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FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion 514-879-3781
Chief Economist and Strategist

Matthieu Arseneau 514-879-2252
Deputy Chief Economist

Kyle Dahms 514-879-3195
Economist

Alexandra Ducharme 514-412-1865
Economist

Angelo Katsoras 514-879-6458
Geopolitical Analyst

Daren King 514-412-2967
Economist

Jocelyn Paquet 514-412-3693
Economist

Paul-André Pinsonnault 514-879-3795
Senior Economist

Toronto Office

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

Taylor Schleich 416-869-6480
Rates Strategist

Alpa Atha 416-542-3936
Fixed Income Economist

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson 416-507-8007

ESG & Sustainability

Amber Brown 403-290-5624
Associate: Josh Turanich 403-290-5625

ETFs & Financial Products

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

Healthcare & Biotechnology

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

Industrial Products

Maxim Sytchev 416-869-6517
Associate: Alizeh Haider 416-869-7937
Associate: Kazim Naqvi 416-869-6754

Merchandising & Consumer Products

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

Metals & Mining

Don DeMarco 416-869-7572
Associate: Yi Liu 416-869-8524
Associate: Harmen Puri 416-869-8045

Shane Nagle 416-869-7936
Associate: Lola Aganga 416-869-6516
Associate: Ahmed Al-Saidi 416-869-7535

Michael Parkin 416-869-6766
Associate: Alessandro Cairo 416-869-8511
Associate: Rabi Nizami 416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne 403-290-5441
Associate: Baltej Sidhu 403-290-5627

› *Large Cap Oil & Gas*

Travis Wood 403-290-5102
Associate: Logan Fisher 403-441-0933
Associate: James Harwood 403-290-5445

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny 403-290-5451
Associate: William Duforest 403-441-0952
Associate: Zach Warnock 403-355-6643

Real Estate

Matt Kornack 416-507-8104
Associate: Hussam Maqbool 416-507-8108

Tal Woolley 416-507-8009
Associate: Ahmed Shethwala 416-507-8102

Special Situations

Zachary Evershed 514-412-0021
Associate: Thomas Bolland 514-871-5013

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

Sustainability & Clean Tech

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

Technology

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

Technical Analysis

Dennis Mark 416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

Greg Colman 416-869-6775
Managing Director
Head of Research

Tanya Bouchard 416-869-7934
Supervisory Analyst

Research Publications

Vanda Bright 416-869-7141
Manager
Publishing Services

Wayne Chau 416-869-7140
Publishing Associate

Information

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

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Highlights

Economy

› The pandemic picture has brightened greatly in recent weeks. Despite this relief, economic recovery has been slow to materialize. The reason is that many countries are now dealing with sharp rises in energy costs. Though a number of governments have announced measures to cushion the impact on households of gas price increases, their assistance is unlikely to offset all of the decline in purchasing power of consumers. Businesses will also be affected. Their production costs, already boosted by the rise of prices for raw materials and transportation, are at risk of rising further, eroding profit margins. To add to the woes of the global economy, China's real estate sector seems to be in trouble following the inability of Evergrande and Fantasia, two of the world's largest real estate promoters, to meet some of their debt obligations. In view of the worldwide heightening of economic risks, we have reduced our forecast of 2021 global GDP growth from 5.6% to 5.5%. The revision is due to deterioration in the positions of emerging markets, Europe, and the United States. Also, we do not exclude the possibility that these prospective pitfalls could have repercussions extending into early 2022, whence our revision of next year's global growth from 4.5% to 4.0%.

› Although the disappointing September non-farm payroll report was partly offset by an upward revision of data from previous months, U.S. employment is undeniably sluggish. And despite the sums released by Washington to limit the repercussions of the layoffs linked to COVID-19, some households - especially those at the bottom of the income scale - are at risk now that income support programs are a thing of the past. So a recovery of the labour market is required for the economic recovery to continue. The more so under conditions where labour scarcity has reduced production capacity. Running out of options to attract potential candidates, American businesses have had to resolve to raise compensations; average hourly earnings rose at an annual rate of 6.0% over the last six months. Pay raises are good news for workers but could push prices up, and for a longer period than the Federal Reserve expected. Inflation seems already more widespread than the central bank is suggesting. The persistence of inflation suggests a coming normalization phase of U.S. monetary policy. That could act to brake sectors more sensitive to interest-rate rises (housing and investment, for example). Upward pressure on prices could also erode the purchasing power of U.S. consumers. Given this outlook, we have revised down our scenario for U.S. growth in 2022, to 3.4% from 4.1%.

› Our forecast for real growth in 2021 is unchanged this month at 5.0%, but our forecast for 2022 is revised down to 3.8% from 4.0%. Soaring commodity prices will continue to benefit Canada's economy, but supply chain disruptions and resulting inflation are a risk under current conditions. Nonetheless, consumers are equipped to support the on-going recovery. In barely 19 months, employment has returned to its pre-pandemic count. This is not only the quickest recovery of the last four recessions but also spectacular compared to the U.S., whose employment count is still more than 3% short of its pre-recession peak. Such a turnaround and the resulting rise in incomes suggests that households are ready to stand on their own two feet, without extraordinary government support. The amount of excess savings already accumulated by households is substantial (11.4% of GDP) and represents a cushion to mitigate the impact of price increases on living standards.

Interest rates and currency

› Is the global economy about to join the ranks of the walking dead, characterized by high inflation and below potential growth? That's called stagflation and is one of the scariest costumes the world economy could don. While risks of such an outcome are no longer negligible, we're not yet on the cusp of a zombie-like state in key advanced economies. As detailed in our fresh Monthly Economic Monitor, our expectation for global growth has been marked down… again. But economic stagnation? Not exactly. North America, for its part, still has scope for above-trend growth next year. U.S. and Canadian households remain well endowed, having registered solid income gains and sitting atop a mountain of excess savings. That's a vital buffer for the monster consumer sector as extraordinary COVID supports are gradually walked back. Meanwhile, limited capacity in key goods sectors mean businesses may be sufficiently incentivized to deepen their capital stock. Many have indicated as much, notwithstanding some trepidation owing to still-elevated uncertainty. So while housing activity has cooled and export prospects are somewhat up in the air, the outlook for the real economy isn't all that scary to us.

› To be sure, the Fed's official narrative that inflationary pressures are transitory hasn't really changed. Last month's Fed statement reiterated as much: "Inflation is elevated, largely reflecting transitory factors." However, reading between the lines, it's apparent that there is growing anxiety that this view is wrong. Or at least that the time implied by "transitory" is much longer than previously thought. Indeed, the Fed's latest Summary of Economic Projections indicate that: (a) inflation uncertainty is as widespread as its ever been and (b) the risks to inflation projections are seen as to the upside by an unprecedented majority of FOMC participants.

› Currently, the BoC is guiding us to second half of 2022 output gap closure. We don't see that at risk of being significantly altered in the coming policy statement which is why we've left our timing for initial lift-off unchanged at July 2022. That said, sustained above-target inflation and a rapidly recovering labour market has prompted us to condense our timeline for rate hikes, creating a relatively more front-loaded hiking cycle than we'd previously laid out. But first, the Bank will have to wrap up its QE program. Here, all indications suggest that this policy instrument could be put back in the toolbox before the year is out.

› Despite a surge in energy goods, the Canadian dollar has weakened in recent months. It is unprecedented to see the CAD this weak at current prices. Given the recent performance of Canadian labour markets and the positive outlook for commodity prices and nominal GDP, we continue to expect another round of QE tapering from the Bank of Canada in October. Given our upwardly revised forecast for the price of oil and natural gas, we now see a rate of C$1.20 for the U.S. dollar in 2022

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

Highlights

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	13.4	Overweight	
Materials	11.4	Overweight	
Industrials	11.4	Market Weight	
Consumer Discretionary	3.6	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.0	Market Weight	
Financials	32.0	Market Weight	
Information Technology	11.2	Underweight	
Telecommunication Services	4.8	Market Weight	
Utilities	4.5	Underweight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of October 08, 2021

The Economy

The Economy

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Jocelyn Paquet
Economist
514-412-3693

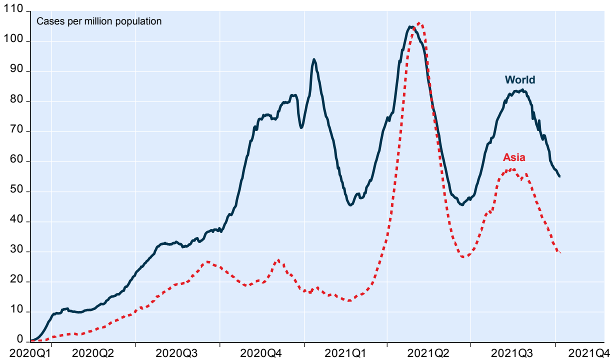
World: From Charybdis to Scylla

How better to introduce our survey than with a brief invocation of Greek mythology. Homer's Odyssey recounts the voyage home of Ulysses, king of Ithaca, after the Trojan War. Among the many trials in the hero's path, that of Scylla and Charybdis is strangely apposite to today's world. After peregrinations taking him to the four corners of the Mediterranean, Ulysses arrives one day at the Strait of Messina, guarded on one side by Charybdis, a monster in the shape of a gigantic maelstrom, and on the other by Scylla, a six-headed creature of terrible voracity. The proximity of the two beasts means that in trying to avoid the one Ulysses must confront the other. The outcome: Ulysses' ship escapes the maelstrom, but six sailors are devoured by Scylla.

The story is a striking metaphor for the global economy in the time of pandemic: the worst seems to have been avoided but the effort to limit the damage of Covid-19 has exposed the globe to other risks, notably output constraints and price rises.

The pandemic picture has brightened greatly in recent weeks. With the rapid rollout of vaccinations, the daily number of new cases declared around the globe has begun to decline, particularly in Asia where the Delta variant hit hard.

World: The Delta wave is slowly losing steam
Daily new cases of Covid-19, 7-day moving average

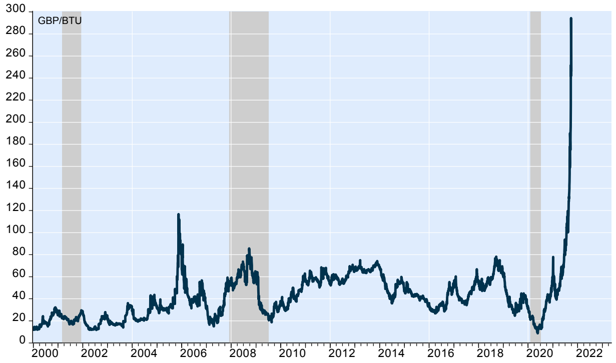


NBF Economics and Strategy (data from Our World in Data)

1. A strong rebound of demand related to post-pandemic economic recovery together with the desire of many countries to move to less polluting means of energy production (from coal and oil to gas and renewable energies).
2. A decline of global gas output, owing in part to a slowdown in investment due to pressure to decarbonize.
3. Low output of renewable energy in Europe this past summer (low winds, cloudy skies).

Although the crisis affects Europe as a whole, the U.K. seems especially vulnerable because its storage capacity is very limited, leaving it dependent on imports that are often paid for at spot prices.

U.K.: Price of natural gas smashes record
Price of first natural gas futures contract

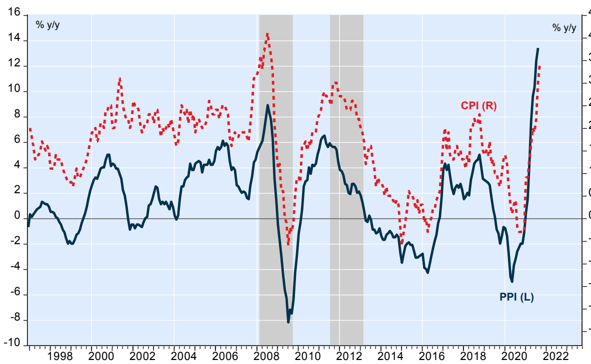


NBF Economics and Strategy (Bloomberg data)

Though a number of governments – those of Italy and France among others – have announced measures to cushion the impact on households of gas price increases, their assistance is unlikely to offset all of the decline in purchasing power of European consumers. Businesses will also be affected. Their production costs, already boosted by the rise of prices for raw materials and transportation, are at risk of rising further, eroding profit margins. To remain afloat, many businesses will be obliged to raise prices, another pothole in the path of consumer spending. In short, the European recovery looks to be less vigorous in the medium term than had been expected.

The Economy

Eurozone: Rising prices threaten purchasing power
12-month change in producer price index vs. 12-month change in consumer price index



NBF Economics and Strategy (Bloomberg data)

The effects of the energy price run-up do not stop at Europe's borders. Out-of-reach prices for gas have driven a number of countries elsewhere to other sources of energy such as diesel fuel, fuel oil or coal. Prices of these goods have spiked accordingly. Emerging economies that are especially dependent on them, notably China and India, are now feeling the pinch.

China: Electric power output hit by coal price spike
Price of first coal futures contract

NBF Economics and Strategy (Bloomberg data)

In India the rise in the price of coal has been exacerbated by a marked decline in domestic production following an unusually rainy monsoon. In China it is rather the government's banning of imports from Australia that is to blame. In both countries, the impact on industrial production has been severe, with several regions obliged to introduce periodic cuts in power. The resulting plant shutdowns have prolonged already-substantial delays in the global production chain.

To add to China's misfortunes, its real estate sector seems to be in deep trouble following the inability of Evergrande and Fantasia, two of the world's largest real estate promoters, to meet some of their debt obligations. This sowed fear among investors; yields on Chinese corporate bonds denominated in U.S. dollar duly spiked.

China: Evergrande's troubles spooks investors
Yield of Chinese high-yield corporate bonds denominated in USD

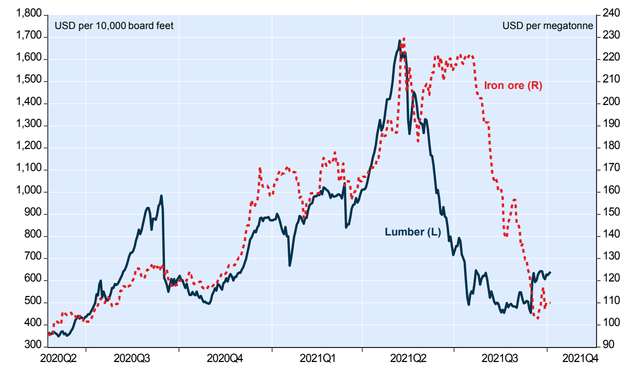
NBF Economics and Strategy (Bloomberg data)

Bankruptcies of these companies, if they materialize, could affect the Chinese economy on several fronts:

1. By slowing construction, which accounts for about one-fifth of all Chinese GDP.
2. Chinese households might be unable to recover deposits made to real estate promoters to secure future possession of a housing unit.
3. Investors in an investment vehicle offered by the real estate promoters could incur substantial losses.
4. Some banks exposed to real estate could see a hefty share of their outstanding loans become non-performing.
5. The fallout could extend to a more general loss of confidence in real estate, depressing its prices. Recall real estate accounts for about 40% of Chinese household assets.

Given the possible consequences of failure of the real estate giants, the likeliest scenario is that Beijing will orchestrate an "orderly" liquidation or even partial or total nationalization of the companies in trouble. But even if this scenario materializes, residential construction, and ipso facto economic growth, can be expected to slow. Recent price drops in some building materials such as wood and steel seem to discount this eventuality.

World: Evergrande debacle deflates prices for some materials
Prices of first futures contracts for lumber and iron ore



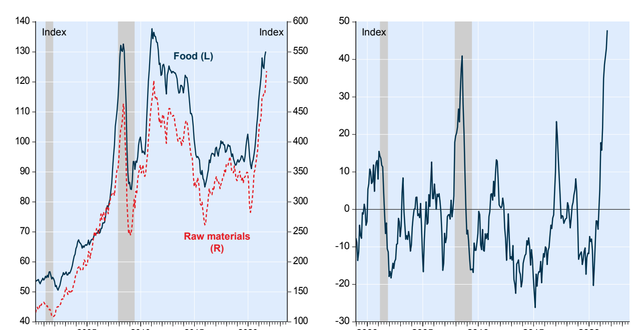
NBF Economics and Strategy (Bloomberg data)

These isolated declines will not suffice to relieve overall inflationary pressure, since they are more than offset by price rises for other raw materials and food.

World: Inflationary pressures intensify

Bloomberg Spot Commodity Index vs. UN FAO Food Price Index

Citi global Inflation Surprise Index

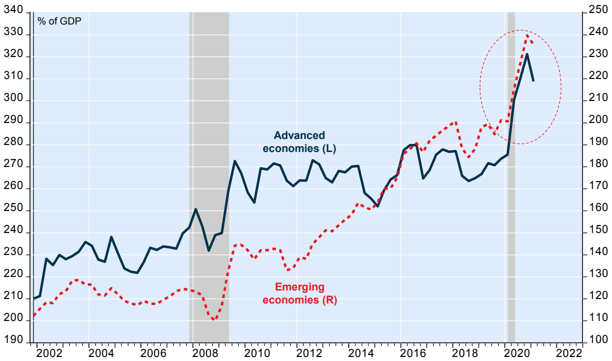


NBF Economics and Strategy (Bloomberg data)

The Economy

Which brings us to the last subject of this section: monetary policy. The central banks of many emerging countries, facing inflationary pressures much stronger than expected, and of some developed countries (South Korea, Norway, New Zealand), have begun hiking their policy rates. Given marked increases in debt, these central banks must manoeuvre cautiously if they are to reduce pressure on prices without slowing economic output unduly.

World: Increased sensitivity to a rise of interest rates
Credit extended to nonfinancial sector as % of GDP



NBF Economics and Strategy (BIS data)

In view of the worldwide heightening of economic risks, we have reduced our forecast of 2021 global GDP growth from 5.6% to 5.5%. The revision is due mainly to deterioration in the positions of emerging markets, Europe, and the United States (see below). Also, we do not exclude the possibility that these prospective pitfalls could have repercussions extending into early 2022, whence our revision of next year's global growth from 4.5% to 4.0%. Beyond this scenario of cooler growth, we remain optimistic about the prospects for the longer term. The bottlenecks now in evidence are likely to abate in 2022, leaving inflation to subside toward central bank targets. That is likely to reduce pressure on large central bankers and allow progressive normalization of monetary policies.
To return to our Greek metaphor, the ship that is the world economy should succeed in crossing the dire strait in which it finds itself, but not without losing a few sailors on the way.

World Economic Outlook

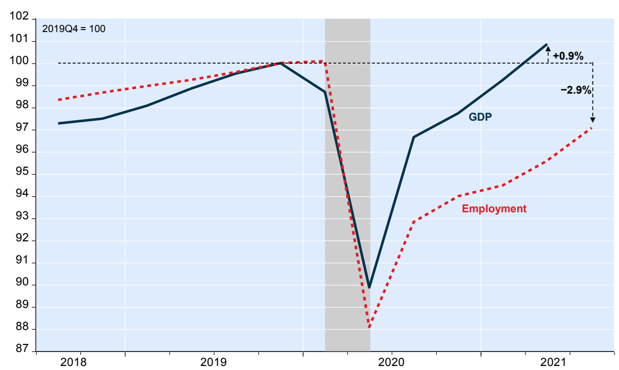
	2020	2021	2022
Advanced Economies	-4.5	4.9	3.3
United States	-3.4	5.5	3.4
Eurozone	-6.3	4.7	3.5
Japan	-4.6	2.4	2.2
UK	-9.8	6.6	4.0
Canada	-5.3	5.0	3.8
Australia	-2.5	3.7	3.1
Korea	-0.9	3.8	2.5
Emerging Economies	-2.1	6.0	4.5
China	2.3	7.8	5.0
India	-7.3	9.0	7.5
Mexico	-8.3	6.0	3.3
Brazil	-4.1	5.0	1.4
Russia	-3.0	3.4	2.8
World	-3.1	5.5	4.0

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

U.S.: The limits of a jobless recovery

Another month, another disappointing jobs report: nonfarm employment increased only 194,000 in September, way less than the 500,000 expected by the consensus. Though this disappointment is offset in part by an upward revision of data of previous months (+169,000) and a stronger showing in the household survey (+526,000), U.S. employment is undeniably sluggish. In September, three months after real GDP finished the second quarter above its pre-recession level, employment was still about 3% short of its own pre-recession count.

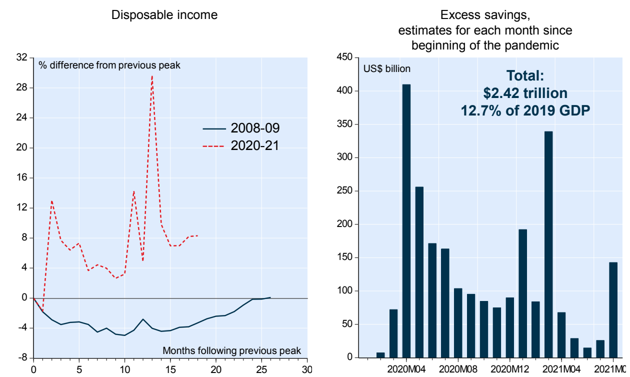
U.S.: GDP recovery has been way ahead of employment recovery
Real GDP vs. nonfarm employment



NBF Economics and Strategy (Refinitiv data)

The divergence between GDP and employment growth can be laid in part to the labour-intensiveness of the industries most affected by the pandemic. The other noteworthy factor is the emergency assistance deployed by Washington during the pandemic. In normal times, an employment deficit like today's would mean a sharp drop in household incomes and thus in demand.
Not this time. The assistance deployed by Washington to minimize the hit from the pandemic raised the disposable income of U.S. households, a development quite unusual in a recession. Consumers could accordingly maintain a relatively brisk rate of spending while accumulating excess savings amounting to about $2.4 trillion, or 12.7% of pre-crisis GDP.

U.S.: Households still in good shape

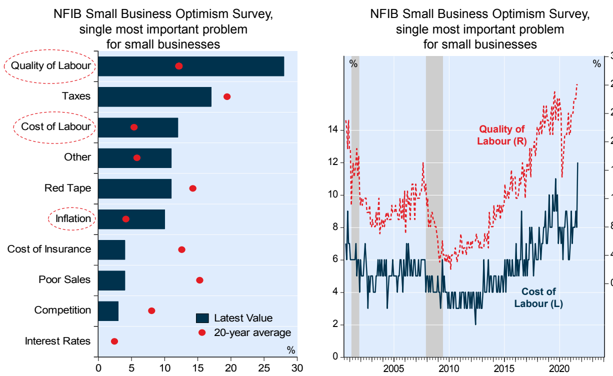


NBF Economics and Strategy (Bloomberg and Refinitiv data)

Lavish as these benefits may have been, their expiry leaves some households at risk, especially those with low incomes. So a recovery of the labour market is required for the economic recovery to continue.
The more so under conditions where labour scarcity has reduced production capacity. No fewer than 28% of businesses surveyed by the NFIB in September said scarcity of skilled labour was their most important problem, a share far above the historical average of 12.3% for this indicator.

The Economy

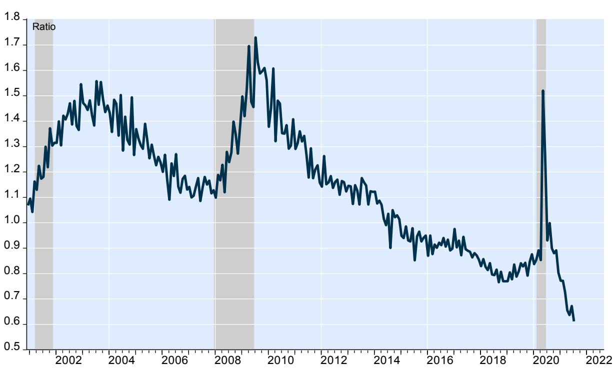
United States: Labour shortage hits small businesses hard



NBF Economics and Strategy (data via Refinitiv)

It is no surprise, therefore, that job openings are at a record. Hiring, on the other hand, is flattening.

U.S.: Hiring is slow despite increased demand for workers
Ratio of new hires to job openings

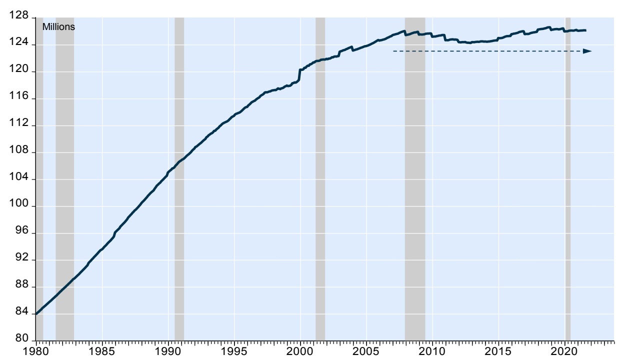


NBF Economics and Strategy (Refinitiv data)

The reasons for this asymmetry are multiple:

1. Fear of the virus may be delaying the return of some workers. (Abatement of the Delta wave could improve this situation.)
2. Closing of schools and daycare centres is requiring many parents to stay home to take care of children. (Here again, improvement in the public-health picture could help.)
3. The skills most in demand are unevenly matched to the skills of those who lost jobs in the pandemic. (Acquisition of new skills is generally a fairly long process.)
4. Washington's generous supplements to unemployment insurance benefits have a dissuasive effect on jobholding. (Though the phase-out of these benefits seemed to have little effect in September, it could provide a fillip in coming months.)
5. Departures for retirement have increased in recent months.
6. The prime-working-age population is flat, a structural problem that has been amplified by a reduced inflow of skilled immigrants during the pandemic.

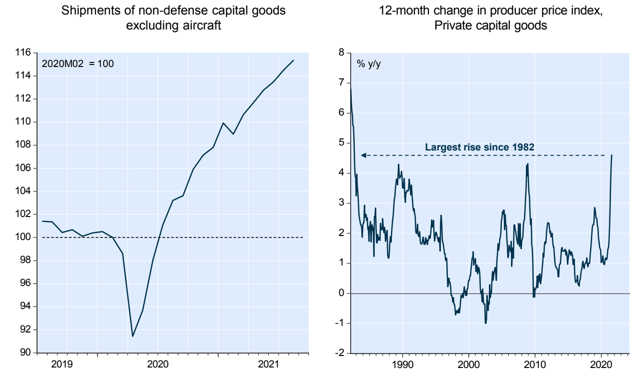
U.S.: The population of prime working age has stopped growing
Population aged 25-54



NBF Economics and Strategy (Refinitiv data)

The upshot? U.S. businesses are grappling with a severe shortage of labour. In an attempt to ease this problem, many employers have increased their capital spending, as attested by shipments of non-military equipment excluding aircraft, a proxy of capital spending. In August such shipments were up 15.4% from their pre-pandemic level, a possible signal of future productivity growth. But this avenue seems more and more expensive. August data on producer prices showed the largest rise in capital equipment costs since the 1980s. Enough to cool the ardour of some business executives.

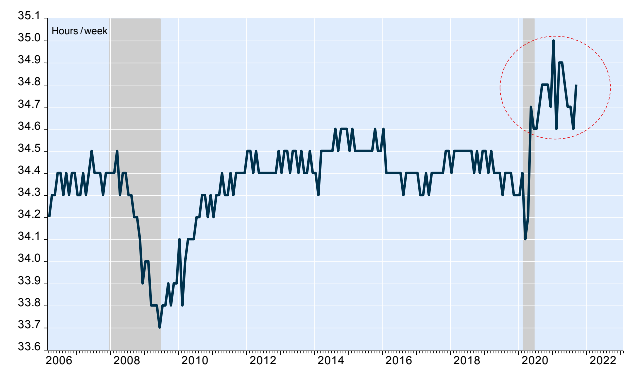
U.S.: Workers are more expensive, and so is capital equipment



NBF Economics and Strategy (Refinitiv data)

Another way of getting around the scarcity of labour has been to lengthen the workweek of existing employees. But this option has its own limits. Employee output tends to decline when working hours exceed a certain threshold, and overtime can be costly for employers.

U.S.: With hiring slow, existing employees are working harder
Average weekly hours worked, private sector

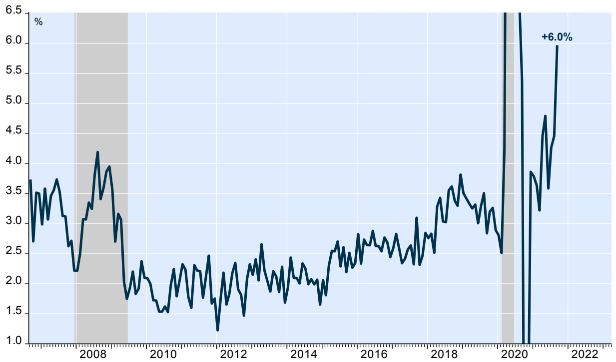


NBF Economics and Strategy (Bloomberg data)

Left with a shortage of options, U.S. employers have had to grant raises in pay. The average hourly wage rose at an annual rate of 6.0% over the last six months, the largest increase outside the shutdown period.

The Economy

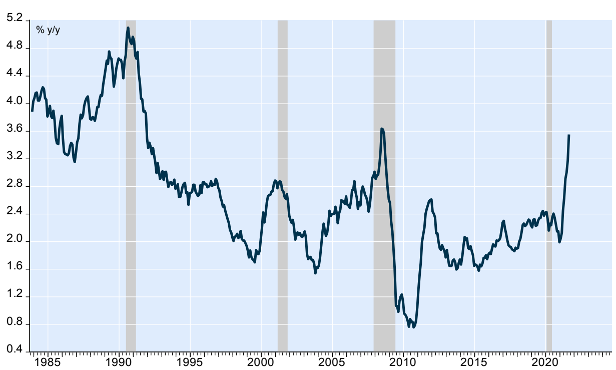
U.S.: Wages on the rise
Average hourly wage of all private-sector employees, 6-month change annualized



NBF Economics and Strategy (Bloomberg data)

Pay raises are good news for workers but could push prices up, and for a longer period than the Federal Reserve expected. Inflation seems already more widespread than the central bank is suggesting. Twelve-month inflation of the trimmed mean CPI, a measure posted by the Cleveland Fed that excludes the most and least volatile components each month, was 3.5% in September, the fourth highest reading since the early 1990s.

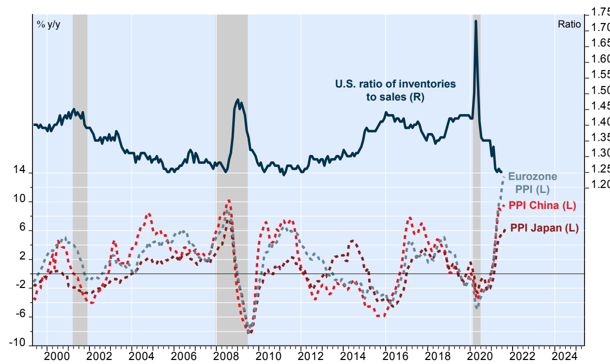
U.S.: Inflation is more widespread than would appear
12-month trimmed mean CPI inflation (CPI excluding most-volatile 8% and least-volatile 8% of components)



NBF Economics and Strategy (data from Cleveland Fed)

We expect inflation to remain above the central bank's target for a good while yet, fuelled by pay increases as noted above, but also by rising costs for energy, transportation and food. Inventory rebuilding could also support prices over the medium term, since producer prices have increased almost everywhere in the world.

U.S.: Inventory rebuilding, a source of future inflation?
Ratio of inventory to sales for all U.S. businesses vs. 12-month change of international producer price indexes



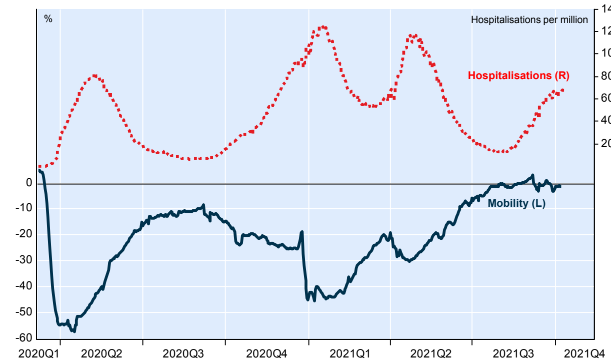
NBF Economics and Strategy (data from Bloomberg and St.Louis Fed)

The persistence of inflation suggests a coming normalization phase of U.S. monetary policy. That could act to brake sectors more sensitive to interest-rate rises (housing and investment, for example). Upward pressure on prices could also erode the purchasing power of U.S. consumers. Given this outlook, we have revised down our scenario for U.S. growth in 2022, to 3.4% from 4.1%. Under conditions in which monetary policies are likely to remain fairly accommodative, that is still above potential.

Canada: Employment is defying gravity

The fourth wave of Covid-19 boosted the daily rate of new cases but did not brake the economy as previous waves did. Hospitalization numbers have remained manageable in most provinces, allowing continuation of the summer's easing of public-health restrictions. In Q3 the Canadian mobility index for retail trade and recreation remained well above its Q2 average, with readings comparable to its pre-pandemic level.

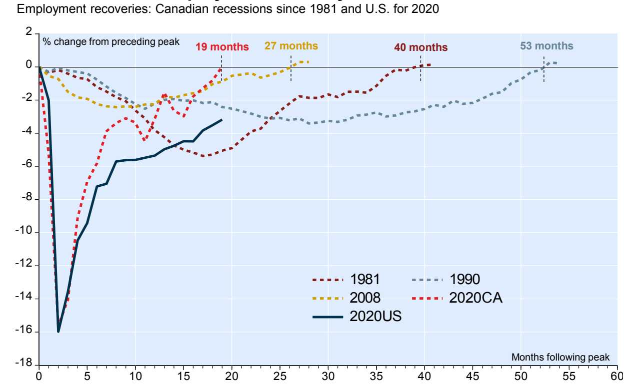
Canada: The fourth wave is not as threatening as the others
Google mobility index for retail and recreation and hospitalizations per million persons



NBF Economics and Strategy (data via Public Health Agency of Canada, Radio-Canada, Google)

Such conditions were very favourable to hiring in the third quarter, which ended in strength with Canada gaining an impressive 157,000 jobs in September. In barely 19 months, employment has returned to its pre-pandemic count. This is not only the quickest recovery of the last four recessions but also spectacular compared to the U.S., whose employment count is still more than 3% short of its pre-recession peak.

Canada: Fastest employment recovery on record
Employment recoveries: Canadian recessions since 1981 and U.S. for 2020



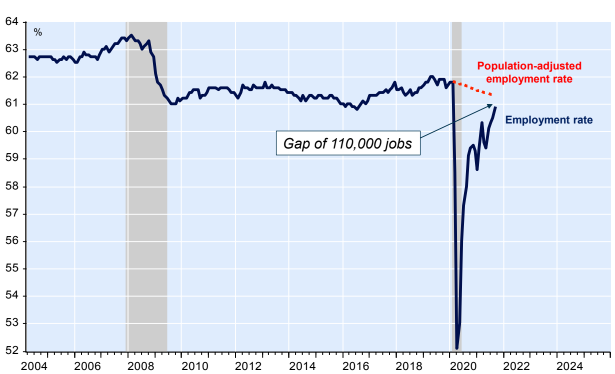
NBF Economics and Strategy (data from Statistics Canada)

Though that is major progress in this economic recovery, it doesn't mean the labour market has fully recovered. We need to keep in mind that the pool of potential workers has grown and other indicators bear

The Economy

close monitoring. The central bank implied in its July monetary policy report that what needed to be brought back to pre-pandemic level was the employment rate rather than the employment count. September employment fell 272,000 jobs short of that goal. Though that criterion would take account of the increase in the denominator of the employment-to-population ratio, in our view it raises other issues. First, that objective seems highly ambitious because it does not take into account population aging and the increase in departures for retirement. It is a goal that was not reached in the previous cycle (graph) despite the full recovery of the labour market. If set as a goal it could lead the central bank to overestimate the margin of unused labour. If the employment rates by age group prevailing before the pandemic (February 2020) are applied to the population structure of September 2021, the resulting employment rate adjusted for population structure is 0.5 percentage points below that of before the pandemic.
If demographic changes are taken into account, no more than 110,000 jobs would be needed to return to an employment rate as favourable as before the pandemic. That is substantially less than the 272,000 suggested by the central bank. Ironically, it is also the monthly average of jobs added over the last three months.

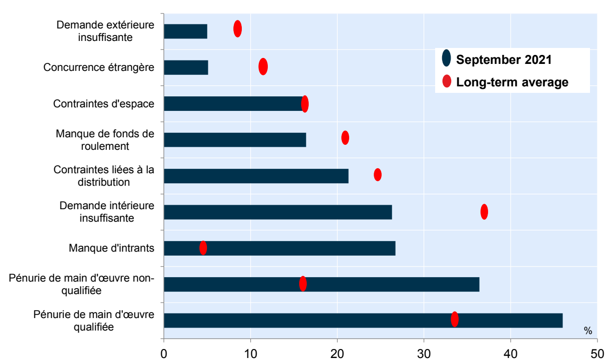
Canada: Labor market short of just 110,000 jobs
Employment rate with and without adjustment for population change by age group since February 2020



NBF Economics and Strategy (data via Statistics Canada and NBF demographic projections starting in July 2021)

The survey by the Canadian Federation of Independent Businesses (CFIB) suggests, moreover, that the unused share of the labour pool is not very large. Again in September, the two main factors limiting small-business sales were scarcities of skilled and unskilled labour. Survey respondents reported these problems in proportions well above the historical norm (chart). There is reason to think that the progressive elimination of extraordinary income-support programs now under way could attenuate these pressures to some extent, but the current mismatch between types of jobs offered by employers and the profile of workers still on the sidelines suggests a continuing tight labour market.

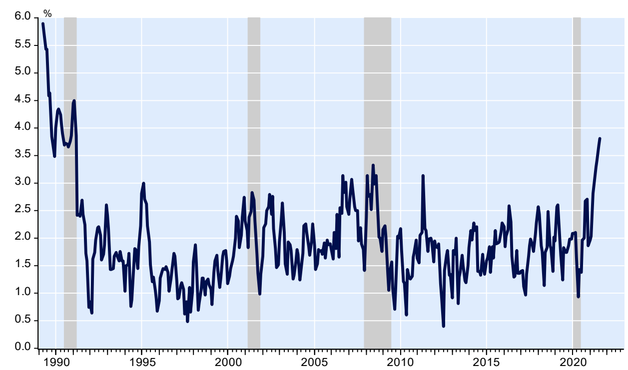
Canada: Small businesses report acute scarcities of labour
Factors limiting sales, September 2021 vs. long-term average



NBF Economics and Strategy (data via CFIB)

To the labour-force issues, the CFIB survey adds that of input shortages. This is hardly surprising under current conditions of global supply-chain problems, which have been propitious for the past summer's surge of inflation. The CPI has surprised on the upside in four of the last five months. Its 12-month inflation of 4.1% reported in August was the highest in 18 years. The broad base of the inflation acceleration is reflected in the average of the three measures favoured by the central bank, which at 2.6% was the highest since March 2009. In addition, these 12-month figures understate the recent trend. In our in-house replications of CPI Median and CPI Trim, they have been inflating at annual rates of 3.2% and 4.4% respectively over the last three months. The average of these two rises is a rate unequalled in more than three decades (chart).

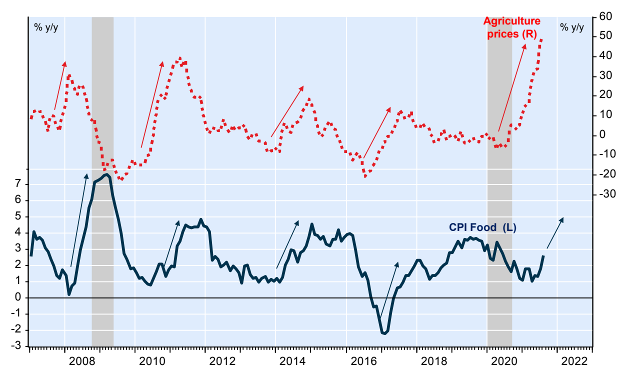
Canada: Inflationary pressures are broad-based
Average of CPI-Trim and CP-Median, 3-month change annualized



NBF Economics and Strategy (data via Statistics Canada)

In addition to the labour force and supply chains, there is another factor that could contribute to inflation in the coming months. Prices for food, like those for many raw materials, have risen spectacularly over the last year. The Bank of Canada's index of agricultural prices in Canadian dollars is up almost 50% from a year earlier, the largest increase ever recorded. These price increases tend to affect grocery bills with a lag of six to eight months, implying that the price acceleration recorded so far is only a beginning.

Canada: Food inflation is still to come
Change in BoC Agriculture price index (C$) and change in CPI food

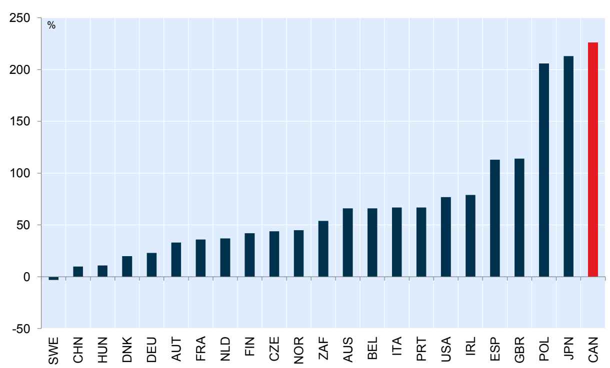


NBF Economics and Strategy (data via Refinitiv)

The Economy

Given this inflationary environment, will real consumption suffer from a loss of household purchasing power, holding back economic growth? Our upward revisions of inflation have indeed prompted us to moderate our optimism for consumer spending in 2022. That said, we still think Canadian consumers are in a good position to support the economic recovery. Households have accumulated excess savings amounting to an astronomical 11.4% of GDP. How does this cushion compare with those of other countries? The IMF puts Canada solidly in the lead among developed countries.

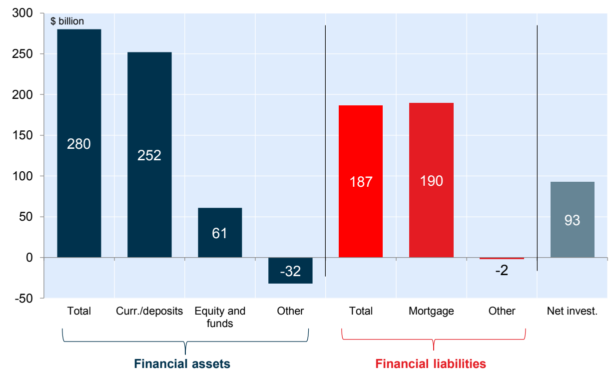
Canada: Households have accumulated a mass of savings
Excess savings as % of total expected savings



NBF Economics and Strategy (data via IMF)

So how much of these savings will be directed to consumption in coming quarters? Our analyses indicate that households have not massively invested these savings, nor used them to reduce their indebtedness. By far the largest share of them are on deposit, waiting to be deployed by households. A survey conducted by the Bank of Canada this summer reported that households expect to spend 35% of their excess savings by the end of next year. That is considerable.

Canada: Surging deposits since the start of the pandemic
Changes in household financial assets and liabilities from 2020Q1 to 2021Q2



NBF Economics and Strategy (data via Statistics Canada)

Our forecast for real growth in 2021 is unchanged this month at 5.0%, but our forecast for 2022 is revised down to 3.8% from 4.0%. Soaring commodity prices will continue to benefit Canada's economy, but supply chain disruptions and resulting inflation are a risk under current conditions. Nonetheless, consumers and businesses are equipped to support the on-going recovery.

The Economy

United States Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	2021	Q4/Q4 2022	2023
Gross domestic product (2012 $)	2.3	(3.4)	5.5	3.4	2.4	4.9	2.9	2.1
Consumption	2.2	(3.8)	7.8	3.4	2.5	6.7	3.0	2.2
Residential construction	(0.9)	6.8	9.9	(0.2)	1.0	(0.3)	1.0	1.0
Business investment	4.3	(5.3)	7.9	3.0	1.8	7.7	1.5	2.4
Government expenditures	2.2	2.5	0.8	1.0	1.5	1.3	1.2	1.5
Exports	(0.1)	(13.6)	4.7	5.0	3.2	3.3	4.7	2.2
Imports	1.2	(8.9)	12.1	1.1	1.5	4.1	0.7	2.0
Change in inventories (bil. $)	75.1	(42.3)	(114.2)	81.3	50.0	(75.0)	175.0	25.0
Domestic demand	2.4	(2.5)	6.6	2.8	2.2	5.6	2.4	2.1
Real disposable income	2.3	6.2	2.6	(1.9)	2.1	1.5	1.0	2.9
Payroll employment	1.3	(5.7)	2.7	2.9	1.9	4.2	1.9	2.0
Unemployment rate	3.7	8.1	5.4	4.4	4.1	4.6	4.3	4.0
Inflation	1.8	1.3	4.4	3.7	2.4	5.7	2.5	2.8
Before-tax profits	2.7	(5.2)	20.2	4.9	2.6	12.2	5.5	1.4
Current account (bil. $)	(472.1)	(616.1)	(743.8)	(770.5)	(710.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 10/08/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.50
3 month Treasury bills	0.05	0.05	0.10	0.10	0.15	0.05	0.40	1.40
Treasury yield curve								
2-Year	0.32	0.40	0.55	0.70	0.80	0.40	1.00	1.65
5-Year	1.05	1.15	1.30	1.50	1.55	1.15	1.70	2.05
10-Year	1.61	1.70	1.80	1.90	2.00	1.70	2.10	2.30
30-Year	2.16	2.20	2.30	2.35	2.40	2.20	2.45	2.60
Exchange rates								
U.S.$/Euro	1.16	1.17	1.18	1.18	1.17	1.17	1.17	1.16
YEN/U.S.$	112	111	111	112	112	111	111	109

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.8	3.9	3.4	2.8	3.0	2.5
CPI (y/y % chg.)	1.9	4.8	5.3	5.7	5.5	4.0	2.8	2.4
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	4.4	4.8	3.3	2.5	2.5
Unemployment rate (%)	6.2	5.9	5.1	4.6	4.6	4.5	4.4	4.3

National Bank Financial

Canada Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	2021	Q4/Q4 2022	2023
Gross domestic product (2012 $)	1.9	(5.3)	5.0	3.8	2.2	3.3	3.6	1.6
Consumption	1.6	(6.0)	3.8	4.2	2.8	2.5	4.7	1.8
Residential construction	(0.2)	4.1	18.1	(5.3)	(4.8)	2.7	(4.5)	(5.0)
Business investment	1.1	(13.6)	(1.1)	5.9	3.6	2.4	6.5	2.2
Government expenditures	1.7	0.4	5.4	2.0	1.2	3.3	1.9	1.0
Exports	1.3	(10.0)	2.5	6.1	5.6	1.9	6.5	5.0
Imports	0.4	(11.2)	6.3	4.3	4.6	2.3	5.1	4.5
Change in inventories (millions $)	18,766	(15,937)	3,879	14,919	20,289	10,000	12,676	24,172
Domestic demand	1.4	(4.3)	5.0	2.7	0.6	2.7	3.1	0.9
Real disposable income	2.2	9.5	0.8	(1.1)	1.4	0.4	0.5	1.5
Employment	2.2	(5.1)	4.6	3.1	1.5	3.6	2.1	1.2
Unemployment rate	5.7	9.6	7.6	6.3	6.1	6.8	6.2	6.1
Inflation	1.9	0.7	3.2	3.2	2.3	4.2	2.4	2.4
Before-tax profits	0.6	(4.0)	42.2	8.4	0.1	31.9	3.4	0.3
Current account (bil. $)	(47.4)	(40.1)	5.0	(20.0)	(28.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 10/08/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Overnight rate	0.25	0.25	0.25	0.25	0.75	0.25	1.00	1.50
3 month T-Bills	0.12	0.15	0.20	0.30	0.75	0.15	0.90	1.45
Treasury yield curve								
2-Year	0.69	0.80	0.95	1.20	1.30	0.80	1.45	1.70
5-Year	1.21	1.30	1.45	1.60	1.80	1.30	1.90	2.05
10-Year	1.63	1.70	1.85	1.95	2.00	1.70	2.05	2.20
30-Year	2.09	2.15	2.25	2.30	2.35	2.15	2.40	2.45
CAD per USD	1.25	1.24	1.22	1.20	1.22	1.24	1.24	1.26
Oil price (WTI), U.S.$	78	82	85	80	75	82	75	70

*** end of period*

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 forecast	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	5.5	(1.1)	4.0	5.0	4.9	3.7	3.0	2.9
CPI (y/y % chg.)	1.4	3.4	4.0	4.2	4.1	3.6	2.8	2.4
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.0	3.1	2.8	2.3	2.3
Unemployment rate (%)	8.4	8.0	7.2	6.8	6.5	6.4	6.3	6.2

National Bank Financial

The Economy

Provincial economic forecast

	2019	2020e	2021f	2022f	2023f	2019	2020e	2021f	2022f	2023f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	4.0	-5.3	3.2	2.6	1.5	4.1	-8.3	14.9	6.3	2.5
Prince Edward Island	5.1	-3.0	3.5	3.8	2.4	7.0	-1.0	7.2	4.9	3.4
Nova Scotia	2.4	-3.2	3.8	3.3	1.8	3.8	-1.9	6.9	4.7	3.0
New Brunswick	1.2	-3.7	3.6	3.0	1.6	3.0	-1.7	8.6	4.7	2.8
Quebec	2.7	-5.3	6.5	3.0	2.0	4.3	-4.1	11.2	4.6	2.9
Ontario	2.1	-5.0	4.4	4.2	2.3	3.8	-4.8	8.7	5.3	3.3
Manitoba	0.6	-4.8	4.3	3.4	2.1	1.0	-3.9	11.1	5.5	3.5
Saskatchewan	-0.7	-5.2	4.8	3.9	2.3	0.1	-9.2	21.0	6.3	3.8
Alberta	0.1	-8.2	5.4	4.3	2.5	2.7	-11.6	22.5	9.2	3.1
British Columbia	2.7	-3.8	5.3	4.0	2.4	4.4	-2.0	11.4	5.1	3.8
Canada	1.9	-5.3	5.0	3.8	2.2	3.6	-4.6	12.1	5.8	3.2
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	1.3	-5.9	2.5	1.3	0.5	12.3	14.2	13.2	12.8	12.4
Prince Edward Island	3.4	-3.2	3.0	2.2	2.2	8.6	10.6	10.0	9.3	8.6
Nova Scotia	2.3	-4.7	5.3	2.0	1.5	7.3	9.8	8.3	7.4	6.8
New Brunswick	0.7	-2.6	2.5	1.3	0.5	8.2	10.1	9.1	8.8	8.4
Quebec	2.0	-4.8	4.2	3.1	1.4	5.2	8.9	6.3	5.1	4.8
Ontario	2.8	-4.7	4.6	3.2	1.5	5.6	9.6	8.3	6.7	6.4
Manitoba	1.0	-3.7	3.6	2.3	1.0	5.4	8.0	6.4	5.1	5.1
Saskatchewan	1.7	-4.6	2.8	2.3	1.1	5.5	8.4	6.9	5.8	5.8
Alberta	0.6	-6.5	5.1	3.5	1.6	7.0	11.5	8.8	7.2	7.2
British Columbia	2.9	-6.5	6.4	3.3	1.8	4.7	9.0	6.6	5.0	4.7
Canada	2.2	-5.1	4.6	3.1	1.5	5.7	9.6	7.6	6.3	6.1
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	0.9	0.8	1.2	0.8	0.8	1.0	0.2	3.2	3.0	2.3
Prince Edward Island	1.5	1.2	1.2	1.0	1.0	1.2	0.0	3.7	3.1	2.3
Nova Scotia	4.7	4.9	4.4	4.2	4.1	1.6	0.3	3.6	3.2	2.2
New Brunswick	2.9	3.5	3.8	2.8	2.7	1.7	0.2	3.5	3.2	2.4
Quebec	48.0	54.1	71.0	56.0	55.0	2.1	0.8	3.4	3.2	2.3
Ontario	69.0	81.3	98.0	81.7	80.0	1.9	0.6	3.3	3.2	2.3
Manitoba	6.9	7.3	7.7	6.3	6.1	2.3	0.5	3.0	3.1	2.3
Saskatchewan	2.4	3.1	4.0	3.6	3.5	1.7	0.6	3.0	3.1	2.2
Alberta	27.3	24.0	30.7	27.0	26.5	1.7	1.1	3.0	3.2	2.3
British Columbia	44.9	37.7	48.0	36.6	35.8	2.3	0.8	3.3	3.2	2.3
Canada	208.7	217.8	270.0	220.0	215.5	1.9	0.7	3.2	3.2	2.3

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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

Taylor Schleich
Rates Strategist
416-869-8025

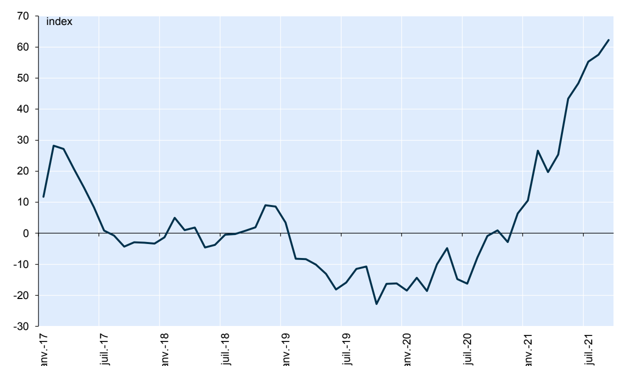
Jocelyn Paquet
Economist
514-412-3693

Inflation, real and imagined, spooks markets

All Hallows' Eve is around the corner and increasingly creepy economic conditions have begun to spook financial markets. Inflation, real and imagined, is the chief boogeyman these days, as the specter of sustained, rapid price increases is leading to fitful trading days and nights.

Breakeven rates are on the rise as inflation expectations are fundamentally repriced in the face of labour shortages, temporary but pressing supply chain pressures, evident protectionism/ deglobalization and a global movement to finally and more appropriately price environmental degradation. These issues and themes aren't exactly novel; we've been legitimately fearful of an inflation buildup for the better part of a year now. What's different, it seems, is that more and more market participants have apparently seen enough, with the 'transitory' inflation camp understandably winnowing out. There's no hocus pocus here, with sustained price pressures looking very much a by-product of today's natural world.

Upside inflation surprises have been widespread
Citi G10 inflation surprise index



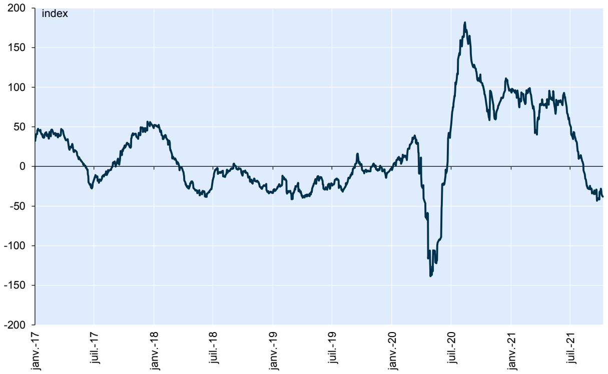
NBF Economics and Strategy (data via Bloomberg)

Adding to the noir-ish backdrop has been a global growth scare. Again, some of the recent setbacks we've witnessed, including Canada's second quarter stumble for instance, have been technical in nature and reflective of certain temporary factors. But as the globe's once-formidable just-in-time manufacturing process hiccups again and again (e.g., healthcare equipment, pharmaceutical products, semiconductors, electric batteries, natural gas and now coal), near-term economic growth in more than a few corners is being jeopardized. The final quarter of 2021 and the early stages of 2022 could be marked by disappointing growth, an outcome markets have begrudgingly discounted.

So is the global economy about to join the ranks of the walking dead, characterized by high inflation and below potential growth? That's called stagflation and is one of the scariest costumes the world economy could don. While risks of such an outcome are no longer negligible, we're not yet on the cusp of a zombie-like state in key advanced economies.

As detailed in our fresh Monthly Economic Monitor, our expectation for global growth has been marked down… again. But economic stagnation? Not exactly. North America, for its part, still has scope for above-trend growth next year. U.S. and Canadian households remain well endowed, having registered solid income gains and sitting atop a mountain of excess savings. That's a vital buffer for the monster consumer sector as extraordinary COVID supports are gradually walked back. (Mind you, in jurisdictions like Canada, central government policymakers appear in no hurry to pull back fiscal stimulus prematurely.) Meanwhile, limited capacity in key goods sectors mean businesses may be sufficiently incentivized to deepen their capital stock. Many have indicated as much, notwithstanding some trepidation owing to still-elevated uncertainty. So while housing activity has cooled and export prospects are somewhat up in the air, the outlook for the real economy isn't all that scary to us.

Interest Rates and Bond Markets



Meantime, there's a tried-and-true method to at least partially exorcize today's inflation demons. It's called timely removal of extreme monetary policy accommodation, something the Fed, in our opinion, has been too reluctant to consider for far too long. Whether FOMC members want to fully admit it or not, enough may be sufficiently spooked by an inflation burst to support an imminent (and perhaps rapid) QE taper, giving way to the first in a series of policy rate hikes that will need to kick off before 2022 is out. We've brought forward the first Fed hike by one quarter relative to our prior forecast, sensing a growing willingness on the part of FOMC members to react to mounting inflation risks.

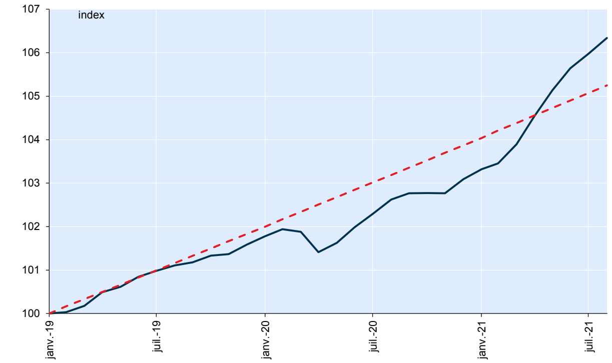
Credit the Bank of Canada for pushing Canada ever closer to a policy rate normalization phase. Yet another taper is around the corner, with BoC QE entering the 'reinvestment' phase shortly thereafter. Above-target inflation and solid jobs recovery have seen markets aggressively re-price policy rate expectations north of the border. While our expected timeline for policy rate liftoff in Canada remains unchanged (i.e., July 2022), Canada's growth-inflation outlook argues for a somewhat more rapid tightening (at least initially), output gaps likely to remain relatively skinny even in the face of another potential growth wobble. We submit that Canada, as a commodity exporting country, could weather a temporary bout of global stagflation better than many advanced economy peers. Nominal output/incomes should certainly draw a degree of relative support, a non-trivial credit and bond supply consideration for the sovereign and provincial governments.

To be clear, our altered path for North American policy rates (the Fed hiking sooner, the BoC going quicker) and the corresponding adjustment in real yields, should not really be considered front-end loaded or overly aggressive by empirical standards. Sure, rates look to remain locked in a fundamental bear market from here. But assuming inflation readings start to recede next year (which is still our expectation), policy makers may be able to retain a degree of incrementalism, easing the adjustment to a more neutral monetary policy regime and avoiding another obvious risk: an abrupt tightening exercise that snuffs out the recovery prematurely… AKA a monetary policy error.

To us, relatively modest policy rate normalization, while arriving sooner than previously anticipated, need not haunt financial markets too badly. Credit markets, while undeniably tight, may still see more treat and less trick… at least in the near term… a view more-or-less consistent with an asset allocation that has yet to advocate for an underweight equities position.

FOMC: Stuck in a sticky situation?

When the Fed introduced its new monetary policy framework last summer, it surely didn't foresee what has transpired. Inflation at the time was running close to 0% and we had more than a decade of evidence suggesting that we could push hard on employment without stoking above-target price pressures. Since then, inflation has soared above even the most aggressive Fed forecasts, while employment has been much slower to bounce back. We're now approaching a situation where the Fed, bound by an inflation-employment dual mandate, may be forced to choose which goal takes precedence.



To be sure, the Fed's official narrative that inflationary pressures are transitory hasn't changed. Last month's Fed statement reiterated as much:

> *"Inflation is elevated, largely reflecting transitory factors."*

However, reading between the lines, it's apparent that there is growing anxiety that this view is wrong. Or at least that the time implied by "transitory" is much longer than previously thought. Indeed, the Fed's latest Summary of Economic Projections indicate that: (a) inflation uncertainty is as widespread as its ever been and (b) the risks to inflation projections are seen as to the upside by an unprecedented majority of FOMC participants. Not a single FOMC participant sees downside risks to inflation. Meanwhile, we've seen near-term GDP forecasts marked lower and risks to those forecasts being skewed to the downside. We're not going to call this a stagflationary environment as we're relatively constructive on the growth outlook but slowing growth and elevated inflation isn't an economic backdrop the Fed would like to be fostering.

These inflationary upside risks have seemed to increasingly bleed into the policy stance. Despite coming off of a disappointing August jobs print (with September's report underwhelming too), Powell's press conference last month indicated that it's almost time to taper asset purchases. The Fed Chair revealed that, in his view, the substantial further progress test that they'd been looking for in order to taper asset purchases has been "all but met". Moreover, "many" on the committee think it already has been met. He noted

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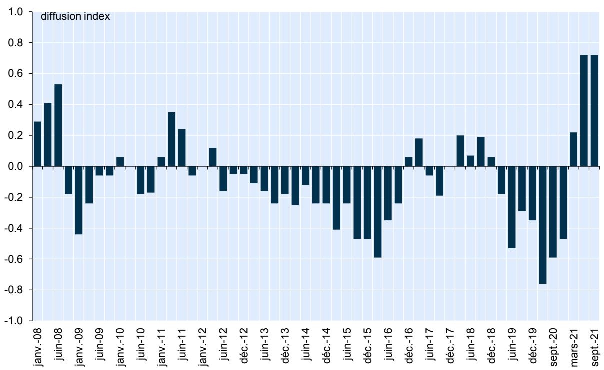
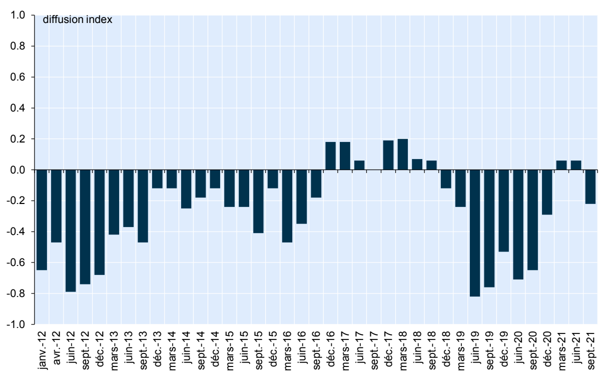
that he would only need to see a "reasonably good" September jobs report for him to be convinced that the time to taper had arrived. While September's report didn't meet consensus forecasts, it wasn't weak enough to justify pushing the taper down the road. However, it does beg the question: Would the Fed begin to taper in November if inflation was closer to 2%? Probably not, in our view. Alas, these are the challenges of operating under a dual mandate system.

Fed: Upside risks to inflation have never been higher
Diffusion Index: Are risks to PCE inflation weighted to the upside (+), downside (-) or broadly balanced?



NBF Economics and Strategy (data from Fed)

Fed: Risks to GDP are turning negative
Diffusion Index: Are risks to GDP growth weighted to the upside (+), downside (-) or broadly balanced?



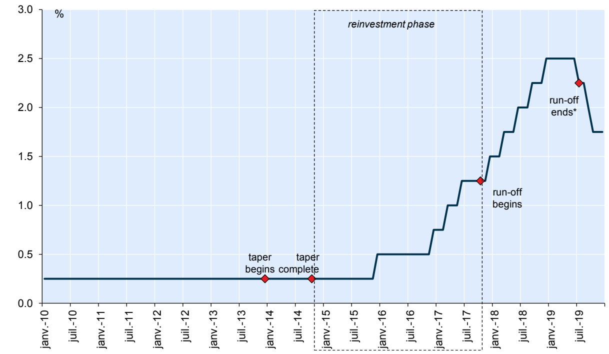
NBF Economics and Strategy (data from Fed)

The details of the imminent taper are not set in stone but it seems that the duration of the wind down might end up being roughly eight months. As Powell noted, *"so long as the recovery remains on track, a gradual tapering process that concludes around the middle of next year is likely to be appropriate."* Though there may be arguments for moving faster or slower than this pace, we think this timeline is a sensible and reasonable assumption to make. And given that the Fed has very clearly been signalling this taper over recent months, we're not looking for a significant adverse reaction upon announcement. One could argue the sell-off in recent weeks (and back in the spring) was the tantrum before the taper.

Undoubtedly, once the taper is underway, the market's focus will quickly turn to the policy rate normalization timeline. Much was understandably made about the ongoing shift in the Fed's dot plot in September. There is now an even split of FOMC participants who see rate hikes before the end of next year. After projecting Q1:2023 lift-off for the better part of a year now, we too have conceded that a nudge higher on the policy rate is likely to come earlier. This isn't due to a change in our economic outlook, but rather recognition that FOMC participants are increasingly ditching their prior ultra-dovish stance.

Still, we're reluctant to bring hikes too far forward into 2022. Again, this isn't necessarily due to our outlook for the economy/inflation but more a function of calendar-related constraints. As noted, we don't expect the taper to conclude until mid-way through 2022. And Powell made clear in September's press conference that they won't be raising rates during the tapering process. Moreover, we think the Fed would prefer to take something of a breather after the winddown is complete. It took the Fed more than a year after its 2014 taper before it ultimately tapped the breaks. Of course, we can't really make a true apples-to-apples comparison between the economic backdrop today and nearly a decade ago. But even under our relatively higher inflationary outlook, we still do see price pressures subsiding next year. Elevated? Yes. Above 2%? Yes. But the direction should be lower and that may give the Fed comfort in holding rates at the effective lower bound until late in the year. And as we look beyond into 2023, we're still expecting Fed to be hiking consistently and relatively more rapidly than the Bank of Canada who might be withdrawing stimulus even sooner…

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



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

BoC: Clinging to the transitory narrative

As we've noted, market participants are starting to throw in the towel on the transitory inflation narrative. Certainly, the more forceful than expected price pressures have prompted us to adjust our own timing on central bank hiking cycles. For now at least, the Bank of Canada hasn't caved. In a recent Tiff Macklem speech, he noted that while there's a risk that there's more persistence in some inflationary factors, there is still reason to believe that above-target inflation will prove temporary (i.e. base-year effects, supply bottlenecks, chip shortages, etc.). To support this, he cited that longer-term inflation expectations remain anchored and wage growth has also not moved out of line with productivity gains.

Macklem also cautioned that labour markets may be slow to bounce back. Clearly, he didn't have an advanced copy of the September Labour Force Survey as the report showed an unexpected acceleration in the pace of hiring, bringing us back to pre-COVID levels of employment. Based on prior BoC guidance, this itself isn't enough to conclude to that labour market slack has been absorbed. Rather, the BoC would like to see the Canadian economy reach employment levels consistent with pre-COVID employment rates. With that as the bar, there is still an additional ~270 thousand jobs that would need to be added.

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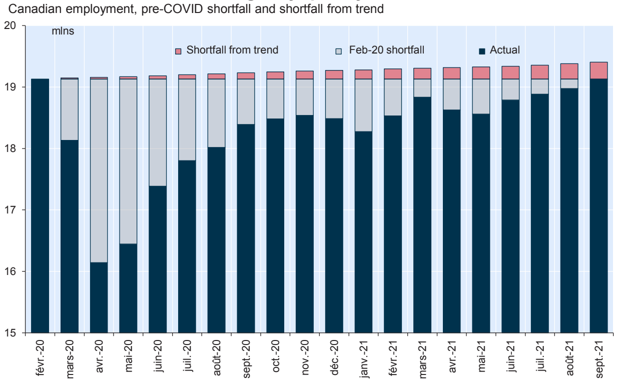
Firstly, even this relatively higher bar doesn't seem so out of reach given the recent pace of hiring and the strong labour demand evident across the country. Secondly, we believe that the approach taken by the BoC (i.e. to use pre-COVID employment rates) actually *overstates* the size of the jobs deficit. As our Monthly Economic Monitor indicates, once you control for the aging population, the needed job creation might be less than half as much as the BoC is signalling. In any event, it appears that there is less slack in labour markets than Bank officials may have thought, even as recently as last week.

Labour market slack is being very quickly absorbed
Canadian employment, pre-COVID shortfall and shortfall from trend

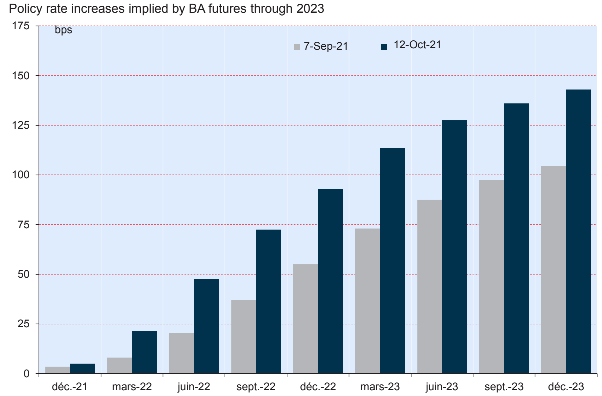


NBF Economics and Strategy (data from StatCan) | Note: Pre-COVID trend = Feb-20 employment rate * current population

When it comes to the output gap, it's true that there appears to be non-trivial slack remaining. On the face of it, the Bank's new, downgraded projections that will come at the end of the month might imply a wider output gap than previously thought. However, just like supply-side disruptions that are causing inflation to surprise to the upside, it's also limiting the amount of potential output in the economy. In other words, downgrades to growth may be offset by downgrades to potential, leaving output gap closure on a roughly unchanged trajectory.

As a reminder, the BoC is currently guiding us to second half 2022 output gap closure. We don't see that at risk of being significantly altered in the coming policy statement which is why we've left our timing for initial lift-off unchanged at July 2022. That said, sustained above-target inflation and a rapidly recovering labour market has prompted us to condense the timeline for rate hikes, creating a relatively more rapid hiking cycle than we'd previously laid out. Our new base case outlook incorporates two policy rate adjustments in the third quarter of 2022, with another before the year is out. To be clear, we haven't altered our view on the ultimate destination for the policy rate (i.e. the neutral rate of interest). We still don't see scope for the overnight target to be sustainably pushed north of 2% longer-term. But as the BoC begins to acknowledge the more permanent nature of this "transitory" inflation, a relatively more rapid withdrawal of extraordinary stimulus may be in order. To us, it's not a question of if the BoC makes this concession, but it's really just a question of when.

Market is pricing an aggressive Bank of Canada
Policy rate increases implied by BA futures through 2023



NBF Economics and Strategy (data from Bloomberg)

BoC: The dog days of QE

Unlike south of the border, where the taper process has yet to initialize, we are quickly approaching the one-year anniversary of the Bank of Canada's QE taper. Indeed, October 2020 saw the Bank begin to step down the pace of its bond purchases from what was a relatively elevated pace. Here we are nearly a year later, and its looking like net asset purchases are soon to an artifact of the past. We're looking for the Bank the announce another step lower later this month and shift the focus to the "reinvestment phase". Importantly, we received some much-needed guidance on this front last month in a Tiff Macklem speech:

- Firstly, as the BoC had noted before, decisions on QE and the policy rate are distinct and not mechanically linked: *"Adjusting the pace of bond purchases won't necessarily mean that we have changed our views about when we need to start raising the policy rate*".
- Taking a page out of other central banks' books, the BoC signalled that it is likely to remain in the reinvestment "for a period of time", at least until it raises interest rates. Based on the policy rate forward guidance, this implies reinvestment will last until at least July 2022. This is consistent with the BoE's telegraphed approach to balance sheet management and also the Federal Reserve in the 2010s when it only began ceasing reinvestment nearly 2 years after its first rate move.
- Once in the reinvestment phase, the Bank will not be reinvesting bonds immediately as they mature, given the large and uneven nature of their holdings. Nor will they reinvest maturities exclusively at auction as some had speculated (an approach we'd viewed as impractical). Instead, it plans to reinvest via a combination of primary and secondary market purchases, focusing on stability over a longer-term horizon. Macklem also noted the reinvestment phase will not only entail fewer secondary purchases than the current pace, but it will also mean less primary market buying (the Bank now buys 13% of nominal bond auctions). At this point, it's unclear by how much its auction allocation will be cut but it's not a new development; the Bank has adjusted this before and took similar action with its bill purchases earlier in the year.
- As for the quantity of bonds the Bank will need to be buying, it has assessed that it will require roughly $1 billion per week (inclusive of primary and secondary market purchases) to keep its GoC holdings steady. Operationally, it will shift the focus from a weekly pace to a monthly target of between $4 billion and $5 billion, though it's not clear what the primary-secondary split will be at this point.

While there are still some details that will need to be unveiled, the speech is a strong signal that the Bank would like to have this QE program wrapped up in relatively short order. Additionally, due to the unbalanced maturity structure of the Bank's holdings, Tiff Macklem's signalled pace of $4-5 billion per month

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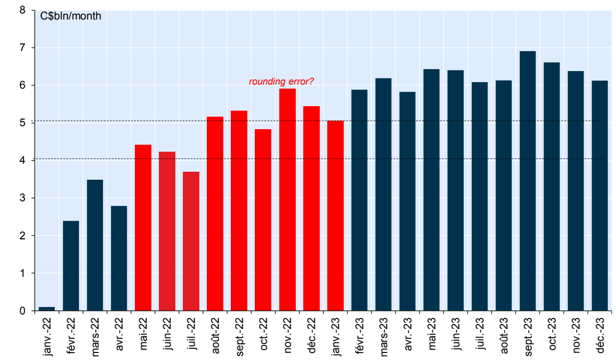
also gives an indication of how long the Bank expects to be in "full reinvestment". Assuming this phase officially kicks off by year-end, the monthly purchase target that Macklem communicated would be sufficient to keep its holdings roughly steady through 2022. (We'd note that this timeline would really be pushing the upper bound of the signalled target range but we assume Macklem is providing loose guidance rather than a hard and fast rule). What is less disputable, however, is that a longer time horizon, extending into 2023, would correspond to a monthly pace between $5 billion and $7 billion—high enough above the $4-5 billion range for us to conclude that it's not a rounding error. Thus, it seems that the Bank does not foresee full reinvestment beyond next year. What may follow in 2023 is partial reinvestment, allowing for a modest natural reduction in the size of the Bank's balance sheet. To be sure, the Bank's balance sheet will remain large, certainly by historical standards. But allowing a modest reduction is a sensible approach as it provides the Bank additional ammunition for the next downturn. Here's to hoping that we won't have to use that ammunition for some time still...

BoC: Estimating reinvestment phase duration
Estimated monthly pace of GoC purchases needed to offset maturities



NBF Economics and Strategy (data from Bank of Canada) | Note: Assumes reinvestment phase starts in December 2021

Canadian Bond Market: Interest rates, spreads and currencies

	12-Oct-21	13-Jul-21	13-Apr-21	12-Jan-21	13-Oct-20
Interest Rates					
3 months	0.119	0.162	0.089	0.067	0.098
2 years	0.748	0.488	0.242	0.176	0.251
5 years	1.261	0.961	0.943	0.464	0.355
10 years	1.648	1.353	1.504	0.843	0.587
30 years	2.078	1.856	1.93	1.469	1.19
Spreads					
3 months - 2 years	62.9	32.6	15.3	10.9	15.3
2 - 5 years	51.3	47.3	70.1	28.8	10.4
5 - 10 years	38.7	39.2	56.1	37.9	23.2
10 - 30 years	43	50.3	42.6	62.6	60.3
Currencies					
CAD/USD	1.2435	1.2513	1.2535	1.2711	1.3139
EUR/CAD	0.6969	0.6785	0.6677	0.6443	0.648

NBF Economics and Strategy (data via Bloomberg)

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Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

World: Margin squeeze threatens

After hitting a record September 6, global equities retreated more than 5% and then regained some ground in early October. At this point the MSCI ACWI is up 12.8% year to date, driven by developed markets (table). The emerging-market index, accounting for 12% of the global equity benchmark, continues to struggle against drag in Latin American and Asian markets. In Asia, MSCI China continues to struggle with ongoing uncertainty about Beijing's new regulatory framework for non-state-owned companies and uncertainty about the resolution of the bankruptcy of the major Chinese property developer Evergrande.

MSCI Composite Index: Price performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	1.1	1.1	12.8
MSCI World	1.1	1.1	14.8
MSCI USA	1.9	1.9	16.3
MSCI Canada	1.9	1.9	17.3
MSCI Europe	0.2	0.2	13.2
MSCI Pacific ex Jp	0.1	0.1	6.5
MSCI Japan	-3.5	-3.5	8.6
MSCI EM	0.6	0.6	-0.4
MSCI EM EMEA	1.8	1.8	20.8
MSCI EM Latin America	0.8	0.8	-4.1
MSCI EM Asia	0.4	0.4	-3.2

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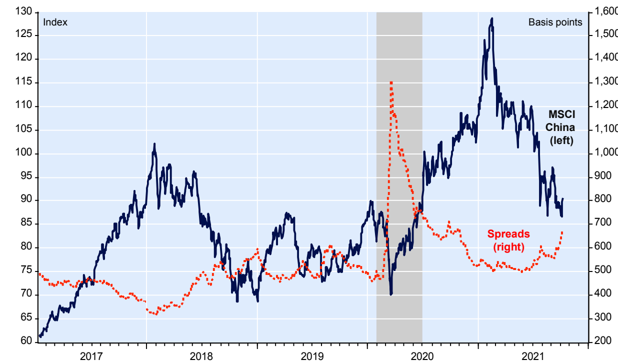
NBF Economics and Strategy (data via Refinitiv)

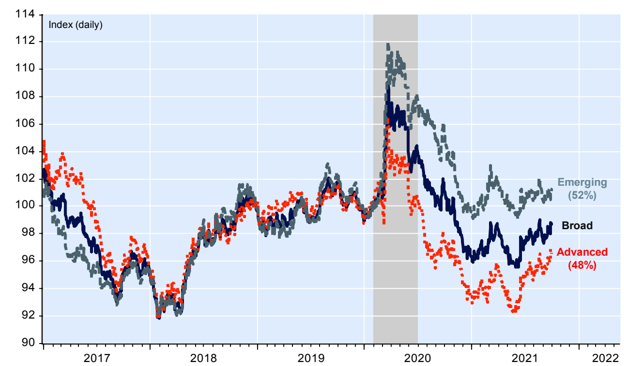
At this writing, we are encouraged to see emerging-market corporate spreads still behaving relatively well and that the recent appreciation of the broad USD index was primarily against advanced-economy currencies rather than emerging-market currencies (charts), suggesting limited contagion from the Evergrande saga so far.

World: Emerging markets show limited contagion from Evergrande
MSCI China vs. ICE BofA High Yield Emerging Markets Corporate Plus Index Option-Adjusted Spread



NBF Economics and Strategy (data via Refinitiv and Fred)

USD: Stronger, but not too strong
Trade-weighted USD vs. broad basket of 26 currencies of advanced and emerging economies



NBF Economics and Strategy (data via Refinitiv)

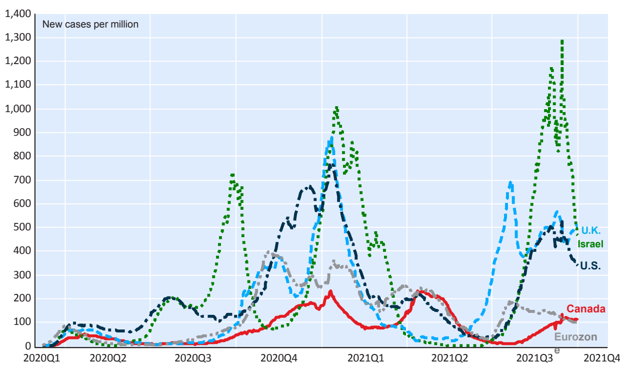
This is certainly good news for global earnings growth, espe-cially since things are improving again on the pandemic front (chart). Though our scenario of global expansion has not been derailed, expectations for 12-month earnings growth may still need to be scaled back.

[1] See Jean Pisani-Ferry, "Climate Policy is Macroeconomic Policy, and the implications will be significant", PIIE, *Policy Brief 21-20*, August 2021.

[2] See "Carbon Capture in Canada: Boom or bust?", NBCFM Thematic Research, August 3, 2021.

Stock Market and Portfolio Strategy

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



NBF Economics and Strategy (data via Johns Hopkins CSSE)

According to the consensus of equity analysts, earnings per share (EPS) for the MSCI ACWI are expected to rise 14.6% through Q4 2022 with all the main regions delivering double-digit earnings growth (table). Those expectations assume sales will account for 55% of this EPS growth over the next 12 months, the other 45% coming from expansion of margins. We argued last month that this seemed too good to be true and we maintain that view. The global price of shipping a container has risen tenfold so far this year and Brent oil now tops $80 a barrel (chart). For most equity markets, this development isn't generally conducive to margin expansion.

MSCI Composite Index: EPS performance

	2020	2021	2022	2023	12 months forward
MSCI ACWI	-12.0	49.0	7.6	9.0	14.6
MSCI World	-13.7	47.9	7.7	8.9	14.5
MSCI USA	-10.2	46.3	8.3	10.2	14.3
MSCI Canada	-25.7	68.6	6.6	6.6	14.5
MSCI Europe	-26.3	55.8	6.5	7.3	15.1
MSCI Pacific ex Jp	-25.7	43.6	8.3	3.8	9.8
MSCI Japan	0.0	20.0	33.5	6.8	16.7
MSCI EM	-2.5	54.6	6.8	9.1	14.8
MSCI EM EMEA	-20.3	68.3	6.5	3.2	14.6
MSCI EM Latin America	-37.2	209.1	-8.8	-4.5	12.4
MSCI EM Asia	6.6	40.5	9.3	12.3	15.2

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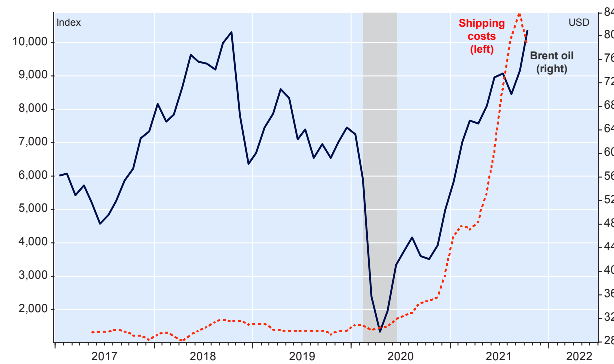
NBF Economics and Strategy (data via Refinitiv)

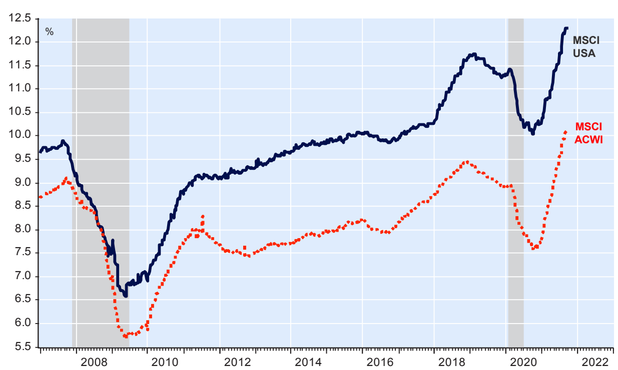
World: Not a good combination for profit margins
Oil prices (Brent) and global shipping cost index for containers (monthly averages)



NBF Economics and Strategy (data via Refinitiv)

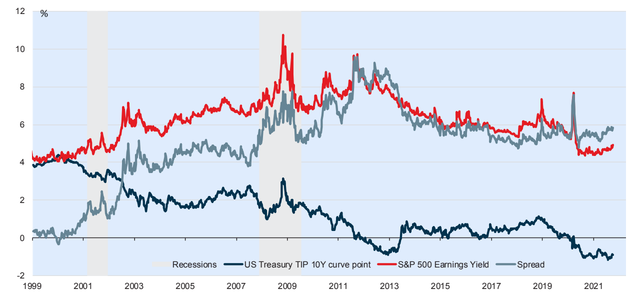
Demand for manufactured goods, coupled with the current disruptions of the global supply chain, should give producers some pricing power. Enough to fully offset rising input costs? We doubt it. But we do not expect a major downturn for most equity markets given the persistence of negative real interest rates, which keep the equity risk premium attractive by histor-ical standards (chart).

World: Profit margins are already high
Trailing profit margins for the MSCI ACWI and the MSCI USA



NBF Economics and Strategy (data via Refinitiv)

U.S. : Perspective on valuation
S&P 500 earnings yield and 10 years U.S. treasury yield TIP



NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: Inflation-proof

After hitting a record on September 3, the S&P/TSX ended the month down, then rebounded in early October led by Energy, Materials, Consumer Discretionary and Banks (table). The Canadian benchmark has so far escaped the 5% correction that befell the S&P 500.

S&P/TSX Composite Index: Price performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.7	1.7	17.1
ENERGY	4.2	4.2	41.5
MATERIALS	3.1	3.1	-4.3
CONS. DISC.	2.7	2.7	11.4
BANKS	2.4	2.4	24.2
FINANCIALS	2.3	2.3	24.2
REAL ESTATE	1.4	1.4	24.5
INDUSTRIALS	1.0	1.0	11.1
IT	-0.3	-0.3	19.6
CONS. STAP.	-0.4	-0.4	11.9
TELECOM	-0.4	-0.4	14.5
UTILITIES	-1.1	-1.1	1.8
HEALTH CARE	-4.2	-4.2	-6.2

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NBF Economics and Strategy (data via Refinitiv)

We expect the S&P/TSX to remain resilient in the months ahead. First, its valuation is attractive – only 15 times forward earnings vs. more than 20 for the S&P 500. As the chart below shows, this is the largest gap ever observed early in the expansion phase of an economic cycle (U.S. real GDP topped its pre-recession peak in August, according to *IHS*).

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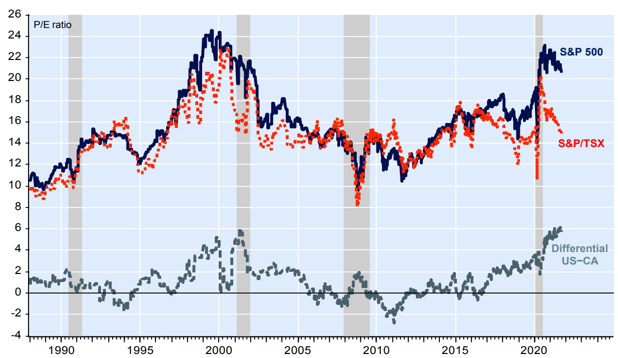
S&P/TSX: Valuation gap still seems excessive
12-month-forward P/Es for the S&P 500 and the S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

Second, TSX earnings expectations continue to be revised up as Canada benefits from improved terms of trade thanks to surging energy prices. In the past three months alone, 12-month-forward EPS expectations for the S&P/TSX have been revised up 5.3%. For Energy, the revision has been +16.1 % (table).

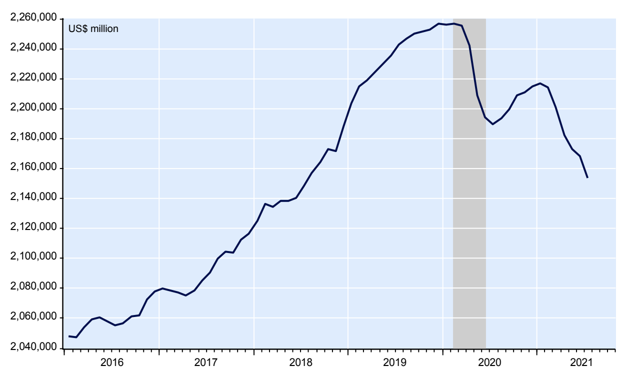
S&P TSX : Change in 12-month-forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	Last data	10-year average	Last data	10-year average	Last data	10-year average
S&P TSX	5.3	-2.4	0.4	-0.8	57%	43%
ENERGY	16.1	-5.9	1.2	-3.1	68%	41%
MATERIALS	5.9	-5.3	1.0	-1.9	46%	40%
INDUSTRIALS	-0.5	-2.7	-1.3	-0.9	57%	43%
CONS. DISC.	-0.2	-1.5	-0.7	-0.5	38%	46%
CONS. STAP.	4.7	-0.4	0.1	-0.1	57%	44%
HEALTH CARE	14.6	-5.9	-2.1	-2.2	14%	41%
FINANCIALS	3.9	-0.1	0.3	0.0	87%	49%
BANKS	3.0	0.1	0.5	0.0	90%	50%
IT	5.5	-2.1	-0.9	-0.7	82%	47%
TELECOM	-0.3	-1.1	0.1	-0.3	67%	42%
UTILITIES	2.4	-1.9	2.0	-0.5	43%	42%
REAL ESTATE	0.0	NA	-0.1	NA	50%	NA

10/8/2021
NBF Economics and Strategy (data via Refinitiv)

Energy prices are likely to march upward further as the price of electricity continues to soar in many parts of the world, thanks to high demand coupled with supply shortages exacerbated by adverse weather conditions, droughts hitting hydroelectric generation and soaring prices for carbon permits. The power shortages facing the world's two most populous countries, China and India, are beginning to curtail manufacturing. In Europe the situation is also difficult. All of this at a time when the global restocking cycle has yet to begin. As the chart below shows, volume inventories of U.S. businesses are at a multi-year low. Getting inventories back to normal will take time. Against this backdrop, Canadian fossil-fuel producers are likely to see prices much higher than expected. We expect WTI to remain in the $80-$85 range over the next 12 months.

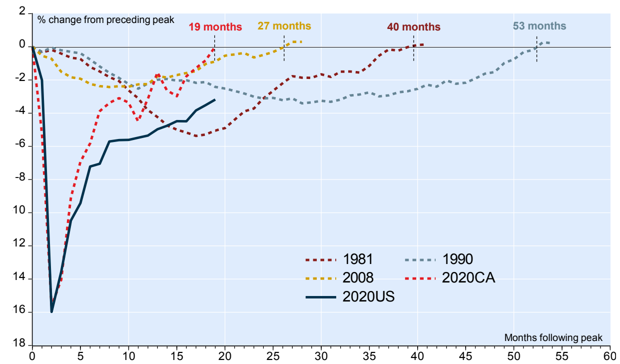
U.S.: Global restocking has yet to begin
Real manufacturing and trade inventories



NBF Economics and Strategy (data via Fred)

The improvement of Canada's terms of trade, opening the door to better profits, has led to significant improvement in its labour market (good for consumer spending and banks). The country gained an impressive 157,000 net new jobs in September. In just 19 months, employment has returned to its pre-pandemic level – not only the fastest recovery of the last four recessions but a staggering performance compared to the U.S., where employment remains more than 3% below its pre-recession peak (chart).

Canada: Fastest employment recovery on record
Employment recoveries: Canadian recessions since 1981 and U.S. since 2020

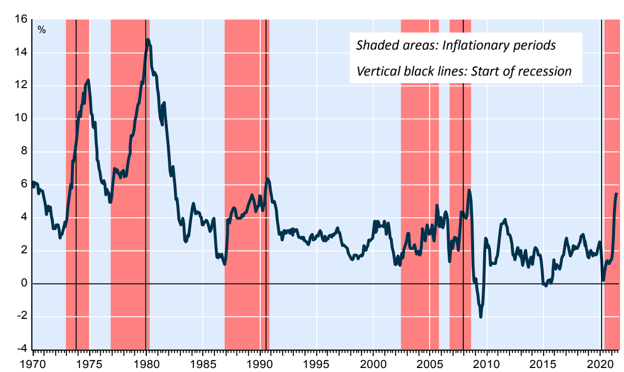


NBF Economics and Strategy (data from Statistics Canada)

The lack of employment gains in the U.S. is likely to force the Fed to keep its monetary policy very accommodating for the foreseeable future. Even if QE tapering begins in November as we expect, rate hikes are unlikely before late next year. Real interest rates are likely to stay negative for many more quarters as the FOMC remains tolerant of inflation. In this scenario the USD is unlikely to appreciate much, which will help keep most commodity prices firm.

This means that global inflation is likely to remain above its pre-pandemic trend for a while longer. As the chart below shows, this is only the sixth time since the early 1970s that U.S. CPI inflation has exceeded 4%.

U.S.: Inflation and inflationary periods since 1970
12-month inflation rate. Inflationary period defined as rising inflation reaching at least 4%

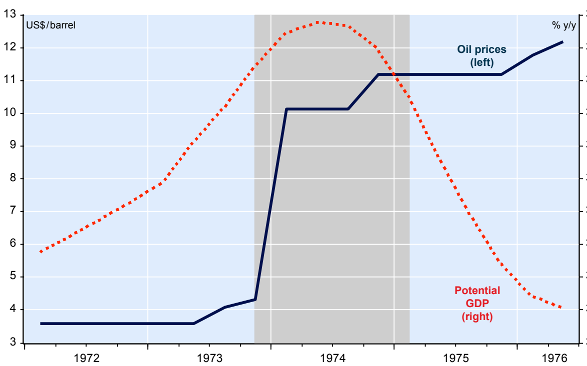


NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

Central banks still argue that the current situation is transient and largely due to cyclical factors. We are not so sure. Global supply-chain constraints are currently exacerbated by the soaring cost of carbon permits in many OECD economies. This at a time when China is recalibrating its industrial policies in the direction of greater wealth redistribution and decarbonization. This confluence of factors looks more and more like a supply shock reminiscent of the early 1970s, when soaring production costs idled industrial capacity and reduced potential GDP for several quarters (chart).

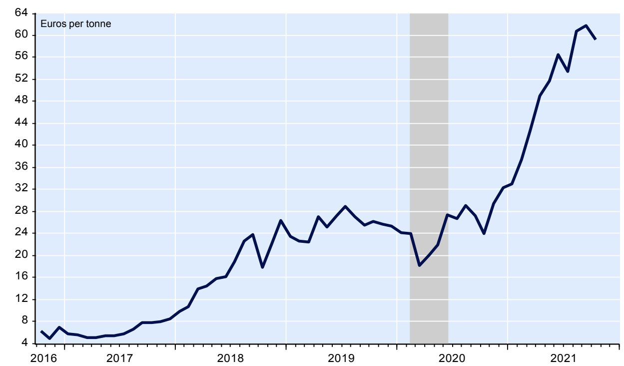
U.S.: 1974 supply shock hurt potential GDP
Oil prices vs. U.S. potential GDP



NBF Economics and Strategy (data from Fred)

A recent analysis from the Peterson Institute for International Economics argues just that.[1] In the author's view, "decades of procrastination on climate change have turned the expected smooth transition into what is likely to be an abrupt one." The situation developing in the EU and the U.K., where carbon tax-ation has surged, illustrates the significant problems of moving away from fossil fuels too quickly without an adequate backup supply in place (chart). The risk of global stagflation is increas-ing, and we estimate the probability of this scenario at 30%.

Europe: Carbon tax is surging
European emissions allowance



NBF Economics and Strategy (data via Bloomberg)

How would asset classes be likely to behave if inflation persists? Our research shows that historically, commodities generally provide positive real returns during inflationary periods, as do real estate assets (chart). As for equities, we find that the S&P/TSX provides a much better hedge against inflation than the S&P 500: an average annualized return of +2.3% versus −5.9% for the S&P 500. Interestingly, large pension funds continue to reduce their exposure to Canadian equities although this asset class has historically provided better protection against inflation. We understand that carbon emissions are now at the heart of investment decisions and that ESG considerations play a key role in capital allocation, and rightly so. At the same time, we cannot ignore the fact that Canada's geographic opportunities, geological makeup, existing infrastructure, collaboration and industry partnerships position our country's energy sector to become a world leader in carbon capture, utilization and storage (CCS/CCUS). As our colleague Amber Brown and the NBF Energy Team recently noted, Can-ada currently operates 15% of the world's CCS/CCUS projects.[2]

Perspective on performance of asset classes in inflationary periods
Real total annualized returns during when inflation exceeds 4% (including start of recessions)

	Periods					Average	Other periods
	1972M12-1974M12	1976M12-1980M03	1986M12-1990M10	2002M06-2005M09	2006M10-2008M07		
Copper	-6.7	2.5	12.6	32.9	-0.6	8.1	9.7
Gold Bullion	49.5	41.5	-6.2	10.8	11.0	21.3	-2.2
10-year treasury total return index	-8.3	-11.6	1.0	0.7	3.5	-2.9	5.9
S&P 500	-27.9	-5.0	3.0	7.8	-7.7	-5.9	11.4
S&P/TSX	-18.6	16.8	-3.1	13.9	2.6	2.3	6.4
US Broad Nominal $	-12.6	-9.8	-1.4	-6.3	-9.8	-8.0	0.7
US home prices	-1.6	1.3	-0.4	11.0	-16.9	-1.3	1.7
CA home prices	11.6	-2.2	2.5	4.9	3.2	4.0	5.8
Light Crude Oil	66.4	27.5	10.5	26.3	42.4	34.6	-6.6
CRB composite	11.5	-2.5	-1.4	4.5	8.8	4.2	0.3
U.S. yield curve inversion?	YES	YES	YES	NO	YES	-	-
Annualized inflation	10.7	10.4	4.9	3.2	4.6	6.7	3.3
Recession started in the period?	YES	YES	YES	NO	YES	-	-

*July 2021 (U.S. home prices as of May)

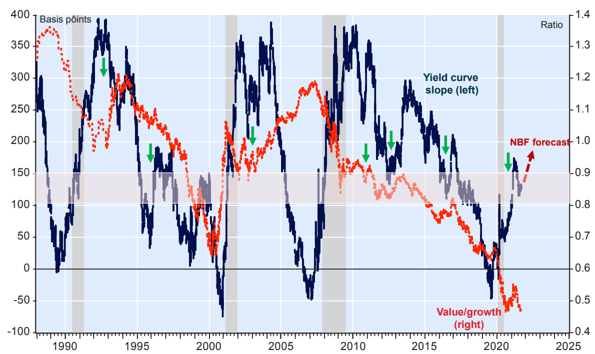
NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset mix remains unchanged this month. We remain underweight in fixed income and overweight in equities, with a preference for value stocks against growth stocks given our forecast of rising long-term interest rates and a steepening yield curve. With that start of QE tapering a near certainty for November and policy rate hikes still a long way off, our ***current forecast*** is for a steepening of the yield curve slope (10-year Treasury yield minus 3-month Treasury bills) to 175 bps in the coming quarters. As the chart below shows, a yield curve slope of more than 150 bps in the expansion phase of an economic cycle is often associated with outperformance of value stocks relative to growth stocks (green arrows). That would also be good news for the S&P/TSX and for the Canadian dollar, which we see appreciating to C$1.20 against the USD.

Stock Market and Portfolio Strategy

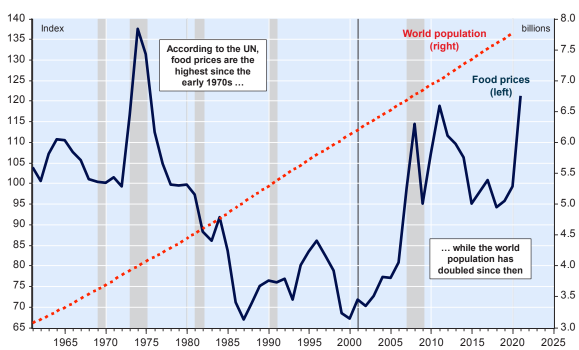
Equities: Value stocks likely to benefit from QE tapering
Ratio of value to growth stocks in the S&P 500 vs. yield curve slope (10-year Treasury minus 3-month T-bill)



NBF Economics and Strategy (data via Refinitiv)

In light of these considerations and the rising risk of stagflation, we are shifting our geographic allocation of equities, raising our exposure to Canadian equities at the expense of EAFE and Emerging Markets. The United Nations reports that its Food Price Index (FFPI), which tracks the international price of a basket of food items, is currently up 30% from its 2020 average, the largest increase in 47 years. The FFPI adjusted for inflation is currently at its highest since the early 1970s. This development is particularly troubling for emerging countries, where food accounts for a large share of the consumption basket.

World: Food prices fuel stagflation scenario
FAO Food Price Index in real terms vs. global population



NBF Economics and Strategy (data from UN and Fred)

NBF Asset Allocation

	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	25	+2
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	-1
Emerging markets	5	5	-1
Fixed Income	45	42	
Cash	5	7	
Total	100	100	

NBF Economics and Strategy

Sector allocation

Our sector allocation is unchanged this month. We continue to favour cyclicals such as Energy, Materials and capital goods – sectors that have historically done well during an economic expansion when inflation is above trend and the yield curve is steep.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - October 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**13.4%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	13.4%
Materials	**Overweight**	**11.4%**
Chemicals	Market Weight	1.9%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.4%
Gold	Overweight	6.1%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.4%**
Capital Goods	Overweight	2.3%
Commercial & Professional Services	Underweight	3.2%
Transportation	Market Weight	5.8%
Consumer Discretionary	**Market Weight**	**3.6%**
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**	**3.6%**
Food & Staples Retailing	Market Weight	2.9%
Food, Beverage & Tobacco	Market Weight	0.6%
Health Care	**Market Weight**	**1.0%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.8%
Financials	**Market Weight**	**32.0%**
Banks	Market Weight	21.4%
Diversified Financials	Market Weight	4.7%
Insurance	Market Weight	6.0%
Information Technology	**Underweight**	**11.2%**
Telecommunication Services	**Market Weight**	**4.8%**
Utilities	**Underweight**	**4.5%**
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		***Oct-08-21***	***Target***
S&P/TSX		20,416	21,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	1168	1300
	Dividend	531	591
PE Trailing (implied)		17.5	16.2
			Q42021 (Est.)
10-year Bond Yield		1.63	1.70

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	***Q42021 (Est.)***
Index Level		***Oct-08-21***	***Target***
S&P 500		4,361	4,450
Assumptions			Q42021 (Est.)
Level:	Earnings *	184	195
	Dividend	59	62
PE Trailing (implied)		23.7	22.8
			Q42021 (Est.)
10-year Bond Yield		1.61	1.70

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					*Canadian Dollar*			*Correlation **
	Close on 10-11-2021	***Returns M-T-D***	***Y-T-D***	***1-Yr***	***3-Yr***	***Returns Y-T-D***	***1-Yr***	***3-Yr***	***with S&P 500***
North America - MSCI Index	***4432***	***1.3%***	***15.7%***	***25.9%***	***61.8%***	***13.2%***	***19.4%***	***54.5%***	***1.00***
United States - S&P 500	*4361*	*1.3%*	*16.1%*	*25.4%*	*59.9%*	*13.6%*	*19.0%*	*52.6%*	*1.00*
Canada - S&P TSX	*20416*	*1.7%*	*17.1%*	*23.3%*	*33.3%*	*17.1%*	*23.3%*	*33.3%*	*0.94*
Europe - MSCI Index	***1999***	***0.6%***	***8.6%***	***21.2%***	***25.0%***	***6.3%***	***15.0%***	***19.4%***	***0.93***
United Kingdom - FTSE 100	*7147*	*0.9%*	*10.6%*	*18.8%*	*2.0%*	*7.9%*	*18.2%*	*0.5%*	*0.07*
Germany - DAX 30	*15199*	*-0.4%*	*10.8%*	*16.5%*	*31.7%*	*2.5%*	*8.3%*	*25.9%*	*0.96*
France - CAC 40	*6571*	*0.8%*	*18.4%*	*32.8%*	*28.7%*	*9.5%*	*23.5%*	*23.0%*	*0.82*
Switzerland - SMI	*11772*	*1.1%*	*10.0%*	*14.1%*	*36.3%*	*2.7%*	*6.5%*	*39.0%*	*0.95*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*20.8%*	*-7.5%*	*-7.1%*	*15.5%*	*0.62*
Netherlands - Amsterdam Exchanges	*774*	*0.2%*	*23.9%*	*36.4%*	*49.4%*	*14.6%*	*26.8%*	*42.8%*	*0.96*
Pacific - MSCI Index	***3143***	***-1.9%***	***1.4%***	***15.5%***	***19.3%***	***-0.8%***	***9.6%***	***13.9%***	***0.93***
Japan - Nikkei 225	*28498*	*-3.2%*	*3.8%*	*20.7%*	*26.2%*	*-7.4%*	*6.8%*	*19.4%*	*0.95*
Australia - All ordinaries	*7601*	*-0.4%*	*11.0%*	*20.4%*	*26.8%*	*3.6%*	*16.5%*	*25.5%*	*0.84*
Hong Kong - Hang Seng	*25325*	*3.1%*	*-7.0%*	*5.0%*	*0.2%*	*-9.3%*	*-0.7%*	*-3.6%*	*0.20*
World - MSCI Index	***3032***	***0.8%***	***12.7%***	***23.9%***	***48.2%***	***10.3%***	***17.5%***	***41.6%***	***1.00***
World Ex. U.S.A. - MSCI Index	***2296***	***0.1%***	***7.2%***	***20.2%***	***24.2%***	***4.9%***	***14.0%***	***18.6%***	***0.94***
EAFE - MSCI Index	***2275***	***-0.3%***	***5.9%***	***19.1%***	***22.9%***	***3.7%***	***13.0%***	***17.4%***	***0.94***
Emerging markets (free) - MSCI Index	***1,266***	***1.0%***	***-2.0%***	***12.8%***	***32.6%***	***-4.1%***	***7.0%***	***26.6%***	***0.91***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-10-11

	Weight S&P 500 %	Index Level	Variation		EPS Growth			P/E			5 year Growth Forecast	PEG Ratio	Revision Index**
			3-m Δ	12-m Δ	2021	2022	12-m forward	2021	2022	12-m forward			
S&P 500	100	279	-2.71	22.00	46.13	9.22	15.00	22.12	20.25	20.57	22.15	1.37	3.51
Energy	2.96	428	7.08	83.03	0.00	25.85	64.35	16.20	12.87	13.57	48.62	0.21	13.12
Materials	2.51	510	-2.22	21.94	82.60	0.05	12.97	15.93	15.93	15.86	16.05	1.22	7.38
Industrials	8.13	847	-3.23	24.17	90.01	37.07	44.19	26.36	19.23	20.57	27.07	0.47	2.65
Consumer Discretionary	12.33	1444	-2.04	14.63	78.17	29.99	37.54	36.09	27.76	29.49	42.42	0.79	0.98
Consumer Staples	5.79	726	0.18	7.41	9.98	6.82	7.08	21.31	19.95	20.11	9.41	2.84	1.07
Healthcare	12.95	1469	-2.16	16.28	23.54	4.31	8.36	17.30	16.59	16.78	11.71	2.01	2.36
Financials	11.57	642	5.27	53.26	57.50	-6.50	4.61	13.68	14.63	14.38	21.79	3.12	2.87
Information Technology	27.61	2654	-0.08	25.56	35.60	10.03	10.72	27.69	25.16	25.22	18.55	2.35	3.46
Telecom Services	11.16	269	0.20	35.22	34.28	10.46	15.68	22.69	20.54	20.92	26.86	1.33	6.40
Utilities	2.43	325	-1.16	0.67	1.95	6.85	5.64	19.75	18.49	18.78	6.38	3.33	-0.18
Real Estate	2.56	279	-2.71	22.00	20.23	-2.71	2.27	46.95	48.26	47.92	35.04	21.10	9.30

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Chart Highlights

Key charts can give investors clues to developing trends in the market. We highlight charts that point to developing or extending trends in the market. Bond yields are renewing their uptrend as we highlight with the U.S. 10-year chart. Several gold sector charts are pointing to continued downtrends as gold and silver charts test important support. Notable strong relative performance from EDV to gold suggests there is underlying technical strength and upside potential in this stock.

Technical Analysis

U.S. 10-year yield (TNX)

The U.S. 10-year yield chart broke out at 1.0% in early 2021 and rallied to approximately 1.7% before stalling. A correction over the past six months was a normal reaction to the previous leg up. After three months of basing along its rising trend line and 200-day, the breakout across 1.39% signals a renewal of the rising trend. Five-year yields are leading the way as they are already challenging their April highs. This action along with the recent upside breakout on the TNX chart suggests that 10-year yields will test their April highs near 1.7% with the potential to go higher.

Source: Refinitiv

Technical Analysis

Gold (XAU=)

A year of uneventful trading on the gold chart has formed a potential top formation. Firming action on the U.S. dollar index and rising yields are technical negatives for gold. This is being reflected on the chart as a series of lower highs and failing chart support at US$1,760 extend a pattern of weak technical action. A test of key chart support at US$1,680 is on the horizon. Breaking US$1,680 chart support will complete a top formation that translates into further downside tests to US$1,400.00.

Source: Refinitiv

Technical Analysis

Silver (XAG=)

The silver chart has carved out a one-year top structure with key support at US$22.40. Several tests of support proved successful as prices rallied off US$22.40. The latest rebound stalled at its moving averages and turned down again. Many silver stocks are already making new 52-week and correction lows suggesting that the US$22.40 support is at risk. Breaking down here completes a top that will take prices into the mid-teens.

Source: Refinitiv

Technical Analysis

Gold Bugs/Gold (.HUI/XAU=)

Gold and silver-related equities have generally underperformed bullion and silver. The Gold Bugs/Gold ratio chart broke a rising trend line and support to complete a top. This indicates that a trend of weak relative performance of gold stocks to gold is in a declining trend. New correction lows were recently struck in this ratio as the downtrend extends. We expect continued weak action from gold stocks relative to gold. If gold also breaks down this would be a fairly negative combination for the sector.

Source: Refinitiv

Technical Analysis

Philadelphia Gold Index (XAU)

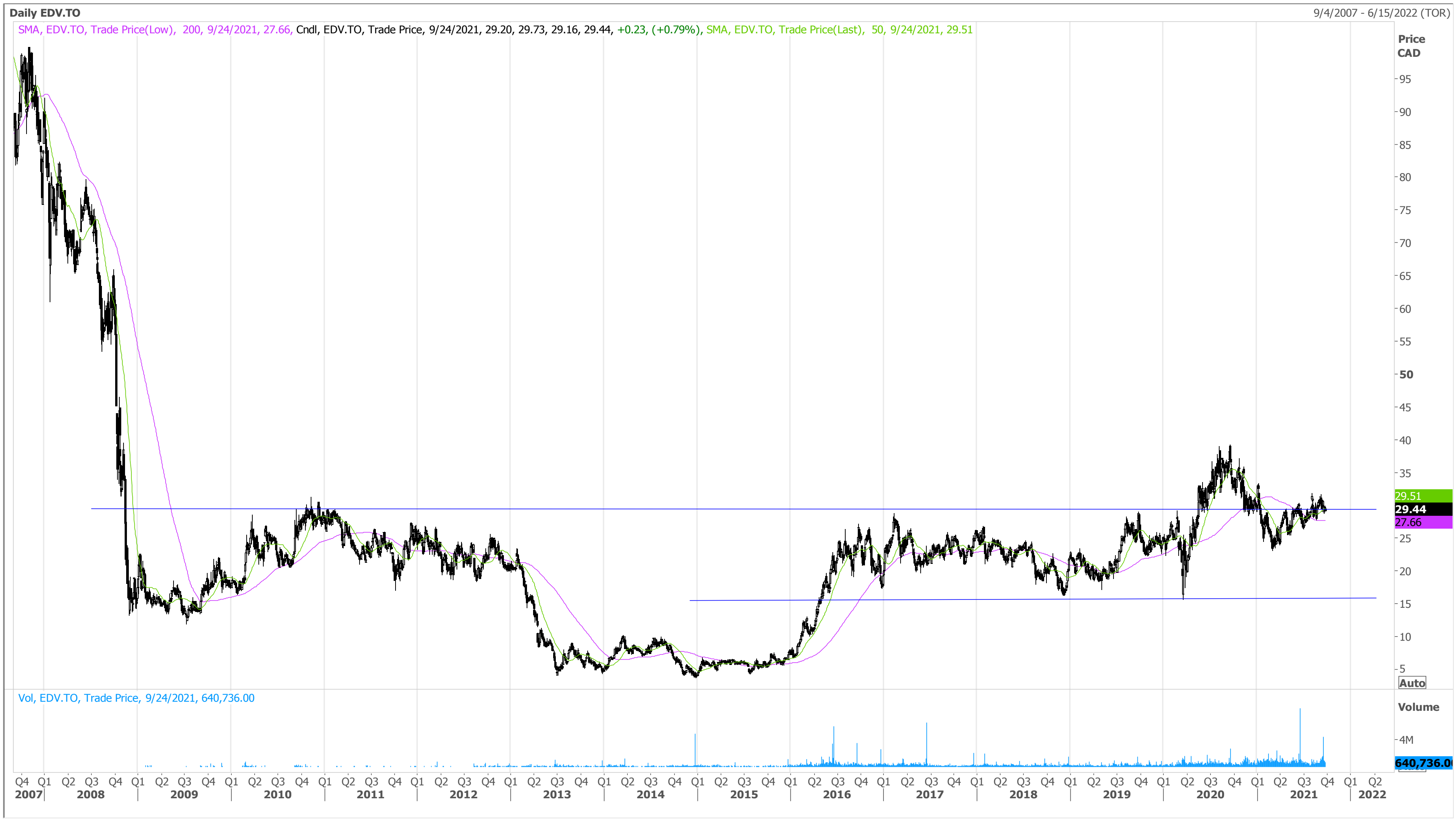
The Philadelphia gold index is generally composed of bigger cap gold equities which have held up relatively well given the weak action in the sector. Recently this chart broke a one-year top as it failed support at 130.00. This breakdown turns the trend down from neutral and targets 90 to 100.

Source: Refinitiv

Technical Analysis

Endeavour Mining PLC (EDV)

Endeavour Mining PLC stands out among gold stocks for relative performance against gold. The chart broke out of a 12-year base at $29.40 last year to start a new bull trend. A correction took prices back into the base before rallying again. Impressive relative performance to gold is technically bullish as prices hold well while gold slips. Any rebound or strength in gold will be a big positive for this stock. Completing a big base suggests the stock has great potential. The first target is $39.00 with a second target in the $50s long term.



Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **September 29, 2021.**

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

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$12.85	$22.00	0.53%	71.75%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$31.95	$36.00	5.92%	18.69%	Oil, Gas & Consumable Fuels
	Shawcor Ltd.	SCL	$5.66	$8.75	0.00%	54.59%	Energy Equipment & Services
	Tidewater Midstream and Infrastructure Ltd.	TWM	$1.38	$1.75	2.94%	29.71%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$42.88	$57.50	1.54%	35.68%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$4.75	$7.00	0.00%	47.37%	Metals & Mining
	Copper Mountain Mining Corp.	CMMC	$2.79	$5.00	0.00%	79.21%	Metals & Mining
	Endeavour Mining Corp.	EDV	$28.37	$49.00	2.47%	75.22%	Gold
	Kinross Gold Corp.	K	$6.68	$11.00	2.19%	66.93%	Gold
	Newmont Corp.	NGT	$68.51	$99.00	4.05%	48.57%	Gold
	Pan American Silver Corp.	PAAS	$29.29	$50.00	1.71%	72.42%	Metals & Mining
	Sandstorm Gold Ltd.	SSL	$7.14	$11.50	0.00%	61.06%	Gold
	SSR Mining Inc.	SSRM	$18.15	$32.00	1.36%	77.70%	Gold
	Transcontinental Inc.	TCL.a	$20.34	$28.00	4.55%	42.08%	Containers & Packaging
	Wesdome Gold Mines Ltd.	WDO	$10.06	$14.50	0.00%	44.14%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$40.38	$48.50	0.00%	20.11%	Capital Goods
	CAE Inc.	CAE	$37.64	$45.00	0.00%	19.55%	Capital Goods
	Dexterra Group Inc.	DXT	$8.33	$12.50	4.32%	54.26%	Commercial & Professional Services
	Exchange Income Corp.	EIF	$44.82	$47.00	5.10%	9.95%	Transportation
	Hardwoods Distribution Inc.	HDI	$37.11	$60.50	1.13%	64.11%	Capital Goods
	Mullen Group Ltd.	MTL	$13.19	$15.50	3.66%	21.15%	Transportation
	TFI International Inc.	TFII	$130.29	$158.00	0.93%	22.16%	Transportation
	Toromont Industries Ltd.	TIH	$106.50	$125.00	1.33%	18.69%	Capital Goods
	WSP Global Inc.	WSP	$153.41	$168.00	0.98%	10.49%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$47.58	$56.00	1.69%	19.36%	Consumer Durables & Apparel
	Spin Master Corp.	TOY	$41.25	$58.00	0.00%	40.61%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$12.20	$15.00	5.26%	27.97%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$7.35	$18.00	0.00%	144.90%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.41	$7.75	0.00%	43.25%	Pharmaceuticals, Biotechnology & Life Sciences
	Medical Facilities Corp.	DR	$9.65	$12.00	2.86%	27.25%	Health Care Providers & Services
	Sienna Senior Living Inc.	SIA	$14.58	$17.50	6.64%	26.45%	Health Care Providers & Services
Financials							
	Alaris Equity Partners Income Trust	AD.un	$17.91	$27.00	7.56%	58.12%	Diversified Financials
	Bank of Montreal	BMO	$128.35	$149.00	3.33%	19.39%	Banks
	Canadian Imperial Bank of Commerce	CM	$142.50	$168.00	4.10%	21.99%	Banks
	Element Fleet Management Corp.	EFN	$12.68	$19.00	2.03%	51.89%	Diversified Financials
	Home Capital Group Inc.	HCG	$37.29	$58.00	0.00%	55.54%	Banks
	iA Financial Corporation Inc.	IAG	$71.80	$80.00	2.70%	14.12%	Insurance
	Trisura Group Ltd.	TSU	$43.86	$58.00	0.00%	32.24%	Insurance
Information Technology							
	Kinaxis Inc.	KXS	$182.13	$225.00	0.00%	23.54%	Software & Services
	Shopify Inc.	SHOP	US$1346.55	US$2000	0.00%	48.53%	Software & Services
	Thinkific Labs Inc.	THNC	$14.20	$20.00	0.00%	40.85%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.29	$18.00	0.00%	35.44%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$24.98	$29.00	3.97%	20.09%	Utilities
	Boralex Inc.	BLX	$37.42	$50.00	1.82%	35.38%	Utilities
	Innergex Renewable Energy Inc.	INE	$20.35	$28.00	3.66%	41.13%	Utilities
	Northland Power Inc.	NPI	$40.34	$48.00	3.05%	21.96%	Utilities
Real Estate							
	Allied Properties REIT	AP.un	$40.27	$49.25	4.17%	26.52%	Real Estate
	European Residential REIT	ERE.un	$4.43	$5.55	3.77%	28.99%	Real Estate
	H&R REIT	HR.un	$15.69	$19.50	4.31%	28.68%	Real Estate
	RioCan REIT	REI.un	$21.74	$25.00	4.40%	19.41%	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 September 29, 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).

Back to Research Analysts page

Banking & Insurance

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

Selections

- › *iA Financial Corporation*
- › *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 were equally impressive, with 4% sequential book value growth and $100 million 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 increased our target to $80 from $76. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	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		83,036	647	128.35	10/2020	7.71	12.74	12.99	10.1	9.9	80.00	81.65	88.80	1.6	1.4	3.3%	149.00	
Bank of Nova Scotia	BNS	SP		95,788	1,215	78.83	10/2020	5.36	7.75	8.28	10.2	9.5	53.26	54.43	59.38	1.4	1.3	4.6%	86.00	
CIBC	CM	OP		63,435	445	142.50	10/2020	9.69	14.75	15.28	9.7	9.3	90.06	92.23	101.59	1.5	1.4	4.1%	168.00	
National Bank	NA	NR		32,645	338	96.69	10/2020	6.06	8.92	9.14	10.8	10.6	46.00	47.43	53.31	2.0	1.8	2.9%	NR	
Royal Bank of Canada	RY	OP		180,574	1,425	126.71	10/2020	7.97	11.50	11.91	11.0	10.6	62.34	64.26	71.81	2.0	1.8	3.4%	144.00	
Toronto-Dominion Bank	TD	SP		154,785	1,823	84.93	10/2020	5.35	7.92	7.75	10.7	11.0	51.21	52.67	57.42	1.6	1.5	3.7%	89.00	
Canadian Western Bank	CWB	SP		3,207	87	36.81	10/2020	2.93	3.66	4.06	10.1	9.1	32.88	33.40	36.06	1.1	1.0	3.2%	41.00	
Laurentian Bank	LB	SP		1,779	44	40.89	10/2020	2.92	4.73	4.24	8.6	9.7	56.88	57.67	59.77	0.7	0.7	3.9%	47.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		35,803	930	38.51	12/2020	2.67	3.43	3.77	11.2	10.2	23.70	20.11	22.08	1.9	1.7	4.5%	38.00	
iA Financial	IAG	OP		7,725	108	71.80	12/2020	4.87	8.30	8.82	8.7	8.1	59.02	43.65	47.40	1.6	1.5	2.7%	80.00	
Manulife Financial	MFC	SP		48,068	1,942	24.75	12/2020	2.22	3.25	3.47	7.6	7.1	24.76	18.93	21.38	1.3	1.2	4.5%	27.00	
Sun Life Financial	SLF	OP		38,607	586	65.91	12/2020	4.14	5.99	6.39	11.0	10.3	38.37	32.86	35.84	2.0	1.8	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

Diversified Financials

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

Selections

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

Investor Day Highlights

Brookfield Business Partners (NYSE: BBU) – *Doubling the Value of the Business*

Brookfield hosted its annual investor day in New York on September 20th and 21st. The hybrid in-person and virtual event was well-attended by U.S. investors and a small number of Canadians. The presentations detailed BBU's target to double the value of the business (on a per-unit basis) over the next five years by i) executing on a robust pipeline, ii) surfacing value within existing and future operations, and iii) aggressively pursuing growth in new tech and healthcare verticals. Today, BBU trades at an attractive ~19% discount to management's NAV estimate.

We continue to believe that BBU's diversified portfolio of companies across sectors/geographies positions it nicely for upside potential as partner companies recover from pandemic impacts. In addition, we hold a favourable view of BBU's recent flurry of activity, including three acquisitions and the upcoming creation of BBUC and distribution bump. Now, we await BBU's successful execution/integration to drive the shares higher. Our US$60 price target implies a valuation multiple of 8.8x EV/EBITDA on our 2022E estimates. Reiterate Outperform.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 9/29	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
Mortgage Finance																				
Equitable Group	EQB	OP		2.46	17.0	144.82	12/2020	12.61	15.48	16.75	9.4	8.6	101.94	109.21	124.35	1.3	1.2	1.0%	179.00	
First National Financial	FN	SP		2.63	60.0	43.94	12/2020	3.95	3.74	4.24	11.7	10.4	8.80	9.69	11.33	4.5	3.9	5.3%	56.00	
Home Capital Group	HCG	OP		1.88	50.3	37.29	12/2020	3.55	4.94	5.34	7.5	7.0	35.32	37.60	42.44	1.0	0.9		58.00	
Timbercreek Financial	TF	SP		0.78	81.0	9.65	12/2020	0.67	0.71	0.73	13.7	13.2	8.48	8.52	8.56	1.1	1.1	7.2%	9.75	
Specialty Finance																				
ECN Capital	ECN	OP		2.54	243.5	10.45	12/2020	US 0.13	US 0.34	US 0.22	24.3	36.6	US 2.82	US 3.20	US 3.10	2.6	2.6	1.1%	12.50	
Element Fleet Management	EFN	OP		5.44	428.6	12.68	12/2020	0.77	0.75	0.89	16.8	14.3	7.20	7.19	7.67	1.8	1.7	2.1%	19.00	
goeasy	GSY	OP		3.34	16.5	202.41	12/2020	7.57	10.32	11.63	19.6	17.4	45.40	49.31	57.53	4.1	3.5	1.3%	196.00	
Brookfield Business Partners	BBU	OP		US 6.71	US 148.3	US 45.24	12/2020	-US 1.13	US 1.60	-US 2.29	28.2	nmf	US 28.48	US 31.93	US 40.14	1.4	1.1	0.6%	US 60.00	
Power Corporation of Canada	POW	SP		27.85	676.5	41.17	12/2020	3.00	4.49	4.08	9.2	10.1	33.48	34.40	36.64	1.2	1.1	4.3%	45.00	
HR Companies																				
LifeWorks Inc.	LWRK	OP		2.3	70.2	33.10	12/2020	0.80	-0.03	1.15	nmf	28.8	8.48	8.56	9.05	3.9	3.7	2.4%	41.00	
Securities Exchange																				
TMX Group	X	SP		7.72	56.1	137.60	12/2020	5.88	6.94	7.05	19.8	19.5	65.19	66.49	69.63	2.1	2.0	2.2%	152.00	
Insurance																				
Intact Financial Corp.	IFC	OP		29.85	176.1	169.53	12/2020	9.92	11.11	10.68	15.3	15.9	77.67	80.71	88.01	2.1	1.9	2.0%	212.00	
Trisura Group Ltd.	TSU	OP		1.80	41.1	43.86	12/2020	0.92	1.40	1.50	31.3	29.3	8.03	8.66	10.11	5.1	4.3		58.00	
Fairfax Financial Holdings	FFH	OP		13.30	25.9	513.04	12/2020	US 6.29	US 129.58	US 56.63	3.1	7.1	US 540.62	US 601.55	US 651.93	0.7	0.6	2.5%	775.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.09	103.7	10.53	12/2020	1.38	1.36	1.33	7.8	7.9	4.05	4.21	4.44	2.5	2.4	8.0%	12.00	
IGM Financial Inc.	IGM	OP		10.80	238.9	45.20	12/2020	3.20	3.93	4.40	11.5	10.3	25.62	26.60	28.78	1.7	1.6	5.0%	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.

Back to Research Analysts page

Sector Analysis

Diversified Industrials

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

Selections

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

Energy transition providing opportunities for companies new and old

We recently launched coverage on Green Impact Partners, a clean technology and energy transition company that seeks to capture uncaptured emissions and create value from recycling, repurposing and revaluing waste.

GIP's current operations consist of seven water treatment and recycling facilities located in AB and SK and a solids recycling business in the state of Hawaii. In addition to the recycling facilities, GIP has a portfolio of renewable natural gas (RNG) and other clean energy development projects at various stages of advancement. We believe GIP is well-positioned to benefit from RNG tailwinds as governing bodies on both sides of the border increase or initiate aggressive renewables targets focusing on achieving zero carbon emissions in the 2040s, with the International Energy Agency's Sustainable Development Scenario pointing to global RNG production growing at a CAGR of 21%-24% through 2040. GIP intends to support its RNG development projects with long-term offtake agreements for the gas produced (with GIP currently nearing an offtake agreement for the GreenGas RNG project in Colorado). We believe the critical risks to our positive RNG outlook include potential changes in government regulations, the future value of Low Carbon Fuel Standard (LCFS) and Renewable Fuel Standard (RFS) credits, as well as risks related to competing uses for feedstock and technology. Our $11.25 target is based on a sum-of-the-parts analysis using a 2023 EV/ EBITDA multiple of 6.5x for GIP's assets with current or near-term operations and a 20-year DCF valuation for several development projects approaching Final Investment Decision (FID; using project-specific discount rates and assuming 60% funding from non-recourse debt). **Our $11.25 target implies a 9.2x 2023e EV/EBITDA multiple. With the current valuation in our view largely covered by existing operating assets and GIP's first RNG development project (under construction), we initiated with an Outperform rating.**

Demand for gas compression and processing equipment driven by energy transition bodes well for Enerflex.

We like Enerflex's positioning for the energy transition given that it manufactures and sells, rents and services the kind of equipment you need to move and process gas – whether that's natural gas, RNG, Hydrogen or CO2. Enerflex has several decades of experience completing carbon capture utilization and storage (CCUS), hydrogen and RNG plants, with opportunities for EFX throughout the CCUS value chain, including the capture and compression of CO2 from flue gas post-combustion or demand for CO2 compressors required in transport at booster stations along pipelines and injection points at storage reservoirs. We also view Enerflex as well-positioned to benefit from increased CCUS activity from a geographic perspective with manufacturing facilities in Canada, the United States and Australia overlapping considerable CO2 geological storage resources. We note industry experts point to Carbon Capture, Utilization and Storage to be a $2 Trillion total addressable market by 2040, growing at roughly 35% per year in their outlook over that time frame, representing potential long-term tailwinds behind demand for Enerflex's core products and services. We would expect energy transition opportunities translating to a material increase in Engineered Systems bookings and backlog to represent a positive catalyst for EFX share prices as we note that prior to the pandemic, Enerflex's share price closely tracked movement in the Engineered Systems backlog. **We reiterate our Outperform rating and $10.50 Target driven by an unchanged 6.4x 2022e EV/EBITDA, in line with Enerflex's long-term historical forward year EV/ EBITDA average.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	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		537.06	18.8	28.60	149.3	171.9	191.6	8.9	7.9	7.0	4.8	35.00	24%	
CES Energy Solutions Corp.	CEU	OP		458.80	254.9	1.80	83.3	135.1	150.5	9.0	5.5	6.3	2.2	2.75	56%	
Enerflex Ltd.	EFX	OP		843.25	89.8	9.39	191.3	150.9	194.5	6.3	7.6	5.8	2.1	10.50	13%	
Green Impact Partners Inc.	GIP	OP		151.24	20.3	7.45		5.0	9.8		25.7	20.0	-4.3	11.25	51%	
Mullen Group Ltd.	MTL	OP		1268.97	96.2	13.19	191.5	227.9	255.2	8.6	8.0	6.8	2.5	15.50	21%	
Pason Systems Corp.	PSI	SP		715.18	82.8	8.64	39.5	62.3	80.1	14.4	9.2	7.0	-2.3	11.00	30%	
Shawcor Ltd.	SCL	OP		401.80	71.0	5.66	43.8	106.4	130.0	15.8	6.2	4.7	2.4	8.75	55%	

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

Amber Brown, MBA
Analyst
403-290-5624
—
Associate:
Josh Turanich : 403-290-5625

Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) 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 September near record levels of €62.88 (US$72.91), following the last record high of €64.37 (US$75.28) on Monday, September 27th. Overall, the EUAs were up ~3.5% this past month and continue to remain in contango, with September 29th, Dec22 contract closing at €63.28 (US$73.37) resulting in a spread of -€0.4. Considering prices on a y/y basis, the EUAs have more than doubled in just one year.

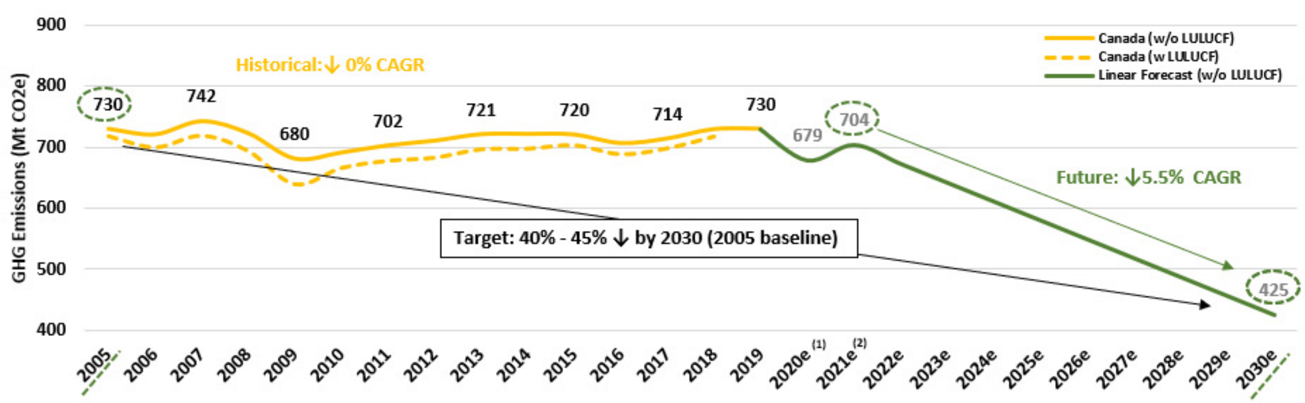
Elsewhere, the United Kingdom Emissions Allowances (UKEA) futures, which started trading at the end of May 2021, also reached a record high of £75.56 (US$101.44) at the end of September, representing a one month return of ~45%.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) Jul22 futures closed the month out at US$10.54 (August: US$9.18), representing a ~15% monthly increase and ~51% in a year. Lastly, the California Carbon Allowances (CCA) Jul22 and Dec21 prices surged ahead ~8% this past month to reach new record highs of US$27.71 and US$27.02, while remaining in contango. We note that y/y, CCA prices are also up ~51%. Finally, we highlight the voluntary Global Emission Offsets (GEO) futures, which continued its impressive streak, increasing ~17% during August and closing on Wednesday at US$7.46, while the Nature-based Global Emissions Offset (NGEO) future increased ~6.4% in September to reach US$7.77. 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.

Liberal Victory

On September 21st, the Liberal party won the Canadian federal election by a minority vote, keeping Canada's emissions reduction target intact at 40%-45% by 2030, which is outlined on the following page in Exhibit 1. As a result, the escalating price on pollution, which is set to rise from $40/t as of 2021 up to $170/t by 2030 will remain in place and be a key aspect of how Canada will achieve its emissions reduction targets. Meanwhile, the federal government has also stated that CCUS will be a key component to meeting Canada's emission reduction targets, with the government looking to take action by introducing a CCUS investment tax credit by the end of 2021. Canada has recognized that a Clean Fuel Standard (CFS) would also help the company abate emissions, with final regulations for liquid fuel streams, including gasoline, diesel, kerosene and fuel oils, expected to be completed by the end of 2021 and come into force in December 2022. Lastly, we note that Canada is currently working on a voluntary emission offset credit system to incentivize companies not required to participate in the carbon tax to reduce their emission output.

Exhibit 1: Canada's GHG Emissions Reduction Target



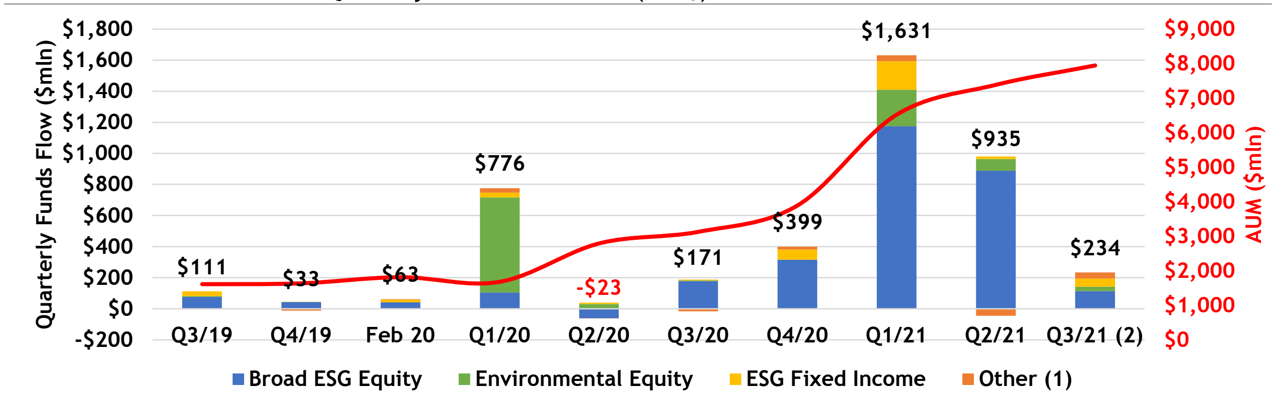
Country		Net-Zero	GHG reduction Target (%)	Baseline (year)	Baseline (Mt CO2e)	Target (year)	Target (Mt CO2e)	Absolute Reduction Target (Mt CO2e)	Absolute Reduction Target (%)
Canada	**New**	**2050**	**40% - 45% ↓ by 2030**	**2005**	**730**	**2030**	**401 - 438**	**292 - 328**	**40% - 45%**
Canada	Old	2050	32% - 40% ↓ by 2030	2005	730	2030	438 - 496	234 - 292	32% - 40%
Increase							**36 - 58**	**36 - 58**	**5% - 8%**

Source: Government of Canada, UNFCCC, Global Carbon Project, ClimateWatch, Climate Action tracker, CAIT, NBF
Note: GHG emissions linear forecast to reach reduction target is assumed to be from emissions without LULUCF.
(1) Assumes a 7% decrease in GHG emissions for 2020 as a result of the COVID pandemic, in line with the Global Carbon Project's world forecast.
(2) Assumes average GHG emissions from 2019 and 2020 levels for 2021 due to reopening of the economy.

ESG funds flows

We returned our focus to the ESG exchange-traded funds (ETFs) landscape in both Canada and the United States this past month, where we tracked the assets under management (AUM) and funds flow on a quarterly basis from Q1/19 to Q2/21. In addition, we took a closer look at funds flow on a monthly basis for 2021, broken down into several categories including Broad ESG Equity ETFs, Environmental Equity ETFs, ESG Fixed Income ETFs, and Other. Of note, this follows on our March Weekly ESG report (*here*), where we first outlined the increase in funds flowing into ESG ETFs, with January and February being hot months for environmental commodities. As shown in the chart below, the Canadian ESG ETF landscape continues to experience positive momentum with positive funds flow in all three quarters in 2021, representing ~$2.8 billion at the end of August, while AUM increased from $3.89 billion at the end of 2020 to $8.18 billion by the end of August.

Exhibit 2: Canadian ESG ETFs Quarterly Funds Flow & AUM (CAD$)



(1) Other includes ESG ETFs that include Social Equity, ESG Mixed Assets and ESG Commodities.
(2) Q3/21 only includes July and August 2021 data.

Source: Bloomberg, NBF

Sector Analysis

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047

Associates:
Eduardo Garcia Hubner
416-869-7476

Stephen Kwai
416-869-7571

Selections

- *Dialogue Health Technologies*
- *Jamieson Wellness*
- *Knight Therapeutics*
- *Medical Facilities*

Highlights as of September 2021

Medical Facilities

Following our upgrade to Outperform in November 2020, DR has appreciated ~58% (vs. ~26% TSX, both as at September 6, 2021) as its outlook (and results) have continued to improve. We explored the H2/2021+ outlook of its peer group via commentary from their most recent earnings reports (calendar Q2/2021), finding, overall and as of July/August 2021, that 1) surgery volumes are at or above pre-pandemic levels and expected to continue as such into H2/2021+; 2) backlogged volumes are beginning to materialize; and 3) Delta variant having little, if any, impact on volumes, as operators are now used to working in a pandemic environment; and 4) Peers have increased guidance for 2021.

We also found that a common U.S. healthcare theme of late has been that of a tight labour market for nurses. Although most of the nursing demand appears COVID-related ER, or ICU (do not apply to DR), there is also demand for operating room staff given surgical backlogs. However, some peers, and DR, have yet to see an impact and there are expectations that some of these pressures will ease.

Historically and on average, DR has mostly traded in line or above peers due to its elevated yield and low leverage. As these two factors persist, while those that resulted in the current valuation discount have generally been addressed, in our view, DR should trade closer to its peers. We increase our target EV/EBITDA to 7.5x (was 6.5x) resulting in a $12.00 (was $9.75) target. The current ~20%+ implied return suggests an Outperform rating.

Knight Therapeutics

Knight Therapeutics announced that it has entered into an agreement with Incyte Corporation (INCY: NASDAQ, Not Rated) for the exclusive rights to distribute two oncology treatments, tafasitamab and pemigatinib, in Latin America. GUD will be responsible for securing regulatory approvals and distribution while Incyte will be responsible for development, manufacturing and supply.

We view the licensing agreements positively for Knight and expect that both drugs will likely be approved in Latin America given their already approved status in other major regions (e.g., the U.S. and E.U.). We expect regulatory reviews and the commercial launch to take ~18 months following an initial six to nine months of preparing regulatory approval applications. Although the commercialization of these drugs in other markets is fairly recent, sales have trended positively and should similarly contribute to GUD's continued growth in Latin America.

We reiterate an Outperform rating and $7.75 target price derived via a sum-of-parts valuation.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 9/29	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		210.09	87.9	2.39u	1/2021	0.0%	0.01u	0.18u	0.22u	13.3	10.9	53.7u	88.6u	197.1u	15.7	7.1	1,181.5u	6.0	3.50u	
Andlauer Healthcare Group	AND	SP		1,915.34	38.5	49.78	2/2021	0.4%	0.81	1.17	1.36	42.6	36.7	78.9	106.3	112.6	19.9	18.5	213.6	1.9	39.50	
Dialogue Health Technologies	CARE	OP		481.68	65.5	7.35	2/2021	0.0%	(0.36)	(0.31)	(0.09)	nmf	nmf	(16.9)	(17.4)	(2.5)	nmf	nmf	-	-	18.00	
IMV Inc.	IMV	SP		145.08	67.8	2.14	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		1,481.45	40.2	36.89	2/2021	1.6%	1.17	1.29	1.32	28.6	27.9	88.0	99.7	105.4	16.6	15.6	165.6	1.6	42.75	
Knight Therapeutics	GUD	OP		681.51	126.0	5.41	2/2021	0.0%	0.09	0.23	0.33	24.0	16.3	16.8	39.1	56.2	14.1	9.8	-	-	7.75	
Medical Facilities Corp.	DR	OP		300.18	31.1	9.65	2/2021	2.9%	0.96u	1.01u	1.00u	7.9	8.1	57.3u	60.7u	58.7u	6.1	6.4	85.8u	1.9	12.00	↑
Theratechnologies	TH	SP		459.88	94.8	4.85	2/f2021	0.0%	(0.15)u	(0.09)u	0.05u	nmf	73.0	(7.1)u	(5.4)u	9.3u	nmf	37.7	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		204.33	85.1	2.40	4f2021	0.0%	0.08	0.09	0.12	28.1	20.7	14.6	16.3	18.5	13.2	11.7	11.5	0.6	3.25	
K-Bro Linen	KBL	SP		431.98	10.6	40.74	2/2021	2.9%	2.49	2.31	2.77	17.6	14.7	43.8	45.0	53.0	11.7	9.9	93.4	1.8	46.00	
Rogers Sugar	RSI	SP		572.35	103.7	5.52	3/f2021	6.5%	0.37	0.42	0.42	13.2	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		726.13	103.6	7.01	2/2021	8.6%	0.52	0.58	1.01	12.1	7.0	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

Maxim Sytchev
Analyst
416-869-6517

Associates:
Alizeh Haider: 416-869-7937
Kazim Naqvi: 416-869-6754

Selections

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

SNC-Lavalin Group Inc.: Key thoughts for Sept. 28 Investor Day

Focus on execution is our mantra

This is the first time since 2017 that we have had a dedicated Investor Day. We have heard lots of suggestions from investors: change the name (to Atkins), go private, sell down a portion of 407 (again). At the end of the day, the only thing that matters is results. And, as long as EPS (and more importantly, FCF) trajectory inflects as we get closer to the completion of legacy fixed-price EPC contracts, investors will figure out for themselves that paying a construction-type multiple for a consulting business is not a bad idea. Since July 2019 LSTK bifurcation spearheaded by Ian Edwards, shares have risen 79% vs. TSX +24% (WSP and STN are up 114% and 105%, respectively, over the same timeframe).
We are hoping for a crisp operational message around risk control on remaining contracts and emphasis on predictability of FCF post the LSTK run-off point (which technically will take place in early 2024). While it's exciting to talk about infra stimulus, M&A, etc., we don't believe this is the right time to muddy the self-help message that we believe is sufficient to bring the shares back to a $50 level. Once we get there, we can start thinking about "growth", in our view.

Specific topics of discussion / interest

We view the following topics of focus: 1) FCF generation post LSTK runoff (at 5% FCF yield, there is a path back to almost $10 billion market cap over the next two to three years; 2) Precedents suggest that full construction exit required for shares to lift vs. peers / market; we are looking for greater colour on risk controls to accelerate multiple re-rating timelines; 3) Deeper dive on EPDM / nuclear / infra services opportunities needed; 4) Harmonization of EDPM presentation to net revenue basis would be helpful for comparability purposes; 5) No major M&A would be the right approach to capital allocation, in our view, for now.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 9/29	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**		$20.08	$1,211	12 - 2020	$1.16	$0.91	$1.43	15.4x	13.6x	$255	$245	$276	7.0x	6.9x	3.5%	1.5x
Bird Construction Inc.	BDT	OP		**$11.50**		$9.91	$526	12 - 2020	$0.71	$0.91	$0.93	11.2x	11.0x	$69	$96	$100	5.3x	5.1x	3.5%	net cash
Finning International Inc.	FTT	OP		**$44.00**		$31.39	$5,092	12 - 2020	$1.14	$1.81	$2.20	17.3x	14.3x	$636	$780	$900	8.1x	7.0x	2.9%	1.3x
IBI Group Inc.	IBG	OP		**$14.00**		$11.46	$359	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**		$18.52	$520	12 - 2020	$1.74	$1.89	$2.31	10.1x	8.3x	$175	$200	$228	4.6x	4.1x	0.9%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$65.00**		$61.49	$6,783	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**		$36.06	$6,330	12 - 2020	-$0.67	$1.63	$2.58	14.2x	12.4x	$93	$584	$730	9.5x	8.6x	0.2%	1.9x
Stantec Inc.	STN	SP		**$60.00**		$60.20	$6,697	12 - 2020	$434.90	$2.30	$2.51	26.2x	24.0x	$435	$431	$494	16.8x	14.7x	1.1%	1.2x
Toromont Industries Ltd.	TIH	OP		**$125.00**		$106.50	$8,795	12 - 2020	$3.09	$3.89	$4.60	26.9x	22.7x	$539	$624	$706	14.0x	12.3x	1.3%	0.0x
WSP Global	WSP	OP		**$168.00**		$153.41	$17,927	12 - 2020	$3.34	$4.74	$5.62	32.4x	27.3x	$801	$1,040	$1,222	18.5x	15.7x	1.0%	0.0x
AutoCanada	ACQ	OP		**$64.00**		$46.10	$1,246	12 - 2020	$0.44	$4.18	$4.38	10.9x	10.3x	$83	$203	$222	6.7x	6.1x	0.0%	0.2x
Stelco	STLC	OP		**$62.00**		$37.20	$2,876	12 - 2020	-$0.60	$20.81	$5.96	1.8x	6.2x	$63	$1,964	$641	1.6x	4.9x	2.2%	-0.1x
ATS Automation	ATA	OP		**$48.50**		$40.38	$3,719	12 - 2020	$1.07	$1.72	$1.78	27.1x	26.1x	$181	$267	$278	15.2x	14.6x	0.0%	1.2x
ABC Technologies	ABCT	SP		**$9.50**		$8.04	$422	12 - 2020	NM	-$0.22	$0.57	-28.7x	12.0x	$89	$133	$147	4.6x	4.2x	1.9%	1.9x
Stella-Jones	SJ	OP		**$52.00**		$43.54	$2,848	12 - 2020	$3.12	$3.59	$3.34	12.1x	13.0x	$343	$371	$348	9.5x	10.1x	1.7%	1.8x
Median												**14.2x**	**13.3x**				**8.9x**	**8.6x**	**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

Vishal Shreedhar
Analyst
416-869-7930
—
Associates:
Paul Hyung: 416-507-9009
Ryan Li: 416-869-6767

Selection

› *Gildan*

Saputo Inc. (SAP: TSX)

Investor Day: Strategic targets maintained, though F2022 not expected to deliver growth

A virtual investor event

Saputo hosted a virtual investor event on September 20, 2021. Investors had the opportunity to ask questions to Saputo's senior management team. Saputo also showed videos of recent facility improvements, including fluid milk operations in Port Coquitlam, BC, mozzarella production improvements in Saint-Leonard, QC, and mozzarella/cheddar production improvements in Saskatoon, SK. Associated capex was ~$300 million; management targets two to three years payback for the growth portion of capex. We estimate that there were over 30 investor participants in attendance, largely from Canada.

Reiterating the strategic plan; although F22 growth is pushed back

In our view, management's key message remains unchanged. It has confidence in achieving its four-year strategic plan which contemplates EBITDA of $2.125 billion by F2025 (our estimates remain below this aspiration as we continue to monitor execution). That said, management walked away from its expectation to deliver EBITDA growth in F2022 given pervasive market challenges. We accordingly reduced our F2022 EBITDA expectations; although our outer year forecasts are largely unchanged. SAP remains bullish about acquisition prospects, with a focus on cheese, value-added ingredients, USA retail and dairy alternative products. High leverage relative to management's target may limit the scope of deals in the near term.

Execution remains key

We believe that Saputo's outlook will gradually improve through F2022 (improvement initiatives and eventual market improvement); however, over the longer term, the challenge is whether SAP can deliver rising returns on capital and acquire prudently, as it had done successfully in periods of its history. We are optimistic that it can, although we await concrete signs of improved execution and/or more attractive valuation. If management executes successfully against its plan, we see upside to our estimates.

Maintain Sector Perform rating; Price target is $39

We value Saputo at 17.0x our F23/F24 EPS estimate.

Merchandising & Consumer Products

Back to Research Analysts page

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 09/29	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		11,264	61.4	183.34	12/2020	12.95	16.90	17.01	10.8	10.8	2,181	2,542	2,494	5.7	5.8	74.74	0.42	226.00	
Dollarama	DOL	OP		17,218	310.7	55.41	02/2021	1.81	2.17	2.58	25.5	21.4	1,131	1,283	1,448	16.0	14.2	0.45	0.96	63.00	↓
Specialty Stores																					
Couche Tard	ATD.b	OP		52,989	1,086.5	48.77	04/2021	2.45	2.39	2.46	16.0	15.5	5,005	4,850	4,853	9.6	9.6	11.21	0.35	56.00	↑
Parkland Fuel Corporation	PKI	OP		5,365	150.9	35.55	12/2020	0.54	0.90	2.30	39.3	15.5	967	1,287	1,337	7.3	7.0	14.47	0.65	47.00	
Apparel																					
Gildan	GIL	OP		9,471	199.1	47.58	12/2020	(0.18)	2.19	2.40	17.0	15.5	165	634	676	12.2	11.4	9.06	0.17	56.00	
Roots Corporation	ROOT	SP		116	42.2	2.76	02/2021	0.35	0.60	0.72	4.6	3.8	64	72	80	4.1	3.7	3.77	0.52	6.00	
Grocers																					
Empire Company	EMP.a	OP		10,222	267.6	38.20	05/2021	2.61	2.64	2.90	14.5	13.2	2,144	2,264	2,378	7.3	6.9	16.34	0.59	45.00	↓
Loblaw	L	OP		29,373	342.9	85.66	12/2020	4.18	5.10	5.70	16.8	15.0	5,004	5,416	5,543	6.4	6.3	32.56	0.32	91.00	
Metro	MRU	SP		14,937	245.8	60.77	09/2020	3.27	3.41	3.48	17.8	17.5	1,091	1,106	1,063	17.3	18.0	25.91	0.26	65.00	
Food Manufacturer																					
Saputo	SAP	SP		13,351	415.1	32.16	03/2021	1.56	1.51	1.98	21.2	16.3	1,471	1,468	1,748	11.8	9.9	15.3	0.39	39.00	↓
Lassonde	LAS.a	OP		1,258	6.9	181.42	12/2020	14.11	12.96	13.70	14.0	13.2	217	202	208	7.3	7.1	117.2	0.21	195.00	
Premium Brands Holdings	PBH	OP		5,713	43.5	131.33	12/2020	3.04	4.49	5.57	29.2	23.6	313	434	495	17.1	15.0	36.1	0.52	141.00	
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,350	37.2	36.24	12/2020	1.95	2.26	2.37	16.0	15.3	171	190	193	9.3	9.1	10.03	0.52	39.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		90	42.4	2.12	12/2020	0.34	0.30	0.46	7.0	4.7	28	26	32	8.6	7.0	5.60	0.36	4.50	
Restaurants																					
MTY Food Group	MTY	OP		1,595	24.7	64.50	11/2020	(1.51)	3.35	3.88	19.3	16.6	138	169	188	11.7	10.5	23.20	0.40	72.00	
Online Grocery																					
Goodfood Market	FOOD	OP		655	73.5	8.90	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

Don DeMarco
Analyst
416-869-7572
—
Associates:
Yi Liu: 416-869-8524
Harmen Puri: 416-869-8045

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

Selections

- *Teck Resources*
- *Capstone Mining*
- *Copper Mountain 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:

- **Teck Resources Ltd. (TECK.B: TSX)**
  Teck's organic growth within the copper division, high-quality diversified asset base with exposure to skyrocketing hard coking coal prices, strong balance sheet, and long-term commitment to returning capital to shareholders are all supportive of a higher valuation than currently ascribed by the market. Teck's coal business unit continues to benefit from all-time high Chinese hard coking coal prices due to very tight steelmaking coal markets and the Australia shadow ban expected to carry into 2022, further complemented by step-wise improvement in Teck's coal operations in H2/21 following completion of the Neptune terminal expansion. Additionally, Teck's copper development pipeline, including QB3, Zafranel and San Nicolás, underpin Teck's organic copper growth strategy as demand is set to peak with the world advances decarbonization efforts.
- **Capstone Mining Corp. (CS: TSX)**
  Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including 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.
- **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.

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	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	-	1,956	411.8	4.75	7.00	-	Nagle	0.07u	0.64u	0.70u	5.6x	6.8x	0.34u	0.96u	0.94u	3.7x	3.8x	7.15	0.7x
Copper Mountain Mining	CMMC	OP	-	586	209.9	2.79	5.00	↓	Nagle	0.11u	0.68u	0.69u	4.1x	4.0x	0.61u	1.50u	1.25u	1.9x	2.2x	5.71	0.5x
Ero Copper	ERO	SP	-	2,064	88.4	23.35	30.00	-	Nagle	1.34u	2.54u	2.85u	6.9x	8.2x	2.02u	3.34u	3.38u	5.3x	5.2x	34.25	0.7x
First Quantum Minerals	FM	OP	-	16,072	691.0	23.26	36.50	↓	Nagle	(0.07)u	1.51u	3.49u	11.6x	6.7x	2.64u	4.46u	6.40u	3.9x	2.7x	27.72	0.8x
Hudbay Minerals	HBM	OP	↑	2,003	261.5	7.66	12.50	↓	Nagle	(0.44)u	0.11u	0.53u	52.1x	14.4x	0.93u	2.01u	3.07u	2.9x	1.9x	9.58	0.8x
Lundin Mining	LUN	SP	-	6,701	736.3	9.10	14.00	↓	Nagle	0.31u	1.17u	1.46u	5.8x	6.2x	1.00u	2.15u	2.25u	3.2x	3.0x	11.57	0.8x
Sherritt International	S	SP	-	167	397.3	0.42	0.55	↓	DeMarco	(0.34)c	(0.23)c	0.02c	n/a	21.0x	0.03c	0.03c	0.13c	14.4x	3.2x	0.95	0.4x
Taseko Mines	TKO	SP	-	616	283.9	2.17	3.00	-	Nagle	(0.11)c	0.22c	0.32c	9.7x	6.8x	0.44c	0.75c	0.75c	2.9x	2.9x	4.11	0.5x
Teck Resources	TECKb	OP	-	17,167	540.2	31.78	43.00	↑	Nagle	1.05c	4.42c	7.65c	7.2x	4.2x	3.38c	7.96c	10.37c	4.0x	3.1x	29.11	1.1x
Trevali Mining	TV	SP	-	173	989.4	0.18	0.30	↓	Nagle	(0.03)c	0.04c	0.05c	3.1x	3.2x	0.01c	0.11c	0.12c	1.1x	1.1x	0.42	0.4x
Developers																					
Adventus Mining	ADZN	OP	-	117	131.1	0.89	1.65	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.16	0.4x
Filo Mining	FIL	OP	-	1,016	113.2	8.98	13.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.49	0.5x
Josemaria Resources	JOSE	SP	-	379	379.3	1.00	1.50	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.01	-
Trilogy Metals	TMQ	OP	-	325	144.4	2.25	4.25	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.15	0.4x
Sigma Lithium	SGML	OP	-	896	87.4	10.25	13.00	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14.82	0.7x
Lithium Americas	LAC	OP	-	3,134	119.9	26.15	32.00u	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	33.86	0.8x

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

Back to Research Analysts page

Sector Analysis

Metals & Mining: Precious Metals

Don DeMarco
Analyst
416-869-7572
—
Associates:
Yi Liu: 416-869-8524
Harmen Puri: 416-869-8045

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

Michael Parkin
Analyst
416-869-6766
—
Associates:
Alessandro Cairo : 416-869-8511
Rabi Nizami: 416-869-7925

Selections

Gold/Silver Producers:

- ***Endeavour Mining Corp.*** *(EDV: TSX; C$49.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$11.00 target)*
- ***Newmont Corp.*** *(NGT: TSX; C$99.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$50.00 target)*
- ***SSR Mining Inc.*** *(SSRM: TSX; C$32.00 target)*
- ***Wesdome*** *(WDO: TSX; C$14.50 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$11.50 target)*

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to 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 United States 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 9/29	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	SP	↓	15,894	243.70	65.22	90.00	↓	Parkin	0.96u	1.86u	2.93u	27.5x	17.4x	3.64u	4.99u	4.99u	10.3x	10.3x	48.48	1.35x
Barrick Gold	ABX	OP		39,903	1,779.00	22.43	36.00	↓	Parkin	0.51u	1.15u	1.31u	15.3x	13.4x	1.81u	3.22u	3.22u	5.5x	5.5x	22.35	1.00x
Kinross Gold Corp	K	OP		8,043	1,204.09	6.68	11.00		Parkin	0.31u	0.73u	0.19u	7.2x	28.2x	0.80u	1.37u	1.37u	3.8x	3.8x	12.42	0.54x
Kirkland Lake Gold Corp	KL	T	-	13,973	263.80	52.97	50.00	↓	Parkin	2.74u	3.37u	3.12u	12.3x	13.3x	4.46u	4.75u	4.75u	8.7x	8.7x	37.57	1.41x
Newmont	NGT	OP		54,036	788.73	68.51	99.00	↓	Parkin	1.32u	2.66u	3.48u	20.2x	15.4x	4.31u	5.69u	5.69u	9.4x	9.4x	59.81	1.15x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		31,381	191.1	164.21	200.00	↓	Nagle	2.72u	3.32u	3.53u	37.2x	46.5x	4.22u	4.90u	5.03u	25.2x	24.5x	65.50	2.51x
Maverix Metals Inc	MMX	SP		787	141.7	5.55	7.25	↓	Nagle	0.12u	0.09u	0.16u	n/a	34.3x	0.29u	0.25u	0.27u	22.1x	20.9x	4.45	1.25x
Osisko Gold Royalties Ltd	OR	OP		2,376	167.9	14.15	21.50	-	Nagle	0.26u	0.53u	0.64u	n/a	22.0x	0.65u	1.14u	1.24u	12.4x	11.4x	14.58	0.97x
Royal Gold Inc	RGLD	SP		6,319	65.2	96.87u	155.00u	↓	Nagle	2.91u	3.81u	3.76u	25.4x	25.8x	6.28u	6.52u	6.89u	11.2x	10.6x	62.75	1.54x
Sandstorm Gold Ltd	SSL	OP		1,392	194.9	7.14	11.50	↓	Nagle	0.11u	0.18u	0.23u	29.8x	31.0x	0.36u	0.40u	0.43u	13.4x	12.5x	7.98	0.89x
Triple Flag Precious Metals Corp	TFPM	SP		1,801	156.2	11.53	19.50	↓	Nagle	0.20u	0.44u	0.48u	19.7x	24.0x	0.78u	0.88u	0.91u	9.9x	9.5x	12.48	0.92x
Wheaton Precious Metals Corp	WPM	OP		21,581	450.3	47.93	72.00	↓	Nagle	1.10u	1.37u	1.38u	26.3x	34.7x	1.71u	1.95u	1.98u	18.5x	18.2x	22.61	2.12x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		3,509	392.94	8.93	13.25	↓	Parkin	0.21u	0.42u	0.45u	16.8x	15.5x	0.75u	0.97u	0.97u	7.2x	7.2x	11.29	0.79x
B2Gold	BTO	OP		4,348	1,030.4	4.22	8.00	↓	DeMarco	0.25u	0.49u	0.45u	8.6x	9.3x	0.51u	0.83u	0.68u	5.1x	6.2x	5.47	0.77x
Centerra Gold Inc	CG	OP		2,516	296.72	8.48	12.00	↑	Parkin	0.41u	1.15u	0.63u	5.8x	10.6x	1.36u	2.87u	1.28u	2.3x	5.2x	12.46	0.68x
Dundee Precious Metals	DPM	OP		1,342	181.3	7.40	11.50	↓	DeMarco	0.26u	1.02u	0.93u	7.3x	8.0x	0.62u	1.35u	1.62u	5.5x	4.6x	10.79	0.69x
Eldorado Gold Corp	ELD	OP		1,746	182.59	9.56	17.50	↓	Parkin	(0.02)u	0.97u	0.59u	9.8x	16.2x	0.93u	2.23u	2.23u	3.4x	3.4x	22.29	0.43x
Endeavour Mining	EDV	OP		4,626	163.1	28.37	49.00	↓	DeMarco	0.68u	2.24u	2.64u	12.7x	10.7x	2.68u	5.13u	4.94u	5.5x	5.7x	37.85	0.75x
Equinox Gold Corp	EQX	OP		2,723	332.8	8.18	14.00	↓	Parkin	0.33u	0.37u	0.23u	22.0x	35.8x	0.68u	1.06u	0.82u	7.7x	9.9x	18.53	0.44x
IAMGOLD Corp	IMG	OP		1,344	476.70	2.82	3.75	↓	Parkin	(0.03)u	0.14u	(0.01)u	15.6x	-192.5x	0.75u	0.77u	0.77u	2.9x	2.9x	6.10	0.46x
Lundin Gold Inc.	LUG	SP		2,622	232.6	11.27	13.25	↓	DeMarco	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		899	680.70	1.32	2.00	↓	Parkin	(0.08)u	0.03u	0.20u	46.5x	6.8x	0.39u	0.41u	0.41u	2.5x	2.5x	3.90	0.34x
OceanaGold Corp	OGC	OP		1,436	704.00	2.04	3.00	↓	Parkin	0.06u	(0.11)u	0.08u	n/a	26.4x	0.33u	0.33u	0.33u	4.8x	4.8x	3.17	0.64x
Pretium Resources	PVG	OP		2,284	188.0	12.15	16.50	↑	DeMarco	0.54u	0.99u	0.63u	12.3x	19.4x	1.13u	1.49u	1.49u	8.1x	8.1x	14.16	0.86x
SSR Mining Inc	SSRM	OP		3,817	210.30	18.15	32.00	↓	Parkin	0.74u	1.43u	1.38u	10.0x	10.3x	1.59u	1.65u	1.65u	8.6x	8.6x	32.15	0.56x
Yamana Gold Inc	YRI	OP		4,622	943.28	4.90	7.25	↓	Parkin	0.10u	0.32u	0.30u	12.1x	13.0x	0.51u	0.66u	0.66u	5.8x	5.8x	5.09	0.96x
Torex Gold Resources Inc	TXG	SP		1,155	85.64	13.49	24.00		DeMarco	0.00u	1.47u	2.06u	9.2x	6.5x	0.00u	3.79u	4.21u	3.6x	3.2x	19.76	0.68x
Silver Producers																					
Aya Gold and Silver	AYA	OP		673	92.2	7.30	13.25		DeMarco	(0.05)u	0.01u	0.11u	998.7x	64.8x	1.18u	0.00u	0.13u	8566.5x	55.0x	7.51	0.97x
First Majestic Silver Corp	FR	SP		3,039	214.9	14.14	18.00	↓	DeMarco	0.03u	0.24u	0.35u	58.9x	40.4x	0.53u	0.57u	0.73u	24.8x	19.3x	6.61	2.14x
Fortuna Silver Mines Inc	FVI	SP		904	184.0	4.91	7.00	↓	DeMarco	0.18u	0.21u	0.57u	23.6x	8.6x	0.45u	0.43u	0.93u	11.3x	5.3x	6.22	0.79x
Pan American Silver	PAAS	OP		6,154	210.1	29.29	50.00	↓	DeMarco	0.60u	0.94u	1.27u	31.2x	23.1x	1.60u	1.73u	2.46u	16.9x	11.9x	19.39	1.51x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		329	109.6	3.00	5.00	↓	DeMarco	0.21u	0.24u	0.25u	12.5x	12.0x	0.40u	0.74u	0.54u	4.1x	5.5x	6.60	0.45x
K92 Mining Inc.	KNT	OP		1,613	219.2	7.36	11.75	↓	DeMarco	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		234	441.9	0.53	1.00	↓	Nizami	0.01u	(0.01)u	0.06u	n/a	8.8x	0.00u	(0.00)u	0.07u	-	7.1x	0.98	0.54x
Wesdome Corp.	WDO	OP		1,392	138.4	10.06	14.50		DeMarco	0.32u	0.41u	0.61u	24.5x	16.5x	0.56u	0.64u	0.92u	15.8x	10.9x	11.57	0.87x
Developers																					
Artemis Gold Inc.	ARTG	OP		678	122.7	5.52	9.75	↓	DeMarco	0.00u	(0.07)u	(0.05)u	-	-	0.00u	(0.15)u	(0.08)u	-	-	9.73	9.73x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		204	358.0	0.57	1.30	↓	Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.36	0.42x
Integra Resources Corp.	ITR	OP		178	61.9	2.88	6.50		Nizami	(0.54)u	(0.67)u	(0.45)u	n/a	n/a	(0.50)u	(0.64)u	(0.43)u	-	-	6.44	0.45x
Liberty Gold Corp	LGD	OP		271	265.5	1.02	1.80	↓	Nizami	0.03u	(0.07)u	(0.06)u	n/a	n/a	(0.05)u	(0.06)u	(0.06)u	-	-	1.78	0.57x
MAG Silver Corp	MAG	OP		1,813	91.2	19.88	32.00	↑	DeMarco	(0.06)u	(0.18)u	(0.07)u	-	-	(0.04)u	(0.04)u	(0.06)u	-	-	21.01	0.95x
Marathon Gold Corp.	MOZ	OP		0	0.0	3.04	4.50	↑	DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	5.8x	-	4.35	0.70x
O3 Mining Inc.	OIII	OP		119	60.2	1.98	4.25		DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	5.46	0.36x
Osisko Development	ODV	OP		643	128.3	5.01	9.50	↓	DeMarco	-	-	0.27u	-	18.7x	(0.02)u	-	0.27u	-	18.5x	9.66	0.52x
Osisko Mining	OSK	OP		794	340.7	2.33	5.00	↓	DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	5.15	0.45x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
SilverCrest Metals	SIL	OP		1,118	128.5	8.70	14.25	↓	DeMarco	(0.22)u	(0.22)u	(0.35)u	-	-	(0.19)u	(0.21)u	(0.31)u	-	-	9.55	0.91x

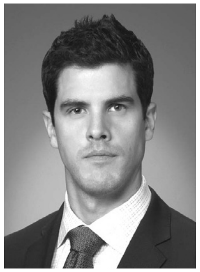
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associate:
Baltej Sidhu: 403-290-5627

Large Cap Oil & Gas

Travis Wood
Analyst
403-290-5102
—
Associates:
Logan Fisher: 403-441-0933
James Harwood, CPA: 403-290-5445

Selections

- *Cenovus*
- *Tourmaline*

Crude Oil Outlook

In contrast to August, crude found its footing in September rallying strongly as the commodity complex was supported by constructive supply data points (restrained capital expenditures, supply disruptions, bullish inventory draws, etc.) and strengthening demand outlook with the overall impact of the fourth wave of COVID-19 appearing to be transitory. Taking this all into account, U.S. petroleum inventories (crude, gasoline and distillates) now sit at the low end of the five-year range as global oil demand continues to trend higher (~98.5 mmbbl/d), approaching pre-pandemic levels. Along with the vigorous price response in the spot market, the forward curve is also exhibiting strength with CAL-22 WTI coming in at ~US$70/bbl (contrasted to August's exit point of US$64.7/bbl for CAL-22 WTI).

OPEC+ conveyed its thoughts in early September regarding the Delta variant clouding the demand outlook; however, we have experienced a robust run-up in the commodity price since that point. This bullish sentiment was likely supported by constructive supply fundamentals and the assumption that OPEC+ will continue to hold the velocity of returning spare capacity (0.4 mmbbls/d/month through August 2021-September 2022) static given the prolonged demand impact of COVID-19 around the globe. Looking ahead, the 21st OPEC+ meeting scheduled for October 1st should provide clarity around how the group is viewing the current market conditions and continued capital restraint by E&Ps in North America. The group intends on meeting again in December to assess the market conditions and progress towards the overall phasing out of the 5.8 mmbbls production agreement.

WCS differentials continued to compress through September with the anticipation of a more constructive egress environment coming into perspective with WCS prices trading below US$12/bbl for the majority of the month and averaging ~US$11.90/bbl in September. Relatively subdued Mainline apportionment levels, compared to prior periods, have started to become evident in September coming in at ~ 33% for heavy oil and 0% for light oil transported on the pipeline. With the incremental egress capacity from the in-service date of Enbridge's Line 3 (390 mbbl/d capacity increase) expansion announced for October 1st, we expect that apportionment levels will continue to decrease and the egress environment to be constructive with the remaining projects on the horizon expected to come online during 2022 TMX, Capline reversal).

Reflecting the current market conditions, we recently revised our commodity price deck for oil pricing assumptions. We increased our forecast for WTI to US$66.00/bbl (from US$65.75/bbl) for 2021 while maintaining 2022 pricing at US$65.00/bbl and increasing 2023 to US$60.00/bbl (from US$55.00/bbl). Additionally, our WCS forecast for 2021 decreases to US$-12.50/mcf (from US$-12.90/bbl) and reiterating our prior assumptions for 2022-23 at US$-13.00/bbl.

Natural Gas Outlook

NYMEX continued its strong upward price momentum through September averaging ~US$5/mmbtu while AECO markets, which experienced more volatility due to maintenance on the NGTL system, remained relatively elevated with prices averaging ~C$3.70/GJ. Overall, natural gas has experienced an impressive run-up, and this has been supported by supply and demand forecasts (from EIA) indicating a supply deficit in the immediate term spurred from restrained capital investment (translating to anemic rig activity) and strong demand. Rig activity increased modestly during September in the United States, increasing 3% m/m, adding 14 total rigs (Oil:+12/ Gas:+2). Total rig activity in Canada increased by 14 rigs (Oil:+11/ Gas:+3), which represented an increase of 10% m/m in September. U.S. production is estimated to have decreased slightly to average 88.9 Bcf/d in September from ~90.5 Bcf/d in August. LNG exports have recovered modestly to 10.3 Bcf/d from the prior month and are expected to recover to the 10.8-11.0 Bcf/d range for October. Overall demand in the United States was an estimated ~68.4 Bcf/d in September as summer comes to an end with temperatures moderating into the fall.

During September, U.S. natural gas inventories continued to remain below the five-year average with lower storage levels primarily in the East, South Central, and Pacific & Mountain regions driving total storage lower. Canadian natural gas inventories are now in line with the five-year average with the inventory in Eastern Canada leading storage higher during shoulder season as its inventory is now sitting at the upper end of the five-year range.

Overall, we remain constructive on the natural gas complex. Reflecting the current market conditions, we recently revised our commodity price deck for natural gas pricing, increasing our estimates for NYMEX in 2021 to US$3.70/mcf (from US$2.90/mcf) and US$3.90/mcf (from US$2.75/mcf) and to US$3.05/mcf (from US$2.75/mcf) in 2022-2023, respectively. Additionally, our AECO forecast for 2021 has been increased to C$3.50/mcf (from C$2.90/mcf) and to C$3.50/mcf (from C$2.40/mcf) and C$2.50/mcf (from C$2.40/mcf) in 2022-23, respectively. 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 9-29	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	$46.29	$54,631	4%	8.9x	4.8x	4.1x	1.0x	0.3x	$4.40	$11.29	$11.84	4.1x	3.9x	$70.00	55%	↑
Cenovus Energy	CVE	OP		Wood	2017.6	$12.85	$25,926	1%	28.3x	4.5x	3.7x	1.2x	0.5x	$0.12	$3.54	$3.83	3.6x	3.3x	$22.00	72%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$33.45	$8,735	2%	4.4x	3.8x	3.7x	1.5x	1.2x	$7.42	$12.64	$11.90	2.6x	2.8x	$44.00	33%	↑
Imperial Oil	IMO	SP		Wood	704.6	$40.03	$28,204	3%	20.7x	6.8x	5.3x	0.6x	-0.1x	$1.20	$6.20	$7.39	6.3x	5.4x	$49.00	25%	↑
Suncor Energy	SU	SP		Wood	1492.0	$26.45	$39,462	3%	10.1x	4.9x	4.1x	1.1x	0.6x	$2.66	$6.50	$7.09	4.0x	3.7x	$39.00	51%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$6.51	$1,274	0%	5.1x	6.1x	3.9x	0.8x	0.0x	$0.56	$1.15	$1.69	5.6x	3.9x	$9.00	38%	↑
ARC Resources Ltd.	ARX	OP		Wood	723.9	$11.50	$8,325	2%	3.9x	4.5x	3.2x	0.7x	0.1x	$1.89	$3.40	$3.73	3.9x	3.1x	$18.50	63%	↑
Baytex Energy	BTE	SP		Payne	573.2	$3.52	$2,018	0%	5.4x	4.2x	3.5x	2.0x	1.3x	$0.56	$1.27	$1.40	2.8x	2.5x	$4.50	28%	↑
Birchcliff Energy	BIR	OP		Payne	269.7	$6.98	$1,883	0%	6.0x	4.4x	3.3x	0.9x	0.2x	$0.69	$1.93	$2.27	3.6x	3.1x	$10.00	44%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	582.9	$5.81	$3,387	2%	3.9x	3.3x	2.4x	1.3x	0.6x	$1.65	$2.65	$3.12	2.2x	1.9x	$12.50	117%	↑
Enerplus Corporation	ERF	OP		Wood	256.8	$10.18	$2,614	1%	3.5x	3.6x	2.7x	0.9x	0.2x	$1.61	$3.51	$4.13	2.9x	2.5x	$17.00	68%	↑
Freehold Royalties	FRU	OP		Wood	150.6	$10.20	$1,536	6%	7.8x	9.6x	6.8x	0.8x	0.0x	$0.61	$1.20	$1.48	9.1x	6.9x	$15.00	53%	↑
Headwater Exploration	HWX	OP		Payne	227.3	$4.55	$1,034	0%	25.1x	9.2x	5.0x	-0.6x	-0.9x	$0.06	$0.47	$0.77	9.6x	5.9x	$7.00	54%	↑
Kelt Exploration	KEL	OP		Payne	187.5	$4.47	$838	0%	4.9x	5.8x	3.9x	0.1x	-0.2x	$0.31	$0.78	$1.09	5.7x	4.1x	$7.00	57%	↑
MEG Energy	MEG	SP		Wood	313.9	$9.74	$3,057	0%	7.7x	5.6x	4.0x	3.2x	1.7x	$0.92	$2.43	$3.22	4.1x	3.1x	$14.00	44%	↑
NuVista Energy	NVA	SP		Payne	232.1	$5.09	$1,181	0%	4.2x	5.1x	2.8x	1.7x	0.6x	$0.70	$1.23	$2.18	4.1x	2.3x	$6.75	33%	↑
Paramount Resources	POU	OP	↑	Payne	138.3	$18.73	$2,590	1%	6.1x	5.7x	3.4x	1.0x	0.2x	$1.12	$3.59	$5.70	5.2x	3.3x	$28.00	51%	↑
Parex Resources	PXT	OP		Wood	119.7	$22.94	$2,747	2%	6.5x	3.2x	2.2x	-0.7x	-1.1x	$2.96	$5.72	$6.92	4.0x	3.3x	$35.00	55%	
Peyto Exploration & Development	PEY	OP		Wood	165.8	$9.69	$1,606	0%	5.9x	5.4x	3.6x	2.5x	1.3x	$1.29	$2.62	$3.76	3.7x	2.6x	$15.50	60%	↑
PrairieSky Royalty	PSK	SP		Wood	222.4	$13.73	$3,053	3%	15.4x	13.2x	12.3x	0.4x	-0.3x	$0.64	$1.07	$1.09	12.9x	12.6x	$20.00	48%	↑
Spartan Delta	SDE	OP		Payne	166.8	$5.26	$878	0%	6.9x	5.7x	2.4x	2.2x	0.7x	$0.67	$1.79	$2.86	0.0x	0.0x	$10.00	90%	↑
Storm Resources	SRX	SP		Payne	126.5	$5.13	$649	0%	5.2x	4.9x	2.6x	0.7x	-0.2x	$0.47	$1.16	$1.86	0.0x	0.0x	$7.50	46%	↑
Tamarack Valley Energy	TVE	OP		Payne	411.8	$3.17	$1,306	0%	3.6x	5.1x	2.7x	1.3x	0.2x	$0.55	$0.88	$1.23	3.6x	2.6x	$5.00	58%	
Topaz Energy	TPZ	OP		Payne	129.4	$17.20	$2,225	5%	14.7x	13.7x	10.6x	1.0x	0.3x	$0.98	$1.43	$1.66	12.0x	10.3x	$20.00	21%	↑
Tourmaline Oil	TOU	OP		Payne	327.9	$42.88	$14,062	2%	4.9x	5.6x	4.1x	0.5x	-0.2x	$4.36	$8.84	$10.11	4.8x	4.2x	$57.50	36%	↑
Vermilion Energy Inc.	VET	SP		Wood	161.9	$12.72	$2,059	0%	5.6x	4.1x	3.2x	1.9x	1.2x	$3.18	$5.07	$5.86	2.5x	2.2x	$18.00	42%	↑
Whitecap Resources	WCP	OP		Wood	634.2	$6.89	$4,370	3%	4.8x	4.6x	3.1x	0.9x	0.2x	$1.07	$1.87	$2.29	3.9x	3.0x	$11.00	62%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	164.8	$3.06	$504	0%	6.5x	6.1x	3.3x	3.2x	1.2x	$0.27	$0.80	$1.38	3.8x	2.2x	$3.50	14%	↑
Pipestone Energy	PIPE	SP		Payne	280.9	$2.51	$705	0%	6.8x	4.8x	2.3x	1.0x	0.1x	$0.15	$0.61	$1.15	4.1x	2.2x	$4.00	59%	↑
Surge Energy	SGY	SP		Payne	74.1	$5.14	$381	0%	6.1x	5.0x	2.2x	2.4x	0.7x	$0.18	$2.11	$3.14	2.4x	1.6x	$8.50	65%	
Yangarra Resources	YGR	SP		Payne	88.7	$1.77	$157	0%	4.5x	3.0x	1.6x	1.8x	0.7x	$0.53	$1.13	$1.76	1.6x	1.0x	$2.50	41%	↑

* 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 09/29	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$1,122.65	91.1	US$12.32	US$213.2	US$236.6	US$294.7	6.7x	6.1x	4.4x	1.5x	1.3x	0.6x	US$17.50	42%	
Precision Drilling Corp.	PD	OP		Payne	$ 675.58	13.2	$51.34	$ 285.2	$ 248.0	$ 306.9	6.8x	7.9x	5.0x	4.7x	4.0x	2.8x	$55.00	7%	
Trican Well Services	TCW	SP		Payne	$ 767.23	255.7	$3.00	$ 30.6	$ 99.6	$ 128.7	23.8x	7.1x	4.7x	1.3x	-0.3x	-0.6x	$3.50	17%	

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

Source: Company Reports, NBF, Refinitiv

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451

Associates:
William Duforest: 403-441-0952
Zach Warnock: 403-355-6643

Selections

- *AltaGas*
- *Capital Power*
- *Secure Energy*
- *Tidewater Midstream*
- *Keyera*

Overview

Well into 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 September, the S&P TSX and NBF Utilities benchmark lost ~3% and ~2%, respectively, while our NBF Midstream benchmark was up ~3%.

Commodities Update

As COVID-19 concerns continued to ease with a favourable fundamental backdrop, commodity prices bounced back through September, with WTI averaging ~US$71.50/bbl, ~6% higher than August levels of ~US$67.50/bbl and ~80% above the 2020 average price of ~US$40/bbl. On the gas front, with the current lack of supply, NYMEX prices continued to demonstrate strength through September, averaging $5.06/mcf, over 25% above the August average of $4.03/mcf, while volatility affected AECO which averaged $3.50/mcf. Looking at Marketing prospects, while the WCS heavy differential showed some signs of slack early in the summer, it has recently pulled back, averaging ~US$12.00/bbl over the past month.

Pipelines & Midstream Update

Construction on the U.S. portion of the Line 3 Replacement project has been completed, with Enbridge recently announcing the completion of the 542 km Minnesota segment and setting the official in-service date to October 1st. 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. The State of Michigan has since expressed its unwillingness to continue the court-ordered mediation with Enbridge. 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. Elsewhere, the PennEast partners (ENB 20%) announced their decision to cancel the proposed $1.2 billion, ~1.1 bcf/d natural gas pipeline that was to run ~190 km from Pennsylvania to New Jersey as the project had still not received all of its required permits.

Enbridge has entered into a definitive purchase agreement with EnCap Flatrock Midstream to acquire Moda Midstream Operating, LLC (Moda) for US$3.0 billion in cash, subject to closing conditions, reflecting a forward-looking transaction multiple of ~8x EBITDA. Included within the transaction, ENB will acquire a 100% operating interest in the Ingleside Energy Center (to be renamed the Enbridge Ingleside Energy Centre (EIEC)), located near Corpus Christi, Texas, a 20% interest in the 670 mbpd Cactus II Pipeline, a 100% operating interest in the 300 mbpd Viola Pipeline, and 100% operating interest in the 350 mbpd Taft Terminal. Overall, including the Viola Pipeline and Taft Terminal, EIEC is anticipated to represent ~90% of 2022e EBITDA contributions, with the remaining 10% related to its interest in the Cactus II Pipeline.

Of note, Pembina's routine maintenance work on the northern portion of its Alberta Ethane Gathering System (AEGS) was interrupted as a result of the fire at the Plains Fort Saskatchewan (PFS) Facility. Overall, with the cause of the incident, timing of PFS resuming service, and business interruption insurance proceeds currently uncertain, the net financial impact (positive or negative) to PPL and KEY due to any increased demand for NGL storage, offset by any operational/ Marketing impacts, cannot yet be determined.

Energy Transition Update

We highlight recent activity in the renewable power market where several PPAs have been announced along with the sanctioning of several wind and solar projects. Of note, TRP announced the execution of a 15-year power purchase agreement with EDP Renewables Canada Ltd. for 100% of the power produced at Sharp Hills Wind Farm. The 297 MW wind facility is expected to be operational in 2023, subject to regulatory approvals and conditions. Meanwhile, CPX also announced a 15-year renewable power purchase agreement with Dow Chemical Canada ULC for 25 MW of capacity and associated environmental attributes from the 151 MW Whitla Wind 2 project, which is currently under construction and expected to come online by year end. We expect to continue to see growth in the renewable power generation space

Pipelines, Utilities & Energy Infrastructure

as TA recently unveiled its new strategic $3.0 billion capital investment plan through 2025 focused on expanding its renewable generation platform by 2.0 GW, with a longer-term objective of 5.0 GW by 2030.

We recently initiated coverage on Tidewater Renewables Ltd. (TWR; TSX: LCFS; $16.50 Target Price, Sector Perform). Recall, following its financing alternatives review, TWM created and capitalized on TWR via a ~$160 million initial public offering with the partial exercise of the over-allotment option. As such, TWM retained a ~69% equity interest in its subsidiary focused on the production of low carbon fuels and future energy transition infrastructure. TWR intends to leverage the engineering expertise and existing infrastructure of TWM in the execution of its greenfield and brownfield opportunities. Overall, TWR's energy transition growth strategy is comprised of three business units: (1) Renewable Diesel (HDRD), (2) Hydrogen and (3) Renewable Natural Gas (RNG), while capitalizing on future carbon capture opportunities across its businesses.

ENB recently announced two partnerships related to its Energy Transition strategy. Under the memorandum of understanding with Shell, the companies will leverage each other's assets to develop decarbonization solutions, including potential green and blue hydrogen production as well as Carbon Capture and Sequestration opportunities. Meanwhile, ENB's partnership with Vanguard, a leading RNG infrastructure developer, will focus on the development of RNG infrastructure and production with ENB investing up to ~$100 million related to RNG upgrading, transportation and marketing services.

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	Stock		Units	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth Price			Combined
	Sym.	Rating	Δ	O/S (Mln)	Price 09-29	Cap. (Mln)	est. 2020	est. 2021e	est. 2022e	2021e	2022e	est. 2020	est. 2021e	est. 2022e	2021e	2022e	Debt/ 22e EBITDA	Target	Return	Δ	Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$24.98	$6,986	$0.96	$1.00	$1.04	4.0%	4.2%	$2.08	$2.67	$3.07	9.3x	8.1x	5.2x	29.00	16.1%		20.1%
Enbridge Inc.	ENB	OP		2021.5	$50.79	$102,671	$3.24	$3.34	$3.51	6.6%	6.9%	$4.67	$4.84	$5.21	10.5x	9.7x	4.6x	51.00	0.4%		7.0%
Gibson Energy	GEI	SP		149.3	$23.15	$3,457	$1.36	$1.40	$1.40	6.1%	6.1%	$2.01	$2.03	$2.16	11.4x	10.7x	3.3x	24.00	3.7%		9.7%
Inter Pipeline	IPL	Tender		429.2	$19.93	$8,554	$0.48	$0.48	$0.48	2.4%	2.4%	$1.75	$1.73	$1.98	11.5x	10.1x	5.3x	20.00	0.4%		2.8%
Keyera	KEY	OP		221.0	$31.95	$7,062	$1.92	$1.92	$1.92	6.0%	6.0%	$3.26	$3.07	$3.05	10.4x	10.5x	3.3x	36.00	12.7%		18.7%
Pembina Pipelines	PPL	SP		550.0	$39.79	$21,885	$2.52	$2.52	$2.52	6.3%	6.3%	$3.91	$3.94	$4.14	10.1x	9.6x	4.1x	40.00	0.5%		6.9%
Secure Energy	SES	OP		308.0	$4.74	$1,460	$0.03	$0.03	$0.03	0.6%	0.6%	$0.53	$0.77	$0.88	6.2x	5.4x	1.9x	5.50	16.0%		16.7%
Superior Plus	SPB	SP		176.0	$13.60	$2,394	$0.72	$0.72	$0.72	5.3%	5.3%	$1.37	$1.11	$1.52	12.2x	8.9x	4.1x	15.00	10.3%		15.6%
Tidewater Midstream	TWM	OP		339.3	$1.38	$468	$0.04	$0.04	$0.04	2.9%	2.9%	$0.14	$0.34	$0.24	4.1x	5.8x	3.7x	1.75	26.8%		29.7%
Tidewater Renewables	LCFS	SP		33.9	$14.30	$485	$0.00	$0.00	$0.00	0.0%	0.0%	$0.00	$0.09	$0.52	159.0x	27.5x	3.0x	16.50	15.4%		15.4%
TC Energy Corp.	TRP	OP		979.0	$61.38	$60,091	$3.24	$3.48	$3.69	5.7%	6.0%	$6.13	$5.71	$5.88	10.8x	10.4x	5.2x	66.00	7.5%		13.2%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$40.79	$4,677	$1.74	$1.79	$1.81	4.4%	4.4%	$2.08	$2.26	$2.36	18.1x	17.3x	4.6x	45.00	10.3%		14.7%
Canadian Utilities	CU	SP		273.1	$34.26	$9,356	$1.74	$1.76	$1.78	5.1%	5.2%	$2.69	$2.79	$2.99	12.3x	11.5x	5.3x	36.00	5.1%		10.2%
Capital Power	CPX	OP		114.1	$42.68	$4,871	$1.99	$2.12	$2.25	5.0%	5.3%	$4.96	$5.38	$4.76	7.9x	9.0x	4.0x	46.00	7.8%		12.8%
Emera Inc.	EMA	SP		257.9	$57.47	$14,823	$2.48	$2.58	$2.68	4.5%	4.7%	$1.99	$2.73	$4.28	21.1x	13.4x	6.7x	58.00	0.9%		5.4%
Fortis Inc.	FTS	SP		474.6	$56.22	$26,682	$1.94	$2.05	$2.17	3.6%	3.9%	$3.92	$3.85	$4.46	14.6x	12.6x	6.1x	59.00	4.9%		8.6%
Hydro One Ltd.	H	SP		596.9	$30.19	$18,021	$1.01	$1.07	$1.12	3.5%	3.7%	$1.76	$1.74	$1.96	17.4x	15.4x	5.4x	32.00	6.0%		9.5%
TransAlta	TA	SP		271.1	$13.00	$3,524	$0.17	$0.18	$0.20	1.4%	1.5%	$1.30	$1.83	$1.73	7.1x	7.5x	3.4x	13.00	0.0%		1.4%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate

Matt Kornack
Analyst
416-507-8104
—
Associate:
Hussam Maqbool: 416-507-8108

Tal Woolley
Analyst
416-507-8009
—
Associates:
Ahmed Shethwala: 416-507-8102

Selections

- *Chartwell*
- *ERES*
- *H&R*
- *Allied*
- *Sienna*
- *Granite*
- *Boardwalk*
- *InterRent*
- *RioCan*

Taking a Closer Look at Office Supply Dynamics

Pandemic-induced headwinds have been augmented by supply responses in select Canadian markets.

This note serves as a starting point to gauge how occupancy may evolve over the next several years in Toronto, Vancouver and Montreal with a focus on the impact that development will have in each city. The additions are modest but will create pockets of vacancy in once-thriving urban cores. That said, operating fundamentals remain favourable relative to key U.S. markets.

Downtown Toronto leads the country in space being delivered and has already been impacted by footprint rationalization related to imminent and recently completed supply.

While preleasing is strong for 2021/2022 developments, we expect vacancy to remain elevated vs. pre-pandemic lows unless there is a material reversion in sublet space. This is largely a downtown issue as suburban markets have almost no new space under construction. 2023/2024 pose more of a challenge with lower pre-leasing levels and potential concerns around TD's footprint. That said, a return to the historic absorption pace would be enough to offset deliveries.

Vancouver outcome could be more variable but is less impactful to our coverage universe.

The city has a relatively small office footprint when looking at its overall population / employment levels and occupancy levels led most markets pre-pandemic. That said, Vancouver has a large development pipeline in relationship to existing GLA and pre-leasing is limited for 2021/2022 deliveries. However, almost one-third of new supply is leased to Amazon, which will take possession of its space in 2023. Allied has a small portfolio here while other public REITs have shied away.

Supply risks in other markets, including Montreal, are lower.

Toronto and Vancouver represent 80% of total construction, leaving the remaining markets with negligible deliveries.

Company-Specific Thoughts:

- **Allied:** Allied remains our top pick in the office segment as its portfolio caters to knowledge-based tenants and its offering is urban, unique, lower rise and lends itself to mixed usage. This segment of the market does not directly compete with the new supply although the REIT is building incremental office GLA with high pre-leasing. From an investment standpoint, risk is mitigated by these portfolio attributes, a strong balance sheet, geographic diversification and a trading discount to pre-pandemic multiples.
- **Dream Office:** While a subset of Dream's buildings in downtown Toronto is likely to face headwinds from new builds, the REIT has been repositioning some of its smaller buildings to lure interest from traditional towers. Moreover, current trading multiples and implied trading per sq. ft. figures are attractive after adjusting for interest in Dream Industrial.
- **Slate Office:** Slate's exposure to Government and creditworthy tenants has seen it weather COVID-related headwinds. More exposure to secondary markets also limits vacancy risk from new supply; however, elevated market vacancy could be further impacted by the pandemic and remote work.
- **True North Commercial:** Has the largest exposure to Canada's secondary markets and government tenants. Occupancy and operational results were stable during the pandemic and we don't expect an immediate course reversal. That said, its portfolio will not be immune to broader stresses in the market and has more downside risk operationally than upside potential in this context.

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 9-29	Distributions per Unit (A) 2020	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Cash Yield 2020A	Cash Yield 2021E	Cash Yield 2022E	Cash Yield Current Annualized	FD FFO (A) 2020	FD FFO est. 2021	FD FFO est. 2022	P/FFO 2020A	P/FFO 2021E	P/FFO 2022E	Net Asset Value	12-Mth Price Target	12-Mth Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,712	Woolley	$21.74	$1.44	$1.44	$1.44	6.6%	6.6%	6.6%	6.6%	$1.60	$1.53	$1.62	13.6x	14.2x	13.4x	$24.80	$25.00	21.6%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,053	Woolley	$14.37	$0.74	$0.74	$0.74	5.1%	5.1%	5.1%	5.1%	$0.92	$0.96	$0.97	15.6x	15.0x	14.8x	$12.90	$15.00	9.5%	↔
First Capital REIT	FCR	SP	↔	$3,849	Woolley	$17.57	$0.86	$0.86	$0.86	4.9%	4.9%	4.9%	4.9%	$1.01	$1.13	$1.12	17.5x	15.5x	15.7x	$21.50	$20.00	18.7%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,088	Woolley	$29.91	$1.76	$1.81	$1.85	5.9%	6.1%	6.2%	6.1%	$2.20	$2.13	$2.18	13.6x	14.0x	13.7x	$31.61	$32.00	13.0%	↔
CT REIT	CRT.un	OP	↔	$3,795	Woolley	$17.19	$0.73	$0.76	$0.79	4.2%	4.4%	4.6%	4.4%	$1.18	$1.25	$1.32	14.6x	13.8x	13.0x	$16.70	$19.00	14.9%	↔
Crombie REIT	CRR.un	OP	↔	$2,686	Woolley	$17.71	$0.89	$0.89	$0.89	5.0%	5.0%	5.0%	5.0%	$1.05	$1.14	$1.20	16.8x	15.5x	14.8x	$18.15	$19.50	15.1%	↔
Automotive Properties REIT	APR.un	OP	↔	$505	Woolley	$12.72	$0.80	$0.80	$0.80	6.3%	6.3%	6.3%	6.3%	$0.91	$0.97	$1.01	14.0x	13.1x	12.6x	$12.00	$14.00	17.7%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,158	Kornack	$40.27	$1.65	$1.70	$1.73	4.1%	4.2%	4.3%	4.2%	$2.29	$2.42	$2.66	17.6x	16.6x	15.1x	$46.75	$49.25	26.5%	↔
DREAM Office REIT	D.un	OP	↔	$1,335	Kornack	$23.02	$1.00	$1.00	$1.00	4.3%	4.3%	4.3%	4.3%	$1.52	$1.56	$1.64	15.1x	14.8x	14.1x	$25.80	$24.00	8.6%	↔
Slate Office REIT	SOT.un	SP	↔	$386	Kornack	$5.28	$0.40	$0.40	$0.40	7.6%	7.6%	7.6%	7.6%	$0.68	$0.57	$0.62	7.8x	9.2x	8.6x	$5.95	$5.50	11.7%	↔
True North Commerical REIT	TNT.un	SP	↔	$644	Kornack	$7.29	$0.59	$0.59	$0.59	8.1%	8.1%	8.1%	8.1%	$0.59	$0.60	$0.61	12.3x	12.2x	12.0x	$7.25	$7.50	11.0%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,309	Woolley	$13.01	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.83	$0.85	$0.88	15.6x	15.3x	14.8x	$13.18	$14.00	13.8%	↔
H&R REIT	HR.un	OP	↔	$4,735	Kornack	$15.69	$0.92	$0.69	$0.69	5.9%	4.4%	4.4%	4.4%	$1.67	$1.51	$1.53	9.4x	10.4x	10.3x	$21.75	$19.50	28.7%	↔
Cominar REIT	CUF.un	RES		$1,837	Kornack	$10.07	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,455	Kornack	$11.39	$0.54	$0.54	$0.60	4.7%	4.7%	5.3%	5.3%	$1.40	$1.34	$1.37	8.1x	8.5x	8.3x	$14.85	$12.25	12.3%	↔
BTB REIT	BTB.un	SP	↔	$299	Kornack	$4.06	$0.36	$0.30	$0.30	8.9%	7.4%	7.4%	7.4%	$0.38	$0.41	$0.42	10.6x	9.8x	9.6x	$4.70	$4.50	18.2%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$5,918	Kornack	$90.10	$2.92	$3.00	$3.00	3.2%	3.3%	3.3%	3.3%	$4.04	$3.99	$4.33	22.3x	22.6x	20.8x	$87.40	$105.00	19.9%	↑
DREAM Industrial REIT	DIR.un	OP	↔	$3,718	Kornack	$16.28	$0.70	$0.70	$0.70	4.3%	4.3%	4.3%	4.3%	$0.71	$0.80	$0.86	23.0x	20.3x	19.0x	$15.50	$17.00	8.7%	↔
WPT Industrial REIT	WIR'U-T	T		$1,907u	Kornack	$21.60u	$0.76u	$0.76u	$0.76u	3.5%	3.5%	3.5%	0.0%	$0.94u	$0.98u	$1.04u	23.0x	21.9x	20.8x	$17.25u	$22.00u	5.4%	↔
Summit Industrial	SMU.un	OP	↔	$3,616	Kornack	$20.74	$0.54	$0.56	$0.58	2.6%	2.7%	2.8%	2.7%	$0.65	$0.70	$0.77	31.9x	29.5x	27.1x	$19.90	$24.00	18.4%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$337	Woolley	$4.31	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-26.8x	12.0x	6.4x	$5.70	$5.00	16.0%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$10,303	Kornack	$59.36	$1.37	$1.38	$1.47	2.3%	2.3%	2.5%	2.4%	$2.27	$2.38	$2.49	26.2x	25.0x	23.8x	$61.80	$68.50	17.7%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,436	Kornack	$47.71	$1.00	$1.00	$1.00	2.1%	2.1%	2.1%	2.1%	$2.81	$2.87	$3.00	17.0x	16.6x	15.9x	$54.80	$56.00	19.5%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,064	Kornack	$21.28	$0.68	$0.69	$0.72	3.2%	3.2%	3.4%	3.3%	$1.00	$1.03	$1.09	21.2x	20.7x	19.4x	$22.05	$24.00	16.0%	↔
InterRent REIT	IIP.un	OP	↔	$2,434	Kornack	$16.99	$0.31	$0.32	$0.32	1.8%	1.9%	1.9%	1.9%	$0.47	$0.51	$0.59	36.1x	33.1x	28.8x	$16.80	$20.00	19.6%	↔
Minto Apartment REIT	MI.un	SP	↔	$1,321	Kornack	$22.37	$0.44	$0.44	$0.45	2.0%	2.0%	2.0%	2.0%	$0.85	$0.79	$0.90	26.4x	28.2x	24.9x	$23.60	$26.25	19.3%	↔
BSR REIT	HOM.un	OP	↔	$447u	Kornack	$15.50u	$0.50u	$0.50u	$0.50u	3.2%	3.2%	3.2%	3.2%	$0.64u	$0.61u	$0.72u	24.3x	25.4x	21.6x	$15.35u	$17.00u	12.9%	↔
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.43	$0.16	$0.16	$0.17	3.6%	3.7%	3.7%	3.7%	$0.20	$0.22	$0.23	21.8x	20.2x	19.4x	$5.17	$5.55	29.0%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$316	Kornack	$9.44	$0.83	$1.13	$0.83	8.7%	12.0%	8.7%	8.7%	$0.65	$0.53	$0.58	14.5x	17.7x	16.4x	$10.75	$10.00	17.9%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,664	Woolley	$12.20	0.59	0.60	0.60	4.8%	4.9%	4.9%	4.9%	0.76	0.68	0.82	16.0x	17.9x	14.9x	$12.10	$15.00	27.9%	↔
Sienna Senior Living	SIA	OP	↔	$977	Woolley	$14.58	0.90	0.92	0.94	6.2%	6.3%	6.4%	6.4%	1.03	1.19	1.32	14.2x	12.3x	11.1x	$15.80	$17.50	26.4%	↔
Extendicare	EXE	SP	↔	$666	Woolley	$7.44	0.48	0.48	0.48	6.5%	6.5%	6.5%	6.5%	0.79	0.47	0.52	9.5x	15.8x	14.3x	$9.30	$8.50	20.7%	↔
Invesque	IVQu	SP	↔	$106u	Woolley	$1.89u	$0.74u	$0.00u	$0.00u	39.0%	0.0%	0.0%	0.0%	$0.73u	$0.57u	$0.66u	2.6x	3.3x	2.9x	$3.90u	$2.00u	5.8%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,238	Woolley	$6.11	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.14	$0.16	62.7x	43.6x	38.2x	$4.65	$6.00	-1.6%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$235u	Woolley	$18.60u	n/a	n/a	$0.51u	n/a	n/a	2.7%	2.7%	n/a	$1.00u	$1.00u	n/a	18.6x	18.6x	$19.50u	$21.00u	15.6%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$3,868u	Woolley	$16.96	$0.28	$0.28	$0.28	1.7%	1.7%	1.7%	1.7%	$0.49u	$0.51u	$0.54u	34.6x	33.3x	31.4x	$16.84	$18.00	7.8%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

Zachary Evershed, CFA
Analyst
514-412-0021
—
Associate:
Thomas Bolland: 514-871-5013

Selections

- › *Alaris*
- › *Dexterra*
- › *Hardwoods*

F.C.F.R.E.A.M. – Valuation Survey

Selecting an appropriate valuation methodology is both art and science. Multiples can be misleading, particularly in the case of EV/EBITDA, as not all EBITDA is created equal given that some companies can convert a significantly higher proportion of EBITDA generated into free cash flow. As valuation metrics through the pandemic have been notably choppy as cross-currents such as vaccination optimism vs. Delta variant concerns and drastic estimate revisions have pulled multiples in different directions, it is helpful to triangulate valuation by sanity checking EV/EBITDA and PE multiples against free cash flow yields in the context of longer-term average FCF/EBITDA conversion ratios. We took our analysis two steps further, contemplating not only a) FCF multiples vs. equity (a simple inverted FCF yield, comparable to PE), but also; b) FCF vs. enterprise value (comparable to EV/EBITDA), bringing debt in the capital structure back into the equation, and; c) FCF vs. enterprise value adjusted for non-cash working capital, attempting to isolate the strategic core of each business.

Scrutiny of outliers' target methodology leads to hikes

Our analysis identified Alaris, Dexterra and Uni-Select as consistent outliers, as the FCF multiples implied by our old target prices for these three companies were significantly lower than the remainder of our coverage universe. This prompted us to take a closer look at the justification used for each target, after which we elected to raise all three. We believe our new targets remain supported by a fair balance of both peer and historical PE and EV/EBITDA multiples, and work toward closing the FCF multiple gap between these outliers and the remainder of our coverage universe.

Alaris:

We raised our target to $27 (was $23.50), derived from a long-term DCF analysis using a 12.6% discount rate. Our new target implies 12.4x 2022e EV/EBITDA and 14.6x 2022e PE, still comparing favourably with peers at 12.5x and 18.7x FY2, respectively, but a premium to Alaris's historical five-year average FY2 EV/EBITDA at 8.9x and FY2 PE at 9.9x. Outperform.

Dexterra:

We raised our target to $12.50 (was $9.00) as we raised the EBITDA multiples used in our sum-of-parts valuation: 10x FM (was 9.5x), in line with peers at 10.1x (10.1x five-year average); 7.5x WAFES (was 5.5x), in line with peers at 7.4x (7.4x five-year average); 11.5x Modular Solutions (was 10x), a discount to peers at 13.5x (11.9x five-year average). We also added a 0.7x M&A growth premium, equivalent to baking in $105 million in incremental revenue from M&A annually. Outperform.

Uni-Select:

We raised our target to $22 (was $20) based on 16x 2022e EPS (was 14.5x) vs. comps at 17.8x and UNS's depressed five-year average of 12.5x. Our new target implies 7.9x EV/EBITDA, at roughly the midpoint of the 6-10x range we view as a fair valuation for a distributor, and in line with UNS's five-year average of 7.8x vs. comps at 10.9x. Outperform.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	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		805.3	45.0	17.91	12/2020	0.51	2.04	1.85	8.8	9.7	85.6	124.3	132.4	9.9	9.3	7.4%	3.3	27.00	↑
Boyd Group Services Inc.	BYD	SP		5,019.3	21.5	233.76	12/2020	1.97	2.39	5.84	80.8	33.1	220.0	246.8	382.0	19.8	12.6	0.2%	1.8	255.00	
Cascades	CAS	OP		1,630.9	103.3	15.79	12/2020	1.95	0.58	1.59	27.2	10.0	675.0	455.8	597.2	7.3	5.4	3.0%	2.9	19.00	
Dexterra Group Inc.	DXT	OP		542.1	65.1	8.33	12/2020	1.24	0.43	0.55	19.3	15.0	36.1	77.9	86.5	7.8	6.5	4.2%	0.9	12.50	↑
Doman Building Materials	DBM	OP		555.3	86.6	6.41	12/2020	0.78	1.17	0.83	5.5	7.8	143.1	209.8	191.6	5.8	6.4	7.5%	4.3	12.00	
GDI Integrated Facility Services	GDI	OP		1,261.7	22.9	55.00	12/2020	2.11	2.37	2.28	23.2	24.1	104.9	139.0	133.2	10.0	9.9	0.0%	1.2	67.00	
Hardwoods Distribution	HDI	OP		799.8	21.6	37.11	12/2020	1.52	3.53	3.11	8.4	9.6	72.7	153.2	158.9	7.7	7.0	1.1%	1.2	60.50	
Intertape Polymer Group Inc.	ITP	OP		1,687.3	60.5	27.88	12/2020	1.51	1.98	2.14	11.2	10.4	211.2	254.7	277.7	7.4	6.6	3.0%	2.0	40.00	
KP Tissue	KPT	SP		100.7	9.8	10.25	12/2020	0.53	0.24	0.62	43.3	16.6	197.8	165.2	226.8	7.7	7.3	7.0%	4.2	11.00	
Neighbourly Pharmacy Inc.	NBLY	SP		1,026.4	33.4	30.69	03/2021	(19.88)	(7.36)	0.50	nmf	60.9	35.1	50.3	70.6	22.6	17.3	0.6%	0.2	32.00	
Park Lawn Corporation	PLC	OP		1,103.6	30.2	36.51	12/2020	1.16	1.43	1.44	25.5	25.4	79.9	97.6	103.6	13.2	13.1	1.2%	2.2	44.50	↑
Richelieu Hardware	RCH	SP		2,398.4	56.3	42.60	11/2020	1.50	2.07	1.98	20.5	21.5	154.5	197.6	189.5	11.4	11.5	0.7%	-0.1	44.50	
Savaria Corporation	SIS	OP		1,341.6	64.4	20.84	12/2020	0.56	0.73	1.05	28.7	19.9	59.8	106.2	132.8	16.0	12.6	2.3%	2.5	24.50	
Uni-Sélect	UNS	OP		756.2	42.4	17.84	12/2020	(0.18)	0.72	1.10	19.9	13.0	88.8	127.5	145.3	8.3	6.9	0.0%	2.4	22.00	↑

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

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Sector Analysis

Sustainability & Clean Tech

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

Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed 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 had a direct impact on valuations recently and resulted in headwinds to some of the names under our coverage. Nonetheless, we believe the renewable power sector should see increased interest for the remainder of this year. The main factors we believe could support increased interest in the sector are the strong focus on accelerating renewable energy production, the rising number of countries around the world outlining their path to net-zero emissions and the upcoming United Nations meeting, COP26, in November 2021. Our top picks are INE, BLX and NPI.

Innergex Renewable Energy Inc.
(INE: TSX; Outperform; $28 target):

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of 3,101 MW and has plans to add close to 1,800 MW in capacity by the end of 2025. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S., ~8% Chile and ~7% France). As highlighted in its 2021 investor day, its 2025 growth strategy represents ~$3.8 billion in new investments, mostly to fund ~1.3 GW in mid or advanced stages of development. With its good visibility on near-term growth, combined with recent M&A, INE has guided to ~15% growth on normalized FCF/sh out to for 2025E. Some of its advanced-stage development projects include the ~332 MW Boswell wind project in Wyoming that was recently awarded a PPA and could begin construction in the second half of 2022 (COD: 2024), the 200 MW Palomino solar project in Ohio approaching the signing of two corporate PPAs covering 100% of its capacity, as well as 40 MW of wind projects in France that, although small in size, provide for attractive returns and serve as steppingstones for future developments in the country. Moreover, INE is exploring investment opportunities into new markets, namely in battery energy storage systems and green hydrogen systems (water electrolysis). Our target is based on a long-term DCF with a 4.75% discount rate on operating assets and includes $4/sh for 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 owns ~2,469 MW of generating capacity, mostly under long-term contracts with an average life of ~13 years. In June, BLX unveiled its strategic plan to 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 an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR for its normalized EBITDA and discretionary cash flow of 10%-12% and 14%-16% by 2025E, respectively. In Q2'21, BLX added 743 MW to its early-stage project pipeline, including 553 MW in wind and solar projects in the United States and France, and 190 MW in U.S. energy storage projects. BLX could see success from ~800 MW of bid-ready solar projects in New York State and bids into French RFPs later this year. BLX offers an interesting entry point as it looks to build its next leg of growth. Our target is based on a long-term DCF with a 4.50% cost of equity on operating cash flows and $7/sh of growth.

Northland Power Inc.
(NPI: TSX; Outperform; $48 target):

NPI is a global leader in the development of off shore wind projects and owns 2,705 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions, and with its offshore wind platform, it is attracting large partners like PKN Orlen in Poland and Tokyo Gas in Japan, which could help to boost returns. On recent developments, NPI closed its acquisition of a 551 MW (net) portfolio of onshore wind and solar assets in Spain, for which it had issued $990 million of equity back in April 2021, planning to use the reminder of the proceeds to pursue 4 GW to 5 GW of future development opportunities in its pipeline, focused on larger and high return offshore wind projects. Additionally, NPI is progressing on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E), for which it recently received approval for the use of 14 MW turbines with longer blades and is progressing with its 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E), for which it was recently awarded a 25-year contract. Furthermore, NPI achieved financial close for two of its New York onshore wind projects as well as on a 16 MW solar project in Colombia and is exploring 1.8 GW of wind developments in Taiwan that could be bid into RFPs next year. In September 2021, the German government auctioned the ~433 MW Nordsee Two offshore wind project (85% to NPI) and NPI is preparing to exercise its step-in-right. For 2021E, NPI expects a 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.

Sector Analysis

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 09/29	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		224.7	82	2.75	12/2020	0.06u	0.11u	0.18u	20.8	12.3	2.14u	2.44u	3.08u	0.9	0.7	1.38u	0.20	5.25	
Anaergia Inc.	ANRG	SP		1217.2	59	20.50	12/2020	0.00	0.00	0.00	na	na	3.05	2.63	5.04	7.8	4.1	10.66	0.50	28.00	
Algonquin Power	AQN	OP		9184.5u	624	14.73u	12/2020	0.65u	0.69u	0.80u	21.4	18.3	2.98u	3.58u	3.72u	4.1	4.0	10.66u	0.50	17.00u	
Altius Renewable Royalties Corp	ARR	SP		236.8	28	8.33	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		4098.0u	298	13.77u	12/2020	(0.20)u	(0.29)u	(0.25)u	nmf	nmf	0.42u	0.34u	0.56u	40.1	24.6	4.67u	0.01	26.00u	
Boralex	BLX	OP		3870.8	103	37.42	12/2020	0.56	0.41	0.65	nmf	57.2	6.44	6.82	7.11	5.5	5.3	12.00	0.65	50.00	
Brookfield Infrastructure	BIP	OP		25917.8u	465	55.73u	12/2020	1.34u	2.36u	1.92u	23.6	29.0	8.81u	10.93u	12.43u	5.1	4.5	46.12u	0.65	64.00u	↑
Brookfield Renewable	BEP	SP		23816.8u	646	36.89u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.89u	4.10u	9.5	9.0	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	SP		260.2u	85	3.07u	12/2020	(0.13)u	(0.45)u	(0.10)u	nmf	nmf	2.03u	1.83u	2.35u	1.7	1.3	1.15u	0.20	4.00u	
GFL Environmental Inc.	GFL	OP		17256.9	363	47.60	12/2020	(2.76)	(1.02)	(0.37)	nmf	nmf	11.64	14.69	16.47	3.2	2.9	14.98	0.54	50.00	↑
Innergex	INE	OP		3577.0	176	20.35	12/2020	(0.23)	(0.38)	0.74	nmf	27.5	3.60	4.16	4.06	4.9	5.0	4.84	0.86	28.00	↑
The Lion Electric Company	LEV	OP		2519.5u	202	12.50u	12/2020	(3.64)u	(1.27)u	(0.29)u	nmf	nmf	0.77u	0.42u	1.45u	29.9	8.6	1.00u	0.03	19.00u	
Loop Energy Inc	LPEN	OP		177.9	36	5.01	12/2020	(0.50)	(0.76)	(0.79)	nmf	nmf	0.03	0.07	0.40	nmf	12.6	2.49	0.00	12.00	
NanoXplore	GRA	OP		1066.8	158	6.76	06/2021	(0.07)	(0.07)	0.02	nmf	nmf	0.46	0.44	0.57	15.5	11.8	0.69	0.19	8.00	↑
Northland Power	NPI	OP		8882.1	220	40.34	12/2020	1.78	1.05	1.35	38.6	29.8	10.25	9.53	9.47	4.2	4.3	13.05	0.68	48.00	
TransAlta Renewables	RNW	SP		5121.1	267	19.18	12/2020	0.35	0.61	0.69	31.5	28.0	1.64	1.71	1.83	11.2	10.5	7.75	0.19	20.00	
Xebec Adsorption	XBC	SP		472.9	154	3.08	12/2020	(0.33)	(0.16)	0.00	nmf	nmf	0.59	0.80	1.13	3.8	2.7	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

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Sector Analysis

Technology

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

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

Selections

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

Proceed with Caution

With the recent rise in volatility combined with robust valuations – we've become more cautious on the group. Year to date, the S&P Technology Index is up 20.1% versus the 18.5% increase in the S&P. In Canada, the gap between Tech and the overall market has been even more meaningful with the TSX Technology Index up 30.6% YTD versus the 17.4% increase in the TSX with outperformance largely being driven by some of our top picks like Docebo, Lightspeed, Magnet Forensics, Nuvei and Shopify. In light of that, we're recommending investors take a more opportunistic approach to the group and layering in positions opportunistically while building positions in names that have not benefited to the same degree as those noted above along with some legacy names. With that, we see a relatively better risk-to-reward profile in names like CGI and Kinaxis that should benefit from reopenings and we'd look to those new names like TELUS International and Thinkfic which are starting to develop a stronger investor following – and it's that recognition that will unlock incremental upside in those stocks. On the growth side, we continue to like names like Docebo, Kinaxis, Lightspeed, Magnet Forensics, Nuvei, Shopify, TELUS International and Thinkific with the caveats noted above. 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 the 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 heightened interest in supply chain solutions since the onset of COVID. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across large enterprise in markets from auto (semiconductor shortages) to home building (lumber). The complexity of the Company's technology caused some delays in conversions of its pipeline in 2020; yet, that pipeline has only increased to record levels with record customer additions in recent quarters.

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.

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Sector Analysis

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	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	R		2,589	41.6	62.18	2020	1.66	R	R	R	R	98.9	R	R	R	R	R	R	R	
Blackline Safety Corp.*	BLN	R		429	54.5	7.86	2020	(0.14)	R	R	R	R	5.5	R	R	R	R	R	R	R	
CGI Inc.	GIB.A	OP		28,899	249.5	115.81	2020	4.68	5.27	5.52	22.0	21.0	2426.3	2433.9	2579.6	12.7	12.0	26.5	33%	135.00	
Constellation Software Inc.	CSU	SP		46,552	21.2	2,196.75	2020	36.06u	46.70u	53.75u	37.2	32.3	1,237.0u	1,522.2u	1,527.1u	24.3	24.2	62.4u	44%	2100.00	
Docebo Inc.	DCBO	OP		3,508	32.8	106.90	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	1356.0	193.8u	0%	80.00u	
Farmers Edge Inc.	FDGE	SP		192u	41.9	4.58u	2020	(2.02u)	(1.08u)	(1.17u)	NMF	NMF	(45.9u)	(31.1u)	(38.1u)	NMF	NMF	3.4u	1%	10.00	
Kinaxis Inc.	KXS	OP		5,458	28.1	193.97	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	118.0	64.5	10.6u	0%	225.00	
Lightspeed Commerce Inc.	LSPD	OP		17,301u	139.7	123.81u	2021	(0.65u)	(0.52u)	(0.22u)	NMF	NMF	(21.2u)	(35.7u)	(7.3u)	NMF	NMF	14.5u	1%	120.00u	
Magnet Forensics Inc.*	MAGT	OP		2,021u	40.0	50.50u	2020	0.32u	0.23u	0.22u	NMF	NMF	15.4u	13.7u	13.1u	108.8	114.0	2.1u	2%	45.00u	
mdf commerce inc.	MDF	SP		245	33.6	7.29	2021	(0.30)	(0.29)	(0.02)	NMF	NMF	5.1	(2.5)	8.8	NMF	32.2	6.6u	19%	13.50	
Nuvei Corporation	NVEI	OP		22,389	143.3	156.28	2020	0.14u	1.73u	2.04u	NMF	NMF	163.0u	301.1u	393.4u	58.7	44.9	10.7u	25%	150.00	
Open Text Corporation	OTEX	OP		14,132u	274.0	51.58u	2020	3.39u	3.61u	3.63u	14.3	14.2	1,315.2u	1,323.5u	1,374.7u	12.2	11.7	15.0u	47%	60.00u	
Pivotree Inc.*	PVT	OP		93	26.6	3.50	2020	(0.09)	(0.31)	(0.24)	NMF	NMF	5.6	(4.6)	(3.4)	NMF	NMF	2.7	0%	9.00	↓
Real Matters Inc.	REAL	SP		905	85.0	10.65	2020	0.56u	0.46u	0.36u	18.3	23.5	72.2u	57.0u	43.2u	11.2	14.7	1.9u	0%	15.50	
Shopify Inc.	SHOP	OP		188,230u	127.5	1,476.60u	2020	4.01u	6.25u	6.00u	NMF	NMF	454.5u	710.6u	670.3u	NMF	NMF	79.4u	9%	2,000.00u	
Softchoice Corp*	SFTC	R		2,012u	63.9	31.50u	2020	0.65u	R	R	R	R	R	R	R	R	R	R	R	R	
Tecsys Inc	TCS	OP		820	14.5	56.36	2021	0.49	0.40	0.69	NMF	NMF	16.2	13.0	19.0	61.8	42.4	4.61	13%	65.00	↑
Telus International	TIXT	OP		9,648	268.0	36.00	2020	0.71	0.96	1.28	NMF	NMF	391.2	533.9	659.4	20.0	16.2	6.03	42%	40.00u	
Thinkific Labs Inc.	THNC	OP		864	76.7	14.25	2020	(0.01)	(0.27)	(0.32)	NMF	NMF	(0.4)	(20.0)	(24.3)	NMF	NMF	1.81	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

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Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

Associates:
Ahmed Abdullah: 514-879-2564
Luc Troiani, CFA: 416-869-6585

Selections

- *Cineplex*
- *Spin Master*
- *Transcontinental*

Transcontinental

Anticipated pullback on resin pressure now overdone:

TCL shares fell toward $20 in September from $26 this summer. While FX was a headwind this year, the bigger issue was resin whose prices were rising last year but whose appreciation accelerated this spring and early summer. With a lag of at least two to three months in the way Packaging passes through higher resin prices to customers, the impact on margins scaled higher during the first three quarters of f2021. We had expected the shares to be in the low $20s around 2Q reporting, but consolidated results beat on material upside in Printing margins. As such, the stock got a reprieve in the summer; however, this proved temporary given the greater resin pressure in 3Q which was reported in early September. A better buying opportunity has presented itself, as TCL heads through its 4Q which will benefit from an extra week. Resin prices stopped rising after July for the first time in a year, so EBITDA pressure in Packaging will scale back toward what was seen in 1Q and we'll watch how the passthrough mechanism helps to further alleviate pressure ahead. Looking out to next year, Packaging is to deliver organic growth of 2%-3% with pressure from FX and resin materially easing so as to allow margins to expand again. Printing faces easy COVID comps going into 4Q21 and the early f2022, as it continues to cope with secular challenges while capitalizing on key areas of growth, including in-store marketing (ISM), book printing and premedia, which account for 25% of segment revenues. As always and despite the absence of government subsidies, management will strive for efficiency gains through the optimization of its platform. Before TCL embarked on its diversification into Packaging and efforts in ISM, only 23% of the company offered growth. In f2020, this jumped to more than two-thirds, with management striving to push this to over 80%, as it pursues more acquisitions in Packaging but also grows ISM organically and through M&A. As this transformation continues, a re-rating is sure to follow. TCL trades at a f2021 EV/EBITDA of 5.6x versus the average of a blended peer group at 7.5x (25% discount), while Packaging peers trade at 9.7x. A CEO change will take effect around Q4 reporting in December. Our target of $28.00 is based on our f2022E/f2023E NAV, with implied EV/EBITDA of 7.0x f2021E, 6.6x f2022E and 6.2x f2023E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 9/29	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		842	63.3	13.29	12/2020	(9.85)	(2.78)	0.89	-4.8	15.0	-182.8	-31.2	213.3	NM	7.1	-2.66	1.30	18.00	
Corus Entertainment Inc.	CJR.b	OP		1,196	208.4	5.74	08/2020	0.75	0.88	0.86	6.5	6.7	505.8	519.1	520.6	5.5	5.0	5.06	0.58	8.00	
WildBrain Ltd.	WILD	OP		555	171.9	3.23	06/2021	(0.07)	0.11	0.18	29.4	18.3	83.1	91.0	104.8	10.9	9.0	0.40	0.85	4.00	↑
Spin Master Corp.	TOY	OP		4,220	102.3	41.25	12/2020	0.51	1.77	1.93	18.3	16.8	180.6	341.0	358.0	8.7	7.7	8.81	-0.53	58.00	
Stingray Group Inc.	RAY.a	OP		528	71.5	7.38	03/2021	0.85	0.90	1.07	8.2	6.9	114.3	119.0	131.1	7.2	6.2	3.83	0.61	10.00	
TVA Group Inc.	TVA.b	SP		125	43.2	2.90	12/2020	0.86	0.69	0.63	4.2	4.6	85.3	75.1	70.1	2.2	2.3	7.80	0.16	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP		70,160	495.7	141.55	12/2020	1.85	2.07	2.73	53.6	40.6	1975.0	1979.7	2296.0	29.1	24.9	31.83	0.09	162.00	↑
Transcontinental Inc.	TCL.a	OP		1,770	87.0	20.34	10/2020	2.61	2.50	2.57	8.1	7.9	499.4	467.2	474.4	5.6	5.2	20.04	0.35	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		684	21.6	31.71	12/2020	(0.01)	0.09	0.71	NM	44.6	26.6	32.6	32.6	14.6	11.3	3.67	-0.02	36.00	
Yellow Pages Ltd.	Y	SP		377	27.7	13.60	12/2020	2.28	1.79	1.80	7.6	7.6	129.4	96.4	85.8	3.3	3.4	NM	-0.32	14.00	
Telecommunications																					
BCE Inc.	BCE	OP		57,315	905.7	63.28	12/2020	3.02	3.25	3.49	19.5	18.1	9607.0	10009.0	10437.9	8.9	8.5	20.34	0.39	70.00	↑
Cogeco Communications Inc.	CCA	OP		5,385	47.2	114.00	08/2020	7.41	8.46	10.30	13.5	11.1	1148.7	1204.7	1379.0	6.5	6.6	56.91	0.51	141.00	
Quebecor Inc.	QBR.b	OP		7,477	245.0	30.52	12/2020	2.33	2.55	2.66	12.0	11.5	1952.6	2013.7	2065.5	6.7	6.3	4.94	1.10	40.00	
Rogers Communications Inc.	RCI.b	OP		30,109	504.9	59.63	12/2020	3.40	3.59	4.56	16.6	13.1	5857.0	5920.5	9036.6	8.5	7.6	20.00	0.47	75.00	
Shaw Communications	SJR.b	OP		18,558	501.3	37.02	08/2020	1.32	1.47	1.59	25.1	23.2	2391.0	2514.7	2564.1	9.7	9.2	11.86	0.50	40.50	
Telus Corp.	T	OP		37,750	1355.0	27.86	12/2020	0.95	0.97	1.04	28.6	26.8	5493.7	5930.5	6400.4	9.7	9.1	11.55	0.55	33.00	↑

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
TRI, TOY, and FORA estimates are in US$, rest is CAD$.
Source: Bloomberg, Refinitiv and NBF estimates

Transportation & Industrial Products

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

Selections

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

Canadian Railroads – Very weak grain harvest will be a revenue headwind for CN and CP

On the back of the significant drought through the Prairies and the northern United States, there are some revenue headwind concerns for **CN Rail** and **CP Rail**:

- **Western Canadian grain production down 37% y/y.** The latest crop production assessment for the 2021-22 crop year from Agriculture and Agri-Food Canada (AAFC) and StatsCan estimates is that the total production of major grain crops will be 49.3 million metric tonnes. This is 37.2% below the record 78.5 million metric tonnes last year with drought the major culprit. Production levels this low have not been seen in over a decade, since 2007-08. Overall, AAFC estimates total grain exports (a key driver for rail volumes) will fall 41% y/y, which would be the lowest export total since 2006-07.
- **U.S. crop impacted by drought as well, but volumes still up.** U.S. grain accounts for approximately 28% of grain revenue for both CN and CP. Although drought conditions have impacted many U.S. states, planted acreage was up this year. As a result, the latest forecast from the U.S. Department of Agriculture projects near-record production of both corn and soybeans for the 2021/2022 harvest.
- **Material volume headwind for CP and CN.** About 24% of CP's total revenue last year was from grain, of which 72% was from Canadian grain (regulated and non-regulated), so if the Canadian crop is down ~37%, the potential overall revenue headwind for CP over the next 12 months could be ~6%. For CN, grain is ~15% of total revenue, of which 72% is Canadian grain. Based on a 37% lower harvest, the potential overall revenue headwind for CN could be ~4% over the next 12 months.

We are keeping our Sector Perform ratings for both CN and CP:

- **CN Rail (Sector Perform; $151.00 target).** We feel the KCS merger saga has potentially hurt CN's credibility with investors, and with a shareholder-led move to replace the company's CEO and four Board members, the stock could be in for some choppiness in the short term. As noted, CN will also face some revenue headwinds over the next 12 months from a very weak Canadian grain harvest.
- **CP Rail (Sector Perform; $97.00 target).** We view a potential merger between CP and KCS very positively as we believe it will not only be accretive to the bottom line, but highly strategic. However, we expect some lingering uncertainty around full merger approval could keep CP shares in check in the medium term. CP will also face a meaningful revenue headwind from lower grain volumes.

We value CN shares by applying a 22.0x P/E multiple to our 2022 forecast, while we value CP shares by applying a 23.0x P/E multiple to our 2022 forecast.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 9-29	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	SP		355	23.74	8,428	12/2020	-16.47	-11.76	-0.99	NA	NA	(10.84)	(9.69)	2.05	NA	11.6x	96%	30.00	
Bombardier Inc.	BBD.b	OP		2464	2.09	5,149	12/2020	-u0.47	-u0.21	-u0.06	NA	NA	-u1.32	-u0.37	u0.05	NA	31.3x	na	1.90	
BRP Inc.	DOO	OP		83	123.20	10,243	01/2021	5.35	9.39	10.06	13.1x	12.2x	6.77	3.70	9.00	33.3x	13.7x	129%	135.00	↑
CAE Inc.	CAE	OP		318	37.64	11,977	03/2021	0.47	0.94	1.43	39.9x	26.3x	0.81	0.54	1.27	69.9x	29.6x	34%	45.00	
Canadian National Rail	CNR	SP		711	147.59	104,877	12/2020	5.31	5.80	6.85	25.5x	21.6x	4.63	4.14	6.07	35.6x	24.3x	40%	151.00	↑
Canadian Pacific Rail	CP	SP		667	84.20	56,153	12/2020	3.53	3.90	4.20	21.6x	20.0x	1.66	3.80	3.27	22.2x	25.8x	54%	97.00	↓
Cargojet Inc.	CJT	OP		17	205.14	3,554	12/2020	-5.63	5.43	6.49	37.8x	31.6x	9.41	(1.33)	5.57	NA	36.8x	31%	228.00	
Chorus Aviation Inc.	CHR	SP		178	3.85	684	12/2020	0.40	0.35	0.44	10.9x	8.7x	(1.50)	0.62	1.12	6.2x	3.4x	73%	4.85	
Exchange Income Corporation	EIF	OP		37	44.82	1,673	12/2020	1.31	1.78	2.79	25.2x	16.1x	3.42	0.20	2.15	NA	20.8x	59%	47.00	
Héroux-Devtek Inc.	HRX	OP		37	17.71	655	03/2021	0.80	0.81	0.99	21.9x	17.8x	0.88	1.86	1.37	9.5x	12.9x	27%	22.00	
NFI Group Inc.	NFI	SP	↓	71	23.84	1,696	12/2020	-u0.75	u0.18	u0.93	na	20.1x	u0.69	u0.19	u1.64	NA	11.4x	58%	28.00	↓
Taiga Motors Corp.	TAIG	OP		31	9.02	281	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	4.64	175	10/2020	-9.41	-11.56	-5.39	NA	NA	(2.85)	(13.80)	1.05	NA	4.4x	NA	3.50	
TFI International Inc.	TFII	OP		93	130.29	12,142	12/2020	u3.30	u4.77	u6.20	21.4x	16.5x	u5.16	u6.18	u7.45	16.5x	13.7x	50%	158.00	↑

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

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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
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Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
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Vancouver - PB1859 • 1076 Alberni Street, Suite 201, Vancouver, BC, V6A 1A3 • 778-783-6420
Vancouver 1 • 475 Howe Street, Suite 3000, Vancouver, BC, V6C 2B3 • 604-623-6777
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White Rock • 2121 160th Street, Surrey, BC, V3Z 9N6 • 604-541-4925
Windsor • 1 Riverside Drive West,Suite 600, Windsor, ON, N9A 5K3 • 519-258-5810
Winnipeg • 1000-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5 • 204-925-2250
Yorkton • 89 Broadway Street West, Yorkton, SK, S3N 0L9 • 306-782-6450

International

NBF Securities UK

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

New York

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

National Bank of Canada Financial Inc.

New York

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

Member of

- Montreal Exchange
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Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
(Toll-Free)

1-800-678-7155

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