FEBRUARY 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA

FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion Chief Economist and Strategist	514-879-3781
Matthieu Arseneau Deputy Chief Economist	514-879-2252
Kyle Dahms Economist	514-879-3195
Alexandra Ducharme Economist	514-412-1865
Angelo Katsoras Geopolitical Analyst	514-879-6458
Daren King Economist	514-412-2967
Jocelyn Paquet Economist	514-412-3693

Toronto Office

Warren Lovely Chief Rates and Public Sector Strategist	416-869-8598
Taylor Schleich Rates Strategist	416-869-6480
Alpa Atha Fixed Income Economist	416-542-3936

Banking & Insurance

Gabriel Dechaine	416-869-7442
Associate: Will Flanigan	416-507-8006
Associate: Pranoy Kurian	416-507-9568

Diversified Financials

Jaeme Gloyn	416-869-8042
Associate: Julia Gul	416-869-7495

Diversified Industrials

Michael Storry-Robertson	416-507-8007

ESG

Baltej Sidhu	403-290-5627
Associate: Josh Turanich	403-290-5625

ETFs & Financial Products

Daniel Straus	416-869-8020
Linda Ma	416-507-8801
Tiffany Zhang	416-869-8022
Associate: Shubo Yan	416-869-7942

Healthcare & Biotechnology

Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476
Associate: Stephen Kwai	416-869-7571

Industrial Products

Maxim Sytchev	416-869-6517
Associate: Alizeh Haider	416-869-7937
Associate: Kazim Naqvi	416-869-6754

Merchandising & Consumer Products

Vishal Shreedhar	416-869-7930
Associate: Paul Hyung	416-507-9009
Associate: Ryan Li	416-869-6767

Metals & Mining

Don DeMarco	416-869-7572
Associate: Yi Liu	416-869-8524
Associate: Harmen Puri	416-869-8045
Shane Nagle	416-869-7936
Associate: Lola Aganga	416-869-6516
Associate: Ahmed Al-Saidi	416-869-7535
Michael Parkin	416-869-6766
Associate: Alessandro Cairo	416-869-8511
Associate: Andrew Dusome	416-507-8177
Associate: Rabi Nizami	416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne	403-290-5441
Associate: Nick Stevenson	403-441-0928

› *Large Cap Oil & Gas*

Travis Wood	403-290-5102
Associate: Logan Fisher	403-441-0933
Associate: James Harwood	403-290-5445

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny	403-290-5451
Associate: William Duforest	403-441-0952

Real Estate

Matt Kornack	416-507-8104
Associate: Anthony Bogdan	416-869-7935
Tal Woolley	416-507-8009
Associate: Ahmed Shethwala	416-507-8102

Special Situations

Zachary Evershed	514-412-0021
Associate: Thomas Bolland	514-871-5013
Associate: Nathan Po	416-660-1740
Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476
Associate: Stephen Kwai	416-869-7571

Sustainability & Clean Tech

Rupert Merer	416-869-8008
Associate: Louka Nadeau	416-869-7538
Associate: Viveck Panjabi	416-869-6763

Technology

Richard Tse	416-869-6690
John Shao	416-869-7938
Associate: Mihir Raul	416-869-8049
Associate: James Burns	416-869-8808

Technical Analysis

Dennis Mark	416-869-7427

Telecom & Media

Adam Shine	514-879-2302
Associate: Ahmed Abdullah	514-879-2564
Associate: Luc Troiani	416-869-6585

Transportation & Industrial Products

Cameron Doerksen	514-879-2579
Associate: Alex Hutton	416-869-8281

Administration

Greg Colman Managing Director Head of Research	416-869-6775
Tanya Bouchard Supervisory Analyst	416-869-7934

Research Publications

Vanda Bright Manager Publishing Services	416-869-7141
Wayne Chau Publishing Associate	416-869-7140

Information

Giuseppe Saltarelli giuseppe.saltarelli@nbc.ca	514-879-5357

Table of Contents

NBF Disclosures, please visit URL:
http://www.nbcn.ca/contactus/disclosures.html

Highlights

Economy

› In the last issue of this monthly monitor we emphasized the risks arising from the sharp increase in new cases of Covid-19 in the developed economies. The data from South Africa, one of the first countries hit by the Omicron variant, suggested a very intense but short wave of epidemic. A month later, the pandemic seems to be evolving pretty much as we expected. By all appearances, daily new cases have peaked in the rich countries, allowing a gradual reopening of economies. Global growth will take a hit in the first quarter but in the months to come is likely to make up a good part of the ground lost. This assumes that Covid will remain under control in the emerging economies, which have so far been spared by Omicron but remain at risk because of their lesser vaccination. The ability of the global economy to recover from the Omicron shock will also depend on decisions made in the Kremlin. Since our last issue, thousands of Russian troops have massed at the border with Ukraine and now threaten a march on Kiev. The intentions of President Vladimir Putin may be anybody's guess, but there is no doubt that an invasion would trigger major disruptions around the world. Acknowledging these new risks, we have made small downward revisions to our global growth forecast for both 2022 (from 4.1% to 4.0%) and 2023 (from 3.7% to 3.6%).

› The U.S. economy had a good fourth quarter, with GDP growth of 6.9% annualized topping the consensus expectation. The upshot is that U.S. GDP for 2021 as a whole was up 5.7% from 2020, the largest annual expansion since 1984, almost entirely closing the deep output gap that opened in the early weeks of the pandemic. But that was last year. The news for the current quarter is less encouraging. The Omicron variant seems to have pooped the party. Though public-health measures have been much less restrictive in the U.S. than in other parts of the world (the Eurozone and Canada for example), the virus has continued to dampen growth by shrinking the available labour pool. Also to blame for a slowing of the economy is high inflation. In this context, we have revised down our forecast for Q1 growth, from 2.2% annualized to just 0.9%. For 2022 as a whole we now see 3.1%, down from 3.5% in last month's Monitor.

› In Canada, first-quarter growth will be braked by public-health restrictions. In January employment shrank by 200,000, the sharpest decline in a year. But outside the industries directly affected by the restriction, employment was resilient, so widespread contagion was avoided. In our view, because of labour scarcity elsewhere in the economy, the Q1 weakness is likely to prove temporary and limited to these industries. Hiring intentions as reported by the fourth-quarter Bank of Canada Business Outlook Survey were the strongest ever recorded. This augurs well for a vigorous rebound, the more so in that easing o public-health restrictions has already begun. The vigour of the labour market and the resulting rise of incomes suggest that consumption will be the growth driver in coming quarters, and this despite a rising cost of living, in particular a rising cost of borrowing. Households will be able to deploy some of their substantial excess savings accumulated since the beginning of the pandemic. The labour market could also prompt business investment – the Bank of Canada's Business Outlook survey reports a record high in investment intentions. As for governments, there is nothing to suggest a period of austerity, what with minority government in Ottawa and elections this year in the two largest provinces. That is likely to mean growth comfortably above potential in 2022. We are maintaining our forecast of 3.6%.

Interest rates and currency

› Don't mistake January's inaction for dovishness, as the latest BoC and Fed meetings we're about as hawkish you can get without actually hiking rates. Markets certainly took notice, as long-term rates edged higher and the short-end priced in an aggressive near-term path for policy rates.

› In the U.S., Powell and the FOMC seem increasingly uneasy with the inflation outlook, and who can blame them. The Fed has conceded that monetary policy is misaligned with economic fundamentals. So at the same moment the Fed's QE taper is done, policy rate hikes look to commence (i.e., in March). A 50 bp move may be avoidable, but we now see U.S. rate tightening coming on more quickly, the Fed needing to remain fleet of foot in the absence of any serious cooling of inflation. Four hikes in 2022 followed by an equal measure in 2023 would propel fed funds (upper) to 2.25% by the end next year. Meantime, a QT process will keep longer-term yields under some pressure, all else equal. With the Fed's reputation at stake, policy normalization could look and feel different than prior episodes. This time surely is different, invalidating (to a degree) tidy empirically based conclusions. Saying that, the Fed's ultimate policy path will, as before, remain sensitive to evolving consumer/business attitudes and underlying financial conditions (across equities, currency and credit markets).

› We disagreed with the BoC's policy decision in January, seeing sufficient cause (in inflation, employment, housing data) to kick start a tightening cycle now. To us, the Bank simply delayed the inevitable, an overtly hawkish statement/presser seemingly consistent with a series of rate hikes starting in early March. We continue to see the BoC tapping the brakes via five 25 bp hikes in 2022, the overnight target rate topping out at 1.75% early in 2023. A lower neutral policy rate north of the border is a function of Canada's greater interest sensitivity. Our forecast likewise incorporates monetary braking in the form of QT, which has never been done in this country and where an official playbook has yet to be written (or at least communicated—you can read our thoughts here). Canada's lower terminal rate also captures a relatively lower potential GDP growth pace, which has been exacerbated by consistently disappointing non-residential business investment. Perhaps most significantly, imported tightening from the Fed leans against the BoC moving above 2%.

› The loonie has lost some feathers since the beginning of the year. The positive impacts of a stronger-than-expected GDP report and surging commodity prices were more than offset by the tightening of Canada-U.S. interest rate differentials and a disappointing January jobs report. With headline CPI inflation approaching 5%, the current backdrop remains favourable for a Bank of Canada rate hike in March. Despite the uncertainty created by the latest COVID variant, we remain comfortable with our current forecast of a C$1.20 rate for the US dollar in 2022.

Recommended asset mix and stock market

› Global equities have been buffeted by increasing volatility since the beginning of the year. The abatement of Omicron-related fears has been replaced by a confluence of factors that cloud the outlook for corporate earnings. Resilient inflation, expectations of aggressive central bank intervention, and fears of military conflict in Ukraine are now at the top of investors' minds. The MSCI ACWI is currently down just over 5%, with the bulk of the decline accounted by the U.S. and Europe.

Highlights

› The 10-year U.S. Treasury yield rose above 2% for the first time since 2019. Our fixed income strategists expect yields to stabilize below 2.5% over the next few quarters, so no more than 50 basis points higher than the current level. Even if all of this increase were in real interest rates, it would leave 10-year TIPS near zero, a level unlikely to trigger an equity bear market.

› The Fed likes to look at the yield curve, defined as the difference between the yield on the 10-year Treasury and the yield on the 3-month Treasury bill. The slope of the yield curve is currently about 155 basis points, which is still relatively high by historical standards at this point in the economic cycle.

› The global economy retains sufficient momentum to drive earnings. Globally, analysts raised their earnings per share forecasts for the coming year for 52% of companies, a figure that remains comfortably above the 45% average of the past decade. We also find that the diffusion of positive earnings revisions exceeds 10-year historical averages in all major regions of the world

› The S&P/TSX continues to show resilience. The Canadian benchmark is up 1.5% year-to-date, led by energy (+17.6%), banks (+9%) and materials (+4.7%). We remain constructive on these industries given their low valuations with forward PEs below 13.

› Our asset allocation is unchanged this month: underweight in fixed income and overweight in equities with a preference for value over growth stocks given our expectation of rising long-term interest rates.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	15.2	Overweight	
Materials	11.9	Overweight	
Industrials	11.5	Market Weight	
Consumer Discretionary	3.4	Market Weight	
Consumer Staples	3.7	Market Weight	
Healthcare	0.7	Market Weight	
Financials	33.8	Market Weight	
Information Technology	7.7	Underweight	
Telecommunication Services	4.8	Market Weight	
Utilities	4.4	Underweight	
Real Estate	2.9	Underweight	
Total	100.0		

* As of February 11, 2022

The Economy

The Economy

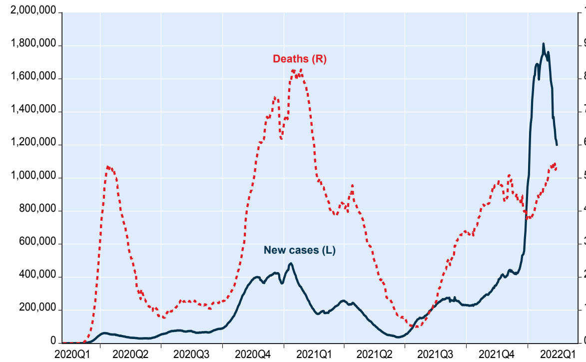
Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Jocelyn Paquet
Economist
514-412-3693

A world of imponderables

In the last issue of this monthly monitor we emphasized the risks arising from the sharp increase in new cases of Covid-19 in the developed economies. The data from South Africa, one of the first countries hit by the Omicron variant, suggested a very intense but short wave of epidemic. A month later, the pandemic seems to be evolving pretty much as we expected. By all appearances, daily new cases have peaked in the rich countries, allowing a gradual reopening of economies. Global growth will take a hit in the first quarter but in the months to come is likely to make up a good part of the ground lost. This assumes that Covid will remain under control in the emerging economies, which have so far been spared by Omicron but remain at risk because of their lesser vaccination.

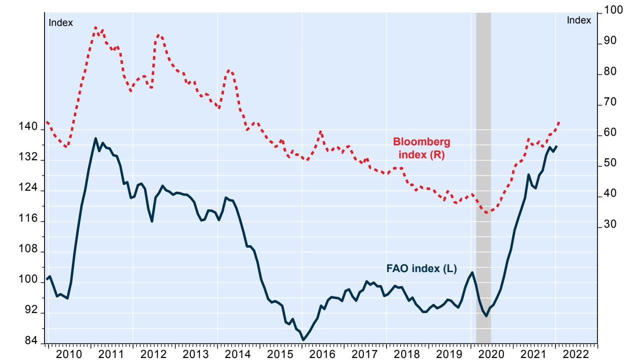
Developed countries: Has the Omicron wave peaked?
Daily new cases and deaths in Europe and North America, 7-day moving average



NBF Economics and Strategy (data from https://coronavirus.jhu.edu/map.html)

The ability of the global economy to recover from the Omicron shock will also depend on decisions made in the Kremlin. Since our last issue, thousands of Russian troops have massed at the border with Ukraine and now threaten a march on Kiev. The intentions of President Vladimir Putin may be anybody's guess, but there is no doubt that an invasion would trigger major disruptions around the world. Russia and Ukraine are two of the world's largest exporters of wheat. A conflict between them could drive up food prices, already at record highs.

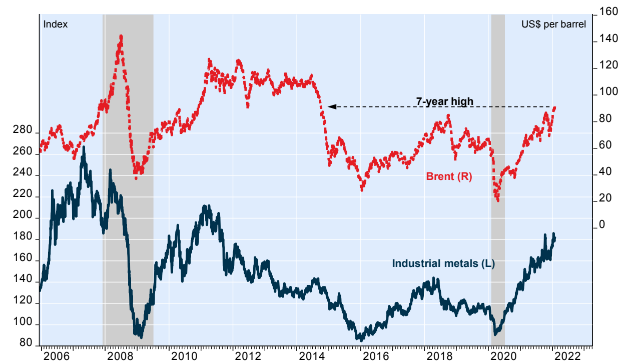
World: Russian threat boosting prices of certain staples (1)
Bloomberg agricultural prices index and FAO index of food prices



NBF Economics and Strategy (Bloomberg data)

Russia also exports oil and gas and industrial metals. While Ukraine probably lacks the military ability to imperil output of these goods, the hovering uncertainty could be enough to drive up prices. Rumours of war alone have driven oil prices to a seven-year high.

World: Russian threat boosting prices of certain staples (2)
Brent oil price and Bloomberg index of industrial metals prices



NBF Economics and Strategy (Bloomberg data)

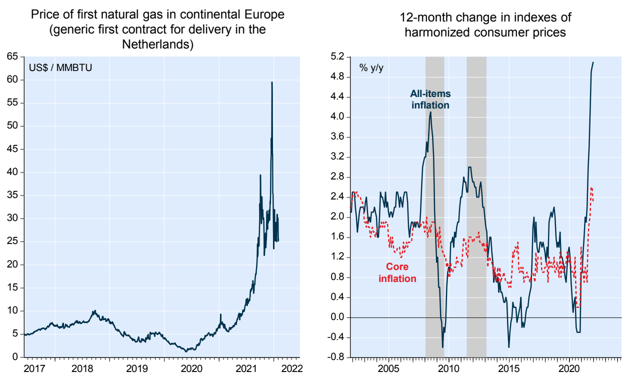
But the most worrisome risk is interruption of gas deliveries to continental Europe. Whether accidental or orchestrated by Russia in response to possible financial sanctions by European countries, such an interruption would be a severe blow. About one-third of the natural gas consumed in Europe comes from Russia. For some countries, notably Germany, the share is close to 50%. If Russian gas were cut off, the continent would have to turn to liquefied natural gas, whose prices would explode.

[1] Accommodation and food services, information/recreation, trade and other services.

The Economy

Such convulsions are something Europe could do without. The Eurozone, whose GDP in the fourth quarter of 2021 was back to its pre-pandemic level, now faces multiple challenges. Like several other regions of the world, its Covid-19 case numbers surged in December and January. As if that were not enough, its households have also faced steep prices rises. In January, 12-month all-items inflation in the Eurozone reached 5.1%, the highest since tracking of this indicator began in 2001.

Eurozone: Energy prices driving up inflation

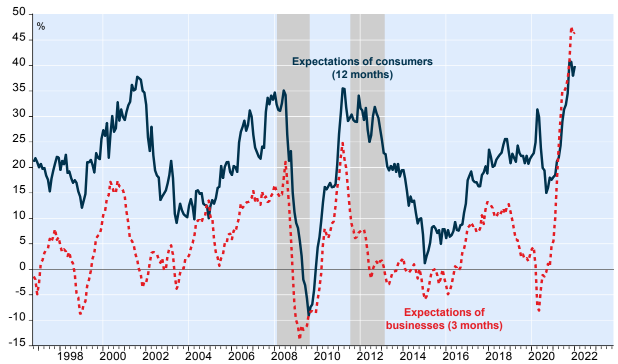


NBF Economics and Strategy (Bloomberg data)

This acceleration is due in large part to the marked rise in the price of natural gas, though other items also showed serious rises. Core inflation (i.e. excluding energy, food, alcohol and tobacco) was stronger than expected in December, well above the European Central Bank target. The jump is the more worrisome in that it seems to have shifted the inflation expectations of consumers and businesses, judging by a recent European Commission survey.

Eurozone: Inflation expectations on the rise

Net % of consumers expecting prices to rise in the next 12 months and net % of businesses expecting to raise their prices in the next 3 months

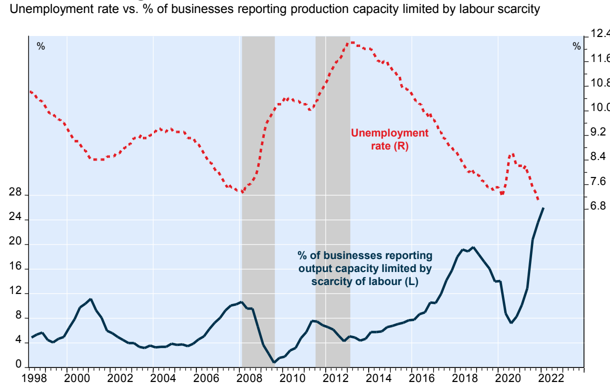


NBF Economics and Strategy (data from European Commission business and consumer survey)

The vigour of the labour market is another factor that could drive prices up in coming months. The unemployment rate reached a historical low in December, presenting businesses with a challenge. The same European Commission survey shows a record percentage of businesses reporting that labour scarcity was limiting their production capacity in the first quarter of the year. Good news for workers, likely to pump up pay raises. But for the ECB it is one more argument for gradually withdrawing monetary accommodation.

Eurozone: A high unmet demand for labour

Unemployment rate vs. % of businesses reporting production capacity limited by labour scarcity

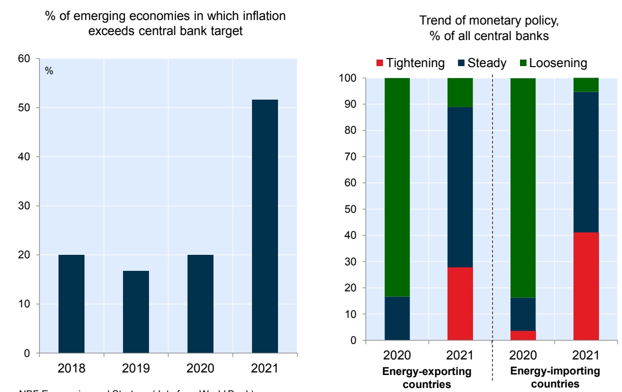


NBF Economics and Strategy (data from Bloomberg and European Commission)

A weaker-than-expected first quarter combined with an increase in uncertainty about the rest of the year prompts us to maintain our below-consensus growth forecast for the Eurozone in 2022 (see forecast table below).

Our outlook for emerging economies, meanwhile, have been revised downward. The central banks of the U.S., the Eurozone and Canada have the luxury of moving cautiously in their response to price rises. The situation is quite different in emerging economies, where inflation expectations are less well anchored and currencies are more exposed to investor mood shifts. To master inflation and avoid capital flight, a number of central banks – especially in countries that are importers of energy products – have already tightened their monetary policy considerably.

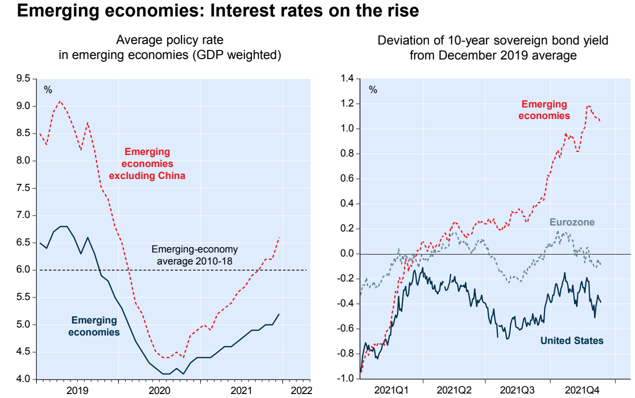
Emerging economies: Inflation forcing central banks to act



NBF Economics and Strategy (data from World Bank)

So interest rates are rising ...

Emerging economies: Interest rates on the rise



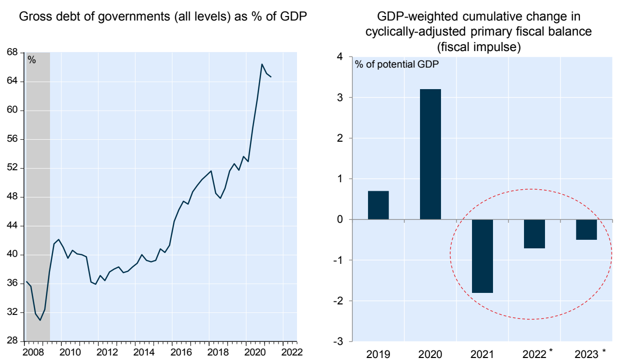
NBF Economics and Strategy (data from World Bank)

Back to Research Analysts page

The Economy

… which will increase the cost of servicing public debt and force many countries to put their public finances in order. Hardly surprising, then, that the World Bank expects that fiscal policy will crimp growth in emerging countries in 2022 and 2023.

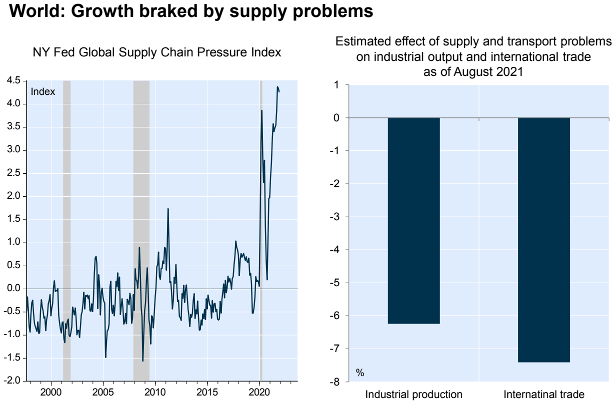
Emerging economies: Restrictive fiscal policies in store



* World Bank estimate
NBF Economics and Strategy (data from Bank of International Settlements and World Bank)

Supply constraints are another downside risk to growth in emerging countries. Though these constraints affect every country in the world, they tend to have a greater effect in economies that are more dependent on exports. The World Bank estimates that the volume of international trade would have been 7.4% higher in August 2021 were it not for problems of supply and transport, and industrial output would have been 6.2% higher. The situation could improve in 2022, but some bottlenecks will persist.

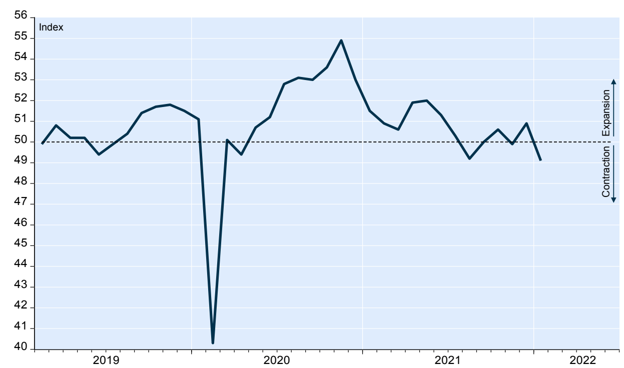
World: Growth braked by supply problems



NBF Economics and Strategy (data from New York Federal Reserve and World Bank)

Another cloud in the sky over emerging economies is the flagging of the Chinese recovery. Somewhat ironically, the weight of production for export in the world's second-largest economy, which enabled it to begin recovering well before other countries, could now hold it back for the reasons cited above. Combined with the downside effects of China's zero-Covid policy, supply problems have slowed its manufacturing sector.

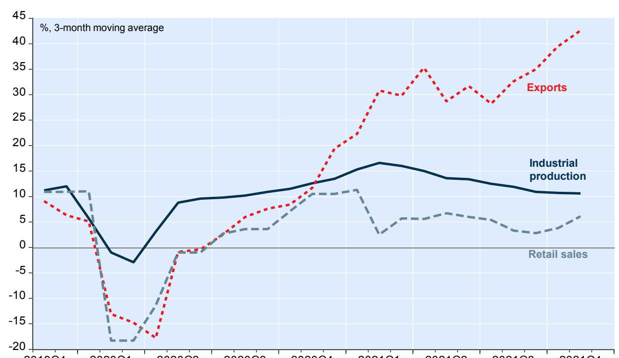
Chine: Factory output slowing
Caixin/Markit manufacturing PMI, last observation January 2022



NBF Economics and Strategy (data from Markit)

Chinese domestic consumption cannot easily pick up the slack when several regions of the country remain under strict lockdown.

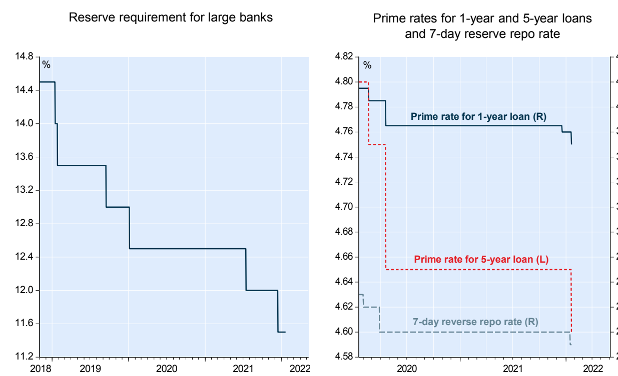
China: More and more dependent on exports
24-month change in exports, retail sales and industrial production



NBF Economics and Strategy (data from World Bank)

Fortunately, the People's Bank of China has decided to ease its monetary policy. The mandatory bank reserve ratio was revised down last month, injecting about $200 billion into the economy. The Bank has also lowered its prime rates for one- and five-year loans and its 7-day reserve repo rate. These shifts show Beijing to be intent on stimulating growth. But China's efforts will not prevent weakness in the emerging economies.

China: Monetary policy easing



NBF Economics and Strategy (Bloomberg data)

For all these reasons, we have made small downward revisions to our global growth forecast for both 2022 (from 4.1% to 4.0%) and 2022 (from 3.7% to 3.6%).

World Economic Outlook

	2021	2022	2023
Advanced Economies	**5.1**	**3.3**	**2.3**
United States	5.7	3.1	2.2
Eurozone	5.2	3.5	2.1
Japan	1.6	2.7	1.3
UK	7.1	4.0	2.3
Canada	4.6	3.6	2.6
Australia	4.1	3.5	2.8
Korea	4.0	2.7	2.5
Emerging Economies	**6.5**	**4.5**	**4.5**
China	8.1	4.9	5.2
India	9.0	8.0	7.0
Mexico	5.3	2.8	2.5
Brazil	4.7	0.8	2.0
Russia	4.5	4.5	2.0
World	**5.9**	**4.0**	**3.6**

NBF Economics and Strategy (data via NBF and Conensus Economics)

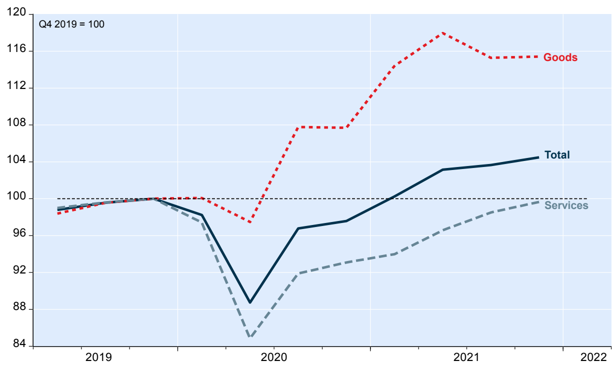
Back to Research Analysts page

The Economy

U.S.: A soft patch in the first quarter

The U.S. economy had a good fourth quarter, with GDP growth of 6.9% annualized topping the consensus expectation. Though much of this gain was due to inventory rebuilding, optimism is encouraged by other aspects of the report of the Bureau of Economic Analysis. Continuing recovery in consumption of services (+4.7% annualized) brought this sector of the economy close to its pre-pandemic level.

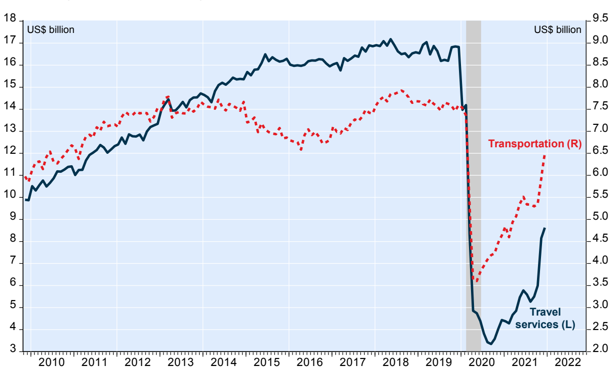
U.S.: Consumption of services almost back to pre-pandemic level
Personal Consumption Expenditures



NBF Economics and Strategy (data from St. Louis FRED)

Exports were also well above expectations as foreigners began visiting the U.S. again.

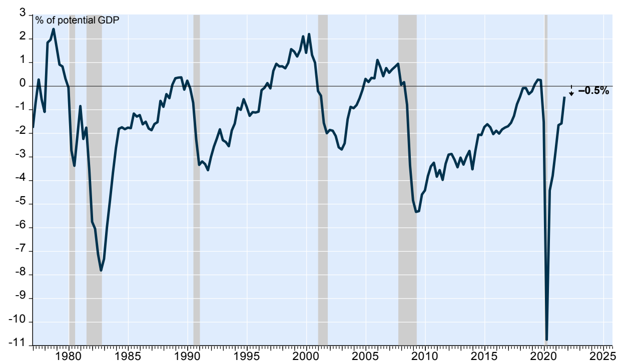
U.S.: A return of foreign visitors stimulates exports
Nominal exports of travel and transportation services



NBF Economics and Strategy (data from Census Bureau)

The upshot is that U.S. GDP for 2021 as a whole was up 5.7% from 2020, the largest annual expansion since 1984, almost entirely closing the deep output gap that opened in the early weeks of the pandemic.

U.S.: Excess capacity almost absorbed in Q4
Output gap as % of potential GDP

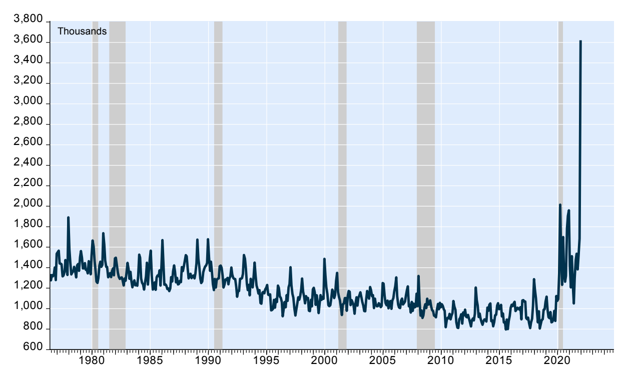


NBF Economics and Strategy (data from CBO and Refinitiv)

But that was last year. The news for the current quarter is less encouraging.

The Omicron variant seems to have pooped the party. Though public-health measures have been much less restrictive in the U.S. than in other parts of the world (the Eurozone and Canada for example), the virus has continued to dampen growth by shrinking the available labour pool. The Bureau of Labor Statistics reports 3.6 million people absent from work in January because of illness, almost twice as many as during the first wave of the pandemic.

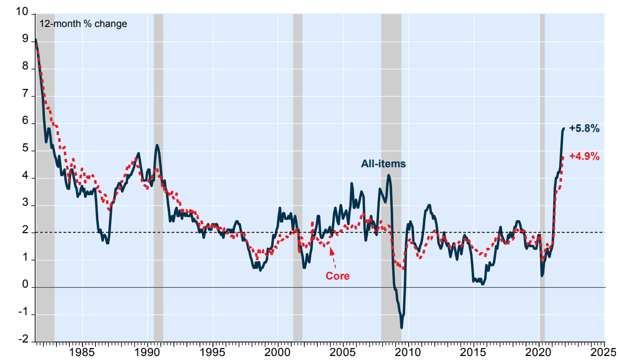
U.S.: Infected employees forced to stay home
Number of workers absent from work because of illness



NBF Economics and Strategy (data from Refinitiv)

Also to blame for a slowing of the economy is high inflation. The all-items Personal Consumption Expenditure Deflator (PCE Deflator) for the 12 months ending in December was 5.8%, the highest since July 1982.

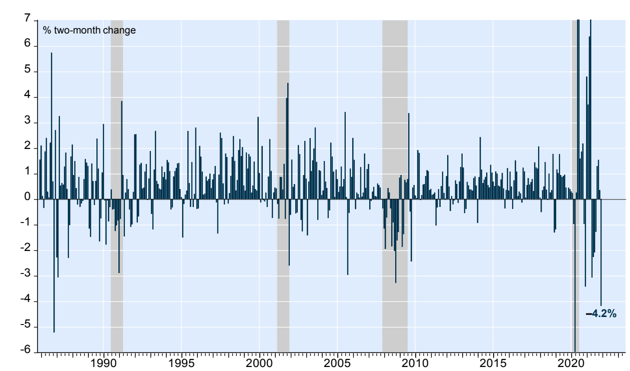
U.S.: Inflation highest since July 1982
Change in deflator of Personal Consumption Expenditures



NBF Economics and Strategy (data via Bloomberg)

The rises were especially high for goods prices (+8.8%), a clear hit to real household consumption. In the last two months of 2021, real spending on goods contracted no less than 4.2%. Apart from the period following the beginning of the pandemic, that was the worst decline since 1986. Spending on durable goods did even worse, contracting 6.6% during those two months as the auto industry continued to suffer from lack of computer chips.

U.S.: Inflation calms consumer ardour
Change in real expenditure on consumption of goods



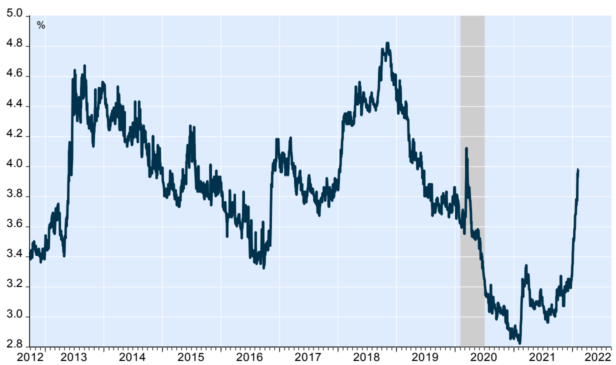
NBF Economics and Strategy (data via Bloomberg)

The Economy

So the handoff to first-quarter consumption seems to have been weak. An imminent strong rebound is hard to imagine, with inflation intensifying further, microchips still almost unavailable and the country beset by Omicron. In view of this less favourable outlook, we have revised down our forecast for Q1 growth, from 2.2% annualized to just 0.9%. For 2022 as a whole we now see 3.1%, down from 3.5% in last month's Monitor, with the slow beginning of the year only partly offset by acceleration in Q2 (+2.8%) and Q3 (2.5%).

Consumption will contribute further to growth in the medium term if, as we expect, inflation slows and households draw on excess savings accumulated earlier in the pandemic. With the Federal Reserve getting ready to tighten, other parts of the economy may do less well. Real estate, for example. Although the cost of mortgage borrowing is at this point still very low by historical standards, its downtrend seems to have reversed sharply in recent weeks. If this continues, rising rates may well bite into demand in the second half of 2022.

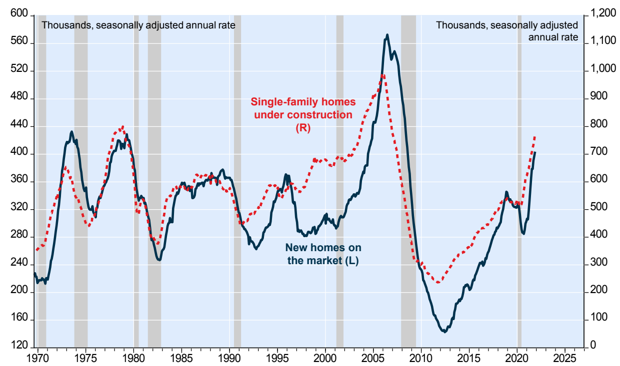
U.S.: Rise in cost of borrowing is a risk for the real estate sector
Average rate paid on a 30-year fixed-rate mortgage loan



NBF Economics and Strategy (data from Bankrate.com)

That could crimp construction, especially given the recent increase in the supply of homes for sale. In December there were more new houses for sale than at any other time since August 2008. And supply seems likely to increase further given the number of single-family homes currently under construction in the U.S.

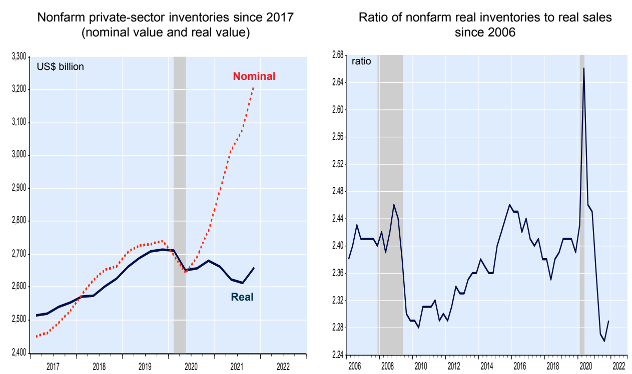
U.S.: A rising supply of new housing
New single-family homes for sale and single-family homes under construction



NBF Economics and Strategy (data via Bloomberg)

A dip in real estate could however be offset by a favourable turn in inventories. True, inventories hit a record nominal value in Q4, but that was in large part because of inflation. In real terms inventories remained rather low. It should also be kept in mind that the ratio of inventories to sales in the fourth quarter was extremely depressed by historical standards. Under these conditions, we think there is still considerable potential for inventory rebuilding in real terms in 2022.

U.S.: Resupply likely to continue in 2022

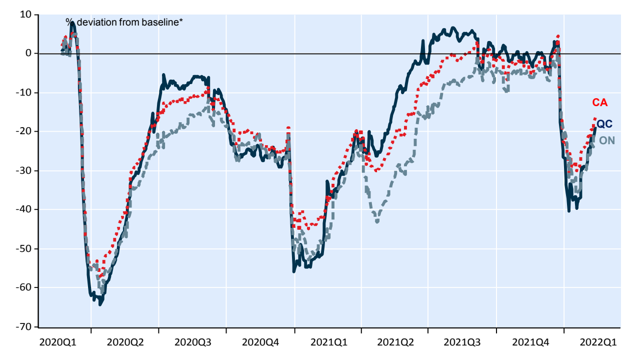


NBF Economics and Strategy (data from St. Louis FRED)

Canada: Interrupted momentum

As elsewhere, the Omicron variant has pooped the party with its stressing out of Canadian health-care systems in recent weeks. Governments responded with public-health restrictions to limit spread. In Quebec, restaurant indoor dining rooms and bars were again shut down, as were theatres and recreational activities. Stores remained open but were limited to 50% of capacity. In Ontario, except for dining rooms, bars and gyms, which were shut down completely, many sectors, including entertainment and recreation, remained open but limited to 50% of capacity. The Google mobility index for stores and recreation venues, after returning to normal in the fourth quarter, has slumped again in recent weeks, foreshadowing a Q1 soft patch in the economy.

Canada: The fifth wave will weigh on growth in Q1
Google mobility index for retail and recreation venues

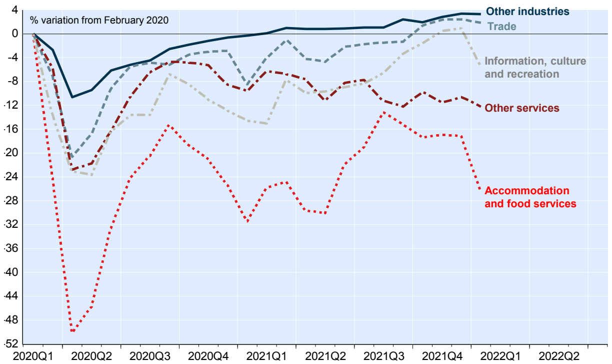


* Baseline: Median value from January 3 to February 6, 2020
NBF Economy and Strategy (data via Google)

The Labour Force Survey (LFS) results for January reflect the hit to the economy of this fifth wave. Thanks mainly to losses in Quebec and Ontario, employment was down 200,000, the sharpest decline since January of last year. By our calculation, 96% of the jobs lost in January were in industries directly affected by Covid-related public-health measures.[1] In other words, employment outside these industries was once again resilient in January and the economy dodged widespread contagion.

The Economy

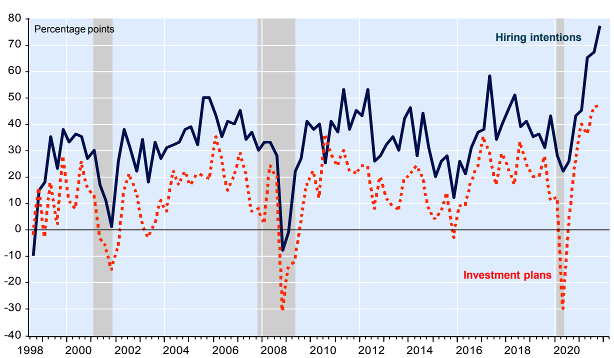
Canada: Again, no spillover
Employment in industries affected by Covid-19 and in other sectors



NBF Economics and Strategy (data via Statistics Canada)

In our view, because of a scarcity of labour elsewhere in the economy, the Q1 weakness is likely to prove temporary and limited to these industries. Despite the takeoff of the labour market in the second half of last year, leading to full employment, the hiring intentions of large employers as reported by the fourth-quarter Bank of Canada Business Outlook Survey were the strongest ever recorded. These intentions suggest a rapid recovery, the more so in that easing of public-health restrictions has already begun. Also noteworthy is that investment intentions were also at a record, possibly reflecting an intentness on raising productivity in response to labour scarcity.

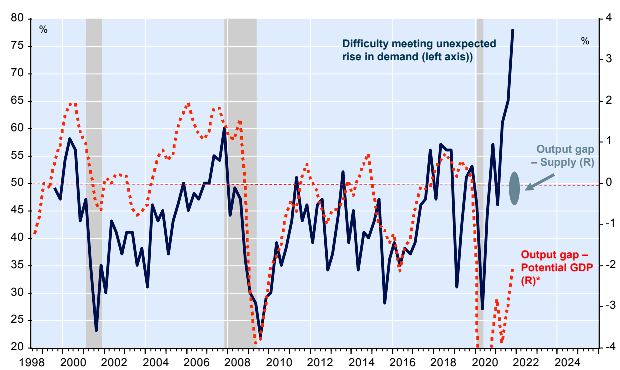
Canada: Spectacular optimism in December outlooks
Investment plans and hiring intentions (balance of expectations*)



* % of businesses surveyed expecting to invest and hire more minus % expecting to invest and hire less
NBF Economy and Strategy (data from Bank of Canada Business Outlook Survey

The percentage of businesses that report facing capacity constraints is at a record. Almost 80%, a far higher share than ever before, say they would have a hard time meeting an unexpected rise in demand. These survey results certainly contributed to the Bank of Canada's decision to abandon the forward guidance it had been giving since July 2020, to the effect that it would not raise its policy rate before excess capacity had been fully absorbed. Last September the BoC thought that would happen in the second or third quarter of 2022. It now says that happened in the fourth quarter, though GDP for that quarter is expected to come in essentially as the Bank had anticipated in the autumn. Over the past year the central bank has cast off its traditional measures of the output gap relative to potential GDP, which were inconsistent with labour market data, its surveys (business/consumers) and inflation. It now uses the concept of supply, which is related to the concept of potential GDP but takes into account temporary factors limiting production capacity, notably supply-chain problems and public-health measures that push up inflation. The central bank considers that the economy, rather than operating 2% short of potential, was running at capacity in the final quarter of the year, a capacity limited essentially by supply-chain problems.

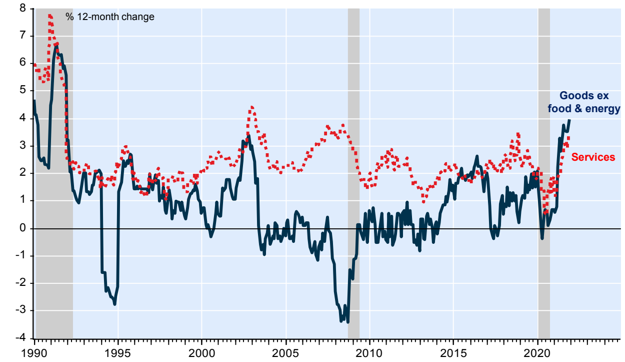
Canada: Traditional measures of output gap are broken
% of firms saying they would have difficulty meeting an unexpected rise in demand, vs. output gap



* Average of the two measures of the output gap
NBF Economics and Strategy (data via Bank of Canada and Statistics Canada)

But inflationary pressures are currently showing in services as well as goods. Services inflation is also running above the BoC target range of 1% to 3%, a phenomenon that generally occurs in the mature phase of a business cycle, i.e. when the output gap has been completely closed.

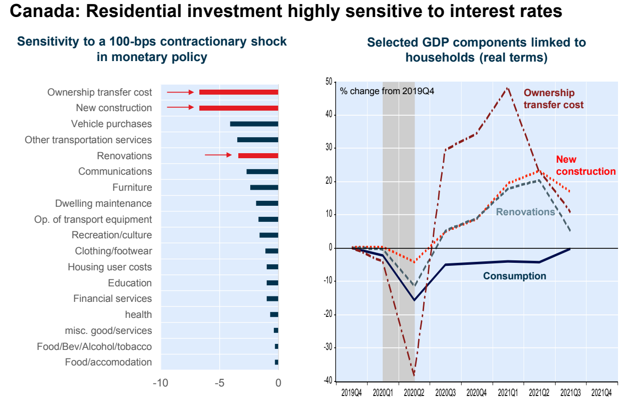
Canada: Inflation of service prices already at previous peak
Consumer Price Index



NBF Economics and Strategy (data via Statistics Canada)

It is the across-the-board nature of inflationary pressures that has been prompting us to say for some time now that the economy no longer requires a pedal-to-the-metal policy rate, especially considering the time lag for transmission of monetary policy. We continue to expect a rise of 125 basis points in the policy rate this year. That seems to us just enough to cool overheating parts of the economy without provoking a hard landing. The real estate sector, which has done extremely well during the pandemic and whose activity remained highly robust in January, is usually the most sensitive to interest rate among household expenditures.

Canada: Residential investment highly sensitive to interest rates

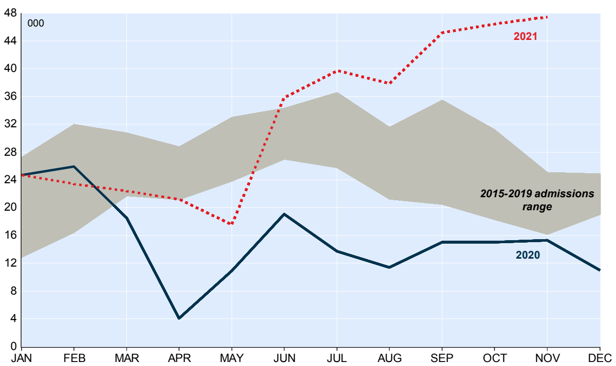


NBF Economics and Strategy (data via Bank of Canada report and Statistics Canada)

The Economy

Though the rise of interest rates could brake demand and prices for homes in the second half of the year, we expect homebuilding to remain sustained given the meagreness of supply on the resale market. We are struck by the evolution of the Canada's demographics since last June. Each month from last June to November, admissions of new permanent residents exceeded the levels of the five years preceding the pandemic.

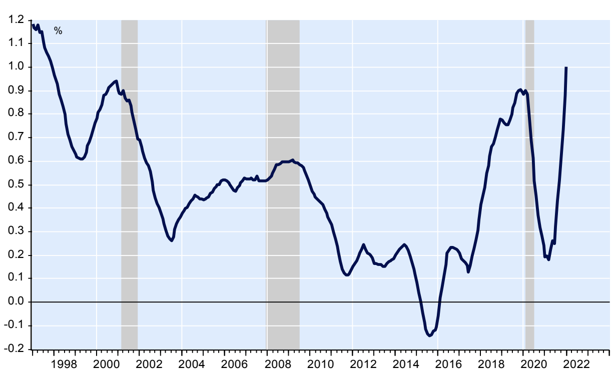
Canada: Admissions to permanent residency bounced back in 2021
As of November 2021



NBF Economics and Strategy (data via https://open.canada.ca/data/en/dataset/f7e5498e-0ad8-4417-85c9-9b8aff9b9eda/resource/5582034d-8f89-49d5-8597-483d628078a1)

The data of the Labour Force Survey suggest that this trend continued in December and January. Over the last 12 months, the population of 25- to 54-year olds has been growing at a rate unequalled in 25 years, from which we infer strong support for household formation.

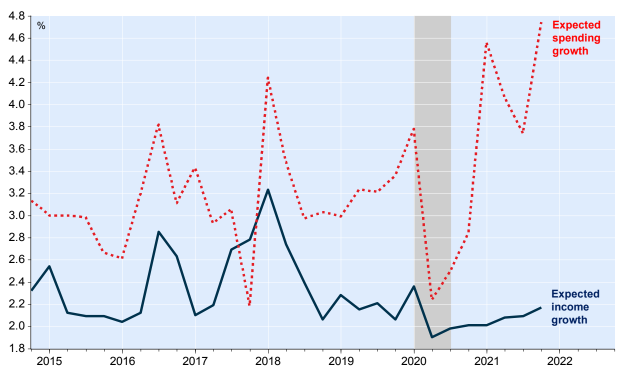
Canada: Household formation looks well supported
Growth of population aged 25-54



NBF Economics and Strategy (data via Statistics Canada)

All things considered, even if growth in the first quarter shows the braking effect of public-health restrictions, it is likely to rebound promptly over the rest of the year, leaving growth for the year as a whole comfortably exceeding potential. The vigour of the labour market and the resulting rise of incomes suggest that consumption will be the growth driver in coming quarters, despite a rising cost of living, in particular a rising cost of borrowing. Households will be able to deploy some of their substantial excess savings accumulated since the start of the pandemic. This hypothesis is consistent with the Bank of Canada's Survey of Consumer Expectations, which shows a rise of spending well in excess of the rise in incomes. Scarcity of labour could also prompt businesses to invest. As for governments, there is nothing to suggest a period of austerity, what with minority government in Ottawa and elections coming this year in the two largest provinces.

Canada: Households expect their spending to rise faster than income
Expected 12-month growth of spending and income, as of 2021 Q4



NBF Economy and Strategy (data via Bank of Canada)

Back to Research Analysts page

The Economy

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.7	3.1	2.2	5.5	2.1	2.0
Consumption	2.2	(3.8)	7.9	2.8	2.1	7.1	2.1	2.0
Residential construction	(0.9)	6.8	9.0	(0.4)	(0.9)	(2.2)	1.7	(1.3)
Business investment	4.3	(5.3)	7.3	2.6	1.8	6.4	2.0	2.2
Government expenditures	2.2	2.5	0.5	1.3	2.5	0.0	2.7	2.5
Exports	(0.1)	(13.6)	4.6	6.5	3.1	5.3	4.0	2.2
Imports	1.2	(8.9)	14.0	4.6	1.4	9.6	0.6	2.0
Change in inventories (bil. $)	75.1	(42.3)	(37.5)	60.0	0.0	173.5	25.0	(25.0)
Domestic demand	2.4	(2.5)	6.5	2.4	2.0	5.3	2.2	2.0
Real disposable income	2.3	6.2	2.2	(3.1)	2.4	-0.3	1.5	2.9
Payroll employment	1.3	(5.8)	2.8	3.0	1.9	4.3	1.9	2.0
Unemployment rate	3.7	8.1	5.4	3.8	3.5	4.2	3.7	3.4
Inflation	1.8	1.3	4.7	5.7	2.5	6.7	3.6	2.9
Before-tax profits	2.7	(5.2)	25.2	7.3	2.6	21.6	3.7	1.4
Current account (bil. $)	(472.1)	(616.1)	(821.7)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 2/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.50	0.75	1.00	1.25	0.25	1.25	2.25
3 month Treasury bills	0.37	0.35	0.65	0.90	1.15	0.06	1.15	2.15
Treasury yield curve								
2-Year	1.50	1.35	1.65	1.85	1.95	0.73	1.95	2.25
5-Year	1.84	1.85	1.95	2.10	2.15	1.26	2.15	2.30
10-Year	1.92	2.00	2.10	2.20	2.30	1.52	2.30	2.35
30-Year	2.24	2.30	2.40	2.45	2.50	1.90	2.50	2.50
Exchange rates								
U.S.$/Euro	1.14	1.14	1.15	1.16	1.17	1.14	1.17	1.15
YEN/U.S.$	116	115	113	114	113	115	113	109

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.3	6.9	0.9	2.5	2.7	2.4
CPI (y/y % chg.)	1.9	4.8	5.3	6.7	7.5	6.4	5.4	3.7
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	5.0	6.2	5.1	4.3	3.6
Unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.8	3.7	3.7

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	3.6	2.6	3.3	3.5	1.7
Consumption	1.4	(6.2)	5.4	3.9	2.9	6.1	2.7	1.7
Residential construction	(0.2)	4.3	14.3	(5.7)	(1.3)	(4.1)	1.2	(3.5)
Business investment	2.5	(12.1)	(0.8)	4.4	3.7	1.7	5.2	2.7
Government expenditures	0.8	0.9	4.8	1.5	1.2	2.2	1.7	1.0
Exports	2.3	(9.7)	1.5	6.2	5.2	0.7	6.7	4.4
Imports	0.4	(10.8)	7.0	5.0	4.9	4.2	4.6	5.0
Change in inventories (millions $)	18,377	(18,720)	(418)	15,250	22,719	8,000	14,000	27,280
Domestic demand	1.2	(4.1)	5.3	2.4	2.1	3.6	2.5	1.1
Real disposable income	3.0	8.2	1.4	(0.2)	1.4	2.4	0.5	1.5
Employment	2.2	(5.1)	4.8	3.3	1.6	4.2	2.0	1.2
Unemployment rate	5.8	9.6	7.4	5.9	5.6	6.3	5.6	5.6
Inflation	1.9	0.7	3.4	4.1	2.5	4.7	2.9	2.5
Before-tax profits	(0.6)	(1.9)	31.8	4.1	1.7	13.7	6.0	2.8
Current account (bil. $)	(47.0)	(39.4)	6.4	(5.0)	(16.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 2/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Overnight rate	0.25	0.50	0.75	1.25	1.50	0.25	1.50	1.75
Prime rate	2.25	2.50	2.75	3.25	3.50	2.25	3.50	3.75
3 month T-Bills	0.32	0.55	0.80	1.20	1.40	0.17	1.40	1.75
Treasury yield curve								
2-Year	1.47	1.40	1.65	1.85	1.90	0.95	1.90	1.95
5-Year	1.75	1.75	1.85	1.95	2.00	1.26	2.00	2.05
10-Year	1.87	1.90	2.00	2.10	2.15	1.43	2.15	2.20
30-Year	2.15	2.15	2.20	2.25	2.30	1.68	2.30	2.30
CAD per USD	1.27	1.24	1.20	1.22	1.23	1.26	1.23	1.26
Oil price (WTI), U.S.$	93	85	85	83	81	75	81	80

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	4.9	(3.2)	5.4	6.3	(0.1)	6.7	4.2	3.3
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	5.0	4.6	3.8	2.9
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	3.6	3.3	2.8	2.6
Unemployment rate (%)	8.4	7.9	7.2	6.3	6.3	6.0	5.7	5.6

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021f	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	3.0	2.3	1.8	2.3	-10.7	13.9	8.4	2.5
Prince Edward Island	4.7	-1.7	3.1	2.5	2.6	6.6	0.9	8.8	5.1	3.4
Nova Scotia	3.0	-2.5	3.4	2.7	2.1	3.7	0.7	8.7	6.1	3.2
New Brunswick	1.3	-3.2	3.2	2.5	1.9	2.4	-1.3	9.2	6.0	2.4
Quebec	2.8	-5.5	6.2	2.6	2.3	4.7	-2.4	11.2	6.1	3.1
Ontario	2.0	-5.1	4.0	3.9	2.6	3.7	-2.8	11.0	6.3	3.0
Manitoba	0.4	-4.6	3.9	3.1	2.4	0.7	-1.4	11.3	6.3	3.0
Saskatchewan	-1.1	-4.9	4.3	3.6	2.6	-0.4	-6.6	17.8	12.7	2.5
Alberta	-0.1	-7.9	5.0	4.1	2.7	1.5	-16.1	21.5	12.5	2.9
British Columbia	3.1	-3.4	4.4	4.4	2.8	4.6	-0.5	12.0	7.0	3.1
Canada	1.9	-5.3	4.6	3.6	2.6	3.6	-4.6	12.8	7.4	3.0

	Employment (% growth) 2019	2020	2021f	2022f	2023f	Unemployment rate (%) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	2.0	0.7	12.3	14.1	12.9	12.5	11.5
Prince Edward Island	3.4	-3.2	3.7	3.0	1.8	8.6	10.6	9.4	8.5	8.1
Nova Scotia	2.3	-4.7	5.4	2.4	1.5	7.3	9.7	8.4	7.2	6.4
New Brunswick	0.7	-2.6	2.6	2.0	0.7	8.2	10.0	9.0	8.3	7.8
Quebec	2.0	-4.8	4.2	3.0	1.5	5.2	8.8	6.1	4.8	4.5
Ontario	2.8	-4.7	4.9	3.9	1.8	5.6	9.5	8.0	6.0	5.6
Manitoba	1.1	-3.7	3.5	2.2	1.2	5.4	8.0	6.4	5.5	5.1
Saskatchewan	1.7	-4.6	2.6	2.0	1.3	5.6	8.3	6.5	6.2	5.7
Alberta	0.6	-6.5	5.2	3.4	1.6	7.0	11.5	8.6	8.2	8.0
British Columbia	2.9	-6.5	6.6	3.3	1.8	4.7	9.0	6.5	4.7	4.3
Canada	2.2	-5.1	4.8	3.3	1.6	5.7	9.6	7.4	6.0	5.6

	Housing starts (000) 2019	2020	2021f	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.0	0.8	1.0	0.2	3.7	4.1	2.5
Prince Edward Island	1.3	1.1	1.2	1.0	1.0	1.2	0.0	5.1	3.9	2.5
Nova Scotia	4.7	4.9	6.0	4.4	4.1	1.6	0.3	4.1	4.1	2.4
New Brunswick	2.9	3.6	4.0	3.0	2.7	1.7	0.2	3.8	3.9	2.6
Quebec	48.0	54.2	70.9	58.0	55.0	2.1	0.8	3.8	4.1	2.5
Ontario	69.0	81.3	101.0	88.0	81.0	1.9	0.6	3.5	4.2	2.5
Manitoba	6.9	7.3	8.0	6.3	6.1	2.3	0.5	3.2	4.0	2.5
Saskatchewan	2.4	3.1	4.3	3.6	3.5	1.7	0.6	2.6	4.2	2.5
Alberta	27.4	24.1	31.9	27.0	26.5	1.7	1.1	3.2	3.8	2.5
British Columbia	45.1	38.0	47.7	37.0	35.8	2.3	0.8	2.8	4.0	2.5
Canada	208.5	218.4	276.2	229.3	216.5	1.9	0.7	3.4	4.1	2.5

e: estimate f: forecast

Historical data from Statistics Canada and CMHC, National Bank of Canada's forecast.

Interest Rates and Bond Markets

Interest Rates and Bond Markets

Warren Lovely
Chief Rates and
Public Sector Strategist
416-869-8598

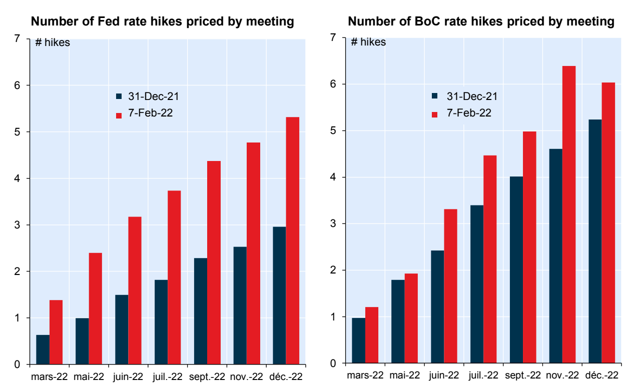
Taylor Schleich
Rates Strategist
416-869-8025

Jocelyn Paquet
Economist
514-412-3693

March-ing towards lift-off

In last month's Fixed Income Monitor, we dubbed 2022 'the year of the hike'. Though North American central banks opted not to start the hiking cycle in January, this moniker remains appropriate—arguably even more so than just a month ago. Indeed, don't mistake January's inaction for dovishness, as the latest BoC and Fed meetings we're about as hawkish you can get without actually hiking. Both central banks indicated that policy rates will need to increase significantly this year, with a measured dose of quantitative tightening to be delivered not too long after lift-off. Markets certainly took notice, as long-term rates climbed and the short-end priced in a aggressive near term path for policy rates.

Rate hike bets have significantly ratcheted up early this year



NBF Economics and Strategy (data via Bloomberg)

In the U.S., Jay Powell and the FOMC seem increasingly uneasy with the U.S. inflation outlook, and who can blame them. The Fed has conceded that monetary policy is misaligned with economic fundamentals. So at the same moment the Fed's QE taper is done, policy rate hikes look to commence (i.e., in March). A 50 bp move may be avoidable, but we now see U.S. rate tightening coming on more quickly, the Fed needing to remain fleet of foot in the absence of any serious cooling of inflation. Four hikes in calendar 2022 followed by an equal measure in 2023 would propel fed funds (upper) to 2.25% by the end of 2023. Meantime, a QT process (largely achieved via run-off and likely to start by June) will keep longer-term yields under some pressure, all else equal. With the Fed's reputation at stake, policy normalization (inclusive of balance sheet developments) could look and feel different than prior episodes. This time surely is different, invalidating (to a degree) tidy empirically based conclusions. Saying that, the Fed's ultimate policy path will, as before, remain sensitive to evolving consumer/business attitudes and underlying financial conditions (across equities, currency and credit markets).

We disagreed with the BoC's policy decision in January, seeing sufficient cause (in inflation, employment, housing data) to kick start a tightening cycle now. To us, the Bank simply delayed the inevitable, an overtly hawkish statement/presser seemingly consistent with a series of rate hikes starting in early March. We continue to see the BoC tapping the brakes via five 25 bp hikes in 2022, the overnight target rate topping out at 1.75% early in 2023. A lower neutral policy rate north of the border is a function of Canada's greater interest sensitivity. Our forecast likewise incorporates monetary braking in the form of QT, which has never been done in this country and where an official playbook has yet to be written (or at least communicated—you can read our thoughts here). Canada's lower terminal rate also captures a relatively lower potential GDP growth pace, which has been exacerbated by consistently disappointing non-residential business investment. Perhaps most significantly, imported tightening from the Fed leans against the BoC moving above 2%.

FOMC: A condensed tightening playbook

By all indications, this normalization episode in the United States has already experienced a much faster onset, and is on track to continue to be more aggressive than the prolonged, patient (at least initially) cycle in the second half of the 2010s.

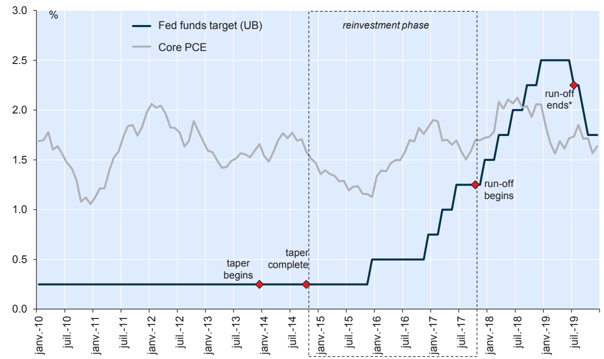
Looking back a decade ago, the Fed began to taper its asset purchases in late-2013, completing the process by late-2014. An initial rate hike didn't come for another year (December 2015) and we didn't see a second hike until another year after that. By 2017, rate increases started to come in more rapid succession and balance sheet normalization began in earnest later in the year. Hikes mounted and run-off accelerated until 2019 when policy tightening became too much for the economy and markets to stomach and the Fed reverted to easing. Add it all together and we're talking about a 5- to 6-year process. Importantly, throughout this entire episode, in-

[Back to Research Analysts page](#)

Interest Rates and Bond Markets

flationary pressures never meaningfully materialized—core PCE inflation hit a high of just 2.1%.

Empirical record of Fed policy normalization
Fed funds target (upper bound), core PCE and key QE/balance sheet milestones



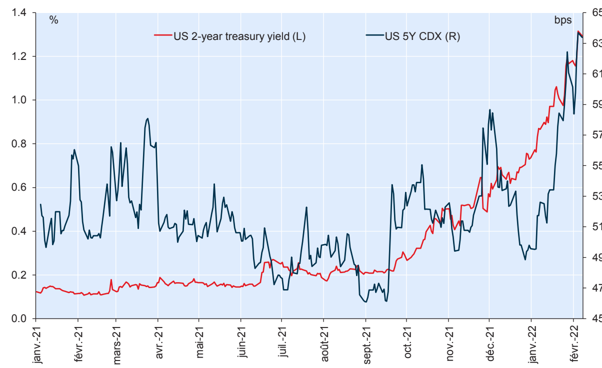
NBF Economics and Strategy (data from Bloomberg, Federal Reserve) | Note: *The Fed began reinvesting all principal repayments from Treasury securities and reinvested up to US$20 bln in principal repayments from agency debt and MBS into Treasuries, with the balance going into agency MBS.

This time, as they say, is different. Labour market tightness is arguably back to where it was pre-COVID and inflation now sits well, well above target. The taper process, due to be completed in March, will have taken just 4 months—less than half as long as last time. Meanwhile, there will be no 14-month lag between taper completion and rate hikes. In fact, there will be no lag at all, as Powell all but assured us that we'll see the first hike delivered in March. Based on our forecasts and/or market pricing, there also won't be a prolonged gap between hikes as the Fed could tap the breaks 3-4 more times in 2022. Then there's run-off. While that lagged taper completion by nearly 3 years last go round, the delay in 2022 could be a few months. Indeed, this will be a justifiably more rapid episode of policy normalization.

Note: You can find our more detailed outlook for Fed policy [in our Fixed Income Monitor Supplement](#).

To be sure, this is all already expected by market participants at large. This recent repricing in interest rates and risk assets most certainly reflects the Fed's aggressive pivot in recent months. One might argue that a good chunk of the long-term interest rate, credit and equity market sell-off could already be behind us (particularly if policy normalization ends up being less tame than we or markets expect).

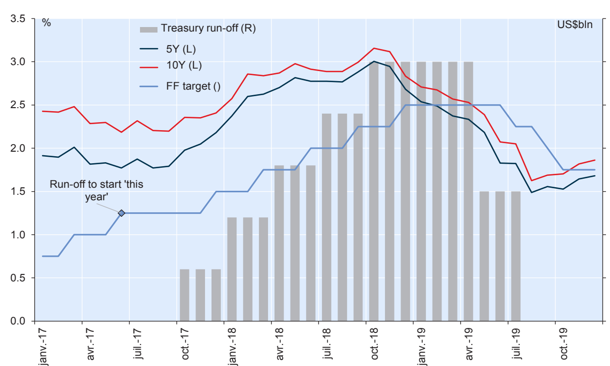
How much does current pricing reflect Fed's hawkish pivot?
2-year Treasury yield (L) and 5-year US investment grade credit spread (R) since 2021



NBF Economics and Strategy (data via Bloomberg)

When it comes to long-term interest rates, last cycle reminded us that the majority of interest rate repricing gets delivered via the signalling channel, in anticipation of policy moves. Indeed, 10-year yields climbed most significantly well before the policy rate hit 2%, in the early stages of balance sheet run-off. Of course, down the curve the tightening in policy saw 2-year and 5-year rates drift higher but out the curve it was relatively muted. We see similar dynamics playing out this time around. We expect continued pressure on the 10-year yield as we approach rate lift-off and balance sheet run-off. But once that begins and the market reacts to the Fed's tightening stance, there might only be 20-30 basis points of sell-off left in the tank. We don't see the 10-year yield moving above 2.50% this cycle. In this context, the curve flattener will continue to be the trade-du-jour.

In prior Fed normalization, sell-off was largely captured before peak-tightening
Key interest rates and treasury run-off by month

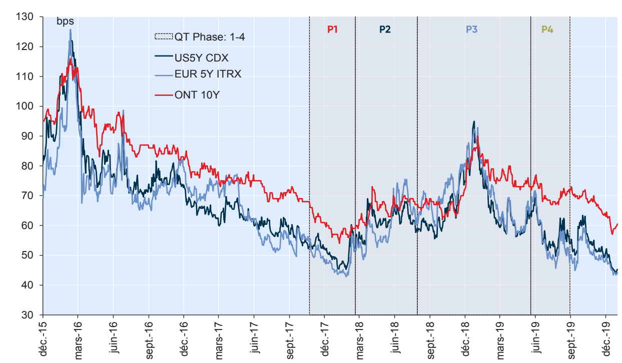


NBF Economics and Strategy (data via Bloomberg, Fed)

As for credit, we've also already seen a non-trivial sell-off as markets digested the Fed's ongoing reversal in policy stance. Indeed, a rising rate environment is hardly conducive to risk assets. However, like the rates market, we've now baked in a healthy dose of policy normalization over the coming years. If the Fed is able to successfully navigate today's uncertain outlook, appropriately balancing the risks to inflation with the risks of staving off growth via rate hikes, risk sentiment might be able to hold up. That was certainly what we saw in the initial stages of the Fed's prior normalization episode.

However, we also learned last cycle that there comes a time when the combination of hikes and QT proves too much… too financially restrictive… too damaging to growth… too upsetting to confidence and overall risk sentiment. In 2018-19, this double-barreled approach to policy led to a steep sell-off in risk assets that was only reversed once the Fed signalled it would throw in the towel on its monetary tightening cycle. Is it wishful thinking to suggest that the Fed will be able to successfully engineer a 'soft landing' this time? Perhaps, particularly given the COVID-related uncertainty that continues to cloud the outlook. However, we do believe that Powell and the FOMC will be more attuned to financial conditions this go round and may be less likely to overtighten if markets and the economy show signs of distress. In any case, we'll be looking for continued bouts of volatility in the months and year ahead. On balance, it argues for a slightly more defensive credit position even if the economy appears well positioned to weather the imminent policy normalization.

Credit handled QT and rate hikes… for a time
U.S., Euro & Cdn IG credit spreads, with Fed QT period broken into four phases



NBF Economics and Strategy (data via Bloomberg)

Interest Rates and Bond Markets

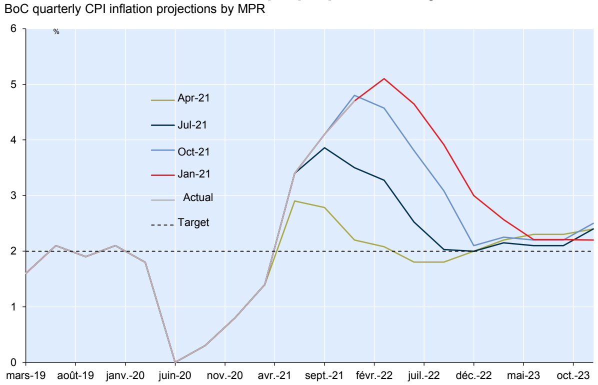
Speaking of volatility, mark your calendar for March 16th. It'll be our next opportunity hear from the collective FOMC as they lay down a fresh Summary of Economic Projections alongside a rate decision. While we can safely bet that the Fed funds target will be raised, revised thinking on some combination of the committee's inflation, growth, employment, or interest rate outlook could lead to renewed market shakiness. A dot plot signalling a median of 5 (or more) rate hikes in 2022—we think four is most likely—could represent another shock to the system. Meanwhile, we may not be presented specifics of the Fed's timeline/plan for balance sheet normalization but the qualitative discussion in Powell's press conference is yet another potential source of market repricing. Buckle up, the ride will continue to be a wild one in 2022.

BoC: Hikes are nigh

While our projection for a January Bank of Canada interest rate hike didn't end up materializing, Tiff Macklem and the Governing Council effectively did everything except raise the policy rate. As expected, the Bank dropped its forward guidance noting that overall economic slack has been absorbed. They highlighted building inflationary pressures, a very tight labour market and acknowledged Canada's red-hot housing prices. Moreover, the statement conceded that rates 'will need to increase' this year. Despite all of this, it appears that the Governing Council wanted to (a) give the Canadian economy clear advanced notice of imminent rate increases and (b) make it through the worst of the Omicron wave before getting the hiking cycle underway. Now, like the Fed, it appears that March lift-off is all but guaranteed.

BoC inflation forecasts moved up, up, up… but always back to ~2%

BoC quarterly CPI inflation projections by MPR



NBF Economics and Strategy (data via Bank of Canada) | Note: Some quarters are estimated based on the quarterly projections provided and full-year projections

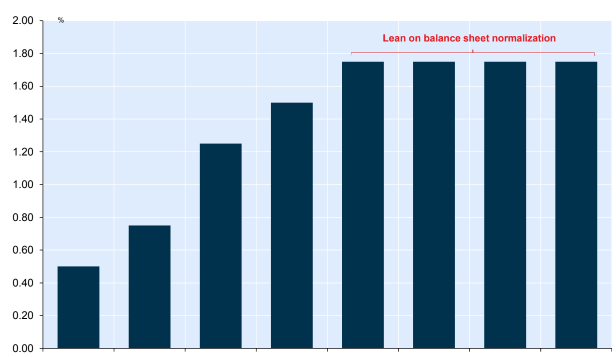
In the post-meeting press conference, Tiff Macklem provided a little bit more context for the rate trajectory Canadians can expect this year. He reiterated a number of times that interest rates will now be on a "rising path". While he didn't indicate how high and how fast rates will rise, he did say that a rising path does not imply one move. It means "a number of steps". He also indicated that since rates are "exceptionally low" the first few moves should be straightforward. Thereafter, decisions become "finely balanced" and "more data dependent". Translation: There is likely be a series of a few rate hikes over the coming months, but the Bank is likely to slow down and become more measured with rate increases towards the end of the year.

Macklem's loose guidance is largely consistent with our rate outlook. We continue to see a relatively rapid pace of rate hikes in 2022 (including back-to-back moves in March and April) before slowing the pace towards the end of the year and ultimately tapping out in early 2023. Instead of relying on rate hikes to cool what should still be above-target inflation next year, we see the Bank relying on its other policy lever: balance sheet normalization (more on that in the following section).

One might be tempted to question if achieving five rate hikes in 2022 is realistic. True, we haven't seen a bout of rate hikes materialize that quickly since before the Global Financial Crisis. However, we think its important to stress that our forecasted rate trajectory simply returns the policy rate to a neutral-to-slightly below neutral level. Arguably, we should already be nearing such a policy setting given above-target inflation, tightness in labour markets and frothy, potentially speculative housing activity.

Visualizing our rates call

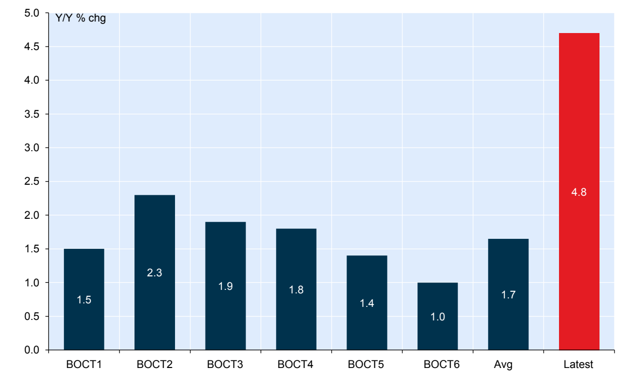
Policy rate projections (quarter-end) for Bank of Canada Q4:2023



NBF Economics and Strategy

Which of these inflation rates doesn't belong!?

Canada all items CPI inflation prior to tightening + latest level for context



NBF Economics and Strategy (data via BoC, StatCan) | Note: BOCT"X" refers to prior BoC tightening cycles

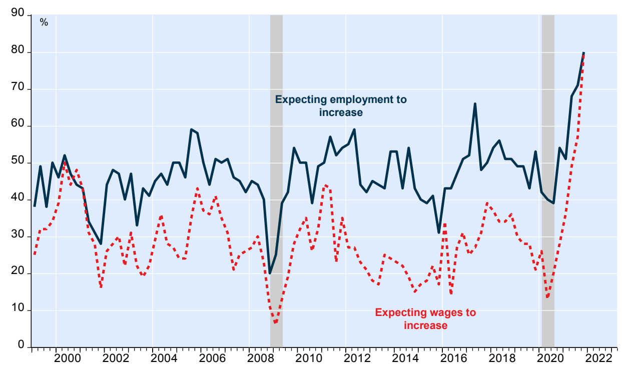
We'd also emphasize the underlying strength in the Canadian economy that should keep the expansion on solid footing amidst the coming period of monetary tightening. The Bank of Canada's 2021:Q4 Business Outlook Survey indicated that investment and hiring intentions for Canadian businesses are at all time highs. The brief hit to employment levied by Omicron restrictions should prove temporary and we're likely to see the vast majority of these job losses recovered by the end of Q1. Moreover, sectors unaffected by COVID-related restrictions have seen employment climb nearly 4% above pre-COVID levels. Tightness here and ongoing labour shortages should continue to support solid wage growth for Canadian workers—a theory supported by the data from the BoC's Business Outlook Survey.

By the same token, tight labour markets and strong wage growth should mean continued inflationary pressures ahead. Add to the mix stubborn supply chain bottlenecks and there is likely to be some stickiness in headline inflation for the coming couple years. That's certainly what business, consumers and even the Bank of Canada are bracing for. Will one or two interest rate hikes meaningfully cool demand/ease inflation this year? Probably not in our view, particularly given that monetary policy operates with a lag. Instead, with inflation becoming a growing concern for Canadian households, businesses and politicians alike, the BoC will be want to be seen as doing whatever it can to bring price pressures to heel. Five hikes this year might not immediately bring inflation right back to target but it may strike the best balance between cooling de-

Interest Rates and Bond Markets

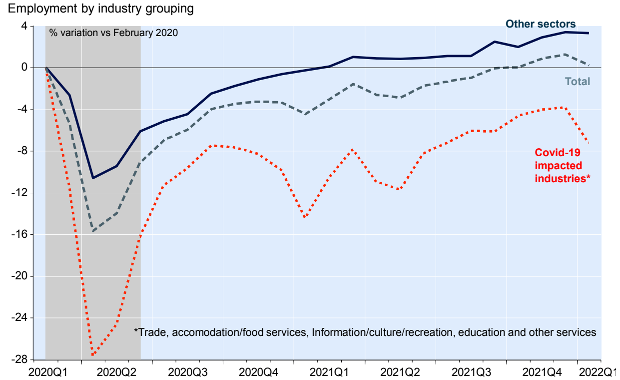
mand/combatting domestic inflationary pressures and ensuring the expansion is able to endure. After this relatively quick move back to more normal interest rate settings (and assuming inflation does meaningfully alleviate), the BoC can ease up on the hikes and can turn to its other key policy tool: quantitative tightening.

Labour shortages forcing firms to raise pay
Net % of firms expecting employment to rise next 12M vs. net % of firms expecting to raise wages next 12M



NBF Economics and Strategy (data via Bank of Canada)

COVID-insensitive sectors remain very strong
Employment by industry grouping



NBF Economics and Strategy (data via Statistics Canada)

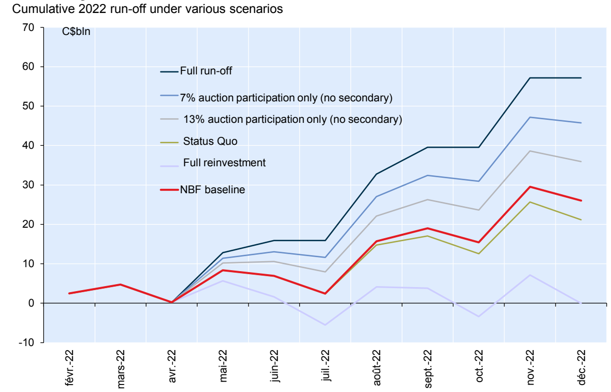
BoC: Navigating the QT wildcard

Note: This section is drawn from our recent note on the outlook for BoC balance sheet normalization. You can read that here.

Currently, the Bank of Canada balance sheet remains in the 'reinvestment phase'. That phase began after the late-October 2021 policy meeting and was left intact in January, with little additional guidance provided. As a reminder, this involves purchasing C$4-5 billion in GoC bonds per month to keep the Bank's holdings roughly constant. By our calculation, this pace achieves full reinvestment through the first half of 2022 which is largely consistent with the timeline of how we see things playing out: We'll be looking for the Bank to provide more guidance on their run-off plans by the March meeting, with the subsequent April meeting potentially teeing up a run-off to start by May or June.

Given that we haven't received much from the Bank, the range of potential outcomes is wide. From full reinvestment throughout the year (i.e. no run-off) to allowing every bond to mature, the BoC could decrease its holdings anywhere from C$0 to nearly C$60 billion over 2022. With the policy rate expected to be leaned on heavily this year, we'd argue for a slower, more measured pace of run-off, at least at first. This could translate to~C$25 billion in GoC bonds leaving the BoC's balance for good. This would represent a decline of about 6% from peak holdings—a drop largely in line with the initial quarters of the Fed's prior normalization exercise. Moreover, we see full run-off as highly unlikely given that the Bank is likely going to want to continue purchasing bonds in primary, as it has for decades as part of its regular course balance sheet management.

Choose your own adventure: QT edition
Cumulative 2022 run-off under various scenarios

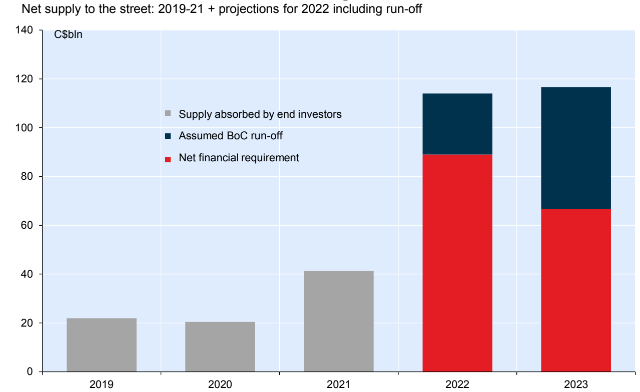


NBF Economics and Strategy (data via Bank of Canada)

While the BoC will stress their independence, they will also surely be cognizant of the government bond supply outlook. Even though GoC issuance was ramped up significantly in 2020 and 2021 to fund the fight against COVID-19, the vast majority of those bonds didn't need to be absorbed by the market as the Bank's QE vacuum did the heavy lifting. This vacuum has now been shut off and while issuance will step down this year, it won't decline by enough to offset the removal of BoC support. Absent any balance sheet run-off, we're on pace to see nearly C$90 billion of net new supply hit the street in 2022. This would represent a significant step up from 2021 and would set the all-time high watermark. By opting to let some bonds roll off the Bank's balance sheet, the onus on the street to absorb new supply becomes even greater. In other words, this too is an argument against an ultra-aggressive unwind in 2022.

By early 2023, we see the Bank throwing in the towel on its hiking cycle, with the policy rate unlikely to climb north of 2%. By this time, inflation should be trending down towards target, with the labour market hopefully remaining on strong footing. The Canadian economy's relatively high interest rate sensitivity will have meant that higher rates should have meaningfully cooled demand. With policy rate stability signalled, the BoC will be able to loosen up on the balance sheet and allow a faster pace of unwind throughout the year. Something on the order of C$50 billion in run-off might be a realistic amount of normalization here. We're cautiously optimistic that this needn't lead to significant supply indigestion as the increase in run-off will be coincident with a decline in net financial requirements. Even allowing for a doubling of run-off in 2023, the ask of end investors might not be any greater than 2022.

More run-off in 2023, but lower financing need
Net supply to the street: 2019-21 + projections for 2022 including run-off



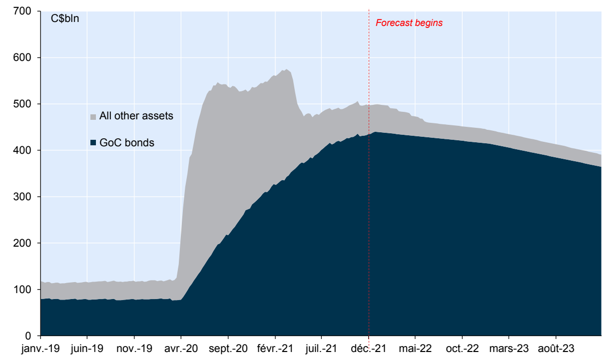
NBF Economics and Strategy (data via NBF, BoC, GoC 2021-22 Budget Update)

Interest Rates and Bond Markets

Over the next two years under our base case outlook, the BoC's holdings of GoC bonds would decline by C$75 billion or ~18%. That's a slightly larger unwind than the Fed went through in 2017-19 when its Treasury holdings fell by 16%. However, unlike the Fed who opted to steadily hike to (or through) neutral throughout the run-off process, we'd opt for more of a stepwise approach: policy rate focused first, balance sheet focused second. It's a marginally more cautious approach that we believe the market will have an easier time digesting. In any event, barring a fire sale of GoC bonds, the balance sheet will not be able to return to pre-pandemic levels. Consider it a battle scar endured in the fight against COVID-19.

Even with run-off, balance sheet to stay elevated

Trajectory for the BoC balance sheet under NBF assumptions



NBF Economics and Strategy (data via Bank of Canada) | Note: Based on market value of securities. Assumes T-bills and credit are not reinvestment, and repo operations remain suspended. GOC bonds series is smoothed based on projected full year run-off for 2022 and 2023.

Canadian Bond Market: Interest rates, spreads and currencies

	7-Feb-22	8-Nov-21	9-Aug-21	10-May-21	8-Feb-21
Interest Rates					
3 months	0.361	0.153	0.18	0.107	0.073
2 years	1.343	0.952	0.482	0.294	0.199
5 years	1.685	1.4	0.89	0.886	0.499
10 years	1.839	1.63	1.254	1.516	1.012
30 years	2.104	1.977	1.794	2.123	1.588
Spreads					
3 months - 2 years	98.2	79.9	30.2	18.7	12.6
2 - 5 years	34.2	44.8	40.8	59.2	30
5 - 10 years	15.4	23	36.4	63	51.3
10 - 30 years	26.5	34.7	54	60.7	57.6
Currencies					
CAD/USD	1.2668	1.2442	1.2577	1.2102	1.2739
EUR/CAD	0.69	0.6936	0.6774	0.6811	0.6514

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Back to Research Analysts page

Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

World: Inflation and war fears

Global equities have been buffeted by increasing volatility since the beginning of the year. The abatement of Omicron-related fears has been replaced by a confluence of factors that cloud the outlook for corporate earnings. Resilient inflation, expectations of aggressive central bank intervention, and fears of military conflict in Ukraine are now at the top of investors' minds. The MSCI ACWI is currently down just over 5%, with the bulk of the decline accounted by the U.S. and Europe (table). Canada and Emerging markets continue to post positive returns.

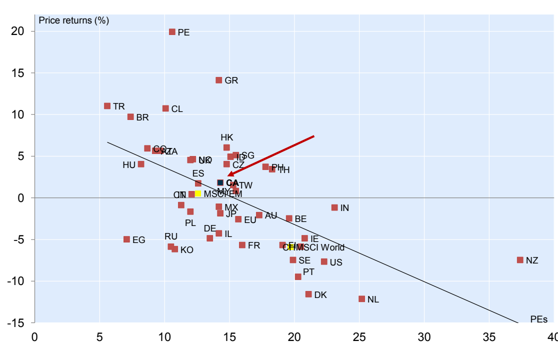
MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	-0.5	-5.1	-5.1
MSCI World	-0.9	-5.9	-5.9
MSCI USA	-2.1	-7.7	-7.7
MSCI Canada	2.1	1.8	1.8
MSCI Europe	0.5	-2.6	-2.6
MSCI Pacific ex Jp	4.4	0.6	0.6
MSCI Japan	3.3	-1.9	-1.9
MSCI EM	2.4	0.5	0.5
MSCI EM EMEA	1.0	3.4	3.4
MSCI EM Latin America	2.6	6.7	6.7
MSCI EM Asia	2.7	-0.5	-0.5

2/11/2022
NBF Economics and Strategy (data via Refinitiv)

The worst performing country indices since the beginning of 2022 are generally those with higher forward PEs (chart). The resilience of MSCI Canada (see arrow) and MSCI EM is generally consistent with investor preference for PEs below 15x.

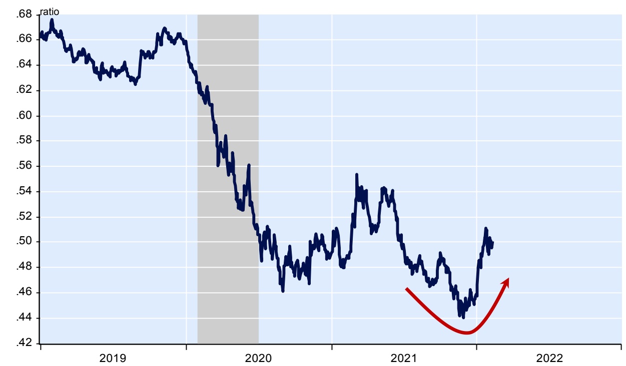
World: Equity performance vs. valuation in 2022
2022 YTD returns for MSCI country indices in local currencies* vs December 2021 forward PEs 2021**



* As of February 11, 2002 ; ** 12-month forward PEs as of December 31, 2021
NBF Economics and Strategy (data via Refinitiv)

This investment style, which favors value stocks over growth stocks, should continue to do well in the months to come.

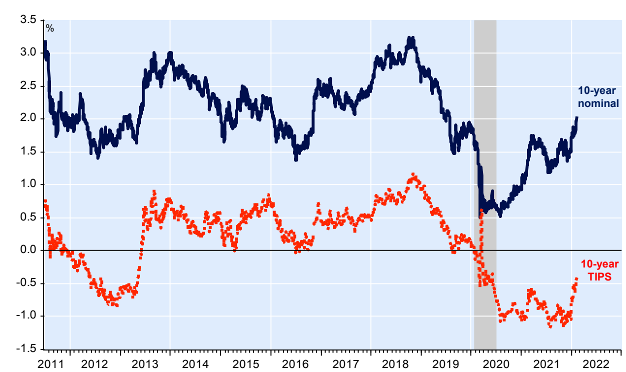
U.S.: Value still has room to outperform growth
Ratio of value stocks over growth stocks for the S&P 500



NBF Economics and Strategy (data via Refinitiv)

Indeed, growth stocks are more vulnerable to rising bond yields. In recent days, the 10-year U.S. Treasury yield rose above 2% for the first time since 2019. Our fixed income strategists expect yields to stabilize below 2.5% over the next few quarters, so no more than 50 basis points higher than the current level (see *here*). Even if all of this increase were in real interest rates, it would leave 10-year TIPS near zero, a level unlikely to trigger an equity bear market (chart).

U.S.: Nominal rates are back to pre-pandemic levels, but not real rates
Yield on 10-year Treasuries and 10-year TIPS

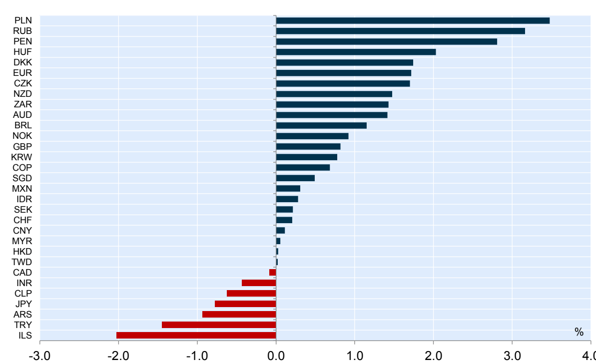


NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

This is because the yield curve already reflects significant monetary tightening. After the December CPI inflation report, which saw headline inflation hit 7.5%, its highest level in 40 years, the bond market upped the ante on Fed rate hikes to more than six 25 basis point hikes in 2022. One might argue that a good chunk of the long-term interest rate, credit and equity market sell-off could already be behind us, particularly if policy normalization ends up being less tame than markets expect. Still, as the S&P 500 continues to recover from a 10% drop in January, we have been asked to assess the likelihood of a potential equity bear market in the U.S., i.e. a decline of 20% or more. A military conflict in Ukraine could of course trigger such a scenario in the coming weeks, as could a worsening pandemic or other geopolitical event. On the Ukraine front, we note that while the situation remains very tense, the currencies of many European countries have gained ground against the U.S. dollar since the beginning of the year, with the Polish zloty and Russian ruble performing impressively. Currency markets seem to anticipate an easing of geopolitical tensions.

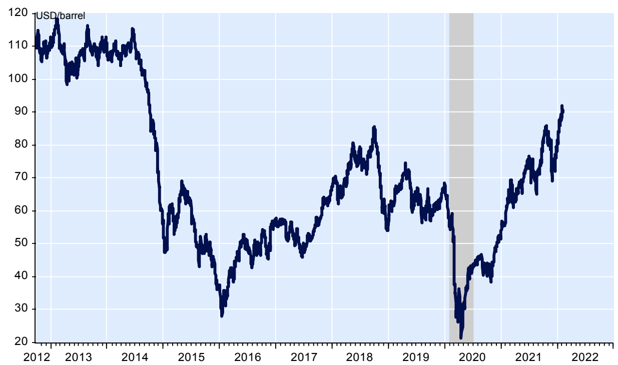
USD: Limited strength so far in 2022
Spot returns for major currencies against the USD, YTD to Feb 10, 2022



NBF Economics and Strategy (data via Bloomberg)

For more optimistic currency views on Ukraine to be justified, energy prices will have to fall. Brent crude oil topped $90 a barrel last week, its highest level since 2014 (chart). An easing of geopolitical tensions could go a long way toward deflating oil prices and global inflationary pressures.

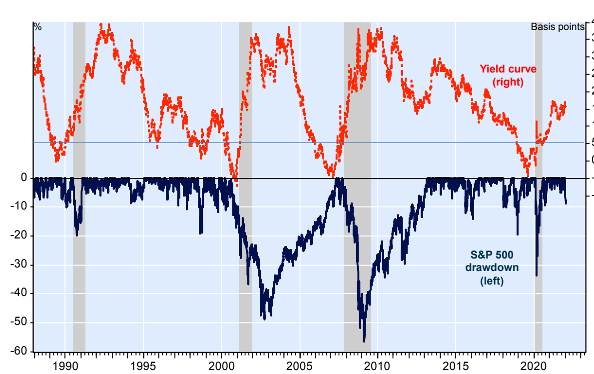
World: Oil prices are the highest since 2014
Price of Brent oil



NBF Economics and Strategy (data via Refinitiv)

But what about monetary policy? Do future rate hikes pose a threat to the earnings outlook and the stock market? Eventually they will, but that time has not yet arrived. One way to assess the impending danger to stocks is to look at the yield curve. The Fed likes to look at the yield curve (YC), defined as the difference between the yield on the 10-year Treasury and the yield on the 3-month Treasury bill. The slope of the yield curve is currently about 155 basis points, which is still relatively high by historical standards. Our research has shown that as long as the YC remains above 100 basis points during the mature phase of the business cycle - which is where we are now - equity markets tend to advance despite increased volatility. Importantly, there has never been a bear market when the YC is above 50 basis points (chart).

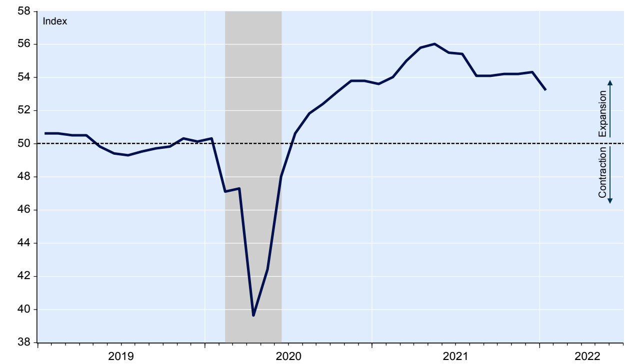
U.S.: Yield curve does not signal bear market
S&P 500 drawdowns from peak vs. the yield curve (10-year Treasury yield minus 3-month T-Bill)



NBF Economics and Strategy (data via Refinitiv)

At this point, it is important to keep in mind that the global economy retains sufficient momentum to drive earnings (chart).

World: Manufacturing sector continued to expand at healthy clip
JPMorgan/Markit Global Manufacturing PMI. Last observation: January 2022



NBF Economics and Strategy (Source: Markit via Refinitiv)

Globally, analysts raised their earnings per share forecasts for the coming year for 52% of companies, a figure that remains comfortably above the 45% average of the past decade. We also find that the diffusion of positive earnings revisions exceeds 10-year historical averages in all major regions of the world (table).

MSCI : change in 12-month forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	2.2	-0.4	1.0	-0.4	52%	45%
MSCI World	2.5	-0.4	1.0	-0.4	54%	46%
MSCI USA	2.5	-0.2	0.9	-0.2	53%	49%
MSCI Canada	2.8	-0.6	0.9	-0.6	48%	44%
MSCI Europe	2.8	-0.8	1.5	-0.8	56%	42%
MSCI Pacific ex Jp	0.3	-0.5	1.0	-0.5	47%	42%
MSCI Japan	3.2	-0.1	0.4	-0.1	55%	50%
MSCI EM	0.6	-0.5	0.8	-0.5	49%	41%
MSCI EM EMEA	5.7	-0.4	2.3	-0.4	65%	44%
MSCI EM Latin America	-0.3	-0.8	0.7	-0.8	52%	41%
MSCI EM Asia	-0.4	-0.4	0.5	-0.4	46%	41%

2/11/2022

NBF Economics and Strategy (data via Refinitiv)

Back to Research Analysts page

Stock Market and Portfolio Strategy

S&P/TSX: Resilient

The S&P/TSX continues to show resilience. The Canadian benchmark is up 1.5% year-to-date, led by energy (+17.6%), banks (+9%) and materials (+4.7%) - table.

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	2.1	1.5	1.5
MATERIALS	8.3	4.7	4.7
HEALTH CARE	7.1	-2.7	-2.7
ENERGY	4.5	17.6	17.6
FINANCIALS	3.1	6.8	6.8
BANKS	3.0	9.0	9.0
CONS. STAP.	2.6	-0.1	-0.1
TELECOM	1.9	3.6	3.6
INDUSTRIALS	0.0	-2.8	-2.8
REAL ESTATE	-0.2	-6.2	-6.2
UTILITIES	-0.4	-2.7	-2.7
CONS. DISC.	-2.2	-4.2	-4.2
IT	-7.7	-26.5	-26.5

2/11/2022

NBF Economics and Strategy (data via Refinitiv)

These sectors are also the ones that have experienced the biggest upward earnings revisions in the last three months (table).

S&P TSX : Change in 12-month forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	Last data	10-year average	Last data	10-year average	Last data	10-year average
S&P TSX	2.3	-2.2	0.9	-0.7	47%	43%
ENERGY	6.7	-5.2	1.7	-2.9	71%	41%
MATERIALS	3.5	-5.0	3.3	-1.7	34%	41%
INDUSTRIALS	-3.2	-2.6	-1.8	-0.8	31%	43%
CONS. DISC.	-2.6	-1.5	-0.5	-0.6	31%	46%
CONS. STAP.	0.4	-0.4	0.2	-0.1	56%	45%
HEALTH CARE	-6.0	-6.2	-3.0	-2.4	14%	40%
FINANCIALS	2.2	0.1	0.4	0.0	57%	50%
BANKS	2.9	0.2	0.0	0.1	71%	51%
IT	3.9	-1.5	1.0	-0.5	60%	47%
TELECOM	-1.3	-1.2	-1.0	-0.4	29%	41%
UTILITIES	-2.3	-1.8	0.4	-0.5	44%	42%
REAL ESTATE	2.8	NA	6.5	NA	81%	NA

2/11/2022

NBF Economics and Strategy (data via Refinitiv)

We remain constructive on these industries given their low valuations with forward PEs below 13 (chart).

S&P/TSX : Price to 12-month forward earnings

	2/11/2022	A year ago	10 year ave.	5 year average
S&P TSX	14.8	17.2	15.1	15.4
ENERGY	12.0	20.0	34.3	39.9
MATERIALS	12.7	14.2	18.1	17.9
INDUSTRIALS	25.7	27.2	18.3	21.4
CONS. DISC.	14.2	15.9	14.0	14.3
CONS. STAP.	16.9	15.5	16.7	16.9
HEALTH CARE	17.4	40.5	16.1	19.7
FINANCIALS	12.0	11.6	11.4	11.1
BANKS	12.0	11.4	10.9	10.8
IT	42.3	68.5	28.6	38.4
TELECOM	19.5	17.2	15.9	16.7
UTILITIES	23.6	25.6	20.2	21.3
REAL ESTATE	14.3	NA	NA	NA

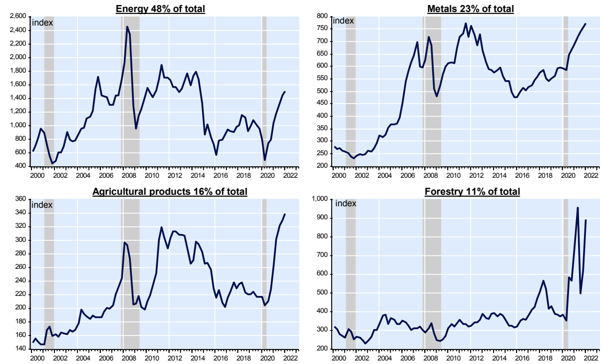
2/11/2022

NBF Economics and Strategy (data via Refinitiv)

As inventory rebuilding activity pushes global manufacturing output to a record high this year, commodity prices should stay strong. In early 2022, the Bank of Canada's commodity price index shows a multi-year high for the selling price of Canadian energy products and new records for metals and agricultural products. The forestry sector has also experienced a significant rebound (chart).

Canada: Commodities prices are strong at the start of 2022

Bank of Canada commodity price index priced in USD (quarterly averages)

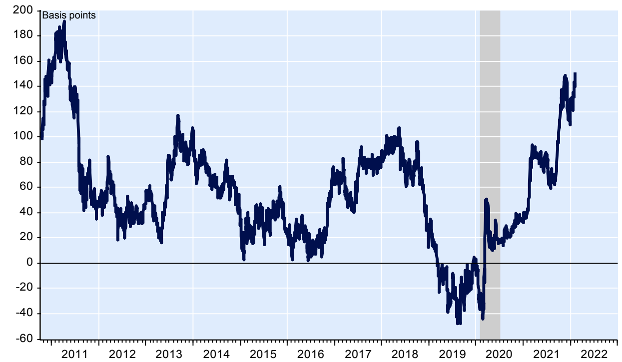


NBF Economics and Strategy (data via Bank of Canada)

For the banking sector, we find that the spread between the 5-year Treasury yield and the yield on a 3-month Treasury bill is the widest in over a decade (chart). This should help support the sector's profitability if job growth picks up in the coming months after a Covid-induced slowdown in January.

S&P/TSX: Banks to benefit from steeper yield curve

Spread between 5-year Treasury yield and 3-month T-Bill



NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is unchanged this month: underweight in fixed income and overweight in equities with a preference for value over growth stocks given our expectation of rising long-term interest rates. Although we expect quantitative easing to end and the overnight rate to rise in the coming weeks, we doubt that monetary policy will become restrictive in the near future. Geographically, we continue to overweight Canada where we see good potential for profit growth and scope for a significant appreciation of the loonie.

Performance of asset classes in inflationary periods since 1972

Real total annualized returns during periods of inflation exceeding 4% (including start of recessions)

	Periods					Average	Other periods
	1972M12-1974M12	1976M12-1980M03	1986M12-1990M10	2002M06-2005M09	2006M10-2008M07		
Copper	-6.7	2.5	12.6	32.9	-0.6	8.1	9.7
Gold bullion	49.5	41.5	-6.2	10.8	11.0	21.3	-2.2
10-year Treasury total return index	-8.3	-11.6	1.0	0.7	3.5	-2.9	5.9
S&P 500	-27.9	-5.0	3.0	7.8	-7.7	-5.9	11.4
S&P/TSX	-18.6	16.8	-3.1	13.9	2.6	2.3	6.4
US Broad Nominal $	-12.6	-9.8	-1.4	-6.3	-9.8	-8.0	0.7
US home prices	-1.6	1.3	-0.4	11.0	-16.9	-1.3	1.7
CA home prices	11.6	-2.2	2.5	4.9	3.2	4.0	5.8
Light Crude Oil	66.4	27.5	10.5	26.3	42.4	34.6	-6.6
CRB composite	11.5	-2.5	-1.4	4.5	8.8	4.2	0.3

NBF Economics and Strategy (data via Refinitiv)

We maintain a slight overweight in cash this month because of the geopolitical context.

Stock Market and Portfolio Strategy

NBF Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	25	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	5	
Fixed Income	45	42	
Cash	5	7	
Total	100	100	

NBF Economics and Strategy

Sector allocation

Our sector allocation is unchanged this month. We continue to favour cyclicals such as Energy, Materials and capital goods These are sectors that have historically done well in the early phase of monetary tightening when the yield curve remains above levels that would normally suggests a significant economic slowdown.

NBF Fundamental Sector Rotation - February 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**15.2%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	15.1%
Materials	**Overweight**	**11.9%**
Chemicals	Market Weight	1.9%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.8%
Gold	Overweight	6.1%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.5%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	2.8%
Transportation	Market Weight	6.6%
Consumer Discretionary	**Market Weight**	**3.4%**
Automobiles & Components	Underweight	1.0%
Consumer Durables & Apparel	Overweight	0.5%
Consumer Services	Market Weight	0.8%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.7%**
Food & Staples Retailing	Market Weight	3.1%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.7%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.6%
Financials	**Market Weight**	**33.8%**
Banks	Market Weight	23.3%
Diversified Financials	Market Weight	4.5%
Insurance	Market Weight	6.0%
Information Technology	**Underweight**	**7.7%**
Telecommunication Services	**Market Weight**	**4.8%**
Utilities	**Underweight**	**4.4%**
Real Estate	**Underweight**	**2.9%**

** Metals & Mining excluding the Gold Sub-Industry for the recommendation.*

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	**Q4 2022**
Index Level		**Feb-11-22**	**Target**
S&P/TSX		21,549	22,700
Assumptions			Q4 2022
Level:	Earnings *	1356	1500
	Dividend	552	610
PE Trailing (implied)		15.9	15.1
			Q4 2022
10-year Bond Yield		1.87	2.15

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	**Q4 2022**
Index Level		**Feb-11-22**	**Target**
S&P 500		4,419	4,800
Assumptions			Q4 2022
Level:	Earnings *	208	225
	Dividend	60	65
PE Trailing (implied)		21.3	21.3
			Q4 2022
10-year Bond Yield		1.95	2.30

** S&P operating earnings, bottom up.*

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on	Returns				Returns			with S&P 500
	02-11-2022	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***4444***	***-1.9%***	***-7.3%***	***10.7%***	***63.0%***	***-6.9%***	***10.8%***	***55.4%***	***1.00***
United States - S&P 500	*4419*	*-2.2%*	*-7.3%*	*12.8%*	*63.1%*	*-6.9%*	*12.8%*	*55.4%*	*1.00*
Canada - S&P TSX	*21549*	*2.1%*	*1.5%*	*17.2%*	*38.4%*	*1.5%*	*17.2%*	*38.4%*	*0.95*
Europe - MSCI Index	***2036***	***2.0%***	***-2.7%***	***8.3%***	***29.9%***	***-2.3%***	***8.3%***	***23.8%***	***0.94***
United Kingdom - FTSE 100	*7661*	*2.6%*	*3.7%*	*17.3%*	*7.5%*	*4.6%*	*15.5%*	*8.3%*	*0.29*
Germany - DAX 30	*15425*	*-0.3%*	*-2.9%*	*9.9%*	*40.0%*	*-2.2%*	*3.3%*	*35.0%*	*0.96*
France - CAC 40	*7012*	*0.2%*	*-2.0%*	*23.7%*	*39.8%*	*-1.3%*	*16.3%*	*34.8%*	*0.86*
Switzerland - SMI	*12232*	*0.0%*	*-5.0%*	*12.7%*	*34.9%*	*-6.1%*	*8.4%*	*39.5%*	*0.96*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*18.8%*	*0.7%*	*-6.0%*	*14.5%*	*0.53*
Netherlands - Amsterdam Exchanges	*762*	*0.8%*	*-4.6%*	*14.6%*	*43.4%*	*-3.9%*	*7.8%*	*38.2%*	*0.97*
Pacific - MSCI Index	***3054***	***3.7%***	***-1.7%***	***-6.7%***	***19.7%***	***-1.3%***	***-6.7%***	***14.1%***	***0.89***
Japan - Nikkei 225	*27696*	*2.6%*	*-3.8%*	*-6.3%*	*36.2%*	*-4.0%*	*-15.3%*	*23.7%*	*0.93*
Australia - All ordinaries	*7516*	*3.4%*	*-3.4%*	*5.5%*	*22.6%*	*-4.2%*	*-2.4%*	*18.7%*	*0.85*
Hong Kong - Hang Seng	*24907*	*4.6%*	*6.5%*	*-17.5%*	*-11.5%*	*6.9%*	*-17.9%*	*-15.1%*	*-0.11*
World - MSCI Index	***3039***	***-0.7%***	***-6.0%***	***8.3%***	***50.3%***	***-5.6%***	***8.3%***	***43.3%***	***1.00***
World Ex. U.S.A. - MSCI Index	***2310***	***2.5%***	***-2.0%***	***4.1%***	***27.9%***	***-1.6%***	***4.1%***	***21.9%***	***0.94***
EAFE - MSCI Index	***2279***	***2.6%***	***-2.4%***	***2.6%***	***26.2%***	***-2.0%***	***2.6%***	***20.3%***	***0.93***
Emerging markets (free) - MSCI Index	***1,241***	***2.7%***	***0.7%***	***-13.1%***	***19.8%***	***1.1%***	***-13.1%***	***14.2%***	***0.86***

** Correlation of monthly returns (3 years).*

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-02-11

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2022	EPS Growth 2023	EPS Growth 12-m forward	P/E 2022	P/E 2023	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	285	-5.43	19.07	8.95	10.11	8.95	20.73	18.83	20.26	18.68	2.26	2.42
Energy	3.64	535	22.70	61.84	34.54	-4.67	26.23	12.40	13.01	12.50	31.55	0.48	13.36
Materials	2.56	528	-5.95	14.19	6.49	-4.16	4.51	15.95	16.64	16.02	17.18	3.55	3.01
Industrials	7.88	840	-6.22	10.89	35.28	19.76	31.74	20.81	17.38	20.10	14.38	0.63	-2.44
Consumer Discretionary	11.95	1424	-11.29	4.20	28.89	21.41	26.81	28.27	23.29	27.37	36.29	1.02	3.03
Consumer Staples	6.18	785	3.62	16.39	5.98	8.25	6.35	22.03	20.35	21.54	9.06	3.39	0.15
Healthcare	13.24	1518	-2.16	11.99	8.19	1.17	7.16	16.05	15.86	16.02	11.18	2.24	5.51
Financials	11.82	666	0.13	28.62	-9.68	12.37	-6.29	15.09	13.43	14.78	22.21	neg.	0.81
Information Technology	27.99	2717	-6.36	12.18	12.36	12.00	11.38	26.64	23.79	25.49	16.42	2.24	3.59
Telecom Services	9.61	235	-14.13	-1.21	3.14	15.08	5.13	20.61	17.91	20.03	19.26	3.90	-2.12
Utilities	2.52	340	0.56	6.30	1.85	6.68	2.67	19.81	18.57	19.59	6.35	7.34	-1.35
Real Estate	2.62	285	-5.43	19.07	-13.72	11.14	-10.06	47.56	42.79	46.69	32.01	neg.	3.01

* Source I/B/E/S
** Three-month change in the 12-month forward earnings

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Chart Highlights

In the February Vision, we highlight important chart breakdowns that point to a challenging investment environment as tops are completed. Breaking down from these tops turns the primary trends bearish across the board. The "value outperforming growth" theme has taken hold and is becoming more widely accepted. While we think there is more to play out in this theme long term, the NASD indicators are short-term oversold and the market needs a reset rebound. At the same time, non-tech stocks are breaking down one by one as strength in this market continues to narrow.

Technical Analysis

S&P/ASX 200

The Australian market and economy are similar to the Canadian economy and market and therefore it is important to track trends in the S&P/ASX 200. Recent weakness in the S&P/ASX 200 chart broke its 200-day and chart support at 7,200. This completed an eight-month top that turns the trend bearish. Increasing volume as the market turned down in recent days reflects growing bearish sentiment. The rising trend since March 2020 is done and a bearish trend is being established. This action suggests the S&P/TSX has more potential to trend lower than higher.

Source: Refinitiv

Technical Analysis

Nikkei 225 (NIK)

Asian markets had a difficult year in 2021 with the Hang Seng leading on the downside with a chart breakdown in July. The KOSPI index recently broke and continues to trend lower. A one-year top was recently completed when the Nikkei 225 broke down at 27,000. Target is 22,000 to 23,000. More importantly, this weak technical action has negative implications for global markets.

Source: Refinitiv

Technical Analysis

Russell 2000 (RUT)

The Russell 2000 is a broad index of stocks outside of the big cap dominated S&P 500. While the S&P 500 has not broken down from a top, it is interesting to note the technical action of the Russell 2000. Last year was not a particularly good year for this index as it traded sideways for most of 2021. Recently the chart broke support at 2100 to complete a one-year top. This breakdown suggests the trends of a lot of stocks are turning negative.

Source: Refinitiv

Technical Analysis

IBD Innovation 50 ETF (FFYY)

The IBD 50 ETF is one of many proxies for growth stocks that we monitor. As growth stocks began to falter in early 2021, the FFTY chart turned neutral and maintained that trend for the rest of the year. In early 2022 the chart broke a one-year top as US$41.00 support failed. The breakdown points to a target in the low US$30s but more importantly, it suggests the trend for most growth stocks is negative.

Source: Refinitiv

Technical Analysis

Bloomberg High Yield ETF (JNK)

The technical action on the JNK chart reflects a diminishing appetite for risk in financial markets. History has shown weakness in the JNK chart is often a red flag for equities. A one-year top was completed when the JNK chart broke key support at US$107.00 Breaking down and completing a top on the JNK may be signaling coming volatility in equity markets.

Source: Refinitiv

Technical Analysis

Percent of NASD stocks above 200-day – 16%

The downturn in growth stocks that primarily reside on the NASD has taken its toll as the number of stocks trading above their 200-day in that market fell to approximately 16%. Oversold readings on this indicator falling below 20% set the stage for a short-term rebound that alleviates the oversold condition and resets the deck for a further unwinding of the tech bull market.

Source: Stockcharts

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **January 31, 2022**

Information in this section is based on NBF analysis and estimates and Refinitiv.

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$18.49	$25.00	0.77%	35.97%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$29.91	$35.00	6.38%	23.44%	Oil, Gas & Consumable Fuels
	Shawcor Ltd.	SCL	$5.91	$8.50	0.00%	43.82%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$45.32	$57.50	1.57%	28.46%	Oil, Gas & Consumable Fuels
Materials							
	Centerra Gold Inc.	CG	$10.26	$14.00	2.62%	39.18%	Gold
	Copper Mountain Mining Corp.	CMMC	$3.52	$4.75	0.00%	34.94%	Metals & Mining
	Endeavour Mining plc	EDV	$28.32	$46.00	2.33%	64.93%	Gold
	Hudbay Minerals Inc.	HBM	$9.13	$12.50	0.20%	37.13%	Metals & Mining
	Kinross Gold Corp.	K	$6.87	$13.00	2.14%	91.47%	Gold
	Pan American Silver Corp.	PAAS	$27.51	$44.00	1.75%	61.81%	Metals & Mining
	Teck Resources Inc.	TECK.b	$39.26	$55.00	0.45%	40.60%	Metals & Mining
	Transcontinental Inc.	TCL.a	$21.10	$28.00	4.24%	36.97%	Containers & Packaging
	Wesdome Gold Mines Ltd.	WDO	$10.93	$15.25	0.00%	39.52%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$51.90	$64.00	0.00%	23.31%	Capital Goods
	CAE Inc.	CAE	$32.10	$45.00	0.00%	40.19%	Capital Goods
	Dexterra Group Inc.	DXT	$8.26	$14.50	4.13%	79.78%	Commercial & Professional Services
	Hardwoods Distribution Inc.	HDI	$43.73	$75.50	1.06%	73.75%	Capital Goods
	IBI Group Inc.	IBG	$13.23	$20.00	0.00%	51.17%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$11.74	$16.50	5.00%	45.66%	Transportation
	TFI International Inc.	TFII	$122.35	$153.00	1.02%	26.16%	Transportation
	WSP Global Inc.	WSP	$169.50	$209.00	0.90%	24.19%	Capital Goods
Consumer Discretionary							
	BRP Inc.	DOO	$105.65	$128.00	0.51%	21.65%	Consumer Durables & Apparel
	Gildan Activewear Inc.	GIL	$50.60	$59.00	1.54%	18.18%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.43	$15.00	4.82%	25.60%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$5.44	$14.00	0.00%	157.35%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$4.90	US$10.00	6.25%	110.20%	Pharmaceuticals, Biotechnology & Life Sciences
	Knight Therapeutics Inc.	GUD	$5.55	$8.00	0.00%	44.14%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$14.78	$17.50	6.03%	24.74%	Health Care Providers & Services
Financials							
	Bank of Montreal	BMO	$143.88	$151.00	3.54%	8.65%	Banks
	Element Fleet Management Corp.	EFN	$12.95	$19.00	2.38%	49.11%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$82.71	$87.00	2.96%	8.21%	Insurance
	Sun Life Financial	SLF	$71.99	$79.00	2.98%	12.79%	Insurance
	Trisura Group Ltd.	TSU	$42.95	$62.00	0.00%	44.35%	Insurance
Information Technology							
	Lightspeed Commerce Inc.	LSPD	US$32.45	US$90.00	0.00%	177.35%	Software & Services
	Magnet Forensics Inc.	MAGT	$24.85	$50.00	0.00%	101.21%	Software & Services
	Shopify Inc.	SHOP	US$964.24	US$2000.00	0.00%	107.42%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$12.97	$19.00	0.00%	46.49%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$64.47	$74.00	3.04%	17.88%	Telecommunication Services
Utilities							
	Boralex Inc.	BLX	$33.05	$41.00	2.04%	26.05%	Utilities
	Capital Power Corp.	CPX	$39.48	$47.00	5.54%	24.59%	Utilities
	Innergex Renewable Energy Inc.	INE	$18.65	$23.00	4.12%	27.18%	Utilities
	Northland Power Inc.	NPI	$36.81	$44.00	3.35%	22.79%	Utilities
Real Estate							
	Canadian Apartment Properties REIT	CAR.un	$55.91	$70.50	2.62%	28.69%	Real Estate
	Flagship Communities REIT	MHC.u	US$18.45	US$24.00	2.85%	32.98%	Real Estate
	H&R REIT	HR.un	$12.92	$17.00	4.02%	35.60%	Real Estate
	Summit REIT	SMU.un	$21.60	$26.50	2.55%	25.30%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month. A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of January 31, 2022
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

OP = Outperform
SP = Sector Perform
UP = Underperform
TENDER = Recommendation to accept acquisition offer
UR = Recommendation under review
R = Restricted stock

Δ = Price target from the previous month.
↑ or ↓ = Price target upgrade or downgrade.

Price target = 12-month price target

Δ = Recommendation change from the previous month.
↑ or ↓ = Recommendation upgrade or downgrade.

Shares/Units O/S = Number of shares/units outstanding in millions.

FDEPS = Listed are the fully diluted earnings per share for the last fiscal year reported and our estimates for fiscal year 1 (FY1) and 2 (FY2).

EBITDA per share = Listed are the latest actual earnings before interest, taxes, depreciation and amortization for the fiscal year 1 (FY1) and 2 (FY2).

P/E = Price/earnings valuation multiple. P/E calculations for earnings of zero or negative are deemed not applicable (N/A). P/E greater than 100 are deemed not meaningful (nm).

FDCFPS = Listed are the fully diluted cash flow per share for the last fiscal year reported and our estimates for fiscal year 1 (FY1) and 2 (FY2).

EV/EBITDA = This ratio represents the current enterprise value, which is defined as the sum of market capitalization for common equity plus total debt, minority interest and preferred stock minus total cash and equivalents, divided by earnings before interest, taxes, depreciation and amortization.

NAV = Net Asset Value. This concept represents the market value of the assets minus the market value of liabilities divided by the shares outstanding.

DEBT/CAPITAL = Evaluates the relationship between the debt load (long-term debt) and the capital invested (long-term debt and equity) in the business (based on the latest release).

SECTOR-SPECIFIC TERMS

› OIL AND GAS

EV/DACF = Enterprise value divided by debt- adjusted cash flow. Used as a valuation multiple. DACF is calculated by taking the cash flow from operations and adding back financing costs and changes in working capital.

CFPS/FD = Cash flow per share on a fully diluted basis.

DAPPS = Debt-adjusted production per share. Used for growth comparisons over a normalized capital structure.

D/CF = Net debt (long-term debt plus working capital) divided by cash flow.

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

Distributions per Share = Gross value distributed per share for the last year and expected for fiscal year 1 & 2 (FY1 & FY2).

Cash Yield = Distributions per share for fiscal year 1 & 2 (FY1 & FY2) in percentage of actual price.

Distr. CF per Share-FD = Funds from operations less maintenance capital expenditures on a fully diluted per share basis.

Free-EBITDA = EBITDA less maintenance capital expenditures.

P/Distr. CF = Price per distributable cash flow.

Debt/DCF = This ratio represents the actual net debt of the company (long-term debt plus working capital based on the latest annual release) on the distributable cash flow.

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

Book value = Net worth of a company on a per share basis. It is calculated by taking the total equity of a company from which we subtract the preferred share capital divided by the number of shares outstanding (based on the latest release).

P/BV = Price per book value.

› REAL ESTATE

Distributions per Unit = Gross value distributed per unit for the last year and expected for fiscal year 1 & 2 (FY1 & FY2).

Cash Yield = Distributions per share for fiscal year 1 & 2 (FY1 & FY2) in percentage of actual price.

FFO = Funds from Operations is a measure of the cash generated in a given period. It is calculated by taking net income and adjusting for changes in fair value of investment properties, amortization of investment property, gains and losses from property dispositions, and property acquisition costs on business combinations.

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

P/CF = Price/cash flow valuation multiple. P/CFPS calculations for cash flow of zero or negative are deemed not applicable (N/A). P/CFPS greater than 100 are deemed not meaningful (nm).

P/NAVPS = Price per net asset value per share.

› SPECIAL SITUATIONS

FDDCPS = Fully diluted distributable cash flow per share. Cash flow (EBITDA less interest, cash taxes, maintenance capital expenditures and any one-time charges) available to be paid to common shareholders while taking into consideration any possible sources of conversion to outstanding shares such as convertible bonds and stock options.

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

P/CFPS = Price/cash flow per share valuation multiple. P/CFPS calculations for cash flow of zero or negative are deemed not applicable (N/A). P/CFPS greater than 100 are deemed not meaningful (nm).

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442

Associates:
Will Flanigan: 416-507-8006
Pranoy Kurian: 416-507-9568

Selections

- *Sun Life Financial*
- *iA Financial Corporation*
- *Bank of Montreal*

Canadian Banks & Lifecos

Sun Life Financial Inc. (TSX: SLF) – *Raising the ROE target to 16%+.*

SLF reported an EPS beat in Q3/21 despite some challenging conditions that included an elevated level of COVID-19 related mortality & morbidity claims and a significant FX-related EPS hit (i.e., 4% negative impact this quarter). Aside from the resilience of SLF's business model on clear display, another key attribute was highlighted via new guidance. That is, after exceeding the midpoint of its 12-14% ROE target range for five consecutive quarters, SLF has introduced an increased medium-term ROE objective of 16%+. In addition to the "positive vibes" associated with a higher ROE target in general, the medium-term target might suggest a minimal impact on SLF's profitability when IFRS 17 is adopted in fiscal 2023. SLF is our top pick in the sector. $79 price target. Outperform.

Bank of Montreal (TSX: BMO) – *Fortune favours the bold. A better M&A outcome than we anticipated.*

BMO's Bank of the West acquisition differed from our expectations in several, mostly positive, ways. The biggest divergence is a much lower number of shares issued (i.e., nearly 30 million vs. 84 million estimate) than expected. At this point, a common view is that BMO could be "dead money" in the coming year, as investors weigh regulatory approval, financing and execution risks. While valid, we believe the longer-term perspective is much more positive. BMO has addressed its excess capital "overhang" and will offset the headwind of PCL normalization with acquisition-related expense synergies. Moreover, if rate hikes materialize as anticipated by consensus, we see additional EPS/ROE upside that could lead to positive 2023 EPS revisions. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		93,550	648	144.31	10/2021	12.96	13.21	14.20	10.9	10.2	80.18	89.41	97.64	1.6	1.5	3.7%	151.00	
Bank of Nova Scotia	BNS	SP		109,815	1,216	90.33	10/2021	7.87	8.31	8.55	10.9	10.6	53.28	57.38	61.55	1.6	1.5	4.4%	86.00	
CIBC	CM	OP		71,670	451	158.97	10/2021	14.47	15.10	15.26	10.5	10.4	91.66	97.60	103.17	1.6	1.5	4.1%	165.00	
National Bank	NA	NR		33,895	338	100.26	10/2021	8.98	9.01	9.27	11.1	10.8	47.95	51.87	55.59	1.9	1.8	3.5%	NR	
Royal Bank of Canada	RY	OP		204,071	1,425	143.18	10/2021	11.19	11.60	12.19	12.3	11.7	64.57	69.28	74.27	2.1	1.9	3.4%	140.00	
Toronto-Dominion Bank	TD	OP		182,583	1,822	100.21	10/2021	7.91	8.13	8.32	12.3	12.0	51.66	55.33	58.93	1.8	1.7	3.6%	106.00	
Canadian Western Bank	CWB	SP		3,425	90	38.18	10/2021	3.81	3.87	4.26	9.9	9.0	33.10	35.51	38.21	1.1	1.0	3.1%	39.00	
Laurentian Bank	LB	SP		1,914	44	43.92	10/2021	4.57	4.70	4.93	9.4	8.9	54.33	57.11	60.04	0.8	0.7	4.0%	47.00	
Insurance																				
Great-West Lifeco	GWO	SP		36,662	931	39.39	12/2020	2.88	3.52	3.85	11.2	10.2	24.40	24.75	26.43	1.6	1.5	5.0%	39.00	
iA Financial	IAG	OP		8,777	108	81.53	12/2020	7.12	8.40	8.87	9.7	9.2	60.82	62.29	68.63	1.3	1.2	3.1%	87.00	
Manulife Financial	MFC	SP		50,800	1,943	26.15	12/2020	2.75	3.22	3.44	8.1	7.6	25.78	26.09	27.88	1.0	0.9	5.0%	28.00	
Sun Life Financial	SLF	OP		41,836	586	71.41	12/2020	5.45	6.05	6.55	11.8	10.9	39.97	41.74	46.56	1.7	1.5	3.7%	79.00	

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted; NR = Not Rated

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

Jaeme Gloyn, CFA
Analyst
416-869-8042
—
Associate:
Julia Gul: 416-869-7495

Selections

› *Trisura Group*
› *Element Fleet Management*

Mortgage Companies 2022 Outlook

Regulatory Temperature Heating Up

In 2021, share prices of top picks in our Mortgage Finance coverage universe, EQB and HCG, appreciated ~37% and ~32%, respectively, compared to the S&P TSX Financials Index of ~32%. While macro factors such as employment recovering the fastest on record, rebounding immigration, and excess household savings/disposable income above trend are positive tailwinds, we believe rising regulatory and policy uncertainty will constrain sector valuations and share performance near term.

Overall, we believe HCG is most "at-risk" given higher exposure to single-family mortgages and investors as well as a less diversified / higher-cost deposit funding mix. However, upon assessing prior periods defined by regulatory uncertainty, we find that share prices in our Mortgage Land rebounded swiftly once regulatory decisions were finalized. While we recommend staying on the sidelines for now, be ready to buy mortgage stocks the day after OSFI and various levels of government are finished "fine-tuning" mortgage regulations and policies.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 1/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.40	34.0	70.56	12/2020	6.31	8.17	8.52	8.6	8.3	52.90	54.89	62.60	1.3	1.1	1.0%	91.00	↓
First National Financial	FN	SP		2.63	60.0	43.81	12/2020	3.95	3.14	3.56	14.0	12.3	9.11	7.96	9.05	5.5	4.8	5.4%	46.00	↓
Home Capital Group	HCG	OP		1.80	49.9	36.02	12/2020	3.55	4.94	5.32	7.3	6.8	36.40	36.47	39.86	1.0	0.9		49.00	↓
Timbercreek Financial	TF	SP		0.77	81.3	9.53	12/2020	0.67	0.68	0.73	13.9	13.1	8.44	8.46	8.49	1.1	1.1	7.2%	10.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.30	243.3	5.34	12/2020	US 0.31	US 0.30	US 0.28	14.2	15.1	US 2.83	US 3.19	US 3.08	1.3	1.4	2.2%	6.50	
Element Fleet Management	EFN	OP		5.39	416.4	12.95	12/2020	0.85	0.82	0.87	15.8	14.8	7.24	7.23	7.33	1.8	1.8	2.4%	19.00	
goeasy	GSY	OP		2.43	16.5	147.38	12/2020	7.57	10.16	11.45	14.5	12.9	48.94	50.75	58.85	2.9	2.5	1.8%	220.00	
Brookfield Business Partners	BBU	OP		US 6.48	US 147.6	US 43.89	12/2020	-US 1.13	US 4.67	US 4.03	9.4	10.9	US 28.48	US 30.06	US 38.71	1.5	1.1	0.6%	US 63.00	
Power Corporation of Canada	POW	SP		27.64	676.5	40.86	12/2020	3.00	4.80	4.37	8.8	9.7	34.07	34.65	37.18	1.2	1.1	4.8%	48.00	↑
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.9	69.7	27.53	12/2020	0.80	-0.17	0.78	nmf	35.2	8.60	8.72	9.14	3.2	3.0	2.8%	32.00	
Securities Exchange																				
TMX Group	X	SP		7.24	56.0	129.31	12/2020	5.88	7.09	7.01	18.0	18.2	65.61	66.34	69.20	1.9	1.8	2.4%	147.00	↓
Insurance																				
Definity Financial Corp.	DFY	OP		3.3	115.9	28.82	12/2020	1.59	1.9	1.52	15.7	19.5	20.14	20.14	21.18	1.5	1.4	2.4%	36.00	
Intact Financial Corp.	IFC	OP		30.33	176.1	172.23	12/2020	9.92	11.37	10.33	15.1	16.7	79.21	79.85	85.98	2.2	2.0	2.1%	215.00	
Trisura Group Ltd.	TSU	OP		1.77	41.1	42.95	12/2020	0.92	1.52	1.59	28.3	27.0	8.49	8.85	10.40	4.9	4.1		62.00	
Fairfax Financial Holdings	FFH	OP		15.88	25.9	613.80	12/2020	US 6.29	US 129.30	US 57.56	3.7	8.4	US 561.88	US 620.09	US 673.18	0.8	0.7	2.1%	825.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.04	104.0	10.04	12/2020	1.38	1.40	1.42	7.2	7.1	3.90	3.92	4.02	2.6	2.5	8.6%	12.00	
IGM Financial Inc.	IGM	OP		10.67	238.9	44.66	12/2020	3.20	4.02	4.56	11.3	10.0	26.37	26.86	29.19	1.7	1.6	5.0%	62.00	↑

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted

Source: Refinitiv, Company reports, NBF

Note: All figures for BBU are in USD. FDEPS and BVPS are in USD for ECN and FFH. All other figures, including multiples are in CAD.

Diversified Industrials

Michael Storry-Robertson, CFA
Analyst
416-507-8007

Selections

› *Shawcor Ltd.*
› *Mullen Group Ltd.*

AGI acquires Eastern Fabricators; rig count forecasts point to constructive backdrop for PSI

Ag Growth kicks off 2022 with strategic food platform acquisition in Eastern Fabricators tuck-in.

In early January, AGI announced the acquisition of Eastern Fabricators, a Canadian company specializing in the design, fabrication and installation of stainless-steel equipment and systems for food processors, including (among other products) conveyors, steam cooking systems, dumpers and hoppers, and handrails. Eastern provides three-dimensional designs for custom food processing projects (serving a range of customers in North America from two facilities in PEI and one in Ontario) and will be integrated into AGI's Food platform. AGI highlighted Eastern generated ~$26 million in revenue and ~$8 million in adj. EBITDA for the trailing 12 months (ttm) as of October 2021. AGI noted an upfront purchase price of $29.25 million and the potential for an additional $15.75 million in earn-outs if future financial targets are met, implying a purchase EV/EBITDA multiple of ~3.7x (based on upfront consideration) or ~5.6x (assuming the entirety of future earnouts) vs. AGI's current 2022 EV/EBITDA of ~7.5x. The acquisition will be funded primarily through AGI's debt facilities. We like this acquisition as it increases capacity for AGI's Food Platform, one of Ag Growth's relatively higher-growth, higher-margin business lines (with the provided ttm revenue and EBITDA figures for Eastern implying adj. EBITDA margins of 30.7%, more than double AGI's firm-wide adjusted EBITDA margins in 2020 as well as our expectations for 2021. **We reiterate our Outperform rating and $46.00 target, now driven by 7.6x 2023e EV/EBITDA (more than a full-turn below AGI's post-2008 forward year EV/EBITDA average of 8.8x and in line with AGI's recent forward year trading average).**

Rig count forecasts imply further improvement in PSI activity levels through 2023. Our

Our rig count forecasts mirror those of our colleagues in Calgary, with 2022 estimates implying a 25+% improvement over rig count levels experienced in 2021 and 2023 forecasts pointing to a further ~8% y/y increase in North American rig activity levels over expectations for 2022. While much improved from the trough levels of 2020, we note our modeled estimates remain well below the pre-pandemic levels experienced in 2019, with our 2022 and 2023 North American rig count forecasts 29% and 23% (respectively) below the average posted in 2019. Given expectations for rising activity levels, we suspect PSI's operating leverage will deliver y/y improvements in EBITDA margins in both 2022 and 2023, partially moderated by inflationary pressures (largely driven by higher labour costs). Given Pason's pristine balance sheet (zero interest-bearing debt) and low capital intensity (with modest 2022e capital spending of up to $25 million), we expect significant free cash flow generation in a rising activity level environment in 2022 and 2023, with our updated forecasts implying FCF (after total capex) well in excess of the current dividend (~$17 million annually), suggesting ample headroom for a potential dividend increase or a more aggressive NCIB moving forward. **We maintain our Sector Perform rating and our $14.50 target driven by 7.7x 2023e EV/EBITDA. While this reflects the more conservative forward year EV/EBITDA multiple at which PSI has traded in the past six months, we see considerable upside to our target in the event of a re-rate closer to PSI's long-term historical forward year EV/EBITDA average of ~10.0x.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		637.74	18.8	33.95	149.3	170.9	199.1	9.5	8.7	7.5	4.3	46.00	37%	
CES Energy Solutions Corp.	CEU	OP		621.89	254.9	2.44	83.3	150.6	169.0	11.0	6.5	6.0	2.4	2.85	19%	
Enerflex Ltd.	EFX	SP		646.60	89.8	7.20	191.3	131.5	167.3	5.2	7.3	5.9	2.4	10.75	51%	
good natured Products Inc.	GDNP	OP		154.42	217.5	0.71	-1.5	-1.2	4.7	(101.9)	(154.9)	42.1	-29.2	1.25	76%	
Green Impact Partners Inc.	GIP	OP		121.80	20.3	6.00		3.3	6.3		31.4	27.1	-6.0	9.00	50%	
Mullen Group Ltd.	MTL	OP		1119.23	95.3	11.74	191.5	218.7	262.1	7.9	7.8	6.2	2.7	16.50	46%	
Pason Systems Corp.	PSI	SP		1039.26	82.4	12.61	39.5	71.3	108.7	22.7	12.5	7.9	-2.1	14.50	17%	↑
Shawcor Ltd.	SCL	OP		416.53	70.5	5.91	43.8	97.8	120.3	16.2	6.8	5.5	2.6	8.50	44%	

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted
US = US Dollars
Source: Company Reports, Refinitiv, NBF

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047

Associates:
Eduardo Garcia Hubner
416-869-7476

Stephen Kwai
416-869-7571

Selections

- *Dialogue Health Technologies*
- *DRI Healthcare Trust*
- *H_2O Innovation*
- *Knight Therapeutics*

Highlights as of January 2022

In January, Knight Therapeutics (TSX: GUD) announced the expansion of its oncology portfolio with the approval of two cancer treatments in Colombia.

Lenvima:

On January 4, 2022, Knight Therapeutics announced that the Colombian health regulator (INVIMA) approved the oncology drug Lenvima (lenvatinib) for the treatment of certain forms of thyroid cancer (radioiodine refractory differentiated thyroid cancer or RR-DTC) and liver cancer (unresectable hepatocellular carcinoma or u-HCC). Knight has exclusive rights to commercialize Lenvima throughout Latin America (ex-Mexico) from its developer Eisai Co., Ltd. (TYO: 4523, Not Rated) – the drug has already been approved in 75+ countries.

Takeaways: While we are not particularly surprised with the Colombian approval given Lenvima's widespread global approval, we nevertheless view it as a positive that will result in incremental 2022e+ revenues. Management expects Lenvima to be commercialized imminently with a target Colombian TAM of $10 million to $15 million.

Halaven:

On January 6, 2022, Knight Therapeutics announced that INVIMA approved the oncology drug Halaven® (eribulin) for the treatment of adult patients with locally advanced or metastatic breast cancer that has continued to spread following at least two specific forms of treatments. The drug is also used to treat patients with advanced or metastatic liposarcoma, which cannot be surgically removed. The developer of Halaven is Eisai while the drug has already been approved in over 70+ countries.

Takeaways: Given the already widespread approval of Halaven in 70+ countries, we were also not particularly surprised with its approval in Colombia, although we nevertheless view it as an incremental positive that will contribute to 2022e revenues. Management expects Halaven to be commercialized imminently with a target Colombian TAM of ~$10 million.

Overall, we are encouraged by the continued progress made by the company and remained optimistic about its long-term outlook. We maintain an Outperform rating and our $8.00 target derived using 2022e forecasts and a sum-of-parts valuation taking into consideration: 1) Knight's cash position of ~$1.27 per share, 2) GUD investments in life science funds, 3) equity investments obtained, in part, through the secured loan portfolio, and 4) 2022e EPS to which we apply a P/E multiple of 15x.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 1/31	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	SP		128.20	89.0	1.44u	3/2021	0.0%	(0.52)u	0.05u	0.20u	28.8	7.2	42.1u	81.3u	184.0u	15.4	6.9	1,125.5u	6.1	2.00u	
Andlauer Healthcare Group	AND	SP		1,986.35	41.5	47.84	3/2021	0.4%	0.81	1.21	1.47	39.7	32.5	78.9	109.4	136.2	20.0	16.1	204.6	1.5	49.00	
Dialogue Health Technologies	CARE	OP		357.78	65.8	5.44	3/2021	0.0%	-	(0.35)	(0.17)	nmf	nmf	(16.9)	(19.2)	(5.6)	nmf	nmf	-	-	14.00	
DRI Healthcare Trust	DHT.UT	OP		196.5u	40.1	4.90u	3/2021	6.1%	-	0.82	0.78	6.0	6.2	104.7	98.4	82.2	1.7	2.2	13.3u	0.2	10.00u	
IMV Inc.	IMV	SP		118.29	82.1	1.44	3/2021	0.0%	(0.49)	(0.36)	(0.52)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	2.50	
Jamieson Wellness	JWEL	OP		1,430.53	40.3	35.46	3/2021	1.7%	1.17	1.31	1.35	27.1	26.3	88.0	99.2	105.8	16.2	15.2	165.2	1.7	42.75	
Knight Therapeutics	GUD	OP		682.98	123.1	5.55	3/2021	0.0%	0.09	0.27	0.36	20.3	15.6	16.8	45.1	60.1	12.5	9.4	-	-	8.00	
Medical Facilities Corp.	DR	OP		316.66	31.1	10.18	3/2021	3.2%	0.96u	0.94u	0.96u	8.8	8.8	57.3u	61.8u	56.3u	6.3	6.9	87.1u	2.0	11.50	
Theratechnologies	TH	SP		373.78	95.1	3.93	3/f2021	0.0%	(0.15)u	(0.13)u	0.05u	nmf	65.6	(7.1)u	(8.3)u	8.8u	nmf	32.8	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		235.04	96.3	2.44	1/f2022	0.0%	0.08	0.10	0.13	25.4	18.7	14.6	18.0	21.0	13.9	11.9	15.8	0.8	3.25	
K-Bro Linen	KBL	SP		360.88	10.6	34.01	3/2021	3.5%	2.49	2.29	2.70	14.8	12.6	43.8	44.6	51.5	10.1	8.7	88.1	1.7	45.00	
Rogers Sugar	RSI	SP		621.08	103.7	5.99	4/f2021	6.0%	0.33	0.42	0.47	14.2	12.7	91.0	102.1	106.3	9.5	9.1	330.9	3.1	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		757.56	103.9	7.29	3/2021	8.2%	0.52	0.67	0.86	10.9	8.4	265.3	259.8	282.9	8.2	6.7	1,203.5	4.2	8.75	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

Maxim Sytchev
Analyst
416-869-6517
—
Associates:
Alizeh Haider: 416-869-7937
Kazim Naqvi: 416-869-6754

Selections

- › *IBI Group*
- › *WSP Global*
- › *ATS Automation*

Equipment Dealers

No time to step away from the machinery rebound cycle

Hitachi Construction Machinery Co. (TYO: 6305, not rated) reported FQ3/21 results (quarter-ended Dec. 2021) – increasing guidance with an improved outlook across geographies, driven by mining. Revenue in the quarter came in at ¥246.7 billion (above Street at ¥222.4 billion) and EPS of ¥68.53 (above Street at ¥32.92). The company increased outlook for the fiscal year ended March 2022 – revenue guidance increased to ¥950 billion from prior ¥920 billion (updated guidance is also above Street at ¥922 billion). The company's demand forecast for hydraulic excavators for the fiscal year increased to 231k units (a decline of 3% y/y, up 17% excluding China) from 220k units (a decline of 7% y/y) as other geographies' positive outlook more than offset a worsening outlook in China (perhaps not being helped by the Olympics as well?). North America's outlook increased to 36k units from 35k units; Western Europe increased to 41k units from 36k units (read-throughs for FTT's UK exposure), and Other (includes LATAM) increased to 40k units from 32k units. Much of the recovery is driven by mining machinery due to strong commodity prices. In addition, demand for 100-ton excavators for construction in North America is increasing. Given strong results, the updated revenue outlook for North America and Latin America increased to +59% / +72% y/y (previously outlook was +49%/+54%); however, imputed growth for next quarter y/y is -3% / 0%, respectively (which seems too conservative to us). Strong demand outlook for the regions provides positive read-throughs for TIH and FTT's results for the upcoming quarters; recall dealers are able to mitigate equipment tightness concerns with alternative offerings of rentals, used and product rebuilds.

Bottom line – the chorus of negativity is deafening; perhaps let's not throw this cycle out just yet?

Yield curve, Fed, Omicron, "late cycle", inflation… etc. Yes, we will be grinding through higher debt load incurred by the pandemic for some time, but our coverage universe does not consist of "concept" stocks trading at 40 times revenues. On the contrary, U.S. infra bill implementation is gathering momentum, commodities are benefitting from inflation and supply chain issues hammered by the rolling COVID issues should subside over the coming months, allowing price hikes to catch up with labour/materials step-up. We therefore remain constructive on engineering consultants (can be productive despite COVID) and machinery names (except for RBA) such as FTT and TIH. Let's not forget that relative to OEMs, TIH and FTT respectively derive 39% and 55% of their Equipment top lines from Product Support activities that had a sluggish 2021 but are in the process of recovering as we speak. FTT's cyclical dynamic provides a positive backdrop to the shares while TIH sports material M&A / capital return optionality. We rate TIH shares Outperform, $126 price target (using a 75% probability-weighted M&A scenario and stand-alone P/E multiple of 24x on 2023) / FTT shares are rated Outperform, $46.00 price target (using an 18x P/E multiple on 2023 forecasts).

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 1/31	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**		$17.36	$1,047	12 - 2020	$0.95	$1.31	$1.41	12.2x	11.3x	$248	$255	$263	6.3x	6.1x	4.0%	1.6x
Bird Construction Inc.	BDT	OP		**$12.00**		$9.62	$512	12 - 2020	$0.96	$0.93	$0.99	10.3x	9.7x	$100	$106	$110	4.6x	4.5x	4.1%	net cash
Finning International Inc.	FTT	OP		**$46.00**		$35.44	$5,699	12 - 2020	$1.14	$1.95	$2.27	18.2x	15.6x	$636	$806	$898	8.4x	7.5x	2.5%	1.3x
IBI Group Inc.	IBG	OP		**$20.00**		$13.23	$414	12 - 2020	$0.48	$0.72	$0.84	15.8x	14.6x	$47	$15	$40	9.8x	9.3x	0.0%	0.6x
North American Construction Group Ltd.	NOA	OP		**$27.00**		$18.24	$519	12 - 2020	$1.74	$2.05	$2.26	8.1x	7.8x	$175	$8	R	4.0x	3.9x	0.9%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$68.00**		US$60.96	$6,735	12 - 2020	US$1.59	US$1.72	US$2.05	38.6x	35.4x	US$352	US$182	US$204	17.9x	16.7x	0.0%	3.7x
SNC-Lavalin	SNC	OP		**$44.00**		$28.03	$4,921	12 - 2020	-$0.67	$1.54	$1.88	10.3x	8.6x	$93	$9	$819	7.8x	7.0x	0.3%	2.4x
Stantec Inc.	STN	SP		**$80.00**		$67.43	$7,490	12 - 2020	$2.13	$2.32	$2.90	23.3x	21.5x	$435	$21	$364	15.3x	14.3x	1.0%	2.3x
Toromont Industries Ltd.	TIH	OP		**$126.00**		$107.29	$8,873	12 - 2020	$3.09	$3.88	$4.41	22.4x	27.7x	$539	$288	$339	12.8x	12.4x	0.0%	-0.1x
WSP Global	WSP	OP		**$209.00**		$169.50	$19,908	12 - 2020	$3.34	$4.87	$5.26	32.2x	27.1x	$1,041	$1,176	$1,380	18.0x	15.3x	0.9%	0.0x
AutoCanada	ACQ	OP		**$59.00**		$37.77	$1,038	12 - 2020	$0.44	$3.79	$4.04	10.0x	9.3x	$83	$186	$218	6.4x	5.5x	0.0%	0.3x
Stelco	STLC	OP		**$53.00**		$36.79	$2,844	12 - 2020	-$0.60	$6.89	$4.23	5.3x	8.7x	$63	$838	$567	3.0x	4.5x	3.3%	-0.2x
ATS Automation	ATA	OP		**$64.00**		$51.90	$4,786	12 - 2020	$1.07	$2.05	$2.21	25.3x	23.4x	$181	$337	$355	16.5x	15.7x	0.0%	2.6x
ABC Technologies	ABCT	SP		**$9.00**		$5.75	$302	12 - 2020	NM	-$0.22	-$1.19	-20.6x	-3.8x	$133	$36	$163	16.3x	3.6x	2.6%	9.6x
Colliers International	CIGI	OP		**US$170.00**		US$146.16	$6,431	12 - 2020	US$4.18	US$5.75	US$6.19	25.4x	23.6x	US$361	US$518	US$577	15.1x	13.6x	0.2%	0.4x
Stella-Jones	SJ	OP		**$57.00**		$39.85	$2,578	12 - 2020	$3.12	$3.50	$3.39	11.4x	11.8x	$343	$361	$354	8.6x	8.8x	1.8%	1.5x
Median												**14.0x**	**13.2x**				**9.2x**	**8.1x**	**0.9%**	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

Vishal Shreedhar
Analyst
416-869-7930
—
Associates:
Paul Hyung: 416-507-9009
Ryan Li: 416-869-6767

Selection

› *Gildan*

Parkland Corporation (PKI: TSX)

Company Update: Acquiring Frontier Yarns

- *Acquiring a food retailer*

On January 18, 2022, PKI announced that it had entered into an agreement to acquire M&M Food Market, a frozen food retailer with 300 standalone locations (franchised/corporate) and 2,000 express locations across Canada. Total consideration for the transaction was indicated at ~$322 million, implying an EV/EBITDA multiple of ~8.5x (~$38 million in 2021 EBITDA). Subject to regulatory approval, the acquisition is expected to close in Q1/22.

- *Diversifying its business; low-risk acquisition*

Initial financial contribution from M&M is small (~3% of our 2021 EBITDA), but it provides PKI with stable cash flows (royalty fee-based operating model). Management aims to grow the annual run-rate EBITDA to $55 million over three years (not including international growth opportunities). In our view, the deal strays from PKI's typical approach to M&A (fuel focused); however, we similarly note that one of PKI's key pillars for achieving its 2025 EBITDA ambition is through retail diversification (which we believe is the correct long-term approach). In addition, M&M's reward program includes two million active members, which will create cross-promotional opportunities when combined with JOURNIE. PKI looks to leverage M&M's expertise/track record to develop additional fresh and quick-serve food choices across its network. Specifically, PKI will leverage M&M to enhance its ON the RUN customer value proposition (including support of the standalone concept).

- *Maintaining our thesis*

The improved deal pace over the last year should help PKI progress towards achieving its financial aspirations of reaching $2 billion in run-rate EBITDA by 2025. We remain constructive on PKI given ongoing end-market recovery, attractive valuation and anticipated future accretive acquisitions.

- *Maintain Outperform rating; Price target is $48*

We value PKI at 8.0x our 2022/23 EBITDA.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 01/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		11,257	61.3	183.53	12/2020	12.95	17.19	17.03	10.7	10.8	2,181	2,554	2,489	5.5	5.6	81.32	0.36	221.00	
Dollarama	DOL	OP		19,846	302.6	65.59	02/2021	1.81	2.20	2.57	29.8	25.6	1,131	1,291	1,434	18.0	16.2	0.06	0.99	66.00	
Fuel and Other																					
Couche Tard	ATD.b	OP		54,987	1,072.5	51.27	04/2021	2.45	2.39	2.35	16.9	17.1	5,005	4,941	4,830	9.7	10.0	12.00	0.32	53.00	
Parkland Fuel Corporation	PKI	OP		5,165	152.8	33.80	12/2020	0.54	0.83	2.78	40.7	12.1	967	1,263	1,438	7.6	6.7	15.03	0.66	48.00	
Apparel																					
Gildan	GIL	OP		10,022	198.1	50.60	12/2020	(0.18)	2.59	2.77	15.4	14.4	165	708	733	11.4	11.1	9.54	0.13	59.00	↑
Roots Corporation	ROOT	SP		136	42.2	3.21	02/2021	0.35	0.62	0.74	5.2	4.3	64	73	79	4.1	3.8	4.02	0.49	6.00	
Grocers																					
Empire Company	EMP.a	OP		10,443	266.3	39.22	05/2021	2.61	2.78	3.01	14.1	13.0	2,144	2,297	2,393	7.5	7.2	17.67	0.59	46.00	
Loblaw	L	OP		33,354	340.1	98.07	12/2020	4.18	5.42	6.03	18.1	16.3	5,004	5,595	5,726	6.9	6.7	33.20	0.32	107.00	
Metro	MRU	SP		16,501	242.7	67.99	09/2021	3.44	3.80	4.14	17.9	16.4	1,106	1,117	1,153	18.7	18.1	26.55	0.27	72.00	↑
Food Manufacturer																					
Saputo	SAP	SP		11,826	415.1	28.49	03/2021	1.74	1.45	1.98	19.7	14.4	1,471	1,305	1,646	12.2	9.7	15.6	0.39	35.00	↓
Lassonde	LAS.a	OP		1,061	6.9	153.00	12/2020	14.11	11.21	12.36	13.6	12.4	217	180	192	6.9	6.5	122.5	0.17	190.00	
Premium Brands Holdings	PBH	OP		5,231	43.6	119.98	12/2020	3.04	4.56	5.63	26.3	21.3	313	436	502	16.0	13.9	36.8	0.52	155.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,332	37.1	35.85	12/2020	1.95	2.26	2.43	15.9	14.8	171	190	197	9.0	8.7	10.58	0.49	46.00	
Pet Valu	PET	SP		2,205	71.5	30.85	12/2020	0.64	1.00	1.20	30.9	25.6	144	177	173	14.8	15.1	0.00	1.44	35.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		45	42.4	1.05	12/2020	0.30	0.12	0.25	9.0	4.2	28	18	25	9.4	6.7	3.28	0.47	3.00	
Restaurants																					
MTY Food Group	MTY	OP		1,409	24.8	56.84	11/2020	(1.51)	3.29	3.93	17.3	14.5	138	169	188	10.3	9.3	25.01	0.35	75.00	
Online Grocery																					
Goodfood Market	FOOD	OP		241	74.4	3.24	08/2021	(0.44)	(0.47)	(0.29)	NA	NA	(14)	(13)	3	NA	NA	1.32	(0.34)	4.50	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

Don DeMarco
Analyst
416-869-7572
—
Associates:
Yi Liu: 416-869-8524
Harmen Puri: 416-869-8045

Shane Nagle, CFA
Analyst
416-869-7936
—
Associates:
Lola Aganga: 416-869-6516
Ahmed Al-Saidi: 416-869-7535

Selections

› *Teck Resources*
› *Hudbay Minerals*
› *Copper Mountain Mining*

Price Volatility to Persist in 2022

Much of copper's recent bull run has been influenced by the recovery of Chinese demand, a weaker dollar and expectations of a green, copper-intensive economic recovery. There remains some uncertainty as to the extent countries can contain new waves of infection in the near term which may influence macroeconomic outcomes and we expect prices to remain volatile. Additionally, we suspect continued unrest in Latin America and tax/royalty structure risk to weigh on prices.

In our view, long-term fundamentals remain driven by a lack of an advanced stage project pipeline and building structural deficit in the coming years. Green infrastructure and electric vehicles (EV) are emerging as the dominant story for long-term copper demand, expected to partially offset the reduced production of internal combustion engine vehicles.

Top picks:

- *Teck Resources Ltd. (TECK.B: TSX)*

  Teck's organic growth within the copper division, high-quality diversified asset base with exposure to skyrocketing hard coking coal prices, strong balance sheet and long-term commitment to returning capital to shareholders are supportive of a higher valuation than currently ascribed by the market. Teck's coal business unit continues to benefit from all-time high Chinese hard coking coal prices due to tight steelmaking coal markets and the Australia shadow ban expected to persist in 2022, further complemented by step-wise improvement in Teck's coal operations in H1/22 following completion of the Neptune terminal expansion. Additionally, Teck's copper development pipeline, including QB3, Zafranel and San Nicolás, underpin Teck's organic copper growth strategy as demand is set to peak as the world advances decarbonization efforts.

- *Hudbay Minerals (HBM: TSX)*

  2022 represents an operational inflection point as high-grade ore from Pampacancha and production from New Britannia continue to ramp up. More clarity on the private land-only alternative for Copper World and resolution of the Rosemont appeals process in H1/22 are expected to result in the market allocating some value to what currently represents a free option within the portfolio.

- *Copper Mountain Mining Corp. (CMMC: TSX)*

  Copper Mountain has a strong near-term production outlook at the Copper Mountain Mine, entering a high-grade sequence for 2022 after the completion of the mill expansion to 45,000 tpd in Q3/21 (from 40,000 tpd). Our Outperform rating is underpinned by an impressive growth profile in stable jurisdictions (Canada/Australia), a supportive copper price environment and improving balance sheet. Following formal Board approval of the Eva project, we expect Copper Mountain to complete project financing in mid-2022, with production beginning in H2/24 meeting the company's goals of tripling 2020 production.

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP	-	2,236	413.3	5.41	8.25	↑	Nagle	0.07u	0.54u	0.50u	7.5x	10.9x	0.34u	0.84u	0.81u	4.8x	5.0x	7.08	0.8x
Copper Mountain Mining	CMMC	OP	-	740	210.2	3.52	4.75	↓	Nagle	0.11u	0.66u	0.68u	5.3x	5.2x	0.61u	1.48u	1.25u	2.4x	2.8x	5.91	0.6x
Ero Copper	ERO	SP	-	1,405	88.8	15.83	21.00	↓	Nagle	1.34u	2.45u	2.31u	4.9x	6.8x	2.02u	3.34u	2.94u	3.6x	4.0x	21.90	0.7x
First Quantum Minerals	FM	OP	-	21,636	691.0	31.31	40.00	↑	Nagle	(0.07)u	1.15u	3.24u	20.4x	9.7x	2.64u	4.10u	6.21u	5.7x	3.8x	26.96	1.2x
Hudbay Minerals	HBM	OP	-	2,387	261.5	9.13	12.50	-	Nagle	(0.44)u	0.16u	0.46u	43.3x	19.9x	0.93u	1.82u	2.86u	3.8x	2.4x	10.12	0.9x
Lundin Mining	LUN	SP	-	7,789	735.5	10.59	12.25	-	Nagle	0.31u	1.11u	1.33u	7.2x	8.0x	1.00u	2.06u	2.21u	3.9x	3.6x	12.08	0.9x
Sherritt International	S	SP	-	163	397.3	0.41	0.55		DeMarco	(0.34)c	(0.23)c	0.00c	n/a	173.2x	0.03c	0.03c	0.10c	14.1x	4.0x	0.92	0.4x
Taseko Mines	TKO	SP	-	690	284.0	2.43	3.25	-	Nagle	(0.11)c	0.24c	0.34c	10.1x	7.2x	0.44c	0.79c	0.74c	3.1x	3.3x	4.14	0.6x
Teck Resources	TECKb	OP	-	21,231	540.8	39.26	55.00	↑	Nagle	1.05c	6.33c	10.40c	6.2x	3.8x	3.38c	10.25c	12.83c	3.8x	3.1x	40.89	1.0x
Trevali Mining	TV	SP	-	121	98.9	1.22	2.25	↓	Nagle	(0.03)c	0.02c	0.44c	36.8x	2.8x	0.01c	0.11c	1.18c	8.2x	0.8x	1.98	0.6x
Developers																					
Adventus Mining	ADZN	OP	-	105	131.6	0.80	1.60	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.96	0.4x
Filo Mining	FIL	OP	-	1,511	113.8	13.28	22.50	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	27.93	0.5x
Foran Mining	FOM.V	SP	-	565	236.4	2.39	3.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.81	0.6x
Josemaria Resources	JOSE	T	-	601	380.2	1.58	1.55	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.07	0.8x
Trilogy Metals	TMQ	OP	-	286	144.5	1.98	3.75	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.30	0.5x
Sigma Lithium	SGML	OP	-	1,075	87.4	12.30	17.00	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	23.75	0.5x
Lithium Americas	LAC	OP	-	3,997	120.1	33.29	38.50u	↓	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28	0.6x

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Metals & Mining: Precious Metals

Back to Research Analysts page

Don DeMarco
Analyst
416-869-7572
—
Associates:
Yi Liu: 416-869-8524
Harmen Puri: 416-869-8045

Shane Nagle, CFA
Analyst
416-869-7936
—
Associates:
Lola Aganga: 416-869-6516
Ahmed Al-Saidi: 416-869-7535

Michael Parkin
Analyst
416-869-6766
—
Associates:
Alessandro Cairo: 416-869-8511
Andrew Dusome: 416-507-8177
Rabi Nizami: 416-869-7925

Selections

Gold/Silver Producers:

› ***Centerra Gold*** *(CG: TSX; C$14.00 target)*
› ***Endeavour Mining Corp.*** *(EDV: TSX; C$46.00 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$13.00 target)*
› ***Pan American Silver Corp.*** *(PAAS: TSX; C$44.00 target)*
› ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$15.25 target)*

Royalties:

› ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$9.50 target)*

Inflation Could Spark Gold Rally

Eye on U.S. inflation and fed tapering which will drive spot gold prices.

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to stimulus measures, interest rates remain low. The U.S. 10-year yield has recently strengthened, resulting in modest short-term softness in spot gold prices. The U.S. Fed has signaled that they are prepared to raise interest rates as target employment has been achieved. Bloomberg consensus expects three rate hikes throughout 2022. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The emergence of the COVID-19 Omicron Variant is a key risk factor to the U.S. economic recovery that the U.S. Fed is watching closely.

Top Picks offer dependable results, strong balance sheets and numerous catalysts.

We believe the companies that are most likely to outperform are those with: (1) management teams with solid track records of executing on guidance, (2) strong balance sheets, (3) encouraging Y/Y guidance with growth in production and/or declining costs, (4) well-funded projects, and (5) a catalyst-packed calendar. On an EV/EBITDA valuation basis, we see some names trading at attractive multiples and those that have a history of achieving guidance and showing potential for delivering positive catalysts; we believe these names offer good investment opportunities.

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	↑	27,546	453.73	60.71	84.00	↑	Parkin	0.96u	1.86u	2.56u	25.7x	18.6x	3.64u	4.99u	4.99u	9.6x	9.6x	51.51	1.18x
Barrick Gold	ABX	SP	-	43,283	1,779.00	24.33	30.00	↑	Parkin	0.51u	1.15u	1.11u	16.7x	17.3x	1.81u	3.22u	3.22u	5.9x	5.9x	22.88	1.06x
Kinross Gold Corp	K	OP	-	8,236	1,198.87	6.87	13.00	-	Parkin	0.31u	0.73u	0.32u	7.4x	16.8x	0.80u	1.37u	1.37u	3.9x	3.9x	13.72	0.50x
Kirkland Lake Gold Corp	KL	T	-	12,626	263.70	47.88	56.00	-	Parkin	2.74u	3.37u	3.31u	11.2x	11.4x	4.46u	4.75u	4.75u	7.9x	7.9x	36.30	1.32x
Newmont	NGT	OP	-	61,686	794.20	77.67	98.00	-	Parkin	1.32u	2.66u	2.94u	23.0x	20.8x	4.31u	5.69u	5.69u	10.7x	10.7x	64.11	1.21x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	32,119	191.1	168.07	195.00	-	Nagle	2.72u	3.42u	3.44u	36.9x	48.9x	4.22u	5.00u	5.00u	25.3x	25.3x	67.77	2.48x
Maverix Metals Inc	MMX	SP	-	795	146.7	5.42	6.75	-	Nagle	0.12u	0.11u	0.17u	n/a	31.1x	0.29u	0.26u	0.32u	20.5x	17.0x	4.95	1.09x
Osisko Gold Royalties Ltd	OR	OP	-	2,334	166.2	14.04	20.50	-	Nagle	0.26u	0.54u	0.66u	n/a	21.3x	0.65u	1.05u	1.28u	13.3x	11.0x	13.87	1.01x
Royal Gold Inc	RGLD	SP	-	6,625	65.2	101.55u	140.00u	-	Nagle	2.91u	3.72u	3.63u	27.3x	28.0x	6.28u	6.66u	6.18u	11.5x	12.4x	64.41	1.58x
Sandstorm Gold Ltd	SSL	OP	-	1,466	192.1	7.63	9.50	-	Nagle	0.11u	0.17u	0.19u	33.7x	40.2x	0.36u	0.41u	0.40u	14.0x	14.3x	7.35	1.04x
Triple Flag Precious Metals Corp	TFPM	SP	-	2,363	156.1	15.14	19.00	-	Nagle	0.20u	0.38u	0.41u	30.0x	36.9x	0.78u	0.79u	0.84u	14.4x	13.6x	12.38	1.22x
Wheaton Precious Metals Corp	WPM	OP	-	23,088	450.5	51.25	65.00	-	Nagle	1.10u	1.32u	1.23u	29.2x	41.7x	1.71u	1.89u	1.80u	20.4x	21.4x	23.48	2.18x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP	-	3,398	391.96	8.67	10.50	↓	Parkin	0.21u	0.42u	0.39u	16.4x	17.4x	0.75u	0.97u	0.97u	7.0x	7.0x	11.58	0.75x
B2Gold	BTO	OP		4,831	1,054.8	4.58	8.00	↓	DeMarco	0.43u	0.32u	0.39u	14.5x	11.8x	0.70u	0.74u	0.87u	6.2x	5.3x	5.13	0.89x
Centerra Gold Inc	CG	OP	-	3,045	296.78	10.26	14.00	-	Parkin	0.55u	0.65u	0.94u	12.5x	8.6x	1.36u	2.87u	1.43u	2.8x	5.6x	12.86	0.80x
Dundee Precious Metals	DPM	OP		1,431	191.5	7.47	11.00		DeMarco	0.94u	0.78u	1.03u	9.6x	7.3x	1.60u	1.33u	1.69u	5.6x	4.4x	11.36	0.66x
Eldorado Gold Corp	ELD	OP	-	2,033	182.65	11.13	16.00	↓	Parkin	(0.02)u	0.97u	0.60u	11.4x	18.4x	0.93u	2.23u	2.23u	3.9x	3.9x	20.03	0.56x
Endeavour Mining	EDV	OP		7,053	249.1	28.32	46.00		DeMarco	2.39u	2.58u	3.70u	11.0x	7.7x	4.90u	5.38u	5.55u	5.3x	5.1x	38.17	0.74x
Equinox Gold Corp	EQX	OP	-	2,422	332.3	7.29	11.50	↓	Parkin	0.33u	0.37u	0.19u	19.6x	37.8x	0.68u	1.06u	0.80u	6.9x	9.1x	12.94	0.56x
IAMGOLD Corp	IMG	OP	-	1,478	476.70	3.10	4.50	↓	Parkin	(0.03)u	0.14u	(0.13)u	17.3x	-19.3x	0.75u	0.77u	0.77u	3.2x	3.2x	5.43	0.57x
Lundin Gold Inc.	LUG	SP		2,141	232.7	9.20	13.00		DeMarco	0.88u	0.69u	0.63u	13.3x	14.6x	1.53u	1.36u	1.25u	6.7x	7.4x	12.57	0.73x
New Gold Inc	NGD	SP	-	1,368	680.80	2.01	2.50	-	Parkin	(0.08)u	0.03u	0.13u	70.8x	14.9x	0.39u	0.41u	0.41u	3.8x	3.8x	2.48	0.81x
OceanaGold Corp	OGC	OP	-	1,380	704.03	1.96	3.25	-	Parkin	0.06u	(0.11)u	0.18u	n/a	11.1x	0.33u	0.33u	0.33u	4.6x	4.6x	3.17	0.62x
Pretium Resources	PVG	T		3,229	187.1	17.26	18.50		DeMarco	0.59u	0.79u	0.61u	21.9x	28.4x	1.46u	1.68u	1.63u	10.3x	10.6x	15.80	1.09x
SSR Mining Inc	SSRM	OP	-	4,408	210.61	20.93	28.50	-	Parkin	0.74u	1.43u	1.31u	11.6x	12.5x	1.59u	1.65u	1.65u	10.0x	10.0x	31.35	0.67x
Yamana Gold Inc	YRI	OP	-	4,951	942.99	5.25	7.00	-	Parkin	0.10u	0.32u	0.29u	13.0x	14.2x	0.51u	0.66u	0.66u	6.2x	6.2x	5.48	0.96x
Torex Gold Resources Inc	TXG	SP		1,068	85.75	12.46	23.00		DeMarco	2.16u	1.20u	1.26u	10.4x	9.9x	4.25u	3.97u	3.95u	3.1x	3.2x	20.86	0.60x
Silver Producers																					
Aya Gold and Silver	AYA	OP		822	95.7	8.59	13.50		DeMarco	0.09u	0.09u	0.21u	100.4x	41.7x	0.13u	0.13u	0.33u	66.3x	26.1x	7.77	1.10x
First Majestic Silver Corp	FR	SP		3,310	256.4	12.91	18.50		DeMarco	0.17u	0.69u	0.29u	18.6x	44.0x	0.45u	1.09u	1.55u	11.8x	8.4x	6.74	1.92x
Fortuna Silver Mines Inc	FVI	SP		1,249	289.1	4.32	6.50		DeMarco	0.48u	0.53u	1.07u	8.2x	4.0x	0.76u	1.02u	1.61u	4.2x	2.7x	5.77	0.75x
Pan American Silver	PAAS	OP		5,780	210.1	27.51	44.00		DeMarco	0.80u	1.03u	1.71u	26.8x	16.1x	2.24u	2.82u	3.79u	9.7x	7.3x	19.34	1.42x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,420	223.3	6.36	12.50		DeMarco	0.11u	0.25u	0.28u	25.8x	22.8x	0.23u	0.44u	0.48u	14.4x	13.3x	10.01	0.64x
Minera Alamos Inc.	MAI	OP		223	446.1	0.50	1.10		Nizami	0.01u	(0.00)u	0.04u	n/a	11.8x	0.00u	(0.01)u	0.05u	-	9.3x	1.08	0.46x
Wesdome Corp.	WDO	OP		1,527	139.7	10.93	15.25	↓	DeMarco	0.48u	1.01u	1.00u	10.8x	10.9x	0.80u	1.39u	1.56u	7.8x	7.0x	12.10	0.90x
Developers																					
AbraSilver Resource Corp	ABRA	OP		166	453.8	0.37	0.70		DeMarco	(0.00)u	(0.01)u	(0.01)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	0.47	0.47x
Artemis Gold Inc.	ARTG	OP		920	141.5	6.50	11.50		DeMarco	(0.05)u	(0.19)u	(0.18)u	-	-	(0.09)u	(0.17)u	(0.18)u	-	-	11.52	11.52x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		183	358.0	0.51	1.40		Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.42	0.36x
Integra Resources Corp.	ITR	OP		149	62.1	2.40	6.50		Nizami	(0.54)u	(0.69)u	(0.45)u	n/a	n/a	(0.50)u	(0.65)u	(0.43)u	-	-	6.49	0.37x
Liberty Gold Corp	LGD	OP		252	265.5	0.95	1.80		Nizami	0.03u	(0.09)u	(0.08)u	n/a	n/a	(0.05)u	(0.07)u	(0.07)u	-	-	1.83	0.52x
MAG Silver Corp	MAG	OP		1,690	97.9	17.26	30.00		DeMarco	(0.07)u	0.86u	0.00u	20.0x	-	(0.06)u	0.65u	1.97u	26.4x	8.7x	20.11	0.86x
Marathon Gold Corp.	MOZ	OP		602	212.1	2.84	4.50		DeMarco	(0.01)u	(0.04)u	(0.04)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	4.35	0.65x
O3 Mining Inc.	OIII	OP		150	68.0	2.21	4.25		DeMarco	(0.16)u	(0.63)u	(0.62)u	-	-	(0.16)u	(0.63)u	(0.62)u	-	-	5.46	0.40x
Osisko Development	ODV	OP		619	142.5	4.34	9.50		DeMarco	-	-	0.98u	-	4.4x	(0.04)u	-	1.07u	-	4.0x	9.58	0.45x
Osisko Mining	OSK	OP		1,563	356.1	4.39	5.25		DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	5.17	0.85x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		506	356.2	1.42	3.25		Puri	0.00u	0.00u	(0.01)u	-	-	0.00u	0.00u	(0.01)u	-	-	3.18	0.45x

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

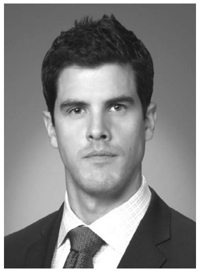
Source: Company Reports, NBF Estimates, Refinitiv

Back to Research Analysts page

Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associate:
Nick Stevenson: 403-441-0928

Large Cap Oil & Gas

Travis Wood
Analyst
403-290-5102
—
Associates:
Logan Fisher: 403-441-0933
James Harwood, CPA: 403-290-5445

Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

Crude started the new year off on a positive note as pricing remained robust, averaging ~ US$83 in January, as crude achieved its sixth straight week of gains through the end of January. The strength in the commodity is attributable to an easing of near-term demand concerns from COVID-19 variants and revised upward revisions from market prognosticators. Accordingly, the IEA has recently provided updated demand forecasts that expect crude demand to come in at 99.7 mmbbl/d for 2022, which finally surpasses the 2019 pre-pandemic level of 99.5 mmbbl/d. With a strong demand profile and constructive supply data points (restrained upstream capital expenditure, disciplined OPEC supply profile, etc.) as demand remained robust and with OPEC + struggling to keep up to the incremental production increases. Looking ahead, the 25th OPEC+ meeting scheduled for February 2nd should provide clarity around how the group is viewing the recent strength in the commodity price and its view on the supply/demand balance of the market. We're expecting the group to remain disciplined in its approach to returning supply to the market as per its disclosed plan. The forward curve remains in backwardation, with CAL-22 WTI coming in at ~US$82.00/bbl (contrasted to December's exit point of ~US$73/bbl). During January, the WCS differential averaged ~ US$13.00/bbl (from ~ US$16.00/bbl in December).

Natural Gas Outlook

NYMEX performed strongly during January and averaged ~US$4.20/mmbtu, which is up from December's average of ~US$3.90/mmbtu on account of colder weather impacting much of the United States. Increased volatility was experienced on the last day the February contract was traded at its peak trading over 70% on the day, but settled at $6.27/mmbtu as low volumes and options trading accounted for the majority of the volatility. AECO prices haven't experienced the same level of volatility as NYMEX and have averaged ~ C$4.20/GJ during January. Contrasted to AECO prices from December, where prices averaged ~C$3.90/GJ, were stronger in January as colder weather impacted heavily populated regions of the country. From a drilling perspective, rig activity has picked up after December in Canada but remains relatively subdued in the United States. For context, as of the week ending January 28th, rig activity has increased m/m in North America, with a total of 24 (Oil: +15/ Gas: +9) rigs added in the United States and 127 (Oil: +96/ Gas:+31) added in Canada. According to Bentek, total U.S. production is estimated to have decreased to ~92.3 Bcf/d in January from ~95.1 Bcf/d in December, while LNG exports have increased to an average of 12.4 Bcf/d for January (from 12.1 Bcf/d in December). Overall demand in the United States was an estimated ~111.9 Bcf/d in January (from 92.4 Bcf/d in December), according to Bentek, with expectations for cooler temperatures for much of February could increase demand and impact production in the Permian.

Top picks:

- *Cenovus Energy Inc. (CVE: TSX; NYSE)*

  Underpinned by its strong base business and integrated capacity, the company can weather the commodity cycle and provide torque to the upside as global oil prices return. Cenovus has a top-quality asset base – in Foster Creek and Christina Lake – and has sustaining and breakeven costs that are amongst the lowest in the sector. Cenovus closed its deal to acquire Husky and capture $1.2 billion in annual cost savings. We view this deal as necessary and strategic given the company's high confidence in achieving the $1.2 billion in annual cost savings. Additionally, the added downstream integration and increased egress capacity will help reduce the company's exposure to the WCS differential, which supports our recommendation for Cenovus as a top pick.

- *Tourmaline Oil Corp. (TOU: TSX)*

  As one of Canada's largest gas producers, TOU remains one of our top picks for its exposure to the natural gas trade, the result of well-capitalized and strong organic operations with fundamental tailwinds (cost, capital efficiencies and netback) to support a solid value proposition. Additional strength is seen in the balance sheet, deep inventory and top-tier cost structure as the company generates extensive FCF. In the current macro environment, TOU is one of the most investable names, where it holds positive and well-supported liquidity, exposure to several value-additive themes (gas and Topaz), which in sum, support what is already an attractive valuation.

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 1-31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1084.9	$64.66	$70,146	4%	8.9x	6.3x	5.6x	1.1x	0.8x	$4.40	$11.50	$12.40	5.5x	5.0x	$74.00	18%	↓
Cenovus Energy	CVE	OP		Wood	2000.6	$18.49	$36,991	1%	28.3x	5.7x	4.6x	1.1x	0.2x	$0.12	$3.69	$4.05	4.9x	4.5x	$25.00	36%	
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$38.80	$10,132	1%	4.4x	4.0x	3.6x	1.4x	0.9x	$7.42	$13.14	$13.15	2.9x	3.0x	$52.00	35%	
Imperial Oil	IMO	SP		Wood	678.2	$52.01	$35,274	2%	20.7x	7.5x	5.8x	0.6x	-0.1x	$1.20	$7.09	$8.67	7.0x	6.0x	$58.00	14%	
Suncor Energy	SU	SP		Wood	1394.1	$36.32	$50,633	5%	10.1x	5.7x	4.7x	1.1x	0.7x	$2.66	$6.87	$8.53	5.2x	4.1x	$45.00	29%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$6.88	$1,346	0%	5.1x	6.2x	3.6x	0.7x	0.0x	$0.56	$1.15	$1.87	6.0x	3.7x	$10.00	45%	
ARC Resources Ltd.	ARX	OP		Wood	711.7	$14.89	$10,597	3%	3.9x	4.9x	3.7x	0.7x	0.1x	$1.89	$3.79	$4.06	4.4x	3.7x	$20.00	37%	
Baytex Energy	BTE	SP		Payne	573.8	$4.72	$2,708	0%	5.4x	4.9x	3.8x	1.9x	1.1x	$0.56	$1.29	$1.56	3.7x	3.0x	$5.00	6%	
Birchcliff Energy	BIR	OP		Payne	277.5	$6.27	$1,740	1%	6.0x	4.1x	3.7x	0.9x	0.4x	$0.69	$1.91	$1.92	3.3x	3.3x	$10.00	60%	
Crescent Point Energy Corp.	CPG	OP		Wood	583.0	$8.19	$4,774	2%	3.9x	4.3x	2.9x	1.4x	0.5x	$1.65	$2.59	$3.32	3.2x	2.5x	$13.50	67%	
Enerplus Corporation	ERF	OP		Wood	255.1	$14.72	$3,755	1%	3.5x	4.8x	3.3x	0.9x	0.2x	$1.61	$3.60	$4.64	4.1x	3.2x	$19.00	30%	
Freehold Royalties	FRU	OP		Wood	150.7	$13.15	$1,981	5%	7.8x	11.1x	7.7x	0.6x	-0.1x	$0.61	$1.35	$1.65	10.7x	8.0x	$17.00	35%	
Headwater Exploration	HWX	OP		Payne	233.0	$7.10	$1,654	0%	25.1x	14.1x	7.4x	-0.8x	-0.9x	$0.06	$0.52	$0.87	13.8x	8.2x	$7.75	9%	
Kelt Exploration	KEL	OP		Payne	191.6	$5.54	$1,062	0%	4.9x	6.8x	4.3x	0.1x	-0.1x	$0.31	$0.82	$1.26	6.7x	4.4x	$7.00	26%	
MEG Energy	MEG	SP		Wood	311.0	$15.14	$4,708	0%	7.7x	7.1x	4.3x	3.1x	1.2x	$0.92	$2.45	$4.05	6.2x	3.8x	$18.50	22%	
NuVista Energy	NVA	SP		Payne	238.4	$8.99	$2,143	0%	4.2x	7.2x	4.3x	1.5x	0.5x	$0.70	$1.33	$2.23	6.8x	4.0x	$9.00	0%	
Paramount Resources	POU	OP		Payne	146.8	$24.99	$3,668	3%	6.1x	7.2x	4.2x	0.9x	0.2x	$1.12	$3.76	$6.17	6.6x	4.1x	$30.00	23%	
Peyto Exploration & Development	PEY	OP		Wood	167.1	$9.96	$1,664	6%	5.9x	5.4x	3.5x	2.4x	1.3x	$1.29	$2.67	$4.11	3.7x	2.4x	$14.00	47%	
PrairieSky Royalty	PSK	SP		Wood	238.9	$16.36	$3,909	2%	15.4x	18.1x	13.3x	2.5x	1.2x	$0.64	$1.11	$1.35	15.7x	12.1x	$18.50	15%	
Spartan Delta	SDE	OP		Payne	170.2	$7.94	$1,351	0%	6.9x	6.1x	2.9x	1.6x	0.4x	$0.67	$2.16	$3.09	0.0x	0.0x	$10.00	26%	
Tamarack Valley Energy	TVE	OP		Payne	439.4	$4.93	$2,166	2%	3.6x	7.6x	4.1x	1.5x	0.5x	$0.55	$0.86	$1.32	5.7x	3.7x	$5.50	14%	
Topaz Energy	TPZ	OP		Payne	140.1	$18.12	$2,538	5%	14.7x	14.8x	10.5x	1.3x	0.5x	$0.98	$1.49	$1.80	12.1x	10.1x	$24.00	38%	
Tourmaline Oil	TOU	OP		Payne	337.3	$45.32	$15,285	2%	4.9x	5.8x	4.3x	0.5x	-0.1x	$4.36	$8.79	$10.33	5.2x	4.4x	$57.50	29%	
Vermilion Energy Inc.	VET	OP		Wood	162.0	$19.78	$3,204	1%	5.6x	5.1x	2.9x	1.9x	0.8x	$3.18	$5.46	$9.14	3.6x	2.2x	$30.00	53%	
Whitecap Resources	WCP	OP		Wood	631.0	$8.97	$5,660	3%	4.8x	5.9x	3.6x	1.2x	0.3x	$1.07	$1.88	$2.66	4.9x	3.4x	$14.00	59%	
Small Cap																					
Crew Energy	CR	SP		Payne	165.3	$3.70	$611	0%	6.5x	6.1x	3.7x	2.8x	1.2x	$0.27	$0.84	$1.29	4.4x	2.9x	$4.00	8%	
Pipestone Energy	PIPE	SP		Payne	282.3	$4.89	$1,380	0%	6.8x	8.6x	4.0x	1.1x	0.1x	$0.15	$0.60	$1.23	8.2x	4.0x	$4.50	-8%	
Surge Energy	SGY	SP		Payne	87.1	$6.29	$548	0%	6.1x	6.9x	2.8x	3.2x	0.9x	$0.18	$1.78	$2.71	3.5x	2.3x	$9.00	43%	
Yangarra Resources	YGR	SP		Payne	90.9	$1.89	$172	0%	4.5x	3.6x	2.2x	2.1x	1.1x	$0.53	$1.01	$1.53	1.9x	1.2x	$2.50	32%	

* Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 01/31	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$906.11	91.3	US$9.93	US$213.2	US$209.2	US$254.9	5.8x	6.1x	4.6x	1.5x	1.7x	1.0x	US$17.50	76%	
Precision Drilling Corp.	PD	OP		Payne	$ 735.18	13.3	$55.26	$ 285.2	$ 243.5	$ 308.9	6.9x	9.1x	5.4x	4.7x	4.4x	3.0x	$65.00	18%	
Trican Well Services	TCW	SP		Payne	$ 832.36	233.8	$3.56	$ 30.6	$ 102.4	$ 157.9	7.5x	7.9x	4.6x	1.3x	-0.3x	-0.4x	$4.00	12%	

* Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

Source: Company Reports, NBF, Refinitiv

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451

Associates:
William Duforest: 403-441-0952
Zach Warnock: 403-355-6643

Selections

- *AltaGas*
- *Capital Power*
- *Secure Energy*
- *Keyera*

Overview

As we enter the new year, the market continues to have an insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term as our coverage seeks to deploy an eye-popping over $115 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while also driving per share growth and valuation expansion.

Commodities Update

As we entered the 'Year of the Rate Hike', WTI started hot, holding an uptrend through the end of January, averaging ~US$83/bbl, ~15% higher than December levels of ~US$72/bbl and ~22% above the 2021 average price of ~US$68/bbl. On the gas front, after a stellar 2021, NYMEX prices continued to experience upward pressure through January, leading to an average of US$4.22/mcf, topping December levels of US$3.86/mcf by ~9%. Meanwhile, AECO maintained its volatility, but ultimately followed NYMEX's path, averaging $4.20/mcf, ~6% higher than December levels of $3.96/mcf. On Marketing prospects, the WCS heavy differential compressed further, averaging ~US$13.50/bbl versus December at ~US$16.00/bbl, but in line with full-year 2021 average levels.

2022 Outlook

Despite five rate hikes expected from the Bank of Canada through 2022 to combat inflation, the forecasted uptick in the 10-year GCAN rate represents only a modest 3-5% headwind for valuations (all else equal). In other words, net of per share growth into 2023, we continue to see capital upside potential for the sector and attractive risk-adjusted total return opportunities relative to fixed income alternatives. Furthermore, our debt maturity analysis suggests low refinancing risk across the board as strong liquidity positions and indicative corporate issuance spreads confirm a muted impact on cash flows from rolling over near-term maturities at prevailing rates.

On the flip side of the inflation coin, we see a constructive commodity pricing backdrop supporting elevated activity levels including a ~20% increase in the Canadian rig count year-over-year, boding well for those Midstreamers with unutilized processing capacity (ALA, KEY, TWM). Meanwhile, on the Alberta power front, we are calling for another year of elevated prices in the ~$85/MWh range, providing excess merchant cash flows for CPX and TA to deploy towards accelerating their clean energy initiatives.

Meanwhile, with Line 3R finally in service and the Trans Mountain Expansion on deck, producers are staring down ~400 mbpd of excess pipeline capacity by 2023, representing upside to our fee-for-service cash flow estimates as well as increasing demand for incremental crude oil tankage capacity. That said, based on the recently commissioned Capline Reversal (+200 mbpd) combined with rising USGC demand for Canadian heavies, we forecast a WCS differential of ~US$13.50/bbl, suggesting limited crude-by-rail activity and compressed crude oil marketing contributions being sustained through 2022 (GEI, PPL, ENB, TRP).

Elsewhere, while typically viewed as an impediment to growth and a source of valuation overhangs, we see momentum on the regulatory front in 2022 as being a positive catalyst for value creation across the space as certain energy transition policies take shape. In addition to the Alberta government awarding rights to develop several carbon sequestration hubs, we expect the federal government to unveil the investment tax credit for CCUS, along with the Clean Fuel Standard to provide much-needed certainty for companies pursuing investment opportunities on the renewable fuels front.

Pipelines & Midstream Update

The U.S. Court of Appeals revoked the federal approvals for the US$6.2 billion Mountain Valley Pipeline (MVP), citing the U.S. Forest Service and Bureau of Land Management's failure to predict/prevent erosion and sedimentation caused by the infrastructure. For the second time, the permits have been sent back to the agencies for re-approval, possibly pushing out the ISD from the previously expected mid-2022. We note that ALA planned to explore a potential sale of its stake in MVP post-commissioning to recycle capital into its focused global export strategy.

Energy Transition Update

In line with our expectations through 2022, the year started strong on energy transition with the Alberta government announcing plans to move quickly on the process to establish a carbon sequestration hub in the Cold Lake region, serving oil sands producers. ENB fol-

Pipelines, Utilities & Energy Infrastructure

lowed with the announcement of a Memorandum of Understanding (MoU) with Lehigh Cement for the collaboration on a carbon capture solution at Lehigh's Edmonton plant with the goal of capturing ~780 mtCO2pa, which would be transported by ENB via pipeline to be sequestered. Subject to the awarding of sequestration rights and regulatory approvals, now supported by both the Lehigh Cement and Capital Power, the proposed Wabamun sequestration hub could have an ISD as early as 2025.

On the clean fuels front, while we continue to await the federal Carbon Fuel Standards (CFS) program, SPB announced a collaboration with Charbone Corp., a green hydrogen company focused on developing modular and expandable H2 facilities. The partnership aims to collaborate on providing green H2 to commercial and industrial customers in Quebec, whereby SPB will utilize its distribution expertise while leveraging Charbone's production knowledge and capabilities. Meanwhile, FortisBC submitted a proposal to the BC Utilities Commission under which every new-build home that connects to the gas system could receive 100% RNG, supporting FortisBC's targets of 15% of its gas supply be renewable by 2030 and 75% of its gas supply be renewable by 2050.

Top Picks

Overall, our 2023 estimates call for AFFO/sh growth of ~7% over 2022e (excl. Tidewater), with dividends up ~3% on average. We screen our top picks using a three-pronged approach for 1) double-digit free cash flow (AFFO) yield; 2) healthy balance sheet metrics; and 3) strong catalyst potential.

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 01-31	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$26.11	$7,302	$1.00	$1.06	$1.12	4.1%	4.3%	$2.72	$2.90	$3.17	9.0x	8.2x	5.4x	31.00	18.7%	↑	22.8%
Enbridge Inc.	ENB	OP		2026.0	$53.74	$108,877	$3.34	$3.44	$3.54	6.4%	6.6%	$4.84	$5.38	$5.66	10.0x	9.5x	4.6x	56.00	4.2%	↑	10.6%
Gibson Energy	GEI	SP		149.3	$24.46	$3,652	$1.40	$1.43	$1.48	5.9%	6.0%	$1.94	$2.14	$2.27	11.4x	10.8x	2.9x	25.00	2.2%	↑	8.1%
Keyera	KEY	OP		221.0	$29.91	$6,611	$1.92	$1.92	$2.01	6.4%	6.7%	$3.00	$2.77	$3.48	10.8x	8.6x	3.2x	35.00	17.0%	↓	23.4%
Pembina Pipelines	PPL	SP		550.0	$40.36	$22,198	$2.52	$2.52	$2.52	6.2%	6.2%	$3.94	$4.05	$4.23	10.0x	9.5x	3.7x	42.00	4.1%	↑	10.3%
Secure Energy	SES	OP		308.1	$6.04	$1,861	$0.03	$0.03	$0.03	0.5%	0.5%	$0.72	$0.89	$1.02	6.8x	5.9x	1.4x	8.00	32.5%	↑	32.9%
Superior Plus	SPB	OP	↑	176.0	$12.92	$2,274	$0.72	$0.72	$0.72	5.6%	5.6%	$1.21	$1.35	$1.55	9.6x	8.3x	3.9x	15.00	16.1%		21.7%
Tidewater Midstream	TWM	OP		340.3	$1.30	$442	$0.04	$0.04	$0.04	3.1%	3.1%	$0.21	$0.22	$0.41	5.9x	3.2x	2.5x	1.75	34.6%		37.7%
Tidewater Renewables	LCFS	SP		34.6	$12.81	$444	$0.00	$0.00	$0.00	0.0%	0.0%	$0.44	$0.54	$2.89	23.9x	4.4x	0.2x	17.00	32.7%		32.7%
TC Energy Corp.	TRP	SP		979.0	$65.64	$64,262	$3.48	$3.62	$3.76	5.5%	5.7%	$5.48	$5.39	$5.92	12.2x	11.1x	5.2x	65.00	-1.0%		4.5%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$42.82	$4,909	$1.79	$1.85	$1.87	4.3%	4.4%	$2.46	$2.62	$2.87	16.4x	14.9x	4.5x	45.00	5.1%	↓	9.4%
Brookfield Infrastructure (1)	BIP	OP		514.4	$59.04	$30,371	$2.04	$2.16	$2.29	3.7%	3.9%	$2.84	$3.22	$3.72	18.3x	15.9x	6.1x	67.00	13.5%	↑	17.1%
Canadian Utilities	CU	SP		277.1	$36.93	$10,232	$1.76	$1.78	$1.79	4.8%	4.9%	$2.89	$3.04	$3.05	12.2x	12.1x	5.0x	36.00	-2.5%	↓	2.3%
Capital Power	CPX	OP		114.1	$39.48	$4,505	$2.12	$2.24	$2.36	5.7%	6.0%	$5.68	$5.40	$5.90	7.3x	6.7x	3.7x	47.00	19.0%	↑	24.7%
Emera Inc.	EMA	SP		267.4	$60.23	$16,107	$2.58	$2.68	$2.79	4.4%	4.6%	$2.56	$4.19	$4.56	14.4x	13.2x	6.6x	59.00	-2.0%		2.4%
Fortis Inc.	FTS	SP		481.6	$60.38	$29,079	$2.05	$2.17	$2.30	3.6%	3.8%	$3.89	$4.56	$4.79	13.2x	12.6x	6.2x	59.00	-2.3%		1.3%
Hydro One Ltd.	H	SP		596.9	$32.84	$19,603	$1.07	$1.12	$1.17	3.4%	3.6%	$1.87	$1.94	$1.66	16.9x	19.8x	5.9x	32.00	-2.6%		0.8%
TransAlta	TA	SP		271.0	$13.79	$3,738	$0.18	$0.20	$0.20	1.5%	1.5%	$2.17	$1.98	$1.64	7.0x	8.4x	3.2x	14.00	1.5%		3.0%

Source: Company Reports, NBF Estimates, Refinitiv

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

(1) All dollar figures for BIP are in USD

Real Estate

Matt Kornack
Analyst
416-507-8104
—
Associate:
Anthony Bogdan: 416-869-7935

Tal Woolley
Analyst
416-507-8009
—
Associate:
Ahmed Shethwala: 416-507-8102

Selections

- *HR*
- *MHC*
- *CAR*
- *HOM*
- *SVI*
- *CSH*
- *SIA*
- *DIR*
- *SMU*
- *IIP*

2022 Outlook

Tightening Multi-Family & Industrial markets favoured to start 2022

- ***By asset class, we see the highest average total returns in our Industrial and Multi-family coverages (22% total returns each).***

This is followed by Seniors Housing/Healthcare (another quasi-residential asset class) and Diversified at 20%. Basically, our expectations are stronger for these names due to the favourable supply/demand pictures. We see average total returns of +14% for our Office coverage and for Retail, which still have to resolve questions around growth/ occupancy as COVID wears on. Our Special Situations coverage also offers some interesting opportunities in self-storage, single-family housing, and manufactured housing (all quasi-residential asset classes). Here are brief synopses of our views:

- *Industrial:*

Rent growth continues to surprise to the upside, particularly in gateway markets with limited availability and new developments with higher rents as the only competition. Of late, trading prices retreated on higher bond yields, but we expect the healthy organic growth to drive financial performance and investor interest in 2022.

- *Multi-family:*

Operating metrics here remained solid, even with immigration declining during COVID. As occupancy normalizes, we anticipate that pressure will build for rents. The omicron wave may blunt operating momentum generated through Q4, but we still expect strong spring leasing. If foreign jurisdictions, like the U.S., where both HOM and HR have exposure are any indication, rents can accelerate quickly but this will be moderated domestically by rent control regimes.

- *Seniors Housing/Healthcare:*

While COVID presents challenges near term, this group represents one of our best long-term ideas, supported by strong demographics. In 2022, an increase in private market interest in the higher yields on offer in a quasi-residential asset class should be supportive of stocks. Omicron will present some near-term operational challenges (e.g., staffing, retirement leasing) that may require some revisions to consensus estimates, but vaccines have limited negative health outcomes. We expect occupancy improvements to accelerate in H2.

- *Office:*

We were getting more bullish on this segment during the fall as people were slowly heading back to the office and the occupancy bleed had been curtailed. Omicron has tested our patience, as it has sent new leasing activity backward, likely impacting the nascent rebound, while stocks have been relative outperformers.

- *Retail:*

Collections and operating metrics should sequentially improve in Q4, but as cases rose, operating restrictions could limit momentum early in 2022. With REITs in the sector trading at higher levels than a year ago, we believe the case for playing a mean reversion trade on a full reopening of the economy is less likely and expect investor focus to return to these REITs' long-term earnings growth prospects and balance sheet repair (in light of a flurry of credit rating agency activity in 2021).

- *Diversified REITs:*

The type of leases coming to maturity is particularly impactful for diversified REITs where asset class dynamics are varied. HR underwent significant portfolio repositioning in 2021, which has materially improved its MTM spreads, as has steep acceleration in apartment rents in the U.S. sunbelt and the New York metropolitan region. AX discloses spreads in its financials which are relatively weak across asset classes in 2022 and 2023. BTB's management team is comfortable with their ability to generate modest rent increases on office, stronger figures on industrial and is aiming for flat to slightly up on retail maturities.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 1-31	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Distributions per Unit est. 2023	Cash Yield 2021E	Cash Yield 2022E	Cash Yield 2023E	Cash Yield Current Annualized	FD FFO est. 2021	FD FFO est. 2022	FD FFO est. 2023	P/FFO 2021E	P/FFO 2022E	P/FFO 2023E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,972	Woolley	$21.94	$0.96	$0.96	$0.96	4.4%	4.4%	4.4%	4.4%	$1.51	$1.59	$1.74	14.5x	13.8x	12.6x	$24.80	$25.00	18.3%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,587	Woolley	$14.64	$0.74	$0.74	$0.74	5.1%	5.1%	5.1%	5.1%	$0.96	$0.98	$0.99	15.3x	14.9x	14.8x	$13.10	$15.50	10.9%	↔
First Capital REIT	FCR	SP	↔	$3,903	Woolley	$17.78	$0.43	$0.43	$0.43	2.4%	2.4%	2.4%	2.4%	$1.14	$1.13	$1.18	15.6x	15.7x	15.1x	$21.65	$20.00	14.9%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,279	Woolley	$30.64	$1.85	$1.85	$1.85	6.0%	6.0%	6.0%	6.0%	$2.18	$2.21	$2.30	14.1x	13.8x	13.3x	$33.90	$34.00	17.0%	↔
CT REIT	CRT.un	OP	↔	$3,932	Woolley	$16.89	$0.84	$0.84	$0.84	5.0%	5.0%	5.0%	5.0%	$1.24	$1.30	$1.35	13.6x	13.0x	12.5x	$16.80	$19.50	20.4%	↔
Crombie REIT	CRR.un	OP	↔	$2,861	Woolley	$17.39	$0.89	$0.89	$0.89	5.1%	5.1%	5.1%	5.1%	$1.15	$1.23	$1.29	15.1x	14.2x	13.5x	$18.32	$20.00	20.1%	↔
Automotive Properties REIT	APR.un	OP	↔	$707	Woolley	$14.43	$0.80	$0.80	$0.80	5.6%	5.6%	5.6%	5.6%	$0.96	$0.99	$1.02	15.0x	14.6x	14.2x	$12.00	$15.50	13.0%	↑
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,677	Kornack	$44.32	$1.70	$1.75	$1.79	3.8%	3.9%	4.0%	3.8%	$2.44	$2.68	$2.82	18.2x	16.6x	15.7x	$49.35	$52.00	21.3%	↔
DREAM Office REIT	D.un	SP	↓	$1,329	Kornack	$24.20	$1.00	$1.00	$1.00	4.1%	4.1%	4.1%	4.1%	$1.54	$1.61	$1.66	15.7x	15.0x	14.6x	$26.75	$27.00	15.7%	↑
Slate Office REIT	SOT.un	SP	↔	$367	Kornack	$5.03	$0.40	$0.40	$0.40	8.0%	8.0%	8.0%	8.0%	$0.58	$0.62	$0.64	8.7x	8.1x	7.8x	$6.10	$5.25	12.3%	↔
True North Commerical REIT	TNT.un	SP	↔	$664	Kornack	$7.25	$0.59	$0.59	$0.59	8.2%	8.2%	8.2%	8.2%	$0.59	$0.60	$0.60	12.2x	12.0x	12.1x	$7.15	$7.50	11.6%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,940	Woolley	$13.39	$0.80	$0.80	$0.80	6.0%	6.0%	6.0%	6.0%	$0.84	$0.87	$0.90	16.0x	15.3x	14.9x	$13.43	$14.50	14.3%	↔
H&R REIT	HR.un	OP	↔	$3,893	Kornack	$12.90	$0.69	$0.52	$0.52	5.3%	4.0%	4.0%	4.0%	$1.54	$1.16	$1.25	8.4x	11.1x	10.3x	$17.25	$17.00	35.8%	↔
Cominar REIT	CUF.un	RES		$2,129	Kornack	$11.67	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,508	Kornack	$12.11	$0.91	$0.60	$0.60	7.5%	5.0%	5.0%	5.0%	$1.33	$1.32	$1.31	9.1x	9.2x	9.3x	$14.85	$12.25	6.1%	↔
BTB REIT	BTB.un	SP	↔	$294	Kornack	$3.99	$0.30	$0.30	$0.30	7.5%	7.5%	7.5%	7.5%	$0.40	$0.46	$0.47	10.1x	8.7x	8.5x	$4.70	$4.50	20.5%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,349	Kornack	$96.66	$3.05	$3.10	$3.10	3.2%	3.2%	3.2%	3.2%	$4.04	$4.48	$4.82	23.9x	21.6x	20.0x	$95.85	$115.00	22.2%	↑
DREAM Industrial REIT	DIR.un	OP	↔	$3,891	Kornack	$15.67	$0.70	$0.70	$0.70	4.5%	4.5%	4.5%	4.5%	$0.80	$0.88	$0.92	19.7x	17.8x	17.0x	$17.35	$19.00	25.7%	↔
Summit Industrial	SMU.un	OP	↔	$3,783	Kornack	$21.56	$0.56	$0.58	$0.59	2.6%	2.7%	2.8%	2.6%	$0.71	$0.75	$0.80	30.6x	28.8x	26.9x	$22.00	$26.50	25.6%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$321	Woolley	$4.03	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.60u	$0.63u	$0.65u	6.7x	6.4x	6.2x	$6.20	$4.50	11.7%	↓
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,514	Kornack	$54.79	$1.38	$1.47	$1.50	2.5%	2.7%	2.7%	2.6%	$2.36	$2.46	$2.57	23.3x	22.3x	21.3x	$63.20	$70.50	31.4%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,807	Kornack	$54.98	$1.00	$1.00	$1.00	1.8%	1.8%	1.8%	1.8%	$2.94	$3.08	$3.26	18.7x	17.8x	16.8x	$61.05	$65.50	21.0%	↑
Killam Apartment REIT	KMP.un	RES		$2,064	Kornack	$21.81	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	
InterRent REIT	IIP.un	OP	↔	$2,245	Kornack	$15.64	$0.32	$0.34	$0.35	2.1%	2.2%	2.2%	2.2%	$0.51	$0.58	$0.62	31.0x	27.0x	25.3x	$17.60	$19.00	23.7%	↓
Minto Apartment REIT	MI.un	OP	↑	$1,372	Kornack	$21.83	$0.45	$0.48	$0.49	2.1%	2.2%	2.3%	2.2%	$0.79	$0.89	$0.99	27.5x	24.5x	22.0x	$24.75	$26.25	22.4%	↔
BSR REIT	HOM.un	OP	↔	$447	Kornack	$17.10	$0.50u	$0.50u	$0.50u	2.9%	2.9%	2.9%	2.9%	$0.63u	$0.83u	$0.89u	27.1x	20.6x	19.2x	$19.10u	$21.50u	28.7%	↑
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.24	$0.16	$0.16	$0.16	3.7%	3.7%	3.7%	3.7%	$0.15	$0.16	$0.17	28.5x	25.9x	24.9x	$5.35	$5.00	21.6%	↓
International																							
Inovalis REIT	INO.un	SP	↔	$329	Kornack	$9.82	$1.13	$0.83	$0.83	11.5%	8.4%	8.4%	8.4%	$0.53	$0.58	$0.67	18.5x	16.9x	14.7x	$11.00	$10.00	10.2%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,690	Woolley	$12.32	0.61	0.61	0.61	5.0%	5.0%	5.0%	5.0%	0.62	0.68	0.82	20.0x	18.1x	15.0x	$13.81	$15.00	26.7%	↔
Sienna Senior Living	SIA	OP	↔	$979	Woolley	$14.61	0.94	0.94	0.94	6.4%	6.4%	6.4%	6.4%	1.13	1.16	1.25	12.9x	12.6x	11.7x	$15.91	$17.50	26.2%	↔
Extendicare	EXE	SP	↔	$642	Woolley	$7.17	0.48	0.48	0.48	6.7%	6.7%	6.7%	6.7%	0.49	0.47	0.52	14.7x	15.1x	13.8x	$9.30	$8.00	18.3%	↓
Invesque	IVQu	SP	↔	$94	Woolley	$1.68u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.45u	$0.47u	$0.48u	3.7x	3.6x	3.5x	$3.58u	$2.00u	19.0%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,333	Woolley	$6.30	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.20	$0.21	41.8x	31.7x	29.4x	$6.25	$8.00	27.2%	↑
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$359u	Woolley	$18.30u	$0.54u	$0.54u	$0.54u	n/a	n/a	3.0%	3.0%	$1.05u	$1.10u	$1.14u	17.4x	16.6x	16.1x	$21.60u	$24.00u	34.1%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$5,062u	Woolley	$18.61	$0.28u	$0.28u	$0.28u	1.5%	1.5%	1.5%	1.5%	$0.55u	$0.61u	$0.68u	33.7x	30.5x	27.4x	$20.13	$21.00	14.3%	↑

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; RES=Restricted

u = US Dollars

Source: Company Reports, NBF, Refinitiv

(1) Total return = price return + 12 months rolling forward distribution return.

Special Situations

Zachary Evershed, CFA
Analyst
514-412-0021

Associates:
Thomas Bolland: 514-871-5013
Nathan Po: 416-660-1740

Selections

- › *DXT*
- › *HDI*
- › *AD*

Kicking off the M&A program with Dana Hospitality

On January 1, 2022, Dexterra closed the acquisition of Dana Hospitality, a privately held Canadian food services company with ~$100 million in annual contract value, for $31.5 million, at an estimated pre-synergy acquisition multiple of 5-6x EBITDA. Dana's primary end markets of education, entertainment and healthcare will expand DXT's scale and add a footprint in new verticals, paving the way for future contract wins typically reserved for larger entities.

Balance sheet primed for more

Pro forma the acquisition, we calculate Net Debt/EBITDA of ~1.0x and estimate DXT can fund an additional ~$200 million in incremental revenue added annually through M&A while maintaining leverage below management's comfort of 2x. As we see leverage falling to ~0.2x by the end of 2023e, we would be unsurprised by another transaction over the next 12 months and a future pace of 1-2 per year. While we do not model unannounced acquisitions, we include the potential inherent in the balance sheet in our valuation methodology.

$1 billion goal within reach as catalysts abound

Our 2023e estimates highlight the contribution of Dana in helping DXT reach its $1 billion in sales objective in 2023. We see support from WAFES as well with the reopening of the Crossroads lodge later this year, which we estimate will contribute a baseline ~$30 million of revenue per annum at attractive margins for the duration of the LNG Canada project.

Rapid Housing Initiative expected to provide long term support at Modular

Despite recent delays in rapid affordable housing projects in the City of Toronto, Modular Solutions remains a key opportunity set for DXT as its backlog nears ~$158 million worth of projects, even excluding contracts being finalized as of Q3/21. Management expects delayed revenues from Q3/21 to be recovered in Q4/21e and Q1/22e as manufacturing and deliveries of completed projects resume. Accordingly, our revenue estimates consider Modular's growing backlog and a higher revenue base given the company's established de facto preferred vendor status and existing relationships with B.C. Housing and the City of Toronto. Our margin forecasts trend towards ~9% exiting 2023e, reflecting the potential for fixed cost absorption as manufacturing ramps up and as facility utilization improves in the latter half of 2022e.

$14.00 target on 2023e sum-of-parts, Outperform rating

Our $14.00 target is based on a sum-of-parts valuation (10x for IFM, 7x for WAFES and 11x for the Modular segment, and complemented by a 0.25x M&A growth multiple equivalent to $100 million in incremental revenue added annually), equivalent to 8.5x 2023e EV/EBITDA. We rate DXT Outperform as the company is well-positioned to accelerate out of the pandemic, both organically with exposure to recovering end markets and via M&A given its healthy balance sheet.

								FDEPS			P/E		EBITDA (mln)			EV/EBITDA					
	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	Last Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	R		R	R	R	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	R	
Boyd Group Services Inc.	BYD	SP		4,127.0	21.5	192.20	12/2020	1.97	1.18	2.75	134.6	57.7	220.0	216.3	289.9	19.9	15.0	0.3%	3.5	240.00	
Cascades	CAS	OP		1,312.1	103.2	12.72	12/2020	1.95	0.15	1.51	82.3	8.4	675.0	412.0	560.5	6.4	4.9	3.8%	3.1	19.50	
Dexterra Group Inc.	DXT	OP		538.1	65.1	8.26	12/2020	1.24	0.39	0.57	20.9	14.6	52.2	80.3	90.4	7.7	6.4	4.2%	1.0	14.00	↑
Doman Building Materials	DBM	OP		722.9	86.7	8.34	12/2020	0.78	1.34	0.81	6.2	10.3	143.0	228.8	197.7	6.2	7.0	6.7%	3.5	12.00	
GDI Integrated Facility Services	GDI	OP		1,277.9	23.0	55.50	12/2020	2.11	2.05	1.95	27.1	28.4	104.9	134.1	147.3	11.8	10.2	0.0%	1.3	70.50	
Hardwoods Distribution	HDI	OP		1,046.6	23.9	43.73	12/2020	1.53	4.32	4.07	8.1	8.6	72.7	188.6	206.8	6.8	5.7	1.1%	1.8	75.50	
Intertape Polymer Group Inc.	ITP	OP		1,553.9	60.6	25.65	12/2020	1.51	2.01	2.16	10.2	9.5	211.2	250.8	272.0	7.0	6.3	3.3%	2.2	40.50	
KP Tissue	KPT	SP		104.2	9.9	10.57	12/2020	0.53	(0.04)	0.48	nmf	22.1	197.8	155.0	223.5	8.3	7.6	6.8%	4.3	10.50	
Neighbourly Pharmacy Inc.	NBLY	SP		1,135.9	34.4	33.00	03/2021	(19.88)	(7.42)	0.48	nmf	69.4	35.1	51.6	75.8	23.8	17.6	0.5%	0.9	35.00	
Park Lawn Corporation	PLC	OP		1,217.2	31.4	38.72	12/2020	1.16	1.53	1.55	25.3	25.0	79.9	98.0	104.8	14.3	14.0	1.2%	1.3	44.50	
Richelieu Hardware	RCH	OP		2,827.2	56.6	49.98	11/2021	1.50	2.51	2.56	19.9	19.5	154.5	234.4	243.0	11.8	11.1	1.0%	0.2	53.50	↑
Savaria Corporation	SIS	OP		1,198.4	64.6	18.54	12/2020	0.56	0.63	1.05	29.4	17.7	59.8	100.9	132.9	15.6	11.6	2.7%	2.7	24.50	
Uni-Sélect	UNS	OP		1,020.5	43.0	23.71	12/2020	(0.17)	0.88	1.02	21.6	18.5	89.3	136.7	150.6	8.8	7.6	0.0%	2.1	27.50	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted

Note: BYD, HDI, ITP and UNS data is in USD except stock prices and target prices. KP Tissue: Financial data reflects Kruger Products L.P. (in which KP Tissue has a 14.5% interest).

Source: Company reports, NBF, Refinitiv

Back to Research Analysts page

Sector Analysis

Sustainability & Clean Tech

Rupert Merer, P. ENG, CFA
Analyst
416-869-8008

Associates:
Louka Nadeau: 416-869-7538
Viveck Panjabi: 416-869-6763

Selections

› *Innergex*
› *Boralex*
› *Northland Power*

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, 2021 was a tough year with the stocks down 20% on average due to rising interest rates, limited stimulus in the U.S. and revival of nuclear, gas and coal fired generation. However, we believe the renewable power sector should see growth as it is the cheapest form of energy (it no longer needs subsidies) and rising support from 44 nations (and the EU), representing 70% of global emissions, to a net-zero emissions pathway. Our top picks are INE, BLX and NPI.

Innergex Renewable Energy Inc. (INE: TSX; Outperform; $23 target):

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of ~3,200 MW and plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S., ~8% Chile and ~7% France). As highlighted at its investor day in September 2021, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1.3 GW in mid or advanced stages of development. Recently, INE has closed on a few acquisitions, including a 50 MW solar farm in Chile; the remaining 50% interest in its Chilean JV, Energía Llaima SpA; the 18 MW Licán facility in Chile; and a 50% interest in Curtis Palmer, a 60 MW run-of-river hydroelectric portfolio in New York in partnership with Hydro-Québec. With visibility on near-term growth combined with recent M&A, INE has guided to ~15% growth CAGR on normalized FCF/sh out to 2025E. Recent organic developments include the commissioning of its 226 MW Griffin Trail wind project in North Texas and commissioning of its 200 MW Hillcrest solar project in Ohio. Moreover, INE is exploring investment opportunities in new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 5.5% discount rate on operating assets and includes $4/sh for growth.

Boralex Inc. (BLX: TSX; Outperform; $41 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. It has a net installed capacity of ~2,500 MW, 98% of which is covered by inflation-indexed, fixed-price energy sales or feed-in premium contracts with an average life of 13 years. In June 2021, BLX unveiled its strategic plan from 2020 to 2025E as well as a roadmap to 2030E. The plan focuses on growth, diversification, customer and asset optimization while also integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR on its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively.

BLX could see some success this year RFPs in France, Quebec and New York. BLX bid seven solar projects in New York totalling 800 MW, with results expected in 1H'22 following clarity on U.S. Federal tax credits for renewable power. Additionally, BLX could see upside from RFPs in Quebec this year (300 MW of wind and 480 MW of other renewables) and next year (another 1,000 MW could come). Our target is based on a long-term DCF with a 5.5% cost of equity on operating cash flows and $7/sh of growth.

Northland Power Inc. (NPI: TSX; Outperform; $44 target):

NPI is a global leader in the development of offshore wind projects with ~2,020 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions. With its offshore wind platform, NPI is attracting large partners like RWE in Germany, PKN Orlen in Poland and Tokyo Gas in Japan, which could help boost returns. NPI now has an offshore wind development pipeline that includes more than 7.4 GW of projects (5.4 GW net to NPI) that should be constructed over the next decade. On recent developments, NPI was awarded ~2.4 GW of offshore wind leases in Scotland and expanded its partnership with RWE to form a JV (49% to NPI) to co-develop a cluster of three offshore wind projects in the German North Sea with a total gross capacity of 1.3 GW. In the near term, we could see NPI commission the 130 MW La Lucha solar project in Mexico as well as its New York Onshore wind projects, and updates from more than 300 MW of solar bids into New York, with potential for contract awards in the coming months. NPI continues to progress on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E) and the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E). Lastly, NPI is preparing to bid in upcoming RFPs in Taiwan on new projects. Our target is based on a long-term DCF with a cost of equity of 5.5% on operating cash flows and $9/sh of growth.

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1-31	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		187.0	82	2.29	12/2020	0.06u	0.07u	0.18u	26.6	9.9	2.14u	2.46u	3.05u	0.7	0.6	1.37u	0.20	4.25	↓
Anaergia Inc.	ANRG	SP		1097.0	62	17.81	12/2020	0.00	0.00	0.00	na	na	3.05	2.60	4.85	6.9	3.7	10.70	0.48	22.00	↓
Algonquin Power	AQN	OP		9600.0	672	14.29u	12/2020	0.65u	0.71u	0.74u	20.0	19.2	2.98u	3.70u	4.06u	3.9	3.5	10.70u	0.48	15.50u	
Altius Renewable Royalties Corp	ARR	OP		260.2	29	9.00	12/2020	(0.15)u	0.07u	0.00u	nmf	nmf	0.01u	0.02u	0.12u	nmf	58.2	0.43u	0.00	13.00	
Ballard Power Systems	BLDP	OP		3095.2u	298	10.40u	12/2020	(0.20)u	(0.32)u	(0.27)u	nmf	nmf	0.42u	0.33u	0.47u	31.5	22.4	4.58u	0.01	20.00u	↓
Boralex	BLX	OP		3418.7	103	33.05	12/2020	0.56	0.39	0.48	nmf	68.3	6.44	6.76	6.89	4.9	4.8	11.73	0.65	41.00	
Brookfield Renewable	BEP	OP	↑	21662.5u	646	33.55u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.69u	4.11u	9.1	8.2	24.27u	0.35	38.00u	
DIRTT Environmental Solutions	DRT	SP		140.8u	85	1.65u	12/2020	(0.13)u	(0.54)u	(0.16)u	nmf	nmf	2.03u	1.72u	2.33u	1.0	0.7	0.88u	0.23	3.25u	
GFL Environmental Inc.	GFL	OP		15119.6	362	41.76	12/2020	(2.76)	(1.47)	(0.19)	nmf	nmf	11.64	15.01	17.13	2.8	2.4	14.98	0.54	55.00	
Innergex	INE	OP		3617.0	194	18.65	12/2020	(0.23)	(0.66)	0.70	nmf	26.7	3.60	4.19	4.04	4.4	4.6	6.13	0.86	23.00	
The Lion Electric Company	LEV	OP		1746.8u	199	8.77u	12/2020	(3.64)u	(0.45)u	(0.20)u	nmf	nmf	0.77u	0.22u	1.51u	39.8	5.8	1.67u	0.02	14.00u	↓
Loop Energy Inc	LPEN	OP		122.3	35	3.45	12/2020	(0.50)	(0.77)	(0.77)	nmf	nmf	0.03	0.05	0.40	63.3	8.6	2.32	0.01	9.00	↓
NanoXplore	GRA	OP		864.6	158	5.47	06/2021	(0.08)	(0.05)	0.13	nmf	42.5	0.46	0.57	0.88	9.5	6.2	0.62	0.20	10.00	
Next Hydrogen Solutions Inc.	NXH	SP		56.3	24	2.30	12/2020	(0.77)	(1.33)	(0.97)	nmf	nmf	0.00	0.01	0.28	nmf	8.1	1.69	0.01	6.00	↓
Northland Power	NPI	OP		8317.7	226	36.81	12/2020	1.78	0.64	0.83	57.8	44.5	10.25	9.23	9.16	4.0	4.0	13.05	0.68	44.00	
TransAlta Renewables	RNW	SP		4637.8	267	17.37	12/2020	0.35	0.55	0.69	31.4	25.2	1.64	1.70	1.72	10.2	10.1	7.66	0.18	18.50	↓
Xebec Adsorption	XBC	SP		294.1	154	1.91	12/2020	(0.33)	(0.17)	0.01	nmf	nmf	0.59	0.81	1.36	2.4	1.4	2.04	0.17	4.00	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

u = US dollar

[1] FD EPS are pro-forma numbers from continuing operations and exludes goodwill amortization, restructuring and one-time charges.

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Back to Research Analysts page

Richard Tse
Analyst
416-869-6690
—
Associates:
Mihir Raul : 416-869-8049
James Burns: 416-869-8808

John Shao
Analyst
416-869-7938
—
Associates:
Mihir Raul : 416-869-8049
James Burns: 416-869-8808

Selections

- *Altus*
- *CGI*
- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Magnet Forensics*
- *Nuvei*
- *OpenText*
- *Shopify*
- *TELUS International*

Tough Start for Tech

As you know, there has been a dramatic shift in sentiment away from growth to value stocks triggered largely by rising rates. We refer you to our recent Year Ahead and Quarterly Preview notes for a detailed discussion of how it's impacting our sector and how investors should be best positioned today. Year-to-date (YTD) the S&P Technology Index is down 13.1% while the S&P is down approximately half that value at 6.9%. That underperformance is even more pronounced here at home (in Canada) as the TSX Technology Index is down 26.3% YTD versus the broader TSX down only 1.4%. The reality is that the change in sentiment will prolong the timeline to realizing the potential returns for many of our "flyers" (i.e., high growth/valuation names); but consistent with that same view which we've underscored extensively in our written research, many of those names required a long-term view particularly given the timeline to show execution on their respective strategies. For those looking for shorter-term relative performance, we believe legacy names such as CGI and OpenText will outperform care of their defensive attributes – profitability with strong cash flows. We also like names like Kinaxis, Magnet Forensics, Nuvei and TELUS International given their relative valuations. That said, for long-term investors, we believe recent pullbacks have provided an opportunity to wade into names like Docebo, Lightspeed and Shopify at more reasonable valuations. We'd also include Altus as a Tech special sit name. Here's a brief discussion of some of those names.

- **Kinaxis** should be a meaningful beneficiary from the heightened demand for supply chain solutions. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across large enterprise in markets underscored by impacts in markets like auto (semiconductor shortages). We believe Kinaxis's pipeline has increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high growth verticals such as online regulated gaming is helping drive outsized growth as a whole for the Company. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's further supported by structural changes in the payments industry (e.g., cashless casinos).
- **Magnet Forensics.** We believe Magnet Forensics is an early leader in the Digital Forensics market with a suite of competitive offerings to target both the public and enterprise clients. The quality of its business model is further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%, well above the 40% threshold given the Company's strong top-line growth paired with a healthy margin. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.
- **Shopify** remains the leading technology platform for eCommerce in our opinion. For investors, we continue to see many avenues of growth - namely: 1) International, 2) increased take rate with new services; and 3) larger enterprise; and POS for SMBs, not to mention what we believe to be an overall accelerating industry shift to eCommerce. We continue to believe fulfilment (SFN) remains a significant opportunity; that said, we think the timeline on that initiative has also been protracted given the scale of effort required to build out this segment.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,331	44.6	52.27	2020	1.66	1.79	2.31	29.2	22.6	98.9	107.7	150.9	21.7	15.5	9.3u	37%	80.00	
Blackline Safety Corp.*	BLN	OP		374	60.0	6.23	2020	(0.14)	(0.49)	(0.38)	NMF	NMF	5.5	(10.5)	(6.3)	NMF	NMF	0.8u	0%	10.00	
CGI Inc.	GIB.A	OP		27,165	249.5	108.86	2020	4.68	5.36	5.93	20.3	18.4	2426.3	2437.7	2598.7	12.0	11.2	26.5	33%	135.00	
Constellation Software Inc.	CSU	SP		46,062	21.2	2,173.61	2020	36.06u	46.77u	55.63u	36.6	30.7	1,237.0u	1,513.1u	1,561.8u	24.1	23.3	62.4u	44%	2100.00	
Coveo Solutions Inc.	CVO	OP		1,197	112.6	10.63	2021	(7.98u)	(0.31u)	(0.37u)	NMF	NMF	(11.0u)	(23.1u)	(30.4u)	NMF	NMF	266.4u	0%	18.00	
Docebo Inc.	DCBO	OP		2,269	32.8	69.15	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	NMF	193.8u	0%	85.00u	↓
D2L Inc.	DTOL	OP		890	60.6	14.70	2021	0.11u	(0.14u)	(0.30u)	NMF	NMF	6.0u	(4.2u)	(12.9u)	NMF	NMF	1.3u	0%	20.00	
E Automotive Inc.	EINC	OP		611u	55.2	11.08u	2020	(1.77u)	(0.25u)	(0.36u)	NMF	NMF	(4.1u)	(6.3u)	(13.1u)	NMF	NMF	0.8u	26%	21.50	↓
Farmers Edge Inc.	FDGE	SP		107	41.9	2.55	2020	(2.02u)	(1.11u)	(1.17u)	NMF	NMF	(45.9u)	(31.1u)	(38.1u)	NMF	NMF	3.4u	1%	4.00	↓
Kinaxis Inc.	KXS	OP		4,573u	28.1	162.51u	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	97.3	53.2	10.6u	0%	225.00u	
Lightspeed Commerce Inc.	LSPD	OP		4,235u	139.7	30.31u	2021	(0.38u)	(0.31u)	(0.13u)	NMF	NMF	(21.2u)	(35.3u)	(8.7u)	NMF	NMF	14.5u	1%	90.00u	↓
Magnet Forensics Inc.*	MAGT	OP		1,048	40.0	26.18	2020	0.32	0.23	0.22	NMF	NMF	15.4	13.7	13.1	52.4	54.9	2.1u	2%	50.00	↓
mdf commerce inc.	MDF	SP		144	33.6	4.29	2021	(0.30u)	(0.31u)	(0.02u)	NMF	NMF	5.1u	(2.6u)	8.8u	NMF	20.7	6.6u	19%	6.00u	↓
Nuvei Corporation	NVEI	OP		11,292u	147.5	76.58u	2020	0.14u	1.68u	2.12u	45.5	36.1	163.0u	314.4u	414.9u	27.7	21.0	10.7u	24%	130.00u	↓
Open Text Corporation	OTEX	OP		12,209	274.0	44.56	2020	3.39	3.50	3.52	12.7	12.7	1315.2	1292.6	1341.2	11.0	10.6	15.0	47%	60.00	
Pivotree Inc.*	PVT	OP		145	26.6	5.44	2020	(0.09)	(0.31)	(0.24)	NMF	NMF	5.6	(4.6)	(3.4)	NMF	NMF	2.7	0%	8.00	↓
Q4 Inc.	QFOR	OP		208	42.7	4.87	2020	(0.33u)	(0.72u)	(0.70u)	NMF	NMF	(6.7u)	(17.8u)	(25.8u)	NMF	NMF	1.8u	22%	12.00	↓
Real Matters Inc.	REAL	SP		551u	85.0	6.48u	2020	0.56u	0.46u	0.36u	11.0	14.2	72.2u	57.5u	43.1u	6.2	8.2	1.9u	0%	8.00u	↓
Shopify Inc.	SHOP	OP		111,982u	127.5	878.00	2020	4.01u	6.67u	6.47u	NMF	NMF	454.5u	755.5u	768.2u	NMF	NMF	80.4u	9%	2000.00	
Softchoice Corp*	SFTC	SP		1,417	63.9	22.19	2020	0.65	0.55	0.96	40.1	23.1	65.5	66.4	95.4	22.3	15.6	0.78	62%	30.00	↓
Tecsys Inc*	TCS	OP		565	14.5	38.81	2021	0.49	0.23	0.68	NMF	NMF	16.2	11.2	19.1	48.9	28.8	4.61	13%	65.00u	
Telus International	TIXT	OP		7,239	268.0	27.01	2020	0.71	0.96	1.27	NMF	NMF	391.2	532.7	655.2	15.6	12.7	6.03	42%	50.00	
Thinkific Labs Inc.	THNC	OP		375	76.7	6.21u	2020	(0.01)u	(0.27)u	(0.32)u	NMF	NMF	(0.39)u	(19.97)u	(24.29)u	NMF	NMF	1.81u	0.00	15.00u	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted;

u = US dollar

Source: Company Reports, NBF, Refinitiv; * Covered by John Shao

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

Associates:
Ahmed Abdullah: 514-879-2564
Luc Troiani, CFA: 416-869-6585

Selections

- *Cineplex*
- *Rogers*
- *Transcontinental*

Rogers

2022 outlook points to better growth ahead of Shaw deal still expected to close by June:

It's fair to say that 2021 was anything but quiet for Rogers, as the company signed the largest deal in its history, which awaits regulatory approvals, navigated pandemic pressures, bid materially more than most expected for 3500 MHz spectrum in the summer auction, had two Boards for a brief time in the fall until the matter was resolved by a judge in British Columbia, and saw a number of key executive changes (starting with the CEO) as the dust continues to settle in 2022 in terms of the management team. The shares of Rogers have underperformed and been more volatile than those of its Big 3 peers over the past three years, with a more pronounced valuation gap materializing over the last year. The company's mix of assets positioned it for relative underperformance during the pandemic, as the material contraction in roaming revenue was exacerbated by a more aggressive approach to eliminating overage revenue and its media & sports properties experienced significant pressure in terms of ad sales as well as lost Blue Jays ticket sales. A rebound appears destined to occur in 2022 in the face of easy comps and an improving economic backdrop. While investors are focused on the potential closing of the Shaw deal (Rogers suggests 2Q22), risk exists in terms of the integration and realization of full synergies as well as the competitive dynamic with Bell and Telus. Rogers reported its 4Q21 on 1/27/22 and delivered a top-line & EBITDA beat driven by wireless. The company offered an outlook for the quarter ahead as it did through 2021, but also outlined guidance for 2022 which calls for service revenues to be up 4%-6%, EBITDA to rise 6%-8%, capex of \$2.8B-\$3.0B, and FCF of \$1.8B-\$2.0B. Additionally, management highlighted three key priorities: 1) close Shaw and begin to deliver synergies, 2) improve execution after results lagged peers past few years, and 3) invest in networks (footprint expansion, FWA, 5G). The company is excited by the management changes made and expects to perform better, especially in Cable as it pursues its Connected Home roadmap, that's anchored by Ignite TV, and pushes into rural areas. Our target is based on PF2022E DCF and PF2023E NAV, with implied EV/EBITDA of 8.6x PF2022E and 8.2x PF 2023E excluding any Shaw-related divestitures and future spectrum purchases.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 1/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		822	63.3	12.97	12/2020	(9.85)	(3.79)	0.49	-3.4	26.6	-182.8	-84.5	156.2	NM	9.5	-3.15	1.39	19.00	
Corus Entertainment Inc.	CJR.b	OP		1,048	208.4	5.03	08/2021	0.88	0.84	0.91	6.0	5.5	524.6	511.8	520.2	4.9	4.4	5.50	0.55	8.00	
WildBrain Ltd.	WILD	OP		519	172.0	3.02	06/2021	(0.07)	(0.03)	0.17	-118.9	17.9	83.1	91.7	106.5	10.5	8.6	0.32	0.88	5.00	
Spin Master Corp.	TOY	OP		4,471	102.3	43.70	12/2020	0.51	1.88	2.01	18.3	17.1	180.6	370.2	386.3	8.6	7.7	9.99	-0.54	61.00	
Stingray Group Inc.	RAY.a	OP		536	71.1	7.55	03/2021	0.85	0.78	0.96	9.6	7.9	114.3	102.9	122.0	8.6	7.5	3.93	0.60	8.50	
TVA Group Inc.	TVA.b	SP		134	43.2	3.10	12/2020	0.86	0.84	0.77	3.7	4.0	85.3	84.1	78.3	2.0	2.0	8.39	0.12	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP		66,924	490.4	136.46	12/2020	1.85	2.04	2.80	52.8	38.4	1975.0	1995.4	2320.0	27.8	23.7	28.94	0.15	162.00	
Transcontinental Inc.	TCL.a	OP		1,836	87.0	21.10	10/2021	2.37	2.46	2.57	8.6	8.2	454.9	463.5	470.6	5.7	5.3	20.04	0.34	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		539	21.6	25.00	12/2020	(0.01)	(0.18)	0.65	NM	38.4	26.6	28.5	28.5	12.1	9.8	4.21	-0.24	36.00	
Yellow Pages Ltd.	Y	SP		398	27.7	14.36	12/2020	2.28	1.96	1.94	7.3	7.4	129.4	102.5	91.2	3.2	3.2	NM	-0.38	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		60,344	908.8	66.40	12/2020	3.02	3.16	3.33	21.0	19.9	9607.0	9901.6	10262.2	9.3	9.0	21.08	0.39	70.00	
Cogeco Communications Inc.	CCA	OP		4,862	46.6	104.34	08/2021	8.43	9.01	9.79	11.6	10.7	1205.7	1380.1	1426.9	6.4	6.0	61.46	0.60	141.00	
Quebecor Inc.	QBR.b	OP		7,296	242.7	30.06	12/2020	2.33	2.56	2.90	11.7	10.4	1952.6	1989.4	2053.7	6.9	6.5	5.17	0.87	40.00	
Rogers Communications Inc.	RCI.b	OP		32,551	504.9	64.47	12/2021	3.56	4.35	5.31	14.8	12.1	5887.0	8974.3	9568.4	8.1	7.7	20.86	0.48	74.00	↑
Shaw Communications	SJR.b	OP		18,983	501.0	37.89	08/2021	1.60	1.60	1.65	23.7	23.0	2500.0	2564.9	2604.9	9.5	9.2	12.24	0.48	40.50	
Telus Corp.	T	OP		40,708	1361.0	29.91	12/2020	0.95	0.97	1.14	30.8	26.2	5493.7	5877.4	6404.3	10.4	9.6	11.71	0.56	35.00	↑

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted

TRI, TOY, and FORA estimates are in US\$, rest is CAD\$.

Source: Bloomberg, Refinitiv and NBF estimates

Transportation & Industrial Products

Cameron Doerksen, CFA
Analyst
514-879-2579
—
Associate:
Alex Hutton
416-869-8281

Selections

- › *BBD.B*
- › *CAE*
- › *HRX*

Aerospace Industry Update

Positive on BBD.B, CAE and HRX

While the broader Aerospace industry is still well below its pre-pandemic peak, the general trends for our coverage aerospace stocks (Bombardier, CAE and Héroux-Devtek) are positive.

- ***Omicron a short-term setback for air travel recovery, but general trends positive.***

  Ultimately it is demand for air travel that is the primary driver for the broader commercial aerospace industry. According to the latest numbers from IATA, relative to 2019 levels, global passenger traffic declined 45.1% in December on 37.6% lower capacity. However, versus December a year ago, traffic was up 79.5% with capacity up 45.5%. Notwithstanding the short-term setback from Omicron, we remain confident air travel will continue to rebound in 2022 with a full recovery by 2024. Improving flying activity is positive for CAE (Outperform, target $45.00) as airlines adding back capacity need to ramp up pilot training, which will in turn boost utilization at CAE's pilot training centers.

- ***Commercial aircraft production rates past the trough.***

  Aircraft deliveries at bellwethers Airbus and Boeing rebounded significantly in 2021 with 951 total deliveries versus 723 in 2020. New aircraft order activity also rebounded in 2021 and the combined Airbus and Boeing backlog sits at ~12 years of production which will support production rate increases in 2022 and beyond. This is positive for CAE since demand for full flight simulators are correlated with new aircraft deliveries. Higher production rates are also positive for Héroux-Devtek (Outperform, target $26.00), which builds landing gear for commercial aircraft.

- ***Business jet market looks strong.***

  On a global basis, in 2021, business jet flights grew 7% relative to the pre-pandemic levels in 2019 according to WingX, reaching an all-time record. Furthermore, according to AMSTAT the market for used business jets is extremely tight with only 3.8% of the global business jet fleet currently for sale – anything below 10% has historically been viewed as positive for new jet demand. High business jet utilization as well a very few jets available on the used market points to a continuation of strong new jet order activity and potentially higher production rates for Bombardier (Outperform, target $2.50). CAE also benefits from higher business jet flying activity as ~50% of its civil pilot training network revenue stems from business aircraft operators.

- ***Defence sector stable with a possible catalyst this year.***

  The defence segment outlook remains positive for 2022 as global military spending to address growing threats continues to increase. Canada may finally select its next fighter jet in 2022 and both CAE and HRX stand to benefit regardless of which jet wins the competition.

Back to Research Analysts page

Transportation & Industrial Products

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 1-31	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	22.86	8,184	12/2020	-16.47	-10.51	-1.85	NA	NA	(10.84)	(9.29)	1.91	NA	12.0x	99%	28.00	↓
Bombardier Inc.	BBD.b	OP		2403	1.69	4,060	12/2020	-u0.47	-u0.19	-u0.04	NA	NA	-u1.32	-u0.32	u0.05	NA	27.0x	na	2.50	
BRP Inc.	DOO	OP		83	105.65	8,784	01/2021	5.35	9.40	9.83	11.2x	10.7x	6.77	(1.95)	9.10	NA	11.6x	111%	128.00	
CAE Inc.	CAE	OP		319	32.10	10,229	03/2021	0.47	0.76	1.25	42.0x	25.7x	0.81	(0.02)	0.96	NA	33.3x	38%	45.00	↑
Canadian National Rail	CNR	SP		707	154.93	109,597	12/2021	5.95	7.11	7.83	21.8x	19.8x	9.81	9.94	11.11	15.8x	15.6x	34%	172.00	↑
Canadian Pacific Rail	CP	SP		930	90.94	84,574	12/2021	3.76	3.84	4.65	23.7x	19.6x	5.41	3.43	6.41	16.8x	26.5x	37%	98.00	
Cargojet Inc.	CJT	SP		18	180.14	3,155	12/2020	-5.63	5.62	6.68	32.1x	27.0x	9.41	0.94	0.67	NA	NA	31%	201.00	
Chorus Aviation Inc.	CHR	SP		178	3.62	643	12/2020	0.40	0.35	0.43	10.4x	8.4x	(1.50)	0.60	(0.49)	6.1x	NA	72%	4.30	↓
Exchange Income Corporation	EIF	OP		39	42.40	1,654	12/2020	1.31	1.89	2.54	22.4x	16.7x	3.42	0.75	2.36	56.2x	17.9x	60%	51.00	
Héroux-Devtek Inc.	HRX	OP		37	17.00	622	03/2021	0.80	0.87	1.02	19.6x	16.6x	1.86	1.88	1.07	9.1x	9.0x	27%	26.00	↑
NFI Group Inc.	NFI	OP		77	19.10	1,472	12/2020	-u0.75	u0.01	u0.52	na	29.0x	u0.69	-u0.35	u0.76	NA	19.8x	59%	26.00	
Taiga Motors Corp.	TAIG	OP		31	4.57	143	12/2020	NA	-5.57	-1.25	NA	NA	NA	(2.45)	(3.74)	NA	NA	na	16.00	
Transat A.T. Inc.	TRZ	UP		38	4.58	173	10/2021	-11.83	-4.82	-0.67	NA	NA	(13.88)	0.04	4.86	NA	NA	NA	3.50	
TFI International Inc.	TFII	OP		93	122.35	11,376	12/2020	u3.30	u4.84	u6.20	19.9x	15.5x	u5.16	u6.59	u7.56	14.6x	12.7x	50%	153.00	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted

u = US dollars

Source: Company Reports, Refinitiv, NBF

Back to Research Analysts page

Alphabetical Listing

Branches

Ancaster • 911, Golf Links Road, Suite 201, Ancaster, ON, L9K 1H9 • 905-648-3813
Baie-Comeau • 600, Boul. Laflèche, bureau 340-B, Baie-Comeau, QC, G5C 2X8 • 418-296-8838
Barrie • 126 Collier Street, Barrie, ON, L4M 1H4 • 705-719-1190
Beauce • 11333, 1ière Avenue, bureau 200, Saint-Georges, QC, G5Y 2C6 • 418-227-0121
Bellevue West Van • Suite #209, 1455 Bellevue Avenue, West Vancouver, BC, V7T 1C3 • 604-925-3734
Berthierville • 779, rue Notre-Dame, Berthierville, QC, J0K 1A0 • 450-836-2727
Bin-Scarth • 24 Binscarth Rd, Toronto, ON, M4W 1Y1 • 416-929-6432
Brampton • 10520 Torbram Road (at Sandalwood Parkway), Brampton, ON, L6R 2S3 • 905-456-1515
Brandon • 633-C, 18th Street, Brandon, MB, R7A 5B3 • 204-571-3200
Calgary • 239 8th Ave., SW, Suite 100, Calgary, AB, T2P 1B9 • 403-476-0398
Calgary - Southport • 10655 Southport Road SW, Suite 1100, Southland Tower, Calgary,AB, T2W 4Y1 • 403-301-4859
Chatham • 380 St. Clair, Street, Chatham, ON, N7L 3K2 • 519-351-7645
Chicoutimi • 1180, boulevard Talbot, Suite 201, Chicoutimi, QC, G7H 4B6 • 418-549-8888
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • (403) 823-6859
Drummondville • 595, boulevard Saint-Joseph, Bureau 200, Drummondville, QC, J2C 2B6 • 819-477-5024
Duncan • 2763 Beverly Street, Suite 206, Duncan, BC, V9L 6X2 • 250-715-3050
Edmonton • 10175 – 101 Street NW, Suite 1800, Edmonton, AB, T5J 0H3 • 780-412-6600
Edmonton-North • TD Tower, 10088 – 102 Avenue, Suite No. 1701, Edmonton, AB, T5J 2Z1 • 780-421-4455
FrederictonNB • 551 King Street, Fredericton , NB, E3B 4Z9 • 506-450-1740
Gatineau • 920, St-Joseph, Bureau 100, Hull-Gatineau, QC, J8Z 1S9 • 819-770-5337
Granby • 201-975 rue Principale, Granby, QC, J2G 2Z5 • 450-378-0442
Halifax • Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1601, Halifax, NS, B3J 3R7 • 902-496-7700
Halifax-Spring Garden • 400-5657 Spring Garden Road, Parklane Terraces, Halifax, NS, B3J 3R4 • 902-425-1283
Joliette • 40, rue Gauthier Sud, Bureau 3500, Joliette, QC, J6E 4J4 • 450-760-9595
Kelowna • 1631 Dickson Ave. Suite 1710, Landmark 6, Kelowna, BC, V1Y 0B5 • 250-717-5510
Lac-Mégantic • 3956, rue Laval, suite 100, QC, G6B 2W9 • 819-583-6035
Laval • 2500, boulevard Daniel Johnson, Bureau 610, Laval, QC, H7T 2P6 • 450-686-5700
Lethbridge • 404, 6th Street South, Lethbridge, AB, T1J 2C9 • 403-388-1900
Lévis • 1550, boulevard Alphonse-Desjardins, Bureau 110, Lévis, QC, G6V 0G8 • 418-838-0456
London Pall Mall • 256 Pall Mall Street, Suite 201, London, ON, N6A 5P6 • 519-439-6228
London-City Centre • 802-380 Wellington Street, London, ON, N6A 5B5 • 519-646-5711
Metcalfe • 1155, rue Metcalfe, Suite 1450, Montréal, QC, H3B 2V6 • 514-879-4825
Mississauga • 350, Burnhamthorpe road West, Suite 603, Mississauga, ON, L5B 3J1 • 905-272-2799
Moncton • 735 Main Street, Suite 300, Moncton, NB, E1C 1E5 • 506-857-9926
Mont Saint-Hilaire • 450 boul. Sir-Wilfrid-Laurier local 208 , Mont-St-Hilaire, Qc. J3H 3N9 • 450-467-4770
Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
Montréal International • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5576
Montréal L'Acadie • 9001, boulevard de l'Acadie, Bureau 802, Montréal, QC, H4N 3H5 • 514-389-5506
North Bay • 680 Cassells Street, Suite 101, North Bay, ON, P1B 4A2 • 705-476-6360
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
Ottawa • 50 O'Connor Street, Suite 1602, Ottawa, ON, K1P 6L2 • 613-236-0103
Outremont • 1160, boulevard Laurier Ouest, App. 1, Outremont, QC, H2V 2L5 • 514-276-3532
Owen Sound • 1717 2nd Ave. E., Suite 202, Owen Sound, ON, N4K 6V4. • 519-372-1277
Peterborough • 201 George Street North, suite 401, Peterborough, ON, K9J 3G7 • 705-740-1110
Plessisville • 1719, rue St-Calixte, Plessisville, QC, G6L 1R2 • 819-362-6000
Kirkland • 16,766 Route Transcanadienne, bureau 503, Kirkland, QC, H9H 4M7 • 514-426-2522
PVM Montréal • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5200
Québec • 500, Grande-Allée Est, Bureau 400, Québec, Qc, G1R 2J7 • 418-649-2525
Québec - Sainte-Foy • Place de la Cité, 2600, boulevard Laurier, Bureau 700, Québec, QC, G1V 4W2 • 418-654-2323
Red Deer • 4719 48th Avenue, Suite 200, Red Deer, AB, T4N 3T1 • 403-348-2600
Regina • 2075, Prince Of Wales Drive, Suite 305, Regina, SK, S4V 3A3 • 306-781-0500
Repentigny • 534, rue Notre-Dame, Bureau 201, Repentigny, QC, J6A 2T8 • 450-582-7001
Richmond • 135-8010 Saba Road, Richmond, BC, V6Y 4B2 • 604-658-8050
Richmond Hill • 9130 Leslie Street, Suite 200, Richmond Hill, ON, L4B 0B9 • 416-753-4016
Rimouski • 127, boulevard René-Lepage Est, Bureau 100, Rimouski, QC, G5L 1P1 • 418-721-6767
Rivière-du-Loup • 10, rue Beaubien, Rivière-du-Loup, QC, G5R 1H7 • 418-867-7900
Rouyn-Noranda • 104, 8e rue, Rouyn-Noranda, QC, J9X 2A6 • 819-762-4347
Saint John • 69 King Street, 2nd floor, St-John, NB, E2L 2B1 • 506-642-1740
Sainte-Marie-de-Beauce • 249, Du Collège, Bureau 100, Ste-Marie, QC, G6E 3Y1 • 418-387-8155
Saint-Félicien • 1120, boulevard Sacré-Cœur, Saint-Félicien, QC, G8K 1P7 • 418-679-2684
Saint-Hyacinthe • 1355, rue Daniel-Johnson Ouest, bureau 4100, Saint-Hyacinthe, QC, J2S 8W7 • 450-774-5354
Saint-Jean-sur-Richelieu • 395, boul. du Séminaire Nord, Suite 201, Saint-Jean-sur-Richelieu, QC, J3B 8C5 • 450-349-7777
Saint-Jérôme • 265, rue St-George, Suite 100, Saint-Jérôme, QC, J7Z 5A1 • 450-569-8383
Saskatoon - 8th St. • 1220 8th Street East, Saskatoon, SK, S7H 0S6 • 306-657-3465
Sept-Îles • 805, boulevard Laure, Suite 200, Sept-Îles, QC, G4R 1Y6 • 418-962-9154
Shawinigan • 550 Avenue De la Station, bureau 200, Shawinigan, QC, G9N 1W2 • 819-538-8628
Sherbrooke • 1802, rue King Ouest, Suite 200, Sherbrooke, QC, J1J 0A2 • 819-566-7212
Sidney • 2537, Beacon Avenue, Suite 205, Sidney, BC, V8L 1Y3 • 250-657-2200
Sorel • 26, Pl. Charles-de-Montmagny, Suite 100, Sorel, QC, J3P 7E3 • 450-743-8474
St. Catharines • 40 King Street, St. Catharines, ON, L2R 3H4 • 905-641-1221
Sudbury • 10 Elm Street, Suite 501, Sudbury, ON, P3C 1S8 • 705-671-1160
Thedford Mines • 222, boulevard Frontenac Ouest, bureau 107, Thedford Mines, QC, G6G 6N7 • 418-338-6183
Thunder Bay • 979, Alloy Dr, Suite 104, Thunder Bay, ON, P7B 5Z8 • 807-683-1777
Toronto 1 • Exchange Tower, 130 King Street West, Suite 3200, Toronto, ON, M5X 1J9 • 416-869-3707
Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
Trois-Rivières • 7200, rue Marion, Trois-Rivières, QC, G9A 0A5 • 819-379-0000
Val d'Or • 840, 3e avenue, Val d'Or, QC, J9P 1T1 • 819-824-3687
Valleyfield • 1356, boulevard Monseigneur-Langlois, Valleyfield, QC, J6S 1E3 • 450-370-4656
Vancouver - PB1859 • 1076 Alberni Street, Suite 201, Vancouver, BC, V6A 1A3 • 778-783-6420
Vancouver 1 • 475 Howe Street, Suite 3000, Vancouver, BC, V6C 2B3 • 604-623-6777
Victoria • 700-737 Yates Street, Victoria, BC, V8W 1L6 • 250-953-8400
Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
Waterloo • 180 King Street South, Suite 701, Waterloo, ON, N2J 1P8 • 519-742-9991
White Rock • 2121 160th Street, Surrey, BC, V3Z 9N6 • 604-541-4925
Windsor • 1 Riverside Drive West,Suite 600, Windsor, ON, N9A 5K3 • 519-258-5810
Winnipeg • 1000-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5 • 204-925-2250
Yorkton • 89 Broadway Street West, Yorkton, SK, S3N 0L9 • 306-782-6450

International

NBF Securities UK
(Regulated by
The Financial Services Authority)
70 St. Mary Axe
London, England EC3A 8BE
Tel.: 44-207-680-9370
Tel.: 44-207-488-9379

New York
65 East 55th Street, 31st Floor
New York, NY 10022
Tel.: 212-632-8610

National Bank of Canada Financial Inc.

New York
65 East 55th Street, 34th Floor
New York, NY 10022
Tel.: 212-546-7500

Member of

- Montreal Exchange
- Toronto Stock Exchange
- Winnipeg Commodities Exchange
- Securities Industry Association
- CNQ
- Investment Dealers Association of Canada
- Canadian Investor Protection Fund
- Securities Investor Protection Corporation

Corporate Offices

Montreal
National Bank Financial

Sun Life Building
1155 Metcalfe Street
Montreal, QC H3B 4S9
514-879-2222

Toronto
National Bank Financial

The Exchange Tower
130 King Street West
4th Floor Podium
Toronto, ON M5X 1J9
416-869-3707

Canada
(Toll-Free)

1-800-361-8838
1-800-361-9522

United States
(Toll-Free)

1-800-678-7155

NATIONAL BANK OF CANADA
FINANCIAL MARKETS