APRIL 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion 514-879-3781
Chief Economist
and Strategist

Matthieu Arseneau 514-879-2252
Deputy Chief Economist

Kyle Dahms 514-879-3195
Economist

Alexandra Ducharme 514-412-1865
Economist

Angelo Katsoras 514-879-6458
Geopolitical Analyst

Daren King 514-412-2967
Economist

Jocelyn Paquet 514-412-3693
Economist

Toronto Office

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

Taylor Schleich 416-869-6480
Rates Strategist

Alpa Atha 416-542-3936
Fixed Income Economist

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson 416-507-8007

ESG

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

ETFs & Financial Products

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

Healthcare & Biotechnology

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

Industrial Products

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

Merchandising & Consumer Products

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

Metals & Mining

Don DeMarco 416-869-7572
Associate: Yi Liu 416-869-8524

Shane Nagle 416-869-7936
Associate: Lola Aganga 416-869-6516
Associate: Ahmed Al-Saidi 416-869-7535

Michael Parkin 416-869-6766
Associate: Alessandro Cairo 416-869-8511
Associate: Andrew Dusome 416-507-8177

Rabi Nizami 416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

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

› *Large Cap Oil & Gas*

Travis Wood 403-290-5102
Associate: Logan Fisher 403-441-0933
Associate: Jacob Swan 403-290-5445

Pipelines, Utilities & Energy Infrastructure

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

Real Estate

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

Tal Woolley 416-507-8009

Special Situations

Zachary Evershed 514-412-0021
Associate: Thomas Bolland 514-871-5013
Associate: Nathan Po 416-660-1740

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

Sustainability & Clean Tech

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

Technology

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

Technical Analysis

Dennis Mark 416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

Greg Colman 416-869-6775
Managing Director
Head of Research

Tanya Bouchard 416-869-7934
Supervisory Analyst

Research Publications

Vanda Bright 416-869-7141
Manager
Publishing Services

Wayne Chau 416-869-7140
Publishing Associate

Information

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

Table of Contents

Highlights 4
The Economy 6
Interest Rates and Bond Markets 16
Stock Market and Portfolio Strategy. 21
Technical Analysis. 28
Sector Analysis 35
› NBF Selection List 36
› Analysts' Tables Glossary. 37
› Analyst Recommendations 38
› Alphabetical Listing 64

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

Highlights

Economy

› In our last issue we presented an exhaustive list of economic risks arising from the Russia-Ukraine conflict. The increased uncertainty prompted us to revise our global economic growth forecast down slightly and to warn of further downticks if the conflict were to bog down. A month later, peace in eastern Europe seems no closer and the repercussions for the global economy persist. So our scenario needs updating. The most striking factor, and the heaviest weight on global growth, is the rise of raw-material prices. Europe seems especially vulnerable to a persistence of high energy prices the repercussions of the war in Ukraine are not limited to the old continent. They will also hit other countries that are importers of raw materials, notably Japan, India and China. In the case of China, these problems will add to challenges arising from the maintenance of its zero-Covid policy when the country faces a resurgence of cases from the highly contagious Omicron variant.

› Europe and emerging countries may be beset by difficulties, but the U.S. economy continues to fire on all cylinders. Indeed, the labour market seems to be taking off, forcing many businesses to bite the bullet of substantial pay raises. However much appreciated by workers, such raises present a problem for the Federal Reserve, which must now prevent an inflationary spiral from derailing the economy. To this end, the central bank now sees seven rate hikes in 2022 (including the one already announced in March), followed by three or four more in 2023. In the past, such monetary policy resets have too often been associated with economic accidents. Only three times since 1945 has the Fed managed a soft landing of the economy, and never with inflation so high when tightening began. Yet its economic forecasts continue to foresee what economic observers have come to call "immaculate disinflation." Allow us a few reservations. To the extent that high inflation reflects excess demand in the U.S. rather than a supply shock – and the effects of one and the other are sometimes hard to define – a less accommodative monetary policy is likely to help moderate the rise of prices. But it could also have unforeseen consequences such as a repricing of certain risk assets or a slowing of the real estate sector. Our concern about the potential collateral effects of monetary tightening is the main factor in our own outlook for long-term growth below the U.S. consensus.

› In Canada, we are maintaining our forecast of 3.6% growth in 2022, even though the first quarter proved to be much stronger than previously expected. We now anticipate interest rates to normalize more quickly, and this should translate into a sharper slowdown in the housing sector and somewhat weaker-than-expected consumption growth for the rest of the year. Like other economies around the world, the Canadian economy could be affected by inflationary pressures from the war in Europe, but it remains well positioned on a relative basis. Consumers have accumulated significant excess savings and the labour market, comfortably at full employment, should allow for decent wage growth. The strength of the resource sector could also offset some of the consumption shock. As for governments, there is no sign of a period of austerity, with an NDP/Liberal alliance in Ottawa and pro-growth budgets in many provinces.

Interest rates and currency

› The key question now is how best to correct for the earlier policy missteps… to restore needed institutional credibility… to tame inflation… to extend the recovery as long as possible? To us, following up the first mistake (being too lax for too long) with another prospective miscue (bludgeoning the economy and markets with ultra-aggressive tightening) is not the optimal path forward. In central banking, as with most things, two wrongs don't make a right… they would make an even bigger economic and financial mess requiring considerable time to clean up.

› Both the Bank of Canada and U.S. Federal Reserve joined a growing list of advanced economy central banks in hiking rates last month. This was simply an initial foray, a number of additional policy rate adjustments lying immediately ahead. We'll quite likely see 50-bp moves from both the BoC and the FOMC at the next scheduled opportunity (April 13th and May 4th, respectively). At this juncture, we foresee no less than 175 basis points of cumulative tightening in calendar 2022.

› The amount of tightening we formally project is now towards the lower-end of the expected range… if not for the next couple of meetings, certainly by the end of the year. The gap between our policy rate forecasts and implied market expectations become even more pronounced from there. We continue to believe that 2022 tightening will prove effective in taming interest sensitive demand, with some such signals having already appeared in this nascent tightening cycle.

› Near-term, balance sheet unwinds are unlikely to relieve flattening pressures on display in both the Treasury and GoC yield curves as policy rates are quickly brought higher. Instead, the current slight inversion of some key points on the yield curve could persist for a short time, particularly if central banks follow through with the 50 bp moves we expect. However, once balance sheet unwind is in full swing and it becomes clear to markets that the Fed and BoC are unwilling to hike aggressively as they currently expect, inversion pressures should abate and we see room for a very modest re-steepening of yield curves. Make no mistake, the curve will be flat but we could avoid a prolonged and even more significant inversion that so many market participants fear.

› After losing some ground to the USD in the two weeks that followed the start of Russia's invasion of Ukraine, the Canadian dollar has more than recouped all its losses. We still see more strength in the months ahead for the loonie. For one, the economy is doing better than expected. For another, with inflation at a multi-year high of 5.7%, there is a clear case for more aggressive near-term action by the Bank of Canada. Finally, the upcoming federal budget could also be positive for CAD if it rekindles interest to invest in Canadian commodities in the wake of the Ukrainian crisis.

Recommended asset mix and stock market

› After a difficult quarter in which global equities fell 5.1%, the MSCI ACWI is already down nearly 1% in early April. As of this writing, the entire drop in the MSCI ACWI since its January peak has been caused by a compression of PE ratios. A rapid rise in U.S. interest rates is certainly not helping. Even if we do not expect 10-year yields to rise too much from here, it is unlikely that we will see an expansion in PEs until we see a peak on inflation which might not happen before the second half of the year.

› As the military conflict in Ukraine enters a second month, food & energy prices remain elevated, taxing both consumers and producers. Moreover, China's decision to maintain a zero COVID policy at a time when the country is facing an upsurge in cases associated with the highly contagious Omicron variant will negatively impact the global supply chain in the weeks ahead.

› Although aggregate earnings expectations have been revised upward in all major regions of the world except

Highlights

Asia over the past month, diffusion has eroded. In the U.S., earnings growth forecasts for the coming year currently stand at 10% for the S&P 500. This will be no easy task, as profit margins are already at record levels.

- As with other global equity benchmarks, the S&P/TSX has also experienced a contraction in forward PEs. At around 14 times forward earnings, the S&P/TSX's valuation is below its historical average and trading at a significant discount to the S&P 500.
- We argued last month that the upcoming federal budget could be positive for the S&P/TSX if Ottawa unveiled an ambitious program to encourage carbon capture, use and storage (CCUS). We are pleased to report that this is exactly what the April 7 budget announced. This new measure should be sufficient to stimulate significant investment to help support Canada's emissions targets while increasing production
- Our asset allocation recommendation remains unchanged this month, with a slight underweight in equities relative to our benchmark. Geographically, we remain comfortable with our above-benchmark recommendation for Canadian equities, given our view on commodity prices.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	16.9	Overweight	
Materials	13.6	Overweight	
Industrials	11.4	Market Weight	
Consumer Discretionary	3.2	Market Weight	
Consumer Staples	3.9	Market Weight	
Healthcare	0.7	Market Weight	
Financials	31.3	Market Weight	
Information Technology	6.3	Underweight	
Telecommunication Services	5.2	Market Weight	
Utilities	4.8	Underweight	
Real Estate	2.8	Underweight	
Total	100.0		

* As of April 08, 2022

The Economy

The Economy

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

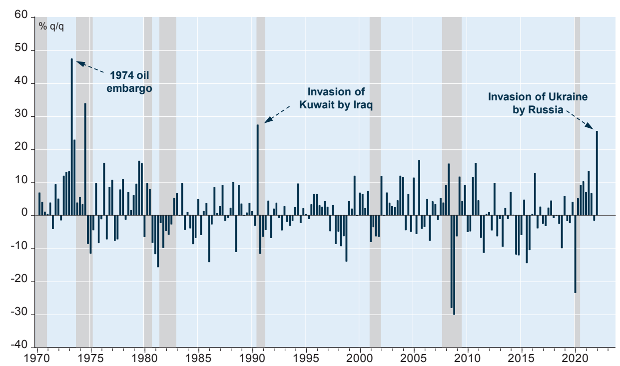
Jocelyn Paquet
Economist
514-412-3693

World: A war drags on, the repercussions persist

In our last issue we presented an exhaustive list of economic risks arising from the Russia-Ukraine conflict. The increased uncertainty prompted us to revise our global economic growth forecast down slightly and to warn of further downticks if the conflict were to bog down. A month later, peace in eastern Europe seems no closer and the repercussions for the global economy persist. So our scenario needs updating.

The most striking factor, and the heaviest weight on global growth, is the rise of raw-material prices. Worries about Russia's ability (or willingness) to supply energy products and industrial metals to client regions of the world triggered a surge of prices for many base products in the first quarter, a development that amounts to a tax on consumption and production.

World: A historic surge of commodity prices
Quarterly changes in Bloomberg Commodity Price Index



NBF Economics and Strategy (Bloomberg data)

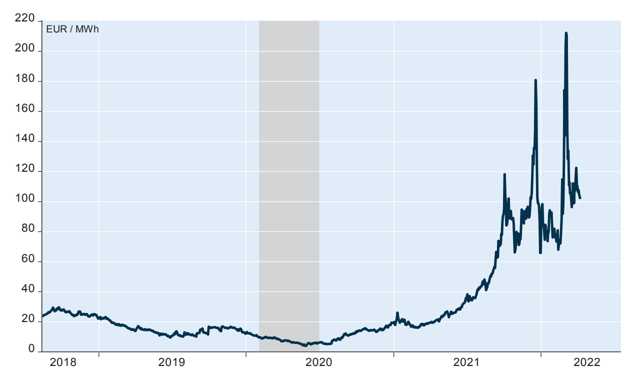
Among these commodity price rises, that of oil deserves special attention. Washington has tried to relieve the pressure by authorizing a large drawdown of its strategic reserves and threatening a tax on U.S. producers who do not use their licences to drill on public land. However, these moves have had only mitigated effects. The one million additional barrels a day promised by the Biden administration over the next six months would supply just 48 hours of global consumption. A more lasting fall of energy prices would require a concerted effort, which seems unlikely at this point. The limited unused capacity of the OPEC countries seems to condemn that organization to stick to the rise in quotas agreed on before the invasion of Ukraine, too little to offset any loss of supply from Russia. The other, less enviable alternative would be that of a sudden reduction in demand. And such a reduction from China (see below) indeed seems responsible for the moderation in oil prices in recent days.

World: Volatile oil prices deserve special attention
Brent oil price

NBF Economics and Strategy (Bloomberg data)

Europe seems especially vulnerable to a persistence of high energy prices. Much of the electric power generation on its territory is fuelled by natural gas, whose very volatile prices remain high.

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



NBF Economics and Strategy (Bloomberg data)

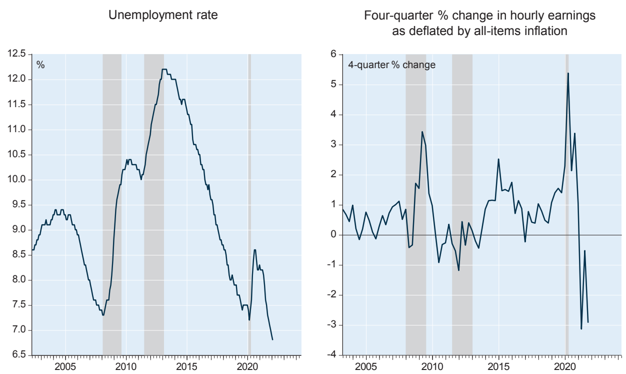
Since European households and businesses were grappling with record price rises even before the war in

[1] Non-accelerating inflation rate of unemployment

The Economy

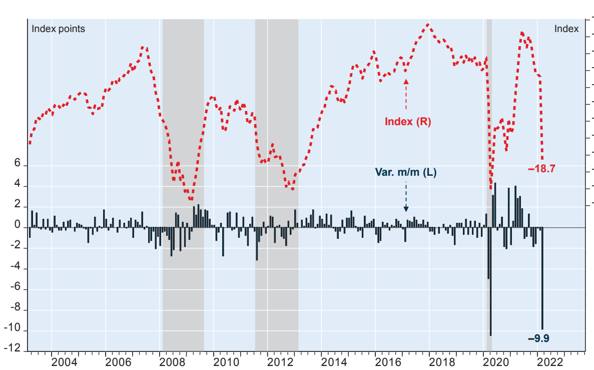
Ukraine, recent developments in the energy sector have got central bankers worried. On March 28, Bank of England governor Andrew Bailey said he expected "an historic shock to real incomes." Two days later, European Central Bank president Christine Lagarde warned that the rise of energy prices would very likely reduce household purchasing power and bring on a "difficult period" for the Eurozone. Economic data seem to support these outlooks. Although the unemployment rate touched a long-time bottom in February, real incomes seem about to contract for a fourth straight quarter.

Eurozone: An employment recovery tarnished by inflation



NBF Economics and Strategy (Refinitiv data)

Eurozone: Consumer confidence tumbled in March
European Commission consumer confidence index. Last observation March 2022

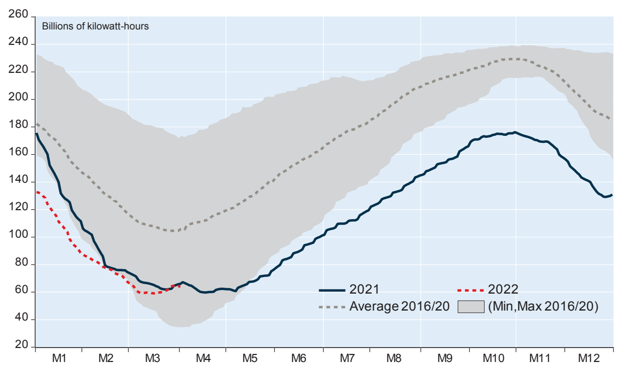


NBF Economics and Strategy (Bloomberg data)

The reduction of purchasing power, combined with the current geopolitical uncertainty, has darkened the skies over Eurozone households. In March the European Commission's consumer sentiment index turned in its second-largest drop since the beginning of the data series in 1995, falling 9.9 points to 18.7 – the lowest since the first months of the pandemic.

The situation could worsen further if Moscow were to make good on its threat to cut off its gas exports to countries that refuse to pay in rubles. This bravado has pushed Germany to introduce a contingency plan for tightening management of imports and inventories. In the event of a supply disruption, the German authorities have said they would not hesitate to ration the use of gas in an attempt to forestall scarcity next winter. Such actions would of course have a large impact on economic growth.

Germany: Gas reserves at worrisome lows
Reserves of natural gas

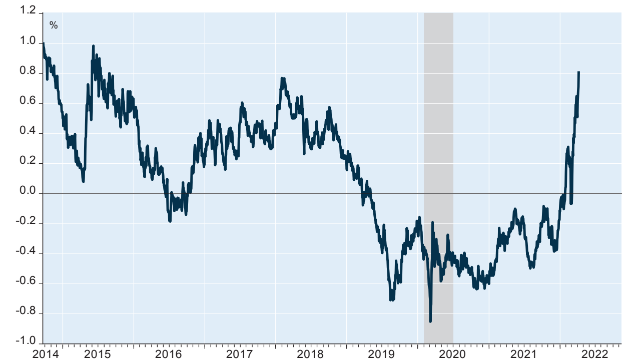


NBF Economics and Strategy (Bloomberg data)

But the rise of energy prices will not be the only headwind for Eurozone growth this year. Scarcity of inputs, disproportionately affecting the auto industry, will further spoil the party. Several producers (including Volkswagen and BMW) have already had to cut back operations since Ukraine ceased production of wiring harnesses (sets of cables supplying electric power to a car's components). Others could follow suit.

Businesses and consumers will also have to deal with higher interest rates. These higher rates reflect higher expectations for inflation and a corollary discounting by financial markets of multiple ECB rate hikes. But even taking these factors into account, the recent rises seem outsized and due in large part to the gravitational pull of the U.S. bond market. The two markets do not operate in isolation from each other, and the Eurozone seems to be "importing" a tightening of financial conditions from the U.S. If that is so, financing conditions on the European continent may be ill-suited to current economic needs.

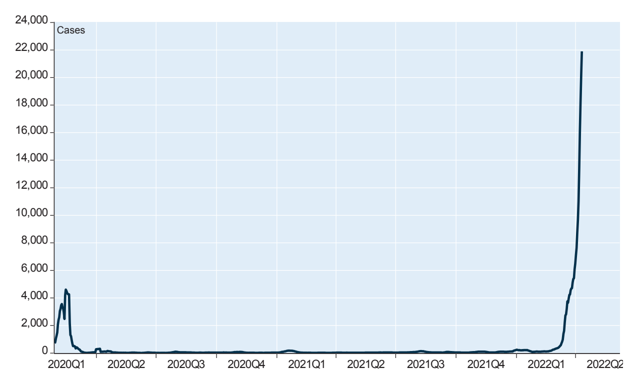
Is the Eurozone importing monetary tightening from the U.S.?
Yield of 10-year German government bond



NBF Economics and Strategy (Bloomberg data)

The repercussions of the war in Ukraine are not limited to Europe. They will also hit other countries that are importers of raw materials, notably Japan, India and China. In the case of China, these problems will add to challenges arising from the maintenance of its zero-Covid policy when the country faces a resurgence of cases from the highly contagious Omicron variant.

China: Enormous pressure to maintain zero-Covid policy
Daily new cases of Covid-19, 7-day moving average

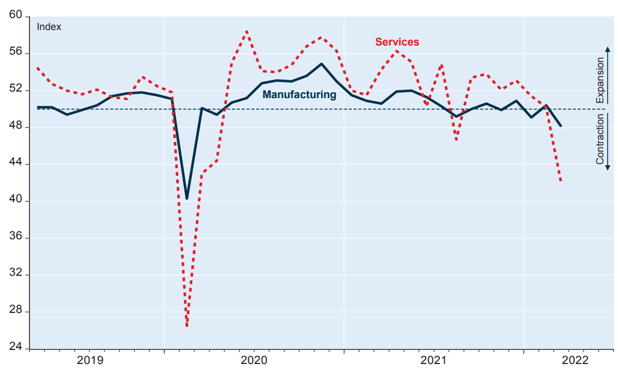


NBF Economics and Strategy (Bloomberg data)

The Economy

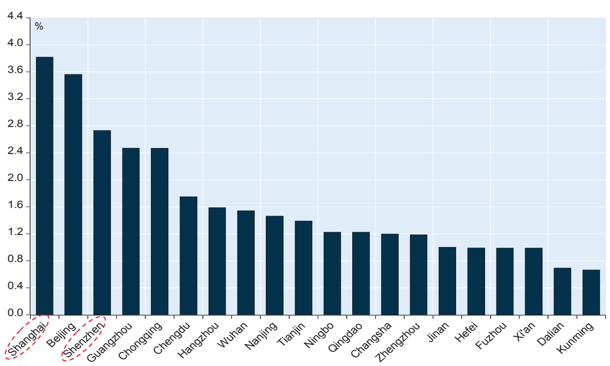
China's reluctance to drop this approach may stem from the lack of protection of its seniors from the virus. Almost 40% of those 80 and older have yet to be adequately vaccinated. Whatever the justifications, the imposition of extremely strict public-health measures will no doubt hit the economy hard. Markit reports a major slowdown of the private sector in March, a month when lockdowns were imposed in two of the country's largest metropolitan areas (Shenzhen and Shanghai).

China: Private sector output contracted in March …
Caixin/Markit PMI index. Last observation March 2022



NBF Economics and Strategy (Refinitiv data)

… as lockdowns were imposed on Shenzhen and Shanghai
GDP as % of national GDP, selected cities, 2020 data



NBF Economics and Strategy (data from National Bureau of Statistics of China)

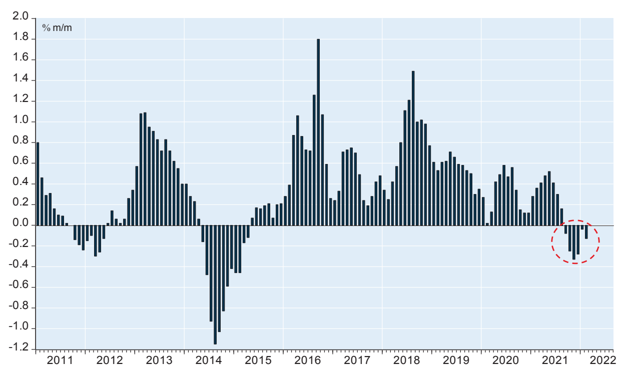
Fortunately, Beijing seems determined to limit damage from the Omicron wave. On March 5, Premier Li Keqiang announced tax cuts for small businesses amounting to about 2% of GDP. Beijing has also approved 102 infrastructure megaprojects and hiked transfers to local governments to counter their loss of revenue from sales of land to real estate promoters. On March 16, top economic advisor Liu He raised the ante with an announcement that the government would take measures to boost the economy and that "rectification" of IT enterprises was coming to an end. Equity markets rebounded without making a fuss about the absence of detail.

China: Slide of markets stopped by statements of Beijing authorities
Hang Seng Index

NBF Economics and Strategy (Bloomberg data)

These good intentions notwithstanding, it seems unlikely that Chinese economic growth this year will reach the targeted 5.5%, especially with the real estate sector still under pressure.

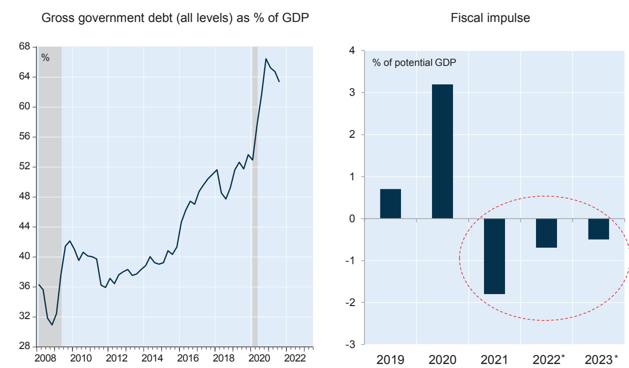
China: Real estate market still clouded by uncertainty
Monthly change in new-home prices in 70 large cities



NBF Economics and Strategy (Bloomberg data)

For other emerging economies our concerns remain the same – that interest-rate rises will curb growth and reduce the fiscal room of governments. This constraint would come at a time of sharp rises of food prices, especially in countries where food subsidies constitute a large part of government budgets.

Emerging economies: Restrictive fiscal policies in store



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

For all these reasons, our outlook for global growth is revised down for both 2022 (from +3.8% to +3.4%) and 2023 (from +3.7% to +3.5%). This more downbeat scenario reflects an outlook of slower growth in China, the Eurozone (where we cannot exclude the possibility of a technical recession) and the United Kingdom.

World Economic Outlook

	2021	2022	2023
Advanced Economies	5.1	2.9	2.3
United States	5.7	3.1	2.1
Eurozone	5.3	2.5	2.2
Japan	1.8	2.2	1.5
UK	7.2	3.7	2.0
Canada	4.8	3.6	2.4
Australia	4.8	3.8	2.8
Korea	4.0	2.7	2.5
Emerging Economies	6.5	3.8	4.3
China	8.1	5.0	5.2
India	9.0	8.0	7.0
Mexico	4.8	2.0	2.3
Brazil	4.8	0.8	2.0
Russia	4.7	-9.0	2.0
World	5.9	3.4	3.5

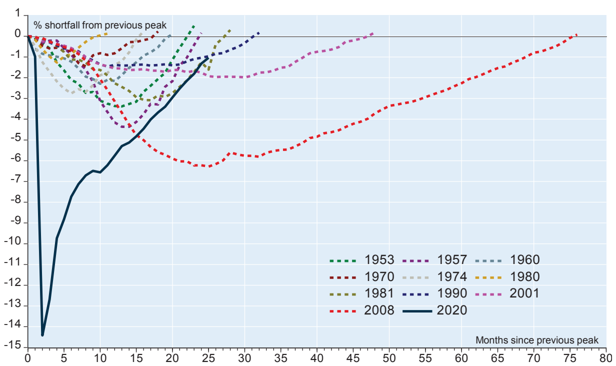
NBF Economics and Strategy (data via NBF and Conensus Economics)

The Economy

United States: In search of the " Immaculate disinflation"

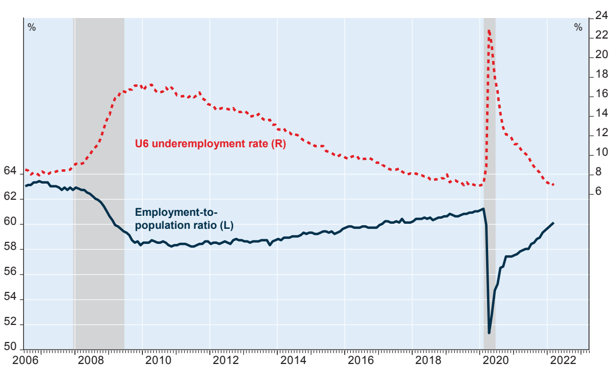
Europe and emerging countries may be beset by difficulties, but the U.S. economy continues to fire on all cylinders. The labour market seems to be taking off following a rather slow recovery at the beginning of the pandemic. After solid growth in recent months, nonfarm employment gained another 431,000 jobs in March, and is now only 1.0% below its pre-pandemic level.

U.S.: Labour market recovery almost complete
Nonfarm employment, % shortfall from previous peak



NBF Economics and Strategy (Refinitiv data)

Broader employment measures point in the right direction
Employment-to-population ratio and underemployment rate

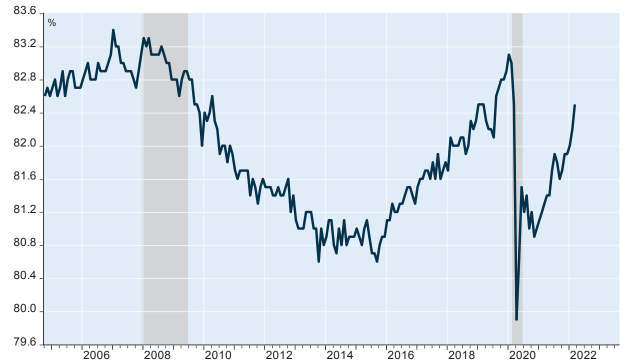


NBF Economics and Strategy (Refinitiv data)

It's not just the overall numbers that impress. Almost all of the sub-indicators are flashing green at this writing. Private-sector and full-time employment are both outperforming. The unemployment rate, meanwhile, is only 0.1 percentage point above its low of February 2020, a low unmatched since then, and broader measures such as employment-to-population ratio and the underemployment rate continue to improve.

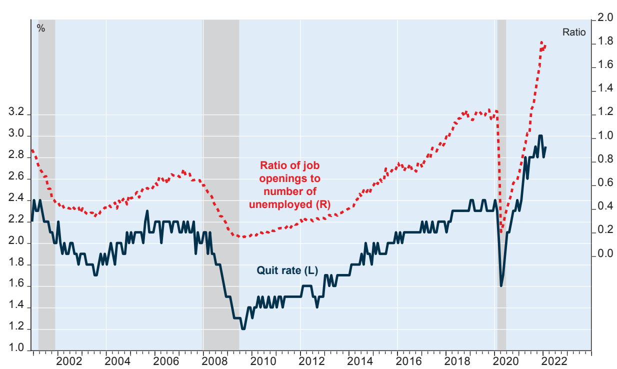
In another positive signal, the participation rate of people 25 to 54 years old is now up 0.5 percentage points year to date, suggesting that, after a long pause, more and more people are rejoining the labour market.

U.S.: Many workers are rejoining the labour market
Participation rate, 25- to 54-year-olds



NBF Economics and Strategy (Refinitiv data)

The labour market has rarely been so favourable to workers
Ratio of job openings to unemployed people and quit rate (voluntary departures as % of total employment)

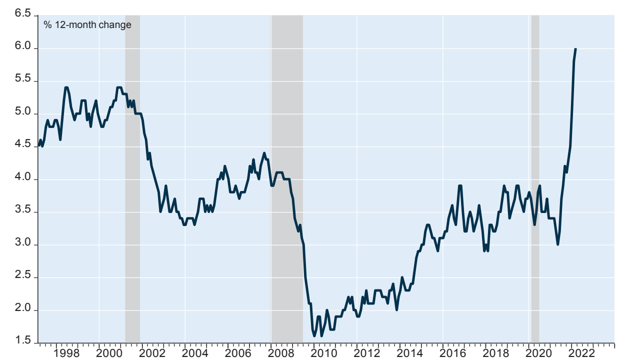


NBF Economics and Strategy (Refinitiv data)

That is promising news for employers desperately seeking skilled labour. However, it is still much too early to cry victory over labour scarcity. The overall participation rate is still 1.0 points below that of February 2020, and structural problems continue to hold some workers back. The upshot? The ratio of job openings to unemployed people and the quit rate – voluntary departures as a percentage of total employment – are both still close to the all-time records of late 2021.

Many U.S. businesses grappling with intense labour scarcity must bite the bullet of substantial pay raises. The Atlanta Fed reported a March increase in the median wage that was the largest since the beginning of this data series in 1997.

Rising wages under conditions of labour scarcity
12-month change in median wage



NBF Economics and Strategy (data from Atlanta Fed)

U.S.: A rapid tightening of monetary policy in store
Appropriate year-end Fed funds rates seen by FOMC members. Gray rows show the current target range

NBF Economics and Strategy (data via Federal Reserve)

However much appreciated by workers, such raises present a problem for the Federal Reserve, which must now

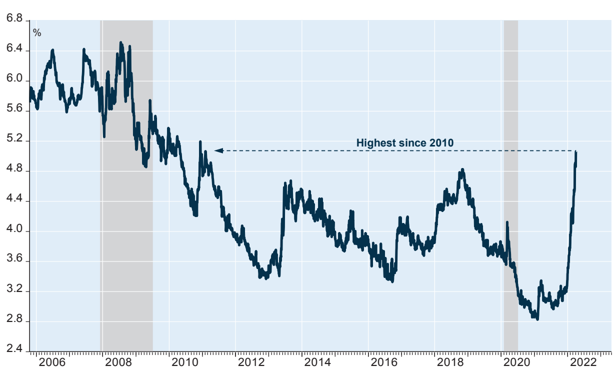
The Economy

prevent an inflationary spiral from derailing the economy. To this end, the central bank now sees seven rate hikes in 2022 (including the one already announced in March), followed by three or four more in 2023. The central bankers also announced last week that they intend to reduce considerably the size of the Fed's balance sheet.

In the past, such monetary policy resets have too often been associated with economic accidents. Only three times since 1945 has the Fed managed a soft landing of the economy, and never with inflation so high when tightening began. Yet its economic forecasts continue to foresee what economic observers have come to call "immaculate disinflation." The central bank plans to be able to bring inflation back close to target without noteworthy impact on the labour market. In its outlook, the unemployment rate remains more or less stable out to its forecast horizon.

Allow us a few reservations. To the extent that high inflation reflects excess demand in the U.S. rather than a supply shock – and the effects of one and the other are sometimes hard to define – a less accommodative monetary policy is likely to help moderate the rise of prices. But it could also have unforeseen consequences such as a repricing of certain risk assets or a slowing of the real estate sector. One thing is certain: the recent rise of mortgage rates will not fail to make housing less affordable and discourage some prospective buyers.

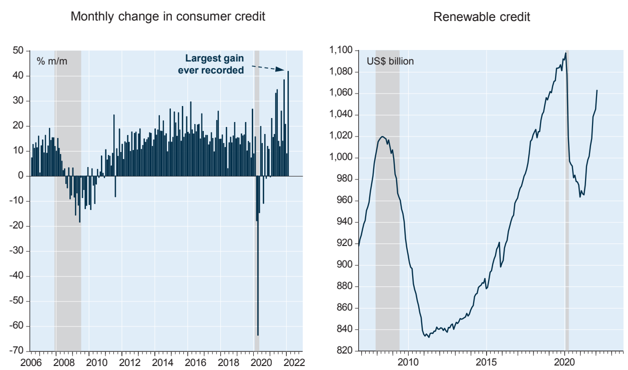
Rising cost of borrowing is a threat to the housing market
Average mortgage rate paid for a 30-year fixed-rate mortgage



NBF Economics and Strategy (source: bankrate.com via Bloomberg)

Our concern about the potential collateral effects of monetary tightening is the main factor in our own outlook for long-term growth below the U.S. consensus. For the shorter term we are fairly optimistic, given the strength of the labour market and the vigour of business investment. We nonetheless expect a cooling of household consumption under conditions of high inflation. Wages are rising fast, but not fast enough to offset price increases, so households must now draw on their savings or borrow if they are to maintain their standards of living. On this last point, Federal Reserve data show a record increase in consumer credit in February.

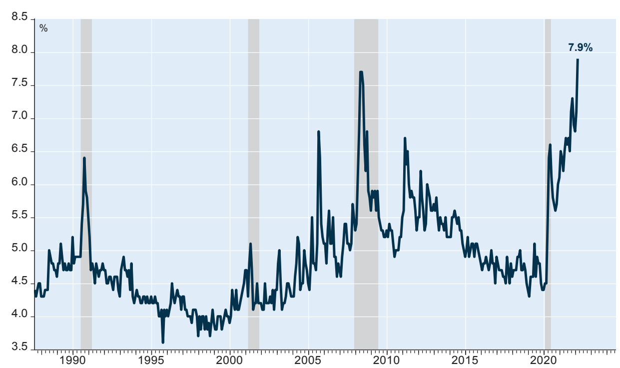
In response to inflation, consumers turn to credit



NBF Economics and Strategy (Bloomberg data)

To judge by the latest Conference Board survey, consumers clearly do not expect the situation to improve. Their inflation expectations were at a record high in March...

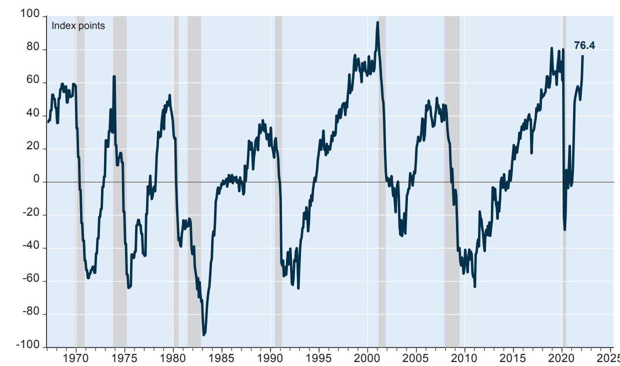
Consumer expectation of inflation at a new high
Expected inflation over the next 12 months, Conference Board Consumer Confidence Survey



NBF Economics and Strategy (Refinitiv data)

... which perhaps explains why survey respondents were much less optimistic about the future than about current conditions. This spread in sentiment bears close watching. Historically, large gaps of this kind have heralded economic slowdowns.

A large spread between Present Situation and Expectations outlooks
Present Situation subindex minus Expectations subindex, Conference Board Consumer Confidence survey



NBF Economics and Strategy (Refinitiv data)

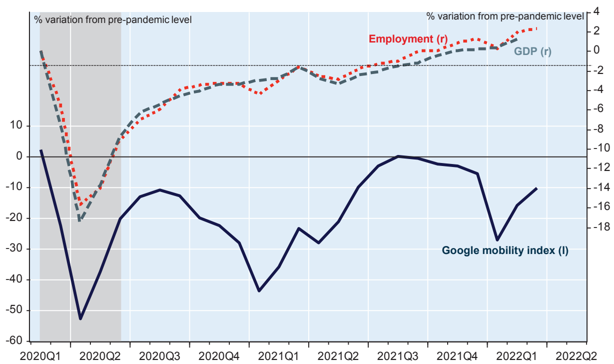
Despite some headwinds for consumers, we are holding our forecast for the U.S. unchanged this month. We expect growth of 3.1% this year and 2.1% in 2023.

Canada: Fixing the damages

In Canada, the most recent economic and financial data, as well as some federal/provincial budgets, have reinforced market expectations that the policy rate will rise quickly. First, economic growth in the first quarter was much stronger than expected at the beginning of the year. While health measures aimed at slowing the spread of the Omicron variant did have a negative impact on the accommodation/restaurant and arts/recreation sectors in January (-6.6%), this should not prevent economic growth from being solid again in the quarter. Despite this downturn, Statistics Canada estimates a respectable 0.2% GDP growth rate in January, thanks to the other sectors which experienced a spectacular 0.6% jump. Judging by the preliminary growth estimate for February, the easing of sanitary measures led to an impressive 0.8% increase, the largest in 8 months.

The Economy

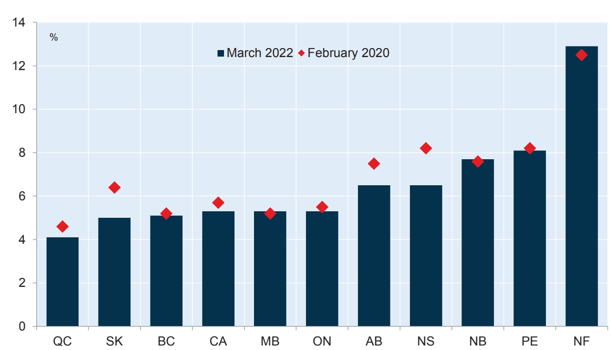
Canada: The economy held firm in Q1 despite omicron
Google mobility index for retail and recreation, employment and GDP



NBF Economics and Strategy (data via Statistics Canada)

There is reason to believe that growth continued in March as employment data continued to defy gravity. After a spectacular hiring spree in February with the easing of public health restrictions (+340K), the national headcount increased by as much as 73K in March thanks to a 93K gain in full-time jobs. This allowed the unemployment rate to reach a historic low in the country of 5.3%. This decline is due in part to the significant decrease in the jobless rate in Quebec, which has reached a new record low. Howeverwe also note that all but two provinces have unemployment rates at or below their pre-crisis levels.

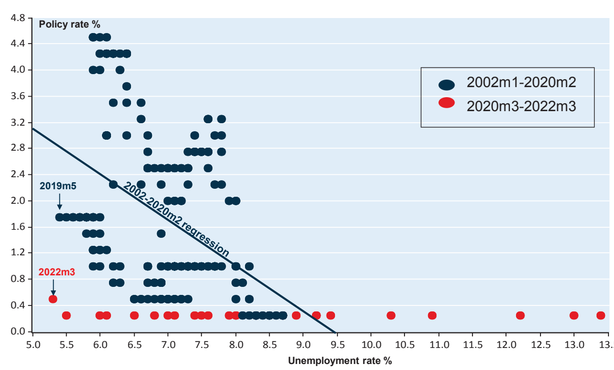
Canada: Jobless rates have recovered in the vast majority of provinces
Unemployment in February 2020 and March 2022



*Ontario as of May (trough)
NBF Economics and Strategy (data via Statistics Canada)

The previous low was 5.4% in May 2019, one-tenth higher than it is now. However, the Bank of Canada's policy rate was 125 basis points higher. Why was the Bank of Canada so late in normalizing interest rates this time around? While there was uncertainty during successive waves of COVID-19 that continually clouded the outlook, the Bank also held on to its forward guidance, established at the height of the crisis, for too long. These consisted of a promise that rates would not be raised until GDP returned to its estimate of potential GDP. Such a criterion was already complacent insofar as monetary policy should in practice be neutral at that time so as not to lead to overheating, especially since the impact of monetary decisions has a lag effect on the economy. Meanwhile, the labour market was improving at a rapid pace and the Bank of Canada continued to be overly concerned about a certain lack of inclusiveness in the recovery, notably in the October 2021 ***Monetary Policy Report*** (Box 4). It cited a study that argued that traditional labour market measures can "mask the presence of excess capacity given the weakness of the labour market among some hard-hit groups". Rather than relying on macroeconomic indicators, such as its own Business Outlook Survey, which indicated a shortage of labour consistent with full-employment, the central bank was concerned by pockets of weakness in specific segments of the population.

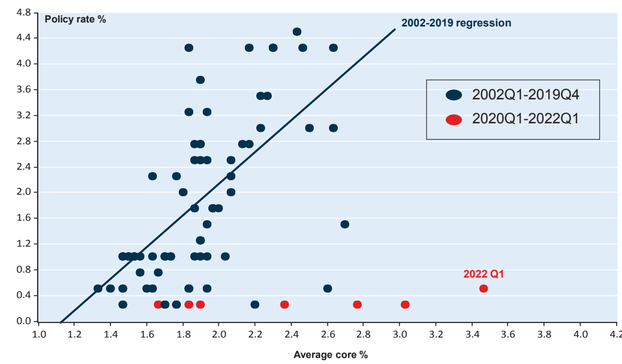
Canada: Crisis monetary policy at full-employment
Unemployment rate and BoC policy rate (2002-2022)



NBF Economics and Strategy (data via Refinitiv)

Monetary policy appears even more inappropriate when one considers the current level of core inflation. Here too, the Bank of Canada has had blinders on throughout 2021, notably by adhering to the Fed's view that inflationary pressures were essentially transitory and did not reflect pressures in the domestic economy.

Canada: Crisis monetary policy with core inflation outside target range
Core inflation and BoC policy rate (2002-2022)

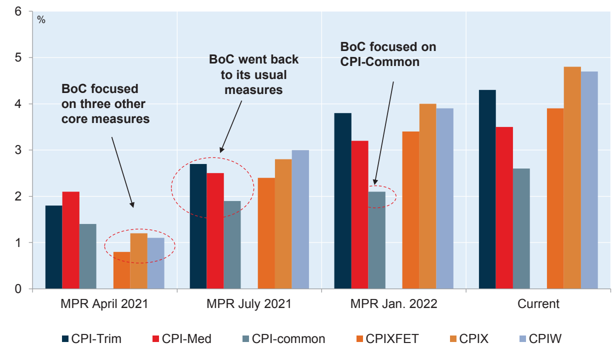


NBF Economics and Strategy (data via Refinitiv)

In its Monetary Policy Report of a year ago (April 2021), the central bank stated that the usual measures of core inflation (CPI-trend, CPI-med, CPI-comm) did not give a true picture of the situation of core inflation by overstating it. It then focused on other measures (CPIX, CPIXFET, CPIW) that revealed lower inflation on average, based on a questionable argument that we had criticized in a ***study***. In its next report (July 2022), the Bank reversed course by shifting the focus back to its regular measures, which were now showing lower inflationary pressures on average than the ones suggested three months earlier. In its latest report (January 2022), the Bank warns that the CPI-Trim and CPI-Median may be more reflective of supply chain disruptions, while the CPI-common would, in its view, better reflect domestic excess demand. This gives the impression that some data is being cherry-picked to minimize inflationary pressures and provide some justification for not raising rates.

The Economy

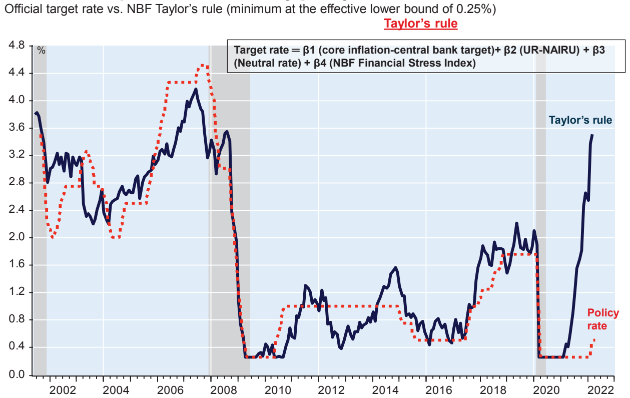
Canada: Evolution of core CPI measures in 2021-2022
Year-over-year percentage change, monthly



NBF Economics and Strategy (data via Statistics Canada)

We developed a Taylor rule (central bank reaction function) calibrated from 2001 to 2020 to estimate how the policy rate should have evolved if the central bank had reacted in the same way as in the past. Our regression model has the Bank of Canada's target rate as the dependent variable and the deviation of core inflation from the target, the deviation of the unemployment rate from the NAIRU[1] , the neutral rate, and our financial stress index as the independent variables. In fact, according to this rule, the central bank should have started to raise its policy rate in the second quarter of 2021, which could have prevented the overheating we are currently experiencing. In March 2022, our model suggests a policy rate of 3.50%, 300 basis points higher than the current level.

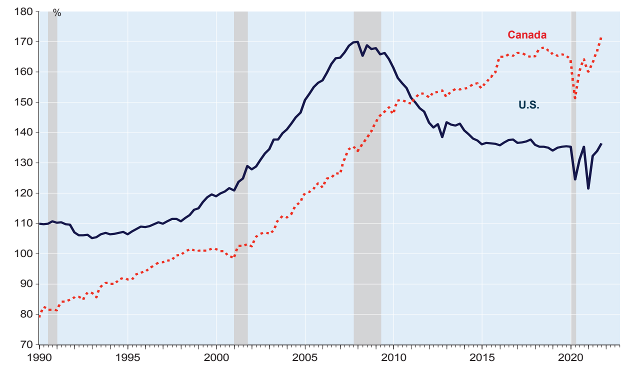
Canada: Perspective on monetary policy
Official target rate vs. NBF Taylor's rule (minimum at the effective lower bound of 0.25%)



NBF Economics and Strategy (data via Refinitiv)

The need to quickly normalize monetary policy is therefore clear. But as we explained in the *Fixed Income Monitor*, it is important not to correct the first mistake (too much easing, too long) by making a second one that could cause an economic shock by tightening too aggressively. Unfortunately, the first mistake caused some excesses, including a real estate frenzy that the central bank must now deal with. This has caused household debt to rise to record levels after years of stability, while house prices have risen by 30% since the start of the pandemic.

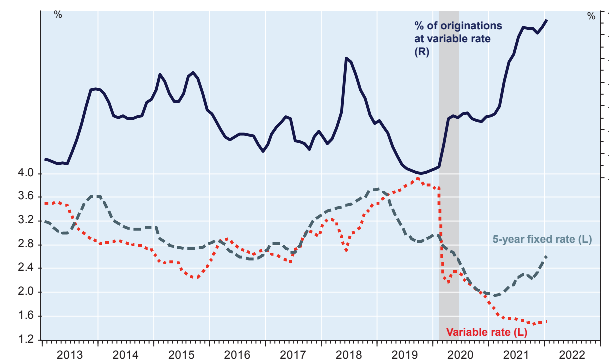
Canada & U.S.: Household debt to disposable income
U.S. Household as Canada's definition and Canada's disposable income as U.S. definition



NBF Economics and Strategy (data via Statistics Canada, U.S. BEA and Federal Reserve)

We see a policy rate of 2.0% by the end of the year and a pause in 2023, a tightening that should be sufficient to curb consumer fervor who are also hit by a shock to their purchasing power through inflation. Our interest rate scenario seems adequate to calm the overheating in the real estate sector without causing a hard landing that could have significant consequences for the economy. But the sector will have to be watched closely as it is usually the most interest rate sensitive of all household expenditures. Homebuyers have dodged the interest rate increases that have occurred over the past year by taking out a record proportion of variable rate loans whose rates have remained low. By choosing the variable rate over the fixed rate, a borrower increased their purchasing power by 13% for the same payment. This was an offer that many buyers could not resist and contributed to the surge in home prices. This shows that real estate valuations are, in the current context, particularly sensitive to a rise in the key interest rate.

Canada: Will housing market hold up with higher policy rate?
5-year fixed rate and variable rate at mortgage origination, and % of originations at variable rate



NBF Economics and Strategy (data from Bank of Canada)

This month, we are maintaining our forecast of 3.6% growth in 2022, unchanged, even though the first quarter proved to be much stronger than previously expected. We now anticipate interest rates to normalize more quickly, and this should translate into a sharper slowdown in the housing sector and somewhat weaker-than-expected consumption growth for the rest of the year. Like other economies around the world, the Canadian economy could be affected by inflationary pressures from the war in Europe, but it remains well positioned on a relative basis. Consumers have accumulated significant excess savings and the labour market, comfortably at full employment, should allow for decent wage growth. The strength of the resource sector could also offset some of the consumption shock. As for governments, there is no sign of a period of austerity, with an NDP/Liberal alliance in Ottawa and pro-growth budgets in many provinces.

The Economy

United States
Economic Forecast

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

* or as noted

Financial Forecast**

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

** end of period

Quarterly pattern

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

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	3.6	2.4	3.3	2.9	2.3
Consumption	1.4	(6.2)	5.2	4.6	2.5	5.2	3.1	2.3
Residential construction	(0.2)	4.3	15.4	(6.8)	(1.3)	(0.8)	(4.1)	(0.2)
Business investment	2.5	(12.1)	2.3	4.8	3.3	6.5	3.3	3.2
Government expenditures	0.8	0.9	4.8	1.6	1.4	2.4	1.6	1.4
Exports	2.3	(9.7)	1.4	2.1	6.3	0.8	2.6	5.7
Imports	0.4	(10.8)	7.4	1.3	5.3	5.0	1.0	5.0
Change in inventories (millions $)	18,377	(18,720)	(1,543	15,500	19,186	9,913	17,000	20,316
Domestic demand	1.2	(4.1)	5.5	2.6	1.9	3.8	2.0	1.9
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	4.1	1.4	4.2	2.8	1.0
Unemployment rate	5.8	9.6	7.4	5.4	5.3	6.3	5.2	5.3
Inflation	1.9	0.7	3.4	4.9	2.4	4.7	3.8	2.2
Before-tax profits	(0.6)	(1.9)	32.7	7.2	(0.1)	14.6	8.0	2.5
Current account (bil. $)	(47.0)	(39.4)	1.6	(5.0)	(16.0)	....	....	....

* or as noted

Financial Forecast**

	Current 4/08/22	Q2 2022	Q3 2022	Q4 2022	Q1 2023	2021	2022	2023
Overnight rate	0.50	1.25	1.75	2.00	2.00	0.25	2.00	2.00
Prime rate	2.50	3.25	3.75	4.00	4.00	2.25	4.00	4.00
3 month T-Bills	0.81	1.35	1.75	2.00	1.95	0.17	2.00	1.95
Treasury yield curve								
2-Year	2.43	2.45	2.55	2.55	2.40	0.95	2.55	2.20
5-Year	2.60	2.55	2.65	2.60	2.50	1.26	2.60	2.35
10-Year	2.63	2.55	2.60	2.60	2.55	1.43	2.60	2.45
30-Year	2.58	2.50	2.55	2.60	2.55	1.68	2.60	2.50
CAD per USD	1.26	1.23	1.20	1.21	1.23	1.26	1.21	1.26
Oil price (WTI), U.S.$	98	100	97	95	93	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	4.1	2.6	2.4	2.4
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	5.7	5.5	4.7	3.8
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	3.9	3.6	3.1	2.9
Unemployment rate (%)	8.4	7.9	7.2	6.3	5.8	5.3	5.3	5.2

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021e	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	2.5	2.3	2.0	2.3	-10.7	13.6	12.7	1.7
Prince Edward Island	4.7	-1.7	3.1	2.5	2.5	6.6	0.9	8.8	5.1	3.3
Nova Scotia	3.0	-2.5	3.4	2.7	2.1	3.7	0.7	8.7	5.9	3.3
New Brunswick	1.3	-3.2	3.2	2.5	1.9	2.4	-1.3	9.2	7.8	2.2
Quebec	2.8	-5.5	6.2	2.6	2.3	4.7	-2.4	13.1	6.6	2.9
Ontario	2.0	-5.1	4.0	3.9	2.5	3.7	-2.8	11.2	6.8	2.9
Manitoba	0.4	-4.6	3.9	3.1	2.4	0.7	-1.4	11.3	8.9	2.3
Saskatchewan	-1.1	-4.9	4.3	3.8	2.5	-0.4	-6.6	18.4	20.4	1.4
Alberta	-0.1	-7.9	5.0	4.4	2.6	1.5	-16.1	21.5	16.4	1.5
British Columbia	3.1	-3.4	4.4	4.1	2.5	4.6	-0.5	12.0	8.8	2.4
Canada	1.9	-5.3	4.6	3.6	2.4	3.6	-4.6	13.1	8.9	2.5

	Employment (% growth) 2019	2020	2021e	2022f	2023f	Unemployment rate (%) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	2.5	0.7	12.3	14.1	12.9	12.6	11.7
Prince Edward Island	3.4	-3.2	3.7	5.0	1.8	8.6	10.6	9.4	8.1	7.8
Nova Scotia	2.3	-4.7	5.4	2.7	1.5	7.3	9.7	8.4	6.5	6.2
New Brunswick	0.7	-2.6	2.6	2.2	0.7	8.2	10.0	9.0	7.3	6.9
Quebec	2.0	-4.8	4.2	3.4	1.3	5.2	8.8	6.1	4.2	4.0
Ontario	2.8	-4.7	4.9	4.6	1.7	5.6	9.5	8.0	5.6	5.5
Manitoba	1.1	-3.7	3.5	3.5	1.2	5.4	8.0	6.4	5.1	4.9
Saskatchewan	1.7	-4.6	2.6	4.3	1.1	5.6	8.3	6.5	4.8	4.6
Alberta	0.6	-6.5	5.2	4.8	1.3	7.0	11.5	8.6	6.5	6.2
British Columbia	2.9	-6.5	6.6	3.8	1.6	4.7	9.0	6.5	4.8	4.5
Canada	2.2	-5.1	4.8	4.1	1.4	5.7	9.6	7.4	5.5	5.3

	Housing starts (000) 2019	2020	2021e	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.2	0.8	1.0	0.2	3.7	4.6	2.4
Prince Edward Island	1.3	1.1	1.2	1.0	1.0	1.2	0.0	5.1	5.3	2.4
Nova Scotia	4.7	4.9	6.0	5.0	4.4	1.6	0.3	4.1	5.1	2.3
New Brunswick	2.9	3.6	4.0	2.0	2.0	1.7	0.2	3.8	5.1	2.5
Quebec	48.0	54.2	71.1	60.0	53.0	2.1	0.8	3.8	5.2	2.5
Ontario	69.0	81.3	101.2	88.0	80.0	1.9	0.6	3.5	5.1	2.4
Manitoba	6.9	7.3	8.0	8.0	7.5	2.3	0.5	3.3	4.9	2.4
Saskatchewan	2.4	3.1	4.3	3.4	3.1	1.7	0.6	2.6	4.7	2.4
Alberta	27.4	24.1	31.9	27.0	26.0	1.7	1.1	3.2	4.7	2.4
British Columbia	45.1	38.0	47.7	37.0	35.8	2.3	0.8	2.8	4.6	2.5
Canada	208.5	218.4	276.6	232.6	213.6	1.9	0.7	3.4	4.9	2.4

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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

Taylor Schleich
Rates Strategist
416-869-8025

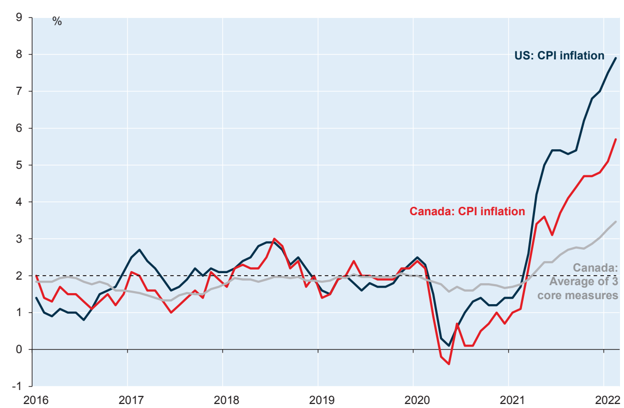
Jocelyn Paquet
Economist
514-412-3693

Two wrongs don't make a right

Mulligans aren't really a thing in financial markets. Investors aren't afforded do-overs, allowing them to turn back time in order to enter what would have been the most profitable trades. Same goes for central bankers and their past policy decisions. For if they could, monetary policy makers would surely have opted for a fundamentally different path than the one that we've walked over the past year plus.

To us, the debate over monetary policy errors is not theoretical, but rather empirical. Serious monetary policy errors were made (past tense), here in North America and across the globe. With the benefit of hindsight, the grossest error related to the truly extraordinary misread on inflation, which led to far too much stimulus being left in the system for far too long (in their defence, nobody had expected the magnitude of the inflation shock). We're talking about (a) near-zero policy rates and bloated central bank balance sheets even as (b) economic slack rapidly disappeared, full employment came into view and consumer price inflation surged to multi-decade highs. These two situations have traditionally been mutually exclusive and for good reason.

Inflation continues to rise in North America
Headline, core inflation for Canada and the U.S.



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

But the mistake was made. The key question now is how best to correct for the earlier policy missteps… to restore needed institutional credibility… to tame inflation… to extend the recovery as long as possible? To us, following up the first mistake (being too lax for too long) with another prospective miscue (bludgeoning the economy and markets with ultra-aggressive tightening) is not the optimal path forward. In central banking, as with most things, two wrongs don't make a right… they would make an even bigger economic and financial mess requiring considerable time to clean up.

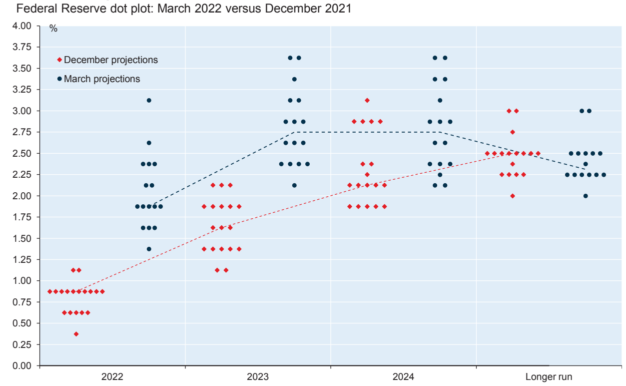
The way forward

Of the need to normalize monetary policy there is now little debate. Consensus has been achieved within inner policy circles, even if it took some time for North American central bankers to get there.

Both the Bank of Canada and U.S. Federal Reserve joined a growing list of advanced economy central banks in hiking rates last month. This was simply an initial foray, a number of additional policy rate adjustments lying immediately ahead. We'll quite likely see 50-bp moves from both the BoC and the FOMC at the next scheduled opportunity (April 13th and May 4th, respectively). At this juncture, we foresee no less than 175 basis points of cumulative tightening in calendar 2022.

This forecast (i.e., overnight target rates arriving at 2% by the end of year), represents our first point of departure from market expectations. In a wild abandonment of a previously laissez faire approach, fully half of the FOMC now favour a fed funds rate of 2%+ by the end of this year. One rogue member deems 3.25% the appropriate (upper bound) target… as in 300 bps of tightening in barely three quarters (inclusive of the initial March hike).

U.S.: An unprecedented shift in the 'dot plot'
Federal Reserve dot plot: March 2022 versus December 2021

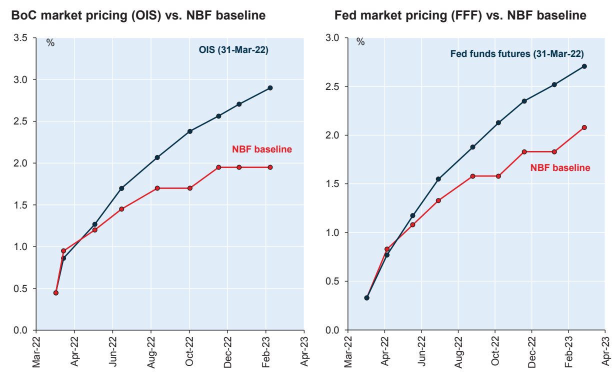


NBF Economics and Strategy (data via Fed) | Note: FOMC projections represent mid-point of target band. Dotted line is median projection.

Interest Rates and Bond Markets

Even the briefest of glances at OIS markets would reveal expectations of a pretty aggressive policy rate expectations, for both the Fed and the BoC. As it stands, markets imply year-end overnight rates ~2.5%.

We remain below market on both sides of the border



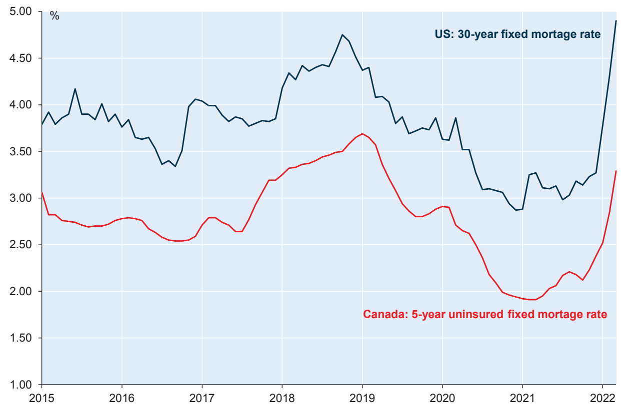
NBF Economics and Strategy (data via Bloomberg)

So the amount of tightening we formally project is now towards the lower-end of the expected range… if not for the next couple of meetings, certainly by the end of the year. The gap between our policy rate forecasts and implied market expectations becomes even more pronounced from there.

We continue to believe that 2022 tightening will prove broadly effective in taming interest sensitive demand, with some such signals having already appeared in this most-nascent tightening cycle. To be clear, we're not looking for much near-term inflation relief and that's likely to make things uncomfortable for policy makers through the spring and summer, opening the door for continued (but short-lived) curve inversion in the coming months. But if, as we believe, housing and other leveraged sectors react to the first 100-150 bps of realized tightening and if inflation shows signs of easing, the sense of urgency now embedded in market expectations will need to be re-thought. Translation: The pace of tightening should moderate by the fall, with the market delivered perhaps two to three fewer quarter-point hikes from the FOMC and BoC over the coming 18 months vs. current expectations.

Higher rates quickly being passed onto home buyers

Canadian (5-year fixed, uninsured) and U.S. (30-year fixed) mortgage rates

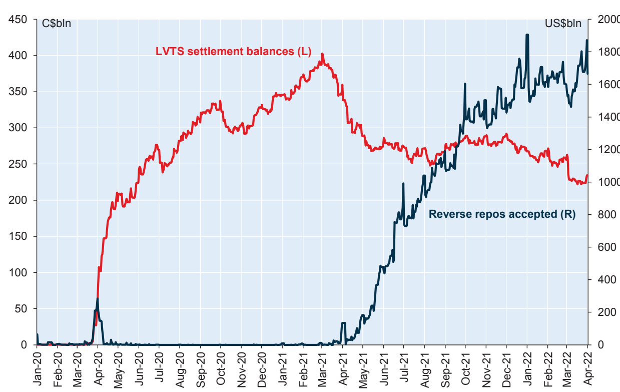


NBF Economics and Strategy (data via Bloomberg, BankRate.com, NBF) | Note: Feb-Mar 2022 Canadian mortgage rates represen NBF estimates

Don't misinterpret our preferred path for overnight target rates as monetary policy neutrality, as a balance sheet run-off exercise will bleed material liquidity from the market. To us, balance sheet management could well be labeled another past 'error', North American central banks having bought either too many bonds or keeping QE in place too long (or both). It's here we could presumably do with a sense of urgency, in terms of moving more quickly in run-off. That urgency has not, however, been on display, both the Fed and BoC holding up the policy rate as the primary normalization tool.

Liquidity is still abundant; scope for significant QT

LVTS settlement balances (left) and NY Fed reverse repos accepted (right)



NBF Economics and Strategy (data via Bloomberg)

To us, there will be an opportunity to adopt a more balanced tightening stance later this year and through 2023, one that would entail fewer rate hikes but substantial/rapid asset run-off. Even if much of this can be accomplished passively, the implications for net bond supply to end investors should not be underappreciated. The utilization of QT is, in our view, a logical means of tightening monetary policy without prematurely or more deeply inverting the yield curve. It's why we tend to see scope for something approaching a parallel shift higher in yields from late 2022 through much of 2023, with 10-year yields ultimately seen above 2.5% through the forecast horizon. Given that we expect structurally above-2% inflation for the coming years, this would reflect a near zero real yield, inflation expectations elevated for the foreseeable future.

To be clear, ours is but one way forward. The do-nothing approach has finally been binned. Good riddance. But the other extreme—a policy rate path essentially discounted by markets and implicitly favoured by some—is to us an error in the making. But here's hoping the tendency to overreaction is ultimately suppressed.

The case for 50

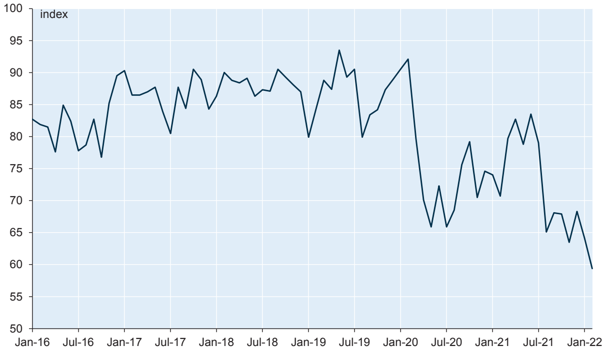
With policy rates still so clearly misaligned with the current stage of the economic cycle, the case for rapidly withdrawing stimulus is undeniable. Markets have long been flagging the possibility of the seldom-used 50 basis point hike, with economists joining soon after. The trillion-dollar question is: will central banks follow suit?

At the Fed, there appears to be significant support for a near term aggressive move. That's certainly what is implied by the latest Summary of Economic Projections. Seven of the sixteen 'dots' see the policy rate ending the year at or above 2.25%. Getting there would *necessitate* a 50 bp move. Meanwhile, even those who appear to have a *relatively* less forceful policy outlook have still entertained the idea of moving 50 bps at a coming meeting.

What is the economy telling us? We don't need to remind our readers of the ongoing inflation surge. At nearly 8% in the US and 'only' 5.7% in Canada, it's obvious policy isn't aligned with price stability mandates. While we're now starting to see consumer sentiment get hit, this is largely *because of* inflation. Meanwhile, we're still in store for another year of above-potential GDP growth, while consumer balance sheets look healthier than they did pre-COVID. In other words, the economy remains objectively strong.

Interest Rates and Bond Markets

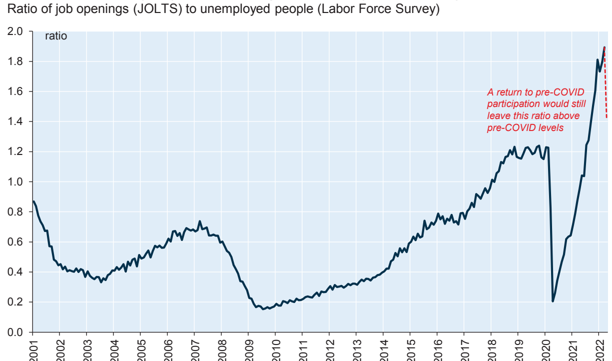
US: Consumer sentiment falling quickly as inflation bites
University of Michigan Consumer Expectations Index



NBF Economics and Strategy (data via Bloomberg)

Meanwhile, it's labour markets that might be spinning off the most concerning signals. While low unemployment rates are generally part of an enviable economic condition, it's becoming clear we've reached a point where labour markets are too tight. That's certainly the message that Chair Powell was relaying in his post-meeting press conference last month: With nearly 2 job openings for every unemployed person, the labour market is tight to an "unhealthy" degree. To be sure, participation remains depressed relative to pre-COVID times. But praying for more supply is a dangerous game. Look no further than global goods markets for evidence of that. Moreover, even if participation were to instantaneously return to pre-COVID levels, the ratio of job openings to job seekers would still be well above pre-COVID levels.

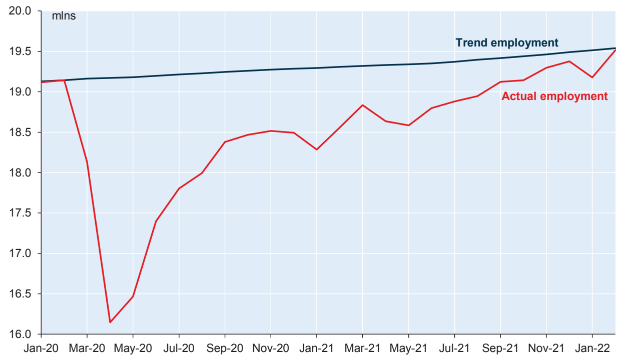
There are nearly 2 job openings for every unemployed American
Ratio of job openings (JOLTS) to unemployed people (Labor Force Survey)



NBF Economics and Strategy (data via Bloomberg, BLS) | Note: Red dotted line assumes participation rate immediately improves to pre-COVID level and all new entrants are considered unemployed

The longer this tightness remains, the harder it will be to contain inflation later as the dreaded wage-price spiral keeps inflation elevated. The solution here is reduce demand. And fast. Of course, that can be most quickly and easily accomplished via higher rates

Despite Omicron, Canadian employment back to trend
Canadian employment versus trend estimated with Feb 2020 employment rate



NBF Economics and Strategy (data via StatCan)

In Canada, the central bank has hardly been putting a 50 bp move on a silver platter for this month's meeting. BoC officials have kept things intentionally vague, simply noting that rates will be on 'a rising path' and that they are 'prepared to act forcefully'. BoC watchers will recognize that the Tiff Macklem era has been characterized by extreme caution and clearly telegraphed policy decisions. Most notably, the BoC opted to pass on a needed (not just in hindsight) and nearly-fully-priced January rate hike in order to give Canadians sufficient notice of their intentions. Their modus operandi would thus lean towards the more standard 25 bp move next month. In other words, we wouldn't be entirely shocked if they underwhelm the market again. However, economic developments since the Bank's last meeting (labour market and inflation data again surprised to the upside) clearly argue for a more aggressive near-term move. While there are no mulligans in central banking, a 50 bp move would at least push us closer to the path that we should already be on. A market that's braced for such a move should make that decision even easier.

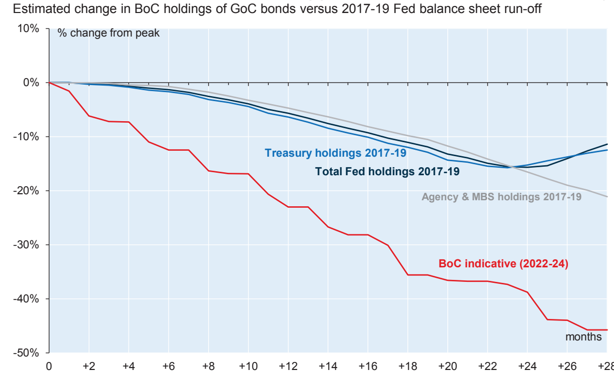
As we look ahead, some may argue for continued 50 basis point moves thereafter (and there's certainly a strong case to be made for doing so) but we're not convinced the Fed or BoC will be willing to go there. To be sure, we now expect hikes every meeting through the end of the third quarter, but don't think there will be enough broad support to continue with 50s for long. While inflation and labour market data are likely to remain steamy, it's not clear we'll see enough that will force the Fed into deviating significantly from the already aggressive rate path laid down in their March dot plot. Ditto for the BoC. Also, by the time June meetings roll around, we should see some of the focus shifting from policy rates to central banks' other policy tightening tool: their balance sheets.

It's (almost) QT time

So far in these early stages of the tightening cycle, central banks have placed the focus squarely on the policy rate. As they've reiterated, this is their primary tool. However, after massive and prolonged bond buying in 2020 and 2021 (and even into 2022 at the Fed), it's time to begin the process of draining liquidity

We've taken receipt of the QT basics from central banks over recent months, even though there are some details still to be ironed out (particularly at the Fed). Following the BoC's rate decision in March, Governor Macklem laid the groundwork for significant balance sheet run-off ahead. Indeed, it doesn't appear that the BoC will buy any bonds once the reinvestment phase ends as early as the April meeting. (While no timeline was provided, we view April as the natural/most likely time to get that process underway, with Macklem's speech last month giving market participants plenty of notice that this was coming.) This implied BoC run-off would dwarf the Fed's 2017-19 experience and put a significant dent in the still-elevated levels of liquidity sloshing around in the system.

Planned BoC QT to be far more aggressive than the Fed's last foray
Estimated change in BoC holdings of GoC bonds versus 2017-19 Fed balance sheet run-off

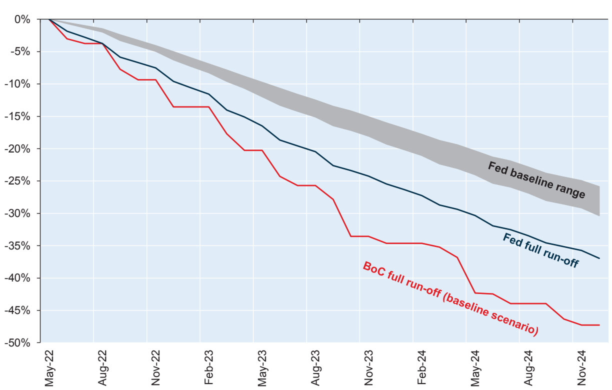


NBF Economics and Strategy (data via Bank of Canada, Fed)

Interest Rates and Bond Markets

At the Federal Reserve, there was little discussion of QT at the pivotal March meeting, as onlookers were more focused on the massive shift in the dot plot. Still, we don't see much utility in delaying the onset of balance sheet unwind and see that being teed up at the next FOMC meeting in early May. Powell and a litany of other FOMC participants have indicated that this go round will have to be more aggressive than the prior experience. However, the Fed's plan is not going to look anywhere close to as aggressive as the Bank of Canada's as it should still involve the reinvestment of at least some of its Treasuries. Rather, save for the outright sales of its USTs, it would be impossible for the Fed to reduce its government bond holdings by as much as the BoC, thanks to the Bank's shorter-duration portfolio. This, in addition to more interest-rate sensitivity/housing-leverage (we discussed this in detail in last month's monitor and in other ***Market View*** notes) is why we see the BoC throwing in the towel on its hiking cycle sooner and at a lower level than south of the border.

BoC QT should significantly outpace the Fed's
Cumulative reduction in government bond holdings under full run-off and baseline Fed outlook

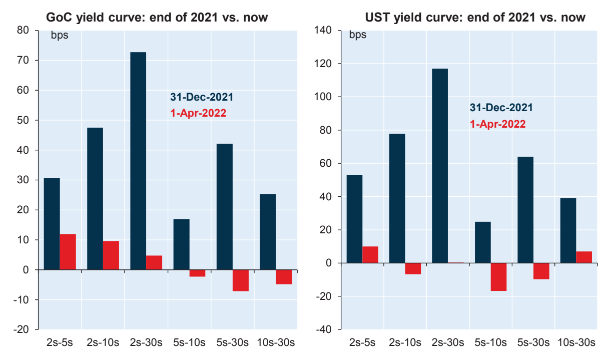


NBF Economics and Strategy (data via Bank of Canada, Fed)

Near-term, imminent balance sheet unwinds are unlikely to relieve flattening pressures on display in both the Treasury and GoC yield curve as policy rates are quickly brought higher. Instead, slight inversion of some key points on the yield curve could persist, particularly if central banks follow through with the 50 basis point moves we expect. However, once balance sheet unwind is in full swing and it becomes clear to markets that the Fed and BoC are unwilling to hike aggressively as they currently expect, inversion pressures should abate and we see room for a very modest re-steepening of yield curves. Make no mistake, the curve should remain flat but we could avoid a prolonged and even more significant inversion that so many market participants fear.

To be sure, by not taking policy rates meaningfully above neutral, the return of inflation to 2% will take longer. But with a slowing growth outlook and deteriorating consumer sentiment, we think a modest inflation overshoot is a price the BoC and Fed will ultimately be willing to pay to sustain the expansion. In this environment, pressure on 2-year yields could abate by the second half of the year. Meanwhile, longer-term yields might continue to drift slightly higher thanks to QT and inflation expectations remaining modestly above 2%.

Yield curves have flattened dramatically this year
Near-term, we could move flatter still



NBF Economics and Strategy (data via Bloomberg)

Canadian Bond Market: Interest rates, spreads and currencies

	1-Apr-22	31-Dec-21	1-Oct-21	2-Jul-21	2-Apr-21
Interest Rates					
3 months	0.758	0.178	0.12	0.145	0.089
2 years	2.342	0.951	0.506	0.451	0.222
5 years	2.48	1.257	1.071	0.968	0.969
10 years	2.444	1.426	1.469	1.374	1.51
30 years	2.377	1.678	1.955	1.837	1.948
Spreads					
3 months - 2 years	158.4	77.3	38.6	30.6	13.3
2 - 5 years	13.8	30.6	56.5	51.7	74.7
5 - 10 years	-3.6	16.9	39.8	40.6	54.1
10 - 30 years	-6.7	25.2	48.6	46.3	43.8
Currencies					
CAD/USD	1.2517	1.2637	1.2648	1.2322	1.2578
EUR/CAD	0.7236	0.6954	0.682	0.684	0.6763

NBF Economics and Strategy (data via Bloomberg)

Should central banks opt for the ultra-aggressive policy trajectory currently priced by markets, we might view risks to our long-term interest rate forecasts as tilted to the downside. As noted in our introduction, two wrongs don't make a right. A disorderly march higher in policy rates could leave financial markets bruised and beaten, emerging markets feeling the pinch and medium-term domestic growth and employment prospects put in jeopardy. That's not an environment supportive of continually rising yields. As is always the case, only time will tell.

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

World: PE compression

After a difficult quarter in which global equities fell 5.1%, the MSCI ACWI is already down nearly 1% in early April. Canada, Latin America, and Asia ex-Japan are some of the few regions showing growth so far in 2022 (table).

MSCI composite index: Price Performance

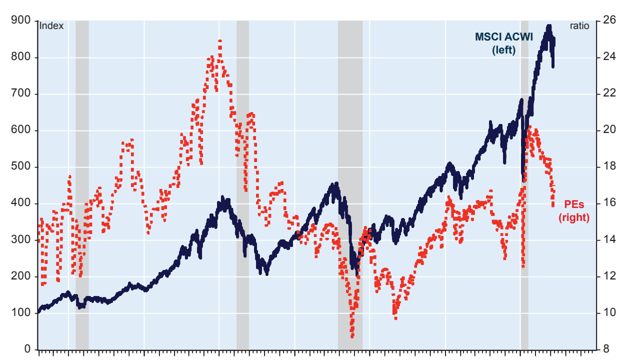
	Q2 2022 to date	Q1 2022	2022 year to date
MSCI ACWI	-0.8	-5.1	-5.9
MSCI World	-0.8	-5.0	-5.7
MSCI USA	-1.1	-5.5	-6.6
MSCI Canada	-0.3	2.9	2.6
MSCI Europe	0.8	-5.9	-5.2
MSCI Pacific ex Jp	-0.3	0.6	0.3
MSCI Japan	-2.6	-2.5	-5.1
MSCI EM	-0.8	-6.5	-7.2
MSCI EM EMEA	0.7	-10.3	-9.7
MSCI EM Latin America	-1.7	12.7	10.8
MSCI EM Asia	-0.9	-7.5	-8.4

4/8/2022

NBF Economics and Strategy (data via Refinitiv)

As of this writing, the entire drop in the MSCI ACWI since its January peak has been caused by a compression of PE ratios. The 12-month forward PE is currently 16.5, down from a cyclical high of 20x, but still slightly above its historical average of 15.8x (chart).

World: PE compression
MSCI ACWI and its 12-month forward PE



NBF Economics and Strategy (data via Refinitiv)

In fact, only the MSCI EM EMEA has seen an expansion of PEs over the past year, as more than half of this index is composed of fossil fuel producers (table).[1]

MSCI composite index: Valuation metrics (PE)

	4/8/2022	A year ago	10 year ave.	5 year average
MSCI ACWI	16.5	19.5	15.4	16.6
MSCI World	17.3	20.4	16.0	17.3
MSCI USA	19.9	22.7	17.3	19.1
MSCI Canada	13.7	15.8	14.7	14.8
MSCI Europe	13.6	17.0	14.2	14.9
MSCI Pacific ex Jp	15.9	17.5	15.1	15.9
MSCI Japan	12.9	17.2	14.0	14.4
MSCI EM	11.9	14.9	11.8	12.6
MSCI EM EMEA	12.6	10.8	9.5	10.0
MSCI EM Latin America	9.0	11.2	12.4	12.3
MSCI EM Asia	12.2	16.3	12.2	13.3

NBF Economics and Strategy (data via Refinitiv)

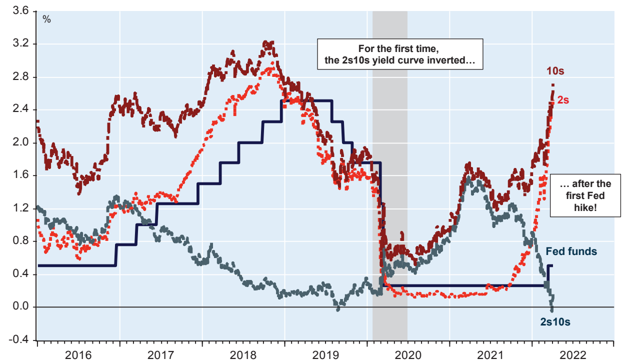
So what's causing this global compression in PEs? A rapid rise in U.S. interest rates is certainly not helping. History has shown that yield curve (YC) inversions should not be ignored for forecasting economic activity and earnings momentum. At the same time, the recent inversion of the 2s10s segment of the curve reflects expectations for a very aggressive tightening campaign by the Federal Reserve that has yet to happen. On April 1, it was the first time ever that the YC inverted after just one rate hike. The markets are currently forecasting an overnight rate of over 2.5% by year-end. We believe a more balanced tightening stance that involves fewer rate hikes but substantial/rapid asset liquidation is possible. As our fixed-income strategists argued in their latest ***fixed income monitor***, the use of quantitative tightening (QT) would be a logical way to tighten monetary policy without inverting the yield curve prematurely or more deeply – and thus prolonging the economic expansion. Interestingly, after Federal Reserve Governor Lael Brainard mentioned on April 5 that QT could begin as early as the May FOMC meeting, the 2s10s yield curve moved back into positive territory as 10-year Treasury yields converge hit 2.7% (chart).

[1] Includes 11 emerging markets in Europe, the Middle East and Africa (EMEA).

[2] See the April 7 ESG Research Flash by Baltej Sidhu.

Stock Market and Portfolio Strategy

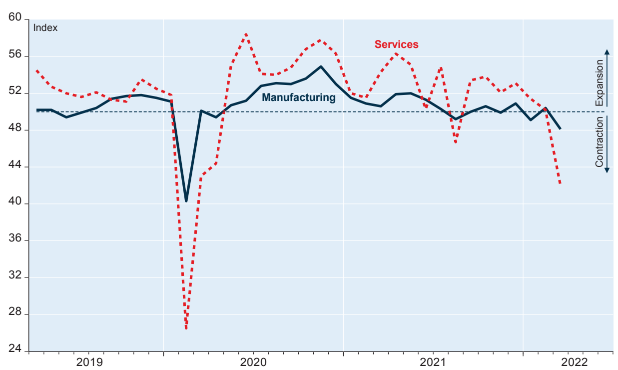
U.S.: Back above zero after the fastest inversion ever
Treasury yields (10s, 2s), fed funds rate, and 2s10s yield curve



NBF Economics and Strategy (data via Refinitiv)

Even if we do not expect 10-year yields to rise too much from here, it is unlikely that we will see an expansion in PEs until we see a peak on inflation which might not happen before the second half of the year. As the military conflict in Ukraine enters a second month, food & energy prices remain elevated, taxing both consumers and producers. Moreover, China's decision to maintain a zero COVID policy at a time when the country is facing an upsurge in cases associated with the highly contagious Omicron variant will negatively impact the global supply chain in the weeks ahead. Markit reported a significant slowdown in China's private sector in March, a month in which lockdowns were imposed in two of the country's largest cities (Shenzhen and Shanghai) – chart.

China: The private sector contracted in March
PMI Caixin/Markit indices



NBF Economics and Strategy (data via Refinitiv)

Against the backdrop of a new global supply shock and rising interest rates, the earnings outlook is becoming more challenging. Although aggregate earnings expectations have been revised upward in all major regions of the world except Asia over the past month, diffusion has eroded. The share of companies with rising earnings stood at 43% in early April, the lowest level in two years and below its historical average of 45% (chart).

World: Earnings diffusion falls below historical average
Share of companies announcing positive earnings revisions in total announced revisions in the past month

NBF Economics and Strategy (data via Refinitiv)

Diffusion in Europe and EM Asia is currently below 40 percent, but relative to its historical average, the United States has one of the largest negative divergences (43 percent vs. 49 percent) – table. In contrast, the diffusion of earnings revisions remains much better than the historical norm in Canada, Latin America, and EMEA.

MSCI : change in 12-month forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	2.8	-0.4	1.0	-0.4	43%	45%
MSCI World	3.0	-0.4	1.1	-0.4	43%	46%
MSCI USA	2.0	-0.2	0.7	-0.2	43%	49%
MSCI Canada	7.8	-0.5	3.7	-0.5	53%	44%
MSCI Europe	4.8	-0.8	1.5	-0.8	38%	42%
MSCI Pacific ex Jp	4.0	-0.4	2.5	-0.4	48%	42%
MSCI Japan	2.8	-0.1	1.1	-0.1	45%	50%
MSCI EM	1.5	-0.5	0.4	-0.5	42%	41%
MSCI EM EMEA	8.5	-0.3	3.6	-0.3	57%	44%
MSCI EM Latin America	10.5	-0.8	5.3	-0.8	64%	41%
MSCI EM Asia	-0.8	-0.4	-0.8	-0.4	39%	41%

4/8/2022

NBF Economics and Strategy (data via Refinitiv)

In the U.S., earnings growth forecasts for the coming year currently stand at 10% for the S&P 500. All major industries except Real Estate and Financials are expected to post higher earnings per share (EPS) – table.

S&P 500 composite index: EPS analysts expectations

	Earnings per share					EPS % growth		
	2021	2022	2023	12m Trail.	12m Forw.	2022	2023	12m Forw.
S&P 500	203	223	245	210	230	10	10	10
ENERGY	31	52	46	37	50	65	-11	38
MATERIALS	32	35	34	33	35	11	-4	7
INDUSTRIALS	31	42	50	34	44	34	21	30
CONS. DISC.	39	50	62	42	53	27	24	26
CONS. STAP.	34	36	39	35	37	5	8	6
HEALTH CARE	90	97	97	92	97	8	0	6
FINANCIALS	49	43	49	47	45	-11	14	-5
IT	96	109	122	103	115	13	12	12
TELECOM	12	13	14	12	13	2	15	5
UTILITIES	17	17	19	17	18	1	8	3
REAL ESTATE	8	6	7	7	6	-19	10	-13

N.M.=Not meaningful

4/8/2022

NBF Economics and Strategy (data via Refinitiv)

Interestingly, these profit expectations assume a slight expansion in profit margins in most industries (table).

S&P 500 composite index: Profit margins

	2021	2022	2023	2024	12-month trailing	12-month forward
S&P 500	13.1	13.1	13.7	14.4	13.1	13.3
ENERGY	7.7	10.4	9.7	10.3	8.5	10.2
MATERIALS	13.1	13.4	12.9	13.2	13.2	13.3
INDUSTRIALS	8.1	9.7	11.0	11.8	8.6	10.1
CONS. DISC.	6.9	7.8	8.7	9.6	7.2	8.0
CONS. STAP.	7.4	7.4	7.7	8.0	7.4	7.5
HEALTH CARE	11.3	11.4	11.0	11.1	11.3	11.3
FINANCIALS	21.5	18.2	19.4	20.7	20.7	18.5
IT	24.7	24.9	25.7	26.5	24.9	25.2
TELECOM	17.0	16.1	17.0	17.7	16.7	16.3
UTILITIES	13.0	13.9	14.7	15.3	13.2	14.1
REAL ESTATE	22.4	16.0	16.8	17.2	20.6	16.2

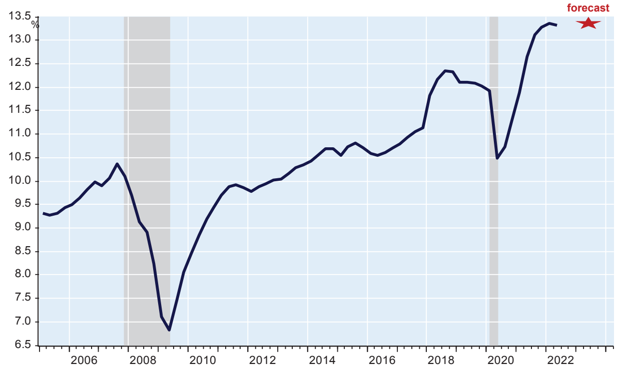
4/8/2022

NBF Economics and Strategy (data via Refinitiv)

This will be no easy task, as profit margins are already at record levels (chart). In our view, it will be difficult to even maintain margins at their current level in an environment of rising interest rates, tight labor markets, and continuing problems in the global supply chain that remains affected by the pandemic and a military conflict in Europe.

Stock Market and Portfolio Strategy

U.S.: Will profit margins be maintained?
Trailing profit margins for the S&P 500 and 12-month forward consensus forecast



NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: Still resilient

After rising 3.1% in the first quarter, the S&P/TSX index is down only 0.1% at the start of the second quarter (table). Energy, Materials, and Telecom sectors continue their momentum, with impressive year-to-date gains. At the other end of the spectrum, IT already shows a loss of close to 40% so far in 2022.

S&P/TSX composite index: Price Performance

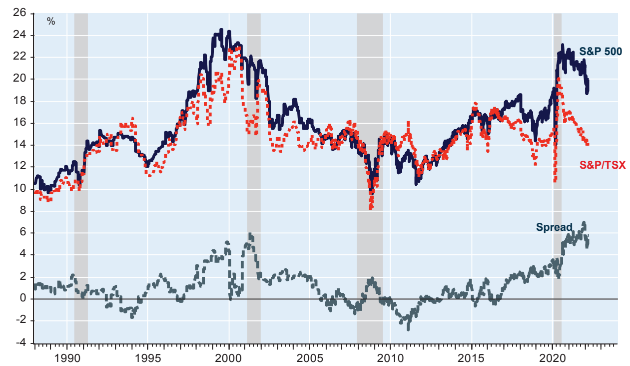
	Month to date	Quarter to date	Year to date
S&P TSX	-0.1	-0.1	3.1
TELECOM	4.8	4.8	12.9
ENERGY	3.7	3.7	32.0
UTILITIES	3.1	3.1	7.2
MATERIALS	2.5	2.5	22.7
CONS. STAP.	2.4	2.4	7.5
CONS. DISC.	-0.8	-0.8	-8.9
FINANCIALS	-1.3	-1.3	0.1
REAL ESTATE	-1.8	-1.8	-7.1
BANKS	-1.9	-1.9	0.7
HEALTH CARE	-3.8	-3.8	-12.2
INDUSTRIALS	-4.9	-4.9	-1.5
IT	-5.6	-5.6	-39.1

4/8/2022

NBF Economics and Strategy (data via Refinitiv)

As with other global equity benchmarks, the S&P/TSX has also experienced a contraction in forward PEs. At around 14 times forward earnings, the S&P/TSX's valuation is below its historical average and trading at a significant discount to the S&P 500 (chart).

S&P/TSX: Still trading at a significant discount to the S&P 500
Forward PE ratios for the S&P 500 and and



NBF Economics and Strategy (data via Refinitiv)

At the sector level, it is interesting to note that the best performing sectors in the S&P/TSX in 2022, energy and materials, continue to have forward PE ratios that remain low relative to their respective 10-year averages (table).

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

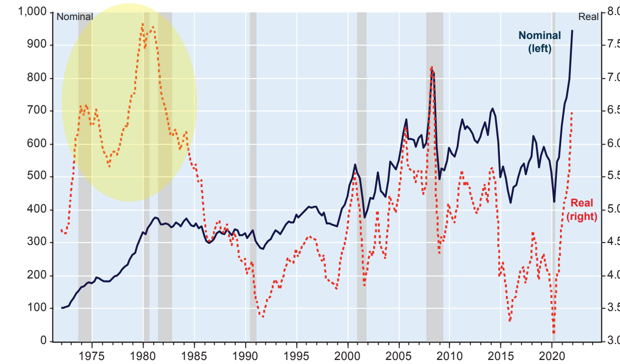
	4/8/2022	A year ago	10 year ave.	5 year average
S&P TSX	14.1	16.5	15.1	15.3
ENERGY	11.0	15.8	34.3	39.4
MATERIALS	13.9	14.3	18.1	17.6
INDUSTRIALS	26.3	31.0	18.5	21.6
CONS. DISC.	13.7	15.9	14.0	14.3
CONS. STAP.	17.8	17.2	16.7	16.9
HEALTH CARE	15.3	27.3	16.1	20.0
FINANCIALS	11.0	11.7	11.4	11.1
BANKS	10.8	11.2	10.9	10.8
IT	38.0	60.4	29.1	39.0
TELECOM	21.2	18.2	16.0	16.8
UTILITIES	26.9	26.1	20.3	21.5
REAL ESTATE	15.1	NA	NA	NA

4/8/2022

NBF Economics and Strategy (data via Refinitiv)

In our view, these sectors are likely to benefit from PE expansion in the future. Indeed, the price of commodities produced in Canada is likely to remain high for longer due to growing global demand and impaired Russian supply. In inflation-adjusted terms, the Bank of Canada's commodity price index is at its highest level in 13 years. This level has rarely been maintained for long in the past, except in the 1970s (see red line on the chart). We believe that the current geopolitical backdrop argues for a period of higher for longer for commodity prices that might rekindle investment in the sector.

Canada: Commodity prices at a record high
BoC commodity price index for commodities produced in Canada expressed in CAD (nominal vs. real*)



* Deflated using Canada all-items CPI
NBF Economics and Strategy (data via Refinitiv)

We argued last month that the upcoming federal budget could be positive for the S&P/TSX if Ottawa unveiled an ambitious program to encourage carbon capture, use and storage (CCUS). We are pleased to report that this is exactly what the April 7 budget announced: a 50% tax credit for CCUS investments. Our colleagues who cover the energy sector believe this new measure will be sufficient to stimulate significant investment to help support Canada's emissions targets while increasing production. The investment tax credit is also positive as it provides benchmarks for industry to manage the economics of projects and showcase industry's engineering prowess.[2] Note that the federal Budget also introduced an expenditure of $1.5 billion to boost the development of Canada's critical minerals sector.

Asset allocation

Our asset allocation recommendation remains unchanged this month, with a slight underweight in equities relative to our benchmark. Geographically, we remain comfortable with our above-benchmark recommendation for Canadian equities, given our view on commodity prices. Fixed income remains underweight to our benchmark at this time, but we are prepared to adjust our position depending on the nature of the quantitative tightening to be announced by the Fed. Our cash positions remain overweight relative to our benchmark.

Back to Research Analysts page

Stock Market and Portfolio Strategy

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

NBF Economics and Strategy

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).

NBF Fundamental Sector Rotation - April 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**16.9%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	16.8%
Materials	**Overweight**	**13.6%**
Chemicals	Market Weight	2.5%
Containers & Packaging	Overweight	0.4%
Metals & Mining *	Overweight	3.0%
Gold	Overweight	7.2%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**11.4%**
Capital Goods	Overweight	2.0%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	6.4%
Consumer Discretionary	**Market Weight**	**3.2%**
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**	**3.9%**
Food & Staples Retailing	Market Weight	3.3%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.7%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.5%
Financials	**Market Weight**	**31.3%**
Banks	Market Weight	21.3%
Diversified Financials	Market Weight	4.2%
Insurance	Market Weight	5.8%
Information Technology	**Underweight**	**6.3%**
Telecommunication Services	**Market Weight**	**5.2%**
Utilities	**Underweight**	**4.8%**
Real Estate	**Underweight**	**2.8%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q4 2022***
Index Level		***Apr-08-22***	***Target***
S&P/TSX		21,874	22,700
Assumptions			Q4 2022
Level:	Earnings *	1395	1550
	Dividend	575	639
PE Trailing (implied)		15.7	14.6
			Q4 2022
10-year Bond Yield		2.63	2.60

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q4 2022***
Index Level		***Apr-08-22***	***Target***
S&P 500		4,488	4,500
Assumptions			Q4 2022
Level:	Earnings *	210	219
	Dividend	62	64
PE Trailing (implied)		21.4	20.5
			Q4 2022
10-year Bond Yield		2.72	2.65

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					***Canadian Dollar***			***Correlation ****
	Close on 04-8-2022	***Returns***				***Returns***			***with S&P 500***
		M-T-D	***Y-T-D***	***1-Yr***	***3-Yr***	***Y-T-D***	***1-Yr***	***3-Yr***	
North America - MSCI Index	***4499***	***-1.1%***	***-6.2%***	***8.1%***	***54.6%***	***-6.4%***	***8.2%***	***46.2%***	***1.00***
United States - S&P 500	*4488*	*-0.9%*	*-5.8%*	*9.6%*	*55.0%*	*-6.1%*	*9.7%*	*46.6%*	*1.00*
Canada - S&P TSX	*21874*	*-0.1%*	*3.1%*	*13.8%*	*33.3%*	*3.1%*	*13.8%*	*33.3%*	*0.95*
Europe - MSCI Index	***1907***	***-1.1%***	***-8.9%***	***-2.7%***	***13.7%***	***-9.2%***	***-2.6%***	***7.5%***	***0.91***
United Kingdom - FTSE 100	*7670*	*2.1%*	*3.9%*	*10.5%*	*2.9%*	*-0.5%*	*4.8%*	*-3.0%*	*0.33*
Germany - DAX 30	*14284*	*-0.9%*	*-10.1%*	*-6.1%*	*19.4%*	*-14.2%*	*-14.0%*	*9.0%*	*0.92*
France - CAC 40	*6548*	*-1.7%*	*-8.5%*	*6.2%*	*19.7%*	*-12.7%*	*-2.8%*	*9.3%*	*0.85*
Switzerland - SMI	*12508*	*2.9%*	*-2.9%*	*11.6%*	*31.0%*	*-5.5%*	*10.7%*	*32.4%*	*0.96*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*7.1%*	*-4.6%*	*-8.5%*	*-2.2%*	*0.51*
Netherlands - Amsterdam Exchanges	*725*	*0.1%*	*-9.2%*	*1.6%*	*28.9%*	*-13.4%*	*-7.0%*	*17.7%*	*0.96*
Pacific - MSCI Index	***2876***	***-3.5%***	***-7.5%***	***-10.3%***	***7.9%***	***-7.7%***	***-10.2%***	***2.0%***	***0.85***
Japan - Nikkei 225	*26986*	*-3.0%*	*-6.3%*	*-9.2%*	*24.0%*	*-13.5%*	*-20.1%*	*5.0%*	*0.91*
Australia - All ordinaries	*7772*	*-0.2%*	*-0.1%*	*7.2%*	*23.2%*	*2.1%*	*4.7%*	*21.9%*	*0.85*
Hong Kong - Hang Seng	*21872*	*-0.6%*	*-6.5%*	*-24.6%*	*-27.3%*	*-7.3%*	*-25.1%*	*-31.2%*	*-0.21*
World - MSCI Index	***3012***	***-1.3%***	***-6.8%***	***4.0%***	***39.9%***	***-7.0%***	***4.1%***	***32.3%***	***0.99***
World Ex. U.S.A. - MSCI Index	***2187***	***-1.8%***	***-7.2%***	***-3.6%***	***14.3%***	***-7.5%***	***-3.5%***	***8.1%***	***0.92***
EAFE - MSCI Index	***2140***	***-1.9%***	***-8.4%***	***-5.4%***	***11.7%***	***-8.7%***	***-5.3%***	***5.7%***	***0.90***
Emerging markets (free) - MSCI Index	***1,128***	***-1.2%***	***-8.4%***	***-16.0%***	***3.6%***	***-8.7%***	***-15.9%***	***-2.0%***	***0.80***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-04-08

	Weight S&P 500 %	Index Level	Variation		EPS Growth			P/E			5 year Growth Forecast	PEG Ratio	Revision Index**
			3-m Δ	12-m Δ	2022	2023	12-m forward	2022	2023	12-m forward			
S&P 500	100	311	0.71	23.45	9.93	9.78	9.63	20.59	18.75	19.96	17.04	2.07	2.05
Energy	4.07	606	29.54	65.42	65.02	-10.84	38.10	11.38	12.76	11.69	16.89	0.31	31.40
Materials	2.65	555	-1.03	11.41	11.21	-3.55	7.12	15.91	16.50	16.01	16.45	2.25	5.77
Industrials	7.67	842	-6.54	0.02	33.94	20.89	29.56	21.25	17.58	20.15	15.10	0.68	-2.76
Consumer Discretionary	11.75	1418	-9.64	1.61	27.24	24.23	25.91	30.02	24.17	28.36	31.69	1.09	-0.93
Consumer Staples	6.38	823	1.93	16.24	5.14	8.06	5.99	21.93	20.30	21.31	8.35	3.56	-0.39
Healthcare	14.33	1665	6.19	22.42	7.78	-0.37	5.71	16.60	16.67	16.62	9.59	2.91	1.80
Financials	11.08	630	-8.01	8.83	-10.81	14.09	-5.09	15.08	13.22	14.56	18.33	neg.	-0.46
Information Technology	27.08	2677	-8.07	8.53	13.33	12.21	12.01	26.06	23.23	24.67	15.77	2.05	3.19
Telecom Services	9.27	231	-11.36	-8.27	2.21	14.67	5.15	19.11	16.67	18.38	19.84	3.57	-2.84
Utilities	2.86	391	9.25	18.56	1.40	8.21	3.12	21.84	20.18	21.39	6.80	6.86	-2.47
Real Estate	2.87	311	0.71	23.45	-19.06	10.47	-12.79	49.06	44.41	47.81	38.13	neg.	2.11

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Chart highlights in a volatile market

Markets in March were choppy and volatile with the war in the Ukraine cover story. Volatility in currencies, interest rates and commodities spilled over into equities, but in the end, the primary trends prevailed amidst the volatility and noise. In the April Vision, we highlight charts that catch our attention on emerging or primary trends.

Technical Analysis

10-year yield (TNX)

Interest rates bottomed approximately two years ago and started rising in late 2020 after an initial breakout at approximately 0.73% on the TNX. Recently, a second and more important breakout at 1.7% is being followed by a strong move to the upside in yields. The recent breakout completed a two-year base triangle formation on the TNX that suggests a new leg up in yields. Our first target of 2.25% was quickly met after the breakout and our second target of 3% remains in sight. Continued rate increases are a headwind and will eventually have a negative impact on stock prices.

Source: Refinitiv

Technical Analysis

NASDAQ Composite Index (IXIC)

The NASDAQ Composite Index was the leading index on the upside and is now leading on the downside. After a decline of over 20% over the past few months, the market was entitled to bounce at some point. The bounce came from testing support at approximately 12,600 and traded back to its 200-day around 14,700 resistance. Volume was mediorce but the market rallied approximately 16% in less than three weeks. This action is typical bear market action where rallies are sharp but short-lived. In early 2001, the NASDAQ bounced 15% in one day and continued to rally for three more weeks before a renewed downtrend. If indeed the rebound stalls here, the important support levels to watch are 14,100 and 12,600. Rebreaks of these support levels signals the renewal of a developing bearish trend.

Source: Refinitiv

Technical Analysis

iShares Russell 2000 Growth ETF (IWO)

A sharp rebound on the NASDAQ is not matched by a commensurate rebound in the Russell 2000 growth ETF. The IWO broke a one-year top in early 2022 and has more time and price on the downside to play out. While the NASDAQ is back testing its 200-day, the IWO chart is lagging the impressive short-term move on the NASDAQ. This action suggests that the broad list of growth/tech stocks are having much weaker rebounds than the NASDAQ index indicates. Rebounds in a technically weakening profile suggests a renewal of the declining trend lies ahead.

Source: Refinitiv

Technical Analysis

CGI Inc. (GIB.A)

The GIB.A chart is a great example of a technology stock that is lagging the rebound on the NASDAQ. Relative strength peaked last summer and continues to trend lower. A top was completed when the stock broke a top at $105.00 reversing its trend from up to down. Minor support at $100.00 is holding the stock short term as relative performance trends lower with the stock unable to rally with the NASDAQ over the past month. Next target is $88.00 to $90.00.

Source: Refinitiv

Technical Analysis

Lightspeed Commerce Inc. (LSPD)

The LSPD chart is another example of a technology name that is lagging the short-term rebound on the NASDAQ. While the stock rallied approximately 60% off its recent lows, it has hardly recovered any of its previous losses. Strong downside momentum will take many months to play out, suggesting this will become a trading stock rather than a strongly trending one. Expect to see an L shaped recovery on the LSPD chart. Chart support will come into play in the mid-$20s with rebounds getting to the high-$40s, at best.

Source: Refinitiv

Technical Analysis

KBW Bank index/ BMO Equal Banks ETF (BKX/ZEB)

The comparison chart of the U.S. Money Center Banks Index to the BMO Equal Weighted banks ETF suggests there is growing risk in the ZEB. A tight correlation in trend can be discerned extending back more than 10 years. The BKX appears to be carving out a one-year top that breaks down at approximately 120.00. Completing this top would turn the trend down with negative implications for ZEB. The ZEB chart has started to show weaker relative performance as a prelude to a weaker trend which will become more apparent if the BKX breaks down.

Source: Refinitiv

Sector Analysis

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

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$20.84	$28.00	0.65%	35.03%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$31.69	$37.00	6.08%	22.81%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$5.34	$8.00	0.53%	50.37%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$5.04	$8.50	0.00%	68.65%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$57.60	$62.50	1.35%	9.90%	Oil, Gas & Consumable Fuels
Materials							
	Centerra Gold Inc.	CG	$12.29	$14.50	2.24%	20.26%	Gold
	Copper Mountain Mining Corp.	CMMC	$3.76	$4.75	0.00%	26.33%	Metals & Mining
	Endeavour Mining plc	EDV	$31.01	$44.25	2.26%	44.99%	Gold
	Hudbay Minerals Inc.	HBM	$9.82	$12.50	0.20%	27.49%	Metals & Mining
	Kinross Gold Corp.	K	$7.34	$11.00	2.00%	51.91%	Gold
	Pan American Silver Corp.	PAAS	$34.12	$41.00	1.73%	21.94%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$50.48	$55.00	0.98%	9.94%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$15.69	$18.75	0.00%	19.50%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$45.10	$66.00	0.00%	46.34%	Capital Goods
	CAE Inc.	CAE	$32.54	$44.00	0.00%	35.22%	Capital Goods
	Dexterra Group Inc.	DXT	$7.86	$13.00	4.45%	69.85%	Commercial & Professional Services
	GDI Integrated Facility Services Inc.	GDI	$54.00	$70.50	0.00%	30.56%	Commercial & Professional Services
	Heroux-Devtek Inc.	HRX	$17.09	$26.00	0.00%	52.14%	Capital Goods
	IBI Group Inc.	IBG	$14.13	$20.00	0.00%	41.54%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$13.36	$16.50	4.41%	27.99%	Transportation
	TFI International Inc.	TFII	$133.15	$160.00	1.12%	21.18%	Transportation
	WSP Global Inc.	WSP	$165.91	$209.00	0.92%	26.88%	Capital Goods
Consumer Discretionary							
	Dollorama Inc.	DOL	$70.90	$75.00	0.31%	6.09%	Retailing
	Spin Master Corp.	TOY	$43.05	$66.00	0.00%	53.31%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.40	$15.00	4.80%	25.90%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$5.27	$11.50	0.00%	118.22%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$6.20	US$10.00	4.73%	66.13%	Pharmaceuticals, Biotechnology & Life Sciences
	Knight Therapeutics Inc.	GUD	$5.22	$7.50	0.00%	43.68%	Pharmaceuticals, Biotechnology & Life Sciences
Financials							
	Alaris Equity Partners Income Trust	AD.un	$20.21	$27.00	6.56%	40.13%	Diversified Financials
	Canadian Imperial Bank of Commerce	CM	$151.75	$167.00	4.24%	14.29%	Banks
	ECN Capital Corp.	ECN	$6.67	$8.00	0.61%	20.54%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$682.03	$1000.00	1.84%	48.49%	Insurance
	iA Financial Corp.	IAG	$76.01	$89.00	3.34%	20.38%	Insurance
	Royal Bank of Canada	RY	$137.64	$147.00	3.47%	10.29%	Banks
	Trisura Group Ltd.	TSU	$34.37	$65.00	0.00%	89.12%	Insurance
Information Technology							
	Lightspeed Commerce Inc.	LSPD	US$30.47	US$75.00	0.00%	146.14%	Software & Services
	Shopify Inc.	SHOP	US$675.96	US$1500.00	0.00%	121.91%	Software & Services
	TELUS International (CDA) Inc.	TIXT	US$24.71	US$50.00	0.00%	102.35%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.41	$19.00	0.00%	41.69%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$70.76	$77.00	2.82%	11.64%	Telecommunication Services
Utilities							
	Boralex Inc.	BLX	$40.52	$44.00	1.65%	10.22%	Utilities
	Capital Power Corp.	CPX	$40.71	$47.00	5.40%	20.83%	Utilities
	Innergex Renewable Energy Inc.	INE	$19.88	$23.00	3.74%	19.32%	Utilities
	Northland Power Inc.	NPI	$41.56	$44.00	2.90%	8.76%	Utilities
Real Estate							
	Canadian Apartment Properties REIT	CAR.un	$53.65	$70.50	2.73%	34.11%	Real Estate
	CT REIT	CRT.un	$17.68	$19.50	4.82%	15.04%	Real Estate
	Flagship Communities REIT	MHC.u	US$19.75	US$24.00	2.74%	24.23%	Real Estate
	H&R REIT	HR.un	$13.05	$17.00	4.08%	34.25%	Real Estate
	Killam Apartment REIT	KMP.un	$21.42	$27.00	3.31%	29.32%	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 March 31, 2022
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442
—
Associates:
Will Flanigan: 416-507-8006
Pranoy Kurian: 416-507-9568

Selections

- *iA Financial Corporation*
- *Canadian Imperial Bank of Commerce*
- *Royal Bank of Canada*

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *A "high quality" EPS miss. 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 neutrally. 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.

Canadian Imperial Bank of Commerce (TSX: CM) – *Not looking like the CM of yore.*

Though CM's Q1/22 outperformance was enhanced by strong trading results, we saw other reasons to be encouraged. Of note, CM is aiming to improve the pre-COVID perception of the bank as a low-growth story… and its loan growth performance is helping to support that cause. Double-digit volume growth in both its Canadian and U.S. banking segments point to strong strategy execution in the recovery phase of the cycle. There are obvious headwinds on the horizon, namely growing inflationary pressures that could negatively impact efficiency/operating leverage metrics. However, we are comforted to hear that management has the flexibility to dial back initiative spending in short order if the need arises. $167 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP	↓	96,036	648	148.10	10/2021	12.96	12.97	13.70	11.4	10.8	83.66	91.53	98.60	1.6	1.5	3.6%	151.00	↓
Bank of Nova Scotia	BNS	SP		110,094	1,204	91.41	10/2021	7.87	8.06	8.53	11.3	10.7	54.94	57.92	61.97	1.6	1.5	4.4%	90.00	
CIBC	CM	OP		69,963	451	155.14	10/2021	14.47	14.82	15.23	10.5	10.2	94.86	99.00	105.31	1.6	1.5	4.2%	167.00	
National Bank	NA	NR		32,877	338	97.18	10/2021	8.98	9.07	9.17	10.7	10.6	50.23	52.63	56.24	1.8	1.7	3.6%	NR	
Royal Bank of Canada	RY	OP		198,283	1,418	139.88	10/2021	11.19	10.99	12.16	12.7	11.5	66.71	69.48	73.78	2.0	1.9	3.4%	147.00	
Toronto-Dominion Bank	TD	SP	↓	184,462	1,819	101.42	10/2021	7.91	7.57	8.37	13.4	12.1	53.00	55.82	60.66	1.8	1.7	3.5%	100.00	↓
Canadian Western Bank	CWB	SP		3,312	90	36.71	10/2021	3.81	3.89	4.35	9.4	8.4	33.64	35.46	38.29	1.0	1.0	3.3%	44.00	
Laurentian Bank	LB	SP		1,849	43	42.71	10/2021	4.57	4.68	4.93	9.1	8.7	55.13	57.04	59.95	0.7	0.7	4.1%	49.00	
Insurance																				
Great-West Lifeco	GWO	SP		34,284	931	36.83	12/2021	2.88	3.85	4.11	9.6	9.0	24.71	24.71	26.42	1.5	1.4	5.3%	39.00	
iA Financial	IAG	OP		8,257	108	76.66	12/2021	7.12	9.00	9.50	8.5	8.1	62.01	107.80	108.11	0.7	0.7	3.3%	89.00	
Manulife Financial	MFC	SP		52,278	1,943	26.91	12/2021	2.75	3.44	3.25	7.8	8.3	26.78	26.78	28.07	1.0	1.0	4.9%	28.00	
Sun Life Financial	SLF	SP		41,240	586	70.37	12/2021	5.45	6.44	7.13	10.9	9.9	41.08	41.08	45.89	1.7	1.5	3.8%	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

Back to Research Analysts page

Sector Analysis
Diversified Financials

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

Selections

- *Trisura Group*
- *Fairfax Financial*
- *ECN Capital*

Highlights of our Annual Financial Services Conference

We held our 20th Annual Canadian Financial Services Conference in person and virtual format on March 22nd and 23rd.

Trisura Group Ltd.
(TSX: TSU, Outperform, $65 PT, ~35x P/E)

President & CEO David Clare spoke about the nature of the profit issues experienced in Q4 2021 (one-timey and expected) and the robust consolidated premiums growth outlook of over 20% y/y in 2022. He also provided detail for certain segments / geographies: (1) Surety is expected to grow in the low double-digit, high single-digit range driven by the continuation of growing market share in Canada and the launch of U.S. Surety; (2) Corporate insurance is expected to grow in the 20% range; and (3) U.S. premiums are expected to grow in the mid-20% range.

ECN Capital Corp.
(TSX: ECN, Outperform, $8.00 PT, ~16x P/E)

ECN management reinforced our confidence in 2022 (which implies 58% y/y EPS growth at the midpoint) and 2023 guidance (which implies 30% y/y EPS growth). CEO Steven Hudson touched on increased confidence in reaching (and exceeding) these targets on the back of strong performance in all three businesses: Source One Financial (S1), Triad Financial Services (TFS) and Kessler Group (KG). In addition, we could see material upside from tuck-in M&A.

goeasy Ltd.
(TSX: GSY, Outperform, $220 PT, ~15x P/E)

President & CEO Jason Mullins reaffirmed guidance for net charge-offs of 9%-10% and loan growth of $80-$100 million in Q1 2022. In addition, Mr. Mullins updated us on future growth prospects as well as the launch of a mobile app. The app will allow customers to create profiles and pre-approve them for other loans offered by GSY (e.g., auto, powersports, unsecured loans), creating cross-sell opportunities. A basic version of the app will be available in H1 2022 with plans to monetize the platform's capabilities in the next 12-24 months.

Intact Financial Corp.
(TSX: IFC, Outperform, $225 PT, ~2.6x P/B)

EVP & COO Patrick Barbeau outlined his top priorities for 2022, including (1) leveraging AI/Data Lab to increase segmentation and pricing efficiencies; (2) creating outperformance in RSA; (3) simplifying the IT infrastructure; (4) leveraging the global capacity to sell in specialty insurance; and (5) leveraging claims management through On Side.

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 3/31	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		2.44	34.1	71.74	12/2021	8.36	8.67	9.86	8.3	7.3	55.24	63.33	71.47	1.1	1.0	1.6%	95.00	
First National Financial	FN	SP		2.43	60.0	40.53	12/2020	3.13	3.34	4.01	12.1	10.1	8.00	8.88	10.17	4.6	4.0	5.8%	46.00	
Home Capital Group	HCG	OP		1.63	43.0	38.00	12/2021	4.87	5.13	5.90	7.4	6.4	36.55	39.67	44.76	1.0	0.8		49.00	
Timbercreek Financial	TF	SP		0.78	82.0	9.49	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		1.62	243.3	6.67	12/2020	US 0.31	US 0.31	US 0.39	17.0	13.7	US 2.83	US 3.58	US 3.72	1.5	1.4	0.6%	8.00	
Element Fleet Management	EFN	OP		4.95	409.2	12.10	12/2020	0.84	0.89	1.04	13.6	11.6	7.26	7.42	7.92	1.6	1.5	2.6%	19.00	
goeasy	GSY	OP		2.27	16.2	140.28	12/2021	10.43	11.46	14.71	12.2	9.5	48.76	56.42	66.68	2.5	2.1	2.6%	220.00	
Brookfield Business Partners	BBU	OP		US 6.76	US 220.2	US 30.72	12/2021	US 2.90	US 1.30	US 2.09	23.7	14.7	US 19.43	US 24.52	US 30.14	1.3	1.0	0.8%	US 39.00	↓
Power Corporation of Canada	POW	SP		26.19	676.6	38.70	12/2020	4.77	4.50	4.81	8.6	8.0	34.56	37.01	39.81	1.0	1.0	5.1%	46.00	↓
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.5	70.3	21.62	12/2020	-0.34	0.76	0.96	28.5	22.6	8.33	8.43	8.72	2.6	2.5	3.6%	28.00	↓
Securities Exchange																				
TMX Group	X	SP		7.19	55.9	128.58	12/2021	7.10	6.97	7.49	18.4	17.2	66.32	71.40	74.72	1.8	1.7	2.6%	139.00	
Insurance																				
Definity Financial Corp.	DFY	OP		3.7	115.9	31.93	12/2021	2.09	1.6	2.03	19.9	15.8	20.68	21.81	23.38	1.5	1.4	6.3%	36.00	
Intact Financial Corp.	IFC	OP		32.53	176.1	184.72	12/2021	12.32	11.14	11.61	16.6	15.9	82.34	89.11	94.79	2.1	1.9	2.2%	225.00	
Trisura Group Ltd.	TSU	OP		1.41	41.2	34.37	12/2021	1.48	1.65	1.89	20.8	18.2	8.70	10.33	12.20	3.3	2.8		65.00	
Fairfax Financial Holdings	FFH	OP		16.28	23.9	682.03	12/2020	US 122.25	US 43.38	US 65.41	12.6	8.3	US 630.60	US 666.73	US 726.49	0.8	0.8	1.9%	1000.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.09	104.8	10.44	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		10.59	239.7	44.17	12/2021	4.04	4.38	4.77	10.1	9.3	26.91	29.09	31.67	1.5	1.4	5.1%	62.00	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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

Selections

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

Supply chain disruptions drive near-term headwinds for SCL & CEU but backdrop still supportive

Q4 2021 beat overshadowed by tempered near-term guidance, but big picture still intact.

Shawcor posted Q4/21 adj. EBITDA of $20.2 million, topping both the consensus estimate ($16.7 million) and our $16.0 million forecast by over 20%, with the beat vs. our forecasts driven largely by a stronger than expected performance from the Composite Systems segment. Anticipating a temporary near-term lull in pipe coating activity owing to limited offshore project sanctioning through the pandemic and supply chain disruptions impacting the delivery of steel tubulars for several offshore pipeline projects, SCL expects Q1/22 adj. EBITDA to be less than half of the ~$20 million posted in Q4 (well below NBF and street expectations entering Q4 reporting season). Despite a more cautious near-term outlook, our 2023 forecasts were left largely unchanged as we remain encouraged by SCL's improving backlog (up 16% q/q to $589 million exiting Q4/21) and ongoing rightsizing initiatives (with the guided quarterly run-rate SG&A reduced by an additional 6% to $50 million concurrent with the release of Q4 results), coupled with expectations for supply chain headwinds to dissipate over the medium term and offshore pipeline project activity levels to recover in the back half of 2022 and throughout 2023. **We maintain our previous $8.50 target driven by an unchanged 5.3x 2023e EV/EBITDA multiple, roughly in line with SCL's recent forward year EV/ EBITDA average and 2.5 turns below the company's long-term historical average. With a reduced leverage profile and a favourable medium-term outlook, we reiterate our Outperform rating.**

CEU Q4 adj. EBITDA tops street by 14%, but inflationary pressures moderate near-term margin expectations.

CEU generated a record quarterly revenue of $367.8 million in the fourth quarter, increasing by 73% y/y and 17% sequentially, and topping the consensus estimate of $327.9 million by 12%. The top-line beat vs. our expectations was driven by strength on both sides of the border as pricing increases combined with rising rig activity levels and production volumes. During the quarter CEU leaned on the balance sheet to support higher levels of accounts receivable as industry activity levels continued to expand and financed key surplus raw material purchases to avoid supply chain constraints and mitigate inflationary pressures on input costs. CES exited Q4 with a net draw on the Senior Facility of $110.1 million, increasing by ~$60 million sequentially owing to the strategic investments in working capital but net debt/ttm EBITDA remained flat at ~2.5x given the strong sequential EBITDA growth. While rising costs related to supply chain disruptions and labour availability will likely weigh on margins in the near term, targeted price increases and CEU's proactive inventory procurement are expected to help alleviate those pressures in the back half of the year. **We moved to the sidelines recently on the back of CEU's strong share price performance, and while recent geopolitical events represent additional upside risk relative to that decision, we are maintaining our Sector Perform call. Our $3.35 target is driven by 5.7x 2023e EV/EBITDA, roughly in line with CEU's recent forward year EV/EBITDA average (but still well below CEU's historical long-term average).**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/31	EBITDA (mlm) 2020	EBITDA (mlm) 2021	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022e	Net Debt/ EBITDA 2021	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	R		810.87	18.8	43.18	149.3	176.3	R	10.7	9.3	R	4.3	R	R	
CES Energy Solutions Corp.	CEU	SP		609.19	253.8	2.40	83.3	156.2	181.4	10.9	6.5	7.2	2.6	3.35	42%	↑
Enerflex Ltd.	EFX	OP		718.33	89.7	8.01	191.3	140.0	265.2	5.6	6.7	8.5	3.1	10.75	35%	
good natured Products Inc.	GDNP	OP		128.32	217.5	0.59	-1.5	-0.6	4.1	(87.8)	(269.2)	42.8	-56.8	1.25	112%	
Green Impact Partners Inc.	GIP	OP		174.58	20.3	8.60		3.3	6.3		51.2	29.9	-2.4	12.00	40%	
Mullen Group Ltd.	MTL	OP		1262.95	94.5	13.36	191.5	218.7	262.0	8.7	8.4	6.7	1.9	16.50	28%	
Pason Systems Corp.	PSI	SP		1258.39	82.2	15.31	39.5	72.5	113.2	28.4	15.2	9.5	-2.2	15.25	2%	
Shawcor Ltd.	SCL	OP		355.15	70.5	5.04	43.8	100.8	106.9	14.8	5.7	5.4	2.0	8.50	69%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

ESG

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

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

Compliance and Voluntary Markets

Carbon prices have continued to rise at considerable rates (90% Y/Y), inclusive of all regions and systems (range 60% - 135% 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) active contract closed the month of March at levels of €76.27 (US$84.41) after recovering from a pullback earlier in the month. Overall, on average, EUAs were up ~10% this past month and remain in contango with the Dec 23 – Dec 22 spread reflecting ~€1.76. Considering prices on a Y/Y basis, EUAs have grown ~70%. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which started trading at the end of May 2021, closed at £75.77 (US$99.59) at the end of March and are up +4% M/M and +65% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$13.05 and are down ~4% M/M and up ~62% Y/Y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at $30.59 and increased on a monthly average by 12%; we note Y/Y CCA prices are up ~63%.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at $6.29 and increased by ~5% on a monthly basis, while the Nature-based Global Emissions Offset (NGEO) active future also followed a different path decreasing ~10% and closing at $10.99. We note that GEO started trading on February 26, 2021, at US$2.63, before bottoming at US$2.33 on May 21st and now has ~2.5x in price.

Monthly Highlights

Canadian Green Bond Launch

This month, we commemorate the Government of Canada's inaugural $5 bln Green Bond issuance yielding 2.25%, which implies a modest greenium of 2 bps. Ultimately, this underscores the development of the sustainable finance market and mobilizing capital towards initiatives such as increasing green infrastructure to nature conservancy.

As a refresher, recall that Green Bonds are fixed-income instruments that have a niche use of proceeds, specifically, to support climate-related or environmental projects. Notably, Green Bonds have become an increasingly popular tool with funds raised last year totaling over US$500 bln and with suggestions for this year to map in excess of that.

Of note, we are surprised to not see nuclear included within the list of initiatives that funds could be deployed towards. With that, recall the Green Bond Framework issued by the Canadian Government is aligned with the Green Bond framework of other Green Bond sovereign issuers in the G7, which seems to be one reason nuclear was not included. Interestingly, pro-nuclear France, which derives over 75% of its electricity from nuclear, has explicit exclusions for the power source.

Back to Research Analysts page

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047

—

Associates:
Eduardo Garcia Hubner
416-869-7476

Stephen Kwai
416-869-7571

Selections

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

Highlights as of March 2022

We highlight virtual investor meetings NBF hosted with the senior management teams of Jamieson Wellness (TSX: JWEL) and DRI Healthcare Trust (TSX: DHT.U) to discuss the outlook of both companies.

Jamieson Wellness

Overall, Jamieson expects that, at least, a considerable portion of the new consumers that entered the VMS (Vitamin, Mineral, Supplement) category during the pandemic will remain and continue to participate/grow at pre-pandemic rates (JWEL grew with a ~7.5% CAGR in 2017-2019 and with a 14% CAGR in 2019-2021). In Canada, JWEL's growth of 11% CAGR (2019-2021) has significantly outpaced that of the VMS market (5% CAGR per Statistics Canada for 2019-2021), and the company expects this dynamic to continue due to 1) continuing innovation; 2) expanding distribution; and 3) building brand equity. Internationally, JWEL continues to see significant growth (guidance of 20% international growth in 2022) in both existing and new geographies with the bulk coming from China.

Other topics discussed included: 1) some supply chain and raw material impact and inflation, which can be passed through via pricing and/or offset via internal efficiencies; and 2) JWEL's proactive assessment of acquisition opportunities that provide geographical expansion in a mature market (the U.S. or Western Europe), generate revenues of $100 million - $200 million, are an established quality brand, and can result in post-acquisition synergies.

We reiterate an Outperform rating and $42.75 price target, which implies FY+1 EV/EBITDA of ~16.5x.

DRI Healthcare Trust

Currently, DRI has a healthy deal pipeline valued at ~US$1.6 billion with a number of deals in various stages of evaluation (two in late-stage valued at ~US$65 million and expected to close in Q2/22). Additionally, DRI has of late seen an increase in inbound requests and interest in royalty financings.

Management also discussed the continued focus on deals in the US$25 million – US$150 million range for several reasons: 1) already developed expertise in this investment range over the last ~20 years; 2) the segment is not particularly efficient allowing for attractive opportunities; 3) less competition; and 4) closer interaction with sellers to develop bespoke deal structures.

In terms of returns, DRI continues to target a 12% IRR in its deals although growth opportunities do exist from both current and new assets as products are approved for the treatment of new indications and/or in new geographies - these have helped DRI achieve ~18%-20% IRRs historically.

We continue to find the company undervalued as the market is neither 1) giving the trust credit for its current portfolio (we estimate NAV of ~US$7.36/unit); nor 2) pricing any growth (~US$2.60/unit). We reiterate an Outperform rating and DCF-derived US$10.00 target.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 3/31	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		98.82	89.0	1.11u	4/2021	0.0%	(0.56)u	(0.83)u	(0.70)u	nmf	nmf	59.3u	139.0u	144.7u	8.4	8.4	1,164.0u	8.0	0.75u	
Andlauer Healthcare Group	AND	SP		2,081.56	41.8	49.77	4/2021	0.4%	1.30	1.51	1.58	33.0	31.5	119.3	144.1	151.6	15.8	15.0	199.4	1.3	49.50	↑
Dialogue Health Technologies	CARE	OP		346.92	65.8	5.27	4/2021	0.0%	(0.39)	(0.24)	(0.01)	nmf	nmf	(21.2)	(11.6)	2.1	nmf	nmf	-	-	11.50	↓
DRI Healthcare Trust	DHT.UT	OP		242.3u	39.1	6.20u	4/2021	4.8%	0.62u	0.78u	0.80u	7.9	7.7	101.2u	82.2u	78.4u	3.1	3.0	42.2u	0.5	10.00u	
IMV Inc.	IMV	SP		147.90	82.2	1.80	4/2021	0.0%	(0.49)	(0.52)	(0.49)	nmf	nmf	(32.8)	(42.9)	(40.0)	nmf	nmf	-	-	2.50	
Jamieson Wellness	JWEL	OP		1,408.18	40.4	34.85	4/2021	1.7%	1.34	1.45	1.50	24.0	23.2	100.1	110.0	117.2	14.4	13.4	142.4	1.2	42.75	
Knight Therapeutics	GUD	OP		614.83	117.8	5.22	4/2021	0.0%	0.21	0.30	0.34	13.2	11.8	38.0	50.0	58.0	10.0	8.6	-	-	7.50	↓
Medical Facilities Corp.	DR	OP		348.61	30.8	11.32	4/2021	2.8%	0.96u	0.97u	1.00u	9.7	9.4	63.6u	56.5u	58.1u	7.0	6.4	79.9u	1.7	12.75	↑
Theratechnologies	TH	SP		294.88	95.1	3.10	4/f2021	0.0%	(0.25)u	0.01u	0.06u	nmf	39.7	(14.6)u	5.0u	10.0u	48.5	24.0	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		216.02	90.0	2.40	2/f2022	0.0%	0.08	0.09	0.13	26.0	17.8	14.6	17.5	20.9	13.8	11.6	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		358.92	10.6	33.79	4/2021	3.6%	2.23	2.45	2.66	13.8	12.7	42.8	46.8	50.6	9.7	9.0	93.8	1.9	38.00	↓
Rogers Sugar	RSI	SP		653.51	103.7	6.30	1/f2022	5.7%	0.33	0.43	0.45	14.8	13.9	91.0	98.2	104.2	10.3	9.6	380.2	3.6	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		836.91	104.2	8.03	4/2021	7.5%	0.70	0.88	1.19	9.1	6.8	280.4	282.9	310.5	7.2	6.5	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

Maxim Sytchev
Analyst
416-869-6517

Associates:
Alizeh Haider: 416-869-7937
Kazim Naqvi: 416-869-6754

Selections

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

Stelco Holdings Inc.

Aggressive HRC rebound warrants caution; downgrade to Sector Perform

› ***Statistical methodology applied to various commodity asset classes points to six to seven months' supply shock duration – readthrough for HRC (and hence STLC)***

We went through multiple decades of data to better understand supply shocks and their inherent volatility spikes across multiple industrial commodities in addition to HRC. Our goal was to see how often these shocks happen, what causes them outside economic cycles, and how long do their respective price climbs last once the shock sets in. This, by extension, provides a point of reference to compare the current HRC price escalation. Our analysis concluded that on average shocks last no longer than seven months (either through demand destruction, pricing overshoot or supply response).

› ***Valuation & recommendation - we might be early (for a downgrade) but as we are again in 1% of normal distribution territory, odds are getting longer…***

Shares have gone parabolic (+32% YTD vs. +4% for TSX and U.S. peers at +30%) as a December reversal of HRC from US$800/nt to current $1,350/ nt level (and climbing) has once again reignited FCF imagination of $10+/sh in 2022E. The catalyst for the dynamic is the horrific geopolitical situation in Europe (Russian / Ukrainian slab / iron ore constitute 6% / 6% of global trade). We are once again in + 2.5 standard deviations when it comes to HRC pricing vs. averages (and in statistical terms, that implies 1% of occurrences in a normal distribution). Can HRC go higher? Of course, it can; objectively, recall however that when HRC hit US$1,850/nt in Nov. 2021, STLC shares reached $51.00 level. Now, HRC is at US$1,350/nt while STLC rocketed to $57.00 (FCF generation creates a positive delta). STLC shares track HRC pricing almost perfectly, reaffirming our view that we need to see "things as they are, not as we want them to be". Given no upside to our NAV (on updated Q2/22E and Q3/22E numbers), we believe STLC shares are prime for a breather if there is even a semblance of geopolitical normalization. Downgrade to Sector Perform (from Outperform); target price to $55.00 (from $48.00) on intermittently higher pricing.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 3/31	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP	↓	**$18.00**	↓	$16.97	$1,024	12 - 2021	$0.71	$1.21	$1.32	12.1x	11.2x	$230	$250	$258	6.1x	5.9x	4.4%	1.6x
Bird Construction Inc.	BDT	OP		**$12.00**		$9.13	$485	12 - 2021	$0.95	$0.90	$0.96	10.2x	9.5x	$99	$103	$108	4.2x	4.1x	4.3%	net cash
Finning International Inc.	FTT	OP		**$46.00**		$37.64	$6,340	12 - 2021	$1.14	$2.18	$2.32	17.3x	16.2x	$636	$855	$905	8.3x	7.8x	2.4%	1.1x
IBI Group Inc.	IBG	OP		**$20.00**		$14.13	$442	12 - 2021	$0.48	$0.67	$0.83	17.1x	15.8x	$47	$16	$40	10.2x	9.7x	0.0%	0.4x
North American Construction Group Ltd.	NOA	OP		**$30.00**		$18.10	$513	12 - 2021	$1.74	$2.06	$2.40	7.5x	7.2x	$207	$229	$237	3.8x	3.7x	1.8%	1.8x
Ritchie Bros. Auctioneers	RBA	SP		**US$55.00**		US$59.03	$6,526	12 - 2021	US$1.59	US$1.64	US$1.54	38.6x	35.9x	US$352	US$182	US$204	19.1x	16.4x	1.7%	4.1x
SNC-Lavalin	SNC	OP		**$42.00**	↓	$30.10	$5,284	12 - 2021	-$0.67	$1.18	$1.43	17.7x	11.1x	$93	$11	$819	11.0x	8.3x	0.3%	2.9x
Stantec Inc.	STN	OP		**$80.00**		$62.71	$6,975	12 - 2021	$2.13	$2.38	$2.99	21.0x	19.4x	$435	$19	$364	14.6x	13.6x	1.1%	2.4x
Toromont Industries Ltd.	TIH	OP		**$126.00**		$118.51	$8,853	12 - 2021	$3.09	$4.00	$4.59	22.4x	29.6x	$539	$288	$339	13.5x	13.5x	1.4%	-0.4x
WSP Global	WSP	OP		**$209.00**		$165.91	$19,521	12 - 2021	$3.34	$5.08	$5.22	31.8x	26.6x	$1,044	$1,176	$1,387	17.4x	14.7x	0.9%	0.0x
AutoCanada	ACQ	OP		**$52.00**	↓	$36.23	$995	12 - 2021	$0.44	$4.16	$3.97	8.7x	9.1x	$83	$198	$225	6.5x	5.8x	0.0%	1.1x
Stelco	STLC	SP	↓	**$55.00**	↑	$51.99	$3,789	12 - 2021	-$0.60	$16.95	$4.49	1.6x	5.2x	$63	$1,775	$566	1.6x	5.2x	2.3%	-0.4x
ATS Automation	ATA	OP		**$66.00**		$45.10	$4,159	12 - 2021	$1.07	$2.04	$2.21	22.1x	20.4x	$181	$344	$363	14.4x	13.6x	0.0%	2.5x
ABC Technologies	ABCT	SP		**$7.00**		$6.65	$384	12 - 2021	NM	-$0.22	-$0.49	-23.8x	-10.8x	$133	$61	$187	11.4x	3.7x	2.3%	6.4x
Colliers International	CIGI	OP		**US$176.00**		US$130.40	$5,738	12 - 2021	US$4.18	US$6.18	US$6.69	21.1x	19.5x	US$361	US$544	US$616	12.9x	11.4x	0.2%	0.2x
Stella-Jones	SJ	OP		**$57.00**		$37.57	$2,415	12 - 2021	$3.12	$3.55	$3.49	10.6x	10.8x	$343	$365	$363	8.6x	8.7x	2.1%	2.0x
Median												**17.2x**	**13.5x**				**10.6x**	**8.5x**	**1.5%**	

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

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

Vishal Shreedhar
Analyst
416-869-7930

Associates:
Paul Hyung: 416-507-9009
Ryan Li: 416-869-6767

Selection

› *Dollarama*

Dollarama Inc. (DOL: TSX)

Q4 F2022 Results: Good performance; higher prices & solid Dollarcity growth buoy outlook

EPS was $0.74 vs. NBF/consensus at $0.72/$0.71; last year was $0.56

(1) We consider the results to be good. Relative to NBF, the headline EPS beat largely stemmed from stronger than anticipated Dollarcity (DC) performance and a $0.01 EPS benefit from a lower tax rate. (2) Same store sales growth was 5.7% (basket growth was -4.0%; transaction growth was 10.1%). Total revenue was $1,225 million vs. NBF at $1,242 million and consensus at $1,224 million; last year was $1,104 million. (3) The gross margin rate was 45.2%, in line with NBF; last year was 45.5%. (4) The SG&A rate was 14.5% vs. NBF at 14.7%; last year was 16.9%. (5) EBITDA was $394 million vs. NBF at $390 million and consensus at $379 million; last year was $327 million. (6) The quarterly dividend was increased by 10% to $0.0553/share, largely in line with our view.

F2023 guidance was largely in line; rolling out a $5 price point

(1) DOL issued F2023 guidance as follows: 60-70 net new stores, gross margin rate of 42.9% to 43.9% (NBF is 43.8%), SG&A rate of 13.8% to 14.3% (NBF is 13.9%), capex of $160-$170 million, and share repurchases. Guidance ranges reflect sssg of 4% to 5%, minimal direct COVID-19 costs, and the absence of COVID-19 restrictions. We estimate that DOL's guidance parameters suggest F2023 EPS of $2.38 to $2.65. Our F2023 EPS goes to $2.61 from $2.58 and our F2024 EPS goes to $2.91 from $2.86. (2) DOL also announced plans to introduce additional price points up to $5 throughout F2023; we anticipate benefits to be gradual.

Navigating industry pressures; Dollarcity posts strong growth

(1) While DOL indicated several headwinds, including supply chain pressure and inflation, it is managing well using various levers, including ordering earlier, product mark-up/refresh, and higher price points. A stronger CAD is expected to benefit. (2) DC posted 75% y/y equity-accounted net income growth to $18.4 million vs. $10.5 million last year. Although current contribution is minimal, we believe DC represents a solid long-term growth driver.

Maintain Outperform rating; Price target is $75 from $69

We value DOL at 25.0x (was 24.0x) our F24/F25 EPS. The higher price target largely reflects a higher multiple (lower perceived risk with execution), higher estimates and the advancement of our valuation period.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 03/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		11,513	61.0	188.76	12/2021	18.91	19.36	20.77	9.8	9.1	2,667	2,683	2,788	5.2	5.0	84.01	0.32	236.00	↑
Dollarama	DOL	OP		21,129	298.0	70.90	01/2022	2.18	2.61	2.91	27.1	24.3	1,283	1,446	1,557	17.1	15.8	-0.22	1.02	75.00	↑
Fuel and Other																					
Couche Tard	ATD.b	SP		59,795	1,061.7	56.32	04/2021	2.45	2.51	2.51	17.9	18.0	5,005	5,086	5,071	10.5	10.5	12.07	0.35	57.00	↑
Parkland Fuel Corporation	PKI	OP		5,665	153.2	36.97	12/2021	2.45	2.68	2.93	13.8	12.6	1,260	1,499	1,561	7.4	7.1	15.64	0.69	45.00	↓
Apparel																					
Gildan	GIL	OP		9,132	194.8	46.89	12/2021	2.73	2.89	3.20	13.0	11.7	727	745	797	10.4	9.7	9.86	0.22	64.00	↓
Grocers																					
Empire Company	EMP.a	OP		11,746	264.9	44.34	05/2021	2.61	2.80	3.10	15.9	14.3	2,144	2,310	2,426	8.0	7.6	18.08	0.58	48.00	↑
Loblaw	L	OP		37,928	338.1	112.18	12/2021	5.59	6.18	6.74	18.2	16.6	5,587	5,840	6,010	7.4	7.2	34.71	0.31	119.00	↑
Metro	MRU	SP		17,465	242.7	71.96	09/2021	3.44	3.80	4.14	18.9	17.4	1,106	1,117	1,153	19.5	18.9	26.55	0.27	72.00	
Food Manufacturer																					
Saputo	SAP	OP		12,297	415.3	29.61	03/2021	1.74	1.40	1.81	21.2	16.3	1,471	1,264	1,580	13.0	10.4	15.9	0.38	33.00	
Lassonde	LAS.a	OP		989	6.9	142.61	12/2021	11.18	11.24	13.61	12.7	10.5	178	184	206	6.5	5.8	126.5	0.18	172.00	↓
Premium Brands Holdings	PBH	OP		4,779	43.7	109.37	12/2021	4.47	5.89	7.12	18.6	15.4	431	521	599	12.8	11.2	40.6	0.52	155.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,090	37.3	29.21	12/2021	2.64	2.87	3.16	10.2	9.2	211	221	233	6.5	6.2	10.98	0.46	41.00	↓
Pet Valu	PET	SP		2,391	71.5	33.46	12/2021	1.05	1.39	1.54	24.0	21.8	182	192	205	14.5	13.5	0.00	1.32	37.00	↑
Restaurants																					
MTY Food Group	MTY	OP		1,349	24.8	54.49	11/2021	3.46	3.62	3.99	15.1	13.7	169	177	186	9.3	8.9	26.16	0.32	70.00	
Online Grocery																					
Goodfood Market	FOOD	OP		208	74.4	2.80	08/2021	(0.45)	(0.86)	(0.67)	NA	NA	(15)	(38)	(19)	NA	NA	1.32	(0.34)	4.25	↓

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

Don DeMarco
Analyst
416-869-7572
—
Associate:
Yi Liu: 416-869-8524

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

Selections

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

Price Volatility to Persist in 2022

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

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

Top picks:

Teck Resources Ltd. (TECK.B: TSX)

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

Hudbay Minerals (HBM: TSX)

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

Copper Mountain Mining Corp. (CMMC: TSX)

Copper Mountain has a strong near-term production outlook at the Copper Mountain Mine, entering a high-grade sequence for 2022 after the completion of the mill expansion to 45,000 tpd in H2/21 (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 3/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	OP	-	2,923	413.5	7.07	8.00	-	Nagle	0.07u	0.60u	0.44u	8.9x	16.2x	0.34u	0.93u	0.73u	5.7x	7.3x	6.96	1.0x
Copper Mountain Mining	CMMC	OP	-	791	210.4	3.76	4.75	↑	Nagle	0.11u	0.62u	0.53u	6.0x	7.1x	0.61u	1.53u	1.02u	2.5x	3.7x	6.00	0.6x
Ero Copper	ERO	SP	-	1,652	90.2	18.31	20.50	↑	Nagle	1.34u	2.44u	2.19u	5.6x	8.3x	2.02u	3.17u	2.88u	4.3x	4.8x	21.29	0.9x
First Quantum Minerals	FM	OP	-	29,911	691.1	43.28	40.00	-	Nagle	(0.07)u	1.20u	2.89u	27.1x	15.0x	2.64u	4.22u	6.24u	7.7x	5.2x	26.79	1.6x
Hudbay Minerals	HBM	OP	-	2,567	261.5	9.82	12.50	-	Nagle	(0.44)u	0.23u	0.64u	31.8x	15.2x	0.93u	1.87u	2.87u	4.0x	2.6x	10.02	1.0x
Lundin Mining	LUN	SP	-	9,326	736.0	12.67	12.25	-	Nagle	0.31u	1.11u	1.33u	8.6x	9.5x	1.00u	2.11u	2.19u	4.5x	4.3x	11.99	1.1x
Sherritt International	S	SP	-	290	397.3	0.73	1.00	↑	Nagle	(0.37)u	(0.03)u	0.20u	n/a	3.6x	0.09u	(0.11)u	0.28u	n/a	2.0x	1.44	0.5x
Taseko Mines	TKO	SP	-	820	284.9	2.88	3.00	-	Nagle	(0.11)c	0.16c	0.28c	18.3x	10.4x	0.44c	0.73c	0.75c	4.0x	3.9x	3.80	0.8x
Teck Resources	TECKb	OP	-	27,359	542.0	50.48	55.00	-	Nagle	1.05c	5.74c	11.58c	8.8x	4.4x	3.38c	10.54c	13.90c	4.8x	3.6x	37.50	1.3x
Trevali Mining	TV	SP	-	143	98.9	1.45	2.00	-	Nagle	(0.03)c	0.02c	0.32c	66.7x	4.5x	0.01c	0.12c	1.07c	9.2x	1.0x	1.87	0.8x
Developers																					
Adventus Mining	ADZN	OP	-	101	131.6	0.77	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	-	2,182	113.8	19.17	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	0.7x
Foran Mining	FOM.V	SP	-	654	237.7	2.75	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	-	700	380.2	1.84	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	0.9x
Trilogy Metals	TMQ	SP	-	187	145.0	1.29	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	-	1,495	87.4	17.11	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	0.7x
Lithium Americas	LAC	OP	-	5,784	120.1	48.17	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	0.9x

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

Sector Analysis

Metals & Mining: Precious Metals

Don DeMarco
Analyst
416-869-7572
—
Associate:
Yi Liu: 416-869-8524

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

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

Rabi Nizami
Analyst
416-869-7925

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 begun to raise interest rates with a 0.25% hike in March. Bloomberg consensus now expects a total of five 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 August 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.

Selections

Gold/Silver Producers:

- ***Centerra Gold*** *(CG: TSX; C$14.50 target)*
- ***Endeavour Mining Corp.*** *(EDV: TSX; C$44.25 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$11.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$41.00 target)*
- ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$18.75 target)*

Royalties:

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

Sector Analysis

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	34,796	454.85	76.50	94.00	↑	Parkin	0.96u	1.86u	2.40u	32.9x	25.5x	3.64u	4.99u	4.99u	12.3x	12.3x	48.31	1.58x
Barrick Gold	ABX	SP	-	53,931	1,759.00	30.66	29.00	-	Parkin	0.51u	1.15u	1.12u	21.4x	21.9x	1.81u	3.22u	3.22u	7.6x	7.6x	22.73	1.35x
Kinross Gold Corp	K	OP	-	9,239	1,258.71	7.34	11.00	↓	Parkin	0.31u	0.73u	0.77u	8.0x	7.7x	0.80u	1.37u	1.37u	4.3x	4.3x	10.86	0.68x
Newmont	NGT	OP	-	78,203	787.30	99.33	107.00	↑	Parkin	1.32u	2.66u	2.96u	29.9x	26.9x	4.31u	5.69u	5.69u	14.0x	14.0x	65.22	1.52x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	38,057	191.3	198.94	210.00	↑	Nagle	2.72u	3.53u	3.28u	42.4x	60.7x	4.22u	5.21u	4.70u	28.7x	31.8x	68.10	2.92x
Maverix Metals Inc	MMX	SP	-	883	147.4	5.99	6.75	-	Nagle	0.12u	0.12u	0.17u	n/a	36.1x	0.29u	0.29u	0.30u	20.9x	20.0x	5.01	1.20x
Osisko Gold Royalties Ltd	OR	R	-	2,745	166.5	16.49	R	R	Nagle	R	R	R	R	R	R	R	R	R	R	R	R
Royal Gold Inc	RGLD	SP	-	9,216	65.2	141.28u	140.00u	-	Nagle	2.91u	4.02u	3.80u	35.1x	37.2x	6.28u	7.06u	6.27u	15.0x	16.9x	66.40	2.13x
Sandstorm Gold Ltd	SSL	OP	-	1,932	191.7	10.08	10.00	-	Nagle	0.11u	0.17u	0.23u	44.6x	43.8x	0.36u	0.43u	0.42u	17.6x	18.0x	7.95	1.27x
Triple Flag Precious Metals Corp	TFPM	SP	-	2,810	156.0	18.01	19.00	-	Nagle	0.20u	0.39u	0.45u	34.7x	40.0x	0.78u	0.80u	0.88u	16.9x	15.4x	12.42	1.45x
Wheaton Precious Metals Corp	WPM	OP	-	26,804	450.9	59.45	68.00	↑	Nagle	1.10u	1.31u	1.20u	34.1x	49.5x	1.71u	1.90u	1.74u	23.5x	25.7x	23.72	2.51x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP	-	4,115	391.89	10.50	11.00	↑	Parkin	0.21u	0.42u	0.41u	20.2x	20.3x	0.75u	0.97u	0.97u	8.7x	8.7x	12.31	0.85x
B2Gold	BTO	OP		6,060	1,055.8	5.74	7.75		DeMarco	0.36u	0.31u	0.37u	18.5x	15.4x	0.68u	0.71u	0.85u	8.1x	6.8x	4.90	1.17x
Centerra Gold Inc	CG	OP	-	3,651	297.06	12.29	14.50	↑	Parkin	0.62u	0.49u	0.80u	20.0x	12.3x	1.36u	2.87u	1.43u	3.4x	6.9x	13.42	0.92x
Dundee Precious Metals	DPM	SP		1,428	191.4	7.46	10.25		DeMarco	1.03u	0.67u	0.83u	11.1x	9.0x	1.66u	1.20u	1.52u	6.2x	4.9x	10.36	0.72x
Eldorado Gold Corp	ELD	OP	-	2,557	182.67	14.00	18.00	↑	Parkin	(0.02)u	0.97u	(0.15)u	14.4x	n/a	0.93u	2.23u	2.23u	5.0x	5.0x	21.66	0.65x
Endeavour Mining	EDV	OP		7,728	249.2	31.01	44.25	↓	DeMarco	2.42u	2.21u	2.22u	14.0x	14.0x	4.75u	4.67u	4.70u	6.6x	6.6x	34.29	0.90x
Equinox Gold Corp	EQX	OP	-	3,628	351.5	10.32	13.00	↑	Parkin	0.33u	0.37u	0.21u	27.8x	49.0x	0.68u	1.06u	0.79u	9.7x	13.0x	13.93	0.74x
IAMGOLD Corp	IMG	OP	-	2,270	523.15	4.34	5.00	↑	Parkin	(0.03)u	0.14u	0.02u	24.6x	188.0x	0.75u	0.77u	0.77u	4.5x	4.5x	5.27	0.82x
Lundin Gold Inc.	LUG	SP		2,426	232.2	10.45	12.25		DeMarco	1.07u	0.63u	0.59u	16.5x	17.8x	1.58u	1.35u	1.25u	7.8x	8.3x	12.32	0.85x
New Gold Inc	NGD	SP	-	1,546	681.15	2.27	2.75	↑	Parkin	(0.08)u	0.03u	0.32u	80.0x	7.0x	0.39u	0.41u	0.41u	4.4x	4.4x	2.67	0.85x
OceanaGold Corp	OGC	OP	-	1,951	704.21	2.77	3.50	↑	Parkin	0.06u	(0.11)u	0.20u	n/a	14.1x	0.33u	0.33u	0.33u	6.6x	6.6x	3.14	0.88x
SSR Mining Inc	SSRM	SP	↓	5,759	211.88	27.18	30.00	↑	Parkin	0.74u	1.43u	1.32u	15.3x	16.4x	1.59u	1.65u	1.65u	13.2x	13.2x	23.46	1.16x
Yamana Gold Inc	YRI	OP	-	6,601	945.72	6.98	8.75	↑	Parkin	0.10u	0.32u	0.34u	17.6x	16.7x	0.51u	0.66u	0.66u	8.4x	8.4x	5.87	1.19x
Torex Gold Resources Inc	TXG	SP		1,346	85.75	15.70	24.00		DeMarco	2.36u	1.74u	1.76u	9.0x	8.9x	4.29u	4.04u	3.97u	3.9x	4.0x	21.52	0.73x
Silver Producers																					
Aya Gold and Silver	AYA	OP		937	105.1	8.92	11.50	↑	DeMarco	0.05u	(0.02)u	(0.15)u	-	-	0.13u	0.01u	(0.07)u	720.8x	-	7.54	1.18x
First Majestic Silver Corp	FR	SP		4,212	256.4	16.43	17.00		DeMarco	0.08u	0.20u	0.25u	83.8x	65.9x	0.45u	1.07u	1.52u	15.3x	10.8x	6.74	2.44x
Fortuna Silver Mines Inc	FVI	SP		1,387	292.1	4.75	5.50	↓	DeMarco	0.45u	0.23u	0.70u	20.2x	6.8x	0.79u	0.84u	1.24u	5.7x	3.8x	5.42	0.88x
Pan American Silver	PAAS	OP		7,169	210.1	34.12	41.00		DeMarco	0.77u	0.77u	1.40u	44.4x	24.4x	2.21u	2.32u	3.36u	14.7x	10.2x	18.45	1.85x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		2,041	223.3	9.14	11.50		DeMarco	0.17u	0.42u	0.49u	21.9x	18.8x	0.27u	0.53u	0.60u	17.4x	15.2x	10.60	0.86x
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		2,215	141.2	15.69	18.75	↑	DeMarco	0.47u	0.99u	1.30u	15.8x	12.1x	0.78u	1.37u	1.87u	11.4x	8.4x	12.49	1.26x
Developers																					
AbraSilver Resource Corp	ABRA	OP		159	453.8	0.35	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		1,005	141.5	7.10	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		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
G Mining Ventures	GMIN	OP		200	235.8	0.85	1.65		Nizami	(0.04)u	(0.03)u	(0.01)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	1.64	0.52x
Gold Standard Ventures Corp.	GSV	OP		204	358.0	0.57	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	0.40x
Integra Resources Corp.	ITR	OP		112	62.1	1.80	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	0.61x
Liberty Gold Corp	LGD	R		R	R	0.93	R		Nizami	R	R	R	n/a	n/a	R	R	R	-	-	R	R
MAG Silver Corp	MAG	OP		1,982	97.9	20.24	30.00		DeMarco	(0.07)u	0.86u	0.00u	23.5x	-	(0.06)u	0.65u	1.97u	31.0x	10.3x	20.11	1.01x
Marathon Gold Corp.	MOZ	OP		575	212.1	2.71	4.50		DeMarco	(0.01)u	(0.04)u	(0.04)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	4.35	0.62x
O3 Mining Inc.	OIII	OP		161	68.0	2.37	4.25		DeMarco	(0.16)u	(0.63)u	(0.62)u	-	-	(0.16)u	(0.63)u	(0.62)u	-	-	5.46	0.43x
Osisko Development	ODV	OP		554	132.1	4.19	9.50		DeMarco	-	-	0.97u	-	4.3x	(0.04)u	-	1.06u	-	4.0x	9.39	0.45x
Osisko Mining	OSK	OP		1,421	356.1	3.99	5.25		DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	5.17	0.77x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		534	356.2	1.51	3.25		DeMarco	0.00u	0.00u	(0.01)u	-	-	0.00u	0.00u	(0.01)u	-	-	3.18	1.02x

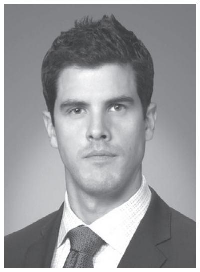
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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

Large Cap Oil & Gas

Travis Wood
Analyst
403-290-5102
—
Associates:
Logan Fisher: 403-441-0933
Jacob Swan: 403-290-5445

Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

March was defined by high volatility in the crude oil complex, with geopolitical tensions, sanctions and fundamental dynamics all playing a part in significant price moves throughout the month. WTI averaged ~US$108/bbl during the month, and while there is no doubt a significant geopolitical risk premium embedded, the underlying fundamentals, including continued demand recovery and possible pressure on the supply side, remain constructive for the commodity. It is worth noting for Canadian producers that the current exchange rate of around 0.80 USD/CAD has put prices in Canadian dollars near all-time highs, continuing to drive the strength in the associated equities this month. Recent developments towards a diplomatic solution in the conflict between Russia and Ukraine, and the associated possibility of an easing of sanctions, have caused some short-term movements to the downside for crude; however, it appears there remains a considerable gap between the two sides, and even then, it is questionable when sanctions would be removed. More recently, headlines regarding SPR crude oil releases from the Biden administration have caused the market to pause. In the past, this has been more of a transitory effect as the SPR is not infinite and given that the total expected release of 1 mmbbl/d for six months amounts to ~9 days of U.S. consumption (and only ~2 days of world consumption), this will not solve the structural oil deficit long term, although it may temporarily restore market balance. This, coupled with continued discipline by OPEC+ in sticking to their stated production increases should continue to provide support for crude. Backwardation continues to be present on the forward curve with CAL-22 WTI coming in at ~US$96/bbl (up 10% from February at ~US$87/bbl) and even CAL-23 ending the month at ~US$85/bbl (vs. February's exit of ~US$77/bbl).

Natural Gas Outlook

NYMEX gas had another strong month in March as it averaged ~$5.00/mmbtu, which was up approximately 12% from February's average of $4.50/mmbtu. The strength in the commodity appeared to be largely driven by colder weather coupled with rising LNG exports from the United States. In Europe, the geopolitical situation and Russia's recent demand for payment in roubles have injected volatility into the market, which could be feeding into some of the price movement we are seeing on this side of the Atlantic. In Canada, AECO prices rose again in March, averaging ~C$4.80/GJ, up from ~C$4.50/GJ in February. According to Bentek, total U.S. production is estimated to have increased to ~93.7 Bcf/d in March from ~92.5 Bcf/d in February. Additionally, LNG exports were up slightly with an average of 12.8 Bcf/d during March (vs. 12.4 Bcf/d in February), and overall demand was estimated at 100.8 Bcf/d, down from 121.5 Bcf/d in February.

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, and 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 3-31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2021A	EV/DACF est. 2022E	EV/DACF est. 2023E	Net Debt/ Cash Flow 2022E	Net Debt/ Cash Flow 2023E	CFPS - FD act. 2021A	CFPS - FD est. 2022E	CFPS - FD est. 2023E	P/CFPS est. 2022E	P/CFPS est. 2023E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1093.3	$77.41	$84,629	4%	7.3x	5.5x	5.5x	0.6x	0.5x	$11.57	$14.73	$14.27	5.1x	5.2x	$90.00	20%	
Cenovus Energy	CVE	OP		Wood	1995.8	$20.84	$41,593	1%	6.4x	4.4x	3.7x	0.0x	-0.7x	$3.56	$4.55	$4.61	4.5x	4.4x	$28.00	35%	
Ovintiv Inc (US$)	OVV	OP		Wood	245.1	$54.07	$13,255	1%	5.4x	4.0x	3.4x	1.0x	0.6x	$12.18	$15.37	$16.75	3.4x	3.1x	$60.00	12%	
Imperial Oil	IMO	SP		Wood	678.4	$60.50	$41,042	2%	8.5x	5.6x	6.2x	-0.3x	-0.9x	$7.17	$10.16	$8.43	6.0x	7.2x	$70.00	18%	
Suncor Energy	SU	SP		Wood	1398.5	$40.70	$56,919	4%	6.4x	4.5x	4.1x	0.5x	0.2x	$6.89	$9.76	$9.83	4.1x	4.0x	$52.00	32%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$8.71	$1,705	0%	7.3x	4.0x	4.0x	-0.1x	-0.6x	$1.18	$2.10	$1.92	4.1x	4.5x	$11.00	26%	
ARC Resources Ltd.	ARX	OP		Wood	693.2	$16.74	$11,604	2%	5.4x	4.1x	3.4x	0.2x	-0.2x	$3.86	$4.21	$4.57	4.0x	3.7x	$21.00	28%	
Baytex Energy	BTE	SP		Payne	573.7	$5.45	$3,127	0%	5.4x	3.8x	2.9x	0.9x	0.2x	$1.30	$1.71	$1.97	3.2x	2.8x	$6.50	19%	
Birchcliff Energy	BIR	OP		Payne	277.4	$8.36	$2,319	0%	5.0x	3.9x	4.0x	0.2x	-0.3x	$1.97	$2.27	$2.01	3.7x	4.2x	$11.00	32%	
Crescent Point Energy Corp.	CPG	OP		Wood	581.5	$9.06	$5,268	2%	4.7x	2.8x	2.1x	0.4x	-0.2x	$2.57	$3.69	$4.01	2.5x	2.3x	$15.50	73%	
Enerplus Corporation	ERF	OP		Wood	243.9	$15.84	$3,863	1%	5.3x	3.4x	2.6x	0.3x	-0.3x	$3.52	$5.06	$5.41	3.1x	2.9x	$20.00	27%	
Freehold Royalties	FRU	OP		Wood	150.7	$14.31	$2,156	6%	11.7x	8.0x	8.1x	-0.1x	-0.5x	$1.39	$1.74	$1.65	8.2x	8.6x	$18.00	32%	
Headwater Exploration	HWX	OP		Payne	235.0	$6.63	$1,558	0%	12.4x	5.9x	4.6x	-0.8x	-1.2x	$0.55	$1.00	$1.16	6.6x	5.7x	$10.50	58%	
Kelt Exploration	KEL	OP		Payne	192.7	$6.74	$1,299	0%	8.1x	4.5x	3.8x	0.0x	-0.4x	$0.85	$1.49	$1.62	4.5x	4.2x	$8.50	26%	
MEG Energy	MEG	OP	↑	Wood	282.8	$17.07	$4,828	0%	7.4x	3.6x	3.2x	0.9x	0.7x	$2.60	$5.25	$5.44	3.1x	2.9x	$24.00	41%	↓
NuVista Energy	NVA	SP		Payne	238.5	$10.57	$2,521	0%	8.0x	4.1x	3.3x	0.2x	-0.3x	$1.38	$2.65	$2.95	4.0x	3.6x	$11.50	9%	
Paramount Resources	POU	OP		Payne	147.5	$31.21	$4,603	3%	9.4x	4.6x	4.2x	0.1x	-0.2x	$3.38	$6.94	$7.14	4.5x	4.4x	$35.00	15%	
Peyto Exploration & Development	PEY	OP		Wood	168.2	$12.68	$2,132	5%	6.1x	3.9x	3.5x	1.2x	0.8x	$2.77	$4.30	$4.39	2.9x	2.9x	$15.50	27%	↑
Pipestone Energy	PIPE	SP		Payne	281.4	$5.31	$1,494	0%	9.3x	4.2x	3.5x	0.2x	-0.4x	$0.59	$1.29	$1.39	4.1x	3.8x	$6.00	13%	
PrarieSky Royalty	PSK	SP		Wood	238.8	$17.29	$4,130	3%	17.1x	11.8x	12.3x	1.0x	0.4x	$1.22	$1.59	$1.45	10.8x	11.9x	$22.00	30%	
Spartan Delta	SDE	OP		Payne	170.3	$9.80	$1,669	0%	6.8x	3.0x	2.3x	0.3x	-0.2x	$2.26	$3.51	$3.89	0.0x	0.0x	$14.50	48%	
Tamarack Valley Energy	TVE	OP		Payne	443.6	$4.96	$2,200	2%	7.0x	3.4x	2.9x	0.3x	-0.3x	$0.94	$1.52	$1.54	3.3x	3.2x	$7.00	43%	
Topaz Energy	TPZ	OP		Payne	144.4	$20.90	$3,017	5%	16.3x	10.9x	10.7x	0.4x	-0.1x	$1.54	$1.99	$1.93	10.5x	10.9x	$25.00	25%	
Tourmaline Oil	TOU	OP		Payne	337.9	$57.60	$19,463	1%	6.8x	5.0x	4.8x	-0.2x	-0.8x	$9.25	$11.03	$10.42	5.2x	5.5x	$62.50	10%	
Vermilion Energy Inc.	VET	OP		Wood	162.3	$26.25	$4,259	1%	6.0x	3.7x	3.1x	1.0x	0.4x	$5.59	$9.27	$9.37	2.8x	2.8x	$34.00	30%	
Whitecap Resources	WCP	OP		Wood	631.7	$10.34	$6,531	3%	6.7x	3.7x	3.1x	0.2x	-0.4x	$1.82	$2.91	$2.98	3.5x	3.5x	$16.00	58%	
Small Cap																					
Crew Energy	CR	SP		Payne	160.7	$5.18	$833	0%	7.9x	4.5x	3.9x	1.2x	0.4x	$0.82	$1.41	$1.42	3.7x	3.7x	$5.00	-3%	
PetroShale	PSH	SP		Payne	671.6	$0.84	$564	0%	8.6x	4.4x	3.5x	0.5x	-0.2x	$0.15	$0.21	$0.23	4.0x	3.7x	$1.00	19%	
Surge Energy	SGY	SP		Payne	87.1	$8.86	$772	0%	8.7x	3.0x	2.2x	0.6x	-0.1x	$1.79	$3.20	$3.73	2.8x	2.4x	$10.00	13%	
Yangarra Resources	YGR	SP		Payne	90.8	$2.83	$257	0%	4.4x	2.3x	2.0x	0.9x	0.4x	$1.02	$1.76	$1.63	1.6x	1.7x	$2.50	-12%	

* 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 03/31	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$766.50	91.3	US$8.40	US$213.2	US$205.0	US$249.7	5.3x	6.1x	4.7x	1.5x	2.2x	1.4x	US$13.50	61%	↓
Precision Drilling Corp.	PD	OP		Payne	$ 1,233.28	13.3	$92.70	$ 285.2	$ 249.5	$ 315.4	7.3x	9.7x	5.7x	4.0x	4.3x	3.0x	$80.00	-14%	
Trican Well Services	TCW	SP		Payne	$ 862.91	232.0	$3.72	$ 30.6	$ 101.6	$ 147.7	7.5x	7.9x	5.0x	-0.7x	-0.3x	-0.2x	$4.00	8%	

* 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

Patrick Kenny, CFA
Analyst
403-290-5451

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

Selections

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

Overview

As we continue to progress through 2022, the market's insatiable appetite for decarbonization remains, 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

With the Ukraine conflict prompting many Western countries to impose sanctions on Russian oil & gas, WTI soared into the triple digits, averaging ~US$109/bbl level, ~20% higher than February levels of ~US$91.50/bbl and ~60% above the 2021 average price of ~US$68/bbl. On the gas front, NYMEX prices followed a similar path, averaging US$4.95/mcf, topping February levels of US$4.46/mcf by ~10%. Similarly, AECO averaged $4.77/mcf, leading the previous month's levels of $4.51/mcf by ~5%. On Marketing prospects, the WCS heavy differential continued to contract through March, averaging ~US$12.50/bbl, hanging below full-year 2021 average levels of ~US$13.50/bbl.

Pipelines & Midstream Update

PPL and KKR announced an agreement to combine their three gas processing platforms in Western Canada, forming a new JV (Newco) owned 60% PPL / 40% KKR, with PPL taking on the roles of operator and manager. The combination increases PPL's interest in northeast BC-based Veresen Midstream from 45% to 60%, while also gaining a 60% stake in Energy Transfer Canada's 1.3 bcf/d of Alberta Montney / Duvernay processing capacity, bringing the total capacity of Newco to ~5 bcf/d across 25 facilities. Of note, Newco will also look to dispose of its 50% non-operated interest in the $1.6 billion KAPS pipeline project.

On Keyera's KAPS execution front, the project remains on track for its expected early 2023 ISD, while final capital costs are anticipated to be within 10% of the latest $800 million (net) budget. On contracting, KEY has inked additional commitments above the previous 70% capacity level from Pipestone to Fort Saskatchewan, while also securing barrels for the unsanctioned 80 km Pipestone to Gordondale extension (FID by year end), positioning KAPS to connect into Brookfield's NorthRiver Midstream NEBC Connector Pipeline. We note that the Zone 4 Gordondale extension could potentially drive incremental volume commitments on Zones 1-3, thereby moving the KAPS ROIC towards KEY's 10-15% target range.

Energy Transition Update

While Enbridge was recently awarded sequestration rights for its proposed Wabamun Carbon Hub, we continue to await more news on the Alberta government's Request for Project Proposals (RFPP) front with several names in our coverage having jumped into the mix. The most recent addition to the list is BIP with IPL announcing the submission of a joint project proposal, alongside Rockpoint Gas Storage, in response to the RFPP related to its Industrial Heartland CCS hub selection process. Of note, the IPL & Rockpoint proposed CCS hub would offer a sequestration capacity of >6 MtCO2pa on an open-access basis, which would be underpinned by emissions from IPL's existing assets in the area, including its Heartland Petrochemical Complex. Meanwhile, with the federal budget expected to be announced in the first week of April, we look for any further government support in the form of CCUS investment tax credits that could firm up the economics on many projects.

Keyera also plans to capitalize on upcoming energy transition opportunities with the announcement of its proposed Low Carbon Hub strategy anchored by its Josephburg land position and strategic partnership with Shell, supporting carbon transportation and sequestration connectivity, hydrogen transportation & storage, lower carbon power generation and other low-carbon feedstocks. Overall, the decarbonization investments are subject to the same 10-15% RIOC thresholds as its legacy business, while supporting its ESG targets including an emissions intensity reduction target of 50% by 2035.

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.

Pipelines, Utilities & Energy Infrastructure

	Stock	Stock		Units	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth Price			Combined
	Sym.	Rating	Δ	O/S (Mln)	Price 03-31	Cap. (Mln)	est. 2021e	est. 2022e	est. 2023e	2022e	2023e	est. 2021e	est. 2022e	est. 2023e	2022e	2023e	Debt/ 23e EBITDA	Target	Return	Δ	Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$28.00	$7,830	$1.00	$1.06	$1.12	3.8%	4.0%	$2.79	$2.84	$3.11	9.9x	9.0x	5.6x	31.00	10.7%		14.5%
Enbridge Inc.	ENB	OP		2025.0	$57.55	$116,539	$3.34	$3.44	$3.54	6.0%	6.2%	$4.96	$5.38	$5.67	10.7x	10.1x	4.6x	57.00	-1.0%		5.0%
Gibson Energy	GEI	SP		149.3	$25.01	$3,735	$1.40	$1.46	$1.51	5.8%	6.1%	$1.95	$2.14	$2.26	11.7x	11.0x	3.1x	25.00	0.0%		5.8%
Keyera	KEY	OP		221.0	$31.69	$7,004	$1.92	$1.92	$2.01	6.1%	6.3%	$3.03	$2.99	$3.62	10.6x	8.8x	3.0x	37.00	16.8%	↑	22.8%
Pembina Pipelines	PPL	SP		542.0	$46.97	$25,460	$2.52	$2.54	$2.61	5.4%	5.6%	$4.05	$4.27	$4.58	11.0x	10.3x	3.6x	45.00	-4.2%	↑	1.2%
Secure Energy	SES	OP		308.2	$5.34	$1,646	$0.03	$0.03	$0.03	0.6%	0.6%	$0.65	$0.91	$1.04	5.8x	5.1x	1.4x	8.00	49.8%		50.4%
Superior Plus	SPB	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R
Tidewater Midstream	TWM	OP		341.6	$1.30	$444	$0.04	$0.04	$0.04	3.1%	3.1%	$0.18	$0.21	$0.44	6.2x	3.0x	2.6x	1.75	34.6%		37.7%
Tidewater Renewables	LCFS	OP	↑	34.6	$11.98	$415	$0.00	$0.00	$0.00	0.0%	0.0%	$0.47	$0.54	$3.01	22.4x	4.0x	0.2x	17.00	41.9%		41.9%
TC Energy Corp.	TRP	SP		981.0	$70.51	$69,170	$3.48	$3.60	$3.74	5.1%	5.3%	$5.74	$5.46	$5.98	12.9x	11.8x	5.2x	66.00	-6.4%		-1.3%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$42.93	$4,922	$1.79	$1.85	$1.87	4.3%	4.3%	$2.65	$2.59	$2.87	16.6x	15.0x	4.5x	45.00	4.8%		9.1%
Brookfield Infrastructure [1]	BIP	OP		514.4	$66.23	$34,069	$2.04	$2.16	$2.29	3.3%	3.5%	$2.93	$3.35	$3.87	19.8x	17.1x	6.0x	68.00	2.7%		5.9%
Canadian Utilities	CU	SP		277.1	$38.32	$10,617	$1.76	$1.78	$1.79	4.6%	4.7%	$2.97	$3.05	$3.09	12.6x	12.4x	5.1x	36.00	-6.1%		-1.4%
Capital Power	CPX	OP		114.6	$40.71	$4,664	$2.12	$2.24	$2.36	5.5%	5.8%	$5.39	$5.35	$5.90	7.6x	6.9x	3.7x	47.00	15.5%		21.0%
Emera Inc.	EMA	SP		268.3	$61.97	$16,629	$2.58	$2.68	$2.78	4.3%	4.5%	$1.50	$4.18	$4.56	14.8x	13.6x	6.5x	59.00	-4.8%		-0.5%
Fortis Inc.	FTS	SP		481.2	$61.83	$29,755	$2.05	$2.17	$2.30	3.5%	3.7%	$3.76	$4.58	$4.82	13.5x	12.8x	6.1x	59.00	-4.6%		-1.1%
Hydro One Ltd.	H	SP		596.9	$33.68	$20,105	$1.07	$1.12	$1.17	3.3%	3.5%	$2.03	$1.98	$1.67	17.0x	20.2x	5.8x	32.00	-5.0%		-1.7%
TransAlta	TA	SP		271.0	$12.94	$3,507	$0.18	$0.20	$0.20	1.5%	1.5%	$2.08	$1.98	$1.64	6.5x	7.9x	3.5x	14.00	8.2%		9.7%

Source: Company Reports, NBF Estimates, Refinitiv

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

[1] All dollar figures for BIP are in USD

Real Estate

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

Tal Woolley
Analyst
416-507-8009

Selections

- *CAP REIT*
- *H&R REIT*
- *Killam Apartment REIT*
- *Flagship Communities REIT*
- *Chartwell Retirement Residences*
- *CT REIT*

Nexus Industrial REIT (NXR.un)

We are initiating Nexus Industrial REIT with an Outperform rating.

- *Unique opportunity to own a portfolio of Canadian industrial properties in underappreciated markets.*

Nexus provides investors access to a niche segment of the industrial market where supply / demand dynamics warrant higher rents. Extremely tight urban markets are increasingly forcing tenants to search for space further afield as sub-1% availability rates limit choices while driving substantial rent escalation. The REIT is less likely to run into the same buyer base that is targeting in-demand urban assets, thus, cap rates / going-in yields are more attractive. A pivot, quality and location, combined with a broadening of private market appetite have resulted in price inflation, justifying NAV growth.

- *Cost of capital consistent with desired asset class exposure.*

Nexus trades at an implied cap rate of ~5.3%. Purchase cap rates for 2021 came in at the mid-to-high 5% range with purchases after the end of the year trending into the lower 5% range. When combined with accommodative debt markets given lenders' preferential view on the asset class, Nexus can expand its portfolio on an accretive basis generating economies of scale along the way.

- *Experienced management team with a track record of sourcing deals and nurturing a pipeline through vendor relationships.*

Nexus has been able to source off-market deals across Canada while building long-term relationships with private landlords through its willingness to issue Class B units as partial consideration for the purchases. This has been particularly useful in reducing the total acquisition proceeds and in establishing a future pipeline of opportunities.

Chartwell Retirement Residences (CSH.un)

CSH moves to become a pure-play retirement vehicle by exiting LTC operations

- *UCSH to sell its LTC platform in Ontario to AgeCare/Axium.*

AgeCare is a predominantly LTC operator in AB/BC; this looks like their first foray into Ontario. Axium has been the capital provider to several LTC operators. Recall Axium just struck a deal with Extendicare to restructure its LTC operations and facilitate Revera's exit from the space.

- *AgeCare will take over the operational management of CSH's LTC portfolio.*

AgeCare will take over management of the acquired beds, plus the 608 beds CSH was managing on a third-party basis for other clients. AgeCare will also take over management of the two Toronto sites still owned by CSH mentioned above.

- *The transaction could take up to 12 months to close; CSH expects net proceeds of $277 million.*

Given the regulatory agencies involved, investors should expect a slower approval process.

- *LTC was not why investors owned CSH units; concentrating the asset mix around retirement assets should drive a positive reaction.*

LTC was not why investors owned CSH units; concentrating the asset mix around retirement assets should drive a positive reaction.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 3-31	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	↔	$7,816	Woolley	$25.23	$1.02	$1.02	$1.02	4.0%	4.0%	4.0%	4.0%	$1.60	$1.70	$1.78	15.8x	14.8x	14.2x	$28.50	$28.00	15.0%	↔
Choice Properties REIT	CHP.un	SP	↔	$11,205	Woolley	$15.49	$0.74	$0.74	$0.74	4.8%	4.8%	4.8%	4.8%	$0.95	$0.97	$0.98	16.3x	16.0x	15.8x	$14.20	$15.50	4.8%	↔
First Capital REIT	FCR	SP	↔	$3,942	Woolley	$17.95	$0.43	$0.43	$0.43	2.4%	2.4%	2.4%	2.4%	$1.14	$1.15	$1.19	15.8x	15.6x	15.1x	$23.90	$20.50	16.6%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,847	Woolley	$32.83	$1.85	$1.85	$1.85	5.6%	5.6%	5.6%	5.6%	$2.21	$2.07	$2.28	14.9x	15.9x	14.4x	$34.10	$34.00	9.2%	↔
CT REIT	CRT.un	OP	↔	$4,123	Woolley	$17.68	$0.86	$0.86	$0.86	4.9%	4.9%	4.9%	4.9%	$1.24	$1.29	$1.36	14.3x	13.7x	13.0x	$17.30	$19.50	15.2%	↔
Crombie REIT	CRR.un	OP	↔	$3,230	Woolley	$18.35	$0.89	$0.89	$0.89	4.9%	4.9%	4.9%	4.9%	$1.15	$1.17	$1.24	16.0x	15.7x	14.8x	$18.23	$20.00	13.8%	↔
Automotive Properties REIT	APR.un	OP	↔	$714	Woolley	$14.57	$0.80	$0.80	$0.80	5.5%	5.5%	5.5%	5.5%	$0.94	$0.99	$1.02	15.5x	14.7x	14.3x	$13.10	$15.50	11.9%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$6,006	Kornack	$46.63	$1.75	$1.75	$1.75	3.8%	3.8%	3.8%	3.8%	$2.40	$2.51	$2.74	19.5x	18.6x	17.0x	$48.25	$51.00	13.1%	↔
DREAM Office REIT	D.un	SP	↔	$1,485	Kornack	$27.87	$1.00	$1.00	$1.00	3.6%	3.6%	3.6%	3.6%	$1.54	$1.61	$1.71	18.1x	17.3x	16.3x	$27.50	$27.00	0.5%	↔
Slate Office REIT	SOT.un	SP	↔	$373	Kornack	$5.11	$0.40	$0.40	$0.40	7.8%	7.8%	7.8%	7.8%	$0.55	$0.57	$0.61	9.3x	9.0x	8.4x	$6.05	$5.25	10.6%	↔
True North Commerical REIT	TNT.un	SP	↔	$660	Kornack	$7.16	$0.59	$0.59	$0.59	8.3%	8.3%	8.3%	8.3%	$0.59	$0.58	$0.58	12.2x	12.4x	12.4x	$6.95	$7.50	13.0%	↔
H&R REIT	HR.un	OP	↔	$3,938	Kornack	$13.05	$0.52	$0.52	$0.52	4.0%	4.0%	4.0%	4.0%	$1.53	$1.11	$1.22	8.5x	11.8x	10.7x	$17.25	$17.00	34.3%	↔
Artis REIT	AX.un	SP	↔	$1,568	Kornack	$13.07	$0.60	$0.60	$0.60	4.6%	4.6%	4.6%	4.6%	$1.31	$1.28	$1.26	10.0x	10.2x	10.4x	$15.35	$12.50	0.2%	↑
BTB REIT	BTB.un	SP	↔	$357	Kornack	$4.27	$0.30	$0.30	$0.30	7.0%	7.0%	7.0%	7.0%	$0.41	$0.47	$0.47	10.5x	9.1x	9.0x	$5.05	$4.75	18.3%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,331	Kornack	$96.38	$3.10	$3.10	$3.10	3.2%	3.2%	3.2%	3.2%	$4.04	$4.48	$4.82	23.9x	21.5x	20.0x	$95.85	$115.00	22.5%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$4,117	Kornack	$16.14	$0.70	$0.70	$0.70	4.3%	4.3%	4.3%	4.3%	$0.81	$0.90	$0.96	20.0x	17.8x	16.9x	$17.50	$19.25	23.6%	↔
Nexus Industrial REIT	NXR.un	OP	↔	$1,012	Kornack	$12.77	$0.64	$0.64	$0.64	5.0%	5.0%	5.0%	7.6%	$0.77	$0.83	$0.92	16.6x	15.3x	13.9x	$13.15	$14.25	16.6%	↔
Summit Industrial	SMU.un	OP	↔	$4,124	Kornack	$22.02	$0.56	$0.56	$0.56	2.6%	2.6%	2.6%	2.6%	$0.70	$0.75	$0.80	31.3x	29.3x	27.4x	$22.35	$26.50	22.9%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$411	Woolley	$4.18	$0.22	$0.22	$0.22	5.4%	5.4%	5.4%	5.4%	$0.52	$0.46	$0.48	8.0x	9.1x	8.7x	$5.30	$5.00	25.0%	↑
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,393	Kornack	$53.65	$1.45	$1.45	$1.45	2.7%	2.7%	2.7%	2.7%	$2.33	$2.41	$2.52	23.1x	22.2x	21.3x	$63.10	$70.50	34.1%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,975	Kornack	$58.79	$1.08	$1.08	$1.08	1.8%	1.8%	1.8%	1.8%	$2.96	$3.12	$3.28	19.8x	18.9x	17.9x	$61.50	$67.00	15.8%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,548	Kornack	$21.42	$0.70	$0.70	$0.70	3.3%	3.3%	3.3%	3.3%	$1.07	$1.10	$1.18	20.0x	19.4x	18.2x	$24.25	$27.00	29.3%	↔
InterRent REIT	IIP.un	OP	↔	$2,263	Kornack	$15.99	$0.34	$0.34	$0.34	2.1%	2.1%	2.1%	2.1%	$0.51	$0.59	$0.62	31.4x	27.3x	25.8x	$17.85	$19.00	21.0%	↔
Minto Apartment REIT	MI.un	OP	↔	$1,349	Kornack	$21.47	$0.48	$0.48	$0.48	2.2%	2.2%	2.2%	2.2%	$0.81	$0.93	$1.02	26.4x	23.2x	21.0x	$25.15	$26.25	24.5%	↔
BSR REIT	HOM.un	OP	↔	$1,066u	Kornack	$20.54u	$0.52u	$0.52u	$0.52u	2.5%	2.5%	2.5%	2.5%	$0.65u	$0.88u	$0.95u	31.6x	23.3x	21.7x	$23.10u	$24.50u	21.8%	↑
ERES REIT	ERE.un	OP	↔	$1,157	Kornack	$5.00	$0.17	$0.17	$0.17	3.3%	3.3%	3.3%	3.3%	$0.21	$0.24	$0.25	23.6x	21.0x	19.9x	$5.61	$5.60	15.3%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$312	Kornack	$9.30	$0.83	$0.83	$0.83	8.9%	8.9%	8.9%	8.9%	$0.50	$0.49	$0.70	18.6x	19.1x	13.4x	$10.10	$10.00	16.4%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,887	Woolley	$12.40	$0.61	$0.61	$0.61	4.9%	4.9%	4.9%	4.9%	$0.59	$0.56	$0.70	21.0x	22.1x	17.7x	$12.36	$15.00	25.9%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$3,297	Woolley	$13.77	$0.80	$0.80	$0.80	5.8%	5.8%	5.8%	5.8%	$0.84	$0.84	$0.87	16.5x	16.4x	15.8x	$14.19	$15.00	14.7%	↑
Sienna Senior Living	SIA	OP	↔	$1,115	Woolley	$15.31	$0.94	$0.94	$0.94	6.1%	6.1%	6.1%	6.1%	$1.15	$1.00	$1.24	13.3x	15.3x	12.3x	$15.86	$17.50	20.4%	↔
Extendicare	EXE	SP	↔	$703	Woolley	$7.85	$0.48	$0.48	$0.48	6.1%	6.1%	6.1%	6.1%	$0.52	$0.45	$0.45	15.1x	17.4x	17.4x	$9.50	$8.00	8.0%	↔
Invesque	IVQu	SP	↔	$80	Woolley	$1.42u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.45u	$0.47u	$0.48u	3.2x	3.0x	3.0x	$3.58u	$2.00u	40.8%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,615	Woolley	$6.98	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.20	$0.22	46.3x	35.2x	31.7x	$6.30	$8.00	14.8%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$387	Woolley	$19.75	$0.54	$0.54	$0.54	2.7%	2.7%	2.7%	2.7%	$1.03	$1.09	$1.14	19.2x	18.1x	17.3x	$23.80	$24.00	24.3%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$5,421	Woolley	$19.87	$0.28	$0.28	$0.28	1.4%	1.4%	1.4%	1.4%	$0.57	$0.62	$0.72	34.9x	32.0x	27.6x	$21.37	$21.00	7.1%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Back to Research Analysts page

Special Situations

Zachary Evershed, CFA
Analyst
514-412-0021

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

Selections

- › *Dexterra Group*
- › *Alaris Equity Partners*
- › *GDI Integrated Facility Services*

Dexterra

On March 29, 2022, we hosted virtual institutional investor meetings and a fireside chat in NBF's Between Two Firms series with Dexterra's management team. In attendance were John MacCuish, CEO, and Drew Knight, CFO.

Integrated Facilities Management: primary growth vector

With labour cost inflation a hot-button issue, management notes that DXT is frequently able to pass through rising wages in a collaborative process with customers as they remain wary of employee turnover impacting service dynamics. This is helped by the segment's main competitive advantage over its peers, namely the high level of self-delivery of services, as clients look for partners that do not rely heavily on sub-contracting. IFM remains the primary area of focus for M&A as management hopes to improve geographic coverage and add capabilities to enhance the segment's service portfolio. Targets are typically acquired outside a process, as management's top priority is immediate accretion, aiming for ~$100 million transactions in the 5-6x EBITDA range, post-synergies (usually minimal).

Modular Solutions: addressing limited near-term headwinds

Modular's strong long-term tailwinds persist as the second round of Rapid Housing Initiative funding is now being allocated to municipalities and organizations, while social housing is expected to sit atop governmental priorities for years to come. Management reiterated a desire to diversify the business to reduce exposure to bureaucracy in terms of permitting & project approvals, and DXT continues to develop its manufacturing/supply-only business for U.S. customers. Though raw material cost inflation will likely weigh on margins in the short term due to fixed-price contracts, the headwind is expected to be mitigated by the speed at which construction begins after contract finalization, limiting the stretch of time over which inflation can erode expected profits.

WAFES: hot commodity environment

Despite the reliance of a portion of WA's revenues on projects with a natural end date, management reiterated the general stickiness of support services when executed well and made note of longstanding relationships with customers in the mining and energy space. Management is also bullish on the pipeline of project-based work in infrastructure, namely energy security and transmission as Canada continues its rollout of a greener agenda. Management notes that the hot commodity market will provide support to WAFES in 2022, but flags that it only represents a portion of the overall WAFES business.

Our $13.00 target is based on a sum-of-parts methodology ascribing multiples to 2023e EBITDA: 10x to IFM, 7x to WAFES, 11x to Modular and a 0.25x M&A growth premium equivalent to ~$105 million in incremental revenue added through M&A annually. In light of the company's numerous growth catalysts, attractive conversion of EBITDA to FCF following the pivot to an asset-light approach, and notable discount to peers, we rate DXT Outperform.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		910.1	45.0	20.21	12/2021	3.13	1.70	1.73	11.9	11.7	130.5	136.5	137.2	9.6	9.5	6.5%	2.9	27.00	
Boyd Group Services Inc.	BYD	SP		3,555.2	21.5	165.57	12/2021	1.30	1.64	4.43	83.6	30.9	219.5	265.9	367.0	14.7	10.6	0.3%	2.6	200.00	↓
Cascades	CAS	OP		1,304.4	101.7	12.82	12/2021	0.26	0.78	1.32	16.5	9.7	389.0	466.6	549.4	6.1	5.0	3.7%	2.5	18.00	
Dexterra Group Inc.	DXT	OP		511.5	65.1	7.86	12/2021	0.37	0.47	0.65	16.9	12.0	80.6	84.5	102.0	7.3	5.6	4.5%	0.7	13.00	↓
Doman Building Materials	DBM	OP		692.6	86.7	7.99	12/2021	1.34	1.44	0.82	5.5	9.7	225.6	251.4	178.5	5.1	6.4	7.0%	3.8	11.00	↓
GDI Integrated Facility Services	GDI	OP		1,243.4	23.0	54.00	12/2021	1.83	1.83	2.15	29.6	25.1	132.8	143.3	147.0	10.5	9.7	0.0%	2.1	70.50	
Hardwoods Distribution	HDI	OP		873.5	23.9	36.50	12/2021	4.77	4.60	4.10	6.3	6.6	195.2	234.4	218.1	6.0	6.0	1.3%	2.4	79.50	↑
Intertape Polymer Group Inc.	ITP	T		2,403.3	60.6	39.68	12/2021	1.96	2.03	2.32	15.7	13.7	247.1	269.7	289.3	8.8	8.2	2.1%	1.8	40.50	
KP Tissue	KPT	SP		109.3	9.9	11.05	12/2021	0.65	0.01	0.40	1666.9	28.0	153.4	180.8	229.9	9.7	8.1	6.5%	3.6	11.00	
Neighbourly Pharmacy Inc.	NBLY	SP		991.9	34.0	29.14	03/2021	(19.88)	(7.61)	0.23	nmf	126.7	35.1	47.4	101.2	22.8	13.4	0.6%	1.0	35.50	↑
Park Lawn Corporation	PLC	OP		1,192.4	34.5	34.58	12/2021	1.51	1.60	1.81	21.6	19.1	95.6	108.0	116.3	12.4	11.2	1.3%	1.6	45.00	↓
Richelieu Hardware	RCH	OP		2,576.0	56.6	45.54	11/2021	2.51	2.56	2.24	17.8	20.4	234.4	243.0	217.9	10.0	10.5	1.1%	0.2	53.50	
Savaria Corporation	SIS	OP		1,132.6	64.6	17.52	12/2021	0.54	0.71	1.00	24.5	17.6	100.3	127.6	145.6	11.5	9.8	2.9%	2.5	23.50	↓
Uni-Sélect	UNS	OP		1,335.3	43.8	30.50	12/2021	1.00	1.13	1.39	22.3	18.2	146.7	157.9	170.7	9.2	8.1	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

Sustainability & Clean Tech

Rupert Merer, P. ENG, CFA
Analyst
416-869-8008
—
Associates:
Louka Nadeau: 416-869-7538
Viveck Panjabi: 416-869-6763

Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed 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 United States and revival of nuclear, gas and coal-fired generation. However, we believe the renewable power sector should see support as rising power prices (inflation) and energy security concerns could drive growth in free cash flows. 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 guidance 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 5.50% 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 United States, 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 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 million 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. BLX could potentially benefit from sustained high power prices throughout 2022 and beyond over concerns of energy security. Our target is based on a long-term DCF with a 5.50% 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 2,820 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. In 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 from 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 5.50% 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 3-31	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		200.3	86	2.33	12/2021	0.06u	0.21u	0.26u	8.8	7.2	2.54u	3.22u	3.56u	0.6	0.5	0.93u	0.31	4.25	
Anaergia Inc.	ANRG	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Algonquin Power	AQN	OP		9730.0	672	14.48u	12/2021	0.71u	0.75u	0.75u	19.3	19.2	3.66u	4.08u	4.40u	3.5	3.3	10.99u	0.46	16.00u	↑
Altius Renewable Royalties Corp	ARR	OP		420.2	29	14.42	12/2021	(0.13)u	(0.03)u	0.06u	nmf	nmf	0.02u	0.10u	0.20u	nmf	58.1	0.62u	0.00	14.50	↑
Ballard Power Systems	BLDP	OP		3399.7u	298	11.42u	12/2021	(0.39)u	(0.50)u	(0.42)u	nmf	nmf	0.35u	0.38u	0.66u	30.0	17.3	4.46u	0.01	14.00u	↓
Boralex	BLX	OP		3827.3	103	37.01	12/2021	0.16	0.79	0.59	46.6	62.8	6.69	7.35	6.87	5.0	5.4	11.71	0.65	44.00	
Brookfield Renewable	BEP	OP		23192.8u	646	35.92u	12/2020	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	(0.63)u	(0.40)u	(0.15)u	nmf	nmf	1.73u	2.05u	2.40u	0.9	0.8	0.79u	0.35	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		3778.1	205	18.43	12/2020	(0.23)	(0.80)	0.66	nmf	27.9	3.60	4.09	4.13	4.5	4.5	7.64	0.74	23.00	
The Lion Electric Company	LEV	OP		1577.3u	196	8.05u	12/2021	(0.26)u	(0.29)u	(0.30)u	nmf	nmf	0.29u	1.01u	3.14u	8.0	2.6	1.88u	0.02	13.00u	
Loop Energy Inc	LPEN	OP		100.0	35	2.83	12/2021	(0.74)	(0.78)	(0.72)	nmf	nmf	0.04	0.31	0.53	9.2	5.3	2.23	0.01	8.50	↓
NanoXplore	GRA	OP		733.6	165	4.45	06/2021	(0.08)	(0.08)	0.03	nmf	nmf	0.46	0.53	0.76	8.4	5.8	0.74	0.17	10.00	
Next Hydrogen Solutions Inc.	NXH	SP		45.0	24	1.84	12/2021	(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		9130.7	227	40.30	12/2021	0.83	1.24	1.37	32.4	29.4	9.57	9.35	9.38	4.3	4.3	13.07	0.71	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	OP	↑	269.2	155	1.74	12/2021	(0.15)	(0.11)	(0.01)	nmf	nmf	0.82	1.30	1.61	1.3	1.1	2.03	0.22	3.25	↓

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Back to Research Analysts page

Sector Analysis

Technology

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

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

Selections

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

Still on Guard

As the first quarter of 2022 comes to a close, we're looking back to our expectations laid out in our Year Ahead 2022 report published on January 9, 2022. In that note, we explicitly highlighted our expectations for a continued sector rotation away from high-growth technology. We also offered a set of names to consider amid that rotation and while not all of those have proved to have positive returns year to date, the collective names we highlighted have outperformed meaningfully relative to the benchmark S&P / TSX Information Technology Index with a YTD return of -7.6% vs. the aforementioned Index which is down -34.0%. Globally, despite the recent run – Tech has also taken a hit with the S&P Technology Index down 7.1% vs. the S&P which is down 3.6%. The question once again is – what now? Given the continued macro backdrop, we're sticking to our view highlighted in the above noted Year Ahead. We still believe there are opportunities in our high-growth names; however, we'd stress that many of those names will require a longer-term view as many remain early in their life cycles. In the short term, we continue to believe investors should have a balance of names with defensive attributes (CGI, OpenText) and opportunistically add (on pullbacks) in select growth names. Below is a summary of a few select 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 billion in capital on acquisitions this fiscal year, that will only expand 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's pipeline has increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high-growth verticals such as online regulated gaming is helping drive outsized growth as a whole for the Company. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's further supported by structural changes in the payments industry (e.g., cashless casinos).
- **Magnet Forensics.** We believe Magnet Forensics is an early leader in the Digital Forensics market with a suite of competitive offerings to target both the public and enterprise clients. The quality of its business model is further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%, well above the 40% threshold given the Company's strong top-line growth paired with a healthy margin. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.
- **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 3/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,174	44.6	48.71	2021	1.90	2.20	3.34	22.1	14.6	109.8	142.8	174.0	16.9	13.8	13.2	33%	70.00	
Blackline Safety Corp.*	BLN	OP		298	60.3	4.94	2021	(0.51)	(0.71)	(0.41)	NMF	NMF	(9.9)	(19.6)	(3.4)	NMF	NMF	1.0	0%	9.00	↓
CGI Inc.	GIB.A	OP		24,916	246.8	100.95	2021	5.41	6.04	6.37	16.7	15.8	2462.7	2604.2	2709.2	10.3	9.9	28.2	31%	135.00	
Constellation Software Inc.	CSU	SP		44,879	21.2	2,117.79	2021	47.38u	54.59u	65.37u	31.0	25.9	1,511.0u	1,713.4u	1,945.1u	21.1	18.6	71.8u	42%	2350.00	
Coveo Solutions Inc.	CVO	OP		1,205	112.6	10.70	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		2,050	32.9	62.23	2021	(0.31u)	(0.11u)	0.26u	NMF	NMF	(8.0u)	(1.4u)	9.8u	NMF	NMF	190.7u	0%	85.00u	
D2L Inc.	DTOL	OP		790	60.6	13.05	2022	(0.07u)	(0.31u)	(0.09u)	NMF	NMF	0.2u	(13.1u)	0.0u	NMF	NMF	1.1u	0%	20.00	
E Automotive Inc.	EINC	OP		580	43.0	13.50	2021	(0.65u)	(0.53u)	(0.61u)	NMF	NMF	(7.9u)	(15.1u)	(15.5u)	NMF	NMF	3.5u	0%	21.50	
Farmers Edge Inc.	FDGE	SP		109	41.9	2.60	2021	(1.81)	(1.51)	(1.29)	NMF	NMF	(49.9)	(53.4)	(48.2)	NMF	NMF	2.48	1%	3.00	↓
Kinaxis Inc.	KXS	OP		4,537	27.4	165.74	2021	0.57u	1.25u	1.76u	NMF	NMF	39.9u	61.0u	78.4u	55.6	NMF	11.7u	0%	225.00	
Lightspeed Commerce Inc.	LSPD	OP		4,306u	148.2	29.06u	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		1,168	42.6	27.44	2021	0.28u	0.21u	0.28u	NMF	NMF	18.6u	13.7u	17.6u	59.7	NMF	2.1u	2%	50.00	
mdf commerce inc.	MDF	SP		144	44.0	3.27	2021	(0.30)	(0.36)	(0.06)	NMF	NMF	5.1	(1.0)	9.2	NMF	17.8	7.52	13%	5.00	
Nuvei Corporation	NVEI	OP		10,447u	147.6	70.76u	2021	1.70u	2.21u	3.14u	32.0	22.5	317.2u	419.7u	594.8u	24.3	17.2	13.7u	20%	130.00u	
Open Text Corporation	OTEX	OP		11,687u	272.9	42.82u	2021	3.39u	3.25u	3.62u	13.2	11.8	1,315.2u	1,286.0u	1,406.6u	11.2	10.2	15.1u	51%	60.00u	
Pivotree Inc.*	PVT	OP		114	26.7	4.26	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		209	42.7	4.90	2021	2.13u	(0.75u)	(0.71u)	NMF	NMF	(13.6u)	(28.0u)	(26.5u)	NMF	NMF	1.8u	0%	12.00	
Real Matters Inc.	REAL	SP		427	79.8	5.35	2021	0.48u	0.23u	0.38u	18.5	11.3	59.2u	28.6u	44.0u	9.4	6.1	2.0u	0%	8.00	
Shopify Inc.	SHOP	OP		88,216u	125.7	701.60u	2021	6.42u	7.68u	10.64u	NMF	NMF	732.0u	939.2u	1,368.4u	86.8	59.6	88.5u	9%	1,500.00u	
Softchoice Corp*	SFTC	SP		1,681	63.2	26.58	2021	0.57u	1.02u	1.28u	26.0	20.8	67.0u	98.3u	117.6u	17.8	14.8	0.8u	57%	30.00	
Tecsys Inc*	TCS	OP		486	15.0	32.48	2021	0.49	0.19	0.65	NMF	49.8	16.2	11.2	18.7	42.7	25.6	4.49	11%	55.00	↓
Telus International	TIXT	OP		6,870u	269.0	25.54u	2021	1.00u	1.20u	1.40u	NMF	NMF	540.0u	620.3u	755.2u	12.7	10.5	6.2u	41%	50.00u	
Thinkific Labs Inc.	THNC	OP		188	77.2	3.05	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	6.00	↓

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

Sector Analysis

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

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

Selections

- *Cineplex*
- *Spin Master*
- *Rogers*

VerticalScop

Looking beyond tough 1Q comp for better organic growth and more M&A:

The company was clear during disclosures last year that e-commerce faced its final difficult COVID comp in 1Q22. It also noted with its 4Q21 reporting that 1Q22 organic MAU would be around -4% with net gains due to M&A. Given the lingering effects of Omicron, ongoing supply chain issues and the geopolitical backdrop, we opted to move our 1Q estimates down in a recent note post-marketing. Looking at our revised annual estimates, we modestly reduced revenues each year by around $1 million to $2 million and Adj. EBITDA by roughly $3 million (tech cost inflation and evolving FORA migrations), as we look for 2022E and 2023E margins of 45.4% and 50.1% with incremental expansion thereafter. E-commerce was showing signs of growth already in March, as FORA looks ahead post-1Q to deliver on its targeted ~10% organic gains to be complemented by 2021 M&A and a resumption of acquisition spending at roughly $15 million to $20 million per quarter. Threadloom losses at the time of purchase last November should give way to breakeven by the end of 2022. While advertising gains are expected to steadily evolve, management is making a greater push on e-commerce. The FORA app is expected to debut in beta mode in 2Q and should help with MAU growth, engagement, and the cross-promotion of communities. Threadloom expertise is being tapped to focus on expanding the Fora platform and leveraging its capabilities in user engagement, product recommendations and social shopping experiences. Threadloom expertise has already permeated several dozen communities. Meanwhile, an initial Marketplaces offering is now available in over 500 communities with e-commerce links established for more than $1.6 billion of listed product value. The company completed 21 acquisitions in 2021, with 13 in 4Q. With its 3Q reporting in mid-November, FORA announced the purchase of HomeTalk, thestreamable.com, and Threadloom. It bought ProBoards.com in October. Closing out 4Q, another 9 acquisitions were made of small communities. Ex earnouts, the acquisitions in 2021 were done for a total consideration of $110 million which exceeded the targeted deployment timing of net IPO proceeds raised last summer. The purchases generate total Adj. EBITDA in the range of $10 million to $14 million at a margin of ~50%. Our target is based on the average of the value derived by applying 11x EV/EBITDA to 2023E PF M&A and 2022E DCF.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 3/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		849	63.3	13.41	12/2021	(3.93)	0.70	1.95	19.2	6.9	-84.3	157.6	243.5	9.8	5.8	-3.47	1.45	19.00	
Corus Entertainment Inc.	CJR.b	OP		1,025	208.4	4.92	08/2021	0.88	0.79	0.89	6.2	5.5	524.6	497.0	514.7	5.0	4.4	5.50	0.55	6.50	↓
WildBrain Ltd.	WILD	OP		576	172.9	3.33	06/2021	(0.07)	(0.05)	0.16	-67.6	21.4	83.1	92.0	107.4	11.4	9.4	0.33	0.88	5.00	
Spin Master Corp.	TOY	OP		4,408	102.4	43.05	12/2021	2.10	2.22	2.36	15.5	14.6	414.1	418.3	437.9	6.6	5.7	10.28	-1.15	66.00	
Stingray Group Inc.	RAY.a	OP		509	70.1	7.26	03/2021	0.85	0.83	0.96	8.8	7.5	114.3	103.4	122.4	8.4	7.4	4.00	0.63	8.50	
TVA Group Inc.	TVA.b	SP		144	43.2	3.34	12/2021	0.79	0.83	0.91	4.0	3.7	80.3	79.9	82.8	1.9	1.6	8.78	0.04	3.50	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	OP		65,992	486.2	135.73	12/2021	1.95	2.42	3.36	44.9	32.4	1970.0	2317.9	2800.0	24.0	19.5	28.45	0.19	162.00	
Transcontinental Inc.	TCL.a	OP		1,518	86.9	17.47	10/2021	2.37	2.23	2.48	7.8	7.1	454.9	441.3	464.2	5.5	4.9	20.61	0.37	24.50	↓
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		415	21.3	19.49	12/2021	(0.59)	0.53	0.92	NM	21.1	29.0	43.4	56.7	9.2	7.4	4.52	0.40	34.00	↓
Yellow Pages Ltd.	Y	SP		367	27.7	13.24	12/2021	3.02	1.92	1.80	6.9	7.3	102.0	90.8	82.6	2.4	2.3	NM	-0.38	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		62,994	909.0	69.30	12/2021	3.19	3.36	3.61	20.6	19.2	9893.0	10270.6	10627.0	9.3	8.9	20.47	0.39	71.00	
Cogeco Communications Inc.	CCA	OP		4,819	46.6	103.48	08/2021	8.43	9.01	9.79	11.5	10.6	1205.7	1380.1	1426.9	6.4	6.0	61.46	0.60	141.00	
Quebecor Inc.	QBR.b	OP		7,140	239.6	29.80	12/2021	2.52	2.67	2.80	11.2	10.7	1973.2	2022.9	2076.1	6.4	6.1	5.24	0.85	37.00	
Rogers Communications Inc.	RCI.b	OP		35,729	504.9	70.76	12/2021	3.56	3.90	4.87	18.1	14.5	5887.0	7468.8	9118.6	9.4	7.9	20.86	0.48	77.00	↑
Shaw Communications	SJR.b	OP		19,439	501.0	38.80	08/2021	1.60	1.60	1.65	24.3	23.5	2500.0	2564.9	2604.9	9.7	9.3	12.24	0.48	40.50	
Telus Corp.	T	OP		44,744	1370.0	32.66	12/2021	1.23	1.14	1.36	28.6	24.1	6290.0	6452.6	7022.6	10.1	9.2	11.72	0.58	36.00	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
Source: Bloomberg, Refinitiv and NBF estimates

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

Sector Analysis

Transportation & Industrial Products

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

Selections

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

BRP continues to deliver growth

BRP Inc. (Outperform, $136.00 target) shares have benefited from a strong industry backdrop and solid execution, and we see upside in the coming years supported by the following factors:

Retail demand still looks positive.

Given higher energy costs, rising interest rates and geopolitical uncertainty, concerns over a potential slowdown in powersports demand have risen in recent months. However, BRP is not seeing any signs of weakening demand, noting that its February North American retail sales were the best for the month on record. Furthermore, BRP's pre-season PWC commitments are up more than 25% compared to the record last year while snowmobile spring unit bookings are up over 100% versus last year's record.

Visibility for F2023 and beyond looks good.

BRP is guiding for F2023 revenue to be up 24-29% with EPS up 8-12%, but even if retail slows, we note that BRP's dealer inventory is still down 60% versus two years ago which will drive inventory restocking demand starting late in F2023 or early F2024, depending on the normalization of supply chains.

Aggressive new product rollout to drive further market share gains.

Q4 retail sales for BRP were down 7% y/y due to lack of unit availability at the dealer level as well as tough comparisons. This decline was nevertheless better than the industry where retail was down low-teens percentage, pointing to market share gains. Management estimates that it gained ~3% market share in the broader powersports industry last year and has gained 10% share over the past six years, and we believe these share gains can continue as BRP has an aggressive new product rollout plan.

New EV motorcycle a new revenue growth driver.

BRP also announced it is launching a new all-electric 2-wheel motorcycle with first deliveries planned for 2024. Entering this market segment makes sense for BRP in our view as the company already has a successful 3-wheel on-road franchise, a strong brand, an established dealer network and large manufacturing footprint. The company can also leverage the same EV/battery technology, which it is developing in-house, across its entire product portfolio, giving it a cost advantage over other EV motorcycle players. Management believes that ultimately, the EV motorcycle can be at least a $500 million annual revenue business.

Returning cash to shareholders.

BRP has a successful track record of returning cash to shareholders, and that will continue this year as the company has increased its dividend by 23% and announced another substantial issuer bid for $250 million worth of stock. We expect BRP to generate strong free cash flow over the next two years, so we anticipate the company will also be active with its NCIB (2.8 million share still available to repurchase under current authorization).

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 3-31	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	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	24.25	8,677	12/2021	-10.25	-1.56	2.04	NA	11.9x	(1464)	1560	3303	10.5x	5.0x	100%	29.00	
Bombardier Inc.	BBD.b	OP		2463	1.44	3,547	12/2021	-u0.08	-u0.08	u0.02	NA	72.0x	u641	u855	u1072	10.0x	8.0x	na	2.65	
BRP Inc.	DOO	OP		84	102.36	8,567	01/2022	9.92	10.81	11.33	9.5x	9.0x	1462	1624	1691	6.5x	6.2x	107%	136.00	↑
CAE Inc.	CAE	OP		319	32.54	10,371	03/2021	0.47	0.74	1.16	44.1x	28.2x	492	723	977	25.8x	13.0x	37%	44.00	
Canadian National Rail	CNR	SP		707	167.70	118,631	12/2021	5.95	7.11	7.83	23.6x	21.4x	9.81	9.94	11.11	15.6x	14.5x	34%	172.00	
Canadian Pacific Rail	CP	SP		930	103.18	95,957	12/2021	3.76	3.84	4.65	26.9x	22.2x	5.41	3.43	6.41	25.8x	15.5x	37%	98.00	
Cargojet Inc.	CJT	SP		18	190.08	3,399	12/2021	9.36	7.25	8.03	26.2x	23.7x	293	332	365	11.2x	10.2x	31%	199.00	↓
Chorus Aviation Inc.	CHR	SP		174	4.23	734	12/2021	0.37	0.42	0.52	10.0x	8.2x	272	336	363	7.3x	6.8x	72%	4.65	
Exchange Income Corporation	EIF	OP		38	42.78	1,614	12/2021	2.26	2.25	2.82	19.0x	15.2x	330	364	405	7.7x	6.9x	58%	51.00	
Héroux-Devtek Inc.	HRX	OP		36	17.09	611	03/2021	0.80	0.80	1.02	21.4x	16.8x	88	83	97	9.2x	7.9x	27%	26.00	
NFI Group Inc.	NFI	OP		77	15.94	1,229	12/2020	-u0.17	-u0.48	u0.59	na	21.7x	164	102	224	18.2x	8.3x	43%	19.00	↓
Taiga Motors Corp.	TAIG	OP		31	5.18	163	12/2021	-5.72	-1.39	-1.82	NA	NA	(22)	(37)	(25)	na	na	na	12.00	↓
Transat A.T. Inc.	TRZ	UP		38	5.09	192	10/2021	-11.83	-5.28	-1.07	NA	NA	(214)	9	195	161.5x	7.5x	NA	4.00	↑
TFI International Inc.	TFII	OP		93	133.15	12,339	12/2021	u5.23	u6.46	u7.43	16.5x	14.3x	1051	1302	1417	9.1x	8.4x	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

Back to Research Analysts page

Alphabetical Listing

5N Plus	VNP	59
ABC Technologies	ABCT	44
AbraSilver Resource Corp	ABRA	50
Advantage Oil & Gas	AAV	52
Adventus Mining	ADZN	48
Aecon Group	ARE	44
Ag Growth International Inc.	AFN	41
Agnico-Eagle Mines Ltd	AEM	50
Air Canada	AC	63
Akumin	AKU	43
Alamos Gold Inc	AGI	50
Alaris Equity Partners Income Trust	AD	57
Algonquin Power	AQN	59
Alio Gold Inc.	ALO	50
Allied Properties REIT	AP.un	56
AltaGas	ALA	54
AltaGas Canada Inc.	ACI	54
Altius Renewable Royalties Corp	ARR	59
Altus Group Limited	AIF	61
American Hotel Income Properties	HOT.un	56
Anaergia Inc.	ANRG	59
Andlauer Healthcare Group	AND	43
ARC Resources Ltd.	ARX	52
Argonaut Gold Inc.	AR	50
Artemis Gold Inc.	ARTG	50
Artis REIT	AX.un	56
ATCO Ltd.	ACO	54
ATS Automation	ATA	44
AuRico Metals Inc	AMI.TO	50
AutoCanada	ACQ	44
Automotive Properties REIT	APR.un	56
Aya Gold and Silver	AYA	50
B2Gold	BTO	50
Ballard Power Systems	BLDP	59
Bank of Montreal	BMO	38
Bank of Nova Scotia	BNS	38
Barrick Gold	ABX	50
Barsele Minerals Corp.	BME	50
Baytex Energy	BTE	52
BCE Inc.	BCE	62
Birchcliff Energy	BIR	52
Bird Construction Inc.	BDT	44
Blackline Safety Corp.*	BLN	61
Bluestone Resources Inc.	BSR	50
Boardwalk REIT	BEI.un	56
Bombardier Inc.	BBD.b	63
Boralex	BLX	59
Boyd Group Services Inc.	BYD	57
Brookfield Business Partners	BBU	40
Brookfield Infrastructure (1)	BIP	54
Brookfield Renewable	BEP	59
BRP Inc.	DOO	63
BSR REIT	HOM.un	56
BTB REIT	BTB.un	56
CAE Inc.	CAE	63
Canadian National Rail	CNR	63
Canadian Natural Resources	CNQ	52
Canadian Pacific Rail	CP	63
Canadian Tire	CTC.a	46
Canadian Utilities	CU	54
Canadian Western Bank	CWB	38
CAP REIT	CAR.un	56
Capital Power	CPX	54
Capstone Copper	CS	48
Cargojet Inc.	CJT	63
Cascades	CAS	57
Cenovus Energy	CVE	52
Centerra Gold Inc	CG	50
CES Energy Solutions Corp.	CEU	41
CGI Inc.	GIB.A	61
Chartwell Retirement Residences	CSH.un	56
Chemtrade Logistics Income Fund	CHE.UN	43
Choice Properties REIT	CHP.un	56
Chorus Aviation Inc.	CHR	63
CIBC	CM	38
Cineplex Inc.	CGX	62
Cogeco Communications Inc.	CCA	62
Colliers International	CIGI	44
Constellation Software Inc.	CSU	61
Copper Mountain Mining	CMMC	48
Corus Entertainment Inc.	CJR.b	62
Couche Tard	ATD.b	46
Coveo Solutions Inc.	CVO	61
Crescent Point Energy Corp.	CPG	52
Crew Energy	CR	52
Crombie REIT	CRR.un	56
CT REIT	CRT.un	56
D2L Inc.	DTOL	61
Definity Financial Corp.	DFY	40
Dexterra Group Inc.	DXT	57
Dialogue Health Technologies	CARE	43
DIRTT Environmental Solutions	DRT	59
Docebo Inc.	DCBO	61
Dollarama	DOL	46
Doman Building Materials	DBM	57
DREAM Industrial REIT	DIR.un	56
DREAM Office REIT	D.un	56
DRI Healthcare Trust	DHT.UT	43
Dundee Precious Metals	DPM	50
E Automotive Inc.	EINC	61
ECN Capital	ECN	40
Eldorado Gold Corp	ELD	50
Element Fleet Management	EFN	40
Emera Inc.	EMA	54
Empire Company	EMP.a	46
Enbridge Inc.	ENB	54
Enbridge Income Fund	ENF	54
Endeavour Mining	EDV	50
Enerflex Ltd.	EFX	41
Enerplus Corporation	ERF	52
Equinox Gold Corp	EQX	50
Equitable Group	EQB	40
ERES REIT	ERE.un	56
Ero Copper	ERO	48
Exchange Income Corporation	EIF	63
Extendicare	EXE	56
Fairfax Financial Holdings	FFH	40
Falco Resources Ltd.	FPC	50
Farmers Edge Inc.	FDGE	61
Fiera Capital Corp.	FSZ	40
Filo Mining	FIL	48
Finning International Inc.	FTT	44
First Capital REIT	FCR	56
First Majestic Silver Corp	FR	50
First National Financial	FN	40
First Quantum Minerals	FM	48
Flagship Communities REIT	MHCu.TO	56
Foran Mining	FOM.V	48
Fortis Inc.	FTS	54
Fortuna Silver Mines Inc	FVI	50
Franco-Nevada Corp	FNV	50
Freehold Royalties	FRU	52
G Mining Ventures	GMIN	50
GDI Integrated Facility Services	GDI	57
GFL Environmental Inc.	GFL	59
Gibson Energy	GEI	54
Gildan	GIL	46
goeasy	GSY	40
Gold Standard Ventures Corp.	GSV	50
good natured Products Inc.	GDNP	41
Goodfood Market	FOOD	46
Granite REIT	GRT.un	56
Great-West Lifeco	GWO	38
Green Impact Partners Inc.	GIP	41
H&R REIT	HR.un	56
H2O Innovation	HEO	43
Hardwoods Distribution	HDI	57
Headwater Exploration	HWX	52
Héroux-Devtek Inc.	HRX	63
Home Capital Group	HCG	40
Hudbay Minerals	HBM	48
Hydro One Ltd.	H	54
iA Financial	IAG	38
IAMGOLD Corp	IMG	50
IBI Group Inc.	IBG	44
IGM Financial Inc.	IGM	40
Imperial Oil	IMO	52
IMV Inc.	IMV	43
Innergex	INE	59
Inovalis REIT	INO.un	56
Intact Financial Corp.	IFC	40
Integra Resources Corp.	ITR	50
Inter Pipeline	IPL	54
InterRent REIT	IIP.un	56
Intertape Polymer Group Inc.	ITP	57
Invesque	IVQu	56
Jamieson Wellness	JWEL	43
Josemaria Resources	JOSE	48
K92 Mining Inc.	KNT	50
K-Bro Linen	KBL	43
Kelt Exploration	KEL	52
Keyera	KEY	54
Killam Apartment REIT	KMP.un	56
Kinaxis Inc.	KXS	61
Kinross Gold Corp	K	50
Knight Therapeutics	GUD	43
KP Tissue	KPT	57
Lassonde	LAS.a	46
Laurentian Bank	LB	38
Liberty Gold Corp	LGD	50
LifeWorks Inc.	LWRK	40
Lightspeed Commerce Inc.	LSPD	61
Lithium Americas	LAC	48
Loblaw	L	46
Loop Energy Inc	LPEN	59
Lundin Gold Inc.	LUG	50
Lundin Mining	LUN	48
MAG Silver Corp	MAG	50
Magnet Forensics Inc.*	MAGT	61
Manulife Financial	MFC	38
Marathon Gold Corp.	MOZ	50
Maverix Metals Inc	MMX	50
mdf commerce inc.	MDF	61
Medical Facilities Corp.	DR	43
MEG Energy	MEG	52
Metro	MRU	46
Minera Alamos Inc.	MAI	50
Minto Apartment REIT	MI.un	56
MTY Food Group	MTY	46
Mullen Group Ltd.	MTL	41
NanoXplore	GRA	59
National Bank	NA	38
National Energy Services Reunited	NESR	52
Neighbourly Pharmacy Inc.	NBLY	57
New Gold Inc	NGD	50
Newmont	NGT	50
Next Hydrogen Solutions Inc.	NXH	59
Nexus Industrial REIT	NXR.un	56
NFI Group Inc.	NFI	63
North American Construction Group Ltd.	NOA	44
Northland Power	NPI	59
NorthWest H.P. REIT	NWH.un	56
Nuvei Corporation	NVEI	61
NuVista Energy	NVA	52
NYX Gaming	NYX	62
O3 Mining Inc.	OIII	50
OceanaGold Corp	OGC	50
Open Text Corporation	OTEX	61
Osisko Development	ODV	50
Osisko Gold Royalties Ltd	OR	50
Osisko Mining	OSK	50
Ovintiv Inc (US$)	OVV	52
Pan American Silver	PAAS	50
Paramount Resources	POU	52
Park Lawn Corporation	PLC	57
Parkland Fuel Corporation	PKI	46
Pason Systems Corp.	PSI	41
Pembina Pipelines	PPL	54
Pet Valu	PET	46
PetroShale	PSH	52
Peyto Exploration & Development	PEY	52
Pipestone Energy	PIPE	52
Pivotree Inc.*	PVT	61
Power Corporation of Canada	POW	40
PrarieSky Royalty	PSK	52
Precision Drilling Corp.	PD	52
Premium Brands Holdings	PBH	46
Pretium Resources	PVG	50
Pure Gold Mining Inc.	PGM	50
Q4 Inc.	QFOR	61
Quebecor Inc.	QBR.b	62
Real Matters Inc.	REAL	61
Richelieu Hardware	RCH	57
RioCan REIT	REI.un	56
Ritchie Bros. Auctioneers	RBA	44
Rogers Communications Inc.	RCI.b	62
Rogers Sugar	RSI	43
Royal Bank of Canada	RY	38
Royal Gold Inc	RGLD	50
Sabina Gold and Silver Corp.	SBB	50
Sandstorm Gold Ltd	SSL	50
Saputo	SAP	46
Savaria Corporation	SIS	57
Secure Energy	SES	54
Shaw Communications	SJR.b	62
Shawcor Ltd.	SCL	41
Sherritt International	S	48
Shopify Inc.	SHOP	61
Sienna Senior Living	SIA	56
Sigma Lithium	SGML	48
Slate Office REIT	SOT.un	56
Sleep Country Canada	ZZZ	46
SmartCentres REIT	SRU.un	56
SNC-Lavalin	SNC	44
Softchoice Corp*	SFTC	61
Spartan Delta	SDE	52
Spin Master Corp.	TOY	62
SSR Mining Inc	SSRM	50
Stantec Inc.	STN	44
Stelco	STLC	44
Stella-Jones	SJ	44
Stingray Group Inc.	RAY.a	62
StorageVault Canada	SVI.V	56
Summit Industrial	SMU.un	56
Sun Life Financial	SLF	38
Suncor Energy	SU	52
Superior Plus	SPB	54
Surge Energy	SGY	52
Taiga Motors Corp.	TAIG	63
Tamarack Valley Energy	TVE	52
Taseko Mines	TKO	48
TC Energy Corp.	TRP	54
Teck Resources	TECKb	48
Tecsys Inc*	TCS	61
Telus Corp.	T	62
Telus International	TIXT	61
Tervita	TEV	54
TFI International Inc.	TFII	63
The Lion Electric Company	LEV	59
Theratechnologies	TH	43
Thinkific Labs Inc.	THNC	61
Thomson Reuters Corp.	TRI	62
Tidewater Midstream	TWM	54
Tidewater Renewables	LCFS	54
Timbercreek Financial	TF	40
TMX Group	X	40
Topaz Energy	TPZ	52
Torex Gold Resources Inc	TXG	50
Toromont Industries Ltd.	TIH	44
Toronto-Dominion Bank	TD	38
Tourmaline Oil	TOU	52
TransAlta	TA	54
TransAlta Renewables	RNW	59
Transat A.T. Inc.	TRZ	63
Transcontinental Inc.	TCL.a	62
Trevali Mining	TV	48
Trican Well Services	TCW	52
Tricon Capital Group	TCN	56
Trilogy Metals	TMQ	48
Triple Flag Precious Metals Corp	TFPM	50
Trisura Group Ltd.	TSU	40
True North Commercial REIT	TNT.un	56
TVA Group Inc.	TVA.b	62
Uni-Sélect	UNS	57
Veresen Inc.	VSN	54
Vermilion Energy Inc.	VET	52
VerticalScope Holdings Inc.	FORA	62
Wesdome Corp.	WDO	50
Wheaton Precious Metals Corp	WPM	50
Whitecap Resources	WCP	52
WildBrain Ltd.	WILD	62
WSP Global	WSP	44
Xebec Adsorption	XBC	59
Yamana Gold Inc	YRI	50
Yangarra Resources	YGR	52
Yellow Pages Ltd.	Y	62

Branches

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

International

NBF Securities UK

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

New York

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

National Bank of Canada Financial Inc.

New York

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

Member of

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

Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
(Toll-Free)

1-800-678-7155

This Report was prepared by National Bank Financial Inc. (NBF), a Canadian investment dealer, a dealer member of IIROC and an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial Inc. and National Bank of Canada Financial Inc.

Research analysts: The Research Analyst(s) who prepared these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents: NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and, as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent, lender or underwriter or provides trading related services for certain issuers mentioned herein and may receive remuneration for its services. As well, NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

NBF is a member of the Canadian Investor Protection Fund.

UK Residents: This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorized and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorized by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents: With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") is registered with the Securities Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and is a member of the Securities Investor Protection Corporation (SIPC). NBCFI operates pursuant to a 15 a-6 Agreement with its Canadian affiliates, NBF and National Bank of Canada.

This report has been prepared in whole or in part by research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held in a research analyst account.

All of the views expressed in this research report accurately reflects the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication.

Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

HK Residents: With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc., is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

NATIONAL BANK OF CANADA
FINANCIAL MARKETS