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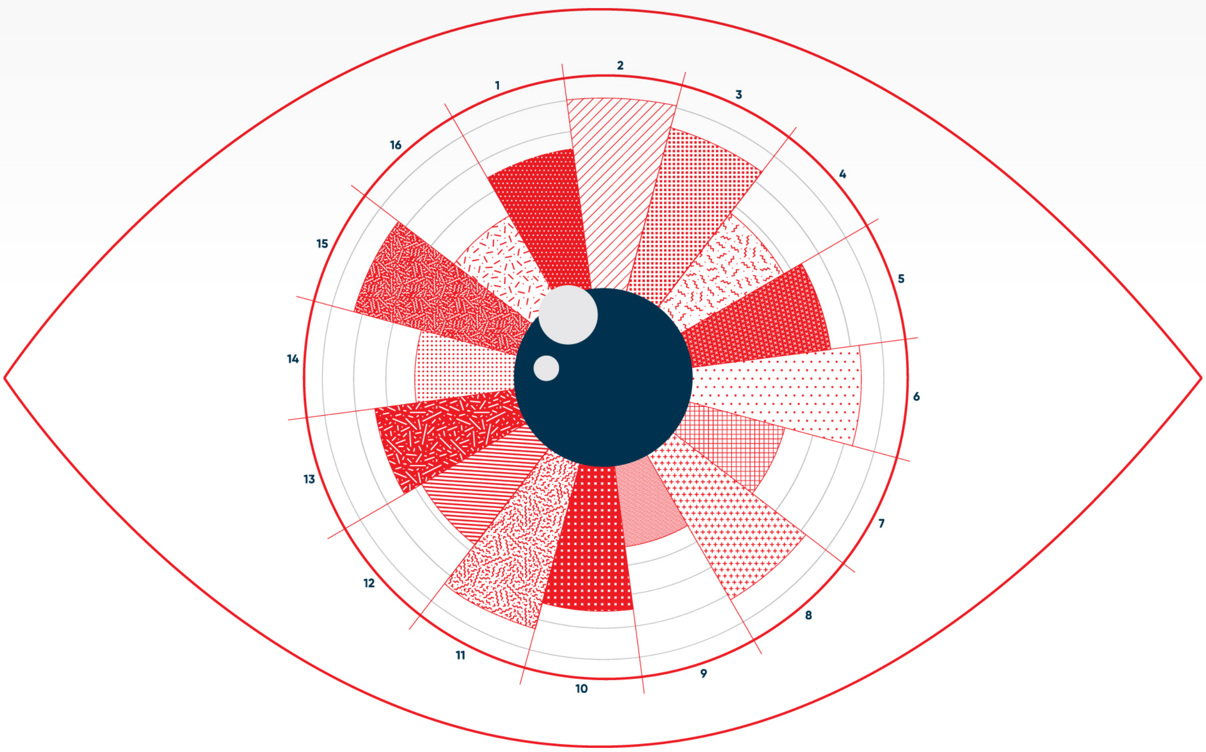
FINANCIAL MARKETS

Vision



Monthly Economic and Financial Monitor

December 2020

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Highlights

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Economy

- On November 9 Pfizer/BioNTech announced preliminary results of phase-three clinical trials of its Covid-19 vaccine. The partnership reported an efficacy exceeding 90% in preventing infection by the new coronavirus. Similar announcements followed from Moderna and from a partnership of AstraZeneca and Oxford University. Unsurprisingly, these announcements were very well received by global markets. Though anticipation of vaccines has certainly contributed to the revival of optimism, the uptrend of cheer was already well under way. And with good reason: the fiscal stimulus introduced by many countries to attenuate the economic effects of the pandemic, combined with highly accommodative monetary policies, had already fuelled a spectacular rebound of growth in the third quarter of the year. Though uncertainty about the medium and long terms has abated somewhat, the outlook for the short term remains worrisome. The daily counts of new Covid-19 cases remain very high in the U.S. and Europe, a phenomenon sure to weigh on growth until vaccines become widely available. Also persistent are worries about extension of fiscal support in some developed economies. Considering the faster-than-expected arrival of COVID-19 vaccines, we have decided to raise our global growth forecast for 2021 from 5.2% to 5.4%. Our expectations for a 3.9% contraction in 2020 remain unchanged.
- Intense pandemic worries notwithstanding, there finally seems to be some light at the end of the tunnel for the U.S. economy. To start with, the U.S. is likely to be among the first countries to receive vaccine doses, which should allow it to reach, quite quickly, a degree of immunity supporting a fuller recovery of the economy. Until then, however, the pace of the recovery will continue to depend on fiscal aid from Washington. Here the news is also encouraging. After months of tergiversation, a fiscal package providing an injection of $908 billion has been proposed by a bipartisan group of senators. Even in the best scenario, however, the new stimulus may not become law before Joe Biden's inauguration on January 20. So, we will probably need to wait till the end of the first quarter to see lift from the arrival of vaccines and a possible stimulus from Washington. Meanwhile, we remain very cautious about prospects for growth in the short term given surging COVID-19 caseloads across the country. All things considered, we expect U.S. real GDP growth to be 4.9% annualized in Q4, for a contraction of 3.5% in 2020 as a whole. Growth is likely to slow further in Q1 and then accelerate gradually over the rest of the coming year. We expect an expansion of 3.8% for 2021 as a whole (3.2% previously).
- The third-quarter national accounts released by Statistics Canada early this month were eagerly awaited. The real GDP gain of 40.5% annualized was disappointing at first glance: the monthly data by industry had suggested more. But this record quarterly growth was well above the forecasts of just a few months earlier. It left a shortfall of Q3 output relative to Q4 2019 comparable to that of the other G7 countries. With deliveries from Moderna and Pfizer/BioNTech now imminent, the government estimates that its purchases will allow vaccination of 3 million Canadians in the first quarter of the new year. By way of illustration, that is almost enough to cover all workers in health care and long-term care (1.7 million) and those older than 80 (1.7 million). It would be a great advance to secure the health-care system and to protect the age group accounting for more than 70% of deaths. It nonetheless remains that until then, there is a risk that the virus will trigger further regional and sector shutdowns that could brake economic growth in coming months. The fourth quarter does not look at risk, given the solid handover from September. Though stricter public-health measure prompted by the surge of Covid cases in recent weeks could brake recovery over the coming months, we are confident that the ingredients of a subsequent lasting revival are in place. The vaccines coming on stream support hope that the sectors in difficulty will revive in the second half of the year. Ottawa's economic and fiscal update showed a firm intention to support the economy vigorously even apart from vaccination. All things considered, we are keeping our growth scenario roughly unchanged this month: a 5.6% contraction of GDP in 2020, a rebound of 4.3% in 2021.

Interest rates and currency

- As our colleagues in Economics and Strategy have repeatedly stressed, the household income picture remains at odds with underlying job counts or any number of more esoteric economic readings. Critically, wages and salaries have been bolstered by extraordinary government income-replacement programs arming households with what we consider to be sufficient income/savings to bridge us to broad-based vaccine deployment... after which time, latent animal spirits buried deep in the breast of freshly immunized consumers could well take over.
- Critically for bond markets, inflation pressures appear destined to build, the balance of risks being tilted higher in our estimation. As our forecasted economic recovery intersects with a higher trend unemployment rate or NAIRU, the result could well be an earlier-than-expected return of 2% core inflation in the U.S., at least relative to the Fed's latest summary projections.
- What does this broad narrative imply for Canada? On the face of it, there are reasons to lean against (or at least minimize) what might otherwise be normal-course directional outperformance of Canadas vs. U.S. Treasuries. To be clear, we're not suggesting that Canadian rates are poised to underperform (i.e., yields rising faster and curves steepening more quickly than what we're liable to see south of the border). Rather, we're arguing that easy outperformance may be tougher to come by, with the Canadian curve hardly impervious to steepening pressure in the year ahead.

Highlights

- For those fretting the apparent desire to taper at the BoC, consider that the more recent slowing in QE purchases still leaves the Canada's program far larger than what is being delivered by the Fed in the U.S. That will still be the case, if, as and more appropriately, when the BoC makes its next calibration of QE knows. To us, that will entail a slowing from $4 billion/week to $3 billion/week, likely early in the new year. Barring such a change, the BoC ownership share risks marching ever closer to levels now deemed problematic by the Bank Governor himself.
- The loonie continues to strengthen on the back of better growth prospects for the global economy and higher commodity prices that will improve Canada's terms of trade. Moreover, Ottawa has pledged further fiscal stimulus to beat back the coronavirus and ensure a sustainable economic expansion. Though OPEC+'s dithering on oil production quotas could add short-term volatility to the price of oil, we remain comfortable with our 2021 target of C$1.25 to the USD.

Recommended asset mix and stock market

- Global stocks had their best month ever in November with the MSCI ACWI surging 11.3% to a new record high. Early in December the index retains its momentum. Investor enthusiasm is fuelled by good news on vaccines and the prospect of a new bipartisan U.S. fiscal stimulus that could be worth about $900 billion.
- Publicly listed companies have reported a sharp improvement in earnings per share in recent months, with a healthy dose of upward revisions for the coming year. In the past month alone, EPS for the coming year has been revised up 1% globally, led by 1.6% in Emerging Markets.
- At this writing, the S&P/TSX is up 8.7% from the beginning of Q4, pushing its year-to-date return into positive territory for the first time since the pandemic began. Two heavyweight segments of the S&P/TSX, Energy and banks, are already up a whopping 19.8% and 16% respectively in Q4.
- We said last month that we were ready to redeploy more of our excess cash if warranted by political developments and the pace of vaccine approvals by health authorities. Good news on both fronts, combined with the continued commitment of the world's largest central banks to provide ample liquidity for the foreseeable future, has increased our optimism about global growth in 2021. Consequently, we are reducing our excess cash position for the second time in as many months, shifting 2% of our equity portfolio to Emerging Markets. After a similar move last month, we are again adding to Canadian equities (+2%) but this time, via a similar reduction in our U.S. exposure. This move reflects our conviction on currencies and on a continued rotation from growth stocks into value-oriented stocks which usually favours the Canadian equity benchmark.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	11.9	Market Weight	
Materials	13.6	Market Weight	
Industrials	12.1	Market Weight	
Consumer Discretionary	3.8	Market Weight	
Consumer Staples	3.9	Market Weight	
Healthcare	1.2	Market Weight	
Financials	30.4	Overweight	
Information Technology	9.8	Underweight	
Telecommunication Services	5.1	Market Weight	
Utilities	5.0	Market Weight	
Real Estate	3.2	Underweight	
Total	100.0		

* As of December 04, 2020

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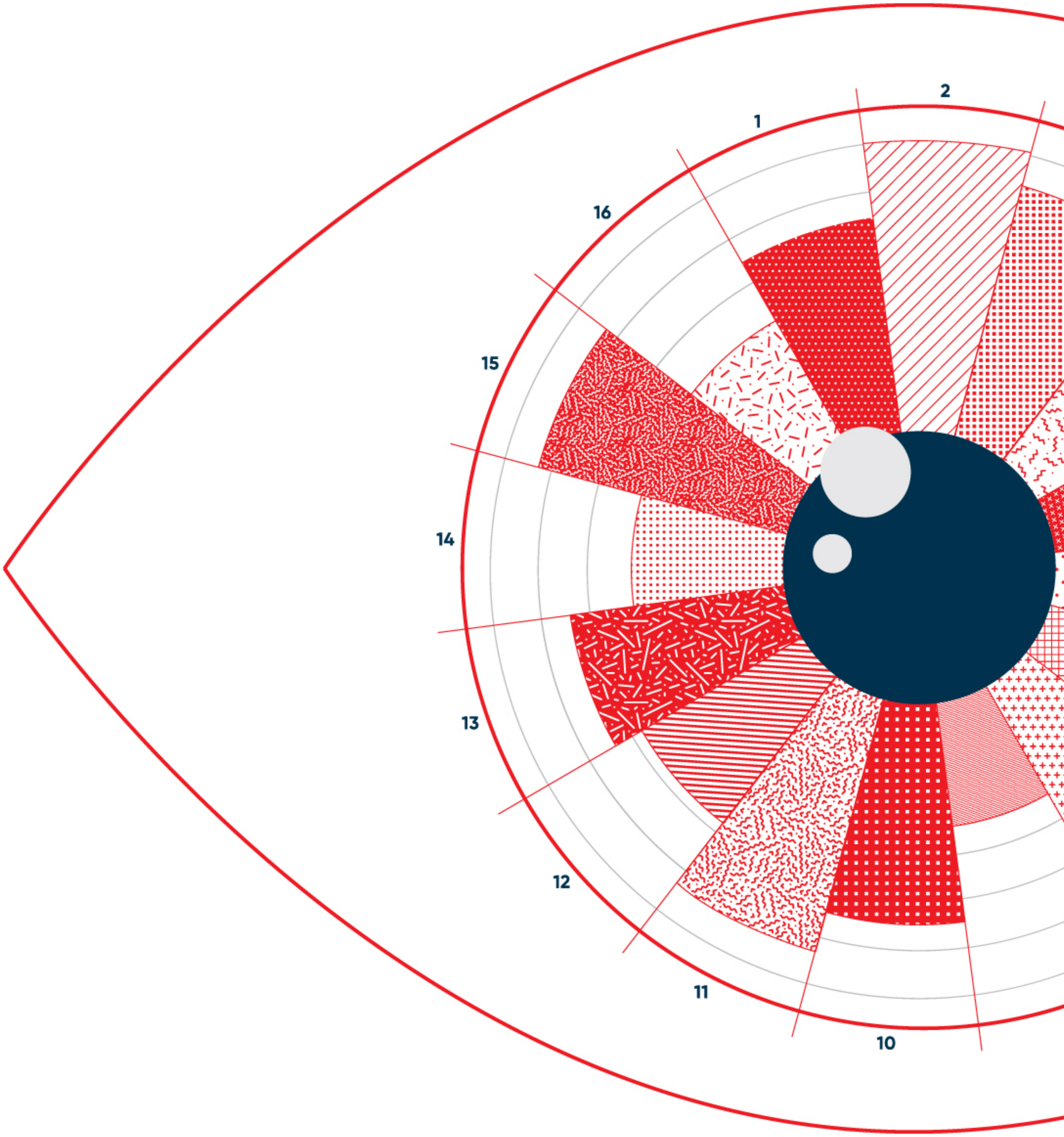

The Economy

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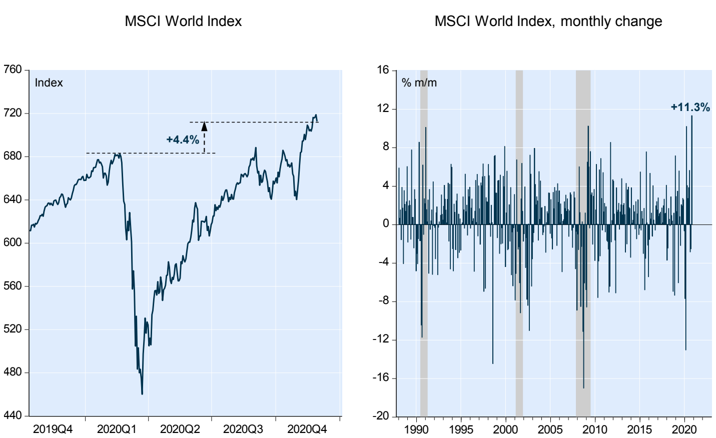
World: Coming vaccines bring hope

On November 9 Pfizer/BioNTech announced preliminary results of phase-three clinical trials of its Covid-19 vaccine. The partnership reported an efficacy exceeding 90% in preventing infection by the new coronavirus. Similar announcements followed from Moderna and from a partnership of AstraZeneca and Oxford University. With approval of these vaccines by global health authorities now looking like a formality, the first shots could be given before year end in some jurisdictions (the U.K., the U.S. and Germany seem to be first in line).

Unsurprisingly, these announcements were very well received by global markets. The MSCI World Index had its best month in history in November and at this writing is 4.4% above its pre-pandemic high.

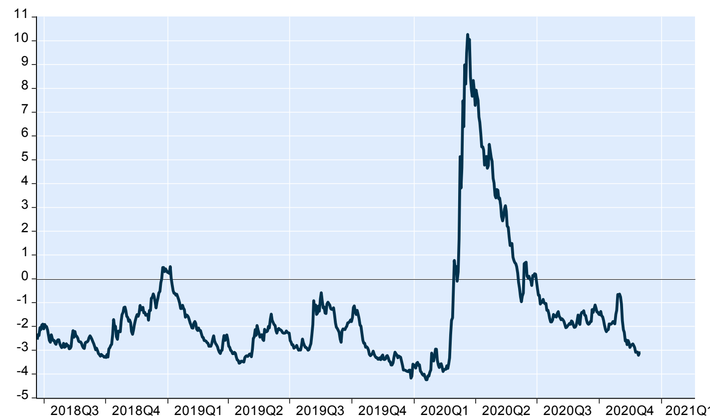
World: Markets cheered by the prospect of vaccines



NBF Economics and Strategy (data via Refinitiv)

The stock market run-up, combined with a decline of volatility and an easing of credit conditions, was reflected in a marked abatement of international financial stress, which augurs well for continuation of the economic recovery.

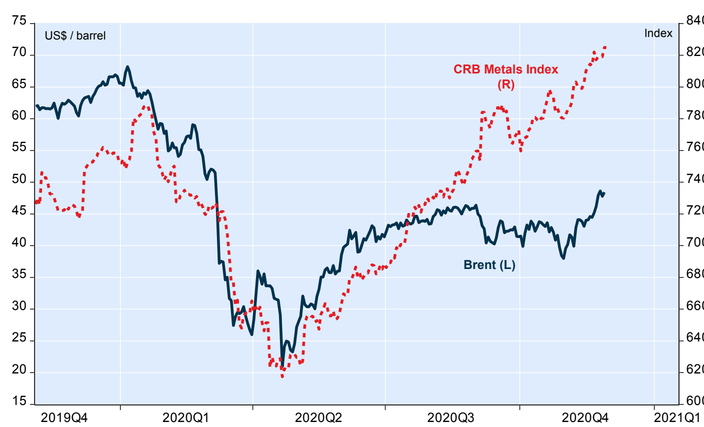
World: Market conditions back to pre-pandemic level
OFR global Financial Stress Index



NBF Economics and Strategy (source: Office of Financial Research via Bloomberg)

Commodity prices, meanwhile, have climbed in anticipation of economic expansion following vaccination campaigns.

World: Vaccines are a tailwind for raw materials …
CRB Metals Price Index vs. Brent oil price



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

As risk assets become desirable, the opposite is happening with safe-haven assets. Gold seems to have reversed a two-year uptrend; at this writing it is trading about 10% below its August high. The greenback, meanwhile, continued to slide in November – good news for the many international borrowers whose debt is denominated in U.S. dollars.

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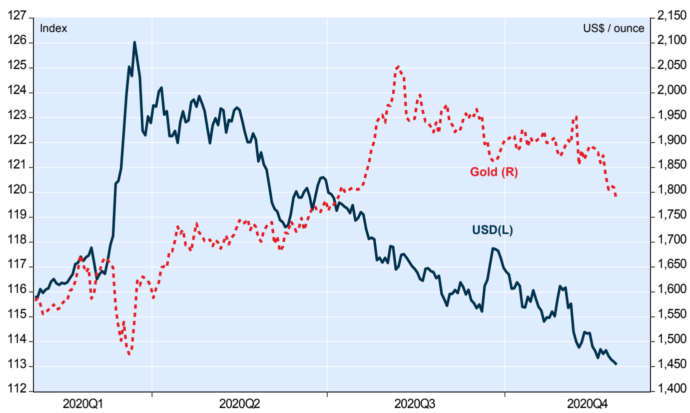
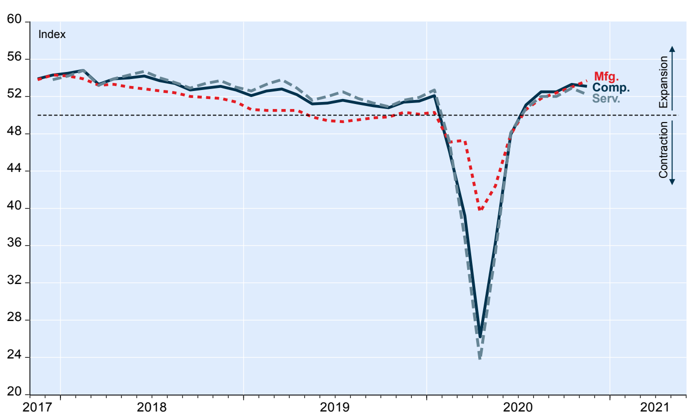
… but a headwind for safe-haven assets
Trade-weighted USD vs. price of gold



NBF Economics and Strategy (data via Refinitiv)

Though anticipation of vaccines has certainly contributed to the revival of optimism, the uptrend of cheer was well under way even before the Pfizer/BioNTech announcement. And with good reason: the fiscal stimulus introduced by many countries to attenuate the economic effects of the pandemic, combined with highly accommodative monetary policies, had already fuelled a spectacular rebound of growth in the third quarter of the year. And judging by the latest Markit data, private-sector expansion seems to be continuing in Q4. The Markit global composite PMI for November was comfortably above the expansion threshold of 50 for a fifth consecutive month.

World: Sustained improvement of private-sector conditions
JPMorgan global composite PMI (last observation November 2020)

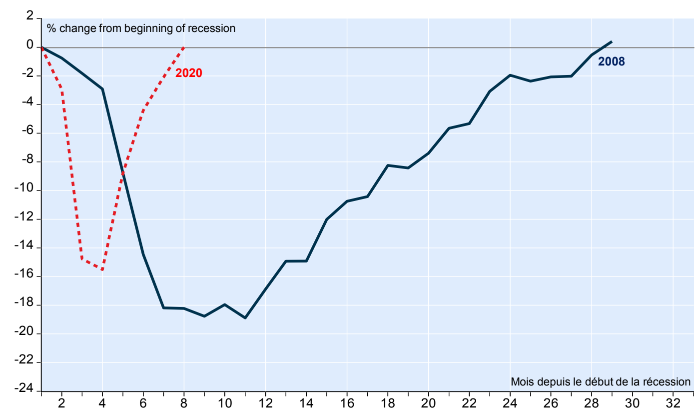


NBF Economics and Strategy (source: Markit via Refinitiv)

The recovery in manufacturing is especially impressive. It is due in large part to a departure from the consumer behaviour typical of a "normal" recession, when households tend to cut consumption of goods more than of services. In this pandemic recession it is the service sector that in many cases has been hit harder by shutdown measures, leaving a larger share to consumption of goods. This anomaly has no doubt contributed to the rapid rebound of manufacturing output, especially with some households (especially in the developed economies) enjoying an increase in disposable income during the crisis thanks to generous government aid programs.

This spending pattern is also good news for export economies. As CPB data suggest, global trade volume in September had recovered fully from the pandemic shock. That was only seven months after its onset – less than one-quarter the 29 months it took for trade to recover from the 2008-09 financial crisis.

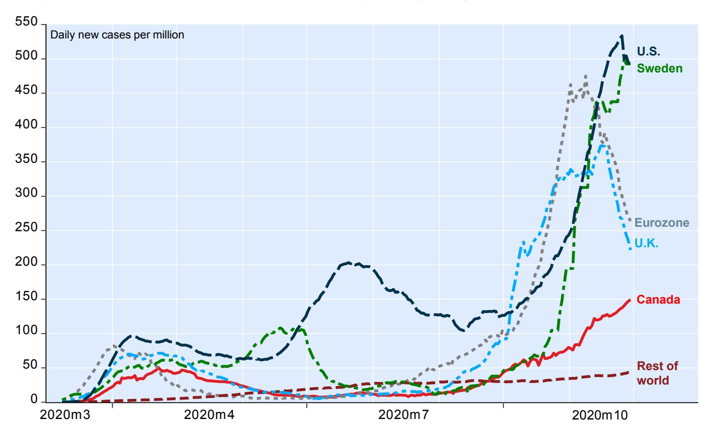
World: Global trade volume has made up pandemic losses
Changes in trade volume over months following recession (last 2020 observation: September)



NBF Economics and Strategy (data from CPB)

Though uncertainty about the medium and long terms has abated somewhat, the outlook for the short term remains worrisome. The daily counts of new Covid-19 cases remain very high in the U.S. and Europe, a phenomenon sure to weigh on growth until vaccines become widely available. Renewed contraction of Eurozone GDP now seems inevitable in the fourth quarter of the year.

World: Daily case counts very high in developed countries
Daily new cases of Covid-19 per million population, 7-day moving average



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

Also persistent are worries about extension of fiscal support in some developed economies. There is new stimulus on the horizon in the U.S. (see U.S. section below), but a European revival plan seems to face major obstacles. EU authorities last May announced a program of €750 billion in funding for the revival efforts of member countries. In the hope of slowing or reversing the trend to illiberalism in some member countries, EU negotiators and the European parliament agreed that access to this funding would be tied to compliance with

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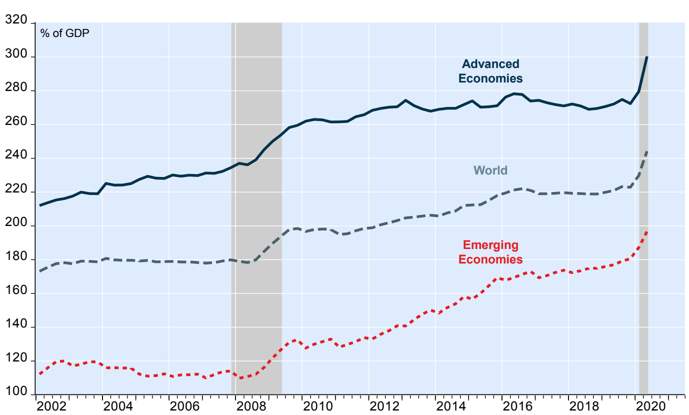
certain principles of law, notably the independence of judiciaries. The opposition of Poland and Hungary to these terms could well delay the release of funds and slow the economic revival in Europe.

In the longer term, though government and central-bank efforts are likely to result in a convincing recovery in 2021, they will have consequences. Gaping government deficits and sweeping programs of loans to businesses introduced at the peak of the crisis will entail a very large increase in worldwide total debt (of governments, businesses and households). Governments have ensured that they will not lack for liquidity during this crisis but solvency issues could arise for some borrowers in 2021. Even in an environment of low interest rates, this overindebtedness will limit future investment, reducing potential growth accordingly in many places around the globe. The vigour of the current recovery will probably be partly offset by weakness in long-term growth.

World: The pandemic will leave marks

Total credit to the non-financial sector as a percentage of GDP. Last observation: 2020Q2



NBF Economics and Strategy (data via the Bank for International Settlements)

Considering the faster-than-expected arrival of COVID-19 vaccines, we have decided to raise our global growth forecast for 2021 from 5.2% to 5.4%. Our expectations for a 3.9% contraction in 2020 remain unchanged.

World Economic Outlook

	2019	2020	2021
Advanced Economies	1.7	-5.4	4.1
United States	2.2	-3.5	3.8
Eurozone	1.3	-7.8	4.7
Japan	0.7	-5.5	3.0
UK	1.5	-11.0	4.7
Canada	1.7	-5.6	4.3
Australia	1.8	-3.8	2.9
Korea	2.0	-1.2	3.3
Emerging Economies	3.7	-2.7	6.4
China	6.1	2.0	8.2
India	4.2	-10.0	10.2
Mexico	-0.3	-9.2	3.7
Brazil	1.1	-6.0	3.2
Russia	1.3	-4.2	3.1
World	2.8	-3.9	5.4

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

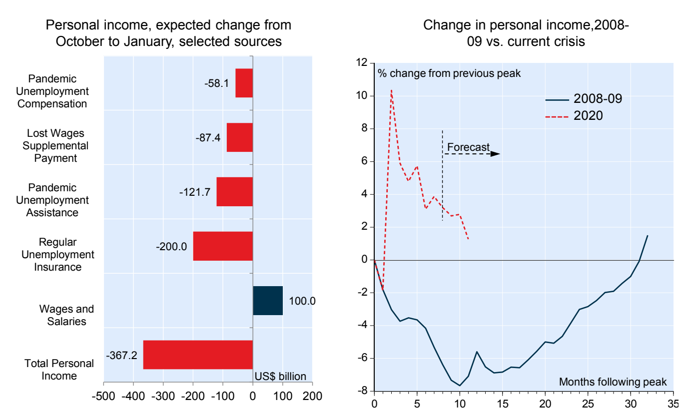
U.S.: Light at the end of a long tunnel?

Intense pandemic worries notwithstanding, there finally seems to be some light at the end of the tunnel for the U.S. economy. To start with, the U.S. is likely to be among the first countries to receive vaccine doses, which should allow it to reach, quite quickly, a degree of immunity supporting a fuller recovery of the economy.

Until then, however, the pace of the recovery will continue to depend on fiscal aid from Washington. Here the news is also encouraging. After months of tergiversation, a fiscal package providing an injection of $908 billion has been proposed by a bipartisan group of senators. Though less than was expected just a few weeks ago, the proposal does include $180 billion for new supplements to unemployment insurance, $288 billion for assistance to small businesses and $160 billion for state and local governments. Whether the House of Representatives will vote for it and the president will sign it remains to be seen. Meanwhile, the simple fact that Republicans and Democrats have found room for agreement is promising.

Even in the best scenario, however, the new stimulus may not become law before Joe Biden's inauguration on January 20. This should not be a big problem for U.S. consumers. At least that is the implication of personal income data released by the Bureau of Economic Analysis. U.S. personal income in October amounted to $19,726 billion annualized. Some $237 billion of that amount was from UI programs launched at the beginning of the crisis (Pandemic Unemployment Assistance, Pandemic Emergency Unemployment Compensation and Lost Wages Supplemental Payments). Scheduled expiry of these programs at the end of 2020, combined with a new reduction of regular UI payments, could entail about $470 billion in income loss by the end of January. That loss, of course, is likely to be partly offset by an increase in wages (of about $100 billion, by our estimate). By this calculation, total personal income could fall $367 billion by the end of January. But that would leave it still up 2.0% from a year earlier. Though unremarkable by historical standards, such a gain would be far better than the peak-to-trough decline of 7.7% in the recession of 2008-09.

U.S.: Can stimulus wait till January?



NBF Economics and Strategy (source: BEA via Refinitiv)

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Moreover, this figure does not take into account the substantial savings accumulated in recent months – possibly close to $1.4 trillion, or about 6.5% of GDP. By this calculation, we think U.S. consumers will be in a position to maintain a decent rate of spending between now and the inauguration of the new president. If a new stimulus package goes through, the fiscal effort deployed since the beginning of the pandemic could even support household spending in the second half of the year, especially under conditions where fear of Covid-19 may have dissipated.

However, given the very large number of people whose incomes still depend on Washington, excess savings could be still be insufficient in the absence of further fiscal effort. True, the aggregate of continued UI benefits continues to decline in the U.S., but that does not necessarily mean the labour market is rapidly improving. The duration of UI benefits varies from state to state, ranging from 12 weeks in North Carolina to 28 weeks in Montana. In most states it is 26 weeks. The decline of "regular" benefit claims could accordingly reflect in part the withdrawal of unemployed workers who have exhausted their entitlement. Data from the Department of Labor indicate that these latter now seem to be turning to the emergency UI programs put in place at the beginning of the crisis.

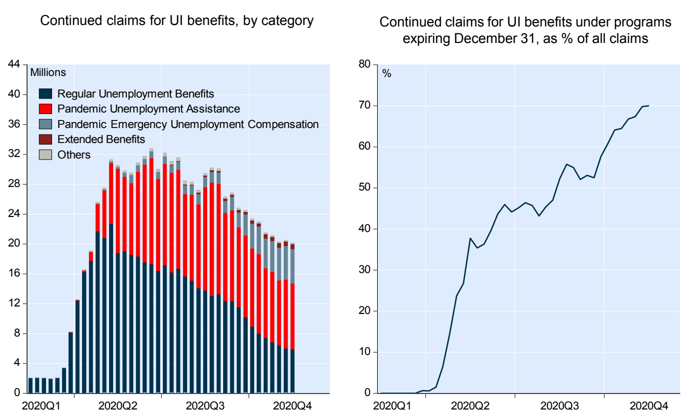
Number of unemployment insurance payments made by program (thousands, NSA)

	14 November	1 November	Chg. 14 days	12 months ago
Regular Unemployment Insurance	5890.2	6452.0	-561.8	1457.8
Pandemic Unemployment Assistance	8869.5	8681.6	187.9	0.0
Pandemic Emergency Unemployment Compensation	4569.0	4376.8	192.2	0.0
Extended benefits	681.1	633.9	47.2	0.0
Others	153.7	172.5	-18.9	30.0
Total	20163.5	20316.9	-153.5	1487.8

NBF Economics and Strategy (data via Bloomberg)

Almost 15 million Americans, or 70% of those who received a UI benefit in the week ending November 14, were registered in programs set to expire December 31. Their incomes could fall drastically without an extension of supplemental benefits.

U.S.: A labour market still dependent on federal aid

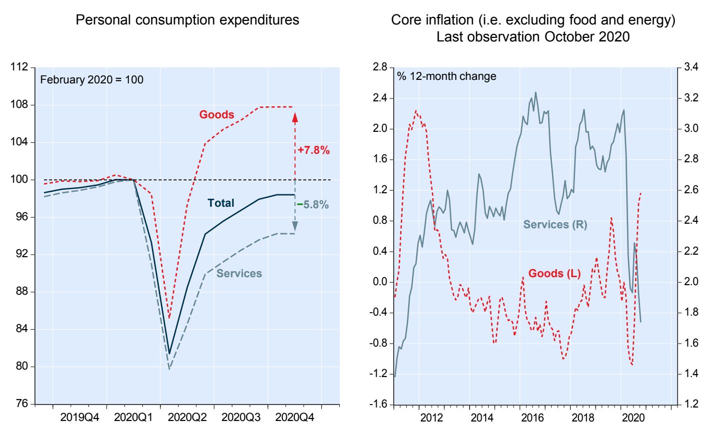


NBF Economics and Strategy (data from Bloomberg)

A solid rebound of employment could of course attenuate this imminent income shock. Unfortunately, the steep rise of Covid-19 cases in the U.S. could limit labour market gains for some time. November's disappointing nonfarm employment gain could be a foretaste of what is to come on the jobs front.

So, we will probably need to wait till the end of the first quarter to see lift from the arrival of vaccines and a possible stimulus from Washington. Until then, we remain very cautious about prospects for growth in the short term. Until the pandemic is brought under control, economic recovery will be incomplete and will be characterized by outperformance of the goods sector relative to services, the latter being more affected by social distancing requirements. The shift of consumer spending to goods will also affect inflation. Already in October, core inflation of goods showed the largest increase since 2012 and that for services the smallest in more than nine years.

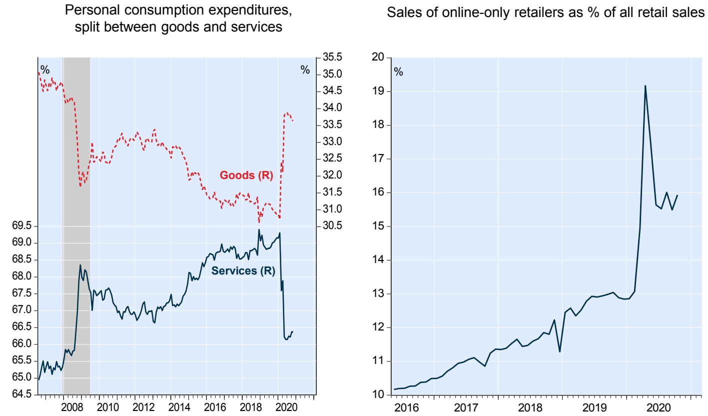
U.S.: An uneven recovery



NBF Economics and Strategy (data from Refinitiv)

Not only are consumers allocating a greater share of their spending to goods, but retail sales reports attest that the pandemic has affected the way they buy. The proportion of total sales by non-brick-and-mortar retailers (i.e. online) is up about 3 percentage points from the beginning of the crisis, a rise that will probably not be completely reversed when things get back to normal.

U.S.: New consumption patterns?

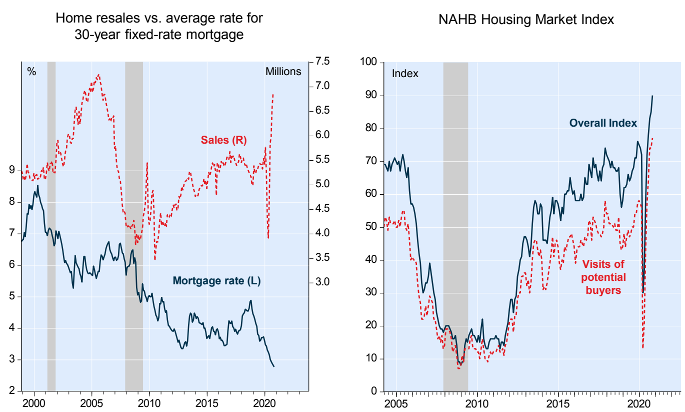


NBF Economics and Strategy (data from Refinitiv)

The Economy

The housing market is also doing well these days. Existing-home sales rose in October for a fifth consecutive month, to a seasonally adjusted annual rate of 6.85 million units – a 15-year high. And with the cost of borrowing at a record low, demand does not seem to be abating. The NAHB Housing Market Index jumped to an all-time high in November, with homebuilders reporting the largest-ever flow of visits from potential buyers.

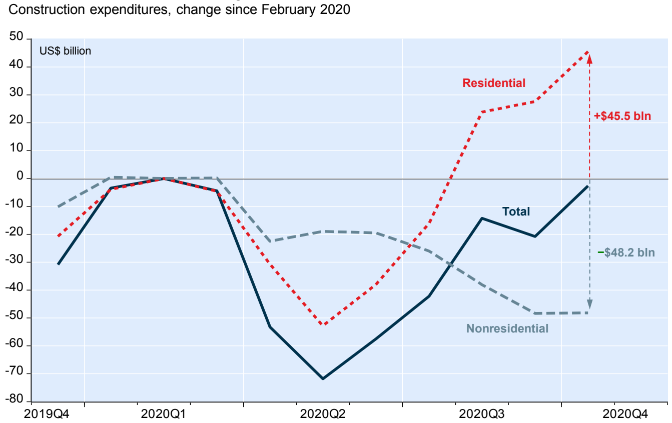
U.S.: An effervescent housing market



NBF Economics and Strategy (sources: Refinitiv and Freddie Mac via St. Louis Fed)

The effervescence of the housing market will likely continue to stimulate homebuilding in the coming months, offsetting in part the weakness of nonresidential construction.

U.S.: An uneven recovery (part 2)
Construction expenditures, change since February 2020



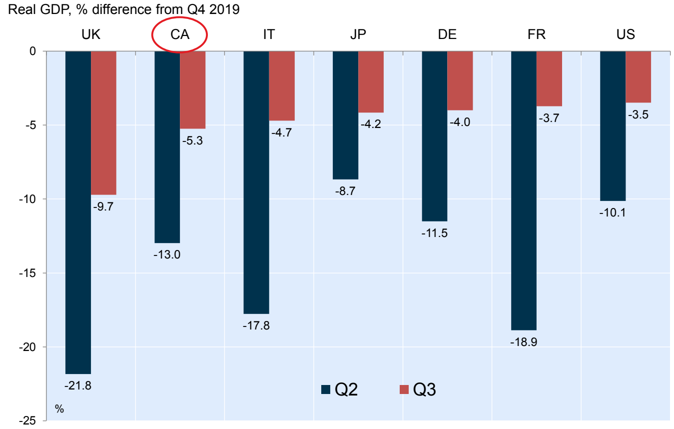
NBF Economics and Strategy (data from Bloomberg)

All things considered, we expect U.S. real GDP growth to be 4.9% annualized in Q4, for a contraction of 3.5% in 2020 as a whole. Growth is likely to slow further in Q1 and then accelerate gradually over the rest of the coming year. We expect an expansion of 3.8% for 2021 as a whole (3.2% previously).

Canada: Stars finally aligning

The third-quarter national accounts released by Statistics Canada early this month were eagerly awaited. The real GDP gain of 40.5% annualized was disappointing at first glance: the monthly data by industry had suggested more. But this record quarterly growth was well above the forecasts of just a few months earlier – in July economists had expected only 31% annualized. In other words, an impressive comeback. It left a shortfall of Q3 output relative to Q4 2019 comparable to that of the other G7 countries.

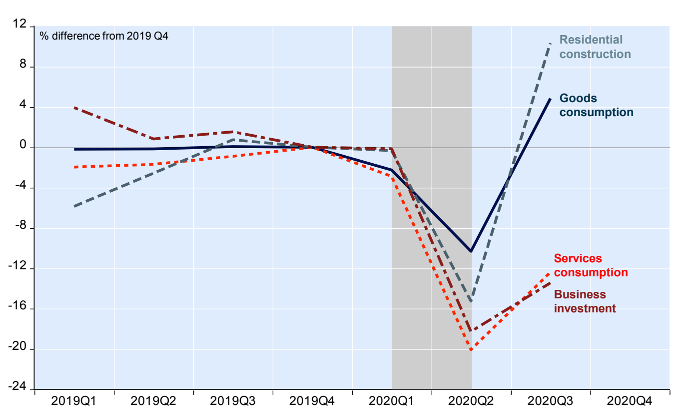
Canada: A shortfall comparable to other G7 countries
Real GDP, % difference from Q4 2019



NBF Economics and Strategy (data via Refinitiv)

As we have often noted, the movement of GDP components in this recession has been highly atypical and their recovery in Q3 varied greatly. The housing market soared spectacularly to a new record, with new construction, renovation and resale volumes all topping their pre-recession volumes. Alternatively, business investment remained 14% short of its Q4 2019 peak. While spending on services continued to suffer from requirements of physical distancing, spending on goods set a record.

Canada: Wide variations in recovery among GDP components
% difference from 2019 Q4

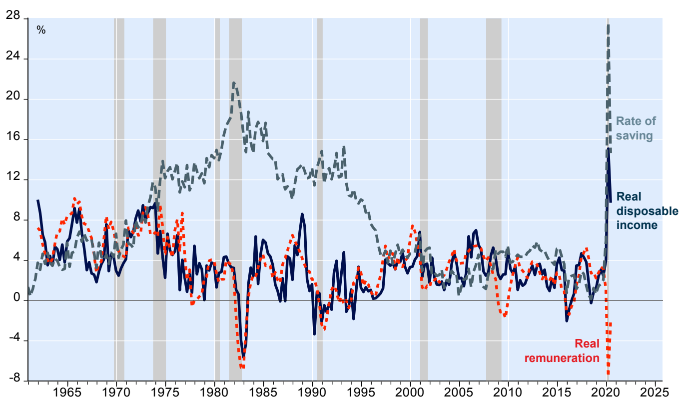


NBF Economics and Strategy (Statistics Canada data)

The Economy

The resilience of consumer spending and housing can be laid to generous federal government support of households since the beginning of the crisis. In the third quarter, real wages remained lower than a year earlier but government aid fuelled a spectacular 10% real increase in disposable personal income, following a spectacular 15% increase in Q2. Higher rates of saving over the last three quarters boosted savings by the equivalent of 6.8% of GDP ($151 billion). This comfortable cushion suggests that households are in an enviable financial position to support continuing recovery of the economy.

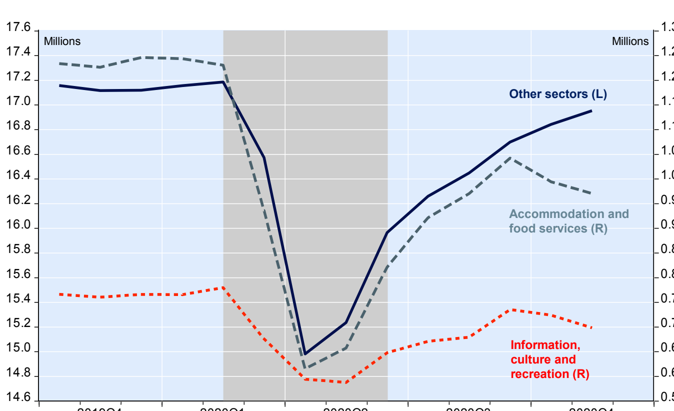
Canada: Exceptional support of household incomes
Real remuneration (% y/y), real disposable income (% y/y) and rate of saving



NBF Economics and Strategy (Statistics Canada data)

But households cannot count indefinitely on government aid to plump up their incomes. They need continuing improvement of the labour market. Here the November employment report of a gain of 62,000 jobs did not disappoint. Observers were surprised by this showing given the public-health restrictions imposed in previous weeks. Layoffs in information media, cul-ture and recreation and in accommodation and food services were largely offset by hiring in other industries. Quebec and Ontario showed decent employment gains. On the other hand, the startling rise of Covid cases in the Prairies stopped their recovery in its tracks. All three of the Prairie provinces showed November job losses in several sectors. New social distancing measures imposed since then augur poorly for coming months.

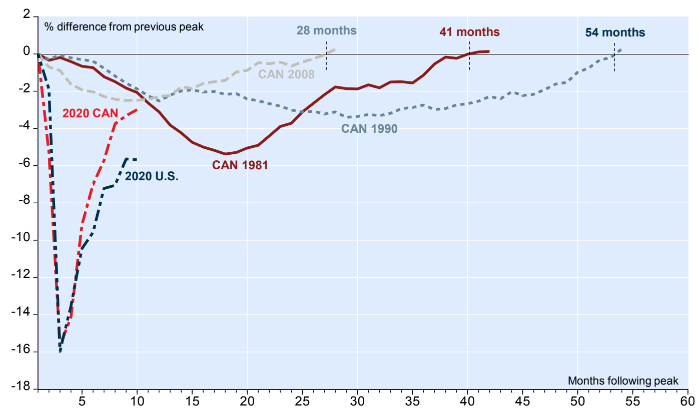
Canada: Job losses of some sectors offset by gains of others so far
Employment in accommodation and food services; information, culture and recreation; and other sectors



NBF Economics and Strategy (Statistics Canada data)

Countrywide, employment in November was 3% below last February, but that shortfall does not fully reflect the current impairment of the labour market. It is important to note the considerable number of employees who are still benefiting indirectly from the federal government's emergency wage subsidy. In October at least 1.5 million workers were still covered by this program and new applications continue to swell the number. The program has been extended to next June. It is to be hoped that arriving vaccines will enable employers to do without this aid.

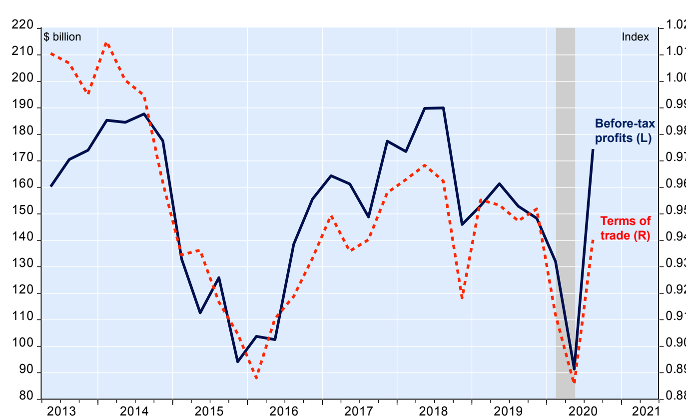
Canada: Labour market recovery is far from complete
% change in employment from previous peak



NBF Economics and Strategy (Statistics Canada data)

For now, we are encouraged by the recent improvement of corporate profitability, an essential condition for recovery of the labour market. Before-tax profits, after bottoming in the second quarter at their lowest since the recession of 2008-09, rebounded to a two-year high in the third quarter, a gain that coincided with a notable improvement of the terms of trade.

Canada: Corporate earnings at a 2-year high
Before-tax profits and terms of trade



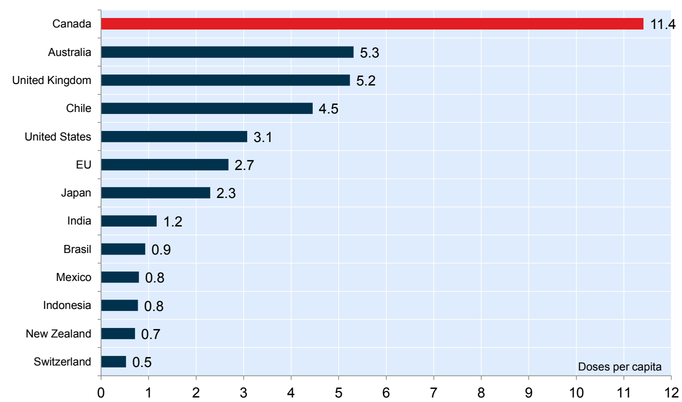
NBF Economics and Strategy (Statistics Canada data)

The recovery in profitability combined with the earlier-than-expected arrival of vaccines could make corporate leaders more optimistic, prompting them to upgrade staffing and investment plans for the coming months. Canada is among the countries that have secured the most doses per capita from the pharmaceutical producers. With

The Economy

deliveries from Moderna and Pfizer/BioNTech now imminent, the government estimates that its purchases will allow vaccination of 3 million Canadians in the first quarter of the new year. By way of illustration, that is almost enough to cover all workers in health care and long-term care (1.7 million) and those older than 80 (1.7 million). It would be a great advance to secure the health-care system and to protect the age group accounting for more than 70% of deaths.

World: Canada has secured a large volume of vaccine
Covid-19 vaccines reserved, doses per capita

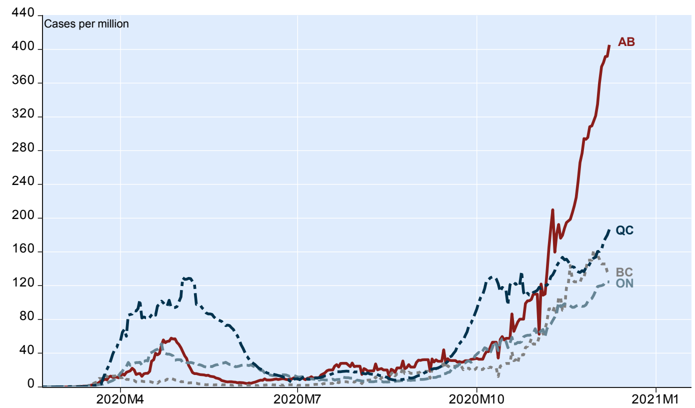


NBF Economics and Strategy (data via Duke Global Health Innovation Center https://launchandscalefaster.org/COVID-19, World Bank, World Health Organization, Finance Canada)

It nonetheless remains that until then, there is a risk that the virus will trigger further regional and sector shutdowns that could brake economic growth in coming months. The fourth quarter does not look at risk, given the solid handover from September. Moreover, distancing requirements notwithstanding, the rebound of the economy extended into October – Statistics Canada's preliminary estimate is monthly growth of 0.2%. The further strong gain in hours worked reported for November by the Labour Force Survey suggest further expansion in that month.

Though stricter public-health measure prompted by the surge of Covid cases in recent weeks could brake recovery over the coming months, we are confident that the ingredients of a subsequent lasting revival are in place.

Canada: COVID-19 cases, 4 largest provinces
Daily new cases per million population, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE, Statistics Canada)

The vaccines coming on stream support hope that the sectors in difficulty will revive in the second half of the year. Ottawa's economic and fiscal update showed a firm intention to support the economy vigorously even apart from vaccination. All things considered, we are keeping our growth scenario roughly unchanged this month: a 5.6% contraction of GDP in 2020, a rebound of 4.3% in 2021.

The Economy

United States
Economic Forecast

(Annual % change)*	2017	2018	2019	2020	2021	2019	Q4/Q4 2020	2021
Gross domestic product (2012 $)	2.3	3.0	2.2	(3.5)	3.8	2.3	(2.3)	3.0
Consumption	2.6	2.7	2.4	(3.7)	4.7	2.5	(2.0)	3.3
Residential construction	4.0	(0.6)	(1.7)	4.2	2.7	1.6	6.9	(1.0)
Business investment	3.7	6.9	2.9	(4.8)	2.1	1.4	(4.2)	2.3
Government expenditures	0.9	1.8	2.3	1.2	(0.3)	3.0	(0.3)	0.5
Exports	3.9	3.0	(0.1)	(13.3)	6.7	0.4	(12.4)	8.5
Imports	4.7	4.1	1.1	(10.4)	7.0	(1.9)	(5.2)	4.0
Change in inventories (bil. $)	15.8	53.4	48.5	(87.4)	41.3	(1.1)	22.8	43.7
Domestic demand	2.5	3.0	2.3	(2.7)	3.3	2.4	(1.7)	2.5
Real disposable income	3.1	3.6	2.2	6.4	(0.9)	1.6	5.0	0.5
Payroll employment	1.6	1.6	1.4	(5.5)	3.0	1.4	-4.9	3.2
Unemployment rate	4.4	3.9	3.7	8.1	6.4	3.5	6.8	6.0
Inflation	2.1	2.4	1.8	1.2	2.2	2.0	1.2	2.2
Before-tax profits	4.5	6.1	0.3	(6.1)	9.5	1.3	-1.6	3.7
Current account (bil. $)	(365.3)	(449.7)	(480.2)	(575.0)	(560.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 12/04/20	Q4 2020	Q1 2021	Q2 2021	Q3 2021	2019	2020	2021
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
3 month Treasury bills	0.09	0.10	0.10	0.10	0.10	1.52	0.10	0.10
Treasury yield curve								
2-Year	0.16	0.15	0.20	0.25	0.30	1.58	0.15	0.35
5-Year	0.42	0.40	0.50	0.60	0.70	1.69	0.40	0.80
10-Year	0.97	0.95	1.00	1.10	1.20	1.92	0.95	1.25
30-Year	1.73	1.65	1.70	1.80	1.85	2.39	1.65	1.85
Exchange rates								
U.S.$/Euro	1.21	1.21	1.22	1.23	1.25	1.12	1.21	1.26
YEN/U.S.$	104	104	105	105	106	109	104	107

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.1	4.9	1.7	3.6	3.3	3.3
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.5	2.9	2.2	2.2
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.6	2.5	1.9	2.0
Unemployment rate (%)	3.8	13.0	8.8	6.8	6.9	6.5	6.3	6.0

National Bank Financial

The Economy

Canada
Economic Forecast

(Annual % change)*	2017	2018	2019	2020	2021	Q4/Q4 2019	Q4/Q4 2020	Q4/Q4 2021
Gross domestic product (2012 $)	3.0	2.4	1.9	(5.6)	4.3	1.7	(4.3)	3.9
Consumption	3.8	2.5	1.6	(6.2)	5.2	1.9	(4.0)	3.7
Residential construction	2.3	(1.7)	(0.2)	0.4	1.0	4.4	(0.9)	1.5
Business investment	1.9	3.1	1.1	(12.2)	3.0	2.8	(11.4)	6.0
Government expenditures	2.8	3.2	1.7	(0.2)	2.6	1.8	0.3	2.4
Exports	1.4	3.7	1.3	(9.9)	5.2	0.1	(7.4)	4.2
Imports	4.6	3.4	0.4	(11.9)	6.9	0.6	(7.5)	4.5
Change in inventories (millions $)	19,200	15,486	18,766	(17,886)	6,000	12,164	(5,000)	10,000
Domestic demand	3.3	2.5	1.4	(4.7)	3.9	2.0	(3.4)	3.4
Real disposable income	4.0	1.5	2.2	8.5	(1.7)	2.4	5.4	1.1
Employment	1.9	1.3	2.1	(5.2)	4.1	1.8	(2.8)	2.0
Unemployment rate	6.3	5.8	5.7	9.5	8.3	5.7	8.7	7.9
Inflation	1.6	2.3	1.9	0.7	2.0	2.1	0.7	2.2
Before-tax profits	19.3	3.8	0.6	(8.4)	13.1	9.5	0.4	5.0
Current account (bil. $)	(60.0)	(52.2)	(47.4)	(43.4)	(55.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 12/04/20	Q4 2020	Q1 2021	Q2 2021	Q3 2021	2019	2020	2021
Overnight rate	0.25	0.25	0.25	0.25	0.25	1.75	0.25	0.25
3 month T-Bills	0.12	0.15	0.20	0.20	0.20	1.66	0.15	0.20
Treasury yield curve								
2-Year	0.28	0.30	0.30	0.40	0.45	1.70	0.30	0.50
5-Year	0.50	0.50	0.50	0.55	0.60	1.69	0.50	0.65
10-Year	0.80	0.75	0.80	0.85	0.95	1.70	0.75	1.00
30-Year	1.34	1.30	1.30	1.35	1.40	1.76	1.30	1.45
CAD per USD	1.28	1.29	1.28	1.27	1.25	1.30	1.29	1.24
Oil price (WTI), U.S.$	46	45	46	47	49	61	45	50

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 forecast	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(7.3)	(38.1)	40.5	4.0	2.6	4.4	4.9	3.9
CPI (y/y % chg.)	1.8	0.0	0.3	0.7	1.0	2.4	2.5	2.2
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	0.9	0.6	1.5	1.9	1.8
Unemployment rate (%)	6.3	13.0	10.0	8.7	8.7	8.4	8.1	7.9

National Bank Financial

The Economy

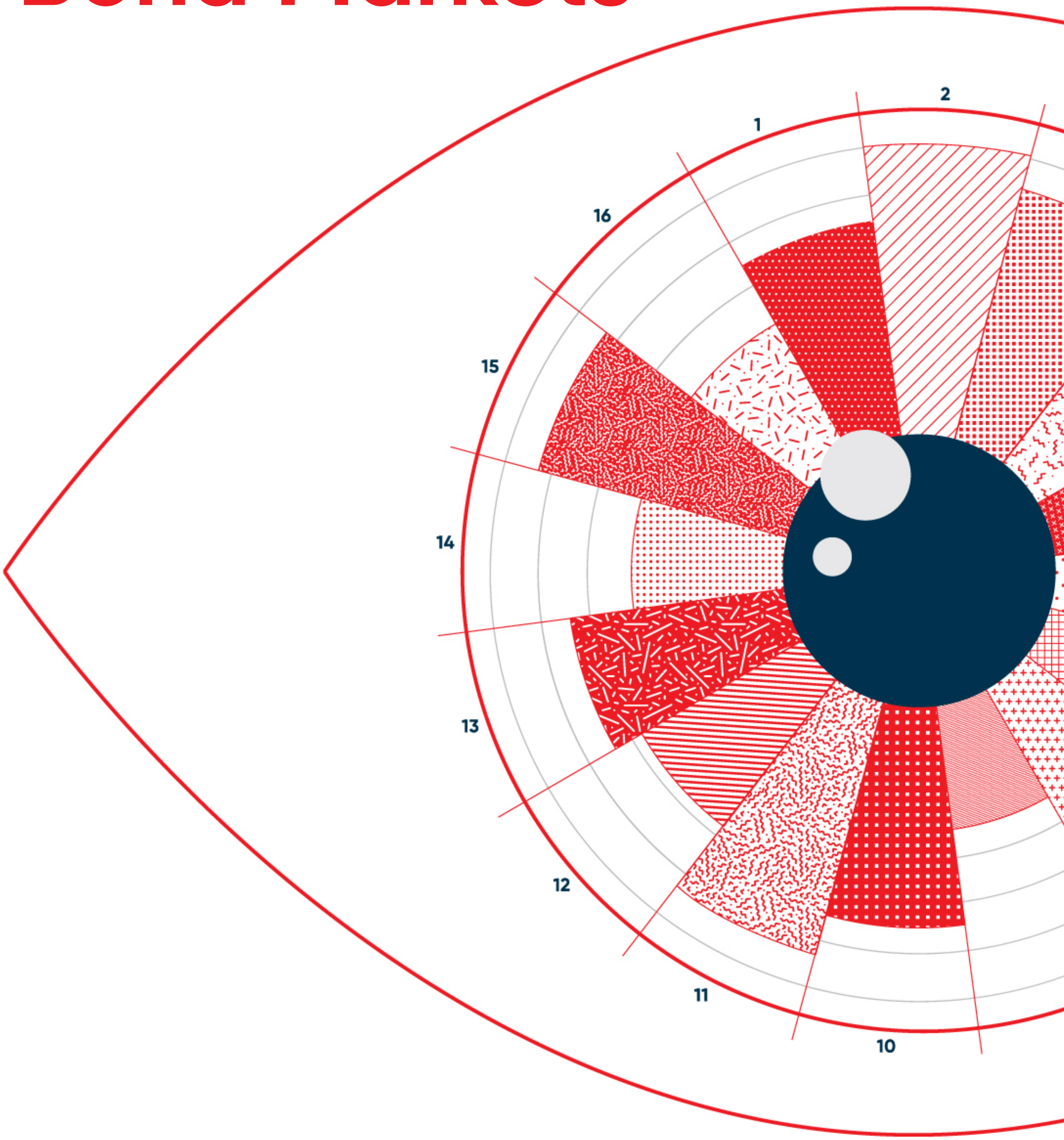
Provincial economic forecast

	2017	2018	2019	2020f	2021f	2017	2018	2019	2020f	2021f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	1.5	-3.5	4.0	-6.5	4.5	6.9	0.8	4.1	-9.7	10.6
Prince Edward Island	4.7	2.5	5.1	-4.2	4.0	6.5	3.6	7.0	-2.8	6.6
Nova Scotia	1.8	1.9	2.4	-4.4	4.0	4.1	3.6	3.8	-4.1	6.5
New Brunswick	2.5	0.5	1.2	-4.5	4.2	4.4	3.6	3.0	-3.3	6.9
Quebec	2.9	2.9	2.7	-5.8	4.5	4.9	5.4	4.3	-3.7	6.9
Ontario	2.8	2.8	2.1	-5.8	4.5	4.3	4.1	3.8	-4.5	6.8
Manitoba	3.3	1.5	0.6	-5.0	4.1	5.9	2.5	1.0	-4.3	5.6
Saskatchewan	2.6	1.2	-0.7	-5.0	4.5	6.0	3.2	0.1	-8.2	4.9
Alberta	4.5	1.9	0.1	-6.0	4.1	9.2	3.4	2.7	-8.9	9.3
British Columbia	3.8	2.7	2.7	-5.0	4.0	7.0	4.9	4.4	-3.6	6.5
Canada	3.0	2.4	1.9	-5.6	4.3	5.7	3.9	3.6	-4.9	7.1
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	-3.6	0.4	0.8	-5.8	4.4	14.8	13.8	12.0	13.6	13.1
Prince Edward Island	3.0	3.0	2.6	-2.3	3.4	9.8	9.4	8.8	10.5	9.5
Nova Scotia	0.7	1.5	2.2	-4.3	5.4	8.4	7.5	7.2	9.3	6.5
New Brunswick	0.4	0.3	0.7	-2.5	2.7	8.1	8.0	8.0	9.8	8.3
Quebec	2.2	0.9	1.7	-4.5	3.9	6.1	5.5	5.1	8.8	7.6
Ontario	1.8	1.6	2.9	-4.9	4.0	6.0	5.6	5.6	9.5	8.2
Manitoba	1.6	0.6	0.9	-3.4	3.1	5.4	6.0	5.3	7.8	7.1
Saskatchewan	-0.1	0.4	1.6	-4.8	3.7	6.3	6.1	5.4	8.2	7.3
Alberta	1.0	1.9	0.5	-7.1	4.6	7.8	6.7	6.9	11.4	10.5
British Columbia	3.7	1.1	2.6	-6.1	4.4	5.1	4.7	4.7	8.9	8.1
Canada	1.9	1.3	2.1	-5.2	4.1	6.3	5.8	5.7	9.5	8.3
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	1.4	1.1	0.9	0.8	0.7	2.3	1.7	1.0	0.1	1.7
Prince Edward Island	0.9	1.1	1.5	1.1	1.1	1.8	2.3	1.2	0.1	2.2
Nova Scotia	4.0	4.8	4.7	4.5	4.2	1.1	2.2	1.6	0.3	2.3
New Brunswick	2.3	2.3	2.9	3.2	2.8	2.3	2.2	1.7	0.2	1.7
Quebec	46.5	46.9	48.0	50.9	43.0	1.1	1.7	2.1	0.8	1.9
Ontario	79.0	78.7	69.0	78.5	70.0	1.7	2.4	1.9	0.6	2.0
Manitoba	7.5	7.4	6.9	6.4	5.5	1.6	2.5	2.3	0.6	1.8
Saskatchewan	4.9	3.6	2.4	3.0	3.0	1.7	2.3	1.7	0.6	1.7
Alberta	29.5	26.1	27.3	23.1	23.6	1.5	2.5	1.7	1.1	2.0
British Columbia	43.7	40.9	44.9	36.4	34.0	2.1	2.7	2.3	0.7	1.9
Canada	219.7	212.8	208.7	207.8	187.9	1.6	2.3	1.9	0.7	2.0

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

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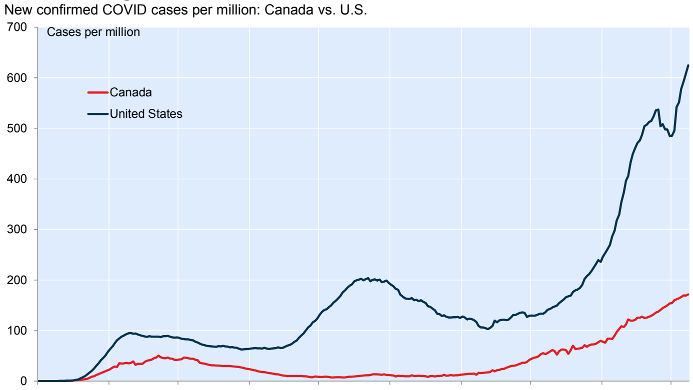
Immunizing growth, inflation fever builds?

As a truly remarkable (some might say unbelievable) 2020 draws to a close, it's natural enough to ask what the year ahead has in store. In the very near-term, it's almost certain to be an ongoing and problematic spread of the virus, across much of the U.S. and parts of Canada. Unchecked case counts could make for a subdued holiday season and a tough winter overall, with our genuine sympathies extended to all those directly or indirectly impacted by COVID-19.

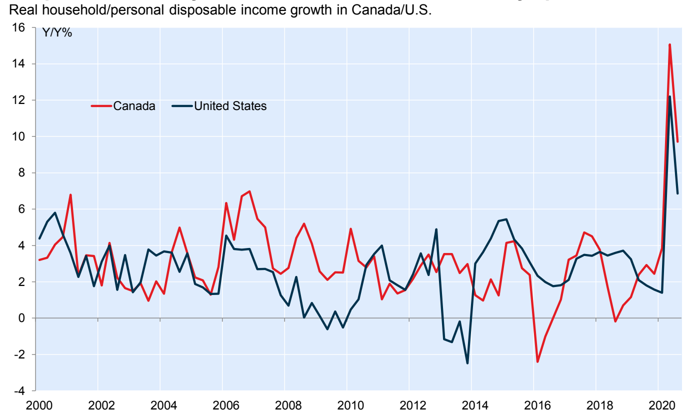
Canada faring better on COVID containment
New confirmed COVID cases per million: Canada vs. U.S.



NBF Economics and Strategy (data via Bloomberg)

Notwithstanding a rapidly rising death toll and increasingly overburdened health systems, we're still believers in a material economic recovery for 2021 and beyond. True, labour markets have yet to fully heal and may well contend with renewed pressure in the coming months. A fresh U.S. nonfarm payrolls print clearly leaned in that direction. Meanwhile, a host of businesses and industries (concentrated on services side), having earlier been laid low by the virus, find themselves robbed of near-term recovery potential by a dangerous tall second wave. It's here where business failures and credit losses risk accumulating further and where post-virus scarring is sure to be most unsightly.

Despite recessionary conditions, household income way up
Real household/personal disposable income growth in Canada/U.S.



NBF Economics and Strategy (data via StatCan, BEA)

But as our colleagues in Economics and Strategy have repeatedly stressed, the household income picture remains at odds with underlying job counts or any number of more esoteric economic readings. Critically, wages and salaries have been bolstered by extraordinary government income-replacement programs arming households with what we consider to be sufficient income/savings to bridge us to broad-based vaccine deployment… after which time, latent animal spirits buried deep in the breast of freshly immunized consumers could well take over.

Moreover, as is increasingly clear, fresh/marginal fiscal stimulus is on its way, keyed by incoming President Biden and a reconstituted U.S. Congress. Washington's fiscal impulse won't be as forceful or as easily secured as under a once-predicted Democratic Blue Wave, but it's nonetheless coming, likely in the form of a ~$900 billion package that could land as early as next week. All told, it's enough to keep U.S. growth on a recovery track. Refer to fresh Monthly Economic Monitor for complete forecast details.

Interest Rates and Bond Markets

(Inflation) fever dream

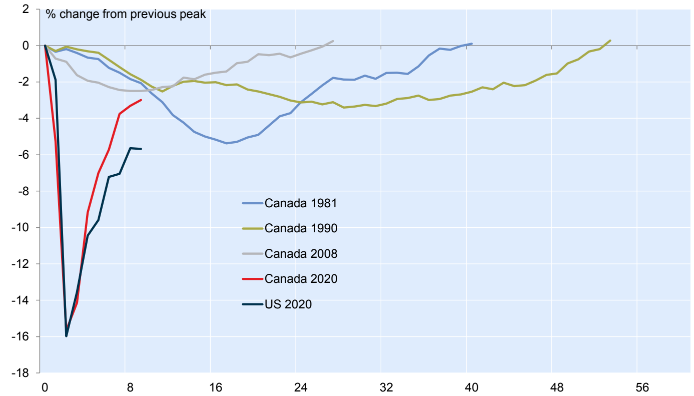
Critically for bond markets, inflation pressures appear destined to build, the balance of risks being tilted higher in our estimation. As our forecasted economic recovery intersects with a higher trend unemployment rate or NAIRU, the result could well be an earlier-than-expected return of 2% core inflation in the U.S., at least relative to the Fed's latest summary projections. And it's not just us looking for the pace of price growth to be faster than the Fed expects. Market-based measures of inflation expectations continue to march higher, in many cases exceeding pre-COVID levels. So while vaccine deployment looks to immunize consumers and further heal GDP growth, the resulting inflation fever will (at least initially) be left untreated by patient monetary policy practitioners. By the end of 2022, however, inflation may have metastasized sufficiently to set up the first Fed rate hike in the first half of 2023, a move that (while sufficiently far into the future) markets have yet to fully discount. For the bearishly inclined, this recurring (inflation) fever dream could well become a reality quicker than some are willing to contemplate.

From a trading perspective, this broadly outlined scenario would imply: short-term support for rates as the virus rages, giving way to sustained bearish sentiment throughout much of 2021 as more and more arms are injected and growth continues to firm; a tendency towards steeper curves in 2021, notwithstanding an anticipated (and very likely near-term) move by the Fed to extend the term of its QE purchases; a partial unwinding of that steepening in the latter half of 2022 (amidst on ongoing back-up in yields), as the first tentative tightening by the Fed comes into focus. It's a material, if less-than-monumental shift in our thinking, consistent with greater conviction around the growth and inflation picture. Relative to implied forward rates, it's a somewhat more bearish forecast, although one subject to exceedingly elevated economic uncertainty. Finally, it's a forecast entirely consistent with a fresh asset allocation that has deployed marginal cash towards equities, remaining fundamentally underweight fixed income but long credit (including a bias to higher-yield, peripheral names more levered to global growth).

Testing Canadian outperformance?

What does this broad narrative imply for Canada? On the face of it, there are reasons to lean against (or at least minimize) what might otherwise be normal-course directional outperformance of Canadas vs. U.S. Treasuries. To be clear, we're not suggesting that Canadian rates are poised to underperform (i.e., yields rising faster and curves steepening more quickly than what we're liable to see south of the border). Rather, we're arguing that easy outperformance may be tougher to come by, with the Canadian curve hardly impervious to steepening pressure in the year ahead.

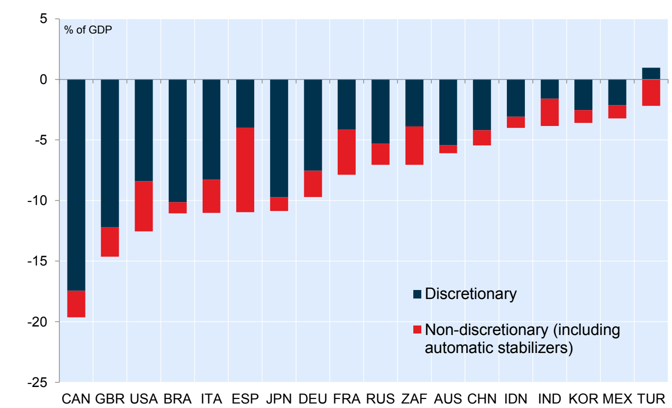
Canadian labour market recovering faster than US, prior recessions
Percentage recovery in employment from pre-recession peak



NBF Economics and Strategy (data via StatCan, BLS)

For starters, the virus—while by no means fully contained—is spreading less rapidly in Canada than in the U.S., where it remains unchecked in a growing number of states. On a proportionate basis, new U.S. cases are currently outstripping what we're seeing in Canada by a factor of 3.6:1. Setting aside the virus trajectory, it's clear that Canadian labour markets—while far from perfect—have staged a more impressive recovery, with less permanent job destruction and relatively better attachment to the workforce (as evidenced by firmer labour force participation rates across age cohorts and both sexes).

Canada: Fiscal response to COVID-19 tops G-20 countries
Estimated change in general government budget balance between 2019 and 2020, G-20 countries



NBF Economics and Strategy (data via IMF)

Notwithstanding a minority parliament in Ottawa—that requires the ruling Liberal government to secure the support of an opposition party—there's been easier progress on securing large-scale fiscal stimulus. Really, no advanced country has done as much as Canada when it comes to discretionary government spending and anti-virus support programs. And while the U.S. will soon be marshalling its fiscal energies, Canada seems unlikely to let up anytime soon. Indeed, one key takeaway from a fresh federal fiscal update was the Trudeau government's willingness to supply additional stimulus once the virus has been beaten back. This planned, although as-yet-unspecified spending (expected

Interest Rates and Bond Markets

to total $70-100 billion over the coming three years), is meant to be scaled to the size of the output gap and intended to maintain a recovery in 2022 and beyond.

The Bank of Canada, meanwhile, remains on the cusp of mandate renewal that may not entail a pivot to more flexibility inflation-targeting regime a la the Fed—where full employment presumably takes precedence and an average inflation targeting regime allows for greater tolerance. If anything, a maintenance of the status quo inflation targeting framework remains as good a bet as anything.

What's then to prevent a sharper selloff in Canada than in the U.S.? A couple things, not least of which is an evolving bond supply picture. While Canada's federal government has committed to material fiscal stimulus for longer, the extent of bonds needed to finance Ottawa's fiscal endeavours is stepping down not up. That's both true for the current fiscal year relative to prior guidance and should be equally apparent as we move into fiscal 2021-22. While the Feds haven't yet provided official borrowing program figures for the coming fiscal year, some back-of-the-napkin bond market math can give us a decent idea. The generalized formula for doing so looks like this:

GoC gross bond issuance ≈ Official financial requirement + additional stimulus/fiscal COVID impacts + maturing bonds - change in bills outstanding

The official baseline financial requirement for 2021-22 of $118 billion, in addition to the $20-40 billion in marginal stimulus and/or COVID impacts and the $101 billion in maturing debt brings us to roughly $250 billion. Add in an expected $50-100 billion reduction in the treasury bill stock from the elevated end-of-fiscal-year target and we arrive somewhere in the neighbourhood of $325 billion.

2021-22 baseline fin'l requirement	118.3	*2020-21 bond issuance*	374.0
2021-22 maturing bonds	101.4	*2020-21 EoY bill stock*	329.0

Change in bill stock	0	10	20	30	40	50
0	220	230	240	250	260	270
-25	245	255	265	275	285	295
-50	270	280	***290***	***300***	***310***	320
-75	295	305	***315***	***325***	***335***	345
-100	320	330	***340***	***350***	***360***	370
-125	345	355	365	375	385	395
-150	370	380	390	400	410	420
	Additional fiscal stimulus and/or impacts from COVID restrictions					

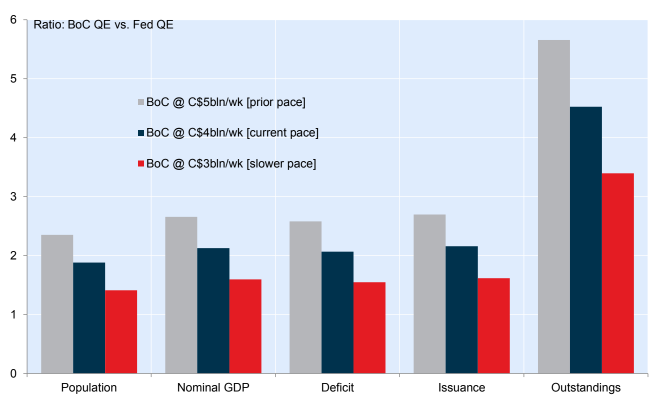
NBF Economics and Strategy (data via Finance Canada, Bloomberg)

Undoubtedly, a >$300 billion bond program can hardly be considered normalized as we will remain well over double the pre-COVID annual pace. However, it's a non-trivial step lower nonetheless. And in comparison to the US Treasury, Canada's borrowing continues to punch below its weight. Guidance for UST supply next quarter looks to be on the order of $1.1 trillion, or 5.2% of GDP. Meanwhile, the GoC's implied quarterly run rate of ~$80 billion next year represents a relatively smaller 3.6% of national output. And this disparity is even greater when comparing refinancing requirements—a component of the gross bond issuance formula unaffected by marginal stimulus/COVID-related fiscal shortfalls. The $2 trillion of maturing Treasuries next year is twenty times larger (twice as high as a share of GDP) than the maturing GoC bond stock.

While not yet formalized, the coming fiscal year's *Debt Management Strategy* is, to us, likely to feature a preference for 10s and longs at the expense of 5-year and under tenors. We may even see a renewal of the ultra-long bond, last issued back in 2017. Though to be clear, 10- and 30-year supply increases will only be relative, as issuance across the curve is likely to fall in absolute terms from the high watermark of 2020. That might foretell a curve steepener, as a relative larger share of GoCs land out the curve. But the extent of longer-term supply will be no heavier (in relative terms) than what will be observed in the U.S. Moreover, the Bank of Canada, just like the Fed, will be in a position to mitigate the back-up in longer term yields via a QE program increasingly focused out the curve. This might not be outright yield curve control, but for 10- or 30-year bond yields in Canada, the ultimate power of still-sizeable BoC buying should not be underestimated. Come 2022, the front end could come somewhat unglued, undoing a portion of 2021 steepening, not on supply but on an eventual discounting of a less accommodative policy rate.

BoC vs. Fed on QE… it's still no contest

Relative size of BoC QE vs. Fed QE, scaled to economic/fiscal/debt metrics



NBF Economics and Strategy (data via NBF, BoC, FRB, StatCan, US Treasury, US Census Bureau, PBO, CBO, Bloomberg) | Note: Based on existing QE program size: BoC=C$4bln/week & Fed=US$80bln/month (or ~US$18.5bln/week); population as at 1-Jul; nominal GDP as at 2020:Q3; federal deficit as per latest PBO/GoC projections/guidance; issuance as per latest quarterly funding schedules/ government guidance; month-end outstandings as at 30-Nov

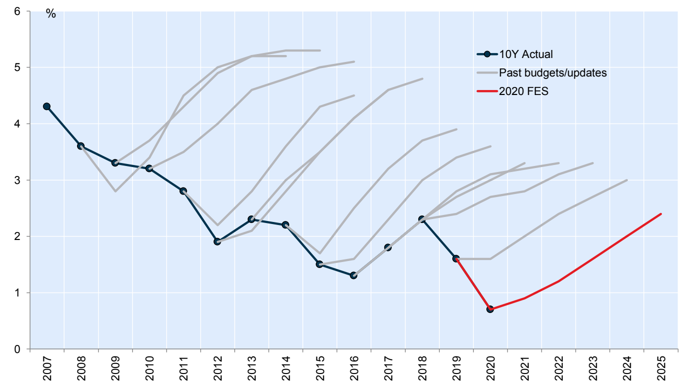
For those fretting the apparent desire to taper at the BoC, consider that the more recent slowing in QE purchases still leaves the Canada's program far larger than what is being delivered by the Fed in the U.S. That will still be the case, if, as and, more appropriately, when the BoC makes its next calibration of QE knows. To us, that will entail a slowing from $4 billion/week to $3 billion/week, likely early in the new year. Barring such a change, the BoC ownership share risks marching ever closer to levels now deemed problematic by the Bank Governor himself. As for a full wind down of the bank's extraordinary bond-buying program—we'd expect that to come in early 2022. A ways away to be sure but will likely be a necessary precursor to any policy tightening via the BoC's interest rate lever.

Interest Rates and Bond Markets

"Normalization" in the GoC's bond program stands in contrast with the bill market where outstandings are expected to spike heading into fiscal year-end. The $329 billion in outstanding bill stock signalled for March 31st is more than $60 billion higher than where we stand today. It implies we're going to need a sharp increase in the pace of issuance over the last eight bill tenders of the year. Simulation analysis suggests bi-weekly auction sizes will need to exceed $27 billion—a hefty lift that might require a quick return to weekly auctions by the BoC. Valuation-wise, we'd expect the marginal supply to weigh on yields and continue to move front-end rates higher. We've already moved 4-5 basis points higher off of the October lows but will likely require a handful more through the next quarter. Of course, the $329 billion target isn't set in stone and frankly the more likely outcome is that we come in short of this target in a few months time.

Forecasters have had a shoddy track record on rates

GoC budget projections for 10-year interest rate versus realized level



NBF Economics and Strategy (data via Bloomberg, Finance Canada)

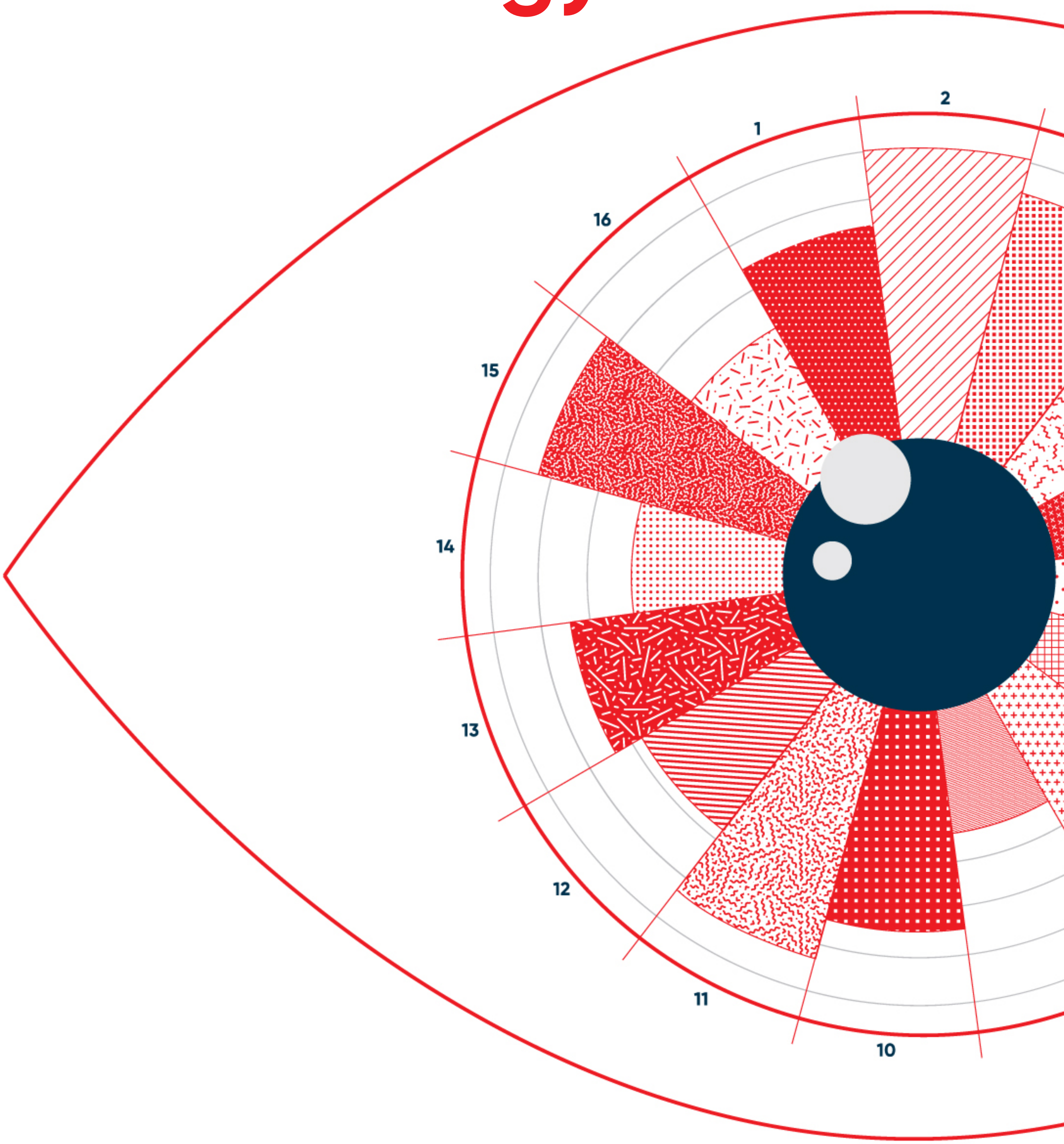
		Assumed issuance for remainder of 2020-21:			$107 bln
2021-22 issuanec scenarios	400	31.0%	37.0%	42.9%	48.9%
	375	31.4%	37.5%	43.6%	49.7%
	350	31.8%	38.0%	44.3%	***50.5%***
	325	32.2%	38.6%	45.0%	***51.4%***
	300	32.7%	39.2%	45.8%	***52.3%***
	275	33.2%	39.9%	46.6%	***53.2%***
	250	33.7%	40.5%	47.4%	***54.2%***
		$1bln/wk	$2bln/wk	$3bln/wk	$4bln/wk
		Potential scenarios for QE			

NBF Economics and Strategy (data via Finance Canada, Bloomberg)

And don't lose sight of that much more informal and less easily managed monetary policy tool: the Canadian dollar. True, a portion of the loonie's recent gains are rooted in a firming of commodity prices and overall improved growth sentiment—what we might have called 'type one' currency appreciate in a bygone era. But should, as we believe, the USD continue to weaken in 2021, steady and non-trivial appreciation of the Canadian dollar could well exert a dampening influence on export prospects, leaning against a premature buildup of inflation and negating a quick removal of monetary policy accommodation. So at this stage, despite a less lenient policy mandate, it's not necessarily the case that the BoC will be moving ahead of the Fed.

Finally, we'd be remiss if we didn't highlight the overall failure on behalf of the forecasting community over the past decade when it comes to projecting interest rate normalization. Yet still, we find ourselves signalling a rising rate environment in the years ahead. Are we setting ourselves up for failure once again? Perhaps. But with rates still hovering near all-time lows, North American central bank unwilling to go negative and a fiscal impulse much stronger today than coming out of the Global Financial Crisis, we'd argue the only way from here is up.

Stock Market and Portfolio Strategy



Stock Market and Portfolio Strategy

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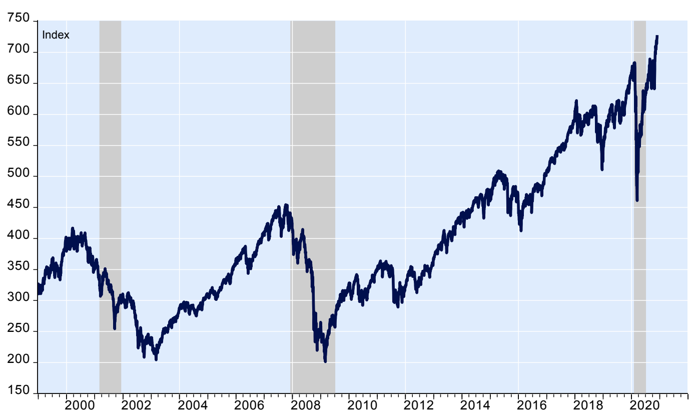
A year-end surge

Global stocks had their best month ever in November. The MSCI ACWI surged 11.3% to a new record high (chart).

World: Year-end surge
MSCI ACWI



NBF Economics and Strategy (data via Refinitiv)

Early in December the index retains its momentum, with gains widespread across the main regions and an especially strong performance from Emerging Markets (+2.9% – table).

MSCI Composite Index: Price performance

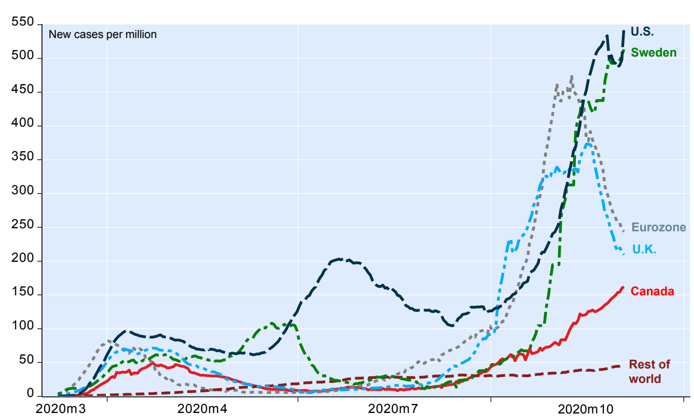
	Month to date	Quarter to date	Year to date
MSCI ACWI	2.0	10.6	10.4
MSCI World	1.9	10.4	10.0
MSCI USA	2.1	10.6	17.0
MSCI Canada	2.1	8.6	1.4
MSCI Europe	1.4	9.1	-5.0
MSCI Pacific ex Jp	1.7	13.4	-3.1
MSCI Japan	1.1	10.5	4.6
MSCI EM	2.9	12.4	13.3
MSCI EM EMEA	2.2	8.0	-5.8
MSCI EM Latin America	4.3	18.9	-3.8
MSCI EM Asia	2.8	12.4	19.5

12/4/2020
NBF Economics and Strategy (data via Refinitiv)

Investor enthusiasm is fuelled by good news on vaccines and the prospect of a new bipartisan U.S. fiscal stimulus that could be worth about $900 billion. Among the key measures of the proposed legislation are more support for small businesses, $1,200 cheques to go directly to households and extension of federal unemployment programs. Without an extension of pandemic assistance programs, about 12 million Americans are set to lose their special UI benefits at the end of December.

This package is important to stop the economy from faltering at a time when job creation could be limited by surging Covid cases and new restrictions imposed by some states to stop their health care systems from being overwhelmed in coming months. Yes, effective vaccines to fight COVID are coming sooner than expected, but policymakers must still buy more time to avoid a permanent destruction of economic capacity that would furlough many workers in the world's largest economy.

World: Evolution of the pandemic
Daily new Covid cases per million population by region, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

In the meantime, it is encouraging to see that publicly listed companies have reported a sharp improvement in earnings per share in recent months, with a healthy dose of upward revisions for the coming year. In the past month alone, EPS for the coming year has been revised up 1% globally, led by 1.6% in Emerging Markets (table). Within Emerging Markets, we note an 8.2% upward revision for Latin America, the biggest one-month increase in almost two decades (June 2001).

Stock Market and Portfolio Strategy

MSCI: Changes in consensus outlook for 12-month-forward earnings

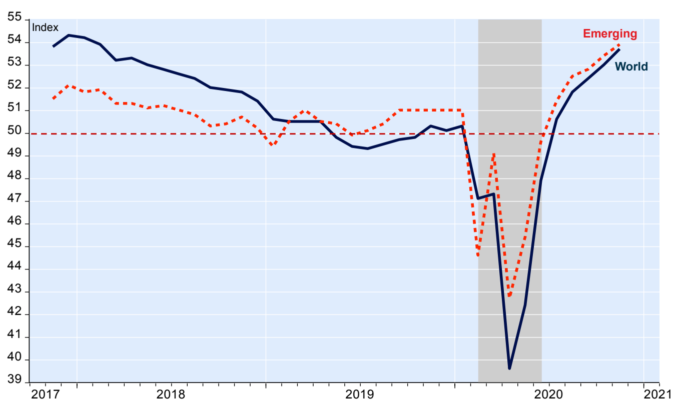
	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	1.6	-0.7	1.0	-0.7	59%	43%
MSCI World	1.6	-0.7	0.9	-0.7	63%	44%
MSCI USA	2.5	-0.4	1.2	-0.4	71%	47%
MSCI Canada	2.0	-0.8	0.9	-0.8	61%	43%
MSCI Europe	0.2	-1.1	0.2	-1.1	58%	39%
MSCI Pacific ex Jp	2.0	-0.6	0.9	-0.6	47%	41%
MSCI Japan	-1.1	-0.5	1.0	-0.5	59%	48%
MSCI EM	1.9	-0.7	1.6	-0.7	54%	39%
MSCI EM EMEA	-0.7	-0.6	0.7	-0.6	56%	42%
MSCI EM Latin America	13.9	-1.2	8.2	-1.2	60%	39%
MSCI EM Asia	1.2	-0.6	1.1	-0.6	53%	39%

12/4/2020

NBF Economics and Strategy (data via Refinitiv)

This robust upturn reflects a strong rebound in manufacturing that is spurring demand for commodities (chart).

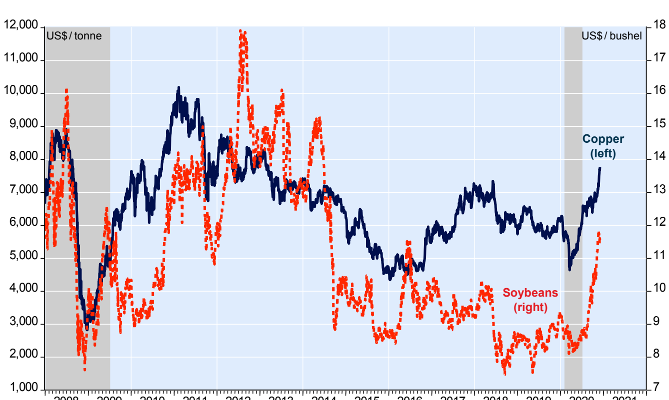
World: Manufacturing output has rebounded strongly
Markit Manufacturing PMI: World aggregate and emerging economies



NBF Economics and Strategy (data via Refinitiv)

The price of copper has surged in recent months to multi-year highs. Strong Chinese demand is also pushing up prices of key agricultural products like soybeans – a boon for Latin America, where much of their production in located.

World: Commodity prices are surging
Prices of copper and soybeans



NBF Economics and Strategy (data via Refinitiv)

Since key commodities are generally priced in U.S. dollars, they are also being supported by a depreciation of the greenback. Looking ahead, we see more USD weakness in 2021 as a risk-on attitude leads to further ebbing of global financial stress.[1]

S&P/TSX finally in the black

In Canada as well, an improving global backdrop with rising commodity prices has not gone unnoticed. At this writing, the S&P/TSX is up 8.7% from the beginning of Q4, pushing its year-to-date return into positive territory for the first time since the pandemic began (+2.7% – table). Two heavyweight segments of the S&P/TSX, Energy and banks, are already up a whopping 19.8% and 16% respectively in Q4.

S&P/TSX Composite Index: Price performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.9	8.7	2.7
ENERGY	6.0	19.8	-26.6
CONS. DISC.	2.7	17.2	11.4
FINANCIALS	2.4	16.3	-2.2
BANKS	2.1	16.0	-1.7
MATERIALS	2.0	-4.9	18.4
INDUSTRIALS	1.5	5.6	14.1
TELECOM	1.4	5.6	-5.4
CONS. STAP.	1.4	-3.9	5.1
REAL ESTATE	-0.1	11.4	-10.6
UTILITIES	-0.5	3.5	9.5
IT	-1.4	2.9	72.5
HEALTH CARE	-1.5	42.8	-16.1

12/4/2020

NBF Economics and Strategy (data via Refinitiv)

Despite this gain, the S&P/TSX is still about 1.2% below its pre-pandemic record (chart). In our view, the Canadian benchmark has more upside.

Canada: Grinding higher but still below pre-pandemic high
S&P/TSX

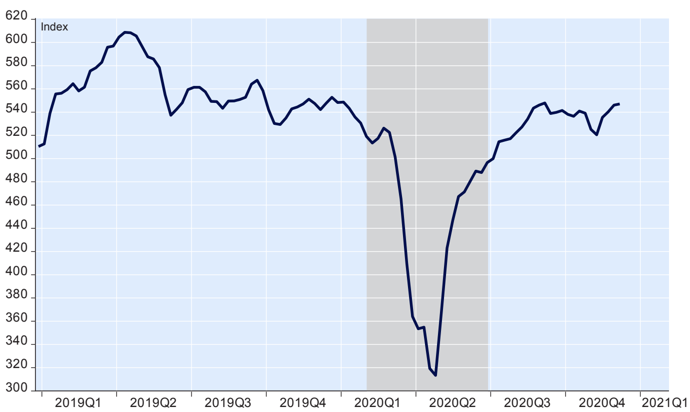
NBF Economics and Strategy (data via Refinitiv)

[1] See our December Forex for more details at: www.nbc.ca/en/rates-and-analysis/economic-analysis.html

Stock Market and Portfolio Strategy

First, the resource sectors should continue to benefit from a global backdrop supportive of commodity producers. The Bank of Canada's price index for commodities produced in this country is back to pre-pandemic levels (chart).

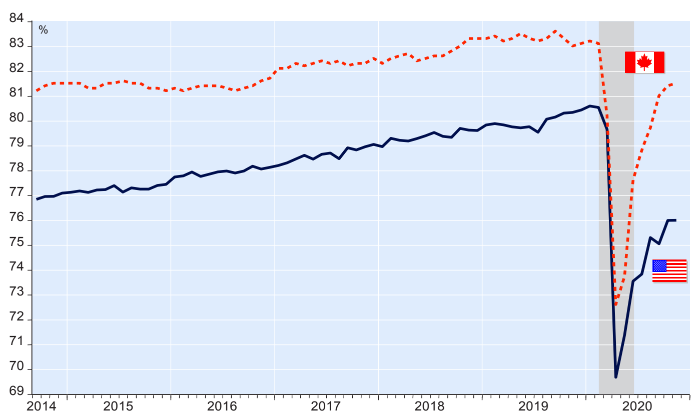
Canada: Commodity prices back to pre-pandemic levels
Price index for commodities produced in Canada (canadian dollars)



NBF Economics and Strategy (Bank of Canada data via Refinitiv)

Second, the outlook for the domestic economy remains encouraging. On November 30, Ottawa pledged another $100 billion in fiscal stimulus over three years to counter the effect of the coronavirus and ensure a sustainable expansion. This sets the stage for a resilient labour market and reduced strain on household finances. The ratio of employment to population for the prime-age group (25 to 54) has recovered most of the ground it lost last spring and is just 1.5 percentage points below its pre-pandemic level. In the U.S. gap is still a whopping 4.5 points (chart).

Canada: Improving jobs market = less strain on household finances
Ratio of employment to population for 25-54 age group



NBF Economics and Strategy (Bank of Canada data via Refinitiv)

Improvement in labour markets combined with generous fiscal stimulus and the imminent availability of Covid vaccines are likely to continue supporting household spending in the coming months. This could revive investor interest in Canadian banks, whose collective EPS is expected by the consensus of equity analysts to grow 11% in the coming year (table).

S&P/TSX composite index: EPS analysts expectations

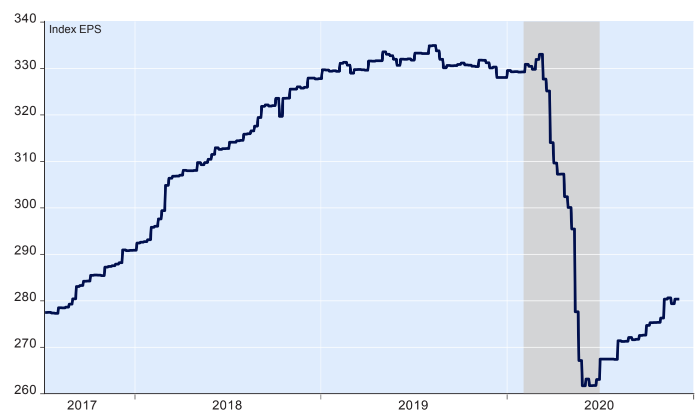
	Earnings per share					EPS % growth		
	2019	2020	2021	12m Trail.	12m Forw.	2020	2021	12m Forw.
S&P TSX	1035	670	1031	699	1008	-35	54	44
ENERGY	118	-19	69	-8	62	-116	N.M.	N.M.
MATERIALS	85	130	208	126	201	52	60	60
INDUSTRIALS	156	83	158	90	151	-47	90	68
CONS. DISC.	156	90	158	96	151	-42	76	58
CONS. STAP.	280	327	337	312	340	17	3	9
HEALTH CARE	13	-2	13	2	13	-115	N.M.	538
FINANCIALS	256	195	236	198	236	-24	21	19
BANKS	315	251	277	253	280	-20	11	11
IT	11	14	15	14	15	29	8	9
TELECOM	93	78	87	79	86	-16	11	9
UTILITIES	92	87	110	87	108	-6	26	23
REAL ESTATE	303	71	185	91	176	-76	160	94

12/4/2020 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

This rate of growth, though meaningful, implies an EPS of only $280 at the end of 2021 – no higher than in 2017 (chart). In our opinion, Canadian banks will do better than that in 2021 if the global economic recovery gathers momentum.

Canada: Consensus sees a modest earnings recovery for banks
12-month-forward EPS for the S&P/TSX Banks



NBF Economics and Strategy (data via Refinitiv)

Asset allocation

We said last month that we were ready to redeploy more of our excess cash if warranted by political developments (read: U.S. fiscal stimulus) and the pace of vaccine approvals by health authorities. Good news on both fronts, combined with the continued commitment of the world's largest central banks to provide ample liquidity for the foreseeable future, has increased our optimism about global growth in 2021. Consequently we are reducing our excess cash position for the second time in as many months, shifting 2% of our equity portfolio to Emerging Markets. We see better growth potential in EM because of their faster profit growth and the potential appreciation of their currencies against the Canadian dollar. Moreover, the 12-month forward P/E for EM is currently 15.1, vs. more than 20.2 for the global aggregate. This five-point gap compares to an average gap of just less than three points over the past decade – (table). After a similar

Stock Market and Portfolio Strategy

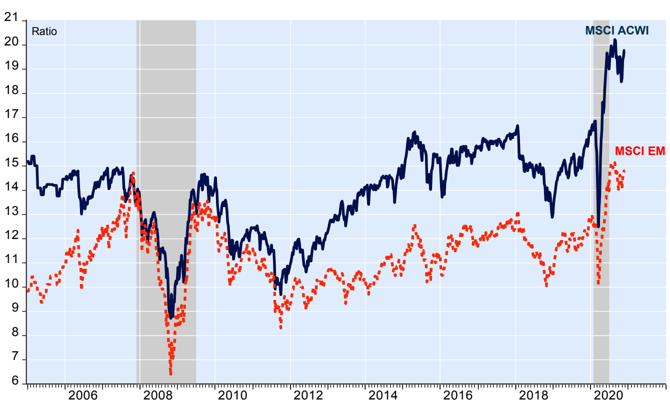
move last month, we are again adding to Canadian equities (+2%) but this time, via a similar reduction in our U.S. exposure. This move reflects our conviction on currencies and on a continued rotation from growth stocks into value-oriented stocks which usually favours the Canadian equity benchmark.

MSCI Composite Index: Valuations (P/E)

	12/4/2020	A year ago	10 year ave.	5 year average
MSCI ACWI	20.2	15.8	14.4	15.8
MSCI World	21.2	16.5	15.0	16.4
MSCI USA	23.3	18.0	16.1	17.8
MSCI Canada	16.5	14.3	14.4	15.0
MSCI Europe	17.9	14.0	13.4	14.6
MSCI Pacific ex Jp	18.8	15.6	14.5	15.4
MSCI Japan	18.5	14.2	13.6	13.8
MSCI EM	15.1	12.1	11.3	12.1
MSCI EM EMEA	11.6	9.3	9.2	9.9
MSCI EM Latin America	14.1	12.6	12.5	13.1
MSCI EM Asia	15.9	12.8	11.7	12.5

NBF Economics and Strategy (data via Refinitiv)

World: Valuations more attractive in emerging markets
Ratio of price to forward earnings of MSCI ACWI and MSCI EM



NBF Economics and Strategy (data via Refinitiv)

NBF Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	23	+2
U.S. Equities	20	18	-2
Foreign Equities (EAFE)	5	4	
Emerging markets	5	7	+2
Fixed Income	45	42	
Cash	5	6	-2
Total	100	100	

NBF Economics and Strategy

Sector rotation

Our sector allocation is unchanged this month.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - December 2020

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**11.9%**
Energy Equipment & Services	Market Weight	0.0%
Oil, Gas & Consumable Fuels	Market Weight	11.9%
Materials	**Market Weight**	**13.6%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Market Weight	0.5%
Metals & Mining *	Overweight	2.3%
Gold	Market Weight	8.7%
Paper & Forest Products	Underweight	0.5%
Industrials	**Market Weight**	**12.1%**
Capital Goods	Overweight	2.0%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	7.2%
Consumer Discretionary	**Market Weight**	**3.8%**
Automobiles & Components	Underweight	1.1%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	1.0%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.9%**
Food & Staples Retailing	Market Weight	3.2%
Food, Beverage & Tobacco	Market Weight	0.7%
Health Care	**Market Weight**	**1.2%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.1%
Financials	**Overweight**	**30.4%**
Banks	Overweight	20.4%
Diversified Financials	Market Weight	4.2%
Insurance	Overweight	5.9%
Information Technology	**Underweight**	**9.8%**
Software & Services	Underweight	9.7%
Technology Hardware & Equipment	Underweight	0.0%
Telecommunication Services	**Market Weight**	**5.1%**
Utilities	**Market Weight**	**5.0%**
Real Estate	**Underweight**	**3.2%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q22021 (Est.)***
Index Level		**Dec-04-20**	***Target***
S&P/TSX		17,521	18,300
Assumptions			Q22021 (Est.)
Level:	Earnings *	699	825
	Dividend	526	620
PE Trailing (implied)		25.1	22.2
			Q22021 (Est.)
10-year Bond Yield		0.72	0.85

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q22021 (Est.)***
Index Level		**Dec-04-20**	***Target***
S&P 500		3,699	3,800
Assumptions			Q22021 (Est.)
Level:	Earnings *	138	152
	Dividend	58	64
PE Trailing (implied)		26.8	25.0
			Q22021 (Est.)
10-year Bond Yield		0.97	1.10

** 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*
	12-4-2020	*M-T-D*	*Y-T-D*	*1-Yr*	*3-Yr*	*Y-T-D*	*1-Yr*	*3-Yr*	
North America - MSCI Index	***3764***	***2.1%***	***16.3%***	***20.6%***	***41.2%***	***14.9%***	***16.7%***	***42.3%***	***1.00***
United States - S&P 500	*3699*	*2.1%*	*14.5%*	*18.8%*	*40.2%*	*13.1%*	*15.0%*	*41.2%*	*1.00*
Canada - S&P TSX	*17521*	*1.9%*	*2.7%*	*3.7%*	*9.7%*	*2.7%*	*3.7%*	*9.7%*	*0.65*
Europe - MSCI Index	***1808***	***2.8%***	***1.3%***	***5.8%***	***2.5%***	***0.0%***	***2.4%***	***3.2%***	***0.20***
United Kingdom - FTSE 100	*6550*	*4.5%*	*-13.2%*	*-8.9%*	*-10.8%*	*-12.8%*	*-9.4%*	*-10.1%*	*-0.34*
Germany - DAX 30	*13299*	*0.1%*	*0.4%*	*1.2%*	*1.8%*	*7.2%*	*7.2%*	*5.1%*	*0.60*
France - CAC 40	*5609*	*1.6%*	*-6.2%*	*-3.3%*	*4.1%*	*0.2%*	*2.5%*	*7.4%*	*0.27*
Switzerland - SMI	*10365*	*-1.1%*	*-2.4%*	*0.3%*	*11.1%*	*4.8%*	*7.7%*	*23.7%*	*0.84*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*2.2%*	*6.7%*	*6.8%*	*8.3%*	*10.1%*	*0.57*
Netherlands - Amsterdam Exchanges	*616*	*1.6%*	*1.8%*	*4.2%*	*13.7%*	*8.8%*	*10.4%*	*17.4%*	*0.69*
Pacific - MSCI Index	***3016***	***1.5%***	***6.3%***	***8.6%***	***7.9%***	***4.9%***	***5.1%***	***8.7%***	***0.28***
Japan - Nikkei 225	*26751*	*1.2%*	*13.1%*	*15.6%*	*17.8%*	*16.5%*	*16.9%*	*28.4%*	*0.67*
Australia - All ordinaries	*6865*	*1.8%*	*0.9%*	*2.3%*	*13.1%*	*5.4%*	*7.4%*	*11.5%*	*0.53*
Hong Kong - Hang Seng	*26836*	*1.9%*	*-4.8%*	*3.0%*	*-7.9%*	*-5.5%*	*0.7%*	*-6.4%*	*-0.38*
World - MSCI Index	***2640***	***2.2%***	***11.9%***	***16.0%***	***27.5%***	***10.5%***	***12.3%***	***28.5%***	***0.95***
World Ex. U.S.A. - MSCI Index	***2099***	***2.4%***	***3.1%***	***6.7%***	***4.7%***	***1.8%***	***3.3%***	***5.4%***	***0.25***
EAFE - MSCI Index	***2101***	***2.3%***	***3.2%***	***6.8%***	***4.5%***	***1.9%***	***3.4%***	***5.3%***	***0.23***
Emerging markets (free) - MSCI Index	***1,251***	***3.8%***	***12.2%***	***20.7%***	***11.5%***	***10.8%***	***16.8%***	***12.3%***	***0.32***

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

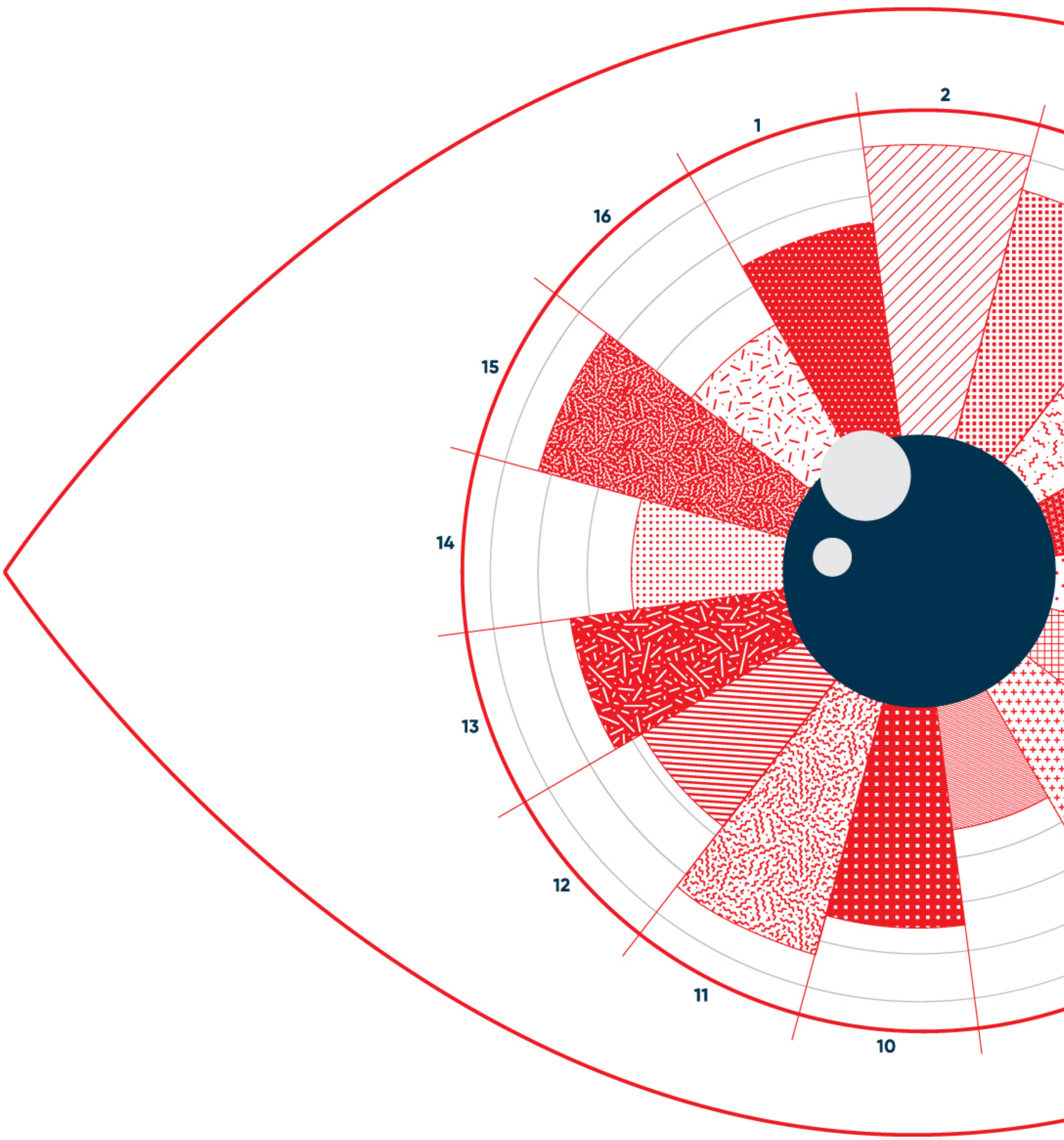
S&P 500 Sectoral Earnings- Consensus*
2020-12-04

	Weight	Index	Variation		EPS Growth				P/E		5 year	PEG	Revision
	S&P 500 %	Level	3-m Δ	12-m Δ	2020	2021	12-m forward	2020	2021	12-m forward	Growth Forecast	Ratio	Index**
S&P 500	100	231	2.83	-2.79	-15.30	21.92	21.62	27.09	22.21	22.06	11.95	1.02	1.66
Energy	2.49	303	16.37	-29.79	-108.09	0.00	0.00	0.00	33.88	33.88	0.19	neg.	-13.90
Materials	2.68	450	11.08	21.85	-10.55	28.30	28.14	26.77	20.86	20.80	21.97	0.74	7.73
Industrials	8.69	752	14.66	11.83	-53.46	76.16	77.54	42.03	23.86	23.78	4.59	0.31	-1.92
Consumer Discretionary	11.13	1275	4.48	34.52	-29.89	53.24	51.26	48.08	31.38	31.59	21.73	0.62	6.17
Consumer Staples	6.69	693	3.35	8.48	3.01	5.89	6.41	22.35	21.10	20.86	6.72	3.26	1.90
Healthcare	13.74	1309	6.44	13.65	7.99	11.37	10.73	17.87	16.05	16.10	10.15	1.50	0.38
Financials	10.58	480	14.51	-2.83	-25.33	20.38	20.38	17.53	14.55	14.54	2.72	0.71	3.72
Information Technology	27.57	2214	6.72	46.24	4.89	15.27	14.36	31.30	27.15	26.50	13.65	1.85	1.90
Telecom Services	11.09	221	8.01	24.38	-4.59	12.26	13.42	26.40	23.52	23.31	17.26	1.74	2.48
Utilities	2.82	315	5.19	-1.38	1.49	4.50	4.50	19.90	19.05	19.04	4.13	4.23	0.30
Real Estate	2.53	231	2.83	-2.79	-34.11	-6.58	-6.58	51.53	55.17	55.17	20.27	neg.	-7.88

* Source I/B/E/S

** Three-month change in the 12-month forward earnings

Technical Analysis



Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Leaders versus laggards

The most notable theme in the stock market today is the theme of growth leadership over value which has been in place arguably for several years. An increasingly two-tier market has developed as the narrow focus of buying growth has concentrated interest in generally high-tech stocks. Recent market action has turned to buying value stocks that have generally languished during the recovery from the March lows. We like to think of the market in terms of leaders and laggards rather than growth versus value. The leadership includes not only tech but also gold, consumer, selected industrials, and transportation. Over the past two or three months the leadership has faltered while buying interest turned to laggards such as financials, real estate and energy. The leadership so far is bending not breaking. Unless the leadership breaks down in both absolute and relative terms buying interest in the laggards will be confined to a short-term trade.

S&P Growth ETF (IUSG)/S&P Value ETF (IUSV)

Source: Refinitiv

The ratio chart of S&P growth ETF to the S&P value ETF indicates that growth stocks have way out-performed value on a relative basis over the course of this year. Recently the growth ETF has faltered relative to the value ETF as a rising trend line on this ratio chart was severed. Chart support appears to be coming into play near current levels and we can expect a rebound attempt. Breaking support here will give further evidence of a trend change where growth and technology stocks will show relatively weaker performance than value. This scenario would likely be accompanied by increase market volatility.

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

DJI/NASD

Source: Refinitiv

The ratio of DJI/NASD is another perspective on growth versus value. The NASD has greatly out-performed the Dow over the past several years as depicted by the ratio chart. This ratio made its high in 2002 and spent five to six years in a lower level trading range before breaking down into a major bear trend 2009. The downtrend in this ratio has taken it from its 2002 high of 6.68 to 2.43. The benchmark low set in March 2000 was 1.98. A five-month basing pattern gives some hope that there is a turnaround as we approach the 2000 lows. However, further technical evidence such as an upside breakout from this potential base is needed to indicate the possibility of a change in trend.

Technical Analysis

Dennis Mark, CFA
Analyst
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IBD 50 ETF (FFTY)

Source: Refinitiv

We use the IBD 50 ETF (FFTY) as one of our proxies for growth stocks. As the accompanying chart indicates, a constructive trend remains in place. This ETF hit chart resistance near US$40.00 and spent the past four months consolidating. A break below support at US$35.00 will be needed to turn the short to intermediate trend down and possibly improve the relative performance of value stocks to growth stocks.

Technical Analysis

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Analyst
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Gold

Source: Refinitiv

Gold and gold stocks is one of the leading sectors off the March lows that has faltered and broken down. A peak in August was followed by support levels at US$1900 and US$1860 being broken. The latter support break completed a top that turned the short to intermediate trend down. Recent weakness has taken prices below a rising trend line and its 200-day. The break at US$1860 extends risk to US$1600 to US$1700.

Technical Analysis

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Analyst
416-869-7427

US Oil index (XOI)

Source: Refinitiv

Energy is one of the weakest lagging sectors over the past number of years and specifically during the recovery from the March lows. The recent strength as the market embraced the move into value areas of the market may prove short-lived as the XOI rallied sharply to hit resistance and stalled. We continue to view energy in a long-term rebuilding phase that has more time than price risk ahead of it.

Technical Analysis

Dennis Mark, CFA
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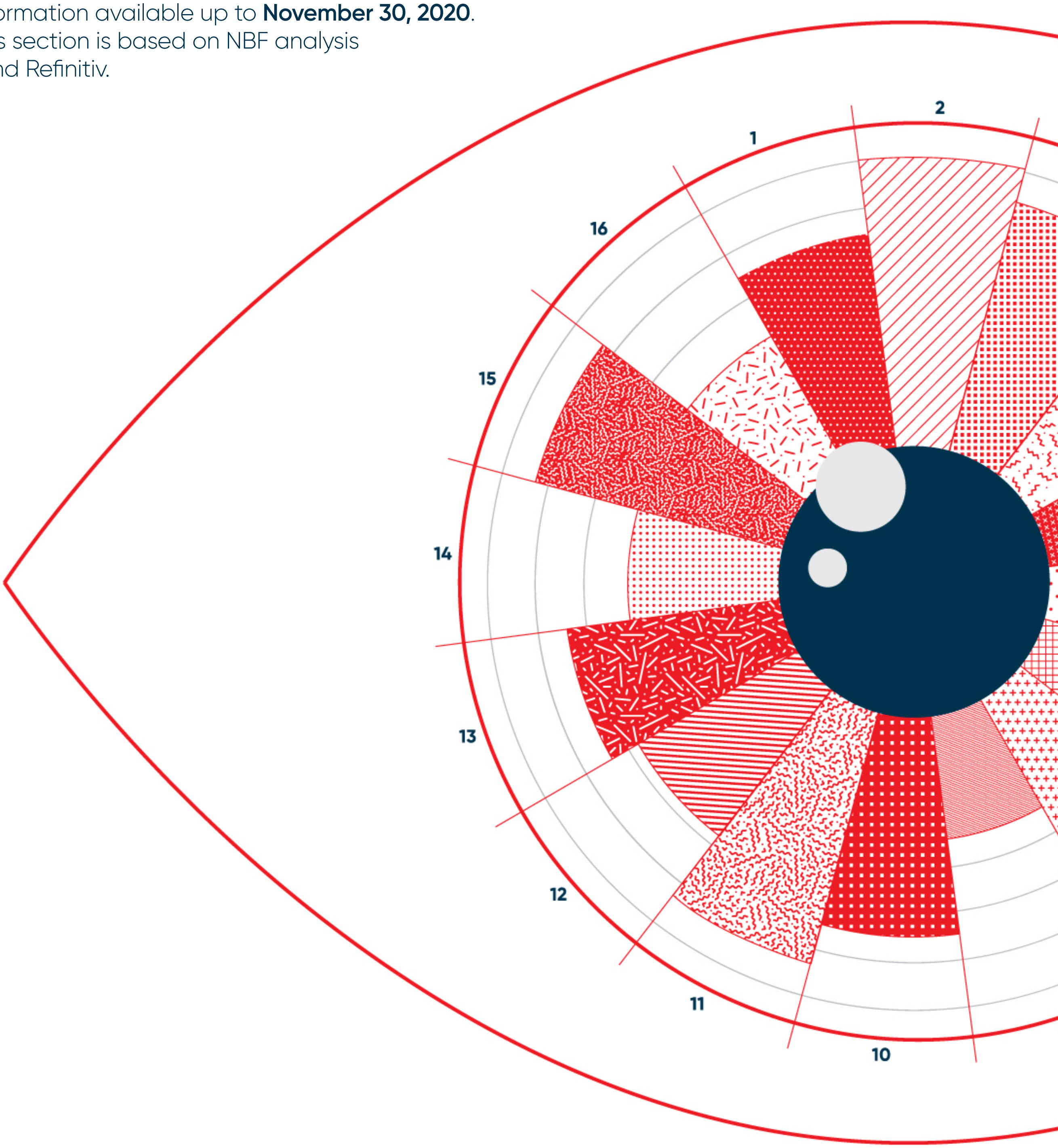
US Oil Service (OSX)

Source: Refinitiv

The oil service sector is a key component to watch for a successful recovery in the energy sector. A major bear market has taken the OSX down over 90% from its peak in 2008. It appears that a rebuilding phase has begun as the chart builds a potential base over the past eight months. Key chart resistance at US$45.00 turned back the recent strength. We anticipate further basing action as downside momentum dissipates. An upside breakout from further basing action will be a technical positive for the energy sector.

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **November 30, 2020**. Information in this section is based on NBF analysis and estimates and Refinitiv.



NBF Selection List

Sector Analysis

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	ARC Resources Ltd.	ARX	$6.44	$8.00	3.85%	27.95%	Oil, Gas & Consumable Fuels
	Cenovus Energy Inc.	CVE	$6.44	$10.00	0.00%	55.28%	Oil, Gas & Consumable Fuels
	Enbridge Inc.	ENB	$40.56	$55.00	8.00%	43.59%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$6.88	$8.00	1.15%	17.44%	Energy Equipment & Services
	TC Energy Corp.	TRP	$57.13	$70.00	5.63%	28.20%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$18.08	$32.50	3.13%	82.85%	Oil, Gas & Consumable Fuels
Materials							
	B2Gold Corp.	BTO	$7.24	$12.00	2.80%	68.62%	Gold
	Capstone Mining Corp.	CS	$1.97	$2.10	0.00%	6.60%	Metals & Mining
	Cascades Inc.	CAS	$14.60	$22.00	2.13%	52.88%	Containers & Packaging
	Dundee Precious Metals Inc.	DPM	$8.50	$14.50	1.19%	71.82%	Gold
	Endeavour Mining Corp.	EDV	$30.63	$60.00	0.00%	95.89%	Gold
	Marathon Gold Corp.	MOZ	$2.63	$3.00	0.00%	14.07%	Gold
	Sandstorm Gold Ltd.	SSL	$9.46	$15.50	0.00%	63.85%	Gold
	SSR Mining Inc.	SSRM	$24.04	$44.00	0.00%	87.19%	Gold
	Teck Resouces Ltd.	TECK.b	$20.52	$22.00	0.94%	8.19%	Metals & Mining
Industrials							
	Cargojet Inc.	CJT	$222.17	$264.00	0.44%	19.25%	Transportation
	Dexterra Group Inc.	DXT	$5.95	$7.50	5.06%	31.09%	Commercial & Professional Services
	Hardwoods Distribution Inc.	HDI	$24.43	$35.00	1.65%	44.90%	Capital Goods
	Mullen Group Ltd.	MTL	$10.06	$12.00	3.39%	22.86%	Transportation
	NFI Group Inc.	NFI	$19.63	$21.00	4.36%	11.31%	Capital Goods
	People Corporation	PEO	$11.05	$13.00	0.00%	17.65%	Commercial & Professional Services
	Stantec Inc.	STN	$39.14	$47.00	1.58%	21.67%	Commercial & Professional Services
	TFI International Inc.	TFII	$65.90	$77.00	1.58%	18.42%	Transportation
	Toromont Industries Ltd.	TIH	$88.84	$98.00	1.40%	11.71%	Capital Goods
	Transcontinental Inc.	TCLa	$19.28	$20.00	4.53%	8.40%	Commercial & Professional Services
	WSP Global Inc.	WSP	$96.45	$99.00	1.57%	4.20%	Capital Goods
Consumer Discretionary							
Consumer Staples							
	Empire Company Ltd.	EMP.a	$35.54	$43.00	1.47%	22.45%	Food & Staples Retailing
	Jamieson Wellness Inc.	JWEL	$35.98	$42.75	1.38%	20.21%	Household & Personal Products
Health Care							
	CRH Medical Corp.	CRH	$3.64	$4.25	0.00%	16.76%	Health Care Providers & Services
Financials							
	Element Fleet Management Corp.	EFN	$13.21	$18.00	1.98%	38.23%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$56.87	$60.00	3.32%	8.92%	Insurance
	Royal Bank of Canada	RY	$106.06	$107.00	4.04%	4.96%	Banks
	Toronto-Dominion Bank	TD	$69.28	$71.00	4.47%	7.04%	Banks
Information Technology							
	Kinaxis Inc.	KXS	$195.79	$250.00	0.00%	27.69%	Software & Services
	Nuvei Corporation	NVEI	$60.61	$70.00	0.00%	15.49%	Software & Services
	Real Matters Inc.	REAL	$19.16	$40.00	0.00%	108.77%	Software & Services
Communication Services							
	Corus Entertainment Inc.	CJR.b	$4.29	$5.00	5.56%	22.14%	Media & Entertainment
	Rogers Communications Inc.	RCI.B	$61.26	$68.00	3.33%	14.27%	Telecommunication Services
Utilities							
	Algonquin Power & Utilities Corp.	AQN	US$15.68	US$16.50	3.89%	9.19%	Utilities
	Boralex Inc.	BLX	$41.04	$43.00	1.63%	6.38%	Utilities
	Innergex Renewable Energy Inc.	INE	$25.70	$27.00	2.77%	7.86%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$34.63	$42.00	2.88%	24.17%	Real Estate
	CT REIT	CRT.un	$14.91	$17.00	5.35%	19.40%	Real Estate
	European Residential REIT	ERE.un	$4.23	$5.20	3.83%	26.77%	Real Estate
	Killam Apartment REIT	KMP.un	$17.62	$21.00	3.95%	23.04%	Real Estate
	RioCan REIT	REI.un	$17.54	$20.00	8.09%	22.23%	Real Estate
	Tricon Residential Inc.	TCN	$10.95	$14.00	2.52%	30.41%	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 November 30, 2020
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

Sector Analysis

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

Risk Rating = Analyst's recommendation

BA = Below Average
A = Average
AA = Above Average
S = Speculative

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

Sector Analysis

Gabriel Dechaine
Analyst
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—
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Canadian Banks & Lifecos

Canadian Banks: Q4/20 Preview – Growth superseding credit performance as the stock driver.

Credit has been a dominant sector theme this year, with investors shifting their perspectives from uncertainty to expectations of better-than-forecast credit performance. Indeed, we expect them to deliver this outcome, which could drive positive 2021 EPS revisions (i.e. consensus is for PCLs to decline 31% next year). Will such a scenario be enough to drive the stocks higher? In our view, a more important driver revolves around the revenue growth outlook, which is challenged by low rates, weak loan growth trends (other than mortgages, that is) and tough Capital Markets comparables. Any bank that demonstrates relative strength in these areas, especially signs of an improving loan growth trajectory in higher spread categories, will likely be in a position to outperform heading into 2021. Our top pick is RY.

iA Financial Corp. (IAG: TSX). Good quarter. Reinsurance deals aimed at providing downside risk protection.

In a broader financials sector with dim growth prospects, IAG's Q3/20 EPS outperformance was a welcome surprise. While some elements are likely unsustainable (e.g., huge P&C profits), IAG's underlying earnings generation has demonstrated resilience during the current downturn. Almost as important, IAG's defensive characteristics also improved. Aside from a better than expected LICAT ratio that further diminishes a capital overhang that existed earlier in the year, the company entered into several reinsurance agreements post-quarter. These transactions will result in one-time gains that IAG plans to "re-invest" in strengthening of reserve assumptions that may be tested during the downturn (e.g., investment return assumptions, mortality, lapse, etc.). Although the macro backdrop is challenging, IAG remains our favourite of the "sub-book" valuation names, which we do not expect to be a classification that will apply to the stock much longer.

Selections

› *iA Financial Corporation*
› *Royal Bank of Canada*
› *Toronto Dominion Bank*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	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	SP		62,224	643	93.33	10/2019	9.43	7.18	7.87	13.0	11.9	76.60	76.70	77.58	1.2	1.2	4.4%	87.00	↑
Bank of Nova Scotia	BNS	SP		78,609	1,211	63.20	10/2019	7.14	5.10	5.40	12.4	11.7	51.93	52.30	54.42	1.2	1.2	5.5%	60.00	↑
CIBC	CM	SP		49,475	445	109.48	10/2019	11.92	9.42	10.14	11.6	10.8	83.17	84.19	88.99	1.3	1.2	5.3%	111.00	↑
National Bank	NA	NR		24,687	336	71.94	10/2019	6.36	5.80	5.89	12.4	12.2	38.91	39.21	42.35	1.8	1.7	3.9%	NR	
Royal Bank of Canada	RY	OP		153,867	1,423	106.06	10/2019	8.89	7.78	8.86	13.6	12.0	55.44	56.43	60.94	1.9	1.7	4.0%	107.00	
Toronto-Dominion Bank	TD	OP		127,891	1,804	69.28	10/2019	6.69	4.94	5.90	14.0	11.7	47.80	50.78	53.56	1.4	1.3	4.5%	71.00	
Canadian Western Bank	CWB	SP		2,667	87	30.18	10/2019	3.15	2.91	3.00	10.4	10.1	31.50	31.86	33.36	0.9	0.9	3.8%	30.00	↑
Laurentian Bank	LB	UP		1,442	43	32.54	10/2019	4.26	2.84	2.86	11.5	11.4	53.15	53.27	54.30	0.6	0.6	4.8%	26.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		28,304	928	30.21	12/2019	2.67	2.78	3.02	10.9	10.0	22.57	23.01	24.54	1.3	1.2	5.7%	30.00	↑
iA Financial	IAG	OP		6,258	107	56.87	12/2019	4.87	6.50	6.65	8.7	8.6	54.50	55.64	59.96	1.0	0.9	3.3%	60.00	↑
Manulife Financial	MFC	SP		43,491	1,940	22.13	12/2019	2.22	2.71	2.91	8.2	7.6	25.49	24.74	24.42	0.9	0.9	5.0%	22.00	↑
Sun Life Financial	SLF	SP		34,613	585	57.67	12/2019	4.14	5.35	5.73	10.8	10.1	38.17	39.14	42.90	1.5	1.3	3.7%	59.00	↑

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

Sector Analysis

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Marketing Takeaways and Company Updates

Home Capital Group Inc. (HCG: TSX)

Upgrade to OP following Solid Q3-20 Results and Positive Takeaways from Marketing Event:

Underlying fundamentals (e.g., credit, NIM, opex and originations) continue to trend favourably, as HCG demonstrated in Q3 2020 resuls. Highlights from the marketing event: i) management is not ruling out the possibility of further PCL reversals if the base case macroeconomic outlook persists; ii) expense ratio guidance of mid-40%'s vs. high-40%'s today; iii) NIM expected to remain strong for the next three to four months as lower rate deposits continue to replace maturing higher rate deposits; iv) origination activity will remain strong, despite historically slower Q4; v) medium-term goal to reach mid-teens ROE on track (confidence increased with Q3's 15.5% ROE). We increased our estimates and now forecast ROE tracking 12-13% in 2021 and 2022, even before the potential upside from an aggressive share buyback program. As a result, we increased our target valuation multiple to ~1.0x P/TBV on our Q3 2021 estimate and our price target to $34. We upgrade the rating to Outperform.

TMX Group (X: TSX)

Marketing Recap: Deep Dive into Financial Outlook Drivers:

On November 26th, we hosted John McKenzie, CEO, in our Between Two Firms (B2F) conference series. Management reiterated the mid-single digit organic revenue growth and double-digit adjusted EPS growth outlook. While we maintain a favourable view of TMX's long-term growth outlook, track record of strategic execution and defensive attributes, we maintain a Sector Perform rating in light of a lower total return to our target price relative to other companies in our coverage universe. Our $141 PT implies a P/E multiple of ~22x our NTM core EPS, +1YR forecast. TMX currently trades at 20.5x consensus NTM core EPS and a 0.6x and 1.6x discount to NDAQ and ICE, respectively.

People Corporation (PEO: TSX)

Classic Consolidation:

PEO acquired three companies - Alliance Pour La Santé Etudiante Au Quebec Inc. in the post-secondary student benefits market and ENCOMPASS Benefits & HR Solutions Inc. and Watermark Benefit Consulting Inc. in the group benefits and retirement solutions market. Overall, we take a favorable view of the transactions - strategic merit for all three, transaction multiples appear fair, leverage remains well below covenants, and it shows PEO is still in the consolidation game after not announcing an acquisition since the outbreak of COVID-19. Our $13 PT implies a ~14x EV/EBITDA on one-year forward estimates. Reiterate Outperform.

Selections

- *Element Fleet Management*
- *People Corporation*

	Stock	Stock		Mkt Cap	Shares O/S	Stock Price	Last Year	FDEPS			P/E		Book Value per Share			P/BV		Div.	12-Mth Price	
	Sym.	Rating	Δ	(Bln)	(Mln)	11/30	Reported	Last FY	est. FY1	est. FY2	FY1	FY2	Last Quarter	est. FY1	est. FY2	FY1	FY2	%	Target	
Mortgage Finance																				
Equitable Group	EQB	OP		1.60	16.8	95.09	12/2019	12.29	11.89	13.60	8.0	7.0	89.25	92.17	104.31	1.0	0.9	1.6%	110.00	↑
First National Financial	FN	SP		2.32	60.0	38.70	12/2019	3.02	3.90	3.68	9.9	10.5	7.74	7.80	9.38	5.0	4.1	5.4%	39.00	
Sagen MI Canada	MIC	T		3.76	86.3	43.62	12/2019	5.35	5.09	4.68	8.6	9.3	43.57	44.22	46.76	1.0	0.9	5.0%	43.50	
Home Capital Group	HCG	OP	↑	1.53	51.8	29.49	12/2019	2.50	3.39	4.07	8.7	7.2	31.28	32.19	36.09	0.9	0.8	0.0%	34.00	↑
Timbercreek Financial	TF	SP		0.72	81.1	8.84	12/2018	0.66	0.65	0.73	13.7	12.2	8.66	8.67	8.71	1.0	1.0	7.8%	9.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.46	242.5	6.04	12/2019	0.16	0.20	0.37	23.2	12.5	2.91	2.94	3.10	1.6	1.5	1.7%	7.50	↑
Element Fleet Management	EFN	OP		5.80	438.8	13.21	12/2019	0.36	0.76	0.86	17.5	15.4	7.34	7.41	7.78	1.8	1.7	2.0%	18.00	
goeasy	GSY	OP		1.26	14.9	84.98	12/2019	5.16	7.26	7.42	11.7	11.5	27.57	29.24	34.90	2.9	2.4	2.1%	93.00	↑
HR Companies																				
Morneau Shepell	MSI	OP		2.1	70.0	29.73	12/2019	0.29	0.74	0.55	40.1	53.6	9.58	9.52	9.39	3.1	3.2	2.6%	36.00	
People Corporation	PEO	OP		0.8	71.2	11.05	12/2019	0.10	0.20	0.24	54.2	45.4	3.05	3.08	3.22	3.6	3.4	0.0%	13.00	↑
Securities Exchange																				
TMX Group	X	SP	↓	7.23	56.6	127.79	12/2019	5.31	5.77	6.05	22.2	21.1	63.76	64.21	66.72	2.0	1.9	2.2%	141.00	↓
Insurance																				
Intact Financial Corp.	IFC	R		20.78	143.0	145.29	12/2019	6.05	R	R	R	R	56.22	R	R	R	R	2.3%	R	
Trisura Group Ltd.	TSU	OP		0.84	10.3	82.10	12/2019	0.58	3.09	4.16	26.5	19.8	26.86	27.73	31.96	3.0	2.6	0.0%	114.00	
Fairfax Financial Holdings	FFH	OP		11.69	26.2	445.40	12/2019	69.78	-22.29	40.94	nmf	8.4	442.17	447.95	481.48	0.8	0.7	3.0%	525.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.11	103.8	10.74	12/2019	1.33	1.34	1.44	8.0	7.5	4.91	5.00	5.05	2.1	2.1	7.8%	11.50	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

Sector Analysis

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Enerflex Ltd.

Enerflex posts solid Q3 results, but diminishing Engineered Services backlog reinforces our expectations for some challenging quarters on the near-term horizon.

EFX reported third quarter adj. EBITDA of $38.2 mln (excluding a $6.5 mln lift from government wage subsidies), 3% above the street forecast of$37.1 mln and handily beating our $32.0 mln estimate. While financial results for Q3 topped expectations, record low bookings in the quarter for the Engineered Systems segment of $23.2 mln (a 46% sequential decrease and representing a new low-water mark dating back to 2011) underscore a rapidly diminishing backlog for the division. EFX exited the quarter with an Engineered Systems backlog of $186 mln, recognizing $127.9 mln in Engineered Services revenue in Q3. Assuming a similar rate of quarterly bookings and ES revenue heading into 2021 (not unrealistic given the challenging macro backdrop), the ES backlog could be completely drawn down before the beginning of Q2/21, which could necessitate further cost rationalization efforts. That said, we continue to expect stronger activity levels in the back half of 2021 (for all segments), with hopes for a gradual return to normalcy reinforced by the recent positive developments regarding COVID-19 vaccines. **We see through the challenging near-term outlook and reiterate our Outperform rating and $8.00 target driven by 7.5x 2021e EV/EBITDA (a full-turn below the current average 2021 multiple for EFX's pure-play compression peers).**

Ag Growth International Inc.

Record third quarter adj. EBITDA for Ag Growth overshadowed by ongoing bin failure investigation.

Ag Growth reported Q3 adj. EBITDA of $51.8 mln representing a new high-water mark and topping both consensus ($41.6 mln) and our $44.1 mln forecast. While reported adj. EBITDA represented a solid beat versus Street expectations, we note adj. EBITDA of $51.8 mln excluded the impact of a $40 mln accrual AFN has taken in Q3 "on the basis of potential required remediation to the equipment supplied by Ag Growth" related to the previously announced grain bin collapse at the Fibreco export terminal in North Vancouver. While the investigation into the cause of the September collapse of a commercial grain bin remains ongoing, the $40 mln accrual represents AFN's probability-weighted estimate of the direct costs involved including cleanup and remediation at the facilities where the product line in question is located (should the investigation determine AGI contributed to or caused the failure). We suspect the overhang on AFN share price will continue until further details from the investigation (and the size of the potential insurance offset) emerge. That said, we continue to see long-term tailwinds for AGI shares in the form of secular increases in grain production volumes and agriculture supply chain infrastructure investments with resurging grain imports by China (driven by domestic crop failures and booming feed grain demand) and many countries stocking up grain inventories following the supply chain disruption caused by the COVID-19 pandemic supporting grain prices (and farmer income) despite strong crop volumes in the near term. **We reiterate our Outperform rating and remain buyers on what we view as temporary weakness driven by a transitory event, with our $41.00 target driven by 9.1x 2021e EV/EBITDA, modestly above AFN's long-term historical forward year average EV/EBITDA of 8.8x but well within AFN's typical trading range.**

Selections

› *Enerflex Ltd.*
› *Mullen Group*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	EBITDA (mlm) 2019	EBITDA (mlm) 2020e	EBITDA (mlm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt/ EBITDA 2020e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN-T	OP		583.97	18.7	31.21	144.3	144.5	165.5	9.3	9.7	8.0	5.7x	41.00	33%	↓
Enerflex Ltd.	EFX	OP		616.99	89.7	6.88	345.7	172.1	141.6	2.9	5.9	6.8	2.3x	8.00	17%	↓
Mullen Group Ltd.	MTL	OP		974.92	96.9	10.06	202.3	195.4	209.3	7.2	7.0	6.4	2.0x	12.00	23%	↑
Pason Systems Corp.	PSI	SP		601.73	83.7	7.19	129.6	31.7	27.5	3.4	14.2	17.0	-4.8x	7.50	7%	
Shawcor Ltd.	SCL	SP		226.74	70.4	3.22	136.4	29.3	111.5	4.6	20.0	5.4	13.0x	4.00	24%	

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

Sector Analysis

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Highlights

Among all the companies in our coverage reporting results in November, we highlight Jamieson Wellness (TSX: JWEL) that continues to benefit from the ongoing COVID-19 (C-19) pandemic, and CRH Medical (TSX: CRH) that saw a normalization of its volumes.

Jamieson Wellness

JWEL reported Q3/20 above our estimates and slightly above Street, as both segments continued to perform well, domestically and internationally, due to the continued strong demand for immunity and general health supplements. Revs / adj. EBITDA / adj. EPS were +7% / +10% / +11% ahead of our forecasts and +19% / +18% / +25% y/y.

JWEL increased its revs guidance to $395-$400 mln (vs. $385-$395 mln prior) and narrowed its adj. EBITDA / adj. EPS guidance to $86 $88 mln ($84-$88 mln prior) / $1.11-$1.15 (vs. $1.08-$1.15 prior). The increased revs guidance is encouraging, while the unchanged upper EBITDA/EPS range is due to inefficient, at capacity, production and C-19 related bottlenecks: continued social distancing in production, higher freight costs, use of 3rd party packing to meet the elevated demand, and production to replenish inventory. In our view, most of these reasons are transitory as JWEL continues to expand production capacity in Q4/20 and potentially into Q1/21.

The Branded segment reported revs/EBITDA +5%/+8% ahead of our estimates as 1) domestic sales grew 9.5% y/y from elevated demand & market share gain; and 2) int'l sales grew 82% with demand from China, Eastern Europe & Middle East but also from accelerated shipments of cough/cold products to ensure availability.

We maintain an Outperform rating and moved target to $42.75 on an unchanged 18.5x FY+1 EV/EBITDA.

CRH Medical

CRH reported results ahead of estimates, as cases continue to return to normalized levels while also benefitting from acquisitions and its contracted rate strategy. Revenues / adj. EBITDA / CFS were 7% / 21% / 47% ahead of our estimate and 0% / -15% / +16% y/y.

Anesthesia Segment reported improved results from servicing 94.1k cases, above our 87k est. at a revs/case (after adj. for US$0.8 mln of prior periods' billing) of US $306 (vs. US$303 est. and US$299 in Q2/20). Cases improved throughout Q3, returning to normalized levels by August and have continued such into November. Despite the second C-19 wave, mgmt. does not expect Q2-like closures as ASCs have continued to treat patients safely. On the acquisition front (US$21.9 mln YTD), the pipeline remains active and CRH may see transactions pick up in Q4 given some concerns of higher capital gains tax in the U.S. under a Democratic presidency.

The Product Segment reported in line results while CRH has implemented initiatives to grow the segment through pilot projects with two clinics for turnkey ancillary services and digital marketing.

We maintain Outperform rating and C$4.25 target implying a ~6.5x 2021e EV/EBITDA.

Selections

› *Jamieson Wellness*
› *CRH Medical*

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 11/30	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.u	SP		230.89	70.2	3.29u	3/2020	0.0%	0.26u	0.10u	0.14u	31.9	24.3	75.4u	80.2u	86.8u	8.6	7.9	472.4u	5.4	3.25u	
Andlauer Healthcare Group	AND	UP		1,498.74	37.6	39.86	3/2020	0.5%	0.79	0.82	1.02	48.8	39.0	70.6	78.2	85.9	20.3	18.4	88.6	1.0	36.25	
CRH Medical	CRH	OP		260.12	71.5	3.64	3/2020	0.0%	0.41u	0.32u	0.46u	8.1	5.7	36.6u	26.8u	43.3u	9.7	6.0	70.1u	1.6	4.25	
IMV Inc.	IMV	SP		338.15	67.1	5.04	3/2020	0.0%	(0.48)	(0.46)	(1.09)	nmf	nmf	(24.7)	(34.9)	(83.9)	nmf	nmf	0.0	nmf	7.00	
Jamieson Wellness	JWEL	OP		1,433.74	39.8	35.98	3/2020	1.4%	0.96	1.15	1.24	31.4	29.0	75.9	88.0	100.0	18.3	16.1	157.0	1.6	42.75	↑
Knight Therapeutics	GUD	OP		721.08	130.9	5.51	3/2020	0.0%	0.16	0.15	0.25	30.1	18.1	(1.2)	20.2	38.1	18.4	9.8	-	-	6.75	↓
Medical Facilities Corp.	DR	OP	↑	230.50	31.1	7.41	3/2020	3.8%	0.66u	1.00u	0.86u	5.5	6.6	54.9u	57.9u	54.2u	5.9	6.3	106.2u	2.4	6.75	↑
Theratechnologies	TH	SP		231.04	77.0	3.00	3/f2020	0.0%	(0.15)u	(0.12)u	0.11u	nmf	20.1	0.3u	(3.8)u	13.1u	nmf	15.0	25.1u	1.9	4.00	
Special Situations																						
K-Bro Linen	KBL	OP		406.13	10.6	38.45	3/f2020	3.1%	2.65	2.14	2.74	17.9	14.0	47.6	41.0	49.0	12.4	10.4	102.3	2.1	35.00	
Just Energy Group	JE	R		-	-	6.34	2/f2021	-	-	R	R	R	R	-	R	R	R	R	-	R	R	
Rogers Sugar	RSI	SP	↑	577.74	103.5	5.58	4/f2020	6.5%	0.37	0.42	0.43	13.4	13.1	92.3	98.9	103.2	9.4	9.1	340.7	3.3	5.00	↑
Chemtrade Logistics Income Fund	CHE.UN	SP		463.81	92.8	5.00	3/f2020	12.0%	1.27	0.80	1.00	6.3	5.0	335.6	279.8	333.9	7.0	5.9	1,402.5	4.2	5.50	↓

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

Sector Analysis

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ATS Automation Tooling Systems Inc.: Deep dive on ROIC and Transport vertical

Divestiture option to help double up the privileged Healthcare vertical:

We explore ATA's ROIC drivers and provide perspective on a privlidged end-market (healthcare); ultimately, we believe a potential divestiture of Transport could be accretive with redeployment towards NCIB and Healthcare M&A.

There is a positive correlation between ROIC metrics and share price returns for automation peers. While ROIC is not part of management's compensation structure, we believe the metric is becoming increasingly important for investors. Legacy M&A, restructuring and working capital intensity in our view explain the relatively low metric for ATA; in the past however, we have seen that the market pays for improvement in metrics, not absolute level (Brooks Automation would be one such example).

2020 has not been kind to generalist automation peers (especially with S&P 500 up 11% and Russel at +7%); using ATA's disclosed peer group from the proxy, YTD median share price decline is -5% (larger cos in the general automation space have done much better, with Rockwell, Siemens, ABB, Fanuc up 15% median, most sitting close to all-time highs). Upon closer inspection however, we find that the smaller peer group has minimal to null healthcare exposure. Contrasting against BRKS's peer group, filtered for healthcare exposure cos, median return jumps to +16% YTD. Investors are clearly privileging healthcare now; what's interesting of course is that despite ATA having ~60% exposure here, expectations as measured by the share price performance are more than subdued. When looking at WSP and TIH in the industrial universe in Canada we believe some lessons can be gleaned that are applicable towards ATS (especially from TIH's patient M&A strategy that over time lead to material multiple expansion).

Based on our channel-checking with OEM clients, Transport segment remains very competitive with unfavourable payment terms. In 2019 Hitachi acquired private JR Automation at 2.3x EV/revenue (auto / healthcare / general automation peer). Using a lower 2.0x EV/revenue multiple, if ATA were to exit the Transport vertical at that level, we could see our NAV moving closer to $25.00 (from $22.00). More importantly, the capital redeployment cycle could be reset towards share buybacks in order to bridge the gap with Healthcare-focused targets (that typically command 14x-15x EV/EBITDA vs. ATA's sub-11x). We rate ATA shares Outperform, $22.00 price target using a 11.0x EV/EBITDA multiple on 2021 forecasts.

Selections

› *WSP Global*
› *Stantec*
› *Toromont Industries*

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 11/30	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		**$18.00**		$16.28	$975	12 - 2019	$1.13	$1.13	$0.93	23.6x	16.8x	$220	$220	$223	6.9x	5.1x	3.9%	1.1x
Bird Construction Inc.	BDT	OP		**$10.00**		$7.23	$392	12 - 2019	$0.22	$0.61	$0.71	11.9x	10.2x	$32	$62	$89	6.0x	4.2x	3.9%	net cash
Finning International Inc.	FTT	OP		**$26.00**	↑	$26.50	$4,296	12 - 2019	$1.48	$1.29	$1.53	20.5x	17.4x	$718	$675	$727	8.0x	7.4x	3.0%	1.6x
IBI Group Inc.	IBG	OP		**$9.00**		$7.20	$225	12 - 2019	$0.63	$0.63	$0.63	12.3x	11.4x	$43	$46	$45	7.3x	7.4x	0.0%	1.3x
North American Construction Group Ltd.	NOA	OP		**$17.00**		$13.28	$365	12 - 2019	$1.74	$1.64	$1.74	8.1x	7.6x	$174	$163	$180	4.8x	4.4x	1.2%	2.6x
Ritchie Bros. Auctioneers	RBA	UP		**U$65.00**	↑	U$71.81	U$7,829	12 - 2019	U$1.36	U$1.76	U$2.18	40.9x	33.0x	U$294	U$361	U$403	22.4x	20.1x	1.2%	0.5x
SNC-Lavalin	SNC	OP		**$34.00**		$23.84	$4,185	12 - 2019	-$0.93	-$0.18	$1.88	n.m	8.1x	$377	$332	$664	12.0x	5.1x	0.3%	2.2x
Stantec Inc.	STN	OP		**$47.00**	↓	$39.14	$4,380	12 - 2019	$1.97	$2.01	$2.22	19.4x	17.7x	$432	$427	$478	11.4x	10.2x	1.6%	1.1x
Toromont Industries Ltd.	TIH	OP		**$98.00**	↑	$82.95	$6,803	12 - 2019	$3.49	$3.15	$3.82	26.3x	21.7x	$578	$536	$606	13.2x	11.6x	1.5%	0.4x
WSP Global	WSP	OP		**$99.00**		$96.45	$10,918	12 - 2019	$3.61	$3.52	$4.42	27.4x	21.8x	$787	$814	$970	13.8x	11.6x	1.6%	0.4x
AutoCanada	ACQ	SP	↑	**$26.00**	↑	$29.76	$810	12 - 2019	$0.21	$0.31	$1.41	94.9x	21.1x	$56	$83	$56	11.5x	9.3x	0.0%	1.3x
Stelco	STLC	SP		**$16.00**	↑	$16.76	$1,487	12 - 2019	$0.25	-$0.60	$2.09	n.m	8.0x	$121	$61	$265	24.1x	5.6x	0.0%	net cash
ATS Automation	ATA	OP		**$22.00**		$21.69	$2,006	12 - 2019	$1.06	$0.90	$1.12	24.0x	19.3x	$176	$163	$195	13.3x	11.2x	0.0%	1.2x
Stella-Jones	SJ	SP		**$42.00**		$44.18	$2,981	12 - 2019	$2.30	$3.01	$2.90	14.7x	15.2x	$244	$334	$316	10.5x	11.1x	1.4%	1.6x
Median												**22.0x**	**17.1x**				**11.4x**	**8.4x**	**1.3%**	

Note: u = USD. Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review, R=Restricted

Source: Company Reports, Refinitiv, NBF

Merchandising & Consumer Products

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Alimentation Couche-Tard Inc.

Q2 F2021 Results : Solid performance, bolstered by many improvement initiatives

Q2/F21 adj. EPS was $0.66 vs. NBF at $0.53 and cons. at $0.51; last year was $0.50:

We consider results to be solid given a beat driven by strong fuel margins, good merchandising sssg and SG&A control. Specifically, the EPS beat vs. NBF was mostly due to better than expected gross profit in fuel (~$0.10)/ merchandising (~$0.01) and lower SG&A (~$0.03). Total revenue was $10.7 bln vs. NBF at $12.0 bln and cons. at $11.2 bln; last year was $13.7 bln. Total merchandise gross margin was $1,295 mln vs. NBF at $1,281 mln; last year was $1,214 mln. Fuel and other gross margin was $1,190 mln vs. NBF at $1,053 mln; last year was $1,115 mln. Adj. EBITDA was $1,294 mln vs. NBF at $1,096 mln; last year was $1,070 mln.

Performance bolstered by various improvement initiatives:

Investor focus shifts to sustainability of ATD's recent solid results, which have benefitted from the pandemic (higher fuel margins/ strong merchandising sssg, partly offset by lower fuel volumes/other factors). While it's difficult to isolate, our view is that management's various initiatives also supported results, including fuel margin optimization (generating supply advantages, rebranding, AI enabled pricing, etc.) and merchandising improvements (fresh food, loyalty, offer adjustments, etc.). In addition, we anticipate solid SG&A control to persist given numerous efficiency initiatives (improved labour control, focus on goods-not-for-resale). That said, NTM EPS is still expected to deteriorate given difficult y/y comparisons, unless ATD capitalizes on acquisitions.

M&A remains in focus:

During the conference call, management indicated that Asia-Pacific remains an area of interest for potential opportunities, particularly in Southeast Asia; the Circle K HK deal provides more operational insight into the region. Management also indicated it was pausing on the potential Ampol transaction given economic uncertainty. We estimate that ATD has more than $10 bln of acquisition capacity, assuming average deal parameters.

Maintain Outperform rating; Price Target is Cdn$55:

We value ATD at 19.0x our F22/F23 EPS (adjusted for FX).

Selection

› *Empire Company*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 11/30	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		10,092	60.8	165.97	12/2019	13.07	9.79	13.26	16.9	12.5	2,146	1,945	2,204	7.3	6.4	64.75	0.51	168.00	↑
Dollarama	DOL	OP		16,614	312.5	53.16	02/2019	1.78	1.75	2.18	30.4	24.4	1,111	1,103	1,289	17.8	15.3	0.37	0.96	57.00	↑
Specialty Stores																					
Couche Tard	ATD.b	OP		48,064	1,114.4	43.13	04/2020	1.97	2.23	2.18	14.9	15.2	4,365	4,666	4,454	8.8	9.3	10.70	0.32	55.00	↑
Parkland Fuel Corporation	PKI	OP		6,012	151.1	39.78	12/2019	2.56	0.73	1.91	54.6	20.9	1,266	1,049	1,269	9.0	7.4	14.86	0.60	46.00	↑
Apparel																					
Gildan	GIL	OP		6,734	198.3	33.96	12/2019	1.66	(0.44)	1.50	-59.7	17.5	548	109	499	53.5	11.7	7.44	0.37	33.00	
Roots Corporation	ROOT	SP		73	42.2	1.74	02/2020	(0.06)	0.20	0.25	8.8	6.8	52	56	57	5.0	5.0	3.36	0.60	1.75	
Grocers																					
Empire Company	EMP.a	OP		9,589	269.8	35.54	05/2020	2.20	2.41	2.63	14.8	13.5	1,892	2,045	2,093	7.6	7.4	15.07	0.59	43.00	↑
Loblaw	L	SP		22,984	358.0	64.20	12/2019	4.12	4.21	4.96	15.2	12.9	4,912	4,974	5,202	7.6	7.3	31.27	0.57	82.00	
Metro	MRU	SP		15,076	252.7	59.66	09/2020	2.84	3.28	3.48	18.2	17.1	1,007	1,093	1,054	15.9	16.5	23.98	0.27	65.00	↑
Food Manufacturer																					
Saputo	SAP	SP		14,776	410.1	36.03	03/2020	1.62	1.68	2.12	21.4	17.0	1,468	1,535	1,766	12.0	10.4	15.7	0.36	39.00	↓
Lassonde	LAS.a	OP		1,151	6.9	166.00	12/2019	8.32	13.33	13.13	12.5	12.6	159	208	207	7.1	7.1	115.3	0.28	183.00	
Premium Brands Holdings	PBH.TO	R		R	R	R	12/2019	R	R	R	R	R	R	R	R	R	R	R	R	R	
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		888	37.0	23.98	12/2019	1.59	1.72	1.91	13.9	12.6	156	163	171	7.6	7.3	9.12	0.52	29.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	OP		212	42.4	4.99	12/2019	0.28	0.41	0.49	12.2	10.3	29	35	38	10.0	9.3	5.53	0.37	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,276	24.7	51.65	11/2019	3.34	(1.27)	3.17	-40.6	16.3	152	154	171	11.2	10.1	22.93	0.44	49.00	
Online Grocery																					
Goodfood Market	FOOD	OP		178	59.0	3.02	08/2019	(0.36)	(0.17)	(0.24)	NA	NA	(16)	(2)	1	NA	NA	0.29	(0.85)	11.00	↑

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

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Look to Names with Transformative Catalysts

In recent months base metals markets have recovered to pre-COVID-19 levels buoyed partly by strong economic recovery in China, encouraging developments on COVID-19 vaccines, and mine supply disruptions which continue to attract speculative interest driving prices higher. There remains some uncertainty as to extent all countries are able to contain new waves of infection in the near-term, which may influence macroeconomic outcomes and so we maintain our modestly cautious view.

Our positive long-term bias for base metals remains unchanged, driven by a lack of an advanced-stage project pipeline and the building of a structural deficit in the coming years for several commodities (namely: copper). Electric vehicles are emerging as the dominant story for long-term copper demand, expected to partially offset the reduced production of internal combustion engine vehicles. Given the current commodity backdrop, we look to names with strong transformative catalysts and sufficient liquidity to withstand volatile commodity prices.

Top picks:

- **First Quantum Minerals. (FM: TSX)** – The company's high-quality asset base, organic growth profile and long-term exposure to copper prices make it well-positioned for an economic recovery. FM has the most potential to deliver meaningful news flow over the next 12 months with potential non-core asset sales, which may include a minority interest in its Zambian operations as well as Ravensthorpe. These strategic divestitures would be supportive of deleveraging the balance sheet, providing more comfort to investors throughout any potential downturn in copper prices as well as reduce the company's overall exposure to future cost increases in Zambia. Any further clarity regarding the long-term tax/royalty structure in Panama and Zambia would further improve the outlook for the company.
- **Capstone Mining. (CS: TSX)** – Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including initiatives to achieve a sustained 57,000 tpd mill throughput by H1/21 at Pinto Valley and potential mine life extension at Cozamin via incorporating an additional paste/backfill. With improved copper prices, catalysts on the horizon supportive of a sustainable 20% production increase and 10% reduction in operating costs beginning in 2021, and solid operational performance YTD despite disruptions from COVID-19, the company screens favorably, especially with its discounted valuation compared to peers.
- **Teck Resources. (TECK.B: TSX)** – Despite near-term uncertainty in coking coal prices, Teck's long-dated debt maturity profile makes it well-positioned to weather the current commodity downturn. Teck's strong balance sheet, cost reduction initiatives, organic growth within the copper division and commitment to returning capital to shareholders are all supportive of a higher valuation than currently ascribed by the market.

Selections

- *First Quantum*
- *Capstone Mining*
- *Teck Resources*

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	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		788	400.0	1.97	2.10	-	Nagle	(0.02)u	0.02u	0.20u	86.0x	10.1x	0.21u	0.16u	0.43u	9.3x	3.4x	2.19	0.9x
Copper Mountain Mining	CMMC	SP		314	191.5	1.64	1.65	↑	DeMarco	0.14c	0.07c	0.36c	22.1x	4.5x	0.13c	0.27c	0.56c	6.1x	2.9x	1.42	1.2x
Ero Copper	ERO	SP		1,933	86.8	22.28	25.00	↑	Nagle	0.97u	1.32u	1.60u	12.7x	13.9x	1.54u	2.13u	2.37u	7.9x	7.1x	35.12	0.6x
First Quantum Minerals	FM	OP		12,706	689.4	18.43	19.00	-	Nagle	0.36u	(0.05)u	0.76u	n/a	24.2x	1.95u	2.62u	3.72u	5.3x	3.7x	18.59	1.0x
Hudbay Minerals	HBM	SP		2,148	261.3	8.22	7.00	-	Nagle	(0.19)u	(0.47)u	(0.19)u	n/a	n/a	1.19u	0.99u	1.60u	6.2x	3.9x	5.59	1.5x
Lundin Mining	LUN	SP	↓	7,616	733.7	10.38	10.25	↑	Nagle	0.25u	0.24u	0.54u	32.7x	19.1x	0.79u	0.94u	1.45u	8.3x	5.4x	9.00	1.2x
Nexa Resources	NEXA	SP		1,347	132.4	10.17	10.00	-	Nagle	0.19u	(1.11)u	(0.26)u	n/a	n/a	2.35u	1.47u	2.61u	5.2x	2.9x	22.88	0.4x
Sherritt International	S	SP		133	397.3	0.34	0.35	-	DeMarco	(0.34)c	(0.27)c	0.04c	n/a	8.9x	0.03c	(0.03)c	0.14c	-	2.5x	0.53	0.6x
Taseko Mines	TKO	SP		315	246.1	1.28	1.75	-	DeMarco	(0.28)c	(0.13)c	0.03c	n/a	41.9x	0.21c	0.41c	0.39c	3.1x	3.3x	1.64	0.8x
Teck Resources	TECKb	OP		10,896	531.0	20.52	22.00	-	Nagle	2.77c	0.64c	1.74c	32.1x	11.8x	6.51c	2.98c	5.33c	6.9x	3.8x	24.83	0.8x
Titan Mining	TI	SP		77	123.0	0.63	0.60	-	Nagle	(0.09)c	(0.18)c	0.20c	n/a	3.1x	(0.05)c	0.04c	0.30c	12.6x	1.6x	0.90	0.7x
Trevali Mining	TV	R		R	R	R	R	-	Nagle	R	R	R	R	R	R	R	R	R	R	R	R
Developers																					
Adventus Mining	ADZN	OP		117	130.5	0.90	1.65	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.07	0.4x
Filo Mining	FIL	SP		205	110.8	1.85	3.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.52	0.3x
Nevada Copper	NCU	SP		98	819.7	0.12	0.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.42	0.3x
Josemaria Resources	JOSE	SP		218	275.8	0.79	1.15	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.64	0.5x
Trilogy Metals	TMQ	OP		352	140.9	2.50	3.75	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.42	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

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Current Macroeconomic Environment Supportive of Gold Outperformance

Global events over the past months have created a supportive backdrop for gold.

The economic impact of COVID-19 has forced banks across the globe to perform drastic measures. Interest rates have been slashed and unprecedented support packages have been approved. The fall in U.S. Treasury yields has created an environment of low or negative real rates, an environment that gold historically has outperformed in. Inflationary pressures stemming from the U.S. Fed's QE program, coupled with investors drawn to physical assets during uncertain times, only help to solidify our view.

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) exiting heavy capital spending programs, and (5) a catalyst-packed calendar. On an EV/EBITDA valuation basis, we see some names trading at attractive multiples and with those that have a history of achieving guidance and showing potential for delivering positive catalysts; we believe these names offer good investment opportunities.

Selections

Gold/Silver Producers:

- *SSR Mining.*
  (SSRM: TSX; C$44.00)
- *B2Gold Corp.*
  (BTO: TSX; C$12.00 target)
- *Dundee Precious Metals Inc.*
  (DPM: TSX; C$14.50 target)
- *Endeavour Mining Corp.*
  (EDV: TSX; C$60.00 target)

Developers:

- *Marathon Gold Corp.*
  (MOZ: TSX; $3.00 target)

Royalties:

- *Sandstorm Gold Ltd.*
  (SSL: TSX; $15.50 target)

Back to Research Analysts page

Metals & Mining: Precious Metals

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	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	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
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP		20,498	242.35	84.58	124.00	↓	Parkin	0.96u	2.08u	3.81u	31.4x	17.1x	3.64u	5.40u	5.40u	12.1x	12.1x	63.17	1.3x
Barrick Gold	ABX	SP		52,837	1,778.13	29.72	43.00	↑	Parkin	0.51u	1.08u	1.09u	21.3x	21.1x	1.81u	3.06u	3.06u	7.5x	7.5x	23.57	1.3x
Kinross Gold Corp	K	OP		11,755	1,277.67	9.20	18.00	↑	Parkin	0.31u	0.71u	0.96u	10.0x	7.4x	0.80u	1.31u	1.31u	5.4x	5.4x	14.23	0.6x
Kirkland Lake Gold Corp	KL	SP		13,708	260.82	52.56	75.00	↓	Parkin	2.74u	3.44u	4.48u	11.8x	9.0x	4.46u	4.97u	4.97u	8.2x	8.2x	36.35	1.4x
Newmont	NGT	OP		61,047	803.36	75.99	122.00	↑	Parkin	1.32u	2.34u	3.96u	25.0x	14.8x	4.31u	5.98u	5.98u	9.8x	9.8x	57.29	1.3x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		32,989	190.8	172.87	225.00	-	Nagle	1.82u	2.42u	2.92u	53.7x	59.2x	3.36u	3.90u	4.72u	33.3x	27.5x	75.81	2.3x
Maverix Metals Inc	MMX	SP		933	140.2	6.65	7.75	-	Nagle	0.08u	0.07u	0.03u	n/a	207.8x	0.27u	0.26u	0.25u	25.6x	26.5x	5.02	1.3x
Osisko Gold Royalties Ltd	OR	OP		2,347	166.3	14.11	23.00	-	Nagle	0.27u	0.31u	0.69u	n/a	20.4x	0.64u	0.73u	1.18u	19.4x	12.0x	17.00	0.8x
Royal Gold Inc	RGLD	SP		7,207	65.2	110.47u	170.00u	-	Nagle	2.60u	2.83u	3.45u	39.0x	32.0x	4.56u	6.09u	6.19u	13.6x	13.4x	73.20	1.5x
Sandstorm Gold Ltd	SSL	OP		1,808	191.1	9.46	15.50	-	Nagle	0.06u	0.12u	0.23u	59.3x	41.1x	0.34u	0.34u	0.44u	20.9x	16.2x	9.98	0.9x
Wheaton Precious Metals Corp	WPM	OP		22,522	449.3	50.13	90.00	-	Nagle	0.56u	1.15u	1.49u	32.8x	33.6x	1.14u	1.76u	2.05u	21.4x	18.4x	29.40	1.7x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		4,166	391.55	10.64	16.00	↓	Parkin	0.21u	0.41u	0.55u	20.0x	14.9x	0.75u	0.99u	0.99u	8.3x	8.3x	10.99	1.0x
B2Gold	BTO	OP		7,646	1,030.4	7.42	12.00		DeMarco	0.25u	0.50u	0.54u	14.8x	13.9x	0.51u	0.85u	0.88u	8.8x	8.4x	5.56	1.3x
Centerra Gold Inc	CG	OP		3,682	295.78	12.45	20.50	↑	Parkin	2.35u	2.06u	0.51u	4.7x	18.9x	1.36u	2.91u	3.45u	3.3x	2.8x	17.52	0.7x
Dundee Precious Metals	DPM	OP		1,601	181.3	8.83	14.50		DeMarco	0.26u	0.98u	1.04u	9.0x	8.5x	0.62u	1.37u	1.85u	6.4x	4.8x	11.38	0.8x
Eldorado Gold Corp	ELD	OP		2,676	174.78	15.31	22.00	↑	Parkin	(0.02)u	1.04u	1.00u	14.8x	15.3x	0.93u	2.45u	2.45u	4.8x	4.8x	23.84	0.6x
Endeavour Mining	EDV	OP		5,101	163.1	31.28	60.00		DeMarco	0.68u	2.40u	3.20u	13.0x	9.8x	2.68u	5.21u	6.39u	6.0x	4.9x	37.46	0.8x
Equinox Gold Corp	EQX	OP		3,098	241.9	12.81	20.25	↓	Sclodnick	(0.13)u	0.57u	1.26u	22.5x	10.2x	0.68u	1.16u	2.15u	11.1x	6.0x	18.00	0.7x
IAMGOLD Corp	IMG	OP		2,080	473.80	4.39	7.50	↓	Parkin	(0.03)u	0.29u	0.58u	11.8x	5.8x	0.75u	0.86u	0.86u	4.0x	4.0x	8.64	0.5x
Lundin Gold Inc.	LUG	OP		2,532	230.0	11.01	16.25	↑	Sclodnick	n/a	0.54u	1.14u	20.5x	9.7x	n/a	0.73u	1.46u	15.2x	7.6x	14.39	0.8x
New Gold Inc	NGD	OP		1,595	676.05	2.36	4.00	↑	Parkin	(0.08)u	(0.00)u	0.15u	n/a	15.5x	0.39u	0.37u	0.37u	4.9x	4.9x	4.01	0.6x
OceanaGold Corp	OGC	OP		1,144	703.99	1.63	4.00	↓	Parkin	0.06u	(0.08)u	0.20u	n/a	8.1x	0.33u	0.31u	0.31u	4.0x	4.0x	3.64	0.4x
SSR Mining Inc	SSRM	OP		5,175	219.36	23.59	44.00	↓	Parkin	0.74u	1.47u	2.55u	12.3x	7.1x	1.59u	2.20u	2.20u	8.3x	8.3x	31.74	0.7x
Teranga Gold Corp	TGZ	T		2,453	167.5	14.64	28.25	↑	DeMarco	0.01u	0.75u	1.64u	19.5x	8.9x	0.50u	1.68u	3.14u	8.7x	4.7x	14.79	1.0x
Yamana Gold Inc	YRI	SP		6,570	986.45	6.66	9.00		Parkin	0.10u	0.30u	0.30u	17.0x	17.3x	0.51u	0.73u	0.73u	7.0x	7.0x	5.51	1.2x
Silver Producers																					
First Majestic Silver Corp	FR	SP		3,069	214.9	14.28	18.00		DeMarco	0.03u	0.21u	0.39u	69.3x	36.6x	0.53u	0.54u	1.01u	26.6x	14.1x	6.95	2.1x
Fortuna Silver Mines Inc	FVI	SP		1,605	184.0	8.72	11.00		DeMarco	0.18u	0.15u	0.94u	57.7x	9.3x	0.45u	0.47u	1.57u	18.5x	5.6x	7.07	1.2x
Pan American Silver	PAAS	SP		8,400	210.1	39.98	57.00		DeMarco	0.60u	1.03u	2.15u	38.7x	18.6x	1.60u	1.95u	3.49u	20.5x	11.5x	24.92	1.6x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	OP		681	293.7	2.32	4.25		Sclodnick	0.26u	0.23u	0.41u	10.2x	5.6x	0.40u	0.35u	0.76u	6.6x	3.1x	4.66	0.5x
Golden Star Resources	GSC	OP		572	109.6	5.22	8.25		DeMarco	0.21u	0.31u	0.66u	16.7x	7.9x	0.40u	0.74u	0.95u	7.1x	5.5x	7.04	0.7x
TMAC Resources	TMR	T		163	130.3	1.25	1.75		DeMarco	0.04u	0.16u	(0.21)u	7.6x	-	0.76u	0.66u	(0.21)u	1.9x	-	1.71	0.7x
Wesdome Corp.	WDO	OP		1,565	138.4	11.31	17.50		DeMarco	0.32u	0.49u	0.80u	22.9x	14.1x	0.56u	0.79u	1.07u	14.4x	10.6x	11.55	1.0x
Developers																					
Artemis Gold Inc.	ARTG	OP		725	122.7	5.91	8.50		DeMarco	0.00u	(0.04)u	(0.02)u	-	-	0.00u	(0.08)u	(0.02)u	-	-	8.37	8.37
Barsele Minerals Corp.	BME	SP		80	128.5	0.62	0.60		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.78	0.8x
Bluestone Resources Inc.	BSR	OP		266	143.0	1.86	3.50		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.80	0.5x
Falco Resources Ltd.	FPC	SP		94	207.9	0.45	0.55		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.59	0.8x
Integra Resources Corp.	ITR	OP		240	54.6	4.40	7.25		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7.73	0.6x
Liberty Gold Corp	LGD	OP		421	243.6	1.73	2.90		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.54	0.5x
MAG Silver Corp	MAG	OP		1,967	91.2	21.57	29.50		DeMarco	(0.06)u	(0.18)u	0.59u	-	36.7x	(0.04)u	(0.04)u	0.80u	-	27.0x	19.50	1.1x
Marathon Gold Corp.	MOZ	OP		526	205.6	2.56	3.00		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.49	0.7x
Minera Alamos	MAI	OP		292	436.2	0.67	1.10	↑	Sclodnick	n/a	n/a	0.04u	n/a	18.2x	n/a	n/a	0.05u	n/a	13.1x	0.97	0.7x
O3 Mining Inc.	OIII	OP		175	60.2	2.90	4.75		DeMarco	(0.09)u	(0.20)u	(0.18)u	-	-	(0.09)u	(0.20)u	(0.18)u	-	-	6.52	6.52
Osisko Mining	OSK	OP		1,336	340.7	3.92	6.25		DeMarco	(0.16)u	(0.05)u	(0.04)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	5.00	5.00
Pure Gold Mining Inc.	PGM	SP		855	383.6	2.23	2.50		Sclodnick	n/a	n/a	0.06u	n/a	38.1x	n/a	n/a	0.14u	n/a	15.5x	2.39	0.9x
Sabina Gold and Silver Corp.	SBB	OP		786	324.8	2.42	3.25		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.56	0.7x
SilverCrest Metals	SIL	OP		1,524	128.5	11.86	17.00		DeMarco	(0.22)u	(0.23)u	(0.04)u	-	-	(0.19)u	(0.20)u	(0.03)u	-	-	10.96	1.1x

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

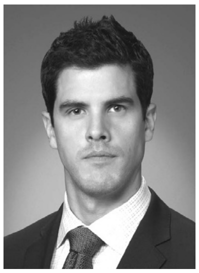
u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Sector Analysis

Intermediate Oil & Gas and Oilfield Services



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Outlook

Crude Oil:

Crude oil continues to rally on the back of promising vaccine developments, with the WTI spot price recently reaching ~US$45.71/bbl, its highest level since March (up ~10-15% since the beginning of November). There is now optimism that multiple vaccines will be approved and ready to deploy by early next year, which has created a somewhat bullish sentiment in the crude oil complex. Looking further out, the forward strip curve is flat-ish, as CAL21, CAL22, and CAL23 prices are trading in the US$45/bbl-US$46/bbl range. Comparatively, our commodity price forecast currently calls for US$42.25/bbl WTI in 2021, and US$50.00/bbl from 2022-2023. Tailwinds remain intact in the interim, particularly the risk of further government lockdowns to curb surging COVID-19 cases. Furthermore, OPEC+ is set to meet in early December to discuss extending output cuts for another few months amidst volatile demand. According to reports, the majority of OPEC+ producers are in favor of extending the cuts. Given the current fragile nature of the crude oil market, the results of the meeting will likely set the course for the trajectory of prices heading into the new year.

Natural Gas :

Gas prices have begun to fade in recent weeks (-10-15%), reflecting an inverse correlation to oil prices. For November, NYMEX and AECO prices averaged ~US$2.85/MMBtu and C$2.70/GJ, respectively. 2021 forward prices for AECO and NYMEX are trading at US$2.81/MMBtu and C$2.43/GJ, respectively (relative to our 2021 forecast of ~US$2.90/MMBtu and C$2.85/mcf, respectively). Natural gas is facing downward pressure from a multitude of factors, including a warmer winter weather outlook, indications from producers of producers ramping up production into the winter, and an increasing rig count. If the winter weather outlook doesn't improve, expect prices to continue trending lower. On the storage front, we have yet to see any meaningful drawdown, with total inventories sitting at ~ 3.94 Tcf.

E&P companies will be releasing their 2021 guidance in December/January, and we expect to see a similar strategy to 2020, with a continued focus on spending within cash flow, and directing excess returns towards debt reduction, dividends, and buybacks. Following a strong November, Canadian oil and gas equities will look to continue to gain momentum on the back of strengthening commodity prices and an improving supply/demand complex. While 2020 has been an unprecedented and extremely challenging environment for the sector, we continue to see compelling value in companies with attractive free cash flow profiles and balance sheet strength in a sustaining environment as we look towards 2021, which is reflected in our top picks.

Top picks:

- **Cenovus Energy Inc. (CVE: TSX/NYSE)** – Underpinned by its strong base business and integrated capacity, the company can weather this unprecedented commodity cycle and provide torque to the upside when higher 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 recently announced plans to acquire Husky in a $10.2 transaction with plans to 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 through these volatile times.
- **Tourmaline Oil Corp. (TOU: TSX)** – As one of Canada's largest gas producers, TOU remains one of our top picks for 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 continues to embark on ambitious growth plans. 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

Sector Analysis

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› **ARC Resources Ltd. (ARX: TSX)** – Supported by its dominant land position of more than 630,000 net acres, ARC provides an attractive investment opportunity where a combination of growth, balance sheet strength, free cash flow, and value should provide investors risk-adjusted exposure to quality Montney acreage spanning across both Alberta and B.C. While the company has delivered impressive Montney growth, the overall impact has been compounded by the concurrent non-Montney A&D strategy, helping concentrate total production to over 85% Montney (from 25% in 2009). This high-grading effect has reduced the cost structure (operating costs down over 40% through the same period), which we believe is critical to profitability. ARC's valuation is supported by its disciplined approach around capital allocation, prudent financial management, and an excellent operational track record.

Selections

- › *Cenovus*
- › *Tourmaline*
- › *ARC*

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 11/30	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2019A	EV/DACF est. 2020E	EV/DACF est. 2021E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2019A	CFPS - FD est. 2020E	CFPS - FD est. 2021E	P/CFPS est. 2020E	P/CFPS est. 2021E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1181.1	$29.63	$34,995	6%	5.0x	9.5x	6.6x	4.1x	2.5x	$8.60	$4.39	$6.36	6.7x	4.7x	$35.00	24%	
Cenovus Energy	CVE	OP		Wood	1228.8	$6.44	$7,913	0%	5.0x	28.3x	5.3x	48.4x	2.8x	$3.01	$0.12	$2.12	55.3x	3.2x	$10.00	55%	
Ovintiv Inc (US$)	OVV	OP		Wood	259.8	$12.76	$3,315	3%	6.4x	5.1x	4.7x	4.3x	3.8x	$11.22	$6.99	$7.55	1.8x	1.7x	$15.50	24%	
Imperial Oil	IMO	SP		Wood	736.3	$22.48	$16,552	4%	8.3x	37.6x	8.3x	8.9x	1.7x	$4.59	$0.68	$3.25	32.8x	6.9x	$22.00	2%	↑
Suncor Energy	SU	SP		Wood	1554.1	$20.77	$32,280	4%	6.8x	9.3x	7.4x	4.0x	2.7x	$6.93	$2.37	$3.75	8.9x	5.5x	$22.00	5%	↑
Husky Energy	HSE	Tender		Wood	1008.0	$5.27	$5,312	1%	2.8x	15.2x	4.6x	13.0x	2.4x	$3.23	$0.44	$2.26	11.9x	2.3x	$4.00	-23%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.4	$2.06	$398	0%	4.1x	5.0x	2.8x	2.2x	1.0x	$0.83	$0.60	$1.05	3.4x	2.0x	$3.50	70%	
ARC Resources Ltd.	ARX	OP		Wood	353.4	$6.44	$2,276	4%	4.3x	4.8x	4.1x	1.4x	0.9x	$1.97	$1.72	$1.92	3.7x	3.3x	$8.00	28%	↓
Baytex Energy	BTE	SP		Payne	566.5	$0.66	$374	0%	3.0x	5.6x	4.8x	6.3x	5.2x	$1.62	$0.53	$0.62	1.2x	1.1x	$0.75	14%	
Birchcliff Energy	BIR	OP		Payne	265.9	$2.05	$545	1%	4.1x	6.4x	3.5x	3.9x	1.9x	$1.26	$0.72	$1.25	2.8x	1.6x	$3.00	47%	
Crescent Point Energy Corp.	CPG	OP		Wood	529.7	$2.33	$1,234	0%	2.7x	3.7x	4.3x	2.6x	3.0x	$3.35	$1.60	$1.29	1.5x	1.8x	$2.50	8%	
Enerplus Corporation	ERF	OP		Wood	222.5	$3.30	$734	4%	1.7x	3.3x	3.6x	1.5x	1.7x	$3.04	$1.65	$1.49	2.0x	2.2x	$4.75	48%	↑
Freehold Royalties	FRU	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Headwater Exploration	HWX	OP		Payne	199.1	$2.12	$422	0%	-0.3x	64.1x	8.7x	-12.0x	-1.3x	$0.09	$0.05	$0.22	45.7x	9.8x	$3.00	42%	
Kelt Exploration	KEL	OP		Payne	188.5	$1.89	$356	0%	5.6x	4.6x	5.3x	-0.6x	-0.1x	$0.99	$0.31	$0.35	6.2x	5.4x	$2.25	19%	↓
MEG Energy	MEG	OP		Wood	302.6	$3.65	$1,105	0%	4.6x	8.1x	8.5x	11.7x	12.6x	$2.41	$0.83	$0.76	4.4x	4.8x	$3.00	-18%	↓
NuVista Energy	NVA	SP		Payne	225.7	$0.98	$221	0%	4.3x	4.3x	4.1x	4.0x	3.7x	$1.18	$0.67	$0.71	1.5x	1.4x	$1.00	2%	
Paramount Resources	POU	SP		Payne	133.8	$3.81	$510	0%	4.9x	7.2x	3.8x	6.0x	2.6x	$2.29	$1.06	$2.24	3.6x	1.7x	$3.75	-2%	↑
Parex Resources	PXT	OP		Wood	131.0	$17.80	$2,332	0%	2.8x	4.9x	3.8x	-1.2x	-1.0x	$5.02	$2.73	$3.52	6.5x	5.1x	$19.50	10%	↓
Peyto Exploration & Development	PEY	OP		Wood	164.9	$2.85	$470	1%	5.2x	5.5x	3.1x	4.8x	2.4x	$1.95	$1.44	$2.65	2.0x	1.1x	$5.00	77%	
PrairieSky Royalty	PSK	SP		Wood	223.3	$10.31	$2,303	2%	18.4x	16.6x	15.2x	0.3x	-0.3x	$0.94	$0.61	$0.67	16.4x	15.5x	$10.00	-1%	
Seven Generations	VII	OP		Wood	335.4	$5.40	$1,811	0%	3.4x	4.1x	3.7x	2.5x	2.3x	$3.98	$2.42	$2.71	2.2x	2.0x	$8.00	48%	↑
Spartan Delta	SDE	OP		Payne	67.8	$3.15	$214	0%	-92.2x	5.8x	3.4x	0.3x	-0.1x	-$0.89	$0.56	$0.90	0.0x	0.0x	$5.00	59%	
Storm Resources	SRX	SP		Payne	121.6	$2.28	$277	0%	5.3x	6.5x	3.9x	2.4x	1.3x	$0.49	$0.46	$0.79	0.0x	0.0x	$2.75	21%	↓
Tamarack Valley Energy	TVE	OP		Payne	220.9	$0.95	$210	0%	3.0x	3.2x	2.9x	1.7x	1.4x	$0.97	$0.53	$0.53	1.8x	1.8x	$1.50	58%	
Torc Oil & Gas	TOG	OP		Payne	228.5	$2.13	$487	0%	4.1x	6.3x	4.5x	2.9x	1.8x	$1.37	$0.53	$0.72	4.0x	2.9x	$2.75	29%	
Topaz	TPZ	OP		Payne	112.9	$13.88	$1,567	6%	-1.7x	14.6x	11.3x	-2.9x	-1.3x	$11.16	$0.99	$1.12	14.1x	12.4x	$18.00	35%	
Tourmaline Oil	TOU	OP		Payne	296.5	$18.08	$5,361	3%	4.9x	6.0x	3.3x	1.6x	0.7x	$4.43	$4.25	$6.56	4.3x	2.8x	$32.50	83%	↑
Vermilion Energy Inc.	VET	SP		Wood	158.3	$5.21	$825	0%	6.2x	5.4x	5.1x	4.5x	4.2x	$5.82	$3.01	$3.08	1.7x	1.7x	$4.75	-9%	↓
Whitecap Resources	WCP	OP		Wood	408.3	$3.92	$1,600	4%	4.2x	5.7x	5.3x	2.6x	2.0x	$1.64	$1.05	$1.05	3.7x	3.7x	$3.50	-6%	
Small Cap																					
Crew Energy	CR	SP		Payne	160.3	$0.46	$74	0%	4.1x	6.8x	5.1x	8.8x	5.8x	$0.53	$0.27	$0.41	1.7x	1.1x	$0.50	9%	
PetroShale	PSH	SP		Payne	187.3	$0.12	$22	0%	4.4x	6.3x	4.3x	7.4x	4.6x	$0.39	$0.24	$0.36	0.5x	0.3x	$0.15	30%	
Pipestone Energy	PIPE	SP		Payne	190.6	$0.67	$128	0%	32.4x	6.8x	2.9x	4.2x	1.6x	$0.01	$0.22	$0.65	3.1x	1.0x	$0.85	27%	
Surge Energy	SGY	SP		Payne	362.7	$0.30	$107	0%	4.0x	5.3x	5.1x	5.5x	4.5x	$0.55	$0.20	$0.23	1.5x	1.3x	$0.40	36%	
Yangarra Resources	YGR	SP		Payne	85.4	$0.61	$52	0%	2.3x	4.3x	3.9x	4.1x	3.7x	$1.08	$0.53	$0.58	1.2x	1.0x	$0.75	23%	

* 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 11-30	EBITDA (mm) 2019	EBITDA (mm) 2020e	EBITDA (mm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt / EBITDA 2019	Net Debt / EBITDA 2020e	Net Debt / EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
CES Energy Solutions Corp.	CES	SP		Payne	$ 294.84	260.9	$1.13	$ 167.1	$ 68.6	$ 89.4	4.9x	5.1x	6.8x	2.3x	4.1x	3.0x	$1.40	24%	
National Energy Services Reunited	NESR	OP		Payne	$ 785.52	89.9	$8.74	$ 185.9	$ 209.6	$ 245.3	5.8x	5.3x	4.2x	1.7x	1.6x	1.0x	$12.00	37%	
Precision Drilling Corp.	PD	SP		Payne	$ 344.63	13.7	$25.11	$ 411.4	$ 277.6	$ 202.7	4.9x	5.1x	6.8x	3.3x	4.2x	5.5x	$23.00	-8%	
Trican Well Services	TCW	SP		Payne	$ 341.74	258.9	$1.32	$ 30.6	$ 19.3	$ 26.9	11.6x	17.6x	11.9x	1.3x	-0.4x	-0.3x	$1.50	14%	↑

Pipelines, Utilities & Energy Infrastructure
Sector Analysis

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Overview

With much of November centered around the 2020 U.S. election, we highlight, as expected, Joe Biden was successful in securing the bid as the next United States President, while the "Blue Sweep" was far from unfolding as expected, with the Republicans retaining the Senate and stealing seats in the House. While we fully expect Biden to push his clean energy transition agenda, we note the Republican Senate will likely keep some of the President Elect's more progressive policies in check, potentially slowing the pace of transition - i.e., slowing the acceleration of the U.S. power grid to 100% renewables by 2035. We note that the S&P TSX was up ~10% in November on the back of positive vaccine trial news, while our sector benchmarks for Utilities and Midstream were up ~6.5% and ~14% in November.

Commodities Update:

Although rising COVID cases from a second wave have led to much of Europe and regions in North America to re-enter lockdown protocols, positive results on the vaccine front have led to a large rally in commodity prices on the hopes of a quicker recovery to pre-COVID economic conditions in 2021. As such, WTI has recovered significantly through November, averaging ~US$41/bbl, ~5% higher than the October average WTI price, but down ~30% from the 2019 average of US$57/bbl. On the gas front, AECO has continued to maintain its relative strength, frequently trading above ~$3/mcf in November, averaging $2.85/mcf for the month, up 11% from the October average of $2.56/mcf. We continue to expect a relatively strong environment in AECO prices through 2020 and into 2021 of ~$2.20/mcf and $2.85/mcf, in line with strip pricing. Looking at Marketing prospects, the WCS heavy differential average remained at ~US$10/bbl in November (Q3/20: ~US$10/bbl) versus the Q2/20 average of ~US$8/bbl, presenting continued difficulties for price volatility opportunities. With Q3 Marketing contributions aggregately coming in softer than expectations, we anticipate a continued difficult environment through year-end for the midstreamers (GEI, PPL, IPL and KEY) as volatility has remains subdued. On the natural gas liquids front, lower liquids pricing for 2020e drives our frac spread forecast down to ~US$12/bbl, ~40% below 2019 levels. For 2020, lower propane prices are being driven by elevated storage levels in PADD 3, combined with a demand headwind for the Mt. Belvieu benchmark. In addition to a more supportive outlook for AECO pricing, we forecast lower NGL frac contributions for IPL, PPL, ALA and TWM.

Pipelines Update:

With Biden's victory and the expectation that he will follow through on his commitment to revoke the KXL Presidential Permit, we have removed the 50% risked value (~$3/sh) included in our target for KXL, while the company's ~700 mbpd Marketlink pipeline (Cushing-to-Gulf Coast; ~5% of EBITDA) could also experience decreased volumes related to lower oil production activity. However, we anticipate KXL's loss to be ENB's gain, with shippers being more inclined to lock in long-term Mainline commitments. Meanwhile, banning new oil & gas leases on federal land is estimated to keep ~1.1 mmbpd of U.S. production offline (~10%), supporting WTI pricing and narrow Cdn differentials, in turn accommodating oil sands production growth and demand for new Midstream tankage. Including Line 3R and TMX, while excluding KXL, we continue to forecast sustainable ENB Mainline utilization of >90%.

Meanwhile, in November, ENB received a handful of positive news related to Line 3R (worth $6/sh), with the Minnesota Pollution Control Agency (PCA) issuing the 401 Water Quality permit, the Department of Natural Resources (DNR) issuing all outstanding state permits, the U.S. Army Corps of Engineers approving all federal permits and the Minnesota Public Utilities Commission issuing Authorization to Construct. With only one final state permit remaining (construction stormwater permit), ENB is one step closer to commencing its six- to nine-month construction period prior to the end of 2020, and potentially commissioning the US$3.4 bln project (incl. Southern Access Expansion) ahead of our currently modeled in-service date of Jan. 1, 2022. Elsewhere, on October 16th, the opposing Tribes filed arguments against DAPL with the U.S. Court of Appeals, with Energy Transfer Partners and the U.S. Army Corps of Engineers response due by Nov. 20th. We expect the U.S. Appeal Court decision by year-end with regard to whether the pipeline should be shut down during the approximate one-year process for the Army Corps to complete the Environmental Impact Statement.

Power & Utilities Update:

While the unsuccessful "blue sweep" may slow the initial expectations related to the pace of the energy transition, we continue to view the clean energy transition as an inevitable destination. As such, we view Fortis in pole position to benefit from decarbonization. Recall, with its recently unveiled ~$19.6 bln five-year capital plan (2021-2025), the company is targeting a firm-wide Scope 1 GHG emissions reduction target of 75% by 2035 compared to 2019 levels. The plan is largely supported by its 2020 Integrated Resource Plan (IRP) at TEP, which seeks to fully eliminate coal generation by 2032 and add an incremental ~2,400 MW of new wind and solar power systems and 1,400 MW of new energy storage systems, reflecting $4-$6 bln of opportunities, of which only ~1/5th is incorporated into the 2021-2025 capital plan. Looking at Emera, the company unveiled its new $7.4 bln three-year capital plan for 2021-2023, plus $1.2 bln of potential incremental opportunities (was $200-$500 mln), extending the company's ~8% rate base CAGR through 2023. Of note, ~70% of

Pipelines, Utilities & Energy Infrastructure

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the secured capital program is allocated to Tampa Electric and Nova Scotia Power, with ~60% of the total capital spend being allocated towards reliability improvements and delivery of cleaner energy. Within, the $1.2 bln of additional opportunities, includes the large-scale Atlantic Loop project, which envisions a clean energy loop for Atlantic Canada, supporting Nova Scotia's transition off coal earlier than the proposed 2040 timeline.

ESG Update:

We recently updated our ESG Scorecards for four of the companies in our coverage universe, which included Enbridge, TC Energy, Tervita and Emera. ENB's ESG score moved up five points to 77 (was 71/100), reaffirming ENB as our top ESG Scorecard among Pipeline & Midstream peers. Enbridge's uplift in score was predominantly related to ENB's step down in GHG emissions y/y alongside better disclosure, modestly offset by weakness in the employee safety and community/indigenous investment. We look forward to Enbridge releasing specific ESG targets in the coming months. Moving over to TRP, the company's ESG score bumped up 2 pts to 73 (was 71/100), reflecting a stronger Disclosure score, offset by higher GHG emissions and increased non-independent Board representation. Looking forward, we await the release of TRP's GHG emissions reduction targets and roadmap in 2021, with the hope of a sneak preview at its upcoming virtual 2020 Investor Day on November 17th. Meanwhile, Tervita released its inaugural 2019 Sustainability report in October, bringing its initial ESG score to 50 (peer average: 56/100) as a result of strong reclamation, remediation and recycling activities, solid community and indigenous investment, offset by high employee turnover rates and low independent and female representation on the board. We view the company's first report as a solid step towards providing more transparency and disclosure around the topic of ESG, with the company committing to establishing a baseline for key sustainability metrics and targets in the reports to come. Lastly, we update Emera's total ESG score in October, which moved up eight points to 74/100 (peer average: 73/100), reflecting a stronger disclosure standard, a ~23% decrease GHG emissions, a reduction in employee turnover rate, offset by lower independent representation on the board.

Top Picks:

Overall, our 2021 estimates call for flat AFFO/sh growth 2020e, with dividends up ~2% on average. We continue to 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 through early 2020. Overall, our top picks for 2020 include Enbridge (ENB), Keyera (KEY), Capital Power (CPX) and TC Energy (TRP).

Selections

- *Enbridge (ENB)*
- *Keyera (KEY)*
- *Capital Power (CPX)*
- *Energy (TRP)*

	Stock Sym.	Stock Rating	Units O/S (Mln)	Unit Price 11-30	Market Cap. (Mln)	Distributions per Share est. 2019	Distributions per Share est. 2020e	Distributions per Share est. 2021e	Cash Yield 2020e	Cash Yield 2021e	Distr. CF per Share - FD est. 2019	Distr. CF per Share - FD est. 2020e	Distr. CF per Share - FD est. 2021e	P/Distr. CF 2020e	P/Distr. CF 2021e	Net Debt/ 20e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																				
AltaGas	ALA	OP	279.4	$18.64	$5,209	$0.96	$0.96	$0.96	5.2%	5.2%	$1.92	$2.06	$2.34	9.0x	8.0x	5.8x	21.00	12.7%		17.8%
Enbridge Inc.	ENB	OP	2019.5	$40.56	$81,911	$2.95	$3.24	$3.40	8.0%	8.4%	$4.57	$4.71	$4.86	8.6x	8.3x	4.9x	55.00	35.6%	↓	44.0%
Gibson Energy	GEI	SP	149.0	$20.86	$3,108	$1.32	$1.36	$1.36	6.5%	6.5%	$2.04	$1.97	$2.04	10.6x	10.3x	3.2x	24.00	15.1%	↓	21.6%
Inter Pipeline	IPL	SP	429.2	$12.94	$5,554	$1.71	$0.48	$0.48	3.7%	3.7%	$1.95	$1.68	$1.44	7.7x	9.0x	6.9x	14.00	8.2%		11.9%
Keyera	KEY	OP	221.0	$22.41	$4,953	$1.85	$1.92	$1.92	8.6%	8.6%	$2.77	$3.32	$2.58	6.8x	8.7x	4.0x	27.00	20.5%	↓	29.0%
Pembina Pipelines	PPL	SP	548.0	$33.12	$18,150	$2.36	$2.52	$2.52	7.6%	7.6%	$4.22	$3.79	$3.70	8.7x	9.0x	4.9x	35.00	5.7%	↓	13.3%
Secure Energy	SES	OP	158.6	$2.17	$344	$0.27	$0.03	$0.03	1.4%	1.4%	$0.59	$0.41	$0.47	5.3x	4.6x	3.0x	2.50	15.2%		16.6%
Superior Plus	SPB	SP	176.0	$12.16	$2,140	$0.72	$0.72	$0.72	5.9%	5.9%	$1.58	$1.41	$1.30	8.6x	9.4x	3.5x	14.00	15.1%		21.1%
Tidewater Midstream	TWM	OP	338.5	$0.72	$244	$0.04	$0.04	$0.04	5.6%	5.6%	$0.17	$0.15	$0.25	4.8x	2.9x	3.8x	1.00	38.9%		44.4%
TC Energy Corp.	TRP	OP	940.0	$57.13	$53,702	$3.00	$3.24	$3.50	5.7%	6.1%	$5.42	$5.58	$5.50	10.2x	10.4x	5.1x	70.00	22.5%	↓	28.7%
Tervita	TEV	SP	113.4	$2.04	$231	$0.00	$0.00	$0.00	0.0%	0.0%	$0.55	$0.32	$0.29	6.3x	7.1x	4.4x	2.50	22.5%	↓	22.5%
Power Producers & Utilities																				
ATCO Ltd.	ACO	SP	114.7	$39.04	$4,476	$1.62	$1.74	$1.81	4.5%	4.6%	$3.34	$2.19	$2.08	17.8x	18.8x	4.4x	45.00	15.3%		19.9%
Canadian Utilities	CU	SP	273.1	$32.44	$8,859	$1.69	$1.74	$1.74	5.4%	5.4%	$4.23	$2.57	$2.97	12.6x	10.9x	5.1x	36.00	11.0%		16.3%
Capital Power	CPX	OP	105.5	$33.24	$3,506	$1.86	$1.99	$2.12	6.0%	6.4%	$5.31	$4.97	$5.06	6.7x	6.6x	3.9x	38.00	14.3%		20.7%
Emera Inc.	EMA	SP	248.7	$53.85	$13,392	$2.39	$2.47	$2.57	4.6%	4.8%	$2.89	$3.42	$4.23	15.7x	12.7x	6.2x	62.00	15.1%		19.9%
Fortis Inc.	FTS	SP	465.1	$52.29	$24,321	$1.83	$1.92	$2.05	3.7%	3.9%	$3.52	$3.85	$4.39	13.6x	11.9x	6.3x	61.00	16.7%		20.6%
Hydro One Ltd.	H	SP	596.9	$30.30	$18,087	$0.95	$1.01	$1.07	3.3%	3.5%	$1.86	$1.65	$1.72	18.4x	17.6x	5.5x	31.00	2.3%	↑	5.8%
TransAlta	TA	SP	274.2	$9.00	$2,468	$0.16	$0.17	$0.17	1.9%	1.9%	$1.37	$1.35	$1.67	6.6x	5.4x	3.8x	10.00	11.1%	↓	13.0%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate

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Retail REITs: Toronto lockdown comes as Xmas shopping season unfolds...

With the recent lockdown announcements made by the Ontario government, we examine the impact to our coverage universe.

In short, our views have not changed a lot, as we were anticipating a tough Xmas selling season anyway. This is despite the runup in some of these names during earnings season on the back of vaccine progress. Our Outperform rated Retail REITs remain unchanged: CRT ($17.00 target), CRR ($16.50 target), APR ($11.50 target) and REI ($20.00 target). We walk through some of the risks that we see increasing due to the timing of this announcement in a major market (the GTA accounts for ~15% of the retail trade nationally) and the rationale for our Outperform rated names. We also walk through the actions being taken and the mitigating factors (e.g., the new Canada Emergency Rent Subsidy aka CERS).

The timing of this action is unfortunate for retailers; it likely heightens post-Xmas vacancy risk for the weaker tenants in the market.

For most types of retailers, the Q4 shopping season can account for 25-40% of annual brick & mortar volumes. Since retail is a high-fixed cost business, the incremental Q4 sales volume often has an outsized impact on annual profitability. Q4 also tends to be a high gross margin quarter since discretionary gift-giving categories tend to come with higher initial markups/margins, especially before Xmas. Whether a struggling retailer has a weak or strong Xmas season can be the final factor that determines whether it remains in business/in a specific location or close; hence, the usual swathe of CCAA filings we typically see from retailers after the holiday season. As a result, missing some sales early in the season is likely to have a meaningful impact on tenant profitability, and potentially raises failure risk. Finally, we think this will impact retailers which may not have the breadth of omni-channel capabilities as their larger, better capitalized peers.

There may be some mitigating factors beyond rent support that could limit the damage.

With rising vacancy and multiple CCAA processes ongoing in Canadian retail, surviving retailers were likely more cautious on initial orders for the season (expecting lower volumes) and could have budgeted for margin pressure already, since there would be competitors liquidating inventory in season. Retailers have already had a taste of how to run their businesses during lockdown earlier on in the pandemic, so we expect there would be a learning curve from which retailers could benefit (e.g., most would now have a curbside pickup system in place, a focus on fulfilling online orders for the season). Finally, the rollout of CERS can also have an impact on tenant viability too (more details enclosed).

The retailer-controlled REITs with lower leverage, higher collection rates remain where our best ideas among the Retail REITs lie.

In our Q3 preview, we explained that are outperform rated ideas in retail were largely among the retailer-controlled REITs (e.g., CRT, CRR rated Outperform and CHP rated Sector Perform). Most of these REITs have shopping centres anchored by essential service tenants like grocers (e.g., Loblaw, Empire, among others) and/or general merchants with some essential services, local roots and an improving omni-channel offering (Canadian Tire). We would also point out again, as we did in our preview, that among the more diversified Retail REITs (i.e., REI, FCR and SRU), SRU could also potentially be classified this way too, with ~25% of its annual rent coming from Walmart Canada. We also pointed out that we also had some other Outperform rated names like REI in our quarterly Top 10 list, since these were large cap names that had been beaten up that were poised to bounce on any good news, which we saw during the middle of earnings season, as strong vaccine data emerged. That cycle is likely to play out some more during this holiday season, as we get more news about the prospects for vaccine approval/delivery.

Selections

- *Boardwalk REIT*
- *Allied REIT*
- *RioCan REIT*
- *H&R REIT*
- *CAP REIT*
- *ERES REIT*
- *Tricon*
- *InterRent REIT*
- *CT REIT*
- *Killam REIT*

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Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 11-30	Distributions per Unit (A) 2019	Distributions per Unit est. 2020	Distributions per Unit est. 2021	Cash Yield 2019A	Cash Yield 2020E	Cash Yield 2021E	Cash Yield Current Annualized	FD FFO (A) 2019	FD FFO est. 2020	FD FFO est. 2021	P/FFO 2019A	P/FFO 2020E	P/FFO 2021E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$5,415		$17.54	$1.44	$1.44	$1.44	8.2%	8.2%	8.2%	8.2%	$1.87	$1.62	$1.57	9.4x	10.8x	11.2x	$22.40	$20.00	22.2%	↔
Choice Properties REIT	CHP.un	SP	↔	$9,269		$13.25	$0.74	$0.74	$0.74	5.6%	5.6%	5.6%	5.6%	$0.99	$0.93	$1.01	13.4x	14.2x	13.2x	$12.20	$13.50	7.5%	↑
First Capital REIT	FCR	SP	↔	$3,411		$15.57	$0.86	$0.86	$0.86	5.5%	5.5%	5.5%	5.5%	$1.23	$0.99	$1.04	12.6x	15.8x	15.0x	$17.10	$15.00	1.9%	↔
SmartCentres REIT	SRU.un	SP	↔	$4,098		$24.09	$1.76	$1.81	$1.85	7.3%	7.5%	7.7%	7.7%	$2.27	$2.17	$2.06	10.6x	11.1x	11.7x	$28.60	$26.00	15.5%	↑
CT REIT	CRT.un	OP	↔	$3,292		$14.91	$0.73	$0.76	$0.79	4.9%	5.1%	5.3%	5.4%	$1.17	$1.18	$1.24	12.7x	12.6x	12.0x	$15.50	$17.00	19.1%	↔
Crombie REIT	CRR.un	OP	↔	$2,231		$14.71	$0.89	$0.89	$0.89	6.1%	6.1%	6.1%	6.1%	$1.16	$1.05	$1.13	12.7x	14.0x	13.0x	$14.40	$16.50	18.2%	↑
Automotive Properties REIT	APR.un	OP	↔	$431		$10.84	$0.80	$0.80	$0.80	7.4%	7.4%	7.4%	7.4%	$1.00	$0.90	$0.94	10.9x	12.0x	11.5x	$10.00	$11.50	14.4%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,195		$40.82	$1.60	$1.65	$1.68	3.9%	4.0%	4.1%	4.0%	$2.30	$2.29	$2.30	17.8x	17.8x	17.7x	$47.95	$48.00	21.6%	↔
DREAM Office REIT	D.un	OP	↔	$1,191		$21.10	$1.00	$1.00	$1.00	4.7%	4.7%	4.7%	4.7%	$1.68	$1.50	$1.56	12.5x	14.0x	13.5x	$24.70	$22.00	9.0%	↔
Slate Office REIT	SOT.un	SP	↔	$305		$4.18	$0.49	$0.40	$0.40	11.7%	9.6%	9.6%	9.6%	$0.76	$0.71	$0.69	5.5x	5.9x	6.1x	$4.35	$4.00	5.3%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,161		$12.18	$0.80	$0.80	$0.80	6.6%	6.6%	6.6%	6.6%	$0.73	$0.83	$0.89	16.6x	14.6x	13.7x	$11.00	$13.00	13.3%	↑
H&R REIT	HR.un	OP	↔	$4,273		$14.16	$1.38	$0.92	$0.69	9.7%	6.5%	4.9%	4.9%	$1.73	$1.66	$1.74	8.2x	8.5x	8.1x	$20.35	$15.50	16.0%	↑
Cominar REIT	CUF.un	RES		$1,629		$8.93	$0.72	RES	RES	8.1%	RES	RES	RES	$1.13	RES	RES	7.9x	RES	RES	$10.80	RES	RES	
Artis REIT	AX.un	SP	↔	$1,453		$10.72	$0.99	$0.54	$0.56	9.2%	5.0%	5.2%	5.0%	$1.41	$1.41	$1.34	7.6x	7.6x	8.0x	$11.55	$10.00	-1.7%	↑
BTB REIT	BTB.un	SP	↔	$229		$3.64	$0.42	$0.36	$0.30	11.5%	9.9%	8.2%	8.2%	$0.41	$0.38	$0.38	8.8x	9.6x	9.5x	$3.90	$3.50	6.0%	↑
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,428		$76.55	$3.10	$2.92	$3.00	4.0%	3.8%	3.9%	3.8%	$3.75	$4.05	$4.32	20.4x	18.9x	17.7x	$75.35	$88.50	19.4%	↑
DREAM Industrial REIT	DIR.un	OP	↔	$2,181		$12.74	$0.70	$0.70	$0.70	5.5%	5.5%	5.5%	5.5%	$0.78	$0.71	$0.80	16.3x	17.9x	15.9x	$12.30	$13.50	11.5%	↑
WPT Industrial REIT	WIR'U-T	OP	↔	$623u		$13.99u	$0.76u	$0.76u	$0.76u	5.4%	5.4%	5.4%	5.4%	$0.88u	$0.95u	$1.06u	15.9x	14.7x	13.2x	$14.70u	$15.50u	16.2%	↑
Summit Industrial	SMU.un	OP	↔	$2,217		$13.25	$0.60	$0.54	$0.55	4.6%	4.1%	4.2%	4.1%	$0.58	$0.66	$0.67	22.8x	20.1x	19.9x	$12.80	$15.25	19.2%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$285		$3.65	$0.65u	$0.65u	$0.65u	23.4%	23.4%	23.4%	23.4%	$0.73u	(0.08)u	$0.11u	3.8x	-35.7x	25.9x	$2.90	$3.00	5.6%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$8,782		$51.16	$1.37	$1.38	$1.40	2.7%	2.7%	2.7%	2.7%	$2.13	$2.26	$2.41	24.0x	22.6x	21.2x	$54.10	$60.00	20.0%	↑
Boardwalk REIT	BEI.un	OP	↔	$1,767		$34.63	$1.00	$1.00	$1.00	2.9%	2.9%	2.9%	2.9%	$2.61	$2.77	$2.78	13.3x	12.5x	12.5x	$42.55	$42.00	24.2%	↑
Killam Apartment REIT	KMP.un	OP	↔	$1,885		$17.62	$0.65	$0.68	$0.70	3.7%	3.8%	3.9%	3.9%	$0.98	$1.02	$1.06	18.0x	17.3x	16.6x	$20.70	$21.00	23.0%	↔
InterRent REIT	IIP.un	OP	↔	$1,994		$14.02	$0.29	$0.31	$0.33	2.1%	2.2%	2.3%	2.3%	$0.49	$0.48	$0.52	28.8x	29.4x	26.8x	$14.35	$15.00	9.2%	↔
Minto Apartment REIT	MI.un	SP	↔	$692		$19.09	$0.41	$0.41	$0.41	2.1%	2.1%	2.1%	2.4%	$0.78	$0.86	$0.93	24.6x	22.2x	20.6x	$19.00	$21.00	12.4%	↓
BSR REIT	HOM.un	OP	↔	$408		$10.27u	$0.50u	$0.50u	$0.50u	4.9%	4.9%	4.9%	4.9%	$0.73u	$0.61u	$0.65u	14.0x	16.7x	15.8x	$11.95u	$12.50u	26.6%	↑
ERES REIT	ERE.un	OP	↔	$976		$4.23	$0.17	$0.17	$0.17	4.0%	4.0%	4.0%	4.0%	$0.19	$0.20	$0.22	22.8x	21.0x	19.4x	$5.13	$5.20	26.9%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$292		$8.69	$0.83	$0.83	$0.83	9.5%	9.5%	9.5%	9.5%	$0.85	$0.66	$0.66	10.2x	13.2x	13.2x	$11.05	$9.50	18.8%	↑
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,137		$9.79	0.59	0.60	0.60	6.0%	6.1%	6.1%	6.1%	0.92	0.73	0.77	10.6x	13.4x	12.7x	$11.20	$13.50	44.0%	↑
Sienna Senior Living	SIA	OP	↔	$904		$13.48	0.90	0.92	0.94	6.7%	6.9%	6.9%	6.9%	1.38	1.01	1.05	9.7x	13.3x	12.9x	$15.40	$15.00	18.1%	↑
Extendicare	EXE	SP	↔	$597		$6.67	0.48	0.48	0.48	7.2%	7.2%	7.2%	7.2%	0.52	0.80	0.33	12.9x	8.3x	20.4x	$7.30	$7.00	12.1%	↑
Invesque	IVQu	SP	↔	$105		$1.88u	$0.74u	$0.74u	$0.74u	39.2%	39.2%	39.2%	0.0%	$0.75u	$0.70u	$0.58u	2.5x	2.7x	3.3x	$2.50u	$2.25u	58.9%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,430		$3.91	$0.01	$0.01	$0.01	0.3%	0.3%	0.3%	0.3%	$0.09	$0.12	$0.12	44.1x	33.4x	31.4x	$3.45	$4.50	15.4%	↑
MHC																							
Flagship Communities REIT	MHCu.T(	OP	↔	$191		$15.10	n/a	n/a	$0.51	n/a	n/a	3.4%	3.4%	n/a	n/a	$0.87	n/a	n/a	17.4x	$16.90	$18.00	22.6%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$2,497		$10.95	$0.28	$0.28	$0.28	2.6%	2.6%	2.6%	2.6%	$0.42u	$0.42u	$0.44u	19.9x	19.9x	19.0x	$13.89	$14.00	30.4%	↔

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.

Back to Research Analysts page

Special Situations

Sector Analysis

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A Black Friday/Cyber Monday Containerboard Winner (CAS:TSX)

As Cascades stands to benefit from a surge in box demand due to Black Friday sales moving online in the context of the pandemic, we look farther ahead to contemplate potential headwinds. Ultimately, we believe the balance weighs heavier on the side of reward than risk at current valuations and recommend Cascades with an Outperform rating and $22 target.

Containerboard capacity addition risks overblown:

Roughly 3.9 million tons of annual containerboard capacity has started up or is coming online over the 2020-2023 period, a ~9.7% lift from North American nameplate capacity in 2019, for a ~2.4% CAGR. Considering additions alone, the significant increase in industry capacity would likely swamp growth in demand (1.5% box shipment growth 2015-2019), resulting in pressure on containerboard prices, and this perception is likely contributing to Cascades lagging in the risk-on trade (CAS up 3.0% in November vs. S&P/TSX Composite up 10.3%). The situation is not as dire when considering increases net of closures, however, as ~0.9 million annual tons in offsetting closures have been announced thus far, and more are likely already planned for the years to come (shuttering bottom quartile assets), as closures are generally announced with only a few months warning. The net increase over 2020-2023 is therefore closer to 3 million tons or less, which amounts to a ~1.8% CAGR. When comparing this to the recent uptick in box shipments, the industry appears much more balanced, as demand revved up into September and October, up 6.2% and 6.6% y/y, respectively, bringing the YTD increase to 2.2% y/y on a blended basis. While the surge in shipments will likely subside somewhat as lockdown measures are relaxed, we believe the step change in e-commerce penetration will prove sticky and have a lasting impact on demand for boxes, and today's strong demand may yield another price hike in early 2022.

Tissue pivot as COVID-19 remains a drag on Away-from-Home demand:

Cascades continues to execute on its Tissue optimization program by consolidating and converting lines, moving production to its largest, most efficient assets. The optimization now includes shifting its exposure (40/40/20 retail/AfH/rolls) toward retail end markets as the COVID-19 pandemic has led to soft demand for AfH products at hotels, restaurants and schools. Capital spending required to convert AfH to retail remains modest for paper towel and single roll toilet paper, no more than ~$1.5 million per line to add wrapping capacity. We believe the asset repurposing and consolidation will result in a positive mix shift, but expect demand on the AfH front to remain subdued until travel and office work recover.

Outperform rating, $22 target:

Our Outperform rating stems from a favorable pricing and demand environment, and we continue to believe the capacity addition fears for the Containerboard segment are already reflected in CAS' valuation, trading at only 4.6x 2021e EV/EBITDA. Our $22 target is based on a sum-of-parts valuation.

Selections

- *CAS*
- *DXT*
- *HDI*

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	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	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Royalty Corp	AD	R		520.2	35.6	14.62	12/2019	R	R	R	R	R	R	R	R	R	R	R	R	R	
Boyd Group Services Inc.	BYD	SP		4,548.7	21.5	211.84	12/2019	4.99	2.47	4.91	85.9	43.2	319.9	293.0	376.8	18.1	14.4	0.3%	1.8	230.00	
CanWel Building Materials	CWX	OP		550.9	77.9	7.07	12/2019	0.22	0.61	0.49	11.6	14.4	86.2	124.5	112.3	6.5	7.1	6.9%	2.1	8.00	↑
Cascades	CAS	OP		1,511.4	103.5	14.60	12/2019	1.02	1.71	1.89	8.6	7.7	604.0	650.6	734.4	4.9	4.5	2.4%	2.7	22.00	↓
Dexterra Group Inc.	DXT	OP		386.0	64.9	5.95	12/2019	0.07	0.33	0.33	18.1	17.8	16.5	35.1	65.4	13.8	7.0	5.0%	0.4	7.50	↑
GDI Integrated Facility Services	GDI	OP		1,035.2	22.4	46.25	12/2019	0.31	1.86	1.54	24.9	30.1	77.5	101.8	103.7	9.6	9.0	0.0%	1.8	46.50	↑
Hardwoods Distribution	HDI	OP		523.0	21.4	24.43	12/2019	1.48	1.93	2.04	12.7	12.0	78.9	93.7	97.8	8.0	7.5	1.5%	1.8	35.00	↑
Intertape Polymer Group Inc.	ITP	OP	↑	1,401.6	59.7	23.46	12/2019	0.99	1.41	1.41	12.6	12.6	172.1	201.0	210.6	7.7	7.2	4.1%	2.4	22.50	↑
KP Tissue	KPT	OP		114.7	9.7	11.80	12/2019	0.04	1.21	0.50	9.7	23.5	145.0	204.2	189.9	6.1	7.0	6.2%	3.6	15.00	↓
New Look Vision Group	BCI	OP		501.1	15.7	32.00	12/2019	1.67	1.09	1.48	29.4	21.6	56.4	78.8	94.0	10.0	8.1	0.0%	3.0	45.00	↑
Park Lawn Corporation	PLC	OP		836.7	29.8	28.08	12/2019	0.80	1.05	1.12	26.9	25.0	53.3	74.7	84.8	14.6	12.6	2.2%	2.3	35.50	↑
Richelieu Hardware	RCH	UP		2,129.3	56.3	37.82	11/2019	1.17	1.40	1.52	27.0	24.9	116.9	145.1	153.0	13.9	12.8	0.7%	0.0	33.00	
Savaria Corporation	SIS	OP		709.4	51.1	13.89	12/2019	0.53	0.53	0.67	26.1	20.8	55.6	58.6	65.2	13.2	11.7	3.3%	0.6	17.00	
Uni-Sélect	UNS	SP		353.5	42.4	8.34	12/2019	0.73	(0.30)	0.38	-21.2	16.6	129.9	81.7	117.4	9.3	6.2	0.0%	3.4	8.00	↑

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

Note: Intertape and Uni-Select 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 14.7% interest).

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

Sector Analysis

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Company Highlights

Our renewables infrastructure coverage has rebounded well with the sector now trading at levels close to our assessment of fair value driven by lower bond yields, yield spread compression and a better appreciation of the contracted IPP business model. However, in our view longer term, valuations could go higher if we see a scarcity premium for green stocks as the market rotates into cleantech on increasing policy momentum. Our top picks based on our assessment of risk and return profiles are AQN, BLX and INE.

Algonquin Power & Utilities Corp.

(AQN: NYSE, AQN:TSX; Outperform; US$16.50 target):

AQN has assets in Canada and the United States. It operates under two segments: 1) Liberty Power, with renewable energy (wind and hydro) and thermal energy (natural gas cogeneration and peaking power) generation assets, and 2) Liberty Utilities, with regulated water, gas and electrical utility distribution assets. With the recent completion of the $162.1 mln ESSAL and $365 mln BELCO acquisitions, AQN now provides utility services to more than one million customer connections across Canada, the United States, Chile and Bermuda. On the construction front, there have been minor delays but AQN's 43 MW Great Bay II Solar Project achieved COD in August and the 202 MW Sugar Creek Wind Project achieved COD in November. In the next year, an additional 850 MW should come online through organic growth in the regulated and unregulated businesses. Our target is based on a long-term DCF with a cost of equity of 4.75% on operating assets and includes $1/sh for potential growth beyond the company's five-year growth plan.

Boralex Inc.

(BLX: TSX; Outperform; $43.00 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the USA, France and Canada. It has ~2,212 MW of generating capacity, mostly under long-term contracts with an average contract life of ~14 years and is currently constructing an additional 97 MW of projects. BLX targets $140 million to $150 million in AFFO by 2023E while maintaining a payout ratio of 40-60%. BLX has good visibility on growing its capacity to 2,800 MW by 2023E and optimizing its cost structure. Recently, BLX is acquiring controlling interests in seven solar plants in the U.S. for a purchase price of $283 mln (US$216.5 mln, weighted average PPA duration of 21.5 yrs) and entered into an agreement to acquire the remaining 49% stake from the CDPQ in three wind farms located in Québec for a cash consideration of $121.5 mln. We believe these acquisitions, should bring BLX's total net operating capacity to 2,330 MW and while we do not believe that the acquisition is highly accretive, we do believe they should be able to serve as a platform for future organic growth and provide BLX room to realize operating synergies. With an established foothold in France and now with a beach head in the US, we believe that BLX could see about 200 MW/yr of awards for the next couple of years. The French market presents an attractive opportunity with the potential to see over 1.5 GW of wind RFPs up to 2024E. BLX's operations remain unimpacted during COVID-19 and development activities are continuing. Our target is based on a long-term DCF with a cost of equity of 5.0% on operating cash flows and $7/sh of growth.

Innergex Renewable Energy Inc.

(INE: TSX; Outperform; $27.00 target):

INE is one of Canada's largest renewables focused IPP's with an operating capacity of 2,742 MW (net). INE's production capacity is diversified across different renewable platforms (~29% hydro, ~57% wind and ~14% solar) and across geographies (~53% Canada, ~33% U.S., ~8% France and ~6% Chile). We believe INE's near term construction activities could bear fruit soon with the 200 MW Hillcrest solar project on track for commissioning during late Q4'20E, the 8 MW Innavik run-of-river hydro project in northern Quebec and 7 MW Yonne II wind project expected to reach COD in 2021E and the Griffin Trail wind project in Texas expected to be commissioned by Q3 2021. On the development front, both the Barbers Point and Kahana solar and battery storage projects, in Hawaii, have signed PPAs while the selection process for the EP&C agreement is underway for both Paeahu and Hale Kuawehi solar and battery storage projects. In France, a battery provider has been selected for the Tonnerre stand-alone battery storage project and negotiations are underway. While on the M&A front, recall that INE recently completed the Mountain Air acquisition of a portfolio of six operating wind farms in Elmore County for a purchase price of ~$77 mln. While INE's payout ratio remains high (we estimate 97% adjusted to remove development costs for 2020E), we believe it should come down with improved weather and growth initiatives. INE is looking to balance organic growth (typically low initial cash yields) with acquisition of assets with higher near-term cash yields. Our target is based on a long-term DCF with a cost of equity of 5% on operating assets and includes $3/sh for growth.

Sustainability & Clean Tech

Sector Analysis

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Selections

- › *Algonquin Power & Utilities Corp.*
- › *Boralex Inc.*
- › *Innergex Renewable Energy Inc.*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS 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		203.5	82	2.48	12/2019	0.05u	0.08u	0.17u	38.1	18.5	2.33u	2.07u	2.25u	1.6	1.4	1.35u	0.24	2.90	
Algonquin Power	AQN	OP		9417.5u	601	15.68u	12/2019	0.63u	0.63u	0.65u	32.4	31.5	3.25u	2.99u	3.21u	6.8	6.4	8.67u	0.43	16.50u	↑
Atlantic Power	AT	OP		242.1u	118	2.06u	12/2019	(0.35)u	0.43u	0.43u	6.3	6.2	2.58u	2.44u	2.63u	1.1	1.0	1.02u	0.71	2.60u	
Ballard Power Systems	BLDP	OP		5001.8u	244	20.53u	12/2019	(0.16)u	(0.19)u	(0.14)u	nmf	nmf	0.46u	0.42u	0.45u	63.4	59.9	1.38u	0.00	25.00u	↑
Boralex	BLX	OP		4237.1	103	41.04	12/2019	(0.45)	(0.43)	0.67	nmf	nmf	5.95	6.19	6.29	8.6	8.5	9.39	0.68	43.00	↑
Brookfield Business	BBU	OP		5353.4u	150	35.78u	12/2019	1.12u	1.14u	2.15u	40.8	21.6	88.26u	85.79u	75.15u	0.5	0.6	20.63u	0.71	38.00u	
Brookfield Infrastructure	BIP	OP		23156.7u	465	49.81u	12/2019	0.16u	(0.14)u	(0.01)u	nmf	nmf	8.58u	8.52u	9.32u	7.6	6.9	44.40u	0.69	55.00u	↑
Brookfield Renewable Energy	BEP	SP		27358.5u	430	63.58u	12/2019	1.93u	1.86u	1.91u	44.3	43.3	5.47u	5.29u	6.07u	15.6	13.6	24.27u	0.35	55.00u	↑
DIRTT Environmental Solutions	DRT	OP		141.4u	85	1.67u	12/2019	(0.05)u	(0.08)u	0.01u	nmf	nmf	2.87u	2.03u	2.22u	1.1	1.0	1.38u	0.00	2.50u	↓
GFL Environmental Inc.	GFL	OP		12757.0	360	35.40	12/2019	(2.46)	(1.69)	(0.70)	nmf	nmf	18.24	11.40	13.57	4.0	3.4	1.38	0.00	34.00	
Innergex	INE	OP		4484.5	174	25.70	12/2019	(0.25)	(0.15)	0.54	nmf	61.6	4.10	3.52	3.95	9.5	8.5	6.40	0.80	27.00	
Lithium Americas	LAC	OP		1020.6u	91	11.26u	12/2019	(0.11)u	(0.31)u	0.60u	nmf	24.6	0.05u	0.05u	0.05u	nmf	nmf	1.59	0.48	12.50u	
NanoXplore	GRA	OP		129.7	140	3.50	06/2019	(0.03)	0.01	0.10	nmf	44.7	0.56	0.63	0.87	7.2	5.2	0.38	0.39	2.75	
Northland Power	NPI	SP		8971.7	202	44.51	12/2019	1.71	2.09	1.87	27.7	31.0	8.84	10.42	10.75	5.6	5.4	9.74	0.80	45.00	↓
Pinnacle Renewable	PL	OP		278.6	33	8.32	12/2019	(0.33)	0.06	0.38	nmf	28.8	11.37	14.96	17.28	0.7	0.6	4.59	0.71	12.50	↑
Sigma Lithium	SGMA	OP		177.6	69	2.59	12/2019	(0.02)	(0.23)	(0.07)	nmf	nmf	0.00	0.00	0.00	na	na	0.14	0.37	4.00	
TransAlta Renewables	RNW	SP	↓	4772.0	266	17.94	12/2019	0.68	0.36	0.57	63.9	40.8	1.69	1.63	1.70	14.3	13.7	8.30	0.23	18.00	
Xebec Adsorption	XBC	OP		731.0	106	6.87	12/2019	0.03	(0.04)	0.05	nmf	nmf	0.72	0.68	1.16	13.2	7.7	0.81	0.14	6.50	

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

Technology
Sector Analysis

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Hurtling Towards an Historic Year End

As we hurtle towards the end of an historic year, the one positive we can take away has been the performance of our sector. Year to date, the S&P Technology Index is up 33% versus a 14% increase for the S&P 500. And with respect to our Canadian benchmark, the TSX Technology Index is up 68% versus a 4.5% increase in the TSX! No doubt, a big part of that increase has been due to Shopify but there are many other names that have had equally impressive returns (Docebo, Lightspeed, Kinaxis, and Real Matters). The obvious question on your minds now is likely, what's next as we look ahead to 2021? No doubt, a lot of it depends on how the current pandemic plays out but one thing we can say with some assurance is that the structural changes accelerated by COVID won't disappear. As we've noted in past Vision's, we believe many of those structural changes are here to stay and while the potential exists for the world to move back to some normalcy in 2021, we continue to think the growth trajectory across select names will continue. At the same time, we continue to believe the shift to those names during this pandemic has had many other legacy names being overlooked and its our view that those names like OpenText and CGI continue to look fundamentally undervalued. From a stock selection standpoint, we'd continue to opportunistically add position in our leading growth names like Docebo, Lightspeed, Kinaxis, Nuvei, Shopify, and Real Matters while balancing it out with legacy incumbents like CGI and Open Text. The following is a brief summary on some of those select names.

Lightspeed

Lightspeed continues to capture share using a strategy of organic and acquisition measures. That's elevating their ability to fortify a growing leadership position within its targeted segments. Equally impressive has been the Company's resilience and ability to pivot existing and prospective customers to relevant products under the current health backdrop. Looking ahead, while there remains uncertainty short-term with rotating global lockdowns, having shown its resilience at the height of the pandemic early this year – we're confident in valuing this name beyond the short-term.

Kinaxis

Kinaxis remains one of our favourite names. We see the name holding both defensive and growth attributes. We think the current pandemic will be a boon for Kinaxis longer-term. While it may (or may not) be obvious; supply chain management has been a critical technology / process under the current backdrop. What's interesting is that we've been hearing many companies struggle with legacy systems (often Excel) while new challengers have not been able to scale their software. And with new products like Demand Sense, RapidValue and the recent acquisition of Rubikloud adding AI/ML, we think that will further stretch Kinaxis' edge, not to mention adding a product cycle which is typically positive for enterprise software companies.

Real Matters

Real Matters is a network management services provider for the mortgage lending and insurance industries, with a focus on residential real estate. Real Matters' platform facilitates the management of real-estate processes, including appraisals, insurance inspections, title search and mortgage closings. We see a series of incremental growth drivers that will drive the next leg of re-rating for the stock will come from "new" business segments like Title and Close (T&C) and eventually Data – and in those cases, we believe investors have yet to embrace those growth drivers from a re-rating perspective, all when Appraisals is settling into a more moderate pace of growth following an extraordinary acceleration early this year given historically low rates.

Shopify

Shopify remains the leading technology platform for e-Commerce in our opinion. The Company just reported a blockbuster Q3 and early data following Black Friday and Cyber Monday suggests the Company is on course for a record Q4. For investors, we see many avenues of growth - namely: 1) International, 2) increased take rate with new services; 3) fulfillment; and, 4) larger enterprise not to mention what we believe to be an overall accelerating industry shift to e-Commerce. It's those drivers that offer the potential for a material lift in revenue going forward and given the execution thus far, we believe it's reasonable to price in those potential drivers given the history of execution.

Selections

- *Docebo (DCBO)*
- *Kinaxis (KXS)*
- *Lightspeed (LSPD)*
- *Nuvei (NVEI)*
- *Real Matters (REAL)*
- *Shopify (SHOP)*

Technology

Sector Analysis

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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	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
Absolute Software Corp.	ABST	SP		685	52.1	13.14	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	14.2	13.8	(0.8u)	0%	18.00	
Altus Group Limited	AIF	SP		2,001	40.6	49.32	2019	1.46	1.82	1.91	27.1	25.8	88.1	98.7	101.9	20.9	20.3	9.5u	28%	52.00	
CGI Inc.	GIB.A	OP		25,119	261.8	95.95	2020	4.68	5.40	5.80	17.8	16.5	2426.3	2732.7	2883.4	9.9	9.4	27.7	33%	115.00	
Constellation Software Inc.	CSU	SP		34,072	21.2	1,607.79	2019	27.84u	36.08u	44.00u	34.5	28.3	933.0u	1,194.7u	1,303.4u	22.1	20.3	42.6u	43%	1600.00	
Docebo Inc.	DCBO	OP		1,965	28.7	68.34	2019	(0.35u)	(0.06u)	(0.04u)	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.6u	0%	65.00	↑
EXFO Inc.	EXFO	SP		163u	54.6	2.98u	2020	0.01u	0.21u	0.38u	14.3	7.8	18.2u	26.3u	30.9u	6.3	5.4	3.2u	18%	3.50u	
Kinaxis Inc.	KXS	OP		5,248	27.8	189.02	2019	1.36u	1.16u	1.90u	NMF	NMF	57.7u	56.8u	81.0u	67.8	47.5	9.9u	0%	250.00	
Lightspeed POS	LSPD	OP		6,968u	119.9	58.12u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	60.00u	↑
Maxar Technologies Ltd.	MAXR	SP		1,763u	63.4	27.80u	2019	(3.02u)	3.59u	(1.71u)	7.7	NMF	416.0u	437.0u	451.7u	9.4	9.1	15.7u	71%	28.00u	↓
mdf commerce inc.	MDF	SP		199	22.7	8.75	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	25.6	23.4	4.7u	11%	10.50	
Nuvei Corporation	NVEI	OP		7,822	131.5	59.50	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	38.4	35.2	8.8u	9%	70.00	
Open Text Corporation	OTEX	OP		12,218u	272.8	44.78u	2020	2.89u	3.29u	3.41u	13.6	13.1	1,148.2u	1,231.8u	1,335.6u	11.8	10.9	14.9u	51%	55.00u	
Pivotree Inc.	PVT	OP		293	26.6	10.77	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	NMF	NMF	0.5	58%	14.00	
Real Matters Inc.	REAL	OP		1,651	88.5	18.66	2020	0.56u	0.81u	1.05u	17.8	13.7	72.2u	90.5u	116.9u	12.7	9.8	2.4u	0%	40.00	
Shopify Inc.	SHOP	OP		134,831u	124.9	1,079.44u	2019	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,250.00u	
Sierra Wireless Inc.	SWIR	SP		554u	36.4	15.22u	2019	(0.01u)	(1.16u)	0.53u	NMF	28.9	21.0u	(25.8u)	26.8u	NMF	19.2	9.4u	7%	13.00u	

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

u = US dollar

Source: Company Reports, NBF, Refinitiv

Telecom & Media

Sector Analysis

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Recovering Media Stocks With More Upside in 2021

Corus – TV Ad Pressure Easing With Easy H2/21 Comps Ahead:

Corus reports its Q1/21 on Jan. 12. We forecast revs -9.9% to $421.6M, Adj. EBITDA -8.3% to $168.8M, and Adj. EPS of $0.32 vs. $0.38. Consensus sits at $415M, $145M, and $0.28, respectively, with all figures looking too low. We think modest upside exists to our profit assumptions on lower TV programming costs due to timing. We have Radio revs -25.0% (6.7% of total, -42.8% Q4/19, -52.2% Q3/19) and TV revs -8.6% (-13.0% Q4/19, -21.4% Q3/19) as drops of -13.0% in advertising (-24.6% Q4/19, -31.5% Q3/19) and -0.4% in subscriber revs get partly mitigated by Other revs growth of +4.5%. We see Radio EBITDA -42.2% (-82.7% Q4/19, -118.2% Q3/19) and TV EBITDA -5.8% (-9.0% Q4/19, -30.5% Q3/19). We assume CEWS contributing $3M ($17.5M Q4/19, $13.5M Q3/19). Besides continuing to impact ad sales, COVID affected the timing of TV production during the summer, so the new fall TV season has seen a staggered fall launch, with this hitting Q1 TV revs but also lowering programming spend. Our target's based on our f2022E NAV, with implied EV/EBITDA of 5.6x f2020A, 4.9x f2021E & 4.8x f2022E which sit well below larger peers trading on average at 7.8x 2020E/2021E.

Transcontinental – Flyer Volume Pressure Easing With Valuation Conservative:

TCL reports its Q4/20 on Dec. 10. We're relatively aligned with consensus going into the reporting. The stock just had a good run in November on the economic recovery theme, but we'd highlight some valuation considerations. First, Transcontinental trades about 25% below its blended peer group on EV/EBITDA and whenever it's at a material discount this has signalled a buying opportunity. Second, packaging peers trade at 8.0x (ex those in double-digits), while we use 7.5x with the extra 50 bps worth $1.25/share. Third, with all the talk over the past two years about what Montreal was going to do about the Publisac and added pressure on flyer volumes in 2019 and 2020 (exiting year at -15% vs. -45% in spring), we applied a 50% discount to the flyer business in our NAV which has an impact of over $4/share. Also, during marketing in October, management suggested that its real estate is worth at least $175M-$200M. It's not moving that quickly to monetize this, but that represents a net add of $1.50-$2/share. Our target's based on our f2022E NAV, with implied EV/EBITDA of 5.8x f2020E/f2021E & 5.5x f2022E.

Selections

- *Corus*
- *Rogers*
- *Transcontinental*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 11/30	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	SP		659	63.3	10.40	12/2019	0.58	(7.62)	(1.25)	-1.4	-8.3	230.5	-158.5	134.2	NM	9.6	4.05	0.72	8.00	
Corus Entertainment Inc.	CJR.b	OP		894	208.4	4.29	08/2020	0.75	0.86	0.80	5.0	5.3	505.8	532.2	503.9	4.6	4.5	4.30	0.64	5.00	↑
WildBrain Ltd.	WILD	SP		294	170.8	1.72	06/2020	(0.64)	(0.00)	0.05	NM	NM	81.8	82.3	90.4	9.1	7.8	0.46	0.84	1.80	↑
Spin Master	TOY	OP		3,065	102.0	30.05	12/2019	0.90	0.65	1.26	35.8	18.3	219.0	176.2	252.9	13.1	8.8	6.98	-0.34	36.50	↑
Stingray Digital	RAY.a	OP		478	73.5	6.50	03/2020	0.70	0.74	0.89	8.8	7.3	112.1	118.1	116.1	7.4	7.2	3.83	0.60	7.50	
TVA Group Inc.	TVA.b	SP		78	43.2	1.81	12/2019	0.49	0.54	0.53	3.3	3.4	72.4	68.2	64.9	1.6	1.4	6.46	0.14	2.00	
Printing & Publishing																					
Thomson Reuters	TRI	SP		51,171	497.1	102.94	12/2019	1.29	1.81	2.04	43.9	38.9	1493.0	1955.3	2067.0	21.6	20.2	19.23	0.24	111.00	↑
Transcontinental Inc.	TCL.a	OP		1,678	87.0	19.28	10/2019	2.52	2.41	2.15	8.0	9.0	475.8	473.8	435.2	5.3	5.4	19.67	0.37	20.00	↑
Advertising & Marketing																					
Yellow Pages	Y	SP	↓	352	28.0	12.60	12/2019	3.44	2.23	2.25	5.7	5.6	161.3	130.0	118.0	2.6	2.4	NM	-0.05	13.00	
Telecommunications																					
BCE Inc.	BCE	OP		50,914	904.3	56.30	12/2019	3.50	3.02	3.45	18.7	16.3	10006.0	9661.4	10183.8	8.2	7.7	18.49	0.41	64.00	
Cogeco Communications Inc.	CCA	OP		4,505	47.9	94.01	08/2020	7.41	8.42	9.32	11.2	10.1	1148.7	1198.9	1247.7	5.8	5.4	54.79	0.52	120.00	
Quebecor Inc.	QBR.b	OP		8,101	250.5	32.34	12/2019	2.24	2.32	2.54	14.0	12.8	1879.5	1929.9	2003.2	7.1	6.6	4.34	0.83	39.00	
Rogers Communications Inc.	RCI.b	OP		30,932	504.9	61.26	12/2019	4.13	3.32	3.32	18.4	18.4	6212.0	5797.6	6227.4	8.2	7.5	19.87	0.44	68.00	
Shaw Communications	SJR.b	OP		11,629	515.0	22.58	08/2020	1.31	1.39	1.51	16.2	15.0	2391.0	2437.9	2503.8	7.0	6.5	12.10	0.46	28.00	
Telus Corp.	T	OP	↑	32,164	1284.0	25.05	12/2019	1.45	0.98	1.09	25.5	22.9	5554.1	5518.8	5967.4	9.4	8.6	9.73	0.60	27.00	↑

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

TRI & TOY estimates are in US$, rest is CAD$.

Source: Bloomberg, Refinitiv and NBF estimates

Transportation & Industrial Products

Sector Analysis

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Still confident in a rebound in transit demand

NFI (NFI: TSX; Outperform, $21.00 target).

We maintain our Outperform rating on NFI Group following Q3 results. NFI shares will likely remain under some pressure due to concerns over public transit ridership and bus funding, as well as NFI's relatively high leverage. However, we believe these issues are priced into the stock and longer-term demand from public transit customers will prove to be resilient. Our positive view is supported by the following:

- **Transit is an essential service that will eventually rebound.** About 70% of company revenue is driven by public customers (transit agencies), and although the backlog fell to $4.5 billion from $4.9 billion at the end of Q2, the fact that transit bus orders are supported by already-committed government funding provides some visibility on bus deliveries through 2021. New orders have slowed in recent quarters as transit agencies cope with operating budget shortfalls, but transit systems are essential services and we believe ridership and new bus orders will bounce back as the pandemic wanes in 2021. Of note, NFI's bid universe (active bids) was up 27% y/y in Q3.
- **Demand for buses boosted by stimulus funding.** The U.K.'s Green Industrial Revolution Plan announced on November 18th will see initial funding of £120 million to begin the introduction of at least 4,000 new zero emission buses, all to be built in the UK, which could be very positive for the company's ADL subsidiary, the market leader for buses in the U.K. In early 2021, the government will unveil its National Bus Strategy, which will include new and more frequent "superbus" networks and the development of all-electric towns and city centre. A new U.S. administration is also likely to be highly supportive of public transit, which will also be positive for new bus orders and funding for zero-emission buses.
- **Transit agencies are shifting to Zero Emission Buses (ZEBs).** With the largest installed base of transit buses in North America and more zero-emission buses on trial at U.S. transit agencies than its competitors, NFI is well positioned to take advantage of the shift to ZEBs.
- **NFI's transformation program will be margin positive.** NFI's transformation initiative, called NFI Forward, is expected to generate $75 million in annual cost savings. This would equate to ~250-300 bps to gross margins. Management indicates that $13.5 million in savings have already been realized in 2020 with a further $29 million in 2021.
- **Valuation.** On our more normalized forecast for 2022, the stock is trading at ~7.0x EV/EBITDA and ~12x P/E, below the historical forward averages for the stock at 9.0x EV/EBITDA and 15.3x P/E.

Selections

- *TFI International*
- *NFI Group*
- *Cargojet*

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 11-30	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	SP		297	24.70	7,336	12/2019	3.37	-13.13	-7.91	na	na	18.92	(5.32)	(0.71)	nmf	nmf	nmf	21.00	↑
Bombardier Inc.	BBD.b	SP		2411	0.53	1,278	12/2019	-u0.25	-u0.60	-u0.17	na	na	-u0.51	-u1.16	-u0.04	nmf	nmf	nmf	0.50	
BRP Inc.	DOO	OP		90	74.09	6,639	01/2020	3.83	5.16	5.46	14.4x	13.6x	1.59	4.01	2.78	18.5x	26.7x	145%	88.00	↑
CAE Inc.	CAE	SP	↓	266	31.42	8,351	03/2020	1.34	0.42	0.96	73.9x	32.6x	(80.30)	(80.00)	(90.00)	nmf	nmf	50%	34.00	↑
Canadian National Rail	CNR	SP		713	136.00	96,941	12/2019	5.80	5.39	6.25	25.2x	21.8x	8.97	8.62	9.27	15.8x	14.7x	42%	141.00	
Canadian Pacific Rail	CP	SP		136	419.57	56,978	12/2019	16.44	17.65	19.48	23.8x	21.5x	21.65	23.33	26.34	18.0x	15.9x	56%	433.00	
Cargojet Inc.	CJT	OP		16	222.17	3,465	12/2019	0.85	-2.47	5.89	na	37.7x	(4.79)	4.76	7.81	46.7x	28.5x	73%	264.00	↑
Chorus Aviation Inc.	CHR	SP		162	4.29	694	12/2019	0.62	0.44	0.46	9.6x	9.2x	(3.37)	(1.79)	1.39	nmf	3.1x	75%	3.70	↑
Exchange Income Corporation	EIF	OP		36	38.70	1,398	12/2019	2.97	0.81	1.75	47.8x	22.1x	7.58	5.08	6.15	7.6x	6.3x	62%	40.00	↑
Héroux-Devtek Inc.	HRX	OP		36	14.46	526	03/2020	1.00	0.63	0.68	22.9x	21.2x	2.26	1.71	1.96	8.4x	7.4x	38%	17.50	↑
NFI Group Inc.	NFI	OP		63	19.63	1,227	12/2019	u1.64	-u0.79	u0.65	na	23.2x	u0.99	u0.02	u1.44	0.0x	10.5x	68%	21.00	
Transat A.T. Inc.*	TRZ	R		38	5.87	222	10/2019	R	R	R	R	R	R	R	R	R	R	R	R	
TFI International Inc.	TFII	OP		91	65.90	5,994	12/2019	3.94	4.09	4.54	16.1x	14.5x	3.53	6.23	6.08	10.6x	10.8x	38%	77.00	

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

u = US dollars

*based on EBITDAR (includes leases)

Source: Company Reports, Refinitiv, NBF

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
Collingwood • 108 Hurontario Street, Collingwood, ON, L9Y 2L8 • 705-446-0255
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • 403-823-6857
Drummondville • 595, boulevard Saint-Joseph, Bureau 200, Drummondville, QC, J2C 2B6 • 819-477-5024
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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
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Granby • 150, rue St-Jacques, Bureau 202, Granby, QC, J2G 8V6 • 450-378-0442
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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
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Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
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Oak Bay • #220 - 2186 Oak Bay Avenue, Victoria, BC, V8R 1G3 • 250-953-8400
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
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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
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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 1G5 • 506-642-1740
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Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
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