

NOVEMBER 2022

# VISION

**Monthly  
Economic &  
Financial  
Monitor**



**NATIONAL BANK  
OF CANADA**

**FINANCIAL MARKETS**

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# Highlights



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**"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

After a late start, global monetary tightening now seems well under way, with more and more central banks moving policy into restrictive territory to tame inflation. This trend shift encourages hope that prices will eventually stabilize, but its impact on the economy will be no less important, especially since it comes at a time when growth has already slowed in many regions of the world. In the Eurozone, for example, GDP expanded in Q3 at an annual rate of only 0.7%, as the effects of sharply higher energy costs began to be felt via a massive jump of inflation and a corollary drop of real remuneration. Despite a slight improvement on the energy front, we maintain our view that the Eurozone will have entered recession in the last quarter of the year. Elsewhere, our concerns have changed little over the last month. Emerging markets are still feeling the pressure of a strong greenback that is pushing up inflation and making it harder to repay debt denominated in USD. China, meanwhile, continues to feel the economic effects of its zero-Covid policy, under conditions where a weakness of consumption can no longer be fully offset by increased exports. Given recent developments, we are keeping our global growth forecasts virtually unchanged for 2022 (+3.2%) and 2023 (+2.2%). For 2024 we see an expansion of 2.9%.

- The beginning of November was marked in the U.S. by an FOMC meeting that raised the target range of the policy rate from 3.00-3.25% to 3.75%-4.00%. The move was expected, but the same cannot be said of the hawkish tone adopted by Jerome Powell when he met the press after the announcement. The Fed chairman surprised more than one observer by stating that the data released since the previous meeting were consistent with a terminal policy rate higher than the 4.75% flagged in the most recent dot plot. We disagree with this statement, believing instead that signs of an economic slowdown have intensified in recent weeks. We foresee a tough first half of next year, leading to an expansion of only 0.3% over the whole year. With the Fed likely taking its foot off the brakes at some point next year, growth should reaccelerate to 1.4% in 2024.
- In Canada, manoeuvring for the landing of the economy continues. Things are moving in the right direction for the Bank of Canada, suggesting that we are approaching the terminal policy rate of this tightening phase. The labour market shows signs of moderating and inflationary pressures are less acute and omnipresent than earlier this year. However, the haste of the tightening, together with the lag time for transmission of policy-rate moves to the economy, makes it normal for observers to be nervous. Alas, we will know only after the fact whether the Bank went too far. One thing is certain: we can now see a marked slowing in real estate entailing an extremely rapid deflation in that market. To calm inflation, in our view, it will not be necessary to keep interest rates high for long and we accordingly expect the central bank to ease substantially in the second half of next year. Given the monetary tightening, we anticipate anemic growth of 0.7% in 2023, with consumers hit simultaneously by loss of purchasing power, a negative wealth effect and an interest-payment shock.

## Interest rates and currency

- Additional tightening must be expected, with the Bank of Canada (on December 7th) and then the FOMC (on December 14th) poised to hike for a seventh consecutive time in the final announcement of 2022.
- In the BoC's case, it's possible that December's hike (we currently anticipate 50 bps, with that contingent on the next inflation print) could be the last. To be clear, there's nothing terribly magical about the turn of the calendar

when it comes to monetary policymaking. But after pushing the policy rate further into restrictive territory (up to 4.25%), it will be appropriate to pause in order to assess the slowdown in Canadian growth and inflation.

- Jay Powell's Fed may opt for an additional anti-inflation insurance policy early in 2023, in the form a final rate hike to 4.75% for fed funds upper. Here again, however, an expectation of rapidly moderating U.S. inflation should give the FOMC what it needs to declare a cease fire (in terms of policy rate hikes), kicking off what could be a traditionally short period of monetary policy stability.
- Further out, markets are still expecting fed funds (upper bound target) to remain near 4% through 2024—just as the FOMC signaled in its September dot plot. But we continue to push back. We can concede the point the Fed will likely be more reluctant to provide ultra-easy monetary again in the future (as it did in 2020 and 2021). But lowering rates from close to 5% to 3% is not that. The Fed still views 2.5% as the long-run neutral rate. Theoretically, at least, a policy rate at or above that level won't add upward pressure to inflation. The same goes for the Bank of Canada. Simply put, suffocatingly restrictive monetary policy won't be needed in a year's time.
- The loonie continues to struggle as we enter the home stretch of the year. While much of this weakness reflects the strength of the USD, the Bank of Canada (BoC) helped clipped the loonie's wings by failing to meet market expectations with a smaller-than-expected 50 basis point increase in its policy rate on October 26. With inflation cooling faster in Canada than in the U.S. and the BoC unlikely to overtake the Fed in the coming months we do not see opportunities for a significant strengthening of the CAD against the USD until an FOMC pivot. Subsequently, we see the possibility of a significant appreciation of the CAD against the greenback to reflect Canada's improved economic growth profile driven by upgraded immigration targets.

## Recommended asset mix and stock market

- Recent developments in the U.S. offer hope that central banks may soon declare a ceasefire and halt their tightening campaign to limit the collateral damage to the economy and profits. Three-month annualized core goods inflation, which was a record 26.3% in June 2021, was only 0.4% in October 2022. This improvement is much faster than in the stagflation era when it took

more than a decade of high unemployment to bring goods inflation down to current levels.

- The better-than-expected trend in inflation paved the way for USD depreciation and a significant recovery in global stock markets. The MSCI ACWI is already up 10.2% since the start of the fourth quarter, with half of those gains coming in the five days leading up to November 11.
- The S&P 500 Q3 2022 earnings reporting season is ending on a positive note. As of this writing, nearly 70% of companies had reported better-than-expected earnings. The outlook, however, remains challenging. Downward revisions were widespread, with just over 20% of S&P 500 companies revising upward their earnings per share estimates for the coming year, the worst since the COVID recession.
- The third quarter 2022 reporting season is also ending in Canada, with earnings per share for the S&P/TSX as a whole beating expectations by a larger margin than for the S&P 500. But this is mostly due to the energy sector, where companies reported earnings 25.4% above expectations. The key for a tangible expansion in the PE of energy companies will depend on their ability to deploy carbon capture, utilization and storage (CCUS) technologies that would significantly extend the life of fossil oil extraction while reducing CO2 emissions.
- Our asset allocation is unchanged this month. Equities remain underweight, fixed income retains its market weight and cash is slightly overweight. Despite the improving inflation backdrop in the U.S., the Fed has yet to commit to a pause in its interest rate tightening campaign. This obstacle must be overcome before we can become more constructive on the profit outlook.

## NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
<b>Energy</b>	19.1	Overweight	
<b>Materials</b>	11.7	Overweight	
<b>Industrials</b>	12.9	Underweight	
<b>Consumer Discretionary</b>	3.5	Underweight	
<b>Consumer Staples</b>	4.1	Overweight	
<b>Healthcare</b>	0.4	Market Weight	
<b>Financials</b>	30.9	Market Weight	
<b>Information Technology</b>	5.6	Market Weight	
<b>Telecommunication Services</b>	4.8	Market Weight	
<b>Utilities</b>	4.5	Market Weight	
<b>Real Estate</b>	2.5	Underweight	
<b>Total</b>	100.0		

\* As of November 11, 2022

# The Economy

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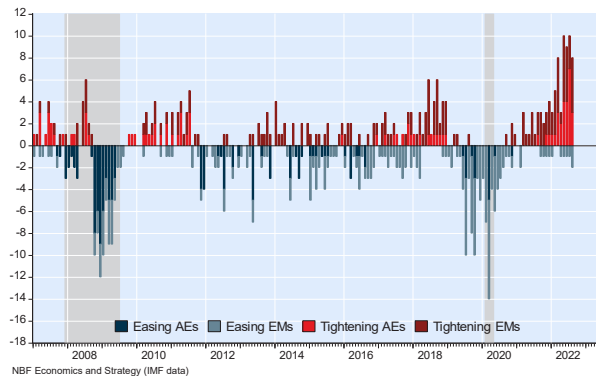
**Daren King**  
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## World: The Euro zone entering recession

After a late start, global monetary tightening now seems well under way. More and more central banks have gone restrictive to tame inflation.

### World: Acceleration of monetary tightening ...

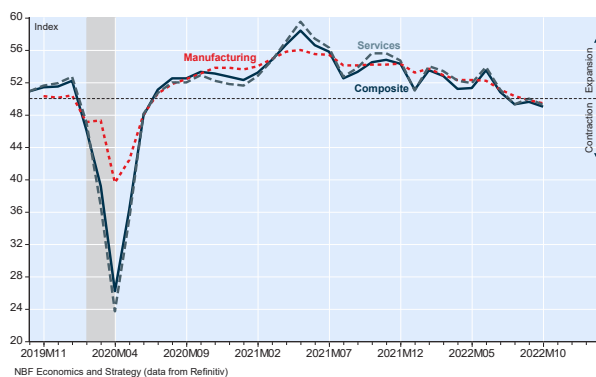
Number of G20 countries hiking / cutting their policy rates each month



This trend shift encourages hope that prices will eventually stabilize, but its impact on the economy will be no less important, especially since it comes at a time when growth has already slowed in many regions.

### ... could exacerbate the slowing of global growth

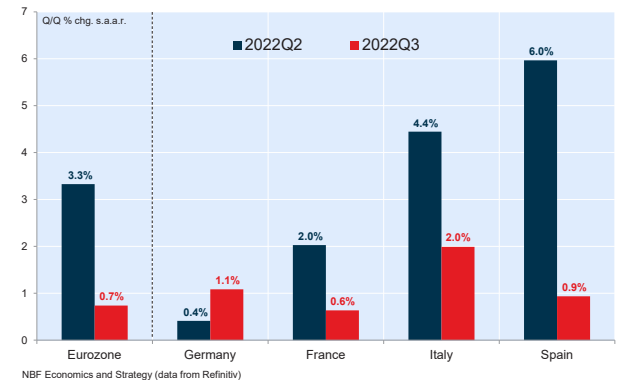
JPMorgan Global Composite PMI, last observation October 2022



In the Eurozone, for example, GDP expanded in Q3 at an annual rate of only 0.7%, well below the 3.3% rate of Q2. The slowdown was especially marked in Spain (from 6.0% to 0.9%) and France (from 2.0% to 0.6%), countries where the post-shutdown boost to the tourism and leisure sectors has begun to fade.

## Eurozone: Sharp deceleration of growth in Q3 ... the worst is yet to come

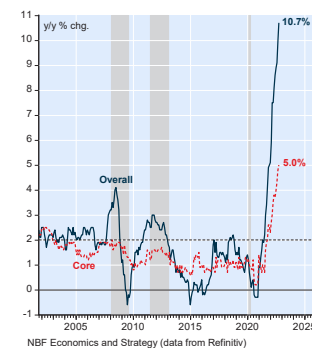
Quarterly change in real GDP



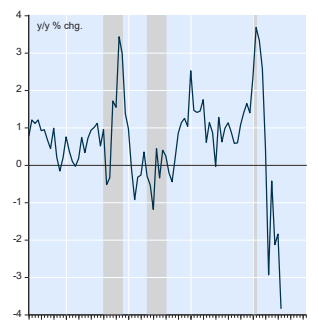
Meanwhile, the explosion of energy costs has been felt across the zone via a massive jump of inflation and a corollary drop of real remuneration.

## Eurozone: Erosion of household incomes by inflation

Harmonized consumer price index



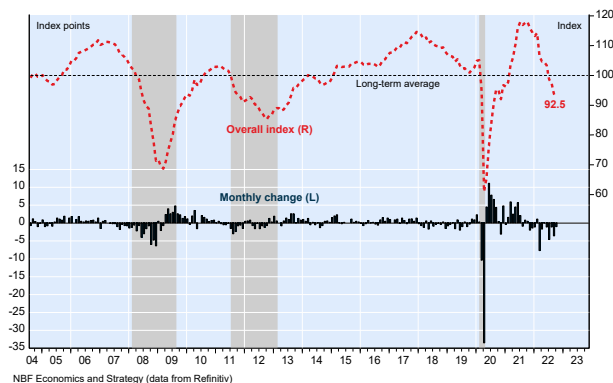
Hourly remuneration corrected for overall inflation



Sentiment about the economy has continued to deteriorate accordingly, slipping significantly below the historical average.

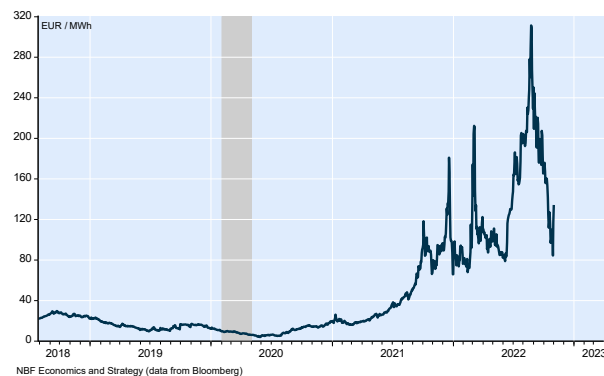
# The Economy

**Eurozone: Economic sentiment now in recession territory**  
 European Commission economic sentiment indicator. Last observation October 2022



In a small ray of hope for the economy, the energy picture has improved since the end of Q3. Among other developments, above-seasonal temperatures have let natural gas prices fall about 60% since August.

**Eurozone: Natural gas price down 60% since August**  
 Price of natural gas for delivery to Netherlands in one month



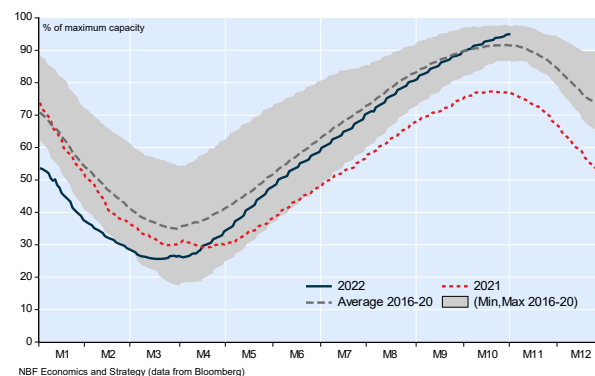
Gas reserves have continued to increase and are now at 95% of capacity, 18 percentage points more than a year previously and comfortably above the 80% objective set earlier this year by the European Union.

Europe is not out of danger for all that. Since gas reserves will cover no more than 80 or 90 days of maximum demand, the continent will be exposed to stoppage of Russian exports this winter, a possibility that more and more experts are taking seriously. And even if

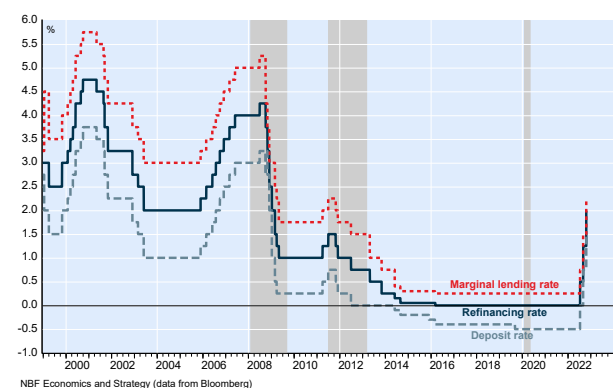
Moscow were to maintain its current pace of deliveries, gas prices could stay high enough to inhibit the economy. It should be kept in mind that even after the recent drop they are still hovering around €115 per megawatt-hour – a price per unit of energy corresponding to \$180 per barrel of oil.

Despite the slight improvement in outlook, we maintain our view that the Eurozone will have entered recession in this last quarter of the year. In addition to gas prices, the degree of slowdown will depend on what the European Central Bank does. Judging by the 75-basis-point hike at its last meeting, the ECB seems still determined to curb inflation with rapid monetary tightening. Hardly reassuring for the economy.

**Europe: Natural gas reserves near capacity**  
 Natural gas reserves



**Eurozone: The ECB tightens the screws**  
 European Central Bank policy rates



But beyond this sharp hike, ECB communications suggest that the central bank is increasingly concerned by the slowing of growth. Meeting the press after the rate announcement, ECB chair Christine Lagarde recognized that the Eurozone economy zone had “probably slowed significantly” and that a recession had become more likely. True, she maintained that the ECB “had more road to travel,” but removal of the section of the press release stipulating that rates would likely be raised “at each of the coming meetings” leads us to think the finish line is not far down the road. So much the better.

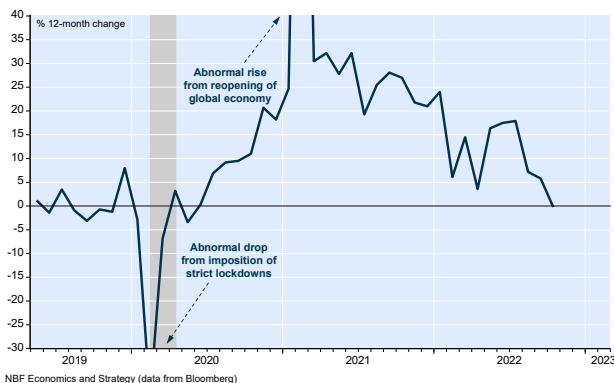
In contrast to the North American story, the upward deviation of inflation in the Eurozone cannot be laid to excess demand. The cause has been rather a severe supply shock over which the tools of the central bank have no hold. To blindly hike rates in this landscape would serve only to aggravate an already difficult situation. That the central bank now recognizes the compromise between inflation and growth is thus good news that could spare the economy useless suffering. But since the full effect of the rate rises put in place so far have yet to be felt in the economy, the change of tone has probably come too late to head off a downturn.

Elsewhere in the world, our concerns have changed little over the last month. Emerging markets are still feeling the pressure of a strong greenback that is pushing up inflation and making it harder to repay loans denominated in USD. China, meanwhile, continues to feel the economic effects of its zero-Covid policy, under conditions where a weakness of consumption can no longer be fully offset by increased exports. The rapid slowing of global growth has sapped demand for Chinese goods, as attested by October's first dip in 12-month exports since the onset of the pandemic. Together with persistent problems in the housing sector, this dip could make the government's growth targets even harder to achieve in coming quarters.



# The Economy

**China: Stalling of global growth is crimping exports**  
12-month change in total exports expressed in USD



Given recent developments, we are keeping our global growth forecasts virtually unchanged for 2022 (+3.2%) and 2023 (+2.2%). For 2024 we see an expansion of 2.9%.

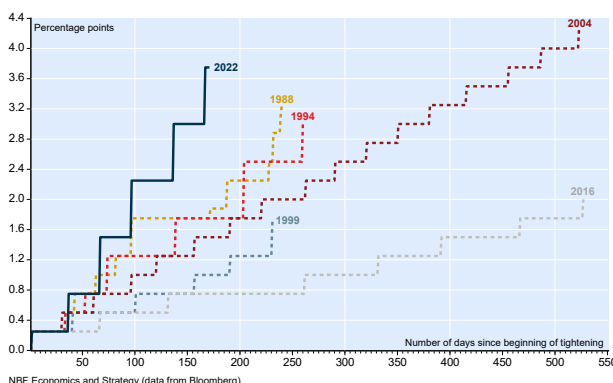
World Economic Outlook			
	2022	2023	2024
<b>Advanced Economies</b>	<b>2.5</b>	<b>0.3</b>	<b>1.3</b>
United States	1.9	0.3	1.4
Eurozone	3.2	-0.8	0.7
Japan	1.6	1.3	1.2
UK	4.2	-1.4	0.9
Canada	3.3	0.7	1.5
Australia	4.0	1.0	1.8
Korea	2.6	1.5	2.4
<b>Emerging Economies</b>	<b>3.6</b>	<b>3.5</b>	<b>4.1</b>
China	3.3	4.4	4.7
India	6.8	6.0	6.7
Mexico	2.5	1.2	2.2
Brazil	2.5	1.1	2.0
Russia	-4.5	-2.0	1.5
<b>World</b>	<b>3.2</b>	<b>2.2</b>	<b>2.9</b>

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

## U.S.: A backward-looking Fed risks pushing the economy over the edge

The beginning of November was marked in the U.S. by an FOMC meeting that raised the target range of the policy rate from 3.00–3.25% to 3.75%–4.00%. It was a fourth consecutive 75-basis-point hike and the sixth hike of the tightening phase in which the central bank has so far raised its policy rate by a total of 375 bp.

**U.S.: Brutal monetary-policy tightening**  
Paths of the policy rate in the most recent phases of monetary tightening

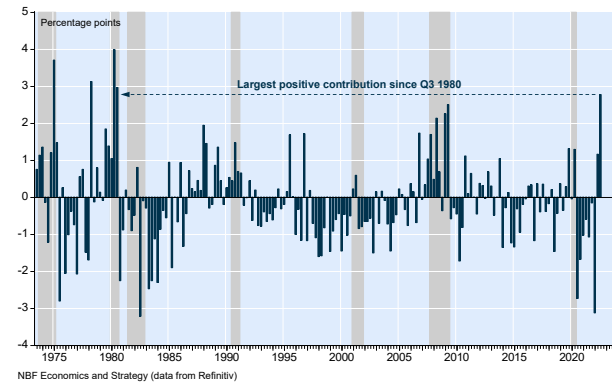


The move was expected, but the same cannot be said of the hawkish tone adopted by Jerome Powell when he met the press after the announcement. The Fed chairman surprised more than one observer by stating that the data released since the previous meeting were consistent with a terminal policy rate higher than the 4.75% flagged in the most recent dot plot. We disagree with this statement, believing instead that signs of an economic slowdown have intensified in recent weeks.

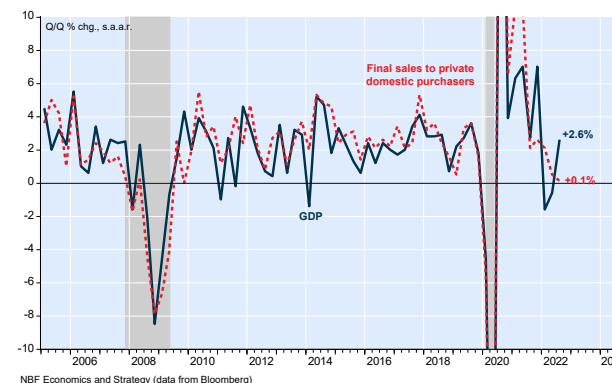
Let's start with the GDP numbers for the third quarter. True, they showed a rebound of growth, but that was no surprise after contractions of 1.6% in Q1 and 0.6% in Q2. Apart from confirming that the U.S. economy was not in recession at the beginning of the year, the 2.6% growth rate of the third quarter served only to bring real GDP back to the level of Q4 2021. Neither was the growth mix especially encouraging: the Q3 expansion was due in large part of foreign trade.

Meanwhile, final sales to private domestic buyers – a category consisting of household consumption and gross business investment – continued to slow, growing only 0.1% annualized.

**U.S.: Q3 growth was due largely to net exports**  
Contribution of net exports to growth of real GDP



**U.S.: Growth rebounds but private demand continues to slow**  
Quarterly change of real GDP and of final sales to private domestic purchasers

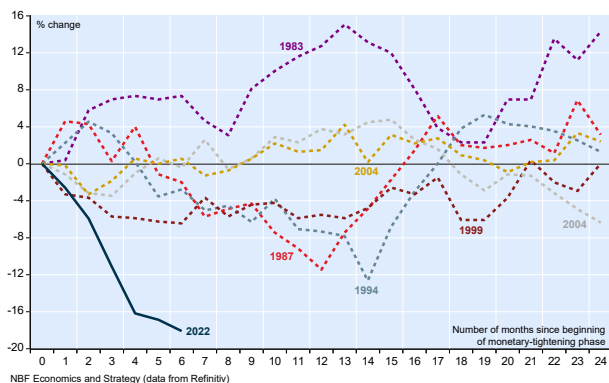


More specifically, residential investment was down for a sixth straight quarter, the longest such run since the Great Recession of 2008–09. This weakness contradicts Jerome Powell's idea that for the moment there is no data to support the idea that FOMC monetary-policy moves are taking effect on the economy faster than in previous cycles. The data on home sales suggests rather that rate rises take less time to funnel into the economy after a price surge such as the one observed in the re-opening phase of the pandemic.

# The Economy

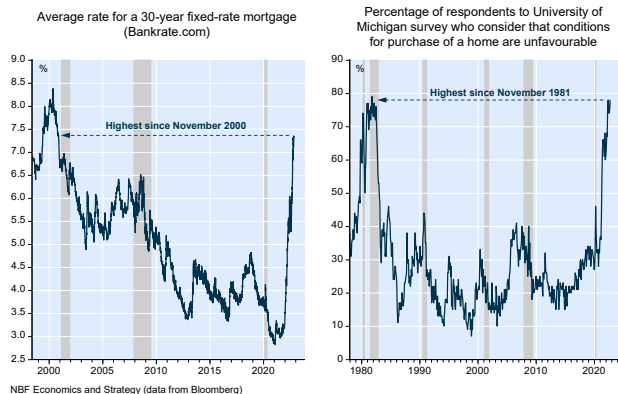
## U.S.: Rapid transmission of monetary tightening (1)

Monthly change in home resales in the two years following the beginning of Fed tightening phases



The degree of tightening also counts for something. Mortgage rates are up no less than 450 basis points from their pandemic low, a hike of a steepness that has contributed to demoralizing potential buyers.

## U.S.: Rapid transmission of monetary tightening (2)



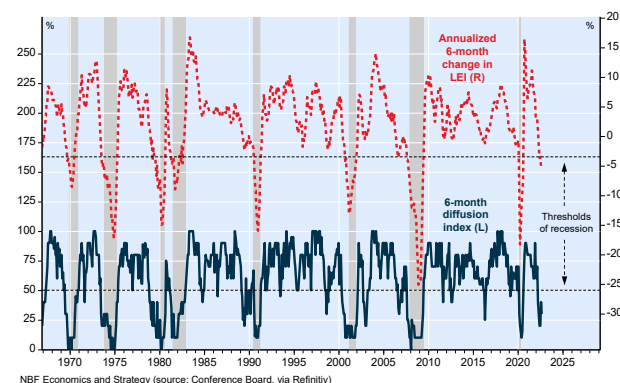
Some will say that real estate accounts for such a small part of U.S. GDP that its weakness should not worry us unduly. We agree that the decline of residential investment will not in itself tip the economy into recession, but we think it imprudent to consider what is currently happening in housing as simply a return to normal following the pandemic boom. Within the GDP data, residential investment can be seen as a leading indicator because it reacts faster to changes in interest rates. The Federal

Reserve would accordingly do well to pay more attention here. A deeper dive into the data might well lead it to conclude that current monetary policy is more restrictive than would appear, a restrictiveness that might be masked in consumption data by excess savings accumulated during the pandemic. The central bank instead limits itself to saying the consequences of the current slowdown will be lesser than in 2008, which is obvious given the catastrophic dimensions of the housing crisis that began a few months before the Great Recession.

Since the start of the pandemic, the central bank has tended to overlook many leading indicators in its analysis of the economy, whether it be housing or others. This shortcoming led it a year ago to underestimate risks related to price rises and could now lead it to monetary overtightening, since the leading indicators suggest a substantial slowing of the economy in coming months.

## U.S.: Leading indicators announce a slowing of growth

Conference Board Index of leading economic indicators (LEI), last observation September 2022



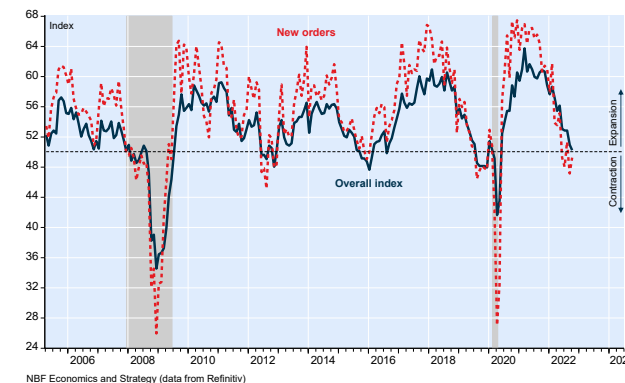
The Fed's mandate makes no mention of leading indicators in its twin requirement that the central bank keep inflation under control and employment high. But since there is a lag in the reaction of inflation and employment measures to the ups and downs of the economy, the central bank ought to broaden its field of vision in order to better anticipate future trends.

Take inflation, for example. Though it continues to hover at unacceptable highs, signs of a coming turnaround are now abundant. The rise of goods prices has already slowed markedly, and the difficulties of the manufacturing sector suggest this trend could continue in the

coming months. To be sure, the ISM PMI index in October flagged the weakest expansion of manufacturing output since the early months of the pandemic. It also showed new orders contracting for the fourth time in the last five months.

## U.S.: Manufacturing sector stalling

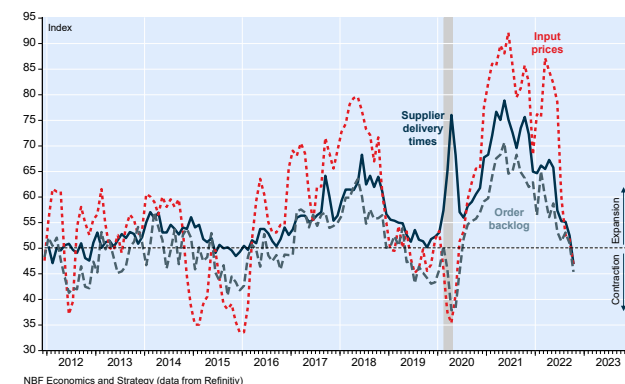
ISM Manufacturing PMI



Signs of improvement in supply chains were also clearly visible in the October PMI. This is especially important in matters of price change. The input price index fell below the threshold of 50 for the first time in two and a half years, while the index of supplier delivery times showed the largest shortening since March 2009. These drops, combined with that of new orders, resulted in the first decline of the order backlog in 28 months.

## U.S.: The supply chain is rapidly becoming more fluid

ISM Manufacturing PMI

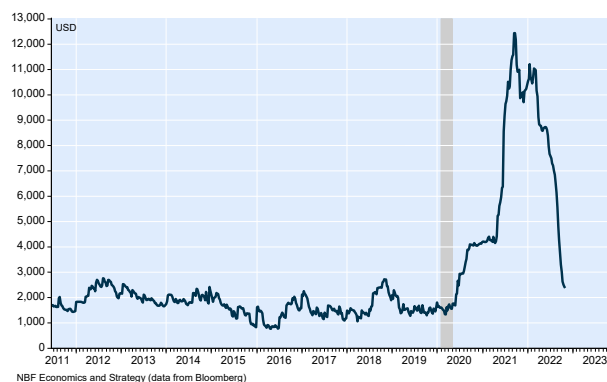


# The Economy

Other factors also support our hope of seeing goods prices decelerate, in particular the decline of international transport costs...

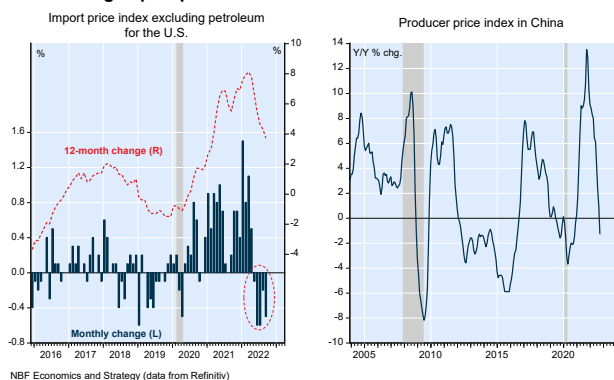
## U.S.: A big drop in international transport costs

Price to transport a 40-foot container from Shanghai to Los Angeles



... and the strength of the U.S. dollar, which together with the decline of production costs in China is helping to reduce import prices.

## U.S.: Falling import prices

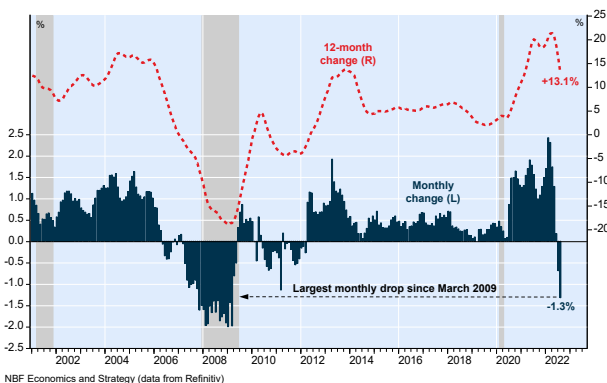


On the services side, the return to more acceptable rates of inflation could take longer. But the process nevertheless seems to be under way. It should be kept in mind that since categories linked to housing account for a disproportionate share of the core index for services, the path of the latter could be dictated in large part by the fluctuation of housing prices and rents. For price stabilization the

weakness of the housing market is thus good news, because it is now reflected in a decline of home prices. That said, since price movements in real estate generally lag inflation data, the effect of this change of trend may not show up until the first half of 2023.

## U.S.: An accelerating decline of home prices

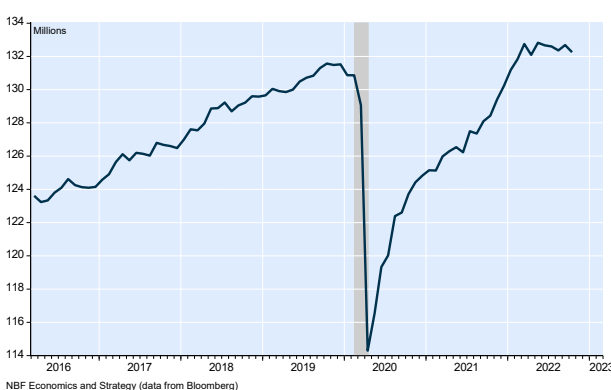
S&P CoreLogic Case-Shiller 20-city home price index, last observation August 2022



Until then, the vigour of the labour market is likely to sustain prices for other services via a substantial rise in remuneration of labour. But even here a ray of hope appears on the horizon, as hiring seems to be slowing. At first sight the October statistics seem impressive – the payroll survey reported a gain of 261,000 jobs. But this good impression is at least partly offset by a loss of 328,000 reported by the household survey (including 431,000 full-time jobs, the fifth decline in seven months).

## U.S.: Full-time employment plateauing

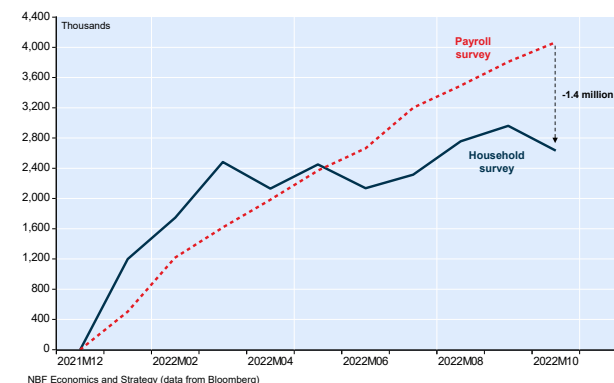
Full-time employment according to the household survey



The real state of the labour market is accordingly difficult to evaluate, but we hypothesize that it is somewhere between these two narratives, i.e. that it is still resilient though definitively less buoyant than just a few weeks ago. This hypothesis seems to be supported by data gathered by the Conference Board in its survey of household confidence.

## U.S.: Two labour-market surveys ... two different worlds

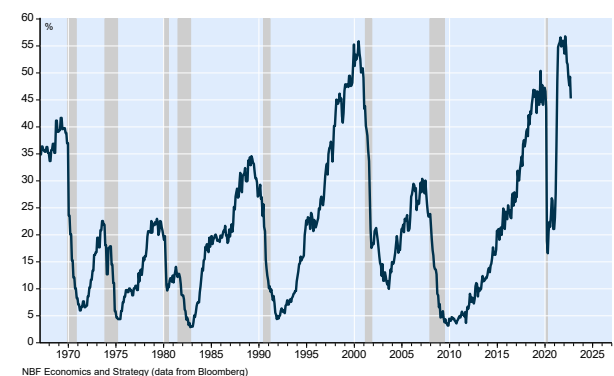
Cumulative employment gains since December 2021, household survey vs. payroll survey



The real state of the labour market is accordingly difficult to evaluate, but we hypothesize that it is somewhere between these two narratives, i.e. that it is still resilient though definitively less buoyant than just a few weeks ago. This hypothesis seems to be supported by data gathered by the Conference Board in its survey of household confidence.

## U.S.: Consumers report a hiring slowdown

Conference Board Consumer Confidence Index, share of respondents deeming that jobs are abundant



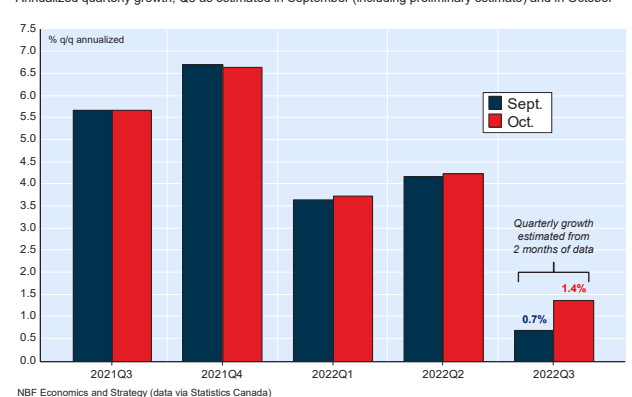
# The Economy

So we continue to think that job growth will slow significantly, which should give the Federal Reserve some wiggle room. The central bank should take this opportunity to end its tightening phase no later than the first monetary policy meeting of 2023 – our baseline scenario. A recession in 2023 will otherwise be almost inevitable. A Fed pivot even that soon would not head off a significant slowing of growth next year. We foresee a tough first half of next year, leading to an expansion of only 0.3% over the whole year. With the Fed likely taking its foot off the brakes at some point next year, growth should reaccelerate to 1.4% in 2024.

## Canada: Ready for landing

The performance of the Canadian economy in the first half of 2022 was enviable compared to the rest of the G7. GDP by industry grew at an annual rate of almost 4%, well above potential. With the monetary tightening that began in March – the tightest since 1994-95 –, the landing of the economy from this overheating has begun. When the GDP data for July were released (with preliminary numbers for August), the slowing for Q3 appeared much more pronounced than it does now. The revised numbers for the first two months of the quarter show growth at 1.4% annualized, double the 0.7% estimated a month earlier. This is essentially in line with the Bank of Canada's forecast of 1.5% in its Monetary Policy Report of October.

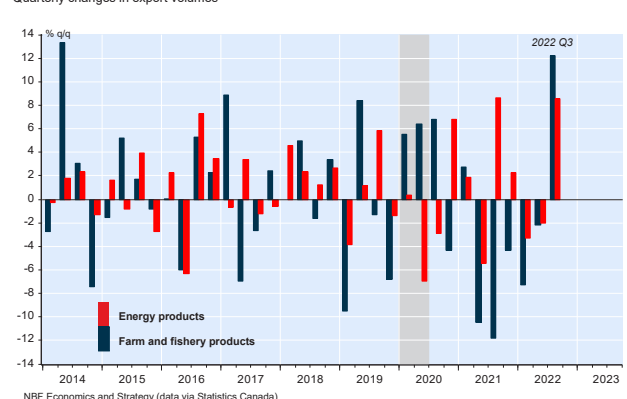
### Canada: GDP revisions foreshadow a third quarter better than expected



The Q3 growth turns out to have been strongly supported by net exports, thanks to geopolitics that benefited the resource sector. Export producers enjoyed both high prices and higher export volumes. After five straight

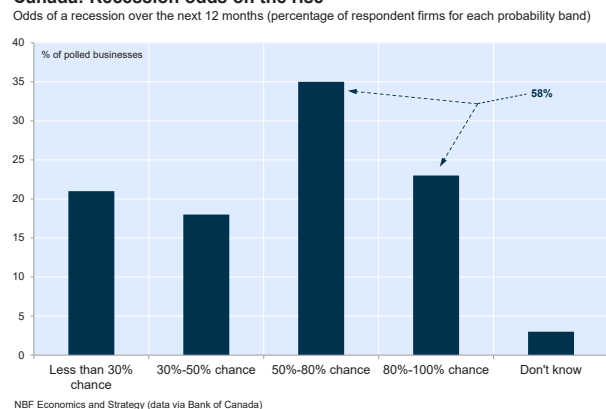
quarters of decline, farm and fishery exports are growing the strongest since 2014 thanks to an especially good summer harvest. Energy products, meanwhile, show the fourth-strongest growth on record in Q3.

### Canada: War in Ukraine has been manna for resource producers



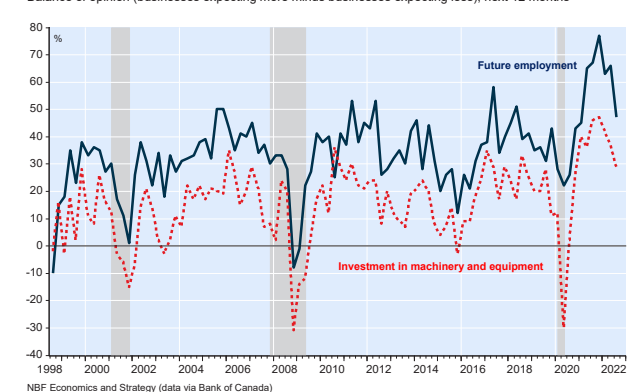
International trade cannot be expected to pull Canada's irons out of the fire in coming quarters, since its trading partners are just as vulnerable to a soft patch in their domestic demand under conditions of international monetary tightening. Neither the Bank of Canada nor the Federal Reserve is trying to hide that some economic pain will be required for anti-inflation gain, and the Bank of Canada's Business Outlook Survey shows the nervousness of business managements rising a notch. No fewer than 58% of businesses put the odds of a recession in the next 12 months at more than 50%.

### Canada: Recession odds on the rise



That survey was conducted at a time when many respondents were preparing their budgets for 2023. Their apprehensions are likely to be reflected in greater caution in their investment plans, the more so in that the higher capital costs compromise the profitability of many projects. The same is true for hiring intentions, which also show substantial moderation since the end of 2021.

### Canada: Hiring and investment intentions have been moderating

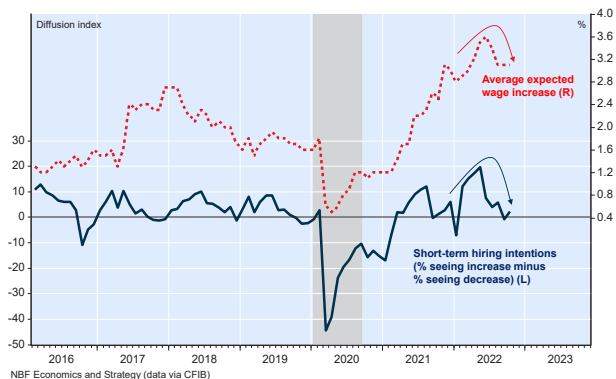


The latest survey by the Canadian Federation of Independent Businesses (CFIB), meanwhile, shows small businesses still seeing substantial scarcities of labour but no longer disposed to raise wages as much as at the beginning of the year. A calming of competition for employees and of the accompanying wage pressures is good news for the central bank. As for hiring, small and medium-sized businesses expecting to increase their payroll counts are just as numerous as those expecting to reduce them, suggesting an overall hiring plateau.

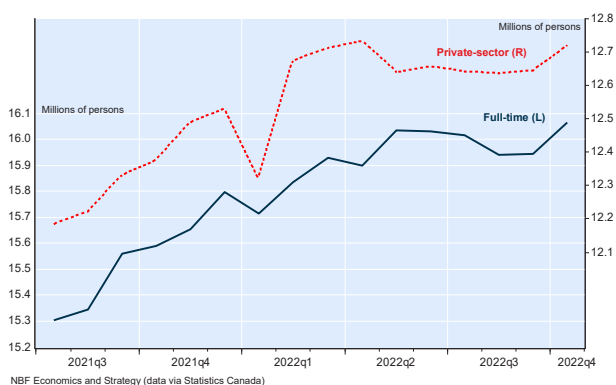
This trend is already perceptible in the national employment data. True, employment rebounded 108,000 in October, but that was after falling well short of economists' expectations over the previous six months. The upshot is that full-time employment is only 30,000 higher than in May and private-sector employment still lags its April peak.

# The Economy

**Canada: Are small businesses already in a hiring freeze?**  
Intentions for full-time hiring in the next 3 or 4 months and average expected wage increase

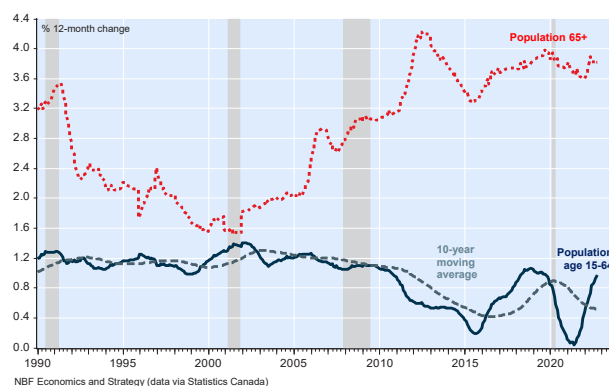


**Canada: Stagnation of private-sector and of full-time employment**  
Full-time employment and private-sector employment



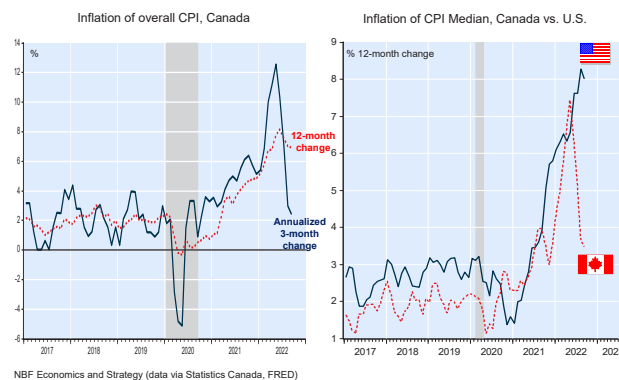
October's numbers, good as they were, were not enough to change the unemployment rate, which at 5.2% remained three ticks above its record low of last June and July. A rise of the participation rate certainly had something to do with that, but another factor was a spectacular October increase of 52,000 people in the Canadian population age 15 or older, the third-largest monthly gain on record. True, the baby-boomer cohort continued to stream into the 65-plus age group, less active in the labour market. That age group grew a striking 4% over the past year. But the main working-age cohort, that of 15- to 64-year-olds, also grew at an enviable rate compared to the average of the last 15 years (0.96% vs. 0.52%) thanks to Ottawa's aggressive immigration policy. At this rate, massive layoffs are not needed in order to raise the unemployment rate in coming months – a hiring freeze will do.

**Canada: Strong immigration results in robust growth of 15-64 cohort**  
12-month growth of populations aged 15-64 and 65+



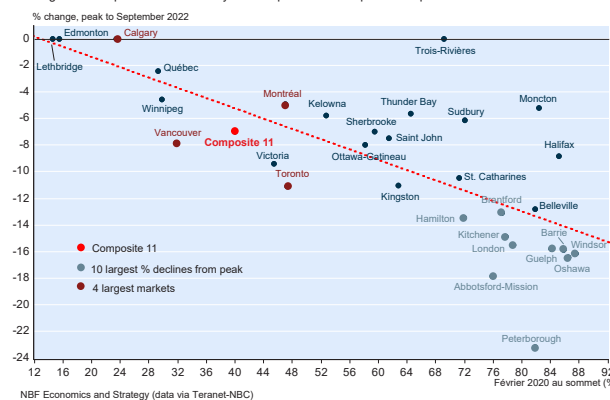
Besides the moderation of the labour market, there is reason to think the path of inflation in recent months may have led the Bank of Canada to show caution at its last rate setting, with a hike of 50 basis points when investors had been anticipating 75 bp. While 12-month inflation remains near 7%, the inflation of the last three months, annualized, was back within the Bank's target range of 1% to 3%. In July the Bank's forecast for 12-month overall inflation in Q3 was 8.0%, or 0.8 percentage points more than the actual 7.2%. If the story had been no more than one of energy price decline, it would not have influenced the central bank unduly. But indicators of core inflation are also showing encouraging signs of general moderation. Between June and September, the CPI Median rose at an annual rate of 3.5% on this side of the border – not bad considering the comparable U.S. rate of 8.0%.

**Canada: Inflation moderating on this side of the border**



So the manoeuvring for the landing of the economy continues. Things are moving in the right direction for the Bank of Canada, suggesting that we are approaching the terminal policy rate of this tightening phase. The labour market shows signs of moderating and inflationary pressures are less acute and pervasive than earlier this year. However, the haste of the tightening, together with the lag time for transmission of policy-rate moves to the economy, makes it normal for observers to be nervous. Alas, we will know only after the fact whether the Bank went too far. One thing is certain: we can now see a marked slowing in real estate entailing an extremely rapid deflation in that market. To calm inflation, in our view, it will not be necessary to keep interest rates high for long and we accordingly expect the central bank to ease substantially in the second half of next year. Given the monetary tightening, we anticipate anemic growth of 0.7% in 2023, with consumers hit simultaneously by loss of purchasing power, a negative wealth effect and an interest-payment shock.

**Canada: Rapid declines after dizzying rises**  
Change in home prices from February 2020 to peak and from peak to September 2022





## United States Economic Forecast

(Annual % change)*	2020	2021	2022	2023	2024	2022	Q4/Q4 2023	2024
Gross domestic product (2012 \$)	(2.8)	5.9	1.9	0.3	1.4	0.5	(0.2)	2.1
Consumption	(3.0)	8.3	2.7	0.8	1.3	1.9	0.1	1.9
Residential construction	7.2	10.7	(9.7)	(9.4)	3.6	(15.3)	(1.5)	4.7
Business investment	(4.9)	6.4	3.5	1.1	1.6	3.8	0.2	2.3
Government expenditures	2.6	0.6	(0.9)	1.5	1.9	0.1	1.6	2.0
Exports	(13.2)	6.1	7.4	1.5	0.7	6.0	(1.6)	2.1
Imports	(9.0)	14.1	8.9	0.6	1.9	4.3	0.9	2.5
Change in inventories (bil. \$)	(54.6)	(19.4)	115.4	26.3	25.0	75.0	10.0	40.0
Domestic demand	(1.9)	6.7	1.6	0.5	1.5	1.0	0.3	2.1
Real disposable income	6.2	1.9	(6.3)	0.4	1.3	-2.4	0.2	1.9
Payroll employment	(5.8)	2.8	4.1	0.6	0.3	3.3	-0.4	0.5
Unemployment rate	8.1	5.4	3.7	4.3	4.6	3.7	4.5	4.7
Inflation	1.3	4.7	8.0	3.4	3.5	7.2	2.3	3.1
Before-tax profits	(5.9)	22.6	4.9	(1.8)	4.7	-0.7	2.4	3.5
Current account (bil. \$)	(619.7)	(940.2)	(1,024.9)	(933.8)	(917.5)	...	...	...

\* or as noted

## Financial Forecast\*\*

	Current 11/04/22	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022	2023	2024
Fed Fund Target Rate	4.00	4.50	4.75	4.75	4.50	4.50	3.50	3.00
3 month Treasury bills	4.02	4.55	4.65	4.50	4.05	4.55	3.40	2.65
Treasury yield curve								
2-Year	4.66	4.50	4.45	4.05	3.45	4.50	3.00	2.75
5-Year	4.33	4.10	4.05	3.75	3.40	4.10	3.10	2.95
10-Year	4.17	3.95	3.85	3.60	3.35	3.95	3.20	3.05
30-Year	4.27	4.10	4.00	3.80	3.60	4.10	3.45	3.25
Exchange rates								
U.S.\$/Euro	0.99	0.97	0.99	1.03	1.05	0.97	1.06	1.12
YEN/U.S.\$	147	146	140	132	125	146	122	119

\*\* end of period

## Quarterly pattern

	Q1 2022 actual	Q2 2022 actual	Q3 2022 actual	Q4 2022 forecast	Q1 2023 forecast	Q2 2023 forecast	Q3 2023 forecast	Q4 2023 forecast
Real GDP growth (q/q % chg. saar)	(1.6)	(0.6)	2.6	1.8	(0.4)	(1.7)	0.2	1.1
CPI (y/y % chg.)	8.0	8.6	8.3	7.2	5.5	3.4	2.4	2.3
CPI ex. food and energy (y/y % chg.)	6.3	6.0	6.3	6.1	5.3	4.3	3.3	2.8
Unemployment rate (%)	3.8	3.6	3.6	3.7	3.9	4.3	4.4	4.5

National Bank Financial

## Canada Economic Forecast

(Annual % change)*	2020	2021	2022	2023	2024	2022	Q4/Q4 2023	2024
Gross domestic product (2012 \$)	(5.2)	4.5	3.3	0.7	1.5	2.1	0.7	1.7
Consumption	(6.2)	5.0	5.4	1.3	1.4	3.7	0.8	1.6
Residential construction	4.3	15.3	(8.1)	(7.1)	(0.8)	(8.7)	(4.0)	0.0
Business investment	(12.1)	2.3	8.2	1.0	2.0	5.8	0.9	2.2
Government expenditures	0.9	5.6	1.7	1.4	2.1	1.2	1.7	2.3
Exports	(9.7)	1.4	3.5	4.7	2.4	4.5	2.6	2.4
Imports	(10.8)	7.7	7.6	2.9	2.0	6.3	2.0	2.0
Change in inventories (millions \$)	(18,720)	(2,361)	23,465	14,875	13,050	16,500	14,000	12,500
Domestic demand	(4.1)	5.6	3.2	0.5	1.5	2.0	0.6	1.7
Real disposable income	8.2	0.3	0.5	0.4	1.3	2.7	0.8	1.5
Employment	(5.1)	4.8	3.6	0.6	1.0	1.9	0.4	1.1
Unemployment rate	9.6	7.4	5.3	6.0	6.3	5.3	6.2	6.4
Inflation	0.7	3.4	6.8	2.8	2.2	6.6	1.9	2.1
Before-tax profits	(1.9)	32.3	14.9	(8.3)	0.2	9.3	(5.1)	1.1
Current account (bil. \$)	(39.4)	1.1	8.0	(5.0)	(10.0)	....	....	....

\* or as noted

## Financial Forecast\*\*

	Current 11/04/22	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022	2023	2024
Overnight rate	3.75	4.25	4.25	4.25	4.25	4.25	3.75	3.00
3 month T-Bills	4.00	4.30	4.25	4.20	4.05	4.30	3.60	2.90
Treasury yield curve								
2-Year	4.14	4.05	3.95	3.50	3.30	4.05	3.15	2.70
5-Year	3.67	3.40	3.35	3.20	3.05	3.40	2.95	2.85
10-Year	3.50	3.25	3.20	3.10	3.00	3.25	2.95	2.90
30-Year	3.51	3.30	3.25	3.20	3.15	3.30	3.10	3.00
CAD per USD	1.35	1.39	1.36	1.30	1.25	1.39	1.24	1.27
Oil price (WTI), U.S.\$	93	82	79	76	77	82	80	75

\*\* end of period

## Quarterly pattern

	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast	Q1 2023 forecast	Q2 2023 forecast	Q3 2023 forecast	Q4 2023 forecast
Real GDP growth (q/q % chg. saar)	3.1	3.3	1.3	0.6	(0.3)	0.7	1.0	1.4
CPI (y/y % chg.)	5.8	7.5	7.2	6.6	4.9	2.4	1.9	1.9
CPI ex. food and energy (y/y % chg.)	4.0	5.1	5.4	5.4	4.9	3.6	2.7	2.6
Unemployment rate (%)	5.8	5.1	5.2	5.3	5.8	6.0	6.1	6.2

National Bank Financial



## Provincial economic forecast

	2020	2021	2022f	2023f	2024f		2020	2021	2022f	2023f	2024f
	Real GDP (% growth)						Nominal GDP (% growth)				
Newfoundland & Labrador	-4.6	0.6	1.6	0.7	0.9		-10.0	17.7	12.9	-1.2	0.2
Prince Edward Island	-1.6	7.9	2.1	0.8	1.2		1.4	14.3	9.2	2.4	2.3
Nova Scotia	-3.5	6.2	2.0	0.6	1.1		0.0	10.9	8.4	1.3	2.6
New Brunswick	-2.7	5.9	1.8	0.5	0.8		-1.6	13.8	7.7	0.5	1.1
Quebec	-5.0	6.0	3.4	0.7	1.4		-1.9	11.8	10.6	2.5	3.6
Ontario	-4.7	5.2	3.2	0.6	1.6		-2.9	10.3	10.1	2.0	3.7
Manitoba	-4.4	1.8	3.4	0.6	1.2		-1.3	8.4	11.7	1.0	2.5
Saskatchewan	-4.8	-0.9	4.2	1.0	1.3		-7.6	13.1	25.1	-1.1	-0.9
Alberta	-8.0	4.8	3.9	1.2	1.7		-15.7	26.2	18.6	-2.0	-0.2
British Columbia	-3.0	6.1	2.7	0.7	1.6		-0.7	14.2	9.1	0.3	2.5
Canada	-5.3	4.5	3.3	0.7	1.5		-4.6	13.0	11.9	1.0	2.6
	Employment (% growth)						Unemployment rate (%)				
Newfoundland & Labrador	-5.9	3.0	3.9	-0.3	-0.1		14.1	12.9	10.8	11.3	11.3
Prince Edward Island	-3.2	3.7	6.6	-0.1	1.0		10.6	9.4	7.1	9.1	10.1
Nova Scotia	-4.7	5.4	3.3	0.5	0.8		9.7	8.4	6.6	7.0	7.0
New Brunswick	-2.6	2.6	2.3	0.4	0.5		10.0	9.0	7.2	7.7	7.6
Quebec	-4.8	4.2	2.5	0.5	1.2		8.8	6.1	4.3	5.0	5.3
Ontario	-4.7	4.9	4.2	0.5	1.1		9.5	8.0	5.7	6.7	6.9
Manitoba	-3.7	3.5	2.5	0.3	1.0		8.0	6.4	4.6	5.3	5.6
Saskatchewan	-4.6	2.6	3.2	0.8	0.8		8.3	6.5	4.6	5.0	5.5
Alberta	-6.5	5.2	5.1	1.0	1.1		11.5	8.6	5.7	6.0	6.3
British Columbia	-6.5	6.6	3.2	0.5	0.9		9.0	6.5	4.6	5.4	5.5
Canada	-5.1	4.8	3.6	0.6	1.0		9.6	7.4	5.3	6.0	6.3
	Housing starts (000)						Consumer Price Index (% growth)				
Newfoundland & Labrador	0.8	1.3	1.6	1.1	1.0		0.2	3.7	6.4	2.4	2.3
Prince Edward Island	1.1	1.2	1.0	0.9	0.9		0.0	5.1	8.9	2.7	2.3
Nova Scotia	4.9	6.0	5.5	4.5	4.5		0.3	4.1	7.4	2.6	2.2
New Brunswick	3.6	4.0	5.0	3.0	3.0		0.2	3.8	7.2	2.7	2.2
Quebec	54.2	71.2	62.5	52.5	49.0		0.8	3.8	6.7	3.1	2.2
Ontario	81.3	101.2	92.0	79.5	75.5		0.6	3.5	6.8	2.7	2.2
Manitoba	7.3	8.0	7.5	7.2	6.9		0.5	3.2	7.8	2.9	2.2
Saskatchewan	3.1	4.3	4.6	3.3	3.0		0.6	2.6	6.5	2.8	2.2
Alberta	24.1	32.1	38.3	30.3	29.8		1.1	3.2	6.5	2.5	2.2
British Columbia	38.0	47.7	45.5	33.0	31.9		0.8	2.8	6.9	3.1	2.2
Canada	218.4	276.8	263.5	215.3	205.5		0.7	3.4	6.8	2.8	2.2

e: estimate

f: forecast

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

# Interest Rates and Bond Markets

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# Interest Rates and Bond Markets



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## Nearing the end of the line?

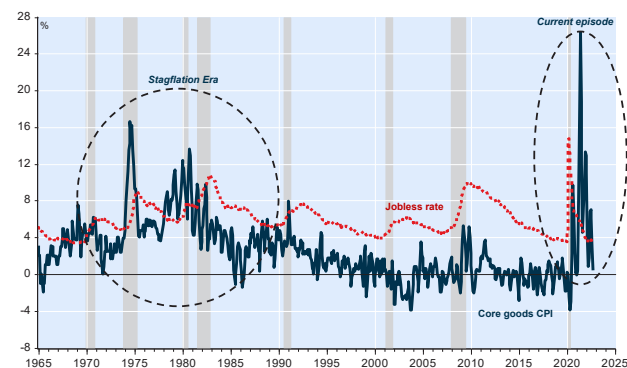
With the end of the year not all that far off, it's a natural enough time for reflection. After all, 2022 has been one of the more remarkable years most will be able to remember, with central bank policy rate adjustment a catalyst for radical re-pricing in not just global rates markets but virtually every asset class.

We're careful not to overreact to a single data release (or two), but the necessary pre-condition for a standing down on rate hikes—specifically a cooling in inflation—seems to be falling into place. We've arguably been headed in the needed direction for a couple months in Canada, which provided some scope for the Bank of Canada to under-deliver on policy tightening the last time out.

Most vitally, U.S. inflation trends have looked somewhat less alarming of late. U.S. CPI inflation eased more than expected in October, with goods inflation falling much faster than in the stagflation era and manufacturing supply chains rapidly becoming more fluid.

### U.S.: Goods inflation falling much faster than in the stagflation era

Three-month annualized change in the core goods CPI vs unemployment rate



NBF Economics and Strategy (data via Refinitiv)

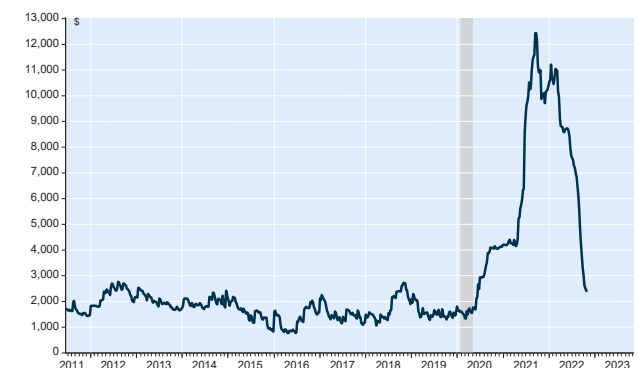
A more pragmatic BoC stance and some soothing of U.S. inflation have prompted something of a re-think in terms of the terminal rates discounted by market participants. For if sustained, the taming of inflation (combined with accumulating damage to key interest-sensitive demand sectors like housing) would argue for standing down sooner and at a lower level than some previously believed.

Again, we caution that the hawks on the FOMC are unlikely to be appeased by a single CPI report. Having consistently

underestimated inflation pressure for the better part of two years now, it's likely a bit premature to declare an inflation victory. Indeed, not long after the inflation report was released, FOMC Governor Christopher Waller stressed that while the latest data was "good news", "we've still got a ways to go". And to be clear, inflation is not exactly cool either... it's just less red hot. Moreover, labour markets have yet to buckle; rather, employment levels, unemployment rates, job vacancies and wage readings continue to show-case labour market resilience on both sides of the border.

### U.S.: Significant drop in international transportation costs

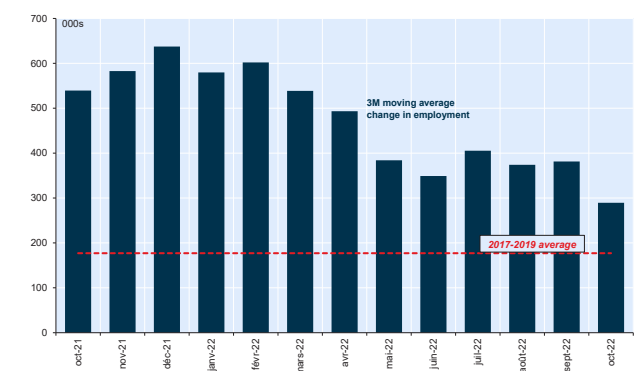
Price to transport a 40-foot container from Shanghai to Los Angeles



NBF Economics and Strategy (data via Bloomberg)

### The U.S. labour market is slowing... but considerable momentum remains

Monthly change in U.S. employment : 3-month moving average vs. pre-COVID average



NBF Economics and Strategy (data via Bloomberg)

Additional tightening must therefore be expected, with the BoC (on December 7th) and then the FOMC (on December 14th) poised to hike for a seventh consecutive

# Interest Rates and Bond Markets

time in the final announcement of 2022. In the BoC's case, it's possible that December's hike (we currently anticipate 50 bps, with that contingent on the next inflation print) could be the last. To be clear, there's nothing terribly magical about the turn of the calendar when it comes to monetary policymaking. But after pushing the policy rate further into restrictive territory (up to 4.25%), it will be appropriate to pause in order to assess the slowdown in Canadian growth and inflation.

Jay Powell's Fed may opt for an additional anti-inflation insurance policy early in 2023, in the form a final rate hike to 4.75% for fed funds upper. Here again, however, an expectation of rapidly moderating U.S. inflation should give the FOMC what it needs to declare a cease fire (in terms of policy rate hikes), kicking off what could be a traditionally short period of monetary policy stability.

Don't confuse the end of rate hikes in/around the turn of the year with the onset of easy financial conditions. Central bank balance sheets will continue to shed weight, the associated drainage of liquidity via QT likely dulling the extent of a risk-on rally in our opinion. But a pivot to lower/less-restrictive policy rate settings could be taking shape by late summer, our official forecast incorporating rate cuts—first by the FOMC followed closely by the BoC—in 2023:Q3.

## Has the Fed found an off-ramp?

Judging by recent investor sentiment, the end of the Fed hiking cycle is upon us. Okay, perhaps it's premature to declare victory quite yet but new developments—read: one extremely encouraging CPI report—have perhaps sewn the seeds of a Fed tightening pause in the not-too-distant future. Certainly, that's what the interest rate, credit and equity markets would have you believe based on their reaction to the inflation data. More on that shortly, but first, what else have we learned since our last edition of our Fixed Income Monitor?

The Fed's early November meeting, in its totality, was another hawkish revelation that shifted rate expectations higher still. No, there was no surprise on the Fed's decision to hike by 75 basis points. Nor was anything in the rate statement that more hawkish than before. If anything, a newly-added acknowledgement that "the [FOMC] will take into account the cumulative tightening" and "the lags with which monetary policy affects economic activity and inflation" suggested a less aggressive tightening

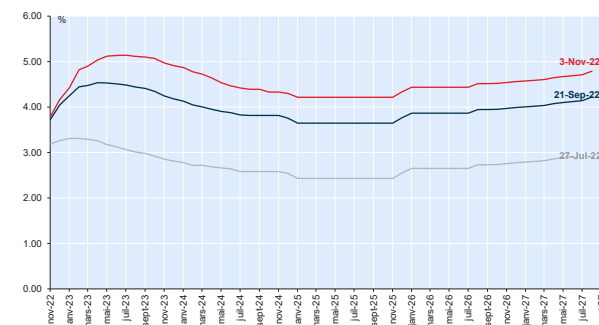
trajectory all else equal. But Chair Powell's press conference quickly changed our interpretation of the Fed's decision. While his comments didn't preclude a downshift shift in the pace of hikes in December (to 50 bps), he noted that the terminal rate for the policy rate is probably higher than they'd estimated in late-September:

*"At some point, [...] it will become appropriate to slow the pace of increases, as we approach the level of interest rates that will be sufficiently restrictive... There is significant uncertainty around that level of interest rates. Even so, we still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected."*

And with that, Fed expectations were catapulted above 5%. Just as we'd seen after other meetings this year, rate expectations, in the near-, medium- and long-term, were repriced higher.

### Fed continued to push rate expectations higher at November's meeting

Fed fund futures implied policy rates to 2027: After July, September and November FOMC meetings

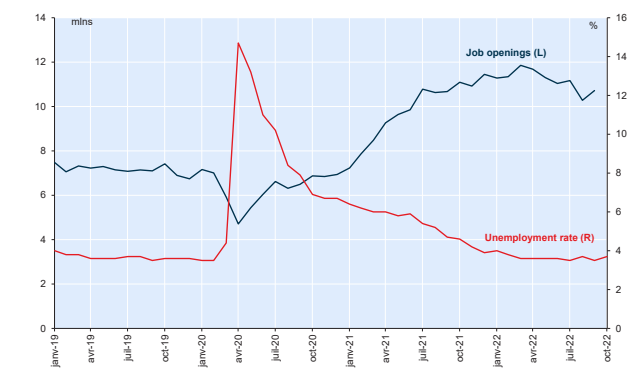


NBF Economics and Strategy (data via Bloomberg)

To be fair to the Fed, at the time, evidence to support anything other than higher rates was limited. The labour market, while showing signs of deceleration, remained historically tight. Non-farm employment continued to defy gravity and job openings—a key gauge for the Fed—had only grown, suggesting that the sought-after deterioration was still far off.

### Conditions remain tight in the U.S. labour market

United States job openings (left) and unemployment rate (right)



NBF Economics and Strategy (data via Bloomberg)

GDP growth rebounded (as expected) from the first half of the year, with the details of the report pointing to more underlying strength than expected. Nowcasts (via the Atlanta Fed) of fourth quarter growth suggested a further acceleration. And, most importantly, September's CPI data provided an upside surprise.

Fast forward to November 10th. October CPI inflation came out well below consensus, with details of the report offering plenty of encouraging signs. While energy prices rebounded and food inflation remained hot, core measures decelerated much faster than expected. Of concern, at least on the surface, was shelter inflation which accelerated to 0.8% m/m, or ~10% on an annual basis. But keep in mind, the measure for rent (and owner's equivalent rent) inflation reflects prices paid by all lessees. In other words, it's not fully reflecting current changes in asking rents/prices (which are now flat-to-declining). Instead, it's capturing the run-up in prices from early this year and in 2021. Indeed, [BLS research](#) shows that "rent inflation for new tenants leads the official BLS rent inflation by 4 quarters". The implication is that, to the extent shelter inflation boosts all-items/core CPI (>30% and >40% of the indices, respectively), the Fed would be setting policy on developments from a year ago and risk an overshoot of policy tightening.

Jerome Powell and the FOMC are smart people though. They're aware of these dynamics, even if they aren't willing to declare inflation victory on the back of them. The Fed Chair spoke to this in the November press conference:

*"There's still some significant increases coming [in the*

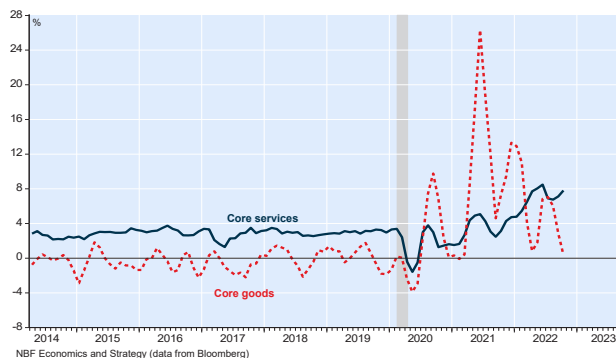
# Interest Rates and Bond Markets

*CPI rent index] ... But at some point, once you get through that, the new leases are telling you is there will come a point at which rent inflation will start to come down. But that point is well out from where we are now. of course, well-aware of that of course and we look at it... But I would say that the right way to think about inflation is to look at the measure that we do look at, while considering that we also know at some point you'll see rents coming down.*

Even if Powell views the CPI measure of rent as the "right way to look at it", this should start to decelerate in early 2023 too. And as inflation elsewhere continues falling, the Fed might just have its off-ramp. On this front, we are encouraged where recent data have been pointing. Core goods inflation, which led on the way up, is in free fall, running at less than 1% over the last three months. We'd view this as a leading indicator for services inflation which, for now, is elevated. That's where the lags, that the Fed acknowledged in their rate statement come into play.

## U.S.: Core goods lead the way downward

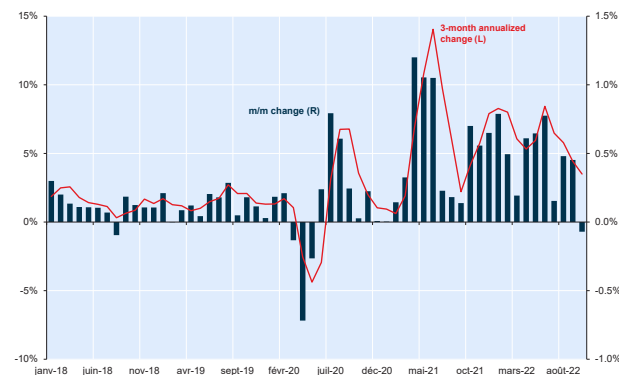
Consumer Price Index, core services/goods indices (excluding food and energy), 3-month annualized change



Moreover, while one should always be skeptical of selective/ exclusionary inflation data, we would highlight that CPI inflation, excluding food, energy (largely out of the Fed's control) and shelter (demonstrably lagged) turned negative in October for the first time since May 2020. On a 3-month basis, this measure is running at relatively cooler 3.5%.

## Underlying inflation momentum might be easing

Month-over-month and 3-month annualized CPI inflation excluding food, energy and shelter



Again, we caution against relying too much on a measure that excludes more than half of the overall consumer basket, but we'd argue that true underlying inflation pressures are closer to this than the still-elevated 7.7% headline rate. Considering the lags with which monetary policy impacts inflation and the amount of monetary policy tightening implemented to date, there's considerable downside to inflation ahead. Be sure to read our Economic Monitor for more details on the inflation outlook, but at this point we see all-items inflation returning to target as early as mid-2023.

As we look ahead, there's additional tightening still to be delivered. A 50 basis point hike in December looks to be a foregone conclusion at this point. Perhaps it's also too late to avoid a hike at the early-February meeting. Indeed, Fed speakers were sure to make that clear, leaning against the market's interpretation of October's CPI report. But make no mistake, an off-ramp for the Fed is being paved. Assuming labour markets deteriorate as we expect, continued inflation relief might mean the Fed's February hike will be its last.

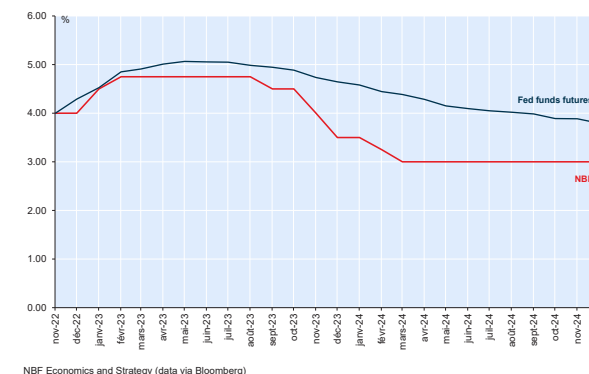
Further out, markets are still expecting fed funds (upper bound target) to remain near 4% through 2024—just as the FOMC signaled in its September dot plot. But we continue to push back. We can concede the point the Fed will likely be more reluctant to provide ultra-easy monetary again in the future (as it did in 2020 and 2021). But lowering rates from close to 5% to 3% is not that. The Fed still views 2.5% as the long-run neutral rate.

Theoretically, at least, a policy rate at or above that level won't add upward pressure to inflation.

Given that inflation is where it is, the Fed won't entertain any discussion of lower rates/easier policy yet, lest we see a premature improvement in financial conditions. But when inflation is back to target next year and when labour markets have sufficiently deteriorated (also next year), what will be the justification for suffocatingly restrictive policy? There won't be any. And the Fed will reverse some of its tightening. It won't frame that as setting a stimulative policy stance. And they'll be right. It won't be. It will simply be an equilibration of monetary policy meant to align with an equilibration in the real economy and inflation. In our view, many are now making the same mistake that Team Transitory™ did in 2021. That is, anchoring future expectations for inflation to recent inflation dynamics to their detriment. Monetary policy is well-positioned to deal with these inflationary pressures. That much will be clear in 2023.

## Even with CPI-driven rally, we still see big downside to future policy rates

Fed fund futures implied policy rates versus NBF forecasts to 2024



## Blinking at the Bank?

While Federal Reserve policymakers have yet to show any meaningful signs of letting up (even if the data is starting to support that), evidence of a Bank of Canada pivot emerging are more tangible. Case in point, the late-October rate decision. A 50 basis point rate hike, which by most measures is a supersized move, came as a dovish surprise to markets which had been fully braced for a second straight 75 basis point adjustment. With the consensus miss, the Bank joined a growing list of central banks who have either delivered

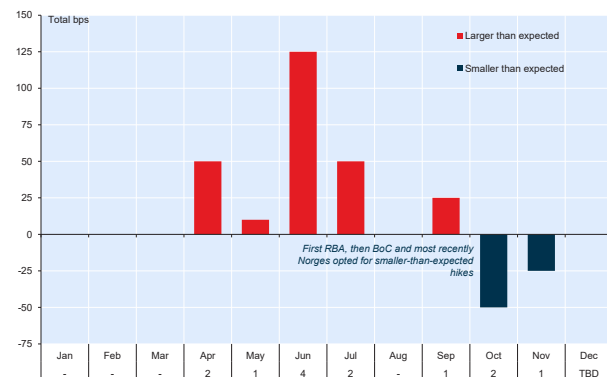


# Interest Rates and Bond Markets

smaller-than-expected rate increases or introduced more dovish/cautious language into their guidance.

## Some dovish surprises of late, just not at the Fed

Distribution/magnitude of policy rate surprises vs. consensus (2022:YTD)



NBF Economics and Strategy (data via Bloomberg)

To be clear, the Bank has not moved to the sidelines. With perhaps half a percentage point of policy adjustments left to go in the cycle, there is more wood to chop. And that's in addition to the 350 basis points of hikes that have yet to fully impact the economy and inflation. But as Governor Tiff Macklem would tell you, the Bank is "trying to balance the risks of under- and over-tightening". We don't envy the situation the central bank finds itself in. Inflation and wage pressures are still well above target. Signs of stabilization and deceleration are encouraging but it's undoubtedly difficult to take your foot off the brake with price pressures still near multi-decade highs. Nonetheless, we do believe that risks are quickly moving more skewed to over-tightening. And we believe the Bank will soon too (if they don't already).

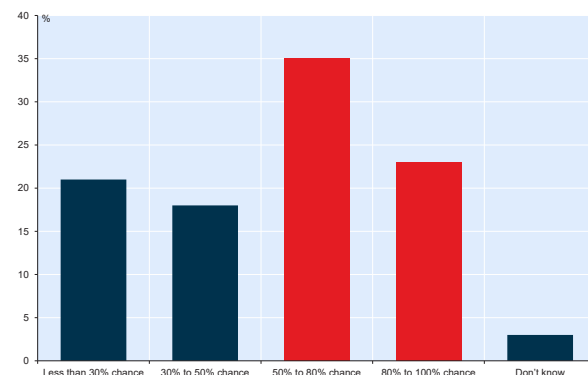
First, recall that even the Bank of Canada is conceding that a technical recession isn't unlikely:

*"Two or three quarters of slightly negative growth are just as likely as two or three quarters of slightly positive growth. That's not a severe recession, but it is a significant slowing of the economy".*

The outlook from Canadian businesses may be even more pessimistic. The Bank of Canada's most recent Business Outlook Survey revealed that over half of Canadian business are expecting a recession in the next 12 months.

## Canadian businesses are bracing for the worst

Business Outlook Survey: Probability of a Canadian recession in the next 12 months

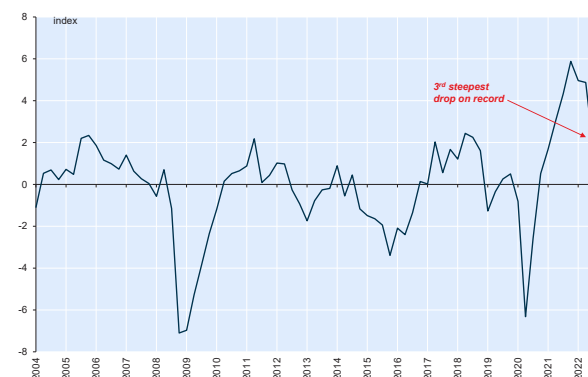


NBF Economics and Strategy (data via Bank of Canada)

There were plenty of other signs of a deteriorating outlook in that survey too, in addition to some modest (but welcomed) relief in inflation expectations. The BOS indicator, meant to encompass all of the key survey questions, fell by the third fastest pace on record (after the Global Financial Crisis and the early days of COVID-19) from an admittedly very elevated starting point.

## Rate hikes are clearly impacting Canadian business sentiment

Business Outlook Survey indicator



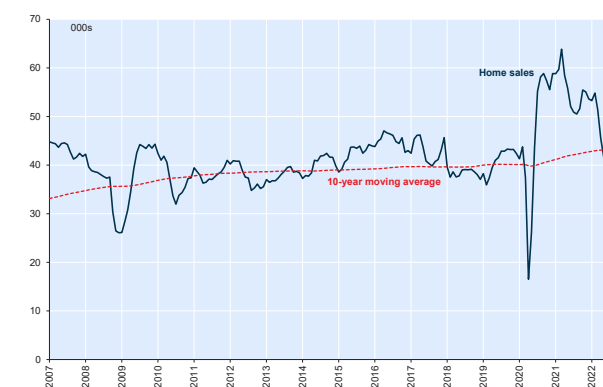
NBF Economics and Strategy (data via Bank of Canada)

Meanwhile, it's safe to say, Canada's housing market isn't in any position to boost growth over the coming year either. Of course, the slowdown we're seeing here isn't necessarily unexpected. Levels of activity in 2021 and early 2022 were entirely unsustainable. But we've now very

quickly swung from a historically red-hot market to a historically ice-cold one. Price declines, which started earlier in the year, are picking up steam and look poised to continue over coming months.

## Canada's housing market has gone ice cold

Seasonally adjusted home sales



NBF Economics and Strategy (data via CREA)

Even the BoC has changed their tone here. For most of the tightening cycle, the Bank simply noted that housing market activity was decelerating "as intended" from "unsustainable" levels. The latest rate statement, however, was a bit less dismissive of growing weakness:

*"The effects of recent policy rate increases by the Bank are becoming evident in interest-sensitive areas of the economy: housing activity has retreated sharply".*

That's not necessarily the Bank sounding the alarm. But it is a subtle nod that rate hikes are working and with more in the pipeline (along with associated lags), it's only a matter of time before a "retreat" in activity is more broadly based.

Now one may be tempted to point to the labour market as an argument against the BoC moving to the sidelines soon. It's true that you'll see hiring in Canada has only accelerated of late. That's at least what the Labour Force Survey revealed in October when the expectation for a modest 10K in job gains was beaten ten-fold with over 100K net new jobs added. But as we often caution, this data is extremely volatile and relying on a single month's reading could lead to erroneous conclusions.

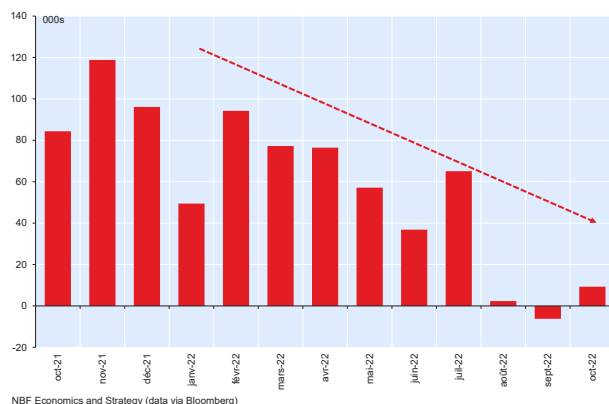
Zooming out and looking at labour market trends, it's clear to us that conditions are no longer tightening.



# Interest Rates and Bond Markets

That's true on headline job gains, vacancies and the unemployment rate which is a touch off its July low. And importantly, with the aforementioned growth outlook for the Canadian economy, we wouldn't expect any single-month pick-up to be sustained. Instead, the path of least resistance at this juncture is for a continued uptick in the unemployment rate. On second thought, path of least resistance might be underselling the probability of a rise in joblessness. Indeed, when the Governor of Bank of Canada tells you that the unemployment rate is "not sustainable", as Tiff Macklem did in November, you can feel reasonably comfortable that a rise in the unemployment rate will materialize. And while the Bank will suggest that the it might not increase to historically high levels, we'd caution that, empirically, once labour market weakness takes hold, it has proven difficult to stop.

**Despite month-to-month volatility, Canada's labour market is slowing**  
Monthly Canadian employment change: 6-month moving average

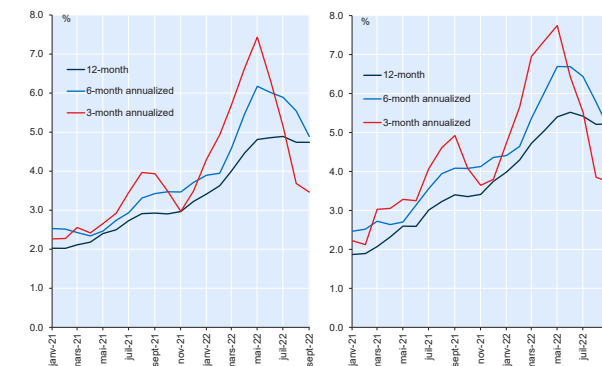


NBF Economics and Strategy (data via Bloomberg)

Even amidst a sluggish growth outlook and a BoC-engineered labour market loosening, the central bank will need to see inflation relief in order to take their foot off the brake. While a pause could be justified with inflation still above target, the rate cuts that we expect in 2023 won't be able to materialize without more fully normalized price pressures. On this front, even with an upside surprise to September's CPI data, we remain encouraged by decelerating core inflation momentum in Canada. That's now running at roughly 3.5%-4.0% which, while still too high, is considerably slower than all-items inflation (at 6.9% as of this writing) or the 5.3% core measure average on a year-over-year basis. Expect that deceleration to

continue going forward and start to manifest in annual readings as base effects become more of an obstacle and, more importantly, the effects of earlier rate increases continue to filter through.

**Short-term inflation momentum has eased meaningfully in Canada**  
3M, 6M and Y/Y CPI-Trim inflation (left) and CPI-Median inflation (right) since 2021



NBF Economics and Strategy (data via StatCan)

We were also encouraged to see the Bank take a more balanced inflation assessment in recent weeks too. Whereas Governor Macklem had previously posited (as recently as a month ago) that domestic inflation pressure "has yet to ease", he's now explicitly acknowledging the slowing momentum we've been highlighting for months. From the October Monetary Policy report:

*"Largely due to the drop in gasoline prices, 3-month CPI inflation has fallen sharply and is now well below the year-over-year measure. Measures of 3-month core inflation point to a slowdown to around 4%."*

Add it all together and we feel we've all the makings for a policy pivot in early 2023. No, "we're not there yet" as Macklem has been sure to stress. But we are getting closer, and in our view, it's closer than some might expect.

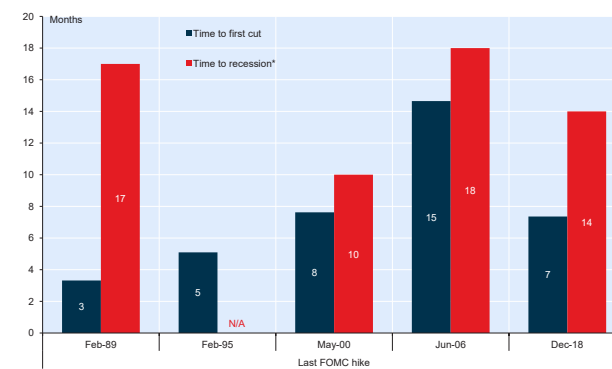
## Post-tightening tendencies

While the terminal rate and the time we reach it is up for debate, it's not a stretch to say that we're closer to the end of the Fed hiking cycle than we are the beginning. On that note, we've sought to identify common characteristics of the tail end of prior hiking cycles, the subsequent holding period and ultimately, the pivot to lower rates. While no two cycles are the same, the

empirical record is always worth being cognizant of. And despite obvious differences between today and cycles past, we do believe that at some history's tendencies will be borne out again.

Firstly, how long does the Fed hold rates at their peak after it's done hiking? The historical record suggests not long. The Fed has typically been able to resist cutting for just 7-8 months, on average, after the final hike of the cycle. Only once in our (admittedly small) sample have they been able to hold out longer than a year. Given the ultimate destination for the rate (relative to neutral) and the speed with which we'll get there, we don't foresee the Fed bucking this trend this time. That would imply rate cuts as early as the third quarter next year—much faster than the Fed or markets are willing to signal at this point.

**How long has the Fed (and economy) held on after hiking cycles?**  
Delay from last FOMC rate hike to (i) first rate cut & (ii) economic recession



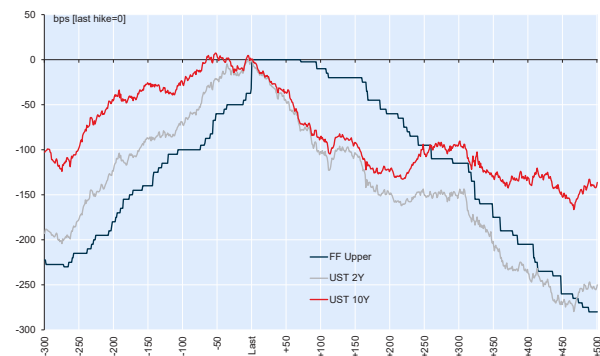
NBF Economics and Strategy (data via Bloomberg, FRB) | Note: Time to first cut based on observed ff rate; time to recession based on NBER business cycle dating; no recession following Feb-95 ff peak

Unfortunately, recessions have been difficult to avoid, arriving not long after the Fed's final hike. While we don't officially forecast a recession in our Monthly Economic Monitor, we concede that recessionary risks are extremely elevated.

How do interest rates respond to the Fed moving to the sidelines? Not surprisingly, a rally ensues as soon as the Fed notches its last hike. In other words, we don't need to see the central bank actually cutting for longer-term interest rates to fall. Markets have tended to anticipate that weaker growth prospects and easier monetary policy is just around the corner.

# Interest Rates and Bond Markets

**Historically, USTs reluctant to rally until Fed delivers final policy rate hike**  
 Evolution of fed funds & UST yields going into/coming out of last FOMC rate hike: Average of 5 prior cycles

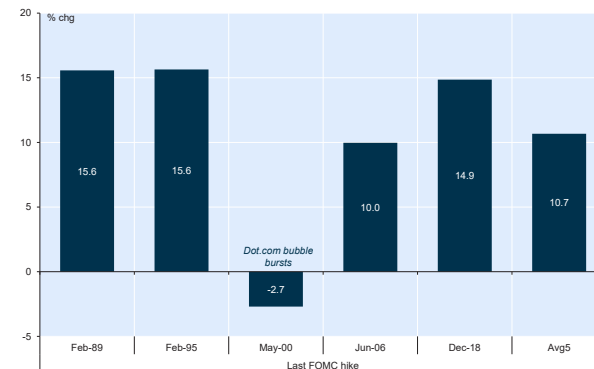


NBF Economics and Strategy (data via Bloomberg, FRB) | Note: Based on average of 5 historical FOMC tightening cycles; indexes ff & UST yields to day of last FOMC hike (where level=0); horizontal axis refers to week days

At first, the rally tends to be broad-based with short- and long-term rates falling roughly in tandem. But once cuts take hold, a more decisive curve steepener takes hold. Only in the 3M-10Y curve will you see continued flattened after the last hike.

Risk assets perform too. Equities have closed higher in the 100 days after the last hike four of the last five cycles. That's good for a 100-day run-up of ~11%, on average.

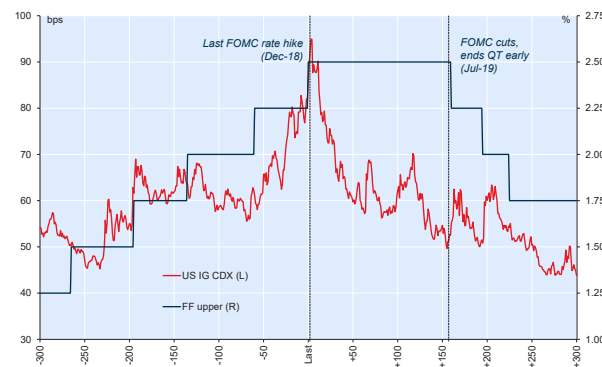
**Stocks tend to breathe sigh of relief after final hike**  
 Change in S&P 500 in 100 week days following final FOMC hike



NBF Economics and Strategy (data via Bloomberg, FRB)

With global equity indices bruised and battered, it appears that we could be positioned for a relief rally at the end of this cycle too. It stands to reason that credit markets will cheer the Fed moving to the sidelines as well. That's certainly what we saw in 2018.

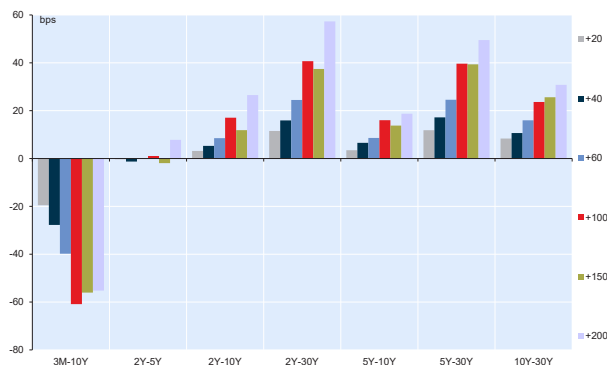
**A closer look at the Fed's 2018-19 policy pivot**  
 Fed funds & US 5Y IG CDX going into/coming out of FOMC's Dec-18 hike



NBF Economics and Strategy (data via Bloomberg, FRB)

Again, we can't stress enough that each cycle is different and historical tendencies aren't guaranteed to repeat. But it's our hope that the analysis rendered here will be of some value as we approach the Fed's policy rate terminus. For more, see our detailed [In Focus](#), where the preceding material was drawn from.

**Historical tendency for curve steepening after the final Fed rate hike**  
 Average change in UST yield curves in days after final FOMC hike



NBF Economics and Strategy (data via Bloomberg, FRB)

# Interest Rates and Bond Markets

## Canadian Bond Market: Interest rates, spreads and currencies

Close on:	14-Nov-22	15-Aug-22	16-May-22	14-Feb-22	15-Nov-21
<b><u>Interest Rates</u></b>					
3 months	4.081	2.689	1.37	0.5	0.149
2 years	3.872	3.211	2.646	1.509	1.009
5 years	3.328	2.812	2.746	1.782	1.484
10 years	3.16	2.696	2.921	1.907	1.724
30 years	3.268	2.84	2.927	2.185	2.07
<b><u>Spreads</u></b>					
3 months - 2 years	-20.9	52.2	127.6	100.9	86
2 - 5 years	-54.4	-39.9	10	27.3	47.5
5 - 10 years	-16.8	-11.6	17.5	12.5	24
10 - 30 years	10.8	14.4	0.6	27.8	34.6
<b><u>Currencies</u></b>					
CAD/USD	1.3314	1.2906	1.2846	1.273	1.2516
EUR/CAD	0.7272	0.7629	0.7461	0.6948	0.7028

NBF Economics and Strategy (data via Bloomberg)

# Stock Market and Portfolio Strategy

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# Stock Market and Portfolio Strategy



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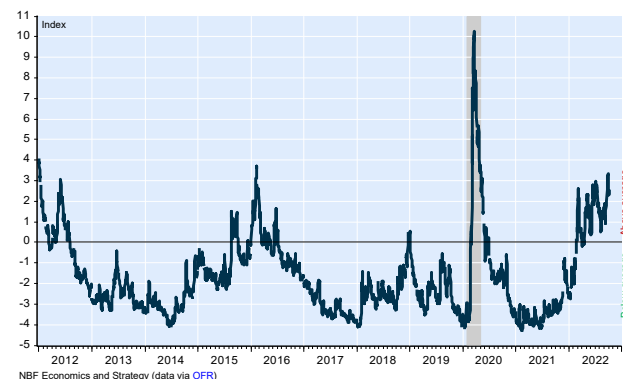
**Alexandra Ducharme**  
 Economist  
 514-412-1865

## World: Central banks ceasefire?

Inflation remains stubbornly high around the world, forcing the hand of central banks to continue to raise their policy rates. Against this backdrop, since the last publication of this report, global financial tensions have essentially not moved from their elevated levels (chart). As we have argued in our recent [Economic Monitors](#), this is consistent with slower economic growth ahead. Whether central banks continue to tighten financial conditions further and push the economy over the edge will depend on inflation.

### World: Financial stress is mounting

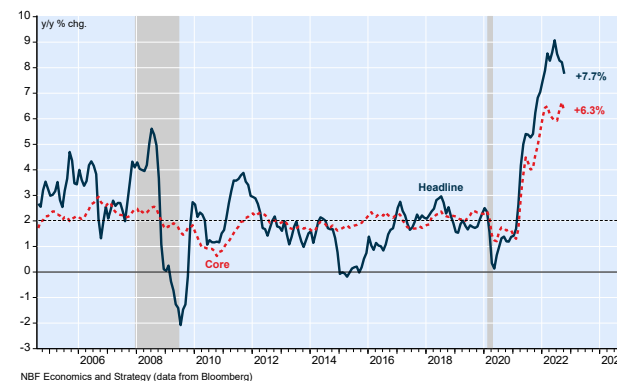
Global financial stress index



Fortunately, recent developments in the U.S. offer hope that central banks may soon declare a ceasefire and halt their tightening campaign to limit the collateral damage to the economy and profits. CPI data came in below consensus expectations in October for just the second time in the past 8 months. Year on year, headline inflation clocked in at 7.7%, down from 8.2% the prior month and two ticks below the median economist forecast – chart.

## U.S.: Inflation eased more than expected in October

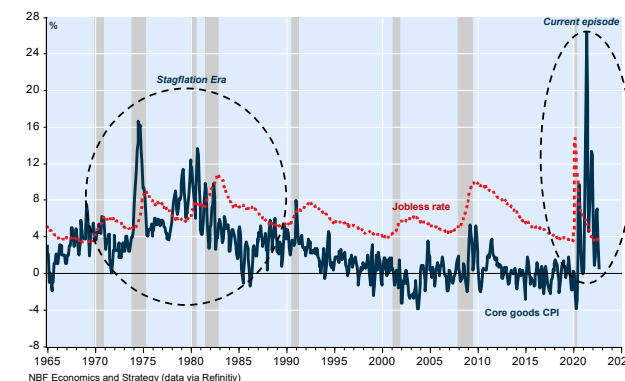
Consumer Price Index



While these figures remain unacceptably high, there are signs of a more significant turnaround, particularly in the consumer goods segment where price cuts are now being made. After a stable reading in September the core goods CPI fell 0.4% in October. As a result, three-month annualized inflation, which was a record 26.3% in June 2021, was only 0.4% in October 2022. This improvement is much faster than in the stagflation era when it took more than a decade of high unemployment to bring inflation down to current levels – chart.

## U.S.: Goods inflation falling much faster than in the stagflation era

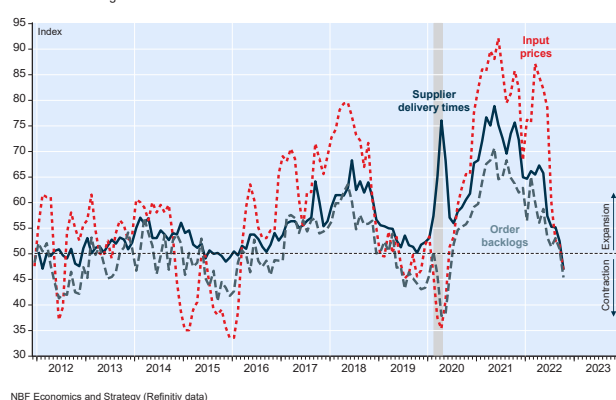
Three-month annualized change in the core goods CPI vs unemployment rate



It is important to note that this trend is likely to continue judging by the current setbacks in the manufacturing sector, where input prices, order backlogs and supplier lead times are all declining – chart.

# Stock Market and Portfolio Strategy

## U.S.: Manufacturing supply chain rapidly becoming more fluid



The better-than-expected trend in US inflation paved the way for the greenback's biggest weekly decline since 2009 and a significant recovery in global stock markets. A wave of major corporate layoffs, accompanied by forced deleveraging, could still be avoided to get inflation back to normal.

## U.S.: Greenback finally weakens

Nominal trade-weighted U.S. dollar index against 26 currencies



The MSCI ACWI is already up 10.2% since the start of the fourth quarter, with half of those gains coming in the five days leading up to November 11. As shown in the table below, all major regions except for Latin America are posting strong increases in November, with a particularly solid performance by EM Asia (+9.8%) thanks to the expected easing of COVID restriction in China.

## MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	4.0	10.2	-15.0
MSCI World	3.6	10.9	-14.5
MSCI USA	3.1	11.2	-17.4
MSCI Canada	3.3	9.0	-5.5
MSCI Europe	4.9	11.2	-10.0
MSCI Pacific ex Jp	7.0	7.7	-7.9
MSCI Japan	2.9	8.8	-1.4
MSCI EM	7.7	4.8	-19.0
MSCI EM EMEA	2.0	6.8	-20.0
MSCI EM Latin America	-0.5	6.5	1.5
MSCI EM Asia	9.8	4.3	-20.5

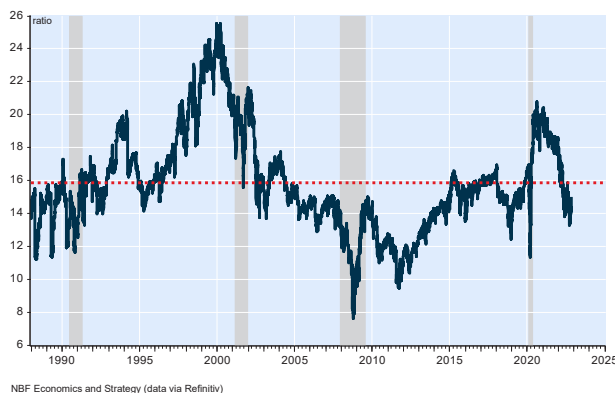
11/11/2022

NBF Economics and Strategy (data via Refinitiv)

After its recent rebound, the MSCI ACWI is trading at a PE ratio of 15x forward earnings. This ratio is in line with its historical average of 15.8x since 1988 (chart).

## World: Forward PE near historical average

12-month forward PE for the MSCI ACWI



That's not cheap considering major central banks have yet to announce a pause in their tightening and earnings are still being revised downward (table).

## MSCI : change in 12-month forward earnings

	3-month change		1-month change		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
MSCI ACWI	-3.2	-0.4	-2.5	-0.4	34%	45%
MSCI World	-3.0	-0.4	-2.5	-0.4	35%	47%
MSCI USA	-4.7	-0.3	-3.5	-0.3	27%	48%
MSCI Canada	-2.0	-0.4	-2.3	-0.4	19%	45%
MSCI Europe	0.3	-0.7	-0.5	-0.7	41%	43%
MSCI Pacific ex Jp	-2.0	-0.4	-0.8	-0.4	32%	42%
MSCI Japan	0.7	0.0	-0.2	0.0	51%	51%
MSCI EM	-4.8	-0.5	-2.6	-0.5	33%	42%
MSCI EM EMEA	2.3	-0.3	-0.4	-0.3	43%	45%
MSCI EM Latin America	-3.8	-0.6	-0.9	-0.6	56%	42%
MSCI EM Asia	-6.2	-0.5	-3.3	-0.5	30%	41%

11/11/2022

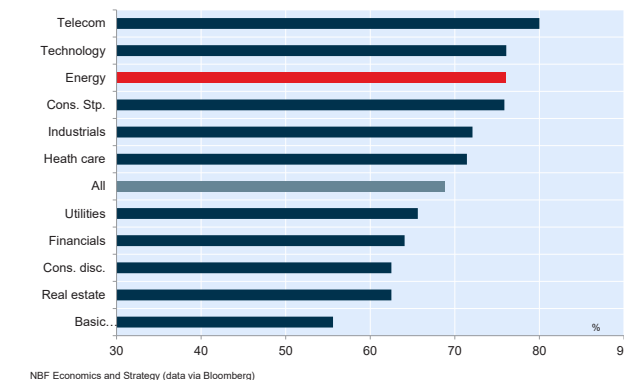
NBF Economics and Strategy (data via Refinitiv)

## U.S.: A good earnings season, but...

The S&P 500 Q3 2022 earnings reporting season is ending on a positive note. As of this writing, nearly 70% of companies had reported better-than-expected earnings. The energy sector did particularly well this earnings season with profits up a whopping 150% compared to the same quarter last year. Close to 80% of companies reported earnings that surprised to the upside (chart).

## S&P500 : Energy earnings surprised on the upside in Q3

Share of companies reporting higher than expected benefits (as of November 12)





# Stock Market and Portfolio Strategy

This performance has been extremely gratifying for the sector, with energy stocks already up a whopping 29.6% since the start of Q4 (table). Industrials (+20%) and materials (+19.4%) have also gained quarter-to-date, but both sectors remain in the red in 2022. Only energy is showing a positive year-to-date return.

## S&P 500 composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P 500	3.1	11.4	-16.2
MATERIALS	9.6	19.4	-10.3
FINANCIALS	5.6	18.1	-8.4
INDUSTRIALS	5.4	20.0	-6.0
REAL ESTATE	5.4	7.4	-25.3
IT	3.8	11.9	-23.8
ENERGY	3.8	29.6	69.4
TELECOM	2.8	2.7	-37.8
UTILITIES	1.8	3.8	-5.1
CONS. STAP.	1.1	10.1	-4.8
CONS. DISC.	0.5	0.7	-29.8
HEALTH CARE	0.2	9.9	-5.7

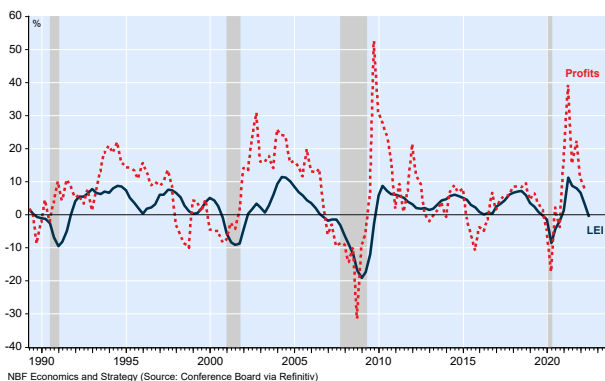
11/11/2022

NBF Economics and Strategy (data via Refinitiv)

The earnings outlook remains challenging. On a year-over-year basis, the Conference Board's leading economic indicator has just turned negative, which is normally a sign of earnings contraction – chart.

## United States: Leading indicators signal weaker profits ahead

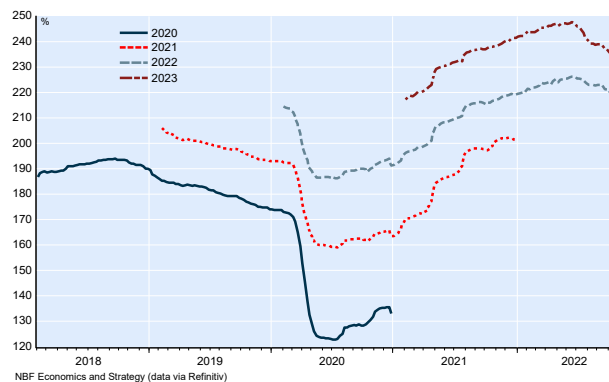
Leading Economic Indicator and profits, annual % change. Last observation: 2022Q3 for LEI, 2022Q2 for profit



In-line with this scenario, earnings per share forecasts for 2023 have been falling steadily after peaking in late June – chart.

## S&P 500: EPS expectations for 2023 are softening

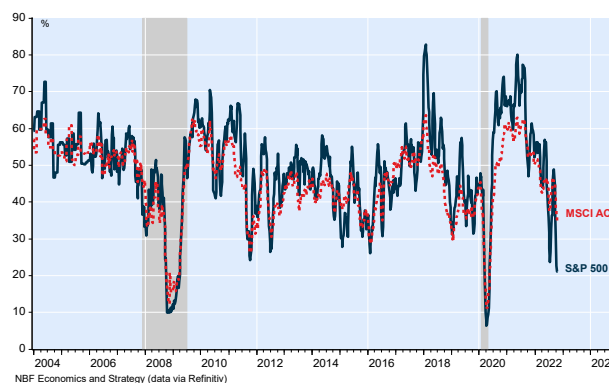
EPS expectations by year



In addition, downward revisions were widespread, with just over 20% of S&P 500 companies revising upward their earnings per share estimates for the coming year in the past month. This diffusion, the worst since the COVID recession, is also well below that of the MSCI ACWI (35%) – chart.

## S&P 500 and MSCI AC: Diffusion of positive earnings revisions

Number of corporations revising earnings upward/Number of corporation revising earnings (November 1<sup>st</sup>)



The most dramatic tightening of financial conditions in a generation at this point in the Fed's tightening cycle is about to hit corporate profits. Mr. Powell will soon have to pause in raising interest rates to avoid further weakening the economy.

## U.S.: Financial conditions tightening at a blistering pace

Goldman Sachs Index of Financial Conditions, change since the first hike of a tightening phase



## S&P/TSX: Energy boom

The third quarter 2022 reporting season is also ending in Canada, with earnings per share for the S&P/TSX as a whole beating expectations by a larger margin than for the S&P 500 (4 percentage points versus 3 percentage points). But this is mostly due to the energy sector, where companies reported earnings 25.4% above expectations (versus 9.42% for S&P 500 energy companies). Unsurprisingly, Energy companies are leading all other sectors of the S&P/TSX so far in Q4 with a 17.7% gain – table.

## S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	3.5	9.0	-5.2
REAL ESTATE	7.5	10.3	-21.2
MATERIALS	7.3	6.5	-1.3
IT	5.0	16.4	-50.5
HEALTH CARE	4.5	11.9	-52.3
FINANCIALS	4.4	7.0	-8.7
BANKS	3.9	6.3	-8.4
ENERGY	3.4	17.7	36.1
TELECOM	2.1	7.1	-5.0
CONS. STAP.	1.4	6.9	7.3
CONS. DISC.	0.9	8.9	-7.5
INDUSTRIALS	0.5	7.6	0.7
UTILITIES	-0.8	-3.4	-9.3

11/11/2022

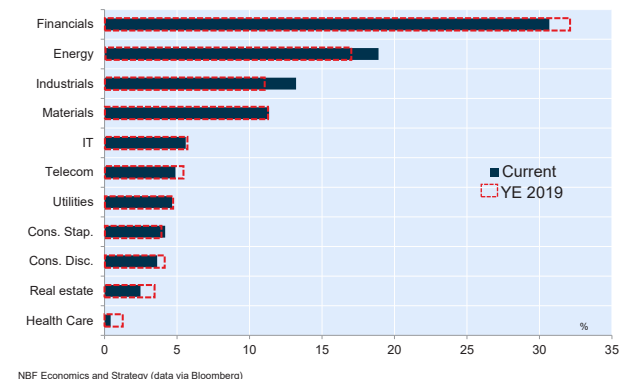
NBF Economics and Strategy (data via Refinitiv)

# Stock Market and Portfolio Strategy

With a year-to-date gain of 36.1%, the energy sector now represents 19.1% of the S&P/TSX's market capitalization, up from 17% at year-end 2019. In comparison, the financials weighting is currently 31% - chart.

## S&P/TSX: Sector weighting in total index

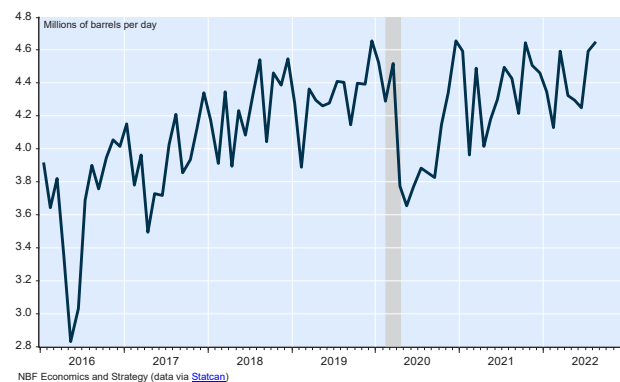
Year end 2019 compared to October 28, 2022



Energy could see its weight increase a little further in the coming quarters as Canadian oil production is expected to remain high for the foreseeable future to offset global supply disruptions caused by the war in Ukraine. The key to a larger piece of the S&P/TSX pie would be a tangible expansion in the PE of energy companies. Such an expansion will depend on the ability of companies to deploy carbon capture, utilization and storage (CCUS) technologies that would significantly extend the life of fossil oil extraction while reducing CO2 emissions.

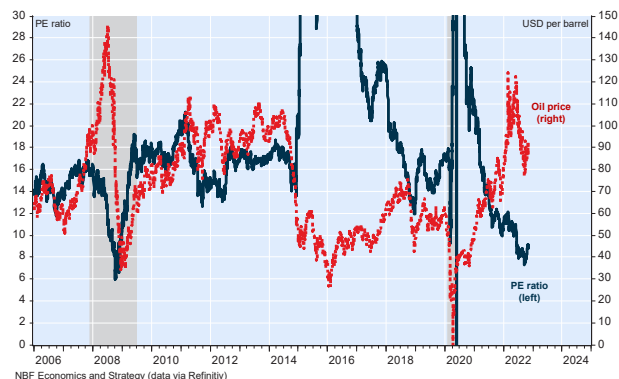
## Canada: Oil production hovers near a record high

Canadian crude oil production



## Canada: CCUS is key for PE expansion

Forward PE ratio for the S&P/TSX Energy sector vs. WTI oil price



## Asset allocation

Our asset allocation is unchanged this month. Equities remain underweight, fixed income retains its market weight and cash is slightly overweight. Despite the improving inflation backdrop in the U.S., the Fed has yet to commit to a pause in its interest rate tightening campaign. This obstacle must be overcome before we can become more constructive on the profit outlook.

NBF Asset Allocation			
	Benchmark (%)	NBF Recommendation (%)	Change (pp)
<b>Equities</b>			
Canadian Equities	20	24	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
<b>Fixed Income</b>			
Fixed Income	45	45	
<b>Cash</b>			
Cash	5	7	
<b>Total</b>	100	100	

NBF Economics and Strategy

## Sector allocation

Our sector allocation is unchanged this month. As explained last month, we continue to favour materials and energy, which have historically performed well during the mature phase of the cycle, even when the yield curve is inverted. These sectors also offer protection in the event of stagflation.

# Stock Market and Portfolio Strategy

## NBF Fundamental Sector Rotation - November 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
<b>Energy</b>	<b>Overweight</b>	<b>19.1%</b>
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	18.9%
<b>Materials</b>	<b>Overweight</b>	<b>11.7%</b>
Chemicals	Market Weight	2.0%
Containers & Packaging	Overweight	0.4%
Metals & Mining *	Overweight	2.9%
Gold	Overweight	6.0%
Paper & Forest Products	Market Weight	0.4%
<b>Industrials</b>	<b>Underweight</b>	<b>12.9%</b>
Capital Goods	Market Weight	2.4%
Commercial & Professional Services	Underweight	3.0%
Transportation	Underweight	7.5%
<b>Consumer Discretionary</b>	<b>Underweight</b>	<b>3.5%</b>
Automobiles & Components	Underweight	0.9%
Consumer Durables & Apparel	Underweight	0.4%
Consumer Services	Underweight	0.9%
Retailing	Market Weight	1.3%
<b>Consumer Staples</b>	<b>Overweight</b>	<b>4.1%</b>
Food & Staples Retailing	Overweight	3.5%
Food, Beverage & Tobacco	Overweight	0.5%
<b>Health Care</b>	<b>Market Weight</b>	<b>0.4%</b>
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.3%
<b>Financials</b>	<b>Market Weight</b>	<b>30.9%</b>
Banks	Market Weight	21.0%
Diversified Financials	Market Weight	4.1%
Insurance	Market Weight	5.9%
<b>Information Technology</b>	<b>Market Weight</b>	<b>5.6%</b>
<b>Telecommunication Services</b>	<b>Market Weight</b>	<b>4.8%</b>
<b>Utilities</b>	<b>Market Weight</b>	<b>4.5%</b>
<b>Real Estate</b>	<b>Underweight</b>	<b>2.5%</b>

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

# Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	Q1 2023
Index Level		nov-11-22	Target
S&P/TSX		20,112	20,100
<b>Assumptions</b>			Q1 2023
Level:	Earnings *	1561	1580
	Dividend	636	644
PE Trailing (implied)		12.9	12.7

\* Before extraordinary items, source Thomson

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	Q1 2023
Index Level		nov-11-22	Target
S&P 500		3,993	3,850
<b>Assumptions</b>			Q1 2023
Level:	Earnings *	218	220
	Dividend	65	66
PE Trailing (implied)		18.3	17.5

\* S&P operating earnings, bottom up.

## Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US\$)					Canadian Dollar			Correlation * with S&P 500
	Close on 11-11-2022	Returns				Y-T-D	Returns		
		M-T-D	Y-T-D	1-Yr	3-Yr		1-Yr	3-Yr	
<b>North America - MSCI Index</b>	<b>3979</b>	<b>3.3%</b>	<b>-17.0%</b>	<b>-15.7%</b>	<b>28.6%</b>	<b>-12.9%</b>	<b>-11.1%</b>	<b>29.0%</b>	<b>1.00</b>
United States - S&P 500	3993	3.1%	-16.2%	-14.1%	29.4%	-12.0%	-9.5%	29.8%	1.00
Canada - S&P TSX	20112	3.5%	-5.2%	-6.8%	19.1%	-5.2%	-6.8%	19.1%	0.95
<b>Europe - MSCI Index</b>	<b>1704</b>	<b>9.4%</b>	<b>-18.6%</b>	<b>-18.8%</b>	<b>-0.5%</b>	<b>-14.5%</b>	<b>-14.4%</b>	<b>-0.2%</b>	<b>0.85</b>
United Kingdom - FTSE 100	7318	3.2%	-0.9%	-0.9%	-0.1%	-9.5%	-8.1%	-8.3%	0.72
Germany - DAX 30	14225	7.3%	-10.5%	-11.6%	7.8%	-14.6%	-16.1%	1.2%	0.90
France - CAC 40	6595	5.2%	-7.8%	-6.6%	11.9%	-12.1%	-11.3%	5.1%	0.92
Switzerland - SMI	11127	2.8%	-13.6%	-10.4%	8.0%	-12.6%	-8.1%	14.0%	0.94
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	0.1%	-4.6%	-5.1%	-6.0%	0.21
Netherlands - Amsterdam Exchanges	703	4.8%	-11.9%	-13.9%	17.9%	-16.0%	-18.3%	10.7%	0.97
<b>Pacific - MSCI Index</b>	<b>2595</b>	<b>10.3%</b>	<b>-16.5%</b>	<b>-18.0%</b>	<b>-7.4%</b>	<b>-12.3%</b>	<b>-13.6%</b>	<b>-7.0%</b>	<b>0.69</b>
Japan - Nikkei 225	28264	2.5%	-1.8%	-3.5%	21.1%	-14.6%	-16.6%	-4.6%	0.88
Australia - All ordinaries	7350	4.2%	-5.5%	-4.6%	6.9%	-8.6%	-7.8%	4.9%	0.91
Hong Kong - Hang Seng	17326	18.0%	-26.0%	-31.4%	-35.7%	-22.6%	-28.1%	-35.5%	-0.07
<b>World - MSCI Index</b>	<b>2674</b>	<b>5.0%</b>	<b>-17.3%</b>	<b>-16.5%</b>	<b>18.0%</b>	<b>-13.1%</b>	<b>-12.0%</b>	<b>18.4%</b>	<b>0.98</b>
<b>World Ex. U.S.A. - MSCI Index</b>	<b>1956</b>	<b>9.2%</b>	<b>-17.1%</b>	<b>-17.8%</b>	<b>-1.0%</b>	<b>-12.9%</b>	<b>-13.3%</b>	<b>-0.7%</b>	<b>0.85</b>
<b>EAFE - MSCI Index</b>	<b>1918</b>	<b>9.6%</b>	<b>-17.9%</b>	<b>-18.5%</b>	<b>-2.9%</b>	<b>-13.8%</b>	<b>-14.1%</b>	<b>-2.6%</b>	<b>0.81</b>
<b>Emerging markets (free) - MSCI Index</b>	<b>936</b>	<b>10.3%</b>	<b>-24.0%</b>	<b>-27.0%</b>	<b>-11.1%</b>	<b>-20.2%</b>	<b>-23.0%</b>	<b>-10.8%</b>	<b>0.58</b>

\* Correlation of monthly returns (3 years).

# Stock Market and Portfolio Strategy

## S&P 500 Sectoral Earnings- Consensus\* 2022-11-11

	Weight S&P 500 %	Index Level	Variation		EPS Growth			2022	P/E		5 year Growth Forecast	PEG Ratio	Revision Index**
			3-m Δ	12-m Δ	2022	2023	12-m forward		2023	12-m forward			
<b>S&amp;P 500</b>	100	243	-13.37	-19.35	7.93	4.26	4.77	17.20	16.49	16.47	11.19	3.45	-4.63
<b>Energy</b>	5.40	716	20.76	64.32	154.53	-12.44	-6.68	8.58	9.80	9.68	24.97	neg.	2.67
<b>Materials</b>	2.69	511	2.07	-9.00	8.87	-9.60	-8.18	13.25	14.66	14.51	7.67	neg.	-8.29
<b>Industrials</b>	8.45	841	1.19	-6.14	30.59	14.32	14.58	19.53	17.08	17.26	10.99	1.18	-5.59
<b>Consumer Discretionary</b>	10.59	1130	-13.62	-29.56	-0.57	31.61	27.62	28.24	21.46	21.94	23.80	0.79	-7.84
<b>Consumer Staples</b>	6.80	766	-1.36	1.13	3.41	3.97	4.49	20.79	20.00	19.93	7.28	4.44	-1.75
<b>Healthcare</b>	14.90	1550	0.94	-0.09	4.92	-2.43	-1.77	16.08	16.48	16.44	6.80	neg.	-1.75
<b>Financials</b>	11.73	596	2.54	-10.50	-13.93	12.68	10.15	13.44	11.93	12.04	5.09	1.19	-2.29
<b>Information Technology</b>	26.47	2327	-9.83	-19.80	9.10	1.55	3.61	20.48	20.16	19.80	11.62	5.48	-7.99
<b>Telecom Services</b>	7.33	166	-16.56	-39.05	-15.95	7.98	5.41	14.47	13.40	13.45	9.51	2.49	-10.19
<b>Utilities</b>	2.92	345	-9.80	2.10	3.54	6.80	6.54	18.79	17.59	17.68	6.44	2.70	0.24
<b>Real Estate</b>	2.70	243	-13.37	-19.35	-5.30	-6.15	-6.07	30.84	32.86	32.68	1.68	neg.	-4.39

\* Source I/B/E/S

\*\* Three-month change in the 12-month forward earnings

# Technical Analysis



**Dennis Mark, CFA**  
Analyst  
416-869-7427

## Commodity chart tops

The rotating selling in this bear market is starting to turn to the commodity sectors. A strong and rising U.S. dollar along with faltering economic conditions are playing against higher commodity prices. The CRB and the Bloomberg commodity indexes are forming potential tops that indicate a growing risk of lower commodity prices. And with lower commodities will come lower prices for commodity related equities. In the November Vision, we highlight the Bloomberg Commodity Index chart and commodity related stock charts. Generally, most charts are carving out potential top formations that are at risk of breaking down, especially if the Bloomberg Commodity Index breaks down.



# Technical Analysis

## Bloomberg Commodity Index (BCOM)

As the accompanying chart indicates, the Bloomberg Commodity Index topped out in June with a series of lower highs. Recent weakness has taken prices below both moving averages with the 50-day now trading below its 200-day. The loss of upside momentum is setting up for lower prices with a completion of the triangle on a break of support at 110.00. Breaking down the triangle formation points to a target of 80 to 90 but more importantly, this turns the trend down.



# Technical Analysis

## Canfor Corporation (CFP)

The CFP chart recently broke down from a 20-month top after hitting a peak in early 2021. Support at \$22.00 was broken to complete the topping process. An extended period of underperformance will continue as a downtrend establishes itself. Target is \$12.00 to \$14.00.



# Technical Analysis

## Interfor Corporation (IFP)

A classic head & shoulders top is forming on the IFP chart. Neckline support at \$23.50 is currently being tested with any break completing the formation. Volume throughout the pattern is showing a classic declining trend throughout the formation of the pattern. Any rebounds will likely be contained in the high \$20s. Potential downside is \$12.00 to \$14.00.



# Technical Analysis

## Nutrient Ltd. (NTR)

A rising trend on the NTR chart remains intact; however, the stock is starting to lose momentum as it failed to make a new high after its last pullback. This action is forming a triangle that could be a top in the stock. Failing rebounds formed a declining trend line as selling interest picks up and resistance becomes established. Recent weakness has taken prices below its 200-day. The lower end of the triangle support around \$98.00 appears likely to be tested. Failure to hold here completes a triangle top. Prices need to break out across the top end of the formation at \$120.00 to turn things around.



# Technical Analysis

## First Quantum Minerals Ltd. (FM)

A bull trend that started in March 2020 was called into question when prices broke \$31.00 and its 200-day in June. The chart found support at \$20.50 where it attempted a recovery. So far, the recovery is suspect as stronger volume is not translating into much higher prices. A potential two-year top is forming with key support at \$20.50. Failing support here starts the next leg down pointing to potential downside of \$10.00 to \$12.00.



# Technical Analysis

## West Fraser Timber Co. Ltd. (WFG)

The strong rally off the March 2020 lows on WFG is starting to lose momentum as the stock is failing to hold above both its moving averages. A sideways trading range formed a rectangle that has the potential to be a top formation. Support at \$95.00 is being challenged with a break completing a top structure. Downside potential is a target of \$60.00.





# Sector Analysis

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

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

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy	Cenovus Energy Inc.	CVE	\$27.54	\$36.00	1.47%	32.24%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	\$29.20	\$35.00	6.53%	26.44%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	\$7.15	\$9.00	0.40%	26.29%	Energy Equipment & Services
	Shawcor Ltd.	SCL	\$9.94	\$12.00	0.00%	20.72%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	\$74.66	\$85.00	1.25%	15.19%	Oil, Gas & Consumable Fuels
Materials	Alamos Gold Inc.	AGI	\$10.75	\$13.00	1.27%	22.20%	Gold
	Endeavour Mining plc	EDV	\$24.23	\$35.75	4.34%	52.04%	Gold
	First Quantum Minerals Ltd.	FM	\$24.03	\$30.00	0.57%	25.53%	Metals & Mining
	K92 Mining Inc.	KNT	\$6.19	\$11.00	0.00%	77.71%	Gold
	Kinross Gold Corp.	K	\$4.94	\$9.25	3.00%	90.44%	Gold
	Osisko Gold Royalties Ltd.	OR	\$14.61	\$22.00	1.45%	52.09%	Gold
	Pan American Silver Corp.	PAAS	\$21.75	\$31.50	2.59%	47.24%	Metals & Mining
	Teck Resources Ltd.	TECK.b	\$41.47	\$56.00	1.11%	36.24%	Metals & Mining
Industrials	Air Canada	AC	\$19.61	\$29.00	0.00%	47.88%	Transportation
	ATS Automation Tooling Systems Inc.	ATA	\$43.10	\$55.00	0.00%	27.61%	Capital Goods
	CAE Inc.	CAE	\$26.00	\$38.00	0.00%	46.15%	Capital Goods
	Exchange Income Corp.	EIF	\$45.50	\$60.00	5.47%	37.41%	Transportation
	GDI Integrated Facility Services Inc.	GDI	\$46.82	\$55.50	0.00%	18.54%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	\$13.69	\$18.00	5.21%	36.74%	Transportation
	Stantec Inc.	STN	\$66.66	\$70.00	1.08%	6.09%	Capital Goods
	Thomson Reuters Corp.	TRI	\$144.89	\$162.00	1.71%	13.48%	Commercial & Professional Services
	WSP Global Inc.	WSP	\$167.44	\$181.00	0.89%	8.99%	Capital Goods
Consumer Discretionary	Park Lawn Corp.	PLC	\$21.15	\$32.50	2.04%	55.82%	Consumer Services
	Uni-Select Inc.	UNS	\$36.95	\$49.00	0.00%	32.61%	Retailing
Consumer Staples	Jamieson Wellness Inc.	JWEL	\$33.33	\$46.25	2.10%	40.80%	Household & Personal Products
	Loblaw Companies Ltd.	L	\$111.62	\$126.00	1.44%	14.33%	Food & Staples Retailing
Health Care	Chartwell Retirement Residences	CSH.u	\$7.90	\$11.00	7.68%	46.99%	Health Care Providers & Services
	dentalcorp Holdings Ltd.	DNTL	\$7.59	\$15.50	0.00%	104.22%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US\$4.91	US\$9.75	5.92%	104.68%	Pharmaceuticals, Biotechnology & Life Sciences
Financials	Canadian Imperial Bank of Commerce	CM	\$61.87	\$84.00	5.31%	41.13%	Banks
	Element Fleet Management Corp.	EFN	\$18.15	\$24.00	1.69%	33.94%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	\$669.09	\$1100.00	1.77%	66.31%	Insurance
	iA Financial Corporation Inc.	IAG	\$75.82	\$80.00	3.56%	9.07%	Insurance
	Trisura Group Ltd.	TSU	\$39.63	\$62.00	0.00%	56.45%	Insurance
Information Technology	Coveo Solutions Inc.	CVO	\$5.67	\$13.00	0.00%	213.31%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US\$19.16	US\$65.00	0.00%	260.11%	Software & Services
	Open Text	OTEX	US\$28.95	US\$60.00	3.53%	180.16%	Software & Services
Communication Services	Cineplex Inc.	CGX	\$9.26	\$15.50	0.00%	67.39%	Media & Entertainment
	Shaw Communications Inc.	SJR.b	\$34.99	\$40.50	3.31%	19.13%	Telecommunication Services
Utilities	AltaGas Ltd.	ALA	\$24.57	\$30.00	4.53%	26.41%	Utilities
	Boralex Inc.	BLX	\$38.63	\$48.00	1.74%	25.96%	Utilities
	Innergex Renewable Energy Inc.	INE	\$15.00	\$23.00	4.83%	58.13%	Utilities
	Northland Power Inc.	NPI	\$39.64	\$47.00	3.05%	21.59%	Utilities
Real Estate	Allied Properties REIT	AP.un	\$26.39	\$33.75	6.74%	34.52%	Real Estate
	Dream Industrial REIT	DIR.un	\$0.95	\$13.50	6.08%	29.68%	Real Estate
	Flagship Communities REIT	MHC.un	US\$14.97	US\$19.00	3.57%	30.50%	Real Estate
	H&R REIT	HR.u	\$11.21	\$13.50	4.71%	25.33%	Real Estate
	Killam Apartment REIT	KMP.un	\$15.79	\$20.50	4.28%	34.26%	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 October 31, 2022

Source: NBF Research, Refinitiv

**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

 $\Delta$  = Price target from the previous month. $\uparrow$  or  $\downarrow$  = Price target upgrade or downgrade.**Price target** = 12-month price target $\Delta$  = Recommendation change from the previous month. $\uparrow$  or  $\downarrow$  = 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****FDCFPS** = 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).

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## Selections

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

## Canadian Banks & Lifecos

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

IAG reported a rebound quarter, which is impressive considering the market backdrop. EPS above the quarterly guidance range puts the company on track to hit its full-year guidance, which management expects it to do. We are taking a more cautious view, considering a variety of growth headwinds (e.g., lower Wealth fees, expense inflation, P&C profit normalization). Separately, the company provided additional IFRS 17 impact disclosures, which are positive. A key one is a 20-point expected boost to its LICAT ratio. Along with strong internal capital generation, the company is well positioned to take advantage of market disruptions and to pursue attractively valued acquisitions. \$80 price target. Outperform.

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

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

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/31	Last Year Reported	FDEPS			P/E		Book Value per Share			P/BV		Div. %	12-Mth Price Target		Δ
								Last FY	est. FY1	est. FY2	FY1	FY2	Last Quarter	est. FY1	est. FY2	FY1	FY2				
Banking																					
Bank of Montreal	BMO	SP		84,380	677	124.59	10/2021	12.96	13.27	13.79	9.4	9.0	90.88	92.71	103.99	1.3	1.2	4.5%	151.00		
Bank of Nova Scotia	BNS	SP		77,841	1,191	65.34	10/2021	7.87	8.47	8.49	7.7	7.7	54.52	55.59	59.93	1.2	1.1	6.3%	90.00		
CIBC	CM	OP		54,375	905	60.09	10/2021	7.23	7.41	7.64	8.1	7.9	48.97	49.81	53.59	1.2	1.1	5.5%	84.00		
National Bank	NA	NR		30,548	337	90.76	10/2021	8.98	9.80	9.96	9.3	9.1	54.82	56.13	61.95	1.6	1.5	4.1%	NR		
Royal Bank of Canada	RY	OP		172,498	1,392	123.88	10/2021	11.19	11.14	12.17	11.1	10.2	69.44	70.47	75.94	1.8	1.6	4.1%	148.00		
Toronto-Dominion Bank	TD	SP		158,381	1,814	87.29	10/2021	7.91	8.20	8.86	10.6	9.9	52.53	53.84	58.97	1.6	1.5	4.1%	106.00		
Canadian Western Bank	CWB	OP		2,147	93	23.09	10/2021	3.81	3.57	3.75	6.5	6.2	33.90	34.15	35.98	0.7	0.6	5.4%	38.00		
Laurentian Bank	LB	SP		1,293	43	29.88	10/2021	4.57	5.12	5.13	5.8	5.8	57.43	58.08	60.82	0.5	0.5	6.0%	51.00		
Insurance																					
Great-West Lifeco	GWO	SP		29,390	932	31.54	12/2021	3.50	3.37	3.64	9.4	8.7	25.00	25.56	23.90	1.2	1.3	6.2%	35.00	↓	
iA Financial	IAG	OP		7,992	105	75.82	12/2021	8.31	8.55	8.85	8.9	8.6	60.97	62.39	67.17	1.2	1.1	3.6%	80.00	↓	
Manulife Financial	MFC	SP		42,866	1,898	22.58	12/2021	3.25	3.02	3.11	7.5	7.3	25.56	26.79	22.73	0.8	1.0	5.8%	24.00	↓	
Sun Life Financial	SLF	SP		33,913	586	57.86	12/2021	5.99	5.85	6.01	9.9	9.6	40.65	42.81	38.72	1.4	1.5	4.8%	65.00	↓	

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



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## Selections

- › Trisura Group
- › Fairfax Financial
- › Element Fleet Management

## Company Updates

### ► Mortgage Finance - Downside Risks Still Persist

Mortgage stocks continue to underperform YTD: HCG down ~33%, EQB ~30%, TF ~20% and FN ~18% currently fall below the S&P/TSX Financials Index down ~13%. While these depressed levels may signal an attractive entry point, we reaffirm our view that caution and patience remain the appropriate strategy heading into Q3-22 results and likely for the remainder of the year, at least until uncertainty surrounding regulatory risk, housing market risk and interest rate risk diminish. As a result, we lower our Price Targets across the board. Our estimate changes largely reflect a slower pace of residential mortgage origination/loan growth.

What could cause a shift in our view? We have a keen eye on the employment outlook and central bank positioning. We believe more widespread employment losses will pressure mortgage stocks lower, potentially to crisis trough levels that would offer investors a more attractive entry. A dovish turn from the Federal Reserve and/or Bank of Canada could also cause a change in our currently softer view.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 10/31	Last Year Reported	FDEPS			P/E		Book Value per Share			P/BV		Div. %	12-Mth Price Target		Δ	
								est. 2021	est. 2022	est. 2023	2022	2023	Last Quarter	est. 2022	est. 2023	2022	2023					
<b>Mortgage Finance</b>																						
EQB Inc.	EQB	OP		1.65	34.2	48.28	12/2021	8.36	8.93	9.93	5.4	4.9	59.25	62.28	70.09	0.8	0.7	2.6%	68.00	↓		
First National Financial	FN	SP		2.05	60.0	34.20	12/2021	3.13	2.42	3.23	14.1	10.6	9.95	9.97	10.68	3.4	3.2	6.9%	34.00	↓		
Home Capital Group	HCG	SP		1.07	40.7	26.34	12/2021	4.87	4.05	4.63	6.5	5.7	38.72	40.93	44.71	0.6	0.6		30.00	↓		
Timbercreek Financial	TF	SP		0.65	83.9	7.69	12/2021	0.68	0.72	0.76	10.7	10.1	8.33	8.34	8.41	0.9	0.9	9.0%	8.25	↓		
<b>Specialty Finance</b>																						
ECN Capital	ECN	OP		1.02	247.2	4.11	12/2021	US 0.31	US 0.25	US 0.36	12.3	8.4	US 0.66	US 0.66	US 0.82	4.6	3.7	1.0%	8.50			
Element Fleet Management	EFN	OP		7.23	398.2	18.15	12/2021	0.84	1.05	1.16	17.3	15.6	7.68	7.80	8.43	2.3	2.2	1.7%	24.00			
goeasy	GSY	OP		1.75	15.8	110.53	12/2021	10.43	11.17	14.77	9.9	7.5	48.54	52.16	62.28	2.1	1.8	3.3%	170.00			
Brookfield Business Partners	BBU	OP		US 3.27	US 144.3	US 22.64	12/2021	US 2.90	US 1.08	US 6.83	21.0	3.3	US 19.06	US 21.68	US 26.75	1.0	0.8	1.1%	US 36.00	↑		
Power Corporation of Canada	POW	SP		22.65	669.5	33.83	12/2021	4.77	3.66	4.16	9.2	8.1	33.18	34.21	36.34	1.0	0.9	5.9%	39.00			
<b>Securities Exchange</b>																						
TMX Group	X	SP		7.28	55.6	130.98	12/2021	7.10	7.12	7.78	18.4	16.8	69.15	70.50	74.10	1.9	1.8	2.5%	148.00	↑		
<b>Insurance</b>																						
Definity Financial Corp.	DFY	OP		4.6	115.0	40.35	12/2021	2.09	1.8	1.99	21.9	20.2	19.51	20.49	22.03	2.0	1.8	5.0%	39.00			
Intact Financial Corp.	IFC	OP		36.34	175.5	207.01	12/2021	12.32	12.00	12.06	17.3	17.2	80.86	83.90	89.67	2.5	2.3	1.9%	230.00			
Trisura Group Ltd.	TSU	OP		1.63	41.3	39.63	12/2021	1.48	1.77	2.02	22.3	19.6	8.62	11.93	13.94	3.3	2.8		62.00			
Fairfax Financial Holdings	FFH	OP		15.83	23.7	669.09	12/2021	US 122.25	US 73.25	US 83.65	6.7	5.9	US 588.36	US 701.87	US 781.34	0.7	0.6	1.9%	1100.00			
<b>Asset Managers</b>																						
Fiera Capital Corp.	FSZ	SP		0.89	102.6	8.67	12/2021	1.63	1.14	1.22	7.6	7.1	3.53	3.41	3.32	2.5	2.6	9.9%	10.00	↓		
IGM Financial Inc.	IGM	OP		8.67	237.7	36.47	12/2021	4.04	3.38	3.78	10.8	9.6	25.17	25.66	27.22	1.4	1.3	6.2%	45.00	↓		

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

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.

Source: Refinitiv, Company reports, NBF



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### Selections

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

### Mullen delivers solid Q3 and points to further strength in Q4; Enerflex completes strategic combo

- ▣ Our positive outlook for MTL is reinforced following a solid Q3 beat and above-consensus Q4 guidance, with significant dry powder available for tuck-ins entering 2023.

MTL reported solid Q3 results with adj. EBITDA of \$98.1 mln topping the Street by ~8%. Q3 revenue of \$518 mln (also a new high watermark for a third quarter) was a hair below the Street at \$525 mln, increasing ~20% y/y. Adj. EBITDA margins of 18.9% came in well ahead of consensus (17.3%) and NBF (17.5%), expanding by ~400 bps y/y. The U.S. & International Logistics segment was the only division reporting a y/y decrease in quarterly revenue and EBITDA, with MTL highlighting freight demand for full truckload shipments softening in Q3, weighing on revenue and margin per load given competitive pricing. On the Q3 conference call, management highlighted the macroeconomic backdrop remains constructive at present, supporting expectations for ~\$500 mln in Q4 revenue and ~\$90 mln in Q4 adj. EBITDA (~20% above the consensus estimate prior to reporting). In Q3, MTL reduced the draw on the credit facilities by ~\$44 mln to ~\$99 mln. With additional expected surplus free cash flow generated in Q4 and potential proceeds of ~\$50 mln from non-core asset sales to be applied to the balance sheet, MTL could enter 2023 with zero draw on the credit facilities, implying ~\$250 mln in readily available dry powder for M&A (in our view, representing a potentially material offset to a slowdown in organic growth). We maintain a relatively conservative, but positive stance looking out to 2023, reiterating expectations for ~\$300 mln in EBITDA. **With a solid balance sheet footing supporting potential M&A, we maintain our positive bias, Outperform rating and previous \$18 target, still driven by 6.8x 2023e EV/EBITDA (half a turn below MTL's post-2018 forward-year EV/EBITDA average of 7.3x and 20% below MTL's post-2014 forward year trading average).**

- ▣ In early October, Enerflex and Exterran Corp. made a joint announcement highlighting the receipt of all necessary shareholder approvals in connection with acquisition of EXTN by EFX, establishing a global provider of energy infrastructure and energy transition solutions.

Prior to the respective shareholder votes, EFX secured committed financing for the acquisition with the pro forma debt structure to comprise a private offering of US\$625 mln principal amount of 9.00% senior secured notes due in 2027, a new US\$150 mln three-year secured term loan credit facility and the (previously announced) US\$700 mln three-year secured revolving credit facility (with ~US\$227 mln expected to be drawn upon transaction closing). In conjunction with cash on hand, the financing will be used to fully repay existing EFX and EXTN notes and facilities (to be replaced by the new debt capital structure). With the acquisition completed, we maintain our positive outlook for the pro forma entity, expected to offer enhanced scale and a more global presence, improved efficiency and an increased proportional representation of revenue and gross margin from recurring revenue sources. With Exterran's contract operations focused on gas processing/treatment and water solutions, the combination will round out the combined entity's rental offerings while potentially driving higher EBITDA margins relative to EFX as a standalone company (with water solutions and gas processing relatively higher margin vs. compression rentals). **We reiterate our Outperform rating and \$10.75 target driven by an unchanged 5.5x 2023e EV/EBITDA multiple (vs. EFX's historical forward year EV/EBITDA average of 6.4x and EXTN's historical forward year EV/EBITDA average of 5.2x).**



	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/31	EBITDA (mln)			EV/EBITDA			Net Debt/ EBITDA 2022e	12-Mth Price		
							2021	2022e	2023e	2021	2022e	2023e		Target	Return	Δ
Ag Growth International Inc.	AFN	OP		658.9	18.9	34.90	176.3	219.9	237.7	8.5	7.0	6.4	4.0	52.00	51%	
AirBoss of America Corp.	BOS	OP		194.0	27.1	7.16	80.3	41.8	48.1	2.8	5.8	8.5	2.4	15.00	115%	↓
CES Energy Solutions Corp.	CEU	OP		735.2	256.2	2.87	156.2	245.0	250.0	7.3	4.9	5.0	1.9	3.85	36%	↑
Enerflex Ltd.	EFX	OP		632.5	89.9	7.04	140.0	237.3	471.8	6.0	9.4	4.6	2.9	10.75	54%	
good natured Products Inc.	GDNP	OP		59.1	223.2	0.27	-0.1	3.9	7.9		26.1	14.4	0.0	1.25	372%	
Mullen Group Ltd.	MTL	OP		1270.7	92.8	13.69	218.7	340.3	300.2	8.5	5.2	5.5	1.4	18.00	37%	
Pason Systems Corp.	PSI	SP		1188.4	82.1	14.47	72.5	141.4	161.9	14.2	6.9	5.8	-1.5	19.00	34%	
Shawcor Ltd.	SCL	OP		701.4	70.6	9.94	100.8	122.5	229.7	9.1	7.2	3.9	1.5	12.00	21%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF



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## Overview

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

## Carbon Market Overview

### ► Compliance and Voluntary Markets

Carbon prices have risen at considerable rates, inclusive of all regions and systems since inception. The rise in prices has largely been attributable to enhanced government ambitions to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization (i.e., European Union's "Fit for 55" ambition). However, as of late, inflation and recessionary fears alongside heightened commodity prices, which has accelerated concerns around demand destruction has affected the niche market, in-step with broader equity market sentiment. With that, we choose to look past the noise as not only are governments legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems and concurrently reducing the supply of allowances, which should in due time, lead to higher carbon prices.

Starting with the most liquid carbon market, the European Emission Allowances (EUA) active contract closed the month of September at levels of €66 (US\$65). Overall, on average, EUAs were down -20% this past month (m/m) and remain in contango with the Dec 23 - Dec 22 spread reflecting €2.95. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which

started trading at the end of May 2021, closed at £75 (US\$84) at the end of September and are up -11% m/m but up +70% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US\$13 and are down -2% m/m but up 5-10% y/y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at US\$27 and slumped downwards -10% m/m; while reflecting a similar pullback of -5-10% y/y.

Finally, we highlight the Voluntary Global Emission Offsets (GEO) active futures, which closed the month at US\$4 and notably bucked the trend of the previous month gaining 5% m/m, whereas the Nature-based Global Emissions Offset (N-GEO) active future closed at US\$8 and moved upwards 6% m/m but down -30% y/y.

## Monthly Highlights

### ► *Combatting Greenwashing With Mandatory (Scope) Disclosures*

Late last month, the International Sustainability Standards Board (ISSB) announced that it has voted unanimously to require company disclosures on Scope 1, Scope 2 and Scope 3 greenhouse gas emissions - meaning direct, indirect and supply chain/upstream/downstream emissions will be captured. Concurrently, the ISSB also confirmed the use of the Task Force on Climate-related Financial Disclosures (TCFD) architecture as the basis for its standards. The aim is to complete deliberations on the proposed standards near the end of 2022, with a view to issue the final standards in 2023 (early as possible).

In our view, this announcement is accompanied by positive undertones in providing a more fulsome picture of corporate emissions and will help in preventing greenwashing, but one that is not without risks provided the uncertainty and difficulty in measuring and assessing, quantifying and disclosing Scope 3 of the emissions profile. Overall, we continue to see rules and regulations evolving in the longer term in ultimately capturing Scope 3 emissions and continue to view the ISSB manifesting as the global standard baseline for sustainability disclosures. With that, we note that a close eye will need to be kept on interoperability risk and opportunities as jurisdictions (i.e., EU, U.S.) are pressing forward with their own respective sets of rules and regulations.

# Healthcare, Biotech & Special Situations



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## Selections

- › [dentalcorp Holdings](#)
- › [DRI Healthcare Trust](#)
- › [Jamieson Wellness](#)

## Highlights as of October 2022

We highlight our assessment of a potentially severe '22/'23 flu season in Canada driving incremental opportunities for Jamieson Wellness (TSX: JWEL) and our takeaways from NBF hosted investors meeting with dentalcorp's (TSX: DNTL) senior management.

### ▶ Jamieson Wellness

As North America heads into winter, along with it, likely comes the flu. Experts often look at Australia for early signals and the '22 flu season in Australia was severe. We looked at historical flu seasons for both countries, finding a significant correlation and that the severity in Canada has corresponded to that of Australia in eight of the last 10 years.

Looking at flu vaccine effectiveness, we found that vaccines reduce the risk of illness by 40%-60% when well-matched to circulating viruses. However, overall flu vaccine effectiveness has been in that range in only nine of the last 17/18 years, while the average efficacy of 38% is below the range.

We also looked at the role (using peer-reviewed publications) that VMS play in respiratory infection illnesses (flu, common cold) finding that, specifically, vitamin C, zinc and Echinacea extracts can have a modest effect/are beneficial preventing and/or shortening the duration of respiratory infections. However, evidence is mixed for vitamin D.

As 1) the likelihood of a severe '22/'23 flu season in Canada is high; 2) average flu vaccine effectiveness is ~38%; and 3) supplements can help with respiratory infections, JWEL seems well-positioned to serve a potentially higher immunity demand this winter.

### ▶ dentalcorp

On October 12, 2022, NBF hosted DNTL's senior management team for investor meetings with discussions focused on the company's 1) Existing operations; 2) M&A outlook; and 3) Leverage

Existing operations: ops have improved of late due to fewer Covid cases and a significant easing of restrictions (fallow times). However, some impact will likely persist due to cancellations from the public's heightened attention to any respiratory infection symptoms alongside a potential strong flu season. Nevertheless, demand remains robust and the company est. a 4% - 5% rev upside (vs. Q2/22 levels) on full normalization with a reiterated 3% - 4% organic growth range longer term/steady state.

M&A: DNTL has had a busy H1/22 due to an opportunity to acquire mid-sized platforms but also likely because of increased acquisition activity by now-merged competitors - the latter drove an increase in multiples that are expected to normalize in early 2023. DNTL remains committed to acquiring \$30 - \$40 mln per year in EBITDA focusing on Canada given numerous opportunities.

Leverage: DNTL is not concerned with its relatively elevated leverage (4.2x net debt to Q2/22 TTM EBITDA) given dentistry's stable nature (we agree) and significantly higher leverage (as high as 7x) for private peers. DNTL has a target debt ratio of 3x-3.5x over the next 36 months.

# Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market	Shares	Stock	Last	FDDCPS			P/DCPS		EBITDA (mln)			EV/EBITDA		Net	Y1 Net	12-Mth	
				Capitalization	O/S	Price	Quarter	(A)	est.	est.	(A)	est.	est.	(A)	est.	est.	Debt	Debt/	Price		
				(Mln)	(Mln)	10/31	Reported	Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2	(Mln)	EBITDA	Target	
				Current	Yield														Δ		
Healthcare and Biotechnology																					
Akumin	AKU	UP		156.65	89.5	1.75u	2/2022	0.0%	(0.56)u	(0.83)u	(0.70)u	nmf	nmf	59.3u	139.0u	144.7u	9.8	9.1	1,198.7u	8.3	0.50u
Andlauer Healthcare Group	AND	OP		2,184.26	41.8	52.22	2/2022	0.5%	1.30	1.73	1.81	30.2	28.8	119.3	167.3	172.2	14.0	13.6	155.8	0.9	59.00
Dialogue Health Technologies	CARE	OP		168.33	66.0	2.55	2/2022	0.0%	(0.39)	(0.35)	0.00	nmf	nmf	(21.2)	(18.6)	4.5	nmf	nmf	-	-	8.50
dentalcorp Holdings	DNTL	OP		1,386.40	182.7	7.59	2/2022	0.0%	(0.21)	0.53	0.68	14.3	11.1	191.8	232.5	289.3	10.9	9.5	1153.1	4.0	15.50
DRI Healthcare Trust	DHT.UT	OP		189.4u	38.7	4.90u	2/2022	6.1%	0.62u	0.67u	0.73u	7.3	6.8	101.2u	79.0u	77.5u	2.7	2.6	46.3u	0.6	9.75u
Jamieson Wellness	JWEL	OP		1,380.15	41.4	33.33	2/2022	2.0%	1.34	1.60	1.84	20.9	18.1	100.1	122.5	148.6	13.6	11.9	364.9	2.5	46.25
Knight Therapeutics	GUD	OP		638.71	115.1	5.55	2/2022	0.0%	0.21	0.29	0.35	11.3	9.4	38.0	53.2	59.7	7.6	6.8	-	-	7.75
Medical Facilities Corp.	DR	SP		295.07	27.0	10.94	2/2022	2.9%	0.96u	0.98u	1.05u	9.0	8.3	63.6u	54.4u	54.4u	6.8	6.6	109.9u	2.4	11.00
Theratechnologies	TH	SP		254.98	95.1	2.68	3/f2022	0.0%	(0.25)u	(0.29)u	(0.02)u	nmf	nmf	(14.6)u	(22.8)u	5.0u	nmf	39.8	-	-	3.25
Special Situations																					
H2O Innovation	HEO	OP		186.32	90.0	2.07	4/f2022	0.0%	0.01	0.13	0.14	16.3	14.3	17.9	22.4	24.9	10.5	10.2	57.2	2.3	3.25
K-Bro Linen	KBL	SP		318.43	10.6	29.90	2/2022	4.0%	2.18	2.32	2.61	12.9	11.4	42.8	43.9	50.1	9.4	8.2	93.6	1.9	36.00
Rogers Sugar	RSI	SP		625.19	104.4	5.99	3/f2022	6.0%	0.33	0.43	0.46	13.9	13.1	91.0	99.6	105.3	9.9	9.4	386.3	3.7	6.00
Chemtrade Logistics Income Fund	CHE.UN	OP		846.47	114.9	7.37	2/2022	8.1%	0.70	1.43	1.26	5.1	5.8	280.4	382.1	352.2	5.0	5.3	1,042.9	3.0	11.00

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

Source: Company Reports, Refinitiv, NBF

u = US Dollars



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### Selections

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

### What happens to Industrials when the yield curve inverts and USD/oil rally concurrently to current (and rare) levels?

Multiples are composed of two streams – risk premia and earnings. YTD, median share price decline for our coverage is -20% vs. TSX and S&P 500 at respective -12% and -22%. There are many inputs into trading multiple gyrations but those types of inferences typically assume static earnings; during a macro dislocation,

one has both multiples compressions AND negative earnings revisions. We zero in on the subsequent earnings/share price impact when the USD and oil spike, while the yield curve inverts.

› **Methodology:** Using U.S. data going back to the 1970s (given much longer time series and greater relevance), we try to triangulate past scenarios with macro conditions similar to today. We see what happens to aggregate earnings when all three economic conditions are met: USD spike (measured as U.S. Dollar Index DXY greater than 95), oil moves materially off trend (greater than 30% y/y change in WTI) and yield curve inverts (10-year T-bill minus two-year is less than -0.25%).

› **Results:** Current conditions do not often happen, but the market EPS decline is consistent across multiple time horizons. In the last 50 years, the above-described conditions happened three times (concurrently – 1981, 1989 and 2000) with negative implications for earnings. Bottom-up consensus is forecasting +8% EPS growth for S&P 500 in 2023 whereas our empirical analysis points to likely an -11% decline. We subsequently looked at share price performance of Industrials, gold, copper, Consumer Staples and Utilities in order to gauge the respective asset classes' resilience. Consumer Staples and Utilities did the best (we also wanted to include them for a sanity check in our empirical analysis); rails held their own. Cyclical names and sectors – namely

equipment OEMs and diversified industrials – underperformed (note that our sample size is small due to paucity of long-dated info). Copper, often referred to as the indicator of economic and industrial intensity in the economy, performed the worst. What's interesting of course is that the most common question we get now from investors is whether the YTD pain has fully discounted a potentially negative macro scenario. Based on our empirical research, earnings have not, yet. And if that's the case, defensive is still the way to go.

› **Bottom line – earnings, overall, likely need to come down:** Calling turning points is never easy; hence, the need to rely on empirical data points which, in all fairness, are not exactly frequent. While we have discussed numerous times this year that Industrials is not the place you want to be in (Consumer Staples/Utilities are while rails and waste exhibit more defensive characteristics within the broader Industrial space), for long-only investors, they need to own something. And the only thing we can therefore recommend is to prioritize quality over torque. In our [Q3/22E Industrial Products positioning](#), we highlighted STN, WSP, ATA and CIGI as the core group that should carry investors post the proverbial trough. Note, of course, that even though share prices have declined YTD across the board, Street forecasts have not even started to decline when it comes to 2023E. We presume a more productive bottom-fishing exercise is still ahead of us.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 10/31	Market Cap (\$mln)	Last Year Reported	EPS			P/E		EBITDA (mln)			EV/EBITDA		Div. Yield	Net debt/ FY1 EBITDA
									(A) Last FY	est. FY1E	est. FY2E	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2		
Aecon Group	ARE	SP		\$13.00		\$9.66	\$589	12 - 2021	\$0.71	\$0.23	\$0.44	19.6x	15.3x	\$230	\$207	\$220	5.3x	4.9x	7.7%	1.9x
Bird Construction Inc.	BDT	OP		\$9.00		\$6.14	\$330	12 - 2021	\$0.95	\$0.70	\$0.94	8.8x	6.5x	\$101	\$86	\$108	3.9x	3.1x	6.4%	0.1x
Fanning International Inc.	FTT	OP		\$40.00		\$28.97	\$4,513	12 - 2021	\$2.18	\$2.86	\$2.81	10.1x	10.3x	\$855	\$1,028	\$1,031	6.1x	6.1x	3.3%	1.7x
North American Construction Group Ltd.	NOA	OP		\$22.00	↑	\$17.01	\$456	12 - 2021	\$2.06	\$2.03	\$2.16	8.4x	7.9x	\$207	\$223	\$241	3.9x	3.6x	1.9%	1.8x
Ritchie Bros. Auctioneers	RBA	UP		US\$60.00		US\$65.33	\$7,236	12 - 2021	US\$1.64	US\$2.02	US\$2.20	32.3x	29.7x	US\$359	US\$423	US\$449	17.9x	16.9x	1.5%	0.7x
SNC-Lavalin	SNC	OP		\$39.00	↓	\$23.59	\$4,141	12 - 2021	\$1.31	\$1.29	\$1.72	10.6x	7.8x	\$437	\$492	\$589	8.0x	6.6x	0.3%	3.0x
Stantec Inc.	STN	OP		\$70.00		\$66.66	\$7,392	12 - 2021	\$2.38	\$2.94	\$3.30	22.7x	20.2x	\$439	\$564	\$595	15.4x	14.6x	1.1%	2.2x
Toromont Industries Ltd.	TIH	SP		\$109.00		\$104.70	\$8,631	12 - 2021	\$4.00	\$4.73	\$4.91	22.1x	21.3x	\$634	\$715	\$744	12.0x	11.5x	1.5%	net cash
WSP Global	WSP	OP		\$181.00		\$167.44	\$19,765	12 - 2021	\$5.08	\$5.70	\$6.43	29.4x	26.0x	\$1,044	\$1,231	\$1,453	17.0x	14.4x	0.9%	1.0x
AutoCanada	ACQ	SP		\$37.00		\$21.26	\$592	12 - 2021	\$4.16	\$4.62	\$4.50	4.6x	4.7x	\$195	\$232	\$212	4.0x	4.4x	0.0%	1.4x
Stelco	STLC	SP		\$44.00	↓	\$34.31	\$2,478	12 - 2021	\$20.42	\$12.39	\$4.08	2.8x	8.4x	\$2,055	\$1,256	\$436	1.0x	2.8x	3.5%	net cash
ATS Automation	ATA	OP		\$55.00		\$43.10	\$3,973	12 - 2021	\$2.17	\$2.36	\$2.51	18.3x	17.2x	\$318	\$378	\$399	12.9x	12.2x	0.0%	2.3x
ABC Technologies	ABCT	SP		\$5.00		\$5.06	\$386	12 - 2021	-\$0.22	-\$0.56	\$0.13	-7.1x	30.2x	\$133	\$46	\$150	15.0x	4.6x	3.0%	8.3x
Colliers International	CIGI	OP		US\$166.00		US\$93.94	\$4,139	12 - 2021	US\$6.18	US\$7.52	US\$8.11	12.5x	11.6x	US\$544	US\$657	US\$727	8.5x	7.7x	0.3%	0.7x
Stella-Jones	SJ	OP		\$51.00		\$41.03	\$2,556	12 - 2021	\$3.55	\$3.81	\$3.85	10.8x	10.7x	\$367	\$386	\$390	8.8x	8.7x	1.9%	2.1x
<b>Median</b>												<b>10.8x</b>	<b>11.6x</b>				<b>8.5x</b>	<b>6.6x</b>	<b>1.5%</b>	

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

› *Loblaws*

### MTY Food Group Inc. (MTY: TSX)

- ▣ Q3/F22 adj. EBITDA was \$50.6 mln, in line with NBF/cons. at \$49.4 mln/\$50.0 mln; LY was \$49.7 mln

EBITDA was largely in line with expectations; higher system sales were mostly offset by heightened costs. Systems sales of \$1,105 mln were ahead of our view of \$1,084 mln; last year was \$1,016 mln. Canada system sales were up 16% y/y, International was up 17% y/y and the U.S. was up 3% y/y. Revenue was \$171.5 mln vs NBF at \$165.2 mln; last year was \$150.8 mln.

- ▣ Trends remain solid post quarter

Despite macroeconomic concerns, MTY noted that trends were consistent through the quarter; traffic remained resilient post quarter, though price sensitivity remains heightened. MTY opened 63 new locations during Q3/F22; however, store closures of 117 (58% street front; 21% malls/office towers; 21% other non-traditional formats) were higher than expected. A significant number of stores (>150) are under construction due to extended timelines (longer permitting, longer inspections, supply chain).

- ▣ Capital allocation in focus; Maintaining our view

MTY's balance sheet remains adequate; management previously indicated pro forma leverage of 2.4x after the BBQ acquisition (excl. leases). As target valuations are improving, MTY's priority for capital allocation will shift back to M&A while remaining financially prudent. We consider resumption of acquisition growth to be a key driver for MTY. We remain constructive on MTY given attractive valuation, expectations of improving operational performance (digital sales, menu innovation, marketing, data analytics) and supportive capital allocation outcomes such as acquisitions. That said, we also acknowledge heightened risk related to inflation, supply chain, labour and general macroeconomic concerns.

- ▣ Maintain Outperform Rating; Price Target is \$63

We value MTY at 9.0x (from 9.5x) our F23/F24 EBITDA.



# Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Market Cap. Δ (Mln)	Shares O/S (Mln)	Stock Price 10/31	Last Year Reported	FDEPS			P/E		EBITDA			EV/EBITDA		Book Value	Debt/ Total Capital	12-Mth Price Target		Δ
							(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2					
General Merchandise																					
Canadian Tire	CTC.a	OP	9,108	59.6	152.69	12/2021	18.91	18.24	19.23	8.4	7.9	2,667	2,579	2,662	5.2	5.0	87.15	0.45	196.00	↓	
Dollarama	DOL	OP	23,651	292.2	80.95	01/2022	2.18	2.68	3.14	30.2	25.8	1,283	1,475	1,611	18.7	17.1	-0.42	1.03	86.00		
Fuel and Other																					
Couche Tard	ATD.b	OP	62,659	1,027.2	61.00	04/2022	2.60	2.89	2.97	15.5	15.1	5,266	5,451	5,347	9.4	9.6	12.09	0.36	68.00		
Parkland Fuel Corporation	PKI	OP	4,319	156.8	27.54	12/2021	2.45	3.14	3.04	8.8	9.0	1,260	1,625	1,658	6.3	6.2	15.59	0.71	38.00	↓	
Apparel																					
Gildan	GIL	OP	7,991	185.9	42.99	12/2021	2.73	3.18	3.24	9.9	9.8	727	781	796	8.3	8.2	10.02	0.31	45.00	↑	
Grocers																					
Empire Company	EMP.a	OP	9,205	263.0	35.00	05/2022	2.80	2.91	3.21	12.0	10.9	2,331	2,374	2,440	6.7	6.6	19.20	0.57	40.00		
Loblaw	L	OP	37,326	334.4	111.62	12/2021	5.59	6.60	7.15	16.9	15.6	5,587	6,027	6,194	7.2	7.0	33.91	0.35	126.00	↓	
Metro	MRU	SP	17,136	240.1	71.37	09/2021	3.44	3.81	4.17	18.7	17.1	1,106	1,121	1,153	19.0	18.5	27.57	0.27	75.00		
Food Manufacturer																					
Saputo	SAP	OP	13,832	417.1	33.16	03/2022	1.17	1.63	1.98	20.4	16.7	1,155	1,498	1,722	11.9	10.4	15.7	0.38	39.00		
Lassonde	LAS.a	OP	814	6.9	117.59	12/2021	11.18	9.53	12.29	12.3	9.6	178	161	191	6.4	5.4	125.5	0.20	141.00		
Premium Brands Holdings	PBH	OP	3,594	44.7	80.37	12/2021	4.47	5.21	6.01	15.4	13.4	431	508	588	11.8	10.2	40.1	0.57	125.00	↓	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP	837	37.3	22.42	12/2021	2.66	3.14	3.37	7.1	6.6	211	231	240	5.1	4.9	10.94	0.46	35.00	↓	
Pet Valu	PET	SP	2,634	71.8	36.69	12/2021	1.02	1.57	1.66	23.4	22.1	182	210	225	14.4	13.4	0.00	1.14	42.00		
Restaurants																					
MTY Food Group	MTY	OP	1,349	24.4	55.22	11/2021	3.46	3.64	4.52	15.2	12.2	169	179	223	9.2	7.4	27.05	0.31	63.00	↓	
Online Grocery																					
Goodfood Market	FOOD	SP	↓	24	75.0	0.33	08/2021	(0.45)	(0.99)	(0.52)	NA	NA	(15)	(43)	(12)	NA	NA	0.60	0.58	0.75	↓

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.



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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 copper price is below \$3.50 and the market outlook on prices is pessimistic. We expect continued price volatility arising from competing supply-demand forecasts caused by global inflation and recession fears, in contrast to reduced COVID restrictions in China and supply disruptions throughout LatAm.

In our view, long-term fundamentals remain driven by a lack of an advanced stage project pipeline building a 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 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, Zafrañel and San Nicolás, underpin Teck's organic copper growth strategy as demand is set to peak as the world advances decarbonization efforts. In the event of further erosion of commodity prices, Teck has the ability to conserve its balance sheet and generate positive FCF yield, even in the event of a 15% decrease in commodity prices.

#### ► **First Quantum (FM: TSX)**

Remains a 'go-to' copper producer given its high-quality asset base, low AISC and one of the most robust project pipelines (including Cobre-Panamá, 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	Shares	Stock	12-Month			Analyst	EPS			P/E		CFPS			P/CF		Net	P/NAV
				Cap	O/S	Price	Price	Target	Δ		FY0	FY1	FY2	FY0	FY1	FY2	FY1	FY2	Asset			
				(Mln)	(Mln)	10/31													Value			
Producers																						
Capstone Copper	CS	SP	-	2,167	690.2	3.14	4.50	↑	Nagle	0.07u	0.60u	0.07u	4.0x	45.2x	0.34u	0.93u	0.32u	2.5x	7.5x	5.17	0.6x	
Copper Mountain Mining	CMMC	OP	↑	396	213.8	1.85	3.25	↑	Nagle	0.11u	0.62u	0.16u	3.0x	11.9x	0.61u	1.53u	0.41u	1.2x	4.5x	3.89	0.5x	
Ero Copper	ERO	SP	-	1,445	90.7	15.94	17.50	↑	Nagle	1.34u	2.44u	1.24u	4.9x	12.9x	2.02u	3.17u	2.10u	3.8x	5.7x	17.03	0.9x	
First Quantum Minerals	FM	OP	-	17,103	692.4	24.70	30.00	↓	Nagle	(0.07)u	1.20u	1.50u	15.5x	16.5x	2.64u	4.22u	3.74u	4.4x	5.0x	27.39	0.9x	
Hudbay Minerals	HBM	SP	-	1,391	261.9	5.31	7.50	↓	Nagle	(0.44)u	0.23u	0.12u	17.2x	43.0x	0.93u	1.87u	1.68u	2.1x	2.4x	8.37	0.6x	
Lundin Mining	LUN	SP	-	5,619	771.8	7.28	8.25	↓	Nagle	0.31u	1.11u	0.46u	4.9x	15.9x	1.00u	2.11u	1.20u	2.6x	4.6x	9.07	0.8x	
Sherritt International	S	SP	-	175	397.3	0.44	0.80	↑	Nagle	(0.37)u	(0.03)u	0.26u	n/a	1.7x	0.09u	(0.11)u	0.18u	n/a	1.8x	1.61	0.3x	
Taseko Mines	TKO	SP	-	444	286.4	1.55	2.00	↑	Nagle	(0.11)c	0.16c	0.03c	9.8x	48.7x	0.44c	0.73c	0.26c	2.1x	6.0x	3.64	0.4x	
Teck Resources	TECKb	OP	-	21,259	501.2	42.42	56.00	↑	Nagle	1.05c	5.74c	9.49c	7.4x	4.5x	3.38c	10.54c	15.49c	4.0x	2.7x	38.42	1.1x	
Developers																						
Adventus Mining	ADZN	OP	-	49	166.4	0.30	0.80	↓	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.11	0.3x	
Arizona Metals	AMC	OP	-	391	111.8	3.50	7.00	↓	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.69	0.4x	
Bravo Mining	BRVO	OP	-	172	101.0	1.70	2.50	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.17	0.5x	
Filo Mining	FIL	OP	-	1,995	122.2	16.32	30.00	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	40.32	0.4x	
Foran Mining	FOM.V	OP	-	520	239.7	2.17	3.30	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.55	0.5x	
Solaris Resources	SLS.TO	OP	-	566	115.3	4.91	14.00	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.14	0.3x	
Trilogy Metals	TMQ	SP	-	112	145.5	0.77	1.15	↓	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.97	0.4x	
Sigma Lithium	SGML	OP	-	3,606	100.4	35.90	27.00	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	30.82	1.2x	
Lithium Americas	LAC	OP	-	4,351	120.1	36.24	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	0.6x	

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

u = US dollars; c = Canadian dollars

# Metals & Mining: Precious Metals


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## Watch for Changes in the Real Rate

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

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

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

We believe the companies that are most likely to out-perform are those with: (1) management teams with solid track records of executing on guidance, (2) strong balance sheets, (3) encouraging Y/Y guidance with growth in production and/or declining costs, (4) well-funded projects, and (5) a catalyst-packed calendar.

## Selections

### Gold/Silver Producers:

- › *Alamos Gold Inc.* (AGI: TSX; C\$13.00 target)
- › *Aya Gold & Silver Inc.* (AYA: TSX; C\$10.75 target)
- › *Endeavour Mining plc* (EDV: TSX; C\$35.75 target)
- › *Kinross Gold Corp.* (K: TSX; C\$9.25 target)
- › *K92 Mining Inc.* (KNT: TSX; C\$11.00 target)
- › *Pan American Silver Corp.* (PAAS: TSX; C\$31.50 target)

### Royalties:

- › *Osisko Gold Royalties Ltd* (OR: TSX; C\$22.00 target)

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/31	12-Month			Analyst	EPS			P/E		CFPS			P/CF		Net Asset Value	P/NAV
							Price	Δ	FY0		FY1	FY2	FY1	FY2	FY0	FY1	FY2	FY1	FY2			
Senior Producers (>1 Moz production)																						
Agnico-Eagle Mines Ltd	AEM	OP	-	27,324	455.93	59.93	75.00	↑	Parkin	2.40u	2.34u	1.78u	18.7x	24.6x	6.51u	5.04u	4.72u	8.7x	9.3x	49.57	1.21x	
Barrick Gold	ABX	SP	-	35,996	1,756.74	20.49	25.00	↓	Parkin	1.12u	0.78u	0.71u	19.1x	21.1x	2.61u	2.21u	2.13u	6.8x	7.0x	26.20	0.78x	
Kinross Gold Corp	K	OP	-	5,862	1,186.61	4.94	9.25	↑	Parkin	0.77u	0.20u	0.26u	17.6x	13.7x	0.76u	0.75u	1.06u	4.8x	3.4x	10.78	0.46x	
Newmont	NGT	OP	-	45,732	793.68	57.62	79.00	-	Parkin	2.96u	1.90u	2.15u	22.2x	19.5x	6.02u	5.25u	5.26u	8.0x	8.0x	63.40	0.91x	
Royalty Companies																						
Franco-Nevada Corp	FNV	SP	-	32,538	191.6	169.86	190.00	↓	Nagle	2.72u	3.53u	3.57u	36.2x	47.6x	4.22u	5.21u	4.97u	24.5x	25.7x	73.27	2.32x	
Maverix Metals Inc	MMX	SP	-	646	147.4	4.38	6.00	↓	Nagle	0.12u	0.12u	0.11u	36.5x	38.8x	0.29u	0.29u	0.25u	15.3x	17.3x	4.79	0.92x	
Osisko Gold Royalties Ltd	OR	OP	-	2,710	183.7	14.75	22.00	↑	Nagle	0.26u	0.57u	0.53u	26.1x	27.7x	0.65u	1.03u	1.12u	14.3x	13.2x	14.62	1.01x	
Royal Gold Inc	RGLD	SP	-	6,337	65.6	96.65u	125.00u	↓	Nagle	2.91u	4.02u	3.21u	24.0x	30.1x	6.28u	7.06u	5.86u	10.3x	12.4x	59.18	1.63x	
Sandstorm Gold Ltd	SSL	OP	-	2,051	303.0	6.77	10.50u	↓	Nagle	0.11u	0.17u	0.16u	29.9x	42.3x	0.36u	0.43u	0.42u	11.8x	12.1x	7.28	0.93x	
Triple Flag Precious Metals Corp	TFFM	SP	-	2,401	156.0	15.39	21.00	-	Nagle	0.20u	0.39u	0.39u	29.7x	39.5x	0.78u	0.80u	0.78u	14.5x	14.8x	13.32	1.16x	
Wheaton Precious Metals Corp	WPM	OP	-	20,516	451.7	45.42	60.00	↓	Nagle	1.10u	1.31u	1.07u	26.1x	42.4x	1.71u	1.90u	1.59u	18.0x	21.5x	24.99	1.82x	
*Carbon Streaming Corp.	NETZ	OP	-	153	46.8	3.26	7.50	-	Aganga	0.00u	(0.46)u	(0.21)u	n/a	n/a	0.00u	#N/A	(0.19)u	10.7x	n/a	3.62	0.90x	
Intermediate Producers (>250 Koz production)																						
Alamos Gold Inc	AGI	OP	-	4,219	392.44	10.75	13.00	↑	Parkin	0.41u	0.25u	0.25u	30.8x	31.7x	1.05u	0.89u	0.89u	8.8x	8.8x	13.03	0.83x	
B2Gold	BTO	OP	-	4,461	1,072.3	4.16	7.00	↓	DeMarco	0.36u	0.19u	0.33u	21.4x	12.6x	0.68u	0.57u	0.74u	7.3x	5.6x	4.54	0.92x	
Centerra Gold Inc	CG	OP	-	1,288	203.48	6.33	11.00	↑	Parkin	0.62u	(0.18)u	0.74u	-25.5x	6.3x	1.43u	0.18u	1.47u	25.9x	3.1x	12.96	0.49x	
Dundee Precious Metals	DPM	OP	-	1,179	190.8	6.18	8.75	↓	DeMarco	1.03u	0.65u	0.37u	9.5x	16.7x	1.66u	1.17u	1.06u	5.3x	5.9x	10.16	0.61x	
Eldorado Gold Corp	ELD	OP	-	1,406	184.73	7.61	13.50	↓	Parkin	(0.15)u	0.10u	0.42u	73.8x	18.2x	2.06u	1.23u	1.79u	4.5x	3.1x	21.01	0.36x	
Endeavour Mining	EDV	OP	-	6,020	248.4	24.23	35.75	↓	DeMarco	2.42u	1.50u	1.04u	16.2x	23.3x	4.75u	4.37u	3.44u	5.5x	7.0x	29.78	0.81x	
Equinox Gold Corp	EQX	SP	-	1,370	305.1	4.49	5.00	↓	Parkin	0.21u	(0.30)u	(0.24)u	n/a	n/a	0.79u	0.30u	0.30u	14.9x	15.0x	6.17	0.73x	
IAMGOLD Corp	IMG	SP	-	958	478.90	2.00	2.25	↓	Parkin	0.02u	(0.02)u	0.08u	-96.6x	18.3x	0.61u	0.78u	0.45u	1.9x	3.3x	4.43	0.45x	
Lundin Gold Inc.	LUG	SP	-	2,312	234.9	9.84	11.00	↓	DeMarco	1.07u	0.63u	0.41u	15.7x	23.8x	1.58u	1.63u	1.23u	6.0x	8.0x	12.25	0.80x	
New Gold Inc	NGD	SP	-	839	682.30	1.23	1.60	↑	Parkin	0.32u	(0.03)u	(0.06)u	n/a	n/a	0.47u	0.21u	0.23u	4.4x	4.0x	1.61	0.76x	
OceanaGold Corp	OGC	OP	-	1,394	704.21	1.98	3.25	↓	Parkin	0.20u	0.18u	0.12u	11.2x	16.1x	0.47u	0.51u	0.47u	2.8x	3.1x	3.09	0.64x	
SSR Mining Inc	SSRM	SP	-	3,974	211.84	18.76	23.50	-	Parkin	1.32u	0.97u	1.39u	14.1x	9.9x	2.74u	1.98u	1.50u	6.9x	9.1x	26.03	0.72x	
Yamana Gold Inc	YRI	T	-	5,747	960.97	5.98	6.75	↓	Parkin	0.34u	0.23u	0.18u	18.6x	23.7x	0.76u	0.71u	0.68u	6.1x	6.4x	6.04	0.99x	
Torex Gold Resources Inc	TXG	SP	-	797	85.84	9.28	15.00	↓	DeMarco	2.36u	1.84u	0.85u	5.0x	10.9x	4.27u	4.12u	3.22u	2.3x	2.9x	20.15	0.46x	
Silver Producers																						
Aya Gold and Silver	AYA	OP	-	830	105.1	7.90	10.75	↑	DeMarco	0.05u	0.00u	(0.05)u	5607.9x	-	0.11u	0.09u	0.03u	86.3x	296.0x	7.23	1.09x	
First Majestic Silver Corp	FR	SP	-	3,010	262.7	11.46	13.00	↑	DeMarco	0.05u	(0.16)u	0.14u	-	80.8x	0.39u	0.24u	1.15u	47.8x	10.0x	5.13	2.23x	
Fortuna Silver Mines Inc	FVI	SP	-	1,106	291.9	3.79	4.75	↑	DeMarco	0.45u	0.15u	0.27u	24.6x	14.0x	0.79u	0.71u	0.90u	5.3x	4.2x	4.29	0.88x	
Pan American Silver	PAAS	OP	-	4,579	210.5	21.75	31.50	↓	DeMarco	0.77u	(0.05)u	0.32u	-	68.8x	2.21u	1.19u	1.86u	18.2x	11.7x	15.37	1.42x	
Junior Producers (<250 Koz production)																						
Aris Mining Corp.	ARIS	OP	-	389	136.1	2.86	5.50	↓	DeMarco	(0.03)u	0.52u	1.06u	5.5x	2.7x	1.35u	1.27u	2.18u	2.3x	1.3x	7.21	0.40x	
K92 Mining Inc.	KNT	OP	-	1,402	226.5	6.19	11.00	↑	DeMarco	0.10u	0.23u	0.29u	26.4x	21.3x	0.27u	0.34u	0.39u	18.2x	15.9x	11.01	0.56x	
Minera Alamos Inc.	MAI	OP	-	173	448.5	0.39	0.80	-	Nizami	0.01u	(0.00)u	0.05u	n/a	7.3x	0.00u	(0.01)u	0.06u	-	6.3x	1.08	0.36x	
Wesdome Corp.	WDO	OP	-	1,164	142.5	8.17	14.50	↓	DeMarco	0.47u	0.17u	0.60u	47.3x	13.7x	0.78u	0.35u	0.95u	23.3x	8.6x	9.64	0.85x	
Developers																						
AbraSilver Resource Corp	ABRA	OP	-	201	483.2	0.42	0.60	↑	DeMarco	(0.00)u	(0.03)u	(0.02)u	-	-	(0.01)u	(0.03)u	(0.02)u	-	-	0.48	0.48x	
Artemis Gold Inc.	ARTG	OP	-	577	154.2	3.74	8.00	↓	DeMarco	(0.05)u	(0.05)u	(0.05)u	-	-	(0.08)u	(0.07)u	(0.05)u	-	-	10.59	10.59x	
G Mining Ventures	GMIN	OP	-	291	447.5	0.65	1.55	↓	Nizami	(0.04)u	(0.02)u	(0.02)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	0.82	0.80x	
Integra Resources Corp.	ITR	OP	-	59	80.0	0.74	1.00	↓	Nizami	(0.54)u	(0.72)u	(0.28)u	n/a	n/a	(0.50)u	(0.67)u	(0.25)u	-	-	1.28	0.58x	
Liberty Gold Corp	LGD	OP	-	106	316.8	0.34	0.90	↓	Nizami	0.03u	(0.11)u	(0.07)u	n/a	n/a	(0.05)u	(0.08)u	(0.09)u	-	-	1.12	0.30x	
MAG Silver Corp	MAG	OP	-	1,787	98.7	18.10	24.50	↑	DeMarco	(0.07)u	0.90u	0.00u	20.1x	-	(0.04)u	0.60u	1.76u	30.3x	10.3x	19.68	0.92x	
Marathon Gold Corp.	MOZ	OP	-	215	255.8	0.84	2.00	↓	DeMarco	(0.02)u	(0.02)u	(0.04)u	-	-	(0.02)u	(0.02)u	(0.03)u	-	-	1.95	0.43x	
NOVAGOLD Resources Inc.	NG	OP	-	1,933	333.3	5.80	10.00	↑	Parkin	(0.12)u	(0.14)u	(0.10)u	n/a	n/a	(0.04)u	(0.03)u	(0.03)u	-	-	12.56	0.46x	
O3 Mining Inc.	OIII	OP	-	82	68.4	1.20	2.25	↓	DeMarco	(0.20)u	(0.03)u	(0.05)u	-	-	(0.20)u	(0.06)u	(0.05)u	-	-	2.88	0.42x	
Osisko Development	ODV	OP	-	411	73.4	5.60	8.25	↓	DeMarco	-	-	0.62u	-	9.1x	(0.04)u	-	0.59u	-	9.5x	10.87	0.52x	
Osisko Mining	OSK	OP	-	992	349.4	2.84	3.75	↓	DeMarco	(0.03)u	(0.03)u	(0.03)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	4.92	0.58x	
Sabina Gold and Silver Corp.	SBB	OP	-	609	548.4	1.11	2.00	-	DeMarco	(0.00)u	(0.00)u	(0.00)u	-	-	0.00u	(0.00)u	(0.00)u	-	-	2.57	0.43x	

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

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

Source: Company Reports, NBF Estimates, Refinitiv

u = US dollars; c = Canadian dollars

## Intermediate Oil & Gas and Oilfield Services



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## Large Cap Oil & Gas



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## Selections

- › *Cenovus*
- › *Tourmaline*

## Crude Oil Outlook

Oil prices improved gradually over October as prompt WTI finished the month averaging ~US\$87/bbl, up ~US\$3/bbl month-over-month. In response to a position that the paper markets were not properly reflecting the true tightness of the physical market, in early October, OPEC+ made an announcement proposing 2 mmbbl/d of output cuts through December 2023. While a large portion of this cut is to quotas and not output itself, it has been suggested that this cut still takes approximately ~1 mmbbl/d of production offline. This news and additional colour they provided outlining the need for adequate spare capacity to respond to supply disruptions, helped prop up crude prices, as OPEC+ has indicated to the market that they are unwilling to see prices drop too low given current supply issues. In response, the U.S. announced that it will evaluate additional tools to rein in energy prices, including further SPR releases and changes to anti-trust acts as it relates to OPEC+. This emphatic response is likely driven by the upcoming midterm elections taking place in mid-November, where the Biden administration is likely trying to position itself as making progress on affordability in the face of sky-high inflation. While hopefully just a cruel trick-or-treat, on October 31st, Biden also announced that he will be floating the idea for a potential windfall tax on U.S. energy producers. One other topic of note is the wide-open WCS differentials Canadian producers experienced in October as WCS was discounting ~US\$27/bbl, on average. While previously the WCS differential was related to egress capacity issues north of the border, this large basis was driven largely by factors outside of Canada including sour barrels released from the SPR, Russian barrels displacing heavy crudes around the world and fall refinery turnarounds. Given that all of these headwinds should begin to subside in the near term, we anticipate WCS differentials should begin to narrow. While WTI averaged US\$87/bbl in October, backwardation continues to be present with CAL-23 and CAL-24 WTI coming in at \$80/bbl and ~US\$73/bbl, respectively. As reflected in the strong Q3 earnings thus far, the associated equities within our coverage remain attractive. While the mechanisms used have varied, the consistent message we are seeing from producers is the focus on returning cash to shareholders in adherence with their respective frameworks. So far, we have seen dividend bumps, variable dividends and Substantial Issuer Bids (SIB)

announced in the past week as companies continue to meet debt targets and accelerate the return of cash to shareholders.

## Natural Gas Outlook

While still residing in an attractive price range for producers, October saw NYMEX trade down quite significantly from prior month levels, averaging ~US\$6/mmbtu for the month (down from ~US\$8/mmbtu in September). Given that Europe has managed to fill storage levels to greater than ~90% in advance of the winter heating season, and due to an unseasonably warm October in Northern Europe, demand has softened in the short term which has led to European prices decreasing to levels not seen since June. However, even if Europe can get through the winter relatively unscathed from an energy supply perspective, there will be significant demand for LNG exports come springtime to rebuild supply as pipeline imports from Russia will no longer be an option. Prices did manage to ramp up towards the end of October as news of increasing exports (due to the Cove Point LNG maintenance wrapping up) and impending cold weather. AECO prices continued to be extremely volatile as maintenance issues and softer demand led to more molecules being stranded and injected into storage in the basin. On the month, AECO averaged ~US\$2.45/mmbtu, down rather significantly month-over-month. The significant basis continues to curb Canadian producers' ability to take part in these higher prices for those that have not secured egress capacity to non-domestic markets. According to Bentek, total U.S. production is estimated to have increased to 97.2 Bcf/d in October (from 96.3 Bcf/d in September). Additionally, LNG exports were down slightly to 11.3 Bcf/d in October from 11.4 Bcf/d in September, and as expected, given the seasonality of gas usage, overall demand was estimated at 90.6 Bcf/d, down from 90.8 Bcf/d in September.

**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 it to optimize well design to lower costs and enhance operational performance. Additionally, the added downstream integration and increased egress capacity will reduce the company's exposure to the WCS differential, while gaining exposure to record refining cracks, which supports our recommendation for Cenovus as a top pick. Our choice of CVE as a top pick is reinforced by its clear return of capital framework, which outlines that CVE will return 100% of FCF to shareholders upon reaching its net debt target of \$4 billion, which we anticipate them hitting by year-end. .

▶ **Tourmaline Oil Corp. (TOU: TSX)**

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



	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2022-10-31	Market Cap. (Mln)	Yield (%)	EV/DACF			Net Debt/ Cash Flow		CFPS - FD			P/CFPS		12-Mth Price		Δ
									act.	est.	est.	2022E	2023E	act.	est.	est.	est.	est.	Target	Return	
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1116.5	\$81.37	\$90,846	4%	7.7x	4.9x	5.5x	0.5x	0.4x	\$11.57	\$17.45	\$15.02	4.5x	5.3x	\$88.00	12%	
Cenovus Energy	CVE	OP		Wood	1891.4	\$27.20	\$51,446	2%	8.1x	4.4x	3.5x	0.2x	0.1x	\$3.56	\$6.03	\$6.98	4.3x	3.5x	\$36.00	34%	
Imperial Oil	IMO	SP		Wood	606.2	\$73.63	\$44,638	2%	10.2x	5.6x	6.8x	0.2x	0.0x	\$7.17	\$12.69	\$10.40	5.5x	6.9x	\$73.00	1%	
Suncor Energy	SU	SP		Wood	1339.1	\$45.86	\$61,411	4%	7.0x	3.8x	4.2x	0.6x	0.5x	\$6.89	\$12.60	\$11.32	3.5x	3.9x	\$53.00	20%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	178.2	\$10.00	\$1,782	0%	4.2x	4.3x	3.2x	0.3x	0.4x	\$1.18	\$2.31	\$3.20	4.3x	3.1x	\$15.00	50%	
ARC Resources Ltd.	ARX	OP		Wood	624.7	\$18.69	\$11,676	3%	3.4x	3.8x	3.7x	0.5x	0.2x	\$3.86	\$5.19	\$5.30	3.4x	3.5x	\$23.00	26%	
Baytex Energy	BTE	OP		Payne	578.7	\$7.14	\$4,132	0%	3.3x	4.1x	3.1x	0.8x	0.1x	\$1.30	\$2.04	\$2.32	3.5x	3.1x	\$9.00	26%	
Birchcliff Energy	BIR	OP		Payne	275.5	\$9.82	\$2,705	8%	3.3x	2.6x	3.3x	0.0x	-0.4x	\$1.97	\$3.78	\$2.74	2.6x	3.6x	\$13.50	46%	
Crescent Point Energy Corp.	CPG	OP		Wood	549.6	\$10.36	\$5,694	3%	5.2x	2.9x	2.4x	0.5x	0.3x	\$2.57	\$3.96	\$4.53	2.5x	2.2x	\$17.00	67%	
Enerplus Corporation (US\$)	ERF	OP		Wood	217.9	\$16.93	\$3,689	1%	3.8x	3.3x	3.1x	0.3x	0.1x	\$2.73	\$5.21	\$5.44	3.0x	3.0x	\$21.00	25%	
Freehold Royalties	FRU	OP		Wood	150.7	\$16.95	\$2,554	6%	13.8x	8.5x	9.2x	0.4x	0.0x	\$1.39	\$2.05	\$1.82	8.3x	9.3x	\$19.00	18%	
Headwater Exploration	HWX	OP		Payne	237.9	\$7.14	\$1,699	0%	7.9x	5.1x	4.9x	-0.6x	-1.0x	\$0.55	\$1.28	\$1.23	5.6x	5.8x	\$9.50	33%	
Kelt Exploration	KEL	OP		Payne	196.7	\$5.86	\$1,153	0%	4.0x	3.3x	2.8x	-0.1x	-0.3x	\$0.85	\$1.75	\$1.91	3.3x	3.1x	\$9.00	54%	
MEG Energy	MEG	OP		Wood	291.7	\$19.89	\$5,802	0%	8.1x	3.2x	3.8x	0.5x	0.5x	\$2.66	\$6.37	\$5.07	3.0x	3.7x	\$26.00	31%	
NuVista Energy	NVA	SP		Payne	240.7	\$12.97	\$3,121	0%	3.4x	3.6x	3.2x	0.0x	-0.5x	\$1.38	\$3.51	\$3.63	3.7x	3.6x	\$15.00	16%	
Ovintiv Inc (US\$)	OVV	OP		Wood	245.3	\$50.14	\$12,299	2%	5.1x	3.7x	2.7x	0.9x	0.5x	\$12.18	\$15.93	\$20.76	3.0x	2.3x	\$77.00	56%	
Paramount Resources	POU	OP		Payne	149.0	\$28.33	\$4,221	4%	4.9x	3.8x	3.1x	0.2x	-0.1x	\$3.38	\$7.79	\$8.68	3.6x	3.3x	\$40.00	45%	
Peyto Exploration & Development	PEY	OP		Wood	170.4	\$12.00	\$2,045	5%	5.9x	3.8x	3.1x	1.2x	0.7x	\$2.77	\$4.26	\$4.88	2.8x	2.5x	\$17.00	47%	
Pipestone Energy	PIPE	SP		Payne	287.9	\$4.07	\$1,172	0%	4.5x	2.7x	2.0x	0.1x	-0.4x	\$0.59	\$1.52	\$1.71	2.7x	2.4x	\$6.00	47%	
PrairieSky Royalty	PSK	SP		Wood	238.8	\$21.28	\$5,083	5%	20.5x	10.2x	11.9x	0.5x	0.2x	\$1.22	\$2.14	\$1.82	10.0x	11.7x	\$24.00	17%	
Spartan Delta	SDE	OP		Payne	175.1	\$12.16	\$2,129	0%	4.2x	2.7x	2.3x	0.1x	-0.4x	\$2.26	\$4.61	\$4.65	0.0x	0.0x	\$20.00	64%	
Tamarack Valley Energy	TVE	OP		Payne	568.6	\$5.16	\$2,934	3%	4.4x	5.0x	3.1x	1.5x	0.6x	\$0.94	\$1.71	\$1.94	3.0x	2.7x	\$8.00	58%	
Topaz Energy	TPZ	OP		Payne	144.7	\$23.00	\$3,328	5%	17.8x	10.4x	9.2x	1.1x	0.5x	\$1.54	\$2.44	\$2.60	9.4x	8.8x	\$30.00	36%	
Tourmaline Oil	TOU	OP		Payne	343.5	\$74.96	\$25,752	1%	4.1x	5.3x	4.1x	0.0x	-0.7x	\$9.25	\$13.95	\$15.79	5.4x	4.7x	\$85.00	15%	
Vermilion Energy Inc.	VET	OP		Wood	162.9	\$30.64	\$4,991	1%	6.7x	3.1x	2.1x	0.6x	-0.2x	\$5.59	\$11.53	\$13.42	2.6x	2.3x	\$50.00	64%	
Whitecap Resources	WCP	OP		Wood	610.6	\$10.32	\$6,301	4%	6.7x	3.4x	3.5x	0.8x	0.5x	\$1.82	\$3.80	\$3.36	2.7x	3.1x	\$15.50	54%	
Small Cap																					
Crew Energy	CR	SP		Payne	156.8	\$5.71	\$896	0%	4.8x	2.9x	2.7x	0.3x	-0.3x	\$0.82	\$2.08	\$1.92	2.7x	3.0x	\$7.50	31%	
Kiwitinohk	KEC	OP		Payne	44.1	\$16.50	\$728	0%	11.5x	3.1x	1.7x	0.6x	0.2x	\$1.53	\$6.26	\$10.80	2.6x	1.5x	\$27.50	67%	
Lucero	LOU	SP		Payne	679.5	\$0.59	\$401	0%	4.5x	3.0x	2.1x	0.5x	-0.2x	\$0.15	\$0.22	\$0.25	2.7x	2.4x	\$1.00	69%	
Surge Energy	SGY	OP		Payne	87.1	\$10.06	\$876	4%	5.8x	3.1x	2.9x	0.6x	0.3x	\$1.79	\$3.67	\$3.61	2.7x	2.8x	\$14.00	43%	
Yangarra Resources	YGR	SP		Payne	92.6	\$2.96	\$274	0%	3.1x	2.0x	1.6x	0.6x	0.0x	\$1.02	\$2.03	\$1.81	1.5x	1.6x	\$4.00	35%	

\* 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 10/31	EBITDA (mm)			EV/EBITDA			Net Debt / EBITDA			12-Mth Price		
								2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e	Target	Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	UR		Payne	US\$689.85	91.3	US\$7.56	US\$213.2	nmf	nmf	4.4x	nmf	nmf	1.5x	nmf	nmf	nmf	nmf	
Precision Drilling Corp.	PD	OP		Payne	\$ 1,365.76	13.6	\$100.50	\$ 285.2	\$ 249.5	\$ 404.8	8.9x	11.9x	6.9x	4.0x	4.3x	2.8x	\$135.00	34%	↑
Trican Well Services	TCW	OP		Payne	\$ 833.00	230.1	\$3.62	\$ 30.6	\$ 101.6	\$ 169.7	7.5x	8.0x	4.7x	-0.7x	-0.3x	0.1x	\$6.25	73%	

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Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares	Stock	EBITDA (mm)			EV/EBITDA		Net Debt / EBITDA		12-Mth Price		
						O/S	Price										
						(Mln)	10/31	2021	2022e	2023e	2022e	2023e	2022e	2023e	Target	Return	Δ
Transition Fuels																	
Anaergia	ANRG	SP		Payne	\$ 688.50	67.0	\$10.28	\$ (3.0)	\$ 8.0	\$ 89.2	118.3x	11.4x		32.2x	3.6x	\$14.00	36%
Green Impact Partners	GIP	OP		Payne	\$ 91.35	20.3	\$4.50	\$ 3.6	\$ 4.5	\$ 20.6	31.0x	8.1x		10.6x	3.7x	\$12.00	167%
Tidewater Renewables	LCFS	OP		Payne	\$ 353.02	34.7	\$10.17	\$ 15.3	\$ 55.6	\$ 118.7	10.6x	4.4x		2.8x	0.7x	\$19.50	92%

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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 experienced continued price sensitivity throughout October, with WTI dropping ~\$25/bbl for Q3/22, being affected by the SPR withdrawals while commercial crude inventories began exceeding SPR volumes and tracking the larger market movement spurred by aggressive rate hikes. WTI averaged ~US\$87.00/bbl, ticking up ~4% above September levels of ~US\$83.94/bbl, while remaining ~28% above the 2021 average price of ~US\$68/bbl. Turning to gas, NYMEX dropped over the month, averaging US\$6.09/mcf, ~22% below September levels of US\$7.80/mcf, while AECO averaged \$3.39/mcf, slipping below September's average price of \$4.49/mcf by ~25%. On Marketing prospects, the WCS heavy differential widened, opening up to an average of ~US\$27.57/bbl through October.

## Pipelines & Midstream Update

Enbridge announced Al Monaco will be retiring from his position as President and CEO and a member of the Board of Directors effective January 1, 2023. Mr. Monaco's tenure with Enbridge spanned 27 years, leading the company since 2012 and overseeing an unprecedented period of growth including the \$37 billion merger with Spectra Energy in 2017, commissioning Line 3R, all while positioning ENB to be a leader in the exportation of North American hydrocarbons in conjunction with accelerating its renewable energy and decarbonization profile. The Board of Directors announced that Greg Ebel (57), current Board Chair will assume the position as President and CEO while continuing as a member of the Board of Directors. Prior to joining Enbridge in 2017 with the Spectra merger, Mr. Ebel acted as Spectra's Chairman, President and CEO from 2009 to February of 2017, preceded by the position of Group Executive and CFO beginning in 2007. Considering Mr. Ebel's executive experience in the gas infrastructure business, we would not be surprised to see Enbridge accelerate its shift towards gas/LNG infrastructure assets relative to liquids, which would likely be welcomed by energy transition focused investors.

## Power & Utilities Update

Emera and its home-base wholly owned subsidiary, Nova Scotia Power Inc. (NSPI), announced they are in the process of responding to proposed legislation brought forward by Premier Tim Houston, imposing constraints on the planned capital investments and non-fuel rate increases at NSPI. The unprecedented (as far as we know) legislation would pre-empt the Utility and Review Board's (UARB) pending decision regarding NSPI's General Rate Application (filed in January 2022) for 2022 through 2024, which includes average non-fuel rate increases of 2.8% per year. The legislation aims to override Nova Scotia's independent regulatory process and would limit such increases to a cumulative 1.8% between now and the end of 2024. The legislation would likely result in NSPI cutting its ~1.2 billion capital plan for 2023/2024 in roughly half, while also impeding NSPI's ability to earn within its 8.75-9.25% allowed return on equity band. To mitigate the legislation's impact, EMA will look to optimize its investment in NSPI's capital structure to the minimum level of its required equity investment (35%) and redeploy equity to its other core utilities (i.e., TECO).

## Energy Transition Update

Canadian Utilities announced that it has entered into a definitive agreement with Suncor Energy Inc. to acquire a portfolio of wind and solar assets and projects located in Alberta and Ontario for consideration of \$730 million, subject to closing adjustments with the deal expected to close in January of 2023. The 252 MW (net) portfolio of assets includes the 202 MW Forty Mile Wind Phase I project in Alberta (expected commissioning by end of 2022), of which ATCO is in late-stage contract discussions with creditworthy counterparties. Overall, assuming 75% of Forty Mile Wind Phase I is contracted, CU expects 72% of the acquired capacity to be contracted, with the remaining 28% exposed to the Alberta merchant market, representing 2023e EBITDA of \$60-80 million. CU also adds a development pipeline of >1.5 GW of wind and solar projects currently at various stages of development in Alberta, including 444 MW of near-term projects, with the remaining >1,100 MW in the mid-to-early stages of development, steering CU towards meeting its ESG objective of owning, developing, or managing >1,000 MW of renewable energy by 2030.

## 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	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth		Combined	
				O/S	Price	Cap.	est.	est.	est.	2022e	2023e	est.	est.	est.	2022e	2023e	23e EBITDA	Price	Return	Δ	Return
				(Mln)	10-31	(Mln)	2021e	2022e	2023e									Target			
Pipeline & Midstream																					
AltaGas	ALA	OP		280.5	\$24.57	\$6,893	\$1.00	\$1.06	\$1.11	4.3%	4.5%	\$2.77	\$2.63	\$3.12	9.3x	7.9x	5.4x	30.00	22.1%	↓	26.4%
Enbridge Inc.	ENB	OP		2026.0	\$53.08	\$107,540	\$3.34	\$3.44	\$3.54	6.5%	6.7%	\$4.96	\$5.40	\$5.74	9.8x	9.3x	4.7x	53.00	-0.2%	↓	6.3%
Gibson Energy	GEI	SP		149.1	\$23.25	\$3,467	\$1.40	\$1.46	\$1.51	6.3%	6.5%	\$1.95	\$2.20	\$2.25	10.6x	10.3x	2.9x	23.00	-1.1%	↓	5.2%
Keyera	KEY	OP		221.0	\$29.20	\$6,454	\$1.92	\$1.92	\$2.01	6.6%	6.9%	\$3.03	\$3.03	\$3.40	9.6x	8.6x	2.9x	35.00	19.9%	↓	26.4%
Pembina Pipelines	PPL	SP		542.0	\$44.98	\$24,381	\$2.52	\$2.54	\$2.61	5.7%	5.8%	\$4.05	\$4.61	\$4.61	9.8x	9.8x	3.6x	45.00	0.0%	↓	5.7%
Secure Energy	SES	OP		312.0	\$7.15	\$2,231	\$0.03	\$0.03	\$0.03	0.4%	0.4%	\$0.65	\$1.14	\$1.29	6.3x	5.6x	1.0x	9.00	25.9%		26.3%
Superior Plus	SPB	OP		201.7	\$10.36	\$2,090	\$0.72	\$0.72	\$0.72	6.9%	6.9%	\$1.16	\$1.32	\$1.30	7.8x	8.0x	3.8x	12.00	15.8%	↓	22.8%
Tidewater Midstream	TWM	OP		423.3	\$1.15	\$487	\$0.04	\$0.04	\$0.04	3.5%	3.5%	\$0.18	\$0.29	\$0.40	3.9x	2.9x	1.8x	1.75	52.2%		55.7%
TC Energy Corp.	TRP	SP		1017.3	\$59.84	\$60,873	\$3.48	\$3.60	\$3.74	6.0%	6.3%	\$5.74	\$5.09	\$5.65	11.8x	10.6x	5.5x	56.00	-6.4%	↓	-0.4%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	\$42.30	\$4,850	\$1.79	\$1.85	\$1.87	4.4%	4.4%	\$2.65	\$4.65	\$3.33	9.1x	12.7x	4.7x	41.00	-3.1%	↓	1.3%
Brookfield Infrastructure <sup>(1)</sup>	BIP	OP		771.4	\$36.38	\$28,064	\$2.04	\$1.44	\$1.53	4.0%	4.2%	\$2.93	\$2.16	\$2.62	16.8x	13.9x	6.3x	38.00	4.5%	↓	8.4%
Canadian Utilities	CU	SP		274.1	\$36.25	\$9,935	\$1.76	\$1.78	\$1.79	4.9%	5.0%	\$2.97	\$4.27	\$3.15	8.5x	11.5x	5.5x	34.00	-6.2%	↓	-1.3%
Capital Power	CPX	OP		114.6	\$45.60	\$5,224	\$2.12	\$2.26	\$2.39	4.9%	5.2%	\$5.39	\$6.79	\$6.98	6.7x	6.5x	3.1x	48.00	5.3%	↓	10.2%
Emera Inc.	EMA	SP		269.3	\$50.49	\$13,599	\$2.58	\$2.68	\$2.78	5.3%	5.5%	\$1.50	\$3.49	\$4.61	14.5x	10.9x	6.3x	51.00	1.0%	↓	6.3%
Fortis Inc.	FTS	SP		482.3	\$53.15	\$25,632	\$2.05	\$2.17	\$2.30	4.1%	4.3%	\$3.76	\$4.51	\$4.83	11.8x	11.0x	6.5x	51.00	-4.0%	↓	0.0%
Hydro One Ltd.	H	SP		596.9	\$34.16	\$20,391	\$1.07	\$1.11	\$1.16	3.2%	3.4%	\$2.03	\$2.05	\$1.81	16.7x	18.9x	5.6x	31.00	-9.3%	↓	-6.0%
TransAlta	TA	SP		270.7	\$12.00	\$3,249	\$0.18	\$0.20	\$0.20	1.7%	1.7%	\$2.08	\$2.34	\$2.07	5.1x	5.8x	3.2x	13.00	8.3%	↓	10.0%

Source: Company Reports, NBF Estimates, Refinitiv

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

<sup>(1)</sup> All dollar figures for BIP are in USD



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## Selections

- › *Dream Industrial REIT*
- › *Chartwell Retirement Residences*
- › *Flagship Communities REIT*
- › *H&R REIT*
- › *Allied Properties REIT*
- › *Killam Apartment REIT*

## October REIT Highlights

### ▶ Rising bond yields pressure income-oriented investments

The TSX Capped REIT Yield increased ~4% m/m in October, while compared to Canada's 10-year government bond which rose ~2.2%. The Capped REIT Index is currently underperforming vs. the TSX at -23.4% and -8.3% YTD, respectively, with Retail and Diversified asset classes outperforming other Real Estate segments YTD.

### ▶ Q3 2022 Preview: Higher rates continue to exert valuation pressure

The rapid rise in bond yields has us generally revising targets to levels seen before Q2 reporting when bond yields were at similar levels. We have made no recommendations changes and only select NAV adjustments. FFO revisions are modest, and we had mostly reflected higher rates in our forecast premiums. We believe the market is still pricing in some degree of inflation protection offered by hard assets and/or a lower rate environment, based on the relatively low spread offered by current implied cap rates over borrowing costs.

Considering the increasing bond rates, we have seen rising cap rates across Canada's asset classes apart from the senior's housing/healthcare class. The rising cap rates are currently a headwind to the Real Estate space's valuations, leading company target prices to be reduced heading into the third quarter.

We have the highest return estimates for multi-family and industrial asset classes, despite leading outperformance from retail REITs. Retail REITs have benefited from steady operational performance, including improving occupancy and rising leasing spreads. Since retail REITs did not see the valuation extremes of the "bed and sheds" stocks, they have had less of a valuation pullback as rates rose. As we turn to the final part of the year, we believe apartments and industrial REITs face less valuation risk after the downturn to start the year and their overall fundamentals remain highly constructive. Further, rate pressure is the primary risk to this sector.

Below are our top picks and price targets for each asset-class:

- › **Seniors Housing/Healthcare:** Chartwell Retirement Residences rated Outperform with an \$11.00 target.
- › **Multi-family:** Killam Apartment REIT rated Outperform with a \$20.50 target.
- › **Industrial:** Dream Industrial REIT rated Outperform with a \$13.50 target.
- › **Retail:** RioCan REIT rated Outperform with a \$23.00 target.
- › **Office:** Allied Properties REIT rated Outperform with a \$33.75 target.
- › **Diversified:** H&R REIT rated Outperform with a \$13.50 target.
- › **Special Situations:** Flagship Communities REIT rated outperform with a US\$19.00 target.

Matt Kornack, Tal Woolley						Market	Unit	Distributions per Unit			Cash Yield			FD FFO			P/FFO			Net	12-Mth		
	REIT	Stock		Cap		Price	Actual	est.	est.				Current	Actual	est.	est.				Asset	Price	Total	
	Sym.	Rating	Δ	(Mln)	Analyst	10-31	2021	2022	2023	2021A	2022E	2023E	Annualized	2021	2022	2023	2021A	2022E	2023E	Value	Target	Return <sup>(1)</sup>	Δ
Retail																							
RioCan REIT	REL.un	OP	↔	\$5,944	Woolley	\$19.56	\$1.02	\$1.02	\$1.02	5.2%	5.2%	5.2%	5.2%	\$1.60	\$1.71	\$1.78	12.2x	11.4x	11.0x	\$24.30	\$23.00	22.8%	↓
Choice Properties REIT	CHP.un	SP	↔	\$9,571	Woolley	\$13.23	\$0.74	\$0.74	\$0.74	5.6%	5.6%	5.6%	5.6%	\$0.95	\$0.96	\$0.97	13.9x	13.8x	13.6x	\$12.70	\$13.50	7.6%	↓
First Capital REIT	FCR	SP	↔	\$3,443	Woolley	\$16.00	\$0.86	\$0.86	\$0.86	5.4%	5.4%	5.4%	5.4%	\$1.14	\$1.10	\$1.14	14.0x	14.5x	14.0x	\$20.60	\$17.00	11.7%	↓
SmartCentres REIT	SRU.un	SP	↔	\$4,841	Woolley	\$27.18	\$1.85	\$1.85	\$1.85	6.8%	6.8%	6.8%	6.8%	\$2.21	\$2.06	\$2.21	12.3x	13.2x	12.3x	\$30.20	\$28.00	9.8%	↓
CT REIT	CRT.un	OP	↔	\$3,668	Woolley	\$15.67	\$0.87	\$0.87	\$0.87	5.6%	5.6%	5.6%	5.6%	\$1.24	\$1.28	\$1.34	12.6x	12.2x	11.7x	\$16.50	\$17.50	17.2%	↓
Crombie REIT	CRR.un	OP	↔	\$2,683	Woolley	\$15.14	\$0.89	\$0.89	\$0.89	5.9%	5.9%	5.9%	5.9%	\$1.15	\$1.15	\$1.19	13.2x	13.2x	12.7x	\$16.90	\$17.00	18.2%	↓
Automotive Properties REIT	APR.un	SP	↔	\$601	Woolley	\$12.25	\$0.80	\$0.80	\$0.80	6.6%	6.6%	6.6%	6.6%	\$0.94	\$0.97	\$1.03	13.0x	12.7x	11.9x	\$12.70	\$13.00	12.7%	↓
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	\$3,782	Kornack	\$27.06	\$1.75	\$1.75	\$1.75	6.5%	6.5%	6.5%	6.5%	\$2.40	\$2.43	\$2.51	11.3x	11.2x	10.8x	\$37.45	\$33.75	31.2%	↓
DREAM Office REIT	D.un	SP	↔	\$824	Kornack	\$15.77	\$1.00	\$1.00	\$1.00	6.3%	6.3%	6.3%	6.3%	\$1.54	\$1.52	\$1.57	10.2x	10.4x	10.1x	\$20.35	\$17.25	15.7%	↓
Slate Office REIT	SOT.un	SP	↔	\$342	Kornack	\$4.68	\$0.40	\$0.40	\$0.40	8.5%	8.5%	8.5%	8.5%	\$0.55	\$0.53	\$0.52	8.6x	8.9x	9.1x	\$5.00	\$4.40	2.6%	↔
True North Commerical REIT	TNT.un	SP	↔	\$576	Kornack	\$6.22	\$0.59	\$0.59	\$0.59	9.5%	9.5%	9.5%	9.5%	\$0.59	\$0.54	\$0.53	10.6x	11.5x	11.7x	\$5.90	\$5.50	-2.0%	↓
H&R REIT	HR.un	OP	↔	\$3,250	Kornack	\$11.33	\$0.55	\$0.55	\$0.55	4.9%	4.9%	4.9%	4.9%	\$1.53	\$1.15	\$1.24	7.4x	9.9x	9.2x	\$16.05	\$13.50	24.0%	↓
Artis REIT	AX.un	SP	↔	\$1,130	Kornack	\$9.76	\$0.60	\$0.60	\$0.60	6.1%	6.1%	6.1%	6.1%	\$1.31	\$1.26	\$1.13	7.5x	7.7x	8.7x	\$13.20	\$10.00	8.6%	↓
BTB REIT	BTB.un	SP	↔	\$286	Kornack	\$3.38	\$0.30	\$0.30	\$0.30	8.9%	8.9%	8.9%	8.9%	\$0.41	\$0.43	\$0.43	8.3x	7.9x	7.9x	\$4.50	\$3.50	12.4%	↓
Industrial																							
Granite REIT	GRT.un	OP	↔	\$4,580	Kornack	\$70.76	\$3.10	\$3.10	\$3.10	4.4%	4.4%	4.4%	4.4%	\$4.04	\$4.40	\$4.85	17.5x	16.1x	14.6x	\$84.35	\$84.00	23.1%	↓
DREAM Industrial REIT	DIR.un	OP	↔	\$3,039	Kornack	\$11.11	\$0.70	\$0.70	\$0.70	6.3%	6.3%	6.3%	6.3%	\$0.81	\$0.89	\$0.93	13.8x	12.6x	12.0x	\$14.35	\$13.50	27.8%	↓
Nexus Industrial REIT	NXR.un	SP	↔	\$713	Kornack	\$9.00	\$0.64	\$0.64	\$0.64	7.1%	7.1%	7.1%	7.1%	\$0.77	\$0.82	\$0.88	11.7x	11.0x	10.2x	\$11.60	\$9.75	15.4%	↓
Summit Industrial	SMU.un	OP	↔	\$3,385	Kornack	\$17.83	\$0.58	\$0.58	\$0.58	3.3%	3.3%	3.3%	3.3%	\$0.70	\$0.76	\$0.85	25.3x	23.4x	21.1x	\$19.95	\$21.25	22.4%	↓
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	\$285	Woolley	\$2.90	\$0.25	\$0.25	\$0.25	8.5%	8.5%	8.5%	8.5%	\$0.52	\$0.46	\$0.48	5.6x	6.3x	6.0x	\$3.85	\$3.50	29.2%	↓
Multi-Res																							
CAP REIT	CAR.un	OP	↔	\$7,451	Kornack	\$42.64	\$1.45	\$1.45	\$1.45	3.4%	3.4%	3.4%	3.4%	\$2.33	\$2.33	\$2.42	18.3x	18.3x	17.6x	\$47.35	\$52.00	25.4%	↔
Boardwalk REIT	BEI.un	OP	↔	\$2,448	Kornack	\$48.70	\$1.08	\$1.08	\$1.08	2.2%	2.2%	2.2%	2.2%	\$2.96	\$3.10	\$3.19	16.4x	15.7x	15.3x	\$59.90	\$60.00	25.4%	↓
Killam Apartment REIT	KMP.un	OP	↔	\$1,910	Kornack	\$15.92	\$0.70	\$0.70	\$0.70	4.4%	4.4%	4.4%	4.4%	\$1.07	\$1.11	\$1.16	14.9x	14.3x	13.7x	\$20.90	\$20.50	33.2%	↔
InterRent REIT	IIP.un	OP	↔	\$1,633	Kornack	\$11.54	\$0.34	\$0.34	\$0.34	3.0%	3.0%	3.0%	3.0%	\$0.51	\$0.53	\$0.54	22.6x	21.6x	21.4x	\$12.95	\$14.00	24.3%	↔
Minto Apartment REIT	MI.un	OP	↔	\$875	Kornack	\$13.30	\$0.48	\$0.48	\$0.48	3.6%	3.6%	3.6%	3.6%	\$0.81	\$0.84	\$0.87	16.4x	15.8x	15.3x	\$18.35	\$17.00	31.4%	↓
BSR REIT	HOM.un	OP	↔	US\$818	Kornack	\$14.11	\$0.52	\$0.52	\$0.52	3.7%	3.7%	3.7%	3.7%	\$0.65	\$0.85	\$0.92	21.7x	16.6x	15.4x	\$19.80	\$18.50	34.8%	↓
Dream Residential REIT	DRR.un	OP	↔	\$145	Kornack	\$7.33	\$0.42	\$0.42	\$0.42	5.7%	5.7%	5.7%	5.7%	N/A	\$0.66	\$0.74	N/A	11.1x	9.9x	\$13.15	\$10.50	49.0%	↔
ERES REIT	ERE.un	SP	↔	\$658	Kornack	\$2.84	\$0.16	\$0.16	\$0.16	5.7%	5.7%	5.7%	5.7%	\$0.21	\$0.23	\$0.23	13.8x	12.5x	12.3x	\$3.90	\$3.30	21.9%	↓
International																							
Inovalis REIT	INO.un	SP	↔	\$146	Kornack	\$4.35	\$0.41	\$0.41	\$0.41	9.5%	9.5%	9.5%	9.5%	\$0.50	\$0.50	\$0.63	8.7x	8.7x	6.9x	\$7.10	\$5.00	24.4%	↓
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	\$1,938	Woolley	\$8.27	\$0.61	\$0.61	\$0.61	7.4%	7.4%	7.4%	7.4%	\$0.59	\$0.56	\$0.66	14.0x	14.8x	12.5x	\$11.17	\$11.00	40.4%	↓
NorthWest H.P. REIT	NWH.un	SP	↔	\$2,602	Woolley	\$10.73	\$0.80	\$0.80	\$0.80	7.5%	7.5%	7.5%	7.5%	\$0.84	\$0.79	\$0.82	12.8x	13.6x	13.1x	\$12.78	\$11.50	14.6%	↓
Sienna Senior Living	SIA	OP	↔	\$872	Woolley	\$11.97	\$0.94	\$0.94	\$0.94	7.8%	7.8%	7.8%	7.8%	\$1.15	\$1.01	\$1.19	10.4x	11.9x	10.1x	\$14.11	\$14.50	29.0%	↓
Extendicare	EXE	SP	↔	\$625	Woolley	\$6.97	\$0.48	\$0.48	\$0.48	6.9%	6.9%	6.9%	6.9%	\$0.52	\$0.28	\$0.34	13.4x	24.9x	20.5x	\$8.30	\$7.50	14.5%	↓
Invesque	IVQu	SP	↔	\$65	Woolley	\$1.15u	\$0.00u	\$0.00u	\$0.00u	0.0%	0.0%	0.0%	0.0%	\$0.44u	\$0.37u	\$0.39u	2.6x	3.1x	2.9x	\$2.00u	\$1.25u	8.7%	↓
Self Storage																							
StorageVault Canada	SVL.V	OP	↔	\$2,316	Woolley	\$6.12	\$0.01	\$0.01	\$0.01	0.2%	0.2%	0.2%	0.2%	\$0.15	\$0.19	\$0.22	40.6x	32.0x	27.3x	\$6.10	\$7.00	14.6%	↓
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	US\$280	Woolley	US\$14.30	US\$0.54	US\$0.54	US\$0.54	3.8%	3.8%	3.8%	3.8%	US\$1.03	US\$1.15	US\$1.28	13.9x	12.4x	11.2x	US\$20.30	US\$19.00	36.6%	↓
Asset Management																							
Tricon Capital Group	TCN	OP	↔	\$3,195	Woolley	\$11.70	\$0.32	\$0.32	\$0.32	2.7%	2.7%	2.7%	2.7%	\$0.57	\$0.60	\$0.62	20.5x	19.7x	18.8x	\$16.30	\$15.00	30.9%	↓

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

Source: Company Reports, NBF, Refinitiv

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

u = US Dollars



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### Selections

- › PLC
- › UNS
- › GDI

### Park Lawn

On September 29, 2022, we attended Park Lawn's 2022 Investor Day in Nashville, Tennessee for a company presentation and tour of three sites. Management in attendance included Brad Green, CEO; Dan Millett, CFO; Jennifer Hay, CSO and General Counsel; Mat Forastiere, SVP President of Operations; and Bill Hudson, VP of Business Development. The site tours were also complemented by three testimonials from former owners of businesses purchased by Park Lawn.

### ► Macroeconomic Picture

The company anticipates that low-income and low-to middle-income groups may dial back on pre-need purchases in reaction to economic hardship, as was the case in 2008; however, this typically doesn't have much of an effect on PLC's customer base of middle- to higher-income groups. Additionally, though death rates dropped in Q2, management and other industry professionals do not yet see hard evidence supporting a prolonged period of abnormally low death rates.

### ► Capital Allocation

On the qualitative front of acquisitions, PLC considers a seller's motivation, their reputation, the geography in relation to existing PLC-owned locations and the culture of the business. On the quantitative front, PLC looks towards at least five years' worth of financial data on profitability and growth on a normalized basis, making sure to account for outlier years affected by COVID-19.

PLC reiterated that although it budgets to spend between US\$75-125 million per year on acquisitions, the path forward will likely be lumpy as the pace of transactions is often dictated by sellers' succession timing. Even if one year falls short of budget, however, management remains confident in the longer-term average pace and rests confident in the goal of doubling the business by 2026.

When discussing buybacks, management reiterated their belief that M&A is typically the best use of capital given the return profile. However, the company has been active on the NCIB below C\$25/share, and given PLC's current share price, management is open to repurchasing additional shares if the gap between intrinsic value and market value persists.

### ► Acquirer of Choice

The site tours in the afternoon were capped off by testimonials from three former owners of acquired businesses who spoke on why they chose PLC: 1) reassurance that PLC would keep owners' legacy and branding intact, 2) access to additional infrastructure to pursue the next steps of growth, 3) back-office organization allowing funeral directors to spend more time on operations and focus on the aspects of the business they enjoy, and 4) access to training and development for staff.

### ► C\$32.50 target based on 11x 2024e EV/EBITDA, Outperform Rating

We reiterate our Outperform rating given PLC's recession resilient revenue base, complemented by steady M&A upside. Our C\$32.50 target is based on 11x 2024e EV/EBITDA, comprising an 8.25x base multiple and a 2.75x M&A growth premium equivalent to \$85 million of incremental annual revenue added through acquisitions.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/31	Last Year Reported	FDEPS			P/E		EBITDA (mln)			EV/EBITDA		Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target		Δ
								(A)	est.	est.			(A)	est.	est.							
								Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2					
Alaris Equity Partners Income Trust	AD	OP		715.1	45.3	15.80	12/2021	3.13	2.31	1.72	6.8	9.2	130.5	154.1	131.1	6.8	7.6	8.4%	2.7	22.00		
Boyd Group Services Inc.	BYD	SP		4,162.2	21.5	193.86	12/2021	1.30	2.16	4.74	71.8	32.7	219.5	274.9	366.4	14.7	11.0	0.3%	2.6	190.00		
Cascades	CAS	SP		893.5	101.1	8.84	12/2021	0.26	0.58	1.17	15.2	7.6	389.0	404.5	520.1	6.4	4.9	5.4%	4.2	8.00		
Dexterra Group Inc.	DXT	OP		346.9	65.2	5.32	12/2021	0.37	0.21	0.43	25.3	12.4	80.8	72.3	86.4	6.8	5.4	6.6%	1.8	10.00		
Doman Building Materials	DBM	OP		479.8	86.8	5.53	12/2021	1.34	0.82	0.53	6.7	10.4	225.6	189.8	153.6	5.2	6.2	10.1%	4.6	7.00		
GDI Integrated Facility Services	GDI	OP		1,089.5	23.3	46.82	12/2021	1.84	1.61	1.45	29.1	32.3	132.8	150.0	142.3	9.4	9.6	0.0%	2.7	55.50		
Hardwoods Distribution	HDI	OP		597.5	23.9	25.03	12/2021	4.77	5.73	4.25	3.5	4.7	195.2	270.4	222.6	4.2	4.4	1.9%	3.8	69.00		
KP Tissue	KPT	SP		100.8	9.9	10.14	12/2021	0.65	(0.80)	0.00	nmf	nmf	153.4	106.9	195.0	16.1	9.7	7.1%	5.0	9.00		
Neighbourly Pharmacy Inc.	NBLY	SP		1,003.1	43.2	23.21	03/2022	0.32	0.38	0.49	61.1	47.4	35.1	45.9	80.1	16.9	12.7	0.8%	2.6	22.00		↑
Park Lawn Corporation	PLC	OP		737.3	34.9	21.15	12/2021	1.21	0.99	1.14	17.1	14.8	76.3	72.5	86.4	10.6	8.6	2.2%	1.7	32.50		
Richelieu Hardware	RCH	OP		2,056.7	56.2	36.57	11/2021	2.51	2.91	2.44	12.6	15.0	234.4	281.5	243.2	7.5	7.8	1.4%	0.9	55.00		↑
Savaria Corporation	SIS	OP		838.4	64.5	13.00	12/2021	0.54	0.58	0.89	22.4	14.6	100.3	122.7	144.0	9.9	8.1	3.8%	2.6	19.50		
Uni-Sélect	UNS	OP		1,607.7	43.5	36.95	12/2021	1.00	1.67	1.78	17.7	16.6	146.7	184.5	193.7	9.0	8.0	0.0%	1.5	49.00		

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

Note: BYD, HDI, ITP and UNS data is in USD except stock prices and target prices. KP Tissue: Financial data reflects Kruger Products L.P. (in which KP Tissue has a 14.5% interest).

Source: Company reports, NBF, Refinitiv



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**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. The long-term contracted nature of the cash flows within our coverage universe has been an attractive feature, and in 2022, IPPs benefited from high power prices on the back of the European energy crisis. While potential price caps and windfall taxes across Europe could be near-term headwinds to the sector, power prices should remain higher for longer and support higher returns on projects and drive growth in renewables. Rising bond yields could be a headwind to the sector as well; however, with growth opportunities and CPI-indexed cash flows, IPPs could remain in favour as safe havens in uncertain times. Our top picks include INE, BLX and NPI.

▣ **Innergex Renewable Energy Inc.**  
(INE: TSX; Outperform; \$23/sh target):

INE is one of Canada's largest renewables focused IPPs with a ~3.5 GW net installed capacity. INE's operations are diversified across different renewable platforms (~30% hydro, ~55% wind and ~15% solar) and geographies (~47% Canada, ~30% U.S., ~15% Chile and ~8% France). At its Investor Day in September 2022, INE provided an update on its five-year strategic plan and highlighted that it plans to add close to 1.2 GW in capacity by the end of 2025E,

which is supported by its advanced and mid-stage developments projects of ~4 GW. INE reiterated its plans to grow its adj. FCF to \$1.01/sh by 2025E, while providing visibility on 77% of the path to achieve this objective (vs. visibility on 43% of the growth target last year). INE recently completed the acquisition of the remaining 30% interest in its French portfolio (net addition of 100 MW). While INE could see near-term headwinds from windfall taxes in Europe, INE has found the optimal strategy in targeting longer duration contracts to effectively lock-in the upside to spot prices today. Moreover, INE could benefit from high power prices, especially in Texas (~300 MW) and Chile (>200 MW). Overall, we believe the combination of recent commissioning activities, M&A and spot market exposure could bring INE's pay-out ratio below 80% for 2022E (98% in 2021A) and it is guiding to double-digit growth across production and financial metrics for FY'22E. Lastly, INE could see organic growth in Quebec with over 6 GW of new generation from RFPs and partnership with Hydro-Quebec. Our target is based on a long-term DCF with a 6.75% discount rate on operating assets and includes \$2/sh for growth.

▣ **Boralex Inc.**  
(BLX: TSX; Outperform; \$48/sh target):

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. Its net installed capacity stands at ~2.5 GW, of which 98% is covered by inflation-indexed, fixed-price or feed-in premium contracts with an average life of 12 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. BLX greatly improved visibility on its growth with the acquisition of Infinergy's U.K. portfolio (net addition of 222 MW) in July, awards of five solar projects totalling 540 MW of new capacity under the NYSERDA RFP in June as well as with its partnership with Énergir and Hydro-Quebec to

co-develop a 1.2 GW wind project in Quebec earlier this year. BLX has seen upside from high spot prices for the last few months and could benefit from spot exposure on >400 MW of generation by the end of this year. While the proposed price caps could limit upside for a couple of months, BLX could see success in upcoming RFPs in France and Quebec that could improve visibility of growth. Our target is based on a long-term DCF with a 6.50% cost of equity on operating cash flows and \$8/sh of growth.

▣ **Northland Power Inc.**  
(NPI: TSX; Outperform; \$47/sh target):

NPI is a global leader in the development of offshore wind projects with ~3 GW of net capacity in renewable and thermal power generation. At its Investor Day in February, NPI highlighted a ~14.5 GW pipeline and a plan to more than double capacity by 2030E and it aims to reach COD or begin construction on over 3 GW of projects over the next 24 months, while the rest is back-end loaded with COD targets in 2025E and beyond. 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. NPI has three offshore wind contracts in Europe that have seen upside from high spot prices for the last few months and could see further upside until a proposed change in regulations across Europe later this year, which could result in price caps for a couple of months. The structure of its contracts provides NPI with a floor price of ~€180/MWh in the case power prices fall back to historical levels. The energy crisis could also accelerate demand for new projects (NPI has 2.7 GW in Europe that could be built on an accelerated timeline) and attract new capital to support future sell-downs. In the near term, we could see NPI commission its 130 MW solar project in Mexico and its New York Onshore wind projects. Additionally, on its 1 GW Hai Long Offshore wind project in Taiwan, NPI targets to close its debt financing by the end of the year and could look to sell down its stake the project. Our target is based on a long-term DCF with a cost of equity of 6.50% on operating cash flows and \$9/sh of growth.

	Stock Sym.	Stock Rating	Δ	Market	Shares	Stock	Last	FD EPS			P/E		Sales per share			P/S		Book	Debt/	12-Mth	
				Cap	O/S	Price	Year	(A)	est.	est.			(A)	est.	est.			Value	Capital	Price	
				(Mln)	(Mln)	10-31	Reported	Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2			Target	Δ
Energy Technology																					
5N Plus	VNP	OP	⬆️	195.4	83	2.36	12/2021	0.06u	(0.02)u	0.15u	nmf	11.9	2.54u	2.94u	3.05u	0.6	0.6	0.95u	0.36	2.50	⬆️
Algonquin Power	AQN	OP	⬆️	6,913.4	625	11.06u	12/2021	0.71u	0.76u	0.73u	14.6	15.1	3.66u	4.14u	4.64u	2.7	2.4	10.72u	0.50	14.25u	⬆️
Altius Renewable Royalties Corp	ARR	OP		252.9	29	8.68	12/2021	(0.13)u	(0.03)u	0.07u	nmf	nmf	0.02u	0.10u	0.21u	64.6	30.7	0.64u	0.00	13.50	⬆️
Ballard Power Systems	BLDP	OP		1,674.1	295	5.67u	12/2021	(0.39)u	(0.59)u	(0.49)u	nmf	nmf	0.35u	0.31u	0.49u	18.0	11.7	4.13u	0.01	12.00u	⬆️
Boralex	BLX	OP		3,989.8	103	38.63	12/2021	0.16	0.73	0.55	52.6	69.7	6.69	7.22	8.00	5.3	4.8	12.87	0.63	48.00	⬆️
Brookfield Renewable	BEP	OP		18,839.1	646	29.18u	12/2021	0.00u	0.00u	0.00u	na	na	3.74u	4.22u	4.50u	6.9	6.5	24.27u	0.35	35.00u	⬆️
GFL Environmental Inc.	GFL	OP		13,294.8	362	36.77	12/2021	(1.83)	(0.06)	(0.31)	nmf	nmf	15.28	17.03	18.80	2.2	2.0	16.66	0.59	47.00	⬆️
Innervex	INE	OP		2,712.9	181	15.00	12/2021	(1.09)	(0.12)	0.35	nmf	43.0	4.13	4.47	4.65	3.4	3.2	7.51	0.76	23.00	⬆️
The Lion Electric Company	LEV	OP		594.7	196	3.03u	12/2021	(0.26)u	(0.08)u	(0.69)u	nmf	nmf	0.29u	0.69u	2.48u	4.4	1.2	2.09u	0.02	9.00u	⬆️
Loop Energy Inc	LPEN	OP		61.5	35	1.74	12/2021	(0.74)	(1.00)	(0.66)	nmf	nmf	0.04	0.06	0.28	27.8	6.1	1.73	0.01	5.00	⬆️
NanoXplore	GRA	OP		535.3	165	3.24	06/2022	(0.10)	0.01	0.11	nmf	29.7	0.57	0.80	0.99	4.0	3.3	0.71	0.20	8.00	⬆️
Next Hydrogen Solutions Inc.	NXH	SP		34.8	23	1.52	12/2021	(1.28)	(0.66)	(0.53)	nmf	nmf	0.01	0.11	0.19	14.1	8.1	1.41	0.01	2.50	⬆️
Northland Power	NPI	OP		8,672.3	219	39.64	12/2021	0.83	2.72	1.35	14.6	29.4	9.57	10.74	9.44	3.7	4.2	16.21	0.63	47.00	⬆️
Polaris Renewable	PIF	OP		315.7	19	16.60	12/2021	0.03	(0.01)	0.56	nmf	29.7	3.13	3.00	3.87	5.5	4.3	16.21	0.63	21.00	⬆️
TransAlta Renewables	RNW	SP		3,906.2	267	14.63	12/2021	0.52	0.47	0.64	31.1	22.8	1.76	2.03	1.90	7.2	7.7	6.70	0.23	16.50	⬆️
Xebec Adsorption	XBC	R		R	R	R	12/2021	R	R	R	N/A	N/A	R	R	R	N/A	N/A	R	R	R	⬆️

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

<sup>1</sup> FD EPS are pro-forma numbers from continuing operations and excludes goodwill amortization, restructuring and one-time charges.

u = US dollar

Source: Company Reports, Refinitiv, NBF Estimates &amp; Analysis



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## Selections

- › Coveo
- › CGI
- › Docebo
- › Kinaxis
- › Lightspeed
- › Magnet Forensics
- › Nuvei
- › OpenText
- › Shopify
- › TELUS International

## Pick Your Spots

At the time of writing – we're in the midst of calendar Q3 earnings – and thus far, it's been lackluster with soft outlooks under a challenging market backdrop. Much of our expectations were outlined in our recent preview. Year-to-date, the S&P Info Tech Index is down 26.3% while the S&P/TSX Info Tech Index is down -55.3%, care in large part to Shopify. What we continued to be focused on is how names are executing against their fundamental business plans. The reason – while valuations ebb and flow, companies that execute consistently on their business plans often see that reflected in their stock prices over time, which is why we believe there remains multiple opportunities, particularly for investors who can take a longer-term view. From a shorter-term tactical standpoint, we continue to point to CGI, OpenText and Constellation Software as defensive names offering relative outperformance. Longer term, we see compelling risk-to-reward profiles in names like Docebo, Kinaxis, Lightspeed, Magnet Forensics, Nuvei, Shopify and TELUS International 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 a 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, the Company plans to deploy \$1 bln in capital on acquisitions this fiscal year, expanding CGI's growth potential.
- › **Docebo** has differentiated itself from competitors (in the Corporate LMS market) with its platform breadth that can be deployed internally and externally within enterprises. On that, Management emphasized that external training remains the majority (2/3) of North America's \$8 bln LMS TAM, with 70% of that external training market being greenfield which provides DCBO an opportunity to cross-sell its LMS to those potential customers' internal use cases. We believe those efforts will drive operating leverage for a Company that is expected to reach break-even EBITDA exiting F22. In our view, that should be received positively in a market that is increasingly focused on profitability,

and even more so for a Company that continues to show robust growth (30%+ organic Y/Y), despite the challenging macro.

- › **Kinaxis** should be a meaningful beneficiary from 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 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 underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you will 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 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.

	Stock Sym.	Stock Rating	Δ	Market	Shares	Stock	Last	FDEPS			P/E			EBITDA (Min)			EV/EBITDA		Book	Debt/	12-Mth	
				Cap	O/S	Price	Year	(A)	est.	est.	P/E		(A)	est.	est.	EV/EBITDA		Value	Total	Price		
				(Mln)	(Mln)	10/31	Reported	Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2		Capital	Target	Δ	
Alithya Group Inc.	ALYA	SP		228	92.7	2.46	2022	0.01	(0.00)	0.08	NMF	31.1	22.6	31.2	43.6	10.6	7.6	2.1u	42%	3.25		
Altus Group Limited	AIF	OP		2,174	45.2	48.13	2021	1.90	2.01	2.26	24.0	21.3	109.8	137.9	143.2	17.5	16.8	12.2	38%	60.00	↓	
Blackline Safety Corp.*	BLN	OP		119	71.9	1.65	2021	(0.51)	(0.84)	(0.54)	NMF	NMF	(9.9)	(21.0)	(11.1)	NMF	NMF	0.5	0%	6.00		
CGI Inc.	GIB.A	OP		26,098	240.8	108.38	2021	5.41	6.11	6.53	17.7	16.6	2462.7	2557.3	2672.5	11.1	10.7	29.0	31%	135.00		
Constellation Software Inc.	CSU	OP	↑	40,698	21.2	1,920.48	2021	47.38u	51.73u	61.74u	37.1	31.1	1,511.0u	1,732.5u	2,093.8u	NA	NA	78.8u	53%	2350.00		
Converge Technology Solutions*	CTS	OP		1,519	218.6	6.95	2021	0.35	0.56	0.77	12.4	9.0	94.0	164.2	230.1	7.7	5.5	3.02	23%	10.00	↓	
Copperleaf Technologies*	CPLF	OP		347	69.4	5.00	2021	(0.03)	(0.43)	(0.35)	NMF	NMF	2.1	(27.5)	(25.9)	NMF	NMF	2.01	0%	12.00	↓	
Coveo Solutions Inc.	CVO	OP		564	103.8	5.43	2022	(0.31u)	(0.31u)	(0.21u)	NMF	NMF	(20.4u)	(21.4u)	(10.2u)	NMF	NMF	2.3u	0%	13.00		
Docebo Inc.	DCBO	OP		1,321	34.0	38.82	2021	(0.31u)	(0.09u)	0.35u	NMF	NMF	(8.0u)	(0.4u)	13.3u	NMF	NA	5.7u	0%	60.00u	↓	
D2L Inc.*	DTOL	OP		288	53.0	5.43	2022	(0.07u)	(0.23u)	0.02u	NMF	NMF	0.2u	(6.8u)	6.1u	NMF	NMF	1.1u	0%	10.00		
E Automotive Inc.	EINC	SP		228	48.1	4.74	2021	(0.65u)	(1.02u)	(0.79u)	NMF	NMF	(7.9u)	(39.0u)	(26.3u)	NMF	NMF	2.6u	0%	5.50	↓	
Farmers Edge Inc.	FDGE	SP		21	41.9	0.50	2021	(1.81)	(1.92)	(1.51)	NMF	NMF	(49.9)	(65.2)	(53.2)	NMF	NMF	1.43	16%	0.50	↓	
Kinaxis Inc.	KXS	OP		3,905	27.6	141.52	2021	0.57u	1.26u	1.87u	NMF	NMF	39.9u	68.0u	80.9u	NA	NA	12.6u	0%	250.00		
Lightspeed Commerce Inc.	LSPD	OP		2,693u	149.0	18.08u	2022	(0.36u)	(0.32u)	(0.03u)	NMF	NMF	(41.5u)	(37.4u)	12.1u	NMF	NMF	68.1u	0%	65.00u		
Magnet Forensics Inc.*	MAGT	OP		1,050	40.8	25.72	2021	0.28u	0.29u	0.29u	NMF	NMF	18.6u	14.4u	17.8u	NA	NA	2.2u	2%	50.00		
mdf commerce inc.	MDF	SP		141	44.0	3.20	2022	(0.48)	(0.52)	(0.34)	NMF	NMF	(2.0)	(9.0)	(0.7)	NMF	NMF	7.27	17%	3.00	↑	
Nuvei Corporation	NVEI	OP		3,964u	144.9	27.36u	2021	1.70u	1.87u	2.67u	14.6	10.2	317.2u	343.9u	495.0u	10.9	7.6	13.4u	21%	75.00u		
Open Text Corporation	OTEX	OP		7,547u	270.4	27.91u	2022	3.22u	3.25u	3.46u	8.6	8.1	1,265.1u	1,289.7u	1,368.7u	7.8	7.4	14.9u	51%	60.00u		
Pivotree Inc.*	PVT	OP		102	27.4	3.74	2021	(0.35)	(0.35)	(0.06)	NMF	NMF	(3.5)	0.1	6.7	667.7	12.8	0.0	0%	8.00		
Q4 Inc.	QFOR	OP		133	39.7	3.34	2021	(1.20u)	(0.68u)	(0.12u)	NMF	NMF	(13.6u)	(23.3u)	(1.5u)	NMF	NMF	1.6u	0%	5.00	↓	
Real Matters Inc.	REAL	SP		364	76.8	4.74	2021	0.48u	0.03u	0.04u	NMF	NMF	59.2u	8.3u	6.0u	NA	NA	1.7u	0%	6.00		
Shopify Inc.	SHOP	OP		36,283u	1262.0	28.75u	2021	0.06u	(0.11u)	(0.02u)	NMF	NMF	732.0u	(149.2u)	24.0u	NMF	NMF	6.9u	9%	60.00u	↓	
Softchoice Corp*	SFTC	OP		1,181	62.9	18.79	2021	0.58u	0.77u	0.97u	24.5	19.5	67.0u	80.8u	96.3u	15.5	13.0	0.8u	62%	28.00		
Tecsys Inc*	TCS	OP		455	14.8	30.70	2022	0.30	0.07	0.43	NMF	NMF	10.1	7.1	12.2	62.4	36.5	4.59	11%	50.00		
Telus International	TIXT	OP		6,773u	269.0	25.18u	2021	1.00u	1.22u	1.45u	NMF	NMF	540.0u	622.2u	733.2u	12.4	10.5	6.3u	38%	50.00u		
Thinkific Labs Inc.	THNC	OP		132	78.4	1.68	2021	(0.29)u	(0.40)u	(0.18)u	NMF	NMF	(19.46)u	(29.41)u	(12.59)u	NMF	NMF	1.28u	0.00	4.00	↓	

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

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

u = US dollar

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- › Cineplex
- › Shaw
- › Thomson Reuters

**Cineplex****Looking for box office momentum to reboot in Q4 with more films after soft patch in Q3:**

While Q1 was impacted by Omicron (government regulations) and Q2 faced tough 2019 comps in April/May (Avengers: End Game debuted 4/26/19), Q3 (and early October) was affected by the postponement of film releases to Q4 or 2023 given COVID outbreaks during post-production which we highlighted in our Q2 pre-view in mid-July. As reported by CGX ahead of its Q3 which comes Nov. 10, its box office revenues were -30% vs. Q3/19 with July -15%, August -36%, and September -48%. In our Q3 preview dated Oct. 11, we didn't change our Q3 estimates for box office or concession revenues, but raised our total top-line to \$330.6M from \$324.7M (CE \$323.3M) as we tweaked LBE revenues to slightly above the Q2 level (from just below) and grew Other revenues for the inclusion of the online booking fee CGX introduced at the end of Q2. We lowered our Adj. EBITDAaL forecast to \$20.3M from \$30.2M as we raised film costs given the success of Top Gun: Maverick and increased Other Theatre Opex after seemingly contracting it a bit

too much. We have Adj. EBITDA before leases at \$63.9M (CE \$66.1M). Looking ahead to a more robust film slate in 2023, we forecast total revenues to be +18.5% y/y and Adj. EBITDAaL to be +36.6% y/y, while being -6.2% and -15.6% versus 2019, respectively. Covenant testing will resume in Q4, with total leverage looking to easily be below 3.75x based on annualizing Adj. EBITDAaL, with the covenant contracting by 25 bps over each of the next three quarters. CGX was awarded \$1.24B in damages by the Ontario court but this was appealed by Cineworld (CINE) and cross-appealed by CGX who also hired Moelis & Company to help explore how it might find a resolution (initially with CINE but perhaps now with the latter's lenders) and get optimally compensated. The appeals were to be heard Oct. 12-13, but got postponed on 9/28/22 by the Texas court overseeing CINE's U.S. bankruptcy. Our target is based on our 2023E NAV with implied EV/EBITDA of 8.4x 2023E (2022E/2023E average near \$9) - doesn't include any potential value to be extracted from CINE litigation. The theatre industry is about to move beyond the soft patch in the release slate. CGX looks interesting at current levels ahead of renewed momentum at the box office.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 10/31	Last Year Reported	FDEPS			P/E		EBITDA (\$mln)			EV/EBITDA		Book Value	ND/ Total Capital	12-Mth
								(A)	est.	est.	FY1	FY2	(A)	est.	est.	FY1	FY2			Price
Broadcasting & Entertainment																				
Cineplex Inc.	CGX	OP		587	63.4	9.26	12/2021	(3.93)	(0.40)	1.18	-22.9	7.8	-84.3	102.3	191.6	12.7	6.4	-4.05	1.51	15.50
Corus Entertainment Inc.	CJR.b	SP		429	199.5	2.15	08/2022	0.52	0.39	0.61	5.5	3.6	443.6	373.0	425.3	4.9	0.0	3.77	0.64	3.25
WildBrain Ltd.	WILD	OP		358	173.1	2.07	06/2022	0.03	0.13	0.19	15.8	11.0	88.8	99.5	113.6	8.2	6.8	0.46	0.85	3.50
Spin Master Corp.	TOY	OP		4,332	102.9	42.10	12/2021	2.10	2.40	2.39	12.9	13.0	414.1	430.4	444.1	5.7	5.0	11.31	-0.92	57.00
Stingray Group Inc.	RAY.a	OP		342	69.7	4.90	03/2022	0.79	0.77	0.85	6.4	5.7	99.3	106.4	113.1	7.0	6.2	4.01	0.63	7.50
TVA Group Inc.	TVA.b	SP		76	43.2	1.76	12/2021	0.78	0.12	0.35	14.1	5.0	80.3	38.1	51.3	2.8	2.0	9.09	0.11	2.00
Packaging, Printing, and Publishing																				
CCL Industries Inc.*	CCL.b	OP		11,430	178.6	64.00	12/2021	3.37	3.66	4.01	17.5	16.0	1173.1	1302.3	1401.4	9.8	8.8	21.60	0.32	81.00
Thomson Reuters Corp.	TRI	OP		70,293	485.1	144.89	12/2021	1.95	2.51	3.55	42.3	30.0	1970.0	2334.3	2829.0	23.3	18.9	27.52	0.21	162.00
Transcontinental Inc.	TCL.a	OP		1,347	86.6	15.55	10/2021	2.37	2.21	2.40	7.0	6.5	454.9	447.5	477.5	5.3	4.6	20.98	0.39	23.00
Advertising & Marketing																				
VerticalScope Holdings Inc.	FORA	OP		155	21.3	7.25	12/2021	(0.59)	(0.98)	0.26	NM	28.0	29.0	33.3	44.9	5.4	4.7	3.91	0.41	19.00
Yellow Pages Ltd.	Y	SP		360	26.6	13.52	12/2021	3.05	2.47	2.93	5.5	4.6	102.0	99.4	91.2	2.8	2.0	NM	-0.44	15.00
Telecommunications																				
BCE Inc.	BCE	OP		56,038	911.9	61.45	12/2021	3.19	3.28	3.50	18.7	17.6	9893.0	10250.1	10553.9	8.7	8.4	21.44	0.40	68.00
Cogeco Communications Inc.	CCA	SP		3,180	45.8	69.48	08/2022	9.13	9.81	10.34	7.1	6.7	1393.1	1437.3	1479.6	5.3	4.9	69.20	0.59	96.00
Quebecor Inc.	QBR.b	OP		6,078	236.7	25.68	12/2021	2.52	3.02	3.20	8.5	8.0	1973.2	1958.5	2413.7	6.3	6.2	5.93	0.82	32.00
Rogers Communications Inc.	RCL.b	OP		28,634	504.9	56.71	12/2021	3.56	3.56	4.90	15.9	11.6	5887.0	6382.7	9301.4	7.6	7.3	21.42	0.36	75.00
Shaw Communications	SJR.b	OP		17,530	501.0	34.99	08/2021	1.60	1.58	1.57	22.2	22.3	2500.0	2543.2	2554.4	9.0	8.6	12.62	0.46	40.50
Telus Corp.	T	OP		39,289	1381.0	28.45	12/2021	1.23	1.20	1.35	23.7	21.0	6290.0	6656.8	7285.1	9.6	8.6	12.08	0.58	34.00

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.



# Transportation & Industrial Products



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—  
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## Selections

- › Air Canada
- › CAE
- › Exchange Income

## Canadian Railroads – solid Q3 results and positive Q4 outlook, but valuations look rich

Following CN's and CP's Q3 earnings that were ahead and in line with expectations, respectively, we maintained our Sector Perform ratings and existing price targets for both stocks. While we acknowledge that both rails have runways for growth in Q4/22 and into early 2023, we maintain our neutral stances based on economic uncertainty and valuations that we feel are somewhat rich in comparison to their U.S. Class I peers.

### ■ Results and outlook are positive but valuation remains rich

- › For CN, Q3 revenue was \$4,513 million (+26% y/y) versus our forecast for \$4,347 million and the consensus at \$4,318 million. Q3 adjusted EPS came in at \$2.13 (+40% y/y) versus NBF at \$1.98 and the consensus at \$2.01. The Q3 adjusted operating ratio was 57.2% versus our forecast of 57.7%. For CP, Q3 revenue was \$2,312 million (+19% y/y) versus NBF at \$2,290 million and the consensus of \$2,288 million, while reported EPS was \$0.96 versus NBF at \$0.95 and consensus at \$1.01. The Q3 adjusted operating ratio came in at 58.7% versus our forecast for 56.2%.
- › CN is now guiding for 2022 EPS growth of ~25% versus prior guidance for 15-20% growth while FCF is forecast at \$4.2 billion versus \$3.7-\$4.0 billion previously. This guidance looks achievable given that we and the Street were already forecasting 2022 EPS growth of 22% and Q3 EPS was ahead of expectations. CN's volumes so far in Q4 are also off to a good start with RTMs up 6.1% with strength in Grain & Fertilizer supported by the strong harvest, Coal and Automotive.
- › While CP has not provided guidance, early in Q4, CP's RTMs are up 5.4% supported by a 19.7% increase in Grain, a 23.7% increase in Automotive and a 29.8% increase in Intermodal. Grain volumes will continue to ramp in Q4 and stay strong well into 2023. Supported by new business, CP also indicates that its international intermodal volumes should stay strong through Q4 while automotive will benefit from a new/expanded contract with Ford. CP also notes that contract renewals in Q3 trended towards high-single digits.

› On our 2023 estimates, CN shares are trading at 20.1x EPS (5-Year historical average 21.7x) while CP shares are trading at 22.2x (5-Year historical average 20.9x). The two Canadian rails have typically enjoyed a slight premium to their U.S. counterparts (5-Year historical average 199x FY1 EPS) but U.S. rails have traded lower in recent months and now sit at an average 2023 P/E valuation of 16.0x. Given this sustained widened valuation gap between the Canadian and U.S. Class I rails, we believe the downside risk of a recession has been priced into U.S. rails, while it has not for the Canadian rail valuations.

### ▶ Maintain Sector Perform ratings, price targets of \$173.00 for CN and \$105.00 for CP

While CN reported an excellent Q3, CP met Q3 expectations and both railroads are anticipating solid Q4's, we remain neutral on both stocks. The Canadian rails are trading at larger-than-historical premiums to their U.S. counterparts. Growing macro-economic uncertainty is likely to limit upside on valuation and could pose downside risk for both CN and CP if the Canadian economy slips into a recession.



# Transportation & Industrial Products

	Stock Sym.	Stock Rating	Shares O/S (Mln)	Stock Price 10-31	Market Cap (Mln)	Last Year Reported	Cash EPS			P/E		EBITDA			EV/EBITDA		Net Debt / Cap	12-Mth Price Target	
							(A)	est.	est.	FY1	FY2	(A)	est.	est.	FY1	FY2		Target	Δ
Air Canada	AC	OP	358	18.60	6,659	12/2021	-10.25	-6.25	0.76	NA	24.4x	(1464)	1443	2864	10.5x	5.3x	113%	29.00	↓
Bombardier Inc.	BBD.b	OP	97	42.05	4,068	12/2021	-u2.05	-u0.94	u1.64	NA	25.6x	u641	u875	u1109	9.4x	7.4x	na	61.00	↑
BRP Inc.	DOO	OP	81	90.00	7,245	01/2022	9.92	11.53	11.77	7.8x	7.6x	1462	1671	1730	5.8x	5.6x	107%	136.00	
CAE Inc.	CAE	OP	318	28.37	9,027	03/2022	0.84	0.79	1.29	36.1x	22.0x	755	841	1089	16.0x	11.1x	42%	38.00	
Canadian National Rail	CNR	SP	684	163.26	111,719	12/2021	5.95	7.43	8.02	22.0x	20.4x	9.81	9.74	11.42	14.9x	13.8x	41%	173.00	
Canadian Pacific Rail	CP	SP	933	103.86	96,891	12/2021	3.76	3.50	4.58	29.7x	22.7x	5.41	4.19	6.50	26.9x	15.7x	35%	105.00	
Cargojet Inc.	CJT	SP	18	132.50	2,321	12/2021	5.85	8.28	8.00	16.0x	16.6x	293	355	372	8.2x	7.8x	42%	158.00	
Chorus Aviation Inc.	CHR	OP	203	2.74	556	12/2021	0.37	0.51	0.58	5.4x	4.7x	272	389	529	7.0x	5.2x	64%	5.00	
Exchange Income Corporation	EIF	OP	40	45.70	1,812	12/2021	2.26	2.93	3.10	15.6x	14.7x	330	452	532	7.0x	5.2x	62%	60.00	
Héroux-Devtek Inc.	HRX	OP	35	12.53	434	03/2022	0.95	0.50	1.04	25.3x	12.0x	83	68	94	8.6x	6.2x	29%	23.00	
NFI Group Inc.	NFI	SP	77	8.90	687	12/2021	-u0.17	-u1.98	u0.03	na	na	164	(56)	147	-27.4x	10.4x	50%	13.00	↓
Taiga Motors Corp.	TAIG	OP	31	4.24	134	12/2021	-5.72	-1.34	-1.78	NA	NA	(22)	(39)	(30)	na	na	na	8.00	
Transat A.T. Inc.	TRZ	UP	38	2.78	105	10/2021	-11.83	-10.20	-2.61	NA	NA	(214)	(153)	135	na	11.6x	na	2.50	
TFI International Inc.	TFII	OP	88	132.15	11,659	12/2021	u5.23	u8.04	u7.63	12.2x	12.9x	1051	1384	1345	7.4x	7.6x	40%	145.00	↓

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

Source: Company Reports, Refinitiv, NBF

u = US dollars

# Alphabetical Listing

SN Plus	VNP	64	CES Energy Solutions Corp.	CEU	45	Gildan	GIL	51	Northland Power	NPI	64	Tamarack Valley Energy	TVE	57
ABC Technologies	ABCT	49	CGI Inc.	GIB.A	66	goeasy	GSY	43	NorthWest H.P. REIT	NWH.un	61	Taseko Mines	TKO	52
AbraSilver Resource Corp	ABRA	54	Chartwell Retirement Residences	CSH.un	61	good natured Products Inc.	GDNP	45	NOVAGOLD Resources Inc.	NG	54	TC Energy Corp.	TRP	59
Advantage Oil & Gas	AAV	57	Chemtrade Logistics Income Fund	CHEUN	48	Goodfood Market	FOOD	51	Nuvei Corporation	NVEI	66	Teck Resources	TECKb	52
Adventus Mining	ADZN	52	Choice Properties REIT	CHP.un	61	Granite REIT	GRT.un	61	NuVista Energy	NVA	57	Tecsys Inc	TCS	66
Aecon Group	ARE	49	Chorus Aviation Inc.	CHR	69	Great-West Lifeco	GWO	42	O3 Mining Inc.	OIII	54	Telus Corp.	T	67
Ag Growth International Inc.	AFN	45	CIBC	CM	42	Green Impact Partners	GIP	57	OceanaGold Corp	OGC	54	Telus International	TIXT	66
Agnico-Eagle Mines Ltd	AEM	54	Cineplex Inc.	CGX	67	H&R REIT	HR.un	61	Open Text Corporation	OTEX	66	TFI International Inc.	TFII	69
Air Canada	AC	69	Cogeco Communications Inc.	CCA	67	H2O Innovation	HEO	48	Osisko Development	ODV	54	The Lion Electric Company	LEV	64
AirBoss of America Corp.	BOS	45	Colliers International	CIGI	49	Hardwoods Distribution	HDI	62	Osisko Gold Royalties Ltd	OR	54	Theratechnologies	TH	48
Akumin	AKU	48	Constellation Software Inc.	CSU	66	Headwater Exploration	HWX	57	Osisko Mining	OSK	54	Thinkific Labs Inc.	THNC	66
Alamos Gold Inc	AGI	54	Converge Technology Solutions	CTS	66	Héroux-Devtek Inc.	HRX	69	Ovintiv Inc (US\$)	OVV	57	Thomson Reuters Corp.	TRI	67
Alaris Equity Partners Income Trust	AD	62	Copper Mountain Mining	CMMC	52	Home Capital Group	HCG	43	Pan American Silver	PAAS	54	Tidewater Midstream	TWM	59
Algonquin Power	AQN	64	Copperleaf Technologies	CPLF	66	Hudbay Minerals	HBM	52	Paramount Resources	POU	57	Tidewater Renewables	LCFS	57
Alithya Group Inc.	ALYA	66	Corus Entertainment Inc.	CJR.b	67	Hydro One Ltd.	H	59	Park Lawn Corporation	PLC	62	Timbercreek Financial	TF	43
Allied Properties REIT	AP.un	61	Couche Tard	ATD.b	51	iA Financial	IAG	42	Parkland Fuel Corporation	PKI	51	TMX Group	X	43
AltaGas	ALA	59	Coveo Solutions Inc.	CVO	66	IAMGOLD Corp	IMG	54	Pason Systems Corp.	PSI	45	Topaz Energy	TPZ	57
Altius Renewable Royalties Corp	ARR	64	Crescent Point Energy Corp.	CPG	57	IGM Financial Inc.	IGM	43	Pembina Pipelines	PPL	59	Torex Gold Resources Inc	TGX	54
Altus Group Limited	AIF	66	Crew Energy	CR	57	Imperial Oil	IMO	57	Pet Valu	PET	51	Toromont Industries Ltd.	TIH	49
American Hotel Income Properties	HOT.un	61	Crombie REIT	CRR.un	61	Innervex	INE	64	Peyto Exploration & Development	PEY	57	Toronto-Dominion Bank	TD	42
Anoergia	ANRG	57	CT REIT	CRT.un	61	Inovalis REIT	INO.un	61	Pipestone Energy	PIPE	57	Tourmaline Oil	TOU	57
Andlauer Healthcare Group	AND	48	D2L Inc.	DTOL	66	Intact Financial Corp.	IFC	43	Pivotree Inc.	PVT	66	TransAlta	TA	59
ARC Resources Ltd.	ARX	57	Definity Financial Corp.	DFY	43	Integra Resources Corp.	ITR	54	Polaris Renewable	PIF	64	TransAlta Renewables	RNW	64
Aris Mining Corp.	ARIS	54	dentalcorp Holdings	DNTL	48	InterRent REIT	ILP.un	61	Power Corporation of Canada	POW	43	Transat A.T. Inc.	TRZ	69
Arizona Metals	AMC.V	52	Dexterra Group Inc.	DXT	62	Invesque	IVQu	61	PrairieSky Royalty	PSK	57	Transcontinental Inc.	TCLa	67
Artemis Gold Inc.	ARTG	54	Dialogue Health Technologies	CARE	48	Jamieson Wellness	JWEL	48	Precision Drilling Corp.	PD	57	Trican Well Services	TCW	57
Artis REIT	AX.un	61	Docebo Inc.	DCBO	66	K92 Mining Inc.	K	54	Premium Brands Holdings	PBH	51	Tricon Capital Group	TCN	61
ATCO Ltd.	ACO	59	Dollarama	DOL	51	K-Bro Linen	KBL	48	Pretium Resources	PVG	54	Trilogy Metals	TMQ	52
ATS Automation	ATA	49	Doman Building Materials	DBM	62	Kelt Exploration	KEL	57	Q4 Inc.	QFOR	66	Triple Flag Precious Metals Corp	TFPM	54
AutoCanada	ACQ	49	DREAM Industrial REIT	DIR.un	61	Keyera	KEY	59	Quebecor Inc.	QBR.b	67	Trisura Group Ltd.	TSU	43
Automotive Properties REIT	APR.un	61	DREAM Office REIT	Dun	61	Killam Apartment REIT	KMP.un	61	Real Matters Inc.	REAL	66	True North Commercial REIT	TNT.un	61
Aya Gold and Silver	AYA	54	Dream Residential REIT	DRR.un	61	Kinox Inc.	KXS	66	Richelieu Hardware	RCH	62	TVA Group Inc.	TVA.b	67
B2Gold	BTO	54	DRI Healthcare Trust	DHT.UT	48	Kinross Gold Corp	K	54	RioCan REIT	REI.un	61	Uni-Sélect	UNS	62
Ballard Power Systems	BLDP	64	Dundee Precious Metals	DPM	54	Kiwitohk	KEC	57	RBA Auctioneers	RBA	49	Vermilion Energy Inc.	VET	57
Bank of Montreal	BMO	42	E Automotive Inc.	EINC	66	Knight Therapeutics	GUD	48	Rogers Communications Inc.	RCL.b	67	VerticalScope Holdings Inc.	FORA	67
Bank of Nova Scotia	BNS	42	ECN Capital	ECN	43	KP Tissue	KPT	62	Rogers Sugar	RSI	48	Wesdome Corp.	WDO	54
Barrick Gold	ABX	54	Eldorado Gold Corp	ELD	54	Lassonde	LAS.a	51	Royal Bank of Canada	RY	42	Wheaton Precious Metals Corp	WPM	54
Baytex Energy	BTE	57	Element Fleet Management	EFN	43	Laurentian Bank	LB	42	Royal Gold Inc	RGLD	54	Whitecap Resources	WCP	57
BCE Inc.	BCE	67	Emera Inc.	EMA	59	Liberty Gold Corp	LGD	54	Sabina Gold and Silver Corp.	SBB	54	WildBrain Ltd.	WILD	67
Birchcliff Energy	BIR	57	Empire Company	EMPa	51	Lightspeed Commerce Inc.	LSPD	66	Sandstorm Gold Ltd	SSL	54	WSP Global	WSP	49
Bird Construction Inc.	BDT	49	Enbridge Inc.	ENB	59	Lithium Americas	LAC	52	Saputo	SAP	51	Xebec Adsorption	XBC	64
Blackline Safety Corp.	BLN	66	Enbridge Inc.	ENB	59	Loblaws	L	51	Savaria Corporation	SIS	62	Yamana Gold Inc	YRI	54
Boardwalk REIT	BEI.un	61	Enerflex Ltd.	EFX	45	Loop Energy Inc	LPEN	64	Secure Energy	SES	59	Yangarra Resources	YGR	57
Bombardier Inc.	BBD.b	69	Enerplus Corporation (\$US)	ERF	57	Lucero	LOU	57	Shaw Communications	SJR.b	67	Yellow Pages Ltd.	Y	67
Boralex	BLX	64	EQB Inc.	EQB	43	Lundin Gold Inc.	LUG	54	Shawcor Ltd.	SCL	45			
Boyd Group Services Inc.	BYD	62	Equinox Gold Corp	EQX	54	Lundin Mining	LUN	52	Sherritt International	S	52			
Bravo Mining	BRVO	52	ERES REIT	ERE.un	61	MAG Silver Corp	MAG	54	Shopify Inc.	SHOP	66			
Brookfield Business Partners	BBU	43	Ero Copper	ERO	52	Magnet Forensics Inc.	MAGT	66	Sienna Senior Living	SIA	61			
Brookfield Infrastructure	BIP	59	Exchange Income Corporation	EIF	69	Manulife Financial	MFC	42	Sigma Lithium	SGML	52			
Brookfield Renewable	BEP	64	Extencare	EXE	61	Marathon Gold Corp.	MOZ	54	Slate Office REIT	SOT.un	61			
BRP Inc.	DOO	69	Fairfax Financial Holdings	FFH	43	Maverix Metals Inc	MMX	54	Sleep Country Canada	ZZZ	51			
BSR REIT	HOM.un	61	Farmers Edge Inc.	FDGE	66	mdf commerce inc.	MDF	66	SmartCentres REIT	SRU.un	61			
BTB REIT	BTB.un	61	Fiera Capital Corp.	FSZ	43	Medical Facilities Corp.	DR	48	SNC-Lavalin	SNC	49			
CAE Inc.	CAE	69	Filo Mining	FIL	52	MEG Energy	MEG	57	Softchoice Corp	SFTC	66			
Canadian National Rail	CNR	69	Finning International Inc.	FTT	49	Metro	MRU	51	Solaris Resources	SLS.TO	52			
Canadian Natural Resources	CNQ	57	First Capital REIT	FCR	61	Minera Alamos Inc.	MAI	54	Spartan Delta	SDE	57			
Canadian Pacific Rail	CP	69	First Majestic Silver Corp	FR	54	Minto Apartment REIT	MLun	51	Spin Master Corp.	TOY	67			
Canadian Tire	CTC.a	51	First National Financial	FN	43	MTY Food Group	MTY	51	SSR Mining Inc	SSRM	54			
Canadian Utilities	CU	59	First Quantum Minerals	FM	52	Mullen Group Ltd.	MTL	45	Stantec Inc.	STN	49			
Canadian Western Bank	CWB	42	Flagship Communities REIT	MHCu.TO	61	NanoXplore	GRA	64	Stelco	STLC	49			
CAP REIT	CAR.un	61	Foran Mining	FOM.V	52	National Bank	NA	42	Stella-Jones	SJ	49			
Capital Power	CPX	59	Fortis Inc.	FTS	59	National Energy Services Reunited	NESR	57	Stingray Group Inc.	RAY.a	67			
Capstone Copper	CS	52	Fortuna Silver Mines Inc	FVI	54	Neighbourly Pharmacy Inc.	NBLV	62	StorageVault Canada	SVI.V	61			
Carbon Streaming Corp.	NETZ	54	Franco-Nevada Corp	FNV	54	New Gold Inc	NGD	54	Summit Industrial	SMU.un	61			
Cargojet Inc.	CJT	69	Freehold Royalties	FRU	57	Newmont	NGT	54	Sun Life Financial	SLF	42			
Cascades	CAS	62	G Mining Ventures	GMIN	54	Next Hydrogen Solutions Inc.	NXH	64	Suncor Energy	SU	57			
CCL Industries Inc.	CCL.b	67	GDI Integrated Facility Services	GDI	62	Nexus Industrial REIT	NXR.un	61	Superior Plus	SPB	59			
Cenovus Energy	CVE	57	GFL Environmental Inc.	GFL	64	NFI Group Inc.	NFI	69	Surge Energy	SGY	57			
Centerra Gold Inc	CG	54	Gibson Energy	GEI	59	North American Construction Group Ltd.	NOA	49	Taiga Motors Corp.	TAIG	69			

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