for strong cash flow growth and possibly dividend growth by 2013, it may likely outperform the group and we recommend building positions at these levels.

Gibson Energy Inc. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
	IFRS (1)	*IFRS*	*IFRS*	*IFRS*
Terminals & Pipelines	$41	$65	$95	$107
Truck Transporation	$53	$75	$88	$97
Propane & NGL Marketing & Distribution	$34	$38	$44	$45
Processing & Wellsite Fluids	$34	$35	$41	$41
Marketing	$8	$25	$25	$25
Total Segment EBITDA	$170	$238	$292	$315
D&A	($94)	($102)	($108)	($113)
Interest	($45)	($42)	($41)	($41)
FX and other	$14	($34)	($33)	($33)
EBT	$45	$60	$110	$127
Taxes	($3)	($16)	($27)	($32)
Earnings - Adjusted	**$42**	**$44**	**$82**	**$95**
Unusual items	$0	($109)	$0	$0
Earnings - Reported	**$42**	**($65)**	**$82**	**$95**
Adjusted EBITDA	**151**	**207**	**264**	**287**
Avg. Shares O/S - basic	93.5	93.6	96.9	101.8
EPS - Reported	$0.45	($0.70)	$0.85	$0.94
EPS - Adjusted	**$0.45**	**$0.47**	**$0.85**	**$0.94**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
	CGAAP	*IFRS*	*IFRS*	*IFRS*
Income from operating activities		$122	$151	$168
D&A		$102	$108	$113
Other		($17)	$5	$5
CFO Before Changes in Working Capital	$52	$207	$264	$287
Non-cash working capital	($1)	($12)	$0	$0
Cash Flow from Operating Activities	**$52**	**$195**	**$264**	**$287**
Purchase of PP&E, Investments in assets		($183)	($187)	($190)
Other		$52	$0	$0
Cash Flow from Investing Activities	**($282)**	**($131)**	**($187)**	**($190)**
Dividends / Distributions to Unitholders		($23)	($93)	($103)
Interest paid		($75)	($41)	($41)
Other financing activities		$45	$67	$66
Cash Flow from Financing Activities	**$213**	**($53)**	**($67)**	**($77)**
Effect of FX differences on cash	($2)	($1)	$0	$0
Change in year-end cash	($19)	$11	$10	$19
Cash at the beginning of the year	$26	$7	$18	$28
Cash at the end of the year	**$7**	**$18**	**$28**	**$48**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
	CGAAP	*IFRS*	*IFRS*	*IFRS*
Cash	$7	$18	$28	$48
Other Current Assets	$651	$600	$600	$600
PP&E	$653	$736	$815	$891
Intangibles	$155	$139	$139	$139
Goodwill	$499	$495	$495	$495
Other Assets	$58	$44	$44	$44
Total Assets	**$2,023**	**$2,031**	**$2,120**	**$2,216**
Short-term debt	$44	$6	$6	$6
Other Current Liabilities	$453	$442	$501	$572
Long-term debt	$718	$602	$632	$657
Other Liabilities	$222	$182	$182	$182
Total Liabilities	**$1,436**	**$1,232**	**$1,321**	**$1,417**
Common equity	$587	$799	$799	$799
Total Shareholders' Equity	**$587**	**$799**	**$799**	**$799**
Total Liabilities and Shareholders' Equity	**$2,023**	**$2,031**	**$2,120**	**$2,216**

Notes: December 31 year-end. Income statement is pro forma IFRS and the reorganization/offering.
Source: Company reports; Scotia Capital estimates.

Innergex Renewable Energy Inc.

Premium Renewables, but Not Without Risk

(INE-T)

Sep 13, 2011:	$9.40	**1-Yr Target:**	$10.00	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	12.6%	Shares O/S (M)	80.4
Risk:	Low	**2-Yr Target:**	$10.00	Total Value ($M)	755.8
IBES CFPS 2011E	$0.69	**2-Yr ROR:**	18.7%	Float O/S (M)	78.6
IBES CFPS 2012E	$0.88	**Div. (Curr.):**	$0.58	Float Value ($M)	738.7
		Yield	6.2%		

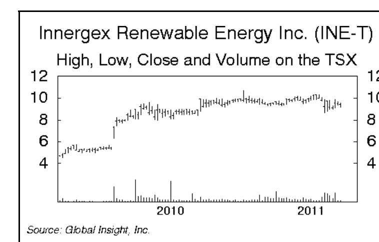
Valuation: 7.0% 2012E free cash yield and 13.0x 2012E EV/EBITDA

Key Risks to Target: Government support for renewables; credit spreads; hydrology; growth projects

Qtly CFPS (FD) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.18A	$0.24A	$0.23A	$0.22A	$0.88	11.2x
2011E	$0.14A	$0.28A	$0.13	$0.10	$0.66	14.2x
2012E	$0.04	$0.38	$0.23	$0.17	$0.81	11.6x
2013E	$0.06	$0.37	$0.24	$0.17	$0.84	11.2x

	2009A	2010A	2011	2012	2013
FCFPS	$0.73	$0.85	$0.57	$0.70	$0.70
Adj EPS	$0.30	$0.17	$-0.04	$-0.02	$-0.04
EBITDA (M)	$47	$68	$104	$135	$145
Total Debt + Preferreds (M)	$225	$521	$703	$842	$927
Enterprise Value (M)	$451	$1,030	$1,453	$1,708	$1,789



Regular voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Innergex Renewable Energy Inc. (Innergex or INE) with a 2-Sector Perform rating and one-year target of $10.00 per share.
- Innergex is a stable, proven company but its long-term growth prospects and potential for dividend growth ultimately depend on the continued subsidization of renewable power by Canadian governments.
- Management has a proven track record of achieving attractive returns on investment by developing, acquiring, owning, and operating renewable power plants. However, the commitment to future renewable power development may be waning in INE's core Ontario and B.C. markets. In this light, though the stock carries few risks, it may also have minimal upside potential.
- Innergex trades at a premium to the group on 2011E free cash yield (6.0% vs. group at 7.9%). Some small premium will likely persist due to proven management and a low-risk business model with no merchant power exposure. Our $10.00 one-year target price is premised on a target 7.0% 2012E free cash yield, still at a premium to the group, and 13.0x 2012E EV/EBITDA. Having underperformed so far this year, we now believe the stock will perform in line.

Innergex Renewable Energy Inc.

COMPANY DESCRIPTION

Innergex is a pure play renewable power company with 400 MW of hydro and wind assets in commercial operation and another 312 MW in active development. It was previously an income fund but merged with its parent development company in 2010 and simultaneously converted to a corporation. Innergex got its start in Quebec where it still owns small hydro and wind assets but has pushed into Ontario and British Columbia in recent years. Innergex does not invest in merchant power and all of its plants are under long-term contracts with government entities. Earlier this year, Innergex expanded into solar power with an Ontario acquisition that is scheduled to deliver 33 MW to the Ontario grid next year. The recent $415 million Cloudworks acquisition brings over 800 MW of long-term hydro development opportunities in B.C.

INVESTMENT THESIS

Innergex is a stable, proven company but its long-term growth prospects and potential for dividend growth ultimately depend on the continued subsidization of renewable power by Canadian governments. Management has a proven track record of achieving attractive returns on investment by developing, acquiring, owning, and operating renewable power plants. The business model remains among the lowest risk in our coverage universe, with long-term government contracts and interest rate hedges that generally span the life of PPAs. The payout ratio has recently risen above 100%, but we believe this ratio will drop toward 80% with recent acquisitions and projects under construction. Although the improved payout may be sufficient for dividend sustainability, it may not be sufficient for dividend growth. The commitment to future renewable power development may be waning in INE's core Ontario and B.C. markets. In this light, although the stock carries few risks, it may also have minimal upside potential.

POSSIBLE POSITIVE CATALYSTS

1. Bringing construction projects into service. Ever since Innergex merged the income fund with the development company, it has been working to bring projects online so the payout ratio can move back down below 100%. We believe this will occur as projects come into service over the next 18 months.
2. New contract announcements. Most new developments add to shareholder value because the equity value of operating projects is often double or triple the equity Innergex initially commits. Innergex has 59 MW of solar project submitted for contract in Ontario and potentially over 800 MW of hydro in B.C.
3. Acquisitions of development projects. Though we doubt Innergex will acquire operating assets (lower returns than development assets), it has the currency to acquire small developers requiring capital, as it did in the case of Cloudworks.

POTENTIAL RISKS

1. Construction cost and timing. Returns on investment are contingent on meeting project budgets and timelines. The company has experienced delays in the past, and initial EBITDA projections for 2011/2012 provided upon corporate conversion would not likely have panned out without the recent acquisitions.
2. Government commitment to renewable power. Ontario's Conservative Party has indicated that, if elected, it would cancel the FIT program. The B.C. government presently has no large call for power that would facilitate new contracts. As a pure play renewable company, government commitment to granting new contracts on renewable power projects is critical to future growth and valuation.
3. Credit spread risk. Innergex hedges its underlying interest rate exposure through SWAPs and derivative instruments but still has exposure to the credit spread above its hedged base rate.

VALUATION AND RECOMMENDATION

Innergex trades at a premium to the group on 2011E free cash yield (6.0% vs. group at 7.9%). Some small premium will likely persist due to proven management, significant three-year project development prospects, and a low-risk business model with no merchant power exposure. Our $10.00 one-year target price is premised on a target 7.0% 2012E free cash yield, still at a premium to the group, and 13.0x 2012E EV/EBITDA. Having underperformed so far this year, we now believe the stock will perform in line but may deliver modest total returns pending provincial government decisions on the future of renewable power development.

Innergex Renewable Energy Inc. Financial Statement Summary

Summary Income Statement ($M)	2010	2011E	2012E	2013E
Revenues	$89	$135	$169	$182
Expenses	$21	$32	$35	$37
EBITDA	**$68**	**$104**	**$135**	**$145**
Depreciation and amortization	$31	$50	$59	$64
Interest	$23	$59	$74	$82
Other	$21	$1	$0	$0
Earnings before income taxes	**($8)**	**($7)**	**$2**	**($1)**
Income taxes	($4)	($5)	$1	($0)
Non-Controlling Interests & Pref. Dividends	$2	$3	$3	$3
Reported Net Earnings to Common Shares	**($5)**	**($4)**	**($1)**	**($3)**
Add: Adjustments for FX, Derivatives & Other	$14	$1	$0	$0
Adjusted Net Earnings to Common Shares	**$9**	**($3)**	**($1)**	**($3)**
Average shares outstanding (diluted)	55.6	75.2	80.3	80.3
Diluted Adjusted EPS	**$0.17**	**($0.04)**	**($0.02)**	**($0.04)**

Summary Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Operating activities				
Cash Flow from Operations before W/C	$49	$50	$65	$68
Changes in working capital	($26)	$0	$0	$0
Cash from Operating Activities	**$23**	**$50**	**$65**	**$68**
Cash used in Investing Activities	**$41**	**($305)**	**($221)**	**($99)**
Cash used in Financing Activities	**($31)**	**$287**	**$88**	**$34**
Currency Translation: Impact on Cash	($0)	$0	$0	$0
Increase (decrease) in cash	$33	$32	($67)	$3
Cash at beginning of year	$9	$42	$74	$6
Cash at end of year	$42	$74	$6	$9

Summary Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Equivalents	$42	$74	$6	$9
Other Current Assets	$25	$78	$78	$78
PP&E	$614	$862	$1,024	$1,059
Intangibles & Goodwill	$194	$445	$445	$445
Other Assets	$55	$191	$191	$191
Total Assets	**$931**	**$1,650**	**$1,745**	**$1,782**
Current Portion of Long Term Debt	$9	$15	$15	$15
Other Current Liabilities	$42	$374	$375	$375
Long Term Debt	$349	$526	$665	$750
Convertible Debentures	$79	$79	$79	$79
Other Liabilities	$103	$195	$195	$195
Total Liabilities	**$583**	**$1,189**	**$1,329**	**$1,413**
Pref. Shares	$83	$83	$83	$83
Non-Controlling Interest	$0	$117	$117	$117
Common Equity	$265	$261	$216	$169
Shareholders' Equity	**$347**	**$461**	**$416**	**$369**
Total Liabilities & Shareholders' Equity	**$931**	**$1,650**	**$1,745**	**$1,782**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Inter Pipeline Fund

Oil Sands Growth at a Discount

(IPL.UN-T)

Sep 13, 2011:	$15.80	**1-Yr Target:**	$18.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	20.0%	Units O/S (M)	259.2
Risk:	Medium	**2-Yr Target:**	$18.00	Total Value ($M)	4,095.4
IBES CFPU 2011E	$1.52	**2-Yr ROR:**	26.1%	Float O/S (M)	258.8
IBES CFPU 2012E	$1.53	**CDPU (Curr.):**	$0.96	Float Value ($M)	4,089.0
		Yield	6.1%	TSX Weight	0.28%

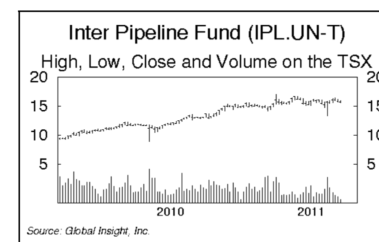
Valuation: 7.5% 2012E free cash yield and 13.0x 2012E EV/EBITDA

Key Risks to Target: Commodity prices; frac spreads; throughput volumes; FX; quasi-utility ROE

Qtly CFPU (FD) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.33A	$0.34A	$0.30A	$0.31A	$1.29	11.5x
2011E	$0.39A	$0.36A	$0.32	$0.40	$1.46	10.8x
2012E	$0.37	$0.34	$0.35	$0.47	$1.53	10.3x
2013E	$0.37	$0.35	$0.36	$0.49	$1.57	10.1x

	2009A	2010A	2011	2012	2013
Free Cash Flow	$1.16	$1.23	$1.30	$1.35	$1.40
Adj EPU	$0.86	$0.93	$0.89	$0.94	$0.97
EBITDA (M)	$394	$375	$565	$603	$637
Total Debt + Preferreds (M)	$2,611	$2,796	$3,304	$3,104	$2,879
Enterprise Value (M)	$5,174	$6,624	$7,367	$7,273	$7,183



Regular voting. FCFPU is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the units of Inter Pipeline Fund (Inter Pipeline) with a 1-Sector Outperform rating and one-year target of $18.00 per unit.
- Although Inter Pipeline units have performed well in recent years, they never seem to achieve the valuation of its oil pipeline and midstream peers. This discount persists despite a strong management track record of consistent performance and steady cash flow and dividend growth. We believe investors in Inter Pipeline will realize more of the same attractive and growing dividends going forward.
- The NGL extraction business may decline due to competitive dynamics upstream of Cochrane. But growth in the oil sands transportation business (Cold Lake volume threshold achieved), conventional oil transportation (volumes and marketing profit), and bulk storage (Dong acquisition/expansion) should more than offset.
- Inter Pipeline trades at a slight discount to the group on 2011E free cash yield (8.2% vs. group at 7.9%). This discount is unwarranted, in our view, given the duration of asset lives, relatively low volatility in most of the business segments, management track record, and visible organic growth. Our $18.00 one-year target price is premised on a target 7.5% 2012E free cash yield, at a slight premium with group, and 13.0x 2012E EV/EBITDA. Having stagnated this year, the units should resume an upward trend in 2012. We recommend accumulating the units at these levels.

Inter Pipeline Fund

COMPANY DESCRIPTION

Inter Pipeline Fund's original core business is a 6,100 km petroleum pipeline-gathering network in Alberta transporting about 165,000 bbl/d, with 4.8 million barrels of storage. Since 2003, the fund has been a major transporter of oil sands product within Alberta and now moves about a third of all oil sands product, or about 640,000 bbl/d, through Cold Lake, Corridor, and Polaris. In addition, Inter Pipeline has ownership in three major NGL extraction facilities at Cochrane and Empress, Alberta, with 6.2 bcf/d of gas-processing capacity and producing about 200,000 bbl/d of NGLs. Inter Pipeline's bulk liquids storage business is based in Europe, with 8 million barrels primarily in the U.K. and Germany. The fund recently announced a major expansion of this business via acquisition of another 11 million barrels in Northern Europe (Dong Energy). The fund is managed and controlled by a general partner and remains in a limited partnership structure.

INVESTMENT THESIS

Though Inter Pipeline units have performed well in recent years, they never seem to achieve the valuation of its oil pipeline and midstream peers. This discount persists despite a strong management track record of consistent performance and steady cash flow and dividend growth. We believe investors in Inter Pipeline will realize more of the same attractive and growing dividends going forward. The NGL extraction business may decline due to competitive dynamics upstream of Cochrane. But growth in the oil sands transportation business (Cold Lake volume threshold achieved), conventional oil transportation (volumes and marketing profit), and bulk storage (Dong acquisition/expansion) should more than offset. Governance is an issue, but is more than factored into the units, in our view. Management has a track record of consistent unitholder value creation, and a buyout of the management agreement would, in any event, unlikely amount to a large portion of the fund's large and growing market capitalization.

POSSIBLE POSITIVE CATALYSTS

1. Rising oil sands volumes. Cold Lake profits used to be largely insensitive to volume flow but have hit a level where rising volumes boost cash flow. Given Imperial Oil's plans and Cenovus' recent commitments to expansion at Foster Creek, volumes should rise steadily in the coming years.
2. New oil sands contracts. Oil sands producers south of Fort McMurray may tie into Cold Lake – as Foster Creek has already done. In addition, the Polaris Pipeline still has 30,000 bbl/d of spare capacity. New laterals on Cold Lake and new contracts on Polaris should improve perceived growth.
3. Accretion from Dong acquisition. The Dong acquisition could be materially accretive to cash flow per unit near term ($0.10) and offers upside to organic expansion. Since market reaction to the deal appeared to be negative, we believe there is an opportunity for improvement in its market perception.

POTENTIAL RISKS

1. Cochrane volume reduction. The Harmattan plant expansion (250 mmcf/d or 15% of Cochrane volume) and other NGL extraction in the field could result in reduced cash flow on the NGL business.
2. Corridor ROE reduction. Tolls on the nearly $3 billion Corridor pipeline asset are linked to a formula ROE based on long government bond yields. Persistent low government bond yields may contain cash flow from this asset.
3. Frac spread exposure. Alberta frac spreads (ex-ethane) have widened to US$1.30/gallon from about US$0.80/gallon over the past year. Any significant compression in frac spreads would impact IPL's performance. We estimate that a US$0.10/gallon change in frac spreads impacts 2013E CFPS by $0.03.

VALUATION AND RECOMMENDATION

Inter Pipeline trades at a slight discount to the group on 2011E free cash yield (8.2% vs. group at 7.9%). Given the duration of asset lives, relatively low volatility in most of the business segments, management track record, and visible organic growth, it would normally trade at a premium, in our view. However, the units may achieve only a sector-average multiple, given external management arrangements. Our $18.00 one-year target price is premised on a target 7.5% 2012E free cash yield, at a slight premium with the group, and 13.0x 2012E EV/EBITDA. Having stagnated this year, the units should resume an upward trend in 2012. We recommend accumulating the units at these levels.

Inter Pipeline Fund Financial Statement Summary

Earnings and per unit data ($M)	**2010**	**2011E**	**2012E**	**2013E**
Operating revenues	$997	$1,188	$1,238	$1,296
Expenses				
Shrinkage gas	$317	$279	$269	$286
Operating	$256	$279	$302	$308
Depreciation and amortization	$88	$117	$126	$130
Financing charges	$39	$132	$141	$148
General and administrative	$45	$51	$54	$54
Other	$12	$15	$10	$10
Sub-total expenses	$757	$871	$902	$936
Income before income taxes	**$240**	**$317**	**$336**	**$359**
Provision for income taxes	$5	$84	$84	$90
Net (loss) income	$235	$233	$252	$270
Adjusted net (loss) income	**$239**	**$233**	**$252**	**$270**
Net (loss) income per Partnership unit				
Adjusted diluted	**$0.93**	**$0.89**	**$0.94**	**$0.97**
Weighted Avg. Units Outstanding (Diluted)	258.1	260.4	268.9	277.9
Adjusted EBITDA	**$375**	**$565**	**$603**	**$637**

Summary Cash flow Statement ($M)	**2010**	**2011E**	**2012E**	**2013E**
Net Income	$235	$233	$252	$270
Depreciation & Amortization	$88	$117	$126	$130
Other	$27	$76	$34	$36
Operating Activities	$350	$426	$412	$435
PP&E	($336)	($752)	($68)	($68)
Other investing activities	$4	$9	$0	$0
Investing activities	($332)	($743)	($68)	($68)
Financing activities	($13)	$345	($314)	($361)
Effect of foreign currency translation	($1)	$0	$0	$0
Change in year-end cash	**$4**	**$28**	**$30**	**$7**
Cash, beginning of year	$18	$23	$50	$80
Cash, end of year	**$23**	**$50**	**$80**	**$87**

Balance Sheet ($M)	**2010**	**2011E**	**2012E**	**2013E**
Cash	$23	$50	$80	$87
Other Current Assets	$162	$131	$131	$131
PP&E	$4,003	$4,656	$4,597	$4,535
Intangibles & Goodwill	$515	$513	$513	$513
Other Assets	$10	$11	$11	$11
Total Assets	**$4,712**	**$5,361**	**$5,333**	**$5,277**
Current Liabilities	$597	$242	$242	$242
Long Term Debt	$2,409	$3,304	$3,104	$2,879
Other Liabilities	$374	$414	$448	$484
Total Liabilities	$3,379	$3,960	$3,794	$3,605
Total Partners' Equity	**$1,333**	**$1,401**	**$1,539**	**$1,672**
Total Liabilities and Partners' Equity	**$4,712**	**$5,361**	**$5,333**	**$5,277**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Keyera Corp.

Integrated Midstream Model Pays Dividends

(KEY-T)

Sep 13, 2011:	$45.63	**1-Yr Target:**	$46.00	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	5.0%	Shares O/S (M)	70.6
Risk:	Medium	**2-Yr Target:**	$46.00	Total Value ($M)	3,221.8
IBES CFPS 2011E	$3.38	**2-Yr ROR:**	9.2%	Float O/S (M)	70.3
IBES CFPS 2012E	$3.43	**Div. (Curr.):**	$1.92	Float Value ($M)	3,207.8
		Yield	4.2%	TSX Weight	0.22%

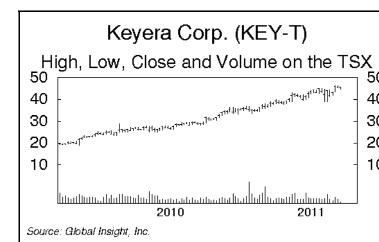
Valuation: 7.0% 2012E free cash yield and 13.7x 2012E EV/EBITDA

Key Risks to Target: Gas plant throughput; Marketing gross margins; Hedging mismatches

Qtly CFPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.94A	$0.59A	$0.84A	$1.09A	$3.47	10.1x
2011E	$0.94A	$0.70A	$0.87	$1.26	$3.77	12.1x
2012E	$1.00	$0.74	$0.90	$1.08	$3.73	12.2x
2013E	$1.04	$0.71	$0.84	$1.23	$3.82	11.9x

	2009A	2010A	2011	2012	2013
FCFPS	$4.08	$3.05	$3.28	$3.20	$3.30
Adj EPS	$2.48	$1.97	$2.58	$1.79	$1.84
EBITDA (M)	$234	$226	$284	$279	$288
Total Debt + Preferreds (M)	$517	$646	$600	$599	$545
Enterprise Value (M)	$2,075	$3,025	$3,812	$3,786	$3,751



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Keyera Corp. (Keyera or KEY) with a 2-Sector Perform rating and a one-year target of $46.00 per share.
- Keyera has an integrated NGL infrastructure business that we believe positions it uniquely for steady cash flow and future growth. No other company integrates field plants, NGL terminals, extraction, and commodity marketing as effectively, in our view. This business model is difficult to duplicate because many of the company’s physical assets are dominant in a processing area or are located in constrained areas.
- Together, these assets are exposed to two major growth themes in Canadian energy infrastructure: oil sands–related infrastructure expansion and liquids-rich gas processing. We believe the need for diluent (condensate) storage and handling facilities will only grow with oil sands production.
- Keyera trades at a premium to the group on 2011E free cash yield (7.2% vs. group at 7.9%). Due to the concentration of NGL marketing in the overall asset mix, we have difficulty seeing the stock sustaining a large premium to the group on free cash yield, particularly given our view that marketing margins could contract. On the other hand, the company’s assets position it for premium growth and we believe dividend increases are likely. For these reasons, the shares will probably continue trading at a modest premium to peers. Our $46.00 one-year target price is premised on a target 7.0% 2012E free cash yield, still at a premium to the group, and 13.7x 2012E EV/EBITDA.

Keyera Corp.

COMPANY DESCRIPTION

Keyera is an integrated natural gas midstream processing, NGL extraction, logistics, and marketing company. It has assembled over 2 bcf/d of net field processing capacity primarily on the western side of Alberta in the Foothills and Central areas (Glauconite). Almost all its field plants have NGL extraction capacity. In addition to the field plants, Keyera owns and operates NGL terminals in Edmonton and Fort Saskatchewan. The terminals and other plants have about 70,000 bbl/d of NGL processing capacity and about 8 mmbbl of mostly underground liquids storage capacity. The company's marketing business uses this infrastructure and related assets such as rail cars and pipelines to buy and sell approximately 75,000 bbl/d of various NGLs in Canada and the United States.

INVESTMENT THESIS

Keyera has an integrated NGL infrastructure business that we believe positions it uniquely for steady cash flow and future growth. No other company integrates field plants, NGL terminals, extraction, and commodity marketing as effectively, in our view. This business model is difficult to duplicate because many of Keyera's physical assets are dominant in a processing area (Rimbey, Strachan) or are located in constrained areas (Edmonton, Fort Saskatchewan terminals). Together, these assets are exposed to two major growth themes in Canadian energy infrastructure: oil sands–related infrastructure expansion and liquids-rich gas processing. We believe the need for diluent (condensate) storage and handling facilities will only grow with oil sands production. While the marketing business is riskier than the infrastructure businesses, we believe much of the marketing cash flow is effectively asset-backed and could be allocated to the infrastructure segments. Keyera management has a standout track record of creating shareholder value and developing solutions for its customers. For these reasons, despite commodity risks, we believe the run-up in the shares is justified.

POSSIBLE POSITIVE CATALYSTS

1. Oil sands/diluent deals. The deals Keyera announced last year with Imperial Oil and Husky for the provision of diluent storage, terminal, and handling services could be duplicated with other oil sands companies in the coming years. Competitors are better positioned to provide long-haul transport of diluent, but Keyera has a strong business position in other logistics and handling.
2. NGL extraction deals. Producers are increasingly seeking deals that extract their NGLs in the field rather than at the straddle plants. KEY is ideally situated to provide this service at several of its plants. Accretion from such investments may be higher than anticipated due to related marketing activities.
3. Consolidation. Producers may continue shedding midstream assets in order to focus expenditures on exploration and production. Keyera may announce asset acquisitions, taking up additional stakes in existing plants (Minnehik, Edson) or in new plants.

POTENTIAL RISKS

1. NGL prices. Keyera generates over a third of its cash flow from the marketing of NGLs. The company does not take direct frac spread risk, but we believe profitability in marketing, as well as in storage, of NGLs is correlated with NGL prices. Though difficult to quantify, we believe a reduction in NGL prices would be materially negative for KEY's business.
2. Competitive NGL landscape. Competition among midstream companies and between midstream companies and their producer customers has intensified. As a result, Keyera's NGL marketing business could experience margin compression in the coming years (regardless of NGL prices).

VALUATION AND RECOMMENDATION

Keyera trades at a premium to the group on 2011E free cash yield (7.2% vs. group at 7.9%). Due to the concentration of NGL marketing in the asset mix, we have difficulty seeing the stock sustaining a large premium to the group on free cash yield. However, the company's assets position it for premium growth, and we believe dividend increases are likely. Investors also maintain a positive view on management, with which we concur. For these reasons, the shares will probably continue trading at a modest premium to peers. Our $46.00 one-year target price is premised on a target 7.0% 2012E free cash yield, still at a premium to the group, and 13.7x 2012E EV/EBITDA. We expect KEY to perform in line with the group from these levels.

Keyera Corp. Financial Statement Summary

Income Statement ($M)	2010	2011E	2012E	2013E
Operating margin	$266	$336	$332	$341
G&A	($23)	($24)	($24)	($24)
Interest on LT debt	($28)	($40)	($42)	($41)
Depreciation	($45)	($63)	($70)	($73)
Other expenses	($29)	($26)	($27)	($29)
EBT	$142	$183	$169	$175
Tax	($8)	($1)	($42)	($44)
Earnings - Adjusted	**$134**	**$181**	**$127**	**$131**
Unusual items	($9)	$0	$0	$0
Earnings - Reported	**$125**	**$181**	**$127**	**$131**
EBITDA	**$226**	**$284**	**$279**	**$288**
Avg. Shares O/S - basic	68	70	71	71
EPS - Reported	**$1.84**	**$2.57**	**$1.79**	**$1.84**
EPS - Adjusted	**$1.97**	**$2.58**	**$1.79**	**$1.84**

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net earnings	$125	$181	$127	$131
Depreciation	$45	$63	$70	$73
Other operating activities	$66	$22	$67	$68
Cash from ops before working capital	$236	$266	$264	$272
Changes in non-cash working capital	($82)	$0	$0	$0
Cash Flow from Operating Activities	**$154**	**$266**	**$264**	**$272**
Capital expenditures	($121)	($110)	($100)	($90)
Other investing activities	($115)	$0	$0	$0
Cash Flow from Investing Activities	**($236)**	**($110)**	**($100)**	**($90)**
Distributions paid to unitholders	($122)	($134)	($136)	($142)
Other financing activities	$220	($33)	$12	($41)
Cash Flow from Financing Activities	**$98**	**($167)**	**($124)**	**($183)**
FX	$0	$0	$0	$0
Change in year-end cash	$16	($11)	$40	($0)
Cash at the beginning of the year	($1)	$15	$4	$44
Cash at the end of the year	**$15**	**$4**	**$44**	**$43**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash	$15	$4	$44	$43
Other Current Assets	$413	$474	$406	$339
PP&E	$1,468	$1,515	$1,544	$1,561
Intangibles	$2	$2	$2	$2
Goodwill	$74	$74	$74	$74
Other Assets	$0	$2	$2	$2
Total Assets	**$1,972**	**$2,071**	**$2,072**	**$2,023**
Short-term debt	$211	$76	$76	$129
Other Current Liabilities	$309	$274	$274	$274
Long-term debt	$404	$494	$494	$389
Convertible Debentures	$31	$29	$28	$27
Other Liabilities	$232	$353	$353	$356
Total Liabilities	**$1,187**	**$1,226**	**$1,225**	**$1,175**
Common equity	$785	$844	$847	$848
Total Shareholders' Equity	**$785**	**$844**	**$847**	**$848**
Total Liabilities and Shareholders' Equity	**$1,972**	**$2,071**	**$2,072**	**$2,023**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Northland Power Inc.

Low Risk and High-Probability Developments

(NPI-T)

Sep 13, 2011:	$15.49	**1-Yr Target:**	$18.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	23.2%	Shares O/S (M)	77.6
Risk:	Low	**2-Yr Target:**	$18.00	Total Value ($M)	1,202.0
IBES CFPS 2011E	$0.95	**2-Yr ROR:**	30.1%	Float O/S (M)	72.5
IBES CFPS 2012E	$1.03	**Div. (Curr.):**	$1.08	Float Value ($M)	1,123.0
		Yield	7.0%	TSX Weight	0.08%

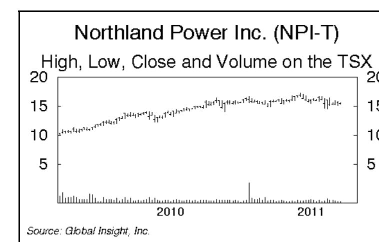
Valuation: 6.4% 2012E free cash yield and 14.4x 2012E EV/EBITDA

Key Risks to Target: Projects entering service; Interest rates; Project financing, FX

Qtly CFPS (FD) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.25A	$0.24A	$0.20A	$0.22A	$0.91	17.2x
2011E	$0.26A	$0.15A	$0.16	$0.21	$0.77	20.1x
2012E	$0.36	$0.28	$0.27	$0.26	$1.17	13.2x
2013E	$0.25	$0.18	$0.54	$0.53	$1.50	10.3x

	2009A	2010A	2011	2012	2013
FCFPS	$1.19	$1.11	$1.00	$1.15	$1.43
Adj EPS	$0.64	$0.05	$0.06	$0.26	$0.47
EBITDA (M)	$99	$147	$154	$198	$284
Total Debt + Preferreds (M)	$760	$962	$1,142	$1,522	$2,249
Enterprise Value (M)	$1,417	$1,983	$2,286	$2,650	$3,679



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Northland Power Inc. (Northland or NPI) with a 1-Sector Outperform rating and a one-year target of $18.00 per share.
- Northland emerged from the income fund structure as one of the few entities with both low-risk power assets and a significant development pipeline. Unlike many contracted power companies, Northland has no significant near-term contract expiries and only one in the next 10 years. These assets provide a stable base for consistent dividend payment.
- Northland is well positioned for continued development success, in our view, because it has expertise not only in renewable power but in scale gas-fired power. The company can thus grow even if the renewable construction boom wanes. Management has a track record of winning development projects and bringing them into operation on time and on budget.
- Northland shares trade at a premium to the group on 2011E free cash yield (6.5% vs. group at 7.9%). We believe the market will continue valuing the shares at a premium due to both the low-risk nature of the business and Northland's superior growth/development prospects. Our $18.00 one-year target price is premised on a target 6.4% 2012E free cash yield, at a premium to the group, and 14.4x 2012E EV/EBITDA. These multiples should fall in 2013 when new projects come online. We believe the stock will outperform the sector and recommend accumulating it at these levels.

Northland Power Inc.

COMPANY DESCRIPTION

Northland is one of Canada's largest independent power companies with 820 MW of operating assets, 446 MW under construction, and 220 MW in advanced development. Northland was a small income fund with contracted power assets that merged in 2009 with its development company manager. Then, on January 1, 2011, the merged entity converted to a corporation. James Temerty, owner of the development company, now owns about 47 million vested and deferred/convertible shares. Northland's core operating assets remain gas-fired power plants under long-term contract with Ontario government entities. By mid-2013, Northland should have a large presence in Saskatchewan as well with 346 MW of contracted gas-fired power. Future development at Northland relies as much or more on renewable power as on gas-fired: over 300 MW of renewable projects are under contract in Ontario and 24 MW in Quebec.

INVESTMENT THESIS

Northland emerged from the income fund structure as one of the few entities with both low-risk power assets and a significant development pipeline. Unlike many contracted power companies, Northland has no significant near-term contract expiries and only one in the next 10 years. These assets provide a stable base for consistent dividend payment. Development of new assets is critical to any power company's dividend sustainability/growth because cash flows inevitably drop when contracts expire. Northland is well positioned for continued development success, in our view, because it has expertise not only in renewable power but in scale gas-fired power. The company can thus still grow even if the renewable construction boom wanes. Management has a track record of winning development projects and bringing them into operation on time and on budget. Moreover, the management team's interests are unusually well aligned with those of shareholders because the top four executives own nearly $60 million of vested and deferred shares.

POSSIBLE POSITIVE CATALYSTS

1. Bringing construction projects into service. Large construction projects give rise to cost overrun risks and stretch the payout ratio in the near term. We believe there is a better chance NPI's projects will come in under budget than over budget. If this occurs, its payout ratio will drop and so will the required yield.
2. New contract announcements. Most new developments add to shareholder value because the equity value of operating projects is often double or triple the equity Northland initially commits.
3. Acquisitions of development projects. Though we doubt Northland will acquire operating assets (lower returns than development assets), it has the currency to acquire small developers requiring capital.

POTENTIAL RISKS

1. Construction cost. Northland's returns on investments are contingent on managing projects to budget. However, as noted above, we believe projects are more likely to come in below budget than above.
2. Cancellation of the FIT program. Ontario's Conservative Party has indicated that, if elected, it would cancel the FIT program. Though we do not believe such cancellation would jeopardize projects with contracts, it may reduce the perceived growth in power development companies like Northland.
3. Financing cost/availability. Interest expense is generally not a pass-through in Northland's power purchase contracts. Therefore, shareholders are at risk during periods when capital investments have been made and project finance has not yet been secured (though NPI tends to minimize such investments).

VALUATION AND RECOMMENDATION

Northland shares trade at a premium to the group on 2011E free cash yield (6.5% vs. group at 7.9%). We believe the premium will continue due to both the low-risk nature of the business and Northland's superior growth/development prospects. In our opinion, the stock could move up without an increase in the dividend. If the payout ratio drops to well below 100%, as we are forecasting, and investors anticipate sustainable or even growing dividends in the future, the required market yield may drop below 6%, in line with many of Northland's peers. Our $18.00 one-year target price is premised on a target 6.4% 2012E free cash yield, at a premium to the group, and 14.4x 2012E EV/EBITDA. We believe the stock will outperform the sector and recommend accumulating it at these levels.

Northland Power Inc. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Revenues	$312	$419	$476	$612
Expenses & Other	($158)	($241)	($254)	($303)
Operating margin	$155	$178	$222	$309
Depreciation & Amortization	$69	$81	$96	$111
Corporate and development admin	$20	$25	$26	$26
Accretion expense	$0	$0	$0	$0
	$65	$72	$101	$172
Investment income	$13	$1	$1	$1
Income from operations	$77	$73	$102	$173
Interest	$50	$65	$61	$93
Other	$55	$0	$0	$0
EBT	($28)	$8	$41	$80
Current taxes	$2	$0	$0	$0
Future taxes	($34)	$2	$10	$20
Earnings - Adjusted	**$4**	**$6**	**$31**	**$60**
Unusual items	($3)	$0	$0	$0
Earnings - Reported	**$1**	**$6**	**$31**	**$60**
EBITDA	**$147**	**$154**	**$198**	**$284**
Avg. Shares O/S - Basic	72	77	78	96
Avg. Shares O/S (incl. Class A, C, & Rights) - F.D.	98	117	118	128
EPS - Reported	$0.02	$0.02	$0.26	$0.47
EPS - Adjusted	**$0.05**	**$0.06**	**$0.26**	**$0.47**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Earnings	$1	$6	$31	$60
Amortization	$66	$81	$96	$111
Other	$22	$67	$72	$114
CFO Before Changes in Working Capital	$89	$155	$199	$285
Non-cash working capital	$0	$0	$0	$0
Cash Flow from Operating Activities	**$90**	**$155**	**$199**	**$285**
Purchase of PP&E, Investments in assets	($299)	($317)	($399)	($949)
Other	$7	$2	$2	$2
Cash Flow from Investing Activities	**($292)**	**($315)**	**($397)**	**($947)**
Dividends / Distributions to Unitholders	($78)	($83)	($84)	($104)
Other financing activities	$275	$177	$310	$751
Cash Flow from Financing Activities	**$197**	**$95**	**$226**	**$647**
Effect of FX differences on cash	($0)	$0	$0	$0
Change in cash and cash equivalents	($5)	($66)	$28	($15)
Cash and cash equivalents, beginning of year	$117	$112	$46	$74
Cash and cash equivalents, end of year	**$112**	**$46**	**$74**	**$58**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$112	$46	$74	$58
Other Current Assets	$164	$106	$106	$106
PP&E	$1,244	$1,495	$1,813	$2,666
Intangibles	$241	$227	$213	$199
Goodwill	$122	$250	$250	$250
Other Assets	$16	$10	$10	$10
Total Assets	**$1,899**	**$2,133**	**$2,465**	**$3,289**
Current portion of debt	$43	$11	$11	$11
Other Current Liabilities	$98	$83	$73	$52
Long-term debt	$697	$946	$1,326	$2,053
Convertible Debentures	$75	$40	$40	$40
Other Liabilities	$168	$300	$300	$300
Total Liabilities	**$1,082**	**$1,379**	**$1,748**	**$2,454**
Preferred Shares	$146	$146	$146	$146
Common Equity	$671	$608	$571	$688
Total Shareholders' Equity	**$817**	**$754**	**$717**	**$834**
Total Liabilities and Shareholders' Equity	**$1,899**	**$2,133**	**$2,465**	**$3,289**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Pembina Pipeline Corporation

Gaining Organic Growth Momentum

(PPL-T)

Sep 13, 2011:	$24.62	**1-Yr Target:**	$25.00	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	7.9%	Shares O/S (M)	167.6
Risk:	Medium	**2-Yr Target:**	$25.00	Total Value ($M)	4,126.3
IBES CFPS 2011E	$1.80	**2-Yr ROR:**	14.2%	Float O/S (M)	165.8
IBES CFPS 2012E	$1.99	**Div. (Curr.):**	$1.56	Float Value ($M)	4,082.0
		Yield	6.3%	TSX Weight	0.29%

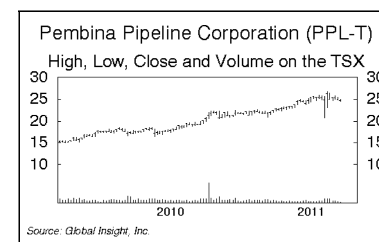
Valuation: 7.0% 2012E free cash yield and 15.0x 2012E EV/EBITDA

Key Risks to Target: Regulatory approvals; interest rates; refinancing; oil prices & throughput

Qtly CFPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	**Mar**	**Jun**	**Sep**	**Dec**	**Year**	**P/CF**
2010A	$0.41A	$0.39A	$0.36A	$0.38A	$1.55	13.9x
2011E	$0.46A	$0.49A	$0.42	$0.40	$1.77	13.9x
2012E	$0.43	$0.50	$0.45	$0.48	$1.87	13.2x
2013E	$0.46	$0.52	$0.48	$0.51	$1.97	12.5x

	2009A	**2010A**	**2011**	**2012**	**2013**
FCFPS	$1.58	$1.56	$1.65	$1.75	$1.85
Adj EPS	$1.09	$1.14	$0.90	$0.92	$1.00
EBITDA (M)	$280	$309	$367	$394	$414
Total Debt + Preferreds (M)	$1,168	$1,304	$1,675	$1,705	$1,725
Enterprise Value (M)	$3,724	$4,714	$5,773	$5,826	$5,861



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Pembina Pipeline Corporation (Pembina) with a 2-Sector Perform rating and a one-year target of $25.00 per share.
- Pembina's fortunes have recently improved as opportunities in unconventional oil production and in the exploitation of liquids-rich gas have boosted the core conventional pipeline business. During the years 2008-2010 the business appeared to be in long-term decline. A remarkable reversal has taken place, however, with volumes up 4% sequentially this year.
- That positive trend should persist, in part due to rising Cardium production, but perhaps even more due to the company's relatively new gas extraction activities that ship NGLs on Pembina's own gathering lines. These trends likely mean the dividend will be sustained beyond the company's 2013 target and, even though the shares remain relatively expensive, we believe there is probably minimal downside in the stock.
- Pembina trades at a premium to the group on 2011E free cash yield (6.7% vs. group at 7.9%). In the current oil and NGL price environment, this premium will likely persist, reinforced by the company's high payout ratio. Our $25.00 one-year target price is premised on a target 7.0% 2012E free cash yield, a continued premium to the group, and 15.0x 2012E EV/EBITDA. With potential for continued positive momentum in financial results and an attractive yield, we believe Pembina will likely perform in line with the sector.

Pembina Pipeline Corporation

COMPANY DESCRIPTION

Pembina is Alberta's largest liquids gathering company, with 7,500 km of gathering lines moving about 390,000 bbl/d of oil and NGLs. The company owns two single-shipper oil sands pipelines (Syncrude and Horizon) with a total of 775,000 bbl/d of capacity from the oil sands to Edmonton. A significant expansion is underway via the Nipisi pipeline and related Mitsue condensate line, designed to move Slave Lake heavy oil to market. Pembina is an active marketer of crude oil products, generating meaningful profitability by blending varying crude grades and using its strong business position as an infrastructure owner. In 2009, the company entered the gas processing business, acquiring the 360 mmcf/d Cutbank plant and related gas-gathering system, which it is now expanding by adding 14,000 bbl/d of ethane extraction.

INVESTMENT THESIS

Pembina's fortunes have recently improved as opportunities in unconventional oil production and in the exploitation of liquids-rich gas have boosted the core conventional pipeline business. During the years 2008-2010 the business appeared to be in long-term decline; the annual 7%-8% toll increases that were required to offset the volume declines and, frankly, the dividend, seemed unsustainable. But a remarkable reversal has taken place with volumes up 4% sequentially this year. That positive trend should persist, in part due to rising Cardium production, but perhaps even more due to the company's relatively new gas extraction activities that ship NGLs on Pembina's own gathering lines. We believe Cutbank NGL production might add 50,000 bbl/d to conventional volumes over the next few years. These trends likely mean the dividend will be sustained beyond the company's 2013 target and, even though the shares remain relatively expensive, we believe there is probably minimal downside in the stock.

POSSIBLE POSITIVE CATALYSTS

1. Rising unconventional oil volumes. Pembina's oil-gathering assets sit on top of Alberta's Cardium formation, where production may rise by 100,000 bbl/d over the next five years with unconventional drilling practices. This lift, together with rising NGL volume flows, should more than offset declines.
2. New gas processing agreements. Pembina's model for NGL extraction is unique in that it does not take ownership of or seek to market the NGLs. We believe this fee-for-service business will attract producers seeking to maximize the value of the NGLs in their gas streams and lead to new extraction deals.
3. Possible Nipisi expansion. The Nipisi pipeline will have 100,000 bbl/d of initial capacity with incremental expansion capabilities to 200,000 bbl/d. Given Canadian Natural Resources Ltd.'s plans to expand production at Pelican Lake, an expansion announcement could come in the next two years.

POTENTIAL RISKS

1. Oil prices and flows. The move up in oil prices in recent years, as much as new drilling technologies, has brought Alberta's legacy basins back to life. Similarly, a significant drop in oil prices may reduce production volume and flow on the Pembina system.
2. Product differentials. Marketing profitability is sensitive to the light-heavy oil price differentials, which could narrow, especially when Canada's oil is linked by pipeline to the Gulf Coast (by 2014).
3. High payout ratio. Earlier last year we calculated Pembina's payout ratio at over 100% of sustainable free cash flow. This ratio appears likely to drop below 100% in the coming years, but such reduction depends on continued favourable oil market fundamentals.

VALUATION AND RECOMMENDATION

Pembina trades at a premium to the group on 2011E free cash yield (6.7% vs. group at 7.9%). In the current oil and NGL price environment, this premium will likely persist. The company's high payout ratio also reinforces the premium multiple in today's yield-hungry investing climate. Our $25.00 one-year target price is premised on a target 7.0% 2012E free cash yield, a continued premium to the group, and 15.0x 2012E EV/EBITDA. Pembina is not one of our favourite stocks because of its valuation. However, with potential for continued positive momentum in financial results and an attractive yield, we believe it will likely perform in line with the sector.

Pembina Pipeline Corporation Financial Statement Summary

Income Statement ($M)	**2010**	**2011E**	**2012E**	**2013E**
Revenues	$1,255	$1,953	$2,001	$2,032
Operations	$160	$176	$194	$204
Product purchases	$735	$1,345	$1,346	$1,346
General and administrative	$44	$55	$58	$58
Management fee	$0	$0	$0	$0
Depreciation and amortization	$67	$82	$93	$94
Other expenses (income)	$7	$10	$10	$10
Total expenses	$1,013	$1,668	$1,701	$1,712
EBITDA	**$309**	**$367**	**$394**	**$414**
Less: Depreciation & Amortization	($67)	($82)	($93)	($94)
Earnings before interest and taxes	$242	$285	$300	$319
Less: Interest expenses	($60)	($81)	($89)	($89)
Earnings before taxes	$182	$205	$211	$230
Income tax	$5	($54)	($56)	($61)
Net earnings	$187	$150	$155	$169
Adjusted net earnings	**$187**	**$150**	**$155**	**$169**
Shares Outstanding - basic	163.7	167.5	168.7	169.9
EPS - reported	$1.14	$0.90	$0.92	$1.00
EPS - adjusted	**$1.14**	**$0.90**	**$0.92**	**$1.00**

Cash flow Statement ($M)	**2010**	**2011E**	**2012E**	**2013E**
Net Earnings	$187	$150	$155	$169
Depreciation & Amortization	$67	$82	$93	$94
Other	$2	$64	$66	$71
Operating activities	$255	$296	$315	$334
Financing activities	$4	$90	($233)	($245)
Investing activities	($188)	($486)	($75)	($75)
Total changes in cash	$71	($101)	$6	$14
Cash beginning of period	$54	$125	$25	$31
Cash end of period	**$125**	**$25**	**$31**	**$46**

Balance Sheet ($M)	**2010**	**2011E**	**2012E**	**2013E**
Cash	125	25	31	46
Other Current Assets	132	161	161	161
PP&E	2,172	2,588	2,569	2,550
Intangibles & Goodwill	377	417	425	433
Other Assets	-	2	2	2
Total Assets	**2,806**	**3,193**	**3,189**	**3,192**
Current Portion of Debt	8	10	10	10
Other Current Liabilities	121	102	102	102
Long Term Debt	1,296	1,665	1,695	1,715
Other Liabilities	201	449	505	566
Total Liabilities	**1,626**	**2,225**	**2,312**	**2,393**
Total Shareholders' Equity	**1,180**	**968**	**878**	**800**
Total Liabilities and Shareholders' Equity	**2,806**	**3,193**	**3,189**	**3,192**

Source: Company reports; Scotia Capital estimates.

Provident Energy Ltd.

Strategic Assets and Low Leverage

(PVE-T, PVX-N)

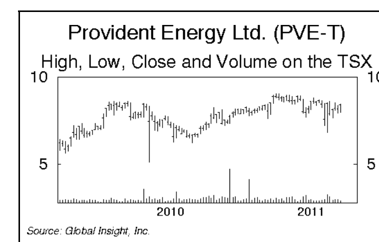
Sep 13, 2011:	$8.13	**1-Yr Target:**	$9.50	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	23.5%	Shares O/S (M)	269.8
Risk:	Medium	**2-Yr Target:**	$9.50	Total Value ($M)	2,193.8
IBES CFPS 2011E	$0.79	**2-Yr ROR:**	30.1%	Float O/S (M)	268.2
IBES CFPS 2012E	$0.84	**Div. (Curr.):**	$0.54	Float Value ($M)	2,180.5
		Yield	6.6%	TSX Weight	0.16%

Valuation: 8.1% 2012E free cash yield and 12.6x 2012E EV/EBITDA

Key Risks to Target: NGL margins; FX; Gas throughput; Marketing margins; Interest rates

Qtly CFPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.47A	$-0.70A	$0.17A	$0.02A	$-0.05	n.a.
2011E	$0.20A	$0.16A	$0.17	$0.28	$0.81	10.0x
2012E	$0.30	$0.20	$0.16	$0.15	$0.81	10.0x
2013E	$0.26	$0.19	$0.15	$0.24	$0.85	9.6x



	2009A	2010A	2011	2012	2013
FCFPS	$0.99	$0.74	$0.72	$0.77	$0.81
Adj EPS	$-0.34	$0.01	$0.44	$0.44	$0.46
EBITDA (M)	$187	$227	$240	$248	$264
Total Debt + Preferreds (M)	$505	$474	$495	$515	$535
Enterprise Value (M)	$2,350	$2,573	$2,690	$2,752	$2,811

Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Provident Energy Ltd. (Provident or PVE) with a 1-Sector Outperform rating and a one-year target of $9.50 per share.
- Provident stock offers a relatively inexpensive way of gaining exposure to two major growth themes in Canadian energy infrastructure: oil sands–related infrastructure expansion and liquids-rich gas processing. We believe the need for diluent (condensate) storage and handling facilities will only grow with oil sands production.
- While the large extraction position at Empress has faced declines in recent years, we believe volumes are bottoming out. Though commodity exposure is relatively high, we believe Provident is well positioned to weather cycles due to its best-in-class balance sheet, with total debt only slightly more than 2x our 2012E EBITDA.
- Provident trades at a discount to the group on 2011E free cash yield (8.8% vs. group at 7.9%). We believe this discount is in part justified because the company has high commodity price risk. However, the yield is levered, and with such strong credit metrics and balance sheet, combined with attractive growth prospects, we believe PVE's free cash yield will ultimately settle in line with the group. On that basis, our $9.50 one-year target price is premised on a target 8.1% 2012E free cash yield, in line with the group, and 12.6x 2012E EV/EBITDA. We believe PVE will outperform the group from a total return standpoint, and we recommend accumulating shares at these levels.

Provident Energy Ltd.

COMPANY DESCRIPTION

Provident spun off its oil and gas producing assets in 2010 and converted to a pure-play midstream corporation on January 1, 2011. Its core assets are primarily 2.4 bcf/d of NGL extraction capacity, 2.0 bcf/d of which is at the Empress straddle plant near the Alberta-Saskatchewan border, and 89,000 bbl/d of NGL fractionation. The company also operates some 14 million bbl of underground hydrocarbon (primarily NGL) storage facilities at Fort Saskatchewan, Alberta, and Sarnia, Ontario. Provident utilizes these assets, in combination with about 750 km of pipelines and its significant truck/rail loading facilities, to market NGLs across Canada and the United States, selling over 115,000 bbl/d.

INVESTMENT THESIS

Provident stock offers a relatively inexpensive way of gaining exposure to two major growth themes in Canadian energy infrastructure: oil sands–related infrastructure expansion and liquids-rich gas processing. We believe the need for diluent (condensate) storage and handling facilities will only grow with oil sands production. Provident is one of the few companies with storage expansion space, in its efficient underground geological structure at Fort Saskatchewan. And nowhere is Canadian liquids-rich gas production growing more rapidly than in Montney, where Provident's Younger facility dominates the extraction landscape. Expansion in processing and extraction at Younger is already underway. While the large extraction position at Empress has faced declines in recent years, we believe volumes are bottoming out. Though commodity exposure is relatively high, we believe PVE is well positioned to weather cycles due to its best-in-class balance sheet, with total debt only slightly more than 2x our 2012E EBITDA.

POSSIBLE POSITIVE CATALYSTS

1. Consolidation. Consolidation makes sense in the NGL extraction business because the system has spare capacity. Nowhere is this theme more relevant than at Empress, where volumes have dropped by half. Provident has the balance sheet room to make acquisitions and, conversely, has strategic assets that could make it a target.
2. Asset expansion. We anticipate announcements on expansion at Redwater (three storage tanks, additional fractionation), Younger (running almost full), and Sarnia (Corunna extraction, storage, and handling for Marcellus product).
3. New TransCanada tolling deal. A new TransCanada Mainline tolling deal would likely result in a significantly lower toll and provide improved visibility to a floor on Empress volume throughput.

POTENTIAL RISKS

1. Empress premiums. Empress extraction margins have compressed dramatically as producers have themselves "extracted" rising fees (premiums) from the asset owners. We believe the situation has bottomed, but if the TransCanada toll does not decline, volumes and margins could still deteriorate.
2. Frac spreads. Alberta frac spreads (ex-ethane) have widened to US$1.30/gallon from about US$0.80/gallon over the past year. Any significant compression in frac spreads would impact PVE's financial performance. We estimate that a US$0.10/gallon change in frac spreads impacts 2013E CFPS by $0.05.
3. Competitive NGL landscape. Competition among midstream companies and between midstream companies and their producer customers has intensified. As a result, PVE's NGL marketing business could experience margin compression in the coming years.

VALUATION AND RECOMMENDATION

Provident trades at a discount to the group on 2011E free cash yield (8.8% vs. group at 7.9%). We believe this discount is in part justified because the company has high commodity price risk. However, the yield is levered, and with such strong credit metrics and balance sheet, combined with attractive growth prospects, we believe PVE's free cash yield will ultimately settle in line with the group. On that basis, our $9.50 one-year target price is premised on a target 8.1% 2012E free cash yield, in line with the group, and 12.6x 2012E EV/EBITDA. We believe PVE will outperform the group from a total return standpoint, and we recommend accumulating shares at these levels.

Provident Energy Ltd. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Revenue	$1,639	$1,750	$1,776	$1,853
Expenses	($1,552)	($1,578)	($1,603)	($1,667)
EBT	$87	$172	$173	$185
Taxes	$17	($51)	($52)	($56)
Net income (loss) for the period	**$104**	**$120**	**$121**	**$130**
Other net income (loss) for the period	($101)	$0	$0	$0
Earnings - Adjusted	**$3**	**$120**	**$121**	**$130**
Unusual items	($339)	($10)	$0	$0
Earnings - Reported	**($336)**	**$110**	**$121**	**$130**
EBITDA	**$227**	**$240**	**$248**	**$264**
Avg. Shares O/S - basic	266	271	277	282
EPS - Reported	($1.27)	$0.40	$0.44	$0.46
EPS - Adjusted	**$0.01**	**$0.44**	**$0.44**	**$0.46**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Net Income	$3	$110	$121	$130
Depreciation & Amortization	$46	$48	$51	$53
Other	($91)	$62	$52	$56
Cash Flow from Operating Activities	**($42)**	**$220**	**$223**	**$239**
Cash Flow from Financing Activities	**($188)**	**($84)**	**($86)**	**($94)**
Capital Expenditures	($78)	($130)	($135)	($140)
Other Investing Activities	$305	$0	$0	$0
Cash Flow from Investing Activities	**$227**	**($130)**	**($135)**	**($140)**
Change in year-end cash	($3)	$6	$2	$5
Cash at the beginning of the year	$7	$4	$11	$13
Cash at the end of the year	**$4**	**$11**	**$13**	**$17**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$4	$11	$13	$17
Other Current Assets	$294	$298	$298	$298
PP&E	$832	$914	$998	$1,085
Intangibles	$119	$113	$113	$113
Goodwill	$100	$100	$100	$100
Other Assets	$50	$27	$27	$27
Total Assets	**$1,400**	**$1,463**	**$1,549**	**$1,641**
Short-term debt	$0	$0	$0	$0
Other Current Liabilities	$278	$244	$244	$244
Long-term debt	$73	$181	$201	$221
Convertible Debentures	$401	$314	$314	$314
Other Liabilities	$60	$161	$213	$268
Total Liabilities	**$813**	**$899**	**$971**	**$1,047**
Common equity	$587	$563	$578	$594
Total Shareholders' Equity	**$587**	**$563**	**$578**	**$594**
Total Liabilities and Shareholders' Equity	**$1,400**	**$1,463**	**$1,549**	**$1,641**

Note: December 31 year-end.

Source: Company reports; Scotia Capital estimates.

Spectra Energy Corp.

Best-in-Class Natural Gas Infra Assets

(SE-N)

Sep 13, 2011:	$25.14	1-Yr Target:	$30.00	Capitalization	
Rating:	1-Sector Outperform	1-Yr ROR:	23.5%	Shares O/S (M)	650.0
Risk:	Medium	2-Yr Target:	$31.50	Total Value ($M)	16,341.0
IBES EPS 2011E	$1.77	2-Yr ROR:	33.8%	Float O/S (M)	649.0
IBES EPS 2012E	$1.84	Div. (Curr.):	$1.04	Float Value ($M)	16,315.9
		Yield	4.1%	S&P Weight	0.15%

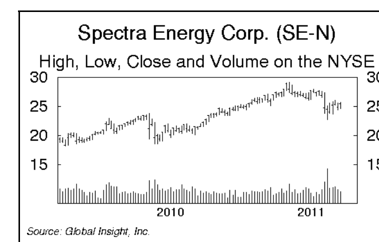
Valuation: 7.5% 2012E free cash yield and 9.2x 2012E EV/EBITDA

Key Risks to Target: FX; Regulatory approvals and ROEs; Commodity prices; Growth projects

Qtly Adj EPS (Basic) (Next Release: Nov-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.53A	$0.27A	$0.31A	$0.47A	$1.57	15.9x
2011E	$0.54A	$0.42A	$0.42	$0.42	$1.80	14.0x
2012E	$0.57	$0.40	$0.41	$0.52	$1.90	13.3x
2013E	$0.60	$0.43	$0.43	$0.53	$2.00	12.6x

	2009A	2010A	2011	2012	2013
FCFPS	$1.73	$1.17	$2.12	$2.25	$2.35
CFPS	$2.74	$2.17	$3.20	$3.25	$3.37
EBITDA (M)	$2,627	$3,047	$3,358	$3,530	$3,670
Total Debt + Preferreds (M)	$9,981	$11,167	$11,611	$12,511	$12,011
Enterprise Value (M)	$23,533	$27,984	$28,422	$29,260	$28,641



All values in US$. Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Spectra Energy Corp. (Spectra) with a 1-Sector Outperform rating and a one-year target of US$30.00 per share.
- Spectra has the most attractive set of natural gas infrastructure assets in North America, in our view. We believe the business is poised for steady cash flow and sustainable growth even in the current low gas price environment. While many North American pipelines are suffering from declines as shale gas production compresses basis differentials, Spectra's assets continue running full.
- At the same time, due to their presence in and around shale plays on both sides of the border, these assets are already undergoing significant expansion. Despite these positive attributes, Spectra trades at a discount to Canadian peer pipeline stocks and U.S. companies structured as MLPs. As familiarity with the company improves and it establishes a longer track record, we expect the discount should fade.
- Spectra trades at a slight discount to the group on 2011E free cash yield (8.4% vs. group at 7.9%) and at a large discount to Canadian pipelines on P/E multiples. Given the company's positive attributes, we believe it will ultimately trade at a premium to the group on free cash yield and at a smaller P/E discount. Our US$30.00 one-year target price is premised on a target 7.5% 2012E free cash yield, a slight premium to the group, and 9.2x 2012E EV/EBITDA. We believe Spectra will outperform the group from these levels and recommend accumulating shares.

Spectra Energy Corp.

COMPANY DESCRIPTION

Spectra was spun out of Duke Energy in 2007 and is now one of the largest natural gas infrastructure companies in North America. The U.S. interstate pipeline network is extensive, moving up to 6.7 bcf/d of gas from Texas to the Northeast and 1.2 bcf/d from the Gulf Coast to Florida. The Canadian pipeline system takes almost 1.0 bcf/d from Sable Island to Boston and up to 2.4 bcf/d from northeast B.C. to Washington State. Spectra also has a growing gas storage business with 155 bcf at Dawn, Ontario, and about 85 bcf of unregulated storage in strategic U.S. locations. Gas processing is also a core business for Spectra, with 2.1 bcf/d of fee-based processing in Western Canada and a 50% interest in DCP Midstream, the largest North American independent midstream company with about 370 mmbbl/d of NGL production.

INVESTMENT THESIS

Spectra has the most attractive set of natural gas infrastructure assets in North America, in our view. We believe the business is poised for steady cash flow and sustainable growth even in the current low gas price environment. While many North American pipelines are suffering from declines as shale gas production compresses basis differentials, Spectra's assets continue running full. Indeed, due to their presence near shale plays on both sides of the border, they are already undergoing significant expansion. Despite these positive attributes, Spectra trades at a discount to Canadian pipeline peers and U.S. pipeline and midstream MLPs. This valuation gap may be due in part to the company's conservative payout ratio, in part to its commodity exposure, and in part to its newness. As familiarity with the company improves and it establishes a longer track record, we expect the discount to fade.

POSSIBLE POSITIVE CATALYSTS

1. Expansion announcements in B.C. Spectra has announced expansions of its processing assets in Horn River and Montney. However, with another 4-5 bcf/d of gas coming into production there in the medium term, we anticipate another $1.0 billion to $2.0 billion of attractive capital projects for the company.
2. Progress on NY-NJ expansion. The project to bring gas off the Spectra system into Manhattan has become a flagship and attractive investment opportunity. Crossing hurdles in the stakeholder relations and regulatory approval process should improve visibility to success.
3. Dividend increases. In 2008 and early 2009, there was speculation Spectra would cut its dividend. So although the board raised the dividend by 4% this year, we believe sustained further dividend growth would surprise the market and push down the stock's required yield.

POTENTIAL RISKS

1. NGL pricing. Spectra's U.S. midstream processing assets are generally under keep-whole contracts with shippers. As a result, the company has material NGL pricing exposure. We estimate every US$0.01/gal change in NGL prices swings EBIT by about US$6.0 million (just over US$0.005 of EPS).
2. Storage spreads. In 2010 Spectra spent US$540 million acquiring merchant gas storage assets (Bobcat – potential 46 bcf) that also require another US$400+ million of expansion capital. In the current storage spread environment, the company many not achieve its hurdle return on these assets.
3. Regulated returns. In recent years, the U.S. Federal Energy Regulatory Commission has challenged long-haul gas pipelines earning in excess of their allowed ROEs. Spectra's assets could be subject to similar scrutiny, though they have not been subject to such challenges to date.

VALUATION AND RECOMMENDATION

Spectra trades at a slight discount to the group on 2011E free cash yield (8.4% vs. group at 7.9%) and at a large discount to Canadian pipelines on 2011E P/E multiples (14x vs. group at 22x). Given the strategic nature of the company's assets, its strong business position, and management's emerging strong track record, we believe it will ultimately trade at a premium to the group on free cash yield and at a smaller P/E discount. Our US$30.00 one-year target price is premised on a target 7.5% 2012E free cash yield, a slight premium to the group, and 9.2x 2012E EV/EBITDA. We believe Spectra will outperform the group from these levels and recommend accumulating shares.

Spectra Energy Corp. Financial Statement Summary

Earnings and Per Share Data (US$M)	2010	2011E	2012E	2013E
Segment EBIT				
Gas Transmission U.S.	$938	$1,005	$1,045	$1,085
Gas Distribution	$409	$412	$415	$416
Gas Transmission & Processing W. Canada	$409	$425	$475	$525
Other	($62)	($80)	($83)	($85)
Total Segment EBIT	**$1,694**	**$1,762**	**$1,852**	**$1,941**
Equity Earnings in DEFS	$335	$471	$525	$563
Interest Expense	($630)	($600)	($630)	($664)
Interest Income & Other	$73	$0	$0	$0
Minority Interest	($80)	$0	$0	$0
Earnings Before Tax	**$1,392**	**$1,633**	**$1,748**	**$1,840**
Income Tax Expense	($372)	($465)	($516)	($543)
Tax Rate	27%	29%	30%	30%
Net Income From Continuing	**$1,020**	**$1,168**	**$1,232**	**$1,297**
Unusual items	$31	$19	$0	$0
Reported earnings for common	$1,051	$1,187	$1,232	$1,297
Average shares outstanding (basic)	648.0	650.0	650.0	650.0
Operating earnings per share	**$1.57**	**$1.80**	**$1.90**	**$2.00**
Reported earnings per share	$1.62	$1.83	$1.90	$2.00
Dividends Per Share	**$1.00**	**$1.04**	**$1.09**	**$1.15**
EBITDA	$3,047	$3,358	$3,530	$3,670

Cash Flow Statement (US$M)	2010	2011E	2012E	2013E
Net income	$1,051	$1,187	$1,232	$1,297
Depreciation and amortization	$664	$748	$770	$784
Other	($307)	$145	$110	$108
CFO before working capital	$1,408	$2,080	$2,112	$2,189
Non-cash working capital changes	$0	$0	$0	$0
Net cash from operating activities	**$1,408**	**$2,080**	**$2,112**	**$2,189**
Capital Expenditures	($1,561)	($2,120)	($2,340)	($925)
Other & Asset Sales	($540)	$0	$0	$0
Net cash used by investing	**($2,101)**	**($2,120)**	**($2,340)**	**($925)**
Dividends paid	($648)	($676)	($710)	($745)
Other Financing Activities	$1,304	$905	$1,000	($400)
Net cash provided by financing	**$656**	**$229**	**$290**	**($1,145)**
Effect of exchange rate changes on cash	$1	$0	$0	$0
Increase (Decrease) in Cash	($36)	$189	$62	$119
Cash (start-year)	$166	$130	$319	$381
Cash (year-end)	**$130.0**	**$318.7**	**$380.9**	**$500.0**

Balance Sheet (US$M)	2010	2011E	2012E	2013E
Cash & Equivalents	$130	$319	$381	$500
Other Current Assets	$1,508	$1,408	$1,408	$1,408
Investments in unconsolidated affiliates	$2,003	$2,111	$2,111	$2,111
Goodwill	$4,517	$4,421	$4,421	$4,421
PP&E	$16,980	$18,787	$20,357	$20,498
Other Assets	$1,548	$1,664	$1,664	$1,664
Total Assets	**$26,686**	**$28,710**	**$30,342**	**$30,602**
Current portion of Long Term Debt	$740	$25	$825	$1,150
Other Current Liabilities	$1,842	$2,241	$2,758	$3,297
Long Term Debt	$10,169	$11,328	$11,428	$10,603
Minority Interest	$753	$789	$789	$789
Other Liabilities	$4,437	$5,623	$5,838	$6,059
Total Liabilities	**$17,941**	**$20,006**	**$21,638**	**$21,898**
Preferred Equity	$258	$258	$258	$258
Common Equity	$8,487	$8,446	$8,446	$8,446
Total Shareholders' Equity	**$8,745**	**$8,704**	**$8,704**	**$8,704**
Total Liabilities & Shareholders' Equity	**$26,686**	**$28,710**	**$30,342**	**$30,602**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

TransAlta Corporation

Improved Stability but Upside Not Yet Visible

(TA-T, TAC-N)

Sep 13, 2011:	$21.72	**1-Yr Target:**	$23.00	**Capitalization**	
Rating:	2-Sector Perform	**1-Yr ROR:**	11.2%	Shares O/S (M)	222.9
Risk:	Medium	**2-Yr Target:**	$23.00	Total Value ($M)	4,841.4
IBES EPS 2011E	$1.20	**2-Yr ROR:**	16.6%	Float O/S (M)	221.8
IBES EPS 2012E	$1.29	**Div. (Curr.):**	$1.16	Float Value ($M)	4,817.5
		Yield	5.3%	TSX Weight	0.34%

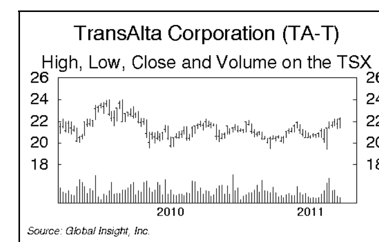
Valuation: 8.0% 2012E free cash yield and 9.4x 2012E EV/EBITDA

Key Risks to Target: Power prices; Interest rates; Environmental regulations; Re-contracting

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.31A	$0.10A	$0.17A	$0.40A	$0.98	21.6x
2011E	$0.34A	$0.29A	$0.25	$0.32	$1.20	18.1x
2012E	$0.26	$0.32	$0.26	$0.25	$1.10	19.7x
2013E	$0.25	$0.32	$0.25	$0.28	$1.10	19.7x

	2009A	2010A	2011	2012	2013
FCFPS	$1.60	$1.83	$1.90	$1.84	$1.88
CFPS	$3.62	$3.57	$3.68	$3.62	$3.66
EBITDA (M)	$871	$944	$1,057	$1,048	$1,057
Total Debt + Preferreds (M)	$4,442	$4,527	$3,982	$4,388	$4,570
Enterprise Value (M)	$9,966	$9,586	$9,309	$9,684	$9,825



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of TransAlta Corporation (TransAlta) with a 2-Sector Perform rating and a one-year target of $23.00 per share.
- TransAlta has a steady cash flow business but faces significant uncertainty due to two major factors: environmental regulation and depressed gas/power prices. Clarity is improving on the future of coal plants, but regulations will unfortunately effectively shorten the lives of TransAlta's largest assets on both sides of the Canada-U.S. border.
- Meanwhile, though prices appear to have bottomed out in Alberta, they remain depressed in the Pacific Northwest, where the company's largest coal plant – Centralia – markets its output. The company should emerge a more stable entity, but until the current transition from a merchant coal-fired company to a contracted and diversified power company is complete, dividend growth and earnings momentum may be absent.
- TransAlta trades at a discount to the group on 2011E free cash yield (8.8% vs. group at 7.9%). Given current risks, we have difficulty seeing the stock trading at a premium for now. Our $23.00 one-year target price is premised on a target 8.0% 2012E free cash yield, in line with the group, and 9.4x 2012E EV/EBITDA. We believe the stock will perform in line and may continue range-bound in the foreseeable bond yield and gas price environment.

TransAlta Corporation

COMPANY DESCRIPTION

TransAlta is Canada's largest independent, unregulated power company and also Canada's largest independent renewable power company. Coal-fired power still makes up about half of the company's roughly 9,000 MW of net owned capacity. The Alberta coal plants are fuelled by TransAlta's Highvale mine, which contains sufficient coal resources for the projected lives of the power assets and beyond. After the 2009 acquisition of Canadian Hydro Developers, TransAlta has over 2,000 MW of renewable power. Over the last decade, TransAlta has developed a steady electricity marketing business and is one of the largest marketers of power in western North America.

INVESTMENT THESIS

TransAlta has a steady cash flow business but faces significant uncertainty due to two major factors: environmental regulation and depressed gas/power prices. Clarity is improving on the future of coal plants, but regulations will unfortunately effectively shorten the lives of TransAlta's largest assets on both sides of the Canada-U.S. border. Meanwhile, though prices appear to have bottomed out in Alberta, they remain depressed in the Pacific Northwest, where the company's largest coal plant – Centralia – markets its output. As a result of these industry forces, TransAlta is in a transition from a merchant coal-fired company to a contracted and diversified power company. The company should emerge a more stable entity, but until this transition is complete, dividend growth and earnings momentum may be absent.

POSSIBLE POSITIVE CATALYSTS

1. Contract signings at Centralia. Washington State has passed legislation that permits TransAlta to sign long-term output contracts with regulated utilities. The pricing parameters relate to the utility avoided cost of new plant construction. Success in signing contracts under these parameters could result in contracts priced above the forward markets.
2. Improved Alberta power pricing. TransAlta has exposure to the recent uptick in Alberta power prices through about 600 MW of merchant coal and 440 MW of wind. Its 800 MW hydro fleet also has partial price exposure. Although it is a prolonged outage at TransAlta's own Sundance plants that caused the power price escalation, we believe the upside of higher prices is larger than the downside of lost output.
3. Sale of RECs into California. Certain renewable power located in Alberta is now permitted to sell renewable credits into the California market. We believe TransAlta may have 500-600 GWh of wind power credits that could ultimately generate $10 million to $20 million in annual incremental revenue.
4. Turnaround in natural gas prices. Gas prices have a strong positive correlation with power prices in both of TransAlta's core Western markets. Any upward movement in forward gas prices would boost merchant revenues and likely contract prices at Centralia.

POTENTIAL RISKS

1. Plant operations. TransAlta's aging coal-fired power fleet has consistently experienced operating problems in recent years. Though near-term evidence suggests operations are improving, outages including the long-term outage at Sundance 1 and 2 pose a risk to cash flow.
2. Environmental regulation. Risks persist until governments on both sides of the border finalize environmental regulations pertaining to coal-fired power, though clarity is emerging over environmental regulation for the company's Centralia plant (phase-out to 2025) and Alberta plants (45-year rule).
3. Reduction in realized pricing. Centralia is realizing hedge prices that are probably $15-$20/MWh above forward power prices. There is risk that new contracts are priced below current contract prices.

VALUATION AND RECOMMENDATION

TransAlta trades at a discount to the group on 2011E free cash yield (8.8% vs. group at 7.9%). There could be long-term value in the stock if environmental regulation permits operations of its Alberta coal plants beyond the contract time frame. But given current risks, we have difficulty seeing the stock trading at a premium for now. Our $23.00 one-year target price is premised on a target 8.0% 2012E free cash yield, in line with the group, and 9.4x 2012E EV/EBITDA. We believe the stock will perform in line and may continue range-bound in the foreseeable bond yield and gas price environment.

TransAlta Corporation Financial Statement Summary

Earnings and Per Share Data ($M)		2010	2011E	2012E	2013E
Revenues		$2,819	$2,524	$2,571	$2,619
Expenses, Depreciation, Amortization & Other		($2,365)	($1,931)	($1,995)	($2,043)
Total Operating EBIT		**$454**	**$593**	**$577**	**$577**
Other income (expense)		$10	$10	$10	$10
Net interest charges		($178)	($215)	($240)	($240)
Earnings before tax & minority interest		$287	$387	$347	$347
	Income tax rate	*18%*	*22%*	*22%*	*22%*
Income tax (recovery)		($51)	($83)	($75)	($75)
Non-controlling interests		($20)	($25)	($25)	($25)
Equity earnings		$0	$0	$10	$10
Preferred securities distributions		($1)	($14)	($13)	($13)
Discontinued operations (operating)		$0	$0	$0	$0
Operating earnings		**$215**	**$265**	**$244**	**$244**
Unusual /non-recurring items		$4	$76	$0	$0
Net earnings for common		$219	$341	$244	$244
Earnings per share -reported		$1.00	$1.54	$1.10	$1.10
Earnings per share - operating		**$0.98**	**$1.20**	**$1.10**	**$1.10**
Dividends per share		$1.16	$1.16	$1.16	$1.16
EBITDA		$944	$1,057	$1,048	$1,057

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net earnings	$219	$355	$257	$257
Depreciation and amortization	$490	$464	$472	$480
Other non-cash items	$74	($5)	$71	$71
	$783	$814	$800	$808
Change in non-cash working capital	$28	($161)	$0	$0
Cash from Operating Activities	**$811**	**$653**	**$800**	**$808**
Additions to capital assets	($790)	($500)	($603)	($500)
Other & Asset Sales	$70	($26)	$0	$0
Cash Used in Investing Activities	**($720)**	**($526)**	**($603)**	**($500)**
Dividends on common shares	($216)	($256)	($256)	($256)
Other Financing Activities	$80	$119	$119	$18
Cash Used in Financing Activities	**($136)**	**($137)**	**($138)**	**($239)**
Effect of translation on foreign cash	($2)	$0	$0	$0
Increase (decrease) in cash	($47)	($10)	$60	$69
Cash at beginning of year	$82	$35	$25	$85
Cash at end of year	**$35**	**$25**	**$85**	**$154**

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Equivalents	$35	$25	$85	$154
Other Current Assets	$802	$880	$880	$880
Goodwill & Intangibles	$821	$728	$728	$728
PP&E	$7,577	$7,604	$7,735	$7,755
Other Assets	$635	$638	$568	$498
Total Assets	**$9,870**	**$9,875**	**$9,995**	**$10,015**
Short Term Debt	$0	$300	$300	$300
Current Portion of Long Term Debt	$255	$234	$234	$234
Other Current Liabilities	$895	$1,170	$878	$708
Long Term Debt	$3,979	$3,455	$3,861	$4,043
Non-controlling Interests	$435	$460	$485	$510
Other Liabilities	$1,129	$1,131	$1,107	$1,083
Total Liabilities	**$6,693**	**$6,750**	**$6,865**	**$6,878**
Preferred Equity	$293	$293	$293	$293
Common Equity	$2,884	$2,832	$2,838	$2,844
Total Shareholders' Equity	**$3,177**	**$3,125**	**$3,131**	**$3,137**
Total Liabilities & Shareholders' Equity	**$9,870**	**$9,875**	**$9,995**	**$10,015**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

TransCanada Corporation

Valuation Should Lift As Issues Clear

(TRP-T, TRP-N)

Sep 13, 2011:	$41.31	1-Yr Target:	$50.00	Capitalization	
Rating:	1-Sector Outperform	1-Yr ROR:	25.1%	Shares O/S (M)	702.6
Risk:	Low	2-Yr Target:	$54.00	Total Value ($M)	29,024.4
IBES EPS 2011E	$2.25	2-Yr ROR:	39.0%	Float O/S (M)	701.7
IBES EPS 2012E	$2.45	Div. (Curr.):	$1.68	Float Value ($M)	28,987.2
		Yield	4.1%	TSX Weight	2.02%

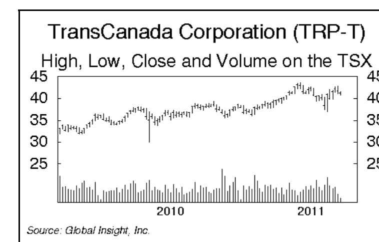
Valuation: 7.8% 2012E free cash yield and 13.0x 2012E EV/EBITDA

Key Risks to Target: Regulatory approvals; Interest rates; Power prices; Growth projects

Qtly Adj EPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/E
2010A	$0.48A	$0.40A	$0.54A	$0.55A	$1.97	19.3x
2011E	$0.61A	$0.51A	$0.57	$0.56	$2.25	18.4x
2012E	$0.59	$0.57	$0.65	$0.64	$2.45	16.8x
2013E	$0.63	$0.61	$0.69	$0.67	$2.60	15.9x

	2009A	2010A	2011	2012	2013
FCFPS	$3.05	$3.21	$3.56	$3.89	$4.40
CFPS	$4.73	$4.82	$5.17	$5.07	$5.57
EBITDA (M)	$4,107	$3,931	$4,758	$4,818	$5,542
Total Debt + Preferreds (M)	$19,054	$20,162	$21,178	$26,140	$24,553
Enterprise Value (M)	$42,420	$46,398	$51,152	$56,428	$54,799



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of TransCanada Corporation (TransCanada) with a 1-Sector Outperform rating and a one-year target of $50.00 per share.
- We expect several of the business issues TransCanada has faced in recent years to dissipate over the next 12 months, allowing the shares to trade back up to full value. The reduction in natural gas prices during 2008-2009 underlay many of the company's problems. More recently, permitting issues on the Keystone XL pipeline have led to further uncertainty over the use of capital and future earnings.
- The cumulative effect of these issues has caused the stock to underperform and, in our view, trade below fair value. But as these issues are resolved, we believe the stock will trade back up to fair value and could wind up commanding a premium to the group.
- TransCanada trades at a discount to the group on 2011E free cash yield (8.6% vs. group at 7.9%). Yet, especially if Keystone XL is approved, its contract power and pipeline assets should command a premium in the marketplace. Our $50.00 one-year target price is premised on a target 7.8% free cash yield, in line with the group, and 13.0x 2012E EV/EBITDA. We believe the stock will outperform as risks dissipate and the discount fades.

TransCanada Corporation

COMPANY DESCRIPTION

TransCanada is the largest gas pipeline company in North America, moving roughly 15 bcf/d of gas. Its assets include the main Alberta gas-gathering system, which is now plugged into Horn River and Montney, and the Canadian Mainline, which has over 6 bcf of capacity from Alberta to Ontario, the U.S. Midwest, and points east. TransCanada also has a large power business consisting of almost 11,000 MW in Canada and the United States. A growing oil pipeline business today is the Keystone pipeline system, which moves oil from Hardisty, Alberta, to Wood River, Illinois, and Cushing, Oklahoma. The proposed US$8 billion Keystone XL project could transport Canadian oil all the way to the Gulf Coast by late 2013.

INVESTMENT THESIS

We expect several of the business issues TransCanada has faced in recent years to dissipate over the next 12 months, allowing the shares to trade back up to full value. The reduction in natural gas prices during 2008-2009 underlay many of the company's problems. Lower prices led to reduced conventional gas drilling in Alberta, which in turn caused uncertainty around the viability of the Canadian Mainline. Lower prices also pressured Alberta power prices and TransCanada's earnings. Meanwhile, Bruce Power experienced cost overruns and delays. More recently, permitting issues on the Keystone XL pipeline have caused further uncertainty over the use of capital and future earnings. Cumulatively these issues have caused the stock to underperform and, in our view, trade below fair value. But as issues are resolved, we believe the stock will trade back up to fair value and could wind up commanding a premium to the group.

POSSIBLE POSITIVE CATALYSTS

1. Resolution of Mainline tolls. This fall, TransCanada filed a tolling proposal for the Mainline. Fears of a forced writedown have lingered for the past year. Resolution of sustainable tolls in early 2012 could reduce uncertainty over earnings and cash flow on the company's largest asset.
2. Approval of Keystone XL. The U.S. State Department is scheduled to deliver a final approval or rejection of Keystone XL by November. Approval of TransCanada's largest capital project would alleviate concerns over capital allocation, cost overruns, and future earnings growth.
3. Completion of Bruce 1 and 2. After six years of restart efforts and several delays and cost overruns, Bruce Power is scheduled to bring units 1 and 2 into commercial operation in Q2/12 and Q4/12.
4. Turnaround in earnings momentum. TransCanada's earnings declined in both 2009 and 2010, but 2011 marks a turnaround in earnings momentum. This momentum should remain positive in the coming years as new projects for which capital has already been raised come online.
5. New project announcements. TransCanada tends to discuss new projects only when it has secured commercial agreements. Expectations are low for growth aside from Keystone, but we see the company achieving development success especially in new gas-fired power projects.

POTENTIAL RISKS

1. Further delays in approval of Keystone XL. Any delay beyond the end of this year in the approval of Keystone XL will foster continued uncertainty over cost overruns, growth, and the use of free cash.
2. Alberta power price exposure. Our view is that the Sundance 1 and 2 units could come back into service and depress Alberta power prices later in 2012. TransCanada already realized low prices at Sundance in 2010, though, because it was not well hedged in that year.
3. Operational issues at Bruce Power. Bruce Power 1 and 2 could face normal start-up issues that could cause short-term outages and operational uncertainty.

VALUATION AND RECOMMENDATION

TransCanada trades at a discount to the group on 2011E free cash yield (8.6% vs. group at 7.9%). Yet, especially if XL is approved, its contract power and pipeline assets should command a premium. We believe investors will generally want to own TransCanada as a large, liquid stock with an attractive, growing dividend. Our $50.00 one-year target price is premised on a target 7.8% free cash yield, in line with the group, and 13.0x 2012E EV/EBITDA. We believe the stock will outperform as risks dissipate.

TransCanada Corporation Financial Statement Summary

Earnings and Per Share Data ($M)	2010	2011E	2012E	2013E
Pipelines EBIT	$1,938	$2,396	$2,499	$2,937
Energy EBIT	$748	$882	$1,054	$1,110
Corporate	($99)	($100)	($100)	($100)
Total EBIT	**$2,587**	**$3,178**	**$3,453**	**$3,947**
Interest Expense / Financial charges	($760)	($997)	($1,075)	($1,453)
Interest Income	$94	$100	$100	$100
EBT	**$1,921**	**$2,281**	**$2,478**	**$2,594**
Taxes	($400)	($525)	($570)	($584)
Non-controlling interest & Pref Dividends	($160)	($180)	($180)	($180)
Operating Earnings for Common	**$1,361**	**$1,576**	**$1,728**	**$1,831**
Unusual items	($134)	($14)	$0	$0
Net income - reported	$1,227	$1,562	$1,728	$1,831
EPS - Comparable	**$1.97**	**$2.25**	**$2.45**	**$2.60**
EPS - Reported	$1.78	$2.23	$2.45	$2.60
Average Shares	691	702	705	705
EBITDA	$3,931	$4,758	$4,818	$5,542
Dividends per share	**$1.60**	**$1.68**	**$1.76**	**$1.84**
Cash Flow Per Share	**$4.82**	**$5.17**	**$5.07**	**$5.57**

Cash Flow Statement ($M)	2010	2011E	2012E	2013E
Net income from continuing operations	$1,227	$1,562	$1,728	$1,831
Depreciation	$1,354	$1,575	$1,365	$1,595
Other	$750	$490	$476	$496
Funds generated from operations	$3,331	$3,627	$3,569	$3,922
Decrease in operating working capital	($249)	$0	$0	$0
Net cash from continuing operations	**$3,082**	**$3,627**	**$3,569**	**$3,922**
Capital Expenditures	($5,036)	($3,500)	($5,505)	($975)
Acquisitions, net of cash acquired	$0	$0	$0	$0
Other & Asset Sales	($384)	$609	$0	$0
Net cash from investing activities	**($5,420)**	**($2,891)**	**($5,505)**	**($975)**
Dividends & preferred securities charges	($866)	($828)	($962)	($1,030)
Other Financing Activities	$2,979	($61)	$2,925	($1,625)
Net cash from financing continuing ops	**$2,113**	**($889)**	**$1,963**	**($2,655)**
Foreign Exchange impact	($8)	($16)	($16)	($32)
Increase (Decrease) in Cash	($233)	($169)	$11	$260
Cash (start of year)	$997	$764	$595	$606
Cash (year-end)	$764	$595	$606	$866

Balance Sheet ($M)	2010	2011E	2012E	2013E
Cash & Equivalents	$764	$595	$606	$866
Other Current Assets	$2,473	$2,286	$2,286	$2,286
PP&E	$36,244	$38,640	$45,885	$44,800
Goodwill & Intangibles	$3,570	$3,461	$3,461	$3,461
Other Assets	$3,538	$2,221	$2,213	$2,204
Total Assets	**$46,589**	**$47,204**	**$54,451**	**$53,617**
Current Portion of Long Term Debt	$959	$696	$696	$696
Other Current Liabilities	$4,702	$3,726	$5,140	$5,003
Long Term Debt	$18,814	$18,937	$23,599	$22,012
Other Liabilities	$4,230	$4,855	$5,463	$6,091
Total Liabilities	**$28,705**	**$28,213**	**$34,898**	**$33,802**
Non-Controlling Interest	$768	$1,572	$1,791	$2,010
Preference Securities	$389	$1,545	$1,845	$1,845
Common Equity	$16,727	$15,873	$15,917	$15,961
Total Shareholders' Equity	**$17,884**	**$18,990**	**$19,553**	**$19,815**
Total Liabilities & Shareholders' Equity	**$46,589**	**$47,204**	**$54,451**	**$53,617**

Note: December 31 year-end. Source: Company reports; Scotia Capital estimates.

Veresen Inc.

Yield Normalization Opportunity Still Exists

(VSN-T)

Sep 13, 2011:	$13.64	**1-Yr Target:**	$16.00	**Capitalization**	
Rating:	1-Sector Outperform	**1-Yr ROR:**	24.6%	Shares O/S (M)	163.6
Risk:	Medium	**2-Yr Target:**	$16.00	Total Value ($M)	2,231.5
IBES CFPS 2011E	$1.37	**2-Yr ROR:**	32.0%	Float O/S (M)	163.2
IBES CFPS 2012E	$1.40	**Div. (Curr.):**	$1.00	Float Value ($M)	2,226.0
		Yield	7.3%	TSX Weight	0.15%

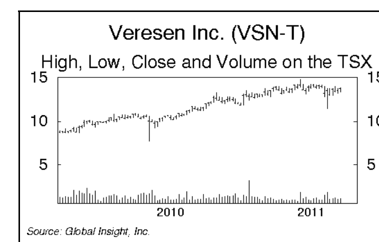
Valuation: 8.4% 2012E free cash yield and 10.0x 2012E EV/EBITDA

Key Risks to Target: FX; NGL margins; Interest rates; Re-contracting; Growth projects

Qtly CFPS (Basic) (Next Release: Oct-11)

Y/E DECEMBER-31	Mar	Jun	Sep	Dec	Year	P/CF
2010A	$0.31A	$0.51A	$0.47A	$0.39A	$1.68	7.1x
2011E	$0.35A	$0.39A	$0.43	$0.39	$1.57	8.7x
2012E	$0.37	$0.35	$0.41	$0.63	$1.75	7.8x
2013E	$0.41	$0.39	$0.41	$0.57	$1.78	7.7x

	2009A	2010A	2011	2012	2013
FCFPS	$1.10	$1.20	$1.26	$1.34	$1.38
Adj EPS	$0.69	$0.51	$0.58	$0.73	$0.75
EBITDA (M)	$355	$361	$403	$445	$456
Total Debt + Preferreds (M)	$1,729	$1,803	$1,949	$1,949	$1,929
Enterprise Value (M)	$3,023	$3,481	$4,118	$4,094	$4,024



Regular Voting. FCFPS is defined as adjusted cash flow from operations less maintenance capital expenditures.
Note: Historical price multiple calculations use FYE price. Source: Reuters; company reports; Scotia Capital estimates.

Investment Highlights

- We have initiated coverage on the common shares of Veresen Inc. (Veresen or VSN) with a 1-Sector Outperform rating and a one-year target of $16.00 per share.
- Despite consistent financial and operating performance, Veresen has not entirely shaken the long-standing market perception that its dividend may not be sustainable. Investors have never bid the dividend yield down to the levels of peer Canadian pipeline and midstream companies. In our view, business development activity should add sufficient value to offset any potential declines from frac spread compression and/or de-contracting on the Alliance pipeline.
- Evidence is already emerging that the company's strategy of pulling more liquids-rich gas into the pipeline from Montney and Bakken is boosting NGL production at Channahon, thereby widening margins well in advance of the Alliance contract expiry. For further dividend insurance, power acquisitions and construction are adding sustainable free cash flow and boosting tax pools.
- Veresen trades at a discount to the group on 2011E free cash yield (9.2% vs. group at 7.9%). That discount may persist in the very short term as uncertainty lingers on the future of Alliance and its utilization. However, as NGL deals are announced and power assets come online, the discount should fade. Our $16.00 one-year target price is premised on a target 8.4% 2012E free cash yield, a slight discount to the group, and 10.0x 2012E EV/EBITDA. We believe the stock will outperform the group from a total return standpoint and recommend accumulating shares at these levels.

Veresen Inc.

COMPANY DESCRIPTION

Veresen is a diversified energy infrastructure company whose core asset is a 50% ownership interest in the Alliance pipeline, which moves about 1.6 bcf/d from northeast B.C. to Chicago. As part of the Alliance complex, the company has a 50% interest in Aux Sable, whose primary asset is an NGL extraction and fractionation facility near Chicago (Channahon) with 2.1 bcf/d of processing capacity and 87,000 bbl/d of NGL production capacity. Aux Sable has diversified recently through acquisition of processing facilities in Montney (60 mcf/d) and Bakken (80 mcf/d). Veresen's power plants mostly operate under long-term government contract in Canada. The business has been growing rapidly through acquisition and should reach over 600 MW of gas-fired, hydroelectric, and wind power capacity by 2013.

INVESTMENT THESIS

Despite consistent financial and operating performance, Veresen has not entirely shaken the long-standing market perception that its dividend may not be sustainable. Whether due to VSN's frac spread exposure or its expiring contracts on the Alliance pipeline, investors have never bid the dividend yield down to the levels of its peers. In our view, business development activity should add sufficient value to offset any potential declines from frac spread compression and/or de-contracting on Alliance. Evidence is already emerging that the company's strategy of pulling more liquids-rich gas into the pipeline from Montney and Bakken is boosting NGL production at Channahon, thereby widening margins. For further dividend insurance, power acquisitions and construction are adding sustainable free cash flow and boosting tax pools. As market perception of dividend sustainability improves, the required yield should fall.

POSSIBLE POSITIVE CATALYSTS

1. New NGL deals for Alliance/Aux Sable. We anticipate VSN will roll out deals with producers for gas and NGLs dedicated to the Alliance/Aux Sable complex. Recent deals in the Bakken (EOG, Hess) and Montney (Trilogy) could be duplicated and improve cash flow sustainability on the pipeline and frac plant.
2. Meeting timelines/budgets on power projects. Uncertainty on VSN's power development capabilities is likely to persist until it brings new projects in on time and on budget. We believe the flagship York Region Power Project could come in under budget in 2012, improving perception of the power segment.
3. Possible Channahon expansion. As Channahon approaches its NGL production capacity, its owners may announce an expansion. We believe such expansion would signal growth and could be highly economic and accretive to Veresen.

POTENTIAL RISKS

1. Alliance de-contracting. Only 8% of shippers on Alliance have extended contracts beyond 2015, giving rise to risk of volume reduction at that time, particularly in the context of TransCanada's spare capacity on its competing Mainline gas pipeline.
2. Frac spreads. U.S. frac spreads have widened to US$1/gallon from about US$0.50/gallon over the past year. Any significant compression in frac spreads would impact VSN's financial performance. We estimate that a US$0.10/gallon change in frac spreads impacts 2013E CFPS by $0.10.
3. Competitive NGL landscape. Competition among midstream companies and between midstream companies and their producer customers has intensified. As a result, VSN's deals for NGLs may not prove as accretive as anticipated.

VALUATION AND RECOMMENDATION

Veresen trades at a discount to the group on 2011E free cash yield (9.2% vs. group at 7.9%). That discount may persist in the very short term as uncertainty lingers on the future of Alliance and its utilization. However, as NGL deals are announced and power assets come online, the discount should fade. Our $16.00 one-year target price is premised on a target 8.4% 2012E free cash yield, a slight discount to the group, and 10.0x 2012E EV/EBITDA. Veresen offers an attractive combination of current yield and potential share price appreciation, in our view. We believe it will outperform the group from a total return standpoint and recommend accumulating shares at these levels.

Veresen Inc. Financial Statement Summary

Income Statement ($M)	2010A	2011E	2012E	2013E
Revenues	$696	$759	$871	$902
Expenses, Depreciation, Amortization & Other	($469)	($508)	($576)	($596)
EBIT	$227	$252	$295	$306
Interest	($113)	($120)	($124)	($129)
FX and other	($9)	$0	$0	$0
EBT	$105	$131	$171	$178
Taxes	($31)	($38)	($50)	($52)
Earnings - Adjusted	**$74**	**$93**	**$121**	**$126**
Unusual items	$6	($2)	$0	$0
Earnings - Reported	**$80**	**$92**	**$121**	**$126**
EBITDA	**$361**	**$403**	**$445**	**$456**
Avg. Shares O/S - basic	146	162	166	167
EPS - Reported	**$0.55**	**$0.56**	**$0.73**	**$0.75**
EPS - Adjusted	**$0.51**	**$0.58**	**$0.73**	**$0.75**

Cash Flow Statement ($M)	2010A	2011E	2012E	2013E
Earnings	$80	$92	$121	$126
Amortization	$142	$158	$150	$150
Other	$23	$5	$20	$21
CFO Before Changes in Working Capital	$244	$255	$291	$297
Non-cash working capital	($7)	($2)	$0	$0
Cash Flow from Operating Activities	**$238**	**$252**	**$291**	**$297**
Purchase of PP&E, Investments in assets	($139)	($296)	($70)	($70)
Other	$14	$1	$0	$0
Cash Flow from Investing Activities	**($125)**	**($295)**	**($70)**	**($70)**
Dividends / Distributions to Unitholders	($56)	($162)	($166)	($167)
Other financing activities	($47)	$225	$25	$5
Cash Flow from Financing Activities	**($103)**	**$63**	**($141)**	**($162)**
Effect of FX differences on cash	($2)	($1)	$0	$0
Change in year-end cash	$8	$20	$80	$65
Cash at the beginning of the year	$58	$66	$86	$166
Cash at the end of the year	**$66**	**$86**	**$166**	**$231**

Balance Sheet ($M)	2010A	2011E	2012E	2013E
Cash	$66	$86	$166	$231
Other Current Assets	$135	$139	$139	$139
PP&E	$2,420	$2,555	$2,475	$2,395
Intangibles	$164	$171	$171	$171
Other Assets	$334	$317	$317	$317
Total Assets	**$3,119**	**$3,268**	**$3,269**	**$3,254**
Short-term debt	$124	$117	$117	$117
Other Current Liabilities	$113	$154	$179	$204
Long-term debt	$1,596	$1,749	$1,749	$1,729
Convertible Debentures	$82	$83	$83	$83
Other Liabilities	$364	$361	$361	$361
Total Liabilities	**$2,279**	**$2,464**	**$2,489**	**$2,494**
Common equity	$840	$804	$780	$760
Total Shareholders' Equity	**$840**	**$804**	**$780**	**$760**
Total Liabilities and Shareholders' Equity	**$3,119**	**$3,268**	**$3,269**	**$3,254**

Note: December 31 year-end.
Source: Company reports; Scotia Capital estimates.

Notes

Appendix A: Important Disclosures

Company	Ticker	Disclosures (see legend below)*
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AltaGas Ltd.	ALA	G, I, U
ATCO Ltd.	ACO.X	S
Atlantic Power Corporation	ATP	G, I, S, U
Brookfield Renewable Power Fund	BRC.UN	G, I, U
Canadian Utilities Limited	CU	B33, I, S, U
Capital Power Corporation	CPX	G, S, T, U
Capstone Infrastructure Corporation	CSE	G, T, U
Emera Incorporated	EMA	D23, G, I, S, T, U
Enbridge Inc.	ENB	G, I, S, T, U
Fortis Inc.	FTS	G, I, S, U
Gibson Energy Inc.	GEI	G, P, T, U
Innergex Renewable Energy Inc.	INE	G, I, U
Inter Pipeline Fund	IPL.UN	G, I, S, T, U
Keyera Corp.	KEY	T
Northland Power Inc.	NPI	I, S
Pembina Pipeline Corporation	PPL	G, I, U
Provident Energy Ltd.	PVE	G, I, T, U
Spectra Energy Corp.	SE	T
TransAlta Corporation	TA	G, I, S, T, U
TransCanada Corporation	TRP	I, S
Veresen Inc.	VSN	I

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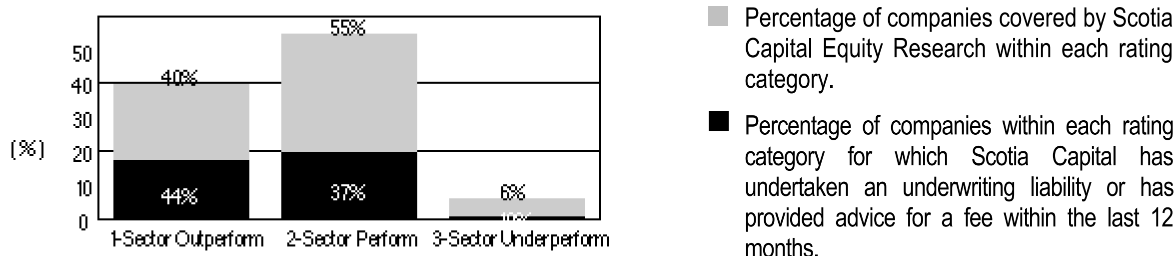

* As at August 31, 2011.

Source: Scotia Capital.

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