MARCH 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

Economy

- After several weeks of uncertainty, Vladimir Putin crossed the Rubicon. On February 24 the Russian president ordered his troops into Ukraine, plunging the world into one of its worst crises since the Second World War. The magnitude of the shock to global growth is hard to gauge at this writing. Suffice it to say that it could be substantial, especially in the increasingly likely event that hostilities will continue for weeks. Few countries will be spared and many will be shaken, beginning with a Russia labouring under a barrage of unprecedented economic sanctions. The rest of the globe will also take hits from the crisis, through various channels. On the financial side, the already marked retreat of equity markets could be exacerbated by forced write-off of some US$170 billion in Russian assets held by foreign investors. That's not counting the direct exposure of some multinationals – such as European banks – through subsidiaries operating in Russia. As for the real economy, many consumers and businesses around the world will be negatively impacted by the rise of commodity prices. Europe seems especially vulnerable because a good chunk of its electricity is generated from natural gas, whose prices have exploded. Global growth is also at risk of new disturbances in supply chains as China maintains a zero-COVID strategy. The marked increase in uncertainty prompts us to revise down our outlook for global growth from 4.0% to 3.8%. This relatively modest change takes into account the possibility of cessation of hostilities in Ukraine, which would of course reduce, without completely eliminating, some of the risk factors noted above. That said, the longer the conflict continues, the greater the likelihood that these risks will materialize, doing permanent damage to the global economy. If the belligerents do not find ground for agreement, further downward adjustments to our outlook will be in order.
- Relative to other regions of the world, the U.S. seems fairly well-positioned to deal with the by-blows of the conflict raging in eastern Europe. Over the last five years, a tiny 0.7% of its trade in goods has been with Russia, compared to 4.0% of the Eurozone's. That said, the slightness of Russia-U.S. trade will not isolate U.S. consumers from indirect effects of the crisis. Since energy products are traded on global markets, the world's largest economy will not be spared the rise of oil prices. But to what extent will household spending be affected? In other circumstances, the price rises tied specifically to the Ukraine conflict would likely have been insufficient to derail consumption. The problem is that these rises come at a time when inflation is already very high and consumer confidence is at a 10-year low. Atlanta Fed data, meanwhile show that despite strong rises in nominal terms, real wages have been declining for 11 months now. This means that, to maintain their spending, households are likely to have to draw on their savings. The growing number of challenges facing the U.S. economy prompts us to keep our outlook for its growth this year below the consensus expectation (+3.1%). For next year we see growth close to potential (+2.1%).
- In Canada, the path of inflation in recent months and the near-record low of the unemployment rate in February could have led the Bank of Canada to hasten its expected interest-rate normalization. However, we think the darkening of the skies by geopolitical developments prompt it to move with greater caution than the market expects. The supply shock will bite into consumer purchasing power and market stress already signals borrowing conditions less favourable than a few weeks ago. The Canadian economy nonetheless remains well-placed relative to others. With consumers cushioned by substantial excess savings and employment comfortably full, consumption may be less affected than elsewhere. In addition, the strength of the resource sector could offset the shock to consumption to some extent. Despite our slight downward revision of GDP for coming quarters, we continue to expect economic growth of 3.6% over 2022 as a whole after a first quarter stronger than we expected.

Interest rates and currency

- Just as we emerged from another wave of COVID-19 earlier in the year, the world outlook was thrown a new spanner in the form of Russia's unprovoked invasion of Ukraine. Forecasters, including ourselves, will again be forced to mark up our inflation forecasts on the back of surging commodity prices. Near-term, these developments are unlikely to materially impact Bank of Canada or Fed policy trajectories. With current interest rate settings entirely inappropriate, we had already expected both central banks to be rapidly removing policy rate stimulus. After getting policy rates back to 1% in a few months' time, we concede that the rate trajectory is increasingly unclear.
- A near-term resolution of the Russian-Ukrainian conflict might leave some scars but these will be more concentrated in Europe as the solid North American growth trajectory shouldn't be derailed. In this scenario, with inflation remaining elevated, aggressive market pricing looks somewhat more plausible. However, in a scenario characterized by prolonged conflict and high commodity prices leading to demand destruction both in Europe and North America, central banks will be left facing a 'no-win' situation. Either (a) go all-out in the fight against inflation (which would likely be higher in this environment) and inflict damage to GDP and/or employment; or (b) choose to live with above target inflation and keep policy easier to support real economic prospects. With central bank mandates more focused on employment than ever before, we'd expect both the BoC and Fed to take the growth prioritization approach (assuming inflation isn't still rising).
- For now, we are forecasting based on a 'middle ground' scenario: growth prospects are modestly weaker and inflation forecasts modestly higher near term. A resolution to the conflict, while not arriving immediately, could clear some uncertainty in the coming weeks/months. As a result, our baseline forecast still incorporates five BoC hikes and four Fed hikes in 2022. We've technically reprofiled our BoC hiking trajectory, front-loading moves in the first half of the year but our below-market bias for the year remains intact (for the BoC and Fed). Later in the year, as growth declines to potential and inflation eases, the pace of policy rate normalization should moderate. However, that needn't mean the tightening cycle has ended as both the BoC and Fed will be wielding their other policy tool: quantitative tightening.
- The Canadian dollar has held up relatively well against the USD and most other currencies since the start of Russia's invasion of Ukraine, but its performance has fallen short of expectations. What could be the driving force behind a significant appreciation of the CAD? The easing of tensions in Ukraine would certainly help. Another "made in Canada" solution would be for the federal government to re-evaluate its position on domestic fossil fuel production in the wake of the Ukrainian crisis. The upcoming federal budget could be positive for CAD if Ottawa unveils an ambitious program to encourage carbon capture, utilization, and storage.

Highlights

Recommended asset mix and stock market

- It has been an extremely volatile few weeks for global financial markets since Russia's major invasion of Ukraine took the world by surprise on February 24. As of this writing, the MSCI ACWI is down close to 12% from its peak. The S&P/TSX is still showing growth so far in 2022.
- As the conflict intensifies and Western economies consider turning away from Russian oil, the world's second largest producer, the price of crude oil has surged. The expected monetary tightening in the U.S. at a time when energy prices are soaring has reignited fears of stagflation. Are we about to see a rerun of that '70s show? Let's hope not, because investors would not be amused, as both episodes ended in recessions.
- Recessions in the 1970s can be attributed to monetary policy. Indeed, the Federal Reserve had already become restrictive, as evidenced by the inverted yield curve before the oil shocks of 1973-74 and 1978-79. How does the current environment compare to the oil shocks of the 1970s? This time, the oil price spike is occurring before the Fed has even begun its tightening campaign and the yield curve is not inverted.
- But with a virtually guaranteed rate hike by the Federal Reserve in March, the yield curve (YC) should flatten. The question is how long it will take for the YC to breach key levels. The market's aggressive assessment of 6-7 rate hikes over the calendar year could obviously get us there quickly. In our opinion, these expectations are too aggressive.
- Still, we are shifting our asset mix recommendation this month to reflect the military conflict in Ukraine and a more uncertain path for the global economy amid surging prices for food and energy. While our baseline forecast does not reflect a stagflationary environment, the likelihood of such an outcome has increased significantly. As a result, we are reducing our exposure to global equities by cutting our emerging market position by 2 points in favor of a higher cash holding.
- We are still comfortable with our above-benchmark recommendation for Canadian equities as we think the S&P/TSX could benefit even more if Ottawa was to re-evaluate its position on domestic fossil fuel production in the wake of the Ukrainian crisis. The upcoming federal budget could be positive for the S&P/TSX if Ottawa unveils an ambitious tax credit program to encourage CCS/CCUS.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	16.3	Overweight	
Materials	13.7	Overweight	
Industrials	11.8	Market Weight	
Consumer Discretionary	3.1	Market Weight	
Consumer Staples	3.7	Market Weight	
Healthcare	0.6	Market Weight	
Financials	32.2	Market Weight	
Information Technology	6.1	Underweight	
Telecommunication Services	5.1	Market Weight	
Utilities	4.6	Underweight	
Real Estate	2.9	Underweight	
Total	100.0		

* As of March 11, 2022

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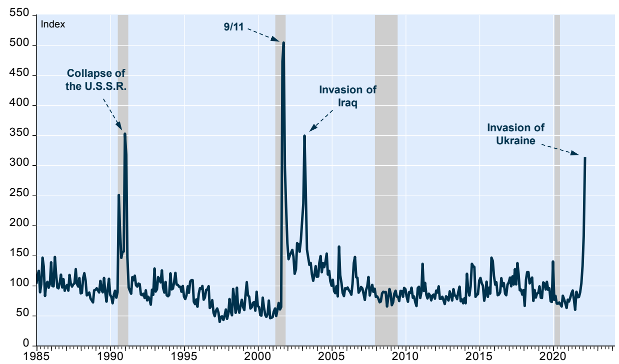
World: An economic outlook muddied by the Ukraine invasion

After several weeks of uncertainty, Vladimir Putin crossed the Rubicon. On February 24 the Russian president ordered his troops into Ukraine, plunging the world into one of its worst crises since the Second World War.

World: Geopolitical uncertainty the highest since the invasion of Iraq
Geopolitical Risk Index (Dario Caldara and Matteo Iacoviello)

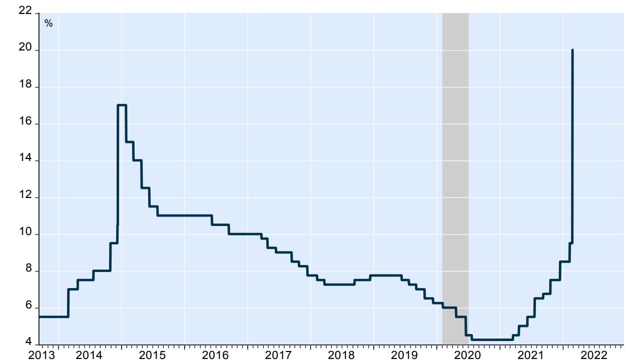


NBF Economics and Strategy (data via https://www.matteoiacoviello.com/gpr.htm)

Against an army vastly superior in technology and numbers, Ukrainian resistance was fiercer than expected, to the point that a rapid collapse of resistance now seems excluded. The conflict may instead bog down, threatening even worse human, diplomatic and economic consequences.

The magnitude of the shock to global growth is hard to gauge at this writing. Suffice it to say that it could be substantial, especially in the increasingly likely event that hostilities will continue for weeks. Few countries will be spared and many will be shaken, beginning with a Russia labouring under a barrage of unprecedented economic sanctions. After freezing assets held outside Russia by several members of the Putin regime, the international community has ratcheted up the pressure a notch by ejecting a number of Russian banks from the SWIFT international payments system and denying Russia's central bank access to its foreign-exchange reserves deposited with its international counterparts. Amputated of almost half its US$630 billion in foreign reserves, the Bank of Russia has tried to defend the ruble by doubling its policy rate. In vain.

Russia: The central bank has doubled its policy rate…
Policy rate of the Central Bank of the Russian Federation



NBF Economics and Strategy (Bloomberg data)

…without preventing collapse of the ruble
USD/RUB exchange rate, inverse scale

NBF Economics and Strategy (Bloomberg data)

Moscow has reacted by imposing strict capital controls, ordering companies that still have access to foreign currencies to exchange them for rubles. These forced transactions might stabilize the currency, but could also hurt the finances of the companies in question. The central bank has also forbidden Russian brokers to sell securities held by international investors.

Russian consumers, meanwhile, have rushed to automatic tellers in an attempt to shelter their savings from a possible banking crisis. All indications are that this desperate action will only delay the inevitable, since the fall of the ruble together with the withdrawal of multiple companies from the Russian market is certain to trigger an explosion

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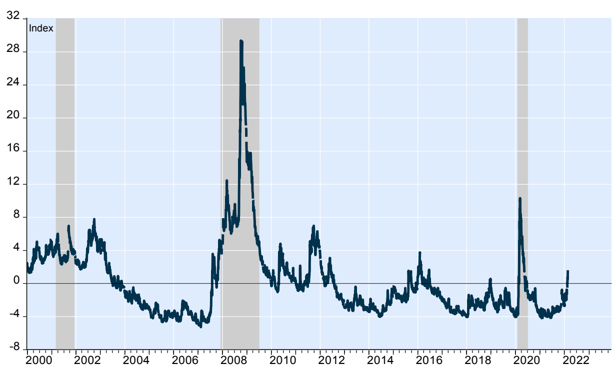
of prices and a brutal drop in consumer spending. Failing a complete turnaround of the situation, the Russian economy seems headed for a deep recession.

The rest of the globe will also take hits from the crisis, through various channels. On the financial side, the already marked retreat of equity markets could be exacerbated by forced write-off of some US$170 billion in Russian assets held by foreign investors. That's not counting the direct exposure of some multinationals – such as European banks – through subsidiaries operating in Russia. Until these stakeholders have a clearer idea of their losses, we can expect financial stress and volatility to remain intense on global markets.

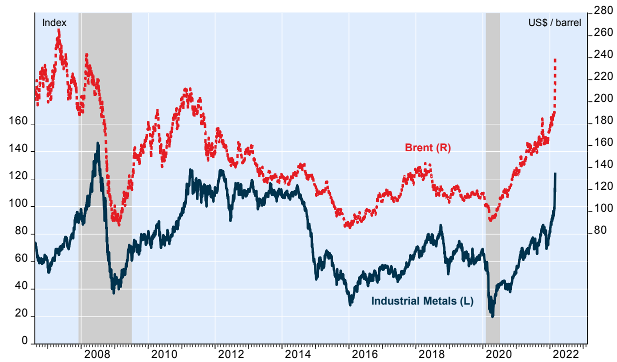
World: Russia roils the markets
OFR global Financial Stress Index



NBF Economics and Strategy (OFR data)

As for the real economy, many consumers and businesses around the world will be negatively impacted by the rise of commodity prices. Since Russia is a major exporter of energy products and industrial metals, the prices of these commodities have risen sharply in recent days, in effect a tax on consumption and production.

World: Russian invasion sends commodity prices soaring
Brent oil price and Bloomberg Industrial Metals Subindex



NBF Economics and Strategy (Bloomberg data)

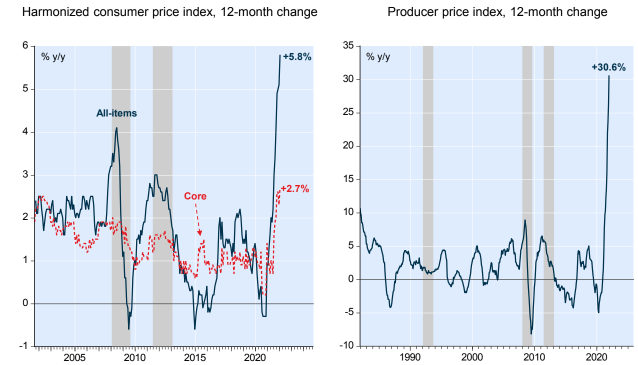
Europe seems especially vulnerable because a good chunk of its electricity is generated from natural gas, whose prices have exploded.

Europe: Households and businesses hit by soaring price of gas
Price of natural gas for April 22 delivery to the Netherlands

NBF Economics and Strategy (Bloomberg data)

Since European households and businesses were already dealing with record price rises even before the war in Ukraine, these recent developments in the energy sector threaten to trip the Eurozone into recession in the coming year.

Eurozone: Record price rises even before the invasion of Ukraine

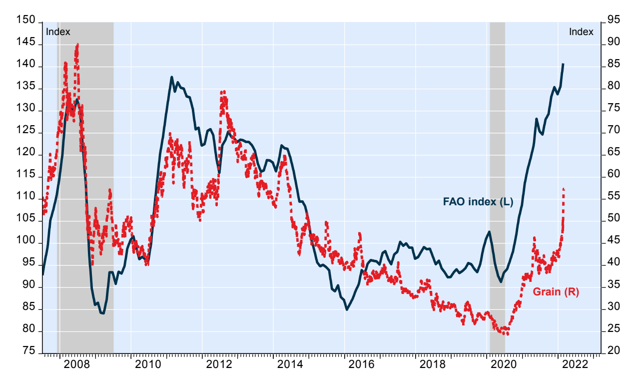


NBF Economics and Strategy (Bloomberg data)

The hit from energy costs is not confined to Europe. All energy-importing countries will suffer, notably Japan, India and China. In China's case, these problems come on top of those arising from Beijing's maintenance of its zero-Covid policy (which continues to entail the imposition of strict lockdowns) and of the slowdown in its real estate sector.

Unfortunately, the rise of energy prices is not the only factor that will reduce consumer purchasing power in the coming months. Households will also face marked increases in food prices. Since Russia and Ukraine are two of the world's largest grain exporters, it is hardly surprising that grain prices have been driven way up. The situation could deteriorate further if, as now seems likely, the Ukraine sowing season is disturbed by the conflict.

World: Soaring food prices
Bloomberg grain index and FAO food products index

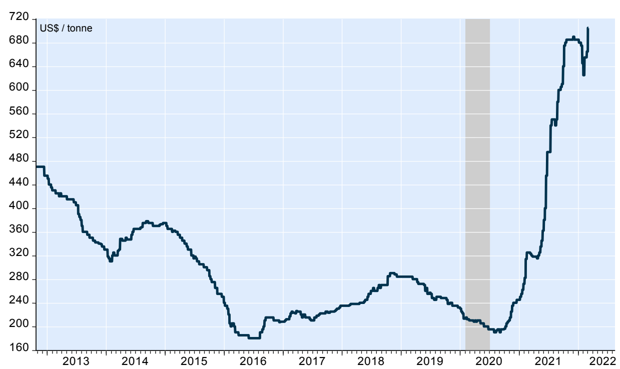


NBF Economics and Strategy (Bloomberg data)

The Economy

Meanwhile, farmers elsewhere around the globe will face a sharp rise in input prices. Russia and Belarus are respectively the world's second- and third-largest producers of potash, a potassium compound that is a key ingredient of fertilizers. Nothing there to ease upward pressure on food prices.

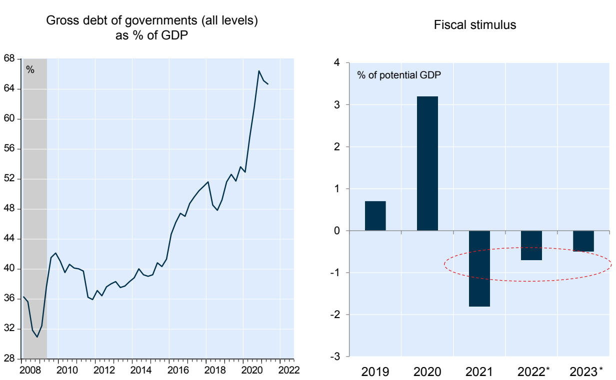
World: Rise of fertilizer prices in store
Spot price of potash on U.S. market



NBF Economics and Strategy (Bloomberg data)

Since food is a much larger part of the consumption basket of people in emerging countries, they could suffer more than others from the rise of prices. This additional setback obliges us to revise down our forecast of growth in emerging economies, which, as we noted in last month's issue of this monitor, have already been hurting from the rise of interest rates, and thus of debt service costs, and by rationalization of fiscal policies.

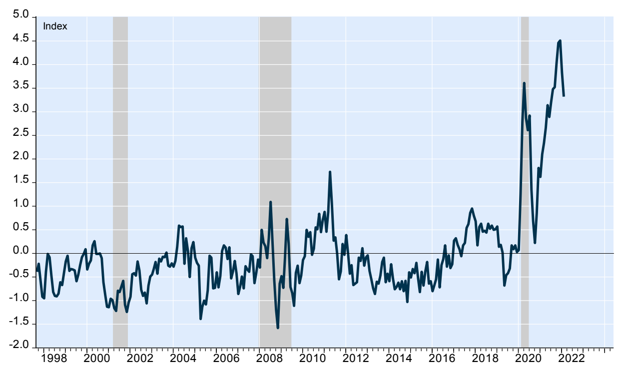
Emerging economies: Restrictive fiscal policies in store



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

Finally, global growth is at risk of new disturbances in supply chains. We have noted the situation in energy trade that will keep international transport costs high. Soaring metals prices, meanwhile, could bite into manufacturing output. Other, more obscure components of the production chain could also go AWOL. Among these are neon, a gas essential to the making of microchips. Since some 40% to 50% of the world supply of neon comes from Russia and Ukraine, supply-chain pressures could re-intensify after some easing in recent weeks. Though all the world's countries will feel the effects, they will tend to be amplified in economies more dependent on exports.

World: Will supply problems persist?
New York Fed Global Supply Chain Pressure Index



NBF Economics and Strategy (Bloomberg data)

The marked increase in uncertainty prompts us to revise down our outlook for global growth from 4.0% to 3.8%. This relatively modest change takes into account the possibility of cessation of hostilities in Ukraine, which would of course reduce, without completely eliminating, some of the risk factors noted above. That said, the longer the conflict continues, the greater the likelihood that these risks will materialize, doing permanent damage to the global economy. If the belligerents do not find ground for agreement, further downward adjustments to our outlook will be in order.

World Economic Outlook

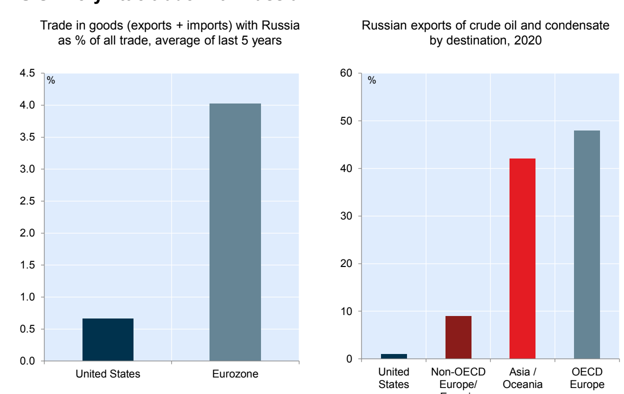
	2021	2022	2023
Advanced Economies	5.1	3.2	2.3
United States	5.7	3.1	2.1
Eurozone	5.2	3.1	2.3
Japan	1.6	2.7	1.3
UK	7.1	3.8	2.3
Canada	4.6	3.6	2.4
Australia	4.1	3.6	2.8
Korea	4.0	2.7	2.5
Emerging Economies	6.5	4.2	4.7
China	8.1	5.1	5.2
India	9.0	8.0	7.0
Mexico	5.3	2.5	2.5
Brazil	4.7	0.8	2.0
Russia	4.5	-7.0	4.0
World	5.9	3.8	3.7

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

U.S.: Inflation is sapping consumer morale

Relative to other regions of the world, the U.S. seems fairly well-positioned to deal with the by-blows of the conflict raging in eastern Europe. Over the last five years, a tiny 0.7% of its trade in goods has been with Russia, compared to 4.0% of the Eurozone's. And even before the outbreak of hostilities, the U.S. economy was virtually independent of Russian energy exports, allowing President Biden to ban the purchase of Russian oil, natural gas and coal.

U.S.: Very little trade with Russia



NBF Economics and Strategy (Refinitiv and IEA data)

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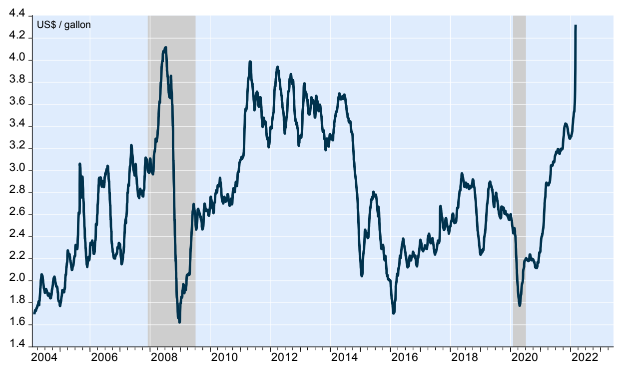
That said, the slightness of Russia-U.S. trade will not isolate U.S. consumers from indirect effects of the crisis. Since energy products are traded on global markets, the world's largest economy will not be spared the rise of oil prices. That rise is already reflected in prices at U.S. gasoline pumps.

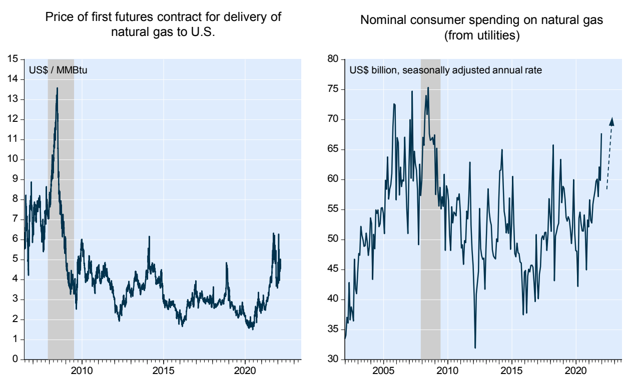
U.S.: The invasion of Ukraine is reflected in prices at the pump ...
Average price per gallon of regular unleaded gasoline



NBF Economics and Strategy (Bloomberg data)

The rise of natural gas prices, though less marked in North America than in Europe, will also take a bite out of Americans' wallets, as will the rise of food prices.

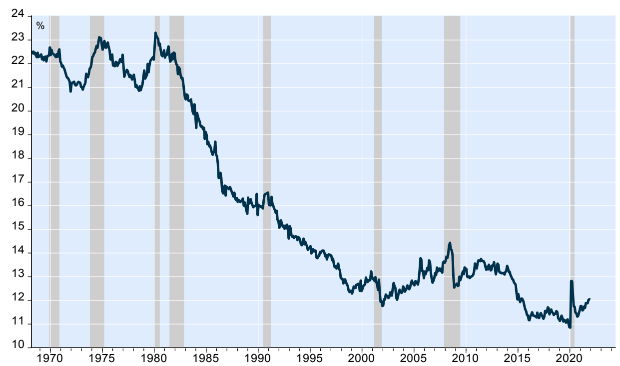
... and in natural gas prices



NBF Economics and Strategy (Bloomberg and Refinitiv data)

But to what extent will household spending be affected? In other circumstances, the price rises tied specifically to the Ukraine conflict would likely have been insufficient to derail consumption. The share of energy and food in U.S. household spending has shrunk steadily in recent years, a development limiting the potential effect of a supply shock in these sectors.

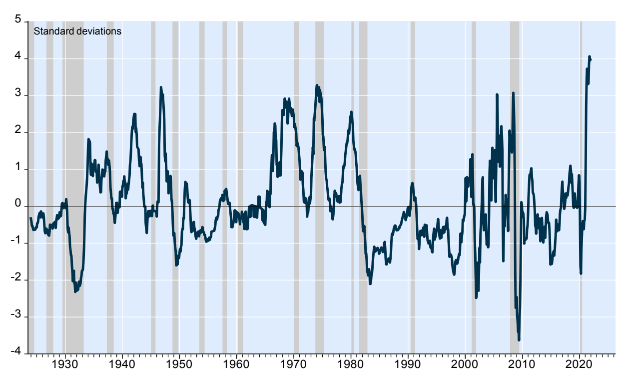
U.S.: Food and energy a shrinking share of the consumption basket
Spending on food and energy products as % of total household spending



NBF Economics and Strategy (Bloomberg data)

The problem is that these rises come at a time when inflation is already very high. The 7.9% rise of the Consumer Price Index over the 12 months through February was the steepest since January 1982. At 3.9 standard deviations above the 10-year average, it was also one of the largest deviations from trend in 100 years of data.

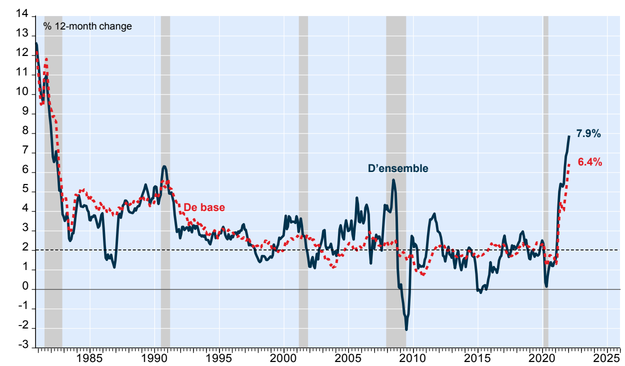
U.S.: An extraordinary rise of prices
Deviation of 12-month inflation from 10-year average



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

True, energy prices showed one of the sharpest 12-month rises since the 1980s – 25.6%. Food-price inflation, 7.9%, was also at a four-decade high. But price pressures are not limited to these two sectors. The 6.4% rise of the core inflation index over the last 12 months was the also the steepest in 40 years.

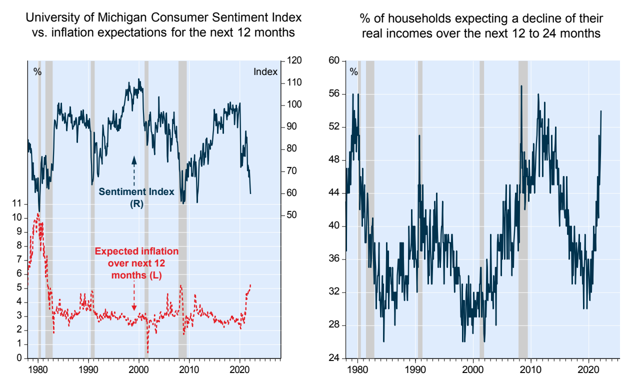
Highest inflation in 40 years
12-month change in U.S. Consumer Price Index



NBF Economics and Strategy (Refinitiv data)

It comes as no surprise that the recent path of prices has clouded the outlook for households. The University of Michigan Consumer Sentiment Index fell to a 10-year low in March and expectations for inflation over the next 12 months were the highest since 1981.

U.S.: Inflation is sapping consumer morale



NBF Economics and Strategy (Bloomberg data)

We also note that a growing share of respondents expected their incomes to rise more slowly than prices over the next 12 to 24 months. Judging by the most recent

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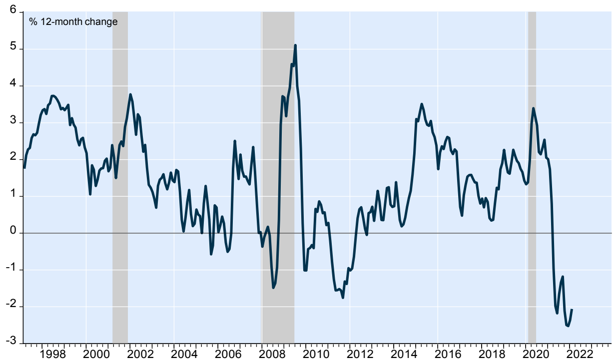
data released by the Atlanta Fed, this expectation could well prove accurate. Those data show that despite strong rises in nominal terms, real wages have been declining for 11 months now.

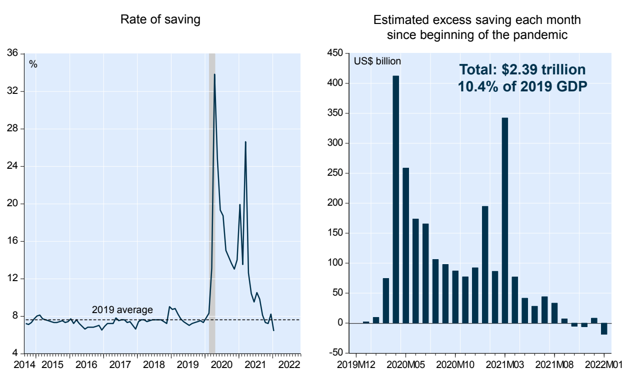
U.S.: Decline of real wages
Median wage deflated by all-items Consumer Price Index – 12-month change



NBF Economics and Strategy (data from Atlanta Fed and Refinitiv)

This means that, to maintain their spending, households are likely to have to draw on their savings; their rate of saving is now below its pre-pandemic level and likely to stay there for some time. This "undersaving" does not disturb us unduly given that their excess savings remain substantial (almost $2.4 trillion by our estimate).

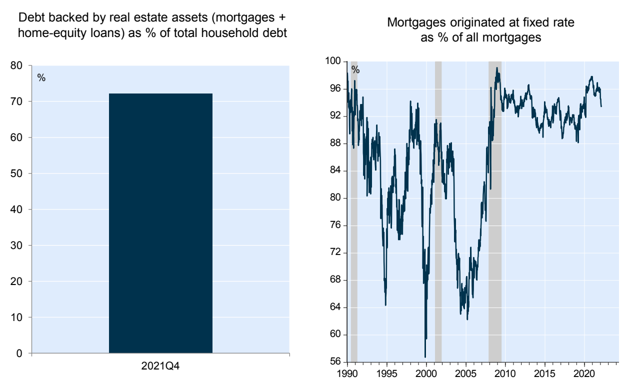
U.S.: Households turn to their (substantial) savings



NBF Economics and Strategy (Bloomberg data)

But even a substantial nest egg will not last forever if inflation does not return to more normal rates in the medium term. For this reason we think the Federal Reserve will raise its policy rate four times between now and the end of 2022 (including the quarter-point hike expected at the meeting of March 15-16). The effects of this tightening on the debt service costs of households is likely to be minimal in the immediate. It should be kept in mind that debt backed by real estate assets (including mortgages and home-equity loans) accounts for almost three-quarters of all U.S. outstanding household debt and about 94% of these loans are at fixed rates.

Households well-positioned to deal with rate rises



NBF Economics and Strategy (Refinitiv data)

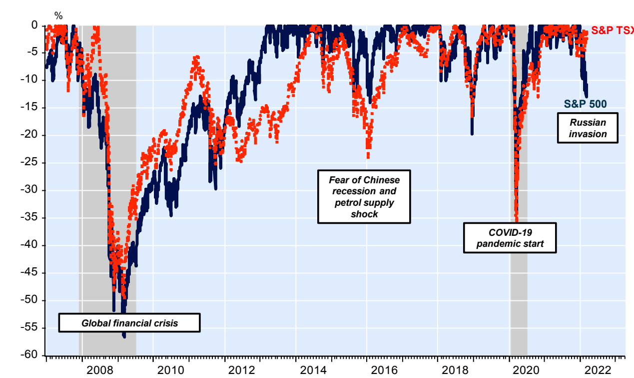
The U.S. economy, however, is not immune to tightening of monetary policy. If tightening turns out to be more aggressive than expected, households will sooner or later feel the effects. In the meantime, we expect monetary tightening to slow the more rate-sensitive sectors such as business investment and homebuilding.

The growing number of challenges facing the U.S. economy prompts us to keep our outlook for its growth this year below the consensus expectation (+3.1%). For next year we see growth close to potential (+2.1%).

Canada: All is not dark

The global economy faced considerable challenges in 2022 even before the Russian invasion of Ukraine. The risks have risen a notch with the recent developments and Canada is not immune to a global economic debacle. That said, the recent behaviour of equity markets shows investors relatively optimistic about companies listed on the Canadian market. At this writing the S&P/TSX is down only 2.7% from peak while the S&P 500 has corrected 13.0%. Of the 24 developed countries in the MSCI index, Canada turns in the second-best showing, after Norway, since the beginning of the year.

Canada: S&P TSX held firm despite rising financial stress
Cumulative drawdown from prior peak

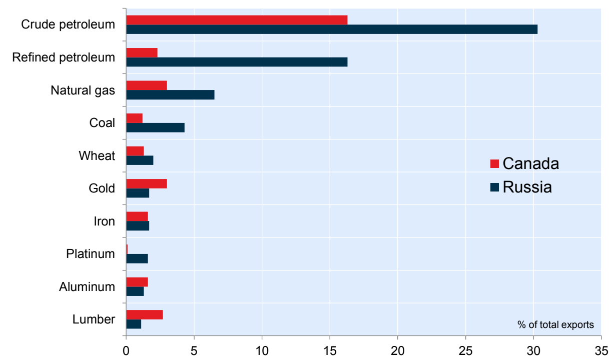


NBF Economics and Strategy (data via Bloomberg and Refinitiv)

This better performance can be laid to the greater weight of resources in the Canadian benchmark index. Energy and Materials account for 30% of the S&P/TSX. Though the resource sector is less than 10% of the Canadian economy, it is likely to benefit from the sharp rise of commodity prices triggered by the sanctions rained down on Russia. In a report released last week, our colleagues Warren Lovely and Alpa Atha noted the similarities of the Canadian and Russian export baskets. Of Russia's 10 most exported goods, seven are among Canada's top 10.

The Economy

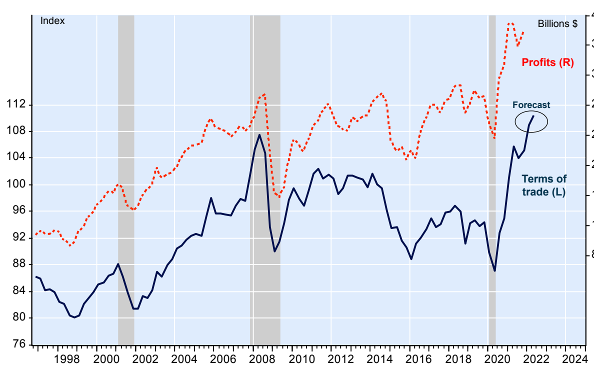
Canada: The export basket bears a striking similitude to that of Russia
Russia's top 10 exports, share of total exports in Russia and Canada



NBF Economics and Strategy (data via Industry Canada, OEC)

The jump in resource prices combined with relative weakness of the loonie is likely to make Canada's terms of trade in the first half of 2022 the most favourable on record. This is likely to be reflected in a further increase of profitability, typically a good sign for investment and hiring.

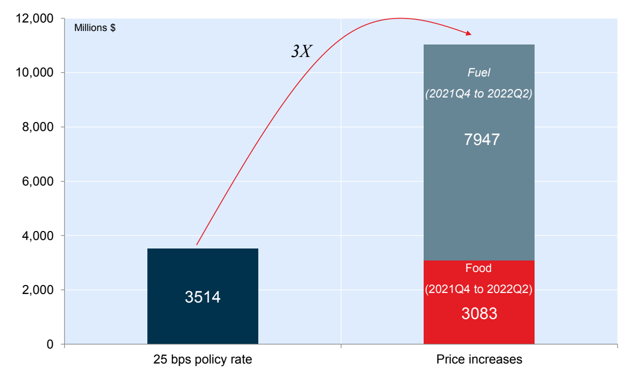
Canada: Highest terms of trade on record expected in H1 2022
Terms of trade and corporate profits



NBF Economics and Strategy (data via Statistics Canada)

Nominal GDP is also likely to benefit from a sharp rise of raw materials prices in the short term, though real growth could suffer from it. The price rises boost profits in the short term but not necessarily investment, especially if businesses doubt the sustainability of the new price levels. Consumers, meanwhile, have been rapidly losing purchasing power, notably through their energy bills. By our calculation, the effect on households of food and gasoline price rises in H1 2022 could be equivalent to the impact of a 78-basis-point hike in the Bank of Canada policy rate on debt service cost. And that doesn't take into account the longer-term effect of food price inflation (transmission delay) and a possible rise in the cost of transporting goods.

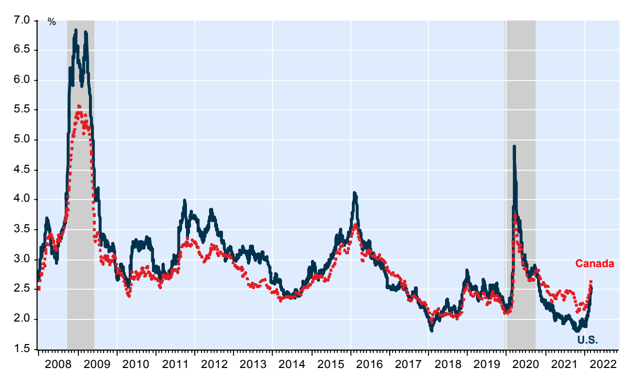
Canada: Rising fuel and food prices
25 bps interest rate hike vs. rising fuel and food prices (annualized)



NBF Economics and Strategy (data via Statistics Canada)

For this reason, although the inflation outlook has intensified, we do not see the central bank becoming more aggressive than it was a month ago, especially since deteriorating financial conditions have meant a rise in interest costs for borrowers – BBB credit spreads have jumped 50 basis points since the beginning of the year.

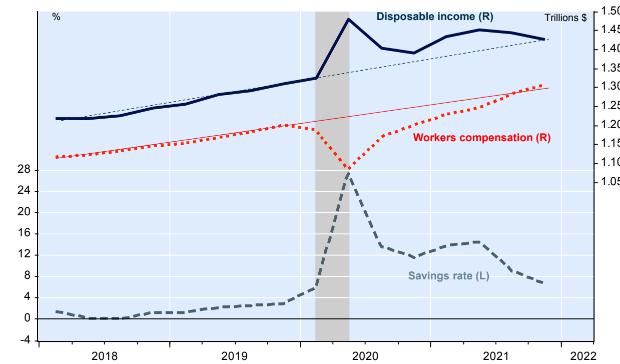
Canada: Financial conditions have deteriorated
BBB credit spreads over federal bond rates (10-year maturity)



NBF Economics and Strategy (data via Bloomberg)

The shock to household purchasing power notwithstanding, real consumption growth is likely to remain enviable. First, the financial cushion that households built up during the pandemic continued to expand in the fourth quarter of 2021, despite the decline of disposable income due to the phase-out of income-support programs. By our calculation, the excess savings of the last two years amount to 12.4%, a nest egg that could serve to absorb the shock from the rise in cost of living.

Canada: Still high savings rate despite declining disposable income
Disposable income, workers compensation and savings rate



NBF Economics and Strategy (data via Statistics Canada)

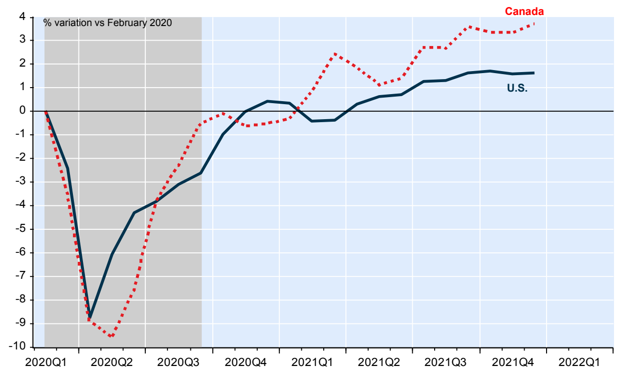
Despite the end of government income-support programs, disposable incomes have stabilized near their historical trend thanks to worker earnings, which continued to do well during the quarter (+7.8% annualized). High inflation notwithstanding, we calculate that real wages rose to a record during the fourth quarter. Real earnings since the beginning of the pandemic have risen more on this side of the border thanks to lower inflation pressures.

Another good-news item is that the signs from the labour market have been highly encouraging so far in the first quarter. In February employment rose by a spectacular 337,000 jobs with the easing of public-health restrictions, which had cost 200,000 jobs in the previous month. Gains were reported in all provinces, totalling the highest increase in 17 months. The unemployment rate fell from 6.5% to 5.5%, just 0.1 points above its record low of May 2019. These numbers confirm the finding of the Bank of Canada's Business Outlook Survey that hiring intentions among private-sector employers were very strong. No fewer than 347,000 jobs were

The Economy

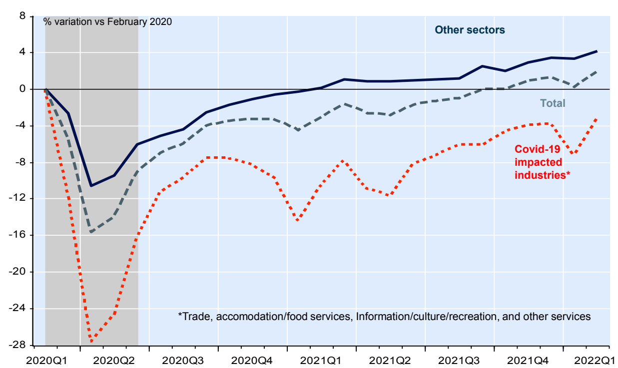
added in the private sector in February, taking its employment to a new record. In another interesting fact, the sectors most affected by public-health measures were, taken together, at their highest level of employment since the beginning of the pandemic.

Canada: Lower inflation translates into higher real compensation
Real workers compensation (deflated by CPI)



NBF Economics and Strategy (data via Statistics Canada, BEA, BLS)

Canada: COVID-19 impacted industries rebounded in February
Employment



NBF Economics and Strategy (data via Statistics Canada)

True, the path of inflation in recent months and the near-record low of the unemployment rate in February could have led the Bank of Canada to hasten its expected interest-rate normalization. However, we think the darkening of the skies by geopolitical developments prompt it to move with greater caution than the market expects. The supply shock will bite into consumer purchasing power and market stress already signals borrowing conditions less favourable than a few weeks ago. The Canadian economy nonetheless remains well-placed relative to others. With consumers cushioned by substantial excess savings and employment comfortably full, consumption may be less affected than elsewhere. In addition, the strength of the resource sector could offset the shock to consumption to some extent. Despite our slight downward revision of GDP for coming quarters, we continue to expect economic growth of 3.6% over 2022 as a whole after a first quarter stronger than we expected.

The Economy

United States Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.7	3.1	2.1	5.6	2.0	1.9
Consumption	2.2	(3.8)	7.9	3.0	2.3	7.0	2.4	2.0
Residential construction	(0.9)	6.8	9.1	(0.1)	(1.4)	(1.7)	1.1	(1.3)
Business investment	4.3	(5.3)	7.4	4.5	2.2	6.6	4.1	1.9
Government expenditures	2.2	2.5	0.5	0.7	2.2	0.1	2.1	2.0
Exports	(0.1)	(13.6)	4.6	6.2	3.1	5.2	3.9	2.2
Imports	1.2	(8.9)	14.0	5.9	1.5	9.6	2.0	2.0
Change in inventories (bil. $)	75.1	(42.3)	(38.1)	56.3	25.0	171.2	25.0	25.0
Domestic demand	2.4	(2.5)	6.6	2.7	2.1	5.4	2.5	1.8
Real disposable income	2.3	6.2	2.2	(3.0)	2.4	-0.2	1.5	2.9
Payroll employment	1.3	(5.8)	2.8	3.5	1.9	4.3	2.4	2.0
Unemployment rate	3.7	8.1	5.4	3.6	3.5	4.2	3.4	3.5
Inflation	1.8	1.3	4.7	6.5	2.9	6.7	4.2	2.9
Before-tax profits	2.7	(5.2)	25.2	7.3	2.6	21.6	3.7	1.4
Current account (bil. $)	(472.1)	(616.1)	(821.7)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 3/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.50	0.75	1.00	1.25	0.25	1.25	2.25
3 month Treasury bills	0.39	0.50	0.70	0.90	1.20	0.06	1.20	2.10
Treasury yield curve								
2-Year	1.75	1.80	1.90	1.95	2.00	0.73	2.00	2.10
5-Year	1.96	2.00	2.10	2.15	2.20	1.26	2.20	2.20
10-Year	2.00	2.05	2.15	2.20	2.25	1.52	2.25	2.25
30-Year	2.36	2.40	2.45	2.45	2.50	1.90	2.50	2.45
Exchange rates								
U.S.$/Euro	1.10	1.09	1.11	1.13	1.14	1.14	1.14	1.14
YEN/U.S.$	117	115	114	114	113	115	113	114

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.3	7.0	0.7	2.3	2.7	2.3
CPI (y/y % chg.)	1.9	4.8	5.3	6.7	7.7	6.9	6.4	5.1
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	5.0	6.3	5.4	5.0	4.2
Unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.4

National Bank Financial

Canada Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	3.6	2.4	3.3	3.2	1.8
Consumption	1.4	(6.2)	5.2	4.1	2.5	5.2	2.8	2.1
Residential construction	(0.2)	4.3	15.4	(6.3)	(0.3)	(0.8)	(1.8)	(1.5)
Business investment	2.5	(12.1)	2.3	6.0	3.4	6.5	5.2	2.2
Government expenditures	0.8	0.9	4.8	1.6	1.3	2.4	1.7	1.1
Exports	2.3	(9.7)	1.4	3.9	5.9	0.8	4.3	5.3
Imports	0.4	(10.8)	7.4	2.9	5.1	5.0	2.4	5.0
Change in inventories (millions $)	18,377	(18,720)	(1,543)	15,500	19,182	9,913	17,000	21,861
Domestic demand	1.2	(4.1)	5.5	2.6	2.0	3.8	2.3	1.5
Real disposable income	3.0	8.2	0.2	(2.4)	1.4	(1.1)	0.5	1.5
Employment	2.2	(5.1)	4.8	3.9	1.5	4.2	2.6	1.1
Unemployment rate	5.8	9.6	7.4	5.5	5.3	6.3	5.3	5.3
Inflation	1.9	0.7	3.4	4.8	2.3	4.7	3.7	2.2
Before-tax profits	(0.6)	(1.9)	32.7	4.2	1.7	14.6	6.0	2.8
Current account (bil. $)	(47.0)	(39.4)	1.6	(5.0)	(16.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 3/11/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Overnight rate	0.50	0.50	1.00	1.25	1.50	0.25	1.50	1.75
Prime rate	2.50	2.50	3.00	3.25	3.50	2.25	3.50	3.75
3 month T-Bills	0.57	0.60	1.05	1.25	1.45	0.17	1.45	1.60
Treasury yield curve								
2-Year	1.66	1.65	1.85	1.90	1.95	0.95	1.95	1.85
5-Year	1.80	1.80	1.90	1.95	2.00	1.26	2.00	1.95
10-Year	1.99	2.00	2.10	2.15	2.20	1.43	2.20	2.05
30-Year	2.28	2.30	2.35	2.35	2.35	1.68	2.35	2.20
CAD per USD	1.27	1.29	1.25	1.22	1.23	1.26	1.23	1.27
Oil price (WTI), U.S.$	109	110	105	100	95	75	95	85

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	4.8	(3.6)	5.5	6.7	2.2	3.9	3.4	3.4
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	5.5	5.3	4.6	3.7
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	3.9	3.7	3.2	3.0
Unemployment rate (%)	8.4	7.9	7.2	6.3	5.9	5.5	5.4	5.3

National Bank Financial

The Economy

Provincial economic forecast

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

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

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

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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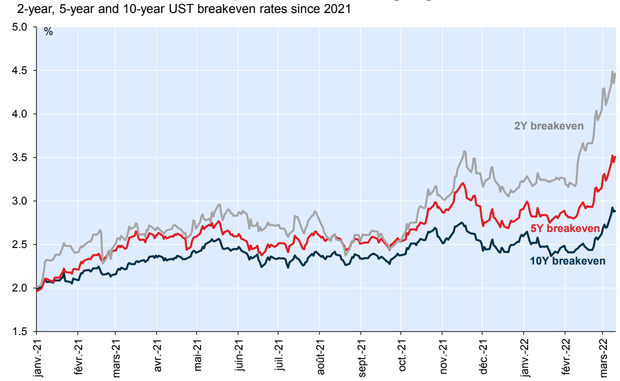
COVID clouds part as European clouds form

Just as we emerged yet another wave of COVID-19 earlier in the year, the world outlook was thrown a new spanner in the form of Russia's unprovoked invasion of Ukraine. After expansionary fiscal and monetary policy over the last two years pushed inflation well above central bank targets, fuel has only been added to the fire in recent weeks. Forecasters, including ourselves, will be forced to (once again) mark up our inflation forecasts on the back of surging commodity prices. Certainly, markets are pricing in higher inflation as breakeven yields have continued to soar across the curve, 10-year inflation expectations flirting with 3%.

Market-based inflation expectations climbing higher
2-year, 5-year and 10-year UST breakeven rates since 2021



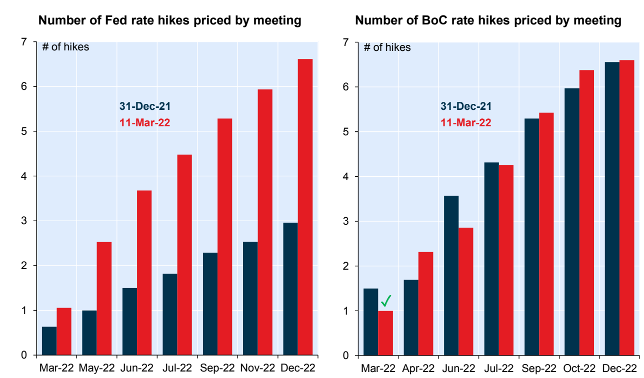
NBF Economics and Strategy (data via Bloomberg)

In the near-term, these developments are unlikely to materially impact Bank of Canada or Fed policy trajectories. With current interest rate settings entirely inappropriate, we had already expected both central banks to be rapidly removing policy rate stimulus. That said, after getting policy rates back to 1% in a few months' time, we concede that the rate trajectory is increasingly unclear.

On one hand, a near-term resolution of the Russian-Ukrainian conflict might leave some scars but these will be more concentrated in Europe as the solid North American growth trajectory shouldn't be derailed. In this scenario, with inflation remaining elevated, aggressive market pricing looks somewhat more plausible. However, in a scenario characterized by prolonged conflict and high commodity prices leading to demand destruction both in Europe and North America, central banks will be left facing a 'no-win' situation. Either (a) go all-out in the fight against inflation (which would likely be higher in this environment) and inflict damage to GDP and/or employment; or (b) choose to live with above target inflation and keep policy easier to support real economic prospects. With central bank mandates more focused on employment than ever before, we'd expect both the BoC and Fed to take the growth prioritization approach (assuming inflation isn't still climbing).

To be clear, our suite of forecasts don't reflect this stagflationary environment but the probability of such an outcome has risen greatly. For now, we will operate under something of a 'middle ground' assumption: growth prospects are modestly weaker and inflation forecasts modestly higher in the near term. A resolution to the conflict, while not arriving immediately, could clear some uncertainty in the coming weeks/months. As a result, our baseline forecast still incorporates five BoC hikes and four Fed hikes in calendar 2022. We've technically reprofiled our hiking trajectory, front-loading moves in the first half of the year but our below-market bias for the year remains intact. Later in the year, as growth declines to potential rates, inflation eases and a stronger USD pressures emerging markets/global growth, we see the Fed moving to a slower rate of policy rate normalization.

Market 'priced for perfection' in 2022



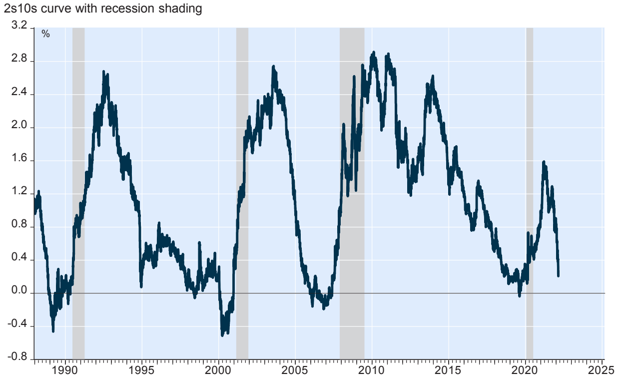
NBF Economics and Strategy (data via Bloomberg)

However, that needn't mean we see a slower rate of overall policy normalization, as the Fed is likely to be entering the early stages of a quantitative tightening

Interest Rates and Bond Markets

episode. After spending the past two years accumulating US treasuries and MBS, the US central bank has plenty of capacity to tighten conditions without quickly rushing to above-neutral policy rates. Moreover, a more QT-centric normalization approach has the benefit of keeping more steepness in the Treasury curve than would otherwise be the case. So far this year, the yield curve has flattened dramatically. We're hesitant to blindly follow empirical tendencies but we concede that the 2s-10s curve does have a compelling track record foreshadowing recessions. Importantly, we've heard FOMC participants express concern over flat/inverted yield curves in years' past.

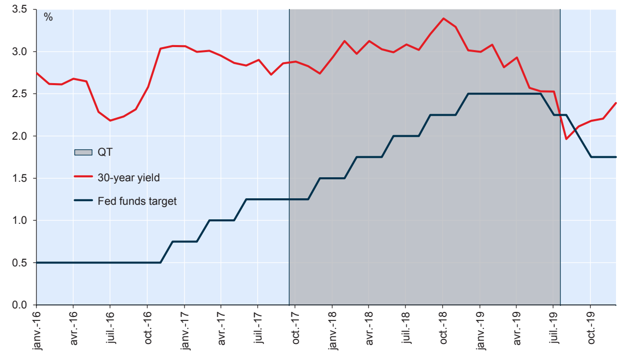
U.S.: The Treasury curve is flirting with inversion… an ominous signal
2s10s curve with recession shading



NBF Economics and Strategy (data via Refinitiv)

While we may be able to avoid an outright inversion, yield curves should still remain flat going forward. QT is likely to keep some pressure on longer-term interest rates but we think we're now approaching the high watermark here. We'd consider another ~10-20 basis points of sell-off to be an attractive entry point for taking on duration. As we've highlighted in past monitors, long-term yields don't typically drift much higher once hiking cycles get underway. That finding is consistent in the last Fed hiking/QT cycle when 30-year yields were largely range bound through the entirety of the tightening cycle.

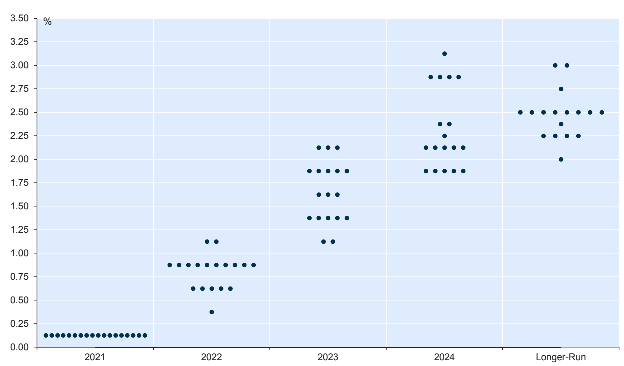
Long-term yields were largely rangebound during the last cycle
Fed funds target (upper bound) and 30-year yields during last policy normalization cycle



NBF Economics and Strategy (data from Bloomberg, Federal Reserve)

Critically, our outlook will be put to the test this month at the Fed's next meeting. Along with an all-but-guaranteed 25 basis point rate hike, the meeting will bring an updated Summary of Economic Projections highlighting the Fed's views on the economic trajectory and the path for interest rates. December's median 'dot' signalled just three 2022 rate hikes but at least one more should be added this month. While there will surely be a move in a more hawkish direction, we don't think the Fed will converge with the market's aggressive pricing for 6-7 rate hikes in the calendar year. And should the FOMC move more modestly towards our call for four rate hikes, we would likely see some of the pressure on front-end rates relieved, at least temporarily. Stay tuned.

U.S.: Watch the dots!
Federal Reserve dot plot: December 2021

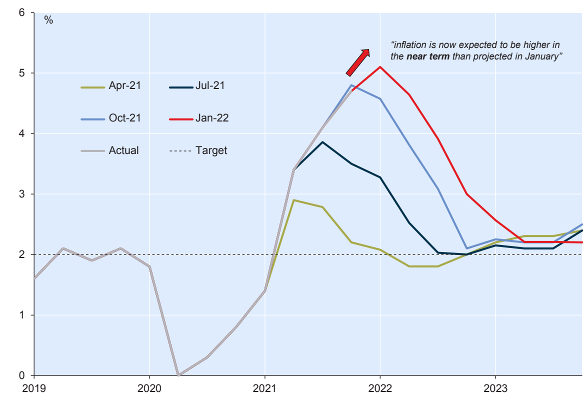


NBF Economics and Strategy (data via Federal Reserve)

BoC: Better late than never

At long last, the Bank of Canada raised its policy rate from the effective lower bound—a decision that was overdue in our opinion as we'd seen more than sufficient evidence in inflation, labour markets and the housing sector to justify a January tightening. In any event, March's decision should mark the first of a number of swift increases to the overnight target as the Bank of Canada starts its fight against inflation on its back foot. On this front, the rate statement hinted that risks to inflation in the near term, are once again tilted to the upside. Expect higher inflation forecasts to be laid down when the Bank of Canada publishes a new Monetary Policy Report next month (an MPR that will feature the Bank's updated thinking on neutral rates).

BoC won't say 'transitory' but their projections speak for themselves
BoC projections for inflation over past MPRs



NBF Economics and Strategy (data via BoC, StatCan) | *Some quarters estimated based on quarterly and full-year projections*

Despite the ongoing conflict in Ukraine—something the BoC referenced multiple times in its policy statement—there was nothing to suggest that the BoC wasn't planning to hike again in April. And as had been communicated even prior to March's hike, Macklem and the Governing Council reiterated that Canadians can expect interest rates to be on 'a rising path'. We believe this will translate to back-to-back-to-back rate hikes (one of which has now materialized), bringing the overnight target to 1% by the second half of the year. Once this 'low-hanging fruit' has been picked and the policy rate resides at a somewhat more normal level, the pace of increase should slow as the Governing Council becomes more data dependent and contingent on geopolitical developments.

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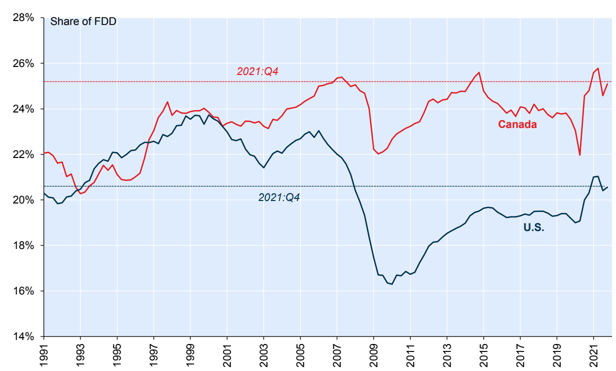
Even if there is a near-term and peaceful resolution in Ukraine, we continue to expect that the policy rate will reach a peak earlier and at a lower level than many of our forecasting peers. In a year's time, we think the BoC will have implemented its final hike of the cycle, the policy rate sitting below 2%. With inflation still expected to be above target, how do we explain this forecast?

Firstly, we remain below consensus on GDP growth in 2022 and 2023. We held this view before the Russian invasion of Ukraine, and this key risk only adds to the probability the BoC could tap out early. Secondly, Canada's economy is as interest sensitive as it has ever been and is more interest sensitive than the United States. In other words, interest rate hikes should theoretically cool demand faster and more significantly in Canada than the United States. Moreover, with Canadian inflation at a more tepid pace than south of the border, demand doesn't need to be cooled by as much to bring inflation back to target.

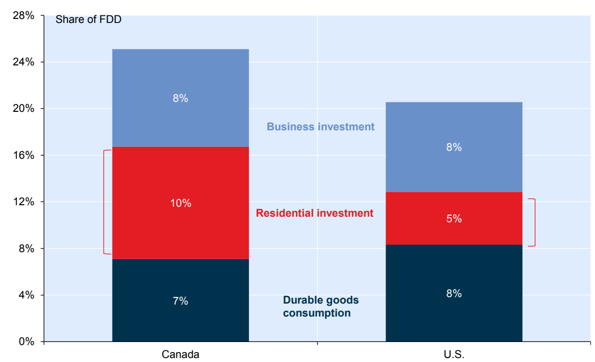
Canada's economy is more interest-sensitive than the U.S.
Interest-sensitive share of Final Domestic Demand: 2021:Q4



NBF Economics and Strategy (data via StatCan, BEA)

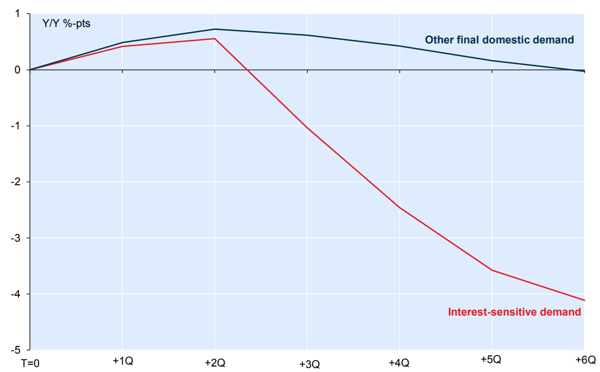
If, in a year from now, we find ourselves in a situation where growth has slowed meaningfully, housing activity has cooled and inflation is steadily falling towards target, we expect the Bank would at least pause, if not end its hiking cycle and wait for the full impact of rate hikes to be felt. After all, it typically takes 4-6 quarters for policy rate tightening to fully make its way into the economy.

Canada's economy is more interest-sensitive than the U.S.
Interest-sensitive share of FDD: 2021:Q4



NBF Economics and Strategy (data via BEA, StatCan)

In past, ISD brought to heel within 4-6 quarters
Change in real ISD growth vs. rest of FDD, average of 6 BoC tightening cycles



NBF Economics and Strategy (data via StatCan)

Finally, while we see the Bank stalling out on rate hikes early next year, that doesn't mean the monetary policy tightening cycle is over. Indeed, unlike in past cycles, the Bank has another tool at its disposal: QT.

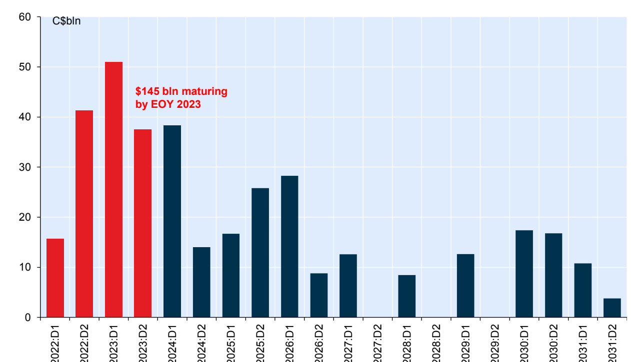
BoC: QT questions (sort of) answered

While a March interest rate hike could be seen from a mile away, market participants had still been in the dark on the BoC's planned management of its balance sheet. Unlike at the Federal Reserve, there was no historical BoC playbook we could go off of. Fortunately, that changed after March's policy decision as Governor Macklem provided some much-needed details on the coming quantitative tightening exercise.

While Macklem didn't give us a timeline for when the 'reinvestment phase' will officially end, his communication ahead of the prior shifts in balance sheet policy are instructive. Back in September, he used a speech to tee up the termination of QE in October. We wouldn't be the least bit surprised if the Bank opted for a similar move this time—using his March speech to set up a QT announcement at April's meeting.

As for how QT will look, we were surprised by the relatively aggressive pace of balance sheet run-off that the Bank intends to undertake. Rather than opt for a gradual, cap-based approach like the Fed historically employed, the BoC will simply let all of its bonds mature without reinvestment. That means no purchases in secondary, and it appears like there will also be no purchases in primary either. We'd note that Macklem provided mixed messaging on the outlook for primary market participation and didn't rule out some level of auction purchases when pressed on it by the media. To be sure, this is a critical point and could be the difference in $50 billion in balance sheet run-off over the next two years (full run-off versus the previous 13% auction participation rate), but in either case, the Bank will be able to generate significant balance sheet run-off. So just how much normalization could we be talking about?

The BoC's maturities are concentrated near-term
BoC's holdings of GoC bonds bucketed by half-year



NBF Economics and Strategy (data via Bank of Canada)

Through passive run-off alone, the Bank would see C$145 billion shed from its balance sheet by the end of 2023 (assuming no auction participation). Should this materialize, the Bank's holdings of GoC bonds would fall by more than twice as much the Fed's UST holdings over a similar time

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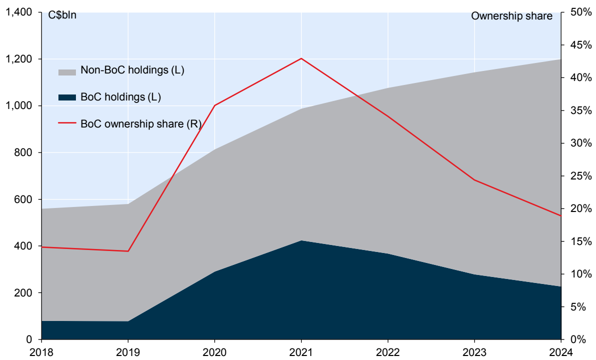
period back in 2017-19. Another year of full run-off in 2024 would mean the Bank could work down close to half of its current GoC holdings. Along with the maturities of its relatively smaller balance sheet line items (provincial bonds, CMBs, repos, etc.), this would mean the Bank could decrease its asset base to as low as ~C$250 billion in three year's time. True, that would be more than double pre-COVID levels, but it would be a far cry from the C$575 billion we saw a year ago. The Bank's ownership share of GoCs, meanwhile, could plummet from >40% today to less than 20% in three years.

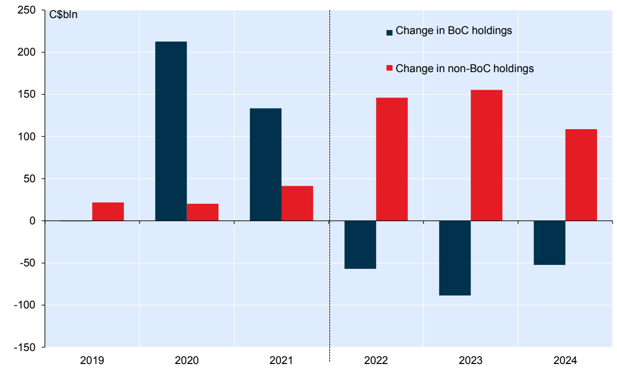
The BoC could significantly work down its ownership
Breakdown of GoC O/S: BoC & non-BOC investors + BoC ownership share assuming full run-off



NBF Economics and Strategy (data via BoC, GoC, StatCan)

With the reinvestment phase set to soon end, domestic and foreign investors will be asked to step in and fill the void. After non-BOC buyers took down just ~C$20 billion and ~C$40 billion net new GoCs in 2020 and 2021, respectively, they'd need to absorb an unprecedented ~C$150 billion this year and a similar amount in 2023. Between strong global demand for HQLA, freefalling provincial borrowing needs and solid foreign investor engagement there's good reason to believe the BoC can get a good deal of normalization done quickly. Moreover, LVTS settlement balances of C$230 billion indicate there's plenty of room for absorption without a material repricing in market clearing yields. Perhaps the more important question for GoC rates is: what will the Fed do? Thankfully, we shouldn't be in suspense for too much longer with key balance sheet questions starting to be answered as early as the Fed's March meeting. Our detailed Fed policy monitor will be available for analysis on March 16th.

QT means an unprecedented ask of end investors
Actual/projected change in GoC holdings: BoC vs. non-BoC investors assuming full run-off



NBF Economics and Strategy (data via Bank of Canada, StatCan, GoC)

Canadian Bond Market: Interest rates, spreads and currencies

	11-Mar-22	10-Dec-21	10-Sep-21	11-Jun-21	12-Mar-21
Interest Rates					
3 months	0.552	0.024	0.152	0.112	0.11
2 years	1.591	0.969	0.414	0.311	0.318
5 years	1.741	1.317	0.831	0.818	1.042
10 years	1.957	1.466	1.238	1.369	1.587
30 years	2.256	1.797	1.802	1.932	2.026
Spreads					
3 months - 2 years	103.9	94.5	26.2	19.9	20.8
2 - 5 years	15	34.8	41.7	50.7	72.4
5 - 10 years	21.6	14.9	40.7	55.1	54.5
10 - 30 years	29.9	33.1	56.4	56.3	43.9
Currencies					
CAD/USD	1.2756	1.2722	1.2692	1.2158	1.2475
EUR/CAD	0.7135	0.6945	0.6672	0.6792	0.6706

NBF Economics and Strategy (data via Bloomberg)

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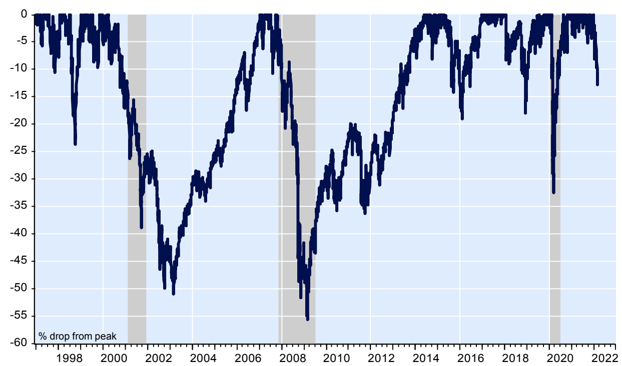
World: Stagflation redux?

It has been an extremely volatile few weeks for global financial markets since Russia's major invasion of Ukraine took the world by surprise on February 24. As of this writing, the MSCI ACWI is down close to 12% from its peak (chart).

World : Stocks are battered
MSCI ACWI maximum percentage drawdown from peak (as of March 11, 2022)



NBF Economics and Strategy (data via Refinitiv)

While the MSCI EMEA (Europe, Middle East and Africa) has been hardest hit with a 12.7% year-to-date drop, most other regions are also down 10% or more. Only Canada and the MSCI EM Latin America are showing growth so far in 2022 (table).

MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	-4.4	-11.3	-11.3
MSCI World	-4.2	-11.5	-11.5
MSCI USA	-4.3	-12.5	-12.5
MSCI Canada	1.3	0.7	0.7
MSCI Europe	-5.0	-10.9	-10.9
MSCI Pacific ex Jp	-1.6	-5.0	-5.0
MSCI Japan	-4.7	-10.6	-10.6
MSCI EM	-6.4	-10.4	-10.4
MSCI EM EMEA	-9.0	-12.7	-12.7
MSCI EM Latin America	-0.4	6.1	6.1
MSCI EM Asia	-6.6	-11.4	-11.4

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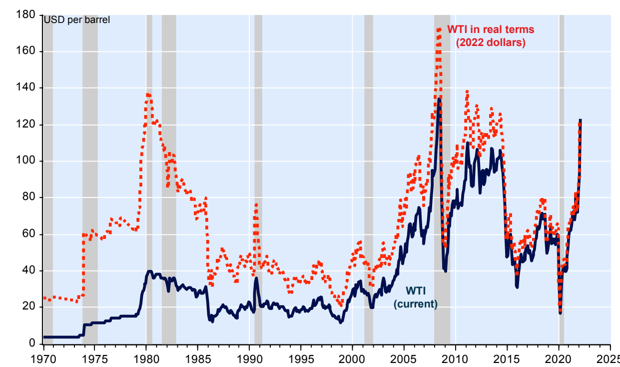
NBF Economics and Strategy (data via Refinitiv)

As the conflict intensifies and Western economies consider turning away from Russian oil, the world's second largest producer, the price of crude oil has surged. Above $100/barrel currently, the price of West Texas intermediate (WTI) is already back to levels not seen since 2013 and double the average of the 5 years preceding the pandemic. How does the current episode compare to the three previous oil shocks that hit the global economy (1973-74 and 1978-79 and 2007-2008) where the price of crude oil more than doubled? WTI would need to exceed $170 per barrel to surpass its 2008 record in inflation-adjusted terms (chart). It is therefore not far-fetched to envisage a price of this magnitude for crude oil if supply from Russia is cut-off from the rest of the world.

World: Will oil derail the global economy?
Price of WTI: nominal vs. real (2022 dollars*)



* Deflated using U.S. CPI for all urban consumers
NBF Economics and Strategy (data retrieved from FRED)

This would certainly complicate matters for the global economy and earnings prospects. Indeed, oil shocks have been identified as the third most important cause of recessions in the G7 economies since 1960, just behind restrictive monetary policies and credit bubbles (chart).

[1] See "Carbon Capture in Canada: Boom or bust?", NBCFM Thematic Research, August 3, 2021.

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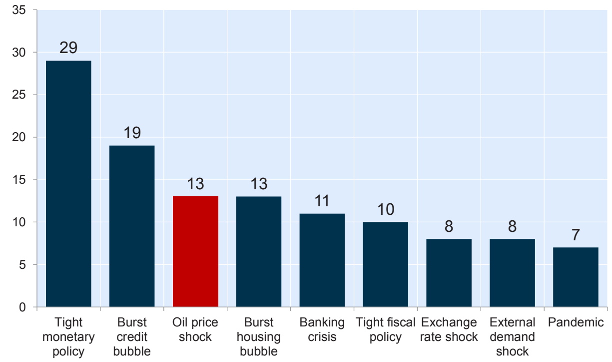
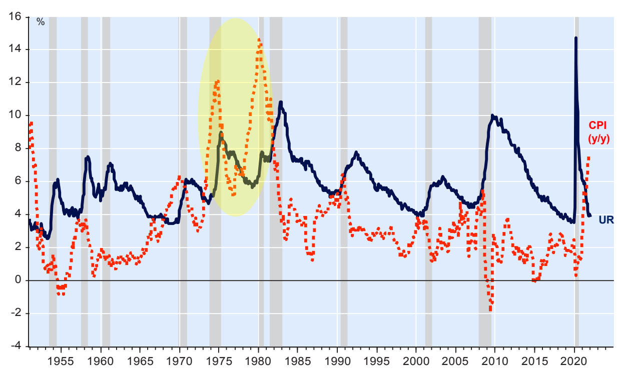
World: A historical perspective on recession triggers since 1960
Number of times a shock has been identified as a cause of recessions (a recession can have multiple causes)



NBF Economics and Strategy (data via Capital Economics)

The expected monetary tightening in the U.S. at a time when energy prices are soaring has reignited fears of stagflation. Stagflation is a situation in which CPI inflation accelerates rapidly and the unemployment rate rises. The oil shocks of 1973-74 and 1978-79 triggered stagflation in the United States - yellow area in the chart. Are we about to see a rerun of that '70s show? Let's hope not, because investors would not be amused, as both episodes ended in recessions.

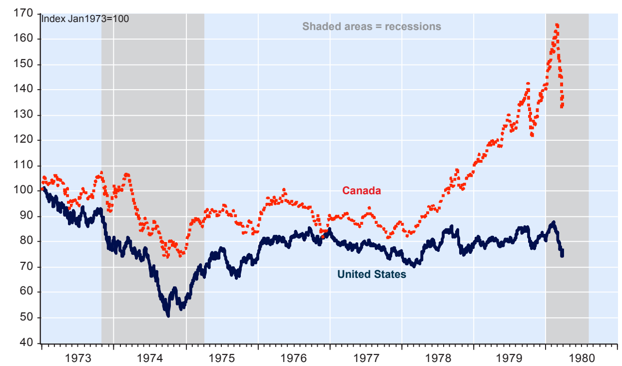
U.S.: That '70s show
Unemployment rate (UR) and CPI inflation – yellow area delimits period of stagflation



NBF Economics and Strategy (BLS data via Refinitiv)

The period of stagflation had a very negative impact on stock markets. In the U.S., the S&P 500 experienced a deep bear market, rallied and then moved sideways for the rest of the decade. Canadian equities, on the other hand, suffered much less, with the stock market ending the decade 50% above its 1973 level (chart).

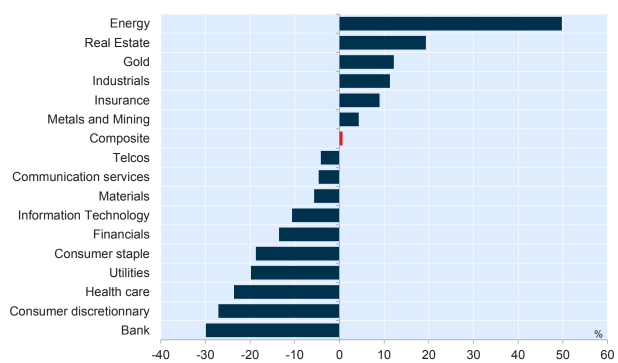
North America: Stock market performance during stagflation
U.S. and Canadian equity indices between 1973 and 1980



NBF Economics and Strategy (data fron Refinitiv)

This better performance can be attributed to the fact that resources, which have a much larger share in the Canadian equity benchmark than the U.S., performed well between 1973 and 1980 (chart). It is worth noting that banks, which now have a much larger share of the S&P/TSX index than energy (22% vs. 16%), fared the worst during the stagflation years. This would make Canada more vulnerable this time around to stagflation if this scenario were to occur.

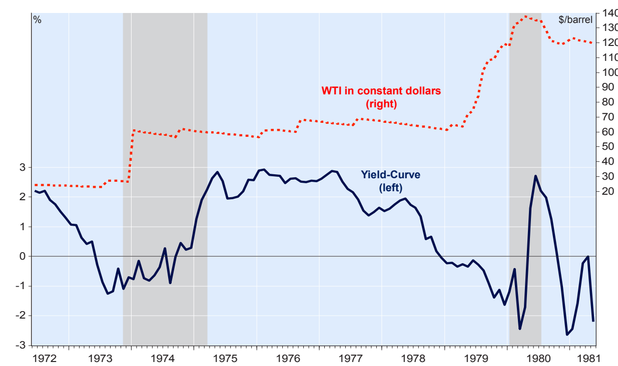
U.S.: Equities performance in stagflationary environment
U.S. equities from December 1973 to March 1980



NBF Economics and Strategy (data from Refinitiv)

The poor performance of Banks in the 1970s can be attributed to monetary policy. Indeed, the Federal Reserve had already become restrictive, as evidenced by the inverted yield curve before the oil shocks of 1973-74 and 1978-79 (chart).

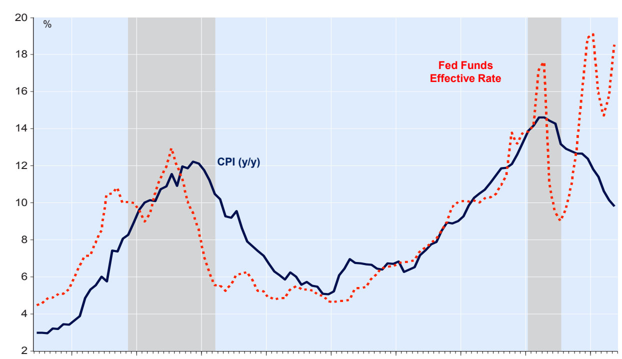
U.S.: Monetary policy was already restrictive prior to 1970s oil shocks
Yield curve (10-year Treasury less 3-month T-Bill vs. oil prices (WTI) in constant 2022 dollars



NBF Economics and Strategy (data via Fred St-Louis)

Instead of coming to terms with the supply shocks, the US central bank preferred, in both cases, to continue chasing inflation even as the economy went into recession (chart). It is therefore not surprising that the banking sector performed badly in the face of the double whammy of the inversion of the yield curve and the rise in unemployment.

U.S.: The Fed chased after inflation, exacerbating the oil shocks
CPI annual inflation and federal funds effective rate



NBF Economics and Strategy (data via Fred St-Louis)

How does the current environment compare to the oil shocks of the 1970s? This time, the oil price spike is occurring before the Fed has even begun its tightening campaign. The yield curve, defined as the difference

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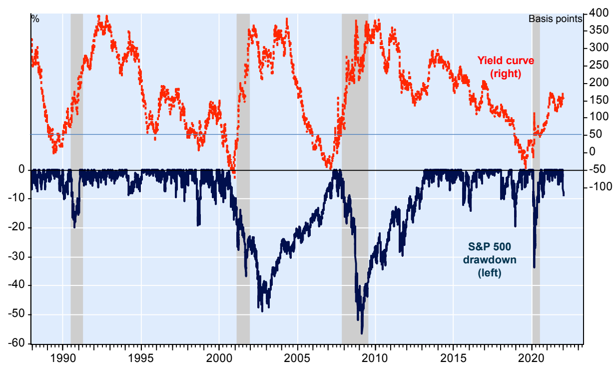
between the 10-year Treasury yield and the 3-month Treasury bill yield, is at 1.4% (140 basis points). This is still relatively high by historical standards and a far cry from the 1970s inversions mentioned earlier. Our research has shown that there has never been a bear market in U.S. equities when the yield curve is above 50 basis points (chart).

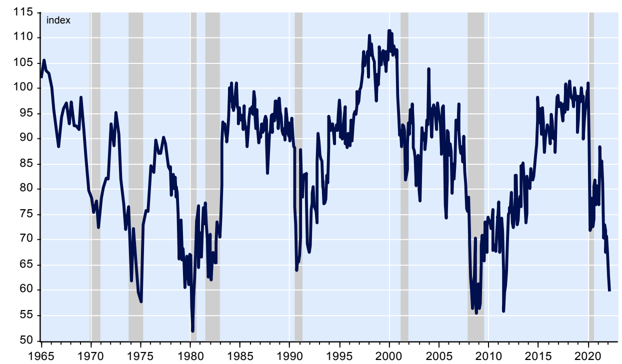
U.S.: Yield curve does not signal bear market
S&P 500 drawdowns from peak vs. the yield curve (10-year Treasury yield minus 3-month T-Bill)



NBF Economics and Strategy (data via Refinitiv)

But with a virtually guaranteed rate hike by the Federal Reserve in March, the yield curve (YC) should flatten. The question is how long it will take for the YC to reach 50 basis points. The market's aggressive assessment of 6-7 rate hikes over the calendar year could obviously get us there quickly. In our opinion, these expectations are too aggressive as they do not reflect the risk that the military conflict in Ukraine poses to the global supply chain and economic growth. With consumer sentiment currently near all-time lows, we believe the Fed will need to be more patient in raising interest rates so as not to risk of dragging the economy into a recession as was the case in the 1970s (chart).

U.S.: Consumer sentiment takes a hit
Index of consumer sentiment (university of Michigan)



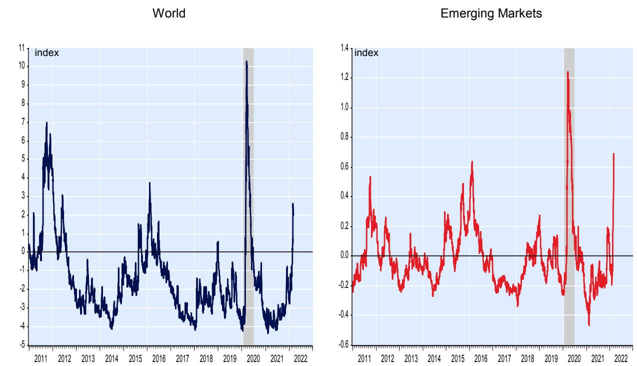
NBF Economics and Strategy (data via Refinitiv)

Our fixed income strategists see four rate hikes in 2022 with a view that the Fed will use quantitative tightening instead of quickly rushing to above neutral its policy rate (see ***here***). This approach would have the benefit of keeping more steepness in the yield curve than would otherwise be the case.

Asset allocation

We are shifting our asset mix recommendation this month to reflect the military conflict in Ukraine and a more uncertain path for the global economy amid surging prices for food and energy. While our baseline forecast does not reflect a stagflationary environment, the likelihood of such an outcome has increased significantly. As a result, we are reducing our exposure to global equities by cutting our emerging market position by 2 points in favor of a higher cash holding. Financial stress in emerging markets has reached levels not seen in over a decade, excluding the pandemic (chart). Emerging economies that rely on food & energy imports are particularly vulnerable to a balance of payments shock that could trigger some deleveraging in financial markets.

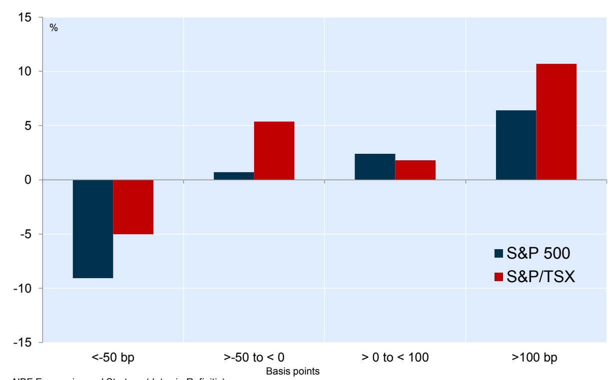
World: Global financial stress has surged
OFR financial stress index in global financial markets (as of March 11, 2022)



NBF Economics and Strategy (data via OFR)

We are still comfortable with our above-benchmark recommendation for Canadian equities as we believe the current environment of high commodity prices and a relatively steep yield curve allows the S&P/TSX to outperform (chart).

Mature phase: Return of equities based on slope of the yield curve
Average 6-month return of equities in mature phase depending on the slope of the yield curve



NBF Economics and Strategy (data via Refinitiv)

Moreover, we think that Canadian energy producers could benefit even more if the federal government was to re-evaluate its position on domestic fossil fuel production in the wake of the Ukrainian crisis. It has become clear that Russia can no longer be trusted as a reliable supplier of energy to Western economies. Our allies must find alternative fossil fuel suppliers to ensure a smooth transition to a lower carbon environment if

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they are to avoid using dirtier energy sources. We understand that carbon emissions are now central to investment decisions. At the same time, we cannot ignore the fact that Canada's geographic opportunities, geological makeup, existing infra¬structure, collaboration and industry partnerships position our country's energy sector to become a world leader in carbon capture, utilization and storage (CCS/CCUS).[1] So there is a way to reposition Canadian energy development while making it ESG compliant, but the federal government will need to help channel investment in these technologies. The upcoming federal budget could be positive for the S&P/TSX if Ottawa unveils an ambitious tax credit program to encourage CCS/CCUS.

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.6	1.1	1.1
MATERIALS	10.6	20.5	20.5
ENERGY	4.9	25.6	25.6
CONS. STAP.	4.8	0.1	0.1
TELECOM	4.5	8.3	8.3
UTILITIES	4.3	1.8	1.8
INDUSTRIALS	3.5	-0.7	-0.7
REAL ESTATE	2.0	-5.1	-5.1
FINANCIALS	-1.4	0.9	0.9
BANKS	-1.6	3.4	3.4
CONS. DISC.	-6.9	-12.8	-12.8
HEALTH CARE	-8.3	-19.0	-19.0
IT	-11.7	-42.4	-42.4

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NBF Economics and Strategy (data via Refinitiv)

NBF Asset Allocation

	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	25	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	-2
Fixed Income	45	42	
Cash	5	9	+2
Total	100	100	

NBF Economics and Strategy

In fixed income, our recommendation remains for a below market exposure. We stand ready to reassess our position based on the evolution of military conflict in Ukraine.

Sector allocation

Our sector allocation is unchanged this month. We continue to favour sectors that have done well in the early phase of monetary tightening when the yield curve remains above levels that would normally suggests an equity bear market while offering protection against stagflation (Energy, Base Metals, Gold) – table

U.S.: Equities performance in the mature phase

Average 6-month return in mature phase depending on the slope of the 10Y-3M yield curve (start date : 1973)

	<-0.5	>-0.5 to 0	0 to 0.5	>1
Total	**-9.1**	**0.7**	**2.4**	**6.4**
Information Technology	-16.7	-1.2	4.4	10.5
Real Estate	-14.7	6.2	-3.9	9.7
Health Care	-11.5	2.0	4.4	9.3
Insurance	-13.9	0.3	3.3	7.1
Energy	-1.7	5.6	4.7	6.2
Financials	-13.5	0.0	1.1	6.2
Small Cap	-6.6	3.2	-2.3	6.2
Consumer discretionary	-9.9	-1.5	1.0	4.3
Banks	-12.2	0.5	-2.9	3.9
Industrials	-7.3	1.7	2.6	3.8
Communication services	-4.6	1.2	4.7	6.5
Utilities	-12.6	1.8	6.3	4.3
Consumer staples	-12.2	1.5	3.8	5.4
Basic Materials	-2.7	8.1	2.2	-2.4
Metals and Mining	1.3	13.2	6.6	-5.9
Gold	7.5	14.4	5.0	-6.6

NBF Economics and Strategy (data from Refinitiv)

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - March 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**16.3%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	16.3%
Materials	**Overweight**	**13.7%**
Chemicals	Market Weight	2.5%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	3.1%
Gold	Overweight	7.1%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.8%**
Capital Goods	Overweight	2.0%
Commercial & Professional Services	Underweight	2.9%
Transportation	Market Weight	6.8%
Consumer Discretionary	**Market Weight**	**3.1%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Overweight	0.5%
Consumer Services	Market Weight	0.8%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.7%**
Food & Staples Retailing	Market Weight	3.1%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.6%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.5%
Financials	**Market Weight**	**32.2%**
Banks	Market Weight	22.3%
Diversified Financials	Market Weight	4.2%
Insurance	Market Weight	5.7%
Information Technology	**Underweight**	**6.1%**
Telecommunication Services	**Market Weight**	**5.1%**
Utilities	**Underweight**	**4.6%**
Real Estate	**Underweight**	**2.9%**

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

Back to Research Analysts page

Stock Market and Portfolio Strategy

NBF Market Forecast
Canada

Index Level		Actual Mar-11-22	Q4 2022 Target
S&P/TSX		21,462	22,700
Assumptions			Q4 2022
Level:	Earnings *	1381	1550
	Dividend	567	636
PE Trailing (implied)		15.5	14.6
			Q4 2022
10-year Bond Yield		1.99	2.20

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast
United States

Index Level		Actual Mar-11-22	Q4 2022 Target
S&P 500		4,204	4,500
Assumptions			Q4 2022
Level:	Earnings *	210	225
	Dividend	62	66
PE Trailing (implied)		20.0	20.0
			Q4 2022
10-year Bond Yield		2.01	2.25

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on 03-11-2022	Returns M-T-D	Y-T-D	1-Yr	3-Yr	Returns Y-T-D	1-Yr	3-Yr	with S&P 500
North America - MSCI Index	***4221***	***-4.0%***	***-12.0%***	***5.2%***	***50.7%***	***-11.5%***	***6.3%***	***42.6%***	**1.00**
United States - S&P 500	4204	-3.9%	-11.8%	6.7%	51.1%	-11.3%	7.9%	43.0%	1.00
Canada - S&P TSX	21462	1.6%	1.1%	13.9%	33.3%	1.1%	13.9%	33.3%	0.95
Europe - MSCI Index	***1799***	***-7.1%***	***-14.0%***	***-6.0%***	***11.7%***	***-13.6%***	***-5.0%***	***5.7%***	**0.93**
United Kingdom - FTSE 100	7156	-4.1%	-3.1%	6.2%	0.4%	-5.9%	0.6%	-5.1%	0.32
Germany - DAX 30	13628	-5.8%	-14.2%	-6.5%	18.1%	-16.8%	-13.3%	9.2%	0.94
France - CAC 40	6260	-6.0%	-12.5%	3.8%	18.9%	-15.1%	-3.9%	9.9%	0.86
Switzerland - SMI	11496	-4.1%	-10.7%	5.6%	23.1%	-12.3%	5.9%	26.2%	0.96
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	13.1%	-3.0%	-7.4%	4.6%	0.50
Netherlands - Amsterdam Exchanges	675	-7.5%	-15.4%	-1.3%	26.0%	-18.0%	-8.6%	16.6%	0.96
Pacific - MSCI Index	***2812***	***-4.4%***	***-9.5%***	***-11.4%***	***8.2%***	***-9.0%***	***-10.4%***	***2.4%***	**0.87**
Japan - Nikkei 225	25163	-5.1%	-12.6%	-13.9%	19.1%	-13.5%	-19.3%	7.2%	0.92
Australia - All ordinaries	7339	0.2%	-5.7%	5.6%	17.2%	-4.5%	0.5%	15.1%	0.85
Hong Kong - Hang Seng	20554	-9.5%	-12.2%	-30.1%	-27.9%	-12.0%	-29.9%	-31.6%	-0.14
World - MSCI Index	***2840***	***-4.6%***	***-12.1%***	***1.2%***	***36.9%***	***-11.6%***	***2.3%***	***29.6%***	**1.00**
World Ex. U.S.A. - MSCI Index	***2094***	***-5.4%***	***-11.2%***	***-5.9%***	***13.2%***	***-10.7%***	***-4.9%***	***7.1%***	**0.93**
EAFE - MSCI Index	***2044***	***-6.2%***	***-12.5%***	***-7.9%***	***10.5%***	***-12.0%***	***-7.0%***	***4.6%***	**0.92**
Emerging markets (free) - MSCI Index	***1,086***	***-7.3%***	***-11.9%***	***-20.0%***	***4.3%***	***-11.4%***	***-19.2%***	***-1.3%***	**0.83**

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-03-11

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2022	EPS Growth 2023	EPS Growth 12-m forward	P/E 2022	P/E 2023	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	287	-6.53	20.15	9.01	9.94	9.01	19.75	17.96	19.14	16.92	2.12	1.96
Energy	4.16	581	34.82	45.10	41.65	-5.84	26.42	12.42	13.19	12.60	21.11	0.48	14.48
Materials	2.61	513	-7.30	4.28	8.40	-4.82	4.80	15.13	15.90	15.28	18.34	3.19	4.05
Industrials	8.04	826	-7.03	2.55	35.37	19.86	30.22	20.15	16.81	19.15	15.06	0.63	-2.21
Consumer Discretionary	11.60	1316	-18.51	-0.99	28.56	22.49	26.19	27.63	22.56	26.22	28.36	1.00	0.54
Consumer Staples	6.16	745	-3.46	10.99	5.63	8.33	6.45	21.52	19.86	20.88	8.65	3.24	0.23
Healthcare	13.78	1500	-4.18	12.72	7.65	-0.15	5.66	15.72	15.74	15.73	9.62	2.78	3.64
Financials	11.37	604	-6.78	5.92	-9.95	12.92	-4.66	14.48	12.82	14.02	21.56	neg.	0.40
Information Technology	27.29	2524	-17.75	8.76	12.91	12.29	11.83	24.90	22.17	23.56	15.70	1.99	3.99
Telecom Services	9.45	220	-17.53	-9.11	2.48	14.48	5.32	18.42	16.09	17.73	19.96	3.34	-2.63
Utilities	2.76	356	1.83	14.40	0.09	7.74	2.01	19.80	18.37	19.41	6.45	9.67	-2.83
Real Estate	2.77	287	-6.53	20.15	-18.67	11.20	-12.30	45.67	41.07	44.43	32.46	neg.	2.73

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

Technical Analysis

Dennis Mark, CFA
Analyst
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Around the world in six charts

In past editions, we highlighted the deteriorating technical condition of markets as the market indices pushed higher. Market indices around the world are now rolling over with some breaking top structures. It is now important as ever to keep our eyes on the bouncing ball as there is a lot of noise to distract us. Listen to the market, not the news. The key breakdown is on the Dow Industrials chart. Historically, breaking the 200-day moving average on the Dow, either up or down, is important for the trend in the market, and in this case, it is breaking down.

Technical Analysis

Dow Jones Industrials Average (DJI)

In the February Vision, we highlighted the Russell 2000 chart as it broke down from a one-year top at 2,100 and continues to trend lower. We now highlight the Dow Industrial chart as it breaks down from a 10-month top at 33,800. A faltering rising trend continues to see technical deterioration. Its 50-day is poised to trade below its 200-day as trend deterioration continues. A rising trend was broken in January as the chart broke below its 200-day as well. This important break of its 200-day is almost the opposite pattern in 2020 as the Dow turned up shortly after the pandemic started. Now that the pandemic is seemingly in its late stages, the chart is turning down. Our first target is 30,000, but more importantly, the trend is turning increasingly bearish.

REFINITIV

Source: Refinitiv

Technical Analysis

NYSE Composite Index (NYA)

The NYSE Composite Index is a broad measure of the U.S. stock market comprising of all common stocks market capitalization weighted. A rising trend on this index is losing upside momentum as the index fails to maintain new high territory over the past few months. A rising trend line from the 2020 lows failed in November. Key chart support at 16,000 is being challenged again as the chart forms a potential top structure. Recent weakness below its moving averages are resulting in failing rebounds. Breaking 16,000 completes a top that turns the trend bearish.

Source: Refinitiv

Technical Analysis

NASDAQ Composite Index (IXIC)

The NASD market led the recent bull market in stocks and is now losing that leadership role. A break of its rising trend line along with support at 14,400 highlights the technical deterioration. Despite a bullish 2021, the NASD has quickly given back just about all its gains. Failing to hold its 200-day in early 2022 signalled further technical weakness. Next key support at approximately 13,000 is being challenged with any failure creating a big top structure that indicates an extension of the weak trend.

Source: Refinitiv

Technical Analysis

DAX Index (DAX)

The DAX in Germany has a similar chart formation to U.S. markets and arguably is a little weaker and leading to the downside. A similar break of trend lines and moving averages indicates that a weaker trend is emerging. A recent break of support at 15,000 completes a 10-month top that turns the trend bearish. Next stop is 13,500 but more importantly, the trend is now down with negative implications for other markets.

Source: Refinitiv

Technical Analysis

iShares MSCI ex U.S. ETF (ACWX)

The ACWX chart broke down from a one-year top in early 2022 and appears to show leadership on the downside among world markets. U.S. stock markets led the recovery from the 2020 lows with growth and technology stocks that have been faltering lately. The ACWX chart indicates the rest of the world outside the U.S. With the U.S. leadership waning, the rest of the world is not an alternative for investment dollars. The ACWX chart broke support at US$54.00 turning the trend bearish. Meaningful support on this chart does not come into play until the mid US$40s, suggesting downside risk in many international markets.

Source: Refinitiv

Technical Analysis

S&P/TSX Composite Index (GSPTSE)

The S&P/TSX Composite Index is holding up relatively well given the higher exposure to commodities and financials. Nevertheless, the rising trend since the 2020 bottom is under pressure as technical deterioration intensifies. Support along its 200-day at approximately 20,650 continues to hold after two tests recently. Key support resides at 20,000. Unless commodities carry the S&P/TSX index, this support is at risk given what is happening to other markets around the world.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **February 28, 2022**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$19.93	$28.00	0.66%	41.19%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$29.69	$36.00	6.31%	27.72%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$6.13	$8.00	0.53%	31.00%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$5.86	$8.50	0.00%	45.05%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$50.00	$62.50	1.54%	26.60%	Oil, Gas & Consumable Fuels
Materials							
	Cascades Inc.	CAS	$13.13	$18.00	3.78%	40.75%	Containers & Packaging
	Centerra Gold Inc.	CG	$12.36	$14.00	2.19%	15.53%	Gold
	Copper Mountain Mining Corp.	CMMC	$3.53	$4.50	0.00%	27.48%	Metals & Mining
	Endeavour Mining plc	EDV	$33.48	$45.50	2.08%	38.03%	Gold
	Hudbay Minerals Inc.	HBM	$10.33	$12.50	0.20%	21.20%	Metals & Mining
	Kinross Gold Corp.	K	$6.32	$11.50	2.14%	84.81%	Gold
	Pan American Silver Corp.	PAAS	$29.98	$41.00	1.74%	38.80%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$45.64	$55.00	1.00%	21.60%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$14.27	$15.25	0.00%	6.87%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$49.15	$66.00	0.00%	34.28%	Capital Goods
	CAE Inc.	CAE	$33.91	$44.00	0.00%	29.76%	Capital Goods
	Dexterra Group Inc.	DXT	$7.90	$14.50	4.59%	87.97%	Commercial & Professional Services
	Hardwoods Distribution Inc.	HDI	$41.98	$79.00	1.19%	89.33%	Capital Goods
	Heroux-Devtek Inc.	HRX	$17.57	$26.00	0.00%	47.98%	Capital Goods
	IBI Group Inc.	IBG	$14.05	$20.00	0.00%	42.35%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$12.36	$16.50	4.94%	38.35%	Transportation
	TFI International Inc.	TFII	$132.12	$160.00	1.15%	22.13%	Transportation
	WSP Global Inc.	WSP	$155.51	$209.00	0.93%	35.36%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$49.76	$65.00	1.89%	32.36%	Consumer Durables & Apparel
	Spin Master Corp.	TOY	$46.42	$66.00	0.00%	42.18%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.17	$15.00	5.18%	28.28%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$5.27	$14.00	0.00%	165.65%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$4.86	US$10.00	5.83%	111.93%	Pharmaceuticals, Biotechnology & Life Sciences
	Knight Therapeutics Inc.	GUD	$5.44	$8.00	0.00%	47.06%	Pharmaceuticals, Biotechnology & Life Sciences
Financials							
	Bank of Montreal	BMO	$144.73	$163.00	3.72%	16.30%	Banks
	Canadian Imperial Bank of Commerce	CM	$160.43	$167.00	4.13%	8.11%	Banks
	Equitable Group Inc.	EQB	$75.74	$95.00	1.56%	26.91%	Banks
	iA Financial Corporation Inc.	IAG	$75.31	$89.00	3.48%	21.50%	Insurance
	Trisura Group Ltd.	TSU	$34.72	$65.00	0.00%	87.21%	Insurance
Information Technology							
	Lightspeed Commerce Inc.	LSPD	US$26.27	US$75.00	0.00%	185.50%	Software & Services
	Shopify Inc.	SHOP	US$694.26	US$1500.00	0.00%	116.06%	Software & Services
	Telus International (Canada) Inc.	TIXT	US$24.55	US$50.00	0.00%	103.67%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.84	$19.00	0.00%	37.28%	Media & Entertainment
	TELUS Corp.	T	$32.01	$36.00	3.96%	16.56%	Telecommunication Services
Utilities							
	Boralex Inc.	BLX	$37.01	$44.00	1.66%	20.67%	Utilities
	Capital Power Corp.	CPX	$38.95	$47.00	5.47%	26.29%	Utilities
	Innergex Renewable Energy Inc.	INE	$18.43	$23.00	3.67%	28.70%	Utilities
	Northland Power Inc.	NPI	$40.30	$44.00	2.88%	12.16%	Utilities
Real Estate							
	Canadian Apartment Properties REIT	CAR.un	$52.76	$70.50	2.70%	36.37%	Real Estate
	Crombie REIT	CRR.un	$17.38	$20.00	5.04%	20.20%	Real Estate
	Flagship Communities REIT	MHC.u	US$18.36	US$24.00	2.99%	33.63%	Real Estate
	H&R REIT	HR.un	$12.93	$17.00	4.08%	35.50%	Real Estate
	Killam REIT	KMP.un	$21.33	$27.00	3.26%	29.86%	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 February 28, 2022
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› *METALS AND MINING: PRECIOUS METALS / BASE METALS*

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Back to Research Analysts page

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Selections

- *iA Financial Corporation*
- *Bank of Montreal*
- *Canadian Imperial Bank of Commerce*

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *Guidance & IFRS 17 commentary are positives.*

IAG's Q4/21 EPS miss should be taken with a grain of salt, as it was caused by "high" quality factors. New business strain was higher than expected which we suspect was tied to strong sales performance during the year that boosted incentive compensation. Additionally, if we're going to call out tax-driven EPS beats as "low quality", IAG's higher than expected tax rate should arguably be viewed in a neutral fashion. Nonetheless, a miss is a miss. If the stock remains down after its earnings release, we believe investors should be opportunistic and buy the stock as we saw more positive factors affecting the outlook beyond the quarter. Of note, several guidance items (e.g., 2022 EPS guidance, 13-15% ROE target) were better than expected and IAG's commentary on IFRS 17 impact ranged from benign to positive. $89 price target. Outperform.

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

BMO's Bank of the West acquisition differed from our expectations in several, mostly positive, ways. The biggest divergence is a much lower number of shares issued (i.e., nearly 30 million vs. 84 million estimate) than expected. At this point, a common view is that BMO could be "dead money" in the coming year, as investors weigh regulatory approval, financing and execution risks. While valid, we believe the longer-term perspective is much more positive. BMO has addressed its excess capital "overhang" and will offset the headwind of PCL normalization with acquisition-related expense synergies. Moreover, if rate hikes materialize as anticipated by consensus, we see additional EPS/ROE upside that could lead to positive 2023 EPS revisions. $163 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/28	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		94,173	648	145.27	10/2021	12.96	13.17	14.20	11.0	10.2	80.18	89.36	97.56	1.6	1.5	3.7%	163.00	↑
Bank of Nova Scotia	BNS	SP		111,456	1,216	91.68	10/2021	7.87	8.30	8.55	11.0	10.7	53.28	57.37	61.54	1.6	1.5	4.4%	90.00	↑
CIBC	CM	OP		73,762	451	163.61	10/2021	14.47	15.54	15.26	10.5	10.7	94.86	99.72	106.06	1.6	1.5	3.9%	167.00	↑
National Bank	NA	NR		34,765	338	102.78	10/2021	8.98	9.46	9.27	10.9	11.1	50.23	53.02	56.74	1.9	1.8	3.4%	NR	
Royal Bank of Canada	RY	OP		200,066	1,425	140.37	10/2021	11.19	11.55	12.19	12.2	11.5	66.71	70.05	74.39	2.0	1.9	3.4%	147.00	↑
Toronto-Dominion Bank	TD	OP		190,727	1,822	104.68	10/2021	7.91	8.05	8.75	13.0	12.0	51.66	55.96	61.04	1.9	1.7	3.4%	110.00	↑
Canadian Western Bank	CWB	SP		3,420	90	37.93	10/2021	3.81	3.89	4.35	9.8	8.7	33.64	35.46	38.29	1.1	1.0	3.2%	44.00	↑
Laurentian Bank	LB	SP		1,858	44	42.63	10/2021	4.57	4.68	4.93	9.1	8.6	54.33	57.08	60.00	0.7	0.7	4.1%	49.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		35,601	931	38.25	12/2021	2.88	3.50	3.85	10.9	9.9	24.71	24.71	26.42	1.5	1.4	5.1%	39.00	
iA Financial	IAG	OP		8,255	108	76.68	12/2021	7.12	8.31	9.00	9.2	8.5	62.01	107.80	108.11	0.7	0.7	3.3%	89.00	↑
Manulife Financial	MFC	SP		50,316	1,943	25.90	12/2021	2.75	3.25	3.44	8.0	7.5	26.78	26.78	28.07	1.0	0.9	5.1%	28.00	
Sun Life Financial	SLF	SP	↓	39,422	586	67.29	12/2021	5.45	5.99	6.44	11.2	10.4	41.08	41.08	45.89	1.6	1.5	3.9%	77.00	↓

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

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Selections

- *Trisura Group*
- *Equitable Group*

Company Outlooks

P&C Insurance 2022 Outlook – Something for Everyone

We believe the P&C insurance industry is well-positioned for 2022. Overall, TSU remains at the top of our pecking order given a rapid growth outlook and valuation upside. We believe FFH is the best value idea in our coverage. As it relates to IFC and DFY, we believe the next leg of share price acceleration is contingent on proof of execution. In the short term, we believe IFC will prove out execution and integration of the RSA acquisition sooner than DFY's longer-term goals.

Equitable Group (EQB; Outperform, $95 PT) – Record Quarter Topped with Concentra Bank Acquisition and Dividend Hike

EQB delivered record-high core EPS of $2.29, 8% above the street at $2.12 (NBF at $2.09). In addition, all key performance targets were met in 2021, giving management the confidence to reaffirm 2022 guidance. EQB also announced the acquisition of Concentra Bank, a Saskatoon-based Schedule I bank that serves Canadian consumers, businesses, credit unions and Fintechs. Overall, we like the deal from a financial and strategic standpoint given Concentra's complementary assets, new avenues of growth/reach, and diversification of revenues and funding sources. We raised our price target to $95. Reiterate Outperform rating.

ECN Capital Corp. (ECN; Outperform, $8 PT) – Source One Tuck-In Highlights Solid Investor Day

Management provided guidance that implies year-over-year EPS growth of 30% in 2023 at the mid-point, increased adjusted operating income before tax guidance ranges in 2022 at both Triad (mid-point up 8%) and Kessler Group (mid-point up 4%), and announced an attractive tuck-in acquisition of Source One Financial, a prime and super-prime RV and marine installment loan company. Our confidence in management's ability to execute against its growth forecasts led to a price target increase to $8. Reiterate Outperform.

IGM Financial (IGM; Outperform, $62 PT) – Positive outlook for 2022 grounded in growth levers

We hosted James O'Sullivan, President & CEO of IGM Financial, for a fireside chat on February 22, 2022. Mr. O'Sullivan expressed an optimistic outlook despite inflation/interest rate noise and moderating net flows from 2021 levels. In addition, he touched on the key growth catalysts in each segment: (1) Wealth Management – the iProfile Managed Asset Program is driving the "bulk" of the AUM growth in the High Net Worth (HNW) channel thanks to its ability to provide HNW retail clients access to sophisticated and alternative funds; and (2) Asset Management – the five key growth areas include sustainable Investing, alternative / private investments, ETFs, retirement-focused solutions and China. The capital allocation pecking order remains unchanged with the priority being (i) organic growth (recruiting advisors/teams in the Wealth segment and delivering on the five growth levers in the Asset Management segment); (i) opportunistic M&A to grow the Wealth segment domestically and add global capabilities to the Asset Management segment; (iii) share buybacks; and (iv) growing the dividend with earnings over time.

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 2/28	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.58	34.1	75.74	12/2021	8.36	8.67	9.86	8.7	7.7	55.24	63.33	71.47	1.2	1.1	1.5%	95.00	↑
First National Financial	FN	SP		2.65	60.0	44.16	12/2020	3.14	3.56	4.04	12.4	10.9	9.11	9.05	10.37	4.9	4.3	5.3%	46.00	
Home Capital Group	HCG	OP		1.65	43.0	38.31	12/2021	4.87	5.13	5.90	7.5	6.5	36.55	39.67	44.76	1.0	0.9		49.00	
Timbercreek Financial	TF	SP		0.78	82.0	9.47	12/2021	0.68	0.72	0.73	13.2	12.9	8.33	8.36	8.40	1.1	1.1	7.3%	10.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.39	243.3	5.71	12/2020	US 0.31	US 0.31	US 0.39	14.4	11.6	US 2.83	US 3.58	US 3.72	1.3	1.2	2.1%	8.00	↑
Element Fleet Management	EFN	OP		5.18	416.4	12.44	12/2020	0.82	0.87	1.03	14.3	12.1	7.24	7.33	7.76	1.7	1.6	2.5%	19.00	
goeasy	GSY	OP		2.43	16.2	150.19	12/2021	10.43	11.46	14.71	13.1	10.2	48.76	56.42	66.68	2.7	2.3	2.4%	220.00	
Brookfield Business Partners	BBU	OP		US 6.31	US 146.8	US 42.98	12/2021	US 4.37	US 2.06	US 3.06	20.9	14.0	US 29.14	US 37.19	US 45.87	1.2	0.9	0.6%	US 68.00	↑
Power Corporation of Canada	POW	SP		26.44	676.5	39.09	12/2020	4.80	4.37	-	8.9	-	34.07	37.18	-	1.1	-	5.1%	48.00	
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.8	69.7	25.22	12/2020	-0.17	0.78	1.07	32.2	23.5	8.60	8.72	9.14	2.9	2.8	3.1%	32.00	
Securities Exchange																				
TMX Group	X	SP		7.16	55.9	128.04	12/2021	7.10	6.97	7.49	18.4	17.1	66.32	71.40	74.72	1.8	1.7	2.6%	139.00	↓
Insurance																				
Definity Financial Corp.	DFY	OP		0.0	0.0	27.55	12/2021	2.09	1.6	2.03	17.2	13.6	20.68	21.81	23.38	1.3	1.2	2.5%	36.00	
Intact Financial Corp.	IFC	OP		32.01	176.1	181.79	12/2021	12.32	11.14	11.61	16.3	15.7	82.34	89.11	94.79	2.0	1.9	2.2%	225.00	↑
Trisura Group Ltd.	TSU	OP		1.43	41.2	34.72	12/2021	1.48	1.65	1.89	21.1	18.4	8.70	10.33	12.20	3.4	2.8		65.00	↑
Fairfax Financial Holdings	FFH	OP		15.90	25.9	614.45	12/2020	US 111.45	US 81.01	US 63.63	6.0	7.6	US 561.88	US 659.12	US 716.95	0.7	0.7	2.1%	1000.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.09	104.8	10.43	12/2021	1.63	1.26	1.42	8.3	7.3	3.99	3.95	4.30	2.6	2.4	8.2%	11.50	↓
IGM Financial Inc.	IGM	OP		10.79	239.7	45.03	12/2021	4.04	4.38	4.77	10.3	9.4	26.91	29.09	31.67	1.5	1.4	5.0%	62.00	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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Selections

- *Shawcor Ltd.*
- *Mullen Group Ltd.*

Solid Q4 results to close out 2021 for Mullen Group and Pason Systems Inc.

Mullen reported Q4/21 adj. EBITDA of $60.6 mln (excluding a $5.2 mln lift from CEWS), in line with the consensus estimate of $60.8 mln and mirroring our forecast.

Mullen posted record revenue of $442 mln in Q4, 3% above the Street at $430 mln (NBF ~$424 mln) with a stronger than expected top-line performance and y/y improvements from all reporting segments except the Specialized & Industrial Services (S&IS) division which continued to be hindered by reduced pipeline hauling and stringing activity and civil construction projects, echoing Q3/21 results. While central bank efforts to moderate inflationary pressures could slow economic activity moving forward, supply chain capacity constraints and a tight labour market are expected to support MTL's pricing leverage, helping maintain margins and Mullen's 2022 business outlook (pointing to adj. EBITDA in the range of $260 mln excluding the impact of acquisitions). While we suspect M&A opportunities will be evaluated throughout 2022, owing to the lofty valuation expectations associated with current opportunities Mullen highlighted a focus on recent acquisition integration and a new differentiated pricing model to ensure margins are maintained (at minimum). We highlight Mullen as a top pick in 2022, viewing the company as favorably positioned to pass on cost inflation via price increases amid the ongoing tightness in the supply chain. **We maintain our previous $16.50 target driven by 7.3x 2023e EV/EBITDA, a full turn below MTL's post-2014 forward year EV/EBITDA average. With a diversified business model and a top-tier management team, we reiterate our Outperform rating.**

Pason reported fourth quarter adjusted EBITDA of $24.2 mln, topping our $23.0 mln forecast by 5% and outpacing the Street estimate of $23.3 mln by 4%.

Q4 revenue of $62.8 mln was modestly (3%) above NBF/Street forecasts of ~$61.0 mln, improving 9% sequentially with each reporting segment largely in line with expectations. Adj. EBITDA margins of 38.5% were roughly flat q/q despite an increase in staffing and repair costs required to support higher levels of activity moving forward, resulting in incremental adj. EBITDA margins of 36% for the fourth quarter. While PSI anticipates pressure on near-term incremental margins owing to a rise in staffing and repair costs ahead of growth in industry activity levels, we are encouraged by the strength in North America revenue per industry day (reaching a new high-water mark of $767 in Q4) driven by increased product adoption and market share. With a supportive backdrop underpinning a positive outlook and improving cash flow generation, concurrently with Q4 results, PSI announced a 60% increase in the quarterly dividend to $0.08/sh from $0.05/sh implying a ~2.5% annualized yield on the closing price. Our forecasts point to what we view as a sustainable (sub-50%) payout ratio given PSI's attractive operating margins and low capital intensity, with management highlighting 2022 planned capital spending of ~$30 mln. **We maintain our Sector Perform rating and our $15.25 target driven by 8.2x 2023e EV/EBITDA, roughly in line with PSI's recent forward year average but still well below PSI's post-2008 average of 10.0x.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/28	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		704.42	18.8	37.50	149.3	170.9	199.1	10.0	9.0	7.9	4.3	46.00	24%	
CES Energy Solutions Corp.	CEU	SP	↓	647.37	254.9	2.54	83.3	149.4	173.0	11.3	6.7	6.1	2.4	2.85	15%	
Enerflex Ltd.	EFX	OP	↑	702.19	89.7	7.83	191.3	140.0	265.2	5.5	6.6	8.4	3.1	10.75	39%	
good natured Products Inc.	GDNP	OP		137.02	217.5	0.63	-1.5	-0.6	4.1	(92.5)	(283.6)	45.0	-56.8	1.25	98%	
Green Impact Partners Inc.	GIP	OP		160.37	20.3	7.90		3.3	6.3		46.8	27.6	-2.4	12.00	52%	↑
Mullen Group Ltd.	MTL	OP		1168.42	94.5	12.36	191.5	218.7	262.0	8.2	7.9	6.4	1.9	16.50	38%	
Pason Systems Corp.	PSI	SP		1061.95	82.2	12.92	39.5	72.5	113.2	23.4	12.5	7.8	-2.2	15.25	21%	↑
Shawcor Ltd.	SCL	OP		413.01	70.5	5.86	43.8	96.7	117.5	16.1	6.6	5.6	2.1	8.50	45%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

Back to Research Analysts page

Sector Analysis

ESG

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Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) reaching US$35 trillion in 2020, representing one in every ~US$3 and effectively growing at an ~11% CAGR over four years. If the pace of ESG investment grows at even half this rate, we anticipate ESG AUM rising to US$47 trillion by 2025 or US$60 trillion at historical 11% CAGR. We expect ESG integration and shareholder engagement/voting to be the leading ESG investment style, especially as ESG disclosure and transparency improve at the corporate level and as institutional investors become more educated in the ESG landscape. In our opinion, we view ESG integration, which involves factoring in non-financial metrics into fundamental analysis, as the best way for investors to implement ESG while generating adequate returns, as it allows an investor to understand, and hopefully, avoid specific ESG risks, while not placing hard restrictions on specific industries.

Carbon Market Overview

- *Carbon Markets*

Carbon prices have continued to rise at considerable rates (90% Y/Y), inclusive of all regions and systems (range 60% - 120% Y/Y). The rise in prices has largely been attributable to enhanced government ambition to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby, leading to higher carbon prices.

Starting with the most liquid carbon market, the European Emission Allowances (EUA) Dec-22 contract closed the month of February at levels of €82.21 (US$92.23), while hitting a record high in the month at €96.93. Overall, on average EUAs were up 5-10% this past month and remain in contango with the Dec 23 – Dec 22 spread reflecting €1.50. Considering prices on a Y/Y basis, EUAs have more than doubled in the past year. Elsewhere, the United Kingdom Emissions Allowances (UKEA) Dec-22 futures, which started trading at the end of May 2021, closed at £79.59 (US$106.81) at the end of February and are up +10% M/M and +70% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) Dec-22 futures closed the month out at US$14.15 and are flat M/M & ~70% Y/Y. Lastly, the California Carbon Allowances (CCA) Dec-22 futures closed the month at $30.62 and decreased on a monthly average by 5-10%; however, we note Y/Y CCA prices are up ~70%%.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) Dec-22 futures, which closed the month at $6.55 and decreased on average by 5-10% on a monthly basis, while the Nature-based Global Emissions Offset (NGEO) Dec-22 future also followed in similar step decreasing 5-10% and closing at $12.98. We note that GEO started trading on February 26, 2021 at US$2.58, before bottoming at US$2.30 on May 21st and now has ~2.5x in price.

- *Voluntary Carbon Market Share*

According to an analysis provided by Bloomberg, <5% of voluntary offsets are categorized as removals as these offsets remove CO_2e from the atmosphere as opposed to avoiding it. We flag this point given that the Science Based Targets initiative currently includes only removals in its methodology of getting to net-zero for residual/hard-to-abate emissions after all other available means have been exhausted. In addition, the language in the Paris Agreement only discusses pure removals; however, this is an issue that is anticipated to be addressed at COP27 this November. In our opinion, both avoidance and removal credits will be needed for the world to reduce its total global emissions of ~50 Gt CO_2e down to zero by mid-century, especially given that we are in the early innings in the evolution of voluntary carbon markets.

Healthcare, Biotech & Special Situations

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Selections

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

Highlights as of February 2022

We highlight DRI Healthcare Trust (TSX: DHT.U) which we included in the National Bank's 2022 Dividend All-Stars portfolio in February 2022.

DRI Healthcare Trust

We included DRI in the 2022 Dividend All-Stars portfolio given its attractive and sustainable yield and our overall positive bias regarding the prospect of the trust and/or unit price. The Trust provides an ongoing distribution yield of ~6% at an estimated payout of 15%-16% and intends to pay year-end special distributions, which in 2021 provided an incremental yield of 4%.

Our positive view on the trust is supported by: 1) A diversified portfolio of pharmaceutical royalties (17 royalty assets on 13 products) with no single product accounting for more than 18% of royalty receipts; 2) Minimal development risk as DRI invests in pharmaceuticals that have already been approved or are in regulatory review, and are generally marketed by well-known pharma companies; 3) An experienced management team with a strong track record (US$2+ billion invested into 60+ royalty streams over the last 15 years and achieving, collectively, an historical average IRR of 19%); and 4) Sustainable distributions given DRI's elevated EBITDA margins (90%+) and EBITDA to Free Cash Flow conversion (85%+) attributable to few operating expenses outside of management, deal sourcing / investing and public entity fees alongside minimal capex.

We have a US$10.00 target that implies a 5x FY+1 EV/EBITDA and find the units to be fundamentally undervalued at ~2.5x FY+1 EV/EBITDA driving our Outperform rating.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 2/28	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	UP	↓	96.15	89.0	1.08u	3/2021	0.0%	(0.52)u	(0.14)u	(0.09)u	nmf	nmf	42.1u	67.5u	139.0u	18.1	8.9	1,125.5u	8.1	0.75u	↓
Andlauer Healthcare Group	AND	SP		1,873.42	41.5	45.12	3/2021	0.4%	0.81	1.29	1.47	34.9	30.7	78.9	115.4	140.6	18.0	14.8	204.6	1.5	49.00	
Dialogue Health Technologies	CARE	OP		346.60	65.8	5.27	3/2021	0.0%	-	(0.35)	(0.17)	nmf	nmf	(16.9)	(19.3)	(5.6)	nmf	nmf	-	-	14.00	
DRI Healthcare Trust	DHT.UT	OP		194.9u	40.1	4.86u	3/2021	6.2%	-	0.82	0.78	5.9	6.2	104.7	98.4	82.2	1.7	2.2	13.3u	0.2	10.00u	
IMV Inc.	IMV	SP		105.14	82.1	1.28	3/2021	0.0%	(0.49)	(0.36)	(0.52)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	2.50	
Jamieson Wellness	JWEL	OP		1,327.37	40.4	32.85	4/2021	1.8%	1.34	1.45	1.50	22.6	21.8	100.1	110.0	117.2	13.6	12.7	142.4	1.2	42.75	
Knight Therapeutics	GUD	OP		669.44	123.1	5.44	3/2021	0.0%	0.09	0.27	0.36	20.1	15.1	16.8	45.1	60.1	12.2	9.1	-	-	8.00	
Medical Facilities Corp.	DR	OP		313.24	31.1	10.07	3/2021	3.2%	0.96u	0.94u	0.96u	8.9	8.9	57.3u	61.8u	56.3u	6.1	6.8	87.1u	2.0	11.50	
Theratechnologies	TH	SP		336.73	95.1	3.54	4/f2021	0.0%	(0.25)u	0.01u	0.06u	nmf	45.3	(14.6)u	5.0u	10.05u	55.0	27.2	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		208.82	90.0	2.32	2/f2022	0.0%	0.08	0.09	0.13	25.1	17.2	14.6	17.8	20.9	13.1	11.2	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		374.04	10.6	35.25	3/2021	0.0%	2.49	2.29	2.70	15.4	13.1	43.8	44.6	51.5	10.4	9.0	88.1	1.7	45.00	
Rogers Sugar	RSI	SP		604.76	103.7	5.83	1/f2022	6.2%	0.33	0.43	0.45	13.7	12.9	91.0	98.2	104.2	9.8	9.2	380.2	3.6	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		771.25	104.2	7.40	4/2021	8.1%	0.70	0.88	0.88	8.4	6.2	280.4	282.9	310.5	6.9	6.3	1,177.9	3.8	8.75	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

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Selections

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

WSP Global Inc.

Upcoming Strategic Plan + what's happening to the stock?

▸ *Upcoming Strategic Plan – providing context around peers' long-term ambitions; hence, don't expect major deviations from the trajectory*

We identify the following expected topics of discussion: 1) Headcount additions – important operational driver but not necessary for modeling / share price performance. In the 2019-2021 iteration, WSP was guiding for a 1/3 increase in headcount towards 65,000; despite adding Golder, we are tracking 15% below the guided metric. While employee targets are "easy" to telegraph, doing the right acquisitions in our mind is a more important proposition; 2) Organic revenue CAGR is likely in mid-single-digit range; 3) Slightly improving margins (given relative lack of operational leverage; upside comes from product mix, digital and offshore capabilities); 4) Further, improving FCF metrics (function of strong working capital management); 5) Building on strategic advisory expertise; 6) Still highly fragmented M&A landscape.

▸ *Bottom line – the worst start in a decade; using the opportunity to double down ahead of the Strategic Update on March 9*

This has been an ugly start to the year for arguably the best backdrop an engineering consulting industry can aspire – public spending is up due to healthy tax receipts and enacted infra programs (globally) while commodity backdrop is buoying oil / mining work (on top of supporting geographies such as Canada, Australia, South America and the Middle East). The ESG wave that swept up a number of market's sub-segments has moderated (we are using EV players as the leading indicator here), pushing down the valuations of TTEK and Sweco to more reasonable levels; it's hard to decouple given this dynamic. While it's easy to rationalize why certain things are the way they are in hindsight, we see a compelling long opportunity in WSP shares at the moment. We strongly believe that WSP's organic and M&A plans should lead to further share price compounding. We reiterate our Outperform rating on the shares along with the $209.00 target price.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 2/28	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**		$17.61	$1,062	12 - 2020	$0.95	$1.31	$1.41	12.4x	11.5x	$248	$255	$263	6.3x	6.1x	4.0%	1.6x
Bird Construction Inc.	BDT	OP		**$12.00**		$9.50	$506	12 - 2020	$0.96	$0.93	$0.99	10.2x	9.6x	$100	$106	$110	4.6x	4.4x	4.1%	net cash
Finning International Inc.	FTT	OP		**$46.00**		$36.88	$5,941	12 - 2020	$1.14	$2.18	$2.32	17.0x	15.9x	$636	$855	$905	8.1x	7.7x	2.4%	1.1x
IBI Group Inc.	IBG	OP		**$20.00**		$14.05	$440	12 - 2020	$0.48	$0.72	$0.84	16.7x	15.5x	$47	$15	$40	10.4x	9.8x	0.0%	0.6x
North American Construction Group Ltd.	NOA	OP		**$30.00**	↑	$19.16	$543	12 - 2020	$1.74	$2.06	$2.40	8.0x	7.6x	$175	$8	R	4.0x	3.8x	1.7%	1.8x
Ritchie Bros. Auctioneers	RBA	SP		**US$55.00**	↓	US$52.38	$5,791	12 - 2020	US$1.59	US$1.64	US$1.54	38.6x	31.8x	US$352	US$182	US$204	17.3x	14.9x	0.0%	4.1x
SNC-Lavalin	SNC	OP		**$44.00**		$28.54	$5,010	12 - 2020	-$0.67	$1.54	$1.88	10.6x	8.9x	$93	$9	$819	8.0x	7.2x	0.3%	2.4x
Stantec Inc.	STN	OP	↑	**$80.00**		$62.99	$7,006	12 - 2020	$2.13	$2.38	$2.99	21.1x	19.5x	$435	$20	$364	14.7x	13.6x	1.1%	2.4x
Toromont Industries Ltd.	TIH	OP		**$126.00**		$107.44	$8,853	12 - 2020	$3.09	$4.00	$4.59	22.4x	26.8x	$539	$288	$339	12.2x	12.2x	0.0%	-0.4x
WSP Global	WSP	OP		**$209.00**		$155.51	$18,265	12 - 2020	$3.34	$4.87	$5.26	29.6x	24.9x	$1,041	$1,176	$1,380	16.6x	14.1x	1.0%	0.0x
AutoCanada	ACQ	OP		**$59.00**		$32.78	$901	12 - 2020	$0.44	$3.79	$4.04	8.7x	8.1x	$83	$186	$218	5.6x	4.8x	0.0%	0.3x
Stelco	STLC	OP		**$48.00**	↓	$38.91	$3,008	12 - 2020	-$0.60	$7.10	$4.40	5.5x	8.8x	$63	$818	$557	2.4x	3.5x	3.1%	-0.4x
ATS Automation	ATA	OP		**$66.00**	↑	$49.15	$4,532	12 - 2020	$1.07	$2.04	$2.21	24.1x	22.2x	$181	$344	$363	15.5x	14.7x	0.0%	2.5x
ABC Technologies	ABCT	SP		**$7.00**	↓	$5.79	$335	12 - 2020	NM	-$0.22	-$0.49	-20.7x	-9.4x	$133	$61	$187	10.8x	3.5x	2.6%	6.4x
Colliers International	CIGI	OP		**US$176.00**	↑	US$137.34	$6,043	12 - 2020	US$4.18	US$6.18	US$6.69	22.2x	20.5x	US$361	US$544	US$616	13.6x	12.0x	0.2%	0.2x
Stella-Jones	SJ	OP		**$57.00**		$39.75	$2,572	12 - 2020	$3.12	$3.50	$3.39	11.3x	11.7x	$343	$361	$354	8.6x	8.8x	1.8%	1.5x
Median												**14.6x**	**13.6x**				**9.5x**	**8.2x**	**1.1%**	

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

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

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Selection

› *Gildan*

Gildan Activewear Inc. (GIL: TSX; N)

Q4 2021 Results: Solid performance; Capacity expansion underpins a strong three-year outlook

- *Q4/21 adj. EPS was $0.76 vs. NBF at $0.63 and cons. $0.60*

We view results to be favourable given a solid beat vs. NBF/cons. on key metrics. Relative to NBF, the beat largely stemmed from higher revenue, a higher gross margin rate and a favourable SG&A rate. Revenue was $784 mln vs. NBF at $751 mln and cons. at $736 mln; last year was $690 mln. Activewear revenue was $627 mln vs. NBF at $586 mln; last year was $538 mln. Activewear sales growth largely reflected higher POS. Underwear and Hosiery revenue was $157 mln vs. NBF at $164 mln; last year was $152 mln. Adj. EBITDA was $190 mln vs. NBF at $172 mln and cons. at $166 mln; last year was $145 mln.

- *Demand remains solid; TAM has expanded*

Activewear sales were strong, up by 17% y/y and remain solid in Q1 to date. Management noted that net pricing benefits in 2022 could be in the high-single-digit range. While GIL has flexibility in pricing, its focus remains on volume growth and operating margin targets (18%-20%). Our view is that GIL can continue to accommodate industry pressure (yarn availability, rising raw material inputs like cotton, transportation and labour) given strong demand. GIL reiterated that industry TAM has grown post COVID-19 (aided by the online market).

- *Strong three-year outlook; increasing return to shareholders*

Gildan announced its Sustainable Growth strategy. Over the next three years, GIL expects net sales growth (CAGR) of 7% to 10% (NBF was at 7.5%, now 8.2%); annual adjusted operating margin of 18% to 20%; capex at 6%-8% of sales; and annual dividend growth/continued share repurchases. Net leverage is targeted at 1-2x. GIL's guidance suggests a 2024 EPS range of $3.21 to $3.97; our current 2024 estimate contemplates EPS of $3.47. GIL announced a 10% increase in the quarterly dividend and an increase in its NCIB's size to 10% of the public float (as at July 31, 2021) from 5%.

- *Maintain Outperform rating; PT is Cdn$65*

We value GIL at 16.0x our 2023 EPS (adj. for FX).

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Sector Analysis

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 02/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		11,398	61.0	186.87	12/2021	18.91	18.07	19.31	10.3	9.7	2,667	2,584	2,664	5.4	5.2	84.01	0.32	231.00	↑
Dollarama	DOL	OP		19,819	302.6	65.50	02/2021	1.81	2.20	2.57	29.8	25.5	1,131	1,291	1,434	18.0	16.2	0.06	0.99	66.00	
Fuel and Other																					
Couche Tard	ATD.b	SP	↓	53,357	1,072.5	49.75	04/2021	2.45	2.50	2.45	15.7	16.0	5,005	5,070	4,836	9.3	9.7	12.00	0.32	55.00	↑
Parkland Fuel Corporation	PKI	OP		5,069	152.8	33.17	12/2020	0.54	0.83	2.78	40.0	11.9	967	1,263	1,438	7.5	6.6	15.03	0.66	48.00	
Apparel																					
Gildan	GIL	OP		9,691	194.8	49.76	12/2021	2.73	2.89	3.20	13.6	12.3	727	745	797	10.8	10.1	9.86	0.22	65.00	↑
Grocers																					
Empire Company	EMP.a	OP		10,453	266.3	39.26	05/2021	2.61	2.78	3.01	14.1	13.0	2,144	2,297	2,393	7.5	7.2	17.67	0.59	46.00	
Loblaw	L	OP		33,428	338.1	98.87	12/2021	5.59	6.18	6.74	16.0	14.7	5,587	5,840	6,010	6.6	6.4	34.71	0.31	111.00	
Metro	MRU	SP		16,057	242.7	66.16	09/2021	3.44	3.80	4.14	17.4	16.0	1,106	1,117	1,153	18.3	17.7	26.55	0.27	72.00	↑
Food Manufacturer																					
Saputo	SAP	OP	↑	12,899	415.3	31.06	03/2021	1.74	1.40	1.81	22.2	17.2	1,471	1,264	1,577	13.4	10.8	15.9	0.38	33.00	↓
Lassonde	LAS.a	OP		1,054	6.9	152.00	12/2020	14.11	11.21	12.36	13.6	12.3	217	180	192	6.9	6.4	122.5	0.17	190.00	
Premium Brands Holdings	PBH	OP		5,098	43.6	116.92	12/2020	3.04	4.56	5.63	25.6	20.8	313	436	502	15.7	13.6	36.8	0.52	155.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,109	37.1	29.87	12/2020	1.95	2.26	2.43	13.2	12.3	171	190	197	7.9	7.6	10.58	0.49	46.00	
Pet Valu	PET	SP		2,201	71.5	30.80	12/2020	0.64	1.00	1.20	30.8	25.6	144	177	173	14.8	15.1	0.00	1.44	35.00	
Restaurants																					
MTY Food Group	MTY	OP		1,266	24.8	51.13	11/2021	3.46	3.62	3.99	14.1	12.8	169	177	186	8.9	8.4	26.16	0.32	70.00	↓
Online Grocery																					
Goodfood Market	FOOD	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	

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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Selections

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

Price Volatility to Persist in 2022

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

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

Top picks:

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

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

- *Hudbay Minerals (HBM: TSX)*

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

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

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

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/28	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP	-	2,717	413.5	6.57	8.00	↓	Nagle	0.07u	0.60u	0.44u	8.3x	15.1x	0.34u	0.93u	0.73u	5.3x	6.8x	6.96	0.9x
Copper Mountain Mining	CMMC	OP	-	743	210.4	3.53	4.50	↓	Nagle	0.11u	0.62u	0.51u	5.7x	6.9x	0.61u	1.53u	1.05u	2.3x	3.4x	5.11	0.7x
Ero Copper	ERO	SP	-	1,610	88.8	18.14	19.50	↓	Nagle	1.34u	2.42u	2.23u	5.6x	8.1x	2.02u	3.30u	2.94u	4.1x	4.6x	16.39	1.1x
First Quantum Minerals	FM	OP	-	25,688	691.1	37.17	40.00	-	Nagle	(0.07)u	1.20u	2.89u	23.3x	12.9x	2.64u	4.22u	6.24u	6.6x	4.5x	26.79	1.4x
Hudbay Minerals	HBM	OP	-	2,701	261.5	10.33	12.50	-	Nagle	(0.44)u	0.23u	0.64u	33.5x	16.0x	0.93u	1.87u	2.87u	4.2x	2.7x	10.02	1.0x
Lundin Mining	LUN	SP	-	9,002	736.0	12.23	12.25	-	Nagle	0.31u	1.11u	1.33u	8.3x	9.2x	1.00u	2.11u	2.19u	4.4x	4.2x	11.99	1.0x
Sherritt International	S	SP	-	274	397.3	0.69	0.65	↑	Nagle	(0.37)u	(0.03)u	0.20u	n/a	3.4x	0.09u	(0.11)u	0.28u	n/a	1.9x	1.30	0.5x
Taseko Mines	TKO	SP	-	687	284.9	2.41	3.00	↓	Nagle	(0.11)c	0.16c	0.28c	15.3x	8.7x	0.44c	0.73c	0.75c	3.3x	3.2x	3.80	0.6x
Teck Resources	TECKb	OP	-	24,736	542.0	45.64	55.00	-	Nagle	1.05c	5.74c	11.58c	7.9x	3.9x	3.38c	10.54c	13.90c	4.3x	3.3x	37.50	1.2x
Trevali Mining	TV	SP	-	119	98.9	1.20	2.00	↓	Nagle	(0.03)c	0.02c	0.32c	55.2x	3.7x	0.01c	0.12c	1.07c	7.6x	0.8x	1.87	0.6x
Developers																					
Adventus Mining	ADZN	OP	-	103	131.6	0.78	1.60	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.96	0.4x
Filo Mining	FIL	OP	-	1,783	113.8	15.67	22.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	27.93	0.6x
Foran Mining	FOM.V	SP	-	613	237.7	2.58	3.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.76	0.7x
Josemaria Resources	JOSE	T	-	658	380.2	1.73	1.55	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.07	0.8x
Trilogy Metals	TMQ	SP	↓	178	145.0	1.23	2.50	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.18	0.4x
Sigma Lithium	SGML	OP	-	1,223	87.4	14.00	17.00	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	23.75	0.6x
Lithium Americas	LAC	OP	-	4,346	120.1	36.20	38.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28	0.6x

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u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

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Metals & Mining: Precious Metals

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Selections

Gold/Silver Producers:

› ***Centerra Gold*** *(CG: TSX; C$14.00 target)*
› ***Endeavour Mining Corp.*** *(EDV: TSX; C$45.50 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$11.50 target)*
› ***Pan American Silver Corp.*** *(PAAS: TSX; C$41.00 target)*
› ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$15.25 target)*

Royalties:

› ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$10.00 target)*

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to stimulus measures, interest rates remain low. To start the year, the U.S. 10-year yield strengthened, resulting in modest short-term softness in spot gold prices. The U.S. Fed has signaled it is prepared to raise interest rates as target employment has been achieved. Bloomberg consensus expects three rate hikes throughout 2022. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the Fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The emergence of the COVID-19 Omicron variant is a key risk factor to the U.S. economic recovery the U.S. Fed is watching closely. With the recent geopolitical tensions associated with the invasion of Ukraine, spot gold has reached its highest levels since November 2020. We view the evolving geopolitics as a potential driver for spot prices moving forward.

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

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

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/28	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	29,052	453.73	64.03	84.00	-	Parkin	0.96u	1.86u	2.56u	27.1x	19.7x	3.64u	4.99u	4.99u	10.1x	10.1x	50.77	1.26x
Barrick Gold	ABX	SP	-	50,395	1,759.00	28.65	29.00	↓	Parkin	0.51u	1.15u	1.12u	19.6x	20.1x	1.81u	3.22u	3.22u	7.0x	7.0x	22.73	1.26x
Kinross Gold Corp	K	OP	-	7,955	1,258.71	6.32	11.50	↓	Parkin	0.31u	0.73u	0.77u	6.8x	6.5x	0.80u	1.37u	1.37u	3.6x	3.6x	12.13	0.52x
Newmont	NGT	OP	-	66,721	794.20	84.01	98.00	-	Parkin	1.32u	2.66u	2.96u	24.9x	22.3x	4.31u	5.69u	5.69u	11.6x	11.6x	65.33	1.29x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	35,672	191.1	186.66	195.00	-	Nagle	2.72u	3.51u	3.37u	40.0x	55.4x	4.22u	5.10u	4.88u	27.5x	28.8x	67.89	2.75x
Maverix Metals Inc	MMX	SP	-	877	146.7	5.98	6.75	-	Nagle	0.12u	0.12u	0.18u	n/a	32.7x	0.29u	0.26u	0.31u	22.9x	19.1x	5.05	1.18x
Osisko Gold Royalties Ltd	OR	OP	-	2,606	166.5	15.65	20.00	↓	Nagle	0.26u	0.57u	0.59u	n/a	26.8x	0.65u	1.03u	1.19u	15.1x	13.2x	13.75	1.14x
Royal Gold Inc	RGLD	SP	-	7,910	65.2	121.26u	140.00u	-	Nagle	2.91u	4.02u	3.80u	30.2x	31.9x	6.28u	7.06u	6.27u	12.9x	14.5x	66.40	1.83x
Sandstorm Gold Ltd	SSL	OP	-	1,733	191.7	9.04	10.00	↑	Nagle	0.11u	0.17u	0.23u	40.0x	39.3x	0.36u	0.43u	0.42u	15.8x	16.2x	7.95	1.14x
Triple Flag Precious Metals Corp	TFPM	SP	-	2,417	156.0	15.49	19.00	-	Nagle	0.20u	0.39u	0.45u	29.9x	34.4x	0.78u	0.80u	0.88u	14.6x	13.2x	12.42	1.25x
Wheaton Precious Metals Corp	WPM	OP	-	25,021	450.5	55.54	65.00	-	Nagle	1.10u	1.34u	1.21u	31.2x	45.9x	1.71u	1.91u	1.77u	21.9x	23.6x	23.47	2.37x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP	-	3,661	391.96	9.34	10.50	-	Parkin	0.21u	0.42u	0.40u	17.6x	18.3x	0.75u	0.97u	0.97u	7.6x	7.6x	11.54	0.81x
B2Gold	BTO	OP		5,406	1,055.8	5.12	7.75	↓	DeMarco	0.36u	0.31u	0.37u	16.5x	13.7x	0.68u	0.71u	0.85u	7.2x	6.0x	4.90	1.04x
Centerra Gold Inc	CG	OP	-	3,668	296.78	12.36	14.00	-	Parkin	0.65u	0.65u	0.94u	15.1x	10.3x	1.36u	2.87u	1.50u	3.4x	6.5x	14.15	0.87x
Dundee Precious Metals	DPM	SP	↓	1,436	191.4	7.50	10.25	↓	DeMarco	1.03u	0.67u	0.83u	11.2x	9.1x	1.66u	1.20u	1.52u	6.3x	4.9x	10.36	0.72x
Eldorado Gold Corp	ELD	OP	-	2,542	182.65	13.92	17.00	↑	Parkin	(0.02)u	0.97u	0.62u	14.3x	22.6x	0.93u	2.23u	2.23u	4.9x	4.9x	20.87	0.67x
Endeavour Mining	EDV	OP		8,369	250.0	33.48	45.50	↓	DeMarco	2.48u	2.49u	2.42u	13.4x	13.8x	4.89u	5.00u	4.81u	6.7x	7.0x	35.18	0.95x
Equinox Gold Corp	EQX	OP	-	2,987	332.3	8.99	11.50	-	Parkin	0.33u	0.37u	0.20u	24.2x	45.5x	0.68u	1.06u	0.79u	8.5x	11.4x	13.50	0.67x
IAMGOLD Corp	IMG	OP	-	1,773	476.70	3.72	4.50	-	Parkin	(0.03)u	0.14u	(0.12)u	20.7x	-24.0x	0.75u	0.77u	0.77u	3.8x	3.8x	5.47	0.68x
Lundin Gold Inc.	LUG	SP		2,373	232.2	10.22	12.25	↓	DeMarco	1.07u	0.63u	0.59u	16.1x	17.4x	1.58u	1.35u	1.25u	7.6x	8.2x	12.32	0.83x
New Gold Inc	NGD	SP	-	1,492	681.15	2.19	2.50	-	Parkin	(0.08)u	0.03u	0.32u	77.1x	6.7x	0.39u	0.41u	0.41u	4.2x	4.2x	2.56	0.86x
OceanaGold Corp	OGC	OP	-	1,683	704.03	2.39	3.00	↓	Parkin	0.06u	(0.11)u	0.19u	n/a	12.3x	0.33u	0.33u	0.33u	5.6x	5.6x	2.70	0.89x
Pretium Resources	PVG	T		3,459	187.1	18.49	18.50		DeMarco	0.59u	0.79u	0.61u	23.4x	30.5x	1.46u	1.68u	1.63u	11.0x	11.3x	15.80	1.17x
SSR Mining Inc	SSRM	OP	-	5,284	210.61	25.09	27.50	↓	Parkin	0.74u	1.43u	1.37u	13.9x	14.4x	1.59u	1.65u	1.65u	11.9x	11.9x	31.68	0.79x
Yamana Gold Inc	YRI	OP	-	5,892	945.72	6.23	7.25	↑	Parkin	0.10u	0.32u	0.34u	15.5x	14.6x	0.51u	0.66u	0.66u	7.4x	7.4x	5.71	1.09x
Torex Gold Resources Inc	TXG	SP		1,379	85.75	16.08	24.00	↑	DeMarco	2.36u	1.74u	1.76u	9.3x	9.1x	4.29u	4.04u	3.97u	4.0x	4.1x	21.52	0.75x
Silver Producers																					
Aya Gold and Silver	AYA	OP		969	95.7	10.13	11.25	↓	DeMarco	0.09u	0.08u	0.17u	133.5x	57.9x	0.13u	0.13u	0.33u	79.1x	30.8x	7.50	1.35x
First Majestic Silver Corp	FR	SP		3,658	256.4	14.27	17.00	↓	DeMarco	0.08u	0.20u	0.25u	72.8x	57.2x	0.45u	1.07u	1.52u	13.3x	9.4x	6.74	2.12x
Fortuna Silver Mines Inc	FVI	SP		1,368	289.1	4.73	5.75	↓	DeMarco	0.49u	0.21u	0.72u	22.0x	6.6x	0.81u	0.82u	1.24u	5.8x	3.8x	4.94	0.96x
Pan American Silver	PAAS	OP		6,299	210.1	29.98	41.00	↓	DeMarco	0.77u	0.77u	1.40u	39.0x	21.5x	2.21u	2.32u	3.36u	12.9x	8.9x	18.45	1.62x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,722	223.3	7.71	11.50	↓	DeMarco	0.17u	0.42u	0.49u	18.5x	15.9x	0.27u	0.53u	0.60u	14.7x	12.8x	10.60	0.73x
Minera Alamos Inc.	MAI	OP		272	446.1	0.61	1.10		Nizami	0.01u	(0.00)u	0.04u	n/a	16.1x	0.00u	(0.01)u	0.05u	-	12.7x	1.08	0.57x
Wesdome Corp.	WDO	OP		1,994	139.7	14.27	15.25		DeMarco	0.50u	1.01u	1.00u	14.1x	14.2x	0.82u	1.40u	1.57u	10.2x	9.1x	12.11	1.18x
Developers																					
AbraSilver Resource Corp	ABRA	OP		182	453.8	0.40	0.70		DeMarco	(0.00)u	(0.01)u	(0.01)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	0.47	0.47x
Artemis Gold Inc.	ARTG	OP		875	141.5	6.18	11.50		DeMarco	(0.05)u	(0.19)u	(0.18)u	-	-	(0.09)u	(0.17)u	(0.18)u	-	-	11.52	11.52x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		218	358.0	0.61	1.40		Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.42	0.43x
Integra Resources Corp.	ITR	OP		122	62.1	1.97	3.00	↓	Nizami	(0.54)u	(0.69)u	(0.45)u	n/a	n/a	(0.50)u	(0.65)u	(0.43)u	-	-	2.95	0.67x
Liberty Gold Corp	LGD	OP		319	265.5	1.20	1.80		Nizami	0.03u	(0.09)u	(0.08)u	n/a	n/a	(0.05)u	(0.07)u	(0.07)u	-	-	1.83	0.65x
MAG Silver Corp	MAG	OP		2,107	97.9	21.52	30.00		DeMarco	(0.07)u	0.86u	0.00u	24.9x	-	(0.06)u	0.65u	1.97u	32.9x	10.9x	20.11	1.07x
Marathon Gold Corp.	MOZ	OP		602	212.1	2.84	4.50		DeMarco	(0.01)u	(0.04)u	(0.04)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	4.35	0.65x
O3 Mining Inc.	OIII	OP		150	68.0	2.20	4.25		DeMarco	(0.16)u	(0.63)u	(0.62)u	-	-	(0.16)u	(0.63)u	(0.62)u	-	-	5.46	0.40x
Osisko Development	ODV	R		R	R	R	-		DeMarco	-	-	-	-	-	-	-	-	-	-	-	-
Osisko Mining	OSK	OP		1,399	356.1	3.93	5.25		DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	5.17	0.76x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		506	356.2	1.42	3.25		Puri	0.00u	0.00u	(0.01)u	-	-	0.00u	0.00u	(0.01)u	-	-	3.18	0.45x

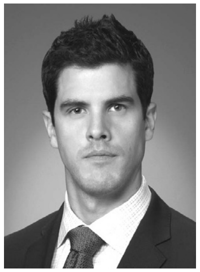
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

Crude prices continued their upward momentum through February, with WTI averaging ~ US$91/bbl and the WCS differential averaging ~ US$13/bbl. Strength in crude prices continues to be supported by the recovery in demand and constructive supply data points (restrained upstream capital expenditure, disciplined OPEC supply profile, etc.). The escalating geopolitical tensions provided an additional tailwind for crude as Russia invaded Ukraine, sending WTI briefly over $100/bbl, and Western countries responded by coordinating weapon shipments to Ukraine and enforcing penalizing sanctions on Russia. Accordingly, the Iranian/U.S. nuclear negotiations have stalled as the U.S. turns its attention towards Russia as it wreaks havoc upon Ukraine, which has the potential to bring on over 1 mmbbl/d in a phased-in approach. Looking ahead, the 26th OPEC+ meeting scheduled for March 2nd should provide clarity around how the group is viewing the recent strength in the commodity price and its view on the supply/demand balance of the market. We're expecting the group to remain disciplined in its approach to returning supply to the market as per its disclosed plan. The forward curve remains in backwardation, with CAL-22 WTI coming in at ~US87.00/bbl (contrasted to January's exit point of ~US$82/bbl).

Natural Gas Outlook

NYMEX performed strongly during February and averaged ~US$4.50/mmbtu, up from January's average of ~US$4.30/mmbtu, as forecast revisions for colder weather strengthened prices. AECO prices averaged ~ C$4.50/GJ during February, up from January where prices averaged ~C$4.25/GJ, as winter weather conditions continued to support prices. From a drilling perspective, rig activity has picked up in the U.S. and Canada has shown a small pick-up in activity as well. For context, as of the week ending February 25th, rig activity has increased m/m in North America, with a total of 40 (Oil: +27/ Gas: +13) rigs added in the U.S. and six (Oil: +3/ Gas:+3) added in Canada. According to Bentek, total U.S. production is estimated to have decreased to ~92.5 Bcf/d in February from ~92.9 Bcf/d in January. Additionally, LNG exports have remained relatively flat with an average of 12.4 Bcf/d during the month. Overall, demand in the U.S. was estimated at ~121.5 Bcf/d in February (from 130.2 Bcf/d in January), according to Bentek, with smaller inventory draws expected going forward as the winter season wraps up and shoulder season approaches.

Top picks:

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

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

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2-28	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1057.2	$70.81	$74,861	3%	8.9x	6.8x	5.0x	1.1x	0.6x	$4.40	$11.54	$14.68	6.0x	4.6x	$90.00	30%	↑
Cenovus Energy	CVE	OP		Wood	1995.8	$19.93	$39,777	1%	28.3x	6.2x	4.2x	1.1x	0.0x	$0.12	$3.56	$4.55	5.5x	4.3x	$28.00	41%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	245.1	$45.85	$11,240	2%	4.4x	4.8x	3.6x	1.6x	1.0x	$7.42	$12.18	$15.37	3.7x	2.9x	$60.00	33%	↑
Imperial Oil	IMO	SP		Wood	678.4	$56.89	$38,593	2%	20.7x	8.0x	5.2x	0.5x	-0.3x	$1.20	$7.17	$10.16	7.5x	5.6x	$70.00	25%	↑
Suncor Energy	SU	SP		Wood	1398.5	$38.76	$54,205	4%	10.1x	6.1x	4.3x	1.3x	0.5x	$2.66	$6.89	$9.76	5.6x	3.9x	$52.00	38%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$7.41	$1,450	0%	5.1x	6.3x	3.4x	0.7x	-0.1x	$0.56	$1.18	$2.10	6.3x	3.5x	$11.00	48%	↑
ARC Resources Ltd.	ARX	OP		Wood	693.2	$15.67	$10,862	3%	3.9x	5.1x	3.8x	0.8x	0.2x	$1.89	$3.86	$4.21	4.5x	3.7x	$21.00	37%	↑
Baytex Energy	BTE	SP		Payne	573.7	$5.79	$3,322	0%	5.4x	5.6x	4.0x	1.9x	0.9x	$0.56	$1.30	$1.71	4.4x	3.4x	$6.50	12%	↑
Birchcliff Energy	BIR	OP		Payne	272.8	$6.74	$1,838	1%	6.0x	4.2x	3.2x	0.9x	0.2x	$0.69	$1.98	$2.30	3.4x	2.9x	$11.00	64%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	579.8	$9.07	$5,259	2%	3.9x	4.6x	2.8x	1.4x	0.4x	$1.65	$2.58	$3.65	3.6x	2.5x	$15.50	73%	↑
Enerplus Corporation	ERF	OP		Wood	243.9	$16.20	$3,950	1%	3.5x	5.4x	3.4x	1.1x	0.3x	$1.61	$3.52	$5.06	4.4x	3.2x	$20.00	24%	↑
Freehold Royalties	FRU	OP		Wood	150.7	$14.15	$2,132	5%	7.8x	11.8x	7.9x	0.6x	-0.2x	$0.61	$1.36	$1.74	11.5x	8.1x	$18.00	32%	↑
Headwater Exploration	HWX	OP		Payne	233.0	$7.19	$1,675	0%	25.1x	13.7x	6.1x	-0.8x	-0.8x	$0.06	$0.54	$1.05	13.3x	6.9x	$10.50	46%	↑
Kelt Exploration	KEL	OP		Payne	191.6	$5.75	$1,102	0%	4.9x	7.0x	3.7x	0.2x	-0.2x	$0.31	$0.84	$1.48	6.9x	3.9x	$8.50	48%	↑
MEG Energy	MEG	SP		Wood	311.0	$16.55	$5,147	0%	7.7x	7.7x	3.5x	3.1x	0.7x	$0.92	$2.42	$5.16	6.8x	3.2x	$25.00	51%	↑
NuVista Energy	NVA	SP		Payne	238.4	$9.66	$2,303	0%	4.2x	7.5x	3.8x	1.5x	0.2x	$0.70	$1.34	$2.64	7.2x	3.7x	$11.50	19%	↑
Paramount Resources	POU	OP		Payne	146.8	$28.12	$4,127	3%	6.1x	8.0x	3.9x	0.9x	0.1x	$1.12	$3.72	$7.18	7.6x	3.9x	$35.00	27%	↑
Peyto Exploration & Development	PEY	OP		Wood	167.1	$10.94	$1,828	5%	5.9x	5.7x	3.6x	2.4x	1.2x	$1.29	$2.68	$4.23	4.1x	2.6x	$15.00	43%	↑
PrairieSky Royalty	PSK	SP		Wood	238.8	$17.14	$4,094	3%	15.4x	17.0x	11.7x	2.3x	1.0x	$0.64	$1.22	$1.59	15.0x	10.7x	$22.00	31%	↑
Spartan Delta	SDE	OP		Payne	170.2	$8.76	$1,491	0%	6.9x	6.3x	2.8x	1.5x	0.3x	$0.67	$2.24	$3.45	0.0x	0.0x	$14.50	66%	↑
Tamarack Valley Energy	TVE	OP		Payne	439.4	$5.16	$2,267	2%	3.6x	7.2x	3.3x	1.4x	0.2x	$0.55	$0.94	$1.61	5.5x	3.2x	$7.00	38%	
Topaz Energy	TPZ	OP		Payne	139.9	$19.86	$2,779	5%	14.7x	15.5x	10.4x	1.2x	0.3x	$0.98	$1.54	$1.95	12.9x	10.2x	$25.00	31%	↑
Tourmaline Oil	TOU	OP		Payne	337.3	$50.00	$16,864	2%	4.9x	6.2x	4.2x	0.4x	-0.2x	$4.36	$8.98	$11.36	5.6x	4.4x	$62.50	27%	↑
Vermilion Energy Inc.	VET	OP		Wood	162.0	$23.70	$3,839	1%	5.6x	5.7x	3.0x	1.9x	0.6x	$3.18	$5.43	$9.66	4.3x	2.5x	$34.00	44%	↑
Whitecap Resources	WCP	OP		Wood	631.7	$9.67	$6,108	4%	4.8x	6.3x	3.4x	1.1x	0.2x	$1.07	$1.82	$2.91	5.4x	3.3x	$16.00	69%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	165.3	$3.71	$613	0%	6.5x	6.2x	3.3x	2.8x	1.0x	$0.27	$0.85	$1.46	4.3x	2.5x	$5.00	35%	↑
Pipestone Energy	PIPE	SP		Payne	282.3	$5.08	$1,434	0%	6.8x	8.9x	3.4x	1.2x	-0.1x	$0.15	$0.59	$1.47	8.6x	3.5x	$6.00	18%	↑
Surge Energy	SGY	SP		Payne	87.1	$7.69	$670	0%	6.1x	7.9x	2.7x	3.2x	0.6x	$0.18	$1.77	$3.22	4.3x	2.4x	$10.00	30%	↑
Yangarra Resources	YGR	SP		Payne	90.9	$1.84	$167	0%	4.5x	3.6x	1.7x	2.2x	0.8x	$0.53	$1.00	$1.81	1.8x	1.0x	$2.50	36%	

* 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 02/28	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$813.04	91.3	US$8.91	US$213.2	US$205.0	US$249.7	6.0x	6.4x	4.9x	1.5x	1.7x	1.0x	US$17.50	96%	
Precision Drilling Corp.	PD	OP		Payne	$ 983.83	13.3	$73.95	$ 285.2	$ 249.5	$ 315.4	7.3x	9.7x	5.7x	4.7x	4.3x	3.0x	$80.00	8%	↑
Trican Well Services	TCW	SP		Payne	$ 791.00	232.0	$3.41	$ 30.6	$ 101.6	$ 147.7	7.5x	7.9x	5.0x	1.3x	-0.3x	-0.2x	$4.00	17%	

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

As we progress through 2022, the market continues to have an insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term as our coverage seeks to deploy an eye-popping over $115 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while also driving per share growth and valuation expansion.

Commodities Update

WTI continued its hot streak through February, breaking through the US$90/bbl level, averaging ~US$91.50/bbl, ~10% higher than January levels of ~US$83/bbl and ~35% above the 2021 average price of ~US$68/bbl. On the gas front, NYMEX prices demonstrated persistent strength through February, leading to an average of US$4.46/mcf, outpacing January levels of US$4.26/mcf by ~5%. Following suit, AECO averaged $4.51/mcf, ~6% higher than January levels of $4.24/mcf. On Marketing, after some compression to ~US$13.50/bbl, the WCS heavy differential pushed slightly upwards, averaging just shy of the ~US$14/bbl level, but remaining in line with full-year 2021 average levels.

Pipelines & Midstream Update

Trans Mountain Corp. officially announced further delays and cost overruns on its Trans Mountain Expansion (TMX) project with mechanical completion now expected in Q3/23 (was Q4/22) and a revised total capital cost estimate of $21.4 bln (was $12.6 bln), including costs of project enhancements, delays, COVID-19 pandemic impacts and the 2021 BC floods. As such, we note potential speed bumps for Gibson's tankage strategy given TMX delays as well as a greater likelihood of Trans Mountain abandoning the project entirely following the federal government's decision to fund incremental capital via the capital markets. Recall, with its Q2/21 results, Gibson sanctioned 435,000 bbls of new tankage at its Edmonton Terminal as the company continued to engage in several commercial discussions with counterparties for additional infrastructure, citing the need for incremental tankage ahead of Trans Mountain Pipeline Expansion entering service.

Meanwhile, with Mainline recontracting discussions already underway with shippers to negotiate a CTS 2.0 option, the company expects to be well positioned to evaluate the best path forward by mid-2022 and have a revised framework in place by mid-to-late 2023. While not the preferred option, ENB is preparing a COS application in parallel should negotiations with shippers fail. As such, we peg Mainline toll compression risk as being limited to the COS alternative, representing ~$500 million of annual EBITDA downside (~5% of AFFO).

Energy Transition Update

We await any news on the sequestration rights allocation process related to the Wabamun area as the Alberta Government has yet to review any applications located to the West of Edmonton given the overwhelming amount of interest expressed by industry players. That said, we note that with Enbridge's proposed carbon sequestration hub being subject to obtaining sequestration rights from the Alberta Government, the process is anticipated to progress through 2022, while potentially delaying an FID on Capital Power's proposed CCS project at Genesee. Meanwhile, ENB's recently announced collaboration with Lehigh Cement brings commercial support to ~4.0 Mtpa for the ~10.0 Mtpa Wabamun CO2 sequestration hub, with discussions with additional emitters underway and a targeted in-service date for the hub between 2025-2027. Of note, ENB also announced an agreement with the First Nation Capital Investment Partnership (FNCIP), consisting of four central Alberta Indigenous Nations, to advance the proposed open access Wabamun CCS hub.

Top Picks

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

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 02-28	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$27.92	$7,808	$1.00	$1.06	$1.12	3.8%	4.0%	$2.72	$2.90	$3.17	9.6x	8.8x	5.4x	31.00	11.0%		14.8%
Enbridge Inc.	ENB	OP		2025.0	$54.76	$110,889	$3.34	$3.44	$3.54	6.3%	6.5%	$4.96	$5.38	$5.67	10.2x	9.7x	4.6x	57.00	4.1%	↑	10.4%
Gibson Energy	GEI	SP		149.3	$24.74	$3,695	$1.40	$1.46	$1.51	5.9%	6.1%	$1.95	$2.14	$2.26	11.6x	10.9x	3.1x	25.00	1.1%		7.0%
Keyera	KEY	OP		221.0	$29.69	$6,562	$1.92	$1.92	$2.01	6.5%	6.8%	$3.03	$2.74	$3.54	10.8x	8.4x	3.1x	36.00	21.3%	↑	27.7%
Pembina Pipelines	PPL	SP		550.0	$43.10	$23,705	$2.52	$2.52	$2.52	5.8%	5.8%	$4.05	$4.17	$4.35	10.3x	9.9x	3.5x	44.00	2.1%	↑	7.9%
Secure Energy	SES	OP		308.1	$6.13	$1,889	$0.03	$0.03	$0.03	0.5%	0.5%	$0.72	$0.89	$1.02	6.9x	6.0x	1.4x	8.00	30.5%		31.0%
Superior Plus	SPB	OP		176.0	$11.43	$2,012	$0.72	$0.72	$0.72	6.3%	6.3%	$1.16	$1.17	$1.41	9.8x	8.1x	4.3x	13.00	13.7%	↓	20.0%
Tidewater Midstream	TWM	OP		340.3	$1.32	$449	$0.04	$0.04	$0.04	3.0%	3.0%	$0.21	$0.22	$0.41	6.0x	3.3x	2.5x	1.75	32.6%		35.6%
Tidewater Renewables	LCFS	SP		34.6	$13.16	$456	$0.00	$0.00	$0.00	0.0%	0.0%	$0.44	$0.54	$2.89	24.6x	4.6x	0.2x	17.00	29.2%		29.2%
TC Energy Corp.	TRP	SP		981.0	$68.10	$66,806	$3.48	$3.60	$3.74	5.3%	5.5%	$5.74	$5.46	$5.98	12.5x	11.4x	5.2x	66.00	-3.1%	↑	2.2%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$41.63	$4,773	$1.79	$1.85	$1.87	4.4%	4.5%	$2.65	$2.59	$2.87	16.1x	14.5x	4.5x	45.00	8.1%		12.5%
Brookfield Infrastructure [1]	BIP	OP		514.4	$59.31	$30,509	$2.04	$2.16	$2.29	3.6%	3.9%	$2.93	$3.35	$3.87	17.7x	15.3x	6.0x	68.00	14.7%	↑	18.3%
Canadian Utilities	CU	SP		277.1	$35.30	$9,780	$1.76	$1.78	$1.79	5.0%	5.1%	$2.97	$3.05	$3.09	11.6x	11.4x	5.1x	36.00	2.0%		7.0%
Capital Power	CPX	OP		114.6	$38.95	$4,462	$2.12	$2.24	$2.36	5.8%	6.1%	$5.39	$5.35	$5.90	7.3x	6.6x	3.7x	47.00	20.7%		26.4%
Emera Inc.	EMA	SP		268.3	$59.30	$15,912	$2.58	$2.68	$2.78	4.5%	4.7%	$1.50	$4.18	$4.56	14.2x	13.0x	6.5x	59.00	-0.5%		4.0%
Fortis Inc.	FTS	SP		481.2	$58.08	$27,950	$2.05	$2.17	$2.30	3.7%	4.0%	$3.76	$4.58	$4.82	12.7x	12.1x	6.1x	59.00	1.6%		5.3%
Hydro One Ltd.	H	SP		596.9	$31.30	$18,684	$1.07	$1.12	$1.17	3.6%	3.8%	$2.03	$1.98	$1.67	15.8x	18.8x	5.8x	32.00	2.2%		5.8%
TransAlta	TA	SP		271.0	$12.87	$3,488	$0.18	$0.20	$0.20	1.6%	1.6%	$2.08	$1.98	$1.64	6.5x	7.8x	3.5x	14.00	8.8%		10.3%

Source: Company Reports, NBF Estimates, Refinitiv

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

[1] All dollar figures for BIP are in USD

Real Estate

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Selections

- *CAR.un*
- *HR.un*
- *KMP.un*
- *MHC.u*
- *CSH.un*
- *CRR.un*

RioCan Real Estate Investment Trust (REI.un)

Investor Day lays out "growthy" five-year plan

- ***Quality, Growth & Accountability headlined investor day event.***

  REI held a virtual investor day, outlining the operational elements of its five-year plan, and offering longer-term financial guidance to the street. We increased our estimates and target to better reflect the guidance. REI is among the top-performing REITs this year: with its bigger weight in most benchmarks (not to mention a possible TSX 60 candidacy) and now clear, reasonable financial targets, the cost of an underweight position has increased. Our $28 target translates to 17.2x 2023E AFFO/u (was 16.8x) and is based on a 2% discount (was -3%) to our revised NAV/u estimate one year out, reflective of REI's relative growth, business risk and leverage.

- ***Occupancy slippage attributed to Omicron challenges and usual seasonality, with further losses expected for February.***

  February occupancy is now forecast to come in at 76.1%, a -50 bps decline from January and -60 bps decline from its initial February forecast provided a month ago. CSH expects a further -40 bps drop for March, which is not unexpected in the context of the seasonally weaker period and the curtailments of leasing activity due to the Omicron wave.

- ***Expect +5-7% FFO/u growth, 10-12% returns for the next five years.***

  Total returns will come from a 4-5% cash yield and ~5-7% in FFO/u growth (assumes no change in cap rates) through 2026. SPNOI growth of +3% underpins +5-7% FFO/u growth forecasts. REI will augment that core growth with development completions ($3 billion over 5 years), adding another +2-4% to the annual growth rate. Distribution growth is expected to follow suit. REI will self-fund $500 million annually on development, financed by retained cash of $150 million, incremental project debt of $250 million, and $100-200 million in capital recycling to drive the incremental growth. REI expects it can do this while keeping leverage in the 8-9x range (9.6x currently).

- ***The numbers pencil; management ready to be held accountable.***

  The plan touched on all needed elements: growth expectations, funding plans and the balance sheet. The most aggressive assumption in the plan is probably the +3% SPNOI expectations (currently running around +1% ex provisions), but the operational assumptions are not especially aggressive, with REI needing to return to pre-COVID occupancy and leasing spread levels, which does seem reasonable, given how close it is to targets already and a higher quality, more diversified portfolio (the result of capital recycling, and development driving residential NOI and management fee streams). Regulatory changes are what management sees as the most plausible obstacle to its progress (e.g., operating restrictions, changes to zoning/land use, rent controls).

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 2-28	Distributions per Unit est. 2021	est. 2022	est. 2023	Cash Yield 2021E	2022E	2023E	Current Annualized	FD FFO est. 2021	est. 2022	est. 2023	P/FFO 2021E	2022E	2023E	Net Asset Value	12-Mth Price Target	Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$7,782	Woolley	$25.12	$1.02	$1.02	$1.02	4.1%	4.1%	4.1%	4.1%	$1.60	$1.70	$1.78	15.7x	14.8x	14.1x	$28.50	$28.00	15.5%	↑
Choice Properties REIT	CHP.un	SP	↔	$10,504	Woolley	$14.52	$0.74	$0.74	$0.74	5.1%	5.1%	5.1%	5.1%	$0.95	$0.97	$0.98	15.3x	15.0x	14.8x	$14.20	$15.50	11.8%	↔
First Capital REIT	FCR	SP	↔	$3,986	Woolley	$18.15	$0.43	$0.43	$0.43	2.4%	2.4%	2.4%	2.4%	$1.14	$1.15	$1.19	15.9x	15.8x	15.3x	$23.90	$20.50	15.3%	↑
SmartCentres REIT	SRU.un	SP	↔	$5,665	Woolley	$31.81	$1.85	$1.85	$1.85	5.8%	5.8%	5.8%	5.8%	$2.21	$2.07	$2.28	14.4x	15.4x	14.0x	$34.10	$34.00	12.7%	↔
CT REIT	CRT.un	OP	↔	$3,950	Woolley	$16.94	$0.86	$0.86	$0.86	5.1%	5.1%	5.1%	5.1%	$1.24	$1.29	$1.36	13.7x	13.1x	12.5x	$17.30	$19.50	20.2%	↔
Crombie REIT	CRR.un	OP	↔	$3,059	Woolley	$17.38	$0.89	$0.89	$0.89	5.1%	5.1%	5.1%	5.1%	$1.15	$1.17	$1.24	15.1x	14.9x	14.0x	$18.23	$20.00	20.2%	↔
Automotive Properties REIT	APR.un	OP	↔	$695	Woolley	$14.19	$0.80	$0.80	$0.80	5.7%	5.7%	5.7%	5.7%	$0.96	$0.99	$1.02	14.8x	14.3x	13.9x	$12.00	$15.50	14.9%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,677	Kornack	$44.08	$1.75	$1.75	$1.75	4.0%	4.0%	4.0%	4.0%	$2.40	$2.51	$2.74	18.4x	17.6x	16.1x	$48.25	$51.00	19.7%	↑
DREAM Office REIT	D.un	SP	↔	$1,392	Kornack	$26.14	$1.00	$1.00	$1.00	3.8%	3.8%	3.8%	3.8%	$1.54	$1.61	$1.71	16.9x	16.3x	15.3x	$27.50	$27.00	7.1%	↔
Slate Office REIT	SOT.un	SP	↔	$368	Kornack	$5.04	$0.40	$0.40	$0.40	7.9%	7.9%	7.9%	7.9%	$0.55	$0.57	$0.61	9.2x	8.8x	8.3x	$6.05	$5.25	12.1%	↔
True North Commerical REIT	TNT.un	SP	↔	$680	Kornack	$7.42	$0.59	$0.59	$0.59	8.0%	8.0%	8.0%	8.0%	$0.59	$0.60	$0.60	12.5x	12.3x	12.4x	$7.15	$7.50	9.1%	↔
H&R REIT	HR.un	OP	↔	$3,947	Kornack	$12.93	$0.52	$0.52	$0.52	4.0%	4.0%	4.0%	4.0%	$1.53	$1.11	$1.22	8.4x	11.7x	10.6x	$17.25	$17.00	35.5%	↔
Artis REIT	AX.un	SP	↔	$1,643	Kornack	$13.00	$0.60	$0.60	$0.60	4.6%	4.6%	4.6%	4.5%	$1.33	$1.32	$1.31	9.7x	9.9x	10.0x	$14.85	$12.25	-1.2%	↔
BTB REIT	BTB.un	SP	↔	$302	Kornack	$4.09	$0.30	$0.30	$0.30	7.3%	7.3%	7.3%	7.4%	$0.41	$0.49	$0.50	10.1x	8.4x	8.1x	$5.20	$4.75	23.5%	↑
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,214	Kornack	$93.87	$3.10	$3.10	$3.10	3.3%	3.3%	3.3%	3.3%	$4.04	$4.48	$4.82	23.2x	20.9x	19.5x	$95.85	$115.00	25.8%	↔
DREAM Industrial REIT	DIR.un	RES	RES	$4,321	Kornack	$16.84	RES	RES	RES	RES	RES	RES	4.1%	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES
Summit Industrial	SMU.un	OP	↔	$3,853	Kornack	$21.53	$0.56	$0.56	$0.56	2.6%	2.6%	2.6%	2.6%	$0.71	$0.75	$0.80	30.5x	28.8x	26.9x	$22.00	$26.50	25.7%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$353	Woolley	$4.38	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.60u	$0.63u	$0.65u	7.3x	7.0x	6.8x	$6.20	$4.50	2.7%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,390	Kornack	$52.76	$1.45	$1.45	$1.45	2.7%	2.7%	2.7%	2.7%	$2.33	$2.41	$2.52	22.7x	21.9x	20.9x	$63.10	$70.50	36.4%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,810	Kornack	$56.45	$1.08	$1.08	$1.08	1.9%	1.9%	1.9%	1.9%	$2.96	$3.12	$3.28	19.1x	18.1x	17.2x	$61.50	$67.00	20.6%	↑
Killam Apartment REIT	KMP.un	OP	↔	$2,547	Kornack	$21.33	$0.70	$0.70	$0.70	3.3%	3.3%	3.3%	3.3%	$1.07	$1.10	$1.18	20.0x	19.3x	18.1x	$24.25	$27.00	29.9%	↔
InterRent REIT	IIP.un	OP	↔	$2,217	Kornack	$15.40	$0.34	$0.34	$0.34	2.2%	2.2%	2.2%	2.2%	$0.51	$0.58	$0.62	30.5x	26.6x	24.9x	$17.60	$19.00	25.6%	↔
Minto Apartment REIT	MI.un	OP	↔	$1,377	Kornack	$21.79	$0.48	$0.48	$0.48	2.2%	2.2%	2.2%	2.2%	$0.79	$0.89	$0.99	27.4x	24.4x	21.9x	$24.75	$26.25	22.6%	↔
BSR REIT	HOM.un	OP	↔	$962	Kornack	$18.97	$0.50u	$0.50u	$0.50u	2.6%	2.6%	2.6%	2.7%	$0.63u	$0.83u	$0.89u	30.1x	22.9x	21.3x	$19.10u	$21.50u	16.0%	↔
ERES REIT	ERE.un	OP	↔	$1,076	Kornack	$4.79	$0.17	$0.17	$0.17	3.6%	3.6%	3.6%	3.7%	$0.22	$0.24	$0.26	22.0x	19.6x	18.6x	$5.75	$5.60	20.5%	↑
International																							
Inovalis REIT	INO.un	SP	↔	$334	Kornack	$9.91	$0.83	$0.83	$0.83	8.3%	8.3%	8.3%	8.3%	$0.53	$0.58	$0.67	18.6x	17.1x	14.9x	$11.00	$10.00	9.2%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,833	Woolley	$12.17	0.61	0.61	0.61	5.0%	5.0%	5.0%	5.0%	0.59	0.56	0.70	20.6x	21.7x	17.4x	$12.36	$15.00	28.3%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$3,009	Woolley	$13.57	$0.80	$0.80	$0.80	5.9%	5.9%	5.9%	5.8%	$0.84	$0.87	$0.90	16.2x	15.5x	15.1x	$13.43	$14.50	12.7%	↔
Sienna Senior Living	SIA	RES	RES	$1,022	Woolley	$15.44	RES	RES	RES	RES	RES	RES	6.1%	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES
Extendicare	EXE	SP	↔	$684	Woolley	$7.68	0.48	0.48	0.48	6.3%	6.3%	6.3%	6.3%	0.49	0.47	0.52	15.7x	16.2x	14.8x	$9.30	$8.00	10.4%	↔
Invesque	IVQu	SP	↔	$91	Woolley	$1.61u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.45u	$0.47u	$0.48u	3.6x	3.4x	3.4x	$3.58u	$2.00u	24.2%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,499	Woolley	$7.03	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.20	$0.22	46.6x	35.4x	32.0x	$6.30	$8.00	14.0%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$360u	Woolley	$18.36u	$0.54u	$0.54u	$0.54u	2.9%	2.9%	2.9%	2.9%	$1.05u	$1.10u	$1.14u	17.4x	16.7x	16.1x	$21.60u	$24.00u	33.7%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$5,304u	Woolley	$18.84	$0.28u	$0.28u	$0.28u	1.5%	1.5%	1.5%	1.4%	$0.55u	$0.61u	$0.68u	34.1x	30.9x	27.7x	$20.13	$21.00	13.0%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- › *CAS*
- › *HDI*
- › *DXT*

Cascades' 2024 portrait unveiled: ambitious growth and margin targets

Following Q4/21 results, management hosted a conference call to discuss the company's new 2022-2024 Strategic Plan, providing a great deal of detail on the company's end-market exposure and highlighting a consolidated sales target of ~$5 billion with margins in the 13-15% range, 300-500 bps over 2021. The company also revealed it conducted a strategic review to assess the state of the Tissue segment, leading management to shelve a potential divestiture and focus on operational improvements in a normalized environment.

Bear Island project update: over budget, faster ramp-up

Management reiterated its December 2022 startup plan for Bear Island, though the timing of specific goalposts has shifted to the right due to supply chain and logistic issues. Despite cost inflation (primarily steel, concrete, labour) resulting in a tick up in budget to US$425-450 million (was US$400 million), the project's return profile is expected to remain largely unchanged given a faster ramp-up curve vs. prior expectations. We expect the ramp-up should proceed smoothly as 100% of Year 1 and 75% of Years 1-3 of the facility's production has been secured through commercial agreements, significantly de-risking the project in the face of concerns over industry capacity outpacing demand.

Capital allocation priorities

Following the conclusion of the Bear Island project, management intends to focus on debt reduction as capex winds down, with limited spending planned on a U.S. converting facility for Containerboard and automation for Specialty Products. We note that Specialty Products' facilities are generally less expansive and therefore do not require large capital investments compared to containerboard or tissue machines, with state-of-the-art automation achievable for ~$40 million. Excess free cash flow can then be directed to shareholder returns via buybacks or increased dividends.

Target of $18 on a conservative stance, Outperform rating

While the long-term outlook is promising, we remain cautious in light of the volatile operating environment and undershoot the pace of improvement required to reach Cascades' goals in our estimates. Our target of $18 is based on a sum-of-parts valuation (5x Containerboard, 7x Specialty Products, 7.5x Tissue), as our model reflects mounting margin pressure in the short term caused by rail disruption and input cost inflation, impacting FCF. Though we do not give the company the benefit of the doubt in hitting its 2024 targets, we reiterate our Outperform rating as we still see value despite our conservative assumptions.

				Market	Shares	Stock	Last	FDEPS			P/E		EBITDA (mln)			EV/EBITDA				12-Mth	
	Stock Symbol	Stock Rating	Δ	Cap (Mln)	O/S (Mln)	Price 2/28	Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Div. yield	Net Debt/ FY2 EBITDA	Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		828.6	45.0	18.40	12/2020	0.51	2.54	1.60	7.2	11.5	85.6	129.5	126.7	9.6	9.2	7.2%	3.3	27.00	
Boyd Group Services Inc.	BYD	SP		3,553.0	21.5	165.47	12/2020	1.97	1.18	2.75	115.9	49.7	220.0	216.3	289.9	17.7	13.3	0.3%	3.1	240.00	
Cascades	CAS	OP		1,335.9	101.7	13.13	12/2021	0.26	0.78	1.32	16.9	10.0	389.0	466.6	549.4	6.1	5.0	3.7%	2.5	18.00	↓
Dexterra Group Inc.	DXT	OP		514.6	65.1	7.90	12/2020	1.25	0.39	0.53	20.5	14.8	52.3	70.0	92.3	8.3	6.7	4.4%	0.9	14.50	↑
Doman Building Materials	DBM	OP		694.3	86.7	8.01	12/2020	0.78	1.34	0.81	6.0	9.9	143.0	228.8	197.7	6.1	6.8	7.0%	3.5	12.00	
GDI Integrated Facility Services	GDI	OP		1,300.7	23.0	56.49	12/2020	2.11	2.05	1.95	27.6	28.9	104.9	134.1	147.3	12.0	10.4	0.0%	1.3	70.50	
Hardwoods Distribution	HDI	OP		1,004.7	23.9	41.98	12/2020	1.53	4.52	4.60	7.7	7.5	72.7	194.8	237.8	6.5	6.2	1.1%	1.8	79.00	↑
Intertape Polymer Group Inc.	ITP	OP		1,451.5	60.6	23.96	12/2020	1.51	2.01	2.16	9.5	8.9	211.2	250.8	272.0	6.7	6.0	3.5%	2.2	40.50	
KP Tissue	KPT	SP		103.8	9.9	10.53	12/2020	0.53	(0.06)	0.32	nmf	32.6	197.8	151.0	195.1	10.0	8.0	6.8%	4.3	11.00	↑
Neighbourly Pharmacy Inc.	NBLY	SP		998.7	34.0	29.34	03/2021	(19.88)	(7.61)	0.16	nmf	184.7	35.1	47.4	68.3	22.9	17.5	0.6%	1.4	32.00	↓
Park Lawn Corporation	PLC	OP		1,116.6	31.4	35.52	12/2020	1.16	1.53	1.60	23.2	22.2	79.9	97.4	108.5	13.5	12.6	1.3%	1.2	45.50	↑
Richelieu Hardware	RCH	OP		2,742.9	56.6	48.49	11/2021	1.50	2.51	2.56	19.3	18.9	154.5	234.4	243.0	11.5	10.7	1.1%	0.2	53.50	
Savaria Corporation	SIS	OP		1,155.1	64.6	17.87	12/2020	0.56	0.63	1.05	28.3	17.1	59.8	100.9	132.9	15.1	11.2	2.8%	2.7	24.50	
Uni-Sélect	UNS	OP		1,149.7	43.8	26.26	12/2021	1.00	1.13	1.39	21.7	19.2	146.7	157.9	170.7	8.3	7.2	0.0%	1.8	31.00	↑

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

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

Source: Company reports, NBF, Refinitiv

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Sector Analysis

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, 2021 was a tough year with the stocks down 20% on average due to rising interest rates, limited stimulus in the U.S. and revival of nuclear, gas and coal fired generation. However, we believe the renewable power sector should see support as rising power prices and energy security concerns, especially in Europe, could drive growth. Our top picks are INE, BLX and NPI.

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

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of ~3,200 MW and plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S., ~8% Chile and ~7% France). As highlighted at its investor day in September 2021, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1.3 GW in mid or advanced stages of development. Recently, INE closed on a few acquisitions, including a 50 MW solar farm in Chile; the remaining 50% interest in its Chilean JV, Energía Llaima SpA; a 332 MW portfolio of three wind farms in Chile; as well as a 50% interest in Curtis Palmer, a 60 MW run-of-river hydroelectric portfolio in New York in partnership with Hydro-Québec. With visibility on near-term growth combined with recent M&A, INE has guided to double-digit growth across production and financial metrics for FY'22E, supported by its recent M&A as well as ~15% growth CAGR on normalized FCF/sh out to 2025E. Recent organic developments include the commissioning of its 226 MW Griffin Trail wind project in North Texas and commissioning of its 200 MW Hillcrest solar project in Ohio. Moreover, INE is exploring investment opportunities in new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 5.5% discount rate on operating assets and includes $3/sh for growth.

Boralex Inc. (BLX: TSX; Outperform; $44 target):

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

BLX saw some success with RFPs in France, as it was awarded projects totalling ~62 MW of capacity. It also bid seven solar projects in New York totalling 800 MW, with results expected in 1H'22 and could see success in Québec RFPs. Recently, BLX agreed to sell a 30% stake in its French assets to Energy Infrastructure Partners for C$766 mln in cash. The capital should reduce the need for further dilution to fund organic growth and future M&A. Moreover, during Q4, BLX saw upside from high power prices in France as a result of its contract structures on 201 MW of operating assets and 125 MW of projects under construction. So far, in 2022, European countries have continued to see high power prices and with the instability resulting from the war in Ukraine, BLX could potentially benefit from sustained high power prices throughout 2022 and beyond. Our target is based on a long-term DCF with a 5.5% cost of equity on operating cash flows and $7/sh of growth.

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

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

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2-28	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		200.3	86	2.33	12/2021	0.06u	0.21u	0.26u	8.7	7.1	2.54u	3.22u	3.56u	0.6	0.5	1.37u	0.20	4.25	
Anaergia Inc.	ANRG	SP		766.8	62	12.45	12/2020	0.00	0.00	0.00	na	na	3.05	2.60	4.85	4.8	2.6	10.70	0.48	22.00	
Algonquin Power	AQN	OP		9727.6	672	14.48u	12/2020	0.65u	0.71u	0.74u	20.3	19.5	2.98u	3.70u	4.06u	3.9	3.6	10.70u	0.48	15.50u	
Altius Renewable Royalties Corp	ARR	OP		416.8	29	14.42	12/2020	(0.15)u	0.07u	0.00u	nmf	nmf	0.01u	0.02u	0.12u	nmf	nmf	0.43u	0.00	13.00	
Ballard Power Systems	BLDP	OP		3398.8u	298	11.42u	12/2020	(0.20)u	(0.32)u	(0.27)u	nmf	nmf	0.42u	0.33u	0.47u	34.6	24.6	4.58u	0.01	20.00u	
Boralex	BLX	OP		3828.3	103	37.01	12/2021	0.56	0.23	0.58	nmf	64.1	6.44	6.58	6.92	5.6	5.4	11.73	0.65	44.00	↑
Brookfield Renewable	BEP	OP		23192.8u	646	35.92u	12/2021	0.00u	0.00u	0.00u	na	na	3.36u	3.69u	4.11u	9.7	8.7	24.27u	0.35	38.00u	
DIRTT Environmental Solutions	DRT	SP		160.4u	85	1.88u	12/2021	(0.13)u	(0.54)u	(0.16)u	nmf	nmf	2.03u	1.72u	2.33u	1.1	0.8	0.88u	0.23	2.75u	↓
GFL Environmental Inc.	GFL	OP		13417.9	362	37.06	12/2021	(2.76)	(1.47)	(0.19)	nmf	nmf	11.64	15.01	17.13	2.5	2.2	14.98	0.54	55.00	
Innergex	INE	OP		3574.3	194	18.43	12/2021	(0.23)	(0.79)	0.70	nmf	26.3	3.60	4.11	4.07	4.5	4.5	6.13	0.86	23.00	
The Lion Electric Company	LEV	OP		1603.4u	199	8.05u	12/2021	(3.64)u	(0.22)u	(0.25)u	nmf	nmf	0.77u	0.22u	0.99u	36.6	8.1	1.67u	0.02	13.00u	↑
Loop Energy Inc	LPEN	OP		100.3	35	2.83	12/2020	(0.50)	(0.77)	(0.77)	nmf	nmf	0.03	0.05	0.40	51.9	7.1	2.32	0.01	9.00	
NanoXplore	GRA	OP		703.3	158	4.45	06/2021	(0.08)	(0.05)	0.13	nmf	34.6	0.46	0.57	0.88	7.8	5.0	0.62	0.20	10.00	
Next Hydrogen Solutions Inc.	NXH	SP		45.0	24	1.84	12/2020	(0.77)	(1.33)	(0.97)	nmf	nmf	0.00	0.01	0.28	nmf	6.5	1.69	0.01	6.00	
Northland Power	NPI	OP		9106.3	226	40.30	12/2021	1.78	0.63	0.83	64.3	48.7	10.25	9.19	9.16	4.4	4.4	13.05	0.68	44.00	
TransAlta Renewables	RNW	SP		4659.2	267	17.45	12/2021	0.35	0.55	0.69	31.5	25.3	1.64	1.70	1.72	10.3	10.1	7.66	0.18	18.50	
Xebec Adsorption	XBC	SP		267.9	154	1.74	12/2020	(0.33)	(0.17)	0.01	nmf	nmf	0.59	0.81	1.34	2.2	1.3	2.04	0.17	4.00	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

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Sector Analysis

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Selections

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

Market Action Continues to Weigh on All Tech

While 2022 started with a shift in sentiment away from growth to value, that pullback has recently been exacerbated by the general correction across the broad market that's come from uncertainty around rate hikes, quantitative tightening and geopolitical tension. Year-to-date (YTD), the S&P Technology Index is down 12.6% while the S&P is down 9.7% - we'd note that at the time of writing, the S&P had officially entered correction territory. Here in Canada, the TSX Technology index has been hit much harder (down 36.6% YTD due in large part to Shopify) relative to the broader TSX which is down only 1.5% given the outperformance of the Energy sector (+13.9% YTD). For those following our research, you may recall we highlighted this potential risk in our Year Ahead 2022 back in early January. Unfortunately, the view laid out in that report remains largely unchanged. We highlighted in that report that investors take tactical positions in unique situations in our coverage group with defensive attributes while holding a long-term view for our high valuation growth names. Specific names highlighted in that report where we believe there is a favourable risk-to-reward on a relative basis were and continue to be CGI, Kinaxis, Nuvei, Magnet Forensics and TELUS International. Here's a brief discussion of some of those names.

CGI stands to benefit from an industry tailwind largely driven by companies accelerating their digital transformation plans care of the pandemic. That's evidenced by strong book-to-bill in recent quarters for CGI. While we like the name for its defensive attributes (strong cash flows and profitability), we see potential option value from key initiatives such as its commitment to IP30 (30% of revenue from IP by F25) which would add incremental revenue while concurrently expanding margins. Separately, with plans to deploy $1 bln in capital on acquisitions this fiscal year, that will only expand on CGI's growth prospects.

- **Kinaxis** should be a meaningful beneficiary from the heightened demand for supply chain solutions. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across large enterprise in markets underscored by impacts in markets like auto (semiconductor shortages). We believe Kinaxis' pipeline has increased to record levels with record customer additions in recent quarters, and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high growth verticals such as online regulated gaming is helping drive outsized growth as a whole for the Company. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's supported by structural changes in the payments industry (e.g., cashless casinos).
- **Magnet Forensics.** We believe Magnet Forensics is an early leader in the Digital Forensics market with a suite of competitive offerings to target both the public and enterprise clients. The quality of its business model is underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%, well above the 40% threshold given the Company's strong top-line growth paired with a healthy margin. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.
- **TELUS International** is well positioned within the higher growth verticals of the IT services industry providing in-demand services such as content moderation, digital customer experience and data annotation combined with the growing opportunity to monetize advanced technologies like AI. In particular, the Digital Customer Experience market continues to see outsized growth that comes with Digital Transformation (< 25% of companies have completed their digital transformation journey). We believe TI is overlaying such unique technology to its services that offers the potential to expand margins by augmenting labour.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,205	44.6	49.42	2021	1.90	2.20	3.34	22.5	14.8	109.8	142.8	174.0	17.1	14.0	2.5	33%	70.00	↓
Blackline Safety Corp.*	BLN	OP		372	60.0	6.20	2021	(0.51)	(0.45)	(0.40)	NMF	NMF	(9.9)	(7.3)	(3.3)	NMF	NMF	1.2	0%	10.00	
CGI Inc.	GIB.A	OP		25,185	246.8	102.04	2021	5.41	6.04	6.37	16.9	16.0	2462.7	2604.2	2709.2	10.4	10.0	28.2	31%	135.00	
Constellation Software Inc.	CSU	SP		42,985	21.2	2,028.41	2021	47.38u	54.59u	65.37u	29.0	24.2	1,511.0u	1,713.4u	1,945.1u	19.8	17.4	71.8u	42%	2350.00	↑
Coveo Solutions Inc.	CVO	OP		1,031	112.6	9.15	2021	(7.98u)	(0.31u)	(0.37u)	NMF	NMF	(11.0u)	(23.1u)	(30.4u)	NMF	NMF	266.4u	0%	18.00	
Docebo Inc.	DCBO	OP		2,079	34.1	60.92	2020	(0.13u)	(0.34u)	(0.15u)	NMF	NMF	(2.2u)	(7.6u)	(2.8u)	NMF	NMF	191.0u	0%	85.00u	
D2L Inc.	DTOL	OP		703	60.6	11.61	2021	0.11u	(0.14u)	(0.30u)	NMF	NMF	6.0u	(4.2u)	(12.9u)	NMF	NMF	1.3u	0%	20.00	
E Automotive Inc.	EINC	OP		662	55.2	12.00	2020	(1.77u)	(0.25u)	(0.36u)	NMF	NMF	(4.1u)	(6.3u)	(13.1u)	NMF	NMF	0.8u	26%	21.50	
Farmers Edge Inc.	FDGE	SP		157	41.9	3.75	2020	(2.02)	(1.38)	(1.19)	NMF	NMF	(45.9)	(40.8)	(38.6)	NMF	NMF	2.94	1%	4.00	
Kinaxis Inc.	KXS	OP		4,017	28.3	142.04	2020	1.11u	0.59u	1.51u	NMF	NMF	53.7u	38.2u	65.9u	75.9	44.0	10.9u	0%	225.00	
Lightspeed Commerce Inc.	LSPD	OP		3,632u	148.2	24.51u	2021	(0.38u)	(0.39u)	(0.21u)	NMF	NMF	(21.2u)	(45.1u)	(16.8u)	NMF	NMF	23.3u	1%	75.00u	↓
Magnet Forensics Inc.*	MAGT	OP		1,026	42.6	24.10	2020	0.32u	0.25u	0.21u	NMF	NMF	15.4u	15.9u	13.1u	43.5	52.7	2.0u	2%	50.00	
mdf commerce inc.	MDF	SP		176	44.0	4.01	2021	(0.30)	(0.36)	(0.06)	NMF	NMF	5.1	(1.0)	9.2	NMF	21.3	6.56	13%	5.00	↓
Nuvei Corporation	NVEI	OP		7,337u	147.5	49.76u	2020	0.14u	1.65u	2.13u	33.6	25.9	163.0u	314.4u	414.9u	25.4	19.2	10.7u	24%	130.00u	
Open Text Corporation	OTEX	OP		11,523u	272.9	42.22u	2021	3.39u	3.25u	3.62u	13.0	11.7	1,315.2u	1,286.0u	1,406.6u	11.1	10.1	15.1u	51%	60.00u	
Pivotree Inc.*	PVT	OP		133	26.7	5.00	2020	(0.09)	(0.31)	(0.25)	NMF	NMF	5.6	(4.1)	(3.1)	NMF	NMF	3.3	0%	8.00	
Q4 Inc.	QFOR	OP		201	42.7	4.71	2020	(0.33u)	(0.67u)	(0.70u)	NMF	NMF	(6.7u)	(16.2u)	(25.8u)	NMF	NMF	1.8u	21%	12.00	
Real Matters Inc.	REAL	SP		431	79.8	5.40	2021	0.48u	0.23u	0.38u	18.3	11.2	59.2u	28.6u	44.0u	9.2	6.0	2.0u	0%	8.00	
Shopify Inc.	SHOP	OP		78,787u	125.7	626.61u	2021	6.42u	7.68u	10.64u	NMF	NMF	732.0u	939.2u	1,368.4u	76.8	52.7	88.5u	9%	1,500.00u	↓
Softchoice Corp*	SFTC	SP		1,301	63.4	20.50	2020	0.65u	0.54u	0.97u	38.1	21.2	65.5u	66.9u	97.9u	21.0	14.4	0.8u	68%	30.00	
Tecsys Inc*	TCS	OP		523	15.0	34.91	2021	0.49	0.19	0.67	NMF	NMF	16.2	11.6	19.1	44.2	26.9	4.51	12%	65.00	
Telus International	TIXT	OP		6,510u	269.0	24.20u	2021	1.00u	1.20u	1.40u	NMF	NMF	540.0u	620.3u	755.2u	12.2	10.0	6.2u	41%	50.00u	
Thinkific Labs Inc.	THNC	OP		259	77.2	4.30	2021	(0.29)u	(0.48)u	(0.29)u	NMF	NMF	(19.46)u	(37.04)u	(21.42)u	NMF	NMF	1.80u	0.00	12.00	↓

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

u = US dollar

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

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Selections

- *Cineplex*
- *Spin Master*
- *Telus*

Telus

Ongoing execution success amid evolving fibre rollout and 5G deployment:

In the last two years, we saw a disconnect from the usual reversion to the mean for the valuation of the Big 3 based on EV/EBITDA, with Telus scaling higher to command a premium. Mix helped Telus during the pandemic. It faced the pressure from lost roaming revenue in wireless, but not the added contraction seen in media and sports assets which the company doesn't own. Additionally, investor attention has been more keenly attuned to the company's verticalization strategy in wireline where Telus International was birthed into a separate publicly-traded vehicle early in 2021 and both Telus Health and Telus Agriculture continue to be nurtured and scaled ahead of their respective anticipated monetization opportunities. This verticalization strategy has highlighted higher-growth and higher-multiple pieces existing within Telus. Guidance in 2022 calls for growth of 8% to 10% in operating revenues and Adj. EBITDA, with capex around $3.4 billion (including $750 million to $790 million of accelerated spend) and FCF in the range of $1.0 billion to $1.2 billion. Management continues to telegraph that it expects capex to drop to or below $2.5 billion in 2023 following its 2021-2022 accelerated spending program and that leverage is to decline under 2.7x in 2023 or 2024 from 3.2x at the end of 2021. Fibre-to-the-premise penetration reached 87% last year, with only 11% of Internet and TV customers within the fibre footprint still on copper, as Telus strengthens its competitive positioning against Shaw and prepares for the latter's purchase by Rogers. Copper is to be decommissioned in the fibre footprint by the end of 2023 with the prospect of at least $1 billion to be extracted from a future monetization of related real estate assets over coming years. 5G population coverage reached 70% in 2021 and is set to climb to at least 80% this year, as a greater marketing push will unfold in the second half of 2022 following the deployment of 3500 MHz spectrum licenses acquired last summer. In May, with its Q1 reporting and AGM, Telus is expected to provide its next three-year dividend outlook which previously called for annual increases in the range of 7% to 10%. Our target is based on the average of our 2022E DCF value and 2023E NAV metric, with implied EV/EBITDA multiples of 10.8x 2022E and 9.9x 2023E excluding future spectrum purchases.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 2/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		877	63.3	13.84	12/2021	(3.93)	0.94	1.67	14.8	8.3	-84.3	191.3	246.7	8.1	5.8	-3.47	1.45	19.00	
Corus Entertainment Inc.	CJR.b	OP		1,059	208.4	5.08	08/2021	0.88	0.84	0.91	6.0	5.6	524.6	511.8	520.2	4.9	4.4	5.50	0.55	8.00	
WildBrain Ltd.	WILD	OP		527	172.9	3.05	06/2021	(0.07)	(0.05)	0.16	-62.0	19.6	83.1	92.0	107.4	10.8	8.9	0.33	0.88	5.00	
Spin Master Corp.	TOY	OP		4,753	102.4	46.42	12/2021	2.10	2.22	2.36	16.5	15.6	414.1	418.3	437.9	7.2	6.2	10.28	-1.15	66.00	↑
Stingray Group Inc.	RAY.a	OP		499	70.1	7.11	03/2021	0.85	0.83	0.96	8.6	7.4	114.3	103.4	122.4	8.3	7.3	4.00	0.63	8.50	
TVA Group Inc.	TVA.b	SP		159	43.2	3.68	12/2021	0.79	0.83	0.91	4.4	4.0	80.3	79.9	82.8	2.1	1.8	8.78	0.04	3.50	↑
Printing & Publishing																					
Thomson Reuters Corp.	TRI	OP	↑	62,311	486.2	128.16	12/2021	1.95	2.42	3.36	41.7	30.1	1970.0	2317.9	2800.0	22.4	18.2	28.45	0.19	162.00	
Transcontinental Inc.	TCL.a	OP		1,780	87.0	20.45	10/2021	2.37	2.45	2.59	8.3	7.9	454.9	463.6	471.2	5.6	5.2	20.04	0.34	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		421	21.6	19.50	12/2020	(0.01)	(0.18)	0.65	NM	30.0	26.6	28.5	28.5	9.7	8.0	4.21	-0.24	36.00	
Yellow Pages Ltd.	Y	SP		380	27.7	13.73	12/2021	3.02	1.92	1.80	7.1	7.6	102.0	90.8	82.6	2.5	2.4	NM	-0.38	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		60,512	909.0	66.57	12/2021	3.19	3.34	3.58	20.0	18.6	9893.0	10250.2	10589.9	9.0	8.7	20.47	0.39	71.00	↑
Cogeco Communications Inc.	CCA	OP		4,713	46.6	101.20	08/2021	8.43	9.01	9.79	11.2	10.3	1205.7	1380.1	1426.9	6.3	5.9	61.46	0.60	141.00	
Quebecor Inc.	QBR.b	OP		6,642	239.6	27.72	12/2021	2.52	2.67	2.80	10.4	9.9	1973.2	2022.9	2076.1	6.1	5.9	5.24	0.85	37.00	↓
Rogers Communications Inc.	RCI.b	OP		33,068	504.9	65.49	12/2021	3.56	4.35	5.31	15.0	12.3	5887.0	8974.3	9568.4	8.1	7.7	20.86	0.48	74.00	
Shaw Communications	SJR.b	OP		19,043	501.0	38.01	08/2021	1.60	1.60	1.65	23.8	23.0	2500.0	2564.9	2604.9	9.5	9.2	12.24	0.48	40.50	
Telus Corp.	T	OP		43,854	1370.0	32.01	12/2021	1.23	1.15	1.35	27.9	23.7	6290.0	6464.1	7004.7	10.0	9.1	11.72	0.58	36.00	↑

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

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

Source: Bloomberg, Refinitiv and NBF estimates

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Selections

- *TFI International*
- *CAE*
- *Héroux-Devtek*

TFI International remains a top pick in transportation

TFI International (Outperform, $160.00 target) has benefited from a strong freight market, and we see further upside in 2022 supported by the following factors:

TForce Freight Less-than-Truckload division delivering ahead of schedule.

Regardless of end market fundamentals (which remain robust for the LTL industry), we believe ongoing margin improvement at the TForce Freight U.S. LTL operations (the prior UPS Freight business acquired in April 2021) will be a major driver of earnings growth for TFI International over the next two years. The TForce Freight business had an operating ratio of 89.4% in Q4, which was a sequential improvement from 90.7% in Q3 in what is typically a seasonally weaker quarter. Given TFII still has significant repricing of contracts, cost reductions and efficiency improvements to come, management is confident that the run-rate operating ratio by year-end 2022 could be 86-88%. Longer term (next 2-3 years), management believes an 80% operating ratio is achievable, which is a more bullish outlook than management's prior longer-term target of ~85%. We are confident an 85% operating ratio is an achievable target in 2023 noting that TFII's Canadian LTL operations had a 79.9% operating ratio for the full-year 2021.

Broader trucking backdrop remains supportive.

The latest spot truck pricing (January) from DAT showed U.S. dry van rates were up 31.7% y/y with contract rates up 22.7% y/y. A tight market for drivers will likely limit supply of trucking capacity for an extended period, which should be supportive of pricing through 2022. E-commerce growth is also supportive of TFII's Package & Courier segment where the EBIT margin in Q4 was a stellar 24.5% versus our 18.6% estimate as well as growth in the company's Logistics segment.

M&A upside.

TFII's net-debt-EBITDA at the end of 2021 was a comfortable 1.9x and we estimate free cash flow in 2022 at $779 million despite it being a capex-heavy year. While management does not expect to be in a position to execute on another larger acquisition until later in the year, we expect the company to be active with tuck-in deals through the year. We also believe TFII will be active on its NCIB absent larger M&A. We do not assume any unannounced acquisitions or share buybacks in our TFII forecast.

Valuation still reasonable.

On our 2023 forecast, TFII is trading at 13.5x P/E versus the weighted average comparable multiple of 14.9x. We note the entire trucking universe has had a difficult start to 2022 with many bellwether stocks down double-digit percentages.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 2-28	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	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	23.95	8,569	12/2021	-10.25	-1.56	2.04	NA	11.8x	(1464)	1560	3303	10.4x	4.9x	100%	29.00	↑
Bombardier Inc.	BBD.b	OP		2463	1.58	3,892	12/2021	-u0.08	-u0.08	u0.02	NA	79.0x	u641	u855	u1072	10.3x	8.2x	na	2.65	↑
BRP Inc.	DOO	OP		83	90.84	7,553	01/2021	5.35	9.40	9.83	9.7x	9.2x	999	1424	1495	6.9x	6.9x	111%	128.00	
CAE Inc.	CAE	OP		319	33.91	10,808	03/2021	0.47	0.74	1.16	46.0x	29.3x	492	723	977	26.7x	13.4x	37%	44.00	↓
Canadian National Rail	CNR	SP		707	157.24	111,232	12/2021	5.95	7.11	7.83	22.1x	20.1x	9.81	9.94	11.11	14.7x	13.7x	34%	172.00	
Canadian Pacific Rail	CP	SP		930	89.25	83,003	12/2021	3.76	3.84	4.65	23.3x	19.2x	5.41	3.43	6.41	22.9x	13.8x	37%	98.00	
Cargojet Inc.	CJT	SP		18	183.21	3,209	12/2020	-5.63	5.63	6.81	32.6x	26.9x	291	290	308	12.1x	11.4x	31%	203.00	↑
Chorus Aviation Inc.	CHR	SP		174	4.36	757	12/2021	0.37	0.42	0.52	10.3x	8.4x	272	336	363	7.4x	6.9x	72%	4.65	↑
Exchange Income Corporation	EIF	OP		38	40.65	1,534	12/2021	2.26	2.25	2.82	18.1x	14.4x	330	364	405	7.5x	6.7x	58%	51.00	
Héroux-Devtek Inc.	HRX	OP		36	17.57	628	03/2021	0.80	0.80	1.02	22.0x	17.3x	88	83	97	9.4x	8.1x	27%	26.00	
NFI Group Inc.	NFI	OP		77	18.96	1,462	12/2020	-u0.75	u0.00	u0.36	na	41.3x	158	169	193	12.8x	11.2x	59%	26.00	
Taiga Motors Corp.	TAIG	OP		31	4.97	155	12/2020	NA	-5.57	-1.25	NA	NA	NA	(25)	(1)	na	na	na	16.00	
Transat A.T. Inc.	TRZ	UP		38	4.87	184	10/2021	-11.83	-4.82	-0.67	NA	NA	(214)	(22)	191	na	7.0x	NA	3.50	
TFI International Inc.	TFII	OP		93	132.12	12,243	12/2021	u5.23	u6.46	u7.43	16.1x	14.0x	1051	1302	1417	9.0x	8.2x	48%	160.00	↑

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

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