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PROFIT WHEN SUB-PRIME LENDERS BECOME TAKEOVER TAGETS

Investors hunting the next hot M&A sector should take a look at sub-prime and non-standard lenders that have carved out a profitable niche on the margins of Canada's financial services industry, said Sprott Securities Inc. analyst Jason Donville in a note.
"As we look into 2007, we believe that virtually all of the [non-standard] lenders we follow are on someone's radar screen," said Mr. Donville. "Let the M&A fireworks begin."

Sub-prime and non-standard lenders have made good business out of serving customers that can't borrow from traditional lenders, like the big banks, which have rigid credit practices. Their customers include immigrants with no credit history, or self-employed entrepeneurs who don't fit the lenders' mold.

But bigger institutions have recently shown their appetite for a share of the non-standard pie. Sub-prime auto lender VFC Inc. was bought by Toronto-Dominion Bank in February, while another auto-loans company Travelers Financial Group was bought by Bank of Nova Scotia in November. Scotiabank also acquired non-standard home loans company Maple Financial Group Inc.

But Mr. Donville said those deals are just the start. "We expect that M&A activity in the non-standard lending space will be even better in 2007 than it was in 2006,"
Mr. Donville said. "Investors who can figure out in advance which ones have the highest probability of a takeout will be rewarded."

Mr. Donville said among those "priced attractively to be taken out" are Equitable Group Inc. and Xceed Mortgage Corp. -- both providers of home financing -- as well as Carfinco, which lends to customers who want to buy second-hand cars.

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