



By Robert Mullin
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Endeavour Financial (EDV-TSX) is a Canadian merchant bank that has always traded at a discount to its Net Asset Value (NAV) but now the company trades at a discount to the value of just one of its investments – Crew Gold (CRU-TSX: \$0.265).

The Crew Gold position alone is worth 10% more than the current share price - \$214.67 million, while EDV's market capitalization of \$196 million, based on a \$2.01 share price.

This market anomaly recently happened as Endeavour's US\$92 million investment in Crew Gold – which was completed only one month ago, in January 2010 – quickly more than doubling from 12 cents to its current 26 cents.

As a merchant bank, Endeavour Financial is a hybrid company. The majority of the value lies in what is effectively a closed-end fund of natural resource equity holdings, virtually all publicly traded. The rest of the value lies in Endeavour's merchant bank, which provides advisory services to many of these same natural resource focused companies and generates fees from arranging equity and debt financings as well as merger & acquisition advice.

Valuation:

The equity holdings have recently become considerably easier to track, as the company's "gold-focused" investment strategy to make large investments in gold producers has focused much of its capital in easily identifiable and quantifiable positions.

- Etruscan Resources (EET-TSX, C\$0.375): EDV holds 186,294,549 shares currently worth C\$69.86 million.
- Crew Gold (CRU-TSX, C\$0.265): EDV holds 810,083,211 shares currently worth \$C214.67 million.
- "Other Investments": At December 31 2009 EDV held positions in "other merchant banking clients" of US\$110.3 million, or C\$116 million using the current 1.06 exchange rate. Assume that these investments are flat, year to date

- Cash: EDV held US\$84.6M in cash and equivalents at year end 2009, which was subsequently used to make the original Crew Gold investment in mid-January. The total Crew investment was \$91.8 million leaving the company with an approximate cash deficit of \$7.2M which likely was funded by selling some “other investments.” Therefore for NAV modeling purposes, subtract C\$7.6M for cash.

Total Investment NAV:

	<u>C\$ Value</u>	<u>C\$/per share</u>
EET-TSX	\$69.86	\$0.715
CRU-TSX	\$214.67	\$2.196
Other Inv.	\$116.0	\$1.187
Net Cash	-\$7.6	-\$0.077
Total	\$392.93	\$4.02

*note: The company does charge a performance fee on the appreciation of assets over a hurdle rate of 8%, some of which is rebated back to the company. For purposes here, reduce by 20% the appreciation of Crew year to date to factor in that performance fee, which would adjust the NAV down by roughly \$0.25. Assume other positions in the year are flat (EET-TSX is actually down year to date.)

The company’s merchant banking advisory business is more difficult to value, as the business is both highly cyclical and irregular. In recent quarters the revenues have been running from \$4-\$6M, so on an annualized basis \$20M would seem fair. Using either a 2.5x revenues (conservative for niche merchant bank) or 8x EPS – earnings per share - (assuming 35% net margins, which is in line with company guidance), a value of US\$40-\$50M or C\$0.41- \$0.51 a share is reasonable.

That makes for a total NAV of roughly \$4.40 - \$4.50 per share.

Summary

EDV is trading at a significant discount to the sum of its identifiable assets. The Crew Gold position alone is worth 10% more than the current share price. The sum of the investment portfolio, taking a discount for EDV’s fees, is worth \$3.80, a 90% premium to the current share price. Including a fair value for the advisory business would increase that to over 120%.

At the current EDV price the market seems to be putting a value on that business of negative C\$200M. Not only does the current valuation discount seem excessive, but the opportunity for the NAV to expand both through the appreciation of the existing underlying assets and through additional deals/investments seems likely.

Finally, the unique investment model that EDV provides equity investors, along with their solid long-term record of value creation (NAV compounded a net 50% p.a. from 2002-2007 before being admittedly pummeled in 2008) would leads this analyst to believe that a premium to NAV should at some point be warranted.

Company: Endeavour Financial Corp.
Ticker: EDV.cn, EDV-wa.cn (wrnts)
Exchange: TSX
Shares Out: 97.7M primary, +64M wrnts
\$2.50 strike exp 2/14
Current Price: C\$2.01
Mkt Cap: C\$196M
Debt: None



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Disclosure- Mr. Mullin owns shares and warrants of Endeavour Financial in his investment partnership as well as for the benefit of his 2 children.