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VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

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› Two years after its first detection in China, the Covid-19 virus turns out to have lots more to say. Just as mass vaccination campaigns seemed on the point of taking the pandemic into an endemic phase, the Omicron variant threatens to slow (or derail) the global economic recovery. At this point, while recognizing the great shortage of data, we think it is reasonable to assume effects similar to those of the Delta variant. In the developed countries, public health measures are likely to remain fairly limited, especially if vaccine booster doses are rapidly administered. Where measures are imposed, they will have less effect on GDP than in previous waves, since many businesses and individuals have now learned to handle distancing rules. Emerging economies, on the other hand, are behind in vaccinations and could be subject to serious outbreaks. If that were to happen in major exporting countries, current supply problems could be prolonged. That would maintain upward pressure on prices, especially if new virus outbreaks were to slow the rebalancing toward services of household spending in rich countries. Pending further information, we are leaving unchanged our global growth outlooks for 2021 and 2022. We recognize that the recent increase in downside risks to this scenario make adjustments likely in our next issue of this Monitor.

› For several months now inflation has been a major topic in the U.S. section of this monthly publication. And for good reason. Twelve-month CPI inflation rose to 6.8% in November, the highest rate since March 1982. Unsurprising, the vigour of inflation is affecting the morale of households. In November the Michigan consumer confidence index was at a decade low. The share of respondents expecting their income to grow faster than inflation in the next 12 to 24 months was 17%, the lowest in almost seven years. Does that mean consumer spending is about to collapse? We think not. Households are still in a highly enviable position financially. The labour market, meanwhile, continues to recover. So the holiday period – as well as Q4 as a whole – is looking solid. The longer-term outlook is also promising, though a tightening of monetary policy could temper growth next year in the sectors most exposed to interest rates (business investment, real estate). As previously noted, we expect three Fed rate hikes in 2022. Given this backdrop and the upgrading of our growth outlook for Q4, we are revising our forward growth forecasts up slightly from those of last month. We now expect growth of 5.6% in 2021 and 3.5% in 2022. These predictions assume that the Omicron variant will have a relatively small impact on growth (limited to Q1). Obviously, we will closely monitor the development of the health situation.

› In Canada, though growth in the third quarter was stronger than expected and the fourth quarter is looking auspicious in the light of spectacular employment gains, StatCan revisions to results for previous quarters prompt us to revise down our outlook for 2021 growth, from 4.9% to 4.6%. Our outlook for 2022, on the other hand, is revised up 0.3 points, to 4.1%, because of a stronger handoff and stronger budget inclinations than we previously saw, especially in Ontario and Quebec. The recovery of the labour market and the resulting growth of incomes suggests that households are ready to move ahead on their own steam without extraordinary government assistance. In addition, they will be able to deploy their substantial accumulated liquidity to soften the shock of price rises, among other ends. This scenario assumes, of course, that the effect on the economy of the Omicron variant will be relatively benign and that supply-chain problems will not worsen further.

Interest rates and currency

› To us, 2022 will be the 'Year of the Hike', in North America and perhaps a few additional corners of the globe, as central bankers bleed excessive stimulus from increasingly overheated economies in an attempt to maintain their 'price stability' bona fides. They're arguably starting late, which may require a quicker tempo (at least initially). But as in tightening cycles past, we'll be seeing the dampening influence of rate hikes in reasonably short order, the monetary policy transmission mechanism likely to work well, at least on the way up.

› Assuming an accelerated taper at December's meeting, the Fed will be in position to deliver its first hike as early as June of next year, with forecasted strength in the U.S. economy and still-steamy inflation at the mid-point of next year giving enough FOMC members the courage to act. The upcoming 'dots' should reinforce this view. After delivering three hikes in 2022, we see the Fed catching up to and modestly overtaking the BoC target rate before 2023 is over.

› An earlier taper and relatively firmer labour market continue to leave the Bank of Canada in a position to front-run the FOMC on rate hikes, although the terminal rate could well be lower north of the border, owing to relatively greater exposure to interest-sensitive sectors. We see the first of what could be five 2022 BoC rate hike arriving March, a call conditioned (as it must be) on the virus situation. Canada's normalization exercise, at least via the target rate, could well be over in 15 months, a sixth and final hike to 1.75% accomplished before mid-2023.

› After a strong start to the quarter, the Canadian dollar is now down 1% against the USD in Q4. On the domestic front, growth is robust, employment is strong, public finances are improving at a rapid pace, quantitative easing has already ended, and inflation is high enough to warrant multiple rate hikes in 2022. We view CAD as fundamentally undervalued and see scope for a rally over the coming months, assuming (and this is key) the new COVID strain does not wholly undercut investor confidence. For now, we remain comfortable with our current forecast calling for a rate of C$1.20 for the U.S. dollar in 2022.

Recommended asset mix and stock market

› Equity markets have been struggling in recent weeks with the advent of a new coronavirus variant named Omicron. Emerging markets have been particularly hard-hit by this news and show little to no growth so far in Q4. How the new variant will shape the pandemic is not yet clear. All eyes are now on hospitals, where researchers hope to confirm that Omicron can be controlled or defeated without too much collateral economic damage.

› At this writing the global economy remains relatively robust. This backdrop remains favourable to corporate profits. Volume sales are still on the rise and pricing power is good. Equity markets have also been supported by the persistence of negative real interest rates, which keep the equity risk premium essentially in line with its average of the past five years. At this

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writing, we expect real interest rates to remain negative through much of next year.

- That's not to say equity markets won't become more volatile. As labour markets continue to recover, we think 2022 will be the Year of the Hike in North America and perhaps a few other corners of the globe. Though the U.S. yield curve bears watching, so does financial stress in emerging markets. The latter has recently risen to a multi-month high.
- Even after retreating from its November record high, the S&P/ TSX remains up 4.3% so far in Q4. Industrials, Financials, Materials and Real Estate are the top performers so far in the quarter. Despite earnings forecasts that continue to be revised upward as Canada benefits from enviable demographics, record employment and high commodity prices, the S&P/TSX is still trading at a relatively low P/E of 14.5 times forward earnings vs. more than 21.2 for the S&P 500. The widening gap can be explained by the especially large do¬mestic divestment of Canadian equities of the past year. Canada's large pension funds have contributed substantially to this development.
- Our asset allocation is unchanged this month: underweight in fixed income and overweight in equities with a preference for value over growth stocks given our expectation of rising long-term interest rates and yield-curve slope. Although tapering of quantitative easing is expected to accelerate, we doubt that monetary policy will become restrictive any time soon.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	12.9	Overweight	
Materials	11.3	Overweight	
Industrials	11.7	Market Weight	
Consumer Discretionary	3.6	Market Weight	
Consumer Staples	3.7	Market Weight	
Healthcare	0.8	Market Weight	
Financials	32.5	Market Weight	
Information Technology	11.2	Underweight	
Telecommunication Services	4.8	Market Weight	
Utilities	4.4	Underweight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of December 10, 2021

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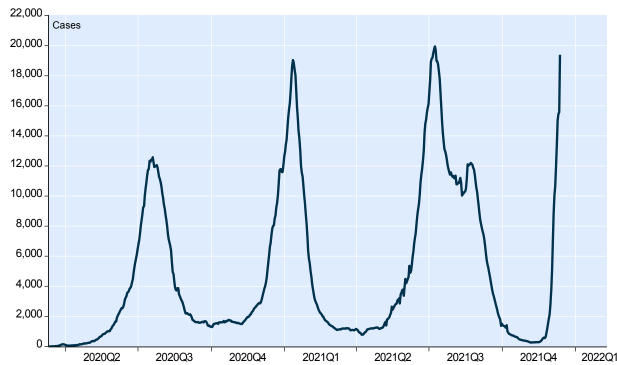
World: The Omicron threat

Two years after its first detection in China, the Covid-19 virus turns out to have lots more to say. Just as mass vaccination campaigns seemed on the point of taking the pandemic into an endemic phase, the Omicron variant threatens to slow (or derail) the global economic recovery. Identified by the South African health authorities in mid-November, the new form of the virus was quickly classified a "Variant of Concern" by the World Health Organization. It has since been identified in many countries.

South Africa: The Omicron variant brings a resurgence of cases
Daily new Covid-19 infections, 7-day moving average



NBF Economics and Strategy (data from Our World in Data)

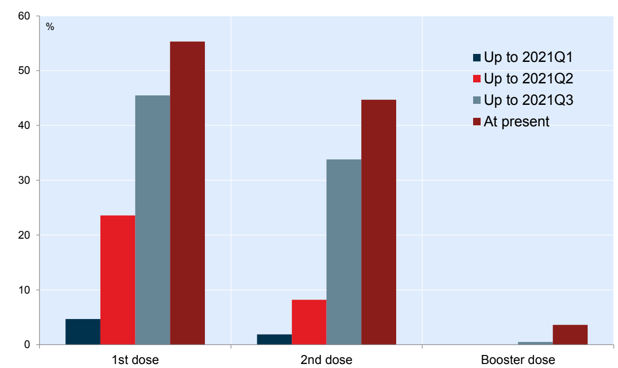
Since at this writing there is little reliable scientific information available, it is extremely difficult to gauge the potential effects of Omicron on the global economy. Three factors must be clarified before economists can speak with greater certainty:

(1) Transmissibility: The speed of Omicron's takeover from other strains of the virus and its rapid dominance in the province around Johannesburg suggest a reproduction rate (R0) at least as great as that of the Delta variant, if not greater.

(2) Virulence: Judging by preliminary data from some South African hospitals, the gravity of the symptoms caused by Omicron seems on average less than was seen in previous waves of Covid. However, we remain cautious on this point. Since admission to intensive care generally happens two to four weeks after a Covid diagnosis, it seems a little soon to judge the virulence of the new variant. It is also difficult at this point to isolate the effects of important variables such as demography (the median age in South Africa is only 28) or vaccine coverage of the population. Also, anecdotal accounts from South Africa have reported an increase in hospitalization of children. Again, these reports are based on very small samples, but if they prove representative, they could greatly change the many risk/benefit calculations that have governed our lives for many months now.

(3) Ability of the virus to escape immune defences acquired from vaccines or following infection: The news on this point is mixed. South Africa has reported increased reinfections and "post-vaccine" infections related to Omicron. This is not surprising given that more than 50 mutations have been identified in the genetic code of the new mutant, including 30 on the spike protein alone. Studies by Pfizer, meanwhile, suggest a noteworthy decrease in the effectiveness of its vaccine. To palliate this decrease, the company recommends a third dose, a solution that would likely come too late to prevent a new wave of infection, as attested by worldwide rates of third doses of its vaccine. The antiviral treatments developed by Pfizer and Merck, although effective, also do not seem to be a short-term solution: too few countries have authorized their use so far and their production remains limited.

World: Much work to do to combat Omicron
Percentages of world population having received one, two and three doses of COVID-19



NBF Economics and Strategy (data from Our World in Data)

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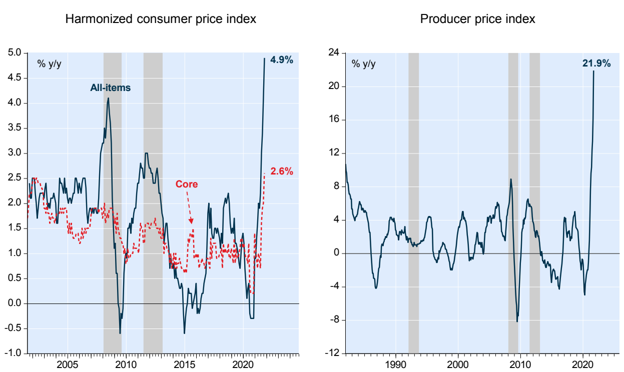
It is the interaction of these three variables that will determine the economic impact of Omicron. At this point, while recognizing the great shortage of data, we think it is reasonable to assume effects similar to those of the Delta variant. In the developed countries, public health measures are likely to remain fairly limited, especially if vaccine booster doses are rapidly administered. Where measures are imposed, they will have less effect on GDP than in previous waves, since many businesses and individuals have now learned to handle distancing rules.

Emerging economies, on the other hand, are behind in vaccinations and could be subject to serious outbreaks. If that were to happen in major exporting countries, current supply problems could be prolonged. That would maintain upward pressure on prices, especially if new virus outbreaks were to slow the rebalancing toward services of household spending in rich countries.

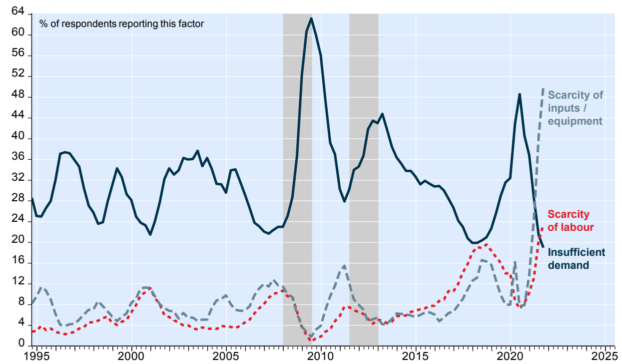
Price rises are already causing headaches in many parts of the globe. In Europe, exploding energy costs are reducing consumer purchasing power and eroding business margins, on top of increasingly severe scarcities of equipment and labour power.

Eurozone: Inflation headaches…



NBF Economics and Strategy (Bloomberg data)

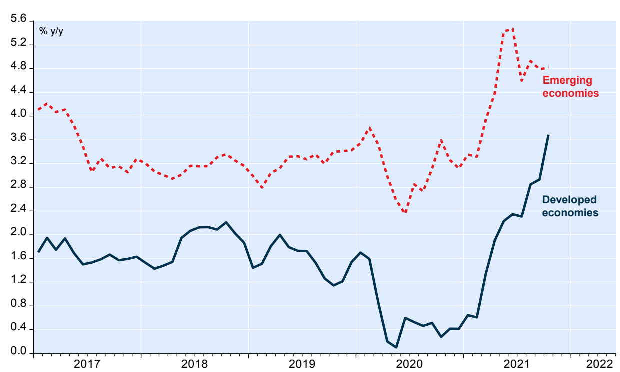
… together with scarcities of labour and equipment
Factors limiting manufacturing output



NBF Economics and Strategy (data from European Commission Business & Consumer Survey)

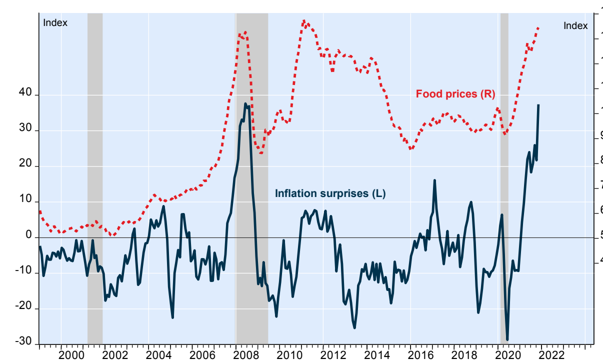
High inflation is also being felt in the emerging economies, where consumers are especially vulnerable to recent rises in food prices.

World: Price rises not limited to developed economies
Median 12-month inflation



NBF Economics and Strategy (OECD data)

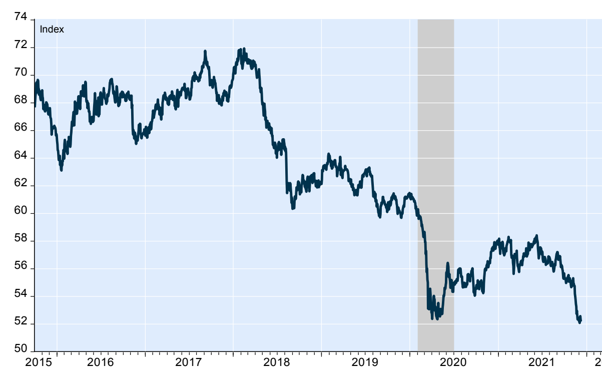
Emerging countries: Surprisingly vigorous inflation …
Citi Inflation Surprise Index (emerging economies) and FAO Food Price Index



NBF Economics and Strategy (OECD data)

It won't help that a monetary tightening phase seems about to get under way in the United States. When the Fed hikes its policy rates, capital tends to leave emerging countries and their currencies tend to depreciate. The JP Morgan index of emerging-country currencies shows this process already under way.

… exacerbated by currency depreciation
JP Morgan Emerging Market Currency Index



NBF Economics and Strategy (Bloomberg data)

True, the foreign-exchange reserves of emerging economies are on the whole larger than they used to be. That said, their indebtedness has greatly increased since the start of the pandemic, making them more vulnerable to interest-rate rises.

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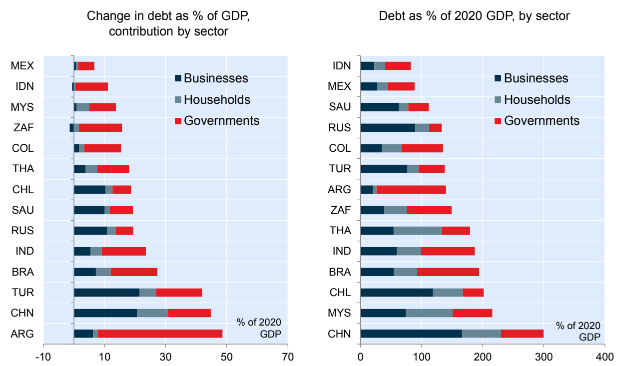
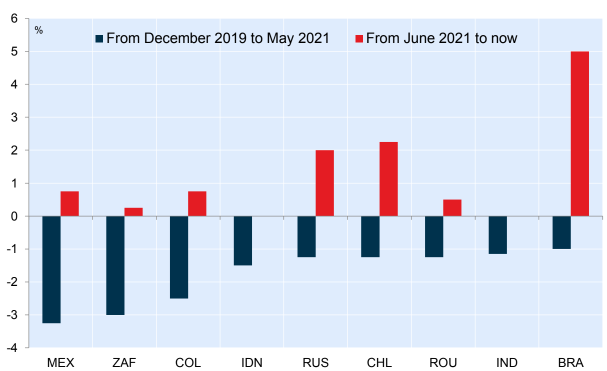
Emerging countries: Sharply rising debt …



NBF Economics and Strategy (OECD data)

And many central banks in emerging economies now see themselves obliged to tighten their monetary policy in an attempt to curb inflation and support their currencies. This new reality is likely to dampen growth in 2022.

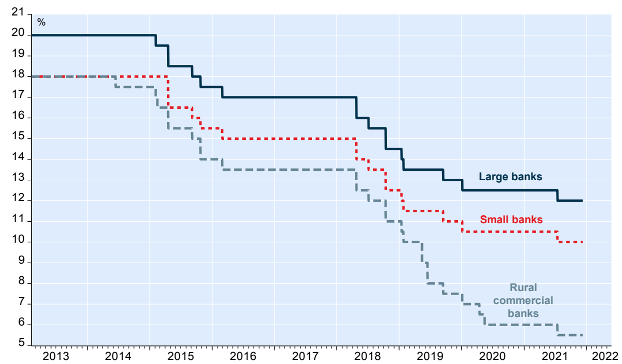
… and tightening of monetary policy
Change in policy rates, selected emerging economies



NBF Economics and Strategy (OECD data)

To the clouds darkening the skies over emerging markets we must add the painful process of deleveraging in the Chinese real estate sector. Here it is at least reassuring to see the People's Bank of China switching to injection of cash into its economy. On December 6 the PBoC announced a 0.5-point reduction of the mandatory reserve ratio of most banks, freeing up about ¥1.2 trillion (US$188 billion). The Politburo has also announced an intention to relax the financing rules governing real estate promoters.

China: Easing of monetary policy in store?
Mandatory bank reserve ratios



NBF Economics and Strategy (Bloomberg data)

Pending further information on the Omicron variant, we are leaving unchanged our global growth outlooks for 2021 and 2022. We recognize that the recent increase in downside risks to this scenario make adjustments likely in our next issue of this Monitor.

World Economic Outlook

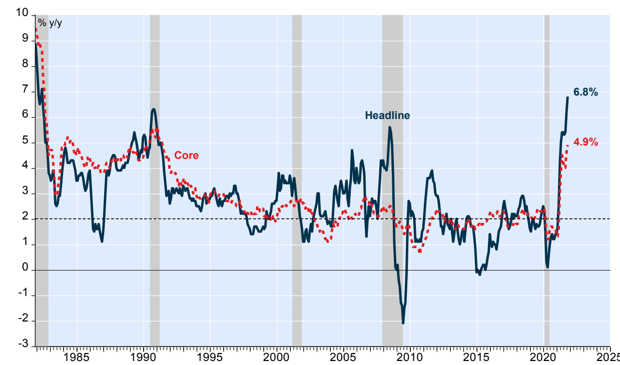
	2020	2021	2022
Advanced Economies	-4.5	4.9	3.4
United States	-3.4	5.6	3.5
Eurozone	-6.3	5.0	3.5
Japan	-4.6	2.0	2.6
UK	-9.8	6.6	4.0
Canada	-5.3	4.6	4.1
Australia	-2.5	3.7	3.1
Korea	-0.9	3.8	2.5
Emerging Economies	-2.1	6.0	4.5
China	2.3	7.8	5.0
India	-7.3	9.2	7.7
Mexico	-8.3	6.0	3.0
Brazil	-4.1	5.0	1.4
Russia	-3.0	4.5	2.7
World	-3.1	5.5	4.0

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

U.S.: "Transitory" inflation? Not any more

For several months now inflation has been a major topic in the U.S. section of this monthly letter. And for good reason. Twelve-month CPI inflation rose to 6.8% in November, the highest rate since March 1982.

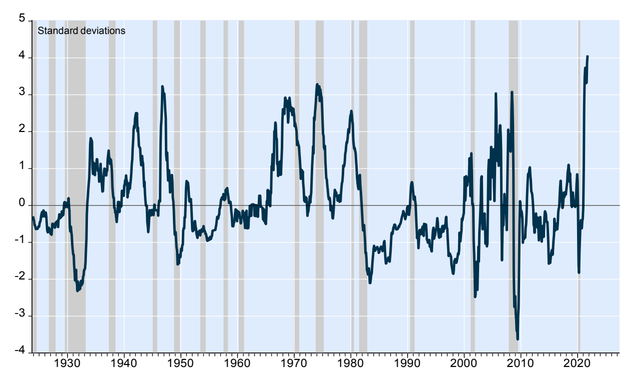
U.S.: Inflation at a 40-year high
Consumer Price Index, headline and core



NBF Economics and Strategy (data from Refinitiv)

That rate also sets a 100-year record for upward deviation from the 10-year average of U.S. CPI inflation. In other words, it is way out of the ordinary.

U.S.: A surge of prices way out of the ordinary
Deviation of 12-month all-items inflation from 10-year average



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

Part of the recent acceleration can be laid to prices for energy (+33.3%, the biggest 12-month rise since the 1980s) and food (+6.1%, the most in a decade). But upward pressure is not limited to those two sectors. Core CPI, for example, has surged a spectacular 4.9% in the 12 months ending in November, a 30-year record. More evidence of

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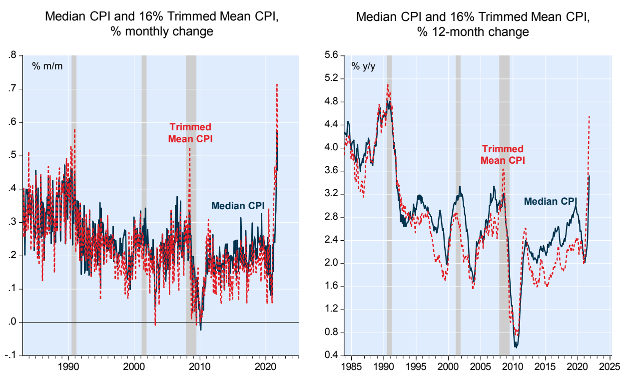
diffusion comes from the Cleveland Fed's measures of Median CPI and Trimmed-Mean CPI: 12-month rises of 3.5% and 4.6% respectively – two multi-year records.

U.S.: Core inflation continues to accelerate



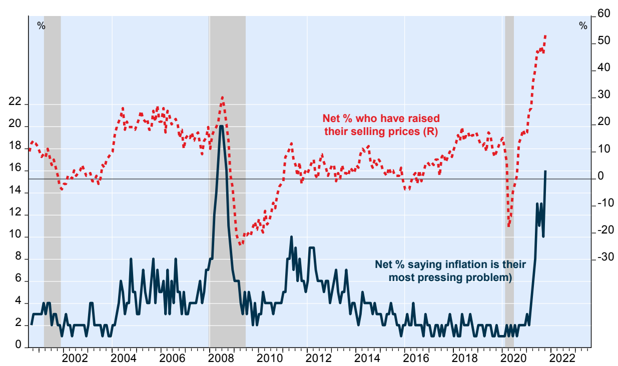
NBF Economics and Strategy (data from Cleveland Fed)

The surge of prices has obliged the Federal Reserve to react. In testimony to Congress November 30, its chair Jerome Powell dropped the Fed's previous idea that the surge would likely be transitory: "It now appears that factors pushing inflation upward will linger well into next year." Good riddance: in our view, the debate over the meaning of "transitory" had become a distraction. Almost all economists, ourselves included, expect that inflation will slow from the current rate in coming months. In that sense we are all in the "transitory" camp. But that's not the issue. For a central bank, "transitory" should mean "not persistent enough to change the behaviour of economic agents and thus trigger a price feedback loop." By this definition, it is hard to defend the idea that the current high inflation will prove to be a blip.

Businesses and consumers seem to have already adjusted to the new paradigm. Prices hikes by small businesses are now common. In October the net percentage of them reporting that they had recently raised their prices or were planning to do so was at a record. An unprecedented share said inflation was their main problem.

U.S.: Inflation tensions palpable in NFIB survey

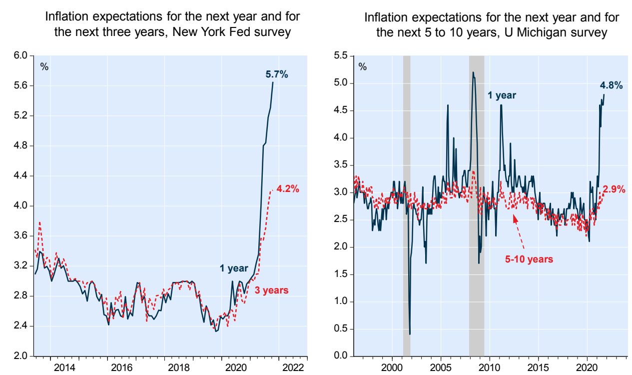
Net % of businesses saying inflation is their most pressing problem and net % who have raised prices



NBF Economics and Strategy (data from Refinitiv)

As for consumers, a recent New York Fed survey showed a substantial rise in the inflation expectations of households, with respondents expecting 5.7% next year and 4.2% annually over the next three years. The University of Michigan survey of consumer sentiment reported expectations a little lower but well above 2%.

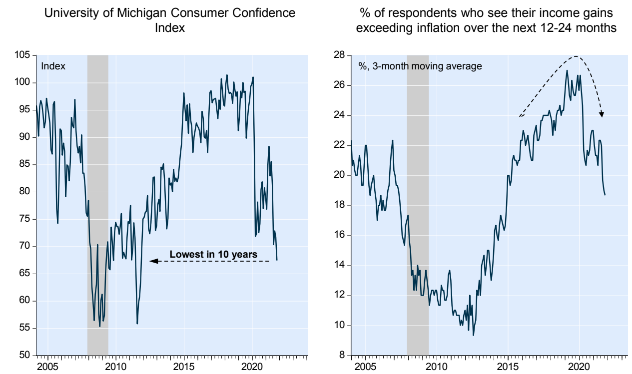
U.S.: Inflation expectations on the rise



NBF Economics and Strategy (data from Bloomberg and New York Fed)

Unsurprising, the vigour of inflation is affecting the morale of households. In November the Michigan consumer confidence index was at a decade low. The share of respondents expecting their income to grow faster than inflation in the next 12 to 24 months was 17%, the lowest in almost seven years.

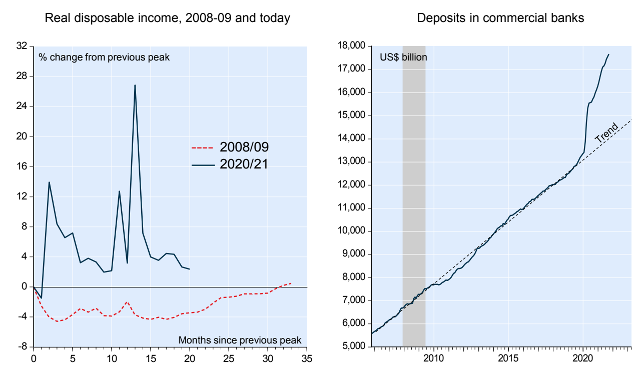
U.S.: Inflation is sapping consumer morale



NBF Economics and Strategy (data from Bloomberg)

Does that mean consumer spending is about to collapse? We think not. Households are still in a highly enviable position financially. Disposable incomes, after rising spectacularly during the pandemic, remain comfortably above their pre-pandemic level even after adjustment for inflation. Moreover, the recent boom in bank deposits suggests that a good part of the excess savings squirrelled away by U.S. households in recent months could be redeployed very quickly to spending.

U.S.: Households in very good shape



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

The labour market, meanwhile, continues to recover. Payroll employment is still down 3.9 million from the pre-pandemic number, but a number of indicators are moving in the right direction. Private-sector employment is growing at a decent rate and the vast majority of gains have come

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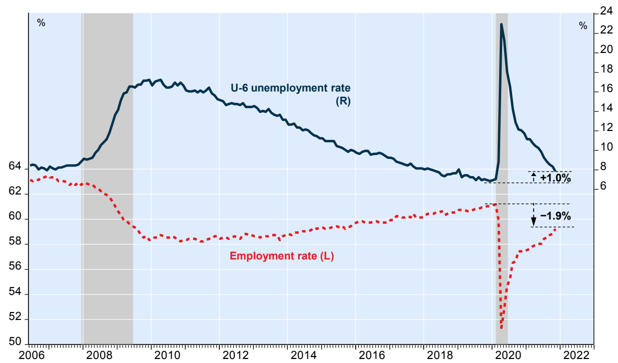
in full-time work. The U 6 unemployment rate and the employment rate – two measures followed closely by central bankers – are not yet back to their pre-Covid levels but are getting closer and closer to that point.

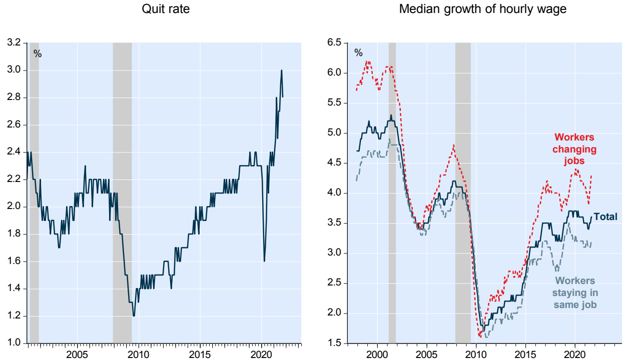
U.S.: Labour market recovery continues …
U-6 unemployment rate vs. employment rate



NBF Economics and Strategy (data from Refinitiv)

The upshot is an increasingly severe scarcity of labour, especially with many people delaying their return to work or taking early retirement. This phenomenon benefits remaining workers, who are currently changing jobs at an unprecedented rate. Judging by data from the Atlanta Fed, these departures could translate into larger wage gains, another factor likely to soften the hit from price rises.

… and workers are benefiting from labour scarcity

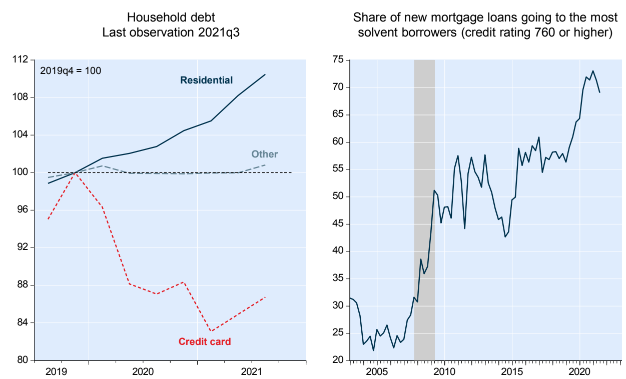


NBF Economics and Strategy (data from Refinitiv and Atlanta Fed)

So the holiday period – as well as Q4 as a whole – is looking solid. The longer-term outlook is also promising, though a tightening of monetary policy could temper growth in the sectors most exposed to interest rates (business investment, real estate). As previously noted, we expect three Fed rate hikes in 2022.

As for consumption, the expected tightening will be modest on the whole and unlikely to cause too many problems. Though household debt has kept growing faster than the economy during the pandemic, it remains way below the records of 2008-09. Moreover, all of the increase in outstanding credit since the fourth quarter of 2019 has been in residential real estate, where an overwhelming proportion of borrowers had a credit rating above 760. Such borrowers are in a position to deal with a rise in interest rates.

U.S.: Could debt derail the recovery?



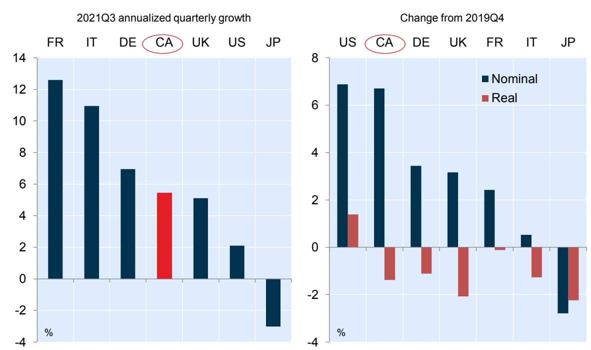
NBF Economics and Strategy (data from New York Fed)

Given this backdrop and the upgrading of our growth outlook for Q4, we are revising our forward growth forecasts up slightly from those of last month. We now expect growth of 5.6% in 2021 and 3.5% in 2022. These predictions assume that the Omicron variant will have a relatively small impact on growth (limited to Q1). Obviously, we will closely monitor the development of the health situation.

Canada: Back to full employment

Canada's economy has on the whole continued to surprise on the upside in the last month. Statistics Canada data for the third quarter show GDP growth of 5.4% annualized, way more than the 3.0% expected by the economist consensus. On the other hand, StatCan downward revisions of growth in past quarters leave a less favourable recovery up to the second quarter of 2021. So GDP in the third quarter was within 1.4% of the pre-pandemic peak, slightly below the average of the G7 countries. In nominal terms, however, Canada looks really good, 6.7% above the previous peak, the second best showing of the G7. Apart from export prices lifted by commodities, nominal GDP was buoyed in recent quarters by the deflators of residential and nonresidential investment. The largest component of GDP, the consumption deflator, was also a driver. Over the past year its pace has been the most sustained since 2003.

Canada : An enviable recovery in nominal terms
Gross domestic product: Q3 quarterly growth and % change from pre-pandemic peak (2019Q4)

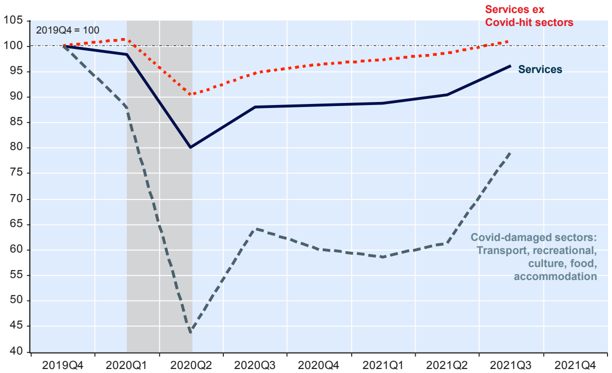


NBF Economics and Strategy (data via Refinitiv)

The solid real growth of Q3 was due to the spectacular showing of real consumption, whose surge of 17.9% annualized was driven by a 27.8% jump in consumption of services. Thanks to easing of public-health measure, households were able to unleash demand that had been pent up for months. Despite this jump, Q3 spending in the segments most affected by the pandemic was still well down from its pre-recession level. Q3 spending in other segments was fully recovered from the pandemic shortfall.

The Economy

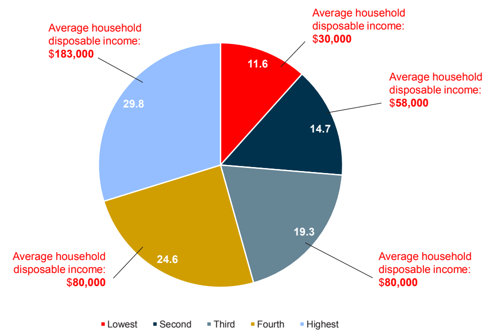
Canada: Hardest-hit sectors surged in Q3
Volume household expenditures on services



NBF Economics and Strategy (data via Statistics Canada)

We remain highly optimistic for Canadian consumption. As we have often explained, the combined effect of extraordinarily generous income-support programs and constraining public-health measures drove up the rate of saving during the pandemic, which remained very high in Q3 at 11%. The result has been that households have accumulated excess savings amounting to 12.0% of GDP since the beginning of the pandemic. Some observers claim that these savings are heavily concentrated in the assets of better-off people, whose lower marginal propensity to consume means that the largesse could have only a limited effect on consumption. We are not of this view. It is true that the savings are concentrated in higher-income households, but not in a completely disproportionate way. More than two-thirds of the excess savings are in the hands of the four lower income quintiles and they have a high potential to use them to consume. By way of information, fourth-quintile households have an average disposable income of $107,000.

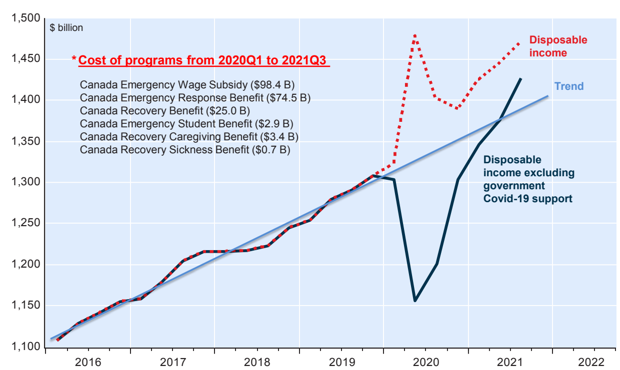
Canada: Savings not disproportionately concentrated among the rich
Distribution by income quintile of excess savings since 2019, as of 2021Q2 (% of total)



NBF Economics and Strategy (data via Statistics Canada 36-10-0587-01 and 36-10-0662-01)

Others worry that consumption is currently at risk because income-support programs ended during the fourth quarter. As it happens, disposable income other than from Covid-19 assistance was already above its historical trendline in the third quarter of 2021, meaning that consumers are ready to move on their own steam. Especially since the labour market is doing extremely well so far in the fourth quarter, again suggesting strong increases in worker pay.

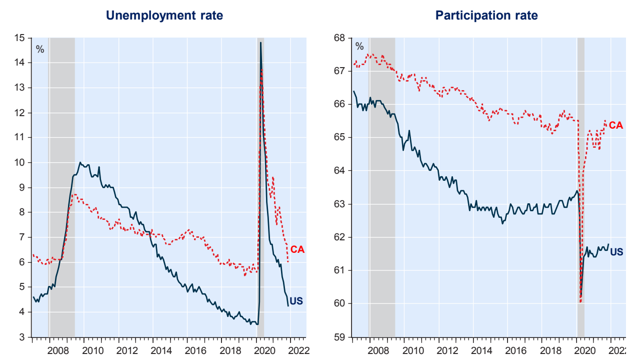
Canada: Is consumption at risk without generous Covid-19 programs?
Disposable income and disposable income excluding government COVID-19 support (annualized)*



NBF Economics and Strategy (data via Statistics Canada)

After October, when the labour market had recovered all of Its recession losses, there was reason to believe its progress would slow. It did not. In November the labour market surprised once again, with disconcerting force. A substantial gain of 151,000 jobs took the unemployment rate back down essentially to its pre-pandemic reading. The unemployment rate is sometimes misleading in a period of economic crisis. It can mask the temporary withdrawal of some workers from the active population and thus overstate an improvement. True, but this is not the case in Canada at present, as attested by a rate of participation in the active population that, in contrast to the U.S., is essentially back to pre-pandemic numbers. Another important mark was passed in the most recent employment report: the decline of total hours worked during the recession has now been fully made up, which has yet to happen south of the border.

Canada: Labour market has fully recovered on this side of the border

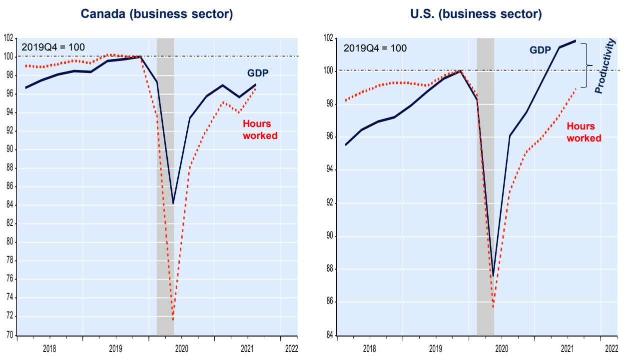


NBF Economics and Strategy (data via Refinitiv)

One can only be pleased by the rapid recovery of the Canadian labour market, considering the social costs and the risks to social cohesion associated with lasting high unemployment. But the issue of Canadian productivity has resurfaced in light of data released by StatCan in early December. The recovery of GDP in the business sector is similar to the recovery of hours worked, meaning no gains in productivity from Q4 2019 to Q3 2021. Conversely, U.S. businesses have recorded notable gains in this respect since the beginning of the pandemic. A lag in Canadian performance that has happened much too often in recent years.

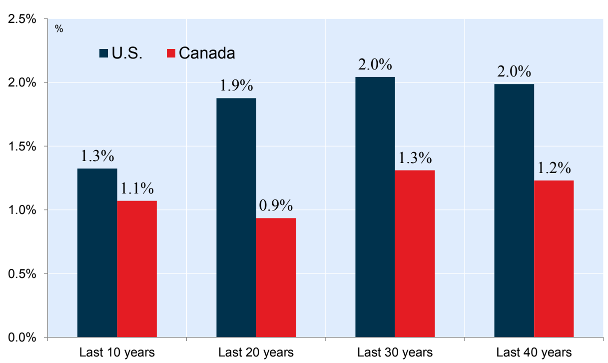
The Economy

Canada: No productivity gains this side of the border



NBF Economics and Strategy (data via Refinitiv)

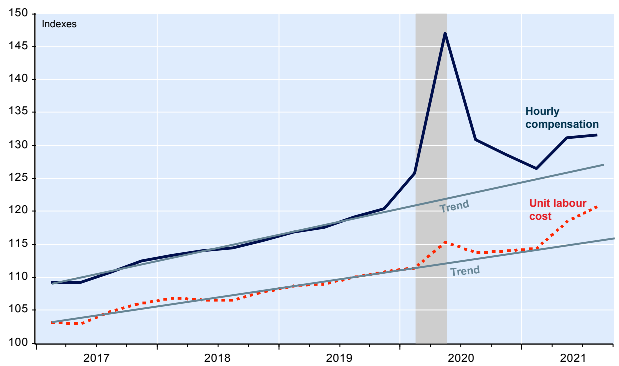
Canada and U.S.: Comparative productivity gains
Average annual productivity gains, business sector



NBF Economics and Strategy (data via Statistics Canada)

This development has implications for the current inflationary conditions. Hourly pay has taken off in the last two quarters under conditions of labour scarcity. Absent productivity gains, unit labour costs have taken off, generally an omen of inflationary pressure.

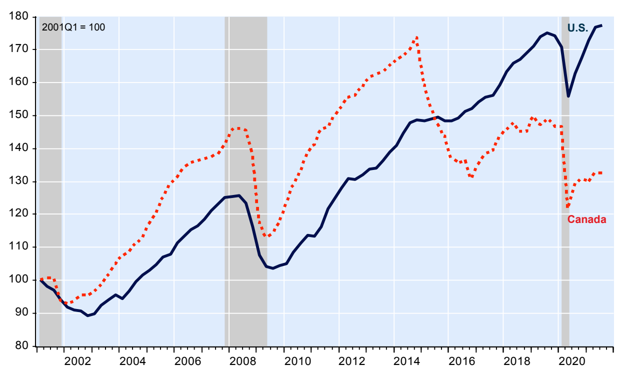
Canada: Unit labour costs on the rise
Hourly compensation and unit labour cost, business sector



NBF Economics and Strategy (data via Statistics Canada)

The recent evolution of nonresidential investment in fixed capital is hardly encouraging for productivity in the short term. In the third quarter, it remained 9% below its pre-crisis volume and 24% below its 2014 peak. In the U.S., meanwhile, business investment hit a record.

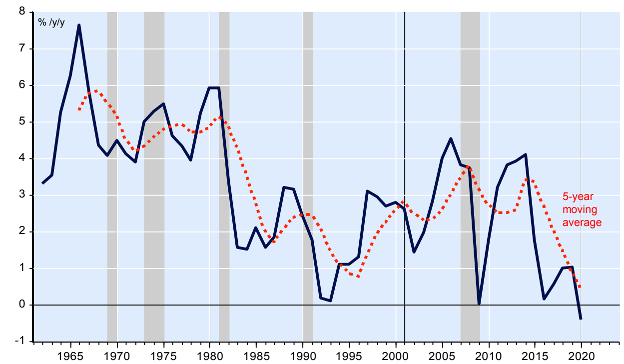
Canada: Nonresidential investment still in the doldrums
Nonresidential fixed investment (structures, equipment, intellectual property)



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

As we illustrated in a recent *special study*, nonresidential capital stock has been essentially stagnant over the last five years, an unprecedented story. It seems vital to us that it has to be turned around to allow dealing with the massive structural changes engendered by the pandemic and the fight against climate changes.

Canada: Private nonresidential capital stock is declining
Net stock of fixed private nonresidential capital (year-end, constant dollars)



NBF Economics and Strategy (data via Statcan, table 36-10-0096-01)

Though third-quarter growth was stronger than expected and the fourth quarter is looking auspicious (5.0%) despite B.C. flooding, StatCan's revisions of its past numbers prompt us to revise our outlook for 2021 growth down 0.3 points, to 4.6% from 4.9%. To our outlook for 2022, on the other hand, we are adding 0.3 points, to 4.1%, because of a stronger handoff and stronger budget inclinations than we previously saw, especially in Ontario and Quebec. The recovery of the labour market and the resulting growth of incomes suggests that households are ready to fly on their own wings, without extraordinary government assistance. In addition, they will be able to deploy their substantial accumulated liquidity to soften the shock of price rises, among other ends. This sce¬nario assumes, of course, that the effect on the economy of the Omicron variant will be relatively benign and supply-chain problems will not worsen further.

Back to Research Analysts page

The Economy

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.6	3.5	2.5	5.3	2.8	2.3
Consumption	2.2	(3.8)	8.1	3.5	2.4	7.7	2.4	2.2
Residential construction	(0.9)	6.8	9.0	(1.2)	1.0	(2.1)	1.0	1.0
Business investment	4.3	(5.3)	7.6	3.1	1.8	7.3	1.8	2.3
Government expenditures	2.2	2.5	0.8	1.5	2.4	1.3	2.0	2.5
Exports	(0.1)	(13.6)	3.9	3.7	3.2	1.8	4.2	2.2
Imports	1.2	(8.9)	13.2	2.2	1.4	6.4	0.6	2.0
Change in inventories (bil. $)	75.1	(42.3)	(88.7)	93.8	50.0	(25.0)	175.0	25.0
Domestic demand	2.4	(2.5)	6.7	2.9	2.3	6.1	2.2	2.2
Real disposable income	2.3	6.2	2.4	(2.3)	2.4	0.8	1.5	2.9
Payroll employment	1.3	(5.7)	2.7	2.8	1.9	4.0	1.9	2.0
Unemployment rate	3.7	8.1	5.4	4.2	3.9	4.4	4.0	3.8
Inflation	1.8	1.3	4.6	4.5	2.9	6.5	2.9	3.1
Before-tax profits	2.7	(5.2)	24.5	4.7	2.6	18.0	3.7	1.4
Current account (bil. $)	(472.1)	(616.1)	(767.5)	(770.5)	(710.0)	...	...	...

* or as noted

Financial Forecast**

	Current 12/10/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.25	0.25	0.50	0.75	0.25	1.00	2.00
3 month Treasury bills	0.06	0.10	0.15	0.35	0.60	0.10	0.85	1.85
Treasury yield curve								
2-Year	0.67	0.75	1.00	1.30	1.50	0.75	1.70	2.05
5-Year	1.25	1.35	1.50	1.60	1.75	1.35	1.85	2.10
10-Year	1.48	1.55	1.75	1.85	1.95	1.55	2.05	2.20
30-Year	1.88	1.90	2.00	2.05	2.10	1.90	2.20	2.30
Exchange rates								
U.S.$/Euro	1.13	1.14	1.16	1.17	1.19	1.14	1.18	1.15
YEN/U.S.$	113	114	113	113	113	114	112	109

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.1	6.2	2.5	3.0	2.9	2.8
CPI (y/y % chg.)	1.9	4.8	5.3	6.5	6.3	4.8	3.9	2.9
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	4.9	5.4	3.9	3.3	2.9
Unemployment rate (%)	6.2	5.9	5.1	4.4	4.4	4.3	4.2	4.0

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	4.1	2.2	2.9	3.9	1.7
Consumption	1.4	(6.2)	5.4	5.2	2.3	5.8	3.6	1.7
Residential construction	(0.2)	4.3	13.3	(8.1)	(0.0)	(7.9)	1.7	(1.5)
Business investment	2.5	(12.1)	(0.7)	4.8	2.9	2.3	4.9	1.8
Government expenditures	0.8	0.9	4.8	1.5	1.2	2.2	1.7	1.0
Exports	2.3	(9.7)	0.7	3.8	5.0	(2.3)	6.7	4.0
Imports	0.4	(10.8)	6.0	2.6	4.9	0.3	5.1	5.0
Change in inventories (millions $)	18,377	(18,720)	(918)	14,334	21,071	6,000	12,337	25,683
Domestic demand	1.2	(4.1)	5.2	2.9	1.9	3.0	3.1	1.3
Real disposable income	3.0	8.2	1.4	(0.2)	1.4	2.4	0.5	1.5
Employment	2.2	(5.1)	4.8	3.6	1.5	4.1	2.2	1.2
Unemployment rate	5.7	9.6	7.5	5.8	5.6	6.3	5.6	5.6
Inflation	1.9	0.7	3.4	3.5	2.3	4.6	2.4	2.4
Before-tax profits	(0.6)	(1.9)	31.8	2.5	0.8	13.7	3.4	0.3
Current account (bil. $)	(47.0)	(39.4)	11.0	(22.0)	(28.0)	....	....	....

* or as noted

Financial Forecast**

	Current 12/10/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Overnight rate	0.25	0.25	0.50	0.75	1.25	0.25	1.50	1.75
Prime rate	2.25	2.25	2.50	2.75	3.25	2.25	3.50	3.75
3 month T-Bills	0.02	0.05	0.30	0.60	1.05	0.05	1.30	1.65
Treasury yield curve								
2-Year	0.98	1.05	1.30	1.50	1.70	1.05	1.80	1.80
5-Year	1.32	1.40	1.60	1.75	1.85	1.40	1.90	1.90
10-Year	1.47	1.55	1.70	1.85	1.90	1.55	1.95	1.95
30-Year	1.80	1.85	1.90	1.95	2.00	1.85	2.05	2.10
CAD per USD	1.27	1.26	1.24	1.20	1.22	1.26	1.24	1.26
Oil price (WTI), U.S.$	72	82	85	80	75	82	75	70

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 forecast	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	4.9	(3.2)	5.4	4.8	5.4	4.5	2.7	3.0
CPI (y/y % chg.)	1.4	3.4	4.1	4.6	4.4	4.1	3.2	2.4
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.1	3.2	2.9	2.4	2.3
Unemployment rate (%)	8.4	8.0	7.2	6.3	6.0	5.8	5.7	5.6

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021f	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	3.0	2.8	1.5	2.3	-10.7	13.9	6.9	2.3
Prince Edward Island	4.7	-1.7	3.1	3.0	2.4	6.6	0.9	8.8	4.7	3.4
Nova Scotia	3.0	-2.5	3.4	3.2	1.8	3.7	0.7	8.7	5.6	3.1
New Brunswick	1.3	-3.2	3.2	3.0	1.6	2.4	-1.3	9.1	5.3	2.7
Quebec	2.8	-5.5	6.2	3.3	2.0	4.7	-2.4	11.2	5.6	3.3
Ontario	2.0	-5.1	4.0	4.4	2.2	3.7	-2.8	10.8	6.0	3.2
Manitoba	0.4	-4.6	3.9	3.5	2.1	0.7	-1.4	11.2	5.8	3.3
Saskatchewan	-1.1	-4.9	4.3	3.9	2.3	-0.4	-6.6	17.5	11.0	2.6
Alberta	-0.1	-7.9	5.0	4.4	2.5	1.5	-16.1	21.1	10.8	3.1
British Columbia	3.1	-3.4	4.4	4.7	2.4	4.6	-0.5	11.9	5.8	3.4
Canada	1.9	-5.3	4.6	4.1	2.2	3.6	-4.6	12.6	6.7	3.2

	Employment (% growth) 2019	2020	2021f	2022f	2023f	Unemployment rate (%) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	1.3	-5.9	3.1	2.0	0.5	12.3	14.2	12.8	12.4	11.6
Prince Edward Island	3.4	-3.2	3.7	2.3	2.0	8.6	10.6	9.3	9.1	8.5
Nova Scotia	2.3	-4.7	5.4	2.4	1.5	7.3	9.8	8.4	7.2	6.5
New Brunswick	0.7	-2.6	2.7	2.0	0.5	8.2	10.1	9.0	8.2	7.9
Quebec	2.0	-4.8	4.2	3.6	1.5	5.2	8.9	6.1	4.5	3.9
Ontario	2.8	-4.7	4.8	4.1	1.5	5.6	9.6	8.0	5.9	5.8
Manitoba	1.0	-3.7	3.5	2.4	1.0	5.4	8.0	6.4	5.4	5.1
Saskatchewan	1.7	-4.6	2.6	2.2	1.1	5.5	8.4	6.5	6.1	5.9
Alberta	0.6	-6.5	5.1	3.6	1.5	7.0	11.5	8.7	8.1	8.0
British Columbia	2.9	-6.5	6.5	3.6	1.8	4.7	9.0	6.6	4.2	4.1
Canada	2.2	-5.1	4.8	3.6	1.5	5.7	9.6	7.5	5.8	5.6

	Housing starts (000) 2019	2020	2021f	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	0.8	0.8	1.0	0.2	3.8	3.4	2.3
Prince Edward Island	1.5	1.2	1.2	1.0	1.0	1.2	0.0	4.7	3.7	2.3
Nova Scotia	4.7	4.9	5.4	4.2	4.1	1.6	0.3	4.0	3.6	2.2
New Brunswick	2.9	3.5	3.8	2.8	2.7	1.7	0.2	3.7	3.4	2.4
Quebec	48.0	54.1	70.5	56.0	55.0	2.1	0.8	3.7	3.5	2.3
Ontario	69.0	81.3	98.8	81.7	80.0	1.9	0.6	3.6	3.6	2.3
Manitoba	6.9	7.3	8.0	6.3	6.1	2.3	0.5	3.2	3.4	2.3
Saskatchewan	2.4	3.1	4.3	3.6	3.5	1.7	0.6	2.8	3.3	2.3
Alberta	27.3	24.0	30.4	27.0	26.5	1.7	1.1	3.0	3.4	2.3
British Columbia	44.9	37.7	47.0	36.6	35.8	2.3	0.8	3.1	3.3	2.3
Canada	208.7	217.8	270.7	220.0	215.5	1.9	0.7	3.4	3.5	2.3

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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Hiking hypotheses

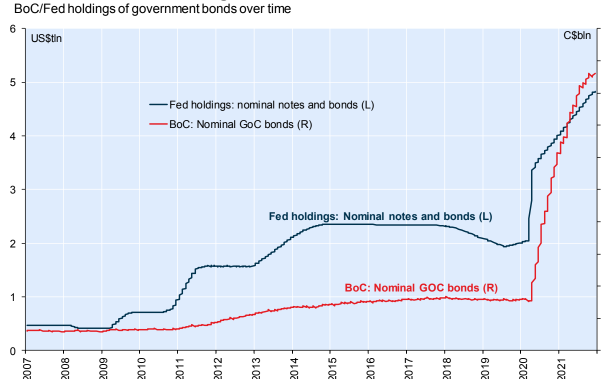
We're putting the closing touches on another extraordinary year: for the global economy, financial markets and policy makers. In the U.S., we started 2021 with 6.7% unemployment and a headline inflation rate of 1.4%. As the year draws to close, over 6 million jobs were created in America (through November), a relatively modest output gap has snugged up further and inflation has rocketed up, all items CPI approaching 7%.

The broad-based economic narrative is not entirely dissimilar in Canada. The unemployment rate has been cut from roughly 9% to 6% over the course of the year, an impressive (stunning?) 750,000 jobs generated in the past six months alone. And while not as extreme as in the U.S., inflation has been on a tear, closing in on 5% (headline), with more actors/agents adjusting expectations higher.

Impressive stuff as far as recoveries are concerned, clearly aided by a residual fiscal impulse and extreme monetary policy accommodation. Impressive enough, to prod central banks into overdue action.

For the first time in a quarter century, both the Fed and the Bank of Canada held overnight target rates at the lower bound every single day of the year. The Fed's balance sheet has expanded by US$1.3 trillion while BoC holdings of government bonds have grown by C$125 billion, to $435 billion.

Central bank bond holdings continued to climb in 2021
BoC/Fed holdings of government bonds over time

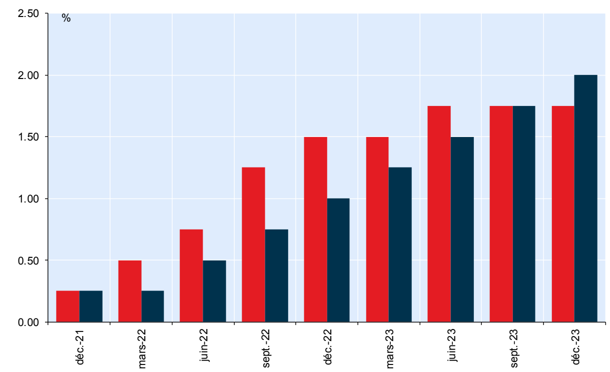


NBF Economics and Strategy (data via BoC, Fed, Bloomberg)

To us, however, 2022 will be the 'Year of the Hike', in North America and perhaps a few additional corners of the globe, as central bankers bleed excessive stimulus from increasingly overheated economies in an attempt to maintain their 'price stability' bona fides. They're arguably starting late, which may require a quicker tempo (at least initially). But as in tightening cycles past, we'll be seeing the dampening influence of rate hikes in reasonably short order, the monetary policy transmission mechanism likely to work well, at least on the way up.

An earlier taper and relatively firmer labour market continue to leave the Bank of Canada in a position to front-run the FOMC on rate hikes, although the terminal rate could well be lower north of the border, owing to relatively greater exposure to interest-sensitive sectors. We see the first of what could be five 2022 BoC rate hike arriving March, a call conditioned (as it must be) on the virus situation. Canada's normalization exercise, at least via the target rate, could well be over in 15 months, a sixth and final hike to 1.75% accomplished before mid-2023.

Visualizing our rates call
Policy rate projections (quarter-end) for Bank of Canada and Fed through end of 2023

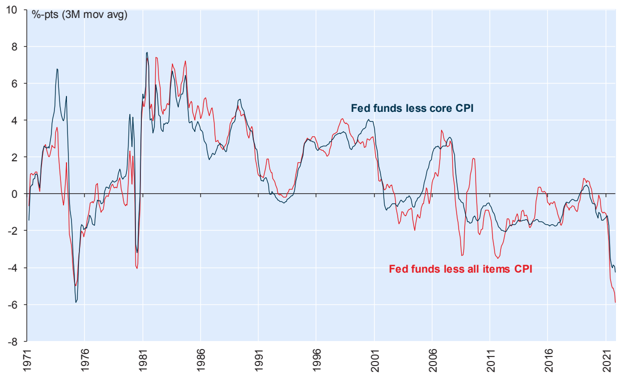


NBF Economics and Strategy

Assuming an accelerated taper at December's meeting, the Fed will be in position to deliver its first hike as early as June of next year, with forecasted strength in the U.S. economy and still-steamy inflation at the mid-point of next year giving enough FOMC members the courage to act. The upcoming 'dots' should reinforce this view. After delivering three hikes in 2022, we see the Fed catching up to and modestly overtaking the BoC target rate before 2023 is over.

Interest Rates and Bond Markets

Real Fed policy rate in unchartered territory, normalization overdue
Real U.S. fed funds rate, deflated by all items & core CPI inflation



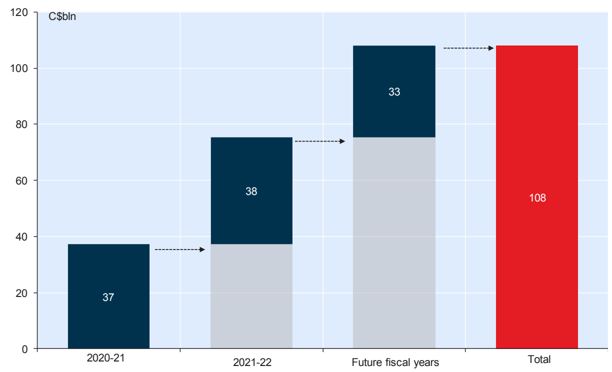
NBF Economics and Strategy (data via Bloomberg) | Note: Based on 3M mov avg for smoothing purposes

Monetary policy normalization keeps a flattener very much in focus. We recommend selling 2-years on strength, the belly likely to remain under relatively sustained pressure in our view, balance sheet run-off (first at the BoC, then at the Fed) likely to have an effect here (as well in longer tenors). While the crystallization of hikes will drive yield curves flatter, an outright inversion is not necessarily or immediately in the cards. Indeed, you won't find an inversion in our rate forecast through the end of 2023. Saying that, as policy rate neutrality is ostensibly achieved and as fiscal policy turns less supportive on balance, we expect some cracks to form in the North American economy. But that, as they say, is a story for another day (and year).

It may be premature to lighten up on credit, even as rate hikes approach and commence. Standard empirical caveats notwithstanding, history has shown an ability for risk sentiment to survive the initial quarters of policy tightening. For now then, we remain overweight equities in our recommended asset allocation, which has as its mirror image a long credit FI call.

For Canada's high-grade and relatively liquid public sector credits, recent months have confirmed a monumental improvement in fiscal fortunes. Reduced budgetary red ink/lower debt loads mean considerably less borrowing, relative to earlier guidance. True, these developments are by now fully discounted. And while 2021's dazzling nominal GDP growth is unlikely to be repeated, the materially improved fiscal trajectory and commensurate step down in net funding needs will remain supportive for spreads, all else equal. We'll look to the upcoming federal fiscal update for revised budgetary guidance and potential tweaks to Ottawa's funding strategy, but at this juncture we assess the coming year's net bond supply needs as 'manageable', even absent a BoC QE vacuum. Which is to say, underlying investor demand should remain more than sufficient to clear the domestic bond market without triggering (on its own) a material repricing of credit spreads or curves.

An unprecedented fiscal improvement for Canadian provinces
Net improvement in provincial budget balances vs. Budget 2021



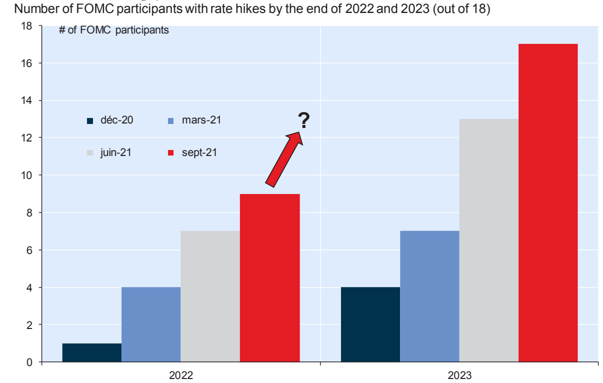
NBF Economics and Strategy (data BF, provincial gov'ts) | Note: Future FYs refers only to Ontario, Quebec, Alberta

To be sure, the situation will get more complicated as rate hikes really start to bite, particularly if that's accompanied by meaningful balance sheet run-off. It will argue for nimbleness in the months ahead. Although given a highly uncertain and rapidly evolving public health and global economic backdrop, being nimble has been a necessity for some time now. Consider this our high-level hike hypotheses as 2022 dawns.

Fed moving to hurry-up offense?

Bets on earlier Fed interest rate normalization are ratchetting up. And that's not just a function of the market trading on red-hot inflation data. Fed policymakers, including Chair Powell himself, appear to be finally coming around, conceding that the need to withdraw stimulus is more pressing than before. You saw it in Powell's Congressional testimony a couple weeks back when he acknowledged that it's probably a good time to retire the use of the word 'transitory' in its communications. That's likely to come with an acceleration of the Fed's taper pace at the December meeting, giving them the optionality to make a move on the policy rate as soon as next Q2 next year. This is quite the turn of events as you'll recall last December's Summary of Economic Projections had just 1 FOMC participant looking for a hike in 2022 and more than three quarters didn't see any rate normalization through the end of 2023. Clearly, even the most dovish policymakers are a little spooked by (nearly) 7% inflation even if employment is still below pre-COVID levels.

Rate hikes being pulled forward… which should continue in December
Number of FOMC participants with rate hikes by the end of 2022 and 2023 (out of 18)



NBF Economics and Strategy (data via Federal Reserve)

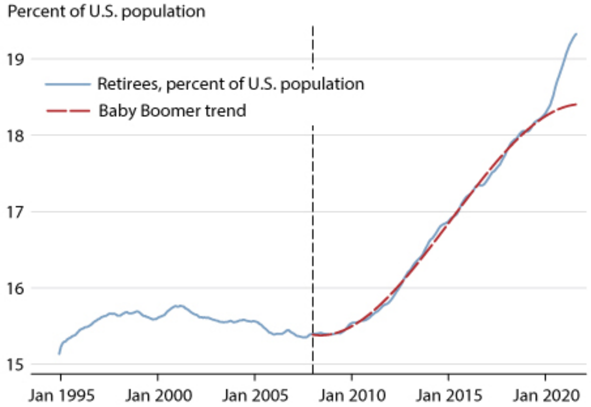
And while it's true that there is a nearly 4 million job shortfall from where we were in February 2020, it increasingly appears that this may be due to a more structural shift in labour force participation rather than a temporary hit, as many policymakers had thought. We discussed in last month's Fixed Income Monitor the 3 million "excess retirements" brought on by COVID—a hit to the labour force that increasingly looks like it will have some permanence:

> *"…as of August 2021, there were slightly over 3 million excess retirements due to COVID-19, which is more than half of the 5.25 million people who left the labor force from the beginning of the pandemic to the second quarter of 2021."*

Interest Rates and Bond Markets

Percentage of Retirees in the U.S. Population and the Baby Boomer Retirement Trend

Percent of U.S. population



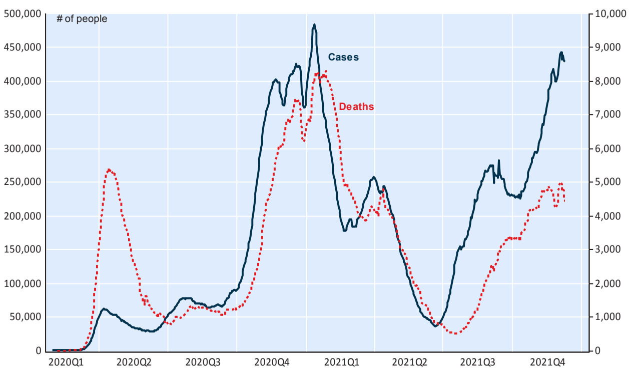
NOTE: The percentage of retirees is a 12-month moving average, and the Baby Boomer trend is a cubic trend estimated between January 2008 and February 2020.

SOURCE: Current Population Survey and author's calculations.

Source: "The COVID Retirement Boom", Federal Reserve Bank of St. Louis

Developed countries: Perspective on COVID-19 cases and deaths

New cases and new deaths in Europe and North America, 7-day mov. average



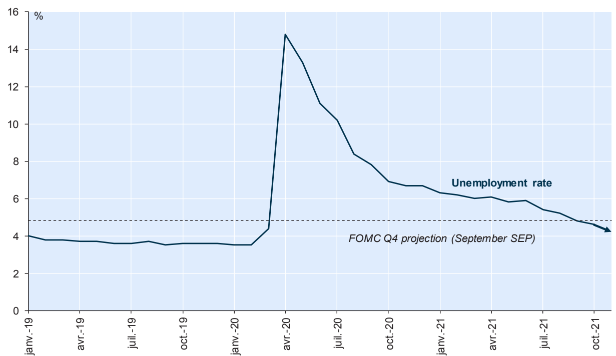
NBF Economics and Strategy (data via Johns Hopkins CSSE)

We'll concede that the ongoing pandemic is probably leading to Americans remaining on the sidelines due to fear of contracting the virus, caretaking needs or any other number of factors. And while we don't claim to be epidemiologists, this latest global spike in COVID infections is making it clear that this virus isn't going anywhere any time soon. In other words, if the Fed wants to wait for the virus to be behind us so that more Americans will reengage in the labour market, we might be here a while. And the longer the Fed waits, the longer well-above-target inflation inflicts pain and risks solidifying into more permanent elevated inflation/expectations.

Meanwhile, those looking for work don't appear to have trouble finding it. The unemployment rate continues to fall towards pre-COVID levels, blowing through end-of-year Fed projections laid down just three months ago.

This labour market is tight, tight, tight

US unemployment rate versus FOMC Q4 projection from September's Summary of Economic Projections

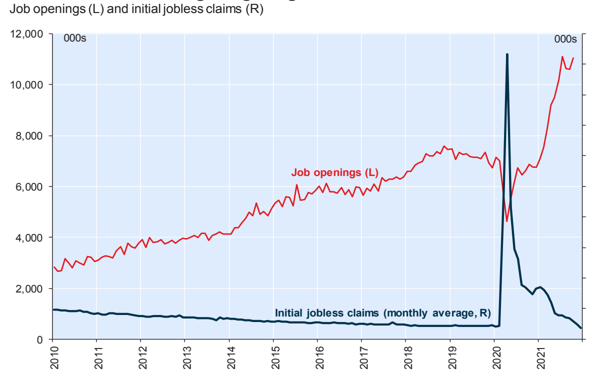


NBF Economics and Strategy (data via Federal Reserve)

Weekly claims have also been on a one-way street lower, setting records for all-time low readings. Job openings are at all-time highs and more Americans are quitting more than ever before. All that points to building wage pressures which is exactly what we're seeing. In other words, this labour market is tight. Tight enough to lead to Fed rate hikes in the first half of next year? That's our bet as we've brought forward the timing for the first Fed move to June 2022.

This labour market is tight, tight, tight

Job openings (L) and initial jobless claims (R)



NBF Economics and Strategy (data via Federal Reserve)

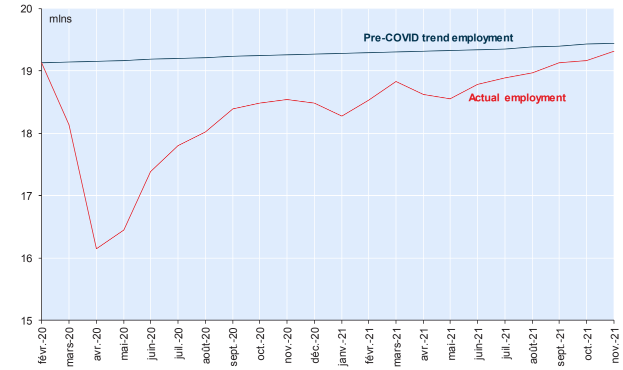
BoC: Holding the line… for now

Hawkish October, dovish December. That's how things have played out in recent months at the Bank of Canada, at least relative to market expectations. Indeed, in a surprise October move the Bank had pulled for forward guidance on the policy rate, moving their projection of slack absorption from the second half of 2022 to the "middle quarters" of 2022 in October. That had prompted us to bring forward our own projection for interest rate hikes into April.

Then, November's jobs report dropped. In one fell swoop, we added what could've reasonably been four months of job gains in a single month. We saw the employment rate effectively return to pre-COVID levels and the remaining labour market slack that the BoC had been signalling was all but eliminated.

Canadian employment effectively back to pre-COVID trend

Canadian employment versus pre-COVID trend (based on February 2020 employment rate)

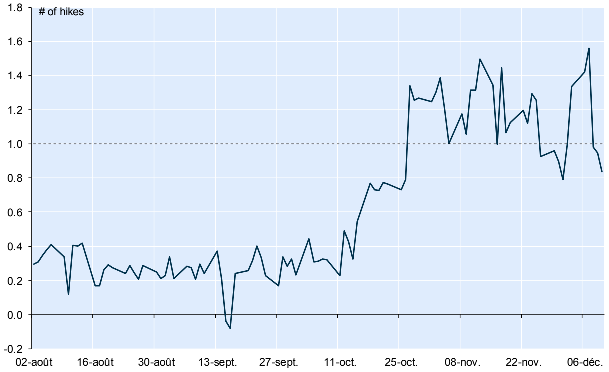


NBF Economics and Strategy (data StatCan)

This prompted us to once more bring forward our call for hike #1 of the imminent tightening cycle into March of next year. Indeed, with inflation screaming north of 4% (next stop 5%?) and with employment essentially back to the pre-COVID trend, we felt the Bank would be forced into tightening policy sooner than their forward guidance was signalling. Yes, even if the Bank's models might still be showing output gap closure in Q2 or Q3. Judging by aggressive market pricing, we weren't the only ones with this view.

Interest Rates and Bond Markets

The market had already been looking for a March hike
# of hikes priced into March 2022 BoC meeting (based on OIS via WIRP CA on Bloomberg)



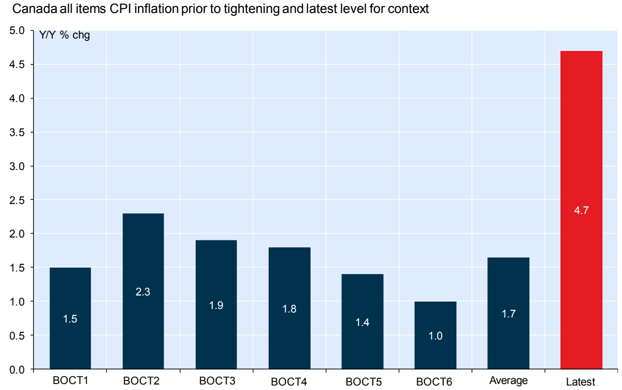
NBF Economics and Strategy (data Bloomberg)

However, December's statement didn't necessarily sound the alarm that rate hikes were imminent. The Bank left forward guidance unchanged, reiterating it's Q2-Q3 signal from October's statement and leaving its balance sheet reinvestment phase intact. This didn't necessarily come as a huge surprise as the BoC has consistently left guidance unchanged on non-MPR meetings (since no new projections are produced). Also, the Bank did remove from the statement its judgement that "labour market slack remains". However, it didn't explicitly say that labour market slack had been absorbed or that we had reached full employment (which to us would've been a clear hawkish signal). Moreover, it referenced the COVID-19 Omicron variant more than once, noting that it has "injected renewed uncertainty' and "could weigh on growth". Given that inflation has largely come in line with the BoC's forecasts, they didn't significantly shift their view here (though we'd note the "temporary" prefix to "forces pushing up inflation" was removed). Overall though, the tone of the statement was cautious and patient. In other words, it doesn't look like the BoC is viewing a January rate hike as a part of their base case outlook.

Despite all of this, we have retained our call for a March 2022 rate hike and are not fully ruling out a January hike even if the odds here have been significantly reduced. We'd stress there is plenty of information to be absorbed in the lead-up to the January meeting, let alone March. Of course, we should have much greater clarity on the Omicron outlook and the potential disruptions it might cause on both the global and domestic economy. In addition, the next seven weeks will bring, a GDP report, two CPI prints, a federal budget update (confirming Liberal campaign pledges), an FOMC decision (which may bring a taper acceleration), a Business Outlook Survey and a Bank of Canada mandate renewal (though this may have already been leaked, the status quo apparently retained). Elevated/accelerating inflation, another stellar Business Outlook Survey, additional fiscal stimulus and/or a hawkish FOMC could all come together to push the BoC to tee up a March hike.

Importantly though, if we're going to get there, we're going to have to see one of two things materialize: (1) the Bank's estimate of potential output/supply is revised down so that output gap closure can be brought forward again in January, or (2) an abandonment of guidance conditional on the output gap. The latter is the avenue we think is more appropriate ***as we discussed in an op-ed after the November jobs report***. This approach wouldn't even be unprecedented. Back in 2009, the BoC committed to holding the policy rate at 0.25% until the end of the Q2 2010. By April 2010 (an MPR meeting), it removed this commitment and ultimately increased its policy rate in June—exactly one month before its conditional commitment would have been met. Sound like a similar set-up? A removal of forward guidance in January could give way to the first move in March—one month before its current guidance would suggest. This isn't to say that because it's happened before it will happen again. If it were to take place, we'd chalk it up to more of a coincidence than anything else. But with the labour market hot and inflation hotter, we think it's a decision that would be easily justifiable.

Inflation has never been this hot in the lead-up to hiking cycles
Canada all items CPI inflation prior to tightening and latest level for context



NBF Economics and Strategy (data via BoC, StatCan) | Note: BOCT'X' is the naming convention for the last 6 Bank of Canada hiking cycles. For BOCT1-BOCT6, based on level for month immediately prior to first hike; latest is Oct-2021

The former option (that is a revision of 'economic slack' and thus, forward guidance) isn't out of the question either. While we felt the rate statement was dovish relative to expectations, Deputy Governor Toni Gravelle's speech the next day seemed to leave the door open to a Q1 hike. He reiterated the difficulty in assessing the amount of economic slack and the productive capacity of the Canadian economy. He reminded us that a reassessment here is what prompted the Bank to revise its output gap estimate lower in October and move forward guidance earlier. Moreover, he noted that they will conduct a full assessment of supply chain disruptions and associated impacts on inflation in January's MPR. In other words, if the Bank judges that supply chain disruptions have had an even larger impact on potential supply than they'd thought, we could see forward guidance note that slack has already been absorbed or that it will be absorbed at some point in Q1.

After what we believe will be a March hike, we expect the Bank to continue with a relatively rapid pace of tightening throughout the balance of the year. We see four additional hikes by December, leaving the policy rate at 1.5%—a much more appropriate setting based on where we'll be in the cycle. Unlike other forecasters who foresee a more gradual tightening spread out over 2022 and 2023, we don't see much more scope for normalization in 2023. We technically have one more hike in the Q2:2023 before the BoC calls it quits. That brings us to 1.75%—right where we left things off prior to COVID and right around where we and the BoC estimate a 'neutral' policy rate resides (though, this is admittedly on the lower end of the BoC's 1.75% to 2.75% estimated range).

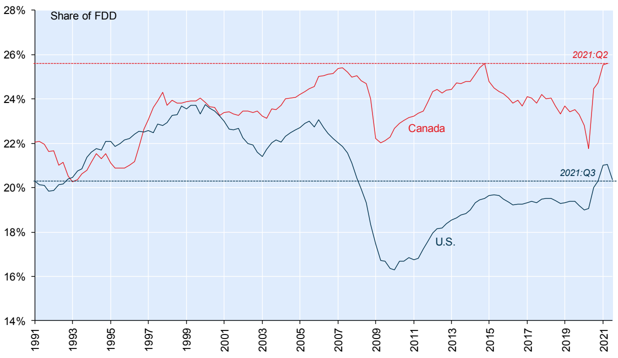
Tightening tendencies

*Note: This section is drawn from our earlier analysis on past BoC tightening cycles. You can find part A of that analysis which focuses on the real economy side **here** and part B, looking at market performance, **here**.*

Why do we see the BoC tapping out at a seemingly low rate of interest? This is mainly due to the large and growing share of interest sensitive demand in the economy.

Interest Rates and Bond Markets

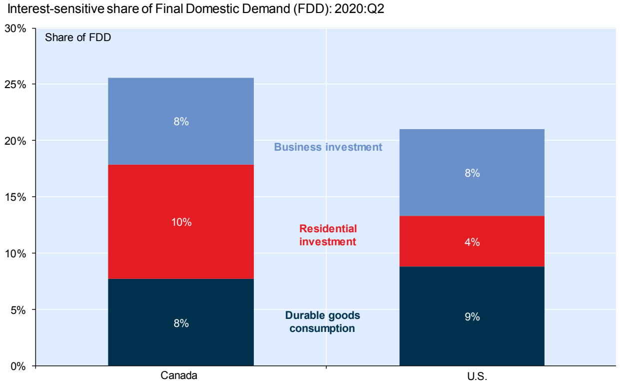
Record share of Cdn demand interest-sensitive
Interest-sensitive share of Final Domestic Demand (FDD)



NBF Economics and Strategy (data StatCan, BEA) | Note: Cdn data lagged one quarter (latest=2021:Q2)

It's no secret that Canada's economy has been largely reliant on housing. Indeed, the entire difference between the share of interest sensitive demand between the Canadian and U.S. economies is due to residential investment. We don't see the BoC as wanting to crush one of the main drivers of Canadian economic activity.

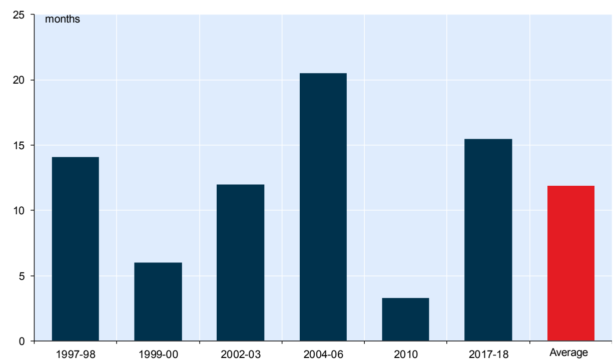
More interest-sensitive activity in Canada
Interest-sensitive share of Final Domestic Demand (FDD): 2020:Q2



NBF Economics and Strategy (data StatCan, BEA) | Note: Based on same quarter to improve comparability

Moreover, from the historical record, we know that rate hikes quickly cool down interest sensitive demand (and thus, GDP growth). Even a historically modest number of rate hikes next year is likely to cool inflation and economic activity enough for the BoC to throw in the towel on the tightening cycle. Our forecast is also broadly consistent with the historical record in terms of the length of tightening cycles. Perhaps surprisingly, the average cycle lasts just one year. In our view, this iteration shouldn't last much longer than that either.

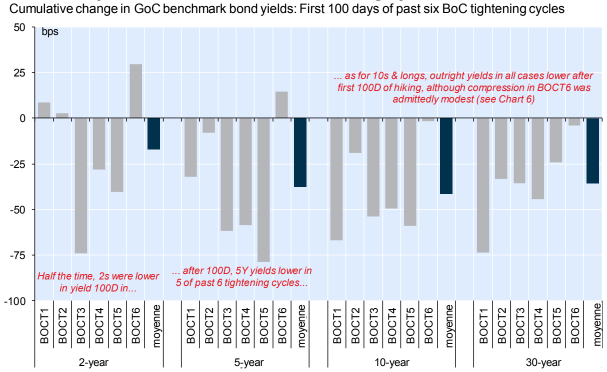
How long do tightening cycles last? Just one year on average
Duration of last six Bank of Canada hiking cycles



NBF Economics and Strategy (data via BoC)

What does this policy rate outlook imply for term rates? Historically, there hasn't been much upward pressure on bond yields beyond the lead-up to lift-off. Indeed, further out the curve we've never seen interest rates higher 100 days after the first hike than they were when the tightening cycle kicked off.

Rates rarely rise in the months after the hiking cycle starts
Cumulative change in GoC benchmark bond yields: First 100 days of past six BoC tightening cycles

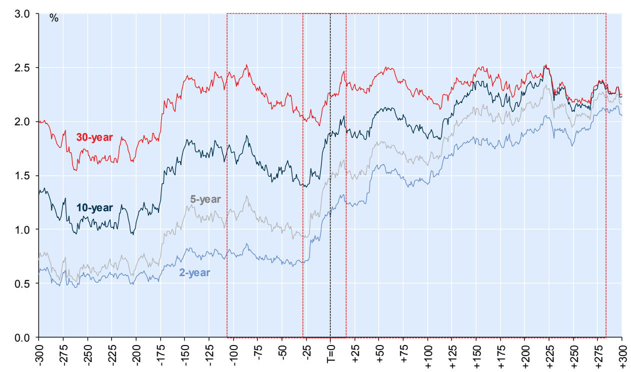


NBF Economics and Strategy (data via BoC, Bloomberg)

To be sure, some prior tightening cycles occurred in environments that don't resemble the current situation. The economic make-up was different, and the neutral rate of interest was far higher than it is today. Thankfully, we have a more recent experience to guide us: The 2017-18 hiking cycle.

In this most recent episode, you'll see a little bit more upward pressure on rates post-hike. 2-year rates continued to climb, as did 5s. 10-year yields were under a little more pressure than in prior cycles, though it took roughly half a year for them to move meaningfully above where they were when hiking began. But consistent with the historical record, 30-year yields never really moved above the pre-hike high watermark.

The 2017-18 experience for interest rates
Evolution of GoC benchmark bond yields in lead up & initial stages of last BoC tightening cycle

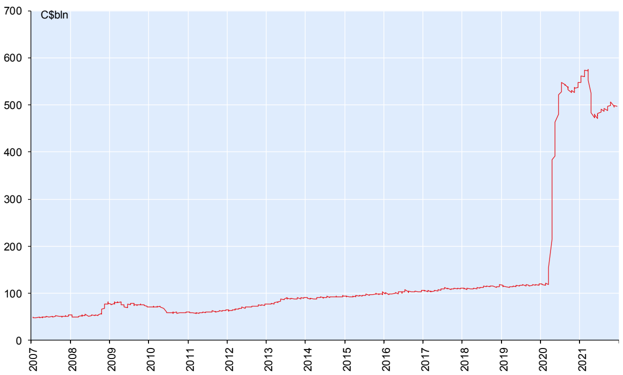


NBF Economics and Strategy (data via BoC, Bloomberg)

If you look at our forecast table today, you'll see that we do somewhat deviate from this trend as longer-term rates continue to drift modestly higher in 2022 and 2023. So how do we justify this? Unlike in past hiking cycles, the Bank is coming out of an unprecedented balance sheet expansion. Even in 2008-09, we didn't see an increase anywhere close to what the COVID era stimulus response brought about.

Interest Rates and Bond Markets

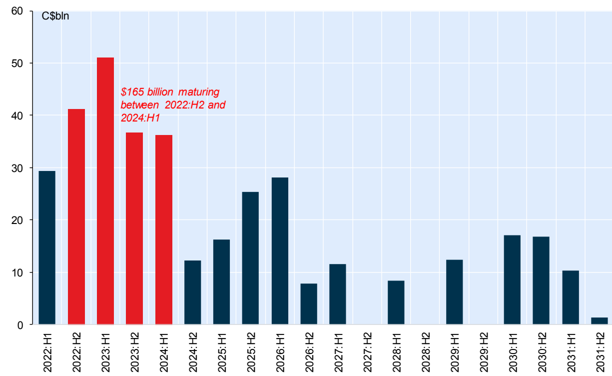
2008-09 balance sheet expansion was a blip compared to COVID-era
Total assets held by the BoC since 2007



NBF Economics and Strategy (data via BoC)

As the Bank eventually moves out of its reinvestment phase, bonds that are currently held on the Bank's balance sheet will mature and the market will be forced to digest them. That in our view, should require a modest back-up in rates. This is one of the great unknowns of the coming normalization process as there is no Bank of Canada historical playbook to go off of. From the second half of 2022 to the first half of 2024, a whopping $165 billion in bonds held by the Bank are due to mature. To be sure, some will be reinvested. However, the Bank needs to drain some cash from the system, and allowing for a modest reduction in its holdings may be the best way it can go about doing so.

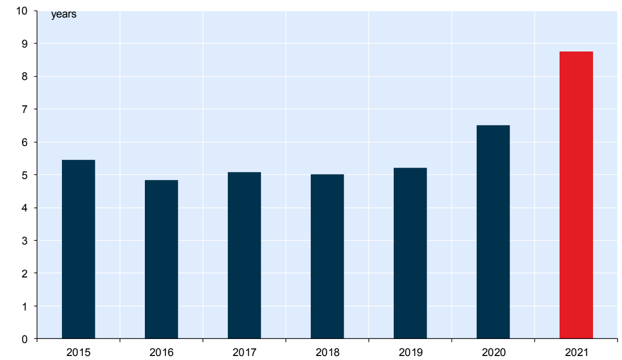
Balance sheet run-off a noted wild card
BoC holdings of GoC bonds by maturity date



NBF Economics and Strategy (data via BoC, Bloomberg)

And lastly, let's not forget about the great term-out that's been underway over the last 18 months. The Government of Canada has pushed a significant portion of issuance that would've normally gone to the 5-year-and-under part of the curve to longer-term bonds. This trend is likely to remain intact which likewise supports a continued back-up in rates and a slightly steeper curve as we approach the end of the hiking cycle.

The great GoC term-out is ongoing
Weighted average term of issuance by calendar year since 2015



NBF Economics and Strategy (data via BoC)

Canadian Bond Market: Interest rates, spreads and currencies

	10-Dec-21	10-Sep-21	11-Jun-21	12-Mar-21	11-Dec-20
Interest Rates					
3 months	0.026	0.152	0.112	0.11	0.127
2 years	0.965	0.414	0.311	0.318	0.253
5 years	1.325	0.831	0.818	1.042	0.443
10 years	1.474	1.238	1.369	1.587	0.712
30 years	1.805	1.802	1.932	2.026	1.266
Spreads					
3 months - 2 years	93.9	26.2	19.9	20.8	12.6
2 - 5 years	36	41.7	50.7	72.4	19
5 - 10 years	14.9	40.7	55.1	54.5	26.9
10 - 30 years	33.1	56.4	56.3	43.9	55.4
Currencies					
CAD/USD	1.2711	1.2692	1.2158	1.2475	1.2769
EUR/CAD	0.695	0.6672	0.6792	0.6706	0.6464

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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World: A Supervillain variant?

Equity markets have been struggling in recent weeks with the advent of a new coronavirus variant named Omicron. Apart from baring the same name of a DC Comics super-villain character of the same name from the 80s, market participants were spooked by reports of more than 30 changes in the spike protein, changes that could reduce vaccine efficacy. Emerging markets have been particularly hard-hit by this news and show little to no growth so far in Q4 (table).

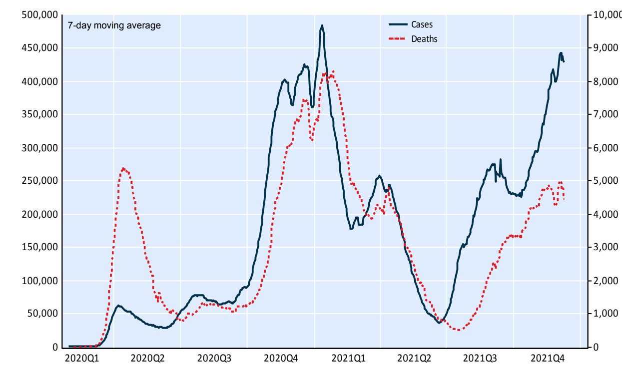
	Month to date	Quarter to date	Year to date
MSCI ACWI	2.3	5.3	17.6
MSCI World	2.2	6.1	20.4
MSCI USA	1.9	7.7	22.9
MSCI Canada	1.5	4.9	20.7
MSCI Europe	3.3	4.4	17.9
MSCI Pacific ex Jp	2.2	-0.3	6.1
MSCI Japan	3.0	-1.3	11.2
MSCI EM	2.6	0.1	-0.9
MSCI EM EMEA	1.1	-0.9	17.6
MSCI EM Latin America	2.5	-2.9	-7.6
MSCI EM Asia	2.9	0.5	-3.1

2021-12-09

NBF Economics and Strategy (data via Refinitiv)

How the new variant will shape the pandemic is not yet clear. All eyes are now on hospitals, where researchers hope to confirm that Omicron can be controlled or defeated without too much collateral economic damage. Though the OECD economies are already reporting a significant increase in new cases, the number of fatalities is so far increasing less rapidly (chart), suggesting that there may not be a need for widespread economic shutdowns.

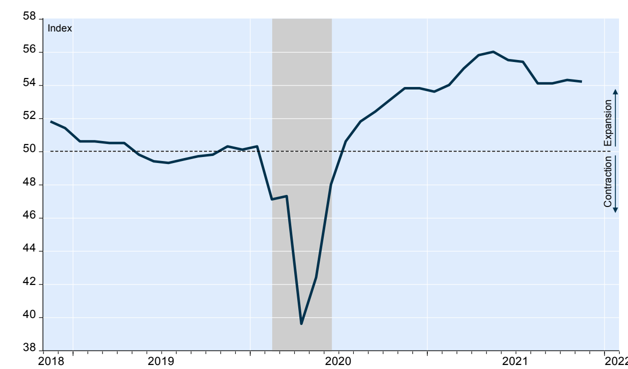
World: A new villain called Omicron
Daily new cases and deaths, total for Europe and North America, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

At this writing the global economy remains relatively robust. The JP Morgan/Markit World Manufacturing PMI stood at 54.2 in November, a 17th consecutive month of growth signal for global factory output (chart). Output expanded in November at the fastest pace in four months and employment rose for a 15th consecutive month.

World: Manufacturing sector has continued to expand at a healthy clip
JPMorgan/Markit Global Manufacturing PMI. Last observation November 2021



NBF Economics and Strategy (Source: Markit via Refinitiv)

This backdrop remains favourable to corporate profits. Volume sales are still on the rise and pricing power is good. As a result, EPS expectations are still being revised up in most regions (table).

[1] For a discussion on the probable cause of these outflows, see our special report, "Canada can't afford to bleed capital like this" ***here***.

[2] See our latest Forex for more details ***here***.

[3] See our latest Fixed Income Monitor ***here***.

Stock Market and Portfolio Strategy

MSCI : Changes in 12-month-forward earnings outlook
Earnings per share (EPS) forecast revisions

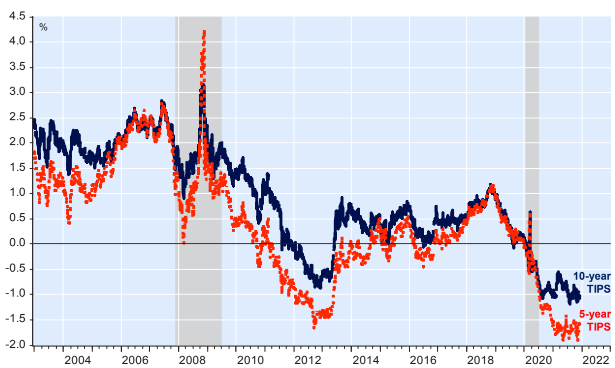
	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10-year historical average	1-month change	10-year historical average	1-month diffusion	10 -year historical average
MSCI ACWI	1.7	-0.5	0.7	-0.5	53%	44%
MSCI World	2.3	-0.5	0.9	-0.5	59%	46%
MSCI USA	1.7	-0.3	0.7	-0.3	59%	48%
MSCI Canada	4.3	-0.6	1.4	-0.6	63%	44%
MSCI Europe	3.5	-0.8	1.2	-0.8	58%	42%
MSCI Pacific ex Jp	-3.1	-0.5	-0.4	-0.5	50%	42%
MSCI Japan	4.3	-0.2	1.7	-0.2	61%	50%
MSCI EM	-0.9	-0.6	-0.4	-0.6	47%	41%
MSCI EM EMEA	4.8	-0.4	1.6	-0.4	60%	44%
MSCI EM Latin America	-3.2	-0.9	0.4	-0.9	56%	41%
MSCI EM Asia	-1.9	-0.5	-1.0	-0.5	44%	41%

2021-12-09

NBF Economics and Strategy (data via Refinitiv)

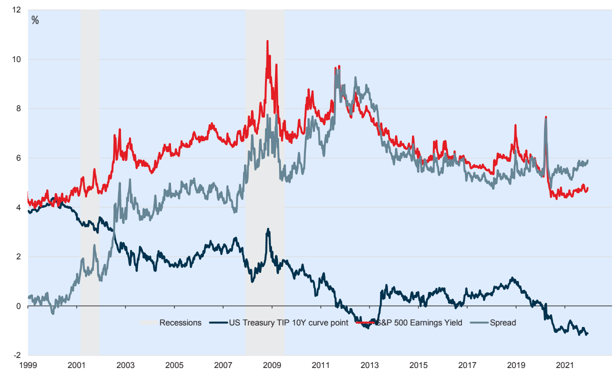
As we have been noting for many months, equity markets have been supported by the persistence of negative real interest rates, which keep the equity risk premium essentially in line with its average of the past five years (charts). At this writing, we expect real interest rates to remain negative through much of next year.

U.S.: Real interest rates now seen as staying negative longer
Real interest rates – 10-year TIPS and 5-year TIPS



NBF Economics and Strategy (data via Refinitiv)

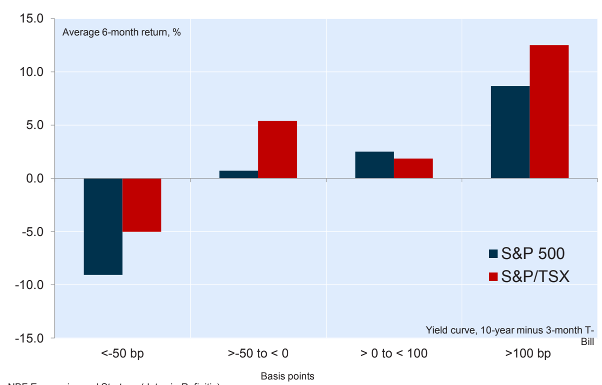
U.S.: Perspective on valuation
S&P 500 earnings yield and yield of 10-year TIP



NBF Economics and Strategy (data via Refinitiv)

That's not to say equity markets won't become more volatile. As labour markets continue to recover, we think 2022 will be the Year of the Hike in North America and perhaps a few other corners of the globe, as central bankers bleed excessive stimulus from increasingly overheated economies in an attempt to maintain their price-stability bona fides. But as explained in our latest *Fixed Income Monitor*, though hikes will flatten yield curves, they will not necessarily or immediately invert them. As long as the yield curve slope (10-year Treasury yield minus 3-month T-bill yield) continues to exceed 100 basis points, equity markets still provide decent upside (chart).

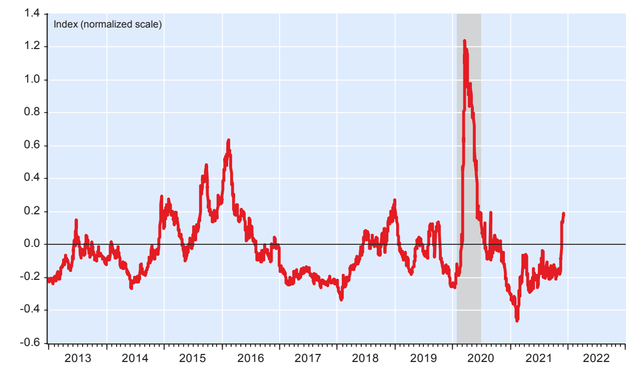
Mature phase: Return of equities vs. slope of yield curve
Slope of U.S. yield curve during mature phase and average return in 6 months following



NBF Economics and Strategy (data via Refinitiv)

Though the U.S. yield curve bears watching, so does financial stress in emerging markets. The latter has recently risen to a multi-month high as a result of rising inflation and increased uncertainly about the effect of Omicron on the 2022 winter tourism season – whether it will deprive many countries of hard currencies to finance their foreign-denominated debt.

Emerging Markets: Financial stress at a multi-month high
OFR Financial Stress Index



NBF Economics and Strategy (data from https://www.financialresearch.gov/financial-stress-index/)

While equity markets could move higher in 2022, it is unlikely to be a cruise control scenario.

S&P/TSX: Why the discount?

Even after retreating from its November record high, the S&P/ TSX remains up 4.3% so far in Q4. Industrials, Financials, Materials and Real Estate are the top performers so far in the quarter (table).

Stock Market and Portfolio Strategy

S&P/TSX Composite Index: Price performance

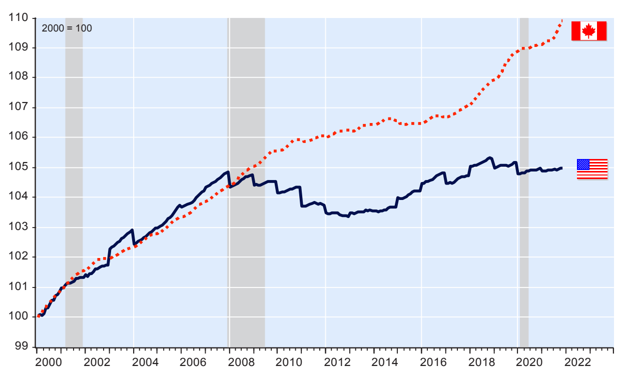
	Month to date	Quarter to date	Year to date
S&P TSX	1.3	4.3	20.0
CONS. STAP.	6.1	4.6	17.4
CONS. DISC.	4.0	4.2	13.0
BANKS	3.7	7.1	29.9
FINANCIALS	3.5	5.9	28.7
REAL ESTATE	2.5	4.7	28.5
INDUSTRIALS	1.1	6.2	16.8
UTILITIES	0.9	-0.3	2.7
TELECOM	0.9	1.7	16.9
ENERGY	0.4	2.8	39.7
MATERIALS	-1.4	5.3	-2.2
HEALTH CARE	-2.2	-15.4	-17.2
IT	-2.7	2.8	23.3

2021-12-09

NBF Economics and Strategy (data via Refinitiv)

Despite earnings forecasts that continue to be revised upward as Canada benefits from enviable demographics, record employment and high commodity prices, the S&P/TSX is still trading at a relatively low P/E of 14.5 times forward earnings vs. more than 21.2 for the S&P 500.

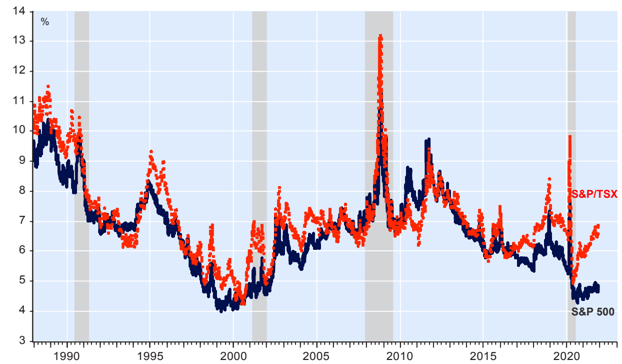
Canada: Enviable demographics
Civilian population aged 25-54 (as of November 2021)



NBF Economics and Strategy (data from Statistics Canada, U.S. Bureau of Labor Statistics)

That means the earnings yield of S&P/TSX companies is a whopping 47% higher than that of S&P 500 companies – 6.9% versus 4.7% (chart). This suggests a much lower cost of capital for U.S. companies.

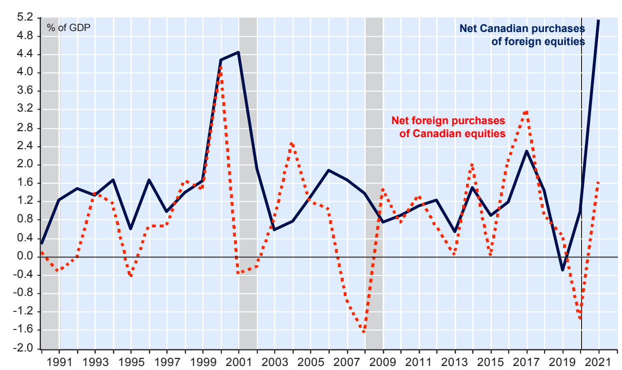
S&P/TSX: Cost of equity capital much higher than for the S&P 500
Earnings yields, S&P/TSX and S&P 500



NBF Economics and Strategy (data from Refinitiv)

The widening gap can be explained by the especially large domestic divestment of Canadian equities of the past year. In the 12 months through September 2021, net Canadian purchases of foreign equities surged to $130 billion, or 5.2% of GDP, a record outflow that more than offset net foreign purchases of Canadian equities (chart).

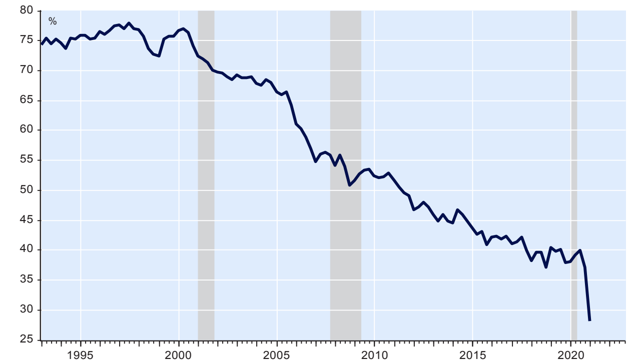
Canada: Record investment in foreign equities
Net purchases of equity and investment fund shares (12-month sum ending September of each year)



NBF Economics and Strategy (data via Statistics Canada)

Canada's large pension funds have contributed substantially to this development. In the early 1990s these funds had 75% of their total equity allocation in Canadian companies. This share has since dropped to less than 30% (chart).[1]

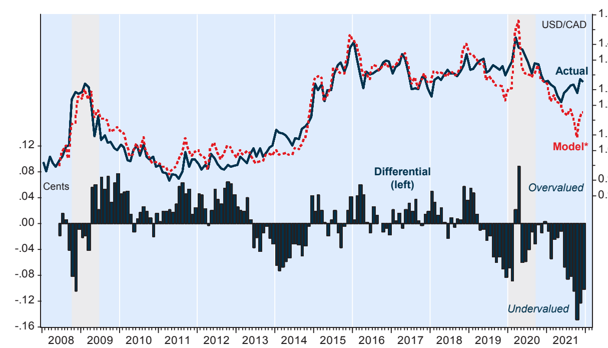
Canada: Pension funds flee domestic stocks
Share of Canadian equities in total equity assets held by trusteed pension funds



NBF Economics and Strategy (data via Statcan, tables 11-10-0077-01 and 11-10-0085-01)

This shift is certainly not unrelated to lack of Canadian dollar appreciation in 2021. According to our model, which takes into account the Canada-U.S. interest rate differential as well as the price of oil, the loonie looks undervalued by about 10 Canadian cents (chart).

The Canadian dollar is undervalued
Actual exchange rate against USD; NBF short-term fair-value estimate* against USD; differential



** Model estimated from 2008 to 2021:*
log(USDCAD) = c + β1(US2Y yield − CA2Y yield) + β2 log(WTI oil price) + β3 WCS differential + β4 log(metal price index)

NBF Economics & Strategy & OECD

Looking ahead, we don't expect Canadian pension funds to increase their exposure to foreign equities as aggressively in 2022 as they did over the past year. Given the more uncertain outlook due to the pandemic and rising inflation, Canada's equity benchmark looks attractive. Our research shows

Stock Market and Portfolio Strategy

that historically, commodities have generally provided positive real returns during inflationary periods, as have Canadian housing assets (table). As for equities, the same table shows that the S&P/TSX provides a much better hedge against inflation than the S&P 500 – an average annual return of +2.3% versus −5.9% for the S&P 500. We accordingly expect a narrowing of the valuation gap between the S&P/TSX and the S&P 500 in the first half of the coming year and a better performance of the Canadian dollar against the greenback.[2]

Performance of asset classes in inflationary periods since 1972
Real total annualized returns during periods of inflation exceeding 4% (including start of recessions)

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

NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is unchanged this month: underweight in fixed income and overweight in equities with a preference for value over growth stocks given our expectation of rising long-term interest rates and yield-curve slope. Although tapering of quantitative easing is expected to accelerate, we doubt that monetary policy will become restrictive any time soon.[3] True, Omicron could temporarily dampen the global economy, but we see its impact as transitory. If we are right, companies are likely to retain their pricing power in an environment where long-term interest rates continue to drift higher.

NBF Asset Allocation

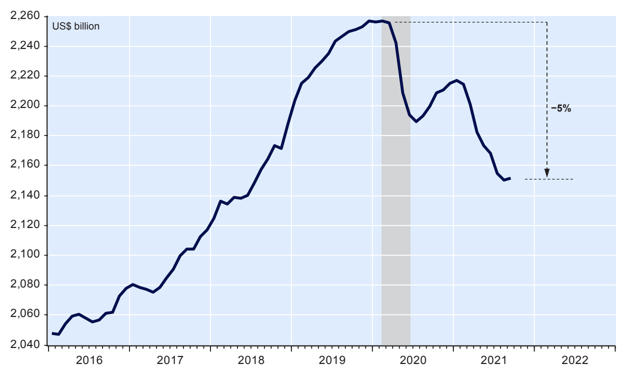
	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	25	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	5	
Fixed Income	45	42	
Cash	5	7	
Total	100	100	

NBF Economics and Strategy

Sector allocation

Our sector allocation is unchanged this month. We continue to favour cyclicals such as Energy, Materials and capital goods, These are sectors that have historically done well in the early stages of an inventory rebuilding phase, and the current such phase has yet to get into full swing.

U.S.: Restocking is just beginning
Real manufacturing and trade inventories



NBF Economics and Strategy (data via FRED)

NBF Fundamental Sector Rotation - December 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**12.9%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	12.9%
Materials	**Overweight**	**11.3%**
Chemicals	Market Weight	1.8%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.5%
Gold	Overweight	5.9%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.7%**
Capital Goods	Overweight	2.2%
Commercial & Professional Services	Underweight	3.3%
Transportation	Market Weight	6.2%
Consumer Discretionary	**Market Weight**	**3.6%**
Automobiles & Components	Underweight	1.1%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	0.8%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.7%**
Food & Staples Retailing	Market Weight	3.1%
Food, Beverage & Tobacco	Market Weight	0.6%
Health Care	**Market Weight**	**0.8%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.7%
Financials	**Market Weight**	**32.5%**
Banks	Market Weight	21.9%
Diversified Financials	Market Weight	4.8%
Insurance	Market Weight	5.8%
Information Technology	**Underweight**	**11.2%**
Telecommunication Services	**Market Weight**	**4.8%**
Utilities	**Underweight**	**4.4%**
Real Estate	**Underweight**	**3.1%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	Q2 2022
Index Level		Dec-10-21	Target
S&P/TSX		20,891	22,500
Assumptions			Q2 2022
Level:	Earnings *	1340	1435
	Dividend	545	584
PE Trailing (implied)		15.6	15.7
			Q2 2022
10-year Bond Yield		1.47	1.95

* Before extraordinary items, source Thomson

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	Q2 2022
Index Level		Dec-10-21	Target
S&P 500		4,712	4,900
Assumptions			Q2 2022
Level:	Earnings *	203	216
	Dividend	61	65
PE Trailing (implied)		23.2	22.7
			Q2 2022
10-year Bond Yield		1.49	2.05

* S&P operating earnings, bottom up.

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on	Returns				Returns			with S&P 500
	12-10-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	**4742**	**2.7%**	**23.8%**	**26.7%**	**79.4%**	**23.5%**	**26.7%**	**70.2%**	**1.00**
United States - S&P 500	4712	3.2%	25.5%	28.5%	78.6%	25.2%	28.4%	69.5%	1.00
Canada - S&P TSX	20891	1.1%	19.8%	18.7%	41.8%	19.8%	18.7%	41.8%	0.95
Europe - MSCI Index	**2030**	**3.4%**	**10.3%**	**12.6%**	**36.6%**	**10.1%**	**12.6%**	**29.6%**	**0.93**
United Kingdom - FTSE 100	7292	3.3%	12.9%	10.5%	8.5%	9.0%	10.1%	8.7%	0.15
Germany - DAX 30	15623	3.5%	13.9%	17.5%	47.1%	5.0%	9.5%	38.7%	0.96
France - CAC 40	6992	4.0%	25.9%	26.0%	47.4%	16.1%	17.4%	39.0%	0.85
Switzerland - SMI	12608	3.7%	17.8%	21.3%	47.4%	12.7%	16.7%	50.2%	0.96
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	27.4%	-7.8%	-6.8%	20.1%	0.60
Netherlands - Amsterdam Exchanges	788	1.4%	26.2%	27.5%	59.1%	16.3%	18.8%	50.0%	0.96
Pacific - MSCI Index	**3109**	**2.3%**	**0.3%**	**2.8%**	**24.6%**	**0.1%**	**2.8%**	**18.3%**	**0.90**
Japan - Nikkei 225	28438	2.2%	3.6%	6.3%	34.0%	-5.9%	-2.2%	26.7%	0.94
Australia - All ordinaries	7668	1.1%	11.9%	10.9%	36.3%	3.8%	5.7%	29.0%	0.85
Hong Kong - Hang Seng	23996	2.2%	-11.9%	-9.1%	-6.8%	-12.6%	-9.7%	-11.4%	-0.03
World - MSCI Index	**3188**	**2.8%**	**18.5%**	**21.3%**	**63.3%**	**18.3%**	**21.2%**	**54.9%**	**1.00**
World Ex. U.S.A. - MSCI Index	**2310**	**2.9%**	**7.9%**	**10.0%**	**33.6%**	**7.7%**	**10.0%**	**26.8%**	**0.93**
EAFE - MSCI Index	**2290**	**3.0%**	**6.6%**	**9.0%**	**32.2%**	**6.4%**	**9.0%**	**25.4%**	**0.93**
Emerging markets (free) - MSCI Index	**1,239**	**2.2%**	**-4.1%**	**-1.3%**	**28.6%**	**-4.3%**	**-1.4%**	**22.1%**	**0.87**

* Correlation of monthly returns (3 years).

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-12-10

	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	2021	2022	12-m forward	2021	2022	12-m forward			
S&P 500	100	307	4.85	36.83	49.81	8.22	8.23	22.33	20.64	20.51	21.54	2.49	1.75
Energy	2.76	431	20.49	38.93	0.00	28.88	28.88	13.52	10.49	10.49	62.48	0.36	26.09
Materials	2.52	553	5.18	23.82	84.79	2.86	2.74	16.36	15.90	15.87	18.92	5.80	4.66
Industrials	7.89	889	3.36	19.06	86.31	36.99	36.59	26.68	19.48	19.44	15.77	0.53	-2.53
Consumer Discretionary	12.75	1614	10.44	27.78	76.68	28.58	29.23	39.85	31.00	31.08	46.25	1.06	-2.71
Consumer Staples	5.69	771	3.55	11.98	10.30	6.11	6.07	21.26	20.03	19.86	9.13	3.27	-0.16
Healthcare	12.77	1565	1.04	20.05	26.65	4.66	5.04	16.93	16.17	16.17	11.67	3.21	3.37
Financials	10.79	648	3.95	36.05	64.23	-8.92	-8.90	12.89	14.15	14.15	22.23	neg.	2.00
Information Technology	29.53	3069	11.74	40.31	36.97	9.84	9.49	30.28	27.57	26.94	17.94	2.84	1.00
Telecom Services	10.24	266	-6.02	21.74	37.23	6.33	6.26	21.08	19.83	19.76	23.00	3.16	-1.40
Utilities	2.42	349	1.00	11.34	3.66	4.59	4.60	19.77	18.91	18.90	6.65	4.11	-0.35
Real Estate	2.63	307	4.85	36.83	31.08	-7.26	-7.26	44.46	47.95	47.95	36.63	neg.	3.09

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

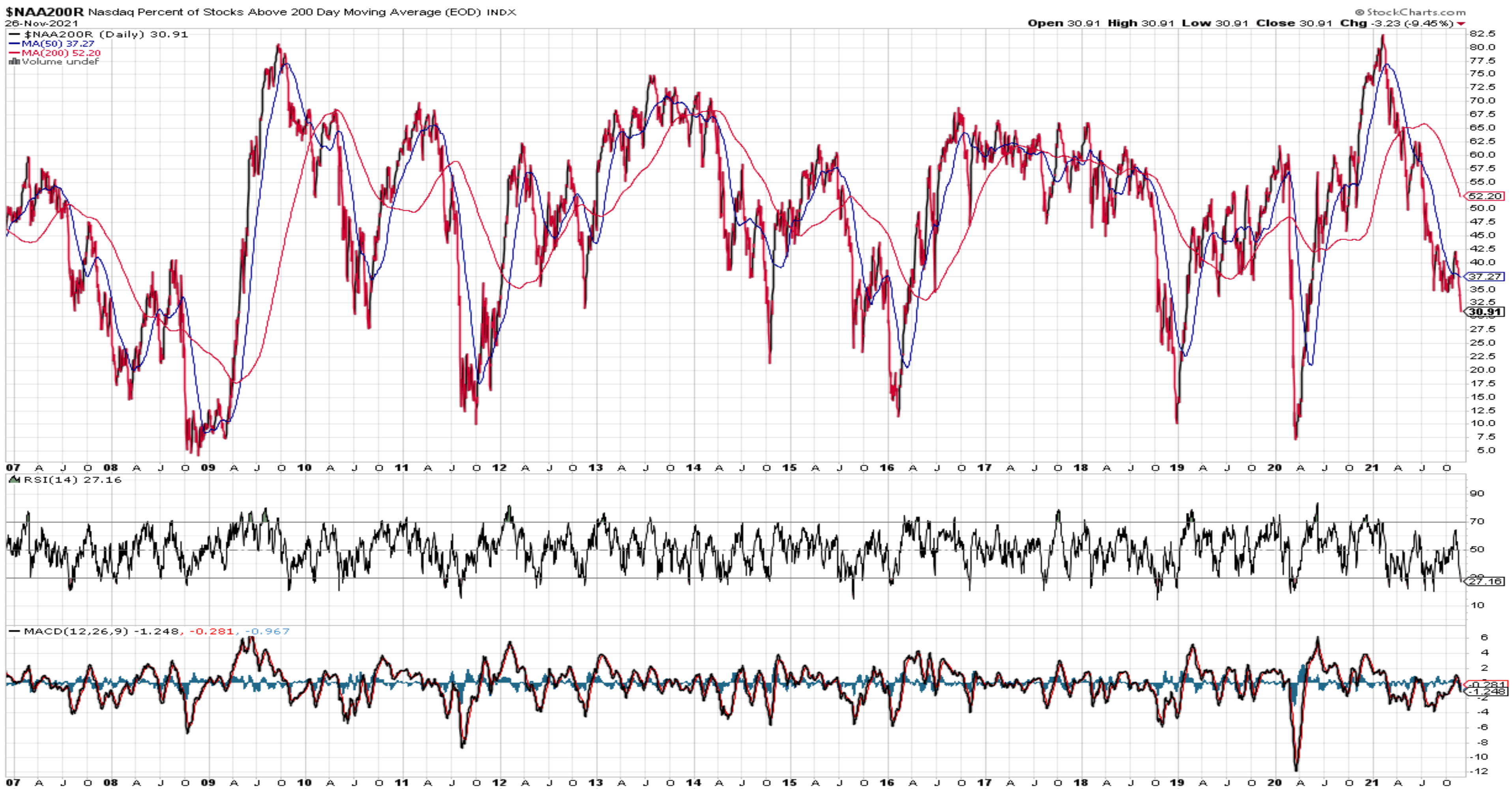
Chart Highlights

In the December issue of Vision, we highlight a number of charts that reflect the current state of the market. We have been noting the increasing selectivity of the market throughout most of this year. As strength narrows, weakness is widening. Meanwhile, abundant liquidity and bullish sentiment are supporting market indices and masking the internal technical weakness. The following charts will shed light on an increasingly fragile technical environment.

Technical Analysis

NASD stocks above their 200-day – 30.91%

While the NASD trends higher into new all-time highs and remains within a couple of percent from its highs after a pullback, the internal condition of the market continues to deteriorate. The momentum peak on the NASD was early in the year as the number of stocks above their 200-day peaked at approximately 83%. Market-leading stocks on the NASD are topping out one by one. This is being reflected in this indicator falling recently to 30.91% of stocks trading above their 200-day. Weekly new 52-week lows on the NASD hit 885 last week as it recorded the highest numbers since the recovery began in March 2020. The weakening internal trend on the NASD will play out in coming weeks and months creating a choppy challenging market. As the accompanying chart indicates, a minority and shrinking number of stocks are trading above their 200-day averages.

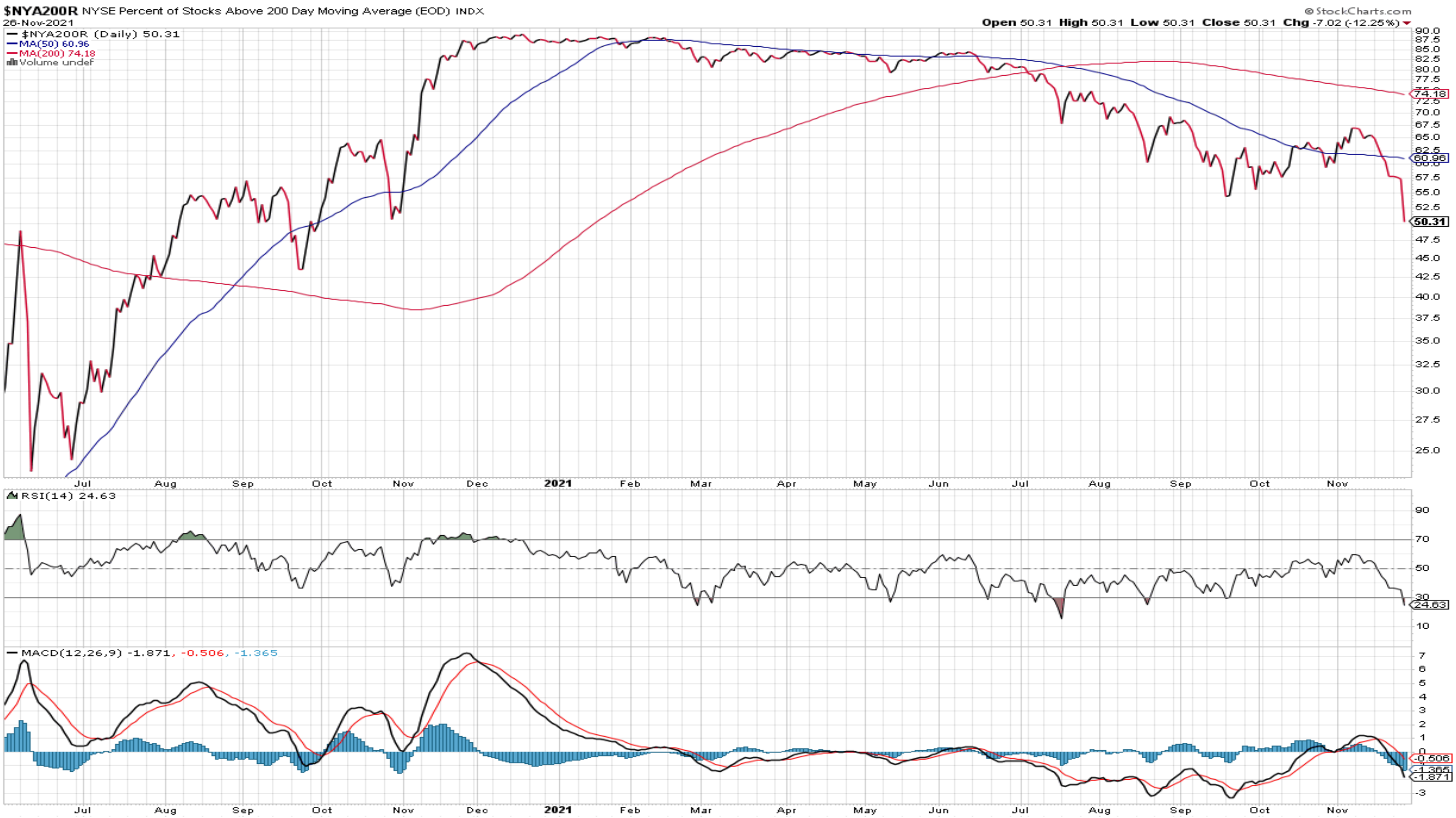


Source: Stockcharts

Technical Analysis

NYSE stocks above their 200-day – 50.31

An increasingly selective market can also be seen on the NYSE. The number of stocks trading above their 200-day topped out early in the year and started to trend lower in July when these numbers broke below 80%. Recent weakness took this chart down to 50.31% of stocks trading above their 200-day. A break of 50% on this indicator breaches another benchmark where there will be more stocks trading below their 200-day than above. Weak technical action produced 334 weekly new 52-week lows at a time when the market averages are within 2% to 3% of their all-time highs. This divergence is generally negative.



Source: Stockcharts

Technical Analysis

iShares Russell 2000 ETF (IWM)

Failed upside breakouts is emerging as a recent characteristic in this market. Many recent upside chart breakouts are failing to trend higher and are pulling back to lower levels from where they broke out. These failing breakouts are inherently negative as overhead supply is reinforced. The Russell 2000 ETF (IWM) chart is an example of this pattern. This chart spent most of 2021 locked in a trading range between US$210.00 and US$234.00. The November 2 breakout across US$234.00 seemingly broke the chart out of a 10-month base, setting the stage for higher prices. Recent weak action has taken prices back into the base and below both its moving average on increasing volume. While support at US$210.00 remains intact, the technical action is faltering and a clear technical negative for the representative overall market.

Source: Refinitiv

Technical Analysis

SPDR Blooberg High Yield ETF (JNK)

The JNK chart has broken down from a one-year top as US$108 support fails. A year of narrow trading on the JNK chart is resolving to the downside and starts a new bear trend. This action reflects, in part, a move by investors toward a more risk adverse stance. Trouble in the fixed income markets is usually not a good sign equity markets will not be far behind.

Source: Refinitiv

Technical Analysis

Laurentian Bank (LB)

LB is generally a laggard among bank stocks and continues to fulfill that role. The chart finally got going in March as the stock broke out of its base. Major overhead resistance in the mid $40s stalled the advance and the stock has broken back below its moving averages and support at $40.00. This action has completed a top formation and turned the trend down. Thin support suggests risk back to the low to mid $30s.

Source: Refinitiv

Technical Analysis

WELL Health Technologies (WELL)

Growth stocks are topping out one by one all year long and WELL is no different. The WELL chart peaked in the first quarter of 2021 and spent the rest of the year in a neutral range carving out a series of lower highs. This created a descending triangle formation that just broke down. Support at $6.00 broke with big volume on the downside as a one-year top was completed. Thin chart support makes this a high-risk situation with significant downside potential. Target is $3.00.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **November 30, 2021.**

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

Back to Research Analysts page

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$15.16	$22.00	0.89%	46.04%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$28.06	$36.00	6.92%	35.14%	Oil, Gas & Consumable Fuels
	Shawcor Ltd.	SCL	$4.78	$8.50	0.00%	77.82%	Energy Equipment & Services
	Tidewater Midstream and Infrastructure Ltd.	TWM	$1.25	$1.75	3.25%	43.20%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$42.51	$57.50	1.78%	36.96%	Oil, Gas & Consumable Fuels
Materials							
	Copper Mountain Mining Corp.	CMMC	$3.53	$5.25	0.00%	48.73%	Metals & Mining
	Endeavour Mining plc	EDV	$29.97	$49.00	2.47%	65.87%	Gold
	Kinross Gold Corp.	K	$7.58	$12.50	2.02%	66.93%	Gold
	Newmont Corp.	NGT	$69.95	$92.00	3.83%	35.42%	Gold
	Pan American Silver Corp.	PAAS	$32.63	$49.00	1.67%	51.74%	Metals & Mining
	Sandstorm Gold Ltd.	SSL	$7.91	$10.75	0.00%	35.90%	Gold
	SSR Mining Inc.	SSRM	$23.19	$32.00	1.12%	39.07%	Gold
	Teck Resources Ltd.	TECK.b	$33.88	$48.50	0.59%	43.74%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$12.50	$14.50	0.00%	16.00%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$47.67	$60.00	0.00%	25.87%	Capital Goods
	CAE Inc.	CAE	$30.70	$44.00	0.00%	43.32%	Capital Goods
	Dexterra Group Inc.	DXT	$8.63	$12.50	4.09%	48.90%	Commercial & Professional Services
	H2O Innovation Inc.	HEO	$2.27	$3.25	0.00%	43.17%	Capital Goods
	Heroux-Devtek Inc.	HRX	$17.17	$23.00	0.00%	33.95%	Capital Goods
	Mullen Group Ltd.	MTL	$11.53	$16.50	3.97%	47.27%	Transportation
	TFI International Inc.	TFII	$126.84	$160.00	0.85%	27.04%	Transportation
	Toromont Industries Ltd.	TIH	$107.30	$125.00	1.29%	17.80%	Capital Goods
	WSP Global Inc.	WSP	$177.69	$185.00	0.83%	4.96%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$51.75	$58.00	1.49%	13.58%	Consumer Durables & Apparel
	Uni-Select Inc.	UNS	$24.33	$27.50	0.00%	13.03%	Retailing
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$11.03	$15.00	5.43%	41.54%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$7.87	$14.00	0.00%	77.89%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.27	$8.00	0.00%	51.80%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$13.56	$17.50	6.61%	35.96%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$142.45	$168.00	4.56%	20.35%	Banks
	Element Fleet Management Corp.	EFN	$12.32	$19.00	2.44%	56.74%	Diversified Financials
	Home Capital Group Inc.	HCG	$41.45	$62.00	0.00%	49.58%	Banks
	iA Financial Corporation Inc.	IAG	$67.88	$87.00	3.56%	31.85%	Insurance
	Royal Bank of Canada	RY	$126.30	$144.00	3.72%	17.81%	Banks
	Trisura Group Ltd.	TSU	$43.78	$62.00	0.00%	41.62%	Insurance
Information Technology							
	Lightspeed Commerce Inc.	LSPD	US$50.49	US$120.00	0.00%	137.67%	Software & Services
	Magnet Forensics Inc.	MAGT	$34.34	$55.00	0.00%	60.16%	Software & Services
	Telus International (CDA) Inc.	TIXT	US$34.96	US$50.00	0.00%	43.02%	Software & Services
Communication Services							
	Rogers Communications Inc.	RCI.b	$57.16	$69.00	3.40%	24.21%	Telecommunication Services
	Shaw Communications Inc.	SJR.b	$37.00	$40.50	3.17%	12.66%	Media & Entertainment
	WildBrain Ltd.	WILD	$3.40	$5.00	0.00%	47.06%	Media & Entertainment
Utilities							
	Boralex Inc.	BLX	$36.26	$50.00	1.88%	39.71%	Utilities
	Capital Power Corp.	CPX	$38.10	$46.00	5.59%	26.48%	Utilities
	Innergex Renewable Energy Inc.	INE	$18.96	$28.00	3.85%	51.48%	Utilities
	Northland Power Inc.	NPI	$38.24	$48.00	3.18%	28.66%	Utilities
Real Estate							
	Allied Properties REIT	AP.un	$41.25	$52.00	3.97%	30.18%	Real Estate
	European Residential REIT	ERE.un	$4.29	$5.75	3.59%	37.70%	Real Estate
	Flagship Communities REIT	MHC.un	US$19.02	US$24.00	2.80%	29.00%	Real Estate
	H&R REIT	HR.un	$15.69	$21.50	4.32%	41.43%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month. A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of November 30, 2021
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

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Selections

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

Canadian Banks & Lifecos

Canadian Imperial Bank of Commerce (TSX: CM) – *Building back better.*

Q3/21 delivered credit and revenue outperformance while avoiding any pitfalls that could have emanated on the expense line. On the latter point, CM's expenses rose primarily due to variable compensation while other costs rose in a much more modest fashion. We believe the bank can accelerate internal investment while also managing to a low-single digit expense growth rate in the foreseeable future. Separately, the Canadian P&C business continued to show improved volume growth that should appease investors that have historically been concerned about the bank's relative market position, and in turn, its future growth prospects. $168 price target. Outperform.

iA Financial Corporation Inc. (TSX: IAG) – *Delivering (near) perfection, but not priced for it.*

IAG reported strong Q3/21 results, with EPS surpassing the high end of its guidance range for the second quarter in a row. Key highlights include: 1) another quarter of combined COVID-19 related mortality & lapse losses falling below expectations; 2) continued strong sales performance across most segments, including 33% growth in U.S. auto warranty product sales; and 3) internal capital generation that nearly doubled the quarterly target run-rate resulting in a YTD figure surpassing the full-year target. IAG trades at 1.2x book value despite consistent ROEs in the 13-14% range. We believe the stock offers an attractive combination of regular EPS outperformance and valuation re-rating potential. IAG is our top pick in the sector. $87 price target. Outperform.

Royal Bank of Canada (TSX: RY) - *Several constructive guidance items.*

RY reported good Q3/21 results, which the market reacted positively to. This we attribute to several guidance items that provide a positive outlook for the stock. For starters, the Canadian banking segment is expected to exceed its 1-2% (i.e., 6% this quarter) operating leverage target over the next year+. On the credit front, the potential for additional performing provision reversals should result in a consolidated loss rate below historical levels well into 2022. Finally, while there is expected to be an increase in non-variable expense growth, RY expects to manage cost inflation to the low-single digits in the foreseeable future. $144 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		86,070	647	133.04	10/2020	7.71	12.74	13.05	10.4	10.2	80.00	81.65	87.14	1.6	1.5	3.1%	149.00	
Bank of Nova Scotia	BNS	SP		96,943	1,215	79.78	10/2021	5.36	7.87	8.31	10.1	9.6	53.28	53.29	57.34	1.5	1.4	4.4%	86.00	
CIBC	CM	OP		63,413	445	142.45	10/2020	9.69	14.75	15.37	9.7	9.3	90.06	91.95	98.43	1.5	1.4	4.0%	168.00	
National Bank	NA	NR		33,534	338	99.27	10/2020	6.06	8.92	9.22	11.1	10.8	46.00	47.43	51.53	2.1	1.9	2.8%	NR	
Royal Bank of Canada	RY	OP		179,990	1,425	126.30	10/2020	7.97	11.50	11.98	11.0	10.5	62.34	64.19	69.61	2.0	1.8	3.3%	144.00	
Toronto-Dominion Bank	TD	OP		164,298	1,823	90.15	10/2020	5.35	7.92	7.84	11.4	11.5	51.21	52.66	56.44	1.7	1.6	3.4%	93.00	
Canadian Western Bank	CWB	SP		3,219	87	36.94	10/2020	2.93	3.66	4.06	10.1	9.1	32.88	33.40	36.01	1.1	1.0	3.0%	41.00	
Laurentian Bank	LB	SP		1,597	44	36.70	10/2020	2.92	4.39	4.24	8.4	8.7	56.88	57.67	59.77	0.6	0.6	4.2%	47.00	
Insurance																				
Great-West Lifeco	GWO	SP		34,502	930	37.08	12/2020	2.88	3.51	3.85	10.6	9.6	24.40	24.65	26.54	1.5	1.4	5.2%	39.00	↑
iA Financial	IAG	OP		7,306	108	67.88	12/2020	7.12	8.40	8.87	8.1	7.7	60.82	62.41	69.29	1.1	1.0	3.6%	87.00	↑
Manulife Financial	MFC	SP		44,363	1,942	22.84	12/2020	2.75	3.22	3.44	7.1	6.6	25.78	26.09	27.88	0.9	0.8	5.5%	28.00	↑
Sun Life Financial	SLF	OP		39,738	586	67.83	12/2020	5.45	6.04	6.55	11.2	10.4	39.97	41.82	46.52	1.6	1.5	3.8%	79.00	↑

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

- › *Trisura Group*
- › *Home Capital Group*
- › *Element Fleet Management*

Spotlight on Home Capital Group (TSX: HCG)

Our capital return thesis is playing out

The Board approved a Substantial Issuer Bid (SIB) to repurchase up to $300 million common shares by the end of Q4 2021 (we believe the size is at the high end of street expectations). And we're only beginning. HCG will still hold proforma excess capital of over $300 million ($6.27 per share or 17% of book value) with a plan to return that capital to shareholders and reach the 14%-15% CET1 target by the end of 2022 through a combination of buybacks and dividends. Bottom line, we see significant ROE and EPS accretion in the years ahead.

Investor Day showcases senior management bench strength and technology improvements

On November 23rd, HCG hosted an Investor Day in Toronto, attended in-person and virtually. HCG showcased its management depth with presentations from eight senior leaders covering various aspects of the residential lending business (e.g., sales, underwriting, marketing, funding and technology). The team outlined strategic initiatives to reach its goal of becoming the leading mortgage solution provider for Canadians underserved by the Big 6 Banks. Overall, the presentations reaffirmed our confidence in the assumptions and forecasts that underpin our Outperform rating.

Our key takeaways include: (1) management maintains a positive mortgage outlook, specifically for alternative (or "Alt-A") mortgages. (2) Shifts in HCG's sales strategy in the broker channel are driving increased funding efficiency, e.g., the creation of two distinct focused sales groups: "outside sales" (business development managers servicing high-producing brokers) and "inside sales" (team of coaches/educators to help zero to low-volume brokers ramp up origination volumes). (3) Technology advancements driving growth today (e.g., capturing disengaged brokers through targeted marketing campaigns/education webinars) and tomorrow (e.g., new integrated underwriting platform to ease broker lending processes and further reduce manual processes). (4) Financial guidance, although limited while currently within the SIB timelines, was reiterated and is already reflected in our estimates.

				Mkt	Shares	Stock	Last	FDEPS					Book Value per Share						12-Mth	
	Stock	Stock		Cap	O/S	Price	Year	Last	est.	est.	P/E		Last	est.	est.	P/BV		Div.	Price	
	Sym.	Rating	Δ	(Bln)	(Mln)	11/30	Reported	FY	FY1	FY2	FY1	FY2	Quarter	FY1	FY2	FY1	FY2	%	Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.54	34.0	74.58	12/2020	8.16	8.64	9.50	8.6	7.8	52.90	63.68	72.63	1.2	1.0	1.0%	98.00	↑
First National Financial	FN	SP		2.47	60.0	41.21	12/2020	3.17	3.75	4.29	11.0	9.6	9.11	9.27	10.84	4.4	3.8	5.7%	52.00	
Home Capital Group	HCG	OP		2.07	49.9	41.45	12/2020	4.94	5.59	6.57	7.4	6.3	36.40	39.49	44.55	1.0	0.9		62.00	↑
Timbercreek Financial	TF	R		R	R	R	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	
Specialty Finance																				
ECN Capital	ECN	OP		2.58	243.3	10.62	12/2020	US 0.19	US 0.18	US 0.24	47.5	34.8	US 2.83	US 3.09	US 3.07	2.7	2.7	1.1%	6.50	↑
Element Fleet Management	EFN	OP		5.13	416.4	12.32	12/2020	0.74	0.78	0.92	15.9	13.4	7.24	7.33	7.76	1.7	1.6	2.5%	19.00	
goeasy	GSY	OP		2.87	16.5	173.79	12/2020	7.57	10.16	11.45	17.1	15.2	48.94	50.75	58.85	3.4	3.0	1.5%	220.00	↑
Brookfield Business Partners	BBU	OP		US 6.66	US 147.6	US 45.11	12/2020	-US 1.13	US 4.67	US 4.03	9.7	11.2	US 28.48	US 30.06	US 38.71	1.5	1.2	0.6%	US 63.00	↑
Power Corporation of Canada	POW	SP		27.88	676.5	41.21	12/2020	3.00	4.76	4.55	8.7	9.1	34.07	34.62	37.35	1.2	1.1	4.3%	47.00	↑
HR Companies																				
LifeWorks Inc.	LWRK	SP	↓	1.7	69.7	24.93	12/2020	-0.17	0.78	1.07	31.8	23.2	8.60	8.72	9.14	2.9	2.7	3.1%	32.00	↓
Securities Exchange																				
TMX Group	X	SP		6.94	56.0	123.97	12/2020	7.00	6.90	7.41	18.0	16.7	65.61	69.00	72.33	1.8	1.7	2.5%	154.00	
Insurance																				
Intact Financial Corp.	IFC	OP		27.91	176.1	158.52	12/2020	11.37	10.33	11.38	15.3	13.9	79.21	85.98	91.30	1.8	1.7	2.3%	215.00	↑
Trisura Group Ltd.	TSU	OP		1.80	41.1	43.78	12/2020	1.52	1.59	1.85	27.5	23.6	8.49	10.40	12.23	4.2	3.6		62.00	↑
Fairfax Financial Holdings	FFH	OP		14.67	25.9	566.95	12/2020	US 129.30	US 57.56	US 65.99	7.7	6.7	US 561.88	US 673.18	US 735.76	0.7	0.6	2.3%	825.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.09	104.0	10.45	12/2020	1.40	1.42	1.50	7.4	7.0	3.90	4.02	4.19	2.6	2.5	8.2%	12.00	
IGM Financial Inc.	IGM	OP		11.03	238.9	46.17	12/2020	3.98	4.38	4.78	10.5	9.7	26.37	28.97	31.51	1.6	1.5	4.9%	59.00	↑

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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Selections

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

Projects of Interest Ramping Up

Tempering near-term outlook for GIP's water and solids treatment and recycling facilities as RNG development ramps.

Given a robust clean energy development project portfolio, management is prioritizing RNG project development over further expansion of GIP's water processing and treatment facilities, reducing expected near-term EBITDA generation from GIP's assets currently in operation. As we look to GIP's operating assets to help finance the pipeline of clean energy development projects (both from cash flow generation and potential asset re-levering), the reduced expectations for the water and solids treatment and recycling facilities imply less funding available for project clean energy project development, but we highlight GIP's willingness to enter into strategic partnerships or divest minority interests of certain assets to provide additional liquidity to accelerate the development of the (growing) RNG project pipeline. Despite our tempered estimates through our forecast period, our longer-term outlook remains positive as GIP makes progress on advancing (and growing) the portfolio of clean energy development projects. GIP noted the signing of a binding term sheet for project construction and term facility financing for the GreenGas RNG project in Colorado, with construction expected to be completed by the end of 2022. GIP also highlighted progress on permitting, engineering and design activities for Project Wheatland (the Calgary Biofuel facility) with an FID still expected in 2022. In Q3, we note GIP closed a $2.7 mln investment for a 12% interest in a New Zealand-based energy company aiming to develop a green hydrogen refueling network across New Zealand. Lastly, subsequent to the quarter, GIP signed feedstock agreements related to a potential farm based RNG project in southern Alberta. **Our sum-of-the-parts driven target implies 13.8x 2023e EBITDA. We maintain our positive long-term outlook and Outperform rating as we are encouraged by GIP's early progress in advancing the portfolio of clean energy development projects.**

Recent headlines related to oil and gas projects offshore Australia and Guyana support our longer-term expectations for improvements in global pipe coating demand, potentially translating to meaningful contract awards for SCL in the coming quarters.

In recent weeks, we have noted headlines highlighting positive FIDs and contract awards related to offshore oil and gas projects, including perhaps most notably the announcement from Woodside Petroleum (ASX: WPL, NR) and BHP Group (ASX: BHP, NR) green lighting the Scarborough LNG Project offshore Western Australia. Shawcor previously highlighted Scarborough LNG as a project of interest given the associated potential pipe coating contract in excess of $100 mln. We also highlight a contract award for SCL channel partner TechnipFMC plc (NYSE: FTI, NR) to supply the subsea production system for the Yellowtail development in the Stabroek block offshore Guyana. We note Shawcor has completed work for the first phases offshore Guyana (including most recently thermal insulation and anticorrosion coating services for the Payara development project located in the Stabroek block). We view the announcements positively as it supports our longer-term expectations for an improvement in global pipe coating demand, with an expected pick-up in offshore oil and gas activity levels towards the end of 2022 and beyond. **Continuing to view Shawcor as a deep value pick, we maintain our Outperform rating and $8.50 target driven by an unchanged 7.0x 2022e EV/EBITDA multiple, a full turn below SCL's long-term historical forward year EV/EBITDA average of 8.0x.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP	↑	616.14	18.8	32.80	149.3	170.9	191.1	9.4	8.5	7.6	4.4	46.00	42%	↑
CES Energy Solutions Corp.	CEU	OP		453.67	254.9	1.78	83.3	150.6	169.0	9.0	5.4	6.0	2.4	2.85	64%	↑
Enerflex Ltd.	EFX	SP	↓	661.86	89.8	7.37	191.3	131.5	167.3	5.3	7.4	6.0	2.4	10.75	47%	↓
Green Impact Partners Inc.	GIP	OP		101.50	20.3	5.00		3.3	6.3		25.2	23.9	-6.0	9.00	80%	↓
Mullen Group Ltd.	MTL	OP		1099.21	95.3	11.53	191.5	218.7	265.0	7.8	7.7	6.0	2.7	16.50	47%	
Pason Systems Corp.	PSI	SP		867.01	82.4	10.52	39.5	74.1	101.0	18.3	9.7	6.8	-2.0	12.25	18%	↑
Shawcor Ltd.	SCL	OP		336.89	70.5	4.78	43.8	97.8	120.3	14.3	6.0	4.8	2.6	8.50	78%	↓

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 & Sustainability

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Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) reaching ~US$36 trillion at the beginning of 2020, representing one in every ~US$3 and effectively growing by an ~11.7% CAGR over the past 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. 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.

ESG Updates – Regulatory Updates

Carbon Markets

Carbon prices have continued to rise at considerable rates (~30-315% y/y), inclusive of all regions and systems. 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 now 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) Dec21 contract closed the month of November at levels of €75.18 (US$84.89), creating a record high. Overall, EUAs were up ~28% this past month and remain in contango, with November 30th, Dec22 contract closing at €75.58 (US$85.35), resulting in a spread of -€0.40. Considering prices on a y/y basis, EUAs have more than doubled in just one year. Elsewhere, the United Kingdom Emissions Allowances (UKEA) futures, which started trading at the end of May 2021, closed at £73.02 (US$96.74) at the end of November, representing a one month return of ~36%.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) Jul22 futures closed the month out at US$13.10 (October: US$12.74), representing a ~3% monthly increase and ~73% in a year. Lastly, the California Carbon Allowances (CCA) Jul22 and Dec21 prices increased ~0.3% this past month after hitting record highs of US$36.15 and US$35.20, while remaining in contango. We note that y/y, CCA prices are also up ~69%. Finally, we highlight the voluntary Global Emission Offsets (GEO) futures, which soared ~22% during the month of November and closed at US$8.90, while the Nature-based Global Emissions Offset (NGEO) future increased ~51% in November to reach a record high US$14.84. We note that GEO started trading on March 1, 2021 at US$2.13, before bottoming at US$1.92 on April 15th and now has tripled in price.

COP26

On the night of November 13th, the awaited Glasgow Climate Pact (*here*) was signed by approximately 200 countries, with the goal of capping global warming to 1.5oC above pre-industrial levels. The deal also included a phase-down of unabated coal use, which refers to coal production without carbon capture technologies. The plan was initially to phase out coal usage altogether rather than a phase-down; however, India's Climate Minister was in large disagreement with this plan and would likely have stepped out of the agreement without the change in wording. The agreement made towards fossil fuels was also softened as it changed from a goal to phase out subsidies for fossil fuels to phasing out inefficient subsidies for fossil fuels. Meanwhile, an agreement was reached on November 13th on the fundamental norms related to Article 6 (i.e., global carbon markets), thereby making the Paris Agreement fully operational.

Exhibit 1: COP26

Source: United Nations COP26

IFRS establishes new International Sustainability Standards Board

On November 29th, the International Financial Reporting Standards Foundation Trustees (IFRS) *announced* the official formation of a new International Sustainability Standards Board (ISSB), alongside the consolidation of two leading voluntary sustainability disclosure organizations by June 2022, which include the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB). In addition, the IFRS published two prototypes and a summary document developed by the Technical Readiness Working Group (TRWG), which summarize the recommendations for climate reporting (*here*) and general sustainability reporting (*here*).

Overall, the creation of the ISSB is an essential step in ESG integration evolution, thereby providing capital markets participants with more transparency, clarity and uniformity, which should ultimately allow investors to make better and more informed financial decisions. Meanwhile, with most companies already reporting based on SASB industry-specific standards, in addition to filing TCFD and CDP reports, we anticipate most companies to be well prepared for the transition from voluntary to mandatory reporting in the coming years. Lastly, with Canada now playing an important role in the North America integration of ESG disclosure, we expect to see more focus on ESG and sustainability from the government moving forward.

Healthcare, Biotech & Special Situations

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Selections

- *Dialogue Health*
- *H_2O Innovation*
- *Knight Therapeutics*

Highlights as of November 2021

Among the multiple companies in our coverage that reported financial results in November, we highlight those of Dialogue Health Technologies (TSX: CARE) alongside some recent developments.

On November 9, CARE reported Q3/21 results largely in line with our estimates as the increasing number of members, higher attach rate and Optima acquisition contributed to 120% y/y and 3.5% q/q growth. The company continues to deliver positive results with 1) new members increasing +312k q/q (to ~1.8 mln); 2) annual recurring revenues increasing +8% q/q; 3) majority of new contracts (59% in Q3) for two or more services; 4) attach rate of 1.11 (vs. 1.10 in Q2/21); 5) utilization remaining steady; and 6) Gross Margin of 42.6% (vs. 41.2% est.).

Additionally, CARE remains in the lookout for M&A opportunities that would increase its user base and/or expand its services. The company has submitted several LOIs and is reasonably flexible on multiples provided targets' KPIs are accretive to its own. Geographically, although the focus remains in Canada; Germany is also an important, albeit, currently small market given its fragmented nature, lack of a clear industry leader and low satisfaction with OHS services.

Market activity a positive readthrough and validation of CARE's business model

On November 15, CloudMD (TSX.V: DOC), a health technology company, announced that it is acquiring MindBeacon (TSX: MBCN), a provider of mental health services in synchronous and asynchronous (iCBT) settings. The main strategic rationale for the acquisition is the combined digital health platform will be a fully integrated health offering providing a continuum of care to address both mental and physical care.

As a readthrough for CARE, the transaction:
1) validates the company's well-established approach of building an integrated health platform that is preferred by employers and HR departments; and
2) suggests there is a market for the acquisition of leading virtual health companies. While MBCN is being acquired for ~2x forward EV/Sales, we note the company is a provider of a single service, mental health, and does not provide the breadth of services that Dialogue does. The latter, which currently trades at ~3x forward EV/S (we believe a fair multiple for CARE is 6x), provides a number of services including primary health care, mental health, employee assistance programs and occupational health and safety.

Another development signaling the increased interest in the sector is the recent announcement by Sun Life of a new business unit (Sun Life Health) aimed at improving the integration of health and digital solutions, which will be powered by CARE's platform (branded Lumino Health for Sun Life).

Our thesis remains unchanged, and we maintain an Outperform rating and $14.00 price target, implying a 6x 2023e EV/Sales multiple.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU.u	SP		137.10	89.0	1.54u	2/2021	0.0%	0.01u	0.05u	0.20u	30.5	7.8	53.7u	81.3u	184.0u	16.3	7.2	1,184.7u	6.4	2.00u	↓
Andlauer Healthcare Group	AND	SP		2,002.55	41.5	48.23	3/2021	0.4%	0.81	1.21	1.47	40.0	32.8	78.9	109.4	136.2	20.2	16.2	204.6	1.5	49.00	
Dialogue Health Technologies	CARE	OP		517.60	65.8	7.87	3/2021	0.0%	-	(0.35)	(0.17)	nmf	nmf	(16.9)	(19.2)	(5.6)	nmf	nmf	-	-	14.00	
IMV Inc.	IMV	SP		156.07	82.1	1.90	3/2021	0.0%	(0.49)	(0.36)	(0.52)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	2.50	↓
Jamieson Wellness	JWEL	OP		1,613.69	40.3	40.00	3/2021	1.5%	1.17	1.31	1.35	30.5	29.6	88.0	99.2	105.8	18.1	16.9	165.2	1.6	42.75	
Knight Therapeutics	GUD	OP		648.52	123.1	5.27	23/2021	0.0%	0.09	0.27	0.36	19.3	14.8	16.8	45.1	60.1	11.7	8.8	-	-	8.00	↑
Medical Facilities Corp.	DR	OP		244.18	31.1	7.85	3/2021	4.1%	0.96u	0.94u	0.96u	6.8	6.8	57.3u	61.8u	56.3u	5.3	5.8	87.1u	2.0	11.50	↓
Theratechnologies	TH	SP		400.41	95.1	4.21	3/f2021	0.0%	(0.15)u	(0.13)u	0.05u	nmf	70.3	(7.1)u	(8.3)u	8.8u	nmf	35.2	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		193.60	85.3	2.27	1/f2022	0.0%	0.08	0.09	0.12	24.6	18.4	14.6	16.3	18.5	12.8	11.2	14.2	0.8	3.25	
K-Bro Linen	KBL	SP		370.11	10.6	34.88	3/2021	3.4%	2.49	2.29	2.70	15.2	12.9	43.8	44.6	51.5	10.3	8.9	88.1	1.7	45.00	↓
Rogers Sugar	RSI	SP		601.38	103.7	5.80	4/f2021	6.2%	0.33	0.42	0.46	13.7	12.5	91.0	102.1	106.3	9.3	13.1	330.9	3.1	5.25	↑
Chemtrade Logistics Income Fund	CHE.UN	OP		766.91	103.9	7.38	4/2021	8.1%	0.52	0.65	0.99	11.4	7.4	265.3	257.8	320.0	8.4	6.1	1,189.0	3.7	10.00	↑

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

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Selections

› *WSP Global*
› *ATS Automation*
› *Toromont Industries Ltd.*

U.S. engineering peers paint an attractive 2022 / 2023 growth picture

Tetra Tech Inc. (NASDAQ: TTEK; not rated) and AECOM (NYSE: ACM; not rated) announced their latest quarterly results with guidance for 2022, offering positive read-throughs for our engineering & consulting coverage.

Firstly, TTEK posted net revenue of $709 mln (up 20% y/y), significantly above Street at $675 mln while adjusted EPS was reported at $1.05 (up 15% compared to $0.91 same period last year), above Street at $1.00. Next quarter's guide is in line with Street numbers; net revenue is guided at $630 mln-$680 mln range (Street at $658 mln pre-quarter) and EPS at $0.98 - $1.03 (Street at $1.00 pre-quarter); embedded in guidance is an expectation of slightly higher vacation time next quarter as travel restrictions have been lifted. More importantly, excluding contribution from future acquisitions, 2022 guidance stands at $2.60 bln - $2.80 bln top line (imputes 6% y/y growth at midpoint and 10% at the upper-bound range), with the midpoint slightly above Street at $2.68 bln. EPS guidance stands at $4.00 - $4.20, compared to Street forecasting $4.11 for next year (incorporated in the midpoint of guidance is an expectation of higher operating margin for next year of 11.2% compared to 10.8% this year; half of this is driven by higher utilization (benefiting from higher workload) and the other half from improved mix).

For AECOM, net service revenue for the quarter came in at $1.54 bln, up 6% y/y (relative to Street, which forecasts on gross metric, results were in line). Adjusted EBITDA came in at $225 mln, above Street at $218 mln and adjusted EPS came in $0.81, likewise above Street at $0.77. In terms of guidance for 2022E, it expects organic net revenue growth of +6% y/y. EBITDA is expected to be $900 mln at the midpoint (Street was expecting $883 mln pre-quarter), up +8.5% y/y and EPS is expected to be $3.30 at the midpoint (Street at $3.22 pre-quarter), up +17% y/y. Guidance for 2024 was also increased with EPS targeted at $4.50 at the midpoint which would reflect a 20% CAGR from 2021 to 2024.

Bottom line – growth is in fact ACCELERATING for consulting peers

We have seen material multiple expansion across the engineering consulting space over the last 24 months (3x-7x multiple points on EV/EBITDA, depending on the company). However, we are now settling in a higher growth gear that should propel absolute EBITDA generation for the industry to new and higher levels. While we, of course, cannot predict what the market will do over the next 12 months, revenue visibility for our coverage universe is more than supported now by accelerating public spending while the private sector (especially in data centers, healthcare, commodities and warehousing) is also seeing strong momentum. When layering on the ESG thematic (consulting companies by definition enable physical infrastructure transformation and buildout in the most environmentally-friendly manner), we remain constructive on this group. Lastly, M&A optionality, especially for the likes of WSP and IBI (STN will be digesting Cardno while SNC does not yet have the license to transact), remains attractive.

Industrial Products

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 11/30	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$22.50**	↓	$16.01	$966	12 - 2020	$1.16	$0.95	$1.33	12.5x	11.1x	$255	$248	$257	5.9x	5.9x	4.0%	1.6x
Bird Construction Inc.	BDT	OP		**$12.00**	↑	$10.55	$562	12 - 2020	$0.71	$0.96	$0.93	11.0x	11.3x	$69	$100	$106	5.4x	5.1x	4.4%	net cash
Finning International Inc.	FTT	OP		**$45.00**	↑	$31.65	$5,090	12 - 2020	$1.14	$1.95	$2.26	16.3x	14.0x	$636	$806	$898	7.6x	6.8x	2.8%	1.3x
IBI Group Inc.	IBG	OP		**$15.00**	↑	$13.15	$412	12 - 2020	$0.48	$0.72	$0.84	17.0x	15.7x	$47	$53	$57	10.4x	9.8x	0.0%	0.6x
North American Construction Group Ltd.	NOA	OP		**$27.00**		$21.53	$612	12 - 2020	$1.74	$2.07	$2.35	10.4x	9.2x	$175	$207	$231	4.9x	4.4x	0.7%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$68.00**	↑	US$66.86	$7,386	12 - 2020	US$1.64	US$1.87	US$2.27	35.8x	29.5x	US$360	US$385	US$473	22.5x	18.3x	1.5%	3.2x
SNC-Lavalin	SNC	OP		**$42.00**	↓	$33.19	$5,827	12 - 2020	-$0.67	$1.41	$2.45	15.1x	12.3x	$93	$532	$701	10.3x	8.7x	0.2%	2.5x
Stantec Inc.	STN	SP		**$72.00**		$68.48	$7,607	12 - 2020	$2.13	$2.32	$2.84	29.5x	24.1x	$435	$434	$556	19.9x	15.5x	1.0%	2.3x
Toromont Industries Ltd.	TIH	OP		**$125.00**		$106.79	$8,832	12 - 2020	$3.09	$3.88	$4.45	27.6x	24.0x	$539	$625	$695	14.1x	12.7x	1.3%	-0.1x
WSP Global	WSP	OP		**$185.00**	↑	$179.56	$21,089	12 - 2020	$3.34	$4.87	$5.63	36.8x	31.9x	$801	$1,041	$1,231	21.4x	18.1x	0.8%	0.0x
AutoCanada	ACQ	OP		**$60.00**		$33.64	$925	12 - 2020	$0.44	$3.79	$4.04	8.9x	8.3x	$83	$186	$218	5.8x	4.9x	0.0%	0.3x
Stelco	STLC	OP		**$62.00**	↑	$40.29	$3,115	12 - 2020	-$0.60	$21.98	$8.09	1.8x	5.0x	$63	$2,273	$962	1.2x	2.9x	3.0%	-0.1x
ATS Automation	ATA	OP		**$60.00**	↑	$48.06	$4,348	12 - 2020	$1.07	$1.88	$2.05	25.0x	23.0x	$181	$294	$337	17.4x	15.2x	0.0%	2.6x
ABC Technologies	ABCT	SP		**$9.00**		$7.12	$395	12 - 2020	NM	-$0.22	-$1.19	-26.9x	-5.0x	$89	$133	$36	4.9x	18.4x	2.0%	9.6x
Stella-Jones	SJ	OP		**$52.00**		$40.50	$2,620	12 - 2020	$3.12	$3.50	$3.40	11.6x	11.9x	$343	$361	$355	8.7x	8.9x	1.8%	1.5x
Median												**15.1x**	**12.3x**				**8.7x**	**8.9x**	**1.3%**	

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

**Multiples adjusted for concession investments*

Sector Analysis

Merchandising & Consumer Products

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Selection

› *Gildan*

Parkland Corporation (PKI: TSX)

Investor Day

- *Parkland hosted an investor day in Toronto*

  (1) The event featured presentations from many members of the management team, including PKI's CEO, CFO and segment executives.
  (2) In summary, management believes that there is opportunity for organic growth through traditional vectors and business diversification (renewables), in addition to acquisition potential. We reiterate our positive view on Parkland and believe that recent share price underperformance is unwarranted. (3) Management indicated new 2022 adj. EBITDA guidance of $1.45 bln +/- 5% with capex of $475-$575 mln, including growth capex of $250-$300 mln. We have revised our estimates upward to reflect the new 2022 guidance; in the past, PKI has had a good track record with achieving/exceeding initial EBITDA guidance.

- *Multi-faceted vectors for growth*

  (1) Since late last year, PKI has announced/closed on >15 transactions; we anticipate these deals to be immediately accretive to distributable cash flow per share. Across historical acquisitions, management noted the following: 30%-50% synergy capture and 5x-8x EBITDA multiples. Management believes that the acquisition opportunity remains strong, particularly in the U.S. (2) PKI introduced a framework for EBITDA growth from 2022-2025, including developing the conventional marketing businesses ($400 mln), diversifying via creating convenience destinations ($200 mln) and decarbonizing ($150 mln). (3) By 2030 (directionally), PKI sees EBITDA being comprised of 15% in conventional refining (from 40% in 2018), 10% in renewables (not segmented in 2018), 20% in Commercial & Wholesale (from 15% in 2018), and 55% in Retail and Convenience (from 45% in 2018).

- *Maintaining our thesis*

  We remain constructive on PKI given ongoing end-market recovery, attractive valuation and anticipated future accretive acquisitions.

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

  We value PKI at 8.0x our 22/23 EBITDA.

Back to Research Analysts page

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,356	61.3	168.84	12/2020	12.95	16.92	17.01	10.0	9.9	2,181	2,518	2,476	5.2	5.3	81.32	0.36	221.00	↓
Dollarama	DOL	OP		16,898	306.2	55.18	02/2021	1.81	2.18	2.56	25.3	21.6	1,131	1,285	1,434	15.7	14.1	0.45	0.96	64.00	↑
Fuel and Other																					
Couche Tard	ATD.b	OP		50,193	1,072.5	46.80	04/2021	2.45	2.39	2.35	15.4	15.6	5,005	4,941	4,830	9.0	9.2	12.00	0.32	53.00	↓
Parkland Fuel Corporation	PKI	OP		5,039	152.8	32.98	12/2020	0.54	1.08	2.78	30.5	11.8	967	1,315	1,438	7.2	6.6	15.03	0.66	48.00	↑
Apparel																					
Gildan	GIL	OP		10,250	198.1	51.75	12/2020	(0.18)	2.54	2.74	16.0	14.8	165	696	724	11.9	11.4	9.54	0.13	58.00	↑
Roots Corporation	ROOT	SP		125	42.2	2.95	02/2021	0.35	0.59	0.72	5.0	4.1	64	71	79	4.2	3.8	3.76	0.52	6.00	
Grocers																					
Empire Company	EMP.a	OP		9,821	268.1	36.63	05/2021	2.61	2.64	2.90	13.8	12.6	2,144	2,266	2,384	7.4	7.0	17.11	0.60	45.00	
Loblaw	L	OP		32,752	340.1	96.30	12/2020	4.18	5.42	6.03	17.8	16.0	5,004	5,595	5,726	6.8	6.6	33.20	0.32	107.00	↑
Metro	MRU	SP		14,826	243.2	60.96	09/2021	3.44	3.79	4.11	16.1	14.8	1,103	1,105	1,145	17.5	16.9	26.50	0.27	71.00	↑
Food Manufacturer																					
Saputo	SAP	SP		11,739	415.1	28.28	03/2021	1.74	1.63	2.14	17.3	13.2	1,471	1,412	1,741	11.2	9.1	15.6	0.39	36.00	↓
Lassonde	LAS.a	OP		1,061	6.9	152.97	12/2020	14.11	11.21	12.36	13.6	12.4	217	180	192	6.9	6.5	122.5	0.17	190.00	↓
Premium Brands Holdings	PBH	OP		5,419	43.6	124.30	12/2020	3.04	4.56	5.63	27.2	22.1	313	436	502	16.4	14.3	36.8	0.52	155.00	↑
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,372	37.1	36.93	12/2020	1.95	2.26	2.43	16.4	15.2	171	190	197	9.2	8.9	10.58	0.49	46.00	↑
Pet Valu	PET	SP		2,398	71.5	33.56	12/2020	0.64	1.00	1.20	33.6	27.9	144	177	173	15.9	16.3	0.00	1.44	35.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		54	42.4	1.27	12/2020	0.30	0.12	0.25	10.9	5.1	28	18	25	10.0	7.0	3.28	0.47	3.00	↓
Restaurants																					
MTY Food Group	MTY	OP		1,368	24.8	55.19	11/2020	(1.51)	3.41	4.09	16.2	13.5	138	173	193	9.8	8.8	25.01	0.35	75.00	
Online Grocery																					
Goodfood Market	FOOD	OP		330	74.4	4.43	08/2021	(0.44)	(0.47)	(0.29)	NA	NA	(14)	(13)	3	NA	NA	1.32	(0.34)	7.00	↓

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

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Selections

- *Teck Resources*
- *Capstone Mining*
- *Copper Mountain Mining*

Price Volatility to Persist in 2022

Much of copper's recent bull run has been influenced by the ongoing distribution of COVID-19 vaccines, accommodative government policies/stimulus spending and reopening of the global economy. 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.

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 carry into 2022, further complemented by step-wise improvement in Teck's coal operations in H2/21 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.

Capstone Mining Corp. (CS: TSX)

Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including a sustained 60,000 tpd mill throughput at Pinto Valley (achieved in September and sustained through October 2021) and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~30% production growth and ~10% reduction in costs by 2023. The company recently announced a merger with Mantos Copper, creating an intermediate copper producer with four producing mines: Pinto Valley, Cozamin, Mantoverde and Mantos Blancos, with Santo Domingo as a development asset with potential synergies with the aforementioned Mantoverde – expected to close in Q1/22.

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 and the completion of the mill expansion to 45,000 tpd in Q3/21 (from 40,000 tpd), and improved balance sheet with the US$260 million note issuance freeing up cash flow to direct to future growth opportunities. Next to Copper Mountain Mine, CMMC has the Eva development project on the horizon with a development decision expected by year-end 2021.

Sector Analysis

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP	-	2,591	413.3	6.27	7.50	-	Nagle	0.07u	0.61u	0.67u	7.7x	9.4x	0.34u	0.95u	0.92u	5.0x	5.1x	7.24	0.9x
Copper Mountain Mining	CMMC	OP	-	742	210.2	3.53	5.25	-	Nagle	0.11u	0.66u	0.67u	5.4x	5.2x	0.61u	1.48u	1.25u	2.4x	2.8x	5.85	0.6x
Ero Copper	ERO	SP	-	1,836	88.8	20.68	30.00	-	Nagle	1.34u	2.39u	2.89u	6.5x	7.2x	2.02u	3.26u	3.40u	4.8x	4.6x	31.18	0.7x
First Quantum Minerals	FM	OP	-	18,817	691.0	27.23	37.00	-	Nagle	(0.07)u	1.23u	3.39u	16.6x	8.0x	2.64u	4.18u	6.42u	4.9x	3.2x	28.14	1.0x
Hudbay Minerals	HBM	OP	-	2,254	261.5	8.62	12.50	-	Nagle	(0.44)u	0.16u	0.65u	41.3x	13.2x	0.93u	1.82u	3.07u	3.6x	2.1x	9.37	0.9x
Lundin Mining	LUN	SP	-	7,377	735.5	10.03	12.25	↓	Nagle	0.31u	1.09u	1.36u	6.9x	7.4x	1.00u	2.03u	2.14u	3.7x	3.5x	10.26	1.0x
Sherritt International	S	SP	-	195	397.3	0.49	0.55		DeMarco	(0.34)c	(0.23)c	0.02c	n/a	24.5x	0.03c	0.03c	0.13c	16.9x	3.8x	0.95	0.5x
Taseko Mines	TKO	SP	-	750	284.0	2.64	3.25	-	Nagle	(0.11)c	0.24c	0.36c	11.1x	7.3x	0.44c	0.79c	0.75c	3.4x	3.5x	4.08	0.6x
Teck Resources	TECKb	OP	-	18,322	540.8	33.88	48.50	-	Nagle	1.05c	6.62c	7.45c	5.1x	4.5x	3.38c	10.50c	10.26c	3.2x	3.3x	32.02	1.1x
Trevali Mining	TV	SP	-	163	989.4	0.17	0.25	↓	Nagle	(0.03)c	0.01c	0.00c	12.9x	55.1x	0.01c	0.09c	0.11c	1.3x	1.1x	0.19	0.9x
Developers																					
Adventus Mining	ADZN	OP	-	119	131.1	0.91	1.55	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.11	0.4x
Filo Mining	FIL	OP	-	1,333	113.2	11.78	13.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.49	0.6x
Josemaria Resources	JOSE	SP	-	448	379.3	1.18	1.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.01	-
Trilogy Metals	TMQ	OP	-	313	144.4	2.17	4.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.15	0.4x
Sigma Lithium	SGML	OP	-	1,055	87.4	12.07	13.00	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14.82	0.8x
Lithium Americas	LAC	OP	-	6,046	120.0	50.40	40.00u	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	40.96	1.2x

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

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Selections

Gold/Silver Producers:

› ***Endeavour Mining Corp.*** *(EDV: TSX; C$49.00 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$12.50 target)*
› ***Newmont Corp.*** *(NGT: TSX; C$92.00 target)*
› ***Pan American Silver Corp.*** *(PAAS: TSX; C$48.00 target)*
› ***SSR Mining Inc.*** *(SSRM: TSX; C$32.00 target)*
› ***Wesdome*** *(WDO: TSX; C$14.50 target)*

Royalties:

› ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$10.75 target)*

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to stimulus measures, interest rates remain low. The U.S. 10-year yield started the year off on a strong note but recently softened, and thus, real rates have shifted more negative, spurring gold to rally from sub-US$1,700/oz in late March. The U.S. Fed continues to voice support for keeping interest rates low, with no expected rate hike for the remainder of the year, but is expected to focus on job creation by any means necessary while accepting elevated inflation beyond the Fed target rate for a period of time. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The emergence of the COVID-19 Omicron Variant is a key risk factor to the U.S. economic recovery that the U.S. Fed is watching closely.

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

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

Sector Analysis

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	SP		31,008	453.73	68.34	80.00	↓	Parkin	0.96u	1.86u	2.84u	26.8x	17.6x	3.64u	4.99u	4.99u	10.0x	10.0x	46.73	1.46x
Barrick Gold	ABX	SP		41,575	1,779.00	23.37	29.00	-	Parkin	0.51u	1.15u	1.12u	16.6x	16.9x	1.81u	3.22u	3.22u	5.9x	5.9x	21.47	1.09x
Kinross Gold Corp	K	OP		9,267	1,198.87	7.73	12.50	↑	Parkin	0.31u	0.73u	0.32u	8.1x	18.3x	0.80u	1.37u	1.37u	4.3x	4.3x	12.19	0.63x
Kirkland Lake Gold Corp	KL	T		14,300	263.70	54.23	56.00	↓	Parkin	2.74u	3.37u	3.31u	11.7x	12.0x	4.46u	4.75u	4.75u	8.3x	8.3x	36.30	1.49x
Newmont	NGT	OP		45,921	794.20	57.82	92.00	↓	Parkin	1.32u	2.66u	2.95u	20.6x	18.6x	4.31u	5.69u	5.69u	9.6x	9.6x	58.51	0.99x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		33,478	191.1	175.18	205.00	-	Nagle	2.72u	3.45u	3.52u	38.2x	49.8x	4.22u	5.03u	5.12u	26.2x	25.7x	66.31	2.64x
Maverix Metals Inc	MMX	SP		863	146.7	5.88	7.75	-	Nagle	0.12u	0.12u	0.20u	n/a	28.8x	0.29u	0.26u	0.35u	22.3x	16.8x	4.91	1.20x
Osisko Gold Royalties Ltd	OR	OP		2,595	166.2	15.61	20.50	-	Nagle	0.26u	0.54u	0.66u	n/a	23.7x	0.65u	1.05u	1.28u	14.8x	12.2x	13.84	1.13x
Royal Gold Inc	RGLD	SP		6,525	65.2	100.03u	155.00u	-	Nagle	2.91u	3.78u	3.98u	26.5x	25.1x	6.28u	6.75u	6.81u	11.1x	11.0x	62.78	1.59x
Sandstorm Gold Ltd	SSL	OP		1,525	192.7	7.91	10.75	-	Nagle	0.11u	0.18u	0.23u	33.0x	34.4x	0.36u	0.42u	0.45u	14.2x	13.2x	7.47	1.06x
Triple Flag Precious Metals Corp	TFPM	SP		2,291	156.2	14.67	17.00	-	Nagle	0.20u	0.38u	0.41u	29.0x	35.8x	0.78u	0.79u	0.84u	14.0x	13.1x	12.19	1.20x
Wheaton Precious Metals Corp	WPM	OP		24,066	450.5	53.42	65.00	-	Nagle	1.10u	1.33u	1.30u	30.2x	41.1x	1.71u	1.90u	1.87u	21.1x	21.5x	22.70	2.35x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP		3,767	392.34	9.60	11.50	-	Parkin	0.21u	0.42u	0.41u	18.4x	18.7x	0.75u	0.97u	0.97u	7.9x	7.9x	10.78	0.89x
B2Gold	BTO	OP		5,337	1,054.8	5.06	8.50		DeMarco	0.41u	0.47u	0.33u	10.8x	15.1x	0.68u	0.90u	0.79u	5.6x	6.4x	5.24	0.96x
Centerra Gold Inc	CG	OP		2,858	296.78	9.63	12.50	↑	Parkin	0.59u	0.80u	0.74u	9.2x	9.9x	1.36u	2.87u	1.43u	2.6x	5.1x	12.89	0.75x
Dundee Precious Metals	DPM	OP		1,557	191.5	8.13	11.50		DeMarco	0.94u	0.87u	0.81u	9.3x	10.1x	1.61u	1.43u	1.46u	5.7x	5.6x	10.79	0.75x
Eldorado Gold Corp	ELD	OP		2,164	182.65	11.85	17.50	↓	Parkin	(0.02)u	0.97u	0.75u	11.8x	15.3x	0.93u	2.23u	2.23u	4.0x	4.0x	22.63	0.52x
Endeavour Mining	EDV	OP		7,464	249.1	29.97	49.00	↑	DeMarco	2.44u	3.48u	4.25u	8.6x	7.1x	4.95u	6.28u	6.24u	4.8x	4.8x	38.04	0.79x
Equinox Gold Corp	EQX	OP		3,358	350.8	9.57	13.50	↓	Parkin	0.33u	0.37u	0.14u	24.4x	63.9x	0.68u	1.06u	0.71u	8.5x	12.7x	15.02	0.64x
IAMGOLD Corp	IMG	OP		1,726	476.70	3.62	4.50	-	Parkin	(0.03)u	0.14u	(0.10)u	21.8x	-30.2x	0.75u	0.77u	0.77u	4.0x	4.0x	5.66	0.64x
Lundin Gold Inc.	LUG	SP		2,423	232.7	10.41	15.00	↑	DeMarco	0.88u	0.87u	0.47u	12.0x	22.0x	1.53u	1.56u	1.02u	6.7x	10.2x	12.15	0.86x
New Gold Inc	NGD	SP		1,191	680.80	1.75	2.50	↑	Parkin	(0.08)u	0.03u	0.14u	65.5x	13.3x	0.39u	0.41u	0.41u	3.5x	3.5x	2.51	0.70x
OceanaGold Corp	OGC	OP		1,640	704.03	2.33	3.25	↓	Parkin	0.06u	(0.11)u	0.18u	n/a	12.7x	0.33u	0.33u	0.33u	5.4x	5.4x	2.89	0.81x
Pretium Resources	PVG	T		3,232	187.1	17.28	18.50	↑	DeMarco	0.60u	0.76u	0.45u	22.6x	38.3x	1.46u	1.64u	1.42u	10.5x	12.2x	14.95	1.16x
SSR Mining Inc	SSRM	OP		4,261	210.61	20.23	32.00	↓	Parkin	0.74u	1.43u	1.33u	12.7x	13.6x	1.59u	1.65u	1.65u	11.0x	11.0x	31.53	0.64x
Yamana Gold Inc	YRI	OP		4,961	945.00	5.25	6.75	↓	Parkin	0.10u	0.32u	0.29u	12.6x	13.7x	0.51u	0.66u	0.66u	6.0x	6.0x	4.82	1.09x
Torex Gold Resources Inc	TXG	SP		1,200	85.75	13.99	23.00		DeMarco	2.17u	1.14u	0.86u	12.3x	16.3x	4.26u	3.90u	3.52u	3.6x	4.0x	20.63	0.68x
Silver Producers																					
Aya Gold and Silver	AYA	OP		896	92.2	9.72	13.00		DeMarco	0.09u	0.12u	0.22u	81.3x	43.6x	0.12u	0.16u	0.34u	60.2x	28.8x	7.39	1.32x
First Majestic Silver Corp	FR	SP		3,695	242.8	15.22	19.00		DeMarco	0.27u	0.72u	0.16u	21.1x	97.5x	0.54u	1.14u	1.36u	13.3x	11.2x	6.98	2.18x
Fortuna Silver Mines Inc	FVI	SP		1,287	289.1	4.45	6.50	↓	DeMarco	0.49u	0.90u	0.99u	5.0x	4.5x	0.77u	1.43u	1.48u	3.1x	3.0x	5.99	0.74x
Pan American Silver	PAAS	OP		6,856	210.1	32.63	48.00	↓	DeMarco	0.82u	1.43u	1.44u	22.9x	22.7x	2.26u	3.27u	3.48u	10.0x	9.4x	18.87	1.73x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	T		551	115.1	4.79	4.85		DeMarco	0.17u	0.67u	0.47u	7.1x	10.2x	0.59u	0.92u	0.76u	5.2x	6.3x	6.76	0.71x
K92 Mining Inc.	KNT	OP		1,635	220.9	7.40	11.75		DeMarco	0.11u	0.37u	0.29u	19.9x	25.5x	0.23u	0.59u	0.49u	12.6x	15.1x	9.86	0.75x
Minera Alamos Inc.	MAI	OP		234	441.9	0.53	1.00		Nizami	0.01u	(0.01)u	0.06u	n/a	8.8x	0.00u	(0.00)u	0.07u	-	7.1x	0.98	0.54x
Wesdome Corp.	WDO	OP		1,747	139.7	12.50	14.50		DeMarco	0.51u	1.27u	0.90u	9.8x	13.9x	0.83u	1.63u	1.39u	7.7x	9.0x	11.62	1.08x
Developers																					
Artemis Gold Inc.	ARTG	OP		944	141.5	6.67	11.00	↑	DeMarco	(0.05)u	(0.19)u	(0.18)u	-	-	(0.09)u	(0.17)u	(0.19)u	-	-	10.83	10.83x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		204	358.0	0.57	1.30	↓	Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.36	0.42x
Integra Resources Corp.	ITR	OP		178	61.9	2.88	6.50		Nizami	(0.54)u	(0.67)u	(0.45)u	n/a	n/a	(0.50)u	(0.64)u	(0.43)u	-	-	6.44	0.45x
Liberty Gold Corp	LGD	OP		271	265.5	1.02	1.80	↓	Nizami	0.03u	(0.07)u	(0.06)u	n/a	n/a	(0.05)u	(0.06)u	(0.06)u	-	-	1.78	0.57x
MAG Silver Corp	MAG	OP		2,082	97.9	21.26	32.00		DeMarco	(0.07)u	0.87u	0.00u	24.5x	-	(0.06)u	2.25u	1.61u	9.5x	13.2x	21.12	1.01x
Marathon Gold Corp.	MOZ	OP		638	212.1	3.01	4.25		DeMarco	(0.01)u	(0.04)u	(0.04)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	4.18	0.72x
O3 Mining Inc.	OIII	OP		141	68.0	2.08	4.25		DeMarco	(0.16)u	(0.63)u	(0.62)u	-	-	(0.16)u	(0.63)u	(0.62)u	-	-	5.46	0.38x
Osisko Development	ODV	OP		626	128.3	4.88	9.50		DeMarco	-	-	1.43u	-	3.4x	0.27u	-	1.56u	-	3.1x	9.66	0.51x
Osisko Mining	OSK	OP		1,111	356.1	3.12	5.00		DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	5.15	0.61x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		506	356.2	1.42	3.25		Puri	0.00u	0.00u	(0.01)u	-	-	0.00u	0.00u	(0.01)u	-	-	3.18	0.45x
SilverCrest Metals	SIL	OP		1,399	129.4	10.81	14.25		DeMarco	(0.35)u	0.05u	0.88u	210.6x	12.4x	(0.31)u	0.11u	1.20u	96.7x	9.0x	9.55	1.13x

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

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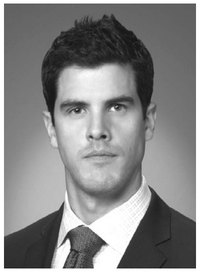
Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

- *Cenovus*
- *Tourmaline*

Crude Oil Outlook

During November, crude oil's upward momentum from October faced headwinds from the resurgence of COVID-related headlines as well as vocal requests for OPEC + to release additional supply to temper prices at the pump. While the constructive supply data points (restrained upstream capital expenditure, disciplined OPEC supply profile, etc.) remain intact, there is a risk of demand-altering scenarios with a resurgence of lockdowns in Europe (at the moment) and a new COVID-19 variant (Omicron) emerging in South Africa causing some concern. On top of the potential demand concerns, increased calls by nations for additional supply from OPEC + (falling on the deaf ears) has culminated in a coordinated effort by nations to tap Strategic Petroleum Reserves (SPR), including the U.S. (~50.0 mmbbls), India (~5.0 mmbbls), Japan (~6.0-9.0 mmbbls), China (~7.3 mmbbls), U.K (~1.5 mmbbls) and South Korea (TBD). Only the U.S, provided details on the timing of its release with the 50.0 mmbbls release consisting of two parts: i) 32.0 mmbbls exchange from Dec 16, 2021-April 30, 2022 (required to be returned to the SPR between 2022-24); and ii) acceleration of a previously authorized sale of 18.0 mmbbls. Looking ahead, the 23rd OPEC+ meeting scheduled for December 2nd should provide clarity around how the group is viewing the recent market developments (Omicron, coordinated SPR release, etc.). We're expecting the group to remain disciplined in its approach to returning supply to the market as per its disclosed plan, despite the requests from various countries for additional supply given the uncertainties impacting future demand. The forward curve remains in backwardation, with CAL-22 WTI coming in at ~US$69.00/bbl (contrasted to October's exit point of ~US$74.00/bbl). Despite the additional egress capacity provided by L3R, WCS differentials started to widen in November as demand waned in the USGC for Canadian heavy crude as USGC refineries continue to struggle to come back online post-hurricane IDA and Canadian producers increase production. During November, the WCS differential averaged ~ US$19.00/bbl (from ~ US$14.00/bbl in October), and we expect the differential to normalize into the coming year with NBFe averaging US$16.40/bbl in 2022E.

Natural Gas Outlook

NYMEX also encountered headwinds during November averaging ~US$5.10/mmbtu which in contrast to the prior month saw NYMEX averaging ~US$5.60/mmbtu (briefly reaching >US$6.00/mmbtu before declining at the end of October). AECO prices have also experienced increased volatility during the month with prices averaging ~C$4.60/GJ, briefly testing a level below C$4.0-/GJ, before recovering towards the end of the month. Contrasting AECO prices from November to October, where AECO prices averaged ~C$5.00/GJ and briefly reached above the C$6.00/GJ mark towards the end of the month. From a drilling perspective, rig activity has picked up marginally but remains subdued due to the disciplined capital spending from producers. For context, as of the week ending November 24th, rig activity has increased m/m in North America, with a total of 27 (Oil: +24/ Gas: +3) rigs added in the U.S. and seven rigs (Oil: +13/ Gas:-6) added in Canada. According to Bentek, total U.S. production is estimated to have increased to ~94.0 Bcf/d in November from ~91.7 Bcf/d in October, while LNG exports have increased to an average of 11.2 Bcf/d for November (from 10.5 Bcf/d in October). Overall, demand in the U.S. was an estimated ~85.8 Bcf/d in November (from 70.9 Bcf/d in October), according to Bentek, with expectations for cooler temperatures to increase demand as we enter the winter heating season.

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 continues to generate extensive FCF. In the current macro environment, TOU is one of the most investable names, where it holds positive and well-supported liquidity, exposure to several value-additive themes (gas and Topaz), which in sum, support what is already an attractive valuation.

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 11-30	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1175.7	$52.24	$61,419	4%	8.9x	5.5x	4.7x	1.1x	0.5x	$4.40	$11.08	$12.03	4.7x	4.3x	$69.00	37%	↓
Cenovus Energy	CVE	OP		Wood	2017.6	$15.16	$30,587	1%	28.3x	4.8x	4.3x	1.1x	0.5x	$0.12	$3.74	$3.76	4.0x	4.0x	$22.00	46%	
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$34.76	$9,077	2%	4.4x	3.8x	3.8x	1.5x	1.2x	$7.42	$12.73	$11.90	2.7x	2.9x	$44.00	28%	
Imperial Oil	IMO	SP		Wood	695.8	$42.23	$29,384	3%	20.7x	7.0x	5.5x	0.6x	-0.1x	$1.20	$6.38	$7.49	6.4x	5.6x	$50.00	21%	
Suncor Energy	SU	SP		Wood	1469.1	$31.12	$45,717	5%	10.1x	5.2x	4.7x	1.2x	0.9x	$2.66	$6.63	$7.57	4.6x	4.0x	$39.00	31%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$7.09	$1,388	0%	5.1x	6.5x	4.3x	0.7x	0.0x	$0.56	$1.17	$1.68	6.0x	4.2x	$9.00	27%	
ARC Resources Ltd.	ARX	OP		Wood	711.7	$11.21	$7,978	4%	3.9x	4.1x	3.1x	0.8x	0.2x	$1.89	$3.62	$3.81	3.5x	2.9x	$18.50	69%	
Baytex Energy	BTE	SP		Payne	573.8	$3.68	$2,112	0%	5.4x	4.4x	3.6x	2.1x	1.3x	$0.56	$1.26	$1.42	2.9x	2.6x	$5.00	36%	↑
Birchcliff Energy	BIR	OP		Payne	275.2	$6.49	$1,786	0%	6.0x	4.2x	3.6x	0.9x	0.3x	$0.69	$1.91	$2.03	3.4x	3.2x	$10.00	54%	
Crescent Point Energy Corp.	CPG	OP		Wood	583.0	$5.50	$3,206	2%	3.9x	3.4x	2.3x	1.4x	0.7x	$1.65	$2.51	$3.10	2.2x	1.8x	$12.50	129%	
Enerplus Corporation	ERF	OP		Wood	255.1	$12.07	$3,079	1%	3.5x	4.3x	3.1x	1.0x	0.3x	$1.61	$3.45	$4.26	3.5x	2.8x	$17.00	42%	
Freehold Royalties	FRU	OP		Wood	150.6	$10.88	$1,639	7%	7.8x	9.7x	7.1x	0.6x	0.0x	$0.61	$1.30	$1.51	9.2x	7.2x	$15.50	49%	↑
Headwater Exploration	HWX	OP		Payne	226.1	$4.56	$1,031	0%	25.1x	9.1x	5.0x	-0.5x	-0.6x	$0.06	$0.49	$0.82	9.4x	5.6x	$7.00	54%	
Kelt Exploration	KEL	OP		Payne	186.8	$4.29	$802	0%	4.9x	5.5x	3.7x	0.1x	0.0x	$0.31	$0.80	$1.16	5.4x	3.7x	$7.00	63%	
MEG Energy	MEG	SP		Wood	306.8	$10.40	$3,191	0%	7.7x	5.8x	3.9x	3.2x	1.6x	$0.92	$2.40	$3.46	4.3x	3.0x	$15.00	44%	↑
NuVista Energy	NVA	SP		Payne	235.2	$6.19	$1,456	0%	4.2x	5.9x	3.4x	1.8x	0.7x	$0.70	$1.21	$2.08	5.1x	3.0x	$7.50	21%	↑
Paramount Resources	POU	OP		Payne	144.8	$21.45	$3,106	3%	6.1x	6.5x	4.0x	0.9x	0.4x	$1.12	$3.66	$5.71	5.9x	3.8x	$28.00	34%	
Parex Resources	PXT	OP		Wood	119.8	$20.48	$2,453	2%	5.6x	2.9x	2.2x	-0.6x	-0.8x	$2.96	$5.66	$6.74	3.6x	3.0x	$33.00	64%	↓
Peyto Exploration & Development	PEY	OP		Wood	167.1	$10.42	$1,741	6%	5.9x	5.8x	3.9x	2.6x	1.5x	$1.29	$2.57	$3.90	4.0x	2.7x	$15.00	50%	↓
PrairieSky Royalty	PSK	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Spartan Delta	SDE	OP		Payne	168.8	$5.40	$911	0%	6.9x	4.9x	2.4x	1.7x	0.6x	$0.67	$2.09	$2.82	0.0x	0.0x	$10.00	85%	
Storm Resources	SRX	T	↓	Payne	126.5	$6.26	$792	0%	5.2x	5.8x	3.2x	0.7x	-0.2x	$0.47	$1.16	$1.86	0.0x	0.0x	$6.28	0%	
Tamarack Valley Energy	TVE	OP		Payne	412.3	$3.43	$1,414	3%	3.6x	5.7x	3.4x	1.5x	0.5x	$0.55	$0.85	$1.15	4.0x	3.0x	$5.00	49%	
Topaz Energy	TPZ	OP		Payne	139.9	$17.75	$2,484	5%	14.7x	14.7x	10.7x	1.3x	0.5x	$0.98	$1.47	$1.74	12.1x	10.2x	$24.00	41%	
Tourmaline Oil	TOU	OP		Payne	335.3	$42.51	$14,255	2%	4.9x	5.6x	4.1x	0.5x	-0.2x	$4.36	$8.65	$10.01	4.9x	4.2x	$57.50	37%	
Vermilion Energy Inc.	VET	OP	↑	Wood	162.0	$12.76	$2,067	2%	5.6x	4.1x	3.2x	2.0x	1.5x	$3.18	$5.20	$6.86	2.4x	1.9x	$19.00	51%	↑
Whitecap Resources	WCP	OP		Wood	634.9	$6.80	$4,318	4%	4.8x	4.8x	3.3x	1.1x	0.3x	$1.07	$1.81	$2.22	3.9x	3.1x	$12.00	80%	
Small Cap																					
Crew Energy	CR	SP		Payne	165.3	$3.06	$506	0%	6.5x	5.5x	3.2x	2.8x	1.1x	$0.27	$0.89	$1.37	3.4x	2.2x	$4.00	31%	↑
Pipestone Energy	PIPE	SP		Payne	281.5	$3.52	$991	0%	6.8x	6.7x	3.3x	1.2x	0.2x	$0.15	$0.58	$1.11	6.1x	3.2x	$4.50	28%	↑
Surge Energy	SGY	SP		Payne	87.1	$4.03	$351	0%	6.1x	5.2x	2.1x	2.9x	0.8x	$0.18	$1.81	$2.77	2.2x	1.5x	$9.00	123%	
Yangarra Resources	YGR	SP		Payne	90.1	$1.47	$132	0%	4.5x	3.2x	2.3x	2.2x	1.3x	$0.53	$1.00	$1.17	1.5x	1.3x	$2.50	70%	

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

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	EBITDA (mm) 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$1,124.20	91.3	US$12.32	US$213.2	US$209.2	US$256.6	5.7x	6.0x	4.5x	1.5x	1.7x	1.0x	US$17.50	42%	
Precision Drilling Corp.	PD	OP		Payne	$ 683.03	13.3	$51.34	$ 285.2	$ 245.1	$ 290.6	6.3x	8.3x	5.2x	4.7x	4.4x	3.2x	$65.00	27%	
Trican Well Services	TCW	SP		Payne	$ 746.43	248.8	$3.00	$ 30.6	$ 102.4	$ 144.0	7.5x	6.8x	4.3x	1.3x	-0.3x	-0.5x	$4.00	33%	

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

As 2021 comes to a close, little has changed with regard to the market's insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term, as our coverage seeks to deploy an eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while driving per share growth and valuation expansion.

Commodities Update

Commodity prices continued to show strength through November as the favourable fundamental backdrop held up; however, with the discovery of the new Omicron COVID-19 variant, markets showed some fear of returning lockdowns in the final days of the month. Of note, WTI averaged ~US$78.50/bbl, ~3% lower than October levels of ~US$81.00/bbl while still >95% above the 2020 average price of ~US$40/bbl. On the gas front, NYMEX prices experienced some volatility in the second half of November, leading to an average of US$5.12/mcf, ~8% lower than the October average of US$5.57/mcf. Meanwhile, AECO followed suit, averaging $4.50/mcf, ~11% lower than October's average of $5.03/mcf. On Marketing prospects, while the WCS heavy differential has had its ups and downs through the year, it has started to expand of late, averaging ~US$19.00/bbl over the past month.

Pipelines & Midstream Update

On the Line 5 front, the White House confirmed that it does not plan on shutting down ENB's Line 5, but rather is committed to engage in constructive negotiations surrounding Canada's invocation of the 1977 Transit Pipelines Treaty. Recall, the Canadian Federal Government officially invoked Article 6 of the Treaty with the U.S. in an attempt to block the State of Michigan from interfering with the flow of oil on ENB's Line 5. The Canadian government's action came following the State of Michigan expressing its unwillingness to continue court-ordered mediation with Enbridge. Meanwhile, a U.S. District judge ruled that the legal battle between ENB and Michigan will be heard in U.S. federal court as we continue to await an outcome from the dispute. Recall, we value Line 5 at ~$3/sh within our target for ENB, with it representing ~$500 million of annual EBITDA (~5% of AFFO).

Meanwhile, the CER rendered its decision on Enbridge's Mainline contracting proposal, denying both the tolling and the contracting portions of the application, citing that the elimination of 90% of uncommitted volumes for periods of up to 20 years could cause too many negative consequences to Western Canadian oil producers. With the decision, the CER has directed ENB to re-engage with shippers to seek a negotiated settlement – i.e., an extension of the existing Competitive Tolling Settlement (CTS 2.0) or a new incentive tolling framework that provides toll certainty, optimization and capacity expansion incentives and compensation for operating, integrity and financial risks.

Elsewhere, Brookfield Infrastructure officially sealed the deal with the successful approval by IPL shareholders of the statutory plan of arrangement, whereby BIP acquired all remaining outstanding shares of IPL. With the final order from the Court of Queen's Bench of Alberta approving the arrangement, IPL was delisted from the TSX on November 1st. As such, we have discontinued coverage of Inter Pipeline but have launched coverage on BIP with an Outperform rating and US$65 Target.

Energy Transition Update

As momentum in the Energy Transition builds, we continue to see activity within our coverage pushing towards decarbonization. Notably, Keyera has jumped in on the action lately, releasing its 2021 Climate Report while setting a near-term emissions intensity reduction target of 25% by 2025 and a medium-term emissions intensity reduction target of 50% by 2035. Of note, KEY is considering several ways to advance its energy transition strategy including investing in more CCUS capabilities, cogeneration projects and exploring biofuel/hydrogen infrastructure. Meanwhile, TC Energy announced a partnership with Hyzon Motors, a hydrogen fuel cell electric vehicle supplier, to develop, operate and own hydrogen production hubs across North America. The partnership aims at building out production hubs capable of producing ~20 tonnes of hydrogen per day in various states and provinces, while utilizing TRP's infrastructure and expertise.

Top Picks

Overall, our 2022 estimates call for AFFO/sh growth of ~9% over 2021e, 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 Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 11-30	Market Cap. (Mln)	Distributions per Share est. 2020	est. 2021e	est. 2022e	Cash Yield 2021e	Cash Yield 2022e	Distr. CF per Share - FD est. 2020	est. 2021e	est. 2022e	P/Distr. CF 2021e	P/Distr. CF 2022e	Net Debt/ 22e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$24.30	$6,796	$0.96	$1.00	$1.04	4.1%	4.3%	$2.08	$2.80	$3.02	8.7x	8.1x	5.4x	29.00	19.3%		23.5%
Enbridge Inc.	ENB	OP		2022.5	$47.93	$96,938	$3.24	$3.34	$3.44	7.0%	7.2%	$4.67	$4.84	$5.40	9.9x	8.9x	4.7x	54.00	12.7%	↑	19.6%
Gibson Energy	GEI	SP		149.3	$23.11	$3,451	$1.36	$1.40	$1.40	6.1%	6.1%	$2.01	$1.99	$2.15	11.6x	10.7x	3.3x	24.00	3.9%		9.9%
Keyera	KEY	OP		221.0	$28.06	$6,202	$1.92	$1.92	$1.92	6.8%	6.8%	$3.26	$3.01	$2.88	9.3x	9.7x	3.6x	36.00	28.3%		35.1%
Pembina Pipelines	PPL	SP		550.0	$37.80	$20,790	$2.52	$2.52	$2.52	6.7%	6.7%	$3.91	$3.94	$4.39	9.6x	8.6x	3.9x	41.00	8.5%	↑	15.1%
Secure Energy	SES	OP		308.1	$5.21	$1,605	$0.03	$0.03	$0.03	0.6%	0.6%	$0.53	$0.74	$0.95	7.1x	5.5x	2.0x	6.50	24.8%	↑	25.3%
Superior Plus	SPB	SP		176.0	$13.33	$2,346	$0.72	$0.72	$0.72	5.4%	5.4%	$1.37	$1.23	$1.53	10.8x	8.7x	4.1x	15.00	12.5%		17.9%
Tidewater Midstream	TWM	OP		340.3	$1.25	$425	$0.04	$0.04	$0.04	3.2%	3.2%	$0.14	$0.24	$0.23	5.3x	5.4x	3.8x	1.75	40.0%		43.2%
Tidewater Renewables	LCFS	SP		34.6	$13.76	$477	$0.00	$0.00	$0.00	0.0%	0.0%	$0.00	$0.46	$0.55	n.m.	24.8x	3.0x	17.00	23.5%	↑	23.5%
TC Energy Corp.	TRP	SP	↓	979.0	$59.92	$58,662	$3.24	$3.48	$3.62	5.8%	6.0%	$6.13	$5.52	$5.80	10.9x	10.3x	5.3x	65.00	8.5%	↓	14.3%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$41.63	$4,773	$1.74	$1.79	$1.81	4.3%	4.4%	$2.08	$2.44	$2.41	17.0x	17.3x	4.6x	46.00	10.5%	↑	14.8%
Brookfield Infrastructure [1]	BIP	OP		514.0	$56.82	$29,207	$1.94	$2.04	$2.16	3.6%	3.8%	$2.53	$2.92	$3.15	19.5x	18.0x	6.5x	65.00	14.4%	↑	18.0%
Canadian Utilities	CU	SP		273.1	$34.30	$9,367	$1.74	$1.76	$1.78	5.1%	5.2%	$2.69	$2.88	$3.03	11.9x	11.3x	5.3x	37.00	7.9%	↑	13.0%
Capital Power	CPX	OP		114.1	$38.10	$4,347	$1.99	$2.12	$2.24	5.6%	5.9%	$4.96	$5.46	$5.38	7.0x	7.1x	3.6x	46.00	20.7%		26.3%
Emera Inc.	EMA	SP		259.6	$58.69	$15,233	$2.48	$2.58	$2.68	4.4%	4.6%	$1.99	$2.58	$4.24	22.7x	13.9x	6.7x	58.00	-1.2%		3.2%
Fortis Inc.	FTS	SP		474.6	$55.26	$26,227	$1.94	$2.05	$2.17	3.7%	3.9%	$3.92	$3.87	$4.51	14.3x	12.3x	6.2x	59.00	6.8%		10.5%
Hydro One Ltd.	H	SP		596.9	$31.23	$18,642	$1.01	$1.07	$1.12	3.4%	3.6%	$1.76	$1.86	$1.97	16.8x	15.8x	5.4x	32.00	2.5%		5.9%
TransAlta	TA	SP		271.0	$12.99	$3,521	$0.17	$0.18	$0.20	1.4%	1.5%	$1.30	$2.00	$1.45	6.5x	9.0x	3.0x	14.00	7.8%	↑	9.2%

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

Sector Analysis

Real Estate

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Selections

- *Chartwell*
- *H&R*
- *ERES*
- *Sienna*
- *Allied*
- *Flagship*
- *Cap REIT*
- *Killam*
- *InterRent*
- *Dream Office*

Focusing on the future, CSH remains one of our best ideas

NBF hosted a series of investor meetings with CSH management. CSH remains one of our best ideas, as the leading retirement operating platform in a long-term growth asset class where markets are consolidating. Our $15.00 target is based on 19.5x our 2023E AFFO/u estimate, translating to a +9% premium to our NAV estimate one-year out.

Retirement occupancy recovery the #1 topic

Management sees pre-pandemic occupancy levels in ~12-18 months, with H2 2022 as the best window (leasing activity tends to peak in June, then in the post-Summer holiday months and into December). CSH reiterated its long-term goal of 95% occupancy by 2025. Recall that CSH sees total occupancy averaging 76.2% in December (+50 bps from September) based on leasing and move-out notices in hand. Needs-based occupancy, which can be as much as +30 bps of occupancy in a month, would represent upside to forecast. Management sees operating restrictions posing challenges in independent living markets like Quebec and recognizes that LTC pandemic struggles has temporarily hurt consumer perceptions of congregate living, including retirement. Where restrictions are lower (Alberta), occupancy is climbing. In the last weak occupancy cycle (2012-13), CSH learned broad-based incentives did not increase occupancy enough to warrant the foregone rent. CSH is now offering more staff incentives, commissions for RLCs and select limited time offers in certain markets (still being tested).

Labour still tight, but manageable

CSH did not adjust staffing levels down as occupancy fell through COVID and does not anticipate needing significant staffing up as it recovers. Union contract labour, which covers most of the staff, gives management visibility into its future labour costs (escalating 2-4%).

M&A, development costs supportive of higher stock price

New construction costs $500-700k per door. CSH trades at ~$230k per door. With assets trading at sub-6% implied cap rates on a stabilized basis, CSH looks cheap on that metric too. With the largest operating platform in a country where international consolidators are actively putting money to work, we expect that CSH's valuation cannot lag for long.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 11-30	Distributions per Unit (A) 2020	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Cash Yield 2020A	Cash Yield 2021E	Cash Yield 2022E	Cash Yield Current Annualized	FD FFO (A) 2020	FD FFO est. 2021	FD FFO est. 2022	P/FFO 2020A	P/FFO 2021E	P/FFO 2022E	Net Asset Value	12-Mth Price Target	12-Mth Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,561	Woolley	$21.25	$1.44	$1.44	$1.44	6.8%	6.8%	6.8%	6.8%	$1.60	$1.53	$1.62	13.3x	13.9x	13.1x	$24.80	$25.00	24.4%	↔
Choice Properties REIT	CHP.un	SP	↔	$9,885	Woolley	$14.13	$0.74	$0.74	$0.74	5.2%	5.2%	5.2%	5.2%	$0.92	$0.96	$0.98	15.3x	14.8x	14.4x	$13.10	$15.50	14.9%	↑
First Capital REIT	FCR	SP	↔	$3,838	Woolley	$17.52	$0.86	$0.86	$0.86	4.9%	4.9%	4.9%	4.9%	$1.01	$1.14	$1.13	17.4x	15.4x	15.5x	$21.23	$20.00	19.1%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,073	Woolley	$29.82	$1.76	$1.81	$1.85	5.9%	6.1%	6.2%	6.1%	$2.20	$2.18	$2.21	13.6x	13.7x	13.5x	$33.90	$34.00	20.1%	↑
CT REIT	CRT.un	OP	↔	$3,658	Woolley	$16.57	$0.73	$0.76	$0.79	4.4%	4.6%	4.8%	4.6%	$1.18	$1.24	$1.30	14.1x	13.4x	12.7x	$16.80	$19.50	22.3%	↑
Crombie REIT	CRR.un	OP	↔	$2,601	Woolley	$17.15	$0.89	$0.89	$0.89	5.2%	5.2%	5.2%	5.2%	$1.05	$1.15	$1.23	16.3x	14.9x	13.9x	$18.32	$20.00	21.8%	↑
Automotive Properties REIT	APR.un	OP	↔	$521	Woolley	$13.11	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.91	$0.98	$1.01	14.4x	13.4x	13.0x	$12.00	$14.00	14.3%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,284	Kornack	$41.25	$1.65	$1.70	$1.73	4.0%	4.1%	4.2%	4.1%	$2.29	$2.44	$2.67	18.0x	16.9x	15.4x	$49.30	$52.00	30.2%	↔
DREAM Office REIT	D.un	OP	↔	$1,188	Kornack	$21.63	$1.00	$1.00	$1.00	4.6%	4.6%	4.6%	4.6%	$1.52	$1.54	$1.62	14.2x	14.1x	13.3x	$26.25	$26.00	24.8%	↔
Slate Office REIT	SOT.un	RES		$359	Kornack	$4.91	$0.40	RES	RES	8.1%	RES	RES	RES	$0.68	RES	RES	7.3x	RES	RES	RES	RES	RES	
True North Commerical REIT	TNT.un	SP	↔	$641	Kornack	$7.04	$0.59	$0.59	$0.59	8.4%	8.4%	8.4%	8.4%	$0.59	$0.59	$0.60	11.8x	11.9x	11.7x	$7.25	$7.50	15.0%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,344	Woolley	$13.21	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.83	$0.84	$0.87	15.8x	15.7x	15.2x	$13.43	$14.50	15.8%	↑
H&R REIT	HR.un	OP	↔	$4,735	Kornack	$15.69	$0.92	$0.69	$0.69	5.9%	4.4%	4.4%	4.4%	$1.67	$1.55	$1.59	9.4x	10.1x	9.9x	$22.75	$21.50	41.4%	↑
Cominar REIT	CUF.un	RES		$2,094	Kornack	$11.48	$0.72	$0.63	$0.36	6.3%	5.5%	3.1%	6.3%	$1.13	$0.94	$1.05	10.2x	12.2x	10.9x	$10.80	RES	RES	
Artis REIT	AX.un	SP	↔	$1,381	Kornack	$11.09	$0.54	$0.54	$0.60	4.9%	4.9%	5.4%	5.4%	$1.40	$1.33	$1.34	7.9x	8.3x	8.3x	$15.05	$12.25	15.3%	↔
BTB REIT	BTB.un	SP	↔	$293	Kornack	$3.97	$0.36	$0.30	$0.30	9.1%	7.6%	7.6%	7.6%	$0.38	$0.40	$0.41	10.3x	10.0x	9.7x	$4.70	$4.50	20.9%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,473	Kornack	$98.54	$2.92	$3.05	$3.10	3.0%	3.1%	3.1%	3.1%	$4.04	$4.04	$4.47	24.4x	24.4x	22.1x	$95.90	$110.00	14.7%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$3,711	Kornack	$16.25	$0.70	$0.70	$0.70	4.3%	4.3%	4.3%	4.3%	$0.71	$0.80	$0.87	22.9x	20.4x	18.6x	$17.35	$19.00	21.2%	↔
Summit Industrial	SMU.un	OP	↔	$3,951	Kornack	$22.52	$0.54	$0.56	$0.58	2.4%	2.5%	2.6%	2.5%	$0.65	$0.71	$0.75	34.6x	31.9x	29.9x	$22.00	$26.50	20.2%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$307	Woolley	$3.93	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-24.5x	10.9x	5.8x	$5.70	$5.00	27.2%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,873	Kornack	$56.86	$1.37	$1.38	$1.47	2.4%	2.4%	2.6%	2.6%	$2.27	$2.37	$2.51	25.1x	24.0x	22.7x	$63.20	$70.50	26.4%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,716	Kornack	$53.20	$1.00	$1.00	$1.00	1.9%	1.9%	1.9%	1.9%	$2.81	$2.94	$3.12	18.9x	18.1x	17.1x	$60.70	$63.50	21.2%	↑
Killam Apartment REIT	KMP.un	OP	↔	$2,064	Kornack	$22.04	$0.68	$0.69	$0.72	3.1%	3.1%	3.2%	3.2%	$1.00	$1.07	$1.12	22.0x	20.6x	19.6x	$24.10	$27.00	25.6%	↑
InterRent REIT	IIP.un	OP	↔	$2,367	Kornack	$16.49	$0.31	$0.32	$0.34	1.9%	2.0%	2.1%	2.1%	$0.47	$0.51	$0.58	35.1x	32.6x	28.5x	$17.60	$20.25	24.8%	↔
Minto Apartment REIT	MI.un	SP	↔	$1,369	Kornack	$21.78	$0.44	$0.45	$0.48	2.0%	2.1%	2.2%	2.2%	$0.85	$0.79	$0.89	25.7x	27.4x	24.6x	$24.60	$26.25	22.6%	↔
BSR REIT	HOM.un	OP	↔	$447u	Kornack	$16.73u	$0.50u	$0.50u	$0.50u	3.0%	3.0%	3.0%	3.0%	$0.64u	$0.64u	$0.77u	26.3x	26.2x	21.7x	$18.00u	$20.00u	22.5%	↑
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.29	$0.15	$0.16	$0.16	3.5%	3.6%	3.7%	3.7%	$0.19	$0.21	$0.23	22.1x	20.2x	19.0x	$5.45	$5.75	37.7%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$312	Kornack	$9.30	$0.83	$1.13	$0.83	8.9%	12.2%	8.9%	8.9%	$0.65	$0.53	$0.58	14.2x	17.5x	16.0x	$11.15	$10.00	19.7%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,408	Woolley	$11.03	0.59	0.60	0.60	5.3%	5.4%	5.4%	5.4%	0.76	0.68	0.82	14.5x	16.2x	13.5x	$12.10	$15.00	41.4%	↔
Sienna Senior Living	SIA	OP	↔	$909	Woolley	$13.56	0.90	0.92	0.94	6.7%	6.8%	6.9%	6.9%	1.03	1.14	1.17	13.2x	11.9x	11.6x	$12.57	$17.50	35.9%	↔
Extendicare	EXE	SP	↔	$590	Woolley	$6.59	0.48	0.48	0.48	7.3%	7.3%	7.3%	7.3%	0.79	0.48	0.52	8.4x	13.7x	12.7x	$9.30	$8.50	36.3%	↔
Invesque	IVQu	SP	↔	$84u	Woolley	$1.51u	$0.74u	$0.00u	$0.00u	48.8%	0.0%	0.0%	0.0%	$0.73u	$0.45u	$0.47u	2.1x	3.4x	3.2x	$3.27u	$2.00u	32.5%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,304	Woolley	$6.29	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.15	$0.20	64.5x	41.7x	31.7x	$5.40	$7.50	19.4%	↑
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$241u	Woolley	$19.02u	n/a	n/a	$0.51u	n/a	n/a	2.7%	2.7%	n/a	$1.08u	$1.12u	n/a	17.6x	17.0x	$19.50u	$24.00u	28.9%	↑
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$4,000u	Woolley	$17.54	$0.28	$0.28	$0.28	1.6%	1.6%	1.6%	1.6%	$0.49u	$0.55u	$0.61u	35.8x	31.9x	28.8x	$16.84	$20.00	15.6%	↑

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- › *Uni-Sélect*
- › *Dexterra Group Inc.*
- › *Hardwoods Distribution*

Operational efficiency ahead of adding density

We hosted Uni-Select management for a day of marketing with institutional investors in Western Canada. In attendance were Executive Chair and Chief Executive Officer, Brian McManus, and Chief Financial Officer, Anthony Pagano.

Blocking and tackling approach, no need for a silver bullet

The first order of business is methodically cleaning up operations. On this topic, management's message was exceptionally clear: rather than attempting to find a singular change to improve the company's strategic footing, management intends to systematically implement a long list of incremental operational improvements across all three business segments. In the near term, of course, given turmoil in the supply chain, the company's priority is ensuring that product is on hand to meet sales, but beyond this time frame, we expect to see ongoing progress in working capital optimization. This may be achieved through better managing inventory shelf life by leveraging existing IT systems to their full potential and avoiding chasing rebates when purchasing isn't supported by analytics. With a tighter working capital approach, Uni-Select will be able to sweat its assets and push conversion of EBITDA to FCF, one of our preferred metrics for tracking distributor success. Additionally, delivery and fulfillment improvements target network design, ensuring branches are optimally located, which, in combination with routing improvements, should reduce logistics costs. Once distribution facilities are properly optimized, any subsequent improvements in density in existing territories, either through organic customer acquisition or M&A, should yield operating leverage.

Step two: density is your friend in distribution

Once Uni-Select's house is well in order, layering in incremental revenue becomes an attractive proposition. Overall, we believe the most attractive options involve increasing density and filling in white space, improving operating leverage as new business can be serviced from existing locations with only minor incremental costs. Although we do not expect imminent action on the M&A front, we see a clear path forward following the laundry list of operational improvements, as FCF improves the balance sheet over time (we see leverage dropping ~0.5x annually).

Outperform rating and Cdn$27.50 target

Following a strong marketing session, we remain confident in the outlook for operational improvements, but remain conservative in our modeling. Our Cdn$27.50 target is based on 17.5x 2023e EPS, a 16x base multiple and a 1.5x M&A premium, equivalent to $100 million in annual incremental revenue added through M&A as we seek to capture UNS' eventual M&A program in our valuation. We rate UNS Outperform as we consider the potential inherent in the balance sheet and remain constructive on the long list of operational improvement opportunities available to management.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		816.4	45.0	18.13	12/2020	0.51	2.54	1.67	7.1	10.9	85.6	129.5	125.2	9.0	9.3	7.1%	3.4	27.00	
Boyd Group Services Inc.	BYD	SP		4,431.9	21.5	206.40	12/2020	1.97	1.18	2.75	148.5	63.6	220.0	216.3	289.9	21.5	16.2	0.3%	3.5	240.00	↓
Cascades	CAS	OP		1,385.4	103.2	13.43	12/2020	1.95	0.48	1.52	28.3	8.8	675.0	458.7	552.4	5.9	4.8	3.6%	3.2	19.00	
Dexterra Group Inc.	DXT	OP		562.2	65.1	8.63	12/2020	1.24	0.39	0.57	21.9	15.3	52.2	80.3	90.4	8.0	6.7	4.0%	1.0	12.50	
Doman Building Materials	DBM	OP		579.0	86.7	6.68	12/2020	0.78	1.34	0.81	5.0	8.2	143.0	228.8	197.7	5.5	6.3	8.4%	3.5	12.00	
GDI Integrated Facility Services	GDI	OP		1,095.8	23.0	47.59	12/2020	2.11	2.06	2.05	23.1	23.3	104.9	134.5	134.3	9.6	9.0	0.0%	1.4	66.00	↓
Hardwoods Distribution	HDI	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Intertape Polymer Group Inc.	ITP	OP		1,482.4	60.6	24.47	12/2020	1.51	2.01	2.16	10.4	9.7	211.2	250.8	272.0	7.1	6.4	3.3%	2.2	40.50	↑
KP Tissue	KPT	SP		100.3	9.9	10.18	12/2020	0.53	(0.04)	0.48	-240.1	21.3	197.8	155.0	223.5	8.3	7.6	6.8%	4.3	10.50	↓
Neighbourly Pharmacy Inc.	NBLY	SP		1,172.7	34.4	34.07	03/2021	(19.88)	(7.42)	0.48	nmf	71.7	35.1	51.6	75.8	24.5	18.1	0.5%	0.9	35.00	
Park Lawn Corporation	PLC	OP		1,276.3	31.4	40.60	12/2020	1.16	1.53	1.55	26.5	26.2	79.9	98.0	104.8	14.0	13.7	1.2%	1.3	44.50	
Richelieu Hardware	RCH	SP		2,393.3	56.5	42.33	11/2020	1.50	2.37	2.15	17.8	19.7	154.5	223.9	207.1	10.8	11.0	0.6%	0.1	48.00	
Savaria Corporation	SIS	OP		1,199.7	64.6	18.56	12/2020	0.56	0.63	1.05	29.4	17.7	59.8	100.9	132.9	16.1	12.0	2.6%	2.7	24.50	
Uni-Sélect	UNS	OP		1,047.2	43.0	24.33	12/2020	(0.17)	0.88	1.02	20.1	17.2	89.3	136.7	150.6	8.4	7.2	0.0%	2.1	27.50	↑

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

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

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. Some of these stocks could replicate this performance over the next five years, with plenty of growth opportunities for companies in the sector. While inflation concerns and rising interest rates have had a direct impact on valuations recently and resulted in headwinds to some of the names under our coverage universe, we believe the renewable power sector should see increased interest going forward. There are now 44 nations (and the EU), representing 70% of global emissions, committed to a Net zero emissions pathway. Our top picks are INE, BLX and NPI.

Innergex Renewable Energy Inc. (INE: TSX; Outperform; $28 target):

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of 3,101 MW and plans to add close to 1,800 MW in capacity by the end of 2025. 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, INE's growth strategy represents ~$3.8 billion in new investments by 2025, mostly to fund ~1.3 GW in mid or advanced stages of development. In recent months, INE closed on multiple acquisitions, namely the remaining 50% interest in its Chilean JV, Energía Llaima SpA; 18 MW Licán facility, and 50% interest in Curtis Palmer, 60 MW run-of-river hydroelectric portfolio in New York, in partnership with Hydro-Québec. With visibility on near-term growth combined with recent M&A, INE has guided to ~15% growth on normalized FCF/sh out to 2025. Recent developments include the commissioning of its 226 MW Griffin Trail wind project in north Texas and PPA commissioning of its 200 MW Hillcrest solar project in Ohio, with full commissioning expected by the end of 2021. Moreover, INE is exploring investment opportunities into new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 4.75% discount rate on operating assets and includes $4/sh for growth.

Boralex Inc. (BLX: TSX; Outperform; $50 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. It has a net installed capacity of ~2,462 MW, 99% 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, BLX unveiled its strategic plan from 2020 to 2025 as well as a roadmap to 2030. The plan focuses on growth, diversification, customer and asset optimization while also further integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025 to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030. BLX targets a CAGR for its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively.
In Q3'21A, BLX bid on seven solar projects in New York's most recent RFP totalling 800 MW and should hear results over the next few months. Moreover, it could soon submit bids for French RFPs and for renewable projects into Québec RFPs later this year. BLX offers an interesting entry point as it looks to build its next leg of growth. Our target is based on a long-term DCF with a 4.50% cost of equity on operating cash flows and $7/sh of growth.

Northland Power Inc. (NPI: TSX; Outperform; $48 target):

NPI is a global leader in the development of offshore wind projects and owns 2,705 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 PKN Orlen in Poland and Tokyo Gas in Japan which could help boost returns. On recent developments, NPI closed the acquisition of a 551 MW (net) portfolio of onshore wind and solar assets in Spain, partly funded by its $990 million equity offering in April. The remaining proceeds will be used towards its development pipeline of 4 to 5 GW focused on offshore wind projects. Following the German government September auction, NPI and its partner exercised their step-in right for the lease of the ~433 MW Nordsee Two offshore wind project (85% to NPI) at zero subsidy, which indicates the attractiveness of such projects, even with no government assistance. The other project up for auction is the Nordsee Three project with should be auctioned in 2023. Moreover, NPI was recently awarded the right to build two solar projects with a total combined capacity of 130 MW in Colombia (COD: 2023). NPI is progressing on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E), for which it recently received approval for the use of 14 MW turbines with longer blades and on the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E), for which it was recently awarded a 25-year contract. Furthermore, NPI achieved financial close for two of its New York onshore wind projects and is exploring 1.8 GW of wind developments in Taiwan that could be bid into RFPs next year. Our target is based on a long-term DCF with a cost of equity of 4.75% on operating cash flows and $10/sh of growth.

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11-30	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		188.6	82	2.31	12/2020	0.06u	0.07u	0.18u	26.6	9.9	2.14u	2.46u	3.05u	0.7	0.6	1.37u	0.20	4.75	↓
Anaergia Inc.	ANRG	SP		1195.5	62	19.41	12/2020	0.00	0.00	0.00	na	na	3.05	2.60	4.83	7.5	4.0	10.70	0.47	25.00	↓
Algonquin Power	AQN	OP		9089.4	672	13.53u	12/2020	0.65u	0.71u	0.73u	18.9	18.5	2.98u	3.62u	3.54u	3.7	3.8	10.70u	0.47	17.00u	
Altius Renewable Royalties Corp	ARR	OP		329.0	29	11.38	12/2020	(0.15)u	(0.10)u	0.00u	nmf	nmf	0.01u	0.02u	0.12u	nmf	nmf	0.43u	0.00	13.00	↑
Ballard Power Systems	BLDP	OP		4511.9u	298	15.16u	12/2020	(0.20)u	(0.32)u	(0.27)u	nmf	nmf	0.42u	0.33u	0.47u	46.0	32.6	4.58u	0.01	26.00u	
Boralex	BLX	OP		3750.8	103	36.26	12/2020	0.56	0.37	0.65	nmf	55.4	6.44	6.75	7.11	5.4	5.1	12.00	0.65	50.00	
Brookfield Renewable	BEP	SP		23438.2u	646	36.30u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.72u	3.96u	9.8	9.2	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
GFL Environmental Inc.	GFL	OP		17824.1	362	49.23	12/2020	(2.76)	(1.47)	(0.19)	nmf	nmf	11.64	14.99	17.08	3.3	2.9	14.98	0.54	55.00	↑
Innergex	INE	OP		3677.1	194	18.96	12/2020	(0.23)	(0.72)	0.70	nmf	27.2	3.60	4.09	4.04	4.6	4.7	6.13	0.86	28.00	
The Lion Electric Company	LEV	OP		2171.0u	199	10.90u	12/2020	(3.64)u	(0.45)u	(0.20)u	nmf	nmf	0.77u	0.22u	1.51u	49.5	7.2	1.67u	0.02	17.00u	↓
Loop Energy Inc	LPEN	OP		165.6	35	4.67	12/2020	(0.50)	(0.77)	(0.77)	nmf	nmf	0.03	0.05	0.40	nmf	11.8	2.32	0.01	12.00	
NanoXplore	GRA	OP		1100.1	158	6.96	06/2021	(0.08)	0.00	0.18	nmf	39.7	0.46	0.66	0.96	10.6	7.3	0.62	0.20	10.00	↑
Next Hydrogen Solutions Inc.	NXH	SP		110.6	24	4.52	12/2020	(0.77)	(1.33)	(0.97)	nmf	nmf	0.00	0.01	0.28	nmf	16.0	1.69	0.01	7.00	
Northland Power	NPI	OP		8640.8	226	38.24	12/2020	1.78	0.64	0.84	60.1	45.7	10.25	9.23	9.16	4.1	4.2	13.05	0.68	48.00	
TransAlta Renewables	RNW	SP		4950.2	267	18.54	12/2020	0.35	0.56	0.72	32.9	25.7	1.64	1.71	1.77	10.8	10.5	7.66	0.18	20.00	
Xebec Adsorption	XBC	SP		400.3	154	2.60	12/2020	(0.33)	(0.17)	0.01	nmf	nmf	0.59	0.81	1.36	3.2	1.9	2.04	0.17	4.50	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

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Selections

- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Magnet Forensics*
- *Nuvei*
- *Shopify*
- *TELUS International*

Never a Straight Line

With the market pricing in big (positive) results from Just when we thought we were getting to some normalcy – firming inflation (potentially rising rates) and a new variant enters to potentially put everything on ice. Year to date, the S&P Technology Index is up 30.3% versus the 22.3% increase in the S&P. Closer to home, the TSX Technology Index is up 33.9% YTD relative to the broad TSX Index which is up 21.3%. While the performance for technology as whole appears to be holding; it's a bifurcated market underneath where only a select group of names have held their outsized performance with many IPOs trading below their issue price. Interestingly – the legacy names like CGI, Constellation, and OpenText have held well within that market birfucation, a sign that underlying profitability and cash flow is not entirely out of style and why we've consistently recommended (including now) that tech investors have some exposure to these "old school" names despite their lack of excitement. Looking beyond the current volatility, we continue to believe we're still in the early innings of digital transformation. As such, we continue to like those names that are fundamentally well positioned within that structural tailwind but who have also shown consistent execution since their public market debuts. Those names include: Docebo, Kinaxis, Lightspeed, Magnet Forensics, Nuvei, Shopify, and Telus International. We would also include Altus as a Tech special sit name. Here's a sampling of some takeaways for the above names:

- **Kinaxis** should be a meaningful beneficiary from the heightened demand for supply chain solutions. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across large enterprise in markets from auto (semiconductor shortages) to home building (lumber). The depth of Kinaxis' software platform extended conversions of its pipeline in 2020; yet, that pipeline has only increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high growth verticals such as online regulated gaming is helping drive outsized growth as a whole for the Company. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's further supported by structural changes in the payments industry (e.g., cashless casinos).
- **Magnet Forensics.** We believe Magnet Forensics is an early leader in the Digital Forensics market with a suite of competitive offerings to target both the public and enterprise clients. The quality of its business model is further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%, well above the 40% threshold given the Company's strong top-line growth paired with a healthy margin. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.
- **Shopify** remains the leading technology platform for eCommerce in our opinion. For investors, we continue to see many avenues of growth - namely: 1) International, 2) increased take rate with new services; 3) fulfillment; and 4) larger enterprise not to mention what we believe to be an overall accelerating industry shift to e-Commerce. It's those drivers that offer the potential for a material lift in revenue going forward and given the execution thus far, we believe it's reasonable to price in those potential drivers given the history of execution.

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Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		3,209	44.6	71.96	2020	1.66	1.79	2.31	40.3	31.1	98.9	107.7	150.9	29.9	21.3	9.3u	37%	70.00	
Blackline Safety Corp.*	BLN	OP		372	60.0	6.20	2020	(0.14)	(0.49)	(0.38)	NMF	NMF	5.5	(10.5)	(6.3)	NMF	NMF	0.8u	0%	10.00	
CGI Inc.	GIB.A	OP		27,145	249.5	108.78	2020	4.68	5.36	5.93	20.3	18.3	2426.3	2437.7	2598.7	12.0	11.2	26.5	33%	135.00	
Constellation Software Inc.	CSU	SP		46,242	21.2	2,182.12	2020	36.06u	46.77u	55.63u	36.7	30.8	1,237.0u	1,513.1u	1,561.8u	24.2	23.4	62.4u	44%	2100.00	
Docebo Inc.	DCBO	OP		2,826	32.8	86.13	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	NMF	193.8u	0%	100.00u	
E Automotive Inc.	EINC	OP		998	55.2	18.08	2020	(1.77u)	(0.25u)	(0.36u)	NMF	NMF	(4.1u)	(6.3u)	(13.1u)	NMF	NMF	0.8u	26%	24.00u	
Farmers Edge Inc.	FDGE	SP		147u	41.9	3.50u	2020	(2.02u)	(1.11u)	(1.17u)	NMF	NMF	(45.9u)	(31.1u)	(38.1u)	NMF	NMF	3.4u	1%	5.00	↓
Kinaxis Inc.	KXS	OP		5,155	28.1	183.19	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	110.4	60.4	10.6u	0%	225.00	
Lightspeed Commerce Inc.	LSPD	OP		6,139u	139.7	43.93u	2021	(0.38u)	(0.31u)	(0.13u)	NMF	NMF	(21.2u)	(35.3u)	(8.7u)	NMF	NMF	14.5u	1%	120.00u	
Magnet Forensics Inc.*	MAGT	OP		1,212u	40.0	30.30u	2020	0.32u	0.23u	0.22u	NMF	NMF	15.4u	13.7u	13.1u	61.8	64.8	2.1u	2%	55.00u	↑
mdf commerce inc.	MDF	SP		168	33.6	5.00	2021	(0.30)	(0.31)	(0.02)	NMF	NMF	5.1	(2.6)	8.8	NMF	23.5	6.6u	19%	8.00	
Nuvei Corporation	NVEI	OP		11,124	146.7	75.82	2020	0.14u	1.66u	2.02u	45.8	37.6	163.0u	301.1u	393.4u	27.6	21.1	10.4u	25%	160.00u	
Open Text Corporation	OTEX	OP		13,074u	274.0	47.72u	2020	3.39u	3.50u	3.52u	13.6	13.6	1,315.2u	1,292.6u	1,341.2u	11.6	11.2	15.0u	47%	60.00u	
Pivotree Inc.*	PVT	OP		116	26.6	4.36	2020	(0.09)	(0.31)	(0.24)	NMF	NMF	5.6	(4.6)	(3.4)	NMF	NMF	2.7	0%	9.00	
Q4 Inc.	QFOR	OP		375	42.7	8.78	2020	(0.33)	(0.72)	(0.70)	NMF	NMF	(6.7)	(17.8)	(25.8)	NMF	NMF	1.8	22%	15.00	
Real Matters Inc.	REAL	SP		659	85.0	7.75	2020	0.56u	0.46u	0.36u	13.1	17.0	72.2u	57.5u	43.1u	7.6	10.2	1.9u	0%	10.00	↓
Shopify Inc.	SHOP	OP		186,413u	127.5	1,461.58u	2020	4.01u	6.67u	6.47u	NMF	NMF	454.5u	755.5u	768.2u	NMF	NMF	80.4u	9%	2,000.00u	
Softchoice Corp*	SFTC	SP		1,354u	63.9	21.19	2020	0.65u	0.55u	0.96u	38.3	22.1	65.5u	66.4u	95.4u	21.4	14.9	0.8u	62%	32.00	↓
Tecsys Inc*	TCS	OP		673	14.5	46.25	2021	0.49	0.23	0.68	NMF	NMF	16.2	11.2	19.1	58.5	34.4	4.61	13%	65.00	
Telus International	TIXT	OP		8,753	268.0	32.66	2020	0.71	0.96	1.27	NMF	NMF	391.2	532.7	655.2	18.4	15.0	6.03	42%	50.00u	
Thinkific Labs Inc.	THNC	OP		581	76.7	9.64	2020	(0.01)	(0.27)	(0.32)	NMF	NMF	(0.4)	(20.0)	(24.3)	NMF	NMF	1.81	0%	20.00	

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

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Selections

- *Rogers*
- *Shaw*
- *WildBrain*

WildBrain

Small-cap media name getting revitalized by improved strategic focus:

Eric Ellenbogen became CEO of WILD at the end of August 2019 after initially joining the company as a senior advisor five months earlier. Since then, he has presided over a steadily improving growth story with better execution and greater traction leveraging WILD's intellectual property (IP) as more character brands are being reinvigorated. After reporting its 4Q21 results (FYE June) in September, the company hosted its first ever investor day on Oct. 5 during which it elaborated on its 360° approach to unlocking the value of its IP by leveraging its capabilities in Content Production, WildBrain Spark (AVOD & Data Insights), Content Distribution, and Consumer Products while implementing the same holistic approach across business functions. A growing production pipeline and new deals with key partners are contributing to enhanced earnings visibility. Building on f2021 deals with Apple for Peanuts and SEGA/Netflix for Sonic Prime, WILD announced the relaunch of Strawberry Shortcake on Sept. 9 and a deal with Apple for Yo Gabba Gabba! on Sept. 10. WILD highlighted that its Sonic Prime deal should drive production revenues in f2023 with consumer products and other revenues to follow in f2024. Strawberry Shortcake production revenues should start in f2022 with a push into toys in f2023. With its 4Q21 reporting, the company offered f2022 guidance calling for revenues of $480 million to $500 million and Adj. EBITDA of $87 million to $93 million. During its investor day, it highlighted its f2023E-f2024E objective for a two-year CAGR of 12%-17% for revenues and 15%-20% for Adj. EBITDA, which implies roughly 19.0%-19.5% margins by f2024E compared with 18.4% reported in f2021 which looks closer to 16.0% ex-items. Reinvestments are expected to peak in f2022E and should level thereafter to continue to drive growth, especially at WildBrain Spark. F2023E and f2024E are expected to build on WILD's IP activations beginning with production contributions which will be followed by upside from consumer products, toy sales, and other ancillary revenues. A staggered approach to brand launches will help drive momentum. Leverage at 1Q22 declined sequentially to 5.5x from 5.7x (6.75x covenant drops to 6.25x in 1Q24) and is expected to fall to mid-4x or better by the end of f2022. Our target is based on the average of our f2023E NAV and sum-of-the-parts (SOTP) analysis, with implied EV/EBITDA of 14.7x f2022E and 12.2x f2023E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 11/30	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		742	63.3	11.72	12/2020	(9.85)	(3.30)	0.99	-3.5	11.8	-182.8	-61.8	210.1	NM	6.0	-3.15	1.39	19.00	↑
Corus Entertainment Inc.	CJR.b	OP		1,027	208.4	4.93	08/2021	0.88	0.85	0.88	5.8	5.6	524.6	519.2	517.5	4.7	4.3	5.06	0.58	8.00	
WildBrain Ltd.	WILD	OP		585	172.0	3.40	06/2021	(0.07)	(0.03)	0.17	-133.9	20.2	83.1	91.7	106.5	11.3	9.3	0.32	0.88	5.00	↑
Spin Master Corp.	TOY	OP		4,734	102.3	46.28	12/2020	0.51	1.88	2.01	19.2	18.0	180.6	370.2	386.3	9.1	8.2	9.99	-0.54	61.00	↑
Stingray Group Inc.	RAY.a	OP		487	71.1	6.85	03/2021	0.85	0.85	0.95	8.0	7.2	114.3	109.4	120.0	7.7	6.7	3.93	0.60	8.50	
TVA Group Inc.	TVA.b	SP		120	43.2	2.77	12/2020	0.86	0.84	0.77	3.3	3.6	85.3	84.1	78.3	1.9	1.8	8.39	0.12	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP		74,962	490.4	152.85	12/2020	1.85	2.04	2.80	58.7	42.8	1975.0	1995.4	2320.0	30.7	26.3	28.94	0.15	162.00	
Transcontinental Inc.	TCL.a	OP		1,620	87.0	18.61	10/2020	2.61	2.41	2.44	7.7	7.6	499.4	456.8	464.7	5.4	5.1	20.04	0.35	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		619	21.6	28.70	12/2020	(0.01)	(0.18)	0.65	NM	44.1	26.6	28.5	28.5	13.6	11.0	4.21	-0.24	36.00	
Yellow Pages Ltd.	Y	SP		379	27.7	13.70	12/2020	2.28	1.96	1.94	7.0	7.1	129.4	102.5	91.2	3.0	3.0	NM	-0.38	15.00	↑
Telecommunications																					
BCE Inc.	BCE	OP		58,427	908.8	64.29	12/2020	3.02	3.16	3.43	20.3	18.8	9607.0	9900.6	10376.2	9.1	8.7	21.08	0.39	70.00	
Cogeco Communications Inc.	CCA	OP		4,612	47.2	97.63	08/2021	8.43	10.32	9.89	9.5	9.9	1205.7	1376.0	1424.6	6.1	5.8	56.91	0.51	141.00	
Quebecor Inc.	QBR.b	OP		6,900	242.7	28.43	12/2020	2.33	2.61	2.93	10.9	9.7	1952.6	2007.5	2070.0	6.6	6.2	5.17	0.87	40.00	
Rogers Communications Inc.	RCI.b	OP		28,862	504.9	57.16	12/2020	3.40	3.47	4.41	16.5	13.0	5857.0	5884.9	8941.4	8.4	7.6	20.84	0.45	69.00	
Shaw Communications	SJR.b	OP		18,378	496.7	37.00	08/2021	1.60	1.54	1.61	24.1	23.0	2500.0	2534.0	2579.5	9.4	9.1	12.12	0.48	40.50	
Telus Corp.	T	OP		39,741	1361.0	29.20	12/2020	0.95	0.96	1.06	30.5	27.5	5493.7	5867.0	6402.2	10.3	9.5	11.71	0.56	34.00	↑

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

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Selections

- *CAE*
- *TFI International*
- *Exchange Income*

Canadian Railroads impacted by B.C. flooding

As a result of recent heavy rainfall and flooding in British Columbia, the mainlines of both CN Rail and CP Rail were cut by landslides and washouts and rail operations to the key Port of Vancouver were halted entirely for an extended period. The good news for both railroads is that initial repairs were completed expeditiously and as of the end of November, rail operations had restarted. While we don't see long-term negative impacts, both railroads will be affected in the short term:

- **Q4 volumes will be impacted.** In the week that was most impacted by the network outage, CN's total volumes were down 14.4% with grain and intermodal volumes especially hit. The good news for CN is it has exclusive access to the Port of Prince Rupert on the West Coast and rail access there was unaffected. As a result, CN was able to offer some limited alternative options for shippers. CP is more reliant on the impacted rail corridor to Vancouver, so its overall volumes in the affected week were down 25%.
- **Large backlog of volumes to move.** It is important to note that even though volumes were impacted by the outages, this is not lost volume for CN and CP. The issue in the coming weeks will be to clear the backlog of containers that have piled up at the Port of Vancouver and accelerate the movement of bulk goods to the port for export. We expect it will take into 2022 for rail operations to and from the port to normalize.
- **Material repair costs.** Both CN and CP will incur significant costs for repairs that will likely run into the $10s of millions for each. This will impact profitability in Q4, but investors typically look through these unusual expenses.

We are keeping our Sector Perform ratings on both CN Rail and CP Rail:

- **CN Rail (Sector Perform; $153.00 target).** CN shares have been boosted as the market has reacted positively to the company's new "strategic plan". The plan targets a $700 million improvement in operating income in 2022 and an operating ratio of 57%, which would be a meaningful improvement over the 62% we forecast for the company in 2021. CN is also looking to divest some non-core businesses, lower capex and accelerate its share buyback program with another $5 billion in buybacks in 2022. However, on our 2022 forecast, which assumes CN meets its financial targets laid out in the strategic plan, the stock is trading at ~24x P/E, which is well above the ~21x the U.S. peers are trading at as well as the stock's historical forward average of around 21x.
- **CP Rail (Sector Perform; $97.00 target).** Valuation also keeps us neutral on CP shares in the short term. However, we are positive on the prospective merger between CP and Kansas City Southern. We see meaningful longer-term growth opportunities as the combined railway will be able to offer efficient single line service between Mexico, the U.S. Midwest and Canada, allowing it to capitalize on the nearshoring of more manufacturing activity in North America. We also believe the combined railway will capture more north-south traffic from trucks and over time generate growth from the development of new international intermodal volumes via the Mexican port of Lazaro Cardenas. While risk remains that the U.S. regulator will ultimately reject the full merger, we believe there is a high likelihood approval (a decision is expected by the end of 2022).

Transportation & Industrial Products

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 11-30	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	20.80	7,446	12/2020	-16.47	-10.41	-1.17	NA	NA	(10.84)	(8.73)	2.26	NA	9.2x	99%	30.00	↑
Bombardier Inc.	BBD.b	OP		2403	1.73	4,156	12/2020	-u0.47	-u0.19	-u0.04	NA	NA	-u1.32	-u0.32	u0.04	NA	33.0x	na	2.50	
BRP Inc.	DOO	OP		83	100.96	8,394	01/2021	5.35	8.97	9.82	11.3x	10.3x	6.77	3.27	7.61	30.9x	13.3x	120%	131.00	↑
CAE Inc.	CAE	OP		319	30.70	9,783	03/2021	0.47	0.81	1.40	37.7x	21.9x	0.81	0.17	1.21	NA	25.3x	38%	44.00	↓
Canadian National Rail	CNR	SP		710	161.86	114,985	12/2020	5.31	5.86	6.95	27.6x	23.3x	4.63	4.08	6.14	39.7x	26.4x	40%	153.00	
Canadian Pacific Rail	CP	SP		667	89.40	59,612	12/2020	3.53	3.87	4.19	23.1x	21.3x	1.66	3.78	3.25	23.6x	27.5x	54%	97.00	
Cargojet Inc.	CJT	SP		18	167.38	2,932	12/2020	-5.63	5.62	6.68	29.8x	25.1x	9.41	0.94	0.67	NA	NA	31%	201.00	↓
Chorus Aviation Inc.	CHR	SP		178	3.47	616	12/2020	0.40	0.35	0.44	10.0x	7.8x	(1.50)	0.58	(0.49)	5.9x	NA	72%	4.85	
Exchange Income Corporation	EIF	R		39	40.98	1,599	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	
Héroux-Devtek Inc.	HRX	OP		37	17.17	628	03/2021	0.80	0.88	1.04	19.4x	16.6x	0.88	1.86	1.88	9.2x	9.1x	27%	23.00	↑
NFI Group Inc.	NFI	R		77	20.60	1,588	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	
Taiga Motors Corp.	TAIG	OP		31	6.50	203	12/2020	NA	-5.57	-1.25	NA	NA	NA	(2.45)	(3.74)	NA	NA	na	16.00	↓
Transat A.T. Inc.	TRZ	UP		38	4.51	170	10/2020	-9.41	-11.56	-5.39	NA	NA	(2.85)	(13.80)	1.05	NA	4.3x	NA	3.50	
TFI International Inc.	TFII	OP		93	126.84	11,794	12/2020	u3.30	u4.96	u6.42	20.5x	15.8x	u5.16	u6.72	u7.83	15.2x	13.0x	50%	160.00	↑

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

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