

# Valuation Analysis of SaskPower

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# Executive Summary

This analysis arrives at approximations of the value of SaskPower, a provincial Crown corporation owned by the government, and thus the citizens and taxpayers, of the province of Saskatchewan. The valuation ranges could be useful in determining the future ownership or use of this asset. Every organization needs to review what it could or should do to serve its clients and whether its present array of assets is appropriate for its strategy and its future operations.

# Market-based and intrinsic valuations of SaskPower

The best *probable* estimate of the total market capitalization, that is, the total value of the company were it to be traded on a public stock exchange, is **\$1.752-billion to \$2.617-billion, with the average of the three key metrics chosen being \$2.348-billion**. The calculation used to arrive at this range of figures was performed using comparison companies, the closest peers being five Canadian regional power and gas utility companies. However, other independent or renewable energy-oriented Canadian firms and 14 regional (some multi-state) U.S. companies were also used.

## Intrinsic, Discounted Free Cash Flow (DFCF) valuation of SaskPower

Using several estimates and assumptions, the probable range of value for SaskPower, **fully taxed** (it does not pay provincial or federal income tax), is estimated to be **\$2.492-billion to \$2.718-billion, with a simple average of the six best estimates being calculated as \$2.619-billion. This is a plausible value to potential investors should the company become wholly or partially publicly traded**. The **untaxed value**, i.e., the value to the Crown, is estimated to be between **\$2.637-billion and \$2.877-billion**, for an average of six best estimates of **\$2.771-billion**. SaskPower, like many of its peers in Canada and the United States, is in a period of highly intensive capital investment, despite slow growth, which is reducing its effective taxability and its Free Cash Flow, FCF.

**The lower figure** of the range is based on applying a formula to the present value of a proprietary model-generated (details later in this paper) FCF in the future (Year 1, or 2014) using a required rate of return of 8 per cent and a growth rate in FCF of -5 per cent (i.e., negative 5 per cent), the latter in keeping with projected trends. **The upper figure** uses the same projected adjusted free cash flow, also projected into the future at a growth rate of -3 per cent (i.e., negative 3 per cent), and it uses a required rate of return of 7 per cent.

**Final Caution:** Neither of the valuation ranges above, neither the market value nor the intrinsic value, constitutes a private market value that a corporate acquirer may pay, such acquirer having the benefit of being able to attempt to optimize the value of the taken-over company, with synergies, cost-cutting, asset disposal, optimization and perhaps the use of previous years' tax-shielding losses.

# Preface

## Privatization and similar options for SaskPower

There are many reasons for the direct involvement of a regional, provincial, state, territorial, national, federal or even municipal government in an industry or endeavour. This involvement is always present in regulation, which no industry escapes; sometimes it is in direct investment in a commercial or quasi-commercial service or enterprise.

Over time, the Canadian federal government and other provincial governments have extricated themselves from direct ownership of various commercial enterprises. Few such enterprises remain in the hands of these governments.

One sector that does retain heavy Crown involvement is electric power generation, transmission and end-user distribution. Only Alberta and the Maritime provinces have significant private sector participation.

This arrangement is unusual in Western industrialized nations. Most do not have large national or regional power or gas utilities entirely owned by governments.

Whether a government takes a direct stake in a commercial enterprise is a matter for taxpayers, voters and policy-makers to discuss and decide.

The result of those deliberations will in large measure be influenced by political ideology. That is, some people believe in strong government involvement in the economy in some, many or all industries, sectors and markets. Others believe the opposite, that economic progress, growth and prosperity depend on the best use of natural, technical, commercial, financial and intellectual resources that must be bid for in a competitive fashion by as many economic actors as possible.

In this way, they contend, these resources will attain the highest possible value and the maximum return, from which society will benefit, directly or indirectly, through increased profits, tax revenue and employment or efficient, cost-contained goods and services.



# Rationale for divestiture or privatization

While it is up to the people of Saskatchewan through their elected representatives to decide if SaskPower should be sold or otherwise privatized and the proceeds used for the benefit of all Saskatchewan's citizens and taxpayers, there are some established reasons to embark on such a path, some or all of which are cited for divestiture of such enterprises but may not be applicable in any single case, such as that of SaskPower.

1. The government has no mandate to own or run a commercial enterprise. The provision of citizens' safety, security and justice is the government's primary role, and its involvement in the economy should generally not extend beyond this. However, the government of Saskatchewan in its legislation asserts this role for itself for several entities, including SaskPower.
2. Regulation can usually accomplish any public policy reason for direct involvement in an industry. If regulation is not easily feasible, then a direct contract or subsidy to affected individuals, entity or entities may be more efficient or effective and less economically disruptive or costly. This could apply to SaskPower and any customers or others that may be disadvantaged by a future divestiture.
3. A government-owned or -sponsored enterprise may compete directly against private sector firms, which are owned by or employ citizens, or against individual citizens, all of whom the government is supposed to serve, not disadvantage. According to Saskatchewan government policy, SaskPower is supposed to operate as a normal commercial power utility company.
4. The government-owned or -sponsored enterprise may compete unfairly against its private sector rivals in that it had or has access to lower-cost government-sourced and -guaranteed capital (debt). It may have a much larger debt component in its capital versus that which would be tolerated in the private sector. Thus, it may not have to meet high standards for profit and cost control, allowing it to offer lower than true free market-based competitive pricing. While SaskPower still has this advantage, at current interest rates this may not give it much advantage, although its shareholder capital may not have any market-based or -influenced rate of return requirement, giving it some implicit advantage over a similar publicly listed or private sector competitor.
5. Government-owned firms may not need to pay provincial or federal income taxes. Again, this allows SaskPower to offer lower than true free market-based competitive pricing.
6. Government-owned or -sponsored enterprises may not have any kind of profit orientation or target, may be used as public policy vehicles and may be given preference in their activities or even in their transgressions, such as labour or

environmental abuses. SaskTel is, according to its policies, not supposed to behave in any kind of abusive fashion.

7. Government-owned or -sponsored enterprises, by virtue of being public sector vehicles overseen by bureaucrats and politicians, may be places where favoured individuals find employment, particularly at management levels. SaskPower is, according to provincial government policy, supposed to operate like a competitive commercial enterprise in this and other regards.
8. Since profit is a secondary goal of a government-owned or -sponsored enterprise, it is difficult to evaluate the effectiveness, efficiency or productivity of the enterprise or its employees. Consequently, these employees and assets may not be very productive or effective. Again, SaskPower is supposed to behave and operate as any comparable purely commercial company.
9. Government-owned or -sponsored enterprises are often creations of certain time-fixed circumstances and outlive whatever use or public policy role their creators may have conceived. Often the modernization of transport, telecommunication or information technology; other advances in technology; the evolution of the economy and available products and services and the increasing standard of living make these enterprises potentially obsolete. In the private sector, firms and individuals must adapt and evolve, or decline. This could very well apply to SaskPower. There are some preliminary signs that independent power producers and merchants and end-user use of natural gas fuel cell, Stirling engine, cogeneration or other efficient low-cost technology may make SaskPower more uncompetitive over time, especially as abundant shale formation-sourced gas production and reserves are soaring in the Bakken formation in southern Saskatchewan and in adjacent North Dakota.
10. Government-owned or -sponsored enterprises perpetuate their possibly obsolete existences by virtue of the constituencies that build up around them: employees, managers, directors and bureaucrats, customers, suppliers and associated advocates or consultants. They can lobby to keep the enterprise going, despite dysfunction or losses. They are far more motivated to do so than are the taxpayers, whose average cost is much less per person and may be indirect, hidden or difficult to calculate. The constituency for the continued government ownership of SaskPower may not be readily visible or obvious, but every established fiefdom has persons or groups who may lose out if there is a change in ownership or status.
11. Because they are not profit-oriented, government-owned or -sponsored enterprises are usually less efficient, and thus they lower the overall efficiency of the entire economy. This can make a whole nation less competitive than its global rivals are, whether nations or individual companies. The effects are worse the greater the government involvement in the economy. When taken to its most extreme, as happened in 20th-century communist nations, the countries were unable to compete against capitalist companies, despite their immense direct and indirect subsidies, government support and the lack of profit requirement. SaskPower



has been neither a very profitable venture nor a good investment for the province or its taxpayers, and it has an erratic and unreliable cash flow performance.

12. Funds tied up in the capital of government-owned or -sponsored enterprises could be used to reduce government debt or lower taxes on individuals or corporations, which they could then spend or invest as they freely choose, and thus they could inject money back into the economy in more-lucrative ways.

While it is possible that the citizens, taxpayers and government of Saskatchewan would be better off and better served if SaskPower were to become part of the private sector marketplace, this study is confined to estimating the value that Saskatchewan could accrue if this were done.

## **Options for divestiture or privatization of SaskPower**

### **SaskPower could be privatized in one of several different ways:**

1. Sold as is, in its entirety, in the public equity market, or stock market, as an initial public offering, or IPO. To do this, it would have to be decided if SaskPower would have any ownership restrictions. Utility rate regulation would remain in place, but deregulation of interprovincial transmission and sale of power could conceivably increase its value. Restrictive regulation could slightly lower its potential value. These restrictions could include limiting foreign ownership.
2. Partial sale, with some government control or influence for a few years or permanently, which would help ensure that the initial sale was not conducted at too low a price. Any follow-on or secondary offerings could then add to the total proceeds garnered and could capture more of the total potential value. However, continued government involvement could lower the potential share price performance, if possible meddling is feared.
3. Sale to a large strategic buyer, such as another utility. This could result in greater total proceeds to the government, as the rationalization and synergies the buyer could realize cannot be done by simply issuing an IPO.
4. Transfer of ownership to the pension and other asset management portfolio of the Saskatchewan government. This would mean that the asset manager would have to decide when and how to do one of the actions listed above.
5. Distribute SaskPower shares to each household, citizen, voter or taxpayer in

Saskatchewan to retain or sell as they wish. This is cumbersome and expensive, but it has been done elsewhere, particularly in the United Kingdom.

6. Optimize the company as a fully commercial, profit-seeking, profitable corporation, and allow it to dispose of underperforming assets and to extinguish liabilities, perhaps with the help of the government, in order to fetch the best possible price for the company in the public marketplace, either from a single strategic buyer or in the stock market, as in the first three points.
7. As part of a more radical reform, the company could be split into several companies, each with generating capacity, and, perhaps, several transmission or distribution companies as well, all to foster more competition, which could bring flexibility, innovation, and lower consumer prices. However, the actual divestment options, as above, would remain, and, perhaps, become more complicated.

These are only suggestions. Proceeds from any SaskPower sale could lower taxes, reduce the government's current or future debt, be used for needed spending priorities, be used to rationalize government and reduce costs or be added to the assets the government entrusts to its pension asset manager.

There could be more ways that others could suggest for removing the Saskatchewan government from SaskPower, thus allowing the former to realize the financial benefits and the latter to realize its own destiny and freedom.

However, the government is not considering SaskPower for imminent or even potential sale, as it is one of the walled-off companies under the mandate of the Crown Investment Corporation (CIC) of the Saskatchewan government. Until the legislation enforcing this mandate is changed, which the current Saskatchewan Party administration said it would not do in the near future, divestiture of SaskPower and a number of other CIC-controlled entities will not occur. It should be noted that delay could be costly: The value of SaskPower could actually fall as capital expenditure requirements may remain high, and competitive forces could continue to constrain its ability to recover costs through pricing of products and services. Another caveat: changes in policy to encourage competition could reduce the total value realized from the sale of SaskPower.

# Summary and Introduction

The financial analysis of a privately controlled entity, whether owned by a government body or agency or controlled by individuals, a family, or other private group, is more challenging than a financial analysis conducted on a publicly traded commercial enterprise.

Metrics used in valuing a publicly traded company may not be applicable, or some data may not be available, making such measures absent in the analysis.

This study makes no effort to assess or adjust the financial data for any public policy or other aspect of the strategy or operation of this entity, as it is difficult to separate the effects of any non-commercial actions from those that a similar commercial entity would do. However, this non-taxable entity had estimates for taxation applied against its results to ensure a proper comparison with its peers and as a fully commercial entity, as it would be if it were divested.

The analysis incorporates certain assumptions and projections. All obvious ones are elucidated, although a few may have been inadvertently omitted. Comments are inserted in the appendix, which show details of the calculations and how and why they were done the way they were. These notes include how and why the adjustments to accounting and other items were made.

The estimates and the final estimated valuation of the enterprise that is the subject of this analysis are just that: estimates only and not to be taken to be definitive, authoritative or unassailable. They are targets of legitimate, alternative valuation by other analysts using other techniques or assumptions or both.

Since the valuation analysis is not definitive, the possible values of the firm, whether using market comparators or intrinsic valuation methods, are also given as ranges and not just as single numbers.

It is useful to remember that the market valuation of a company that is listed on a public stock exchange can vary widely, even wildly, from day to day, week to week, month to month, year to year or even within one trading day. Since a public market-determined share price is not an eternal verity, the possible value of the company in this study while given in a single number, is not set in stone.

**Caution:** This study, in neither of the analyses to follow, makes no attempt to estimate or include any sort of pension, other value impairment, derivative or other liabilities or contingent liabilities that have not already been fully discounted and included in the main income, financial position, cash flow statements or any other estimate of liabilities or assets that could augment or detract from the valuations that were calculated. Where pension or other non-cash losses or other similar impairments were used to lower final net income in the company's financial statements, they were, in some instances in this study's analysis, either ignored or added back, as necessary, and usually noted when this was done.

# Summary

## Market-based Valuation of SaskPower

The best *probable* estimate of the total market capitalization, that is, the total value of the company were it to be traded on a public stock exchange, is **\$1.752-billion to \$2.617-billion, with the average of the three key metrics chosen being \$2.348-billion**. The calculation used to arrive at this range of figures was performed using comparison companies, the closest peers being five Canadian regional power and gas utility companies. However, other independent or renewable energy-oriented Canadian firms and 14 regional (some multi-state) U.S. companies were also used.

## Intrinsic, Discounted Free Cash Flow (DFCF) Valuation of SaskPower

Using several estimates and assumptions, the probable range of value for SaskPower, **fully taxed** (it does not pay provincial or federal income tax at this time), is estimated to be **\$2.492-billion to \$2.718-billion, with a simple average of the six best estimates being calculated as \$2.619-billion. This is a plausible value to potential investors should the company become wholly or partially publicly traded**. The **untaxed** value, i.e., the value to the Crown as is, is estimated to be between \$2.637-billion and \$2.877-billion, for an average of six best estimates of \$2.771-billion. SaskPower, like many of its peers in Canada and the United States, is in a period of highly intensive capital investment, despite slow growth, reducing its effective taxability and its FCF.

**The lower figure** of the range is based on applying a formula to the present value of an FCF in the future (Year 1, or 2014) using a required rate of return of 7 per cent and a growth rate in FCF of -5 per cent (i.e., negative 5 per cent), the latter in keeping with projected trends. This FCF estimate was generated using a complex model that uses statistical regression analysis to determine the best relationship of costs to other operating factors. The model was originally created to estimate the intrinsic or fair market value but could not do so in the case of the subject company, as the trend to return to negative FCF caused by capital expenditure exceeding operating cash flow actually made the total company value negative. **The upper figure** uses the same projected adjusted free cash flow, also projected into the future at a growth rate of -3 per cent (i.e., negative 3 per cent) using a required rate of return of 6 per cent.

**Final Caution:** Neither of the valuation ranges above, neither the market value nor the intrinsic value, constitutes a private market value that a corporate acquirer may pay, such acquirer having the benefit of being able to attempt to optimize the value of the taken-over company, with synergies, cost-cutting, asset disposal, optimization and perhaps the use of previous years' tax-shielding losses.

# Market Valuation Analysis

## Market Valuation Metrics or Parameters, An Introduction or Explanation

When using the market-based approach to valuation, it is not only important to use comparator firms that are truly comparable, but to do so carefully, as some metrics may or may not be appropriate. It should also be noted that the date of assessment is a factor.

Some common or typical metrics are, with the word 'price' meaning share price:

1. The Price-to-Earnings [net income per share], or Price/Earnings ratio, **P/E**;
2. The Price-to-Book Value [Assets – Liabilities], or Price/Book Value, ratio, **P/BV**;
3. The Enterprise Value-to-EBITDA[Earnings Before Interest, Taxes, Depreciation, or Amortization] ratio, or **EV/EBITDA**;
4. The Price-to-Sales, or Price/Sales, ratio, **P/S**;
5. The Price-to-Cash Flow, or Price-to-Operating Cash Flow, or Price/Cash Flow, ratio, **P/CF**;
6. The Price-to-Free-Cash Flow, or Price/Free Cash Flow, ratio, or **P/FCF**;
7. Price-to-Net Asset Value [appraised value], or Price/Net Asset Value, ratio, or **P/NAV**. Mainly used for mining, oil and gas, or real estate firms.

All these ratios relate the value of an enterprise to a financial figure. The **share price** itself is highly variable and volatile, and dependent on the day of valuation and circumstances and investor sentiment in general, and on the companies involved, at that time. **Net income**, or '**earnings**', can be erratic from year to year, includes subjective and non-cash charges, can be manipulated or distorted, and be very sensitive to current circumstances. **Book Value** may bear little relation to what the company may presently be worth either as a going concern or if it were to be liquidated. The **Enterprise Value**, the sum of the market value of all the shares and bonds and other debt of the firm, and **EBITDA**, tend to have less volatility over time, so the **EV/EBITDA** metric is used quite often in corporate valuation for possible takeover or merger value, but is still time-point and accounting dependent. The **Price/Sales** ratio is generally among the most stable and reliable, but makes little sense if profit margins are not, for either the subject company or the comparator ones. **Operating Cash Flow** has little accounting subjectivity, but ignores the necessity of capital investment or expenditure. **Free Cash Flow** (CF - capital expenditure) is conservative, but it can be highly undependable, erratic, and sometimes low or negative, or, on the other hand, unusually high if capex is depressed, or actively suppressed by management attempting to conserve funds or make results look better, while potentially jeopardizing the future of the enterprise.

SaskPower is not a publicly listed company. The market metrics analysis uses standard valuation metrics for public companies in order to establish a probable range for a company's equity, or common shares, were it to be publicly listed, in whole or in part.

For the market valuation, appropriate comparison companies needed to be chosen. As SaskPower is a regional full-service power generation and gas distribution utility, it was compared with regional Canadian companies offering the same services.

However, there are only five other public regional Canadian power utility companies. Therefore, the comparison sample was expanded to include other Canadian merchant or independent power providers and solvent regional firms in the United States.

Since U.S. utilities have different regulations and taxation regimes and sometimes wildly different product and service offerings, some caution needs to be exercised when making direct comparisons with Canadian companies. In addition, the recently ended recession depressed net income for many of the U.S. companies and may have, at least temporarily, distorted some of their financial and valuation metrics.

While superficially SaskPower's net income looks reasonable in relation to revenue and company size, its FCF is usually negative, indicating it chronically requires adding debt to finance its capital expenditures, and it, i.e., the FCF, is highly variable from year to year.

As well, its fixed assets and total assets have been growing rapidly, but its net assets, i.e., book value, have not. Hence, comparing its operational efficiency with that of its peers, whose own operational metrics are erratic, is difficult and is not a part of this study.

Looking at the final financial metrics used for SaskPower, Price to [Forward] Earnings [Net Income], Price to Sales [or Revenue] and Enterprise Value to EBITDA (Earnings Before Interest, Depreciation, and Amortization,), it is evident that there is a wide range of possible values. Some values determined by some metrics were discarded because either the metric proved to give too wide a range of variability, or the final value for the metric was at the high or low end of the final range of values. Please see the following Table 1 for the results.



**TABLE 1**

## Valuation Metrics Applied to SaskPower

Valuation metrics applied to SaskPower	Forward P/E (Market Value to Net Income)	Price to Sales	Price to Book	Enterprise Value/EBITDA	Market Value/ Operating Cash Flow
Average Canadian Power Utilities	\$2,868	\$1,612	\$1,195	\$1,152	\$3,904
Average Canadian Util. w Gas Units	\$8,522	\$2,533	\$1,098	\$5,362	\$7,156
Average ALL Canada	\$5,695	\$1,919	\$1,693	\$3,257	\$5,530
Average United States	\$2,366	\$1,451	\$1,700	\$2,091	\$4,386
Average of All Above	\$3,576	\$1,726	\$1,435	\$2,577	\$4,863
Average Removing Highest & Lowest	\$2,617	\$1,752	\$1,609	\$2,674	\$4,145
Average of Best Metrics Averages, Removing Highs and Lows		\$2,348			
Final Estimated Market Value of Equity, Using Forward P/E, Price to Sales, Enterprise Value/EBITDA		\$2,348			
Book Value, 2012		\$1,350			
Ratio of Estimated Market Value of Equity to Book Value of Equity		1.74			

Note: "MktV" is Market Value and "Price to Book V" is Price to Book Value. The figures are derived from Yahoo! Finance, November 15, 2013, using trailing 12 months results for those companies and 2012 results for SaskPower.

To summarize: This is the best probable estimate of the likely total market capitalization, that is, the total value of the company traded on a public stock exchange: **\$2.348-billion**, in a range of **\$1.752-billion to \$2.674-billion**.

# Intrinsic or Fair Value

## Intrinsic Value and Discounted Free Cash Flow (DCF): An Introduction

An asset, whether a financial one, or a real one, such as an enterprise, only has value if it can generate, eventually, some cash, net of the cash spent initially or during the ownership period of holding the asset from the time of purchase.

As an example, a landlord may own an apartment building worth \$10-million dollars, with cash rents net of cash expenses and cash taxes of, say, \$1-million per year, or a yield of 10 per cent on that asset;  $\$1\text{-million} \div \$10\text{-million}$  equals 10 per cent.

If other investors think that the risks of holding such an asset indicate that they require a higher rate of return than 10 per cent, perhaps 12 per cent, then they may only be willing to purchase that building for the annual income divided by that required rate of return, or  $\$1\text{-million} \div 0.12$ , or, roughly, \$8.33-million.

On the other hand, they may believe that in a low interest rate or low risk environment, a lower rate of return, say 9 per cent, is acceptable, in which case they may be willing to pay  $\$1\text{-million}/0.09$ , or about \$11.11-million for the building.

If this were a small business, rather than real estate, the analysis is similar.

A business generating \$1-million per annum of net free cash flow, if it had a record of stability in those cash flows, might be regarded as worth \$10-million, if a potential buyer (investor) in the business applied a required rate of return of 10 per cent to that \$1-million per year in free cash, again  $\$1\text{-million}/0.10$  equals \$10-million.

However, if the required rate of return is higher, then the purchase price would be lower, and if the required rate of return is lower, than the purchase price would be higher. If there is a good expectation of a substantial growth rate in the annual free cash flow, then the calculations would change.

If the investor or buyer believes that the net free cash flow can grow by, say, 5 per cent per year, indefinitely into the future, then the value to that investor could be as much as  $\$1\text{-million}/(0.10 - 0.05)$ , equaling \$20-million. Alternatively, if the investor believes that the business could begin to actually decline, at, say, 3 per cent per annum, that buyer may still actually be willing to consider investing in it, but only to the extent of  $\$1\text{-million}/(0.10 + 0.03)$ , equaling about \$7.69-million.

So, both growing and declining businesses can still have potential investors. The values calculated above are the intrinsic value of the business, using the present value of discounted free cash flows. [For a finite life ( $n$  years,  $r$  rate of return) firm or project, Net Present Value = Annual Cash Flow  $\times (1 - 1/(1+r)^{\exp n})/r$ .]

Any sort of enterprise, private or publicly listed, commercial or government-owned, can be analyzed in this way, although complications result from uncertainties in assumptions and projections that are made in a DCF model.

Operating cash flow is net income adjusting for changes in working capital and adding back non-cash charges such as depreciation and amortization. Free Cash Flow, FCF, is simply operating cash flow minus capital expenditure, or Capex, which constitutes purchases of fixed assets.

When calculating an intrinsic value for an enterprise, one needs to estimate an appropriate discount rate to apply to the free cash flows that the entity generates as well as a reasonable, sustainable, constant growth rate for those cash flows into the indefinite future.

The discount rate is usually defined as the required rate of return, that is, the rate of return that the investor requires that would make purchasing all or part of the enterprise attractive. This varies from individual to individual, institution to institution, company to company and from time period to time period. For instance, lately, the assumed or probable range of expected stock market returns has fallen to below what the range was in the past. So, a *range* of such discount rates must be employed in the analysis.

Commonly, the future cash flows are estimated by projecting all major cash inflows and outflows for the next several years and discounting them to the present in one aggregate total amount. However, the recent as well as the longer-term trends in those cash inflows and outflows can be variable and inconsistent.

When it comes to growth rates, SaskPower is a difficult case. Various revenue items and cost items are growing at different rates and fluctuate in different directions in different years. As well, net income is growing at a much different rate from FCF. In fact, FCF has been negative and highly variable. *Operating* cash flow is a little more stable.

The elaborate DFCF model used to try to establish plausible and somewhat robust relationships of negative cash flow items to other financial entries using statistical regression analysis generated only *negative*, and growing, free cash flows for Year 3 (2016) and beyond, for a final total intrinsic value that was negative and very large, indicating that SaskPower had a future of value destruction. So, the *positive* FCF from that model in Year 1 (2014) was used, discounted to Year 0, now.

The average very low taxation rate for the company's taxpaying (some are non-taxable due to losses and credits) Canadian peers was used to find the final fully taxed FCF. As the FCF trends were negative, negative growth rates were used in the further analysis, despite apparently growing revenue and even net income.

When it comes to discount rates and required rates of return, with the poor returns in the equity markets over the past decade, it could be argued that a reasonable prediction for long-term nominal (i.e., including inflation) returns, including any dividends, is roughly an average of 7 per cent, or perhaps lower, for a Canadian investor.

However, an investor may *demand or expect* a higher rate, particularly since the utility sector has, excluding the 2008 to 2009 period, performed better than the overall Canadian stock market did. However, it has many more risks in its future

than it did during that period. So, a range of 6 per cent to 9 per cent was used, with a narrower range of 7 per cent to 8 per cent as the more likely true reasonable preference zone.

As risk-free Canada long bonds yield about 3 per cent, the minimum risk premium an investor would likely expect would bring a required rate of return of at least 7 to 8 per cent for a smaller regional utility with somewhat below average financial performance, volatile FCF, and which faces the competitive, demand, environmental, political, regulatory and other risks that SaskPower does.

This FCF estimate was generated using a complex model that utilizes statistical regression analysis to determine the best relationship of costs to other operating factors. The model was originally created to estimate the intrinsic or fair market value, but, as noted earlier, it could not do so in the case of the subject company, as the trend to return to negative FCF caused by capital expenditure exceeding operating cash flow actually made the total company value *negative*.

The average adjusted free cash flow projection estimates and the growth and discount rates discussed above result in the following Table 2, next page, which illustrates the probable DFCF valuations for SaskPower.

**TABLE 2**

## Intrinsic or DFCF Valuation of SaskPower

### Using Estimated Future Free Cash Flow

**Valuation matrix, fully taxed:** All the future intrinsic values below are at the start year of constant growth. The colour zones, lighter to more intense, indicate increasing plausibility. Value is a simple perpetuity:  $FCF/(r-g)$ .

Growth Rate [This is for FCF, NOT Rev, OCF, NI]	Cost of Equity, or Required Rate of Return						
	4%	5%	6%	7%	8%	9%	10%
-8%	\$2,492	\$2,300	\$2,136.00	\$1,994	\$1,869	\$1,759	\$1,661
-7%	\$2,718	\$2,492	\$2,300.00	\$2,136	\$1,994	\$1,869	\$1,759
-6%	\$2,990	\$2,718	\$2,492.00	\$2,300	\$2,136	\$1,994	\$1,869
-5%	\$3,323	\$2,990	\$2,718.00	\$2,492	\$2,300	\$2,136	\$1,994
-4%	\$3,738	\$3,323	\$2,990.00	\$2,718	\$2,492	\$2,300	\$2,136
-3%	\$4,272	\$3,738	\$3,323.00	\$2,990	\$2,718	\$2,492	\$2,300
-2%	\$4,984	\$4,272	\$3,738.00	\$3,323	\$2,990	\$2,718	\$2,492
-1%	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718
0%	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990
1%	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323
2%	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738
3%	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272
4%	•	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984
5% <=Opg CF CAGR	-\$29,903	•	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981
6%	-\$14,951	-\$29,903	•	\$29,903	\$14,951	\$9,968	\$7,476
7%	-\$9,968	-\$14,951	-\$29,903	•	\$29,903	\$14,951	\$9,968
8%	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•	\$29,903	\$14,951
9%	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•	\$29,903
10% <=Recent Tot Asset gr rt	-\$4,984	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•

#### Average of six highlighted best estimates: \$2.619 (\$\$ millions)

- Indicates instances where the discount rate equals the growth rate, making a calculation impossible.

High Risk Premium; High technological, industrial, economic, political, environmental, demand, other risks.

Slightly more optimistic view, with high-ish risk premium, in line with historic returns.

Modest, conservative outlook for future return.

Thus, the probable range of SaskPower's **fully taxed intrinsic value** is **\$2.300-billion to \$2.990-billion**, with the average of the six best estimates being **\$2.619-billion**. As this valuation used a projection of atypically positive FCF in 2014, it may be unrealistically high, but it could be a potential value should a change in strategy, management or ownership bring about some optimization of efficiency, capital expenditures or other major elements of current and future operations. **The untaxed value**, i.e., the value to the Crown, is estimated to be between **\$2.434-billion and \$3.164-billion**, for an average of six best estimates of **\$2.771-billion**. SaskPower, like many of its peers in Canada and the United States, is in a period of highly intensive capital investment, despite slow growth, reducing its effective taxability *and* its FCF.

**The lower figure** is based on the average adjusted free cash flow projected into the future at a growth rate of -5 per cent, discounted to present value at 8 per cent. **The upper figure** uses the same projected adjusted free cash flow that in turn is projected into the future at a growth rate of -3 per cent, discounted to present value at 7 per cent.

### **Observation on the *apparently* close similarity between the estimated market value and the estimated intrinsic value of SaskPower.**

While the average estimated market value of SaskPower is roughly \$2.348-billion and the average estimated intrinsic value derived from projected FCF is \$2.619-billion, the closeness of these average estimates is only accidental and does not necessarily give any greater confidence to those figures than if they were wildly divergent.

**Caution:** The figures above are only estimates, and other analyses and analysts may find or calculate different values using other valid methods.

**Final Caution:** The range above is *not* a private market value that a corporate acquirer may pay and thus have the benefit of synergies, cost-cutting, asset disposal and optimization and perhaps the use of previous years' tax losses.

**Appendices:** Please see the separate spreadsheet (Table A3) for the full intrinsic value discounted free cash flow model and the market value comparisons with all the Canadian and U.S. comparator firms.

[Note: The free cash flow figure projection, in the table on Page 22, of \$340-million for 2014, 'Year 1', is untaxed, and before being discounted to the present by the relevant discount factor, after which it was used to estimate the intrinsic value of the firm.]



Appendix

TABLE A1 Financial Statements MPG and RFRNC Archive [N/A indicates no consensus figure available]

	Year Counter Year	-8 2005	-7 2006	-6 2007	-5 2008	-4 2009	-3 2010	-2 2011	-1 2012	0 2013, Current Year, 'Year 0'
Revenue, Revenues, aka Sales or Sales Revenue		\$1,353	\$1,469	\$1,489	\$1,546	\$1,751	\$1,837	\$1,862	N/A	NO
Cost of Goods Sold, Cost of Sales, Direct Labor & Supplies or Materials, Energy, Rent, Property or Municipal Taxes		\$494	\$463	\$554	\$499	\$511	\$485	\$513	N/A	NO
Gross Income, Gross Margin		\$859	\$1,006	\$935	\$1,047	\$1,240	\$1,352	\$1,349	N/A	NO
SG&A or S&M if broken out separately		\$360	\$434	\$421	\$523	\$641	\$575	\$612	N/A	NO
Other Overhead, Litigation										
R&D										
EBITDA		\$499	\$572	\$514	\$524	\$599	\$777	\$737	N/A	NO
Municipal Taxes, Grants to Municipalities in Lieu of Taxes, Saskatchewan Capital Tax		\$34	\$35	\$35	\$39	\$42	\$43	\$47	N/A	NO
EBITDA, FINAL		\$465	\$537	\$479	\$485	\$557	\$734	\$690	N/A	NO
Depreciation, DD&A (where amortization and depletion are not given separately)		\$207	\$219	\$234	\$233	\$258	\$290	\$316	N/A	NO
Depletion										
Amortization										
EBIT, Operating Income		\$258	\$318	\$245	\$252	\$299	\$444	\$374	N/A	NO
Interest Expense, Net Interest or Investment Income		\$161	\$167	\$153	\$139	\$139	\$197	\$200	N/A	NO
Operating EBT, Operating Earnings Before Tax, Pretax Income		\$97	\$151	\$92	\$113	\$160	\$247	\$174	N/A	NO
Employee Stock Option Expense, Pension or Health Care LiabilityNegative Adjustment, Loss or Gain on Sale or Disposal, Restructuring Costs, Remediation or Decommissioning Estimate, Foreign Exchange Loss or Gain, Write-down(s), Reversals of Earlier Charges, other non-Cash Charges			\$13	\$28			\$8	\$27	N/A	NO
EBT, Earnings Before Tax, Pretax Income		\$97	\$138	\$64	\$113	\$160	\$239	\$147	N/A	NO
Other Loss(es), or (Gain(s))							-\$9	-\$6	N/A	NO
EBT, FINAL		\$97	\$138	\$64	\$113	\$160	\$248	\$153	N/A	NO
Income Tax Expense Provision, Current Portion										
Income Tax Expense Provision, Deferred Portion										
Income Tax, (Recovery of Income Tax), TOTAL										
Operating Net Income, Income from Continuing Operations		\$97	\$138	\$64	\$113	\$160	\$248	\$153	N/A	NO
Loss from Discontinued Operations, Net of Tax, OR, Other Losses or (Gain(s))							\$142	\$39	N/A	NO
Net Income		\$93	\$138	\$64	\$103	\$160	\$106	\$114	N/A	NO
Earnings Per Share, Operating										
Earnings Per Share, GAAP										
Weighted Average Number of Shares Outstanding, Diluted										
Net Income, After Imputed Tax										
Balance Sheet										
Assets										
Cash and cash equivalents		-\$8	-\$5	\$6	-\$2	-\$5	\$0	\$0	N/A	NO
Marketable Securities, Short-term Investments										NO
Accounts Receivable, Trade Receivables										
Other Receivables										
Inventory, Inventories										
Income Taxes Receivable										
Other current assets										
Deferred income tax asset										
Assets Held for Sale										
Current Assets		\$354	\$421	\$335	\$365	\$372	\$236	\$264	N/A	NO
Investments										
Leasehold Improvements										
Capital Assets, Property, Plant, and Equipment		\$3,695	\$3,734	\$3,890	\$4,258	\$4,535	\$5,387	\$6,030	N/A	NO
Fixed Assets										NO
Intangible Assets										
Goodwill										
Deferred Income Tax Asset										
Non-current Assets, Total										
Total Assets		\$4,364	\$4,478	\$4,520	\$4,948	\$5,268	\$6,282	\$7,011	N/A	NO
Liabilities										
Accounts Payable										NO
Accrued liabilities										
Accrued Litigation and related expenses										
Income taxes payable										
Deferred revenue										
Deferred Income Tax Liability										
Current Portion of Long-term Debt										
Leases										
Current Liabilities		\$312	\$608	\$270	\$574	\$495	\$699	\$1,293	N/A	NO
Long-term Debt		\$2,449	\$2,225	\$2,571	\$2,567	\$2,778	\$2,707	\$2,816	N/A	NO
Environmental, Litigation, Pension, other Liabilities										
Deferred Taxes										NO
Income Taxes Payable										
Total Long-term Liabilities										
Total Liabilities		\$2,896	\$2,963	\$2,991	\$3,316	\$3,476	\$4,418	\$5,153	N/A	NO
Shareholders Equity										
Preferred Shares										
Common Shareholders Equity										
Capital Stock										
Retained Earnings										
Treasury Stock										
Paid-in Capital										
Accumulated other comprehensive income (loss)										
Total Shareholders Equity		\$1,468	\$1,515	\$1,529	\$1,632	\$1,792	\$1,864	\$1,858	N/A	NO
Total Liabilities & Shareholders Equity		\$4,364	\$4,478	\$4,520	\$4,948	\$5,268	\$6,282	\$7,011	N/A	NO
Cash Flow Statement										
Net Income		\$93	\$138	\$64	\$103	\$160	\$248	\$153	N/A	NO
Loss from Discontinued Operations										
Amortization		\$207	\$219	\$234	\$233	\$258	\$290	\$316	N/A	NO
Deferred Taxes (Increase in)										
Income Taxes Payable										
Share-based payment										
Other, INTEREST PAID							\$230	\$245	N/A	NO
Net Changes in non-Cash Working Capital		-\$23	\$0	-\$4	\$24	\$8	\$81	-\$36	N/A	NO
Issuance of restricted share units										
Loss (gain) on disposal of capital assets										
Loss on foreign currency translation of long-term debt										
Unrealized foreign exchange loss (gain)										
Other Non-Cash Charges, write-downs		-\$22	\$16	\$26	-\$18	\$21	\$154	\$201	N/A	NO
Depreciation										
Depletion										
Litigation Provision										
Restricted cash										
Operating Cash Flow		\$255	\$373	\$320	\$342	\$447	\$543	\$389	N/A	NO
Capital Expenditure		\$285	\$280	\$422	\$605	\$543	\$575	\$922	N/A	NO
Free Cash Flow		-\$30	\$93	-\$102	-\$263	-\$96	-\$32	-\$533	N/A	NO



TABLE A2		Final Net Income, EPS, Cash Flow, Free Cash Flow Projections	* Indicates instances where the discount rate equals the growth rate, making a calculation impossible.
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	Current Year - 8	Current Year - 7	Current Year - 6	Current Year - 5	Current Year - 4	Current Year - 3	Current Year - 2	Current Year - 1	Current Year 0	Proximate Year Weighted Average Annual Change (PYWAAC), from Financial Data Primary Analysis tab	Estimate of Value in Current Year Using PYWAAC		Current Year + 1	Current Year + 2	Current Year + 3	Current Year + 4	Current Year + 5	Current Year + 6	Current Year + 7	Current Year + 8	Current Year + 9
Revenue, aka Sales or Sales Revenue Y oY Chg., %age	\$0 *	\$1,353 8.57%	\$1,469 1.36%	\$1,489 1.36%	\$1,546 3.83%	\$1,751 13.26%	\$1,837 4.91%	\$1,862 1.36%	\$1,958 5.17%		1958.2420670	Revenue	\$2,058 *	\$2,156 *	\$2,251 *	\$2,344 *	\$2,433 *	\$2,517 *	\$2,596 *	\$2,669 *	\$2,736 *
Cost of Goods Sold, Cost of Sales Y oY Chg., %age	\$0 *	\$494 *	\$463 19.65%	\$554 -9.93%	\$499 2.40%	\$511 -5.09%	\$485 5.77%	\$513 *	\$518 *		518.3909604	COGS	\$307 *	\$162 *	\$645 *	\$671 *	\$697 *	\$721 *	\$744 *	\$765 *	\$784 *
Gross Income Y oY Chg., %age	\$0 *	\$859 17.11%	\$1,006 -7.06%	\$935 11.98%	\$1,047 18.43%	\$1,240 9.03%	\$1,352 -0.22%	\$1,349 *	\$1,440 *		1449.5312390	Gross Income	\$1,751 *	\$1,994 *	\$1,607 *	\$1,673 *	\$1,736 *	\$1,796 *	\$1,852 *	\$1,905 *	\$1,952 *
SG&A Y oY Chg., %age	\$0 *	\$360 20.56%	\$434 -3.00%	\$421 24.23%	\$523 22.56%	\$641 -10.30%	\$575 6.43%	\$612 *	\$660 *		659.9761546	SG&A	\$713 *	\$770 *	\$831 *	\$898 *	\$970 *	\$1,047 *	\$1,131 *	\$1,221 *	\$1,319 *
R&D Y oY Chg., %age	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *		*	R&D	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *
EBITDA Y oY Chg., %age	\$0 *	\$499 14.63%	\$572 -10.14%	\$514 1.95%	\$524 14.31%	\$599 29.72%	\$777 -5.15%	\$737 *	\$780 *		798.4626274	EBITDA	\$1,038 *	\$1,224 *	\$775 *	\$775 *	\$766 *	\$749 *	\$722 *	\$684 *	\$633 *
Depreciation, or Depreciation & Amortization Y oY Chg., %age	\$0 *	\$207 5.80%	\$219 6.85%	\$234 -0.43%	\$233 10.73%	\$290 12.40%	\$258 8.97%	\$316 *	\$343 *		342.6253689										
Depletion Y oY Chg., %age	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *		*										
Amortization Y oY Chg., %age	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *		*										
Total D&A, Above Y oY Chg., %age	\$0 *	\$207 5.80%	\$219 6.85%	\$234 -0.43%	\$233 10.73%	\$290 12.40%	\$258 8.97%	\$316 *	\$343 *		342.6253689	Total DD&A	\$403 *	\$447 *	\$496 *	\$550 *	\$610 *	\$677 *	\$751 *	\$833 *	\$924 *
Total DD&A Y oY Chg., %age	\$0 *	\$207 5.80%	\$219 6.85%	\$234 -0.43%	\$233 10.73%	\$290 12.40%	\$258 8.97%	\$316 *	\$343 *		342.6253689										
EBIT Y oY Chg., %age	\$0 *	\$292 20.89%	\$353 -20.68%	\$280 3.93%	\$291 17.18%	\$341 42.82%	\$487 -13.55%	\$421 *	\$437 *		459.6932033	EBIT	\$635 *	\$777 *	\$279 *	\$224 *	\$156 *	\$72 *	\$-29 *	\$-150 *	\$-291 *
Interest Expense Y oY Chg., %age	0 *	\$161 3.73%	\$167 -9.15%	\$153 -9.15%	\$139 5.26%	\$139 1.52%	\$197 41.73%	\$200 -21.50%	\$157 *		201.7939810	Interest Expense	\$159 *	\$160 *	\$162 *	\$163 *	\$165 *	\$166 *	\$168 *	\$170 *	\$171 *
EBT Y oY Chg., %age	\$0 *	\$125 60.00%	\$200 -29.50%	\$141 7.80%	\$152 -5.26%	\$144 99.31%	\$287 -8.01%	\$264 *	\$280 *		320.7971835	EBT	\$476 *	\$616 *	\$117 *	\$61 *	\$-9 *	\$-94 *	\$-197 *	\$-319 *	\$-462 *
Income Tax Y oY Chg., %age	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *		*	Income Tax	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *	\$0 *
Operating Net Income Y oY Chg., %age	\$0 *	\$97 42.27%	\$138 -53.62%	\$64 76.56%	\$113 41.59%	\$160 55.00%	\$248 -38.31%	\$153 *	\$180 *		180.4119271	Operating Net Income	*	*	*	*	*	*	*	*	*
Net Income Y oY Chg., %age	\$93 *	\$138 48.39%	\$64 -53.62%	\$103 60.94%	\$160 55.34%	\$106 -33.75%	\$114 7.55%	\$126 *	\$126 *		126.0430394	Net Income	\$476 *	\$616 *	\$117 *	\$61 *	\$-9 *	\$-94 *	\$-197 *	\$-319 *	\$-462 *
												Earnings Per Share, GAAP	*	*	*	*	*	*	*	*	*
												Tax Losses, if any	0 *	0 *	0 *	0 *	-8.821684722 *	-94.48455906 *	-197.3448079 *	-319.1664915 *	-461.8146934 *
												PV Discount Factors	0.946073794 *	0.895055623 *	0.846788669 *	0.801124569 *	0.75792296 *	0.71705105 *	0.678383207 *	0.641800575 *	0.607190704 *
												PV of Each Future Year's Tax Losses	\$0 *	\$0 *	\$0 *	\$0 *	\$-7 *	\$-68 *	\$-134 *	\$-205 *	\$-280 *

### Balance Sheet

## Assets

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## Liabilities

### Accounts Payable

[illegible]

## Cash Flow Statement

[illegible]



TABLE A3		Market Value Comparison [2012]	[N/A indicates no consensus figure available]
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Type of Institution	Ticker Symbol	Company Name	Share Price (8 Nov. 2013)	# Shares O/S (M)	Market Value (\$\$ B)	Enterprise Value (\$\$ B)	Trailing P/E	Forward P/E	Price/Sales	Price/Book	Total Common Equity (Total Book Value) (\$\$ B)	Enterprise Value/Rev	EBITDA	Enterprise Value/ EBITDA	Operating Cash Flow (\$\$ MM)	Market Value/ Operating Cash Flow	Return on Assets, TTM	Return on Equity, TTM	Revenue (\$\$ M), TTM	Rev/Sh, TTM	Market Value/ Revenue	Net Income (\$\$ M), TTM	Effective Tax Rate	Market Value/ Book Value	Rev/BV	# Empl	Rev/# empl (\$\$ K)	Net Income/ # empl (\$K)	Rev/# cstmr/ acct (\$M)	# cstmr/ accts	Market Value/ cstmr/acct (\$\$ M)	EBITDA Margin	Net Margin	Dvd/sh	5 Yr Avg Dividend Yield	Dividend Yield	Payout rto (Div/NI)	Est CF, TTM	Est CF/Sh	Est FCF	Est FCF/Sh		EBITDA	Tit. Debt	Total Assets 2011	Total Assets 2012	Total Liabilities 2011	Total Liabilities 2012	Book Value 2011	Book Value 2012																																																																																																																																																																																																																																																																																																																																																																																																										
🇨🇦 Cdn Power Util. (no/low hydro)	ATP	Atlantic Power	4.0500	119.9500	0.4898	2.3100	N/A	N/A	1.1400	0.8100		4.86	194.28	11.89	\$174.68	2.803927181	1.67%	-4.48%	\$476	\$3.99		(\$48)	19.38%			310	\$1,537.03	(\$153.65)					40.77%	-10.00%	\$0.65	N/A	16.05%	-163.69%	\$175	\$1.46	-41.38		no additional information other than what is provided	194.28																																																																																																																																																																																																																																																																																																																																																																																																																
	CPX	Capital Power	21.2000	80.5500	1.7100	3.1500	15.3600	17.6700	1.2700	0.8000		2.29	458.00	6.88	\$361.00	4.736842105	2.85%	5.54%	\$1,380	\$19.63		\$96	-4.65%			939	\$1,469.65	\$102.24					33.19%	6.96%	\$0.95	N/A	4.48%	79.71%	\$361	\$4.48	-1180.00			458																																																																																																																																																																																																																																																																																																																																																																																																																
	EMA	Emera	29.7100	132.4300	3.9400	3.5100	16.2300	16.0800	1.8300	2.1400		3.51	710.40	4.94	\$408.60	9.64268233	3.09%	11.40%	\$2,150	\$16.42		\$239	-5.31%			2,960	\$726.35	\$80.81					33.04%	11.13%	\$1.45	N/A	4.88%		\$409	\$3.09	3.83	0.028920939			710.4	3.81																																																																																																																																																																																																																																																																																																																																																																																																														
	FTS	Fortis	31.8800	208.7000	6.6500	14.2800	18.4300	17.8100	1.7200	1.4300		3.69	1,330.00	10.74	\$852.00	7.805164319	3.17%	6.73%	\$3,870	\$19.67		\$318	-13.39%			7,098	\$545.22	\$44.80					34.37%	8.22%	\$1.23	N/A	3.86%	80.72%	\$852	\$4.08	-533.62	-2.556875898			1330																																																																																																																																																																																																																																																																																																																																																																																																															
	TA	TransAlta	14.0300	266.0000	3.7300	7.8400	61.0000	20.3300	1.5700	1.7400		4.86	941.00	8.33	\$846.00	4.408983452	1.67%	-4.48%	\$476	\$3.99		(\$48)	23.61%			2,084	\$228.64	(\$22.86)					197.49%	-10.00%	\$0.65	N/A	4.63%	-363.01%	\$846	\$3.18	63.88	0.240150376			941																																																																																																																																																																																																																																																																																																																																																																																																															
	(hydro, plus)	AQN	Algonquin	6.6500	205.0000	1.3600	2.4500	166.2500	19.5600	2.3500	1.6900		4.12	180.47	13.58	\$84.75	16.04719764	2.19%	4.28%	\$595.10	\$3.20		\$376.00	-42.72%			830	\$716.99	\$453.01					30.33%	63.18%	\$0.32	N/A	4.81%	17.45%	\$84.75	\$0.41	-19.29		-0.094097561		180.47																																																																																																																																																																																																																																																																																																																																																																																																														
		BLX	Boralex Brookfield Renewal	10.2200	37.7500	0.3858	1.0800	N/A	N/A	2.1300	1.0800		6.12	100.18	10.78	\$57.85	6.668452895	2.23%	-1.34%	\$177	\$4.70		(\$5)	32.50%			200	\$886.20	(\$26.50)					56.52%	-2.99%	N/A		\$58	\$1.53	-32.04	-0.848741722			100.18																																																																																																																																																																																																																																																																																																																																																																																																																
		BEP.un	Energy	28.6500	132.9400	3.8100	13.7100	N/A	79.5830	2.5198	0.4907	\$7,764.00	9.07	939	14.60	\$534.00	7.134831461	N/A	N/A	\$1,512	\$11.37		(\$35)	20.70%			1,208	\$1,251.66	\$28.97					62.10%	-2.31%	\$1.51		\$534	\$4.02	-558.00	-4.197382278			939	9900																																																																																																																																																																																																																																																																																																																																																																																																															
		INE	Innergex	9.2600	95.0100	0.8798	2.2905	33.0000	50.3700	4.1994	1.9159		11.17	161.81	14.16	\$100.16	8.784145367	2.43%	6.26%	\$208	\$2.19		\$37	15.00%			120	\$1,735.17	\$308.25					77.71%	17.76%	\$0.58		\$100.16	\$1.05	-180.12	-1.895800442																																																																																																																																																																																																																																																																																																																																																																																																																			
	NPI	Northland Power	16.0300	125.2100	2.0071	3.9660	16.5300	64.0750	4.2160	2.1370	\$939.30	8.33	217.59	18.23	\$131.62	15.24967367			\$476.10	\$3.80		(\$9.91)	46.79%			230	\$2,070.00	(\$43.10)					45.70%	-2.08%	\$1.08	0.00%		\$131.62	\$1.05	57.35	0.458030509																																																																																																																																																																																																																																																																																																																																																																																																																			
🇺🇸 U.S. Power Util. (no/low gas units)	AEP	American Electric Power	46.2500	487.2900	22.5400	41.5200	19.4700	13.9300	1.4800	1.4300		2.73	4,920.00	8.44	\$3,610.00	6.243767313	3.50%	7.45%	\$15,200.00	\$31.26		\$1,160.00				18,513	\$821.04	\$62.66					32.37%	7.63%	\$1.95	4.7	4.22%	81.92%	\$3,610.00	\$7.41	-626.86	-1.286420817	Same as above																																																																																																																																																																																																																																																																																																																																																																																																																	
	AES	AES Corp.	14.2100	741.5800	10.5400	28.9200	21.4600	10.3700	0.5700	2.1500		1.63	4,770.00	6.06	\$2,820.00	3.737588652	5.17%	-5.27%	\$17,800.00	\$23.88		(\$1,060.00)				25,000	\$712.00	(\$42.40)					26.80%	-5.96%	\$0.16	N/A	1.13%	-11.19%	2,820.00	\$3.80	1580.00	2.130586046																																																																																																																																																																																																																																																																																																																																																																																																																		
	EDE	Empire District Electric	22.6200	42.8600	0.9694	0.9626	16.6600	15.9300	1.6800	1.3300		1.68	201.41	4.78	\$140.68	6.891029286	3.88%	7.93%	\$574.41	\$13.47		\$57.91				756	\$759.80	\$76.60					35.06%	10.08%	\$1.00	6.20%	4.42%	74.01%	140.68	\$3.28	-11.72	-0.273448437																																																																																																																																																																																																																																																																																																																																																																																																																		
	EE	El Paso Electric	34.5400	40.2500	1.3900	2.4200	14.8500	14.1000	1.6100	1.6600		2.77	304.14	7.96	\$256.22	5.425025369	4.16%	11.46%	\$873.46	\$21.81		\$93.18				1,000	\$873.46	\$93.18					34.82%	10.67%	\$1.03	N/A	2.98%	44.49%	256.22	\$6.37	-38.72	-0.961987578																																																																																																																																																																																																																																																																																																																																																																																																																		
	EIX	Edison International	49.0500	325.8100	15.9800	27.5800	213.2600	13.6600	1.2700	1.6600		2.17	4,330.00	6.37	\$3,430.00	4.658892128	3.48%	11.94%	\$12,700.00	\$38.95		\$1,400.00				16,593	\$765.38	\$84.37					34.09%	11.02%	\$1.35	3.40%	2.75%	31.42%	3,430.00	\$10.53	-244.00	-0.748902735																																																																																																																																																																																																																																																																																																																																																																																																																		
	FE	FirstEnergy Corp.	38.8400	418.2200	16.2400	36.5300	52.5600	13.1200	1.1200	1.2500		2.55	2,710.00	13.48	\$2,720.00	5.970588235	2.13%	2.35%	\$14,350.00	\$34.33		\$309.00				16,495	\$869.96	\$18.73					18.89%	2.15%	\$2.20	5.10%	5.66%	297.76%	2,720.00	\$6.50	-914.10	-2.185691741																																																																																																																																																																																																																																																																																																																																																																																																																		

**TABLE A4**

## SaskPower Market Value Estimate [2012]

Valuation metrics applied to SaskPower	Forward PE (Market Value to Net Income)	Price to Sales	Price to Book	Enterprise Value/REV	Enterprise Value/EBITDA	Market Value Operating Cash Flow
Average Canadian Power Utilities w no/low Gas	\$2,967.18	\$2,804.17	\$1,868.40	\$2,001	\$1,152	\$3,904
Average Canadian Utilities w Gas Units	\$8,815.62	\$5,740.64	\$1,974.67	\$9,299	\$5,362	\$7,156
Average ALL Canada	\$5,891.40	\$4,272.41	\$1,921.53	\$5,650	\$3,257	\$5,530
Average USA	\$2,447.31	\$2,742.46	\$1,955.57	-\$124	\$2,091	\$4,386
<b>Average of All Above</b>	<b>\$3,699.71</b>	<b>\$3,379.94</b>	<b>\$1,941.39</b>	<b>\$2,282</b>	<b>\$2,577</b>	<b>\$4,863</b>

  

Valuation metrics applied to SaskPower	Forward PE (Market Value to Net Income)	Price to Sales	Price to Book	Enterprise Value/REV	Market Value Operating Cash Flow
Average Canadian Power Utilities	\$2,868.30	\$1,611.68	\$1,195.00	\$1,152	\$3,904
Average Canadian Utilities w Gas Units	\$8,521.82	\$2,533.44	\$1,098	\$5,362	\$7,156
Average ALL Canada	\$5,695.06	\$1,918.93	\$1,693	\$3,257	\$5,530
Average USA	\$2,365.75	\$1,450.51	\$1,700	\$2,091	\$4,386
Average of All Above	\$3,576.41	\$1,726.32	\$1,435	\$2,577	\$4,863
<b>Average removing highest &amp; lowest</b>	<b>\$2,617.02</b>	<b>\$1,752.31</b>	<b>\$1,609</b>	<b>\$2,674</b>	<b>\$4,145</b>
Average of best metrics averages, removing highs and lows		\$2,347.77			
<b>Final Estimated Market Value of Equity, using Price to Sales, Enterprise Value/EBITDA</b>		<b>\$2,347.77</b>			
Book Value, yr end 2012		\$1,350.00			
Ratio of Estimated Market Value of Equity to Book Value of Equity		1.74			

TABLE A5

## SaskPower Valuation Matrix Untaxed

**Free Cash Flow Estimate for Year 1 (2014), brought to 'now': \$316.43 (\$\$ millions)**

**Fully Taxed (at average of currently taxable peers): \$299.03 (\$\$ millions)**

**Valuation Matrix, Untaxed:** All the Future Intrinsic Values below are at the start year of constant growth.

The colour zones, lighter to more intense, indicate increasing plausibility. Value is simple perpetuity:  $FCF/(r-g)$ .

Growth Rate [This is for FCF, NOT Rev, OCF, NI]	Cost of Equity, or Required Rate of Return							
	4%	5%	6%	7%	8%	9%	10%	11%
-8%	\$2,637	\$2,434	\$2,260	\$2,110	\$1,978	\$1,861	\$1,758	\$1,665
-7%	\$2,877	\$2,637	\$2,434	\$2,260	\$2,110	\$1,978	\$1,861	\$1,758
-6%	\$3,164	\$2,877	\$2,637	\$2,434	\$2,260	\$2,110	\$1,978	\$1,861
-5%	\$3,516	\$3,164	\$2,877	\$2,637	\$2,434	\$2,260	\$2,110	\$1,978
-4%	\$3,955	\$3,516	\$3,164	\$2,877	\$2,637	\$2,434	\$2,260	\$2,110
-3%	\$4,520	\$3,955	\$3,516	\$3,164	\$2,877	\$2,637	\$2,434	\$2,260
-2%	\$5,274	\$4,520	\$3,955	\$3,516	\$3,164	\$2,877	\$2,637	\$2,434
-1%	\$6,329	\$5,274	\$4,520	\$3,955	\$3,516	\$3,164	\$2,877	\$2,637
0%	\$7,911	\$6,329	\$5,274	\$4,520	\$3,955	\$3,516	\$3,164	\$2,877
1%	\$10,548	\$7,911	\$6,329	\$5,274	\$4,520	\$3,955	\$3,516	\$3,164
2%	\$15,822	\$10,548	\$7,911	\$6,329	\$5,274	\$4,520	\$3,955	\$3,516
3%	\$31,643	\$15,822	\$10,548	\$7,911	\$6,329	\$5,274	\$4,520	\$3,955
4%	•	\$31,643	\$15,822	\$10,548	\$7,911	\$6,329	\$5,274	\$4,520
5% Opg CF CAGR	-\$31,643	•	\$31,643	\$15,822	\$10,548	\$7,911	\$6,329	\$5,274
6%	-\$15,822	-\$31,643	•	\$31,643	\$15,822	\$10,548	\$7,911	\$6,329
7%	-\$10,548	-\$15,822	-\$31,643	•	\$31,643	\$15,822	\$10,548	\$7,911
8%	-\$7,911	-\$10,548	-\$15,822	-\$31,643	•	\$31,643	\$15,822	\$10,548
9%	-\$6,329	-\$7,911	-\$10,548	-\$15,822	-\$31,643	•	\$31,643	\$15,822
10% Recent Tot Asset gr rt	-\$5,274	-\$6,329	-\$7,911	-\$10,548	-\$15,822	-\$31,643	•	\$31,643
11%	-\$4,520	-\$5,274	-\$6,329	-\$7,911	-\$10,548	-\$15,822	-\$31,643	•
12%	-\$3,955	\$0	-\$5,274	-\$6,329	-\$7,911	-\$10,548	-\$15,822	-\$31,643

**Average of six highlighted best estimates: \$2,771 (\$\$ millions)**

- Indicates instances where the discount rate equals the growth rate, making a calculation impossible.

	High Risk Premium; High technological, industrial, economic, political, environmental, demand, other risks.
	Slightly more optimistic view, with high-ish risk premium, in line with historic returns.
	Modest, conservative outlook for future return.

TABLE A5b

## SaskPower Valuation Matrix Taxed

**Free Cash Flow Estimate for Year 1 (2014), brought to 'now': \$316.43 (\$\$ millions)**

**Fully Taxed (at average of currently taxable peers): \$299.03 (\$\$ millions)**

**Valuation Matrix, Fully Taxed:** All the Future Intrinsic Values below are at the start year of constant growth.

The colour zones, lighter to more intense, indicate increasing plausibility. Value is simple perpetuity:  $FCF/(r-g)$ .

Growth Rate [This is for FCF, NOT Rev, OCF, NI]	Cost of Equity, or Required Rate of Return							
	4%	5%	6%	7%	8%	9%	10%	11%
-8%	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718
-7%	\$2,718	\$2,492	\$2,300	\$2,136	\$1,994	\$1,869	\$1,759	\$1,661
-6%	\$2,990	\$2,718	\$2,492	\$2,300	\$2,136	\$1,994	\$1,869	\$1,759
-5%	\$3,323	\$2,990	\$2,718	\$2,492	\$2,300	\$2,136	\$1,994	\$1,869
-4%	\$3,738	\$3,323	\$2,990	\$2,718	\$2,492	\$2,300	\$2,136	\$1,994
-3%	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718	\$2,492	\$2,300	\$2,136
-2%	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718	\$2,492	\$2,300
-1%	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718	\$2,492
0%	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990	\$2,718
1%	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323	\$2,990
2%	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738	\$3,323
3%	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272	\$3,738
4%	•	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984	\$4,272
5% ≤Opg CF CAGR	-\$29,903	•	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981	\$4,984
6%	-\$14,951	-\$29,903	•	\$29,903	\$14,951	\$9,968	\$7,476	\$5,981
7%	-\$9,968	-\$14,951	-\$29,903	•	\$29,903	\$14,951	\$9,968	\$7,476
8%	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•	\$29,903	\$14,951	\$9,968
9%	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•	\$29,903	\$14,951
10% ≤Recent Tot Asset gr rt	-\$4,984	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•	\$29,903
11%	-\$4,272	-\$4,984	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903	•
12%	-\$3,738	-\$4,272	-\$4,984	-\$5,981	-\$7,476	-\$9,968	-\$14,951	-\$29,903

**Average of six highlighted best estimates: \$2,619 (\$\$ millions)**

• Indicates instances where the discount rate equals the growth rate, making a calculation impossible.

- High Risk Premium; High technological, industrial, economic, political, environmental, demand, other risks.
- Slightly more optimistic view, with high-ish risk premium, in line with historic returns.
- Modest, conservative outlook for future return.



## **Further Reading**

March 2013

### **Seeking a Pragmatic Review of Saskatchewan's Crown Corporations: An Idea Whose Time Has Come**

By Sheldon Schwartz

<http://www.fcpp.org/posts/media-release-seeking-a-pragmatic-review-of-saskatchewans-crown-corporations-an-idea-whose-time-has-come>

June 2010

### **Saskatchewan's Commercial Crown Corporation Dividend Policy: Change isn't always Progress**

By Sheldon Schwartz

<http://www.fcpp.org/posts/media-release-saskatchewans-commercial-crown-corporation-dividend-policy-change-isnt-always-progress>

For more see  
**[www.fcpp.org](http://www.fcpp.org)**

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