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VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA

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

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

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: Jonathan Egilo 416-507-8177
Associate: Rabi Nizami 416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne 403-290-5441
Associate: Anthony Linton 416-507-9054
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
Associate: Ahmed Shethwala 416-507-8102

Tal Woolley 416-507-8009

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

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

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

› After substantial progress in the struggle against Covid-19, the world faces a new enemy in the Delta variant. The new threat seems to have led many investors to question the possibility of vigorous recovery of the global economy and to go back to safe-haven vehicles such as USD-denominated bonds. Is the market justified in its fears for world output? Our answer to this question varies according to the degree of immunity attained in each region. In developed economies, where vaccination rollouts have been moving right along, Delta could bring a rise in new cases without overwhelming health-care systems. Since the main aim of public-health restrictions in developed countries has always been to avoid hospitalizations and fatalities rather than to prevent spread, current conditions are still consistent with a gradual reopening. The outlook for the emerging countries is not so upbeat. Their lag in vaccinations increases the risk that one or more of them will go where India went earlier this year. Though far-reaching restrictions are fairly rare in the emerging economies, the virus could still poop the party by forcing more localized restrictions. Despite a rise in uncertainty, we have left our global growth forecast unchanged for both 2021 (6.0%) and 2022 (4.5%).

› The U.S. economy is recovering fast. After an expansion of 6.4% annualized in the first quarter of the year, we expect Q2 to show an acceleration to about 10%. As in recent months, household spending is likely to be the main driver. Business investment should also contribute to growth. Residential investment, meanwhile, could be set for a pause after several months of frenetic activity. Though we think the labour market is in better shape than some of the data would suggest, it will take more time for the upside effects of reopening to be fully reflected in the numbers. That will allow the Fed to keep its monetary policy extremely accommodative in the coming months. The median forecast of FOMC participants suggests that short-term interest rates will remain abnormally low relative to the output gap through to the end of 2023. Under these conditions, the U.S. economy is likely to continue outperforming over the longer term. We continue to see real GDP growth of 6.9% this year and 4.3% next year. At our forecast horizon (end of 2022), that would mean output exceeding potential by 2.1%, the largest gap since 1978. A gap that wide does not seem consistent with a return of inflation to the 2% target. For this reason, we forecast core CPI will remain comfortably above 2% at least until the end of 2022. In the meantime, inflation excluding food and energy could peak around 4.1% in 2022Q1.

› Though many are apprehensive of a fourth wave of Covid-19, recent data for Canada are highly encouraging. Canadians have responded very positively to vaccine rollout and the share of the population that has received at least one dose is one of the word's highest. Hospitalizations falling sharply in recent weeks have allowed an easing of public-health restrictions. After a moderation of expansion in Q2 due to public-health measures and to production issues in automaking by reason of the chip shortage, impressive growth continues to be expected with the coming reopening of services entailing close physical proximity. This month we are keeping our forecast of 2021 growth at 6.0%. In nominal terms, our forecast remains 12.6%, unseen in 40 years. Forest-product prices have subsided considerably but soaring natural gas prices drove the Bank of Canada commodity price index to a 13-year high in July. In this context, the labor market is expected to recover rapidly in the coming months as hiring intentions and labor shortages suggest strong employer demand.

Interest rates and currency

› After an admittedly unexpected reprieve in the sell-off over recent months, we think we'll be on track to see rates move higher and the curve modestly re-steepen when taper talks increasingly come into focus later this summer. We think the US economy is on solid enough footing that it can continue to prosper even with a less accommodative central bank. While it's always scary taking the opposite view of the prescient bond market, we've got conviction that: (a) there are legs to this recovery and (b) that inflation will in fact be more persistent than some foresee, which should entail an increasing inflation premium built back into the nominal rates curve.

› The BoC is also very clearly in the transitory inflation camp, though they've at least been willing to peel back monetary policy support as the recovery has progressed. It has resulted in underperforming rates, particularly in the short-end of the curve and had led to a surging Canadian dollar. With our expectation for Fed to move closer in line to the BoC policy stance with taper talks progressing in the months ahead, we're looking for Canadian rates to outperform. Rest assured though, any taper announcement at the Fed will undoubtedly be bearish for Canadian rates too.

› The Fed sees purchases of MBS not as a way to support the housing market specifically, but more as a tool to provide accommodation through their influence on broader financial conditions. With the central bank adamant that such a level of accommodation remains necessary, the early phasing out of MBS purchases appears unlikely.

› In theory, a slightly higher inflation target means the ECB's reaction function will flatten a little. The higher degree of tolerance for deviations only reinforces this general idea, especially following years of below-target inflation. In practice, though, the new mandate will not dramatically alter the current stance of the ECB, which was already expected to keep rates at the zero-lower bound for a long time.

› After hitting a multi-year low of 1.20 to the USD on June 1, the CAD has given back 5 cents. This against a backdrop of stronger-than-expected economic growth, rising oil prices and a larger Canada-U.S. differential in 2-year government bond yields. There is no denying that a more hawkish Fed has moved market expectations considerably. However, we are adamant that the CAD has room for appreciation, considering the macro drivers that normally underpin the currency and as such expect an appreciation of the Canadian currency from current levels in Q3. We see a rate of $C1.20 to the USD this summer (compared to $1.17 previously).

Recommended asset mix and stock market

› The run-up of equity markets continues to be supported by strong profit growth. Trailing earnings per share (EPS) for the MSCI ACWI are now back to their pre-pandemic level, just 18 months after the onset of the 2020 recession.

Highlights

- Strong demand has enabled factories to raise prices in response to higher input costs from stressed global supply chains. We argued last month that this situation was likely to last through the second half of this year as companies scramble to replenish depressed inventories.
- At this juncture, it would seem that conditions remain in place for continuation of the reflation trade. Yet despite strong growth, higher inflation and central-bank commitments to keeping monetary policy accommodative for a while yet, the yield curve has flattened in recent weeks and long-term interest rates have come down.
- Are all bets already off for the reflation trade and is it time to turn defensive with so much good news already priced in? We don't think so, but there are a few items on our watch list for the coming weeks as this unique business cycle unfolds.
- Our asset mix is unchanged this month – overweight in equities and underweight in fixed income. Despite the recent run-up of inflation, we think the Federal Reserve remains comfortable keeping real rates negative to promote business investment and full-time employment. Our scenario assumes that inflation will ebb toward 3% by the end of the year and the pandemic will not worsen.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	13.1	Overweight	
Materials	11.6	Overweight	
Industrials	11.4	Market Weight	
Consumer Discretionary	3.9	Market Weight	
Consumer Staples	3.5	Market Weight	
Healthcare	1.4	Market Weight	
Financials	31.5	Market Weight	
Information Technology	11.1	Underweight	
Telecommunication Services	4.8	Market Weight	
Utilities	4.5	Underweight	
Real Estate	3.2	Underweight	
Total	100.0		

* As of June 25, 2021

The Economy

The Economy

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

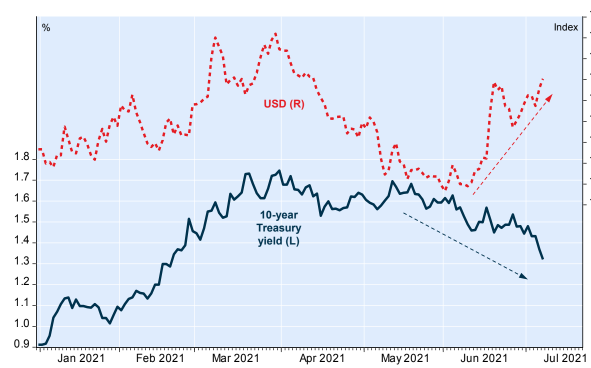
Jocelyn Paquet
Economist
514-412-3693

World: Vaccinated or unvaccinated? That is the question

After substantial progress in the struggle against Covid-19, the world faces a new enemy in the Delta variant. First detected in India late last year, this highly contagious form of the virus devastated the subcontinent in the spring and has now spread to almost 100 countries. Where Delta gains a beachhead, it tends to become the dominant form of the virus and in many cases – the U.K., Spain, Russia, South Africa, Indonesia, Thailand, Bangladesh, Malaysia – has sparked a resurgence of cases.

The new threat seems to have led many investors to question the possibility of vigorous recovery of the global economy and to go back to safe-haven vehicles such as USD-denominated bonds. At this writing the 10-year Treasury yield has tumbled from a peak of 1.75% in late March to about 1.30%, its lowest in almost five months.

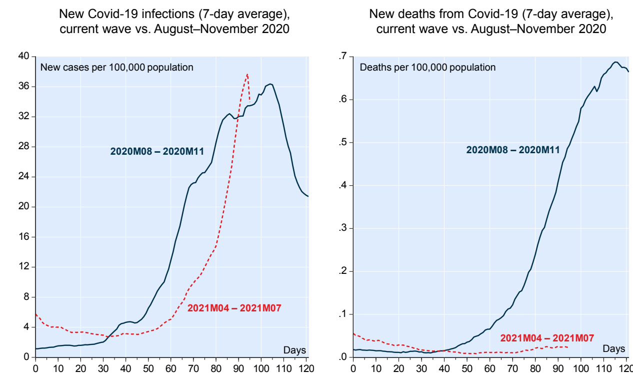
World: Delta variant revives fear of Covid-19
Trade-weighted U.S. dollar and yield of 10-year Treasuries



NBF Economics and Strategy (data from Refinitiv)

Is the market justified in its fears for the global economy? Our answer to this question varies according to the degree of immunity attained in each region. In developed economies, where vaccination rollouts have been moving right along, Delta could bring a rise in new cases without overwhelming health-care systems. The data suggest that even for the Delta variant the vaccines in use have considerably reduced the correlation between new infections on the one hand and hospitalization and deaths on the other. The U.K. exemplifies this phenomenon. Though daily new cases are rising at a rate similar to that of the second wave, the death rate remains much lower and hospitalizations are approximately one-tenth of what they were the last time new cases were running at the current rate.

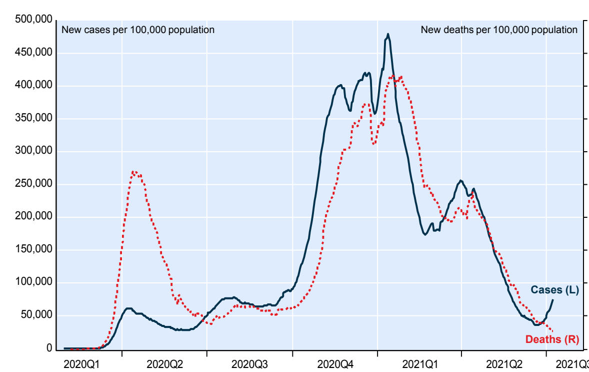
GBR: Vaccines reduce the deadliness of Covid-19 infections



NBF Economics and Strategy (data from U.K. public health)

Since the main aim of public-health restrictions in developed countries has always been to avoid overwhelming the health-care system and avoid fatalities rather than to prevent spread, current conditions are still consistent with gradual reopening of the economy. This is the view taken by the U.K. government in pursuing reopening and we would expect similar responses in other developed economies.

Developed economies: Conditions still consistent with a reopening
New cases and new deaths in Europe and North America, 7-day moving average

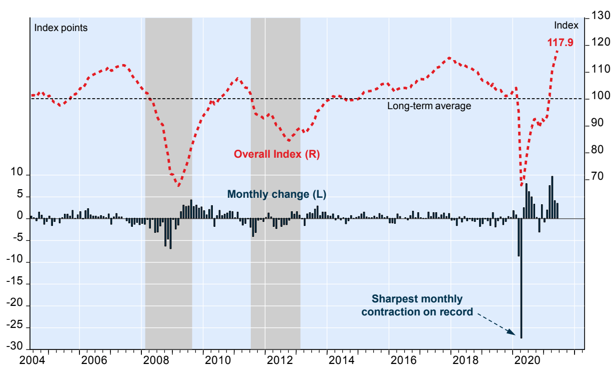


NBF Economics and Strategy (data from https://coronavirus.jhu.edu/map.html)

The Economy

Our scenario of solid revival in developed economies is thus unchanged. The outlook for the Eurozone, in particular, seems to have improved markedly in recent weeks. Stimulated by an acceleration of vaccination rollouts in the single-currency area, the European Commission's economic sentiment indicator rose significantly in June, to 117.9 from 114.5. This level not only exceeded expectations and the pre-recession peak of 104.0 (February 2020) but was the second-best number since this data series began in 1985. All five sectors surveyed were up on the month, including those hardest hit by Covid restrictions (services and retail trade).

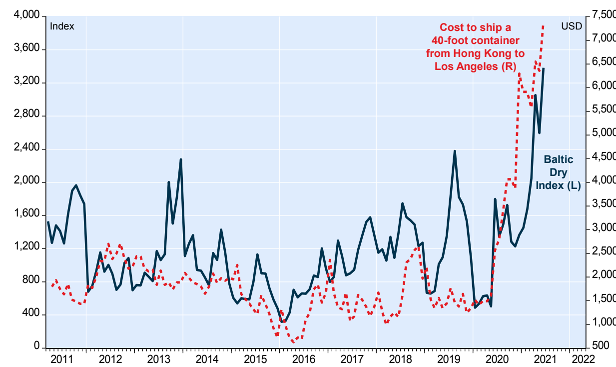
Eurozone: Economic sentiment indicator moves close to a record
European Commission Economic Sentiment Indicator (last observation June 2021)



NBF Economics and Strategy (source: European Commission, via Refinitiv)

The outlook for the emerging economies is not so upbeat. Their lag in vaccinations increases the risk that one or more of them will go where India went earlier this year. Though far-reaching restrictions are fairly rare in the emerging countries (in many cases, difficulty of access to capital markets denies them the funds needed to support wide-ranging lockdowns), the virus could still poop the party by forcing more localized restrictions. The port of Yantian in southern China is a case in point. In mid-May this container terminal was shut down by an outbreak of Covid-19. Two months later its operations are still not yet up to speed. Although the outbreak was on the whole well-controlled, it had serious repercussions on the global economy and contributed to the rapid rise of freight costs.

World: Small outbreak, large impact
Baltic Dry Index and benchmark cost to ship a 40-foot container from Hong Kong to Los Angeles

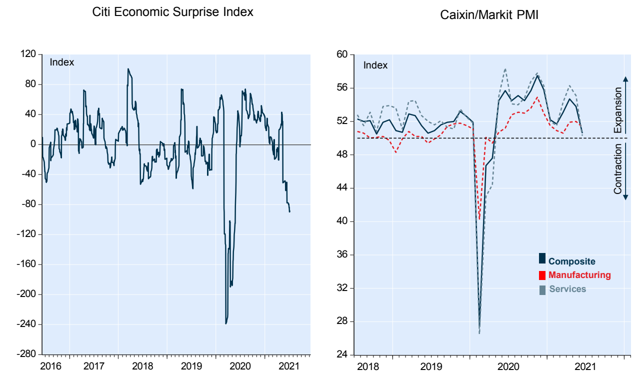


NBF Economics and Strategy (data from Bloomberg and Drewry shipping consultancy)

This type of disturbance threatens sporadic reductions of production capacity in emerging economies at a time when foreign demand is exploding. The resulting imbalance of supply and demand could add to upward pressure on prices and force some central banks to tighten faster than they would like. Policy rates are already up in Brazil, Hungary, Mexico and Russia, among other countries.

The other cloud in the sky for emerging economies is the loss of steam of the Chinese revival. China's economy, well-placed to benefit from strong international demand for merchandise, recovered rapidly from the initial shock of Covid-19 – it is the only large economy that expanded in 2020. But the world's second-largest economy now seems to be cooling. Its Citi Economic Surprise Index has fallen in recent weeks and the latest report from Caixin/Markit showed stagnation of private-sector growth.

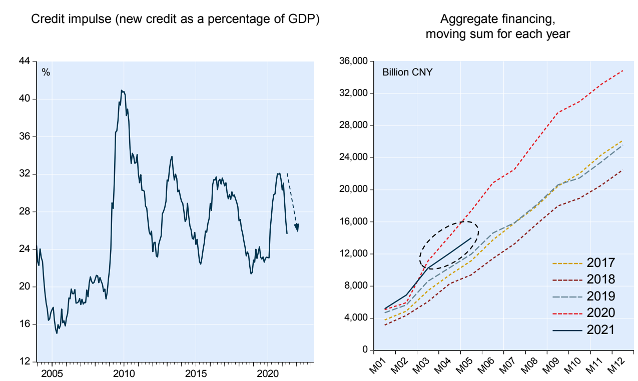
China: Recovery losing steam



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

This slowing reflects in part Beijing's desire to tighten credit in order to avoid overheating in some sectors. Earlier this year, state banks were ordered to limit lending, especially in real estate.

China: Beijing tightens the purse strings (1)

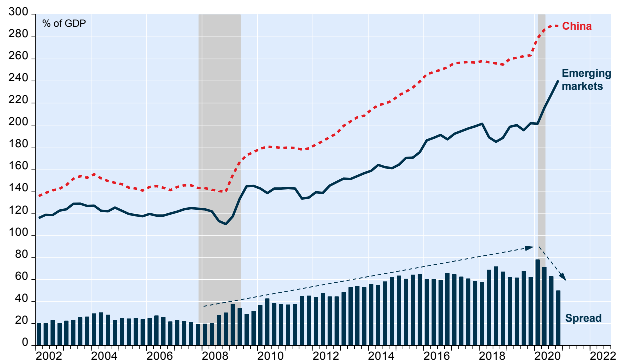


NBF Economics and Strategy (data from Bloomberg)

It is true that the world's second-largest economy carries a heavy debt load. The Bank for International Settlements (BIS) estimates total credit granted to the nonfinancial sector at approximately 290% of GDP, way above the average for emerging markets. Tightening of credit could accordingly make for a more lasting recovery.

The Economy

China: Beijing tightens the purse strings (2)
Credit granted to nonfinancial sector as % of GDP



NBF Economics and Strategy (data from BIS)

China, however, appears reluctant to sacrifice economic recovery to the altar of deleveraging. Taking notice of a slowdown in growth, authorities announced on June 12 that banks' reserve requirements would be reduced by 50 basis point, a move which will inject roughly $150 billion worth of liquidity into the economy. Taking these new measures into account, we have left our 2021 growth forecast for China unchanged at 8.5%. Our global growth forecast is also unchanged at 6.0%.

World Economic Outlook

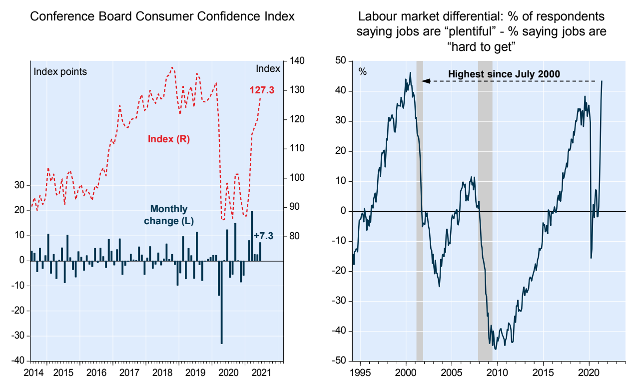
	2020	2021	2022
Advanced Economies	**-4.8**	**5.5**	**4.1**
United States	-3.5	6.9	4.3
Eurozone	-6.6	4.6	4.5
Japan	-4.7	2.6	2.4
UK	-10.1	6.5	5.3
Canada	-5.3	6.0	4.0
Australia	-3.2	5.0	3.1
Korea	-1.1	4.1	3.2
Emerging Economies	**-2.5**	**6.4**	**4.8**
China	2.3	8.5	5.5
India	-7.3	8.0	7.0
Mexico	-8.3	5.5	3.1
Brazil	-4.1	4.5	2.5
Russia	-3.0	3.5	3.0
World	**-3.5**	**6.0**	**4.5**

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

U.S.: Full steam ahead

The U.S. economy is recovering fast. After an expansion of 6.4% annualized in the first quarter of the year, we expect Q2 to show an acceleration to about 10%. As in recent months, household spending is likely to be the main driver. We note that consumer confidence in June was back to its pre-pandemic reading and optimism about the outlook for employment was the highest since 2000.

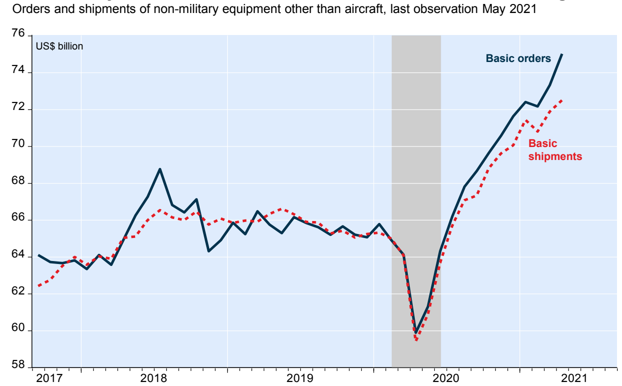
U.S.: Confidence returns with upbeat employment outlook



NBF Economics and Strategy (data from Refinitiv)

Business investment is also likely to contribute, judging by the latest data on orders/shipments of non-military equipment other than aircraft, which continued to grow strongly in Q2 and are running well ahead of their pre-crisis pace.

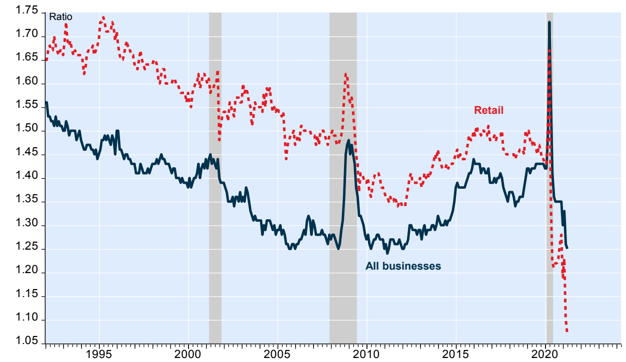
U.S.: A lively rebound in business investment from the Covid trough
Orders and shipments of non-military equipment other than aircraft, last observation May 2021



NBF Economics and Strategy (data from Refinitiv)

Inventory change is another factor to watch in the short to medium term. Inventories are abnormally low at present since businesses have been having supply problems of all kinds (scarcity of computer chips, high commodity prices, transport problems) while demand has been recovering sharply. As such, growth is likely to be supported by inventory rebuilding in the second half of the year.

U.S.: Inventories close to a historic low
Inventories as a multiple of sales

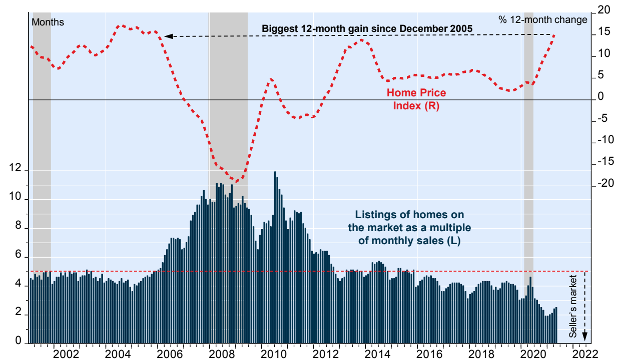


NBF Economics and Strategy (data from FRED St. Louis)

Residential investment, meanwhile, could be set for a pause after several months of frenetic growth. A pause would be attributable not to a loss of interest on the demand side but to a significant rise in selling prices. The S&P CoreLogic Case-Shiller Index of 20 U.S. urban markets shows April home prices up 14.9% from a year earlier, the biggest 12-month increase since December 2005. Lagging supply is part of the reason: in May the number of listings amounted to only 2½ months of sales. (For the National Association of Realtors, any ratio less than 5 is a tight market.)

The Economy

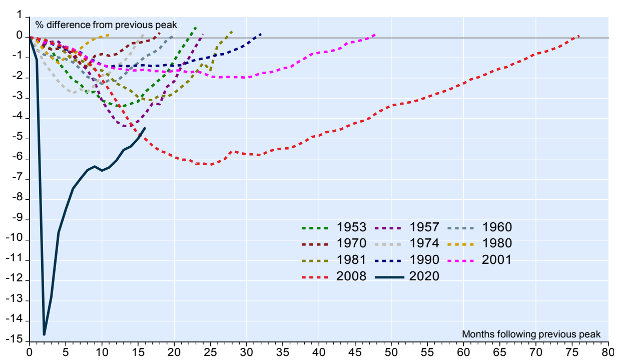
U.S.: Biggest jump in home prices since 2005
S&P CoreLogic 20-City Home Price Index and listings as a multiple of monthly sales



NBF Economics and Strategy (data from Refinitiv)

The only real cloud in the sky of the U.S. economy is the labour market. Though the payroll survey showed 850,000 payroll jobs added in June, total employment was still 4.4% lower than before the pandemic.

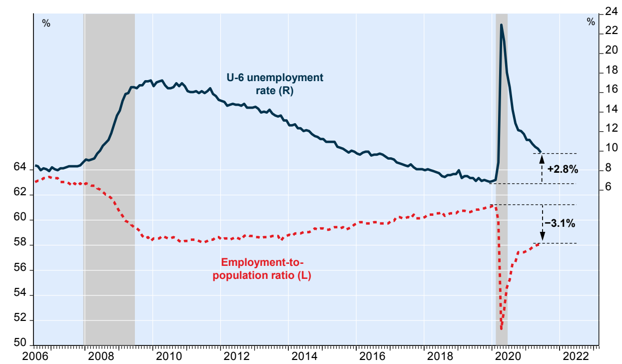
U.S.: Labour-market recovery still has a way to go
Nonfarm payroll employment, % difference from previous peak



NBF Economics and Strategy (data from Refinitiv)

The June household survey, for its part, showed a decline of 183,000 full-time jobs, disappointing to say the least. The unemployment rate rose a notch from the month before, to 5.9%, though that is still way below its pandemic peak of 14.8%. It is important to note that the downtrend of this indicator is being steepened by a falling participation rate. If that rate had been the same as before the pandemic, the unemployment rate in June would have been closer to 8.5%. For a better idea of the labour-market shortfall, we have to look at the U-6 unemployment rate or the employment-to-population ratio. Both are quite far from their pre-pandemic readings, though the U-6 rate declined from 10.2% in May to 9.8% in June.

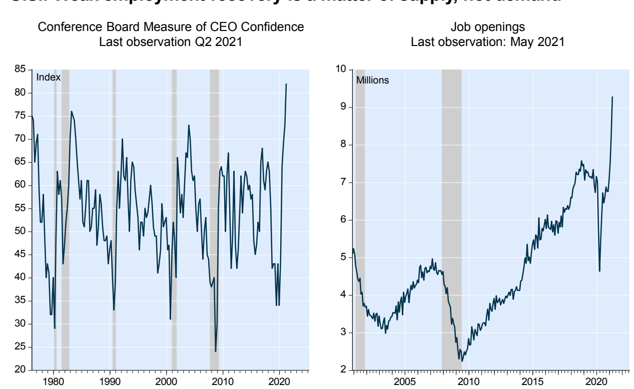
U.S.: Unemployment rate understates labour-market slack
U-6 unemployment rate vs. employment-to-population ratio



NBF Economics and Strategy (data from Refinitiv)

The slowness of the labour-market recovery does not worry us unduly. As we have often explained, the shortfall in jobs cannot be laid to lack of employer demand: the confidence of corporate CEOs was at a record in Q2 and the number of unfilled jobs had never been higher.

U.S.: Weak employment recovery is a matter of supply, not demand



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

It seems, rather, that U.S. employers are having a hard time attracting candidates, even with 6.8 million workers yet to find jobs after losing their livelihoods at the start of the pandemic. The reasons are multiple:

› residual fear of the virus;

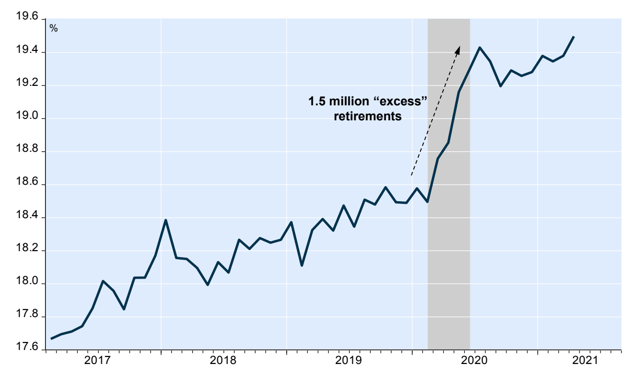
› closings of school and daycare centres, forcing many parents to stay home to mind children;

› mismatch of the skills most in demand with the skills of those who lost their jobs in the pandemic;

› Washington's supplements of UI benefits.

To these factors must be added a big increase in retirements in recent months. Many of these departures had been put off at the end of the previous cycle – workers became increasingly scarce before the advent of Covid-19, which encouraged employers to accommodate their most senior employees. With the advent of the pandemic, many who had extended their working lives seem to have decided the game was no longer worth the candle. Others quit to take care of a sick person or to take maximum advantage of the post-pandemic period. Whatever the reason for departure, the Dallas Federal Reserve puts the number of "excess" retirements since the beginning of the pandemic at 1.5 million.

U.S.: A marked increase in retirements
% of population population describing itself as retired

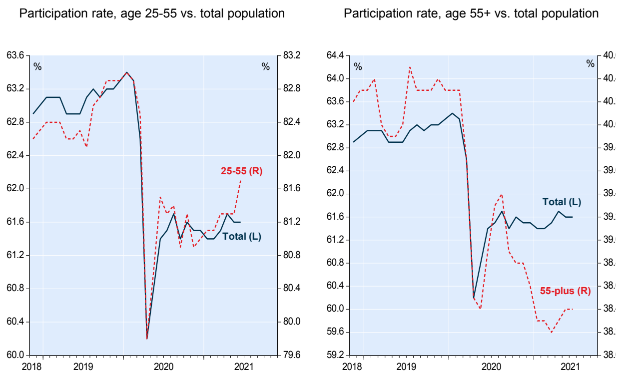


NBF Economics and Strategy (data from Dallas Federal Reserve)

Data on the participation rate seem to confirm these findings. That rate has rebounded much less strongly for people 55 and older than for the rest of the population since reopening began.

The Economy

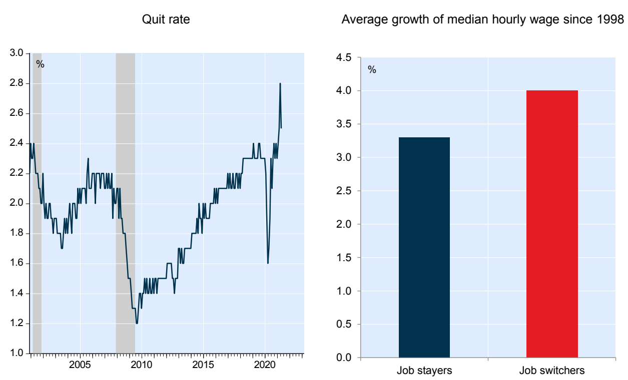
U.S.: Participation rate down among older people



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

All these factors taken together suggest that the U.S. is much closer to full employment than might appear, giving those with a job much more flexibility and bargaining power. Confident in their outlook, workers no longer hesitate to leave their jobs: the quit rate in April was the highest since the data series began in 2000. Since the pay of people who switch jobs tends to rise faster than the average, this trend could be a tailwind for household incomes.

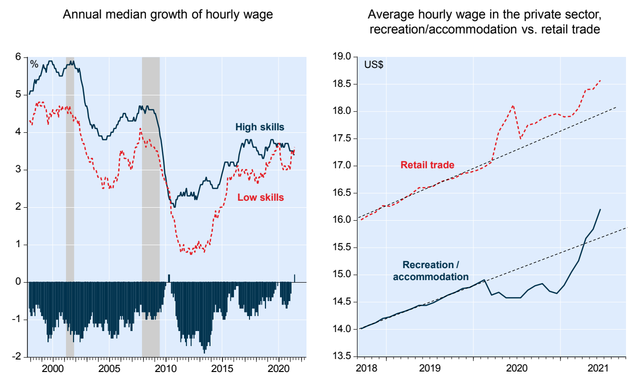
U.S.: Workers taking advantage of labour scarcity



NBF Economics and Strategy (data from Refinitiv and Atlanta Federal Reserve)

Pay increases are indeed starting to show in the data, for high-skill as well as low-skill jobs.

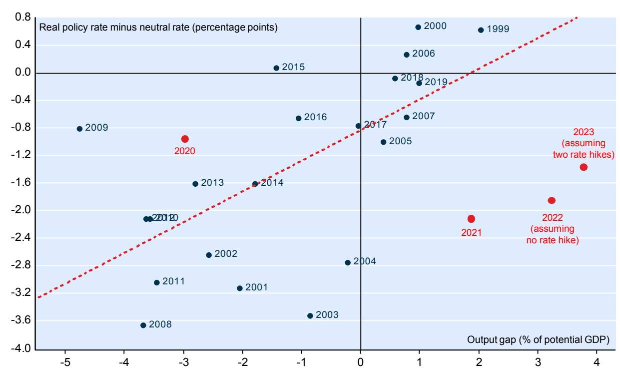
U.S: Low-skills sectors benefiting from reopening



NBF Economics and Strategy (data from Refinitiv and Atlanta Federal Reserve)

Though we think the labour market is in better shape than some of the data would suggest, it will take more time for the upside effects of reopening to be fully reflected in the numbers. That will allow the Fed to keep its monetary policy extremely accommodative in the coming months. The median forecast of FOMC participants suggests that short-term interest rates will remain abnormally low relative to the output gap through to the end of 2023.

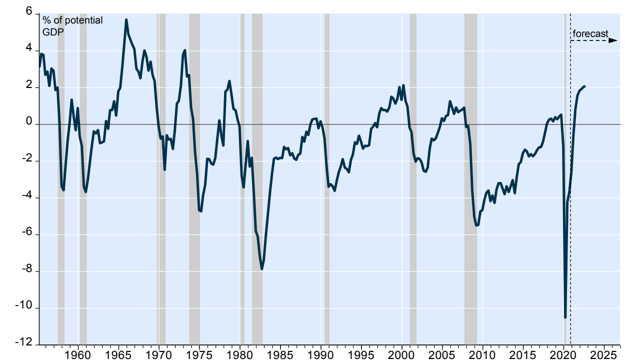
U.S.: Accommodative monetary policy is here to stay
Output gap vs. real policy rate at year end minus neutral rate



NBF Economics and Strategy (data from Federal Reserve, CBO, New York Fed and Bloomberg)

Under these conditions, the U.S. economy is likely to continue outperforming. We continue to see real GDP growth of 6.9% this year and 4.3% next year. At our forecast horizon (end of 2022), that would mean output exceeding potential by 2.1%, the largest gap since 1978.

U.S.: Approaching the second largest output gap since 1978?
% difference between real GDP (actual and NBF forecast) and potential GDP as estimated by CBO



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

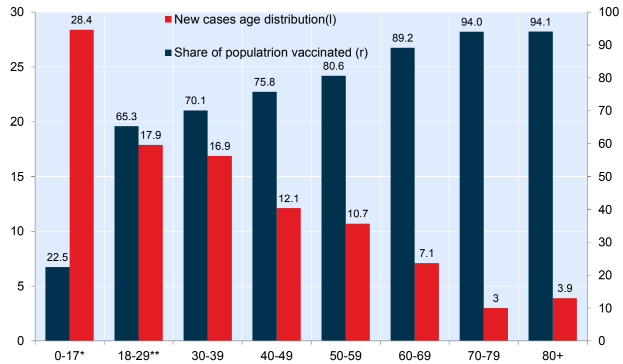
A gap that wide does not seem consistent with a return of inflation to the 2% target. For this reason, we forecast core CPI will remain comfortably above 2% at least until the end of 2022. In the meantime, inflation excluding food and energy could peak around 4.1% in 2022Q1.

Canada: A new momentum

Though many are apprehensive of a fourth wave of Covid-19, recent data for Canada are highly encouraging. Canadians have responded very positively to vaccine rollout and the share of the population that has received at least one dose is one of the word's highest. The number of daily new cases is the lowest in 10 months and new cases are concentrated in younger age groups, whose vaccination rates are lower (no vaccines are authorized for those less than 12 years old).

The Economy

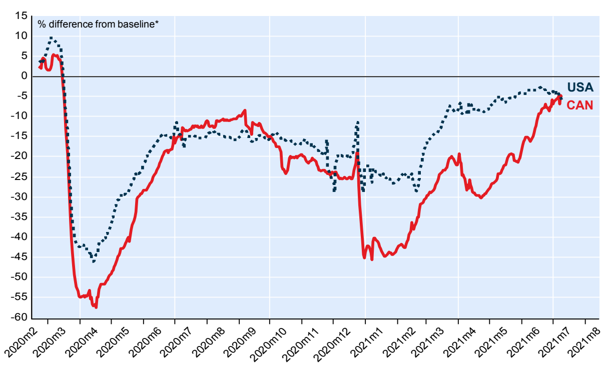
Canada: Vaccination by age group and age distribution of new cases
Weekly new cases and % of each age group having received at least one dose of vaccine (as of July 3)



*0-17 for vaccine doses, 0-19 for cases **18-29 for vaccine doses, 20-29 for cases
NBF Economics and Strategy (data from Public Health Agency of Canada, Statistics Canada)

Since young people tend less to develop severe complications of Covid-19, hospitalizations have also fallen sharply in recent weeks. This has allowed an easing of public-health restrictions, which has been reflected in gains in the Google mobility index for retail stores and recreation all through the second quarter. At this writing, the index reading is the highest since the onset of the pandemic and is similar to that of the United States.

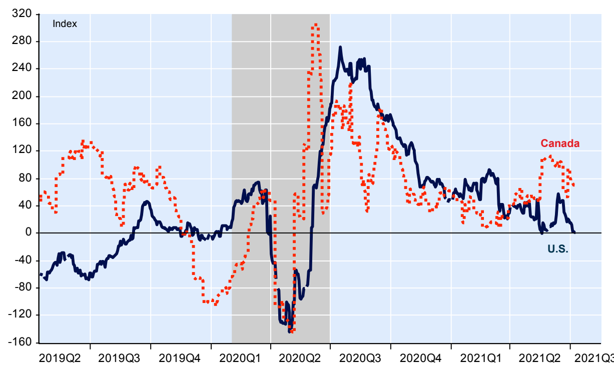
Canada vs. U.S.: Indexes of return to normal
Google mobility data for retailers and recreation, 7-day moving average



* Baseline value is the median value for the corresponding day of the week in the five weeks from January 3 to February 6, 2020
NBF Economics and Strategy (data from Google)

Though Q2 growth will be less spectacular than in the U.S. because of more restrictive public-health measures, it will continue to surprise. Canada's Citi Economic Surprise Index, unlike that of the U.S., remains comfortably above 0, indicating performance exceeding economist expectations. The index has been in positive territory for 427 days, a first in its 23-year history.

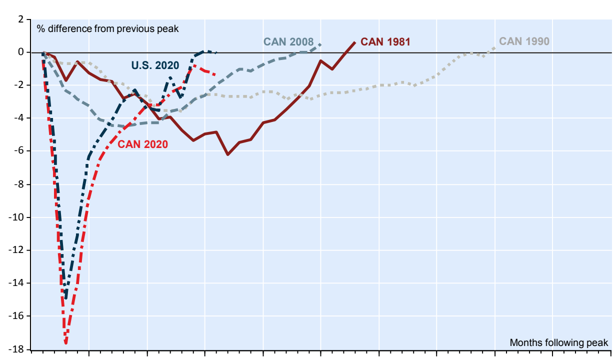
Canada: Continuing upside surprises
Citi Economic Surprise Indexes, Canada and U.S.



NBF Economics and Strategy (data from Bloomberg)

Though Canadian GDP did contract 0.3% in April, the first dip in 11 months, the decrease was much smaller than the −0.8% anticipated by the economist consensus. Neither does the Statistics Canada preliminary estimate for May augur disaster: it suggests a contraction of the same magnitude as in April. Total output in April was only 1.2% below that of the last month before the pandemic. Unsurprisingly, the shortfall was largest in the industries hardest hit by physical distancing measures. The arts/entertainment/recreation sector was still down 53% from February 2020, accommodation/food services 36%.

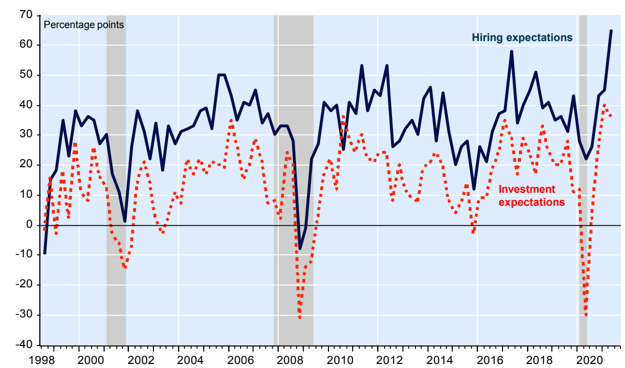
Canada: Historical perspective on GDP recovery from recessions
% change of real GDP following pre-recession peaks (including preliminary estimates for 2020-21)



NBF Economics and Strategy (data from Bloomberg and Statistics Canada)

But these sectors will rebound with their reopening in coming months. The most recent survey of the active population offers a foretaste: a spectacular gain of 231,000 jobs that erases at one stroke almost all the losses of the third wave of the pandemic. The great majority of the June gains were in accommodation/food services and retailing. The wave of hiring will continue: the Bank of Canada's Business Outlook Survey reports record hiring intentions.

Canada: A spectacularly upbeat business outlook in June
Investment and hiring intentions (balance of expectations*)

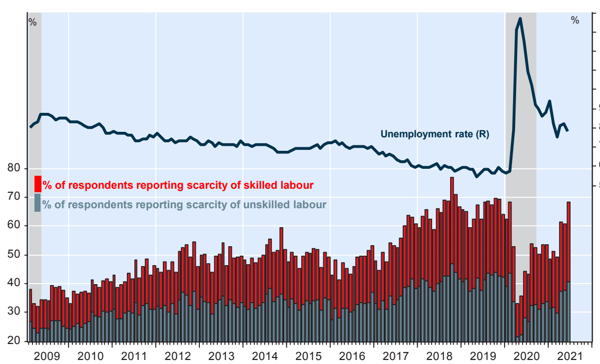


* % of businesses surveyed expecting to increase investment / hiring minus % expecting to reduce it
NBF Economics and Strategy (data from Bank of Canada Business Outlook Survey)

The story is the same for small and medium businesses, which in June reported labour scarcities as acute as before the pan-demic – 41% worried about a lack of skilled labour and 27% about lack of unskilled labour. Why this situation, when the unemployment rate is about 2 points higher than before the pandemic? It turns out that in June about 800,000 workers were still drawing on the income support program. Generosity of support is slated to diminish considerably in August, from $500 a week to $300, which could encourage workers to go back to work and reduce labour-market tensions.

The Economy

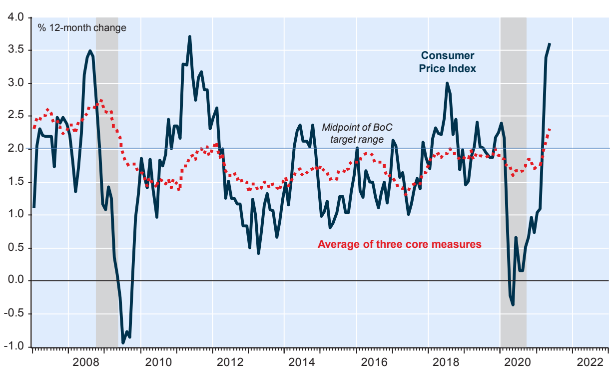
Canada: End of CRB is likely to accelerate employment recovery
Unemployment rate and labour scarcity indicator based on CFIB data



NBF Economics and Strategy (data from CFIB and Refinitiv)

Meanwhile, inflationary pressures are growing. In May the average of the three measures of 12-month core inflation was the highest in more than a decade. But it is the recent pace that raises eyebrows. Our in-house replication of CPI Median and CPI Trim shows their inflation over the last three months topping the central bank's 1%-3% target range with annualized rises of 3.1% and 3.5% respectively. There are of course supply-chain bottlenecks pushing up prices of specific goods (e.g. semiconductors), but there is reason to believe that wage pressures are also playing a part in the acceleration of price rises in the household consumer basket.

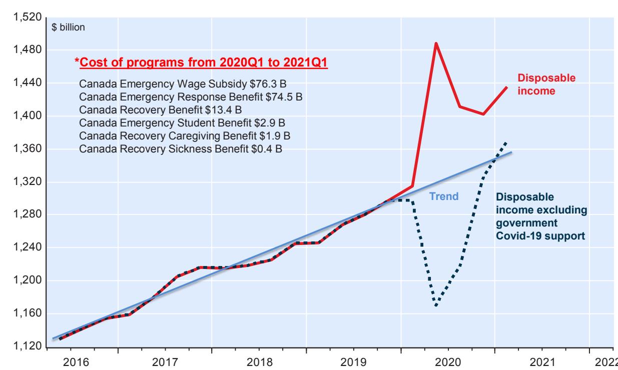
Canada: Measures of core inflation are at a post-2009 high
12-month change in consumer price indexes



NBF Economics and Strategy (data from Statistics Canada)

Some say that this phenomenon is transient and that the end of extraordinary income-support programs will attenuate inflationary pressure. The Emergency Wage Subsidy and the Recovery Benefit will end in September. Will the economy stand on its own once these programs are terminated? The national accounts published in early June offers compelling evidence against the fiscal cliff scenario. Disposable income excluding government programs related to the Covid-19 pandemic was back to historical trend by Q1. Looking ahead, an easing of public-health measures should lead to substantial job gains this summer and keep disposable income rising. This prospect, combined with the 9.5% excess savings already accumulated by households, means that consumption will be on a strong footing over the next few quarters. In the July Monetary Policy Report, the Bank of Canada's base case scenario assume that 20% of savings would be spent. There is a possibility that the Bank may be erring on the side of caution given that their survey of consumer expectations indicates that households expect to spend as much as 35% of the of their extra savings within just 18 months.

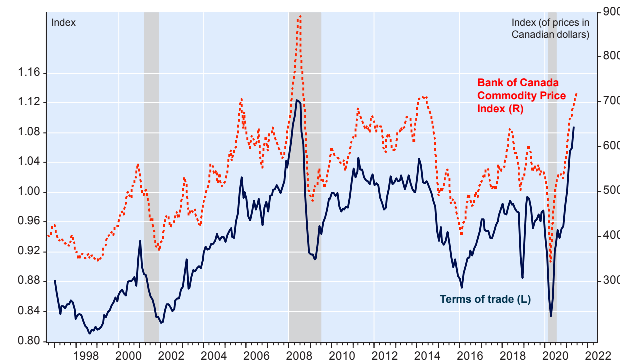
Canada: Will growth be at risk when Covid-19 programs end?
Disposable income and disposable income excluding government Covid-19 support (annualized)*



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

This month we are keeping our forecast of 2021 growth at 6.0%. After a moderation of expansion in Q2 due to public-health measures and to production issues in automaking by reason of the chip shortage, impressive growth continues to be expected with the coming reopening of services entailing close physical proximity. In nominal terms, our forecast remains 12.6%, unseen in 40 years. Forest-product prices have subsided considerably but soaring natural gas prices drove the Bank of Canada commodity price index to a 13-year high in July.

Canada: Commodity prices at a 13-year high
BoC Commodity Price Index and terms of trade



NBF Economics and Strategy (data from Refinitiv)

The Economy

United States Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	3.0	2.2	(3.5)	6.9	4.3	(2.4)	7.4	2.6
Consumption	2.7	2.4	(3.9)	8.7	5.0	(2.7)	9.5	3.0
Residential construction	(0.6)	(1.7)	6.1	13.1	(1.7)	14.3	3.6	(3.8)
Business investment	6.9	2.9	(4.0)	8.2	2.5	(1.4)	7.0	1.2
Government expenditures	1.8	2.3	1.1	1.5	1.4	(0.5)	2.7	2.0
Exports	3.0	(0.1)	(12.9)	4.9	5.9	(10.9)	4.8	4.5
Imports	4.1	1.1	(9.3)	12.5	2.8	(0.6)	5.9	1.4
Change in inventories (bil. $)	53.4	48.5	(77.4)	(26.5)	85.0	62.1	50.0	85.0
Domestic demand	3.0	2.3	(2.7)	7.5	3.7	(1.5)	7.7	2.3
Real disposable income	3.6	2.2	6.0	3.9	(2.1)	3.9	1.7	2.0
Payroll employment	1.6	1.3	(5.7)	2.6	3.3	-6.0	4.0	2.5
Unemployment rate	3.9	3.7	8.1	5.5	4.2	6.8	4.8	3.8
Inflation	2.4	1.8	1.3	4.1	2.9	1.2	4.9	2.7
Before-tax profits	6.1	0.3	(5.8)	13.9	6.1	-0.7	8.0	5.0
Current account (bil. $)	(438.2)	(472.1)	(616.1)	(666.6)	(647.8)	...	...	...

** or as noted*

Financial Forecast**

	Current 7/09/21	Q3 2021	Q4 2021	Q1 2022	Q2 2022	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.06	0.05	0.10	0.10	0.15	0.09	0.10	0.15
Treasury yield curve								
2-Year	0.23	0.30	0.45	0.55	0.65	0.13	0.45	0.90
5-Year	0.79	1.00	1.20	1.30	1.40	0.36	1.20	1.60
10-Year	1.37	1.55	1.80	1.90	1.95	0.93	1.80	2.15
30-Year	1.99	2.10	2.20	2.30	2.40	1.65	2.20	2.50
Exchange rates								
U.S.$/Euro	1.19	1.22	1.21	1.21	1.20	1.22	1.21	1.19
YEN/U.S.$	110	109	108	109	109	103	108	108

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.4	4.3	6.4	10.3	7.8	5.2
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.8	5.0	4.9
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.7	4.0	4.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.8	5.4	4.8

National Bank Financial

Canada Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.3)	6.0	4.0	(3.1)	5.0	3.0
Consumption	2.5	1.6	(6.0)	4.8	5.9	(4.4)	4.7	5.2
Residential construction	(1.7)	(0.2)	4.1	19.7	(4.9)	14.5	4.4	(4.3)
Business investment	3.1	1.1	(13.6)	1.3	6.0	(13.9)	6.3	4.8
Government expenditures	3.2	1.7	0.4	5.7	2.0	2.4	4.0	1.5
Exports	3.7	1.3	(10.0)	3.1	4.3	(7.4)	1.8	4.7
Imports	3.4	0.4	(11.2)	6.0	4.7	(5.9)	2.5	5.1
Change in inventories (millions $)	15,486	18,766	(15,937)	3,634	13,068	(287)	14,000	12,513
Domestic demand	2.5	1.4	(4.3)	6.0	3.7	(2.0)	4.6	3.2
Real disposable income	1.5	2.2	9.5	(0.0)	(0.6)	7.4	(0.5)	1.1
Employment	1.6	2.2	(5.1)	4.4	2.8	(2.9)	3.1	2.0
Unemployment rate	5.9	5.7	9.6	7.6	6.3	8.8	6.6	6.1
Inflation	2.3	1.9	0.7	2.9	2.5	0.8	3.2	2.2
Before-tax profits	3.8	0.6	(4.0)	33.4	2.2	9.4	16.8	4.0
Current account (bil. $)	(52.2)	(47.4)	(40.1)	5.0	(38.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 7/09/21	Q3 2021	Q4 2021	Q1 2022	Q2 2022	2020	2021	2022
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
3 month T-Bills	0.14	0.15	0.20	0.20	0.25	0.07	0.20	0.70
Treasury yield curve								
2-Year	0.50	0.50	0.60	0.70	0.80	0.20	0.60	1.10
5-Year	0.94	1.05	1.25	1.40	1.50	0.39	1.25	1.80
10-Year	1.33	1.45	1.70	1.80	1.90	0.68	1.70	2.10
30-Year	1.82	1.90	2.00	2.10	2.20	1.21	2.00	2.30
CAD per USD	1.25	1.20	1.21	1.21	1.22	1.27	1.21	1.23
Oil price (WTI), U.S.$	75	72	75	70	67	48	75	65

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 actual	Q1 2021 actual	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(7.9)	(38.0)	41.7	9.3	5.6	2.4	6.3	5.8
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	3.3	3.4	3.2
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	2.0	2.4	2.3
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.0	7.3	6.6

National Bank Financial

The Economy

Provincial economic forecast

	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	-3.5	4.0	-5.3	3.9	2.6	0.8	4.1	-8.3	17.6	3.9
Prince Edward Island	2.5	5.1	-3.0	4.5	4.0	3.6	7.0	-1.0	8.2	5.0
Nova Scotia	1.9	2.4	-3.2	5.0	3.3	3.6	3.8	-1.9	8.1	4.6
New Brunswick	0.5	1.2	-3.7	4.6	3.0	3.6	3.0	-1.9	9.7	4.7
Quebec	2.9	2.7	-5.3	6.5	4.1	5.4	4.3	-4.1	11.4	5.1
Ontario	2.8	2.1	-5.0	6.1	4.3	4.1	3.8	-4.8	10.0	5.2
Manitoba	1.5	0.6	-4.8	5.1	3.5	2.5	1.0	-4.0	11.1	4.8
Saskatchewan	1.2	-0.7	-5.2	5.4	3.5	3.2	0.1	-9.2	18.9	3.7
Alberta	1.9	0.1	-8.2	6.4	4.0	3.4	2.7	-11.6	22.4	5.0
British Columbia	2.7	2.7	-3.8	6.1	4.2	4.9	4.4	-2.3	11.5	5.6
Canada	2.4	1.9	-5.3	6.0	4.0	4.2	3.6	-4.6	12.6	5.2
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	12.8	12.2
Prince Edward Island	4.2	3.4	-3.2	4.0	2.2	9.4	8.6	10.6	8.5	7.9
Nova Scotia	1.9	2.3	-4.7	5.4	1.6	7.7	7.3	9.8	8.2	7.7
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	8.7	8.5
Quebec	1.5	2.0	-4.8	4.4	3.0	5.5	5.2	8.9	6.5	5.6
Ontario	1.7	2.8	-4.7	4.3	3.0	5.7	5.6	9.6	8.2	6.4
Manitoba	1.1	1.0	-3.7	3.7	2.0	6.0	5.4	8.0	7.0	5.5
Saskatchewan	0.6	1.7	-4.6	3.7	2.3	6.2	5.5	8.4	6.1	5.6
Alberta	1.9	0.6	-6.5	4.6	3.3	6.7	7.0	11.5	9.0	7.7
British Columbia	1.4	2.9	-6.5	5.4	2.9	4.8	4.7	9.0	6.7	5.6
Canada	1.6	2.2	-5.1	4.4	2.8	5.9	5.7	9.6	7.6	6.3
	Housing starts (000)					**Consumer Price Index** (% growth)				
Newfoundland & Labrador	1.1	0.9	0.8	1.3	0.8	1.7	1.0	0.2	2.8	2.5
Prince Edward Island	1.1	1.5	1.2	1.1	1.0	2.3	1.2	0.0	3.2	2.5
Nova Scotia	4.8	4.7	4.9	5.0	4.2	2.2	1.6	0.3	3.2	2.5
New Brunswick	2.3	2.9	3.5	4.0	2.8	2.2	1.7	0.2	3.0	2.5
Quebec	46.9	48.0	54.1	70.0	56.0	1.7	2.1	0.8	3.0	2.5
Ontario	78.7	69.0	81.3	95.5	81.7	2.4	1.9	0.6	3.0	2.5
Manitoba	7.4	6.9	7.3	7.3	6.3	2.5	2.3	0.5	2.6	2.5
Saskatchewan	3.6	2.4	3.1	5.2	3.6	2.3	1.7	0.6	2.6	2.5
Alberta	26.1	27.3	24.0	30.5	27.0	2.5	1.7	1.1	2.6	2.5
British Columbia	40.9	44.9	37.7	41.5	36.6	2.7	2.3	0.8	2.8	2.5
Canada	212.8	208.7	217.8	261.4	220.0	2.3	1.9	0.7	2.9	2.5

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

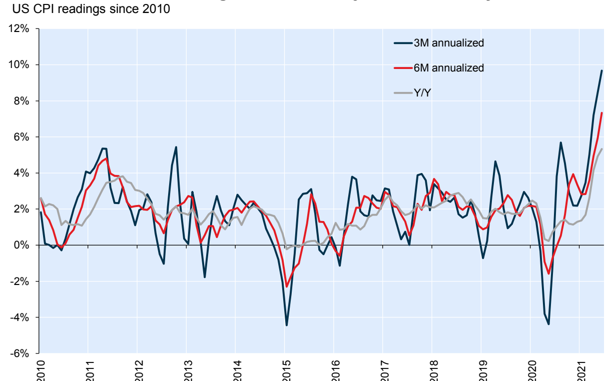
Taylor Schleich
Rates Strategist
416-869-8025

Jocelyn Paquet
Economist
514-412-3693

Transitory, temporary, transient?

Transitory, temporary and transient—three "t" words that have been playing a prominent role in nearly every North American central banker's lexicon. Indeed, the pressure on monetary policymakers continues to be ratcheted up as inflation print after inflation print beats expectations. However, for the most part, they haven't cracked under the pressure and continue to cite evidence supporting their transitory narrative. To be fair, some of the points they raise are valid. Base-year effects are most definitely at play and are, by definition, transitory. So too are supply chain bottlenecks that are temporarily causing prices to jump higher (used cars are the classic example). But there is also increasing evidence that perhaps inflationary pressures are a little stickier than they may have earlier thought. Certainly, inflationary pressures to date have been stronger than anticipated. As 3- or 6-month annualized prints indicate its not just base-year effects that are causing the inflationary spike. Nonetheless, with economies still working through the reopening kinks, the persistent-transitory debate is one that won't be settled for a while yet.

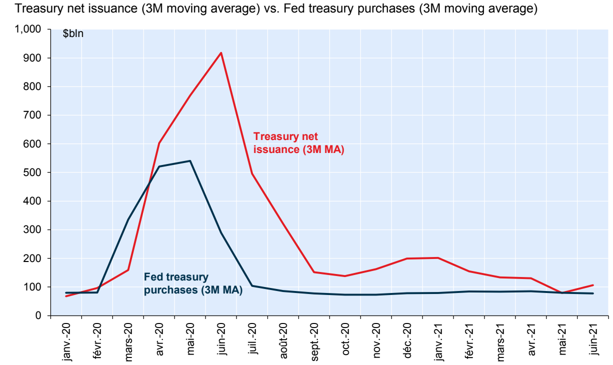
As 3- and 6-month readings show, it's not just about base-year effects
US CPI readings since 2010



NBF Economics and Strategy (data via Bloomberg)

For now, the bond market seems to be buying the central bank narrative. After a rapid sell-off at the start of the year, longer-term rates have reversed course over the past few months. While short-term yields have climbed higher anticipating earlier rate hikes signalled at the June FOMC meeting, the long-end seems to be signalling that the Fed is on track to hike too early and cut the recovery short. We disagree. Instead, we'd point to other more technical factors that continue to have sway in the bond market. For one, there was short covering that contributed to the earlier rally as the street unwound curve steepeners and short rate trades that had become the trade *du jour*. But the big elephant in the room is undoubtedly the QE program. Despite imminent output gap closure, the Fed is still buying $120 billion bonds every month. That's the same amount of bond buying they were doing this time last year, when inflation was muted, we were in a deep employment hole and output was contracting. Moreover, in recent months, net treasury issuance has been fully offset by Fed treasury purchases. Surely, no net new supply to the street is a contributing factor to the ongoing rally. To us, treasury purchases at this elevated and somewhat arbitrary pace is a little excessive given where we are in the recovery. To the Fed, they're still looking for substantial further progress in labour markets. Even with their relatively high bar, we expect that to come in the coming months.

Fed purchases have been absorbing nearly all net treasury supply
Treasury net issuance (3M moving average) vs. Fed treasury purchases (3M moving average)



NBF Economics and Strategy (data from New York Fed, SIFMA)

All that to say, after an admittedly unexpected reprieve in the sell-off over recent months, we think we'll be on track to see rates move higher and the curve modestly re-steepen when taper talks increasingly come into focus later this summer. We think the US economy is on solid enough footing that it can continue to prosper even with a less

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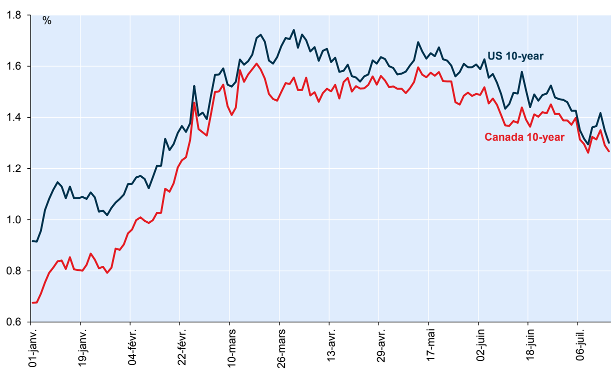
accommodative central bank. While it's always scary taking the opposite view of the prescient bond market, we've got conviction that: (a) there are legs to this recovery and (b) that inflation will in fact be more persistent than some foresee, which should entail an increasing inflation premium built back into the nominal rates curve.

Is the bond market taking the transitory side of the inflation debate?
Canada and US 10-year yields throughout 2021

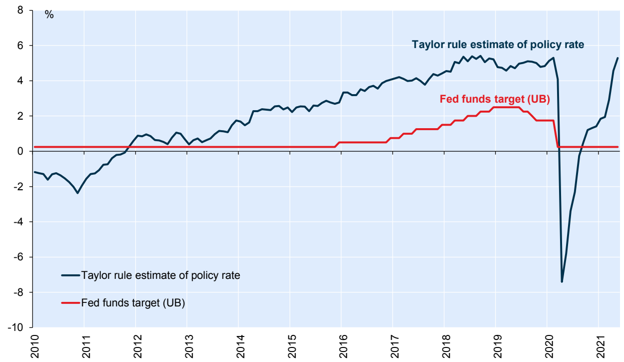


NBF Economics and Strategy (data from Bloomberg)

Meanwhile, at the BoC, they're very clearly also in the transitory inflation camp, though they've at least been willing to peel back monetary policy support as the recovery has progressed. It has resulted in underperforming rates, particularly in the short-end of the curve and had helped drive the Canadian dollar stronger. With our expectation for Fed to move closer in line to the BoC policy stance, we're looking for Canadian rates to outperform in the months ahead. Rest assured though, any taper announcement at the Fed will undoubtedly be bearish for Canadian rates too.

As for policy rate normalization, we've left our forecast unchanged and have more conviction in our call after seeing a continued hawkish shift among FOMC participants in June. As a reminder, that base case forecast involves an initial rate move from the BoC in July 2022 and Fed tightening starting early in 2023. Given the time required to fully taper bond-buying programs, we see limited scope for moving rate normalization significantly ahead of that timeline. Finally, we'd also emphasize that even under our normalization timelines (which are more aggressive than some forecasters and certainly more aggressive than what is implied by the Fed/BoC), policy will remain far more accommodative than what we would've seen in a more typical cycle. Take the Taylor rule for an example. The difference in the policy rate suggested by that model and the actual fed funds target continues to widen, growing to levels not seen since the 1970s. Even if/when inflation retreats from these ultra-elevated readings, policy will nonetheless continue flash as extremely accommodative for the foreseeable future.

According to the Taylor rule, Fed policy is far too accommodative
Taylor rule estimate of policy rate versus actual fed funds target (upper bound) since 2010



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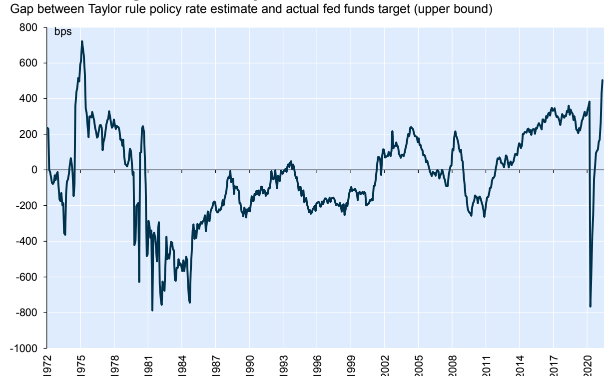
Greatest divergence from Taylor rule since the 1970s
Gap between Taylor rule policy rate estimate and actual fed funds target (upper bound)

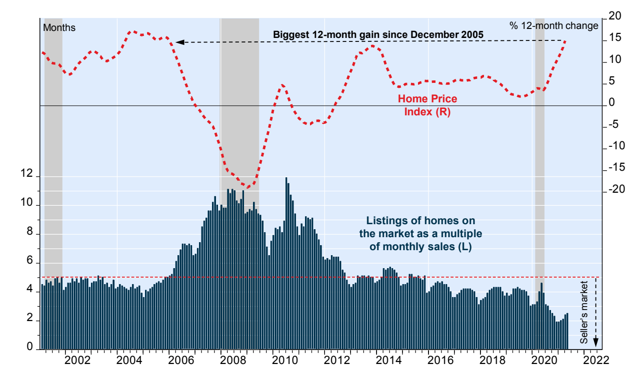


NBF Economics and Strategy (data from Bloomberg)

FOMC: Jobs still come first, but housing a growing concern

The Fed has been more than clear in recent months that its reaction function will depend almost entirely on jobs data. As long as the recovery in employment remains incomplete or insufficiently inclusive, it will err on the side of caution and keep monetary policy loose. But with the U.S. economy showing signs of overheating, the primacy of employment in the central bank's mandate is starting to be challenged by a few FOMC members. Indeed, the risks to financial stability engendered by the rapid appreciation of certain assets seem increasingly difficult to ignore from a monetary policy standpoint. Specifically, the surge in home prices seems to have attracted the attention of some Fed representatives. At the June 15-16 meeting of the central bank "[s]everal participants highlighted… that low interest rates were contributing to elevated house prices and that valuation pressures in housing markets might pose financial stability risks." Recall that home prices were up 14.9% y/y in April according to the S&P CoreLogic Case-Shiller 20-City Index, the biggest 12-month increase since December 2005.

U.S.: Biggest jump in home prices since 2005
S&P CoreLogic 20-City Home Price Index and listings as a multiple of monthly sales



NBF Economics and Strategy (data from Refinitiv)

In this context, "several participants" to the meeting "saw benefits to reducing the pace of [Mortgage-Backed Securities] purchases more quickly or earlier than Treasury purchases." This suggestion was ultimately rejected, with a majority of participants arguing that such an approach would not be

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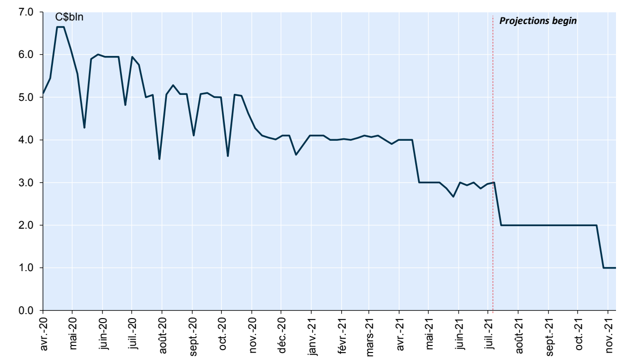
aligned with the Fed's previous communications. It seems all but certain that the FOMC members who are uncomfortable with soaring property prices will once again call for an asymmetric reduction of asset purchases at the next meeting but we continue to expect that, once the Fed starts tapering its QE program, it will reduce the pace of Treasury and MBS purchases commensurately. In the eyes of many policymakers, the extremely close relationship between both asset classes means that reducing MBS purchases faster or earlier would not significantly alter conditions in the housing market. What's more, the Fed sees purchases of MBSs not as a way to support the housing market specifically, but more as a tool to provide accommodation through their influence on broader financial conditions. With the central bank adamant that such a level of accommodation remains necessary, the early phasing out of MBS purchases appears unlikely.

More generally, though, the debate surrounding MBS purchases demonstrates growing divisions within the FOMC, with the minority group inclined to reduce policy accommodation faster, making its voice heard louder and louder. Whether it is the rise in house prices, the surge in inflation, or elevated valuation on the stock market, the hawkish camp will not be short of arguments in coming weeks to question the Fed's pedal-to-the-metal-approach to monetary policy.

BoC: Well-telegraphed stimulus removal

Unlike south of the border, where pedal-to-the-metal monetary policy continues unabated, the Bank of Canada has taken a relatively more balanced approach. Though the BoC's Quantitative Easing program was initiated at a much greater relative level than the Fed's bond buying program, Macklem and the Governing Council have been willing to pare back purchases as the economic recovery has progressed. It began with a $1 bln/week taper in October, continued with another $1 bln/week step down in April and progressed further in July as the BoC brought down its weekly bond-buying pace to $2 bln/week.

BoC: Stimulus removal has been smooth and orderly
Bank of Canada weekly bond purchases + NBF projections



NBF Economics and Strategy (data via Bank of Canada)

The BoC's well-telegraphed removal of stimulus has provided market watchers with a very clear outlook for policy, at least over the shorter-term. As long as the economic recovery progresses as the BoC expects, it will continue to pare back its QE stimulus in the future. To us, that probably means another step lower at October's meeting, which will come alongside a fresh MPR and a few months of data quantifying the progression of the recovery. Beyond this point, however, the outlook becomes a little bit murkier.

Back in March, Deputy Governor Toni Gravelle delivered a speech which, in broad terms, outlined how the BoC will wrap up its QE program. Rather than simply bringing the weekly purchase pace down to $0, the Bank will want to spend some time in what's it's calling the 'reinvestment phase'. This will involve keeping the level of its GoC holdings steady over some undefined period of time. In effect, it's going to be reinvesting the proceeds of bonds that roll off of its balance sheet. The only problem is, we don't know how that is ultimately going to take shape.

As a reminder, the BoC, in addition to its weekly QE purchases, regularly participates in all nominal GoC bond auctions, buying 13% of the total amount tendered. This is a practice that was in place long before the pandemic, reflecting balance sheet management rather than stimulus provision. So far in 2021, these auction purchases have roughly offset those bonds that have matured off the BoC's balance sheet. If that continued to be the case, the reinvestment phase would look identical to pre-pandemic BoC activity. However, beginning in 2022, maturities begin to accelerate, reflecting significant bond-buying initiated at the onset of the pandemic last spring. That means regular auction purchases will be insufficient to maintain the size of the Bank's bond holdings. This implies that either (a) the Bank has to increase its participation at GoC bond auctions or, perhaps more likely, (b) the Bank will have to continue a terminal rate of QE to keep the balance sheet from shrinking. The BoC has to provide more information before we know how bond-buying will look later this year/into 2022, but at this point we'd estimate a terminal QE pace of $500 million per week would be needed.

More importantly, this reinvestment phase will play an important role in eventual policy rate normalization. As Gravelle noted:

> *"We would arrive at the reinvestment phase of QE some amount of time before we start to increase the policy interest rate."*

You can't get vaguer than "some amount of time", but our naïve interpretation of that comes out to a period of at least 6 months. Given the information we have now, here's how we see things progressing: The BoC moves to lower the pace of QE once again in October. By December or January, we move lower to this terminal pace of QE, better known as the reinvestment phase. Six months later, with the output gap expected to be closed (or very close to it) and with labour markets fully healed, the BoC will be able to provide rate lift-off in July, consistent with its current forward guidance window (i.e. the second half of 2022).

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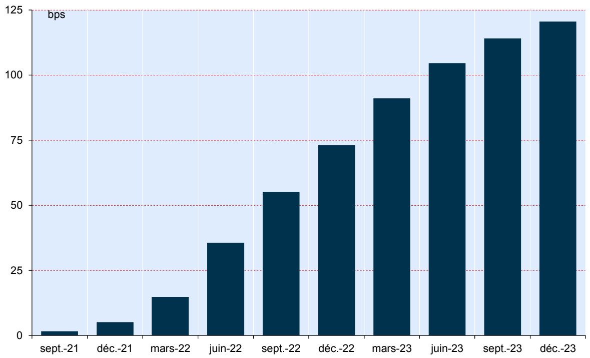
To be sure, if the reinvestment phase has to persist for a period of roughly six months, our timeline is pretty tight. But look at market pricing and you'll see an even more aggressive picture. Already, we're fully priced for the BoC's first rate hike before July 2022. That's before current forward guidance would allow for and would presumably require a faster pace of tapering than we've assumed. All that to say, we're fading the market's ultra-aggressive timeline for BoC tightening. That's not because of pessimism surrounding the recovery. Rather its more about the obstacle course of prerequisites the BoC has laid out as being needed before hikes.

Short-term rates market pricing very aggressive BoC
Policy rate increases implied by BA futures through 2023



NBF Economics and Strategy (data from Bloomberg)

ECB: A new framework… which does not fundamentally alter current stance

Having completed its first strategy review in nearly twenty years, the European Central Bank announced on July 8 that it would make some changes to its policy mandate. To begin with, the central bank's inflation target was changed from "close to, but below 2%" to a symmetrical 2%. Although the Bank said it would tolerate temporary moves beyond that point in the short term, it made clear that "negative and positive deviations… from the target [were] equally undesirable" in the long term. It added that "[w]hen the economy is operating close to the lower bound on nominal interest rates, it requires especially forceful or persistent monetary policy action to avoid negative deviations from the inflation target becoming entrenched… This may also imply a transitory period in which inflation is moderately above target."
To those wondering if that strategy amounted to a "soft" version of the Fed's average inflation targeting, ECB President Lagarde retorted an emphatic "no, quite squarely".

In theory, a slightly higher inflation target means the ECB's reaction function will flatten a little. The higher degree of tolerance for deviations only reinforces this general idea, especially following years of below-target inflation. In practice, though, the new mandate will not dramatically alter the current stance of the ECB, which was already expected to keep rates at the zero-lower bound for a long time.

Partly compensating for this "dovish" tilt, the ECB said that, although the HCIP remained the appropriate price measure on which to base its monetary stance, effort would be made to include the cost of owner-occupied housing into its calculations. According to the Bank, such a move would allow the index to better reflect the inflation relevant for households (more than half of the euro-zone inhabitants live in houses they own). It is important to keep in mind that the cost of owner-occupied housing is not the same as house prices. The former reflects the expenses associated with purchasing, maintaining and living in an own home. Still, the cost of owner-occupied housing has been rising much faster than overall inflation since 2014 according to Eurostat. Provided that this trend continues, the inclusion of these expenses into the HCIP would likely result in stronger inflation readings.

As part of its policy review, the ECB also stated its intentions to "further incorporate climate change considerations onto its policy framework". To achieve this aim, the central bank plans to improve its modeling and conduct theoretical/empirical analysis to monitor the implications of global warming for the economy. In the same vein, it said climate risks disclosure on the part of corporations would become a new eligibility criterion for QE. In the future, the allocation of bond purchases would incorporate climate change considerations such as the alignment of issuers with "EU legislation implementing the Paris agreement through climate change-related metrics or commitments of the issuers to such goals." Since new legislation will be needed to allow the Bank to skew its purchases according to these standards, the changes are expected to come into force in 2024.

Interest Rates and Bond Markets

Canadian Bond Market: Interest rates, spreads and currencies

Close on:	15-Jul-21	15-Apr-21	14-Jan-21	15-Oct-20	16-Jul-20
Interest Rates					
3 months	0.165	0.087	0.061	0.095	0.177
2 years	0.448	0.249	0.165	0.237	0.269
5 years	0.885	0.918	0.456	0.344	0.338
10 years	1.259	1.476	0.855	0.569	0.505
30 years	1.782	1.913	1.481	1.154	0.996
Spreads					
3 months - 2 years	28.3	16.2	10.4	14.2	9.2
2 - 5 years	43.7	66.9	29.1	10.7	6.9
5 - 10 years	37.4	55.8	39.9	22.5	16.7
10 - 30 years	52.3	43.7	62.6	58.5	49.1
Currencies					
CAD/USD	1.2611	1.2543	1.264	1.3221	1.3574
EUR/CAD	0.6718	0.6662	0.6508	0.6459	0.6471

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

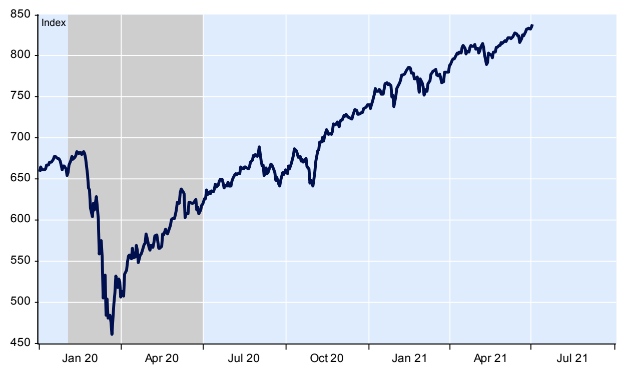
Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Reflation trade: Not all bets are off

After a few days of tumult following the June FOMC meeting, global equity markets recouped their losses and ended the month at a new record (chart).

World: A new high in June
MSCI ACWI



NBF Economics and Strategy (data via Refinitiv)

At this writing, the MSCI ACWI is up 12.5% year to date, led by North America and Europe (table). Emerging markets, where Covid vaccination lags as the new Delta variant spreads, have for the most part struggled to keep pace with the global index. The exception is EM EMEA (+13.3% YTD), thanks to the strong performance of its European constituents.

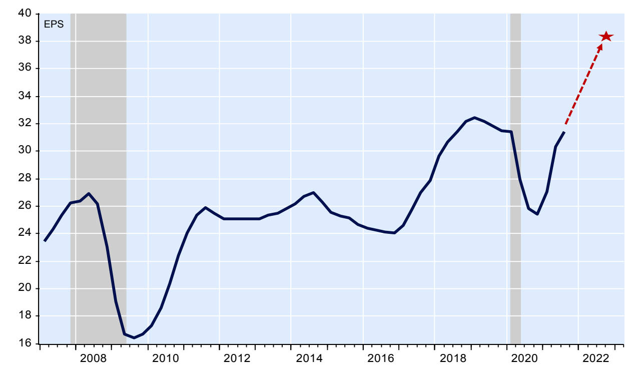
MSCI Composite Index: Price performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	2.0	6.6	12.5
MSCI World	2.2	7.1	13.3
MSCI USA	2.7	8.5	14.1
MSCI Canada	2.3	7.9	16.0
MSCI Europe	1.5	5.4	12.8
MSCI Pacific ex Jp	0.4	4.9	9.9
MSCI Japan	1.1	0.0	7.9
MSCI EM	0.5	3.2	7.0
MSCI EM EMEA	0.5	4.3	13.3
MSCI EM Latin America	-0.5	5.0	4.7
MSCI EM Asia	0.7	2.9	6.3

6/30/2021
NBF Economics and Strategy (data via Refinitiv)

The run-up of equity markets continues to be supported by strong profit growth. Trailing earnings per share (EPS) for the MSCI ACWI are now back to their pre-pandemic level, just 18 months after the onset of the 2020 recession. More important, anticipated 12-month-forward earnings continue to be revised up and are now about 20% above pre-pandemic profits. Note that an earnings recovery of this magnitude took almost a decade after the 2008-09 recession (chart).

World: EPS are back to pre-pandemic level and have more upside
Trailing earnings for the MSCI ACWI and 12-month-forward expectations



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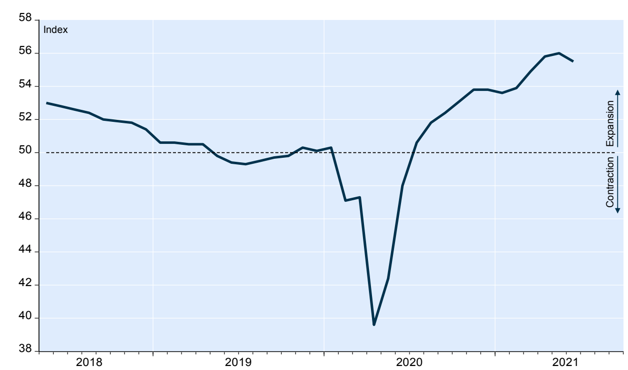
World: Manufacturing continuing to expand at healthy clip
JPMorgan/Markit Global Manufacturing PMI. Last observation: June 2021



NBF Economics and Strategy (Source: Markit via Refinitiv)

[1] Refer to our June 16 *Fed Policy Monitor* for more details.

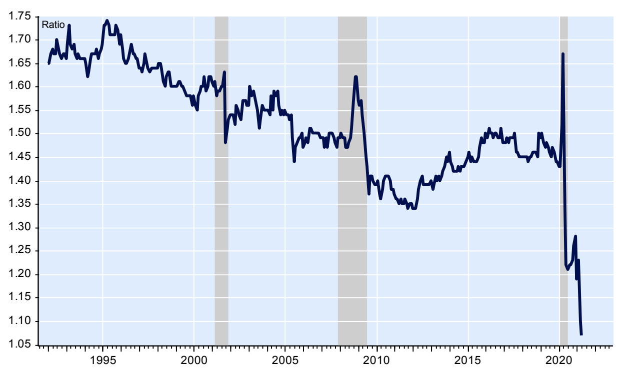
[2] The yield curve is defined as the 10-year Treasury yield minus the 3-month T-bill yield.

Stock Market and Portfolio Strategy

With global economic momentum still strong and pricing power improving, these anticipations seem realistic. The JP Morgan/ Markit World Manufacturing PMI eased from an 11-year high of 56.0 in May to a still-high 55.5 in June, for a 12th consecutive month of a growth signal for global factory output.

Strong demand has enabled factories to raise prices in response to higher input costs from stressed global supply chains. We argued last month that this situation was likely to last through the second half of this year as companies scramble to replenish depressed inventories (chart). This backdrop is likely to keep companies in a position to maintain or raise their forward guidances on profits.

U.S.: A need to rebuild inventories
Inventory-to-sales ratio: Retailers



NBF Economics and Strategy (data via Refinitiv)

In the last month, 59% of the more than 2400 companies listed on the MSCI ACWI raised their guidance (historical average: 49%) and the revisions were widespread across regions (table).

MSCI: Change in 12-month-forward earnings

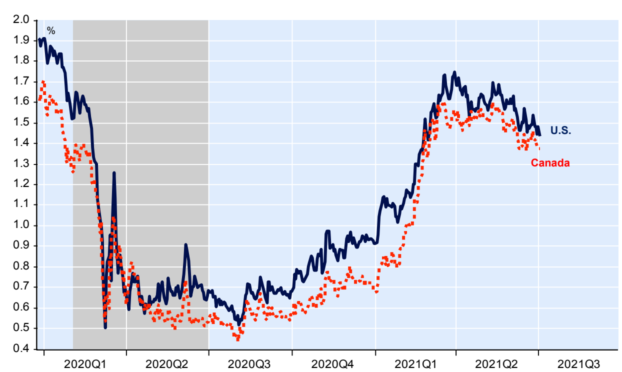
	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	6.4	-0.6	0.8	-0.6	59%	43%
MSCI World	6.5	-0.6	0.8	-0.6	62%	45%
MSCI USA	6.9	-0.3	0.5	-0.3	65%	48%
MSCI Canada	7.6	-0.7	1.8	-0.7	55%	43%
MSCI Europe	5.8	-1.0	0.9	-1.0	64%	40%
MSCI Pacific ex Jp	5.9	-0.5	1.8	-0.5	50%	41%
MSCI Japan	5.3	-0.3	1.7	-0.3	60%	49%
MSCI EM	5.6	-0.6	0.7	-0.6	55%	40%
MSCI EM EMEA	7.7	-0.5	2.3	-0.5	67%	43%
MSCI EM Latin America	16.2	-1.0	0.5	-1.0	58%	40%
MSCI EM Asia	3.7	-0.5	0.4	-0.5	53%	40%

6/30/2021

NBF Economics and Strategy (data via Refinitiv)

At this juncture, it would seem that conditions remain in place for continuation of the reflation trade. Yet despite strong growth, higher inflation and central-bank commitments to keeping monetary policy accommodative for a while yet, the yield curve has flattened in recent weeks and long-term interest rates have come down (chart). Are all bets already off for the reflation trade and is it time to turn defensive with so much good news already priced in? We don't think so, but there are a few items on our watch list for the coming weeks as this unique business cycle unfolds.

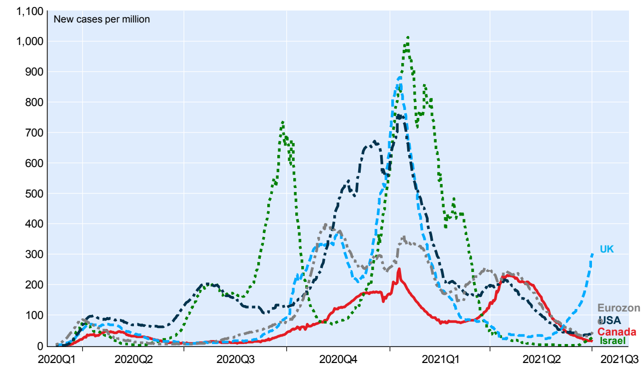
North America: Long-term interest rates have come down
Yields of 10-year U.S. Treasuries and Government of Canadas



NBF Economics and Strategy (data via Refinitiv)

Two important factors appear to have spooked the bond market. First, on the pandemic front there is growing concern that the spread of the Delta variant could challenge global economic growth in the months ahead. The rise in new cases is certainly notable in such countries as the U.K. and Israel, where more than 50% of the population has been vaccinated twice (chart).

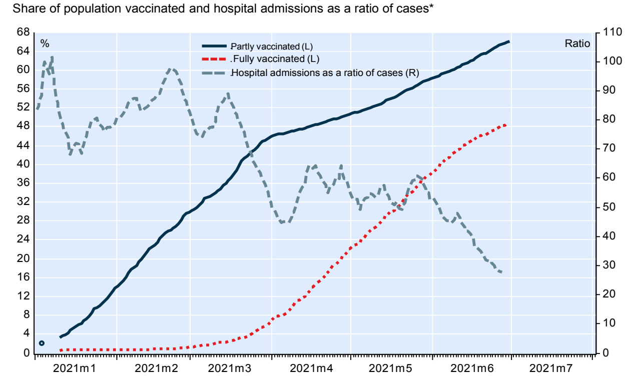
World: Course of the pandemic
Daily new cases per million population by region, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

Despite this development, the number of fatalities has not risen and pressure on the health-care system – as gauged by the ratio of hospital admissions to new cases – is the lowest since the start of the vaccination campaign (chart). To the extent that vaccines keep this ratio from rising to a level that would strain the health-care system, the economic recovery will continue. As the war against Covid rages on, the next few weeks will be important for gauging whether victory against the pandemic is at hand.

U.K.: Vaccination and Covid-19 hospital admissions
Share of population vaccinated and hospital admissions as a ratio of cases*

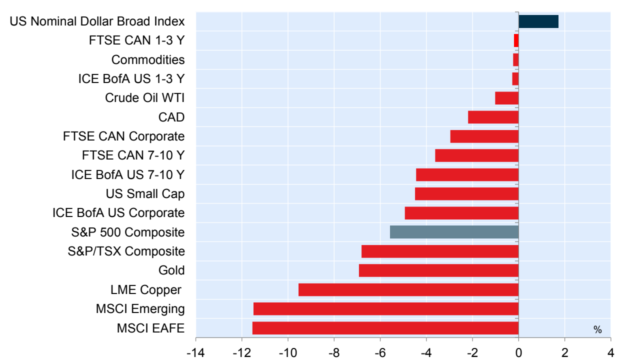


*per 1,000 confirmed cases 10 days earlier, 7-day moving average
NBF Economics and Strategy (Healthcare in the UK | Coronavirus in the UK (data.gov.uk), https://ourworldindata.org/covid-vaccinations)

Stock Market and Portfolio Strategy

The second concern for markets is the Federal Reserve. Chair Jerome Powell surprised investors at the news conference following the June 16 FOMC meeting by declaring that this had been the "talking about talking about" meeting on an eventual reduction of quantitative easing.[1] While this statement was certainly justified by the current backdrop for U.S. growth and inflation, some investors viewed it as the potential trigger of a deleveraging phase similar to the month-long 2013 "taper tantrum" that resulted in a significant drawdown in risk assets, exacerbated by a surging U.S. dollar and rising bond yields (chart). We don't anticipate a taper tantrum this time around.

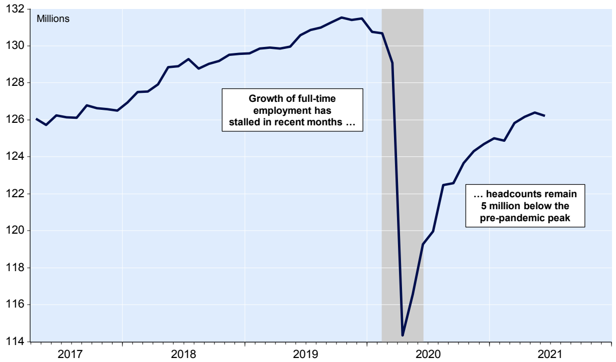
U.S.: Asset-class performance during 2013 taper tantrum
From May 21 to June 24, 2013 (total returns)



NBF Economics and Strategy (data via Refinitiv)

For one thing, the Fed was much quicker to defuse the threat of a significant change in monetary policy this time around, avoiding an increase in longer-term treasury yields and TIPS. As explained in our latest *Fixed Income Monitor*, QE tapering might come later this year, but rate hikes are unlikely to come before 2023 given the lack of lustre in employment growth. As of June, full-time jobs had shown virtually no growth over three months and remained 5 million below their pre-pandemic level (chart). This picture sets the stage for a very patient Fed.

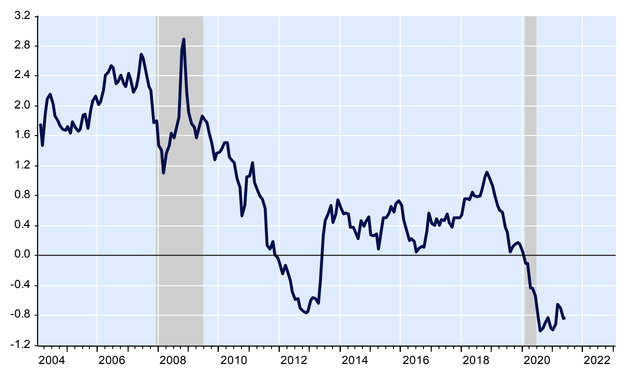
U.S.: Growth of full-time employment is at stall speed
People reporting working full-time – household survey



NBF Economics and Strategy (data via Refinitiv)

And given the current backdrop of inflation, which we don't see coming down quickly, this implies a protracted period of negative real interest rates. Thus we don't expect TIPS to erode the valuation of the stock market by suddenly surging into positive territory as they did in 2013.

U.S.: What happens to real yields is key
Yield of 10-year TIPS

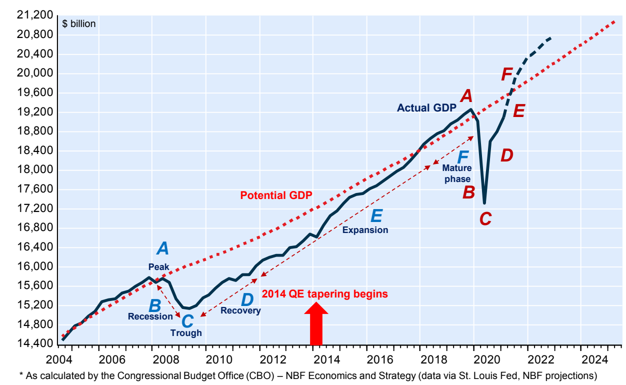


NBF Economics and Strategy (data via Refinitiv)

Where are we in the cycle?

Gauging where we are in the cycle is key to assessing how long the reflation trade will last. The course of an economic cycle is best illustrated in the chart below: (A) Economic peak → (B) Recession → (C) Trough → (D) Recovery → (E) Expansion → (F) Mature phase of expansion, when GDP exceeds estimated potential). What is essential to keep in mind is that the duration of these phases can vary widely from one business cycle to another. As a case in point, it took a decade after the start of the 2008-09 recession for the following expansion to reach its mature phase (letter F), a period normally associated with stable to accelerating inflation. This time around, we think we will enter the mature phase of the expansion less than two years after the start of the pandemic-induced recession. That is fast.

U.S.: Things are moving faster this time around
Actual vs. potential* real GDP



* As calculated by the Congressional Budget Office (CBO) – NBF Economics and Strategy (data via St. Louis Fed, NBF projections)

Since the later 1950s the U.S. economy has gone through eight mature phases. Their median duration was 29 months (table). Both the shortest (16 months) and the longest (79 months) of these mature phases occurred in the 1960s.

U.S.: Duration of mature phases since 1957

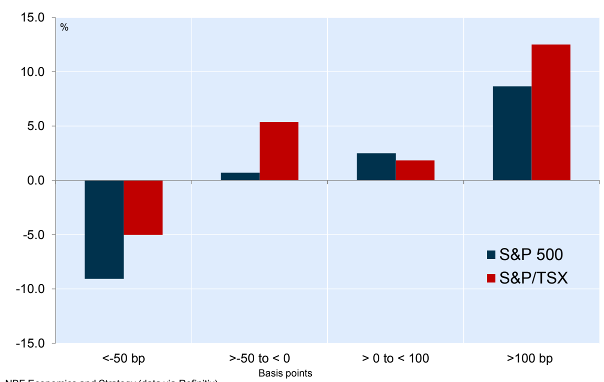
Start of recession	Bottom of stock market	Start of expansion	End of expansion	Start of mature phase	End of mature phase	Duration (months) of expansion	Duration (months) of mature phase
09-01-1957		10-01-1958	12-31-1958	01-01-1959	04-30-1960	3	16
05-01-1960		04-01-1961	06-30-1963	07-01-1963	12-31-1969	27	79
01-01-1970	05-16-1970	01-01-1971	03-31-1972	04-01-1972	11-30-1973	15	20
12-01-1973	10-03-1974	10-01-1975	06-30-1977	07-01-1977	01-31-1980	21	31
02-01-1980	08-12-1982	04-01-1983	12-31-1988	01-01-1989	07-31-1990	70	19
08-01-1990	10-11-1990	10-01-1991	09-30-1996	10-01-1996	03-31-2001	61	55
04-01-2001	09-21-2001	01-01-2002	12-31-2004	01-01-2005	12-31-2007	37	36
01-01-2008	03-09-2009	04-01-2011	12-31-2017	01-01-2018	02-28-2020	82	26
					average	40	35
					median	32	29

NBF Economics and Strategy (data via Refinitiv and NBER)

Stock Market and Portfolio Strategy

The importance of these patterns for equity markets is that the mature phase of the business cycle tends to deliver good returns for the S&P 500. That is, as long as central banks can avoid restrictive monetary policy and undue flattening of the yield curve. As the chart below shows, the average 6-month return for U.S. equities in the mature phase is 8.2% when the yield curve is steeper than 1 percentage point, or 100 basis points (table).[2] For Canadian equities, the gain exceeds 12%. Returns become more difficult once the yield curve slope flattens to less than 0.5 points and downright ugly if it inverts.

Mature phase: Return of equities based on slope of the yield curve
Slope of the U.S. yield curve during the mature phase and average 6-month return following



NBF Economics and Strategy (data via Refinitiv)

We also note that IT, Real Estate, Energy and Financials s tend to outperform the overall market when the slope of the yield curve above 100 bp (table).

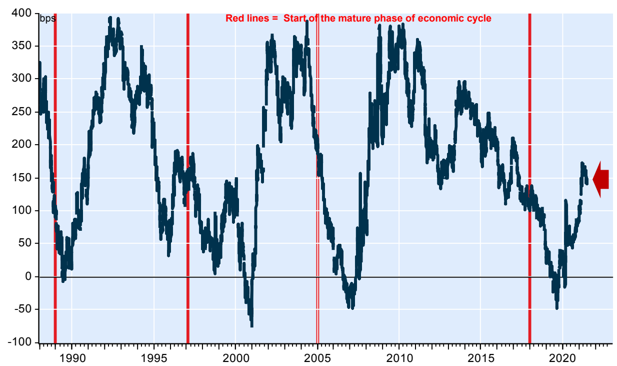
U.S.: Return of equities based on slope of the yield curve
Slope of the yield curve during the mature phase and average return of S&P 500 in the following 6 months

	<-50 pb	>-50 to <0	>0 to <50 bp	>100 bp
Total	**-9.1**	**0.7**	**2.5**	**8.7**
Information Technology	-16.7	-1.2	4.5	13.1
Real Estate	-14.7	6.2	-2.4	12.1
Health Care	-11.5	2.0	4.3	10.1
Insurance	-13.9	0.3	3.8	9.9
Energy	-1.7	5.6	3.5	9.7
Financials	-13.5	0.0	1.1	9.2
Consumer discretionary	-9.9	-1.5	1.2	7.1
Banks	-12.2	0.5	-2.7	7.0
Industrials	-7.3	1.7	2.6	7.0
Communication services	-4.6	1.2	4.7	6.9
Utilities	-12.6	1.8	6.7	6.5
Consumer staples	-12.2	1.5	4.2	5.9
Basic Materials	-2.7	8.1	2.0	1.0
Metals and Mining	1.3	13.2	5.7	-1.5
Gold	7.5	14.4	5.4	-5.2

NBF Economics and Strategy (data via Refinitiv)

At this writing, the yield curve remains relatively steep, its slope just less than 150 basis points. This is comparable to its slope at the start of the four previous mature phases (chart).

U.S.: Yield curve is not unusually flat
Spread between 10-year Treasury yield and 3-month T-Bill yield



NBF Economics & Strategy (data via Refinitiv)

Asset allocation

Our asset mix is unchanged this month – overweight in equities and underweight in fixed income. Despite the recent run-up of inflation, we think the Federal Reserve remains comfortable keeping real rates negative to promote business investment and full-time employment. Our scenario assumes that inflation will ebb toward 3% by the end of the year and the pandemic will not worsen. If we are right, the reflation trade should get its second wind as the U.S. dollar softens again.

NBF Asset Allocation

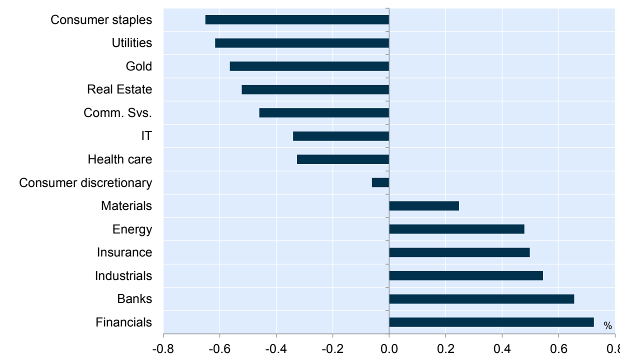
	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	23	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	4	
Emerging markets	5	9	
Fixed Income	45	42	
Cash	5	4	
Total	100	100	

NBF Economics and Strategy

Sector rotation

Our sector allocation is unchanged this month. We continue to favour cyclicals as we are about to enter the mature phase of the economic cycle with a yield curve still relatively steep with upside potential for 10-year Treasury yields (chart).

U.S: Correlation between equities and 10-year government bond yield
Correlation of sectors total return relative performance with U.S. 10-year yield, 6-month change, 2011-2021



NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - July/August 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**13.1%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	13.1%
Materials	**Overweight**	**11.7%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.5%
Gold	Overweight	6.6%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**11.4%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	6.2%
Consumer Discretionary	**Market Weight**	**3.8%**
Automobiles & Components	Underweight	1.2%
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	2.8%
Food, Beverage & Tobacco	Market Weight	0.7%
Health Care	**Market Weight**	**1.3%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.2%
Financials	**Market Weight**	**31.3%**
Banks	Market Weight	21.4%
Diversified Financials	Market Weight	4.2%
Insurance	Market Weight	5.7%
Information Technology	**Underweight**	**11.2%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Underweight**	**4.5%**
Real Estate	**Underweight**	**3.2%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast
Canada

		Actual	Q42021 (Est.)
Index Level		**Jul-05-21**	**Target**
S&P/TSX		20,281	20,600
Assumptions			Q42021 (Est.)
Level:	Earnings *	955	1250
	Dividend	525	687
PE Trailing (implied)		21.2	16.5
			Q42021 (Est.)
10-year Bond Yield		1.40	1.75

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast
United States

		Actual	Q42021 (Est.)
Index Level		**Jul-05-21**	**Target**
S&P 500		4,352	4,300
Assumptions			Q42021 (Est.)
Level:	Earnings *	164	190
	Dividend	59	68
PE Trailing (implied)		26.5	22.6
			Q42021 (Est.)
10-year Bond Yield		1.43	1.85

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

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on		Returns				Returns		with S&P 500
	06-25-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	**4365**	**2.2%**	**13.9%**	**40.8%**	**59.2%**	**9.8%**	**26.7%**	**46.9%**	**1.00**
United States - S&P 500	4281	1.8%	14.0%	38.8%	57.6%	9.9%	24.9%	45.4%	1.00
Canada - S&P TSX	20230	2.5%	16.0%	31.0%	25.0%	16.0%	31.0%	25.0%	0.90
Europe - MSCI Index	**2065**	**0.4%**	**12.2%**	**35.0%**	**22.2%**	**8.2%**	**21.4%**	**12.8%**	**0.84**
United Kingdom - FTSE 100	7136	1.6%	10.5%	16.1%	-5.0%	8.4%	17.1%	-8.0%	-0.10
Germany - DAX 30	15608	1.2%	13.8%	28.2%	27.2%	7.1%	22.9%	20.1%	0.93
France - CAC 40	6623	2.7%	19.3%	34.7%	25.3%	12.3%	29.1%	18.3%	0.67
Switzerland - SMI	12000	5.6%	12.1%	18.9%	41.9%	4.3%	10.8%	41.2%	0.91
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	9.5%	-5.9%	-4.1%	3.4%	0.66
Netherlands - Amsterdam Exchanges	733	3.4%	17.4%	30.8%	34.1%	10.5%	25.4%	26.6%	0.93
Pacific - MSCI Index	**3220**	**0.3%**	**3.8%**	**25.9%**	**15.9%**	**0.1%**	**13.3%**	**7.0%**	**0.89**
Japan - Nikkei 225	29066	0.7%	5.9%	30.6%	30.1%	-4.8%	13.6%	18.9%	0.94
Australia - All ordinaries	7579	2.3%	10.6%	27.8%	20.1%	5.1%	27.5%	13.9%	0.76
Hong Kong - Hang Seng	29288	0.5%	7.6%	18.2%	1.1%	3.6%	6.2%	-5.6%	0.39
World - MSCI Index	**3025**	**1.7%**	**12.4%**	**37.9%**	**45.0%**	**8.4%**	**24.0%**	**33.9%**	**0.99**
World Ex. U.S.A. - MSCI Index	**2358**	**0.4%**	**10.2%**	**32.8%**	**21.1%**	**6.2%**	**19.5%**	**11.8%**	**0.87**
EAFE - MSCI Index	**2342**	**0.4%**	**9.1%**	**31.5%**	**19.9%**	**5.1%**	**18.3%**	**10.7%**	**0.87**
Emerging markets (free) - MSCI Index	**1,380**	**0.2%**	**6.8%**	**37.3%**	**28.8%**	**3.0%**	**23.5%**	**18.9%**	**0.92**

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-06-25

	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	280	14.71	31.13	37.19	11.65	21.25	22.58	20.22	21.20	19.29	1.00	6.88
Energy	2.94	418	12.55	45.46	0.00	27.08	156.28	20.38	16.03	17.95	14.41	0.11	22.09
Materials	2.61	516	5.68	48.26	64.39	2.65	26.05	18.42	17.94	18.10	15.23	0.69	16.30
Industrials	8.57	866	5.95	51.95	82.97	36.59	52.04	27.74	20.31	23.39	15.45	0.45	5.01
Consumer Discretionary	12.26	1424	8.31	36.35	70.16	32.43	46.84	35.34	26.68	30.41	39.91	0.65	9.79
Consumer Staples	5.86	719	4.03	20.26	7.72	7.86	7.96	21.35	19.79	20.32	9.18	2.55	1.43
Healthcare	13.01	1466	9.50	27.33	15.84	5.87	10.59	17.09	16.14	16.63	10.39	1.57	0.95
Financials	11.40	615	9.28	56.48	45.57	-0.34	18.30	14.28	14.33	14.30	18.05	0.78	11.30
Information Technology	27.07	2551	12.21	39.96	29.67	10.95	14.20	27.17	24.49	25.23	18.21	1.78	6.53
Telecom Services	11.18	264	11.46	45.03	23.43	13.32	18.35	23.53	20.76	21.92	23.45	1.19	8.39
Utilities	2.49	326	1.26	14.84	1.24	8.27	4.78	20.19	18.65	19.38	5.77	4.06	-2.41
Real Estate	2.61	280	14.71	31.13	5.63	4.54	5.07	54.04	51.70	52.84	30.02	10.42	9.96

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

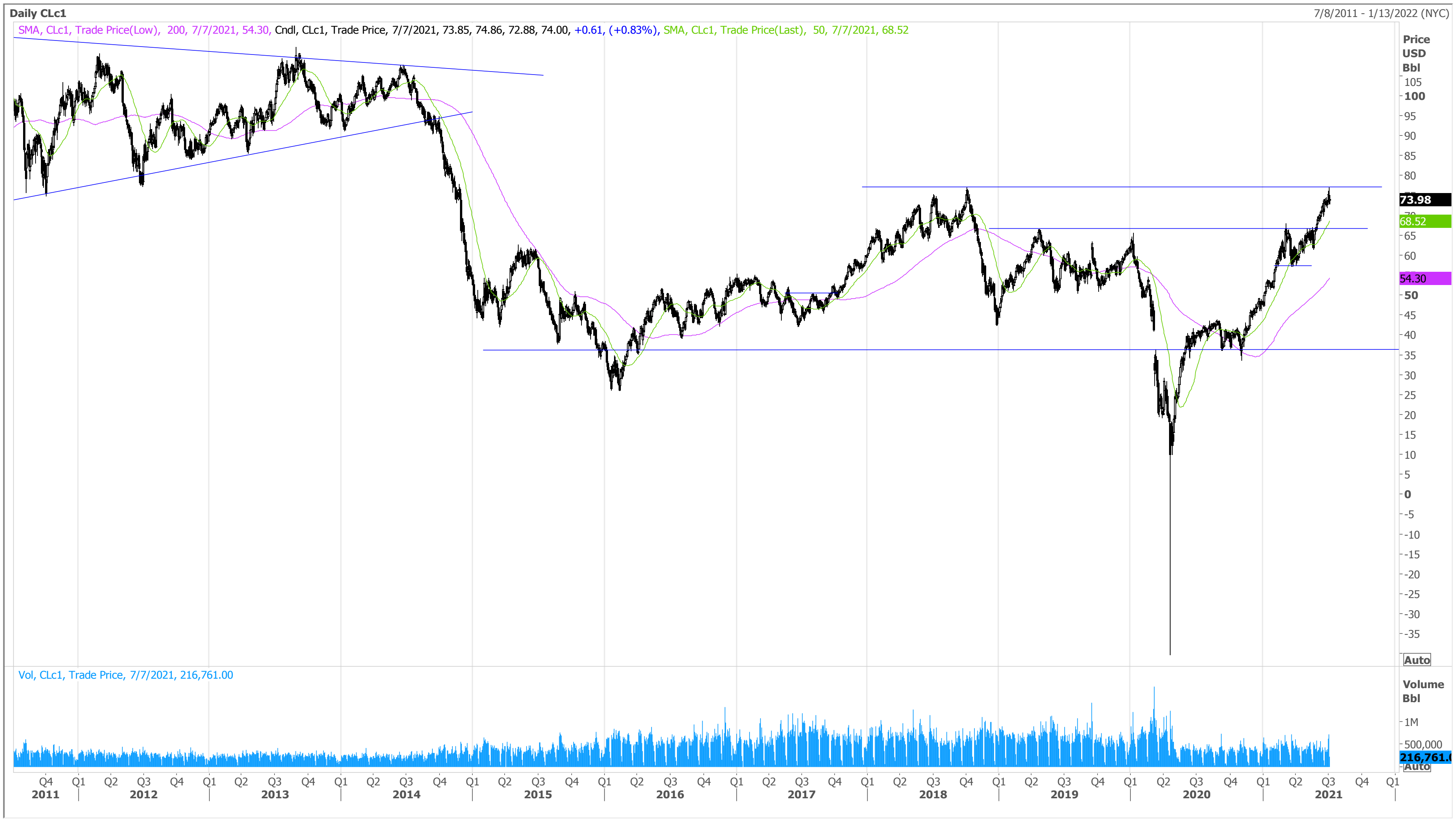
Technical perspectives on the Energy market

The energy sector has been one of the best performing sectors in 2021. Not bad for a sector that is so out of favour with growing competition from alternative sources. Prices have come a long way leaving investors wondering how much more is left. A long-term technical perspective on this sector suggests a continuing recovery is underway with potential for further upside. Investors should use weakness to add to energy stock positions.

Technical Analysis

WTI

The long-term WTI chart provides a good technical perspective on prices. A strong recovery in WTI took prices back to their rally highs in 2018 in the mid-US$70s. An earlier upside breakout around US$66.00 was a bullish signal as it cleared important chart resistance extending back two years. Strong upside momentum should continue to support WTI prices as it challenges resistance near its 2018 highs at US$76.00 to US$77.00. Breaking through its 2018 highs will be the next technical positive as it trades into seven-year highs and starts retracing prices toward its major top breakdown in 2014 at US$100.00.



Source: Refinitiv

Technical Analysis

S&P/TSX Energy/Brent

Energy stocks have started to show better relative performance against oil prices. The S&P/TSX Energy Index established a rising trend that is attempting to break out of a base and turn the improving trend much higher. This action will be increasingly more bullish as energy stocks gain more investor confidence.

Source: Refinitiv

Technical Analysis

S&P/TSX Energy/S&P/TSX

Relative performance is a very important concept in technical analysis as it is the basis for institutional portfolio management whose main purpose is to outperform the market benchmarks. As the accompanying chart illustrates, the relative performance of the energy sector on the S&P/TSX has underperformed for several years. Signs of improvement are showing up as the chart breaks out of a one-year base. The short to intermediate trend is up. A long-term declining trend line remains alive and will be challenged in the coming months.

Source: Refinitiv

Technical Analysis

Precision Drilling Corp. (PD)

The PD chart is well on the road to recovery as it breaks out of its basing action to the upside. A declining trend line over the past five years was recently severed as the stock continues to recover. Breakouts at $36.00 and $41.00 are technically positive as bottoming formations are completed and the stock emerges into a bull phase. The strong volume profile since late 2020 reflects the greatly improved buying interest. Use pullbacks to add to positions near $40.00. Target is $80.00.

Source: Refinitiv

Technical Analysis

Secure Energy Services Inc. (SES)

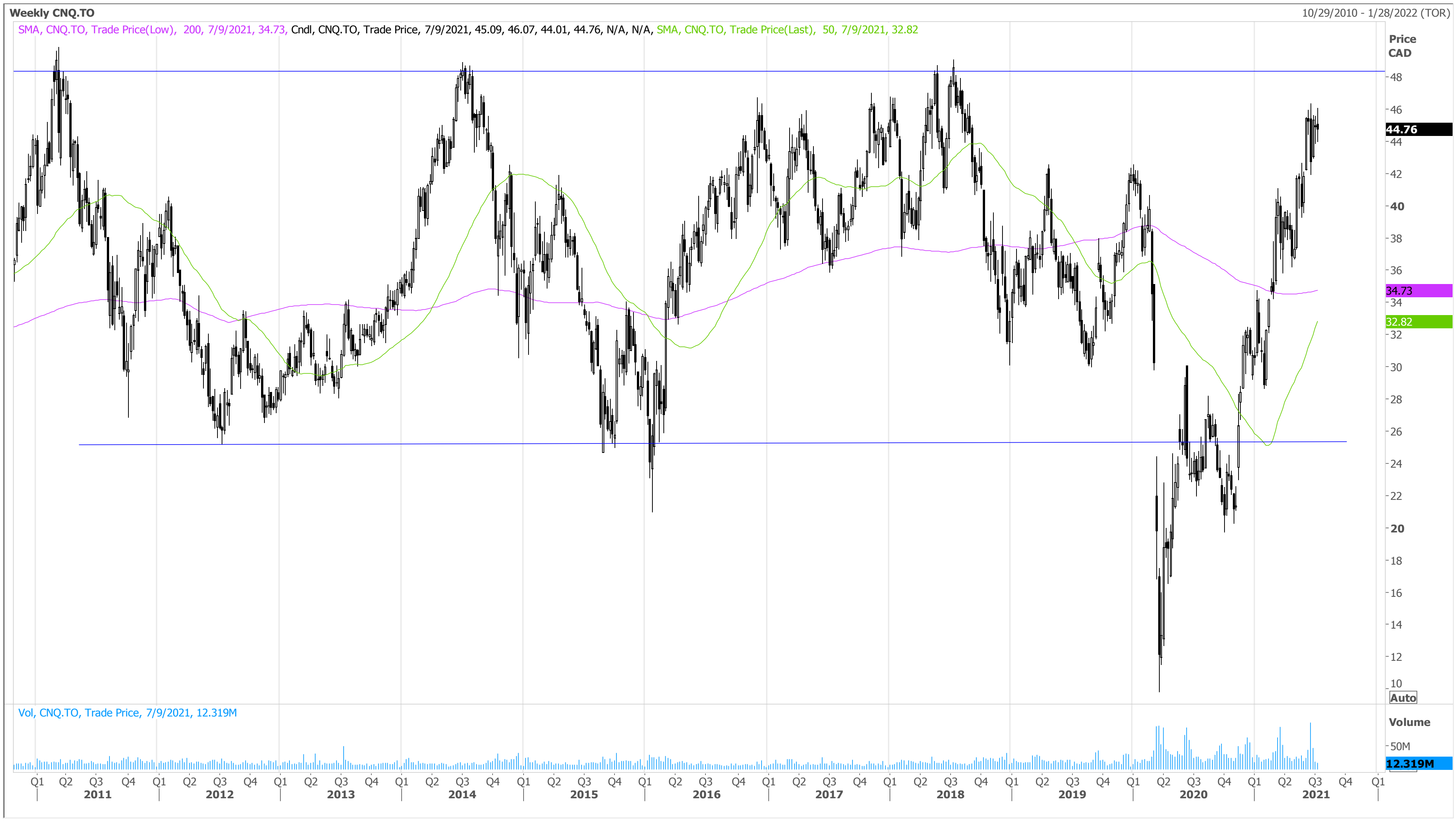
The SES chart broke out earlier at $2.40 and had a great move to hit our initial target at $5.00. Chart resistance that comes into play at $5.13 will limit upside action for now. A rising trend remains intact and will support the stock in a positive trend. A short-term pause will likely be followed by more upside. Watch for another breakout at $5.13 for a target of $7.00 to $8.00 as the stock continues to recover.

Source: Refinitiv

Technical Analysis

Canadian Natural Resources Limited (CNQ)

A long-term chart on CNQ is instructive for investors as it shows the stock is locked in a trading range between approximately $48.00 and the mid-$20s. The recovery on CNQ has taken the stock back toward the high $40s where it approaches important chart resistance. At current levels, risk/reward has become unfavourable as upside potential appears limited. Downside risk now outweighs potential reward suggesting investors should lighten up and seek opportunities elsewhere.



Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **July 8, 2021.**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$11.25	$19.50	0.62%	73.96%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$7.80	$10.50	1.03%	35.64%	Energy Equipment & Services
	Keyera Corp.	KEY	$32.63	$35.00	5.88%	13.15%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$34.18	$40.00	1.87%	18.90%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$5.25	$7.75	0.00%	47.62%	Metals & Mining
	Copper Mountain Mining Corp.	CMMC	$3.54	$5.50	0.00%	55.37%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$7.42	$13.50	2.01%	83.95%	Gold
	Endeavour Mining Corp.	EDV	$27.55	$57.00	0.00%	106.90%	Gold
	First Quantum Minerals Ltd.	FM	$28.19	$40.00	0.04%	41.94%	Metals & Mining
	K92 Mining Inc.	KNT	$8.60	$11.25	0.00%	30.81%	Gold
	Newmont Corp.	NGT	$78.67	$108.00	3.46%	40.74%	Gold
	SSR Mining Inc.	SSRM	$19.77	$36.00	1.23%	83.32%	Gold
	Wesdome Gold Mines Ltd.	WDO	$12.09	$14.00	0.00%	15.80%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$35.97	$38.00	0.00%	5.64%	Capital Goods
	CAE Inc.	CAE	$38.68	$43.00	0.00%	11.17%	Capital Goods
	Dexterra Group Inc.	DXT	$6.65	$8.50	4.51%	32.33%	Commercial & Professional Services
	Doman Building Materials Group Ltd.	DBM	$8.04	$13.50	5.97%	73.88%	Capital Goods
	Finning International Inc.	FTT	$32.21	$44.00	2.55%	39.15%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$35.81	$57.00	1.12%	60.29%	Capital Goods
	Mullen Group Ltd.	MTL	$12.78	$15.50	3.76%	25.04%	Transportation
	NFI Group Inc.	NFI	$27.89	$32.00	3.05%	17.78%	Capital Goods
	Stantec Inc.	STN	$55.96	$60.00	1.18%	8.40%	Commercial & Professional Services
	TFI International Inc.	TFII	$113.81	$129.00	1.00%	14.35%	Transportation
	Transcontinental Inc.	TCL.a	$23.14	$28.00	3.89%	24.89%	Commercial & Professional Services
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$43.07	$50.00	1.77%	17.86%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$13.35	$14.50	4.58%	13.20%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$10.60	$20.50	0.00%	93.40%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.21	$7.75	0.00%	48.75%	Pharmaceuticals, Biotechnology & Life Sciences
	Medical Facilities Corporation	DR	$7.06	$9.75	3.97%	42.07%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$140.43	$159.00	4.16%	17.38%	Banks
	Element Fleet Management Corp.	EFN	$14.38	$19.00	1.81%	33.94%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$66.03	$76.00	2.94%	18.04%	Insurance
	Sun Life Financial	SLF	$62.40	$71.00	3.53%	17.31%	Insurance
	Trisura Group Ltd.	TSU	$42.05	$55.00	0.00%	30.80%	Insurance
Information Technology							
	Farmers Edge Inc.	FDGE	$12.05	$20.00	0.00%	65.98%	Software & Services
	Kinaxis Inc.	KXS	$166.05	$225.00	0.00%	35.50%	Software & Services
	Real Matters Inc.	REAL	$16.33	$35.00	0.00%	114.33%	Software & Services
Communication Services							
	Cogeco Communications Inc.	CCA	$118.85	$143.00	2.15%	22.47%	Media & Entertainment
	Quebecor Inc.	QBR.b	$33.35	$40.00	3.30%	23.24%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$26.46	$26.00	3.78%	2.04%	Utilities
	Boralex Inc.	BLX	$38.54	$50.00	1.71%	31.45%	Utilities
	Capital Power Corp.	CPX	$41.61	$45.00	4.93%	13.07%	Utilities
	Innergex Renewable Energy Inc.	INE	$22.51	$26.00	3.20%	18.70%	Utilities
	Northland Power Inc.	NPI	$42.96	$50.00	2.79%	19.18%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$42.85	$46.50	2.34%	10.85%	Real Estate
	European Residential REIT	ERE.un	$4.60	$5.25	3.51%	17.64%	Real Estate
	Flagship Communities REIT	MHC.un	US$17.80	US$21.00	2.87%	20.84%	Real Estate
	H&R REIT	HR.un	$16.86	$18.00	4.09%	10.85%	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 July 8, 2021
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Sector Analysis

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442

Associates:
Will Flanigan: 416-507-8006
Pranoy Kurian: 416-507-9568

Selections

- *iA Financial Corporation*
- *Canadian Imperial Bank of Commerce*
- *Sun Life Financial*

Canadian Banks & Lifecos

Canadian Imperial Bank of Commerce (TSX: CM) – *Re-rating potential becoming more tangible.*

CM's Q2/21 results included a well-balanced mix of revenue and credit outperformance. In our view, there was nothing "controversial" in its results, apart from expense guidance that implies an acceleration of spending in the second half. We believe the longer-term perspective focused on the benefits of internal investment rather than the short-term perspective emphasizing negative operating leverage (potentially) is more important. That is, CM has at times been perceived as a bank that has underinvested in its core franchises, and addressing that perception is an important component of its long-term valuation re-rating potential. Recent indicators, especially in the Canadian P&C segment, are indicative that progress on that front is being made. Outperform, $159 target price.

iA Financial Corporation Inc. (TSX: IAG) – *10%+ growth & mid-teens ROE potential at a discount. What's not to like?*

Although the virtual format was a new twist, the presentation content was consistent with previous events. Of note, IAG reiterated its 10%+ EPS growth target and added an ROE "sweetener" with the company targeting ROEs in the 13-15% range by 2023, up from its current 12.5-14% range. This higher ROE range reflects changes that have taken place in the business over the past few years that have made it more capital-light (e.g., Canadian product redesign, U.S. expansion). It also indicates no negative impact is anticipated from IFRS 17 accounting, which is scheduled to be adopted in 2023. Given the bullish outlook, we are increasing our target valuation multiples, resulting in a target price increase to $76 from $70. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		82,059	647	126.84	10/2020	7.71	11.91	12.08	10.7	10.5	76.72	79.51	85.72	1.6	1.5	3.3%	139.00	↑
Bank of Nova Scotia	BNS	SP		95,731	1,211	79.02	10/2020	5.36	7.40	8.04	10.7	9.8	52.27	54.31	59.05	1.5	1.3	4.6%	84.00	↑
CIBC	CM	OP		63,070	445	141.68	10/2020	9.69	13.85	14.50	10.2	9.8	86.70	90.38	98.90	1.6	1.4	4.1%	159.00	↑
National Bank	NA	NR		31,459	337	93.25	10/2020	6.06	8.48	8.85	11.0	10.5	43.59	46.02	51.59	2.0	1.8	3.0%	NR	
Royal Bank of Canada	RY	OP		179,491	1,425	125.95	10/2020	7.97	11.14	11.63	11.3	10.8	60.04	63.52	70.78	2.0	1.8	3.4%	140.00	↑
Toronto-Dominion Bank	TD	SP		158,097	1,818	86.94	10/2020	5.35	7.99	7.94	10.9	11.0	49.25	51.86	56.61	1.7	1.5	3.6%	91.00	↑
Canadian Western Bank	CWB	SP		2,972	87	34.11	10/2020	2.93	3.57	3.94	9.6	8.7	32.26	33.35	36.39	1.0	0.9	3.4%	40.00	↑
Laurentian Bank	LB	SP		1,865	43	42.95	10/2020	2.92	4.55	4.19	9.4	10.3	55.73	57.05	59.12	0.8	0.7	3.7%	46.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		34,074	929	36.69	12/2020	2.67	3.25	3.55	11.3	10.3	23.36	24.28	26.08	1.5	1.4	4.8%	36.00	
iA Financial	IAG	OP		7,242	107	67.39	12/2020	4.87	7.79	8.45	8.6	8.0	56.95	60.25	66.08	1.1	1.0	2.9%	76.00	
Manulife Financial	MFC	SP		46,805	1,942	24.10	12/2020	2.22	3.14	3.40	7.7	7.1	23.40	24.25	26.19	1.0	0.9	4.6%	27.00	
Sun Life Financial	SLF	OP		37,015	586	63.22	12/2020	4.14	5.85	6.33	10.8	10.0	37.61	40.74	45.64	1.6	1.4	3.5%	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

Sector Analysis

Diversified Financials

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

Selections

› *Trisura Group*
› *Element Fleet Management*

Battle of the Hold Co Stocks

Brookfield Business Partners (TSX: BBU) –
BBU announces two accretive acquisitions

BBU announced the acquisitions of Modulaire – a leading modular leasing services and infrastructure provider in Europe and Asia-Pacific – on June 28, 2021, and DexKo – a global manufacturer and distributor of highly customized components for trailer, recreational vehicle and towable equipment providers – on July 5, 2021. We expect Modulaire to deliver EBITDA accretion of ~9% and FFO accretion of ~4%. We estimate DexKo could drive ~6% EBITDA accretion and ~4% FFO accretion (not yet baked into our estimates). Combined, we estimate 15% EBITDA and 8% FFO accretion. BBU deployed ~$900 million in these transactions, which leaves >$1.1 billion of corporate liquidity to pursue a ~$20 billion pipeline of opportunities. The acquisitions reaffirm our favorable view of BBU as a catalyst-rich story with significant upside potential from M&A (like DexKo), value surfacing transactions (e.g., Clarios, Westinghouse, Graftech, Greenergy) and rebounding performance of portfolio companies exiting pandemic impacts. Our US$60 price target implies a valuation multiple of 8.8x EV/EBITDA on our 2022E estimates.

Fairfax Financial Holdings (TSX: FFH) –
Surfacing Value of Digit Insurance Leads to Massive Gains and Reaffirms our Thesis

On July 5, 2021, Fairfax announced that Go Digit General Insurance Limited ("Digit") has entered into an agreement to issue common equity that will ultimately generate gains of ~US$1.8 billion to Fairfax. This represents an increase in Fairfax book value of ~US$61 per share, or ~12% of Q1 2021 book value. Moreover, we estimate FFH will now deliver an ROE of ~19% in 2021 (proforma the Digit transaction). Overall, the transaction reaffirms our Outperform rating on FFH given i) we believe FFH will provide shareholders with long-term annual ROE of ~10%, and ii) this outlook deserves a valuation well above the current P/B of 0.88x. We apply a 1.0x P/B multiple to our Q1 2022 estimate (adjusted for the CAD/USD exchange rate) to arrive at our Cdn$700 price target.

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Sector Analysis

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 7/8	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	
Mortgage Finance																				
Equitable Group	EQB	OP		2.34	17.0	138.18	12/2020	12.61	15.07	16.21	9.2	8.5	97.86	108.48	123.12	1.3	1.1	1.1%	174.00	
First National Financial	FN	SP		2.96	60.0	49.36	12/2020	3.95	4.11	4.27	12.0	11.6	8.51	10.08	11.88	4.9	4.2	4.8%	55.00	
Home Capital Group	HCG	OP		1.86	50.8	36.55	12/2020	3.55	4.72	5.36	7.7	6.8	33.85	37.31	42.38	1.0	0.9		46.00	
Timbercreek Financial	TF	SP		0.76	80.9	9.45	12/2020	0.67	0.70	0.72	13.4	13.2	8.48	8.49	8.52	1.1	1.1	7.3%	9.75	↑
Specialty Finance																				
ECN Capital	ECN	OP		2.26	244.5	9.26	12/2020	0.13	0.38	0.48	19.4	15.4	2.79	2.94	3.11	2.5	2.4	1.3%	10.50	
Element Fleet Management	EFN	OP		6.31	438.5	14.38	12/2020	0.77	0.79	0.91	18.1	15.8	7.32	7.38	7.87	1.9	1.8	1.8%	19.00	
goeasy	GSY	OP		2.37	14.9	158.85	12/2020	7.57	9.87	11.18	16.1	14.2	36.88	49.58	57.92	3.2	2.7	1.7%	167.00	
Brookfield Business Partners	BBU	OP		6.93	148.4	46.68	12/2020	-1.13	4.41	2.10	10.6	22.2	27.32	32.68	40.89	1.4	1.1	0.5%	60.00	↑
Power Corporation of Canada	POW	SP		26.12	676.7	38.60	12/2020	3.00	3.92	3.82	9.8	10.1	31.17	32.55	34.50	1.2	1.1	4.6%	41.00	
HR Companies																				
LifeWorks Inc.	LWRK	OP		2.4	70.1	33.64	12/2020	0.80	0.65	1.02	51.6	33.1	9.30	9.31	9.68	3.6	3.5	2.3%	39.00	
Securities Exchange																				
TMX Group	X	SP		7.26	56.2	129.16	12/2020	5.88	6.63	6.83	19.5	18.9	64.92	66.88	69.80	1.9	1.9	2.4%	147.00	
Insurance																				
Intact Financial Corp.	IFC	OP		24.41	143.0	170.68	12/2020	9.92	10.2	10.61	16.8	16.1	62.19	80.78	86.13	2.1	2.0	1.9%	205.00	
Trisura Group Ltd.	TSU	OP		1.73	10.3	168.20	12/2020	3.68	5.33	6.03	31.6	27.9	30.04	33.59	39.42	5.0	4.3		218.00	
Fairfax Financial Holdings	FFH	OP		14.27	26.0	547.73	12/2020	6.29	59.75	53.79	7.3	8.1	497.23	529.39	575.74	0.8	0.8	2.3%	700.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.12	103.7	10.77	12/2020	1.38	1.21	1.29	8.9	8.4	4.15	4.13	4.20	2.6	2.6	7.8%	12.00	
IGM Financial Inc.	IGM	OP		10.34	238.4	43.39	12/2020	3.20	3.90	4.35	11.1	10.0	25.11	27.59	29.72	1.6	1.5	5.2%	56.00	↑

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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

Selections

› *Enerflex Ltd.*
› *Mullen Group Ltd.*

MTL puts dry powder to work in impressive M&A spree; offshore momentum building for SCL

Mullen announces closing of a handful of acquisitions as dry powder is put to work in the first half of 2021.

In late June, Mullen announced the closing of the acquisition of U.S. third-party logistics provider QuadExpress for US$40 mln, representing a new growth platform in the United States. We view the acquisition positively as we perceive QuadExpress' asset-light logistics platform as a strategic steppingstone in expanding Mullen's existing T&L network, opening up crossborder opportunities and a foothold in a significantly-larger U.S. market (with QuadExpress posting total gross revenue of US$135 mln in 2020). Days later, Mullen announced the closing of the acquisition of Winnipeg-based R.S. Harris Transport Ltd., an industry leading trucking and brokerage company specializing in open deck transportation (with annualized revenue in excess of $25.0 mln). After entering 2021 with considerable dry powder (including over $100 mln in cash on the balance sheet and an undrawn $150 mln credit facility), the announcements further an impressive M&A spree in the first half of the year (with Mullen having also recently closed the strategic acquisitions of APPS Transport Group, Bandstra Group and Tri Point Intermodal Services), representing (in sum) an estimated ~20% incremental EBITDA lift relative to management's 2021 guidance (on an annualized basis). Despite the numerous acquisitions we believe Mullen's balance sheet remains solid with our forecasts pointing to ample covenant flexibility and an improving leverage profile moving forward as FCF is applied to the balance sheet (with our estimates implying sub-3.0x net debt/ttm EBITDA exiting Q2/21, comfortably below the covenant limit of 3.5x). **We maintain our Outperform rating and $15.50 target driven by an unchanged 7.6x 2022e EV/EBITDA in line with the current average of the broader peer group.**

With oil and gas demand continuing to improve exiting the downturn, we note building momentum for several offshore projects of interest to Shawcor, reinforcing our confidence in our longer-term forecasts.

With oil and gas demand continuing to improve exiting the downturn, we recently noted building momentum for several offshore projects of interest to Shawcor, including the development of the Bacalhau, Mero-3 and Dalma fields. Coupled with expectations for ramping activity levels offshore Australia in support of existing LNG commitments and steady investment offshore Norway, we see growing support for our offshore outlook in 2022 and beyond (with management previously guiding to an expected build in the backlog exiting 2021 and into 2022 as offshore oil and gas projects are sanctioned). While project momentum alone is no guarantee of eventual pipe coating contract awards for Shawcor, given SCL's solid historical market share of offshore pipecoating contracts, we are encouraged by the positive headlines as we continue to see an intriguing set of strategic options for Shawcor moving forward (including potential asset/business segment sales as a means of expediting balance sheet improvement or M&A in other core divisions). **With our positive outlook and forecasts unchanged at this juncture, we maintain our $8.75 target driven by an unchanged 6.7x 2022e EV/EBITDA multiple (more than a full-turn discount to SCL's historical forward year EV/EBITDA average and materially below the broader peer group average). We reiterate our Outperform rating as SCL transitions to a leaner footprint with improved profitability and a reduced leverage profile.**

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Diversified Industrials

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	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	OP		664.70	18.8	35.44	149.3	166.1	192.1	9.7	9.0	7.0	5.0	54.00	54%	
Enerflex Ltd.	EFX	OP		700.14	89.8	7.80	191.3	141.7	189.5	5.5	7.1	5.1	2.2	10.50	36%	
Mullen Group Ltd.	MTL	OP		1263.40	96.8	12.78	191.5	226.5	253.5	8.5	7.9	6.7	2.3	15.50	22%	↑
Pason Systems Corp.	PSI	SP	↓	678.84	83.1	8.17	39.5	51.8	71.0	13.4	10.2	7.4	-2.9	11.00	37%	
Shawcor Ltd.	SCL	OP		393.03	70.4	5.58	43.8	101.6	127.0	15.6	6.6	4.9	2.7	8.75	57%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

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Sector Analysis

ESG & Sustainability

Amber Brown, MBA
Analyst
403-813-1646
—
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.

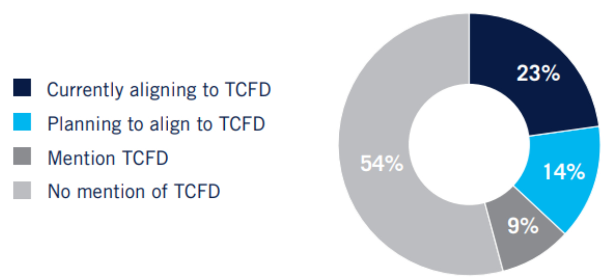
ESG Updates – Regulatory Updates

G7 supports mandatory TCFD reporting

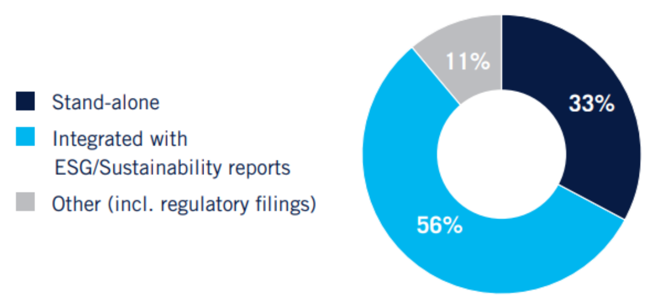
Following the virtual meeting between the Finance Ministers and Central Bank Governors of the G7 on May 28th, and the in-person meeting of the G7 Finance Ministers in London, England on June 4-5th, which also included the Heads of the International Monetary Fund (IMF), World Bank Group, Organization for Economic Cooperation and Development (OECD), Eurogroup, and Financial Stability Board (FSB), all of the parties agreed to support a move towards mandatory Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting for issuers and financial institutions. Although some countries have already mandated TCFD reporting (i.e., France and the UK), the move towards mandatory TCFD reporting across the Group of Seven would provide decision-useful information for market participants, with the goal of mobilizing finance towards decarbonization. The G7 believes that better coordination across countries on mandatory measures to calculate climate and environmental impacts on companies would help mobilize trillions of dollars of private sector finance needed to "green" the financial system to reach net-zero by 2050. With that said, we continue to see more companies adopt TCFD reporting standards voluntarily. We note that Millani (Private, Not Rated), a company that specializes in integrated ESG factors, completed a *TCFD Adoption Study* by S&P/TSX Composite Index constituents, examining the financial reports of 228 companies as of April 20, 2021. As shown in the chart below, Millani found that ~23% of companies were in line with TCFD reporting, while 14% were planning to align with TCFD.

Exhibit 1: TCFD Disclosure Adoption

TCFD adoption by S&P/TSX Composite Index constituents



Location of TCFD-aligned disclosure



Source: Millani, NBF

The G7 members also officially welcomed the International Financial Reporting Standards (IFRS) Foundation's programme as the prominent group to develop the global reporting standard baseline for sustainability, building off both the TCFD reporting methodology and off the work of other sustainability standard-setters (i.e., GRI, SASB, CDP). The Group of Seven also encouraged a final proposal from the IFRS on the establishment of an International Sustainability Standards Board (ISSB) ahead of COP 26 in November 2021. Meanwhile, the G7 Finance Ministers and Central Banks representatives agreed that central banks would start to assess the financial stability risks posed by climate change going forward, with the goal for central banks to provide disclosure based on TCFD recommendations in the future. Lastly, we highlight that the G7 supported the establishment of the Taskforce on Nature-related Financial Disclosures (*TNFD*), recognizing that climate change has a serious impact on biodiversity, thereby requiring companies and countries to tackle climate change in parallel with biodiversity loss. For more information please view the G7 Finance Ministers and Central Bank Governors *Communiqué*.

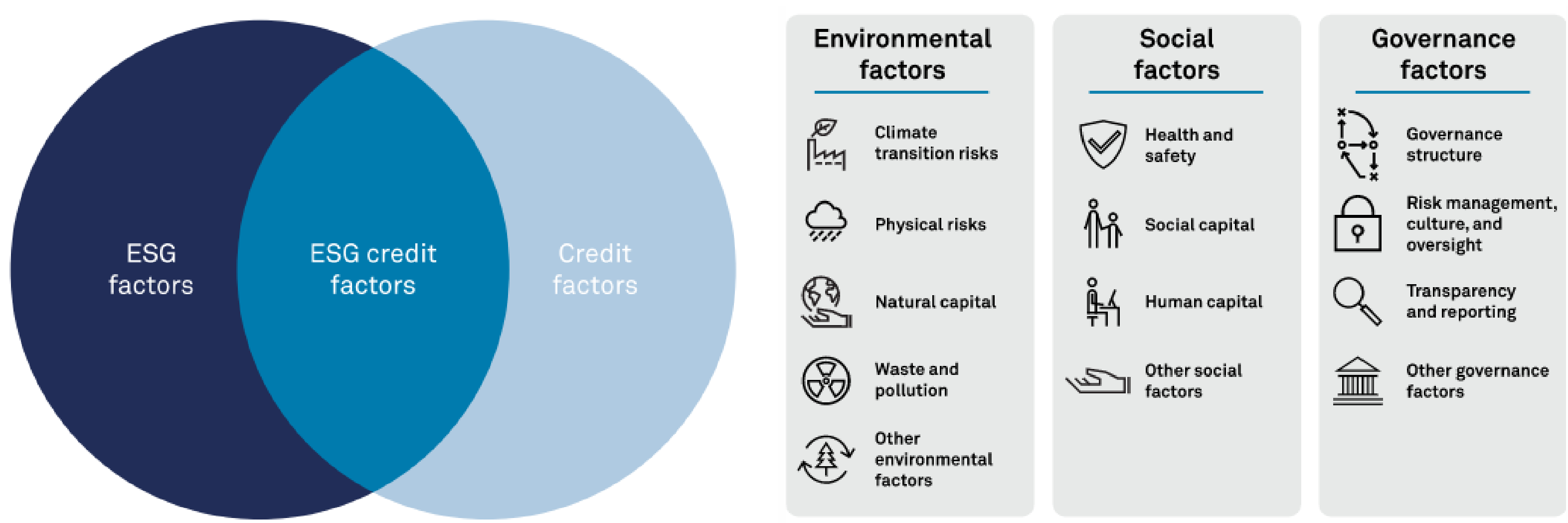
IMF to launch a proposal for an international carbon price floor

The International Monetary Fund (IMF) launched a *proposal* for an international carbon price floor, given that research has shown that carbon pricing has provided the most effective incentive to make progress towards decarbonization at scale. To cut emissions by 25-50% by 2030, the IMF outlined that a carbon price of around ~US$75/t by 2030 would be required, up from the current average global carbon prices of ~US$3/t. The IMF also highlighted that~80% of the global emissions remain unpriced, despite the emergence of over 60 national and subnational carbon pricing schemes around the world. As a result, the IMF believes there needs to be stronger and more coordinated action towards accelerating the transition to low carbon growth over the next decade, with an international carbon price floor being crucial to this goal. Overall, the IMF's international carbon price floor proposal included three critical elements: (1) application to a number of large emitters across some or all G20 countries; (2) a minimum carbon price that would be coordinated across different countries; and (3) a flexible carbon price floor across different countries based on development levels and historical emissions. Lastly, the IMF did state that a carbon price floor would not necessarily mean a carbon tax per se but could also include an efficient mechanism such as a regulation or emissions trading system.

S&P proposing to add ESG credit factors to credit ratings

As of June 17th, the one-month comment period for the S&P Global Ratings *proposed methodology* for incorporating ESG credit factors into its credit rating analysis concluded. If the proposed methodology were to be adopted, it would move S&P to incorporate sector-specific ESG credit factors into its credit ratings, which could have a positive, neutral or negative to a corporates' or governments' creditworthiness. Of note, S&P described ESG credit factors as *"ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which [S&P] has sufficient visibility and certainty to included in [its] credit rating analysis"*. Following the comment period, S&P expects to publish a final criteria methodology.

Exhibit 2: S&P Intersection of ESG and Credit



Source: S&P, 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 June 2021

We highlight Dialogue Health Technologies (CARE: TSX) which provided several insights during National Bank's 11th Annual Québec Conference and Knight Therapeutics (GUD: TSX) on a positive development for one of its oncology drugs.

Dialogue Health Technologies

On June 16, we hosted Cherif Habib (CEO) for a virtual fireside chat that reconfirmed our positive view on CARE and included the company's acquisition and organic growth outlook and strategy as well as an overview of the current competitive landscape.

CARE's primary growth venue to-date has been organic, and this will continue, with acquisitions playing a complimentary role aimed at 1) growing member count; 2) increasing number of services to increase the attach rate, and 3) entering new geographies. The company expects to execute on one to two acquisitions per year depending on the size. However, management noted that while public companies' valuations have contracted, those of private companies have not and remain elevated. Meanwhile, CARE's organic growth continues to be mainly driven by primary care for which clients, typically, initially subscribe for, although 2+ program subscriptions continue to increase and should, over time, result in a higher attach rate.

The competitive landscape remains unchanged with the B2B virtual health market dominated (90%+ share) by CARE, Maple and Telus Health, although, as per management, CARE remains the leader due its integrated platform. Similarly, the EAP market is dominated by three companies with CARE being the third largest, but rapidly gaining share due to 1) being fully virtual and 2) its very rapid service with a 24-hour turnaround vs. 1-3 weeks for legacy providers.

We maintain an Outperform rating and $20.50 target price, which implies 9.0x 2023e EV/Sales.

Knight Therapeutics

GUD announced that Health Canada approved NERLYNX, in combination with chemo drug capecitabine, for the treatment of adult patients with a certain form of metastatic breast cancer (HER2-overexpressed/amplified or HER2+) and who have previously received two or more prior treatments. This approval follows the July 2019 one for patients with early stage HER2+ cancer.

While we are not particularly surprised with the approval given a similar move by the FDA in February 2020, it is an incremental positive for GUD as we estimate that it increases patients eligible for treatment, as well as the drug's TAM, by ~39% to an estimated value of ~$372 mln vs ~$267 mln prior. GUD launched the drug commercially in late 2019 and, currently, we expect minimal market share as 1) GUD continues to address patient access; and 2) Covid-related lockdowns have impacted physician access and, consequently, growth. However, we estimate potential sales of ~$14 mln for NERLYNX in Canada.

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

Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 7/8	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		290.08	87.9	3.30u	1/2021	0.0%	0.01u	0.18u	0.22u	18.0	14.9	53.7u	88.6u	197.1u	16.3	7.3	1,156.1u	5.9	3.50u	↑
Andlauer Healthcare Group	AND	SP		1,442.56	38.5	37.51	1/2021	0.5%	0.81	1.09	1.30	34.3	28.8	78.9	98.4	106.5	16.7	15.2	224.7	2.1	38.00	
Dialogue Health Technologies	CARE	OP		689.64	65.1	10.60	1/2021	0.0%	0.42	(0.26)	(0.07)	nmf	nmf	(16.9)	(15.2)	(2.5)	nmf	nmf	-	-	20.50	
IMV Inc.	IMV	SP		178.76	67.7	2.64	1/2021	0.0%	(0.49)	(0.38)	(0.55)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	4.25	
Jamieson Wellness	JWEL	OP		1,350.62	40.0	33.78	1/2021	1.5%	1.17	1.28	1.32	26.3	25.6	88.0	100.1	105.4	15.2	14.4	160.3	1.5	42.75	
Knight Therapeutics	GUD	OP		671.26	128.8	5.21	1/2021	0.0%	0.09	0.20	0.33	26.5	15.7	16.8	34.5	56.2	15.6	9.5	-	-	7.75	
Medical Facilities Corp.	DR	OP		219.61	31.1	7.06	1/2021	4.0%	0.96u	0.99u	0.98u	5.9	6.0	57.3u	57.2u	57.9u	5.2	5.2	79.8u	1.8	9.75	
Theratechnologies	TH	SP		451.38	93.8	4.81	1/f2021	0.0%	(0.15)u	0.06u	0.09u	57.0	41.7	(7.1)u	10.4u	13.0u	32.9	26.5	-	-	3.75	
Special Situations																						
K-Bro Linen	KBL	SP		462.05	10.6	43.60	1/2021	2.8%	2.49	2.31	2.81	18.8	15.5	43.8	44.4	54.0	12.2	10.1	81.1	1.5	46.00	
Rogers Sugar	RSI	SP		598.44	103.5	5.78	2/f2021	6.2%	0.37	0.43	0.44	13.3	13.2	92.3	101.9	106.1	9.3	9.0	370.3	3.5	5.25	
Chemtrade Logistics Income Fund	CHE.UN	OP		687.56	103.2	6.66	1/2021	9.0%	0.52	0.70	1.04	9.5	6.4	265.3	307.6	339.2	6.8	6.1	1,393.3	4.1	10.50	

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
—
Associate:
Alizeh Haider: 416-869-7937

Selections

- *Stantec*
- *Finning International*
- *ATS Automation*

WSP Global Inc.: Thinking out loud about future capital deployment

Is WSP deployment towards additional M&A conceivable?

We think so Balance sheet remains under-levered (1.2x) post Golder. With previous speculation around a mooted Aecom tie-up, investors can appreciate the company's ambitions (especially given 2 new anchor investors). Hence, we do not think investors should preclude another deal in the future, especially with the new 3-year strategic cycle upon us. In the note, we refresh M&A sensitivity math using Arcadis (again) as a blueprint.

At an assumed 11.0x EV/EBITDA post synergies (30% premium on ARCAD share price), we arrive at a $6.4 bln deal and 20% EPS accretion

A hypothetical deal could push leverage to 2.75x (WSP is much more balanced and diversified now) with the balance funded through equity of $3.2 bln. EPS accretion would amount to 20% including synergies. Taking a mathematical approach, we believe WSP's share price imputes a 29% probability for a sizeable deal to ensue.

Bottomline – the virtuous cycle of M&A (when track record is top notch)

When one trades at a premium multiple while operating in a fragmented space with an abundance of assets, M&A becomes the ultimate value enhancing strategy. With a group of deep-pocketed anchor investors, access to attractive debt financing terms, and an excellent track record of integration, WSP is in an enviable spot. Historically, management was able to identify the right assets at the right time. As a result, the company has grown from $4.0 bln market cap in just 2016 to $16.0 bln today… all in a 5- year span. The more compelling part of the story is that we are not seeing any indication from management (or industry structure) to potentially hit the pause button. With another 3-year strategic cycle coming up later this year (recall we had historically received explicit headcount targets in the prior strategy updates), we continue to be bullish on the company's ability to grow. As such, we reiterate OP rating on WSP shares while increasing our target price to $160.00 (from $143.00 previously) as we migrate into an M&A probability-weighted valuation methodology once again.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 7/8	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		**$21.00**		$18.19	$847	12 - 2020	$1.16	$0.72	$1.22	15.3x	12.8x	$255	$218	$264	6.3x	5.9x	3.8%	1.1x
Bird Construction Inc.	BDT	SP	↓	**$10.00**	↓	$8.41	$456	12 - 2020	$0.71	$0.80	$0.92	10.8x	9.3x	$69	$91	$100	4.4x	4.0x	3.8%	net cash
Finning International Inc.	FTT	OP		**$44.00**		$32.21	$5,183	12 - 2020	$1.14	$1.71	$2.18	18.7x	14.7x	$636	$766	$899	8.0x	6.8x	2.6%	1.2x
IBI Group Inc.	IBG	OP		**$14.00**		$10.10	$318	12 - 2020	$0.48	$0.71	$0.83	13.1x	12.3x	$47	$52	$53	8.5x	8.3x	0.0%	1.0x
North American Construction Group Ltd.	NOA	OP		**$24.00**	↑	$18.40	$514	12 - 2020	$1.74	$1.91	$2.19	9.5x	8.3x	$175	$197	$218	4.5x	4.1x	0.9%	1.9x
Ritchie Bros. Auctioneers	RBA	SP		**U$66.00**		U$58.94	U$6,547	12 - 2020	U$1.59	U$1.81	U$2.06	32.9x	28.9x	U$352	U$366	U$392	19.1x	17.8x	1.5%	1.0x
SNC-Lavalin	SNC	OP		**$44.00**		$31.93	$5,669	12 - 2020	-$0.67	$1.81	$2.55	12.4x	10.5x	$93	$551	$675	8.4x	7.5x	0.2%	2.0x
Stantec Inc.	STN	OP		**$60.00**		$55.96	$6,258	12 - 2020	$2.13	$2.20	$2.50	25.6x	22.5x	$435	$427	$489	15.8x	13.8x	1.2%	1.1x
Toromont Industries Ltd.	TIH	OP		**$125.00**	↑	$104.55	$8,638	12 - 2020	$3.09	$3.87	$4.49	27.1x	23.3x	$539	$617	$688	14.2x	12.7x	1.3%	0.1x
WSP Global	WSP	OP		**$160.00**	↑	$148.37	$17,521	12 - 2020	$3.34	$4.31	$5.34	34.7x	28.0x	$801	$974	$1,168	19.6x	16.4x	1.0%	1.6x
AutoCanada	ACQ	SP		**$45.00**		$46.48	$1,307	12 - 2020	$0.44	$2.94	$3.16	16.3x	15.2x	$83	$152	$169	9.8x	8.9x	0.0%	0.7x
Stelco	STLC	OP		**$45.00**		$35.40	$3,284	12 - 2020	-$0.60	$15.49	$5.88	2.4x	6.3x	$63	$1,492	$633	2.3x	5.4x	1.1%	0.1x
ATS Automation	ATA	OP		**$38.00**		$35.97	$3,428	12 - 2020	$1.07	$1.51	$1.70	24.5x	21.9x	$181	$244	$266	16.0x	14.7x	0.0%	1.9x
ABC Technologies	ABCT	SP		**$9.50**		$8.82	$464	12 - 2020	NM	-U$0.10	U$0.64	-68.2x	11.0x	U$89	U$126	U$153	5.0x	4.1x	1.7%	1.7x
Stella-Jones	SJ	SP		**$57.00**		$45.63	$3,009	12 - 2020	$3.12	$3.83	$3.13	12.0x	14.6x	$343	$404	$349	9.4x	10.9x	1.6%	2.0x
Median												**15.3x**	**14.6x**				**8.5x**	**8.3x**	**1.2%**	

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

Source: Company Reports, Refinitiv, NBF

Merchandising & Consumer Products

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

Selection

› *Gildan*

Empire Company Ltd (EMP.A: TSX)

Q4 F2021 Results: Largely in-line results and outlook commentary

Q4/F21 EPS was $0.64 vs. NBF at $0.63 and cons. at $0.60; last year was $0.66

We consider the results to be largely in line; the headline EPS beat was primarily aided by a favourable tax impact and slightly better Investment/ Other profitability. Food performance had better than forecast sales, but lower EBITDA. Same store sales growth (sssg) excl. fuel was -6.1% vs. NBF at -7.3%; last year was 18.0%. FR sales were $6,920 mln vs. NBF at $6,816 mln; last year was $7,012 mln. FR EBITDA was $499 mln vs. NBF at $512 mln; last year was $520 mln. Management noted COVID-19 related costs of ~$24 mln, above our $20 mln. The annual dividend increased by 15.3%.

Outlook largely in line with our view

EMP provided outlook commentary that is largely in line with our view. Looking ahead in F2022, EMP anticipates some normalization of business throughout the year as COVID-19 restrictions are relaxed. Specifically, management expects that: (a) sssg will decline (we model sssg of -3.4%) and

(b) margins will benefit from Project Horizon initiatives and the addition of Longo's, partially offset by unfavourable sales mix y/y. While EMP doesn't expect consumer behaviour to return fully to pre-pandemic levels for the foreseeable future, it expects that discount banners should experience higher relative sales. Management expects F2022 EPS dilution of $0.25 -$0.30 (F2021 dilution was $0.18) related to e-Commerce driven by higher costs (the Montreal CFC and additional store pick e-Commerce locations).

Project Horizon targets on track

Empire indicated that it is on track to achieve Project Horizon targets; we note the following highlights: (a) Empire has now confirmed 44 Farm Boy locations in ON, with 39 stores currently opened; 5 stores to open in F2022 (net of one closure). (b) Empire has confirmed 40 of ~65 FreshCo locations in Western Canada and is on track to open 12 FreshCo stores in F2022. (c). The Vaughan CFC is exceeding all Food retailing targets (on-time delivery, fulfilment and customer satisfaction).

Maintain Outperform rating; price target is $46

Our price target is based on 8.0x our F2023 Food Retailing EBITDA, plus the value of Empire's investments (less a 10% discount).

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 07/08	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		11,784	61.4	191.81	12/2020	12.95	16.71	16.81	11.5	11.4	2,181	2,542	2,509	5.9	6.0	74.74	0.42	219.00	
Dollarama	DOL	OP		17,757	312.3	56.86	02/2021	1.81	2.25	2.58	25.3	22.1	1,131	1,311	1,442	13.5	12.3	0.83	1.58	65.00	↑
Specialty Stores																					
Couche Tard	ATD.b	OP		49,653	1,086.5	45.70	04/2021	2.45	2.34	2.54	15.6	14.4	5,005	4,800	5,009	9.4	9.0	11.21	0.35	53.00	↑
Parkland Fuel Corporation	PKI	OP		5,929	153.5	38.63	12/2020	0.54	1.60	1.88	24.1	20.6	967	1,236	1,334	7.8	7.2	14.76	0.62	45.00	
Apparel																					
Gildan	GIL	OP		8,553	198.6	43.07	12/2020	(0.18)	1.97	2.15	17.4	16.0	165	605	645	12.0	11.3	8.38	0.25	50.00	
Roots Corporation	ROOT	SP		160	42.4	3.78	02/2021	0.35	0.52	0.64	7.3	5.9	64	72	79	4.5	4.1	3.87	0.50	6.00	↑
Grocers																					
Empire Company	EMP.a	OP		10,744	267.6	40.15	05/2021	2.61	2.67	2.93	15.0	13.7	2,144	2,273	2,385	7.5	7.1	16.34	0.59	46.00	↑
Loblaw	L	OP		27,295	348.2	78.39	12/2020	4.19	4.82	5.67	16.3	13.8	5,006	5,197	5,451	6.4	6.1	31.69	0.35	77.00	
Metro	MRU	SP		15,167	250.9	60.45	09/2020	3.27	3.48	3.71	17.4	16.3	1,091	1,104	1,072	15.8	16.3	24.77	0.27	65.00	
Food Manufacturer																					
Saputo	SAP	SP		15,390	411.4	37.41	03/2021	1.56	1.72	1.90	21.8	19.7	1,471	1,577	1,674	12.2	11.4	15.7	0.37	41.00	↑
Lassonde	LAS.a	OP		1,202	6.9	173.39	12/2020	14.11	13.39	14.12	12.9	12.3	217	208	212	6.9	6.8	116.9	0.22	202.00	
Premium Brands Holdings	PBH	OP		5,188	41.4	125.31	12/2020	3.04	4.59	5.29	27.3	23.7	313	431	487	14.3	12.6	38.6	0.38	134.00	
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,056	37.4	28.28	12/2020	1.95	2.08	2.32	13.6	12.2	171	179	189	8.1	7.7	9.71	0.52	38.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		193	42.4	4.55	12/2020	0.34	0.45	0.56	10.2	8.2	28	33	37	9.9	8.8	5.60	0.36	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,341	24.7	54.26	11/2020	(1.51)	2.52	3.40	21.5	16.0	138	146	175	11.9	10.0	23.51	0.41	58.00	
Online Grocery																					
Goodfood Market	FOOD	OP		611	66.8	9.15	08/2020	(0.07)	(0.08)	(0.01)	NA	NA	5	9	16	NA	NA	0.90	(3.26)	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

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

Price Volatility to Persist in 2021

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

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

Top picks:

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

- **Copper Mountain Mining Corp. (CMMC: TSX)**
  Copper Mountain has a strong near-term production outlook at the Copper Mountain Mine, entering a high-grade sequence for 2021-2022 and the completion of the mill expansion to 45,000 tpd by Q3/21 (from 40,000 tpd), and recently improved balance sheet with the US$260 million note issuance freeing up cash flow to direct to future growth opportunities. Next to Copper Mountain Mine, CMMC has the Eva development project on the horizon with a development decision expected by year-end 2021.

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

Sector Analysis

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP	-	2,153	410.0	5.25	7.75	-	Nagle	0.07u	0.77u	0.79u	5.2x	6.6x	0.34u	1.08u	1.00u	3.6x	3.9x	7.03	0.7x
Copper Mountain Mining	CMMC	OP	-	739	208.8	3.54	5.50	-	Nagle	0.11u	0.76u	0.78u	4.7x	4.6x	0.61u	1.55u	1.35u	2.3x	2.6x	5.45	0.6x
Ero Copper	ERO	SP	-	2,233	88.2	25.33	30.00	-	Nagle	1.34u	2.68u	2.91u	7.1x	8.7x	2.02u	3.45u	3.69u	5.5x	5.2x	32.35	0.8x
First Quantum Minerals	FM	OP	-	19,463	690.4	28.19	40.00	-	Nagle	(0.07)u	2.10u	4.25u	10.1x	6.6x	2.64u	5.05u	7.11u	4.2x	3.0x	29.03	1.0x
Hudbay Minerals	HBM	SP	-	2,158	261.3	8.26	13.00	-	Nagle	(0.44)u	0.49u	1.25u	12.8x	6.6x	0.93u	2.19u	3.15u	2.8x	2.0x	9.23	0.9x
Lundin Mining	LUN	SP	-	8,372	738.3	11.34	17.00	-	Nagle	0.31u	1.52u	1.81u	5.6x	6.3x	1.00u	2.61u	2.71u	3.3x	3.2x	12.65	0.9x
Nexa Resources	NEXA	SP	-	1,425	132.4	10.76	17.00	-	Nagle	(0.82)u	1.73u	1.67u	4.7x	6.4x	1.44u	3.66u	4.53u	2.2x	1.8x	28.85	0.4x
Sherritt International	S	SP	-	199	397.3	0.50	0.60	-	DeMarco	(0.34)c	(0.23)c	0.01c	n/a	49.4x	0.03c	0.03c	0.09c	17.2x	5.6x	0.81	0.6x
Taseko Mines	TKO	SP	-	665	283.1	2.35	3.50	-	Nagle	(0.11)c	0.28c	0.32c	8.4x	7.3x	0.44c	0.81c	0.78c	2.9x	3.0x	4.52	0.5x
Teck Resources	TECKb	OP	-	15,070	539.4	27.94	36.00	-	Nagle	1.05c	3.19c	3.64c	8.8x	7.7x	3.38c	6.72c	7.01c	4.2x	4.0x	27.37	1.0x
Trevali Mining	TV	SP	-	213	989.1	0.22	0.35	-	Nagle	(0.03)c	0.04c	0.07c	4.3x	3.0x	0.01c	0.12c	0.13c	1.4x	1.3x	0.44	0.5x
Developers																					
Adventus Mining	ADZN	OP	-	136	131.1	1.04	1.70	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.19	0.5x
Filo Mining	FIL	OP	-	1,117	110.9	10.07	13.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.96	0.5x
Nevada Copper	NCU	SP	-	347	1,825.0	0.19	0.30	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.45	0.4x
Josemaria Resources	JOSE	SP	-	323	379.8	0.85	1.35	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.95	-
Trilogy Metals	TMQ	OP	-	415	144.2	2.88	4.75	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.48	0.5x
Sigma Lithium	SGMA	OP	-	594	87.3	6.80	7.50	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.12	0.7x
Lithium Americas	LAC	OP	-	2,001	119.9	16.69u	18.65u	↓	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	25.23	0.7x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

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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
Jonathan Egilo: 416-507-8177
Rabi Nizami: 416-869-7925

Selections

Gold/Silver Producers:

- ***Dundee Precious Metals Inc.*** *(DPM: TSX; C$13.50 target)*
- ***Endeavour Mining Corp.*** *(EDV: TSX; C$57.00 target)*
- ***K92 Mining Corp.*** *(KNT: TSX; C$11.25 target)*
- ***Newmont Corp.*** *(NGT: TSX; C$108.00 target)*
- ***SSR Mining Inc.*** *(SSRM: TSX; C$36.00 target)*
- ***Wesdome*** *(WDO: TSX; C$14.00 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$13.00 target)*

Inflation Could Spark Gold Rally

Eye on US inflation 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 and unprecedented support packages have been approved. 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 rapidly 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, and continuing with the QE program, focusing on job creation by any means necessary while accepting climbing inflation beyond the Fed target rate for a period of time. We believe a rising U.S. inflation rate will be the main driver for spot gold prices and consequently gold equities.

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.

Sector Analysis

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP		18,780	243.04	77.27	108.00		Parkin	0.96u	1.86u	2.98u	33.2x	20.8x	3.64u	4.99u	4.99u	12.4x	12.4x	47.91	1.61x
Barrick Gold	ABX	OP		47,073	1,778.37	26.47	39.00		Parkin	0.51u	1.15u	1.35u	18.4x	15.7x	1.81u	3.22u	3.22u	6.6x	6.6x	22.50	1.18x
Kinross Gold Corp	K	SP	↓	9,912	1,261.07	7.86	10.00	↓	Parkin	0.31u	0.73u	0.32u	8.6x	19.6x	0.80u	1.37u	1.37u	4.6x	4.6x	12.37	0.64x
Kirkland Lake Gold Corp	KL	SP		13,560	265.06	51.16	57.00		Parkin	2.74u	3.37u	3.01u	12.2x	13.6x	4.46u	4.75u	4.75u	8.6x	8.6x	28.23	1.81x
Newmont	NGT	OP		62,723	790.76	79.32	108.00		Parkin	1.32u	2.66u	3.44u	23.9x	18.4x	4.31u	5.69u	5.69u	11.1x	11.1x	58.75	1.35x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		34,738	191.0	181.85	200.00	-	Nagle	2.72u	3.25u	3.71u	42.1x	49.0x	4.22u	4.72u	5.28u	29.0x	25.9x	77.85	2.34x
Maverix Metals Inc	MMX	SP		920	141.2	6.52	8.00	-	Nagle	0.12u	0.07u	0.18u	n/a	37.3x	0.29u	0.26u	0.30u	25.3x	22.1x	5.15	1.27x
Osisko Gold Royalties Ltd	OR	OP		2,768	167.1	16.57	21.50	-	Nagle	0.26u	0.40u	0.53u	n/a	31.6x	0.65u	0.97u	1.15u	17.0x	14.4x	18.00	0.92x
Royal Gold Inc	RGLD	SP		7,495	65.2	114.89u	155.00u	-	Nagle	2.91u	3.60u	3.86u	31.9x	29.8x	6.28u	6.41u	6.93u	13.5x	12.5x	76.88	1.49x
Sandstorm Gold Ltd	SSL	OP		1,863	194.5	9.58	13.00	-	Nagle	0.11u	0.18u	0.25u	40.0x	38.3x	0.36u	0.41u	0.48u	17.6x	15.0x	8.72	1.10x
Triple Flag Precious Metals Corp	TFPM	SP		2,405	156.2	15.40	21.00	-	Nagle	0.20u	0.45u	0.58u	25.7x	26.6x	0.78u	0.88u	1.03u	13.2x	11.2x	12.44	1.24x
Wheaton Precious Metals Corp	WPM	OP		24,588	449.8	54.66	75.00	-	Nagle	1.10u	1.50u	1.57u	27.4x	34.8x	1.71u	2.09u	2.18u	19.7x	18.9x	27.88	1.96x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		3,874	392.50	9.87	14.25		Parkin	0.21u	0.42u	1.03u	18.9x	7.6x	0.75u	0.97u	0.97u	8.1x	8.1x	10.99	0.90x
B2Gold	BTO	OP		5,152	1,030.4	5.00	10.00		DeMarco	0.25u	0.49u	0.46u	10.2x	10.8x	0.51u	0.83u	0.78u	6.0x	6.4x	5.57	0.90x
Centerra Gold Inc	CG	OP		2,704	296.51	9.12	11.25		Parkin	0.76u	1.23u	0.59u	5.9x	12.4x	1.36u	2.87u	1.45u	2.5x	5.0x	12.10	0.75x
Dundee Precious Metals	DPM	OP		1,345	181.3	7.42	13.50		DeMarco	0.26u	1.02u	0.91u	7.3x	8.2x	0.62u	1.35u	1.71u	5.5x	4.3x	10.94	0.68x
Eldorado Gold Corp	ELD	OP		2,226	182.31	12.21	20.00		Parkin	(0.02)u	0.97u	0.48u	12.5x	25.3x	0.93u	2.23u	2.23u	4.4x	4.4x	22.30	0.55x
Endeavour Mining	EDV	OP		4,492	163.1	27.55	57.00		DeMarco	0.68u	2.24u	2.27u	12.3x	12.2x	2.68u	5.13u	5.24u	5.4x	5.3x	36.61	0.75x
Equinox Gold Corp	EQX	OP		2,964	351.1	8.44	16.75		Parkin	0.33u	0.37u	0.40u	22.7x	21.3x	0.68u	1.06u	1.04u	8.0x	8.1x	17.67	0.48x
IAMGOLD Corp	IMG	OP		1,711	476.50	3.59	6.25		Parkin	(0.03)u	0.14u	0.21u	20.3x	13.6x	0.75u	0.77u	0.77u	3.7x	3.7x	8.58	0.42x
Lundin Gold Inc.	LUG	OP		2,413	231.8	10.41	14.75		Egilo	0.47u	0.75u	0.62u	13.9x	16.9x	0.61u	1.15u	1.11u	9.1x	9.4x	11.15	0.93x
New Gold Inc	NGD	OP		1,457	680.70	2.14	4.00		Parkin	(0.08)u	0.03u	0.20u	75.4x	11.0x	0.39u	0.41u	0.41u	4.2x	4.2x	3.90	0.55x
OceanaGold Corp	OGC	OP		1,598	703.99	2.27	3.50		Parkin	0.06u	(0.11)u	0.15u	n/a	14.9x	0.33u	0.33u	0.33u	5.4x	5.4x	3.34	0.68x
Pretium Resources	PVG	SP		2,183	188.0	11.61	16.50		DeMarco	0.54u	0.99u	0.58u	11.8x	20.1x	1.13u	1.43u	1.43u	8.1x	8.1x	14.08	0.82x
SSR Mining Inc	SSRM	OP		4,283	210.06	20.39	36.00		Parkin	0.74u	1.43u	1.61u	11.4x	10.1x	1.59u	1.65u	1.65u	9.9x	9.9x	30.82	0.66x
Yamana Gold Inc	YRI	SP		5,021	965.55	5.20	8.00		Parkin	0.10u	0.32u	0.29u	13.1x	14.2x	0.51u	0.66u	0.66u	6.3x	6.3x	4.78	1.09x
Silver Producers																					
Aya Gold and Silver	AYA	OP		895	92.2	9.71	9.50		DeMarco	(0.05)u	0.01u	0.07u	n/a	136.4x	1.18u	0.00u	0.10u	n/a	100.4x	5.39	1.80x
First Majestic Silver Corp	FR	SP		3,864	214.9	17.98	21.00		DeMarco	0.03u	0.24u	0.33u	74.9x	54.1x	0.53u	0.57u	0.71u	31.5x	25.2x	6.92	2.60x
Fortuna Silver Mines Inc	FVI	SP		1,187	184.0	6.45	12.00		DeMarco	0.18u	0.21u	0.94u	31.0x	6.9x	0.45u	0.44u	1.46u	14.6x	4.4x	6.22	1.04x
Pan American Silver	PAAS	OP		7,263	210.1	34.57	55.00		DeMarco	0.60u	0.94u	1.38u	36.8x	25.1x	1.60u	1.73u	2.37u	20.0x	14.6x	21.81	1.58x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		362	109.6	3.30	6.50		DeMarco	0.21u	0.31u	0.49u	10.6x	6.8x	0.40u	0.74u	0.66u	4.5x	5.0x	7.55	0.44x
K92 Mining Inc.	KNT	OP		2,006	219.2	9.15	11.25		Egilo	0.20u	0.25u	0.34u	37.2x	26.8x	0.34u	0.34u	0.42u	27.3x	21.9x	9.38	0.98x
Minera Alamos Inc.	MAI	OP		274	441.9	0.62	1.15		Egilo	0.01u	(0.01)u	0.06u	n/a	10.4x	0.00u	(0.00)u	0.07u	n/a	8.4x	0.97	0.64x
Wesdome Corp.	WDO	OP		1,673	138.4	12.09	14.00		DeMarco	0.32u	0.41u	0.58u	29.5x	21.0x	0.56u	0.64u	0.90u	19.0x	13.5x	11.19	1.08x
Developers																					
Artemis Gold Inc.	ARTG	OP		822	122.7	6.70	10.00		DeMarco	0.00u	(0.07)u	(0.05)u	-	-	0.00u	(0.15)u	(0.08)u	-	-	9.87	9.87x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		243	357.5	0.68	1.50		Egilo	(0.04)u	(0.03)u	(0.03)u	-	-	(0.03)u	(0.02)u	(0.02)u	-	-	1.34	0.51x
Integra Resources Corp.	ITR	OP		192	54.8	3.51	6.50		Nizami	(0.54)u	(0.54)u	(0.47)u	-	-	(0.50)u	(0.51)u	(0.45)u	-	-	6.53	0.54x
Liberty Gold Corp	LGD	OP		392	262.9	1.49	2.50		Egilo	0.03u	(0.07)u	(0.06)u	-	-	(0.05)u	(0.06)u	(0.06)u	-	-	2.39	0.62x
MAG Silver Corp	MAG	OP		2,313	91.2	25.36	28.25		DeMarco	(0.06)u	(0.18)u	(0.07)u	-	-	(0.04)u	(0.04)u	(0.06)u	-	-	18.76	1.35x
Marathon Gold Corp.	MOZ	OP		0	0.0	3.15	4.00		DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	6.0x	-	3.87	0.81x
O3 Mining Inc.	OIII	OP		132	60.2	2.19	4.25		DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	5.46	0.40x
Osisko Development	ODV	OP		853	128.3	6.65	10.25		DeMarco	-	-	0.27u	-	24.4x	(0.02)u	-	0.28u	-	24.1x	10.20	0.65x
Osisko Mining	OSK	OP		1,053	340.7	3.09	5.00		DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	4.98	0.62x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		588	347.9	1.69	3.50		Egilo	(0.01)u	(0.01)u	0.00u	-	-	(0.01)u	(0.01)u	0.00u	-	-	3.65	0.46x
SilverCrest Metals	SIL	OP		1,321	128.5	10.28	15.00		DeMarco	(0.22)u	(0.22)u	(0.35)u	-	-	(0.19)u	(0.21)u	(0.31)u	-	-	9.99	1.03x

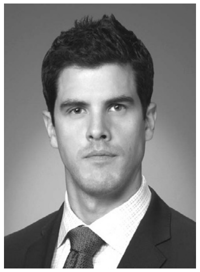
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associates:
Anthony Linton: 416-507-9054
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

With five consecutive weeks of gains, WTI has settled just under its 5-year high of US$76.00/bbl. WTI averaged ~US$71.00 in June as a more robust supply and demand scenario continues to unfold while the global COVID-19 recovery continues. The market is anxiously awaiting the upcoming OPEC+ meeting as it is expected that details surrounding subsequent production increases in August and potentially beyond will be revealed. Recall, OPEC+ and Saudi Arabia are expected to ease their production cuts by 441 mbbl/d and 400 mbbl/d in July, respectively. Of note, July marks the last month of Saudi Arabia easing its voluntary 1 mmbbl/d production cut that assisted in balancing the market late last year. Before July's meeting, Saudi Arabia's energy minister communicated a cautionary tone surrounding its production increases and OPEC+'s role in taming and containing inflation. However, this bearish tone was offset by comments regarding the uncertainty surrounding the potential for further COVID-19 related demand impacts (Delta variant) and the risk of returning production from Iran and Venezuela. Prior to the July 1st OPEC meeting S&P Platts was forecasting an increase in OPEC+ output of 500,000 bbl/d for August, however the output increase has been delayed due to a disagreement in base level production between Saudi Arabia and UAE. Saudi is looking to increase its baseline production by 600 mbbl/d to 3.8 mmbbl/d and due to the stalemate discussions are expected to last into mid-July. Looking ahead, we expect OPEC+ will remain committed to maintaining balance in the market with its spare output capacity sitting at approximately 6.1 mmbbl/d after the previously agreed upon to July output increase.

The uncertainty surrounding the timing of Iranian barrels returning to the market hasn't gotten any clearer as time progresses. One near-term catalyst out of the way is the conclusion of the Iranian election with Ebrahim Raisi rising to the top of the Conservative leadership. A key friction between the two sides continues to be the willingness to constrain the Iranian nuclear program. According to Bloomberg, deliberations will probably extend well into the summer months before the two countries can complete their negotiations. South of the border, U.S production has increased slightly to exit June at 11.1 mbbl/d from May's exit level of 10.8 mbbl/d. However, the primary driver of the production increase has been achieved through drawdowns of the DUC inventory as opposed to drilling gains. We expect the rig count to increase as WTI remains supported above the US$70/bbl level.

Reflecting on the current market conditions, we recently revised our commodity price deck assumptions. Our 2021 and 2022 forecast for WTI has increased to US$65.50/bbl (from US$59.50/bbl) and US$65.00/bbl (from US$55.00/bbl), respectively, which sit slightly below the forward strip at US$71.80/bbl for the remainder of 2021.

Natural Gas Outlook

Natural Gas prices have performed strongly across major North American benchmarks throughout the shoulder season with spot prices averaging US$3.20/MMBtu and C$3.10/GJ for NYMEX and AECO in June, up 8% and 6% from the prior month, respectively. We are seeing a demonstrated stability returning to the market and the volatile swings in seasonality of the commodity being relatively muted (<10% variance between summer and winter) to provide for a more investible gas price landscape. North American rig activity has started to pick up, but U.S drilling activity remains relatively subdued as new production is primarily attributable to DUC inventory drawdowns as opposed to drilling activity. The majority of drilling activity this month is occurring in Canada, and primarily focused on oil. In June, the U.S added 13 total rigs (Oil:13) and in Canada a total of 64 rigs (Oil:54 / Gas:10) were added to bring the m/m increase to 3% and 103%, respectively.

U.S. production is estimated to have increased slightly to 91.0 Bcf/d in June from 90.6 Bcf/d in May. Both LNG and Mexican exports continue to remain elevated at 10 Bcf/d and 6.8 Bcf/d, respectively. Overall demand remains elevated in the United States and Alberta coming in at an estimated ~69.8 Bcf/d and ~5.1 Bcf/d, respectively, due to elevated temperatures in late June bolstering cooling demand.

Overall, we remain constructive on the natural gas complex. We increased our forecast for NYMEX to US$2.90/mcf (from US$2.75/mcf) for 2021 and reiterate our forecast of US$2.75/mcf for 2022. Additionally, we have increased our AECO forecast for 2021 to C$2.85/mcf (from C$2.70/mcf) and decreased our 2022 forecast to C$2.40/mcf (from $2.50/mcf). 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 this 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 recently 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 7-8	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	1185.7	$44.13	$52,324	4%	8.9x	4.8x	4.1x	1.0x	0.4x	$4.40	$10.86	$11.19	4.1x	3.9x	$66.00	54%	↑
Cenovus Energy	CVE	OP		Wood	2017.5	$11.25	$22,697	1%	28.3x	4.7x	3.8x	1.4x	0.7x	$0.12	$3.11	$3.48	3.6x	3.2x	$19.50	74%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	261.0	$29.76	$7,768	1%	4.4x	3.7x	3.6x	1.7x	1.3x	$7.42	$12.29	$11.76	2.4x	2.5x	$41.00	39%	↑
Imperial Oil	IMO	SP		Wood	735.7	$35.59	$26,183	3%	36.8x	5.8x	5.1x	0.2x	-0.3x	$1.20	$6.30	$6.51	5.6x	5.5x	$45.00	29%	↑
Suncor Energy	SU	SP		Wood	1514.7	$28.86	$43,715	3%	10.1x	4.7x	4.2x	0.8x	0.4x	$2.66	$6.87	$7.05	4.2x	4.1x	$42.00	48%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.3	$4.91	$949	0%	5.1x	5.1x	5.4x	0.8x	0.7x	$0.56	$1.10	$1.02	4.5x	4.8x	$5.50	12%	↑
ARC Resources Ltd.	ARX	OP		Wood	722.7	$10.06	$7,270	2%	3.9x	4.2x	3.4x	0.8x	0.2x	$1.89	$3.22	$3.09	3.6x	3.3x	$15.00	51%	
Baytex Energy	BTE	SP		Payne	573.3	$2.31	$1,324	0%	5.4x	4.0x	3.2x	2.5x	1.7x	$0.56	$1.09	$1.25	2.1x	1.9x	$3.00	30%	↑
Birchcliff Energy	BIR	OP		Payne	258.0	$5.03	$1,298	0%	6.0x	4.3x	4.0x	1.4x	0.9x	$0.69	$1.59	$1.57	3.2x	3.2x	$6.25	25%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	581.1	$4.94	$2,870	0%	3.9x	3.2x	2.4x	1.4x	0.8x	$1.65	$2.52	$2.78	2.0x	1.8x	$11.00	123%	↑
Enerplus Corporation	ERF	OP		Wood	256.8	$8.42	$2,162	2%	3.5x	3.7x	2.8x	1.3x	0.6x	$1.61	$3.10	$3.66	2.7x	2.3x	$14.00	68%	↑
Freehold Royalties	FRU	OP		Wood	131.5	$9.58	$1,260	5%	7.8x	8.6x	8.2x	0.0x	-0.6x	$0.61	$1.10	$1.09	8.7x	8.8x	$11.50	25%	↑
Headwater Exploration	HWX	OP		Payne	222.4	$4.00	$890	0%	25.1x	8.7x	5.6x	-0.7x	-0.8x	$0.06	$0.43	$0.62	9.4x	6.4x	$6.25	56%	↑
Kelt Exploration	KEL	OP		Payne	188.6	$3.22	$607	0%	4.9x	4.9x	3.9x	0.0x	0.0x	$0.31	$0.66	$0.82	4.9x	3.9x	$5.00	55%	↑
MEG Energy	MEG	SP		Wood	304.5	$8.56	$2,607	0%	7.7x	5.4x	3.6x	3.2x	1.6x	$0.92	$2.13	$2.94	4.0x	2.9x	$13.50	58%	↑
NuVista Energy	NVA	SP		Payne	223.1	$3.92	$875	0%	4.2x	4.9x	3.3x	2.1x	1.3x	$0.70	$1.06	$1.63	3.7x	2.4x	$4.25	8%	↑
Paramount Resources	POU	SP		Payne	139.2	$16.84	$2,345	1%	6.1x	5.9x	4.2x	1.1x	0.5x	$1.12	$3.23	$4.42	5.2x	3.8x	$18.00	8%	↑
Parex Resources	PXT	OP		Wood	119.2	$21.80	$2,598	3%	6.1x	2.6x	2.0x	-0.7x	-1.2x	$2.96	$6.42	$7.00	3.4x	3.1x	$36.00	68%	↑
Peyto Exploration & Development	PEY	OP		Wood	165.0	$7.91	$1,305	1%	5.9x	4.7x	4.8x	2.4x	2.3x	$1.29	$2.70	$2.60	2.9x	3.0x	$8.50	8%	↑
PrairieSky Royalty	PSK	SP		Wood	223.3	$14.53	$3,245	2%	15.4x	14.6x	15.8x	-0.3x	-1.1x	$0.64	$0.97	$0.86	14.9x	16.8x	$16.50	15%	↑
Spartan Delta	SDE	OP		Payne	128.1	$5.64	$722	0%	6.9x	3.6x	3.1x	-0.7x	-0.9x	$0.67	$1.47	$1.44	0.0x	0.0x	$8.00	42%	↑
Storm Resources	SRX	SP		Payne	123.8	$3.81	$472	0%	5.2x	4.0x	2.9x	0.6x	0.1x	$0.47	$1.08	$1.34	0.0x	0.0x	$5.00	31%	↑
Tamarack Valley Energy	TVE	OP		Payne	411.1	$2.57	$1,057	0%	3.6x	4.1x	2.6x	1.1x	0.3x	$0.55	$0.89	$1.06	2.9x	2.4x	$4.50	75%	↑
Topaz Energy	TPZ	OP		Payne	129.3	$16.41	$2,122	5%	14.7x	14.0x	12.5x	0.3x	-0.1x	$0.98	$1.26	$1.31	13.0x	12.6x	$18.00	15%	↑
Tourmaline Oil	TOU	OP		Payne	322.9	$34.18	$11,036	2%	4.9x	5.4x	5.0x	0.7x	0.3x	$4.36	$7.59	$7.18	4.5x	4.8x	$40.00	19%	↑
Vermilion Energy Inc.	VET	SP		Wood	159.3	$9.98	$1,590	0%	5.6x	4.1x	3.5x	2.2x	1.7x	$3.18	$4.48	$4.89	2.2x	2.0x	$14.00	40%	↑
Whitecap Resources	WCP	OP		Wood	633.9	$6.16	$3,905	3%	4.8x	4.5x	3.4x	1.0x	0.5x	$1.07	$1.74	$2.04	3.7x	3.0x	$10.00	66%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	158.2	$2.35	$372	0%	6.5x	5.1x	3.8x	3.0x	1.9x	$0.27	$0.82	$1.05	2.9x	2.2x	$2.00	-15%	↑
Pipestone Energy	PIPE	SP		Payne	279.7	$2.10	$587	0%	6.8x	4.1x	2.4x	0.9x	0.3x	$0.15	$0.62	$0.98	3.4x	2.1x	$3.25	55%	↑
Surge Energy	SGY	R		Payne	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	↑
Yangarra Resources	YGR	SP		Payne	87.7	$1.52	$133	0%	4.5x	2.7x	1.9x	1.7x	1.0x	$0.53	$1.13	$1.48	1.3x	1.0x	$2.00	32%	↑

* 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 7/8	EBITDA (mm) 2019	EBITDA (mm) 2020e	EBITDA (mm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt / EBITDA 2019	Net Debt / EBITDA 2020e	Net Debt / EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
CES Energy Solutions Corp.	CES	SP		Payne	$ 512.01	262.6	$1.95	$ 83.3	$ 124.4	$ 133.2	6.7x	6.7x	4.8x	4.6x	2.2x	1.7x	$2.50	28%	↑
National Energy Services Reunited	NESR	OP		Payne	US$1,303.21	89.9	US$14.50	US$213.2	US$238.5	US$290.2	7.9x	6.9x	5.3x	1.5x	1.2x	0.6x	US$17.50	21%	↑
Precision Drilling Corp.	PD	OP		Payne	$ 696.18	13.3	$52.29	$ 285.2	$ 258.4	$ 310.3	6.7x	6.7x	4.8x	4.7x	3.8x	2.6x	$55.00	5%	↑
Trican Well Services	TCW	SP		Payne	$ 688.66	258.9	$2.66	$ 30.6	$ 69.1	$ 91.0	21.9x	9.3x	6.1x	1.3x	-0.3x	-0.8x	$3.25	22%	↑

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451

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

Selections

- *AltaGas*
- *Capital Power*
- *Keyera*

Overview

Through 2021 little has changed with regard to the market's insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term, as our coverage seeks to deploy an eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies - while driving per share growth and valuation expansion. We note that the S&P TSX was up ~2% in June, while our Midstream benchmark was up ~4% and our NBF Utilities were up ~3%.

Commodities Update

With easing COVID-19 concerns and a favourable fundamental backdrop, commodity prices continued to climb, with WTI averaging ~US$71/bbl, ~9% higher than May levels of ~US$65/bbl, and now over 75% above the 2020 average price of ~US$40/bbl. Meanwhile, we note prices continue to trend higher, with WTI currently holding at ~US$72/bbl. On the gas front, AECO prices also moved higher, averaging $3.39/mcf, up ~10% from the May average of $3.08/mcf. Looking at Marketing prospects, the WCS heavy differential has begun to show signs of slack, averaging ~US$14/bbl, slightly wider than the May average of ~US$13.50/bbl, albeit modest volatility still suggests challenged conditions for crude oil marketing results.

Pipelines Update

Construction on the U.S. portion of the Line 3 Replacement project remains on track for a Q4/21 in-service date, with the Wisconsin and North Dakota sections in place, and the Minnesota section at 60%+ complete. Keeping the project on track, the Minnesota Court of Appeals announced a positive decision, citing substantial evidence supporting the Minnesota Public Utilities Commission's issuance of a certificate of need, and also reaffirmed that the route was appropriately selected based upon respect for tribal sovereignty, while minimizing environmental impacts. On the Line 5 front, a federal judge recently 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. On a positive note, a multi-party Canadian House of Commons Special Committee released a report affirming the economic importance of Line 5 to both Canada and the United States, while recommending urgent, bi-national executive action to resolve the dispute between the State of Michigan and Enbridge. Recall, Line 5 represents ~$500 million of annual EBITDA (~5% of AFFO), which we value at ~$3/sh within our target.

Meanwhile, in the Midstream space, Inter Pipeline has agreed to an all-stock transaction pursuant to which Pembina will acquire all issued and outstanding common shares of Inter Pipeline at an exchange ratio of 0.5 common shares of PPL for each outstanding IPL share, reflecting an offer currently valued at ~$19.50/sh. Brookfield Infrastructure Partners L.P. (BIP:NYSE; Outperform; US$60 Target Price; Analyst: Merer) has also submitted a revised offer to acquire IPL which includes the option for 100% cash consideration of $19.50/sh and/or 0.225 of a Brookfield Infrastructure Corp Class A exchangeable share up to a maximum of 23 mln aggregate BIPC common shares (26% of total offer), with access to an incremental 8 million BIPC shares for IPL shareholders electing to receive 100% of the consideration in BIPC shares on a tax-deferred basis. Further, Brookfield also mentioned that they have already received all regulatory and anti-trust approvals, implying that IPL shareholders could receive their consideration within three business days following the July 13th expiry date for the offer.

Following the merger agreement between IPL and PPL, Pembina released a business update outlining an ocean of future growth opportunities while announcing the reactivation of their Peace Pipeline Phase IX expansion project to accommodate increased activity in the NEBC Montney play, supporting long-term demand for intra-basin transportation. Pembina also announced that it has partnered with the Haisla Nation in the development of the proposed Cedar LNG Project, a $3.0 bln, ~0.4 bcf/d floating LNG facility to be located in Kitimat, B.C., on Haisla Nation-owned land in the Douglas Channel. Per the agreement, PPL will acquire a 50% equity interest in Cedar LNG and assume operatorship of the project moving forward. Elsewhere, we note PPL was chosen by the Western Indigenous Pipeline Group to be the industry partner in the formation of the Chinook Pathways Partnership, an Indigenous-lead partnership working towards obtaining ownership of the Trans Mountain Pipeline following the completion of the Trans Mountain Expansion.

Pipelines, Utilities & Energy Infrastructure

Further, PPL continued to highlight readily actionable projects of ~$450 mln upon closing of the Inter Pipeline transaction, including the Cochrane Straddle Plant project, which would connect IPL's Cochrane Straddle Plant to PPL's Brazeau NGL Pipeline system, enabling Pembina to transport and process the propane-plus liquids with its own infrastructure. Overall, we highlight ~$7.00/sh of unrisked upside related to the robust backlog of growth opportunities the company has identified, driven by ~$4.00/sh of potential new growth projects arising from a successful IPL merger and notwithstanding further value from a successful acquisition of TMX as part of the Chinook Pathways Partnership.

Power & Utilities Update

In early June, Capital Power issued equity for net proceeds of ~$275 mln which are earmarked for the company's $1.9 bln of secured growth under construction, realigning the company with its "carbon-neural" strategy. This includes its ~$1.0 bln Genesee 1 and 2 repowering project predicated on removing its carbon compliance exposure, transitioning completely off coal by 2023, as well as growing its renewables platform through its ~$500 mln per year capital commitment target.

Meanwhile, to top off the second quarter, Alberta power prices had another strong month in June averaging ~$140/MWh, beating May's average price of ~$86/MWh by more than 60%. In the month, power prices reached a peak of ~$465/MWh and a low point of ~$30/MWh.

Sustainability Update

Pembina and TC Energy have announced plans to jointly develop the proposed multi-billion dollar Alberta Carbon Grid (ACG), a carbon transportation and sequestration system capable of transporting over 20 million tonnes of CO_2 per annum (60,000 tCO_2 per day). The multi-leg open-access system will provide a network to support Alberta's emerging CCUS industry, connecting the Fort McMurray region, the Alberta Industrial Heartland, and the Drayton Valley region to multiple sequestration locations and delivery points across the province, supporting multiple industries' decarbonization efforts. The Alberta Carbon Grid will be designed to connect the province's largest industrial emission sources to a sequestration hub north-east of Redwater through the redeployment, retrofits using proven technology, and optimization of surplus capacity across the partnerships collective pipeline systems, including systems to be acquired through Pembina's proposed bid for Inter Pipeline.

Under the current development plans, ACG will be underpinned by a commercial framework comprised of long-term fee-for-service contracts, combined with a marketing and trading pool to facilitate CO_2 and carbon offset transactions. At the current scale proposed and through repurposing existing pipelines, the tolls on the ACG will be materially lower than the current price of carbon in Alberta (i.e., $40/tonne). The partnership is targeting commercial operations for the first phase of ACG as early as 2025, with the fully scaled pipeline network planned for 2027, subject to regulatory and environmental approvals.

Top Picks

Overall, our 2022 estimates call for AFFO/sh growth of ~8% over 2021e, with dividends up ~2% on average. We continue to screen our top picks using a three-pronged approach for 1) double-digit free cash flow (AFFO) yield; 2) healthy balance sheet metrics; and 3) strong catalyst potential.

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 07-08	Market Cap. (Mln)	Distributions per Share est. 2020e	est. 2021e	est. 2022e	Cash Yield 2021e	Cash Yield 2022e	Distr. CF per Share - FD est. 2020e	est. 2021e	est. 2022e	P/Distr. CF 2021e	P/Distr. CF 2022e	Net Debt/ 22e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$26.46	$7,400	$0.96	$1.00	$1.04	3.8%	3.9%	$2.08	$2.69	$2.93	9.8x	9.0x	5.2x	26.00	-1.7%		2.0%
Enbridge Inc.	ENB	OP		2020.5	$49.93	$100,883	$3.24	$3.34	$3.51	6.7%	7.0%	$4.67	$4.87	$5.33	10.2x	9.4x	4.6x	51.00	2.1%		8.8%
Gibson Energy	GEI	SP		149.2	$23.07	$3,443	$1.36	$1.40	$1.40	6.1%	6.1%	$2.01	$1.91	$2.16	12.1x	10.7x	3.1x	23.00	-0.3%		5.8%
Inter Pipeline	IPL	SP		429.2	$20.10	$8,627	$0.48	$0.48	$0.48	2.4%	2.4%	$1.75	$1.70	$2.00	11.8x	10.1x	5.0x	20.00	-0.5%	↑	1.9%
Keyera	KEY	OP		221.0	$32.63	$7,212	$1.92	$1.92	$1.92	5.9%	5.9%	$3.26	$3.12	$2.97	10.4x	11.0x	3.4x	35.00	7.3%	↑	13.1%
Pembina Pipelines	PPL	SP		764.6	$39.02	$29,835	$2.52	$2.52	$2.64	6.5%	6.8%	$3.91	$3.94	$4.33	9.9x	9.0x	4.3x	40.00	2.5%	↑	9.0%
Secure Energy	SES	OP		178.6	$4.38	$782	$0.03	$0.03	$0.03	0.7%	0.7%	$0.53	$0.54	$0.81	8.2x	5.4x	2.3x	5.50	25.6%		26.3%
Superior Plus	SPB	SP		176.0	$15.45	$2,719	$0.72	$0.72	$0.72	4.7%	4.7%	$1.37	$1.12	$1.56	13.8x	9.9x	3.7x	15.00	-2.9%		1.7%
Tidewater Midstream	TWM	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R
TC Energy Corp.	TRP	OP		979.0	$61.92	$60,620	$3.24	$3.48	$3.69	5.6%	6.0%	$6.13	$5.57	$5.94	11.1x	10.4x	5.1x	67.00	8.2%		13.8%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$43.87	$5,030	$1.74	$1.79	$1.81	4.1%	4.1%	$2.08	$2.42	$2.32	18.1x	18.9x	4.5x	44.00	0.3%		4.4%
Canadian Utilities	CU	SP		273.1	$34.85	$9,517	$1.74	$1.76	$1.78	5.0%	5.1%	$2.69	$2.87	$2.94	12.2x	11.9x	5.3x	35.00	0.4%		5.5%
Capital Power	CPX	OP		114.4	$41.61	$4,761	$1.99	$2.12	$2.25	5.1%	5.4%	$4.96	$5.17	$4.49	8.0x	9.3x	4.2x	45.00	8.1%		13.2%
Emera Inc.	EMA	SP		255.1	$57.24	$14,603	$2.48	$2.58	$2.68	4.5%	4.7%	$1.99	$3.81	$4.37	15.0x	13.1x	6.2x	59.00	3.1%		7.6%
Fortis Inc.	FTS	SP		472.6	$55.89	$26,412	$1.94	$2.05	$2.17	3.7%	3.9%	$3.92	$3.94	$4.62	14.2x	12.1x	6.1x	60.00	7.4%		11.0%
Hydro One Ltd.	H	SP		596.9	$30.46	$18,182	$1.01	$1.07	$1.12	3.5%	3.7%	$1.76	$1.72	$1.94	17.7x	15.7x	5.4x	31.00	1.8%		5.3%
TransAlta	TA	SP		269.9	$12.26	$3,309	$0.17	$0.18	$0.18	1.5%	1.5%	$1.30	$1.48	$1.55	8.3x	7.9x	3.8x	12.00	-2.1%		-0.7%

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

Associates:
Hussam Maqbool: 416-507-8108
Ahmed Shethwala: 416-507-8102

Tal Woolley
Analyst
416-507-8009

Selections

- *ERES*
- *Boardwalk*
- *CAP REIT*
- *Killam*
- *Dream Industrial*
- *Flagship*
- *H&R*
- *BSR*
- *Summit Industrial*
- *Chartwell*

Industrial Real Estate – Looking South for Comfort on TSX-Listed Industrial Valuations

Industrial REITs in Canada have been the beneficiary of significant multiple expansion but an analysis of comparable U.S. names provides some comfort on valuation.

Despite the strong performance of late, TSX-listed industrial REITs trade at a discount to their NYSE-listed peers. We looked at reasons for this gap with the conclusion that further multiple expansion is possible when it comes to Canadian names and could be compounded by an acceleration in earnings growth.

Leverage levels are higher here but this alone doesn't warrant the valuation gap.

Canadian debt ratios exceed those of the U.S. peers by a meaningful amount when looking at net debt / EV, which is an apples-to-apples approach to measuring leverage in light of different accounting methodologies for the book value of assets. That said, arithmetically adjusting for leverage levels while accounting for varied costs of capital doesn't materially compress the trading gap.

Scale, structure and earnings growth favours U.S. peers.

The most compelling arguments for divergent multiples would be the relative size, payout ratio levels and a history of generating higher FFO/unit growth. That said, this is in part related to the progression point in these entities' life cycles, with TSX-listed names tending to be younger and still growth-focused. They are approaching an inflection point where the existing portfolio is likely to be a greater earnings driver. That said, further expansion will be limited by plummeting private market cap rates.

Canadian market fundamentals are improving combined with an institutionalization of ownership and a greater focus on pushing rents.

TSX-listed industrial REITs have seen rent spreads converge with their U.S. peers, particularly for core markets. Meanwhile, supportive market fundamentals point to an extended period of growth with Toronto and Montreal having two of the lowest availability rates for industrial properties in North America.

Summit Industrial:

A comparison with U.S. REITs is constructive for Summit given its core portfolio of properties in Toronto and Montreal, which compare favourably on fundamentals and rent growth with Rexford and Terreno's geographic exposure. These names trade at almost 40x NTM FFO. We expect a ramping up in SMU's earnings growth as leasing activity helps realize MTM related gains combined with a shift in focus from external growth to higher-yielding development opportunities.

Dream Industrial:

While DIR trades at a discount and similarly has concentrations of assets in the GTA and Montreal, its global footprint and smaller size muddies the comparison. That's not to say we don't think there is upside to current trading multiples.

Granite:

Granite's geographic footprint presents similar issues to that of DIR, and its Magna / special purpose property ownership complicates things further; however, the REIT looks a lot more like U.S. peers with regard to the scale of the portfolio and structural attributes but trades at cheapest leverage adjusted multiple as far as TSX-listed industrial REITs are concerned.

WPT Industrial:

Comparing WPT to U.S. industrial REITs is instructive given that it owns a portfolio exclusively in the U.S. Furthermore, on a leverage adjusted basis it trades at a discount to all but STAG industrial while owning a hybrid portfolio of core and secondary market assets (and access to a strong development pipeline). While on a relative multiple basis the valuation gap isn't massive, the peer set is at least supportive of current trading levels.

Real Estate

Matt Kornack, Tal Woolley				Market		Unit	Distributions per Unit			Cash Yield				FD FFO						Net	12-Mth		
	REIT	Stock		Cap		Price	(A)	est.	est.				Current	(A)	est.	est.	P/FFO			Asset	Price	Total	
	Sym.	Rating	Δ	(Mln)	Analyst	7-8	2020	2021	2022	2020A	2021E	2022E	Annualized	2020	2021	2022	2020A	2021E	2022E	Value	Target	Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$7,150	Woolley	$22.50	$1.44	$0.96	$0.96	6.4%	4.3%	4.3%	4.3%	$1.60	$1.49	$1.59	14.1x	15.1x	14.2x	$24.60	$23.00	6.5%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,639	Woolley	$14.72	$0.74	$0.74	$0.74	5.0%	5.0%	5.0%	5.0%	$0.92	$0.97	$0.98	15.9x	15.2x	15.1x	$12.80	$14.50	3.5%	↔
First Capital REIT	FCR	SP	↔	$3,954	Woolley	$17.91	$0.86	$0.43	$0.43	4.8%	2.4%	2.4%	2.4%	$1.01	$1.04	$1.08	17.8x	17.2x	16.5x	$20.60	$18.50	5.7%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,193	Woolley	$30.14	$1.76	$1.85	$1.85	5.8%	6.1%	6.1%	6.1%	$2.20	$2.12	$2.12	13.7x	14.2x	14.2x	$31.20	$30.00	5.7%	↔
CT REIT	CRT.un	OP	↔	$3,878	Woolley	$16.79	$0.73	$0.80	$0.80	4.3%	4.8%	4.8%	4.8%	$1.18	$1.23	$1.28	14.3x	13.6x	13.1x	$16.40	$18.00	12.0%	↔
Crombie REIT	CRR.un	OP	↔	$2,962	Woolley	$18.06	$0.89	$0.89	$0.89	4.9%	4.9%	4.9%	4.9%	$1.05	$1.16	$1.21	17.1x	15.5x	14.9x	$17.06	$18.50	7.4%	↔
Automotive Properties REIT	APR.un	OP	↔	$615	Woolley	$12.55	$0.80	$0.80	$0.80	6.4%	6.4%	6.4%	6.4%	$0.91	$0.99	$1.02	13.8x	12.7x	12.3x	$11.80	$13.00	10.0%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,772	Kornack	$45.06	$1.65	$1.70	$1.73	3.7%	3.8%	3.8%	3.8%	$2.29	$2.39	$2.60	19.7x	18.8x	17.4x	$46.00	$44.50	2.5%	↔
DREAM Office REIT	D.un	OP	↔	$1,276	Kornack	$22.83	$1.00	$1.00	$1.00	4.4%	4.4%	4.4%	4.4%	$1.52	$1.52	$1.60	15.0x	15.0x	14.3x	$24.65	$23.00	5.1%	↔
Slate Office REIT	SOT.un	SP	↔	$391	Kornack	$5.35	$0.40	$0.40	$0.40	7.5%	7.5%	7.5%	7.5%	$0.68	$0.59	$0.63	7.9x	9.1x	8.4x	$5.85	$4.50	-8.4%	↔
True North Commerical REIT	TNT.un	SP	↔	$675	Kornack	$7.37	$0.59	$0.59	$0.59	8.1%	8.1%	8.1%	8.1%	$0.59	$0.60	$0.61	12.4x	12.3x	12.0x	$7.00	$7.25	6.4%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,818	Woolley	$12.92	$0.80	$0.80	$0.80	6.2%	6.2%	6.2%	6.2%	$0.83	$0.85	$0.88	15.5x	15.2x	14.7x	$12.50	$13.50	10.7%	↔
H&R REIT	HR.un	OP	↔	$5,088	Kornack	$16.86	$0.92	$0.69	$0.69	5.5%	4.1%	4.1%	4.1%	$1.67	$1.59	$1.73	10.1x	10.6x	9.7x	$20.20	$18.00	10.9%	↔
Cominar REIT	CUF.un	RES		$2,029	Kornack	$11.12	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,547	Kornack	$11.75	$0.54	$0.54	$0.60	4.6%	4.6%	5.1%	4.6%	$1.40	$1.34	$1.36	8.4x	8.7x	8.7x	$13.60	$11.50	5.7%	↔
BTB REIT	BTB.un	SP	↔	$299	Kornack	$4.10	$0.36	$0.30	$0.30	8.8%	7.3%	7.3%	7.3%	$0.38	$0.41	$0.43	10.7x	9.9x	9.6x	$4.45	$4.35	0.0%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$5,269	Kornack	$85.39	$2.92	$3.00	$3.00	3.4%	3.5%	3.5%	3.5%	$4.04	$4.07	$4.28	21.1x	21.0x	20.0x	$74.50	$90.00	8.9%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$3,618	Kornack	$15.88	$0.70	$0.70	$0.70	4.4%	4.4%	4.4%	4.4%	$0.71	$0.78	$0.87	22.4x	20.5x	18.2x	$14.30	$15.50	2.0%	↔
WPT Industrial REIT	WIR'U-T	OP	↔	$1,601u	Kornack	$18.38u	$0.76u	$0.76u	$0.76u	4.1%	4.1%	4.1%	4.1%	$0.94u	$0.98u	$1.04u	19.6x	18.7x	17.7x	$17.25u	$19.00u	7.5%	↔
Summit Industrial	SMU.un	OP	↔	$3,062	Kornack	$18.23	$0.54	$0.56	$0.58	3.0%	3.1%	3.2%	3.1%	$0.65	$0.68	$0.72	28.0x	26.9x	25.2x	$15.75	$18.00	1.8%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$441	Woolley	$4.41	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-36.2x	16.2x	8.6x	$4.90	$4.75	7.7%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$10,447	Kornack	$60.44	$1.37	$1.38	$1.43	2.3%	2.3%	2.4%	2.3%	$2.27	$2.34	$2.46	26.7x	25.8x	24.6x	$57.05	$65.50	10.7%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,186	Kornack	$42.85	$1.00	$1.00	$1.00	2.3%	2.3%	2.3%	2.3%	$2.81	$2.79	$2.90	15.3x	15.4x	14.8x	$47.05	$46.50	10.9%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,370	Kornack	$20.86	$0.68	$0.70	$0.72	3.2%	3.3%	3.4%	3.3%	$1.00	$1.01	$1.08	20.8x	20.7x	19.4x	$20.45	$22.00	8.8%	↔
InterRent REIT	IIP.un	OP	↔	$2,548	Kornack	$17.83	$0.31	$0.32	$0.32	1.7%	1.8%	1.8%	1.8%	$0.47	$0.52	$0.60	37.9x	34.2x	29.9x	$15.85	$17.50	-0.1%	↔
Minto Apartment REIT	MI.un	SP	↔	$1,454	Kornack	$24.63	$0.44	$0.45	$0.46	1.8%	1.8%	1.9%	1.8%	$0.85	$0.83	$0.94	29.1x	29.8x	26.2x	$21.70	$23.00	-4.8%	↔
BSR REIT	HOM.un	OP	↔	$684u	Kornack	$13.18u	$0.50u	$0.50u	$0.50u	3.8%	3.8%	3.8%	3.8%	$0.64u	$0.60u	$0.70u	20.7x	22.1x	18.8x	$13.65u	$14.00u	10.0%	↔
ERES REIT	ERE.un	OP	↔	$1,062	Kornack	$4.60	$0.16	$0.16	$0.17	3.4%	3.5%	3.6%	3.5%	$0.20	$0.22	$0.22	22.6x	21.4x	20.5x	$4.87	$5.25	17.7%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$323	Kornack	$9.65	$0.83	$0.83	$0.83	8.5%	8.5%	8.5%	8.5%	$0.65	$0.61	$0.69	14.8x	15.8x	14.1x	$10.95	$10.00	12.2%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,917	Woolley	$13.35	0.59	0.60	0.60	4.4%	4.5%	4.5%	4.5%	0.76	0.73	0.86	17.6x	18.2x	15.6x	$12.10	$14.50	13.1%	↔
Sienna Senior Living	SIA	OP	↔	$1,116	Woolley	$16.65	0.90	0.92	0.94	5.4%	5.5%	5.6%	5.5%	1.03	1.19	1.32	16.2x	14.0x	12.6x	$15.80	$16.50	4.6%	↔
Extendicare	EXE	SP	↔	$753	Woolley	$8.40	0.48	0.48	0.48	5.7%	5.7%	5.7%	5.7%	0.79	0.41	0.60	10.7x	20.4x	13.9x	$9.30	$8.50	6.9%	↔
Invesque	IVQu	SP	↔	$155u	Woolley	$2.76u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.73u	$0.57u	$0.66u	3.8x	4.8x	4.2x	$3.90u	$3.00u	8.7%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,807	Woolley	$4.90	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.12	$0.13	50.3x	41.1x	36.8x	$4.00	$5.25	7.4%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$305u	Woolley	$17.80u	n/a	$0.51u	$0.51u	n/a	2.9%	2.9%	2.9%	n/a	$0.98u	$1.05u	n/a	18.1x	17.0x	$19.40u	$21.00u	20.9%	↑
Asset Management																							
Tricon Capital Group	TCN	OP		$3,020u	Woolley	$14.45	$0.28	$0.28	$0.28	1.9%	1.9%	1.9%	1.9%	$0.49u	$0.42u	$0.46u	29.5x	34.4x	31.6x	$16.00	$16.00	12.7%	

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.

Sector Analysis

Special Situations

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

Selections

- *DBM*
- *DXT*
- *HDI*

Accretively deploying capital through M&A (TSX: DBM, HDI)

Following an eventful month of June within our coverage universe, we highlight the latest acquisitions from Hardwoods Distribution and Doman Building Materials.

Tripling U.S. sales via Hixson – Doman Building Materials (formerly CanWel)

On June 4, 2021, Doman Building Materials announced the acquisition of Texas-based Hixson Lumber Sales for ~US$375 million in cash, including inventory, funded from DBM's cash on hand and revolving credit facility. We estimate that in the current pricing environment, Hixson adds ~$1 billion in revenue, and runs at higher margins than DBM. Hixson is a manufacturer and wholesaler of lumber and treated lumber currently servicing 25 states with its 19 lumber treating plants, five specialty sawmills and captive trucking fleet. We believe the acquisition is highly complementary to DBM's existing U.S. footprint as the acquired facilities share no overlap with DBM's existing presence in Hawaii, California and Oregon, though the two share both major suppliers and customers. The combined size of DBM and Hixson will allow for synergy realization primarily on the treating chemical procurement front. Following the transaction, we calculate Net Debt/EBITDA of 3.6x, rapidly falling to 2.1x by year end as working capital unwinds seasonally, and believe DBM may execute on opportunistic tuck-ins whilst integrating Hixson. Our $13.50 target is based on 14.5x 2022e EPS, and we rate DBM Outperform.

Entering new markets via Novo – Hardwoods Distribution

On June 23, HDI announced it had entered into an agreement to acquire Novo

Building Products for US$303 million. Novo is a leading distributor of architectural grade building products to home centers and home builder distribution yards in the U.S., Canada and Mexico; the big box store and pro dealer markets are new to HDI. The company's product portfolio includes moulding and millwork, stair systems, decorative boards, as well as doors, which are complementary to HDI's existing offering. Novo operates out of 14 facilities, primarily in the Eastern and Midwestern U.S., Florida and Texas, and is anticipated to generate ~$640 million in sales and ~$55 million in EBITDA in 2021, representing an EBITDA acquisition multiple of ~6.2x pre-synergies. Supporting the acquisition, HDI announced an agreement for a new US$525 million credit facility, replacing its existing facilities. The agreement includes a revolving credit facility of $225 million, which can be drawn in US$ or Cdn$, and two separate term loans of up to US$225 and US$75 million. As we calculate pro forma leverage of 2.9x (pre-IFRS 16) at year end, just over management's comfort zone, we believe HDI is likely to focus on Novo's integration before conducting further meaningful M&A, though opportunistic tuck-ins likely remain in play as we calculate HDI will retain ~$90 million in dry powder post-acquisition. Our Cdn$57 target is based on 16x 2022e EPS, and we rate HDI Outperform.

Special Situations

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	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		778.3	45.0	17.31	12/2020	0.51	1.78	1.81	9.7	9.6	85.6	121.8	131.9	9.5	8.8	7.2%	2.9	23.50	↑
Boyd Group Services Inc.	BYD	OP		4,874.2	21.5	227.00	12/2020	2.57	3.66	6.22	62.1	36.5	293.6	342.9	453.3	15.9	12.0	0.3%	1.5	260.00	
Doman Building Materials	CWX	OP		627.0	78.0	8.04	12/2020	0.78	2.14	0.94	3.8	8.6	143.1	338.4	216.9	3.6	5.3	6.0%	1.8	13.50	↑
Cascades	CAS	OP		1,611.6	103.4	15.58	12/2020	1.95	1.29	2.11	12.1	7.4	671.0	603.6	767.4	6.1	4.5	2.1%	2.2	20.50	↑
Dexterra Group Inc.	DXT	OP		431.7	64.9	6.65	12/2020	1.24	0.25	0.51	26.8	13.0	31.9	64.6	83.5	7.9	5.6	4.5%	0.0	8.50	
GDI Integrated Facility Services	GDI	OP		1,257.5	22.8	55.20	12/2020	2.11	2.19	2.15	25.2	25.7	104.9	133.6	129.2	10.5	10.3	0.0%	1.2	65.00	
Hardwoods Distribution	HDI	OP		768.5	21.5	35.81	12/2020	1.53	2.65	2.93	13.5	12.2	72.7	119.5	150.6	9.7	7.3	1.1%	1.3	57.00	↑
Intertape Polymer Group Inc.	ITP	OP		1,696.7	60.4	28.11	12/2020	1.51	1.80	2.04	15.6	13.8	210.6	239.3	257.4	7.6	6.8	2.8%	2.0	38.50	
KP Tissue	KPT	SP		98.5	9.6	10.29	12/2020	0.53	0.31	0.77	33.7	13.3	197.8	166.5	225.8	7.6	7.3	7.0%	4.1	11.00	
Park Lawn Corporation	PLC	OP		982.3	30.1	32.61	12/2020	1.16	1.35	1.55	24.2	21.0	79.9	91.7	96.6	12.7	10.9	1.4%	2.0	43.00	
Richelieu Hardware	RCH	SP		2,296.5	56.3	40.79	11/2020	1.50	2.07	1.98	19.7	20.6	154.5	197.6	189.5	10.9	10.9	0.7%	-0.1	44.50	↑
Savaria Corporation	SIS	OP		1,079.9	54.9	19.66	12/2020	0.52	0.74	1.03	26.5	19.0	59.8	106.4	133.1	13.5	11.6	2.4%	5.1	20.50	
Uni-Sélect	UNS	OP		602.3	42.4	14.21	12/2020	(0.18)	0.61	1.00	23.2	14.3	88.8	124.6	141.5	7.6	6.5	0.0%	2.7	17.00	

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

Note: Intertape and Uni-Select 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 14.7% 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 Renewable Energy Inc.*
› *Northland Power Inc.*
› *Boralex*

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 of late, a scarcity of green investments. It will be hard to replicate the performance of the past five years, but there are plenty of growth opportunities for companies in the sector. Inflation concerns have a direct impact on valuation recently and resulted in headwinds to some of the names under our coverage, but we believe the drop-in bond yields recently should help the stocks. Additionally, the renewable power sector should see increased interest in the back-half of this year with a focus on accelerating renewable production and a path to net-zero emissions, helped by the United Nations COP26 conference in November. Our top picks are BLX, NPI, and INE.

Northland Power Inc.
(NPI: TSX; Outperform; $50.00 target):

Northland Power is a global leader in the development of offshore wind and owns 2,266 MW (net) of operational capacity in renewable and thermal power generation, but that number could soon change as the company recently raised $990 million in equity (22.5 million shares at $44/sh), in part, to fund organic growth, but also to fund the acquisition of a 540 MW (net) portfolio of onshore wind and solar assets in Spain (acquisition expected to close in 3Q'21). NPI's focus remains the offshore wind market, which offers large projects and high return potential. NPI intends to utilize $470 million from the proceeds towards development opportunities of 4 GW to 5 GW over the next decade, primarily in offshore wind projects, notably in Taiwan (1.8 GW of wind developments that could be bid in RFPs next year), Japan, South Korea, Poland and Germany. With its offshore wind platform, NPI is attracting large partners, like PKN Orlen in Poland and Tokyo Gas in Japan, which could help to boost returns. The first of its growth projects to be constructed should be the 1,044 MW Hai Long project in Taiwan (FID 2022E), possibly followed by the 1.2 GW Baltic project in Poland (FID 2023E and COD 2026E). For 2021, NPI expects adj. EBITDA of $1.1 billion to $1.2 billion (and FCF in the range of $1.30 to $1.50 /sh). Our target is based on a long-term DCF with a cost of equity of 4.75% on operating cash flows and $10/sh of growth.

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

BLX is a renewable energy producer with wind, solar and hydro assets in the USA, France and Canada. It has ~2,455 MW of generating capacity, mostly under long-term contracts with an average contract life of ~13 years. In June, BLX unveiled its updated strategic plan for 2025 as well as a roadmap to 2030. The new plan focuses on growth, diversification, customers, and asset optimization while also further integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest $6 billion by 2025E to increase its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investment to reach 10 to 12 GW by 2030E. Most of its growth could come from the U.S. and new markets in Europe and would be focused largely on solar and battery storage projects. With this, we believe BLX could have the best visibility on growth within its peer group. BLX targets a CAGR for its normalized EBITDA and discretionary cash flow of 10%-12% and 14%-16%, respectively, by 2025E. In 2021, BLX acquired controlling interests in seven solar plants in the U.S. (weighted average PPA duration of 21.5 years) and signed a power purchase agreement for its 200 MW Apuiat wind farm in Québec. We believe it should see an increase in RFP activities in both Québec and N.Y. State and we think these developments could serve as a platform for future organic growth and provide BLX with room to realize operating synergies. BLX offers an interesting entry point as it looks to build the next leg of growth. Our target is based on a long-term DCF with a cost of equity of 4.5% on operating cash flows and $7/sh of growth.

Innergex Renewable Energy Inc.
(INE: TSX; Outperform; $26.00 target):

INE is one of Canada's largest renewables focused IPPs with an operating capacity of 2,747 MW (net). INE's production capacity is diversified across different renewable platforms (~29% hydro, ~58% wind and ~13% solar) and across geographies (~53% Canada, ~33% U.S., ~8% France and ~6% Chile). Some of INE's latest developments have started bearing fruit, including the 6.9 MW Yonne II wind farm in France that reached full commissioning in Q1'21 and the 200 MW Hillcrest solar project in Ohio that reached COD earlier in May. INE's 226 MW Griffin Trail wind project in Texas is

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expected to reach COD by mid-July and its 7.5 MW Innavik run-of-river hydro project in Québec could reach COD by the end of 2022. In early July, INE announced acquisition of the remaining 50% interest in its Chilean JV, Energía Llaima SpA, that should increase its net installed capacity by ~84 MW. On the development front, INE is progressing with four solar plus battery storage projects in Hawaii that should move to construction later this year. While Q1 results were impacted by the storms in Texas, INE has turned the page on the Texas events and the $81 million financial impact the hedge contracts occasioned. While Texas might stretch the payout ratio this year, INE has visibility on near-term growth, and combined with the growth from its recent M&A, the company has guided to ~12% growth on normalized EBITDA for 2021. Our target is based on a long-term DCF with a 5.25% discount rate on operating assets and includes $3/sh for growth.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 07/08	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		226.7	82	2.77	12/2020	0.06u	0.12u	0.17u	19.1	12.7	2.14u	2.58u	2.91u	0.9	0.8	1.34u	0.20	5.25	
Algonquin Power	AQN	OP		9124.7u	613	14.89u	12/2020	0.65u	0.73u	0.76u	20.5	19.6	2.98u	3.43u	3.54u	4.3	4.2	9.72u	0.52	17.00u	
Altius Renewable Royalties Corp	ARR	SP		258.7	28	9.10	12/2020	(0.49)u	(0.15)u	(0.07)u	nmf	nmf	0.08u	0.01u	0.01u	nmf	nmf	5.18u	0.00	12.00	
Ballard Power Systems	BLDP	OP		4962.0u	297	16.68u	12/2020	(0.20)u	(0.18)u	(0.08)u	nmf	nmf	0.42u	0.34u	0.55u	49.5	30.4	4.74u	0.01	27.00u	↓
Boralex	BLX	OP		3987.8	103	38.54	12/2020	0.56	0.63	0.75	61.5	51.2	6.44	7.08	7.26	5.4	5.3	12.47	0.65	50.00	
Brookfield Infrastructure	BIP	OP		25775.8u	465	55.42u	12/2020	1.34u	1.51u	1.20u	36.8	46.2	8.81u	10.41u	10.49u	5.3	5.3	47.20u	0.69	60.00u	
Brookfield Renewable	BEP	SP		24418.3u	642	38.06u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.95u	4.06u	9.6	9.4	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	SP		354.0u	85	4.18u	12/2020	(0.13)u	(0.28)u	(0.07)u	nmf	nmf	2.03u	1.89u	2.38u	2.2	1.8	1.25u	0.18	3.50u	
GFL Environmental Inc.	GFL	OP		15989.1	401	39.85	12/2020	(2.76)	(1.02)	(0.38)	nmf	nmf	11.64	12.44	13.65	3.2	2.9	16.50	0.53	44.00	
Innergex	INE	OP		3962.2	176	22.51	12/2020	(0.23)	(0.79)	0.53	nmf	42.3	3.60	4.13	3.95	5.5	5.7	4.91	0.86	26.00	
The Lion Electric Company	LEV	OP		2002.1u	112	17.94u	12/2020	(3.64)u	(0.20)u	0.08u	nmf	nmf	0.77u	0.61u	2.47u	29.5	7.3	(1.01)u	0.53	20.00u	
Loop Energy Inc	LPEN	OP		236.3	36	6.51	12/2020	(0.50)	(0.67)	(0.64)	nmf	nmf	0.03	0.05	0.39	nmf	16.9	2.59	0.01	15.00	
NanoXplore	GRA	OP		129.7	158	4.35	06/2020	(0.10)	(0.07)	(0.07)	nmf	nmf	0.55	0.46	0.44	9.4	9.9	0.69	0.19	5.00	
Northland Power	NPI	OP		9392.2	219	42.96	12/2020	1.79	1.19	1.41	36.1	30.4	10.31	9.66	9.82	4.4	4.4	13.92	0.66	50.00	
TransAlta Renewables	RNW	SP		5788.6	267	21.68	12/2020	0.35	0.66	0.66	32.9	32.8	1.64	1.76	1.82	12.3	11.9	7.84	0.19	20.00	
Xebec Adsorption	XBC	SP		661.6	152	4.34	12/2020	(0.33)	0.04	0.06	nmf	nmf	0.59	0.72	1.15	6.0	3.8	2.13	0.14	5.00	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Technology

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

Selections

- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Nuvei*
- *Real Matters*
- *Farmers Edge*
- *Shopify*
- *TELUS International*
- *Thinkific*

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Year to date, the S&P Technology Index is up 15.4% versus the 16.5% increase in the S&P 500. In Canada, the TSX Technology Index is up 26.7% versus the 18.1% increase in the TSX. That Canadian outperformance has been driven by some of our favourite growth names – namely, Shopify, Lightspeed and Nuvei which are all approaching all-time highs. Despite that, we believe the continued innovation and acceleration of digital transformation will continue to offer the broad group outsized growth potential looking ahead which has us remaining bullish on the sector – particularly if we take a longer-term view. With respect to the pending Q2 reporting season (where we will lap a full pandemic quarter in F20), we think the results have the potential to be more challenging for specific names that saw outsized benefit from the prior year's lockdowns. We also expect FX to play a role in Q2 results which could be a headwind or tailwind depending on the individual company's reporting currency and international revenue mix. With many of our growth names near all-time highs, we'd tread lightly into the quarter results when it comes to adding position in the short-term. At the same time, we continue to believe legacy names like OpenText and CGI remain fundamentally undervalued with strong underlying fundamentals – namely, strong free cash flow. From a stock selection standpoint, we'd continue to opportunistically add positions in growth names like Docebo, Farmers Edge, Kinaxis, Lightspeed, Nuvei, Real Matters, Shopify, TELUS International and Thinkific while balancing those names with legacy incumbents like CGI and OpenText with select special situations in names like Altus. The following provides an update on some of our Outperform-rated names:

Farmers Edge is an agriculture data and analytics platform provider. The Company's core platform, FarmCommand, offers scalable subscription services that range from soil monitoring to crop planning. The Company has over 3,000 customers and over 23 million subscribed acres. Farmers Edge makes money by charging subscription revenue for its services with average contract terms ranging from three to five years. As we've seen other industries increasingly benefit from overlaying insight from data, we believe that's also a scaling opportunity in farming. The difference is that adoption rates based on our diligence are very early suggesting significant growth potential. We believe Farmers Edge is an early leader with one of the most comprehensive offerings in the market that's further differentiated by its independence.

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. Equally impressive has been the Company's resilience and ability to pivot during the health crisis. Looking ahead, as we exit the pandemic, it's our view that a normalized environment would amplify that ability to execute that much more, a view supported by strength in leading reopening markets like Australia. Lightspeed is in the midst of a strategic shift with the company looking to shed its identity as "just" a POS provider to become a wholistic commerce platform. The recent acquisitions of Ecwid and NuOrder, aimed at expanding its product offering and a proposed name change to "Lightspeed Commerce" suggests to us the company is making progress in that shift.

Kinaxis should be a meaningful beneficiary from the secular changes from supply chain solutions. While it may (or may not) be obvious, supply chain management has been a critical technology / process in the current environment and from what we've heard, the pipeline of opportunity is up considerably, which should be of no surprise given the challenges across supply chains, particularly across larger enterprises. The complexity of the Company's technology caused some delays in conversions of its pipeline; yet, that pipeline has only increased. We think those delays are being misread by the market – in our view, that represents an opportunity.

Shopify remains the leading technology platform for e-Commerce in our opinion. For investors, we 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.

Technology

	Stock Sym.	Stock Rating Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/8	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
Absolute Software Corp.	ABST	SP	913	52.1	17.53	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	21.9	21.3	(0.8u)	0%	20.00
Altus Group Limited	AIF	OP	2,475	40.6	60.98	2020	1.46	1.82	1.91	33.5	31.9	88.1	98.7	101.9	25.7	24.9	9.5u	28%	70.00
Blackline Safety Corp.*	BLN	OP	424	52.2	8.13	2020	(0.14)	(0.19)	(0.10)	NMF	NMF	5.5	5.3	10.2	70.5	36.4	0.0u	0%	12.00
CGI Inc.	GIB.A	OP	27,653	261.8	105.63	2020	4.68	5.40	5.80	19.6	18.2	2426.3	2732.7	2883.4	10.8	10.2	27.7	33%	120.00
Constellation Software Inc.	CSU	SP	38,018	21.2	1,794.00	2020	27.84u	36.08u	44.00u	40.9	33.5	933.0u	1,194.7u	1,303.4u	26.3	24.1	42.6u	43%	1900.00
Docebo Inc.	DCBO	OP	1,740	32.2	54.04	2019	(0.35u)	(0.06u)	0.02u	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.4u	0%	70.00u
EXFO Inc.	EXFO	T	241u	54.6	4.41u	2020	0.01u	0.28u	0.38u	16.0	11.5	18.2u	29.8u	30.9u	8.2	7.9	3.2u	10%	6.75u
Farmers Edge Inc.	FDGE	OP	746u	41.8	17.85u	2020	(2.02u)	(0.50u)	0.36u	NMF	49.2	(45.9u)	(9.2u)	26.9u	NMF	22.8	(7.0u)	0%	20.00
Kinaxis Inc.	KXS	OP	4,394	28.1	156.16	2019	1.11u	0.59u	1.41u	NMF	NMF	53.7u	32.2u	62.0u	105.7	54.9	9.9u	0%	225.00
Lightspeed POS	LSPD	OP	7,721u	119.9	64.40u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	90.00u
mdf commerce inc.	MDF	SP	261	22.7	11.48	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	35.4	32.4	4.7u	11%	13.50
Nuvei Corporation	NVEI	OP	10,266	131.5	78.09	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	53.6	49.1	8.8u	9%	120.00
Open Text Corporation	OTEX	OP	13,179u	272.8	48.30u	2020	2.89u	3.29u	3.41u	14.7	14.2	1,148.2u	1,231.8u	1,335.6u	12.6	11.6	14.9u	51%	60.00u
Pivotree Inc.*	PVT	OP	211	26.6	7.95	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	39.6	31.4	0.5	58%	13.00
Real Matters Inc.	REAL	OP	1,282	88.5	14.49	2020	0.56u	0.81u	1.05u	14.7	11.3	72.2u	90.5u	116.9u	10.2	7.9	2.4u	0%	35.00
Shopify Inc.	SHOP	OP	144,320u	124.9	1,155.41u	2020	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,650.00u
Tecsys Inc	TCS	OP	618	14.9	41.61	2020	0.18	0.46	0.58	NMF	NMF	10.3	16.0	17.2	38.5	35.8	4.45	4%	55.00
Telus International	TIXT	OP	7,990	259.0	30.85	2020	0.71	0.95	1.26	NMF	NMF	391.2	533.3	642.3	17.0	14.1	6.34	10%	40.00u
Thinkific Labs Inc.	THNC	OP	1,229	83.4	17.90	2020	(0.01)	(0.20)	(0.28)	NMF	NMF	(0.4)	(16.0)	(23.2)	NMF	NMF	1.69	0%	20.00

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

u = US dollar

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

Sector Analysis

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

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

Selections

- *Cogeco*
- *Quebecor*
- *Transcontinental*

Cogeco Communications Inc.

Buying Ohio cable assets from WOW expands U.S. footprint beyond East Coast

On June 30, 2021, CCA announced that its U.S. division, Atlantic Broadband (ABB), is acquiring the Ohio broadband systems of WideOpenWest (WOW) that pass 688K homes and businesses in Cleveland & Columbus and serve 196K Internet, 61K TV and 35K telephony customers. The deal should close in CCA's 1Q22. The number of homes passed by ABB will jump +74% to 1,618K, primary service units (PSUs) +30% to 1,265K, and Internet customer base +38% to 707K. The Ohio assets did US$244 million in LTM revenues and EBITDA of US$103 million (margin 42.2%) adjusting for ABB's cost base and US$2 million of expected synergies (multiples 4.6x revenues & 10.9x EBITDA). The EBITDA profile reflects a 12-18-month transition service agreement with WOW. The EBITDA multiple drops to 9.6x when adjusting for synergies and tax benefits that have a present value of US$140 million (should help offset taxes through f2035 with ABB not paying meaningful taxes until f2026). The Ohio assets had recent capital intensity of 20% which will jump to 35%-40% as an extra US$82 million gets spent by ABB to separate the network from WOW, interconnect it with ABB, and have it upgraded (some spend in f2022 & f2024 but most in f2023). The acquisition is being financed with US$900 million of debt at ABB and cash on hand. CCA's pro forma f2021E leverage rises to 3.1x from 2.4x (still room for tuck-in M&A and NCIB) with ABB leverage going to 5.0x from 3.6x. We expect recent mid-single-digit EBITDA growth at the Ohio assets to move to low single digits initially before rising to ABB levels. The Ohio assets have had a Broadband-Only approach compared with ABB's new Broadband-First strategy. The Ohio network has 100% of its homes passed by DOCSIS 3.1 with 1 Gbps offered across its footprint where it faces competition from cableco Charter and telco AT&T. ABB will look to improve penetration rates of the acquired assets which sat at 29% for Internet, 9% for TV and 5% for telephony, as it upgrades the network, introduces superior Internet & IPTV solutions, and leverages recent edge-outs built by WOW in Cleveland. CCA will report its 3Q21 and preliminary f2022 guidance after markets on July 14, 2021. While maintaining our Outperform, we recently increased our target to $143 based on our f2022E DCF and f2023E NAV that have been updated, with implied EV/EBITDA of 7.6x f2021E, 7.3x f2022E and 7.0x f2023E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 7/8	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		958	63.3	15.12	12/2020	(9.85)	(1.74)	0.82	-8.7	18.4	-182.8	8.0	185.3	222.9	8.7	-1.03	1.10	17.00	
Corus Entertainment Inc.	CJR.b	OP		1,231	208.4	5.91	08/2020	0.75	0.88	0.86	6.7	6.9	505.8	518.7	520.0	5.5	5.1	5.06	0.58	8.00	
WildBrain Ltd.	WILD	SP		454	171.8	2.64	06/2020	(0.64)	(0.13)	0.08	NM	NM	81.8	81.4	90.3	11.3	9.8	0.35	0.87	3.00	
Spin Master	TOY	OP		4,769	102.3	46.62	12/2020	0.51	1.60	1.80	23.2	20.6	180.6	321.8	341.9	10.8	9.6	8.34	-0.44	53.00	
Stingray Digital	RAY.a	OP		595	72.1	8.25	03/2021	0.85	0.91	1.05	9.0	7.9	114.3	120.7	129.4	7.6	6.7	3.81	0.60	9.00	
TVA Group Inc.	TVA.b	SP		136	43.2	3.14	12/2020	0.86	0.49	0.64	6.4	4.9	85.3	62.2	69.4	2.6	1.9	7.61	0.10	3.25	
Printing & Publishing																					
Thomson Reuters	TRI	OP		62,240	495.9	125.51	12/2020	1.85	2.15	2.69	46.5	37.2	1975.0	2011.9	2281.9	25.2	22.0	29.88	0.09	128.00	
Transcontinental Inc.	TCL.a	OP		2,014	87.0	23.14	10/2020	2.61	2.53	2.60	9.2	8.9	499.4	470.2	471.3	5.9	5.6	19.87	0.33	28.00	↑
Advertising & Marketing																					
Yellow Pages	Y	SP		406	28.0	14.52	12/2020	2.28	2.23	2.24	6.5	6.5	129.4	113.1	102.3	3.0	2.9	NM	-0.18	13.50	
Telecommunications																					
BCE Inc.	BCE	OP		56,076	904.6	61.99	12/2020	3.02	3.18	3.45	19.5	18.0	9607.0	10011.8	10417.4	8.5	8.2	19.92	0.40	64.00	
Cogeco Communications Inc.	CCA	OP		5,659	47.6	118.85	08/2020	7.41	8.61	10.68	13.8	11.1	1148.7	1223.0	1395.7	6.7	6.5	57.18	0.52	143.00	↑
Quebecor Inc.	QBR.b	OP		8,227	246.7	33.35	12/2020	2.33	2.50	2.63	13.3	12.7	1952.6	1996.0	2057.4	6.7	6.3	4.88	0.92	40.00	
Rogers Communications Inc.	RCI.b	OP		33,764	504.9	66.87	12/2020	3.40	3.87	4.67	17.3	14.3	5857.0	6128.3	9095.7	8.2	7.6	19.94	0.48	75.00	
Shaw Communications	SJR.b	OP		18,012	501.3	35.93	08/2020	1.32	1.47	1.59	24.4	22.5	2391.0	2514.7	2564.1	9.5	9.0	11.86	0.50	40.50	
Telus Corp.	T	OP		37,462	1349.0	27.77	12/2020	0.95	0.98	1.04	28.5	26.8	5494.0	5944.9	6392.0	9.4	8.7	11.46	0.56	28.00	

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

Transportation & Industrial Products

Cameron Doerksen, CFA
Analyst
514-879-2579

Associate:
Alex Hutton
416-869-8281

Selections

- *TFI International*
- *NFI Group*
- *CAE*

Aerospace market update - state of the industry for CAE, HRX, BBD.B and CHR

We recently updated our views on the pace of recovery for the Aerospace industry and what that means for our aerospace coverage companies: **Bombardier (Sector Perform, $1.00 target)**, **CAE (Outperform, $43.00 target)** and **Héroux-Devtek (Outperform, $22.00 target)**, as well as **Chorus Aviation (Sector Perform, $4.85 target)**, which is exposed to industry dynamics through its regional aircraft leasing arm:

- **A rebound in air travel is well underway.** We continue to track aircraft utilization and passenger traffic as they are leading indicators for both new aircraft orders (ultimately relevant for aerospace suppliers like Héroux-Devtek) and demand for flight training, which is important to CAE (more planes operating require more active pilots, which drives pilot training demand). Higher aircraft utilization is also a leading indicator for a rebound in aircraft leasing demand, which is relevant to Chorus Aviation. The global commercial seven-day moving average of active flights in late June was still down 29% versus 2019, but the trend is increasingly positive. Global passenger traffic is still very weak, but in markets where the pandemic is easing, traffic is recovering quickly. Indeed, in the United States, passengers are down only ~25% y/y despite international and business travel still highly depressed. A recovery in global air traffic will take time, but some estimates see a full rebound as early as 2023.
- **Some optimism on large commercial aircraft production rates.** New aircraft production rates are a key driver for commercial landing gear demand for Héroux-Devtek and new simulator demand for CAE. It seems likely that we are past the low point for large commercial aircraft deliveries with Airbus recently indicating plans to increase narrowbody production rates by later this year with potentially more significant rate increases in 2023 and beyond.
- **Business jet flying activity continues strong recovery.** Business aircraft flying activity continues its strong rebound with U.S. business aircraft flights in April actually up 3.1% versus April 2019. About 50% of CAE's Civil training segment revenue comes from the business aviation segment and management recently noted that activity levels in the company's U.S. business aircraft training centres are back to pre-pandemic levels. The rapid recovery in the business aircraft segment is also good news for Bombardier with flying activity typically a leading indicator for new jet orders. Indeed, Bombardier has recently enjoyed a pick-up in new business aircraft orders with a book-to-bill above 1.0x in Q1 with order momentum continuing in Q2.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 7-8	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		335	25.67	8,599	12/2020	-16.47	-11.24	-0.89	NA	NA	(10.84)	(8.93)	2.39	NA	10.7x	93%	29.00	
Bombardier Inc.	BBD.b	SP		2424	1.36	3,296	12/2020	-u0.47	-u0.22	-u0.06	NA	NA	-u1.32	-u0.49	u0.06	NA	16.7x	na	1.00	
BRP Inc.	DOO	OP		88	97.61	8,551	01/2021	5.35	8.06	8.38	12.1x	11.7x	6.77	3.98	7.02	24.5x	13.9x	120%	125.00	
CAE Inc.	CAE	OP		293	38.68	11,347	03/2021	0.47	0.96	1.45	40.4x	26.7x	0.81	0.73	1.40	53.0x	27.7x	31%	43.00	
Canadian National Rail	CNR	SP		713	132.07	94,139	12/2020	5.31	5.92	6.67	22.3x	19.8x	4.63	4.50	5.48	29.3x	24.1x	39%	140.00	↓
Canadian Pacific Rail	CP	SP		670	91.27	61,105	12/2020	3.53	4.04	4.47	22.6x	20.4x	1.66	3.02	3.41	30.2x	26.7x	54%	98.00	↓
Cargojet Inc.	CJT	OP		17	178.26	3,041	12/2020	-5.63	5.21	6.22	34.2x	28.6x	9.41	1.95	4.91	91.6x	36.3x	27%	226.00	
Chorus Aviation Inc.	CHR	SP		178	4.68	831	12/2020	0.40	0.31	0.44	15.1x	10.6x	(1.50)	0.63	1.41	7.5x	3.3x	77%	4.85	
Exchange Income Corporation	EIF	OP		39	39.95	1,551	12/2020	1.31	1.46	2.43	27.4x	16.4x	3.42	1.44	2.03	27.8x	19.6x	63%	44.00	
Héroux-Devtek Inc.	HRX	OP		37	17.89	653	03/2021	0.80	0.76	0.98	23.5x	18.2x	0.88	1.86	1.14	9.6x	15.7x	28%	22.00	
NFI Group Inc.	NFI	OP		71	27.89	1,979	12/2020	-u0.75	u0.47	u1.55	47.5x	14.4x	u0.69	u0.25	u2.06	87.7x	10.8x	58%	32.00	
Taiga Motors Corp.	TAIG	OP		31	8.40	259	12/2020	NA	-0.81	-1.08	NA	NA	NA	(2.33)	(2.22)	NA	NA	na	19.00	
Transat A.T. Inc.	TRZ	UP		38	6.06	229	10/2020	-9.41	-11.26	-5.33	NA	NA	(2.85)	(10.52)	(1.17)	NA	NA	NA	3.50	
TFI International Inc.	TFII	OP		93	113.81	10,628	12/2020	u3.30	u3.90	u5.56	23.3x	16.3x	u5.16	u4.85	u7.19	18.7x	12.6x	40%	129.00	

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

Source: Company Reports, Refinitiv, NBF

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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 • 200 Waterfront Drive, Suite 400, Winnipeg, MB, R3B 3P1 • 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)
71 Fenchurch Street, 11th floor
London, England EC3M 4HD
Tel.: 44-207-680-9370
Tel.: 44-207-488-9379

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

National Bank of Canada Financial Inc.

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

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Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
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1-800-678-7155

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