MAY 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA

FINANCIAL MARKETS

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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

- While the Omicron wave that swept the continent early in the first quarter was certainly a factor that contributed to the growth slowdown in the eurozone, we think the decline of purchasing power due to the jump in energy costs played a more important role. And on this point the news is not encouraging. Inflationary pressures, far from abating, have strengthened early in the second quarter. Such prices rises could cast a shadow over what is assuredly the most robust labour market in a generation. Inflation headaches are not confined to Europe. Soaring prices for food and energy have also hurt emerging and developing countries, where a number of central banks – especially those of energy-importing countries – have already tightened their monetary policy sharply. The associated rise of interest rates, combined with recent increases in government borrowing, will not fail to increase the cost of debt service. The recent pronounced appreciation of the greenback will do nothing to help, since a non-negligible share of borrowing by emerging-country governments is denominated in USD. And we have yet to mention China, whose economic data are beginning to reflect the constraints of Beijing's zero-Covid policy. With clouds gathering over the euro zone and emerging markets, we have decided to revise our global growth forecast downwards for this year from 3.4% to 3.2%. We then expect the global economy to expand 3.4% next year.
- The national accounts released in late April by the U.S. Bureau of Economic Analysis showed GDP contracting in the first quarter of the year. Though surprising, this result did not especially alarm economists because it was due in large part to a strong rise of imports. Domestic demand, more representative of the intrinsic vigour of the economy, kept growing. Looking ahead, our growth expectation for Q2 remains fairly optimistic, buoyed by the prospect of a trend reversal in international trade. Meanwhile, the expansion of consumer spending could slow. True, households remain in a good position and are likely to be able to support their consumption by drawing on some of the excess savings they accumulated during the crisis. Unfortunately, these savings could be drawn down more quickly than expected by galloping inflation. And inflation affects not only savings but also real disposable income, which has declined in seven of the last eight months and is now well below its pre-pandemic trend. In light of the disappointing numbers for Q1, and assuming growth slightly below potential in the second half of the year, we expect U.S. GDP to expand 2.6% in 2022 and 2.1% in 2023.
- In Canada, strong inflationary surges and a record-low unemployment rate are further confirmation that the central bank is behind the curve in normalizing its interest rates and must consequently move quickly. We see the policy rate reaching 2% this summer, which is likely to calm the housing market and moderate consumption. The Canadian economy, like that of other countries, could be affected by inflationary pressures arising from the war in Europe and lockdowns in China, but remains relatively well-positioned. Consumers have accumulated excess savings that will help absorb the shock, and comfortably full employment is likely to allow decent wage increases. The strength of the resource sectors could also offset some of the shock to consumption. As for governments, there is nothing in recent federal and provincial budgets to suggest austerity ahead. After first-quarter growth exceeding our expectations we now see growth of 4.0% in 2022, moderating to 2.2% in 2023.

Interest rates and currency

- Given uncomfortably elevated inflation, we're likely to receive 50 bp hikes on both sides of the border in June and July, lifting the corresponding level for U.S. and Canadian policy target rates to 2% by mid-summer. From there, accumulating evidence of flagging demand suggest a more gradual rate hiking trajectory could be adopted even if inflation remains somewhat sticky.
- Given our expectations of moderating demand, softening financial conditions and eventually cooler inflation, we could see both Powell and Macklem terminate rate hikes at 2.5% before the year is out. Both could then opt to utilize balance sheet run-off as a longer-term and perhaps less invasive tightening tool. Prior to an abrupt rally in recent sessions, markets had been discounting 3%+ policy interest rates by the end of the year. As we go to print, markets retain more ambitious hiking expectations than our own view.
- QT remains a non-trivial valuation factor out the curve, although more recent pressure on longer term yields appears to be a greater function of elevated inflation and expanding term premia. Notwithstanding this week's rally, we've allowed for some incremental selloff in 10-year Treasuries as the Fed follows through with larger, 50 bp hikes the next couple times out. To us, higher and stickier yields out the curve essentially amplify the drag coming from policy rate hikes, making a 2.5% fed funds upper notionally more restrictive than if longer term rates were becalmed.
- We caution that market volatility remains elevated, while investor attitudes are fluid. This has led to abrupt re-pricing across assets classes, shortening the half-life on financial market forecasts and necessitating non-trivial revisions to prior thinking.
- Drum-tight labour markets have caught the Bank of Canada by surprise and are now fuelling inflation. Annual CPI inflation, now at 7 percent, recently exceeded the unemployment rate for only the third time in about fifty years. Against this backdrop, the BoC raised its overnight rate by half a percentage point for the first in over two decades on April 13 and opened the door for a similar move at its June interest-rate setting meeting. Despite these actions and high commodity prices, the Canadian dollar remains depressed due to fears of a prolonged slowdown in global growth. The next few months could be volatile for currencies, as China remains adamant about controlling Covid despite the real economic damage. Due to this decision, we have delayed our scenario of CAD appreciation to H2 2022.

Highlights

Recommended asset mix and stock market

- Rising long-term interest rates combined with supply shocks (food, energy, pandemic) are weighing on equity markets. The MSCI ACWI already down 10.5% since the start of the second quarter. For some key stock indices, the decline since the peak is already over 20%.
- While we recognize the need to quickly raise the federal funds rate to 2 percent in light of tightening labor markets and high inflation, we also believe that quantitative tightening (QT) will amplify the dampening impact of higher short-term interest rates on economic growth by keeping 10-year Treasury yields higher around the world.
- Unit labour costs are currently rising faster than the overall selling price of nonfarm businesses. We think companies will need to slow the pace of hiring to minimize the pressure on profit margins. A slower pace of monthly job creation in the 120-150K range would go a long way toward reducing wage inflation and preventing monetary policy from becoming too restrictive.
- At this writing, the S&P/TSX is down 9.5% from its peak, while the S&P 500 is already in correction territory, down 16.8% from its peak. This is the best relative performance of the Canadian equity benchmark versus its U.S. counterpart in a generation.
- Our asset allocation has changed this month. After a major market correction, equity valuations are becoming more attractive. Given our baseline forecast of continued growth and the lack of a yield curve inversion, we are reducing our overweight in cash in favour of U.S. equities which move from underweight to market weight. Even after our latest move, our cash positions remain slightly overweight relative to our benchmark.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	18.0	Overweight	
Materials	13.0	Overweight	
Industrials	11.4	Market Weight	
Consumer Discretionary	3.2	Market Weight	
Consumer Staples	4.0	Market Weight	
Healthcare	0.5	Market Weight	
Financials	31.8	Market Weight	
Information Technology	5.2	Underweight	
Telecommunication Services	5.2	Market Weight	
Utilities	5.0	Underweight	
Real Estate	2.7	Underweight	
Total	100.0		

* As of May 09, 2022

The Economy

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The Economy

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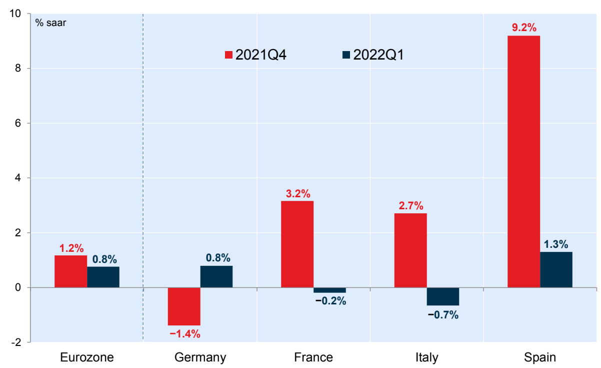
World: Emerging markets on fragile footings

Europe, the region most dependent on Russian exports for its raw materials, has drawn a large share of our attention in previous issues of this monthly monitor. We expressed concern last month about the potential effect of price increases on consumer confidence, and anticipated a slowing of industrial production under conditions of input scarcity. Unfortunately, the data released since our last overview have confirmed our fears. Economic growth in the Eurozone fell from a seasonally adjusted annual rate of 1.2% in Q4 to 0.8% in Q1, with increases in investment and inventories almost completely offset by a decrease of household spending.

Eurozone: Slowing of growth in the first quarter. Contraction to come?
Changes in real GDP in Q4 and Q1

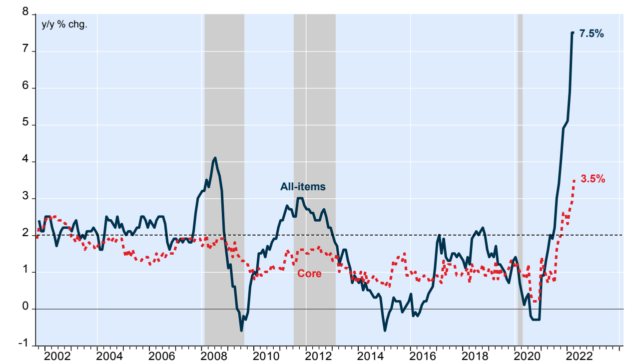


NBF Economics and Strategy (Refinitiv data)

While the Omicron wave that swept the continent early in the quarter was certainly a factor in this slowing, we think the decline of purchasing power due to the jump in energy costs played a more important role. And on this point the news is not encouraging. Inflationary pressures, far from abating, have strengthened early in the second quarter. Eurostat showed April all-items prices up 7.5% from a year earlier, the steepest 12-month inflation since the creation of the single currency area.

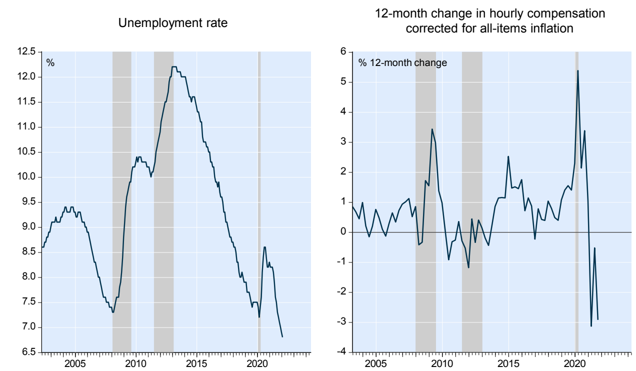
Such prices rises could cast a shadow over what is assuredly the most robust labour market in a generation. Though the unemployment rate touched an all-time low in March, real wages seem about to contract for a fourth straight quarter.

Eurozone: Inflation at an all-time high
Harmonized Consumer Price Index



NBF Economics and Strategy (Bloomberg data)

Eurozone: A striking employment recovery runs up against price rises



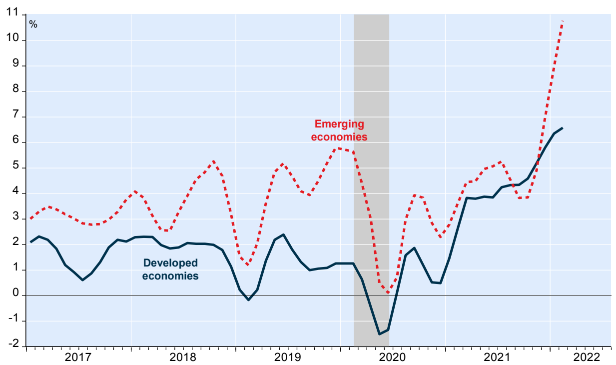
NBF Economics and Strategy (Refinitiv data)

Inflation may well have peaked in March, but the path back to more normal rates is likely to be longer than expected as the Ukraine conflict drags on with the threat of escalation remaining very real. Last month, Moscow cut off exports of gas to Poland and Bulgaria after those two countries refused to pay for them in rubles. A scenario in which Moscow extends the cut-off to other European nations cannot be excluded at this time. The Bundesbank has warned that an interruption of supply from Russia would reduce Germany's GDP by no less than 5% this year. We are not yet at that point, but even if the fragile status quo can be maintained, the outlook for the Eurozone is not rosy. A technical recession this year now seems very likely.

The Economy

Inflation headaches are not confined to Europe. Soaring prices for food and energy have also hurt emerging and developing countries, where these goods account for a larger share of consumer expenditure.

Emerging markets: Not immune from soaring inflation
All-items CPI, annualized 3-month change

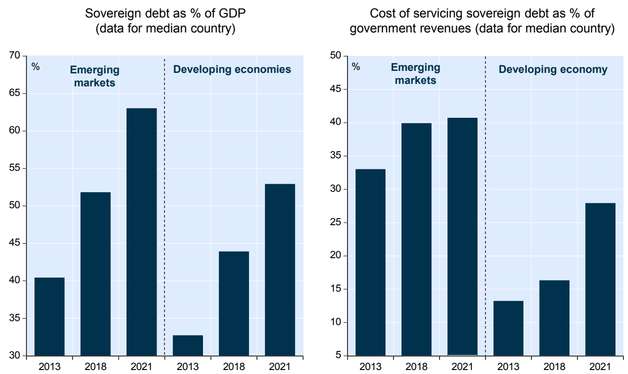


NBF Economics and Strategy (IMF data)

While the central banks of the U.S., the Eurozone and Canada have the luxury of moving cautiously in response to price rises, those of emerging countries do not. In the developing world, inflation expectations are less anchored and currencies more exposed to investor mood swings. To avoid capital flight and control inflation, a number of central banks – especially those of energy-importing countries – have already tightened their monetary policy sharply. The associated rise of interest rates, combined with recent increases in government borrowing, will not fail to increase the cost of debt service.

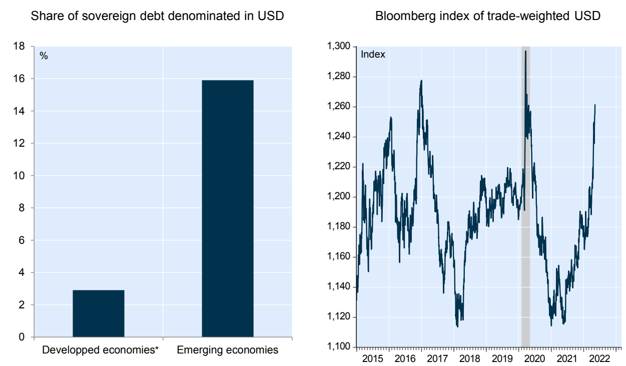
The recent pronounced appreciation of the greenback will do nothing to help, since a non-negligible share of borrowing by emerging-country governments is denominated in USD.

Emerging markets: Rising costs of servicing sovereign debt



NBF Economics and Strategy (IMF data)

Emerging markets: Greenback appreciation is bad news



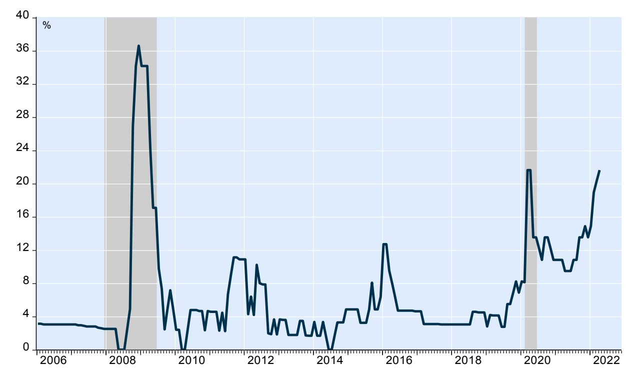
* Excluding U.S.
NBF Economics and Strategy (IMF data)

In response to this increase in risk, rating agencies have downgraded the sovereign debt of a number of emerging countries … and in doing so have intensified the flight of foreign capital. The upshot? The debt of almost a quarter of emerging-country issuers is now trading at rates more than 10 percentage points higher than that of U.S. Treasuries, a share similar to that prevailing at the worst point of the pandemic.

Emerging markets: Rating agencies are wary…
Net number of downgrades of sovereign issuers in emerging countries, 12-month moving sum

NBF Economics and Strategy (IMF data)

…and so are investors
Share of emerging-country sovereign issuers in distress*

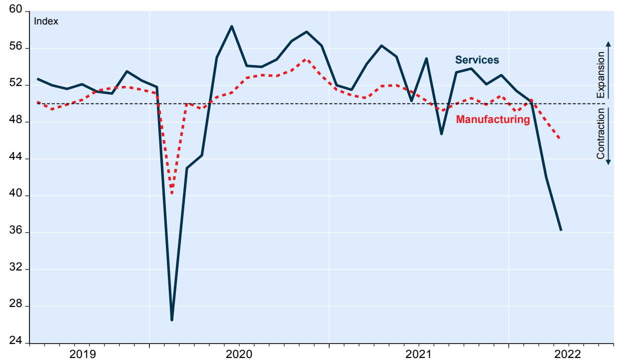


* Yield spreads to U.S. Treasuries exceeding 10 percentage points

And we have yet to mention China, whose economic data are beginning to reflect the constraints of Beijing's zero-Covid policy. Indeed, Caixin/Markit reported a large contraction of the private sector in April following the imposition of strict lockdowns in several large cities.

The Economy

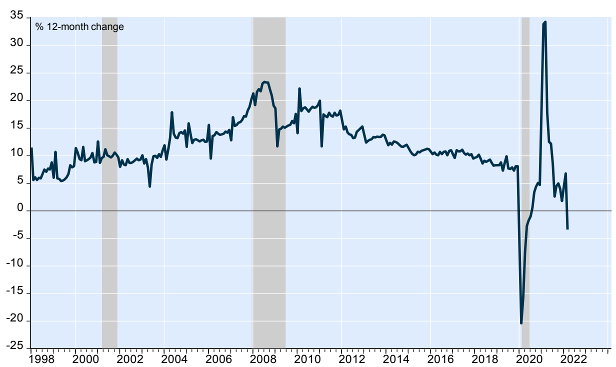
China: An economy vacillating under the weight of zero-Covid policy (1)
Caixin/Markit PMI. Last observation April 2022



NBF Economics and Strategy (Refinitiv data)

The most recent retail sales data give just as pessimistic a picture of developments in China. They show a drop of 3.5% over 12 months, the first downturn of this series since July 2020.

China: An economy vacillating under the weight of zero-Covid policy (2)
Retail sales



NBF Economics and Strategy (Refinitiv data)

With clouds gathering over the euro zone and emerging markets, we have decided to revise our global growth forecast downwards for this year from 3.4% to 3.2%. We then expect the global economy to expand 3.4% next year.

World Economic Outlook

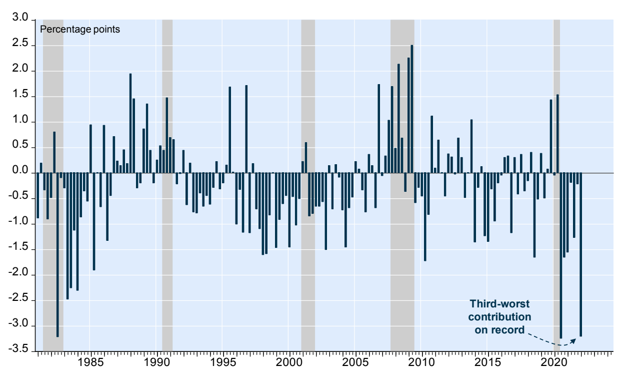
	2021	2022	2023
Advanced Economies	**5.1**	**2.7**	**2.2**
United States	5.7	2.6	2.1
Eurozone	5.3	2.5	2.2
Japan	1.8	2.2	1.8
UK	7.4	3.6	1.2
Canada	4.8	3.6	2.4
Australia	4.8	4.2	2.8
Korea	4.0	2.7	2.5
Emerging Economies	**6.5**	**3.5**	**4.2**
China	8.1	4.5	5.2
India	9.0	8.0	7.0
Mexico	4.8	2.0	2.3
Brazil	4.8	0.8	2.0
Russia	4.7	-9.0	1.0
World	**5.9**	**3.2**	**3.4**

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

U.S.: Growth back down to earth?

The national accounts released in late April by the U.S. Bureau of Economic Analysis showed GDP contracting in the first quarter of the year (annual rate -1.4% q/q). Though surprising, this result did not especially alarm economists because it was due in large part to a strong rise of imports (annual rate of +17.7% q/q). Throw in a -5.9% drop in exports and foreign trade, in its third-worst showing since compilation of this data series began in 1950, subtracted 3.21 percentage points from GDP growth.

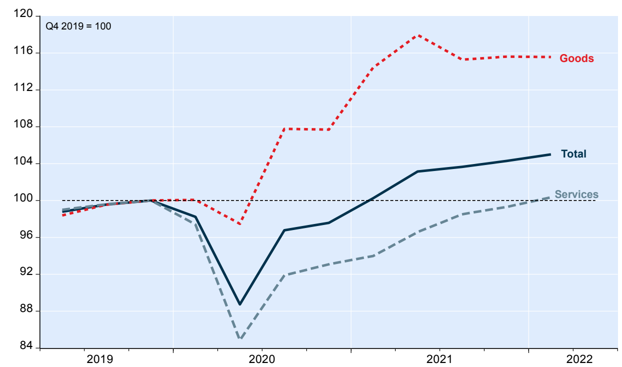
U.S.: Trade imbalance, the major factor in Q1 weakness
Contribution of net exports to GDP growth



NBF Economics and Strategy (Refinitiv data)

Domestic demand, more representative of the intrinsic vigour of the economy, kept growing. Nonresidential investment (+9.2%) was the real standout of the quarter, with exceptional gains in machinery and equipment (+15.3%) and intellectual property (+8.1%). Also contributing was household consumption with an annualized gain of 2.7%. As could be expected under improved public-health conditions, spending on services continued to rise (+4.3%), topping the pre-pandemic level for the first time.

U.S.: Consumption of services finally tops pre-crisis level
Personal consumption expenditures



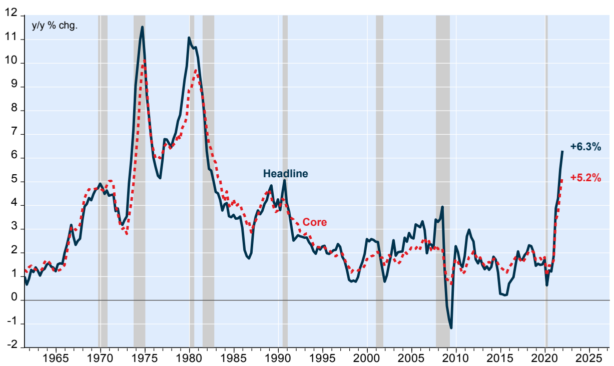
NBF Economics and Strategy (FRED data from St. Louis Fed)

Goods consumption, on the other hand, contracted slightly (-0.1%) as households were held back by a wave of infections from the Omicron variant, by delays in the supply chain and, especially, by strong price rises. However, the importance of this retreat should not be overestimated. Most economists had expected that, as the public-health picture improved, consumers would shift their spending toward services. This is exactly what happened in the first quarter.

Looking ahead, our growth expectation for Q2 remains fairly optimistic, buoyed by the prospect of a trend reversal in international trade. Meanwhile, the growth of consumer spending could slow. True, households remain in a good position and are likely to be able to support their consumption by drawing on some of the excess savings they accumulated during the crisis. Unfortunately, these savings could be drawn down more quickly than expected by galloping inflation. In the 12 months ending in Q1, the Personal Consumption Expenditures deflator rose 6.3%, the highest year-over-year print since 1981.

The Economy

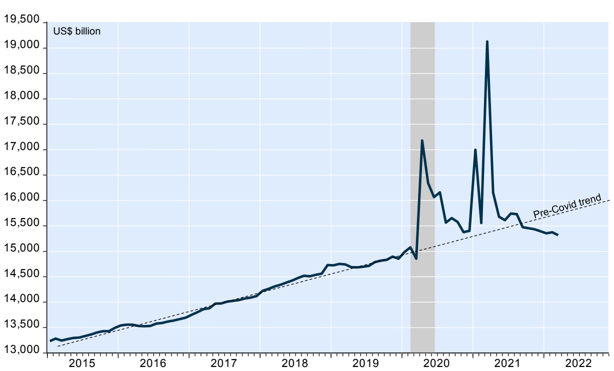
U.S.: Core inflation highest since 1981
Personal Consumption Expenditure deflator



NBF Economics and Strategy (Bloomberg data)

And inflation affects not only savings but also real disposable income, which has declined in seven of the last eight months and is now well below its pre-pandemic trend.

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



NBF Economics and Strategy (Bloomberg data)

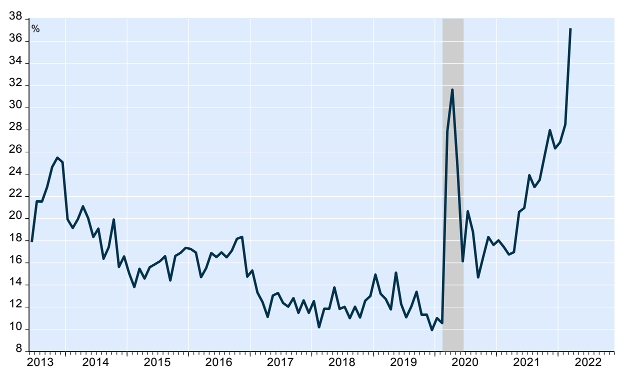
Under these conditions, U.S. workers, riding an extraordinarily vigorous labour market, are seeking – and for the most part receiving – adjustments of their overall compensation. The Employment Cost Index, which follows the movement of wages and benefits, was up a record 4.5% q/q annualized in Q1.

U.S.: A vigorous labour market and rising compensation

NBF Economics and Strategy (Refinitiv and Bloomberg data)

Yet many Americans continue to expect that their financial position will deteriorate in the next 12 months, a state of mind that could prompt wage demands of even greater intensity.

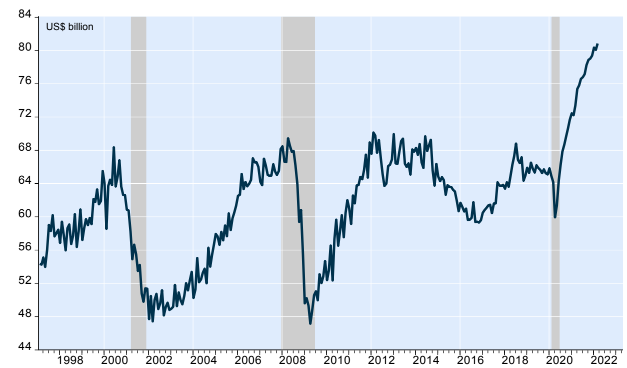
U.S.: Rising prices sap household expectations
Percentage of New York Fed survey respondents who expect their finances to deteriorate in the coming year



NBF Economics and Strategy (data from New York Fed)

To break this vicious circle of high inflation, lower real incomes and higher wages, the Federal Reserve will have to intervene. It has already hiked its policy rate three-quarters of a point since the beginning of the year and expects to raise it another full point over the next three months. These rises will affect the most interest-rate-sensitive sectors of the economy. Business investment seems to be holding up for now, to judge by the steady rise of orders for non-military equipment excluding aircraft, but could weaken if demand for these items softens.

U.S.: Investment holding up against rate rises, for now
Orders for non-military equipment other than aircraft



NBF Economics and Strategy (Refinitiv data)

In the housing market, the rise of borrowing costs is already beginning to be felt. Increases in mortgage rates coupled with high home prices are dealing a big blow to affordability ...

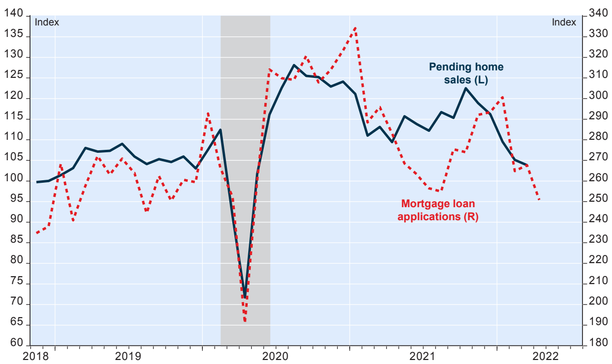
U.S.: Rising costs of borrowing threaten the housing market (1)
Average interest rate paid on a 30-year fixed-rate mortgage loan

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

... and thus weighing on demand. The number of transactions outstanding on the resale market is down 15.3% from October and mortgage loan applications are down 16.6% year to date. True, some of this retreat reflects a return to more normal conditions after a post-pandemic buying surge, but we think the downward trend could continue for a few months yet.

The Economy

U.S.: Rising costs of borrowing threaten the housing market (2)
Pending home sales index vs. index of mortgage loan applications excluding refinancing



NBF Economics and Strategy (Bloomberg data)

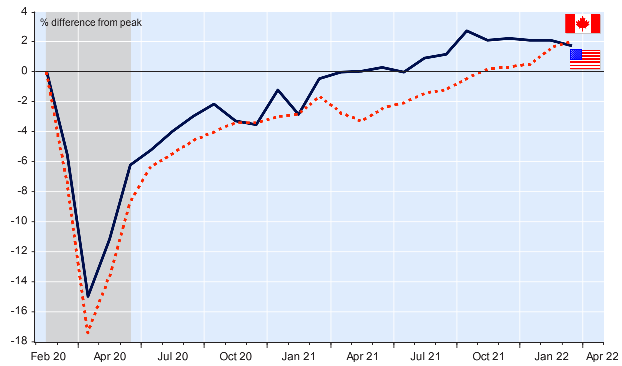
In light of the disappointing numbers for Q1, and assuming growth slightly below potential in the second half of the year, we expect U.S. GDP to expand 2.6% in 2022 and 2.1% in 2023.

Canada: A spectacular surge in Q1

So, the Canadian economy stayed the course in Q1. Statistics Canada reported in late April that GDP grew 1.1% in February, a strong rebound in step with the easing of public-health restrictions put in place to curb the spread of Omicron. But the biggest surprise was that segments other than those affected by Covid restrictions did especially well in February, posting a strong 0.7% expansion after 0.6% in January. Add a preliminary estimate of 0.5% growth in March, and Canadian GDP has now done better than that of the U.S. since the beginning of the pandemic. With that preliminary estimate, Q1 growth is 5.5% annualized, following 6.6% annualized in Q4 and 6.3% in Q3.

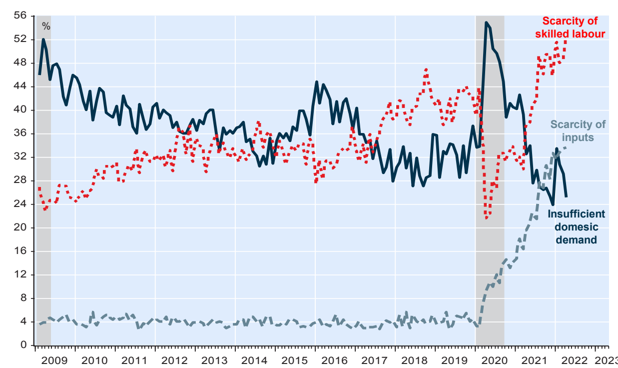
Employment data could be taken to suggest that growth moderated in April. Only 15,000 jobs were added; economists had expected 40,000. But the cooling of labour-market growth is not worrisome in the current phase of the economic cycle. Small and medium-sized businesses continued to report serious difficulties in filling positions in April – the most acute scarcity of skilled labour since the beginning of this data series. It remains to be seen whether businesses will be able to hire the workers they need in a labour market whose acute tightness was attested by a record-low unemployment rate in April. Moreover, employers face not only wage pressures but soaring input prices, whose squeeze on margins is an incentive to pass the bill on to consumers.

Canada: Economic momentum remains strong
% difference between monthly real GDP and February 2020 peak (Canada: March 2020 = preliminary estimate)



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

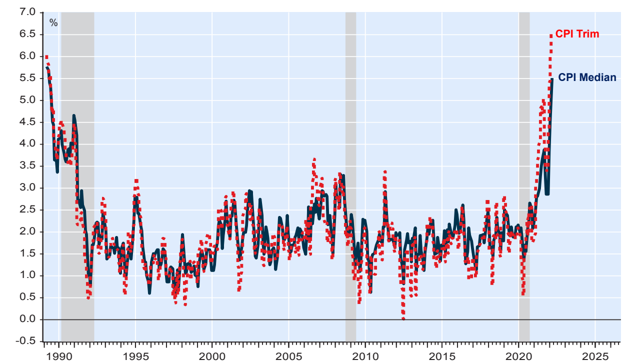
Canada: Labour and input scarcities intensify
% of survey respondents reporting factors limiting capacity of meet demand



NBF Economics and Strategy (data from CFIB)

In April the Consumer Price Index topped the consensus outlook by the largest margin since the beginning of this data series in 2012, showing a 12-moth rise of 6.7%. As for core inflation, the average of the three measures preferred by the Bank of Canada accelerated 0.3 points to 3.8%, highest since March 1991. Our internal replications of CPI Trim and CPI Median, giving indications of more recent momentum, offer no reassurance in this respect. Over the last three months CPI Trim has risen 6.5% and CPI Median 5.5% annualized. True, part of this inflation, notably that due to global supply-chain problems, is beyond the control of the central bank, but Canada's omnipresent inflation at a time of full employment is incompatible with the current accommodative stance of monetary policy.

Canada: Inflation omnipresent
Quarterly % rise of CPI Median and CPI Trim, annualized

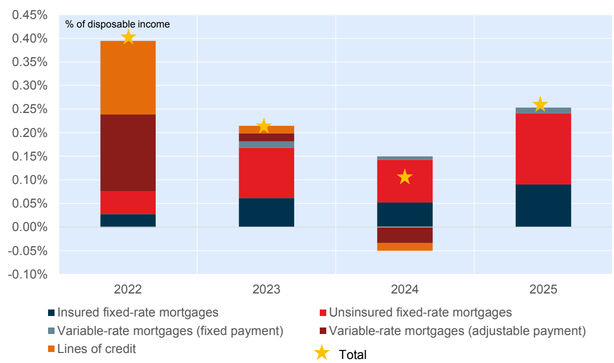


NBF Economics and Strategy (data from Statistics Canada)

The BoC at its April meeting accordingly felt the need to raise its policy rate by 50 basis points, a hike not seen in 20 years. In our view, it is likely to do the same in June and in July and then cool its ardour, converging by year end toward the mid-point of the estimated neutral range of 2% to 3%. We do not see a move into restrictive territory as necessary at this point. The abruptness of rate hikes is braking economic growth in the current year, notably via household loan repayments. Taking into account the structure of Canadian household debt, notably the portion of it bearing variable rates and the timing of fixed-rate renewals, we see the repayment shock amounting to 0.4% of disposable income in 2022, attributable mainly to rotating credit. That weight on the brake pedal will likely be enough to cool consumption in the second half of the year, especially when the real average hourly wage will be diminishing in the late months of the year.

The Economy

Canada: Significant but manageable payment shock in 2022
Increase in payments as % of disposable income

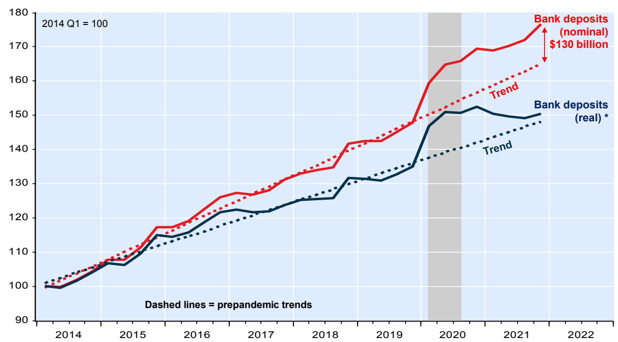


NBF Economics and Strategy (Statistics Canada)

True, Canadian households were able to accumulate significant savings in the first few waves of the pandemic, when spending was curtailed by health measures and disposable income was buoyed by very generous government programs. We have said in recent months that excess savings put Canadian consumers in an enviable position to deal with the loss of purchasing power to higher inflation. This is still true, but the firepower of households should not be overestimated. At the end of 2021, personal deposits in banks were $130 billion above their pre-Covid trend, which may seem like a lot. But in a high-inflation environment we must be careful not to be fooled. Deflated by CPI, retail deposits are back very close to their historical trend. In other words, much of the nest egg has already been eaten away by inflation. This suggests that excess savings may not prove the expected windfall for volume consumption, especially since households may instead choose to pay down debt or invest in a higher-interest-rate environment.

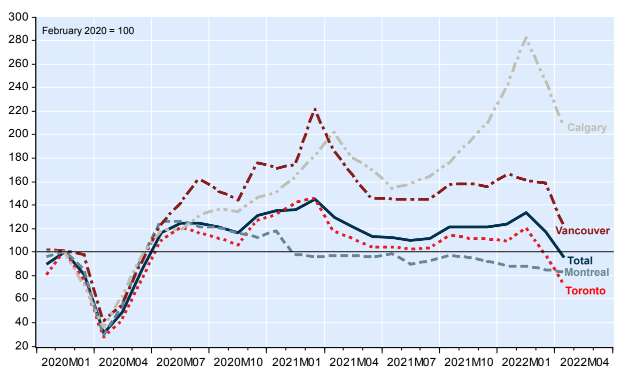
We think the interest-rate rise that we anticipate will suffice to rein in overheating of the housing market without triggering a hard landing of the economy as a whole. Five-year fixed mortgage rates have been rising for a while now but the effect on the housing market has been limited by the record share of homebuyers opting for variable rates, some of them benefiting from attractive guaranteed rates. First-time buyers now face less advantageous financing conditions, a headwind for the housing sector. In April there were signs of moderation in large urban centres, with home sales down 26% in the Toronto market after a drop of 18% in March. Sales in the Vancouver market were down 23% in April. The retreat in the Montreal market was smaller, but April was its sixth straight month of decline in unit sales.

Canada: Have the excess savings already vanished?
Bank personal deposits



* Deflated by CPI, one quarter ahead
NBF Economics and Strategy (data via Statistics Canada)

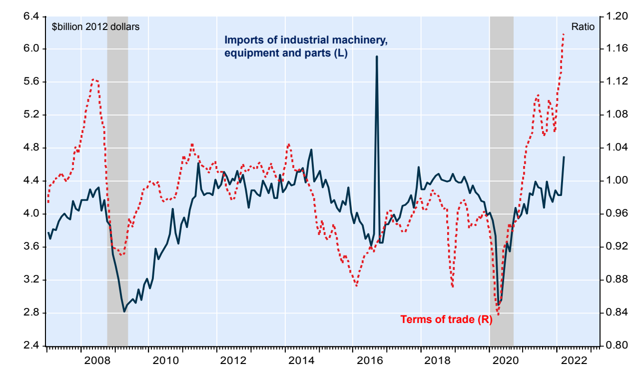
Canada: Resale markets slowed sharply in April
Number of sales of existing homes, seasonally adjusted



NBF Economics and Strategy (data via QPAREB, TRREB, CREB and REBGV)

In conclusion, strong inflationary surges and the April record low of the unemployment rate are further confirmation that the central bank is behind the curve in normalizing its interest rates and must consequently move quickly. We see the policy rate reaching 2% this summer, which is likely to calm the housing market and moderate consumption. The Canadian economy, like that of other countries, will be affected by inflationary pressures arising from the war in Europe and lockdowns in China, but remains relatively well-positioned. Consumers have accumulated excess savings that will help absorb the shock, and comfortably full employment is likely to allow decent wage increases. The strength of the resource sectors could also offset some of the shock to consumption. We note a surge of machinery and equipment imports in March at a time of record favourability of the terms of international trade, thanks to raw materials prices. As for governments, there is nothing in recent federal and provincial budgets to suggest austerity ahead. After first-quarter growth exceeding our expectations we now see growth of 4.0% in 2022, moderating to 2.2% in 2023.

Canada: Will record-favourable terms of trade mean an investment boom?
Canada: Terms of trade and imports of industrial machinery, equipment and parts (chained 2012 dollars)



NBF Economics and Strategy (data via Bloomberg)

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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	2.6	2.1	5.5	1.5	2.1
Consumption	2.2	(3.8)	7.9	2.8	2.0	6.9	2.0	2.2
Residential construction	(0.9)	6.8	9.2	(1.7)	0.2	(1.5)	(1.5)	2.7
Business investment	4.3	(5.3)	7.4	5.3	2.2	6.6	5.1	2.0
Government expenditures	2.2	2.5	0.5	(0.1)	2.1	0.1	1.4	1.6
Exports	(0.1)	(13.6)	4.5	4.3	3.9	4.9	2.6	3.1
Imports	1.2	(8.9)	14.0	7.8	1.0	9.6	3.5	2.0
Change in inventories (bil. $)	75.1	(42.3)	(32.6)	123.4	80.0	193.2	100.0	75.0
Domestic demand	2.4	(2.5)	6.5	2.4	2.0	5.3	2.2	2.1
Real disposable income	2.3	6.2	2.2	(4.1)	1.8	-0.2	0.2	2.0
Payroll employment	1.3	(5.8)	2.8	3.9	2.0	4.3	2.8	2.0
Unemployment rate	3.7	8.1	5.4	3.5	3.5	4.2	3.4	3.6
Inflation	1.8	1.3	4.7	7.3	3.6	6.7	6.0	2.9
Before-tax profits	2.7	(5.2)	25.0	7.2	2.0	21.0	3.5	1.7
Current account (bil. $)	(472.1)	(616.1)	(846.6)	(806.3)	(712.5)	...	...	...

* or as noted

Financial Forecast**

	Current 5/12/22	Q2 2022	Q3 2022	Q4 2022	Q1 2023	2021	2022	2023
Fed Fund Target Rate	1.00	1.50	2.25	2.50	2.50	0.25	2.50	2.50
3 month Treasury bills	0.95	1.54	2.44	2.50	2.45	0.06	2.50	2.25
Treasury yield curve								
2-Year	2.56	2.85	2.95	2.90	2.90	0.73	2.90	2.65
5-Year	2.81	3.15	3.20	3.15	3.10	1.26	3.15	2.80
10-Year	2.84	3.15	3.25	3.15	3.10	1.52	3.15	2.85
30-Year	3.00	3.25	3.30	3.25	3.20	1.90	3.25	2.95
Exchange rates								
U.S.$/Euro	1.04	1.03	1.05	1.07	1.07	1.14	1.07	1.09
YEN/U.S.$	128	130	128	125	123	115	125	120

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.3	6.9	(1.4)	3.5	2.0	1.8
CPI (y/y % chg.)	1.9	4.8	5.3	6.7	8.0	7.9	7.2	6.0
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	5.0	6.3	5.7	5.4	4.8
Unemployment rate (%)	6.2	5.9	5.1	4.2	3.8	3.5	3.4	3.4

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.6	4.0	2.2	3.3	3.1	2.1
Consumption	1.4	(6.2)	5.2	4.7	2.0	5.2	3.1	1.8
Residential construction	(0.2)	4.3	15.4	(4.2)	(1.6)	(0.8)	(1.8)	(0.2)
Business investment	2.5	(12.1)	2.3	7.6	3.7	6.5	6.0	4.1
Government expenditures	0.8	0.9	4.8	2.0	1.5	2.4	2.1	1.4
Exports	2.3	(9.7)	1.4	2.8	6.3	0.8	3.3	5.7
Imports	0.4	(10.8)	7.4	3.3	5.1	5.0	2.7	5.0
Change in inventories (millions $)	18,377	(18,720)	(1,543)	17,500	19,399	9,913	17,000	20,731
Domestic demand	1.2	(4.1)	5.5	3.3	1.7	3.8	2.6	1.7
Real disposable income	3.0	8.2	0.2	(2.4)	1.4	(1.1)	0.5	1.5
Employment	2.2	(5.1)	4.8	4.0	1.5	4.2	2.6	1.1
Unemployment rate	5.8	9.6	7.4	5.3	5.2	6.3	5.2	5.2
Inflation	1.9	0.7	3.4	5.5	2.5	4.7	4.6	2.1
Before-tax profits	(0.6)	(1.9)	32.7	7.2	(0.1)	14.6	8.0	2.5
Current account (bil. $)	(47.0)	(39.4)	1.6	(5.0)	(16.0)	....	....	....

* or as noted

Financial Forecast**

	Current 5/12/22	Q2 2022	Q3 2022	Q4 2022	Q1 2023	2021	2022	2023
Overnight rate	1.00	1.50	2.25	2.50	2.50	0.25	2.50	2.50
Prime rate	3.00	3.50	4.25	4.50	4.50	2.25	4.50	4.50
3 month T-Bills	1.42	1.70	2.35	2.55	2.50	0.17	2.55	2.40
Treasury yield curve								
2-Year	2.64	2.85	2.95	2.90	2.90	0.95	2.90	2.75
5-Year	2.73	3.00	3.05	3.05	3.00	1.26	3.05	2.85
10-Year	2.90	3.10	3.15	3.10	3.05	1.43	3.10	2.90
30-Year	2.88	3.05	3.10	3.05	3.05	1.68	3.05	2.90
CAD per USD	1.30	1.30	1.26	1.22	1.23	1.26	1.22	1.27
Oil price (WTI), U.S.$	106	100	97	95	93	75	95	85

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	4.8	(3.6)	5.5	6.7	4.9	3.6	2.1	1.9
CPI (y/y % chg.)	1.4	3.4	4.1	4.7	5.8	6.2	5.4	4.6
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.2	4.0	4.2	3.7	3.5
Unemployment rate (%)	8.4	7.9	7.2	6.3	5.8	5.2	5.2	5.2

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021e	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	2.5	2.7	1.8	2.3	-10.7	13.6	14.0	1.2
Prince Edward Island	4.7	-1.7	3.1	2.5	2.2	6.6	0.9	8.8	5.1	2.3
Nova Scotia	3.0	-2.5	3.4	2.7	1.9	3.7	0.7	8.7	5.8	1.9
New Brunswick	1.3	-3.2	3.2	2.5	1.7	2.4	-1.3	8.9	8.1	1.7
Quebec	2.8	-5.5	6.2	3.1	1.9	4.7	-2.4	13.1	7.1	2.0
Ontario	2.0	-5.1	4.3	4.1	2.2	3.7	-2.8	12.0	7.0	2.3
Manitoba	0.4	-4.6	3.4	3.5	2.1	0.7	-1.4	10.5	10.0	2.2
Saskatchewan	-1.1	-4.9	4.0	4.5	2.4	-0.4	-6.6	18.1	26.4	1.7
Alberta	-0.1	-7.9	4.8	5.0	2.6	1.5	-16.1	20.9	19.1	1.9
British Columbia	3.1	-3.4	4.4	4.3	2.4	4.6	-0.5	12.0	10.1	2.3
Canada	1.9	-5.3	4.6	4.0	2.2	3.6	-4.6	13.1	10.1	2.1

	Employment (% growth) 2019	2020	2021e	2022f	2023f	Unemployment rate (%) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	3.3	0.7	12.3	14.1	12.9	11.3	10.7
Prince Edward Island	3.4	-3.2	3.7	5.9	1.8	8.6	10.6	9.4	8.3	8.2
Nova Scotia	2.3	-4.7	5.4	3.6	1.5	7.3	9.7	8.4	6.2	6.0
New Brunswick	0.7	-2.6	2.6	2.5	0.7	8.2	10.0	9.0	7.1	7.0
Quebec	2.0	-4.8	4.2	2.6	1.3	5.2	8.8	6.1	4.1	3.9
Ontario	2.8	-4.7	4.9	4.9	1.7	5.6	9.5	8.0	5.4	5.3
Manitoba	1.1	-3.7	3.5	2.8	1.2	5.4	8.0	6.4	5.0	4.9
Saskatchewan	1.7	-4.6	2.6	3.8	1.1	5.6	8.3	6.5	5.3	5.2
Alberta	0.6	-6.5	5.2	4.6	1.3	7.0	11.5	8.6	5.9	5.8
British Columbia	2.9	-6.5	6.6	3.4	1.6	4.7	9.0	6.5	5.1	4.9
Canada	2.2	-5.1	4.8	4.0	1.5	5.7	9.6	7.4	5.3	5.2

	Housing starts (000) 2019	2020	2021e	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	2.2	0.8	1.0	0.2	3.7	5.1	2.5
Prince Edward Island	1.3	1.1	1.2	1.0	0.9	1.2	0.0	5.1	5.9	2.5
Nova Scotia	4.7	4.9	6.0	4.6	4.2	1.6	0.3	4.1	5.7	2.4
New Brunswick	2.9	3.6	4.0	2.0	1.8	1.7	0.2	3.8	5.7	2.6
Quebec	48.0	54.2	71.2	63.0	54.5	2.1	0.8	3.8	5.8	2.6
Ontario	69.0	81.3	101.2	84.0	81.4	1.9	0.6	3.5	5.7	2.5
Manitoba	6.9	7.3	8.0	8.5	7.5	2.3	0.5	3.3	5.5	2.5
Saskatchewan	2.4	3.1	4.3	3.0	2.8	1.7	0.6	2.6	5.3	2.5
Alberta	27.4	24.1	32.1	30.5	27.5	1.7	1.1	3.2	5.3	2.5
British Columbia	45.1	38.0	47.7	34.0	32.0	2.3	0.8	2.8	5.2	2.6
Canada	208.5	218.4	276.8	232.8	213.4	1.9	0.7	3.4	5.5	2.5

e: estimate f: forecast

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

Interest Rates and Bond Markets

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Interest Rates and Bond Markets

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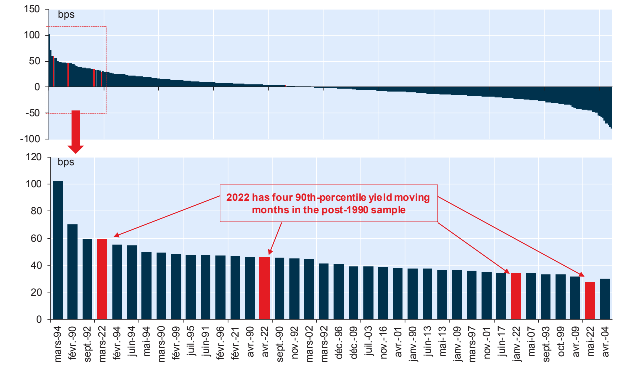
The bond market's multiverse of madness

You don't have to slide into a cushy seat at your local multiplex to witness some compelling (or is it scary) theatre. Just look at global bond markets. After being bludgeoned in April, in what was one of the more pronounced selloffs for North American rates in ages, fixed income markets remained on the back foot early in May before a risk-off rally took hold in recent sessions.

Canada: Were in the midst of a historic rates surge
Monthly GoC 10-year yield changes (top) with a focus on the 90th percentile months (bottom)

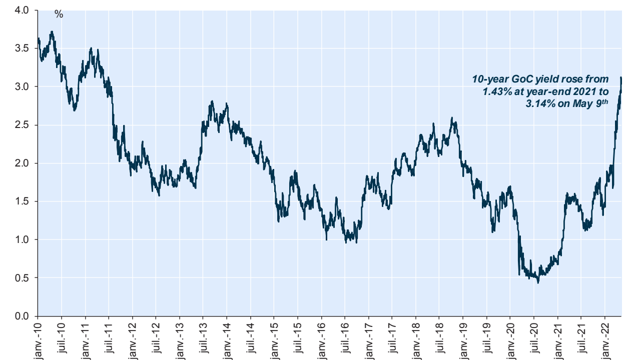


NBF Economics and Strategy (data via Bloomberg) | Note: Red bars denote 2022

As we write this, 10-year Treasuries hold just above 3.0% (at one point flirting with 3.20%), up a mind-bending 150 bps since the calendar flipped. Bond market volatility continues to build at the same time financial conditions and risk appetite wanes. Witness the roughly 30% backup in bellwether investment grade credit indices in the U.S. and Europe since the start of April, alongside accumulating weakness in global equities. It's enough to challenge the staunchest of investor convictions and makes a challenging backdrop for market makers too.

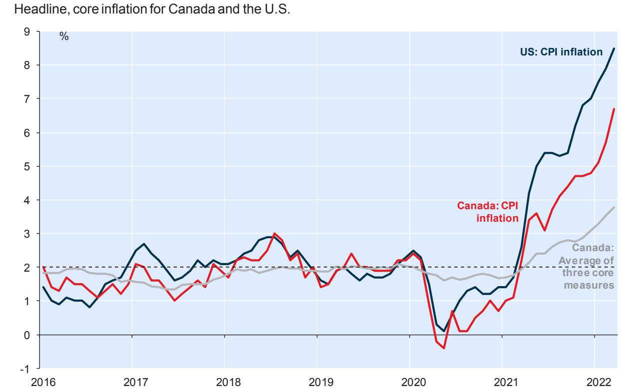
The villain in this unfolding drama is easy enough to spot: inflation, both observed and expected. Indeed, inflation is proving to be a multi-headed monster, raging away in a growing number of locales and evident across an increasing number of goods and services markets. We may be near to a peak in consumer price inflation—with April's U.S. CPI release a key near-term test—but real, meaningful relief likely remains some ways off. Perhaps most worrisome, inflation expectations risk drifting further away from previously well-cemented levels. Our sister publication—National Bank's *Monthly Economic Monitor*—is due to outline another near-term upward revision to our thinking on North American inflation. That's required successive revisions in our interest rate forecast, where policy normalization is required to come on more forcefully and/or quicker than earlier published guidance.

Canada: Were in the midst of a historic rates surge
GoC 10-year yield since 2010



NBF Economics and Strategy (data via Bloomberg)

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



NBF Economics and Strategy (data via StatCan, BLS)

Central bankers are meant to be the notional heroes in this epic tale. The spent much of 2021 off screen and/or out-of-focus as inflation pressures built but have moved to centre stage of late. Even casual viewers know what they're seeing: Central bankers on the defensive, unable to reverse the clock to correct for what now appears to have been too loose a stance for too long. After starting with a somewhat tepid initial hike, both the Fed and the Bank of Canada opted for more aggressive action the

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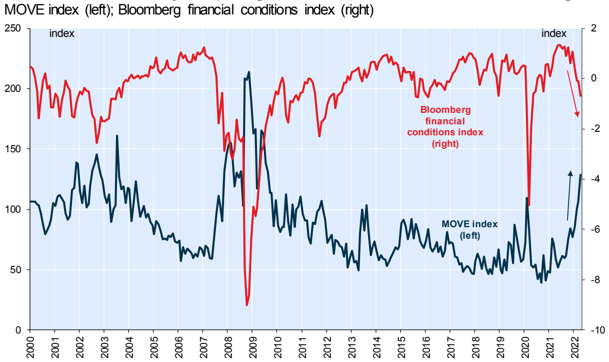
Interest Rates and Bond Markets

last time out. While Powell and Macklem have all but dismissed the ultra-aggressive 75 bp hikes some had openly wondered about, both appear willing to keep up the fight against inflation for some time yet. To that end, we're set to receive 50 bp hikes on both sides of the border in June and July, lifting the corresponding level for U.S. and Canadian policy target rates to 2% by mid-summer. From there, we see a slower, more gradual rate hiking trajectory being adopted. Indeed, for those savouring a happy ending, the required third act presumably involves a moderation in both inflation and rate hikes before the credits roll on 2022.

Bond market volatility is spiking, financial conditions are deteriorating
MOVE index (left); Bloomberg financial conditions index (right)

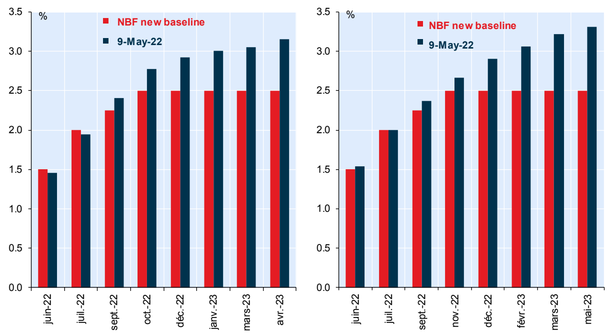


NBF Economics and Strategy (data via Bloomberg)

To be clear, a serious comedown in inflation is predicated on a moderation in aggregate demand. On that score, a swift and notable re-pricing of mortgage credit lays the foundation for cooler housing markets (where evidence is already accumulating in fact). Our more benign rate path, relative to what's been consistently discounted by the market, is likewise reflective of the duress in evidence across emerging markets. Europe too is struggling, while closer to home once-abundant excess savings are being rapidly drawn down by a consumer class contending with affordability crises.

Given our expectations of moderating demand, softening financial conditions and eventually cooler inflation, it's possible that both Powell and Macklem could terminate rate hikes at 2.5% before the year is out. Both could then opt to utilize balance sheet run-off as a longer-term and perhaps less invasive tightening tool. We've consistently leaned against market expectations of 3%+ policy rates by December, and even with the recent rally, we still see the FOMC and BoC tapping out sooner and at a lower level than markets currently predict.

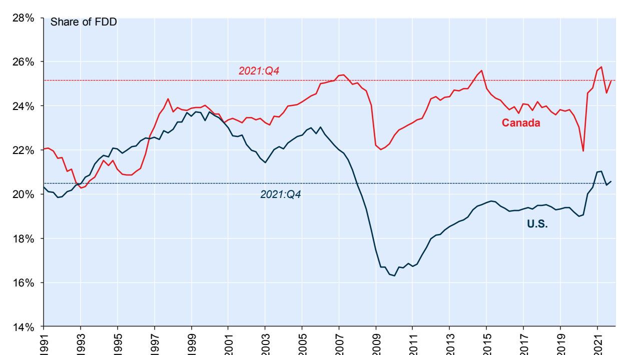
We remain below market on both sides of the border
OIS-based BoC pricing (left) vs. NBF (left) vs. Fed Funds futures-based Fed pricing vs. NBF (right)



NBF Economics and Strategy (data via Bloomberg) | Note: A spread has been added to the market implied effective fed funds rate to reflect the approximate upper-bound of the policy band.

QT remains a non-trivial valuation factor out the curve, although more recent pressure on longer term yields appears to be a greater function of elevated inflation and expanding term premia. Higher and stickier yields out the curve essentially amplify the drag coming from the policy rate, making a 2.5% fed funds upper notionally more restrictive than if longer term rates were becalmed.

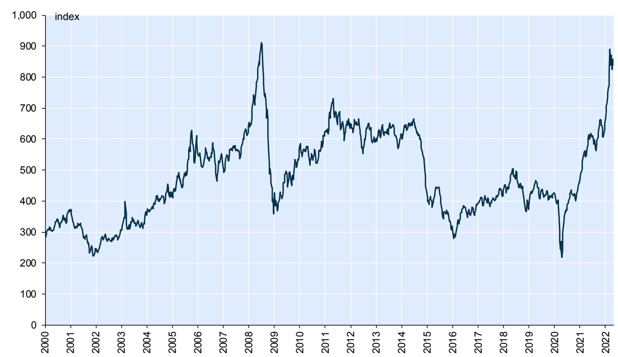
Canada's economy is more interest-sensitive than the U.S.
Interest-sensitive share of Final Domestic Demand: 2021:Q4



NBF Economics and Strategy (data via StatCan, BEA)

We've net added 50 bps to our policy rate path for the BoC, the peak rate (2.5%) matching the FOMC. We still view the Canadian economy as highly sensitive to interest rate hikes. Moreover, we'd classify 2.5% as a modestly restrictive setting. But Canada's real economy is demonstrating a compelling degree of resilience, while the latest (shocking) inflation data has clearly prodded the BoC into more forceful action. The extraordinary nominal income being generated north of the border—a by-product of elevated commodity prices, among other things—has gifted governments with ample above-plan revenue. To the extent federal and provincial governments are steering some of that fiscal windfall into new program spending, infrastructure projects, consumer relief and/or tax cuts, Canada's fiscal impulse remains supportive. Should businesses ultimately follow through with significant private investment—a narrative the BoC seems to believe strongly in—the stage could be set for notable Canadian economic outperformance... the type of thing that would allow the country to sustain a higher rate of interest that prior cycles. As a result, we'll be eying the unfolding business investment story closely.

Few nations benefit as much as Canada amidst commodity price boom
Bank of Canada commodity price index



NBF Economics and Strategy (data via Bank of Canada)

In the meantime, watch as central banks battle to contain inflation. It's perhaps too harrowing a scene to really enjoy, but we retain a degree of optimism that this fight can be without the curtain prematurely falling on the post-COVID economic recovery.

US: When extraordinary becomes ordinary

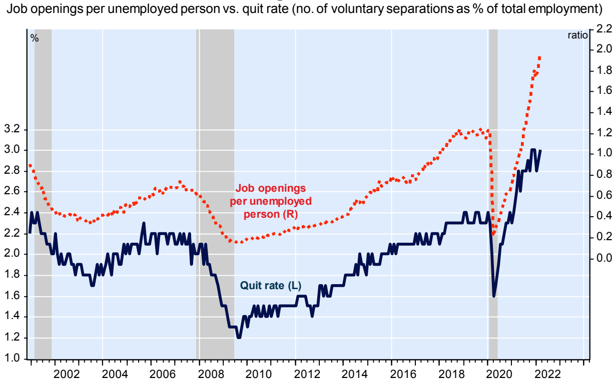
Back in March, FOMC participants collectively engineered an unprecedented shift in the all-important dot plot, continuing the hawkish pivot that began in late 2021. The fresh Summary of Economic Projections saw the 2022 median fed funds projection rise from just 0.9% in December's outlook to 1.9% just three months later. At

Interest Rates and Bond Markets

the time, one could envision an aggressive but smooth path forward—the Fed steadily increasing rates by 25 bps every meeting, hitting 2% by year-end. Less than two months later, that outlook has already been blown up.

Indeed, following additional steamy inflation/wage readings and labour market data that continues to signal too much tightness, the Fed opted to tap the brakes harder in May—tightening policy by rate 50 basis points for the first time since 2000. Powell technically reined in runaway expectations that were starting to bet on a jumbo-sized 75 basis point move in June (though other FOMC participants were less willing to completely rule this option out). Nonetheless, this is still a central bank that looks to be far more aggressive than they'd signalled in March.

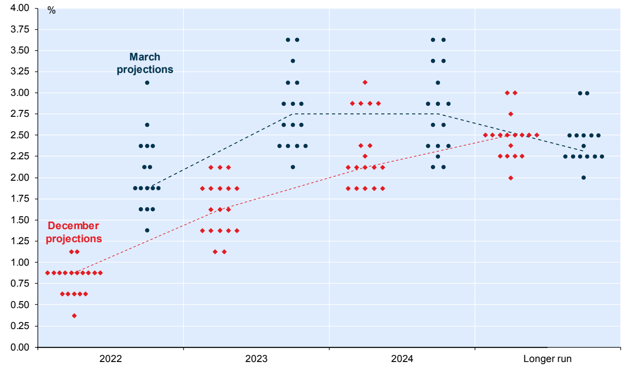
U.S.: Is the labour market *too* tight? Short answer: Yes.
Job openings per unemployed person vs. quit rate (no. of voluntary separations as % of total employment)



NBF Economics and Strategy (data via Refinitiv)

In his most recent press conference, Powell conceded that 50 basis point rate hikes should 'be on the table for the next couple meetings.' In the same breath, he assured markets that the Fed will try not to introduce additional uncertainty. Though conditions can change very quickly, the base case Fed policy response in the near term appears clear: With data likely to remain hot over the coming months, two more 50 basis point moves in June and July feel unavoidable. From there, with the policy rate closing in on neutral, financial conditions beaten and bruised and economic data cooling, a slower pace of normalization is likely to be warranted.

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



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

While we fully expect the Fed to continue tightening into the fall (and at the same time running down its balance sheet), we see a relatively early end to this rate tightening cycle. By the fourth quarter, with the policy rate at 2.5% and hikes still working their way through the system, we believe the Fed will judge that it's time to take a break. At the time, they may suggest the pause is temporary, but we see below-potential growth and decelerating (though admittedly above-target) inflation as providing the Fed cover from hiking further. Rather, by the time 2024 rolls and we've endured a year and a half of uninspired growth, we see good reason to expect interest rate cuts. That's effectively what we saw last cycle when the Fed was forced to cut rates after it hiked to 2.50% alongside a liquidity-draining QT exercise.

Speaking of QT, that's finally set to begin next month as the Fed's May meeting ushered in the start of the era. Beginning in June, the Fed will allow $47.5 billion in assets to roll of their balance sheets each month. By September, that monthly pace is set to double to $95 billion ($60 billion in U.S. Treasuries, $35 billion in MBS). To be sure, that's a more aggressive ramp-up, starting space and terminal pace than we saw in the Fed's inaugural QT foray. Back in 2017, the Fed began letting $10 billion/month roll off before gradually accelerating over the course of a year to $50 billion/month. Given the more dire inflation situation, today's quicker pace is undoubtedly warranted. But market participants beware. Ultimately in 2019, markets cracked under the pressure of balance sheet normalization and the policy rate at (arguably above) a neutral level as credit spreads ballooned and the Fed was forced to shift back to an easing bias.

Estimating the effect of QT on the economy, on rates or on financial conditions is hardly a settled science. Academic estimates of QT's "rate hike equivalence" are wide-ranging. For what it's worth, Powell handicaps the Fed's QT plans as being equivalent to an additional 25 basis point hike per year. Given this uncertainty, the 'true' effect could well prove larger. In any case, quantitative tightening will drain liquidity and tighten financial conditions. So while our policy rate forecast may indicate no additional rate hikes beyond Q4:2022, the Fed still will be in tightening mode—just utilizing a different tool.

Canada: BoC playing catch-up

Like the Fed, the BoC was forced into a hurry-up offense as red-hot economic/inflation data left the central bank behind the curve. April's 50 basis point rate hike—the first in two decades—is likely to be followed by another 50 basis point hike in June. And in all likelihood, another 50 basis point hike in July. These extra-large hikes won't have much of an effect on inflation near-term. Rather, we could still be talking about an annual pace of inflation with a 5-handle at the end of the year. But instead of the BoC hiking blindly into oblivion, moving into their estimated neutral band by July (i.e., 2-3%) warrants some pragmatism thereafter. Having raised the policy rate by 1.75%-pts over just four months and change, the BoC would surely like to be able to assess the impact that their tightening (and the tightening imported from the U.S.) has had.

While it typically takes 6 to 18 months for rate hikes to fully work their way through the system, there's good reason to believe we'll have some evidence in hand even earlier. As it stands—just a couple of months into this hiking cycle—we're already seeing signs of the most interest-sensitive sectors (i.e., housing) starting to ease. After a red-hot end to 2021 (and start of 2022), housing activity started to moderate in March. That proved not to be a one-off as recently released April data indicated the slowdown became even more pronounced last month. And you won't just find this in one or two markets. It was true in ***Toronto***, ***Montreal***, ***Vancouver*** and ***Calgary***—a collection of metropolitan areas that represent close to half of the population. To be clear, this was in the context of a policy rate at or below 1%. At this point, rates remain well below neutral. In other words, there's a lot of room to move higher still, which in turn suggests scope for further moderation in housing activity.

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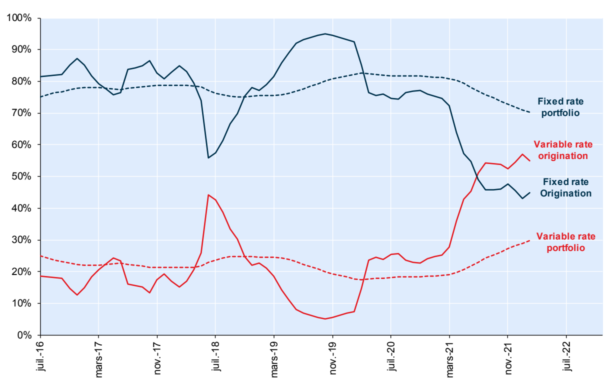
While fixed rate borrowers who were able to lock in rock-bottom pandemic rates will be insulated from ongoing rate increases, the record share of variable-rate mortgage holders will not (some variable-rate mortgages are fixed payment so there won't be an immediate payment shock, but less of the mortgage payment will go towards principal paydown). This needn't be prelude to a full-fledged crash in housing as Canadians, in aggregate, still have plentiful excess savings and record immigration targets provides a floor for demand. However, a significant slowdown in activity, more income going to interest payments and potential declines in equity means housing-centric economic growth may not be as easy to come by in the coming year(s).

Variable rate mortgages surged in popularity in 2021 and 2022
Variable and fixed rate share of mortgages: Bank portfolio and new origination



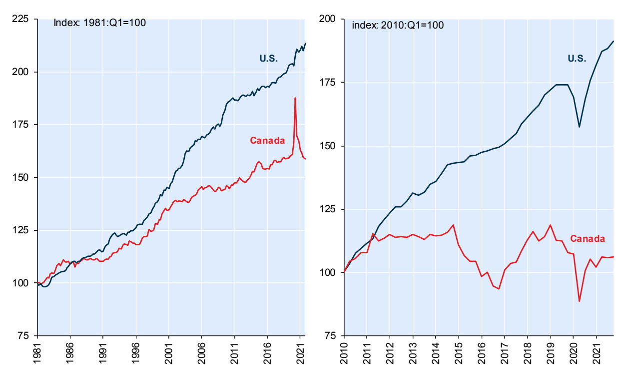
NBF Economics and Strategy (data via Bank of Canada)

Ultimately, we see BoC policymakers as being left with a no-win decision ahead. We know the Bank has the tools to kill much of these inflationary pressures in its tracks. Unfortunately, that would involve a pace/magnitude of interest rate hikes that would likely send the economy into recession. That's not an enticing option. On the other hand, the Bank can choose to live with above-target inflation in order to maintain an economy with a somewhat healthy pulse. The latter is the avenue we think is most appropriate and the avenue we see the BoC as most likely to take.

While we remain below the market on expected rate increases this year, we've nonetheless revised our thinking on the Bank of Canada's terminal rate (2.5%). There are a few reasons for this. Firstly, it reflects more upside surprises to inflation and employment which warrants/ requires additional tightening, all else equal. But importantly, our revision also incorporates a shift from the Bank of Canada itself. In the April Monetary Policy Report, the BoC revised higher its estimated neutral range for the overnight target, reflecting less COVID-related scarring and a stronger trend labour input. For the last two years they'd pegged neutral somewhere between 1.75% to 2.75%. Now that's seen more like 2% to 3%.

We concede that in the near-term (i.e. over the next year) there is scope for the policy rate to rise to top of this range (potentially above if inflation remains even stickier than we expect). But to sustain those rates longer-term we'll need to see some evidence of a meaningful pick-up in business investment and improved labour productivity. This, *as we discussed recently*, has been a perennial disappointment in Canada as we've significantly lagged the United States on both accounts.

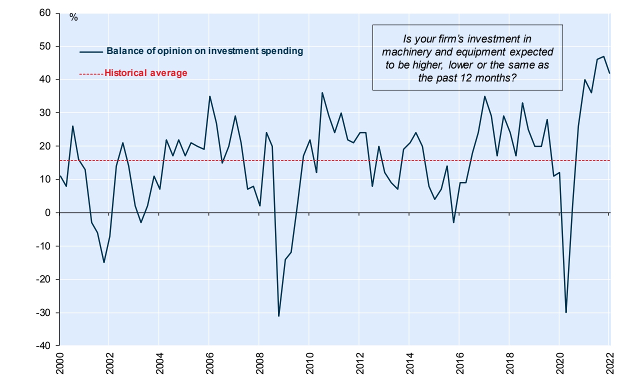
Will meaningful investment/productivity growth finally come to Canada?
Index of Canada-U.S. labour productivity (left); Can-US investment in machinery/equipment & IP (right)



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

But if there was one environment that created an incentive for productivity improving investment, it'd be one we're currently in: high commodity prices, scarce/expensive labour and an ongoing deglobalization shift. Tiff Macklem and the Bank of Canada have been optimistic that business investment will come, *as the Governor detailed in a speech earlier this year*. Businesses have also signalled strong investment intentions and there are early signs that this could be coming. We, like the Bank of Canada are cautiously optimistic that this will arrive. If this does come to fruition the days of a structurally lower BoC overnight rate (vis-à-vis Fed funds) may be behind us. Stay tuned on this front.

The Bank of Canada has reason to be optimistic
On aggregate, businesses are signaling investment intentions more than they have in the past

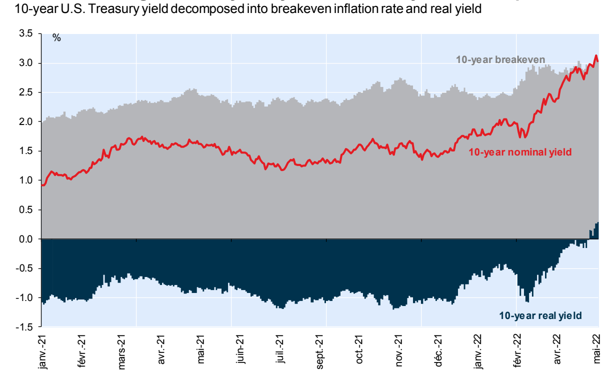


NBF Economics and Strategy (data via Statistics Canada, BEA)

Have we finally reached peak yields?

There's very clearly been a significant and rapid rethink on interest rates in recent months—it's not every year you see rates double in the blink of an eye. But that's exactly what we've seen so far in 2022 as a sub-1.50% 10-year treasury yield at the turn of the colander gave way to 3% in just four months.

Recent rate surge driven by real yields, less so by inflation expectations
10-year U.S. Treasury yield decomposed into breakeven inflation rate and real yield



NBF Economics and Strategy (data via Bloomberg)

With long-term inflation expectations flirting with 3% and real interest rates having swung back to positive territory, we believe most of the juice has now been squeezed from the short duration trade. Again, we view the market having overdone it on pricing policy rate tightening and we

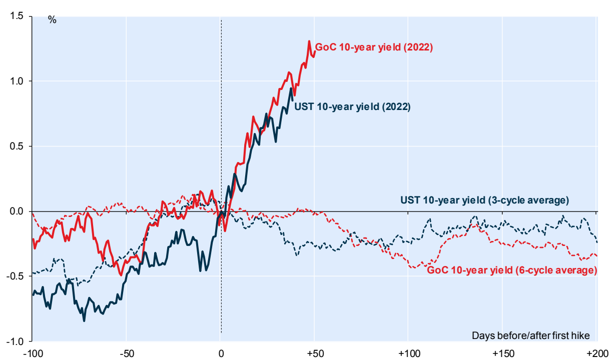
Interest Rates and Bond Markets

remain below consensus on our growth call for the years ahead. If, as and when, the market converges to our outlook, there should be scope for the sell-off to ease and ultimately stall out. Near-term, we're somewhat hesitant to be all-out short duration as central banks continue to push through half-percentage point rate hikes. In times like this, selling begets selling as the collective rethink (panic?) sets in. But perhaps by summer, when the tightening train starts to decelerate, we could hit a crescendo on long-term rates. Thereafter, we believe there could be some downside to yields across the curve.

We don't think a return to sub-2% long-term rates is on the horizon. Quantitative tightening, just now getting started, and still-elevated inflation expectations are likely to prevent that. But a 10-year treasury yield at/slightly below 3%? That might be the new normal for the years ahead.

Certainly, relief from the sell-off would be more consistent with historical interest rate hiking cycles. In the last quarter century when the BoC and Fed have been tightening policy, we typically see long-term rates rally in the months after rate hikes begin. To be fair, this cycle is unlike those in recent memory but assuming, as we expect, we will get signs of easing in the economy/in inflation, we'd expect more "normal" interest rate behaviour to return. We (i.e., private sector economists) and central banks have been surprised to date by the stickiness of inflation (and as a result, interest rate) but here's to hoping this time we're right.

This has not been your average rate hiking cycle for yields
Average GoC & UST 10Y yield trajectory during hiking cycles last 25 years (dotted line) vs. 2022 cycle (solid line)



NBF Economics and Strategy (data via Bloomberg) | Note: T=0 is day of first hike

Canadian Bond Market: Interest rates, spreads and currencies

	9-May-22	7-Feb-22	8-Nov-21	9-Aug-21	10-May-21
Interest Rates					
3 months	1.419	0.363	0.153	0.18	0.107
2 years	2.606	1.343	0.952	0.482	0.294
5 years	2.798	1.685	1.4	0.89	0.886
10 years	3.021	1.838	1.63	1.254	1.516
30 years	2.977	2.104	1.977	1.794	2.123
Spreads					
3 months - 2 years	118.7	98	79.9	30.2	18.7
2 - 5 years	19.2	34.2	44.8	40.8	59.2
5 - 10 years	22.3	15.3	23	36.4	63
10 - 30 years	-4.4	26.6	34.7	54	60.7
Currencies					
CAD/USD	1.3011	1.2667	1.2442	1.2577	1.2102
EUR/CAD	0.7278	0.6899	0.6936	0.6774	0.6811

NBF Economics and Strategy (data via Bloomberg)

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World: Higher real rates = lower PEs

Global equities remain in a downtrend, with the MSCI ACWI already down 10.5% since the start of the second quarter. All major regions are showing negative growth year-to-date (table).

MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	-1.3	-7.9	-12.6
MSCI World	-1.0	-8.0	-12.5
MSCI USA	-0.5	-9.6	-14.6
MSCI Canada	-0.3	-5.6	-2.9
MSCI Europe	-3.6	-4.8	-10.4
MSCI Pacific ex Jp	-2.7	-4.9	-4.4
MSCI Japan	0.9	-1.8	-4.2
MSCI EM	-3.6	-7.2	-13.2
MSCI EM EMEA	-2.3	-3.2	-13.1
MSCI EM Latin America	-2.3	-12.6	-1.5
MSCI EM Asia	-4.0	-7.2	-14.2

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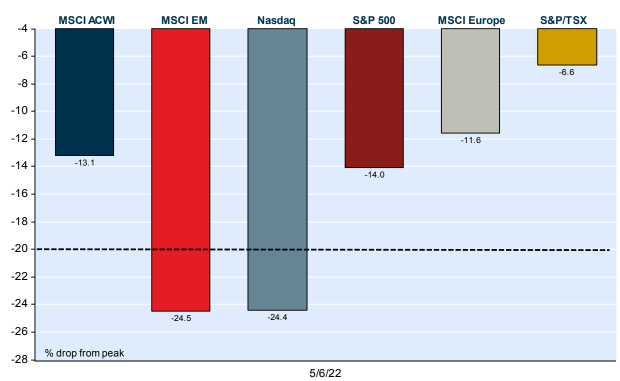
NBF Economics and Strategy (data via Refinitiv)

For some key stock indices, the decline since the peak is already over 20%. The MSCI EM (-25.4%) and Nasdaq (-27.6%) are technically in bear market territory - chart.

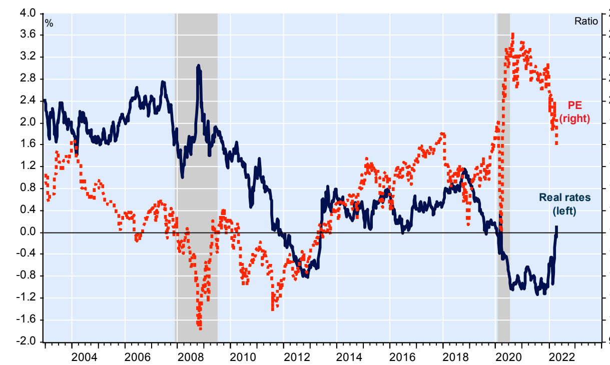
World: EM and technology stocks are in bear market
Cumulative decline since peak for various equity benchmarks



NBF Economics and Strategy (data via Refinitiv as of May 6, 2022)

Rising long-term interest rates combined with supply shocks (food, energy, pandemic) are weighing on equity markets. We argued last month that a rapid rise in U.S. interest rates would not go unnoticed by investors in an environment where 12-month forward PEs are still above their historical average. In the U.S., even after a substantial correction from its January 3 peak, the S&P 500's PE remains elevated at 18x. In an environment where real interest rates are expected to rise further (say 20 bps), it seems that the PE should fall a bit more (say 17x) - chart.

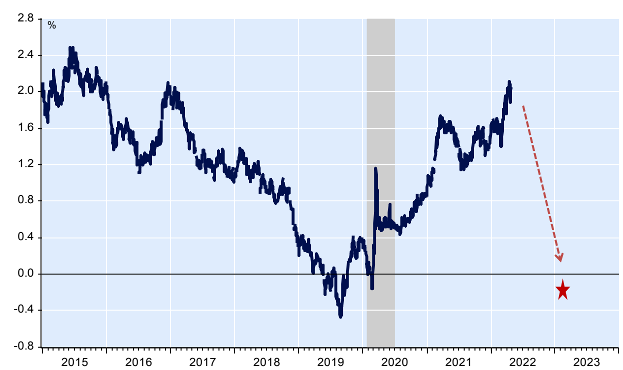
U.S.: Positive real rates undermine PEs
Forward PEs for the S&P 500 vs. real interest rates (10-year TIPS)



NBF Economics and Strategy (data via Refinitiv)

According to our fixed income strategists' calculations, the markets expect the yield curve to invert early next year - chart. In the past, an inversion of the yield curve has been a harbinger of a recession in the months that follow.

U.S.: Will the Fed invert the yield curve?
Yield on 10-year Treasury less that of the 3-month T-Bill



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

Fortunately, our latest interest rate ***forecast*** does not call for an inverted yield curve. While we recognize the need

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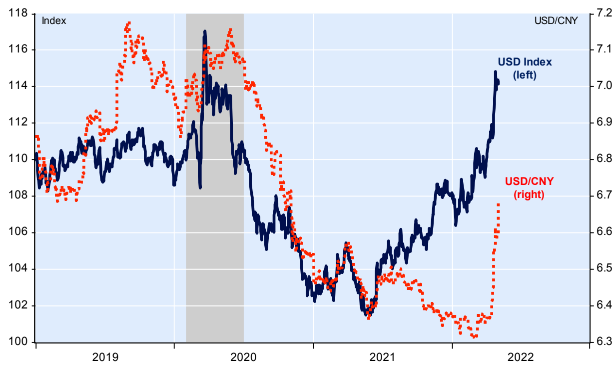
to quickly raise the federal funds rate to 2 percent in light of tightening labor markets and high inflation, we also believe that quantitative tightening (QT) will amplify the dampening impact of higher short-term interest rates on economic growth by keeping 10-year Treasury yields higher around the world amid a global supply shock. The recent strong appreciation of the U.S. dollar against the currencies of developed economies and China should also be a factor in mitigating imported inflation in the coming months.

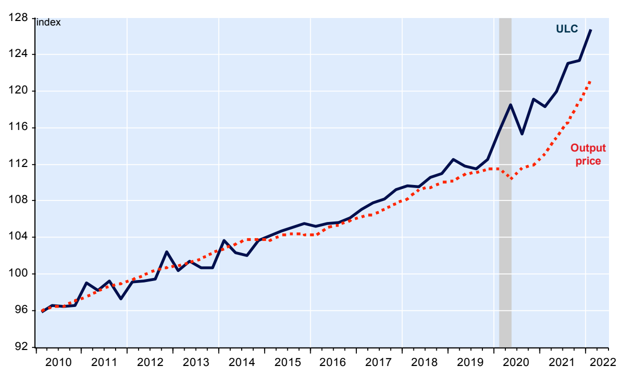
World: Greenback appreciation will help slow inflation
Trade-weighted USD against developed economies and China-U.S. exchange rate



NBF Economics and Strategy (data via Refinitiv)

The above factors also argue for lower profit margins at a time when labor productivity is disappointing and unit labor cost (ULC) inflation is at a 40-year high of 7 percent. ULCs are currently rising faster than the overall selling price of nonfarm businesses (chart).

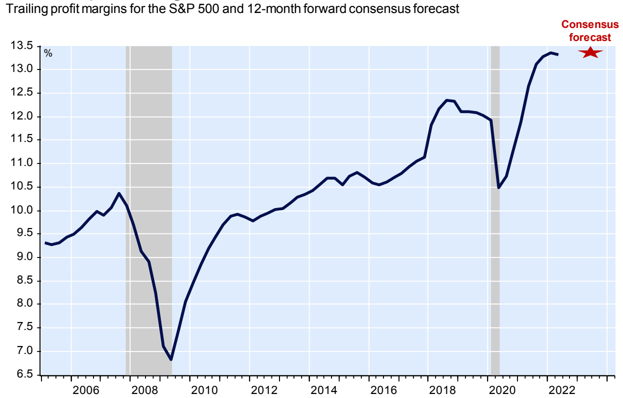
U.S.: Unit labour costs growing faster than output price
Unit labour costs and implicit price deflator for the nonfarm business sector



NBF Economics and Strategy (data via Refinitiv)

In our opinion, this combination of factors suggests that companies will need to slow the pace of hiring to minimize the pressure on profit margins. Recall that the consensus of equity analysts currently expects margins to be maintained at current levels over the coming year (chart).

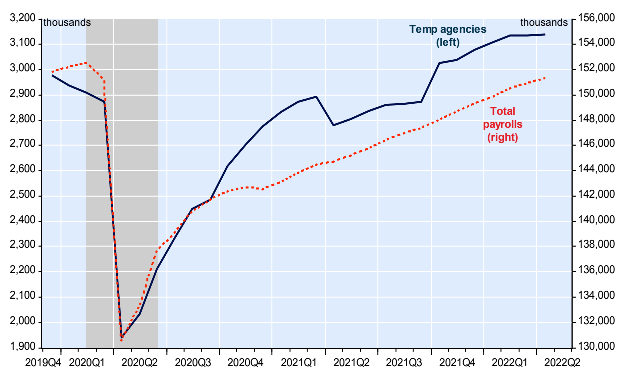
U.S.: Will profit margins be maintained?
Trailing profit margins for the S&P 500 and 12-month forward consensus forecast



NBF Economics and Strategy (data via Refinitiv)

There may be some signs of an upcoming deceleration in the pace of hiring. Despite a much stronger-than-expected monthly increase of 428,000 payroll jobs in April, temporary agency employment - a leading indicator of overall hiring trends - posted anemic growth for the second consecutive month (chart).

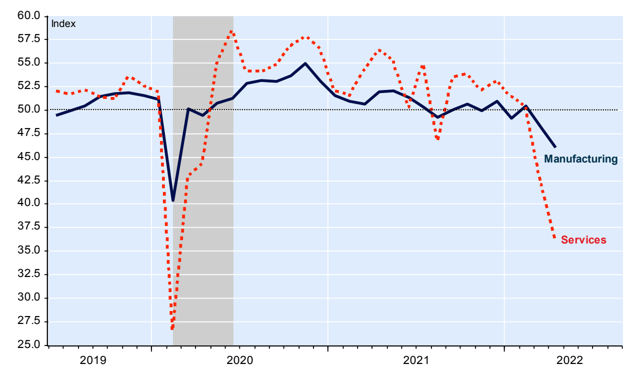
U.S.: A future slowdown in the pace of hiring?
Employment in temporary-help supply agencies vs. total payroll employment



NBF Economics and Strategy (data via Refinitiv)

A slower pace of monthly job creation in the 120-150K range would go a long way toward reducing wage inflation and preventing monetary policy from becoming too restrictive. An easing of geopolitical tensions and a reopening of China's economy, which remains under tight Covid restrictions, would also allow for an earlier peak in global inflation and provide better visibility for corporate earnings.

China: The economy remained closed in April
PMI Caixin/Markit indices: Manufacturing and Services



NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: In the red

After weathering the global equity downturn for most of the year, the S&P/TSX has given way with an 8.6% decline so far in the second quarter. Energy is the only sector still posting gains this quarter, bringing the year-to-date return to 28.8% (table).

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	-0.6	-5.7	-2.8
ENERGY	4.2	7.0	36.3
BANKS	-0.1	-7.0	-4.5
UTILITIES	-0.2	-1.7	2.2
TELECOM	-0.3	-1.6	5.9
MATERIALS	-0.4	-5.2	13.5
FINANCIALS	-0.7	-7.4	-6.1
INDUSTRIALS	-2.4	-10.2	-7.0
CONS. STAP.	-3.0	-2.6	2.2
CONS. DISC.	-3.8	-6.6	-14.2
REAL ESTATE	-5.4	-11.3	-16.1
IT	-6.3	-25.0	-51.6
HEALTH CARE	-7.3	-23.8	-30.4

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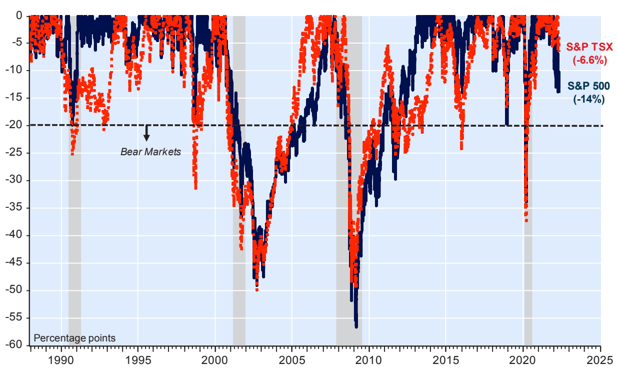
At this writing, the S&P/TSX is down 9.5% from its peak, while the S&P 500 is already in correction territory, down 16.5% from its peak. This is the best relative performance of the Canadian equity benchmark versus its U.S. counterpart in a generation (chart).

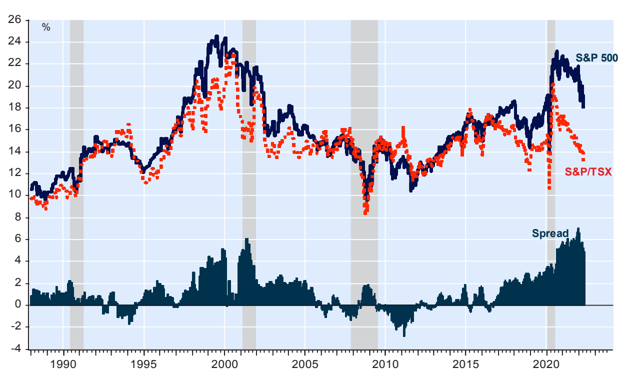
S&P/TSX: Uncanny resilience
Equity index pullback from peak (as of May 6, 2022)



NBF Economics and Strategy (data via Refinitiv)

As mentioned last month, the S&P/TSX resilience reflects the fact that the index is trading at a low PE. At under 13 times forward earnings, the S&P/TSX's valuation is below its historical average and trading at a significant discount to the S&P 500 (chart).

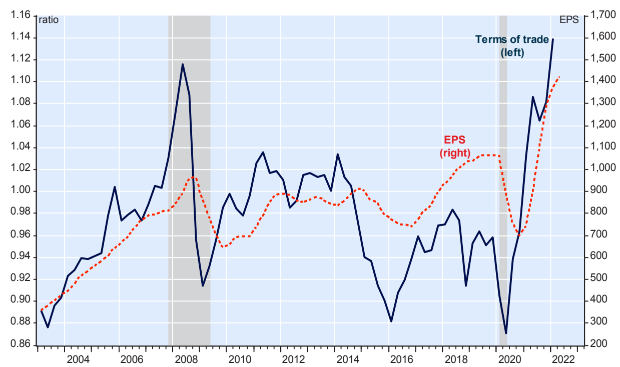
S&P/TSX: Still trading at a significant discount to the S&P 500
Forward PE ratios for the S&P 500 and the S&P/TSX and valuation spread



NBF Economics and Strategy (data via Refinitiv)

Under these circumstances, we still see the S&P/TSX as a defensive play for equity holdings. In our view, the Canadian remains relatively well positioned to withstand stagflation fears due to higher commodity prices that have propelled the country's terms of trade to a record high (chart).

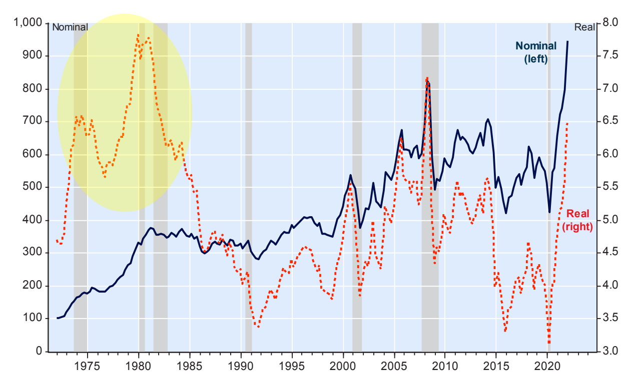
S&P/TSX: Record terms of trade support profits
Canada's terms of trade vs. trailing earnings per share for the S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

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. In inflation-adjusted terms, the Bank of Canada's commodity price index is at its highest level in 13 years. This level has rarely been maintained for long in the past, except in the 1970s (see red line on the chart). We believe that the current geopolitical backdrop argues for a period of higher for longer for commodity prices that might rekindle investment in the sector.

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



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

Asset allocation

Our asset allocation has changed this month. After a major market correction, equity valuations are becoming more attractive. Given our baseline forecast of continued growth and the lack of a yield curve inversion, we are reducing our overweight in cash in favour of U.S. equities which move from underweight to market weight. Geographically, we remain comfortable with our above-benchmark recommendation for Canadian equities, given our view on commodity prices. Fixed income remains underweight to our benchmark for now, 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. Even after our latest move, our cash positions remain slightly overweight relative to our benchmark.

NBF Asset Allocation

	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	25	
U.S. Equities	20	20	+2
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
Fixed Income	45	42	
Cash	5	7	-2
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 - May 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**18.0%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	17.9%
Materials	**Overweight**	**13.0%**
Chemicals	Market Weight	2.5%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.7%
Gold	Overweight	6.7%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.4%**
Capital Goods	Overweight	1.9%
Commercial & Professional Services	Underweight	2.9%
Transportation	Market Weight	6.6%
Consumer Discretionary	**Market Weight**	**3.2%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Overweight	0.5%
Consumer Services	Market Weight	0.8%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**4.0%**
Food & Staples Retailing	Market Weight	3.5%
Food, Beverage & Tobacco	Market Weight	0.5%
Health Care	**Market Weight**	**0.5%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.4%
Financials	**Market Weight**	**31.8%**
Banks	Market Weight	21.9%
Diversified Financials	Market Weight	4.0%
Insurance	Market Weight	5.9%
Information Technology	**Underweight**	**5.2%**
Telecommunication Services	**Market Weight**	**5.2%**
Utilities	**Underweight**	**5.0%**
Real Estate	**Underweight**	**2.7%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q4 2022***
Index Level		**May-09-22**	***Target***
S&P/TSX		20,000	22,000
Assumptions			Q4 2022
Level:	Earnings *	1433	1550
	Dividend	582	629
PE Trailing (implied)		14.0	14.2
			Q4 2022
10-year Bond Yield		3.02	3.10

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q4 2022***
Index Level		**May-09-22**	***Target***
S&P 500		3,991	4,400
Assumptions			Q4 2022
Level:	Earnings *	213	219
	Dividend	62	64
PE Trailing (implied)		18.8	20.1
			Q4 2022
10-year Bond Yield		3.08	3.15

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					***Canadian Dollar***			***Correlation ****
	Close on 05-9-2022	***Returns M-T-D***	***Y-T-D***	***1-Yr***	***3-Yr***	***Returns Y-T-D***	***1-Yr***	***3-Yr***	***with S&P 500***
North America - MSCI Index	***3977***	***-3.9%***	***-17.1%***	***-7.2%***	***37.9%***	***-14.8%***	***-0.9%***	***32.6%***	***1.00***
United States - S&P 500	*3991*	*-3.4%*	*-16.3%*	*-5.7%*	*39.0%*	*-14.0%*	*0.7%*	*33.8%*	*1.00*
Canada - S&P TSX	*20000*	*-3.7%*	*-5.8%*	*2.7%*	*22.5%*	*-5.8%*	*2.7%*	*22.5%*	*0.95*
Europe - MSCI Index	***1675***	***-7.3%***	***-20.0%***	***-17.7%***	***3.3%***	***-17.8%***	***-12.1%***	***-0.7%***	***0.91***
United Kingdom - FTSE 100	*7217*	*-4.4%*	*-2.3%*	*1.2%*	*0.1%*	*-8.8%*	*-4.9%*	*-9.0%*	*0.41*
Germany - DAX 30	*13381*	*-5.1%*	*-15.8%*	*-13.1%*	*11.8%*	*-19.9%*	*-19.6%*	*0.8%*	*0.93*
France - CAC 40	*6086*	*-6.9%*	*-14.9%*	*-4.7%*	*14.6%*	*-19.1%*	*-11.8%*	*3.3%*	*0.87*
Switzerland - SMI	*11444*	*-5.6%*	*-11.1%*	*2.4%*	*21.4%*	*-16.5%*	*-0.9%*	*18.8%*	*0.96*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*12.4%*	*-4.9%*	*-7.4%*	*1.4%*	*0.48*
Netherlands - Amsterdam Exchanges	*666*	*-6.3%*	*-16.5%*	*-7.3%*	*21.2%*	*-20.6%*	*-14.2%*	*9.4%*	*0.96*
Pacific - MSCI Index	***2667***	***-3.0%***	***-14.2%***	***-17.5%***	***2.4%***	***-11.9%***	***-11.9%***	***-1.5%***	***0.82***
Japan - Nikkei 225	*26319*	*-2.0%*	*-8.6%*	*-10.4%*	*23.0%*	*-17.2%*	*-20.4%*	*-0.7%*	*0.90*
Australia - All ordinaries	*7358*	*-4.7%*	*-5.4%*	*0.5%*	*15.4%*	*-6.7%*	*-4.5%*	*11.1%*	*0.86*
Hong Kong - Hang Seng	*20002*	*-5.2%*	*-14.5%*	*-30.1%*	*-29.4%*	*-12.8%*	*-26.2%*	*-32.0%*	*-0.17*
World - MSCI Index	***2672***	***-4.4%***	***-17.3%***	***-10.3%***	***26.1%***	***-15.1%***	***-4.3%***	***21.3%***	***0.99***
World Ex. U.S.A. - MSCI Index	***1957***	***-5.7%***	***-17.0%***	***-16.2%***	***5.1%***	***-14.7%***	***-10.5%***	***1.1%***	***0.91***
EAFE - MSCI Index	***1915***	***-5.8%***	***-18.0%***	***-17.6%***	***3.0%***	***-15.8%***	***-12.1%***	***-1.0%***	***0.90***
Emerging markets (free) - MSCI Index	***1,015***	***-5.7%***	***-17.6%***	***-24.8%***	***-1.3%***	***-15.4%***	***-19.7%***	***-5.1%***	***0.77***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-05-06

	Weight S&P 500 %	Index Level	Variation 3-m Δ	12-m Δ	EPS Growth 2022	2023	12-m forward	P/E 2022	2023	12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	280	-5.59	5.92	10.49	9.74	9.95	18.59	16.94	17.89	15.11	1.80	1.89
Energy	4.61	631	20.42	55.84	85.92	-9.77	39.82	9.74	10.79	10.06	17.42	0.25	40.48
Materials	2.76	531	-1.51	-3.73	15.68	-4.88	8.05	14.62	15.37	14.83	10.14	1.84	8.95
Industrials	7.86	807	-6.91	-9.33	35.87	19.66	28.97	19.35	16.17	18.12	14.39	0.63	0.09
Consumer Discretionary	11.09	1229	-17.58	-13.38	27.60	24.21	25.74	26.52	21.35	24.60	33.57	0.96	-1.22
Consumer Staples	6.74	800	0.54	10.30	4.56	7.64	5.69	22.77	21.15	22.03	8.01	3.87	-1.15
Healthcare	14.17	1512	-3.32	4.64	6.89	0.17	4.56	15.93	15.90	15.93	8.78	3.50	-0.58
Financials	11.04	563	-17.46	-10.28	-10.31	14.19	-2.70	13.47	11.80	12.86	9.06	neg.	0.13
Information Technology	27.25	2461	-14.56	0.87	13.10	12.16	11.80	22.85	20.37	21.42	15.21	1.82	2.57
Telecom Services	8.75	200	-18.00	-22.38	-3.24	16.48	2.98	16.36	14.05	15.46	15.35	5.19	-7.82
Utilities	2.91	366	4.94	9.30	1.88	7.97	3.93	21.18	19.61	20.62	6.82	5.24	-1.46
Real Estate	2.82	280	-5.59	5.92	-16.14	7.55	-9.14	47.09	43.78	45.93	19.32	neg.	2.02

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

Technical Analysis

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Top breakdowns

A bottom-up technical analysis of the market by reviewing a large universe of individual stock charts concludes that chart top formations are developing and breaking. In the May Vision, we highlight charts that recently broke down from top formations and are just starting their bear trends. These breakdowns reflect a negative risk/reward profile and may be worthwhile to raise cash in these stocks.

Technical Analysis

Brookfield Asset Management Inc. (BAM.A)

A positive trend on the BAM.A chart over the past two years is starting to falter as the stock breaks its rising trendline and trades below its moving averages. Relative strength also peaked in December and is trading to new 10-month lows along with the stock. The completion of a 10-month top as it breaks $66.00 support on higher volume indicates further downside. Technical action points to a target in the low $ 50s as this emerging downtrend plays out.

Source: Refinitiv

Technical Analysis

Canaccord Genuity Group Inc. (CF)

The break in prices in February took the CF chart from a rising trend to a bearish trend as the chart broke a rising trend line and its moving averages with strong momentum. A quick turn down in its 50-day below its 200-day reflects the negative change in technical conditions. Failing support at $11.25 completes a 15-month top that elevates downside risk. Thin support and weak technicals indicate a target of $6.00 to $7.00.

Source: Refinitiv

Technical Analysis

Element Fleet Management Corp. (EFN)

A steady declining trend on the EFN chart over the past year continues to grind lower. Numerous bounces and attempts to break a well-defined declining trend line failed as relentless liquidation continues. Support at $11.80 to $12.00 failed to stem the tide of selling interest and suggests the stock still goes lower. Weak relative performance is leading the way down as the relative strength chart is back close to its March 2020 lows. Target is $8.00 to $9.00.

Source: Refinitiv

Back to Research Analysts page

Technical Analysis

Equitable Group Inc. (EQB)

A rising trend on the EQB chart turned neutral late last year as the chart broke a rising trend line and now has turned bearish as a one-year top is completed on a break of support at $65.00. Recent downside price action is being accompanied by higher volume reflecting the changing character of this stock. Continued selling has taken the stock down to trade at new correction and 52-week lows. This support in a volatile market indicates high risk and a high probability of this stock trading down to $45.00.

Source: Refinitiv

Technical Analysis

Home Capital Group Inc. (HCG)

The rising trend on HCG has turned negative as the stock breaks its moving averages and support at $35.50. A big increase in volume that began in November coinciding with a peak in prices remains heavy as the stock breaks support and trades to new correction lows. Weak relative strength is leading on the downside as it hits new 52-week lows as well. Increasing downside momentum and volume indicates risk to the mid to low $20s.

Source: Refinitiv

Technical Analysis

IGM Financial Inc. (IGM)

A rising trend since March 2020 on the IGM chart turns bearish as the stock breaks a rising trend line and its moving averages. The break of support at $43.00 further confirmed that the stock is entering a bearish phase as it completes a one-year top. Higher trading volume on the downside remains consistent as the stock trades to new correction and one-year lows. Thin support is translating into an unfavourable risk/reward profile. Bears remain in control here with a target of $30.00 to $32.00.

Source: Refinitiv

Sector Analysis

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

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

Back to Research Analysts page

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$24.83	$35.00	1.72%	42.65%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$32.26	$37.00	6.09%	20.64%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$6.65	$9.00	0.47%	35.79%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$4.88	$8.50	0.00%	74.18%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$64.85	$75.00	1.16%	16.89%	Oil, Gas & Consumable Fuels
Materials							
	Centerra Gold Inc.	CG	$11.82	$16.00	2.67%	37.73%	Gold
	Copper Mountain Mining Corp.	CMMC	$2.99	$4.50	0.00%	50.50%	Metals & Mining
	Endeavour Mining plc	EDV	$31.31	$45.25	2.28%	46.79%	Gold
	Hudbay Minerals Inc.	HBM	$7.99	$12.50	0.28%	56.70%	Metals & Mining
	Kinross Gold Corp.	K	$6.56	$12.00	2.53%	85.22%	Gold
	Pan American Silver Corp.	PAAS	$32.13	$47.00	2.08%	48.16%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$49.78	$65.00	1.05%	31.58%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$13.06	$19.00	0.00%	45.48%	Gold
Industrials							
	CAE Inc.	CAE	$33.56	$44.00	0.00%	31.11%	Capital Goods
	Colliers International Group Inc.	CIGI	$145.71	$176.00	0.27%	21.05%	Commercial & Professional Services
	Finning International Inc.	FTT	$36.66	$46.00	2.70%	28.05%	Capital Goods
	GDI Integrated Facility Services Inc.	GDI	$45.26	$70.50	0.00%	55.77%	Commercial & Professional Services
	H2O Innovation Inc.	HEO	$2.18	$3.25	0.00%	49.08%	Capital Goods
	Heroux-Devtek Inc.	HRX	$15.72	$26.00	0.00%	65.39%	Capital Goods
	Mullen Group Ltd.	MTL	$12.58	$16.50	5.84%	36.88%	Transportation
	TFI International Inc.	TFII	$106.72	$142.00	1.31%	34.34%	Transportation
	WSP Global Inc.	WSP	$152.94	$209.00	1.08%	37.64%	Capital Goods
Consumer Discretionary							
	Dollorama Inc.	DOL	$72.90	$75.00	0.32%	3.18%	Retailing
	Park Lawn Corp.	PLC	$34.13	$45.00	1.38%	33.18%	Consumer Services
	Spin Master Corp.	TOY	$45.81	$66.00	0.00%	44.07%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Dialogue Health Technologies Inc.	CARE	$5.06	$12.25	0.00%	142.09%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$5.90	US$10.00	5.36%	74.58%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$14.26	$17.50	7.02%	29.28%	Health Care Providers & Services
Financials							
	Alaris Equity Partners Income Trust	AD.un	$18.84	$27.00	7.37%	50.32%	Diversified Financials
	Canadian Imperial Bank of Commerce	CM	$143.30	$167.00	4.62%	21.03%	Banks
	ECN Capital Corp.	ECN	$5.91	$8.00	0.68%	36.04%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$697.96	$1050.00	1.91%	52.26%	Insurance
	iA Financial Corp.	IAG	$67.88	$88.00	3.76%	33.32%	Insurance
	Royal Bank of Canada	RY	$131.45	$147.00	3.76%	15.48%	Banks
	Trisura Group Ltd.	TSU	$32.85	$58.00	0.00%	76.56%	Insurance
Information Technology							
	Coveo Solutions Inc.	CVO	$8.01	$18.00	0.00%	124.72%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US$23.38	US$65.00	0.00%	178.02%	Software & Services
	Shopify Inc.	SHOP	US$443.28	US$1000.00	0.00%	125.59%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.25	$19.00	0.00%	43.40%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$71.98	$83.00	3.12%	18.09%	Telecommunication Services
Utilities							
	Boralex Inc.	BLX	$38.86	$48.00	1.77%	25.22%	Utilities
	Capital Power Corp.	CPX	$42.35	$47.00	4.93%	16.15%	Utilities
	Innergex Renewable Energy Inc.	INE	$17.31	$23.00	4.44%	37.03%	Utilities
	Northland Power Inc.	NPI	$39.37	$45.00	3.12%	17.35%	Utilities
Real Estate							
	Allied Properties REIT	AP.un	$42.85	$51.00	4.53%	23.10%	Real Estate
	Flagship Communities REIT	MHC.u	US$19.21	US$24.00	2.92%	27.72%	Real Estate
	Minto Appartment REIT	MI.un	$19.93	$24.50	2.68%	25.31%	Real Estate
	RioCan REIT	REI.un	$24.50	$27.50	4.67%	16.41%	Real Estate
	Summit Industrial Income REIT	SMU.un	$21.53	$26.50	3.09%	25.70%	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 April 28, 2022
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

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Selections

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

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *A "high quality" EPS miss. Guidance & IFRS 17 commentary are positives.*

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

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

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

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/28	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		89,467	648	137.97	10/2021	12.96	12.69	13.58	10.9	10.2	83.66	91.25	98.22	1.5	1.4	3.9%	151.00	
Bank of Nova Scotia	BNS	SP		98,712	1,204	81.96	10/2021	7.87	7.85	8.40	10.4	9.8	54.94	57.71	61.62	1.4	1.3	4.9%	90.00	
CIBC	CM	OP		63,758	451	141.28	10/2021	14.47	14.45	14.90	9.8	9.5	94.86	98.62	104.59	1.4	1.4	4.6%	167.00	
National Bank	NA	NR		30,096	337	89.33	10/2021	8.98	8.85	9.11	10.1	9.8	50.23	52.40	55.94	1.7	1.6	3.9%	NR	
Royal Bank of Canada	RY	OP		183,824	1,418	129.68	10/2021	11.19	10.66	12.03	12.2	10.8	66.71	69.15	73.30	1.9	1.8	3.7%	147.00	
Toronto-Dominion Bank	TD	SP		164,892	1,819	90.66	10/2021	7.91	7.36	8.22	12.3	11.0	53.00	55.60	60.31	1.6	1.5	3.9%	100.00	
Canadian Western Bank	CWB	SP		2,913	91	32.12	10/2021	3.81	3.87	4.35	8.3	7.4	33.64	35.44	38.27	0.9	0.8	3.7%	44.00	
Laurentian Bank	LB	SP		1,664	43	38.44	10/2021	4.57	4.66	4.93	8.2	7.8	55.13	57.02	59.93	0.7	0.6	4.6%	49.00	
Insurance																				
Great-West Lifeco	GWO	SP		32,919	932	35.33	12/2021	927.88	3.75	4.02	9.4	8.8	24.71	3.36	3.73	10.5	9.5	5.5%	38.00	↓
iA Financial	IAG	OP		7,215	108	66.97	12/2021	7.12	8.77	9.29	7.6	7.2	62.01	107.80	108.01	0.6	0.6	3.7%	88.00	↓
Manulife Financial	MFC	SP		48,253	1,937	24.91	12/2021	0.00	3.34	3.21	7.5	7.8	26.78	1,945.62	1,903.70	0.0	0.0	5.3%	28.00	
Sun Life Financial	SLF	SP		37,415	586	63.84	12/2021	589.38	6.18	7.02	10.3	9.1	41.08	6.67	5.61	9.6	11.4	4.1%	76.00	↓

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

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

Q1 2022 Previews

P&C Insurance: Strong Start Reflects Robust Outlook

We believe the sector remains well positioned for the year given persistent hard market conditions and rising interest rates that support improved investment income (in particular for FFH). We maintain our view that pricing trends will continue to outpace loss cost trends overall, even for Personal Auto lines as driving behaviour has yet to complete its path to normalization and auto repair / parts price increases still lag U.S. trends.

There's something for everyone: Small to Mid-Cap Growth? Look to TSU and DFY. Large-Cap Value / GARP? Look to FFH and IFC

That said, the lines of value, GARP, and even momentum, are blurring. TSU remains at the top of our pecking order given a rapid growth outlook but is also an attractive value play with upside to specialty insurance peers. Although one of the best performing Financials stocks YTD, FFH remains the best value idea in our coverage. FFH also offers investors rapid top-line growth and leverage to a higher interest rate environment. As it relates to IFC and DFY, we believe share price acceleration is contingent on proof of execution. We see no reason to adjust our view that both companies will continue to deliver: IFC on integration of RSA and DFY on its strategic growth objectives.

Mortgage Finance: Reaffirming our Cautious View

We reiterate our cautious stance on the Mortgage Finance sector. In our view, several factors represent downside risks that will constrain sector valuations and share price performance in the near term, such as rising regulatory and policy uncertainty, rapid rise in interest rates and housing market risk. Mortgage Finance stocks are trading closer to crisis average valuation multiple than trough multiples. This suggests that downside risk, perceived or actual, could be amplified. As a result, we lower our target multiples across the board. EQB remains our preferred name within the sector given stronger diversification relative to Mortgage Finance peers.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 4/28	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.02	34.1	59.22	12/2021	8.36	8.63	9.85	6.9	6.0	55.24	63.45	71.58	0.9	0.8	1.9%	85.00	↓
First National Financial	FN	SP		2.21	60.0	36.81	12/2020	3.13	2.69	3.53	13.7	10.4	9.33	9.77	10.65	3.8	3.5	6.4%	36.00	↓
Home Capital Group	HCG	OP		1.40	43.0	32.53	12/2021	4.87	4.94	5.56	6.6	5.9	36.55	39.76	44.49	0.8	0.7		45.00	↓
Timbercreek Financial	TF	SP		0.76	82.0	9.26	12/2021	0.68	0.72	0.73	12.9	12.6	8.33	8.36	8.40	1.1	1.1	7.5%	9.50	↓
Specialty Finance																				
ECN Capital	ECN	OP		1.44	243.6	5.91	12/2020	US 0.31	US 0.31	US 0.39	14.8	12.0	US 0.62	US 0.65	US 0.75	7.1	6.2	0.7%	8.00	
Element Fleet Management	EFN	OP		4.68	409.2	11.43	12/2020	0.84	0.89	1.04	12.9	11.0	7.26	7.42	7.92	1.5	1.4	2.7%	19.00	
goeasy	GSY	OP		1.92	16.2	118.55	12/2021	10.43	11.46	14.71	10.3	8.1	48.76	56.42	66.68	2.1	1.8	3.1%	220.00	
Brookfield Business Partners	BBU	OP		US 5.54	US 220.2	US 25.14	12/2021	US 2.90	US 1.30	US 2.09	19.4	12.0	US 19.43	US 24.52	US 30.14	1.0	0.8	1.0%	US 39.00	
Power Corporation of Canada	POW	SP		25.60	676.6	37.84	12/2020	4.77	4.50	4.81	8.4	7.9	34.56	37.01	39.81	1.0	1.0	5.2%	46.00	
HR Companies																				
LifeWorks Inc.	LWRK	SP		1.3	70.3	19.13	12/2020	-0.34	0.73	0.92	26.1	20.8	8.33	8.40	8.66	2.3	2.2	4.1%	26.00	↓
Securities Exchange																				
TMX Group	X	SP		7.29	55.9	130.45	12/2021	7.10	6.97	7.49	18.7	17.4	66.32	71.40	74.72	1.8	1.7	2.5%	139.00	
Insurance																				
Definity Financial Corp.	DFY	OP		3.9	115.9	33.56	12/2021	2.09	1.6	1.99	20.9	16.9	20.68	20.68	22.22	1.6	1.5	6.0%	37.00	↑
Intact Financial Corp.	IFC	OP		31.92	176.1	181.29	12/2021	12.32	11.02	11.61	16.5	15.6	82.34	87.45	93.13	2.1	1.9	2.2%	225.00	
Trisura Group Ltd.	TSU	OP		1.35	41.2	32.85	12/2021	1.48	1.56	1.88	21.1	17.5	8.70	9.95	11.81	3.3	2.8		58.00	↓
Fairfax Financial Holdings	FFH	OP		16.62	23.8	697.96	12/2020	US 122.25	US 61.32	US 76.15	8.9	7.2	US 626.21	US 686.66	US 757.86	0.8	0.7	1.8%	1050.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.05	104.8	10.03	12/2021	1.63	1.06	1.36	9.4	7.3	3.99	3.71	4.00	2.7	2.5	8.6%	11.00	↓
IGM Financial Inc.	IGM	OP		9.84	239.7	41.05	12/2021	4.04	4.09	4.53	10.0	9.1	26.91	28.80	31.13	1.4	1.3	5.5%	57.00	↓

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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Selections

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

Mullen keeps it rolling in Q1; Ag Growth maintains 2022 outlook concurrent with financing update

Despite inflationary pressures, Mullen is off to a solid start in 2022 with what we perceive as a mixed but relatively stable outlook.

Mullen recently reported Q1/22 adj. EBITDA of $60.3 million, coming in 3% above the street at $58.3 million and topping our $55.0 million forecast by 10%. Record revenue of $456.9 million beat consensus ($422.3 million) by 8%, the impact of which was partially offset by modestly lower than expected EBITDA margins of 13.2% (street: 13.8%) as fuel surcharges could not keep up with the rapid spike in fuel costs in the quarter. Mullen highlighted the inflationary pressures that necessitated another round of pricing increases, the impact of which should drive margin improvement in future quarters. While MTL noted expectations for slowing consumer product demand owing to the impact of inflation, general freight demand and revenue are expected to remain strong for the foreseeable future with the moderation in discretionary spending likely offset by increased demand for capital goods (appearing to accelerate with business investment). Supply chain bottlenecks are expected to ease moving forward as COVID-19 protocols are relaxed (improving productivity and reducing costs) but the continued upward pressure on both wages and fuel costs will likely warrant additional rate increases to maintain margins. While the performance of the Specialized & Industrial Services segment has underwhelmed through the pandemic, a material increase in capital spending by oil and natural gas producers is expected to drive a pricing recovery for the segment in H2/22. **We continue to view Mullen as relatively well-positioned in our coverage universe to offset inflationary pressures with rate increases and reiterate our Outperform rating and $16.50 target, still driven by 7.3x 2023e EV/EBITDA (a full turn below MTL's post-2014 forward year average of 8.6x).**

Closing of convertible debenture offering increases Ag Growth's financial flexibility; 2022 guidance reiterated.

Ag Growth recently closed a $100 million offering of convertible debentures, with net proceeds to be used to redeem Ag Growth's outstanding 4.50% convertible unsecured subordinated debentures due December 31, 2022. We view the refinancing positively, providing AGI with increased balance sheet flexibility both near and longer term with no upcoming bullet payments until 2024 (overlapping with a period of clouded visibility with respect to the ultimate outcome of the bin failure incident, associated legal claims and potential insurance offset) with a relatively modest increase in interest expense moving forward (with the new debentures bearing interest at 5.20% per annum). Concurrent with the debenture offering announcement, AGI reaffirmed the previous full-year guidance with 2022 adjusted EBITDA expected to be at least $200 million, with continued support from a robust backlog, up 24% y/y as of March 27, 2022 (and continuing to represent a record level on a dollar basis). Relative to 2021, adj. EBITDA growth is expected to be heavily weighted towards the last nine months of 2022, particularly in Q2 and Q3. We are encouraged by the increased balance sheet flexibility provided by the refinancing and continue to believe AGI can materially improve the company's leverage profile over the coming years via growth and the application of free cash flow to the balance sheet. **We maintain our Outperform rating on the back of the reaffirmed guidance and financing update with an unchanged $49.00 target driven by 7.7x 2023e EV/EBITDA, a full-turn discount below AGI's long-term historical forward year average EV/EBITDA multiple.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/28	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		756.78	18.8	40.30	176.3	200.9	224.2	9.0	8.1	6.9	4.3	49.00	23%	
CES Energy Solutions Corp.	CEU	SP		687.88	253.8	2.71	156.2	181.4	215.1	7.3	6.5	5.7	2.5	3.35	26%	
Enerflex Ltd.	EFX	OP		779.31	89.7	8.69	140.0	265.2	447.6	7.1	8.8	4.9	3.1	10.75	25%	
good natured Products Inc.	GDNP	OP		101.13	217.5	0.47	-0.6	4.1	9.1		37.5	17.3	11.3	1.25	169%	
Green Impact Partners Inc.	GIP	OP		144.54	20.3	7.12	3.6	6.3	22.2	35.1	28.0	8.7	2.7	12.00	69%	
Mullen Group Ltd.	MTL	OP		1184.85	94.2	12.58	218.7	263.3	276.5	8.2	6.7	6.1	2.0	16.50	36%	
Pason Systems Corp.	PSI	SP		1277.29	82.2	15.54	72.5	121.9	142.9	15.7	9.8	8.6	-1.5	19.00	24%	↑
Shawcor Ltd.	SCL	OP		343.88	70.5	4.88	100.8	106.9	148.3	5.5	5.2	3.5	2.0	8.50	74%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

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Overview

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

Carbon Market Overview

Compliance and Voluntary Markets

Carbon prices have continued to rise at considerable rates (90% Y/Y), inclusive of all regions and systems (range 60% - 135% Y/Y). The rise in prices has largely been attributable to enhanced government ambition to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby, leading to higher carbon prices.

Starting with the most liquid carbon market, the European Emission Allowances (EUA) active contract closed the month of April at levels of €82.26 (US$86.38) after recovering from a pullback earlier in the month. Overall, on average, EUAs were up ~3% this past month and remain in contango with the Dec 23 – Dec 22 spread reflecting ~€2.28. Considering prices on a Y/Y basis, EUAs have grown ~50%. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which started trading at the end of May 2021, closed at £81.15 (US$101.13) at the end of April and are down ~4% M/M and +54% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$13.84 and are up ~6% M/M and up ~72% Y/Y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at $30.00 and decreased on a monthly average by ~3%; we note Y/Y CCA prices are up ~52%.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at $5.63 and decreased by ~11% on a monthly basis, while the Nature-based Global Emissions Offset (NGEO) active future also followed a similar path decreasing ~3% and closing at $10.63. 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

CCUS Investment Tax Credit in Federal Budget

Earlier this month, the Government of Canada released its widely anticipated 2022 Federal Budget that embedded further details regarding key initiatives for emissions reduction, which serve to complement the Emissions Reduction Plan released this month. As documented, carbon sequestration is an area of increasing strategic importance for both economic sectors and provincial mandates, wherein the release of the investment tax credit provides increased visibility, inclusive of Government support. Optimistically, affirmation of the vital role the Energy industry will play in decarbonization should elicit increased funds flow towards positively orientated equities primed for the carbon capture narrative and should, with time, see a commensurate valuation uplift. With that, we provided key highlights and takeaways from the release in collaboration with our Energy E&P team.

Carbon capture is a powerful and scalable technology that can aid in reducing emissions from hard-to-abate industries by permanently injecting the liquid carbon stream into impermeable formations within the subsurface at kilometres in depth. The technology is not new but is still at a fragile and nascent stage, and in light of this, is very expensive. In recognition of these qualities, and by way of acknowledging peripheral tools, the Federal Government has elected to implement a refundable investment tax credit (ITC) for corporations that incur eligible CCUS expenses starting this year - note, any expenses incurred prior to 2022 are not eligible.

In aggregate, the proposed investment tax credit is expected to tally to the tune of $7-8 bln through 2030 and ties back to the ERP that states the target capture and storage rate to equate to 15 mtCO2/year. As expected, funding is anticipated to be back-half loaded as $2.6 bln is anticipated to be captured over the five-year period till 2026/2027 and $1.5 bln thereafter annually through 2030. The investment tax credit rates will be set as follows:

1) 60% for investment in equipment to capture CO_2 in Direct Air Capture projects,

2) 50% for investment in equipment to capture CO_2 in all other CCUS projects, and

3) 37.5% for investment in equipment of transportation, storage and use.

With the intention of encouraging companies to invest more rapidly, and in turn, bring projects on stream quicker, the rates above are applicable from 2022 to 2030, whereas for the period of 2031 to 2040, the above-noted percentages will be halved.

We would think this is enough to spur significant investment to support Canada's emission targets and view the proposed investment tax credit as not only positive but also encouraging by way of providing guideposts to industry to run project economics and showcase the engineering prowess the industry maintains.

Back to Research Analysts page

Healthcare, Biotech & Special Situations

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Selections

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

Highlights as of April 2022

We highlight 1) Dialogue Health Technologies (TSX: CARE) which announced the acquisition of a SaaS-based global health and wellness platform, and 2) our expectations ahead of Jamieson Wellness (TSX: JWEL) reporting of Q1/22 results on May 5, 2022.

Dialogue Health Technologies

On April 13, 2022, CARE announced that it will acquire UK-based Tictrac Ltd. for a total consideration of up to $56 million (funded via cash and shares) representing a 5x / 3x 2022e / 2023e EV/S and 4x / 2x 2022e / 2023e EV/ARR. The acquisition provides several benefits to CARE including 1) a new offering (Wellness) in Canada to be integrated in the IHP; 2) geographical diversification (incl. UK, U.S., Europe, Asia); 3) expands CARE's global TAM by US$58 bln and its Canadian one by $3.4 bln per CARE; 4) operates under a PMPM subscription model with contracts generally on 3-5 year terms; 4) provides services to both organizations with 500+ staff (B2B) as well as insurance companies (B2I); and 5) internationally, CARE will bundle the Wellness platform with iCBT and will focus on English, French and German-speaking markets.

Financially, Tictrac's 2022e / 2023e GM of 88% / 90% compares very favourably to CARE's 43% / 46% as does its 2023e Adj. EBITDA margin of ~33% vs. CARE's 2%. Overall, by 2023 Tictrac is expected to contribute revenues of $20 million and adj. EBITDA of $6.5 million.

Following the acquisition, we revised our 2023e revenue estimates and DCF valuation up resulting in a new target (50/50 blend) of $12.25 (was $11.50). Maintain Outperform.

Jamieson Wellness

For Q1/22, we are estimating y/y growth of ~3% in revenues and ~4% in EBITDA driven by domestic and international vitamin sales. In Jamieson Brands, we estimate revenues and adj. EBITDA growing +5.8% y/y and +6.4% y/y, respectively, with contribution from both 1) international (+10% y/y); and 2) domestic (+5% y/y). We also highlight StatsCan data, which for January 2022, positively show domestic vitamins' sales growth of 1% y/y and 14% m/m – JWEL has regularly outpaced industry growth. In Strategic Partners, we estimate a contraction of -5% y/y in revenues and -15% y/y in adj. EBITDA due to timing of orders in 2021.

We will be also looking for an update on JWEL's China operations following the lockdowns in Shanghai. While 1) infection flareups are overall positive for sales of immunity products; and 2) there has been an overwhelming demand for goods on online platforms (e-commerce is a focus for JWEL in China), there could also be a couple of offsets. The latter would include potential disruption to 1) JWEL's Shanghai-based operations; 2) sales of international club and local chains' physical stores; and 3) local logistics / delivery chains as the government's focus has been on food deliveries.

Ahead of Q1/22 results, there are no changes to our forecasts or outlook and maintain an Outperform rating.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 4/28	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		87.25	89.0	0.98u	4/2021	0.0%	(0.56)u	(0.83)u	(0.70)u	nmf	nmf	59.3u	139.0u	144.7u	8.3	8.4	1,164.0u	8.0	0.75u	
Andlauer Healthcare Group	AND	SP		1,907.16	41.8	45.60	4/2021	0.4%	1.30	1.56	1.62	29.2	28.1	119.3	148.5	153.9	14.2	13.7	199.4	1.3	49.50	
Dialogue Health Technologies	CARE	OP		333.10	65.8	5.06	4/2021	0.0%	(0.39)	(0.27)	0.06	nmf	nmf	(21.2)	(13.4)	8.7	nmf	nmf	-	-	12.25	↑
DRI Healthcare Trust	DHT.UT	OP		230.6u	39.1	5.90u	4/2021	5.1%	0.62u	0.78u	0.80u	7.5	7.4	101.2u	82.2u	78.4u	2.9	2.9	42.2u	0.5	10.00u	
Jamieson Wellness	JWEL	OP		1,347.57	40.4	33.35	4/2021	1.8%	1.34	1.46	1.50	22.9	22.2	100.1	110.0	117.2	13.9	12.9	142.4	1.2	42.75	
Knight Therapeutics	GUD	OP		627.78	117.8	5.33	4/2021	0.0%	0.21	0.30	0.34	13.6	12.1	38.0	50.0	58.0	10.3	8.9	-	-	7.50	
Medical Facilities Corp.	DR	OP		309.19	30.8	10.04	4/2021	3.2%	0.96u	0.97u	1.00u	8.6	8.4	63.6u	56.5u	58.1u	6.4	5.9	79.9u	1.7	12.75	
Theratechnologies	TH	SP		281.56	95.1	2.96	1/f2022	0.0%	(0.25)u	0.01u	0.06u	nmf	37.9	(14.6)u	5.0u	10.0u	46.2	23.0	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		196.22	90.0	2.18	2/f2022	0.0%	0.08	0.09	0.13	23.6	16.2	14.6	17.5	20.9	12.6	10.6	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		335.97	10.6	31.63	4/2021	3.8%	2.23	2.45	2.66	12.9	11.9	42.8	46.8	50.6	9.2	8.5	93.8	1.9	38.00	
Rogers Sugar	RSI	SP		640.03	103.7	6.17	1/f2022	5.8%	0.33	0.43	0.45	14.5	13.6	91.0	98.2	104.2	10.1	9.5	380.2	3.6	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		803.56	104.2	7.71	4/2021	7.8%	0.70	0.97	1.20	7.9	6.4	280.4	292.2	312.2	6.8	6.3	1,177.9	3.8	8.75	

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted
u = US Dollars
Source: Company Reports, Refinitiv, NBF

Sector Analysis

Industrial Products

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Selections

- › *WSP Global*
- › *Colliers International*
- › *Finning International*

Flat = win for 2022E, time to pick up some quality names

Q1/22 positioning thoughts:

Macro is still ugly / bottom-up CAPEX trends are encouraging

Rapid escalation of long-term rates (10-year in the U.S. jumped to 2.6% from 1.7% in early January) is wreaking havoc on return expectations (combine that with the yield curve on the cusp of inversion, inflation, Fed running off its balance sheet and geopolitical uncertainty). Zeroing in on bottom-up trends, CAPEX forecasts are seeing a nice y/y increase across most verticals that impact our coverage universe. This is likely due to restocking, supply chain strengthening and generally robust consumer demand (the caveat being housing that is being pummeled by higher rates – homebuilders are now trading in the U.S. at sub-4x P/ E valuations – meaning 15x on normalized earnings). Government spending on infrastructure is also not something that will be turned off quickly while commodity inflation benefits companies providing support services here. In fact, we see a number of high-quality names such as CIGI, TIH, STN, SJ and NOA that have seen positive earnings revisions while experiencing no multiple advancement or outright compression. We believe this is the cohort of companies that captures relative value now (we would also add WSP and ATA to that list even though these two have seen no change in earnings forecasts, married with 10% P/E compression).

Sticking with what works

As was the case heading into Q4/21, we think tactically avoiding construction is the right approach as Omicron-impacted Jan/Feb will not help. Consulting peers (WSP / STN / IBG), on the other hand, continue to post predictable growth; we see no reason why that dynamic would reverse. TIH / FTT are now in their prime when it comes to the cycle – staying long. CIGI, ATA, ACQ and SJ should have good earnings as well. RBA is in a mixed bag basket as vs. our view that the company could be missing Q4/21, our analysis suggests this not being the case for Q1/21E (although we don't love valuation and Euro Auctions deal will need to jump through additional regulatory hoops).

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 4/28	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP		**$18.00**		$15.27	$929	12 - 2021	$0.71	$0.83	$1.01	14.3x	12.6x	$230	$247	$260	6.2x	5.9x	4.8%	2.0x
Bird Construction Inc.	BDT	OP		**$12.00**		$8.73	$463	12 - 2021	$0.95	$0.90	$0.96	9.7x	9.1x	$101	$103	$108	4.0x	3.9x	4.5%	net cash
Finning International Inc.	FTT	OP		**$46.00**		$36.66	$5,905	12 - 2021	$1.14	$2.18	$2.32	16.9x	15.8x	$636	$855	$905	8.1x	7.7x	2.5%	1.1x
IBI Group Inc.	IBG	OP		**$20.00**		$11.49	$360	12 - 2021	$0.48	$0.67	$0.83	13.9x	12.8x	$47	$13	$40	8.4x	8.0x	0.0%	0.4x
North American Construction Group Ltd.	NOA	OP		**$30.00**		$16.73	$476	12 - 2021	$1.74	$2.06	$2.38	7.0x	6.3x	$175	$227	$239	3.8x	3.6x	1.9%	1.8x
Ritchie Bros. Auctioneers	RBA	SP		**US$55.00**		US$56.37	$6,232	12 - 2021	US$1.59	US$1.64	US$1.54	38.6x	34.3x	US$352	US$182	US$204	18.4x	15.8x	1.8%	4.1x
SNC-Lavalin	SNC	OP		**$42.00**		$28.87	$5,068	12 - 2021	-$0.67	$1.31	$1.43	16.4x	10.3x	$93	$10	$819	10.4x	7.9x	0.3%	2.9x
Stantec Inc.	STN	OP		**$80.00**		$59.64	$6,633	12 - 2021	$2.13	$2.38	$2.99	19.9x	18.5x	$435	$18	$364	14.0x	13.0x	1.2%	2.4x
Toromont Industries Ltd.	TIH	OP		**$127.00**	↑	$120.70	$9,954	12 - 2021	$3.09	$4.00	$4.61	22.4x	30.2x	$539	$288	$339	14.0x	13.2x	1.3%	-0.2x
WSP Global	WSP	OP		**$209.00**		$152.94	$17,995	12 - 2021	$3.34	$5.08	$5.47	28.0x	23.6x	$1,044	$1,176	$1,387	16.1x	13.6x	1.0%	0.7x
AutoCanada	ACQ	OP		**$52.00**		$30.37	$834	12 - 2021	$0.44	$4.16	$3.97	7.3x	7.6x	$83	$198	$225	5.7x	5.0x	0.0%	1.1x
Stelco	STLC	SP		**$55.00**		$48.41	$3,496	12 - 2021	-$0.60	$16.95	$4.49	1.5x	4.7x	$63	$1,775	$566	1.5x	4.7x	2.5%	-0.4x
ATS Automation	ATA	OP		**$66.00**		$38.54	$3,554	12 - 2021	$1.07	$2.05	$2.22	18.8x	17.4x	$181	$347	$366	12.5x	11.9x	0.0%	2.5x
ABC Technologies	ABCT	SP		**$7.00**		$6.15	$355	12 - 2021	NM	-$0.22	-$0.49	-22.0x	-10.0x	$133	$61	$187	11.0x	3.6x	2.4%	6.4x
Colliers International	CIGI	OP		**US$176.00**		US$114.00	$5,016	12 - 2021	US$4.18	US$6.18	US$6.69	18.4x	17.0x	US$361	US$544	US$616	11.5x	10.1x	0.3%	0.2x
Stella-Jones	SJ	OP		**$57.00**		$36.06	$2,318	12 - 2021	$3.12	$3.55	$3.49	10.1x	10.3x	$343	$365	$363	8.4x	8.4x	2.2%	2.0x
Median												**15.4x**	**12.7x**				**9.4x**	**7.9x**	**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

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Selection

› *Dollarama*

Merchandising and Consumer Products

Grocery e-Commerce: Current State of the Industry

Examining grocery e-Commerce growth and the implications for Canadian Grocers

Canadian grocery e-Commerce penetration has accelerated rapidly, fueled by the COVID-19 pandemic, which has increased demand for food-at-home and reinforced digital shopping habits amongst Canadian consumers. E-Commerce grocery penetration has grown from 1.0%-1.5% in 2019 to about 5%-6% in 2021.

Canada still lags other countries…

Despite rapid online growth, Canada still lags other countries; for reference, e-Commerce grocery penetration in the U.S. was about 9%-10% in 2021 (about 3%-4% in 2019), while penetration in the U.K. was about 14%-15% in 2021 (about 8% in 2019). In our view, online grocery penetration rates will only continue climbing. We anticipate Canadian grocery e-Commerce penetration exceeding 9% by 2026.

Grocery e-Commerce costs more…

The key issues with higher levels of e-Commerce penetration are: (1) e-Commerce is generally lower margin than in-store, and (2) heightened e-Commerce penetration has the potential to pressure in-store sales. Over the longer term, our inclination is that extra costs associated with e-Commerce will be mitigated, in part, by pricing, fees and efficiency capture.

Many paths to success…

Currently, we view Empire to be best positioned to capture sales associated with e-Commerce in the most efficient manner given that it has invested in dedicated infrastructure (Centralized Fulfillment Centres). Of course, e-Commerce is still in the early stages, and we would anticipate significant capabilities to be developed across all grocers over the medium term. It is still anyone's race.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 04/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,907	61.0	178.82	12/2021	18.91	19.36	20.77	9.2	8.6	2,667	2,683	2,788	5.0	4.8	84.01	0.32	236.00	
Dollarama	DOL	OP		21,725	298.0	72.90	01/2022	2.18	2.61	2.91	27.9	25.0	1,283	1,446	1,557	17.5	16.2	-0.22	1.02	75.00	
Fuel and Other																					
Couche Tard	ATD.b	SP		61,993	1,061.7	58.39	04/2021	2.45	2.51	2.51	18.2	18.2	5,005	5,086	5,071	10.6	10.6	12.07	0.35	57.00	
Parkland Fuel Corporation	PKI	OP		5,621	153.0	36.75	12/2021	2.45	2.73	2.97	13.5	12.4	1,260	1,509	1,569	7.2	6.9	15.25	0.69	45.00	
Apparel																					
Gildan	GIL	OP		8,622	194.8	44.27	12/2021	2.73	2.89	3.19	12.0	10.9	727	757	811	9.5	8.8	9.86	0.22	64.00	
Grocers																					
Empire Company	EMP.a	OP		11,330	264.9	42.77	05/2021	2.61	2.80	3.10	15.3	13.8	2,144	2,310	2,426	7.8	7.4	18.08	0.58	48.00	
Loblaw	L	OP		39,994	338.1	118.29	12/2021	5.59	6.30	6.92	18.8	17.1	5,587	5,917	6,126	7.7	7.4	34.71	0.31	120.00	↑
Metro	MRU	SP		17,076	241.6	70.68	09/2021	3.44	3.78	4.19	18.7	16.9	1,106	1,112	1,140	19.2	18.7	26.92	0.27	74.00	↑
Food Manufacturer																					
Saputo	SAP	OP		11,516	415.3	27.73	03/2021	1.74	1.40	1.81	19.8	15.3	1,471	1,264	1,580	12.3	9.9	15.9	0.38	33.00	
Lassonde	LAS.a	OP		952	6.9	137.25	12/2021	11.18	11.24	13.61	12.2	10.1	178	184	206	6.2	5.5	124.8	0.17	172.00	
Premium Brands Holdings	PBH	OP		4,584	43.7	104.90	12/2021	4.47	5.70	6.98	18.4	15.0	431	510	590	12.8	11.1	40.6	0.52	138.00	↓
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		938	37.3	25.13	12/2021	2.64	2.78	3.04	9.0	8.3	211	219	229	5.9	5.6	10.98	0.46	33.00	↓
Pet Valu	PET	SP		2,275	71.5	31.83	12/2021	1.05	1.39	1.54	22.8	20.7	182	192	205	13.8	13.0	0.00	1.32	37.00	
Restaurants																					
MTY Food Group	MTY	OP		1,308	24.5	53.28	11/2021	3.46	3.68	4.10	14.5	13.0	169	174	186	9.3	8.7	26.05	0.33	70.00	
Online Grocery																					
Goodfood Market	FOOD	OP		163	75.0	2.18	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.

Metals & Mining: Base Metals

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Selections

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

Price Volatility to Persist in 2022

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

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

Top picks:

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

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

- *Hudbay Minerals (HBM: TSX)*

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

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

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

Sector Analysis

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/28	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	SP	↓	3,846	680.6	5.65	8.00	-	Nagle	0.07u	0.60u	0.49u	7.1x	11.6x	0.34u	0.93u	0.82u	4.6x	5.2x	6.75	0.8x
Copper Mountain Mining	CMMC	OP	-	632	211.3	2.99	4.50	↓	Nagle	0.11u	0.62u	0.42u	4.8x	7.1x	0.61u	1.53u	1.00u	2.0x	3.0x	4.78	0.6x
Ero Copper	ERO	SP	-	1,671	90.2	18.52	21.50	↑	Nagle	1.34u	2.44u	2.52u	5.7x	7.4x	2.02u	3.17u	3.22u	4.4x	4.3x	18.91	1.0x
First Quantum Minerals	FM	OP	-	25,813	691.1	37.35	46.00	↑	Nagle	(0.07)u	1.20u	3.95u	23.4x	9.5x	2.64u	4.22u	6.84u	6.7x	4.1x	31.84	1.2x
Hudbay Minerals	HBM	OP	-	2,089	261.5	7.99	12.50	-	Nagle	(0.44)u	0.23u	0.60u	25.9x	13.3x	0.93u	1.87u	2.82u	3.2x	2.1x	8.57	0.9x
Lundin Mining	LUN	SP	-	8,730	737.9	11.83	14.00	↑	Nagle	0.31u	1.11u	1.73u	8.0x	6.8x	1.00u	2.11u	2.66u	4.2x	3.3x	11.11	1.1x
Sherritt International	S	SP	-	290	397.3	0.73	1.10	↑	Nagle	(0.37)u	(0.03)u	0.46u	n/a	1.6x	0.09u	(0.11)u	0.61u	n/a	0.9x	1.25	0.6x
Taseko Mines	TKO	SP	-	729	284.9	2.56	3.25	↑	Nagle	(0.11)c	0.16c	0.30c	16.2x	8.4x	0.44c	0.73c	0.79c	3.5x	3.2x	3.81	0.7x
Teck Resources	TECKb	OP	-	26,980	542.0	49.78	65.00	↑	Nagle	1.05c	5.74c	11.05c	8.7x	4.5x	3.38c	10.54c	15.66c	4.7x	3.2x	43.19	1.2x
Trevali Mining	TV	SP	-	109	98.9	1.10	1.90	↓	Nagle	(0.03)c	0.02c	0.19c	50.6x	5.7x	0.01c	0.12c	0.92c	7.0x	0.9x	2.22	0.5x
Developers																					
Adventus Mining	ADZN	OP	-	78	131.6	0.59	1.40	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.89	0.3x
Filo Mining	FIL	OP	-	2,665	119.5	22.31	25.00	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	28.93	0.8x
Foran Mining	FOM.V	SP	-	553	238.4	2.32	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	0.6x
Solaris Resources	SLS.TO	OP	-	1,363	108.8	12.52	22.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.73	0.5x
Trilogy Metals	TMQ	SP	-	191	145.5	1.31	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	-	1,763	87.4	20.18	17.00c	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	23.75c	0.8x
Lithium Americas	LAC	OP	-	3,979	120.1	33.14	38.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28c	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

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Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to stimulus measures, interest rates remain low. To start the year, the U.S. 10-year yield strengthened, resulting in modest short-term softness in spot gold prices. The U.S. Fed has begun to raise interest rates with a 0.25% hike in March. Bloomberg consensus now expects an additional 10 rate hikes throughout 2022. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the Fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The emergence of the COVID-19 Omicron variant is a key risk factor to the U.S. economic recovery the U.S. Fed is watching closely. With the recent geopolitical tensions associated with the invasion of Ukraine, spot gold recently reached its highest levels since August 2020. We view the evolving geopolitics as a potential driver for spot prices moving forward.

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

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

Selections

Gold/Silver Producers:

- ***Centerra Gold*** *(CG: TSX; C$16.00 target)*
- ***Endeavour Mining plc*** *(EDV: TSX; C$45.25 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$12.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$47.00 target)*
- ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$19.00 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$12.50 target)*

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/28	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	32,531	454.85	71.52	99.00	↑	Parkin	2.40u	2.09u	2.48u	26.7x	22.5x	6.51u	6.43u	6.56u	8.7x	8.5x	50.27	1.42x
Barrick Gold	ABX	SP	-	50,501	1,759.00	28.71	38.00	↑	Parkin	1.12u	1.18u	1.59u	19.0x	14.1x	2.61u	2.72u	3.33u	8.2x	6.7x	23.72	1.21x
Kinross Gold Corp	K	OP	-	8,188	1,248.17	6.56	12.00	↑	Parkin	0.77u	0.44u	0.61u	11.7x	8.4x	0.76u	1.12u	1.32u	4.6x	3.9x	11.31	0.58x
Newmont	NGT	SP	↓	74,177	791.05	93.77	115.00	↑	Parkin	2.96u	3.28u	4.38u	22.3x	16.7x	6.02u	7.34u	8.33u	10.0x	8.8x	66.75	1.40x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	37,504	191.3	196.05	225.00	↑	Nagle	2.72u	3.53u	3.66u	41.8x	53.6x	4.22u	5.21u	5.18u	28.3x	28.5x	71.19	2.75x
Maverix Metals Inc	MMX	SP	-	865	147.4	5.87	7.00	↑	Nagle	0.12u	0.12u	0.18u	n/a	33.4x	0.29u	0.29u	0.31u	20.5x	18.9x	4.59	1.28x
Osisko Gold Royalties Ltd	OR	OP	-	2,954	185.1	15.96	22.00	-	Nagle	0.26u	0.57u	0.57u	R	27.9x	0.65u	1.03u	1.13u	15.4x	14.1x	15.12	R
Royal Gold Inc	RGLD	SP	-	8,569	65.2	131.36u	165.00u	↑	Nagle	2.91u	4.02u	3.84u	32.7x	34.2x	6.28u	7.06u	6.58u	14.0x	15.0x	69.76	1.88x
Sandstorm Gold Ltd	SSL	OP	-	1,869	191.7	9.75	12.50	↑	Nagle	0.11u	0.17u	0.23u	43.1x	42.4x	0.36u	0.43u	0.45u	17.0x	16.3x	8.13	1.20x
Triple Flag Precious Metals Corp	TFPM	SP	-	2,888	156.0	18.51	23.00	↑	Nagle	0.20u	0.39u	0.46u	35.7x	40.2x	0.78u	0.80u	0.89u	17.4x	15.6x	12.70	1.46x
Wheaton Precious Metals Corp	WPM	OP	-	26,303	450.9	58.34	75.00	↑	Nagle	1.10u	1.31u	1.32u	33.5x	44.2x	1.71u	1.90u	1.87u	23.1x	23.5x	24.72	2.36x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP	↑	3,914	392.14	9.98	13.00	↑	Parkin	0.41u	0.29u	0.43u	27.1x	18.3x	1.05u	1.00u	1.09u	7.8x	7.1x	12.55	0.80x
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	-	3,511	297.06	11.82	16.00	↑	Parkin	0.62u	0.63u	0.93u	14.6x	9.9x	1.43u	1.15u	1.40u	8.0x	6.6x	13.85	0.85x
Dundee Precious Metals	DPM	SP		1,413	191.4	7.38	10.00	↓	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	-	2,472	182.67	13.53	20.00	↑	Parkin	(0.15)u	0.68u	1.04u	20.0x	13.1x	2.06u	2.01u	2.44u	5.3x	4.3x	22.59	0.60x
Endeavour Mining	EDV	OP		7,802	249.2	31.31	45.25	↑	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	-	2,820	301.3	9.36	14.00	↑	Parkin	0.21u	0.27u	0.41u	35.3x	23.1x	0.79u	0.93u	1.14u	10.1x	8.2x	14.84	0.63x
IAMGOLD Corp	IMG	OP	-	1,879	507.77	3.70	5.50	↑	Parkin	0.02u	0.12u	0.31u	23.6x	9.3x	0.61u	0.83u	1.05u	3.5x	2.8x	5.82	0.64x
Lundin Gold Inc.	LUG	SP		2,396	232.2	10.32	13.50	↑	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	-	1,294	681.15	1.90	2.50	↓	Parkin	0.32u	0.14u	0.17u	13.9x	10.9x	0.47u	0.47u	0.52u	3.2x	2.9x	2.25	0.84x
OceanaGold Corp	OGC	OP	-	2,204	704.21	3.13	4.00	↑	Parkin	0.20u	0.19u	0.26u	16.5x	11.9x	0.47u	0.58u	0.68u	4.2x	3.6x	3.60	0.87x
SSR Mining Inc	SSRM	SP	-	6,068	211.88	28.64	33.00	↑	Parkin	1.32u	1.20u	1.39u	18.6x	16.1x	2.74u	2.47u	2.70u	9.1x	8.3x	25.27	1.13x
Yamana Gold Inc	YRI	OP	-	6,814	952.97	7.15	9.25	↑	Parkin	0.34u	0.28u	0.34u	19.9x	16.6x	0.76u	0.84u	0.95u	6.6x	5.8x	6.06	1.18x
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	12.50	↑	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		272	446.1	0.61	1.10		Nizami	0.01u	(0.00)u	0.02u	n/a	26.4x	0.00u	(0.01)u	0.03u	-	19.9x	1.08	0.57x
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		184	235.8	0.78	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	0.44x
Gold Standard Ventures Corp.	GSV	OP		183	358.0	0.51	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	0.43x
Integra Resources Corp.	ITR	OP		90	62.1	1.45	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	0.52x
Liberty Gold Corp	LGD	OP		221	315.8	0.70	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	0.39x
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	9.00	↓	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

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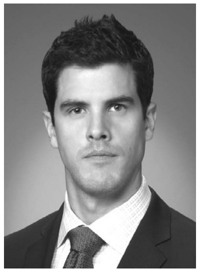
Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

In a similar fashion to March, April continued to be defined by high volatility in the crude oil complex, as the ongoing conflict between Russia and Ukraine, as well as lockdowns in China, continued to play a part in significant price moves throughout the month. WTI averaged $101.15/bbl during the month, and while some geopolitical risk is likely still embedded in the price, crude prices did not come close to reaching the highs that were reached in March (prompt WTI reached over $127/bbl in early March) as the market continues to gain clarity on the impact of the war, sanctions and Russia's ability to circumvent them. As reflected thus far in the strong Q1/22 earnings, the underlying fundamentals remain strong for associated equities as demand continues to recover towards pre-COVID levels (jet fuel still lagging 2019 levels) and pressure remains on the supply side. The impact of lockdowns in China and its zero-Covid policy on demand has been transitory as cities in China (such as Shanghai) have already emerged from lockdowns initiated earlier in April. As the likelihood of a diplomatic solution between Russia and Ukraine and the easing of sanctions becomes less probable, larger volatility in commodity price to the downside becomes less likely as sanctions on Russian molecules begin to take effect and countries secure alternative supplies. While planned SPR releases went ahead in April, they did little to quell oil prices as prices have already returned to pre-SPR release levels. Supply continues to drive the structural oil deficit as OPEC+ has stuck with their stated quotas, and only small levels of growth have emerged from North American E&Ps as majors 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$96/bbl and ~US$85/bbl, respectively.

Natural Gas Outlook

NYMEX gas posted a significant gain in April, as it averaged ~US$7.00/mmbtu, which was up approximately 40% from March's average of ~US$5.00/mmbtu. The strength in U.S. natural gas pricing seemed largely driven by sustained and strong LNG exports, as well as the geopolitical premium that has been present since the Russian invasion began, as Europe looks to wind down its reliance on Russian gas imports. More recently, Russia appears to be making good on its promise to cut off gas supplies from "unfriendly" nations who do not agree to pay for the gas in roubles, cutting off both Poland and Bulgaria from Russian gas. In Canada, AECO prices have averaged ~$6.60/GJ in April, up approximately 35% from March which averaged ~4.80/GJ. According to Bentek, total U.S. production is estimated to have decreased to 93.2 Bcf/d in April from 93.8 Bcf/d in March. Additionally, LNG exports were down slightly to 12.3 Bcf/d in April from 12.8 Bcf/d in March, and as expected given the seasonality of gas usage, overall demand was estimated at 92.4 Bcf/d, down from 100.8 Bcf/d in March.

Top picks:

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

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

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 4/28	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	1078.7	$80.15	$86,456	4%	7.6x	4.8x	4.5x	0.5x	0.2x	$11.57	$17.23	$17.10	4.4x	4.5x	$100.00	28%	↑
Cenovus Energy	CVE	OP		Wood	1729.9	$24.83	$42,953	1%	7.4x	4.0x	3.2x	0.4x	0.3x	$3.56	$5.96	$7.12	3.7x	3.0x	$35.00	42%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	244.1	$52.27	$12,762	2%	5.3x	3.6x	2.3x	0.8x	0.2x	$12.18	$16.67	$22.14	3.0x	2.2x	$90.00	74%	↑
Imperial Oil	IMO	SP		Wood	678.4	$64.12	$43,498	2%	9.0x	4.9x	5.1x	-0.4x	-1.1x	$7.17	$12.10	$10.14	5.3x	6.3x	$78.00	24%	↑
Suncor Energy	SU	SP		Wood	1405.0	$47.22	$66,343	4%	7.2x	4.1x	4.2x	0.3x	-0.1x	$6.89	$11.88	$10.48	3.9x	4.4x	$54.00	18%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$10.84	$2,121	0%	9.0x	4.2x	4.1x	-0.2x	-0.8x	$1.18	$2.44	$2.29	4.4x	4.7x	$12.50	15%	↑
ARC Resources Ltd.	ARX	OP		Wood	615.3	$17.60	$10,829	2%	5.6x	3.6x	3.3x	0.4x	-0.1x	$3.86	$4.92	$5.11	3.3x	3.4x	$24.00	39%	↑
Baytex Energy	BTE	OP	↑	Payne	573.7	$7.11	$4,079	0%	6.5x	4.1x	2.8x	0.7x	-0.1x	$1.30	$1.93	$2.39	3.7x	3.0x	$8.75	23%	↑
Birchcliff Energy	BIR	OP		Payne	277.4	$9.52	$2,641	0%	5.6x	3.3x	3.4x	0.0x	-0.6x	$1.97	$2.85	$2.44	3.3x	3.9x	$12.50	32%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	543.4	$9.12	$4,956	2%	4.7x	2.6x	1.7x	0.5x	-0.2x	$2.57	$4.07	$4.73	2.2x	1.9x	$20.00	121%	↑
Enerplus Corporation ($US)	ERF	OP		Wood	234.4	$12.66	$2,967	1%	3.8x	2.6x	1.9x	0.1x	-0.5x	$0.00	$4.98	$5.31	2.5x	2.4x	$24.00	91%	↑
Freehold Royalties	FRU	OP		Wood	150.7	$15.16	$2,284	6%	12.4x	7.0x	7.6x	-0.2x	-0.7x	$1.39	$2.09	$1.82	7.3x	8.3x	$19.50	35%	↑
Headwater Exploration	HWX	OP		Payne	235.0	$6.68	$1,570	0%	12.5x	4.6x	3.5x	-0.8x	-1.4x	$0.55	$1.24	$1.40	5.4x	4.8x	$10.50	57%	
Kelt Exploration	KEL	OP		Payne	192.7	$6.74	$1,299	0%	8.1x	3.5x	2.6x	-0.2x	-0.7x	$0.85	$1.82	$2.05	3.7x	3.3x	$10.00	48%	↑
MEG Energy	MEG	OP		Wood	265.5	$19.44	$5,161	0%	8.2x	2.8x	2.9x	0.6x	0.4x	$2.60	$7.11	$6.38	2.5x	2.7x	$32.00	65%	↑
NuVista Energy	NVA	SP		Payne	238.5	$11.17	$2,664	0%	8.3x	3.3x	2.6x	0.0x	-0.6x	$1.38	$3.29	$3.59	3.4x	3.1x	$14.50	30%	↑
Paramount Resources	POU	OP		Payne	147.5	$29.95	$4,418	3%	9.1x	3.5x	2.8x	0.0x	-0.5x	$3.38	$8.30	$9.20	3.6x	3.3x	$45.00	53%	↑
Peyto Exploration & Development	PEY	OP		Wood	168.2	$13.28	$2,233	5%	6.3x	3.3x	3.1x	0.9x	0.5x	$2.77	$5.04	$4.93	2.6x	2.7x	$18.00	40%	↑
Pipestone Energy	PIPE	SP		Payne	281.4	$4.95	$1,393	0%	8.7x	3.3x	2.3x	0.0x	-0.6x	$0.59	$1.47	$1.71	3.4x	2.9x	$7.00	41%	↑
PrarieSky Royalty	PSK	SP		Wood	238.8	$17.80	$4,251	3%	17.5x	10.1x	10.5x	0.7x	0.1x	$1.22	$1.87	$1.71	9.5x	10.4x	$24.00	38%	↑
Spartan Delta	SDE	OP		Payne	170.3	$12.15	$2,069	0%	8.1x	2.9x	2.1x	0.1x	-0.5x	$2.26	$4.27	$4.77	0.0x	0.0x	$18.00	48%	↑
Tamarack Valley Energy	TVE	OP		Payne	452.9	$5.10	$2,310	2%	7.2x	2.9x	2.3x	0.2x	-0.5x	$0.94	$1.79	$1.87	2.9x	2.7x	$8.50	69%	↑
Topaz Energy	TPZ	OP		Payne	144.4	$23.04	$3,326	5%	17.8x	10.3x	10.0x	0.2x	-0.3x	$1.54	$2.28	$2.23	10.1x	10.3x	$27.50	24%	↑
Tourmaline Oil	TOU	OP		Payne	337.9	$64.85	$21,913	1%	7.6x	4.5x	4.0x	-0.4x	-1.0x	$9.25	$13.19	$13.09	4.9x	5.0x	$75.00	17%	↑
Vermilion Energy Inc.	VET	OP		Wood	162.3	$25.97	$4,214	1%	5.9x	2.5x	1.6x	0.5x	-0.3x	$5.59	$12.28	$13.86	2.1x	1.9x	$53.00	105%	↑
Whitecap Resources	WCP	OP		Wood	629.4	$10.86	$6,835	3%	7.0x	3.1x	2.8x	0.0x	-0.6x	$1.82	$3.49	$3.15	3.1x	3.4x	$17.50	64%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	160.7	$5.08	$816	0%	7.8x	3.9x	3.2x	1.0x	0.2x	$0.82	$1.56	$1.64	3.3x	3.1x	$5.75	13%	↑
PetroShale	PSH	SP		Payne	671.6	$0.72	$484	0%	7.7x	3.1x	2.0x	0.2x	-0.5x	$0.15	$0.25	$0.29	2.9x	2.5x	$1.10	53%	↑
Surge Energy	SGY	OP	↑	Payne	87.1	$10.13	$882	0%	9.5x	3.2x	2.1x	0.6x	-0.2x	$1.79	$3.37	$4.37	3.0x	2.3x	$14.50	43%	↑
Yangarra Resources	YGR	SP		Payne	91.7	$2.97	$272	0%	4.5x	1.9x	1.6x	0.6x	0.0x	$1.02	$2.09	$1.84	1.4x	1.6x	$3.50	18%	↑

* 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 04/28	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	SP	↓	Payne	US$628.71	91.3	US$6.89	US$213.2	US$201.8	US$223.7	4.7x	5.5x	4.6x	1.5x	2.2x	1.6x	US$10.00	45%	↓
Precision Drilling Corp.	PD	OP		Payne	$ 1,198.96	13.3	$90.12	$ 285.2	$ 249.5	$ 342.1	8.7x	11.6x	6.2x	4.0x	4.3x	2.7x	$120.00	33%	↑
Trican Well Services	TCW	OP	↑	Payne	$ 1,025.28	232.0	$4.42	$ 30.6	$ 101.6	$ 133.0	7.5x	10.2x	7.2x	-0.7x	-0.3x	-0.3x	$6.25	41%	↑

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

While energy security has made its way up the topical ranks of late, 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 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while also driving per-share growth and valuation expansion.

Commodities Update

With sanctions on Russian oil & gas supply offset by lockdowns in China and SPR release announcements, WTI averaged ~US$102/bbl, ~6% below March levels of ~US$108/bbl, but still ~50% above the 2021 average price of ~US$68/bbl. On the gas front, NYMEX prices accelerated, averaging US$6.65/mcf, ~34% above March levels of US$4.98/mcf, while AECO followed suit, averaging $6.51/mcf to lead average March pricing of $4.81/mcf by ~35%. On Marketing prospects, the WCS heavy differential showed a little bit of slack, opening up slightly to an average of ~US$13/bbl through April, while remaining below full-year 2021 average levels of ~US$13.50/bbl.

Pipelines & Midstream Update

On the midstream front, AltaGas's JV partner, Vopak, was issued an environmental assessment certificate by the BC government for its proposed $885 million export terminal at Prince Rupert Site B, located near RIPET (owned 70% ALA / 30% Vopak). Given the existing relationship with Vopak, ALA plans to participate in the buildout of the proposed export terminal, which is expected to take ~2 years to complete with construction beginning as soon as all regulatory approvals have been granted. Of note, while we will continue to look for management commentary, we highlight ~10% valuation upside related to the opportunity, based on 50% ownership of the $885 million facility and a 5-7x EBITDA build multiple.

Energy Transition Update

The Government of Alberta has selected six proposals to begin exploring the geological and economic viability of developing carbon storage hubs in the Industrial Heartland and surrounding Edmonton area. Should the pore space prove suitable, companies involved will proceed toward a carbon sequestration rights agreement with the Alberta government. Together, the six hubs have the potential to sequestrate over 60 mln tonnes per annum, representing over 20% of Alberta's total emissions of ~275 MtCO2e/y (based on 2019 levels).

To no surprise, our coverage list remains in pole position to capture a meaningful slice of the CCS investment pie, including ENB/CPX (Wabamun Hub), PPL/TRP (Alberta Carbon Grid) and ACO/KEY (Atlas Hub). However, following significant interest from industry pursuant to the Alberta government's first Request for Project Proposals (RFPP), which focused primarily on emissions sourced from the Alberta Industrial Heartland region (Phase 1), a second RFPP representing carbon storage services to regions across the rest of the province is scheduled, with applications being accepted from April 25th to May 2nd. As such, we highlight a further opportunity for companies to increase their CCS exposure or unsuccessful Phase 1 proposals to win pore space rights in other high emitting regions of the province.

Meanwhile, the Canadian Federal Government released its 2022 budget, unveiling the long-awaited CCUS investment tax credit proposal as an attempt to accelerate the energy transition and position the country as a global leader in carbon capture. The proposal includes a 60% credit for direct air capture infrastructure investments, a 50% credit for any other carbon capture infrastructure investments and a 37.5% credit for carbon transportation & sequestration infrastructure. As such, we anticipate companies to begin firming up the economics on many proposed projects, pushing them forward towards FID.

Elsewhere, Tidewater Renewables (TWR) announced a strategic RNG and feedstock partnership with Rimrock RNG Inc. and Rimrock Cattle Company Ltd., one of the leading North American cattle feeding operations, securing approximately half of the required feedstock for its 3,000 bpd renewable diesel facility (online Q1/23), in the form of tallow, while also providing virtually all required feedstock for the partnership's RNG facilities. Combined with Tidewater's previously acquired used cooking oil (UCO) supplier, the company has now secured more than half of its renewable diesel feedstock requirements. On the RNG front, the Rimrock Partnership will look to build a number of projects in Alberta and Nebraska, including the partnership's first Alberta-based RNG facility at High River, which is expected to provide ~$10 mln in gross annual EBITDA at a gross capital cost of $65-$70 million. Net of government support and project financing, upon locking in 10-20 year investment grade offtake agreements, TWR expects to invest net equity of ~$10 million for the High River facility, while retaining 51% ownership of the partnership.

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.

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Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 04-28	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$29.93	$8,370	$1.00	$1.06	$1.12	3.5%	3.8%	$2.79	$2.84	$3.11	10.5x	9.6x	5.6x	31.00	3.6%		7.1%
Enbridge Inc.	ENB	OP		2025.0	$57.10	$115,628	$3.34	$3.44	$3.54	6.0%	6.2%	$4.96	$5.38	$5.67	10.6x	10.1x	4.6x	57.00	-0.2%		5.8%
Gibson Energy	GEI	SP		149.3	$24.98	$3,731	$1.40	$1.46	$1.51	5.8%	6.1%	$1.95	$2.14	$2.26	11.7x	11.0x	3.1x	25.00	0.1%		5.9%
Keyera	KEY	OP		221.0	$32.26	$7,130	$1.92	$1.92	$2.01	6.0%	6.2%	$3.03	$2.99	$3.62	10.8x	8.9x	3.0x	37.00	14.7%		20.6%
Pembina Pipelines	PPL	SP		542.0	$49.32	$26,734	$2.52	$2.54	$2.61	5.2%	5.3%	$4.05	$4.27	$4.58	11.6x	10.8x	3.6x	45.00	-8.8%		-3.6%
Secure Energy	SES	OP		308.2	$6.65	$2,049	$0.03	$0.03	$0.03	0.5%	0.5%	$0.65	$0.91	$1.04	7.3x	6.4x	1.4x	8.00	20.3%		20.8%
Superior Plus	SPB	OP		201.7	$11.49	$2,317	$0.72	$0.72	$0.72	6.3%	6.3%	$1.16	$1.17	$1.29	9.8x	8.9x	3.8x	13.00	13.1%		19.4%
Tidewater Midstream	TWM	OP		341.6	$1.28	$437	$0.04	$0.04	$0.04	3.1%	3.1%	$0.18	$0.21	$0.44	6.1x	2.9x	2.6x	1.75	36.7%		39.8%
Tidewater Renewables	LCFS	OP		34.6	$12.52	$434	$0.00	$0.00	$0.00	0.0%	0.0%	$0.47	$0.62	$3.09	20.3x	4.1x	0.4x	18.00	43.8%	↑	43.8%
TC Energy Corp.	TRP	SP		981.0	$71.67	$70,308	$3.48	$3.60	$3.74	5.0%	5.2%	$5.74	$5.46	$5.98	13.1x	12.0x	5.2x	66.00	-7.9%		-2.9%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$45.86	$5,258	$1.79	$1.85	$1.87	4.0%	4.1%	$2.65	$2.59	$2.87	17.7x	16.0x	4.5x	45.00	-1.9%		2.2%
Brookfield Infrastructure [(1)]	BIP	OP		514.4	$63.62	$32,726	$2.04	$2.16	$2.29	3.4%	3.6%	$2.93	$3.35	$3.87	19.0x	16.4x	6.0x	68.00	6.9%		10.3%
Canadian Utilities	CU	SP		277.1	$38.94	$10,789	$1.76	$1.78	$1.79	4.6%	4.6%	$2.97	$3.05	$3.09	12.8x	12.6x	5.1x	36.00	-7.6%		-3.0%
Capital Power	CPX	OP		114.6	$42.35	$4,851	$2.12	$2.24	$2.36	5.3%	5.6%	$5.39	$5.35	$5.90	7.9x	7.2x	3.7x	47.00	11.0%		16.3%
Emera Inc.	EMA	SP		268.3	$64.38	$17,275	$2.58	$2.68	$2.78	4.2%	4.3%	$1.50	$4.18	$4.56	15.4x	14.1x	6.5x	59.00	-8.4%		-4.2%
Fortis Inc.	FTS	SP		481.2	$63.71	$30,659	$2.05	$2.17	$2.30	3.4%	3.6%	$3.76	$4.58	$4.82	13.9x	13.2x	6.1x	59.00	-7.4%		-4.0%
Hydro One Ltd.	H	SP		596.9	$35.31	$21,078	$1.07	$1.12	$1.17	3.2%	3.3%	$2.03	$1.98	$1.67	17.8x	21.2x	5.8x	32.00	-9.4%		-6.2%
TransAlta	TA	SP		271.0	$13.93	$3,776	$0.18	$0.20	$0.20	1.4%	1.4%	$2.08	$1.98	$1.64	7.0x	8.5x	3.5x	14.00	0.5%		1.9%

Source: Company Reports, NBF Estimates, Refinitiv

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

(1) All dollar figures for BIP are in USD

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Sector Analysis

Real Estate

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Selections

- *Allied Properties REIT*
- *Minto Apartment REIT*
- *RioCan REIT*
- *Summit Industrial Income REIT*
- *Sienna Senior Living*
- *Flagship Communities*

Q1 2022 Preview: industrial and residential (multi-family and seniors housing) remain high on our pecking order

By asset class, we continue to see the highest average total returns in our Industrial, seniors/healthcare and multifamily coverage universes: Our expectations are stronger for the names that are better positioned to capture inflation through rental uplifts. Retail and Office still must resolve questions around growth/occupancy as COVID wears on. Our Special Situations coverage also offers some interesting opportunities in self-storage, single-family housing and manufactured housing (again, all quasi-residential and quasi-industrial asset classes). Here are brief synopses of our views:

- *Industrial:*

  Industrial remains one of the best inflation hedges across the real estate landscape as rental rates continue to rise with essentially no market vacancy. This is particularly pronounced in Canada's largest urban areas and their surrounding suburbs.

- *Multi-family:*

  While our optimism on the rent growth and fundamentals in this segment remains, the rise in bond yields is more pronounced relative to lower trading cap rates. However, we expect an increase in turnover and rate increases this spring as demand drivers return and supply (particularly of affordable housing options) remains constrained.

- *Seniors Housing/Healthcare:*

  After mostly reducing forecasts following Q4 reporting, we are leaving our estimates, targets and ratings largely untouched heading into the quarter, given the amount of strategic activity conducted this quarter. Underlying our outlook is a belief that Q1 operations will see some lingering costs from the omicron wave, while we look for an occupancy pick-up in retirement over the course of H2 2021.

- *Office:*

  Office REIT trading performance has been somewhat inverse in relationship to operating performance with vacancy rates generally increasing, albeit at a slower pace. Q4 did see a bit of a reprieve on this front, combined with higher parking revenues as the fall re-opening translated into a bit more foot traffic. However, CBRE stats point to some weakness in Q1/22 as development deliveries and reduced leasing combined with a return of health measures were an issue.

- *Retail:*

  We have made a modest number of changes to our targets entering earnings season. Generally, we expect operational performance to continue its trend of modest quarter-to-quarter improvement, as the retail operating environment trends back toward normal. Even if the post-COVID recovery peters out with higher inflation/rates, we believe operations can continue to recover over 2022/23 because the operating environment will still be superior to 2020/21.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 4-28	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Distributions per Unit est. 2023	Cash Yield 2021E	Cash Yield 2022E	Cash Yield 2023E	Cash Yield Current Annualized	FD FFO est. 2021	FD FFO est. 2022	FD FFO est. 2023	P/FFO 2021E	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	↔	$7,590	Woolley	$24.50	$1.02	$1.02	$1.02	4.2%	4.2%	4.2%	4.2%	$1.60	$1.70	$1.78	15.3x	14.4x	13.8x	$28.50	$27.50	16.4%	↓
Choice Properties REIT	CHP.un	SP	↔	$11,169	Woolley	$15.44	$0.74	$0.74	$0.74	4.8%	4.8%	4.8%	4.8%	$0.95	$0.97	$0.98	16.3x	15.9x	15.8x	$14.20	$16.00	8.4%	↑
First Capital REIT	FCR	SP	↔	$3,819	Woolley	$17.39	$0.43	$0.43	$0.43	2.5%	2.5%	2.5%	2.5%	$1.14	$1.15	$1.19	15.3x	15.1x	14.6x	$23.90	$19.50	14.6%	↓
SmartCentres REIT	SRU.un	SP	↔	$5,703	Woolley	$32.02	$1.85	$1.85	$1.85	5.8%	5.8%	5.8%	5.8%	$2.21	$2.07	$2.28	14.5x	15.5x	14.0x	$34.10	$34.00	12.0%	↔
CT REIT	CRT.un	OP	↔	$4,233	Woolley	$18.15	$0.86	$0.86	$0.86	4.7%	4.7%	4.7%	4.7%	$1.24	$1.29	$1.36	14.6x	14.1x	13.3x	$17.30	$20.00	14.9%	↑
Crombie REIT	CRR.un	OP	↔	$3,164	Woolley	$17.98	$0.89	$0.89	$0.89	4.9%	4.9%	4.9%	4.9%	$1.15	$1.17	$1.22	15.6x	15.4x	14.7x	$18.97	$20.00	16.2%	↔
Automotive Properties REIT	APR.un	OP	↔	$684	Woolley	$13.95	$0.80	$0.80	$0.80	5.8%	5.8%	5.8%	5.8%	$0.94	$0.99	$1.02	14.8x	14.1x	13.7x	$13.10	$15.50	16.9%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$6,025	Kornack	$42.85	$1.75	$1.75	$1.75	4.1%	4.1%	4.1%	4.1%	$2.40	$2.53	$2.68	17.9x	17.0x	16.0x	$48.00	$51.00	23.1%	↔
DREAM Office REIT	D.un	SP	↔	$1,412	Kornack	$26.51	$1.00	$1.00	$1.00	3.8%	3.8%	3.8%	3.8%	$1.54	$1.61	$1.71	17.2x	16.5x	15.5x	$27.50	$27.00	5.6%	↔
Slate Office REIT	SOT.un	SP	↔	$370	Kornack	$5.07	$0.40	$0.40	$0.40	7.9%	7.9%	7.9%	7.9%	$0.55	$0.55	$0.55	9.3x	9.3x	9.1x	$6.05	$5.00	6.5%	↓
True North Commerical REIT	TNT.un	SP	↔	$643	Kornack	$6.97	$0.59	$0.59	$0.59	8.5%	8.5%	8.5%	8.5%	$0.59	$0.57	$0.57	11.9x	12.1x	12.3x	$6.95	$7.00	9.0%	↓
H&R REIT	HR.un	OP	↔	$3,953	Kornack	$13.10	$0.52	$0.52	$0.52	4.0%	4.0%	4.0%	4.0%	$1.53	$1.11	$1.22	8.6x	11.8x	10.8x	$17.25	$17.00	33.7%	↔
Artis REIT	AX.un	SP	↔	$1,599	Kornack	$13.33	$0.60	$0.60	$0.60	4.5%	4.5%	4.5%	4.5%	$1.31	$1.28	$1.26	10.2x	10.4x	10.6x	$15.35	$12.50	-1.7%	↔
BTB REIT	BTB.un	SP	↔	$354	Kornack	$4.23	$0.30	$0.30	$0.30	7.1%	7.1%	7.1%	7.1%	$0.41	$0.47	$0.47	10.4x	9.0x	9.0x	$5.05	$4.75	19.4%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,447	Kornack	$98.13	$3.10	$3.10	$3.10	3.2%	3.2%	3.2%	3.2%	$4.04	$4.45	$4.84	24.3x	22.0x	20.3x	$96.60	$115.00	20.3%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$4,272	Kornack	$15.87	$0.70	$0.70	$0.70	4.4%	4.4%	4.4%	4.4%	$0.81	$0.88	$0.92	19.6x	18.1x	17.3x	$17.40	$19.25	25.7%	↔
Nexus Industrial REIT	NXR.un	OP	↔	$1,058	Kornack	$13.35	$0.64	$0.64	$0.64	4.8%	4.8%	4.8%	4.8%	$0.77	$0.83	$0.90	17.4x	16.1x	14.8x	$14.20	$15.00	17.2%	↑
Summit Industrial	SMU.un	OP	↔	$4,032	Kornack	$21.53	$0.56	$0.56	$0.56	2.6%	2.6%	2.6%	2.6%	$0.70	$0.75	$0.80	30.6x	28.7x	26.8x	$22.35	$26.50	25.7%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$391	Woolley	$3.98	$0.23	$0.23	$0.23	5.8%	5.8%	5.8%	5.8%	$0.52	$0.46	$0.48	7.7x	8.7x	8.3x	$5.30	$5.00	31.4%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,078	Kornack	$51.85	$1.45	$1.45	$1.45	2.8%	2.8%	2.8%	2.8%	$2.33	$2.40	$2.49	22.3x	21.6x	20.8x	$56.55	$62.25	22.9%	↓
Boardwalk REIT	BEI.un	OP	↔	$2,927	Kornack	$57.83	$1.08	$1.08	$1.08	1.9%	1.9%	1.9%	1.9%	$2.96	$3.06	$3.19	19.5x	18.9x	18.1x	$64.10	$68.50	20.3%	↑
Killam Apartment REIT	KMP.un	OP	↔	$2,490	Kornack	$20.88	$0.70	$0.70	$0.70	3.4%	3.4%	3.4%	3.4%	$1.07	$1.08	$1.15	19.5x	19.4x	18.1x	$23.00	$25.00	23.1%	↓
InterRent REIT	IIP.un	OP	↔	$2,102	Kornack	$14.61	$0.34	$0.34	$0.34	2.3%	2.3%	2.3%	2.3%	$0.51	$0.57	$0.58	28.7x	25.8x	25.2x	$16.00	$17.00	18.7%	↓
Minto Apartment REIT	MI.un	OP	↔	$1,312	Kornack	$19.93	$0.48	$0.48	$0.48	2.4%	2.4%	2.4%	2.4%	$0.81	$0.90	$0.97	24.5x	22.0x	20.5x	$23.45	$24.50	25.3%	↓
BSR REIT	HOM.un	RES	↔	$1,013	Kornack	$19.51	RES	RES	RES	RES	RES	RES	2.7%	RES	RES	RES	RES	RES	RES	RES	RES	RES	↔
ERES REIT	ERE.un	OP	↔	$1,145	Kornack	$4.95	$0.16	$0.16	$0.16	3.3%	3.3%	3.3%	3.3%	$0.21	$0.23	$0.24	24.0x	21.5x	20.6x	$5.45	$5.50	14.4%	↓
International																							
Inovalis REIT	INO.un	SP	↔	$283	Kornack	$8.43	$0.83	$0.83	$0.83	9.8%	9.8%	9.8%	9.8%	$0.50	$0.49	$0.70	16.9x	17.3x	12.1x	$10.10	$9.50	22.5%	↓
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,917	Woolley	$12.53	$0.61	$0.61	$0.61	4.9%	4.9%	4.9%	4.9%	$0.59	$0.56	$0.70	21.2x	22.4x	17.9x	$12.36	$15.00	24.6%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$3,213	Woolley	$13.42	$0.80	$0.80	$0.80	6.0%	6.0%	6.0%	6.0%	$0.84	$0.84	$0.87	16.0x	16.0x	15.4x	$14.19	$15.00	17.7%	↔
Sienna Senior Living	SIA	OP	↔	$1,038	Woolley	$14.26	$0.94	$0.94	$0.94	6.6%	6.6%	6.6%	6.6%	$1.15	$1.00	$1.24	12.4x	14.3x	11.5x	$15.86	$17.50	29.3%	↔
Extendicare	EXE	SP	↔	$660	Woolley	$7.37	$0.48	$0.48	$0.48	6.5%	6.5%	6.5%	6.5%	$0.52	$0.45	$0.45	14.2x	16.4x	16.4x	$9.50	$8.00	15.1%	↔
Invesque	IVQu	SP	↔	$71	Woolley	$1.26u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.44u	$0.28u	$0.29u	2.9x	4.5x	4.3x	$1.80u	$1.75u	38.9%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,532	Woolley	$6.76	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.20	$0.22	44.8x	34.1x	30.7x	$6.30	$8.00	18.5%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	US$376.52	Woolley	US$19.21	US$0.54	US$0.54	US$0.54	2.8%	2.8%	2.8%	2.8%	US$1.03	US$1.09	US$1.14	18.7x	17.6x	16.9x	US$23.80	US$24.00	27.7%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$5,254	Woolley	$19.26	$0.28	$0.28	$0.28	1.5%	1.5%	1.5%	1.5%	$0.57	$0.62	$0.72	33.8x	31.1x	26.8x	$21.37	$21.00	10.5%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- *Alaris*
- *GDI Integrated Facility Services*
- *Park Lawn*

Realizing an eight-year, unlevered IRR of 13% on Kimco

On April 1, Alaris announced the redemption of Kimco, related to a sale of Kimco to a third party, resulting in proceeds to AD of US$68.2 million. Alaris' investment in Kimco boasts a return of US$52.1 million over the US$34.2 million cost base: US$37.4 million of distributions including the previously owed US$13.7 million, US$5.3 million of interest payments and a US$9.4 million exit premium. This represents a 152% return including, or 109% excluding escrowed amounts for an unlevered IRR over eight years of over 13%.

Alaris, reloaded

Pro forma the redemption, Alaris retains liquidity of $137 million and pro forma total senior debt/EBITDA of 1.9x, while the payout ratio remains in the 60-65% range. Over the short term, the redemption reduces revenues and EBITDA by $4.4 million and $4 million, respectively, along with a lift to EPS due to lower financing costs. As noted in the most recent call, however, management signaling leads us to believe that Alaris will be able to redeploy the US$68.2 million received to new and existing partners in due time given a strong pipeline of opportunities, more than making up for lost revenues as Kimco's contracted distributions were only ~7% of the gross proceeds vs. potential yields on deployment of 12-15% (including common equity but excluding common distributions).

Distribution flowthrough provides private investment opportunities to public markets

Alaris' preferred equity financing is attractive to high growth partner companies as it allows owner-operators to retain ownership and control, has no put right, is tax-efficient and caps Alaris's upside while offering modest downside protection. It is competing with equity financing as it is not realistically a debt replacement given the uses and size of investments required by partners.

With multiple levers, management can negotiate around partner sticking points and generally arrive at a similar overall return profile from different directions: 1) opening yield is 13-15%, and distributions start immediately; 2) distributions can grow within a collar, usually +/- 5-8% tied to top-line performance, and; 3) three-year no-call period (exit triggers payment of remaining distributions owed) and exit premium is generally a multiple of the current distribution.

Our $27 target implies 11.6x 2023e EV/EBITDA and 16.5x 2023e PE, roughly in line with peers at 11.3x and 18.1x FY2, respectively. Our target is derived from a long-term discounted cash flow analysis. We rate Alaris Outperform rating as Alaris' current distribution yield of 7% is an attractive opportunity for investors seeking stable income backed by a sustainable payout ratio of 60-65%, complemented by growth through management's ability to deploy additional funds to new and existing partners.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		848.4	45.0	18.84	12/2021	3.13	1.82	1.64	10.4	11.5	130.5	132.5	131.8	8.8	8.8	7.0%	3.0	27.00	
Boyd Group Services Inc.	BYD	SP		3,445.0	21.5	160.44	12/2021	1.30	1.64	4.43	81.0	30.0	219.5	265.9	367.0	14.3	10.4	0.4%	2.6	200.00	
Cascades	CAS	OP		1,302.4	101.7	12.80	12/2021	0.26	0.78	1.32	16.5	9.7	389.0	466.6	549.4	6.1	5.0	3.8%	2.5	18.00	
Dexterra Group Inc.	DXT	OP		472.4	65.1	7.26	12/2021	0.37	0.47	0.65	15.6	11.1	80.6	84.5	102.0	6.9	5.2	4.8%	0.7	13.00	
Doman Building Materials	DBM	OP		630.2	86.7	7.27	12/2021	1.34	1.44	0.82	5.0	8.8	225.6	251.4	178.5	4.9	6.0	7.7%	3.8	11.00	
GDI Integrated Facility Services	GDI	OP		1,042.1	23.0	45.26	12/2021	1.83	1.83	2.15	24.8	21.0	132.8	143.3	147.0	9.1	8.3	0.0%	2.1	70.50	
Hardwoods Distribution	HDI	OP		791.2	23.9	33.06	12/2021	4.77	4.60	4.10	5.7	5.9	195.2	234.4	218.1	5.7	5.7	1.5%	2.4	79.50	
Intertape Polymer Group Inc.	ITP	T		2,407.0	60.6	39.74	12/2021	1.96	2.03	2.32	15.7	13.7	247.1	269.7	289.3	8.8	8.2	2.1%	1.8	40.50	
KP Tissue	KPT	SP		110.1	9.9	11.13	12/2021	0.65	0.01	0.40	1678.9	28.2	153.4	180.8	229.9	9.7	8.1	6.5%	3.6	11.00	
Neighbourly Pharmacy Inc.	NBLY	SP		852.0	34.0	25.03	03/2021	(19.88)	(7.61)	0.23	nmf	108.8	35.1	47.4	101.2	19.8	12.0	0.7%	1.0	35.50	
Park Lawn Corporation	PLC	OP		1,176.9	34.5	34.13	12/2021	1.51	1.60	1.81	21.4	18.8	95.6	108.0	116.3	12.3	11.1	1.3%	1.6	45.00	
Richelieu Hardware	RCH	OP		2,079.1	56.6	36.75	11/2021	2.51	2.58	2.27	14.3	16.2	234.4	249.4	224.6	7.8	8.1	1.4%	0.7	54.50	↑
Savaria Corporation	SIS	OP		1,027.8	64.6	15.90	12/2021	0.54	0.71	1.00	22.3	15.9	100.3	127.6	145.6	10.7	9.1	3.1%	2.5	23.50	
Uni-Sélect	UNS	OP		1,329.6	43.8	30.37	12/2021	1.00	1.13	1.39	22.2	18.1	146.7	157.9	170.7	9.2	8.0	0.0%	1.8	31.00	

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

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

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, 2021 was a tough year with our coverage down ~20% on average. 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 across North America and Europe 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 INE, BLX and NPI.

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

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of ~3,200 MW and plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S. ~8% Chile and ~7% France). As highlighted at its investor day in September 2021, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1.3 GW in mid or advanced stages of development. Recently, INE closed on a few acquisitions, including a 50 MW solar farm in Chile; the remaining 50% interest in its Chilean JV, Energía Llaima SpA; a 332 MW portfolio of three wind farms in Chile (expected closing in Q2'22E); as well as a 50% interest in Curtis Palmer, a 60 MW run-of-river hydroelectric portfolio in New York in partnership with Hydro-Québec. With visibility on near-term growth combined with recent M&A, INE has guided to double-digit growth across production and financial metrics for FY'22E, supported by its recent M&A as well as ~15% growth CAGR guidance on normalized FCF/sh out to 2025E. Recent organic developments include the commissioning of its 226 MW Griffin Trail wind project in North Texas and commissioning of its 200 MW Hillcrest solar project in Ohio. Moreover, INE is exploring investment opportunities in new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 5.50% discount rate on operating assets and includes $3/sh for growth.

Boralex Inc.
(BLX: TSX; Outperform; $48 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the United States, France and Canada. It has a net installed capacity of ~2,500 MW, 98% of which is covered by inflation-indexed, fixed-price energy sales or feed-in premium contracts with an average life of 13 years. In June 2021, BLX unveiled its strategic plan from 2020 to 2025E as well as a roadmap to 2030E. The plan focuses on growth, diversification and asset optimization while also integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR on its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively. BLX saw some success with RFPs in France, as it was awarded projects totalling ~62 MW of capacity. It also bid seven solar projects in New York totalling 800 MW, with results expected as early as July and could see success in Québec RFPs. Recently, BLX agreed to sell a 30% stake in its French assets to Energy Infrastructure Partners for C$766 million in cash. The capital should reduce the need for further dilution to fund organic growth and future M&A. Moreover, 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 as a result of its contract structures on 201 MW of operating assets and 125 MW of projects under construction. BLX could potentially benefit from sustained high-power prices throughout 2022E and beyond over concerns of energy security. Our target is based on a long-term DCF with a 5.50% cost of equity on operating cash flows and $7/sh of growth.

Northland Power Inc.
(NPI: TSX; Outperform; $45 target):

NPI is a global leader in the development of offshore wind projects with 2,820 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions. With its offshore wind platform, NPI is attracting large partners like RWE in Germany, PKN Orlen in Poland and Tokyo Gas in Japan, which could help boost returns. NPI now has an offshore wind development pipeline that includes more than 7.4 GW of projects (5.4 GW net to NPI) that should be constructed over the next decade. In recent developments, NPI was awarded ~2.4 GW of offshore wind leases in Scotland and expanded its partnership with RWE to form a JV (49% to NPI) to co-develop a cluster of three offshore wind projects in the German North Sea with a total gross capacity of 1.3 GW. Such development projects in Europe could see upside from high power prices resulting from the European energy crisis. Moreover, the energy crisis could also accelerate demand for new projects and attract new capital to support future sell-downs. In the near term, we could see NPI commission the 130 MW La Lucha solar project in Mexico as well as its New York Onshore wind projects. NPI continues to progress on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E) and the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E). Lastly, NPI is preparing to bid in upcoming RFPs in Taiwan on new projects. Our target is based on a long-term DCF with a cost of equity of 5.50% on operating cash flows and $9/sh of growth.

Sector Analysis

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4-28	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		168.5	86	1.96	12/2021	0.06u	0.21u	0.26u	7.3	6.0	2.54u	3.22u	3.56u	0.5	0.4	0.93u	0.31	4.25	
Anaergia Inc.	ANRG	SP		552.7	60	9.14	12/2021	(0.37)	0.01	0.49	nmf	14.5	2.97	3.76	5.42	1.9	1.3	10.99	0.46	17.00	
Algonquin Power	AQN	OP		9951.7	672	14.81u	12/2021	0.71u	0.75u	0.75u	19.8	19.7	3.66u	4.08u	4.40u	3.6	3.4	10.99u	0.46	16.00u	
Altius Renewable Royalties Corp	ARR	OP		290.8	29	9.98	12/2021	(0.13)u	(0.03)u	0.06u	nmf	nmf	0.02u	0.10u	0.20u	nmf	39.3	0.62u	0.00	14.50	
Ballard Power Systems	BLDP	OP		2509.6u	298	8.43u	12/2021	(0.39)u	(0.50)u	(0.42)u	nmf	nmf	0.35u	0.38u	0.66u	22.1	12.8	4.46u	0.01	14.00u	
Boralex	BLX	OP		4018.6	103	38.86	12/2021	0.16	0.65	0.41	59.4	nmf	6.69	7.31	7.02	5.3	5.5	11.71	0.65	48.00	↑
Brookfield Renewable	BEP	OP		23072.7u	646	35.73u	12/2021	0.00u	0.00u	0.00u	na	na	3.74u	4.24u	4.30u	8.4	8.3	24.27u	0.35	41.00u	↑
DIRTT Environmental Solutions	DRT	SP		94.7u	85	1.11u	12/2021	(0.63)u	(0.40)u	(0.15)u	nmf	nmf	1.73u	2.05u	2.40u	0.5	0.5	0.79u	0.35	2.75u	
GFL Environmental Inc.	GFL	OP		14802.5	362	40.94	12/2021	(1.83)	(0.38)	(0.05)	nmf	nmf	15.28	16.08	17.27	2.5	2.4	15.87	0.58	53.00	↓
Innergex	INE	OP		3548.5	205	17.31	12/2020	(0.23)	(0.80)	0.66	nmf	26.2	3.60	4.09	4.13	4.2	4.2	7.64	0.74	23.00	
The Lion Electric Company	LEV	OP		1234.4u	196	6.30u	12/2021	(0.26)u	(0.22)u	(0.31)u	nmf	nmf	0.29u	1.01u	3.16u	6.2	2.0	1.88u	0.02	13.00u	
Loop Energy Inc	LPEN	OP		91.5	35	2.59	12/2021	(0.74)	(0.78)	(0.72)	nmf	nmf	0.04	0.31	0.53	8.5	4.9	2.23	0.01	8.50	
NanoXplore	GRA	OP		568.8	165	3.45	06/2021	(0.08)	(0.08)	0.03	nmf	nmf	0.46	0.53	0.76	6.5	4.5	0.74	0.17	10.00	
Next Hydrogen Solutions Inc.	NXH	SP		47.8	23	2.09	12/2021	(1.28)	(1.00)	(0.87)	nmf	nmf	0.01	0.30	0.33	6.9	6.4	1.65	0.01	4.50	↓
Northland Power	NPI	OP		8920.0	227	39.37	12/2021	0.83	1.17	1.38	33.8	28.5	9.57	9.18	9.42	4.3	4.2	13.07	0.71	45.00	↑
TransAlta Renewables	RNW	SP		4808.7	267	18.01	12/2021	0.52	0.71	0.73	25.5	24.7	1.76	1.71	1.79	10.5	10.1	7.61	0.22	19.00	↑
Xebec Adsorption	XBC	OP		332.6	155	2.15	12/2021	(0.15)	(0.10)	0.06	nmf	34.6	0.82	1.38	2.40	1.6	0.9	2.03	0.22	3.75	↑

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Back to Research Analysts page

Sector Analysis

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Selections

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

Marking Time

As we write this, CQ1 earnings is descending upon us. But while expectations have already been tempered, we continue to believe investors should stick with those defensive tech names we've been pointing to since we published our Year Ahead in early January. That early year view is also being amplified by what appears to be increasingly more macro challenges layered on what had already been some meaningful ones back in January. As you know, year-to-date performance in Tech has been challenging – the S&P Info Tech Index is down 19.8% YTD while the S&P 500 is down far less at 12.2%. Here in Canada, the gap has been more pronounced with the S&P/Info Tech Index down 48.1% YTD while the TSX is down 2.3% during that time. That significant underperformance has been driven by Shopify, which is down 68.5% YTD. As we enter reporting season, we're sticking with our published view from our Year Ahead and reiterated in prior versions of this publication. That view has us leaning towards largely defensive names with largely recurring cash flow attributes. For those investors having a longer-term view, we continue to see opportunities to wade into select growth names like Coveo and Docebo among others. Shorter term, we see defensive opportunities in names like CGI and OpenText.

- **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 billion in capital on acquisitions this fiscal year will further 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's pipeline has increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Nuvei** remains a scaling payment name with a differentiated focus on outsized growth markets. Nuvei accepts payments in 204 global markets while supporting 500+ alternative payment methods (APMs) in nearly 150 currencies. We believe this breadth and focus on high-growth verticals such as online regulated gaming is helping drive outsized growth. Looking ahead, we believe Nuvei will continue to execute on its outsized growth path that's further supported by structural changes in the payments industry (e.g., cashless casinos).
- **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 continue to accelerate as the Company looks to increase its payment 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 further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%. 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 4/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,070	44.9	46.15	2021	1.90	2.07	2.89	22.3	16.0	109.8	142.1	162.6	16.2	14.2	12.4	35%	70.00	
Blackline Safety Corp.*	BLN	OP		331	60.3	5.49	2021	(0.51)	(0.71)	(0.41)	NMF	NMF	(9.9)	(19.6)	(3.4)	NMF	NMF	1.0	0%	9.00	
CGI Inc.	GIB.A	OP		24,973	243.8	102.42	2021	5.41	6.10	6.46	16.8	15.9	2462.7	2577.1	2701.9	10.5	10.0	27.8	31%	135.00	
Constellation Software Inc.	CSU	SP		41,943	21.2	1,979.25	2021	47.38u	51.93u	66.53u	29.5	23.1	1,511.0u	1,685.8u	2,058.6u	19.4	15.9	77.3u	44%	2350.00	
Converge Technology Solutions*	CTS	OP		1,743	214.9	8.11	2021	0.19	0.43	0.57	14.5	11.1	94.0	177.3	225.9	8.4	6.6	3.02	0%	14.00	
Copperleaf Technologies*	CPLF	OP		817	80.2	10.19	2021	(0.03)	(0.43)	(0.40)	NMF	NMF	2.1	(31.8)	(29.9)	NMF	NMF	1.80	0%	20.00	
Coveo Solutions Inc.	CVO	OP		817	112.6	7.25	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		1,715	32.9	52.07	2021	(0.31u)	(0.11u)	0.26u	NMF	NMF	(8.0u)	(1.4u)	9.8u	NMF	NMF	190.7u	0%	85.00u	
D2L Inc.*	DTOL	OP		506	60.6	8.35	2022	(0.07u)	(0.31u)	(0.09u)	NMF	NMF	0.2u	(13.1u)	0.0u	NMF	NMF	1.1u	0%	20.00	
E Automotive Inc.	EINC	OP		520	43.0	12.10	2021	(0.65u)	(0.53u)	(0.61u)	NMF	NMF	(7.9u)	(15.1u)	(15.5u)	NMF	NMF	3.5u	0%	21.50	
Farmers Edge Inc.	FDGE	SP		109	41.9	2.60	2021	(1.81)	(1.51)	(1.29)	NMF	NMF	(49.9)	(53.4)	(48.2)	NMF	NMF	2.48	1%	3.00	
Kinaxis Inc.	KXS	OP		3,940	28.5	138.39	2021	0.57u	1.31u	1.76u	NMF	NMF	39.9u	67.5u	78.2u	41.5	NMF	12.2u	0%	250.00	↑
Lightspeed Commerce Inc.	LSPD	OP		2,913u	148.2	19.66u	2021	(0.38u)	(0.39u)	(0.21u)	NMF	NMF	(21.2u)	(45.1u)	(16.8u)	NMF	NMF	23.3u	1%	65.00u	↓
Magnet Forensics Inc.*	MAGT	OP		930	42.6	21.85	2021	0.28u	0.25u	0.28u	NMF	NMF	18.6u	13.5u	17.7u	44.8	NMF	2.1u	2%	50.00	
mdf commerce inc.	MDF	SP		119	44.0	2.71	2021	(0.30)	(0.36)	(0.06)	NMF	NMF	5.1	(1.0)	9.2	NMF	15.1	7.52	13%	3.00	↓
Nuvei Corporation	NVEI	OP		7,322u	147.6	49.59u	2021	1.70u	2.18u	3.10u	22.8	16.0	317.2u	419.7u	594.8u	16.9	11.9	13.7u	20%	130.00u	
Open Text Corporation	OTEX	OP		10,393u	271.2	38.32u	2021	3.39u	3.22u	3.57u	11.9	10.7	1,315.2u	1,263.2u	1,381.2u	10.3	9.4	15.0u	51%	60.00u	
Pivotree Inc.*	PVT	OP		113	26.7	4.25	2021	(0.35)	(0.36)	0.17	NMF	25.4	(3.5)	(3.6)	13.1	NMF	6.8	3.5	0%	8.00	
Q4 Inc.	QFOR	OP		179	39.6	4.53	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		368	78.9	4.66	2021	0.48u	0.09u	0.09u	NMF	NMF	59.2u	11.8u	10.4u	17.5	19.9	2.0u	0%	6.00	↓
Shopify Inc.	SHOP	OP		47,569u	126.0	377.49u	2021	6.42u	1.21u	2.28u	NMF	NMF	732.0u	118.9u	327.0u	NMF	NMF	77.7u	9%	1,000.00u	↓
Softchoice Corp*	SFTC	SP		1,388	63.2	21.96	2021	0.57u	1.02u	1.28u	21.5	17.2	67.0u	98.3u	117.6u	14.8	12.4	0.8u	57%	30.00	
Tecsys Inc*	TCS	OP		396	15.0	26.49	2021	0.49	0.19	0.65	NMF	40.6	16.2	11.2	18.7	34.7	20.8	4.49	11%	55.00	
Telus International	TIXT	OP		5,875u	269.0	21.84u	2021	1.00u	1.22u	1.41u	NMF	NMF	540.0u	620.9u	754.2u	11.0	9.0	6.3u	39%	50.00u	
Thinkific Labs Inc.	THNC	OP		149	77.3	2.49	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

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› *Cineplex*
› *Spin Master*
› *Rogers*

Thomson Reuters

Solid 2021 performance said to fuel momentum into 2022:

TRI steadily raised its guidance and delivered strong results last year. With its Q4/21, management noted results exceeded its expectations in the period, added investments were made to better position the company in 2022, and year-end performance plus 2021 growth had increased momentum into 2022. TRI 3.0 involves the acceleration of top-line growth (5.5%-6% 2023E vs. +1.2% 2020), margin expansion (39%-40% 2023E vs. 33.0% 2020), and record FCF/share ($3.90-$4.10 2023E vs. $2.67 2020). Management is confident in its plan which involves a $600 million two-year Change Program (spending skews 60/40 opex/capex, ~49% in 2021). TRI expects $600 million in opex savings (run rate $217 million 2021, $500 million 2022E) with $200 million reinvested in growth initiatives. M&A is being explored to complement organic objectives. 2022 guidance calls for total revenues and organic growth of approximately 5.0% and Adj. EBITDA margin around 35%, with Big 3 revenues up 6.0%-6.5% and Adj. EBITDA margin of about 42% plus FCF of approximately $1.3 billion. 2023 guidance calls for total revenues and organic growth of 5.5%-6.0% and Adj. EBITDA margin of 39%-40%, with Big 3 revenues up 6.5%-7.0% and Adj. EBITDA margin of 44%-45% plus FCF of $1.9 billion to $2.0 billion. Cloud conversion was 37% exiting 2021 with a goal to hit 60% in 2022 and 90% in 2023E. TRI's strongest moat is in Legal where the spotlight in 2022 is on demand growth and how law firms adjust to the recent hiring surge as well as evolving economic backdrop. A month before its Q4/21, TRI and Georgetown Law published The 2022 Report on the State of the Legal Market. It was noted that 2021 demand for U.S. law firm services grew 4% (2020 -1.6%) or 1% versus 2019 as per gains in that year and 2018 and lawyer headcount in November was up 3.9%, stimulated in H2/21 "as many firms brought in two new classes of associates" which must be trained and retained, with compensation and other costs rising. TRI's workflow and productivity tools offer efficiencies. Westlaw Edge has added 100 bps to Legal's growth, hit 65% penetration in 2021 (target 70%-75% 2022), and comes at a premium (Edge 2.0 launches in Q2/22). Our target is based on our 2023E NAV, as we apply a 20x multiple to TRI's core segments and a growth rate to the tax-adjusted value of its LSEG stake.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 4/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		839	63.3	13.25	12/2021	(3.93)	0.70	1.95	19.0	6.8	-84.3	157.6	243.5	9.7	5.8	-3.47	1.45	19.00	
Corus Entertainment Inc.	CJR.b	OP		883	206.8	4.27	08/2021	0.88	0.79	0.88	5.4	4.8	524.6	496.9	514.7	4.7	4.2	5.53	0.54	6.50	
WildBrain Ltd.	WILD	OP		488	172.9	2.82	06/2021	(0.07)	(0.05)	0.16	-57.3	18.1	83.1	92.0	107.4	10.3	8.4	0.33	0.88	5.00	
Spin Master Corp.	TOY	OP		4,691	102.4	45.81	12/2021	2.10	2.22	2.36	16.1	15.2	414.1	418.3	437.9	7.0	6.0	10.28	-1.15	66.00	
Stingray Group Inc.	RAY.a	OP		457	70.1	6.52	03/2021	0.85	0.83	0.96	7.9	6.8	114.3	103.4	122.4	8.0	7.0	4.00	0.63	8.50	
TVA Group Inc.	TVA.b	SP		150	43.2	3.48	12/2021	0.79	0.42	0.77	8.2	4.5	80.3	56.9	76.2	3.1	2.1	8.78	0.04	3.50	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	OP		64,071	486.2	131.78	12/2021	1.95	2.38	3.35	43.3	30.7	1970.0	2300.0	2800.0	22.9	18.5	28.45	0.19	162.00	
Transcontinental Inc.	TCL.a	OP		1,414	86.9	16.28	10/2021	2.37	2.23	2.48	7.3	6.6	454.9	441.3	464.2	5.3	4.7	20.61	0.37	23.00	↓
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		445	21.3	20.93	12/2021	(0.59)	0.53	0.92	NM	22.6	29.0	43.4	56.7	9.5	7.7	4.52	0.40	34.00	
Yellow Pages Ltd.	Y	SP		385	27.7	13.91	12/2021	3.02	1.92	1.80	7.2	7.7	102.0	90.8	82.6	2.6	2.5	NM	-0.38	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		63,694	909.0	70.07	12/2021	3.19	3.36	3.61	20.8	19.4	9893.0	10270.6	10627.0	9.3	9.0	20.47	0.39	71.00	
Cogeco Communications Inc.	CCA	OP		5,015	46.4	108.11	08/2021	8.43	9.07	9.94	11.9	10.9	1205.7	1380.2	1425.4	6.4	6.1	63.69	0.60	141.00	
Quebecor Inc.	QBR.b	OP		7,471	239.6	31.18	12/2021	2.52	2.58	2.77	12.1	11.3	1973.2	1989.2	2063.1	6.8	6.4	5.24	0.85	37.00	
Rogers Communications Inc.	RCI.b	OP		36,345	504.9	71.98	12/2021	3.56	4.06	5.06	17.7	14.2	5887.0	8605.2	9229.9	8.3	7.9	22.01	0.36	83.00	↑
Shaw Communications	SJR.b	SP	↓	19,223	501.0	38.37	08/2021	1.60	1.56	1.57	24.5	24.4	2500.0	2537.1	2547.3	9.6	9.2	12.38	0.48	40.50	
Telus Corp.	T	OP		44,868	1370.0	32.75	12/2021	1.23	1.14	1.36	28.7	24.1	6290.0	6452.6	7022.6	10.3	9.3	11.72	0.58	36.00	

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

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

Source: Bloomberg, Refinitiv and NBF estimates

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Selections

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

Conflict in Europe a catalyst for more defence spending, positive implications for CAE, Héroux-Devtek and Exchange Income

Russia's invasion of Ukraine has acted as a major catalyst for Western governments to make significant new commitments to increase defence spending. Even in the event of a near-term resolution of the conflict, we expect defence spending to increase materially in the coming years. We note that in our coverage universe ~45% of **CAE's (Outperform, $44.00 target)** revenue is now generated from its Defence & Security segment while for **Héroux-Devtek (Outperform, $26.00 target)**, defence makes up ~70% of total revenue. **Exchange Income (Outperform, $51.00 target)** also has some modest exposure to the defence sector that may see a boost from higher spending.

- ***NATO spending could increase materially.***

  If all NATO countries under the 2% of GDP defence spending target were to increase their spending to 2% and all countries over 2% kept their current spending as a percentage of GDP, total NATO defence spending (ex-U.S.) would increase 22.5% versus the 2021 baseline. CAE has a solid physical presence in Europe, including several military training centres, and could stand to benefit from incremental procurement programs. HRX also has exposure to in-production and new development aircraft programs for which it is supplying landing gear and actuation systems in Europe that may see a boost from higher spending.

- ***U.S. defence spending to remain well-supported.***

  The White House has requested US$773 billion for the Pentagon in F2023, up 6% from the F2022 level. We see major U.S. procurement programs remaining well-funded which will benefit CAE, which generates ~55-60% of its Defence revenue from the U.S. HRX also manufactures landing gear for several major U.S. aircraft programs, so solid funding support provides long-term visibility for the company.

- ***Canada's planned defence procurements look more secure.***

  Although we do not necessarily see Canada committing to spending 2% of GDP on defence, we believe planned procurements are more likely to move forward. Canada recently selected the Lockheed Martin F-35 as its new fighter jet. HRX and a subsidiary of Exchange Income already manufacture components for the F-35 and Canada's selection could bring more business to both companies. We believe CAE is well-positioned to provide training systems for Canada's F-35s and the company could also benefit from other large-scale Canadian contracts in the coming years.

Higher defence spending will not have an immediate impact on any of our coverage companies as new procurements can take years to unfold. However, we have greater confidence that defence segment revenue growth can accelerate beyond our forecast time horizons.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 4-28	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	23.01	8,237	12/2021	-10.25	-3.46	0.82	NA	28.1x	(1464)	1258	2764	12.6x	5.7x	108%	31.00	↑
Bombardier Inc.	BBD.b	OP		2463	1.30	3,202	12/2021	-u0.08	-u0.07	u0.02	NA	65.0x	u200	u841	u1072	9.8x	7.7x	na	2.65	
BRP Inc.	DOO	OP		84	104.01	8,705	01/2022	9.92	10.81	11.33	9.6x	9.2x	1462	1624	1691	6.5x	6.3x	107%	136.00	
CAE Inc.	CAE	OP		319	33.56	10,696	03/2021	0.47	0.74	1.16	45.5x	29.0x	492	723	977	26.4x	13.3x	37%	44.00	
Canadian National Rail	CNR	SP		700	155.06	108,573	12/2021	5.95	6.82	7.66	22.7x	20.2x	9.81	9.00	10.90	15.1x	13.8x	38%	168.00	↓
Canadian Pacific Rail	CP	SP		933	96.66	90,155	12/2021	3.76	3.27	4.65	29.5x	20.8x	5.41	3.60	6.44	26.7x	14.8x	37%	98.00	
Cargojet Inc.	CJT	SP		18	154.62	2,708	12/2021	9.36	7.25	8.03	21.3x	19.3x	293	332	365	9.2x	8.4x	33%	199.00	
Chorus Aviation Inc.	CHR	SP		178	3.91	695	12/2021	0.37	0.42	0.52	9.2x	7.6x	272	336	363	7.1x	6.5x	70%	4.65	
Exchange Income Corporation	EIF	OP		38	41.87	1,580	12/2021	2.26	2.25	2.82	18.6x	14.9x	330	364	405	7.6x	6.8x	58%	51.00	
Héroux-Devtek Inc.	HRX	OP		36	15.72	562	03/2021	0.80	0.80	1.02	19.7x	15.5x	88	83	97	8.6x	7.4x	27%	26.00	
NFI Group Inc.	NFI	OP		77	13.87	1,069	12/2020	-u0.17	-u0.48	u0.59	na	18.4x	164	102	224	17.9x	8.1x	47%	19.00	
Taiga Motors Corp.	TAIG	OP		31	4.16	131	12/2021	-5.72	-1.39	-1.82	NA	NA	(22)	(37)	(25)	na	na	na	12.00	
Transat A.T. Inc.	TRZ	UP		38	4.57	173	10/2021	-11.83	-5.28	-1.07	NA	NA	(214)	9	195	159.3x	7.4x	NA	4.00	
TFI International Inc.	TFII	OP		93	106.72	9,890	12/2021	u5.23	u6.32	u7.18	13.2x	11.6x	1051	1280	1378	7.5x	7.0x	45%	142.00	↓

Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; T = Tender; UR = Under Review; R = Restricted
u = US dollars
Source: Company Reports, Refinitiv, NBF

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