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NATIONAL BANK OF CANADA

FINANCIAL MARKETS

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Economy

› The summer of 2021 may be remembered as the moment when certain ideas about the Covid-19 pandemic were called into question, notably the hypothesis that mass vaccination would in itself bring a rapid return to pre-pandemic normal. The latest data from Israel have shaken this hypothesis. Israel's world leadership in vaccination has not saved it from a new wave of infections related to the Delta variant. Moreover, the statistics show a marked rise in severe cases of the disease. We already knew the vaccines were less effective against the Delta variant, but that does not explain why rates of death and hospitalization have risen much more in Israel than in the U.K., two countries facing the same strain of the virus with similar rates of vaccination. The most plausible explanation is that the effectiveness of the vaccines diminishes with time. Half the Israeli population had been fully vaccinated by last March 16. The U.K. took until July 6 to reach that point. The progressive decline of the protection provided by vaccines will have consequences for the global economy, especially given the marked rise in worldwide new cases. The ongoing recovery of developed economies is likely to be slowed, though not completely reversed, as public authorities complete their vaccination campaigns or provide booster doses. In emerging economies, the Delta wave effects will vary. They will come directly in a rise in the number of cases, exacerbated by lower vaccination rates. Some emerging economies are also exposed to the Delta risk by dependence on tourism. The other factor to keep in mind is the economic performance of China, which has not been spared by the pandemic this summer. We now see the world economy expanding 5.6% in 2021, down from our outlook of 6.0% at the beginning of July.

› One of the most attention-getting news items from the U.S. in recent days has been a decline of consumer confidence with its potential effect on household spending. The drop was due at least in part to the resurgence of Covid although the expiry of a number of fiscal income-support programs may also be at play. More specifically, the end of unemployment insurance bonuses, on September 6, seems to be darkening the skies for many households. Though recognizing that employment will take time to recover completely from the pandemic shock, we are not unduly worried about the possibility that an income shock could derail household consumption. Personal income excluding government transfers is now 4.1% above its pre-crisis level. Add to that the excess savings accumulated since the beginning of the crisis – amounting to 12.0% of GDP by our calculations – and households seem in good enough shape keep spending strongly after withdrawal of emergency programs. This assumes, of course, that price rises for a number of commodities will not take too big a bite out of consumer. The resulting dynamic could complicate the Fed game plan. Considering increased downside risks and weaker-than-expected Q2 GDP numbers, we are revising our forecast of 2021 U.S. growth down to 5.7%, followed by an expansion of 4.1% next year.

› Though the contraction of Canada's real GDP in the second quarter was a disappointment, it should be kept in mind that the country's economic recovery remains enviable. Especially in nominal terms, where it showed an impressive gain for the quarter leaving nominal GDP at midyear 5.1% above its pre-recession peak, the best number in the G7 countries. Terms of trade improved more than 20% from a year earlier – a gain unprecedented in the history of this data series, resulting in record corporate profits. But it was not only companies that did well in Q2. Household finances continued to improve, with disposable income once again rising strongly in the quarter. Disposable income excluding government programs related to the COVID-19 pandemic was already above its historical trend in Q2, suggesting that consumers are ready to stand on their own feet. This, combined with the large amount of excess savings already accumulated by households (11.4% of GDP), leaves consumers well-positioned to support the recovery. We have nevertheless revised our forecasts of real GDP in 2021 down to 5.0% from 6.0%. Though most of our revision can be attributed to the surprise weakness of GDP in Q2, we have also lowered our expectation for growth in the second half of the year. Easing of public-health restrictions will allow decent expansion in Q3, but the rise of daily new Covid-19 cases puts more of a question mark over the outlook for the fourth quarter. Moreover, although we would consider consumers and businesses well-positioned to support a recovery, supply-chain disruptions like those of the auto industry present a risk under current conditions.

Interest rates and currency

› Despite a sub-par August jobs report, a potentially-peaking COVID backdrop, expiring supplemental UI benefits and a return to the classroom for American children leaves us optimistic that an uptick in employment and participation is ahead. Factor in what we consider asymmetric risks to the medium-term inflation outlook and the case for a near-term Fed taper is a strong one. While that might not come at the Fed's September meeting, the FOMC should have enough data by November to officially make the taper call.

› As for Canada, a portion of the economic recovery was recently revised away, with an export-orientated economy eying global economic developments wearily. While our forecasts for growth are being marked lower, we're chalking this up to supply-side disruptions (and downward revisions to spring output) rather than a deterioration in underlying demand. Data dependency is the name of the game, however, so we'll be closely watching to see if recent growing pains are more systemic than we'd thought. It follows that we haven't yet thrown in the towel on a Q3:2022 rate hike but we would concede that recent developments skew the risk to that forecast later, rather than earlier.

› When it comes to the Bank of Canada's QE program, we think that barring disastrous economic results over the next 7 weeks, October remains on track to mark the next downward adjustment to the weekly purchase pace. At that point, we'll be nearing what the Bank of Canada has been calling the "reinvestment phase". While we've received some guidance from the Governing Council this year on what this phase will look like, there are still a number of questions in need of answers. While we're not expecting September to deliver these answers, we think the October meeting, subsequent press conference and Monetary Policy Report should provide the Bank a natural opportunity to lay out a plan for its post-QE balance sheet management. Indeed, we'd encourage the BoC to take a page out of the BoE's communications playbook. More on that herein.

› The Canadian dollar has taken a beating in recent weeks, depreciating nearly 10 cents against the U.S. dollar. In addition to concerns about covid-19, some have attributed the loonie's fall to a large negative terms-of-trade shock in the third quarter of

Highlights

2021, due to the collapse in lumber prices. But other commodities are still up so far in the third quarter, more than offsetting the decline in forest product prices. In addition, the recovery in Canadian employment still suggests above-trend growth for the national economy, with new covid cases remaining relatively low. Nonetheless, the evolution of the pandemic has led us to delay an appreciation of the of the loonie. We expect a rate of C$1.22 to the USD once the current wave of coronavirus has passed.

Recommended asset mix and stock market

- Global equity markets rose to a new record in early September, buoyed by abundant liquidity provided by major central banks and widespread upside earnings surprises. For North American profits, it's as if Covid-19 never happened. S&P 500 EPS expected for 2021 and 2022, after whipsawing in 2020, are back to levels predicted at the beginning of the pandemic.
- Amazingly, the 12-month-forward earnings expectation for the MSCI ACWI continues to be revised up. Considering recent developments, this seems too good to be true. While most stock markets do not appear to have been disrupted by the Delta variant so far, this does not mean the pandemic will not affect earnings growth.
- The summer of 2021 has been kind to the S&P/TSX, with the index setting a new record in early September. Looking ahead, we believe that Canadian equities are still in a position to benefit from the reflation policies being pursued in many OECD economies to support a post-pandemic global economic expansion. That said, current earnings estimates may need to be adjusted downward to reflect the uncertainty of the impact of the Delta variant at a time when government income support programs related to the pandemic are being phased out.
- Chinese regulators chose to forego their summer vacation this year, a decision that has not gone unnoticed in the market for Chinese equities. While the MSCI China may be poised to rebound from oversold conditions, at 14 times forward earnings it is not especially cheap relative to the MSCI ACWI.
- This month we adjust our asset mix to reflect the potential effect of the Delta variant on earnings estimates, reducing our equity exposure 3 percentage points in favour of cash. Because of China's regulatory clampdown, we are reducing our overall exposure to the MSCI EM. While acknowledging that the index has already declined more than 5% this quarter, our current risk-reward assessment does not justify a large overweighting.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	12.1	Overweight	
Materials	11.5	Overweight	
Industrials	12.2	Market Weight	
Consumer Discretionary	3.7	Market Weight	
Consumer Staples	3.7	Market Weight	
Healthcare	1.1	Market Weight	
Financials	31.1	Market Weight	
Information Technology	12.0	Underweight	
Telecommunication Services	4.9	Market Weight	
Utilities	4.6	Underweight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of September 03, 2021

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The Economy

The Economy

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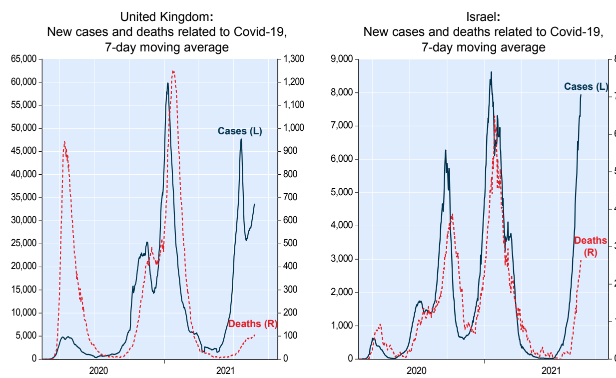
World: Delta is sowing doubt

The summer of 2021 may be remembered as the moment when certain ideas about the Covid-19 pandemic were called into question, notably the hypothesis that mass vaccination would in itself bring a rapid return to pre-pandemic normal. In the last issue of this letter we drew on U.K. data to highlight the uncoupling of daily new infections from hospitalizations and deaths in countries with high rates of vaccination. These data confirmed the effectiveness of the vaccines and spurred anticipation of a world in which a rise of infection rates would not necessarily overburden health-care systems. In other words, we saw in the cards a near-complete reopening of economies in which a threshold share of the population had been vaccinated, even if the virus continued to spread.

The latest data from Israel have shaken this hypothesis. Israel's world leadership in vaccination has not saved it from a new wave of infections related to the Delta variant. Moreover, the statistics show a marked rise in severe cases of the disease.

World: Do the vaccines lose effectiveness over time?



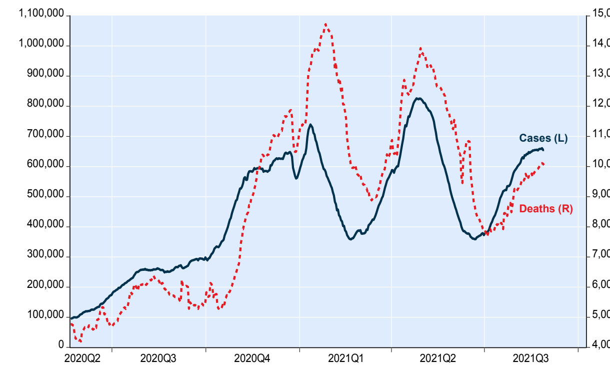
NBF Economics and Strategy (data from Our World in Data)

We already knew the vaccines were less effective against the Delta variant, but that does not explain why rates of death and hospitalization have risen much more in Israel than in the U.K., two countries facing the same strain of the virus with similar rates of vaccination. The most plausible explanation is that the effectiveness of the vaccines diminishes with time.

Half the Israeli population had been fully vaccinated by last March 16. The U.K. took until July 6 to reach that point.

The progressive decline of the protection provided by vaccines will have consequences for the global economy, especially given the marked rise in worldwide new cases.

World: The Delta variant is driving a new wave of infections
Daily new cases and deaths related to Covid-19, 7-day moving average



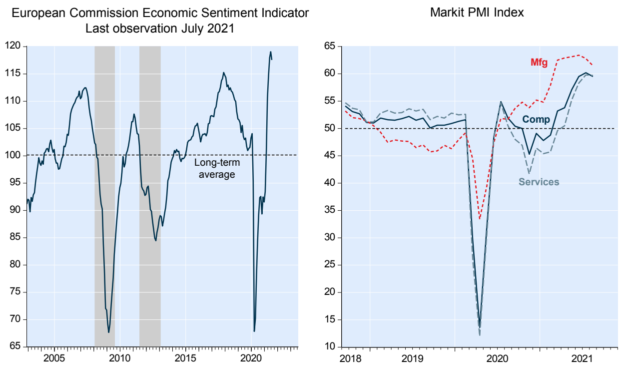
NBF Economics and Strategy (data from Our World in Data)

The ongoing recovery of developed economies is likely to be slowed, though not completely reversed, as public authorities complete their vaccination campaigns or provide booster doses. In Israel, some distancing measures have been reintro-duced. In Japan and Australia, shutdowns have become more widespread. The U.S. has not been spared. Though the sharp rise of its infection rates has not resulted in strict distancing rules, it seems to have dampened consumer ardour (see U.S. section, below). As for the Eurozone, the European Commis-sion's Economic Sentiment Indicator and the Markit composite PMI remained close to all-time highs in August, while death rates remained well below those of the United States.

[1] We have seasonally adjusted the Desrosiers estimates.

The Economy

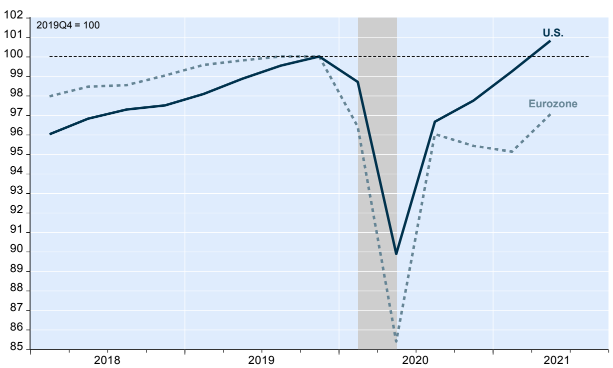
Eurozone: The economy seems to be holding up against Delta



NBF Economics and Strategy (data from Refinitiv)

However, Eurozone real GDP, despite an expectation-topping Q2 gain of 8.3% annualized, was at midyear still 3.0% short of its pre-pandemic peak, a tepid showing compared to the U.S. rebound.

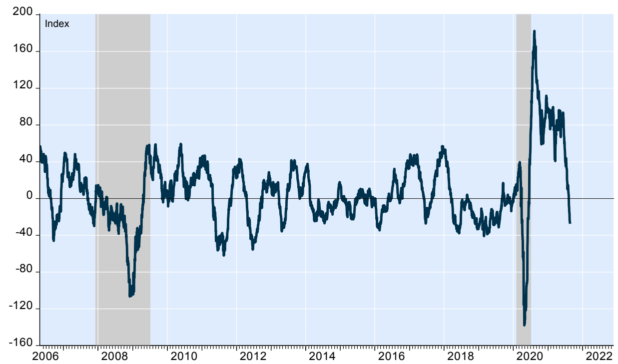
Eurozone: Still much to make up
Real GDP



NBF Economics and Strategy (data from Refinitiv)

With virus effects seeming more persistent than we expected, we have revised our 2021 growth forecast for the developed economies down to 5.0% from 5.5% (see table at the end of this section). This revision is consistent with the retreat of the Citi Economic Surprise Index for the G10 countries.

Developed economies: Delta variant is slowing recovery
Citi Economic Surprise Index for the G-10 countries

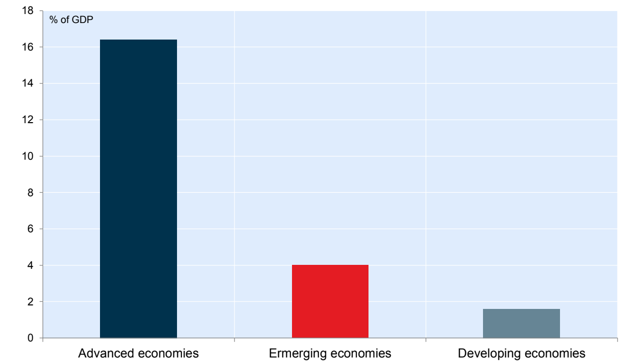


NBF Economics and Strategy (data from Bloomberg)

Despite this downgrade, the developed countries remain on a path of fairly strong expansion in 2021. The vaccines are now easily accessible in the rich countries and we expect that booster doses will be rapidly deployed, raising the collective immunity of the population and further easing pressure on hospitals.

In emerging economies, the Delta wave effects will vary. They will come directly in a rise in the number of cases, exacerbated by lower vaccination rates. Marked increases have already taken place in Mexico, the Philippines, Thailand, Vietnam, Turkey, South Africa, Argentina and elsewhere. Though across-the-board shutdowns are fairly rare in emerging countries, the deterioration of public health could nevertheless temporarily depress household confidence, in a downturn reinforced by the inadequacy or absence of government fiscal support.

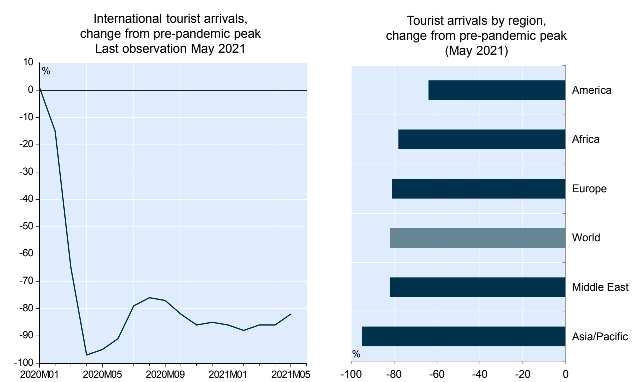
Emerging economies: Fiscal conditions are more constraining
Total measures* implemented since January 2020 to counter effects of Covid-19



* Includes fiscal measures plus loan programs, loan-guarantee programs and government purchases of equity
NBF Economics and Strategy (IMF data)

Some emerging economies are also exposed to the Delta risk by dependence on tourism. Asian destinations would seem especially vulnerable in this respect as China continues to block travel abroad.

World: Tourism is very far from its pre-pandemic volume

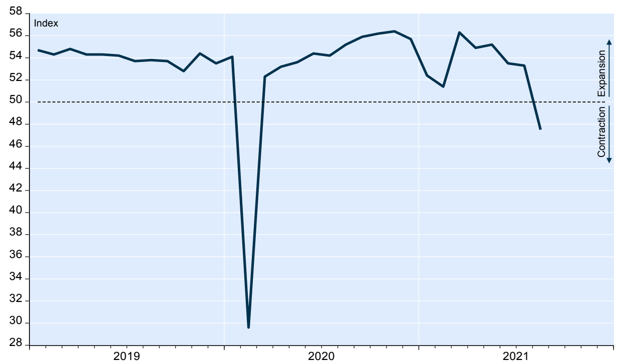


NBF Economics and Strategy (data from United Nations World Tourism Organization)

The other factor to keep in mind is the economic performance of China, which has not been spared by the Delta variant. Though fairly well controlled in China, the pandemic has left marks on the economy this summer. Retail sales, industrial output and investment were all below expectations in July and the services PMI contracted in August with the imposition of strict shutdowns to combat outbreaks of Covid-19.

The Economy

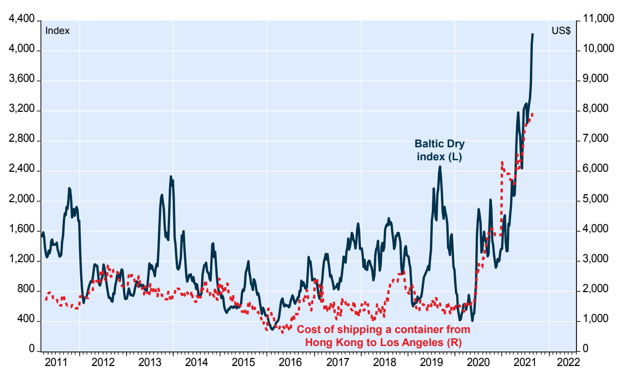
China: Services output slowed by shutdowns
Non-manufacturing PMI, last observation August 2021



NBF Economics and Strategy (data from Bloomberg)

Somewhat ironically, the same zero tolerance of coronavirus infection that spurred recovery of China's economy well before that of other countries now seems to place major obstacles in the path of complete reopening, and the global economy has been hit accordingly. The shutdown of Ningbo-Zhoushan, one of the world's largest container terminals, is a case in point. In mid-August the port was obliged to suspend operations after one of its workers tested positive for Covid-19. The shut¬down rapidly pushed up global shipping costs, aggravating already-dire supply problems in factories around the world. Similar developments – in China and elsewhere – could con¬tinue to upset supply chains as long as Covid is not completely under control.

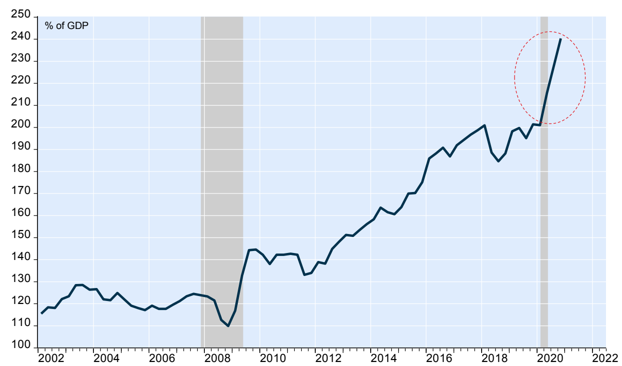
World: Supply chains knocked for a loop by Covid
Baltic Dry Index and benchmark cost of shipping a 40-ft container from Hong Kong to Los Angeles



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

Which leads us to another important issue: inflation. As we have been writing for some time now, supply chains are having a hard time adjusting to the pandemic reality, resulting in shortages of all kinds and driving up manufacturers' input costs. Part of these cost increases has been passed on to consum¬ers, boosting inflation in a number of countries. The central banks of the U.S., the Eurozone and Canada have the luxury of waiting to see whether this rise is temporary. But in emerging countries, inflation outlooks are less well-anchored and cur-rencies are more subject to investor mood swings. To avoid capital flight and to control inflation, the central banks of Brazil, Russia, Mexico, Turkey, Chile and Peru have begun raising their policy rates. At a time when indebtedness has risen sharply, this process could be perilous.

Emerging countries: Greater sensitivity to interest rates
Volume of credit extended to nonfinancial sector as % of GDP



NBF Economics and Strategy (data from Belt and Road Initiative)

So far, however, judging by the signal from emerging-country exchange rates, investors do not seem unduly worried by this risk.

Emerging countries: Markets still confident
JP Morgan index of emerging-country currencies

NBF Economics and Strategy (data from Bloomberg)

As in the case of the developed economies, we are revising down our forecasts for emerging economies (from 6.4% to 6.1%) to reflect life with the Delta variant and its constraints on output. As for the global economy, we now see it expand 5.6% in 2021, down from our outlook of 6.0% at the beginning of July.

World Economic Outlook

	2020	2021	2022
Advanced Economies	-4.5	5.0	4.0
United States	-3.4	5.7	4.1
Eurozone	-6.4	4.8	4.4
Japan	-4.7	2.6	2.5
UK	-10.1	6.8	4.9
Canada	-5.3	5.0	4.0
Australia	-2.3	4.5	3.5
Korea	-0.9	4.1	3.2
Emerging Economies	-2.1	6.1	4.8
China	2.3	8.1	5.5
India	-7.3	9.0	7.5
Mexico	-8.2	6.0	3.2
Brazil	-4.1	5.2	2.4
Russia	-3.0	3.9	2.9
World	-3.1	5.6	4.5

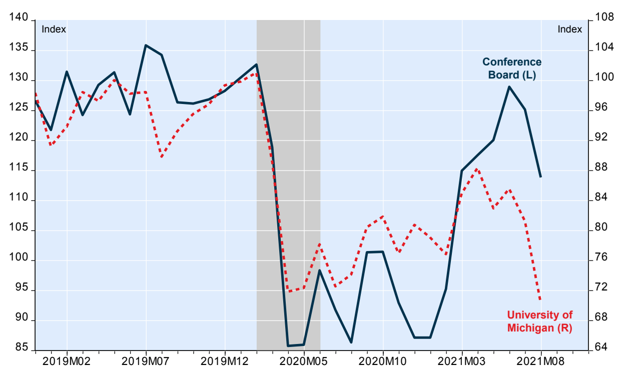
NBF Economics and Strategy (data via NBF and Conensus Economics)

The Economy

U.S.: Consumer confidence sapped by inflation

One of the most attention-getting news items from the U.S. in recent days has been a decline of consumer confidence with its potential effect on household spending. In August the Con-ference Board index was down 11.3 points to a six-month low of 113.8 and the University of Michigan survey was down to its lowest since December 2011 (70.3).

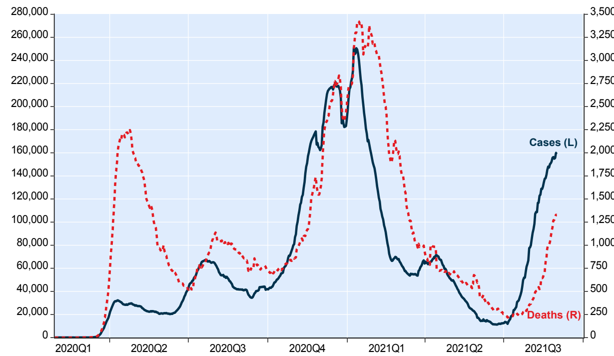
U.S.: A sharp decline of consumer confidence in August
Conference Board and University of Michigan confidence indexes



NBF Economics and Strategy (data from Refinitiv)

The drop was due at least in part to the resurgence of Covid. Like many other countries the U.S. is currently grappling with a new wave of infection related to the Delta variant. Daily new cases and deaths have climbed back to the highest rates in months. Predictably, the states with the lowest vaccination rates are those with the highest new-case rates.

U.S.: Resurgence of Covid
Daily new cases and deaths related to Covid-19, 7-day moving average



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

We note, however, that the economic effects of the present wave of Covid-19 seem much more restrained than in past waves. The Google Mobility Report shows only a very slight decrease in traffic in retail stores and recreation sites.

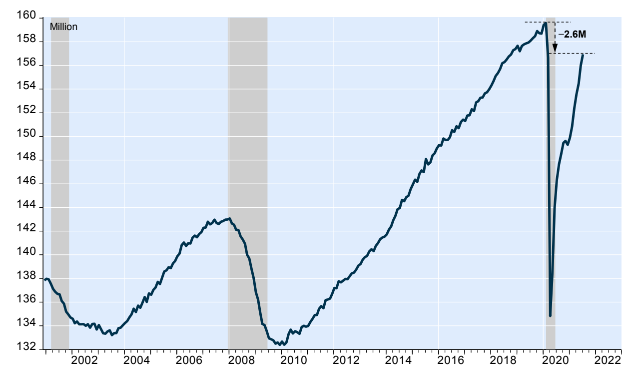
U.S.: The current wave of Covid seems less damaging to the economy
Google Mobility Report for retail and recreation, 7-day moving average

NBF Economics and Strategy (data from Google)

This can be explained by the fact that the Americans most at risk of infection according to the CDC – those who have chosen to remain unvaccinated – are those least likely to change their behaviour when the case rate rises. The story is similar for the numbers by state: the states with the highest rates of infection are generally those least inclined to impose strict distancing rules. The absence of restrictions (personal or governmental) helps keep economies going.

If the psychological and economic effects are less than before, why has consumer confidence fallen to lows near those seen at the worst of the crisis? The reason could be the expiry of a number of fiscal income-support programs. Since the beginning of the crisis we have been noting the importance of these programs in sustaining consumption. It follows that the confidence of U.S. consumers is taking a hit from their with-drawal. More specifically, the end of unemployment insurance bonuses, on September 6, seems to be darkening the skies for many households. As of August 13, 9.2 million people were still benefiting from these supplements. They must now either fall back on less generous programs or find employment. Though the outlook for hiring is encouraging – job openings in June were at an all-time high – total employment demand (jobs + job openings) is 2.6 million short of the pre-pandemic level. So it will take some time for total employment to return to its previous level.

U.S.: Not enough job openings to make up the employment shortfall
Total demand for labour: employment + unfilled positions

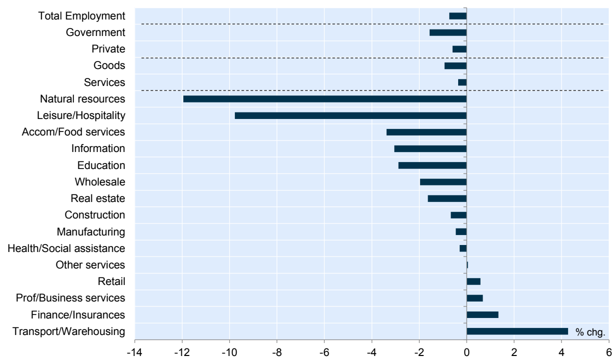


NBF Economics and Strategy (data from Bloomberg)

Those working in the sectors hardest hit by the pandemic – resource extraction, arts/entertainment/recreation and ac-commodation/food services – are of course likely to have a harder time rejoining the labour force. Covid persistence could even oblige them to shift careers, a process that could take several years.

The Economy

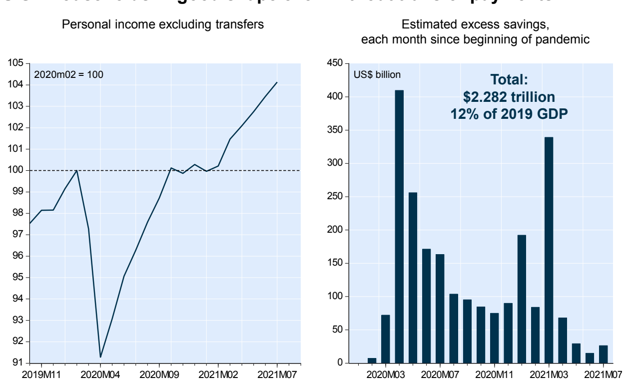
U.S.: Demand for labour falls short of pre-pandemic level
Total demand for labour (employment + job openings) in July 2021* vs. 2019 average



* July job openings as estimated by NBF

Though recognizing that employment will take time to recover completely from the pandemic shock, we are not unduly wor-ried about the possibility that an income shock could derail household consumption. Personal income excluding govern-ment transfers is now 4.1% above its pre-crisis level. Add to that the excess savings accumulated since the beginning of the crisis – amounting to 12.0% of GDP by our calculations – and households seem in good enough shape keep spending strongly after withdrawal of emergency programs.

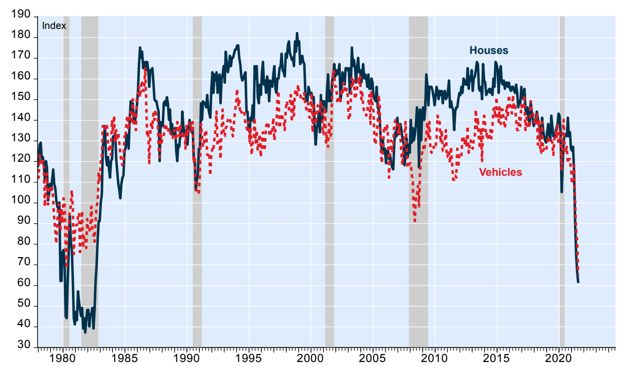
U.S.: Households in good shape even without transfer payments



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

This assumes, of course, that price rises for a number of com-modities will not take too big a bite out of consumer purchasing power. It should be kept in mind that respondents to the August University of Michigan survey reported the worst con¬ditions for buying vehicles and houses since the 1980s.

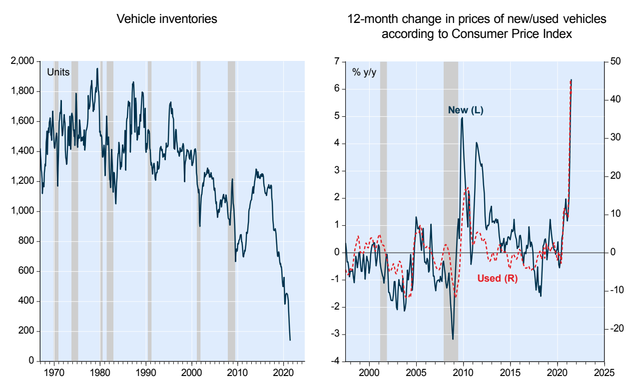
U.S.: Worst buying conditions in decades
University of Michigan consumer surveys, buying conditions for vehicles and houses



NBF Economics and Strategy (data from Bloomberg)

This is hardly surprising at a time when scarcity of computer chips has brought a collapse of vehicle inventories in the U.S. and a sharp rise of prices.

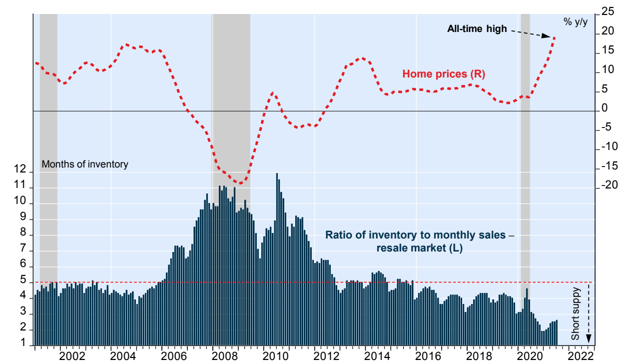
U.S.: Vehicle inventories at an all-time low



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

The story for housing is similar. In June the Case-Shiller index of home prices reported its largest 12-month rise since the series began in 1987.

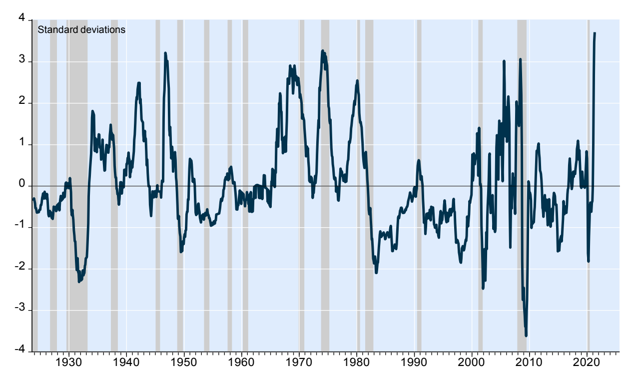
U.S.: A roaring seller's market in housing
12-month change in S&P CoreLogic Case-Shiller 20-City Home Price Index vs. resale-market inventory



NBF Economics and Strategy (data from Refinitiv)

Price inflation is not limited to motor vehicles and housing. The June all-items CPI was up 5.4% from a year earlier, the largest 12-month rise since 2008. Compared to the long-term (10-year) trend, the recent price surge is the sharpest ever.

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

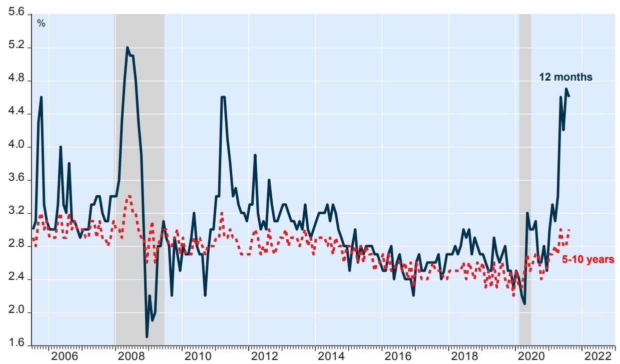


NBF Economics and Strategy (data from Bloomberg and FRED St. Louis)

The Federal Reserve sees this surge as transient. Consumers seem to be not so sure: their medium- and long-term inflation expectations are on the rise.

The Economy

U.S.: Inflation expectations on the rise
University of Michigan consumer surveys, expected inflation over next 12 months and next 5-10 years

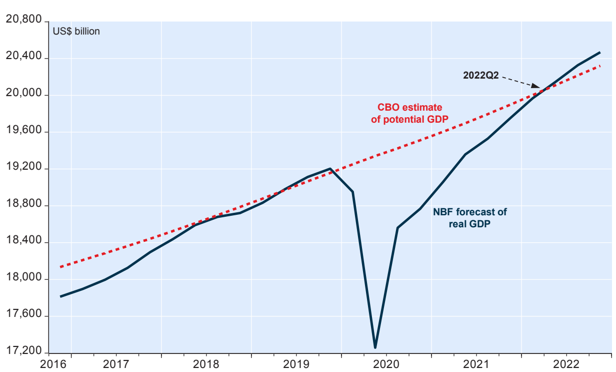


NBF Economics and Strategy (data from Bloomberg)

They even fear that price rises will reduce their real income. That could lead workers to demand higher pay raises, adding in turn to stimulation of inflation. The resulting dynamic could complicate the Fed game plan.

In light of these risk factors (rise in Covid-19 cases, shortfall in employment recovery, supply problems, rising inflation) and weaker-than-expected Q2 GDP numbers, we are revising our forecast of 2021 U.S. growth down to 5.7%, followed by an expansion of 4.1% next year. This revision, combined with the fact that the CBO has revised its estimate of potential GDP upwards, means that output should exceed potential in 2022Q2. We previously anticipated that this would happen in the third quarter of the current year.

U.S.: GDP back to potential in Q2 2022
Real GDP with NBF forecasts vs. potential GDP as estimated by CBO

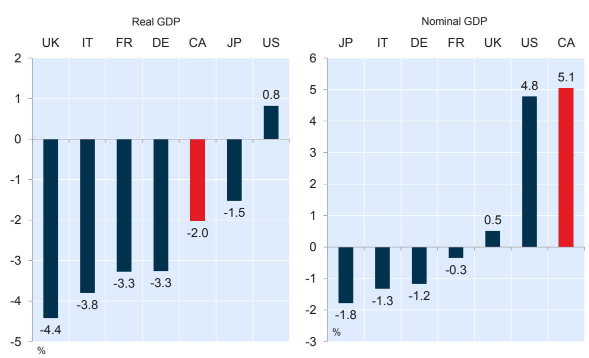


NBF Economics and Strategy (data from CBO)

Canada: A stumble in Q2

Against all expectations, the report for Canadian real GDP in Q2 showed a contraction of 1.1% annualized, just a month after Statistics Canada suggested a quarterly expansion of 2.5% annualized based on monthly GDP by industry (including a preliminary estimate for June). Actual Q2 GDP, reported in late August, was the worst showing in the G7. The 15% drop in exports caused a 4.8 percentage points negative contribution to the quarterly print. No less than 40% of the pullback in exports came in autos and parts because of that industry's unprecedented problems in computer-chip supply. In addition, overheated residential investment began to cool, as expected, and the recovery of consumption paused as public-health measures remained restrictive. Though the Q2 result was disappointing in real terms, it should be noted that the Canadian recovery remains enviable in nominal terms, with a Q2 gain of 7.9% annualized. Nominal Canadian GDP ended the quarter 5.1% above its pre-recession peak, the best number in the G7.

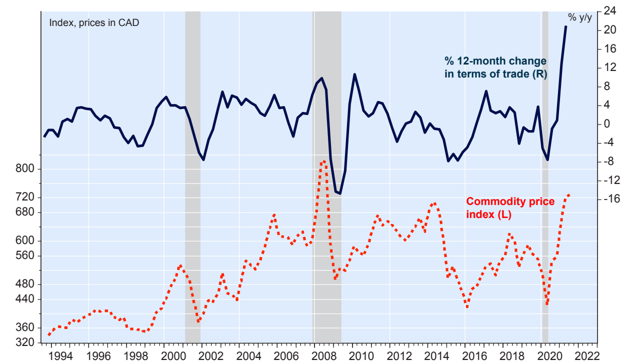
Canada: Despite Q2 pullback, the recovery remains enviable
Real and nominal GDP, % difference from pre-pandemic level (2019Q4)



NBF Economics and Strategy (data via Refinitiv)

A jump in resource prices contributed to this development. Terms of trade improved more than 20% from a year earlier – a gain unprecedented in the 60-year history of this data series. The good news is that prices received by resource producers have continued to rise so far in Q3, since resource prices in USD have been holding up and the CAD has been depreciating against the greenback. So the record corporate profits of Q2 could increase further in Q3, especially given that exports rebounded.

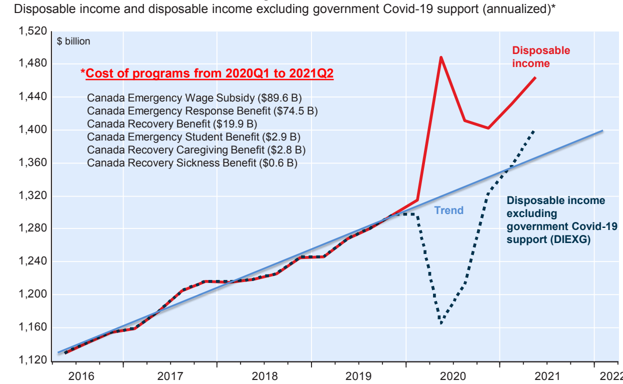
Canada: Terms of trade propelled by the surge of commodity prices
% 12-month change in terms of trade and Bank of Canada index of commodity prices in Canadian dollars



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

But it was not only companies that did well in Q2. Household finances continued to improve. Disposable income once again rose strongly in the quarter (9.6% annualized after 8.6% in Q1), wages rose and government income-support programs remained in place. But many wonder about the risks of an income shock for households as those programs put in place during the pandemic end in the coming weeks. The national accounts for Q2 suggest that consumers are ready to stand on their own feet. Disposable income excluding government programs related to the Covid-19 pandemic was already above its historical trend in Q2. Job creation so far in the third quarter suggests that the upward trend has continued. This, combined with the large amount of excess savings already accumulated by households (11.4% of GDP), leaves consumers well-positioned to support the recovery.

Canada: Are consumers ready to stand on their own feet?
Disposable income and disposable income excluding government Covid-19 support (annualized)*

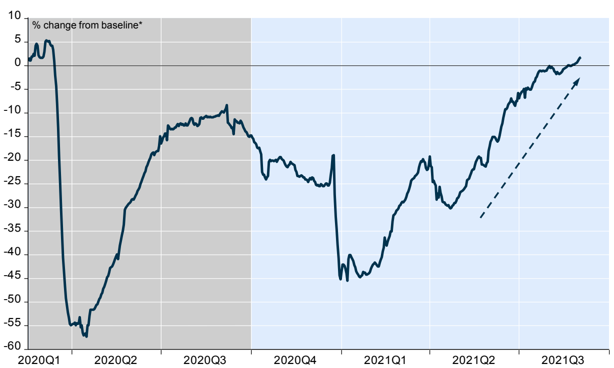


NBF Economics and Strategy (data via Statistics Canada, link)

The Economy

There are encouraging signs from Canadian consumers in the current quarter. Thanks to easing of public health measures, the Google mobility report shows a sharp rebound in retail & recreation activity. To be sure, the Canadian index is well above its Q2 average and at a level comparable to that prevailing before the pandemic.

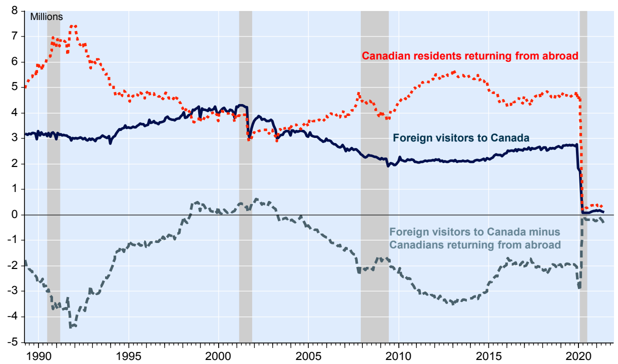
Canada: Retail & recreation mobility back to pre-pandemic level
Google mobility data for retail & recreation, 7-day moving average



* Baseline is median value of the corresponding day of the week during the 5 weeks from January 3 to February 6 2020
NBF Economics and Strategy (data via Google)

Another factor will also favour the Canadian economy in the third quarter. It is important to keep in mind that Canada has traditionally run a deficit in international travel (i.e. it is a net exporter of travellers and their spending). The Covid-19 pan-demic, by disrupting international travel, has limited outbound spending. Already in Q2, this factor gave Canada its largest current-account surplus since 2008 (see *note*). This situation may continue into the third quarter, since for a second con-secutive summer Canadians have mostly vacationed at home. Since August, Canadian tourists have been unable to enter the U.S. by land, while there are no restrictions for Americans.

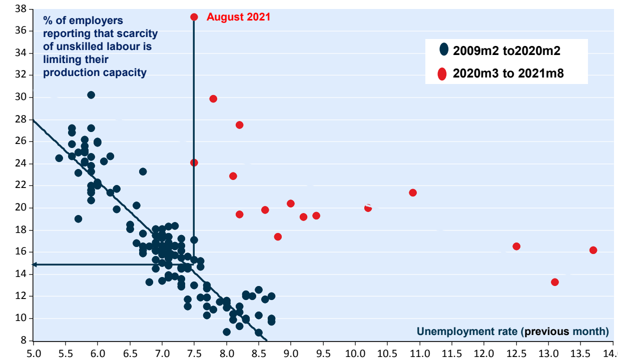
Canada: Slowdown of international tourism favours national economy
Foreign visitors to Canada and Canadian residents returning from abroad



NBF Economics and Strategy (data via Statistics Canada)

There are indications that at this point it is not skittishness of households and businesses that could brake growth but pro-duction constraints. Since 2009, the Canadian Federation of Independent Business has conducted a monthly survey of its members on this point. In August, a record-high 37% of small businesses reported that a shortage of unskilled labour was an obstacle to their business. Such a reading raises questions when the unemployment rate remains well above its pre-recession level and job losses are concentrated among low-wage earners. When the unemployment rate was around the current level in the previous cycle, only 15% of businesses reported that labour shortages were an issue. It's true that part of the reason for this anomaly may be some mismatch between the type of jobs offered by companies and the pro¬file of workers on the sidelines. But there is much more than that. In our view, the generosity of income-support programs has been a disincentive to return to work. With government having started to decrease its generosity in August and its programs slated to end by November, businesses should see some improvement in recruiting in the months ahead.

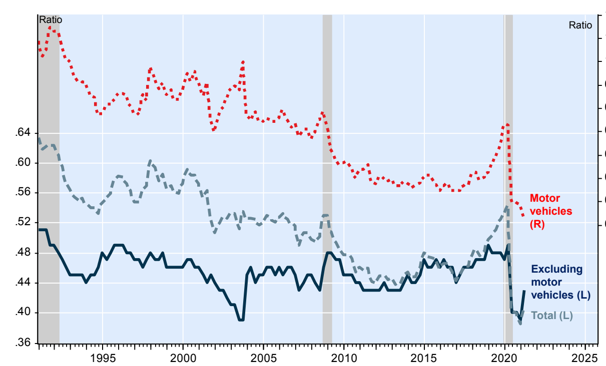
Canada: Are income support programs holding back recovery?
Indicator of unskilled-labour scarcity vs. unemployment rate



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

However, labour scarcity is not the only factor holding up production at this point. As noted above, the auto industry is facing production problems that could brake the rebound of consumption. August vehicle sales, seasonally adjusted, were down 10% from July.[1] There is reason to believe this decline is due to a bottleneck in supply of product to dealers. In Q2 the auto industry had the lowest ratio of inventory to sales ever recorded. Inventories of other retailers, though rising, were still low by historical standards.

Canada: Record low dealer inventories of motor vehicles
Ratios of retail inventories to sales

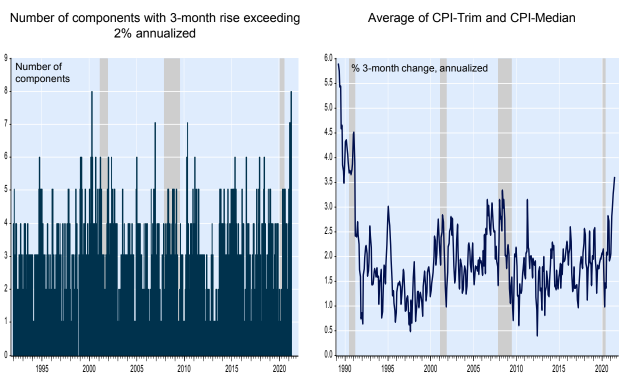


NBF Economics and Strategy (data via Statistics Canada)

The Economy

This environment was propitious to intensification of inflation pressure. In July the Consumer Price Index surprised econo-mists on the upside for the third time in four months. Its rise from a year earlier was 3.7%, the most in a decade. Though the base effect is still a factor in the current high 12-month rises, the CPI has risen at an even faster rate in the last three months – 4.4% annualized. What sets the current period apart is the broad base of prices rises. In those last three months the annualized inflation of all eight CPI components topped the 2% target of the central bank. This has happened only once before in the history of the data series. Core inflation measures tell the same story. CPI-Median and CPI-Trim, which exclude outlier components showing the most extreme movements, have been averaging increases unequalled in three decades. So the economic recovery is slower than the Bank of Canada anticipated, but inflationary pressures are such that it could stay the course for reduction of its monetary accommodation.

Canada: Inflationary pressures are broad-based



NBF Economics and Strategy (data via Statistics Canada)

This month we are revising our forecast of real GDP growth in 2021 down to 5.0% from 6.0%. Though most of our revision can be attributed to the surprising weakness of GDP in Q2, we have also lowered our expectation for growth in the second half of the year. Easing of public-health restrictions will allow decent expansion in Q3, but the rise of daily new Covid-19 cases puts more of a question mark over the outlook for the fourth quarter. Moreover, although we would consider consumers and businesses well-positioned to support a recovery, supply-chain disruptions like those of the auto industry present a risk under current conditions.

The Economy

United States Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.9	2.3	(3.4)	5.7	4.1	(2.3)	5.3	3.7
Consumption	2.9	2.2	(3.8)	8.0	3.3	(2.4)	7.4	2.2
Residential construction	(0.6)	(0.9)	6.8	10.6	0.2	15.7	0.5	1.0
Business investment	6.4	4.3	(5.3)	7.6	3.0	(3.8)	7.2	1.9
Government expenditures	1.4	2.2	2.5	1.0	1.2	1.2	1.5	2.0
Exports	2.8	(0.1)	(13.6)	4.3	5.4	(10.7)	2.5	6.0
Imports	4.1	1.2	(8.9)	12.2	1.2	0.3	4.2	0.9
Change in inventories (bil. $)	65.7	75.1	(42.3)	(113.5)	100.0	88.8	(75.0)	175.0
Domestic demand	3.0	2.4	(2.5)	6.8	2.8	(1.3)	6.0	2.1
Real disposable income	3.4	2.3	6.2	3.0	(1.7)	4.0	1.9	1.2
Payroll employment	1.6	1.3	(5.7)	2.6	3.4	-6.0	4.1	2.5
Unemployment rate	3.9	3.7	8.1	5.7	4.9	6.8	5.1	4.5
Inflation	2.4	1.8	1.3	4.3	3.3	1.2	5.3	2.7
Before-tax profits	8.3	2.7	(5.2)	14.9	2.3	0.9	7.1	2.6
Current account (bil. $)	(438.2)	(472.1)	(616.1)	(743.8)	(770.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 9/03/21	Q3 2021	Q4 2021	Q1 2022	Q2 2022	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.05	0.05	0.05	0.10	0.10	0.09	0.05	0.20
Treasury yield curve								
2-Year	0.21	0.25	0.30	0.40	0.60	0.13	0.30	0.85
5-Year	0.78	0.85	1.00	1.15	1.25	0.36	1.00	1.45
10-Year	1.33	1.40	1.50	1.65	1.75	0.93	1.50	1.90
30-Year	1.94	2.00	2.10	2.20	2.25	1.65	2.10	2.30
Exchange rates								
U.S.$/Euro	1.19	1.22	1.21	1.21	1.20	1.22	1.21	1.19
YEN/U.S.$	110	109	108	109	109	103	108	108

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	Q2 2021 actual	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.1)	(31.2)	33.8	4.5	6.3	6.5	3.6	4.7
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.8	5.2	5.3
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.7	4.1	4.5
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.6	5.1

National Bank Financial

Canada Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.3)	5.0	4.0	(3.1)	3.4	3.7
Consumption	2.5	1.6	(6.0)	4.1	4.8	(4.4)	3.2	4.9
Residential construction	(1.7)	(0.2)	4.1	18.1	(5.3)	14.5	2.7	(4.3)
Business investment	3.1	1.1	(13.6)	0.1	6.1	(13.9)	4.8	5.4
Government expenditures	3.2	1.7	0.4	5.7	2.2	2.4	4.0	1.7
Exports	3.7	1.3	(10.0)	2.1	6.3	(7.4)	1.3	7.0
Imports	3.4	0.4	(11.2)	7.2	5.1	(5.9)	4.0	5.1
Change in inventories (millions $)	15,486	18,766	(15,937)	5,129	14,967	(287)	11,000	12,869
Domestic demand	2.5	1.4	(4.3)	5.4	3.1	(2.0)	3.4	3.1
Real disposable income	1.5	2.2	9.5	1.2	(0.7)	7.4	1.2	0.5
Employment	1.6	2.2	(5.1)	4.4	2.8	(2.9)	3.1	2.1
Unemployment rate	5.9	5.7	9.6	7.7	6.4	8.8	6.9	6.3
Inflation	2.3	1.9	0.7	3.1	2.8	0.8	3.8	2.2
Before-tax profits	3.8	0.6	(4.0)	38.0	2.6	9.4	21.3	4.0
Current account (bil. $)	(52.2)	(47.4)	(40.1)	5.0	(38.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 9/03/21	Q3 2021	Q4 2021	Q1 2022	Q2 2022	2020	2021	2022
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
3 month T-Bills	0.16	0.20	0.20	0.20	0.25	0.07	0.20	0.65
Treasury yield curve								
2-Year	0.40	0.45	0.50	0.60	0.70	0.20	0.50	1.05
5-Year	0.79	0.85	1.00	1.10	1.15	0.39	1.00	1.50
10-Year	1.19	1.25	1.35	1.45	1.55	0.68	1.35	1.70
30-Year	1.75	1.80	1.90	1.95	2.00	1.21	1.90	2.10
CAD per USD	1.25	1.27	1.24	1.22	1.23	1.27	1.24	1.24
Oil price (WTI), U.S.$	69	72	75	70	67	48	75	65

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	Q2 2021 actual	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(7.9)	(38.0)	41.7	9.3	5.5	(1.1)	4.6	4.7
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	3.4	4.0	3.8
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	2.1	3.0	3.0
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.0	7.3	6.9

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2018	2019	2020f	2021f	2022f	Nominal GDP (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-5.3	3.2	2.6	0.8	4.1	-8.3	14.8	3.8
Prince Edward Island	2.5	5.1	-3.0	3.5	4.0	3.6	7.0	-1.0	7.2	5.0
Nova Scotia	1.9	2.4	-3.2	3.8	3.3	3.6	3.8	-1.9	6.9	4.6
New Brunswick	0.5	1.2	-3.7	3.6	3.0	3.6	3.0	-1.9	8.5	4.3
Quebec	2.9	2.7	-5.3	5.6	4.1	5.4	4.3	-4.1	10.8	5.2
Ontario	2.8	2.1	-5.0	4.8	4.2	4.1	3.8	-4.8	8.7	5.2
Manitoba	1.5	0.6	-4.8	4.3	3.5	2.5	1.0	-4.0	11.0	5.0
Saskatchewan	1.2	-0.7	-5.2	4.9	3.5	3.2	0.1	-9.2	20.5	4.3
Alberta	1.9	0.1	-8.2	5.6	4.2	3.4	2.7	-11.6	21.5	5.3
British Columbia	2.7	2.7	-3.8	5.2	4.2	4.9	4.4	-2.3	10.8	4.7
Canada	2.4	1.9	-5.3	5.0	4.0	4.2	3.6	-4.6	11.7	5.1

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	12.8	12.2
Prince Edward Island	4.2	3.4	-3.2	3.7	2.2	9.4	8.6	10.6	8.7	8.2
Nova Scotia	1.9	2.3	-4.7	5.4	1.6	7.7	7.3	9.8	8.2	7.7
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	8.7	8.5
Quebec	1.5	2.0	-4.8	4.4	3.0	5.5	5.2	8.9	6.4	5.6
Ontario	1.7	2.8	-4.7	4.3	3.0	5.7	5.6	9.6	8.3	6.4
Manitoba	1.1	1.0	-3.7	3.7	2.0	6.0	5.4	8.0	6.8	5.5
Saskatchewan	0.6	1.7	-4.6	3.7	2.3	6.2	5.5	8.4	6.4	5.6
Alberta	1.9	0.6	-6.5	4.9	3.3	6.7	7.0	11.5	8.7	7.5
British Columbia	1.4	2.9	-6.5	5.4	2.9	4.8	4.7	9.0	6.7	5.6
Canada	1.6	2.2	-5.1	4.4	2.8	5.9	5.7	9.6	7.7	6.4

	Housing starts (000) 2018	2019	2020f	2021f	2022f	Consumer Price Index (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	1.3	0.8	1.7	1.0	0.2	3.1	2.6
Prince Edward Island	1.1	1.5	1.2	1.2	1.0	2.3	1.2	0.0	3.6	2.7
Nova Scotia	4.8	4.7	4.9	5.3	4.2	2.2	1.6	0.3	3.5	2.8
New Brunswick	2.3	2.9	3.5	4.0	2.8	2.2	1.7	0.2	3.4	2.8
Quebec	46.9	48.0	54.1	72.0	56.0	1.7	2.1	0.8	3.3	2.8
Ontario	78.7	69.0	81.3	95.8	81.7	2.4	1.9	0.6	3.3	2.8
Manitoba	7.4	6.9	7.3	7.5	6.3	2.5	2.3	0.5	2.9	2.7
Saskatchewan	3.6	2.4	3.1	4.0	3.6	2.3	1.7	0.6	2.9	2.7
Alberta	26.1	27.3	24.0	30.5	27.0	2.5	1.7	1.1	3.0	2.7
British Columbia	40.9	44.9	37.7	48.5	36.6	2.7	2.3	0.8	3.3	2.7
Canada	212.8	208.7	217.8	270.1	220.0	2.3	1.9	0.7	3.1	2.8

e: estimate f: forecast

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

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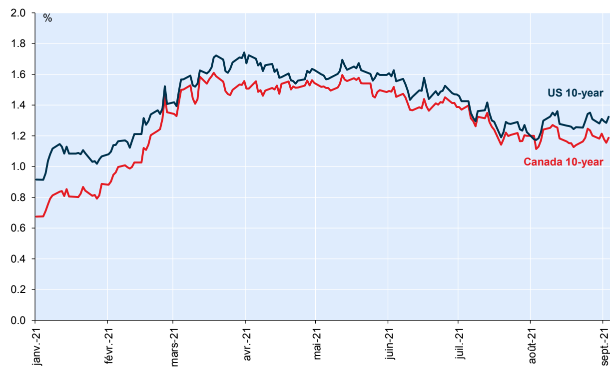
Step back on a setback

Trading volumes may have suffered a seasonal summer slump, but it's been an eventful summer in global bond markets all the same. Notwithstanding a measured selloff in G10 rate markets in August, 10-year bond yields are still skinnier today than when we set down our last issue of Fixed Income Monitor, curves remaining technically flat across a fixed income market still grappling with policy dislocations, excess liquidity and unsettling virus developments.

Rates in a holding period but we see modest upside pressure ahead
Canada and US 10-year yields throughout 2021



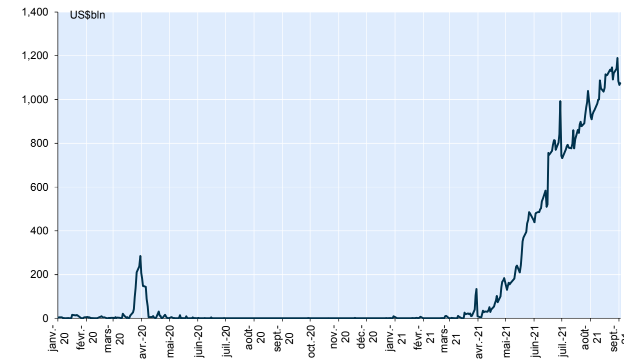
NBF Economics and Strategy (data from Bloomberg)

Virus resurgence, across the U.S. and even in nations with heady immunization rates, has delayed (although not derailed) recovery efforts. As governments contend with yet another wave of infections, fresh restrictions place late-year growth on a shallower plane than our earlier thinking. Related hiccups in global supply chains, and the resultant idling of manufacturing plants, likewise compromise near-term growth potential.

We're already seeing marginal damage to economic output, with presumably more to come. Our fresh *Monthly Economic Monitor* ushers in a downgrade to global growth, with prospects in North America trimmed by roughly a full percentage point in 2021.

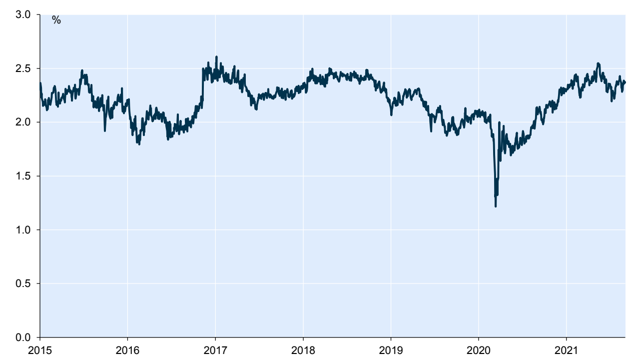
Consistent with earlier warnings, however, inflation appears (at least to us) as a less-than-transient threat. Headline inflation rates are undeniably brisk in North America and we continue to see scope for inflation to hold at or above the previously acceptable ranges. True, inflation expectations have yet to really run away (e.g., U.S. 5Y5Y inflation swap rate trading down the middle of a roughly 2.2-2.5% year-to-date range) but hopes for a material and sustained cooling in U.S. core inflation could be misplaced. Here again, we'd refer you to our detailed assessment of the U.S. growth/inflation outlook in the *Monthly Economic Monitor.*

That's a lot of liquidity
Overnight Reverse Repos: Treasury Securities Sold by the Fed in Temporary Open Market Operations



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

The market looks to be buying the transitory inflation narrative
5-year, 5-year USD inflation swap rate



NBF Economics and Strategy (data via Bloomberg)

The market is clearly grappling with this 'recovery risk vs. hot inflation' narrative, 10-year Treasuries defying our earlier expectations and looking to end the year closer to 1.50%. Notwithstanding virus-related risks to the outlook, we believe "substantial further progress" on labour markets is just around the corner. Despite a

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sub-par August jobs report, a potentially-peaking COVID backdrop, expiring supplemental UI benefits and a return to the classroom for American children leaves us optimistic that an uptick in employment and participation is ahead. Factor in what we consider asymmetric risks to medium-term inflation outlook and the case for a near-term Fed taper is a strong one. While that might not come at the Fed's September meeting, the FOMC should have enough data by November to officially make the taper call. Read on for our additional thoughts.

As for Canada, a portion of the economic recovery was recently revised away, with an export-orientated economy eying global economic developments wearily. While our forecasts for growth are being marked lower, we're chalking this up to supply-side disruptions (and downward revisions to spring output) rather than a deterioration in underlying demand. Data dependency is the name of the game, however, so we'll be closely watching to see if recent growing pains are more systemic than we'd thought. It follows that we haven't yet thrown in the towel on a Q3:2022 rate hike but we would concede that recent developments skew the risk to that forecast later, rather than earlier.

When it comes to inflation, however, our conviction hasn't wavered. If anything, supply-side disruptions inhibiting growth from full acceleration is (among other factors) likely to keep inflation elevated for longer. Central banks can use the transitory card for now, but it will be an increasing tougher sell as we move into 2022. Should this prove an accurate assessment, a more structural back-up in rates will be required (even if that comes later than we'd previously thought), real interest rates gradually rising from still negative territory as slack is closed up and cautious central bankers concede that near-zero policy rates are no longer appropriate. For now, however, we'll watch the data and Delta variant trajectory like everybody else.

FOMC: The taper is coming… probably

As is the case every year, the market was keenly focused on the annual Jackson Hole symposium in August. 2020's event certainly lived up to the hype as a new monetary policy framework was unveiled, ushering in the start of the "run-hot" era (i.e. flexible average inflation targeting). The 2021 iteration was not as eventful. The key focus leading up to the meeting was of course the fate of the Fed's asset purchases and the potential for a taper announcement. Instead, what we got was essentially a repeat of what had been published weeks earlier in the Fed's July minutes. From Powell's Jackson Hole speech:

> "At the FOMC's recent July meeting, I was of the view, as were most participants, that if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year. The intervening month has brought more progress in the form of a strong employment report for July, but also the further spread of the Delta variant. We will be carefully assessing incoming data and the evolving risks."

…which compares to a key excerpt from July's minutes:

> "Looking ahead, most participants noted that, provided that the economy were to evolve broadly as they anticipated, they judged that it could be appropriate to start reducing the pace of asset purchases this year"

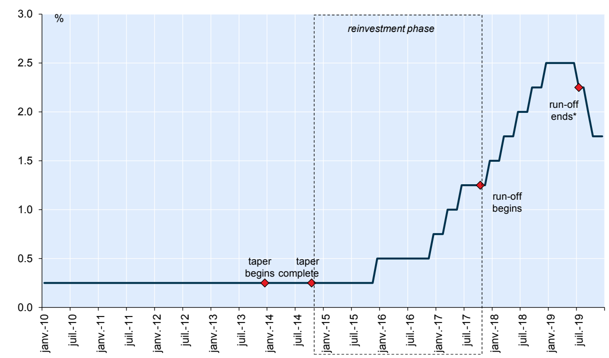
Indeed, the only new information we learned was that Powell is a part of "most participants" as well as getting a more explicit acknowledgement of Delta variant risks. And while he stopped short of officially announcing a taper or giving out any details on how one might look, the speech confirmed that the market can expect, assuming job growth continues and COVID is under control, that the pace of asset purchases will step down before the year is out. As for the dynamics of the taper, that remains left to guess work. Fortunately, we have a number of FOMC participants who've offered their views on when/how the taper should take place, in addition to the precedent set last cycle.

For historical context, in the aftermath of the Global Financial Crisis, the Fed tapered purchases while the policy rate was at the effective lower bound, reinvested maturing assets for some time and didn't allow a natural run-off until the policy rate had already achieved lift-off. In terms of timing, the full taper process took place over a ten-month horizon, an initial hike was implemented just over a year after the taper had been completed and balance sheet reductions (via a natural, and only partial run-off) got underway a full three years after the taper had been completed and when the fed funds target stood at 1.25%.

While the post-QE balance sheet playbook hasn't been discussed by FOMC participants, many have offered their views on the timing and duration of this coming taper process. As noted, "most" see this as needing to kick off this year, with some publicly stating that should be sooner (i.e. September) rather than later. Once underway, there appears to be a majority among those on the FOMC who have opined that the taper should occur at a faster pace than the ten months it took in the last crisis (in as little as five months), though some have argued for a more gradual process.

Empirical record of Fed policy normalization

Fed funds target (upper bound) and key QE/balance sheet milestones



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

As it stands, August's disappointing jobs print is likely to delay an official taper announcement by one meeting. However, our still optimistic outlook for the labour market suggests that by November, the Fed will have the data it needs to confidently announce that it is time to pare the pace of purchases. Once underway (shortly after the November meeting), we see it lasting somewhere in the neighborhood of 8 months. Again, that's slower than the 5 months a handful of FOMC participants have suggested but modestly faster than the 2014 iteration.

Thereafter, the trajectory of policy remains murky for now. June's dot plot would suggest that there's a possibility for rate hikes before 2022 is out, with momentum for this timeline building in recent meetings. However, for the first time in the COVID era it seems that economic growth projections will not be marked higher,

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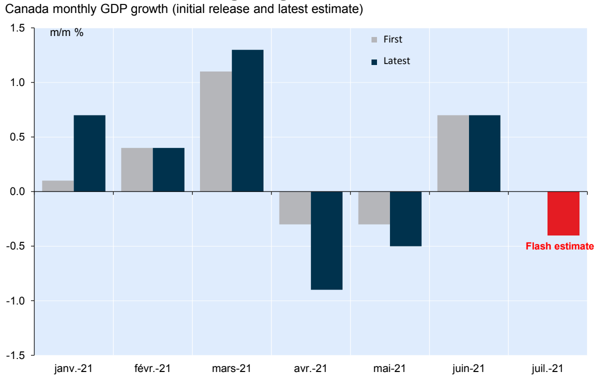
so it's possible the 2022 rate hike camp might stall out shy of a majority. Additionally, Jerome Powell will be sure to continue to de-link the taper and rate hike processes: *"The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test"*. Indeed, we won't see the Fed nudge higher its policy rate until full employment is reached. While an unrelenting COVID backdrop and distortionary economic conditions make forecasting the economy (and thus, the policy trajectory) more difficult than ever, we continue to see the Fed's first tap of the breaks coming in the first quarter of 2023.

BoC: Growing pains

Despite lockdowns across much of the country in the spring of 2021, it had looked like we'd be able to escape the quarter with positive growth thanks to a re-opening boom in June. Well, the June boom came but unfortunately, the damage done in the first two months of the quarter ended up being worse than we had expected. Indeed, sizeable downward revisions to April and May helped turn what had been expected to be a 2.5% expansion in Q2 into a 1.1% annualized decline (note that the monthly and quarterly datasets/methodologies are not apples-to-apples). If that wasn't bad enough, StatCan's monthly "flash estimate" telegraphed an output contraction in July—certainly not the start to the third quarter we were looking for.

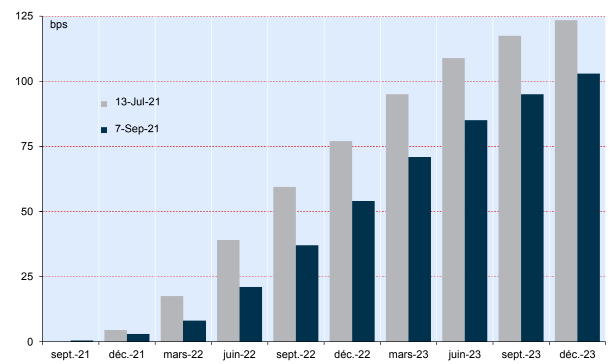
Q2 revised down, with Q3 getting off to a stumble
Canada monthly GDP growth (initial release and latest estimate)



NBF Economics and Strategy (data from StatCan)

The disappointing data will undoubtedly lead to third quarter and full-year growth forecasts marked down across the Street. We're no different as our September Monthly Economic Monitor highlights. Neither, in all likelihood, is the Bank of Canada. While there will be no new projections laid down in its September meeting, October's MPR is sure to mark a second straight downward revision to 2021 growth (July saw the growth projection cut from 6.5% to 6.0%). For a central bank that ties its policy rate guidance to real GDP growth via the admittedly abstract and imperfectly measurable output gap, this is a critical development.

Market pricing reflecting lower risk of first half rate hikes in 2022
Policy rate increases implied by BA futures through 2023



NBF Economics and Strategy (data from Bloomberg)

As we'd highlighted in past editions of the Fixed Income Monitor, under the prior, more optimistic outlook, it appeared that output gap closure could be a story for as early as the second quarter of next year. Importantly, that timeline was ahead of the guidance that the Bank of Canada had been giving when it noted it expected slack absorption "sometime in the second half of 2022". This had been contributing to markets increasingly pricing in the Bank tightening earlier than their published statements would suggest. With the Delta variant taking some wind out of the global economic sails and with earlier domestic COVID restrictions inflicting more damage than previously thought, it now appears that ahead-of-schedule output gap closure is far less likely. That said, downward revisions shouldn't be significant enough for the Bank to revert back to its January guidance which signalled slack absorption "into 2023". Thus, we fully expect the policy rate guidance to remain intact once October's MPR unveils the Bank's exact thinking on the economic trajectory. It follows that we haven't yet thrown the towel on our forecast for the first BoC rate hike to come in July 2022. We would, however, concede that risks to this projection are now skewed later (i.e Q4:2022) rather than earlier (i.e. Q2:2022).

As for the trajectory of QE, we'd never expected a taper to come in September for a litany of reasons: September is not an MPR meeting, we don't have a precedent for back-to-back taper announcements, September's meeting comes just over a week before the federal election and we won't have another jobs report in the interim. The June/Q2 GDP only provides us more confidence in that call. Nonetheless, we feel the Bank is keen to wind down QE to the reinvestment phase sooner rather than later. Thus, barring disastrous economic results over the next seven weeks, we think October remains on track for the next downward adjustment to the pace of QE. At that point, we'll have some questions in need of answers...

BoC: What comes after QE?

*Note: This is an excerpt from our recent Market View note on QE and balance sheet management at global central banks. You can read that full report **here**.*

At the Bank of Canada, the taper process has been well underway for close to a year now. Now, at C$2 billion per week, we're closer to the end of QE than we are the beginning. Thankfully, we have some guidance on what the post-QE fate of the central bank's balance sheet will be. In a March speech, Deputy Governor Toni Gravelle outlined what the terminal stages of the QE program would entail in broad terms (we also explored this then):

> *"...we will eventually get down to a pace of QE purchases that maintains—but no longer increases—the amount of stimulus being provided. That is, a pace where our GoC bond holdings are largely stable and we reinvest the proceeds of maturing assets."*

The Bank has been referring to this period as the "reinvestment phase". And like many FOMC members, Gravelle's speech tried to disconnect the QE taper process and the rate normalization process:

> *"...adjusting the pace of QE purchases won't necessarily mean that we have changed our views*

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about when we will need to start raising the policy interest rate. These decisions are distinct. We have committed to continuing our QE program—by which we mean positive net purchases—until the recovery is well underway. Meanwhile, a decision on the policy rate is linked to the economic outcomes described in our forward guidance… In the forecast that we published in January, we projected this wouldn't happen until into 2023. So, we would arrive at the reinvestment phase of QE some amount of time before we start to increase the policy interest rate."*

**Guidance revised in April to "some time in the second half of 2022"*

Since March, we've heard little in the way of additional information/clarification with Macklem declining to explicitly answer media questions to that point in July's post-decision presser. He did, however, offer this:

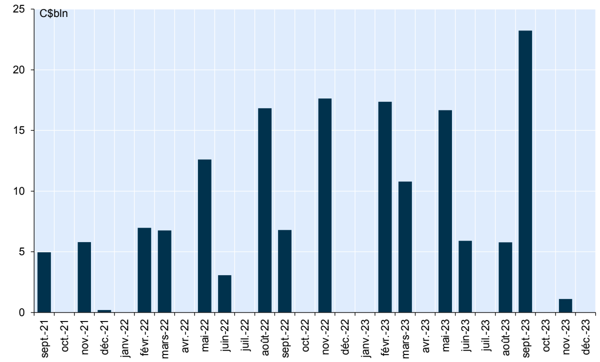
"When we get to the reinvestment phase, how long we're in the reinvestment phase… those are monetary policy decisions that will depend on incoming data, our assessment of the outlook and our assessment of how much stimulus we need to achieve our inflation target."

That was the last chance we had to hear from a BoC official and we won't hear anything further until the September meeting. For the time being, we're still largely operating under the guidance from Gravelle's remarks in March, which leaves a lot to guess work. Moreover, the more technical aspects of the reinvestment phase have yet to be discussed in any capacity. Also from July's post-meeting presser:

"When we get to the reinvestment phase, there are also some operational/balance sheet management issues. We will need to look at those and we will be very clear on those implementation issues when we get there. But we're not there yet"

What are the operational/balance sheet issues Macklem referred to? We'd assume that this is in reference to the "lumpy" maturity structure of the BoC's balance sheet. Unlike the Fed's balance sheet that has "smoother" holdings, maturing in steadier increments with relatively more stable amounts, the BoC balance sheet has gaps of up to 3 months and holdings that vary from a few hundred million to north of C$20 billion for a given security.

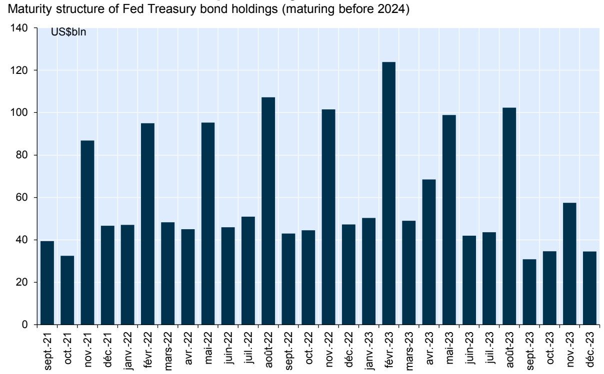
BoC's balance sheet is relatively "lumpy"…
Maturity structure of BoC's GoC bond holdings (maturing before 2024)



NBF Economics and Strategy (data from Bank of Canada)

The implication is that depending on when the reinvestment phase begins and how long it lasts, the needed pace of weekly purchases that keeps bond holdings steady over the medium-term can vary non-trivially. For example, a short (3-month) reinvestment phase kicking off in December would entail less than half a billion a week in bond-buying. Reinvestment kicking off next spring and lasting a full year would necessitate more than C$1 billion per week to keep the Bank's GoC holdings from falling. (We'd also note that regular auction purchases are included in the BoC's assessment of net buying. A drop in issuance would mean fewer bonds bought at auction and would require relatively more reinvestment via weekly purchases).

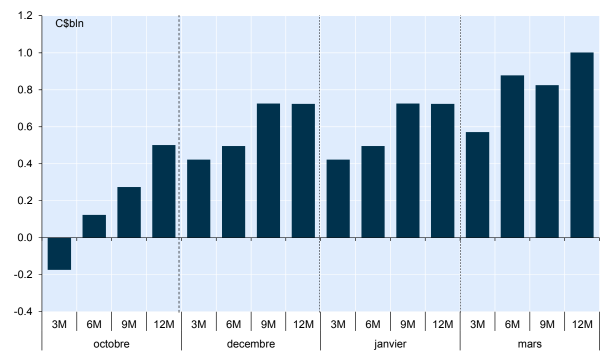
…while the Fed's is comparatively smoother
Maturity structure of Fed Treasury bond holdings (maturing before 2024)



NBF Economics and Strategy (data from Bloomberg via the Federal Reserve)

In theory, rather than continue with a weekly purchase pace (our preferred method), the Bank could implement a tack-on at auction that would see the Bank purchase more than its usual 13% share. The problem with this approach, however, is that the maturities are often well above the size of individual bond offerings and auctions occur at a less frequent pace than say, the Fed. Even if reinvestment were to be spread across all auctions in a given month, we estimate that the BoC share would have to be increased to 20-30%—a significant increase over the current rate. Moreover, the average term of new issuance is considerably longer than the weighted average term of the BoC's balance sheet. Thus, an equally-distributed, higher auction allocation would lead to the BoC lengthening the duration of its balance sheet, reducing the scope of a natural roll-off over the coming years. And the simplest approach of reinvesting maturing holdings in the market as they mature is probably not feasible/desirable given the size of some of its holdings and the market impact it could produce.

BoC: Choose your adventure: reinvestment phase edition
Estimated pace of weekly reinvestment purchases based on assumed start date and length of reinvestment phase



NBF Economics and Strategy (data via BoC) | Note: "X"M is duration of reinvest. phase. Month is announcement date.

Instead, here's how we see things progressing: The BoC moves to a pace of C$1 billion per week in October, signalling that the reinvestment phase is nearing and providing some details on how this will look. We estimate that this would commence at the end of the year and would be engineered so that a constant amount of bonds would be purchased each week to ensure its bond holdings remain roughly constant over some time. We peg this magic number to be in/around half a billion per week for the first six months. By the second half of 2022, we see

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economic slack absorption giving way to the first BoC rate hike, though it's likely we would remain in this reinvestment phase during and after this rate increase transpires. At some point, perhaps this is a 2023 story, the Bank will start to allow a partial and gradual run-off of its maturities until, eventually, the Bank is no longer reinvesting the proceeds of maturing bonds (beyond its regular auction allocation). Unlike other central banks, we don't expect the BoC to signal the selling of bonds off its balance sheet (it has already noted it doesn't intend to do this with its provincial/corporate bonds). Indeed, roughly two thirds of its holdings mature in less than five years so a natural run-off would alone represent a significant reduction.

All this to say, we're still just taking an educated guess. We're not sure anyone, including the BoC, yet knows how exactly this process will proceed. While we're not expecting September to deliver the answers to our questions, October's MPR should provide the Bank a natural opportunity to lay out a playbook for its post-QE balance sheet management. But until then, let the speculation continue.

BoE: A balance sheet playbook

In its August Monetary Policy Report, the **Bank of England** published an update to its playbook for managing the balance sheet. As the name suggests, "the Monetary Policy Committee's current approach to the sequencing of monetary policy tools" lays out the framework for balance sheet adjustments in the future and the clear, unambiguous requirements needed to be met for each step:

- "The MPC intends to begin to reduce the stock of purchased assets, by ceasing to reinvest maturing assets, when Bank Rate has risen to 0.5% and if appropriate given the economic circumstances."
- "The MPC will consider actively selling some of the stock of purchased assets only once Bank Rate has risen to at least 1%."
- The MPC will monitor the impact of the reduction in the stock of purchased assets, and may amend or reverse the process if needed to meet its 2% inflation target… and it intends to review the unwind process no later than two years after it has begun"

How does the central bank justify its plan? It notes that it has "greater certainty around how changes in the Bank Rate affect the economy", in addition to rate hikes/cuts being operationally easier and quicker to implement. Moreover, the Bank acknowledges it is uncertain about the impact of reducing the size of its balance sheet on monetary conditions. As a result, it prefers to use the Bank Rate more actively and thus, maintain the size of its balance sheet until key levels on the policy rate are hit and markets are functioning normally. It does, however, note that it expects the impact of reducing its balance sheet to be smaller than the asset purchases which grew the balance sheet in the first place. This is because balance sheet reductions will take place in a stable market environment, whereas balance sheet expansions are deployed when there is the economic turmoil and financial markets are in need of liquidity.

Across the central banking landscape, those who have introduced QE programs are now grappling with how to disconnect decisions on QE/balance sheets from decisions on the policy rate. Indeed, Fed Chair Powell's Jackson Hole speech reiterated that there is no mechanical link between changes in QE with eventual policy rate moves. By framing the policy rate as the "active tool" and putting the balance sheet on "auto-pilot" ahead of time, the Bank of England argues that asset purchases provide no signal on the future path of interest rates. Indeed, by linking the size of the balance sheet to the policy rate (rather than vice versa), markets can't deduce that a balance sheet reduction portends rate hikes. It's a sensible solution to a problem other central banks are grappling with or soon will be grappling with. With reinvestment phase dynamics still hazy at the Bank of Canada, it's an approach that we could see appropriated/borrowed from in the future.

Canadian Bond Market: Interest rates, spreads and currencies

Close on:	7-Sep-21	7-Jun-21	8-Mar-21	7-Dec-20	7-Sep-20
Interest Rates					
3 months	0.161	0.112	0.108	0.118	0.153
2 years	0.404	0.321	0.29	0.278	0.276
5 years	0.809	0.882	0.93	0.486	0.387
10 years	1.225	1.477	1.53	0.764	0.596
30 years	1.784	1.999	1.911	1.309	1.102
Spreads					
3 months - 2 years	24.3	20.9	18.2	16.0	12.3
2 - 5 years	40.5	56.1	64.0	20.8	11.1
5 - 10 years	41.6	59.5	60.0	27.8	20.9
10 - 30 years	55.9	52.2	38.1	54.5	50.6
Currencies					
CAD/USD	1.2595	1.2082	1.2665	1.2798	1.3098
EUR/CAD	0.6694	0.679	0.6665	0.6452	0.6463

NBF Economics and Strategy (data via Bloomberg)

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Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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Equities unfazed by Delta variant

Global equity markets rose to a new record in early September, buoyed by abundant liquidity provided by major central banks and widespread upside earnings surprises. At this writing, the MSCI ACWI is up a remarkable 16.5% year to date, driven primarily by developed-country markets (table). Emerging markets, which make up 12% of the global equity benchmark, continue to struggle because of Latin America and Asia. Within EM Asia, weakness is concentrated in the MSCI China (down 13% so far in Q3) following Beijing's announcement of new measures to regulate its IT sector (more on this topic below).

MSCI composite index: Price Performance

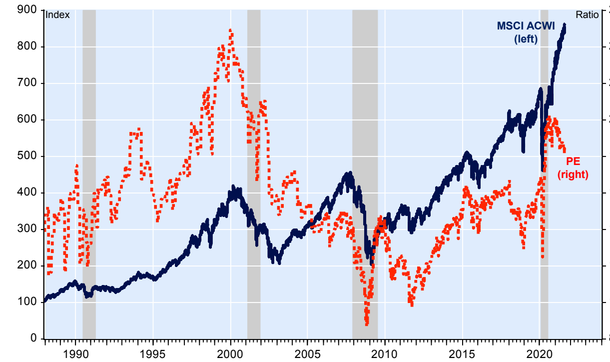
	Month to date	Quarter to date	Year to date
MSCI ACWI	0.5	3.6	16.5
MSCI World	0.5	4.8	18.7
MSCI USA	0.4	5.5	20.4
MSCI Canada	1.1	3.0	19.4
MSCI Europe	0.2	3.5	16.8
MSCI Pacific ex Jp	-0.2	0.1	10.0
MSCI Japan	3.0	3.7	11.9
MSCI EM	0.4	-4.1	2.6
MSCI EM EMEA	0.2	3.4	17.1
MSCI EM Latin America	-1.7	-3.9	0.6
MSCI EM Asia	0.7	-5.3	0.6

9/3/2021

NBF Economics and Strategy (data via Refinitiv)

The run-up of the MSCI ACWI continues to be supported by stellar profit growth rather than P/E expansion. The 12-month-forward P/E, which earlier this year stood at a two-decade high of 20, currently hovers near 18.

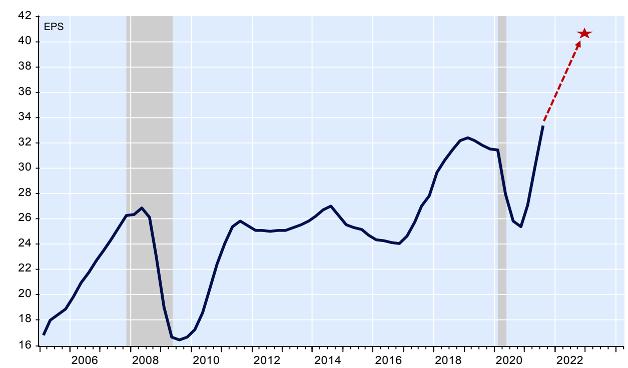
World: New high on prices but not on PEs
MSCI ACWI price index and its 12-month forward PE



NBF Economics and Strategy (data via Refinitiv)

The global profit rebound so far in 2021 has been nothing short of spectacular. So far in Q3, MSCI ACWI trailing earnings per share (EPS) are up 30% from a year earlier, the best showing in more than a decade. As a result, trailing EPS already exceed their pre-pandemic level. We note that an earnings recovery of this magnitude took almost a decade after the 2008-09 recession (chart).

World: Earnings have already recovered
Trailing earnings for the MSCI ACWI and 12-month-forward expectations

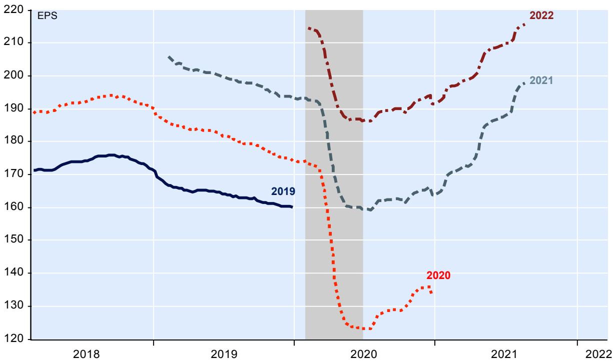


NBF Economics and Strategy (data via Refinitiv)

For North American profits, it's as if Covid-19 never happened. S&P 500 EPS expected for 2021 and 2022, after whipsawing in 2020, are back to levels predicted at the beginning of the pandemic (chart).

Stock Market and Portfolio Strategy

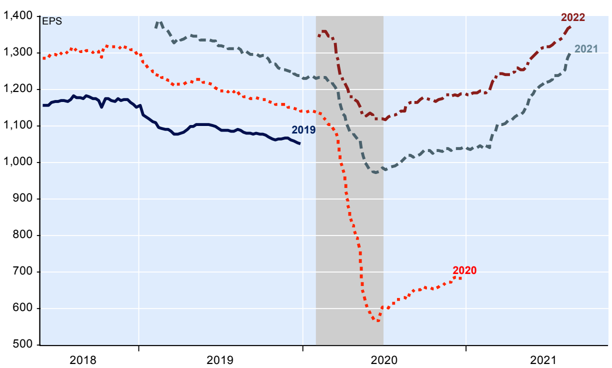
S&P 500: It's as if the pandemic never happened
Earnings pers share expectations by fiscal year



NBF Economics and Strategy (data via Refinitiv)

The story is the same in Canada. S&P/TSX EPS are expected to end 2021 at 1,300 and 2002 at 1,371 (chart).

S&P/TSX: Pandemic impact on earnings expectations has been small
Earnings pers share expectations by fiscal year



NBF Economics and Strategy (data via Bloomberg)

Amazingly, the 12-month-forward earnings expectation for the MSCI ACWI continues to be revised up. EPS are now expected to rise 17.1% through Q3 2022. Crucially, all the main regions are expected to deliver double-digit earnings growth (table). It is important to note that sales growth is expected to account for half of this EPS growth over the next 12 months, the other half coming from expansion of profit margins. Considering recent developments, this seems too good to be true. While most stock markets do not appear to have been disrupted by the Delta variant so far, this does not mean the pandemic will not affect earnings growth.

MSCI composite index: EPS Performance

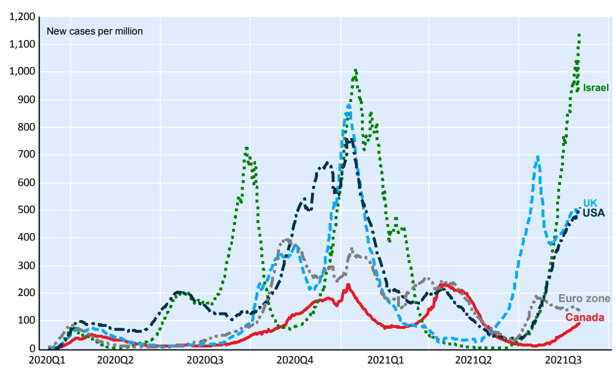
	2020	2021	2022	2023	12 months forward
MSCI ACWI	-11.2	46.7	7.9	8.6	17.1
MSCI World	-12.6	45.3	7.9	8.6	16.8
MSCI USA	-8.8	43.6	8.2	9.9	16.3
MSCI Canada	-26.0	68.3	6.3	6.3	17.9
MSCI Europe	-25.8	53.4	7.0	7.2	18.2
MSCI Pacific ex Jp	-25.7	44.1	10.6	1.8	13.4
MSCI Japan	0.0	21.6	28.8	8.0	17.2
MSCI EM	-2.8	53.8	7.8	8.4	18.5
MSCI EM EMEA	-21.8	67.0	7.6	3.6	18.6
MSCI EM Latin America	-36.4	196.3	-3.9	-5.9	25.0
MSCI EM Asia	6.6	40.3	9.7	11.5	17.6

9/3/2021

NBF Economics and Strategy (data via Refinitiv)

The sharp increase in new Covid-19 cases in the past few weeks has been troubling. In the last issue of this letter, we argued that a rise in new cases was unlikely to jeopardize the eco¬nomic recovery if vaccination campaigns kept people away from hospitals.

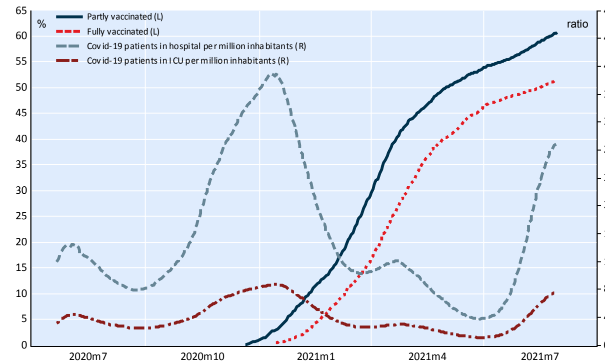
World: Evolution of the pandemic
Daily new cases per million population by region, 7-day mov. average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

Unfortunately, the health-care systems of many countries are under increasing strain. As the school year begins in the U.S., Covid-related hospitalizations are running much higher than at this time last year (chart).

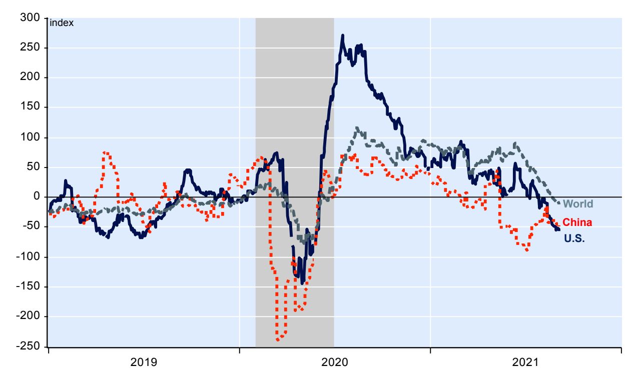
U.S. : Vaccination, Covid-19 hospitalisations and ICU
Population vaccinated, current patients in hospital and ICU per million inhabitants, 7-day moving average



NBF Economics and Strategy (https://ourworldindata.org/covid-vaccinations)

In developed economies the ongoing recovery is therefore likely to be slowed while governments continue their vaccination campaigns. In emerging economies, where widespread shut¬downs are rare, deteriorating public health, reinforced by low vaccination rates and insufficient government support, could nevertheless temporarily depress household confidence. Economic surprises have recently turned negative for the global economy (chart). The greater uncertainty of the outlook has led our colleagues to reduce their growth forecasts for the global economy in our latest Economic Monitor.

World: Economic surprises turn negative
CITI economic surprise index

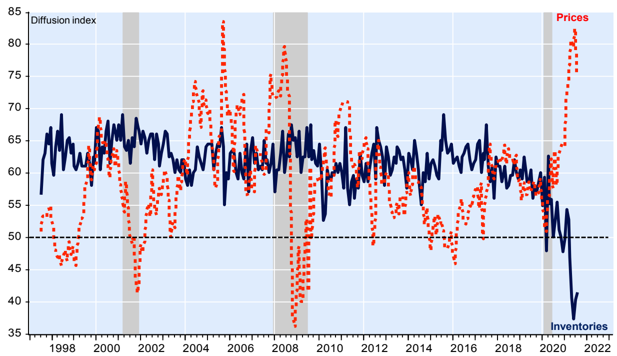


NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

With economic projections being revised down, can earnings expectations stay their current course? We don't think so. As explained above, downside economic surprises suggest less-than-expected economic momentum and sales growth. Could higher profit margins save the day? With the global supply chain still bogged down, input costs are likely to stay high as corporations rebuild depleted inventories.

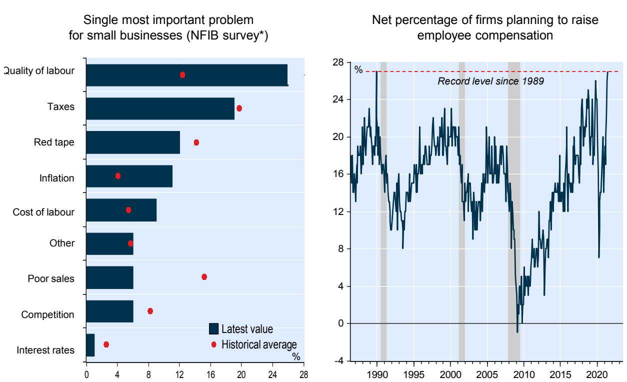
U.S.: Depleted inventories and high input costs
ISM non-manufacturing diffusion index: Prices paid vs. inventory sentiment



NBF Economics and Strategy (data via Refinitiv)

Meanwhile, with labour quality the most important problem for small businesses according to a recent survey, a record share of employers are planning to raise employee compensation (chart). All in all, the outlook for sales and profit margins has suddenly become more uncertain.

U.S.: Labour shortage hits small businesses hard



* July 2021 survey
NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: Another record high

The summer of 2021 has been kind to the S&P/TSX, with the index setting a new record in early September. The Canadian benchmark is already up 3.3% since the start of the third quarter (table). The Industrials (+10.3%), Information Technology (+10.2%), Staples (+8.6%) and Real Estate (+7%) sectors have been the top performers.

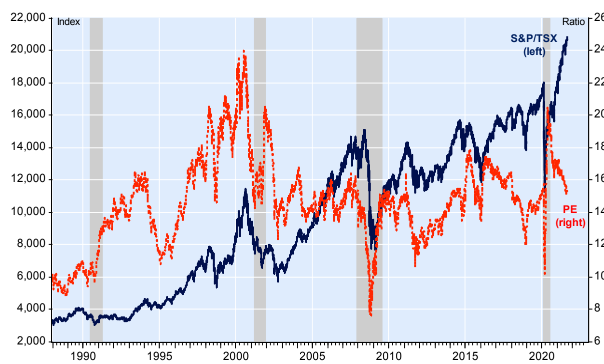
S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.2	3.3	19.4
INDUSTRIALS	3.4	10.3	17.0
ENERGY	2.3	-3.9	28.5
MATERIALS	1.4	1.3	0.1
IT	1.2	10.2	34.1
CONS. DISC.	1.1	-1.7	14.6
REAL ESTATE	0.8	7.0	28.1
UTILITIES	0.6	4.0	7.0
FINANCIALS	0.4	1.9	23.4
BANKS	0.3	-0.1	22.4
TELECOM	0.0	3.9	19.9
CONS. STAP.	-0.4	8.6	17.0
HEALTH CARE	-0.9	-11.0	8.3

9/3/2021
NBF Economics and Strategy (data via Refinitiv)

Even after its latest rise, the S&P/TSX is trading at only 15.5 times forward earnings, which is in line with its historical average (chart).

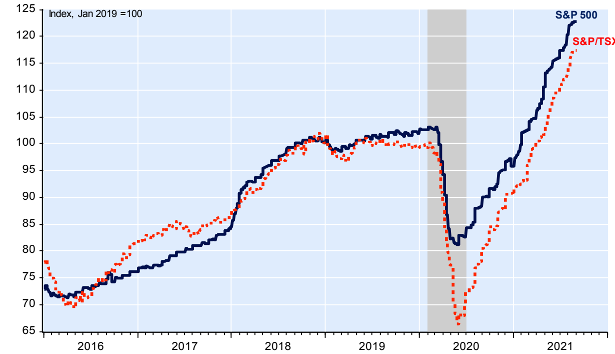
S&P/TSX: New high on prices with PE back to mean
S&P/TSX price index and its 12-month forward PE



NBF Economics and Strategy (data via Refinitiv)

The lower PE reflects a strong rebound in expected earnings, fueled by strong nominal GDP growth and favourable terms of trade (chart).

Canada: A very impressive earnings recovery
12-month forward EPS estimates for the S&P 500 and the S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

Looking ahead, we believe that Canadian equities are still in a position to benefit from the reflation policies being pursued in many OECD economies to support a post-pandemic global economic expansion. That said, current earnings estimates may need to be adjusted downward to reflect the uncertainty of the impact of the Delta variant at a time when government income support programs related to the pandemic are being phased out.

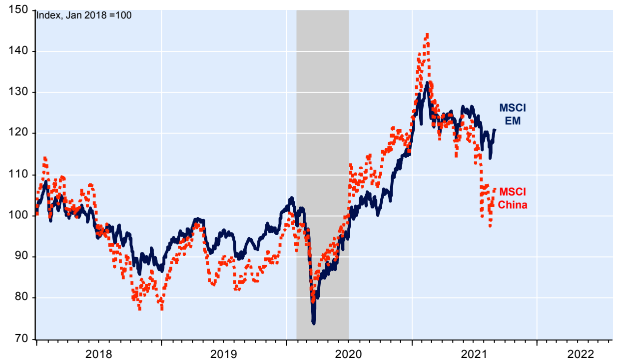
Beijing clampdown

Chinese regulators chose to forego their summer vacation this year, a decision that has not gone unnoticed in the market for Chinese equities. The tech-heavy MSCI China was hit especially hard after Beijing's regulatory crackdown on new-economy companies (chart).

Back to Research Analysts page

Stock Market and Portfolio Strategy

Emerging markets: A big drop in Chinese equities
MSCI EM and MSCI China



NBF Economics and Strategy (data via Refinitiv)

As our geopolitical analyst argued in a recent note, the shift in Beijing won't be transient. Until recently, many Chinese companies, especially those in IT, enjoyed the best of both worlds: they got foreign funding and later went public on U.S. exchanges while Beijing largely protected them from interna-tional competition. Now, at a time of escalating geopolitical tensions with the U.S., China's tech firms and their investors are caught between stricter government controls and calls for wealth redistribution via stronger regulation of high incomes.

While the MSCI China may be poised to rebound from oversold conditions, at 14 times forward earnings it is not especially cheap relative to the MSCI ACWI. Given the structural nature of Beijing's new policies, we do not find the MSCI China P/E compelling.

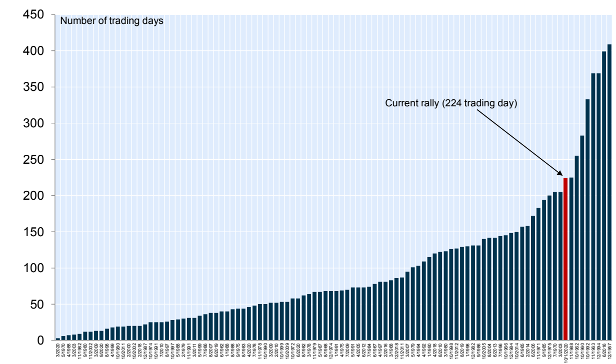
MSCI China: Not unusually cheap
12-month forward PEs for the MSCI ACWI and MSCI China

NBF Economics and Strategy (data via Refinitiv)

Asset allocation

This month we adjust our asset mix to reflect the potential effect of the Delta variant on earnings estimates, reducing our equity exposure 3 percentage points in favour of cash. Equities have had 224 days of recovery without a decline of 5% or more, the ninth best such streak on record (chart).

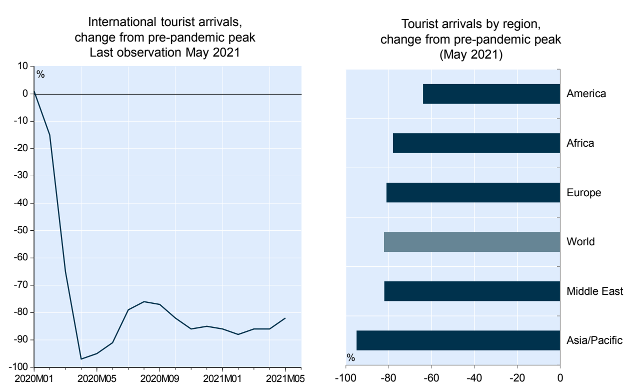
S&P 500: Rally duration without 5% drawdown
Rallies without a > 5% correction since 1960



NBF Economics and Strategy (data via Bloomberg)

With the school year beginning in OECD economies just as vaccine effectiveness declines, economic activity could once again fall victim to government-imposed pandemic measures. We are especially wary of travel restrictions that could jeopar-dize tourism in emerging markets this winter. Asian destinations seem especially vulnerable in this respect (chart).

World: Tourism is very far from its pre-pandemic volume



NBF Economics and Strategy (data from United Nations World Tourism Organization)

In light of the considerations above, and because of China's regulatory clampdown, we are reducing our overall exposure to the MSCI EM. While acknowledging that the index has already declined more than 5% this quarter, our current risk-reward assessment does not justify a large overweighting.

NBF Asset Allocation

	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	23	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	4	
Emerging markets	5	6	-3
Fixed Income	45	42	
Cash	5	7	+3
Total	100	100	

NBF Economics and Strategy

Sector allocation

Our sector allocation is unchanged this month. We continue to favour cyclicals even though the start of the mature phase of the economic cycle has been delayed.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - September 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**12.1%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	12.1%
Materials	**Overweight**	**11.5%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Overweight	0.6%
Metals & Mining *	Overweight	2.4%
Gold	Overweight	6.5%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**12.2%**
Capital Goods	Overweight	2.2%
Commercial & Professional Services	Underweight	3.3%
Transportation	Market Weight	6.7%
Consumer Discretionary	**Market Weight**	**3.7%**
Automobiles & Components	Underweight	1.1%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	0.9%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.7%**
Food & Staples Retailing	Market Weight	3.0%
Food, Beverage & Tobacco	Market Weight	0.7%
Health Care	**Market Weight**	**1.1%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.0%
Financials	**Market Weight**	**31.1%**
Banks	Market Weight	20.7%
Diversified Financials	Market Weight	4.7%
Insurance	Market Weight	5.7%
Information Technology	**Underweight**	**12.0%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Underweight**	**4.6%**
Real Estate	**Underweight**	**3.1%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	*Q42021 (Est.)*
Index Level		*Sep-03-21*	*Target*
S&P/TSX		20,821	21,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	1115	1275
	Dividend	521	595
PE Trailing (implied)		18.7	16.5
			Q42021 (Est.)
10-year Bond Yield		1.19	1.35

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	*Q42021 (Est.)*
Index Level		*Sep-03-21*	*Target*
S&P 500		4,535	4,450
Assumptions			Q42021 (Est.)
Level:	Earnings *	180	195
	Dividend	59	64
PE Trailing (implied)		25.2	22.8
			Q42021 (Est.)
10-year Bond Yield		1.32	1.50

** 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
	09-6-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***4613***	***0.4%***	***20.4%***	***33.6%***	***59.5%***	***18.5%***	***27.7%***	***51.6%***	***1.00***
United States - S&P 500	*4535*	*0.3%*	*20.8%*	*32.4%*	*57.6%*	*18.9%*	*26.5%*	*49.8%*	*1.00*
Canada - S&P TSX	*20821*	*1.2%*	*19.4%*	*28.4%*	*29.3%*	*19.4%*	*28.4%*	*29.3%*	*0.93*
Europe - MSCI Index	***2117***	***1.4%***	***15.1%***	***31.4%***	***27.1%***	***13.3%***	***25.6%***	***20.8%***	***0.91***
United Kingdom - FTSE 100	*7187*	*1.0%*	*11.3%*	*23.9%*	*-1.8%*	*10.8%*	*24.0%*	*-0.4%*	*0.00*
Germany - DAX 30	*15932*	*0.6%*	*16.1%*	*24.1%*	*33.3%*	*10.8%*	*19.2%*	*29.1%*	*0.95*
France - CAC 40	*6744*	*1.0%*	*21.5%*	*35.8%*	*28.6%*	*15.9%*	*30.6%*	*24.6%*	*0.78*
Switzerland - SMI	*12430*	*0.2%*	*16.1%*	*22.4%*	*41.0%*	*10.3%*	*16.9%*	*41.5%*	*0.93*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*14.3%*	*-4.6%*	*-3.9%*	*10.8%*	*0.64*
Netherlands - Amsterdam Exchanges	*799*	*1.4%*	*27.9%*	*47.8%*	*48.1%*	*22.0%*	*42.1%*	*43.5%*	*0.95*
Pacific - MSCI Index	***3312***	***3.3%***	***6.8%***	***23.7%***	***23.0%***	***5.2%***	***18.3%***	***16.9%***	***0.92***
Japan - Nikkei 225	*29660*	*5.6%*	*8.1%*	*27.8%*	*31.9%*	*0.0%*	*18.3%*	*26.5%*	*0.94*
Australia - All ordinaries	*7824*	*0.0%*	*14.2%*	*28.1%*	*24.8%*	*8.3%*	*25.6%*	*22.3%*	*0.84*
Hong Kong - Hang Seng	*26164*	*1.1%*	*-3.9%*	*6.0%*	*-3.0%*	*-5.7%*	*1.0%*	*-6.9%*	*0.26*
World - MSCI Index	***3170***	***0.9%***	***17.8%***	***32.1%***	***47.8%***	***16.0%***	***26.3%***	***40.5%***	***1.00***
World Ex. U.S.A. - MSCI Index	***2416***	***2.0%***	***12.8%***	***29.1%***	***26.3%***	***11.1%***	***23.4%***	***20.1%***	***0.92***
EAFE - MSCI Index	***2405***	***2.1%***	***12.0%***	***28.6%***	***25.6%***	***10.2%***	***22.9%***	***19.4%***	***0.92***
Emerging markets (free) - MSCI Index	***1,324***	***1.2%***	***2.6%***	***20.5%***	***30.1%***	***1.0%***	***15.2%***	***23.6%***	***0.92***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-09-03

	Weight S&P 500 %	Index Level	Variation 3-m ∆	Variation 12-m ∆	EPS Growth 2021	EPS Growth 2022	EPS Growth 12-m forward	P/E 2021	P/E 2022	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	304	9.41	35.61	45.91	9.01	17.33	22.72	20.84	21.30	22.07	1.23	4.41
Energy	2.41	364	-12.50	39.78	0.00	24.64	83.22	14.93	11.98	12.82	22.89	0.15	20.11
Materials	2.54	535	-2.93	32.03	81.42	-0.01	17.73	17.03	17.03	16.96	16.01	0.96	10.48
Industrials	8.17	882	-0.73	34.47	92.99	35.15	46.36	27.04	20.00	21.84	26.47	0.47	4.53
Consumer Discretionary	11.89	1467	7.34	20.21	80.82	28.97	40.78	35.36	27.42	29.63	42.15	0.73	4.24
Consumer Staples	5.79	754	2.95	12.50	9.47	7.00	7.34	21.85	20.42	20.71	9.61	2.82	1.02
Healthcare	13.51	1593	12.09	29.52	22.36	3.96	9.30	18.12	17.43	17.68	11.83	1.90	1.06
Financials	11.04	631	-0.99	50.62	57.46	-6.77	8.64	13.76	14.76	14.41	22.56	1.67	3.73
Information Technology	28.03	2796	13.87	34.78	35.14	10.57	12.53	29.01	26.23	26.49	18.95	2.11	4.34
Telecom Services	11.43	287	10.81	40.16	33.86	10.56	17.38	23.64	21.38	21.96	27.47	1.26	6.48
Utilities	2.52	351	6.35	17.21	1.79	6.86	5.18	21.04	19.69	20.11	6.38	3.88	-0.52
Real Estate	2.68	304	9.41	35.61	20.35	-2.13	4.47	48.20	49.24	48.89	33.57	10.94	12.69

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Dividend All-Stars Chart Highlights

Investors continue to hunt for income financial products as persistently low interest rates limit options for generating cash flow. Focusing on yield alone is a risky strategy as history has demonstrated on countless occasions. An attractive yield as well as a constructive chart formation are needed to maximize risk and reward. In the September Vision we highlight favorable chart formations among the list of Dividend All-Stars.

Technical Analysis

Alaris Equity Partners Income Trust (AD.u)

The AD.u chart broke out of an eight-month base in November to establish a rising trend. A recent upside breakout from a consolidation at $18.25 extends the recovery into new highs. Target is low $20s. An attractive yield along with a bullish trend in the stock is a favorable combination.

Source: Refinitiv

Technical Analysis

AltaGas Ltd. (ALA)

AltaGas topped out in 2014 and proceeded to trend lower into 2020. A recovery phase began when the chart broke out across $18.00. Another breakout across $27.25 provided further technical evidence that a strong recovery was well on its way. Breaking out across $27.25 completed 30 months of basing action after a multi-year declining trend line was broken. A constructive chart formation that targets $32.00 and an attractive yield makes ALA an attractibe buy candidate.

Source: Refinitiv

Technical Analysis

Capital Power Corporation (CPX)

A strong rising trend on CPX remains intact as it hits new highs. The chart is tracking higher along a rising trend channel. A target of mid to high $40s along with an attractive yield makes CPX a favorable buy candidate.

Source: Refinitiv

Technical Analysis

Dexterra Group Inc. (DXT)

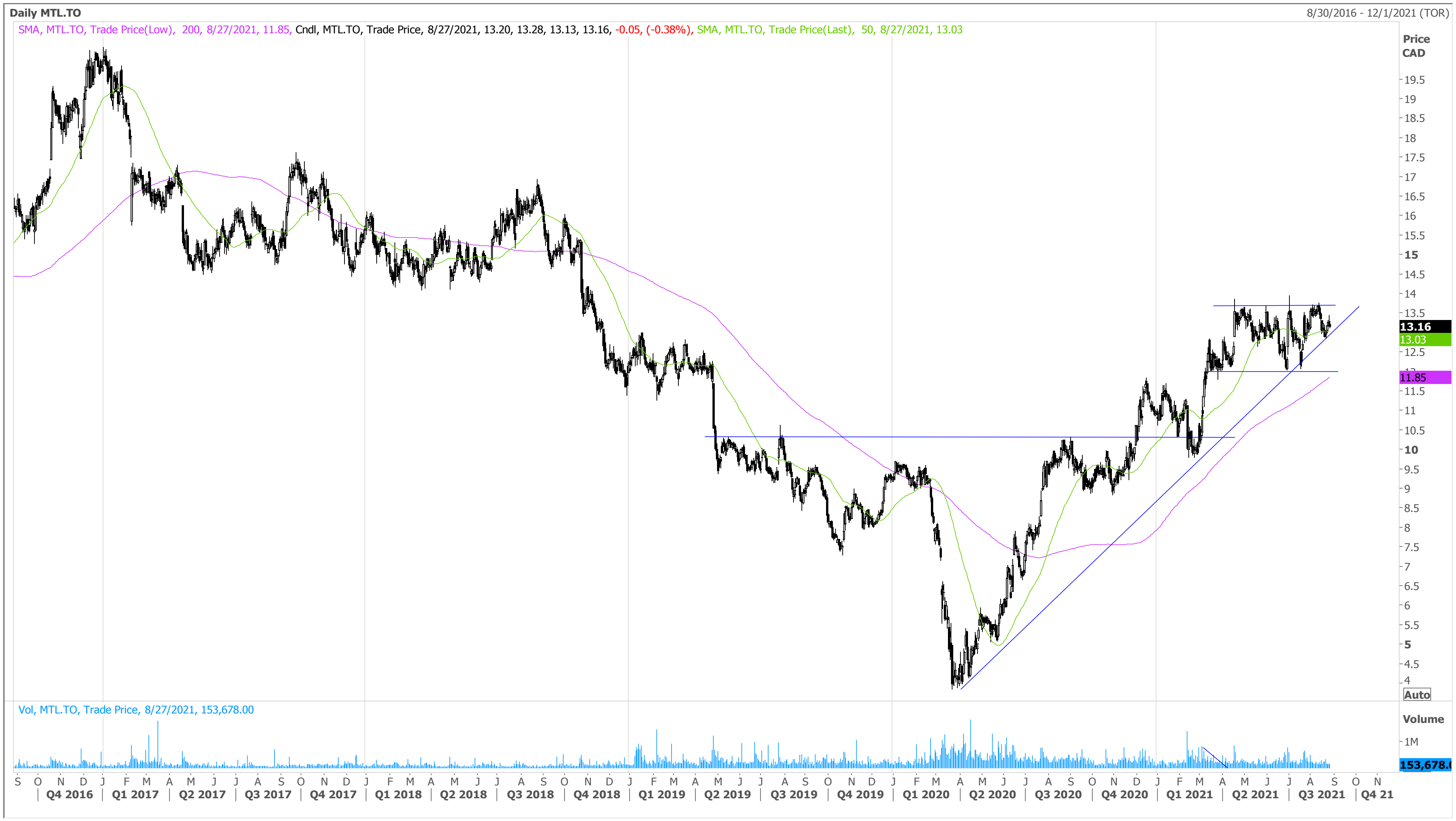
The combination of an attractive yield and prospects for upside potential make DXT an attractive buy candidate. DXT broke out across a two-year base at $6.85 to turn the trend positive. Continued strength after breaking out extended prices to new recovery highs. The potential to trade up to a target of $11.00 along with an attractive yield makes DXT a strong buy candidate.

Source: Refinitiv

Technical Analysis

Mullen Group Ltd. (MTL)

The MTL chart broke out of a 20-month base at $10.00 to end its bear market and start a new bull phase. A consolidation over the past five months is constructive as it prepares for the next leg up. An upside breakout at $13.70 starts the next leg up. A target of $17.00 to $18.00 can be projected on the next breakout. A bullish chart along with an attractive yield makes MTL a buy.



Source: Refinitiv

Technical Analysis

Topaz Energy Corp. (TPZ)

A rising trend has been established on the TPZ chart despite its limited history. Several pullbacks are holding a developing rising trend line. An upside breakout across $15.25 confirms the rising trend in the stock. A recent pullback tested and held support around $15.00. Good support and rising trend conditions point to a test of the highs around $18.00. Constructive chart action along with an attractive yield makes TPZ a good buy candidate.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **August 31, 2021.**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$10.47	$20.00	0.64%	91.69%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$30.38	$36.00	6.27%	24.82%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$4.23	$5.50	0.71%	30.73%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$4.97	$8.75	0.00%	76.06%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$33.74	$40.00	1.90%	20.57%	Oil, Gas & Consumable Fuels
Materials							
	Copper Mountain Mining Corp.	CMMC	$3.26	$5.25	0.00%	61.04%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$7.77	$12.50	1.91%	62.80%	Gold
	Endeavour Mining Corp.	EDV	$30.83	$55.00	2.31%	80.67%	Gold
	First Quantum Minerals Ltd.	FM	$26.28	$37.50	0.04%	42.73%	Metals & Mining
	K92 Mining Inc.	KNT	$7.39	$12.25	0.00%	65.76%	Gold
	Kinross Gold Corp.	K	$7.59	$11.00	1.99%	46.91%	Gold
	Newmont Corp.	NGT	$73.16	$104.00	3.77%	45.96%	Gold
	Sandstorm Gold Ltd.	SSL	$8.02	$12.75	0.00%	58.98%	Gold
	SSR Mining Inc.	SSRM	$21.08	$35.00	1.22%	67.22%	Gold
	Wesdome Gold Mines Ltd.	WDO	$12.41	$14.50	0.00%	16.84%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$45.62	$48.50	0.00%	6.31%	Capital Goods
	CAE Inc.	CAE	$36.43	$45.00	0.00%	23.52%	Capital Goods
	Dexterra Group Inc.	DXT	$7.92	$9.00	4.46%	18.06%	Commercial & Professional Services
	Exchange Income Corp.	EIF	$43.71	$47.00	5.23%	12.74%	Transportation
	Hardwoods Distribution Inc.	HDI	$38.01	$60.50	1.03%	60.22%	Capital Goods
	Mullen Group Ltd.	MTL	$13.25	$15.50	3.52%	20.60%	Transportation
	TFI International Inc.	TFII	$142.55	$144.00	0.80%	1.83%	Transportation
	Toromont Industries Ltd.	TIH	$106.08	$125.00	1.32%	19.16%	Capital Goods
	WSP Global Inc.	WSP	$164.73	$168.00	0.92%	2.90%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$48.50	$56.00	1.58%	17.06%	Consumer Durables & Apparel
Consumer Staples							
	Jamieson Wellness Inc.	JWEL	$35.21	$42.75	1.69%	23.12%	Household & Personal Products
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.88	$15.00	4.79%	21.21%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$8.85	$18.00	0.00%	103.39%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.37	$7.75	0.00%	44.32%	Pharmaceuticals, Biotechnology & Life Sciences
Financials							
	Alaris Equity Partners Income Trust	AD.un	$18.67	$23.50	6.68%	32.51%	Diversified Financials
	Bank of Montreal	BMO	$125.56	$149.00	3.30%	22.05%	Banks
	Canadian Imperial Bank of Commerce	CM	$145.14	$168.00	4.00%	19.77%	Banks
	Element Fleet Management Corp.	EFN	$13.91	$19.00	1.83%	38.46%	Diversified Financials
	Home Capital Group Inc.	HCG	$39.55	$58.00	0.00%	46.65%	Banks
	iA Financial Corporation Inc.	IAG	$69.96	$80.00	2.74%	17.12%	Insurance
	Trisura Group Ltd.	TSU	$45.43	$58.00	0.00%	27.67%	Insurance
Information Technology							
	Shopify Inc.	SHOP	US$1524.78	US$2000.00	0.00%	31.17%	Software & Services
	Telus International (CDA) Inc.	TIXT	US$33.44	US$40.00	0.00%	19.62%	Software & Services
	Thinkific Labs Inc.	THNC	$14.13	$20.00	0.00%	41.54%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.14	$18.00	0.00%	36.99%	Media & Entertainment
	Corus Entertainment Inc.	CJR.b	$6.25	$8.00	3.83%	31.84%	Media & Entertainment
	VerticalScope Holdings Inc.	FORA	$33.56	$36.00	0.00%	7.27%	Media & Entertainment
Utilities							
	Algonquin Power & Utilities Corp.	AQN	US$15.53	US$17.00	4.43%	13.86%	Utilities
	AltaGas Ltd.	ALA	$25.27	$29.00	3.94%	18.72%	Utilities
	Boralex Inc.	BLX	$38.67	$50.00	1.66%	31.01%	Utilities
	Northland Power Inc.	NPI	$41.74	$48.00	2.84%	17.87%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$47.09	$56.00	2.11%	21.05%	Real Estate
	European Residential REIT	ERE.un	$4.61	$5.55	3.54%	23.89%	Real Estate
	Flagship Communities REIT	MHC.un	US$18.10	US$21.00	2.82%	18.84%	Real Estate
	H&R REIT	HR.un	$16.60	$19.50	4.25%	21.63%	Real Estate
	RioCan REIT	REI.un	$22.41	$25.00	4.29%	15.84%	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, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Sector Analysis

Banking & Insurance

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Selections

- *iA Financial Corporation*
- *Bank of Montreal*
- *Canadian Imperial Bank of Commerce*

Canadian Banks & Lifecos

Bank of Montreal (TSX: BMO) – *Another strong outing.*

The onus was on BMO's P&C segments to generate strong growth to offset an anticipated slowdown in the Capital Markets business. And...they delivered. Double-digit PTPP growth in both Canada and the U.S. was underpinned by positive operating leverage and improving volume growth (especially in Canada). At a consolidated level, a highlight was BMO significantly exceeding its 2021 NIX ratio target of 58% (i.e., 56.2% NIX ratio YTD). Finally, with a projected 2022E payout ratio of 33%, we estimate BMO is one of the most compelling dividend growth stories in the group, if/when OSFI removes capital distribution restrictions later this year. $149 price target. Outperform.

iA Financial Corporation Inc. (TSX: IAG) – *Impressive sales performance & capital generation.*

IAG delivered strong Q2/21 results. We were impressed by another quarter of heady sales performance, with most business lines generating double-digit growth on a Y/Y basis. The balance sheet and capital story was equally impressive, with 4% sequential book value growth and $100 mln of internal capital generation during the quarter (which puts IAG on track to exceed its 2021 target). IAS had a strong quarter of U.S. auto warranty product sales, and the concern of a potential sharp drop during H2 may be overstated as the business can take advantage of rising used car sales and benefit from dealers actively looking to sell more warranty products as auto inventories are low. Finally, IAG also expects EPS to be at the upper end of its guidance range over the next two quarters, in addition to possibly exceeding its full-year internal capital generation target. IAG is our top pick in the sector and we are increasing our target to $80 from $76. 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	OP		82,124	647	126.94	10/2020	7.71	12.74	12.99	10.0	9.8	80.00	81.65	88.80	1.6	1.4	3.3%	149.00	↑
Bank of Nova Scotia	BNS	SP		96,469	1,215	79.39	10/2020	5.36	7.75	8.28	10.2	9.6	53.26	54.43	59.38	1.5	1.3	4.5%	86.00	↑
CIBC	CM	OP		65,202	445	146.47	10/2020	9.69	14.75	15.28	9.9	9.6	90.06	92.23	101.59	1.6	1.4	4.0%	168.00	↑
National Bank	NA	NR		33,521	338	99.32	10/2020	6.06	8.92	9.14	11.1	10.9	46.00	47.43	53.31	2.1	1.9	2.9%	NR	
Royal Bank of Canada	RY	OP		188,512	1,425	132.28	10/2020	7.97	11.50	11.91	11.5	11.1	62.34	64.26	71.81	2.1	1.8	3.3%	144.00	↑
Toronto-Dominion Bank	TD	SP		151,814	1,823	83.30	10/2020	5.35	7.92	7.75	10.5	10.7	51.21	52.67	57.42	1.6	1.5	3.8%	89.00	↓
Canadian Western Bank	CWB	SP		3,153	87	36.19	10/2020	2.93	3.66	4.06	9.9	8.9	32.88	33.40	36.06	1.1	1.0	3.2%	41.00	↑
Laurentian Bank	LB	SP		1,839	43	42.34	10/2020	2.92	4.55	4.19	9.3	10.1	55.73	57.05	59.12	0.7	0.7	3.8%	46.00	
Insurance																				
Great-West Lifeco	GWO	SP		36,591	930	39.36	12/2020	2.67	3.43	3.77	11.5	10.4	23.70	24.35	26.00	1.6	1.5	4.5%	38.00	↑
iA Financial	IAG	OP		7,755	107	72.16	12/2020	4.87	8.30	8.82	8.7	8.2	59.02	62.45	70.25	1.2	1.0	2.7%	80.00	↑
Manulife Financial	MFC	SP		48,747	1,942	25.10	12/2020	2.22	3.25	3.47	7.7	7.2	24.76	25.40	27.71	1.0	0.9	4.5%	27.00	
Sun Life Financial	SLF	OP		38,472	586	65.69	12/2020	4.14	5.99	6.39	11.0	10.3	38.37	40.37	45.00	1.6	1.5	3.3%	71.00	

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

Back to Research Analysts page

Sector Analysis

Diversified Financials

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Selections

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

Q2 2021 Earnings

Home Capital Group (TSX: HCG) – *Excess Capital for Free?*

HCG's excess capital position continues to build, now at $11.47 per share (~32% of Q2-21 book value). We estimate significant ROE and EPS accretion upon releasing this excess capital. This positions HCG to be the winner in a less restrictive OSFI world. Moreover, we continue to believe that HCG's improving ROE profile (even before potential upside from capital distribution programs) merits a premium P/B multiple.

Somehow, HCG is still trading at only 1.1x P/B and 8.2x P/E on 2022 estimates (lowest multiple compared to other mid-cap banks). Adjusting for the excess capital position, we believe HCG is a ~19% ROE company in 2022, which implies a ~2.0x multiple using a P/B to ROE regression. Moreover, we believe HCG will initiate a Substantial Issuer Bid (SIB) for up to $300 million common shares as soon as permitted by OSFI. EPS accretion in this scenario could reach ~18%, meaning that HCG is trading more like a ~7.0x P/E company today.

We therefore increased our Price Target to $58.00 to better reflect a mid-to-upper teens ROE business in a "post-OSFI" world. Reiterate Outperform rating.

Trisura Group (TSX: TSU) – *Canada Running Like De Grasse*

TSU reported adjusted diluted EPS of $0.35, up 49% y/y and 25% ahead of the Street and NBF at $0.28. Rapid premiums and fee income growth as well as strong combined ratio performance in Canada drove the massive beat. Consolidated adjusted ROE was 16.1% vs. Street at 15.4% and BVPS was $8.03 vs. Street $7.79. Even though the shares have more than doubled YTD, we see even more upside in the quarters to come. We believe TSU is set up to handily beat our U.S. forecasts while we think the Canadian operations deserve as much credit, especially following an incredible Q2-21 growth rate. Reiterate Outperform.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	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	
Mortgage Finance																				
Equitable Group	EQB	OP		2.60	17.0	153.19	12/2020	12.61	15.48	16.75	9.9	9.1	101.94	109.21	124.35	1.4	1.2	1.0%	179.00	↑
First National Financial	FN	SP		2.78	60.0	46.32	12/2020	3.95	3.74	4.24	12.4	10.9	8.80	9.69	11.33	4.8	4.1	5.1%	56.00	↑
Home Capital Group	HCG	OP		1.99	50.3	39.55	12/2020	3.55	4.94	5.34	8.0	7.4	35.32	37.60	42.44	1.1	0.9		58.00	↑
Timbercreek Financial	TF	SP		0.79	81.0	9.75	12/2020	0.67	0.71	0.73	13.8	13.3	8.48	8.52	8.56	1.1	1.1	7.1%	9.75	
Specialty Finance																				
ECN Capital	ECN	OP		2.50	243.5	10.25	12/2020	US 0.13	US 0.34	US 0.22	24.1	36.3	US 2.82	US 3.20	US 3.10	2.5	2.6	1.2%	12.50	↑
Element Fleet Management	EFN	OP		5.96	428.6	13.91	12/2020	0.77	0.75	0.89	18.5	15.7	7.20	7.19	7.67	1.9	1.8	1.9%	19.00	
goeasy	GSY	OP		3.23	16.5	195.78	12/2020	7.57	10.32	11.63	19.0	16.8	45.40	49.31	57.53	4.0	3.4	1.3%	196.00	↑
Brookfield Business Partners	BBU	OP		US 6.32	US 148.3	US 42.64	12/2020	-US 1.13	US 1.60	-US 2.29	26.6	nmf	US 28.48	US 31.93	US 40.14	1.3	1.1	0.6%	60.00	
Power Corporation of Canada	POW	SP		29.46	676.5	43.54	12/2020	3.00	4.49	4.08	9.7	10.7	33.48	34.40	36.64	1.3	1.2	4.1%	45.00	↑
HR Companies																				
LifeWorks Inc.	LWRK	OP		2.5	70.2	34.99	12/2020	0.80	-0.03	1.15	nmf	30.4	8.48	8.56	9.05	4.1	3.9	2.2%	41.00	↑
Securities Exchange																				
TMX Group	X	SP		7.79	56.1	138.80	12/2020	5.88	6.94	7.05	20.0	19.7	65.19	66.49	69.63	2.1	2.0	2.2%	152.00	↑
Insurance																				
Intact Financial Corp.	IFC	OP		30.26	176.1	171.83	12/2020	9.92	11.11	10.68	15.5	16.1	77.67	80.71	88.01	2.1	2.0	1.9%	212.00	↑
Trisura Group Ltd.	TSU	OP		1.87	41.1	45.43	12/2020	0.92	1.40	1.50	32.4	30.3	8.03	8.66	10.11	5.2	4.5		58.00	↓
Fairfax Financial Holdings	FFH	OP		14.48	25.9	558.47	12/2020	US 6.29	US 129.58	US 56.63	3.4	7.8	US 540.62	US 601.55	US 651.93	0.7	0.7	2.3%	775.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.08	103.7	10.43	12/2020	1.38	1.36	1.33	7.7	7.8	4.05	4.21	4.44	2.5	2.3	8.1%	12.00	
IGM Financial Inc.	IGM	OP		10.99	238.9	46.01	12/2020	3.20	3.93	4.40	11.7	10.4	25.62	26.60	28.78	1.7	1.6	4.9%	58.00	↑

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.*

CEU posts solid Q2 beat and reinstates dividend; AFN bin failure legal claims and leverage overhang prompt move to Sector Perform

CES Energy Solutions reported adj. EBITDA of $32 mln topping the consensus estimate by 26% and concurrently announced the reinstatement of a $0.016 quarterly dividend implying an attractive 4%+ yield based on the preceding closing price.

Second quarter revenue of $253.6 mln came in 7% ahead of the Street, which combined with better-than-expected adjusted EBITDA margins of 12.6% (almost 200 bps above the Street) resulted in a solid quarterly beat. Drilling Fluid (DF) market share in the United States continued to impress at 20%, a high-water mark for the second quarter. In Canada, DF market share of 34% improved by 200 bps y/y. On a geographic basis, the revenue outperformance vs. our forecasts was entirely within Canada as higher than expected DF operating days helped drive a 23% revenue beat. Estimated net debt/TTM EBITDA fell markedly to ~2.7x from 3.9x q/q as net debt decreased by over $20 mln sequentially to $288 mln and TTM EBITDA ticked higher on the back of the strong Q2 results, with our forecasts pointing to further improvement in CEU's leverage profile. Concurrent with the Q2 results, CES announced the reinstatement of a $0.016 quarterly dividend implying an attractive 4.1% annual yield. Our forecasts imply what we view as a sustainable dividend payout rate of 14%. **Following the strong quarterly results, we increased our target from $2.70 to $2.75 now driven by 6.3x 2022e EV/EBITDA (still roughly in line with CEU's post-2018 forward year average of 6.5x). With our value thesis intact and CEU's leverage profile trending in the right direction, we maintain our Outperform rating.**

Ag Growth International posted a nice Q2 beat in a noisy quarter with a lot of moving parts.

AFN posted Q2 adj. EBITDA of $46.2 mln, 5% above our $44.2 mln forecast and 9% ahead of the Street, with revenue of $302.7 mln roughly in line splitting NBF and consensus. AGI's backlog exiting the quarter remained robust, up an average of 69% y/y with strength across all geographies. That said, the Q2 release was not all good news as during the quarter, AGI recorded an additional $7.5 mln to the previously disclosed $70 mln bin failure remediation cost accrual owing to additional steel, labour and legal costs. AGI also announced the receipt of a second legal claim related to the bin collapse subsequent to the end of Q2 (in addition to the previously reported $80 mln claim from Fibreco). AGI noted the cumulative amount of the two legal claims exceeds $190 mln (vs. AGI's updated remediation cost estimate of $77.5 mln). We note AGI continues to anticipate a partial offset to the financial impact from insurance coverage, the extent of which has yet to be determined. We estimate net debt increased by a little over $60 mln sequentially to $870.8 mln, implying net debt/TTM EBITDA of 5.3x exiting the quarter (up from an estimated 5.0x exiting Q1/21). While our current estimates imply AGI stays onside with covenants through our forecast period and we note AGI's covenants include provisions for one-time events, the presence of two legal claims (the outcome and timing of which remain uncertain) as well as uncertainty related to size, and timing of potential insurance proceeds, cloud our visibility to balance sheet improvement. **We believe the overhang related to the legal claims and balance sheet represent a headwind to momentum in the near term, prompting our move to Sector Perform on the back of Q2 results. Our $35.00 target is driven by a 7.6x 2022e EV/EBITDA multiple (a full-turn discount to the historical average).**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 8/31	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	SP	↓	549.83	18.8	29.28	149.3	171.9	191.6	8.9	8.0	7.1	4.8	35.00	22%	↓
CES Energy Solutions Corp.	CEU	OP		384.88	254.9	1.51	83.3	135.1	150.5	8.1	5.0	6.3	2.2	2.75	86%	↑
Enerflex Ltd.	EFX	OP		688.79	89.8	7.67	191.3	150.9	194.5	5.5	6.6	5.1	2.1	10.50	38%	
Mullen Group Ltd.	MTL	OP		1274.74	96.2	13.25	191.5	227.9	255.2	8.6	8.1	6.8	2.5	15.50	21%	
Pason Systems Corp.	PSI	SP		679.58	82.8	8.21	39.5	62.3	80.1	13.5	8.6	6.5	-2.3	11.00	36%	
Shawcor Ltd.	SCL	OP		352.82	71.0	4.97	43.8	106.4	130.0	14.6	5.7	4.4	2.4	8.75	76%	

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

Source: Company Reports, Refinitiv, NBF

ESG & Sustainability

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Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) reaching ~US$36 trillion at the beginning of 2020, representing one in every ~US$3 and effectively growing by an ~11.7% CAGR over the past four years. If the pace of ESG investment grows at even half this rate, we anticipate ESG AUM rising to ~US$47 trillion by 2025. We expect ESG integration and shareholder engagement/voting to be the leading ESG investment style, especially as ESG disclosure and transparency improve at the corporate level and as institutional investors become more educated in the ESG landscape. In our opinion, we view ESG integration, which involves factoring in non-financial metrics into fundamental analysis, as the best way for investors to implement ESG while generating adequate returns, as it allows an investor to understand, and hopefully, avoid specific ESG risks, while not placing hard restrictions on specific industries.

ESG Updates – Regulatory Updates

Carbon Markets

Carbon prices have continued to rise at considerable rates (~30-230% y/y), inclusive of all regions and systems. The rise in prices has largely been attributable to enhanced government ambition to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments now legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby leading to higher carbon prices.

Starting with the most liquid carbon market, the European Emission Allowances (EUA) Dec21 contract closed the month of August at record high levels of €60.76 (US$71.75), which is just two weeks after the last record high of €58.16 (US$68.50) on Monday, August 16th. Overall, the EUAs were up 14% this past month and continue to remain in contango, with August 31st Dec22 contract closing at €61.07 (US$72.12), resulting in a spread of -€0.31. Considering prices on a y/y basis the EUAs have tripled in just one year. Elsewhere, the United Kingdom Emissions Allowances (UKEA) futures also reached a record high of 52.16 (US$71.75) at the end of August, with the UKEAs attracting a £50 handle for the first time since the week it started trading (May 24 - 26, 2021).

Within North America, the Regional Greenhouse Gas Initiative (RGGI) Jul22 futures closed the month out at US$9.18 on Monday (July: US$9.05) and up ~31% y/y. Lastly, the California Carbon Allowances (CCA) Jul22 and Dec21 prices surged ahead ~13% this past month to reach new record highs of US$26.24 and US$25.55, while remaining in contango. We note that y/y, CCA prices are up ~45%. Finally, we highlight the voluntary Global Emission Offsets (GEO) futures, which continued its impressive streak, increasing ~118% during the month of August and closing on Tuesday at US$7.16. We note that GEO started trading on March 1, 2021 at US$2.13, before bottoming at US$1.92 on April 15th and now has tripled in price.

Conservative Climate Change Plan

At the end of August, the Conservative party leader, Erin O'Toole, ***promised*** to bring Canada's near-term target back down to 30% by 2030 (2005 baseline), which would be a slide from the Liberal government's promised 40-45% emissions reduction target by 2030 (2005 baseline). Recall, the Liberal government announced a 40-45% reduction target at President Biden's Climate Ambition Summit back on April 22nd (recap ***here***). Despite the federal government registering the 40-45% reduction target with the United Nations in June (voluntary compliance), or the fact that Canada's legal system ***legislated*** Bill C12: *The Canadian Net-Zero Emissions Accountability Act* in June (legally binding), the Conservative party leader promised a return to the Steven Harper 30% near-term GHG emissions reduction target.

In Exhibit 1 on the following page, we illustrate the breakdown of Canada's historical GHG emissions and present two forecasts for Canada's emissions based on the Liberal (40-45%↓ by 2030) and Conservative (30%↓ by 2030) emissions reduction targets. Although we do not expect emissions reductions to be linear in nature, our analysis is based on a hypothetic linear projection from our estimated 2021 emissions forecast of 704 Mt CO2e in order to illustrate the overall difference in emissions between the two party's climate change plans.

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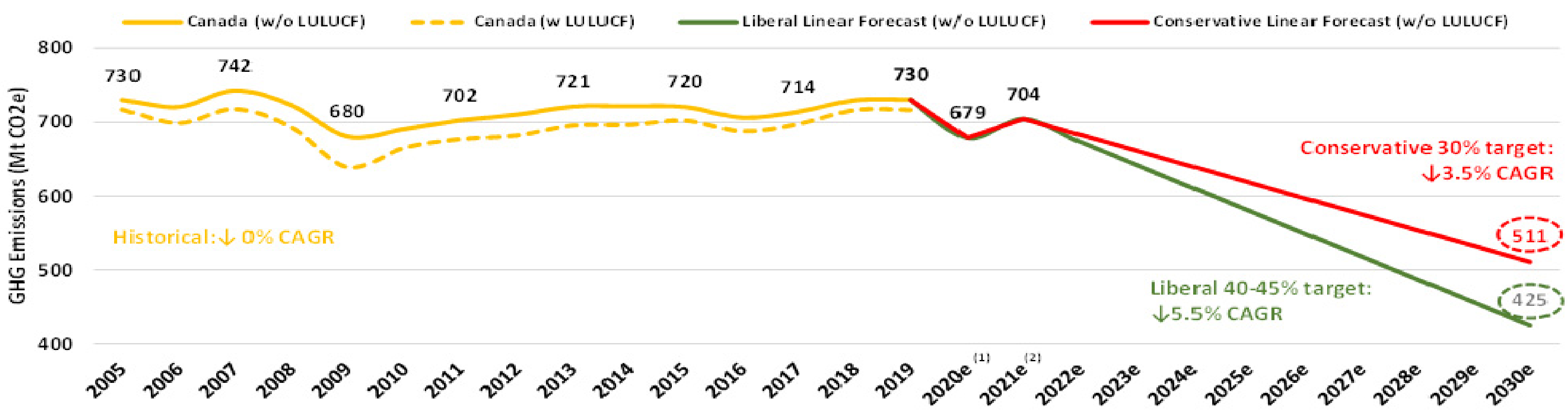
Exhibit 1: Canada's Historical and Forecasted GHG Emissions



Source: Government of Canada, Environment and Climate Change Canada (2021), UNFCCC, NBF
(1) Assumes a 7% decrease in GHG emissions for 2020 as a result of the COVID pandemic, in line with the world forecasted 7% reduction.
(2) Assumes an average GHG emissions from 2019 and 2020 levels for 2021 due to reopening of the economy.
(3) Represents the cumulative difference in emissions that are released into the atmosphere.
Note: Assumes that emissions start decreasing in 2022 in line with Conservative (30%) or Liberal (42%) near-term emissions targets based on a forecasted 2021 emissions total of ~704 Mt CO2e.

Overall, we view the announcement by O'Toole to set Canada's target back to 30% as swimming upstream, especially heading into the United Nations Climate Conference (COP26) in Glasgow, Scotland from October 31st to November 12th, where governments have already, and will continue, to increase climate ambition (recap here). Furthermore, there continues to be an expansion in net-zero commitments by companies, banks and asset managers, as highlighted in our Emissions are now central to the investment decision thematic report, which are leading to greater ambition being presented from the investment and business community as a whole.

Carbon Capture, Utilization, and Storage

On August 3rd, we collaborated with the energy team to release our Carbon Capture, Utilization and Storage (CCUS) thematic (here), where we provided a deep dive into CCUS technology and outlined Canada's leading role in the global carbon capture landscape. Overall, Carbon Capture and Storage (CCS) and Carbon Capture, Utilization and Storage (CCUS) is expected to play an essential role in achieving global net-zero emissions and aligning with the Paris Agreement of under or equal to a 1.5oC.

Canada currently accounts for about 15% of the global CCUS market share, with sequestration capacity of 6.9 Mt CO_2/yr (including Great Plans Synfuels, which is U.S./Canada joint) and is poised to expand its market share as collaborative green shoot CCUS projects have been announced in Alberta from oil and gas companies. As such, the energy industry is gaining momentum in collaborative CCUS and decarbonization initiatives, as highlighted by recent announcements from some of the world's largest energy companies, such as the "Oil Sands Pathways to Net Zero" initiative, the Alberta Carbon Grid (ACG) and the Polaris carbon capture project, which would provide an additional 30 Mt CO_2 of annual capacity once operational.

Although Canada's federal government policy and financial support are currently a work-in-progress, we highlight that both the federal and provincial governments are supportive of CCUS technology and have a variety of funding mechanisms in place related to CCUS. Meanwhile, the federal government is currently working on a few regulatory and policy constructs that would provide additional revenue streams and tax breaks for CCUS projects, which include a proposed CCUS tax incentive, carbon offsets and clean fuel standard credits.

Sector Analysis

Healthcare, Biotech & Special Situations

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Selections

› *Dialogue Health Technologies*
› *Jamieson Wellness*
› *Knight Therapeutics*

Highlights as of August 2021

We published our semi-annual update for the Dividend All-Stars thematic which contains 21 of NBF's favourite yield ideas for H2/2021 - the group spanning a variety of industries, sizes and liquidity, but sharing three investment criteria:

1. Dividend/distribution yield of approximately 4% or greater;
2. Low risk of the current payout proving unsustainable / dividends ideally growing; and
3. Generally positive bias regarding the prospects of the company and/or share price

The average yield of our H2/2021 All-Stars portfolio is elevated at 5.2% and payout easily funded for each with most having the capacity to grow dividends/ distributions. The average payout ratio of the portfolio is 61% and the average payout measure (AFFO, FCF, etc.) yield is ~10%. For investors seeking stable, predictable, elevated income, the following portfolio reflects NBF's favourite ideas for the remainder of 2021:

Alaris Equity Partners (TSX: AD.UN), Allied Properties REIT (TSX: AP.UN), AltaGas (TSX: ALA), BCE (TSX: BCE), Capital Power (TSX: CPX), Choice Properties REIT (TSX: CHP.UN), Canadian Imperial Bank of Commerce (TSX: CM), Crombie REIT (TSX: CRR.UN), CT REIT (TSX: CRT.UN), Dexterra Group (TSX: DXT), Dream Industrial REIT (TSX: DIR.UN), Enbridge (TSX: ENB), Exchange Income (TSX: EIF), IGM Financial (TSX: IGM), Keyera Corp. (TSX: KEY), KP Tissue (TSX: KPT), Lundin Mining (TSX: LUN), Mullen Group (TSX: MTL), TC Energy (TSX: TRP), Topaz Energy (TSX: TPZ), and Transcontinental (TSX: TCL.A)

NBF's Dividend All-Stars portfolio for H1/2021, initially published on February 16, returned an income of 3% and realized an average price return of 21%, for a total return of 24% versus the S&P/TSX Composite's 12% over the same period (2% income and 10% price for the index). The portfolio's outperformance is mainly attributable to elevated returns for real estate names (~35% average total return in H1/2021). Although the primary purpose of this publication is to highlight safe and elevated yields rather than price appreciation, the portfolio has on average outperformed the S&P/TSX over the last 9+ years, even when including the pandemic-impacted H1/2020 returns. The average total period return of NBF's Dividend All-Stars between 2012 and 2020 has been 9.4% versus the S&P/TSX at 8.0%.

	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.u	SP		190.75	87.9	2.17u	1/2021	0.0%	0.01u	0.18u	0.22u	11.9	9.8	53.7u	88.6u	197.1u	15.2	6.8	1,156.1u	5.9	3.50u	
Andlauer Healthcare Group	AND	SP		1,801.45	38.5	46.82	2/2021	0.4%	0.81	1.17	1.36	40.0	34.5	78.9	106.3	112.6	18.8	17.5	213.6	1.9	39.50	↑
Dialogue Health Technologies	CARE	OP		579.98	65.5	8.85	2/2021	0.0%	(0.36)u	(0.32)	(0.14)	nmf	nmf	(16.9)	(17.4)	(2.5)	nmf	nmf	-	-	18.00	↓
IMV Inc.	IMV	SP		151.18	67.8	2.23	2/2021	0.0%	(0.49)	(0.38)	(0.55)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	4.25	
Jamieson Wellness	JWEL	OP		1,413.98	40.2	35.21	2/2021	1.7%	1.17	1.29	1.32	27.3	26.7	88.0	99.7	105.4	15.9	14.9	165.6	1.6	42.75	
Knight Therapeutics	GUD	OP		676.47	126.0	5.37	2/2021	0.0%	0.09	0.23	0.33	23.8	16.1	16.8	39.1	56.2	14.0	9.7	-	-	7.75	
Medical Facilities Corp.	DR	OP		294.58	31.1	9.47	2/2021	3.0%	0.96u	1.01u	1.00u	7.7	7.9	57.3u	60.7u	58.7u	6.0	6.3	85.8u	1.9	9.75	
Theratechnologies	TH	SP		431.43	94.8	4.55	2/f2021	0.0%	(0.15)u	(0.09)u	0.05u	nmf	68.5	(7.1)u	(5.4)u	9.3u	nmf	35.3	-	-	3.75	
Special Situations																						
K-Bro Linen	KBL	SP		423.39	10.6	39.93	2/2021	3.0%	2.49	2.31	2.77	17.3	14.4	43.8	45.0	53.0	11.5	9.8	93.4	1.8	46.00	
Rogers Sugar	RSI	SP		569.24	103.7	5.49	3/f2021	6.6%	0.37	0.42	0.42	13.1	13.0	92.3	97.8	102.1	9.4	9.1	361.7	3.5	5.00	↓
Chemtrade Logistics Income Fund	CHE.UN	OP		702.31	103.6	6.78	2/2021	8.8%	0.52	0.58	1.01	11.7	6.7	265.3	253.2	330.4	8.4	6.4	1,404.7	4.3	9.50	↓

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

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Selections

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

Bird Construction Incorporated: Positive setup heading into the Investor Day; upgrade to OP

Target to $11.50 (from $10.00)

Context for the upgrade — lagging shares and greater confidence in outlook post discussions with management

We stepped off the BDT gas on June 14, at the time surmising that potential catalysts would be in a relatively short supply, limiting the earnings revisions dynamic in the process. The shares have posted a -6% return since the downgrade compared to TSX at +2% over the same timeframe (and the time horizon accounts for a post Q2/21 beat). We had an opportunity to sit down with management recently to closer examine the evolution of the company's positioning, providing greater confidence to our outlook. As a result, we are upgrading the shares to Outperform; $11.50 price target (vs. $10.00 prior).

Reasons to buy the shares at these levels

1) Inaugural Investor Day on Sept 9 — don't expect too many numeric targets but greater colour on strategy, positioning, and Stuart Olson integration; 2) LNG Canada is a big project for the company — don't expect a cliff as contract visibility should lead to sustainable profitability (second train would be the icing on the cake) — recall that % of Industrial work correlates positively to total margins; 3) Greater emphasis on centralization, best practices sharing, technology are yielding benefits vs. previously highly localized management style; 4) Underlevered balance sheet (0.5x net debt to EBITDA) could provide M&A optionality as management would like to do one deal per annum; 5) Oil is on the upswing — we estimate 40% of legacy Stuart Olson was commodity driven; 6) Growth end-markets such as nuclear, modular and timber are emerging and do not carry a higher risk profile; 7) Trading at 14% discount vs. own 5-year median while having a better end-market skew in a rebounding market; 8) 4.2% dividend yield is also attractive when 10-year government bond in Canada now yields 1.2%.

	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	OP		**$23.50**	↑	$20.82	$1,256	12 - 2020	$1.16	$0.91	$1.43	16.0x	14.1x	$255	$245	$276	6.9x	6.8x	3.4%	1.5x
Bird Construction Inc.	BDT	OP	↑	**$11.50**	↑	$9.88	$524	12 - 2020	$0.71	$0.91	$0.93	10.9x	10.7x	$69	$96	$100	5.1x	4.9x	3.4%	net cash
Finning International Inc.	FTT	OP		**$44.00**	↑	$32.84	$5,327	12 - 2020	$1.14	$1.81	$2.20	18.1x	14.9x	$636	$780	$900	8.2x	7.1x	2.7%	1.3x
IBI Group Inc.	IBG	OP		**$14.00**		$11.08	$347	12 - 2020	$0.48	$0.72	$0.83	14.1x	13.3x	$47	$53	$54	8.9x	8.8x	0.0%	0.8x
North American Construction Group Ltd.	NOA	OP		**$25.00**	↑	$18.05	$507	12 - 2020	$1.74	$1.89	$2.31	9.6x	7.8x	$175	$200	$228	4.5x	3.9x	0.9%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$65.00**	↓	$62.59	$6,904	12 - 2020	$1.59	$1.74	$2.16	36.1x	28.9x	$352	$365	$458	22.6x	18.0x	1.6%	3.5x
SNC-Lavalin	SNC	OP		**$44.00**		$34.16	$5,997	12 - 2020	-$0.67	$1.63	$2.58	13.1x	11.4x	$93	$584	$730	8.9x	8.0x	0.2%	1.9x
Stantec Inc.	STN	SP	↓	**$60.00**		$60.89	$6,774	12 - 2020	$2.13	$2.30	$2.51	26.5x	24.3x	$435	$431	$494	17.0x	14.8x	1.1%	1.2x
Toromont Industries Ltd.	TIH	OP		**$125.00**	↑	$106.08	$8,761	12 - 2020	$3.09	$3.89	$4.60	27.3x	23.1x	$539	$624	$706	14.2x	12.5x	1.3%	0.0x
WSP Global	WSP	OP		**$168.00**	↑	$163.74	$19,134	12 - 2020	$3.34	$4.74	$5.63	34.5x	29.1x	$801	$1,040	$1,222	19.7x	16.7x	0.9%	0.0x
AutoCanada	ACQ	OP	↑	**$64.00**	↑	$48.01	$1,298	12 - 2020	$0.44	$4.18	$4.38	11.5x	11.0x	$83	$203	$222	7.1x	6.5x	0.0%	0.2x
Stelco	STLC	OP		**$62.00**	↑	$49.25	$4,369	12 - 2020	-$0.60	$20.81	$5.96	2.4x	8.3x	$63	$1,964	$641	2.1x	6.6x	1.6%	-0.1x
ATS Automation	ATA	OP		**$48.50**	↑	$45.62	$4,202	12 - 2020	$1.07	$1.72	$1.78	26.5x	25.6x	$181	$267	$278	17.0x	16.3x	0.0%	1.2x
ABC Technologies	ABCT	SP		**$9.50**		$8.77	$461	12 - 2020	NM	-$0.10	$0.64	-67.6x	10.9x	$89	$126	$153	4.9x	4.0x	1.7%	1.7x
Stella-Jones	SJ	OP	↑	**$52.00**		$43.14	$2,821	12 - 2020	$3.12	$3.59	$3.34	12.0x	12.9x	$343	$371	$348	9.4x	10.1x	1.7%	1.8x
Median												**14.1x**	**13.3x**				**8.9x**	**8.0x**	**1.3%**	

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

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

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Selection

› *Gildan*

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

Q2 2021 Results: Driving performance amid a volatile backdrop

Q2/21 adj. EPS was $3.72 vs. NBF at $3.22; last year was -$0.25

CTC delivered a sizable beat vs. NBF, led predominantly by gross margin strength, partially offset by higher-than-expected SG&A. Consolidated revenue was $3,918 mln vs. NBF at $3,959 mln; last year was $3,162 mln. CTR sssg was -2.0% vs. NBF at 0.7%; Mark's sssg was 43.2% vs. NBF at 37.0%; SportChek sssg was 28.6% vs. NBF at 25.0%. Adj. EBITDA was $595 mln vs. NBF at $545 mln and cons. at $502 mln; last year was $261mln. Retail EBITDA was $480 mln vs. NBF at $436 mln; last year was $215 mln. Financial EBT was $125 mln vs. NBF at $112 mln, aided by a $31 mln reduction in the ECL allowance.

Challenging comparisons ahead; CTC is executing well

CTC has demonstrated meaningful operational improvement, as evidenced by the rapid development of the omni-channel offer through the pandemic, efficiency progress and strong traction with the Triangle loyalty program. The market is focused on slowing sssg; however, we are focusing on earnings power and valuation, both of which are attractive. Management indicated flattish retail sales growth in Q3 to date, despite difficult y/y comparisons, capacity restrictions in stores and unfavourable weather.

Other thoughts and comments

CTC's e-Commerce sales grew by 34% y/y to $857 mln (CTR up by 63.2% y/y to $600+ mln); 8.8 mln orders were fulfilled, doubling from Q1/21 and up by 38% y/y. On an LTM basis, e-Commerce sales reached $2.1 bln. CTC's loyalty program added 600k new members in the quarter, reaching 10.4 mln members. Triangle members accounted for ~57% of retail sales.

Maintain Outperform rating; Price target is $226

We value the Retail business at 14.5x our 2022/23 Retail EPS, CTFS at 9.5x our 2022/23 Financial EPS and CTC's ownership in CT REIT less a 10% discount.

Sector Analysis

Merchandising & Consumer Products

	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		11,828	61.4	192.00	12/2020	12.95	16.90	17.01	11.4	11.3	2,181	2,542	2,494	5.9	6.1	74.74	0.42	226.00	↑
Dollarama	DOL	OP		17,899	310.7	57.53	02/2021	1.81	2.17	2.58	26.5	22.3	1,131	1,283	1,448	16.5	14.6	0.45	0.96	65.00	
Specialty Stores																					
Couche Tard	ATD.b	OP		55,455	1,086.5	50.98	04/2021	2.45	2.30	2.47	17.6	16.4	5,005	4,748	4,929	10.4	10.0	11.21	0.35	54.00	↑
Parkland Fuel Corporation	PKI	OP		5,713	150.9	37.67	12/2020	0.54	0.90	2.30	41.6	16.4	967	1,287	1,337	7.5	7.3	14.47	0.65	47.00	↑
Apparel																					
Gildan	GIL	OP		9,734	199.1	48.50	12/2020	(0.18)	2.19	2.40	17.6	16.0	165	634	676	12.5	11.8	9.06	0.17	56.00	↑
Roots Corporation	ROOT	SP		139	42.2	3.30	02/2021	0.35	0.60	0.72	5.5	4.6	64	72	80	4.4	3.9	3.77	0.52	6.00	
Grocers																					
Empire Company	EMP.a	OP		10,988	267.6	40.80	05/2021	2.61	2.64	2.90	15.4	14.0	2,144	2,264	2,378	7.6	7.2	16.34	0.59	46.00	
Loblaw	L	OP		30,621	342.9	88.89	12/2020	4.18	5.10	5.70	17.4	15.6	5,004	5,416	5,543	6.6	6.5	32.56	0.32	91.00	↑
Metro	MRU	SP		15,866	245.8	64.27	09/2020	3.27	3.41	3.48	18.8	18.5	1,091	1,106	1,063	18.1	18.8	25.91	0.26	65.00	
Food Manufacturer																					
Saputo	SAP	SP		14,787	415.1	35.49	03/2021	1.56	1.57	2.01	22.7	17.7	1,471	1,502	1,770	12.5	10.6	15.3	0.39	41.00	
Lassonde	LAS.a	OP		1,189	6.9	170.42	12/2020	14.11	12.96	13.70	13.1	12.4	217	202	208	6.9	6.7	117.2	0.21	195.00	↓
Premium Brands Holdings	PBH	OP		5,855	43.5	134.62	12/2020	3.04	4.49	5.57	30.0	24.2	313	434	495	17.4	15.2	36.1	0.52	141.00	↑
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,268	37.2	33.97	12/2020	1.95	2.26	2.37	15.0	14.4	171	190	193	8.8	8.7	10.03	0.52	39.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		101	42.4	2.35	12/2020	0.34	0.30	0.46	7.8	5.2	28	26	32	9.0	7.3	5.60	0.36	4.50	↓
Restaurants																					
MTY Food Group	MTY	OP		1,699	24.7	68.71	11/2020	(1.51)	3.35	3.88	20.5	17.7	138	169	188	12.3	11.1	23.20	0.40	72.00	↑
Online Grocery																					
Goodfood Market	FOOD	OP		727	73.5	9.84	08/2020	(0.07)	(0.17)	(0.08)	NA	NA	5	4	11	NA	NA	1.60	(3.45)	12.00	

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

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

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Selections

› *First Quantum*
› *Copper Mountain Mining*
› *Capstone Mining*

Price Volatility to Persist in 2021

Much of copper's recent bull run has been influenced by the ongoing distribution of COVID-19 vaccines, accommodative government policies/stimulus spending and reopening of the global economy; however, the primary driver of increased prices in recent months remains a high influx of speculative investor interest. There remains some uncertainty as to the extent countries can contain new waves of infection in the near term, which may influence macroeconomic outcomes, and we expect prices to remain volatile.

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

Top picks:

- **First Quantum Minerals Ltd. (FM: TSX)**
  The company's high-quality asset base, organic growth profile and long-term exposure to copper prices maintain its status as a 'go-to' copper producer. FM has the most potential to deliver meaningful news flow over the next 12 months with potential non-core asset sales, which may include a minority interest in its Zambian operations. The closed sale of a 30% equity stake in its Ravensthorpe project had proceeds used to repay its RCF. These strategic divestitures would be supportive of deleveraging the balance sheet and reduce the company's overall exposure to future cost increases in Zambia. Any further clarity regarding the long-term tax/royalty structure in Panama and Zambia would further improve the outlook for the company.

- **Copper Mountain Mining Corp. (CMMC: TSX)**
  Copper Mountain has a strong near-term production outlook at the Copper Mountain Mine, entering a high-grade sequence for 2021-2022 and the completion of the mill expansion to 45,000 tpd in H2/21 (from 40,000 tpd), and improved balance sheet with the US$260 million note issuance freeing up cash flow to direct to future growth opportunities. Next to Copper Mountain Mine, CMMC has the Eva development project on the horizon with a development decision expected by year-end 2021.

- **Capstone Mining Corp. (CS: TSX)**
  Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including initiatives to achieve a sustained 57,000 tpd mill throughput by mid-year at Pinto Valley and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~30% production growth and ~10% reduction in costs by 2023. In addition, with the Cozamin silver stream sale and Santo Domingo gold stream sale, the company has no net debt and continues to advance partnership/financing agreements to deliver transformational growth from Santo Domingo.

Metals & Mining: Base 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
Producers																					
Capstone Mining	CS	OP	-	2,286	411.8	5.55	7.00	↓	Nagle	0.07u	0.65u	0.72u	6.4x	7.7x	0.34u	0.98u	0.91u	4.3x	4.6x	7.00	0.8x
Copper Mountain Mining	CMMC	OP	-	684	209.9	3.26	5.25	↓	Nagle	0.11u	0.65u	0.68u	5.0x	4.8x	0.61u	1.47u	1.21u	2.2x	2.7x	5.50	0.6x
Ero Copper	ERO	SP	-	2,112	88.4	23.90	30.00	-	Nagle	1.34u	2.56u	2.88u	7.0x	8.3x	2.02u	3.36u	3.41u	5.4x	5.3x	33.70	0.7x
First Quantum Minerals	FM	OP	-	18,159	691.0	26.28	37.50	↓	Nagle	(0.07)u	1.66u	3.71u	11.9x	7.1x	2.64u	4.62u	6.63u	4.3x	3.0x	27.94	0.9x
Hudbay Minerals	HBM	SP	-	2,018	261.5	7.72	14.00	↑	Nagle	(0.44)u	0.11u	0.53u	52.1x	14.6x	0.93u	2.01u	3.01u	2.9x	1.9x	8.88	0.9x
Lundin Mining	LUN	SP	-	7,511	736.3	10.20	15.50	↓	Nagle	0.31u	1.18u	1.53u	6.5x	6.7x	1.00u	2.16u	2.31u	3.6x	3.3x	12.03	0.8x
Nexa Resources	NEXA	SP	-	1,357	132.4	10.25	15.00	↓	Nagle	(0.82)u	1.92u	1.81u	4.0x	5.7x	1.44u	4.57u	4.32u	1.7x	1.8x	23.13	0.4x
Sherritt International	S	SP	-	177	397.3	0.45	0.60	-	DeMarco	(0.34)c	(0.23)c	0.01c	n/a	44.0x	0.03c	0.03c	0.09c	15.3x	5.0x	0.81	0.6x
Taseko Mines	TKO	SP	-	636	283.9	2.24	3.00	↓	Nagle	(0.11)c	0.22c	0.29c	10.4x	7.7x	0.44c	0.73c	0.72c	3.1x	3.1x	4.14	0.5x
Teck Resources	TECKb	OP	-	15,368	540.2	28.45	37.50	↑	Nagle	1.05c	3.95c	5.28c	7.2x	5.4x	3.38c	7.54c	8.33c	3.8x	3.4x	27.80	1.0x
Trevali Mining	TV	SP	-	198	989.4	0.20	0.35	-	Nagle	(0.03)c	0.04c	0.06c	3.5x	3.5x	0.01c	0.12c	0.12c	1.3x	1.3x	0.42	0.5x
Developers																					
Adventus Mining	ADZN	OP	-	115	131.1	0.88	1.70	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.19	0.4x
Filo Mining	FIL	OP	-	971	110.9	8.75	13.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.96	0.5x
Nevada Copper	NCU	SP	-	166	1,839.5	0.09	0.15	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.28	0.3x
Josemaria Resources	JOSE	SP	-	365	379.8	0.96	1.35	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.95	-
Trilogy Metals	TMQ	OP	-	371	144.2	2.57	4.75	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.48	0.5x
Sigma Lithium	SGMA	OP	-	857	87.3	9.81	7.50	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.12	1.0x
Lithium Americas	LAC	OP	-	3,007	119.9	25.09	18.65u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.23	1.0x

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

Metals & Mining: Precious Metals

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Selections

Gold/Silver Producers:

- ***Dundee Precious Metals Inc.*** *(DPM: TSX; C$12.50 target)*
- ***Endeavour Mining Corp.*** *(EDV: TSX; C$55.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$11.00 target)*
- ***K92 Mining Corp.*** *(KNT: TSX; C$12.25 target)*
- ***Newmont Corp.*** *(NGT: TSX; C$104.00 target)*
- ***SSR Mining Inc.*** *(SSRM: TSX; C$35.00 target)*
- ***Wesdome*** *(WDO: TSX; C$14.50 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$12.75 target)*

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to these stimulus measures, interest rates remain low. The U.S. 10-year yield started the year off on a strong note, but more recently has softened, and thus, real rates have shifted more negative, spurring gold to rally from sub-US$1,700/oz in late March. The U.S. Fed continues to voice support for keeping interest rates low, with no expected rate hike in 2021, but is planning on eventually tapering bond purchases while continuing to focus on job creation by any means necessary while accepting elevated inflation beyond the Fed target rate for a period of time. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The rise of cases in the U.S. from the COVID-19 Delta Variant is a key risk factor to the U.S. economic recovery that the U.S. Fed is watching closely.

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

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

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		17,693	243.70	72.60	97.00	↓	Parkin	0.96u	1.86u	3.01u	31.0x	19.1x	3.64u	4.99u	4.99u	11.5x	11.5x	46.62	1.56x
Barrick Gold	ABX	OP		45,115	1,779.00	25.36	37.00	↓	Parkin	0.51u	1.15u	1.34u	17.5x	15.0x	1.81u	3.22u	3.22u	6.2x	6.2x	21.74	1.17x
Kinross Gold Corp	K	OP		9,139	1,204.09	7.59	11.00	↑	Parkin	0.31u	0.73u	0.21u	8.2x	28.7x	0.80u	1.37u	1.37u	4.4x	4.4x	12.20	0.62x
Kirkland Lake Gold Corp	KL	SP	↑	13,158	261.53	50.31	59.00	↑	Parkin	2.74u	3.37u	3.16u	11.9x	12.6x	4.46u	4.75u	4.75u	8.4x	8.4x	28.44	1.77x
Newmont	NGT	OP		57,703	788.73	73.16	104.00	↓	Parkin	1.32u	2.66u	3.52u	21.9x	16.5x	4.31u	5.69u	5.69u	10.2x	10.2x	57.95	1.26x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		35,173	191.1	184.05	205.00	↑	Nagle	2.72u	3.44u	3.84u	40.2x	47.9x	4.22u	5.04u	5.43u	27.5x	25.5x	65.21	2.82x
Maverix Metals Inc	MMX	SP		823	141.7	5.81	8.00	-	Nagle	0.12u	0.10u	0.16u	n/a	37.0x	0.29u	0.25u	0.29u	23.1x	20.0x	4.58	1.27x
Osisko Gold Royalties Ltd	OR	OP		2,588	167.9	15.41	21.50	-	Nagle	0.26u	0.54u	0.65u	n/a	23.9x	0.65u	1.14u	1.22u	13.6x	12.6x	14.83	1.04x
Royal Gold Inc	RGLD	SP		7,263	65.2	111.33u	160.00u	↑	Nagle	2.91u	3.58u	3.20u	31.1x	34.8x	6.28u	6.14u	5.97u	13.6x	14.0x	65.52	1.70x
Sandstorm Gold Ltd	SSL	OP		1,563	194.9	8.02	12.75	↓	Nagle	0.11u	0.20u	0.27u	30.2x	29.7x	0.36u	0.41u	0.47u	14.7x	12.8x	7.90	1.02x
Triple Flag Precious Metals Corp	TFPM	SP		2,070	156.2	13.25	21.00	-	Nagle	0.20u	0.47u	0.57u	21.2x	23.2x	0.78u	0.92u	1.03u	10.8x	9.7x	12.33	1.07x
Wheaton Precious Metals Corp	WPM	OP		25,602	450.3	56.86	75.00	-	Nagle	1.10u	1.45u	1.56u	29.5x	36.4x	1.71u	2.03u	2.18u	21.1x	19.6x	22.53	2.52x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		3,914	392.94	9.96	13.50	↓	Parkin	0.21u	0.42u	0.46u	19.0x	17.1x	0.75u	0.97u	0.97u	8.1x	8.1x	10.84	0.92x
B2Gold	BTO	OP		5,028	1,030.4	4.88	9.00	↓	DeMarco	0.25u	0.49u	0.47u	9.9x	10.4x	0.51u	0.83u	0.69u	5.9x	7.1x	5.40	0.90x
Centerra Gold Inc	CG	OP		2,798	296.72	9.43	11.50	↑	Parkin	0.41u	1.16u	0.62u	6.4x	12.0x	1.36u	2.87u	1.28u	2.6x	5.9x	11.86	0.80x
Dundee Precious Metals	DPM	OP		1,409	181.3	7.77	12.50	↓	DeMarco	0.26u	1.02u	0.95u	7.6x	8.2x	0.62u	1.35u	1.65u	5.8x	4.7x	10.77	0.72x
Eldorado Gold Corp	ELD	OP		2,019	182.59	11.06	18.50	↓	Parkin	(0.02)u	0.97u	0.61u	11.3x	18.1x	0.93u	2.23u	2.23u	3.9x	3.9x	21.72	0.51x
Endeavour Mining	EDV	OP		5,027	163.1	30.83	55.00	↓	DeMarco	0.68u	2.24u	2.72u	13.8x	11.3x	2.68u	5.13u	5.02u	6.0x	6.1x	37.58	0.82x
Equinox Gold Corp	EQX	OP		3,016	332.2	9.08	15.00	↓	Parkin	0.33u	0.37u	0.25u	24.5x	35.9x	0.68u	1.06u	0.85u	8.6x	10.7x	18.31	0.50x
IAMGOLD Corp	IMG	OP		1,430	476.50	3.00	4.00		Parkin	(0.03)u	0.14u	0.21u	16.8x	11.3x	0.75u	0.77u	0.77u	3.1x	3.1x	8.58	0.35x
Lundin Gold Inc.	LUG	SP	↓	2,622	232.6	11.27	13.75	↓	Egilo	0.47u	0.83u	0.61u	13.5x	18.5x	0.61u	1.21u	1.10u	9.3x	10.2x	11.03	1.02x
New Gold Inc	NGD	SP	↓	1,035	680.70	1.52	2.75		Parkin	(0.08)u	0.03u	0.20u	53.5x	7.8x	0.39u	0.41u	0.41u	2.9x	2.9x	3.90	0.39x
OceanaGold Corp	OGC	OP		1,661	704.00	2.36	3.25	↓	Parkin	0.06u	(0.11)u	0.12u	n/a	18.9x	0.33u	0.33u	0.33u	5.6x	5.6x	3.20	0.74x
Pretium Resources	PVG	OP	↑	2,405	188.0	12.79	16.00	↓	DeMarco	0.54u	0.99u	0.63u	13.0x	20.2x	1.13u	1.50u	1.50u	8.5x	8.5x	13.67	0.94x
SSR Mining Inc	SSRM	OP		4,433	210.30	21.08	35.00	↓	Parkin	0.74u	1.43u	1.45u	11.7x	11.5x	1.59u	1.65u	1.65u	10.1x	10.1x	31.15	0.68x
Yamana Gold Inc	YRI	OP	↑	5,260	944.26	5.57	7.75	↓	Parkin	0.10u	0.32u	0.31u	13.9x	14.5x	0.51u	0.66u	0.66u	6.6x	6.6x	4.90	1.14x
Silver Producers																					
Aya Gold and Silver	AYA	R		R	R	R	R		DeMarco	R	R	R	R	R	R	R	R	R	R	R	R
First Majestic Silver Corp	FR	SP		3,492	214.9	16.25	21.00		DeMarco	0.03u	0.24u	0.49u	67.7x	33.5x	0.53u	0.57u	0.87u	28.5x	18.7x	6.97	2.33x
Fortuna Silver Mines Inc	FVI	SP		1,020	184.0	5.54	7.75	↓	DeMarco	0.18u	0.21u	0.61u	26.6x	9.0x	0.45u	0.43u	0.78u	12.8x	7.1x	6.25	0.89x
Pan American Silver	PAAS	OP		6,883	210.1	32.76	53.00	↓	DeMarco	0.60u	0.94u	1.39u	34.9x	23.5x	1.60u	1.73u	2.59u	18.9x	12.7x	19.49	1.68x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		352	109.6	3.21	5.50	↓	DeMarco	0.21u	0.24u	0.27u	13.4x	12.0x	0.40u	0.74u	0.57u	4.3x	5.7x	6.82	0.47x
K92 Mining Inc.	KNT	OP		1,613	219.2	7.36	12.25	↑	Egilo	0.20u	0.23u	0.32u	31.8x	23.1x	0.34u	0.36u	0.40u	20.5x	18.6x	10.37	0.71x
Minera Alamos Inc.	MAI	OP		261	441.9	0.59	1.15		Egilo	0.01u	(0.01)u	0.06u	n/a	9.9x	0.00u	(0.00)u	0.07u	n/a	8.0x	0.97	0.61x
Wesdome Corp.	WDO	OP		1,717	138.4	12.41	14.50	↑	DeMarco	0.32u	0.41u	0.60u	30.3x	20.6x	0.56u	0.64u	0.91u	19.5x	13.7x	11.36	1.09x
Developers																					
Artemis Gold Inc.	ARTG	OP		679	122.7	5.53	10.00		DeMarco	0.00u	(0.07)u	(0.05)u	-	-	0.00u	(0.15)u	(0.08)u	-	-	9.87	9.87x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		218	357.5	0.61	1.50		Egilo	(0.04)u	(0.03)u	(0.03)u	-	-	(0.03)u	(0.02)u	(0.02)u	-	-	1.34	0.46x
Integra Resources Corp.	ITR	OP		192	54.8	3.51	6.50		Nizami	(0.54)u	(0.54)u	(0.47)u	-	-	(0.50)u	(0.51)u	(0.45)u	-	-	6.53	0.54x
Liberty Gold Corp	LGD	OP		294	262.9	1.12	1.90		Egilo	0.03u	(0.07)u	(0.06)u	-	-	(0.05)u	(0.06)u	(0.06)u	-	-	2.39	0.47x
MAG Silver Corp	MAG	OP		2,202	91.2	24.15	31.00	↑	DeMarco	(0.06)u	(0.18)u	(0.07)u	-	-	(0.04)u	(0.04)u	(0.06)u	-	-	20.59	1.17x
Marathon Gold Corp.	MOZ	OP		0	0.0	3.06	4.25	↑	DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	5.8x	-	4.13	0.74x
O3 Mining Inc.	OIII	OP		133	60.2	2.21	4.25		DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	5.46	0.40x
Osisko Development	ODV	OP		654	128.3	5.10	10.25		DeMarco	-	-	0.27u	-	18.7x	(0.02)u	-	0.28u	-	18.5x	10.20	0.50x
Osisko Mining	OSK	OP		1,009	340.7	2.96	5.00		DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	4.98	0.59x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		511	347.9	1.47	3.00	↓	Egilo	(0.01)u	(0.02)u	0.00u	-	-	(0.01)u	(0.01)u	0.00u	-	-	0.49	3.02x
SilverCrest Metals	SIL	OP		1,295	128.5	10.08	15.00		DeMarco	(0.22)u	(0.22)u	(0.35)u	-	-	(0.19)u	(0.21)u	(0.31)u	-	-	9.99	1.01x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

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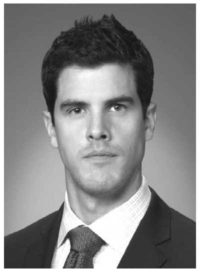
Intermediate Oil & Gas and Oilfield Services



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Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

Over the summer months, crude's price momentum continued into mid-July peaking at ~US$75 before volatility started to accelerate after the two-week standoff of OPEC negotiations concluded and further headwinds created by the Delta variant impacting demand amidst concerns over the fourth wave of Covid-19. We are seeing some improvement in the forward curve with CAL-22 WTI sitting at ~US$65/bbl, but this is still lower than July's exit of ~US$67.58/ bbl for CAL-22 WTI after multiple periods of crude selling off in mid-July and August. Supply and demand fundamentals continue to show strength with constructive drawdowns in U.S inventory's which have reached levels not seen since 2019 (432.6 mmbbls) and trending towards the bottom of the five-year range.

Over the summer, July marked an unusual stalemate within the OPEC+ group as the UAE refused to ratify the upcoming changes to the group's production quota. The meeting agenda was to work towards a consensus on increasing production in August and subsequent months and the delay was due to a disagreement with the UAE revolving around its baseline production. After lengthy negotiations, OPEC+ concluded the meeting on July 18th and the group agreed to phase out the incremental 5.8 mmbbls production curtailment by increasing production by 0.4 mmbbls/d per month between August 2021 - September 2022. The group also intends on meeting again in December to assess the market conditions and progress of the group towards the overall phasing out of the 5.8 mmbbls production agreement. The 20th OPEC+ meeting is scheduled for September 1st where we can expect to hear OPEC's thoughts on the current market conditions and how it views the threat of the Delta variant on oil demand.

WCS differentials compressed over the summer months, moving into the US$12.5/bbl range into the end of August from the US$14.5/bbl July exit point. Mainline apportionment levels remained elevated into early August (52-54% range), and with the incremental egress capacity from the in-service date of Enbridge's Line 3 (390 mbbl/d capacity increase) expansion within sight, we expect that apportionment levels will decrease from their current highs. Enbridge has filed regulatory documents with both the Canadian Energy Regulator and U.S Federal Energy Regulator which would allow Enbridge to initiate tolling as early as September 15th.

Natural Gas Outlook

U.S Natural Gas prices continued its strong upward price momentum through August averaging ~US$4/ mmbtu while AECO markets remained strong, experiencing more volatility in August compared to prior months, with prices averaging ~C$2.9/GJ. Rig activity has started to accelerate with a focus on oil in the U.S during August, increasing 4% m/m, adding 20 total rigs (Oil:+25/ Gas:-6/ Misc:+1). In Canada, total rig activity decreased by -5 rigs (Oil:-8/ Gas:+3) representing a decrease of 3% m/m in August. U.S production is estimated to have decreased slightly to average 90.5 Bcf/d in August from ~91.3 Bcf/d in July. LNG exports have decreased slightly to 10.16 Bcf/d due to maintenance activities impacting volumes and are expected to recover and hold near the 10.8 Bcf/d for September.

For the week ending August 20th, total U.S. gas storage now sits at 2,850 Bcf, 17% below last year and 6% below the five-year average. Canadian Natural Gas inventory continues to remain below its five-year average with the inventory in western Canada leading storage lower.

Overall, we remain constructive on the natural gas complex. Reflecting the current market conditions, we see current strip pricing for NYMEX at US$3.45/mcf for 2021 and US$3.41/mcf for 2022. Additionally, current AECO strip pricing for 2021 is C$3.56/mcf and C$3.41/mcf in 2022. We continue to monitor gas fundamentals and forecasts for validation around our optimistic thesis that a more resilient price landscape is emerging in the medium term.

Top Picks

Cenovus Energy Inc. (CVE: TSX/NYSE)

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

Tourmaline Oil Corp. (TOU: TSX)

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 8-31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1180.2	$41.75	$49,273	5%	8.9x	4.8x	4.3x	1.1x	0.5x	$4.40	$10.47	$10.58	4.0x	3.9x	$61.00	51%	↓
Cenovus Energy	CVE	OP		Wood	2017.5	$10.42	$21,012	1%	28.3x	4.1x	3.5x	1.3x	0.6x	$0.12	$3.33	$3.49	3.1x	3.0x	$20.00	93%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$26.86	$7,014	2%	4.4x	3.7x	3.6x	1.8x	1.5x	$7.42	$11.55	$10.96	2.3x	2.5x	$38.00	44%	↓
Imperial Oil	IMO	SP		Wood	704.6	$33.17	$23,371	3%	20.7x	6.2x	4.8x	0.7x	0.1x	$1.20	$5.82	$6.82	5.6x	4.9x	$45.00	39%	
Suncor Energy	SU	SP		Wood	1492.0	$23.82	$35,539	4%	10.1x	4.6x	4.0x	1.2x	0.7x	$2.66	$6.29	$6.72	3.7x	3.5x	$36.00	55%	↓
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.0	$5.20	$1,004	0%	5.1x	5.5x	5.8x	0.9x	0.7x	$0.56	$1.05	$1.02	5.0x	5.1x	$5.50	6%	
ARC Resources Ltd.	ARX	OP		Wood	723.9	$8.83	$6,392	3%	3.9x	4.1x	3.5x	0.9x	0.5x	$1.89	$3.05	$2.89	3.3x	3.1x	$13.50	56%	↓
Baytex Energy	BTE	SP		Payne	573.2	$2.15	$1,232	0%	5.4x	3.5x	2.9x	2.1x	1.6x	$0.56	$1.20	$1.26	1.8x	1.7x	$3.00	40%	
Birchcliff Energy	BIR	OP		Payne	269.7	$5.40	$1,456	0%	6.0x	4.8x	4.4x	1.4x	1.0x	$0.69	$1.53	$1.55	3.5x	3.5x	$6.25	16%	
Crescent Point Energy Corp.	CPG	OP		Wood	583.2	$4.50	$2,624	0%	3.9x	3.1x	2.3x	1.4x	0.8x	$1.65	$2.48	$2.80	1.8x	1.6x	$11.00	145%	
Enerplus Corporation	ERF	OP		Wood	256.8	$7.25	$1,861	2%	3.5x	3.2x	2.5x	1.0x	0.5x	$1.61	$3.21	$3.52	2.3x	2.1x	$13.50	88%	↓
Freehold Royalties	FRU	OP		Wood	131.5	$9.49	$1,248	6%	7.8x	8.7x	8.1x	0.6x	0.1x	$0.61	$1.15	$1.17	8.3x	8.1x	$12.00	33%	↑
Headwater Exploration	HWX	OP		Payne	227.3	$3.74	$850	0%	25.1x	8.5x	4.3x	-0.5x	-0.8x	$0.06	$0.42	$0.74	8.9x	5.1x	$6.25	67%	
Kelt Exploration	KEL	OP		Payne	188.7	$3.30	$623	0%	4.9x	4.9x	4.1x	0.2x	0.1x	$0.31	$0.70	$0.83	4.7x	4.0x	$5.00	52%	
MEG Energy	MEG	SP		Wood	305.5	$7.96	$2,432	0%	7.7x	4.9x	3.3x	3.0x	1.5x	$0.92	$2.34	$3.21	3.4x	2.5x	$14.50	82%	↑
NuVista Energy	NVA	SP		Payne	232.1	$3.58	$831	0%	4.2x	4.6x	3.2x	2.0x	1.3x	$0.70	$1.08	$1.59	3.3x	2.3x	$4.25	19%	
Paramount Resources	POU	SP		Payne	138.3	$13.60	$1,881	2%	6.1x	5.0x	3.4x	1.2x	0.5x	$1.12	$3.22	$4.58	4.2x	3.0x	$19.00	41%	↑
Parex Resources	PXT	OP		Wood	119.7	$18.93	$2,266	3%	5.1x	2.6x	1.8x	-0.6x	-1.1x	$2.96	$5.58	$6.71	3.4x	2.8x	$34.00	83%	↓
Peyto Exploration & Development	PEY	OP		Wood	165.8	$6.54	$1,084	1%	5.9x	4.6x	4.3x	2.7x	2.4x	$1.29	$2.46	$2.61	2.6x	2.5x	$8.50	31%	
PrairieSky Royalty	PSK	SP		Wood	222.4	$13.75	$3,056	3%	15.4x	14.2x	15.0x	0.5x	0.0x	$0.64	$1.00	$0.91	13.7x	15.1x	$16.50	23%	
Spartan Delta	SDE	OP		Payne	160.9	$4.36	$702	0%	6.9x	6.0x	3.1x	2.7x	1.4x	$0.67	$1.54	$2.17	0.0x	0.0x	$8.00	83%	
Storm Resources	SRX	SP		Payne	126.5	$3.59	$454	0%	5.2x	4.0x	3.1x	0.8x	0.3x	$0.47	$1.07	$1.25	0.0x	0.0x	$5.00	39%	
Tamarack Valley Energy	TVE	OP		Payne	411.8	$2.40	$988	0%	3.6x	4.4x	2.5x	1.4x	0.4x	$0.55	$0.83	$1.07	2.9x	2.2x	$4.50	88%	
Topaz Energy	TPZ	OP		Payne	129.4	$15.68	$2,029	5%	14.7x	13.6x	11.7x	1.2x	0.6x	$0.98	$1.32	$1.40	11.9x	11.2x	$20.00	33%	↑
Tourmaline Oil	TOU	OP		Payne	327.9	$33.40	$10,953	2%	4.9x	5.2x	4.5x	0.6x	0.1x	$4.36	$7.55	$7.56	4.4x	4.4x	$40.00	22%	
Vermilion Energy Inc.	VET	SP		Wood	161.9	$8.29	$1,342	0%	5.6x	3.7x	3.2x	2.2x	1.7x	$3.18	$4.51	$4.84	1.8x	1.7x	$13.50	63%	↓
Whitecap Resources	WCP	OP		Wood	634.2	$5.34	$3,387	4%	4.8x	4.1x	2.8x	1.0x	0.3x	$1.07	$1.76	$2.08	3.2x	2.6x	$10.00	91%	
Small Cap																					
Crew Energy	CR	SP		Payne	164.8	$1.85	$305	0%	6.5x	5.1x	3.3x	3.6x	2.0x	$0.27	$0.74	$1.06	2.5x	1.8x	$2.00	8%	
Pipestone Energy	PIPE	SP		Payne	280.9	$1.85	$520	0%	6.8x	4.1x	2.3x	1.2x	0.4x	$0.15	$0.56	$0.94	3.3x	2.0x	$3.25	76%	
Surge Energy	SGY	SP		Payne	74.1	$4.11	$305	0%	6.1x	4.7x	2.3x	2.6x	1.0x	$0.18	$1.96	$2.77	2.1x	1.5x	$8.50	107%	
Yangarra Resources	YGR	SP		Payne	88.7	$1.31	$116	0%	4.5x	3.0x	1.9x	2.1x	1.2x	$0.53	$1.04	$1.45	1.3x	0.9x	$2.00	53%	

* 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 8/31	EBITDA (mm) 2019	EBITDA (mm) 2020e	EBITDA (mm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt / EBITDA 2019	Net Debt / EBITDA 2020e	Net Debt / EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$1,321.30	91.1	US$14.50	US$213.2	US$236.6	US$294.7	6.2x	5.6x	4.0x	1.5x	1.3x	0.6x	US$17.50	21%	
Precision Drilling Corp.	PD	OP		Payne	$ 688.08	13.2	$52.29	$ 285.2	$ 279.5	$ 308.6	6.3x	6.3x	4.5x	4.7x	3.5x	2.7x	$55.00	5%	
Trican Well Services	TCW	SP		Payne	$ 680.28	255.7	$2.66	$ 30.6	$ 87.3	$ 107.7	22.0x	7.3x	5.1x	1.3x	-0.5x	-0.8x	$3.50	32%	↑

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

More than halfway through 2021, little has changed with regard to the market's insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term, as our coverage seeks to deploy an eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies - while driving per share growth and valuation expansion. We note that in August, the S&P TSX gained ~2%, while our NBF Midstream and NBF Utilities benchmarks were down ~3% and ~1%, respectively.

Commodities Update

While COVID-19 concerns continued to ease with a favourable fundamental backdrop, commodity prices continued to climb through July, with WTI averaging ~US$72.50/bbl, ~2% higher than June levels of ~US$71/bbl and over 81% above the 2020 average price of ~US$40/bbl. That said, over the month of August, an increase in the number of COVID-19 delta variant cases put pressure on prices, which have been sitting in the US$65-US$70 range of late. On the gas front, AECO prices continued a strong growth path through July, averaging $3.69/mcf, ~14% above the June average, but have fallen off since, coming down below the $2.00/mcf mark. Looking at Marketing prospects, while the WCS heavy differential showed some signs of slack early in the summer, it has recently pulled back to the ~US$13.00/bbl-US$13.50/bbl range alongside the recent crude price weakness.

Pipelines Update

Construction on the U.S. portion of the Line 3 Replacement project remains on track, with Enbridge recently notifying the CER that the pipeline may be completed within the next 30-60 days, potentially allowing for a startup date as early as September 15th. Recall, the Minnesota Court of Appeals kept the project on track when it announced a positive decision, citing substantial evidence supporting the Minnesota Public Utilities Commission's issuance of a certificate of need and also reaffirmed that the route was appropriately selected based upon respect for tribal sovereignty, while minimizing environmental impacts. On the Line 5 front, a federal judge previously appointed a mediator to advance discussions between the State of Michigan and Enbridge, which began on April 16th, to resolve the dispute outside of the courts. We await an outcome from the dispute as Enbridge does not plan on halting any operations unless ordered to by a court. Recall, Line 5 represents ~$500 million of annual EBITDA (~5% of AFFO), which we value at ~$3/sh within our target.

Meanwhile, in the Midstream space, Brookfield Infrastructure Partners L.P. (BIP: NYSE; Outperform; US$60 Target Price; Analyst: Merer) finally won the battle for IPL, with Pembina terminating its arrangement agreement with IPL and Brookfield meeting the minimum tender condition. Upon the take-up of all tendered shares so far, Brookfield will own 68.9% of all outstanding IPL shares. Recall, Inter Pipeline had agreed to an all-stock transaction pursuant to which Pembina would acquire all issued and outstanding common shares of Inter Pipeline at an exchange ratio of 0.5 common shares of PPL for each outstanding IPL share. Consistent with the arrangement agreement, PPL received the $350 mln break-fee from IPL for the termination of the deal.

Although Pembina will no longer be able to pursue certain growth opportunities stemming from the IPL transaction (~$1.00/sh of upside to our target), we highlight a vast amount of standalone upside, including ~$3.75 bln of potential new projects at an estimated adjusted EBITDA build multiple of 5-7x, representing ~$3.50/sh of upside to our target. These potential new projects include an expansion of its Cochin Pipeline System following the initial debottlenecking, adding up to 35,000 bpd, topping capacity to 150,000 bpd at a capital cost of ~$100 mln. The company also outlined the potential to pursue additional cogeneration projects at Empress, Duvernay and Hythe or enter into additional renewable power purchase agreements.

Elsewhere, following its financing alternatives review, TWM created and capitalized on Tidewater Renewables Ltd. (TWR; TSX: LCFS; Not Rated) via a $150 mln initial public offering, with TWM retaining a 70.5% equity interest in its subsidiary focused on the production of low carbon fuels and future energy transition infrastructure. TWM dropped down ~$40 mln of existing run-rate EBITDA into TWR for total consideration of $538.5 mln comprised of: (i) $138.0 mln net proceeds from the offering, (ii) 23.9 mln TWR

Pipelines, Utilities & Energy Infrastructure

common shares (~$358.5 mln), and (iii): ~$42 mln drawn under TWR's $150 mln credit facility. The majority of run-rate EBITDA is underpinned by long-term (10-15-year) take-or-pay contracts, largely with TWM.

Power & Utilities Update

Hydro One recently filed its 2023-2027 Joint Rate Application with the OEB for its Hydro One Networks Inc. Transmission and Distribution businesses, requesting capital expenditures of ~$7.3 bln and ~$5.3 bln, respectively, and representing annual average capex of ~$2.5 bln. Overall, the five-year investment plan is ~67% comprised of system renewal, with the remaining capex allocated towards non-discretionary spend related to connection obligations and operational objectives addressing future customer requirements. Meanwhile, we note the JRAP utilizes a placeholder ROE of 8.34%, based on Q4/20 long-term GCAN rates, under the formulaic OEB cost of capital parameters, until Q4/22 when the OEB releases its final ROE. If Hydro One's request is approved, rate base is anticipated to grow to ~$31.2 bln (~6% five-year CAGR). Approval of the JRAP by the OEB is expected in Q4/22.

Meanwhile, Tampa Electric, a subsidiary of Emera, filed a joint motion for approval of a settlement agreement with the Florida Public Service Commission (FPSC) related to its rate case filed in April. Recall, Tampa Electric filed a rate case with the FPSC in April, requesting a base rate increase of US$295 mln, effective January 2022. The settlement agreement reached with the intervenors lowers the proposed base rate increase to ~US$191 mln annually, while continuing to include cost recovery of the first phase of the Big Bend modernization project, 225 MW of utility-scale solar projects, advanced metering infrastructure and accelerated recovery of the remaining net book value for its retiring assets. The settlement agreement includes an allowed ROE range of 9.0-11.0% with 9.95% midpoint (was 10.25%), while providing a 25 bps increase in the ROE range (and midpoint) and another US$10 mln in revenue should the average U.S. Treasury Bond yields exceed the yield rate on the date the FPSC votes to approve the agreement by at least 50 bps for six consecutive months. The company continues to seek approval of Generation Base Rate Adjustments for 2023 and 2024 now totalling ~US$110 mln (was ~US$130 mln) for recovery of its remaining Big Bend modernization investment and additional solar developments. The agreement also continues to include a tax adjustment mechanism request, allowing the company to recover amounts related to a potential hike in the U.S. corporate tax rate, albeit with regulatory lag. Consideration of the matter from the FPSC is expected by October.

Top Picks

Overall, our 2022 estimates call for AFFO/sh growth of ~9% over 2021e, with dividends up ~2% on average. We continue to screen our top picks using a three-pronged approach for 1) double-digit free cash flow (AFFO) yield; 2) healthy balance sheet metrics; and 3) strong catalyst potential.

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 08-31	Market Cap. (Mln)	Distributions per Share est. 2020	est. 2021e	est. 2022e	Cash Yield 2021e	Cash Yield 2022e	Distr. CF per Share - FD est. 2020	est. 2021e	est. 2022e	P/Distr. CF 2021e	P/Distr. CF 2022e	Net Debt/ 22e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$25.27	$7,067	$0.96	$1.00	$1.04	4.0%	4.1%	$2.08	$2.67	$3.07	9.5x	8.2x	5.2x	29.00	14.8%	↑	18.7%
Enbridge Inc.	ENB	OP		2021.5	$49.65	$100,367	$3.24	$3.34	$3.51	6.7%	7.1%	$4.67	$4.84	$5.21	10.3x	9.5x	4.6x	51.00	2.7%		9.4%
Gibson Energy	GEI	SP		149.3	$22.76	$3,398	$1.36	$1.40	$1.40	6.2%	6.2%	$2.01	$2.03	$2.16	11.2x	10.5x	3.3x	24.00	5.4%	↑	11.6%
Inter Pipeline	IPL	Tender		429.2	$20.00	$8,584	$0.48	$0.48	$0.48	2.4%	2.4%	$1.75	$1.73	$1.98	11.5x	10.1x	5.3x	20.00	0.0%		2.4%
Keyera	KEY	OP		221.0	$30.38	$6,715	$1.92	$1.92	$1.92	6.3%	6.3%	$3.26	$3.07	$3.05	9.9x	10.0x	3.3x	36.00	18.5%	↑	24.8%
Pembina Pipelines	PPL	SP		550.0	$38.45	$21,148	$2.52	$2.52	$2.52	6.6%	6.6%	$3.91	$3.94	$4.14	9.8x	9.3x	4.1x	40.00	4.0%		10.6%
Secure Energy	SES	OP		308.0	$4.23	$1,303	$0.03	$0.03	$0.03	0.7%	0.7%	$0.53	$0.77	$0.88	5.5x	4.8x	1.9x	5.50	30.0%		30.7%
Superior Plus	SPB	SP		176.0	$14.84	$2,612	$0.72	$0.72	$0.72	4.9%	4.9%	$1.37	$1.11	$1.52	13.3x	9.8x	4.1x	15.00	1.1%		5.9%
Tidewater Midstream	TWM	OP		339.3	$1.30	$441	$0.04	$0.04	$0.04	3.1%	3.1%	$0.14	$0.34	$0.24	3.9x	5.5x	3.7x	1.75	34.6%	↑	37.7%
TC Energy Corp.	TRP	OP		979.0	$59.90	$58,642	$3.24	$3.48	$3.69	5.8%	6.2%	$6.13	$5.71	$5.88	10.5x	10.2x	5.2x	66.00	10.2%	↓	16.0%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$42.45	$4,867	$1.74	$1.79	$1.81	4.2%	4.3%	$2.08	$2.26	$2.36	18.8x	18.0x	4.6x	45.00	6.0%	↑	10.2%
Canadian Utilities	CU	SP		273.1	$35.71	$9,752	$1.74	$1.76	$1.78	4.9%	5.0%	$2.69	$2.79	$2.99	12.8x	11.9x	5.3x	36.00	0.8%	↑	5.7%
Capital Power	CPX	OP		114.1	$43.39	$4,952	$1.99	$2.12	$2.25	4.9%	5.2%	$4.96	$5.38	$4.76	8.1x	9.1x	4.0x	46.00	6.0%	↑	10.9%
Emera Inc.	EMA	SP		257.9	$59.56	$15,362	$2.48	$2.58	$2.68	4.3%	4.5%	$1.99	$2.73	$4.28	21.8x	13.9x	6.7x	58.00	-2.6%	↓	1.7%
Fortis Inc.	FTS	SP		474.6	$57.80	$27,431	$1.94	$2.05	$2.17	3.5%	3.8%	$3.92	$3.85	$4.46	15.0x	13.0x	6.1x	59.00	2.1%	↓	5.6%
Hydro One Ltd.	H	SP		596.9	$31.40	$18,744	$1.01	$1.07	$1.12	3.4%	3.6%	$1.76	$1.74	$1.96	18.1x	16.0x	5.4x	32.00	1.9%	↑	5.3%
TransAlta	TA	SP		271.1	$12.36	$3,351	$0.17	$0.18	$0.18	1.5%	1.5%	$1.30	$1.82	$1.67	6.8x	7.4x	3.7x	13.00	5.2%	↑	6.6%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate

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Selections

- *H&R*
- *ERES*
- *Boardwalk*
- *Chartwell*
- *Flagship Communities*
- *Allied*
- *InterRent*
- *RioCan*
- *Tricon Residential*

Q2 preview: economic reopening, low rates should work well for REITs

Our top 10 list emphasizes residential names over commercial ones.

These stories include not just multi-family (ERE, HOM, BEI and KMP), but seniors housing (CSH) and special situation names that operate manufactured housing (MHC) and single family rentals (TCN). Steady, high collections in residential stories keep financial risk low, the supply/demand balance remains favourable and shorter duration leases keep them more inflation-resistant. A retail name (REI) also makes the list as along with CSH are selections designed to give torque to the economic reopening.

Multi-family:

Lockdowns and border restrictions during the Q2/21 likely curtailed leasing activity. REITs with higher young professional/student exposure will continue to lag those with suburban exposure and less transient tenant bases. Within our domestic coverage universe, we think BEI and KMP will outperform, meanwhile cross-border names should also fare better. Expect the market to focus on the tone and outlook for H2/21 as economic activity has resumed.

Seniors Housing/Healthcare:

As vaccination rates improve, we believe the long-term earnings power of these business remains intact. With vaccination progress, we anticipate pandemic expense pressure easing in H2 (and LTC operators may see a bonus as government funding for prior period expenses comes in); however, it will take a while to recover lost occupancy. We still see this as a residential asset class, with early cycle torque coming from the vaccine rollout.

Industrial:

Canadian industrial names seem to be in the early innings of heightened rent growth and earnings performance. This, combined with investor appetite for the asset class, has driven significant multiple expansion. With long bond yields falling and a relatively bullish growth outlook, we expect further trading outperformance.

Office:

There is room for some incremental optimism on office as vaccine rollouts and economic reopening are finally hitting their stride. Q2 is unlikely to be a stellar quarter, although y/y figures will benefit from weaker prior year comps. We continue to seek out quality and balance sheet strength when picking potential future winners here and will look to the fall for a better indication on where Canadians and their employers stand on a return to the office.

Retail:

With restrictions being lifted imminently in key markets, we expect a constructive tone from management based on early anecdotal performance data. We also expect Retail REITs to see demand from investors who want exposure to the reopening. Credit ratings agencies are starting to lay down some markers around leverage, which could impact some development plans for Retail REITs. While long-term tenant health remains a key concern, we think we are through the worst of the storm for the Retail REITs.

Special Situations:

Our outlook varies by stock, but we still like the residential and quasi-residential names that are in this group: SVI, TCN and MHCu.

Back to Research Analysts page

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 8-31	Distributions per Unit (A) 2020	est. 2021	est. 2022	Cash Yield 2020A	2021E	2022E	Current Annualized	FD FFO (A) 2020	est. 2021	est. 2022	P/FFO 2020A	2021E	2022E	Net Asset Value	12-Mth Price Target	Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,937	Woolley	$22.47	$1.44	$1.44	$1.44	6.4%	6.4%	6.4%	6.4%	$1.60	$1.53	$1.62	14.1x	14.7x	13.9x	$24.80	$25.00	17.7%	↑
Choice Properties REIT	CHP.un	SP	↔	$10,417	Woolley	$14.89	$0.74	$0.74	$0.74	5.0%	5.0%	5.0%	5.0%	$0.92	$0.96	$0.97	16.1x	15.5x	15.3x	$12.90	$15.00	5.7%	↑
First Capital REIT	FCR	SP	↔	$3,966	Woolley	$18.10	$0.86	$0.86	$0.86	4.8%	4.8%	4.8%	4.8%	$1.01	$1.13	$1.12	18.0x	16.0x	16.2x	$21.50	$20.00	15.2%	↑
SmartCentres REIT	SRU.un	SP	↔	$5,202	Woolley	$30.58	$1.76	$1.81	$1.85	5.8%	5.9%	6.0%	5.9%	$2.20	$2.13	$2.18	13.9x	14.3x	14.0x	$31.61	$32.00	10.6%	↑
CT REIT	CRT.un	OP	↔	$3,866	Woolley	$17.51	$0.73	$0.76	$0.79	4.2%	4.3%	4.5%	4.3%	$1.18	$1.25	$1.32	14.9x	14.0x	13.3x	$16.70	$19.00	12.8%	↑
Crombie REIT	CRR.un	OP	↔	$2,774	Woolley	$18.29	$0.89	$0.89	$0.89	4.9%	4.9%	4.9%	4.9%	$1.05	$1.14	$1.20	17.4x	16.0x	15.3x	$18.15	$19.50	11.5%	↑
Automotive Properties REIT	APR.un	OP	↔	$518	Woolley	$13.05	$0.80	$0.80	$0.80	6.2%	6.2%	6.2%	6.2%	$0.91	$0.97	$1.01	14.3x	13.5x	12.9x	$12.00	$14.00	14.7%	↑
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,557	Kornack	$43.38	$1.65	$1.70	$1.73	3.8%	3.9%	4.0%	3.9%	$2.29	$2.42	$2.66	18.9x	17.9x	16.3x	$46.75	$49.25	17.5%	↑
DREAM Office REIT	D.un	OP	↔	$1,355	Kornack	$23.36	$1.00	$1.00	$1.00	4.3%	4.3%	4.3%	4.3%	$1.52	$1.56	$1.64	15.3x	15.0x	14.3x	$25.80	$24.00	7.0%	↑
Slate Office REIT	SOT.un	SP	↔	$392	Kornack	$5.36	$0.40	$0.40	$0.40	7.5%	7.5%	7.5%	7.5%	$0.68	$0.57	$0.62	7.9x	9.4x	8.7x	$5.95	$5.50	10.1%	↑
True North Commerical REIT	TNT.un	SP		$644	Kornack	$7.56	$0.59	$0.59	$0.59	7.9%	7.9%	7.9%	7.9%	$0.59	$0.60	$0.61	12.7x	12.7x	12.4x	$7.25	$7.50	7.1%	↑
NorthWest H.P. REIT	NWH.un	SP	↔	$2,344	Woolley	$13.21	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.83	$0.85	$0.88	15.8x	15.5x	15.0x	$13.18	$14.00	12.0%	↑
H&R REIT	HR.un	OP	↔	$4,952	Kornack	$16.41	$0.92	$0.69	$0.69	5.6%	4.2%	4.2%	4.2%	$1.67	$1.51	$1.53	9.8x	10.9x	10.7x	$21.75	$19.50	23.0%	↑
Cominar REIT	CUF.un	RES	↔	$2,007	Kornack	$11.00	$0.72	RES	RES	6.5%	RES	RES	6.5%	$1.13	RES	RES	9.7x	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,479	Kornack	$11.58	$0.54	$0.54	$0.60	4.7%	4.7%	5.2%	5.2%	$1.40	$1.34	$1.37	8.3x	8.6x	8.5x	$14.85	$12.25	10.4%	↑
BTB REIT	BTB.un	SP	↔	$302	Kornack	$4.10	$0.36	$0.30	$0.30	8.8%	7.3%	7.3%	7.3%	$0.38	$0.41	$0.42	10.7x	9.9x	9.7x	$4.70	$4.50	17.1%	↑
Industrial																							
Granite REIT	GRT.un	OP	↔	$5,999	Kornack	$91.33	$2.92	$3.00	$3.00	3.2%	3.3%	3.3%	3.3%	$4.04	$4.03	$4.33	22.6x	22.6x	21.1x	$79.15	$94.00	6.2%	↑
DREAM Industrial REIT	DIR.un	OP	↔	$3,798	Kornack	$16.63	$0.70	$0.70	$0.70	4.2%	4.2%	4.2%	4.2%	$0.71	$0.80	$0.86	23.5x	20.8x	19.4x	$15.50	$17.00	6.4%	↑
WPT Industrial REIT	WIR'U-T	T		$1,923u	Kornack	$21.78u	$0.76u	$0.76u	$0.76u	3.5%	3.5%	3.5%	0.0%	$0.94u	$0.98u	$1.04u	23.2x	22.1x	21.0x	$17.25u	$22.00u	4.5%	↑
Summit Industrial	SMU.un	OP	↔	$3,652	Kornack	$21.70	$0.54	$0.56	$0.58	2.5%	2.6%	2.7%	2.6%	$0.65	$0.71	$0.76	33.4x	30.6x	28.7x	$18.60	$22.50	6.3%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$359	Woolley	$4.60	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-28.6x	12.8x	6.8x	$5.70	$5.00	8.7%	↑
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$10,647	Kornack	$61.34	$1.37	$1.38	$1.47	2.2%	2.2%	2.4%	2.4%	$2.27	$2.38	$2.49	27.1x	25.8x	24.6x	$61.80	$68.50	13.9%	↑
Boardwalk REIT	BEI.un	OP	↔	$2,400	Kornack	$47.02	$1.00	$1.00	$1.00	2.1%	2.1%	2.1%	2.1%	$2.81	$2.87	$3.00	16.7x	16.4x	15.7x	$54.80	$56.00	21.2%	↑
Killam Apartment REIT	KMP.un	OP	↔	$2,064	Kornack	$21.66	$0.68	$0.69	$0.72	3.1%	3.2%	3.3%	3.2%	$1.00	$1.03	$1.09	21.6x	21.1x	19.8x	$22.05	$24.00	14.0%	↑
InterRent REIT	IIP.un	OP	↔	$2,499	Kornack	$17.44	$0.31	$0.32	$0.32	1.8%	1.8%	1.8%	1.8%	$0.47	$0.51	$0.59	37.1x	34.0x	29.6x	$16.80	$20.00	16.5%	↑
Minto Apartment REIT	MI.un	SP	↔	$1,379	Kornack	$23.36	$0.44	$0.44	$0.45	1.9%	1.9%	1.9%	1.9%	$0.85	$0.79	$0.90	27.6x	29.5x	26.0x	$23.60	$26.25	14.3%	↑
BSR REIT	HOM.un	OP	↔	$447u	Kornack	$16.10u	$0.50u	$0.50u	$0.50u	3.1%	3.1%	3.1%	3.1%	$0.64u	$0.61u	$0.72u	25.3x	26.3x	22.5x	$15.35u	$17.00u	8.7%	↑
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.60	$0.15	$0.16	$0.16	3.4%	3.5%	3.5%	3.5%	$0.20	$0.22	$0.22	23.0x	21.3x	20.5x	$5.08	$5.55	24.1%	↑
International																							
Inovalis REIT	INO.un	SP	↔	$322	Kornack	$9.62	$0.83	$1.13	$0.83	8.6%	11.8%	8.6%	8.6%	$0.65	$0.53	$0.58	14.7x	18.0x	16.7x	$10.75	$10.00	15.7%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,825	Woolley	$12.94	0.59	0.60	0.60	4.6%	4.6%	4.6%	4.6%	0.76	0.68	0.82	17.0x	19.0x	15.8x	$12.10	$15.00	20.6%	↑
Sienna Senior Living	SIA	OP	↔	$1,069	Woolley	$15.94	0.90	0.92	0.94	5.7%	5.8%	5.9%	5.9%	1.03	1.19	1.32	15.5x	13.4x	12.1x	$15.80	$17.50	15.6%	↑
Extendicare	EXE	SP	↔	$724	Woolley	$8.09	0.48	0.48	0.48	5.9%	5.9%	5.9%	5.9%	0.79	0.47	0.52	10.3x	17.2x	15.6x	$9.30	$8.50	11.0%	↔
Invesque	IVQu	SP	↔	$126u	Woolley	$2.25u	$0.74u	$0.00u	$0.00u	32.7%	0.0%	0.0%	0.0%	$0.73u	$0.57u	$0.66u	3.1x	4.0x	3.4x	$3.90u	$2.75u	22.2%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,022	Woolley	$5.52	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.14	$0.16	56.6x	39.4x	34.5x	$4.65	$6.00	8.9%	↑
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$229u	Woolley	$18.08u	n/a	n/a	$0.51u	n/a	n/a	2.8%	2.8%	n/a	$1.00u	$1.00u	n/a	18.1x	18.1x	$19.50u	$21.00u	19.0%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$3,644u	Woolley	$15.98	$0.28	$0.28	$0.28	1.8%	1.8%	1.8%	1.8%	$0.49u	$0.51u	$0.54u	32.6x	31.3x	29.6x	$16.84	$18.00	14.4%	↑

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- › *AD_u*
- › *DXT*
- › *HDI*

Initiating coverage of Neighbourly Pharmacy Inc. (TSX: NBLY)

Neighbourly closed its initial public offering of 10.295 million common shares at $17/share on May 25, 2021, subsequent to which we initiated coverage on July 15. Neighbourly is the third largest national retail pharmacy chain in Canada with 145 locations filling ~6 million prescriptions annually, having more than tripled its pharmacy count over the past three years through acquisitions. NBLY focuses on smaller, underserved communities with populations less than 100,000 (and often under 10,000), where competition is less intense, and in which pharmacies are often viewed as healthcare hubs.

Take out 30 locations and call me in the morning

Despite NBLY's rapid pace of growth, we calculate the company accounts for only ~1.3% of Canadian retail pharmacies by location; the two largest players have only ~15.9% market share, while a hefty ~60% of the market is in the hands of independents. Of these ~6,500 independents, Neighbourly has identified ~3,600 that meet its strict acquisition criteria, which it has typically been able to acquire for 6-7x EBITDA, post-synergies. We estimate NBLY can maintain its M&A pace, adding ~30 locations annually while keeping the balance sheet on side of management's 2.5x pro forma Net Debt/EBITDA comfort level.

Proprietary technology, centralization and scale drive 10% synergies

Following an acquisition, the company is able to integrate both point of sale and pharmacy procurement systems within 24 hours of closing using proprietary, in-house IT and BI software that interfaces with the major systems used throughout the industry. This allows central monitoring of KPIs to enhance merchandising, product mix, services, scheduling, purchasing and inventory with little incremental cost for each additional location. Neighbourly's larger network also grants it scale advantages in procurement, which in combination with optimized business decisions, has historically driven a rapid 10% lift in acquired EBITDA.

Sector Perform rating as NBLY nears $32 target

We initiated on NBLY with a $32 target based on a blended approach, balancing Neighbourly's early stage of growth against our view of increasing risk of disruptions to NBLY's revenue and gross margin profile due to industry reform over the long term (drug price reductions, national pharmacare, etc.): 1) 60% weighting on 14x FY2023e EV/EBITDA, at the top end of a group of high growth, rollup comps, yielding a ~$24 target, and; 2) 40% weighting on a nine-year DCF which assumes 30 locations added through M&A annually, a terminal value based on an exit at 12x EBITDA based on peer transactions and a 10% discount rate, yielding a ~$44.50 target. Our blended $32 target is equivalent to 17.9x FY2023e EV/EBITDA and 63.5x PE. Though we are bullish on the company's fundamentals, given the tight upside to our target, we rate NBLY Sector Perform.

	Stock Symbol	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	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		839.4	45.0	18.67	12/2020	0.51	2.04	1.85	9.2	10.1	85.6	124.3	132.4	10.2	9.5	6.7%	3.3	23.50	
Boyd Group Services Inc.	BYD	SP	↓	5,288.4	21.5	246.29	12/2020	1.97	2.39	5.84	85.2	34.9	220.0	246.8	382.0	20.7	13.2	0.2%	1.8	255.00	↓
Cascades	CAS	OP		1,619.5	103.3	15.68	12/2020	1.95	0.58	1.59	27.0	9.9	675.0	455.8	597.2	7.2	5.4	3.1%	2.9	19.00	↓
Dexterra Group Inc.	DXT	OP		514.1	64.9	7.92	12/2020	1.24	0.43	0.55	18.3	14.3	36.1	77.9	86.5	7.4	6.2	4.4%	1.0	9.00	↑
Doman Building Materials	DBM	OP		575.2	86.6	6.64	12/2020	0.78	1.17	0.83	5.7	8.0	143.1	209.8	191.6	5.9	6.6	7.2%	4.3	12.00	↓
GDI Integrated Facility Services	GDI	OP		1,305.3	22.9	56.90	12/2020	2.11	2.37	2.28	24.0	24.9	104.9	139.0	133.2	10.3	10.2	0.0%	1.2	67.00	↑
Hardwoods Distribution	HDI	OP		819.2	21.6	38.01	12/2020	1.52	3.53	3.11	8.9	10.1	72.7	153.2	158.9	7.9	7.2	1.1%	1.2	60.50	↑
Intertape Polymer Group Inc.	ITP	OP		1,861.6	60.5	30.76	12/2020	1.51	1.98	2.14	12.4	11.5	211.2	254.7	277.7	7.9	7.1	2.8%	2.0	40.00	↑
KP Tissue	KPT	SP		101.3	9.8	10.31	12/2020	0.53	0.24	0.62	43.5	16.7	197.8	165.2	226.8	7.7	7.3	7.0%	4.2	11.00	
Neighbourly Pharmacy Inc.	NBLY	SP		1,016.0	33.4	30.38	03/2021	(19.88)	(7.36)	0.50	nmf	60.3	35.1	50.3	70.6	22.4	17.1	0.6%	0.2	32.00	
Park Lawn Corporation	PLC	R		1,098.5	30.2	36.34	12/2020	R	R	R	R	R	R	R	R	R	R	1.3%	R	R	
Richelieu Hardware	RCH	SP		2,561.7	56.3	45.50	11/2020	1.50	2.07	1.98	21.9	23.0	154.5	197.6	189.5	12.3	12.3	0.6%	-0.1	44.50	
Savaria Corporation	SIS	OP		1,367.3	64.4	21.24	12/2020	0.56	0.73	1.05	29.2	20.3	59.8	106.2	132.8	16.3	12.8	2.3%	2.5	24.50	↑
Uni-Sélect	UNS	OP		746.4	42.4	17.61	12/2020	(0.18)	0.72	1.10	19.7	12.8	88.8	127.5	145.3	8.2	6.9	0.0%	2.4	20.00	↑

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

› *Boralex*
› *Northland Power Inc.*
› *Algonquin Power & Utilities*

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. It will be hard to replicate the performance of the past five years, but there are plenty of growth opportunities for companies in the sector. Inflation concerns have a direct impact on valuation recently and resulted in headwinds to some of the names under our coverage. Nonetheless, we believe the renewable power sector should see increased interest in the back-half of this year with a focus on accelerating renewable production and path to net-zero emissions, helped by the United Nations meeting, COP26, in November 2021. Our top picks are BLX, NPI and AQN.

Northland Power Inc.
(NPI: TSX; Outperform; $48.00 target):

Northland Power is a global leader in the development of offshore wind and owns 2,266 MW (net) of operational capacity in renewable and thermal power generation. NPI recently closed on its acquisition of a 540 MW (net) portfolio of onshore wind and solar assets in Spain. To fund the acquisition, NPI issued $990 million equity in April 2021, of which it intends to utilize $470 million towards development opportunities of 4 GW to 5 GW over the next decade. NPI's focus remains the offshore wind market, which offers large projects and high return potential. With its offshore wind platform, NPI is attracting large partners, like PKN Orlen in Poland and Tokyo Gas in Japan, which could help to boost returns. The first of its growth projects to be constructed should be the 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E), possibly followed by the 1.2 GW Baltic project in Poland (FID 2023E and COD 2026E). Recently, NPI was approved to use larger (14 MW) turbines for its Hai Long project, awarded a 25-year contract for its Baltic Power offshore project and achieved financial close for two of its New York onshore wind projects as well as on a 16 MW solar project in Colombia. Additionally, NPI is exploring 1.8 GW of wind developments in Taiwan that could be bid into RFPs next year. For 2021E, NPI expects low end of $1.1 billion to $1.2 billion in Adj. EBITDA (and FCF/sh in the range of $1.30-$1.50/sh). Our target is based on a long-term DCF with a cost of equity of 4.75% on operating cash flows and $10/sh of growth.

Boralex Inc.
(BLX: TSX; Outperform; $50.00 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the USA, France and Canada. It has ~2,469 MW of generating capacity, mostly under long-term contracts with an average contract life of ~13 years. In June, BLX unveiled its updated strategic plan for 2025 as well as a roadmap to 2030. The new plan focuses on growth, diversification, customers and asset optimization while also further integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest $6 billion by 2025E to increase its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investment to reach 10 to 12 GW by 2030E. With this, we believe BLX could have the best visibility on growth within its peer group. BLX targets a CAGR for its normalized EBITDA and discretionary cash flow of 10%-12% and 14%-16%, respectively, by 2025E. In Q2'21, BLX added 743 MW to its early-stage project pipeline, including 553 MW in wind and solar projects in the U.S. and France, and 190 MW in U.S. energy storage projects. BLX plans to bid into RFPs in New York State in the near term, with roughly 800 MW of bid-ready solar, and additional projects to a French RFP later this year. We believe these developments could serve as a platform for future organic growth and provide BLX with room to realize operating synergies. BLX offers an interesting entry point as it looks to build the next leg of growth. Our target is based on a long-term DCF with a cost of equity of 4.50% on operating cash flows and $7/sh of growth.

Algonquin Power & Utilities Corp.
(AQN: NYSE; Outperform; US$17 target):

AQN has over 3 GW (net) of wind, hydro, solar and gas power assets in Canada and the U.S. and regulated water, gas and power assets in the U.S. Over the years, it has shifted more towards the regulated utility business, now providing utility services to more than one million customer connections across Canada, the United States, Chile and Bermuda. AQN has a five-year growth plan which calls for $9.4 billion in capex through to 2025E ($3.1 billion in unregulated renewables and $6.3 billion in regulated utilities, which includes international markets). We believe, with the implementation of this growth plan, AQN's exposure to regulated utilities could be over 70% by 2025E. The increased investment within utilities could also bring increased operational efficiency. Since the start of 2020, AQN has completed organic growth in renewables of 1,400 MW, including completion of its 600 MW "Green the Fleet" initiative in Missouri. Additionally, AQN may be contemplating M&A to acquire other regulated utilities with coal replacement opportunities, which we believe could result in higher returns as compared to unregulated renewable projects. For 2021E, AQN expects Adj. net EPS of $0.71-$0.76/sh, which excludes impact of the adverse weather conditions in Texas. Our target is based on a long-term DCF with a cost of equity of 4.50% on operating cash flows.

Sustainability & Clean Tech

	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	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		233.7	82	2.86	12/2020	0.06u	0.11u	0.18u	21.6	12.8	2.14u	2.44u	3.08u	0.9	0.7	1.38u	0.20	5.25	
Algonquin Power	AQN	OP		9683.3u	624	15.53u	12/2020	0.65u	0.73u	0.76u	21.4	20.5	2.98u	3.40u	3.49u	4.6	4.4	10.66u	0.50	17.00u	
Altius Renewable Royalties Corp	ARR	SP		258.7	28	9.10	12/2020	(0.49)u	(0.15)u	(0.07)u	nmf	nmf	0.08u	0.01u	0.01u	nmf	nmf	5.57u	0.00	12.00	
Ballard Power Systems	BLDP	OP		4999.7u	298	16.80u	12/2020	(0.20)u	(0.29)u	(0.25)u	nmf	nmf	0.42u	0.34u	0.56u	48.9	30.0	4.67u	0.01	26.00u	↓
Boralex	BLX	OP		4000.1	103	38.67	12/2020	0.56	0.41	0.65	nmf	59.1	6.44	6.82	7.11	5.7	5.4	12.00	0.65	50.00	
Brookfield Infrastructure	BIP	OP		26264.2u	465	56.47u	12/2020	1.34u	2.25u	1.31u	25.1	43.2	8.81u	10.44u	10.41u	5.4	5.4	46.12u	0.65	60.00u	
Brookfield Renewable	BEP	SP		26160.4u	646	40.52u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.89u	4.10u	10.4	9.9	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	SP		310.2u	85	3.66u	12/2020	(0.13)u	(0.45)u	(0.10)u	nmf	nmf	2.03u	1.83u	2.35u	2.0	1.6	1.15u	0.20	4.00u	↑
GFL Environmental Inc.	GFL	OP		16114.9	363	44.45	12/2020	(2.76)	(1.00)	(0.34)	nmf	nmf	11.64	14.50	16.47	3.1	2.7	14.98	0.54	46.00	↑
Innergex	INE	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
The Lion Electric Company	LEV	OP		1892.1u	158	11.96u	12/2020	(3.18)u	(1.05)u	(0.29)u	nmf	nmf	0.77u	0.41u	1.43u	28.9	8.4	1.28u	0.03	19.00u	↓
Loop Energy Inc	LPEN	OP		183.9	36	5.18	12/2020	(0.50)	(0.76)	(0.79)	nmf	nmf	0.03	0.07	0.40	nmf	13.0	2.49	0.00	12.00	↓
NanoXplore	GRA	OP		129.7	158	5.73	06/2020	(0.10)	(0.07)	(0.07)	nmf	nmf	0.55	0.46	0.44	12.3	13.1	0.69	0.19	5.00	
Northland Power	NPI	OP		9190.4	220	41.74	12/2020	1.78	1.05	1.35	39.9	30.8	10.25	9.54	9.48	4.4	4.4	13.05	0.68	48.00	↓
TransAlta Renewables	RNW	SP		5243.9	267	19.64	12/2020	0.35	0.61	0.69	32.3	28.7	1.64	1.71	1.83	11.5	10.7	7.75	0.19	20.00	
Xebec Adsorption	XBC	SP		506.7	154	3.30	12/2020	(0.33)	(0.16)	0.00	nmf	nmf	0.59	0.80	1.13	4.1	2.9	2.08	0.16	4.50	↓

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Sector Analysis

Technology

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Selections

- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Nuvei*
- *Shopify*
- *TELUS International*
- *Thinkific*

The Setup for Fall

With funds flowing back into tech in the recent summer months, it's coincided with the sector's performance. Year to date, the S&P Technology Index is up 20.6% versus the 19.8% increase in the S&P 500. In Canada, the TSX Technology Index is up 31.6% versus the 18.2% increase in the TSX. While we've had some clear underperformers in names like Farmers Edge and Pivotree, our mainstay favourites have driven much of the group's outsized performance in names like Altus, Doecbo, Lightspeed, Magnet Forensics, Nuvei and Shopify. As we look ahead, we think much of the market continues to be subject to the unpredictable whims of COVID. While that's a risk we can't handicap, we can say with some degree of confidence that the heightened pace of innovation and digital transformation won't abate which has us maintaining our bullish view on the sector. Of course, the big concern today (and in months and years back) continues to be valuation. With many of our growth names approaching all-time highs, it's only reasonable to reflect on valuations. In our view, while we like all our Outperform-rated names, we'd look to add to positions opportunistically on "pullbacks" in light of the big moves – unless you truly have a long-term view, in which case, we'd layer in positions even at current prices based on our current fundamental outlook at the timing of writing (which obviously has the potential to change). We continue to like defensive attributes offered by some of our less inspiring growth legacy names like CGI and OpenText and special tech situations like Altus. On the growth side, we continue to like names like Docebo, Kinaxis, Lightspeed, Magnet Forensics, Nuvei, Shopify, TELUS International and Thinkific. The following provides an update on some of our Outperform-rated names:

Nuvei remains a leading payment player with a differentiated growth focus. The growth focus comes from breadth and scope of markets. The Company accepts payments in 204 global markets while supporting 480 alternative payment methods (APMs) and nearly 150 currencies. We believe this breadth and focus on high growth verticals such as online regulated gaming is helping drive outsized growth. Looking ahead, we believe the Company will continue on its outsized growth path that's supported by structural changes in the industry and accretive acquisitions much like the Company's pending Simplex acquisition that is expected to close in H2 this year, which furthers Nuvei's potential crypto opportunities.

Lightspeed continues to capture share using a strategy of organic and acquisition measures. That's elevating its ability to fortify a growing leadership position within its targeted segments of complex retail and restaurant. Equally impressive has been the Company's resilience and ability to pivot during the health crisis. Looking ahead, as we (hopefully) exit the pandemic sometime in the future, it's our view that a normalized environment would amplify the Company's ability to execute that much more. In our view, recent acquisitions of Ecwid and NuOrder continue to add to the Company's disruptive platform; that expanded offering will further reinforce the ability to continue making considerable share gains.

Kinaxis should be a meaningful beneficiary from the massive interest in supply chain solutions that's been heightened over the past 18 months. 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 larger enterprises in markets from auto (semiconductor shortages) to home building (lumber). The complexity of the Company's technology caused some delays in conversions of its pipeline; yet, that pipeline has only increased to record levels. We believe the market's (recent) focus on the current results misreads the outlook – in our view, that represents an opportunity and it's finally getting noticed with a big turn in the stock of late.

Shopify remains the leading technology platform for e-Commerce in our opinion. For investors, we continue to see many avenues of growth, namely: 1) International, 2) increased take rate with new services; 3) fulfillment; and 4) larger enterprise, not to mention what we believe to be an overall accelerating industry shift to e-Commerce. It's those drivers that offer the potential for a material lift in revenue going forward, and given the execution thus far, we believe it's reasonable to price in those potential drivers given the history of execution.

Sector Analysis

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		2,539	41.6	60.98	2020	1.66	2.11	2.40	28.8	25.4	98.9	113.3	132.5	23.9	20.5	9.8u	38%	70.00	
Blackline Safety Corp.*	BLN	OP		442	54.4	8.13	2020	(0.14)	(0.46)	(0.32)	NMF	NMF	5.5	(6.2)	(0.5)	NMF	NMF	0.0u	0%	12.00	
CGI Inc.	GIB.A	OP		26,359	249.5	105.63	2020	4.68	5.27	5.52	20.0	19.1	2426.3	2433.9	2579.6	11.7	11.0	26.5	33%	135.00	↑
Constellation Software Inc.	CSU	SP		38,018	21.2	1,794.00	2020	36.06u	46.70u	53.75u	30.5	26.5	1,237.0u	1,522.2u	1,527.1u	19.9	19.9	62.4u	44%	2100.00	↑
Docebo Inc.	DCBO	OP		1,773	32.8	54.04	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	631.9	193.8u	0%	80.00u	↑
Farmers Edge Inc.	FDGE	SP	↓	748u	41.9	17.85u	2020	(2.02u)	(1.08u)	(1.17u)	NMF	NMF	(45.9u)	(31.1u)	(38.1u)	NMF	NMF	0.0u	1%	10.00	↓
Kinaxis Inc.	KXS	OP		4,394	28.1	156.16	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	94.1	51.4	10.6u	0%	225.00	
Lightspeed Commerce	LSPD	OP		8,429u	130.9	64.40u	2021	(0.65u)	(0.54u)	(0.23u)	NMF	NMF	(21.2u)	(35.7u)	(7.3u)	NMF	NMF	15.4u	1%	120.00u	↑
Magnet Forensics Inc.*	MAGT	OP		2,353u	40.0	58.81u	2020	0.32u	0.23u	0.22u	NMF	NMF	15.4u	13.7u	13.1u	128.6	134.8	2.1u	2%	45.00u	
mdf commerce inc.	MDF	SP		386	33.6	11.48	2021	(0.30)	(0.29)	(0.02)	NMF	NMF	5.1	(2.5)	8.8	NMF	31.6	6.6u	19%	13.50	
Nuvei Corporation	NVEI	OP		11,188	143.3	78.09	2020	0.14u	1.73u	2.04u	45.2	38.2	163.0u	301.1u	393.4u	29.4	22.5	10.7u	25%	150.00	↑
Open Text Corporation	OTEX	OP		13,233u	274.0	48.30u	2020	3.39u	3.61u	3.63u	13.4	13.3	1,315.2u	1,323.5u	1,374.7u	11.5	11.1	15.0u	47%	60.00u	
Pivotree Inc.*	PVT	OP		211	26.6	7.95	2020	(0.09)	(0.23)	0.05	NMF	NMF	5.6	(1.9)	5.5	NMF	29.6	2.8	0%	13.00	
Real Matters Inc.	REAL	SP	↓	1,232	85.0	14.49	2020	0.56u	0.46u	0.36u	25.0	32.1	72.2u	57.0u	43.2u	15.8	20.8	1.9u	0%	15.50	↓
Shopify Inc.	SHOP	OP		147,286u	127.5	1,155.41u	2020	4.01u	6.25u	6.00u	NMF	NMF	454.5u	710.6u	670.3u	NMF	NMF	79.4u	9%	2,000.00u	↑
Tecsys Inc	TCS	OP		785	14.5	53.99	2020	0.49	0.40	0.69	NMF	NMF	16.2	13.0	19.0	59.1	40.6	4.61	4%	55.00	
Telus International	TIXT	OP		9,013	268.0	33.63	2020	0.71	0.96	1.28	NMF	NMF	391.2	533.9	659.4	18.9	15.3	6.03	42%	40.00u	
Thinkific Labs Inc.	THNC	OP		879	76.7	14.44	2020	(0.01)	(0.27)	(0.32)	NMF	NMF	(0.4)	(20.0)	(24.3)	NMF	NMF	2.81	0%	20.00	

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

u = US dollar

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

Sector Analysis

Telecom & Media

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Selections

- *Cineplex*
- *Corus*
- *VerticalScope*

VerticalScope

Putting a spotlight on recent initiation:

VerticalScope is a leading digital platform with over 1,200 communities which attract more than 95 million monthly active users, including greater than 55 million registered community members, best characterized as enthusiasts, super fans, pros, and hobbyists. It has created and purchased communities that are commercial by design, as they skew to subjects, groups and brands that drive material commercial activity. The company derived 62% of its 2020 revenue from the United States, 12% from Canada, and 26% from other countries, mostly the United Kingdom. The top-line split is 56%/44% between digital advertising and e-commerce, with last year's EBITDA margin at 46.7% and the EBITDA-to-FCF conversion at 81.6%. Fora, the new proprietary, cloud-based software platform, was borne out of necessity as the prior setup of legacy software silos was proving ineffective. VerticalScope paused M&A and reduced ad density on its communities, as it built Fora over three years using a single unified code base. It began migrating its communities starting in May 2019, with 90% of forum community MAU traffic transitioned at 2Q21.

This migration should be completed by the end of this year, with Fora expected to benefit existing communities and future acquisitions. The company went public on June 15. Including the subsequent exercise of the over-allotment, it issued 6,537,750 Subordinate Voting Shares from Treasury at a price of C$22, with net proceeds of C$132.0 million to be used to gear up M&A which is to complement rejuvenated organic growth poised for double-digit forecasted gains amid existing and new revenue streams. We see acquisitions contributing 15% of anticipated revenue in 2022 and 26% in 2023, while representing 22% and 36% of EBITDA, respectively. VerticalScope has touched base with over 200 acquisition targets, added to its M&A team, recently signed three purchase agreements for small tuck-ins, and is working on reaching terms with a few larger opportunities. We still expect $12M of M&A spend in 3Q21 and $20M in 4Q21. We use an average of the value generated from applying an EV/EBITDA multiple of 12x to our 2022E (pro forma M&A) and the 2021E metric in our DCF to derive our target. As we are past the mid-point of 2021, we note that the average of 12x 2023E and the 2022E value in our DCF points to over C$39. We think value exists between C$35 and C$40 over the next 12 to 18 months.

	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		832	63.3	13.14	12/2020	(9.85)	(2.78)	0.89	-4.7	14.8	-182.8	-31.2	213.3	NM	7.1	-2.66	1.30	18.00	↑
Corus Entertainment Inc.	CJR.b	OP		1,302	208.4	6.25	08/2020	0.75	0.88	0.86	7.1	7.3	505.8	519.1	520.6	5.7	5.2	5.06	0.58	8.00	
WildBrain Ltd.	WILD	OP	↑	471	171.8	2.74	06/2020	(0.64)	(0.13)	0.08	NM	NM	81.8	81.4	90.3	11.5	10.0	0.35	0.87	3.75	↑
Spin Master Corp.	TOY	OP		4,939	102.3	48.28	12/2020	0.51	1.76	1.92	21.7	19.9	180.6	340.2	357.2	10.5	9.4	8.81	-0.53	58.00	↑
Stingray Group Inc.	RAY.a	OP		543	71.5	7.59	03/2021	0.85	0.90	1.07	8.4	7.1	114.3	119.0	131.1	7.4	6.3	3.83	0.61	10.00	↑
TVA Group Inc.	TVA.b	SP		132	43.2	3.05	12/2020	0.86	0.69	0.63	4.4	4.9	85.3	75.1	70.1	2.3	2.4	7.80	0.16	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP	↓	73,069	495.7	147.42	12/2020	1.85	2.07	2.73	56.5	42.8	1975.0	1979.7	2296.0	30.6	26.2	31.83	0.09	145.00	↑
Transcontinental Inc.	TCL.a	OP		2,125	87.0	24.42	10/2020	2.61	2.43	2.62	10.1	9.3	499.4	459.1	473.2	6.3	5.8	19.87	0.33	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		724	21.6	33.56	12/2020	(0.01)	0.09	0.71	NM	37.4	26.6	32.6	46.1	15.6	12.0	3.67	-0.02	36.00	
Yellow Pages Ltd.	Y	SP		398	27.7	14.35	12/2020	2.28	1.79	1.80	8.0	8.0	129.4	96.4	85.8	3.5	3.6	NM	-0.32	14.00	↑
Telecommunications																					
BCE Inc.	BCE	OP		59,598	905.7	65.80	12/2020	3.02	3.28	3.51	20.1	18.8	9607.0	10030.9	10445.9	9.1	8.7	20.34	0.39	66.00	↑
Cogeco Communications Inc.	CCA	OP		5,480	47.2	116.01	08/2020	7.41	8.46	10.30	13.7	11.3	1148.7	1204.7	1379.0	6.6	6.7	56.91	0.51	141.00	↓
Quebecor Inc.	QBR.b	OP		7,713	245.0	31.48	12/2020	2.33	2.55	2.66	12.3	11.8	1952.6	2013.7	2065.5	6.8	6.5	4.94	1.10	40.00	
Rogers Communications Inc.	RCI.b	OP		32,457	504.9	64.28	12/2020	3.40	3.56	4.50	18.0	14.3	5857.0	5899.9	8993.7	8.9	7.9	20.00	0.47	75.00	
Shaw Communications	SJR.b	OP		18,613	501.3	37.13	08/2020	1.32	1.47	1.59	25.2	23.3	2391.0	2514.7	2564.1	9.7	9.2	11.86	0.50	40.50	
Telus Corp.	T	OP		39,390	1355.0	29.07	12/2020	0.95	0.97	1.04	29.9	28.0	5493.7	5930.5	6400.4	10.0	9.3	11.55	0.55	30.00	↑

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$, rest is CAD$.

Transportation & Industrial Products

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Selections

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

Air Canada – some reasons for optimism, but still cautious in the near term

Notwithstanding the recent resurgence in the pandemic, there are some clear reasons for optimism for **Air Canada (Sector Perform, $30.00 target):**

- **Cash burn improving.** Air Canada's net cash burn in Q2 was $745 million or ~$8 million/day, which was much better than prior guidance for $13–15 million/day. Air Canada attributes stronger bookings and cost controls for the better than expected cash burn. Cash burn is expected to improve further in Q3 with guidance at $3-5 million per day, and we continue to expect free cash flow to inflect positively in the first half of 2022.
- **Travel restrictions easing driving improved bookings.** Canada eased its travel restrictions to allow fully-vaccinated U.S. visitors to Canada in early August, which should facilitate a rebound in U.S. transborder traffic (both leisure and business traffic). Starting in early September, restrictions will ease further to allow for international travelers to fly to Canada supporting Air Canada's international network rebuild. Air Canada indicates that it is encouraged by recent booking trends with sun destination demand for next winter notably looking very good.

However, we remain somewhat cautious on the stock for the following reasons:

- **Capacity rebuild will take time.** As demand builds, we expect Air Canada to add back more frequencies on U.S. trans-border and international routes, but capacity for the Fall is still well below 2019 levels and some markets, particularly to Asia, could take until at least 2023 to fully recover.
- **Growing concerns over new competition.** Although we believe Air Canada is well-equipped to compete with new competition, we believe investor concerns over planned expansions by Flair Airlines and Porter could be a headwind for Air Canada shares in the near-to-medium-term.
- **Stock already baking in a recovery.** Air Canada shares traded above $50.00 prior to the onset of the pandemic, but we remind investors that between the equity and convertible debentures Air Canada has issued, the share count has increased more than 50% while leverage has also increased materially. As such, we believe the current share price already reflects a meaningful recovery for the company over the next several years.

We continue to value the stock by applying a 5.0x EV/EBITDA multiple to our 2023 EBITDA forecast (which we peg as the first more "normal" year for Air Canada) resulting in a target of $30.00.

								Cash EPS			P/E		FDFCFPS			P/CFPS				
	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 8-31	Market Cap (Mln)	Last Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	SP		355	24.51	8,701	12/2020	-16.47	-11.76	-0.99	NA	NA	(10.84)	(9.69)	2.05	NA	12.0x	96%	30.00	↑
Bombardier Inc.	BBD.b	OP	↑	2464	1.84	4,533	12/2020	-u0.47	-u0.21	-u0.06	NA	NA	-u1.32	-u0.37	u0.05	NA	27.8x	na	1.90	↑
BRP Inc.	DOO	OP		88	105.71	9,261	01/2021	5.35	8.12	8.68	13.0x	12.2x	6.77	3.90	7.22	27.1x	14.7x	135%	125.00	
CAE Inc.	CAE	OP		318	36.43	11,592	03/2021	0.47	0.94	1.43	38.6x	25.4x	0.81	0.54	1.27	67.6x	28.6x	34%	45.00	↑
Canadian National Rail	CNR	SP		711	148.40	105,453	12/2020	5.31	5.91	6.61	25.1x	22.4x	4.63	4.40	5.42	33.7x	27.4x	40%	139.00	↓
Canadian Pacific Rail	CP	SP		667	86.69	57,814	12/2020	3.53	4.10	4.47	21.1x	19.4x	1.66	3.93	3.52	22.1x	24.6x	54%	98.00	
Cargojet Inc.	CJT	OP		17	209.25	3,625	12/2020	-5.63	5.43	6.49	38.6x	32.2x	9.41	(1.32)	5.54	NA	37.8x	31%	228.00	↑
Chorus Aviation Inc.	CHR	SP		178	4.17	741	12/2020	0.40	0.35	0.44	11.8x	9.4x	(1.50)	0.62	1.12	6.7x	3.7x	73%	4.85	
Exchange Income Corporation	EIF	OP		37	43.71	1,631	12/2020	1.31	1.78	2.79	24.6x	15.7x	3.42	0.20	2.15	NA	20.3x	59%	47.00	↑
Héroux-Devtek Inc.	HRX	OP		37	18.95	701	03/2021	0.80	0.81	0.99	23.4x	19.1x	0.88	1.86	1.37	10.2x	13.8x	27%	22.00	
NFI Group Inc.	NFI	OP		71	30.42	2,164	12/2020	-u0.75	u0.50	u1.48	48.4x	16.4x	u0.69	u0.30	u2.35	80.5x	10.3x	58%	32.00	
Taiga Motors Corp.	TAIG	OP		31	9.68	302	12/2020	NA	-5.71	-1.19	NA	NA	NA	(2.23)	(3.11)	NA	NA	na	18.00	↓
Transat A.T. Inc.	TRZ	UP		38	5.15	195	10/2020	-9.41	-11.26	-5.33	NA	NA	(2.85)	(10.52)	(1.17)	NA	NA	NA	3.50	
TFI International Inc.	TFII	OP		93	142.55	13,285	12/2020	u3.30	u4.77	u6.20	23.7x	18.2x	u5.16	u6.18	u7.45	18.3x	15.2x	50%	144.00	↑

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

Alphabetical Listing

Branches

Ancaster • 911, Golf Links Road, Suite 201, Ancaster, ON, L9K 1H9 • 905-648-3813
Baie-Comeau • 600, Boul. Laflèche, bureau 340-B, Baie-Comeau, QC, G5C 2X8 • 418-296-8838
Barrie • 126 Collier Street, Barrie, ON, L4M 1H4 • 705-719-1190
Beauce • 11333, 1ière Avenue, bureau 200, Saint-Georges, QC, G5Y 2C6 • 418-227-0121
Bellevue West Van • Suite #209, 1455 Bellevue Avenue, West Vancouver, BC, V7T 1C3 • 604-925-3734
Berthierville • 779, rue Notre-Dame, Berthierville, QC, J0K 1A0 • 450-836-2727
Bin-Scarth • 24 Binscarth Rd, Toronto, ON, M4W 1Y1 • 416-929-6432
Brampton • 10520 Torbram Road (at Sandalwood Parkway), Brampton, ON, L6R 2S3 • 905-456-1515
Brandon • 633-C, 18th Street, Brandon, MB, R7A 5B3 • 204-571-3200
Calgary • 239 8th Ave., SW, Suite 100, Calgary, AB, T2P 1B9 • 403-476-0398
Calgary - Southport • 10655 Southport Road SW, Suite 1100, Southland Tower, Calgary,AB, T2W 4Y1 • 403-301-4859
Chatham • 380 St. Clair, Street, Chatham, ON, N7L 3K2 • 519-351-7645
Chicoutimi • 1180, boulevard Talbot, Suite 201, Chicoutimi, QC, G7H 4B6 • 418-549-8888
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • (403) 823-6859
Drummondville • 595, boulevard Saint-Joseph, Bureau 200, Drummondville, QC, J2C 2B6 • 819-477-5024
Duncan • 2763 Beverly Street, Suite 206, Duncan, BC, V9L 6X2 • 250-715-3050
Edmonton • 10175 – 101 Street NW, Suite 1800, Edmonton, AB, T5J 0H3 • 780-412-6600
Edmonton-North • TD Tower, 10088 – 102 Avenue, Suite No. 1701, Edmonton, AB, T5J 2Z1 • 780-421-4455
FrederictonNB • 551 King Street, Fredericton , NB, E3B 4Z9 • 506-450-1740
Gatineau • 920, St-Joseph, Bureau 100, Hull-Gatineau, QC, J8Z 1S9 • 819-770-5337
Granby • 150, rue St-Jacques, Bureau 202, Granby, QC, J2G 8V6 • 450-378-0442
Halifax • Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1601, Halifax, NS, B3J 3R7 • 902-496-7700
Halifax-Spring Garden • 400-5657 Spring Garden Road, Parklane Terraces, Halifax, NS, B3J 3R4 • 902-425-1283
Joliette • 40, rue Gauthier Sud, Bureau 3500, Joliette, QC, J6E 4J4 • 450-760-9595
Kelowna • 1631 Dickson Ave. Suite 1710, Landmark 6, Kelowna, BC, V1Y 0B5 • 250-717-5510
Lac-Mégantic • 3956, rue Laval, suite 100, QC, G6B 2W9 • 819-583-6035
Laval • 2500, boulevard Daniel Johnson, Bureau 610, Laval, QC, H7T 2P6 • 450-686-5700
Lethbridge • 404, 6th Street South, Lethbridge, AB, T1J 2C9 • 403-388-1900
Lévis • 1550, boulevard Alphonse-Desjardins, Bureau 110, Lévis, QC, G6V 0G8 • 418-838-0456
London Pall Mall • 256 Pall Mall Street, Suite 201, London, ON, N6A 5P6 • 519-439-6228
London-City Centre • 802-380 Wellington Street, London, ON, N6A 5B5 • 519-646-5711
Metcalfe • 1155, rue Metcalfe, Suite 1450, Montréal, QC, H3B 2V6 • 514-879-4825
Mississauga • 350, Burnhamthorpe road West, Suite 603, Mississauga, ON, L5B 3J1 • 905-272-2799
Moncton • 735 Main Street, Suite 300, Moncton, NB, E1C 1E5 • 506-857-9926
Mont Saint-Hilaire • 450 boul. Sir-Wilfrid-Laurier local 208 , Mont-St-Hilaire, Qc. J3H 3N9 • 450-467-4770
Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
Montréal International • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5576
Montréal L'Acadie • 9001, boulevard de l'Acadie, Bureau 802, Montréal, QC, H4N 3H5 • 514-389-5506
North Bay • 680 Cassells Street, Suite 101, North Bay, ON, P1B 4A2 • 705-476-6360
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
Ottawa • 50 O'Connor Street, Suite 1602, Ottawa, ON, K1P 6L2 • 613-236-0103
Outremont • 1160, boulevard Laurier Ouest, App. 1, Outremont, QC, H2V 2L5 • 514-276-3532
Owen Sound • 1717 2nd Ave. E., Suite 202, Owen Sound, ON, N4K 6V4. • 519-372-1277
Peterborough • 201 George Street North, suite 401, Peterborough, ON, K9J 3G7 • 705-740-1110
Plessisville • 1719, rue St-Calixte, Plessisville, QC, G6L 1R2 • 819-362-6000
Kirkland • 16,766 Route Transcanadienne, bureau 503, Kirkland, QC, H9H 4M7 • 514-426-2522
PVM Montréal • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5200
Québec • 500, Grande-Allée Est, Bureau 400, Québec, Qc, G1R 2J7 • 418-649-2525
Québec - Sainte-Foy • Place de la Cité, 2600, boulevard Laurier, Bureau 700, Québec, QC, G1V 4W2 • 418-654-2323
Red Deer • 4719 48th Avenue, Suite 200, Red Deer, AB, T4N 3T1 • 403-348-2600
Regina • 2075, Prince Of Wales Drive, Suite 305, Regina, SK, S4V 3A3 • 306-781-0500
Repentigny • 534, rue Notre-Dame, Bureau 201, Repentigny, QC, J6A 2T8 • 450-582-7001
Richmond • 135-8010 Saba Road, Richmond, BC, V6Y 4B2 • 604-658-8050
Richmond Hill • 9130 Leslie Street, Suite 200, Richmond Hill, ON, L4B 0B9 • 416-753-4016
Rimouski • 127, boulevard René-Lepage Est, Bureau 100, Rimouski, QC, G5L 1P1 • 418-721-6767
Rivière-du-Loup • 10, rue Beaubien, Rivière-du-Loup, QC, G5R 1H7 • 418-867-7900
Rouyn-Noranda • 104, 8e rue, Rouyn-Noranda, QC, J9X 2A6 • 819-762-4347
Saint John • 69 King Street, 2nd floor, St-John, NB, E2L 2B1 • 506-642-1740
Sainte-Marie-de-Beauce • 249, Du Collège, Bureau 100, Ste-Marie, QC, G6E 3Y1 • 418-387-8155
Saint-Félicien • 1120, boulevard Sacré-Cœur, Saint-Félicien, QC, G8K 1P7 • 418-679-2684
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Saint-Jérôme • 265, rue St-George, Suite 100, Saint-Jérôme, QC, J7Z 5A1 • 450-569-8383
Saskatoon - 8th St. • 1220 8th Street East, Saskatoon, SK, S7H 0S6 • 306-657-3465
Sept-Îles • 805, boulevard Laure, Suite 200, Sept-Îles, QC, G4R 1Y6 • 418-962-9154
Shawinigan • 550 Avenue De la Station, bureau 200, Shawinigan, QC, G9N 1W2 • 819-538-8628
Sherbrooke • 1802, rue King Ouest, Suite 200, Sherbrooke, QC, J1J 0A2 • 819-566-7212
Sidney • 2537, Beacon Avenue, Suite 205, Sidney, BC, V8L 1Y3 • 250-657-2200
Sorel • 26, Pl. Charles-de-Montmagny, Suite 100, Sorel, QC, J3P 7E3 • 450-743-8474
St. Catharines • 40 King Street, St. Catharines, ON, L2R 3H4 • 905-641-1221
Sudbury • 10 Elm Street, Suite 501, Sudbury, ON, P3C 1S8 • 705-671-1160
Thedford Mines • 222, boulevard Frontenac Ouest, bureau 107, Thedford Mines, QC, G6G 6N7 • 418-338-6183
Thunder Bay • 979, Alloy Dr, Suite 104, Thunder Bay, ON, P7B 5Z8 • 807-683-1777
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Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
Trois-Rivières • 7200, rue Marion, Trois-Rivières, QC, G9A 0A5 • 819-379-0000
Val d'Or • 840, 3e avenue, Val d'Or, QC, J9P 1T1 • 819-824-3687
Valleyfield • 1356, boulevard Monseigneur-Langlois, Valleyfield, QC, J6S 1E3 • 450-370-4656
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Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
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