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VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

"the winners of the 2021 FAA program have been recognised for their high quality research, their commitment to regular forecasts and their ability to identify most accurately the trends and levels of key indicators over the 24 month forecasting cycle"

Economy

› The general mood has soured greatly since the last issue of this monthly monitor. Optimism engendered by the reopening of the Chinese economy after imposition of strict lockdowns seems to have given way in the financial media to endless speculation about a coming recession. This turnabout can be laid to factors including the emergence of Omicron subvariant BA.5 in China. Emerging markets other than China are also objects of worry, as many of them have had to abruptly tighten their monetary policy. As uncertain as emerging-country outlooks may be, they are nonetheless more favourable than those for the Eurozone. While the rest of the world is currently benefiting from decline of energy prices, they remain stubbornly high on the European continent, contributing to inflationary pressure. Price rises will probably prompt the European Central Bank to stiffen its monetary policy, which is likely to result in slower growth. In this context, we are revising down our global growth forecast for 2022 (from +3.0% to +2.7%) and for 2023 (from +2.9% to +2.7%). We nevertheless think the worst could yet be avoided for the global economy, provided that inflation loses steam fairly quickly as energy prices fall. If that does not happen, the central banks of the world will have no choice but to pursue their monetary tightening aggressively, pushing their economies over the edge.

› The outlook for the U.S. economy has not escaped the ambient pessimism, judging by the rapid inversion of the U.S. yield curve and by the deterioration of consumer expectations. And to be fair, the economic data of recent weeks have been below expectations for the most part. The third draft of first-quarter GDP growth is a case in point. The overall number doesn't seem so bad – an annualized contraction revised from 1.5% to 1.6% – but the details of the report signalled substantial changes in the drivers of the expansion. The contribution of inventories was much larger than expected. Household spending, on the other hand, was considerably less than had been announced in the previous draft. Adding to the bad news, consumption data released the next day by the Bureau of Economic Analysis showed a 0.4% drop of real spending in May. The two reports combined suggest a path for household spending much less vigorous than anticipated, a prospect that will weigh on second-quarter growth. We have revised down our forecast for 2022 growth from 2.4% to 2.0% to take into account the most recent consumption data. For 2023 we anticipate an expansion of 1.4%.

› The most recent economic data persuaded the Bank of Canada to push harder to normalize interest rates. Inflation anticipations for businesses and consumers went up a notch during the quarter, an undesirable development for central banks concerned about de-anchoring of expectations. After the 100 basis point hike announced in July, the central bank feels that its work is not done and this makes observers nervous about the continuation of the economic cycle. We do not see the Canadian economy going weak in the knees. As we expected, that economy has shown much more resilience than others since Russia's invasion of Ukraine. Consumers had accumulated excess savings allowing them to absorb the increase in the cost of living, and comfortably full employment has supported good wage growth. The strength of the resources sector offsets part of the shock to consumers. As for governments raking in a spectacular improvement of public finances, their spending showing no signs of moderation. As monetary policy becomes restrictive, we do expect below-potential growth over the next 12 months. This month we are maintaining our forecast of 3.5% growth in 2022 and 1.5% next year.

Interest rates and currency

› Notwithstanding our gripe over the characterization of 'front-loading' hikes, the key point is this: Given limited slack and having underestimated inflation so badly, the race is now on to get policy rate settings into a more neutral-to-restrictive territory. After driving the overnight target to 2.5% in mid July, we see the Bank of Canada delivering another large-sized hike (75 bps) in September. The resulting policy rate, at 3.25%, would then be in mildly restrictive territory before summer is out. The Fed isn't wasting much time either, as June's last go round boosted fed funds 75 bps. We see at least 125 bps coming over the next two meetings, the upper band on the Fed's policy rate corridor thus ending Q3 at no less than 3%.

› Here's the thing: Having raced from near-zero to 3%-plus in record time, it's possible, just possible, that both the BoC and Fed could opt to wait out the latter stages of the year. Rather than piling on with additional hikes to 3.5-4%, the final months of 2022 could be used to assess the extent to which the economy is losing momentum. Of course, standing down on rate hikes at our projected levels (3.25% for the BoC, 3% for the FOMC) will require tangible signs of relief on the inflation front. We fully concede that recent developments are unsettling. Nonetheless, if you peruse our latest Monthly Economic Monitor, you'll see distinctly sub-consensus forecasts for real GDP and inflation.

› Will it be uncomfortable not hiking with inflation quadruple central banks' target? Undoubtedly. But we must not forget that monetary policy operates with long and variable lags. Just because there have only been modest signs of deceleration so far, that doesn't mean a material slowdown won't eventually arrive.

› Despite signs of a cooling economy south of the border, Canada remains resilient. Notwithstanding a significant decline in residential home sales, real GDP is still expected to grow robustly in the second quarter, amid surging terms of trade and a very tight labour market. our fixed income strategists expect the BoC's governing council to increase the overnight target by 75 basis points on July 13

Recommended asset mix and stock market

› Equity markets continue to be impacted by rising global financial tensions due to a more uncertain economic outlook. Many European economies are on the ropes, China is still struggling to contain COVID and recession fears in the U.S. are rising as the Federal Reserve continues to indicate the need for restrictive monetary policy

Highlights

- Although U.S. real GDP growth is expected to be positive in the second half of 2022, it is unlikely to be above potential. If we are right, the pace of hiring should soon decelerate and set the stage for moderating inflation and a less hawkish Fed. Already, it is interesting to note that the upward pressure on 10-year Treasury yields has eased in recent weeks due to lower inflation expectations.
- With forward PEs likely to normalize near current levels, the outlook for the stock market will now depend on companies' ability to meet their reduced earnings forecasts. Indeed, the proportion of upward revisions to 12-month earnings per share is only 36% for the S&P 500, the lowest level in two years.
- The S&P/TSX continues to suffer from significant valuation erosion. The 12-month forward PE is currently 11.6x, the lowest level in a decade excluding the 2020 pandemic recession. With higher interest rates in the offing some investors are beginning to doubt the resilience of Canadian earnings which are expected to rise 11.7% over the coming year. One of the biggest concerns is Canada's ability to withstand a significant weakening in housing activity. While a prolonged decline in housing prices would inflict significant collateral damage on the economy, we view this scenario as unlikely.
- Our asset allocation is unchanged this month. Our equity weighting remains close to the benchmark, with a continued preference for Canada. Fixed income remains underweight, but we are prepared to adjust our position as we assess the impact of the Fed's quantitative tightening on the 10-year Treasury yield. Cash remains slightly overweight for now.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	17.9	Overweight	
Materials	11.3	Overweight	
Industrials	12.3	Market Weight	
Consumer Discretionary	3.4	Market Weight	
Consumer Staples	4.2	Market Weight	
Healthcare	0.4	Market Weight	
Financials	32.0	Market Weight	
Information Technology	5.5	Underweight	
Telecommunication Services	5.2	Market Weight	
Utilities	5.2	Underweight	
Real Estate	2.7	Underweight	
Total	100.0		

* As of July 11, 2022

The Economy

The Economy

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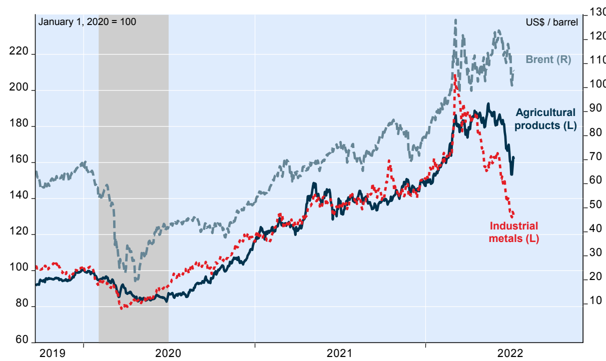
World: Scarcity ... of growth

The general mood has soured greatly since the last issue of this monthly monitor. Optimism engendered by the reopening of the Chinese economy after imposition of strict lockdowns seems to have given way in the financial media to endless speculation about a coming recession. This turnabout was soon reflected in the markets, especially the market for com-modities. A barrel of Brent oil, after rising to almost US$128 upon Russia's invasion of Ukraine, is at this writing trading around $100. Prices of industrial metals and agricultural products are also down substantially.

World: Raw materials prices down sharply
Bloomberg indexes of agricultural products and industrial metals vs. Brent oil price

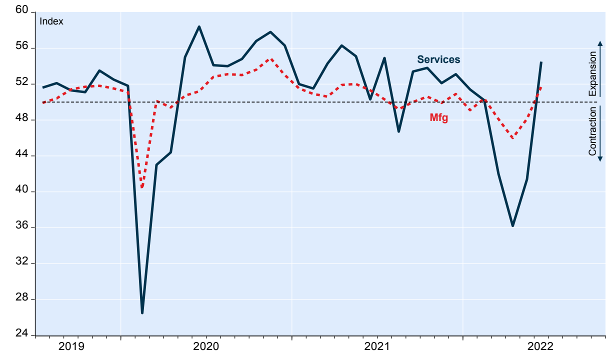


NBF Economics and Strategy (Bloomberg data)

This access of weakness can be laid to factors including the emergence of Omicron subvariant BA.5 in China. Beijing is holding fast to its zero-Covid policy for the world's sec-ond-largest economy and this will almost inevitably mean new restrictions given the high contagiousness of this variant and relatively low vaccination rates among older people. Broad screening campaigns are under way in Guangzhou, Shanghai and Macao, and some observers fear that tighten-ing of public-health measures in these regions will derail what had looked like a solid rebound of economic growth.

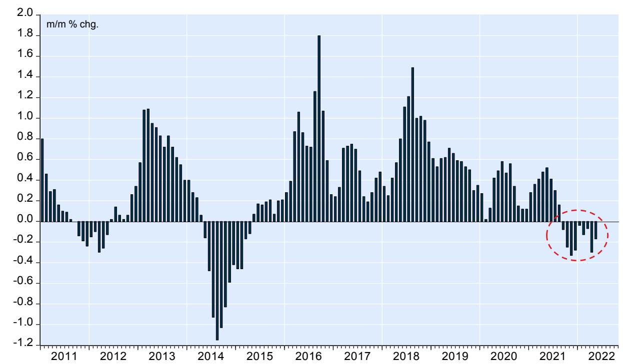
The weakness of the housing sector is another factor that could weigh on Chinese growth. New-home prices in 70 of the country's large cities have been declining for nine months now, putting pressure on some real estate promoters and on many local governments. For the latter, land sales are a major source of income.

China: Rebound of growth in June, uncertainty remains
Caixin/Markit PMI, last observation June 2022



NBF Economics and Strategy (Refinitiv data)

China: Uncertainty still hovers over real estate market
Change in prices of new homes in 70 large cities

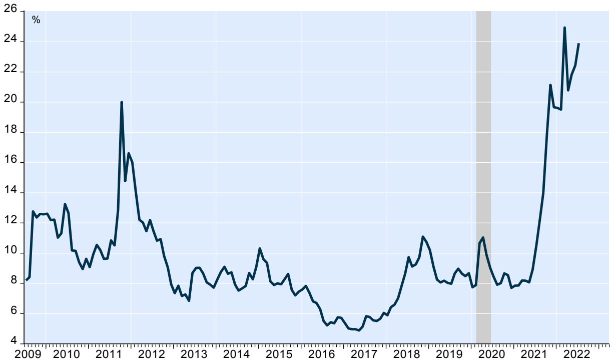


NBF Economics and Strategy (Bloomberg data)

The uncertainty has been increased by the inability of a major real estate promoter, Shimao, to repay a loan that matured at the beginning of July. This default followed those earlier this year of two other real estate giants, Evergrande and Sunac. As attested by the explosion of rates in the market for high-yield debt, many investors now seem to fear that the troubles of the housing sector will spread to other parts of the economy.

The Economy

China: Real estate market troubles revive fears
Yield of high-yield Chinese bonds denominated in USD

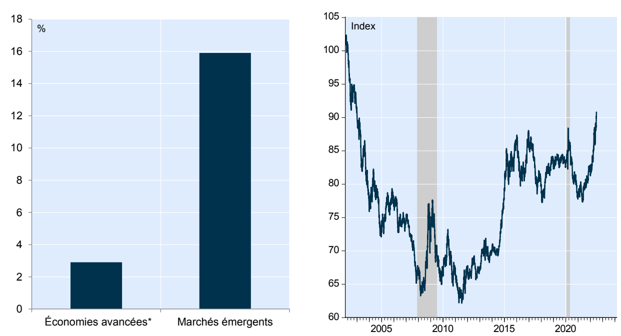


NBF Economics and Strategy (Bloomberg data)

Emerging markets other than China are also objects of worry. To avoid capital flight and bring inflation under control, many of them have had to abruptly tighten their monetary policy. The rise of interest rates, combined with the recent expansion of government borrowing, will not fail to increase the cost of debt service. And recent appreciation of the U.S. dollar will do nothing to fix things: a non-negligible share of the borrowing of emerging-country governments is denominated in USD.

Emerging markets: Greenback appreciation is bad news

Share of sovereign debt denominated in USD | Deutsche Bank index of trade-weighted USD



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

The decline of energy and food prices, if it continues, could bring relief to households in emerging countries where these staples are a large share of the consumption basket. A decline of staple prices would, by reducing inflation, also enable cen-tral banks to slow the pace of policy-rate hikes and thus avoid stifling their economies.

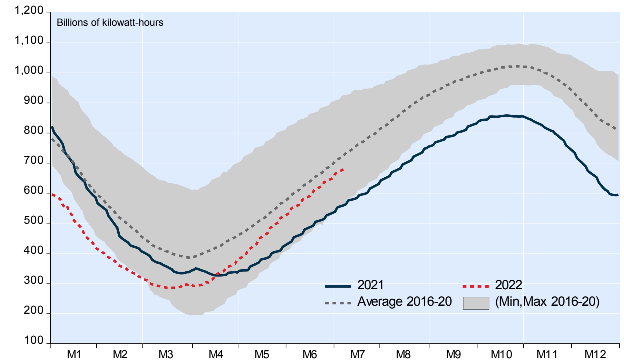
As uncertain as emerging-country outlooks may be, they are nonetheless more favourable than those for the Eurozone. While the rest of the world is currently benefiting from decline of energy prices, they remain stubbornly high on the European continent. The conflict in Ukraine is the major factor here, but two fortuitous events have also helped boost natural gas prices in recent weeks. The first is a fire in a Texas liquefied natural gas terminal that will substantially reduce U.S. export capacity. The other is the shutdown for maintenance of deliv-eries of Russian gas via the Nord Stream 1 pipeline.

Eurozone: Gas supply still uncertain
Price of natural gas for August 22 delivery to Netherlands

NBF Economics and Strategy (Bloomberg data)

In normal times, and given the current level of European gas reserves, this temporary interruption should not be a concern. The problem is that no one is quite certain that Russia will wish to resume its gas deliveries to the European continent after the end of the maintenance period on July 21. Obviously, a permanent interruption would have catastrophic effects on the European economy. We're not there yet but, until the intentions of Russia are known, the mere threat of an interruption is likely to be enough to force some countries to limit gas consumption. This is likely to have repercussions on the manufacturing sector.

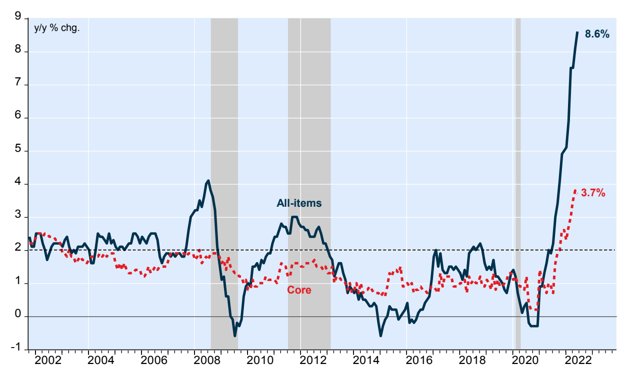
Europe: Gas reserves within the historical bounds
Reserves of natural gas



NBF Economics and Strategy (Bloomberg data)

In the meantime, the high price of gas contributes to inflationary pressure. Eurostat reported a rise of 8.6% in all-items CPI in the 12 months ending in June, the highest inflation since com-pilation of these data began in 2001.

Eurozone: Record inflation
Harmonized consumer price index

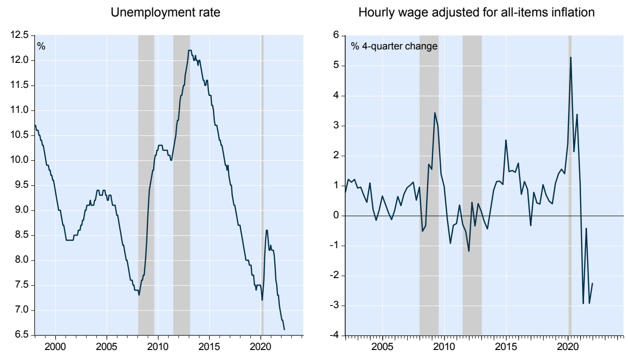


NBF Economics and Strategy (Bloomberg data)

Such price rises could cast a shadow over the solidest labour market in more than a generation. Though the EU unemploy-ment rate touched a historic bottom in May, real wages have been declining for four quarters now.

The Economy

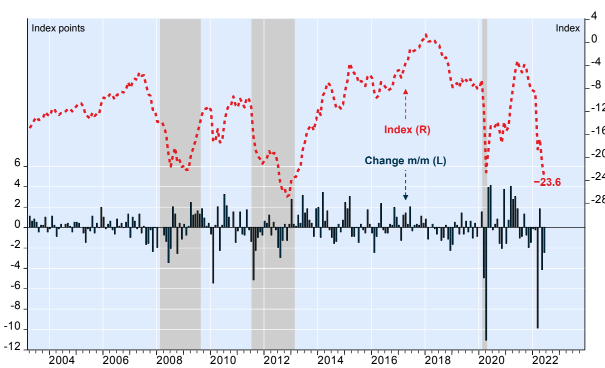
Eurozone: Employment recovery dulled by price rises



NBF Economics and Strategy (Refinitiv data)

Hardly surprising, then, that consumer confidence has fallen to its lowest since the Great Recession.

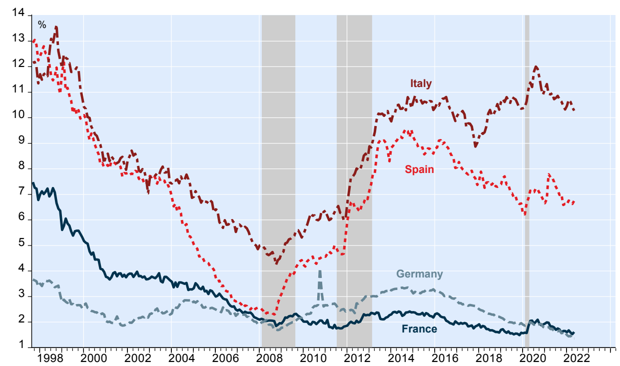
Eurozone: Confidence taking a hit from inflation
European Commission Consumer Confidence Index, last observation June 2022



NBF Economics and Strategy (Bloomberg data)

Price rises will probably prompt the European Central Bank to stiffen its monetary policy. But a combination of slowing growth and rising interest rates could bring back some of the vulner¬abilities that surfaced in the debt crisis of a decade ago. For example, risks related to the exposure of European banks to their own countries' sovereign debt, which threaten to amplify the hit from an economic slowdown. In such a scenario, banks would be hit by both a reduction of credit business and a potential decline in value of the assets on their balance sheets.

Eurozone: Banks of some countries highly exposed to sovereign debt
Domestic sovereign debt as % of total assets held by the banks



NBF Economics and Strategy (European Central Bank data)

The ECB, aware of these vulnerabilities, recently announced the coming implementation of a tool that would enable it to purchase bonds to limit the widening the credit spreads of certain countries like Italy. Though such an instrument could be needed to avoid fragmentation in the Eurozone, we antici¬pate strong resistance to its implementation from the northern countries such as Germany and the Netherlands, which could judge that, in the short and medium term, the use of such a tool would be prejudicial to the central bank's mandate to keep inflation close to but below 2%. By definition, asset purchases constitute a form of monetary easing that, other factors equal, would have the effect of stimulating demand, which is perhaps undesirable when inflation is running high.

The dissident countries might also point to the communication problems to which the use of quantitative easing could give rise. On one hand the ECB would try to prove its commitment to fight inflation by raising policy rates, but on the other hand it would continue to inject money into the economy via asset purchases. Such an approach neither fish nor fowl could clash with the resolutely more restrictive attitude of other major central banks (e.g. the Fed or the BoC) and thus lead to devaluation of the currency, making price stability even harder to achieve. We note that the euro is already at a 20-year low against the USD, even before the ECB has released details of its new anti-fragmentation tool.

Eurozone: The euro in free fall
USD / EUR

NBF Economics and Strategy (Bloomberg data)

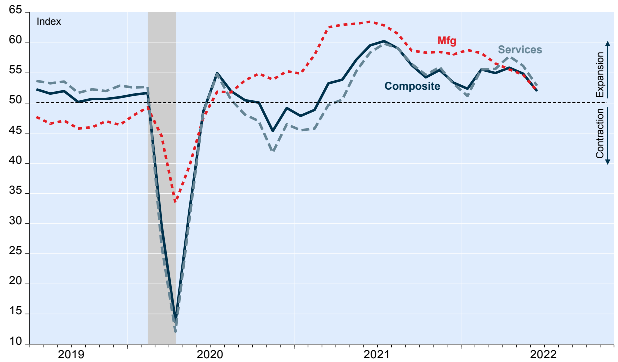
Ten years ago the inflation-control responsibilities of the ECB were in perfect harmony with its desire to come to the aid of the most indebted countries. Both aims required an extremely accommodative monetary policy. The situation may well have changed today. It is not clear that quantitative easing is a good option under conditions of high inflation. On the other hand, letting credit spreads widen to unsustainable levels is hardly a much more attractive alternative.

So there are hard choices on the horizon for the central bank. Whatever decision it makes, the end result is likely to be the same: greater uncertainty and a growth path weaker than it would have been if the central bank had more elbow room. We accordingly expect a technical recession in the Eurozone in the second half of the year. This scenario is made the more likely by the June release of the Markit composite PMI, which slowed to a 16-month low and reported stagnation of new orders in the private sector.

Given the most recent developments, we are revising down our global growth forecast for 2022 (from +3.0% to +2.7%) and for 2023 (to +2.9% to +2.7%). We nevertheless think the worst could yet be avoided for the global economy, provided that inflation loses steam fairly quickly as energy prices fall. If that does not happen, the central banks of the world will have no choice but to pursue their monetary tightening aggressively, pushing their economies over the edge.

The Economy

Eurozone: Decline of demand hurting the private sector
Markit flash PMI, last observation June 2022



NBF Economics and Strategy (Refinitiv data)

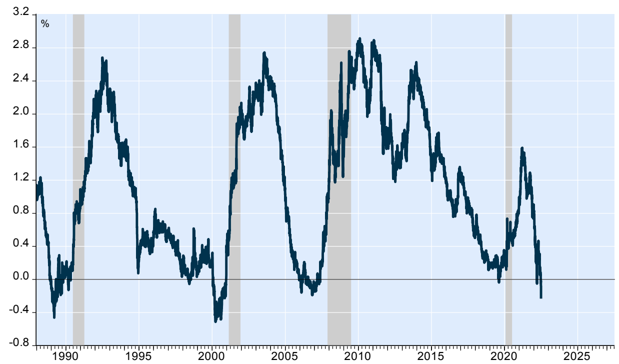
World Economic Outlook	2021	2022	2023
Advanced Economies	5.2	2.3	1.2
United States	5.7	2.0	1.4
Eurozone	5.4	2.3	0.3
Japan	1.8	1.7	1.0
UK	7.2	3.2	0.2
Canada	4.7	3.5	1.5
Australia	4.9	4.0	2.1
Korea	4.3	2.7	2.1
Emerging Economies	6.8	2.9	3.8
China	8.1	3.4	5.0
India	8.7	7.5	6.8
Mexico	4.8	1.8	1.9
Brazil	4.8	1.3	1.5
Russia	4.7	-9.0	0.0
World	6.1	2.7	2.7

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

U.S.: All hope is not lost for the economy

The outlook for the U.S. economy has not escaped the ambi¬ent pessimism, judging by the rapid inversion of the U.S. yield curve...

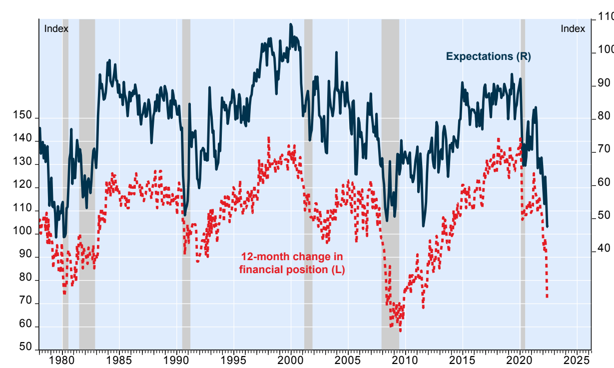
U.S.: The yield curve inverts
Yield of 10-year Treasury minus yield of 2-year Treasury



NBF Economics and Strategy (Refinitiv data)

... and by the deterioration of consumer expectations.

U.S.: Consumer expectations lowest since 1980
University of Michigan consumer confidence index: Expectations vs. 12-month change in financial position



NBF Economics and Strategy (Bloomberg data)

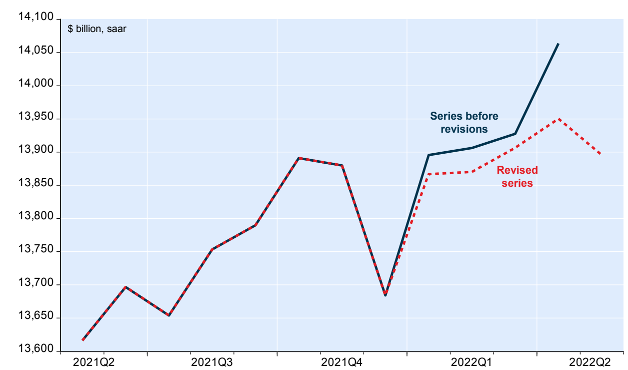
And to be fair, the economic data of recent weeks have been below expectations for the most part.

U.S.: Disappointing economic data
Citi Economic Surprise Index

NBF Economics and Strategy (Bloomberg data)

The third draft of first-quarter GDP growth is a case in point. The overall number doesn't seem so bad – an annualized contraction revised from 1.5% to 1.6% – but the details of the report signalled substantial changes in the drivers of the expansion. The contribution of inventories was much larger than expected. Household spending, on the other hand, was considerably less than had been announced in the previous draft. Adding to the bad news, consumption data released the next day by the Bureau of Economic Analysis showed a 0.4% drop of real spending in May. The two reports combined suggest a path for household spending much less vigorous than anticipated, a prospect that will weigh on second-quarter growth.

U.S.: Consumption less vigorous than anticipated
Real consumer spending, revised series vs. original series

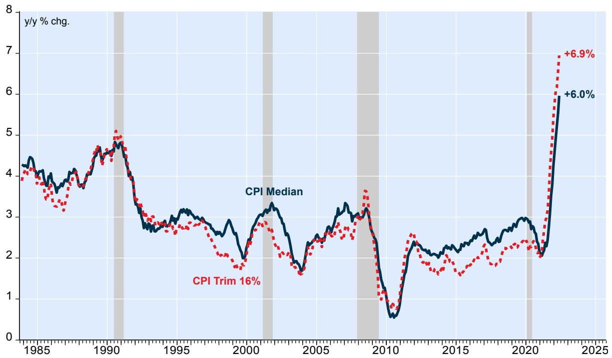


NBF Economics and Strategy (Refinitiv data)

The Economy

There is no doubt that the culprit in the spending slow-down is rising prices. In June, the all-items CPI was up 9.1% from 12 months earlier, the steepest inflation since the 1980s. Still more worrisome, the report showed a broadening of inflationary pressures. The core measures compiled by the Cleveland Fed, which exclude the most volatile items each month, were at historical highs in June.

U.S.: Inflation increasingly diffuse
CPI Median and CPI Trim 16%



NBF Economics and Strategy (data from Cleveland Fed)

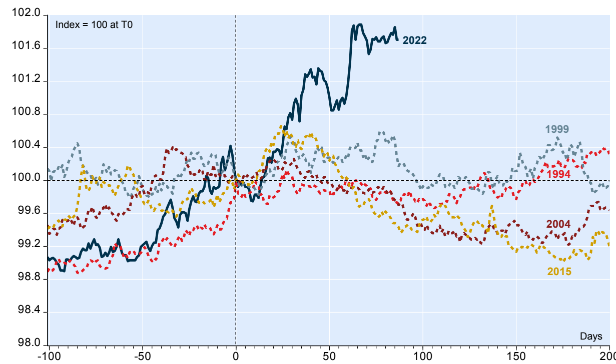
Nothing to reassure the Fed, which must continue to hike its policy rate in the coming months in its attempt to slow infla-tion. The most recent relevant graphic published by the central bank anticipated a rise of the policy rate to 3.375% (mid-point of the target range) by year end, a figure similar to market expectations.

U.S.: More tightening in store
FOMC participants' views of appropriate year-end policy rate; current target range in gray

NBF Economics and Strategy (data from Federal Reserve)

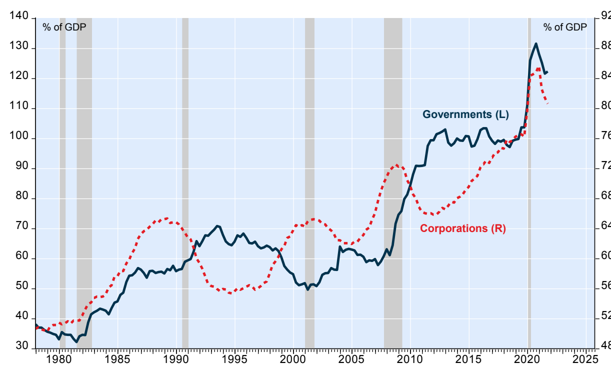
We do not deny that such a tightening would have a major impact on the economy. Financial conditions have already deteriorated greatly since the Fed's first rate hike, this at a time when indebtedness remains very high.

U.S.: Rapid tightening of financial conditions ...
Goldman Sachs Index of Financial Conditions, change since the first hike of a tightening phase



NBF Economics and Strategy (Bloomberg data)

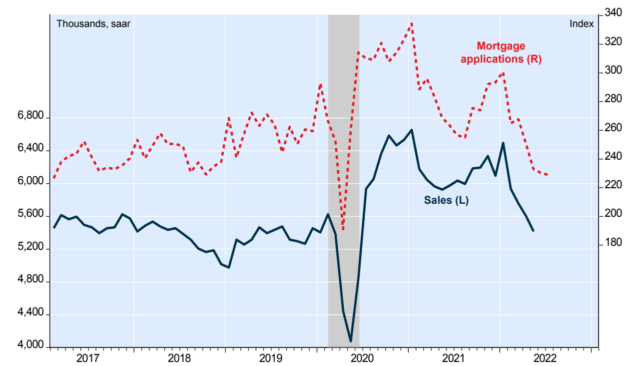
... whose hits will be exacerbated by high indebtedness
Credit granted to nonfinancial sector as % of GDP



NBF Economics and Strategy (data from BIS)

We also recognize that the rise of borrowing costs will have stiff repercussions on the real estate market, as attested by a 16% decline in home resales since January. And the situation could get worse, judging by the 25% plunge of applications for new mortgages over the same period.

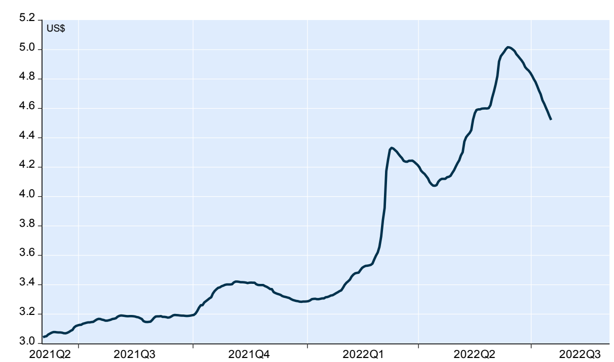
U.S.: The housing market slows
Home resales vs. mortgage applications for purchase of a new home



NBF Economics and Strategy (Bloomberg data)

That said, we think there is still a way out for the U.S. economy. The condition is that the Federal Reserve halt its tightening sooner than the market expects. For that to happen, inflation-ary pressures must ease promptly. On the goods side, the moderation seems already under way. As noted above, gas-oline prices have been declining since early June and this is reflected in prices at the pump. The fall of prices for industrial metals and agricultural goods is also likely to end up reflected in the inflation data, though with some lag.

U.S.: Has goods inflation peaked? (1)
Average price of a gallon regular unleaded gasoline

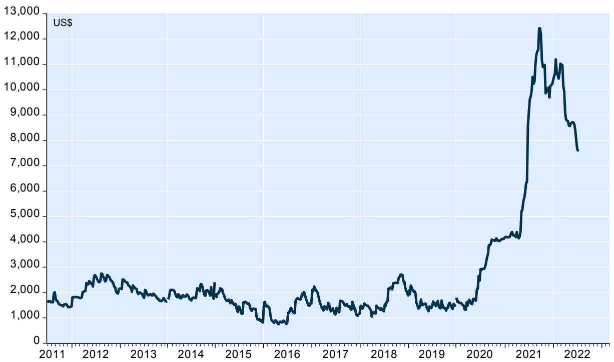


NBF Economics and Strategy (Bloomberg data)

The decline of international transportation costs and the eas-ing of supply-chain constraints are other fac-tors that could slow inflation in the goods sector ...

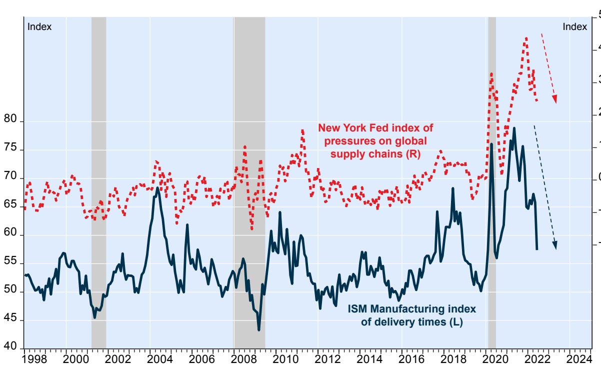
The Economy

U.S.: Has goods inflation peaked? (2)
Price to transport a 40-foot container from Shanghai to Los Angeles



NBF Economics and Strategy (Bloomberg data)

U.S.: Has goods inflation peaked? (3)
New York Fed Global Supply-Chain Pressure Index vs. ISM Manufacturing PMI Supplier Deliveries Index

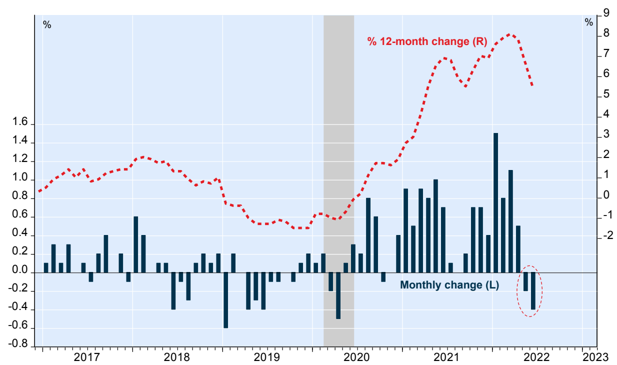


NBF Economics and Strategy (data from New York Fed and Refinitiv)

... as is appreciation of the USD, which contributes in lowering the import price index.

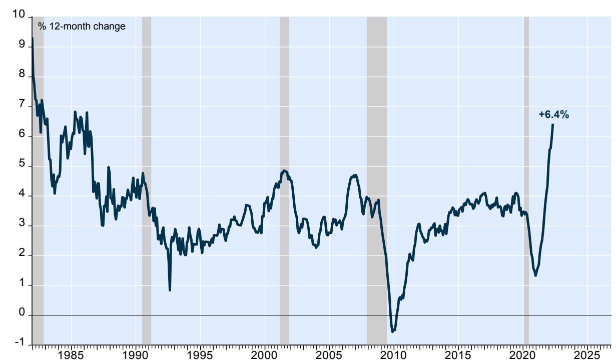
On the services side, the return to more acceptable rates of inflation could take more time. Given the recent rapid rise of home prices, housing costs are likely to continue rising briskly for some months yet. That said, we expect a cooling of this segment in 2023 in response to the current decline in demand for housing.

U.S.: Has goods inflation peaked? (4)
Monthly and 12-month changes in index of prices for imports excluding oil



NBF Economics and Strategy (data from Fed and Bloomberg)

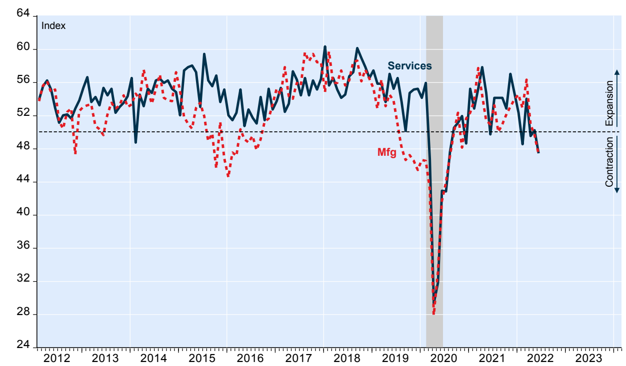
Is housing-cost inflation unsustainable under present market conditions?
Consumer Price Index, housing component



NBF Economics and Strategy (Refinitiv data)

Wage growth, the other big determinant of services inflation, could also slow by year end if, as we believe, labour-market tensions are fading. In this respect the June employment reports have delivered contradictory messages. While nonfarm payrolls continued to indicate solid employment gains (+372,000), the household survey presented a much less optimistic picture signalling a loss of 315,000 jobs. Other indicators lend support to the pessimistic view by also presenting a June decline in demand for workers. This was the case in particular for ISM's Purchasing Manager Indexes, which showed a contraction of employment in both manufac¬turing and services. The share of respondents to the Confer¬ence Board consumer confidence survey who consider that employment is abundant has also diminished recently, as has the nationwide number of new openings.

U.S.: June ISM report signalled employment losses
ISM PMI, employment component, last observation June 2022



NBF Economics and Strategy (Refinitiv data)

These indicators give credence to the view that inflation has peaked and will soon begin to slow. The change in trend is likely to start in the goods segment and be reinforced by a slowing in the services sector later this year. The risks to this scenario are substantial, however, given that prices for energy and food staples will continue to move with developments in the Ukraine conflict. In even the best of scenarios, we do not anticipate a return of core inflation to the 2% target before year end 2023, though it should decline enough to allow the Fed to soften its message and adopt a strategy less likely to tip the U.S. economy into recession. In other words, we think the Fed will opt for tightening less aggressive than the market is expecting. The end result could be growth below potential and inflation above the Fed objective, a scenario that while far from ideal would be distinctly preferable to a recession pure and simple.

We have revised down our forecast for 2022 growth from 2.4% to 2.0% to take into account the most recent consumption data. For 2023 we anticipate an expansion of 1.4%.

Canada: Strong medicine

The most recent economic data persuaded the Bank of Can-ada to push harder to normalize interest rates. The Bank hiked its policy rate by 100 basis points rather than the 75 investors had been expecting; it was the largest rate hike since 1998. If the jump surprised many, it was an

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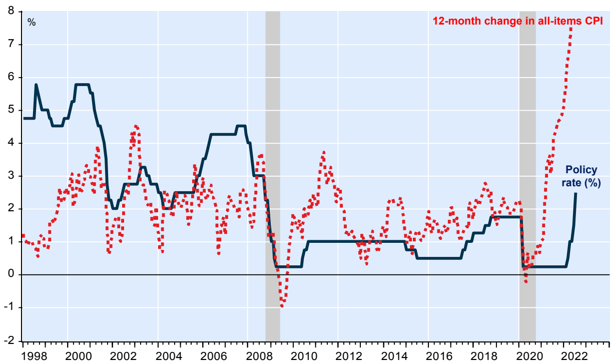
The Economy

open secret that the re-sulting 2.5% policy rate was going to be reached some time this year: in June, the Bank telegraphed that the rate would have to go to, and even exceed, the upper bound of the 2%-to-3% range considered neutral. As it turned out, it thought best to move toward this objective quickly. The inflation report for May certainly supported this decision.

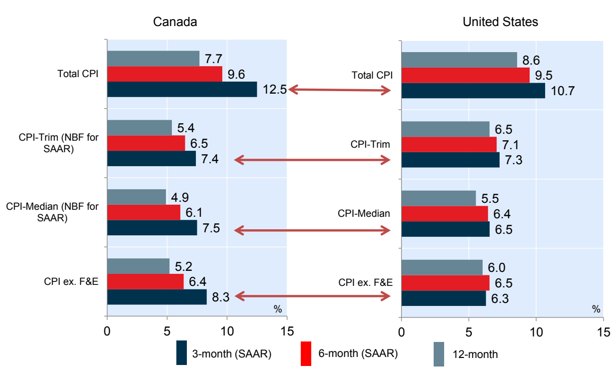
Canada: Highest policy rate since 2008
12-month % change in all-items CPI, vs. policy rate



NBF Economics and Strategy (data via Bloomberg and Refinitiv)

That report showed 12-month CPI inflation of 7.7%, the highest since 1983. It was a little below the U.S. rate, but the same cannot be said for the surge of recent months. From February to May, the Canadian all-items CPI rose at an annual rate of 12.5% compared to 10.7% south of the border. As for core inflation, the Canadian measures were all higher than U.S. core inflation

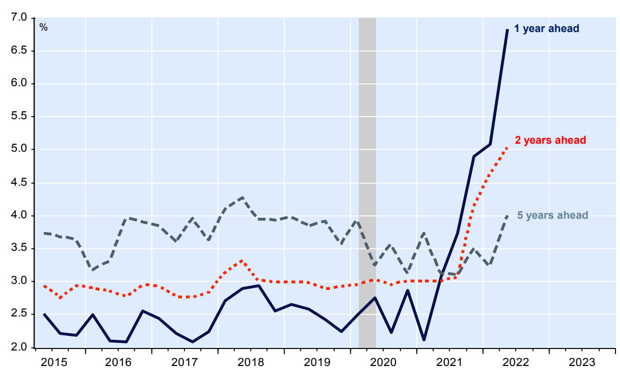
Canada: Strong inflation momentum
Annualized % change in inflation measures over previous 3, 6 and 12 months, Canada and U.S., May 2022



NBF Economics and Strategy (data via Statistics Canada, Federal Reserve Bank of Cleveland)

The results of the second-quarter surveys of consumer expec-tations and of business outlooks released by the central bank a week before its July 13 rate hike were certainly such as to raise its eyebrows. Inflation anticipations went up a notch dur-ing the quarter, an undesirable development for central banks concerned about de-an-choring of expectations. In the busi-ness survey, no fewer than 53% of respondents anticipated above-target inflation for a period of at least two years, com-pared to 38% six months earlier. Consumer expectations were also higher: consumers expected inflation to rise to no less than 5% over the coming two years.

Canada: Consumers' inflation expectations have risen
Average expectation for each horizon

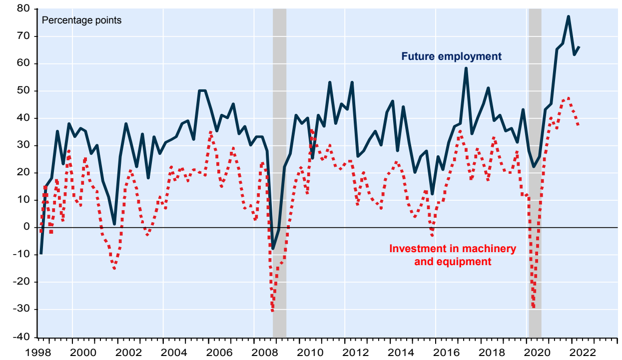


NBF Economics and Strategy (data via Bank of Canada)

This pessimism of economic agents can be laid in part to the upsetting experience of the last year. The Bank of Canada could have ignored these signals if a slowing of economic growth had appeared on the horizon. But the Business Outlook Survey continued to show extremely substantial hiring and investment intentions, illustrating that domestic demand was still much too strong in May.

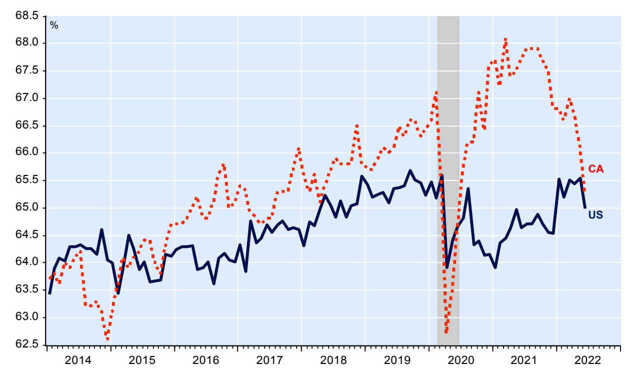
As for the loss of 43,000 jobs reported in June, is that the first sign of decreasing business appetite for workers? Not yet. The stabilization of employment in the private sector after the May decline and a solid rebound of hours worked after two consecutive months of decline do not point that way. No fewer than 98,000 workers left the active population in June, reducing the unemployment rate to a half-century low of 4.9%. The fall of the participation rate was especially acute among people aged 55 to 64, suggesting that the wave of retirements intensified in recent months. Last year this cohort showed a participation rate 3 percentage points higher than that of U.S. workers of the same age. Last month, the two participation rates were similar.

Canada: Hiring and investment intentions still elevated
Balance of opinion (% of businesses expecting more minus % expecting less), next 12 months



NBF Economics and Strategy (data via Bank of Canada)

Canada: A wave of retirements over the past year
Participation rate of 55-64 age cohort

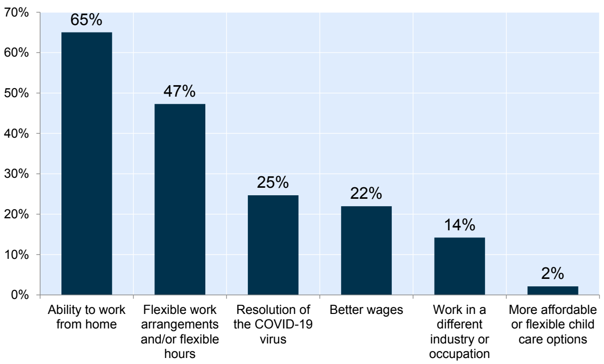


NBF Economics and Strategy (data via Statistics Canada, Refinitiv)

This development has only accentuated the labour scarcity of recent months. We note that the wave of retirements coin-cides with the return of many employees to in-person work. It is interesting to note that one quarter of respondents aged 55 to 70 would consider returning to the labour market under certain conditions. The Bank of Canada survey reports that ability to work at home or flexible work arrangements were the main conditions. A fine conundrum for employers, who count on a return to work to favour synergy, feelings of belonging and transfer of knowledge to less-experienced employees.

The Economy

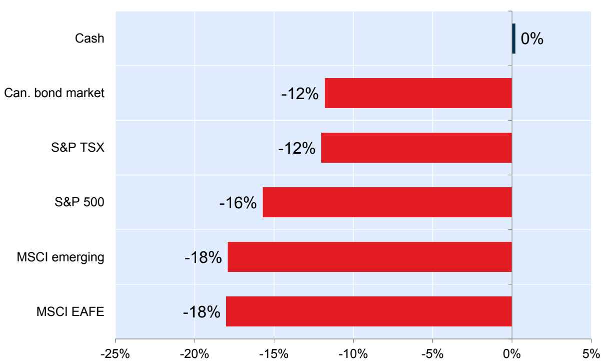
Canada: Flexible work arrangements could bring back older workers
Population age 55-70 out of the labour force that could return to work: conditions noted



NBF Economics and Strategy (data via Refinitiv)

It remains that the strong medicine preferred by the central banks will have the effect of calming demand in the second half of this year and in 2023. The substantial increase in the cost of capital is likely to restrain business investment ardour, the more so in that growing fears of imminent recession could encourage employer prudence. Consumers, already hit hard by price rises, must also deal with a rise in the cost of debt service. On top of which, households are experiencing a negative wealth effect as they chalk up losses in both their equity and their bond portfolios. Nonfinancial assets could also lose value in the coming months – in our view, the pronounced slow¬ing of the housing market foreshadows a 10% decline of home prices between now and the end of next year.

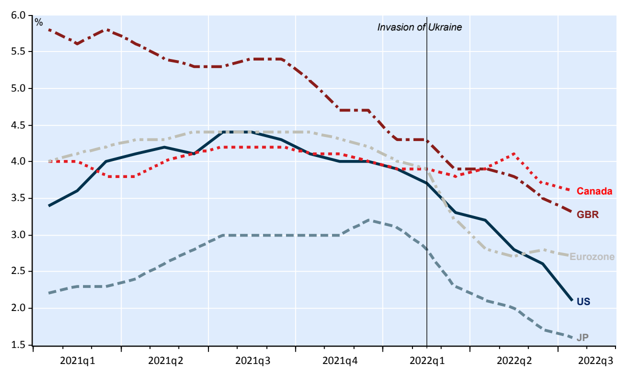
Will declining investment returns affect consumption?
Canada: Total C$ return in 2022 (up to July 15)



NBF Economics and Strategy (data via Refinitiv)

The present situation amounts to a major challenge for the central banks. They want to calm demand just enough, i.e. not enough to tip the economy into recession. Playing catch-up, they are going full speed ahead. This does not give them pause, as past tightening phases did, to evaluate the results of their actions and adjust as appropriate. So investor nervous-ness is highly understandable. All in all, there is good news on the inflation front. Prices of raw materials including oil have de-clined significantly in recent weeks. Gasoline prices in Canada are down 14% from their peak of early June. With inflation likely to moderate, we do not see monetary policy becoming too restrictive. In Canada, we expect this phase of monetary tight¬ening to stop at 3.25%, 75 basis points above the current pol¬icy rate. We do not see that as enough to kneecap the Ca-nadian economy. As we expected, that economy has shown much more resilience than others since Russia's invasion of Ukraine. Consumers had accumulated excess savings allow¬ing them to absorb the increase in the cost of living, and com-fortably full employment has supported good wage growth. The strength of the resources sector offsets part of the shock to consumers. As for governments raking in a spectacular improvement of public finances, their spending showing no signs of moderation. As monetary policy becomes restrictive, we do expect below-potential growth over the next 12 months. This month we are maintaining our forecast of 3.5% growth in 2022 and 1.5% next year.

Canada: An economy that has so far been resilient
Economist-consensus forecasts of real GDP growth in 2022



NBF Economics and Strategy (data from Consensus Economics)

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The Economy

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.7	2.0	1.4	5.5	0.4	1.7
Consumption	2.2	(3.8)	7.9	2.5	2.2	6.9	1.8	2.4
Residential construction	(0.9)	6.8	9.2	(2.9)	(0.5)	(1.5)	(2.9)	1.7
Business investment	4.3	(5.3)	7.4	5.2	2.4	6.6	5.1	1.9
Government expenditures	2.2	2.5	0.5	(0.7)	1.6	0.1	0.5	1.5
Exports	(0.1)	(13.6)	4.5	5.7	3.5	4.9	3.8	2.7
Imports	1.2	(8.9)	14.0	9.7	1.6	9.6	6.1	1.7
Change in inventories (bil. $)	75.1	(42.3)	(32.6)	123.4	67.5	193.2	90.0	60.0
Domestic demand	2.4	(2.5)	6.5	2.1	2.0	5.3	1.8	2.2
Real disposable income	2.3	6.2	2.3	(5.6)	0.9	0.1	-1.9	1.2
Payroll employment	1.3	(5.8)	2.8	3.9	1.0	4.3	2.8	0.7
Unemployment rate	3.7	8.1	5.4	3.8	4.3	4.2	4.0	4.3
Inflation	1.8	1.3	4.7	8.0	2.9	6.7	7.1	2.0
Before-tax profits	2.7	(5.2)	25.0	1.3	0.3	21.0	-3.7	1.4
Current account (bil. $)	(446.0)	(619.7)	(949.0)	(1,025.4)	(848.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 7/15/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Fed Fund Target Rate	1.75	3.00	3.00	3.00	3.00	0.25	3.00	3.00
3 month Treasury bills	2.29	2.85	2.85	2.85	2.85	0.06	2.85	2.80
Treasury yield curve								
2-Year	3.13	3.15	2.95	2.90	2.90	0.73	2.95	2.75
5-Year	3.05	3.05	3.00	2.95	2.90	1.26	3.00	2.75
10-Year	2.93	3.00	3.00	3.00	2.95	1.52	3.00	2.90
30-Year	3.10	3.10	3.15	3.15	3.10	1.90	3.15	3.05
Exchange rates								
U.S.$/Euro	1.01	0.98	1.02	1.03	1.05	1.14	1.02	1.06
YEN/U.S.$	139	138	134	132	128	115	134	123

*** end of period*

Quarterly pattern

	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast
Real GDP growth (q/q % chg. saar)	6.7	2.3	6.9	(1.6)	1.3	0.7	1.3	1.5
CPI (y/y % chg.)	4.8	5.3	6.7	8.0	8.6	8.5	7.1	5.1
CPI ex. food and energy (y/y % chg.)	3.7	4.1	5.0	6.3	6.0	6.2	5.8	4.8
Unemployment rate (%)	5.9	5.1	4.2	3.8	3.6	3.7	4.0	4.2

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.5	3.5	1.5	3.2	2.4	1.5
Consumption	1.4	(6.2)	5.0	5.1	1.8	5.2	3.3	1.6
Residential construction	(0.2)	4.3	15.3	0.0	(5.2)	(0.4)	0.4	(3.0)
Business investment	2.5	(12.1)	2.3	6.5	1.4	7.0	3.1	2.8
Government expenditures	0.8	0.9	5.6	2.3	1.9	3.6	2.1	1.8
Exports	2.3	(9.7)	1.4	1.4	4.0	0.8	0.7	4.4
Imports	0.4	(10.8)	7.7	4.9	2.9	5.7	2.4	4.0
Change in inventories (millions $)	18,377	(18,720)	(2,361)	10,916	11,375	5,259	10,500	11,500
Domestic demand	1.2	(4.1)	5.6	3.9	1.1	4.1	2.6	1.3
Real disposable income	3.0	8.2	0.3	0.1	1.7	(0.6)	2.8	1.9
Employment	2.2	(5.1)	4.8	3.8	0.9	4.2	2.1	0.8
Unemployment rate	5.8	9.6	7.4	5.3	5.5	6.3	5.3	5.6
Inflation	1.9	0.7	3.4	6.6	2.5	4.7	6.0	1.7
Before-tax profits	(0.6)	(1.9)	32.3	13.8	(5.0)	15.7	10.4	0.6
Current account (bil. $)	(47.0)	(39.4)	1.1	22.1	(7.1)	....	....	....

** or as noted*

Financial Forecast**

	Current 7/15/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Overnight rate	2.50	3.25	3.25	3.25	3.25	0.25	3.25	3.25
Prime rate	4.50	5.25	5.25	5.25	5.25	2.25	5.25	5.25
3 month T-Bills	2.59	3.25	3.20	3.20	3.20	0.17	3.20	3.10
Treasury yield curve								
2-Year	3.21	3.30	3.20	3.10	3.05	0.95	3.20	2.90
5-Year	3.08	3.25	3.20	3.15	3.10	1.26	3.20	3.00
10-Year	3.07	3.20	3.20	3.20	3.15	1.43	3.20	3.05
30-Year	3.01	3.10	3.15	3.15	3.10	1.68	3.15	3.05
CAD per USD	1.30	1.32	1.28	1.25	1.22	1.26	1.28	1.26
Oil price (WTI), U.S.$	99	107	100	97	94	75	100	90

*** end of period*

Quarterly pattern

	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast
Real GDP growth (q/q % chg. saar)	(3.1)	5.3	6.6	3.1	4.5	1.6	0.6	1.1
CPI (y/y % chg.)	3.4	4.1	4.7	5.8	7.5	6.9	6.0	4.6
CPI ex. food and energy (y/y % chg.)	2.1	3.0	3.2	4.0	5.0	4.8	4.6	4.1
Unemployment rate (%)	7.9	7.2	6.3	5.8	5.1	5.1	5.3	5.5

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021e	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	2.5	2.6	1.6	2.3	-10.7	13.6	14.7	0.2
Prince Edward Island	4.7	-1.7	3.1	2.4	1.5	6.6	0.9	8.8	5.6	2.7
Nova Scotia	3.0	-2.5	3.4	2.5	1.5	3.7	0.7	8.7	5.5	2.3
New Brunswick	1.3	-3.2	3.2	2.3	1.1	2.4	-1.3	8.9	7.7	1.8
Quebec	2.8	-5.5	5.6	3.6	1.3	4.7	-2.4	12.5	9.6	2.3
Ontario	2.0	-5.1	4.3	3.5	1.4	3.7	-2.8	11.9	8.0	2.7
Manitoba	0.4	-4.6	3.4	3.3	1.5	0.7	-1.4	10.4	10.0	1.5
Saskatchewan	-1.1	-4.9	4.0	3.8	1.9	-0.4	-6.6	17.8	24.8	-0.8
Alberta	-0.1	-7.9	4.8	4.0	2.0	1.5	-16.1	20.2	20.2	0.2
British Columbia	3.1	-3.4	4.4	3.3	1.6	4.6	-0.5	12.0	8.8	0.6
Canada	1.9	-5.3	4.5	3.5	1.5	3.6	-4.6	13.0	11.0	1.8

	Employment (% growth) 2019	2020	2021e	2022f	2023f	Unemployment rate (%) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	3.6	0.5	12.3	14.1	12.9	10.9	10.4
Prince Edward Island	3.4	-3.2	3.7	7.9	1.0	8.6	10.6	9.4	6.4	7.2
Nova Scotia	2.3	-4.7	5.4	3.3	0.9	7.3	9.7	8.4	6.6	7.1
New Brunswick	0.7	-2.6	2.6	1.6	0.6	8.2	10.0	9.0	7.0	7.2
Quebec	2.0	-4.8	4.2	2.3	0.7	5.2	8.8	6.1	4.4	4.7
Ontario	2.8	-4.7	4.9	4.6	0.9	5.6	9.5	8.0	5.5	5.9
Manitoba	1.1	-3.7	3.5	2.7	0.8	5.4	8.0	6.4	4.6	5.0
Saskatchewan	1.7	-4.6	2.6	3.7	0.9	5.6	8.3	6.5	4.7	4.7
Alberta	0.6	-6.5	5.2	5.2	1.3	7.0	11.5	8.6	5.6	5.5
British Columbia	2.9	-6.5	6.6	3.3	1.1	4.7	9.0	6.5	4.9	5.2
Canada	2.2	-5.1	4.8	3.8	0.9	5.7	9.6	7.4	5.3	5.5

	Housing starts (000) 2019	2020	2021e	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.9	1.1	1.0	0.2	3.7	6.2	2.4
Prince Edward Island	1.3	1.1	1.2	1.1	0.9	1.2	0.0	5.1	7.1	2.2
Nova Scotia	4.7	4.9	6.0	4.8	4.2	1.6	0.3	4.1	6.7	2.3
New Brunswick	2.9	3.6	4.0	3.6	1.8	1.7	0.2	3.8	6.8	2.5
Quebec	48.0	54.2	71.2	65.5	52.5	2.1	0.8	3.8	6.5	2.9
Ontario	69.0	81.3	101.2	88.0	78.5	1.9	0.6	3.5	6.8	2.4
Manitoba	6.9	7.3	8.0	7.6	7.1	2.3	0.5	3.2	6.6	2.3
Saskatchewan	2.4	3.1	4.3	3.7	3.0	1.7	0.6	2.6	6.3	2.3
Alberta	27.4	24.1	32.1	38.1	30.2	1.7	1.1	3.2	6.4	2.3
British Columbia	45.1	38.0	47.7	41.5	33.0	2.3	0.8	2.8	6.4	2.6
Canada	208.5	218.4	276.8	255.8	212.3	1.9	0.7	3.4	6.6	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

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Hurry up... then wait

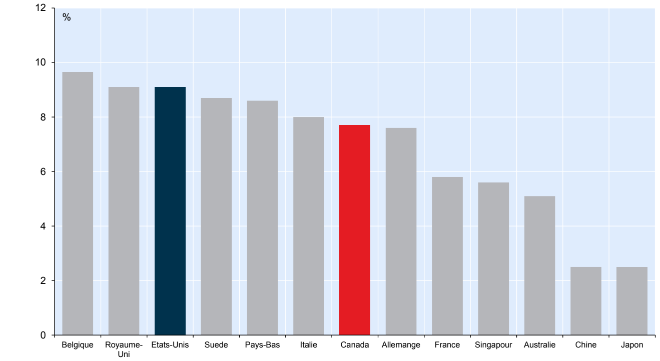
Speed. It's increasingly the name of the game when it comes to the conduct/normalization of monetary policy amidst a truly extraordinary economic backdrop. In terms of sheer hastiness, our own Bank of Canada has no doubt turned some heads.

As it relates to BoC rate hikes, we've evolved from early year tentativeness (where the central bank couldn't bring itself to kick start a tightening cycle until everyone was sufficiently warned) to seemingly manic mid-year behaviour (where an extraordinary and larger-than-expected 100 bp hike was rushed out on July 13th).

July's BoC hike—the fourth in as many meetings since the tightening cycle commenced in March—is not entirely without precedent. The last time the Bank jacked up the policy rate by 100 bps at a single go was in 1998. Back then, it was about defending the currency; these days, outsized hikes are about defending the *credibility* of an institution that, more than anything, is meant to ensure price stability.

Which brings us to the catalyst for what is now a truly global rate hiking programme: stubbornly elevated and more pervasive inflation. Almost regardless of the country in focus, observed rates of consumer price inflation are uncomfortably high. Far from securing a moderation in pricing momentum, recent inflation prints here in North America have been unquestionably hot under the colour. We're long past the stage where one or two special factors were at play. Today, inflation is one big tent, held up by a growing number of components.

Global inflation – it's everywhere
Latest CPI YoY% print from G13 countries

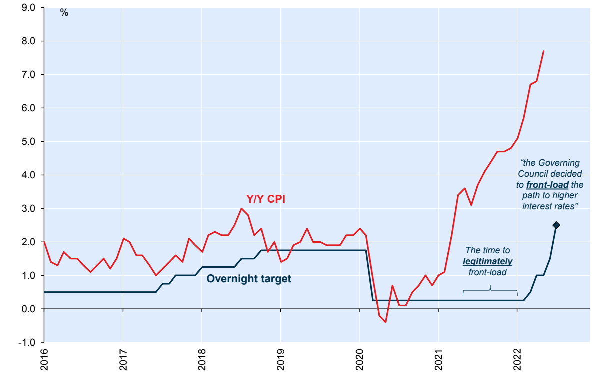


NBF Economics and Strategy (data via Bloomberg)

Moreover, given acute labour shortages—which are predictably translating into higher wages—a quick and easy inflation fix could prove hard to come by. Given the current and expected inflation picture, hurrying rate hikes along is a defensible/proper strategy, whether your policy decisions are undertaken in Washington, Ottawa, London or many other corners of the globe.

As an aside, the BoC perhaps thought it was being clever by arguing that July's super-sized move was a 'front-loading' of rate hikes. Forgive us, but 'front-loading' refers to the benefits (or costs) of doing something early. But Canada's inflation problem is not new, far from it. Nor is this hardly the Bank's first move. To us, legitimate front-loading would have meant starting things off with a bang much, much earlier. Treat the latest BoC hike for what it is: A borderline desperate, more drastic move that comes in response to the latest and largest yet miss on inflation. It's pure reaction, but we digress.

Canada: "Front-load" is a total misnomer
Bank of Canada overnight target versus Y/Y CPI inflation



NBF Economics and Strategy (data via Bloomberg, Bank of Canada)

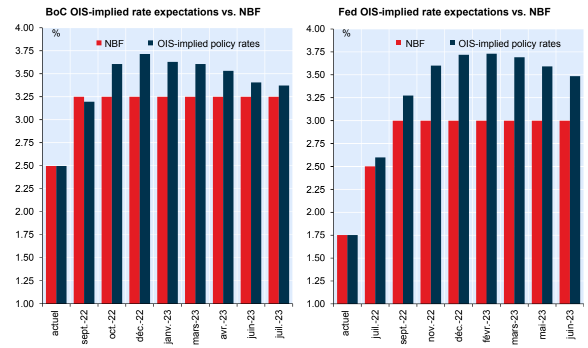
Notwithstanding our gripe over the characterization of hikes, the key point is this: Given limited slack and having underestimated inflation so badly, the race is now on to get policy rate settings into more neutral-to-restrictive territory. After driving the overnight target to 2.5% in mid-July, we see the Bank of Canada delivering another large-sized hike (75 bps) in September. The resulting policy rate, at 3.25%, seems then likely to be in mildly restrictive territory before the summer is out.

The Fed isn't wasting much time either, as June's last go-round boosted fed funds by 75 bps. We see a

Interest Rates and Bond Markets

combined 125 bps (at least) been delivered over the next two meetings, the upper band on the Fed's policy rate corridor thus ending Q3 at no less than 3%.

We continue to bet on less aggressive central banks
NBF forecasts of BoC (left) & Fed (right) policy rates vs. market expectations: Next 8 meetings

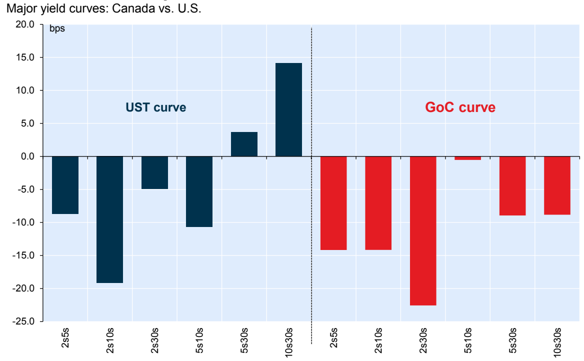


NBF Economics and Strategy (data via Bloomberg) | Note: OIS-implied rates are adjusted to account for spread between policy target rate (BOC overnight, Fed funds upper bound) and effective rates (CORRA, effective fed funds)

But here's the thing: Having raced from near-zero to 3%-plus in record time, it's possible, just possible, that both the BoC and Fed could opt to wait out the latter stages of the year. Rather than piling on with additional hikes to 3.5-4%, the final months of the 2022 could be used to assess the extent to which the economy is losing momentum. Of note, unconventional tightening would continue via balance sheet run-off. No question, standing down on rate hikes at our projected levels (3.25% for the BoC, 3% for the FOMC) will require tangible signs of inflation relief. We fully concede that recent developments have been unsettling. Once more then, our rate outlook is vulnerable to badly behaved inflation. Nonetheless, if you peruse our Monthly Economic Monitor, you'll see distinctly sub-consensus forecasts for real GDP and inflation.

If the current hurry-up strategy ultimately terminates at a lower level and earlier timeline than is currently being discounted, we may have an opportunity to forestall a more painful economic outcome in 2023. That in turn could serve to arrest today's troubling yield curve inversion(s), while simultaneously lending support to equity and credit markets (or at least subjecting risk assets to less pain than more genuinely restrictive interest rate levels).

There's no curve in yield curves
Major yield curves: Canada vs. U.S.

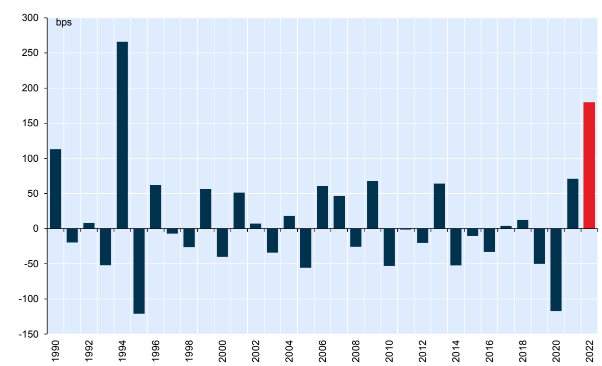


NBF Economics and Strategy (data via Bloomberg)

What a wild first half it was

With the first half of 2022 now in the books, it's safe to say it's been a wild ride for interest rates (and just about every other financial market asset). Thanks to a rapid rethink on the outlook for monetary policy, yields have shot higher to a degree we haven't seen in decades. Indeed, the last time you'd have seen rates sell off by this much to start the year was in the early 1990s.

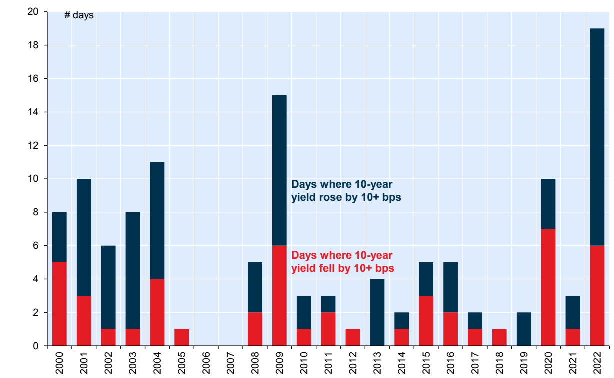
2022 saw the largest sell-off to start the year since 1994
Change in GoC 10-year yield from January 1 to June 30, by year



NBF Economics and Strategy (data via Bloomberg)

But it's not just the direction of rates that's been remarkable. The wild swings up and down have been much greater than in years gone by. It might not surprise you that there have more days in 2022 with >10 basis point selloffs than any other year this millennium. But what is much more remarkable is the fact that, excluding the COVID-19 shock in 2020, there have been more daily rallies of 10+ basis points in 2022 than any year in almost three decades. Clearly, that's the result you get when sentiment swings from optimism to recessionary fears on a seemingly daily basis.

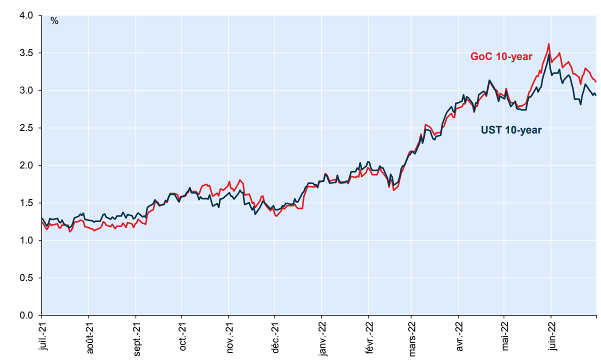
Rates have trended higher… with substantial volatility along the way
Number of days in which the 10-year has increased/decreased by 10+ bps, by year (through July 14)



NBF Economics and Strategy (data via Bloomberg)

While this volatility is unlikely to abate anytime soon, it does appear that we've already seen peak long-term yields for the cycle.

We may be past the peak for long-term rates as the outlook deteriorates
10-year interest rate: Canada vs. U.S.



NBF Economics and Strategy (data via Bloomberg)

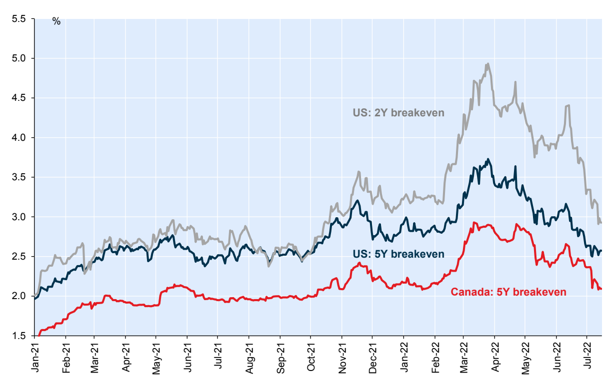
Earlier in the year, climbing rate hike and inflation expectations helped propel long-term rates higher. Now, with the global economy clearly decelerating, markets are growing worried central banks will be too

Interest Rates and Bond Markets

aggressive fighting inflation, driving economies into recession. Indeed, traditionally 'hawkish' economic data/developments are now leading to rate declines. Case in point: The recent CPI report in the United States. A worrying upside surprise on all-items and core inflation sent near-term rate expectations higher, but ultimately sparked a rally in the long-end of the curve. An unexpected 100 bp hike from the BoC had the same effect in the GoC market.

While consumers and businesses might not see an end to still-accelerating inflation, markets increasingly believe this aggressive monetary policy response will significantly dampen price pressures. This has led to a swift rally in breakevens, fuelling the recent decline in nominal yields. Even in the relative near-term, 2-year UST breakevens have fallen from close to 5% to below 3% in a little over three months time. It's far too early to declare victory, but the Fed will certainly be encouraged by this.

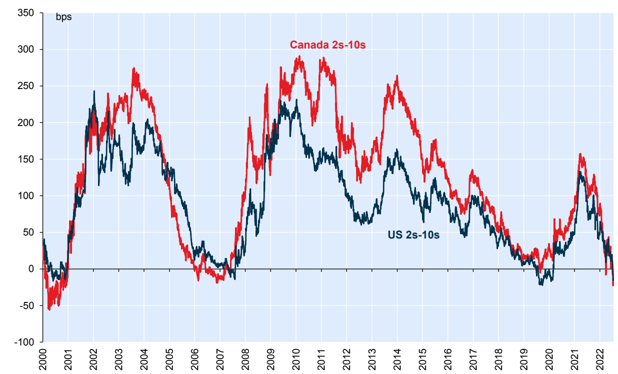
Market-based inflation expectations are quickly normalizing
Breakeven inflation rates in Canada and the United States



NBF Economics and Strategy (data via Bloomberg)

For both the UST and GoC yield curve, recent developments have propelled the 2s-10s curve—often cited as a prescient leading indicator of recessions—further into inverted territory and to levels not seen in well over a decade. As central banks continue to ratchet up the pace of tightening, how much more inverted can the curve become?

Key yield curve are flashing warning signs
2s-10s curve: Canada and US

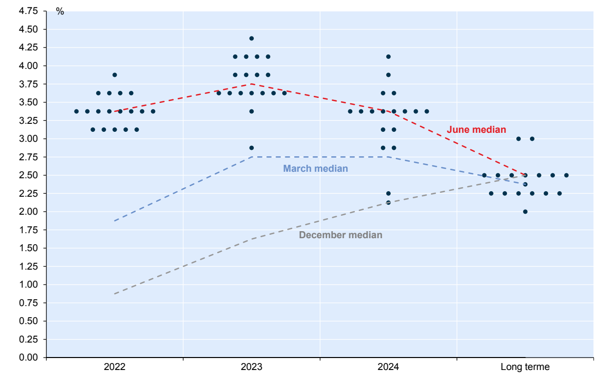


NBF Economics and Strategy (data via Bloomberg)

In our view, blindly marching towards the ~4% terminal rate early next year that half of the FOMC views as appropriate (as per June's dot plot) would only exacerbate the ongoing inversion. 2s-10s at -50 bps would represent a realistic curve structure here.

However, you'll notice our rate forecast has a relatively swift reversal of the current inversion. That's because we're hopeful that calmer heads will prevail, and central banks will put an end to rate hiking cycles in the very near future. To be clear, we don't disagree that a moderately restrictive policy setting is appropriate but as we've argued before, two wrongs don't make a right. Even though central banks were late to respond to inflationary pressures, the solution shouldn't be to drive the economy into recession. It may not be too late to avoid this outcome but, for central banks to pause, it's going to require either some signs of relief on inflation or a return to forward-looking policymaking.

We think the FOMC's dots may have overdone it on signaled hikes
June 2022 FOMC 'Dot Plot' with median fed funds projections from March and December



NBF Economics and Strategy (data via Federal Reserve)

Making sense of a messy BoC meeting

It turns out the Bank of Canada wasn't messing around when they said they were prepared to act 'more forcefully' in their June rate statement. With 50 basis point moves the standard at the time, most assumed 'more forceful' meant a 75 basis point hike was in the offing. We certainly did. As it turned out, the Bank had a new strategy in mind: 'front-loading' the path to higher rates by raising the overnight target by a full percentage point for the first time since 1998. We won't re-hash the fact that this can hardly be considered front-loading and instead, we'll focus on the policy rate outlook ahead. On that front, near-term uncertainty, even for the early September meeting, is as high as it's been in recent memory.

Based on the full suite of fresh BoC material (a rate statement, press conference and MPR), you could find evidence to support nearly any move in September. On the more dovish end of the spectrum, the rate statement dropped all discussion of acting 'forcefully' in the future, simply stating rates need to rise further. One could imply that 'front-loading' has now been completed and we could downshift to 50, or even 25 bp increases from here.

On the other hand, the press conference tended to indicate that there's more aggressive action still to come. From Tiff Macklem's opening statement:

> *"By front-loading interest rate increases now, we are trying to avoid the need for even higher interest rates down the road. Front-loaded tightening cycles tend to*

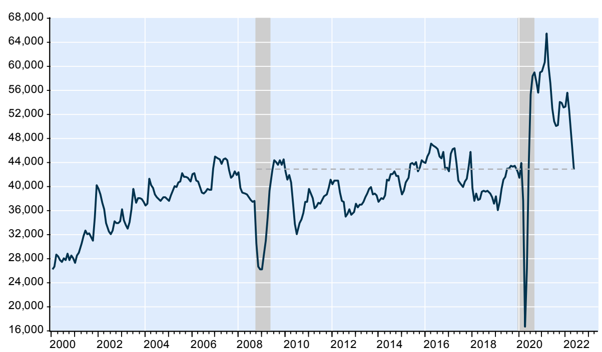
Interest Rates and Bond Markets

be followed by softer landings. This argues for getting our policy rate quickly to the top end or slightly above the neutral range."

From this quote, it would appear 50 bps would be the bare minimum next meeting. If the BoC really believes that 'doing more now to do less later' is the key to achieving a soft landing, why not just rip off the band-aid in one fell swoop? Come back in September forcefully with 75 bps (or arguably another full-percentage point hike), bringing the policy rate slightly above the neutral range. From there, take a pause and allow the effects of this super-charged hiking cycle to funnel through the system. We feel this is a defensible strategy and have now incorporated this (a final 75 bp hike, followed by a pause) as our base case.

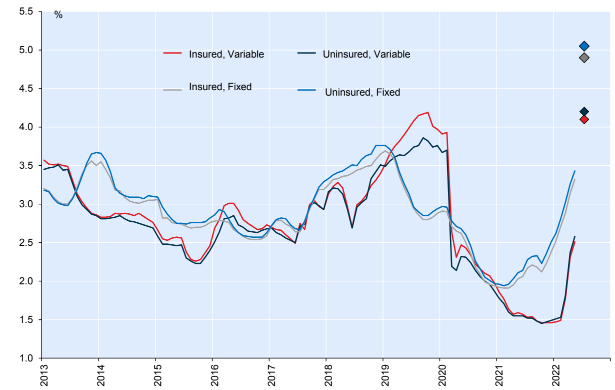
Will it be uncomfortable not hiking with inflation close to quadruple the central bank's target? Undoubtedly. But we must not forget that monetary policy operates with long and variable lags. Just because there have only been modest signs of deceleration so far (largely contained to the housing market), that doesn't mean a material slowdown won't eventually arrive.

Canada: The pass-through to residential sales has been reapd
Seasonally adjusted residential housing sales



NBF Economics and Strategy (data via CREA)

Canada: Ongoing rate increases *will* slow the economy
Contracted mortgage rates (through May): insured/uninsured & fixed/variable (w/ estimate of current rates)

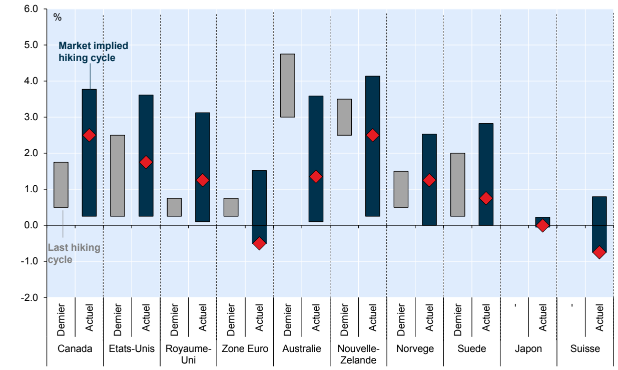


NBF Economics and Strategy (data via Bank of Canada) | Note: Dots represent estimated bank average of current posted rates

In Canada's case, one must also consider the impact of COVID-19 restrictions in place in late 2021/early 2022. Limitations on services consumption in Q4 and Q1 mean that there's some natural pent-up demand to work through. In addition to legitimate fundamental factors (i.e., strong compensation growth and fiscal stimulus), this helps explain why the Canadian GDP growth in the first half of the year will prove much stronger than in the U.S. But make no mistake, the rapid tightening in monetary policy/financial conditions will bite in Canada.

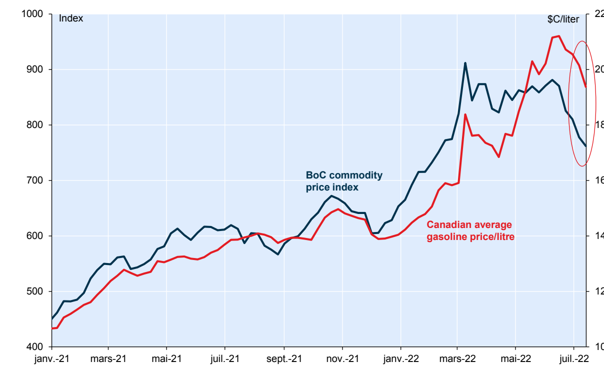
In addition to rate hikes domestically, the contemporaneous tightening effort across the majority of global central banks will only help the BoC's cause (in that it will tighten global financial conditions and cool global demand). We've already seen commodity prices start to roll over in recent weeks and gas prices are *finally* moving down. That might not mean relief in June's inflation report, at least based on what we saw from the latest U.S. CPI numbers. But July's report, which critically will be published before the BoC meets in September, could be a key piece of evidence to support a pause in the relentless monetary tightening.

BoC (and RBNZ) leading the way on rate hike cycles
Current central bank policy rates (red), market-implied hiking cycle (blue) & prior hiking cycle range (grey)



NBF Economics and Strategy (data via Bloomberg)

Commodity price declines create scope for easing inflation
Weekly BoC commodity price index & Canada regular gasoline average retail price since 2021



NBF Economics and Strategy (data via Bloomberg)

Over the medium term, we expect price pressures to ease much faster than many expect. It may be hard to believe given forecast errors to date, but we're looking for Canadian CPI inflation to fall to the 2% target by the second quarter of next year. Yes, we won't be able to avoid well-above-target inflation for the rest of 2022, but the steep downward trend we expect to see take hold would certainly support the BoC not hiking into oblivion.

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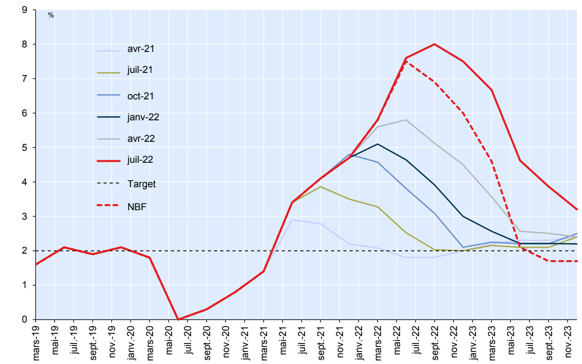
Interestingly, the BoC's latest projections suggest otherwise. In their outlook, the return to 2% inflation takes much longer than they'd previously expected and longer than we now expect. Indeed, the Bank has now pencilled in a 4.6% inflation projection for 2023 (versus 2.5% from us). Even by the fourth quarter of 2023, they still see headline CPI above their 1-3% inflation control band. Yes, they too have a downward trajectory taking hold later this year. But for a central bank who is "resolute in its commitment to price stability" and "determined" to eliminate inflation, these forecasts don't look to be consistent with that commitment.

Perhaps, after getting inflation wrong so drastically over the past two years, the Bank didn't want to be caught on the wrong side of forecast errors again. And not to sound too conspiratorial, but maybe, introducing scope for downside misses will give the Bank additional cover to remain sidelined after another supersized September hike. For the sake of Canadians (and selfishly, our forecasts), let's hope the BoC's inflation projections are wrong once again—just in the other direction for once.

For once, the BoC may have *overestimated* inflation

CPI inflation trajectory projected in last six BoC MPRs vs. NBF forecast



NBF Economics and Strategy (data via Bank of Canada, StatCan) | Note: Some quarters not explicitly provided by BoC. These are estimated based on the quarterly, Q4/Q4 and full-year inflation projections given)

Canadian Bond Market: Interest rates, spreads and currencies

	15-Jul-22	15-Apr-22	14-Jan-22	15-Oct-21	16-Jul-21
Interest Rates					
3 months	2.695	1.082	0.339	0.117	0.167
2 years	3.212	2.42	1.164	0.761	0.497
5 years	3.08	2.635	1.569	1.241	0.87
10 years	3.08	2.761	1.773	1.586	1.241
30 years	3.016	2.714	2.021	1.985	1.768
Spreads					
3 months - 2 years	51.7	133.8	82.5	64.4	33
2 - 5 years	-13.2	21.5	40.5	48	37.3
5 - 10 years	0	12.6	20.4	34.5	37.1
10 - 30 years	-6.4	-4.7	24.8	39.9	52.7
Currencies					
CAD/USD	1.3027	1.261	1.2552	1.2368	1.2613
EUR/CAD	0.7604	0.7332	0.6979	0.6973	0.6715

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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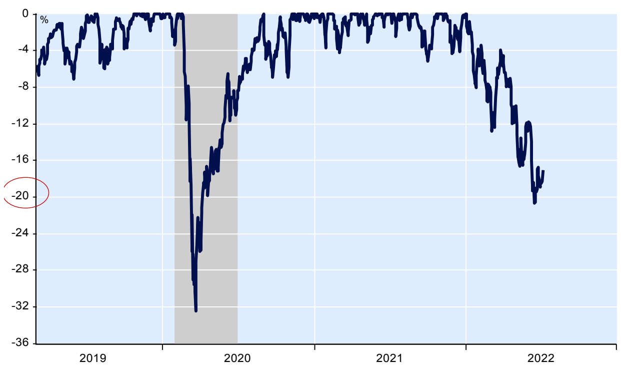
World: Stocks are still struggling

After falling into bear market territory on June 16 for the first time since 2020, the MSCI ACWI has regained some of what was lost. Still, the global benchmark remains down 17% from its peak (chart).

World: Stocks are still struggling
% decrease from peak for the MSCI ACWI (as of July 8, 2022)



NBF Economics and Strategy (data via Refinitiv)

Equity markets continue to be impacted by rising global financial tensions due to a more uncertain economic outlook. Many European economies are on the ropes, China is still struggling to contain COVID and recession fears in the U.S. are rising as the Federal Reserve continues to indicate the need for restrictive monetary policy.

MSCI composite index: Price Performance

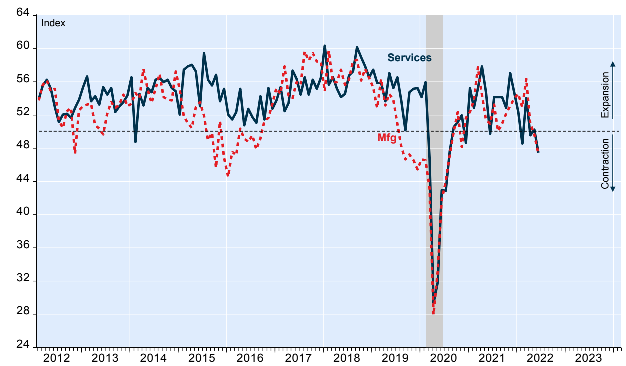
	Month to date	Quarter to date	Year to date
MSCI ACWI	2.4	2.4	-16.6
MSCI World	2.7	2.7	-16.8
MSCI USA	3.2	3.2	-19.2
MSCI Canada	0.8	0.8	-10.3
MSCI Europe	1.9	1.9	-13.6
MSCI Pacific ex Jp	1.2	1.2	-7.9
MSCI Japan	1.0	1.0	-6.0
MSCI EM	0.3	0.3	-14.6
MSCI EM EMEA	0.6	0.6	-22.4
MSCI EM Latin America	1.4	1.4	-6.3
MSCI EM Asia	0.1	0.1	-14.0

7/8/2022

NBF Economics and Strategy (data via Refinitiv)

Something will have to give. In our view, although U.S. real GDP growth is expected to be positive in the second half of 2022, it is unlikely to be above potential. If we are right, the pace of hiring should soon decelerate and set the stage for moderating inflation and a less hawkish Fed. Despite the creation of a stronger-than-expected 370K payroll jobs in June, we see impending signs of weakness. The ISM index for employment in manufacturing and services fell below 50 in July (chart). A slowdown in the pace of job creation would certainly help mitigate wage inflation and reduce the need for restrictive monetary policy.

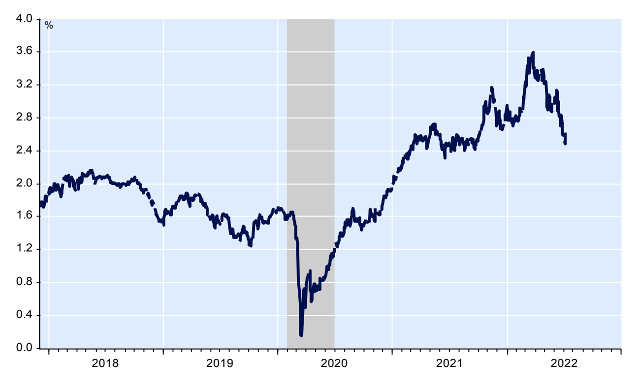
U.S.: ISM reports signal a slowdown in hiring
ISM PMIs, employment component



NBF Economics and Strategy (data via Refinitiv)

Already, it is interesting to note that the upward pressure on 10-year Treasury yields has eased in recent weeks due to lower inflation expectations. Indeed, the 5-year breakeven inflation rate in the United States has returned to 2.4%, its lowest level in a year (chart).

U.S.: Inflation expectations at their lowest in a year
5-year breakeven inflation rate (U.S. TIPS)

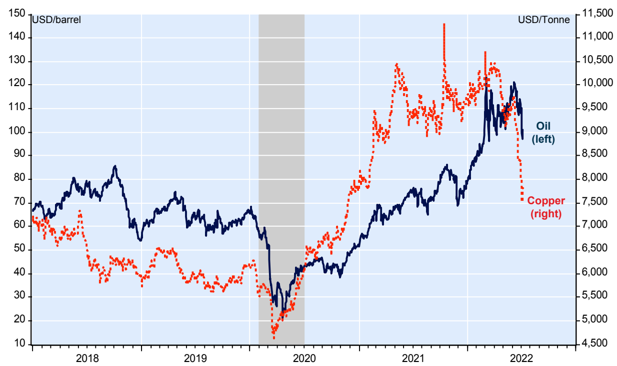


NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

This coincides with a decline in commodity prices. Both copper and oil have fallen sharply recently, which should help push down overall CPI inflation later this summer (chart).

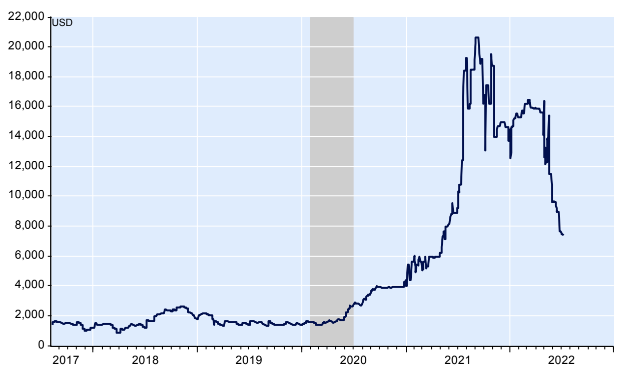
World: Commodity prices are down
Price of copper and Brent oil



NBF Economics and Strategy (data via Refinitiv)

Looking ahead, we think it is unlikely that commodity prices will fall much from current levels. Indeed, we still expect China to take some of the slack from other regions in terms of commodity consumption as the Middle Kingdom eases COVID restrictions later this summer. By early July, an increase in manufacturing activity in China and improved fluidity at major transportation hubs had already substantially lowered the cost of shipping a container from China to the U.S. West Coast (chart). This bodes well for a decline in consumer goods inflation in the second half of 2022 even if commodity prices remain stable.

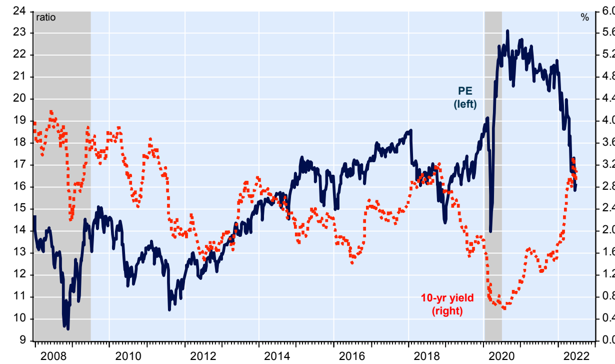
World: Transportation costs are falling
Price of shipping a container from China to the U.S. West Coast



NBF Economics and Strategy (data via Refinitiv)

Such a development would also help cap 10-year Treasury yields which is necessary to stabilize PE ratios (chart).

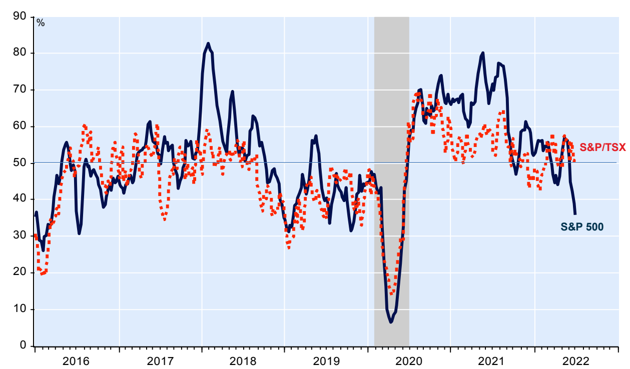
U.S.: Interest rates near a top
Forward PEs for the S&P 500 vs. yield on 10-year U.S. treasury



NBF Economics and Strategy (data via Refinitiv)

With forward PEs likely to normalize near current levels, the outlook for the stock market will now depend on companies' ability to meet their reduced earnings forecasts. Indeed, the proportion of upward revisions to 12-month earnings per share is only 36% for the S&P 500, the lowest level in two years (chart).

S&P 500: More companies guiding down than up
Upward revisions for 12-month forward EPS as a share of total earnings revisions: S&P 500 and S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

Consumer discretionary remains the hardest hit by negative earnings revisions, with a sharp 2.4% reduction in 12-month EPS over the past month and a cumulative 10.1% decline over the past three months (table).

S&P 500 : change in 12-month forward earnings

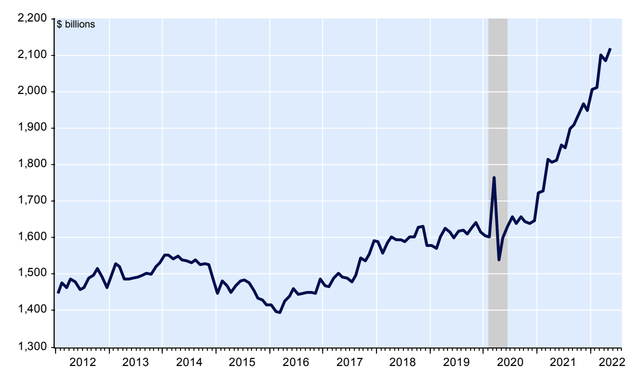
	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
S&P 500	0.3	-0.8	-0.2	-0.3	36%	49%
ENERGY	32.9	-2.9	5.1	-1.5	86%	43%
MATERIALS	6.9	-1.7	-0.6	-0.6	26%	43%
INDUSTRIALS	0.7	-2.2	-0.3	-0.8	30%	48%
CONS. DISC.	-10.1	-1.4	-2.4	-0.5	29%	47%
CONS. STAP.	-1.7	-0.9	-0.2	-0.3	44%	46%
HEALTH CARE	-1.7	0.3	0.0	0.1	33%	52%
FINANCIALS	-0.1	-0.1	-0.9	0.0	27%	51%
IT	-0.9	0.0	-0.7	0.0	30%	52%
TELECOM	-6.5	-0.1	-0.7	0.0	24%	43%
UTILITIES	0.5	-0.3	0.0	-0.1	56%	50%
REAL ESTATE	3.5	NA	0.1	NA	55%	NA

7/8/2022

NBF Economics and Strategy (data via Refinitiv)

This development is linked to the massive change in consumption patterns caused by rising food and energy prices, which forced households to increase their spending on basic necessities by nearly $500 billion over the past 18 months (chart).

U.S.: A major shift in consumer habits
Personal consumption expenditures on food & energy



NBF Economics and Strategy (data via Refinitiv)

To the extent that inflation begins to decline this summer and the U.S. avoids a recession, concerns on discretionary spending should abate. The latest reading on the NBF weekly monitor of U.S. recession risks (available here for updates) is consistent with an economic slowdown, but not contraction. Though equities, corporate bond market, commodities and U.S. dollar are still at risk-off levels relative to previous recessions, the steepness of the yield

Stock Market and Portfolio Strategy

curve and still accommodative real rates suggest a pro-growth environment. At this point, it is also encouraging to see that hard economic data has not weakened as much as soft data.

U.S.: NBF recession tracking table does not suggest recession
As of July 8, 2022

		Last reading	Prior reading*	Value 3 months before U.S. Recessions: 2020	2007-09	2001	1990-91	1981-82	1980	1973-75	1970	Median
Financial	S&P 500 (% drawdown from past year max)	-19%	-20%	-1%	0%	-14%	-8%	-6%	-8%	-13%	-15%	-8%
	BBB spread (increase from past year min, bps)	67.0	73.4	2	46	134	6	0	41	43	23	32
	Copper price (% drawdown from past year max)	-31%	-29%	-11%	-2%	-10%	-12%	-16%	-1%	0%	-2%	-6%
	Oil price (% drawdown from past year max)	-15%	-12%	-16%	-4%	-31%	-21%	-4%	0%	0%	0%	-4%
	U.S. Dollar (% increase from past year min)	8.4%	7.8%	3%	0%	7%	11%	12%	6%	NA	NA	7%
	Yield curve (10-year minus 3-month, bps)	114	119	26	77	-76	98	-62	-127	-157	35	-18
	3 month treasury - core PCE (percentage points)	-2.7	-3.0	0.0	1.6	3.9	4.2	5.6	4.5	4.5	2.5	4.0
Soft data	Consumer sentiment (Michigan)	50.0	58.4	99.3	80.9	94.7	90.6	76.3	63.3	72.0	86.4	83.7
	SME confidence	93.1	93.2	102.7	96.1	96.4	99.4	97.4	93.3	NA	NA	96.9
	CEO confidence (quarterly data)	42.0	57.0	43.0	44.0	31.0	48.0	61.0	32.0	NA	NA	43.5
	ISM manufacturing	53.0	56.1	47.9	52.8	42.3	49.5	53.5	48.0	63.5	54.6	51.2
	ISM services	55.3	55.9	55.7	53.5	52	NA	NA	NA	NA	NA	53.5
Hard data	UI Claims 4-week ave. (% increase from past year min)	30.2%	16.3%	6%	8%	26%	6%	2%	20%	12%	10%	9%
	Temp. help services jobs (% drawdown from past year max)	0.0%	0.0%	0.0%	-3.2%	-4.3%	NA	NA	NA	NA	NA	-3.2%
	Average hours worked (% drawdown from past year max)	-0.9%	-0.9%	-0.9%	-0.3%	-0.6%	-0.9%	-0.3%	-0.6%	-0.5%	-0.8%	-0.6%
	Housing permits (% drawdown from past year max)	-10.6%	-3.9%	-5%	-27%	-2%	-39%	-21%	-30%	-30%	-19%	-24%
	Real consumption (3-month, % ann)	0.7%	2.4%	1.3%	2.4%	2.3%	1.8%	-0.1%	0.7%	4.1%	6.4%	2.1%

*Previous Friday for financial data, previous month for hard and soft data (quarter for CEO confidence)
NBF Economics and Strategy (data via Refinitiv, Bloomberg)

S&P/TSX: Cheapest PE in a decade

The S&P/TSX has lost some of its lustre in recent weeks but remains one of the best performing equity markets in 2022. The Canadian benchmark is down 9% year-to-date on a total return basis. Energy (+23.4%), consumer staples (+2.7%) and utilities (1.7%) are the only sectors to show positive returns year-to-date - table.

S&P/TSX composite index: Price Performance (Total return)

	Month to date	Quarter to date	Year to date
S&P TSX	1.0	1.0	-9.0
IT	7.4	7.4	-52.0
CONS. DISC.	4.2	4.2	-13.7
CONS. STAP.	3.9	3.9	2.7
HEALTH CARE	3.8	3.8	-52.2
INDUSTRIALS	2.4	2.4	-7.2
FINANCIALS	1.6	1.6	-9.8
BANKS	1.3	1.3	-8.7
REAL ESTATE	1.3	1.3	-20.6
UTILITIES	0.4	0.4	1.7
TELECOM	-0.2	-0.2	-0.9
MATERIALS	-1.5	-1.5	-9.7
ENERGY	-2.2	-2.2	23.4

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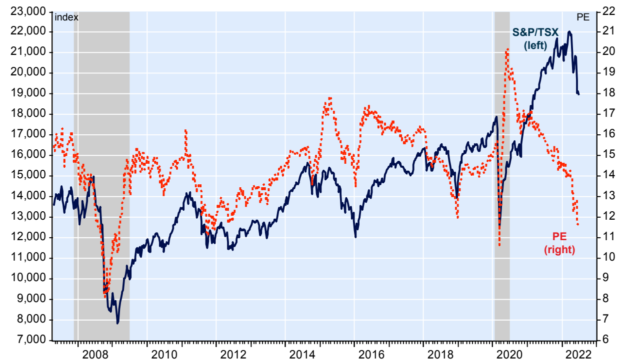
NBF Economics and Strategy (data via Refinitiv)

The S&P/TSX continues to suffer from significant valuation erosion. The 12-month forward PE is currently 11.6x, the lowest level in a decade excluding the 2020 pandemic recession - chart.

S&P/TSX: Cheapest PE in a decade outside pandemic recession
S&P/TSX and its 12-month forward PE



NBF Economics and Strategy (data via Refinitiv)

The PE erosion has been amplified by the fact that, unlike many other indices, the S&P/TSX still benefits from positive earnings revisions. The 12-month forward EPS estimate has been revised up by 0.7% in the aggregate in the past month, led by Energy, Financials, Banks and Utilities.

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

	3-month change		1-month change		1-month diffusion (% up)	
	Last data	10-year average	Last data	10-year average	Last data	10-year average
S&P TSX	4.3	-1.7	0.7	-0.5	50%	44%
ENERGY	16.0	-4.1	3.0	-2.5	79%	43%
MATERIALS	16.0	-3.8	-0.1	-1.4	30%	42%
INDUSTRIALS	-2.1	-2.7	-0.3	-0.9	53%	43%
CONS. DISC.	-3.7	-1.6	-0.2	-0.6	57%	46%
CONS. STAP.	-1.3	-0.3	-1.1	-0.1	43%	45%
HEALTH CARE	-5.3	-6.8	-1.0	-2.5	60%	40%
FINANCIALS	-2.0	0.1	0.1	0.0	36%	50%
BANKS	-0.8	0.3	0.1	0.1	50%	52%
IT	-8.8	-0.7	-1.9	0.0	14%	47%
TELECOM	-0.3	-1.1	-0.3	-0.4	71%	42%
UTILITIES	3.3	-1.7	1.9	-0.4	75%	43%
REAL ESTATE	-3.5	NA	0.0	NA	100%	NA

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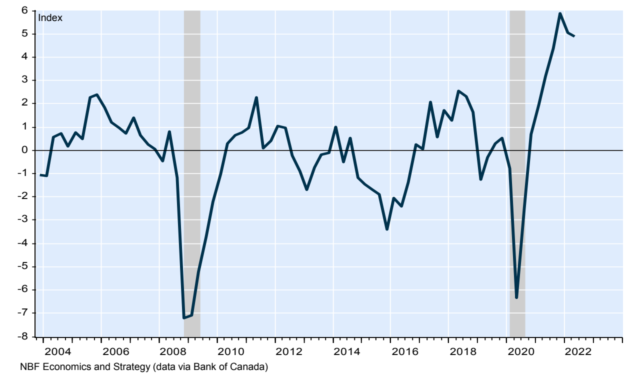
NBF Economics and Strategy (data via Refinitiv)

The resilience of earnings in Canada reflects the fact that the country benefits from high commodity prices, a cheap currency and a tight labour market. The Bank of Canada's latest reading on business sentiment showed optimism at a relatively high level (chart).

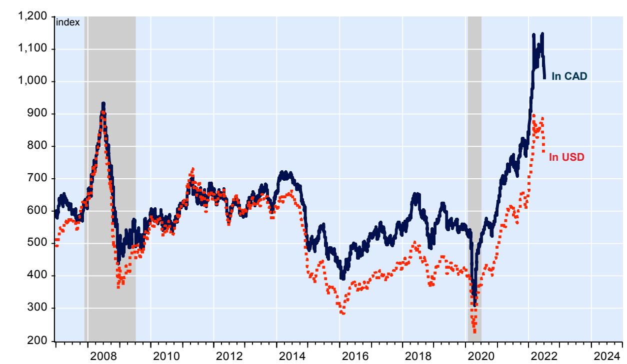
Canada: Business sentiment still high
Business Outlook Survey Indicator



NBF Economics and Strategy (data via Bank of Canada)

While the recent drop in commodity prices is expected to have a negative impact on investor sentiment later this summer, the erosion of earnings will be mitigated by the weakness of the Canadian currency. Expressed in CAD, the price received by commodity producers remains near record levels - chart.

Canada: Cheap currency supports earnings
Price index of commodities produced in Canada: prices received in USD and CAD

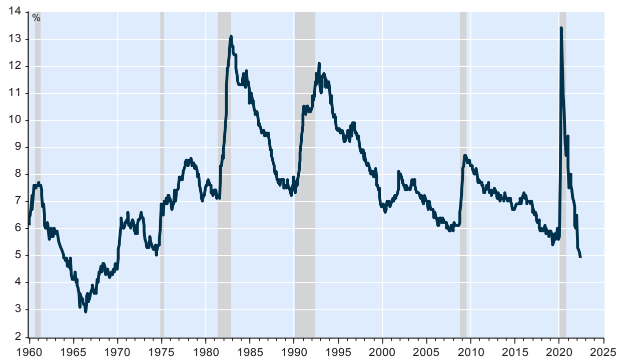


NBF Economics and Strategy (data via Refinitiv)

Domestically, consumer spending is benefitting from fiscal stimulus and tight labour markets. The jobless rate fell to its lowest level since 1970 in June – chart.

Stock Market and Portfolio Strategy

Canada: Jobless rate stands at its lowest level since 1970
Unemployment rate



NBF Economics and Strategy (data via FRED)

Still, with higher interest rates in the offing some investors are beginning to doubt the resilience of Canadian earnings which are expected to rise 11.7% over the coming year – table.

MSCI composite index: EPS Performance

	2021	2022	2023	2024	12 months forward
MSCI ACWI	54.7	11.2	7.6	7.9	9.1
MSCI World	55.1	11.4	7.4	7.7	9.1
MSCI USA	52.5	9.5	9.7	8.8	9.3
MSCI Canada	75.1	22.4	3.1	4.8	11.7
MSCI Europe	66.0	14.4	3.3	6.1	8.2
MSCI Pacific ex Jp	46.2	15.7	6.6	0.6	8.7
MSCI Japan	0.0	42.4	9.9	4.4	8.4
MSCI EM	52.3	10.4	8.4	9.3	9.4
MSCI EM EMEA	63.5	13.7	10.1	6.7	12.0
MSCI EM Latin America	190.8	16.6	-4.5	-0.8	7.4
MSCI EM Asia	39.4	8.8	10.5	11.4	9.5

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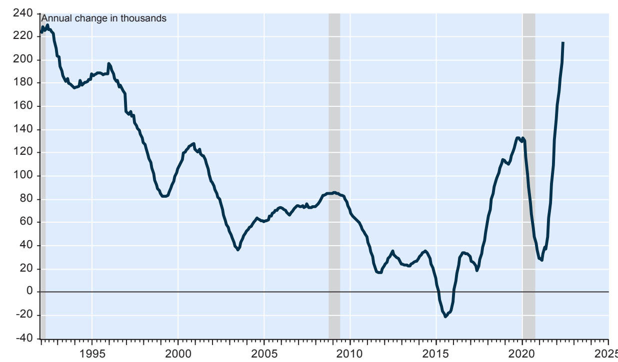
NBF Economics and Strategy (data via Refinitiv)

One of the biggest concerns is Canada's ability to withstand a significant weakening in housing activity. While a prolonged decline in housing prices would inflict significant collateral damage on the economy, we view this scenario as unlikely as we do not see monetary policy becoming excessively restrictive in Canada. It is also important to keep in mind that Canada's prime-aged population growth is the best in a generation. The increase of 220,000 in the last 12 months is the highest since 1993 – graph. This is a fundamental support for household formation and residential construction.

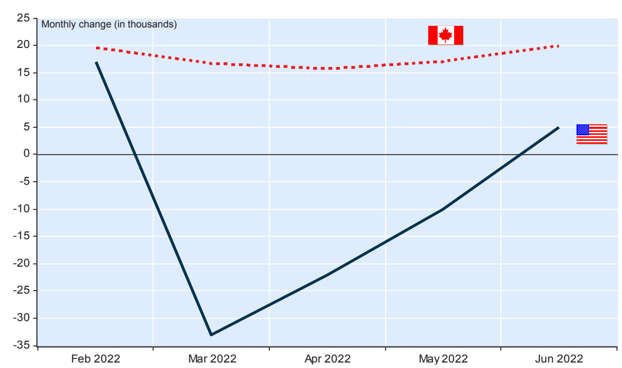
Canada: Best demographics since 1993
Population aged 25-54



NBF Economics and Strategy (data via Statistics Canada)

It is important to note that the growth momentum remains strong for this very important segment of the population. Supported by an aggressive immigration policy that targets talented people who can easily enter the workforce, this cohort is currently growing by 20,000 people per month. This compares to virtually no growth in the United States – chart.

Canada: Prime-age population grows faster than in the U.S.
Population growth for people aged 25-54



NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is unchanged this month. Our equity weighting remains close to the benchmark, with a continued preference for Canada. In our opinion, the current geopolitical backdrop argues for a period of higher for longer for commodity prices that makes the S&P/TSX a defensive play for equity holdings. The Canadian economy also remains relatively well positioned to withstand stagflation fears. Fixed income remains underweight, and cash remains slightly overweight for now.

NBF Asset Allocation

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

NBF Economics and Strategy

Sector allocation

Our sector allocation remains unchanged this month.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - July/August 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**17.9%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	17.8%
Materials	**Overweight**	**11.3%**
Chemicals	Market Weight	2.1%
Containers & Packaging	Overweight	0.4%
Metals & Mining *	Overweight	2.3%
Gold	Overweight	6.0%
Paper & Forest Products	Market Weight	0.4%
Industrials	**Market Weight**	**12.3%**
Capital Goods	Overweight	1.9%
Commercial & Professional Services	Underweight	3.3%
Transportation	Market Weight	7.1%
Consumer Discretionary	**Market Weight**	**3.4%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Overweight	0.5%
Consumer Services	Market Weight	0.8%
Retailing	Market Weight	1.3%
Consumer Staples	**Market Weight**	**4.2%**
Food & Staples Retailing	Market Weight	3.6%
Food, Beverage & Tobacco	Market Weight	0.6%
Health Care	**Market Weight**	**0.4%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.3%
Financials	**Market Weight**	**32.0%**
Banks	Market Weight	21.9%
Diversified Financials	Market Weight	4.1%
Insurance	Market Weight	6.1%
Information Technology	**Underweight**	**5.5%**
Telecommunication Services	**Market Weight**	**5.2%**
Utilities	**Underweight**	**5.2%**
Real Estate	**Underweight**	**2.7%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	Q4 2022
Index Level		Jul-12-22	Target
S&P/TSX		18,679	20,300
Assumptions			Q4 2022
Level:	Earnings *	1509	1585
	Dividend	602	632
PE Trailing (implied)		12.4	12.8

* Before extraordinary items, source Thomson

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	Q4 2022
Index Level		Jul-12-22	Target
S&P 500		3,819	4,050
Assumptions			Q4 2022
Level:	Earnings *	218	222
	Dividend	63	64
PE Trailing (implied)		17.5	18.2

* 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
	07-11-2022	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	**3840**	**1.8%**	**-19.9%**	**-13.6%**	**27.4%**	**-17.6%**	**-10.0%**	**26.5%**	**1.00**
United States - S&P 500	3854	1.8%	-19.1%	-11.8%	28.5%	-16.8%	-8.1%	27.6%	1.00
Canada - S&P TSX	18817	-0.2%	-11.3%	-7.1%	13.9%	-11.3%	-7.1%	13.9%	0.95
Europe - MSCI Index	**1600**	**-1.6%**	**-23.6%**	**-21.9%**	**-4.2%**	**-21.4%**	**-18.6%**	**-4.9%**	**0.90**
United Kingdom - FTSE 100	7197	0.4%	-2.6%	1.1%	-4.2%	-12.0%	-9.6%	-9.8%	0.52
Germany - DAX 30	12832	0.4%	-19.2%	-18.2%	4.1%	-26.3%	-27.6%	-7.4%	0.92
France - CAC 40	5996	1.2%	-16.2%	-8.2%	8.0%	-23.5%	-18.7%	-3.9%	0.88
Switzerland - SMI	11027	2.7%	-14.4%	-8.0%	11.6%	-18.1%	-10.6%	11.9%	0.95
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	5.7%	-8.8%	-11.5%	-6.0%	0.38
Netherlands - Amsterdam Exchanges	669	1.5%	-16.1%	-8.6%	18.0%	-23.5%	-19.1%	5.0%	0.96
Pacific - MSCI Index	**2547**	**0.3%**	**-18.0%**	**-19.3%**	**-5.8%**	**-15.7%**	**-15.9%**	**-6.4%**	**0.78**
Japan - Nikkei 225	26812	1.6%	-6.9%	-4.0%	23.9%	-19.7%	-19.9%	-3.0%	0.90
Australia - All ordinaries	6793	0.7%	-12.7%	-10.0%	-0.2%	-16.8%	-15.6%	-4.3%	0.87
Hong Kong - Hang Seng	21124	-3.4%	-9.7%	-22.8%	-25.7%	-7.7%	-20.4%	-26.5%	-0.10
World - MSCI Index	**2572**	**1.0%**	**-20.4%**	**-15.7%**	**16.6%**	**-18.1%**	**-12.2%**	**15.8%**	**0.99**
World Ex. U.S.A. - MSCI Index	**1866**	**-0.9%**	**-20.9%**	**-19.9%**	**-3.0%**	**-18.6%**	**-16.5%**	**-3.6%**	**0.90**
EAFE - MSCI Index	**1829**	**-0.9%**	**-21.7%**	**-20.9%**	**-4.7%**	**-19.4%**	**-17.6%**	**-5.4%**	**0.87**
Emerging markets (free) - MSCI Index	**981**	**-2.0%**	**-20.4%**	**-25.6%**	**-7.0%**	**-18.1%**	**-22.5%**	**-7.7%**	**0.73**

* Correlation of monthly returns (3 years).

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-07-11

	Weight S&P 500 %	Index Level	Variation 3-m Δ	12-m Δ	EPS Growth 2022	2023	12-m forward	P/E 2022	2023	12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	258	-15.86	-10.12	10.80	9.12	9.57	16.95	15.53	16.12	14.08	1.68	0.26
Energy	4.20	536	-8.66	34.21	121.44	-11.74	29.69	8.01	9.08	8.51	23.61	0.29	32.89
Materials	2.52	458	-17.14	-12.11	20.18	-5.76	5.88	12.31	13.06	12.65	9.72	2.15	6.85
Industrials	7.67	739	-12.01	-15.61	36.54	19.48	26.41	17.37	14.53	15.80	13.33	0.60	0.65
Consumer Discretionary	10.73	1117	-19.68	-24.23	11.04	32.74	21.38	25.46	19.18	21.95	28.53	1.03	-10.05
Consumer Staples	6.92	756	-7.72	4.32	3.91	7.33	5.49	20.94	19.51	20.08	7.74	3.66	-1.66
Healthcare	15.14	1521	-6.79	1.30	5.88	0.03	2.90	15.69	15.69	15.70	8.36	5.41	-1.65
Financials	10.77	529	-15.60	-13.27	-10.63	13.47	0.76	12.18	10.73	11.41	7.50	15.07	-0.13
Information Technology	27.17	2292	-12.10	-13.73	13.05	11.21	10.93	20.73	18.64	19.21	14.77	1.76	-0.86
Telecom Services	8.94	191	-15.81	-28.73	-4.48	15.60	5.26	15.85	13.71	14.65	15.50	2.78	-6.51
Utilities	3.05	357	-7.38	8.68	2.22	7.93	5.10	20.19	18.71	19.41	6.70	3.81	0.52
Real Estate	2.90	258	-15.86	-10.12	-10.31	2.95	-4.04	36.50	35.45	35.97	11.27	neg.	3.52

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Unwinding the bull

The bull cycle in stocks on the S&P/TSX has played out and an emerging bear trend is being established. U.S. markets led the downturn with growth and technology stocks leading way. Weakness in commodity stocks will help push the S&P/TSX lower with the index already in a technically weak position after breaking down from a top formation. Moreover, the S&P Materials SPDR ETF has also broken a top and is trending lower. We highlight the bullish chart of the DXY and charts of WTI, copper and gold with their important levels.

Technical Analysis

S&P/TSX Composite Index (GSPTSE)

The S&P/TSX Index recently broke down from a one-year top to reverse the bull trend from the March 2020 lows. Breaking below its rising trendline and moving averages in April confirms our view of an impending downturn. The S&P/TSX now joins a number of other international markets that have broken down from top structures. Key support at approximately 19,700 was taken out to put the market in a bear trend. Next target is 17,000.

Source: Refinitiv

Technical Analysis

U.S. Dollar Index (DXY)

A long-term chart of DXY gives the best perspective on where the U.S. dollar is headed. This chart broke out of a big triangle in 2014 to start a major bull trend. After seven years of consolidation, the chart has broken out again from a rectangle formation that sets up an eventual test of 120. A stronger U.S. dollar will continue to create headwinds for commodities.

Source: Refinitiv

Technical Analysis

Materials Select Sector SPDR Fund (XLB)

XLB is an ETF of materials stocks in the U.S. Materials stocks are starting to turn down as the recent strength in the U.S. dollar takes it to multi-year highs. A 15-month top was completed when XLB broke US$79.00. The bull trend from the March 2020 lows has reversed into a bear trend. Next target is US$60.00 and possibly lower. This suggests most materials/commodity stocks will trade lower.

Source: Refinitiv

Technical Analysis

WTI (CLc1)

The bull trend in WTI is starting to lose momentum. A spike high in March was followed by a sharp decline that found support at US$95.00. Trendline support broke in June as well as its 50-day moving average. Oil stocks are starting to underperform oil and may be a clue that WTI eventually breaks support at US$95.00. Nevertheless, a break of support at US$95.00 opens the door for much further downside.

Source: Refinitiv

Technical Analysis

Copper (HGc1)

Copper prices broke key support at US$4.00 recently to start a bearish trend. The marginal new all-time highs that it achieved could not be sustained as the chart formed a top over the last 15 months. Breaking $4.00 with strong momentum indicates that lower prices will be sustained for some time. Next target and support is US$3.00.

Source: Refinitiv

Back to Research Analysts page

Technical Analysis

Gold (XAU=)

A rising trendline on the gold chart was recently severed along with support at US$1,800 as strength in the U.S. dollar hit all commodities. This break suggests gold prices will test support at US$1,670 to US$1,700. We believe this support is at risk as strength in the U.S. dollar persists. A breakdown here could see gold prices trade down to its next support at US$1,450.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **July 7, 2022**

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	$23.53	$41.00	1.80%	76.03%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$29.53	$38.00	6.40%	35.18%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$5.83	$9.00	0.52%	54.89%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$5.40	$8.50	0.00%	57.41%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$65.99	$95.00	1.36%	45.33%	Oil, Gas & Consumable Fuels
Materials							
	CCL Industries Inc.	CCL.b	$62.72	$79.00	1.52%	27.49%	Containers & Packaging
	Centerra Gold Inc.	CG	$8.19	$15.00	3.62%	86.57%	Gold
	Endeavour Mining plc	EDV	$25.98	$46.00	2.77%	79.79%	Gold
	First Quantum Minerals Ltd.	FM	$26.71	$35.00	0.04%	31.07%	Metals & Mining
	Kinross Gold Corp.	K	$4.40	$13.00	3.57%	198.99%	Gold
	Pan American Silver Corp.	PAAS	$24.86	$44.75	2.06%	82.03%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$37.37	$55.00	1.40%	48.51%	Metals & Mining
	Wesdome Gold Mines Ltd.	WDO	$11.04	$18.50	0.00%	67.57%	Gold
	Wheaton Precious Metals Corp.	WPM	$45.81	$75.00	1.66%	65.37%	Gold
Industrials							
	Air Canada	AC	$16.66	$30.00	0.00%	80.07%	Transportation
	ATS Automation Tooling Systems Inc.	ATA	$37.97	$52.00	0.00%	36.95%	Capital Goods
	Boyd Group Services Inc.	BYD	$146.12	$170.00	0.39%	16.74%	Commercial & Professional Services
	CAE Inc.	CAE	$32.48	$44.00	0.00%	35.47%	Capital Goods
	GDI Integrated Facility Services Inc.	GDI	$45.99	$70.50	0.00%	53.29%	Commercial & Professional Services
	H2O Innovation Inc.	HEO	$1.80	$3.25	0.00%	80.56%	Capital Goods
	Mullen Group Ltd.	MTL	$11.35	$16.50	6.35%	51.72%	Transportation
	Richelieu Hardware Ltd.	RCH	$36.96	$54.50	1.38%	48.86%	Transportation
	WSP Global Inc.	WSP	$146.87	$182.00	1.03%	24.94%	Capital Goods
Consumer Discretionary							
	BRP Inc.	DOO	$86.01	$136.00	0.74%	58.87%	Consumer Durables & Apparel
	Spin Master Corp.	TOY	$45.19	$66.00	0.00%	46.05%	Consumer Durables & Apparel
Consumer Staples							
	Loblaw Companies Ltd.	L	$118.89	$125.00	1.36%	6.50%	Food & Staples Retailing
Health Care							
	Dentalcorp Holdings Ltd.	DNTL	$12.91	$18.00	0.00%	39.43%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$5.95	US$9.75	4.84%	68.91%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$13.11	$17.50	7.17%	40.63%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$63.54	$84.00	5.23%	37.43%	Banks
	ECN Capital Corp.	ECN	$5.54	$8.00	0.73%	45.13%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$700.93	$1050.00	1.80%	51.62%	Insurance
	iA Financial Corp.	IAG	$64.17	$80.00	3.90%	28.56%	Insurance
	Royal Bank of Canada	RY	$127.48	$148.00	4.01%	20.11%	Banks
Information Technology							
	Docebo Inc.	DCBO	US$30.27	US$85.00	0.00%	180.81%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US$21.67	US$65.00	0.00%	199.95%	Software & Services
	Nuvei Corp.	NVEI	US$43.84	US$130.00	0.00%	196.53%	Software & Services
Communication Services							
	Rogers Communications Inc.	RCI.b	$62.27	$83.00	3.25%	36.50%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$27.30	$33.00	3.86%	24.76%	Utilities
	Boralex Inc.	BLX	$43.12	$47.00	1.51%	10.53%	Utilities
	Innergex Renewable Energy Inc.	INE	$18.26	$23.00	3.91%	29.90%	Utilities
	Northland Power Inc.	NPI	$39.44	$44.00	3.04%	14.60%	Utilities
Real Estate							
	BSR REIT	HOMu	US$14.93	US$24.50	3.49%	67.58%	Real Estate
	Colliers International Group Inc.	CIGI	US$149.67	US$164.00	0.26%	9.83%	Real Estate
	European Residential REIT	ERE.un	$3.62	$5.80	4.47%	64.67%	Real Estate
	Flagship Communities REIT	MHC.u	US$15.10	US$24.00	3.49%	62.48%	Real Estate
	Minto Apartment REIT	MI.un	$14.66	$24.50	3.26%	70.36%	Real Estate
	Tricon Residential Inc.	TCN	$13.77	$21.00	2.20%	54.68%	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 7, 2022
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› *METALS AND MINING: PRECIOUS METALS / BASE METALS*

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

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Selections

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

Canadian Banks & Lifecos

iA Financial Corp. (TSX: IAG) – *Choppy macro put 2022 EPS guidance into doubt, but relative appeal still exists.*

IAG's weaker than expected Q1/22 was primarily a factor of negative claims experience in the Group business and expense pressures caused by inflation. The latter factor could easily persist and, combined with falling equity markets, puts into question the achievability of 2022 EPS guidance. However, with the stock down ~30% from its YTD peak and trading at 1.00x P/B, we believe downside risk to EPS is materially reflected in the stock. We note that IAG's depressed P/B multiple could appeal to value-oriented investors, especially considering the company reiterated that IFRS 17 transition should have a "near-neutral to favourable" impact on core EPS/ROE and book value. Furthermore, at these levels, we believe the company could be opportunistic with the buyback program, which has over five million (~5.0% of shares O/S) of capacity. $80 price target. Outperform.

Canadian Imperial Bank of Commerce (TSX: CM) – *Ahead of the curve on more conservative provisioning.*

The story of CM's Q2/22 is how the bank zigged (i.e., added to performing provisions) while its peers zagged (i.e., released). In our view, the market will be skeptical of the bank's provision management strategy until it can be demonstrated that this quarter was more emblematic of the bank's conservatism (which is our view) than of its business mix. If anything, CM has released only ~43% of its 2020 performing ACL build and maintains a high performing ACL ratio that is above its pre-COVID levels. Regarding CM's Investor Day (June 2022) - while we view the banks' medium-term targets as impressive, we believe most investors are more focused on the near term, and how banks aim to navigate a very challenging macro backdrop. A few noteworthy comments by CM's management team included: 1) despite the negative macro backdrop, the bank believes the benefit of higher interest rates to revenue growth enables it to maintain investment spending that should keep cost growth in the mid-single digits; 2) mortgage growth is expected to fall to the low- to mid-single digits; and 3) it expects the CET 1 ratio to hover around its 11.5% target operating level.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		83,574	672	124.43	10/2021	12.96	13.21	13.89	9.4	9.0	89.17	92.80	104.26	1.3	1.2	4.5%	152.00	
Bank of Nova Scotia	BNS	SP		90,065	1,204	74.78	10/2021	7.87	8.44	8.59	8.9	8.7	54.13	56.12	60.27	1.3	1.2	5.5%	91.00	
CIBC	CM	OP		56,301	903	62.33	10/2021	7.23	7.33	7.56	8.5	8.2	48.09	49.54	52.80	1.3	1.2	5.3%	84.00	
National Bank	NA	NR		28,518	336	84.77	10/2021	8.98	9.43	9.63	9.0	8.8	52.81	54.66	59.25	1.6	1.4	4.3%	NR	
Royal Bank of Canada	RY	OP		177,956	1,418	125.54	10/2021	11.19	11.34	12.15	11.1	10.3	69.20	70.95	75.75	1.8	1.7	4.1%	148.00	
Toronto-Dominion Bank	TD	SP		151,232	1,819	83.15	10/2021	7.91	7.79	8.45	10.7	9.8	51.49	54.10	59.82	1.5	1.4	4.3%	102.00	
Canadian Western Bank	CWB	OP		2,335	92	25.50	10/2021	3.81	3.59	3.75	7.1	6.8	33.43	34.47	36.70	0.7	0.7	4.9%	38.00	
Laurentian Bank	LB	SP		1,667	43	38.57	10/2021	4.57	5.12	5.33	7.5	7.2	56.58	57.95	61.12	0.7	0.6	4.7%	53.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		29,202	932	31.34	12/2021	3.50	3.77	4.02	8.3	7.8	24.57	25.85	25.55	1.2	1.2	6.3%	38.00	
iA Financial	IAG	OP		6,677	107	62.36	12/2021	8.31	8.34	8.95	7.5	7.0	61.02	65.35	66.58	1.0	0.9	4.0%	80.00	
Manulife Financial	MFC	SP		42,121	1,911	22.04	12/2021	3.25	3.19	3.27	6.9	6.7	26.33	26.77	22.73	0.8	1.0	6.0%	26.00	
Sun Life Financial	SLF	SP		34,080	586	58.15	12/2021	5.99	5.87	6.12	9.9	9.5	40.37	43.71	38.34	1.3	1.5	4.7%	68.00	

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

- › *Fairfax Financial*
- › *ECN Capital*

Investor Presentations

Element Fleet Management (EFN, Outperform, $20 PT) - *Deep dive into Mexico strategy and confidence in guidance reiterated at our fireside chat*

On June 22, 2022, we hosted a fireside chat with Frank Ruperto, EVP & CFO, and David Madrigal, EVP & Chief Commercial Officer. We dived into the Mexico business, key learnings that translate to the North American business and comments on outlook. On the former, management is confident global growth strategies - in particular, revamped sales teams - will generate strong growth in North America. On the latter, management is not seeing cautionary behaviour from clients impacting vehicle orders / utilization and is confident in 2022 and 2023 guidance, which could be revised higher if positive trends persist.

While we acknowledge the stock still hinges on OEM production delays resolving in line or ahead of management's mid-2023 assumption, increased 2022 guidance announced with Q1-22 results significantly de-risks our earnings forecast. We reaffirm our view that EFN will deliver consistent double-digit EPS (12% y/y in 2023) and FCF per share (14% y/y in 2023) growth over the medium term, driving significant FCF yield compression.

EQB Inc. (EQB, Outperform, $86 PT) - *Investor Day Reaffirms 2022 Guidance and Provides Solid Outlook Through 2027*

EQB hosted its 2022 in-person Investor Day on June 13, well attended by analysts and investors. Management demonstrated the strength and depth of its management team to drive the EQB growth strategy with presentations from the heads of Personal Banking, Commercial Banking, Technology, Human Capital and Risk Management divisions. Management reaffirmed the 2022 guidance and provided a solid 2022-2027 outlook.

While we believe EQB will deliver on robust long-term growth objectives and profitability targets, we reiterate our cautious stance on the Mortgage Finance sector. In our view, several factors represent downside risks that will continue to constrain sector valuations and share price performance near term, such as rising regulatory and policy uncertainty, rapid rise in interest rates and housing market risk.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 7/7	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
EQB Inc.	EQB	OP		1.85	34.1	54.33	12/2021	8.36	9.31	10.09	5.8	5.4	57.64	64.02	72.40	0.8	0.8	2.1%	86.00	
First National Financial	FN	SP		2.07	60.0	34.52	12/2021	3.13	2.69	3.53	12.9	9.8	9.33	9.77	10.65	3.5	3.2	6.8%	36.00	
Home Capital Group	HCG	OP		1.09	42.6	25.53	12/2021	4.87	4.42	4.97	5.8	5.1	37.45	40.85	45.04	0.6	0.6		38.00	
Timbercreek Financial	TF	SP		0.67	82.6	8.15	12/2021	0.68	0.70	0.74	11.7	11.1	8.33	8.34	8.38	1.0	1.0	8.5%	9.50	
Specialty Finance																				
ECN Capital	ECN	OP		1.37	246.6	5.54	12/2021	US 0.31	US 0.32	US 0.39	13.2	11.0	US 0.66	US 0.71	US 0.80	6.0	5.3	0.7%	8.00	
Element Fleet Management	EFN	OP		5.56	401.6	13.84	12/2021	0.84	0.94	1.05	14.7	13.2	7.40	7.56	8.05	1.8	1.7	2.2%	20.00	
goeasy	GSY	OP		1.65	16.0	103.24	12/2021	10.43	11.62	14.66	8.9	7.0	47.10	53.10	63.21	1.9	1.6	3.5%	155.00	
Brookfield Business Partners	BBU	OP		US 4.40	US 218.7	US 20.11	12/2021	US 2.90	US 0.27	US 0.60	74.5	33.5	US 19.43	US 23.27	US 28.66	0.9	0.7	1.2%	US 37.00	
Power Corporation of Canada	POW	SP		22.82	673.8	33.87	12/2021	4.77	3.88	4.41	8.7	7.7	33.32	34.91	37.30	1.0	0.9	5.8%	42.00	
HR Companies																				
LifeWorks Inc.	LWRK	T		2.2	70.4	31.04	12/2021	-0.34	0.74	0.88	41.8	35.3	8.24	8.32	8.56	3.7	3.6	2.5%	33.00	↑
Securities Exchange																				
TMX Group	X	SP		7.31	55.9	130.68	12/2021	7.10	6.96	7.54	18.8	17.3	69.48	71.41	74.66	1.8	1.8	2.5%	141.00	
Insurance																				
Definity Financial Corp.	DFY	OP		3.9	115.9	33.28	12/2021	2.09	1.8	1.97	18.9	16.9	20.41	21.38	22.99	1.6	1.4	6.0%	38.00	
Intact Financial Corp.	IFC	OP		33.05	176.1	187.66	12/2021	12.32	11.63	11.84	16.1	15.9	82.20	88.52	94.49	2.1	2.0	2.1%	230.00	
Trisura Group Ltd.	TSU	R		1.43	41.2	34.66	12/2021	1.48	R	R	R	R	8.66	R	R	R	R		R	
Fairfax Financial Holdings	FFH	OP		16.69	23.8	700.93	12/2021	US 122.25	US 61.32	US 76.15	8.8	7.1	US 626.21	US 686.66	US 757.86	0.8	0.7	1.8%	1050.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		0.97	102.5	9.46	12/2021	1.63	1.15	1.44	8.2	6.6	3.61	3.52	3.75	2.7	2.5	9.1%	11.00	
IGM Financial Inc.	IGM	OP		8.44	240.0	35.15	12/2021	4.04	3.61	4.09	9.7	8.6	26.53	27.51	29.39	1.3	1.2	6.4%	49.00	↓

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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Selections

› *Shawcor Ltd.*
› *Mullen Group Ltd.*

Record BOS sales opportunity pipeline could drive rerate; Encouraging margin outlook for CEU

With the sales opportunity pipeline at record levels, we believe BOS's ADG segment will continue to drive AirBoss' performance through our forecast period, warranting a valuation rerate closer to the relatively higher multiples of the ADG peer group.

AirBoss of America Corp. is a vertically integrated chemical & manufacturing company that combines expertise in rubber compounding with specialized engineering to design and develop rubber-based products for the agriculture, mining, transportation, medical, defense and energy industries. In recent years, the AirBoss Defense Group (ADG) segment has emerged as a trusted supplier of personal protective equipment (PPE) for front-line personnel in health care, defense and law enforcement (complementing ADG's broader survivability platform product offerings). The company has completed roughly $500 million of orders from various U.S. Government agencies while continuing the pursuit of additional large-scale government health-care PPE and survivability equipment contract awards as well as domestic/international contracts for the provision of CBRN wearables and Husky vehicle systems. With ADG's bid pipeline currently exceeding a record US$1.5 billion, we believe the recent improvements in revenue and EBITDA generation are sustainable and the successful conversion of additional contract awards will warrant multiple expansion (closer to the relatively higher trading multiples of ADG's peer group) as the market perceives ADG as the driver of the business moving forward (with ADG representing the majority of revenue and the bulk (80+%) of the company's total gross profit). **We maintain our Outperform rating with our unchanged C$38.00 price target (converted at an assumed 0.81 USD/CAD exchange rate) implying 9.0x 2023e EV/EBITDA, a premium to BOS's historical forward year EV/EBITDA average of 7.1x which we view as warranted given the recent growth of the ADG segment and support from our sum-of-the-parts analysis.**

Encouraging margin expectations, recent selloff drive upgrade of CES Energy Solutions to Outperform.

We recently upgraded CEU from Sector Perform to Outperform as increased margin expectorations support a constructive outlook in the face of recent pressure on share prices. On the Q1/22 results conference call, CEU noted adj. EBITDA margins exited the quarter between 12.5% and 13% (well above the first quarter average of 10.6% as price increases began to take hold in March). While spring breakup typically results in a sequential decline in Q2 EBITDA, given the timing of price increase implementation and a relatively brief breakup, we believe CEU will maintain the margin momentum through Q2 and could surpass the $42.5 million in adj. EBITDA generated in Q1 (well above the current consensus estimate of ~$40 million and potentially representative of a new high watermark for Q2). While we expect concerns surrounding a broader economic slowdown to continue to weigh on multiples across our coverage space, with a positive outlook for North American oil and gas industry activity levels, record level EBITDA generation expected this year and next, and CEU's current forward year EV/EBITDA multiple already below both the long-term and more recent historical forward year averages, we view the current risk/reward balance favourably. **Our $3.50 Target is driven by 5.2x 2023e EV/EBITDA, a full turn below CEU's post-2018 forward year EV/EBITDA average of 6.2x.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	EBITDA (mlm) 2021	EBITDA (mlm) 2022e	EBITDA (mlm) 2023e	EV/EBITDA 2021	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt/ EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		610.25	18.8	32.43	176.3	202.8	224.9	8.2	7.3	6.4	4.3	49.00	53%	
AirBoss of America Corp.	BOS	OP		452.06	27.0	16.74	80.3	67.5	93.9	5.4	6.1	9.0	0.6	38.00	129%	
CES Energy Solutions Corp.	CEU	OP	↑	611.67	254.9	2.40	156.2	202.6	243.5	6.5	5.3	5.2	2.3	3.50	49%	↑
Enerflex Ltd.	EFX	OP		525.52	89.7	5.86	140.0	273.3	454.8	5.3	7.3	4.2	3.2	10.75	85%	
good natured Products Inc.	GDNP	OP		91.11	222.2	0.41	-0.1	3.6	7.9		39.3	18.7	13.8	1.25	205%	
Mullen Group Ltd.	MTL	OP		1069.00	94.2	11.35	218.7	263.3	276.5	7.5	6.1	5.5	2.0	16.50	51%	
Pason Systems Corp.	PSI	SP		1168.80	82.2	14.22	72.5	129.0	150.7	13.9	7.5	6.4	-1.5	19.00	36%	
Shawcor Ltd.	SCL	OP		380.65	70.5	5.40	100.8	114.4	148.6	6.0	5.2	3.8	1.9	8.50	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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Overview

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

Carbon Market Overview

Compliance and Voluntary Markets

Carbon prices have continued to rise at considerable rates (50% Y/Y), inclusive of all regions and systems (range 30% - 75% Y/Y). The rise in prices has largely been attributable to enhanced government ambitions to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby, leading to higher carbon prices. Expanding on the aforementioned, see our note published on June 22, 2022 that outlines the deepest overhaul yet within the European Union Emissions Trading System (EU ETS).

Starting with the most liquid carbon market, the European Emission Allowances (EUA) active contract closed the month of June at levels of €90 (US$95). Overall, on average, EUAs were up +5% this past month (m/m) and remain in contango with the Dec 23 – Dec 22 spread reflecting €2.95. Considering prices on a y/y basis, EUAs have grown 50%. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which started trading at the end of May 2021, closed at £85 (US$105) at the end of June and are flat m/m and up 75% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$14 and are flat m/m but up 60-65% y/y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at US$31 and increased a modest 1% m/m, we note y/y CCA prices are up 30-35%.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at US$4 and decreased by 10-15% on a monthly basis, while the Nature-based Global Emissions Offset (N-GEO) active future also followed a similar path decreasing -10% and closing at US$9.

Monthly Highlights

... And the Pendulum Swings; ESG Love Affair On Pause?!

Environmental, Social and Governance factors and/or Responsible Investing have come under the spotlight as of late, and with that, heightened levels of scrutiny. The ongoing geopolitical narrative and ensuing global inflationary backdrop has bifurcated the market, i.e., energy vs. the rest, namely, resonating through muted tech valuations, which are large constituents in ESG funds. In association, regulators are clamping down against claims of greenwashing (rightly so in our view) and a cleanse thereof is in progress that should serve to dictate the appropriate marketing and governing of ESG-related products.

All in, and as with any emerging theme, the approach is top-down, with regulators and policymakers continuing to make strides in providing the investment community a better set of defined and visible goal posts in regard to the ESG thematic that should ultimately aid in corralling investor concerns, in addition to potential valuation uplift for positively oriented equities having an embedded transition theme. With that, we acknowledge the prevailing global backdrop will resonate through negatively in the near term, and we would be remiss in not highlighting to the investment community to exercise caution in the immediate term with allocating incremental exposure to ESG themed funds. However, on a longer-term view, the thesis is intact, and in fact, could be more sustainable as a function of reassessing the integration of ESG ratings within analysis and the investment community beginning to decipher between ESG leaders and IMPACT leaders coupled with "popping the hood" of ESG funds.

Healthcare, Biotech & Special Situations

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Selections

- › *Dentalcorp Holdings*
- › *DRI Healthcare Trust*
- › *H_2O Innovation*
- › *Jamieson Wellness*
- › *Knight Therapeutics*

Highlights as of June 2022

In June, we initiated coverage of dentalcorp (TSX: DNTL) with an Outperform rating and $18.00 price target derived via a 50/50 combination of comparable peers and DCF.

dentalcorp is the largest provider of dental services in Canada with a network of 511+ practices performing various dentistry, hygiene, orthodontics services via 1,500+ dentists, 1,800+ hygienists and 4,300+ auxiliary dental health professionals.

The opportunity for investors is participation in the consolidation of the Canadian dental industry where only ~6% of the overall market has been consolidated (i.e., owned by corporations) – DNTL controls ~3.5% of the overall market. At its current pace of acquisitions (75 - 85 practices per year) and assuming ~30% of Canadian dental practices are consolidated, there is a potential acquisition trajectory for the next 30+ years.

The company is well-positioned to execute its acquisition strategy within the ~$17-$18 billion Canadian dental industry, which, positively, features 1) a cash pay model; 2) high (private) insurance coverage rates (65% to 75% of Canadians); and 3) frequent repeat visits (~65% to 75% of Canadians have seen a dentist in the LTM). While the industry is mature (~2% to ~2.5% CAGR in the last decade), with growth relying on price increases and general population increases, DNTL also uses customer acquisition technology platforms to drive incremental organic growth of 0.5% to 1.5%.

Although the company has previously shown interest in expanding in adjacent health verticals (optical retail, veterinary and dermatology), DNTL is currently focused on a potential expansion into the U.S. market (~US$155 billion - US$165 billion), possibly, via a transformative acquisition - we have identified close to a dozen large consolidators.

While DNTL features several positive attributes, we will keep an eye on: 1) improvement in margin declines that, per management, are largely due to changes in business mix, pandemic-related inefficiencies and investments in corporate system; 2) any potential impact from the proposed dental care reform, although currently, many crucial implementation details are yet to be announced; 3) debt-financed growth that although our current estimates show DNTL can accommodate, is not an approach without risks.

Overall, 1) the positive industry fundamentals, 2) opportunity to participate in the consolidation of the Canadian dental market, 3) long-term visibility for acquisitions, 4) relative quality of assets, and 5) continued growth, currently override the potential concerns. We are initiating coverage with an Outperform rating and $18.00 target for a ~40% implied return.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 7/7	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		52.81	89.5	0.59u	1/2022	0.0%	(0.56)u	(0.83)u	(0.71)u	nmf	nmf	59.3u	139.0u	144.7u	8.9	8.3	1,185.1u	8.2	0.75u	
Andlauer Healthcare Group	AND	SP		1,978.28	41.8	47.30	1/2022	0.5%	1.30	1.59	1.64	29.8	28.9	119.3	151.9	155.3	14.2	13.9	183.8	1.2	50.00	
Dialogue Health Technologies	CARE	OP		185.82	65.9	2.82	1/2022	0.0%	(0.39)	(0.30)	0.03	nmf	nmf	(21.2)	(16.0)	6.4	nmf	nmf	-	-	11.50	
dentalcorp Holdings	DNTL	OP		2,317.50	179.5	12.91	1/2022	0.0%	(0.21)	0.59	0.82	22.1	15.8	191.8	234.8	295.5	14.8	12.4	1059.0	3.6	18.00	
DRI Healthcare Trust	DHT.UT	OP		229.9u	38.6	5.95u	1/2022	5.0%	0.62u	0.67u	0.72u	8.9	8.2	101.2u	79.0u	76.6u	3.1	3.0	39.4u	0.5	9.75u	
Jamieson Wellness	JWEL	OP		1,436.39	41.4	34.71	1/2022	1.7%	1.34	1.59	1.82	21.9	19.1	100.1	120.7	145.7	14.3	12.5	367.6	2.5	46.25	↑
Knight Therapeutics	GUD	OP		635.08	117.2	5.42	1/2022	0.0%	0.21	0.30	0.34	10.1	8.9	38.0	50.0	58.0	7.8	6.7	-	-	7.50	
Medical Facilities Corp.	DR	SP		269.84	30.5	8.84	1/2022	3.6%	0.96u	0.87u	0.93u	7.9	7.6	63.6u	51.7u	53.6u	6.2	5.8	81.9u	1.9	10.50	
Theratechnologies	TH	SP		260.63	95.1	2.74	1/f2022	0.0%	(0.25)u	0.01u	0.06u	nmf	35.6	(14.6)u	5.0u	10.0u	nmf	22.1	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		162.01	90.0	1.80	3/f2022	0.0%	0.08	0.09	0.13	21.2	13.9	14.6	18.1	20.9	10.5	9.1	37.2	1.8	3.25	
K-Bro Linen	KBL	SP		343.39	10.6	32.27	1/2022	3.7%	2.23	2.34	2.70	13.8	12.0	42.8	45.2	51.4	9.6	8.4	90.2	1.8	38.00	
Rogers Sugar	RSI	SP		640.80	104.2	6.15	2/f2022	5.9%	0.33	0.43	0.45	14.2	13.6	91.0	99.6	104.2	10.1	9.6	372.3	3.6	5.75	
Chemtrade Logistics Income Fund	CHE.UN	OP		840.47	104.5	8.04	1/2022	7.5%	0.70	1.09	1.27	7.4	6.3	280.4	325.9	329.8	6.1	6.0	1,180.1	3.6	9.25	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

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Selections

- *WSP Global*
- *ATS Automation Solutions*
- *Colliers International*

Equipment Dealers

Among machinery peers, Finning virtually fully discounting a negative macro scenario; the others, not so much

What do machinery names discount in their current share prices?

Depends on where you look. (We think) we understand the difference between price and value but sometimes looking at the former, and especially how certain macro-outcomes are priced in based on certain assumptions, can be helpful from a positioning perspective. We take a deeper look at equipment players in our coverage and more specifically to which extent the shares are impounding a recession in probabilistic terms. While we've done parts of this analysis in the past, the interesting takeaway is that Finning now imputes the most negative skew, discounting a recession outcome at 89%; Toromont / RBA are at 45% and 5%, respectively. RBA of course is a bit of a different animal as strong YTD share price performance is due to the company's countercyclical business model. While sentiment has soured materially on FTT (lack of further material earnings revisions, recent commodity downdraft due to slowdown concerns), there is more relative value here. For a deep dive on appropriate multiples, valuation methodology on FTT / TIH / RBA, see relevant research pieces *(FTT – What is the right multiple and EPS for intrinsic valuation?; TIH – Examining rental opportunity; RBA – Thoughts on valuation drivers)*.

Perspective around statistical risk metrics – aligns with general perceptions.

While once again on the dreaded Recession Watch, we also wanted to refresh how equipment companies' shares fare vs. market volatility. The most notable observation is the material increase in betas for all three companies over the last 20 years, with values for RBA, FTT and TIH increasing by 125%, 194% and 34%, respectively (somewhat a counterintuitive outcome given the much bigger scale of the businesses). FTT, given its greater commodity skew, is the most pro-cyclical (nevertheless, at a certain point it's hard to argue against absolute valuation, and Finning's current 10x P/ E multiple on 2023 forecasts is pricing in a recession as a virtual certainty, albeit on higher EPS). EBITDA margin volatility perspective shows that TIH takes the prize here with the least variability.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 7/7	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP		**$18.00**		$13.03	$793	12 - 2021	$0.71	$0.83	$1.01	12.0x	10.6x	$230	$247	$260	5.6x	5.3x	5.7%	1.9x
Bird Construction Inc.	BDT	OP		**$12.00**		$7.45	$400	12 - 2021	$0.95	$0.85	$0.99	9.4x	8.0x	$101	$98	$110	4.4x	3.9x	5.2%	0.0x
Finning International Inc.	FTT	OP		**$46.00**		$26.59	$4,182	12 - 2021	$2.18	$2.51	$2.69	10.6x	9.9x	$855	$945	$1,007	7.2x	6.8x	3.6%	1.6x
IBI Group Inc.	IBG	OP		**$20.00**		$14.50	$454	12 - 2021	$0.72	$0.90	$0.95	16.1x	15.3x	$53	$64	$62	7.2x	7.4x	0.0%	0.4x
North American Construction Group Ltd.	NOA	OP		**$30.00**		$14.23	$405	12 - 2021	$2.06	$2.38	$2.65	7.2x	6.4x	$207	$227	$239	3.8x	3.6x	2.2%	1.7x
Ritchie Bros. Auctioneers	RBA	SP		**US$56.00**		US$65.31	$7,226	12 - 2021	US$1.64	US$1.69	US$2.08	38.8x	31.6x	US$356	US$383	US$448	22.1x	18.9x	1.5%	3.0x
SNC-Lavalin	SNC	OP		**$42.00**		$22.94	$4,027	12 - 2021	$1.31	$1.29	$1.72	8.1x	6.1x	$437	$479	$574	7.1x	5.9x	0.3%	3.1x
Stantec Inc.	STN	OP		**$70.00**		$58.45	$6,508	12 - 2021	$2.38	$2.98	$3.30	19.6x	16.4x	$439	$559	$598	12.8x	12.0x	1.2%	2.0x
Toromont Industries Ltd.	TIH	OP		**$127.00**		$104.83	$8,645	12 - 2021	$4.00	$4.61	$4.95	23.4x	21.8x	$634	$708	$753	12.5x	11.7x	1.5%	net cash
WSP Global	WSP	OP		**$182.00**	↑	$146.87	$17,315	12 - 2021	$5.08	$5.63	$6.73	26.1x	21.8x	$1,044	$1,187	$1,482	15.5x	12.4x	1.0%	0.9x
AutoCanada	ACQ	SP		**$37.00**		$26.05	$705	12 - 2021	$4.16	$4.36	$3.80	6.7x	7.7x	$198	$231	$221	5.1x	5.3x	0.0%	1.3x
Stelco	STLC	SP		**$55.00**		$33.06	$2,458	12 - 2021	$20.42	$14.17	$5.51	2.3x	6.0x	$2,055	$1,547	$683	1.0x	2.3x	3.6%	net cash
ATS Automation	ATA	OP		**$52.00**		$37.97	$3,500	12 - 2021	$2.17	$2.18	$2.39	17.4x	15.9x	$318	$363	$381	12.1x	11.5x	0.0%	2.4x
ABC Technologies	ABCT	SP		**$7.00**		$5.80	$495	12 - 2021	-$0.22	-$0.58	$0.36	-7.8x	12.6x	$133	$69	$179	11.3x	4.4x	2.6%	5.4x
Colliers International	CIGI	OP		**US$164.00**		US$115.29	$5,080	12 - 2021	US$6.18	US$7.23	US$7.59	15.1x	14.4x	US$544	US$632	US$693	10.1x	9.2x	0.3%	0.8x
Stella-Jones	SJ	OP		**$57.00**		$33.06	$2,125	12 - 2021	$3.55	$3.48	$3.66	9.5x	9.0x	$365	$359	$378	8.3x	7.9x	2.4%	2.0x
Median												**11.3x**	**11.6x**				**7.8x**	**7.1x**	**1.5%**	

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

**Multiples adjusted for concession investments*

Merchandising & Consumer Products

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Selection

› *Loblaw*

Premium Brands Holdings Corporation (PBH: TSX)

Completion of a convertible debenture offering

On June 13, 2022, PBH closed on the previously announced public offering of $150 mln in convertible unsecured subordinated debentures. Our EBITDA estimates remain unchanged, while EPS was lowered, reflecting higher interest expense (2022 EPS goes to $5.68 from $5.75; 2023 EPS goes to $6.96 from $7.07). (2) The convertible debt will mature on September 30, 2029; the coupon is 5.4% per annum, payable semi-annually on March 31 and September 30 of each year. (3) The conversion price is $160.25 per share, implying a conversion rate of 6.2402 common shares for each $1,000 in principal.

Robust acquisition pipeline

We consider the convertible debt issuance to be indicative of telegraphing PBH's intention of pursuing future acquisitions. Recall last quarter, PBH highlighted a robust acquisition pipeline. Specifically, management noted 18 files in advanced/active-stage discussions, representing ~$1,685 mln in sales, as of May 2022. The convertible issuance reduces senior funded debt to adjusted EBITDA to 2.6x from 3.0x at the end of Q1/22 (this metric excludes convertible debt). Total funded debt is unchanged at 3.8x (includes convertible debt).

Exploring accretion potential of a hypothetical deal

As an exploratory exercise, we calculate accretion potential of a deal in the $450-$600 mln range (EV). Based on a range of parameters (EV/EBITDA of 6.5x to 8.5x, equity ranging from ~0% to 22% of target EV, synergies at 10% of acquired EBITDA), we estimate EPS accretion of 10%-13%. Our analysis assumes a 4.0x threshold on total funded debt to EBITDA (at the high end of management's long-term targeted range of 3.5x to 4.0x).

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Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 07/07	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,162	60.1	169.09	12/2021	18.91	18.78	19.75	9.0	8.6	2,667	2,624	2,689	5.4	5.2	86.43	0.43	222.00	
Dollarama	DOL	OP		22,470	294.5	76.30	01/2022	2.18	2.62	2.94	29.1	26.0	1,283	1,442	1,555	18.1	16.8	-0.06	1.01	77.00	↑
Fuel and Other																					
Couche Tard	ATD.b	SP		55,653	1,046.1	53.20	04/2022	2.60	2.46	2.86	16.7	14.4	5,266	4,980	5,259	9.7	9.2	11.89	0.37	59.00	↑
Parkland Fuel Corporation	PKI	OP		5,507	155.9	35.32	12/2021	2.45	3.13	3.03	11.3	11.7	1,260	1,572	1,571	7.2	7.2	15.39	0.71	45.00	
Apparel																					
Gildan	GIL	OP		6,924	190.2	36.40	12/2021	2.73	3.05	3.19	9.2	8.8	727	774	792	7.7	7.5	9.76	0.31	64.00	
Grocers																					
Empire Company	EMP.a	OP		10,544	264.0	39.94	05/2022	2.80	3.01	3.38	13.3	11.8	2,331	2,396	2,462	7.2	7.0	18.91	0.57	42.00	↓
Loblaw	L	OP		40,030	336.7	118.89	12/2021	5.59	6.37	6.93	18.7	17.2	5,587	5,934	6,098	7.6	7.4	34.96	0.31	125.00	↑
Metro	MRU	SP		17,103	241.6	70.79	09/2021	3.44	3.78	4.19	18.7	16.9	1,106	1,112	1,140	19.2	18.7	26.92	0.27	74.00	
Food Manufacturer																					
Saputo	SAP	OP		12,231	413.8	29.56	03/2022	1.17	1.56	1.97	18.9	15.0	1,155	1,461	1,701	11.2	9.6	15.7	0.39	30.00	↓
Lassonde	LAS.a	OP		796	6.9	114.98	12/2021	11.18	11.08	13.51	10.4	8.5	178	178	202	5.7	5.0	125.5	0.20	169.00	
Premium Brands Holdings	PBH	OP		4,323	44.8	96.50	12/2021	4.47	5.68	6.96	17.0	13.9	431	516	599	12.5	10.7	39.3	0.55	137.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		937	37.5	25.00	12/2021	2.64	3.12	3.35	8.0	7.5	211	238	246	5.5	5.3	11.23	0.46	37.00	
Pet Valu	PET	SP		2,219	71.7	30.96	12/2021	1.02	1.43	1.59	21.6	19.5	182	199	213	13.2	12.3	0.00	1.22	38.00	
Restaurants																					
MTY Food Group	MTY	OP		1,355	24.5	55.19	11/2021	3.46	3.73	4.12	14.8	13.4	169	176	186	9.5	8.9	26.05	0.33	63.00	↓
Online Grocery																					
Goodfood Market	FOOD	OP		115	75.0	1.53	08/2021	(0.45)	(1.06)	(0.79)	NA	NA	(15)	(50)	(25)	NA	NA	0.87	0.37	3.75	

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Sector Analysis

Metals & Mining: Base Metals

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Selections

› *Teck Resources* › *First Quantum*

Price Volatility to Persist in 2022

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

In our view, long-term fundamentals remain driven by a lack of an advanced stage project pipeline and building structural deficit in the coming years. Green infrastructure and electric vehicles (EV) are emerging as the dominant story for long-term copper demand, with battery electric vehicles requiring 3x the copper of internal combustion engine vehicles.

Top picks:

Teck Resources Ltd. (TECK.B: TSX)

Teck's organic growth within the copper division, high-quality diversified asset base with exposure to elevated hard coking coal prices, strong balance sheet and long-term commitment to returning capital to shareholders are supportive of a higher valuation than currently ascribed by the market. Teck's coal business unit continues to benefit from all-time high Chinese hard coking coal prices due to tight steelmaking coal markets and the Australia shadow ban expected to persist in 2022, complemented by step-wise improvement in Teck's coal operations in H1/22 following completion of the Neptune terminal expansion. Additionally, Teck's copper development pipeline, including QB3, Zafranel and San Nicolás, underpin Teck's organic copper growth strategy as demand is set to peak as the world advances decarbonization efforts. In the event of further erosion of commodity prices, Tech has the ability to conserve its balance sheet and generate positive FCF yield, even in the event of a 15% decrease in commodity prices.

First Quantum (FM: TSX)

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

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	SP	-	2,226	689.1	3.23	4.50	↓	Nagle	0.07u	0.60u	0.25u	4.1x	13.0x	0.34u	0.93u	0.54u	2.6x	4.5x	4.57	0.7x
Copper Mountain Mining	CMMC	OP	-	370	211.3	1.75	2.75	↓	Nagle	0.11u	0.62u	0.22u	2.8x	7.9x	0.61u	1.53u	0.66u	1.1x	2.7x	3.61	0.5x
Ero Copper	ERO	SP	-	1,084	90.4	12.00	16.50	↓	Nagle	1.34u	2.44u	1.85u	3.7x	6.5x	2.02u	3.17u	2.62u	2.8x	3.4x	16.70	0.7x
First Quantum Minerals	FM	OP	-	18,459	691.1	26.71	35.00	↓	Nagle	(0.07)u	1.20u	2.42u	16.7x	11.1x	2.64u	4.22u	5.20u	4.8x	3.9x	26.93	1.0x
Hudbay Minerals	HBM	OP	-	1,371	261.7	5.24	8.50	↓	Nagle	(0.44)u	0.23u	(0.02)u	17.0x	n/a	0.93u	1.87u	1.96u	2.1x	2.0x	7.69	0.7x
Lundin Mining	LUN	SP	-	6,294	777.0	8.10	9.50	↓	Nagle	0.31u	1.11u	1.00u	5.5x	8.1x	1.00u	2.11u	1.80u	2.9x	3.4x	8.94	0.9x
Sherritt International	S	SP	-	155	397.3	0.39	0.75	↓	Nagle	(0.37)u	(0.03)u	0.24u	n/a	1.6x	0.09u	(0.11)u	0.16u	n/a	1.8x	1.23	0.3x
Taseko Mines	TKO	SP	-	404	286.3	1.41	1.85	↓	Nagle	(0.11)c	0.16c	0.17c	8.9x	8.5x	0.44c	0.73c	0.42c	1.9x	3.3x	3.00	0.5x
Teck Resources	TECKb	OP	-	19,807	530.0	37.37	55.00	↓	Nagle	1.05c	5.74c	9.47c	6.5x	3.9x	3.38c	10.54c	14.12c	3.5x	2.6x	37.87	1.0x
Trevali Mining	TV	SP	-	45	98.9	0.45	0.65	↓	Nagle	(0.03)c	0.02c	(0.22)c	20.7x	n/a	0.01c	0.12c	0.64c	2.9x	0.5x	1.09	0.4x
Developers																					
Adventus Mining	ADZN	OP	-	69	166.4	0.42	1.00	↓	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.31	0.3x
Filo Mining	FIL	OP	-	2,206	121.5	18.16	30.00	↑	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	37.23	0.5x
Foran Mining	FOM.V	OP	↑	616	238.8	2.58	3.30	↑	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.98	0.6x
Solaris Resources	SLS.TO	OP	-	815	108.9	7.49	16.00	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20.08	0.4x
Trilogy Metals	TMQ	SP	-	122	145.5	0.84	1.35	↓	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.03	0.4x
Sigma Lithium	SGML	OP	-	1,989	100.4	19.80	27.00	↑	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	30.82	0.6x
Lithium Americas	LAC	OP	-	3,376	120.1	28.12	38.50u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.28	0.5x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Back to Research Analysts page

Sector Analysis

Metals & Mining: Precious Metals

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Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. The stimulus has resulted in higher than normal inflation, which is now being combatted with rising interest rates. To start the year, the U.S. 10-year yield strengthened, resulting in modest short-term softness in spot gold prices. The U.S. Fed has begun to raise interest rates with a 0.25% hike in March followed by a 0.50% hike in May and an outsized 0.75% hike in July. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the Fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities in the short term. The geopolitical tensions associated with the invasion of Ukraine initially caused spot gold to reach its highest levels since August 2020 before falling back to the mid-US$1,800s and now mid-US$1,700s as rising interest rates weighed on the gold price. We view the evolving geopolitics as a potential driver for spot prices moving forward.

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

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

Selections

Gold/Silver Producers:

- ***Centerra Gold*** *(CG: TSX; C$15.00 target)*
- ***Endeavour Mining plc*** *(EDV: TSX; C$46.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$13.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$44.75 target)*
- ***Wesdome Gold Mines Ltd.*** *(WDO: TSX; C$18.50 target)*

Royalties:

- ***Wheaton Precious Metals Corp.*** *(WPM: TSX; C$75.00 target)*

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	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	-	30,497	454.90	67.04	98.00	-	Parkin	2.40u	2.51u	2.60u	20.6x	19.9x	6.51u	6.26u	6.68u	8.3x	7.7x	50.17	1.34x
Barrick Gold	ABX	SP	-	45,685	1,763.21	25.91	34.00	-	Parkin	1.12u	1.18u	1.57u	17.0x	12.8x	2.61u	2.72u	3.31u	7.4x	6.0x	23.75	1.09x
Kinross Gold Corp	K	OP	-	7,110	1,251.78	5.68	13.00	↑	Parkin	0.77u	0.52u	0.64u	8.4x	6.8x	0.76u	1.13u	1.34u	3.9x	3.3x	11.51	0.49x
Newmont	NGT	SP	-	67,920	791.05	85.86	115.00	-	Parkin	2.96u	3.27u	4.38u	20.3x	15.1x	6.02u	7.32u	8.33u	9.0x	8.0x	66.64	1.29x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	33,126	191.5	173.00	225.00	-	Nagle	2.72u	3.53u	3.77u	36.8x	45.9x	4.22u	5.21u	5.21u	25.0x	25.0x	72.21	2.40x
Maverix Metals Inc	MMX	SP	-	790	147.4	5.36	6.75	-	Nagle	0.12u	0.12u	0.17u	44.7x	32.3x	0.29u	0.29u	0.30u	18.7x	18.0x	4.50	1.19x
Osisko Gold Royalties Ltd	OR	OP	-	2,390	184.8	12.93	22.00	-	Nagle	0.26u	0.57u	0.57u	22.9x	22.6x	0.65u	1.03u	1.23u	12.5x	10.5x	17.87	0.72x
Royal Gold Inc	RGLD	SP	-	7,048	65.2	108.04u	165.00u	-	Nagle	2.91u	4.02u	3.86u	26.9x	28.0x	6.28u	7.06u	6.72u	11.5x	12.1x	69.78	1.55x
Sandstorm Gold Ltd	SSL	R	-	1,451	191.7	7.57	R	-	Nagle	R	R	R	R	R	R	R	R	R	R	R	R
Triple Flag Precious Metals Corp	TFPM	SP	-	2,343	156.0	15.02	23.00	-	Nagle	0.20u	0.39u	0.48u	29.0x	31.3x	0.78u	0.80u	0.90u	14.1x	12.5x	12.68	1.18x
Wheaton Precious Metals Corp	WPM	OP	-	20,673	451.3	45.81	75.00	-	Nagle	1.10u	1.31u	1.37u	26.3x	33.4x	1.71u	1.90u	1.95u	18.1x	17.7x	24.96	1.84x
*Carbon Streaming Corp.	NETZ	OP	-	133	46.7	2.85	7.50	-	Aganga	0.00u	(0.46)u	(0.21)u	n/a	n/a	0.00u	0.23u	(0.16)u	9.3x	n/a	4.72	0.60x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP	-	3,702	392.14	9.44	13.00	-	Parkin	0.41u	0.27u	0.49u	27.4x	15.0x	1.05u	0.99u	1.20u	7.3x	6.1x	12.43	0.76x
B2Gold	BTO	OP		4,671	1,056.8	4.42	8.50		DeMarco	0.36u	0.38u	0.43u	11.8x	10.2x	0.68u	0.77u	0.91u	5.8x	4.9x	5.32	0.83x
Centerra Gold Inc	CG	OP	-	2,936	297.44	9.87	15.00	-	Parkin	0.62u	0.58u	0.75u	13.1x	10.2x	1.43u	1.12u	1.19u	6.8x	6.4x	13.54	0.73x
Dundee Precious Metals	DPM	SP		1,171	190.8	6.14	10.50		DeMarco	1.03u	0.78u	1.02u	7.9x	6.0x	1.66u	1.31u	1.71u	4.7x	3.6x	12.47	0.49x
Eldorado Gold Corp	ELD	OP	-	1,874	184.79	10.14	19.00	-	Parkin	(0.15)u	0.51u	1.10u	19.8x	9.2x	2.06u	1.85u	2.50u	4.2x	3.1x	21.97	0.46x
Endeavour Mining	EDV	OP		6,443	248.0	25.98	46.00		DeMarco	2.42u	2.17u	2.12u	11.9x	12.3x	4.75u	5.03u	4.46u	5.2x	5.8x	32.88	0.79x
Equinox Gold Corp	EQX	OP	-	2,256	303.2	7.44	12.00	-	Parkin	0.21u	0.22u	0.39u	33.1x	19.2x	0.79u	0.99u	1.15u	7.5x	6.5x	13.99	0.53x
IAMGOLD Corp	IMG	SP	-	1,551	553.90	2.80	3.25	-	Parkin	0.02u	0.14u	0.36u	15.9x	6.0x	0.61u	0.86u	1.03u	2.5x	2.1x	3.48	0.80x
Lundin Gold Inc.	LUG	SP		1,992	233.8	8.52	14.00		DeMarco	1.07u	0.72u	0.61u	11.9x	13.9x	1.58u	1.54u	1.37u	5.5x	6.2x	13.09	0.65x
New Gold Inc	NGD	SP	-	1,117	681.35	1.64	2.50	-	Parkin	0.32u	0.12u	0.13u	14.2x	12.6x	0.47u	0.41u	0.45u	3.1x	2.8x	2.19	0.75x
OceanaGold Corp	OGC	OP	-	2,070	704.20	2.94	4.00	-	Parkin	0.20u	0.24u	0.22u	12.3x	13.6x	0.47u	0.66u	0.66u	3.4x	3.4x	3.08	0.95x
SSR Mining Inc	SSRM	SP	-	5,229	212.56	24.60	32.50	-	Parkin	1.32u	1.33u	1.38u	14.3x	13.7x	2.74u	2.60u	2.76u	7.3x	6.9x	25.32	0.97x
Yamana Gold Inc	YRI	T	-	6,480	952.97	6.80	7.20	-	Parkin	0.34u	0.27u	0.34u	19.2x	15.6x	0.76u	0.83u	0.95u	6.3x	5.5x	6.06	1.12x
Torex Gold Resources Inc	TXG	SP		801	85.75	9.34	22.00		DeMarco	2.36u	1.84u	1.40u	5.1x	6.6x	4.29u	4.55u	3.99u	2.1x	2.3x	22.01	0.42x
Silver Producers																					
Aya Gold and Silver	AYA	OP		655	105.0	6.24	11.25	↓	DeMarco	0.05u	(0.06)u	(0.14)u	-	-	0.13u	(0.01)u	(0.07)u	-	-	7.44	0.84x
First Majestic Silver Corp	FR	SP		2,388	256.8	9.30	18.00		DeMarco	0.05u	0.26u	0.43u	35.6x	21.5x	0.39u	1.03u	1.75u	9.0x	5.3x	6.81	1.37x
Fortuna Silver Mines Inc	FVI	SP		1,032	291.6	3.54	6.50		DeMarco	0.45u	0.40u	0.80u	8.8x	4.4x	0.79u	0.95u	1.22u	3.7x	2.9x	5.08	0.70x
Pan American Silver	PAAS	OP		5,232	210.5	24.86	44.75	↓	DeMarco	0.77u	0.80u	1.27u	31.1x	19.6x	2.21u	2.20u	3.00u	11.3x	8.3x	19.20	1.29x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,617	224.5	7.20	12.75		DeMarco	0.10u	0.31u	0.42u	23.3x	17.2x	0.27u	0.41u	0.52u	17.6x	13.9x	11.05	0.65x
Minera Alamos Inc.	MAI	OP		207	446.1	0.47	1.10		Nizami	0.01u	(0.00)u	0.02u	n/a	20.1x	0.00u	(0.01)u	0.03u	-	15.2x	1.08	0.43x
Wesdome Corp.	WDO	OP		1,566	141.8	11.04	18.50	↓	DeMarco	0.47u	0.95u	0.94u	11.7x	11.7x	0.78u	1.23u	1.33u	9.0x	8.3x	12.40	0.89x
Developers																					
AbraSilver Resource Corp	ABRA	OP		118	453.8	0.26	0.70		DeMarco	(0.00)u	(0.01)u	(0.01)u	-	-	(0.01)u	(0.01)u	(0.01)u	-	-	0.49	0.49x
Artemis Gold Inc.	ARTG	OP		725	153.5	4.72	11.50		DeMarco	(0.05)u	(0.04)u	(0.05)u	-	-	(0.08)u	(0.06)u	(0.04)u	-	-	11.38	11.38x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
G Mining Ventures	GMIN	OP		167	235.8	0.71	1.75		Nizami	(0.04)u	(0.05)u	(0.01)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	1.76	0.40x
Gold Standard Ventures Corp.	GSV	T		136	358.0	0.38	0.55	↓	Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.18	0.32x
Integra Resources Corp.	ITR	OP		71	62.1	1.15	3.00		Nizami	(0.54)u	(0.72)u	(0.28)u	n/a	n/a	(0.50)u	(0.67)u	(0.26)u	-	-	2.79	0.41x
Liberty Gold Corp	LGD	OP		161	315.8	0.51	1.80		Nizami	0.03u	(0.11)u	(0.11)u	n/a	n/a	(0.05)u	(0.08)u	(0.11)u	-	-	1.79	0.28x
MAG Silver Corp	MAG	OP		1,444	97.9	14.75	28.25		DeMarco	(0.07)u	0.88u	0.00u	16.8x	-	(0.04)u	0.70u	2.08u	21.1x	7.1x	18.90	0.78x
Marathon Gold Corp.	MOZ	OP		358	253.9	1.41	3.75		DeMarco	(0.02)u	(0.06)u	(0.07)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	3.72	0.38x
O3 Mining Inc.	OIII	OP		122	68.2	1.79	3.75		DeMarco	(0.20)u	(0.01)u	(0.38)u	-	-	(0.20)u	(0.01)u	(0.38)u	-	-	5.03	0.36x
Osisko Development	ODV	OP		279	45.4	6.14	15.00	↓	DeMarco	-	-	0.99u	-	6.2x	(0.04)u	-	0.97u	-	6.4x	15.02	0.41x
Osisko Mining	OSK	OP		977	346.3	2.82	5.50		DeMarco	(0.03)u	(0.05)u	(0.05)u	-	-	(0.02)u	(0.04)u	(0.04)u	-	-	5.38	0.52x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		360	356.2	1.01	3.00		DeMarco	(0.00)u	(0.00)u	(0.00)u	-	-	0.00u	(0.00)u	(0.00)u	-	-	2.95	0.34x

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

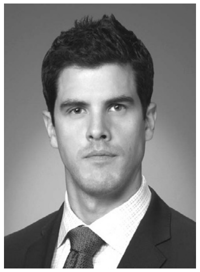
u = US dollars; c = Canadian dollars

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

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

- › *Cenovus*
- › *Tourmaline*

Crude Oil Outlook

The month of June saw prompt WTI trade in a similar range to May (US$105-120/bbl) as the war in eastern Ukraine drags on. While volatility related to the war itself has softened, consequences of the war and COVID continue to stimulate market volatility. Heading into the first week of July, we continue to see downside pressure due to an extremely large CPI print (7.7%) in June that drove significant broader market selloffs as recession fears wreak havoc on consumer sentiment. WTI has been notably impacted as the fear of demand destruction due to higher commodity prices and higher interest rates pushed crude downwards. This has been amplified by the subsistent risk of lockdowns in China as they continue to pursue a zero-COVID policy. Additionally, President Biden continues to try to exert his influence over the energy industry in an attempt to bring down energy prices. However, the market continues to overreact based on whatever issues (misinformed or not) he has targeted that week. In June alone, we saw Biden make public statements related to gas stations' price gouging (even though fuel retailers generally make minimal margins on gasoline); the threat of windfall taxes; the continuation of SPR releases, and urging E&P producers to produce more. To the upside, we continue to see strong fundamentals that would support our thesis that these higher prices are related to supply-side factors that are here to stay for the next few years. First of all, while OPEC+ ratified their August production increase late in June with an increase of 648 mb/d, we continue to take these increases with a grain of salt. It is well documented that OPEC+ continues to underperform in meeting its stated supply targets, and it is a widely held belief that OPEC+ is running out of spare capacity. This is exacerbated by the supply disruptions we are seeing in Libya as of late (and other countries to lesser extents). Secondly, even with higher prices, capital discipline remains a focus for North American producers as shareholders continue to demand that free cash be returned to them. Finally, Europe continues to seek out alternative sources of oil to reduce their reliance on Russian imports as sanctions on these molecules continue to take effect (exports to Europe averaged ~1.4 MMB/d from the U.S. in Q2). As the driving season rolls on, high gasoline/other product prices are sky-high, as refining cracks remain at record highs and demand remains undeterred. While refineries are trying to run full out to take full advantage of these margins and meet demand, the lack of supply continues to slowly draw down inventories as the refined product/fuel shortage across North America continues to intensify. There simply are not enough refineries in North America to meet demand, which has been magnified by those that were shuttered during COVID (~1 mmbls taken offline since 2020) coupled with growing U.S. exports to Europe. While WTI averaged ~US$115/bbl in June (a ~5% increase m/m), backwardation continues to be present on the forward curve with CAL-22 and CAL-23 WTI coming in at ~US$101/bbl and ~US$89/bbl, respectively. Therefore, underlying fundamentals remain strong for associated equities (especially for those with refining exposure) due to the unprecedented free cash flows the companies within our coverage are earning.

Natural Gas Outlook

For June, NYMEX gas was down slightly, averaging ~US$7.6/mmbtu, down approximately 7% from May. While U.S natural gas pricing continues to remain very attractive, the Freeport outage that occurred in early June has had a significant impact on pricing, especially for European consumers. Due to a fire that occurred at their Gulf Coast LNG plant, it was forced to undergo repairs taking 2 Bcf/d of export capacity offline. Furthermore, as there have been delays related to the future restart, it's now not expected to be back online until October with full production expected by year-end. With this gas no longer available for export, we have seen an unexpected ramp-up in volumes being put into storage. However, looking past the short-term noise from this unfortunate outage, we continue to believe structural changes in the market (net exports, elasticity of power burn, decoupling of supply, weather, and storage) seem to be long term in nature. Additionally, energy prices in Europe are at record highs as they try desperately to secure reliable alternatives of energy. This is compounded by fears that Russia may turn off the taps once the maintenance is completed on Nordstream in the first few weeks of July. The desperate state of affairs in Europe is highlighted by the fact that they are pulling old types of power back online, including coal and nuclear, to avoid extreme prices throughout the remainder of the year until new sources of energy can be secured. In Canada, AECO prices have averaged ~$6.90/GJ in June, down approximately 4% from May. According to Bentek, total U.S. production is estimated to have increased to 94.7 Bcf/d in June (from 94.2 Bcf/d in May). Additionally, LNG exports were down slightly to 11.1 Bcf/d in June from 12.4 Bcf/d in May, and as expected given the seasonality of gas usage, overall demand was estimated at 91.3 Bcf/d, up from 87.3 Bcf/d in May.

Top picks:

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

  Underpinned by its strong base business and integrated capacity, the company can weather the commodity cycle and provide torque to the upside as global oil prices remain attractive. Cenovus has a top-quality asset base – in Foster Creek and Christina Lake – and has sustaining and breakeven costs that are amongst the lowest in the sector. In June, Cenovus announced the acquisition of the remaining 50% working interest of its operated Sunrise asset, with the deal expected to close in Q3. We view the deal as positive, as it allows them to optimize well design to lower costs and enhance operational performance. Additionally, the added downstream integration and increased egress capacity will reduce the company's exposure to the WCS differential, while gaining exposure to record refining cracks, which supports our recommendation for Cenovus as a top pick. Our choice of CVE as a top pick is reinforced by its clear return of capital framework, which outlines that CVE will return 100% of FCF to shareholders upon reaching its net debt target of $4 billion.

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2022-07-07	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2021A	EV/DACF est. 2022E	EV/DACF est. 2032E	Net Debt/ Cash Flow 2022E	Net Debt/ Cash Flow 2023E	CFPS - FD act. 2021A	CFPS - FD est. 2022E	CFPS - FD est. 2032E	P/CFPS est. 2022E	P/CFPS est. 2023E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1090.1	$64.73	$70,562	5%	6.3x	3.2x	3.3x	0.3x	0.1x	$11.57	$20.55	$18.73	3.0x	3.3x	$115.00	82%	↑
Cenovus Energy	CVE	OP		Wood	1796.5	$23.53	$42,271	2%	7.1x	2.9x	2.5x	0.1x	0.1x	$3.56	$7.57	$8.02	2.8x	2.5x	$41.00	76%	↑
Imperial Oil	IMO	SP		Wood	622.2	$57.38	$35,700	2%	8.1x	3.9x	3.8x	0.0x	-0.4x	$7.17	$14.34	$13.26	3.9x	4.2x	$93.00	64%	↑
Suncor Energy	SU	SP		Wood	1272.0	$43.31	$55,091	4%	6.7x	2.8x	2.8x	0.3x	0.3x	$6.89	$15.56	$14.92	2.6x	2.7x	$73.00	73%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	145.9	$8.66	$1,264	0%	7.3x	2.6x	1.6x	0.4x	0.3x	$1.18	$3.08	$5.19	2.8x	1.7x	$18.00	108%	↑
ARC Resources Ltd.	ARX	OP		Wood	609.8	$15.52	$9,463	3%	3.4x	2.6x	2.1x	0.2x	-0.3x	$3.86	$5.96	$6.41	2.4x	2.4x	$32.00	109%	↑
Baytex Energy	BTE	OP		Payne	578.7	$6.07	$3,513	0%	5.8x	2.8x	1.9x	0.4x	-0.3x	$1.30	$2.41	$2.75	2.5x	2.2x	$10.50	73%	↑
Birchcliff Energy	BIR	OP		Payne	266.8	$8.66	$2,311	1%	5.2x	1.9x	1.7x	-0.3x	-1.0x	$1.97	$4.13	$3.34	2.1x	2.6x	$15.00	74%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	540.1	$9.43	$5,093	3%	4.8x	2.3x	1.4x	0.3x	-0.1x	$2.57	$4.33	$5.66	2.1x	1.6x	$23.00	147%	↑
Enerplus Corporation ($US)	ERF	OP		Wood	219.7	$12.93	$2,841	1%	3.8x	2.2x	1.5x	0.2x	-0.5x	$2.74	$5.81	$6.49	2.1x	2.0x	$29.00	126%	↑
Freehold Royalties	FRU	OP		Wood	150.7	$13.08	$1,971	7%	10.7x	5.7x	5.9x	0.2x	-0.3x	$1.39	$2.34	$2.08	5.6x	6.3x	$22.00	76%	↑
Headwater Exploration	HWX	OP		Payne	237.8	$5.48	$1,303	0%	10.1x	3.3x	2.6x	-0.6x	-1.0x	$0.55	$1.42	$1.54	3.8x	3.6x	$10.50	92%	
Kelt Exploration	KEL	OP		Payne	195.2	$5.75	$1,122	0%	6.9x	2.4x	1.6x	-0.2x	-0.5x	$0.85	$2.16	$2.67	2.7x	2.2x	$11.00	91%	↑
MEG Energy	MEG	OP		Wood	271.0	$17.28	$4,683	0%	7.5x	2.4x	2.8x	0.5x	0.6x	$2.60	$7.67	$6.25	2.0x	2.5x	$31.00	79%	↓
NuVista Energy	NVA	SP		Payne	240.4	$9.77	$2,349	0%	7.4x	2.1x	1.4x	-0.2x	-0.8x	$1.38	$4.26	$4.48	2.3x	2.2x	$19.00	94%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	247.2	$43.15	$10,668	2%	4.6x	2.7x	1.4x	0.7x	0.2x	$12.18	$19.02	$29.45	2.2x	1.3x	$115.00	169%	↑
Paramount Resources	POU	OP		Payne	148.2	$29.09	$4,310	4%	8.8x	2.9x	2.1x	-0.1x	-0.6x	$3.38	$9.72	$10.92	3.0x	2.7x	$50.00	76%	↑
Peyto Exploration & Development	PEY	OP		Wood	169.3	$11.78	$1,994	5%	5.8x	2.4x	2.1x	0.5x	0.1x	$2.77	$6.03	$5.79	1.9x	2.0x	$23.00	100%	↑
Pipestone Energy	PIPE	SP		Payne	281.4	$3.73	$1,050	0%	6.8x	2.1x	1.1x	-0.1x	-0.6x	$0.59	$1.70	$2.13	2.2x	1.7x	$7.50	101%	↑
PrarieSky Royalty	PSK	SP		Wood	238.8	$16.22	$3,874	3%	16.2x	7.8x	8.4x	0.5x	-0.2x	$1.22	$2.19	$1.88	7.4x	8.6x	$27.00	69%	↑
Spartan Delta	SDE	OP		Payne	172.9	$11.87	$2,052	0%	7.9x	2.0x	1.2x	-0.2x	-0.8x	$2.26	$5.36	$5.89	0.0x	0.0x	$22.50	90%	↑
Tamarack Valley Energy	TVE	OP		Payne	452.9	$4.17	$1,888	3%	6.1x	2.5x	2.0x	0.2x	-0.4x	$0.94	$1.81	$1.76	2.3x	2.4x	$8.50	107%	
Topaz Energy	TPZ	OP		Payne	144.6	$20.19	$2,920	5%	15.8x	8.0x	7.4x	0.0x	-0.5x	$1.54	$2.55	$2.56	7.9x	7.9x	$32.00	64%	↑
Tourmaline Oil	TOU	OP		Payne	340.5	$65.99	$22,472	1%	7.7x	4.0x	3.3x	-0.3x	-1.0x	$9.25	$15.30	$15.47	4.3x	4.3x	$95.00	45%	↑
Vermilion Energy Inc.	VET	OP		Wood	162.8	$26.36	$4,291	1%	6.0x	2.5x	1.6x	0.5x	-0.3x	$5.59	$12.45	$13.63	2.1x	1.9x	$52.00	98%	↓
Whitecap Resources	WCP	OP		Wood	629.4	$8.72	$5,488	5%	5.8x	2.4x	1.9x	0.4x	-0.1x	$1.82	$4.31	$4.32	2.0x	2.0x	$22.00	157%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	159.3	$4.62	$736	0%	7.3x	2.7x	1.8x	0.6x	-0.3x	$0.82	$2.04	$2.22	2.3x	2.1x	$7.50	62%	↑
Kiwetinohk	KEC	OP		Payne	44.0	$14.15	$623	0%	12.9x	2.6x	1.5x	0.3x	-0.1x	$1.53	$6.08	$9.17	2.3x	1.5x	$27.50	94%	↑
Lucero	LOU	SP		Payne	676.7	$0.69	$467	0%	7.5x	2.5x	1.7x	0.1x	-0.6x	$0.15	$0.28	$0.30	2.5x	2.3x	$1.20	74%	↑
Surge Energy	SGY	OP		Payne	87.2	$8.47	$738	5%	8.4x	2.0x	1.3x	0.2x	-0.4x	$1.79	$4.49	$5.00	1.9x	1.7x	$16.50	100%	↑
Yangarra Resources	YGR	SP		Payne	91.7	$2.64	$242	0%	4.2x	1.3x	0.9x	0.3x	-0.3x	$1.02	$2.51	$2.18	1.1x	1.2x	$4.50	70%	↑

* 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 07/07	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	SP		Payne	US$567.58	91.3	US$6.22	US$213.2	US$201.8	US$223.7	4.7x	5.5x	4.6x	1.5x	2.2x	1.6x	US$10.00	61%	
Precision Drilling Corp.	PD	OP		Payne	$ 971.19	13.3	$73.00	$ 285.2	$ 249.5	$ 390.7	8.6x	11.5x	6.4x	4.0x	4.3x	2.5x	$120.00	64%	
Trican Well Services	TCW	OP		Payne	$ 808.74	235.8	$3.43	$ 30.6	$ 101.6	$ 136.2	7.5x	9.6x	6.7x	-0.7x	-0.3x	-0.3x	$6.25	82%	

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Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 07/07	EBITDA (mm) 2021	EBITDA (mm) 2022e	EBITDA (mm) 2023e	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt / EBITDA 2022e	Net Debt / EBITDA 2023e	12-Mth Price Target	12-Mth Price Return	Δ
Transition Fuels																	
Anaergia	ANRG	SP		Payne	$ 526.38	67.1	$7.85	$ 5.0	$ 24.1	$ 90.5	31.6x	9.3x	10.8x	3.6x	$14.00	78%	
Green Impact Partners	GIP	OP		Payne	$ 146.16	20.3	$7.20	$ 3.6	$ 6.3	$ 22.2	25.8x	8.0x	2.7x	1.4x	$12.00	67%	
Tidewater Renewables	LCFS	OP		Payne	$ 358.23	34.7	$10.32	$ 15.3	$ 45.4	$ 138.6	13.8x	4.2x	3.3x	0.4x	$18.00	74%	

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

Energy security remains a focal point as the market continues to look for decarbonization initiatives while supported by a significant macro tailwind expected to remain over the near term as our coverage seeks to deploy an eye-popping over $115 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies, while also driving per-share growth and valuation expansion.

Commodities Update

Crude markets experienced volatility throughout June related to Russian oil & gas sanctions, refineries lacking operable capacity, rate hikes, and OPEC's announcements regarding production increases, with WTI averaging ~US$114.12/bbl, gaining ~4% above May levels of ~US$109.52/bbl, while cumulatively rising ~68% above the 2021 average price of ~US$68/bbl. Turning to gas, NYMEX prices cooled down, averaging US$7.57/mcf, ~8% below May levels of US$8.19/mcf, while AECO followed suit, averaging $7.31/mcf lagging May's average price of $7.52/mcf by ~3%. On Marketing prospects, the WCS heavy differential widened, opening up to an average of ~US$19.2/bbl through June.

Pipelines & Midstream Update

We recently marketed AltaGas, where the company emphasized strengthening the balance sheet remains a top priority while targeting near-term D/EBITDA of <5.0x and ~4.5x in the medium term, with accelerated timing possible dependent on further divestment of non-core assets. ALA is protected from inflationary pressures with ~80% of its utilities capital plan being recoverable through ARPs and remains confident in the midstream segment growing with expected LPG exports reaching ~140,000 bpd by 2026 between the RIPET and Ferndale facilities. Management noted constructive discussion with downstream LPG customers overseas as the shorter 10- to 11-day west coast shipping poises an advantage in comparison to the 25+ day Gulf Coast shipments.

Superior Plus announced the acquisition of the retail propane and refined fuels distribution assets of Quarles Petroleum Inc. was completed for the likes of US$144 million, including 29 propane bulk plants, a rail terminal, and ~3 million gallons of storage capacity, which will primarily serve ~55,000 customers in Virginia. The company expects on a normalized basis the assets will generate ~$24 million in Adj. EBITDA on an annual run-rate basis.

Power & Utilities Update

TransAlta announced that Kent Hills 1, 2, & 3 facilities have extended current PPAs with NB Power generating a combined 167MW of capacity through to 2045. Rehabilitation of the assets continue with operations expected to commence mid-2023 with total spend of ~$120 million, and both parties have agreed to evaluate battery energy storage and potential repowering come end of life 2045.

Hydro One announced Mark Poweska is stepping down as President and CEO while the company begins the process of selecting a new CEO. Mark will remain an advisor to William (Bill) Sheffield, the recently appointed interim President and CEO, who has been a board member since 2018.

Energy Transition Update

TC Energy highlighted its view of embedding ESG factors within its business strategy as essential. The company committed to reducing emissions intensity by 30% by 2030 while investigating a net-zero by 2050 plan through investment in low-carbon energy infrastructure, modernizing assets and leveraging carbon credits / offsets. TC was recently selected to proceed through round 1 of the Alberta Carbon Grid project proposal and remains optimistic for round 2.

Tidewater Renewables, a subsidiary of Tidewater Midstream, announced a multi-year agreement in which it will sell Federal Clean Fuel Regulation (CFR) credits at a price of $95/credit to an investment-grade counterparty extending through H2/25. 45,000 credits will be sold and are attributable to fuel produced at its Prince George RDRH complex, upon commissioning Q1/23, for total proceeds of over $4 million.

Capital Power partnered with Mitsubishi Group and Kiewit Energy in conducting a front-end engineering and design study for the Genesee CCS Project in Alberta. The study will determine performance expectations, engineering deliverables and the preliminary design for integrating the repowered units with the commercial application of CCS, with an expected FID on the project by mid-2023 followed by operations commencing as early as 2027.

Top Picks

Overall, our 2023 estimates call for AFFO/sh growth of ~7% over 2022e (excl. Tidewater), with dividends up ~3% on average. We screen our top picks using a three-pronged approach for 1) double-digit free cash flow (AFFO) yield; 2) healthy balance sheet metrics; and 3) strong catalyst potential.

Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 07-07	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		280.5	$27.30	$7,659	$1.00	$1.06	$1.12	3.9%	4.1%	$2.79	$2.69	$3.11	10.2x	8.8x	5.1x	33.00	20.9%		24.8%
Enbridge Inc.	ENB	OP		2026.0	$54.51	$110,437	$3.34	$3.44	$3.54	6.3%	6.5%	$4.96	$5.40	$5.70	10.1x	9.6x	4.7x	60.00	10.1%		16.4%
Gibson Energy	GEI	SP		150.4	$24.33	$3,660	$1.40	$1.46	$1.51	6.0%	6.2%	$1.95	$2.12	$2.25	11.5x	10.8x	2.7x	25.00	2.8%		8.8%
Keyera	KEY	OP		221.0	$29.53	$6,527	$1.92	$1.92	$2.01	6.5%	6.8%	$3.03	$2.96	$3.57	10.0x	8.3x	2.7x	38.00	28.7%		35.2%
Pembina Pipelines	PPL	SP		544.0	$45.89	$24,966	$2.52	$2.54	$2.61	5.5%	5.7%	$4.05	$4.43	$4.68	10.4x	9.8x	3.6x	48.00	4.6%		10.1%
Secure Energy	SES	OP		310.4	$5.83	$1,809	$0.03	$0.03	$0.03	0.5%	0.5%	$0.65	$1.12	$1.18	5.2x	4.9x	1.1x	9.00	54.4%		54.9%
Superior Plus	SPB	OP		201.7	$11.49	$2,317	$0.72	$0.72	$0.72	6.3%	6.3%	$1.16	$1.32	$1.27	8.7x	9.0x	3.7x	13.00	13.1%		19.4%
Tidewater Midstream	TWM	OP		341.8	$1.27	$434	$0.04	$0.04	$0.04	3.1%	3.1%	$0.18	$0.28	$0.48	4.6x	2.7x	2.3x	1.75	37.8%		40.9%
TC Energy Corp.	TRP	SP		983.0	$66.89	$65,753	$3.48	$3.60	$3.74	5.4%	5.6%	$5.74	$5.34	$5.99	12.5x	11.2x	5.2x	66.00	-1.3%		4.1%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$44.10	$5,056	$1.79	$1.85	$1.87	4.2%	4.2%	$2.65	$3.29	$3.13	13.4x	14.1x	4.5x	46.00	4.3%		8.5%
Brookfield Infrastructure [1]	BIP	OP		771.5	$38.29	$29,541	$2.04	$1.80	$1.53	4.7%	4.0%	$2.93	$2.58	$2.64	14.9x	14.5x	6.0x	46.00	20.1%		24.8%
Canadian Utilities	CU	SP		275.9	$38.37	$10,586	$1.76	$1.78	$1.79	4.6%	4.7%	$2.97	$3.46	$3.17	11.1x	12.1x	5.1x	37.00	-3.6%		1.1%
Capital Power	CPX	OP		114.6	$45.41	$5,202	$2.12	$2.24	$2.36	4.9%	5.2%	$5.39	$5.70	$6.30	8.0x	7.2x	3.3x	48.00	5.7%		10.6%
Emera Inc.	EMA	SP		268.8	$60.21	$16,187	$2.58	$2.68	$2.78	4.4%	4.6%	$1.50	$4.59	$4.55	13.1x	13.2x	6.0x	60.00	-0.3%		4.1%
Fortis Inc.	FTS	SP		481.7	$60.16	$28,979	$2.05	$2.17	$2.30	3.6%	3.8%	$3.76	$4.41	$4.85	13.6x	12.4x	6.0x	60.00	-0.3%		3.3%
Hydro One Ltd.	H	SP		596.9	$34.23	$20,433	$1.07	$1.11	$1.16	3.2%	3.4%	$2.03	$2.11	$1.66	16.2x	20.6x	5.8x	34.00	-0.7%		2.6%
TransAlta	TA	SP		271.0	$14.83	$4,019	$0.18	$0.20	$0.20	1.3%	1.3%	$2.08	$1.89	$1.76	7.8x	8.4x	3.4x	15.00	1.1%		2.5%

Source: Company Reports, NBF Estimates, Refinitiv

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

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

Real Estate

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Selections

- *Minto Apartment REIT*
- *BSR REIT*
- *European Residential REIT*
- *Flagship Communities REIT*
- *Tricon Capital Group*
- *Sienna Senior Living*

June REIT Highlights

Constructive ratings actions for three Retail REITs: *Both S&P and DBRS have reiterated existing investment grade credit ratings and removed negative trend watches for CRR, FCR and REI. We will be looking to see over the coming weeks how credit spreads react to see if lower spreads emerge to help offset some of the increase in government yields this year. Below are some preliminary reactions for each name impacted:*

- **RioCan -** Given REI's existing BBB rating from S&P (two notches above a non-investment grade rating), the revision in the outlook is less important versus the other two which were only one notch above non-investment grade.
- **Crombie -** DBRS reiterated CRR's BBB (low) rating (one notch above non-investment grade) and changed the outlook to stable.
- **First Capital -** S&P reiterated FCR's BBB- rating (one notch above non-investment grade) and revised the outlook to stable.

Crombie REIT
Marketing takeaways in a chaotic market moment

We had CRR senior management meeting with investors in Montreal & Toronto. We are reiterating our Outperform rating and $20 target.

Empire relationship provides luxury of long-term perspective

The Empire relationship has allowed CRR to grow in multiple ways given their aligned incentives and open relationship. Near-term priorities between the companies are finishing the Calgary CFC for delivery to Empire/Ocado (progressing fine) and smaller spoke delivery locations for Voila, in addition to FreshCo conversions in Western Canada. A third party will be developing the Vancouver CFC but CRR will be working with the developers in an advisory capacity to ensure proper execution. Over the long term, we expect CRR to continue redeveloping Safeway properties into larger mixed sites to enhance its leading retail position in the market.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 7-7	Distributions per Unit Actual 2021	est. 2022	est. 2023	Cash Yield 2021A	2022E	2023E	Current Annualized	FD FFO Actual 2021	est. 2022	est. 2023	P/FFO 2021A	2022E	2023E	Net Asset Value	12-Mth Price Target	Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,226	Woolley	$20.09	$1.02	$1.02	$1.02	5.1%	5.1%	5.1%	5.1%	$1.60	$1.71	$1.80	12.6x	11.7x	11.2x	$27.80	$27.00	39.5%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,120	Woolley	$13.99	$0.74	$0.74	$0.74	5.3%	5.3%	5.3%	5.3%	$0.95	$0.96	$0.97	14.7x	14.6x	14.4x	$14.20	$16.00	19.7%	↔
First Capital REIT	FCR	SP	↔	$3,296	Woolley	$15.01	$0.43	$0.43	$0.43	2.9%	2.9%	2.9%	2.9%	$1.14	$1.15	$1.20	13.2x	13.1x	12.5x	$23.50	$19.50	32.8%	↔
SmartCentres REIT	SRU.un	SP	↔	$4,953	Woolley	$27.81	$1.85	$1.85	$1.85	6.7%	6.7%	6.7%	6.7%	$2.21	$2.09	$2.27	12.6x	13.3x	12.3x	$33.80	$34.00	28.9%	↔
CT REIT	CRT.un	OP	↔	$3,862	Woolley	$16.52	$0.87	$0.87	$0.87	5.3%	5.3%	5.3%	5.3%	$1.24	$1.28	$1.34	13.3x	12.9x	12.3x	$17.90	$20.00	26.3%	↔
Crombie REIT	CRR.un	OP	↔	$2,864	Woolley	$16.21	$0.89	$0.89	$0.89	5.5%	5.5%	5.5%	5.5%	$1.15	$1.17	$1.21	14.1x	13.9x	13.4x	$19.06	$20.00	28.9%	↔
Automotive Properties REIT	APR.un	OP	↔	$647	Woolley	$13.20	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.94	$0.98	$1.04	14.0x	13.5x	12.7x	$13.20	$15.50	23.5%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$4,825	Kornack	$34.10	$1.75	$1.75	$1.75	5.1%	5.1%	5.1%	5.1%	$2.40	$2.50	$2.67	14.2x	13.7x	12.8x	$48.95	$51.00	54.7%	↔
DREAM Office REIT	D.un	SP	↔	$1,025	Kornack	$19.62	$1.00	$1.00	$1.00	5.1%	5.1%	5.1%	5.1%	$1.54	$1.57	$1.64	12.7x	12.5x	12.0x	$25.55	$27.00	42.7%	↔
Slate Office REIT	SOT.un	SP	↔	$332	Kornack	$4.54	$0.40	$0.40	$0.40	8.8%	8.8%	8.8%	8.8%	$0.55	$0.56	$0.57	8.3x	8.1x	8.0x	$6.10	$5.00	18.9%	↔
True North Commerical REIT	TNT.un	SP	↔	$586	Kornack	$6.33	$0.59	$0.59	$0.59	9.4%	9.4%	9.4%	9.4%	$0.59	$0.57	$0.56	10.8x	11.2x	11.3x	$6.90	$7.00	20.0%	↔
H&R REIT	HR.un	OP	↔	$3,788	Kornack	$12.74	$0.55	$0.55	$0.55	4.3%	4.3%	4.3%	4.3%	$1.53	$1.15	$1.25	8.3x	11.1x	10.2x	$20.25	$18.50	49.5%	↔
Artis REIT	AX.un	SP	↔	$1,372	Kornack	$11.50	$0.60	$0.60	$0.60	5.2%	5.2%	5.2%	5.2%	$1.31	$1.27	$1.20	8.8x	9.1x	9.5x	$15.10	$12.50	13.9%	↔
BTB REIT	BTB.un	SP	↔	$305	Kornack	$3.60	$0.30	$0.30	$0.30	8.3%	8.3%	8.3%	8.3%	$0.41	$0.43	$0.44	8.9x	8.4x	8.3x	$4.85	$4.60	36.1%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$5,157	Kornack	$78.43	$3.10	$3.10	$3.10	4.0%	4.0%	4.0%	4.0%	$4.04	$4.44	$4.80	19.4x	17.7x	16.3x	$98.40	$115.00	50.6%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$3,308	Kornack	$12.13	$0.70	$0.70	$0.70	5.8%	5.8%	5.8%	5.8%	$0.81	$0.88	$0.93	15.0x	13.7x	13.1x	$17.50	$19.25	64.5%	↔
Nexus Industrial REIT	NXR.un	OP	↔	$770	Kornack	$9.76	$0.64	$0.64	$0.64	6.6%	6.6%	6.6%	6.6%	$0.77	$0.83	$0.91	12.7x	11.8x	10.7x	$14.30	$15.00	60.2%	↔
Summit Industrial	SMU.un	OP	↔	$3,243	Kornack	$17.11	$0.58	$0.58	$0.58	3.4%	3.4%	3.4%	3.4%	$0.70	$0.75	$0.83	24.3x	22.8x	20.7x	$22.55	$26.50	58.3%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$322	Woolley	$3.28	$0.23	$0.23	$0.23	7.1%	7.1%	7.1%	7.1%	$0.52	$0.45	$0.50	6.3x	7.3x	6.6x	$5.00	$4.75	52.0%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$7,806	Kornack	$44.48	$1.45	$1.45	$1.45	3.3%	3.3%	3.3%	3.3%	$2.33	$2.35	$2.47	19.1x	18.9x	18.0x	$57.25	$62.25	43.2%	↔
Boardwalk REIT	BEI.un	OP	↔	$2,203	Kornack	$43.64	$1.08	$1.08	$1.08	2.5%	2.5%	2.5%	2.5%	$2.96	$3.06	$3.18	14.7x	14.3x	13.7x	$64.90	$68.50	59.4%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,039	Kornack	$17.05	$0.70	$0.70	$0.70	4.1%	4.1%	4.1%	4.1%	$1.07	$1.12	$1.21	16.0x	15.3x	14.1x	$23.30	$25.00	50.7%	↔
InterRent REIT	IIP.un	OP	↔	$1,729	Kornack	$11.99	$0.34	$0.34	$0.34	2.9%	2.9%	2.9%	2.9%	$0.51	$0.56	$0.58	23.5x	21.5x	20.8x	$16.30	$17.00	44.6%	↔
Minto Apartment REIT	MI.un	OP	↔	$965	Kornack	$14.66	$0.48	$0.48	$0.48	3.2%	3.2%	3.2%	3.2%	$0.81	$0.86	$0.92	18.0x	17.1x	16.0x	$23.30	$24.50	70.4%	↔
BSR REIT	HOM.un	OP	↔	$866	Kornack	$14.93	$0.52	$0.52	$0.52	3.5%	3.5%	3.5%	3.5%	$0.65	$0.86	$0.92	22.9x	17.4x	16.2x	$22.95	$24.50	67.6%	↔
ERES REIT	ERE.un	OP	↔	$838	Kornack	$3.62	$0.16	$0.16	$0.16	4.4%	4.4%	4.4%	4.4%	$0.20	$0.22	$0.23	17.9x	16.1x	15.6x	$5.67	$5.80	64.6%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$248	Kornack	$7.40	$0.83	$0.83	$0.83	11.1%	11.1%	11.1%	11.1%	$0.50	$0.51	$0.68	14.8x	14.4x	11.0x	$9.70	$9.00	32.8%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,611	Woolley	$11.18	$0.61	$0.61	$0.61	5.5%	5.5%	5.5%	5.5%	$0.59	$0.59	$0.73	18.9x	18.9x	15.3x	$13.06	$15.00	39.6%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,983	Woolley	$12.48	$0.80	$0.80	$0.80	6.4%	6.4%	6.4%	6.4%	$0.84	$0.84	$0.89	14.9x	14.9x	14.0x	$14.25	$15.00	26.6%	↔
Sienna Senior Living	SIA	OP	↔	$956	Woolley	$13.11	$0.94	$0.94	$0.94	7.1%	7.1%	7.1%	7.1%	$1.15	$1.00	$1.21	11.4x	13.1x	10.8x	$15.83	$17.50	40.6%	↔
Extendicare	EXE	SP	↔	$637	Woolley	$7.11	$0.48	$0.48	$0.48	6.8%	6.8%	6.8%	6.8%	$0.52	$0.36	$0.47	13.7x	19.8x	15.1x	$9.40	$8.00	19.3%	↔
Invesque	IVQu	SP	↔	$70	Woolley	$1.25u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.44u	$0.28u	$0.29u	2.8x	4.5x	4.3x	$1.80u	$1.75u	40.0%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,325	Woolley	$6.14	$0.20	$0.20	$0.20	3.3%	3.3%	3.3%	3.3%	$0.15	$0.19	$0.23	40.7x	32.3x	26.7x	$6.30	$8.00	33.6%	↔
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	US$295.96	Woolley	US$15.10	US$0.54	US$0.54	US$0.54	3.6%	3.6%	3.6%	3.6%	US$1.03	US$1.14	US$1.14	14.7x	13.2x	13.2x	US$24.00	US$24.00	62.5%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$3,759	Woolley	$13.77	$0.30	$0.30	$0.30	2.2%	2.2%	2.2%	2.2%	$0.57	$0.61	$0.74	24.2x	22.6x	18.6x	$22.44	$21.00	54.7%	↔

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.

Special Situations

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Selections

- *RCH*
- *GDI*
- *BYD*

Richelieu Hardware

We hosted virtual institutional investor meetings and a fireside chat in NBF's Between Two Firms series with Richelieu's management team. In attendance were Richard Lord, President & CEO, and Antoine Auclair, CFO. Discussions centered primarily on growth opportunities in the shifting macro environment as the summer construction season heats up.

With visibility into FY22 and some of FY23, demand remains strong

Management does not foresee stiff headwinds as they experienced only a minor organic pullback during the last recession (-4.5% in '09), and we believe the market has more than priced in risks. In new residential construction (~25% of sales), RCH's visibility usually extends ~6 months ahead as the company's products are used in the final stages of interior trim, just prior to completion; this lag on current new housing starts is likely to extend slightly farther than usual, as labour availability has resulted in a significant surge of units under construction but not completed, creating a longer backlog. In the R&R space, RCH is confident demand will remain strong for the next few quarters as consumers will likely begin to pick up postponed projects as lead times shorten and skilled labour availability improves.

Cost flowthroughs no issue

Passing through cost increases is not a significant issue as pricing is not the only competitive factor differentiating distributors, with customers also valuing available inventory and rapid delivery. The pricing process is simple within the Manufacturer's segment, where pricing can flow through nearly overnight for ~85% of the company's revenues, as opposed to the process taking ~60 days with the remaining 15% in the Retailer's segment due to a period of negotiations.

M&A ready to take the baton

RCH appears perfectly positioned to take advantage of valuation compression should a recession occur. We note that between 2008-2011, RCH executed on 12 acquisitions, and we believe the company's size and strong balance sheet makes it an acquirer of choice for distressed operators or owners unwilling to hang on through another downturn. The acquisition pipeline remains steady and a priority over greenfields, targeting transaction multiples of 4-6x sustainable EBITDA, as management looks to strengthen both its product offering and geographic footprint, whilst steering clear of manufacturing businesses. Management reiterated a desire to further penetrate the U.S. market, hoping to achieve an even split of sales between Canada and the U.S. within a few years. Furthermore, the lack of exposure to interest rates given virtually no debt means management is unfazed by the rising rate environment and will not shy away from attractive opportunities.

$54.50 Target Price, Outperform

Our $54.50 target is based on 24x 2023e EPS. We rate RCH Outperform as we estimate current share price levels imply a downside scenario worse than what RCH experienced during the Financial Crisis, which we do not believe is a defensible thesis.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	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		736.8	45.2	16.32	12/2021	3.13	2.26	1.72	7.2	9.5	130.5	149.1	135.2	6.8	7.5	8.1%	3.4	27.00	
Boyd Group Services Inc.	BYD	OP		3,137.2	21.5	146.12	12/2021	1.30	2.09	4.45	55.9	26.3	219.5	268.5	352.3	12.8	9.9	0.4%	0.0	170.00	
Cascades	CAS	OP		1,040.9	101.8	10.23	12/2021	0.26	0.76	1.26	13.5	8.1	389.0	438.1	522.6	5.9	4.9	4.7%	3.5	14.00	
Dexterra Group Inc.	DXT	OP		361.1	65.1	5.55	12/2021	0.37	0.36	0.61	15.4	9.1	80.8	83.5	100.3	5.6	4.3	6.3%	1.4	12.00	
Doman Building Materials	DBM	OP		577.8	86.8	6.66	12/2021	1.34	1.43	0.80	4.7	8.3	225.6	260.5	186.1	4.4	5.5	8.4%	4.4	11.00	
GDI Integrated Facility Services	GDI	OP		1,058.7	23.0	45.99	12/2021	1.89	1.84	1.97	25.0	23.3	132.8	150.7	148.2	8.8	8.4	0.0%	2.4	70.50	
Hardwoods Distribution	HDI	OP		710.0	23.9	29.67	12/2021	4.77	5.33	4.12	4.5	5.8	195.2	266.9	227.7	4.7	4.7	1.6%	3.7	79.50	
KP Tissue	KPT	SP		100.9	9.9	10.20	12/2021	0.65	(0.47)	0.36	nmf	28.3	153.4	122.7	230.8	13.7	7.8	7.1%	3.8	10.50	
Neighbourly Pharmacy Inc.	NBLY	SP		847.0	34.4	24.60	03/2022	0.32	0.38	0.37	64.7	66.5	35.1	45.9	88.8	13.2	10.6	0.7%	0.8	27.00	↓
Park Lawn Corporation	PLC	OP		1,157.1	34.8	33.25	12/2021	1.21	1.29	1.47	20.6	18.1	76.3	86.8	96.8	12.2	10.6	1.4%	1.4	45.00	
Richelieu Hardware	RCH	OP		2,086.4	56.5	36.96	11/2021	2.51	2.69	2.28	13.7	16.2	234.4	259.9	227.5	7.8	8.4	1.4%	0.8	54.50	
Savaria Corporation	SIS	OP		855.5	64.5	13.26	12/2021	0.54	0.58	0.95	22.9	14.0	100.3	120.3	142.6	9.9	8.1	3.8%	2.6	22.00	
Uni-Sélect	UNS	OP		1,392.6	43.8	31.81	12/2021	1.00	1.39	1.46	18.3	17.4	146.7	164.9	169.1	8.9	8.2	0.0%	2.0	33.50	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
Note: BYD, HDI, ITP and UNS data is in USD except stock prices and target prices. KP Tissue: Financial data reflects Kruger Products L.P. (in which KP Tissue has a 14.5% interest).
Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed well over the past decade, benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. However, in 2021, our coverage was down ~20% on average due to weather concerns, inflation and supply chain challenges. With rising inflation and supply chain challenges continuing to persist, our coverage is down 1% so far in 2022. Nonetheless, the renewable power sector could remain in favour as a safe haven in uncertain times and should see support going forward as rising power prices fuelled by inflation and energy security concerns could drive growth in free cash flows. However, higher bond yields are a headwind to the sector. Our top picks include INE, BLX and NPI.

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

INE is one of Canada's largest renewables-focused IPPs with a net installed capacity of ~3,200 MW and plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S. ~8% Chile and ~7% France). As highlighted at its investor day in September 2021, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1,300 MW of mid or advanced stages of development. Recently, INE completed the acquisition of a 332 MW portfolio of three wind farms in Chile. Moreover, with the high-power price environment, INE exited contracts approaching expiry for 30 MW of capacity in France and replaced them with short-term contracts (2-to-3-year terms) with power prices more than 3x higher (up to €300/MWh), which, in combination with other factors, could bring INE's payout ratio down to 76% for 2022E (98% in 2021). With visibility on near-term growth combined with recent M&A, INE has guided to double-digit growth across production and financial metrics for FY'22E. With the temporary freeze on solar tariffs in the United States, INE should move forward with its solar projects in Hawaii and could revisit its contracts with offtakers. Lastly, INE could see organic growth with over 3,000 MW of Request for Proposal for renewables. Our target is based on a long-term DCF with a 6% discount rate on operating assets and includes $1/sh for growth.

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

BLX is a renewable energy producer with wind, solar and hydro assets in the United States, France and Canada. It has a net installed capacity of ~2,500 MW, 98% of which is covered by inflation-indexed, fixed-price energy sales or feed-in premium contracts with an average life of 13 years. Last year, BLX unveiled its strategic plan to 2025E as well as a roadmap to 2030E. The plan focuses on growth, diversification and asset optimization while also integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 bln by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR on its normalized EBITDA and discretionary cash flows of 10%-12% and 14%-16% by 2025E, respectively. In recent developments, BLX acquired Infinergy's U.K. portfolio in July, grew its development pipeline as it awarded five solar projects totalling 540 MW of new capacity under the NYSERDA RFPs in June, formed a partnership with Énergir and Hydro-Québec to collectively develop three 400 MW wind projects in April, and sold a 30% stake in its French assets to Energy Infrastructure Partners for C$766 million in cash in February. In Q1, BLX benefitted from high power prices given its spot exposure on 201 MW of operating assets and could look to exit close-to-expiry government contracts in France (up to 300 MW) and replace them with higher priced short-term contracts (up to ~€300/MWh). Our target is based on a long-term DCF with a 6% cost of equity on operating cash flows and $7/sh of growth.

Northland Power Inc.
(NPI: TSX; Outperform; $44 target):

NPI is a global leader in the development of offshore wind projects with ~2,800 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions. With its offshore wind platform, NPI is attracting large partners like RWE in Germany, PKN Orlen in Poland and Tokyo Gas in Japan, which could help boost returns. At its Investor Day in February, NPI highlighted a ~14.5 GW pipeline and a plan to more than double capacity by 2030E. In the near term, NPI targets over 3 GW projects to move to construction or COD in the next 24 months, while the remaining pipeline is more back-end loaded with a COD target of 2025E and beyond. In June, NPI was awarded the 100 MW Alfred Oaks solar project with 20 MW of co-located storage in NYSERDA RFPs, while in February it was offered ~2.4 GW of offshore wind leases in Scotland and in January it expanded its partnership with RWE to form a JV (49% to NPI) to co-develop a cluster of three offshore wind projects in the German North Sea with a total gross capacity of 1.3 GW. Such development projects in Europe could see upside from high power prices resulting from the European energy crisis. Moreover, the energy crisis could also accelerate demand for new projects (including its development project in Poland) and attract new capital to support future sell-downs. In the near term, we could see NPI commission its 130 MW La Lucha solar project in Mexico as well as its New York Onshore wind projects. NPI continues to progress on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E) and the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E). Lastly, NPI is preparing to bid in upcoming RFPs in Taiwan on new projects. Our target is based on a long-term DCF with a cost of equity of 6% on operating cash flows and $9/sh of growth.

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7-7	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	SP		129.8	86	1.51	12/2021	0.06u	0.01u	0.16u	nmf	7.4	2.54u	2.81u	3.06u	0.4	0.4	0.93u	0.31	2.50	
Algonquin Power	AQN	SP		9092.7	679	13.40u	12/2021	0.71u	0.73u	0.73u	18.3	18.5	3.66u	4.17u	4.52u	3.2	3.0	10.72u	0.50	16.00u	
Altius Renewable Royalties Corp	ARR	OP		269.4	29	9.17	12/2021	(0.13)u	(0.03)u	0.06u	nmf	nmf	0.02u	0.10u	0.20u	nmf	35.5	0.62u	0.00	14.50	
Ballard Power Systems	BLDP	OP		2155.3u	298	7.23u	12/2021	(0.39)u	(0.53)u	(0.38)u	nmf	nmf	0.35u	0.35u	0.63u	20.9	11.4	4.31u	0.01	13.00u	
Boralex	BLX	OP		4465.8	104	43.12	12/2021	0.16	1.02	0.65	42.5	66.1	6.69	7.44	7.68	5.8	5.6	12.87	0.63	47.00	
Brookfield Renewable	BEP	OP		22662.8u	646	35.09u	12/2021	0.00u	0.00u	0.00u	na	na	3.74u	4.20u	4.29u	8.3	8.2	24.27u	0.35	38.00u	
DIRTT Environmental Solutions	DRT	SP		96.1u	86	1.12u	12/2021	(0.63)u	(0.69)u	(0.28)u	nmf	nmf	1.73u	2.04u	2.39u	0.5	0.5	0.54u	0.38	2.25u	
GFL Environmental Inc.	GFL	OP		12920.1	381	33.90	12/2021	(1.83)	(0.27)	(0.22)	nmf	nmf	15.28	16.49	17.85	2.1	1.9	15.66	0.58	53.00	
Innergex	INE	OP		3728.4	204	18.26	12/2021	(1.09)	0.21	0.46	nmf	39.8	4.13	4.29	4.55	4.3	4.0	7.51	0.76	23.00	
The Lion Electric Company	LEV	OP		910.8u	199	4.58u	12/2021	(0.26)u	(0.41)u	(0.58)u	nmf	nmf	0.29u	0.69u	2.54u	6.6	1.8	1.90u	0.02	10.00u	
Loop Energy Inc	LPEN	OP		59.1	35	1.69	12/2021	(0.74)	(0.85)	(0.70)	nmf	nmf	0.04	0.16	0.54	10.8	3.1	2.00	0.01	7.00	
NanoXplore	GRA	OP		591.1	165	3.58	06/2021	(0.08)	(0.09)	0.02	nmf	nmf	0.46	0.56	0.77	6.4	4.7	0.73	0.19	8.00	
Next Hydrogen Solutions Inc.	NXH	SP		35.2	23	1.54	12/2021	(1.28)	(0.75)	(0.55)	nmf	nmf	0.01	0.30	0.25	5.2	6.3	1.53	0.01	2.50	
Northland Power	NPI	OP		8980.1	228	39.44	12/2021	0.83	1.43	1.22	27.5	32.4	9.57	9.34	9.27	4.2	4.3	14.97	0.67	44.00	
TransAlta Renewables	RNW	SP		4480.3	267	16.78	12/2021	0.52	0.60	0.63	27.8	26.7	1.76	1.84	1.81	9.1	9.2	7.12	0.23	18.50	
Xebec Adsorption	XBC	SP		126.9	155	0.82	12/2021	(0.15)	(0.28)	(0.02)	nmf	nmf	0.82	1.31	2.35	0.6	0.3	1.87	0.22	2.00	

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

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Selections

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

All is Not Lost; Particularly for Long-Term Investors

As you know, the past seven months have been challenging – with an increasing cost of capital that's amplified valuation volatility beyond the impact from mere supply chain challenges. And it may not be over given the potential impact of inflation on demand and margins care of rising costs (particularly labour). Not surprisingly, the market has already "priced" some of those risks. When it comes to Technology, the S&P Info Tech index is down -27.3% year to date while our Canadian Technology group as represented by the S&P/TSX Info Tech Index is down -54.9% over the same period, driven by the dramatic pullback in names like Shopify and Lightspeed. As bad as those declines are – we continue to believe for many names in our coverage, it's a function of the broad valuation reset for the sector. When it comes to many of our names – the fundamental investment thesis remains the same and it's our view that long-term investors in those names will benefit from the execution on the business models for those select names. In the short-term, we believe investors should stick to defensive names we've been recommending since early this year – such as CGI and OpenText which we'd note have outperformed on a relative basis year to date. For those longer-term investors, we see compelling risk-to-reward profiles at this point in names like Docebo, Kinaxis, Lightspeed, Magnet Forensics among others. We touch on a cross-section of names (defensive and growth) below.

- **CGI** stands to benefit from an industry tailwind largely driven by enterprises resuming their digital transformation initiatives that were paused during the pandemic. That tailwind was evidenced by strong book-to-bill in CGI's recent quarter. While we like the name for its defensive attributes (strong recurring cash flow), we see potential option value from initiatives such as its commitment to IP30 (30% of revenue from IP by F25). Separately, plans to deploy $1 billion in capital on acquisitions this fiscal year will further expand CGI's growth potential.
- **Kinaxis** should be a meaningful beneficiary of the heightened demand for supply chain solutions. From an industry standpoint, the pipeline of opportunity is up considerably across this entire market, which should be of no surprise given the challenges across supply chains, particularly across markets like auto (semiconductor shortages). We believe Kinaxis' pipeline has increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.
- **Lightspeed** should be a direct beneficiary of an economic reopening from pandemic-induced lockdowns given that ~40% of its customer base is in the hospitality sector. Further, we believe organic growth will continue to accelerate as the Company looks to increase its payments attach rate across an already large and growing (GTV) base. That said, the biggest potential (optionality) in our view comes from the integration of the Company's active acquisition stable over the past few years. In our view, the integration of those capabilities has the potential to accelerate the Company's market share gains.
- **Magnet Forensics** is an early leader in the Digital Forensics market with a suite of competitive offerings to target both public and enterprise clients. The quality of its business model is further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.

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Sector Analysis

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 7/7	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,047	44.9	45.65	2021	1.90	2.07	2.89	22.0	15.8	109.8	142.1	162.6	16.1	14.0	12.4	35%	70.00	
Blackline Safety Corp.*	BLN	OP		172	60.4	2.85	2021	(0.51)	(0.85)	(0.72)	NMF	NMF	(9.9)	(23.4)	(18.6)	NMF	NMF	0.8	0%	6.00	↓
CGI Inc.	GIB.A	OP		25,139	243.8	103.10	2021	5.41	6.10	6.46	16.9	16.0	2462.7	2577.1	2701.9	10.5	10.0	27.8	31%	135.00	
Constellation Software Inc.	CSU	SP		41,010	21.2	1,935.23	2021	47.38u	51.93u	66.53u	28.6	22.3	1,511.0u	1,685.8u	2,058.6u	18.8	15.4	77.3u	44%	2350.00	
Converge Technology Solutions*	CTS	OP		1,145	217.3	5.27	2021	0.19	0.43	0.56	9.4	7.3	94.0	177.3	225.3	5.1	4.0	2.95	20%	14.00	
Copperleaf Technologies*	CPLF	OP		441	68.4	6.45	2021	(0.03)	(0.48)	(0.40)	NMF	NMF	2.1	(30.8)	(29.4)	NMF	NMF	2.12	0%	16.00	
Coveo Solutions Inc.	CVO	OP		597	103.6	5.76	2022	(0.31u)	(0.33u)	(0.27u)	NMF	NMF	(20.4u)	(19.7u)	(15.6u)	NMF	NMF	2.5u	0%	13.00	↓
Docebo Inc.	DCBO	OP		1,262	33.0	38.21	2021	(0.31u)	(0.13u)	0.27u	NMF	NMF	(8.0u)	(1.8u)	10.5u	NMF	72.3	5.7u	0%	85.00u	
D2L Inc.*	DTOL	OP		389	53.0	7.35	2022	(0.07u)	(0.30u)	(0.08u)	NMF	NMF	0.2u	(10.0u)	1.4u	NMF	NMF	1.2u	0%	14.00	↓
E Automotive Inc.	EINC	OP		294	48.0	6.11	2021	(0.65u)	(0.61u)	(0.64u)	NMF	NMF	(7.9u)	(21.6u)	(17.9u)	NMF	NMF	2.9u	0%	17.00	
Farmers Edge Inc.	FDGE	SP		70	41.9	1.66	2021	(1.81)	(1.59)	(1.17)	NMF	NMF	(49.9)	(54.5)	(43.4)	NMF	NMF	1.99	1%	3.00	
Kinaxis Inc.	KXS	OP		4,008	28.5	140.81	2021	0.57u	1.31u	1.76u	NMF	NMF	39.9u	67.5u	78.2u	41.8	36.1	12.2u	0%	250.00	
Lightspeed Commerce Inc.	LSPD	OP		3,421u	148.5	23.04u	2022	(0.36u)	(0.35u)	(0.09u)	NMF	NMF	(41.5u)	(38.0u)	1.2u	NMF	NMF	22.9u	1%	65.00u	
Magnet Forensics Inc.*	MAGT	OP		755	42.6	17.74	2021	0.28u	0.25u	0.28u	NMF	NMF	18.6u	13.5u	17.7u	34.4	26.2	2.1u	2%	50.00	
mdf commerce inc.	MDF	SP		88	44.0	2.00	2022	(0.48)	(0.40)	(0.19)	NMF	NMF	(2.0)	(9.6)	2.3	NMF	56.1	0.16	13%	3.00	
Nuvei Corporation	NVEI	OP		5,150u	146.6	35.13u	2021	1.70u	2.19u	3.10u	16.1	11.3	317.2u	420.8u	597.4u	11.7	8.2	13.0u	21%	130.00u	
Open Text Corporation	OTEX	OP		10,436u	271.2	38.48u	2021	3.39u	3.22u	3.57u	12.0	10.8	1,315.2u	1,263.2u	1,381.2u	10.3	9.4	15.0u	51%	60.00u	
Pivotree Inc.*	PVT	OP		89	26.7	3.33	2021	(0.35)	(0.29)	(0.19)	NMF	NMF	(3.5)	0.3	2.7	198.1	25.9	3.5	0%	8.00	
Q4 Inc.	QFOR	OP		175	39.6	4.41	2021	2.13u	(0.78u)	(0.57u)	NMF	NMF	(13.6u)	(27.0u)	(19.3u)	NMF	NMF	1.8u	0%	10.00	
Real Matters Inc.	REAL	SP		439	78.9	5.56	2021	0.48u	0.09u	0.09u	NMF	NMF	59.2u	11.8u	10.4u	21.9	24.9	2.0u	0%	6.00	
Shopify Inc.	SHOP	OP		42,844u	1260.1	34.00u	2021	0.64u	0.12u	0.23u	NMF	NMF	732.0u	118.9u	327.0u	NMF	NMF	7.8u	9%	75.00u	
Softchoice Corp*	SFTC	SP		1,424	63.4	22.47	2021	0.58u	0.96u	1.24u	23.3	18.1	67.0u	96.4u	118.3u	15.7	12.8	0.8u	66%	25.00	
Tecsys Inc*	TCS	OP		482	14.6	32.98	2022	0.30	0.37	0.79	NMF	41.6	10.1	12.2	18.8	38.3	24.9	4.70	11%	50.00	↓
Telus International	TIXT	OP		6,870u	269.0	25.54u	2021	1.00u	1.22u	1.41u	NMF	NMF	540.0u	620.9u	754.2u	12.6	10.4	6.3u	39%	50.00u	
Thinkific Labs Inc.	THNC	OP		115	77.3	1.94	2021	(0.29)u	(0.41)u	(0.22)u	NMF	NMF	(19.46)u	(32.25)u	(15.85)u	NMF	NMF	1.42u	0.00	6.00	

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

u = US dollar

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

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Selections

- *CCL*
- *Rogers*
- *Spin Master*

Cogeco Communications (CCA)

Share contraction looks overdone heading into 3Q reporting and anticipated disclosure of preliminary f2023 guidance:

We published our 3Q preview on June 30 and noted at the time that since its 2Q reporting on April 13, CCA's stock fell -18.0%, in line with larger U.S. cable peers at -17.6% but above -11.2% of Canadian telecom. Just under 50% of the company's revenue comes from the United States where cablecos have seen stepped-up competition from telcos and fixed wireless access (FWA 45% of Internet net adds in 1Q22), TV cord-cutting has resumed post-COVID, and a slowdown in Internet adds continues versus elevated pandemic levels. CCA still isn't in wireless (MVNO entry could occur in 2023) where an evolving recovery in roaming is boosting pricing amid solid subscriber loading among the Big 3. The company's f2022 and f2023 are seeing higher capex for footprint expansion and integration costs for the WOW assets in Ohio that are undermining FCF in the very short term, but all this is more than already reflected in the rather depressed share price. The anticipated benefits of the footprint expansion, however, don't yet seem to be fully baked into consensus expectations, with management targeting mid-teen unlevered returns on their investments as they hope to achieve Internet penetration rates of 50% in Canada and 36% in the United States over three years in these areas which could add at least two points to consolidated EBITDA growth starting after f2023. Returning to f2022, CCA expected Canada to deliver mid-single digit organic growth in 2H with the United States to exceed its 1H mid-single digit organic gains, as marketing spend in each country skewed to 1H22 versus 2H21. At the end of June, the stock was trading at a forward EV/EBITDA of 5.7x compared to its 2/5/10-year averages of 6.5x, 6.4x, and 6.2x, respectively. Its discount to the Canadian group average (down to 8.3x from 9x during 1H22) was recently at -258 bps from a high of -279 bps on March 4 and prior high over the past 6.5 years of -254 bps on Aug. 12, 2016. CCA will report its 3Q on July 13 and management will host a conference call on July 14. Our target is based on the average of our f2023E DCF value and f2024E NAV metric, with implied EV/EBITDA multiples of 6.7x f2022E, 6.5x f2023E, and 6.1x f2024E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 7/7	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 est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		703	63.4	11.10	12/2021	(3.93)	0.51	2.02	21.6	5.5	-84.3	160.1	245.1	8.9	5.3	-4.11	1.52	19.00	
Corus Entertainment Inc.	CJR.b	OP		743	203.0	3.66	08/2021	0.88	0.70	0.72	5.2	5.1	524.6	480.3	469.2	4.7	4.4	5.62	0.54	5.00	↓
WildBrain Ltd.	WILD	OP		422	173.0	2.44	06/2021	(0.07)	0.03	0.16	84.6	14.9	83.1	92.6	107.2	9.5	7.9	0.41	0.86	5.00	
Spin Master Corp.	TOY	OP		4,629	102.8	45.03	12/2021	2.10	2.38	2.52	14.6	13.8	414.1	436.0	446.7	6.4	5.7	10.77	-0.80	66.00	
Stingray Group Inc.	RAY.a	OP		421	70.1	6.00	03/2021	0.85	0.79	0.80	7.6	7.5	114.3	99.3	110.6	7.8	7.4	3.90	0.63	7.50	↓
TVA Group Inc.	TVA.b	SP		121	43.2	2.80	12/2021	0.79	0.50	0.79	5.6	3.6	80.3	61.1	76.7	2.3	1.7	8.72	0.08	3.50	
Packaging, Printing, and Publishing																					
CCL Industries Inc.*	CCL.b	OP		11,197	178.5	62.72	12/2021	3.37	3.56	3.95	17.6	15.9	1173.1	1282.4	1375.6	9.8	8.7	21.02	0.28	79.00	
Thomson Reuters Corp.	TRI	OP		66,799	486.2	137.39	12/2021	1.95	2.38	3.40	44.5	31.1	1970.0	2328.2	2818.0	23.3	18.9	30.08	0.18	162.00	
Transcontinental Inc.	TCL.a	OP		1,350	86.7	15.57	10/2021	2.37	2.23	2.45	7.0	6.4	454.9	446.8	472.4	5.1	4.6	20.99	0.37	23.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		240	21.3	11.30	12/2021	(0.59)	(0.12)	0.93	NM	12.2	29.0	41.9	56.6	6.1	4.9	4.10	0.41	34.00	
Yellow Pages Ltd.	Y	SP		362	27.7	13.07	12/2021	3.02	2.03	1.89	6.4	6.9	102.0	93.2	85.5	2.4	2.2	NM	-0.41	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		58,209	911.8	63.84	12/2021	3.19	3.36	3.63	19.0	17.6	9893.0	10308.7	10683.8	8.8	8.4	21.48	0.40	71.00	
Cogeco Communications Inc.	CCA	OP		4,087	46.4	88.11	08/2021	8.43	9.20	9.96	9.6	8.8	1205.7	1387.3	1425.5	5.7	5.5	63.69	0.60	119.00	↓
Quebecor Inc.	QBR.b	OP	↑	6,662	239.2	27.85	12/2021	2.52	2.85	3.22	9.8	8.7	1973.2	2387.7	2466.6	6.6	6.2	5.59	0.83	32.00	
Rogers Communications Inc.	RCI.b	OP		31,442	504.9	62.27	12/2021	3.56	3.70	5.24	16.8	11.9	5887.0	8689.2	9337.2	7.8	7.3	22.01	0.36	83.00	
Shaw Communications	SJR.b	OP		18,251	501.0	36.43	08/2021	1.60	1.58	1.57	23.1	23.2	2500.0	2543.2	2554.4	9.3	8.9	12.62	0.46	40.50	
Telus Corp.	T	OP		39,794	1376.0	28.92	12/2021	1.23	1.13	1.35	25.6	21.4	6290.0	6628.2	7246.6	9.7	8.7	11.92	0.58	36.00	

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

TRI, TOY, and FORA estimates are in US$, rest is CAD$.
*CCL Industries Inc. is covered by Ahmed Abdullah.

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Selections

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

A re-evaluation of our top picks, halfway through the year.

With the first half of 2022 in the rear-view mirror and equity markets looking significantly more pessimistic than the start of the year, we re-examined our top ideas based on current industry developments and outlooks. While share prices may remain under pressure due to rising interest rates, high inflation and the growing risk of recession, we believe there is a significant upside for several of our coverage stocks for investors with a longer-term investment horizon. In our recent Mid-Year Update report, we re-evaluated and reaffirmed our convictions on our top selections from our coverage universe:

Air Canada (Outperform, $30.00 target)

As of July 3, 2022, the 7-day rolling average of travelers through security checkpoints at Canada's 15 largest airports was down 13.3% compared to the same 7-day period pre-pandemic. We therefore still anticipate significant upside in travel demand just to return to 2019 levels, let alone ongoing growth in the coming years. Higher fuel costs (which are largely being offset by higher airfares) and airport congestion are near-term headwinds, but we view these issues as temporary. Air Canada shares are currently trading at nearly the same level as July 2020 when demand for non-essential travel was effectively nonexistent and the prospect of a recovery seemed uncertain, at best. We believe Air Canada's EBITDA can make a near-full recovery by 2024 and significant free cash flow will lead to rapid de-leveraging in 2023 and 2024, making the current share price an attractive entry point.

BRP Inc. (Outperform, $136.00 target)

We believe the market has already priced in a significant powersports industry downturn, and BRP shares are trading near all-time valuation lows. While demand for powersports tends to weaken in a recessionary environment, we believe BRP's market share gains in the side-by-side segment, new product launches like the Project Ghost boats the Sea-Doo Switch pontoon and a $1.4 billion dealer inventory restocking tailwind position the company to weather any slowdown in retail demand. We see the current share price as a compelling value entry point for a company with a strong brand, expanding market share and a management team with an exceptional track record.

CAE Inc. (Outperform, $44.00 target)

The latest 7-day rolling average of global commercial flights was down 13.5% against the same week pre-pandemic, so a recovery in airline capacity, and by extension pilot training demand, still has room to run, even in the event of an economic slowdown. CAE's simulator training center utilization in its latest quarter was still only 69% compared to a normalized level of ~75% seen pre-pandemic. A further 264,000 net-new pilots needed to meet projected global market demand over the next 10 years will serve as a multi-year tailwind for CAE as the global leader in pilot training and simulators. Further, investments from numerous nations expanding defence budgets in response to Russia's invasion of Ukraine will also benefit CAE as it generates ~45% of its revenue from the Defence segment. Overall, we see both cyclical and secular growth trends that will benefit CAE over the coming years.

Héroux-Devtek (Outperform, $25.00 target)

Increased defence spending will also benefit HRX as well as a recovery in aircraft production rates at Boeing and Airbus. Following two weak years of aircraft deliveries, both major global producers are projecting a recovery to near pre-pandemic levels in 2023. Given that aerospace manufacturing is a long-cycle industry, we do not anticipate that an economic slowdown will impact HRX's commercial segment recovery. Higher global defence spending will also benefit HRX as ~70% of company revenues are from defence programs.

TFI International (Outperform, $146.00 target)

While trucking dry van spot rates have experienced pricing correction over the last few months, the majority of TFI's revenues are exposed to the longer-term, less volatile contract rate market. TFI demonstrated through the last economic recession in 2008-2009 that it was able to maintain its EBITDA margin and rebound quickly in the following two years. TFI has also significantly rebalanced its revenue mix away from the more volatile Truckload segment to the Less-Than-Truckload segment, which now accounts for more than 45% of annual revenues, following its acquisition of TForce Freight last year. With further operational improvements in existing segments, limited exposure to the more volatile segments of the trucking industry and strong capitalization (1.2x net-debt-to-TTM-EBITDA), we view TFI as our top pick in the freight segment.

Transportation & Industrial Products

	Stock Sym.	Stock Rating	∆	Shares O/S (Mln)	Stock Price 7-7	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt / Cap	12-Mth Price Target	∆
Air Canada	AC	OP		358	16.66	5,964	12/2021	-10.25	-3.68	1.00	NA	16.7x	(1464)	1128	2794	12.1x	4.9x	108%	30.00	↓
Bombardier Inc.	BBD.b	OP		98	19.52	1,908	12/2021	-u2.00	-u1.93	u0.51	NA	38.3x	u641	u847	u1065	8.3x	6.6x	na	65.00	
BRP Inc.	DOO	OP		80	86.01	6,905	01/2022	9.92	11.27	11.45	7.6x	7.5x	1462	1650	1690	5.7x	5.5x	107%	136.00	
CAE Inc.	CAE	OP		319	32.48	10,358	03/2022	0.84	1.07	1.48	30.2x	22.0x	755	955	1147	17.3x	11.4x	40%	44.00	
Canadian National Rail	CNR	SP		700	146.97	102,908	12/2021	5.95	6.83	7.64	21.5x	19.2x	9.81	9.14	10.86	14.4x	13.1x	38%	160.00	↓
Canadian Pacific Rail	CP	SP		933	93.53	87,235	12/2021	3.76	3.41	4.65	27.4x	20.1x	5.41	4.67	6.47	25.2x	14.4x	37%	93.00	↓
Cargojet Inc.	CJT	SP		17	144.67	2,506	12/2021	9.36	8.29	8.43	17.5x	17.2x	293	358	375	8.0x	7.6x	36%	185.00	
Chorus Aviation Inc.	CHR	OP		203	3.23	656	12/2021	0.37	0.51	0.61	6.3x	5.3x	272	443	516	5.3x	4.5x	70%	5.50	
Exchange Income Corporation	EIF	OP		40	43.75	1,735	12/2021	2.26	2.33	3.34	18.8x	13.1x	330	407	501	7.5x	6.1x	62%	59.00	
Héroux-Devtek Inc.	HRX	OP		36	14.19	512	03/2022	0.95	0.89	1.16	16.0x	12.2x	83	90	102	7.4x	6.5x	28%	25.00	
NFI Group Inc.	NFI	SP		77	13.10	1,010	12/2021	-u0.17	-u1.29	u0.41	na	24.9x	164	16	200	114.3x	9.0x	48%	14.00	
Taiga Motors Corp.	TAIG	OP		31	3.65	115	12/2021	-5.72	-1.23	-1.66	NA	NA	(22)	(35)	(23)	na	na	na	9.00	
Transat A.T. Inc.	TRZ	UP		38	3.41	129	10/2021	-11.83	-8.33	-1.24	NA	NA	(214)	(105)	194	na	7.0x	NA	3.75	↓
TFI International Inc.	TFII	OP		92	108.55	9,983	12/2021	u5.23	u6.54	u7.15	12.8x	11.7x	1051	1303	1396	7.5x	7.0x	48%	146.00	

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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