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FINANCIAL MARKETS

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Highlights

Economy

- As in 2020 and 2021, the early days of 2022 have been a time of marked rises in new cases of Covid-19 in the developed countries. Once again, health-care systems face being overwhelmed by the thousands of people needing hospital care. And once again, the governments of many countries are forced to decree strict physical distancing measures to limit the spread of the virus. But are we really reliving the worst moments of the pandemic? A scan of the epidemiological data suggests otherwise. True, Omicron is more contagious than previous variants, causing an explosion of daily numbers of new cases. On the other hand, it is now clear that symptoms are less severe than with previous variants. What's more, the quick decline of daily new-case numbers in South Africa suggests that the intense waves of infection resulting from Omicron's high transmissibility will be relatively brief. Having downgraded our global growth scenario last month to incorporate new virus risks, our outlook remains more or less unchanged this month. We expect the economy to expand 5.5% in 2021, 4.1% in 2022 and 3.7% in 2023.
- How is the U.S. labour market doing? Rather poorly, f judged solely by payroll employment. And judging by the most recent report of the Bureau of Labor Statistics, it is improving at a snail's pace. However, we have reason to doubt the accuracy of the payroll survey. Once again in December, the survey of households provided a much brighter picture – a gain of 651,000 jobs. True, the Omicron variant could spoil the employment picture in early 2022, leading to job losses in sectors where physical distancing is hard to maintain. But it must be acknowledged that the public-health measures put in place in the U.S. are much less restrictive than those in other parts of the world. The labour-market repercussions are accordingly likely to be more limited. We are, however, revising down our growth forecast for the first quarter, from 2.5% to 2.2%. After all, hospitalization in the U.S. is already at new highs and many consumers could decide to rein in their activity without being constrained to do so by their governments. Covid-19 could also take a bite out of production capacities by forcing many infected workers to stay home. Such disturbances are nevertheless likely to be short-lived. As noted above, Omicron spreads so fast that the current wave of infection, though intense, is likely to turn out to be brief. That should enable the labour market – and the economy more broadly – to recover fairly quickly. Considering the good financial position of U.S. households, we expect Q1 losses to be partly offset in subsequent quarters. GDP is therefore likely to end the year more or less at the same level as we anticipated in last month's issue of this monitor.
- In Canada, though first-quarter growth will be crimped by public-health restrictions, prompting us to revise down our forecast of 2022 growth to 3.6% from 4.1%, the economy is like to return quickly to the path we anticipated – growth well above potential. The robustness of the labour market and the resulting rise of incomes suggest that consumption will be the key driver of growth in coming quarters, the more so since households could deploy large cash savings accumulated since the beginning of the pandemic. For Quebec and Ontario this is an election year, which could encourage their governments to bring down budgets promoting growth. Under these conditions, we expect the Bank of Canada to start hiking rates in March despite the expected softness of the economy early in the year. Eyebrows are being raised not only by inflation but also by real estate. Signs of overheating in the housing market persist despite an astronomical 25% rise of prices during the pandemic.

Interest rates and currency

- As of this writing, we continue to look for the BoC to commence lift-off in March, with the Fed following shortly thereafter in the second quarter. We see five hikes in the cards for the BoC this year, with three being delivered stateside. That outlook is unchanged from our prior Fixed Income Monitor, though we would concede that risk to the number of hikes has swung to the upside south of the border. Moreover, the potential for a March Fed hike has also risen appreciably, though this hasn't made its way into our base case at this point.
- In addition to rate hikes, we're likely to contend with balance sheet normalization in 2022. For the BoC, that means a transition out of the reinvestment phase towards a partial, passive run-off. The Fed appears poised to do the same in the second half of the year. Make no mistake, this is quantitative tightening but with the massive pool of liquidity that has been injected into the economy over the past two years, financial conditions will still be accommodative into 2023.
- In this context, our outlook remains bullish for risk assets and we remain overweight credit and equities in our asset allocation. We're confident that with liquid and still-accommodative markets, robust consumer balance sheets and a still-solid growth outlook will mean the expansion won't be prematurely derailed.
- As for a cross-market outlook, we see scope for near-term, tactical GoC underperformance as virus anxieties/lockdowns relax and the BoC is (potentially) first out of the gate on rate hikes. However, we see the second half of 2022 characterized by GoC outperformance as BoC tightening exerts greater drag and the Federal Reserve plays catch-up on normalization. Consistent with our estimate of a higher neutral rate stateside, we see GoC's across the curve trading through treasuries once policy rates on both sides of the border are brought to more normal levels.
- The Canadian dollar has been battered in recent weeks. Even though we expect a slowdown in production in the coming weeks as provinces implement measures to control Omicron, the impact on growth should be relatively short, as this new variant appears to be less virulent than previous ones. Rising commodity prices, a current account surplus, a strong labour market and positive interest rate differentials argue for an appreciation of the Canadian dollar.

Highlights

Recommended asset mix and stock market

- The MSCI ACWI ended 2021 on a high note with a cumulative gain of 21.4% for the year. This performance is all the more impressive as it follows two years of double-digit gains. Not since 2004-2006 have global equities done so well.
- As we enter 2022, the MSCI ACWI has lost strength. However, this weakness is primarily due to the U.S. and Europe. Emerging markets and Canada, on the other hand, continue to post positive returns.
- In the U.S., the weakness was primarily due by sectors vulnerable to rising bond yields. If ten-year Treasury yields move somewhat higher, we believe that an investment style favoring value stocks over growth stocks should continue to do well.
- The Canadian benchmark had a stellar performance in 2021 with a gain of 25.1% (total return). Even after such a run, we believe there is still gas in the tank for Energy and the S&P/TSX in 2022. Importantly, the earnings forecasts underlying the 2022 forward PEs are reasonably conservative in our view, calling for EPS growth of 7% in 2022.
- We begin 2022 with the same asset allocation: 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 we expect quantitative easing to end and the overnight rate to rise this year, we doubt that monetary policy will become restrictive in the near future. Geographically, we continue to overweight Canada where we see good potential for profit growth and scope for a significant appreciation of the loonie. True, Omicron could temporarily dampen the economy, but we see its impact as transitory.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	14.3	Overweight	
Materials	11.5	Overweight	
Industrials	11.7	Market Weight	
Consumer Discretionary	3.6	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	0.8	Market Weight	
Financials	33.2	Market Weight	
Information Technology	9.3	Underweight	
Telecommunication Services	4.7	Market Weight	
Utilities	4.3	Underweight	
Real Estate	3.0	Underweight	
Total	100.0		

* As of January 12, 2022

The Economy

The Economy

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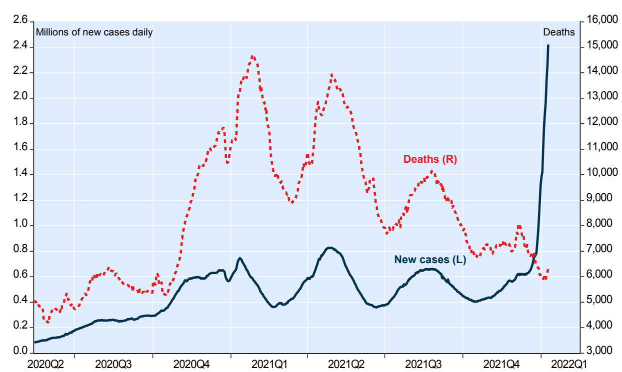
World: Groundhog Day

We can forgive readers who are finding it hard to distinguish the year just beginning from the two previous ones. As in 2020 and 2021, the early days of 2022 have been a time of marked rises in new cases of Covid-19 in the developed countries. Once again, health-care systems face being overwhelmed by the thousands of people needing hospital care. Once again, governments of many countries are forced to decree strict physical distancing measures to limit the spread of the virus. The advent of the Omicron variant has rained discouragement on hopes for a return to normal life following vaccination campaigns.

But are we really reliving the worst moments of the pandemic? A scan of the epidemiological data suggests otherwise. True, Omicron is more contagious than previous variants, causing an explosion of daily numbers of new cases in many countries even before considering that shortfalls of testing capacity in many regions means the "official" numbers are undercounts. On the other hand, it is now clear that symptoms of Omicron infection are less severe than with previous variants, whether because its target populations are widely vaccinated or simply because mutation has made the virus less virulent. Published studies in South Africa and England estimate that hospitalization is 40% to 80% less frequent for Omicron than for previous forms of SARS-CoV-2. Also, those admitted to hospital with it generally require less care and tend to be discharged sooner. Worldwide fatalities accordingly remain well below the peaks of previous waves.

World: Omicron more contagious but less virulent
Daily Covid-19 new cases and deaths, 7-day moving averages



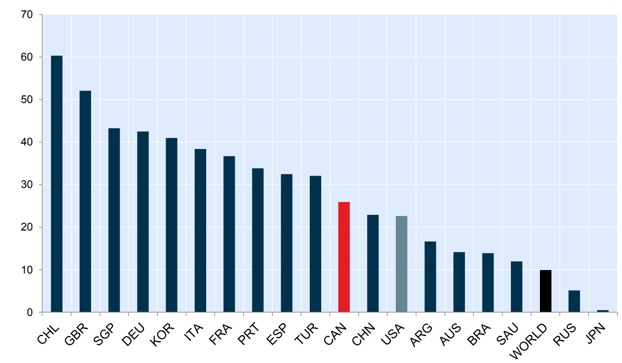
NBF Economics and Strategy (data from Our World in Data)

Three other factors give grounds for optimism:

(1) Recent/imminent approval of new antiviral medications (notably from Pfizer and Merck) highly effective in reducing complications following a diagnosis of Covid-19;

(2) Rapid distribution, at least in the developed economies, of booster doses of vaccine, providing better protection (announcement of the coming arrival on the market of Omicron-specific vaccines is further good news, though it comes too late to stem the current wave);

Developed economies: Rapid deployment of booster doses
Booster doses distributed per 100 population, selected countries



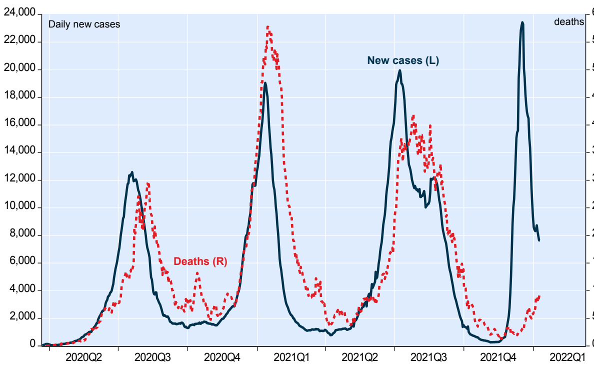
NBF Economics and Strategy (data from Our World in Data)

(3) A quick decline of daily new-case numbers in South Africa, suggesting that the intense waves of infection resulting from Omicron's high transmissibility will be relatively brief.

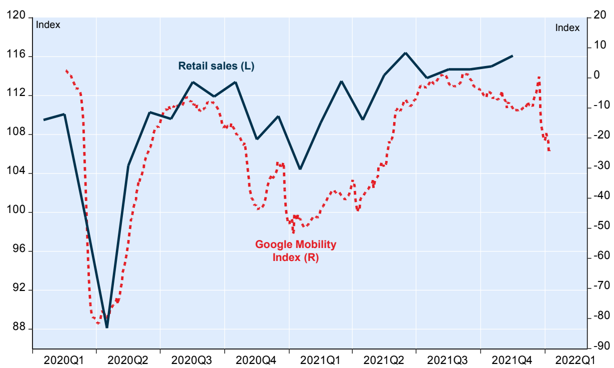
To these considerations we would add that people and busi-nesses have been learning to deal with the virus, with the result that the economic hit from Covid-19 has tended to lessen with each new wave. Lessen … but not disappear. Though the medium-term outlook is more encouraging than it was in early 2020 or 2021, it must be acknowledged that the global economy will not emerge unscathed from the Omicron wave. On the contrary, the first quarter of the year could be quite difficult in some regions of the world. In the Eurozone, Google data on traffic in retail and recreational locations suggests a decline of consumer spending during the quarter.

The Economy

The South African wave: intense, but short?
New Covid-19 infections and deaths, 7-day moving averages



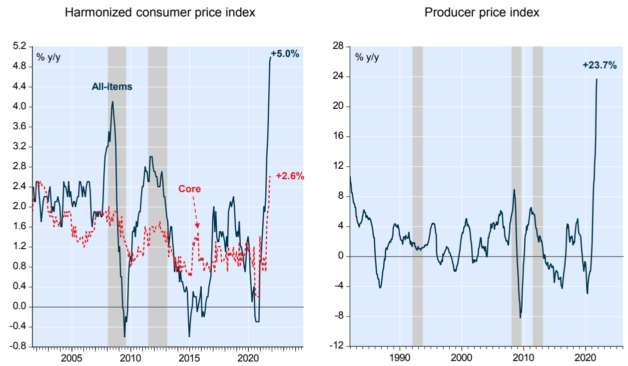
Eurozone: Omicron has braked consumer ardour …
Google Mobility Index of visits to retail and recreation locations, vs. retail sales



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

Meanwhile, the jump in inflation – due in large part to soaring energy prices – will do nothing to help Eurozone households.

Eurozone: All-items inflation at a historic high

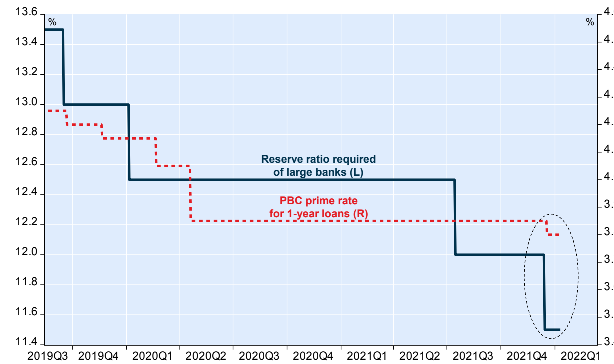


NBF Economics and Strategy (data from Bloomberg)

Emerging economies, until now relatively spared by Omicron, are lagging in vaccination and thus at risk of major outbreaks in coming months. Though widespread shutdowns are rather rare in these economies, deterioration of the public-health picture could temporarily depress household confidence, reinforced in this effect by the insufficiency or absence of government assistance.

The epidemiological picture is already worrisome in India, Argentina, the Philippines, Vietnam and Chile, but the greatest risk is China. Beijing clings fiercely to its zero-Covid policy, imposing extremely strict public-health measures wherever cases of Covid are detected. The city of Xi'an, cut off from the world for more than three weeks now, is a good example of the zeal with which authorities handle any outbreak. Further confinements must be expected now that Omicron has entered the country, especially on the eve of the Beijing Winter Olympics. Such shutdowns could brake growth at a time when China is beset by other problems, notably a painful deleveraging process in the real estate market. It is reassuring that the People's Bank of China decided to ease monetary policy. The required bank reserve ratio was lowered last month in a move that will inject about $200 billion into the economy. Also lowered, for the first time since April 2020, is the central bank's prime lending rate, from 3.85% to 3.80%.

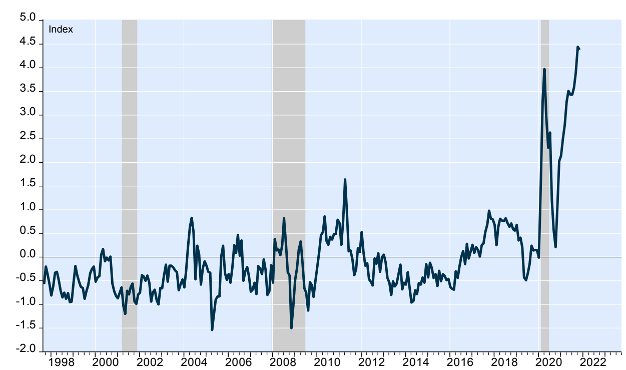
China: Easing of monetary policy
Reserve ratio required of large banks and PBC prime rate for 1-year loans



NBF Economics and Strategy (data from Bloomberg)

If China were to be struck by a wave of Omicron new cases, the effects would be felt around the world. Supply problems – which remain highly constraining according to a new index released by the New York Fed– could further intensify. That would maintain upward pressure on prices of imported goods in the developed economies, especially if Omicron were to slow the rebalancing toward services of household spending in rich countries.

World: Supply chains still strained
New York Fed Global Supply Chain Pressure Index

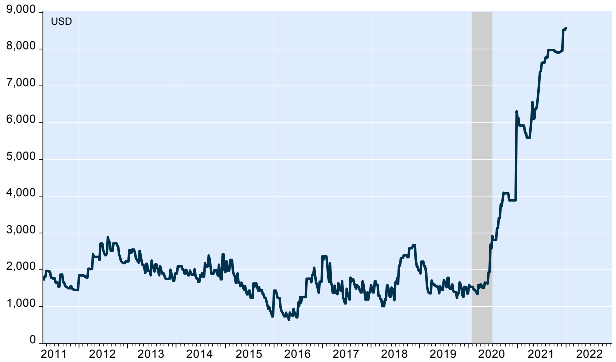


NBF Economics and Strategy (data from New York Fed)

Such a scenario would also be likely to intensify disturbances in maritime shipping.

The Economy

… and international shipping is still in crisis
Reference cost to ship a 40-foot container from Hong Kong to Los Angeles



NBF Economics and Strategy (data from Bloomberg and Drewry Shipping Consultancy)

Having downgraded our global growth scenario last month to incorporate the risks associated with the Omicron variant, our outlook remains more or less unchanged this month. We expect the economy to expand 5.5% in 2021, 4.1% in 2022 and 3.7% in 2023.

World Economic Outlook

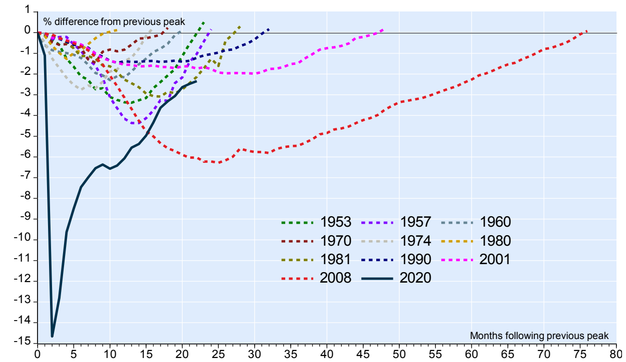
	2021	2022	2023
Advanced Economies	4.9	3.5	2.6
United States	5.6	3.5	2.6
Eurozone	5.0	3.5	2.1
Japan	1.8	2.7	1.3
UK	6.6	4.0	4.7
Canada	4.6	3.6	2.5
Australia	4.0	3.5	2.8
Korea	4.0	2.7	2.5
Emerging Economies	5.9	4.6	4.5
China	7.8	5.0	5.2
India	8.5	7.7	7.0
Mexico	5.7	3.0	2.2
Brazil	4.9	1.4	2.5
Russia	4.3	4.5	1.8
World	5.5	4.1	3.7

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

U.S.: A one-of-a-kind labour market

How is the U.S. labour market doing? Rather poorly, if judged solely by payroll employment. That count is still 3.6 million, or 2.3%, below the pre-pandemic level.

U.S.: Employment still well below the pre-pandemic level
Nonfarm payroll employment, % difference from previous peak

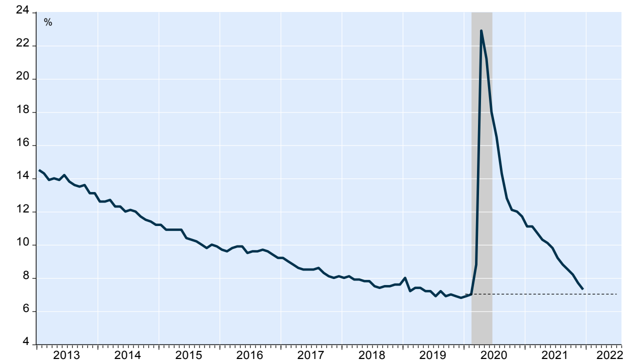


NBF Economics and Strategy (data from Refinitiv)

And judging by the most recent report of the Bureau of Labor Statistics, it is improving at a snail's pace. Payroll employment added only 199,000 jobs in December, well below the consensus forecast of 450,000 – even after taking into account a large upward revision for previous months (+141,000).

However, we have reason to doubt the accuracy of the payroll survey ("survey of establishments"). Once again in December, the survey of households provided a much brighter picture – a gain of 651,000 jobs. This result, combined with a participation rate unchanged at 61.9%, reduced the unemployment rate from 4.2% to 3.9%, a low unequalled since the beginning of the pandemic. The household survey report was also highly encouraging in its details: full-time employment added no fewer than 803,000 jobs, long-term unemployment (more than 27 weeks) fell further and the underemployment rate (U 6) was down almost to its level at the end of the previous cycle.

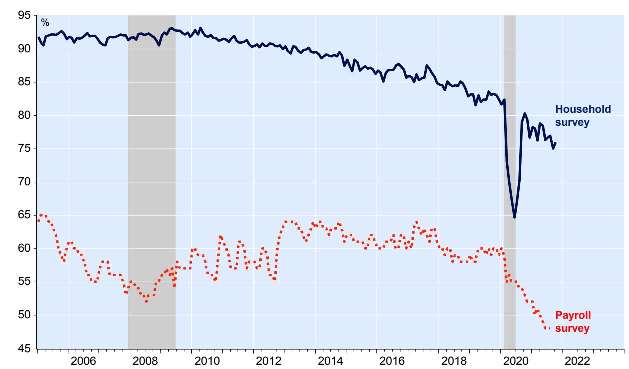
U-6 unemployment rate almost back to pre-pandemic level
U-6 unemployment rate



NBF Economics and Strategy (data from Refinitiv)

So which survey to go by? During the pandemic period, the household survey has seemed to provide a better take on the pulse of the labour market, at least at the time of its initial release. The establishment survey, on the other hand, tends to underestimate job gains at first release and then get revised up – by more than a million over 2021 as a whole, the largest-ever upward revision over a full year. A lower response rate is no doubt part of the reason for this anomaly.

U.S.: A slump in rates of response to payroll employment survey
Rates of response to BLS survey of households and to payroll survey



NBF Economics and Strategy (data from BLS)

The Economy

But even by the household survey, employment is 2.9 million (1.8%) below its pre-pandemic level. The participation rate, meanwhile, is still 1.5% lower than it was in February 2020. Does this mean that the unemployment rate overstates the improvement in the labour market and that a number of potential workers currently on the sidelines will fill the labour shortage? Not so fast. The pandemic has upset the labour market in many ways and there is reason to believe the labour pool has been reduced. A number of factors suggest that recovery of participation rates to pre-pandemic levels will be sluggish:

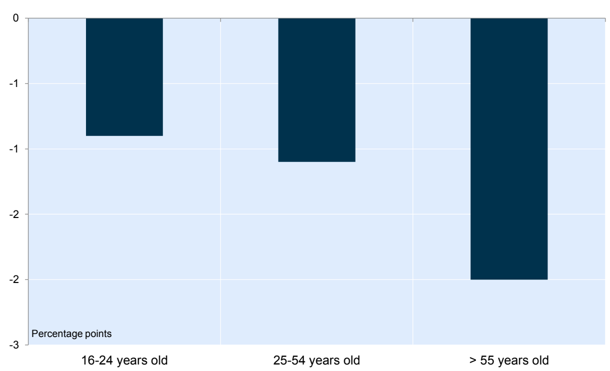
(1) Residual fear of the virus among some people and its long-term effects on the health of many workers (the Omicron variant will not help in this respect);

(2) Closing of schools and daycare, obliging many parents to stay home and take care of kids (here again Omicron will not help things);

(3) Mismatch of the skills most in demand with the skills of those who lost jobs in the pandemic;

(4) "Excess" retirements in recent months, reflected in an especially low participation rate among older workers;

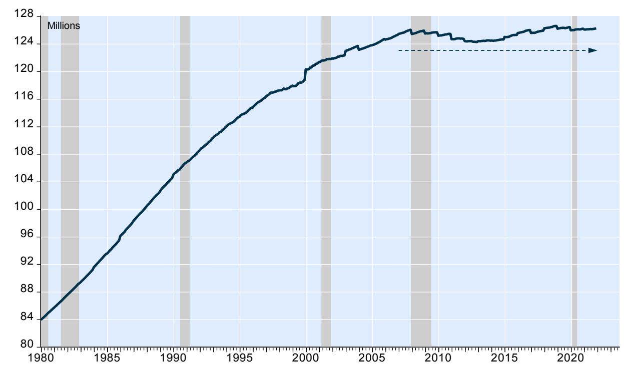
U.S.: The pandemic has shrunk the labour pool (1)
Change in participation rate from beginning of pandemic



NBF Economics and Strategy (data from Refinitiv)

(5) Stagnation of the size of the working-age population, a structural problem amplified by reduced immigration during the pandemic.

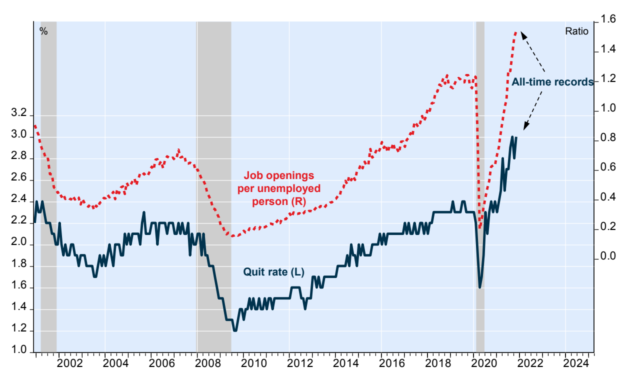
U.S.: The pandemic has shrunk the labour pool (2)
Population aged 25-54



NBF Economics and Strategy (data from Refinitiv)

In these conditions, an attempt to reach pre-pandemic participation rates would be overambitious … and the Fed seems finally to have accepted this. The minutes of its monetary policy meeting of December 14 and 15 report that "Several participants viewed labor market conditions as already largely consistent with maximum employment." A number of indicators point to the same conclusion. The Job Openings and Labor Turnover Survey for November showed a record ratio of job openings to unemployed workers.

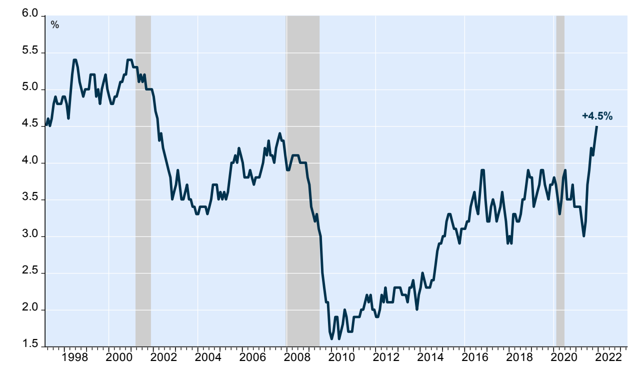
The labour market has rarely been so favourable to workers
Job openings and quit rate (voluntary departures as % of total employment)



NBF Economics and Strategy (data from Refinitiv)

So it is not surprising to see wages increasing at the fastest rate since 2002, a phenomenon that could push inflation over the central bank's target even if supply chains gets unclogged.

U.S.: Fastest rise of wages since 2002
12-month % increase in median wage

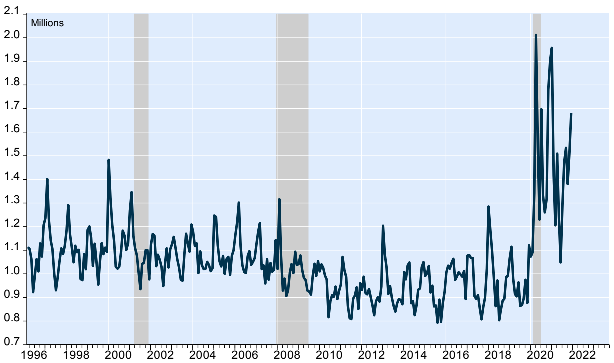


NBF Economics and Strategy (data from Atlanta Fed)

True, the Omicron variant could spoil the employment picture in early 2022, leading to job losses in sectors where physical distancing is hard to maintain (leisure, accommodation, education, health care). But it must be acknowledged that the public-health measures put in place in the U.S. are much less restrictive than those in other parts of the world (e.g. Eurozone, Canada). The labour-market repercussions are accordingly likely to be more limited. We are, however, revising down our growth forecast for the first quarter, from 2.5% to 2.2%. After all, hospitalization in the U.S. is already at new highs and many consumers could decide to rein in their activity without being constrained to do so by their governments. Covid-19 could also take a bite out of production capacities by forcing many infected workers to stay home. Already in December, the number of employed persons absent from work because of illness was close to the all-time high reached at the beginning of the pandemic.
This number is likely to increase further in January and February.

The Economy

U.S.: Many infected workers are still away from their jobs
Number of workers absent from their jobs because of illness



NBF Economics and Strategy (data from Refinitiv)

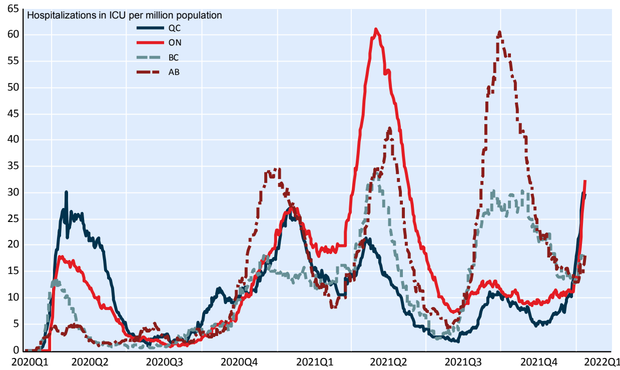
Such disturbances are nevertheless likely to be short-lived. As noted above, Omicron spreads so fast that the current wave of infection, though intense, is likely to turn out to be brief. That should enable the labour market – and the economy more broadly – to recover fairly quickly.

Considering the good financial position of U.S. households, we expect Q1 losses to be partly offset in subsequent quarters. GDP is therefore likely to end the year more or less at the same level as we anticipated in last month's issue of this monitor.

Canada: Déjà vu all over again

The evolution of the pandemic in recent weeks in Canada – a rapid onset of Omicron spoiling the "festive" season – is hardly surprising in light of its path elsewhere in the world. Though the latest variant is less virulent – it puts fewer of the people it infects into hospitals – its much greater contagion has once again cranked up the stress on Canada's health care system. A sharp rise of the number of people in intensive care has led governments to tighten public-health restrictions once again in order to reduce contacts.

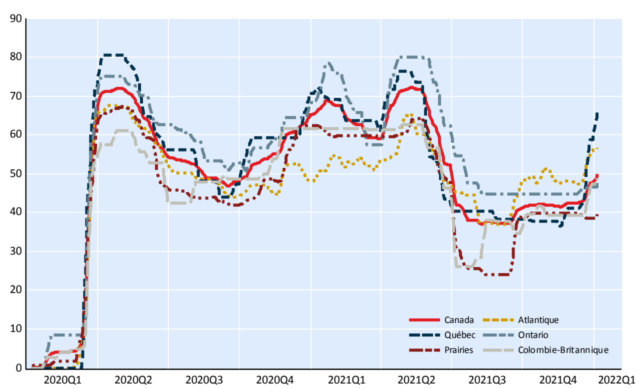
Canada: Patients in intensive care for Covid-19
Per million population



NBF Economics and Strategy (data via INSPQ,
Radio Canada https://ici.radio-canada.ca/info/2020/coronavirus-covid-19-pandemie-cas-carte-maladie-symptomes-propagation/index-en./)

For now, according to the Bank of Canada, it is in Quebec that restrictions are most severe and most likely to brake economic growth. Like restaurant dining rooms and bars, theatres and recreational activities are once again closed. Stores remain open but their traffic is capped at 50% of capacity. In Ontario, closing of dining rooms, bars and gyms is complete but many sectors, including entertainment and recreation, remain open while limited to 50% of capacity. The upshot is that in a first quarter whose prospects seemed solid, the economy is likely to be braked by restrictions, which will hit hardest at accommodation, food services, arts and entertainment.

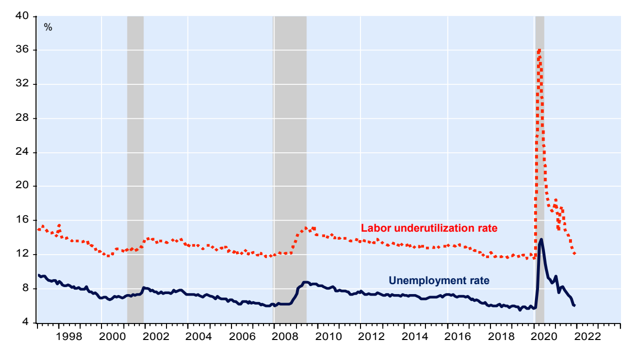
Canada: Index of stringency of Covid-19 public-health measures
Stringency of containment policies and public-information campaigns, 7-day moving average



NBF Economics and Strategy (data from Bank of Canada)

However, we continue to see this as a temporary soft patch that will be limited, as in previous episodes, to sectors directly affected by public-health measures. For businesses, programs are still in place to limit the damage to their finances from closings. Laid-off workers remain entitled to extraordinary assistance, though less generous than in previous episodes ($300 a week instead of $500 as before August). Some, however, could opt for employment in other industries desperate for labour power. The labour market was impressively robust at year end, adding 55,000 jobs when the economist consensus expected 25,000. The recovery of the labour market in 2021 was quite simply spectacular. The unemployment rate fell from 8.8% in December 2020 to 5.9% in December 2021 as 890,000 jobs were added, 78% in the private sector. But it is not just the unemployment rate that is signalling full employment. The underemployment rate, which includes people who want a job but have not sought one or who have a job but are working less than half their usual hours, fell 0.4 percentage points in December to 12.0%, a rate within its range of 2018 and 2019.

Canada: Labour market back at full employment
Unemployment rate and labour underutilization rate

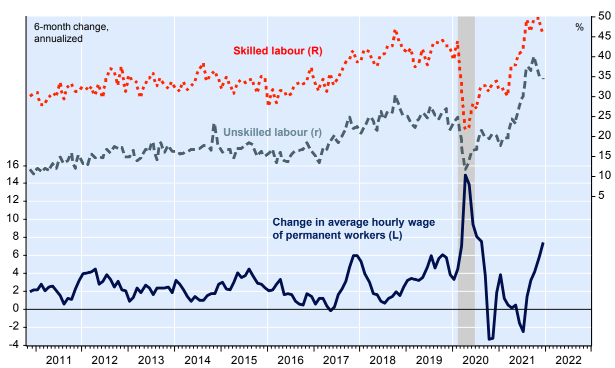


NBF Economics and Strategy (data from Bloomberg)

Despite the rush of hiring in recent months, the labour needs of small and medium-sized business seem unsatisfied. A large proportion of them continue to report that labour scarcity is braking their output. That's good news for workers. In the last six months the average hourly wage has risen at a rate of 7.0% annually, unprecedented outside the early pandemic period when low-wage workers were laid off en masse.

The Economy

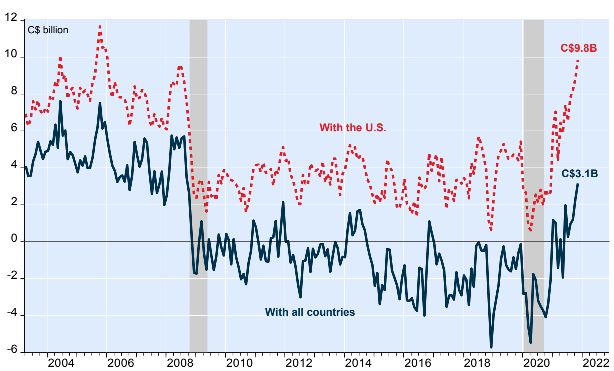
Canada: Wages accelerating sharply
6-month change in average hourly wage and % of CFIB survey respondents reporting labour shortage



NBF Economics and Strategy (data from Bloomberg)

So despite an economic soft patch early in the year, inflationary pressures are such that we continue to think the central bank will start raising its policy rate in March. Apart from the uncertainties posed by Omicron, the central bank in December identified the devastating floods in B.C. as a risk factor. Pre-liminary data suggest that their effect on economic growth might be limited. Not only has B.C. employment held up, but November data on international trade indicate that transport disturbances had only a limited effect. Volume goods trade continued to grow – exports by 3.5%, imports by 0.8%, lifting the merchandise trade surplus to its highest since September 2008, with help from a considerable improvement in terms of trade during the pandemic.

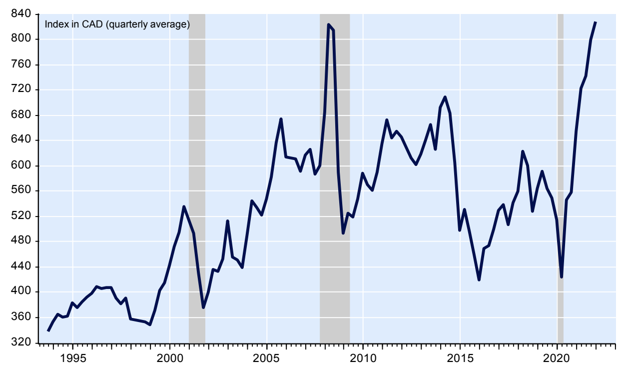
Canada: Merchandise trade surplus largest since September 2008
Merchandise trade balance, balance of payments basis, current dollars



NBF Economics and Strategy (data via Statistics Canada)

The path of raw materials prices gives reason to believe that terms of trade will continue to improve. The Bank of Canada's price index for 26 commodities produced in our country and sold on world markets, expressed in Canadian dollars, stands at a record high early in Q1. Our outlook for the resource sector this year remains optimistic since global consumer demand is likely to remain vigorous, encouraging businesses to restock their depleted inventories.

Canada: Commodity prices at a record high
Bank of Canada price index for commodities produced in Canada, expressed in CAD

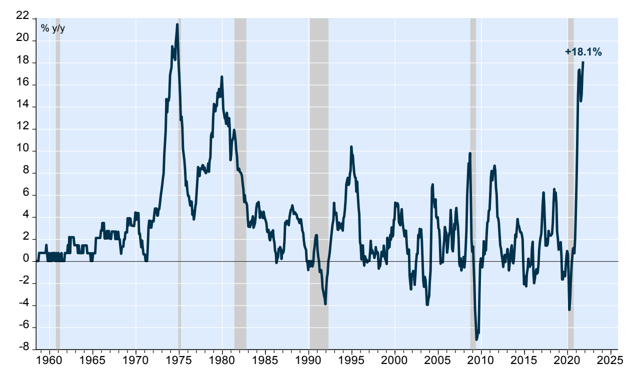


NBF Economics and Strategy (Bank of Canada data via Refinitiv)

The rise of raw materials prices could ultimately be passed on to consumers. The path of Canadian producer prices suggests that goods prices will continue to rise rapidly. In November they increased 0.8% on top of a 1.6% gain the previous month. Increases were reported for 14 of the 21 major groups of basic products. The 18.1% rise of the Industrial Product Price Index from a year earlier was the largest 12-month increase since the 1970s.

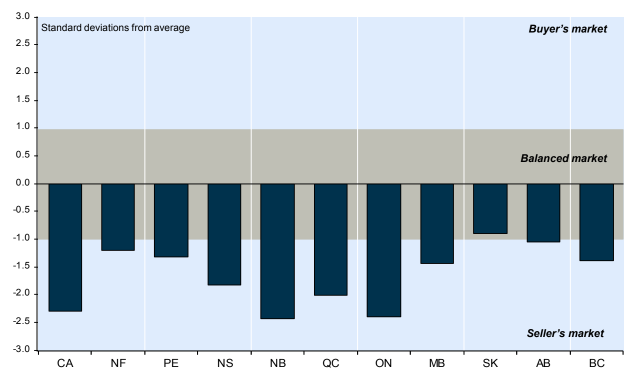
Though first-quarter growth will be crimped by public-health restrictions, prompting us to revise down our forecast of 2022 growth to 3.6% from 4.1%, the economy is like to return quickly to the path we anticipated – growth well above potential. The robustness of the labour market and the resulting rise of incomes suggest that consumption will be the key driver of growth in coming quarters, the more so since households could deploy large cash savings accumulated since the beginning of the pandemic. For Quebec and Ontario this is an election year, which could encourage their governments to bring down budgets promoting growth. Under these conditions, we expect the Bank of Canada to start hiking rates in March despite the expected softness of the economy early in the year. Eyebrows are being raised not only by inflation but also by real estate. Signs of overheating in the housing market persist despite an astronomical 25% rise of prices during the pandemic.

Canada: Producer price rising the fastest since the 1970s
Industrial Product Price Index, last observation November 2021



NBF Economics and Strategy (data via Statistics Canada)

Canada: Housing is still a seller's market
Ratio of listings to sales – resale market (seasonally adjusted data)



NBF Economics and Strategy (data from ACI)

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	2.6	5.2	2.8	2.3
Consumption	2.2	(3.8)	8.1	3.5	2.5	7.6	2.5	2.2
Residential construction	(0.9)	6.8	9.1	(1.2)	1.0	(2.0)	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)	3.6	2.9	3.2	1.2	3.7	2.2
Imports	1.2	(8.9)	13.1	2.3	1.4	6.1	0.9	2.0
Change in inventories (bil. $)	75.1	(42.3)	(87.1)	93.8	50.0	(25.0)	175.0	25.0
Domestic demand	2.4	(2.5)	6.7	2.9	2.3	6.0	2.3	2.2
Real disposable income	2.3	6.2	2.4	(2.3)	2.4	0.7	1.5	2.9
Payroll employment	1.3	(5.7)	2.7	3.0	1.9	4.3	1.9	2.0
Unemployment rate	3.7	8.1	5.3	4.0	3.7	4.2	3.8	3.6
Inflation	1.8	1.3	4.7	4.9	2.9	6.7	3.0	3.0
Before-tax profits	2.7	(5.2)	24.0	4.2	2.6	17.0	3.7	1.4
Current account (bil. $)	(472.1)	(616.1)	(783.6)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 1/14/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.25	0.50	0.75	1.00	0.25	1.00	2.00
3 month Treasury bills	0.13	0.15	0.35	0.60	0.85	0.06	0.85	1.85
Treasury yield curve								
2-Year	0.99	1.10	1.30	1.50	1.70	0.73	1.70	2.05
5-Year	1.55	1.65	1.75	1.85	1.90	1.26	1.90	2.10
10-Year	1.78	1.90	2.00	2.05	2.10	1.52	2.10	2.20
30-Year	2.12	2.20	2.25	2.25	2.30	1.90	2.30	2.30
Exchange rates								
U.S.$/Euro	1.14	1.14	1.14	1.16	1.17	1.14	1.17	1.15
YEN/U.S.$	114	115	115	114	113	115	113	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	2.3	5.6	2.2	3.4	2.9	2.8
CPI (y/y % chg.)	1.9	4.8	5.3	6.7	6.8	5.3	4.4	3.2
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	5.0	5.6	4.1	3.4	3.0
Unemployment rate (%)	6.2	5.9	5.1	4.2	4.2	4.1	4.0	3.8

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	3.6	2.5	3.0	3.7	1.6
Consumption	1.4	(6.2)	5.4	4.4	2.8	6.0	3.1	1.7
Residential construction	(0.2)	4.3	14.0	(6.1)	(0.6)	(5.1)	2.0	(3.0)
Business investment	2.5	(12.1)	(1.0)	3.9	3.7	1.1	5.1	2.7
Government expenditures	0.8	0.9	4.8	1.5	1.2	2.2	1.7	1.0
Exports	2.3	(9.7)	0.9	4.4	5.0	(1.5)	6.7	4.0
Imports	0.4	(10.8)	6.3	3.5	4.9	1.5	5.1	5.0
Change in inventories (millions $)	18,377	(18,720)	(1,168)	13,894	20,993	5,000	11,575	25,954
Domestic demand	1.2	(4.1)	5.2	2.5	2.2	3.3	2.8	1.2
Real disposable income	3.0	8.2	1.4	(0.2)	1.4	2.4	0.5	1.5
Employment	2.2	(5.1)	4.8	3.3	1.7	4.2	2.1	1.2
Unemployment rate	5.7	9.6	7.4	6.0	5.6	6.2	5.6	5.6
Inflation	1.9	0.7	3.4	3.9	2.5	4.7	2.8	2.5
Before-tax profits	(0.6)	(1.9)	31.8	4.1	1.7	13.7	6.0	2.8
Current account (bil. $)	(47.0)	(39.4)	11.0	(11.0)	(28.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 1/14/22	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2021	2022	2023
Overnight rate	0.25	0.50	0.75	1.25	1.50	0.25	1.50	1.75
Prime rate	2.25	2.50	2.75	3.25	3.50	2.25	3.50	3.75
3 month T-Bills	0.27	0.35	0.60	1.05	1.30	0.17	1.30	1.65
Treasury yield curve								
2-Year	1.16	1.30	1.50	1.70	1.80	0.95	1.80	1.80
5-Year	1.58	1.65	1.75	1.85	1.90	1.26	1.90	1.90
10-Year	1.77	1.85	1.90	1.95	2.00	1.43	2.00	1.95
30-Year	2.02	2.05	2.10	2.15	2.15	1.68	2.15	2.15
CAD per USD	1.25	1.24	1.20	1.22	1.23	1.26	1.23	1.26
Oil price (WTI), U.S.$	84	82	85	83	81	75	81	80

*** 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	5.3	1.1	6.6	3.9	3.2
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	4.7	4.4	3.6	2.8
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	3.3	3.1	2.6	2.5
Unemployment rate (%)	8.4	8.0	7.2	6.2	6.4	6.1	5.7	5.6

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021f	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	3.0	2.3	1.8	2.3	-10.7	13.9	8.4	2.7
Prince Edward Island	4.7	-1.7	3.1	2.5	2.6	6.6	0.9	8.8	5.1	3.4
Nova Scotia	3.0	-2.5	3.4	2.7	2.1	3.7	0.7	8.7	6.1	3.2
New Brunswick	1.3	-3.2	3.2	2.5	1.9	2.4	-1.3	9.2	6.0	2.4
Quebec	2.8	-5.5	6.2	2.6	2.3	4.7	-2.4	11.2	6.0	3.1
Ontario	2.0	-5.1	4.0	3.9	2.6	3.7	-2.8	10.9	6.3	3.0
Manitoba	0.4	-4.6	3.9	3.1	2.4	0.7	-1.4	11.2	6.2	3.1
Saskatchewan	-1.1	-4.9	4.3	3.6	2.6	-0.4	-6.6	17.8	12.9	2.6
Alberta	-0.1	-7.9	5.0	4.1	2.7	1.5	-16.1	21.3	12.5	3.2
British Columbia	3.1	-3.4	4.4	4.4	2.8	4.6	-0.5	12.1	7.1	3.1
Canada	1.9	-5.3	4.6	3.6	2.5	3.6	-4.6	12.7	7.4	3.0

	Employment (% growth) 2019	2020	2021f	2022f	2023f	Unemployment rate (%) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	1.3	-5.9	2.9	2.0	0.7	12.3	14.2	12.9	12.6	11.6
Prince Edward Island	3.4	-3.2	3.8	3.0	1.8	8.6	10.6	9.3	8.4	8.0
Nova Scotia	2.3	-4.7	5.4	2.4	1.6	7.3	9.8	8.4	7.2	6.4
New Brunswick	0.7	-2.6	2.6	2.0	0.7	8.2	10.1	8.9	8.3	7.8
Quebec	2.0	-4.8	4.2	3.0	1.6	5.2	8.9	6.1	4.8	4.4
Ontario	2.8	-4.7	4.9	3.9	1.9	5.6	9.6	8.0	6.0	5.6
Manitoba	1.0	-3.7	3.5	2.2	1.2	5.4	8.0	6.4	5.5	5.1
Saskatchewan	1.7	-4.6	2.6	2.0	1.3	5.5	8.4	6.5	6.2	5.8
Alberta	0.6	-6.5	5.1	3.4	1.7	7.0	11.5	8.6	8.2	7.9
British Columbia	2.9	-6.5	6.6	3.3	1.8	4.7	9.0	6.5	4.7	4.3
Canada	2.2	-5.1	4.8	3.3	1.7	5.7	9.6	7.4	6.0	5.6

	Housing starts (000) 2019	2020	2021f	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.2	1.0	0.8	1.0	0.2	3.8	3.8	2.5
Prince Edward Island	1.5	1.2	1.2	1.0	1.0	1.2	0.0	4.7	4.1	2.5
Nova Scotia	4.7	4.9	5.8	4.4	4.1	1.6	0.3	4.0	4.0	2.4
New Brunswick	2.9	3.5	3.9	3.0	2.7	1.7	0.2	3.7	3.8	2.6
Quebec	48.0	54.1	71.7	58.0	55.0	2.1	0.8	3.7	3.9	2.5
Ontario	69.0	81.3	104.2	88.0	81.0	1.9	0.6	3.6	4.0	2.5
Manitoba	6.9	7.3	7.8	6.3	6.1	2.3	0.5	3.2	3.8	2.5
Saskatchewan	2.4	3.1	4.3	3.6	3.5	1.7	0.6	2.8	3.8	2.5
Alberta	27.3	24.0	32.0	27.0	26.5	1.7	1.1	3.0	3.8	2.5
British Columbia	44.9	37.7	46.3	37.0	35.8	2.3	0.8	3.1	3.7	2.5
Canada	208.7	217.8	278.4	229.3	216.5	1.9	0.7	3.4	3.9	2.5

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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2022: The year of the hike

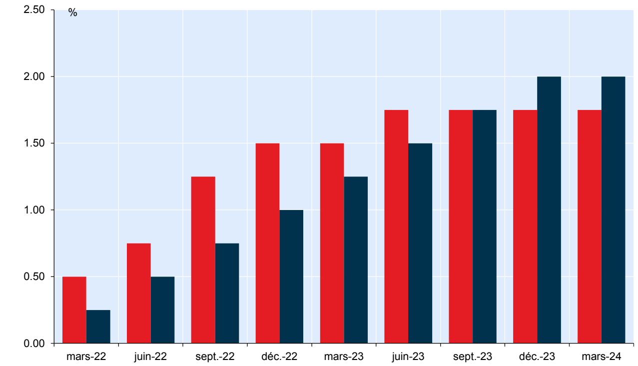
The extraordinary year that was 2021 is finally in the books. For its part, 2022 doesn't look to be any less captivating given the still-raging pandemic, red-hot inflation, ultra-tight labour markets and an impending monetary tightening cycle.

True, the unrelenting Omicron variant is going to leave its mark on growth and employment to start the year. However, it does appear that the virulence of this strain is less concerning than the dominant strains in prior COVID waves. With economies growing more resilient to the pandemic and price stability mandates increasingly threatened, central banks are likely to look through the short-lived hit more than they might have in the past.

Inflation, while still expected to let up later this year, is becoming more of a threat to the outlook—a risk North American central bankers are increasingly conceding. The dovish and patient stance that characterized much of 2021 is now a thing of the past as both the BoC and Fed, we'd argue, are well behind the curve and will be sprung into action in short order.

By this time next year, central banks could be flaunting policy rates with 1-handles. While we'd still be in an environment of sub-neutral interest rates (and negative in real terms), the thought of any hikes—let alone three or more—seemed unlikely a year ago. As of this writing we continue look for the BoC to commence lift-off in March, with the Fed following shortly thereafter in the second quarter. We see five hikes in the cards for the BoC this year, with three being delivered stateside. That outlook is unchanged from our prior Fixed Income Monitor, though we would concede that risk to the number of hikes has swung to the upside south of the border. Moreover, the potential for a March Fed hike has also risen dramatically, though this hasn't made its way into our base case at this point.

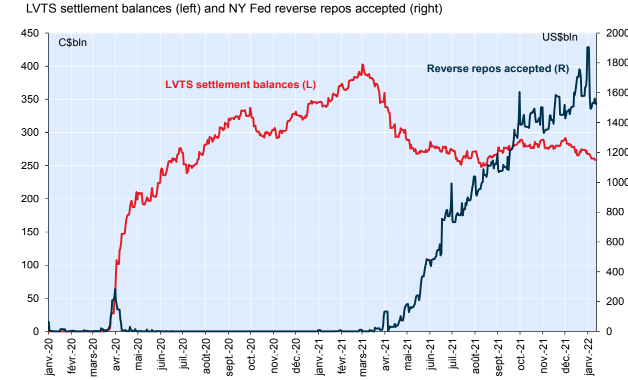
Visualizing our rates call
Policy rate projections (quarter-end) for Bank of Canada and Fed through Q1:2024



NBF Economics and Strategy

In addition to rate hikes, we're likely to contend with balance sheet normalization in 2022. For the BoC, that means a transition out of the reinvestment phase towards a partial, passive run-off. The Fed appears poised to do the same in the second half of the year. Make no mistake, this is quantitative tightening but with the massive pool of liquidity that has been injected into the economy over the past two years, financial conditions will still be accommodative into 2023.

Liquidity is still abundant
LVTS settlement balances (left) and NY Fed reverse repos accepted (right)



NBF Economics and Strategy (data via Bloomberg)

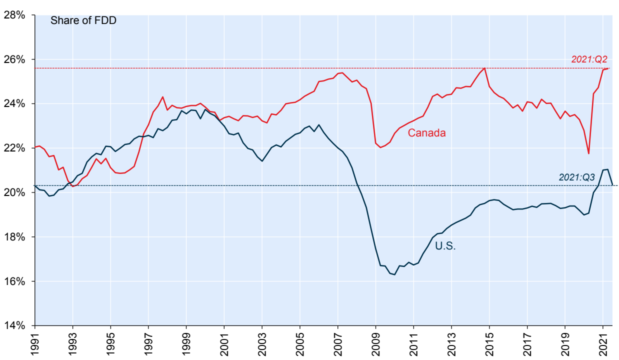
In this context, our outlook remains bullish for risk assets and we remain overweight credit and equities in our asset allocation. We're confident that with liquid

Interest Rates and Bond Markets

and accommodative markets, robust consumer balance sheets and a still-solid growth outlook will mean the expansion won't be prematurely derailed.

We also continue to believe that the Canadian and US neutral rates haven't changed meaningfully versus the pre-pandemic regime. Moreover, increasingly interest-sensitive economies suggest that the scope for tightening policy may be more limited than some might expect. Despite our call for rapid BoC policy rate normalization in 2022, we're skeptical that the Bank will be able to bring the overnight target above 2%. While we'd argue neutral is slightly higher in the US, a modest 2% remains our expectation for the high watermark fed funds target. Thus, we see longer-term interest rates topping out just above 2% in the not-too-distant future and a curve flattener remaining the trade-du-jour. Indeed, based on our detailed historical analysis, you typically see upward pressure on long-term yields stall out once tightening begins. We expect this trend to hold this cycle, assuming inflation expectations remain anchored.

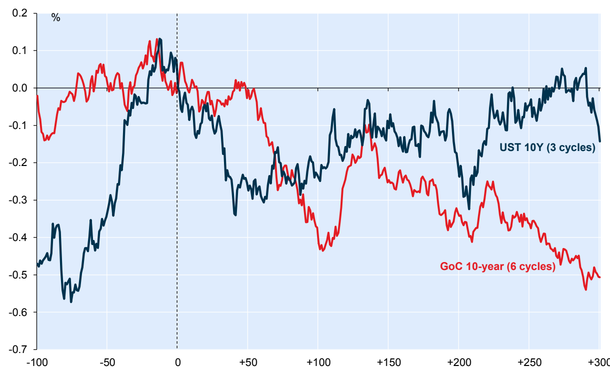
Record share of Cdn demand interest-sensitive
Interest-sensitive share of Final Domestic Demand (FDD)



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

Of course, the key risk to this outlook is the delta on policy. While we see central banks beginning balance sheet normalization in 2022, a more rapid unwind could jeopardize our outlook for rates, credit and equities. That said, if there's one thing we've learned in recent years, its that central banks will err on the side of accommodation in the face of uncertainty (as long as inflation isn't wildly out of control). Thus, we see the risk of a cycle-killing monetary tightening episode as unlikely, especially given that price pressures should ease meaningfully by 2023, taking some heat off of central banks.

Historically, very little upward pressure on rates after first hike
Average trajectory for 10-year yields before/after first hike of central bank hiking cycles (last 25 years)



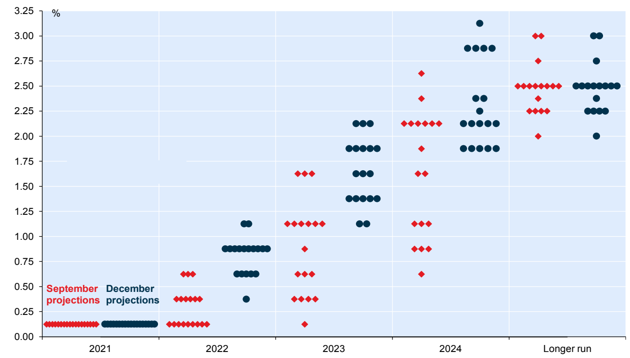
NBF Economics and Strategy (data via Bloomberg)

FOMC: The hawks are in flight

New year, new Fed. That's certainly how it feels as we transition to 2022. Indeed, rewind back to the early fall when the Fed was laying down its September Summary of Economic Projections and you'd be shocked by how much and how quickly things moved over the balance of the year.

Back in September, there was widespread disagreement amongst the FOMC whether policy would need to be tightened at all in 2022 as nine of the eighteen SEP submissions incorporated exactly zero rate hikes in 2022. Three months later in December there wasn't a single FOMC participant that didn't foresee policy rate normalization this year. Instead, the debate has shifted to whether the Fed will be hiking twice or three times or even more.

A dramatic dot plot revision
Fed dot plot: September versus December



NBF Economics and Strategy (data via Federal Reserve)

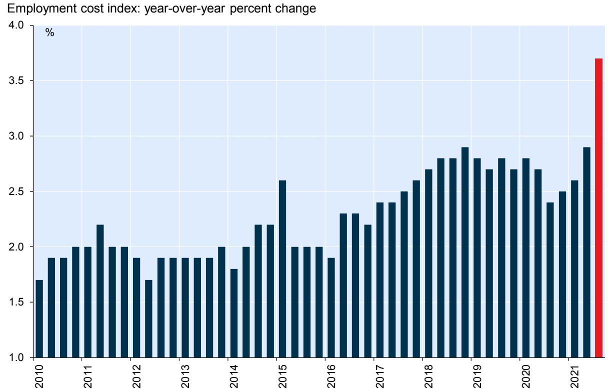
So what has changed? Firstly, the Fed is no longer steadfast in its 'transitory' inflation narrative. This much-maligned staple in recent rate statements was dropped in December with the statement now noting:

> *"supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation"*
>
> -Fed interest rate statement (December 15, 2021)

In the subsequent press conference, Powell expanded on this noting that price increases have been "larger and longer lasting" than previously anticipated. He also explained that his view was most radically altered by October's CPI report as well as the surging employment cost index. Moreover, the concession of stronger price pressures this year appears broad-based judging by the Committee's revisions to the inflation outlook. While September's projections had PCE inflation effectively falling back to 2% in 2022, there was a little bit more stickiness incorporated over the projection horizon in December. Additionally, with the recent surge in Omicron—which has further squeezed labour supply and could exacerbate supply bottlenecks—the risks remain skewed to higher inflation for the year ahead.

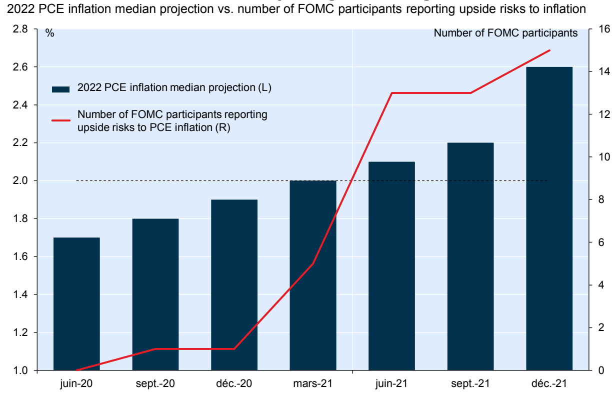
Interest Rates and Bond Markets

A game changing economic release for Chair Powell
Employment cost index: year-over-year percent change



NBF Economics and Strategy (data via Bloomberg)

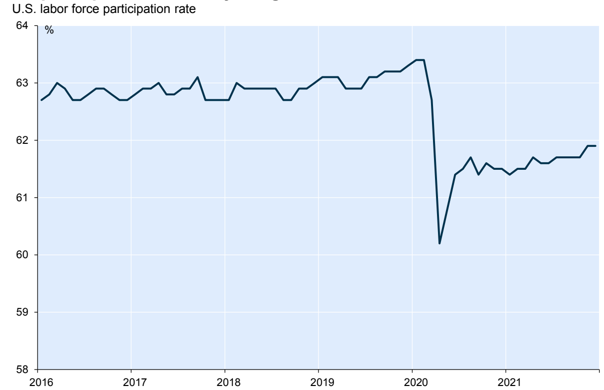
2022 inflation outlook consistently being revised higher
2022 PCE inflation median projection vs. number of FOMC participants reporting upside risks to inflation



NBF Economics and Strategy (data via Federal Reserve)

Secondly, Powell and the Fed have revaluated their labour market outlook, some might argue moving the goal posts. For the better part of the year, the focus had been placed on the multi-million jobs deficit relative to the pre-pandemic labour market, as labour force participation barely budged after an initial modest recovery in 2020. It had been widely believed that as vaccinations progressed, enhanced unemployment benefits were phased out and children returned to school, Americans would come rushing back to work. These milestones have come and gone, and participation is a paltry 0.4%-pts higher than it was this time last year. Instead, there's been a concession that the pandemic-related hit to participation is more structural in nature and will likely take much more time to normalize.

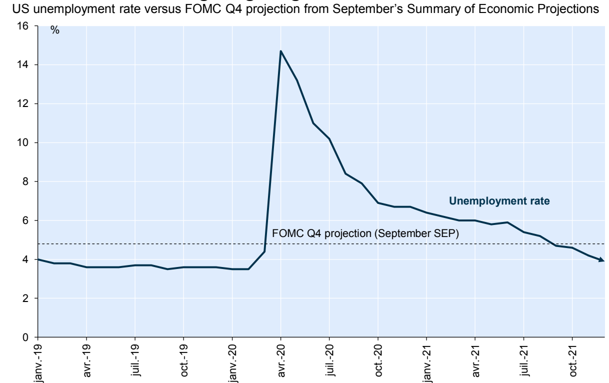
US participation rate barely budged in 2021
U.S. labor force participation rate



NBF Economics and Strategy (data via Bloomberg)

Now, the Fed is rightly focusing on all of the other labour market indicators that are flagging serious tightness. As we noted in last month's monitor, weekly claims have 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. Wage growth, like inflation, is getting steamier every month. The unemployment rate, which the Fed had expected to average 4.8% in 2021:Q4 based on their September SEP, screamed through the 4% mark in December. The fourth quarter unemployment rate ended up averaging 4.2%—a remarkable 0.6 percentage point beat versus 3-month-old projections.

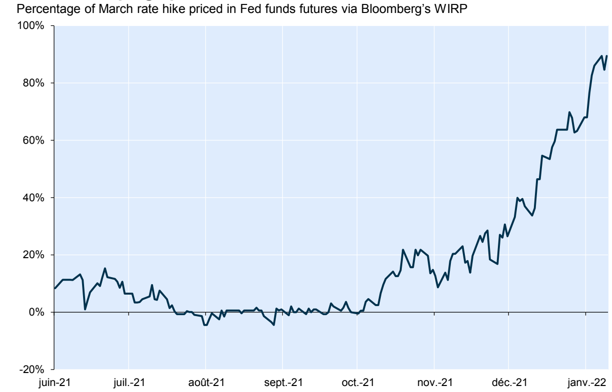
This labour market is tight, tight, tight
US unemployment rate versus FOMC Q4 projection from September's Summary of Economic Projections



NBF Economics and Strategy (data via Federal Reserve)

Add it all together and the case for normalizing policy is impossible to ignore. After beginning the taper in November, the Fed announced a doubling of its taper pace in December. This is now on track to be wrapped up in March, with that month's meeting being the first truly 'live' meeting for rate hikes in the pandemic era. Indeed, the market has ratcheted up bets on the Fed hiking immediately in March, in line with what some of the more hawkish members of the FOMC have been advocating for. We concede that the likelihood of a Q1 hike has grown substantially over the past month but for the time being we've left our forecast for Q2 lift-off unchanged, though the timing within the quarter has shifted to May. We continue to expect quarterly hikes through 2022 and 2023, though just like the case for a March hike, the case for a faster and more front-loaded hiking schedule has only grown stronger too.

Markets ramping up bet for initial March rate hike
Percentage of March rate hike priced in Fed funds futures via Bloomberg's WIRP



NBF Economics and Strategy (data via Bloomberg)

Another key development over the past month has been the discourse on balance sheet management. While we'd previously been focussed on starting/accelerating the QE taper, the focus has quickly shifted to balance sheet normalization. Indeed, the Fed's meeting minutes from December revealed there was a lengthy discussion on what shrinking the Fed's balance sheet would look like. Unlike the last cycle, which saw balance sheet normalization begin well into the hiking cycle, it appears that we'll be measuring time to shrinkage in months not years:

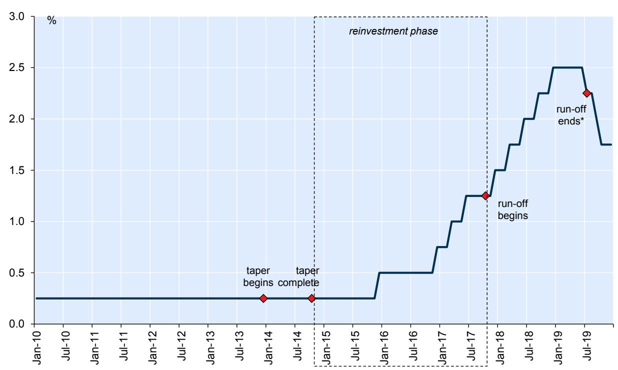
Interest Rates and Bond Markets

"Almost all participants agreed that it would likely be appropriate to initiate balance sheet runoff at some point after the first increase in the target range for the federal funds rate. However, participants judged that the appropriate timing of balance sheet runoff would likely be closer to that of policy rate liftoff than in the Committee's previous experience. They noted that current conditions included a stronger economic outlook, higher inflation, and a larger balance sheet and thus could warrant a potentially faster pace of policy rate normalization."

- December 14-15 Federal Reserve meeting minutes

While there was no clear-cut consensus on how/when this plays out, the fact that it figured into discussions so prominently is telling. Given that the fed funds target is the primary monetary policy tool, we expect at least a couple adjustments will be made here before balance sheet run-off is commenced. However, we fully expect that this will be a 2022 story, with a potential start time coming in the second half of the year.

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



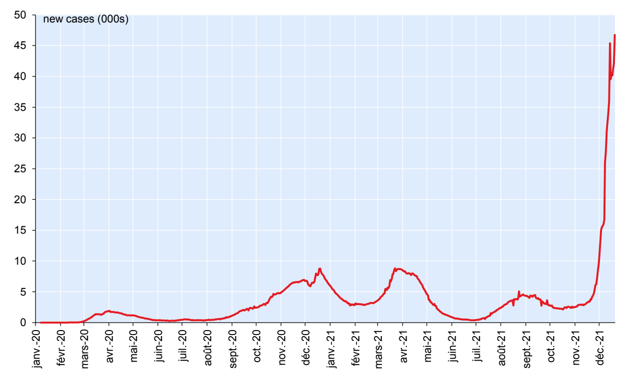
NBF Economics and Strategy (data from Bloomberg, Federal Reserve) | Note: *The Fed began reinvesting all principal repayments from Treasury securities and reinvested up to US$20 bln in principal repayments from agency debt and MBS into Treasuries, with the balance going into agency MBS.

BoC: This (wave) too shall pass

It feels like déjà vu all over again when it comes to the Canadian COVID response. After low and relatively stable case counts through the summer and fall, Omicron inevitably ran rampant through much of the country, leading to all-time record infection rates. Despite boasting one of the world's highest vaccination rates, provincial governments were forced to ratchet up restrictions, forcing the closure of schools and businesses as we turned the page on calendar 2021.

It doesn't appear that the virus will have had much of an impact on December/Q4 data—the latest jobs report once again surprised to the upside—but there is surely to be a growth/employment hit early in this new year. Do we think this will be enough to derail or delay the Bank of Canada's imminent hiking cycle? Short answer: No.

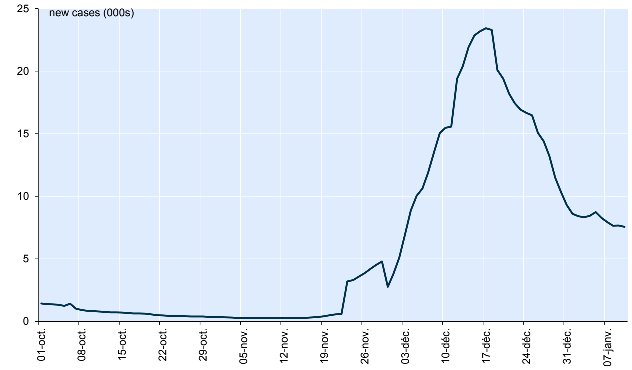
A truly unprecedented surge in COVID-19 infections
Canada rolling 7-day average new daily case counts



NBF Economics and Strategy (data via Johns Hopkins CSSE)

Firstly, there is good reason to believe that this wave of COVID will run its course much faster than prior waves. Indeed, South Africa (Omicron's source country) saw infections move from trough to peak in just 3 weeks. 3 weeks after the peak, daily case counts are already back two-thirds of the way to pre-omicron levels. Should the variant play out similarly in Canada, that could mean falling infections/hospitalizations in short order and an easing of restrictions over the coming weeks.

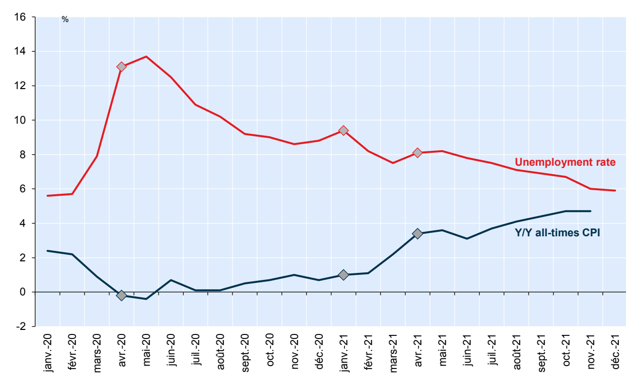
The South African experience was swift but temporary
South Africa rolling 7-day average new daily COVID-19 case counts



NBF Economics and Strategy (data via Johns Hopkins CSSE)

Secondly, unlike under prior COVID waves, inflation sits well above target. This time last year, inflation was below 1%. Yes, the springtime 2021 COVID restrictions occurred when inflation surged north of 2% but it certainly wasn't near the 5% mark it is now. Moreover, the Bank's core measures were fully contained in the target band. Now, with inflation where it is and the BoC/GoC reiterating that low and stable inflation is the Bank's sole mandate, a brief economic rough patch shouldn't be enough to alter the timing of normalization. On a related note, Canadian housing prices have continued to grind higher even after the surge in prices observed a year ago. The still-frothy conditions in Canadian real estate should be another alarm bell sounding off at the BoC.

Unlike past COVID waves, unemployment is low, and inflation is elevated
Unemployment rate and Y/Y all-items CPI in pandemic era



NBF Economics and Strategy (data via Bloomberg) | Note: Grey dots denote time of peak infections

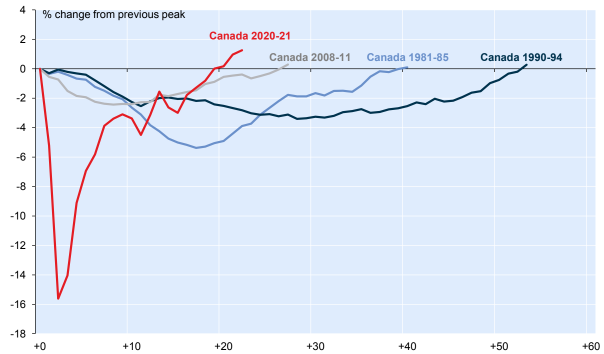
Interest Rates and Bond Markets

Finally, one must also consider the labour market. The Bank had previously emphasized the importance of getting us back to full employment, something that remained well off a year ago. Since spring 2021's lockdowns, the Canadian economy has added over 800 thousand jobs pushing employment 1.3% above pre-COVID levels. Meanwhile, the participation and employment rate have effectively normalized, and the headline unemployment rate is all but back to where it was in February 2020. All that to say, the Bank of Canada will likely take comfort in a red-hot, tight labour market even if/when the January Labour Force Survey shows 6-figure job losses. As we've seen before, these job losses which will be predominantly in the high-contact service sector, are quick to bounce back as restrictions are eased.

Importantly, we'd also stress that even though the Bank's renewed mandate appears much more 'flexible', formally incorporating employment considerations, price stability remains the primary objective. Yes, when inflation is stable and in the control-band the Bank will seek to maximize employment but it had already been doing so. As Finance Minister Chrystia Freeland pointed out, the new mandate is simply "a recognition of current practices". Macklem spelled things out even more clearly:

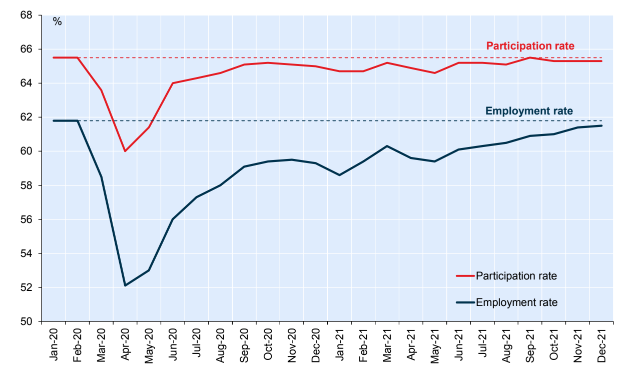
> *"actively seeking or probing for full employment is something you do when inflation is close to target, interest rates are at more normal levels. That's not the situation we're in right now. Right now, inflation is well above our target and we're very focused on … bringing inflation sustainably back to target."*

Fastest fall, fastest recovery for Canada's labour market
Canadian employment relative to pre-recession peak for past cycles



NBF Economics and Strategy (data via Bloomberg)

Employment and participation are effectively fully recovered
Participation rate and employment rate during pandemic era



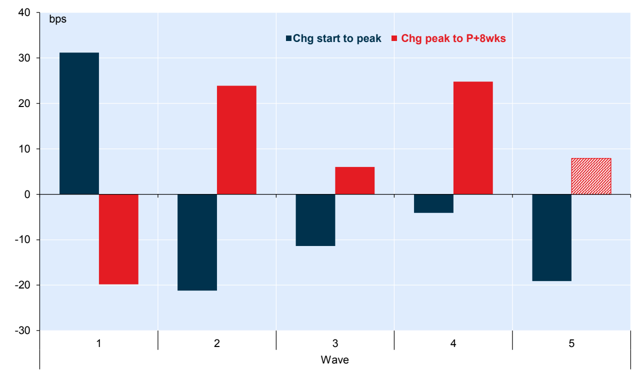
NBF Economics and Strategy (data via Bloomberg) | Note: Dashed line refers to pre-pandemic level

Thus, we continue to look for a total of five BoC interest rate hikes in calendar 2022, with the cycle kicking off with back-to-back moves in March and April. Alongside three hikes in the second half of the year, we're also looking for the Bank to move out of its reinvestment phase and allow for some passive balance sheet run-off. We'll have more analysis on the outlook for the balance sheet in future Fixed Income Monitors and Market Views but don't expect a modest run-off to put undue pressure on interest rates. Why? Firstly, at least some balance sheet normalization is already expected/has been priced in, particularly after the Federal Reserve's hawkish meeting minutes that highlighted scope for their own 2022 run-off.

Secondly, a balance sheet unwind in Canada will be coincident with the continued moderation in fiscal stimulus. That means declining net financial requirements and fewer net new bonds to be issued, alleviating some of the pressure that would have been put on investors had the government continued to pull hard on its stimulus lever.

As for a cross-market outlook, we see scope for near-term, tactical GoC underperformance as virus anxieties/lockdowns relax and the BoC is (potentially) first out of the gate on rate hikes. However, we see the second half of 2022 characterized by GoC outperformance as BoC tightening exerts greater drag and the Federal Reserve plays catch-up on normalization. Consistent with our estimate of a higher neutral rate stateside, we see GoC's across the curve trading through treasuries once policy rates on both sides of the border are brought to more normal levels.

GoCs tend to outperform during COVID waves, underperform thereafter
GoC-UST 10Y yield differential: Change during each wave & following peak



NBF Economics and Strategy (data via JHU CSSE, Bloomberg) | Note: Wave 5 P+8W level is NBF forecast

Interest Rates and Bond Markets

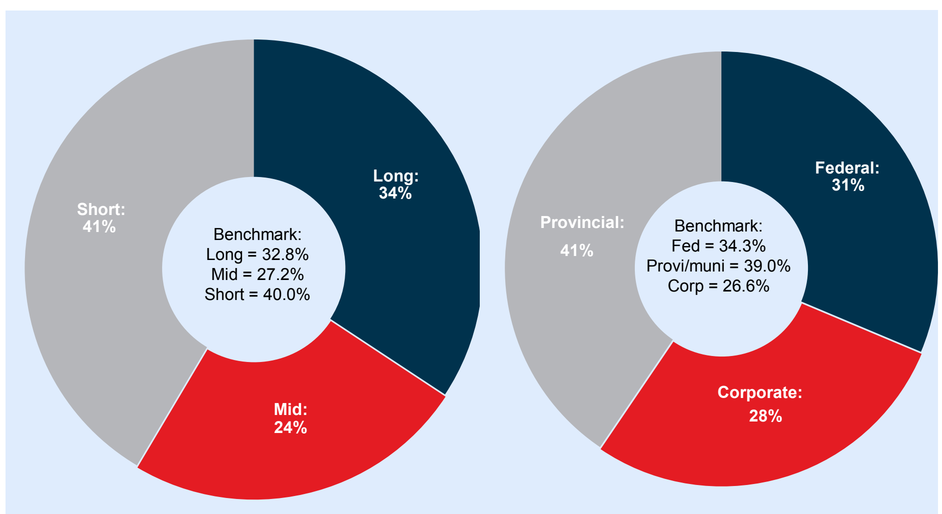
Canadian Bond Market: Interest rates, spreads and currencies

	12-Jan-22	13-Oct-21	14-Jul-21	14-Apr-21	13-Jan-21
Interest Rates					
3 months	0.286	0.126	0.162	0.092	0.067
2 years	1.109	0.775	0.455	0.246	0.163
5 years	1.527	1.263	0.911	0.957	0.441
10 years	1.73	1.605	1.293	1.529	0.81
30 years	1.987	2.014	1.807	1.956	1.44
Spreads					
3 months - 2 years	82.3	64.9	29.3	15.4	9.6
2 - 5 years	41.8	48.8	45.6	71.1	27.8
5 - 10 years	20.3	34.2	38.2	57.2	36.9
10 - 30 years	25.7	40.9	51.4	42.7	63
Currencies					
CAD/USD	1.2502	1.2443	1.2509	1.2521	1.2698
EUR/CAD	0.6985	0.6931	0.6754	0.6667	0.6478

NBF Economics and Strategy (data via Bloomberg)

NBF recommended bond allocations

We are underweight the belly and long credit in light of our interest rate forecast



NBF Economics and Strategy (data via PC Bond) | Note: Based on FTSE Canada Universe Bond Index

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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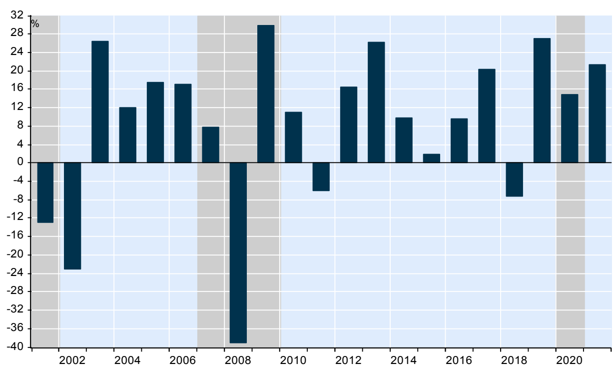
World: Higher rates cometh

The MSCI ACWI ended 2021 on a high note with a cumulative gain of 21.4% for the year. This performance is all the more impressive as it follows two years of double-digit gains. Not since 2004-2006 have global equities done so well (chart).

World: Three consecutive years of double-digit gains for equities
Annual total return for the MSCI ACWI



NBF Economics and Strategy (data via Refinitiv)

Gains in 2021 were concentrated in the developed economies (U.S., Canada and Europe). Emerging markets, on the other hand, posted a meager 0.1%, the worst result in three years, with Asia showing outright contraction - table.

MSCI composite index: Total return performance in 2021

	Month to date	Quarter to date	Year to date
MSCI ACWI	3.7	7.1	21.4
MSCI World	4.0	8.2	24.7
MSCI USA	4.0	10.1	27.0
MSCI Canada	3.2	7.1	25.8
MSCI Europe	5.2	6.6	23.3
MSCI Pacific ex Jp	1.5	-0.5	9.1
MSCI Japan	3.4	-0.9	13.8
MSCI EM	1.5	-0.8	0.1
MSCI EM EMEA	2.3	0.6	23.0
MSCI EM Latin America	3.9	-0.9	-1.8
MSCI EM Asia	1.2	-1.1	-3.1

12/31/2021

NBF Economics and Strategy (data via Refinitiv)

As we enter 2022, the MSCI ACWI has lost strength. However, this weakness is primarily due to the U.S. and Europe. Emerging markets and Canada, on the other hand, continue to post positive returns - table.

MSCI composite index: Price Performance early in 2022

	Month to date	Quarter to date	Year to date
MSCI ACWI	-0.9	-0.9	-0.9
MSCI World	-1.1	-1.1	-1.1
MSCI USA	-1.4	-1.4	-1.4
MSCI Canada	0.5	0.5	0.5
MSCI Europe	-0.6	-0.6	-0.6
MSCI Pacific ex Jp	0.0	0.0	0.0
MSCI Japan	-0.2	-0.2	-0.2
MSCI EM	0.8	0.8	0.8
MSCI EM EMEA	2.2	2.2	2.2
MSCI EM Latin America	0.3	0.3	0.3
MSCI EM Asia	0.6	0.6	0.6

1/11/2022

NBF Economics and Strategy (data via Refinitiv)

In the U.S., the weakness was primarily due to sectors vulnerable to rising bond yields. Real estate, information technology and utilities were particularly hard hit - table.

S&P 500 composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P 500	-1.1	-1.1	-1.1
ENERGY	14.1	14.1	14.1
FINANCIALS	5.9	5.9	5.9
INDUSTRIALS	0.1	0.1	0.1
CONS. STAP.	-0.5	-0.5	-0.5
MATERIALS	-1.4	-1.4	-1.4
TELECOM	-1.7	-1.7	-1.7
CONS. DISC.	-2.2	-2.2	-2.2
HEALTH CARE	-2.9	-2.9	-2.9
UTILITIES	-3.1	-3.1	-3.1
IT	-3.4	-3.4	-3.4
REAL ESTATE	-5.7	-5.7	-5.7

1/11/2022

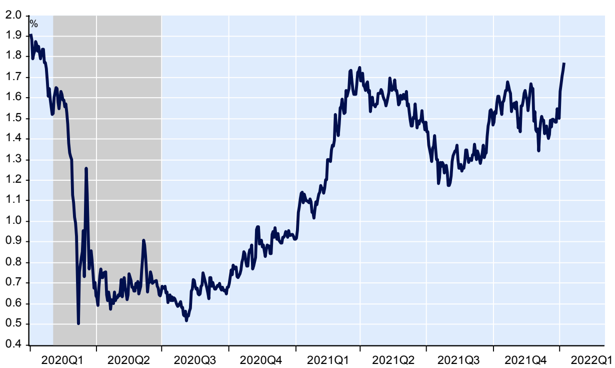
NBF Economics and Strategy (data via Refinitiv)

At close to 1.8%, it is worth noting that the yield on the 10-year note is already back to pre-pandemic levels (chart). This movement reflects expectations of a tightening of monetary policy. After beginning a reduction in asset purchases in November, the Fed announced a doubling of its taper pace in December. This is now on track to be wrapped up in March, with that month's meeting being

Stock Market and Portfolio Strategy

the first truly 'live' meeting for rate hikes in the pandemic era. According to our fixed income strategists, rate hikes will also need to be evaluated in the context of a potential reduction in the Fed's balance sheet. In the current environment, 10-year Treasury yields are likely to exceed 2% this year, which could replace some Fed funds rate hikes. Our strategists expect a 75 basis points increase in the Fed funds rate in 2022 (see ***here***). Financial conditions will tighten this year, but not to the point jeopardizing the business cycle.

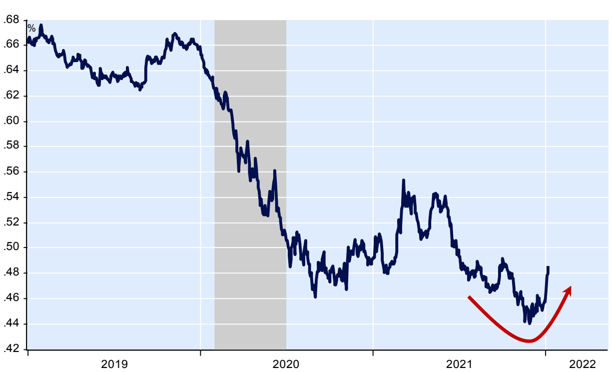
U.S.: Long-term interest rates back to pre-pandemic levels
Yield on 10-year Treasuries



NBF Economics and Strategy (data via Refinitiv)

If ten-year Treasury yields move somewhat higher, we believe that an investment style favoring value stocks over growth stocks should continue to do well. We see this ratio retesting the highs seen in 2021 - chart.

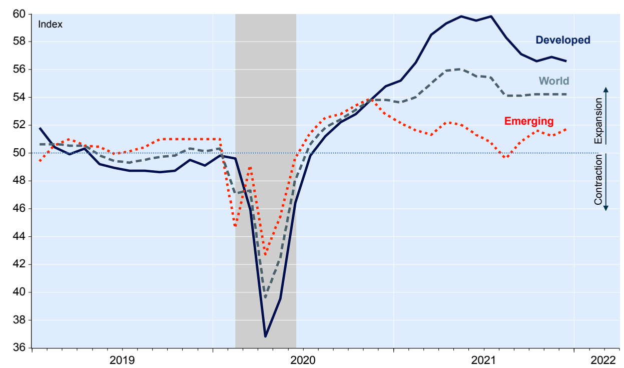
U.S.: Value still has room to outperform growth
Ratio of value stocks over growth stocks for the S&P 500



NBF Economics and Strategy (data via Refinitiv)

This forecast is based on the assumption that CPI inflation will decelerate soon, that the U.S. dollar does not surge (see our latest FOREX), and that global manufacturing output will continue to expand to ease supply constraints. On this front, the data remains encouraging. Global manufacturing grew at a solid pace in December, with renewed strength in emerging markets – chart.

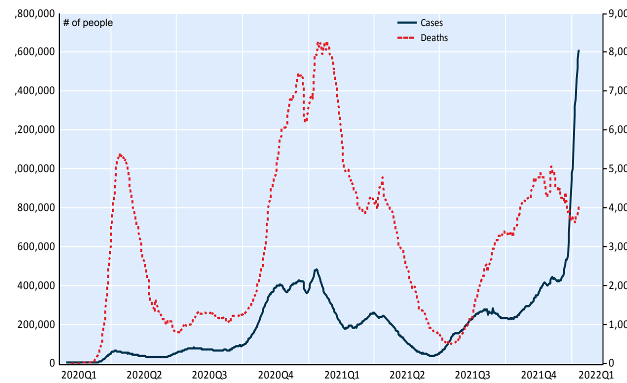
World: Manufacturing sector continued to expand at healthy clip
JPMorgan/Markit Global Manufacturing PMI



NBF Economics and Strategy (Source: Markit via Refinitiv)

Even though we expect a slowdown in production in the coming weeks as countries implement measures to control the Omicron, the impact on growth should be relatively short, as this new variant appears to be less virulent than previous ones. In South Africa, where Omicron was first reported and only 31% of the population is fully vaccinated, the record increase in new cases has not been matched by a similar increase in deaths. The mortality trend is even better in developed economies where a much larger share of the population is vaccinated (chart).

Developed countries: Perspective on COVID-19 cases and deaths
New cases and new deaths in Europe and North America, 7-day mov. average (as of Jan 10, 2022)



NBF Economics and Strategy (data via Johns Hopkins CSSE)

If this trend continues, we expect consumer spending in the OECD economies to remain relatively strong in 2022 and global industrial production to reach new highs, especially as inventories need to be replenished. This means that commodity prices are likely to remain high and possibly rise further.

This is good news for the S&P/TSX. The Canadian benchmark had a stellar performance in 2021 with a gain of 25.1% (total return). Financials and Real Estate were up more than 36% while Energy stocks surged almost 49% - table.

S&P/TSX: Total return in 2021

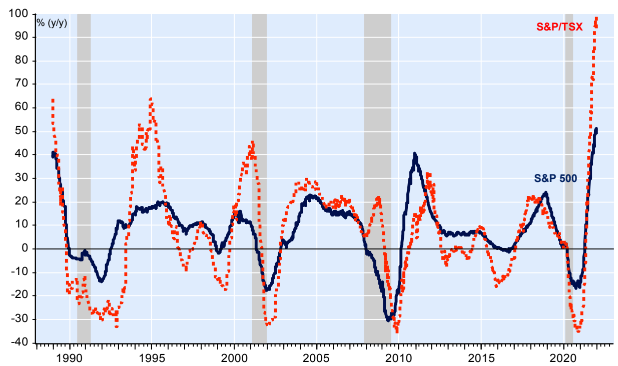
	Month to date	Quarter to date	Year to date
S&P TSX	3.1	6.5	25.1
CONS. STAP.	9.2	7.8	22.4
CONS. DISC.	7.3	7.8	18.4
BANKS	6.5	10.8	38.4
REAL ESTATE	6.5	9.2	37.4
FINANCIALS	6.2	9.4	36.5
UTILITIES	5.9	5.4	11.6
TELECOM	3.8	4.8	24.7
MATERIALS	3.4	10.7	4.0
ENERGY	2.6	5.7	48.9
INDUSTRIALS	-0.2	5.0	16.5
HEALTH CARE	-5.6	-18.3	-19.6
IT	-6.6	-1.4	18.5

12/31/2021
NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

Even after such a run, we believe there is still gas in the tank for Energy and the S&P/TSX in 2022. The Canadian stock market's advance last year was fueled by the largest-ever increase in earnings per share (EPS) - chart.

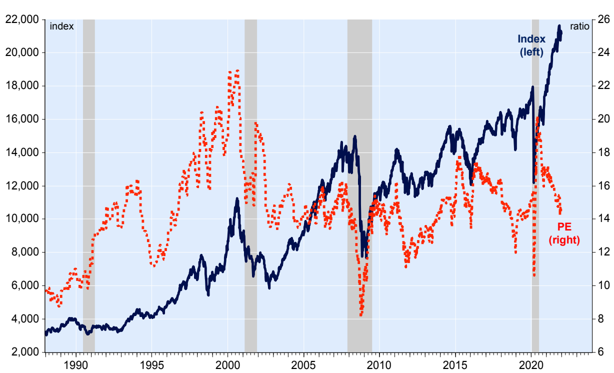
S&P/TSX: Earnings were up the most ever in 2021
Trailing earnings per share for the S&P/TSX and the S&P 500



NBF Economics and Strategy (data via Refinitiv)

As a result of this surge, the S&P/TSX continues to trade at a reasonable valuation. The forward PE stands at 14.5 currently that is in-line with its historical average of 14.6 - chart.

S&P/TSX: Index doesn't look expensive
S&P/TSX and 12-month forward PEs



NBF Economics and Strategy (data via Refinitiv)

Importantly, the earnings forecasts underlying the 2022 forward PEs are reasonably conservative in our view, calling for EPS growth of 7% in 2022. For the energy sector, earnings are expected to grow by 11% - chart.

S&P/TSX composite index: EPS analysts expectations

	Earnings per share					EPS % growth		
	2020	2021	2022	12m Trail.	12m Forw.	2021	2022	12m Forw.
S&P TSX	634	1355	1446	1363	1462	114	7	7
ENERGY	-45	181	202	183	203	N.M.	11	11
MATERIALS	132	234	245	234	244	77	5	4
INDUSTRIALS	42	114	178	119	179	174	56	51
CONS. DISC.	108	160	192	162	195	48	20	20
CONS. STAP.	340	360	389	363	389	6	8	7
HEALTH CARE	-18	6	14	7	14	N.M.	126	118
FINANCIALS	207	338	336	339	343	63	-1	1
BANKS	261	387	392	388	398	48	1	3
IT	12	15	18	15	18	22	19	17
TELECOM	78	85	90	84	91	9	7	8
UTILITIES	86	105	119	107	120	22	13	12
REAL ESTATE	154	336	261	329	263	118	-22	-20

1/11/2022 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

This is also very conservative considering that the analyst consensus sees WTI trading at only $70 per barrel this year (table). If, as we expect, oil stays more in the $80-85 range, earnings in the energy sector will surprise on the upside again in 2022.

Commodity prices expectations

Analyst Assumptions

	Copper	Gold	Crude Oil	Natural Gas
Current Price	9720	1823	82	4.62
Analyst assumptions				
Q+2	9400	1707	70	3.70
Q+4	9500	1657	71	3.82
Growth (Q_t/Q_0)				
Q+2	-3.3%	-6.4%	-15.0%	-19.9%
Q+4	-2.3%	-9.1%	-13.0%	-17.3%

Current Forward Prices

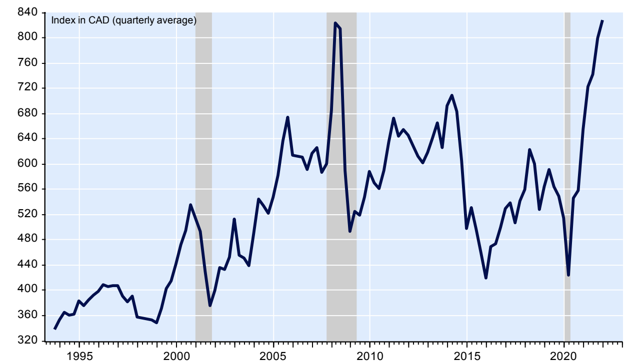
	Copper	Gold	Crude Oil	Natural Gas
Current Price	9720	1823	82	4.62
Forward prices				
Q+2	9682	1827	76	3.99
Q+4	9603	1833	72	3.76
Growth (Q_t/Q_0)				
Q+2	-0.4%	0.2%	-7.0%	-13.6%
Q+4	-1.2%	0.6%	-11.8%	-18.6%

1/12/2022

NBF Economics and Strategy (data via Refinitiv)

But it's not just oil that is helping to support earnings. Other commodities are also expected to contribute. We estimate that the Bank of Canada's commodity price index for 26 commodities produced in our country and sold on world markets reached a new record high early in Q1 2022 when expressed in Canadian dollars (chart). That should support corporate profits.

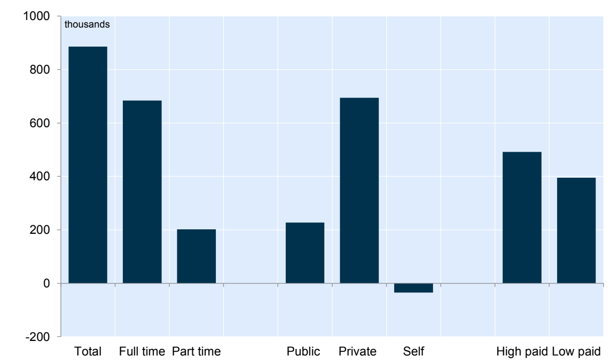
Canada: Commodity prices at a record high
Bank of Canada commodity price index for commodities produced in Canada expressed in CAD



NBF Economics and Strategy (data via Refinitiv)

Improving corporate profits generally translates into good job creation. The Canadian labour market ended 2021 with a bang. Including the 55,000 jobs created in December, the labour force grew by 890,000 over the year, with as much as 78% of those gains coming in the private sector. Moreover, most of the new jobs created in 2021 were high paid (chart).

Canada: Strong gains in private sector and full-time employment in 2021
Employment by segment



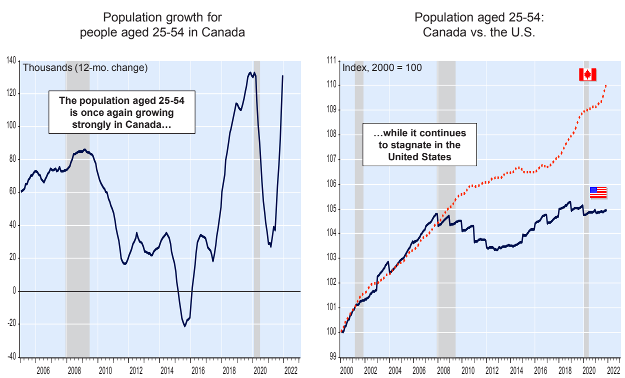
NBF Economics and Strategy (data via Statistics Canada)

These developments argue for an expansion in consumer credit this year, which is not bad for financials given that we expect interest rates to rise more than in the United-States. Financials are also benefiting from Canada's strong demographic tailwind. The country's population growth has returned to pre-pandemic pace, thanks to strong immigration.

Stock Market and Portfolio Strategy

Of particular importance to Canadian financial companies is the growth in the population aged 25-54, a key segment for household formation and credit demand. The latest household survey was particularly encouraging, showing a monthly gain of 23,000 people in December, the largest increase since 1995. After this jump, the population aged 25-54 is back to growing by 130,000 people per year. Canada's situation contrasts with that of the United States, where the population aged 25 to 54 has been stagnant since 2008 (chart). To put this in perspective, if Canada had experienced the same growth as the U.S., Canadian financial institutions would have 750,000 fewer customers in this age group.

Canada: Why is household formation so strong?



NBF Economics and Strategy (data via Refinitiv)

Asset allocation

We begin 2022 with the same asset allocation: 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 we expect quantitative easing to end and the overnight rate to rise this year, we doubt that monetary policy will become restrictive in the near future. Geographically, we continue to overweight Canada where we see good potential for profit growth and scope for a significant appreciation of the loonie. True, Omicron could temporarily dampen the economy, but we see its impact as transitory.

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)

NBF Asset Allocation

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

NBF Economics and Strategy

Sector allocation

Our sector allocation is unchanged this month. We continue to favour cyclicals such as Energy, Materials and capital goods These are sectors that have historically done well in the early phase of monetary tightening when the yield curve remains relatively steep.

NBF Fundamental Sector Rotation - January 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**14.3%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	14.2%
Materials	**Overweight**	**11.5%**
Chemicals	Market Weight	1.8%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.7%
Gold	Overweight	5.9%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.7%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	6.6%
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**	**3.6%**
Food & Staples Retailing	Market Weight	3.0%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.8%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.6%
Financials	**Market Weight**	**33.2%**
Banks	Market Weight	22.9%
Diversified Financials	Market Weight	4.6%
Insurance	Market Weight	5.8%
Information Technology	**Underweight**	**9.3%**
Telecommunication Services	**Market Weight**	**4.7%**
Utilities	**Underweight**	**4.3%**
Real Estate	**Underweight**	**3.0%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q4 2022***
Index Level		**Jan-12-22**	***Target***
S&P/TSX		21,395	22,700
Assumptions			Q4 2022
Level:	Earnings *	1363	1500
	Dividend	548	603
PE Trailing (implied)		15.7	15.1
			Q4 2022
10-year Bond Yield		1.74	2.00

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q4 2022***
Index Level		**Jan-12-22**	***Target***
S&P 500		4,726	4,900
Assumptions			Q4 2022
Level:	Earnings *	205	220
	Dividend	60	65
PE Trailing (implied)		23.1	22.3
			Q4 2022
10-year Bond Yield		1.73	2.10

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on		Returns				Returns		with S&P 500
	01-12-2022	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***4746***	***-1.0%***	***-1.0%***	***22.1%***	***81.8%***	***-2.0%***	***19.6%***	***71.6%***	***1.00***
United States - S&P 500	*4726*	*-0.8%*	*-0.8%*	*24.3%*	*82.0%*	*-1.8%*	*21.8%*	*71.8%*	1.00
Canada - S&P TSX	*21395*	*0.8%*	*0.8%*	*19.0%*	*43.2%*	*0.8%*	*19.0%*	*43.2%*	0.95
Europe - MSCI Index	***2102***	***0.4%***	***0.4%***	***12.1%***	***36.3%***	***-0.6%***	***9.8%***	***28.6%***	***0.93***
United Kingdom - FTSE 100	*7552*	*2.3%*	*2.3%*	*11.8%*	*9.2%*	*2.3%*	*10.1%*	*9.9%*	0.27
Germany - DAX 30	*16010*	*0.8%*	*0.8%*	*15.0%*	*47.1%*	*0.2%*	*5.8%*	*38.1%*	0.95
France - CAC 40	*7237*	*1.2%*	*1.2%*	*28.1%*	*51.4%*	*0.6%*	*17.9%*	*42.1%*	0.86
Switzerland - SMI	*12670*	*-1.6%*	*-1.6%*	*16.5%*	*43.5%*	*-3.0%*	*10.9%*	*45.4%*	0.96
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*21.4%*	*-0.6%*	*-8.0%*	*14.0%*	0.52
Netherlands - Amsterdam Exchanges	*790*	*-0.9%*	*-0.9%*	*22.8%*	*58.5%*	*-1.5%*	*13.0%*	*48.8%*	0.97
Pacific - MSCI Index	***3149***	***1.3%***	***1.3%***	***-0.8%***	***23.6%***	***0.3%***	***-2.8%***	***16.7%***	***0.91***
Japan - Nikkei 225	*28766*	*-0.1%*	*-0.1%*	*2.1%*	*41.3%*	*-0.8%*	*-9.2%*	*25.8%*	0.94
Australia - All ordinaries	*7762*	*-0.2%*	*-0.2%*	*11.9%*	*33.0%*	*-1.2%*	*3.1%*	*26.7%*	0.86
Hong Kong - Hang Seng	*24402*	*4.3%*	*4.3%*	*-13.7%*	*-8.5%*	*3.3%*	*-15.9%*	*-13.1%*	-0.06
World - MSCI Index	***3214***	***-0.5%***	***-0.5%***	***17.5%***	***64.2%***	***-1.5%***	***15.2%***	***55.0%***	***1.00***
World Ex. U.S.A. - MSCI Index	***2378***	***0.9%***	***0.9%***	***8.7%***	***33.4%***	***-0.1%***	***6.5%***	***25.9%***	***0.94***
EAFE - MSCI Index	***2353***	***0.7%***	***0.7%***	***7.3%***	***31.7%***	***-0.3%***	***5.1%***	***24.3%***	***0.93***
Emerging markets (free) - MSCI Index	***1,267***	***2.9%***	***2.9%***	***-6.4%***	***26.6%***	***1.9%***	***-8.3%***	***19.5%***	***0.87***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-01-12

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2022	EPS Growth 2023	EPS Growth 12-m forward	P/E 2022	P/E 2023	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	307	8.55	40.60	49.93	8.92	8.94	23.32	21.41	21.10	21.35	2.36	2.15
Energy	3.08	483	12.99	46.86	0.00	28.79	25.36	14.87	11.55	11.58	64.61	0.46	18.71
Materials	2.57	567	11.10	16.20	84.41	4.05	3.37	17.77	17.08	17.07	18.83	5.07	3.95
Industrials	7.88	899	6.47	17.45	88.57	36.23	33.87	28.40	20.84	20.51	15.79	0.61	-1.51
Consumer Discretionary	12.45	1586	9.05	17.96	75.96	29.38	28.00	40.14	31.03	30.58	47.12	1.09	-0.96
Consumer Staples	5.90	801	10.26	17.56	10.32	6.23	6.17	23.57	22.19	21.87	8.98	3.55	-0.31
Healthcare	12.97	1592	8.87	16.97	26.91	7.19	7.08	17.89	16.69	16.65	11.78	2.35	5.11
Financials	11.42	689	7.57	32.24	63.43	-8.10	-6.55	13.89	15.12	14.97	22.22	neg.	2.29
Information Technology	28.53	2963	12.20	30.54	37.07	10.23	9.99	30.80	27.94	27.02	17.69	2.70	1.61
Telecom Services	10.11	264	-0.65	23.26	37.17	6.46	7.12	21.49	20.19	19.87	22.49	2.79	-1.38
Utilities	2.45	354	8.16	13.16	4.65	3.14	3.47	21.11	20.47	20.34	6.50	5.87	-0.84
Real Estate	2.64	307	8.55	40.60	33.28	-9.08	-7.41	46.40	51.03	50.50	33.85	neg.	4.26

* 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 January Vision, we highlight charts related to the fading growth theme that has dominated the market over the past year after many years of leadership. Last year, at this time, there was much anticipation growth stocks would again lead the market higher with strong outperformance. While the growth-oriented NASD ended 2021 with a gain of 21.4% and marginally off its all-time highs, the internal market performance was significantly different. NASD saw 89% of its components drop 10% or more sometime in 2021with the average decline at 40%. Meanwhile the Russell 2000 had 98% of its components drop 10% sometime in 2021 with the average decline at 36%. The chart of the Russell 2000 growth ETF and value ETF underscores the deteriorating technical action in growth stocks as it highlights its relative performance to value stocks. The Global Clean Energy ETF along with selected technology stocks also highlight the weakening technical profile in the growth theme.

Technical Analysis

iShares Russell 2000 Growth ETF/iShares Russell 2000 Value ETF

A strong trend of relative outperformance in growth stocks over value stocks peaked around the end of 2020 and continued to trend lower throughout 2021. The IWO/IWN ratio chart of Russell 2000 Growth ETF to Value ETF consolidated in the second half of 2021 after a sharp decline in the first half of the year. Probabilities favour a downside resolution with a break to new correction lows and the start of another leg down in coming months. A breakdown in this chart will signal another round of liquidation in growth stocks and sectors.

Source: Refinitiv

Technical Analysis

iShares Global Clean Energy ETF (ICLN)

Alternative and clean energy stocks came into focus recently resulting in a strong bull move in 2020. After a parabolic rally into the end of 2020, the ICLN chart peaked in early 2021. The ensuing correction was followed by a long consolidation and underperformance for the last eight months. This sector continues to lose momentum with potential for further downside. As the accompanying chart indicates, a break of support at US$20.60 completes a top structure, opening the door for more downside risk.

Source: Refinitiv

Technical Analysis

TransAlta Renewables Inc. (RNW)

The RNW chart peaked a year ago after a blow-off move into late 2020. Thereafter, the stock underperformed as it carved out a potential top formation. Key support around $18.00 is being challenged as momentum begins to turn down. The chart broke below both moving averages in September and failed to regain territory above its moving averages again as downtrend conditions take hold. Downside risk is to $13.00 to $14.00 on a break of support at $18.00.

Source: Refinitiv

Technical Analysis

Boralex Inc. (BLX)

The BLX chart topped out in early 2021 and spent most of the last year in a trading range. Trading action is characterized by failing rebounds and declining relative performance. A relative strength chart of BLX indicates that it is making new correction lows ahead of prices, which usually is a bad omen. Key chart support at $33.60 is at risk of failing and opening the door for further downside risk. A top of consequence will be completed on a break of $33.60 and calls for a target in the low to mid-$20s.

Source: Refinitiv

Technical Analysis

Shopify Inc. (SHOP)

Shopify is arguably the leading technology stock in Canada. Historically, technology stocks in Canada that make a make a rapid accent to become one of the largest or the largest name on the S&P/TSX usually signals a top for the stock, if not for the technology sector. The accompanying chart of SHOP indicates that the stock is losing upside momentum and relative strength. A recent breakout to new highs failed and the stock quickly traded back down its 200-day. Its 200-day and chart support currently being tested needs to hold with any failure opening the door for lower prices. Failing support at C$1,650.00 will complete a top that results in a decline to C$1,200.00.

Source: Refinitiv

Technical Analysis

Lightspeed Commerce Inc. (LSPD)

Deteriorating technical action on the LSPD chart continues to point to lower prices. A breakdown at $109.00 and $67.00 indicated lower prices forthcoming. A downside gap in November with big volume kicked off a strong downside momentum move that has more to play out. Short-term support halted the latest correction at $49.00 as the chart forms another bear flag. Breaking support at $49.00 starts another leg down on this formation calling for a target in the mid to high-$30s.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **January 6, 2022**

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	$17.24	$25.00	0.74%	45.82%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$28.53	$36.00	6.58%	32.91%	Oil, Gas & Consumable Fuels
	Shawcor Ltd.	SCL	$5.03	$8.50	0.00%	68.99%	Energy Equipment & Services
	Tidewater Midstream and Infrastructure Ltd.	TWM	$1.32	$1.75	2.90%	35.61%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$42.20	$57.50	1.56%	37.96%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$5.53	$7.50	0.00%	35.62%	Metals & Mining
	Centerra Gold Inc.	CG	$10.48	$14.00	2.70%	36.26%	Gold
	Copper Mountain Mining Corp.	CMMC	$3.33	$5.25	0.00%	57.66%	Metals & Mining
	Endeavour Mining plc	EDV	$26.77	$46.00	2.57%	74.49%	Gold
	Kinross Gold Corp.	K	$6.82	$13.00	2.17%	92.87%	Gold
	Pan American Silver Corp.	PAAS	$28.74	$44.00	1.79%	54.88%	Metals & Mining
	Sandstorm Gold Ltd.	SSL	$7.17	$9.50	1.06%	33.61%	Gold
	Transcontinental Inc.	TCL.a	$19.30	$28.00	4.39%	49.74%	Containers & Packaging
	Wesdome Gold Mines Ltd.	WDO	$10.72	$15.50	0.00%	44.59%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$51.17	$64.00	0.00%	25.07%	Capital Goods
	CAE Inc.	CAE	$32.16	$44.00	0.00%	36.82%	Capital Goods
	Dexterra Group Inc.	DXT	$8.33	$12.50	4.12%	54.26%	Commercial & Professional Services
	GDI Integrated Facility Services Inc.	GDI	$55.60	$70.50	0.00%	26.80%	Commercial & Professional Services
	Hardwoods Distribution Inc.	HDI	$43.06	$75.50	1.10%	76.45%	Capital Goods
	Heroux-Devtek Inc.	HRX	$17.43	$23.00	0.00%	31.96%	Capital Goods
	IBI Group Inc.	IBG	$13.33	$20.00	0.00%	50.04%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$11.40	$16.50	4.05%	48.95%	Transportation
	TFI International Inc.	TFII	$130.19	$160.00	1.09%	23.94%	Transportation
	WSP Global Inc.	WSP	$180.07	$209.00	0.88%	16.90%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$52.68	$58.00	1.55%	11.61%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.21	$15.00	4.99%	27.86%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$6.80	$14.00	0.00%	105.88%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$5.46	US$10.00	6.00%	88.64%	Pharmaceuticals, Biotechnology & Life Sciences
	Knight Therapeutics Inc.	GUD	$5.28	$8.00	0.00%	51.52%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$15.25	$17.50	6.29%	20.89%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$154.72	$165.00	3.88%	20.35%	Banks
	Element Fleet Management Corp.	EFN	$13.11	$19.00	2.33%	56.74%	Diversified Financials
	Home Capital Group Inc.	HCG	$39.12	$62.00	0.00%	49.58%	Banks
	iA Financial Corporation Inc.	IAG	$76.45	$87.00	3.10%	31.85%	Insurance
	Sun Life Financial	SLF	$70.78	$79.00	3.03%	17.81%	Insurance
	Trisura Group Ltd.	TSU	$45.94	$62.00	0.00%	41.62%	Insurance
Information Technology							
	Lightspeed Commerce Inc.	LSPD	US$36.61	US$120.00	0.00%	227.78%	Software & Services
	Magnet Forensics Inc.	MAGT	$28.56	$55.00	0.00%	92.58%	Software & Services
	Nuvei Corp.	NVEI	$78.26	$160.00	0.00%	104.45%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.01	$19.00	0.00%	46.04%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$61.23	$69.00	3.23%	15.96%	Telecommunication Services
Utilities							
	Boralex Inc.	BLX	$31.91	$41.00	2.15%	30.55%	Utilities
	Capital Power Corp.	CPX	$39.12	$46.00	5.63%	23.19%	Utilities
	Innergex Renewable Energy Inc.	INE	$17.47	$23.00	4.16%	35.78%	Utilities
	Northland Power Inc.	NPI	$36.00	$44.00	3.37%	25.56%	Utilities
Real Estate							
	Canadian Apartment Properties REIT	CAR.un	$57.50	$70.50	2.56%	25.13%	Real Estate
	European Residential REIT	ERE.un	$4.38	$5.75	3.64%	34.87%	Real Estate
	Flagship Communities REIT	MHC.un	US$19.15	US$24.00	2.68%	28.12%	Real Estate
	H&R REIT	HR.un	$13.15	$17.00	3.90%	33.23%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month. A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of January 6, 2022
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

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Selections

- *iA Financial Corporation*
- *Sun Life Financial*
- *Canadian Imperial Bank of Commerce*

Canadian Banks & Lifecos

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.

Canadian Imperial Bank of Commerce (TSX: CM) – Gotta spend money to make money.

CM's expense growth led to a disappointing Q4/21 outcome. Looking ahead, the bank is guiding to mid-single digit expense growth. Importantly, the bank's internal investment strategy has not caused it to back away from its key objectives of 5-10% PTPP growth and positive operating leverage over the course of fiscal 2022 (though H1 results are likely to fall short of these objectives). We note that CM's relatively strong revenue growth during fiscal 2021 not only increases comfort in the bank's internal investment strategy, but increases confidence in its 2022 targets. As such, we are maintaining our Outperform rating and believe investors with a longer-term (i.e., beyond H1/22) perspective should take advantage of the recent selloff. $165 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/6	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		90,737	648	139.97	10/2020	12.96	13.21	14.20	10.6	9.9	80.18	89.41	97.64	1.6	1.4	3.0%	151.00	↑
Bank of Nova Scotia	BNS	SP		109,693	1,216	90.23	10/2021	7.87	8.31	8.55	10.9	10.6	53.28	57.38	61.55	1.6	1.5	4.0%	86.00	
CIBC	CM	OP		68,311	451	151.52	10/2020	14.47	15.10	15.26	10.0	9.9	91.66	97.60	103.17	1.6	1.5	3.9%	165.00	↓
National Bank	NA	NR		33,255	338	98.41	10/2020	8.98	9.01	9.27	10.9	10.6	47.95	51.87	55.59	1.9	1.8	2.9%	NR	
Royal Bank of Canada	RY	OP		197,145	1,425	138.32	10/2020	11.19	11.60	12.19	11.9	11.3	64.57	69.28	74.27	2.0	1.9	3.1%	140.00	↓
Toronto-Dominion Bank	TD	OP		182,109	1,822	99.95	10/2020	7.91	8.13	8.32	12.3	12.0	51.66	55.33	58.93	1.8	1.7	3.2%	106.00	↑
Canadian Western Bank	CWB	SP		3,258	90	36.40	10/2020	3.81	3.87	4.26	9.4	8.6	33.10	35.51	38.21	1.0	1.0	3.2%	39.00	↓
Laurentian Bank	LB	SP		1,789	44	41.04	10/2020	4.57	4.70	4.93	8.7	8.3	54.33	57.11	60.04	0.7	0.7	3.9%	47.00	
Insurance																				
Great-West Lifeco	GWO	SP		34,875	930	37.48	12/2020	2.88	3.51	3.85	10.7	9.7	24.40	24.60	26.28	1.5	1.4	5.2%	39.00	
iA Financial	IAG	OP		7,991	108	74.23	12/2020	7.12	8.40	8.87	8.8	8.4	60.82	62.41	69.29	1.2	1.1	3.4%	87.00	
Manulife Financial	MFC	SP		48,372	1,943	24.90	12/2020	2.75	3.22	3.44	7.7	7.2	25.78	26.09	27.88	1.0	0.9	5.3%	28.00	
Sun Life Financial	SLF	OP		41,519	586	70.87	12/2020	5.45	6.04	6.55	11.7	10.8	39.97	41.82	46.52	1.7	1.5	3.7%	79.00	

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

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

Initiating Coverage of Definity Financial Corp. (TSX: DFY)

Land Grab and ROE Expansion??? Most Definit(el)y

Definity is the seventh largest P&C insurer in Canada and provides auto, property, liability and specialty insurance solutions. We are initiating coverage with a $36 Price Target and Outperform rating.

DFY is a land grab story with an underappreciated ROE expansion kicker. DFY's goal is to become a Top 5 player in the industry supported by financial objectives to i) grow organic GPW 10% annually, ii) maintain a mid-90s percent combined ratio, and iii) generate upper single-digit to below-teens ROE (with upside to the low-teens over time).

We anticipate DFY will successfully execute the strategy to scale its Personal Lines business (particularly Sonnet, DFY's digital direct platform), expand its Commercial Lines presence, optimize its capital structure and actively pursue M&A to gain market share and deliver ROE expansion. We hold a favorable view of management and the current industry backdrop, which increases our confidence in successful execution.

				Mkt	Shares	Stock	Last	FDEPS			P/E		Book Value per Share			P/BV			12-Mth	
	Stock	Stock		Cap	O/S	Price	Year	Last	est.	est.			Last	est.	est.			Div.	Price	
	Sym.	Rating	Δ	(Bln)	(Mln)	1/6	Reported	FY	FY1	FY2	FY1	FY2	Quarter	FY1	FY2	FY1	FY2	%	Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.48	34.0	73.00	12/2020	6.31	8.16	8.64	8.9	8.4	52.90	55.10	63.68	1.3	1.1	1.0%	98.00	
First National Financial	FN	SP		2.57	60.0	42.86	12/2020	3.95	3.17	3.75	13.5	11.4	9.11	8.00	9.27	5.4	4.6	5.5%	52.00	
Home Capital Group	HCG	OP		1.95	49.9	39.12	12/2020	3.55	4.94	5.59	7.9	7.0	36.40	36.00	39.49	1.1	1.0		62.00	
Timbercreek Financial	TF	SP		0.78	81.3	9.56	12/2020	0.67	0.68	0.73	14.0	13.1	8.44	8.46	8.49	1.1	1.1	7.2%	10.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.31	243.3	5.39	12/2020	US 0.31	US 0.30	US 0.28	14.4	15.3	US 2.83	US 3.19	US 3.08	1.3	1.4	2.2%	6.50	
Element Fleet Management	EFN	OP		5.46	416.4	13.11	12/2020	0.85	0.82	0.87	16.0	15.0	7.24	7.23	7.33	1.8	1.8	2.4%	19.00	
goeasy	GSY	OP		2.81	16.5	170.57	12/2020	7.57	10.16	11.45	16.8	14.9	48.94	50.75	58.85	3.4	2.9	1.5%	220.00	
Brookfield Business Partners	BBU	OP		US 6.75	US 147.6	US 45.77	12/2020	-US 1.13	US 4.67	US 4.03	9.8	11.4	US 28.48	US 30.06	US 38.71	1.5	1.2	0.5%	US 63.00	
Power Corporation of Canada	POW	SP		28.42	676.5	42.02	12/2020	3.00	4.76	4.55	8.8	9.2	34.07	34.62	37.35	1.2	1.1	4.7%	47.00	
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.8	69.7	25.70	12/2020	0.80	-0.17	0.78	#N/A	32.8	8.60	8.72	9.14	2.9	2.8	3.0%	32.00	
Securities Exchange																				
TMX Group	X	SP		7.00	56.0	124.91	12/2020	5.88	7.00	6.90	17.8	18.1	65.61	66.25	69.00	1.9	1.8	2.5%	154.00	
Insurance																				
Definity Financial Corp.	DFY	OP		3.4	115.9	29.48	12/2020	#N/A	#N/A	1.52	#N/A	19.4	20.14	20.14	21.18	1.5	1.4	2.4%	36.00	
Intact Financial Corp.	IFC	OP		29.32	176.1	166.52	12/2020	9.92	11.37	10.33	14.6	16.1	79.21	79.85	85.98	2.1	1.9	2.2%	215.00	
Trisura Group Ltd.	TSU	OP		1.89	41.1	45.94	12/2020	0.92	1.52	1.59	30.2	28.9	8.49	8.85	10.40	5.2	4.4		62.00	
Fairfax Financial Holdings	FFH	OP		16.32	25.9	630.74	12/2020	US 6.29	US 129.30	US 57.56	3.8	8.6	US 561.88	US 620.09	US 673.18	0.8	0.7	2.0%	825.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.10	104.0	10.55	12/2020	1.38	1.40	1.42	7.6	7.4	3.90	3.92	4.02	2.7	2.6	8.2%	12.00	
IGM Financial Inc.	IGM	OP		11.18	238.9	46.80	12/2020	3.20	3.98	4.38	11.8	10.7	26.37	26.82	28.97	1.7	1.6	4.8%	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.*

SCL gets the nod for Scarborough LNG Project; MTL's 2022 Business Plan reinforces outlook

Shawcor announced the receipt of a formal notice to proceed from channel partner Saipem S.p.A (MI: SPM, NR) related to pipe coating work for the Scarborough LNG Project offshore Western Australia.

The notice to proceed comes on the heels of the November 22 announcement from Woodside Petroleum (WPL: ASX, NR) sanctioning the development of the Scarborough gas resource (a large dry gas field in the Carnavon Basin ~375 km offshore Western Australia's Burrup Peninsula) as well as an expansion of Woodside's Pluto export facility. Shawcor notes the Scarborough gas resource will be connected to a proposed second LNG train at the existing Pluto LNG onshore facility by a ~430 km pipeline. Shawcor previously highlighted Scarborough LNG as a large project of interest (defined as a pipe coating contract award with a complete scope in excess of C$100 mln). The contract includes internal, anticorrosion and concrete weighting pipe coating services with expected commencement in Q4 2022 and delivery continuing into 2024 (to be executed from SCL's Kabil, Indonesia facility). Woodside estimates the Scarborough resource holds 11.1 tcf of dry natural gas and highlights the reservoir contains only ~0.1% carbon dioxide, which combined with the expanded scale and efficiency of the Pluto LNG facility, will render the development one of the lowest carbon intensity sources globally for delivery into North Asia. We make no changes to our estimates at this time (with the bulk of expected project revenue falling outside our current 2022 forecast period) but view the announcement as supportive of our positive thesis and expectations for ramping offshore oil and gas activity levels in the tail end of next year and beyond. **We maintain our Outperform rating and previous $8.50 Target driven by an unchanged 7.0x 2022e EV/EBITDA multiple (a full-turn discount to SCL's historical forward year average EV/EBITDA multiple).**

Mullen's 2022 guidance largely in line with Street forecasts.

Mullen guided to 2022 expected revenue ranging between $1.6 and $1.7 bln and operating income before depreciation and amortization in the range of $260 mln. While this was modestly below the respective Street forecasts ($1.76 bln revenue; $268.7 mln EBITDA) we note MTL's guidance is exclusive of the impact of any potential acquisitions made moving forward. Given MTL's acquisitive nature, we view the guidance as roughly in line with Street expectations. Mullen concurrently announced a 25% increase to the monthly dividend from $0.04.sh to $0.05/sh (now back in line with pre-pandemic levels). Despite the dividend increase, we note our forecasts imply what we view as a sustainable (sub-50%) payout ratio. The $0.60/sh dividend (on an annual basis) implies an attractive 5.0% yield based on the closing price. MTL also highlighted intentions to renew the NCIB in April 2022. We make little changes to our forecasts on the back of the business plan, viewing the updated guidance as largely in line with our previous expectations. **We maintain our $16.50 target driven by 8.0x 2022e EV/ EBITDA (a discount to Mullen's post-2014 forward year EV/EBITDA average of 8.6x and roughly in line with the current trading average of the broader peer group). We highlight Mullen as a top pick and reiterate our Outperform rating.**

	Stock	Stock		Market Cap	Shares O/S	Stock Price	EBITDA (mlm)			EV/EBITDA			Net Debt/ EBITDA	12-Mth Price		
	Sym.	Rating	Δ	(Mln)	(Mln)	1/6	2020	2021e	2022e	2020	2021e	2022e	2021e	Target	Return	Δ
Ag Growth International Inc.	AFN	OP		621.58	18.8	33.09	149.3	170.9	191.1	9.4	8.6	7.5	4.4	46.00	41%	
CES Energy Solutions Corp.	CEU	OP		525.04	254.9	2.06	83.3	150.6	169.0	9.8	5.9	6.0	2.4	2.85	41%	
Enerflex Ltd.	EFX	SP		725.63	89.8	8.08	191.3	131.5	167.3	5.6	7.9	6.4	2.4	10.75	34%	
good natured Products Inc.	GDNP	OP		163.12	217.5	0.75	-1.5	-1.2	4.7	21.3	11.3	8.0	-29.2	1.25	68%	
Green Impact Partners Inc.	GIP	OP		121.80	20.3	6.00		3.3	6.3		31.4	27.1	-6.0	9.00	50%	
Mullen Group Ltd.	MTL	OP		1086.82	95.3	11.40	191.5	218.7	262.1	7.7	7.7	6.1	2.7	16.50	50%	
Pason Systems Corp.	PSI	SP		984.86	82.4	11.95	39.5	74.1	101.0	21.3	11.3	8.0	-2.0	12.25	4%	
Shawcor Ltd.	SCL	OP		354.51	70.5	5.03	43.8	97.8	120.3	14.7	6.2	5.0	2.6	8.50	69%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

Healthcare, Biotech & Special Situations

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Selections

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

Highlights as of December 2021

We initiated coverage on DRI Healthcare Trust (TSX: DHT.U (USD) / DHT.UN (CAD)) with an Outperform rating and US$10.00 target derived via DCF.

DRI Healthcare Trust, through its external manager DRI Capital Inc., acquires revenue-based royalties on medically necessary pharmaceutical products. It aims to deploy US$650 million to US$750 million in 2021 to 2026 (~US$110 million deployed and/or pending in 2021/2022) in the acquisition of pharmaceutical royalties.

We have a positive view on DRI Healthcare with our thesis supported by both trust-specific and broader industry tailwinds. On trust-specific positives, we highlight 1) the external manager's (DRI Capital) experience (~20 years) and solid track record (~19% IRR on royalty pharma private funds); and 2) a cost and tax-efficient Trust structure that allows for elevated margins (~92% royalty receipts' EBITDA margin) and robust cash flow (~88% EBITDA to cash flow conversion). On positive industry tailwinds, we highlight: 1) expectations of increasing worldwide pharmaceutical sales; 2) increasing biopharma R&D, which leads to new product development; 3) increased new drug approvals and pharma royalty deals (the latter both in count and value); and 4) expectations of continued growth in pharma royalties due to the growing number of smaller biopharma companies participating in pharmaceutical originations and approvals.

We are comfortable with the risks, which notably include: 1) replenishment of the currently declining royalty portfolio – we believe DRI can do it given management's strong track record, experience and deal-generating ability; 2) potential investor concern over the external management structure and associated fees – we find DRI's fees generally in line with those of royalty pharma peers; and 3) U.S. pharma reform, which in its current form will only have a minimal impact on DHT (potential impact on one product when it nears the end of its royalty agreement).

In our view, at the recent unit price of US$5.46, the market is neither 1) giving DHT credit for its current portfolio, royalty declines notwithstanding, whose NAV we estimate at ~US$7.36/unit; nor 2) pricing in any growth whose NAV we estimate at ~US$2.60/unit. Thus, in addition to the multiple tailwinds, we find the units fundamentally underpriced prompting an Outperform rating. Our US$10.00 price target implies ~5x 2023e EV/EBITDA while the units currently trade at ~2.5x, which is a considerable (~75%) discount to peers.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 1/6	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		148.68	89.0	1.67u	3/2021	0.0%	(0.52)u	0.05u	0.20u	33.4	8.4	42.1u	81.3u	184.0u	16.7	8.0	1,125.5u	6.1	2.00u	
Andlauer Healthcare Group	AND	SP		2,215.96	41.5	53.37	3/2021	0.4%	0.81	1.21	1.47	44.2	36.3	78.9	109.4	136.2	22.1	17.8	204.6	1.5	49.00	
Dialogue Health Technologies	CARE	OP		447.23	65.8	6.80	3/2021	0.0%	-	(0.35)	(0.17)	nmf	nmf	(16.9)	(19.2)	(5.6)	nmf	nmf	-	-	14.00	
DRI Healthcare Trust	DHT.UT	OP		219.0u	40.1	5.46u	3/2021	5.5%	-	0.82	0.78	6.6	7.0	104.7	98.4	82.2	2.0	2.5	13.3u	0.2	10.00u	
IMV Inc.	IMV	SP		135.54	82.1	1.65	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		1,558.42	40.3	38.63	3/2021	1.6%	1.17	1.31	1.35	29.5	28.6	88.0	99.2	105.8	17.5	16.4	165.2	1.6	42.75	
Knight Therapeutics	GUD	OP		649.75	123.1	5.28	3/2021	0.0%	0.09	0.27	0.36	19.3	14.8	16.8	45.1	60.1	11.8	8.8	-	-	8.00	
Medical Facilities Corp.	DR	OP		285.24	31.1	9.17	3/2021	3.5%	0.96u	0.94u	0.96u	7.9	8.0	57.3u	61.8u	56.3u	5.8	6.4	87.1u	2.0	11.50	
Theratechnologies	TH	SP		350.01	95.1	3.68	3/f2021	0.0%	(0.15)u	(0.13)u	0.05u	nmf	61.4	(7.1)u	(8.3)u	8.8u	nmf	30.8	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		265.86	96.3	2.76	1/f2022	0.0%	0.08	0.10	0.13	28.8	21.1	14.6	18.0	21.0	15.6	13.4	15.8	0.8	3.25	
K-Bro Linen	KBL	SP		359.82	10.6	33.91	3/2021	3.5%	2.49	2.29	2.70	14.8	12.6	43.8	44.6	51.5	10.0	8.7	88.1	1.7	45.00	
Rogers Sugar	RSI	SP		619.01	103.7	5.97	4/f2021	6.0%	0.33	0.42	0.47	14.1	12.7	91.0	102.1	106.3	9.5	9.1	330.9	3.1	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		758.60	103.9	7.30	3/2021	8.2%	0.52	0.65	0.98	11.3	7.5	265.3	257.8	320.0	8.3	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

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

Industrial Products: Tug of war between multiples and EPS growth; thoughts on positioning

2022 positioning – staying long quality amid uncertainty

In the engineering space, we continue to like WSP and IBI. Colliers is our go-to for the commercial real estate rebound. Construction will likely face a tougher H1/22E as COVID-related delays are bound to have a negative impact on productivity and potentially margins (we do however like NOA at these levels as WTI rebound and co's exposure repositioning is yielding tangible benefits). In the Equipment space, both TIH and FTT offer upside (while we remain negative on RBA amid equipment tightness and hence lackluster GTV momentum). Stelco and AutoCanada provide upside assuming that their respective key "commodities" (HRC and used cars) enjoy the stronger pricing for longer dynamic. ATA remains in our must-own bucket as in an employee constrained / healthcare-driven world, having exposure to a Tier 1 integrator that steadfastly productizes its topline is thematically attractive. SJ is a value pick for 2022, especially with lumber pricing catching a bid.

Macro themes for 2022

1) Multiples in our coverage have expanded across the board (as median return stood at +41% vs. +22% for TSX in 2021) with the high-quality names well above their 5-year medians but given inflation expectations and the still benign long-term interest rates (hence WACC compression), we believe EPS growth of 8% for both 2022 and 2023 on flat multiples should generate positive returns this year for our coverage. 2) Our empirical work on the yield curve (amid flattening backdrop) suggests that Industrials and the market have done well in similar to now circumstances historically. 3) In Canada, we're still below pre-2019 GDP levels, and for a cyclically skewed / commodity- and immigration-driven economy, there is still upside. 4) Lastly, US put-in-place construction spending is expected to climb over the next 2 years (5.6% and 8.6% respectively), driving growth for our engineering peers. We estimate the Biden Infrastructure Plan to bear most of its fruit for our coverage in 2023 and will add 11% to the current run-rate.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 1/6	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 est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**	↓	$16.86	$1,017	12 - 2020	$0.95	$1.31	$1.41	11.9x	11.0x	$248	$255	$263	6.1x	5.9x	4.2%	1.6x
Bird Construction Inc.	BDT	OP		**$12.00**		$9.59	$511	12 - 2020	$0.96	$0.93	$0.99	10.3x	9.7x	$100	$106	$110	4.6x	4.5x	4.1%	net cash
Finning International Inc.	FTT	OP		**$46.00**	↑	$32.35	$5,202	12 - 2020	$1.14	$1.95	$2.27	16.6x	14.2x	$636	$806	$898	7.8x	7.0x	2.8%	1.3x
IBI Group Inc.	IBG	OP		**$20.00**	↑	$13.33	$417	12 - 2020	$0.48	$0.72	$0.84	15.9x	14.7x	$47	$15	$40	9.9x	9.3x	0.0%	0.6x
North American Construction Group Ltd.	NOA	OP		**$27.00**		$19.12	$544	12 - 2020	$1.74	$2.05	$2.26	8.5x	8.2x	$175	$8	R	4.1x	4.0x	0.8%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$68.00**		US$60.78	$6,715	12 - 2020	US$1.59	US$1.72	US$2.05	38.6x	35.3x	US$352	US$182	US$204	17.9x	16.6x	0.0%	3.7x
SNC-Lavalin	SNC	OP		**$44.00**	↑	$33.19	$5,395	12 - 2020	-$0.67	$1.54	$1.88	12.2x	10.2x	$93	$10	$819	8.8x	7.9x	0.3%	2.4x
Stantec Inc.	STN	SP		**$80.00**	↑	$70.51	$7,832	12 - 2020	$2.13	$2.32	$2.90	24.3x	22.5x	$435	$22	$364	15.9x	14.9x	0.9%	2.3x
Toromont Industries Ltd.	TIH	OP		**$126.00**	↑	$112.47	$9,302	12 - 2020	$3.09	$3.88	$4.41	22.4x	29.0x	$539	$288	$339	13.5x	13.0x	0.0%	-0.1x
WSP Global	WSP	OP		**$209.00**	↑	$180.07	$21,149	12 - 2020	$3.34	$4.87	$5.26	34.2x	28.8x	$1,041	$1,176	$1,380	19.0x	16.2x	0.8%	0.0x
AutoCanada	ACQ	OP		**$59.00**	↓	$40.48	$1,113	12 - 2020	$0.44	$3.79	$4.04	10.7x	10.0x	$83	$186	$218	6.8x	5.8x	0.0%	0.3x
Stelco	STLC	OP		**$53.00**	↓	$36.19	$2,798	12 - 2020	-$0.60	$6.89	$4.23	5.3x	8.5x	$63	$838	$567	3.0x	4.4x	3.3%	-0.2x
ATS Automation	ATA	OP		**$64.00**	↑	$50.24	$4,633	12 - 2020	$1.07	$2.05	$2.21	24.5x	22.7x	$181	$337	$355	16.0x	15.2x	0.0%	2.6x
ABC Technologies	ABCT	SP		**$9.00**		$6.83	$359	12 - 2020	NM	-$0.22	-$1.19	-24.4x	-4.6x	$133	$36	$163	17.6x	3.9x	2.2%	9.6x
Colliers International	CIGI	OP		**US$170.00**		US$142.32	$6,263	12 - 2020	US$4.18	US$5.75	US$6.19	24.8x	23.0x	US$361	US$518	US$577	14.8x	13.3x	0.2%	0.4x
Stella-Jones	SJ	OP		**$57.00**	↑	$40.84	$2,642	12 - 2020	$3.12	$3.50	$3.39	11.7x	12.1x	$343	$361	$354	8.8x	9.0x	1.8%	1.5x
Median												**14.0x**	**13.1x**				**9.3x**	**8.4x**	**0.8%**	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
**Multiples adjusted for concession investments*

Sector Analysis

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Selection

› *Gildan*

Gildan Activewear (GIL: TSX)

Company Update: Acquiring Frontier Yarns

- *Gildan announced the acquisition of Frontier Yarns*

Gildan announced today that, through one of its wholly-owned subsidiaries, it acquired 100% of the equity interests of Phoenix Sanford, LLC, the parent company of Frontier Yarns (Frontier) for a cash consideration of $168 million. No other financials were disclosed. We estimate that the synergy-adjusted acquisition EBITDA multiple is ~5-6x.

Frontier is a producer of 100% cotton, polyesters and cotton blend yarns. Frontier's yarn operations acquired by Gildan include four facilities located in North Carolina with ~800 employees. We understand that in 2021, ~40% of Frontier's production was dedicated to yarn sold to Gildan for textile manufacturing in Central America and the Caribbean. Over time, we would expect Gildan to capture more of Frontier's capacity, associated with its $500 million revenue growth ambition.

- *Strategic implications to this deal*

We view the acquisition to be strategic as Gildan builds on its global vertically integrated supply chain. Recall in recent quarters that Gildan indicated a tight supply chain environment, particularly related to yarn. This deal will alleviate supply chain pressure and further enhance the availability of yarn to support growth ambitions. We also see low integration risk as Frontier has developed a long-standing relationship as Gildan's supplier over the years.

- *Maintaining our thesis*

Last quarter, management reiterated its ~18% EBIT margin target, despite exceeding margin targets so far in 2021. We believe that this target will ultimately prove to be conservative. Looking forward, Gildan is focusing on sustainable growth, aided by capacity expansion. We believe that the outlook remains favourable given solid demand, ongoing improvement initiatives and price increases.

- *Maintain Outperform rating; Price Target is Cdn$58*

We continue to value Gildan at 16.0x our 2022/23 EPS (adjusted for FX).

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 01/06	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		10,995	61.3	179.25	12/2020	12.95	16.92	17.01	10.6	10.5	2,181	2,518	2,476	5.5	5.6	81.32	0.36	221.00	
Dollarama	DOL	OP		18,837	306.2	61.51	02/2021	1.81	2.18	2.56	28.2	24.0	1,131	1,285	1,434	17.2	15.4	0.45	0.96	66.00	↑
Fuel and Other																					
Couche Tard	ATD.b	OP		54,301	1,072.5	50.63	04/2021	2.45	2.39	2.35	16.8	17.1	5,005	4,941	4,830	9.7	9.9	12.00	0.32	53.00	
Parkland Fuel Corporation	PKI	OP		5,386	152.8	35.25	12/2020	0.54	0.83	2.78	42.5	12.7	967	1,263	1,438	7.7	6.8	15.03	0.66	48.00	
Apparel																					
Gildan	GIL	OP		10,434	198.1	52.68	12/2020	(0.18)	2.54	2.74	16.5	15.3	165	696	724	12.2	11.7	9.54	0.13	58.00	
Roots Corporation	ROOT	SP		137	42.2	3.24	02/2021	0.35	0.62	0.74	5.2	4.4	64	73	79	4.2	3.8	4.02	0.49	6.00	
Grocers																					
Empire Company	EMP.a	OP		10,437	268.1	38.93	05/2021	2.61	2.64	2.90	14.7	13.4	2,144	2,266	2,384	7.6	7.3	17.11	0.60	46.00	↑
Loblaw	L	OP		35,115	340.1	103.25	12/2020	4.18	5.42	6.03	19.0	17.1	5,004	5,595	5,726	7.2	7.1	33.20	0.32	107.00	
Metro	MRU	SP		16,495	243.2	67.82	09/2021	3.44	3.79	4.11	17.9	16.5	1,103	1,105	1,145	19.0	18.3	26.50	0.27	71.00	
Food Manufacturer																					
Saputo	SAP	SP		12,208	415.1	29.41	03/2021	1.74	1.63	2.14	18.0	13.7	1,471	1,412	1,741	11.5	9.4	15.6	0.39	36.00	
Lassonde	LAS.a	OP		1,082	6.9	156.00	12/2020	14.11	11.21	12.36	13.9	12.6	217	180	192	7.0	6.6	122.5	0.17	190.00	
Premium Brands Holdings	PBH	OP		5,413	43.6	124.14	12/2020	3.04	4.56	5.63	27.2	22.0	313	436	502	16.4	14.2	36.8	0.52	155.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,351	37.1	36.37	12/2020	1.95	2.26	2.43	16.1	15.0	171	190	197	9.1	8.8	10.58	0.49	46.00	
Pet Valu	PET	SP		2,319	71.5	32.45	12/2020	0.64	1.00	1.20	32.5	27.0	144	177	173	15.5	15.8	0.00	1.44	35.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		49	42.4	1.16	12/2020	0.30	0.12	0.25	10.0	4.7	28	18	25	9.7	6.8	3.28	0.47	3.00	
Restaurants																					
MTY Food Group	MTY	OP		1,398	24.8	56.41	11/2020	(1.51)	3.41	4.09	16.5	13.8	138	173	193	10.0	9.0	25.01	0.35	75.00	
Online Grocery																					
Goodfood Market	FOOD	OP		272	74.4	3.65	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.

Sector Analysis

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

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

Top picks:

Teck Resources Ltd. (TECK.B: TSX)

Teck's organic growth within the copper division, high-quality diversified asset base with exposure to skyrocketing hard coking coal prices, strong balance sheet and long-term commitment to returning capital to shareholders are supportive of a higher valuation than currently ascribed by the market. Teck's coal business unit continues to benefit from all-time high Chinese hard coking coal prices due to tight steelmaking coal markets and the Australia shadow ban expected to 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 the Board formally approving the project in Q4/21.

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/6	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
Producers																					
Capstone Mining	CS	OP	-	2,286	413.3	5.53	7.50	-	Nagle	0.07u	0.61u	0.67u	6.8x	8.3x	0.34u	0.95u	0.92u	4.4x	4.5x	7.24	0.8x
Copper Mountain Mining	CMMC	OP	-	700	210.2	3.33	5.25	-	Nagle	0.11u	0.66u	0.67u	5.1x	4.9x	0.61u	1.48u	1.25u	2.3x	2.7x	5.85	0.6x
Ero Copper	ERO	SP	-	1,623	88.8	18.28	30.00	-	Nagle	1.34u	2.39u	2.89u	5.7x	6.3x	2.02u	3.26u	3.40u	4.2x	4.0x	31.18	0.6x
First Quantum Minerals	FM	OP	-	20,842	691.0	30.16	37.00	-	Nagle	(0.07)u	1.23u	3.39u	18.4x	8.9x	2.64u	4.18u	6.42u	5.4x	3.5x	28.14	1.1x
Hudbay Minerals	HBM	OP	-	2,350	261.5	8.99	12.50	-	Nagle	(0.44)u	0.16u	0.65u	43.1x	13.8x	0.93u	1.82u	3.07u	3.7x	2.2x	9.37	1.0x
Lundin Mining	LUN	SP	-	7,333	735.5	9.97	12.25	-	Nagle	0.31u	1.09u	1.36u	6.9x	7.3x	1.00u	2.03u	2.14u	3.7x	3.5x	10.26	1.0x
Sherritt International	S	SP	-	163	397.3	0.41	0.55		DeMarco	(0.34)c	(0.23)c	0.00c	n/a	173.2x	0.03c	0.03c	0.10c	14.1x	4.0x	0.92	0.4x
Taseko Mines	TKO	SP	-	741	284.0	2.61	3.25	-	Nagle	(0.11)c	0.24c	0.36c	11.0x	7.2x	0.44c	0.79c	0.75c	3.3x	3.5x	4.08	0.6x
Teck Resources	TECKb	OP	-	20,036	540.8	37.05	48.50	-	Nagle	1.05c	6.62c	7.45c	5.6x	5.0x	3.38c	10.50c	10.26c	3.5x	3.6x	32.02	1.2x
Trevali Mining	TV	SP	-	174	98.9	1.76	2.50	-	Nagle	(0.03)c	0.01c	0.03c	121.8x	58.7x	0.01c	0.11c	1.09c	12.4x	1.2x	2.57	0.7x
Developers																					
Adventus Mining	ADZN	OP	-	127	131.1	0.97	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	0.5x
Filo Mining	FIL	OP	-	1,502	113.2	13.27	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	0.7x
Foran Mining	FOM.V	SP	-	593	236.4	2.51	3.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.64	0.7x
Josemaria Resources	JOSE	T	-	577	379.3	1.52	1.60	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.99	0.8x
Trilogy Metals	TMQ	OP	-	279	144.4	1.93	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	-	1,152	87.4	13.19	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	0.9x
Lithium Americas	LAC	OP	-	4,476	120.0	37.31	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	0.9x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Sector Analysis

Metals & Mining: Precious Metals

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Selections

Gold/Silver Producers:

- ***Centerra Gold*** *(CG: TSX; C$14.00 target)*
- ***Endeavour Mining Corp.*** *(EDV: TSX; C$46.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$13.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$44.00 target)*
- ***Wesdome*** *(WDO: TSX; C$15.50 target)*

Royalties:

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

Inflation Could Spark Gold Rally

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

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

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

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

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/6	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		28,871	453.73	63.63	81.00	↑	Parkin	0.96u	1.86u	2.78u	27.3x	18.3x	3.64u	4.99u	4.99u	10.2x	10.2x	50.83	1.25x
Barrick Gold	ABX	SP		40,739	1,779.00	22.90	29.00	-	Parkin	0.51u	1.15u	1.12u	15.9x	16.4x	1.81u	3.22u	3.22u	5.7x	5.7x	22.66	1.01x
Kinross Gold Corp	K	OP		8,176	1,198.87	6.82	13.00	↑	Parkin	0.31u	0.73u	0.32u	7.4x	16.9x	0.80u	1.37u	1.37u	4.0x	4.0x	13.72	0.50x
Kirkland Lake Gold Corp	KL	T		13,253	263.70	50.26	56.00	-	Parkin	2.74u	3.37u	3.31u	11.9x	12.1x	4.46u	4.75u	4.75u	8.4x	8.4x	36.30	1.38x
Newmont	NGT	OP		59,335	794.20	74.71	98.00	↑	Parkin	1.32u	2.66u	2.94u	22.4x	20.2x	4.31u	5.69u	5.69u	10.5x	10.5x	64.11	1.17x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		30,791	191.1	161.12	195.00	↓	Nagle	2.72u	3.42u	3.44u	35.4x	46.8x	4.22u	5.00u	5.00u	24.2x	24.2x	67.77	2.38x
Maverix Metals Inc	MMX	SP		764	146.7	5.21	6.75	↓	Nagle	0.12u	0.11u	0.17u	n/a	29.9x	0.29u	0.26u	0.32u	19.7x	16.4x	4.95	1.05x
Osisko Gold Royalties Ltd	OR	OP		2,384	166.2	14.34	20.50	-	Nagle	0.26u	0.54u	0.66u	n/a	21.8x	0.65u	1.05u	1.28u	13.6x	11.2x	13.87	1.03x
Royal Gold Inc	RGLD	SP		6,429	65.2	98.55u	140.00u	↓	Nagle	2.91u	3.72u	3.63u	26.5x	27.1x	6.28u	6.66u	6.18u	11.1x	12.0x	64.41	1.53x
Sandstorm Gold Ltd	SSL	OP		1,378	192.1	7.17	9.50	↓	Nagle	0.11u	0.17u	0.19u	31.7x	37.7x	0.36u	0.41u	0.40u	13.1x	13.5x	7.35	0.98x
Triple Flag Precious Metals Corp	TFPM	SP		2,391	156.1	15.32	19.00	↑	Nagle	0.20u	0.38u	0.41u	30.3x	37.4x	0.78u	0.79u	0.84u	14.6x	13.7x	12.38	1.24x
Wheaton Precious Metals Corp	WPM	OP		22,160	450.5	49.19	65.00	-	Nagle	1.10u	1.32u	1.23u	28.0x	40.0x	1.71u	1.89u	1.80u	19.6x	20.5x	23.48	2.09x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP		3,512	391.96	8.96	11.50	-	Parkin	0.21u	0.42u	0.41u	17.1x	17.5x	0.75u	0.97u	0.97u	7.4x	7.4x	11.56	0.78x
B2Gold	BTO	OP		4,715	1,054.8	4.47	8.50		DeMarco	0.41u	0.48u	0.41u	9.3x	10.8x	0.68u	0.91u	0.88u	4.9x	5.1x	5.35	0.84x
Centerra Gold Inc	CG	OP		3,110	296.78	10.48	14.00	↑	Parkin	0.58u	0.76u	0.94u	11.0x	8.8x	1.36u	2.87u	1.44u	2.9x	5.8x	12.97	0.81x
Dundee Precious Metals	DPM	OP		1,457	191.5	7.61	11.00	↓	DeMarco	0.94u	0.78u	1.03u	9.8x	7.4x	1.60u	1.33u	1.69u	5.7x	4.5x	11.36	0.67x
Eldorado Gold Corp	ELD	OP		2,058	182.65	11.27	17.50	-	Parkin	(0.02)u	0.97u	0.75u	11.6x	15.0x	0.93u	2.23u	2.23u	4.0x	4.0x	20.52	0.55x
Endeavour Mining	EDV	OP		6,871	249.1	27.59	46.00	↓	DeMarco	2.39u	2.58u	3.70u	10.7x	7.5x	4.90u	5.38u	5.55u	5.1x	5.0x	38.17	0.72x
Equinox Gold Corp	EQX	OP		2,700	333.0	8.11	12.50	↓	Parkin	0.33u	0.37u	0.10u	21.8x	83.8x	0.68u	1.06u	0.66u	7.6x	12.2x	15.38	0.53x
IAMGOLD Corp	IMG	OP		1,730	476.70	3.63	4.75	↑	Parkin	(0.03)u	0.14u	(0.13)u	20.4x	-23.1x	0.75u	0.77u	0.77u	3.8x	3.8x	6.10	0.60x
Lundin Gold Inc.	LUG	SP		2,243	232.7	9.64	13.00	↓	DeMarco	0.88u	0.69u	0.63u	14.0x	15.3x	1.53u	1.36u	1.25u	7.1x	7.7x	12.57	0.77x
New Gold Inc	NGD	SP		1,259	680.80	1.85	2.50	-	Parkin	(0.08)u	0.03u	0.13u	65.2x	13.8x	0.39u	0.41u	0.41u	3.6x	3.6x	2.48	0.75x
OceanaGold Corp	OGC	OP		1,366	704.03	1.94	3.25	-	Parkin	0.06u	(0.11)u	0.18u	n/a	11.0x	0.33u	0.33u	0.33u	4.6x	4.6x	3.17	0.61x
Pretium Resources	PVG	T		3,380	187.1	18.07	18.50		DeMarco	0.59u	0.79u	0.61u	22.9x	29.8x	1.46u	1.68u	1.63u	10.7x	11.1x	15.80	1.14x
SSR Mining Inc	SSRM	OP		4,400	210.61	20.89	28.50	↓	Parkin	0.74u	1.43u	1.31u	11.7x	12.7x	1.59u	1.65u	1.65u	10.1x	10.1x	31.35	0.67x
Yamana Gold Inc	YRI	OP		4,631	945.00	4.90	7.00	↑	Parkin	0.10u	0.32u	0.29u	12.3x	13.3x	0.51u	0.66u	0.66u	5.9x	5.9x	5.58	0.88x
Torex Gold Resources Inc	TXG	SP		1,065	85.75	12.42	23.00		DeMarco	2.16u	1.20u	1.26u	10.3x	9.8x	4.25u	3.97u	3.95u	3.1x	3.1x	20.86	0.60x
Silver Producers																					
Aya Gold and Silver	AYA	OP		866	92.2	9.39	13.50	↑	DeMarco	0.09u	0.09u	0.21u	109.7x	45.6x	0.13u	0.13u	0.33u	72.5x	28.6x	7.77	1.21x
First Majestic Silver Corp	FR	SP		3,261	242.8	13.43	18.50	↓	DeMarco	0.17u	0.69u	0.29u	19.3x	45.7x	0.45u	1.09u	1.55u	12.3x	8.7x	6.74	1.99x
Fortuna Silver Mines Inc	FVI	SP		1,333	289.1	4.61	6.50		DeMarco	0.48u	0.53u	1.07u	8.8x	4.3x	0.76u	1.02u	1.61u	4.5x	2.9x	5.77	0.80x
Pan American Silver	PAAS	OP		6,059	210.1	28.84	44.00	↓	DeMarco	0.80u	1.03u	1.71u	28.1x	16.9x	2.24u	2.82u	3.79u	10.2x	7.6x	19.34	1.49x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	T		557	115.1	4.84	4.85		DeMarco	0.17u	0.69u	0.56u	7.0x	8.6x	0.59u	0.95u	0.88u	5.1x	5.5x	7.69	0.63x
K92 Mining Inc.	KNT	OP		1,546	220.9	7.00	12.50	↑	DeMarco	0.11u	0.25u	0.28u	28.4x	25.1x	0.23u	0.44u	0.48u	15.9x	14.6x	10.01	0.70x
Minera Alamos Inc.	MAI	OP		245	446.1	0.55	1.10	↑	Nizami	0.01u	(0.00)u	0.04u	n/a	12.9x	0.00u	(0.01)u	0.05u	-	10.3x	1.08	0.51x
Wesdome Corp.	WDO	OP		1,533	139.7	10.97	15.50	↑	DeMarco	0.48u	1.01u	1.00u	10.8x	10.9x	0.80u	1.39u	1.56u	7.9x	7.0x	12.10	0.91x
Developers																					
AbraSilver Resource Corp	ABRA	OP		46	129.4	0.36	0.70		DeMarco	(0.00)u	(0.01)u	(0.01)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	0.47	0.47x
Artemis Gold Inc.	ARTG	OP		892	141.5	6.30	11.50	↑	DeMarco	(0.05)u	(0.19)u	(0.18)u	-	-	(0.09)u	(0.17)u	(0.18)u	-	-	11.52	11.52x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		193	358.0	0.54	1.40	↑	Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.42	0.38x
Integra Resources Corp.	ITR	OP		159	62.1	2.56	6.50		Nizami	(0.54)u	(0.69)u	(0.45)u	n/a	n/a	(0.50)u	(0.65)u	(0.43)u	-	-	6.49	0.39x
Liberty Gold Corp	LGD	OP		263	265.5	0.99	1.80		Nizami	0.03u	(0.09)u	(0.08)u	n/a	n/a	(0.05)u	(0.07)u	(0.07)u	-	-	1.83	0.54x
MAG Silver Corp	MAG	OP		1,843	97.9	18.82	30.00	↓	DeMarco	(0.07)u	0.86u	0.00u	21.8x	-	(0.06)u	0.65u	1.97u	28.8x	9.5x	20.11	0.94x
Marathon Gold Corp.	MOZ	OP		632	212.1	2.98	4.50	↑	DeMarco	(0.01)u	(0.04)u	(0.04)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	4.35	0.68x
O3 Mining Inc.	OIII	OP		133	68.0	1.96	4.25		DeMarco	(0.16)u	(0.63)u	(0.62)u	-	-	(0.16)u	(0.63)u	(0.62)u	-	-	5.46	0.36x
Osisko Development	ODV	OP		577	128.3	4.50	9.50		DeMarco	-	-	0.98u	-	4.6x	(0.04)u	-	1.07u	-	4.2x	9.58	0.47x
Osisko Mining	OSK	OP		1,417	356.1	3.98	5.25	↑	DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	5.17	0.77x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		506	356.2	1.42	3.25		Puri	0.00u	0.00u	(0.01)u	-	-	0.00u	0.00u	(0.01)u	-	-	3.18	0.45x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

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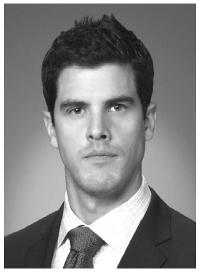
Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

As we look back on 2021, WTI averaged US$67.75/bbl (+60% for the year), its best performing year since 2009. The recovery in the commodity price revolved around numerous factors, including mass global vaccination programs, a coordinated effort by OPEC+ to curtail production and restrained capital expenditure from North American E&Ps. Accordingly, the E&P group delivered exceptional returns, as evidenced by the S&P/TSX Composite index outperforming the commodity, printing an 80% return for 2021. Focusing on this past month, we've seen a strong finish from crude in December despite the resurgence of COVID-19 (Omicron) cases and future coordinated SPR releases. Looking ahead to 2022, we remain constructive on crude fundamentals as OPEC+ continues its supply management plan (next meeting to be held on February 2, 2022) coupled with a continued demand recovery, which should set the stage for an exceedingly tight market. Reflecting our constructive view of the commodity, we have increased our 2022 forecast for WTI to US$70.00/bbl (from US$65.00/bbl). For 2023, we have increased our WTI forecast to US$65.00/bbl (from US$60.00/bbl) while leaving our 2024+ forecast unchanged at US$60/bbl.

Natural Gas Outlook

Natural gas also had a banner year in 2021, with NYMEX and AECO rallying ~40% and ~70% from the start of the year, respectively. October represented the peak pricing for both NYMEX and AECO, averaging US$5.57/mmbtu and C$5.02/GJ before weather-related demand softened prices. Price-performance in 2021 was driven primarily by the strength in exports (LNG exports averaged ~10 Bcf/d) and restrained capital spending leading to undersupply in natural gas within the U.S. (~1.8 Bcf/d in the lower 48) during the year. During December, NYMEX averaged ~US$3.90/mmbtu which is a stark contrast to November's average of US$5.10/mmbtu (~25% decrease). AECO prices also decreased in December, albeit to a lesser extent than NYMEX, and averaged ~C$3.90/GJ as weather-related demand picked up in the backend of the month. Looking ahead to 2022, we expect similar fundamentals to develop in regard to restrained capital spending by producers and further growth in LNG exports (~12.5 Bcf/d) in 2022. For NYMEX, we have decreased our forecast for 2022 to US$3.75/mcf (from US$3.90/mcf) and increased in 2023 and 2024+ to US$3.50/mcf (from US$3.05/mcf) and US$3.20/mcf (from US$3.05/mcf), respectively. For AECO, we are maintaining our forecast for 2022 at C$3.50/mcf and increasing our 2023 and 2024+ estimates to C$3.20/mcf (from C$2.50/mcf) and C$2.95/mcf (from C$2.50/mcf), respectively.

We do not expect any significant changes in business strategies for Canadian E&P companies in 2022. However, we expect to see increased transparency on shareholder return strategies throughout our coverage universe as balance sheets improve with debt payments no longer being the priority. As such, we highlight CVE and TOU (below) that are well-positioned to further increase returns to shareholders.

Top picks:

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

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

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 1-6	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	1176.2	$58.20	$68,455	4%	8.9x	5.8x	4.7x	1.1x	0.4x	$4.40	$11.49	$12.94	5.0x	4.5x	$76.00	35%	↑
Cenovus Energy	CVE	OP		Wood	2007.9	$17.24	$34,616	1%	28.3x	5.0x	4.2x	1.0x	0.2x	$0.12	$3.97	$4.07	4.3x	4.2x	$25.00	46%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$38.04	$9,933	1%	4.4x	3.9x	3.6x	1.4x	0.9x	$7.42	$13.14	$13.15	2.9x	2.9x	$52.00	38%	↑
Imperial Oil	IMO	SP		Wood	695.8	$48.10	$33,469	2%	20.7x	6.9x	5.3x	0.4x	-0.3x	$1.20	$7.17	$8.44	6.5x	5.7x	$58.00	23%	↑
Suncor Energy	SU	SP		Wood	1394.1	$33.85	$47,189	5%	10.1x	5.1x	4.4x	1.0x	0.6x	$2.66	$7.24	$8.54	4.6x	3.9x	$45.00	38%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$7.32	$1,433	0%	5.1x	6.6x	3.8x	0.7x	0.0x	$0.56	$1.15	$1.87	6.3x	3.9x	$10.00	37%	↑
ARC Resources Ltd.	ARX	OP		Wood	711.7	$11.98	$8,526	3%	3.9x	4.1x	3.0x	0.7x	0.1x	$1.89	$3.79	$4.06	3.6x	3.0x	$20.00	70%	↑
Baytex Energy	BTE	SP		Payne	573.8	$4.18	$2,398	0%	5.4x	4.6x	3.5x	2.0x	1.1x	$0.56	$1.27	$1.56	3.3x	2.7x	$5.00	20%	
Birchcliff Energy	BIR	OP		Payne	277.5	$6.31	$1,751	1%	6.0x	4.0x	3.5x	0.9x	0.3x	$0.69	$1.95	$2.03	3.2x	3.1x	$10.00	59%	
Crescent Point Energy Corp.	CPG	OP		Wood	583.0	$7.63	$4,448	2%	3.9x	4.1x	2.7x	1.4x	0.5x	$1.65	$2.59	$3.32	3.0x	2.3x	$13.50	79%	↑
Enerplus Corporation	ERF	OP		Wood	255.1	$14.17	$3,615	1%	3.5x	4.6x	3.2x	0.9x	0.2x	$1.61	$3.60	$4.64	3.9x	3.1x	$19.00	35%	↑
Freehold Royalties	FRU	OP		Wood	150.7	$12.12	$1,826	6%	7.8x	10.3x	7.1x	0.6x	-0.1x	$0.61	$1.35	$1.65	9.9x	7.3x	$17.00	46%	↑
Headwater Exploration	HWX	OP		Payne	233.0	$5.60	$1,305	0%	25.1x	11.0x	5.6x	-0.8x	-0.9x	$0.06	$0.52	$0.87	10.9x	6.4x	$7.75	38%	↑
Kelt Exploration	KEL	OP		Payne	191.6	$5.01	$960	0%	4.9x	6.2x	3.9x	0.1x	-0.1x	$0.31	$0.82	$1.26	6.1x	4.0x	$7.00	40%	
MEG Energy	MEG	SP		Wood	311.0	$12.87	$4,002	0%	7.7x	6.4x	3.8x	3.1x	1.2x	$0.92	$2.45	$4.05	5.2x	3.2x	$18.50	44%	↑
NuVista Energy	NVA	SP		Payne	238.4	$7.12	$1,697	0%	4.2x	6.4x	3.5x	1.7x	0.5x	$0.70	$1.22	$2.23	5.8x	3.2x	$9.00	26%	↑
Paramount Resources	POU	OP		Payne	146.8	$24.85	$3,647	3%	6.1x	7.1x	4.2x	0.9x	0.2x	$1.12	$3.76	$6.17	6.6x	4.0x	$30.00	24%	↑
Peyto Exploration & Development	PEY	OP		Wood	167.1	$9.71	$1,622	6%	5.9x	5.3x	3.4x	2.4x	1.3x	$1.29	$2.67	$4.11	3.6x	2.4x	$14.00	50%	↓
PrairieSky Royalty	PSK	SP	↓	Wood	238.9	$14.28	$3,412	3%	15.4x	16.1x	11.8x	2.5x	1.2x	$0.64	$1.11	$1.35	13.7x	10.6x	$18.50	32%	
Spartan Delta	SDE	OP		Payne	170.2	$6.47	$1,101	0%	6.9x	5.3x	2.4x	1.6x	0.4x	$0.67	$2.16	$3.09	0.0x	0.0x	$10.00	55%	
Tamarack Valley Energy	TVE	OP		Payne	439.4	$4.13	$1,815	2%	3.6x	6.6x	3.3x	1.5x	0.4x	$0.55	$0.86	$1.37	4.8x	3.0x	$5.50	36%	↑
Topaz Energy	TPZ	OP		Payne	140.1	$18.01	$2,523	5%	14.7x	14.7x	10.4x	1.3x	0.5x	$0.98	$1.49	$1.80	12.1x	10.0x	$24.00	39%	
Tourmaline Oil	TOU	OP		Payne	337.3	$42.20	$14,233	2%	4.9x	5.4x	3.8x	0.5x	-0.2x	$4.36	$8.85	$10.36	4.8x	4.1x	$57.50	38%	
Vermilion Energy Inc.	VET	OP		Wood	162.0	$17.50	$2,835	1%	5.6x	4.7x	2.6x	1.9x	0.8x	$3.18	$5.46	$9.14	3.2x	1.9x	$30.00	73%	↑
Whitecap Resources	WCP	OP		Wood	631.0	$7.95	$5,017	3%	4.8x	5.3x	3.2x	1.2x	0.3x	$1.07	$1.88	$2.66	4.3x	3.0x	$14.00	79%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	165.3	$2.95	$488	0%	6.5x	5.4x	3.2x	2.8x	1.2x	$0.27	$0.84	$1.29	3.5x	2.3x	$4.00	36%	
Pipestone Energy	PIPE	SP		Payne	282.3	$4.09	$1,155	0%	6.8x	7.3x	3.4x	1.1x	0.1x	$0.15	$0.60	$1.23	6.8x	3.3x	$4.50	10%	
Surge Energy	SGY	SP		Payne	87.1	$5.06	$441	0%	6.1x	5.7x	2.1x	2.7x	0.7x	$0.18	$1.79	$2.90	2.8x	1.7x	$9.00	78%	
Yangarra Resources	YGR	SP		Payne	90.9	$1.73	$157	0%	4.5x	3.4x	2.1x	2.1x	1.1x	$0.53	$1.01	$1.53	1.7x	1.1x	$2.50	45%	

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

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 01/06	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$898.81	91.3	US$9.85	US$213.2	US$209.2	US$254.9	5.5x	5.8x	4.4x	1.5x	1.7x	1.0x	US$17.50	78%	
Precision Drilling Corp.	PD	OP		Payne	$ 678.50	13.3	$51.00	$ 285.2	$ 243.5	$ 308.9	6.7x	8.8x	5.2x	4.7x	4.4x	3.0x	$65.00	27%	
Trican Well Services	TCW	SP		Payne	$ 710.78	233.8	$3.04	$ 30.6	$ 102.4	$ 157.9	7.5x	6.8x	4.0x	1.3x	-0.3x	-0.4x	$4.00	32%	

* 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 we close the door on 2021, 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

While the recent discovery of the Omicron COVID-19 variant introduced another layer of uncertainty into the markets, commodity prices bounced back in late December as the favourable fundamental backdrop held steady. Following the late November trend, WTI kicked off the month with a slow start before picking back up again toward the end, averaging ~US$72/bbl, ~8% lower than November levels of ~US$78.50/bbl while still ~80% above the 2020 average price of ~US$40/bbl. On the gas front, NYMEX prices hit a steady decline in December after flying high in the month prior, leading to an average of US$3.86/mcf, ~25% below the November average of US$5.12/mcf. Meanwhile, AECO bounced around a little more, but ultimately leaning in the same direction, averaging $3.96/mcf, ~12% lower than November's average of $4.50/mcf. On Marketing prospects, while the WCS heavy differential experienced some expansion in months prior, we began to see contraction again over the past month, averaging ~US$16.00/bbl versus November's average of ~US$19.00/bbl.

Pipelines & Midstream Update

On the Line 5 front, the White House does not plan on shutting down ENB's Line 5, but rather remains 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. Most recently, ENB officially filed for removal of Michigan AG's lawsuit to U.S. federal court, citing federal implications to the case as well as Judge Neff's decision for the Governor's similar lawsuit to be heard in federal court. Recall, Governor Whitmer made way for AG Nessel's state court lawsuit against ENB (filed June 2019) by withdrawing her own lawsuit, which was to be heard federal court following Judge Neff's decision. Recall, we value Line 5 at ~$3/sh within our target for ENB, representing ~$500 million of annual EBITDA (~5% of AFFO).

Meanwhile, ENB hosted its Investor Day in December where the company discussed its strategy moving forward with the Energy Transition and the recent CER decision on the Mainline contracting proposal. Recall, the CER denied 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. As such, the company is now seeking re-engagement with shippers for 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, AltaGas hosted its Investor Day at which the company reaffirmed its focus on improving logistics via unit train capabilities and cost efficiencies at its west coast export terminals (RIPET and Ferndale). Adding to its export strategy, the company is exploring larger-scale development opportunities to capitalize on energy transition momentum, including incremental butane barrels and adding ammonia exports to the Asian market offering. Overall, management is looking to double run-rate exports of ~100,000 bpd over the long-term (2026+), while ramping up the take-or-pay contracting profile.

Power Update

On the power side, CPX continues to push forward on its transition strategy, announcing the potential to tack on a 3.0 mmtpa CCS project at Genesee 1&2, which would transition the facility to be the world's largest (and most efficient) carbon capture gas-fired power plant by 2026 (FID by late 2022 / early 2023). Following the announcement, the company noted a refined cost estimate of ~$1.2 bln for its Genesee repowering project, which will now include 210 MW of battery storage, solving the most severe single contingency (MSSC) limit. Further, while the company

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

remains on the lookout for new opportunities in renewable generation, management noted that it sees tremendous value in natural gas, given its low emission profile relative to alternative fossil fuels combined with its high reliability.

Meanwhile, TransAlta recently announced two long-term PPAs for 100% of the generation from its 300 MW White Rock East and White Rock West wind projects planned to be located in Oklahoma. As such, the company now plans to move forward withconstruction of the US$460-470 mln collective project, which includes 51 turbines with a targeted ISD of H2/23.

Energy Transition Update

As the year came to a close, the Energy Transition kept with its accelerating pace as we see strategies executed and new projects unveiled. Overall, our coverage remains poised to capitalize on the shift to a cleaner economy as companies explore several avenues including hydrogen as well as CCS, which seems to be the fastest and most effective solution to decarbonize. Of note, Capital Power and Enbridge have teamed up through an MoU to jointly explore the development of CCS solutions near CPX's Genesee Generating Station. Backed by CPX's potential carbon capture project at Genesee and the MoU, ENB has applied to develop an open access carbon hub in Wabamun, AB through the Government of Alberta's request for full project proposals process. Together, the companies plan to evaluate a CCS project whereby ENB would provide transportation and storage services, while CPX would focus on the capture of CO2.

Elsewhere, executing on its Energy Transition strategy, TA announced that it has achieved the full phase-out of coal in Canada with the completion of its third planned coal-to-gas conversions (Keephills Unit 3). Recall, TA has invested ~$295 mln in its CTG program which included conversions of Sundance 6, Keephills 2&3 and Sheerness 1 & 2 as well as new gas delivery infrastructure to support high volumes.

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.

	Stock	Stock		Units	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth Price			Combined
	Sym.	Rating	Δ	O/S (Mln)	Price 01-06	Cap. (Mln)	est. 2020	est. 2021e	est. 2022e	2021e	2022e	est. 2020	est. 2021e	est. 2022e	2021e	2022e	Debt/ 22e EBITDA	Target	Return	Δ	Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$26.47	$7,403	$0.96	$1.00	$1.06	3.8%	4.0%	$2.08	$2.80	$2.96	9.5x	8.9x	5.6x	29.00	9.6%		13.3%
Enbridge Inc.	ENB	OP		2022.5	$50.91	$102,965	$3.24	$3.34	$3.44	6.6%	6.8%	$4.67	$4.85	$5.42	10.5x	9.4x	4.8x	54.00	6.1%		12.6%
Gibson Energy	GEI	SP		149.3	$23.25	$3,471	$1.36	$1.40	$1.40	6.0%	6.0%	$2.01	$1.99	$2.15	11.7x	10.8x	3.3x	24.00	3.2%		9.3%
Keyera	KEY	OP		221.0	$28.53	$6,306	$1.92	$1.92	$1.92	6.7%	6.7%	$3.26	$3.01	$2.88	9.5x	9.9x	3.6x	36.00	26.2%		32.9%
Pembina Pipelines	PPL	SP		550.0	$39.28	$21,604	$2.52	$2.52	$2.52	6.4%	6.4%	$3.91	$3.94	$4.05	10.0x	9.7x	4.0x	41.00	4.4%		10.8%
Secure Energy	SES	OP		308.1	$5.52	$1,701	$0.03	$0.03	$0.03	0.5%	0.5%	$0.53	$0.74	$0.95	7.5x	5.8x	2.0x	6.50	17.8%		18.3%
Superior Plus	SPB	SP		176.0	$12.88	$2,267	$0.72	$0.72	$0.72	5.6%	5.6%	$1.37	$1.23	$1.53	10.5x	8.4x	4.1x	15.00	16.5%		22.0%
Tidewater Midstream	TWM	OP		340.3	$1.32	$449	$0.04	$0.04	$0.04	3.0%	3.0%	$0.14	$0.24	$0.23	5.6x	5.7x	3.8x	1.75	32.6%		35.6%
Tidewater Renewables	LCFS	SP		34.6	$15.00	$520	$0.00	$0.00	$0.00	0.0%	0.0%	$0.00	$0.46	$0.55	n.m.	27.0x	3.0x	17.00	13.3%		13.3%
TC Energy Corp.	TRP	SP		979.0	$60.63	$59,357	$3.24	$3.48	$3.62	5.7%	6.0%	$6.13	$5.51	$5.58	11.0x	10.9x	5.3x	65.00	7.2%		12.9%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$40.84	$4,682	$1.74	$1.79	$1.81	4.4%	4.4%	$2.08	$2.44	$2.41	16.7x	17.0x	4.6x	46.00	12.6%		17.0%
Brookfield Infrastructure [(1)]	BIP	OP		514.0	$58.65	$30,147	$1.94	$2.04	$2.16	3.5%	3.7%	$2.53	$2.92	$3.15	20.1x	18.6x	6.5x	65.00	10.8%		14.3%
Canadian Utilities	CU	SP		273.1	$35.75	$9,762	$1.74	$1.76	$1.78	4.9%	5.0%	$2.69	$2.88	$3.03	12.4x	11.8x	5.3x	37.00	3.5%		8.4%
Capital Power	CPX	OP		114.1	$39.12	$4,464	$1.99	$2.12	$2.24	5.4%	5.7%	$4.96	$5.67	$5.30	6.9x	7.4x	3.2x	46.00	17.6%		23.0%
Emera Inc.	EMA	SP		259.6	$61.51	$15,965	$2.48	$2.58	$2.68	4.2%	4.4%	$1.99	$2.55	$4.28	24.1x	14.4x	6.7x	59.00	-4.1%	↑	0.1%
Fortis Inc.	FTS	SP		474.6	$59.44	$28,211	$1.94	$2.05	$2.17	3.4%	3.7%	$3.92	$3.87	$4.51	15.4x	13.2x	6.2x	59.00	-0.7%		2.7%
Hydro One Ltd.	H	SP		596.9	$32.18	$19,209	$1.01	$1.07	$1.12	3.3%	3.5%	$1.76	$1.86	$1.97	17.3x	16.3x	5.4x	32.00	-0.6%		2.8%
TransAlta	TA	SP		271.0	$13.71	$3,716	$0.17	$0.18	$0.20	1.3%	1.5%	$1.30	$2.00	$1.45	6.9x	9.5x	3.0x	14.00	2.1%		3.4%

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

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Selections

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

H&R REIT

A Portfolio in Transition but Current Asset Mix Provides Growth and Defensiveness

H&R completes spinoff of Primaris REIT

Upon closing of the recent spinoff, each H&R unitholder received 1 unit of Primaris for every 4 units of H&R held immediately prior to December 21, 2021. As around the time, Primaris was trading at $14.04 ($3.51 pre-consolidation) while the H&R remain-co traded at $13.20 – representing a combined pre-spin value of $16.71 (vs. NAV of $22.75). Primaris started trading on January 5, 2022 under the ticker PMZ.un.

Retirement occupancy recovery the #1 topic

H&R transferred 27 properties from its enclosed portfolio with a book value of ~$2.4 billion to Primaris. These properties were secured with $723 million of debt. PMZ also acquired eight properties from HOOPP valued at $0.8 billion which have ~$207 million of secured debt. Primaris' resulting portfolio will consist of 35 properties with an appraised value of ~$3.2 billion.

Impact on H&R

The Primaris spinoff marks a major step in H&R's strategic repositioning program with the ultimate goal of becoming a growth-oriented REIT focused on apartments, industrial and development. Over the next few years, office and retail assets will be disposed to fund the development of greenfield opportunities and repositioning of core urban covered land plays.

Key Takeaways

Following the sale of its majority interest in The Bow, H&R's Primaris spinoff marks another meaningful step towards achieving its strategic objectives of a streamlined and growth-oriented REIT. We expect the remain-co to put up strong results over the next few quarters due to strength in the apartment and industrial segments and easy y/y comps in the office portfolio. Non-core properties that will eventually be sold are well tenanted and provide defensive cash flows. We have adjusted our estimates to reflect only the operations of the remaining entity which resulted in lower FFO and NAV estimates. That said, we no longer believe as significant of a discount is warranted in arriving at our target price. As of the writing, the combined value of Primaris and H&R remain-co was $16.71 vs. $15.89 trading levels the day before the spin. Our $17.00 target is largely in line with our post-spin NAV and represents a 17x 2022 AFFO multiple.

Real Estate

Matt Kornack, Tal Woolley

	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 1-6	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	↔	$7,188	Woolley	$22.62	$1.44	$1.44	$1.44	6.4%	6.4%	6.4%	6.4%	$1.60	$1.53	$1.62	14.2x	14.8x	14.0x	$24.80	$25.00	16.9%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,645	Woolley	$14.72	$0.74	$0.74	$0.74	5.0%	5.0%	5.0%	5.0%	$0.92	$0.96	$0.98	15.9x	15.4x	15.0x	$13.10	$15.50	10.3%	↔
First Capital REIT	FCR	SP	↔	$4,070	Woolley	$18.54	$0.86	$0.86	$0.86	4.6%	4.6%	4.6%	4.6%	$1.01	$1.14	$1.13	18.4x	16.3x	16.4x	$21.23	$20.00	12.5%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,426	Woolley	$31.49	$1.76	$1.81	$1.85	5.6%	5.8%	5.9%	5.8%	$2.20	$2.18	$2.21	14.3x	14.4x	14.2x	$33.90	$34.00	13.7%	↔
CT REIT	CRT.un	OP	↔	$3,944	Woolley	$16.94	$0.73	$0.76	$0.79	4.3%	4.5%	4.6%	4.5%	$1.18	$1.24	$1.30	14.4x	13.7x	13.0x	$16.80	$19.50	19.6%	↔
Crombie REIT	CRR.un	OP	↔	$2,958	Woolley	$17.98	$0.89	$0.89	$0.89	4.9%	4.9%	4.9%	4.9%	$1.05	$1.15	$1.23	17.1x	15.6x	14.6x	$18.32	$20.00	16.2%	↔
Automotive Properties REIT	APR.un	OP	↔	$693	Woolley	$14.14	$0.80	$0.80	$0.80	5.7%	5.7%	5.7%	5.7%	$0.91	$0.98	$1.01	15.5x	14.4x	14.0x	$12.00	$14.00	4.7%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,666	Kornack	$44.23	$1.65	$1.70	$1.73	3.7%	3.8%	3.9%	3.8%	$2.29	$2.44	$2.67	19.3x	18.2x	16.5x	$49.30	$52.00	21.4%	↔
DREAM Office REIT	D.un	OP	↔	$1,349	Kornack	$24.56	$1.00	$1.00	$1.00	4.1%	4.1%	4.1%	4.1%	$1.52	$1.54	$1.62	16.1x	16.0x	15.2x	$26.25	$26.00	9.9%	↔
Slate Office REIT	SOT.un	SP	↔	$368	Kornack	$5.04	$0.40	$0.40	$0.40	7.9%	7.9%	7.9%	7.9%	$0.68	$0.58	$0.62	7.4x	8.7x	8.1x	$6.15	$5.25	12.1%	↔
True North Commerical REIT	TNT.un	SP	↔	$673	Kornack	$7.35	$0.59	$0.59	$0.59	8.1%	8.1%	8.1%	8.1%	$0.59	$0.59	$0.60	12.4x	12.4x	12.2x	$7.25	$7.50	10.1%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,960	Woolley	$13.48	$0.80	$0.80	$0.80	5.9%	5.9%	5.9%	5.9%	$0.83	$0.84	$0.87	16.2x	16.0x	15.5x	$13.43	$14.50	13.5%	↔
H&R REIT	HR.un	OP	↔	$3,968	Kornack	$13.15	$0.92	$0.69	$0.69	7.0%	5.2%	5.2%	5.2%	$1.67	$1.55	$1.59	7.9x	8.5x	8.3x	$22.75	$17.00	34.5%	↓
Cominar REIT	CUF.un	RES		$2,133	Kornack	$11.69	$0.72	$0.63	$0.36	6.2%	RES	RES	RES	$1.13	$0.94	$1.05	10.3x	12.4x	11.1x	$10.80	RES	RES	
Artis REIT	AX.un	SP	↔	$1,476	Kornack	$11.85	$0.54	$0.54	$0.60	4.6%	4.6%	5.1%	4.6%	$1.40	$1.33	$1.34	8.5x	8.9x	8.9x	$15.05	$12.25	7.9%	↔
BTB REIT	BTB.un	SP	↔	$346	Kornack	$4.04	$0.36	$0.30	$0.30	8.9%	7.4%	7.4%	7.4%	$0.38	$0.40	$0.41	10.5x	10.2x	9.9x	$4.70	$4.50	18.8%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,657	Kornack	$101.34	$2.92	$3.05	$3.10	2.9%	3.0%	3.1%	3.0%	$4.04	$4.04	$4.47	25.1x	25.1x	22.7x	$95.90	$110.00	11.6%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$4,109	Kornack	$16.55	$0.70	$0.70	$0.70	4.2%	4.2%	4.2%	4.2%	$0.71	$0.80	$0.87	23.4x	20.7x	18.9x	$17.35	$19.00	19.0%	↔
Summit Industrial	SMU.un	OP	↔	$3,848	Kornack	$21.93	$0.54	$0.56	$0.58	2.5%	2.5%	2.6%	2.5%	$0.65	$0.71	$0.75	33.7x	31.1x	29.1x	$22.00	$26.50	23.4%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$299	Woolley	$3.75	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-30.8x	13.7x	7.3x	$5.70	$5.00	33.3%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,984	Kornack	$57.50	$1.37	$1.38	$1.47	2.4%	2.4%	2.6%	2.4%	$2.27	$2.37	$2.51	25.4x	24.3x	22.9x	$63.20	$70.50	25.0%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,755	Kornack	$53.97	$1.00	$1.00	$1.00	1.9%	1.9%	1.9%	1.9%	$2.81	$2.94	$3.12	19.2x	18.4x	17.3x	$60.70	$63.50	19.5%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,620	Kornack	$22.93	$0.68	$0.69	$0.72	2.9%	3.0%	3.1%	3.0%	$1.00	$1.07	$1.12	22.9x	21.5x	20.4x	$24.10	$27.00	20.8%	↔
InterRent REIT	IIP.un	OP	↔	$2,397	Kornack	$16.70	$0.31	$0.32	$0.34	1.9%	1.9%	2.1%	1.9%	$0.47	$0.51	$0.58	35.5x	33.1x	28.9x	$17.60	$20.25	23.2%	↔
Minto Apartment REIT	MI.un	SP	↔	$1,355	Kornack	$21.57	$0.44	$0.45	$0.48	2.0%	2.1%	2.2%	2.1%	$0.85	$0.79	$0.89	25.5x	27.2x	24.4x	$24.60	$26.25	23.8%	↔
BSR REIT	HOM.un	OP	↔	$908u	Kornack	$17.50u	$0.50u	$0.50u	$0.50u	2.9%	2.9%	2.9%	2.9%	$0.64u	$0.64u	$0.77u	27.5x	27.4x	22.7x	$18.00u	$20.00u	17.1%	↔
ERES REIT	ERE.un	OP	↔	$1,013	Kornack	$4.38	$0.15	$0.16	$0.16	3.4%	3.6%	3.6%	3.6%	$0.19	$0.21	$0.23	22.5x	20.6x	19.4x	$5.45	$5.75	34.8%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$324	Kornack	$9.66	$0.83	$1.13	$0.83	8.5%	11.7%	8.5%	11.7%	$0.65	$0.53	$0.58	14.8x	18.1x	16.7x	$11.15	$10.00	15.2%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,670	Woolley	$12.21	0.59	0.60	0.60	4.8%	4.9%	4.9%	4.9%	0.76	0.68	0.82	16.1x	18.0x	14.9x	$12.10	$15.00	27.8%	↔
Sienna Senior Living	SIA	OP	↔	$1,022	Woolley	$13.48	0.90	0.92	0.94	6.7%	6.9%	6.9%	6.9%	1.03	1.14	1.17	13.1x	11.8x	11.5x	$12.57	$17.50	36.7%	↔
Extendicare	EXE	SP	↔	$649	Woolley	$7.24	0.48	0.48	0.48	6.6%	6.6%	6.6%	6.6%	0.79	0.48	0.52	9.2x	15.1x	13.9x	$9.30	$8.50	24.0%	↔
Invesque	IVQu	SP	↔	$103u	Woolley	$1.83u	$0.74u	$0.00u	$0.00u	40.3%	0.0%	0.0%	0.0%	$0.73u	$0.45u	$0.47u	2.5x	4.1x	3.9x	$3.27u	$2.00u	9.3%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,640	Woolley	$7.13	$0.01	$0.01	$0.01	0.1%	0.2%	0.2%	0.2%	$0.10	$0.15	$0.20	73.1x	47.3x	35.9x	$5.40	$7.50	5.3%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$375u	Woolley	$19.15u	n/a	n/a	$0.51u	n/a	n/a	2.7%	2.7%	n/a	$1.08u	$1.12u	n/a	17.7x	17.1x	$19.50u	$24.00u	28.0%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$5,309u	Woolley	$19.52	$0.28	$0.28	$0.28	1.4%	1.4%	1.4%	1.4%	$0.49u	$0.55u	$0.61u	39.8x	35.5x	32.0x	$16.84	$20.00	3.9%	↔

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

- › *GDI Integrated Facility Services*
- › *Dexterra Group Inc.*
- › *Hardwoods Distribution*

Kicking off the year with GDI's largest acquisition yet

On January 4, 2022, GDI announced the acquisition of IH Services, Inc. ("IH"), a janitorial services business based out of Greenville, S.C. that generated annual sales of US$200 million for the 12-month period ending August 30, 2021. We see IH as a value-add to the GDI portfolio which will provide potential revenue synergies and a substantial Southeastern platform. Prior to the acquisition, GDI largely lacked a geographic footprint in the Southeastern U.S. between Texas and New Jersey. IH is one of the largest Southeastern U.S. providers of facility management services for the manufacturing & industrial, distribution and healthcare markets (with a smaller presence in commercial and educational markets), employing close to 8,000 staff across 29 states, with offerings of janitorial, security, staffing, pest control, painting, window cleaning, machine cleaning and bottled water services. IH's management team will remain following the transaction and become GDI's U.S. Southeast regional leadership team.

Assuming a price based on normalized EBITDA

Although the purchase price was not disclosed, we estimate a transaction value of $90-140 million assuming 6-7% Adj. EBITDA margins and GDI's customary range for large acquisitions of 6-8x. As Janitorial USA revenues were not unduly impacted by the pandemic, we expect IH's US$200 million in annualized revenues is likely a good estimate of the run rate going forward. Additionally, because GDI has historically demonstrated a pattern of measured capital allocation, we suspect that the price was based on normalized margins to account for profitability tailwinds during the pandemic. Furthermore, the closing of the deal itself may indicate that seller expectations are beginning to temper towards the disciplined levels GDI is willing to pay, following high-flying multiples during the pandemic.

Largest acquisition to date but balance sheet still primed

Pro forma the acquisition of IH, we see GDI's Net Debt/EBITDA rising to ~2.3x and estimate it can support an additional $50 million+ in incremental Adj. EBITDA (vs. the current estimated run rate, including IH, of ~$145 million) via M&A while remaining onside of management's comfort level of 3-4x leverage.

Outperform, $70.50 target

Our $70.50 target is based on 12.25x 2023e EV/EBITDA, using a 10x base multiple and 2.25x M&A premium equivalent to $200 million in incremental annual revenue added through acquisitions. The addition of IH (and its leadership team) should widen the M&A pipeline as we believe IH is highly regarded in the industry and by its industry association peers within the National Service Alliance group, which itself represents total revenues of over US$4.8 billion across 450 members. We rate GDI Outperform and remain confident in the company's ability to scale organically and via its proven M&A program.

								FDEPS			P/E		EBITDA (mln)			EV/EBITDA					
	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/6	Last Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		845.3	45.0	18.77	12/2020	0.51	2.55	1.67	7.4	11.2	85.6	129.6	126.6	9.1	9.3	7.0%	3.3	27.00	
Boyd Group Services Inc.	BYD	SP		4,219.3	21.5	196.50	12/2020	1.97	1.18	2.75	137.7	59.0	220.0	216.3	289.9	20.2	15.2	0.3%	3.5	240.00	
Cascades	CAS	OP		1,449.3	103.2	14.05	12/2020	1.95	0.31	1.28	45.9	10.9	675.0	435.5	530.4	6.4	5.4	3.4%	3.3	19.50	↑
Dexterra Group Inc.	DXT	OP		542.7	65.1	8.33	12/2020	1.24	0.39	0.57	21.1	14.7	52.2	80.3	90.4	7.7	6.4	4.2%	1.0	12.50	
Doman Building Materials	DBM	OP		708.2	86.7	8.17	12/2020	0.78	1.34	0.81	6.1	10.1	143.0	228.8	197.7	6.1	6.9	6.9%	3.5	12.00	
GDI Integrated Facility Services	GDI	OP		1,280.2	23.0	55.60	12/2020	2.11	2.05	1.95	27.1	28.5	104.9	134.1	147.3	11.8	10.3	0.0%	1.3	70.50	↑
Hardwoods Distribution	HDI	OP		1,030.5	23.9	43.06	12/2020	1.53	4.32	4.07	8.0	8.5	72.7	188.6	206.8	6.8	5.6	1.1%	1.8	75.50	↑
Intertape Polymer Group Inc.	ITP	OP		1,569.6	60.6	25.91	12/2020	1.51	2.01	2.16	10.3	9.6	211.2	250.8	272.0	7.1	6.3	3.3%	2.2	40.50	
KP Tissue	KPT	SP		101.8	9.9	10.33	12/2020	0.53	(0.04)	0.48	nmf	21.6	197.8	155.0	223.5	8.2	7.5	7.0%	4.3	10.50	
Neighbourly Pharmacy Inc.	NBLY	SP		1,330.3	34.4	38.65	03/2021	(19.88)	(7.42)	0.48	nmf	81.3	35.1	51.6	75.8	27.6	20.1	0.5%	0.9	35.00	
Park Lawn Corporation	PLC	OP		1,264.1	31.4	40.21	12/2020	1.16	1.53	1.55	26.3	25.9	79.9	98.0	104.8	14.8	14.5	1.1%	1.3	44.50	
Richelieu Hardware	RCH	OP	↑	2,455.5	56.5	43.43	11/2020	1.50	2.37	2.15	18.3	20.2	154.5	223.9	207.1	10.8	11.0	0.6%	0.1	48.00	
Savaria Corporation	SIS	OP		1,177.7	64.6	18.22	12/2020	0.56	0.63	1.05	28.9	17.4	59.8	100.9	132.9	15.4	11.4	2.7%	2.7	24.50	
Uni-Sélect	UNS	OP		1,045.9	43.0	24.30	12/2020	(0.17)	0.88	1.02	22.2	19.0	89.3	136.7	150.6	9.0	7.8	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

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Sector Analysis

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, 2021 was a tough year, with the stocks down 20% on rising interest rates, limited stimulus in the U.S. and revival of nuclear, gas and coal fired generation. However, we believe the renewable power sector should see growth as it is the cheapest form of energy (it no longer needs subsidies) and 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; $23 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 Sep. 2021, 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 CAGR on normalized FCF/sh out to 2025. Recent developments include the commissioning of its 226 MW Griffin Trail wind project in north Texas and commissioning of its 200 MW Hillcrest solar project in Ohio. Moreover, INE is exploring investment opportunities in new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 5.5% discount rate on operating assets and includes $4/sh for growth.

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

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. It has a net installed capacity of ~2,462 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 2021, 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 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 renewable projects into Québec RFPs and could soon be awarded capacity under French tenders that closed in Dec. of last 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 5.5% cost of equity on operating cash flows and $7/sh of growth.

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

NPI is a global leader in the development of offshore wind projects 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 RWE in Germany, 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 2021. The remaining proceeds will be used toward its development pipeline of 4 to 5 GW focused on offshore wind projects. NPI recently formed a JV with its Nordsee One partner for the co-development of a cluster of three offshore wind farms, namely, the 433 MW Nordsee Two, the 420 MW Nordsee Three and the 480 MW Delta Nordsee. NPI will control 49% of the newly formed JV. Following the latest German government auction, NPI and its partner exercised their step-in rights for the lease of the Nordsee Two offshore wind project at zero subsidy, with plans to sell the power to a Corporate offtaker. The other two projects up for auction, the Nordsee Three and Delta Nordsee projects, should be auctioned in 2023 and NPI and RWE hold step-in rights for both leases. 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 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 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 5.5% on operating cash flows and $9/sh of growth.

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Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1-6	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		192.7	82	2.36	12/2020	0.06u	0.07u	0.18u	27.2	10.1	2.14u	2.46u	3.05u	0.7	0.6	1.37u	0.20	4.75	
Anaergia Inc.	ANRG	SP		1101.9	62	17.89	12/2020	0.00	0.00	0.00	na	na	3.05	2.60	4.83	6.9	3.7	10.70	0.47	25.00	
Algonquin Power	AQN	OP		9458.9	672	14.08u	12/2020	0.65u	0.71u	0.74u	19.7	18.9	2.98u	3.70u	4.06u	3.8	3.5	10.70u	0.47	15.50u	↓
Altius Renewable Royalties Corp	ARR	OP		306.7	29	10.61	12/2020	(0.15)u	(0.10)u	0.00u	nmf	nmf	0.01u	0.02u	0.12u	nmf	68.7	0.43u	0.00	13.00	
Ballard Power Systems	BLDP	OP		3538.7u	298	11.89u	12/2020	(0.20)u	(0.32)u	(0.27)u	nmf	nmf	0.42u	0.33u	0.47u	36.1	25.6	4.58u	0.01	26.00u	
Boralex	BLX	OP		3300.7	103	31.91	12/2020	0.56	0.39	0.48	nmf	65.9	6.44	6.76	6.89	4.7	4.6	12.00	0.65	41.00	↓
Brookfield Renewable	BEP	SP		21578.6u	646	33.42u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.72u	3.96u	9.0	8.4	24.27u	0.35	38.00u	↓
DIRTT Environmental Solutions	DRT	SP		192.0u	85	2.25u	12/2020	(0.13)u	(0.54)u	(0.16)u	nmf	nmf	2.03u	1.72u	2.33u	1.3	1.0	0.96u	0.23	3.25u	
GFL Environmental Inc.	GFL	OP		16375.9	362	45.23	12/2020	(2.76)	(1.47)	(0.19)	nmf	nmf	11.64	14.99	17.08	3.0	2.6	14.98	0.54	55.00	
Innergex	INE	OP		3388.1	194	17.47	12/2020	(0.23)	(0.65)	0.70	nmf	25.1	3.60	4.20	4.04	4.2	4.3	6.13	0.86	23.00	↓
The Lion Electric Company	LEV	OP		1884.2u	199	9.46u	12/2020	(3.64)u	(0.45)u	(0.20)u	nmf	nmf	0.77u	0.22u	1.51u	43.0	6.3	1.67u	0.02	17.00u	
Loop Energy Inc	LPEN	OP		139.0	35	3.92	12/2020	(0.50)	(0.77)	(0.77)	nmf	nmf	0.03	0.05	0.40	nmf	9.9	2.32	0.01	12.00	
NanoXplore	GRA	OP		948.3	158	6.00	06/2021	(0.08)	0.00	0.18	nmf	34.3	0.46	0.66	0.96	9.1	6.3	0.62	0.20	10.00	
Next Hydrogen Solutions Inc.	NXH	SP		76.3	24	3.12	12/2020	(0.77)	(1.33)	(0.97)	nmf	nmf	0.00	0.01	0.28	nmf	11.0	1.69	0.01	7.00	
Northland Power	NPI	OP		8134.7	226	36.00	12/2020	1.78	0.64	0.83	56.6	43.5	10.25	9.23	9.16	3.9	3.9	13.05	0.68	44.00	↓
TransAlta Renewables	RNW	SP		4875.4	267	18.26	12/2020	0.35	0.56	0.72	32.4	25.4	1.64	1.71	1.77	10.7	10.3	7.66	0.18	19.00	↓
Xebec Adsorption	XBC	SP		354.2	154	2.30	12/2020	(0.33)	(0.17)	0.01	nmf	nmf	0.59	0.81	1.36	2.8	1.7	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

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

Rough Start

As you know, it's been a rough start to the year for Tech stocks given the looming cloud for tightening monetary policy (rising rates) combined with an ongoing inflationary environment. Looking back, the S&P Technology Index closed last year (2021) up 35.8% versus the 28.8% increase in the S&P. Here at home (in Canada), the TSX Technology Index finished 2021 up 20.8%, underperforming the broader TSX which was up 21.1%. What's becoming clear is that the macro backdrop has shifted the thinking around valuation from momentum to value which has and will not bode well in the short-term for high valuation (growth) names that have limited valuation support under traditional valuation metrics under the shift in market sentiment. That resetting of valuation is happening even if the underlying fundamentals / themes have not changed. And in our experience, we need to acknowledge that will protract the timeline to realizing the potential returns for many high growth (valuation) names which is why we've consistently underscored in previous Visions that investors will need to subscribe to a long-term view on those names rather than the daily gyrations that come under shifts in sentiment changes. With that context, in the shorter-term, we believe it's the legacy names with underlying valuation support under traditional metrics that will likely outperform in names like CGI and OpenText that have underlying profitability and cash flow. That said, we believe pullbacks represent opportunities to wade into those high growth leaders over the longer-term horizon. Those names continue to include: Docebo, Kinaxis, Lightspeed, Magnet Forensics, Nuvei, Shopify, and Telus International. We would also include Altus as a Tech special sit name in the above group. Here's a brief discussion of some of those names.

- **Kinaxis** should be a meaningful beneficiary from the heightened demand for supply chain solutions. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across large enterprise in markets from auto (semiconductor shortages) to home building (lumber). The depth of Kinaxis' software platform extended conversions of its pipeline; 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 eCommerce. 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.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/6	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,943	44.6	65.99	2020	1.66	1.79	2.31	36.9	28.6	98.9	107.7	150.9	27.4	19.5	9.3u	37%	80.00	↑
Blackline Safety Corp.*	BLN	OP		384	60.0	6.40	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		26,855	249.5	107.62	2020	4.68	5.36	5.93	20.1	18.1	2426.3	2437.7	2598.7	11.9	11.1	26.5	33%	135.00	
Constellation Software Inc.	CSU	SP		45,055	21.2	2,126.08	2020	36.06u	46.77u	55.63u	36.2	30.4	1,237.0u	1,513.1u	1,561.8u	23.9	23.1	62.4u	44%	2100.00	
Docebo Inc.	DCBO	OP		2,302	32.8	70.15	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	NMF	193.8u	0%	100.00u	
D2L Inc.	DTOL	OP		888	60.6	14.67	2021	0.11u	(0.14u)	(0.30u)	NMF	NMF	6.0u	(4.2u)	(12.9u)	NMF	NMF	1.3u	0%	20.00	
E Automotive Inc.	EINC	OP		891u	55.2	16.15u	2020	(1.77u)	(0.25u)	(0.36u)	NMF	NMF	(4.1u)	(6.3u)	(13.1u)	NMF	NMF	0.8u	26%	24.00	
Farmers Edge Inc.	FDGE	SP		132	41.9	3.15	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		4,419u	28.1	157.05u	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	95.1	52.0	10.6u	0%	225.00u	
Lightspeed Commerce Inc.	LSPD	OP		5,109u	139.7	36.56u	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		1,111	40.0	27.76	2020	0.32	0.23	0.22	NMF	NMF	15.4	13.7	13.1	56.8	59.6	2.1u	2%	55.00	
mdf commerce inc.	MDF	SP		172	33.6	5.11	2021	(0.30u)	(0.31u)	(0.02u)	NMF	NMF	5.1u	(2.6u)	8.8u	NMF	23.9	6.6u	19%	8.00u	
Nuvei Corporation	NVEI	OP		12,321u	147.5	83.56u	2020	0.14u	1.68u	2.12u	49.7	39.4	163.0u	314.4u	414.9u	30.6	23.2	10.7u	24%	160.00u	
Open Text Corporation	OTEX	OP		12,998	274.0	47.44	2020	3.39	3.50	3.52	13.6	13.5	1315.2	1292.6	1341.2	11.6	11.2	15.0	47%	60.00	
Pivotree Inc.*	PVT	OP		122	26.6	4.60	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		322	42.7	7.55	2020	(0.33u)	(0.72u)	(0.70u)	NMF	NMF	(6.7u)	(17.8u)	(25.8u)	NMF	NMF	1.8u	22%	15.00	
Real Matters Inc.	REAL	SP		579u	85.0	6.81u	2020	0.56u	0.46u	0.36u	11.7	15.2	72.2u	57.5u	43.1u	6.6	8.9	1.9u	0%	10.00u	
Shopify Inc.	SHOP	OP		140,668u	127.5	1,102.91	2020	4.01u	6.67u	6.47u	NMF	NMF	454.5u	755.5u	768.2u	NMF	NMF	80.4u	9%	2000.00	
Softchoice Corp*	SFTC	SP		1,347	63.9	21.08	2020	0.65	0.55	0.96	38.1	22.0	65.5	66.4	95.4	21.3	14.8	0.78	62%	32.00	
Tecsys Inc*	TCS	OP		638	14.5	43.84	2021	0.49	0.23	0.68	NMF	NMF	16.2	11.2	19.1	55.4	32.6	4.61	13%	65.00u	
Telus International	TIXT	OP		7,866	268.0	29.35	2020	0.71	0.96	1.27	NMF	NMF	391.2	532.7	655.2	16.7	13.6	6.03	42%	50.00	
Thinkific Labs Inc.	THNC	OP		433	76.7	7.08u	2020	(0.01)u	(0.27)u	(0.32)u	NMF	NMF	(0.39)u	(19.97)u	(24.29)u	NMF	NMF	1.81u	0.00	20.00u	

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

u = US dollar

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

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Selections

› *Cineplex*
› *Rogers*
› *Transcontinental*

Cineplex

Recovery momentum temporarily curbed by latest variant:

CGX reverted to positive Adj. EBITDAaL in Q3 for the first time during the pandemic, with what was supposed to be further momentum in Q4 to close out 2021 ahead of a strong release slate in 2022. Omicron initially triggered renewed capacity restrictions in Canada in late December before some provinces closed theatres again which could last at least through January. The outperformance of the latest Spider-Man movie speaks to people's desire to return to the multiplex, but evolving COVID headlines may keep older demographics at bay a little longer. North American box office receipts in 2021 per The Hollywood Reporter came in at US$4.5 billion which was 101% better than the performance in 2020 but 62% below 2019's pre-pandemic level of US$11.9 billion. On Dec. 30, CGX entered into a fourth amendment to its credit agreement which provides for the continued suspension of financial covenant testing by an extra six months. The company was to resume covenant testing in Q4/21, with this now to begin in Q2/22 based on a total leverage ratio of less than 3.75x and senior leverage ratio of below 2.75x. The initial tests will be based on annualizing Q2/22 Adj. EBITDAaL results. These ratios will contract by 25 bps over the subsequent three quarters and hit 3.0x and 2.0x, respectively, entering 2023. While we wait to see how Q4/21 ultimately performed when results get reported in mid-February, one may argue that the latest amendment was more about Q1/22 amid renewed government restrictions. We must next watch for what studios do about early 2022 releases in terms of either postponements or launches on streaming services. Although Omicron is set to undermine initial box office results this year, we expect CGX's circuit to be fully operational again in due course with momentum at the box office resuming. On Dec. 14, the Ontario Superior Court of Justice found that Cineworld had repudiated the deal to buy CGX and awarded $1.24 billion in damages for breach of contract to CGX. Cineworld will appeal. We may eventually come to a point post-2022 where we might have more clarity as to when Cineworld may be compelled to pay damages to CGX, but it's still not clear how exactly the heavily-indebted Cineworld will do so. Our target is based on our 2022E NAV, with implied EV/EBITDA of 9.2x 2022E and 7.5x 2023E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 1/6	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		824	63.3	13.01	12/2020	(9.85)	(3.30)	0.99	-3.9	13.1	-182.8	-61.8	210.1	NM	6.6	-3.15	1.39	19.00	
Corus Entertainment Inc.	CJR.b	OP		981	208.4	4.71	08/2021	0.88	0.85	0.88	5.6	5.4	524.6	519.2	517.5	4.6	4.2	5.06	0.58	8.00	
WildBrain Ltd.	WILD	OP		556	172.0	3.23	06/2021	(0.07)	(0.03)	0.17	-127.2	19.2	83.1	91.7	106.5	11.0	9.0	0.32	0.88	5.00	
Spin Master Corp.	TOY	OP		4,604	102.3	45.00	12/2020	0.51	1.88	2.01	18.8	17.6	180.6	370.2	386.3	8.8	7.9	9.99	-0.54	61.00	
Stingray Group Inc.	RAY.a	OP		500	71.1	7.04	03/2021	0.85	0.85	0.95	8.2	7.4	114.3	109.4	120.0	7.8	6.8	3.93	0.60	8.50	
TVA Group Inc.	TVA.b	SP		123	43.2	2.85	12/2020	0.86	0.84	0.77	3.4	3.7	85.3	84.1	78.3	1.9	1.9	8.39	0.12	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP		70,549	490.4	143.85	12/2020	1.85	2.04	2.80	55.5	40.4	1975.0	1995.4	2320.0	29.1	24.9	28.94	0.15	162.00	
Transcontinental Inc.	TCL.a	OP		1,680	87.0	19.30	10/2021	2.37	2.46	2.57	7.8	7.5	454.9	463.5	470.6	5.4	5.0	20.04	0.34	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		631	21.6	29.27	12/2020	(0.01)	(0.18)	0.65	NM	45.0	26.6	28.5	28.5	13.9	11.2	4.21	-0.24	36.00	
Yellow Pages Ltd.	Y	SP		396	27.7	14.30	12/2020	2.28	1.96	1.94	7.3	7.4	129.4	102.5	91.2	3.1	3.2	NM	-0.38	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		60,008	908.8	66.03	12/2020	3.02	3.16	3.33	20.9	19.8	9607.0	9901.6	10262.2	9.3	9.0	21.08	0.39	70.00	
Cogeco Communications Inc.	CCA	OP		4,719	47.2	99.90	08/2021	8.43	7.89	8.29	12.7	12.1	1205.7	1375.4	1425.0	6.2	5.9	56.91	0.51	141.00	
Quebecor Inc.	QBR.b	OP		6,881	242.7	28.35	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		30,917	504.9	61.23	12/2020	3.40	3.46	4.23	17.7	14.5	5857.0	5880.2	8906.5	8.6	8.0	20.84	0.45	69.00	
Shaw Communications	SJR.b	OP		18,894	496.7	38.04	08/2021	1.60	1.54	1.61	24.7	23.6	2500.0	2534.0	2579.5	9.7	9.3	12.12	0.48	40.50	
Telus Corp.	T	OP		40,558	1361.0	29.80	12/2020	0.95	0.96	1.06	31.1	28.0	5493.7	5867.0	6402.2	10.4	9.6	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

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Selections

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

NFI Group

More interesting valuation prompts upgrade to Outperform

We recently upgraded NFI Group shares to Outperform from Sector Perform (target is C$26.00). NFI will continue to face supply chain issues that are impacting bus production well into 2022, but we believe the stock now more than reflects these headwinds that will eventually ease. We highlight several positives for the company:

- ***Recent financing addresses balance sheet overhang.***

  At the end of Q3 NFI's liquidity was comfortable at $320 million and a recently completed C$450 million equity and convertible debenture financing further reduces balance sheet risk. Leverage was set to exceed 5.0x by year-end 2021 but we now estimate leverage will fall to 3.4x by the end of 2022 and 2.1x by the end of 2023. With balance sheet concerns now addressed and much greater covenant flexibility, management can focus its time and efforts on addressing the supply chain challenges and ramping back bus production.

- ***Higher bidding activity should drive an increase in new bus orders.***

  NFI's active bids in Q3 were up 10.9% y/y with contract awards expected to pick-up in 2022. Indeed, as of Q3, NFI had 6,307 units in submitted bids, the highest level since Q2 2017. We expect that new contract wins and backlog build will be a positive for NFI's share price.

- ***Significant increases for government bus purchase funding.***

  Government funding for public transit and zero-emission buses is very strong in all NFI's core markets. The recently passed U.S. infrastructure bill funds bus purchases through the next five years with funding increased 172% from $808 million in 2021 to $3.2 billion in fiscal 2026. The program that funds low or no emission grants for transit agency purchases of zero emission buses was also increased 1,270% to $5.63 billion by 2026. We believe that the longer-term certainty of available funding will be a key driver of transit agency decisions to move forward with new bus purchases.

- ***Leading positioning in zero-emission bus market.***

  NFI is also well positioned to capitalize on the transition of transit buses to all-electric. NFI is the clear market leader for ZEBs in North America and the U.K having delivered 330 ZEBs YTD as of the end of Q3. We also count 249 announced firm orders for ZEBs for NFI in North America in 2021 versus 189 announced firm orders for all the other primary transit bus competitors in North America combined. In the U.K., NFI has also seen significant new ZEB order success with 471 announced firm orders in 2021.

- ***Stock attractive if you believe NFI can hit its 2025 targets.***

  NFI management still expects to hit its 2025 target of $400-450 million in EBITDA. We also believe this is an achievable goal. If we assume NFI can hit the low end of the range and then applied a reasonable 8.0x EV/EBITDA multiple, our longer-term valuation would be ~$40.00.

We value the stock by applying an 8.0x EV/EBITDA multiple to our 2023 EBITDA forecast, which we view as a more "normalized" year for the company.

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Transportation & Industrial Products

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 1-6	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	22.18	7,940	12/2020	-16.47	-10.41	-1.17	NA	NA	(10.84)	(8.73)	2.26	NA	9.8x	99%	30.00	
Bombardier Inc.	BBD.b	OP		2403	1.66	3,988	12/2020	-u0.47	-u0.19	-u0.04	NA	NA	-u1.32	-u0.32	u0.04	NA	31.8x	na	2.50	
BRP Inc.	DOO	OP		83	107.78	8,961	01/2021	5.35	9.40	9.83	11.5x	11.0x	6.77	(1.95)	9.10	NA	11.8x	111%	128.00	↓
CAE Inc.	CAE	OP		319	32.16	10,249	03/2021	0.47	0.81	1.40	39.5x	22.9x	0.81	0.17	1.21	NA	26.5x	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%	170.00	↑
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%	98.00	↑
Cargojet Inc.	CJT	SP		18	158.81	2,782	12/2020	-5.63	5.62	6.68	28.3x	23.8x	9.41	0.94	0.67	NA	NA	31%	201.00	
Chorus Aviation Inc.	CHR	SP		178	3.42	608	12/2020	0.40	0.35	0.44	9.9x	7.7x	(1.50)	0.58	(0.49)	5.9x	NA	72%	4.85	
Exchange Income Corporation	EIF	OP		39	43.34	1,691	12/2020	1.31	1.89	2.67	22.9x	16.3x	3.42	0.75	2.48	57.4x	17.5x	60%	51.00	
Héroux-Devtek Inc.	HRX	OP		37	17.43	638	03/2021	0.80	0.88	1.04	19.7x	16.8x	0.88	1.86	1.88	9.4x	9.3x	27%	23.00	
NFI Group Inc.	NFI	OP	↑	77	20.60	1,588	12/2020	-u0.75	u0.01	u0.52	na	31.1x	u0.69	-u0.35	u0.76	NA	21.2x	59%	26.00	↓
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	4.14	156	10/2020	-11.83	-4.94	-0.68	NA	NA	(2.85)	(13.88)	0.50	NA	8.3x	NA	3.50	
TFI International Inc.	TFII	OP		93	130.19	12,105	12/2020	u3.30	u4.96	u6.42	20.6x	15.9x	u5.16	u6.72	u7.83	15.2x	13.1x	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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