JUNE 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA

FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion Chief Economist and Strategist	514-879-3781
Matthieu Arseneau Deputy Chief Economist	514-879-2252
Kyle Dahms Economist	514-879-3195
Alexandra Ducharme Economist	514-412-1865
Angelo Katsoras Geopolitical Analyst	514-879-6458
Daren King Economist	514-412-2967
Jocelyn Paquet Economist	514-412-3693

Toronto Office

Warren Lovely Chief Rates and Public Sector Strategist	416-869-8598
Taylor Schleich Rates Strategist	416-869-6480

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson	416-507-8007

ESG

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

ETFs & Financial Products

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

Healthcare & Biotechnology

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

Industrial Products

Maxim Sytchev	416-869-6517
Associate: Kazim Naqvi	416-869-6754
Assoc: Roman Pshenychnyi	416-869-7937

Merchandising & Consumer Products

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

Metals & Mining

Don DeMarco	416-869-7572
Associate: Kelvin Lin	416-869-8045
Associate: Yi Liu	416-869-8524
Shane Nagle	416-869-7936
Associate: Lola Aganga	416-869-6516
Associate: Ahmed Al-Saidi	416-869-7535
Michael Parkin	416-869-6766
Associate: Alessandro Cairo	416-869-8511
Associate: Andrew Dusome	416-507-8177
Rabi Nizami	416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne	403-290-5441
Associate: Trevor Martensson	403-290-5624
Associate: Nick Stevenson	403-441-0928

› *Large Cap Oil & Gas*

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

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny	403-290-5451
Associate: William Duforest	403-441-0952
Associate: Johnathan Pescod	403-355-6643

Real Estate

Matt Kornack	416-507-8104
Associate: Anthony Bogdan	416-869-7935
Tal Woolley	416-507-8009

Special Situations

Zachary Evershed	514-412-0021
Associate: Thomas Bolland	514-871-5013
Associate: Nathan Po	416-660-1740
Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476
Associate: Stephen Kwai	416-869-7571

Sustainability & Clean Tech

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

Technology

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

Technical Analysis

Dennis Mark	416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

Greg Colman Managing Director Head of Research	416-869-6775
Tanya Bouchard Supervisory Analyst	416-869-7934

Research Publications

Vanda Bright Manager Publishing Services	416-869-7141
Wayne Chau Publishing Associate	416-869-7140

Information

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

Table of Contents

Highlights

"the winners of the 2021 FAA program have been recognised for their high quality research, their commitment to regular forecasts and their ability to identify most accurately the trends and levels of key indicators over the 24 month forecasting cycle"

Economy

› After being obliged by the outbreak of war in Ukraine and by the deterioration of the pandemic picture in China to revise down our global growth outlook in recent months, we are relieved to see a little light at the end of the tunnel, in the form of phased ending of shutdowns in several large Chinese cities in response to a marked decline of new Covid infections. Still, we remain aware of the many downside risks to the world's second largest economy. Beijing remains firmly attached to its zero-Covid policy, and that could mean new shutdowns given the high rate of contagion of the Omicron variant and relatively low vaccination rates among older people. Elsewhere around the world, the reopening of the Chinese economy will have mixed effects. On one hand, the reopening of factories and port facilities in the Shanghai region is likely to attenuate pressure on manufacturing supply chains. On the other hand, the recovery puts upward pressure on energy prices. Combined with the marked rise of food prices, due in large part to the conflict in Ukraine, this already sap consumer morale. In several regions of the world, the rapid rise of prices will also mean more-restrictive monetary policies. As risks have increased, we have decided to revise our global growth scenario downwards from 3.2% to 3.0% this year and from 3.3% to 2.9% next year.

› After a spectacular post-pandemic rebound, the U.S. economy is slowing. The causes are clear enough: inflation way too high and therefore tightening of monetary policy. For households, inflation is expressed mainly in a retreat of real earnings. The median wage, despite its dizzying rise in nominal terms in recent months, has been falling for more than a year now after correction for inflation. That leaves only a few possibilities for the future: wages will start rising faster than inflation in the medium term, or consumption will hit a wall. Unfortunately, nominal wage gains are unlikely to accelerate much, especially with business margins already eroded by high input prices and higher financing costs. As the Federal Reserve raises interest rates several times between now and the end of the year, there will be repercussions for both the financial markets and the real economy. We are lowering our growth forecast for 2022 (2.4% against 2.6% in the previous edition of this monthly) to take into account the undeniable increase in downside risks to our scenario. All in all, the revision remains minor given the latest data on international trade, which suggests good growth in the second quarter. The expansion is then expected to slow below potential in the second half of 2022 and early in 2023. We expect the economy to expand by just 1.5% next year, down from the 2.1% forecast a month ago.

› With growth falling short of our expectations in the first quarter, we have lowered our growth forecast for 2022 from 4.0% to 3.5% this month. This also implies a sharp slowdown in growth in the second half of the year with monetary policy being tighter than we previously thought. Next year is also revised down from 2.2% to 1.5%. Though signs of recession are emerging in many countries, we do not see the Canadian economy going weak in the knees. Consumers have saved enough to weather the increase in cost of living, and the labour market, with employment comfortably full, is likely to allow decent growth of wages. The strength of the natural resources sector could offset part of the consumption shock. Moreover, buoyant profits could bring some investments in coming quarters, since IT and automation can sometimes palliate a scarcity of labour. As for governments, they will be greatly tempted to loosen the strings of their spectacularly bolstered purses.

Interest rates and currency

› Despite our (and others') one-way forecast errors to date, we are retaining a below-market bias (and now a below-dots bias) on our fed funds call. We still believe that a worsening in the real economy will prompt the Fed to pause and ultimately end its cycle earlier and at a lower level than the market/Fed has priced/signalled. However, we recognize the Fed's demonstrated sense of urgency which will see fed funds rising quickly in the near term. As a result, we've revised our Fed call to include a subsequent 50 basis point hike in July, 50 in September and 25 in November before tapping out before year-end at 3.0%—a rate below even the most dovish members of the FOMC.

› Consistent with hawkish rhetoric from the BoC and in line with the super-sized Fed hike in June, we are now looking for the Bank of Canada to hike by 75 basis points in July, bringing the policy rate into its 2-3% neutral range. While a XXL hike could prove to be a one-off, that won't stop the Bank from moving closer to, if not fully into, restrictive territory before the year is out. We're now calling for the overnight target to hit 3.25% in six month's time, 25 basis points higher than our Fed call. However, like in the U.S., we believe a pause will be warranted by the end of the year and expect no moves in 2023.

› With markets, private sector economists and now the Fed signalling policy rates between 3.5 and 4% over the coming year, how do we justify our significantly more dovish call? We expect to quickly gather mounting evidence of further financial deleveraging, interest-sensitive demand (namely, housing) cooling, rapid onset of labour market weakness, further deterioration of consumer sentiment (which will ultimately hit consumption) and some signs of inflation coming back down to earth. Quite frankly, the Fed's forecast for a very modest rise in the unemployment rate and barely below-consensus growth is far too optimistic given the dot plot they've set down.

› The Canadian economy remains resilient. After a 15.7% surge in Q1 2022, Canada leads the G7 when it comes to growth in nominal GDP. With the economy firing on all cylinders, the Bank of Canada unsurprisingly opted to raise its overnight rate target 50 basis points on June 1st. The odds of a 75-bp move in July are no longer trivial. With the Canadian economy showing stronger momentum than the U.S. economy, short-term interest

Highlights

spreads moved significantly in Canada's favour for the first time in six months. Aside from economic fundamentals, there are also technical elements that could favour CAD appreciation in the coming weeks as Canada's bond market will be handing out more than $13 billion in coupon payments and redemption proceed.

Recommended asset mix and stock market

› Global equities continue to struggle in Q2. Most global equity markets continue to face an uncertain geopolitical environment, supply shocks (food, energy, pandemic) that are fueling inflationary pressures, and the hawkish attitude of central banks that is driving up interest rates and blurring the profit outlook.

› Earnings behavior is critical to equity market performance at this stage of the economic cycle, as PE expansion is unlikely as long as interest rates remain on the rise. Last month, we argued that with unit labor cost inflation rising faster than their overall selling price, companies should slow the pace of hiring to minimize pressure on profit margins. Despite another strong employment report in May, which saw payroll employment increase by 390K to near pre-crisis levels, forward-looking indicators are already pointing to a slowdown in hiring. A slowdown in the pace of job creation would certainly help mitigate wage inflation and reduce the need for restrictive monetary policy.

› The S&P/TSX is down 5% so far in the second quarter and 2% for the year. Energy is the only sector still posting gains this quarter, supported by large upward earnings revisions. There may be even more room for improvement in revisions. We still see the S&P/TSX as a defensive play for equity holdings. In our view, the Canadian economy remains relatively well positioned to withstand stagflation fears

› Our asset allocation is unchanged this month. Equities remain slightly overweight relative to our benchmark, with a preference for Canada. Fixed income remains underweight, but we are prepared to adjust our position as we assess the impact of the Fed's quantitative tightening on the 10-year Treasury yield. Cash remains slightly overweight for now.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	19.7	Overweight	
Materials	12.8	Overweight	
Industrials	11.2	Market Weight	
Consumer Discretionary	3.2	Market Weight	
Consumer Staples	3.9	Market Weight	
Healthcare	0.4	Market Weight	
Financials	31.1	Market Weight	
Information Technology	5.2	Underweight	
Telecommunication Services	5.0	Market Weight	
Utilities	5.0	Underweight	
Real Estate	2.6	Underweight	
Total	100.0		

* As of June 10, 2022

The Economy

The Economy

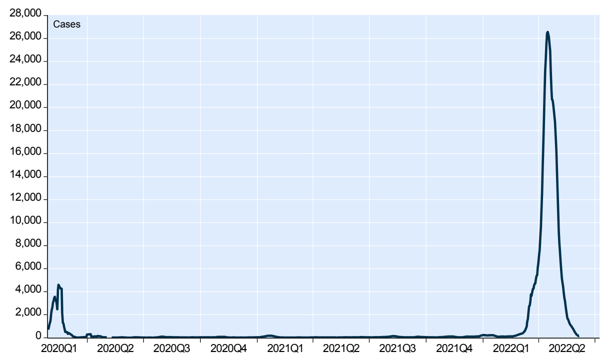
Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Jocelyn Paquet
Economist
514-412-3693

World: China reopening, Europe and emerging markets bogging down

After being obliged by the outbreak of war in Ukraine and by the deterioration of the pandemic picture in China to revise down our global growth outlook in recent months, we are relieved to see a little light at the end of the tunnel, in the form of phased ending of shutdowns in several large Chinese cities in response to a marked decline of new Covid infections.

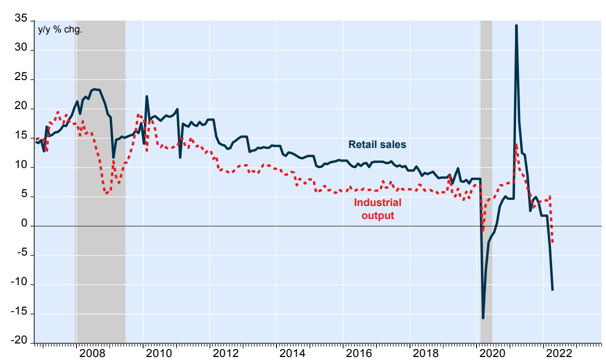
China: Decline of Covid cases allows phased reopening
New cases of Covid-19, 7-day moving average



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

The worst now seems over, but public-health restrictions will leave a mark. That at least is what the most recent data from the Chinese economy suggests. April retail sales were down 11.1% from a year earlier, a decline not seen since the earliest months of the pandemic. Industrial output, meanwhile, was down 2.9% from a year earlier, the largest 12-month retreat since compilation of this data series began in the 1990s.

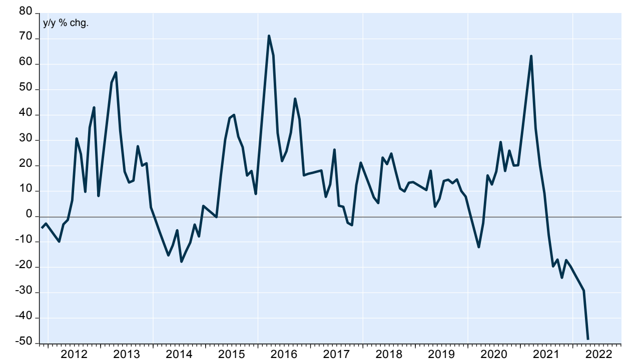
China: A long climb back up (1)
Industrial output and retail sales



NBF Economics and Strategy (Bloomberg data)

The housing market, which was limping even before strict lockdowns, has slid further. April property sales showed a clear drop.

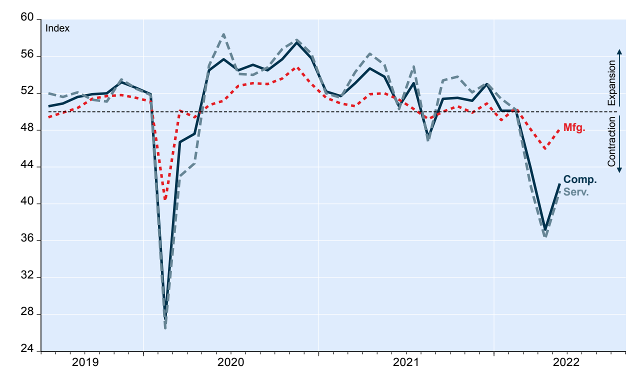
China: A long climb back up (2)
Sales of residential properties (square meters)



NBF Economics and Strategy (Bloomberg data)

Things seemed to have improved somewhat in May, though the PMI published by Caixin/Markit for that month continued to show deterioration of private-sector operating conditions.

China: A long climb back up (3)
Caixin/Markit Flash PMI, last observation May 2022



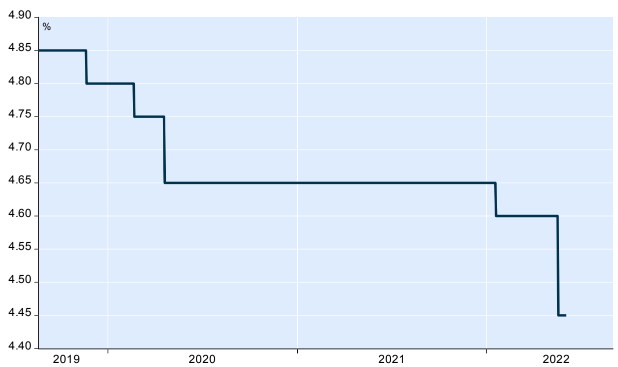
NBF Economics and Strategy (Markit data)

In these circumstances, Beijing's target of 5.5% growth in 2022 is likely to be unreachable, a prospect that should at least encourage the government to do more to revive the economy in the second half of the year. Many infrastructure projects have been announced, and in late

The Economy

May the People's Bank of China cut its preferential rate for 5-year loans, a rate that sets the cost of mortgage borrowing, by 15 basis points to 4.45%. The goal is simple: to limit damage in the housing market.

China: Central bank to the rescue?
Preferential rate for 5-year loan



NBF Economics and Strategy (Bloomberg data)

Though we see these measures reviving growth in the second half, we remain aware of many downside risks to the economy. We should keep in mind that Beijing remains firmly attached to its zero-Covid policy, and that could mean new shutdowns given the high rate of contagion of the Omicron variant and relatively low vaccination rates among older people. (As of May 30, 36% of Chinese people 60 or older were vaccinated inadequately or not at all.) Latest development in Shanghai and Beijing appear to confirm these fears.

Lack of monetary-policy flexibility is another factor to be kept in mind. The easing decreed by the People's Bank of China is way out of sync with the less and less accommodative attitude of its international counterparts, resulting in downward pressure on the renminbi. True, depreciation of the currency would stimulate exports, but it could also drive away foreign investors already burned by the stiffer regulations imposed on some large companies.

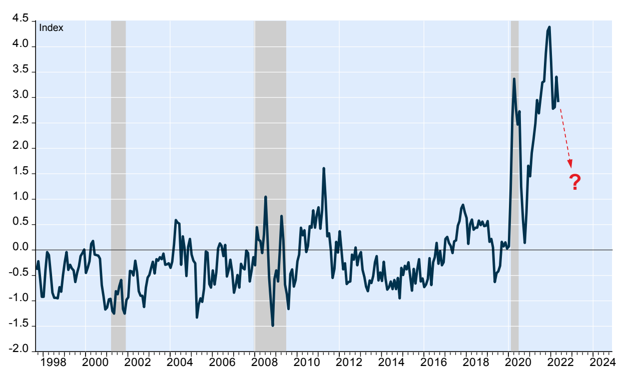
China: Currency depreciation, a two-edged sword
USD/CNH exchange rate

NBF Economics and Strategy (Bloomberg data)

An overly accommodative monetary policy might also reverse some of the progress made in debt reduction in recent years. For this reason we expect central-bank stimulus measures to remain on the whole restrained.

Elsewhere around the world, the reopening of the Chinese economy will have mixed effects. On one hand, the reopening of factories and port facilities in the Shanghai region is likely to attenuate pressure on manufacturing supply chains.

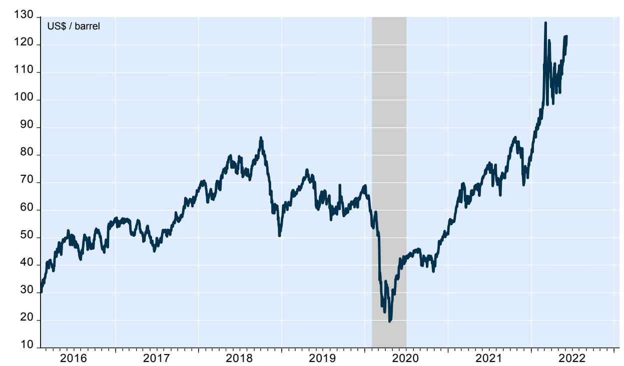
World: Is China's reopening good news for manufacturing?
New York Fed index of pressures on global supply chains



NBF Economics and Strategy (Bloomberg data)

On the other hand, the recovery puts upward pressure on energy prices. Despite OPEC's commitment to raise its production to 650,000 barrels a day in July from the 450,000 barrels initially foreseen, the price of a barrel of Brent is now near the level reached immediately after Russia's invasion of Ukraine. And the European Union's decision to ban 90% of oil imports from Russia has of course done nothing to ease pressure on the energy sector.

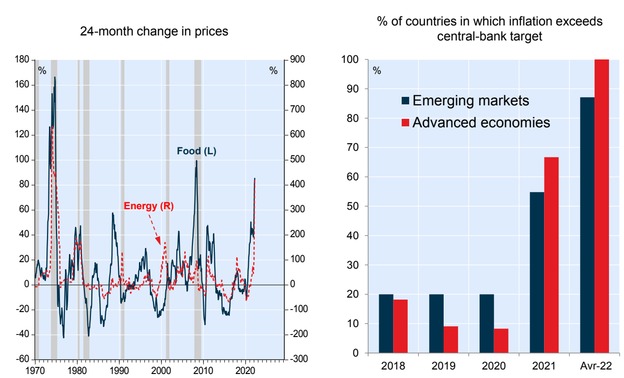
World: Price of oil on the rise again
Brent oil price



NBF Economics and Strategy (Refinitiv data)

Combined with the marked rise of food prices, due in large part to the conflict in Ukraine, this already sap consumer morale.

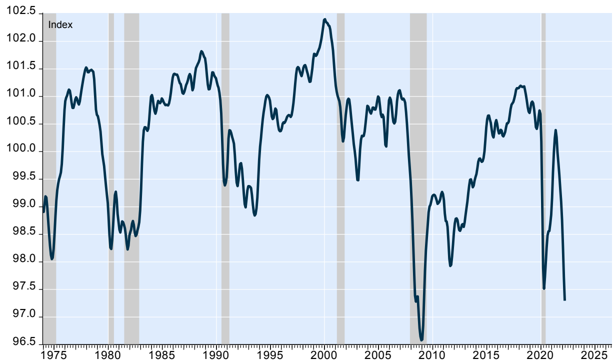
World: Inflation – an increasingly important problem



NBF Economics and Strategy (data from World Bank)

The Economy

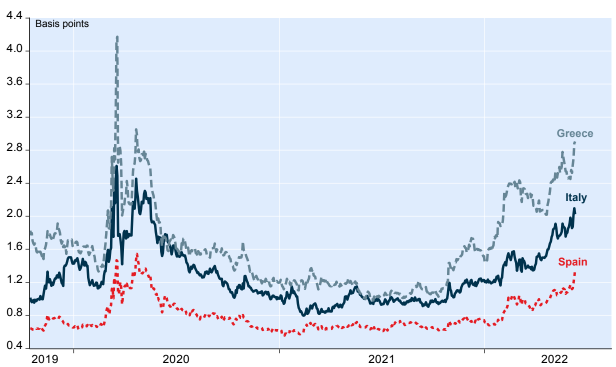
OECD: Rising cost of living + rising interest rates = declining confidence
OECD consumer confidence index



NBF Economics and Strategy (OECD data)

In several regions of the world, the rapid rise of prices will also mean more-restrictive monetary policies. In the Eurozone, for example, markets are now expecting six quarter-point ECB rate hikes by the end of this year. Never mind that the continent may have already entered a technical recession: for now, the central bank's number-one enemy seems to be inflation. But slower growth and rising interest rates could bring once more to the fore some of the vulnerability that surfaced a decade ago at the time of the debt crisis. We note in this regard the recent widening of the credit spreads of the most indebted European countries.

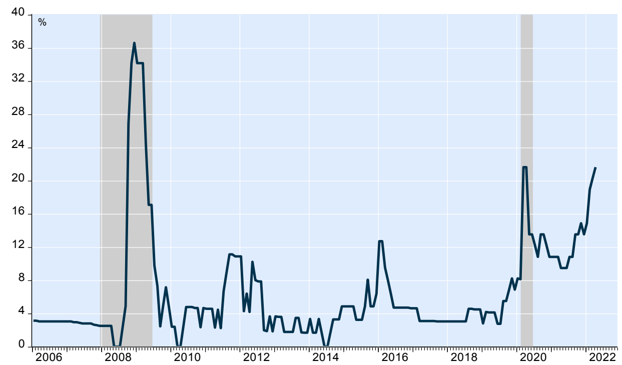
Eurozone: Rise of interest rates revives old fears
Spreads of 10-year bond rates of selected European governments to 10-year bond rate of Germany



NBF Economics and Strategy (Refinitiv data)

In emerging countries, where monetary tightening is already well under way, the challenges are similar but investor fears are intensified by the greater share of energy and food in household consumption baskets, which could lead to a larger drop in discretionary spending. Thus, the share of sovereign issuers in difficulty already almost exceeds the peak reached at the worst of the pandemic. All emerging markets are not equal, however; commodity-producing countries are likely to fare better in the coming months.

Emerging econonomies: Deteriorating outlook begets capital flight
Share of sovereign issuers in difficulty (Yield spread to U.S. Treasuries exceeding 1000 basis points)



NBF Economics and Strategy (IMF data)

As risks have increased, we have decided to revise our global growth scenario downwards from 3.2% to 3.0% this year and from 3.3% to 2.9% next year.

World Economic Outlook

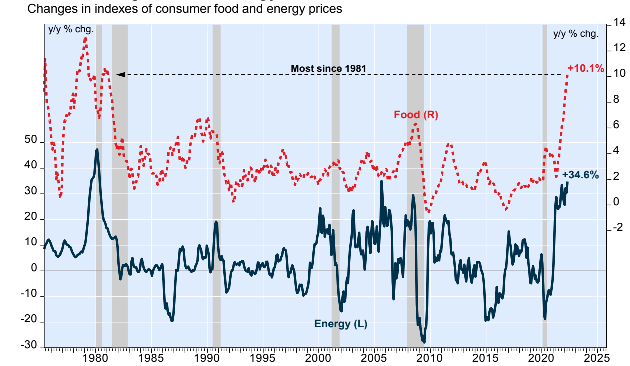
	2021	2022	2023
Advanced Economies	5.2	2.5	1.2
United States	5.7	2.4	1.5
Eurozone	5.4	2.4	0.4
Japan	1.7	1.7	1.0
UK	7.2	3.5	0.5
Canada	4.5	3.5	1.5
Australia	4.8	4.0	2.1
Korea	4.0	2.7	2.1
Emerging Economies	6.8	3.3	4.1
China	8.1	4.0	5.5
India	8.7	7.5	6.8
Mexico	4.8	1.8	1.9
Brazil	4.6	1.5	1.4
Russia	4.7	-9.0	0.0
World	6.1	3.0	2.9

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

U.S.: Inflation and monetary policy combine to brake growth

After a spectacular post-pandemic rebound, the U.S. economy is slowing. The causes are clear enough: inflation way too high and therefore tightening of monetary policy. We begin with inflation. It is now running at 8.3% annually, four times the Federal Reserve target of 2%. True, some of the price rises are due to pressures from the war in Ukraine, notably on energy (up 34.6% from a year earlier in May's CPI, the most since 2005) and food (+10.1%, the most since 1981).

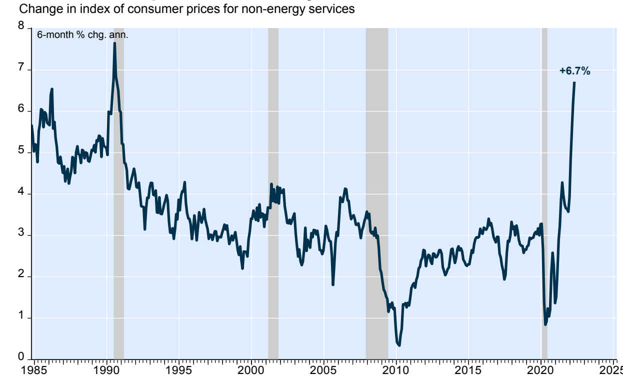
U.S.: Soaring costs of energy and food
Changes in indexes of consumer food and energy prices



NBF Economics and Strategy (Refinitiv data)

But the rises are not limited to these two categories. Twelve-month core inflation is running at 6.0%. Even worse, the data show an intensification of domestic pressures. Over the last six months, prices of non-energy services have risen at 6.7% annualized, the most in nearly 32 years.

U.S.: Domestic pressures intensify
Change in index of consumer prices for non-energy services



NBF Economics and Strategy (Refinitiv data)

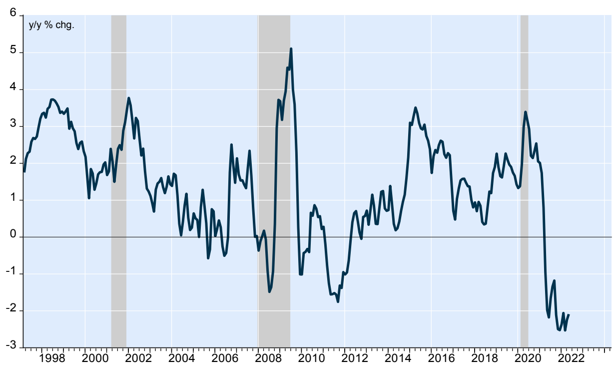
Back to Research Analysts page

The Economy

This is a concern because inflation of non-energy services tends to be more persistent. Shelter prices – up 5.9% annualized over the last six months – are especially worrisome since this sector accounts for about one-third of total spending in the U.S.

For households, inflation is expressed mainly in a retreat of real earnings. The median wage, despite its dizzying rise in nominal terms in recent months, has been falling for more than a year now after correction for inflation.

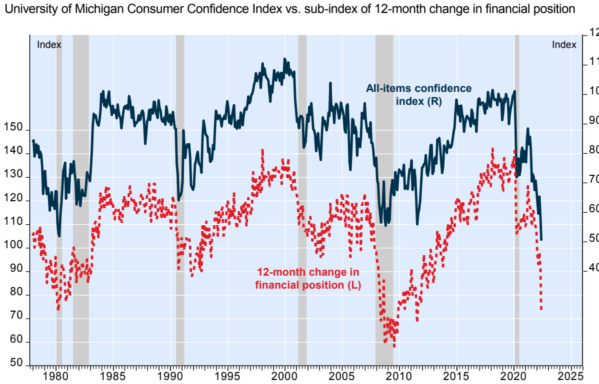
U.S.: Real wages in decline
12-month change in median wage adjusted for all-items CPI inflation



NBF Economics and Strategy (Atlanta Fed and Refinitiv data)

So it is no surprise that consumer confidence has slumped. In June the University of Michigan confidence index fell to a low unprecedented since its creation in the late 1970s, with fewer and fewer shares of survey respondents saying their financial position had improved in the preceding 12 months.

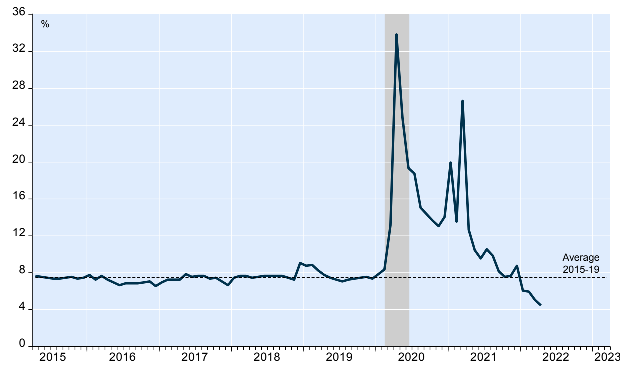
U.S.: Consumer confidence at a record low
University of Michigan Consumer Confidence Index vs. sub-index of 12-month change in financial position



NBF Economics and Strategy (Bloomberg data)

With consumer purchasing power and confidence declining daily, we expect household spending to continue slowing in the second half of 2022. But not to collapse. U.S. consumers will likely draw on the excess savings they accumulated in recent months to limit the effects of price rises. The decline of the rate of saving in recent months indicates that they are already using this cushion to maintain their standard of living.

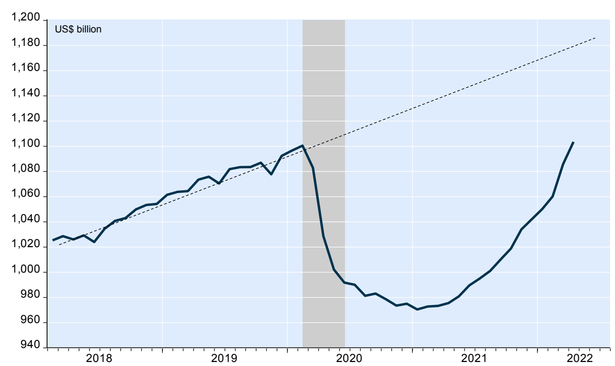
U.S,: Households are drawing on their savings
Rate of saving



NBF Economics and Strategy (Bloomberg data)

Households can also turn to credit, whose current use is well below the pre-crisis trend.

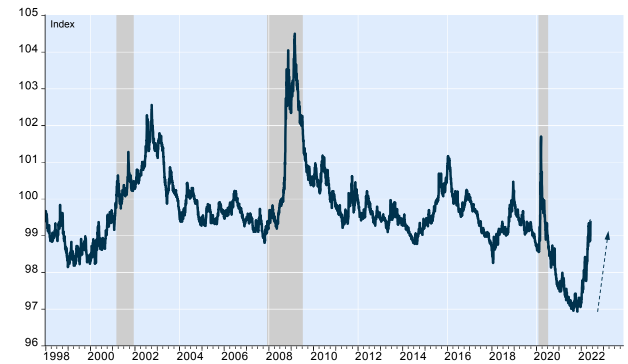
U.S.: Use of credit is well below pre-crisis trend
Renewable credit



NBF Economics and Strategy (Bloomberg data)

That said, excess savings will not last forever. And of course, over the long term credit cards are not a viable alternative to a rise of real earnings. That leaves only a few possibilities for the future: wages will start rising faster than inflation in the medium term, or consumption will hit a wall. Unfortunately, nominal wage gains are unlikely to accelerate much, especially with business margins already eroded by high input prices and higher financing costs. As the Federal Reserve raises interest rates several times between now and the end of the year, there will be repercussions for both the financial markets and the real economy. On financial markets, a less accommodative monetary policy could mean a tightening of financial conditions, a process already well under way.

U.S.: Rapid tightening of financial conditions… more to come?
Goldman Sachs Financial Conditions Index

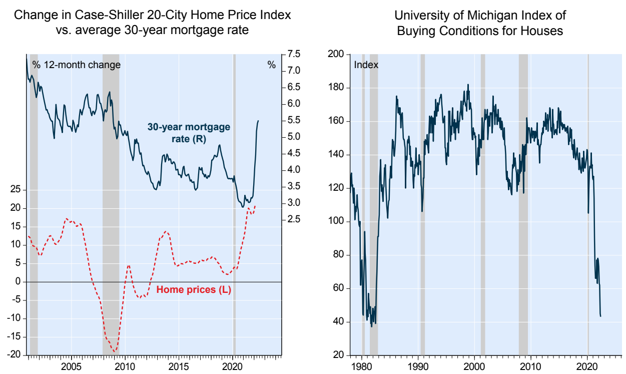


NBF Economics and Strategy (Bloomberg data)

Disturbances in the real economy are also foreseeable. Capital investment seems to be holding up for now, not surprising in the light of substantial scarcities of labour. The housing sector, on the other hand, shows signs of weakness. Soaring costs of borrowing combined with rapid rises in home prices are putting affordability under pressure and braking demand for housing.

The Economy

U.S.: Affordability problems are discouraging homebuyers

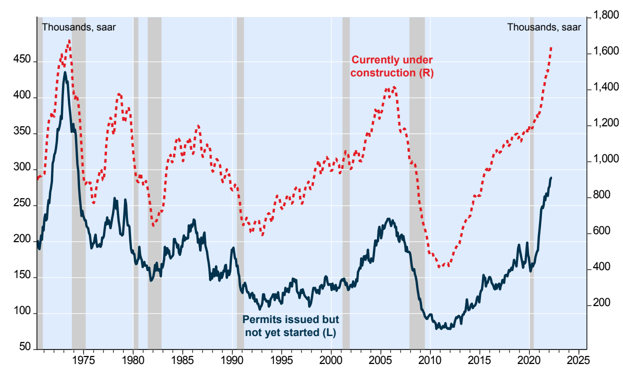


NBF Economics and Strategy (Bloomberg data)

Sales of existing homes are down 15.6% from their January peak. Applications for mortgage loans for purchase of a new home have declined 33.3% over the same period. True, home prices continue to rise rapidly, but seemingly with fewer and fewer justifications. One of the last remaining is short supply: the number of houses on the resale market remains very low. But that could change rapidly in the months to come. Data on housing starts published last month show the number of housing units authorized by permit but on which construction has not yet started was at a 48-year peak of 288,000 in April. The number of units under construction was 1,635,700, highest since the early 1970s. These numbers suggest that housing scarcity could turn into overabundance faster that some might think, a development that could weigh on the residential sector in the second half of the year.

We are lowering our growth forecast for 2022 (2.4% against 2.6% in the previous edition of this monthly) to take into account the undeniable increase in downside risks to our scenario. All in all, the revision remains minor given the latest data on international trade, which suggests good growth in the second quarter. The expansion is then expected to slow below potential in the second half of 2022 and early in 2023. We expect the economy to expand by just 1.5% next year, down from the 2.1% forecast a month ago.

U.S.: From housing scarcity to overabundance?
Private-home construction authorized but not started vs. total dwellings under construction

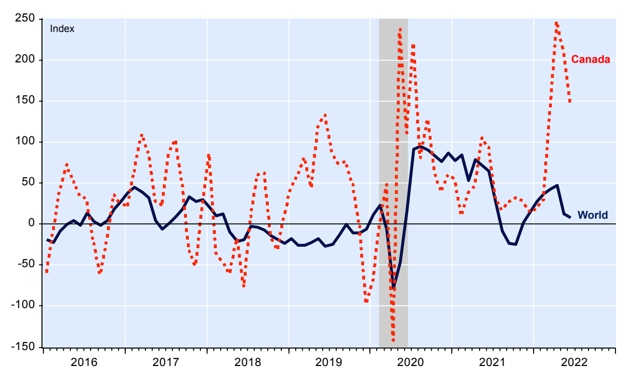


NBF Economics and Strategy (Bloomberg data)

Canada: Excess demand

As signs of economic slowing emerge in several regions of the world, Canada's economy continues to show very positive signs. Too positive even. Conditions are such that the Bank of Canada seems ever more determined to tame a demand exceeding output capacity, inducing undesirable inflationary pressures.

Canada : Upside surprise in early 2022
Citigroup economic surprise indexes



NBF Economics and Strategy (data via Bloomberg)

National accounts for the first quarter showed an attractive resilience. The real GDP growth of 3.1% annualized was quite respectable, the more so since January output was braked by public-health restrictions and international trade subtracted 2.2 percentage points from growth. Domestic demand grew at a brisk pace of 4.8% annualized, with all major components contributing.

Canada: Final domestic demand contributes to growth in Q1

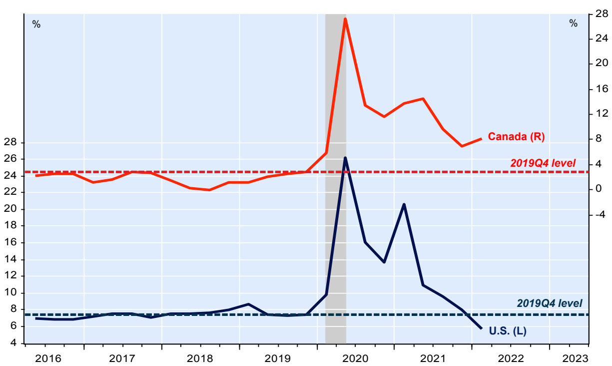
	Contribution (%)	Q/Q annualized growth (%)
GDP	**3.1**	**3.1**
Consumption	1.8	3.4
Business Investment	0.7	9.0
Nonprofit Sector	0.0	-17.9
Residential Investment	1.6	18.1
Government	0.6	5.0
Final Domestic Demand	**4.7**	**4.8**
Exports	-3.1	-9.4
Imports	0.9	-2.8
Trade	**-2.2**	**-**
Inventories	0.6	-
Statistical discrepancy	0.0	-21.2

NBF Economics and Strategy (data via Refinitiv)

At a time of much questioning about the effect on consumers of high inflation and interest rates, the first-quarter numbers abated some fears. Consumers benefited from strong growth of wages in a tight labour market – employee earnings grew at 16.1% annualized, the largest quarterly rise since 1981 apart from third quarter 2020 (when the economy was reopening after shutdowns). Since disposable income rose more than consumption, the rate of saving resumed an uptrend. The rate of saving in Canada, in contrast to the U.S., remained above its pre-crisis level up through the first quarter. In other words, households continued to build their already-substantial nest eggs to deal with the current headwinds (13.4% of GDP).

The Economy

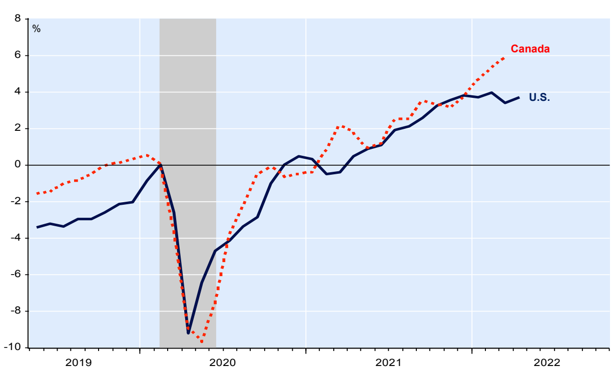
Canada: Households savings remain above pre-pandemic levels
Ratio of household savings to disposable income



NBF Economics and Strategy (data via Statistics Canada, U.S. Bureau of Economic Analysis)

One of the factors in this contrast was the path of the wage bill in real terms. Its uptrend continued in Canada while in the U.S., as a result of higher inflation, it essentially stagnated from October 2021 to April 2022.

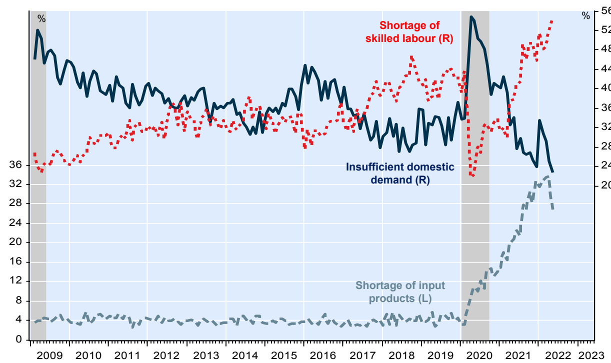
Canada: Real wage growth outpacing the U.S.
% difference in real wages and salaries* from February 2020, monthly data



* Deflated using all-items CPI (March 2022 = 100)
NBF Economics and Strategy (data via Statistics Canada, Refinitiv)

Though Canadian inflation accelerated further in the second quarter, braking household purchasing power, certain data suggest that Canadian domestic demand was still much too strong in May. The CFIB survey of small and medium-sized businesses found only 22% of respondents reporting weak domestic demand as a brake on growth, a low unseen since the beginning of the data series. Conversely, a record share reported labour scarcity as the main issue, which is consistent with May's record low unemployment rate of 5.1%.

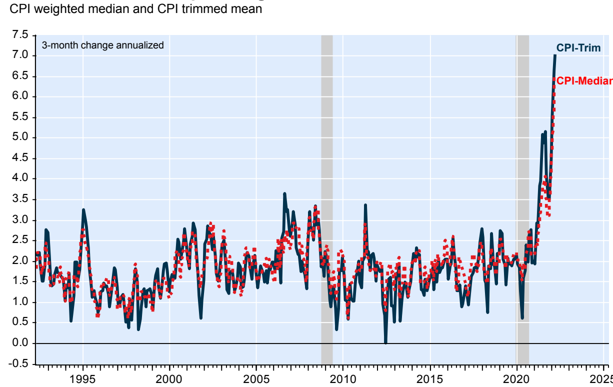
Canada: Large shortages of labour and inputs
Shares of small and medium business respondents reporting each of three factors as limiting ability to grow



NBF Economics and Strategy (data via CFIB)

Though domestic demand is unquestionably way too strong at this point, we cannot hold it entirely responsible for the surge of inflation, which in April was close to 7%. New rises of energy and food prices resulting from the war in Ukraine, combined with supply-chain issues exacerbated by shutdowns in China, are largely responsible for the current breakout of inflation. It remains nevertheless that excess demand, giving workers the long end of the stick, is exacerbating the prairie-fire spread of inflation to the rest of the economy. Over the last three months, CPI Trim and CPI Median, which exclude the most volatile components each month, have shown inflation at rates of 7.0% and 6.5%, unseen in at least three decades.

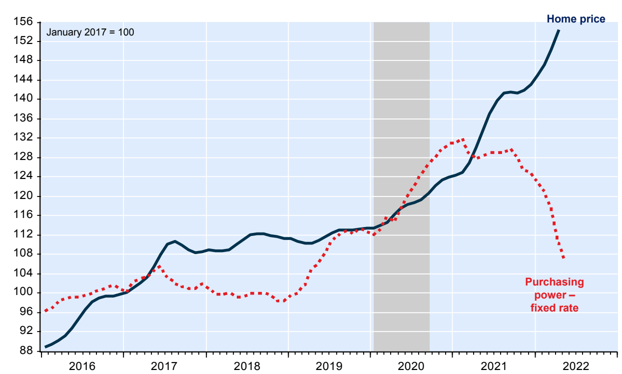
Canada: Inflation is spreading
CPI weighted median and CPI trimmed mean



NBF Economics and Strategy (Statistics Canada data and in-house calculations)

This is why the Bank of Canada must quickly abate demand with a steep rise of interest rates. As it proceeds, businesses will realize that their labour needs are perhaps not as great as they thought and will stop bidding up its price. That remains nevertheless a considerable challenge for central banks that wish to abate demand just enough, but not enough to tip the economy into recession. Some parts of the economy are more sensitive than others to monetary policy and a soft landing could turn to be even more complex to bring off. The housing sector, with its signs of marked slowdown, comes immediately to mind. The rise of 5-year loan rates from a year ago already amounts to a 17% decline in purchasing power and prices have risen 19% from a year ago. It needs to be kept in mind that a robust housing market adds to economic momentum by stimulating consumption of durables and renovations when household confidence is supported by a wealth effect. But the converse is also true: weakness in the sector could have undesirable effects on the rest of the economy.

Canada: A widening gap between prices and purchasing power
Teranet-National Bank Home Price Index and purchasing power index (income + mortgage rates), January 2017 = 100



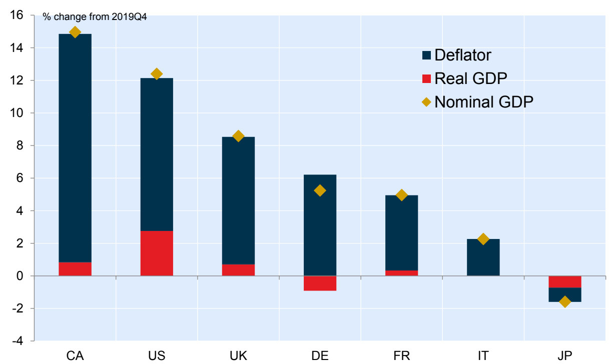
NBF Economics and Strategy (data via Teranet-BNC and Statistics Canada)

While the central bank busies itself with cooling the economy, governments are inconveniently adopting or considering pro-cyclical budget policies. Thanks to a robust recovery in real terms and high inflation in the economy as a whole (i.e. the GDP deflator) propelled by soaring raw material prices, Canada's gain of nominal GDP from its pre-pandemic level has been the strongest in the G7. This has meant a spectacular recovery of public finances and it is very difficult for governments not to respond to the great concern of households at this time. To offer relief from the rise in cost of living, various governments have

The Economy

announced financial support for households, countering the central bank's effort to soften demand. More such moves could prompt the central bank to raise rates even higher – under conditions where the two main risks to financial stability are household indebtedness and the high cost of housing, according to the Financial System Review released last week by the Bank of Canada.

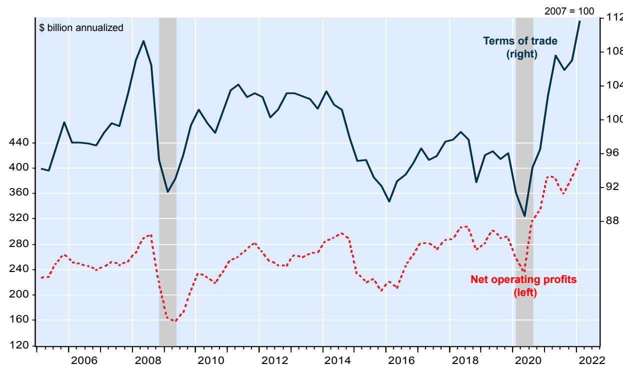
Canada: Strongest nominal-GDP recovery in the G7
Real GDP, nominal GDP and GDP deflator



NBF Economics and Strategy (data via Refinitiv)

With growth falling short of our expectations in the first quarter, we have lowered our growth forecast for 2022 from 4.0% to 3.5% this month. This also implies a sharp slowdown in growth in the second half of the year with monetary policy being tighter than we previously thought. Next year is also revised down from 2.2% to 1.5%. Though signs of recession are emerging in many countries, we do not see the Canadian economy going weak in the knees. Consumers have saved enough to weather the increase in cost of living, and the labour market, with employment comfortably full, is likely to allow decent growth of wages. The strength of the natural resources sector could offset part of the consumption shock. Moreover, buoyant profits could bring some investments in coming quarters, since IT and automation can sometimes palliate a scarcity of labour. As for governments, they will be greatly tempted to loosen the strings of their spectacularly bolstered purses.

Canada: Surging terms of trade are a boon to corporate profits



NBF Economics and Strategy (data via Statistics Canada)

Back to Research Analysts page

The Economy

United States

Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.7	2.4	1.5	5.5	0.9	1.8
Consumption	2.2	(3.8)	7.9	3.1	1.8	6.9	2.4	1.7
Residential construction	(0.9)	6.8	9.2	(2.9)	(0.8)	(1.5)	(2.7)	1.1
Business investment	4.3	(5.3)	7.4	4.5	1.5	6.6	3.9	1.6
Government expenditures	2.2	2.5	0.5	(0.6)	1.6	0.1	0.6	1.5
Exports	(0.1)	(13.6)	4.5	5.2	3.5	4.9	3.2	3.1
Imports	1.2	(8.9)	14.0	8.9	1.5	9.6	5.1	1.9
Change in inventories (bil. $)	75.1	(42.3)	(32.6)	92.4	40.0	193.2	50.0	50.0
Domestic demand	2.4	(2.5)	6.5	2.4	1.6	5.3	2.1	1.7
Real disposable income	2.3	6.2	2.3	(5.2)	1.1	0.1	-1.5	1.4
Payroll employment	1.3	(5.8)	2.8	3.9	1.1	4.3	2.8	0.7
Unemployment rate	3.7	8.1	5.4	3.8	4.3	4.2	4.0	4.3
Inflation	1.8	1.3	4.7	8.2	2.9	6.7	7.5	1.8
Before-tax profits	2.7	(5.2)	25.0	3.4	1.9	21.0	-0.4	1.9
Current account (bil. $)	(472.1)	(616.1)	(846.6)	(806.3)	(712.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 6/15/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Fed Fund Target Rate	1.00	2.75	3.00	3.00	3.00	0.25	3.00	3.00
3 month Treasury bills	1.69	2.70	2.90	2.90	2.90	0.06	2.90	2.85
Treasury yield curve								
2-Year	3.20	3.30	3.15	3.10	3.05	0.73	3.15	2.90
5-Year	3.38	3.50	3.30	3.20	3.10	1.26	3.30	2.90
10-Year	3.33	3.40	3.30	3.20	3.10	1.52	3.30	2.95
30-Year	3.39	3.45	3.40	3.30	3.25	1.90	3.40	3.10
Exchange rates								
U.S.$/Euro	1.04	1.09	1.08	1.07	1.08	1.14	1.08	1.08
YEN/U.S.$	135	127	125	123	121	115	125	120

*** end of period*

Quarterly pattern

	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast
Real GDP growth (q/q % chg. saar)	6.7	2.3	6.9	(1.5)	3.0	1.3	0.8	1.4
CPI (y/y % chg.)	4.8	5.3	6.7	8.0	8.5	9.0	7.5	5.2
CPI ex. food and energy (y/y % chg.)	3.7	4.1	5.0	6.3	5.9	5.9	5.5	4.5
Unemployment rate (%)	5.9	5.1	4.2	3.8	3.6	3.8	4.0	4.2

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)	4.5	3.5	1.5	3.2	2.4	1.5
Consumption	1.4	(6.2)	5.0	4.3	1.6	5.2	2.3	1.6
Residential construction	(0.2)	4.3	15.3	(1.7)	(5.2)	(0.4)	(1.3)	(3.0)
Business investment	2.5	(12.1)	2.3	6.3	2.2	7.0	3.7	2.8
Government expenditures	0.8	0.9	5.6	2.3	1.9	3.6	2.1	1.8
Exports	2.3	(9.7)	1.4	1.9	4.8	0.8	1.9	4.4
Imports	0.4	(10.8)	7.7	3.6	4.1	5.7	2.2	4.0
Change in inventories (millions $)	18,377	(18,720)	(2,361)	10,916	13,875	5,259	13,000	14,000
Domestic demand	1.2	(4.1)	5.6	3.3	1.0	4.1	2.0	1.3
Real disposable income	3.0	8.2	0.3	0.1	1.7	(0.6)	2.8	1.9
Employment	2.2	(5.1)	4.8	3.9	1.0	4.2	2.2	1.0
Unemployment rate	5.8	9.6	7.4	5.4	5.6	6.3	5.5	5.6
Inflation	1.9	0.7	3.4	6.2	2.2	4.7	5.4	1.7
Before-tax profits	(0.6)	(1.9)	32.3	13.8	(5.0)	15.7	10.4	0.6
Current account (bil. $)	(47.0)	(39.4)	1.1	22.1	(7.1)	....	....	....

** or as noted*

Financial Forecast**

	Current 6/15/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Overnight rate	1.50	2.75	3.25	3.25	3.25	0.25	3.25	3.25
Prime rate	3.50	4.75	5.25	5.25	5.25	2.25	5.25	5.25
3 month T-Bills	1.97	2.95	3.25	3.20	3.20	0.17	3.25	3.20
Treasury yield curve								
2-Year	3.28	3.45	3.50	3.45	3.35	0.95	3.50	3.30
5-Year	3.40	3.55	3.55	3.50	3.40	1.26	3.55	3.30
10-Year	3.46	3.60	3.60	3.55	3.45	1.43	3.60	3.30
30-Year	3.33	3.50	3.55	3.55	3.45	1.68	3.55	3.35
CAD per USD	1.29	1.25	1.22	1.23	1.25	1.26	1.22	1.27
Oil price (WTI), U.S.$	115	107	100	97	94	75	100	90

*** end of period*

Quarterly pattern

	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast
Real GDP growth (q/q % chg. saar)	(3.1)	5.3	6.6	3.1	4.5	1.6	0.6	1.1
CPI (y/y % chg.)	3.4	4.1	4.7	5.8	7.2	6.4	5.4	3.9
CPI ex. food and energy (y/y % chg.)	2.1	3.0	3.2	4.0	4.6	4.1	4.0	3.5
Unemployment rate (%)	7.9	7.2	6.3	5.8	5.1	5.2	5.5	5.6

National Bank Financial

The Economy

Provincial economic forecast

Real GDP (% growth)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	2.5	2.6	1.6
Prince Edward Island	4.7	-1.7	3.1	2.4	1.5
Nova Scotia	3.0	-2.5	3.4	2.6	1.5
New Brunswick	1.3	-3.2	3.2	2.3	1.1
Quebec	2.8	-5.5	6.2	3.1	1.3
Ontario	2.0	-5.1	4.3	3.3	1.4
Manitoba	0.4	-4.6	3.4	3.3	1.5
Saskatchewan	-1.1	-4.9	4.0	4.1	1.9
Alberta	-0.1	-7.9	4.8	4.7	2.0
British Columbia	3.1	-3.4	4.4	3.9	1.6
Canada	1.9	-5.3	4.5	3.5	1.5

Nominal GDP (% growth)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	2.3	-10.7	13.6	15.8	0.5
Prince Edward Island	6.6	0.9	8.8	5.0	1.6
Nova Scotia	3.7	0.7	8.7	5.7	1.5
New Brunswick	2.4	-1.3	8.9	8.1	0.9
Quebec	4.7	-2.4	13.1	7.2	1.3
Ontario	3.7	-2.8	12.0	7.1	1.4
Manitoba	0.7	-1.4	10.4	10.2	1.3
Saskatchewan	-0.4	-6.6	17.8	26.2	1.3
Alberta	1.5	-16.1	20.2	22.3	0.4
British Columbia	4.6	-0.5	12.0	10.4	1.4
Canada	3.6	-4.6	13.0	10.7	1.3

Employment (% growth)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	4.0	0.6
Prince Edward Island	3.4	-3.2	3.7	6.5	1.3
Nova Scotia	2.3	-4.7	5.4	3.3	1.2
New Brunswick	0.7	-2.6	2.6	1.8	0.6
Quebec	2.0	-4.8	4.2	2.6	0.9
Ontario	2.8	-4.7	4.9	4.7	1.0
Manitoba	1.1	-3.7	3.5	2.8	1.1
Saskatchewan	1.7	-4.6	2.6	3.8	1.1
Alberta	0.6	-6.5	5.2	4.9	1.3
British Columbia	2.9	-6.5	6.6	3.4	1.2
Canada	2.2	-5.1	4.8	3.9	1.0

Unemployment rate (%)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	12.3	14.1	12.9	10.7	10.2
Prince Edward Island	8.6	10.6	9.4	7.9	8.2
Nova Scotia	7.3	9.7	8.4	6.5	6.7
New Brunswick	8.2	10.0	9.0	7.5	7.8
Quebec	5.2	8.8	6.1	4.2	4.4
Ontario	5.6	9.5	8.0	5.6	5.9
Manitoba	5.4	8.0	6.4	4.9	5.0
Saskatchewan	5.6	8.3	6.5	5.1	5.2
Alberta	7.0	11.5	8.6	5.6	5.5
British Columbia	4.7	9.0	6.5	4.8	5.3
Canada	5.7	9.6	7.4	5.4	5.6

Housing starts (000)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	2.0	0.7
Prince Edward Island	1.3	1.1	1.2	1.1	0.9
Nova Scotia	4.7	4.9	6.0	4.9	4.2
New Brunswick	2.9	3.6	4.0	3.2	1.8
Quebec	48.0	54.2	71.2	65.5	52.5
Ontario	69.0	81.3	101.2	86.5	80.5
Manitoba	6.9	7.3	8.0	7.6	7.3
Saskatchewan	2.4	3.1	4.3	3.5	3.0
Alberta	27.4	24.1	32.1	35.0	26.5
British Columbia	45.1	38.0	47.7	37.0	33.0
Canada	208.5	218.4	276.8	246.3	210.4

Consumer Price Index (% growth)	2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.0	0.2	3.7	5.8	2.1
Prince Edward Island	1.2	0.0	5.1	6.7	1.9
Nova Scotia	1.6	0.3	4.1	6.3	2.0
New Brunswick	1.7	0.2	3.8	6.4	2.2
Quebec	2.1	0.8	3.8	6.1	2.6
Ontario	1.9	0.6	3.5	6.4	2.1
Manitoba	2.3	0.5	3.2	6.2	2.0
Saskatchewan	1.7	0.6	2.6	5.9	2.0
Alberta	1.7	1.1	3.2	6.0	2.0
British Columbia	2.3	0.8	2.8	6.0	2.3
Canada	1.9	0.7	3.4	6.2	2.2

e: estimate f: forecast

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

Interest Rates and Bond Markets

Back to Research Analysts page

Interest Rates and Bond Markets

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

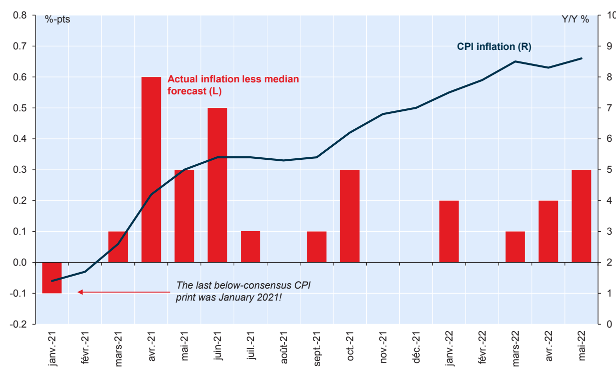
Taylor Schleich
Rates Strategist
416-869-8025

Jocelyn Paquet
Economist
514-412-3693

U.S.: Flirtation with stagflation

For a brief time, it appeared that inflationary fears had peaked. March's year-on-year 8.5% CPI print in the U.S. looked to be the high watermark for headline price pressures and markets/FOMC participants began discussing a potential pause in the Fed's rate hiking cycle by September. The 'soft-ish' landing narrative was dealt a major blow in June, when the earlier deceleration in inflation proved to be a head fake. A red-hot 1.0% month-on-month headline CPI reading saw year-on-year inflation set a new cycle-high of 8.6%, topping each and every private sector economist's estimate. Hear that noise? That's the sound of central banks and forecasters scratching out their old inflation trajectories and replacing them with higher, stickier ones once again.

U.S.: Sound familiar? Another above-consensus CPI print in May
U.S. Y/Y CPI inflation (right) versus difference between actual inflation and median forecasted inflation (left)

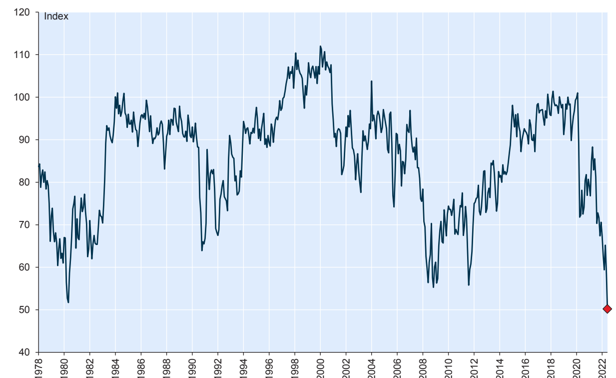


NBF Economics and Strategy (data via Bloomberg)

To complicate matters, the surge in inflation comes alongside a slowdown in economic activity, downright gloomy consumer confidence, equity market carnage and ongoing deleveraging. The negative Q1 GDP print (which admittedly didn't look that bad from a domestic demand perspective) could give way to another sub-neutral growth print in the second quarter. That's according to the Atlanta Fed's own GDPNow model which ballparks Q2 growth at a paltry 0.0% as of this writing. To be fair, we're a little bit more optimistic for the second quarter, as we outline in our Monthly Economic Monitor, but we concede that meaningfully above-potential growth in the U.S. is a thing of the past.

As noted above, consumer activity fared well through the first three months of the year but there's good reason to expect a pullback in the not-too-distant future. The Fed's latest Beige Book showed signs that higher prices are starting to lead to a pullback in consumer activity. Meanwhile, the June reading of the University of Michigan Consumer Sentiment Index revealed a plunge to a record, 40+ year low. According to this well-renowned survey, Americans are more pessimistic today than they'd been in early days of the COVID-19 pandemic or even back in the Global Financial Crisis. You'd have to go back to the early 1980s to find comparable index readings to what we were just delivered. The common theme? Inflation, of course.

U.S.: Inflation is crushing consumer sentiment
University of Michigan Consumer Sentiment Index since 1978

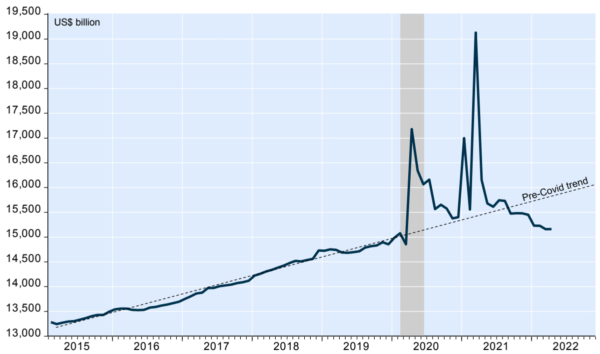


NBF Economics and Strategy (data via Bloomberg)

To be sure, the situation for the Fed is far from ideal and very soon, they'll be left with a difficult decision. On one hand, they could go all out in the fight against inflation (the approach they've signalled for now), continuously raising rates to well-above-neutral levels, delivering a blow to an already shaky growth outlook. In this scenario, it's unlikely the picturesque 3.6% unemployment rate will be able to hold its ground. (Even in our more tepid rate hike forecast, we've allowed for a notable deterioration in the unemployment rate by the end of the year). While inflation is now public enemy number one, full employment remains a key pillar of the Fed's dual mandate and one that may soon shift to the fore. Potentially foreshadowing what's to come, a number of companies have announced hiring freezes or even staffing reductions. Further accelerated rate increases and deteriorating financial conditions would only accelerate this nascent trend.

Interest Rates and Bond Markets

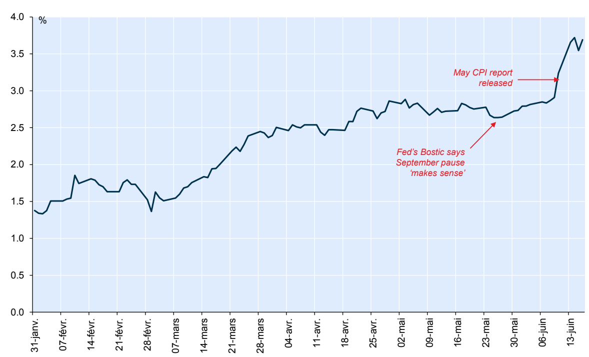
U.S.: Inflation is squeezing real income
Real disposable income, seasonally adjusted and annualized. Last observation April 2022



NBF Economics and Strategy (data via Bloomberg)

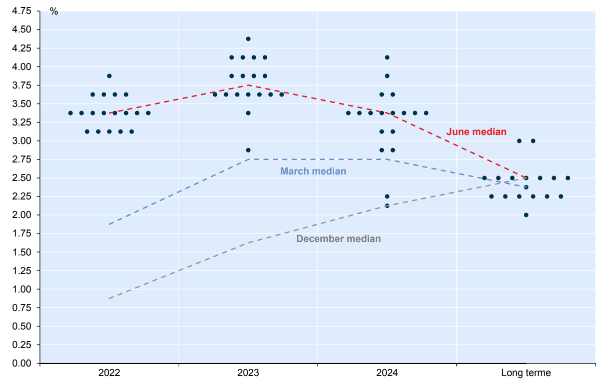
Looking ahead, it may be at least a few months before clear and convincing evidence of significant economic deterioration is available to the Fed. It may be even longer before they feel comfortable that inflation is actually decelerating. In the interim, the range of potential outcomes on the Fed funds target is a mile wide. With 25 basis point hikes giving way to 50 basis point hikes giving way to 75 basis point hikes, projecting where policy will be in a year's time—let alone a few months—has seldom been this challenging. At this point though, it appears that >25 bp rate hikes are inevitable for at least the next two meetings. That's effectively what the Fed and Jerome Powell told us at their June meeting. How far into restrictive territory they'll go remains an open question though. Ask the Fed funds futures market and it'll tell you we'll be closing in on a 4% policy setting in less than a year.

U.S.: Rate hike expectations skyrocket after brief reprieve
End of 2022 federal funds rate implied by fed funds futures



NBF Economics and Strategy (data via Bloomberg)

U.S.: The Fed's dot plot has followed market expectations… with a lag
June 2022 FOMC 'Dot Plot' with median fed funds projections from March and December



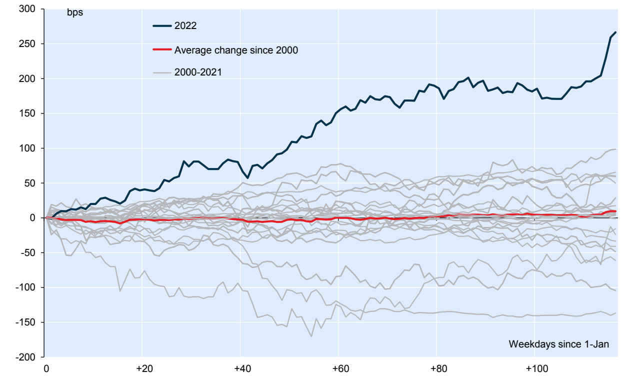
NBF Economics and Strategy (data via Federal Reserve)

Despite our (and others') one-way forecast errors to date, we are retaining a below-market bias (and now a below-dots bias) on our fed funds call. We still believe that a worsening in the real economy will prompt the Fed to pause and ultimately end its cycle earlier and at a lower level than the market/Fed has priced/signalled. However, we recognize the Fed's demonstrated sense of urgency which will see fed funds rising quickly in the near term. As a result, we've revised our Fed call to include a subsequent 50 basis point hike in July, 50 in September and 25 in November before tapping out before year-end at 3.0%.

We concede that risks to our Fed funds forecast are skewed higher. But we'd stress that, just as we've seen in recent days, conditions can and do change quickly. While rapid repricings have been unidirectional so far this year, an ugly non-farm payroll print and/or a heretofore elusive below-consensus inflation reading might be all it takes for the tides to turn and the Fed to pivot. And one other factor to consider: The Fed has never hiked into an S&P500 bear market. Talking tough against inflation is easy now. We're not so sure it will be should the equity market take another significant leg lower.

With this as our base case outlook, current levels for yields—particularly at the shorter end of the Treasury curve—are too high, even after the reprieve immediately following the June meeting. We've allowed for rates to sell-off near-term as super-sized hikes continue but we believe by the end of the third quarter/early fourth quarter, short-term rates will be moving lower. We see longer-term yields declining too, although stickier inflation expectations, in addition to quantitative tightening (which is still in its infancy), might mean above-3% yields are here to stay for some time.

U.S.: This has been the largest sell-off to start the year in over 20 years
Change in 2-year Treasury yield relative to January 1st, since 2000

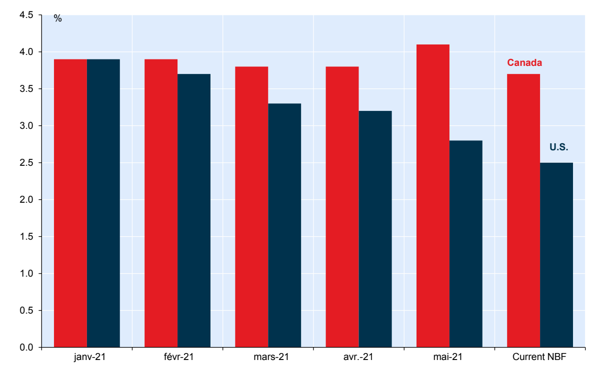


NBF Economics and Strategy (data via Bloomberg)

Buying into Canadian resilience

As we've discussed, the economic outlook in the U.S. has been deteriorating. While Canada and its southern neighbors tend to march to the same beat, we have started to see a divergence in each country's near-term economic prospects. Growth expectations, which have been continually slashed in the United States with each passing month, have held up remarkably well in the great white north. Believe it our not, our outlook for 2022 Canadian real GDP growth is little changed from what it was at the turn of the calendar despite the outlook for the policy rate being radically altered.

Canadian growth expectations have held up this year; not in the U.S.
Consensus Economics 2022 real GDP growth forecast by month (w/ latest NBF forecasts): Canada vs. U.S.

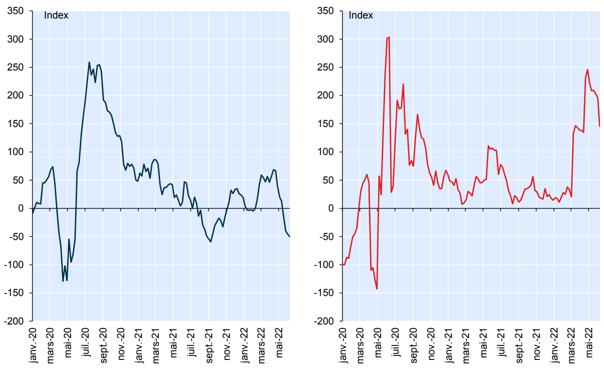


NBF Economics and Strategy (data via Consensus Economics)

Interest Rates and Bond Markets

The direction of growth forecast revisions is consistent with economic surprises which have turned decisively negative in the U.S., while remaining in positive territory in Canada.

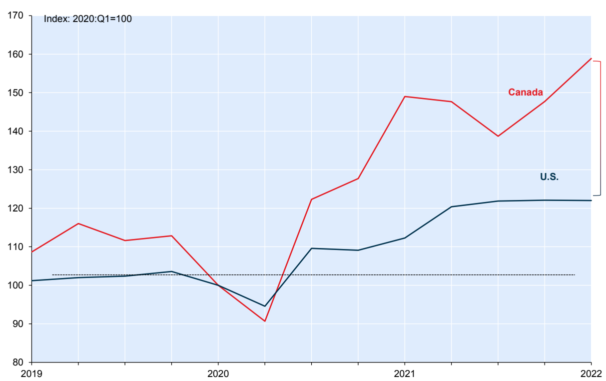
Economic surprises remain in positive territory in Canada; not in the U.S.
Citi Economic Surprise Index: U.S. (left) and Canada (right) since 2020



NBF Economics and Strategy (data via Bloomberg)

Of course, elevated commodity prices are disproportionately supportive for Canada and have resulted in eye-popping nominal GDP growth. That's meant bountiful profits for Canadian corporations and above-plan revenues for governments. As we saw last week, this has led to government auction cancellations as the need for new cash has been dramatically diminished.

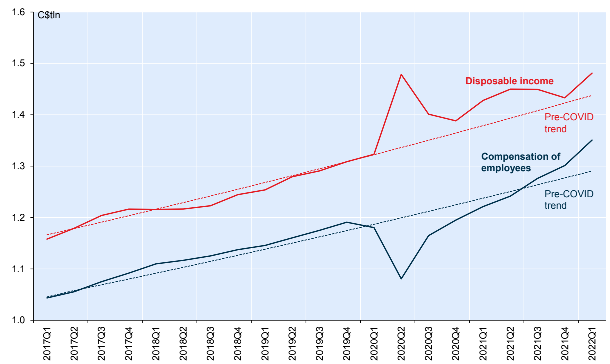
On corporate profits, it's been 'advantage Canada'
Net operating surplus (corporations): Canada vs. U.S.



NBF Economics and Strategy (data via StatCan, BEA)

At least through the first quarter, Canadian households were benefitting too. Growth in employee compensation came in near multi-decade highs, allowing the savings rate to remain well above pre-COVID levels. By way of comparison, it looks like Americans have now started to dip into their excess savings as the savings rate has been trending below the pre-COVID norms in recent months.

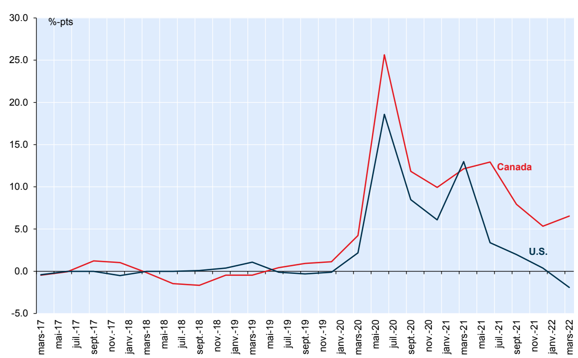
Canada: Disposable income and compensation are bounding higher
Disposable income, employee compensation vs. pre-COVID trend



NBF Economics and Strategy (data via StatCan)

It's worth noting that it wasn't all that long ago that many provinces had shut down large parts of the economy in an attempt to fight the winter wave of the Omicron variant. As a result, the ability to spend was hindered for at least part of the first quarter. This begs the question: Once pent-up demand in Canada has been exhausted, will we start to see signs of the consumer pulling back significantly? As we discussed in our monitor last month, we're increasingly buying into the Canadian resilience/economic outperformance story.

Canadian savings rate remains well-above average; not in the U.S.
Percentage point difference in savings rate versus pre-COVID (2017-19) average: Canada vs. US.

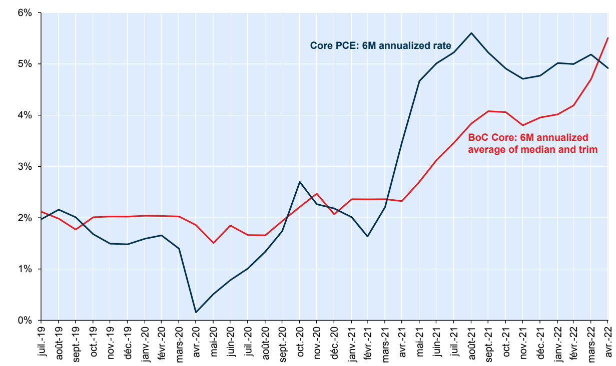


NBF Economics and Strategy (data via StatCan, BEA) | Note: Above zero means savings rate is higher than pre-COVID average, vice versa

Yes, housing activity is set to slow from, to borrow the Bank of Canada's words, 'exceptionally high levels'. But, elevated commodity prices, increasing immigration, a tight labour market and a positive fiscal impulse in many provinces, are all factors that will continue to be a tail wind in the quarters ahead. Make no mistake, higher interest rates will take a bite out of demand. However, relative to the U.S., it might take a bit longer and require more policy rate tightening to achieve the slowdown needed to bring demand back in line with supply.

While these factors will support growth, they'll also have the unfortunate side effect of keeping prices under pressure in the near-term. Indeed, while headline CPI inflation remains lower in Canada relative to the U.S., recent momentum has been concerning. Annualized core inflation readings have been on a one-way street higher in recent months in Canada, while the trend in the Fed's preferred gauge has at least flatlined.

Canada: The momentum in core inflation is troubling
6-month annualized core inflation: Canada (trim and median average) vs. US (Core PCE)



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

Clearly, the Bank of Canada is concerned. Although the BoC followed through on a fully expected 50 bp rate hike in June, the tenor of the statement was consistent with a central bank that was much more fearful of ongoing price pressures. Symbolically, the BoC moved up its discussion of inflation to the top of the statement and littered it with aggressive language ('pervasive' input price pressures, a rising risk of entrenched inflation). As a result, the Bank pledged to be 'more forceful' if necessary, which led to a significant repricing of rate hike expectations. A subsequent speech from Deputy Governor Paul Beaudry doubled down on the aggressiveness as he conceded

Interest Rates and Bond Markets

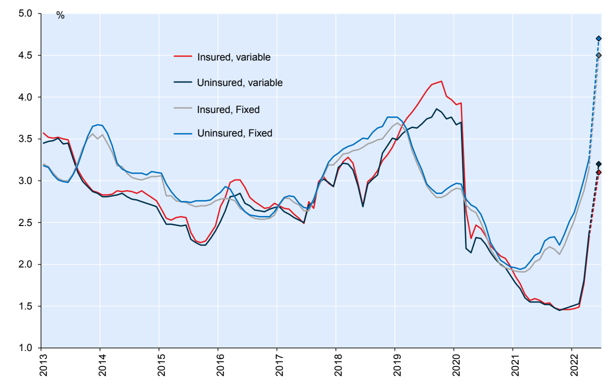
that a 75 basis point hike is on the table for July and that the probability of raising rates to the top or above its estimated neutral range (2-3%) has risen. Importantly, this all came before the red-hot CPI print in the U.S. and before the Fed implemented its own 75 basis point hike.

Since the BoC's June meeting, we also saw the Bank publish its annual Financial System Review. Surprise, surprise, elevated household indebtedness and home prices were on the top of the list of key financial system risks. To be sure, this is hardly a new development as we discussed recently. And despite these vulnerabilities, the Bank appears confident that the Canadian economy will be able to withstand the rapid rise in interest rates underway and is willing to tolerate home price declines. Capturing news headlines after the FSR release, the Bank conceded that the typical mortgage payment could be 30% higher in 5 years time. We don't necessarily share the BoC's rosy view on the housing front but we concede that conditions might hold up okay for the balance of the year, allowing a hawkish central bank bias to remain for longer.

To summarize, we have an increasingly hawkish central bank that appears willing to tolerate some pain in the housing market. At the same time, resilience in the Canadian economy means growth and incomes should continue to rise at a solid pace over the coming quarters. And near-term, there's unlikely to be much reprieve on the inflation front. Meanwhile, the Fed has moved decisively more hawkish, putting pressure on the Bank of Canada to do the same. Add it all together and it warrants a significant shift in our Bank of Canada forecast.

Consistent with hawkish rhetoric from the BoC and in line with the super-sized Fed hike in June, we are now looking for the Bank of Canada to hike by 75 basis points in July, bringing the policy rate into its 2-3% neutral range. While a XXL hike could prove to be a one-off, that won't stop the Bank from moving closer to, if not fully into, restrictive territory before the year is out. We're now calling for the overnight target to hit 3.25% in six month's time, 25 basis points higher than our Fed call. However, like in the U.S., we believe a pause will be warranted by the end of the year and expect no moves in 2023.

Canada: A massive repricing in mortgage rates should bite
Fixed and variable 5-year Canadian mortgage rates



NBF Economics and Strategy (data via Bank of Canada) | Note: Official data to April 2022, dotted line represents NBF estimates

Canadian Bond Market: Interest rates, spreads and currencies

	15-Jun-22	16-Mar-22	15-Dec-21	15-Sep-21	16-Jun-21
Interest Rates					
3 months	1.89	0.655	0.045	0.153	0.115
2 years	3.286	1.888	0.948	0.423	0.366
5 years	3.4	2.019	1.262	0.83	0.928
10 years	3.459	2.18	1.409	1.22	1.441
30 years	3.328	2.392	1.749	1.77	1.951
Spreads					
3 months - 2 years	139.6	123.3	90.3	27	25.1
2 - 5 years	11.4	13.1	31.4	40.7	56.2
5 - 10 years	5.9	16.1	14.7	39	51.3
10 - 30 years	-13.1	21.2	34	55	51
Currencies					
CAD/USD	1.2891	1.2677	1.2834	1.263	1.2277
EUR/CAD	0.7426	0.7148	0.6901	0.6702	0.679

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

World: Still struggling

Global equities continue to struggle in Q2. While most indices are off their recent lows, the MSCI ACWI is still down 7.1% for the quarter with only Japan showing a positive return. On a year-to-date basis, Latin America is back in the black (table).

MSCI composite index: Price Performance

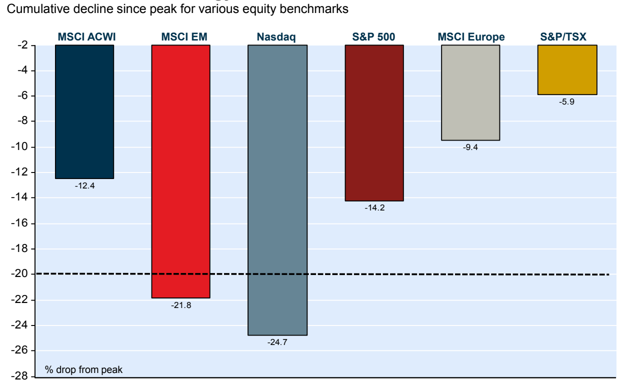
	Month to date	Quarter to date	Year to date
MSCI ACWI	0.0	-7.1	-11.9
MSCI World	0.0	-7.5	-12.1
MSCI USA	-0.2	-9.7	-14.7
MSCI Canada	0.1	-5.0	-2.3
MSCI Europe	-0.2	-2.5	-8.2
MSCI Pacific ex Jp	-0.3	-4.2	-3.7
MSCI Japan	2.9	1.0	-1.5
MSCI EM	0.2	-4.0	-10.2
MSCI EM EMEA	-3.3	-8.7	-18.1
MSCI EM Latin America	-2.9	-11.2	0.1
MSCI EM Asia	1.1	-2.3	-9.7

6/8/2022

NBF Economics and Strategy (data via Refinitiv)

Emerging markets and technology stocks remain the worst hit, with a contraction from the peak that still exceeds 20%: the MSCI EM (-21.8%) and Nasdaq (-24.7%) are technically still in bear market territory – chart.

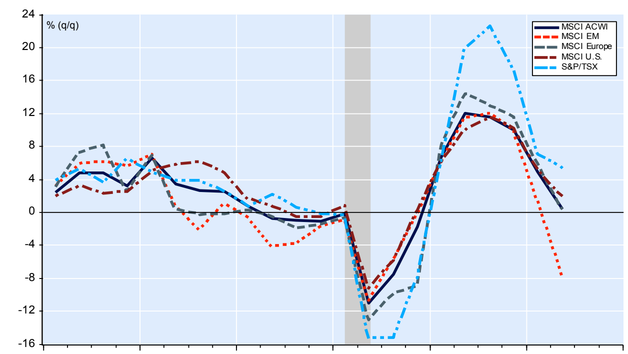
World: EM and technology stocks remain in bear market
Cumulative decline since peak for various equity benchmarks



NBF Economics and Strategy (data via Refinitiv as of June 8, 2022)

Most global equity markets continue to face an uncertain geopolitical environment, supply shocks (food, energy, pandemic) that are fueling inflationary pressures, and the hawkish attitude of central banks that is driving up interest rates and blurring the profit outlook. Trailing earnings per share for the MSCI ACWI show weak sequential growth in the second quarter due to a general deceleration. For the MSCI EM, earnings per share have already contracted by 8%, the worst performance in two years (chart).

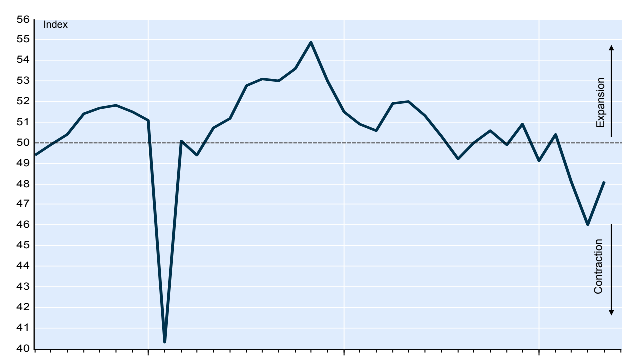
World: Profit growth is slowing
Trailing earnings for MSCI and S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

The earnings contraction in emerging markets was exacerbated by China's COVID strategy and the resulting shutdown of its economy, which had a knock-on effect on the global supply chain. Beijing recently announced some easing of restrictions on large swaths of its economy, which should allow global trade flows to begin to normalize as Chinese factories reopen (chart).

China: Reopening of plants will contribute to profits
Caixin/Markit manufacturing PMI. Last observation : May 2022



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Stock Market and Portfolio Strategy

This sets the stage for a rebound in profits in Q3. The key question is whether this rise will be sustained to meet current expectations of 9.2% growth over the next twelve months at for the MSCI ACWI and slightly stronger than that for the MSCI EM (9.7%).

MSCI composite index: EPS Performance

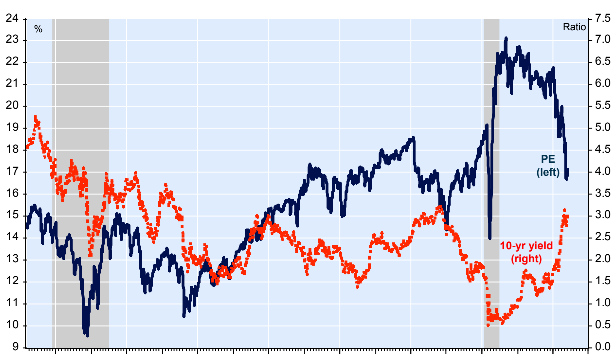
	2021	2022	2023	2024	12 months forward
MSCI ACWI	54.3	10.8	8.0	7.9	9.2
MSCI World	55.1	10.9	7.8	7.7	9.1
MSCI USA	52.4	9.4	10.1	8.9	9.6
MSCI Canada	75.3	21.6	3.0	4.4	11.4
MSCI Europe	66.4	13.5	3.7	5.8	8.1
MSCI Pacific ex Jp	44.7	13.2	7.0	0.7	7.7
MSCI Japan	0.0	41.9	8.1	5.3	7.3
MSCI EM	49.7	9.9	8.9	9.1	9.7
MSCI EM EMEA	62.2	11.4	10.1	5.6	11.1
MSCI EM Latin America	193.9	10.1	-2.5	0.9	5.6
MSCI EM Asia	36.4	9.7	10.7	11.0	10.3

6/8/2022

NBF Economics and Strategy (data via Refinitiv)

Earnings behavior is critical to equity market performance at this stage of the economic cycle, as PE expansion is unlikely as long as interest rates remain on the rise (chart).

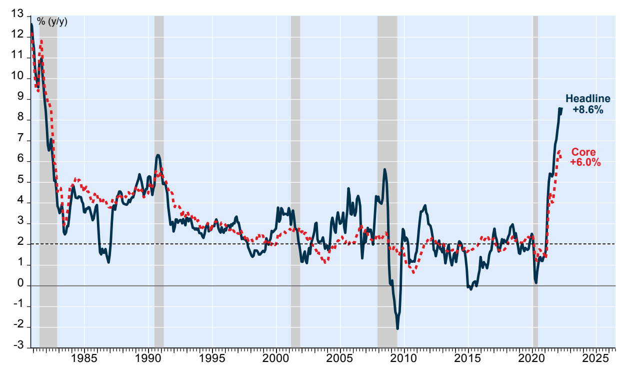
U.S.: Interest rates undermine PEs
Forward PEs for the S&P 500 vs. yield on 10-year U.S. treasury



NBF Economics and Strategy (data via Refinitiv)

The latest CPI report was disappointing in this regard, with the all-items index showing annual growth of 8.6 percent in May. Excluding food and energy, core CPI inflation was a bit more moderate at 6%, but still above expectations (chart). Given this resilience, the Fed therefore has no choice but to continue tightening monetary policy to prevent inflation expectations from becoming unanchored.

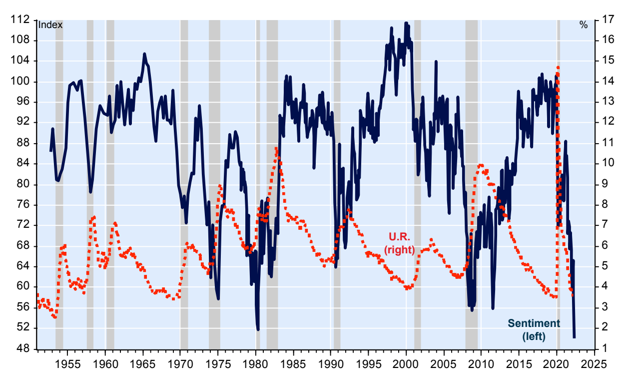
U.S.: Inflation stays resilient
Consumer Price Index: Total vs. total excluding food & energy (core)



NBF Economics and Strategy (data from Refinitiv)

Fortunately, some indicators are beginning to suggest a deceleration in growth that should translate into lower inflation in the coming months. For example, consumer sentiment plunged to a record low in June, despite a tight labour market, as households became increasingly frustrated with inflation. This suggests a slowdown in spending on discretionary items and services.

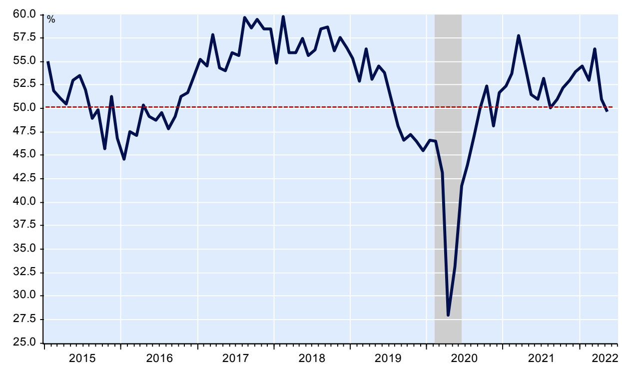
U.S.: Consumer sentiment hits record low
University of Michigan Consumer Sentiment index vs. unemployment rate



NBF Economics and Strategy (data via Bloomberg)

Last month, we argued that with unit labor cost inflation rising faster than their overall selling price, companies should slow the pace of hiring to minimize pressure on profit margins. Despite another strong employment report in May, which saw payroll employment increase by 390K to near pre-crisis levels, forward-looking indicators are already pointing to a slowdown in hiring. The ISM manufacturing employment index fell below 50 for the first time since November 2020 (chart). A slowdown in the pace of job creation would certainly help mitigate wage inflation and reduce the need for restrictive monetary policy.

U.S.: Hiring pace set to decelerate in H2 2022
ISM manufacturing employment component



NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: Energy vs. the rest

The S&P/TSX is down 5% so far in the second quarter and 2% for the year. Energy is the only sector still posting gains this quarter, bringing the year-to-date return to a whopping 46.8% (table).

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	0.3	-5.0	-2.0
ENERGY	4.1	15.3	46.8
INDUSTRIALS	1.0	-11.0	-7.8
UTILITIES	0.1	-1.1	2.8
CONS. DISC.	-0.2	-4.9	-12.7
MATERIALS	-0.5	-11.0	6.5
FINANCIALS	-0.7	-6.1	-4.8
IT	-0.8	-24.4	-51.2
BANKS	-0.9	-5.1	-2.6
CONS. STAP.	-0.9	-1.5	3.5
TELECOM	-1.8	-5.1	2.2
REAL ESTATE	-3.0	-12.0	-16.7
HEALTH CARE	-8.8	-44.1	-49.0

6/8/2022

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Back to Research Analysts page

Stock Market and Portfolio Strategy

The S&P/TSX Energy Index continues to be supported by upward earnings revisions. Twelve-month forward EPS expectations have been revised upward by 6.7% over the past month and 27.3% over the past three months (table).

S&P TSX : Change in 12-month forward earnings

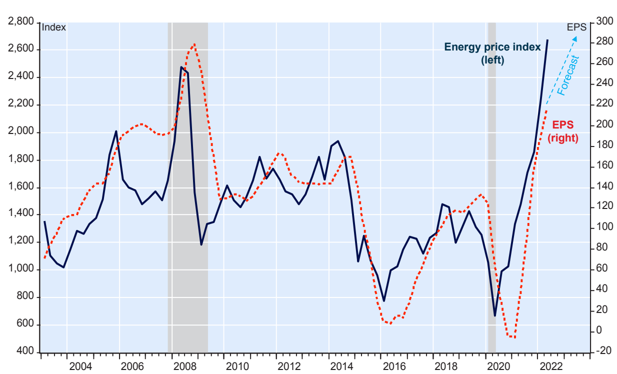
	3-month change		1-month change		1-month diffusion (% up)	
	Last data	10-year average	Last data	10-year average	Last data	10-year average
S&P TSX	7.0	-1.8	1.0	-0.6	56%	44%
ENERGY	27.3	-4.4	6.7	-2.6	80%	42%
MATERIALS	24.6	-4.0	1.2	-1.4	58%	42%
INDUSTRIALS	-3.8	-2.7	0.6	-0.9	68%	43%
CONS. DISC.	-4.8	-1.6	0.4	-0.6	54%	46%
CONS. STAP.	1.3	-0.3	-0.1	-0.1	29%	45%
HEALTH CARE	-7.0	-6.7	-8.1	-2.5	33%	40%
FINANCIALS	-2.1	0.1	-1.4	0.0	39%	50%
BANKS	-0.9	0.3	-0.6	0.1	40%	52%
IT	-7.9	-1.1	-7.0	-0.3	36%	47%
TELECOM	0.0	-1.1	0.3	-0.4	75%	41%
UTILITIES	0.5	-1.8	1.4	-0.5	50%	43%
REAL ESTATE	-3.6	NA	-1.0	NA	67%	NA

6/8/2022

NBF Economics and Strategy (data via Refinitiv)

There may be even more room for improvement in revisions. The Bank of Canada's Energy Price Index (EPI), which measures the spot transaction price of domestically produced energy commodities, reached a new high this quarter when expressed in Canadian dollars. It's only a matter of time before this translates in record profits for energy companies, whose earnings per share (EPS) are expected to finally surpass the record $278 reached in 2008 by this time next year (the current 12-month EPS estimate is $284) – chart

Canada: Towards record profits for the energy sector
BoC energy price index, trailing earnings for the S&P/TSX Energy and 12-month forecast



NBF Economics and Strategy (data via Refinitiv)

This is good news for the economy and governments. Back in March, our colleagues at NBCFM's Energy Team estimated that their coverage universe would pay about $34 billion in combined cash tax and royalties in 2022 (up from $15 billion in 2021) – see LINK. Based on current prices, their latest estimate has been increased to a whopping $44 billion! Supported by tax and royalty payments, Canada's energy sector is already on track to provide record fiscal support to governments in 2022.

And it's not just the energy sector that is supporting the economy. In fact, profits are expected to be higher in all sectors except real estate in the coming year – table.

S&P/TSX composite index: EPS analysts expectations

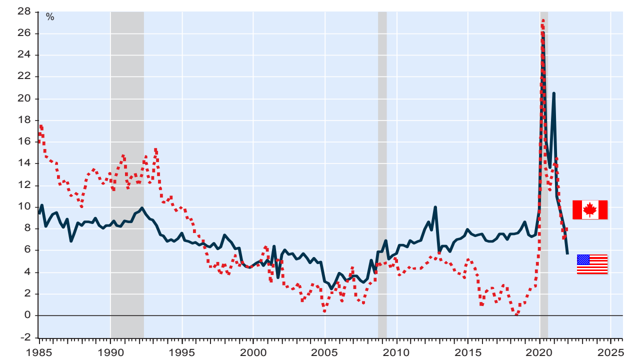
	Earnings per share					EPS % growth		
	2021	2022	2023	12m Trail.	12m Forw.	2022	2023	12m Forw.
S&P TSX	1356	1588	1649	1470	1624	17	4	10
ENERGY	182	292	276	237	284	60	-5	20
MATERIALS	230	326	276	278	302	42	-15	8
INDUSTRIALS	112	160	213	136	186	44	33	37
CONS. DISC.	169	181	221	174	200	7	23	15
CONS. STAP.	365	396	452	378	416	8	14	10
HEALTH CARE	3	1	16	1	14	-53	1189	1044
FINANCIALS	323	323	349	325	338	0	8	4
BANKS	387	403	423	398	416	4	5	5
IT	15	15	18	15	16	-3	22	10
TELECOM	84	89	96	86	93	6	8	8
UTILITIES	97	116	127	107	122	20	9	14
REAL ESTATE	429	215	255	314	222	-50	19	-29

6/8/2022

NBF Economics and Strategy (data via Refinitiv) N.M.=Not meaningful

Real estate should be negatively impacted by rising interest rates and production costs. There could certainly be contagion to other sectors, but this is not our base case scenario as we do not see monetary policy becoming excessively restrictive in Canada. In our view, an overnight rate near 3% and the impact of quantitative tightening on long-term interest rates should produce a tangible economic slowdown, but not a recession. It's worth noting that household disposable income rose 14.1 percent in Q1, despite the termination of most federal pandemic support programs. This surge pushed the household savings rate from 6.9% Q4 2021 to 8.1% in Q1 2022. This is comfortably above the pre-crisis level of this indicator, and more than 2 percentage points above that in the U.S. – the largest positive gap since the 1990s (chart). Canadian households have a cushion to absorb the negative impact of rising interest rates on purchasing power.

Canada: Biggest positive gap with the U.S. since the 1990s
Household savings to disposable income ratio



NBF Economics and Strategy (data via Statistics Canada, Bureau of Economic Analysis)

As argued last month, the price of commodities produced in Canada is likely to remain high for longer due to growing global demand and impaired Russian supply. We believe that the current geopolitical backdrop argues for a period of higher for longer for commodity prices that might rekindle investment in the sector. Under these circumstances, we still see the S&P/TSX as a defensive play for equity holdings. In our view, the Canadian economy remains relatively well positioned to withstand stagflation fears.

Asset allocation

Our asset allocation is unchanged this month. Equities remain slightly overweight relative to our benchmark, with a preference for Canada. Fixed income remains underweight, but we are prepared to adjust our position as we assess the impact of the Fed's quantitative tightening on the 10-year Treasury yield. Cash remains slightly overweight for now.

NBF Asset Allocation

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

NBF Economics and Strategy

Sector allocation

Our sector allocation remains unchanged this month.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - June 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**19.7%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	19.7%
Materials	**Overweight**	**12.8%**
Chemicals	Market Weight	2.2%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.9%
Gold	Overweight	6.6%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.2%**
Capital Goods	Overweight	1.9%
Commercial & Professional Services	Underweight	2.9%
Transportation	Market Weight	6.4%
Consumer Discretionary	**Market Weight**	**3.2%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Overweight	0.4%
Consumer Services	Market Weight	0.7%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.9%**
Food & Staples Retailing	Market Weight	3.4%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.4%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.2%
Financials	**Market Weight**	**31.1%**
Banks	Market Weight	21.5%
Diversified Financials	Market Weight	4.0%
Insurance	Market Weight	5.6%
Information Technology	**Underweight**	**5.2%**
Telecommunication Services	**Market Weight**	**5.0%**
Utilities	**Underweight**	**5.0%**
Real Estate	**Underweight**	**2.6%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q4 2022***
Index Level		***Jun-10-22***	***Target***
S&P/TSX		20,275	22,000
Assumptions			Q4 2022
Level:	Earnings *	1470	1550
	Dividend	592	624
PE Trailing (implied)		13.8	14.2

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q4 2022***
Index Level		***Jun-10-22***	***Target***
S&P 500		3,901	4,200
Assumptions			Q4 2022
Level:	Earnings *	216	219
	Dividend	63	64
PE Trailing (implied)		18.0	19.2

** 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***
	06-10-2022	***M-T-D***	***Y-T-D***	***1-Yr***	***3-Yr***	***Y-T-D***	***1-Yr***	***3-Yr***	
North America - MSCI Index	***3900***	***-5.5%***	***-18.7%***	***-9.5%***	***34.4%***	***-17.6%***	***-4.4%***	***29.6%***	***1.00***
United States - S&P 500	*3901*	*-5.6%*	*-18.2%*	*-8.0%*	*35.1%*	*-17.1%*	*-2.7%*	*30.3%*	*1.00*
Canada - S&P TSX	*20275*	*-2.2%*	*-4.5%*	*1.1%*	*25.0%*	*-4.5%*	*1.1%*	*25.0%*	*0.95*
Europe - MSCI Index	***1697***	***-6.2%***	***-18.9%***	***-18.7%***	***3.2%***	***-17.9%***	***-14.0%***	***-0.4%***	***0.90***
United Kingdom - FTSE 100	*7318*	*-3.8%*	*-0.9%*	*3.2%*	*-0.8%*	*-8.6%*	*-4.8%*	*-7.0%*	*0.45*
Germany - DAX 30	*13762*	*-4.4%*	*-13.4%*	*-11.6%*	*14.3%*	*-18.8%*	*-19.2%*	*2.5%*	*0.92*
France - CAC 40	*6187*	*-4.4%*	*-13.5%*	*-5.5%*	*15.0%*	*-18.9%*	*-13.6%*	*3.2%*	*0.87*
Switzerland - SMI	*11085*	*-4.5%*	*-13.9%*	*-6.2%*	*13.7%*	*-19.6%*	*-10.1%*	*9.8%*	*0.96*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*13.9%*	*-6.2%*	*-8.5%*	*2.3%*	*0.44*
Netherlands - Amsterdam Exchanges	*682*	*-4.3%*	*-14.5%*	*-6.0%*	*23.2%*	*-19.8%*	*-14.0%*	*10.6%*	*0.96*
Pacific - MSCI Index	***2680***	***-3.1%***	***-13.8%***	***-17.5%***	***1.9%***	***-12.7%***	***-12.8%***	***-1.7%***	***0.80***
Japan - Nikkei 225	*27824*	*2.0%*	*-3.4%*	*-3.9%*	*31.7%*	*-16.0%*	*-17.1%*	*2.6%*	*0.90*
Australia - All ordinaries	*7145*	*-4.2%*	*-8.1%*	*-5.5%*	*9.5%*	*-9.8%*	*-9.0%*	*6.8%*	*0.86*
Hong Kong - Hang Seng	*21806*	*1.8%*	*-6.8%*	*-24.1%*	*-20.9%*	*-6.3%*	*-20.7%*	*-23.8%*	*-0.14*
World - MSCI Index	***2642***	***-5.4%***	***-18.3%***	***-12.2%***	***23.7%***	***-17.2%***	***-7.1%***	***19.3%***	***0.99***
World Ex. U.S.A. - MSCI Index	***1980***	***-4.9%***	***-16.0%***	***-16.8%***	***5.2%***	***-14.9%***	***-12.0%***	***1.5%***	***0.90***
EAFE - MSCI Index	***1934***	***-5.1%***	***-17.2%***	***-18.2%***	***2.9%***	***-16.1%***	***-13.6%***	***-0.8%***	***0.88***
Emerging markets (free) - MSCI Index	***1,055***	***-2.1%***	***-14.4%***	***-23.5%***	***3.2%***	***-13.3%***	***-19.1%***	***-0.5%***	***0.75***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-06-10

	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	257	-11.15	-9.88	10.69	9.53	9.81	18.19	16.61	17.26	14.78	1.76	1.12
Energy	5.18	671	14.55	61.61	110.43	-11.49	27.78	10.12	11.43	10.74	20.86	0.39	43.85
Materials	2.80	511	-1.01	-4.92	20.64	-5.21	6.37	13.95	14.71	14.29	8.70	2.24	10.71
Industrials	7.88	765	-8.07	-12.15	36.39	19.55	26.39	18.65	15.60	16.95	14.88	0.64	0.28
Consumer Discretionary	10.75	1128	-15.82	-18.39	13.76	32.08	22.89	27.02	20.46	23.34	29.98	1.02	-8.40
Consumer Staples	6.63	745	-1.16	2.45	4.11	7.38	5.76	21.22	19.77	20.32	7.69	3.53	-2.04
Healthcare	14.37	1459	-3.49	0.02	5.95	-0.03	2.90	15.87	15.88	15.88	8.26	5.47	-1.64
Financials	10.90	539	-11.44	-12.95	-10.01	13.96	1.36	13.24	11.62	12.37	8.89	9.11	0.66
Information Technology	26.75	2286	-11.05	-7.64	13.20	11.91	11.53	22.49	20.09	20.72	15.13	1.80	0.08
Telecom Services	8.90	192	-14.14	-26.35	-4.08	15.83	5.60	16.74	14.45	15.45	16.99	2.76	-6.70
Utilities	3.03	360	0.89	8.15	2.16	7.88	5.05	21.47	19.90	20.65	7.01	4.09	0.33
Real Estate	2.81	257	-11.15	-9.88	-11.85	3.23	-4.79	40.72	39.44	40.07	19.70	neg.	3.76

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

The positives and negatives of higher oil prices

Higher oil prices are coming into focus again with investors as WTI starts to break out. In the June Vision, we highlight the investment positives and negatives of higher oil prices. While higher oil prices benefit investors in the energy sector, there are other sectors that will experience a negative impact. Since higher oil prices and gasoline prices have the same effect as a tax increase and takes money out of the hands of the consumer, it will have a negative impact on consumer discretionary spending. The charts of Canadian Tire, Restaurant Brands and Aritzia are highlighted as stocks to sell or avoid in this environment.

Technical Analysis

WTI

A spike high in early March in reaction to the Russian war was followed by three months of consolidation within its overall rising trend. Chart support in the low US$90s was established as prices corrected. An upside breakout around US$107.00 indicates that this period of consolidation is over and higher prices are likely. A reasonable objective is US$135.00 to US$140.00.

Source: Refinitiv

Technical Analysis

Ensign Energy Services Inc. (ESI: TSX)

The ESI chart broke out of a two-year base in early 2022 at $2.40 to start a new bull trend. Its first leg up took the stock to $4.50 where it spent the past few weeks consolidating its gains. The stock is showing bullish relative performance against WTI and the S&P/TSX as it moves to new highs ahead of oil prices and the market with its recent minor breakout. Target is $6.50 to $7.00.

Source: Refinitiv

Technical Analysis

Secure Energy Services Inc. (SES: TSX)

An upside breakout from a one-year base at $5.00 on the SES chart continues to play out with the stock scoring new recovery highs. Strong relative performance against the TSX and WTI is a bullish indication for higher prices. Our next target is $10.00.

Source: Refinitiv

Technical Analysis

Canadian Tire Corporation, Limited (CTC.A: TSX)

The performance of Canadian Tire is almost opposite of what energy stocks are doing. CTC shares peaked about a year ago and started lagging the market recovery from its March 2020 lows. A series of lower highs reflects a loss of upside momentum as buying interest fades. This action over the past year carved out a top that broke down recently at approximately $170.00. Big downside volume on the recent decline and weak declining volume the rebound indicates little bullish conviction. The stock is now offering a second chance for investors to raise cash. Risk/reward is unfavorable with potential for the stock to trade down to $130.00.

Source: Refinitiv

Technical Analysis

Restaurant Brands International Inc. (QSR: TSX)

The most prominent feature of the QSR chart is the lack of performance. As the market recovered from its March 2020 lows and went on to hit new highs, the QSR chart stalled without a full recovery to new highs. The stock is well off its 2019 highs around $105.00 and is unlikely to see that high for some time. A two-year top was completed when the stock broke support at $68.00. The recent bounce back toward $68.00 offers another opportunity to sell the stock. Risk/reward is unfavorable with our target of $50.00 and little upside potential.

Source: Refinitiv

Technical Analysis

Aritzia Inc. (ATZ: TSX)

A strong bull trend on the ATZ chart has played out as chart breaks trend and opens the door for downside risk. Prices have broken below its moving averages as well as its rising trend line. A break of support at $48.00 and $40.00 accompanied by big volume completed tops that reversed the trend down. Weak and declining relative performance indicates a risky chart. Target is mid-$20s.

Source: Refinitiv

Sector Analysis

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

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

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$29.32	$35.00	1.39%	20.80%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$33.71	$38.00	5.55%	18.42%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$7.38	$9.00	0.41%	22.36%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$6.52	$8.50	0.00%	30.37%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$78.08	$75.00	1.17%	-2.79%	Oil, Gas & Consumable Fuels
Materials							
	CCL Industries Inc.	CCL.b	$60.72	$79.00	1.58%	31.69%	Containers & Packaging
	Centerra Gold Inc.	CG	$9.87	$15.00	2.72%	54.81%	Gold
	Endeavour Mining plc	EDV	$29.11	$46.00	2.34%	60.46%	Gold
	First Quantum Minerals Ltd.	FM	$36.62	$46.00	0.03%	25.64%	Metals & Mining
	Hudbay Minerals Inc.	HBM	$7.24	$11.50	0.27%	59.12%	Metals & Mining
	Kinross Gold Corp.	K	$5.68	$12.00	2.66%	113.94%	Gold
	Pan American Silver Corp.	PAAS	$27.82	$44.75	1.70%	62.67%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$11.63	$18.50	0.00%	59.07%	Gold
	Wheaton Precious Metals Corp.	WPM	$52.24	$75.00	1.42%	45.01%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$37.13	$52.00	0.00%	40.05%	Capital Goods
	Boyd Group Services Inc.	BYD	$142.85	$170.00	0.41%	19.41%	Commercial & Professional Services
	CAE Inc.	CAE	$31.59	$44.00	0.00%	39.28%	Capital Goods
	Exchange Income Corp.	EIF	$47.01	$59.00	5.12%	30.61%	Transportation
	Finning International Inc.	FTT	$33.62	$46.00	2.80%	39.63%	Capital Goods
	GDI Integrated Facility Services Inc.	GDI	$45.54	$70.50	0.00%	54.81%	Commercial & Professional Services
	H2O Innovation Inc.	HEO	$2.04	$3.25	0.00%	59.31%	Capital Goods
	Mullen Group Ltd.	MTL	$12.34	$16.50	5.74%	39.55%	Transportation
	TFI International Inc.	TFII	$103.87	$146.00	1.28%	41.87%	Transportation
	WSP Global Inc.	WSP	$139.62	$180.00	1.02%	30.00%	Capital Goods
Consumer Discretionary							
	Dollorama Inc.	DOL	$73.36	$75.00	0.32%	2.54%	Retailing
	Park Lawn Corp.	PLC	$34.70	$45.00	1.32%	31.00%	Consumer Services
	Spin Master Corp.	TOY	$45.19	$66.00	0.00%	46.05%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Dialogue Health Technologies Inc.	CARE	$4.17	$11.50	0.00%	175.78%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$5.50	US$9.75	5.45%	82.73%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$13.59	$17.50	6.92%	35.66%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$69.58	$84.00	4.72%	25.50%	Banks
	ECN Capital Corp.	ECN	$6.07	$8.00	0.62%	32.45%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$701.97	$1050.00	1.90%	51.39%	Insurance
	iA Financial Corp.	IAG	$65.68	$80.00	3.86%	25.61%	Insurance
	Royal Bank of Canada	RY	$132.17	$148.00	3.88%	15.85%	Banks
	Trisura Group Ltd.	TSU	$34.83	$58.00	0.00%	66.52%	Insurance
Information Technology							
	Coveo Solutions Inc.	CVO	$6.00	$18.00	0.00%	200.00%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US$25.99	US$65.00	0.00%	150.10%	Software & Services
	Magnet Forensics Inc.	MAGT	$16.25	$50.00	0.00%	207.69%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$12.91	$19.00	0.00%	47.17%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$30.54	$33.00	3.55%	11.53%	Utilities
	Boralex Inc.	BLX	$38.61	$47.00	1.63%	23.44%	Utilities
	Innergex Renewable Energy Inc.	INE	$17.06	$23.00	4.10%	39.04%	Utilities
	Northland Power Inc.	NPI	$38.36	$44.00	3.11%	17.83%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$50.16	$68.50	2.15%	38.72%	Real Estate
	BSR REIT	HOMu	US$17.76	US$24.50	3.01%	40.88%	Real Estate
	Dream Industrial REIT	DIR.un	$14.21	$19.25	5.04%	40.39%	Real Estate
	Flagship Communities REIT	MHC.u	US$17.68	US$24.00	3.08%	38.77%	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 May 31, 2022
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

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

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Back to Research Analysts page

Banking & Insurance

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

Selections

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

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *Choppy macro put 2022 EPS guidance into doubt, but relative appeal still exists.*

IAG's weaker than expected Q1/22 was primarily a factor of negative claims experience in the Group business and expense pressures caused by inflation. The latter factor could easily persist and, combined with falling equity markets, puts into question the achievability of 2022 EPS guidance. However, with the stock down ~30% from its YTD peak and trading at 1.00x P/B, we believe downside risk to EPS is materially reflected in the stock. We note that IAG's depressed P/B multiple could appeal to value-oriented investors, especially considering the company reiterated that IFRS 17 transition should have a "near-neutral to favourable" impact on core EPS/ROE and book value. Furthermore, at these levels, we believe the company could be opportunistic with the buyback program, which has over five million (~5.0% of shares O/S) of capacity. $80 price target. Outperform.

Canadian Imperial Bank of Commerce (TSX: CM) – *Ahead of the curve on more conservative provisioning.*

The story of CM's Q2/22 is how the bank zigged (i.e., added to performing provisions) while its peers zagged (i.e., released). In our view, the market will be skeptical of the bank's provision management strategy until it can be demonstrated that this quarter was more emblematic of the bank's conservatism (which is our view) than of its business mix. If anything, CM has released only ~43% of its 2020 performing ACL build and maintains a high performing ACL ratio that is above its pre-COVID levels. Separately, we believe vague expense guidance was a disappointment, though we believe management was holding back until its Investor Day on June 16th. Overall, we continue to like the stock at current levels, especially relative to banks with relatively higher ex-Canada exposure. $84 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		92,292	672	137.41	10/2021	12.96	13.21	13.89	10.4	9.9	89.17	92.80	104.26	1.5	1.3	4.0%	152.00	↑
Bank of Nova Scotia	BNS	SP		102,891	1,204	85.43	10/2021	7.87	8.44	8.59	10.1	9.9	54.13	56.12	60.27	1.5	1.4	4.8%	91.00	↑
CIBC	CM	OP		63,184	903	69.95	10/2021	7.23	7.33	7.56	9.5	9.3	48.09	49.54	52.80	1.4	1.3	4.7%	84.00	↑
National Bank	NA	NR		32,611	336	96.94	10/2021	8.98	9.43	9.63	10.3	10.1	52.81	54.66	59.25	1.8	1.6	3.8%	NR	
Royal Bank of Canada	RY	OP		187,255	1,418	132.10	10/2021	11.19	11.34	12.15	11.6	10.9	69.20	70.95	75.75	1.9	1.7	3.9%	148.00	↑
Toronto-Dominion Bank	TD	SP		176,259	1,819	96.91	10/2021	7.91	7.79	8.45	12.4	11.5	51.49	54.10	59.82	1.8	1.6	3.7%	102.00	↑
Canadian Western Bank	CWB	OP	↑	2,787	92	30.44	10/2021	3.81	3.59	3.75	8.5	8.1	33.43	34.47	36.70	0.9	0.8	4.1%	38.00	↓
Laurentian Bank	LB	SP		1,672	43	38.69	10/2021	4.57	4.66	4.93	8.3	7.9	55.79	57.67	60.59	0.7	0.6	4.5%	49.00	
Insurance																				
Great-West Lifeco	GWO	SP		32,267	932	34.63	12/2021	3.50	3.77	4.02	9.2	8.6	24.57	25.85	25.55	1.3	1.4	5.7%	38.00	
iA Financial	IAG	OP		7,043	108	65.50	12/2021	8.31	8.34	8.95	7.8	7.3	61.02	65.35	66.58	1.0	1.0	3.8%	80.00	↓
Manulife Financial	MFC	SP		45,052	1,924	23.41	12/2021	3.25	3.19	3.27	7.3	7.2	26.33	26.77	22.73	0.9	1.0	5.6%	26.00	↓
Sun Life Financial	SLF	SP		37,427	586	63.86	12/2021	5.99	5.87	6.12	10.9	10.4	40.37	43.71	38.34	1.5	1.7	4.3%	68.00	↓

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

Sector Analysis

Diversified Financials

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

Selections

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

Q1 2022 Results

Trisura Group (TSU, Outperform, $58 PT) – *Rebound Quarter Delivers 22% Beat*

TSU reported EPS of $0.45, up 11% y/y, vs. Street $0.37 (NBF $0.35). We view Q1 results as a strong rebuttal to any concerns that emerged following a Q4-21 earnings miss. We expect lagging YTD share performance to dissolve as TSU demonstrates rapid growth and strong profitability. On that note, stronger-than-expected underwriting profits in both Canada and the U.S. drove the massive Q1-22 beat. Consolidated adjusted ROE was 18.2% vs. Street at 16.9% and BVPS was $8.66 (up 15% y/y) vs. Street at $9.01.

Fairfax Financial Holdings (FFH, Outperform, $1,050 PT) – *Beat on underwriting performance strengthens our thesis*

FFH reported diluted EPS of $4.49, beating NBF (-$7.14) and the Street (-$0.98). FFH beat on both premiums written (top line) and combined ratio (bottom line) driving operating income of $562.4 mln ahead of our $293.7 mln estimate. Fairfax also reported resilient investment income; we expected unrealized losses on bonds (due to higher interest rates) but were pleasantly surprised by gains on the equity portfolio (likely due to FFH's value investment style). Overall, a solid quarter to start 2022.

Element Fleet Management (EFN, Outperform, $20 PT) – *Huge Beat, Upgraded Guidance, Great Setup*

EFN reported adjusted EPS of $0.24, 20% above Street/NBF $0.20, due to higher net revenues combined with in-line operating expenses. The company upgraded its 2022 guidance for net revenue (up 4% comparing new vs. old midpoint), EPS (up 6%) and FCF/share (up 6%). The upgrade reflects management's confidence in sustained success on organic growth initiatives, rebounding service utilization and tailwinds from inflation. Given the early results and upgraded 2022 guidance, we view 2023 results as significantly de-risked. As OEMs increase production capacity, EFN will derive significant financial tailwinds from its $2.9 billion order backlog (independent of the macroeconomic backdrop). The near-to-medium term setup is favourable.

Brookfield Business Partners (BBU, Outperform, US$37 PT) – *Solid Operating Performance with Monetization Kicker*

Management is confident in monetizing its Westinghouse and Clarios assets as both are benefiting from significant industry/company tailwinds. The monetizations will achieve two crucial outcomes, in our view: i) increased liquidity to either pursue more M&A or buy back common shares at currently attractive valuations, and ii) prove out the BBU business model, i.e., alleviate any concerns that BBU can recycle larger scale businesses (a concern that increased as BBU discussed monetizing these same assets, unsuccessfully, this time last year).

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.18	34.1	63.74	12/2021	8.36	9.31	10.09	6.8	6.3	57.64	64.02	72.40	1.0	0.9	1.8%	86.00	↑
First National Financial	FN	SP		2.23	60.0	37.11	12/2021	3.13	2.69	3.53	13.8	10.5	9.33	9.77	10.65	3.8	3.5	6.3%	36.00	
Home Capital Group	HCG	OP		1.30	42.6	30.46	12/2021	4.87	4.42	4.97	6.9	6.1	37.45	40.85	45.04	0.7	0.7		38.00	↓
Timbercreek Financial	TF	SP		0.75	82.6	9.03	12/2021	0.68	0.70	0.74	13.0	12.3	8.33	8.34	8.38	1.1	1.1	7.6%	9.50	
Specialty Finance																				
ECN Capital	ECN	OP		1.50	246.6	6.07	12/2021	US 0.31	US 0.32	US 0.39	14.9	12.4	US 0.66	US 0.71	US 0.80	6.8	6.0	0.7%	8.00	
Element Fleet Management	EFN	OP		5.66	401.6	14.09	12/2021	0.84	0.94	1.05	15.0	13.4	7.40	7.56	8.05	1.9	1.8	2.2%	20.00	↑
goeasy	GSY	OP		1.85	16.0	116.26	12/2021	10.43	11.62	14.66	10.0	7.9	47.10	53.10	63.21	2.2	1.8	3.1%	155.00	↓
Brookfield Business Partners	BBU	OP		US 5.15	US 218.7	US 23.54	12/2021	US 2.90	US 0.27	US 0.60	87.2	39.2	US 19.43	US 23.27	US 28.66	1.0	0.8	1.1%	US 37.00	↓
Power Corporation of Canada	POW	SP		24.61	673.8	36.53	12/2021	4.77	3.88	4.41	9.4	8.3	33.32	34.91	37.30	1.0	1.0	5.4%	42.00	↓
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.3	70.4	17.85	12/2021	-0.34	0.74	0.88	24.0	20.3	8.24	8.32	8.56	2.1	2.1	4.4%	24.00	↓
Securities Exchange																				
TMX Group	X	SP		7.70	55.9	137.63	12/2021	7.10	6.96	7.54	19.8	18.2	69.48	71.41	74.66	1.9	1.8	2.4%	141.00	↑
Insurance																				
Definity Financial Corp.	DFY	OP		3.9	115.9	33.77	12/2021	2.09	1.8	1.97	19.2	17.1	20.41	21.38	22.99	1.6	1.5	5.9%	38.00	↑
Intact Financial Corp.	IFC	OP		32.18	176.1	182.75	12/2021	12.32	11.63	11.84	15.7	15.4	82.20	88.52	94.49	2.1	1.9	2.2%	230.00	↑
Trisura Group Ltd.	TSU	OP		1.43	41.2	34.83	12/2021	1.48	1.65	1.89	21.2	18.5	8.66	9.86	11.74	3.5	3.0		58.00	
Fairfax Financial Holdings	FFH	OP		16.71	23.8	701.97	12/2021	US 122.25	US 61.32	US 76.15	9.1	7.3	US 626.21	US 686.66	US 757.86	0.8	0.7	1.8%	1050.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.02	102.5	9.95	12/2021	1.63	1.15	1.44	8.7	6.9	3.61	3.52	3.75	2.8	2.7	8.6%	11.00	
IGM Financial Inc.	IGM	OP		9.35	240.0	38.96	12/2021	4.04	3.85	4.22	10.1	9.2	26.53	27.75	29.76	1.4	1.3	5.8%	53.00	↓

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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

Selections

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

SCL continues to cut costs; FormTex acquisition expands GDNP's scale & geographic reach

Shawcor announced an early exit from a leased facility in Calgary which formerly housed the company's FlexFlow operations, resulting in net savings of ~$15 mln over the course of the next seven years.

SCL had previously announced the decision to abandon the FlexFlow product line (a discrete length large diameter composite pipe offering under the Composite Systems segment) concurrent with the release of Q4/21 results. Following the abandonment of the FlexFlow product line and the exit from the leased facility where the FlexFlow operations were housed (expected to be completed in the third quarter of 2022) SCL's core product lines under the Composite Pipes segments are all manufactured under one roof at Shawcor's remaining facility in Calgary. While the implied annual cost savings of ~$2.1 mln are relatively small vs. SCL's quarterly SG&A run rate of ~$50 mln, we view the announcement as another illustration of SCL's ongoing efforts to right-size the company's footprint and cost structure. **We continue to highlight Shawcor as our top value pick with management reducing costs and repositioning the company towards higher margin, lower volatility business lines (with infrastructure and industrial end-markets growing to represent 49% of total SCL revenue in Q1/22). With the backlog and outlook for offshore pipe coating activity improving, we reiterate our Outperform rating and $8.50 target driven by an unchanged 5.3x 2023e EV/EBITDA multiple, roughly three turns below SCL's 8.2x post-2014 forward year EV/EBITDA average.**

GDNP Special Warrants offering to provide funding for FormTex Plastics acquisition.

GDNP recently announced a non-brokered private placement of 15 million special warrants at a price of $0.40 per special warrant for aggregate gross proceeds of up to $6 mln (later upsized to $6.6 mln), with the bulk of the net proceeds expected to be used to fund the previously-announced acquisition of FormTex Plastics Corp. In addition to funding working capital in support of organic growth and operating efficiency improvement initiatives, the net proceeds of the offering will be used to fund the acquisition of Houston-based custom plastic packaging manufacturer FormTex Plastics Corp. for cash consideration of US$4.8 mln. The acquisition aligns with GDNP's core M&A strategy, with FormTex's traditional plastic product offerings to be converted to GDNP's plant-based alternatives in the coming years, requiring no changes in equipment or machinery. GDNP noted FormTex generated 2021 revenue and EBITDA of ~US$4.9 mln and ~US$0.6 mln, implying a purchase EV/sales multiple of ~1.0x and a purchase EV/EBITDA multiple of ~8.0x (~5.3x - 6.0x EBITDA including the impact of potential cost synergies of ~US$0.2 - US $0.3 mln, expected to be extracted in the year following the acquisition). GDNP will supply FormTex with extruded rollstock sheets from the company's Ex-Tech facility in Richmond, Illinois with FormTex providing a reduction in shipping cost to GDNP's customers in the Southern U.S. (given the facility's proximity to one of the 10 largest outbound shipping destinations in North America) as well as proximity to an efficient port of entry for raw materials from Europe and South America. **We view the transaction positively, increasing GDNP's scale and geographic reach while driving a higher margin revenue mix, reinforcing our Outperform rating. We maintain our previous $1.25 Target driven by an unchanged 2.9x EV/Sales multiple.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	EBITDA (mlm) 2021	EBITDA (mlm) 2022e	EBITDA (mlm) 2023e	EV/EBITDA 2021	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt/ EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		647.13	18.8	34.39	176.3	202.8	224.9	8.4	7.5	6.5	4.3	49.00	44%	
CES Energy Solutions Corp.	CEU	SP		705.65	253.8	2.78	156.2	186.5	215.1	7.2	6.2	5.7	2.4	3.35	23%	
Enerflex Ltd.	EFX	OP		703.99	89.7	7.85	140.0	273.3	454.8	6.6	8.2	4.8	3.2	10.75	38%	
good natured Products Inc.	GDNP	OP		97.78	222.2	0.44	-0.1	3.6	7.8		41.2	19.8	0.0	1.25	184%	
Mullen Group Ltd.	MTL	OP		1162.24	94.2	12.34	218.7	263.3	276.5	7.9	6.4	5.8	2.0	16.50	39%	
Pason Systems Corp.	PSI	SP		1315.93	82.2	16.01	72.5	129.0	150.7	16.0	8.7	7.3	-1.5	19.00	21%	
Shawcor Ltd.	SCL	OP		459.60	70.5	6.52	100.8	114.4	148.6	6.8	5.9	4.3	1.9	8.50	30%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

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

Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) estimated to reach US$40 trillion in 2022 (vs. US$35 trillion in 2020), representing one in every US$3 and effectively growing at an >10% CAGR over four years. If the pace of ESG investment grows at even half this rate, we anticipate ESG AUM rising to US$45-50 trillion by 2025 or US$60 trillion at the historical >10% CAGR. We expect ESG integration and shareholder engagement/voting to be the leading ESG investment style, especially as ESG disclosures and transparency improve at the corporate level and as institutional investors become more educated in the ESG landscape. In our opinion, we view ESG integration, which involves factoring in non-financial metrics into fundamental analysis, as the best way for investors to implement ESG while generating adequate returns, as it allows an investor to understand, and hopefully, avoid specific ESG risks, while not placing hard restrictions on specific industries.

Carbon Market Overview

Compliance and Voluntary Markets

Carbon prices have continued to rise at considerable rates (70% Y/Y), inclusive of all regions and systems (range 50% - 120% Y/Y). The rise in prices has largely been attributable to enhanced government ambitions to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby, leading to higher carbon prices.

Starting with the most liquid carbon market, the European Emission Allowances (EUA) active contract closed the month of May at levels of €84 (US$90) after hitting over US$95 last month. Overall, on average, EUAs were relatively flat this past month and remain in contango with the Dec 23 – Dec 22 spread reflecting €2.90. Considering prices on a y/y basis, EUAs have grown 40%. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which started trading at the end of May 2021, closed at £83 (US$104) at the end of May and are also flat m/m and up 60% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$14 and are down 1% m/m but up 65-70% y/y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at US$32 and increased on a monthly average by +6%; we note y/y CCA prices are up 35-40%.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at US$5 and decreased by -15% on a monthly basis, while the Nature-based Global Emissions Offset (NGEO) active future also followed a similar path decreasing -2% and closing at US$11. We note that GEO started trading on February 26, 2021 at US$2.63, before bottoming at US$2.33 on May 21st and now has ~2.5x in price.

Monthly Highlights

Caveat Emptor; What You See is Not What You Get...

Undeniably, and as a reflection of the embedded momentum, nothing is more indicative of the ESG thematic moving from the periphery to the mainstream than roughly the third of dollars that are earmarked towards the narrative of sustainable investing, i.e., accounting for ESG factors within portfolio construction. With that, market prognosticators peg sustainable investments to reach US$40 trillion by the end of the year (vs. 2020 at US$35 trillion) and projections for US$50 trillion by 2025 (or a 25% increase), whereby, and for context, the U.S. is currently home to approximately half of that value, with Canada pegged at around 5-10%. Notably, and as a proxy to gain incremental exposure, market participants have been feverous by way of funneling billions into ESG ETFs on both sides of the border that has seen both ESG ETF count and AUM growing (CAN AUM: $9.7 billion, U.S. AUM: US$100 billion) at a clip of 10-15% and 20%, respectively, to ensure they do not miss out on the unrelenting and stratospheric climb.

The proportion of ESG ETF launches (excl. inverse/short and leveraged ETFs), inclusive of Canada and the U.S., has witnessed a remarkable climb on a trailing four-quarter basis since the latter half of 2018 with one in every four ETF launches suspected of advancing ESG themes and initiatives. Importantly, this serves as a reminder of relative positioning and investor appetite towards the vast themes entrenched within the narrative.

With the above for context, we wanted to better understand, and as an analogy, 'peel the onion back', in taking a closer look at the underlying complexion of ESG ETFs and ultimately their primary drivers. In analyzing and assessing the make-up of ESG Equity ETFs, we screened active Equity ETFs domiciled either in Canada or the United States that are flagged as ethical and/or responsible investments, which resulted in an aggregate grouping of 85 ESG ETFs, which are naturally skewed towards the U.S. (85%). As we suggest in more detail below, What You See is NOT What You Get, and this could not be more apparent when looking at ESG and/or ethically-stamped Equity ETFs. We caution all market participants to exercise prudence in fully examining the make-up of such funds as they might elicit behavior more in line with technology-heavy (or momentum-driven) indexes. Our findings highlight that the complexion of ESG branded Equity ETFs veers off what conventional perception at an initial thought might suggest, i.e., an abundance of green and/or positively-orientated companies pursuing the ongoing energy transition narrative.

Expanding upon the above, and quite surprising to us, is the lack of sector orientation towards Renewable and IPPs as only 15-20% of the funds analyzed contained companies within these sectors in the top 10 holdings with an average weight of 4%, which are arguably at the forefront of the green transition. The composition of the broader fund group largely reflects that of the technology sector, one that has favourably maintained its exposure among plain vanilla indices and which is used as a baseline while making minor adjustments and keeping sector allocations more or less neutral. Provided the technology sector's growth characteristics over the past decade, and relative outperformance to that of the market, or until now, given the reversal to value, returns could be challenged under the current global backdrop through: 1) ongoing geopolitical uncertainty (Russia/Ukraine), 2) rising interest rates (muted tech valuations) and 3) rising commodity backdrop (repositioning; i.e., rebalancing of BlackRock's Momentum ETF). As we depict, the technology sector is the apparent outlier as it represents on average a whopping 20-25% of the funds composition by weight on the basis of both the entirety of the ETF and top 10 holdings. The heightened emphasis on the sector can be in part explained through generally low emissions intensity profile (Scope 1 and 2), coupled with little to no change of the baseline index.

Back to Research Analysts page

Sector Analysis

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047
—
Associates:
Eduardo Garcia Hubner
416-869-7476

Stephen Kwai
416-869-7571

Selections

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

Highlights as of May 2022

Among the many companies in our coverage that reported earnings results in May, we highlight Jamieson Wellness (TSX: JWEL) and DRI Healthcare Trust (TSX: DHT.U).

Jamieson Wellness

JWEL reported a Q1/22 beat driven by strength in the Jamieson Brands segment due to domestic and international growth while it also reiterated its 2022e guidance. Revs / adj. EBITDA / adj. EPS were +6% / +13% / +24% y/y and +2% / +8% / +16% vs. NBF. In addition, adj. EBITDA margin expanded 130 bps y/y (to 20.2%) due to sales mix and operating leverage.

Jamieson Brands segment reported revs / adj. EBITDA +10% / +16% y/y and +4% / +9% vs. NBF driven by 1) domestic growth of +9% y/y (vs. our +5% est.) attributable to strong POS sales, seasonal promotional activities as well as pricing; and 2) international growth of +13% (vs. our +10% y/y) driven by growth in China despite a tough comp. In Strategic Partners, as expected, results were impacted by timing of shipments resulting in revenues and EBITDA decreasing by -8% y/y and -18% y/y, respectively.

JWEL also indicated that it is successfully mitigating supply chain and inflationary pressures via 1) fixed-price supply contracts; 2) larger inventories; 3) price increases to capture costs (some in Q1/21 and more expected in H2/22); and 4) being operationally nimble. Additionally, the Shanghai lockdowns have resulted in disruptions of local logistics/delivery chains although the latter, per JWEL, have already been restored.

We reiterate an Outperform rating and maintain our $42.75 target which implies ~16.5x 2023e EV/EBITDA.

DRI Healthcare Trust

DRI reported Q1/22 results that were in line with our estimates and consensus while its pipeline remains strong with deals in both the near (~60 days to closing) and mid-term (6-12 months) stages. DRI's pipeline is currently valued at ~US$1.7 bln and consists of 10+ deals (including churn) in pharmaceuticals that have been commercialized for at least 6-12 months in a variety of therapeutic areas (rare disease, oncology, pain, autoimmune). Three of these deals are under exclusivity and in late-stage due diligence with expectations for two to close in the next ~60 days. The rest of the pipeline could be executed in over 6-9 months, assuming it meets DRI's investment criteria and / or passes due diligence.

Other updates on DRI's portfolio included 1) Vonjo is expected to have a strong launch with DRI's first royalty payment in Q2/22; 2) a number of studies / clinical trials on several royalty portfolio products could lead to broader or off-label use; and 3) Natpara's reinstatement is addressable via a new autoinjector and could happen in the next few months.

We continue to find DRI's units undervalued vs. its current portfolio DCF-est. NAV of US$7.15/unit and our US$9.75 target (includes a growth-component NAV of US$2.60/unit). Maintain Outperform rating.

Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		78.77	89.5	0.88u	1/2022	0.0%	(0.56)u	(0.83)u	(0.71)u	nmf	nmf	59.3u	139.0u	144.7u	9.1	8.4	1,185.1u	8.2	0.75u	
Andlauer Healthcare Group	AND	SP		2,015.50	41.8	48.19	1/2022	0.5%	1.30	1.59	1.64	30.4	29.4	119.3	151.9	155.3	14.5	14.2	183.8	1.2	50.00	↑
Dialogue Health Technologies	CARE	OP		274.78	65.9	4.17	1/2022	0.0%	(0.39)	(0.30)	0.03	nmf	nmf	(21.2)	(16.0)	6.4	nmf	nmf	-	-	11.50	↓
DRI Healthcare Trust	DHT.UT	OP		212.5u	38.6	5.50u	1/2022	5.5%	0.62u	0.67u	0.72u	8.2	7.6	101.2u	79.0u	76.6u	2.9	2.8	39.4u	0.5	9.75u	↓
Jamieson Wellness	JWEL	OP		1,390.36	40.5	34.37	1/2022	1.7%	1.34	1.46	1.50	23.5	22.8	100.1	110.0	117.2	14.2	13.2	134.6	1.1	42.75	
Knight Therapeutics	GUD	OP		639.77	117.2	5.46	1/2022	0.0%	0.21	0.30	0.34	13.9	12.2	38.0	50.0	58.0	10.5	9.0	-	-	7.50	
Medical Facilities Corp.	DR	SP	↓	256.10	30.5	8.39	1/2022	3.8%	0.96u	0.87u	0.92u	7.5	7.2	63.6u	51.6u	53.6u	6.1	5.6	81.9u	1.9	10.50	↓
Theratechnologies	TH	SP		318.66	95.1	3.35	1/f2022	0.0%	(0.25)u	0.01u	0.08u	nmf	31.4	(14.6)u	4.2u	12.2u	62.3	21.2	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		183.62	90.0	2.04	3/f2022	0.0%	0.08	0.09	0.13	24.0	15.8	14.6	18.1	20.9	11.7	10.1	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		343.07	10.6	32.24	1/2022	3.7%	2.23	2.34	2.70	13.8	11.9	42.8	45.2	51.4	9.6	8.4	90.2	1.8	38.00	
Rogers Sugar	RSI	SP		659.56	104.2	6.33	2/f2022	5.7%	0.33	0.43	0.45	14.7	14.0	91.0	99.6	104.2	10.2	9.8	372.3	3.6	5.75	↑
Chemtrade Logistics Income Fund	CHE.UN	OP		907.37	104.5	8.68	1/2022	6.9%	0.70	1.09	1.27	8.0	6.8	280.4	325.9	329.8	6.3	6.2	1,180.1	3.6	9.25	↑

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Maxim Sychev
Analyst
416-869-6517

Associates:
Kazim Naqvi
416-869-6754

Roman Pshenychnyi
416-869-7937

Selections

- *WSP Global*
- *ATS Automation Solutions*
- *Finning International*

WSP Global Inc.

Marketing takeaways: operational momentum sustains; and now 10-year yield provides a reprieve

Bottom line – reflexivity of discount rates and perception around the share price

The world where TTEK was commanding 30x EV/EBITDA (nine months ago) no longer exists. At the moment, the market is still searching for an appropriate equity premium ,which is of course contingent on the trajectory of inflation. While we don't want to make this discussion about the broader economic themes (and the dreaded "R" – recession word), we believe this is the determining factor for YTD WSP share price decline (-25% vs. TSX -2%). The fear around a narrower M&A set when WSP's 2022E EV/EBITDA multiple now stands at 14x is also a frequent topic of discussion with investors. We do believe that in terms of strategic players, WSP is in a privileged position to deploy capital (given a consistent M&A track record and unique shareholder base that can underwrite a growth plan); PE players remain a wild card (as we have seen in a number of instances where transactional multiples got quite up over the last two years), but with higher rates (and generally tried and tested approach of piling up debt post-M&A to make the numbers work), we think a dose of reality is setting in as we speak. For a company that has spending visibility (most geographies are robust now) and an operating business model that allows the company to flex its cost structure at a time of a potential dislocation (i.e., preserving margin profile), we view WSP as a key part of an industrial portfolio in Canada. We rate WSP shares Outperform, $180 target price (using a 15x EV/EBITDA multiple on 2023E forecasts and M&A optionality).

- **Management remains committed to executing the company's long-term strategy of becoming a leader in all its market verticals, with significant growth driven by a combination of increasing market share and opportunistic M&A being key pillars.** In the long term, a headcount of 100,000 to 120,000 is feasible as the firm seeks to broaden its revenue streams and geographic presence and deepen industry expertise to better serve its clients. The 2022-2024 Strategic Action Plan serves as a definitive step toward these goals, as the firm aims to reach $10 bln in net revenues driven by continued M&A and 5%+ organic revenue growth, along with an adjusted EBITDA margin of 17.5% to 18.5%. For context, achieving this revenue target would require the equivalent of two additional Golder acquisitions in the next three years (note that we reflect that M&A probability explicitly in our NAV methodology).
- **M&A will continue to play a vital role in this expansion. WSP has a successful track record of acquiring complementary businesses at reasonable prices. In addition to realizing significant cost synergies, the company can also use its broad geographic presence and extensive expertise to drive revenue synergies.** Combined with being a front-runner on many high-profile projects around the world, we would argue that this makes WSP a "buyer of choice" for potential targets in this highly fragmented space (because engineering talent prefers to work on the most interesting projects). Despite the recent pullback in public equity markets, many (primarily private) potential sellers have remained firm on their asking prices which, combined with a surplus of PE firms looking to deploy capital, has kept target multiples above traditional ranges. Nevertheless, we remain confident in management's ability to deploy capital while WSP's stellar balance sheet (net debt to adjusted EBITDA of 0.8x in Q1/22) and access to attractively priced debt financing (in the 5% range on a pre-tax basis) supports a significant runway through growth by acquisition.
- **Looming U.S. infrastructure should provide a significant revenue tailwind starting early next year.** Firstly, state and local tax receipts are running well above pre-COVID levels and funding is in the process of being allocated to specific projects. Secondly, the incoming influx of spending has significantly improved future sentiment among existing and potential WSP U.S. clients, providing significant visibility for many revenue streams and adding to the company's record backlog ($11.0 bln as at April 2, 2022). Management also noted that the conversion of potential clients (the "soft" backlog) into committed customers (the "hard" backlog) is continuing at a good pace. These factors should facilitate management's ability to build additional scale in key U.S. states (namely California, Texas and Florida). It is also worth noting that WSP serves as a strategic advisor for the U.S. Federal government in both the planning and execution of infrastructure spending

Industrial Products

initiatives, which supports the firm's credibility as a trusted advisor and reinforces its status as a Tier 1 engineering consulting practice.

- **Operationally, blocking and tackling.** WSP has made strides in the future implementation of a standardized, global ERP system which should streamline a number of business functions and processes and allow the company to realize long-term cost savings. The project is being implemented in a phased approach by geography, with the Canadian business rolling out the new ERP system by the end of this year, followed by the U.S. and UK starting in 2023.
- **Inflation continues to be monitored (as is the case for most businesses) as cost increases materialize in upward pressure on salaries and increased turnover in a tight labour market; these pressures, however, are being effectively managed.** Fortunately, the company has largely been able to mitigate these factors by exercising its ability to pass through the costs to its clients. We are also impressed at the company's operational continuous improvement initiatives, such as a firm-wide goal of saving one million employee-hours (corresponding to about 1% of total employee-hours) and the continued investment in its Practice Area Network aimed at accelerating knowledge-sharing among its 55,000+ employees globally. Offshoring centres are also helping the company to offload some peak capacity. When it comes to labour, WSP has onboarded (gross) 4,000 in Q1/22.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 5/31	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP		**$18.00**		$14.79	$900	12 - 2021	$0.71	$0.83	$1.01	13.8x	12.1x	$230	$247	$260	6.2x	5.9x	5.0%	1.9x
Bird Construction Inc.	BDT	OP		**$12.00**		$8.38	$450	12 - 2021	$0.95	$0.85	$0.99	9.4x	8.0x	$101	$98	$110	4.4x	3.9x	4.7%	0.0x
Finning International Inc.	FTT	OP		**$46.00**		$33.62	$5,288	12 - 2021	$2.18	$2.51	$2.69	13.4x	12.5x	$855	$945	$1,007	7.2x	6.8x	2.8%	1.6x
IBI Group Inc.	IBG	OP		**$20.00**		$13.24	$414	12 - 2021	$0.72	$0.90	$0.95	14.7x	14.0x	$53	$64	$62	7.2x	7.4x	0.0%	0.4x
North American Construction Group Ltd.	NOA	OP		**$30.00**		$16.83	$478	12 - 2021	$2.06	$2.38	$2.65	7.2x	6.4x	$207	$227	$239	3.8x	3.6x	1.9%	1.7x
Ritchie Bros. Auctioneers	RBA	SP		**US$56.00**	↑	US$60.19	$6,660	12 - 2021	US$1.64	US$1.70	US$2.08	33.3x	27.2x	US$356	US$383	US$448	20.6x	17.6x	1.7%	3.0x
SNC-Lavalin	SNC	OP		**$42.00**		$25.34	$4,449	12 - 2021	$1.31	$1.29	$1.72	10.1x	7.6x	$437	$479	$574	8.0x	6.7x	0.3%	3.1x
Stantec Inc.	STN	OP		**$70.00**	↓	$57.44	$6,396	12 - 2021	$2.38	$2.98	$3.30	19.3x	16.4x	$439	$559	$598	12.8x	12.0x	1.3%	2.0x
Toromont Industries Ltd.	TIH	OP		**$127.00**		$112.19	$9,252	12 - 2021	$4.00	$4.61	$4.95	23.4x	21.8x	$634	$708	$753	12.5x	11.7x	1.4%	net cash
WSP Global	WSP	OP		**$180.00**	↓	$139.62	$16,460	12 - 2021	$5.08	$5.63	$5.63	24.8x	21.7x	$1,044	$1,187	$1,383	14.8x	12.7x	1.1%	0.9x
AutoCanada	ACQ	SP	↓	**$37.00**	↓	$28.59	$774	12 - 2021	$4.16	$4.36	$3.80	6.7x	7.7x	$198	$231	$221	5.1x	5.3x	0.0%	1.3x
Stelco	STLC	SP		**$55.00**		$39.25	$2,918	12 - 2021	$20.42	$17.91	$5.68	2.2x	6.9x	$2,055	$1,919	$699	1.1x	2.9x	3.1%	net cash
ATS Automation	ATA	OP		**$52.00**	↓	$37.13	$3,423	12 - 2021	$2.17	$2.18	$2.39	17.0x	15.5x	$318	$363	$381	11.9x	11.3x	0.0%	2.4x
ABC Technologies	ABCT	SP		**$7.00**		$6.09	$520	12 - 2021	-$0.22	-$0.58	$0.36	-8.2x	13.2x	$133	$69	$179	11.5x	4.4x	2.5%	5.4x
Colliers International	CIGI	OP		**US$164.00**	↓	US$121.75	$5,365	12 - 2021	US$6.18	US$7.23	US$7.59	15.5x	14.8x	US$544	US$632	US$693	10.3x	9.4x	0.2%	0.8x
Stella-Jones	SJ	OP		**$57.00**		$36.06	$2,318	12 - 2021	$3.55	$3.48	$3.66	10.4x	9.8x	$365	$359	$378	8.3x	7.9x	2.2%	2.0x
Median												**13.6x**	**12.8x**				**8.1x**	**7.1x**	**1.5%**	

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

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

Vishal Shreedhar
Analyst
416-869-7930

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

Selection

› *Dollarama*

Gildan (GIL: TSX, NYSE)

Outlook is moderating; unit growth remains positive

Management noted that Q1 North American POS trends grew in the double-digit range; however, in April, it has moderated to the mid-single-digit range. This is still good performance, and when coupled with pricing in the mid-to-high-single-digit range, it seems likely that 2022 sales growth will be at least within the three-year sales CAGR guidance range of 7-10% (NBF models 13%). Some will argue that Gildan's business is levered to the economic backdrop, and history has supported this view; however, we similarly note that Gildan is exposed to recovery in segments like travel/tourism, education, sports and event merchandising (~40% of the industry). In addition, inventories in the channel remain low.

Gildan reiterated its strategic plan

Management reiterated the Gildan Sustainable Growth strategy. Over the next three years, GIL expects net sales growth (CAGR) of 7% - 10% (NBF is 7.6%), supported by capacity expansion in Bangladesh and Central America; annual adj. EBIT margin of 18% - 20% (NBF averages 18.9%); capex at 6% - 8% of sales (NBF averages 7%); and annual dividend growth and continued share repurchases, while maintaining net leverage within its target of 1.0x – 2.0x. Our estimates have been revised as follows: 2022 EPS goes to $3.05 from $2.89 and 2023 EPS remains unchanged at $3.19.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 05/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,444	60.1	173.78	12/2021	18.91	18.78	19.75	9.3	8.8	2,667	2,624	2,689	5.5	5.3	86.43	0.43	222.00	↓
Dollarama	DOL	OP		21,862	298.0	73.36	01/2022	2.18	2.60	2.92	28.2	25.1	1,283	1,439	1,553	17.7	16.4	-0.22	1.02	75.00	
Fuel and Other																					
Couche Tard	ATD.b	SP		61,016	1,061.7	57.47	04/2021	2.45	2.51	2.51	18.1	18.1	5,005	5,086	5,071	10.6	10.6	12.07	0.35	57.00	
Parkland Fuel Corporation	PKI	OP		5,872	155.9	37.66	12/2021	2.45	3.13	3.03	12.0	12.4	1,260	1,572	1,571	7.5	7.5	15.39	0.71	45.00	
Apparel																					
Gildan	GIL	OP		7,578	190.2	39.84	12/2021	2.73	3.05	3.19	10.3	9.9	727	774	792	8.6	8.4	9.76	0.31	64.00	
Grocers																					
Empire Company	EMP.a	OP		10,980	264.9	41.45	05/2021	2.61	2.80	3.10	14.8	13.4	2,144	2,310	2,426	7.6	7.3	18.08	0.58	48.00	
Loblaw	L	OP		39,290	336.7	116.69	12/2021	5.59	6.39	6.95	18.3	16.8	5,587	5,970	6,149	7.4	7.2	34.96	0.31	122.00	↑
Metro	MRU	SP		16,878	241.6	69.86	09/2021	3.44	3.78	4.19	18.5	16.7	1,106	1,112	1,140	19.0	18.5	26.92	0.27	74.00	
Food Manufacturer																					
Saputo	SAP	OP		10,561	415.3	25.43	03/2021	1.74	1.23	1.69	20.7	15.1	1,471	1,166	1,522	12.6	9.6	15.9	0.38	31.00	↓
Lassonde	LAS.a	OP		845	6.9	122.00	12/2021	11.18	11.08	13.51	11.0	9.0	178	178	202	6.0	5.3	125.5	0.20	169.00	↓
Premium Brands Holdings	PBH	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,021	37.5	27.26	12/2021	2.64	3.12	3.35	8.7	8.1	211	238	246	5.8	5.6	11.23	0.46	37.00	↑
Pet Valu	PET	SP		2,358	71.7	32.90	12/2021	1.02	1.43	1.59	22.9	20.7	182	199	213	13.9	13.0	0.00	1.22	38.00	↑
Restaurants																					
MTY Food Group	MTY	OP		1,304	24.5	53.12	11/2021	3.46	3.68	4.10	14.4	13.0	169	174	186	9.3	8.7	26.05	0.33	70.00	
Online Grocery																					
Goodfood Market	FOOD	OP		140	75.0	1.87	08/2021	(0.45)	(1.06)	(0.79)	NA	NA	(15)	(50)	(25)	NA	NA	0.87	0.37	3.75	

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

Don DeMarco
Analyst
416-869-7572
—
Associates:
Kelvin Lin: 416-869-8045
Yi Liu: 416-869-8524

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

Selections

› *Teck Resources*
› *Hudbay Minerals*
› *First Quantum*

Price Volatility to Persist in 2022

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

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

Top picks:

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

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

- *Hudbay Minerals (HBM: TSX)*

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

- *First Quantum (FM: TSX)*

  Remains a 'go-to' copper producer given its high-quality asset base, low AISC and one of the most robust project pipelines (including Cobre-Panama, Enterprise, Kansanshi S3 expansion and Taca Taca).

Back to Research Analysts page

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	SP	-	3,301	689.1	4.79	7.25	↓	Nagle	0.07u	0.60u	0.51u	6.0x	9.4x	0.34u	0.93u	0.86u	3.9x	4.2x	5.72	0.8x
Copper Mountain Mining	CMMC	OP	-	581	211.3	2.75	4.50	-	Nagle	0.11u	0.62u	0.42u	4.4x	6.5x	0.61u	1.53u	1.00u	1.8x	2.7x	4.78	0.6x
Ero Copper	ERO	SP	-	1,418	90.4	15.69	21.50	-	Nagle	1.34u	2.44u	2.44u	4.8x	6.4x	2.02u	3.17u	3.22u	3.7x	3.7x	18.78	0.8x
First Quantum Minerals	FM	OP	-	25,308	691.1	36.62	46.00	-	Nagle	(0.07)u	1.20u	3.95u	23.0x	9.3x	2.64u	4.22u	6.84u	6.5x	4.0x	31.84	1.2x
Hudbay Minerals	HBM	OP	-	1,895	261.7	7.24	11.50	↓	Nagle	(0.44)u	0.23u	0.59u	23.5x	12.3x	0.93u	1.87u	2.53u	2.9x	2.2x	8.41	0.9x
Lundin Mining	LUN	SP	-	8,309	737.9	11.26	14.00	-	Nagle	0.31u	1.11u	1.73u	7.6x	6.5x	1.00u	2.11u	2.66u	4.0x	3.2x	11.11	1.0x
Sherritt International	S	SP	-	238	397.3	0.60	1.10	-	Nagle	(0.37)u	(0.03)u	0.47u	n/a	1.3x	0.09u	(0.11)u	0.43u	n/a	1.1x	1.18	0.5x
Taseko Mines	TKO	SP	-	570	286.3	1.99	3.00	↓	Nagle	(0.11)c	0.16c	0.29c	12.6x	6.9x	0.44c	0.73c	0.68c	2.7x	2.9x	3.61	0.6x
Teck Resources	TECKb	OP	-	28,421	542.0	52.44	65.00	-	Nagle	1.05c	5.74c	11.85c	9.1x	4.4x	3.38c	10.54c	16.37c	5.0x	3.2x	43.81	1.2x
Trevali Mining	TV	SP	-	67	98.9	0.68	1.50	↓	Nagle	(0.03)c	0.02c	(0.15)c	31.3x	n/a	0.01c	0.12c	0.77c	4.3x	0.7x	1.79	0.4x
Developers																					
Adventus Mining	ADZN	OP	-	83	131.8	0.63	1.40	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.87	0.3x
Filo Mining	FIL	OP	-	3,080	121.5	25.36	25.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	28.53	0.9x
Foran Mining	FOM.V	SP	-	584	238.4	2.45	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
Solaris Resources	SLS.TO	OP	-	1,220	108.9	11.21	22.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.97	0.4x
Trilogy Metals	TMQ	SP	-	177	145.5	1.22	2.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.14	0.4x
Sigma Lithium	SGML	OP	-	2,127	100.4	21.18	26.00	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	30.39	0.8x
Lithium Americas	LAC	OP	-	3,718	120.1	30.97	38.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28	0.6x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Sector Analysis

Metals & Mining: Precious Metals

Don DeMarco
Analyst
416-869-7572
—
Associates:
Kelvin Lin: 416-869-8045
Yi Liu: 416-869-8524

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

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

Rabi Nizami
Analyst
416-869-7925

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to stimulus measures, interest rates remain low. To start the year, the U.S. 10-year yield strengthened, resulting in modest short-term softness in spot gold prices. The U.S. Fed has begun to raise interest rates with a 0.25% hike in March followed by an outsized 0.50% hike in May. Bloomberg consensus now expects an additional eight 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 in the short term. The geopolitical tensions associated with the invasion of Ukraine initially caused spot gold to reach its highest levels since August 2020 before falling back to the mid-US$1,800s as rising interest rates weighed on the gold price. We view the evolving geopolitics as a potential driver for spot prices moving forward.

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

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

Selections

Gold/Silver Producers:

- ***Centerra Gold*** *(CG: TSX; C$15.00 target)*
- ***Endeavour Mining plc*** *(EDV: TSX; C$46.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$12.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$44.75 target)*
- ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$18.50 target)*

Royalties:

- ***Wheaton Precious Metals Corp.*** *(WPM: TSX; C$75.00 target)*

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	30,497	454.90	67.04	98.00	↓	Parkin	2.40u	2.51u	2.60u	21.1x	20.4x	6.51u	6.26u	6.68u	8.5x	7.9x	50.17	1.34x
Barrick Gold	ABX	SP	-	45,685	1,763.21	25.91	34.00	↓	Parkin	1.12u	1.18u	1.57u	17.4x	13.1x	2.61u	2.72u	3.31u	7.5x	6.2x	23.75	1.09x
Kinross Gold Corp	K	OP	-	7,110	1,251.78	5.68	12.00	-	Parkin	0.77u	0.52u	0.64u	8.6x	7.0x	0.76u	1.13u	1.34u	4.0x	3.4x	11.20	0.51x
Newmont	NGT	SP	-	67,920	791.05	85.86	115.00	-	Parkin	2.96u	3.27u	4.38u	20.8x	15.5x	6.02u	7.32u	8.33u	9.3x	8.1x	66.64	1.29x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	34,262	191.5	178.93	225.00	-	Nagle	2.72u	3.53u	3.77u	38.1x	47.5x	4.22u	5.21u	5.21u	25.8x	25.8x	72.21	2.48x
Maverix Metals Inc	MMX	SP	-	803	147.4	5.45	6.75	↓	Nagle	0.12u	0.12u	0.17u	45.4x	32.8x	0.29u	0.29u	0.30u	19.1x	18.3x	4.50	1.21x
Osisko Gold Royalties Ltd	OR	OP	-	2,638	184.8	14.27	22.00	-	Nagle	0.26u	0.57u	0.57u	25.3x	24.9x	0.65u	1.03u	1.23u	13.8x	11.6x	17.87	0.80x
Royal Gold Inc	RGLD	SP	-	7,377	65.2	113.08u	165.00u	-	Nagle	2.91u	4.02u	3.86u	28.1x	29.3x	6.28u	7.06u	6.72u	12.0x	12.7x	69.78	1.62x
Sandstorm Gold Ltd	SSL	R	-	1,602	191.7	8.36	R	-	Nagle	R	R	R	R	R	R	R	R	R	R	R	R
Triple Flag Precious Metals Corp	TFPM	SP	-	2,482	156.0	15.91	23.00	-	Nagle	0.20u	0.39u	0.48u	30.7x	33.1x	0.78u	0.80u	0.90u	15.0x	13.3x	12.68	1.25x
Wheaton Precious Metals Corp	WPM	OP	-	23,575	451.3	52.24	75.00	-	Nagle	1.10u	1.31u	1.37u	30.0x	38.1x	1.71u	1.90u	1.95u	20.7x	20.1x	24.96	2.09x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP	-	3,702	392.14	9.44	13.00	-	Parkin	0.41u	0.29u	0.43u	26.0x	17.5x	1.05u	1.00u	1.09u	7.5x	6.8x	12.55	0.75x
B2Gold	BTO	OP		5,807	1,055.8	5.50	8.50	-	DeMarco	0.36u	0.38u	0.43u	14.4x	12.7x	0.68u	0.78u	0.92u	7.1x	6.0x	5.29	1.04x
Centerra Gold Inc	CG	OP	-	2,936	297.44	9.87	15.00	↓	Parkin	0.62u	0.58u	0.75u	13.4x	10.4x	1.43u	1.12u	1.19u	7.0x	6.6x	13.54	0.73x
Dundee Precious Metals	DPM	SP		1,413	191.4	7.38	10.50	↑	DeMarco	1.03u	0.78u	1.04u	9.5x	7.1x	1.66u	1.28u	1.72u	5.8x	4.3x	12.26	0.60x
Eldorado Gold Corp	ELD	OP	-	1,874	184.79	10.14	19.00	↓	Parkin	(0.15)u	0.51u	1.10u	19.8x	9.2x	2.06u	1.85u	2.50u	4.3x	3.2x	21.97	0.46x
Endeavour Mining	EDV	OP		7,802	249.2	31.31	46.00	↑	DeMarco	2.42u	2.42u	2.68u	12.9x	11.7x	4.75u	4.97u	4.69u	6.3x	6.7x	33.35	0.94x
Equinox Gold Corp	EQX	OP	-	2,256	303.2	7.44	12.00	↓	Parkin	0.21u	0.22u	0.39u	33.1x	19.2x	0.79u	0.99u	1.15u	7.5x	6.5x	13.99	0.53x
IAMGOLD Corp	IMG	SP	↓	1,551	553.90	2.80	3.25	↓	Parkin	0.02u	0.14u	0.36u	16.3x	6.2x	0.61u	0.86u	1.03u	2.6x	2.1x	3.48	0.80x
Lundin Gold Inc.	LUG	SP		2,396	232.2	10.32	14.00	↑	DeMarco	1.07u	0.72u	0.69u	14.3x	15.0x	1.58u	1.45u	1.37u	7.1x	7.5x	13.36	0.77x
New Gold Inc	NGD	SP	-	1,117	681.35	1.64	2.50	-	Parkin	0.32u	0.12u	0.13u	14.2x	12.6x	0.47u	0.41u	0.45u	3.2x	2.9x	2.19	0.75x
OceanaGold Corp	OGC	OP	-	2,070	704.20	2.94	4.00	-	Parkin	0.20u	0.24u	0.22u	12.3x	13.6x	0.47u	0.66u	0.66u	3.5x	3.5x	3.08	0.95x
SSR Mining Inc	SSRM	SP	-	5,229	212.56	24.60	32.50	↓	Parkin	1.32u	1.33u	1.38u	14.7x	14.0x	2.74u	2.60u	2.76u	7.5x	7.1x	25.32	0.97x
Yamana Gold Inc	YRI	T	-	6,480	952.97	6.80	7.20	↓	Parkin	0.34u	0.27u	0.34u	19.6x	16.0x	0.76u	0.83u	0.95u	6.5x	5.6x	6.06	1.12x
Torex Gold Resources Inc	TXG	SP		1,211	85.75	14.12	22.00		DeMarco	2.36u	1.74u	1.41u	8.1x	10.0x	4.29u	4.31u	4.00u	3.3x	3.5x	22.08	0.64x
Silver Producers																					
Aya Gold and Silver	AYA	OP		861	105.1	8.19	11.50	↑	DeMarco	0.05u	0.01u	(0.12)u	1034.6x	-	0.13u	0.04u	(0.05)u	226.3x	-	7.72	1.06x
First Majestic Silver Corp	FR	SP		3,498	256.8	13.62	18.00	-	DeMarco	0.05u	0.26u	0.43u	52.1x	31.5x	0.39u	1.03u	1.75u	13.2x	7.8x	6.81	2.00x
Fortuna Silver Mines Inc	FVI	SP		1,332	292.1	4.56	6.50	-	DeMarco	0.45u	0.36u	0.69u	12.8x	6.6x	0.79u	0.95u	1.29u	4.8x	3.5x	5.18	0.88x
Pan American Silver	PAAS	OP		6,751	210.1	32.13	47.00	-	DeMarco	0.77u	0.95u	1.85u	34.0x	17.3x	2.21u	2.45u	3.81u	13.1x	8.4x	19.48	1.65x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,986	223.1	8.90	12.75	↑	DeMarco	0.10u	0.43u	0.53u	20.9x	16.8x	0.27u	0.55u	0.65u	16.2x	13.7x	10.96	0.81x
Minera Alamos Inc.	MAI	OP		250	446.1	0.56	1.10		Nizami	0.01u	(0.00)u	0.02u	n/a	24.2x	0.00u	(0.01)u	0.03u	-	18.3x	1.08	0.52x
Wesdome Corp.	WDO	OP		1,843	141.2	13.06	19.00	↑	DeMarco	0.47u	0.98u	1.37u	13.4x	9.5x	0.78u	1.32u	1.93u	9.9x	6.8x	12.64	1.03x
Developers																					
AbraSilver Resource Corp	ABRA	OP		200	453.8	0.44	0.70		DeMarco	(0.00)u	(0.01)u	(0.01)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	0.49	0.49x
Artemis Gold Inc.	ARTG	OP		1,007	153.5	6.56	11.50		DeMarco	(0.05)u	(0.04)u	(0.05)u	-	-	(0.08)u	(0.06)u	(0.04)u	-	-	11.38	11.38x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
G Mining Ventures	GMIN	OP		165	235.8	0.70	1.75		Nizami	(0.04)u	(0.05)u	(0.01)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	1.76	0.40x
Gold Standard Ventures Corp.	GSV	OP		179	358.0	0.50	1.30		Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.18	0.42x
Integra Resources Corp.	ITR	OP		87	62.1	1.40	3.00		Nizami	(0.54)u	(0.72)u	(0.28)u	n/a	n/a	(0.50)u	(0.67)u	(0.26)u	-	-	2.79	0.50x
Liberty Gold Corp	LGD	OP		193	315.8	0.61	1.80		Nizami	0.03u	(0.11)u	(0.11)u	n/a	n/a	(0.05)u	(0.08)u	(0.11)u	-	-	1.79	0.34x
MAG Silver Corp	MAG	OP		1,881	97.9	19.21	28.25	-	DeMarco	(0.07)u	0.88u	0.00u	21.8x	-	(0.04)u	0.70u	2.08u	27.5x	9.2x	18.90	1.02x
Marathon Gold Corp.	MOZ	OP		589	253.9	2.32	3.75	-	DeMarco	(0.02)u	(0.06)u	(0.07)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	3.72	0.62x
O3 Mining Inc.	OIII	OP		153	68.2	2.25	3.75	↓	DeMarco	(0.20)u	(0.01)u	(0.38)u	-	-	(0.20)u	(0.01)u	(0.38)u	-	-	5.03	0.45x
Osisko Development	ODV	OP		558	132.1	4.22	27.00	-	DeMarco	-	-	0.79u	-	5.3x	(0.04)u	-	0.86u	-	4.9x	8.93	0.47x
Osisko Mining	OSK	OP		1,409	346.3	4.07	5.50	-	DeMarco	(0.03)u	(0.05)u	(0.05)u	-	-	(0.02)u	(0.04)u	(0.04)u	-	-	5.38	0.76x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		474	356.2	1.33	3.00	-	DeMarco	(0.00)u	(0.00)u	(0.00)u	-	-	0.00u	(0.00)u	(0.00)u	-	-	2.95	0.45x

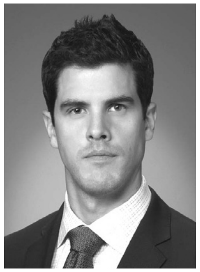
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associates:
Trevor Martensson: 403-290-5624
Nick Stevenson: 403-441-0928

Large Cap Oil & Gas

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

Selections

- *Cenovus*
- *Tourmaline*

Crude Oil Outlook

Prompt WTI traded in a range of US$105-115/bbl during May as the conflict in Ukraine continued into its third month and is increasingly shaping up to be a drawn-out affair. The EU Summit in Brussels set the stage for an agreement toward banning Russian oil imports; however, the sanctions on pipeline imports will not likely take full effect until all landlocked countries are satisfied they will not be disproportionately impacted (i.e., Hungary). While this agreement would suggest that the EU has begun to wean itself off of Russian products throughout the remainder of 2022, the impact could be marginal as Russia has been able to place most of the stranded barrels into China and India. WTI averaged ~US$110/bbl in May (up from ~US$101/bbl in April), a sizable increase m/m as the market has gained clarity on the impact of the war and related sanctions. Furthermore, lockdowns in China seem to be lifting, while the risk of future lockdowns admittedly remains possible due to its zero-covid policy. A continued reopening of China's economy would put additional upward pressure on crude oil prices. Additionally, the summer driving season officially kicks off in the U.S. and there continue to be indications of refined product/fuel shortages across North America, which have been magnified by planned refinery turnarounds, coupled with growing U.S. exports, continue as more crude and refined products were shipped to Europe. It seems likely that this issue will persist throughout the summer months as demand recovers toward pre-pandemic levels. Supply (or lack thereof) continues to drive the structural oil deficit as all indications point to OPEC+ struggling to meet its production quota. While still unlikely, the return of Venezuelan/Iranian barrels to the market remains a slight possibility. From a North American perspective, Q1 production guidance would suggest that certain U.S. seniors/majors have outlined plans to bump up production by ~ 1mmbbl/d. However, most E&Ps continue to focus on capital discipline and shareholder returns. Backwardation continues to be present on the forward curve with CAL-22 and CAL-23 WTI coming in at ~US$106/bbl and ~US$91/bbl, respectively. Therefore, underlying fundamentals remain strong for associated equities (especially for those with refining exposure due to record cracks) as companies earn unprecedented cash flows.

Natural Gas Outlook

NYMEX gas continued to make strong gains in May, as it averaged ~US$8.15/mmbtu, up approximately 22% from April. The strength in U.S. natural gas pricing continues to be sustainable, as structural changes in the market (net exports, elasticity of power burn, decoupling of supply, weather and storage) seem to be long-term in nature. Additionally, the geopolitical premium related to the Russian invasion remains, as Europe makes progress on reducing its reliance on Russian gas. However, EU sanctions targeting natural gas will be much tougher to implement due to Russia making up a larger percentage of Europe's energy mix. In Canada, AECO prices have averaged ~$7.15/GJ in May, up approximately 8% from April. According to Bentek, total U.S. production is estimated to have increased to 93.9 Bcf/d in May (from 93.2 Bcf/d in April). Additionally, LNG exports were up slightly to 12.4 Bcf/d in May from 12.3 Bcf/d in April, and as expected given the seasonality of gas usage, overall demand was estimated at 87.4 Bcf/d, down from 92.3 Bcf/d in April.

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 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 5/31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2021A	EV/DACF est. 2022E	EV/DACF est. 2032E	Net Debt/ Cash Flow 2022E	Net Debt/ Cash Flow 2023E	CFPS - FD act. 2021A	CFPS - FD est. 2022E	CFPS - FD est. 2032E	P/CFPS est. 2022E	P/CFPS est. 2023E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1110.3	$83.71	$92,947	4%	7.9x	5.0x	4.9x	0.5x	0.3x	$11.57	$17.25	$16.56	4.7x	4.9x	$100.00	23%	
Cenovus Energy	CVE	OP		Wood	1729.9	$29.32	$50,720	1%	8.6x	4.6x	3.7x	0.4x	0.3x	$3.56	$5.96	$7.12	4.4x	3.5x	$35.00	21%	
Imperial Oil	IMO	SP		Wood	619.0	$69.28	$42,884	2%	9.7x	6.1x	5.5x	0.3x	-0.2x	$7.17	$11.34	$11.86	5.9x	5.8x	$80.00	17%	↑
Suncor Energy	SU	SP		Wood	1338.8	$50.89	$68,133	4%	7.7x	4.4x	4.5x	0.5x	0.5x	$6.89	$12.20	$11.61	4.0x	4.1x	$54.00	10%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$10.98	$2,149	0%	9.1x	4.7x	4.5x	-0.2x	-0.6x	$1.18	$2.23	$2.20	4.9x	5.0x	$12.50	14%	
ARC Resources Ltd.	ARX	OP		Wood	632.5	$19.05	$12,048	3%	3.4x	4.0x	3.7x	0.4x	0.0x	$3.86	$4.88	$5.04	3.7x	3.8x	$24.00	29%	
Baytex Energy	BTE	OP		Payne	578.7	$6.97	$4,033	0%	6.4x	3.7x	2.6x	0.6x	-0.1x	$1.30	$2.13	$2.56	3.3x	2.7x	$9.50	36%	↑
Birchcliff Energy	BIR	OP		Payne	266.8	$11.40	$3,042	1%	6.5x	3.8x	4.3x	0.0x	-0.6x	$1.97	$3.02	$2.41	3.8x	4.7x	$12.50	10%	
Crescent Point Energy Corp.	CPG	OP		Wood	567.5	$11.20	$6,356	2%	5.5x	3.2x	2.1x	0.4x	-0.3x	$2.57	$3.90	$4.78	2.8x	2.3x	$20.00	81%	
Enerplus Corporation ($US)	ERF	OP		Wood	219.7	$14.84	$3,261	1%	3.8x	3.1x	2.3x	0.4x	-0.3x	$2.74	$4.97	$5.68	2.8x	2.6x	$24.00	63%	
Freehold Royalties	FRU	OP		Wood	150.7	$15.70	$2,365	6%	12.8x	7.3x	7.9x	-0.2x	-0.7x	$1.39	$2.08	$1.82	7.5x	8.6x	$19.50	30%	
Headwater Exploration	HWX	OP		Payne	237.8	$7.32	$1,741	0%	13.8x	5.3x	4.1x	-0.5x	-0.9x	$0.55	$1.26	$1.49	5.8x	4.9x	$10.50	43%	
Kelt Exploration	KEL	OP		Payne	195.2	$7.11	$1,388	0%	8.5x	3.7x	2.8x	-0.2x	-0.6x	$0.85	$1.81	$2.12	3.9x	3.3x	$10.00	41%	
MEG Energy	MEG	OP		Wood	270.0	$22.07	$5,959	0%	9.0x	3.2x	3.3x	0.6x	0.6x	$2.60	$7.09	$6.45	2.8x	3.1x	$32.00	45%	
NuVista Energy	NVA	SP		Payne	240.4	$12.95	$3,114	0%	9.5x	3.6x	3.2x	0.0x	-0.6x	$1.38	$3.48	$3.50	3.7x	3.7x	$14.50	12%	
Ovintiv Inc (US$)	OVV	OP		Wood	248.9	$55.99	$13,936	2%	5.5x	3.7x	2.5x	0.8x	0.4x	$12.18	$17.46	$23.67	3.1x	2.2x	$90.00	63%	
Paramount Resources	POU	OP		Payne	148.2	$37.78	$5,597	3%	11.2x	4.7x	3.8x	0.0x	-0.4x	$3.38	$8.06	$9.13	4.7x	4.1x	$45.00	22%	
Peyto Exploration & Development	PEY	OP		Wood	169.3	$15.48	$2,620	4%	7.0x	3.7x	3.5x	0.8x	0.5x	$2.77	$5.01	$4.88	3.1x	3.2x	$18.00	20%	
Pipestone Energy	PIPE	SP		Payne	281.4	$5.84	$1,644	0%	10.1x	4.1x	2.9x	0.1x	-0.4x	$0.59	$1.41	$1.76	4.1x	3.3x	$7.00	20%	
PrarieSky Royalty	PSK	SP		Wood	238.8	$18.94	$4,524	3%	18.5x	10.7x	11.2x	0.7x	0.1x	$1.22	$1.87	$1.71	10.1x	11.1x	$24.00	29%	
Spartan Delta	SDE	OP		Payne	172.9	$14.53	$2,512	0%	9.4x	3.4x	2.6x	0.1x	-0.5x	$2.26	$4.29	$4.70	0.0x	0.0x	$18.00	24%	
Tamarack Valley Energy	TVE	OP		Payne	452.9	$5.28	$2,391	2%	7.4x	3.4x	3.0x	0.3x	-0.2x	$0.94	$1.68	$1.66	3.1x	3.2x	$8.50	63%	
Topaz Energy	TPZ	OP		Payne	144.6	$23.64	$3,419	4%	18.3x	10.6x	10.2x	0.2x	-0.3x	$1.54	$2.26	$2.25	10.5x	10.5x	$27.50	21%	
Tourmaline Oil	TOU	OP		Payne	340.5	$78.08	$26,589	1%	9.1x	6.4x	5.6x	-0.1x	-0.8x	$9.25	$11.98	$12.36	6.5x	6.3x	$75.00	-3%	
Vermilion Energy Inc.	VET	OP		Wood	162.8	$27.36	$4,454	1%	6.2x	2.5x	1.6x	0.4x	-0.4x	$5.59	$12.87	$13.77	2.1x	2.0x	$53.00	95%	
Whitecap Resources	WCP	OP		Wood	629.4	$11.25	$7,080	3%	7.2x	3.2x	2.9x	0.0x	-0.6x	$1.82	$3.49	$3.15	3.2x	3.6x	$17.50	59%	
Small Cap																					
Crew Energy	CR	SP		Payne	159.3	$6.29	$1,002	0%	9.1x	4.2x	3.8x	0.8x	0.1x	$0.82	$1.71	$1.66	3.7x	3.8x	$6.00	-5%	↑
Lucero	LOU	SP		Payne	676.7	$0.74	$501	0%	7.9x	3.1x	2.1x	0.2x	-0.5x	$0.15	$0.25	$0.29	3.0x	2.6x	$1.10	49%	
Surge Energy	SGY	OP		Payne	87.2	$11.54	$1,006	4%	10.5x	3.1x	2.3x	0.4x	-0.2x	$1.79	$3.86	$4.54	3.0x	2.5x	$14.50	29%	
Yangarra Resources	YGR	SP		Payne	91.7	$3.41	$313	0%	4.9x	2.1x	1.8x	0.6x	0.0x	$1.02	$2.09	$1.84	1.6x	1.9x	$3.50	3%	

* 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 05/31	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	SP		Payne	US$680.73	91.3	US$7.46	US$213.2	US$201.8	US$223.7	4.7x	5.5x	4.6x	1.5x	2.2x	1.6x	US$10.00	34%	
Precision Drilling Corp.	PD	OP		Payne	$ 1,308.98	13.3	$98.39	$ 285.2	$ 249.5	$ 390.7	8.6x	11.5x	6.4x	4.0x	4.3x	2.5x	$120.00	22%	
Trican Well Services	TCW	OP		Payne	$ 1,091.69	235.8	$4.63	$ 30.6	$ 101.6	$ 136.2	7.5x	9.6x	6.7x	-0.7x	-0.3x	-0.3x	$6.25	35%	

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Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 05/31	EBITDA (mm) 2021	EBITDA (mm) 2022e	EBITDA (mm) 2023e	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt / EBITDA 2022e	Net Debt / EBITDA 2023e	12-Mth Price Target	12-Mth Price Return	Δ
Transition Fuels																	
Anaergia	ANRG	SP		Payne	$ 499.56	67.1	$7.45	$ 5.0	$ 24.1	$ 90.5	30.8x	9.1x	10.8x	3.6x	US$14.00	88%	
Green Impact Partners	GIP	OP		Payne	$ 144.13	20.3	$7.10	$ 3.6	$ 6.3	$ 22.2	25.5x	7.9x	2.7x	1.4x	$12.00	69%	
Tidewater Renewables	LCFS	OP		Payne	$ 465.49	34.7	$13.41	$ 15.3	$ 45.4	$ 138.6	13.8x	4.2x	3.3x	0.4x	$18.00	35%	

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

Source: Company Reports, NBF, Refinitiv

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451
—
Associates:
William Duforest: 403-441-0952
Johnathan Pescod: 403-355-6643

Selections

› *AltaGas*
› *Capital Power*
› *Keyera*
› *Secure Energy*

Overview

Energy security has remained a topical theme as the market continues to look for decarbonization opportunities, with a significant macro tailwind likely to remain in effect over the near term as our coverage seeks to deploy an eye-popping over $115 bln of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while also driving per-share growth and valuation expansion.

Commodities Update

With mixed action towards a Russian oil import ban and China easing COVID-19 restrictions, WTI averaged ~US$108.92/bbl, ~7% above April levels of ~US$101.89/bbl, while cumulatively rising ~60% above the 2021 average price of ~US$68/bbl. On the gas front, NYMEX prices accelerated, averaging US$8.16/mcf, ~21% above April levels of US$6.73/mcf, while AECO followed suit, averaging $7.58/mcf to lead average April pricing of $6.96/mcf by ~9%. On Marketing prospects, the WCS heavy differential widened, opening up to an average of ~US$15.4/bbl through May, while remaining below full-year 2021 average levels of ~US$13.57/bbl.

Pipelines & Midstream Update

Enbridge announced that it is committed to and moving forward with a pair of pipeline expansion projects, the Venice Extension Project and Gator Express Meter Project with expected completion in 2023 and 2024, respectively, delivering 1.5 Bcf/d of natural gas to Venture Global's recently sanctioned Plaquemines LNG facility. The combined project, which includes 36-inch diameter pipeline and metering & compressor station additions, is expected to cost ~US$400 mln, supported by long-term take or pay contracts. Of note, the Plaquemines terminal, along with several other proposed LNG projects, are gaining interest as buyers seek long-term supply agreements, specifically as Europe attempts to wean off Russian gas.

Power & Utilities Update

Meanwhile, we recently marketed Capital Power (CPX), where the company emphasized natural gas assets remaining essential to ensuring reliability and affordability during the transition period, validating CPX's strategy of owning highly efficient assets in regions in need of recontracting. The company has recently extended three natural-gas PPAs on favourable terms (Decatur, Arlington, Island Gen), with the Goreway, Ontario facility well positioned for extending its PPA beyond the 2029 expiry date in light of the IESO Annual Acquisition Report calling for ~4,000 MW of incremental capacity needs by 2030. After posting an average price of $102/MWh in 2021, Alberta power prices are on pace to repeat in 2022, averaging $100/MWh YTD amid rising demand and the continued retirement of aging third-party thermal assets. Prices are expected to moderate in 2024/2025 given ~2,200 MW of new gas-fired supply coming online (900 MW Cascade, 800 MW Suncor Cogen, +500 MW Genesee repowering). Looking ahead, with a renewable development pipeline of >3,300 MW across North America, CPX expects future PPA negotiations to reflect new market conditions, helping realign returns with the incremental risk surrounding project execution. Coupled with energy security, reliability and affordability dominating the ESG narrative, CPX's high-quality portfolio of North American assets is poised well for reliable generation.

AltaGas announced an agreement to sell its Alaskan utilities (i.e., ENSTAR and CINGSA) to TriSummit Utilities Inc. for total proceeds of US$800 mln (~ $1.025 bln) with anticipated closing in Q1/23. While the company initially plans to use ~$985 mln of proceeds (net of expected cash taxes) to reduce near-term leverage and strengthen the balance sheet, the sale provides ALA the financial flexibility to invest in longer-term higher growth opportunities across both Utilities and Midstream. As such, we highlight a 50% potential stake in Vopak's $885 mln export terminal at Prince Rupert (Site B), which would allow ALA to buildout incremental global export capacity near RIPET, as being a frontrunner in the company's current portfolio of growth opportunities.

Energy Transition Update

Inter Pipeline announced a partnership with ITOCHU Corp. and PETRONAS Energy Canada to evaluate the development of blue ammonia and blue methanol production facilities in Alberta, among the first of its kind in North America. Before the project is sanctioned, the partners must conduct a feasibility study and risk assessment and are expected to reach an investment decision by early 2024, with construction beginning as early as the end Q4/24 and a 2027 in-service date. Fully integrated to have CCS infrastructure, the project is an opportunity towards global efforts in the production of thousands of metric tonnes per day of blue ammonia and blue methanol for means of hydrogen transportation, low-carbon fuel and industrial products.

Top Picks

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

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 05-31	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		280.5	$30.54	$8,568	$1.00	$1.06	$1.12	3.5%	3.7%	$2.79	$2.69	$3.11	11.4x	9.8x	5.1x	33.00	8.1%	↑	11.5%
Enbridge Inc.	ENB	OP		2026.0	$58.43	$118,379	$3.34	$3.44	$3.54	5.9%	6.1%	$4.96	$5.40	$5.70	10.8x	10.2x	4.7x	60.00	2.7%	↑	8.6%
Gibson Energy	GEI	SP		150.4	$26.79	$4,030	$1.40	$1.46	$1.51	5.5%	5.6%	$1.95	$2.12	$2.25	12.6x	11.9x	2.7x	25.00	-6.7%		-1.2%
Keyera	KEY	OP		221.0	$33.71	$7,451	$1.92	$1.92	$2.01	5.7%	6.0%	$3.03	$2.96	$3.57	11.4x	9.5x	2.7x	38.00	12.7%	↑	18.4%
Pembina Pipelines	PPL	SP		544.0	$51.00	$27,746	$2.52	$2.54	$2.61	5.0%	5.1%	$4.05	$4.43	$4.68	11.5x	10.9x	3.6x	48.00	-5.9%	↑	-0.9%
Secure Energy	SES	OP		310.4	$7.38	$2,290	$0.03	$0.03	$0.03	0.4%	0.4%	$0.65	$1.09	$1.18	6.8x	6.2x	1.1x	9.00	22.0%	↑	22.4%
Superior Plus	SPB	OP		201.7	$12.39	$2,499	$0.72	$0.72	$0.72	5.8%	5.8%	$1.16	$1.32	$1.27	9.4x	9.7x	3.7x	13.00	4.9%		10.7%
Tidewater Midstream	TWM	OP		341.8	$1.48	$506	$0.04	$0.04	$0.04	2.7%	2.7%	$0.18	$0.28	$0.48	5.3x	3.1x	2.3x	1.75	18.2%		20.9%
TC Energy Corp.	TRP	SP		983.0	$73.21	$71,965	$3.48	$3.60	$3.74	4.9%	5.1%	$5.74	$5.34	$5.99	13.7x	12.2x	5.2x	66.00	-9.8%		-4.9%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$45.88	$5,260	$1.79	$1.85	$1.87	4.0%	4.1%	$2.65	$3.29	$3.13	13.9x	14.6x	4.5x	46.00	0.3%	↑	4.3%
Brookfield Infrastructure [1]	BIP	OP		514.4	$59.66	$30,689	$2.04	$2.16	$2.29	3.6%	3.8%	$2.93	$3.54	$3.96	16.8x	15.1x	6.0x	69.00	15.7%	↑	19.3%
Canadian Utilities	CU	SP		275.9	$40.13	$11,072	$1.76	$1.78	$1.79	4.4%	4.5%	$2.97	$3.46	$3.17	11.6x	12.7x	5.1x	37.00	-7.8%	↑	-3.4%
Capital Power	CPX	OP		114.6	$45.46	$5,208	$2.12	$2.24	$2.36	4.9%	5.2%	$5.39	$5.70	$6.30	8.0x	7.2x	3.3x	48.00	5.6%	↑	10.5%
Emera Inc.	EMA	SP		268.8	$62.87	$16,902	$2.58	$2.68	$2.78	4.3%	4.4%	$1.50	$4.59	$4.55	13.7x	13.8x	6.0x	60.00	-4.6%	↑	-0.3%
Fortis Inc.	FTS	SP		481.7	$63.79	$30,728	$2.05	$2.17	$2.30	3.4%	3.6%	$3.76	$4.41	$4.85	14.5x	13.1x	6.0x	60.00	-5.9%	↑	-2.5%
Hydro One Ltd.	H	SP		596.9	$35.28	$21,060	$1.07	$1.11	$1.16	3.1%	3.3%	$2.03	$2.11	$1.66	16.7x	21.3x	5.8x	34.00	-3.6%	↑	-0.5%
TransAlta	TA	SP		271.0	$14.42	$3,908	$0.18	$0.20	$0.20	1.4%	1.4%	$2.08	$1.89	$1.76	7.6x	8.2x	3.4x	15.00	4.0%	↑	5.4%

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

Real Estate

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

Tal Woolley
Analyst
416-507-8009

Selections

- *BSR REIT*
- *Dream Industrial REIT*
- *H&R REIT*
- *Boardwalk REIT*
- *Sienna Senior Living*
- *Flagship Communities*

Q1 Results Highlights

H&R REIT:
A Long Time Waiting but Investment Thesis is Starting to Play Out, $18.50 target.

There was almost too much good news to process in H&R's Q1 results, which is a nice departure from prior quarters, and is a testament to the strategic plan starting to achieve its stated goals. Furthermore, figures were clean with no large free rent or lease termination income line items. We see the $178 mln in unit buybacks YTD and 5.8% distribution hike as a gauge of management's confidence and optimism around the current portfolio exposure and dispositions program. This is made possible by a liquidity position of ~$1 bln, a large, unencumbered asset pool and expected property sale proceeds. Better rent expectations and compressed cap rates, combined with industrial land precedent transactions justified a $1 bln positive FV adjustment. H&R is transitioning to a growth stock but trades at a value multiple, which works well in today's market, and in our view, represents a significant total return opportunity.

Tricon Residential Inc.:
Hard to ignore the momentum on the ground; reiterate Outperform rating, $21 target.

- **Reiterating Outperform, $21 target:** TCN shares have been weak, but rising some in recent days. Despite the market volatility, we have a hard time reversing course with this much operating momentum and earnings growth potential (looking for +14% CAGR through 2024). Our C$21.00 target equates to a 27.1x 2023E AFFO/u multiple (was 28.3x) and is at a -6% discount to our one-year out NAV forecast (previously -2%), reflecting TCN's business risks, leverage and growth prospects.
- **SFR operations continue to set records:** SFR delivered SPNOI growth of +11.6% (on top of +4.1% last year), driven by same-home occupancy of 98.0% (up +40 bps q/q and +70 bps y/y). This strength has continued into Q2.
- **Rates likely to change the tempo of the housing market:** Higher rates could ease price appreciation, which while potentially impacting TCN's NAV (hence, the target set at a discount), could open the opportunity to acquire at more attractive cap rates.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 5-31	Distributions per Unit Actual 2021	Distributions per Unit est. 2022	Distributions per Unit est. 2023	Cash Yield 2021A	Cash Yield 2022E	Cash Yield 2023E	Cash Yield Current Annualized	FD FFO Actual 2021	FD FFO est. 2022	FD FFO est. 2023	P/FFO 2021A	P/FFO 2022E	P/FFO 2023E	Net Asset Value	12-Mth Price Target	12-Mth Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$7,050	Woolley	$22.75	$1.02	$1.02	$1.02	4.5%	4.5%	4.5%	4.5%	$1.60	$1.71	$1.80	14.2x	13.3x	12.6x	$27.80	$27.00	23.2%	↓
Choice Properties REIT	CHP.un	SP	↔	$10,909	Woolley	$15.08	$0.74	$0.74	$0.74	4.9%	4.9%	4.9%	4.9%	$0.95	$0.96	$0.97	15.9x	15.7x	15.5x	$14.20	$16.00	11.0%	↔
First Capital REIT	FCR	SP	↔	$3,424	Woolley	$15.59	$0.43	$0.43	$0.43	2.8%	2.8%	2.8%	2.8%	$1.14	$1.15	$1.20	13.7x	13.6x	13.0x	$23.50	$19.50	27.9%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,240	Woolley	$29.42	$1.85	$1.85	$1.85	6.3%	6.3%	6.3%	6.3%	$2.21	$2.09	$2.27	13.3x	14.1x	13.0x	$33.80	$34.00	21.9%	↔
CT REIT	CRT.un	OP	↔	$4,096	Woolley	$17.52	$0.87	$0.87	$0.87	5.0%	5.0%	5.0%	5.0%	$1.24	$1.28	$1.34	14.1x	13.7x	13.1x	$17.90	$20.00	19.1%	↔
Crombie REIT	CRR.un	OP	↔	$3,064	Woolley	$17.34	$0.89	$0.89	$0.89	5.1%	5.1%	5.1%	5.1%	$1.15	$1.17	$1.21	15.1x	14.8x	14.3x	$19.06	$20.00	20.5%	↔
Automotive Properties REIT	APR.un	OP	↔	$693	Woolley	$14.15	$0.80	$0.80	$0.80	5.7%	5.7%	5.7%	5.7%	$0.94	$0.98	$1.04	15.1x	14.4x	13.6x	$13.20	$15.50	15.2%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,487	Kornack	$38.78	$1.75	$1.75	$1.75	4.5%	4.5%	4.5%	4.5%	$2.40	$2.50	$2.67	16.2x	15.5x	14.5x	$48.95	$51.00	36.0%	↔
DREAM Office REIT	D.un	SP	↔	$1,217	Kornack	$23.28	$1.00	$1.00	$1.00	4.3%	4.3%	4.3%	4.3%	$1.54	$1.57	$1.64	15.1x	14.8x	14.2x	$25.55	$27.00	20.3%	↔
Slate Office REIT	SOT.un	SP	↔	$366	Kornack	$5.01	$0.40	$0.40	$0.40	8.0%	8.0%	8.0%	8.0%	$0.55	$0.56	$0.57	9.2x	8.9x	8.9x	$6.10	$5.00	7.8%	↔
True North Commerical REIT	TNT.un	SP	↔	$615	Kornack	$6.65	$0.59	$0.59	$0.59	8.9%	8.9%	8.9%	8.9%	$0.59	$0.57	$0.56	11.3x	11.8x	11.8x	$6.90	$7.00	14.2%	↔
H&R REIT	HR.un	OP	↔	$4,169	Kornack	$14.02	$0.55	$0.55	$0.55	3.9%	3.9%	3.9%	3.9%	$1.53	$1.15	$1.25	9.2x	12.2x	11.2x	$20.25	$18.50	35.9%	↑
Artis REIT	AX.un	SP	↔	$1,571	Kornack	$13.17	$0.60	$0.60	$0.60	4.6%	4.6%	4.6%	4.6%	$1.31	$1.27	$1.20	10.1x	10.4x	10.9x	$15.10	$12.50	-0.5%	↔
BTB REIT	BTB.un	SP	↔	$339	Kornack	$4.00	$0.30	$0.30	$0.30	7.5%	7.5%	7.5%	7.5%	$0.41	$0.43	$0.44	9.8x	9.4x	9.2x	$4.85	$4.60	22.5%	↓
Industrial																							
Granite REIT	GRT.un	OP	↔	$5,989	Kornack	$91.09	$3.10	$3.10	$3.10	3.4%	3.4%	3.4%	3.4%	$4.04	$4.44	$4.80	22.5x	20.5x	19.0x	$98.40	$115.00	29.7%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$3,875	Kornack	$14.21	$0.70	$0.70	$0.70	4.9%	4.9%	4.9%	4.9%	$0.81	$0.88	$0.93	17.6x	16.1x	15.3x	$17.50	$19.25	40.4%	↔
Nexus Industrial REIT	NXR.un	OP	↔	$929	Kornack	$11.78	$0.64	$0.64	$0.64	5.4%	5.4%	5.4%	5.4%	$0.77	$0.83	$0.91	15.3x	14.3x	13.0x	$14.30	$15.00	32.8%	↔
Summit Industrial	SMU.un	OP	↔	$3,647	Kornack	$19.24	$0.58	$0.58	$0.58	3.0%	3.0%	3.0%	3.0%	$0.70	$0.75	$0.83	27.3x	25.6x	23.3x	$22.55	$26.50	40.8%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$376	Woolley	$3.83	$0.23	$0.23	$0.23	5.9%	5.9%	5.9%	5.9%	$0.52	$0.45	$0.50	7.4x	8.5x	7.7x	$5.00	$4.75	30.0%	↓
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$8,687	Kornack	$49.50	$1.45	$1.45	$1.45	2.9%	2.9%	2.9%	2.9%	$2.33	$2.35	$2.47	21.3x	21.1x	20.1x	$57.25	$62.25	28.7%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,532	Kornack	$50.16	$1.08	$1.08	$1.08	2.2%	2.2%	2.2%	2.2%	$2.96	$3.06	$3.18	16.9x	16.4x	15.8x	$64.90	$68.50	38.7%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,297	Kornack	$19.20	$0.70	$0.70	$0.70	3.6%	3.6%	3.6%	3.6%	$1.07	$1.12	$1.21	18.0x	17.2x	15.9x	$23.30	$25.00	33.9%	↔
InterRent REIT	IIP.un	OP	↔	$1,973	Kornack	$13.68	$0.34	$0.34	$0.34	2.5%	2.5%	2.5%	2.5%	$0.51	$0.56	$0.58	26.8x	24.5x	23.7x	$16.30	$17.00	26.8%	↔
Minto Apartment REIT	MI.un	OP	↔	$1,211	Kornack	$18.40	$0.48	$0.48	$0.48	2.6%	2.6%	2.6%	2.6%	$0.81	$0.86	$0.92	22.6x	21.4x	20.1x	$23.30	$24.50	35.7%	↔
BSR REIT	HOM.un	OP	↔	$1,030	Kornack	$17.76	$0.52	$0.52	$0.52	2.9%	2.9%	2.9%	2.9%	$0.65	$0.86	$0.92	27.3x	20.7x	19.3x	$22.95	$24.50	40.9%	↔
ERES REIT	ERE.un	OP	↔	$1,077	Kornack	$4.65	$0.16	$0.16	$0.16	3.5%	3.5%	3.5%	3.5%	$0.21	$0.23	$0.24	22.3x	20.1x	19.4x	$5.83	$5.80	28.2%	↑
International																							
Inovalis REIT	INO.un	SP	↔	$268	Kornack	$7.98	$0.83	$0.83	$0.83	10.3%	10.3%	10.3%	10.3%	$0.50	$0.51	$0.68	16.0x	15.5x	11.8x	$9.70	$9.00	23.1%	↓
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,898	Woolley	$12.41	$0.61	$0.61	$0.61	4.9%	4.9%	4.9%	4.9%	$0.59	$0.59	$0.73	21.0x	21.0x	17.0x	$13.06	$15.00	25.8%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$3,157	Woolley	$13.21	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.84	$0.84	$0.89	15.8x	15.7x	14.8x	$14.25	$15.00	19.6%	↔
Sienna Senior Living	SIA	OP	↔	$991	Woolley	$13.59	$0.94	$0.94	$0.94	6.9%	6.9%	6.9%	6.9%	$1.15	$1.00	$1.21	11.8x	13.6x	11.2x	$15.83	$17.50	35.7%	↔
Extendicare	EXE	SP	↔	$645	Woolley	$7.20	$0.48	$0.48	$0.48	6.7%	6.7%	6.7%	6.7%	$0.52	$0.36	$0.47	13.8x	20.0x	15.3x	$9.40	$8.00	17.8%	↔
Invesque	IVQu	SP	↔	$74	Woolley	$1.32u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.44u	$0.28u	$0.29u	3.0x	4.7x	4.6x	$1.80u	$1.75u	32.6%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,453	Woolley	$6.48	$0.20	$0.20	$0.20	3.1%	3.1%	3.1%	3.1%	$0.15	$0.19	$0.23	43.0x	34.1x	28.2x	$6.30	$8.00	26.5%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	US$346.53	Woolley	US$17.68	US$0.54	US$0.54	US$0.54	3.1%	3.1%	3.1%	3.1%	US$1.03	US$1.14	US$1.14	17.2x	15.5x	15.5x	US$24.00	US$24.00	38.8%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$4,281	Woolley	$15.68	$0.30	$0.30	$0.30	1.9%	1.9%	1.9%	1.9%	$0.57	$0.61	$0.74	27.5x	25.7x	21.2x	$22.44	$21.00	35.8%	↔

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

Zachary Evershed, CFA
Analyst
514-412-0021

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

Selections

› *Boyd Group Services Inc.*
› *GDI Integrated Facility Services*
› *Park Lawn*

Nearing an inflection point in industry dynamics

Though margins have taken a hit from the mismatch between wage inflation and slower-moving labour reimbursement rates paid by carriers, industry dynamics are tilting in favour of appropriate wages to drive technician retention. We maintain the view that insurers' incentives are aligned with repairers, as long cycle times drive carrier customer churn; with 4+ week backlogs and third-party data indicating industry capacity is down 18% from pre-pandemic levels, decisive action is required to attract new blood to the industry. Boyd continues to negotiate to work towards margin recovery and for rates to reflect ongoing inflation and labour shortages.

In this vein, management indicates that thus far in Q2, SSSG is on track to exceed Q1's 14.7% (13.1% on a per-day basis), which would put BYD above pre-pandemic levels on a same-store basis. We believe this is driven primarily by pricing, as we estimate BYD secured ~6.4% in hikes as at the Q4/21 call, bringing rates up to par with inflation seen to Q3/21, and management commentary indicates that pricing increases since then are larger in magnitude.

Organic growth at the forefront

We expect M&A will transition to a support role in the medium term as BYD focuses on SSSG and improving pricing. For the time being, we model fewer locations acquired, partially offset by higher SSSG on better pricing. This is not to say, however, that larger transactions are ruled out from BYD's playbook in future quarters as the rising rate environment does not favour PE-backed peers, of which seven of the top eight are (Boyd at #2 is not). Directly, rising interest rates should dampen the appetite of competitors running at significantly higher leverage levels, while indirectly, rising rates see fixed income returns become more palatable to a broader swath of investors, potentially cutting fund flows into alternative investments such as private equity. We therefore see no reason why BYD should not be patient on the M&A front while focusing on resolving core challenges and boosting SSSG, as takeout candidates may have fewer bidders at the table down the line, potentially resulting in a greater number of transactions at more attractive multiples for Boyd in future. We remain confident in the company's ability to meet its 2025 growth goal as we suspect the company can catch up on M&A later.

C$170 target, recently upgraded to OP

Though price hikes are a moving target and supply chain issues persist, we rate BYD Outperform as we believe we are closing in on the margin recovery inflection point. Visibility on price hikes remains limited in the near term, but we believe they are inevitable in the long term given carrier incentive alignment and BYD is proving itself capable of navigating detours with the potential to come out stronger on the M&A front. Our C$170 target is based on 11x 2023e EV/EBITDA, consistent with a historical 4x premium to peers.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		862.8	45.1	19.11	12/2021	3.13	2.26	1.72	8.4	11.1	130.5	149.1	135.2	7.7	8.4	6.9%	3.4	27.00	
Boyd Group Services Inc.	BYD	OP	↑	3,067.3	21.5	142.85	12/2021	1.30	2.09	4.45	54.8	25.7	219.5	268.5	352.3	12.6	9.7	0.4%	0.0	170.00	↓
Cascades	CAS	OP		1,049.0	101.7	10.31	12/2021	0.26	0.76	1.26	13.5	8.2	389.0	438.0	522.6	6.0	4.9	4.7%	3.5	14.00	↓
Dexterra Group Inc.	DXT	OP		389.8	65.1	5.99	12/2021	0.37	0.36	0.61	16.5	9.8	80.8	83.5	100.3	5.9	4.6	5.8%	1.4	12.00	↓
Doman Building Materials	DBM	OP		629.9	86.8	7.26	12/2021	1.34	1.43	0.80	5.1	9.0	225.6	260.5	186.1	4.6	5.8	7.7%	4.4	11.00	
GDI Integrated Facility Services	GDI	OP		1,048.6	23.0	45.54	12/2021	1.89	1.84	1.97	24.8	23.1	132.8	150.7	148.2	8.7	8.4	0.0%	2.4	70.50	
Hardwoods Distribution	HDI	OP		779.0	23.9	32.55	12/2021	4.77	5.33	4.12	5.6	5.0	195.2	266.9	227.7	5.0	5.0	1.5%	3.7	79.50	
Intertape Polymer Group Inc.	ITP	T		2,387.6	60.6	39.42	12/2021	1.96	2.03	2.32	15.6	13.6	247.1	269.7	289.3	8.8	8.2	2.2%	1.8	40.50	
KP Tissue	KPT	SP		105.5	9.9	10.67	12/2021	0.65	(0.47)	0.36	nmf	29.2	153.4	122.7	230.8	14.0	8.0	6.7%	3.8	10.50	↓
Neighbourly Pharmacy Inc.	NBLY	SP		916.3	34.0	26.92	03/2021	(19.88)	(7.61)	0.23	nmf	117.0	35.1	47.4	101.2	21.2	12.7	0.7%	1.0	35.50	
Park Lawn Corporation	PLC	OP		1,196.6	34.5	34.70	12/2021	1.51	1.60	1.81	21.7	19.2	95.6	108.0	116.3	12.3	11.1	1.3%	1.6	45.00	
Richelieu Hardware	RCH	OP		2,115.9	56.6	37.40	11/2021	2.51	2.58	2.27	14.5	16.5	234.4	249.4	224.6	7.9	8.2	1.4%	0.7	54.50	
Savaria Corporation	SIS	OP		931.7	64.5	14.44	12/2021	0.54	0.58	0.95	24.9	15.2	100.3	120.3	142.6	10.5	8.6	3.5%	2.6	22.00	↓
Uni-Sélect	UNS	OP		1,263.5	43.8	28.86	12/2021	1.00	1.39	1.46	16.6	15.9	146.7	164.9	169.1	8.3	7.6	0.0%	2.0	33.50	↑

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

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

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

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

Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, 2021 was a tough year with our coverage down ~20% on average and down >25% so far in 2022. We believe the renewable power sector should see support going forward as rising power prices fuelled by inflation and energy security concerns could drive growth in free cash flows. Moreover, governments from around the world have announced a desire to accelerate their clean energy transition towards renewable energy, which could benefit the sector. That said, rising bond yields are a headwind to the sector. Our top picks are BLX, INE and NPI.

Boralex Inc.
(BLX: TSX; Outperform; $47 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the United States, France and Canada. It has a net installed capacity of ~2,500 MW, 98% of which is covered by inflation-indexed, fixed-price energy sales or feed-in premium contracts with an average life of 13 years. Last year, BLX unveiled its strategic plan to 2025E as well as a roadmap to 2030E. The plan focuses on growth, diversification and asset optimization while also integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR on its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively. Recently, BLX had success with RFPs in France and also bid seven solar projects in New York totalling 800 MW, with results expected soon. It could also see success in a growing market for renewable power in Québec. Recently, BLX agreed to sell a 30% stake in its French assets to Energy Infrastructure Partners for C$766 million in cash. The capital should reduce the need for further dilution to fund organic growth and future M&A. Moreover, in April, BLX formed a partnership with Énergir and Hydro-Québec to collectively develop three 400 MW wind projects on the Seigneurie de Beaupré (SDB) territory in Québec. BLX saw upside from high power prices in France during Q4'21 and Q1'22 as a result of its contract structures on 201 MW of operating assets and 125 MW of projects under construction. We expect BLX to continue benefitting from sustained high-power prices in France throughout 2022E and beyond as well as potentially benefiting from exiting close-to-expiry government contracts in France (up to 300 MW) and replacing them with higher priced short-term contracts (up to ~€300/MWh). Our target is based on a long-term DCF with a 6% cost of equity on operating cash flows and $7/sh of growth.

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

INE is one of Canada's largest renewables-focused IPPs with a net installed capacity of ~3,200 MW and plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S. ~8% Chile and ~7% France). As highlighted at its investor day in September 2021, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1.3 GW of mid or advanced stages of development. Recently, INE closed on a few acquisitions in Chile and New York and should close on a 332 MW portfolio of three wind farms in Chile by Q3'22E. INE also opportunistically exited contracts approaching expiry for 30 MW of capacity in France and replaced them with short-term contracts (2- to 3-year terms) with power prices more than 3x higher (up to €300/MWh), which we believe, in combination with other factors, could bring INE's payout ratio down to 76% for 2022E (98% in 2021). With visibility on near-term growth combined with recent M&A, INE has guided to double-digit growth across production and financial metrics for FY'22E, supported by its recent M&A as well as ~15% growth CAGR guidance on normalized FCF/sh out to 2025E. Recent organic developments include the commissioning of its 226 MW Griffin Trail wind project in North Texas and commissioning of its 200 MW Hillcrest solar project in Ohio. Moreover, INE is exploring investment opportunities in new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 6% discount rate on operating assets and includes $1/sh for growth.

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

NPI is a global leader in the development of offshore wind projects with 2,820 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions. With its offshore wind platform, NPI is attracting large partners like RWE in Germany, PKN Orlen in Poland and Tokyo Gas in Japan, which could help boost returns. NPI now has an offshore wind development pipeline that includes more than 7.4 GW of projects (5.4 GW net to NPI) that should be constructed over the next decade. In recent developments, NPI was awarded ~2.4 GW of offshore wind leases in Scotland and expanded its partnership with RWE to form a JV (49% to NPI) to co-develop a cluster of three offshore wind projects in the German North Sea with a total gross capacity of 1.3 GW. Such development projects in Europe could see upside from high power prices resulting from the European energy crisis. Moreover, the energy crisis could also accelerate demand for new projects (including its development project in Poland) and attract new capital to support future sell-downs. In the near term, we could see NPI commission its 130 MW La Lucha solar project in Mexico as well as its New York Onshore wind projects. NPI continues to progress on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E) and the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E). Lastly, NPI is preparing to bid in upcoming RFPs in Taiwan on new projects. Our target is based on a long-term DCF with a cost of equity of 6% on operating cash flows and $9/sh of growth.

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5-31	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	SP	↓	135.8	86	1.58	12/2021	0.06u	0.01u	0.16u	nmf	7.9	209.99u	2.54u	2.81u	0.5	0.4	0.93u	0.31	2.50	↓
Algonquin Power	AQN	SP	↓	9879.8	679	14.56u	12/2021	0.71u	0.73u	0.73u	19.8	20.1	3,148.73u	3.66u	4.17u	4.0	3.5	10.72u	0.50	16.00u	
Altius Renewable Royalties Corp	ARR	OP		255.6	29	8.70	12/2021	(0.13)u	(0.03)u	0.06u	nmf	nmf	7.65u	0.02u	0.10u	nmf	69.6	0.62u	0.00	14.50	
Ballard Power Systems	BLDP	OP		2167.2u	298	7.27u	12/2021	(0.39)u	(0.53)u	(0.38)u	nmf	nmf	352.50u	0.35u	0.35u	20.5	21.0	4.31u	0.01	13.00u	↓
Boralex	BLX	OP		3998.7	104	38.61	12/2021	0.16	1.02	0.65	38.0	59.2	0.00	6.69	7.44	5.8	5.2	12.87	0.63	47.00	↓
Brookfield Renewable	BEP	OP		22979.3u	646	35.58u	12/2021	0.00u	0.00u	0.00u	na	na	0.00u	3.74u	4.20u	9.5	8.5	24.27u	0.35	38.00u	↓
DIRTT Environmental Solutions	DRT	SP		91.8u	86	1.07u	12/2021	(0.63)u	(0.69)u	(0.28)u	nmf	nmf	245.95u	1.73u	2.04u	0.6	0.5	0.54u	0.38	2.25u	↓
GFL Environmental Inc.	GFL	OP		14711.4	381	38.60	12/2021	(1.83)	(0.27)	(0.22)	nmf	nmf	0.00	15.28	16.49	2.5	2.3	15.66	0.58	53.00	
Innergex	INE	OP		3483.3	204	17.06	12/2020	(1.09)	0.15	0.43	nmf	40.1	912.36	4.13	4.19	4.1	4.1	7.51	0.76	23.00	
The Lion Electric Company	LEV	OP		1147.4u	199	5.77u	12/2021	(0.26)u	(0.41)u	(0.58)u	nmf	nmf	1,507.00u	0.29u	0.69u	19.6	8.4	1.88u	0.02	10.00u	↓
Loop Energy Inc	LPEN	OP		72.1	35	2.06	12/2021	(0.74)	(0.85)	(0.70)	nmf	nmf	21.44	0.04	0.15	51.1	13.4	2.00	0.01	7.00	↓
NanoXplore	GRA	OP		706.7	165	4.28	06/2021	(0.08)	(0.09)	0.02	nmf	nmf	126.32	0.46	0.56	9.3	7.7	0.73	0.19	8.00	↓
Next Hydrogen Solutions Inc.	NXH	SP		47.6	23	2.08	12/2021	(1.28)	(0.75)	(0.55)	nmf	nmf	29.35	0.01	0.30	nmf	7.0	1.53	0.01	2.50	↓
Northland Power	NPI	OP		8734.2	228	38.36	12/2021	0.83	1.43	1.22	26.8	31.5	0.00	9.57	9.34	4.0	4.1	14.97	0.67	44.00	↓
TransAlta Renewables	RNW	SP		4629.8	267	17.34	12/2021	0.52	0.60	0.63	28.7	27.6	500.53	1.76	1.84	9.9	9.4	7.12	0.23	18.50	↓
Xebec Adsorption	XBC	SP	↓	137.7	155	0.89	12/2021	(0.15)	(0.28)	(0.02)	nmf	nmf	284.54	0.82	1.31	1.1	0.7	1.87	0.22	2.00	↓

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Technology

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

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

Selections

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

Broad Sector Re-Rating – Sets Up Some Compelling Long-Term Names

As CQ1 earnings season comes to a close, the one big takeaway coming out of those earnings has been moderation. Whether it's moderation in top line revenue or earnings (via inflation), that seemed to be the fundamental takeaway looking ahead when it comes to our forecasts. Not surprisingly, that's been reflected in share price performance year to date with the S&P Info Tech index down -24.6% vs the broad S&P 500 which has been down -17.3%. Similarly, in Canada, the S&P/Info Tech Index is down -54.1% vs the TSX which is down -4.4% YTD – we'd note the outsized differential is driven by Shopify against an index that has a strong weighting to resources (like Energy). While we recognize much of the Technology sector pullback has come from a valuation re-rating across the entire sector care of broad macro drivers like rates; there's no denying some of those macro drivers have fundamentally impacted the specific operating performance and outlooks when it comes to variables like opex. And it's that year-to-date pullback / resetting of valuations towards historical averages that's increasingly tilting the risk-to-reward profiles in favour of the investor, particularly longer-term. In light of that, we continue to refer to our published view from our Year Ahead. That early year published view had us leaning towards largely defensive names in the short-term (CGI and OpenText) while opportunistically adding positions for the long-term in select growth names like Coveo, Docebo, Kinaxis, Lightspeed, Nuvei, among others. We would also include Altus as a Tech special sit name. We're sticking with that published view. See below for a brief discussion on some of those names.

- **CGI** stands to benefit from an industry tailwind largely driven by enterprises resuming their digital transformation initiatives that were paused during the pandemic. That tailwind was evidenced by strong book-to-bill in CGI's recent quarter. While we like the name for its defensive attributes (strong recurring cash flow), we see potential option value from initiatives such as its commitment to IP30 (30% of revenue from IP by F25). Separately, plans to deploy $1 bln in capital on acquisitions this fiscal year will expand CGI's growth potential.
- **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 markets like auto (semiconductor shortages). We believe Kinaxis' pipeline has increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high growth verticals such as online regulated gaming is helping drive outsized growth. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's supported by structural changes in the payments industry (e.g., cashless casinos).
- **Lightspeed** should be a direct beneficiary of an economic reopening from pandemic induced lockdowns given that ~40% of its customer base is in the hospitality sector. Further, we believe organic growth will accelerate as the Company looks to increase its payments attach rate across an already large and growing (GTV) base.
- **Magnet Forensics** is an early leader in the Digital Forensics market with a suite of competitive offerings to target both public and enterprise clients. The quality of its business model is underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%. 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.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		1,964	44.9	43.78	2021	1.90	2.07	2.89	21.1	15.1	109.8	142.1	162.6	15.5	13.5	12.4	35%	70.00	
Blackline Safety Corp.*	BLN	OP		257	60.3	4.26	2021	(0.51)	(0.71)	(0.41)	NMF	NMF	(9.9)	(19.6)	(3.4)	NMF	NMF	1.0	0%	9.00	
CGI Inc.	GIB.A	OP		25,961	243.8	106.47	2021	5.41	6.10	6.46	17.5	16.5	2462.7	2577.1	2701.9	10.8	10.3	27.8	31%	135.00	
Constellation Software Inc.	CSU	SP		41,157	21.2	1,942.16	2021	47.38u	51.93u	66.53u	29.2	22.8	1,511.0u	1,685.8u	2,058.6u	19.2	15.7	77.3u	44%	2350.00	
Converge Technology Solutions*	CTS	OP		1,482	217.3	6.82	2021	0.19	0.43	0.56	12.3	9.5	94.0	177.3	225.3	7.0	5.5	2.95	0%	14.00	
Copperleaf Technologies*	CPLF	OP		575	68.4	8.41	2021	(0.03)	(0.48)	(0.40)	NMF	NMF	2.1	(30.8)	(29.4)	NMF	NMF	2.12	0%	16.00	↓
Coveo Solutions Inc.	CVO	OP		577	112.6	5.12	2021	(7.98u)	(0.31u)	(0.37u)	NMF	NMF	(11.0u)	(23.1u)	(30.4u)	NMF	NMF	266.4u	0%	18.00	
Docebo Inc.	DCBO	OP		1,387	33.0	42.00	2021	(0.31u)	(0.13u)	0.27u	NMF	NMF	(8.0u)	(1.8u)	10.5u	NMF	83.2	188.3u	0%	85.00u	
D2L Inc.*	DTOL	OP		425	60.6	7.02	2022	(0.07u)	(0.31u)	(0.09u)	NMF	NMF	0.2u	(13.1u)	0.0u	NMF	9180.3	1.1u	0%	20.00	
E Automotive Inc.	EINC	OP		380	48.0	7.90	2021	(0.65u)	(0.61u)	(0.64u)	NMF	NMF	(7.9u)	(21.6u)	(17.9u)	NMF	NMF	2.9u	0%	17.00	↓
Farmers Edge Inc.	FDGE	SP		103	41.9	2.47	2021	(1.81)	(1.59)	(1.17)	NMF	NMF	(49.9)	(54.5)	(43.4)	NMF	NMF	1.99	1%	3.00	
Kinaxis Inc.	KXS	OP		3,748	28.5	131.65	2021	0.57u	1.31u	1.76u	NMF	NMF	39.9u	67.5u	78.2u	39.6	34.2	12.2u	0%	250.00	
Lightspeed Commerce Inc.	LSPD	OP		3,194u	148.5	21.51u	2022	(0.36u)	(0.35u)	(0.09u)	NMF	NMF	(41.5u)	(38.0u)	1.2u	NMF	NMF	22.9u	1%	65.00u	
Magnet Forensics Inc.*	MAGT	OP		724	42.6	17.02	2021	0.28u	0.25u	0.28u	NMF	NMF	18.6u	13.5u	17.7u	33.3	25.4	2.1u	2%	50.00	
mdf commerce inc.	MDF	SP		110	44.0	2.50	2021	(0.30)	(0.36)	(0.06)	NMF	NMF	5.1	(1.0)	9.2	NMF	14.1	7.52	13%	3.00	
Nuvei Corporation	NVEI	OP		6,534u	146.6	44.57u	2021	1.70u	2.19u	3.10u	20.4	14.4	317.2u	420.8u	597.4u	15.0	10.6	13.0u	21%	130.00u	
Open Text Corporation	OTEX	OP		10,360u	271.2	38.20u	2021	3.39u	3.22u	3.57u	11.9	10.7	1,315.2u	1,263.2u	1,381.2u	10.2	9.4	15.0u	51%	60.00u	
Pivotree Inc.*	PVT	OP		97	26.7	3.64	2021	(0.35)	(0.36)	0.17	NMF	21.7	(3.5)	(3.6)	13.1	NMF	5.5	3.5	0%	8.00	
Q4 Inc.	QFOR	OP		171	39.6	4.31	2021	2.13u	(0.78u)	(0.57u)	NMF	NMF	(13.6u)	(27.0u)	(19.3u)	NMF	NMF	1.8u	0%	10.00	
Real Matters Inc.	REAL	SP		388	78.9	4.92	2021	0.48u	0.09u	0.09u	NMF	NMF	59.2u	11.8u	10.4u	19.0	21.7	2.0u	0%	6.00	
Shopify Inc.	SHOP	OP		40,934u	126.0	324.84u	2021	6.42u	1.21u	2.28u	NMF	NMF	732.0u	118.9u	327.0u	NMF	NMF	77.7u	9%	750.00u	↓
Softchoice Corp*	SFTC	SP		1,279	63.4	20.18	2021	0.57u	0.96u	1.24u	20.9	16.3	67.0u	96.4u	118.3u	14.2	11.5	0.8u	66%	25.00	↓
Tecsys Inc*	TCS	OP		414	15.0	27.65	2021	0.49	0.19	0.65	NMF	42.4	16.2	11.2	18.7	36.3	21.7	4.49	11%	55.00	
Telus International	TIXT	OP		6,464u	269.0	24.03u	2021	1.00u	1.22u	1.41u	NMF	NMF	540.0u	620.9u	754.2u	11.9	9.8	6.3u	39%	50.00u	
Thinkific Labs Inc.	THNC	OP		118	77.3	1.96	2021	(0.29)u	(0.41)u	(0.22)u	NMF	NMF	(19.46)u	(32.25)u	(15.85)u	NMF	NMF	1.42u	0.00	6.00	

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

u = US dollar

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

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302
—
Associates:
Ahmed Abdullah, CFA: 514-879-2564
Luc Troiani, CFA: 416-869-6585

Selections

- › *CCL*
- › *Cineplex*
- › *Spin Master*

CCL Industries

Leader in pressure sensitive labels with scale and operating leverage:

We initiated coverage with an Outperform and $79 target. The company has corporate offices in Toronto, Ontario and Framingham, Massachusetts. It employs over 25K people and has 204 production facilities across 43 countries. CCL Industries consists of four segments: 1) CCL, 2) Avery, 3) Checkpoint, and 4) Innovia. CCL (61% of 2021 revenue and 63% of Adj. EBITDA), the world's largest converter of pressure sensitive and specialty extruded film materials, supplies decorative, functional, and highly sophisticated label solutions to a range of global customers in consumer packaging, healthcare, chemicals, consumer durables, electronics, governments, and automotive markets. Avery (12% of 2021 revenue and 14% of Adj. EBITDA) is the world's largest supplier of labels, specialty converted media, and software solutions for short-run digital printing in businesses and homes, while offering complementary office supplies through distributors and mass-market retailers. Checkpoint (14% of 2021 revenue and 13% of Adj. EBITDA) is a leading manufacturer of tech-driven loss prevention, inventory management, and labeling solutions, which include RF (radio frequency) and RFID (radio frequency identification) solutions in the retail and apparel industry. Innovia (13% of 2021 revenue and 10% of Adj. EBITDA) is a global supplier of specialty high-performance, multi-layer, surface engineered biaxially oriented polypropylene films sold to customers in label materials, flexible packaging, and consumer packaged goods. The company's long-term organic growth profile can be characterized as above global GDP by a fluctuating margin. With an Adj. EBITDA margin near 21% in 2021 and an Adj. EBITDA to FCF conversion rate at 45%, CCL Industries strives to increase shareholder value through investments in organic growth initiatives and global product innovations which are boosted by a worldwide M&A playbook. It has a strong management team that has successfully navigated economic cycles and business challenges, while capitalizing on opportunities and optimizing results through a decentralized and accountability driven approach that still leverages its expanding scale. Cash returns to shareholders have been rising, as the dividend has been raised in each of the last 30 years, sometimes more than once a year, with share repurchases having occurred in 2022. Our target is based on the average of the 2022E metric in our DCF and the 2023E value derived from our Net Asset Value analysis for implied target EV/EBITDA multiples of 11.9x 2022E and 10.8x 2023E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		818	63.4	12.91	12/2021	(3.93)	0.51	2.02	25.1	6.4	-84.3	160.1	245.1	9.6	5.7	-4.11	1.52	19.00	
Corus Entertainment Inc.	CJR.b	OP		924	206.8	4.47	08/2021	0.88	0.79	0.88	5.6	5.1	524.6	496.9	514.7	4.8	4.3	5.53	0.54	6.50	
WildBrain Ltd.	WILD	OP		438	173.0	2.53	06/2021	(0.07)	0.03	0.16	87.8	15.5	83.1	92.6	107.2	9.7	8.0	0.41	0.86	5.00	
Spin Master Corp.	TOY	OP		4,646	102.8	45.19	12/2021	2.10	2.38	2.52	15.1	14.2	414.1	436.0	446.7	6.7	5.9	10.77	-0.80	66.00	
Stingray Group Inc.	RAY.a	OP		480	70.1	6.84	03/2021	0.85	0.83	0.96	8.3	7.1	114.3	103.4	122.4	8.2	7.1	4.00	0.63	8.50	
TVA Group Inc.	TVA.b	SP		144	43.2	3.34	12/2021	0.79	0.50	0.79	6.7	4.2	80.3	61.1	76.7	2.7	2.0	8.72	0.08	3.50	
Packaging, Printing, and Publishing																					
CCL Industries Inc.*	CCL.b	OP		10,840	178.5	60.72	12/2021	3.37	3.54	3.90	17.2	15.6	1173.1	1275.9	1360.8	9.4	8.4	21.02	0.28	79.00	
Thomson Reuters Corp.	TRI	OP		60,867	486.2	125.19	12/2021	1.95	2.38	3.40	41.7	29.1	1970.0	2328.2	2818.0	21.9	17.7	30.08	0.18	162.00	
Transcontinental Inc.	TCL.a	OP		1,402	86.9	16.14	10/2021	2.37	2.23	2.48	7.2	6.5	454.9	441.4	464.4	5.3	4.7	20.61	0.37	23.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		385	21.3	18.08	12/2021	(0.59)	(0.12)	0.93	NM	19.5	29.0	41.9	56.6	8.7	7.0	4.10	0.41	34.00	
Yellow Pages Ltd.	Y	SP		389	27.7	14.05	12/2021	3.02	2.03	1.89	6.9	7.4	102.0	93.2	85.5	2.7	2.6	NM	-0.41	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		62,832	911.8	68.91	12/2021	3.19	3.36	3.60	20.5	19.2	9893.0	10305.2	10644.3	9.2	8.9	21.48	0.40	71.00	
Cogeco Communications Inc.	CCA	OP		4,882	46.4	105.25	08/2021	8.43	9.07	9.94	11.6	10.6	1205.7	1380.2	1425.4	6.3	6.0	63.69	0.60	141.00	
Quebecor Inc.	QBR.b	SP	↓	6,865	239.2	28.70	12/2021	2.52	2.75	2.91	10.4	9.8	1973.2	1986.6	2059.1	6.6	6.1	5.59	0.83	32.00	↓
Rogers Communications Inc.	RCI.b	OP		32,754	504.9	64.87	12/2021	3.56	4.06	5.06	16.0	12.8	5887.0	8605.2	9229.9	7.9	7.5	22.01	0.36	83.00	
Shaw Communications	SJR.b	OP	↑	17,956	501.0	35.84	08/2021	1.60	1.56	1.57	22.9	22.8	2500.0	2537.1	2547.3	9.2	8.8	12.38	0.48	40.50	
Telus Corp.	T	OP		43,550	1376.0	31.65	12/2021	1.23	1.13	1.33	28.0	23.9	6290.0	6420.1	6977.9	10.2	9.2	11.92	0.58	36.00	

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

TRI, TOY, and FORA estimates are in US$, rest is CAD$.
*CCL Industries Inc. is covered by Ahmed Abdullah.

Transportation & Industrial Products

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

Selections

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

A closer look at Sustainability and Aviation

As the airline and commercial aviation industries recover from the pandemic, we believe decarbonization of air travel will become a topic of increased importance for investors. Air travel is considered a 'hard to abate' industry sector due to a heavy reliance on large quantities of fossil fuels with few currently feasible alternatives. In a recently published Thematic report, we examined the various efforts to decarbonize, most likely paths to achieving climate goals, and the potential implications for our airline and aviation coverage universe, most notably **Air Canada (Outperform, $31.00 target), Transat A.T. (Underperform, $4.00 target) and Bombardier (Outperform, $2.65 target).**

Decarbonizing of aviation is a business imperative.

The Aviation industry only accounts for 2.1% of total global carbon emissions, and including the impact from aircraft contrails, is an estimated 3.5% contributor to climate warming. However, it is becoming a business imperative for the industry to mitigate its impact on the climate. For instance, reducing corporate air travel has become a key facilitator for many companies to meet ESG goals and leisure travelers are increasingly considering their environmental footprint as part of travel decisions. Higher carbon taxes on traditional jet fuel and other government policies aimed specifically at limiting the growth in aviation-related carbon emissions represent additional risks. As such, the airline industry and its partners in the aviation sector need to show tangible progress towards 2050 net-zero goals.

The aviation industry has a good track record of improving fuel efficiency.

Through advancements in engine technology and aerodynamic improvements, commercial aircraft today are 80% more fuel-efficient than was the case in the 1960s. As airlines take delivery of more fuel-efficient aircraft, their carbon footprint will continue to fall in the coming years. The aviation industry is also investing in incremental technological improvements that will reduce carbon emissions further. In addition, the industry is making significant investments in the development of battery-electric or hydrogen-powered propulsion that may make sense for use on smaller aircraft operating on shorter-haul routes.

Sustainable Aviation Fuel (SAF) the most logical path to decarbonization.

In our view, the airline and aviation industry will only be able to meet net-zero targets by 2050 through the widespread adoption of sustainable aviation fuel (SAF). Indeed, IATA estimates that use of carbon-neutral SAF will need to account for 65% of total carbon reduction to achieve net-zero operations in the aviation industry by 2050. SAF is the obvious solution because it can be used with existing engine technology and fuel infrastructure and can be incrementally blended into the jet fuel supply as production ramps. SAF is also the only practical solution to power larger wide-body aircraft on long-haul routes. The key challenge is that current global SAF production is only ~100 million litres per year versus the 449 billion litres that will be required by 2050. In our coverage universe, Air Canada, Transat and Bombardier have all made commitments to growing the use of SAF in their operations as one of the key components of their sustainability efforts.

Sector Analysis

Transportation & Industrial Products

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 5-31	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	22.19	7,943	12/2021	-10.25	-3.46	0.82	NA	27.1x	(1464)	1258	2764	12.4x	5.6x	108%	31.00	
Bombardier Inc.	BBD.b	OP		2378	1.19	2,830	12/2021	-u0.08	-u0.08	u0.03	NA	39.7x	u641	u847	u1065	9.2x	7.4x	na	2.65	
BRP Inc.	DOO	OP		84	98.32	8,285	01/2022	9.92	10.80	11.32	9.1x	8.7x	1462	1624	1691	6.5x	6.2x	107%	136.00	
CAE Inc.	CAE	OP		319	31.59	10,068	03/2022	0.74	1.16	1.52	27.3x	20.8x	723	977	1141	17.0x	10.8x	36%	44.00	
Canadian National Rail	CNR	SP		700	143.82	100,703	12/2021	5.95	6.82	7.66	21.1x	18.8x	9.81	9.00	10.90	14.1x	12.9x	38%	168.00	
Canadian Pacific Rail	CP	SP		933	90.25	84,176	12/2021	3.76	3.27	4.65	27.6x	19.4x	5.41	3.60	6.44	25.2x	14.0x	37%	98.00	
Cargojet Inc.	CJT	SP		17	148.83	2,578	12/2021	9.36	8.29	8.43	18.0x	17.6x	293	358	375	8.2x	7.8x	36%	185.00	↓
Chorus Aviation Inc.	CHR	OP		203	4.04	820	12/2021	0.37	0.51	0.61	7.9x	6.6x	272	443	516	5.7x	4.9x	70%	5.50	↑
Exchange Income Corporation	EIF	OP		40	47.01	1,864	12/2021	2.26	2.33	3.34	20.2x	14.1x	330	407	501	7.8x	6.4x	62%	59.00	↑
Héroux-Devtek Inc.	HRX	OP		36	15.91	574	03/2022	0.95	0.89	1.16	17.9x	13.7x	83	90	102	8.1x	7.1x	28%	25.00	↓
NFI Group Inc.	NFI	SP	↓	77	12.10	933	12/2020	-u0.17	-u1.29	u0.41	na	23.6x	164	16	200	111.6x	8.8x	48%	14.00	↓
Taiga Motors Corp.	TAIG	OP		31	4.16	131	12/2021	-5.72	-1.23	-1.66	NA	NA	(22)	(35)	(23)	na	na	na	9.00	↓
Transat A.T. Inc.	TRZ	UP		38	4.11	155	10/2021	-11.83	-5.28	-1.07	NA	NA	(214)	9	195	155.6x	7.2x	NA	4.00	
TFI International Inc.	TFII	OP		92	103.87	9,553	12/2021	u5.23	u6.54	u7.15	12.5x	11.5x	1051	1303	1396	7.4x	6.9x	48%	146.00	↑

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

u = US dollars

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Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
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Val d'Or • 840, 3e avenue, Val d'Or, QC, J9P 1T1 • 819-824-3687
Valleyfield • 1356, boulevard Monseigneur-Langlois, Valleyfield, QC, J6S 1E3 • 450-370-4656
Vancouver - PB1859 • 1076 Alberni Street, Suite 201, Vancouver, BC, V6A 1A3 • 778-783-6420
Vancouver 1 • 475 Howe Street, Suite 3000, Vancouver, BC, V6C 2B3 • 604-623-6777
Victoria • 700-737 Yates Street, Victoria, BC, V8W 1L6 • 250-953-8400
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White Rock • 2121 160th Street, Surrey, BC, V3Z 9N6 • 604-541-4925
Windsor • 1 Riverside Drive West,Suite 600, Windsor, ON, N9A 5K3 • 519-258-5810
Winnipeg • 1000-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5 • 204-925-2250
Yorkton • 89 Broadway Street West, Yorkton, SK, S3N 0L9 • 306-782-6450

International

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

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

National Bank of Canada Financial Inc.

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

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Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
(Toll-Free)

1-800-678-7155

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