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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

- In the last issue of this monthly letter, we wrote that a global recession could still be avoided if inflation were to subside fairly quickly. Since then, developments on the inflation front have been rather mixed, with the upturn largely led by a decline in global demand. The slowdown was especially marked in the Eurozone, where declines of prices for some items were completely eclipsed by an increase of natural gas prices after Russia cut off its deliveries to continental Europe via the Nord Stream 1 pipeline. In addition, widespread droughts have limited agricultural production and increased the cost of transporting goods. At the same time, the European Central Bank raised its key interest rates by 75 basis points, which could further dampen growth and risks bringing to the forefront some of the vulnerabilities that had already surfaced during the debt crisis, amplifying the effects of a recession that now seems inevitable. Meanwhile, China is stubbornly sticking to its zero COVID policy, with repeated closures that will not be without consequences for the economy, especially as they come on top of a slowdown in the real estate sector and severe droughts in Sichuan. In sum, the drop in some commodity prices that we had hoped for last month did not have expected positive effects, as this was largely offset by an increase in general uncertainty. As a result, we have lowered our global growth forecast for 2022 from 2.7% to 2.6%. Our forecast for 2023 now stands at 2.3%, down from 2.7% in the last issue of this monthly.
- Speaking at the Jackson Hole Economic Symposium, Fed Chairman Jerome Powell emphasized that the central bank's priority is to bring inflation back to target and that it will not shy away from keeping policy rates at a restrictive level "for some time" to achieve that. He was also clear about the outlook for growth in a tightening monetary policy environment, saying that "reducing inflation is likely to require a sustained period of below-trend growth" Indeed, the sectors most sensitive to interest rate increases, namely residential real estate and business investment, are already showing signs of slowing. We believe that this is not enough to push the economy into recession, as these two components represent a relatively small share of domestic demand. Consumption, on the other hand, could certainly tip the scales either way. And while the pace of growth in household spending has slowed somewhat recently, it is still positive, thanks in part to the excess savings accumulated during the COVID crisis and a strong labour market. But this may not be enough to keep up the pace of consumption, as wages cannot keep up with inflation. As a result, after a modest rebound in Q3, we expect several quarters of below-potential growth for the U.S. economy. As a result, our growth forecast for 2022 has been lowered from 2.0% to 1.6%. We have also lowered our forecast for 2023 from 1.4% to 0.9%.
- The Bank of Canada's message is unequivocal. It intends to take interest rates further into restrictive territory next month even though, in our view, there have been encouraging global developments on the inflation front, such as a decline of energy prices and transportation costs and an attenuation of supply-chain problems. The Bank of Canada is on a slippery slope. Its full-throttle action together with the lag in transmission of monetary policy leave it insufficient time to assess the effect of its actions and adjust as needed. Unfortunately we will learn only after the fact whether it has gone too far. So it is normal for observers to be anxious. One thing is certain: we are already seeing a marked slowdown of the economy and the labour market, suggesting to us that rates at such levels will not be needed for long (we anticipate easing in the second half of next year). Given monetary tightening more pronounced than anticipated, we are lowering our forecast of economic growth to 3.2% from 3.5% in 2022 and to 1.1% from 1.5% in 2023. We think the Canadian economy can still avoid recession. Its large resource sector enjoys prices that are still advantageous, its governments are high-spending and its households have benefited from a dynamic labour market and excess savings.

Interest rates and currency

- We don't doubt the earnestness of central bank tightening pledges, at least in the near term. Indeed, some of the biggest changes to our interest rate outlook—relative to our prior forecast—involve incorporating more tightening by both the Fed and the BoC before 2022 is out. We believe the Bank of Canada when they tell us rates still have higher to go. That might mean one final hike—of the 50 bp variety—in October. And the Fed's upcoming 'dot plot', set to accompany what we believe will be another 75 bp hike on September 21st, will imply additional tightening in the final quarter of the year. For her part, ECB President Lagarde has flagged another couple hikes (and perhaps as many as four) in order to wrestle inflation under control.
- Given the more elevated endpoint for the hiking cycle (relative to our prior projections), we've brought forward rate cuts to the second half of the 2023 (Q3 for the Fed and BoC). We see both central banks brandishing policy rates with a two-handle by not too far into 2024. While markets partially bought into the Fed's rhetoric about higher rates for longer (evident in bond yields and swap rates), their resolve to tighten policy this year had the opposite effect in our mind. The risks to market pricing for 2023, in our view are skewed decisively lower, leaving shorter-term bonds decidedly attractive.
- Out the curve, we see downside to interest rates too but think that we're much closer to a longer-run equilibrium here. Quantitative tightening, which has received very little focus over recent months, will help keep longer-term rates from falling as dramatically. This should set up curve steepeners as the trade to put on as we approach the end of these tightening cycles. Could we see rates march higher and curves invert further over the coming months? Absolutely, particularly if the Fed and BoC don't back down from their tough talk on hiking rates. It might not yet be time to fight the Fed (or the BoC) right now. But before the end of the year, we'll be

Highlights

positioning ourselves for bull steepeners. Central have succumbed to policy mistakes in the past (i.e., overtightening) and could be walking straight into one again.

› The Canadian dollar remains the best performing G10 currency against the US dollar so far in 2022 but is still down 3.9% despite a better performing economy, a current account surplus, the best terms of trade on record and a hawkish central bank. Notwithstanding the upcoming slowdown, we still expect economic resilience to translate into a higher policy rate in Canada than in the US. Such a development remains conducive to CAD appreciation vs. the greenback.

Recommended asset mix and stock market

› After falling into bear market territory on June 16 for the first time since 2020, the MSCI ACWI regained a significant portion of its losses in July and mid-August thanks to a better-than-expected Q2 earnings season, before weakening again after a particularly hawkish statement from Fed Chairman Jerome Powell. This is a challenging environment for most equity markets, made even more difficult by the announced intention of central banks to increase monetary tightening.

› For now, the most compelling argument for higher interest rates made by the Fed is the resilience of labor markets. While payroll employment has indeed surprised on the upside in recent months, the additional headcounts have been part-time. Full-time employment, meanwhile, has stagnated since the beginning of 2022. This suggests that companies may be on the cusp of cutting back on hiring in the coming months if sales do not pick up to protect profit margin.

› A more uncertain employment outlook makes the path of future rate hikes all the more perilous for equity markets, which also face rising long-term Treasury yields that prevent an expansion of PE multiples. Even at 3.2% currently, there could still be some upside in 10-year Treasury yields as the term premium trades negatively again. In our view, investors are likely to demand positive compensation for holding longer maturities in a more volatile environment for growth, government indebtedness, and inflation.

› We have argued for several months that the S&P/TSX can be a defensive play in a geopolitical context characterized by food and energy insecurity. The impact of EU sanctions on Russian oil could help support Canadian energy stocks. Unlike many other major food suppliers that have been hit by drought, Canada should also enjoy a bumper crop in 2022. In addition, real household disposable income remains above its pre-covid trend as the federal and provincial governments redistribute some of the huge 2022 personal and corporate tax windfall to consumers that mitigates the possibility of a deep deterioration in the consumer credit cycle and a surge in mortgage delinquencies at Canadian banks.

› Our asset allocation is modified this month to reflect a more uncertain geopolitical outlook due to increasing energy and food insecurity and more aggressive central banks. Our equity weighting is reduced by three points in favor of cash. Geographically, we are cutting U.S. equities by 2% to underweight and trimming Canada by 1%, which remains overweight relative to our benchmark. Fixed income remains underweight for now.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	18.5	Overweight	
Materials	11.2	Overweight	
Industrials	12.7	Market Weight	
Consumer Discretionary	3.5	Market Weight	
Consumer Staples	4.3	Market Weight	
Healthcare	0.4	Market Weight	
Financials	31.2	Market Weight	
Information Technology	5.2	Underweight	
Telecommunication Services	5.0	Market Weight	
Utilities	5.3	Underweight	
Real Estate	2.6	Underweight	
Total	100.0		

* As of September 02, 2022

The Economy

The Economy

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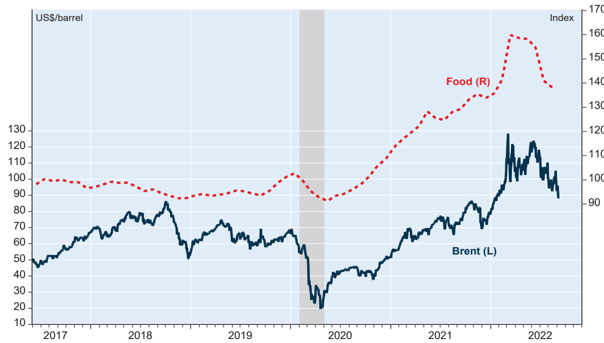
World: The 10 plagues of the Eurozone

In the last issue of this monthly letter, we wrote that a global recession could still be avoided if inflation were to subside fairly quickly as energy costs fall. We thought central banks would otherwise find themselves obliged to pursue vigorous monetary tightening that would sharply brake economic growth. Since then, developments on the inflation front have been rather mixed. Oil prices briefly slipped below $90 a barrel and food prices continued to decline from their March peak, but the factors behind this improvement were not entirely good news.

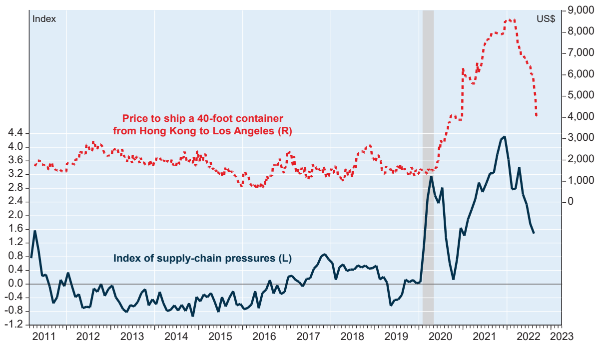
World: Declines in prices of several raw materials and staples
Brent oil price and FAO index of food prices



NBF Economics and Strategy (Bloomberg data)

On one hand, declines in prices of some staples were due to a loosening of supply-chain constraints. The New York Fed index tracking supply bottlenecks has shown international transport becoming more fluid.

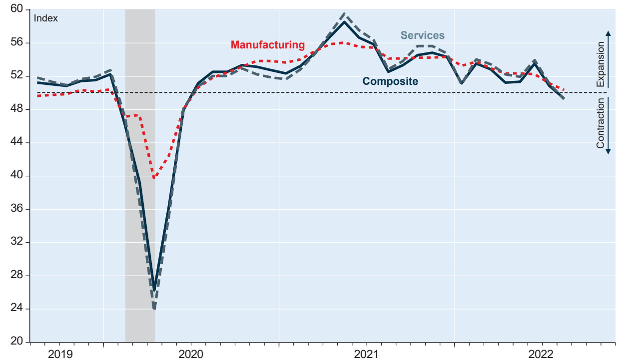
World: Loosening of supply-chain constraints
New York Fed Global Supply Chain Pressure Index and price of shipping a 40-foot container from Hong Kong to Los Angeles



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

However, we see the decline of global demand as having played a much bigger role. JP Morgan's Composite PMI signalled the first private-sector contraction in 26 months.

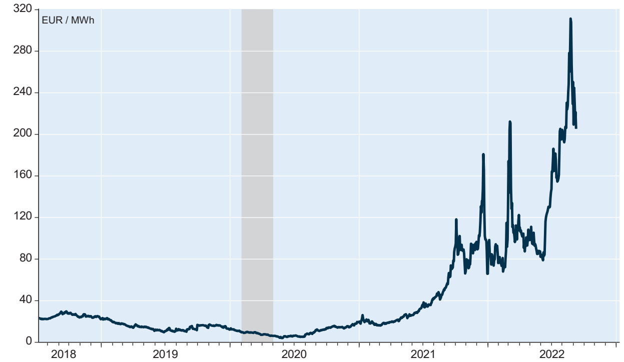
World: A flat outlook for manufacturing
JP Morgan PMIs – Manufacturing, Services and Composite



NBF Economics and Strategy (Refinitiv data)

The slowdown was especially marked in the Eurozone, where declines of prices for some items were completely eclipsed by an increase of natural gas prices after Russia cut off its deliveries to continental Europe via the Nord Stream 1 pipeline. The price of natural gas, even after a retreat in recent days, is about four times what it was a year ago.

Eurozone: Natural gas four times as expensive as a year ago
Price for delivery of natural gas to the Netherlands within one month



NBF Economics and Strategy (Bloomberg data)

In attempting to compensate for the reduction in Russian gas deliveries, Europeans have had no choice but

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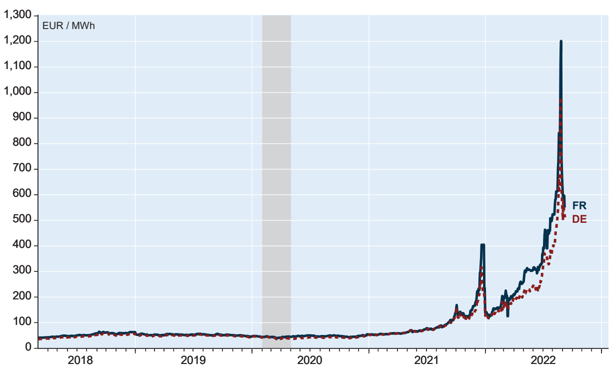
to turn to alter-native fuels such as coal whose prices have also soared. These increases are hitting consumers via a substantial rise in the price of electric power.

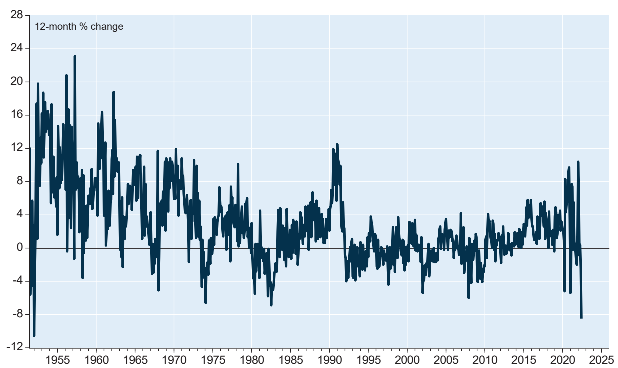
Eurozone: A big spike in electric-power futures
Base price for delivery on high-voltage lines one year ahead



NBF Economics and Strategy (Bloomberg data)

The effect is showing in household spending in the countries, notably Germany, that depend the most on Russia for gas.

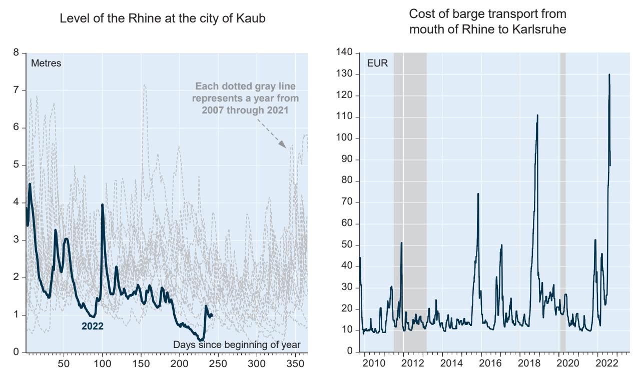
Germany: Household spending hits a wall
12-month change in constant-dollar retail sales



NBF Economics and Strategy (Refinitiv and Bloomberg data)

But the problems of the Eurozone are not limited to a simple energy-supply shock. It also faces a challenge in the form of widespread droughts that have drained several important watercourses this summer. In mid-August the waters of the Rhine were at their lowest level in 15 years. The situation was similar for the Po, the river that drains and irrigates northern Italy, and the Danube, flowing through a large swath of central and southeastern Europe. Agriculture has of course suffered, but most of the economic effect has been felt in the increased cost of river transport as low waters force a reduction of barge loads, so more vessels are required to move a given quantity of merchandise – at higher rates. This has done nothing to slow galloping inflation. It should be kept in mind that there are few alternatives to transport by water. The German rail network is saturated and trucking is beset by a serious shortage of truckers.

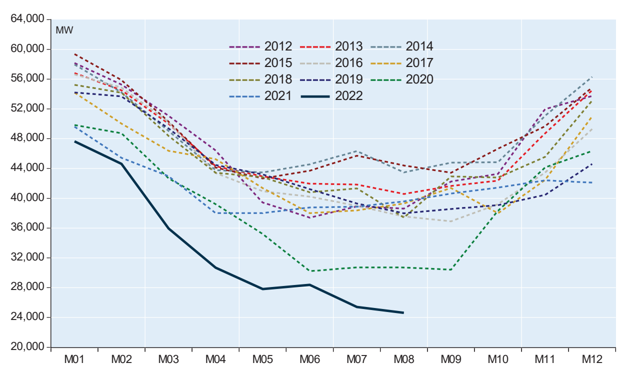
Europe: Another scarcity – water



NBF Economics and Strategy (Bloomberg data)

Drought has also aggravated the problems of electric-power supply by lowering water levels in several Norwegian hydro-electric reservoirs, leading that country to interrupt its exports to the Eurozone. A number of French nuclear power stations have also been obliged to reduce their output or shut down because the waters of the Rhône and the Garonne became too warm to cool reactors.

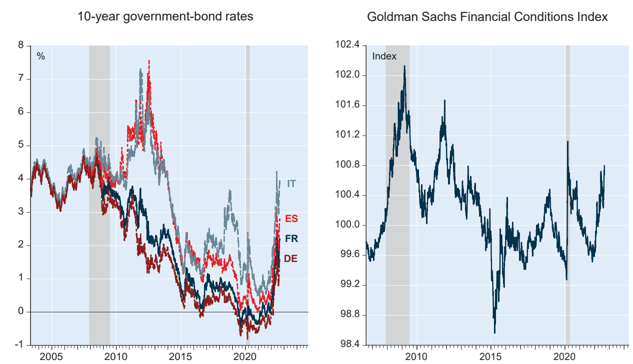
France: Electric power output … not just a gas-related problem
Nuclear power output, monthly averages



NBF Economics and Strategy (Bloomberg data)

At the same time, the European Central Bank seems to have decided that the risks associated with runaway inflation justified stiffer intervention. On September 8 the ECB hiked its policy rate 0.75 basis points, a move that could further brake growth. Long rates have also climbed sharply, since investors expect the ECB balance sheet to shrink over time and the supply of sovereign debt to increase as many governments introduce the generous household assistance programs they have announced. The result has been rapid tightening of financial conditions.

Eurozone: Rapid tightening of financial conditions



NBF Economics and Strategy (Refinitiv and Bloomberg data)

Except that slowing growth and rising interest rates could bring back to the fore some of the vulnerabilities that surfaced in the debt crisis of a decade ago. Debt levels remain high in many European countries and the rise of interest rates will not make the debt easier to service. Neither have the risks arising from exposure of European banks to the sovereign debt of their own countries disappeared, an exposure that threatens to amplify the effects of a recession that now seems inevitable.

If only other regions of the world could compensate for Euro-zone weakness. But emerging countries, with a non-negligible share of their debt denominated in USD, face a substantial appreciation of the greenback that could force more than one of them to tighten their purse strings.

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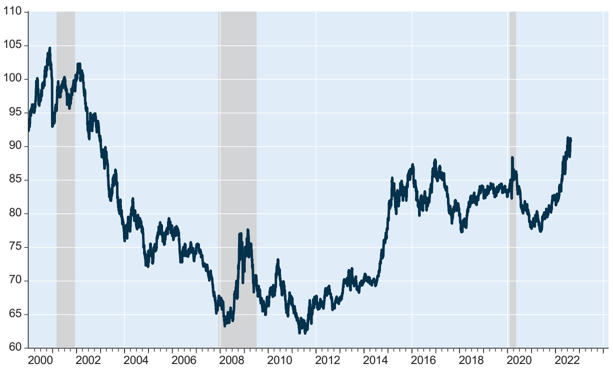
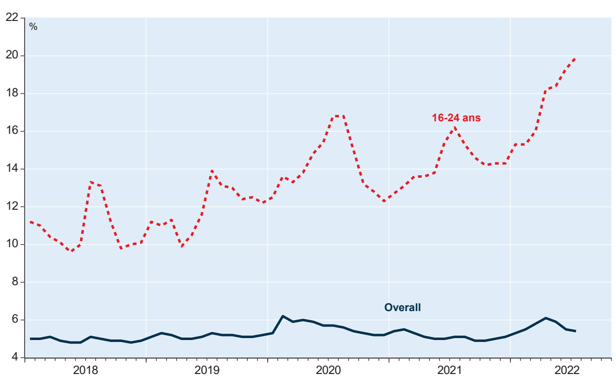
World: A strong U.S. dollar, bad news for emerging countries
Index of USD weighted by Deutsche Bank trade



NBF Economics and Strategy (Bloomberg data)

In the meantime, China sticks stubbornly to its zero-Covid policy, entailing new lockdowns in Shenzhen and Chengdu, cities with more than 10 million inhabitants. Repeated shut-downs will brake the economy. Their impact seems especially marked for young workers: the unemployment rate of Chinese 16- to 24-year-olds reached an all-time high in July.

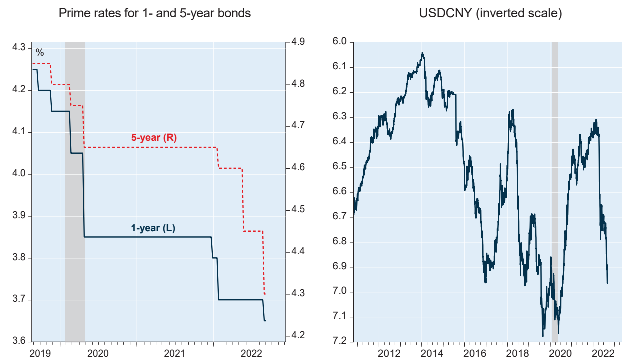
China: Young workers are bearing the cost of public-health measures
Unemployment rates



NBF Economics and Strategy (Bloomberg data)

Although these shutdowns could be lifted quickly, China would still face several challenges, including a slowing of the housing sector that is beginning to have repercussions on the banking system, and serious droughts in Sichuan that are crippling the energy network. The central bank has reacted by cutting its prime rates, but that seems to have contributed only to depreciating the currency. So it appears that a more lasting revival of the economy will require a change of attitude toward Covid-19. Until then, the growth outlook will remain disappointing.

China: People's Bank moves have depreciated the currency



NBF Economics and Strategy (Bloomberg data)

In short, we would say that the decline of some raw-material prices that we were hoping for last month has not had the expected positive results, since it has been largely offset by an increase in general uncertainty. We have consequently revised our forecast of global growth in 2022 down from 2.7% to 2.6%. Our forecast for 2023 is now 2.3%, down from 2.7% in the last issue of this letter.

World Economic Outlook

	2021	2022	2023
Advanced Economies	**5.2**	**2.3**	**0.6**
United States	5.7	1.6	0.9
Eurozone	5.2	3.0	-1.0
Japan	1.8	1.2	1.3
UK	8.3	3.4	-0.5
Canada	4.5	3.2	1.1
Australia	5.0	4.0	2.1
Korea	4.3	2.5	1.9
Emerging Economies	**6.8**	**2.8**	**3.6**
China	8.1	3.2	5.0
India	8.7	7.5	6.8
Mexico	4.8	1.8	1.5
Brazil	4.8	1.5	1.5
Russia	4.7	-7.5	-2.0
World	**6.1**	**2.6**	**2.3**

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

U.S.: The Fed's balancing act

On August 26 Fed chair Jerome Powell gave a much-awaited speech at the Jackson Hole Economic Symposium. Many of his themes had already been put forward by him or other members of the Federal Open Market Committee, but this time Powell made sure the message would be clear: the FOMC's "overarching focus right now is to bring inflation back down to our 2 percent goal" and the central bank would not hesitate to keep policy rates in restrictive territory "for some time" in order to do so. The Fed chair was also clear about the outlook for growth under conditions of monetary tightening:

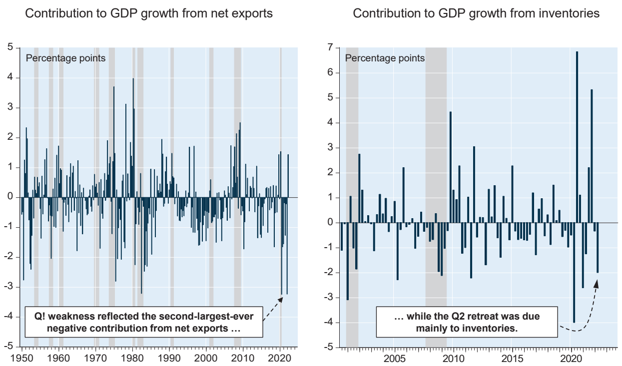
> "Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation."

The tone suggests a Fed preparing to abandon the Pollyanna scenario of its last Summary of Economic Projections (June), which foresaw the rapid rise of interest rates having practically no repercussions on the U.S. economy. By August this idea had been sorely tested by the release of Q2 GDP data showing a second consecutive quarterly contraction of real GDP, feeding discussion of whether the U.S. economy was in recession.

The discussion stems in part from the difference between a "technical" recession – two consecutive quarters of GDP con-traction – and an "official" recession, defined by the National Bureau of Economic Research (NBER) as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months." Though fairly vague, this definition excludes, in our view, the economic slowdown ob-served in the first half of the year. The contraction in the first quarter was certainly not "spread across the economy." It was due almost entirely to negative contribution of net exports, the second-largest ever. In the second quarter the losses were more widespread, but inventories played a preponderant role.

The Economy

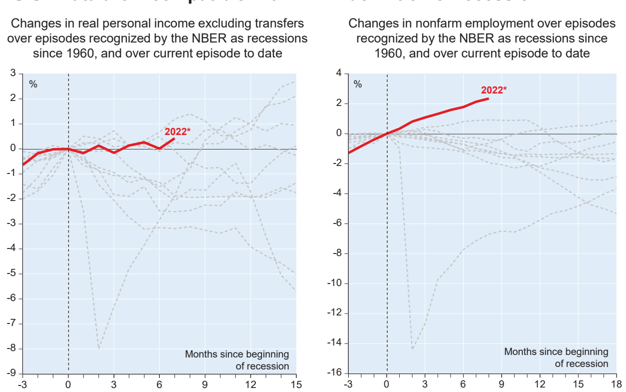
U.S.: Q1-Q2 weakness far from "spread across the economy"



NBF Economics and Strategy (Refinitiv data)

The NBER website states that in determining the peaks and troughs of the economy it looks at a "a range of monthly measures of aggregate real economic activity" but in recent decades has put the most weight on real personal income less transfers and nonfarm payroll employment. A closer look at these two indicators also shows that the Q1-Q2 period does not constitute a recession. Real personal income less transfers, instead of declining as in most previous episodes, has stayed fairly stable since January. Nonfarm employment, meanwhile, has continued to grow at a sustained pace, contrary to his-torical precedents.

U.S.: Data are incompatible with NBER definition of recession

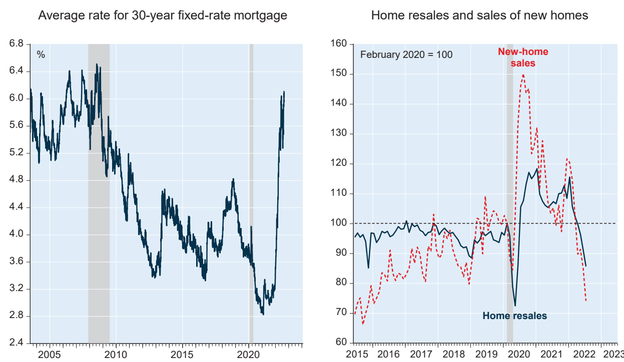


* For 2022 we assume an episode beginning in January

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

Though the U.S. economy may not be in recession, it is hardly in top shape. The sectors most sensitive to interest rates show signs of slowing. Among them are housing, now suffering from the headwind of a rapid rise in mortgage rates. Home resales have fallen 26% in the last six months, to a number now below the pre-pandemic pace. New-home sales are doing hardly better: in July they were fewer than at any time since January 2016.

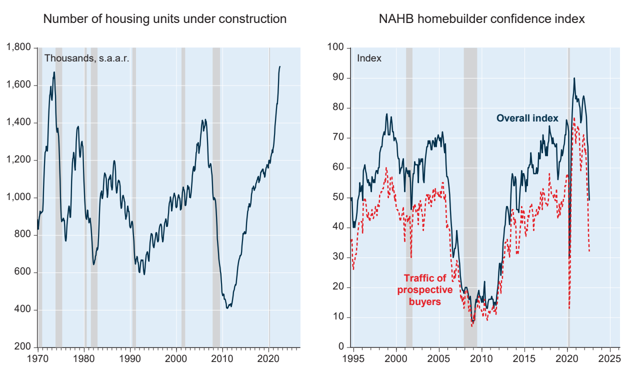
U.S.: Home sales struck by the rise of mortgage rates



NBF Economics and Strategy (Bloomberg and Refinitiv data)

One worrisome indicator is that although housing demand has recently fallen considerably, housing supply seems to be rising dramatically. The number of units under construction reached an all-time high in July, and this despite a substantial decline of the NAHB index of homebuilder confidence.

U.S.: Housing supply set to increase in a less-than-favourable market

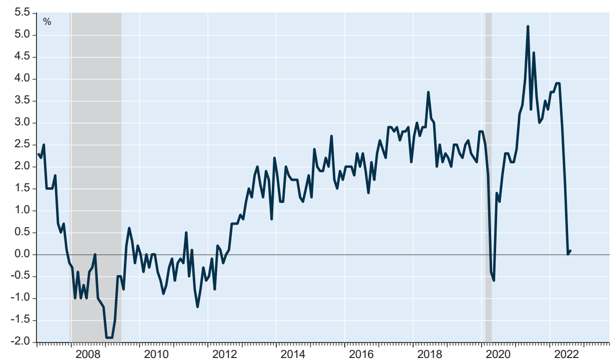


NBF Economics and Strategy (Bloomberg data)

These indicators augur nothing good for the near future. We accordingly expect a steady slowing of home resales and a decline of homebuilding by about the middle of next year. Price declines are also foreseeable, a scenario that, to judge by the University of Michigan Index of Consumer Sentiment, U.S. households no longer seem to rule out.

U.S.: Households resigned to a slowdown of the housing market

Expected change in home prices over next 12 months, University of Michigan confidence index



NBF Economics and Strategy (Bloomberg data)

Turning to business investment – another part of the economy that has historically been sensitive to interest rates – and more specifically to investment in machinery and equipment, we find that this component of GDP has recovered rapidly from the pandemic shock and has been more resilient than housing in the face of Fed rate hikes. But the latest data on orders of nonmilitary equipment excluding aircraft, a leading indicator of business investment, suggest that things are changing. In nominal terms these data seem to show investment doing very well, with orders up 10% annualized over the last three months. However, the predictive value of nominal data is questionable in a time of high inflation. For a better idea of the path of the economy, we should look at data that take price variation into account. In the current episode, a good way to proceed is to deflate orders of nonmilitary equipment excluding aircraft using an index of producer prices for private-capital-investment goods. This approach shows business investment intentions slowing considerably in recent months, a finding more in phase with the results of the NFIB survey of small businesses.

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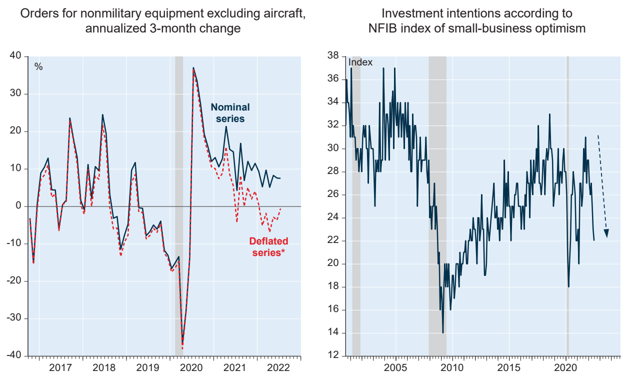
U.S.: Investment losing steam

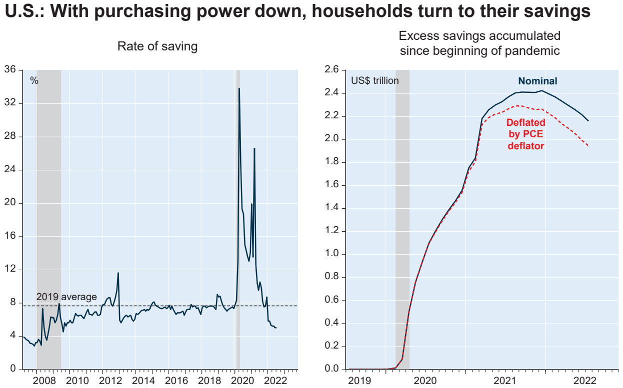


* Deflated by index of producer prices for private-capital-investment goods

NBF Economics and Strategy (Bloomberg data)

So with the housing sector in distinct decline, investment in machinery and equipment is flat. Will that be enough to send the U.S. economy into recession? Not necessarily. These two components account for only a fairly small part of domestic demand. Consumption, on the other hand, could certainly tip the scales either way. And although the growth of household spending has recently slowed somewhat, it remains positive. The excess savings accumulated during the Covid crisis is one reason. That extra cushion has allowed most households to maintain their consumption almost unchanged though their purchasing power has been much eroded by inflation. And to judge by the funds not yet deployed, excess savings could play this role for some time yet.

U.S.: With purchasing power down, households turn to their savings

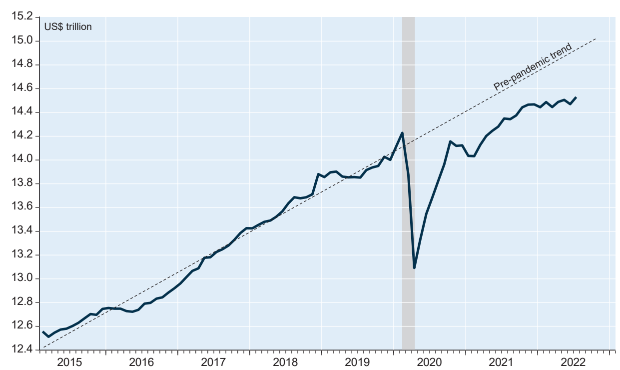


NBF Economics and Strategy (Bloomberg data)

But however substantial these funds, they cannot last forever. We see them as exhausted by the middle of next year. Since savings are not equitably distributed among income quintiles, the poorest Americans will be affected much sooner. Despite very solid employment gains over the year to date, we note that real personal income excluding transfers lags well behind its pre-pandemic trend.

U.S.: Inflation is eroding real income

Real personal income excluding transfers

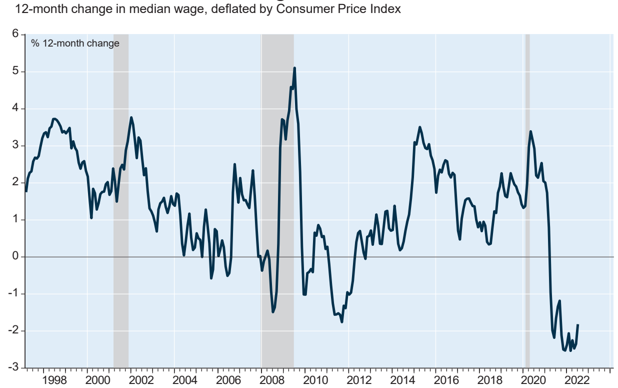


NBF Economics and Strategy (Bloomberg data)

This is because wages, despite very sustained growth, are not keeping up with inflation. Without those excess savings, consumption would probably be slowing much faster.

U.S.: A clear decline of real wages

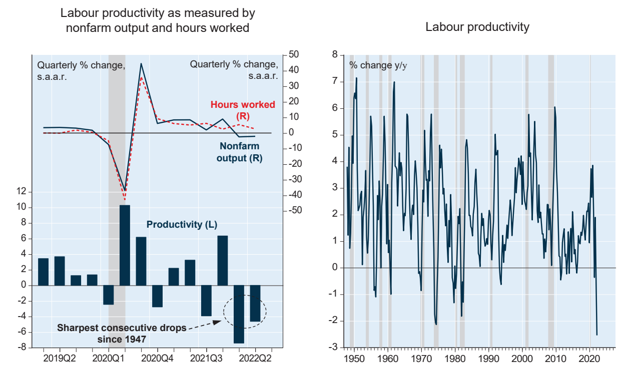
12-month change in median wage, deflated by Consumer Price Index



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

So it seems that to keep up with high inflation, household consumption will require both the cushion of excess savings and a robust labour market. We know the former will gradually dry up. As for the latter, we have reservations about its staying power. Keep in mind that productivity was in free fall during the first half of the year – producers were producing less with more personnel. In our view, such marginally declining labour productivity cannot continue for long, which could soon mean hiring freezes if not outright layoffs.

U.S.: Sharpest productivity drop in at least 75 years

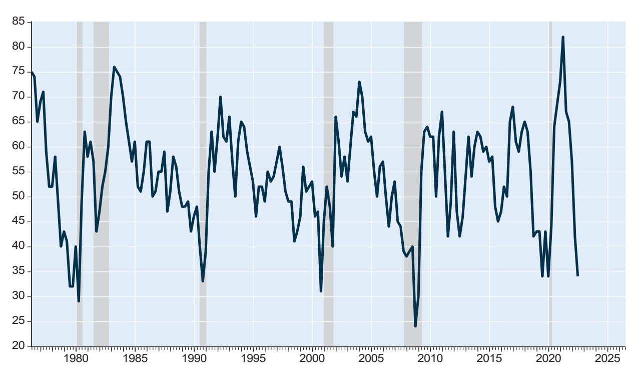


NBF Economics and Strategy (Bloomberg data)

This situation combined with less rosy economic perspectives have led to a sharp decline of confidence among business leaders. Such a trend is rarely propitious for hiring.

U.S.: CEO confidence in free fall

Conference Board Measure of CEO Confidence



NBF Economics and Strategy (Refinitiv data)

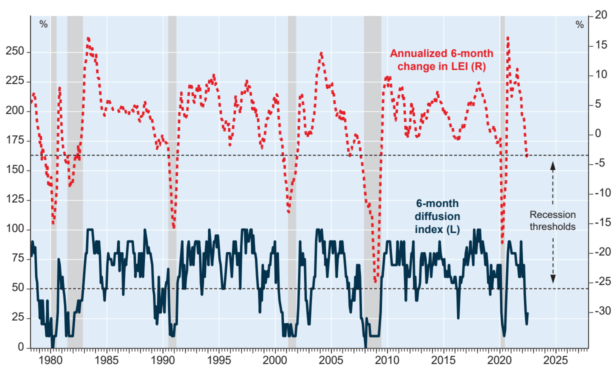
Some will say that a slowing of the labour market is exactly what the Fed is seeking at this point. This is in effect what Jerome Powell was saying in his Jackson

The Economy

Hole speech when he noted that bringing inflation back under control would entail some economic pain. Though we do not entirely disagree with this view in theory – a higher unemployment rate would help brake inflation – we remain aware that it has always been extremely difficult to bring off a soft landing in the past. It is a rule that a 12-month increase of 0.5 percentage points or more in the three-month moving average U.S. unemployment rate leads almost inevitably to recession (Sahm rule). The Fed seems bent on putting this rule to the test in the coming months.

Our own expectation is that the consequences of monetary tightening will be greater than the Fed is implying. That at least is what the Conference Board Leading Economic Index (LEI) suggests. A historical analysis shows that a six-month drop of 3.5% annualized in the LEI together with a diffusion index of less than 50% over six months is generally symptomatic of a coming recession. These conditions were almost met in July – a six-month drop of 3.2% annualized and a diffusion index of 30% over six months. Such numbers suggest that a recession can still be avoided, but not without cost to the economy.

U.S.: Leading indicators point to growth slowdown
Conference Board Leading Economic Index



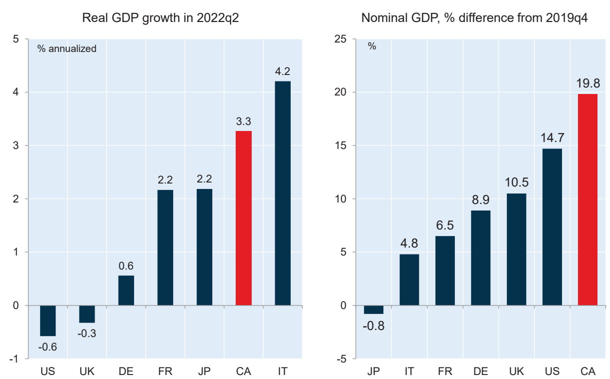
NBF Economics and Strategy (Source: Conference Board via Refinitiv)

Consequently we expect to see, after a rebound on the whole modest in Q3, several quarters of U.S. economic growth below potential. We have accordingly revised down our growth fore-cast for 2022 to 1.6% from 2.0%. We have also lowered our 2023 forecast, to 0.9% from 1.4%.

Canada: A slippery slope

In hiking its policy rate another 75 basis points on September 7, the Bank of Canada once again opted for a big jump. The cumulative increase since March is now a full 3 percentage points. This is huge, and the Bank's evaluation of the vigour of the economy and inflationary pressures indicates that it does not intend to stop there. Its latest statement emphasizes the strength of the economy in the second quarter. True, the 3.3% annualized growth of that quarter was the second best of the G7. It was helped by the easing of public-health measures, which fuelled consumption of services during the quarter. In nominal terms the growth was even more surprising – 17.9% annualized, with record terms of trade propelled by the war in Ukraine. Nominal GDP is now 20% above its pre-pandemic level, by far the best showing in the G7.

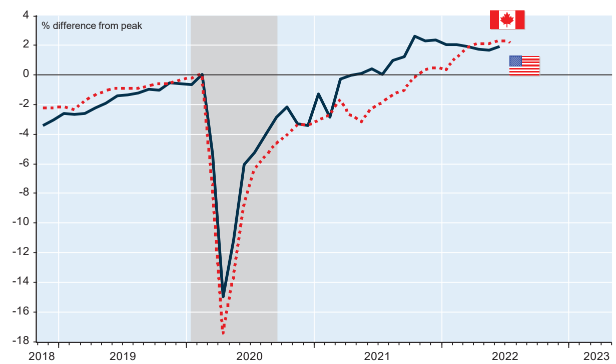
Canada: An enviable economy in Q2 2022



NBF Economics and Strategy (data via Refinitiv)

The quarterly data can mask certain weaknesses that the Bank does not mention in its statement. The monthly GDP numbers show a stagnation of real GDP in the three months ending with the flash estimate for July.

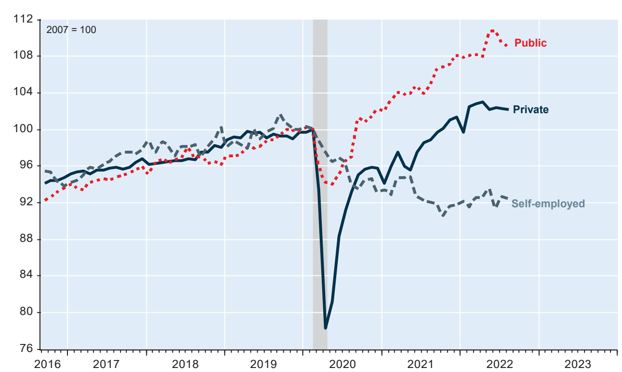
Canada: Strong beginning of the year but losing momentum
% difference between monthly real GDP and peak of February 2020



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

This weakness is corroborated by employment data showing signs of slowdown. Three consecutive monthly employment declines (totalling 114,000) are rare in Canada. The last time that happened was in 2015, when the global economy was feeling the effects of a Chinese slowdown that (in tandem with excess supply on the oil market) was weighing on energy prices. For the moment we think it unnecessary to push the panic button, since some factors in the current employment decline leave us puzzled. In particular, the cumulative decline of 82,000 jobs in education over three months is atypical. But employment in the private sector has been falling since April.

Canada: Public and private employment trending down
Public sector, private sector and self-employment



NBF Economics and Strategy (data via Statistics Canada)

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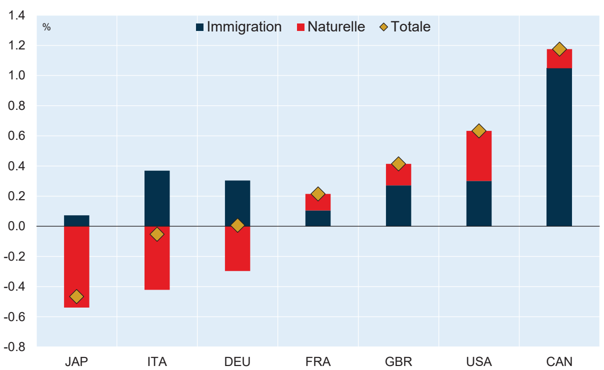
The August loss of 40,000 jobs had a disproportionate effect on the unemployment rate, which rose no less than half a point to 5.4%. True, a rise in the participation rate contributed to this increase, but there was also astounding growth of 49,000 in the population aged 15 or older during the month, the third-largest monthly rise ever. Immigration is running high these days, as attested by the latest Statistics Canada projections (Special Report). This prospect is encouraging for potential GDP of coming years, but in the event of hiring freezes or, worse, layoffs, the unemployment rate could rise rapidly when the population is growing fast.

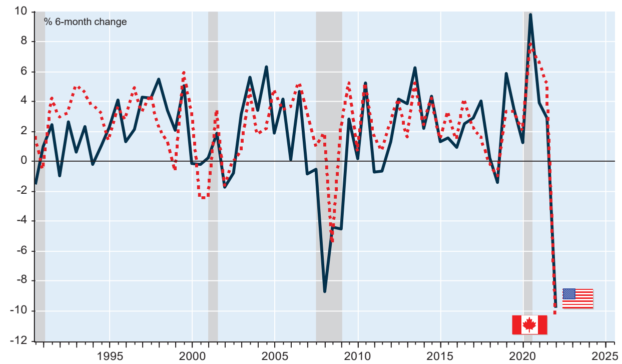
Canada: Projected population growth is the strongest of the G7
Projected average annual population growth, 2022 to 2032



NBF Economics and Strategy (data via Statistics Canada, Eurostat, U.S. census)

There is another factor that could weigh on consumption. Statistics Canada just released its household balance sheet data for Q2. It highlights a 6% decline in household net worth during the quarter, the largest drop on record (the data series begins in 1990). Not to rub salt in the wound, but the situation is even worse than first appears: household wealth has been eroded by pernicious inflation since the beginning of the year. Real household wealth declined more than 10% in the first half of 2022. That is nearly twice as much as in the previous worst six-month period, at the height of the 2008 financial crisis. There are multiple transmission channels for monetary policy and one of them is its impact on wealth and the resulting effect on consumer confidence. The large hit to wealth in the first half of 2022 could hurt consumption in coming quarters.

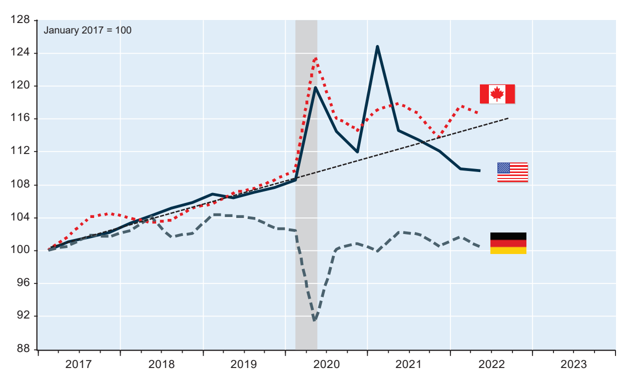
Canada: Inflation amplified the decline of household wealth in H1 2022
Household net wealth deflated by CPI – Canada and U.S.



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

Though the evolution of wealth in the first half of the year was the same for Canadian and U.S. households, the paths of their incomes were different. Real household incomes, i.e. adjusted for inflation, have been trending down for a year in the U.S. while remaining above trend in Canada. Household rates of saving are another factor illustrating stiffer financial pressures in the U.S., whose household rate of saving is now lower than before the pandemic while that of Canadians remains higher. But let there be no illusion: consumption will be weakened in Canada as well by the payment shock resulting from rising interest rates (Special Report).

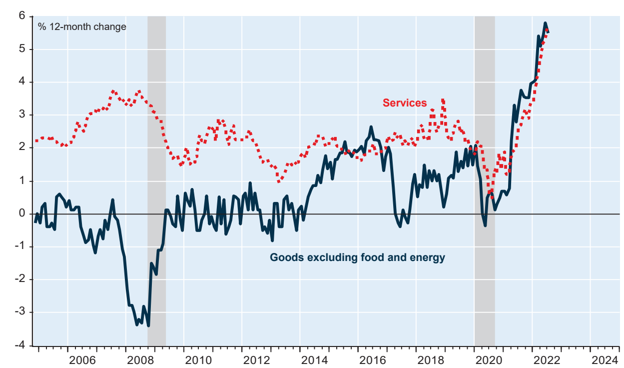
Canada: Real disposable income is still above trend
Real disposable income – Canada, U.S. and Germany



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

Moreover, the latest Canadian inflation numbers do not seem to have eased the worries of the central bank. Its most recent statement noted the slowing of 12-month overall inflation to 7.6% from 8.1%, but added that, excluding gasoline, it had ac-celerated, especially in services. However, there were upsides in the report that the central bank passed over in silence. First, the decline of the price of oil, and therefore gasoline (which continued in August and September), is good news in itself and, if history is a guide, will be reflected, with some time lag, in disinflation of other components because of lower transportation costs, among other factors. As for prices of goods other than energy and food, the moderation of their inflation from the frenetic pace of recent months is a step in the right direction.

Canada: Have goods prices begun to moderate?
Changes in consumer price indexes – services and goods excluding food and energy



NBF Economics and Strategy (data via Statistics Canada)

There is a risk that in focusing its conduct of monetary policy on service prices, a lagging indicator, the central bank will miss inflation turnaround points and will go too far in its tightening. We think it should stick to core inflation measures, whose monthly rises are still too high but much less worrisome than over the previous six months.

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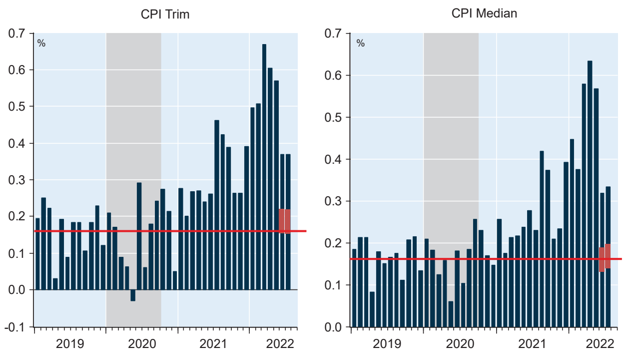
Canada: Inflation pressures moderating
% monthly change in CPI Trim and CPI Median



NBF Economics and Strategy (Statistics Canada data, NBF calculations)

The Bank of Canada's message is unequivocal. It intends to take interest rates further into restrictive territory next month even though, in our view, there have been encouraging global developments on the inflation front, such as a decline of energy prices and transportation costs and an attenuation of supply-chain problems. The Bank of Canada is on a slippery slope. Its full-throttle action together with the lag in transmission of monetary policy leave it insufficient time to assess the effect of its actions and adjust as needed. Unfortunately we will learn only after the fact whether it has gone too far. So it is normal for observers to be anxious. One thing is certain: we are already seeing a marked slowdown of the economy and the labour market, suggesting to us that rates at such levels will not be needed for long (we anticipate easing in the second half of next year). Given monetary tightening more pronounced than anticipated, we are lowering our forecast of economic growth to 3.2% from 3.5% in 2022 and to 1.1% from 1.5% in 2023. We think the Canadian economy can still avoid recession. Its large resource sector enjoys prices that are still advantageous, its governments are high-spending and its households have benefited from a dynamic labour market and excess savings.

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	1.6	0.9	5.5	(0.0)	1.2
Consumption	2.2	(3.8)	7.9	2.4	1.2	6.9	1.5	1.1
Residential construction	(0.9)	6.8	9.2	(6.6)	(4.5)	(1.5)	(9.2)	0.5
Business investment	4.3	(5.3)	7.4	4.2	1.7	6.6	3.7	1.6
Government expenditures	2.2	2.5	0.5	(1.3)	1.1	0.1	(0.4)	1.2
Exports	(0.1)	(13.6)	4.5	6.8	3.3	4.9	5.6	1.9
Imports	1.2	(8.9)	14.0	8.7	0.5	9.6	4.3	1.4
Change in inventories (bil. $)	75.1	(42.3)	(32.6)	94.3	31.3	193.2	45.0	50.0
Domestic demand	2.4	(2.5)	6.5	1.6	1.0	5.3	1.0	1.1
Real disposable income	2.3	6.2	2.3	(5.5)	0.9	0.1	-1.8	1.1
Payroll employment	1.3	(5.8)	2.8	3.9	1.0	4.3	2.7	0.7
Unemployment rate	3.7	8.1	5.4	3.7	4.1	4.2	3.8	4.0
Inflation	1.8	1.3	4.7	7.9	2.9	6.7	6.7	1.8
Before-tax profits	2.7	(5.2)	25.0	6.3	0.1	21.0	1.3	3.1
Current account (bil. $)	(446.0)	(619.7)	(949.0)	(1,079.0)	(995.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 9/09/22	*Q3 2022*	*Q4 2022*	*Q1 2023*	*Q2 2023*	*2021*	*2022*	*2023*
Fed Fund Target Rate	2.50	3.25	3.75	3.75	3.75	0.25	3.75	3.00
3 month Treasury bills	2.98	3.26	3.60	3.55	3.35	0.06	3.60	2.75
Treasury yield curve								
2-Year	3.56	3.55	3.45	3.25	3.00	0.73	3.45	2.70
5-Year	3.45	3.45	3.30	3.20	3.05	1.26	3.30	2.85
10-Year	3.33	3.35	3.25	3.20	3.15	1.52	3.25	3.05
30-Year	3.47	3.50	3.40	3.35	3.30	1.90	3.40	3.20
Exchange rates								
U.S.$/Euro	1.00	0.99	1.01	1.04	1.05	1.14	1.01	1.06
YEN/U.S.$	142	142	140	132	128	115	140	123

*** end of period*

Quarterly pattern

	Q2 2021 actual	*Q3 2021 actual*	*Q4 2021 actual*	*Q1 2022 actual*	*Q2 2022 actual*	*Q3 2022 forecast*	*Q4 2022 forecast*	*Q1 2023 forecast*
Real GDP growth (q/q % chg. saar)	6.7	2.3	6.9	(1.6)	(0.6)	1.2	0.8	0.5
CPI (y/y % chg.)	4.8	5.3	6.7	8.0	8.6	8.2	6.7	5.0
CPI ex. food and energy (y/y % chg.)	3.7	4.1	5.0	6.3	6.0	6.2	5.6	4.6
Unemployment rate (%)	5.9	5.1	4.2	3.8	3.6	3.7	3.8	4.0

National Bank Financial

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The Economy

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.5	3.2	1.1	3.2	2.0	1.2
Consumption	1.4	(6.2)	5.0	5.2	1.5	5.2	3.5	1.1
Residential construction	(0.2)	4.3	15.3	(8.4)	(5.7)	(0.4)	(9.0)	(2.8)
Business investment	2.5	(12.1)	2.3	6.9	0.2	7.0	3.1	1.7
Government expenditures	0.8	0.9	5.6	1.6	1.5	3.6	1.1	1.8
Exports	2.3	(9.7)	1.4	3.4	5.0	0.8	4.2	3.7
Imports	0.4	(10.8)	7.7	6.5	2.7	5.7	4.2	3.5
Change in inventories (millions $)	18,377	(18,720)	(2,361)	20,965	11,525	5,259	11,000	11,900
Domestic demand	1.2	(4.1)	5.6	3.0	0.7	4.1	1.6	1.0
Real disposable income	3.0	8.2	0.3	0.5	0.5	(0.6)	2.7	0.9
Employment	2.2	(5.1)	4.8	3.5	0.4	4.2	1.4	0.6
Unemployment rate	5.8	9.6	7.4	5.4	5.9	6.3	5.5	6.0
Inflation	1.9	0.7	3.4	6.6	2.6	4.7	5.9	2.0
Before-tax profits	(0.6)	(1.9)	32.3	15.3	(6.1)	15.7	11.0	0.9
Current account (bil. $)	(47.0)	(39.4)	1.1	8.0	(5.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 9/09/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Overnight rate	3.25	3.25	3.75	3.75	3.75	0.25	3.75	3.00
Prime rate	5.25	5.25	5.75	5.75	5.75	2.25	5.75	5.00
3 month T-Bills	3.36	3.60	3.75	3.75	3.50	0.17	3.75	2.95
Treasury yield curve								
2-Year	3.62	3.70	3.55	3.35	3.10	0.95	3.55	2.90
5-Year	3.26	3.35	3.25	3.20	3.15	1.26	3.25	3.05
10-Year	3.13	3.25	3.20	3.15	3.15	1.43	3.20	3.10
30-Year	3.15	3.25	3.25	3.20	3.15	1.68	3.25	3.10
CAD per USD	1.30	1.32	1.29	1.25	1.22	1.26	1.29	1.26
Oil price (WTI), U.S.$	84	87	90	88	87	75	90	85

*** end of period*

Quarterly pattern

	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast
Real GDP growth (q/q % chg. saar)	(3.1)	5.3	6.6	3.1	3.3	1.0	0.7	0.7
CPI (y/y % chg.)	3.4	4.1	4.7	5.8	7.5	7.0	5.9	4.5
CPI ex. food and energy (y/y % chg.)	2.1	3.0	3.2	4.0	5.1	5.5	5.3	4.7
Unemployment rate (%)	7.9	7.2	6.3	5.8	5.1	5.2	5.5	5.8

National Bank Financial

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	1.6	1.2	2.3	-10.7	13.6	13.2	0.1
Prince Edward Island	4.7	-1.7	3.1	2.1	1.0	6.6	0.9	8.8	7.2	2.2
Nova Scotia	3.0	-2.5	3.4	2.0	0.8	3.7	0.7	8.7	7.2	1.6
New Brunswick	1.3	-3.2	3.2	1.8	0.7	2.4	-1.3	9.4	7.5	1.2
Quebec	2.8	-5.5	5.6	3.6	1.0	4.7	-2.4	12.5	10.4	2.2
Ontario	2.0	-5.1	4.3	3.1	0.9	3.7	-2.8	11.9	9.1	2.4
Manitoba	0.4	-4.6	3.4	2.8	0.9	0.7	-1.4	10.5	10.6	1.2
Saskatchewan	-1.1	-4.9	4.0	4.2	1.7	-0.4	-6.6	18.1	25.5	-0.8
Alberta	-0.1	-7.9	4.8	4.0	1.9	1.5	-16.1	20.2	20.6	-0.5
British Columbia	3.1	-3.4	4.4	2.9	1.1	4.6	-0.5	12.5	8.9	0.1
Canada	1.9	-5.3	4.5	3.2	1.1	3.6	-4.6	13.0	11.6	1.3

	Employment (% growth) 2019	2020	2021e	2022f	2023f	Unemployment rate (%) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	3.4	0.2	12.3	14.1	12.9	11.0	11.2
Prince Edward Island	3.4	-3.2	3.7	7.0	0.7	8.6	10.6	9.4	7.4	8.0
Nova Scotia	2.3	-4.7	5.4	3.0	0.3	7.3	9.7	8.4	6.9	7.2
New Brunswick	0.7	-2.6	2.6	1.8	0.3	8.2	10.0	9.0	7.2	7.5
Quebec	2.0	-4.8	4.2	2.4	0.3	5.2	8.8	6.1	4.4	4.9
Ontario	2.8	-4.7	4.9	4.2	0.4	5.6	9.5	8.0	5.6	6.4
Manitoba	1.1	-3.7	3.5	2.2	0.5	5.4	8.0	6.4	4.5	4.8
Saskatchewan	1.7	-4.6	2.6	3.3	0.7	5.6	8.3	6.5	4.5	4.9
Alberta	0.6	-6.5	5.2	5.0	1.0	7.0	11.5	8.6	5.5	5.4
British Columbia	2.9	-6.5	6.6	2.8	0.5	4.7	9.0	6.5	4.8	5.1
Canada	2.2	-5.1	4.8	3.5	0.4	5.7	9.6	7.4	5.4	5.9

	Housing starts (000) 2019	2020	2021e	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.5	1.1	1.0	0.2	3.7	6.5	2.9
Prince Edward Island	1.3	1.1	1.2	1.0	0.9	1.2	0.0	5.1	8.7	3.0
Nova Scotia	4.7	4.9	6.0	5.3	4.2	1.6	0.3	4.1	7.3	2.8
New Brunswick	2.9	3.6	4.0	4.7	2.0	1.7	0.2	3.8	7.1	3.1
Quebec	48.0	54.2	71.2	62.7	52.5	2.1	0.8	3.8	6.3	3.4
Ontario	69.0	81.3	101.2	87.7	78.5	1.9	0.6	3.5	6.5	2.8
Manitoba	6.9	7.3	8.0	7.5	7.0	2.3	0.5	3.2	7.2	2.9
Saskatchewan	2.4	3.1	4.3	4.3	3.0	1.7	0.6	2.6	6.3	2.7
Alberta	27.4	24.1	32.1	38.3	30.2	1.7	1.1	3.2	6.2	2.5
British Columbia	45.1	38.0	47.7	42.9	33.0	2.3	0.8	2.8	6.6	3.3
Canada	208.5	218.4	276.8	255.9	212.4	1.9	0.7	3.4	6.6	2.6

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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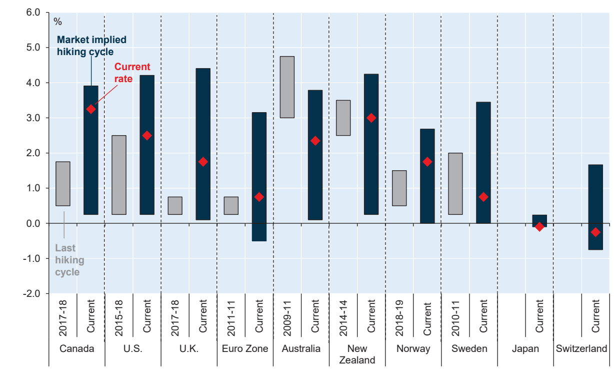
Testing one's resolve

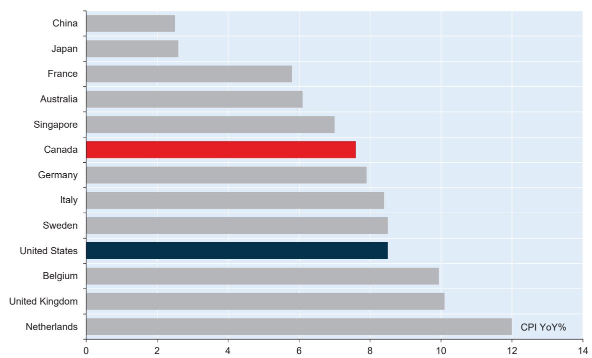
This issue of Fixed Income Monitor—the first since early summer—lands amidst a veritable onslaught on monetary policy tightening. In the past week alone, monetary authorities in Australia, Canada and Europe all delivered as-expected albeit no-less-than-extraordinary hikes to their respective policy rates. The BoE waits in the wings, another serious rate hike locked and loaded, while the U.S. Fed—the biggest influencer of all—is all-but-certain to deliver another aggressive near-term dose of monetary tightening.

BoC leads the way on hikes but virtually all central bank are tightening
Current central bank policy rates (red), market-implied hiking cycle (blue) & prior hiking cycle range (grey)



NBF Economics and Strategy (data via Bloomberg) | Note: Peak policy rate is estimated using MIPR page on Bloomberg and meeting gap OIS. When an implied rate for a specific meeting is higher than 3M/6M/1Y/2Y/3Y policy expectation via MIPR, it is used as the peak rate in this chart. Max. fed funds rate reflects upper bound of target. The difference between the upper bound and effective rate is added to the peak implied rate in this chart. Last hiking cycle for selected central banks only shown if it occurred post 2010 (i.e., excludes BoJ/SNB).

Global inflation – it's everywhere (for now)
Latest CPI YoY% readings from G13 countries

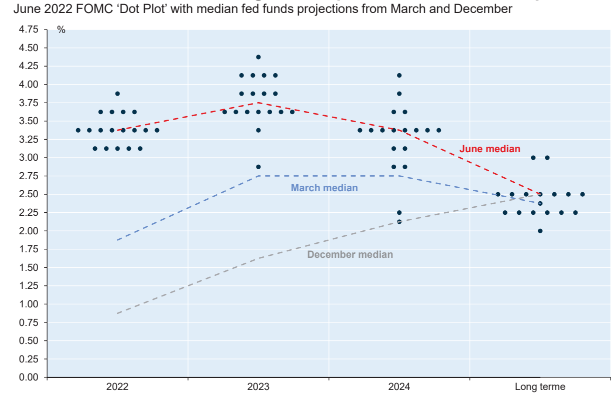


NBF Economics and Strategy (data via Bloomberg)

Few are presumably in the habit of making New Year's Resolutions in September, but 'resolute' is very much the watch-word for central bank chiefs these days. If not obvious, the pledge or 'resolution' is to act… and act forcefully… in the face of a still-discomforting inflation situation in North America, across the pond, Down Under or almost anywhere you look.

We don't doubt the earnestness of these policy pledges, at least in the near term. Indeed, some of the biggest changes to our interest rate outlook—relative to our prior forecast—involve incorporating more tightening by both the Fed and the BoC before 2022 is out. We believe the Bank of Canada when they tell us rates still have higher to go. And the Fed's upcoming 'dot plot', set to accompany what we believe will be another 75 bp hike on September 21st, will imply additional tightening in the final quarter of the year. For her part, ECB President Lagarde has flagged another couple hikes (and perhaps as many as four) in order to wrestle inflation under control.

2022 dots could be revised higher in September based on Fed speak
June 2022 FOMC 'Dot Plot' with median fed funds projections from March and December



NBF Economics and Strategy (data via Federal Reserve)

In the near-term then, it's a higher terminal rate than previously envisaged. As per the interest rate forecast table on page 1, we see 3.75% as the likely setting by late October (BoC)/early November (Fed). That would amount to a cumulative 350 bps of tightening in less than three quarters, on top of ongoing balance sheet remediation. We're talking monetary policy tightening on a grand and rapid scale, fanned by raging consumer price behavior and labour markets that are simply too tight (from a wage and price stability perspective). For now, there's an

Interest Rates and Bond Markets

expressed tolerance for 'pain' to quote Jay Powell. Indeed, you might say slow or negative GDP growth, marginal labour market slack and housing market corrections are being actively invited, viewed in a sense as necessary but not necessarily sufficient conditions to achieve price stability.

While the size and speed of policy rate hikes stand in marked contrast to tightening episodes of yore, the global economy remains sensitive to the removal of monetary accommodation. And even if there's little to show for it in the here and now, we continue to see the seeds of tamer inflation ahead. Refer to our fresh issue of *Monthly Economic Monitor* for a more sober take on growth and an expectation of material inflation relief, all of which suggests neither the Fed nor the BoC may ultimately need or achieve a 4-handle on their policy rate.

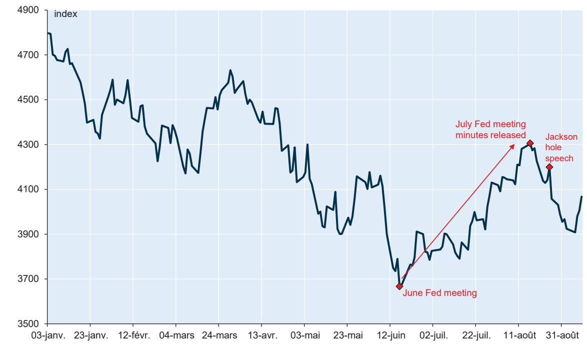
There's clearly an element of data dependency here, and we admit to a degree of uncertainty/anxiousness as it relates to inflation—CPI having proven so stubborn for so long. Notwithstanding the apparent and frankly welcome resolve to get inflation under control, we're of a mind that progress could come quicker than some currently discount. Does that mean a pivot to lower rates in 2023? We believe so, with both the Fed and the BoC likely to steer policy rates into more neutral territory in the latter half of next year (easing further as extraordinary tightening and the resulting economic slowdown delivers even more meaningful inflation relief in 2024).

Fed: No 'pain' and no gain

For a time, it appeared we had the makings of a Fed pivot: two consecutive quarters of negative growth. While we weren't ready to call it a recession, as we outlined in our *Monthly Economic Monitor*, there was no question the economy was slowing meaningfully. Market expectations for Fed tightening were pared from mid-June's ultra-hawkish expectations. The July Fed meeting, which despite an extraordinary 75 bp hike, had some dovish elements to it (discussing the need to slow the pace of rate hikes, the risks of overtightening and the lagged effects of policy tightening to date) and that only added to relief.

'Bad news' was good news for risk assets too. Credit tightened comfortably and equities ripped higher off the lows. There was only one problem: inflation. While there had been some signs off price pressures easing (most notably on gas prices), the level at which inflation stood and, more importantly, the underlying momentum was far too great for the Fed make any sort of victory declaration.

'Talking tough' on inflation meant to deteriorate financial conditions
S&P 500 index level in 2022



NBF Economics and Strategy (data via Bloomberg)

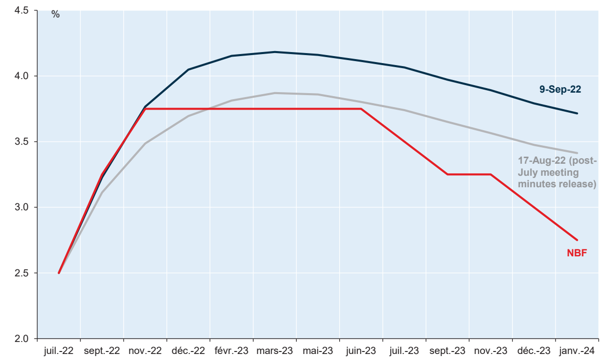
Cue Jackson Hole in late August. In the lead-up to the annual symposium, we heard FOMC participants push back against the market's assumed pivot. That all culminated in a short and anything-but-sweet speech from Jerome Powell:

> "Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy."
>
> "Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."
>
> "While the lower inflation readings for July are welcome, a single month's improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down."
>
> History shows that the employment costs of bringing down inflation are likely to increase with delay, as high inflation becomes more entrenched in wage and price setting. The successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years.... Our aim is to avoid that outcome by acting with resolve now.

If there was any doubt of the Fed's resolve, that should have been cleared up after hearing Powell speak. You'd have a very tough time finding anything dovish. Of course, that's very much by design.

Markets have now settled around a Fed funds terminal rate near 4%. Cuts are still expected thereafter but less so than before. As we detail later in our monitor, the higher trajectory for rates (than we'd earlier anticipated) only increases our conviction that meaningful economic damage will be delivered, which will ultimately lead to the Fed tapping out earlier than currently expected and delivering meaningful interest rate cuts well before they're willing to signal now.

Jackson hole speech pushed up rate expectations, we remain skeptical
Fed fund futures-implied policy rate: After July meeting minutes were releases, current and NBF projections



NBF Economics and Strategy (data via Bloomberg) | Note: Implied policy rate adjusts to reflect upper bound of target range, assuming current spread between effective fed funds and the upper bound of the target remain unchanged.

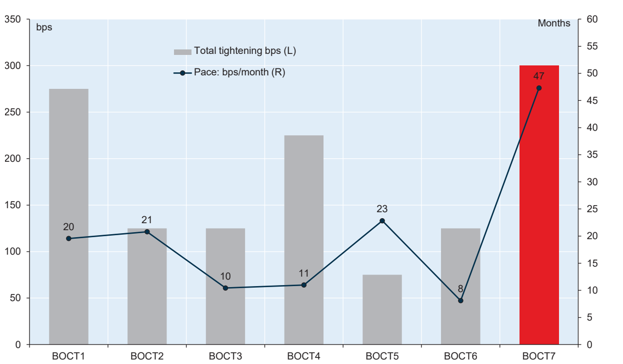
The 'front-loading' continues in Ottawa

The Bank of Canada continued a rapid and 'front-loaded' (their words, not ours) tightening cycle in September. While the pacing of rate hikes technically slowed, a 75 bp increase (after 100 bps eight weeks earlier) can't be characterized as anything other than extraordinary. Add it up and there's been 300 basis points of rate hikes over the last six months—far and away the fastest pace of tightening we've seen since the 1990s. Heck, the 175 bps of hikes introduced over the last two meetings is more than the entire tightening cycle in 2017-18 which spanned 15 months.

Interest Rates and Bond Markets

How much further can/will the Bank of Canada go? Certainly, they can go a lot higher still. Quite simply, inflation and inflation momentum remain too high for the BoC to feel comfortable. The labour market, despite three months job losses reported in the Labour Force Survey, remains tight. Yes, we've seen housing market activity plummet. Yes, growth in GDP is in the process of slowing. But these are all by design and are hardly a signal of *significant* economic duress. As Senior Deputy Governor Rogers conceded in her post-meeting press conference, monetary policy acts with a lag. The rate hikes implemented since March may not be fully felt for up to two years. If the BoC truly wants to wait until clear and convincing evidence of significant economic weakness, they may have the green light to hike into 2023. That means they could push rates to or north of 4%, particularly if outsized rate hikes (i.e., greater than 25 bps) remain in the cards.

Both on pacing & amount, this is the most aggressive hiking cycle in decades
Total tightening (in bps) and the pace of hikes (basis point per month): Prior 6 hiking cycles and cycle to date



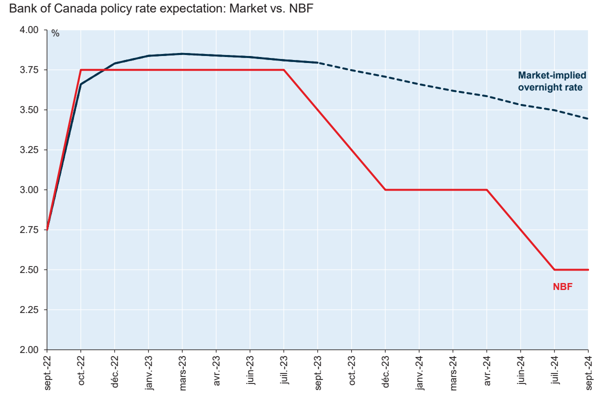
NBF Economics and Strategy (data via Bloomberg)

The question of will they bring policy rates that high is more nuanced and yields a different answer in our view. As noted before, the BoC knows their decisions impact the economy and inflation with a lag. They are well aware of Canadians' elevated levels of household debt. We don't believe they'd *like* to push rates above 4% but showing any weakness on the inflation fight at this juncture could be detrimental. Indeed, a technical U.S. recession led to a significant paring of rate hike expectations and a resulting rally in risk assets in the summer. Loosening financial conditions at a time of inflation ~4X the target is not a desirable situation and forced the Fed to push back.

This is why, in our opinion, the Bank has kept its medium-term rate guidance vague and largely remained off of the speaker circuit over recent months. They've simply reiterated that interest rates "will need to rise further", providing no indication of how much further or the slope of rate path that we'll be on. The lack of guidance—Senior Deputy Governor Rogers wouldn't even say if large rate hikes are still on the table—is frustrating for forecasters but provides the Bank of Canada more flexibility than their American counterparts who are forced to lay out an updated 'dot plot' every three months. That said, if market expectations were seriously disconnected from the BoC's own thinking, the communication strategy and related guidance might be different. So perhaps, the silence is telling.

Our revised forecast is largely in line with OIS-pricing over the near term. We now project a 50 basis point rate hike in October, bringing the policy rate to 3.75% and marking the end of the tightening cycle. We concede the risks to the forecast may still be skewed to one additional rate hike in December, but we do believe that by that time, there will be some more evidence of economic weakness and, importantly, continued easing inflation momentum. To be sure, it's the latter (i.e., inflation) that will be most important in determining the length of the cycle. And on this front, we've been encouraged by recent developments.

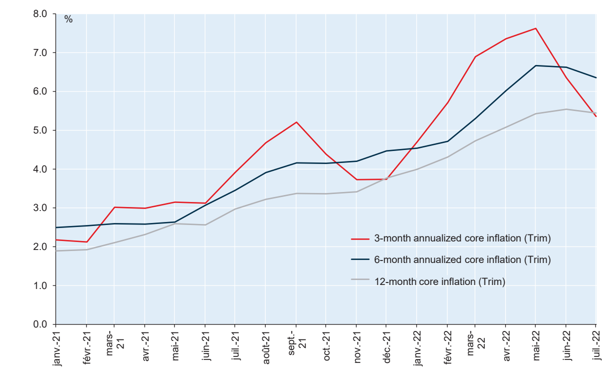
Near-term alignment with market on BoC, but see more significant cuts sooner
Bank of Canada policy rate expectation: Market vs. NBF



NBF Economics and Strategy (data via Bloomberg)

Firstly, inflation, including short-term price pressures remain far too high. But momentum has started waning, and not just in gasoline price-influenced all-items inflation. We've seen a deceleration in core inflation too.

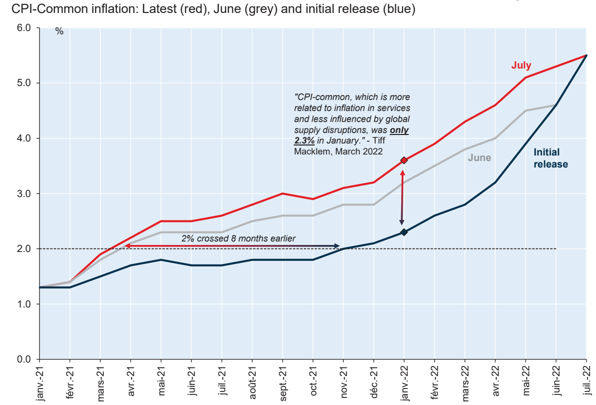
3-month annualized inflation is now below 6-month (and technically Y/Y)
3M, 6M and Y/Y CPI-Trim inflation since 2021



NBF Economics and Strategy (data via Bloomberg) | Note: 3- and 6-month annualized series based on NBF replications of Trim index

One might not get that impression from looking at the simple average of the Bank's three core measures which cotinued to rise in July (to 5.3%). But as [we've detailed before](), there are major problems with the CPI-common measure. Massive revisions to prior months have totally recast past inflation and have thrown the reliability of this measure—at least in this current environment—into question. The initial releases of this reading have been consistently revised up over the past year—and by no small margin. It's now CPI-common that's driving the average of the core measures higher. The Bank actually used this measure as justification for not raising rates earlier in year, given that CPI-common was 'only' at 2.3% January. After six months of revisions, we're now told inflation was 3.6% at that time.

Don't trust common core inflation; revisions have blurred the picture
CPI-Common inflation: Latest (red), June (grey) and initial release (blue)

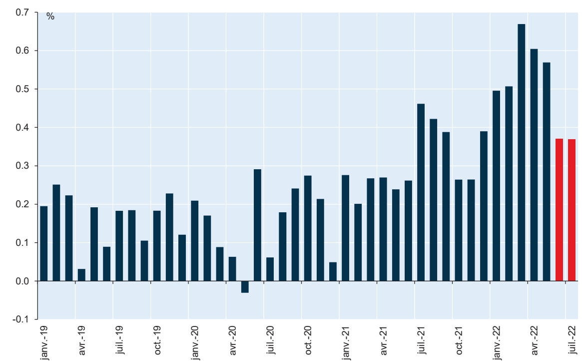


NBF Economics and Strategy (data via StatCan)

Interest Rates and Bond Markets

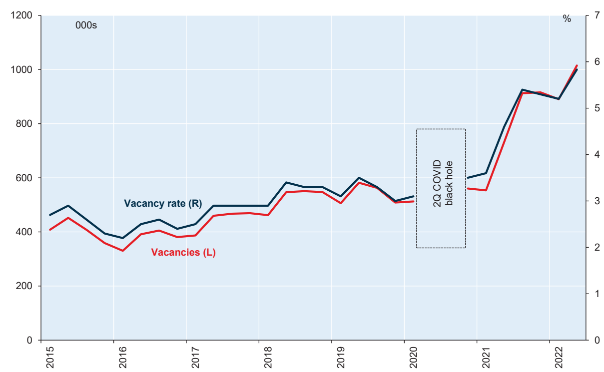
Excluding CPI-common, the average of the other two measures was unchanged in July. Again, the level is far too high. But it's safe to say we've moved off the peak in terms of momentum. June and July data showed the month-over-month rates of core inflation drop to the lowest level since late 2021. That is likely to continue in August data which will push the 3-month rate of core inflation decisively below the year-over-year reading. Should that continue in September and October data (which we do expect), the Bank might be encouraged enough that they'll feel comfortable judging that a pause is in the hiking cycle is appropriate.

Very short-term core inflation momentum has eased meaningfully
M/M change in CPI-Trim (in-house replication)



NBF Economics and Strategy (data via StatCan)

Despite LFS-reported job losses, there's no shortage of labour demand
Canada job vacancies & corresponding job vacancy rate



NBF Economics and Strategy (data via StatCan)

Nearer-term, we don't think there will be enough to derail a 50 basis point October hike. Yes, we've seen the Labour Force Survey show three straight months of job losses for the first time since 2015 but (a) this is an extremely volatile survey and (b) other data points tend offer a conflicting reading on the Canadian labour market. And even if the LFS data is to be believed, the labour market is still extremely tight.

The higher rates rise, the harder rates fall

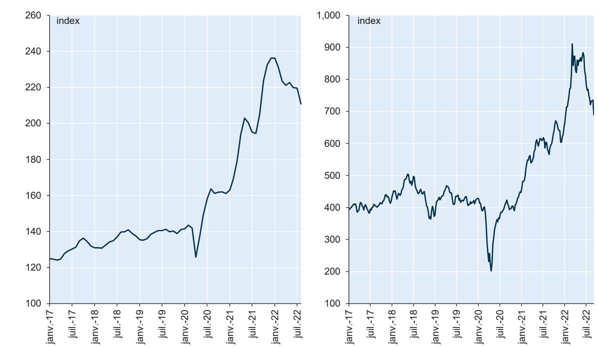
It's safe to say our earlier thinking on the path of central bank policy was wrong. While we knew where the risks to our forecasts laid (i.e., decisively higher), we had held out hope that central banks would return to a forward looking-policy stance sooner rather than later. That's clearly not the case as both the BoC and Fed continue to march closer to a 4% policy rate. In their defence, economic data, while weakening, hasn't fallen off drastically enough to afford them hard evidence to pause. Not with inflation where it is. From a risk management perspective, they'd argue, they're forced to be more aggressive with hikes lest inflation expectations de-anchor.

Near-term revisions to our rate call then have less to do with our outlook for the economy and more to do with acknowledging unwavering central bankers that appear to be heading towards a policy mistake. We, who aren't under the same pressure to combat inflation, have no doubt that monetary policy will work as intended. How can a global rate tightening cycle of this magnitude not have a significant impact on economic activity, and thus, demand-driven inflation? Our outlook for the economy, which was already well below consensus and central bank projections, has now been downgraded further in light of the more hawkish policy trajectory. This means little to no growth in 2023 with recessionary risks moving decisively higher.

Under our old projections, we saw central banks carrying a slightly restrictive policy setting through the end of 2023, before easing back towards neutral in 2024. Growth, while below potential, would've been decent enough to allow central banks to hold rates for longer while ensuring inflation settles sustainably at 2%. We see that as far less likely now.

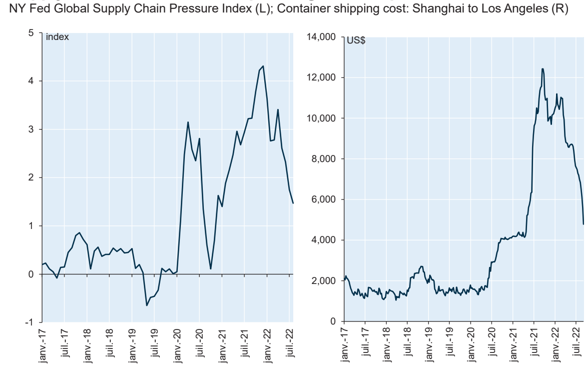
Fed Chair Powell and the Federal Reserve will tell you, "restoring price stability will likely require maintaining a restrictive policy stance for some time." However, we believe that this stance will be indefensible a year from now when joblessness is pushing higher (up no less than a percentage point from the lows), and the economy barely has a pulse. A recession is not contained in our base case outlook, but the odds of one have only risen over recent months. But most importantly, by mid-2023, we see all-items inflation settling back to 2% (in Canada and the U.S.) thanks to stabilized/falling commodity prices and better-behaving supply chains dragging goods inflation to a grinding halt. Services and core inflation, which is admittedly stickier and operates with a longer lag, might not be back to target (on a year-over-year basis) by that time. Nonetheless, the trend lower will be entrenched and core inflation momentum (i.e., 3- and 6-month rates of inflation) will be consistent with the central bank mandate. That should give policymakers the cover to start returning rates to neutrality.

Lots of downside to goods prices ahead
Manheim U.S. used vehicle value index SA (L); Bank of Canada weekly commodity price index (R)



NBF Economics and Strategy (data via Bloomberg)

Supply chain relief should keep easing inflation pressure
NY Fed Global Supply Chain Pressure Index (L); Container shipping cost: Shanghai to Los Angeles (R)



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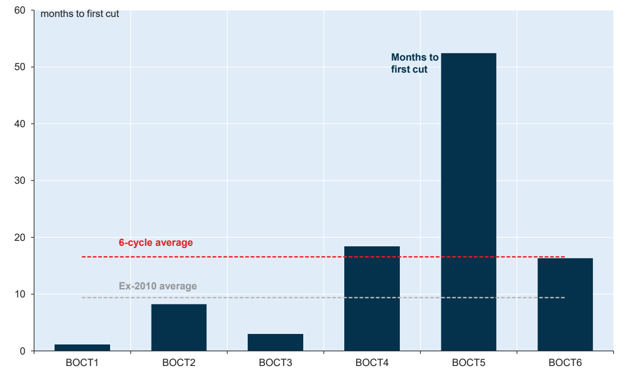
Interest Rates and Bond Markets

Given this more elevated endpoint for the hiking cycle (relative to our prior projections), we've brought forward rate cuts to the second half of the 2023 (Q3 for the Fed and BoC). We see both central banks brandishing policy rates with a two-handle by not too far into 2024.

While markets partially bought into the Fed's rhetoric about higher for longer (evident in bond yields and swap rates), their resolve to tighten policy this year had the opposite effect in our mind. The risks to market pricing for 2023, in our view, are skewed decisively lower, leaving shorter-term bonds decidedly attractive.

Out the curve, we see downside to interest rates too but think that we're much closer to a longer-run equilibrium here. Quantitative tightening, which has received very little focus over recent months, will help keep longer-term rates from falling as dramatically. This should set up curve steepeners as the trade to put on as we approach the end of the Fed's tightening cycle. Could we see rates march higher and curves invert further over the coming months? Absolutely, particularly if the Fed and BoC don't back down from their tough talk on hiking rates. It might not be time to fight the Fed (or the BoC) right now. But before the end of the year, we'll be positioning ourselves for bull steepeners. Central have succumbed to policy mistakes in the past (i.e., overtightening) and could be walking straight into one again.

The BoC has generally held for longer, but averages are skewed
Months elapsed between last hike of tightening cycle and subsequent rate cut

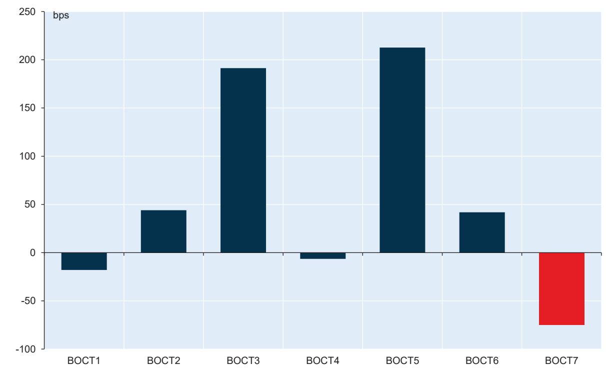


NBF Economics and Strategy (data via Bloomberg)

A more recent cycle (i.e., the pre-COVID 2017-18 tightening episode) saw the BoC hold at the terminal rate for over a year and half. Of course, the COVID crisis left the BoC with no choice but to cut, though it's worth noting that non-trivial easing was already being discounted by markets well before anyone had heard of COVID-19. Moreover, the policy rate only made it up to 1.75%—a far cry from the 2.50% that the Fed managed to raise to and even further removed from the ~3% assumed neutral rate (based on the BoC's own thinking).

Indeed, this has been the broad takeaway from our analysis here. The BoC has generally not hiked to levels as restrictive (i.e., above neutral) as the Fed has. Should the BoC get up to 3.75%, that would represent the furthest above neutral (as proxied by the 10-year yield) that the BoC has taken rates in its last 6 hiking cycles. While we're cautiously optimistic that they'll be able to hold off from cutting a bit longer than the Fed (thanks to ongoing fiscal stimulus, still elevated albeit falling commodity prices and best-in-class demographics), we expect them to be forced into cuts before the end of next year too.

This may be the most restrictive we've seen the BoC in decades
Average 10-year yield during tightening cycle (proxy for neutral rate) less peak policy rate



NBF Economics and Strategy (data via Bloomberg) | Note: 2022 assumed peak policy rate is 3.75%. 10-year assumed to average 3% over entire cycle.

Canadian Bond Market: Interest rates, spreads and currencies

	9-Sep-22	10-Jun-22	11-Mar-22	10-Dec-21	10-Sep-21
Interest Rates					
3 months	3.274	1.729	0.564	0.024	0.152
2 years	3.615	3.24	1.659	0.969	0.414
5 years	3.255	3.334	1.799	1.317	0.831
10 years	3.133	3.348	1.993	1.466	1.238
30 years	3.147	3.193	2.279	1.797	1.802
Spreads					
3 months - 2 years	34.1	151.1	109.5	94.5	26.2
2 - 5 years	-36	9.4	14	34.8	41.7
5 - 10 years	-12.2	1.4	19.4	14.9	40.7
10 - 30 years	1.4	-15.5	28.6	33.1	56.4
Currencies					
CAD/USD	1.3031	1.2776	1.2744	1.2722	1.2692
EUR/CAD	0.7641	0.7435	0.719	0.6945	0.6672

NBF Economics and Strategy (data via Bloomberg)

Back to Research Analysts page

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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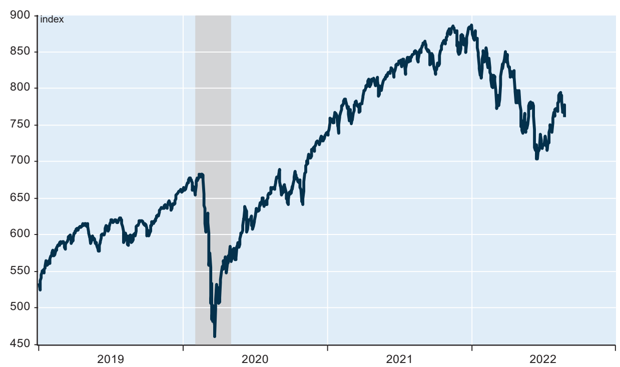
World: Don't fight the Fed right now

After falling into bear market territory on June 16 for the first time since 2020, the MSCI ACWI regained a significant portion of its losses in July and mid-August thanks to a better-than-expected Q2 earnings season, before weakening again after a particularly hawkish statement from Fed Chairman Jerome Powell (chart). This, despite more favourable readings on inflation.

World: Equity rebound unravels
MSCI ACWI (as of Aug. 31, 2022)



NBF Economics and Strategy (data via Refinitiv)

Even after the latest decline, most major regions continue to post decent gains so far in Q3, with the exception of emerging Asia, which remains constrained by the negative economic impact of China's zero-covid policy (chart). Unfortunately, what's left of the gains are at risk due to a more uncertain outlook for profits.

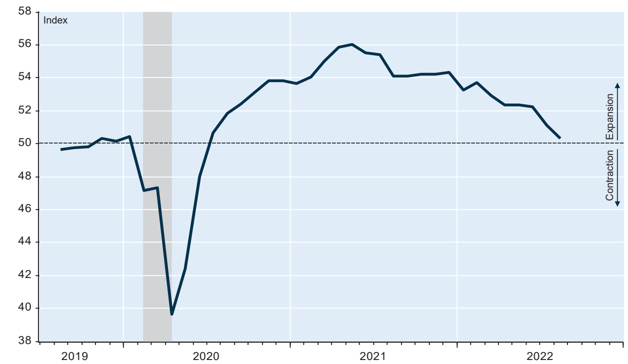
MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	-3.1	3.6	-15.6
MSCI World	-3.6	4.0	-15.7
MSCI USA	-4.1	4.8	-18.0
MSCI Canada	-2.2	1.7	-9.5
MSCI Europe	-4.1	1.7	-13.8
MSCI Pacific ex Jp	-1.1	1.6	-7.5
MSCI Japan	1.0	5.1	-2.3
MSCI EM	0.8	0.5	-14.5
MSCI EM EMEA	-0.2	3.9	-19.9
MSCI EM Latin America	-0.6	3.2	-4.6
MSCI EM Asia	1.2	-0.3	-14.3

8/31/2022
NBF Economics and Strategy (data via Refinitiv)

For one, the global economy continues to lose momentum. The diffusion index for global manufacturing activity is currently the weakest since the global economy emerged from recession in 2020 (chart).

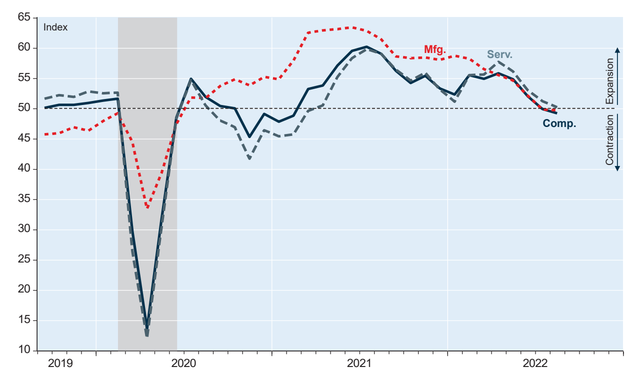
World: Manufacturing sector on the verge of contracting
JP Morgan/Markit Global Manufacturing PMI. Last observation: August 2022



NBF Economics and Strategy (data via Refinitiv)

The weakness is particularly acute in Europe, where soaring energy prices and supply interruptions due to the war in Ukraine have made some manufacturing unprofitable, forcing some industries to cut back. Services too, are now showing contraction (chart).

Eurozone: Second consecutive contraction in private-sector activity
Markit Flash PMI. Last observation: August 2022



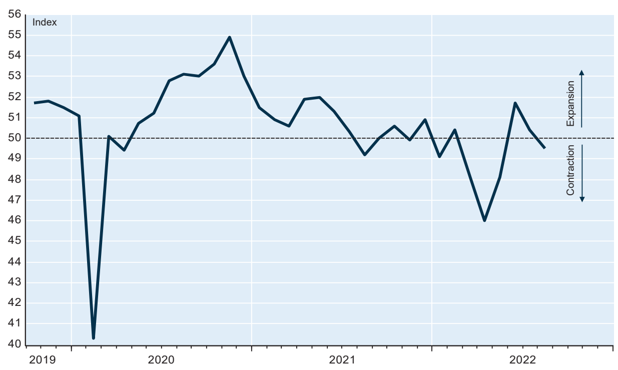
NBF Economics and Strategy (Source: Markit via Refinitiv)

Also, in China, Beijing continues to implement a "zero COVID" policy characterized by intermittent government shutdowns of the economy. This practice, coupled with severe drought conditions that forced some

Stock Market and Portfolio Strategy

industries to curtail production, pushed the diffusion index of manufacturing activity into negative territory in August for the third time already in 2022 (chart).

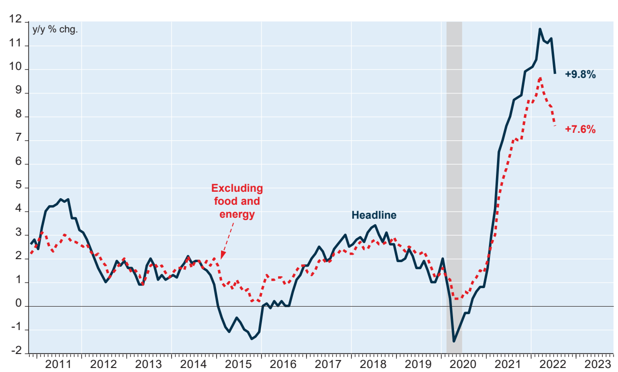
China: Zero-covid policy = zero growth
Caixin/Markit Manufacturing PMI. Last observation: August 2022



NBF Economics and Strategy (data via Refinitiv)

Of course, the upside of below-trend growth is that there is less demand and less inflation. But it also means less pricing power for companies at a time when volume sales are disappointing. In the U.S., the selling price received by domestic producers for their output is rising at its slowest pace since late last year (chart).

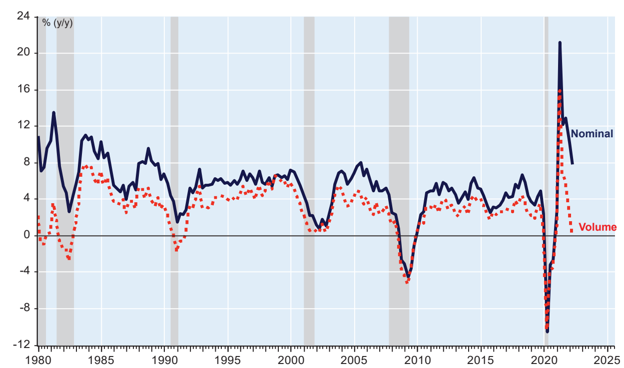
U.S.: Pricing power is eroding
Producer Price Index. Last observation: July 2022



NBF Economics and Strategy (data via Bloomberg)

This is an important development to keep in mind because of the nature of the upside surprise of the second quarter earnings season, which saw 70% of S&P 500 companies report revenues above analyst expectations. There is reason to believe that it was almost exclusively due to sales price inflation. We note that volume sales of U.S corporations were essentially flat over the past year (chart).

U.S.: Final sales of domestic businesses
Nominal vs. volume sales



NBF Economics and Strategy (data via BEA tables 5.8.5B and 5.8.6B)

Anemic sales volumes with lower pricing power in many economies do not bode well for strong earnings growth. Yet current forecasts still call for earnings per share growth of 7.3% over the next 12 months for the MSCI ACWI, with all major regions expected to post higher profits (table).

MSCI composite index: EPS Performance

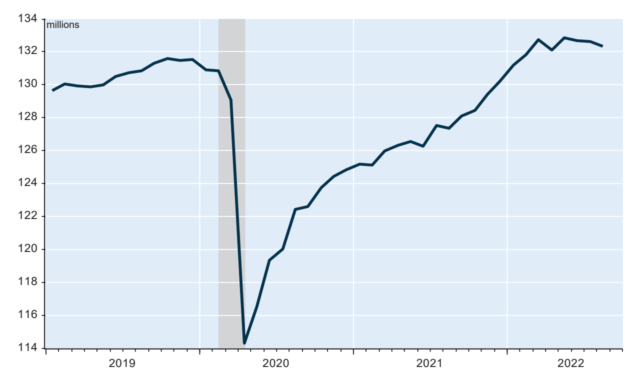
	2021	2022	2023	2024	12 months forward
MSCI ACWI	54.8	10.9	6.0	8.0	7.3
MSCI World	55.2	11.1	5.9	7.6	7.3
MSCI USA	52.6	7.9	8.1	9.1	7.5
MSCI Canada	75.2	23.1	2.2	3.1	8.2
MSCI Europe	66.5	17.1	2.2	5.6	6.6
MSCI Pacific ex Jp	45.3	13.3	4.9	2.2	5.6
MSCI Japan	0.0	42.6	11.0	3.4	7.5
MSCI EM	52.5	9.9	6.2	10.5	7.3
MSCI EM EMEA	63.6	15.2	8.5	6.2	10.0
MSCI EM Latin America	190.0	19.7	-6.4	1.1	1.3
MSCI EM Asia	39.3	7.4	8.3	12.8	8.0

8/31/2022
NBF Economics and Strategy (data via Refinitiv)

This is a challenging environment for most equity markets, made even more difficult by the announced intention of central banks to increase monetary tightening. On August 26, Jerome Powell referenced none other than Paul Volcker, who ran the Fed during the worst years of stagflation in the late 1970s and early 1980s, in his determination to bring inflation down during his Jackson Hole speech. Powell was about as hawkish as you can be as a central banker. This speech also sets us up for a slightly higher federal funds rate than we had envisioned earlier this summer (3.50% versus 3.0%). If the stage is set for a period of below-trend growth, we don't think the new fed funds level is high enough to break the economy. That is if Mr. Powell reads the tea leaves of the economy as we do and soon recognizes that the end of his tightening campaign is in sight.

For now, the most compelling argument for higher interest rates made by the Fed is the resilience of labor markets. While payroll employment has indeed surprised on the upside in recent months, the additional headcounts have been part-time. Full-time employment, meanwhile, has stagnated since the beginning of 2022 (chart).

U.S.: Full-time jobs are stalling
Full-time workers as per household employment survey

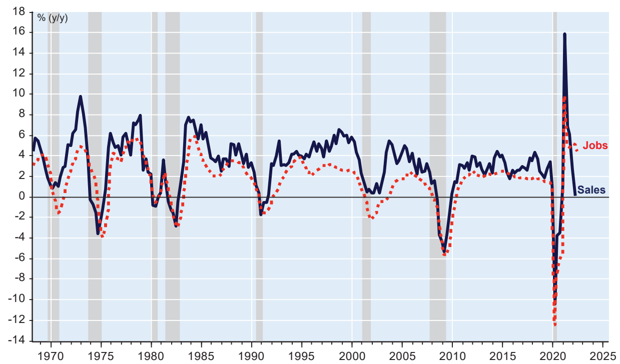


NBF Economics and Strategy (data via Refinitiv)

This suggests that companies may be on the cusp of cutting back on hiring in the coming months if sales do not pick up to protect profit margin. The gap between total payroll employment growth (including part-time work) and sales volume at U.S. companies is currently the largest in over 50 years – chart.

Stock Market and Portfolio Strategy

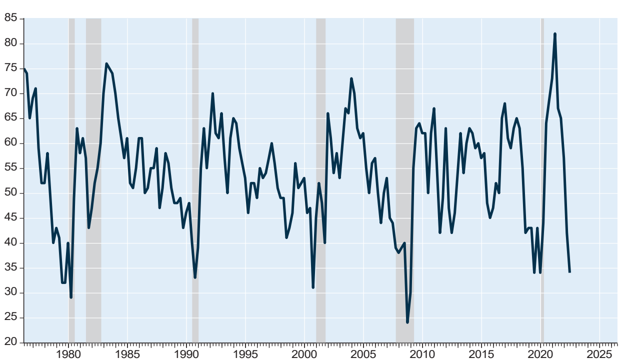
U.S.: Job growth that exceeds volume sales is not normal
Volume sales vs. payroll jobs



NBF Economics and Strategy (data via BEA 5.8.6B and Refinitiv)

The sharp decline in CEO confidence over the past few months also points to a lower propensity of corporate budget managers to increase their workforce (chart).

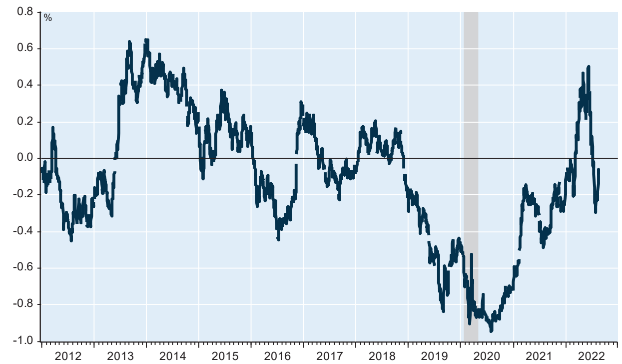
U.S.: Chief executives are concerned
Conference Board CEO Confidence Index



NBF Economics and Strategy (data via Refinitiv)

A more uncertain employment outlook makes the path of future rate hikes all the more perilous for equity markets, which also face rising long-term Treasury yields that prevent an expansion of PE multiples. Even at 3.2% currently, there could still be some upside in 10-year Treasury yields as the term premium trades negatively again (chart).

U.S.: Negative term premium is hard to justify
Term premium on a 10-year zero coupon Treasury



NBF Economics and Strategy (data via Fred)

In our view, investors are likely to demand positive compensation for holding longer maturities in a more volatile environment for growth, government indebtedness, and inflation.

S&P/TSX: A defensive play?

Unlike many other equity markets, the S&P/TSX has avoided a bear market this year. It's rebound in the third quarter was thus less impressive than elsewhere so far in Q3. As of August 31, the Canadian benchmark is down 8.9% in 2022. Though most sectors are up quarter-to-date, only Energy (+27.4%), Utilities (+3.6%) and consumer staples (+3.6%) show positive returns year-to-date - table.

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	-1.8	2.5	-8.9
HEALTH CARE	9.4	-0.1	-54.2
CONS. DISC.	1.3	9.6	-10.2
UTILITIES	0.8	4.6	4.0
MATERIALS	-0.4	-1.1	-10.0
INDUSTRIALS	-1.3	9.0	-1.8
CONS. STAP.	-1.4	5.4	3.6
TELECOM	-1.7	-1.6	-4.5
ENERGY	-1.8	3.1	27.4
FINANCIALS	-2.3	0.4	-12.3
BANKS	-2.7	-1.5	-12.8
REAL ESTATE	-4.8	1.7	-21.6
IT	-7.6	1.7	-54.6

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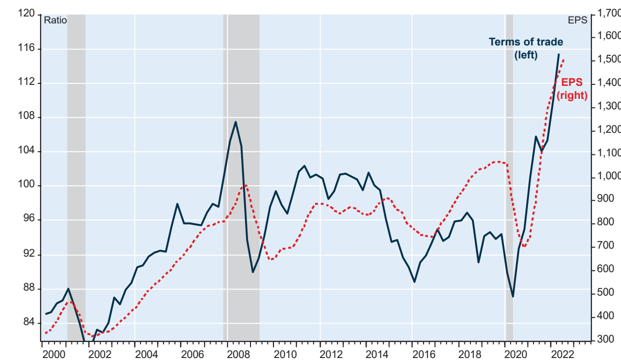
NBF Economics and Strategy (data via Refinitiv)

Despite aggressive monetary tightening in Canada, the earnings backdrop benefited from the best terms of trade on record due to high commodity prices (chart).

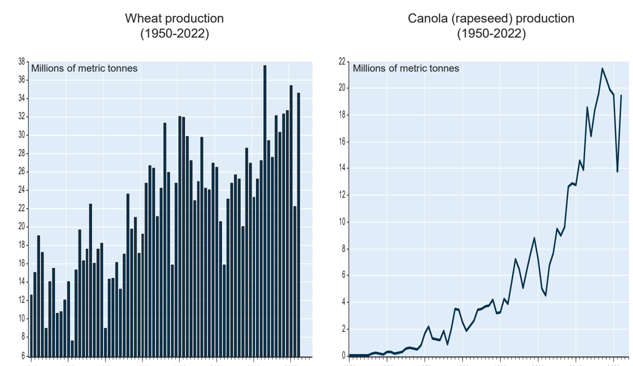
S&P/TSX: Terms of trade were a boon for profits
Terms of trade and trailing earnings for the S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

Although the growth outlook is becoming difficult for Canada as well, we have argued for several months that the S&P/TSX can be a defensive play in a geopolitical context characterized by food and energy insecurity. The impact of EU sanctions on Russian oil could help support Canadian energy stocks. Unlike many other major food suppliers that have been hit by drought, Canada should also enjoy a bumper crop in 2022 (chart).

Canada: Bumper crop expected in 2022



NBF Economics and Strategy (data via Statistics Canada table 32-10-0359-01)

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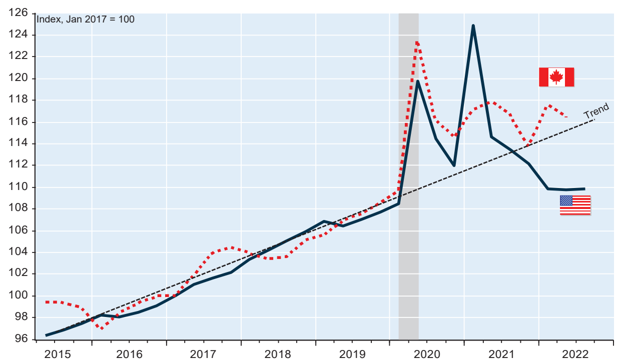
Stock Market and Portfolio Strategy

These developments should keep profits relatively resilient and labour markets tight. In addition, real household disposable income remains above its pre-covid trend as the federal and provincial governments redistribute some of the huge 2022 personal and corporate tax windfall to consumers (chart).

Canada: Disposable income remains above trend, unlike in the U.S.
Real disposable income: Canada vs. the U.S.



NBF Economics and Strategy (data via Refinitiv)

This mitigates the possibility of a deep deterioration in the consumer credit cycle and a surge in mortgage delinquencies at Canadian banks, whose profits are now expected to grow by only 4 per cent over the next 12 months (table).

S&P/TSX composite index: EPS analysts expectations

	Earnings per share					EPS % growth		
	2021	2022	2023	12m Trail.	12m Forw.	2022	2023	12m Forw.
S&P TSX	1354	1609	1662	1526	1648	19	3	8
ENERGY	184	339	317	287	324	84	-7	13
MATERIALS	226	282	249	263	260	24	-12	-1
INDUSTRIALS	113	164	214	147	197	46	31	34
CONS. DISC.	172	181	215	177	203	5	19	15
CONS. STAP.	372	401	447	390	427	8	12	9
HEALTH CARE	-5	-16	11	-10	3	N.M.	N.M.	N.M.
FINANCIALS	323	319	344	322	338	-1	8	5
BANKS	387	401	419	398	416	4	5	4
IT	16	13	16	14	15	-14	21	7
TELECOM	84	89	96	86	94	5	8	8
UTILITIES	97	125	132	116	130	28	6	12
REAL ESTATE	430	308	212	344	244	-28	-31	-29

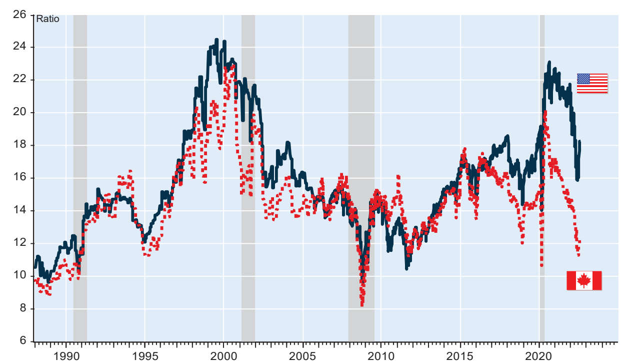
8/31/2022 N.M.=Not meaningful

NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is modified this month to reflect a more uncertain geopolitical outlook due to increasing energy and food insecurity and more aggressive central banks. Our equity weighting is reduced by three points in favor of cash. Geographically, we are cutting U.S. equities by 2% to underweight and trimming Canada by 1%, which remains overweight relative to our benchmark. In our view, the S&P/TSX is better positioned to weather stagflation fears and its forward PE is historically low (chart). Fixed income remains underweight for now.

S&P/TSX: Valuation is attractive
12-month forward PEs: S&P 500 and S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

NBF Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	24	-1
U.S. Equities	20	18	-2
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
Fixed Income	45	42	
Cash	5	10	+3
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 - September 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**18.5%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	18.4%
Materials	**Overweight**	**11.2%**
Chemicals	Market Weight	2.5%
Containers & Packaging	Overweight	0.4%
Metals & Mining *	Overweight	2.4%
Gold	Overweight	5.4%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**12.7%**
Capital Goods	Overweight	1.8%
Commercial & Professional Services	Underweight	3.6%
Transportation	Market Weight	7.3%
Consumer Discretionary	**Market Weight**	**3.5%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Overweight	0.5%
Consumer Services	Market Weight	0.9%
Retailing	Market Weight	1.3%
Consumer Staples	**Market Weight**	**4.3%**
Food & Staples Retailing	Market Weight	3.7%
Food, Beverage & Tobacco	Market Weight	0.6%
Health Care	**Market Weight**	**0.4%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.3%
Financials	**Market Weight**	**31.2%**
Banks	Market Weight	21.1%
Diversified Financials	Market Weight	4.3%
Insurance	Market Weight	5.9%
Information Technology	**Underweight**	**5.2%**
Telecommunication Services	**Market Weight**	**5.0%**
Utilities	**Underweight**	**5.3%**
Real Estate	**Underweight**	**2.6%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q4 2022***
Index Level		**sept-02-22**	***Target***
S&P/TSX		19,271	20,000
Assumptions			Q4 2022
Level:	Earnings *	1526	1585
	Dividend	614	637
PE Trailing (implied)		12.6	12.6

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q4 2022***
Index Level		**sept-02-22**	***Target***
S&P 500		3,924	4,000
Assumptions			Q4 2022
Level:	Earnings *	218	221
	Dividend	64	65
PE Trailing (implied)		18.0	18.1

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on	Returns				Returns			with S&P 500
	09-5-2022	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***3911***	***-0.8%***	***-18.4%***	***-15.2%***	***31.0%***	***-15.2%***	***-11.0%***	***29.9%***	***1.00***
United States - S&P 500	*3924*	*-0.8%*	*-17.7%*	*-13.5%*	*31.9%*	*-14.4%*	*-9.2%*	*30.9%*	*1.00*
Canada - S&P TSX	*19271*	*-0.3%*	*-9.2%*	*-7.5%*	*16.3%*	*-9.2%*	*-7.5%*	*16.3%*	*0.96*
Europe - MSCI Index	***1569***	***-1.7%***	***-25.1%***	***-25.5%***	***-4.1%***	***-22.1%***	***-21.8%***	***-4.8%***	***0.84***
United Kingdom - FTSE 100	*7287*	*0.0%*	*-1.3%*	*2.1%*	*0.2%*	*-12.8%*	*-11.1%*	*-7.2%*	*0.58*
Germany - DAX 30	*12761*	*-0.6%*	*-19.7%*	*-19.1%*	*5.2%*	*-27.1%*	*-29.1%*	*-6.2%*	*0.88*
France - CAC 40	*6093*	*-0.5%*	*-14.8%*	*-8.9%*	*8.9%*	*-22.7%*	*-20.2%*	*-2.9%*	*0.88*
Switzerland - SMI	*10820*	*-0.3%*	*-16.0%*	*-12.4%*	*8.4%*	*-18.9%*	*-14.4%*	*8.1%*	*0.94*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*6.7%*	*-9.3%*	*-12.3%*	*-4.9%*	*0.30*
Netherlands - Amsterdam Exchanges	*674*	*-0.9%*	*-15.5%*	*-14.6%*	*18.5%*	*-23.4%*	*-25.2%*	*5.6%*	*0.96*
Pacific - MSCI Index	***2527***	***-2.8%***	***-18.7%***	***-23.0%***	***-3.7%***	***-15.4%***	***-19.2%***	***-4.5%***	***0.75***
Japan - Nikkei 225	*27620*	*-1.7%*	*-4.1%*	*-5.2%*	*31.0%*	*-18.3%*	*-22.3%*	*-1.0%*	*0.91*
Australia - All ordinaries	*7075*	*-2.1%*	*-9.1%*	*-9.6%*	*5.3%*	*-11.6%*	*-13.4%*	*4.2%*	*0.90*
Hong Kong - Hang Seng	*19226*	*-3.7%*	*-17.8%*	*-25.8%*	*-27.5%*	*-15.1%*	*-22.9%*	*-28.2%*	*-0.16*
World - MSCI Index	***2597***	***-1.2%***	***-19.7%***	***-17.9%***	***19.4%***	***-16.4%***	***-13.8%***	***18.5%***	***0.99***
World Ex. U.S.A. - MSCI Index	***1843***	***-1.9%***	***-21.8%***	***-23.3%***	***-1.9%***	***-18.7%***	***-19.5%***	***-2.6%***	***0.86***
EAFE - MSCI Index	***1802***	***-2.1%***	***-22.9%***	***-24.6%***	***-3.8%***	***-19.8%***	***-20.8%***	***-4.6%***	***0.83***
Emerging markets (free) - MSCI Index	***968***	***-2.6%***	***-21.4%***	***-26.5%***	***-3.5%***	***-18.3%***	***-22.8%***	***-4.3%***	***0.65***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-09-02

	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	258	-5.77	-15.18	9.53	7.22	7.39	18.60	17.35	17.69	13.47	2.39	-2.94
Energy	4.68	609	-10.10	67.24	149.94	-13.31	13.91	8.04	9.27	8.82	23.37	0.63	17.82
Materials	2.52	466	-14.03	-12.75	17.31	-7.77	-0.41	13.33	14.45	14.03	9.88	neg.	-4.42
Industrials	7.92	777	-3.57	-11.93	34.39	17.30	21.63	19.69	16.79	17.63	11.79	0.82	-3.17
Consumer Discretionary	11.52	1221	1.73	-16.73	3.83	36.18	24.19	32.40	23.80	26.21	29.64	1.08	-8.01
Consumer Staples	6.77	754	-1.41	-0.07	3.34	5.90	4.53	22.11	20.88	21.21	7.89	4.69	-2.10
Healthcare	14.21	1454	-3.74	-8.71	4.86	-0.48	1.27	15.92	16.00	15.98	7.24	12.54	-1.38
Financials	10.90	545	-5.64	-13.65	-12.58	13.34	3.92	13.40	11.83	12.31	5.99	3.14	-3.34
Information Technology	27.05	2323	-4.88	-16.92	10.01	7.67	6.57	23.76	22.07	22.32	13.55	3.40	-6.42
Telecom Services	8.41	183	-8.75	-36.22	-11.22	12.86	4.06	17.21	15.25	15.80	15.60	3.89	-9.67
Utilities	3.17	377	0.39	7.34	4.13	6.09	5.45	21.75	20.50	20.89	6.64	3.83	0.71
Real Estate	2.84	258	-5.77	-15.18	-7.46	0.08	-2.57	37.49	37.46	37.47	13.14	neg.	1.25

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Renewing the Bear Market

A bear market that began in early 2022 continues to play out to the downside as a bear market rally was just completed. The recent rally to the vicinity of the 200-day on several market indices and subsequent reversals signals the beginning of another bear phase. In bear markets, most stocks are a sell with capital preservation as the number one objective. It is notable the growing number of stocks making round trips back to their March 2020 lows underscoring how much risk there might be in this market. In the September issue of Vision, we highlight top structures that have broken down and their potential downside risk.

Technical Analysis

Dow Jones Industrial Average (DJII)

The Dow chart broke down from a one-year top structure at 33,300 to reverse its rising trend since the March 2020 lows. A recent rebound took the Dow chart back to its 200-day where it failed and turned back down. The rebreak of support at 33,300 and the break below its 50-day is confirmation of the renewal of the bear trend. Expect a test of support at the lows near 30,000 for starters with any failure opening the door for further downside tests.

Source: Refinitiv

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Technical Analysis

CAE Inc. (CAE)

CAE broke down from a 20-month top at $29.00 to reverse its rally from the March 2020 lows. Strong volume and momentum on the downside break into a thin support zone indicating a high-risk situation. Target is $18.00 to $20.00 but we can't rule out a round-trip back to its March lows in the mid-teens.

Source: Refinitiv

Technical Analysis

Canadian Tire Corporation Ltd. (CTC.A)

The CTC.A chart has drifted lower for well over a year as it lagged the market for most of this period. Particularly weak relative strength is a big technical negative. The stock is just breaking key support at $159.00 to complete a top that points to lower prices. Target is $115.00 to $120.00.

Source: Refinitiv

Technical Analysis

Bank of Montreal (BMO)

The BMO chart broke one top as it cracked support at $130.00 and is about to break and complete a bigger top if it breaks $123.00. Prices broke below both moving averages in April and have not been able to sustain prices above those moving averages since. A recent break below its 50-day is further confirmation of a developing downtrend. Target is $110.00 with potential to challenge the $100.00 mark.

Source: Refinitiv

Technical Analysis

Royal Bank of Canada (RY)

The RY chart has more downside despite being in a declining trend for all of 2022. A 15-month top was completed as the stock broke support at $125.00 in July. A series of lower highs reflect a loss of upside momentum as downside momentum gathers steam. Strong downside volume on the break and a failing rebound further confirm a continuing bear trend. Target is $100.00.

Source: Refinitiv

Technical Analysis

Open Text Corp. (OTEX)

A weak trend on the OTEX chart just got weaker as the chart gapped down on a big volume top breakdown. Breaking the $48.00 support completed a 30-month top that points to much lower prices. Strong downside momentum will take time and further downside price action to play out. Weak relative strength is hitting seven-year lows and leads the stock lower. Long-term support at $42.00 near the March 2020 lows was also breached and takes the stock to five-year lows. Target is $30.00.

Source: Refinitiv

Sector Analysis

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

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

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NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$24.64	$38.00	1.75%	55.93%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$32.36	$38.00	6.14%	23.36%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$5.71	$9.00	0.55%	58.14%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$7.86	$12.00	0.00%	52.67%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$77.65	$85.00	1.15%	10.62%	Oil, Gas & Consumable Fuels
Materials							
	Alamos Gold Inc.	AGI	$9.47	$12.50	1.41%	33.38%	Gold
	Aya Gold & Silver Inc.	AYA	$7.67	$10.50	0.00%	36.90%	Gold
	Endeavour Mining plc	EDV	$25.56	$40.50	4.10%	62.57%	Gold
	First Quantum Minerals Ltd.	FM	$23.24	$32.50	0.79%	40.56%	Metals & Mining
	Kinross Gold Corp.	K	$4.31	$8.25	3.66%	95.08%	Gold
	Pan American Silver Corp.	PAAS	$19.54	$33.00	2.71%	71.57%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$44.48	$52.50	1.15%	19.15%	Metals & Mining
	Transcontinental Inc.	TCL.a	$16.56	$23.00	5.37%	44.32%	Containers & Packaging
	Wheaton Precious Metals Corp.	WPM	$40.09	$68.00	1.91%	71.55%	Metals & Mining
Industrials							
	Air Canada	AC	$17.69	$30.00	0.00%	69.59%	Transportation
	ATS Automation Tooling Systems Inc.	ATA	$40.12	$55.00	0.00%	37.09%	Capital Goods
	CAE Inc.	CAE	$23.98	$38.00	0.00%	58.47%	Capital Goods
	GDI Integrated Facility Services Inc.	GDI	$46.56	$64.50	0.00%	38.53%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$14.06	$18.00	5.16%	33.14%	Transportation
	Stantec Inc.	STN	$62.33	$70.00	1.17%	13.46%	Capital Goods
	Thomson Reuters Corp.	TRI	$144.62	$162.00	1.58%	13.61%	Commercial & Professional Services
	WSP Global Inc.	WSP	$156.51	$188.00	0.96%	21.08%	Capital Goods
Consumer Discretionary							
	BRP Inc.	DOO	$91.09	$136.00	0.75%	50.01%	Consumer Durables & Apparel
	Uni-Select Inc.	UNS	$37.15	$43.00	0.00%	15.75%	Retailing
Consumer Staples							
	Loblaw Companies Ltd.	L	$116.07	$127.00	1.40%	10.81%	Food & Staples Retailing
Health Care							
	Chartwell Retirement Residences	CSH.u	$10.39	$13.00	5.93%	31.01%	Health Care Providers & Services
	dentalcorp Holdings Ltd.	DNTL	$10.34	$18.00	0.00%	74.08%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$6.50	US$9.75	4.78%	54.62%	Pharmaceuticals, Biotechnology & Life Sciences
Financials							
	Alaris Equity Partners Income Trust	AD	$17.28	$23.50	7.86%	43.63%	Diversified Financials
	Canadian Imperial Bank of Commerce	CM	$62.11	$84.00	5.41%	40.59%	Banks
	ECN Capital Corp.	ECN	$5.34	$8.50	0.76%	59.93%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$654.74	$1100.00	1.98%	69.95%	Insurance
	iA Financial Corporation Inc.	IAG	$70.55	$81.00	3.90%	18.64%	Insurance
Information Technology							
	Docebo Inc.	DCBO	US$30.05	US$85.00	0.00%	182.86%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US$19.14	US$65.00	0.00%	239.60%	Software & Services
	Shopify Inc.	SHOP	US$31.65	US$75.00	0.00%	136.97%	Software & Services
Communication Services							
	TELUS Corp.	T	$29.58	$36.00	4.65%	26.28%	Telecommunication Services
Utilities							
	AltaGas Ltd.	ALA	$28.32	$33.00	3.71%	20.27%	Utilities
	Boralex Inc.	BLX	$49.50	$50.00	1.45%	2.34%	Utilities
	Innergex Renewable Energy Inc.	INE	$19.85	$24.00	3.62%	24.53%	Utilities
	Northland Power Inc.	NPI	$44.96	$49.00	2.71%	11.65%	Utilities
Real Estate							
	BSR REIT	HOMu	US$16.41	US$20.50	3.19%	28.09%	Real Estate
	Flagship Communities REIT	MHC.u	US$16.31	US$21.00	3.32%	32.04%	Real Estate
	H&R REIT	HR.u	$12.68	$16.50	4.43%	34.46%	Real Estate
	Killam Apartment REIT	KMP.u	$16.86	$20.50	4.13%	25.74%	Real Estate
	Tricon Residential Inc.	TCN	$13.71	$18.00	2.16%	33.45%	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 August 31, 2022
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

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GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Back to Research Analysts page

Banking & Insurance

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Selections

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

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *A surprising rebound in a volatile market.*

IAG's weaker than expected IAG reported a rebound quarter, which is impressive considering the market backdrop. EPS above the quarterly guidance range puts the company on track to hit its full-year guidance, which management expects it to do. We are taking a more cautious view, considering a variety of growth headwinds (e.g., lower Wealth fees, expense inflation, P&C profit normalization). Separately, the company provided additional IFRS 17 impact disclosures, which are positive. A key one is a 20-point expected boost to its LICAT ratio. Along with strong internal capital generation, the company is well positioned to take advantage of market disruptions and to pursue attractively valued acquisitions. $81 price target. Outperform.

Canadian Imperial Bank of Commerce (TSX: CM) – *Margin & operating leverage upside coming, albeit in a gradual manner.*

We describe CM's Q3/22 results as solid, but unspectacular. The bank delivered positive PTPP growth, along with NIM expansion, at the consolidated level. The Canadian banking business underpinned the strongest elements of the quarter, while the U.S. banking business suffered from NIM compression (which was a negative surprise). Overall, we don't view these results as a major driver of investment sentiment in either direction. Our view on the stock, though, remains positive as we believe there are some important medium-term drivers: 1) potential improvement in consolidated operating leverage in mid-2023 as expense growth moderates from currently elevated levels; and 2) potential improvement in housing market sentiment in mid-2023 if central banks turn more dovish and we begin to see stabilization in housing prices/activity. $84 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		83,614	672	124.49	10/2021	12.96	13.27	13.79	9.4	9.0	90.88	92.71	103.99	1.3	1.2	4.5%	151.00	↓
Bank of Nova Scotia	BNS	SP		88,583	1,204	73.55	10/2021	7.87	8.47	8.49	8.7	8.7	54.52	55.59	59.93	1.3	1.2	5.6%	90.00	↓
CIBC	CM	OP		57,223	903	63.35	10/2021	7.23	7.41	7.64	8.5	8.3	48.97	49.81	53.59	1.3	1.2	5.2%	84.00	
National Bank	NA	NR		29,682	336	88.22	10/2021	8.98	9.80	9.96	9.0	8.9	54.82	56.13	61.95	1.6	1.4	4.2%	NR	
Royal Bank of Canada	RY	OP		174,568	1,418	123.15	10/2021	11.19	11.14	12.17	11.1	10.1	69.44	70.47	75.94	1.7	1.6	4.2%	148.00	
Toronto-Dominion Bank	TD	SP		155,507	1,819	85.50	10/2021	7.91	8.20	8.86	10.4	9.7	52.53	53.84	58.97	1.6	1.4	4.2%	106.00	↑
Canadian Western Bank	CWB	OP		2,346	93	25.23	10/2021	3.81	3.57	3.75	7.1	6.7	33.90	34.15	35.98	0.7	0.7	4.9%	38.00	
Laurentian Bank	LB	SP		1,734	43	40.12	10/2021	4.57	5.12	5.13	7.8	7.8	57.43	58.08	60.82	0.7	0.7	4.5%	51.00	↓
Insurance																				
Great-West Lifeco	GWO	SP		29,398	932	31.55	12/2021	3.50	3.57	3.74	8.8	8.4	25.00	25.86	24.25	1.2	1.3	6.2%	36.00	↓
iA Financial	IAG	OP		7,405	106	69.89	12/2021	8.31	8.58	8.93	8.1	7.8	60.97	63.58	66.05	1.1	1.1	3.9%	81.00	↑
Manulife Financial	MFC	SP		43,547	1,907	22.84	12/2021	3.25	3.09	3.10	7.4	7.4	25.56	27.07	23.03	0.8	1.0	5.8%	25.00	↓
Sun Life Financial	SLF	SP		34,127	586	58.23	12/2021	5.99	5.89	6.23	9.9	9.3	40.65	43.08	39.19	1.4	1.5	4.7%	67.00	↓

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

› *Fairfax Financial*
› *ECN Capital*

Company Updates

Trisura Group Ltd. (TSU, Outperform, $62 PT) – *De-Risked Earnings, Secular Trends Underpin Our Top P&C Pick*

On August 23 and 24, we presented David Clare, CEO of Trisura to U.S. investors. We gained increased confidence in our rapid growth and profitability outlook: i) TSU has significantly de-risked earnings; ii) brokers and fronting hold the key to persistent rapid Canadian growth; iii) secular trends in the U.S. MGA market support continued rapid growth south of the border; iv) growth initiatives such as expansion into admitted lines and U.S. Surety lines are advancing nicely; and v) the recent equity raise strongly positions TSU to execute on all these growth drivers. Reiterate Outperform.

ECN Capital Corporation (ECN, Outperform, $8.50 PT) – *Stretching a Single into a Home Run?*

ECN announced the sale of Kessler Group (KG) for $210 million, all-cash. While we characterize the KG sale as a "single", the potential "home run" upside from a more rapid growth profile (both organic and M&A) as well as a simplified business model makes sound strategic sense in our view. On the other hand, execution risks will increase in prominence as will cyclical exposures to RV & marine finance markets. Overall, we like the upside potential. Reiterate Outperform.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 8/31	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
EQB Inc.	EQB	OP		1.80	34.2	52.66	12/2021	8.36	8.93	9.97	5.9	5.3	59.25	63.79	71.93	0.8	0.7	2.4%	73.00	↓
First National Financial	FN	SP		2.23	60.0	37.19	12/2021	3.13	2.53	3.28	14.7	11.3	10.15	10.28	11.03	3.6	3.4	6.3%	35.00	↓
Home Capital Group	HCG	SP	↓	1.14	40.7	27.94	12/2021	4.87	4.22	5.09	6.6	5.5	38.72	42.46	46.71	0.7	0.6		31.00	↓
Timbercreek Financial	TF	SP		0.68	83.9	8.09	12/2021	0.68	0.72	0.76	11.3	10.6	8.33	8.34	8.41	1.0	1.0	8.5%	8.75	↓
Specialty Finance																				
ECN Capital	ECN	OP		1.32	247.2	5.34	12/2021	US 0.31	US 0.25	US 0.36	16.5	11.3	US 0.66	US 0.65	US 0.80	6.2	5.1	0.7%	8.50	↑
Element Fleet Management	EFN	OP		6.59	398.2	16.54	12/2021	0.84	1.05	1.16	15.8	14.2	7.68	7.80	8.43	2.1	2.0	1.9%	24.00	↑
goeasy	GSY	OP		1.90	15.8	119.86	12/2021	10.43	11.17	14.77	10.7	8.1	48.54	52.16	62.28	2.3	1.9	3.0%	170.00	↑
Brookfield Business Partners	BBU	OP		US 3.13	US 144.3	US 21.69	12/2021	US 2.90	US 1.08	US 0.87	20.1	24.8	US 19.43	US 21.68	US 27.22	1.0	0.8	1.2%	US 34.00	↓
Power Corporation of Canada	POW	SP		22.61	669.5	33.77	12/2021	4.77	3.66	4.16	9.2	8.1	33.18	34.21	36.34	1.0	0.9	5.9%	39.00	↓
HR Companies																				
LifeWorks Inc.	LWRK	T		2.3	70.5	31.93	12/2021	-0.34	0.64	0.86	49.8	37.0	8.28	8.34	8.57	3.8	3.7		33.00	
Securities Exchange																				
TMX Group	X	SP		7.33	55.6	131.90	12/2021	7.10	7.27	7.71	18.1	17.1	69.15	70.62	74.16	1.9	1.8	2.5%	143.00	↑
Insurance																				
Definity Financial Corp.	DFY	OP		4.3	115.0	37.20	12/2021	2.09	1.8	1.99	20.2	18.7	19.51	20.49	22.03	1.8	1.7	5.4%	39.00	↑
Intact Financial Corp.	IFC	OP		33.39	175.5	190.25	12/2021	12.32	12.00	12.06	15.9	15.8	80.86	83.90	89.67	2.3	2.1	2.1%	230.00	
Trisura Group Ltd.	TSU	OP		1.43	41.3	34.78	12/2021	1.48	1.77	2.02	19.6	17.2	8.62	11.93	13.94	2.9	2.5		62.00	
Fairfax Financial Holdings	FFH	OP		15.49	23.7	654.74	12/2021	US 122.25	US 73.25	US 83.65	6.8	6.0	US 588.36	US 701.87	US 781.34	0.7	0.6	1.9%	1100.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		0.94	102.6	9.13	12/2021	1.63	1.26	1.35	7.2	6.8	3.53	3.54	3.58	2.6	2.5	9.4%	10.50	↓
IGM Financial Inc.	IGM	OP		8.50	237.7	35.75	12/2021	4.04	3.55	4.10	10.1	8.7	25.17	25.83	27.71	1.4	1.3	6.3%	48.00	↓

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.*

Southeast Gateway Pipeline contract award bolsters 2023 outlook for SCL; CEU crushes Q2

Shawcor announced the receipt of a contract valued at ~C$500 million from the Mexican subsidiary of TC Energy Corp. to provide pipe coating services for the Southeast Gateway Pipeline project offshore Mexico, bolstering our 2023 expectations and reinforcing our positive outlook.

Earlier this month SCL announced the receipt of a formal contract valued at ~C$500 million from Transportadora de Gas Natural de la Huasteca, S. de R.L. de C.V., the Mexican subsidiary of TC Energy Corp. (TRP: TSX, Sector Perform, $65 Target, covered by our colleague Patrick Kenny) to provide pipe coating services for the Southeast Gateway Pipeline project offshore Mexico. The contract announcement comes on the heels of TC Energy and Mexican state utility Comisión Federal de Electricidad reaching a final investment decision in early August to proceed with the construction of the 715 km long pipeline from Tuxpan, Veracruz to Coatzacoalcos, Veracruz and Dos Bocas, Tabasco. Shawcor will apply concrete weight coating to roughly 706 km of 36-inch diameter pipe with facility mobilization starting this quarter. Pipe coating for the offshore natural gas pipeline is anticipated to begin in early 2023 from a high-capacity concrete coating facility in Altamira, Mexico and take ~1 year to complete. Shawcor highlighted that coupled with the previously announced Scarborough Gas Export Pipeline project, SCL's conventional offshore pipe coating activity is expected to return to levels not seen since 2015. **The contract award reinforces our expectations for ramping offshore pipe coating activity in the back half of 2022 and into and throughout 2023, helping return the Pipeline and Pipe Services segment to solid (profitable) ground. We reiterate our Outperform rating and $12.00 target still driven by a 4.8x 2023e EV/EBITDA multiple (more than 3 turns below SCL's post-2014 forward year EV/EBITDA average of ~8.0x and well below the peer group averages of all three of SCL's reporting segments).**

CEU reported Q2/22 adj. EBITDA of $61.0 million crushing NBF and street forecasts as price increases offset inflationary pressures and support margin expansion.

CES reported Q2/22 adj. EBITDA of $61.0 million, up 91% y/y and 44% sequentially and beating the NBF ($45.2 million) and street ($45.1 million) forecasts by 35%. Q2 revenue of $434 million increased by 71% y/y and 8% q/q despite a dampening effect from the Spring break-up in Canada, cresting our $363 million forecast by 20% (street: $384 million). Adj. EBITDA margins of 14.1% topped our 12.5% forecast by 162 bps (street: 11.7%), expanding by 145 bps y/y and 349 bps q/q as pricing increases implemented to offset the impact of the rapid inflationary pressures on product and labour costs experienced in late 2021 and early 2022 took hold. Q2 revenue and EBITDA represent new quarterly records. CEU continues to lean on the balance sheet to support rising activity levels and mitigate the impact of supply chain disruption and product cost inflation, with total debt of $521.3 million increasing 7% sequentially. That said, we note working capital surplus exceeded total debt exiting the quarter by $53 million (illustrative of CEU's counter-cyclical balance sheet), and with strength in EBITDA generation estimated net debt/ttm EBITDA decreased sequentially to 2.5x exiting the quarter (vs. 2.8x exiting Q1/22). We continue to forecast leverage reduction through our forecast period with CEU exiting 2023 at an expected ~1.3x net debt/EBITDA. **We maintain our Outperform rating and $3.70 driven by an unchanged 5.2x 2023e EV/EBITDA multiple, a full turn below CEU's post-2018 forward year EV/EBITDA average of 6.2x.**

Diversified Industrials

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8/31	EBITDA (mlm) 2021	EBITDA (mlm) 2022e	EBITDA (mlm) 2023e	EV/EBITDA 2021	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt/ EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		741.5	18.9	39.3	176.3	219.9	237.7	8.9	7.4	6.7	4.0	52.00	34%	↑
AirBoss of America Corp.	BOS	OP		341.6	27.1	12.6	80.3	49.7	78.9	4.3	7.1	9.0	1.7	30.00	141%	↓
CES Energy Solutions Corp.	CEU	OP		635.3	256.2	2.5	156.2	235.9	245.6	6.7	4.8	5.2	2.1	3.70	52%	↑
Enerflex Ltd.	EFX	OP		592.1	89.9	6.6	140.0	217.5	460.0	5.8	9.4	4.4	3.1	10.75	65%	
good natured Products Inc.	GDNP	OP		88.2	223.2	0.4	-0.1	3.9	7.9		33.5	18.0	0.0	1.25	216%	
Mullen Group Ltd.	MTL	OP		1307.9	93.0	14.1	218.7	316.8	300.3	8.7	5.7	5.6	1.5	18.00	32%	↑
Pason Systems Corp.	PSI	SP		1141.6	82.1	13.9	72.5	141.4	161.9	13.6	6.6	5.5	-1.5	19.00	39%	
Shawcor Ltd.	SCL	OP		554.6	70.6	7.9	100.8	121.9	230.1	7.7	6.4	3.5	1.8	12.00	53%	↑

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

Carbon Market Overview

- *Compliance and Voluntary Markets*

Carbon prices have continued to rise at considerable rates (50% Y/Y), inclusive of all regions and systems (range 10% - 95% Y/Y). The rise in prices has largely been attributable to enhanced government ambitions to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization (i.e., European Union's Fit for 55 ambition). 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 and concurrently reducing the supply of allowances, thereby leading to higher carbon prices. Expanding on the aforementioned, see our note published on June 22, 2022 that outlines the deepest overhaul yet within the European Union Emissions Trading System (EU ETS).

Starting with the most liquid carbon market, the European Emission Allowances (EUA) active contract closed the month of July at levels of €78 (US$79.90). Overall, on average, EUAs were down -10-15% this past month (m/m) and remain in contango with the Dec 23 – Dec 22 spread reflecting €2.95. 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 £79 (US$95) at the end of July and are down -5% m/m but up 70% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$13 and are down -5% m/m but up 50% y/y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at US$29 and continue the trend down -5% m/m; we note y/y CCA prices are up 10% y/y.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at US$3 and decreased by -30% on a monthly basis, while the Nature-based Global Emissions Offset (N-GEO) active future closed at US$8 while retreating -10-15% m/m but up +35% y/y.

Monthly Highlights

- *Clean Fuel Regulations; Fueling the Future*

Building upon the noted successes of the implementation of regionally regulated Low Carbon Fuels Standards (British Columbia and California), the Canadian Government unveiled its highly anticipated Clean Fuel Regulations (CFR), which will regulate the use of traditional liquid fuels (gasoline and diesel) in the transportation sector, while working in association with other industrial emitter programs. This initiative is a key component in the Canadian Government's arsenal in the "greening the economy" to ultimately be on the pathway toward meeting our nationally determined contribution (NDC), which is currently reflective of reducing emissions by 40-45% by 2030 (off a 2005 baseline) and charting the way to attain net-zero by 2050. The proposed initiative is set on the precedent of stimulating innovation and growth of low-carbon fuels, essentially suppressing the carbon intensity profile of incumbent transportation fuels.

The Clean Fuel Regulation requires that liquid fossil fuel primary suppliers, which are predominately corporations that own refineries and upgraders, i.e., domestic importers or producers responsible for at least 400 cubic metres (m3), or 2,500 bbls, of gasoline or diesel for use in Canada, to reduce the carbon intensity of such fuels through specific pathways (incl. credit generating opportunities). Upon full implementation, it is expected that the CFR will aid in the reduction of an incremental 15-20 mtCO2e in 2030, or 4-5% of our domestic projected emissions profile as tabled in the Emissions Reduction Plan.

Sector Analysis

Healthcare, Biotech & Special Situations

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Selections

- *Dentalcorp Holdings*
- *DRI Healthcare Trust*
- *Jamieson Wellness*

Highlights as of August 2022

The majority of the companies in our coverage reported earnings results in August; we highlight Andlauer Healthcare Group (TSX: AND) and Knight Therapeutics (TSX: GUD).

Andlauer Healthcare Group Inc. (AND)

AND reported a big beat across the board with overall Q2/22 revenues / EBITDA / EPS that were 14% / 21% / 28% ahead of our estimates while it also increased its dividend by 17%. Pre intersegment eliminations, the company reported +57% y/y growth, mainly attributable to acquisitions (+34% y/y vs. our 27% estimate) while overall organic growth of +22% y/y (vs. our 9% estimate) was largely related to fuel surcharges - we estimate "pure" organic growth to be closer to 8%-9%.

AND's strong growth momentum is likely to continue due to 1) management seeing a continuation of this momentum in H2; 2) AND aiming to participate in the handling of the GSK / Government of Canada flu vaccine contract; 3) potential opportunities from the U.S. in/near-shoring pharma supply chain; and 4) AND likely executing on acquisition opportunities.

Ahead of Q2/22 results, we upgraded AND to Outperform (was Sector Perform) as the regulatory outlook in Canada and the United States has improved. We continue to maintain a positive outlook on AND as, in addition to being a well-run healthcare logistics/transport market leader in Canada, the continued growth of pharmaceutical sales during prior recessions should provide a supportive backdrop.

Outperform rating and $59.00 target, implying ~15.5x FY+1 EV/EBITDA.

Knight Therapeutics Inc. (GUD)

GUD reported a beat in Q2/22 with results ahead of our forecasts (+54% on EBITDA), consensus (+74%) and Y/Y (+90%) due to contributions from 1) Exelon, including a forward pull of sales; 2) recent product launches; and 3) increased salesforce activity. Some offset came from lower sales of certain oncology products (competition) and lower demand for some infectious disease products (COVID-related strength in Q2/21).

Despite the beat, GUD maintained its 2022 revenue guidance due to 1) the forward sales of Exelon in Q2 and potential shifts to ordering patterns on the internalization of marketing; and 2) termination of the Gilead distribution agreement in H2/22. However, the impact from the latter will be limited and, in our view, it is reasonable to expect GUD exceeds its 2022 revenue guidance of $260 million - $270 million.

Other Q2 updates included 1) costs to increase in H2 on internalization of Exelon's marketing; 2) Canada lags LatAm in activity (lower patient / physician / salesforce engagement) but slowly improving; 3) GUD not impacted by drug shortages in Brazil; and 4) deal flow remains steady with few changes to valuations.

We believe GUD's growth momentum will likely continue despite the puts-and-takes on the ordering patterns of specific products. We maintain an Outperform rating and $7.75 price target derived via a sum of parts.

Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 8/31	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		118.16	89.5	1.32u	2/2022	0.0%	(0.56)u	(0.83)u	(0.70)u	nmf	nmf	59.3u	139.0u	144.7u	9.5	8.8	1,198.7u	8.3	0.50u	↓
Andlauer Healthcare Group	AND	OP	↑	2,182.17	41.8	52.17	2/2022	0.5%	1.30	1.67	1.78	31.2	29.4	119.3	161.8	167.9	14.5	13.9	155.8	0.9	59.00	↑
Dialogue Health Technologies	CARE	OP		201.99	66.0	3.06	2/2022	0.0%	(0.39)	(0.35)	0.00	nmf	nmf	(21.2)	(18.6)	4.5	nmf	nmf	-	-	8.50	↓
dentalcorp Holdings	DNTL	OP		1,888.72	182.7	10.34	2/2022	0.0%	(0.21)	0.61	0.82	17.0	12.6	191.8	235.1	295.5	12.9	10.9	1153.1	3.9	18.00	
DRI Healthcare Trust	DHT.UT	OP		251.3u	38.7	6.50u	2/2022	4.6%	0.62u	0.67u	0.73u	9.7	9.0	101.2u	79.0u	77.5u	3.5	3.4	46.3u	0.6	9.75u	
Jamieson Wellness	JWEL	OP		1,520.94	41.4	36.73	2/2022	1.9%	1.34	1.60	1.84	23.0	19.9	100.1	122.5	148.6	14.8	12.9	364.9	2.5	46.25	
Knight Therapeutics	GUD	OP		655.97	115.1	5.70	2/2022	0.0%	0.21	0.29	0.35	11.9	9.8	38.0	53.2	59.7	8.0	7.1	-	-	7.75	↑
Medical Facilities Corp.	DR	SP		303.78	30.2	10.06	2/2022	3.2%	0.96u	0.91u	0.94u	8.6	8.5	63.6u	54.4u	54.4u	6.5	6.2	83.4u	1.9	10.50	
Theratechnologies	TH	SP		276.80	95.1	2.91	2/f2022	0.0%	(0.25)u	(0.23)u	0.02u	nmf	nmf	(14.6)u	(15.0)u	7.6u	nmf	30.9	-	-	3.25	↓
Special Situations																						
H_2O Innovation	HEO	OP		179.11	90.0	1.99	3/f2022	0.0%	0.08	0.09	0.13	23.4	15.4	14.6	18.1	20.9	11.4	9.9	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		325.35	10.6	30.55	2/2022	3.9%	2.18	2.32	2.61	13.2	11.7	42.8	43.9	50.1	9.5	8.4	93.6	1.9	36.00	↓
Rogers Sugar	RSI	SP		652.33	104.4	6.25	3/f2022	5.8%	0.33	0.43	0.46	14.5	13.7	91.0	99.6	105.3	10.2	9.6	386.3	3.7	6.00	↑
Chemtrade Logistics Income Fund	CHE.UN	OP		978.55	114.9	8.52	2/2022	7.0%	0.70	1.33	1.26	6.4	6.8	280.4	370.0	352.2	5.5	5.7	1,042.9	3.0	11.00	↑

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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Selections

- › *WSP Global*
- › *ATS Automation Solutions*
- › *Stantec Inc.*

Finning International Inc.

Escondida win supports aging fleet replacement thesis

Finning, BHP and Caterpillar have announced plans to replace BHP's haul truck fleet at the Chilean Escondida copper mine.

Located in the Atacama Desert in Chile's Antofagasta Region, Escondida is the world's largest copper mine with annual capacity of 1.4 mln tonnes/year, representing about 7% of global copper production. The mine is majority-owned (57.5%) by BHP Group Limited (NYSE: BHP; Not Rated), which operates a 160+ unit haul truck fleet composed primarily of Caterpillar (NYSE: CAT; Not Rated) 793B and 793C dump trucks (in addition to some other OEMs). The existing trucks will be replaced over a 10-year period, starting in 2023 with Caterpillar 798 AC electric drive trucks, which will improve the capacity, reliability, efficiency and safety of the haulage fleet. Furthermore, the updated fleet will serve as a key platform in accelerating BHP's ongoing adoption of autonomous haulage technology and longer-term decarbonization goals. This initiative represents the largest fleet deal in Finning's history and a significant addition to the company's backlog. In addition, Finning's Integrated Knowledge Center in Antofagasta will provide technical support throughout the life of the fleet, increasing the company's revenue visibility.

Bottom line – interesting timing... right?

It's interesting to observe the dichotomy of FTT shares floundering (-13% YTD vs. TSX -8%) amidst the broader Chilean Index (S&P IPSA) advancing +29% YTD (lower currency of course helps here as we are talking about local denomination). Nevertheless, with Canadian investors being highly concerned about the September 4 vote on the new constitution (that does not appear to have enough votes to be changed, based on most recent polls), the resource and financials-heavy local index is chugging along. From FTT's perspective, this is a major win as the mine is going to an all-CAT offering (the site now is mixed, predominantly CAT, however) while also validating a thesis that aged mining equipment will need replacement, regardless of what might be happening from a political standpoint. We believe that Canadian oil sands fleets are in a similar age group (10 to 12 years old), right on the cusp of a material refresh / rebuild cycle. While there are no numbers in the press release, large, brand new mining trucks are somewhere in the US$5 mln range (list prices are not advertised), depending on configuration. Importantly, the eventual tail of Product Support is as important as selling the original gear. Overall, the announcement is showing that Finning / CAT are able to win contracts ,even in this uncertain environment. FTT shares continue to impute a dislocated vs. commodity pricing dynamic (as measured by WTI / copper index). We rate FTT shares Outperform, $40.00 price target (using a 14.5x P/E multiple on 2023 forecasts).

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 8/31	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP		**$13.00**	↓	$10.88	$662	12 - 2021	$0.71	$0.09	$0.52	37.0x	15.4x	$230	$186	$219	6.9x	5.7x	6.8%	2.5x
Bird Construction Inc.	BDT	OP		**$9.00**	↓	$6.63	$356	12 - 2021	$0.95	$0.70	$0.94	9.5x	7.1x	$101	$86	$108	4.2x	3.3x	5.9%	0.1x
Finning International Inc.	FTT	OP		**$40.00**	↓	$28.30	$4,451	12 - 2021	$2.18	$2.86	$2.81	9.9x	10.1x	$855	$1,028	$1,031	5.8x	5.8x	3.3%	1.4x
IBI Group Inc.	IBG	R		**R**		$19.35	$606	12 - 2021	$0.72	R	R	R	R	$53	R	R	R	R	0.0%	R
North American Construction Group Ltd.	NOA	OP		**$20.00**	↓	$15.10	$429	12 - 2021	$2.06	$1.83	$2.41	8.2x	6.3x	$207	$209	$233	3.9x	3.5x	2.1%	1.8x
Ritchie Bros. Auctioneers	RBA	UP	↓	**US$60.00**	↑	US$69.34	$7,672	12 - 2021	US$1.64	US$2.07	US$2.21	33.6x	31.3x	US$359	US$429	US$451	20.7x	19.7x	1.4%	2.7x
SNC-Lavalin	SNC	OP		**$42.00**		$25.41	$4,461	12 - 2021	$1.31	$1.25	$1.63	10.3x	7.9x	$437	$481	$567	7.8x	6.7x	0.3%	3.1x
Stantec Inc.	STN	OP		**$70.00**		$62.33	$6,912	12 - 2021	$2.38	$2.94	$3.30	21.2x	18.9x	$439	$564	$595	14.5x	13.7x	1.2%	2.2x
Toromont Industries Ltd.	TIH	SP	↓	**$109.00**	↓	$101.66	$8,384	12 - 2021	$4.00	$4.73	$4.91	21.5x	20.7x	$634	$715	$744	11.7x	11.2x	1.5%	net cash
WSP Global	WSP	OP		**$188.00**	↑	$156.51	$18,475	12 - 2021	$5.08	$6.19	$6.75	25.3x	23.2x	$1,044	$1,295	$1,584	15.2x	12.4x	1.0%	0.9x
AutoCanada	ACQ	SP		**$37.00**		$29.77	$806	12 - 2021	$4.16	$4.62	$4.50	6.4x	6.6x	$195	$232	$212	5.1x	5.6x	0.0%	1.3x
Stelco	STLC	SP		**$48.00**	↓	$35.55	$2,567	12 - 2021	$20.42	$12.69	$4.46	2.8x	8.0x	$2,055	$1,326	$565	1.0x	2.4x	3.4%	net cash
ATS Automation	ATA	OP		**$55.00**	↑	$40.12	$3,698	12 - 2021	$2.17	$2.36	$2.51	17.0x	16.0x	$318	$378	$399	12.2x	11.5x	0.0%	2.3x
ABC Technologies	ABCT	SP		**$7.00**		$5.70	$487	12 - 2021	-$0.22	-$0.58	$0.36	-7.7x	12.4x	$133	$69	$179	11.0x	4.2x	2.6%	5.4x
Colliers International	CIGI	OP		**US$166.00**	↑	US$116.80	$5,147	12 - 2021	US$6.18	US$7.52	US$8.11	15.5x	14.4x	US$544	US$657	US$727	10.2x	9.3x	0.3%	0.7x
Stella-Jones	SJ	OP		**$51.00**	↓	$39.99	$2,571	12 - 2021	$3.55	$3.81	$3.85	10.5x	10.4x	$367	$386	$390	8.6x	8.5x	2.0%	1.9x
Median												**10.5x**	**12.4x**				**8.6x**	**6.7x**	**1.5%**	

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

Back to Research Analysts page

Sector Analysis

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Selection

› *Loblaw*

Alimentation Couche-Tard Inc. (ATD: TSX)

Upgrading to Outperform

We are upgrading our recommendation given: (1) Increasing confidence that ATD's fuel margins will continue to show strength owing to ongoing improvement initiatives. (2) Improved likelihood of an acquisition given management's comments on higher deal flow as well as an unexpected pause in repurchasing shares. (3) An accommodative valuation as ATD is trading below historical averages. ATD trades at 15.5x NTM EPS versus the 5-year average of 17.4x (11% discount). It also trades at 9.8x NTM EBITDA versus the 5-year average of 10.5x (7% discount).

Signs of improvement

1) In our view, the industry is showing signs of improvement. Given the recent easing of oil prices, we would anticipate less pressure on merchandising, fuel consumption and fuel margins (which were strong, despite rising oil prices). In addition, management suggested that labour challenges are improving, which should ease SG&A pressure. This is in tandem with ongoing business improvement initiatives. (2) ATD has previously indicated it expects to achieve its EBITDA target of $5.1 bln in F2023 (consensus is $5.2 bln); however, it's likely that ATD will exceed this, particularly if more acquisitions materialize. LTM EBITDA has already reached $5.4 bln.

Outperform Rating; PT is Cdn$68

We value ATD at 17.0x our F24/F25 EPS (adj. for F/X).

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 08/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		9,214	59.6	154.47	12/2021	18.91	18.30	19.29	8.4	8.0	2,667	2,593	2,676	5.2	5.0	87.15	0.45	213.00	↓
Dollarama	DOL	OP		23,552	294.5	79.98	01/2022	2.18	2.66	3.08	30.0	25.9	1,283	1,454	1,579	18.7	17.2	-0.06	1.00	82.00	↑
Fuel and Other																					
Couche Tard	ATD.b	OP	↑	57,975	1,027.2	56.44	04/2022	2.60	2.89	2.97	14.8	14.5	5,266	5,451	5,347	9.1	9.3	12.09	0.36	68.00	↑
Parkland Fuel Corporation	PKI	OP		5,057	156.8	32.24	12/2021	2.45	3.79	3.15	8.5	10.2	1,260	1,681	1,683	6.6	6.6	15.59	0.71	45.00	
Apparel																					
Gildan	GIL	OP		7,219	185.9	38.84	12/2021	2.73	3.14	3.20	9.4	9.2	727	791	806	7.8	7.6	10.02	0.31	43.00	↓
Grocers																					
Empire Company	EMP.a	OP		9,876	264.0	37.41	05/2022	2.80	3.01	3.38	12.4	11.1	2,331	2,396	2,462	6.9	6.7	18.91	0.57	42.00	
Loblaw	L	OP		38,814	334.4	116.07	12/2021	5.59	6.47	7.03	17.9	16.5	5,587	5,986	6,156	7.5	7.3	33.91	0.35	127.00	↑
Metro	MRU	SP		16,586	240.1	69.08	09/2021	3.44	3.81	4.17	18.1	16.6	1,106	1,121	1,153	18.5	18.0	27.57	0.27	75.00	↑
Food Manufacturer																					
Saputo	SAP	OP		13,912	417.1	33.35	03/2022	1.17	1.61	1.98	20.7	16.9	1,155	1,491	1,718	12.0	10.4	15.7	0.38	39.00	↑
Lassonde	LAS.a	OP		789	6.9	114.00	12/2021	11.18	9.53	12.29	12.0	9.3	178	161	191	6.3	5.3	125.5	0.20	141.00	↓
Premium Brands Holdings	PBH	OP		4,364	44.7	97.59	12/2021	4.47	5.45	6.67	17.9	14.6	431	514	592	13.1	11.4	40.1	0.57	134.00	↓
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		989	37.3	26.50	12/2021	2.66	3.29	3.53	8.1	7.5	211	239	247	5.6	5.4	10.94	0.46	37.00	
Pet Valu	PET	SP		2,409	71.8	33.55	12/2021	1.02	1.56	1.69	21.6	19.8	182	210	224	13.4	12.5	0.00	1.14	42.00	↑
Restaurants																					
MTY Food Group	MTY	OP		1,434	24.4	58.72	11/2021	3.46	3.88	4.45	15.1	13.2	169	177	222	9.8	7.8	27.05	0.31	68.00	↑
Online Grocery																					
Goodfood Market	FOOD	OP		77	75.0	1.03	08/2021	(0.45)	(1.05)	(0.64)	NA	NA	(15)	(47)	(18)	NA	NA	0.60	0.58	2.00	↓

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

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Sector Analysis

Metals & Mining: Base Metals

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Selections

› *Teck Resources* › *First Quantum*

Price Volatility to Persist in 2022

At the start of 2022, elevated copper prices continued from 2021 and remained well-supported, surpassing $4.80/lb in Q1. With decreased demand in China from ongoing COVID restrictions, Russia's invasion of Ukraine and high global inflation causing recession fears, demand has started to soften ahead of a period of sustained supply growth. The current market outlook on copper prices is pessimistic, and we expect continued price volatility arising from competing supply-demand forecasts caused by global inflation and recession fears, in contrast to reduced COVID restrictions in China and supply disruptions throughout LatAm.

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, with battery electric vehicles requiring 3x the copper 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 elevated 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. In the event of further erosion of commodity prices, Teck has the ability to conserve its balance sheet and generate positive FCF yield, even in the event of a 15% decrease in commodity prices.

First Quantum (FM: TSX)

Remains a 'go-to' copper producer given its high-quality asset base, low AISC and one of the most robust project pipelines (including Cobre-Panama, Enterprise, Kansanshi S3 expansion and Taca Taca). In the event of a 15% drop in copper spot price, we model First Quantum as having the highest FCF yield in our coverage universe.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	SP	-	2,043	690.1	2.96	4.00	-	Nagle	0.07u	0.60u	0.14u	3.7x	21.7x	0.34u	0.93u	0.41u	2.4x	5.4x	4.30	0.7x
Copper Mountain Mining	CMMC	SP	↓	314	213.8	1.47	2.25	-	Nagle	0.11u	0.62u	0.14u	2.4x	10.2x	0.61u	1.53u	0.48u	1.0x	3.1x	3.38	0.4x
Ero Copper	ERO	SP	-	1,132	90.7	12.49	16.00	↓	Nagle	1.34u	2.44u	1.43u	3.9x	8.8x	2.02u	3.17u	2.30u	3.0x	4.1x	16.71	0.7x
First Quantum Minerals	FM	OP	-	16,146	691.8	23.34	32.50	↓	Nagle	(0.07)u	1.20u	2.09u	14.6x	11.2x	2.64u	4.22u	4.49u	4.2x	3.9x	26.12	0.9x
Hudbay Minerals	HBM	SP	↓	1,523	261.9	5.82	7.75	↓	Nagle	(0.44)u	0.23u	0.02u	18.9x	275.7x	0.93u	1.87u	1.63u	2.3x	2.7x	6.48	0.9x
Lundin Mining	LUN	SP	-	5,334	778.8	6.85	9.00	↓	Nagle	0.31u	1.11u	0.63u	4.6x	10.9x	1.00u	2.11u	1.36u	2.4x	3.8x	8.66	0.8x
Sherritt International	S	SP	-	157	397.3	0.40	0.70	↓	Nagle	(0.37)u	(0.03)u	0.21u	n/a	1.8x	0.09u	(0.11)u	0.14u	n/a	2.1x	1.37	0.3x
Taseko Mines	TKO	SP	-	395	286.4	1.38	1.75	↓	Nagle	(0.11)c	0.16c	0.01c	8.7x	111.2x	0.44c	0.73c	0.29c	1.9x	4.7x	2.80	0.5x
Teck Resources	TECKb	OP	-	23,610	529.5	44.59	52.50	↓	Nagle	1.05c	5.74c	8.97c	7.8x	5.0x	3.38c	10.54c	14.95c	4.2x	3.0x	39.15	1.1x
Developers																					
Adventus Mining	ADZN	OP	-	65	166.4	0.39	1.00	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.31	0.3x
Arizona Metals	AMC.V	OP	-	481	108.5	4.43	7.25	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8.90	0.5x
Bravo Mining	BRVO	OP	-	172	101.0	1.70	2.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.09	0.5x
Filo Mining	FIL	OP	-	1,947	121.5	16.03	30.00	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	37.23	0.4x
Foran Mining	FOM.V	OP	-	580	238.8	2.43	3.30	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.98	0.6x
Solaris Resources	SLS.TO	OP	-	777	108.9	7.14	16.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20.08	0.4x
Trilogy Metals	TMQ	SP	-	127	145.5	0.87	1.35	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.03	0.4x
Sigma Lithium	SGML	OP	-	3,030	100.4	30.17	27.00	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	30.82	1.0x
Lithium Americas	LAC	OP	-	4,537	120.1	37.79	38.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28	0.7x

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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Watch for Changes in the Real Rate

Eye on U.S. inflation and Fed interest rate decisions, which will drive spot gold prices.

We can measure the relationship between inflation and interest rates through monitoring the change in real rates. The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. Supply chain constraints, as well as the stimulus has resulted in higher-than-normal inflation, which is now being combatted with rising interest rates. The U.S. Fed began to raise interest rates in March of 2022 and the Chairman recently signaled to expect more rates to come. We believe the spot gold price and gold equities could prove volatile in the near term as rates rise, the U.S. dollar stays strong and if inflation potentially cools from its recent peak. However, if inflation proves sticky and/or the risk of a U.S. recession grows, we believe this could prove to be a growing tailwind for the spot gold price and gold equities. In our opinion, the rate of change of the real rate is more important to the spot gold price vs the actual rate itself, thus a flattening out of a rising real rate could be the catalyst for a spot gold price rally. The war in Ukraine could keep inflation pressures elevated if the conflict continues into the winter months of the Northern hemisphere, which could also provide support for the spot gold price.

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.

Selections

Gold/Silver Producers:

- ***Alamos Gold Inc.*** *(AGI: TSX; C$12.50 target)*
- ***Aya Gold & Silver Inc.*** *(AYA: TSX; C$10.50 target)*
- ***Endeavour Mining plc*** *(EDV: TSX; C$40.50 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$8.25 target)*
- ***K92 Mining Inc.*** *(KNT: TSX; C$10.75 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$33.00 target)*

Royalties:

- ***Wheaton Precious Metals Corp.*** *(WPM: TSX; C$68.00 target)*

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	24,685	455.78	54.16	74.00	↓	Parkin	2.40u	2.39u	2.09u	17.3x	19.7x	6.51u	5.52u	5.52u	7.5x	7.5x	48.79	1.11x
Barrick Gold	ABX	SP	-	34,329	1,760.47	19.50	26.00	↓	Parkin	1.12u	0.93u	1.01u	16.0x	14.8x	2.61u	2.45u	2.62u	6.1x	5.7x	25.09	0.78x
Kinross Gold Corp	K	OP	-	5,407	1,254.51	4.31	8.25	↓	Parkin	0.77u	0.27u	0.42u	12.4x	7.8x	0.76u	0.84u	1.16u	3.9x	2.8x	11.06	0.39x
Newmont	NGT	OP	↑	43,105	793.68	54.31	79.00	↓	Parkin	2.96u	2.27u	2.66u	18.2x	15.6x	6.02u	5.89u	5.90u	7.0x	7.0x	60.18	0.90x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	30,337	191.6	158.37	205.00	↓	Nagle	2.72u	3.53u	3.68u	33.7x	43.0x	4.22u	5.21u	5.12u	22.9x	23.3x	81.29	1.95x
Maverix Metals Inc	MMX	SP	-	647	147.4	4.39	6.50	↓	Nagle	0.12u	0.12u	0.14u	36.6x	32.3x	0.29u	0.29u	0.28u	15.3x	15.6x	4.42	0.99x
Osisko Gold Royalties Ltd	OR	OP	-	2,352	185.0	12.71	20.00	↓	Nagle	0.26u	0.57u	0.54u	22.5x	23.5x	0.65u	1.03u	1.13u	12.3x	11.2x	15.35	0.83x
Royal Gold Inc	RGLD	SP	-	6,038	65.6	92.09u	140.00u	↓	Nagle	2.91u	4.02u	3.25u	22.9x	28.3x	6.28u	7.06u	5.92u	9.8x	11.7x	58.20	1.58x
Sandstorm Gold Ltd	SSL	OP	-	2,124	284.3	7.47	11.50u	↓	Nagle	0.11u	0.17u	0.18u	33.0x	41.5x	0.36u	0.43u	0.43u	13.1x	13.1x	6.61	1.13x
Triple Flag Precious Metals Corp	TFPM	SP	-	2,504	156.0	16.05	21.00	↓	Nagle	0.20u	0.39u	0.41u	30.9x	39.1x	0.78u	0.80u	0.79u	15.1x	15.3x	12.58	1.28x
Wheaton Precious Metals Corp	WPM	OP	-	18,140	451.7	40.16	68.00	↓	Nagle	1.10u	1.31u	1.24u	23.0x	32.4x	1.71u	1.90u	1.76u	15.9x	17.2x	24.56	1.63x
*Carbon Streaming Corp.	NETZ	OP	-	193	46.7	4.13	7.50	↓	Aganga	0.00u	(0.46)u	(0.21)u	n/a	n/a	0.00u	0.23u	(0.16)u	13.5x	n/a	4.72	0.88x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP	-	3,709	391.69	9.47	12.50	↓	Parkin	0.41u	0.31u	0.35u	23.5x	20.3x	1.05u	0.92u	0.97u	7.8x	7.4x	12.04	0.79x
B2Gold	BTO	OP		4,321	1,072.3	4.03	7.50	↓	DeMarco	0.36u	0.23u	0.33u	17.9x	12.1x	0.68u	0.66u	0.81u	6.1x	5.0x	4.66	0.87x
Centerra Gold Inc	CG	OP	-	1,309	220.08	5.95	10.50	↓	Parkin	0.62u	(0.14)u	0.89u	-32.9x	5.1x	1.43u	0.23u	1.44u	19.6x	3.1x	14.30	0.42x
Dundee Precious Metals	DPM	OP	↑	1,141	190.8	5.98	10.00	↓	DeMarco	1.03u	0.78u	0.64u	7.7x	9.3x	1.66u	1.30u	1.33u	4.6x	4.5x	10.78	0.55x
Eldorado Gold Corp	ELD	OP	-	1,337	184.69	7.24	15.50	↓	Parkin	(0.15)u	0.30u	0.69u	24.4x	10.4x	2.06u	1.47u	2.11u	3.7x	2.6x	21.87	0.33x
Endeavour Mining	EDV	OP		6,350	248.4	25.56	40.50	↓	DeMarco	2.42u	1.68u	1.34u	15.2x	19.1x	4.75u	4.63u	3.70u	5.5x	6.9x	30.21	0.85x
Equinox Gold Corp	EQX	SP	↓	1,406	305.1	4.61	6.75	↓	Parkin	0.21u	(0.18)u	0.08u	n/a	56.5x	0.79u	0.62u	0.86u	7.5x	5.4x	12.61	0.37x
IAMGOLD Corp	IMG	SP	-	1,014	645.57	1.57	2.40	↓	Parkin	0.02u	0.01u	0.18u	116.5x	6.6x	0.61u	0.81u	0.76u	1.5x	1.6x	4.02	0.39x
Lundin Gold Inc.	LUG	SP		2,060	234.9	8.77	11.50	↓	DeMarco	1.07u	0.60u	0.52u	14.6x	16.9x	1.58u	1.60u	1.37u	5.5x	6.4x	11.65	0.75x
New Gold Inc	NGD	SP	-	580	682.30	0.85	1.20	↓	Parkin	0.32u	(0.04)u	(0.07)u	n/a	n/a	0.47u	0.20u	0.23u	3.3x	2.8x	1.46	0.58x
OceanaGold Corp	OGC	OP	-	1,366	704.20	1.94	3.50	↓	Parkin	0.20u	0.16u	0.15u	12.0x	13.3x	0.47u	0.56u	0.58u	2.6x	2.5x	2.99	0.65x
SSR Mining Inc	SSRM	SP	-	3,756	211.84	17.73	23.50	↓	Parkin	1.32u	0.88u	1.39u	15.3x	9.7x	2.74u	1.88u	1.76u	7.2x	7.7x	23.98	0.74x
Yamana Gold Inc	YRI	T	-	5,562	959.03	5.80	7.10	↓	Parkin	0.34u	0.26u	0.25u	16.8x	17.8x	0.76u	0.76u	0.79u	5.8x	5.6x	5.92	0.98x
Torex Gold Resources Inc	TXG	SP		837	85.84	9.75	15.50	↓	DeMarco	2.36u	1.82u	0.97u	5.4x	10.1x	4.27u	4.37u	3.51u	2.2x	2.8x	20.50	0.48x
Silver Producers																					
Aya Gold and Silver	AYA	OP		806	105.1	7.67	10.50	↓	DeMarco	0.05u	0.00u	(0.05)u	1612.1x	-	0.11u	0.09u	0.03u	80.8x	287.4x	7.06	1.09x
First Majestic Silver Corp	FR	SP		2,495	260.2	9.59	11.75	↓	DeMarco	0.05u	(0.07)u	0.08u	-	114.9x	0.39u	0.49u	1.28u	19.7x	7.5x	6.18	1.55x
Fortuna Silver Mines Inc	FVI	SP		887	291.9	3.04	4.25	↓	DeMarco	0.45u	0.19u	0.36u	16.4x	8.5x	0.79u	0.74u	0.99u	4.1x	3.1x	4.34	0.70x
Pan American Silver	PAAS	OP		4,113	210.5	19.54	33.00	↓	DeMarco	0.77u	0.21u	0.49u	91.8x	39.6x	2.21u	1.45u	2.04u	13.4x	9.6x	15.28	1.28x
Junior Producers (<250 Koz production)																					
Aris Gold Corp.	ARIS	R		222	137.8	1.61	R		DeMarco	R	R	R	R	R	R	R	R	R	R	R	R
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,533	226.5	6.77	10.75	↓	DeMarco	0.10u	0.27u	0.43u	25.0x	15.7x	0.27u	0.38u	0.55u	17.8x	12.4x	10.83	0.62x
Minera Alamos Inc.	MAI	OP		218	448.5	0.49	0.80	↓	Nizami	0.01u	(0.00)u	0.03u	n/a	15.6x	0.00u	(0.01)u	0.04u	-	12.2x	1.08	0.45x
Wesdome Corp.	WDO	OP		1,094	142.5	7.68	15.00	↓	DeMarco	0.47u	0.27u	0.79u	28.2x	9.7x	0.78u	0.44u	1.17u	17.3x	6.6x	10.12	0.76x
Developers																					
AbraSilver Resource Corp	ABRA	OP		160	476.5	0.34	0.50	↓	DeMarco	(0.00)u	(0.02)u	(0.01)u	-	-	(0.01)u	(0.02)u	(0.01)u	-	-	0.48	0.48x
Artemis Gold Inc.	ARTG	OP		708	154.0	4.60	9.00	↓	DeMarco	(0.05)u	(0.04)u	(0.04)u	-	-	(0.08)u	(0.06)u	(0.04)u	-	-	11.92	11.92x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
G Mining Ventures	GMIN	OP		349	447.5	0.78	1.65	↓	Nizami	(0.04)u	(0.03)u	(0.02)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	0.82	0.95x
Integra Resources Corp.	ITR	OP		47	62.1	0.75	1.25	↓	Nizami	(0.54)u	(0.72)u	(0.27)u	n/a	n/a	(0.50)u	(0.67)u	(0.25)u	-	-	1.51	0.50x
Liberty Gold Corp	LGD	OP		131	315.8	0.42	1.00	↓	Nizami	0.03u	(0.11)u	(0.12)u	n/a	n/a	(0.05)u	(0.08)u	(0.11)u	-	-	1.21	0.34x
MAG Silver Corp	MAG	OP		1,556	100.0	15.56	23.50	↓	DeMarco	(0.07)u	0.85u	0.00u	18.3x	-	(0.04)u	0.56u	1.72u	27.7x	9.0x	18.65	0.83x
Marathon Gold Corp.	MOZ	OP		430	254.3	1.69	2.50	↓	DeMarco	(0.02)u	(0.05)u	(0.07)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	3.42	0.49x
NOVAGOLD Resources Inc.	NG	OP	-	1,933	333.3	5.80	9.00	-	Parkin	(0.12)u	(0.14)u	(0.10)u	n/a	n/a	(0.04)u	(0.03)u	(0.03)u	-	-	10.60	0.55x
O3 Mining Inc.	OIII	OP		100	68.4	1.46	3.25	↓	DeMarco	(0.20)u	(0.03)u	(0.33)u	-	-	(0.20)u	(0.06)u	(0.33)u	-	-	4.19	0.35x
Osisko Development	ODV	OP		289	45.4	6.35	10.25	↓	DeMarco	-	-	0.88u	-	7.2x	(0.04)u	-	0.86u	-	7.4x	13.80	0.46x
Osisko Mining	OSK	OP		881	348.1	2.53	4.00	↓	DeMarco	(0.03)u	(0.04)u	(0.04)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	5.18	0.49x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		484	457.0	1.06	2.00	↓	DeMarco	(0.00)u	(0.00)u	(0.00)u	-	-	0.00u	(0.00)u	(0.00)u	-	-	2.82	0.38x

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

u = US dollars; c = Canadian dollars

Note: Carbon Streaming Corp. transacts in royalties and streaming agreements on carbon credits or offsets.

Source: Company Reports, NBF Estimates, Refinitiv

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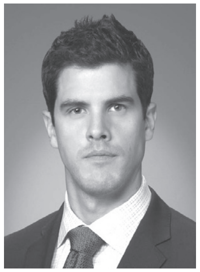
Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

The summer months of July and August saw prompt WTI trade down (average of ~US$95/bbl) from the heights of +US$120/bbl we saw earlier in the year, as the market grappled with fears of a potential recession. Amid the summer trading lull, the crude oil market has experienced extreme volatility, which recently drove Saudi Arabia's energy minister Prince Abdulaziz bin Salman to comment on an emerging disconnect between physical and paper markets. It was suggested that OPEC+ may need to pursue production cuts to bring back a focus on physical fundamentals and to bolster prices, as it is their view that prices are not properly reflecting the tightness currently present in the market. Additional tailwinds for commodity prices include geopolitical conflicts in the Middle East as both Iraq and Libya are currently dealing with major political unrest, impending European Union (EU) sanctions on Russian crude taking effect in December, and the winding down of SPR releases at the end of October. On the flip side, downside pressures tied to inflation and a potential recession, and a possible Iran nuclear deal continue to be front of mind. While the risk of COVID-related lockdowns in China remains a possibility, it would be important to highlight that there is likely more risk to the upside given that global inventories continue to decline well below historical ranges, even without China's full reemergence from the pandemic. While WTI averaged ~US$100/bbl in July and ~US$92/bbl in August (an ~8% decrease m/m and 13% decrease between July and June, respectively), backwardation continues to be present on the forward curve with CAL-23 and CAL-24 WTI coming in at ~US$84/bbl and ~US$76/bbl, respectively. As we outlined during the most recent earnings season, the associated equities within our coverage remain extremely attractive at these commodity prices, as demonstrated by the record FCF earned in Q2. It is our view that this positive momentum is likely to persist as companies continue to rapidly deleverage towards debt targets while displaying transparency and discipline by remaining focused on returning capital to shareholders.

Natural Gas Outlook

For July and August, NYMEX gas was up significantly, averaging ~US$8.8/mmbtu in August, up approximately 15% from June. While U.S natural gas prices continue to flirt with double digits, the Freeport LNG outage from early June continues to impact pricing, as an additional 2 bcf/d hits the domestic market, pushing additional volumes into storage. The Freeport terminal is now expected to be back to 85% capacity in mid-November. In the short term, this issue continues to magnify the problem for European consumers as we continue to see sky-high prices in advance of winter partially due to the fact these Freeport molecules are not available for export. This issue is being compounded by uncertainty surrounding Nord Stream 1 pipeline exports to the EU (only exported 20% of its capacity on average in August), as Putin has held hostage the supply of natural gas, pushing the EU into a full-blown energy crisis. While the EU is trying to secure alternative supplies of natural gas over the long term to reduce their reliance on Russia, we are also seeing the politicization of the pipeline as reliability and dubious maintenance issues have further reduced the volume being moved into Europe in advance of winter. Additionally, while it has been a quiet storm season so far, a more eventful autumn could further exacerbate supply issues as both production and export facilities within the Gulf of Mexico could be impacted and is something to monitor in the coming months given that forecasters still anticipate an above-average season. In Canada, AECO prices have averaged ~$3.14/GJ in August, down approximately 55% from June, largely due to NGTL system maintenance leading to egress issues. This is in stark comparison to prices we are seeing south of the border and is largely driven by maintenance on the NGTL system and egress issues. This inability to export has led to significant basis discounts as gas is stranded in the basin and pumped into storage. According to Bentek, total U.S. production is estimated to have increased to 95.7 Bcf/d in August (from 94.7 Bcf/d in June). Additionally, LNG exports were down slightly to 10.9 Bcf/d in August from 11.1 Bcf/d in June, and as expected given the seasonality of gas usage, overall demand was estimated at 95.1 Bcf/d, up from 91.2 Bcf/d in June.

Oil & Gas

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 remain attractive. 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. In June, Cenovus announced the acquisition of the remaining 50% working interest of its operated Sunrise asset, with the deal expected to close in Q3. We view the deal as positive, as it allows them to optimize well design to lower costs and enhance operational performance. Additionally, the added downstream integration and increased egress capacity will reduce the company's exposure to the WCS differential, while gaining exposure to record refining cracks, which supports our recommendation for Cenovus as a top pick. Our choice of CVE as a top pick is reinforced by its clear return of capital framework, which outlines that CVE will return 100% of FCF to shareholders upon reaching its net debt target of $4 billion, which we anticipate them hitting by year-end.

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2022-08-31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2021A	EV/DACF est. 2022E	EV/DACF est. 2032E	Net Debt/ Cash Flow 2022E	Net Debt/ Cash Flow 2023E	CFPS - FD act. 2021A	CFPS - FD est. 2022E	CFPS - FD est. 2032E	P/CFPS est. 2022E	P/CFPS est. 2023E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1118.2	$72.00	$80,509	4%	6.9x	4.1x	4.3x	0.5x	0.3x	$11.57	$18.42	$16.71	3.8x	4.2x	$100.00	43%	↓
Cenovus Energy	CVE	OP		Wood	1860.0	$24.64	$45,831	2%	7.4x	3.5x	2.9x	0.1x	0.0x	$3.56	$6.73	$7.40	3.4x	2.9x	$38.00	56%	↓
Imperial Oil	IMO	SP		Wood	606.2	$64.46	$39,078	2%	9.0x	4.8x	4.7x	0.2x	-0.2x	$7.17	$12.98	$12.74	4.7x	4.9x	$86.00	36%	↓
Suncor Energy	SU	SP		Wood	1308.6	$42.49	$55,601	4%	6.6x	3.0x	3.3x	0.4x	0.4x	$6.89	$14.50	$13.26	2.8x	3.0x	$63.00	53%	↓
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	162.9	$11.22	$1,828	0%	9.3x	3.9x	3.0x	0.4x	0.4x	$1.18	$2.74	$3.79	4.1x	3.0x	$15.00	34%	↓
ARC Resources Ltd.	ARX	OP		Wood	636.6	$18.13	$11,542	3%	3.4x	3.6x	3.2x	0.3x	-0.1x	$3.86	$5.14	$5.43	3.4x	3.3x	$26.00	46%	↓
Baytex Energy	BTE	OP		Payne	578.7	$6.81	$3,941	0%	6.3x	3.7x	2.6x	0.7x	-0.1x	$1.30	$2.16	$2.56	3.2x	2.7x	$10.00	47%	↓
Birchcliff Energy	BIR	OP		Payne	277.1	$11.57	$3,206	1%	6.5x	3.1x	3.5x	-0.2x	-0.8x	$1.97	$3.67	$2.78	3.2x	4.2x	$13.50	17%	↓
Crescent Point Energy Corp.	CPG	OP		Wood	546.2	$9.98	$5,451	3%	5.0x	2.6x	1.9x	0.3x	0.0x	$2.57	$4.09	$4.92	2.3x	1.9x	$20.00	104%	↓
Enerplus Corporation ($US)	ERF	OP		Wood	215.5	$15.41	$3,321	1%	3.8x	2.9x	2.1x	0.3x	0.0x	$2.73	$5.36	$6.66	2.6x	2.1x	$26.00	70%	↓
Freehold Royalties	FRU	OP		Wood	150.7	$14.34	$2,161	8%	11.7x	7.0x	7.2x	0.3x	-0.1x	$1.39	$2.12	$1.95	6.7x	7.4x	$20.00	47%	↓
Headwater Exploration	HWX	OP		Payne	238.4	$5.99	$1,428	0%	11.1x	3.9x	3.2x	-0.6x	-0.9x	$0.55	$1.35	$1.46	4.4x	4.1x	$10.50	75%	
Kelt Exploration	KEL	OP		Payne	197.5	$6.29	$1,242	0%	7.5x	3.3x	2.3x	-0.1x	-0.3x	$0.85	$1.82	$2.37	3.5x	2.7x	$10.50	67%	↓
MEG Energy	MEG	OP		Wood	277.5	$18.36	$5,094	0%	7.7x	2.8x	3.0x	0.5x	0.5x	$2.66	$6.81	$6.04	2.5x	2.7x	$30.00	63%	↓
NuVista Energy	NVA	SP		Payne	240.9	$10.80	$2,602	0%	8.1x	3.2x	2.3x	0.1x	-0.5x	$1.38	$3.37	$3.91	3.2x	2.8x	$16.50	53%	↓
Ovintiv Inc (US$)	OVV	OP		Wood	243.7	$53.14	$12,948	2%	5.3x	3.5x	2.1x	0.8x	0.3x	$12.18	$17.62	$25.42	2.9x	1.9x	$99.00	88%	↓
Paramount Resources	POU	OP		Payne	149.0	$29.94	$4,461	4%	9.1x	3.6x	2.8x	0.1x	-0.3x	$3.38	$8.42	$9.62	3.6x	3.1x	$45.00	54%	↓
Peyto Exploration & Development	PEY	OP		Wood	170.4	$12.25	$2,087	5%	6.0x	3.4x	2.8x	1.0x	0.4x	$2.77	$4.63	$5.12	2.6x	2.4x	$19.00	60%	↓
Pipestone Energy	PIPE	SP		Payne	269.6	$4.88	$1,316	0%	8.6x	2.9x	2.0x	0.1x	-0.5x	$0.59	$1.64	$2.02	3.0x	2.4x	$7.00	43%	↓
PrarieSky Royalty	PSK	SP		Wood	238.8	$17.90	$4,275	3%	17.6x	8.5x	9.6x	0.5x	-0.2x	$1.22	$2.19	$1.83	8.2x	9.8x	$26.00	48%	↓
Spartan Delta	SDE	OP		Payne	175.3	$13.25	$2,323	0%	8.7x	2.9x	2.2x	0.1x	-0.5x	$2.26	$4.65	$4.92	0.0x	0.0x	$22.50	70%	
Tamarack Valley Energy	TVE	OP		Payne	450.7	$4.19	$1,888	3%	6.1x	2.8x	2.4x	0.3x	-0.2x	$0.94	$1.61	$1.57	2.6x	2.7x	$8.00	94%	↓
Topaz Energy	TPZ	OP		Payne	144.8	$20.68	$2,995	5%	16.1x	8.8x	7.9x	0.3x	-0.3x	$1.54	$2.42	$2.52	8.5x	8.2x	$30.00	50%	↓
Tourmaline Oil	TOU	OP		Payne	343.2	$77.65	$26,650	1%	9.0x	5.5x	5.1x	0.0x	-0.6x	$9.25	$14.04	$13.71	5.5x	5.7x	$85.00	11%	↓
Vermilion Energy Inc.	VET	OP		Wood	164.0	$35.08	$5,752	1%	7.4x	3.6x	2.5x	0.6x	-0.2x	$5.59	$11.18	$13.02	3.1x	2.7x	$48.00	38%	↓
Whitecap Resources	WCP	OP		Wood	619.5	$9.57	$5,929	5%	6.3x	3.0x	2.9x	0.6x	0.3x	$1.82	$4.00	$3.60	2.4x	2.7x	$17.50	87%	↓
Small Cap																					
Crew Energy	CR	SP		Payne	156.8	$6.50	$1,019	0%	9.3x	3.2x	2.7x	0.3x	-0.5x	$0.82	$2.10	$2.06	3.1x	3.2x	$7.50	15%	
Kiwetinohk	KEC	OP		Payne	44.1	$15.67	$691	0%	14.2x	2.9x	1.8x	0.5x	0.2x	$1.53	$6.43	$9.40	2.4x	1.7x	$25.00	60%	↓
Lucero	LOU	SP		Payne	679.5	$0.61	$414	0%	6.9x	2.8x	1.8x	0.3x	-0.4x	$0.15	$0.24	$0.28	2.6x	2.2x	$1.20	97%	
Surge Energy	SGY	OP		Payne	87.1	$10.08	$878	4%	9.5x	2.8x	2.0x	0.5x	-0.1x	$1.79	$3.95	$4.60	2.6x	2.2x	$15.50	58%	↓
Yangarra Resources	YGR	SP		Payne	93.0	$2.82	$262	0%	4.4x	1.9x	1.4x	0.6x	-0.1x	$1.02	$2.04	$1.96	1.4x	1.4x	$4.00	42%	↓

* 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 08/31	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	UR		Payne	US$640.58	91.3	US$7.02	US$213.2	nmf	nmf	4.4x	nmf	nmf	1.5x	nmf	nmf	nmf	nmf	
Precision Drilling Corp.	PD	OP		Payne	$ 1,073.90	13.3	$80.72	$ 285.2	$ 249.5	$ 342.0	8.4x	11.1x	7.5x	4.0x	4.3x	3.2x	$120.00	49%	
Trican Well Services	TCW	OP		Payne	$ 828.82	238.9	$3.47	$ 30.6	$ 101.6	$ 167.5	7.5x	8.5x	4.9x	-0.7x	-0.3x	-0.3x	$6.25	80%	

* 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 08/31	EBITDA (mm) 2021	EBITDA (mm) 2022e	EBITDA (mm) 2023e	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt / EBITDA 2022e	Net Debt / EBITDA 2023e	12-Mth Price Target	12-Mth Price Return	Δ
Transition Fuels																	
Anaergia	ANRG	SP		Payne	$ 640.28	67.0	$9.56	$ (3.0)	$ 23.8	$ 89.9	39.9x	11.5x	10.9x	3.6x	$14.00	46%	
Green Impact Partners	GIP	OP		Payne	$ 153.27	20.3	$7.55	$ 3.6	$ 6.4	$ 22.2	26.0x	8.3x	2.3x	1.4x	$12.00	59%	
Tidewater Renewables	LCFS	OP		Payne	$ 378.71	34.7	$10.91	$ 15.3	$ 49.3	$ 149.1	11.9x	3.9x	2.9x	0.3x	$19.50	79%	↑

* 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

Energy security remains a focal point as the market continues to look for decarbonization initiatives while supported by a significant macro tailwind expected to remain 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

Crude markets are showing some stabilization throughout the end of August when compared to the slide during June and July, in part due to the shakiness of the Iran deal and OPEC+'s commitment to supporting prices, with WTI averaging ~US$91.51/bbl, ticking down ~8% below July levels of ~US$99.82/bbl, while remaining ~35% above the 2021 average price of ~US$68/bbl. Turning to gas, NYMEX gained over the month, averaging US$8.75/mcf, ~22% above July levels of US$7.12/mcf, while AECO averaged just $3.32/mcf, lagging July's average price of $5.17/mcf by ~36%. On Marketing prospects, the WCS heavy differential widened, opening up to an average of ~US$19.88/bbl through August.

Pipelines & Midstream Update

Enbridge furthered its export-related and value chain inclusive asset buildout while looking to capitalize on the energy security narrative with an emphasis on the global shift towards cleaner fuels. Enbridge recently completed two open seasons, gaining strong customer interest to join the Texas Eastern line which has optionality to tie in to the Gulf Coast from the Haynesville Basin, while a binding open season was launched for the $2.5+ billion T-South section in British Columbia, potentially adding an incremental 300 mmcf/d of capacity to serve the U.S. Pacific Northwest and the recently announced Woodfibre LNG contract of ~300 mmcf/d. For a 30% stake in the 2.1 Mtpa Woodfibre LNG facility, Enbridge contributed net equity of ~$900 million, which is underpinned by 70% long-term offtake contracts with BP. Moreover, after the successful $1.2 billion, 535 mmcf/d binding open season on the T-North gas pipeline expansion in B.C, Enbridge is now working through the regulatory and permitting process with expectations to file with the CER in 2024 and an in-service date of 2026. Elsewhere, Enbridge continued its low-risk pipeline-utility strategy while decreasing commodity-exposed midstream cash flows through its JV with Phillips 66, obtaining operatorship, a 58.5% economic interest in the Gray Oak long-haul crude pipeline, and US$400 million from the merged entity in exchange for decreasing its economic interest in DCP Midstream LP to 13.2%, complementing its 1.6 mmbpd Ingleside Energy Centre on the Gulf Coast. Moreover, U.S. District Court Judge Janet Neff dismissed a motion by Michigan Attorney General Dana Nessel to transfer the ongoing Line 5 dispute from federal to state court while Canada invoked the 1977 Pipeline Treaty relating to the Wisconsin Line 5 dispute.

TC Energy confirmed cost overruns related to the 670 km 2.1 bcf/d Coastal GasLink due to scope increases and inflationary impacts, with costs now expected to total $11.2 billion (previously $6.6 billion) with TRP responsible for contributing $1.9 billion of equity to be funded through the dividend reinvestment plan (DRIP). The pipeline is now ~70% complete and on track to be mechanically complete by Q4/23. Elsewhere, TRP and the CFE (Mexico's state-owned electric utility) created an alliance, ceasing all arbitration while consolidating the TGNH TSA agreement under a single take-or-pay agreement extending through 2055. With the recently closed ~$1.8 billion equity financing, proceeds will fund the newly sanctioned ~$5.6 billion 715 km Southeast Gateway natural gas pipeline, providing ~1.3 bcf/d of natural gas to Mexico with an ISD of mid-2025. Following a Final Investment Decision (FID) on the Tula Pipeline's central segment, the Southeast Gateway Pipeline coming online, and other conditions of the alliance, the CFE will be entitled to a 15% equity interest in TGNH, increasing to 35% upon the termination of the 2055 contract life and TRP recovering its full return on capital.

Tidewater closed its ~$93 million equity offering (~$98 million including a private overallotment option to be exercised within 30 days) consisting of one common share and one-half half warrant to be exercised within 24 months. Gross proceeds are allocated with ~$58.1 million (including an overallotment option) offered to the public and ~$39.7 million (assuming overallotment exercised) offered privately to Birch Hill Private Equity Partners, Kicking Horse Capital Inc. and Tidewaters' management. Net proceeds of ~$90 million in conjunction with the expanded $550 million senior credit facility will contribute to repaying TWM's $125 million senior unsecured notes and remaining $20 million second lien term loan, coming due December 19 and October 21, 2022, respectively.

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	Stock		Units	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth			Combined
	Sym.	Rating	Δ	O/S (Mln)	Price 08-31	Cap. (Mln)	est. 2021e	est. 2022e	est. 2023e	2022e	2023e	est. 2021e	est. 2022e	est. 2023e	2022e	2023e	Debt/ 23e EBITDA	Price Target	Return	Δ	Return
Pipeline & Midstream																					
AltaGas	ALA	OP		280.5	$28.32	$7,945	$1.00	$1.06	$1.12	3.7%	4.0%	$2.79	$2.57	$3.14	11.0x	9.0x	4.8x	33.00	16.5%		20.3%
Enbridge Inc.	ENB	OP		2026.0	$54.16	$109,728	$3.34	$3.44	$3.54	6.4%	6.5%	$4.96	$5.45	$5.74	9.9x	9.4x	4.7x	61.00	12.6%	↑	19.0%
Gibson Energy	GEI	SP		149.1	$24.79	$3,696	$1.40	$1.46	$1.51	5.9%	6.1%	$1.95	$2.20	$2.25	11.3x	11.0x	2.9x	25.00	0.8%		6.7%
Keyera	KEY	OP		221.0	$32.36	$7,152	$1.92	$1.92	$2.01	5.9%	6.2%	$3.03	$3.07	$3.40	10.5x	9.5x	2.9x	38.00	17.4%		23.4%
Pembina Pipelines	PPL	SP		542.0	$46.38	$25,140	$2.52	$2.54	$2.61	5.5%	5.6%	$4.05	$4.55	$4.61	10.2x	10.1x	3.6x	48.00	3.5%		9.0%
Secure Energy	SES	OP		312.0	$5.71	$1,782	$0.03	$0.03	$0.03	0.5%	0.5%	$0.65	$1.11	$1.25	5.1x	4.6x	1.1x	9.00	57.6%		58.1%
Superior Plus	SPB	OP		201.7	$11.02	$2,223	$0.72	$0.72	$0.72	6.5%	6.5%	$1.16	$1.42	$1.30	7.7x	8.4x	3.8x	13.00	18.0%		24.5%
Tidewater Midstream	TWM	OP		423.3	$1.21	$512	$0.04	$0.04	$0.04	3.3%	3.3%	$0.18	$0.31	$0.40	3.9x	3.0x	1.8x	1.75	44.6%		47.9%
TC Energy Corp.	TRP	SP		1017.3	$63.29	$64,383	$3.48	$3.60	$3.74	5.7%	5.9%	$5.74	$5.08	$5.65	12.5x	11.2x	5.5x	65.00	2.7%	↓	8.4%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$46.50	$5,331	$1.79	$1.85	$1.87	4.0%	4.0%	$2.65	$4.05	$3.38	11.5x	13.8x	4.3x	49.00	5.4%	↑	9.3%
Brookfield Infrastructure [1]	BIP	OP		771.4	$41.99	$32,391	$2.04	$1.44	$1.53	3.4%	3.6%	$2.93	$2.16	$2.80	19.4x	15.0x	6.2x	46.00	9.5%		13.0%
Canadian Utilities	CU	SP		275.0	$40.18	$11,048	$1.76	$1.78	$1.79	4.4%	4.5%	$2.97	$3.97	$3.32	10.1x	12.1x	5.0x	40.00	-0.4%	↑	4.0%
Capital Power	CPX	OP		114.6	$50.95	$5,837	$2.12	$2.26	$2.39	4.4%	4.7%	$5.39	$6.53	$6.98	7.8x	7.3x	3.1x	52.00	2.1%	↑	6.5%
Emera Inc.	EMA	SP		269.3	$60.77	$16,368	$2.58	$2.68	$2.78	4.4%	4.6%	$1.50	$3.46	$4.62	17.6x	13.2x	6.3x	60.00	-1.3%		3.1%
Fortis Inc.	FTS	SP		482.0	$57.94	$27,927	$2.05	$2.17	$2.30	3.7%	4.0%	$3.76	$4.29	$4.81	13.5x	12.0x	6.1x	60.00	3.6%		7.3%
Hydro One Ltd.	H	SP		596.9	$35.56	$21,227	$1.07	$1.11	$1.16	3.1%	3.3%	$2.03	$2.00	$1.79	17.8x	19.9x	5.7x	36.00	1.2%	↑	4.3%
TransAlta	TA	SP		270.7	$12.33	$3,338	$0.18	$0.20	$0.20	1.6%	1.6%	$2.08	$1.85	$2.06	6.7x	6.0x	3.3x	15.00	21.7%		23.3%

Source: Company Reports, NBF Estimates, Refinitiv

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

Sc [1] All dollar figures for BIP are in USD

Real Estate

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Selections

- *BSR REIT*
- *H&R REIT*
- *Killam Apartment REIT*
- *Chartwell Retirement Residences*
- *Flagship Communities REIT*
- *Tricon Residential Inc.*

August REIT Highlights

Macroeconomic Environment

The TSX Capped REIT Yield increased 15 basis points m/m in August, resulting in a 3.4% increase in yield. When compared to Canada's 10-year government yield, we see an average spread of 1.56% in August. The Capped REIT Index is currently underperforming vs. the TSX at -18.6% and -8.1% YTD, respectively, with Retail and Diversified segments looking strong relative to other Real Estate segments.

RioCan REIT (REI) – *Consensus estimates should go higher post Q2 print*

Q2 FFO/u was $0.43 (+6.5%), ahead of NBF/consensus of $0.39/$0.42. SPNOI was +6% (+3% excluding bad debt changes). Variance was from better NOI and condo gains, offset by higher G&A. Excluding a restructuring charge (to reduce headcount), FFO/u was $0.44 (+9.5%), well ahead of street and consensus. Leasing performance in Q2 was healthy, implying stronger results ahead in 2023. Despite this, 2023 consensus estimates remain below management's +5-7% growth guidance target; consequently, we see an opportunity remaining in REI units.

With the retail portfolio in striking distance of 9% occupied, REI will pick up some negotiating leverage on leasing: to wit, renewals spreads were +11% in Q2. REI again noted the uptick in demand from grocers, which is meaningful since the "Big 3" traditional grocers control 133 million sf. REI's residential pipeline is creating nice spaces for smaller format grocery (e.g., Farm Boy/FreshCo, City Market/No Frills) in urban environs.

REI units are rated Outperform, with a $24.00 target (was $23.00). Our target is based on a -1% discount (was -3%) to our NAV/ u estimate one year out, translating to 15.1x 2023E AFFO multiple (was 14.5x), reflective of REI's relative growth, business risk and leverage.

Killam Apartment REIT (KMP) added to NBF Dividend All-Stars

KMP offers investors a ~4% yield at a payout ratio below 80%. Over the past two years, Killam has been a net beneficiary of a rise in interprovincial migration, particularly owing to the prevalence of work from home, which drove demand for affordable housing in Killam's core-Atlantic province portfolio. That said, the REIT has also been active in property development which will further support its strong growth profile, especially given the high level of completions set to come online in H2/22.

Killam trades at an implied capitalization rate of ~5.0%, which is above peers trading at ~4.6%. This represents a relatively strong spread to Canadian competitors, suggesting an attractive valuation especially given the fact that Killam offers a newer product, with its average building age at ~28 years (and shortening due to the REIT's ongoing development initiatives).

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 8-31	Distributions per Unit Actual 2021	Distributions per Unit est. 2022	Distributions per Unit est. 2023	Cash Yield 2021A	Cash Yield 2022E	Cash Yield 2023E	Cash Yield Current Annualized	FD FFO Actual 2021	FD FFO est. 2022	FD FFO est. 2023	P/FFO 2021A	P/FFO 2022E	P/FFO 2023E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,118	Woolley	$20.13	$1.00	$1.00	$1.00	5.0%	5.0%	5.0%	5.0%	$1.60	$1.71	$1.78	12.6x	11.8x	11.3x	$24.30	$24.00	24.2%	↓
Choice Properties REIT	CHP.un	SP	↔	$9,831	Woolley	$13.59	$0.74	$0.74	$0.74	5.4%	5.4%	5.4%	5.4%	$0.95	$0.96	$0.97	14.3x	14.1x	14.0x	$12.70	$14.00	8.5%	↓
First Capital REIT	FCR	SP	↔	$3,254	Woolley	$15.12	$0.43	$0.43	$0.43	2.8%	2.8%	2.8%	2.8%	$1.14	$1.10	$1.14	13.3x	13.7x	13.3x	$20.60	$18.00	21.9%	↓
SmartCentres REIT	SRU.un	SP	↔	$4,982	Woolley	$27.97	$1.85	$1.85	$1.85	6.6%	6.6%	6.6%	6.6%	$2.06	$2.21	$2.16	13.6x	12.6x	12.9x	$30.20	$30.00	13.9%	↓
CT REIT	CRT.un	OP	↔	$3,778	Woolley	$16.14	$0.87	$0.87	$0.87	5.4%	5.4%	5.4%	5.4%	$1.24	$1.28	$1.34	13.0x	12.6x	12.0x	$16.50	$18.00	16.9%	↓
Crombie REIT	CRR.un	OP	↔	$2,755	Woolley	$15.55	$0.89	$0.89	$0.89	5.7%	5.7%	5.7%	5.7%	$1.15	$1.14	$1.19	13.5x	13.6x	13.1x	$16.91	$18.00	21.5%	↓
Automotive Properties REIT	APR.un	SP	↓	$632	Woolley	$12.88	$0.80	$0.80	$0.80	6.2%	6.2%	6.2%	6.2%	$0.94	$0.97	$1.03	13.7x	13.3x	12.5x	$12.71	$13.50	11.1%	↓
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$4,020	Kornack	$31.38	$1.70	$1.70	$1.70	5.4%	5.4%	5.4%	5.4%	$2.44	$2.68	$2.82	12.9x	11.7x	11.1x	$49.35	$36.50	21.7%	↓
DREAM Office REIT	D.un	SP	↔	$955	Kornack	$18.27	$1.00	$1.00	$1.00	5.5%	5.5%	5.5%	5.5%	$1.54	$1.52	$1.56	11.8x	12.1x	11.7x	$21.70	$20.00	14.9%	↓
Slate Office REIT	SOT.un	SP	↔	$329	Kornack	$4.50	$0.40	$0.40	$0.40	8.9%	8.9%	8.9%	8.9%	$0.58	$0.62	$0.64	7.8x	7.2x	7.0x	$5.00	$4.40	6.7%	↓
True North Commerical REIT	TNT.un	SP	↔	$565	Kornack	$6.17	$0.59	$0.59	$0.59	9.6%	9.6%	9.6%	9.6%	$0.59	$0.60	$0.60	10.4x	10.2x	10.3x	$7.15	$6.00	6.9%	↓
H&R REIT	HR.un	OP	↔	$3,827	Kornack	$12.68	$0.52	$0.52	$0.52	4.1%	4.1%	4.1%	4.1%	$1.54	$1.16	$1.25	8.2x	10.9x	10.2x	$17.25	$16.50	34.2%	↓
Artis REIT	AX.un	SP	↔	$1,375	Kornack	$11.04	$0.60	$0.60	$0.60	5.4%	5.4%	5.4%	5.4%	$1.33	$1.32	$1.31	8.3x	8.4x	8.5x	$14.85	$11.50	9.6%	↓
BTB REIT	BTB.un	SP	↔	$271	Kornack	$3.67	$0.30	$0.30	$0.30	8.2%	8.2%	8.2%	8.2%	$0.40	$0.46	$0.47	9.3x	8.0x	7.9x	$4.70	$3.85	13.1%	↓
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,886	Kornack	$74.60	$3.10	$3.10	$3.10	4.2%	4.2%	4.2%	4.2%	$4.04	$4.48	$4.82	18.5x	16.6x	15.5x	$95.85	$90.00	24.8%	↓
DREAM Industrial REIT	DIR.un	OP	↔	$3,029	Kornack	$12.20	$0.70	$0.70	$0.70	5.7%	5.7%	5.7%	5.7%	$0.80	$0.88	$0.92	15.3x	13.9x	13.3x	$17.35	$14.25	22.5%	↓
Nexus Industrial REIT	NXR.un	SP	↓	$806	Kornack	$10.16	$0.64	$0.64	$0.64	6.3%	6.3%	6.3%	6.3%	$0.77	$0.82	$0.88	13.2x	12.4x	11.6x	$11.60	$11.00	14.6%	↓
Summit Industrial	SMU.un	OP	↔	$3,232	Kornack	$18.42	$0.56	$0.56	$0.56	3.1%	3.1%	3.1%	3.1%	$0.70	$0.76	$0.85	26.2x	24.2x	21.7x	$22.00	$22.00	22.5%	↓
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$343	Woolley	$3.49	$0.23	$0.23	$0.23	6.6%	6.6%	6.6%	6.6%	$0.52	$0.45	$0.48	6.7x	7.8x	7.3x	$4.35	$4.00	21.2%	↓
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$7,756	Kornack	$44.67	$1.45	$1.45	$1.45	3.2%	3.2%	3.2%	3.2%	$2.36	$2.46	$2.57	19.0x	18.2x	17.4x	$63.20	$52.00	19.7%	↓
Boardwalk REIT	BEI.un	OP	↔	$2,466	Kornack	$48.30	$1.00	$1.00	$1.00	2.1%	2.1%	2.1%	2.1%	$2.94	$3.08	$3.26	16.4x	15.7x	14.8x	$61.05	$58.00	22.2%	↓
Killam Apartment REIT	KMP.un	OP	↔	$1,926	Kornack	$16.86	$0.70	$0.70	$0.70	4.2%	4.2%	4.2%	4.2%	$1.07	$1.11	$1.16	15.8x	15.2x	14.6x	$20.90	$20.50	25.7%	↓
InterRent REIT	IIP.un	OP	↔	$1,735	Kornack	$12.26	$0.34	$0.34	$0.34	2.8%	2.8%	2.8%	2.8%	$0.51	$0.58	$0.62	24.3x	21.2x	19.8x	$17.60	$14.00	17.0%	↓
Minto Apartment REIT	MI.un	OP	↔	$944	Kornack	$15.02	$0.48	$0.48	$0.48	3.2%	3.2%	3.2%	3.2%	$0.79	$0.89	$0.99	18.9x	16.8x	15.1x	$24.75	$17.50	19.7%	↓
BSR REIT	HOM.un	OP	↔	$852	Kornack	$16.41	$0.50	$0.50	$0.50	3.0%	3.0%	3.0%	3.0%	$0.63	$0.83	$0.89	26.0x	19.8x	18.4x	$19.10	$20.50	28.0%	↓
ERES REIT	ERE.un	SP	↓	$795	Kornack	$3.43	$0.14	$0.14	$0.14	4.2%	4.2%	4.2%	4.2%	$0.20	$0.22	$0.23	17.1x	15.5x	15.2x	$4.12	$3.95	19.4%	↓
International																							
Inovalis REIT	INO.un	SP	↔	$158	Kornack	$4.71	$0.41	$0.41	$0.41	8.8%	8.8%	8.8%	8.8%	$0.53	$0.58	$0.67	8.9x	8.1x	7.1x	$11.00	$6.00	36.1%	↓
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,434	Woolley	$10.39	$0.61	$0.61	$0.61	5.9%	5.9%	5.9%	5.9%	$0.59	$0.56	$0.66	17.6x	18.6x	15.7x	$11.17	$13.00	31.0%	↓
NorthWest H.P. REIT	NWH.un	SP	↔	$3,041	Woolley	$12.54	$0.80	$0.80	$0.80	6.4%	6.4%	6.4%	6.4%	$0.84	$0.79	$0.82	15.0x	15.9x	15.3x	$12.78	$13.50	14.0%	↓
Sienna Senior Living	SIA	OP	↔	$971	Woolley	$13.33	$0.94	$0.94	$0.94	7.0%	7.0%	7.0%	7.0%	$1.15	$1.01	$1.19	11.6x	13.2x	11.2x	$14.11	$16.00	27.1%	↓
Extendicare	EXE	SP	↔	$644	Woolley	$7.19	$0.48	$0.48	$0.48	6.7%	6.7%	6.7%	6.7%	$0.52	$0.28	$0.34	13.8x	25.7x	21.1x	$8.30	$8.00	17.9%	↔
Invesque	IVQu	SP	↔	$73	Woolley	$1.30u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.44u	$0.37u	$0.39u	3.0x	3.5x	3.3x	$2.04u	$1.50u	15.4%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,309	Woolley	$6.10	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.19	$0.23	40.4x	32.1x	26.5x	$5.60	$7.50	23.1%	↓
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	US$319.86	Woolley	US$16.31	US$0.54	US$0.54	US$0.54	3.3%	3.3%	3.3%	3.3%	US$1.03	US$1.13	US$1.21	15.8x	14.4x	13.5x	US$22.10	US$21.00	32.1%	↓
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$3,744	Woolley	$13.71	$0.30	$0.30	$0.30	2.2%	2.2%	2.2%	2.2%	$0.57	$0.61	$0.70	24.1x	22.5x	19.6x	$19.75	$18.00	33.5%	↓

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.

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Selections

- › *UNS*
- › *GDI*
- › *AD*

Uni-Select

We continue to appreciate Uni-Select's turnaround following several tumultuous years and highlight a robust nine-quarter streak of beating Street estimates that started with Q2/20 results, early into the COVID-19 pandemic. Though the stock has recorded a phenomenal run, we believe additional upside remains through top-line growth and margin improvement, with the added benefit of defensive characteristics vs. both inflation and recession headwinds.

Cost flowthroughs no issue, recession resilient model limits downside

Management's guidance indicates y/y improvements in sales and profitability in H2/22, albeit at a slowing velocity y/y as we begin to lap operational improvements. Though a portion of recent profitability improvement was driven by timing of vendor rebates, we anticipate that margins have found a higher baseline due to underlying improvements in company fundamentals. We highlight that inflation likely poses no threat on the margin front, as Uni-Select is able to seamlessly pass through cost increases as pricing in the industry is largely based on manufacturers' price lists for FinishMaster, whilst the company's pricing is more flexible at CAG and GSF. We further note the defensive nature of the business given the tendency to keep older vehicles running for longer in recessionary environments, which provides a counter-cyclical downside protection for auto parts.

Capital allocation priorities driving growth

Management commentary continues to be supportive of additional growth over capital returns to shareholders, supported by a robust balance sheet. We believe UNS will possibly face less competition at the deal table in a rising rate environment, bolstering its M&A prospects. Given leverage ratios at their lowest level since the acquisition of GSF, we believe the balance sheet is capable of supporting an additional $25-35 million in acquired EBITDA without exceeding 2.5x leverage. Absent of M&A, we see FCF trimming leverage to 1x by the end of 2023e.

Organic opportunities abound

In addition to growth through M&A, Uni-Select's organic growth vectors present the opportunity for outsized market share gains. In the UK, we note the potential for more greenfields, filling in white space and baseloaded with existing national account volumes. In Canada, the new management team appears to have bolstered the company's reputation, opening the door to the addition of new members, representing potential quick market share gains with little investment required.

Cdn$43 target based on 18.5x 2023e EPS, Outperform rating

Our Cdn$43 target is based on 18.5x 2023e EPS, a 17x base and 1.5x M&A growth premium equivalent to $100 million in incremental revenue added annually. We rate Uni-Select Outperform given the continued operational improvements, primed balance sheet and in light of the company's defensive characteristics as a distributor in both inflationary and recessionary environments.

				Market	Shares	Stock	Last	FDEPS					EBITDA (mln)							12-Mth	
	Stock	Stock		Cap	O/S	Price	Year	(A)	est.	est.	P/E		(A)	est.	est.	EV/EBITDA		Div.	Net Debt/	Price	
	Symbol	Rating	Δ	(Mln)	(Mln)	8/31	Reported	Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2	yield	FY2 EBITDA	Target	Δ
Alaris Equity Partners Income Trust	AD	OP		782.1	45.3	17.28	12/2021	3.13	2.29	1.80	7.5	9.6	130.5	154.2	140.2	7.3	7.9	7.6%	2.7	23.50	↓
Boyd Group Services Inc.	BYD	SP	↓	3,886.1	21.5	181.00	12/2021	1.30	2.19	4.92	66.1	29.4	219.5	274.9	367.6	14.7	11.0	0.3%	2.6	205.00	↑
Cascades	CAS	SP	↓	904.7	101.1	8.95	12/2021	0.26	0.45	1.22	19.9	7.3	389.0	386.1	519.5	6.7	5.0	5.4%	4.4	10.00	↓
Dexterra Group Inc.	DXT	OP		387.9	65.2	5.95	12/2021	0.37	0.21	0.43	28.3	13.8	80.8	72.3	86.4	7.0	5.4	5.9%	1.6	10.00	↓
Doman Building Materials	DBM	OP		521.4	86.8	6.01	12/2021	1.34	0.82	0.53	7.3	11.3	225.6	189.8	153.6	5.6	6.5	9.3%	4.7	7.00	↓
GDI Integrated Facility Services	GDI	OP		1,083.5	23.3	46.56	12/2021	1.84	1.59	1.55	29.3	30.0	132.8	150.0	142.3	9.3	9.3	0.0%	2.7	64.50	↓
Hardwoods Distribution	HDI	OP		704.6	23.9	29.52	12/2021	4.77	5.73	4.25	4.1	5.6	195.2	270.4	222.6	4.5	4.7	1.6%	3.8	79.50	
KP Tissue	KPT	SP		107.6	9.9	10.82	12/2021	0.65	(0.76)	0.35	nmf	30.9	153.4	110.4	226.8	16.0	8.4	6.7%	4.3	9.50	↓
Neighbourly Pharmacy Inc.	NBLY	SP		898.7	44.4	20.24	03/2022	0.32	0.38	0.38	53.3	53.3	35.1	45.9	76.1	16.4	12.3	0.9%	0.9	25.00	↓
Park Lawn Corporation	PLC	OP		992.8	34.9	28.48	12/2021	1.21	0.98	1.11	23.2	20.5	76.3	71.7	84.9	13.5	11.1	1.6%	1.8	38.00	↓
Richelieu Hardware	RCH	OP		1,982.0	56.5	35.11	11/2021	2.51	2.69	2.28	13.1	15.4	234.4	259.9	227.5	7.4	7.9	1.5%	0.8	54.50	
Savaria Corporation	SIS	OP		897.1	64.5	13.91	12/2021	0.54	0.61	0.93	22.8	15.0	100.3	124.7	143.8	10.1	8.4	3.6%	2.6	22.00	
Uni-Sélect	UNS	OP		1,616.4	43.5	37.15	12/2021	1.00	1.67	1.78	17.8	16.7	146.7	184.5	193.7	9.0	8.1	0.0%	1.6	43.00	↑

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

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

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. The long-term contracted nature of the cash flows within our coverage universe has always been an attractive feature, but in 2022, a new dynamic emerged following Russia's invasion of Ukraine: with high spot power prices benefiting some companies. In fact, with the combined effect of inflation and energy security concerns, power prices around the world, and more significantly in Europe, have increased to all-time highs in the past months. Nonetheless, the renewable power sector remains a safe haven in uncertain times and some companies have the added benefit of exposure to rising power prices to drive growth in free cash flows. However, higher bond yields are a headwind to the sector. Our top picks include NPI, INE and BLX.

Northland Power Inc. *(NPI: TSX; Outperform; $49/sh target):*

NPI is a global leader in the development of offshore wind projects with ~2.8 GW of net capacity in renewable and thermal power generation. 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. At its Investor Day in February, NPI highlighted a ~14.5 GW pipeline and a plan to more than double capacity by 2030 and it aims to reach COD or begin construction on over 3 GW of projects over the next 24 months, while the rest is more back-end loaded with COD targets in 2025 and beyond. Of the IPPs in our coverage, we believe NPI provides the most attractive exposure to spot power prices with 894 MW of net capacity exposed to rising power prices. In fact, all three of NPI's offshore wind farms are currently seeing prices over €500/MWh (vs. ~€40/MWh historically) with forward curves pointing to prices over €700/MWh this upcoming winter, when these wind farms generate the most electricity. Moreover, the structure of its contracts provides NPI with a floor price of ~€180/MWh in the case power prices fall back to historical levels (or regulations are brought forward to reduce prices). Windfall profit taxes and market regulation are potential risks, though nothing concrete is currently in the works. The energy crisis could also accelerate demand for new projects (NPI has 2.7 GW in Europe that could be built on an accelerated timeline) and attract new capital to support future sell-downs. In the near term, we could see NPI commission its 130 MW solar project in Mexico and its New York Onshore wind projects as it continues to progress on its 1 GW offshore wind project in Taiwan (FID 2022E) and its 1.2 GW project in Poland (FID 2023E; COD 2026E). Our target is based on a long-term DCF with a cost of equity of 6% on operating cash flows and $9/sh of growth.

Innergex Renewable Energy Inc. *(INE: TSX; Outperform; $24/sh target):*

INE is one of Canada's largest renewables-focused IPPs with a net installed capacity of ~3.5 GW and plans to add close to 1.5 GW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~26% hydro, ~56% wind and ~18% solar) and geographies (~42% Canada, ~34% U.S., ~18% Chile and ~6% 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 ~1,300 MW of projects in mid-to-advanced stages of development. Recently, INE completed the acquisition of a 332 MW portfolio of three wind farms in Chile, which is currently earning spot prices on ~40% of its production, further increasing its exposure to rising spot power prices in this market (INE has ~100 MW in solar capacity operating on a spot basis). Moreover, INE exited a government contract on 10 MW of capacity in France (now earning spot) and re-contracted 30 MW of capacity with short-term contracts with power prices more than 3x higher (up to €300/MWh). Lastly, INE has recently commissioned a 225 MW solar farm in Texas selling its entire generation on the spot market. Overall, we believe the combination of recent commissioning activities, M&A and spot market exposure could bring INE's payout ratio below 80% for 2022E (98% in 2021) and it is guiding to double-digit growth across production and financial metrics for FY'22E. With the temporary freeze on solar tariffs in the United States, INE should also move forward with its solar projects in Hawaii. Lastly, INE could see organic growth in Quebec with over 3 GW of upcoming renewables RFPs. Our target is based on a long-term DCF with a 6% discount rate on operating assets and includes $1/sh for growth.

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

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. Its net installed capacity stands at ~2.5 GW, 98% of which is covered by inflation-indexed, fixed-price or feed-in premium contracts with an average life of 13 years. Last year, BLX unveiled its strategic plan to 2025E as well as a roadmap to 2030E. The plan focuses on growth, diversification and asset optimization while also integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR on its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively. BLX greatly improved visibility on its growth with the recent acquisition of Infinergy's U.K. portfolio (+222 MW net of projects) and as it was awarded five solar projects totalling 540 MW of new capacity under the NYSERDA RFPs, as well as with its new partnership with Énergir and Hydro-Quebec to co-develop a 1.2 GW wind project in Quebec. BLX's spot market exposure is most notably in France, where it currently has over 100 MW operating on a merchant basis and is looking to terminate government contracts on an additional over 250 MW. With power prices currently at ~€640/MWh and forward curves pointing higher this winter, BLX could see significant EBITDA upside, despite a recent governmental clawback on 201 MW of capacity for which it used to earn market prices. Windfall taxes and regulation are a risk to this upside. Our target is based on a long-term DCF with a 6% cost of equity on operating cash flows and $7/sh of growth.

Sustainability & Clean Tech

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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8-31	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	SP		148.4	88	1.68	12/2021	0.06u	(0.02)u	0.15u	nmf	8.8	2.54u	2.94u	3.05u	0.4	0.4	0.93u	0.31	2.50	
Algonquin Power	AQN	SP		9303.0	679	13.71u	12/2021	0.71u	0.76u	0.73u	18.1	18.7	3.66u	4.14u	4.64u	3.3	3.0	10.72u	0.50	16.00u	
Altius Renewable Royalties Corp	ARR	OP		275.7	29	9.41	12/2021	(0.13)u	(0.03)u	0.07u	nmf	nmf	0.02u	0.10u	0.21u	nmf	34.9	0.62u	0.00	14.50	
Ballard Power Systems	BLDP	OP		2325.7u	298	7.80u	12/2021	(0.39)u	(0.59)u	(0.49)u	nmf	nmf	0.35u	0.31u	0.49u	24.8	16.1	4.31u	0.01	12.00u	↓
Boralex	BLX	OP		5126.5	104	49.50	12/2021	0.16	1.08	1.01	45.7	48.8	6.69	8.07	8.88	6.1	5.6	12.87	0.63	50.00	↑
Brookfield Renewable	BEP	OP		24034.9u	646	37.21u	12/2021	0.00u	0.00u	0.00u	na	na	3.74u	4.22u	4.50u	8.8	8.3	24.27u	0.35	42.00u	↑
DIRTT Environmental Solutions	DRT	SP		60.1u	86	0.70u	12/2021	(0.63)u	(0.69)u	(0.25)u	nmf	nmf	1.73u	2.09u	2.45u	0.3	0.3	0.54u	0.38	1.75u	↓
GFL Environmental Inc.	GFL	OP		14799.3	400	37.00	12/2021	(1.83)	0.04	(0.18)	nmf	nmf	15.28	17.03	18.57	2.2	2.0	15.66	0.58	53.00	
Innergex	INE	OP		4053.0	204	19.85	12/2021	(1.09)	(0.00)	0.38	nmf	51.7	4.13	4.44	4.61	4.5	4.3	7.51	0.76	24.00	↑
The Lion Electric Company	LEV	OP		755.2u	197	3.84u	12/2021	(0.26)u	(0.08)u	(0.69)u	nmf	nmf	0.29u	0.69u	2.48u	5.6	1.5	2.09u	0.02	9.00u	↓
Loop Energy Inc	LPEN	OP		70.6	34	2.07	12/2021	(0.74)	(1.06)	(0.69)	nmf	nmf	0.04	0.10	0.37	20.0	5.7	2.00	0.01	5.00	↓
NanoXplore	GRA	OP		667.1	165	4.04	06/2021	(0.08)	(0.09)	0.02	nmf	nmf	0.46	0.56	0.77	7.2	5.3	0.73	0.19	8.00	
Next Hydrogen Solutions Inc.	NXH	SP		45.5	23	1.99	12/2021	(1.28)	(0.66)	(0.53)	nmf	nmf	0.01	0.11	0.19	18.4	10.6	1.41	0.01	2.50	
Northland Power	NPI	OP		10445.2	232	44.96	12/2021	0.83	2.84	2.40	15.8	18.7	9.57	10.83	11.27	4.2	4.0	14.97	0.67	49.00	↑
TransAlta Renewables	RNW	SP		4640.5	267	17.38	12/2021	0.52	0.47	0.60	36.7	28.9	1.76	2.05	1.89	8.5	9.2	6.70	0.23	19.00	↑
Xebec Adsorption	XBC	SP		139.7	161	0.87	12/2021	(0.15)	(0.36)	0.01	nmf	nmf	0.82	1.23	2.13	0.7	0.4	1.87	0.22	1.75	↓

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

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Selections

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

Summer of Inertia

You may not realize it, but we've seen a notable bounce in Technology this summer; ever since June 16th, both the S&P Info Tech Index and S&P/TSX Info Tech Index have risen by over 20%. The obvious question is whether that turn will be sustained? In our view, that's unlikely on a consistent basis. Rather, we see variability as we move through the Fall given the challenges that remain in the macro backdrop. And while there has been a reasonable turn in Tech this summer, the S&P Info Tech Index is still down -21.0% YTD with our Canadian S&P / TSX Info Tech Index down -54.2%. In the short term, we continue to believe investors should lean towards the defensive Tech names we've been recommending since early this year – names like CGI and OpenText while opportunistically wading into growth names such as Docebo, Kinaxis, Lightspeed and Magnet Forensics, among others. We touch on a cross-section of names (defensive and growth) below.

- **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). With a plan to deploy $1 billion in capital on acquisitions this fiscal year, we see that further expanding CGI's growth potential.
- **Kinaxis** should be a meaningful beneficiary of 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.
- **Lightspeed** should be a direct beneficiary of an economic reopening from pandemic-induced lockdowns. We'd note 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 payments attach rate across an already large and growing (GTV) base. That said, the big potential (optionality) in our view comes from the integration of the Company's active acquisition stable over the past few years. In our view, the integration of those capabilities has the potential to accelerate the Company's market share gains.
- **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 8/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,306	45.2	51.03	2021	1.90	2.10	2.51	24.3	20.3	109.8	141.3	148.2	18.0	17.1	12.2	38%	70.00	
Blackline Safety Corp.*	BLN	OP		143	71.7	1.99	2021	(0.51)	(0.81)	(0.61)	NMF	NMF	(9.9)	(23.4)	(18.6)	NMF	NMF	0.7	0%	6.00	
CGI Inc.	GIB.A	OP		25,287	240.8	105.01	2021	5.41	6.11	6.53	17.2	16.1	2462.7	2557.3	2672.5	10.8	10.4	29.0	31%	135.00	
Constellation Software Inc.	CSU	SP		43,088	21.2	2,033.26	2021	47.38u	52.76u	67.05u	29.6	23.3	1,511.0u	1,732.5u	2,093.8u	19.8	16.4	78.8u	53%	2350.00	
Converge Technology Solutions*	CTS	OP		1,279	218.6	5.85	2021	0.35	0.55	0.74	8.1	6.1	94.0	162.8	221.4	6.3	4.7	3.02	23%	12.00	↓
Copperleaf Technologies*	CPLF	OP		465	69.4	6.70	2021	(0.03)	(0.43)	(0.35)	NMF	NMF	2.1	(27.5)	(25.9)	NMF	NMF	2.01	0%	14.00	↓
Coveo Solutions Inc.	CVO	OP		593	103.8	5.71	2022	(0.31u)	(0.31u)	(0.21u)	NMF	NMF	(20.4u)	(21.4u)	(10.2u)	NMF	NMF	2.3u	0%	13.00	
Docebo Inc.	DCBO	OP		1,398	34.0	41.09	2021	(0.31u)	(0.09u)	0.35u	NMF	NMF	(8.0u)	(0.4u)	13.3u	NMF	64.8	5.7u	0%	85.00u	
D2L Inc.*	DTOL	OP		339	53.0	6.40	2022	(0.07u)	(0.23u)	0.02u	NMF	NMF	0.2u	(6.8u)	6.1u	NMF	NMF	1.1u	0%	10.00	↓
E Automotive Inc.	EINC	SP	↓	312	48.1	6.48	2021	(0.65u)	(1.00u)	(0.80u)	NMF	NMF	(7.9u)	(37.9u)	(26.5u)	NMF	NMF	2.6u	0%	10.00	↓
Farmers Edge Inc.	FDGE	SP		23	41.9	0.54	2021	(1.81)	(1.92)	(1.51)	NMF	NMF	(49.9)	(65.2)	(53.2)	NMF	NMF	1.43	16%	1.00	↓
Kinaxis Inc.	KXS	OP		3,929	27.6	142.40	2021	0.57u	1.24u	1.85u	NMF	NMF	39.9u	67.1u	80.4u	41.1	34.3	12.6u	0%	250.00	
Lightspeed Commerce Inc.	LSPD	OP		2,996u	149.0	20.11u	2022	(0.36u)	(0.32u)	(0.04u)	NMF	NMF	(41.5u)	(37.0u)	11.3u	NMF	NMF	68.1u	0%	65.00u	
Magnet Forensics Inc.*	MAGT	OP		982	40.8	24.05	2021	0.28u	0.29u	0.29u	NMF	NMF	18.6u	14.4u	17.8u	44.3	35.9	2.2u	2%	50.00	
mdf commerce inc.	MDF	SP		103	44.0	2.35	2022	(0.48)	(0.49)	(0.29)	NMF	NMF	(2.0)	(7.2)	2.6	NMF	58.1	0.17	15%	2.00	↓
Nuvei Corporation	NVEI	OP		4,635u	144.9	31.99u	2021	1.70u	1.88u	2.67u	17.0	12.0	317.2u	346.4u	495.0u	12.8	8.9	13.4u	21%	75.00u	↓
Open Text Corporation	OTEX	OP		8,317u	270.4	30.76u	2022	3.22u	3.37u	3.69u	9.1	8.3	1,265.1u	1,326.5u	1,416.7u	8.2	7.7	14.9u	51%	60.00u	
Pivotree Inc.*	PVT	OP		90	27.4	3.28	2021	(0.35)	(0.37)	(0.19)	NMF	NMF	(3.5)	(0.6)	2.7	NMF	27.2	0.0	0%	8.00	
Q4 Inc.	QFOR	OP		179	39.7	4.50	2021	(1.20u)	(0.68u)	(0.11u)	NMF	NMF	(13.6u)	(23.1u)	(1.2u)	NMF	NMF	1.6u	0%	7.00	↓
Real Matters Inc.	REAL	SP		459	76.8	5.97	2021	0.48u	0.03u	0.04u	NMF	NMF	59.2u	8.3u	6.0u	35.9	NMF	1.7u	0%	6.00	
Shopify Inc.	SHOP	OP		43,931u	1262.0	34.81u	2021	0.06u	(0.11u)	(0.01u)	NMF	NMF	732.0u	(152.1u)	27.1u	NMF	NMF	6.9u	9%	75.00u	
Softchoice Corp*	SFTC	OP	↑	1,160	62.9	18.46	2021	0.58u	0.77u	0.97u	24.1	19.1	67.0u	80.8u	96.3u	15.3	12.8	0.8u	62%	28.00	↑
Tecsys Inc*	TCS	OP		470	14.8	31.66	2022	0.30	0.07	0.43	NMF	NMF	10.1	7.1	12.2	64.4	37.7	4.59	11%	50.00	
Telus International	TIXT	OP		8,153u	269.0	30.31u	2021	1.00u	1.23u	1.45u	NMF	NMF	540.0u	623.6u	734.8u	14.6	12.4	6.3u	38%	50.00u	
Thinkific Labs Inc.	THNC	OP		117	78.4	1.95	2021	(0.29)u	(0.40)u	(0.18)u	NMF	NMF	(19.46)u	(29.41)u	(12.59)u	NMF	NMF	1.28u	0.00	5.00	↓

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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Selections

› *Telus*
› *Thomson Reuters*
› *Transcontinental*

Transcontinental

EBITDA growth poised to revert positively in Q3/22 for the first time since Q2/21:

We rate Transcontinental an Outperform with a target of $23. The company will report its Q3 on September 7. The important highlight of the quarter is the expectation that consolidated EBITDA growth should revert to positive for the first time since Q2/21. Also, while FX and M&A will help, we again look for organic growth from each segment and, importantly, Packaging margins should expand again for the first time since Q1/21 (-170 bps Q2, -473 bps Q1, -298 bps Q4/21, -645 bps Q3, -190 bps Q2) as February price increases and passthrough mechanisms finally overcome higher input costs. The stock always seems inexpensive, but after the Q1 miss which sent the stock tumbling from above $20, Q2 showed signs of improvement and management marketing thereafter was helpful as the stock bounced off the sub-$15 level. We now head into seasonal H2 strength. While we monitor the latest trends and headlines related to flyers and specifically the negligibly profitable Publisac, TCL is looking at how to grow the business by improving distribution across Canada. In the meantime, organic growth in Printing is being driven by books, new ISM (in-store marketing) contracts and better passthrough of input costs, as the company pursues ongoing efficiencies. We see the new CEO's three priorities as 1) getting the team to better understand profit drivers and how to more optimally deliver profitable growth, 2) doing more automation, and 3) while 1 and 2 are more related to Packaging, getting a better understanding of the different strategies of each of the segments will help target strategic growth areas and M&A (acquisitions continue to be focused on Packaging, ISM and Educational Book Publishing). Our target is based on our f2023E NAV, with implied EV/EBITDA multiples of 6.6x f2022E and 5.9x f2023E. TCL has recently been trading at a roughly 30% discount to its blended peer group (7.5x 2022E) with a bigger gap to packagers (8.6x, down from 10x several months ago). The stock is trading as if 80% of all flyer EBITDA has been lost (based on 2022E) with the Printing multiple seemingly contracted to 2.5x from 5.0x (based on 2023E) – we find this to be rather excessive. Management estimates that its real estate holdings have a value of approximately $300M which we don't include in our valuation.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 8/31	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		571	63.4	9.01	12/2021	(3.93)	(0.22)	1.12	-40.5	8.1	-84.3	118.6	189.8	10.7	6.3	-4.05	1.51	15.50	↓
Corus Entertainment Inc.	CJR.b	OP		751	203.0	3.70	08/2021	0.88	0.70	0.72	5.3	5.1	524.6	480.3	469.2	4.7	4.4	5.62	0.54	5.00	
WildBrain Ltd.	WILD	OP		464	173.0	2.68	06/2021	(0.07)	0.03	0.16	93.0	16.4	83.1	92.6	107.2	9.9	8.3	0.41	0.86	5.00	
Spin Master Corp.	TOY	OP		4,744	102.9	46.10	12/2021	2.10	2.44	2.42	14.4	14.5	414.1	437.2	448.2	6.6	5.8	11.31	-0.92	66.00	
Stingray Group Inc.	RAY.a	OP		384	69.7	5.51	03/2022	0.79	0.80	0.89	6.9	6.2	99.3	109.2	115.8	7.1	6.4	4.01	0.63	7.50	
TVA Group Inc.	TVA.b	SP		99	43.2	2.29	12/2021	0.78	0.28	0.49	8.2	4.6	80.3	48.1	60.0	2.7	2.0	8.72	0.10	3.00	↓
Packaging, Printing, and Publishing																					
CCL Industries Inc.*	CCL.b	OP		11,505	178.6	64.42	12/2021	3.37	3.69	4.02	17.4	16.0	1173.1	1309.4	1405.4	9.8	8.8	21.60	0.32	81.00	↑
Thomson Reuters Corp.	TRI	OP		70,162	485.1	144.62	12/2021	1.95	2.44	3.54	45.1	31.1	1970.0	2334.2	2829.0	24.1	19.5	27.52	0.21	162.00	
Transcontinental Inc.	TCL.a	OP		1,436	86.7	16.56	10/2021	2.37	2.18	2.42	7.6	6.9	454.9	443.2	470.8	5.4	4.8	20.99	0.37	23.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		258	21.3	12.08	12/2021	(0.59)	(0.83)	0.50	NM	24.3	29.0	39.0	54.9	6.6	5.3	3.91	0.41	22.00	↓
Yellow Pages Ltd.	Y	SP		338	26.6	12.70	12/2021	3.02	2.46	2.93	5.2	4.3	102.0	99.4	91.2	3.1	3.0	NM	-0.44	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		57,798	911.9	63.38	12/2021	3.19	3.37	3.64	18.8	17.4	9893.0	10335.3	10702.9	8.7	8.4	21.44	0.40	71.00	
Cogeco Communications Inc.	CCA	SP	↓	3,712	46.2	80.41	08/2021	8.43	9.27	9.80	8.7	8.2	1205.7	1387.4	1422.4	5.3	5.1	65.89	0.59	108.00	↓
Quebecor Inc.	QBR.b	OP		6,715	236.7	28.37	12/2021	2.52	3.02	3.16	9.4	9.0	1973.2	2358.6	2412.6	6.7	6.4	5.93	0.82	32.00	
Rogers Communications Inc.	RCI.b	OP		28,554	504.9	56.55	12/2021	3.56	3.76	4.82	15.0	11.7	5887.0	8639.7	9307.0	7.5	7.2	21.42	0.36	78.00	↓
Shaw Communications	SJR.b	OP		16,874	501.0	33.68	08/2021	1.60	1.58	1.57	21.4	21.5	2500.0	2543.2	2554.4	8.8	8.3	12.62	0.46	40.50	
Telus Corp.	T	OP		40,850	1381.0	29.58	12/2021	1.23	1.21	1.38	24.5	21.4	6290.0	6664.8	7296.1	9.8	8.8	12.08	0.58	36.00	

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

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

- *Air Canada*
- *CAE Inc.*
- *BRP Inc.*

Susceptibility to a recession: a review of our Transportation coverage universe

Our coverage universe (transportation, aerospace, powersports) has typically been viewed as among the more sensitive to economic slowdowns, so with fears of a recession mounting, we believe a useful exercise is to look at how broader end markets have performed in past slowdowns. Key takeaways from our recent report are:

- **Most 2023 estimates not reflecting a potential economic slowdown.**

  Based on consensus forecasts, the market is expecting nearly all our coverage stocks to have revenue and earnings growth in 2023. Given the stage in their recovery from the pandemic, we see this as a reasonable expectation for our Airline and Aerospace universe. However, for CN Rail and CP Rail, an expectation for double-digit EPS growth should a recession materialize may prove optimistic. The only stock in our coverage universe where consensus revenue and EPS estimates show a decline in 2023 is TFI International, so it appears that the market already expects a downturn for the trucking segment.

- **Rail valuations look rich if one believes a recession is imminent.**

  Rail shares have historically outperformed most of the rest of our coverage stocks in prior downturns, but the companies are cyclical (rail volumes for CN and CP fell ~14% in 2009). On 2023 consensus estimates, CN and CP shares are trading at P/Es that are at or above their respective historical forward averages. As such, we view some downside risk on valuation for both stocks should a recession materialize.

- **Airline demand is booming but well short of a “full recovery”.**

  Airlines are typically susceptible to recessions, but demand for air travel is still far from recovered from the pandemic. Passenger traffic in Canada is currently 19% below 2019 levels and down 30% versus the pre-pandemic trend line for 2022. We therefore still see plenty of demand recovery ahead for Air Canada.

- **Aerospace stocks still in the early stages of an up-cycle.**

  Global airline flying is steadily recovering but remains well below 2019 levels, while aircraft delivery rates at bellwethers Airbus and Boeing will be increasing materially in the next three years following weak years in 2020-21. The business jet market is also much healthier than was the case prior to the 2008-09 downturn and global defence spending will also be a material tailwind for a multi-year period. We remain positive on the end market fundamentals for **Bombardier, CAE and Héroux-Devtek**.

- **Backdrop for bus demand is positive.**

  Demand for transit buses increased in the wake of the 2008-09 downturn supported by government stimulus. Government funding for public transit today is supportive of bus demand, especially demand for zero-emission buses, which is positive for NFI Group in our coverage universe.

- **Powersports will be helped by exceptionally low dealer inventories.**

  Demand for powersports products was severely impacted in the 2008-09 recession, However, today industry dealer inventories are near historic lows, down 60-70% versus pre-pandemic levels, which will provide a re-stocking tailwind for BRP Inc. in our coverage universe.

Sector Analysis

Transportation & Industrial Products

	Stock	Stock		Shares	Stock	Market	Last	Cash EPS			P/E		EBITDA			EV/EBITDA		Net Debt /	12-Mth	
	Sym.	Rating	Δ	O/S (Mln)	Price 8-31	Cap (Mln)	Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Cap	Price Target	Δ
Air Canada	AC	OP		358	17.69	6,333	12/2021	-10.25	-4.44	1.11	NA	16.0x	(1464)	1143	2890	12.4x	4.9x	110%	30.00	
Bombardier Inc.	BBD.b	OP		95	32.68	3,099	12/2021	-u2.00	-u1.30	u0.93	NA	35.1x	u641	u871	u1065	9.1x	7.5x	na	53.00	↓
BRP Inc.	DOO	OP		80	91.09	7,312	01/2022	9.92	11.18	11.45	8.2x	8.0x	1462	1639	1690	6.2x	6.0x	107%	136.00	
CAE Inc.	CAE	OP		318	23.98	7,630	03/2022	0.84	0.82	1.36	29.2x	17.7x	755	854	1102	14.1x	9.7x	42%	38.00	↓
Canadian National Rail	CNR	SP		692	156.19	108,037	12/2021	5.95	7.20	7.91	21.7x	19.8x	9.81	9.77	11.04	14.6x	13.4x	40%	166.00	↑
Canadian Pacific Rail	CP	SP		933	98.32	91,693	12/2021	3.76	3.40	4.68	28.9x	21.0x	5.41	4.75	6.49	25.9x	15.0x	36%	98.00	↑
Cargojet Inc.	CJT	SP		18	138.18	2,439	12/2021	5.85	7.82	8.10	17.7x	17.1x	293	354	372	8.4x	8.0x	41%	158.00	
Chorus Aviation Inc.	CHR	OP		203	2.81	571	12/2021	0.37	0.46	0.55	6.1x	5.1x	272	403	529	6.8x	5.2x	64%	5.00	↓
Exchange Income Corporation	EIF	R		40	46.35	1,838	12/2021	2.26	R	R	R	R	330	R	R	R	R	62%	R	
Héroux-Devtek Inc.	HRX	OP		35	13.07	453	03/2022	0.95	0.50	1.04	26.3x	12.5x	83	68	94	8.8x	6.4x	29%	23.00	↓
NFI Group Inc.	NFI	SP		77	13.20	1,018	12/2021	-u0.17	-u1.34	u0.46	na	21.7x	164	18	205	99.4x	8.8x	50%	17.00	↑
Taiga Motors Corp.	TAIG	OP		31	4.60	145	12/2021	-5.72	-1.34	-1.78	NA	NA	(22)	(39)	(30)	na	na	na	8.00	↓
Transat A.T. Inc.	TRZ	UP		38	3.01	114	10/2021	-11.83	-8.33	-1.24	NA	NA	(214)	(105)	194	na	6.8x	NA	3.75	
TFI International Inc.	TFII	OP		91	131.03	11,877	12/2021	u5.23	u7.98	u8.18	12.5x	12.2x	1051	1457	1419	7.6x	7.8x	48%	152.00	↑

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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