OCTOBER 2022

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion Chief Economist and Strategist	514-879-3781
Matthieu Arseneau Deputy Chief Economist	514-879-2252
Kyle Dahms Economist	514-879-3195
Alexandra Ducharme Economist	514-412-1865
Angelo Katsoras Geopolitical Analyst	514-879-6458
Daren King Economist	514-412-2967
Jocelyn Paquet Economist	514-412-3693

Toronto Office

Warren Lovely Chief Rates and Public Sector Strategist	416-869-8598
Taylor Schleich Rates Strategist	416-869-6480

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson	416-507-8007

ESG

Baltej Sidhu	403-290-5627

ETFs & Financial Products

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

Healthcare & Biotechnology

Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476

Industrial Products

Maxim Sytchev	416-869-6517
Associate: Kazim Naqvi	416-869-6754
Assoc: Roman Pshenychnyi	416-869-7937

Merchandising & Consumer Products

Vishal Shreedhar	416-869-7930
Associate: Gabriel Chiu	416-507-9009
Associate: Ryan Li	416-869-6767

Metals & Mining

Don DeMarco	416-869-7572
Associate: Yi Liu	416-869-8524
Shane Nagle	416-869-7936
Associate: Lola Aganga	416-869-6516
Associate: Sameer Keswani	416-869-8029
Associate: Adam Smiarowski	416-869-7535
Michael Parkin	416-869-6766
Associate: Alessandro Cairo	416-869-8511
Associate: Andrew Dusome	416-507-8177
Rabi Nizami	416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne	403-290-5441
Associate: Trevor Martensson	403-290-5624
Associate: Nick Stevenson	403-441-0928

› *Large Cap Oil & Gas*

Travis Wood	403-290-5102
Associate: Logan Fisher	403-441-0933
Associate: Jacob Swan	403-290-5445

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny	403-290-5451
Associate: William Duforest	403-441-0952
Associate: Johnathan Pescod	403-355-6643

Real Estate

Matt Kornack	416-507-8104
Associate: Anthony Bogdan	416-869-7935
Tal Woolley	416-507-8009
Associate: Giuliano Thornhill	416-507-8108
Associate: Joshua Turanich	437-684-1594

Special Situations

Zachary Evershed	514-412-0021
Associate: Thomas Bolland	514-871-5013
Associate: Nathan Po	416-660-1740
Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476

Sustainability & Clean Tech

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

Technology

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

Technical Analysis

Dennis Mark	416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

Greg Colman Managing Director Head of Research	416-869-6775
Tanya Bouchard Managing Director	416-869-7934

Research Publications

Vanda Bright Manager Publishing Services	416-869-7141
Wayne Chau Publishing Associate	416-869-7140

Information

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

Table of Contents

NBF Disclosures, please visit URL:
http://www.nbcn.ca/contactus/disclosures.html

Highlights

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

Economy

› Except for the Bank of Japan, all the major central banks have raised their policy rates in recent months, some at the steepest pace in decades. When the U.S. economy recovered especially quickly from the pandemic shock, the Federal Reserve had no choice but to lead this tightening, which is now bringing multiple problems. The central banks of countries where inflation remains relatively subdued simply cannot follow the Fed's pace, something which encourages capital outflows and puts strong downward pressure on currencies. In economies with high inflation, policymakers have been able to better match the Fed's actions, but this has led to a rapid tightening of financial conditions that is now weighing heavily on growth. Signs of a slowdown are particularly visible in Europe and in emerging countries. After an expected expansion of 3.0% in 2022, we anticipate the world economy to grow just 2.2% in 2023.

› The amplitude of the global slowdown will thus depend on the decisions of the Federal Reserve. Unfortunately, the U.S. central bank is quite unlikely to stop tightening before the end of this year. Federal Open Market Committee members instead seem inclined to maintain the pace of current hikes for some time yet, to judge by the dot plot published following its meeting of September 20-21. It's hard to find fault with them when indicators seem to show a resilient economy. But despite the economy's resilience in response to rate hikes so far, their consequences will be felt sooner or later. In addition to weighing heavily on global equity markets, the tightening of monetary policy could stifle the real estate market and put a damper on consumers. We expect that economic growth will stagnate in the three quarters following its third quarter jump. A contraction of real GDP in the first half of 2023 is even conceivable. Such an outlook will, we hope, encourage the Fed to end and then reverse its tightening, breathing a bit of life into the economy in the second half of next year. U.S. GDP, after expanding 1.8% in the year now ending, would then be likely to grow only 0.2% next year before regaining some vigour in 2024.

› All is going well for the Bank of Canada so far. There are positive developments on the inflation front and the pace of the economy has moderated significantly but not catastrophically in recent months. But its work will be judged by the landing of the economy in 2023 and the inflation path afterward. The time lag for monetary policy to take effect means that in acting as quickly as it has, the Bank does not have the time to assess the effect of its actions and adjust if appropriate. Unfortunately we will know only after the fact whether it has gone too far. So it is normal for observers to be nervous (ourselves included). One thing is certain: we are already seeing a marked slowdown in real estate, entailing a deflation of home prices exacerbating the unprecedented negative wealth effect on households in the first half of 2022. In our view, interest rates at such levels will not be needed for long to calm inflation. We accordingly see the Fed and the Bank of Canada lowering them substantially in the second half of 2023. Given North American monetary tightening more pronounced than previously expected, we are lowering our forecast of Canadian economic growth in 2023 from 1.1% to a lethargic 0.7%.

Interest rates and currency

› Policy fine-tuning must wait. The near-term focus remains on driving North American policy rates into legitimately restrictive territory post haste. That suggests a fourth consecutive 75 basis point hike from the Fed on November 2nd, followed by at least another 50 basis points in December. That would bring cumulative FOMC tightening to no less 425 bps in nine months' time, a 'normalization' pace that's anything but patient or deliberate.

› As it stands, a sixth straight hike from the BoC is in the offing (October 26th), the debate on sizing centering on 50 or 75 basis points. As per our detailed interest rate forecast, we formally project a 50 bp move at the end of October, although with the Bank's patience running thin a larger move is entirely possible. Calendar 2022's final BoC decision should involve another tightening, 25 to 50 bps a potentially realistic range for December, assuming inflation momentum fades further. At a minimum then, it seems the Bank will deliver another 75 basis points of policy rate tightening before the year is out, with risks distinctly to the higher side. That will add to the 300 basis points already delivered since early March.

› Importantly, our Economics colleagues continue to anticipate meaningful U.S. inflation relief in 2023, key measures seen coming off quicker than current consensus or FOMC thinking. That's a vital stipulation when it comes to our rates forecast. If secured, rapid inflation relief would argue for somewhat less tightening than what is discounted and a quicker onset of easing than traders currently contemplate.

› USD/CAD broke through its 1.32 resistance against the USD in September due to deteriorating global financial conditions and volatile energy prices. With inflation cooling faster in Canada than in the U.S. and the BoC unlikely to overtake the Fed in the coming months, as we expected, we do not see opportunities for a significant strengthening of the CAD against the USD until an FOMC pivot, which we expect in H1 2023. We see USD/CAD at 1.39 at the end of Q4 22 and at 1.30 at the end of Q2 23.

Recommended asset mix and stock market

› The Fed's decisively hawkish tone certainly complicates matters for global equity markets, which were already facing heightened financial stress and a challenging earnings outlook due to the slowing economy. With no relief in sight on interest rates, stock indices around the world have hit new cyclical lows, with most regions back in bear market territory at the end of Q3.

› Thanks to a spectacular recovery propelled by an extremely accommodating monetary and fiscal policy, we are 11 months into the mature phase of the business cycle. The slope of the yield curve (the difference between the 10-year Treasury yield and the 3-month Treasury bill) generally flattens during the mature phase

Highlights

as monetary policy becomes increasingly tight and economic conditions turn less favorable for risky assets. An even more negative signal for the economy and the stock market is the inversion of the yield curve (YC). Though the YC remains positive for now, but the risks of an inversion are rising as the Federal Reserve intends to raise its policy rate higher.

- If history is any guide, an inverted yield curve in the mature phase of the cycle does not bode well for U.S. stocks. Energy and materials are the sectors that normally fare best at the start of an inversion, with Gold posting significant positive gains. As the S&P/TSX is more concentrated in these sectors, Canadian equities tend to do better than U.S. stocks in this environment.
- Our asset allocation is modified this month to reflect a potential inversion of the yield curve. Our fixed income exposure is increased by 3% at the expense of cash. The recent dramatic tightening of U.S. financial conditions has been accompanied by a drop of money supply growth to a level that historically has not been considered inflationary.
- Our S&P/TSX sector allocation is modified this month as we consider the risks of tighter monetary policy and economic lethargy. We move information technology and utilities from underweight to market weight and consumer staples from market weight to overweight. To make room for these sectors, we are reducing our exposure to industrials and consumer discretionary given economic headwinds (from market weight to underweight).

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	18.8	Overweight	
Materials	12.0	Overweight	
Industrials	13.2	Underweight	↓
Consumer Discretionary	3.6	Underweight	↓
Consumer Staples	4.2	Overweight	↑
Healthcare	0.4	Market Weight	
Financials	30.6	Market Weight	
Information Technology	5.2	Market Weight	↑
Telecommunication Services	4.9	Market Weight	
Utilities	4.8	Market Weight	↑
Real Estate	2.5	Underweight	
Total	100.0		

* As of October 11, 2022

The Economy

The Economy

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

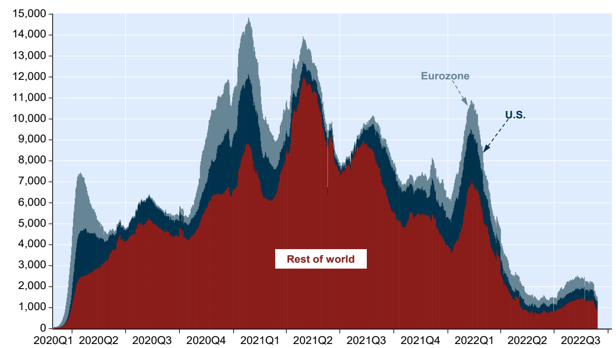
Jocelyn Paquet
Economist
514-412-3693

Daren King
Economist
514-412-2967

World: The heritage of Covid-19

The end of the pandemic may be "near at hand," as World Health Organization director general Tedros Adhanom Ghebreyesus put it on September 14, but its heritage could shape the global economy for years to come. From a strictly epidemiological point of view, the global population will very likely have to deal with new waves of Covid-19, but in most countries their effect on the economy is likely to subside over time if the virus continues to decline in virulence. Yes, China may cling to its zero-Covid policy for some time yet, bringing further ups and downs in growth, but sooner or later it will have to follow the path of the rest of the world and completely reopen its economy.

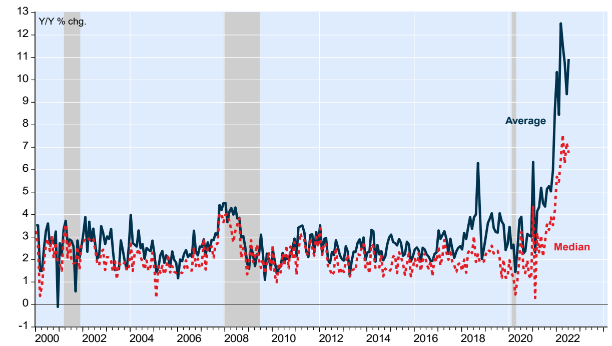
World: Health impact of the pandemic is subsiding …
Confirmed new deaths from Covid-19, 7-day moving average



NBF Economics and Strategy (IMF data)

It is not the public-health effects of the pandemic that worry us the most about the future, but rather the structural changes it will have brought to the global economic landscape. Before Covid-19, most of the major economies operated in a framework defined by fairly accommodative monetary policies and relatively restrictive fiscal policies. After two and a half years of pandemic, the model seems to have completely reversed. Fiscal restraint was the first to go, as governments of many countries found themselves obliged to respond to the crisis by introducing broad fiscal support programs. Though necessary to save their economies from complete collapse, these programs look retrospectively both too large and too long-lasting, especially in North America. Household incomes, instead of falling as in a normal recession, rose in several regions of the world, bringing a substantial increase in demand for goods. Global supply chains, already hit by shutdowns linked to Covid-19, were unable to keep up, and prices of many staples shot up. As reopenings progressed, inflation spread from goods to services via large pay raises. So much so that the major central banks, after describing the new price dynamic as transient, had to face the reality that inflation was a problem that would not go away by itself.

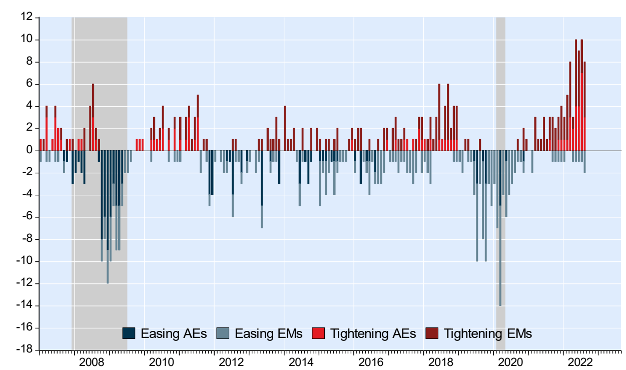
… but the economic consequences remain
Core inflation in a group of 35 large economies*



* About 81% of global GDP (measured at purchasing-power parity)
NBF Economics and Strategy (IMF data)

With their credibility at stake, central bankers abandoned the pillar of the pre-pandemic economy that accommodative monetary policy had been. Except for the Bank of Japan, all the major central banks have raised their policy rates, some at the steepest pace in decades. Many have also ended their asset-purchase programs.

World: Central banks forced to react to surging inflation
Number of policy-rate hikes/cuts each month in G-20 countries



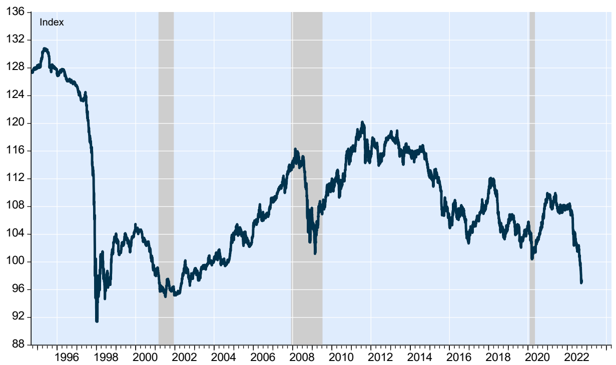
NBF Economics and Strategy (IMF data)

When the U.S. economy recovered especially quickly from the pandemic shock, the Federal Reserve had no choice

The Economy

but to lead this tightening, which is now bringing multiple problems. The central banks of countries where inflation remains relatively subdued – most of them in Asia – simply cannot follow the Fed's pace. Why would they risk braking growth by hiking their policy rates when inflation is under control? Though this stance is appropriate from a purely theoretical perspective, a rise of U.S. rates encourages movement of capital to the U.S. from countries where rates have risen less or not at all, putting many Asian currencies under strong downward pressure.

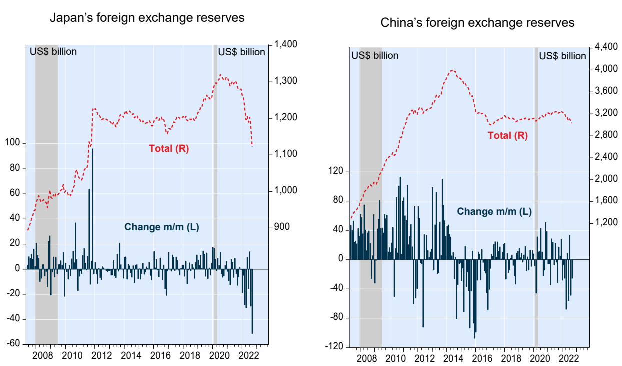
Asia: Currencies under pressure
Bloomberg JPMorgan Asia Dollar Index



NBF Economics and Strategy (Bloomberg data)

Some countries have tried to draw on their foreign-exchange reserves to defend their currencies, but these efforts have had only limited effect.

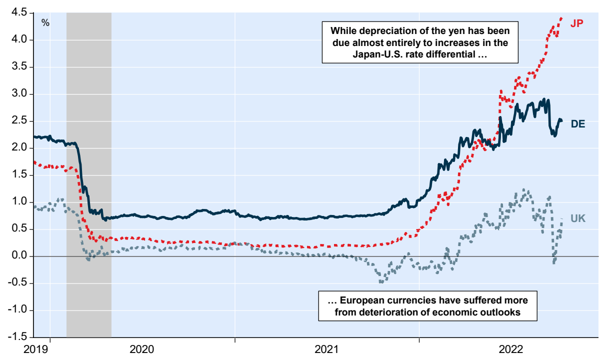
World: Low-inflation countries forced to defend their currencies



NBF Economics and Strategy (Bloomberg data)

What about advanced economies like those of Europe, where high inflation has enabled central banks to emulate the Fed better? Well, the monetary tightening undertaken in Europe has failed to stop the euro and the pound from falling against the USD. In both these cases, devaluation was related less to rate differential than to deterioration of economic outlooks. After all, Europe currently faces a serious energy crisis due to Russia's invasion of Ukraine.

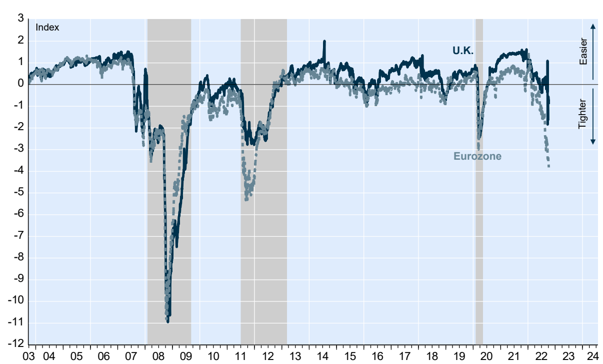
Europe: Currencies also in free all, but not for the same reasons
Differentials between U.S. 1-year bond rate and 1-year bond rates of Japan, Germany and U.K.



NBF Economics and Strategy (Refinitiv data)

To limit the effects of this conflict on households and businesses, most governments are preparing to deploy huge fiscal outlays. In doing so, however, they risk raising their borrowing needs at a time when their central banks are reducing their balance sheets, an asymmetry that has not gone unnoticed by the bond markets. Fiscal prodigality has indeed accentuated the upward pressure on rates in the longer-term portion of the rate curve and contributed to the further stiffening of financial conditions.

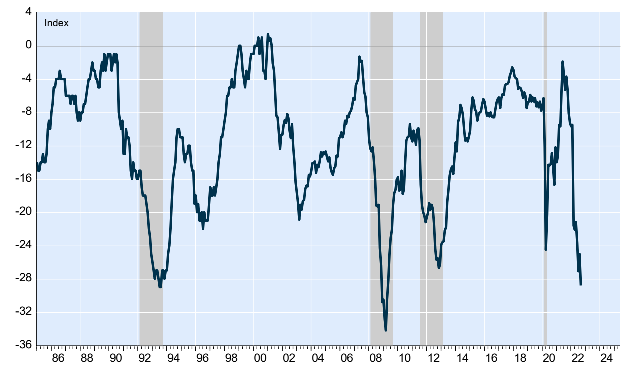
Eurozone: Rapid tightening of financial conditions
Bloomberg Financial Conditions Indexes



NBF Economics and Strategy (Bloomberg data)

The addition of higher interest rates to the list of challenges facing European households has also resulted in a decline of confidence ...

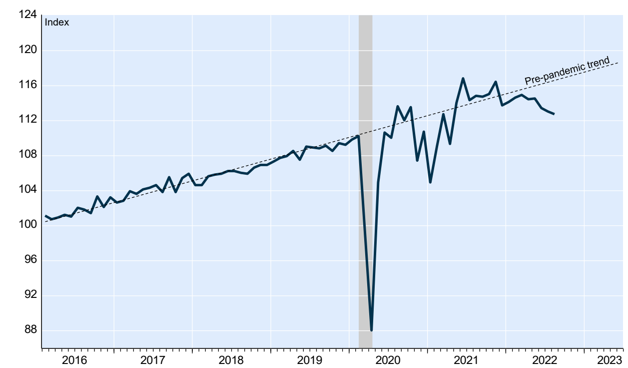
Eurozone: Household confidence at a record low
European Commission consumer sentiment index



NBF Economics and Strategy (Refinitiv data)

... and in a stagnation of spending.

Eurozone: Real consumer spending seems to be falling below trend
Volume retail sales



NBF Economics and Strategy (Bloomberg data)

Under these conditions we see the U.K. and Eurozone economies entering recession in this final quarter of 2022. These contractions, combined with mediocre growth in a number of emerging countries, notably China, are likely to weigh on global growth next year. Following an expansion of 3.0% in 2022, we expect a further advance of only 2.2% in 2023.

The Economy

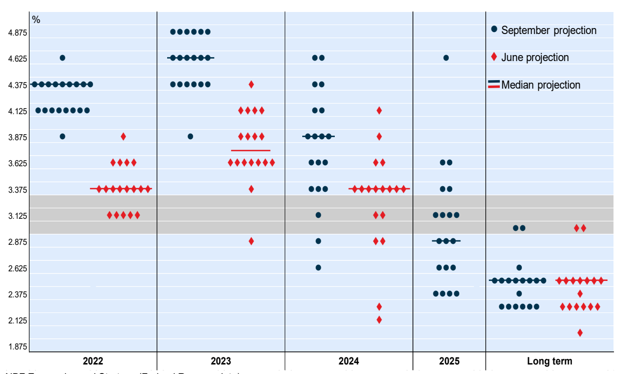
World Economic Outlook	2021	2022	2023
Advanced Economies	5.3	2.4	0.4
United States	5.9	1.8	0.2
Eurozone	5.2	3.0	-0.7
Japan	1.8	1.6	1.3
UK	8.5	3.5	-0.5
Canada	4.7	3.2	0.7
Australia	5.0	4.0	1.9
Korea	4.1	2.5	1.9
Emerging Economies	6.6	3.5	3.6
China	8.1	3.4	4.5
India	8.7	6.8	6.0
Mexico	4.8	1.9	1.4
Brazil	4.8	2.5	1.1
Russia	4.7	-4.5	-2.0
World	6.1	3.0	2.2

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

The U.S.: An economy still resilient ... for now

So the amplitude of the global slowdown will depend on the decisions of the Federal Reserve. Unfortunately, the U.S. central bank is quite unlikely to stop tightening before the end of this year. Federal Open Market Committee members instead seem inclined to maintain the pace of current hikes for some time yet, to judge by the dot plot published following its meeting of September 20-21.

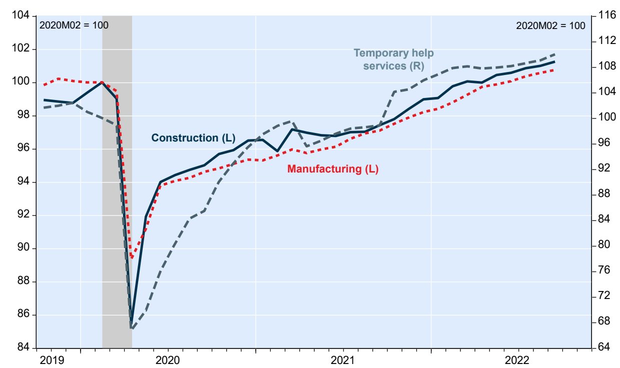
U.S.: FOMC members intend to stay the course with rate hikes
FOMC members' expectations of appropriate policy rates (current target range 3.00%-3.25%, in gray)



NBF Economics and Strategy (Federal Reserve data)

It's hard to find fault with them when indicators seem to show a resilient economy. On the employment side, not only do the September reports continued to show healthy gains, but their details were almost entirely upbeat. The payroll survey showed good progress in private-sector hiring (+288K jobs), notably in cyclical sectors such as manufac¬turing (+22K) and construction (+19K). Temporary help services, a good leading indicator of overall employment, also show a solid gain (+27K).

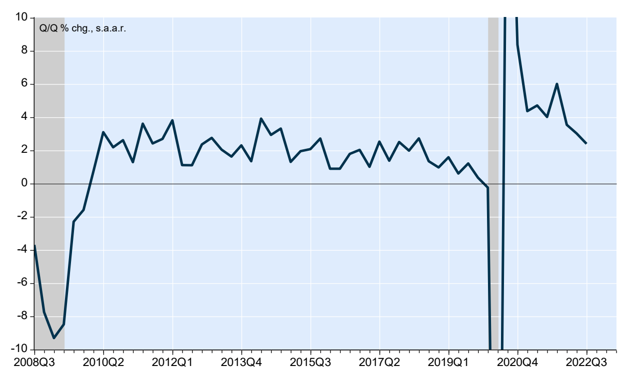
U.S.: Cyclical components of employment are still on the rise ...
Nonfarm payroll employment



NBF Economics and Strategy (Refinitiv data)

Total hours worked continued to rise – 2.4% annualized in the third quarter, a result suggesting that the economy returned to expansion in Q3.

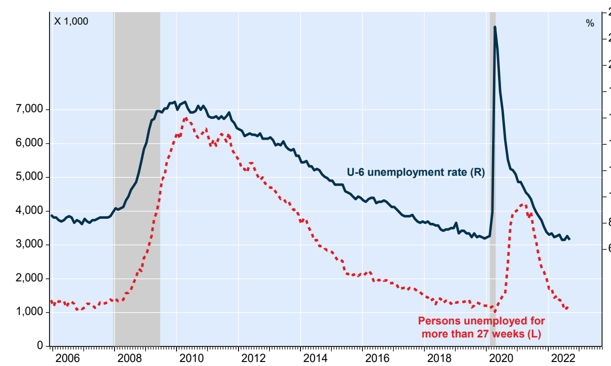
... as are hours worked
Aggregate hours worked



NBF Economics and Strategy (Refinitiv data)

The household survey also brought encouraging news items. Full-time employment showed a distinct recovery – +326K after three months of contraction. The U-6 unemployment rate, which counts underemployed people, people attached only marginally to the workforce and people who have abandoned the search for a job, improved from 7.0% to 6.7%, a record low. Long-term unemployment was the lowest since the beginning of the pandemic and the number of people working part-time for economic reasons continued to fall.

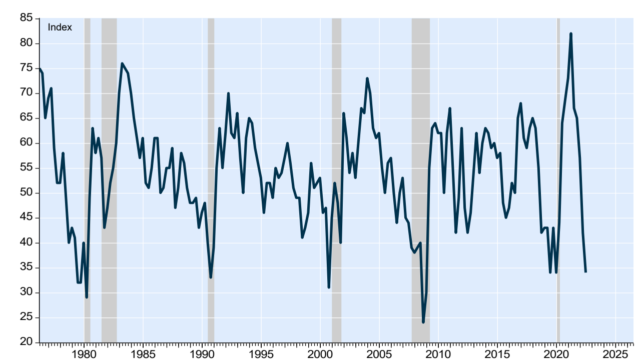
U.S.: Broadest unemployment measures are looking good
U-6 and long-term unemployment



NBF Economics and Strategy (Refinitiv data)

Not to minimize the vigour of the September employment reports, but we think they could mark a turning point in the U.S. labour market. Darker clouds are visible on the horizon as the global economy slows. Deterioration of the outlook has not gone unnoticed by business executives. On the contrary: the Conference Board has noted a signification downturn in confidence in the third quarter of the year, a reading that in the past has often been synonymous with hiring slowdown.

U.S.: CEOs less optimistic about the economy
Conference Board Measure of CEO Confidence

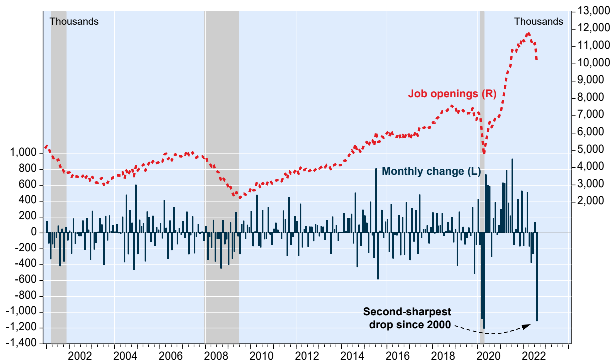


NBF Economics and Strategy (Refinitiv data)

The Economy

For August, whether or not coincidentally, the U.S. Bureau of Labor Statistics reported the second-largest decline in the number of job openings since the data series began in 2000. Vacant positions are still abundant relative to unemployment, but the reversal of trend is clear and suggests a less vigorous period ahead for the labour market.

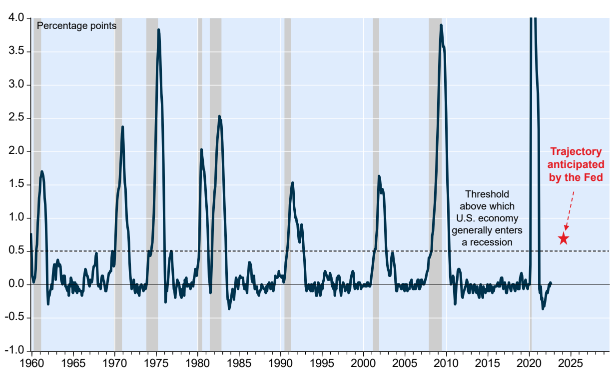
U.S.: Large August drop in help wanted
Job openings



NBF Economics and Strategy (Refinitiv data)

And though some would say a slower labour market is exactly what the Fed wants at this stage to cool inflation, we keep in mind that soft landings have been very difficult to bring off in the past. The well-known Sahm rule stipulates that when the three-month-moving-average of the unemployment rate rises half a percentage point or more in a one-year period, a recession is almost inevitable. Judging by the Fed's own forecasts, it seems to want to test this rule in coming months.

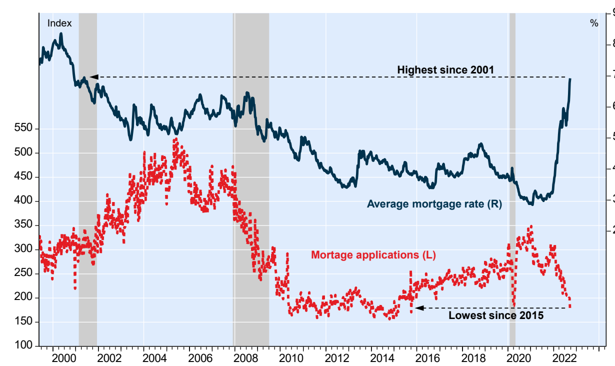
U.S.: The soft-landing bet
12-month change in three-month-moving-average unemployment rate (Sahm rule)



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

To us this bet seems ambitious. In addition to weighing heavily on global equity markets, tightening of monetary policy could stifle the real estate market. Home resales have at last report fallen 28% from their recent high and are now well below the pre-pandemic level. The situation could well deteriorate– in the week ending September 30, the number of mortgage-loan applications was down 12.6% from the week before, the third-largest weekly drop in a decade.

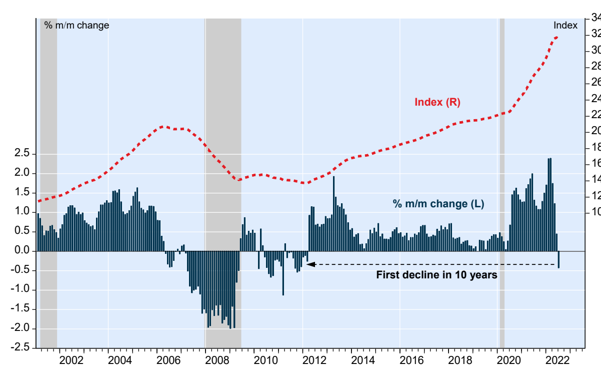
U.S.: A real-estate market feeling the weight of rate hikes
Average rate for 30-year fixed-rate mortgage vs. mortgage applications for purchases (excluding refinancing)



NBF Economics and Strategy (Bloomberg data)

Lack of demand let home prices down in August for the first time in 10 years. This retreat could, in our view, be the first in a long series.

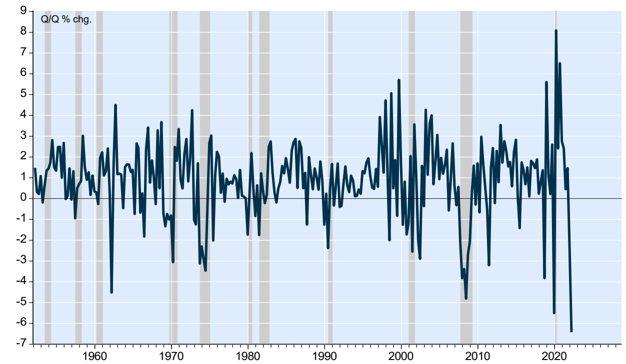
U.S.: Home-price declines – first in a long series?
S&P CoreLogic Case-Shiller 20-City Composite Home Price Index



NBF Economics and Strategy (Bloomberg data)

The fall in value of household net worth due to the decline of home-property values, combined with the poor showing of equity and bond markets, will in the end affect consumer spending. In the second quarter, household net worth already showed a record drop in real terms. The third quarter looks to come in hardly better.

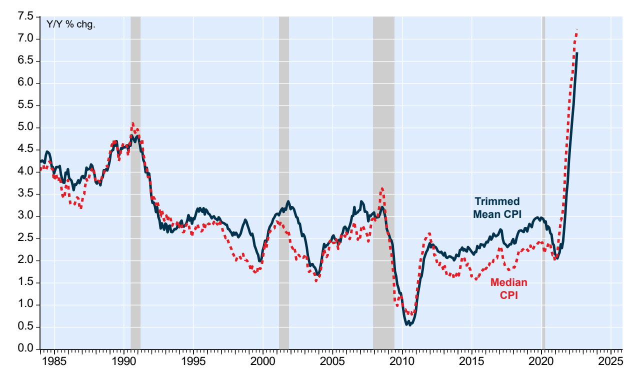
U.S.: Drop in wealth should eventually be reflected in consumption
Household wealth (real terms)



NBF Economics and Strategy (Bloomberg data)

Since households can still draw on substantial excess savings, the effects of the fall in value of assets will take time to show in the economy. That time lag increases the risk of excessive Fed tightening. So from now until the combined effect of rate hikes and declines of asset prices become clearer, the Fed will probably feel justified in continuing to hike its policy rates. Unacceptably high underlying inflation will give it all the justification it needs.

U.S.: Core inflation forces the Fed's hand
Consumer price index – core measures compiled by Cleveland Fed



NBF Economics and Strategy (Bloomberg data)

But despite the economy's resilience in response to rate hikes so far, their consequences will be felt sooner or

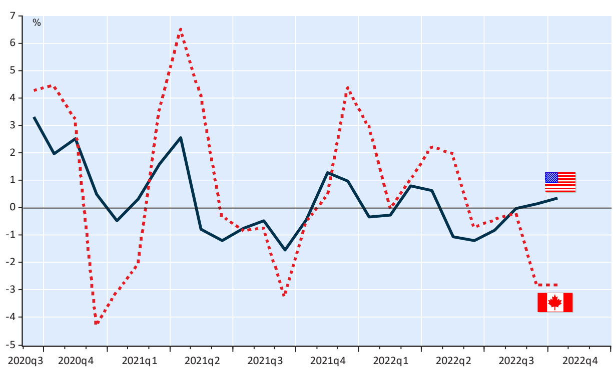
The Economy

later. We expect that economic growth will stagnate in the three quarters following its third quarter jump. A contraction of real GDP in the first half of 2023 is even conceivable. Such an outlook will, we hope, encourage the Fed to end and then reverse its tightening, breathing a bit of life into the economy in the second half of next year. U.S. GDP, after expanding 1.8% in the year now ending, would then be likely to grow only 0.2% next year before regaining some vigour in 2024.

Canada: So far so good

Canada's central bank, like others, is fighting inflation with a breakneck pace of monetary tightening. After 300 basis points of hikes since March, further rate rises can be expected in the coming month. Bank of Canada governor Tiff Macklem reiter-ated at a recent public appearance that domestic demand was still too strong. He said the labour market was still too tight and would keep domestic inflationary pressures still too high. It is understandable that the governor, intending to hike the policy rate further, wants at this point to avoid suggesting that the situation is under control, but he omits to recognize encouraging signs in his struggle. The pace of the economy has moderated significantly but not catastrophically in recent months.

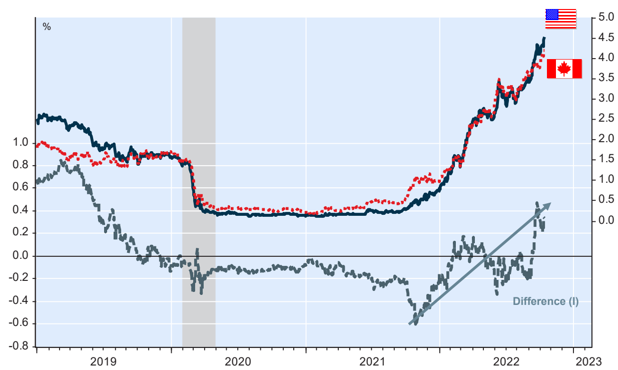
Canada: The Canadian economy has moderated
Goldman Sachs Economic Surprise Index - US vs. Canada



NBF Economics and Strategy (data via Refinitiv)

For this reason we are tempted to say "so far so good" in the concern for a hard landing. Economic indicators are moving in the right direction, suggesting that monetary tightening can be less aggressive than it is south of the border. This at least is what is suggested by the U.S.-Canada spread of 2-year interest rates, higher in the U.S.

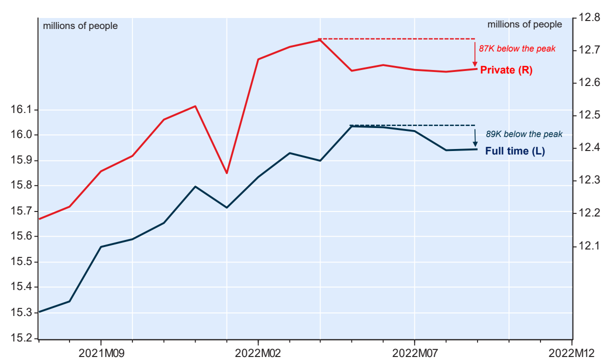
Canada: Interest rate spreads reversed over the past year
Policy rate: Canada and United States



NBF Economics and Strategy (data via Refinitiv)

As for the labour market, there are side divergences of trend between the U.S. and Canada. Yes, Canada added 21,000 jobs in September, but that's hardly enough to say Canadian employment has the wind in its sails after the cumulative loss of 113,000 in the previous three months. Other points in the September report were less than sparkling, in particular a weak gain in full-time jobs, which remain 89,000 below their May peak. And the September gain in private-sector jobs leaves them still down 87,000 from their April peak.

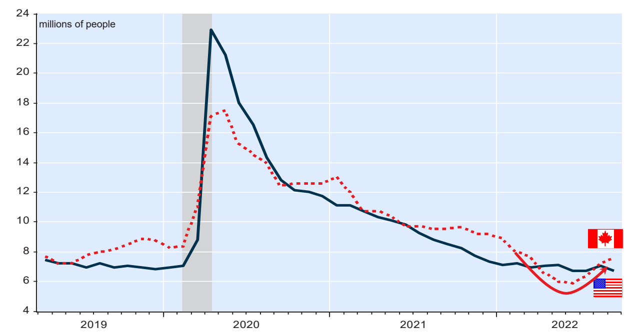
Canada: Full-time and private employment stalls
Employment level, full-time employment and private sector



NBF Economics and Strategy (data via Statistics Canada)

The September unemployment rate remained very low at 5.2%, but that was still up 3 tenths of a point from the record bottom of 4.9% during the summer. A more pronounced loos¬ening shows in another crucial indicator of labour-market pressures: the underemployment rate, which counts not only the unemployed but those who have given up seeking a job, those constrained unwilling to part-time work and waiting groups. This rate was up for a third consecutive month, for a considerable rise of 1.6 percentage points, to 7.5%, back to a rate reported in 2019.

Canada: Labour market reversal
Underemployment rate

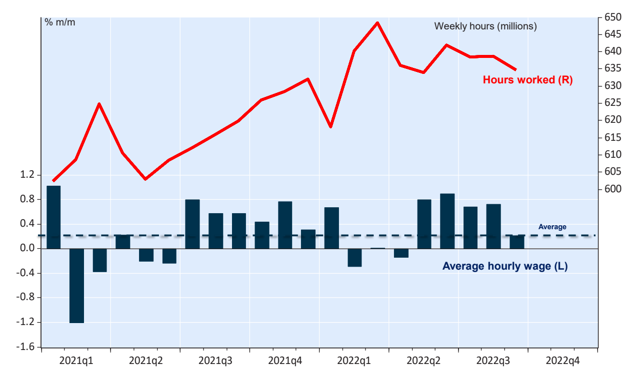


*In addition to the unemployed, this indicator includes workers discouraged from searching, workers forced to work part-time, and waiting groups

NBF Economics and Strategy (data via Statistics Canada)

Though economic commentators learn from experience not to announce a change of trend on the basis of a single month of data, there is encouragement that deserves mention in the average hourly wage of permanent workers. It was up only 0.2% last month, the smallest monthly gain in five months and in line with the average of the last 10 years.

Canada: Several signs of a slowdown in the labour market
Hours worked and average hourly wages of permanent workers (seasonally adjusted by NBF)

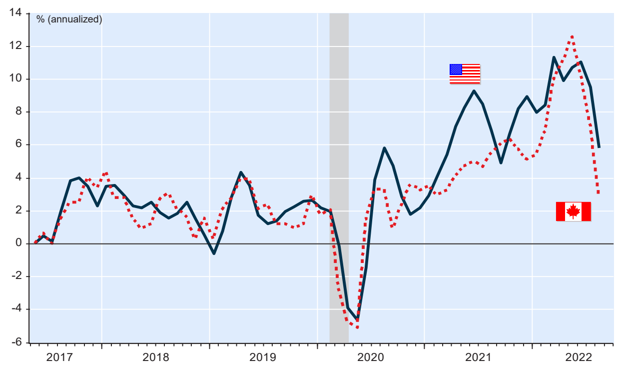


NBF Economics and Strategy (data via Statistics Canada)

The Economy

This is a good omen for continuing moderation of inflationary pressure in the months ahead. The overall CPI moderated sharply this summer. From May to August it rose at only 2.9% annualized, back in the Bank of Canada's target range.

Canada: Inflation slows faster than in the U.S.
3-month change in all-items CPI inflation

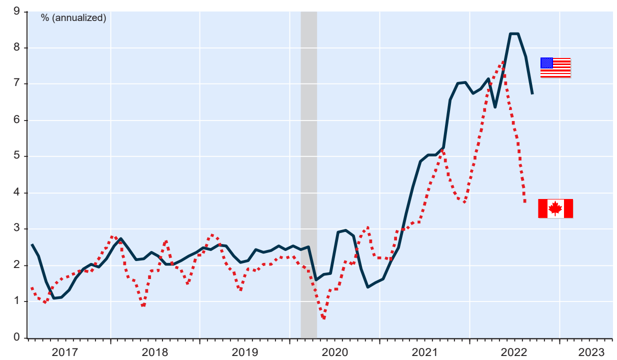


NBF Economics and Strategy (data from Refinitiv)

Lower gasoline prices contributed strongly to this moderation, but were not the only factor. To gauge the extent to which the easing of inflationary pressures was general, we turn to the Bank of Canada's preferred measures. These now number only two, since Governor Macklem said in a recent speech that the Bank would henceforth focus on the more robust CPI Trim and CPI Median. We salute the central bank's decision to follow the recommendation of our *special report* of last July in which we identified issues of concern. What do these measures tell us? In August, the one-month change in CPI Median was +0.21% and that of CPI Trim +0.16%, both in line with the central bank's objective. These results took the three-month change of CPI Trim below 4% annualized, well below the 7.6% of last May and the 6.7% currently reported in the U.S.

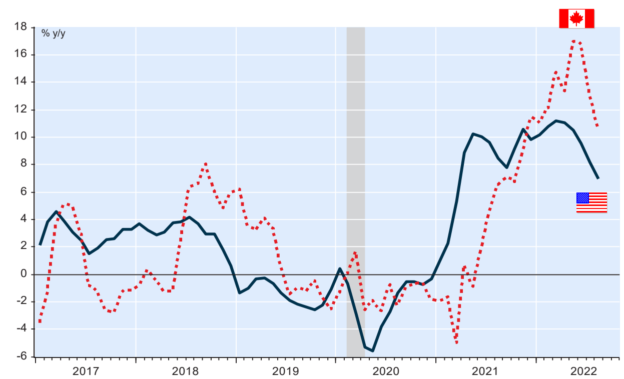
Despite these encouraging developments, we now see the Bank of Canada hiking its policy rate a little more aggressively than we previously thought (4.0% versus 3.75% in last month's *Fixed Income Monitor*). Like other currencies, the Canadian dollar is taking a hit from anticipated U.S. monetary tightening and this will have implications for import inflation in the medium term. Already in August, when the greenback fetched 1.29 CAD, import prices in Canada were up more strongly from a year earlier. At this writing the exchange rate exceeds 1.38 CAD to the USD.

Canada: Core inflation heading towards normal?
3-month change in the CPI-Trim



NBF Economics and Strategy (data from Refinitiv)

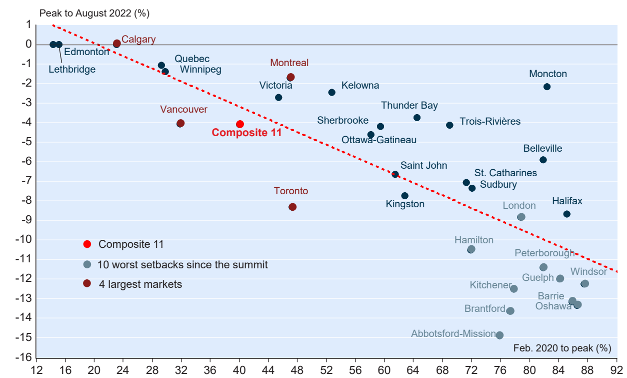
Canada: Loonie limits goods-side disinflation
12-month change in import prices



NBF Economics and Strategy (data from Refinitiv)

So all is going well for the Bank of Canada so far. But its work will be judged by the landing of the economy in 2023 and the path of inflation. The time lag for monetary policy to take ef-fect means that in acting as quickly as it has, the Bank does not have the time to assess the effect of its actions and adjust if appropriate. Unfortunately we will know only after the fact whether it has gone too far. So it is normal for observers to be nervous (ourselves included). One thing is certain: we are already seeing a marked slowdown in real estate, entailing a deflation of home prices exacerbating the unprecedented negative wealth effect on households in the first half of 2022 (*link*). In our view, interest rates at such levels will not be needed for long to calm inflation. We accordingly see the Fed and the Bank of Canada lowering them substantially in the second half of 2023. Given North American monetary tightening more pronounced than previously expected, we are lowering our forecast of Canadian economic growth in 2023 from 1.1% to a lethargic 0.7%.

Canada: Rapid declines after soaring increases
Teranet-National Bank Home Price Index, change from February 2020 to peak and from peak to August 2022



NBF Economics and Strategy (data via Teranet-NBC)

Back to Research Analysts page

The Economy

United States
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(2.8)	5.9	1.8	0.2	5.7	0.1	0.3
Consumption	2.0	(3.0)	8.3	2.6	0.6	7.2	1.3	0.5
Residential construction	(1.0)	7.2	10.7	(9.4)	(8.7)	(0.3)	(14.4)	(1.3)
Business investment	3.6	(4.9)	6.4	3.4	1.1	5.0	3.3	1.0
Government expenditures	3.3	2.6	0.6	(0.9)	1.7	0.5	0.1	1.7
Exports	0.5	(13.2)	6.1	7.2	0.9	6.5	5.5	(1.7)
Imports	1.1	(9.0)	14.1	8.9	(0.1)	10.1	3.9	0.7
Change in inventories (bil. $)	73.1	(54.6)	(19.4)	121.2	27.5	197.6	70.0	25.0
Domestic demand	2.3	(1.9)	6.7	1.5	0.4	5.4	0.6	0.7
Real disposable income	3.5	6.2	1.9	(6.4)	0.9	-0.4	-2.5	1.1
Payroll employment	1.3	(5.8)	2.8	3.9	0.4	4.3	2.8	-0.2
Unemployment rate	3.7	8.1	5.4	3.7	4.5	4.2	3.7	4.8
Inflation	1.8	1.3	4.7	8.1	3.4	6.7	7.3	2.1
Before-tax profits	3.9	(5.9)	22.6	4.9	(1.6)	22.3	-0.7	3.1
Current account (bil. $)	(446.0)	(619.7)	(940.2)	(1,033.6)	(995.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 10/14/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Fed Fund Target Rate	3.25	3.25	4.50	4.50	4.50	0.25	4.50	3.25
3 month Treasury bills	3.65	3.22	4.45	4.30	4.20	0.06	4.45	3.05
Treasury yield curve								
2-Year	4.48	4.22	4.45	4.30	3.85	0.73	4.45	2.85
5-Year	4.25	4.06	4.20	4.05	3.70	1.26	4.20	3.05
10-Year	4.00	3.83	3.95	3.85	3.60	1.52	3.95	3.20
30-Year	3.99	3.79	3.90	3.85	3.70	1.90	3.90	3.45
Exchange rates								
U.S.$/Euro	0.98	0.98	0.97	0.99	1.03	1.14	0.97	1.06
YEN/U.S.$	148	145	146	140	132	115	146	122

*** end of period*

Quarterly pattern

	Q1 2022 actual	Q2 2022 actual	Q3 2022 actual	Q4 2022 actual	Q1 2023 actual	Q2 2023 forecast	Q3 2023 forecast	Q4 2023 forecast
Real GDP growth (q/q % chg. saar)	(1.6)	(0.6)	2.5	0.2	(0.9)	(0.7)	1.1	1.5
CPI (y/y % chg.)	8.0	8.6	8.3	7.3	5.6	3.3	2.4	2.1
CPI ex. food and energy (y/y % chg.)	6.3	6.0	6.3	6.3	5.5	4.3	3.2	2.4
Unemployment rate (%)	3.8	3.6	3.6	3.7	4.1	4.4	4.7	4.8

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	1.9	(5.2)	4.5	3.2	0.7	3.2	1.8	0.9
Consumption	1.4	(6.2)	5.0	5.1	1.0	5.2	3.2	0.8
Residential construction	(0.2)	4.3	15.3	(8.4)	(6.0)	(0.4)	(9.0)	(3.0)
Business investment	2.5	(12.1)	2.3	6.8	(0.4)	7.0	2.8	1.3
Government expenditures	0.8	0.9	5.6	1.6	1.5	3.6	1.1	1.8
Exports	2.3	(9.7)	1.4	3.4	4.2	0.8	4.2	2.2
Imports	0.4	(10.8)	7.7	6.5	1.9	5.7	4.2	2.0
Change in inventories (millions $)	18,377	(18,720)	(2,361)	20,965	11,525	5,259	11,000	11,900
Domestic demand	1.2	(4.1)	5.6	2.9	0.4	4.1	1.4	0.8
Real disposable income	3.0	8.2	0.3	0.5	0.5	(0.6)	2.7	0.9
Employment	2.2	(5.1)	4.8	3.5	0.3	4.2	1.4	0.5
Unemployment rate	5.8	9.6	7.4	5.4	6.1	6.3	5.6	6.2
Inflation	1.9	0.7	3.4	6.6	2.5	4.7	6.1	2.0
Before-tax profits	(0.6)	(1.9)	32.3	15.3	(6.1)	15.7	11.0	0.9
Current account (bil. $)	(47.0)	(39.4)	1.1	8.0	(5.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 10/14/22	Q3 2022	Q4 2022	Q1 2023	Q2 2023	2021	2022	2023
Overnight rate	3.25	3.25	4.00	4.00	4.00	0.25	4.00	3.50
Prime rate	5.25	5.25	6.00	6.00	6.00	2.25	6.00	5.50
3 month T-Bills	3.86	3.64	4.10	4.05	3.80	0.17	4.10	3.35
Treasury yield curve								
2-Year	4.18	3.80	4.10	3.95	3.60	0.95	4.10	3.15
5-Year	3.68	3.33	3.55	3.40	3.20	1.26	3.55	2.95
10-Year	3.49	3.17	3.40	3.30	3.10	1.43	3.40	2.95
30-Year	3.42	3.09	3.30	3.25	3.20	1.68	3.30	3.10
CAD per USD	1.39	1.37	1.39	1.36	1.30	1.26	1.39	1.24
Oil price (WTI), U.S.$	86	80	80	77	75	75	80	81

*** 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	0.6	0.4	(0.2)	0.9	1.4	1.5
CPI (y/y % chg.)	5.8	7.5	7.0	6.1	4.5	2.0	1.6	2.0
CPI ex. food and energy (y/y % chg.)	4.0	5.1	5.4	5.2	4.7	3.4	2.6	2.6
Unemployment rate (%)	5.8	5.1	5.2	5.6	5.9	6.1	6.2	6.2

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021e	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	2.5	1.6	0.7	2.3	-10.7	13.6	12.7	-0.5
Prince Edward Island	4.7	-1.7	3.1	2.1	0.8	6.6	0.9	8.8	7.2	2.0
Nova Scotia	3.0	-2.5	3.4	2.0	0.6	3.7	0.7	8.7	7.2	1.4
New Brunswick	1.3	-3.2	3.2	1.8	0.5	2.4	-1.3	9.4	7.5	0.7
Quebec	2.8	-5.5	5.6	3.4	0.7	4.7	-2.4	12.5	10.2	1.7
Ontario	2.0	-5.1	4.3	3.2	0.6	3.7	-2.8	11.9	9.4	1.8
Manitoba	0.4	-4.6	3.4	2.8	0.6	0.7	-1.4	10.5	10.7	0.9
Saskatchewan	-1.1	-4.9	4.0	4.0	1.0	-0.4	-6.6	18.1	24.7	-1.9
Alberta	-0.1	-7.9	4.8	3.9	1.2	1.5	-16.1	20.2	19.2	-1.8
British Columbia	3.1	-3.4	4.4	2.7	0.7	4.6	-0.5	12.5	8.7	0.1
Canada	1.9	-5.3	4.5	3.2	0.7	3.6	-4.6	13.0	11.4	0.8

	Employment (% growth) 2019	2020	2021e	2022f	2023f	Unemployment rate (%) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	1.2	-5.9	3.0	3.5	-0.1	12.3	14.1	12.9	10.9	11.2
Prince Edward Island	3.4	-3.2	3.7	6.4	0.6	8.6	10.6	9.4	7.9	8.5
Nova Scotia	2.3	-4.7	5.4	3.2	0.3	7.3	9.7	8.4	6.7	7.1
New Brunswick	0.7	-2.6	2.6	2.2	0.2	8.2	10.0	9.0	7.2	7.3
Quebec	2.0	-4.8	4.2	2.4	0.2	5.2	8.8	6.1	4.5	5.2
Ontario	2.8	-4.7	4.9	4.1	0.2	5.6	9.5	8.0	5.7	6.8
Manitoba	1.1	-3.7	3.5	2.4	0.3	5.4	8.0	6.4	4.7	5.5
Saskatchewan	1.7	-4.6	2.6	3.2	0.6	5.6	8.3	6.5	4.6	5.1
Alberta	0.6	-6.5	5.2	5.1	0.9	7.0	11.5	8.6	5.8	5.8
British Columbia	2.9	-6.5	6.6	3.0	0.4	4.7	9.0	6.5	4.6	5.1
Canada	2.2	-5.1	4.8	3.5	0.3	5.7	9.6	7.4	5.4	6.1

	Housing starts (000) 2019	2020	2021e	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021e	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.3	1.6	1.1	1.0	0.2	3.7	6.4	2.3
Prince Edward Island	1.3	1.1	1.2	1.0	0.9	1.2	0.0	5.1	8.7	2.4
Nova Scotia	4.7	4.9	6.0	5.5	4.5	1.6	0.3	4.1	7.3	2.2
New Brunswick	2.9	3.6	4.0	5.0	3.0	1.7	0.2	3.8	7.1	2.5
Quebec	48.0	54.2	71.2	62.5	52.5	2.1	0.8	3.8	6.5	2.7
Ontario	69.0	81.3	101.2	92.0	79.5	1.9	0.6	3.5	6.7	2.3
Manitoba	6.9	7.3	8.0	7.5	7.2	2.3	0.5	3.2	7.5	2.3
Saskatchewan	2.4	3.1	4.3	4.6	3.3	1.7	0.6	2.6	6.2	2.1
Alberta	27.4	24.1	32.1	38.3	30.3	1.7	1.1	3.2	6.2	2.0
British Columbia	45.1	38.0	47.7	45.5	33.0	2.3	0.8	2.8	6.6	2.7
Canada	208.5	218.4	276.8	263.5	215.3	1.9	0.7	3.4	6.6	2.5

e: estimate f: forecast

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

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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

Taylor Schleich
Rates Strategist
416-869-8025

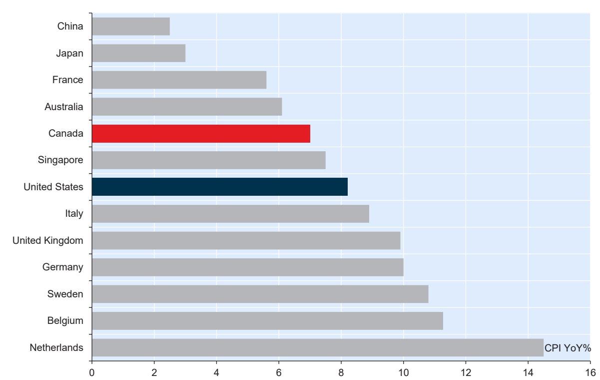
Jocelyn Paquet
Economist
514-412-3693

Practicing pivot patience

Patience is a virtue, or so it is said. Although, it surely depends on what one is waiting for, and the environment within which one passes the time. In this case, we are waiting on the return of 'price stability' or some semblance of it. (Let's at least start with less-rabid inflation if we could, please.)

No question, the becalming of consumer price inflation remains a clear prerequisite for a monetary policy pivot, defined as an end to the current tightening cycle if not a move to less restrictive policy rate settings. Notwithstanding some easing of supply chain bottlenecks and hints of progress on the goods side of the equation, we remain uncomfortably removed from genuinely tame core inflation in North America (and many other parts of the globe). So, as it relates to inflation, patience is proving painful. And there is little that could be dubbed virtuous in today's financial markets, bellwether North American equity indices weighed down and corporate credit spreads ascending to what might be termed 'recessionary' altitude.

Global inflation – it's everywhere (for now)
Latest CPI YoY% readings from select countries

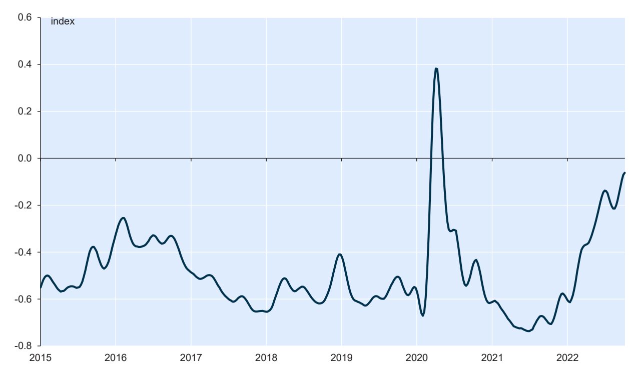


NBF Economics and Strategy (data via Bloomberg)

Having taken their lumps, investors (along with households and businesses for that matter) are understandably eager for a near-term policy pivot, if only to ease some of the stress they've been living under much of this year. Unfortunately, the necessary pre-condition for a less-reactionary monetary policy stance has not yet been satisfied. Indeed, the latest inflation data out of the U.S.—both PCE and CPI—proved steamier than expected. Meanwhile, the message resonating from both the U.S. Federal Reserve and the Bank of Canada is clear; these institutions remain 'resolute' in their pursuit of price stability, willing to tolerate (or more appropriately incent) a degree of economic pain in the form of sub-potential GDP growth and a rising unemployment rate in the hopes of wrestling prices under control and keeping inflation expectations from truly de-anchoring.

At this juncture, tighter financial conditions appear necessary to slow growth and open up needed/desired slack. Now, there's a line of argument that the same tightening of financial conditions will lead central bankers to balk. Taken to the extreme, this argument could have merit. For instance, a swift and severe erosion of liquidity in North American rates markets, where it to materialize, could alter the calculus on central bank balance sheet runoff (which has only just hit its stride south of the border). And while there key differences between the U.S./Canada and the U.K., abject dysfunction in the Gilt market provides something of a cautionary tale. But assuming market functioning is not materially impaired, policy rates have some way to go yet. Nor do North American monetary policy makers appear perturbed by a deepening housing market slowdown, a nod to the particularly elevated base from which today's real estate downturn embarked.

Financial conditions are tightening… and should continue to do so
Chicago Fed National Financial Conditions Index



NBF Economics and Strategy (data via Bloomberg)

Put another way then, policy fine-tuning must wait. The near-term focus remains on driving North American policy rates into legitimately restrictive territory *post haste*. That suggests a fourth consecutive 75 basis point hike from the Fed on November 2nd, followed by at least another 50 basis points in December. That would bring

Back to Research Analysts page

Interest Rates and Bond Markets

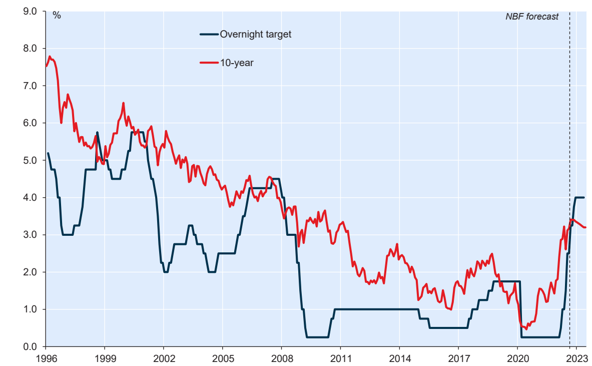
cumulative FOMC tightening to no less 425 bps in nine months' time, a 'normalization' pace that's anything but patient or deliberate.

Without trivializing the differences in economic and financial make-up of Canada and the U.S., the Bank of Canada seems programmed to look and feel a lot more like the Fed than other central banks here. Those hoping that a Macklem-led Governing Council will quickly back down in the face of slower global growth, à la the Reserve Bank of Australia, could be disappointed. If anything, currency weakness/cheapness could add fuel to domestic inflation. Meantime, the federal-provincial fiscal impulse must be closely scrutinized, since broad-based/significant fiscal stimulus would be counterproductive (from the BoC's vantage point).

As it stands, a sixth straight hike from the BoC is in the offing (October 26th), the debate on sizing centering on 50 or 75 basis points. As per our detailed interest rate forecast, we formally project a 50 bp move at the end of October, although with the Bank's patience running thin a larger move is entirely likely. Calendar 2022's final BoC decision should involve another tightening, 25 to 50 a potentially realistic range for December, assuming inflation momentum fades further. At a minimum then, it seems the Bank will deliver another 75 basis points of policy rate tightening before the year is out, with risks distinctly to the higher side. That will add to the 300 basis points already delivered since early March.

While total BoC tightening looks to be somewhat less than what the Fed is engineering (by perhaps 50 bps), Canada's monetary policy tightening programme must be considered aggressive and exceedingly rapid in all other respects. One could debate the precise level of policy rate neutrality, but the 4-handle for the Bank's policy rate we'll soon have will be unquestionably restrictive given Canada's outsized reliance on housing and still-elevated household leverage.

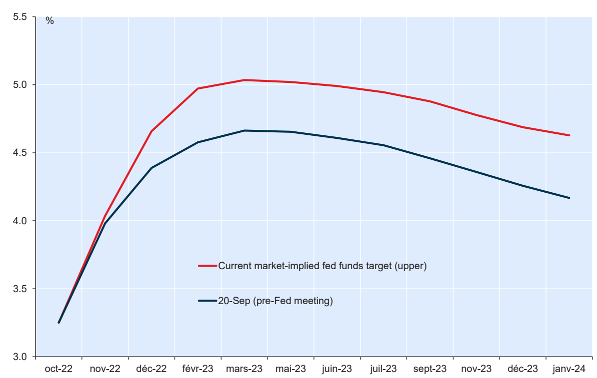
It's hard to argue that policy rates will be anything but restrictive
BoC overnight target versus GoC 10-year yield (proxy for neutral rate) since 1996



NBF Economics and Strategy (data via Bloomberg) | Note: Assumes policy rate peaking at 4%, with 10-year yield declining slightly, consistent with our forecasts on Page 1.

It should be noted that markets have discounted significant further tightening. Indeed, as reflected in OIS pricing, there remains a risk that central banks go a bit further in 2023. That's what the FOMC has itself telegraphed via September's dot plot. For its part, the BoC has clearly emphasized the need for higher rate settings. At this point, stopping policy rate tightening at 4.5% for the Fed and 4% for the BoC will require some material near-term progress on inflation. For this we, and markets more generally, can't wait.

Policy rate expectations take *another* leg higher
Fed fund futures-implied policy rate: Before September meeting versus current



NBF Economics and Strategy (data via Bloomberg)

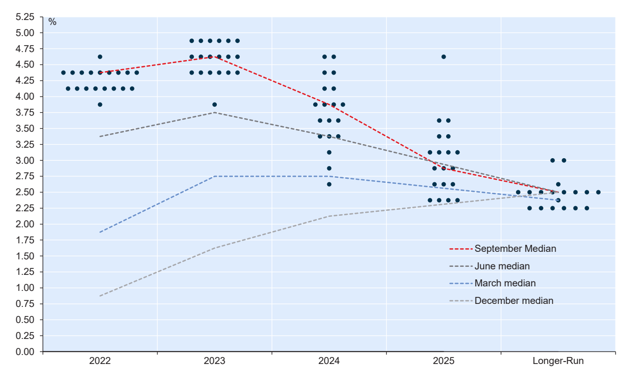
Importantly, our Economics colleagues continue to anticipate meaningful U.S. inflation relief in 2023, key measures seen coming off quicker than current consensus or FOMC thinking. That's a vital stipulation when it comes to our rates forecast. If secured, rapid inflation relief would argue for somewhat less tightening than what is discounted and a quicker onset of easing than traders currently contemplate. In the end, patience may just be rewarded, even if the current environment is clearly proving uncomfortable.

Keeping up with the 'dots'

The headline decision at the Federal Reserve's September 21st meeting didn't come as a surprise. A 75 basis point hike for the 3rd straight meeting was just as the market had been braced for. But clearly, investors weren't ready for the hawkish direction offered up by the FOMC. Continuing the trend observed in all Summary of Economic Projections released this year, participants revised up their outlook for the Fed funds target over the forecast horizon.

In a move that would've felt outlandish a year ago, September's 'dot plot' saw the median expectation for the Fed funds rate hit 4.4% (consistent with a 4.5% upper bound). Rate hikes are then expected to continue in 2023 with a year-end policy rate potentially as high as 5%. Only by 2024, are cuts envisioned. But even then, we're talking about policy rates well above the Fed's estimated neutral level. Ditto for 2025, where rates are still slightly restrictive relative to their long-run estimate.

The Fed goes even more hawkish in September's dot plot
FOMC 'dot plot': September 2022 vs. median dots from prior three SEPs



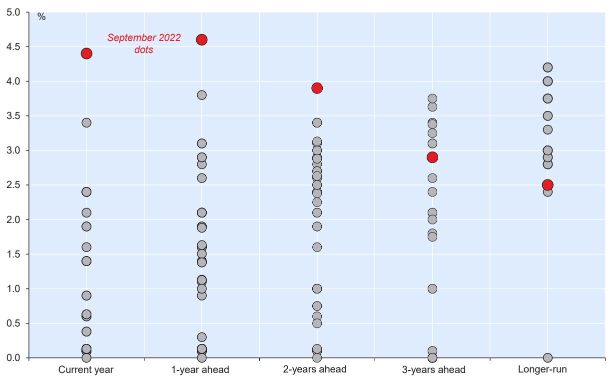
NBF Economics and Strategy (data via Federal Reserve)

The dots over the coming years are as aggressive as we've seen them in history. While the most watched chart in monetary policy has only been in circulation since

Interest Rates and Bond Markets

2012, the dots for the current year and following two years easily surpass all comparable rate guidance provided in years past.

We've never seen dots like this in the near term but neutral remains 2.5%
FOMC projections for fed funds rate by forecast horizon (all dot plots since 2012)



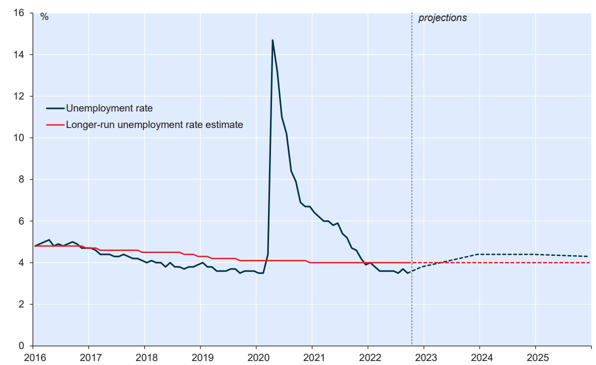
NBF Economics and Strategy (data via Federal Reserve) | Note: For example, 1-year ahead for the Sep-22 SEPs represents the estimate for 2023; 2-years for the Sep-22 SEPs represents the estimate for 2024; etc.

What's important to note, however, is that despite the Fed pledging to maintain a restrictive policy stance for many years, their view on the neutral fed funds rate hasn't changed. The 'longer-run' dot remains anchored at 2.5%, where it's been since 2019 and decisively below older estimates from the past decade. In other words, when inflation is sustainably at 2% and the economy is in equilibrium, this is where policy will likely be set, all else equal. This is an important point and leads us to our core problem with the Fed's expected path for the policy rate: the economy.

In the Committee's view, sustained policy rates at nearly double their estimate of neutral are only expected to marginally push GDP growth below the steady state rate: 1.2% and 1.7% growth in 2023 and 2024 compare to the 1.8% longer-run estimate.

The unemployment rate, meanwhile, is expected to increase from ultra-low 3.5% to a still historically low 4.4%. To be sure, there will be pain for those Americans who lose their job in the Fed's inflation fighting crusade. But the Fed's expected peak for the jobless rate is still lower than their longer-run estimate from just five years ago and only 0.4%-pts above their current estimate. We'd argue the risks to this projection (under their assumed path for policy rates) are skewed decisively higher. To be fair, participants admitted as much with all but one member judging risks here as skewed to the upside. Nonetheless, the baseline growth and unemployment projections would constitute, to us, a relatively soft landing. More bluntly, it's an economic outlook that could be characterized as wishful thinking.

Is this realistic 'pain' given the trajectory for policy?
Actual/projected U.S. unemployment rate versus longer-run unemployment rate projection



NBF Economics and Strategy (data via Federal Reserve, Bloomberg)

Rounding out the Fed's forecast is their assessment of inflation which is problematic for similar reasons. After PCE inflation ends the year at 5.4% (core at 4.5%), price pressures should decelerate meaningfully in 2023 to 2.8% on headline (2.7% on core). Those 2023 projections are both higher than they were in June. So, despite an additional 75-100 bps of interest rate hikes that are expected to be added, the result is more inflation than previously envisioned.

Adding it all up, we feel that something has to give. Either the Fed's economic projections are too optimistic and their proposed path for the fed funds rate will inflict far more pain on households and businesses; or the Fed won't keep its policy rate as high for as long as it says it will and may still be able to salvage a soft-ish landing. In our view, the answer is probably a little bit of both. The rapid tightening to date and still in the pipeline will inflect more pain than the Fed has indicated. As a result, it may not be advisable or necessary to maintain such a restrictive setting for so long.

Moreover, with the Fed having seen financial conditions ease when economic data came out weak in the summer (namely, GDP data), a development unwelcomed when inflation is north of 8%, adopting an aggressive and unrelenting stance keeps conditions tight today. The dot plot is a tool that clearly impacts markets so why wouldn't they use it to help their ongoing inflation fight? Put differently, perhaps the dots are less reflective of where they genuinely believe rates will be 12-24 months from now and more reflective of their desire for tighter conditions right now.

At the end of the day, the Fed's mandate is for maximum employment and price stability. Clearly, it's the latter that is the overriding concern for policy makers. But if, as we expect, inflation decelerates meaningfully in 2023 and the economy is more adversely affected by rate hikes than the Fed is formally projecting, it will be entirely untenable for the Fed to maintain such a restrictive stance of policy into 2024. Indeed, we still have some conviction that the Fed will be cutting not raising rates by this time next year.

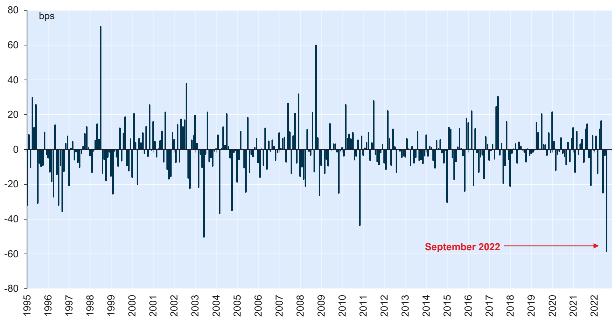
That's also consistent with the empirical record, as we outlined in greater detail in *[last month's issue](#)* of this publication. Indeed, the Fed doesn't have an impressive track record for holding policy rates at their peak for any significant amount of time. Yes, this time is different with price pressures at multi-decade highs and proving stubborn. But when inflation woes pass (perhaps by the second half of 2023) and real economic pain—not the SEP's idea of economic pain—takes root, history could well repeat itself. Combined with the Fed's assessment that rate neutrality remains at 2.5%, there is tremendous downside to yields (particularly at the short-end) next year, which is reflected in our fresh interest rate forecast. While we'd remain defensive over the balance of the year, we still believe a bull steepener will be the prominent trade of 2023 as economic weakness and, more importantly, inflation relief sets in.

No blinking at the BoC

At a time when global rate expectations continued to grow and interest rates were on the rise, there was tremendous stability (all things considered) in BoC rate expectations and Canadian yields. The market had hit resistance around a 4% policy expectation and rates mostly traded sideways. The result was one of the greatest months of GoC outperformance (vs. USTs) on record.

Interest Rates and Bond Markets

GoCs outperformed Treasuries by the most in decades in September
Monthly change in Canada-US 10-year differential



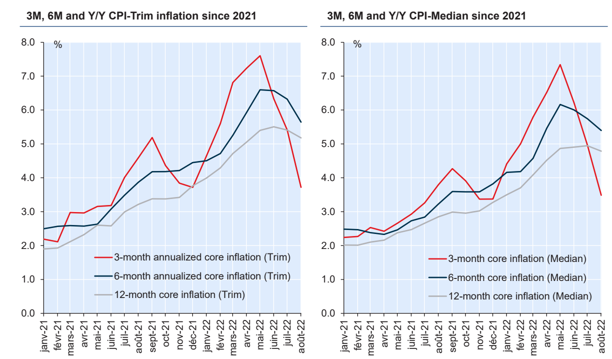
NBF Economics and Strategy (data via Bloomberg)

What drove the massive relative moves? Unsurprisingly, there were a confluence of factors. For one, the Canadian economy appeared to legitimately show a more rapid slowdown/pass through from earlier rate hikes. Indeed, the Labour Force Survey indicated three consecutive months of job losses. We always caution against putting too much stock into this ultra-volatile survey, but one can't ignore a string of data points so rare (the last time employment dropped three months in row was in 2015 and 2009 before that).

At the same time, evidence was mounting that inflation momentum was cooling. While the average of the BoC's preferred core inflation measures didn't budge much (stuck above 5%), momentum was non-trivially easing. Indeed, three-month rates of core inflation (in CPI-Trim and CPI-Median) fell well below 6-months and 12-months rates, suggesting the worst of Canada's inflation problem is comfortably behind us. Of course, core inflation running at 3.5% on a 3-month annualized basis is too hot but it would be unwise to ignore the direction of the path for price pressures.

In addition to the real economy/inflation, Bank of Canada guidance left much to be desired. Unlike at the Fed where communication with the public/markets is on a near daily basis, BoC speeches are far less common and when they did occur, there was no willingness to provide any kind of meaningful guidance (save for 'rates need to rise further'). The implication then was that their silence was the telling: the BoC was content with markets pricing a 4% terminal rate with they themselves not believing they'd need to raise rates beyond there.

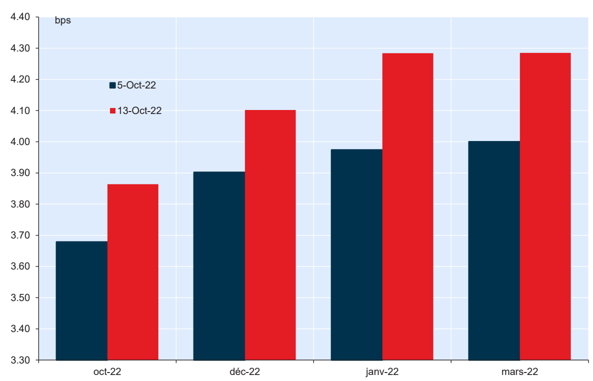
Very short-term core inflation momentum has eased meaningfully
The level is still too high but we're well off of peak pressures



NBF Economics and Strategy (data via StatCan) | Note: 3- and 6-month annualized series based on NBF replications of Trim and Median indices.

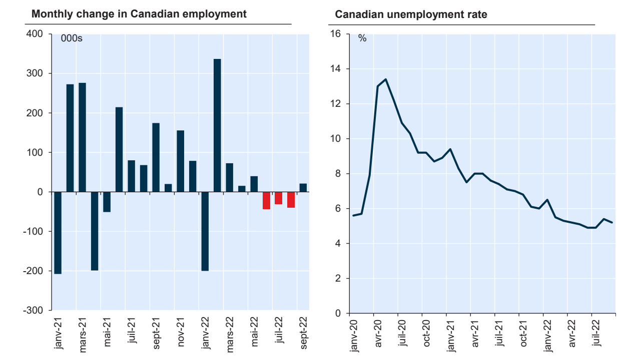
That changed in October when the Tiff Macklem deviated from the Governing Council's previously guarded ways and made it abundantly clear that the inflation fight is far from over. Indeed, Macklem reiterated many times that the Canadian economy is still in excess demand. Spending needs to slow to allow supply and demand to return to balance and a period of below-trend growth would be needed. Instead of acknowledging reported job losses, Macklem simply stated that labour markets "remain very tight" with job vacancies "exceptionally high" and wage growth rising and broadening. (Ultimately, labour market weakness proved to be less severe in September as some earlier job losses were recovered).

Macklem's speech meaningfully moved rate hike expectations
Market-implied overnight rate over next four BoC meeting: Pre-Macklem speech vs. current levels



NBF Economics and Strategy (data via Bloomberg)

Despite three months of LFS job losses, the labour market remains tight
Nonetheless, we still expect weakness ahead



NBF Economics and Strategy (data via StatCan)

While he may have conceded that global inflation pressures were easing, he made it clear that this wasn't playing a major in the BoC's calculus. Rather, the Bank's inflation concerns are almost entirely domestic-focused. On that front Macklem bluntly stated: "Simply put, domestic inflationary pressures have yet to ease." As noted earlier, we would somewhat disagree with this refrain (i.e., waning core inflation momentum) but one can't dismiss his characterization as it implies a pivot in the near-term will not materialize.

Adding to Canada's inflation woes is a weaker Canadian dollar which, as Macklem noted, will offset some of the global improvements by making US goods and services more expensive for Canadians. Historically, it's the opposite issue (i.e., a too-strong Canadian dollar) that gave the Bank headaches. Nonetheless, it signals that the BoC may not want to significantly fall behind the Fed in their rate hiking cycle. As noted in the introduction, this skews the risks to our 4% terminal rate forecast decisively higher.

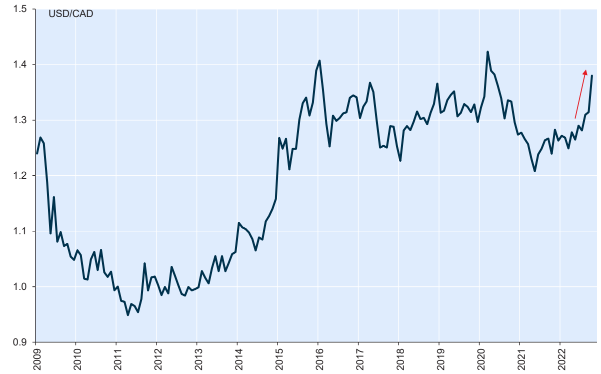
For those looking for a rate hike offramp thanks to weaker housing activity/falling home prices, you won't find it here. Macklem stuck to the Bank's usual refrain, simply noting that the housing sector is cooling from unsustainable levels.

De-anchoring inflation expectations, meanwhile, remain a concern as well, even with global inflationary pressure easing. On this front, we do expect some of the BoC's anxieties to be becalmed when fresh business and consumer surveys are released this month. The latest readings the Bank has in its pocket date back to July surveys (which were conducted even earlier). In the U.S., more timely surveys indicate inflation

Interest Rates and Bond Markets

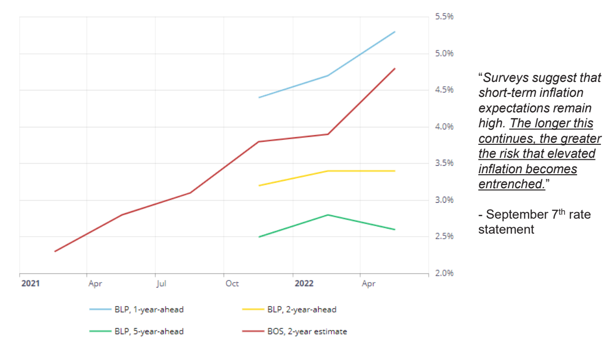
expectations have waned and we'd expect a similar dynamic to be evident in Canada.

A weaker Canadian dollar makes the BoC's inflation fight more difficult
USD/CAD exchange rate



NBF Economics and Strategy (data via Bloomberg)

For the BoC, inflation expectations remain a key concern
Expected inflation at different horizons from various BoC surveys

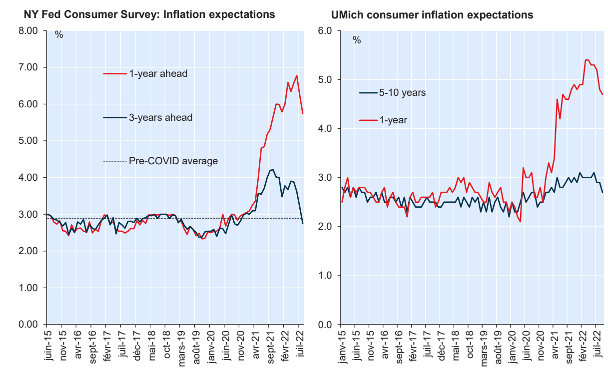


Source: BoC | Note: BLP is the Business Leaders' Pulse survey and BOS is the Business Outlook Survey. The BOS 2Y estimate is based on firms' responses to question, "Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?". The BLP asked businesses, "What do you expect the rate of annual inflation to be in about 1, 2 and 5 years from now?"

Given Macklem's overall assessment, he will tell you that more rate increases are warranted. Although we already knew that from the Bank's September decision, the additional line that it's not yet time to "consider moving to a more finely balanced decision-by-decision approach" suggests we're not out of the woods on larger-than-normal rate hikes.

We had already been calling for a 50 bp hike in October, but markets had started to price the chance that the Bank would blink, and downshift to a more traditional 25 bp hike as the RBA did. Clearly, Macklem and the BoC didn't approve, and the market has now (rightly) shifted the debate to 50 versus 75 bps. We still think 50 bps is the more likely number and will be supported by further decelerating core inflation and easing inflation expectations in the next business/consumer surveys. But Macklem has made it clear that they're not taking any chances in this inflation fight. Betting against central bank resolve (in the near term) has already proven to be a fools' errand and we don't expect to see a pivot/pause until the data supports such a move. As a result, we've added a final 25 bp hike in our BoC forecast, bringing the overnight target to 4% at year-end. Consistent with our economic and inflation outlook, outlined in our Monthly Economic Monitor, we believe there will be sufficient evidence to support a pause in 2023 but we'd be remiss if we didn't acknowledge that the risks to our policy rate forecast remain definitively higher.

Inflation expectations have eased in the U.S.
There's no reason to believe we won't get a similar dynamic in the next business and consumer surveys

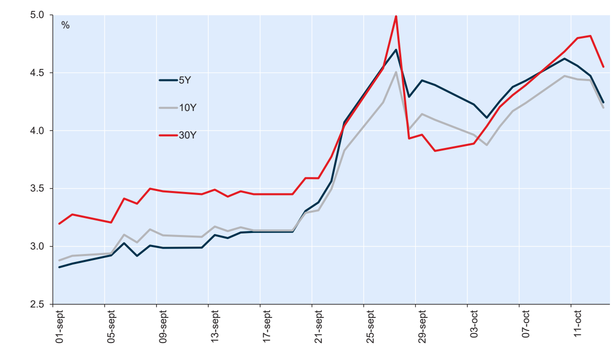


NBF Economics and Strategy (data via Bloomberg, NY Fed)

Pension madness

The story of the month is undoubtedly the ongoing turmoil in the United Kingdom bond market, which has seen long-term yields whipsaw violently to a decisively higher level over the recent weeks. It all began when the UK's new prime minister, Liz Truss, unveiled a massive unfunded fiscal package (with tax cuts and material energy price relief), to the tune of ~£100 billion (or ~US$112 billion as of this writing). Markets immediately reacted, punishing UK rates as the government's spending plans were seen as counteracting the inflation fight the BoE was embarking on. The 10-year yield soared over 30 bps on the day of the announcement with more pain to come in the days that followed (and even more violent price action in the 30-year sector). At its most extreme, 10-year borrowing costs ballooned ~120 bps over a 6-day period (with the rise in 30-year rates closer to 150 bps). The pound sterling also took it on the chin, deprecating to near record-low levels versus the U.S. dollar.

Extreme volatility ongoing in the United Kingdom bond market
5-, 10- and 30-year U.K. interest rates since September 1st



NBF Economics and Strategy (data via Bloomberg)

The rapid rate rise may have been alarming but, on its own, may not have required an intervention from the BoE. However, the rate moves had major financial stability implications due to the structure of the UK pension system. By way of background, British pensions employ a strategy known as Liability Driven Investing (LDI). As the name suggests, pension managers trade their asset portfolios on the basis of their liabilities (i.e., their pensioners future benefits). The idea is that since pensioner benefits fluctuate with inflation/interest rates, pension managers should buy assets with similar characteristics so their value rise and fall in tandem, minimizing volatility in the funded status. There are, however, limitations to the matching ability/returns of vanilla fixed income products. As a result, derivatives are often used. Earlier in the year when the BoE was raising rates, the value of these derivatives declined leading to margin calls. Given that the rate rise was relatively gradual, this wasn't a big problem and pension managers had time to post collateral. However, after the recent violent rise in rates, significant collateral calls came quickly, and managers were forced to sell assets. The result was a self-fulfilling cycle, whereby selling created more selling. Cue the BoE. In a matter of financial stability (and not monetary policy as they'd stress), the central bank stepped in, pledging to temporarily

Interest Rates and Bond Markets

purchase long-dated UK government bonds to return order and stability to the market.

The intervention worked and yields fell substantially. But it didn't last long. A government that refused to back down (in material fashion) from its stimulus and generalized anxiety in markets led to yields climbing back up. The BoE then stepped back in, pledging to buy more and a wider range of bonds for a brief time. Governor Bailey made his point clear: "My message to the funds involved and all the firms is you've got three days left now". The messaging drew criticism, with many dubbing it "anti-Draghi" (who famously delivered a "whatever it takes" message to panicked markets). It was also met with skepticism that the Bank would be able to withdraw from the market so easily without major damage ensuing.

At the time of this writing, this is where things stand from the BoE's perspective. They remain committed to starting their QT program (with outright asset sales) at the end of this month, but many are rightly skeptical. Rumours have also begun swirling that the UK government is looking to backtrack more significantly from their September mini-budget (which would be welcome news for Governor Bailey) but it remains unclear at this juncture how this will play out. In any event, volatility in this market is unlikely to abate given that QT anxieties remain. And of course, the BoE is still in the process of quickly raising rates to combat inflation and the additional inflation risks from the fiscal package that started it all.

The saga is a cautionary tale for other governments, and by extension central banks. 2022 is not 2020. Large-scale fiscal packages will not be tolerated by markets in an environment where inflation is so far from target and markets are already on edge. Extreme volatility tends to have spillover effects or unintended consequences forcing central banks into tough positions. For now, we've avoided such distress in North America. Yes, we've seen fiscal packages marched out by the federal governments in Canada (and some provinces) and also in the U.S.. That doesn't do the BoC or the Fed any favours. But these are relatively small measures that shouldn't move the needle on inflation dramatically. Here's hoping relative fiscal restraint is able to continue.

Canadian Bond Market: Interest rates, spreads and currencies

	13-Oct-22	14-Jul-22	14-Apr-22	13-Jan-22	14-Oct-21
Interest Rates					
3 months	3.861	2.691	1.038	0.304	0.118
2 years	4.087	3.269	2.42	1.111	0.72
5 years	3.559	3.134	2.635	1.51	1.186
10 years	3.361	3.145	2.761	1.704	1.534
30 years	3.268	3.051	2.714	1.962	1.967
Spreads					
3 months - 2 years	22.6	57.8	138.2	80.7	60.2
2 - 5 years	-52.8	-13.5	21.5	39.9	46.6
5 - 10 years	-19.8	1.1	12.6	19.4	34.8
10 - 30 years	-9.3	-9.4	-4.7	25.8	43.3
Currencies					
CAD/USD	1.3714	1.3118	1.2603	1.252	1.237
EUR/CAD	0.7437	0.7608	0.7325	0.6973	0.6971

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

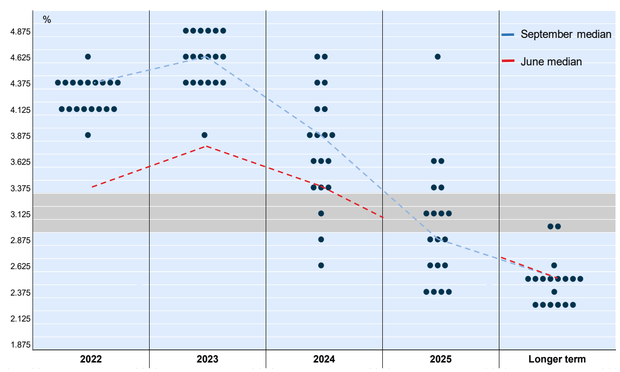
Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Alexandra Ducharme
Economist
514-412-1865

World: The Fed's domino effect

In 1978, Earth, Wind & Fire released their success *September*, with the notorious lyric "Do you remember, the 21st night of September?". This year, the U.S. Federal Reserve gave investors around the globe a reason to remember that date. On that day, the Fed hiked the target range for federal funds rate by 75 bps to 3-3.25% and released fresh economic projections, including an updated 'dot plot'. Although the Fed significantly lowered its GDP forecast for the United States, it also signalled a further 125 basis points of tightening in 2022 and restrictive rates maintained through 2024. This testified of the Fed's unwavering commitment to bringing inflation back to target despite the inevitable economic disruption that this entails.

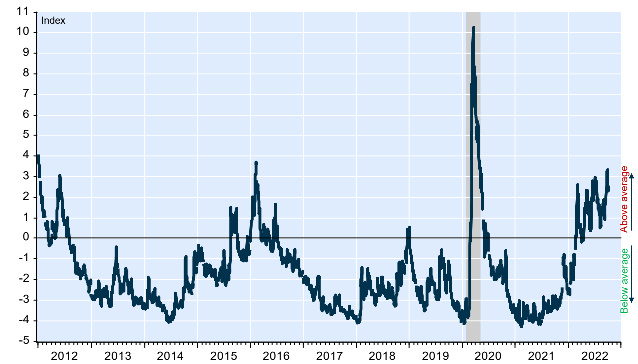
U.S.: FOMC reveals a more aggressive dot plot
Current target range: 3.00%-3.25% (grey area)



NBF Economics and Strategy (data via Federal Reserve)

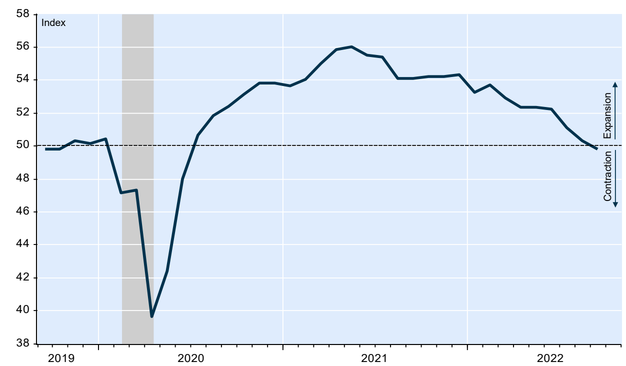
The Fed's decisively hawkish tone certainly complicates matters for global equity markets, which were already facing heightened financial stress and a challenging earnings outlook due to the slowing economy (charts).

World: Financial stress is mounting
Global financial stress index



NBF Economics and Strategy (data via OFR)

World: Manufacturing sector dips into contraction zone
JP Morgan/Markit Global Manufacturing PMI (as of September 2022)

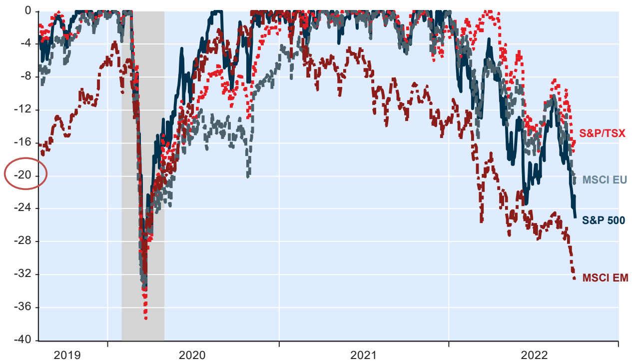


NBF Economics and Strategy (data via Refinitiv)

The Fed's actions, by pushing the U.S. dollar to a new record high, are forcing most other central banks to tighten the screws themselves to defend their rapidly depreciating currencies. With no relief in sight on interest rates, stock indices around the world have hit new cyclical lows, with most regions back in bear market territory at the end of Q3 (chart).

Stock Market and Portfolio Strategy

World: New cyclical low for equities
Maximum drawdown from peak: S&P 500, S&P/TSX, MSCI EM and MSCI Europe (as of Sep 30, 2022)

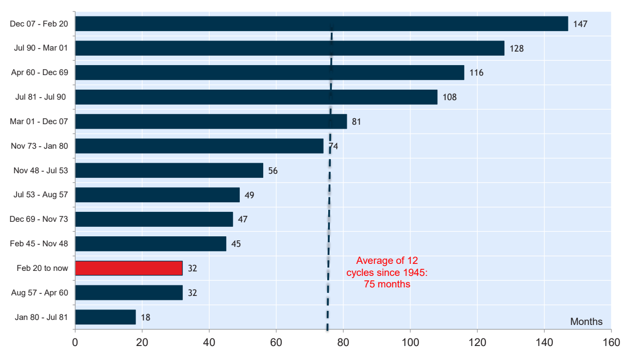


NBF Economics and Strategy (data via Refinitiv)

Yield-curve inversion?

Even though only 32 months have passed since the peak of the previous cycle, the risks of a recession are very real. If such a scenario were to materialize, this cycle would be one of the shortest in history, with the average length of a business cycle since 1945 being 75 months according to the NBER (chart).

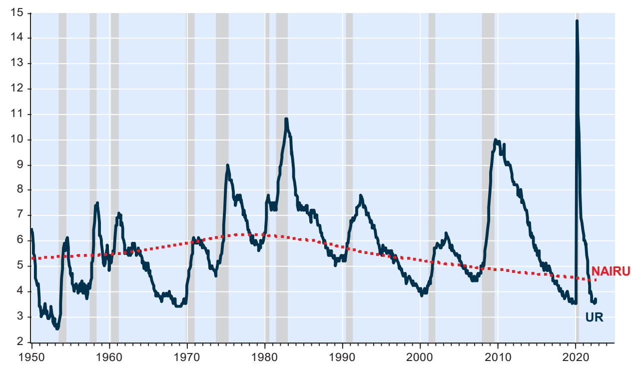
U.S.: Will this cycle be cut short?
Duration of economic cycles since 1945 (peak to peak) through October 2022



NBF Economics and Strategy (http://www.nber.org/cycles.html)

Thanks to a spectacular recovery propelled by an extremely accommodating monetary and fiscal policy, we are 11 months into the mature phase of the business cycle - which we define as the point at which the observed unemployment rate falls below its NAIRU estimate (the non-accelerating inflation rate of unemployment). According to the Congressional Budget Office, the jobless rate fell below the NAIRU in November 2021, just 21 months after the peak of the previous business cycle. To put that in perspective, it took 111 months to reach the mature phase after the 2008-2009 recession, five times longer than this time.

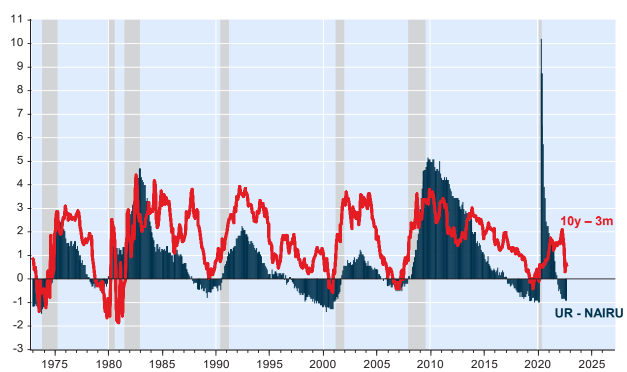
U.S.: Back in the mature phase in no time
Unemployment rate (UR) and Non-accelerating inflation rate of unemployment (NAIRU)



NBF Economics and Strategy (data via Refinitiv)

The slope of the yield curve (the difference between the 10-year Treasury yield and the 3-month Treasury bill) generally flattens during the mature phase as monetary policy becomes increasingly tight and economic conditions turn less favorable for risky assets. An even more negative signal for the economy and the stock market is the inversion of the yield curve (YC). Though the YC remains positive for now, the risks of an inversion are rising as the Federal Reserve intends to raise its policy rate higher (chart).

US: The yield curve during the mature phase
10Y-3M yield curve and labour market slack (unemployment rate minus NAIRU)



NBF Economics and Strategy (data via Refinitiv)

If history is any guide, an inverted yield curve in the mature phase of the cycle does not bode well for U.S. stocks. Since 1973, it has resulted in losses averaging 1.1% over six months. Energy and materials are the sectors that normally fare best in that context, with Gold posting significant positive gains (table).

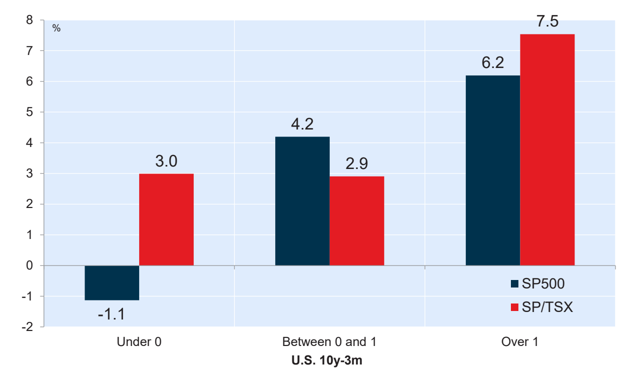
U.S.: Slope of the yield curve and equity performance
Average 6-month performance of equities when unemployment rate is under the NAIRU since 1973

	U.S. 10Y-3M		
	<0	>0 and <1	>1
Total	**-1.1**	**4.2**	**6.2**
Information technology	-5.3	5.8	10.0
Consumer discretionary	-3.4	3.7	4.5
Banks	-2.9	-1.1	4.7
Financials	-2.4	2.6	6.3
Consumer staples	-1.8	5.9	5.0
Insurance	-1.6	5.0	6.6
Health Care	-1.1	6.1	8.2
Real Estate	-0.8	1.0	5.5
Utilities	-0.2	6.2	3.5
Industrials	-0.1	4.1	4.3
Small Cap	1.1	-0.4	5.2
Communication services	1.2	5.7	3.5
Basic Materials	5.1	3.7	3.2
Energy	5.8	4.0	7.3
Metals and Mining	8.6	6.8	3.7
Gold	13.5	6.8	-1.8

NBF Economics and Strategy (data via Refinitiv)

As the S&P/TSX is more concentrated in these sectors, Canadian equities tend to do better than U.S. stocks in this environment with an average gain of 3% since 1973 (chart).

S&P/TSX : More resilient during early phase of inversion
Average 6-month performance of equities when U.S. unemployment rate is under the NAIRU



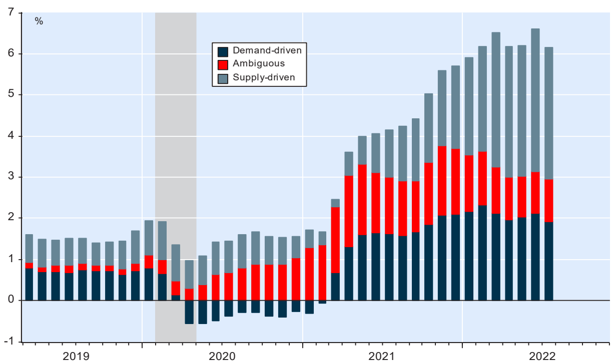
NBF Economics and Strategy (data via Refinitiv)

Of course, no two business cycles are alike, and the current one is even more challenging for investors and central banks as the impact of supply-side factors on

Stock Market and Portfolio Strategy

inflation continues to be felt due to China's zero-COVID policy and the war in Ukraine (chart).

U.S.: Supply constraints adding 3pp to PCE inflation
PCE deflator, y/y variation



NBF Economics and Strategy (data via Federal Reserve of San Francisco)

While none of the major equity markets have delivered positive returns since the U.S. entered the mature phase of the business cycle at the end of last year, Canadian equities have nonetheless outperformed U.S. stocks by a wide margin (table).

MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	-8.6	-5.3	-22.9
MSCI World	-8.5	-4.8	-22.9
MSCI USA	-9.4	-5.1	-25.7
MSCI Canada	-4.2	-2.6	-13.3
MSCI Europe	-6.1	-4.6	-19.1
MSCI Pacific ex Jp	-7.5	-6.0	-14.4
MSCI Japan	-7.2	-2.5	-9.4
MSCI EM	-9.6	-9.1	-22.7
MSCI EM EMEA	-6.5	-2.8	-25.1
MSCI EM Latin America	-0.1	3.1	-4.7
MSCI EM Asia	-11.0	-11.3	-23.8

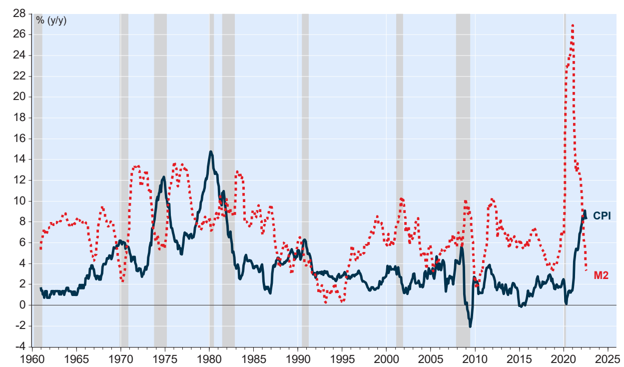
9/30/22

NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is modified this month to reflect a potential inversion of the yield curve. Our fixed income exposure is increased by 3% at the expense of cash. The recent dramatic tightening of U.S. financial conditions has been accompanied by a drop of money supply growth to a level that historically has not been considered inflationary (chart).

U.S.: Money supply growth has normalized
M2 vs. all-items CPI



NBF Economics and Strategy (data via Refinitiv)

While we may have not yet seen a peak in interest rates, we believe that current levels may be close to a summit if inflation does indeed begin to cool as we expect (see our Fixed Income and Economic monthly monitors). Equities remain underweight for the time being with a geographical preference for Canada which remains overweight relative to our benchmark. In our view, the S&P/TSX is better positioned to weather the impact of a flatter (or inverted) U.S. yield curve.

NBF Asset Allocation

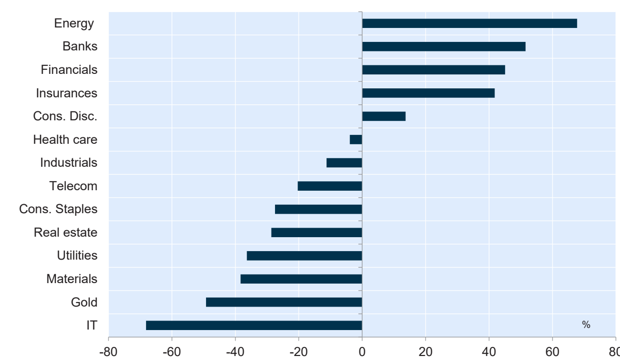
	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	24	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	3	
Emerging markets	5	3	
Fixed Income	45	45	+3
Cash	5	7	-3
Total	100	100	

NBF Economics and Strategy

Sector allocation

Our sector allocation is modified this month as we consider the risks of tighter monetary policy and economic lethargy. With long-term rates near a peak, some sectors are poised to benefit more than others (chart). Thus, we move information technology and utilities from underweight to market weight and consumer staples from market weight to overweight.

Canada: Correlation between S&P/TSX sectors and 10-year rates
Correlation between 6-month relative sector performance and 10-year yield variation (2012-2022)



NBF Economy and Strategy (data from Refinitiv)

To make room for these sectors, we are reducing our exposure to industrials and consumer discretionary given economic headwinds (from market weight to underweight). 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 - October 2022

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**18.8%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	18.6%
Materials	**Overweight**	**12.0%**
Chemicals	Market Weight	2.4%
Containers & Packaging	Overweight	0.4%
Metals & Mining *	Overweight	2.7%
Gold	Overweight	6.0%
Paper & Forest Products	Market Weight	0.4%
Industrials	**Underweight**	**13.2%**
Capital Goods	Market Weight	2.3%
Commercial & Professional Services	Underweight	3.3%
Transportation	Underweight	7.6%
Consumer Discretionary	**Underweight**	**3.6%**
Automobiles & Components	Underweight	0.8%
Consumer Durables & Apparel	Underweight	0.5%
Consumer Services	Underweight	0.9%
Retailing	Market Weight	1.4%
Consumer Staples	**Overweight**	**4.2%**
Food & Staples Retailing	Overweight	3.5%
Food, Beverage & Tobacco	Overweight	0.6%
Health Care	**Market Weight**	**0.4%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.3%
Financials	**Market Weight**	**30.6%**
Banks	Market Weight	20.7%
Diversified Financials	Market Weight	3.9%
Insurance	Market Weight	5.9%
Information Technology	**Market Weight**	**5.2%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Market Weight**	**4.8%**
Real Estate	**Underweight**	**2.5%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	Q4 2022
Index Level		oct-11-22	Target
S&P/TSX		18,217	18,250
Assumptions			Q4 2022
Level:	Earnings *	1558	1610
	Dividend	622	642
PE Trailing (implied)		11.7	11.3

* Before extraordinary items, source Thomson

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	Q4 2022
Index Level		oct-11-22	Target
S&P 500		3,589	3,575
Assumptions			Q4 2022
Level:	Earnings *	219	220
	Dividend	64	65
PE Trailing (implied)		16.4	16.3

* S&P operating earnings, bottom up.

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on	Returns				Returns			with S&P 500
	10-11-2022	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	**3573**	**-0.1%**	**-25.5%**	**-19.4%**	**19.9%**	**-18.4%**	**-10.6%**	**25.7%**	**1.00**
United States - S&P 500	3589	0.1%	-24.7%	-17.7%	20.8%	-17.6%	-8.7%	26.6%	1.00
Canada - S&P TSX	18217	-1.2%	-14.2%	-10.8%	11.0%	-14.2%	-10.8%	11.0%	0.95
Europe - MSCI Index	**1443**	**-0.8%**	**-31.1%**	**-27.8%**	**-12.9%**	**-24.5%**	**-19.9%**	**-8.7%**	**0.84**
United Kingdom - FTSE 100	6885	-0.1%	-6.8%	-3.7%	-5.0%	-16.5%	-13.0%	-13.0%	0.67
Germany - DAX 30	12220	0.9%	-23.1%	-19.6%	-2.3%	-28.1%	-25.2%	-10.0%	0.89
France - CAC 40	5833	1.2%	-18.5%	-11.2%	3.0%	-23.8%	-17.4%	-5.1%	0.90
Switzerland - SMI	10208	-0.6%	-20.7%	-13.3%	1.9%	-20.7%	-10.6%	6.9%	0.94
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	5.8%	-6.5%	-6.9%	-2.4%	0.21
Netherlands - Amsterdam Exchanges	636	-0.7%	-20.3%	-17.8%	10.2%	-25.5%	-23.5%	1.6%	0.97
Pacific - MSCI Index	**2326**	**0.9%**	**-25.1%**	**-26.0%**	**-12.4%**	**-18.0%**	**-17.9%**	**-8.2%**	**0.70**
Japan - Nikkei 225	26401	1.8%	-8.3%	-7.4%	21.1%	-20.7%	-20.1%	-5.4%	0.88
Australia - All ordinaries	6844	2.5%	-12.0%	-10.0%	1.8%	-16.7%	-14.8%	-1.3%	0.90
Hong Kong - Hang Seng	16832	-2.3%	-28.1%	-33.5%	-36.0%	-21.8%	-26.9%	-33.0%	-0.08
World - MSCI Index	**2376**	**-0.1%**	**-26.5%**	**-21.6%**	**9.0%**	**-19.5%**	**-13.0%**	**14.3%**	**0.98**
World Ex. U.S.A. - MSCI Index	**1691**	**-0.4%**	**-28.3%**	**-26.3%**	**-10.9%**	**-21.5%**	**-18.3%**	**-6.6%**	**0.85**
EAFE - MSCI Index	**1658**	**-0.2%**	**-29.0%**	**-27.1%**	**-12.6%**	**-22.3%**	**-19.2%**	**-8.4%**	**0.81**
Emerging markets (free) - MSCI Index	**865**	**-1.3%**	**-29.8%**	**-31.7%**	**-14.5%**	**-23.2%**	**-24.2%**	**-10.4%**	**0.62**

* Correlation of monthly returns (3 years).

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2022-10-11

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2022	EPS Growth 2023	EPS Growth 12-m forward	P/E 2022	P/E 2023	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	216	-16.23	-22.61	9.00	7.00	7.08	17.18	16.06	16.16	12.96	2.28	-3.29
Energy	5.08	612	14.08	42.98	150.29	-10.83	1.09	7.78	8.72	8.55	24.13	7.84	10.04
Materials	2.55	435	-5.09	-14.70	13.73	-7.93	-4.76	12.76	13.86	13.64	8.03	neg.	-6.67
Industrials	8.12	723	-2.09	-14.62	32.24	17.35	18.36	18.36	15.64	16.02	11.82	0.87	-4.69
Consumer Discretionary	11.41	1094	-2.08	-24.26	2.39	35.24	28.23	29.93	22.13	23.21	28.89	0.82	-6.80
Consumer Staples	6.93	702	-7.23	-3.40	3.51	5.24	4.94	20.12	19.12	19.18	7.92	3.88	-1.96
Healthcare	15.27	1429	-6.07	-2.74	4.86	-0.63	0.30	15.60	15.70	15.68	7.51	52.80	-1.47
Financials	10.99	505	-4.66	-21.45	-12.66	13.05	8.27	12.73	11.26	11.48	6.28	1.39	-2.19
Information Technology	25.93	2049	-10.57	-22.79	9.78	6.02	6.33	21.03	19.83	19.67	13.11	3.11	-6.11
Telecom Services	8.01	161	-15.73	-40.06	-11.76	12.94	8.18	15.53	13.75	13.98	12.90	1.71	-9.06
Utilities	3.05	323	-9.42	-0.40	3.29	7.16	6.53	19.55	18.24	18.44	6.58	2.82	0.40
Real Estate	2.68	216	-16.23	-22.61	-6.87	0.01	-1.21	32.78	32.78	32.78	6.06	neg.	-0.76

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Playing out the bear market

The developing bear market throughout all of 2022 is gaining traction as every rally fails with a lower high. Extreme bullish sentiment at the beginning of the year has turned to a more balanced reading with a slight bias to the bears but nowhere near extreme pessimism that accompanies bottoms. Areas of strength such as big cap tech, utilities, and energy are now under attack. International markets such as Australia and the STOXX 600 that held up relatively well are also under attack. In the October Vision, we highlight the US dollar index as well as the S&P/TSX chart along with the STOXX 600 chart and their potential downside risk. We also highlight WTI and selected energy stocks that are starting to break down from top formations.

Technical Analysis

S&P/TSX Composite (GSPTSX)

The S&P/TSX chart continues to roll over from its rising trend to a bearish trend. A top was completed earlier in the year when the chart broke support at 20,000 to reverse its trend to the downside. Trend deterioration was already taking place with the chart breaking below both its moving averages. Rallies are now making lower highs with the market unable to trade back above its 200-day. The July lows at approximately 18,300 is being challenged as the latest rebound fails. Our initial target on the S&P/TSX is 17,000. Recent technical action suggest we have to leave the door open for further downside targets to potentially 16,000.

Source: Refinitiv

Technical Analysis

US Dollar index (DXY)

The strong US dollar has suddenly become a focal point in financial markets. Bearish sentiment last year has now become universally bullish with the recent strong move. Our target of 113 to 114 on the DXY has been fulfilled with our next target at 120. A pause is in order short-term as the market has become extended. However, given the strong momentum behind this move higher prices are warranted.

Source: Refinitiv

Technical Analysis

WTI (CLC1)

The rally in WTI and energy stocks was done with the breakdown from a top at US$95.00 on WTI. Energy stocks held in well relative to a weakening WTI price until recently. The WTI chart completed a top and reversed its trend to the downside on the breakdown in early August. Prices are now tracking a declining trend channel as each rebound is making successive lower highs. Target is US$65.00 to US$70.00.

Source: Refinitiv

Technical Analysis

Crescent Point Energy (CPG)

A bull trend that saw CPG make a spectacular recovery appears to have come to an end. The chart spent all of 2022 carving out a head & shoulders top formation that was recently completed with the breakdown of support at approximately $8.00. A downside gap broke prices below its moving averages and support. Target is $4.50 to $5.00. More importantly, the trend has reversed to a bearish trend of lower prices.

Source: Refinitiv

Technical Analysis

Paramount Resources (POU)

A bull market on POU that took the stock from low single digit prices to $40.00 is over as the chart breaks a nine-month top. This reverses the trend to the downside as the stock breaks support at $25.00. The gap down on increased volume as the stock broke below its moving averages and support at $25.00 sets the stage for lower prices. Good relative performance against WTI is starting to wane and will likely get weaker as the stock trends lower. Target is $12.00 to $13.00.

Source: Refinitiv

Technical Analysis

Secure Energy (SES)

The bull trend on Secure Energy is starting to roll over as the chart makes a series of lower highs. A loss of upside momentum is setting up a break of support at $5.20 to complete a top. The strong run from under $1.00 to $7.50 is over and a bear trend is about to take over. Target is $3.00 to $3.50.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **September 29, 2022**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$21.34	$36.00	1.79%	70.67%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$28.41	$38.00	6.56%	40.51%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$5.58	$9.00	0.48%	61.83%	Energy Equipment & Services
	Shawcor Ltd.	SCL	$8.35	$12.00	0.00%	43.71%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$72.87	$85.00	1.16%	17.88%	Oil, Gas & Consumable Fuels
Materials							
	Alamos Gold Inc.	AGI	$9.88	$12.50	1.26%	27.90%	Gold
	Endeavour Mining plc	EDV	$24.90	$40.50	4.32%	67.02%	Gold
	First Quantum Minerals Ltd.	FM	$22.96	$32.50	0.69%	42.27%	Metals & Mining
	K92 Mining Inc.	KNT	$7.53	$10.75	0.00%	42.76%	Gold
	Kinross Gold Corp.	K	$4.93	$9.00	2.91%	85.76%	Gold
	Osisko Gold Royalties Ltd.	OR	$13.56	$20.00	1.51%	49.12%	Gold
	Pan American Silver Corp.	PAAS	$21.41	$33.00	2.26%	56.59%	Metals & Mining
	Teck Resources Ltd.	TECK.b	$41.96	$52.50	1.12%	26.31%	Metals & Mining
Industrials							
	Air Canada	AC	$16.75	$30.00	0.00%	79.10%	Transportation
	ATS Automation Tooling Systems Inc.	ATA	$36.75	$55.00	0.00%	49.66%	Capital Goods
	CAE Inc.	CAE	$21.61	$38.00	0.00%	75.84%	Capital Goods
	Exchange Income Corp.	EIF	$41.65	$60.00	5.57%	50.11%	Transportation
	GDI Integrated Facility Services Inc.	GDI	$42.65	$55.50	0.00%	30.13%	Commercial & Professional Services
	Mullen Group Ltd.	MTL	$14.34	$18.00	4.78%	30.54%	Transportation
	Richelieu Hardware Ltd.	RCH	$37.61	$54.50	1.30%	46.29%	Capital Goods
	Stantec Inc.	STN	$60.18	$70.00	1.09%	17.51%	Capital Goods
	Thomson Reuters Corp.	TRI	$142.08	$162.00	1.63%	15.68%	Commercial & Professional Services
	WSP Global Inc.	WSP	$151.39	$181.00	0.92%	20.55%	Capital Goods
Consumer Discretionary							
	Uni-Select Inc.	UNS	$36.50	$49.00	0.00%	34.25%	Retailing
Consumer Staples							
	Jamieson Wellness Inc.	JWEL	$32.61	$46.25	1.93%	43.91%	Household & Personal Products
	Loblaw Companies Ltd.	L	$111.27	$127.00	1.44%	15.59%	Food & Staples Retailing
Health Care							
	Chartwell Retirement Residences	CSH.u	$9.09	$13.00	6.44%	49.75%	Health Care Providers & Services
	dentalcorp Holdings Ltd.	DNTL	$8.02	$18.00	0.00%	124.44%	Health Care Providers & Services
	DRI Healthcare Trust	DHT.u	US$5.60	US$9.75	5.03%	79.46%	Pharmaceuticals, Biotechnology & Life Sciences
Financials							
	Canadian Imperial Bank of Commerce	CM	$60.47	$84.00	5.33%	44.40%	Banks
	Element Fleet Management Corp.	EFN	$15.99	$24.00	1.80%	52.03%	Diversified Financials
	Fairfax Financial Holdings Ltd.	FFH	$632.23	$1100.00	1.92%	76.00%	Insurance
	iA Financial Corporation Inc.	IAG	$69.67	$81.00	3.61%	20.14%	Insurance
	Trisura Group Ltd.	TSU	$32.87	$62.00	0.00%	88.62%	Insurance
Information Technology							
	Docebo Inc.	DCBO	US$27.13	US$85.00	0.00%	213.31%	Software & Services
	Lightspeed Commerce Inc.	LSPD	US$18.05	US$65.00	0.00%	260.11%	Software & Services
	Shopify Inc.	SHOP	US$26.77	US$75.00	0.00%	180.16%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$8.76	$15.50	0.00%	76.94%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$53.09	$75.00	3.65%	45.04%	Telecommunication Services
Utilities							
	AltaGas Ltd.	ALA	$26.48	$33.00	3.84%	28.63%	Utilities
	Boralex Inc.	BLX	$43.37	$50.00	1.45%	16.81%	Utilities
	Innergex Renewable Energy Inc.	INE	$17.21	$25.00	3.97%	49.45%	Utilities
	Northland Power Inc.	NPI	$40.48	$49.00	2.83%	24.01%	Utilities
Real Estate							
	Flagship Communities REIT	MHC.un	US$14.97	US$21.00	3.57%	43.86%	Real Estate
	H&R REIT	HR.u	$10.25	$16.50	4.96%	66.34%	Real Estate
	Killam Apartment REIT	KMP.un	$14.78	$20.50	4.33%	43.44%	Real Estate
	Minto Apartment REIT	MI.un	$12.56	$17.50	3.54%	43.11%	Real Estate
	Tricon Residential Inc.	TCN	$11.73	$18.00	2.57%	56.14%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month.
A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of September 29, 2022
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Sector Analysis

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442
—
Associate:
Pranoy Kurian: 416-507-9568

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's weaker than expected 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. $81 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 9/29	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		81,771	674	121.25	10/2021	12.96	13.27	13.79	9.1	8.8	90.88	92.71	103.99	1.3	1.2	4.6%	151.00	
Bank of Nova Scotia	BNS	SP		79,598	1,204	66.09	10/2021	7.87	8.47	8.49	7.8	7.8	54.52	55.59	59.93	1.2	1.1	6.2%	90.00	
CIBC	CM	OP		54,621	903	60.47	10/2021	7.23	7.41	7.64	8.2	7.9	48.97	49.81	53.59	1.2	1.1	5.5%	84.00	
National Bank	NA	NR		28,970	337	86.09	10/2021	8.98	9.80	9.96	8.8	8.6	54.82	56.13	61.95	1.5	1.4	4.3%	NR	
Royal Bank of Canada	RY	OP		176,382	1,418	124.43	10/2021	11.19	11.14	12.17	11.2	10.2	69.44	70.47	75.94	1.8	1.6	4.1%	148.00	
Toronto-Dominion Bank	TD	SP		154,525	1,819	84.96	10/2021	7.91	8.20	8.86	10.4	9.6	52.53	53.84	58.97	1.6	1.4	4.2%	106.00	
Canadian Western Bank	CWB	OP		2,089	93	22.46	10/2021	3.81	3.57	3.75	6.3	6.0	33.90	34.15	35.98	0.7	0.6	5.5%	38.00	
Laurentian Bank	LB	SP		1,310	43	30.27	10/2021	4.57	5.12	5.13	5.9	5.9	57.43	58.08	60.82	0.5	0.5	5.9%	51.00	
Insurance																				
Great-West Lifeco	GWO	SP		27,805	932	29.84	12/2021	3.50	3.57	3.74	8.4	8.0	25.00	25.86	24.25	1.2	1.2	6.6%	36.00	
iA Financial	IAG	OP		7,362	106	69.67	12/2021	8.31	8.58	8.93	8.1	7.8	60.97	63.58	66.05	1.1	1.1	3.9%	81.00	
Manulife Financial	MFC	SP		40,910	1,898	21.55	12/2021	3.25	3.15	3.15	6.8	6.9	25.56	27.07	23.03	0.8	0.9	6.1%	25.00	
Sun Life Financial	SLF	SP		32,246	586	55.02	12/2021	5.99	5.89	6.23	9.3	8.8	40.65	43.08	39.19	1.3	1.4	5.0%	67.00	

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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

Selections

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

Company Updates

Trisura Group Ltd. (TSU, Outperform, $62 PT) – *Tuck-in acquisition adds scale in Canadian Surety lines*

On September 30, 2022, Trisura announced the acquisition of the Canadian surety business of The Sovereign General Insurance Company ("Sovereign"). While terms of the deal were not disclosed, we like this tuck-in transaction that adds a little more scale in Canadian Surety lines. Overall, the tuck-in reaffirms our view Trisura will execute on our robust revenue/earnings growth forecasts, which in turn merits a premium valuation. Our $62 price target implies a ~30x P/E multiple on our NTM + 1YR adjusted diluted EPS estimate.

Intact Financial Corporation (IFC, Outperform, $230 PT) – *Roadmap to achieve ambitious targets*

IFC hosted a well attended 2022 Investor Day on September 22. Management reiterated the 12-month guidance and spoke about medium to long-term ambitions: (1) profitable growth with low 90s combined ratio in the UK&I segment by 2025; (2) increasing Canadian premiums from $14 bln in 2022 to $20 bln (up ~43%) with 5%-points of combined ratio outperformance by 2027; and (3) doubling Specialty premiums to $10 bln with sub-90 combined ratio by 2030. In addition, management highlighted that significant M&A opportunity remains. Our confidence in management's ability to execute lies in IFC's successful track record of achieving >19% IRR over the last nine transactions, the better-than-expected value created at RSA as IFC upped its synergy target to $350 mln from $250 mln and the company's strong balance sheet.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 9/29	Last Year Reported	FDEPS 2021	FDEPS est. 2022	FDEPS est. 2023	P/E 2022	P/E 2023	Book Value per Share Last Quarter	Book Value per Share est. 2022	Book Value per Share est. 2023	P/BV 2022	P/BV 2023	Div. %	12-Mth Price Target	Δ
Mortgage Finance																				
EQB Inc.	EQB	OP		1.58	34.2	46.13	12/2021	8.36	8.93	9.97	5.2	4.6	59.25	63.79	71.93	0.7	0.6	2.7%	73.00	
First National Financial	FN	SP		2.16	60.0	35.95	12/2021	3.13	2.53	3.28	14.2	11.0	10.15	10.28	11.03	3.5	3.3	6.5%	35.00	
Home Capital Group	HCG	SP		1.11	40.7	27.22	12/2021	4.87	4.22	5.09	6.4	5.3	38.72	42.46	46.71	0.6	0.6		31.00	
Timbercreek Financial	TF	SP		0.63	83.9	7.48	12/2021	0.68	0.72	0.76	10.4	9.8	8.33	8.34	8.41	0.9	0.9	9.2%	8.75	
Specialty Finance																				
ECN Capital	ECN	OP		1.15	247.2	4.64	12/2021	US 0.31	US 0.25	US 0.36	13.8	9.5	US 0.66	US 0.66	US 0.81	5.2	4.2	0.9%	8.50	
Element Fleet Management	EFN	OP		6.37	398.2	15.99	12/2021	0.84	1.05	1.16	15.3	13.8	7.68	7.80	8.43	2.0	1.9	1.9%	24.00	
goeasy	GSY	OP		1.70	15.8	107.16	12/2021	10.43	11.17	14.77	9.6	7.3	48.54	52.16	62.28	2.1	1.7	3.4%	170.00	
Brookfield Business Partners	BBU	OP		US 2.73	US 144.3	US 18.91	12/2021	US 2.90	US 1.08	US 0.87	17.5	21.7	US 19.06	US 21.68	US 27.22	0.9	0.7	1.3%	US 34.00	
Power Corporation of Canada	POW	SP		20.91	669.5	31.23	12/2021	4.77	3.66	4.16	8.5	7.5	33.18	34.21	36.34	0.9	0.9	6.3%	39.00	
Securities Exchange																				
TMX Group	X	SP		6.95	55.6	125.06	12/2021	7.10	7.27	7.71	17.2	16.2	69.15	70.62	74.16	1.8	1.7	2.7%	143.00	
Insurance																				
Definity Financial Corp.	DFY	OP		4.4	115.0	38.48	12/2021	2.09	1.8	1.99	20.8	19.3	19.51	20.49	22.03	1.9	1.7	5.2%	39.00	
Intact Financial Corp.	IFC	OP		35.12	175.5	200.11	12/2021	12.32	12.00	12.06	16.7	16.6	80.86	83.90	89.67	2.4	2.2	2.0%	230.00	
Trisura Group Ltd.	TSU	OP		1.36	41.3	32.87	12/2021	1.48	1.77	2.02	18.5	16.2	8.62	11.93	13.94	2.8	2.4		62.00	
Fairfax Financial Holdings	FFH	OP		14.96	23.7	632.23	12/2021	US 122.25	US 73.25	US 83.65	6.3	5.5	US 588.36	US 701.87	US 781.34	0.7	0.6	2.0%	1100.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		0.88	102.6	8.59	12/2021	1.63	1.26	1.35	6.8	6.4	3.53	3.54	3.58	2.4	2.4	10.0%	10.50	
IGM Financial Inc.	IGM	OP		8.07	237.7	33.96	12/2021	4.04	3.55	4.10	9.6	8.3	25.17	25.83	27.71	1.3	1.2	6.6%	48.00	

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

Source: Refinitiv, Company reports, NBF

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

Back to Research Analysts page

Sector Analysis

Diversified Industrials

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

Selections

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

SCL strategic review process could generate material sales proceeds; Leadership change at AFN

- **Strategic review process surrounding the potential divestment of SCL's Pipeline Performance Group, Shaw Pipeline Services and Oilfield Asset Management business units could result in meaningful sales proceeds, supporting a variety of capital allocation alternatives.**

We expect a minimum of three separate transactions to complete the intended divestments, anticipating a sale of the (relatively small) SPS and OAM units to be completed by year-end, with a sale of the (much larger) PPG unit likely a more drawn-out process, pointing to a potential close in mid-2023. We expect potential sale proceeds from the divestments in the ballpark of ~$200 mln, with the disclosed net asset value of the Pipeline and Pipe Services segment exiting the second quarter of 2022 of ~$183 mln in our view representing an approximate floor value. We believe sale proceeds could have a meaningful impact on a variety of fronts, most notably, leverage reduction, the recently-approved NCIB, growth capex (organic and inorganic) for the remaining divisions, as well as a future implementation of a dividend. Over the next five years, SCL is aiming to double the EBITDA generated by the Composite Systems and Automotive & Industrial segments (currently ~$125 mln) supported in part by SCL's recent offering of larger diameter composite pipes (doubling the total addressable market for FlexPipe), growth in retail fuel station and wastewater application demand bolstering the composite tanks business, and the potential addition of a U.S. manufacturing site for the ShawFlex business to meet made in America requirements, opening the door to a (significantly larger) U.S market. **We reiterate SCL as a top value pick as management continues to execute in transitioning the business towards higher margin, lower volatility segments, supporting expectations for improved (and more consistent) full-cycle FCF generation. We maintain our previous $12.00 target driven by an unchanged 4.5x 2023e EV/EBITDA multiple.**

- **In late September, Ag Growth announced that Tim Close has stepped down as President and CEO and resigned as a Director of AGI to pursue other opportunities, with the Board of Directors naming Paul Householder (AGI's current Chief Operating Officer) as President and CEO.**

We expect a seamless transition given Paul Householder's familiarity with AGI's global operations and Tim Close agreeing to remain with Ag Growth in an advisory role through the end of 2022. We note Paul Householder joined Ag Growth in 2019 as EVP, International (overseeing all aspects of AGI's businesses outside of North America) prior to being promoted in 2020 to EVP, Global Operations (with expanded responsibilities including oversight of Ag Growth's North American operations). In 2021 Paul Householder was promoted to Chief Operating Officer, covering the bulk of day-to-day operations while spearheading projects to deepen the level of integration, coordination and optimization across AGI's business units, including perhaps most notably the centralization of operations in Chicago). We view Paul Householder as a known commodity to AGI, with Bill Lambert (Chair of the Board) highlighting full confidence in Mr. Householder's ability to lead Ag Growth having earned the respect of the Board of Directors in his tenure at AGI. The announcement reinforces our conviction in AGI's focus on integration, organic growth and leverage reduction moving forward as we continue to anticipate revenue and EBITDA margin expansion and the application of free cash flow to balance sheet. **We maintain our previous Outperform rating and $52 target driven by an unchanged 7.7x 2023e EV/EBITDA, roughly a turn below AGI's historical forward year EV/EBITDA average.**

Diversified Industrials

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	EBITDA (mlm) 2021	EBITDA (mlm) 2022e	EBITDA (mlm) 2023e	EV/EBITDA 2021	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt/ EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		598.5	18.9	31.70	176.3	219.9	237.7	8.1	6.7	6.1	4.0	52.00	66%	
AirBoss of America Corp.	BOS	OP		235.2	27.1	8.68	80.3	49.7	78.9	3.2	5.4	9.0	1.7	30.00	250%	
CES Energy Solutions Corp.	CEU	OP		561.0	256.2	2.19	156.2	235.9	245.6	6.2	4.5	5.2	2.1	3.70	72%	
Enerflex Ltd.	EFX	OP		525.6	89.9	5.85	140.0	217.5	460.0	5.3	9.0	4.2	3.1	10.75	85%	
good natured Products Inc.	GDNP	OP		70.3	223.2	0.32	-0.1	3.9	7.9		29.0	15.8	0.0	1.25	297%	
Mullen Group Ltd.	MTL	OP		1334.0	93.0	14.34	218.7	316.8	300.3	8.8	5.7	5.7	1.5	18.00	31%	
Pason Systems Corp.	PSI	SP		1081.7	82.1	13.17	72.5	141.4	161.9	12.7	6.1	5.1	-1.5	19.00	47%	
Shawcor Ltd.	SCL	OP		589.2	70.6	8.35	100.8	122.5	229.7	8.0	6.3	3.4	1.5	12.00	44%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

Baltej Sidhu
Analyst
403-290-5627

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 August at levels of €80 (US$80). Overall, on average, EUAs were up 5-10% this past month (m/m) and remain in contango with the Dec 23 – Dec 22 spread reflecting €2.80. Elsewhere, the United Kingdom Emissions Allowances (UKEA) active futures, which started trading at the end of May 2021, closed at £97 (US$113) at the end of August and are up 10% m/m but up +115% since inception.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) active futures closed the month out at US$14 and are flat m/m but up 15% y/y. Lastly, the California Carbon Allowances (CCA) active futures closed the month at US$27 and bumped upwards 4% m/m; however, we note CCA prices are down -7% 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 8% m/m, while the Nature-based Global Emissions Offset (N-GEO) active future closed at US$9 and flat both m/m and y/y.

Monthly Highlights

- *Climate Finance; Divisive Parties Within the Glasgow Financial Alliance for Net Zero (GFANZ)*

Cracks are emerging within the Glasgow Financial Alliance for Net Zero (GFANZ), which is a coalition of asset managers, banks and insurance firms that represent US$130 tln in assets. Recall, the initiative was set up last year and is Mike Carney's movement aimed at tackling climate change and reducing fossil fuel financing. Notably, a few Wall Street banks (JPM, MS, BofA) are debating on leaving the alliance given fears of being sued over their lack of climate financing and decarbonization commitments.

In our view, provided the prevailing backdrop and renewed interest in energy security, i.e., Russia/Ukraine, lack of global investment, bankers have a tough time grasping a path forward and have been continuing to push-back against the core objective of the group to quit financing of all new oil, gas and coal projects. Incrementally, this would be a big setback for the initiative and would inevitably ripple through the group with others likely to follow. In addition, we'd note that this could likely be pre-positioning given the added regulatory oversight through the upcoming SEC rules slated to be released in full this December, which would require internal compliance to be beefed up (legal, or otherwise). All goes back to what is a just transition on the long path forward to decarbonization, and in line with messaging that we have seen of late...

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047
—
Associate:
Eduardo Garcia Hubner
416-869-7476

Selections

- *Dentalcorp Holdings*
- *DRI Healthcare Trust*
- *Jamieson Wellness*

Highlights as of September 2022

We highlight recent corporate's updates provided by DRI Healthcare Trust (TSX: DHT.U / DHT.UN) and Medical Facilities (TSX: DR).

DRI Healthcare Trust

DRI announced the acquisition of a royalty stream on worldwide sales of Zejula, a medication approved by the FDA and EMA to treat both first-line and recurrent ovarian cancer while it is also in development for several other indications. DRI will pay US$35 mln in exchange for 0.5% on the worldwide sales generated by GSK (the marketer) resulting in an estimated annual avg. royalty incl. / excl. new indications of ~US$5.5 mln / ~US$4.3 mln at an IRR of ~12% / 10%.

While not surprising and already included in our target, we view the new royalty positively as it shows DRI's ability to replenish its portfolio of royalty streams at attractive IRRs. Mgmt. has previously highlighted the current robustness of the pipeline which as of Aug-22 was valued at ~US$1.5 bln, consisting of 13 deals (three at/near exclusivity). We would not be surprised to see more transactions by '22YE.

In our view, at the current unit price, the market is neither 1) giving DRI credit for its current portfolio, royalty declines notwithstanding; nor 2) pricing in any growth. Thus, in addition to the multiple (macro and company specific) tailwinds and the defensive nature of pharmaceutical royalties, we find the units fundamentally underpriced prompting an Outperform rating. Our US$9.75 sum-of-parts price target implies a ~5x '23e EV/EBITDA while the units currently trade at ~3x.

Medical Facilities

On September 13, 2022, Medical Facilities provided a corporate update with plans to: 1) focus its growth strategy away from acquisitions; 2) divest non-core assets; 3) pursue overhead cost reductions; and 4) implement strategies to return capital to shareholders. Particularly on the latter, DR is launching a $34.5 mln Substantial Issuer Bid for 10.2% - 11.7% of shares outstanding.

We view the decision to return capital to shareholders positively given DR's: 1) significant cash balance of US$47.7 mln; 2) robust CF generation (~US$1.05/sh and ~12% CF yield in 2023); 3) minimal capex (~US $0.19/sh in TTM); 4) slow capital deployment with the last acquisition (MFC Nueterra) in early 2018; and 5) low leverage of ~2x Net Debt to FY+1 EBITDA.

DR has not disclosed the assets to be divested but, in our view, the ASCs (MFC Nueterra and SCNC) are the most likely (at least initially) candidates potentially resulting in up to ~US$22 mln cash inflow. Further, DR has a ~US$9 mln loan receivable from UMASH (and a 32% equity stake) that it can likely monetize for close to FV.

While DR will likely continue shareholder-oriented moves via dividend hikes and the NCIB, we maintain a neutral rating until we see a stabilization of the persistent U.S. medical labour tightness that has also impacted DR's operations. Our C$11.00 price target implies a 6.5x '23e EV/EBITDA.

Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 9/29	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU	UP		148.60	89.5	1.66u	2/2022	0.0%	(0.56)u	(0.83)u	(0.70)u	nmf	nmf	59.3u	139.0u	144.7u	9.7	9.0	1,198.7u	8.3	0.50u	
Andlauer Healthcare Group	AND	OP		1,925.76	41.8	46.04	2/2022	0.6%	1.30	1.67	1.78	27.5	25.9	119.3	161.8	167.9	12.9	12.4	155.8	0.9	59.00	
Dialogue Health Technologies	CARE	OP		151.17	66.0	2.29	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		1,464.95	182.7	8.02	2/2022	0.0%	(0.21)	0.61	0.82	13.2	9.8	191.8	235.1	295.5	11.1	9.5	1153.1	3.9	18.00	
DRI Healthcare Trust	DHT.UT	OP		216.5u	38.7	5.60u	2/2022	5.4%	0.62u	0.67u	0.73u	8.4	7.7	101.2u	79.0u	77.5u	3.1	3.0	46.3u	0.6	9.75u	
Jamieson Wellness	JWEL	OP		1,350.33	41.4	32.61	2/2022	2.1%	1.34	1.60	1.84	20.4	17.7	100.1	122.5	148.6	13.3	11.7	364.9	2.5	46.25	
Knight Therapeutics	GUD	OP		613.39	115.1	5.33	2/2022	0.0%	0.21	0.29	0.35	10.6	8.8	38.0	53.2	59.7	7.2	6.4	-	-	7.75	
Medical Facilities Corp.	DR	SP		294.80	27.0	10.93	2/2022	2.9%	0.96u	0.95u	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		299.63	95.1	3.15	2/f2022	0.0%	(0.25)u	(0.23)u	0.02u	nmf	nmf	(14.6)u	(15.0)u	7.6u	nmf	33.2	-	-	3.25	
Special Situations																						
H_2O Innovation	HEO	OP		181.81	90.0	2.02	4/f2022	0.0%	0.08	0.01	0.13	nmf	15.9	14.6	17.9	22.4	13.4	10.3	57.2	2.3	3.25	
K-Bro Linen	KBL	SP		306.18	10.6	28.75	2/2022	4.2%	2.18	2.32	2.61	12.4	11.0	42.8	43.9	50.1	9.1	8.0	93.6	1.9	36.00	
Rogers Sugar	RSI	SP		640.84	104.4	6.14	3/f2022	5.9%	0.33	0.43	0.46	14.2	13.5	91.0	99.6	105.3	10.1	9.5	386.3	3.7	6.00	
Chemtrade Logistics Income Fund	CHE.UN	OP		809.71	114.9	7.05	2/2022	8.5%	0.70	1.33	1.26	5.3	5.6	280.4	370.0	352.2	5.1	5.2	1,042.9	3.0	11.00	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Sector Analysis

Industrial Products

Maxim Sytchev
Analyst
416-869-6517
—
Associates:
Kazim Naqvi
416-869-6754

Roman Pshenychnyi
416-869-7937

Selections

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

NY Fed treasury model crests 25% recession probability; history is not kind

The New York Fed treasury model points to escalating recession probabilities. No amount of statistical modeling can tell you with certainty that we are in a recession. And typically, an entity such as NBER will only tell you that we are in a recession six to 15 months after its commencement. Definitions also matter… We've registered two consecutive negative GDP prints in the U.S. and the official stance is that because employment data is so robust, we could not possibly be in a downturn (even though employment is ALWAYS a lagging indicator). As a result, we prefer to rely on statistical methods that do not require forecasting (or much semantic interpretation) and one of our favourite measures is the good old yield curve model that the New York Fed makes available on a monthly basis. While the model reading of 25% probability does not sound alarming, we note however that given the nature of economic relationships, there are always lags. And, what matters the most, is the DIRECTION of travel. Note that we were at virtually zero several months ago and now the probability has stepped up to north of 25%.

Bottom line – it is a treacherous time now as broader market indices were all materially negative when the model crossed the 25% threshold in the past.

The only places to hide (in relative and absolute terms) were Consumer Staples, Waste, Utilities and Rails. One caveat, many of the companies under our coverage do not have the time history going back to the 1990s. Looking at our current coverage universe, RBA may serve as a shelter during turbulent times given the countercyclical nature of its business, though investors are paying a very significant premium to own the name (almost 30x 2023E earnings and 19x EV/2023E EBITDA). Our preferred "hiding place" remains with high-quality consulting names such as WSP and STN, which are benefitting from structural tailwinds through investments in infrastructure and ESG-related initiatives, a history of strong execution, scale and very reasonable valuations. Furthermore, as relatively asset-light consulting-oriented entities, they are able to absorb downturns through a predominantly variable cost structure. In the professional services space, we like CIGI for its ability to execute accretive M&A, its highly diversified business model, and rapid growth in high-margin recurring Investment Management revenue. Lastly, given ATS's exposure (~80% of sales) to secular tailwinds in the healthcare, food, EV and nuclear space, we hope the share price is more resilient to a macro downturn than it has been in the past.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 9/29	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	SP		**$13.00**		$9.63	$586	12 - 2021	$0.71	$0.09	$0.52	32.1x	13.4x	$230	$186	$219	6.4x	5.3x	7.7%	2.5x
Bird Construction Inc.	BDT	OP		**$9.00**		$6.00	$322	12 - 2021	$0.95	$0.70	$0.94	8.6x	6.4x	$101	$86	$108	3.8x	3.0x	6.5%	0.1x
Finning International Inc.	FTT	OP		**$40.00**		$24.22	$3,810	12 - 2021	$2.18	$2.86	$2.81	8.5x	8.6x	$855	$1,028	$1,031	5.2x	5.2x	3.9%	1.4x
North American Construction Group Ltd.	NOA	OP		**$20.00**		$13.12	$373	12 - 2021	$2.06	$1.83	$2.41	7.2x	5.4x	$207	$209	$233	3.6x	3.2x	2.4%	1.8x
Ritchie Bros. Auctioneers	RBA	UP		**US$60.00**		US$63.97	$7,078	12 - 2021	US$1.64	US$2.07	US$2.21	31.0x	28.9x	US$359	US$429	US$451	19.3x	18.4x	1.6%	2.7x
SNC-Lavalin	SNC	OP		**$42.00**		$22.77	$3,997	12 - 2021	$1.31	$1.25	$1.63	8.1x	6.2x	$437	$481	$567	6.8x	5.8x	0.4%	3.1x
Stantec Inc.	STN	OP		**$70.00**		$60.18	$6,674	12 - 2021	$2.38	$2.94	$3.30	20.5x	18.2x	$439	$564	$595	14.1x	13.3x	1.2%	2.2x
Toromont Industries Ltd.	TIH	SP		**$109.00**		$96.21	$7,934	12 - 2021	$4.00	$4.73	$4.91	20.3x	19.6x	$634	$715	$744	11.0x	10.6x	1.6%	net cash
WSP Global	WSP	OP		**$181.00**	↓	$151.39	$17,870	12 - 2021	$5.08	$6.19	$6.43	24.5x	23.5x	$1,044	$1,295	$1,453	14.7x	13.1x	1.0%	0.9x
AutoCanada	ACQ	SP		**$37.00**		$22.53	$610	12 - 2021	$4.16	$4.62	$4.50	4.9x	5.0x	$195	$232	$212	4.2x	4.6x	0.0%	1.3x
Stelco	STLC	SP		**$48.00**		$34.70	$2,506	12 - 2021	$20.42	$12.69	$4.46	2.7x	7.8x	$2,055	$1,326	$565	1.0x	2.2x	3.5%	net cash
ATS Automation	ATA	OP		**$55.00**		$36.75	$3,388	12 - 2021	$2.17	$2.36	$2.51	15.6x	14.6x	$318	$378	$399	11.3x	10.7x	0.0%	2.3x
ABC Technologies	ABCT	SP		**$5.00**	↓	$3.76	$287	12 - 2021	-$0.22	-$0.56	$0.22	-5.3x	13.3x	$133	$46	$163	13.3x	3.7x	4.0%	8.3x
Colliers International	CIGI	OP		**US$166.00**		US$90.55	$3,990	12 - 2021	US$6.18	US$7.52	US$8.11	12.0x	11.2x	US$544	US$657	US$727	8.3x	7.5x	0.3%	0.7x
Stella-Jones	SJ	OP		**$51.00**		$38.33	$2,464	12 - 2021	$3.55	$3.81	$3.85	10.1x	10.0x	$367	$386	$390	8.3x	8.2x	2.1%	1.9x
Median												**10.1x**	**11.2x**				**8.3x**	**5.8x**	**1.6%**	

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

**Multiples adjusted for concession investments*

Sector Analysis

Merchandising & Consumer Products

Vishal Shreedhar
Analyst
416-869-7930
—
Associates:
Gabriel Chiu: 416-507-9009
Ryan Li: 416-869-6767

Selection

› *Loblaw*

Metro Inc. (MRU: TSX)

Launching MOİ in Quebec

(1) On September 27, 2022, MRU announced plans to launch MOİ (in the spring of 2023), an evolution of its current metro&moi program in Quebec. MOİ will provide an enhancement of the benefits already offered, along with more ways to earn and spend points. Specifically, points can be redeemed at MRU's >700 locations in Quebec, including Metro, Super C, Première Moisson and Jean Coutu pharmacies. (2) The Royal Bank (RBC) will join as a key loyalty partner, offering a co-branded MOİ-RBC credit card. (3) We highlight that AIR MILES is currently offered at Jean Coutu, while metro&moi is currently offered at Metro stores in Quebec. Super C, MRU's Quebec-based discount banner, will gain a new loyalty offering.

Offering customers more savings

(1) Metro&moi was launched in 2010 across Metro stores in Quebec; it has more than 1.2 mln active members, is recognized as one of the 10 best rewards programs in Canada and is #1 in personalization, according to Léger. (2) While we anticipate a marketing program in tandem with the rollout of MOİ, we believe it will be balanced and contained within MRU's overall financial model. (3) Interestingly, the Ontario loyalty program will remain with AIR MILES. Furthermore, MRU's Ontario discount banner, Food Basics, currently does not have a loyalty offer. We look for updates from management.

Maintaining our thesis

We believe that MRU is a solid company which has delivered superior long-term returns supported by strong execution and excellent capital allocation; however, these favourable attributes are adequately reflected in valuation, in our view. For reference, MRU trades at 11.0x our NTM EBITDA, in line with the 5-year average and above L/EMP at 8.5x/6.7x respectively.

Sector Perform Rating; Price Target is $75

We value MRU at 11.0x our F23/F24 EBITDA.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 09/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		8,781	59.6	147.21	12/2021	18.91	18.30	19.29	8.0	7.6	2,667	2,593	2,676	5.0	4.9	87.15	0.45	213.00	
Dollarama	DOL	OP		23,085	292.2	79.01	01/2022	2.18	2.68	3.14	29.4	25.2	1,283	1,475	1,611	18.3	16.8	-0.42	1.03	86.00	↑
Fuel and Other																					
Couche Tard	ATD.b	OP		58,078	1,027.2	56.54	04/2022	2.60	2.89	2.97	14.3	13.9	5,266	5,451	5,347	8.7	8.9	12.09	0.36	68.00	
Parkland Fuel Corporation	PKI	OP		4,588	156.8	29.25	12/2021	2.45	3.79	3.15	7.7	9.3	1,260	1,681	1,683	6.3	6.3	15.59	0.71	45.00	
Apparel																					
Gildan	GIL	OP		7,321	185.9	39.39	12/2021	2.73	3.14	3.20	9.2	9.0	727	791	806	7.5	7.4	10.02	0.31	43.00	
Grocers																					
Empire Company	EMP.a	OP		9,145	263.0	34.77	05/2022	2.80	2.91	3.21	12.0	10.8	2,331	2,374	2,440	6.7	6.5	19.20	0.57	40.00	↓
Loblaw	L	OP		37,209	334.4	111.27	12/2021	5.59	6.47	7.03	17.2	15.8	5,587	5,986	6,156	7.2	7.0	33.91	0.35	127.00	
Metro	MRU	SP		16,749	240.1	69.76	09/2021	3.44	3.81	4.17	18.3	16.7	1,106	1,121	1,153	18.7	18.2	27.57	0.27	75.00	
Food Manufacturer																					
Saputo	SAP	OP		13,791	417.1	33.06	03/2022	1.17	1.61	1.98	20.5	16.7	1,155	1,491	1,718	11.9	10.4	15.7	0.38	39.00	
Lassonde	LAS.a	OP		769	6.9	111.11	12/2021	11.18	9.53	12.29	11.7	9.0	178	161	191	6.1	5.2	125.5	0.20	141.00	
Premium Brands Holdings	PBH	OP		3,858	44.7	86.27	12/2021	4.47	5.45	6.67	15.8	12.9	431	514	592	12.2	10.5	40.1	0.57	134.00	
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		922	37.3	24.70	12/2021	2.66	3.29	3.53	7.5	7.0	211	239	247	5.3	5.1	10.94	0.46	37.00	
Pet Valu	PET	SP		2,524	71.8	35.15	12/2021	1.02	1.56	1.69	22.6	20.7	182	210	224	13.9	13.0	0.00	1.14	42.00	
Restaurants																					
MTY Food Group	MTY	OP		1,381	24.4	56.55	11/2021	3.46	3.85	4.48	14.7	12.6	169	176	224	9.5	7.5	27.05	0.31	68.00	
Online Grocery																					
Goodfood Market	FOOD	OP		68	75.0	0.90	08/2021	(0.45)	(1.05)	(0.64)	NA	NA	(15)	(47)	(18)	NA	NA	0.60	0.58	2.00	

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

Shane Nagle, CFA
Analyst
416-869-7936

Associates:
Lola Aganga: 416-869-6516
Sameer Keswani: 416-869-8029
Adam Smiarowski: 416-869-7535

Rabi Nizami
Analyst
416-869-7925

Selections

› *Teck Resources* › *First Quantum*

Price Volatility to Persist in 2022

At the start of 2022, elevated copper prices continued from 2021 and remained well-supported, surpassing $4.80/lb in Q1. With decreased demand in China from ongoing COVID restrictions, Russia's invasion of Ukraine and high global inflation causing recession fears, demand has started to soften ahead of a period of sustained supply growth. The current market outlook on copper prices is pessimistic, and we expect continued price volatility arising from competing supply-demand forecasts caused by global 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 and building structural deficit in the coming years. Green infrastructure and electric vehicles (EV) are emerging as the dominant story for long-term copper demand, with battery electric vehicles requiring 3x the copper of internal combustion engine vehicles.

Top picks:

Teck Resources Ltd. (TECK.B: TSX)

Teck's organic growth within the copper division, high-quality diversified asset base with exposure to elevated hard coking coal prices, strong balance sheet and long-term commitment to returning capital to shareholders are supportive of a higher valuation than currently ascribed by the market. Teck's coal business unit continues to benefit from high Chinese hard coking coal prices due to tight steelmaking coal markets and the Australia shadow ban expected to persist in 2022, complemented by step-wise improvement in Teck's coal operations in H1/22 following completion of the Neptune terminal expansion. Additionally, Teck's copper development pipeline, including QB3, Zafranel and San Nicolás, underpin Teck's organic copper growth strategy as demand is set to peak as the world advances decarbonization efforts. In the event of further erosion of commodity prices, 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-Panama, Enterprise, Kansanshi S3 expansion and Taca Taca). In the event of a 15% drop in copper spot price, we model First Quantum as having the highest FCF yield in our coverage universe.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Copper	CS	SP	-	2,264	690.1	3.28	4.00	-	Nagle	0.07u	0.60u	0.14u	4.0x	24.1x	0.34u	0.93u	0.41u	2.6x	5.8x	4.30	0.8x
Copper Mountain Mining	CMMC	SP	-	325	213.8	1.52	2.25	-	Nagle	0.11u	0.62u	0.14u	2.4x	10.6x	0.61u	1.53u	0.48u	1.0x	3.2x	2.86	0.5x
Ero Copper	ERO	SP	-	1,393	90.7	15.37	16.00	-	Nagle	1.34u	2.44u	1.43u	4.6x	10.8x	2.02u	3.17u	2.30u	3.5x	4.9x	16.71	0.9x
First Quantum Minerals	FM	OP	-	15,856	691.8	22.92	32.50	-	Nagle	(0.07)u	1.20u	2.11u	14.0x	10.9x	2.64u	4.22u	4.49u	4.0x	3.7x	26.17	0.9x
Hudbay Minerals	HBM	SP	-	1,440	261.9	5.50	7.75	-	Nagle	(0.44)u	0.23u	0.02u	17.3x	260.8x	0.93u	1.87u	1.63u	2.2x	2.5x	6.48	0.8x
Lundin Mining	LUN	SP	-	5,424	778.8	6.97	9.00	-	Nagle	0.31u	1.11u	0.63u	4.6x	11.1x	1.00u	2.11u	1.36u	2.4x	3.8x	8.66	0.8x
Sherritt International	S	SP	-	147	397.3	0.37	0.70	-	Nagle	(0.37)u	(0.03)u	0.21u	n/a	1.7x	0.09u	(0.11)u	0.14u	n/a	1.9x	1.37	0.3x
Taseko Mines	TKO	SP	-	435	286.4	1.52	1.75	-	Nagle	(0.11)c	0.16c	0.01c	9.6x	122.4x	0.44c	0.73c	0.29c	2.1x	5.2x	2.80	0.5x
Teck Resources	TECKb	OP	-	22,207	529.5	41.94	52.50	-	Nagle	1.05c	5.74c	8.97c	7.3x	4.7x	3.38c	10.54c	14.95c	4.0x	2.8x	39.15	1.1x
Developers																					
Adventus Mining	ADZN	OP	-	69	166.4	0.42	1.00	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.31	0.3x
Arizona Metals	AMC.V	OP	-	520	108.5	4.79	7.25	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8.90	0.5x
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	-	2,037	121.5	16.77	30.00	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	37.23	0.5x
Foran Mining	FOM.V	OP	-	587	238.8	2.46	3.30	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.98	0.6x
Solaris Resources	SLS.TO	OP	-	633	108.9	5.81	16.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20.08	0.3x
Trilogy Metals	TMQ	SP	-	116	145.5	0.80	1.35	-	Nizami	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.03	0.4x
Sigma Lithium	SGML	OP	-	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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Sector Analysis

Metals & Mining: Precious Metals

Don DeMarco
Analyst
416-869-7572
—
Associate:
Yi Liu: 416-869-8524

Shane Nagle, CFA
Analyst
416-869-7936
—
Associates:
Lola Aganga: 416-869-6516
Sameer Keswani: 416-869-8029
Adam Smiarowski: 416-869-7535

Michael Parkin
Analyst
416-869-6766
—
Associates:
Alessandro Cairo: 416-869-8511
Andrew Dusome: 416-507-8177

Rabi Nizami
Analyst
416-869-7925

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 rates 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 actual 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 outperform are those with: (1) management teams with solid track records of executing on guidance, (2) strong balance sheets, (3) encouraging Y/Y guidance with growth in production and/or declining costs, (4) well-funded projects, and (5) a catalyst-packed calendar.

Selections

Gold/Silver Producers:

› ***Alamos Gold Inc.*** *(AGI: TSX; C$12.50 target)*
› ***Aya Gold & Silver Inc.*** *(AYA: TSX; C$10.50 target)*
› ***Endeavour Mining plc*** *(EDV: TSX; C$40.50 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$9.00 target)*
› ***K92 Mining Inc.*** *(KNT: TSX; C$10.75 target)*
› ***Pan American Silver Corp.*** *(PAAS: TSX; C$33.00 target)*

Royalties:

› ***Osisko Gold Royalties Ltd*** *(OR: TSX; C$20.00 target)*

Sector Analysis

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP	-	25,865	455.78	56.75	74.00	-	Parkin	2.40u	2.39u	2.09u	17.3x	19.8x	6.51u	5.52u	5.52u	7.5x	7.5x	48.79	1.16x
Barrick Gold	ABX	SP	-	36,407	1,760.47	20.68	26.00	-	Parkin	1.12u	0.93u	1.01u	16.3x	15.0x	2.61u	2.45u	2.62u	6.2x	5.8x	25.09	0.82x
Kinross Gold Corp	K	OP	-	5,858	1,188.22	4.93	9.00	↑	Parkin	0.77u	0.26u	0.40u	13.9x	9.0x	0.76u	0.84u	1.18u	4.3x	3.1x	11.10	0.44x
Newmont	NGT	OP	-	45,351	793.68	57.14	79.00	-	Parkin	2.96u	2.27u	2.66u	18.4x	15.7x	6.02u	5.89u	5.90u	7.1x	7.1x	60.18	0.95x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP	-	31,024	191.6	161.96	205.00	-	Nagle	2.72u	3.53u	3.63u	33.5x	44.6x	4.22u	5.21u	5.05u	22.7x	23.4x	71.10	2.28x
Maverix Metals Inc	MMX	SP	-	656	147.4	4.45	6.50	-	Nagle	0.12u	0.12u	0.13u	37.1x	33.7x	0.29u	0.29u	0.28u	15.6x	16.1x	4.88	0.91x
Osisko Gold Royalties Ltd	OR	OP	-	2,507	185.0	13.55	20.00	-	Nagle	0.26u	0.57u	0.57u	24.0x	23.6x	0.65u	1.03u	1.17u	13.1x	11.6x	14.39	0.94x
Royal Gold Inc	RGLD	SP	-	6,101	65.6	93.05u	140.00u	-	Nagle	2.91u	4.02u	3.25u	23.1x	28.6x	6.28u	7.06u	5.92u	9.6x	11.5x	58.20	1.60x
Sandstorm Gold Ltd	SSL	R	-	1,965	284.3	6.91	R	-	R	R	R	R	R	R	R	R	R	R	R	R	R
Triple Flag Precious Metals Corp	TFPM	SP	-	2,618	156.0	16.78	21.00	-	Nagle	0.20u	0.39u	0.41u	31.4x	40.9x	0.78u	0.80u	0.79u	15.3x	15.5x	12.58	1.33x
Wheaton Precious Metals Corp	WPM	OP	-	19,594	451.7	43.38	68.00	-	Nagle	1.10u	1.31u	1.24u	24.2x	35.0x	1.71u	1.90u	1.76u	16.7x	18.0x	24.56	1.77x
*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	0.23u	(0.19)u	10.7x	n/a	3.62	0.90x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP	-	3,870	391.69	9.88	12.50	-	Parkin	0.41u	0.31u	0.35u	23.5x	20.4x	1.05u	0.92u	0.97u	7.8x	7.4x	12.04	0.82x
B2Gold	BTO	OP		4,536	1,072.3	4.23	7.50		DeMarco	0.36u	0.23u	0.33u	18.8x	12.7x	0.68u	0.66u	0.81u	6.4x	5.2x	4.66	0.91x
Centerra Gold Inc	CG	OP	-	1,298	220.08	5.90	10.50	-	Parkin	0.62u	(0.14)u	0.89u	-31.3x	4.8x	1.43u	0.23u	1.44u	18.7x	3.0x	14.30	0.41x
Dundee Precious Metals	DPM	OP		1,139	190.8	5.97	10.00		DeMarco	1.03u	0.78u	0.64u	7.7x	9.3x	1.66u	1.30u	1.33u	4.6x	4.5x	10.78	0.55x
Eldorado Gold Corp	ELD	OP	-	1,489	184.69	8.06	15.50	-	Parkin	(0.15)u	0.30u	0.69u	27.2x	11.6x	2.06u	1.47u	2.11u	4.0x	2.8x	21.87	0.37x
Endeavour Mining	EDV	OP		6,186	248.4	24.90	40.50		DeMarco	2.42u	1.68u	1.34u	14.8x	18.6x	4.75u	4.63u	3.70u	5.4x	6.7x	30.21	0.82x
Equinox Gold Corp	EQX	SP	-	1,473	305.1	4.83	6.75	-	Parkin	0.21u	(0.18)u	0.08u	n/a	59.2x	0.79u	0.62u	0.86u	7.8x	5.6x	12.61	0.38x
IAMGOLD Corp	IMG	SP	-	923	645.57	1.43	2.40	-	Parkin	0.02u	0.01u	0.18u	101.8x	5.7x	0.61u	0.81u	0.76u	1.3x	1.4x	4.02	0.36x
Lundin Gold Inc.	LUG	SP		2,138	234.9	9.10	11.50		DeMarco	1.07u	0.60u	0.52u	15.2x	17.5x	1.58u	1.60u	1.37u	5.7x	6.6x	11.65	0.78x
New Gold Inc	NGD	SP	-	798	682.30	1.17	1.20	-	Parkin	0.32u	(0.04)u	(0.07)u	n/a	n/a	0.47u	0.20u	0.23u	4.4x	3.7x	1.46	0.80x
OceanaGold Corp	OGC	OP	-	1,500	704.20	2.13	3.50	-	Parkin	0.20u	0.16u	0.15u	13.2x	14.6x	0.47u	0.56u	0.58u	2.8x	2.7x	2.99	0.71x
SSR Mining Inc	SSRM	SP	-	4,201	211.84	19.83	23.50	-	Parkin	1.32u	0.88u	1.39u	16.5x	10.4x	2.74u	1.88u	1.76u	7.7x	8.2x	23.98	0.83x
Yamana Gold Inc	YRI	T	-	5,946	959.03	6.20	7.10	-	Parkin	0.34u	0.26u	0.25u	17.2x	18.3x	0.76u	0.76u	0.79u	5.9x	5.7x	5.92	1.05x
Torex Gold Resources Inc	TXG	SP		811	85.84	9.45	15.50		DeMarco	2.36u	1.82u	0.97u	5.2x	9.8x	4.27u	4.37u	3.51u	2.2x	2.7x	20.50	0.46x
Silver Producers																					
Aya Gold and Silver	AYA	OP		822	105.1	7.82	10.50		DeMarco	0.05u	0.00u	(0.05)u	1643.6x	-	0.11u	0.09u	0.03u	82.4x	293.0x	7.06	1.11x
First Majestic Silver Corp	FR	SP		2,592	260.2	9.96	11.75		DeMarco	0.05u	(0.07)u	0.08u	-	119.3x	0.39u	0.49u	1.28u	20.5x	7.8x	6.18	1.61x
Fortuna Silver Mines Inc	FVI	SP		949	291.9	3.25	4.25		DeMarco	0.45u	0.19u	0.36u	17.5x	9.1x	0.79u	0.74u	0.99u	4.4x	3.3x	4.34	0.75x
Pan American Silver	PAAS	OP		4,507	210.5	21.41	33.00		DeMarco	0.77u	0.21u	0.49u	100.6x	43.4x	2.21u	1.45u	2.04u	14.7x	10.5x	15.28	1.40x
Junior Producers (<250 Koz production)																					
Aris Mining Corp.	ARIS	OP		485	136.1	3.56	5.75	↑	DeMarco	(0.03)u	0.66u	1.34u	5.4x	2.7x	1.35u	1.37u	2.36u	2.6x	1.5x	7.80	0.46x
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
K92 Mining Inc.	KNT	OP		1,705	226.5	7.53	10.75		DeMarco	0.10u	0.27u	0.43u	27.8x	17.4x	0.27u	0.38u	0.55u	19.8x	13.8x	10.83	0.70x
Minera Alamos Inc.	MAI	OP		218	448.5	0.49	0.80		Nizami	0.01u	(0.00)u	0.03u	n/a	15.6x	0.00u	(0.01)u	0.04u	-	12.2x	1.08	0.45x
Wesdome Corp.	WDO	OP		1,268	142.5	8.90	15.00		DeMarco	0.47u	0.27u	0.81u	32.6x	11.0x	0.78u	0.44u	1.16u	20.1x	7.6x	10.15	0.88x
Developers																					
AbraSilver Resource Corp	ABRA	OP		191	476.5	0.40	0.50		DeMarco	(0.00)u	(0.02)u	(0.01)u	-	-	(0.01)u	(0.02)u	(0.01)u	-	-	0.48	0.48x
Artemis Gold Inc.	ARTG	OP		639	154.0	4.15	9.00		DeMarco	(0.05)u	(0.04)u	(0.04)u	-	-	(0.08)u	(0.06)u	(0.04)u	-	-	11.90	11.90x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
G Mining Ventures	GMIN	OP		349	447.5	0.78	1.65		Nizami	(0.04)u	(0.03)u	(0.02)u	n/a	n/a	(0.04)u	(0.04)u	(0.04)u	-	-	0.82	0.95x
Integra Resources Corp.	ITR	OP		47	62.1	0.75	1.25		Nizami	(0.54)u	(0.72)u	(0.27)u	n/a	n/a	(0.50)u	(0.67)u	(0.25)u	-	-	1.51	0.50x
Liberty Gold Corp	LGD	OP		131	315.8	0.42	1.00		Nizami	0.03u	(0.11)u	(0.12)u	n/a	n/a	(0.05)u	(0.08)u	(0.11)u	-	-	1.21	0.34x
MAG Silver Corp	MAG	OP		1,648	100.0	16.48	23.50		DeMarco	(0.07)u	0.85u	0.00u	19.3x	-	(0.04)u	0.56u	1.72u	29.3x	9.6x	18.65	0.88x
Marathon Gold Corp.	MOZ	OP		274	255.8	1.07	2.25	↓	DeMarco	(0.02)u	(0.02)u	(0.04)u	-	-	(0.02)u	(0.02)u	(0.02)u	-	-	2.13	0.50x
NOVAGOLD Resources Inc.	NG	OP	-	1,933	333.3	5.80	9.00	-	Parkin	(0.12)u	(0.14)u	(0.10)u	n/a	n/a	(0.04)u	(0.03)u	(0.03)u	-	-	10.60	0.55x
O3 Mining Inc.	OIII	OP		92	68.4	1.34	3.25		DeMarco	(0.20)u	(0.03)u	(0.33)u	-	-	(0.20)u	(0.06)u	(0.33)u	-	-	4.23	0.32x
Osisko Development	ODV	OP		283	45.4	6.22	10.25		DeMarco	-	-	0.88u	-	7.0x	(0.04)u	-	0.86u	-	7.3x	13.80	0.45x
Osisko Mining	OSK	OP		936	348.1	2.69	4.00		DeMarco	(0.03)u	(0.04)u	(0.04)u	-	-	(0.02)u	(0.03)u	(0.03)u	-	-	5.18	0.52x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		480	457.0	1.05	2.00		DeMarco	(0.00)u	(0.00)u	(0.00)u	-	-	0.00u	(0.00)u	(0.00)u	-	-	2.82	0.37x

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

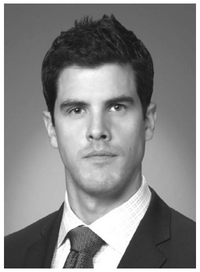
u = US dollars; c = Canadian dollars

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

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associates:
Trevor Martensson: 403-290-5624
Nick Stevenson: 403-441-0928

Large Cap Oil & Gas

Travis Wood
Analyst
403-290-5102
—
Associates:
Logan Fisher: 403-441-0933
Jacob Swan: 403-290-5445

Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

The month of September saw prompt WTI prices fall off a cliff from the soaring heights of the spring (average of ~US$85/bbl vs US$120/bbl earlier in the year), as recessionary fears shook the market as a whole. September saw massive swings as inflation prints, interest rate bumps and hawkish rhetoric from the central banks continue to apply downward pressure on consumer sentiment. As the crude oil market is currently much more illiquid than the historical average as traders sit on the sidelines, extreme volatility on a daily basis is dominating the market, with the current paper market not properly reflecting the true tightness present in the physical market. While short term headwinds may limit crude prices upside in the short term, bullish fundamentals continue to exist in the medium and long term including the impending end to SPR releases, the potential for significant OPEC+ reductions, the upcoming embargo on Russian products and the potential for gas to oil switching in Europe as winter approaches (and the conflict in Ukraine continues to impact European energy security). Furthermore, it seems like a potential Iran nuclear deal is becoming more unlikely, and we should eventually see China's economy reemerge post-pandemic from their zero-covid policy (beginning to see indications this could be on the horizon with flights in China creeping upwards). While WTI averaged US$85bbl in September, backwardation continues to be present with CAL-23 and CAL-24 WTI coming in at $74/bbl and ~US$69/bbl respectively. The associated equities within our coverage remain extremely attractive (especially when you consider the relative strong performance of energy equities during periods of high inflationary pressure) as their prices on average are baking in a WTI price of less than US$60/bbl WTI. At the end of October, companies will begin to report Q3 earnings, and investors should expect to continue to see rapid deleveraging of the balance sheet and the acceleration of return of capital as net debt targets are met across our coverage.

Natural Gas Outlook

September was another encouraging month for natural gas producers, with NYMEX remaining heightened and relatively flat, averaging ~US$8.0/mmbtu in the month (in a similar range to August). While U.S natural gas prices continue to hover in this elevated range, the weaponization of energy in Europe continues to rear its ugly head. In late September, the two Nordstream pipelines between Russia and Germany were both damaged in what most experts are considering to be acts of sabotage. While these pipelines have gradually been providing fewer molecules to Europe year to date, this could have a significant impact on the supply complex, as energy security becomes even more critical. This will likely exasperbate the need for increased LNG deliveries in the coming months in order to ensure that Europe has enough energy to last throughout the winter heating season and rebuild storage levels come the spring. In Canada, AECO continues to remain a thorn in the side of producers, as NGTL maintenance continued to cause AECO to sell at a severe discount for periods during the first half of the month with AECO averaging ~$4.2/GJ in September (a US$4.5/GJ discount to NYMEX). This inability to access egress opportunities led to a significant discount to NYMEX and led to large injections into storage in the month. However, with maintenance season wrapped up and future egress options coming online in the medium term, these issues will hopefully become less pronounced for producers on a go forward basis. Furthermore, many Canadian producers have continued to secure additional takeaway capacity in order to establish market diversification opportunities to more lucrative markets outside of the basin. According to Bentek, total U.S. production is estimated to have increased to 96.3 Bcf/d in September (from 95.7 Bcf/d in August). Additionally, LNG exports were up slightly to 11.4 Bcf/d in September from 10.9 Bcf/d in August, and as expected given the seasonality of gas usage, overall demand was estimated at 90.8 Bcf/d, down from 95.1 Bcf/d in August.

Sector Analysis

Oil & Gas

Top picks:

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

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

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2022-09-29	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2021A	EV/DACF est. 2022E	EV/DACF est. 2032E	Net Debt/ Cash Flow 2022E	Net Debt/ Cash Flow 2023E	CFPS - FD act. 2021A	CFPS - FD est. 2022E	CFPS - FD est. 2032E	P/CFPS est. 2022E	P/CFPS est. 2023E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		TW	1120.8	$64.10	$71,846	5%	6.3x	4.0x	4.4x	0.5x	0.4x	$11.57	$17.51	$14.96	3.6x	4.2x	$88.00	42%	↓
Cenovus Energy	CVE	OP		TW	1862.1	$21.34	$39,738	2%	6.5x	3.2x	2.7x	0.2x	0.1x	$3.56	$6.43	$7.08	3.1x	2.7x	$36.00	71%	↓
Imperial Oil	IMO	SP		TW	606.2	$60.54	$36,702	2%	8.5x	4.9x	5.6x	0.2x	0.1x	$7.17	$12.11	$10.52	4.7x	5.6x	$73.00	23%	↓
Suncor Energy	SU	SP		TW	1335.2	$38.81	$51,819	5%	6.1x	3.2x	3.7x	0.5x	0.5x	$6.89	$13.05	$11.35	2.8x	3.3x	$53.00	41%	↓
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		DP	166.6	$9.89	$1,647	0%	8.2x	3.9x	3.0x	0.4x	0.4x	$1.18	$2.44	$3.43	4.1x	2.9x	$15.00	52%	
ARC Resources Ltd.	ARX	OP		TW	649.9	$16.59	$10,782	3%	5.4x	3.7x	3.3x	0.4x	0.1x	$3.86	$4.81	$5.16	3.3x	3.2x	$23.00	42%	↓
Baytex Energy	BTE	OP		DP	578.7	$5.91	$3,420	0%	5.7x	3.4x	2.6x	0.7x	0.1x	$1.30	$2.07	$2.33	2.9x	2.5x	$9.00	52%	↓
Birchcliff Energy	BIR	OP		DP	277.1	$9.81	$2,718	1%	5.7x	2.4x	3.0x	-0.2x	-0.9x	$1.97	$3.88	$2.67	2.5x	3.7x	$13.50	38%	
Crescent Point Energy Corp.	CPG	OP		TW	548.2	$8.46	$4,638	4%	4.5x	2.4x	1.8x	0.4x	0.1x	$2.57	$3.90	$4.49	2.1x	1.8x	$18.00	117%	↓
Enerplus Corporation ($US)	ERF	OP		TW	215.5	$14.25	$3,071	1%	5.7x	2.8x	2.6x	0.3x	0.1x	$2.73	$5.24	$5.53	2.5x	2.4x	$21.00	49%	↓
Freehold Royalties	FRU	OP		TW	150.7	$14.37	$2,165	8%	11.7x	7.3x	7.8x	0.4x	0.0x	$1.39	$2.05	$1.82	7.0x	7.9x	$19.00	40%	↓
Headwater Exploration	HWX	OP		DP	238.4	$5.35	$1,276	0%	9.9x	3.8x	3.4x	-0.6x	-1.0x	$0.55	$1.26	$1.23	4.2x	4.4x	$9.50	78%	↓
Kelt Exploration	KEL	OP		DP	197.5	$5.22	$1,031	0%	6.3x	3.4x	2.6x	0.0x	-0.2x	$0.85	$1.57	$1.89	3.3x	2.8x	$9.00	72%	↓
MEG Energy	MEG	OP		TW	281.1	$15.67	$4,405	0%	6.9x	2.6x	3.1x	0.6x	0.7x	$2.66	$6.50	$5.32	2.2x	2.7x	$26.00	66%	↓
NuVista Energy	NVA	SP		DP	240.9	$9.86	$2,375	0%	7.5x	2.9x	2.3x	0.1x	-0.5x	$1.38	$3.39	$3.62	2.9x	2.7x	$15.00	52%	↓
Ovintiv Inc (US$)	OVV	OP		TW	246.6	$45.52	$11,227	2%	4.8x	3.6x	2.5x	1.0x	0.5x	$12.18	$15.25	$20.83	2.9x	2.1x	$77.00	71%	↓
Paramount Resources	POU	OP		DP	149.0	$24.21	$3,607	5%	7.5x	3.1x	2.6x	0.1x	-0.2x	$3.38	$8.02	$8.69	3.0x	2.8x	$40.00	70%	↓
Peyto Exploration & Development	PEY	OP		TW	170.4	$11.06	$1,884	5%	5.6x	3.5x	2.9x	1.1x	0.7x	$2.77	$4.28	$4.83	2.6x	2.3x	$17.00	59%	↓
Pipestone Energy	PIPE	SP		DP	269.6	$3.74	$1,008	0%	6.9x	2.4x	1.7x	0.1x	-0.4x	$0.59	$1.59	$1.83	2.4x	2.0x	$6.00	60%	↓
PrarieSky Royalty	PSK	SP		TW	238.8	$17.75	$4,239	3%	17.5x	8.8x	9.8x	0.5x	-0.1x	$1.22	$2.11	$1.79	8.4x	9.9x	$24.00	38%	↓
Spartan Delta	SDE	OP		DP	175.3	$10.37	$1,818	0%	7.1x	2.4x	1.9x	0.1x	-0.4x	$2.26	$4.52	$4.64	2.3x	2.2x	$20.00	93%	↓
Tamarack Valley Energy	TVE	OP		DP	569.0	$3.82	$2,174	4%	5.7x	4.9x	2.6x	2.0x	0.7x	$0.94	$1.44	$1.92	2.7x	2.0x	$8.00	113%	
Topaz Energy	TPZ	OP		DP	144.8	$20.55	$2,976	6%	16.0x	9.4x	8.3x	1.1x	0.5x	$1.54	$2.43	$2.60	8.4x	7.9x	$30.00	52%	
Tourmaline Oil	TOU	OP		DP	343.2	$72.87	$25,009	1%	8.5x	5.1x	4.0x	0.0x	-0.7x	$9.25	$14.18	$15.82	5.1x	4.6x	$85.00	18%	
Vermilion Energy Inc.	VET	OP		TW	164.0	$29.02	$4,758	1%	6.4x	2.8x	1.9x	0.5x	-0.2x	$5.59	$11.87	$13.37	2.4x	2.2x	$50.00	73%	↑
Whitecap Resources	WCP	OP		TW	619.5	$8.75	$5,421	5%	5.8x	2.9x	3.0x	0.7x	0.4x	$1.82	$3.87	$3.30	2.2x	2.7x	$15.50	82%	↓
Small Cap																					
Crew Energy	CR	SP		DP	156.8	$5.19	$814	0%	7.9x	2.7x	2.4x	0.3x	-0.3x	$0.82	$2.06	$1.90	2.5x	2.7x	$7.50	45%	
Kiwetinohk	KEC	OP		DP	44.1	$14.25	$629	0%	11.5x	3.0x	1.5x	0.7x	0.2x	$1.53	$5.83	$10.74	2.4x	1.3x	$27.50	93%	↑
Lucero	LOU	SP		DP	679.5	$0.57	$387	0%	6.6x	2.8x	2.0x	0.4x	-0.3x	$0.15	$0.23	$0.25	2.5x	2.3x	$1.00	75%	↓
Surge Energy	SGY	OP		DP	87.1	$7.90	$688	5%	8.0x	2.5x	2.3x	0.6x	0.2x	$1.79	$3.74	$3.62	2.1x	2.2x	$14.00	83%	↓
Yangarra Resources	YGR	SP		DP	93.0	$2.33	$217	0%	4.0x	1.7x	1.3x	0.6x	0.1x	$1.02	$1.98	$1.80	1.2x	1.3x	$4.00	72%	

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

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 09/29	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	UR		Payne	US$549.33	91.3	US$6.02	US$213.2	nmf	nmf	4.1x	nmf	nmf	1.5x	nmf	nmf	nmf	nmf	
Precision Drilling Corp.	PD	OP		Payne	$ 948.02	13.6	$69.76	$ 285.2	$ 249.5	$ 342.0	7.8x	10.4x	7.1x	4.0x	4.3x	3.2x	$120.00	72%	
Trican Well Services	TCW	OP		Payne	$ 692.68	238.9	$2.90	$ 30.6	$ 101.6	$ 168.9	7.5x	6.8x	4.0x	-0.7x	-0.3x	-0.1x	$6.25	116%	

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

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 09/29	EBITDA (mm) 2021	EBITDA (mm) 2022e	EBITDA (mm) 2023e	EV/EBITDA 2022e	EV/EBITDA 2023e	Net Debt / EBITDA 2022e	Net Debt / EBITDA 2023e	12-Mth Price Target	12-Mth Price Return	Δ
Transition Fuels																	
Anaergia	ANRG	SP		Payne	$ 575.31	67.0	$8.59	$ (3.0)	$ 23.8	$ 89.9	34.3x	10.0x	10.9x	3.6x	$14.00	63%	
Green Impact Partners	GIP	OP		Payne	$ 150.22	20.3	$7.40	$ 3.6	$ 6.4	$ 22.2	25.7x	8.2x	2.3x	1.4x	$12.00	62%	
Tidewater Renewables	LCFS	OP		Payne	$ 339.48	34.7	$9.78	$ 15.3	$ 49.3	$ 149.1	12.0x	3.2x	2.9x	0.3x	$19.50	99%	

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

Source: Company Reports, NBF, Refinitiv

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451

Associates:
William Duforest: 403-441-0952
Johnathan Pescod: 403-355-6643

Selections

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

Overview

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

Commodities Update

Crude markets continued oscillating throughout September while experiencing the push and pull between tight physical markets and recessionary fears in the financial markets, leading to WTI averaging ~US$84.38/bbl, ticking down ~8% below August levels of ~US$91.48/bbl, while remaining ~24% above the 2021 average price of ~US$68/bbl. Turning to gas, NYMEX dipped over the month, averaging US$8.02/mcf, ~9% below August levels of US$8.78/mcf, while AECO averaged $4.28/mcf, gaining on August's average price of $3.31/mcf by ~29%. On Marketing prospects, the WCS heavy differential widened, opening up to an average of ~US$21.23/bbl through September.

11th Annual Energy Infrastructure Conference

We recently hosted the 11th Annual Energy Infrastructure Conference in Montreal and hosted two panel discussions which strengthened our conviction regarding the macro tailwinds related to global energy security. We continue to see government policies relating to decarbonization as a tailwind for the midstream sector with continued momentum in new growth opportunities offsetting rising interest rate headwinds.

AltaGas: Highlighted LPG export volumes are trending slightly above the 97,000 bpd target for 2022 while reiterating its 10% annual growth guidance towards 200,000 bpd upon achieving unit train capabilities and building out the 'Site B' expansion (FID expected in 2023) with expectations of improved LPG export margins throughout H2/22 from the combination of recovering butane spreads and benchmark spreads absorbing increased rail and shipping costs. Elsewhere, due to momentum in North American LNG exports there is momentum towards completing the Mountain Valley Pipeline, of which ALA has a 10% stake and represents a ~10% valuation upside related to ALA potentially selling its stake.

Keyera: The G&P segment is positioned to experience further upside into 2023 related to improving profitability from locking in longer-term contracts at higher rates with greater operating cost flow-through given strong demand for processing services in the South region while experiencing rising utilization within the North region. Regarding KEY's liquids infrastructure, the KAPS pipeline remains on time and on budget being 75% complete while management remains confident in securing additional volume commitments considering momentum surrounding its North region gas plants and the Blueberry River First Nations situation progressing while locking up long-term contracts to underpin an expansion of the KFS fractionation capacity (KFS III). Elsewhere, the outlook for KEY's marketing segment remains robust into 2024 with attractive hedging opportunities for WTI & RBOB in conjunction with butane prices coming down and iso-octane premiums remaining in the normal range.

Secure Energy: Reiterated its opportunity to increase utilization across its crude oil processing (FST) portfolio while focusing on achieving synergies from the Tervita acquisition. Elsewhere, rising demand for pipeline transportation continues to position the East Kaybob pipeline for future bolt-on expansions while SES is well positioned to benefit from deglobalization and grow its industrial waste and environmental services business in and around existing operations.

Brookfield Infrastructure Partners: Management's capital allocation priorities include North America and Europe given the deglobalization tailwinds and relatively strong inflationary protection mechanisms. BIP expects further deglobalization opportunities similar to the recent US$15 bln Intel semiconductor investment, with sights on owning manufacturing businesses such as North American solar panels.

Tidewater Midstream & Infrastructure: The company's ~$235 mln Renewable Diesel facility remains on track for a Q1/23 ISD while on budget. Meanwhile, combined with the existing refinery continuing to outpace expectations with crack spreads >$100/bbl while offering producers the ability to monetize emission credits, PGR continues to outperform expectations when acquired in late 2019. Pipestone Phase 2.0 is fully licensed and commercially contracted while representing significant value for surrounding producers once LNG Canada comes online given its connectivity to the only gas storage facility in the region. TWM continues looking at financing partners to sanction the ~$240 mln Pipestone expansion, requiring 15-18 months to construct.

Pembina Pipeline: With the KKR deal now complete, PPL focuses on filling the Alberta plants (65% utilization) while the BC franchise remains poised to benefit from the Blueberry River First Nations situation being resolved and LNG Canada Phase 2 in the future.

Combined with the Peace systems' volumes increasing and signing up customers such as Tourmaline, PPL looks to sign long-term commitments for an NGL fractionation expansion (Redwater IV), with potential sanctioning by Q1/23. Elsewhere, the Alberta Carbon Grid venture with TC Energy continues to progress towards completing a feasibility study with a greenfield opportunity to build new C02 pipeline infrastructure around the company's Fort Saskatchewan footprint.

Gibson Energy: The energy security premium is supporting commercial discussion related to the buildout of a second diluent recovery unit (DRU) with potential sanctioning by year end, however, GEI is not seeing any incremental demand for new tankage on a stand-alone basis (excluding Trans Mountain Expansion demand). Elsewhere, on the marketing front, Moose Jaw-related contributions continue to benefit from the higher product pricing and demand yet backwardation and relatively stable heavy differentials continue to weigh on the base crude oil marketing performance.

Top Picks

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

Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 09-29	Market Cap. (Mln)	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Distributions per Share est. 2023e	Cash Yield 2022e	Cash Yield 2023e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	Distr. CF per Share - FD est. 2023e	P/Distr. CF 2022e	P/Distr. CF 2023e	Net Debt/ 23e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		280.5	$26.48	$7,429	$1.00	$1.06	$1.12	4.0%	4.2%	$2.79	$2.57	$3.14	10.3x	8.4x	4.8x	33.00	24.6%		28.6%
Enbridge Inc.	ENB	OP		2026.0	$51.68	$104,704	$3.34	$3.44	$3.54	6.7%	6.9%	$4.96	$5.45	$5.74	9.5x	9.0x	4.7x	61.00	18.0%		24.7%
Gibson Energy	GEI	SP		149.1	$22.10	$3,295	$1.40	$1.46	$1.51	6.6%	6.8%	$1.95	$2.20	$2.25	10.1x	9.8x	2.9x	25.00	13.1%		19.7%
Keyera	KEY	OP		221.0	$28.41	$6,279	$1.92	$1.92	$2.01	6.8%	7.1%	$3.03	$3.07	$3.40	9.3x	8.3x	2.9x	38.00	33.8%		40.5%
Pembina Pipelines	PPL	SP		542.0	$42.29	$22,923	$2.52	$2.54	$2.61	6.0%	6.2%	$4.05	$4.55	$4.61	9.3x	9.2x	3.6x	48.00	13.5%		19.5%
Secure Energy	SES	OP		312.0	$5.58	$1,741	$0.03	$0.03	$0.03	0.5%	0.5%	$0.65	$1.11	$1.25	5.0x	4.5x	1.1x	9.00	61.3%		61.8%
Superior Plus	SPB	OP		201.7	$9.93	$2,003	$0.72	$0.72	$0.72	7.3%	7.3%	$1.16	$1.42	$1.30	7.0x	7.6x	3.8x	13.00	30.9%		38.2%
Tidewater Midstream	TWM	OP		423.3	$1.01	$428	$0.04	$0.04	$0.04	4.0%	4.0%	$0.18	$0.31	$0.40	3.3x	2.5x	1.8x	1.75	73.3%		77.2%
TC Energy Corp.	TRP	SP		1017.3	$56.47	$57,445	$3.48	$3.60	$3.74	6.4%	6.6%	$5.74	$5.08	$5.65	11.1x	10.0x	5.5x	65.00	15.1%		21.5%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$42.42	$4,864	$1.79	$1.85	$1.87	4.4%	4.4%	$2.65	$4.05	$3.38	10.5x	12.6x	4.3x	49.00	15.5%		19.9%
Brookfield Infrastructure [1]	BIP	OP		771.4	$35.70	$27,539	$2.04	$1.44	$1.53	4.0%	4.3%	$2.93	$2.16	$2.80	16.5x	12.7x	6.2x	46.00	28.9%		32.9%
Canadian Utilities	CU	SP		275.0	$36.38	$10,003	$1.76	$1.78	$1.79	4.9%	4.9%	$2.97	$3.97	$3.32	9.2x	10.9x	5.0x	40.00	10.0%		14.8%
Capital Power	CPX	OP		114.6	$46.89	$5,372	$2.12	$2.26	$2.39	4.8%	5.1%	$5.39	$6.53	$6.98	7.2x	6.7x	3.1x	52.00	10.9%		15.7%
Emera Inc.	EMA	SP		269.3	$55.99	$15,080	$2.58	$2.68	$2.78	4.8%	5.0%	$1.50	$3.46	$4.62	16.2x	12.1x	6.3x	60.00	7.2%		11.9%
Fortis Inc.	FTS	SP		482.0	$53.02	$25,555	$2.05	$2.17	$2.30	4.1%	4.3%	$3.76	$4.29	$4.81	12.3x	11.0x	6.1x	60.00	13.2%		17.3%
Hydro One Ltd.	H	SP		596.9	$33.59	$20,051	$1.07	$1.11	$1.16	3.3%	3.5%	$2.03	$2.00	$1.79	16.8x	18.8x	5.7x	36.00	7.2%		10.5%
TransAlta	TA	SP		270.7	$12.18	$3,298	$0.18	$0.20	$0.20	1.6%	1.6%	$2.08	$1.85	$2.06	6.6x	5.9x	3.3x	15.00	23.2%		24.8%

Source: Company Reports, NBF Estimates, Refinitiv

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

[1] All dollar figures for BIP are in USD

Real Estate

Matt Kornack
Analyst
416-507-8104
—
Associate:
Anthony Bogdan: 416-869-7935

Tal Woolley
Analyst
416-507-8009
—
Associates:
Giuliano Thornhill: 416-507-8108
Joshua Turanich: 437-684-1594

Selections

- *Tricon Residential Inc*
- *Chartwell Retirement Residences*
- *Flagship Communities REIT*
- *H&R REIT*
- *Minto Apartment REIT*
- *Killam Apartment REIT*

September REIT Highlights

Rising bond yields pressure income-oriented investments

The TSX Capped REIT Yield increased 77 basis points m/m in September, a 17% sequential move. When compared to Canada's 10-year government bond, the spread came in at 161 bps in September. The Capped REIT Index is currently underperforming vs. the TSX at -26.8% and -12.1% YTD, respectively, with Retail and Diversified asset classes outperforming other Real Estate segments YTD.

August head-fake didn't last long as risk off tone accelerates

10-yr bond yield have exceeded 3% for the duration of September, this comes after a momentary break in the march higher over the summer with the long-bond yielding ~2.6% at the end of July. The 10-Yr U.S. Treasury yield finished the month at ~3.7%, nearly reaching over 4% at 3.96% on September 27th. Canada's relative performance has deteriorated as commodity pricing has pulled back on recession fears and housing market risks mount – particularly in the GTA and Vancouver.

Positive Outlook from Property Tours on Apartment Fundamentals

During the month of September, we participated in property tours for Killam Apartment REIT in Southwest Ontario, Canadian Apartment Properties REIT in Montreal and European Residential REIT property in the Netherlands with the following conclusions:

- **Killam Apartment REIT:** Both the Mississauga and Kitchener-Waterloo-Cambridge markets were resilient during the pandemic but are experiencing an acceleration in demand and rental rates with the impacts of the pandemic on immigration figures and student populations waning (Maintaining Outperform Rating and Target at $20.50 Target).
- **Canadian Apartment Properties REIT:** The assets toured represented a small microcosm of a broader strategic pivot by the REIT away from older value-add investments and into recently built but still mass market (<$3.00 per sq. ft. rents) buildings. Although the units we toured generally met the latter threshold, they clearly targeted a higher-end although demographically diverse tenant base in distinct neighborhoods (Maintaining Outperform Rating and Target at $52.00).
- **European Residential REIT:** Supply / demand dynamics remain very favourable to the landlord in the Dutch market with long waiting lists for regulated suites and rising rental rates that can be captured upon conversion to or turnover at liberalized units (Maintaining Sector Perform Rating and $3.95 Target).

We also visited Flagship Communities REIT assets in Ohio, touring traditional and leisure properties owned both in the REIT and in Empower Park (MHC's related vehicle that manages home selling operations), as well as some prospective acquisition targets.

As of now, cap rates have not started rising, but it appears to management they have stopped falling. MHC appreciates the cyclicality of the market may impact its cost of capital, but this does tend to be a steady asset class in a recessionary environment. It would not surprise us if we saw MHC push leverage a little higher to fund additional deals if pricing becomes favourable (Maintaining Outperform Rating and US$21 Target).

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 9-29	Distributions per Unit Actual 2021	est. 2022	est. 2023	Cash Yield 2021A	2022E	2023E	Current Annualized	FD FFO Actual 2021	est. 2022	est. 2023	P/FFO 2021A	2022E	2023E	Net Asset Value	12-Mth Price Target	Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	⟷	$5,513	Woolley	$18.14	$1.00	$1.00	$1.00	5.5%	5.5%	5.5%	5.5%	$1.60	$1.71	$1.78	11.3x	10.6x	10.2x	$24.30	$24.00	37.8%	⟷
Choice Properties REIT	CHP.un	SP	⟷	$8,977	Woolley	$12.41	$0.74	$0.74	$0.74	6.0%	6.0%	6.0%	6.0%	$0.95	$0.96	$0.97	13.1x	12.9x	12.8x	$12.70	$14.00	18.8%	⟷
First Capital REIT	FCR	SP	⟷	$3,155	Woolley	$14.66	$0.43	$0.43	$0.43	2.9%	2.9%	2.9%	2.9%	$1.14	$1.10	$1.14	12.9x	13.3x	12.9x	$20.60	$18.00	25.7%	⟷
SmartCentres REIT	SRU.un	SP	⟷	$4,478	Woolley	$25.14	$1.85	$1.85	$1.85	7.4%	7.4%	7.4%	7.4%	$2.06	$2.21	$2.16	12.2x	11.4x	11.6x	$30.20	$30.00	26.7%	⟷
CT REIT	CRT.un	OP	⟷	$3,385	Woolley	$14.46	$0.87	$0.87	$0.87	6.0%	6.0%	6.0%	6.0%	$1.24	$1.28	$1.34	11.7x	11.3x	10.8x	$16.50	$18.00	30.5%	⟷
Crombie REIT	CRR.un	OP	⟷	$2,465	Woolley	$13.91	$0.89	$0.89	$0.89	6.4%	6.4%	6.4%	6.4%	$1.15	$1.14	$1.19	12.1x	12.2x	11.7x	$16.91	$18.00	35.8%	⟷
Automotive Properties REIT	APR.un	SP	⟷	$630	Woolley	$12.85	$0.80	$0.80	$0.80	6.3%	6.3%	6.3%	6.3%	$0.94	$0.97	$1.03	13.7x	13.3x	12.5x	$12.71	$13.50	11.3%	⟷
Office & Diversified																							
Allied Properties REIT	AP.un	OP	⟷	$3,781	Kornack	$27.05	$1.75	$1.75	$1.75	6.5%	6.5%	6.5%	6.5%	$2.44	$2.68	$2.82	11.1x	10.1x	9.6x	$39.00	$36.50	41.4%	⟷
DREAM Office REIT	D.un	SP	⟷	$841	Kornack	$16.10	$1.00	$1.00	$1.00	6.2%	6.2%	6.2%	6.2%	$1.54	$1.52	$1.56	10.4x	10.6x	10.3x	$21.70	$20.00	30.4%	⟷
Slate Office REIT	SOT.un	SP	⟷	$310	Kornack	$4.25	$0.40	$0.40	$0.40	9.4%	9.4%	9.4%	9.4%	$0.58	$0.62	$0.64	7.4x	6.8x	6.6x	$5.00	$4.40	12.9%	⟷
True North Commerical REIT	TNT.un	SP	⟷	$512	Kornack	$5.51	$0.59	$0.59	$0.59	10.8%	10.8%	10.8%	10.8%	$0.59	$0.60	$0.60	9.3x	9.2x	9.2x	$5.90	$6.00	19.7%	⟷
H&R REIT	HR.un	OP	⟷	$2,940	Kornack	$10.25	$0.55	$0.55	$0.55	5.4%	5.4%	5.4%	5.4%	$1.54	$1.16	$1.25	6.6x	8.8x	8.2x	$18.25	$16.50	66.3%	⟷
Artis REIT	AX.un	SP	⟷	$1,071	Kornack	$9.25	$0.60	$0.60	$0.60	6.5%	6.5%	6.5%	6.5%	$1.33	$1.32	$1.31	6.9x	7.0x	7.1x	$14.70	$11.50	30.8%	⟷
BTB REIT	BTB.un	SP	⟷	$263	Kornack	$3.11	$0.30	$0.30	$0.30	9.6%	9.6%	9.6%	9.6%	$0.40	$0.46	$0.47	7.9x	6.8x	6.7x	$4.50	$3.85	33.4%	⟷
Industrial																							
Granite REIT	GRT.un	OP	⟷	$4,249	Kornack	$64.88	$3.10	$3.10	$3.10	4.8%	4.8%	4.8%	4.8%	$4.04	$4.48	$4.82	16.1x	14.5x	13.5x	$85.90	$90.00	43.5%	⟷
DREAM Industrial REIT	DIR.un	OP	⟷	$2,889	Kornack	$10.56	$0.70	$0.70	$0.70	6.6%	6.6%	6.6%	6.6%	$0.80	$0.88	$0.92	13.2x	12.0x	11.5x	$14.35	$14.25	41.6%	⟷
Nexus Industrial REIT	NXR.un	SP	⟷	$659	Kornack	$8.30	$0.64	$0.64	$0.64	7.7%	7.7%	7.7%	7.7%	$0.77	$0.82	$0.88	10.8x	10.1x	9.5x	$11.60	$11.00	40.2%	⟷
Summit Industrial	SMU.un	OP	⟷	$3,123	Kornack	$16.45	$0.58	$0.58	$0.58	3.5%	3.5%	3.5%	3.5%	$0.70	$0.76	$0.85	23.4x	21.6x	19.4x	$19.95	$22.00	37.3%	⟷
Hotels																							
American Hotel Income Properties	HOT.un	SP	⟷	$270	Woolley	$2.75	$0.23	$0.23	$0.23	8.4%	8.4%	8.4%	8.4%	$0.52	$0.45	$0.48	5.3x	6.1x	5.7x	$4.35	$4.00	53.8%	⟷
Multi-Res																							
CAP REIT	CAR.un	OP	⟷	$7,100	Kornack	$40.63	$1.45	$1.45	$1.45	3.6%	3.6%	3.6%	3.6%	$2.36	$2.46	$2.57	17.3x	16.5x	15.8x	$47.35	$52.00	31.6%	⟷
Boardwalk REIT	BEI.un	OP	⟷	$2,234	Kornack	$44.45	$1.08	$1.08	$1.08	2.4%	2.4%	2.4%	2.4%	$2.94	$3.08	$3.26	15.1x	14.4x	13.6x	$59.90	$58.00	32.9%	⟷
Killam Apartment REIT	KMP.un	OP	⟷	$1,773	Kornack	$14.78	$0.70	$0.70	$0.70	4.7%	4.7%	4.7%	4.7%	$1.07	$1.11	$1.16	13.8x	13.3x	12.8x	$20.90	$20.50	43.4%	⟷
InterRent REIT	IIP.un	OP	⟷	$1,573	Kornack	$11.12	$0.34	$0.34	$0.34	3.1%	3.1%	3.1%	3.1%	$0.51	$0.58	$0.62	22.0x	19.2x	18.0x	$12.95	$14.00	29.0%	⟷
Minto Apartment REIT	MI.un	OP	⟷	$827	Kornack	$12.56	$0.48	$0.48	$0.48	3.8%	3.8%	3.8%	3.8%	$0.79	$0.89	$0.99	15.8x	14.1x	12.7x	$18.35	$17.50	43.1%	⟷
BSR REIT	HOM.un	OP	⟷	$831	Kornack	$14.35	$0.52	$0.52	$0.52	3.6%	3.6%	3.6%	3.6%	$0.63	$0.83	$0.89	22.8x	17.3x	16.1x	$21.60	$20.50	46.5%	⟷
ERES REIT	ERE.un	SP	⟷	$670	Kornack	$2.89	$0.16	$0.16	$0.16	5.6%	5.6%	5.6%	5.6%	$0.21	$0.23	$0.23	14.0x	12.7x	12.5x	$4.23	$3.95	42.3%	⟷
International																							
Inovalis REIT	INO.un	SP	⟷	$139	Kornack	$4.14	$0.41	$0.41	$0.41	10.0%	10.0%	10.0%	10.0%	$0.53	$0.58	$0.67	7.8x	7.1x	6.2x	$7.80	$6.00	54.9%	⟷
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	⟷	$2,130	Woolley	$9.09	$0.61	$0.61	$0.61	6.7%	6.7%	6.7%	6.7%	$0.59	$0.56	$0.66	15.4x	16.2x	13.8x	$11.17	$13.00	49.7%	⟷
NorthWest H.P. REIT	NWH.un	SP	⟷	$2,510	Woolley	$10.35	$0.80	$0.80	$0.80	7.7%	7.7%	7.7%	7.7%	$0.84	$0.79	$0.82	12.4x	13.1x	12.6x	$12.78	$13.50	38.2%	⟷
Sienna Senior Living	SIA	OP	⟷	$849	Woolley	$11.65	$0.94	$0.94	$0.94	8.0%	8.0%	8.0%	8.0%	$1.15	$1.01	$1.19	10.1x	11.5x	9.8x	$14.11	$16.00	45.4%	⟷
Extendicare	EXE	SP	⟷	$582	Woolley	$6.49	$0.48	$0.48	$0.48	7.4%	7.4%	7.4%	7.4%	$0.52	$0.28	$0.34	12.5x	23.2x	19.1x	$8.30	$8.00	30.7%	⟷
Invesque	IVQu	SP	⟷	$63	Woolley	$1.12u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.44u	$0.37u	$0.39u	2.5x	3.0x	2.9x	$2.04u	$1.50u	33.9%	⟷
Self Storage																							
StorageVault Canada	SVI.V	OP	⟷	$2,093	Woolley	$5.53	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.15	$0.19	$0.23	36.7x	29.1x	24.0x	$5.60	$7.50	35.8%	⟷
MHC																							
Flagship Communities REIT	MHCu.TO	OP	⟷	US$293.59	Woolley	US$14.97	US$0.54	US$0.54	US$0.54	3.6%	3.6%	3.6%	3.6%	US$1.03	US$1.15	US$1.28	14.5x	13.0x	11.7x	US$22.10	US$21.00	43.9%	⟷
Asset Management																							
Tricon Capital Group	TCN	OP	⟷	$3,203	Woolley	$11.73	$0.30	$0.30	$0.30	2.6%	2.6%	2.6%	2.6%	$0.57	$0.61	$0.70	20.6x	19.2x	16.8x	$19.75	$18.00	56.0%	⟷

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

Zachary Evershed, CFA
Analyst
514-412-0021

—

Associates:
Thomas Bolland: 514-871-5013
Nathan Po: 416-660-1740

Selections

- › *GDI*
- › *RCH*
- › *UNS*

GDI

GDI and NBF hosted a pair of site visits for institutional investors, touring GDI's Superior Sany Solutions facility in Oakville, and its North York Ainsworth location. Presenting for the cohort of investors at Superior Sany Solutions was Craig Rudin, CEO of Superior Solutions, while the Ainsworth site visit was led by Craig Stanford, President and COO of Ainsworth.

Superior Sany Solutions

At Superior Sany Solutions, Mr. Rudin showcased Complementary Services' capabilities to stock and distribute the A to Z of janitorial supplies and PPE, servicing GDI's own operations under the Sany Plus brand first and foremost (this being the initial purpose of the business), but also providing a one-stop shop for the professional janitorial market. We view the chemical manufacturing ramp up of the segment as an underappreciated opportunity, as the whopping ~115 million litre capacity in the U.S. is running below 10% capacity utilization, compared to the ~20 million litre capacity in Canada running at 60-70%. With a central U.S. location in Kansas and direct railcar access to the new manufacturing location acquired in the Fuller transaction, GDI has ample flexibility to ramp up both OEM outsourced manufacturing and white label offerings with bespoke labels, packaging and chemistry. We are intrigued by the prospect of incremental revenue providing margin torque as fixed cost absorption has the chance to markedly improve.

Ainsworth

At Ainsworth, Mr. Stanford highlighted Technical Services' unique value offering of a cross-country, one-stop multi-trade service provider not reliant on subcontracting. We note the company's growing exposure to building automation services (BAS) and master services integration (MSI), which now account for ~30% of segment revenues, making GDI the largest non-OEM BAS service provider in Canada. We view this pivot positively, as BAS contracts exhibit high quality revenues with very low customer churn and provides a significant foot in the door, positioning Ainsworth as a trusted advisor involved in the decision-making for other technical services sought by customers. BAS provides not only comfort control, but is integral to security and especially energy management, a hot topic as building managers seek to reduce their environmental footprint. This expertise is now supplemented by the design and engineering capabilities of the recently acquired Énergère, which can be easily cross sold across the platform and effectively scaled.

$55.50 target based on 10x 2024e EV/EBITDA, Outperform Rating

IWe reiterate our Outperform rating as GDI continues to expand its growth opportunities via platform acquisition synergies and tuck-in M&A, while also protecting margins with cost pass-throughs. Our $55.50 target is based on 10x 2024e EV/EBITDA, a 7.75x base multiple and 2.25x M&A premium equivalent to $200 million in incremental revenue added through acquisitions annually.

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		667.1	45.3	14.74	12/2021	4.71	6.43	8.37	2.3	1.8	130.5	154.1	137.8	6.5	7.2	9.0%	2.7	22.00	↓
Boyd Group Services Inc.	BYD	SP		3,754.0	21.5	174.85	12/2021	1.30	2.16	4.74	64.9	29.5	219.5	274.9	366.4	14.3	10.9	0.3%	2.6	190.00	↓
Cascades	CAS	SP		820.8	101.1	8.12	12/2021	0.26	0.58	1.17	14.0	6.9	389.0	404.5	520.1	6.2	4.8	5.9%	3.3	8.00	↓
Dexterra Group Inc.	DXT	OP		377.5	65.2	5.79	12/2021	0.37	0.21	0.43	27.3	13.6	80.8	72.3	86.4	7.2	5.7	6.0%	1.8	10.00	
Doman Building Materials	DBM	OP		503.2	86.8	5.80	12/2021	1.27	0.82	0.53	7.1	10.9	225.6	189.8	153.6	5.4	6.3	9.7%	4.6	7.00	
GDI Integrated Facility Services	GDI	OP		992.5	23.3	42.65	12/2021	1.89	1.65	1.48	25.9	28.9	132.8	150.0	142.3	8.8	8.9	0.0%	2.7	55.50	↓
Hardwoods Distribution	HDI	OP		623.0	23.9	26.10	12/2021	4.77	5.73	4.25	3.6	4.9	195.2	270.4	222.6	4.3	4.5	1.8%	3.8	69.00	↓
KP Tissue	KPT	SP		103.3	9.9	10.39	12/2021	0.65	(0.80)	(0.00)	nmf	nmf	153.4	106.8	195.0	16.3	9.7	6.9%	5.0	9.00	↓
Neighbourly Pharmacy Inc.	NBLY	SP		883.1	44.4	19.89	03/2022	0.32	0.38	0.38	52.0	52.2	45.9	76.1	106.8	16.2	12.1	0.9%	1.0	20.00	↓
Park Lawn Corporation	PLC	OP		847.1	34.9	24.30	12/2021	1.21	0.99	1.14	19.6	17.1	69.4	65.4	78.9	11.8	9.6	1.9%	1.7	32.50	↓
Richelieu Hardware	RCH	OP		2,123.1	56.5	37.61	11/2021	2.51	2.69	2.28	14.0	16.5	234.4	259.9	227.5	8.0	8.5	1.4%	0.8	54.50	
Savaria Corporation	SIS	OP		883.5	64.5	13.70	12/2021	0.54	0.59	0.89	23.1	15.3	100.3	124.7	143.8	10.0	8.4	3.6%	2.6	19.50	↓
Uni-Sélect	UNS	OP		1,588.1	43.5	36.50	12/2021	1.00	1.67	1.78	17.5	16.4	146.7	184.5	193.7	8.9	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

Sustainability & Clean Tech

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

Selections

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

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 always 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. Our top picks include INE, NPI, and BLX.

Innergex Renewable Energy Inc.
(INE: TSX; Outperform; $25/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, 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 re-iterated 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 a 332 MW portfolio of three wind farms in Chile, further expanding its presence in Chile. While INE could see near-term headwinds from windfall taxes, 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% discount rate on operating assets and includes $2/sh for growth.

Northland Power Inc.
(NPI: TSX; Outperform; $49/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 more 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, 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% on operating cash flows and $9/sh of growth.

Boralex Inc.
(BLX: TSX; Outperform; $50 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, 98% of which 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 (+222 MW net of projects) 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 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. Nonetheless, due to the energy crisis and high-power price environment, BLX has witnessed an increased interest in renewables that could result in growth opportunities. Our target is based on a long-term DCF with a 6% cost of equity on operating cash flows and $7/sh of growth.

Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9-29	Last Year Reported	FD EPS (A) Last FY	FD EPS est. FY1	FD EPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	SP		159.9	88	1.81	12/2021	0.06u	(0.02)u	0.15u	nmf	9.5	2.54u	2.94u	3.05u	0.5	0.5	0.93u	0.31	2.50	
Algonquin Power	AQN	SP		7,504.9	679	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	16.00u	
Altius Renewable Royalties Corp	ARR	OP		224.2	29	7.65	12/2021	(0.13)u	(0.03)u	0.07u	nmf	nmf	0.02u	0.10u	0.21u	59.5	28.3	0.62u	0.00	14.50	
Ballard Power Systems	BLDP	OP		1,830.8	298	6.14u	12/2021	(0.39)u	(0.59)u	(0.49)u	nmf	nmf	0.35u	0.31u	0.49u	19.5	12.6	4.31u	0.01	12.00u	
Boralex	BLX	OP		4,491.6	104	43.37	12/2021	0.16	1.08	1.01	40.0	42.8	6.69	8.07	8.88	5.4	4.9	12.87	0.63	50.00	
Brookfield Renewable	BEP	OP		19,985.0	646	30.94u	12/2021	0.00u	0.00u	0.00u	na	na	3.74u	4.22u	4.50u	7.3	6.9	24.27u	0.35	42.00u	
GFL Environmental Inc.	GFL	OP		14,091.4	400	35.23	12/2021	(1.83)	0.04	(0.18)	nmf	nmf	15.28	17.03	18.57	2.1	1.9	15.66	0.58	53.00	
Innergex	INE	OP		3,514.0	204	17.21	12/2021	(1.09)	(0.00)	0.38	nmf	44.8	4.13	4.44	4.61	3.9	3.7	7.51	0.76	25.00	↑
The Lion Electric Company	LEV	OP		560.5	197	2.85u	12/2021	(0.26)u	(0.08)u	(0.69)u	nmf	nmf	0.29u	0.69u	2.48u	4.1	1.1	2.09u	0.02	9.00u	
Loop Energy Inc	LPEN	OP		67.1	34	1.97	12/2021	(0.74)	(1.00)	(0.66)	nmf	nmf	0.04	0.06	0.28	31.4	6.9	2.00	0.01	5.00	
NanoXplore	GRA	OP		532.0	165	3.22	06/2022	(0.10)	0.01	0.11	nmf	29.5	0.57	0.80	0.99	4.0	3.2	0.73	0.19	8.00	
Next Hydrogen Solutions Inc.	NXH	SP		33.0	23	1.44	12/2021	(1.28)	(0.66)	(0.53)	nmf	nmf	0.01	0.11	0.19	13.3	7.7	1.41	0.01	2.50	
Northland Power	NPI	OP		9,404.4	232	40.48	12/2021	0.83	2.84	2.40	14.3	16.8	9.57	10.83	11.27	3.7	3.6	14.97	0.67	49.00	
Polaris Renewable	PIF	OP		317.4	20	16.11	12/2021	0.03	(0.01)	0.56	nmf	28.9	3.13	3.00	3.86	5.4	4.2	13.00	0.36	21.00	
TransAlta Renewables	RNW	SP		3,916.9	267	14.67	12/2021	0.52	0.47	0.60	31.0	24.4	1.76	2.05	1.89	7.1	7.8	6.70	0.23	19.00	
Xebec Adsorption	XBC	R		81.9	161	0.51	12/2021	(0.15)	R	R	N/A	N/A	0.82	R	R	N/A	N/A	1.87	0.22	R	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Sector Analysis
Technology

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

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

Selections

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

Few Places to Hide

As you know, it continues to be a challenging environment for global equities – we won't go into the reasons given you're bombarded by all those (obvious) reasons on a daily basis (inflation, recession, rates). And it's that restrictive backdrop (particularly rates) that's been particularly challenging for the Technology stocks with the S&P Info Tech Index and S&P/TSX Info Tech Index down -28.9% and -57.3% respectively year to date. No doubt, the broad valuation reset for the entire Technology sector has pulled even the best of names down with many of those actually executing on their fundamental business plans. In our view, those names will offer notable upside when the market backdrop normalizes to the positive which is why we continue to believe there remain opportunities for investors who can take on a longer-term view. For those who can't, we continue to think those investors should stick to defensive names such as CGI, OpenText, and Constellation Software. But, if you're time horizon is further out, we continue to see compelling risk-to-reward profiles in names like Docebo, Kinaxis, Lightspeed, Magnet Forensics among others. We touch on a cross section of names (defensive and growth) below.

CGI stands to benefit from an industry tailwind largely driven by enterprises resuming their digital transformation initiatives that were paused during the pandemic. That tailwind was evidenced by strong book-to-bill in CGI's recent quarter. While we like the name for its defensive attributes (strong recurring cash flow), we see potential option value from initiatives such as its commitment to IP30 (30% of revenue from IP by F25). Separately, the Company plans to deploy $1 bln in capital on acquisitions this fiscal year will further expand 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 continue to 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.

- **CGI** stands to benefit from an industry tailwind largely driven by enterprises resuming their digital transformation initiatives that were paused during the pandemic. That tailwind was evidenced by strong book-to-bill in CGI's recent quarter. While we like the name for its defensive attributes (strong recurring cash flow), we see potential option value from initiatives such as its commitment to IP30 (30% of revenue from IP by F25). Separately, the Company plans to deploy $1 bln in capital on acquisitions this fiscal year will further expand 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 continue to 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 continue to accelerate as the Company looks to increase

Technology

its payments attach rate across an already large and growing (GTV) base. That said, the biggest potential (optionality) in our view comes from the integration of the Company's active acquisition stable over the past few years. In our view, the integration of those capabilities has the potential to accelerate the Company's market share gains.

› **Magnet Forensics** is an early leader in the Digital Forensics market with a suite of competitive offerings to target both public and enterprise clients. The quality of its business model is further underscored by its financial performance with strong growth and profitability profiles. If you've been following our research, you would be familiar with the "Rule of 40" as a quick quality test of SaaS names. In light of that, the sum of MAGT's revenue growth and EBITDA margin is ~60%. Other than the strong financial performance, we'd also flag the transition to a recurring Term License model and a scaling ARPU as the opportunities ahead of this name.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 9/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Altus Group Limited	AIF	OP		2,108	45.2	46.65	2021	1.90	2.10	2.51	22.2	18.6	109.8	141.3	148.2	16.6	15.8	12.2	38%	70.00	
Blackline Safety Corp.*	BLN	OP		121	71.9	1.68	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		24,485	240.8	101.68	2021	5.41	6.11	6.53	16.6	15.6	2462.7	2557.3	2672.5	10.5	10.1	29.0	31%	135.00	
Constellation Software Inc.	CSU	SP		40,221	21.2	1,897.98	2021	47.38u	52.76u	67.05u	26.5	20.8	1,511.0u	1,732.5u	2,093.8u	17.8	14.7	78.8u	53%	2350.00	
Converge Technology Solutions*	CTS	OP		1,333	218.6	6.10	2021	0.35	0.55	0.74	8.1	6.0	94.0	162.8	221.4	6.7	4.9	3.02	23%	12.00	
Copperleaf Technologies*	CPLF	OP		430	69.4	6.20	2021	(0.03)	(0.43)	(0.35)	NMF	NMF	2.1	(27.5)	(25.9)	NMF	NMF	2.01	0%	14.00	
Coveo Solutions Inc.	CVO	OP		552	103.8	5.32	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		1,209	34.0	35.55	2021	(0.31u)	(0.09u)	0.35u	NMF	NMF	(8.0u)	(0.4u)	13.3u	NMF	51.0	5.7u	0%	85.00u	
D2L Inc.*	DTOL	OP		326	53.0	6.15	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		238	48.1	4.96	2021	(0.65u)	(1.00u)	(0.80u)	NMF	NMF	(7.9u)	(37.9u)	(26.5u)	NMF	NMF	2.6u	0%	10.00	
Farmers Edge Inc.	FDGE	SP		31	41.9	0.75	2021	(1.81)	(1.92)	(1.51)	NMF	NMF	(49.9)	(65.2)	(53.2)	NMF	NMF	1.43	16%	1.00	
Kinaxis Inc.	KXS	OP		3,618	27.6	131.12	2021	0.57u	1.24u	1.85u	NMF	NMF	39.9u	67.1u	80.4u	35.8	29.9	12.6u	0%	250.00	
Lightspeed Commerce Inc.	LSPD	OP		2,507u	149.0	16.83u	2022	(0.36u)	(0.32u)	(0.04u)	NMF	NMF	(41.5u)	(37.0u)	11.3u	NMF	NMF	68.1u	0%	65.00u	
Magnet Forensics Inc.*	MAGT	OP		834	40.8	20.41	2021	0.28u	0.29u	0.29u	NMF	NMF	18.6u	14.4u	17.8u	34.6	28.0	2.2u	2%	50.00	
mdf commerce inc.	MDF	SP		98	44.0	2.23	2022	(0.48)	(0.49)	(0.29)	NMF	NMF	(2.0)	(7.2)	2.6	NMF	56.1	0.17	15%	2.00	
Nuvei Corporation	NVEI	OP		4,015u	144.9	27.71u	2021	1.70u	1.88u	2.67u	14.7	10.4	317.2u	346.4u	495.0u	11.0	7.7	13.4u	21%	75.00u	
Open Text Corporation	OTEX	OP		7,330u	270.4	27.11u	2022	3.22u	3.37u	3.69u	8.0	7.3	1,265.1u	1,326.5u	1,416.7u	7.4	7.0	14.9u	51%	60.00u	
Pivotree Inc.*	PVT	OP		96	27.4	3.50	2021	(0.35)	(0.37)	(0.19)	NMF	NMF	(3.5)	(0.6)	2.7	NMF	29.5	0.0	0%	8.00	
Q4 Inc.	QFOR	OP		166	39.7	4.18	2021	(1.20u)	(0.68u)	(0.11u)	NMF	NMF	(13.6u)	(23.1u)	(1.2u)	NMF	NMF	1.6u	0%	7.00	
Real Matters Inc.	REAL	SP		368	76.8	4.79	2021	0.48u	0.03u	0.04u	NMF	NMF	59.2u	8.3u	6.0u	26.1	36.6	1.7u	0%	6.00	
Shopify Inc.	SHOP	OP		36,295u	1262.0	28.76u	2021	0.06u	(0.11u)	(0.01u)	NMF	NMF	732.0u	(152.1u)	27.1u	NMF	NMF	6.9u	9%	75.00u	
Softchoice Corp*	SFTC	OP		1,188	62.9	18.90	2021	0.58u	0.77u	0.97u	24.6	19.6	67.0u	80.8u	96.3u	15.6	13.1	0.8u	62%	28.00	
Tecsys Inc*	TCS	OP		423	14.8	28.51	2022	0.30	0.07	0.43	NMF	NMF	10.1	7.1	12.2	57.9	33.8	4.59	11%	50.00	
Telus International	TIXT	OP		7,330u	269.0	27.25u	2021	1.00u	1.23u	1.45u	NMF	NMF	540.0u	623.6u	734.8u	13.2	11.2	6.3u	38%	50.00u	
Thinkific Labs Inc.	THNC	OP		104	78.4	1.81	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	5.00	

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

u = US dollar

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

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

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

Selections

- › *Cineplex*
- › *Rogers*
- › *Thomson Reuters*

Rogers

Looking beyond second mediation to Tribunal hearing and potential of closing Shaw in 1Q23:

Rogers' stock is once again back to the mid-$50s level where it tends to have support in periods of crisis, underperformance or uncertainty at the company. Targets, including ours, are generally materially higher (average $75) and the company's performance in 2022, notwithstanding the initial fallout from the July outage and $150M in billing credits to impact 3Q22 (plus initial $525M of potential total $800M in consent fees to extend SMR), would substantiate a share price significantly higher than current levels. Investors will continue to contemplate the prospect of integration risk and the quantum and timing of deal synergies, assuming the Shaw acquisition closes, but the one key short term risk for us that would see the stock remain at or just below current levels is if the regulatory review process drags on into 2023 due to an appeals process being pursued. This would be expected to maintain the current overhang on the stock. As we approach 3Q22 reporting on Nov. 9, we expect to see more investors assessing Rogers with a view to positioning for a material trading opportunity that could present itself over the next three to five months. If nothing comes of the second mediation Oct. 27-28 (little is expected), the focus then turns to the start of the hearing before the Competition Tribunal on Nov. 7 which will run into mid-December. For Rogers to be able to close on Shaw in 2022, the hearing would somehow have to be materially truncated and a decision rendered a lot quicker than what is otherwise assumed to be approximately 30 days. We think the Competition Tribunal will render its decision around mid-January. Having found no "smoking gun" or great arguments to substantiate the Competition Bureau's steadfast opposition, we believe an approval will come which then sets the stage for the approval process by ISED. We think approval from ISED would come within a week or two given how much time has passed and that Shaw's wireless spectrum licences would all get transferred to Videotron rather than retained by Rogers. Once approvals have been obtained, the deals would be expected to close possibly as early as mid-February barring any appeal. Our target is based on the averages of our 2022E/PF2023E DCF and PF2023E/2024E NAV with implied EV/EBITDA of 8.6x 2022E, 8.3x PF2023E, and 7.8x 2024E.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 9/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		555	63.4	8.76	12/2021	(3.93)	(0.22)	1.12	-39.4	7.8	-84.3	118.6	189.8	10.6	6.2	-4.05	1.51	15.50	
Corus Entertainment Inc.	CJR.b	SP	↓	477	203.0	2.35	08/2021	0.88	0.58	0.40	4.0	5.8	524.6	444.6	373.4	4.4	5.0	5.62	0.54	3.25	↓
WildBrain Ltd.	WILD	OP		357	173.1	2.06	06/2022	0.03	0.13	0.19	15.7	10.9	88.8	99.5	113.6	8.1	6.8	0.46	0.85	3.50	↓
Spin Master Corp.	TOY	OP		4,270	102.9	41.50	12/2021	2.10	2.44	2.42	12.4	12.5	414.1	437.2	448.2	5.4	4.7	11.31	-0.92	66.00	
Stingray Group Inc.	RAY.a	OP		370	69.7	5.30	03/2022	0.79	0.80	0.89	6.6	5.9	99.3	109.2	115.8	7.0	6.2	4.01	0.63	7.50	
TVA Group Inc.	TVA.b	SP		89	43.2	2.07	12/2021	0.78	0.28	0.49	7.4	4.2	80.3	48.1	60.0	2.5	1.9	8.72	0.10	3.00	
Packaging, Printing, and Publishing																					
CCL Industries Inc.*	CCL.b	OP		11,527	178.6	64.54	12/2021	3.37	3.69	4.02	17.5	16.0	1173.1	1309.4	1405.4	9.8	8.8	21.60	0.32	81.00	
Thomson Reuters Corp.	TRI	OP		68,929	485.1	142.08	12/2021	1.95	2.44	3.54	42.6	29.3	1970.0	2334.2	2829.0	22.8	18.5	27.52	0.21	162.00	
Transcontinental Inc.	TCL.a	OP		1,349	86.6	15.57	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		197	21.3	9.22	12/2021	(0.59)	(0.98)	0.26	NM	35.6	29.0	33.3	44.9	6.3	5.4	3.91	0.41	19.00	↓
Yellow Pages Ltd.	Y	SP		333	26.6	12.53	12/2021	3.05	2.47	2.93	5.1	4.3	102.0	99.4	91.2	2.6	1.8	NM	-0.44	15.00	
Telecommunications																					
BCE Inc.	BCE	OP		53,530	911.9	58.70	12/2021	3.19	3.28	3.50	17.9	16.8	9893.0	10250.1	10553.9	8.4	8.1	21.44	0.40	68.00	↓
Cogeco Communications Inc.	CCA	SP		3,305	46.2	71.61	08/2021	8.43	9.27	9.80	7.7	7.3	1205.7	1387.4	1422.4	5.0	4.8	65.89	0.59	108.00	
Quebecor Inc.	QBR.b	OP		6,055	236.7	25.58	12/2021	2.52	3.02	3.16	8.5	8.1	1973.2	1958.6	2412.6	6.3	6.2	5.93	0.82	32.00	
Rogers Communications Inc.	RCI.b	OP		26,806	504.9	53.09	12/2021	3.56	3.56	4.90	14.9	10.8	5887.0	6382.7	9301.4	7.3	7.1	21.42	0.36	75.00	↓
Shaw Communications	SJR.b	OP		16,889	501.0	33.71	08/2021	1.60	1.58	1.57	21.4	21.5	2500.0	2543.2	2554.4	8.8	8.3	12.62	0.46	40.50	
Telus Corp.	T	OP		38,268	1381.0	27.71	12/2021	1.23	1.20	1.35	23.1	20.5	6290.0	6656.8	7285.1	9.4	8.5	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.

Sector Analysis

Transportation & Industrial Products

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

Selections

- *Air Canada*
- *CAE Inc.*
- *Exchange Income*

Civil segment still the primary earnings driver for CAE

After CAE's Defence & Security segment reported a very weak margin performance as well as impairments on two contracts in the Defence backlog in fiscal Q1, investor focus has shifted away from the Civil Aviation segment, which has historically been the primary driver of the share price. However, while Defence is a more important contributor to CAE's revenue following the L3Harris Military training division acquisition last year, we stress that based on our forecast for F2024 (which assumes a Defence margin recovery), CAE's Civil segment will still contribute ~72%+ of total company EBIT, a nearly identical percentage to F2019.

Trends in Civil remain positive

Considering our view that CAE investors should be more focused on the positive trends in the Civil segment, we note the following:

- Global commercial flying activity is still down 15.8% versus 2019 levels but steadily recovering which will drive an ongoing rebound in pilot training demand and improvement in CAE's training centre utilization rate.
- New pilot hiring, which is a leading indicator of training demand, has already surpassed prior annual records so far in 2022 in the U.S. We expect pilot hiring globally to be an ongoing tailwind for pilot training demand.
- Business jet flying activity remains above 2019 levels, and we believe will continue to be strong. About 30% of CAE's installed base of simulators and a much higher percentage of revenue stems from business jet training with CAE's training footprint expanding in the coming years.
- CAE projects that the active pilot pool will grow 25% from 2019 to 2029 while Boeing forecasts that the global commercial aircraft fleet will grow 82% over the next 20 years pointing to long-term secular growth for CAE's Civil segment.
- Over the past two years, CAE has consolidated its footprint by closing nine training centre locations, but the overall installed base of simulators has increased over that period. All else equal, we estimate that the resulting cost savings could yield a ~200 bps improvement in the segment EBIT margin.

Maintain Outperform rating and $38.00 target

The underlying driver of our Outperform rating on CAE shares is that the commercial aerospace recovery trends remain positive and that CAE's Civil segment will benefit from long-term secular growth in pilot training. We also highlight that our standalone valuation for CAE's Civil segment (with company debt fully-allocated to Civil) produces a per-share value of $22.35, implying that the market is ascribing little to no value to CAE's Defence segment. While Defence margins have been disappointing, we highlight that the segment backlog is growing and the backdrop for global defence spending remains very constructive for CAE.

Sector Analysis

Transportation & Industrial Products

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 9-29	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		358	16.75	5,997	12/2021	-10.25	-4.44	1.11	NA	15.1x	(1464)	1143	2890	12.1x	4.8x	110%	30.00	
Bombardier Inc.	BBD.b	OP		95	28.66	2,717	12/2021	-u2.00	-u1.46	u0.92	NA	31.2x	u641	u835	u1065	9.1x	7.1x	na	53.00	
BRP Inc.	DOO	OP		81	86.95	7,000	01/2022	9.92	11.53	11.77	7.5x	7.4x	1462	1671	1730	5.7x	5.5x	107%	136.00	
CAE Inc.	CAE	OP		318	21.61	6,876	03/2022	0.84	0.82	1.36	26.3x	15.9x	755	854	1102	13.1x	9.0x	42%	38.00	
Canadian National Rail	CNR	SP		692	151.16	104,557	12/2021	5.95	7.26	7.94	20.8x	19.0x	9.81	9.84	11.10	14.1x	13.0x	40%	173.00	↑
Canadian Pacific Rail	CP	SP		933	95.12	88,709	12/2021	3.76	3.43	4.61	27.7x	20.6x	5.41	4.74	6.34	25.0x	14.8x	36%	105.00	↑
Cargojet Inc.	CJT	SP		18	113.88	2,010	12/2021	5.85	7.82	8.10	14.6x	14.1x	293	354	372	7.2x	6.8x	41%	158.00	
Chorus Aviation Inc.	CHR	OP		203	2.34	475	12/2021	0.37	0.46	0.55	5.1x	4.2x	272	403	529	6.6x	5.0x	64%	5.00	
Exchange Income Corporation	EIF	OP		40	41.65	1,651	12/2021	2.26	3.03	3.56	13.7x	11.7x	330	436	513	6.6x	5.0x	62%	60.00	↓
Héroux-Devtek Inc.	HRX	OP		35	11.95	414	03/2022	0.95	0.50	1.04	24.1x	11.4x	83	68	94	8.3x	5.9x	29%	23.00	
NFI Group Inc.	NFI	SP		77	12.35	953	12/2021	-u0.17	-u1.34	u0.46	na	19.3x	164	18	205	94.7x	8.4x	50%	17.00	
Taiga Motors Corp.	TAIG	OP		31	4.20	132	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	2.81	106	10/2021	-11.83	-10.20	-2.61	NA	NA	(214)	(153)	135	na	11.6x	na	2.50	↓
TFI International Inc.	TFII	OP		91	125.87	11,410	12/2021	u5.23	u7.98	u8.18	11.4x	11.2x	1051	1457	1419	7.1x	7.3x	48%	152.00	

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

Back to Research Analysts page

Alphabetical Listing

Branches

Ancaster • 911, Golf Links Road, Suite 201, Ancaster, ON, L9K 1H9 • 905-648-3813
Baie-Comeau • 600, Boul. Laflèche, bureau 340-B, Baie-Comeau, QC, G5C 2X8 • 418-296-8838
Barrie • 126 Collier Street, Barrie, ON, L4M 1H4 • 705-719-1190
Beauce • 11333, 1ière Avenue, bureau 200, Saint-Georges, QC, G5Y 2C6 • 418-227-0121
Bellevue West Van • Suite #209, 1455 Bellevue Avenue, West Vancouver, BC, V7T 1C3 • 604-925-3734
Berthierville • 779, rue Notre-Dame, Berthierville, QC, J0K 1A0 • 450-836-2727
Bin-Scarth • 24 Binscarth Rd, Toronto, ON, M4W 1Y1 • 416-929-6432
Brampton • 10520 Torbram Road (at Sandalwood Parkway), Brampton, ON, L6R 2S3 • 905-456-1515
Brandon • 633-C, 18th Street, Brandon, MB, R7A 5B3 • 204-571-3200
Calgary • 239 8th Ave., SW, Suite 100, Calgary, AB, T2P 1B9 • 403-476-0398
Calgary - Southport • 10655 Southport Road SW, Suite 1100, Southland Tower, Calgary,AB, T2W 4Y1 • 403-301-4859
Calgary - West • 3810-855, 2nd Street SW, Calgary,AB, T2P 4J8 • 403-410-9814
Chatham • 380 St. Clair, Street, Chatham, ON, N7L 3K2 • 519-351-7645
Chicoutimi • 1180, boulevard Talbot, Suite 201, Chicoutimi, QC, G7H 4B6 • 418-549-8888
Collingwood • rue Hurontario, Collington, ON, L9Y 2L8 • 705-445-2402
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • (403) 823-6859
Drummondville • 595, boulevard Saint-Joseph, Bureau 200, Drummondville, QC, J2C 2B6 • 819-477-5024
Duncan • 2763 Beverly Street, Suite 206, Duncan, BC, V9L 6X2 • 250-715-3050
Edmonton • 10175 – 101 Street NW, Suite 1800, Edmonton, AB, T5J 0H3 • 780-412-6600
Edmonton-North • TD Tower, 10088 – 102 Avenue, Suite No. 1701, Edmonton, AB, T5J 2Z1 • 780-421-4455
FrederictonNB • 551 King Street, Fredericton , NB, E3B 4Z9 • 506-450-1740
Gatineau • 920, St-Joseph, Bureau 100, Hull-Gatineau, QC, J8Z 1S9 • 819-770-5337
Granby • 201-975 rue Principale, Granby, QC, J2G 2Z5 • 450-378-0442
Halifax • Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1601, Halifax, NS, B3J 3R7 • 902-496-7700
Halifax-Spring Garden • 400-5657 Spring Garden Road, Parklane Terraces, Halifax, NS, B3J 3R4 • 902-425-1283
Joliette • 40, rue Gauthier Sud, Bureau 3500, Joliette, QC, J6E 4J4 • 450-760-9595
Kelowna • 1631 Dickson Ave. Suite 1710, Landmark 6, Kelowna, BC, V1Y 0B5 • 250-717-5510
Lac-Mégantic • 3956, rue Laval, suite 100, QC, G6B 2W9 • 819-583-6035
Laval • 2500, boulevard Daniel Johnson, Bureau 610, Laval, QC, H7T 2P6 • 450-686-5700
Lethbridge • 404, 6th Street South, Lethbridge, AB, T1J 2C9 • 403-388-1900
Lévis • 1550, boulevard Alphonse-Desjardins, Bureau 110, Lévis, QC, G6V 0G8 • 418-838-0456
London Pall Mall • 256 Pall Mall Street, Suite 201, London, ON, N6A 5P6 • 519-439-6228
London-City Centre • 802-380 Wellington Street, London, ON, N6A 5B5 • 519-646-5711
Magog • 916, rue Principale Ouest, Magog, QC, J1X 2B7 • 819-868-0227
Metcalfe • 1155, rue Metcalfe, Suite 1450, Montréal, QC, H3B 2V6 • 514-879-4825
Mississauga • 350, Burnhamthorpe road West, Suite 603, Mississauga, ON, L5B 3J1 • 905-272-2799
Moncton • 735 Main Street, Suite 300, Moncton, NB, E1C 1E5 • 506-857-9926
Mont Saint-Hilaire • 450 boul. Sir-Wilfrid-Laurier local 208 , Mont-St-Hilaire, Qc. J3H 3N9 • 450-467-4770
Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
Montréal International • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5576
Montréal L'Acadie • 9001, boulevard de l'Acadie, Bureau 802, Montréal, QC, H4N 3H5 • 514-389-5506
North Bay • 680 Cassells Street, Suite 101, North Bay, ON, P1B 4A2 • 705-476-6360
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
Ottawa • 50 O'Connor Street, Suite 1602, Ottawa, ON, K1P 6L2 • 613-236-0103
Outremont • 1160, boulevard Laurier Ouest, App. 1, Outremont, QC, H2V 2L5 • 514-276-3532
Owen Sound • 1717 2nd Ave. E., Suite 202, Owen Sound, ON, N4K 6V4. • 519-372-1277
Peterborough • 201 George Street North, suite 401, Peterborough, ON, K9J 3G7 • 705-740-1110
Plessisville • 1719, rue St-Calixte, Plessisville, QC, G6L 1R2 • 819-362-6000
Kirkland • 16,766 Route Transcanadienne, bureau 503, Kirkland, QC, H9H 4M7 • 514-426-2522
PVM Montréal • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5200
Québec • 500, Grande-Allée Est, Bureau 400, Québec, Qc, G1R 2J7 • 418-649-2525
Québec - Sainte-Foy • Place de la Cité, 2600, boulevard Laurier, Bureau 700, Québec, QC, G1V 4W2 • 418-654-2323
Red Deer • 4719 48th Avenue, Suite 200, Red Deer, AB, T4N 3T1 • 403-348-2600
Regina • 2075, Prince Of Wales Drive, Suite 305, Regina, SK, S4V 3A3 • 306-781-0500
Repentigny • 534, rue Notre-Dame, Bureau 201, Repentigny, QC, J6A 2T8 • 450-582-7001
Richmond • 135-8010 Saba Road, Richmond, BC, V6Y 4B2 • 604-658-8050
Richmond Hill • 9130 Leslie Street, Suite 200, Richmond Hill, ON, L4B 0B9 • 416-753-4016
Rimouski • 127, boulevard René-Lepage Est, Bureau 100, Rimouski, QC, G5L 1P1 • 418-721-6767
Rivière-du-Loup • 10, rue Beaubien, Rivière-du-Loup, QC, G5R 1H7 • 418-867-7900
Rouyn-Noranda • 104, 8e rue, Rouyn-Noranda, QC, J9X 2A6 • 819-762-4347
Saint John • 69 King Street, 2nd floor, St-John, NB, E2L 2B1 • 506-642-1740
Sainte-Marie-de-Beauce • 249, Du Collège, Bureau 100, Ste-Marie, QC, G6E 3Y1 • 418-387-8155
Saint-Félicien • 1120, boulevard Sacré-Cœur, Saint-Félicien, QC, G8K 1P7 • 418-679-2684
Saint-Hyacinthe • 1355, rue Daniel-Johnson Ouest, bureau 4100, Saint-Hyacinthe, QC, J2S 8W7 • 450-774-5354
Saint-Jean-sur-Richelieu • 395, boul. du Séminaire Nord, Suite 201, Saint-Jean-sur-Richelieu, QC, J3B 8C5 • 450-349-7777
Saint-Jérôme • 265, rue St-George, Suite 100, Saint-Jérôme, QC, J7Z 5A1 • 450-569-8383
Saskatoon - 8th St. • 1220 8th Street East, Saskatoon, SK, S7H 0S6 • 306-657-3465
Sept-Îles • 805, boulevard Laure, Suite 200, Sept-Îles, QC, G4R 1Y6 • 418-962-9154
Shawinigan • 550 Avenue De la Station, bureau 200, Shawinigan, QC, G9N 1W2 • 819-538-8628
Sherbrooke • 1802, rue King Ouest, Suite 200, Sherbrooke, QC, J1J 0A2 • 819-566-7212
Sidney • 2537, Beacon Avenue, Suite 205, Sidney, BC, V8L 1Y3 • 250-657-2200
Sorel • 26, Pl. Charles-de-Montmagny, Suite 100, Sorel, QC, J3P 7E3 • 450-743-8474
St. Catharines • 40 King Street, St. Catharines, ON, L2R 3H4 • 905-641-1221
Sudbury • 10 Elm Street, Suite 501, Sudbury, ON, P3C 1S8 • 705-671-1160
Thedford Mines • 222, boulevard Frontenac Ouest, bureau 107, Thedford Mines, QC, G6G 6N7 • 418-338-6183
Thunder Bay • 979, Alloy Dr, Suite 104, Thunder Bay, ON, P7B 5Z8 • 807-683-1777
Toronto 1 • Exchange Tower, 130 King Street West, Suite 3200, Toronto, ON, M5X 1J9 • 416-869-3707
Trois-Rivières • 7200, rue Marion, Trois-Rivières, QC, G9A 0A5 • 819-379-0000
Val d'Or • 840, 3e avenue, Val d'Or, QC, J9P 1T1 • 819-824-3687
Valleyfield • 1356, boulevard Monseigneur-Langlois, Valleyfield, QC, J6S 1E3 • 450-370-4656
Vancouver - PB1859 • 1076 Alberni Street, Suite 201, Vancouver, BC, V6A 1A3 • 778-783-6420
Vancouver 1 • 475 Howe Street, Suite 3000, Vancouver, BC, V6C 2B3 • 604-623-6777
Victoria • 700-737 Yates Street, Victoria, BC, V8W 1L6 • 250-953-8400
Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
Waterloo • 180 King Street South, Suite 701, Waterloo, ON, N2J 1P8 • 519-742-9991
White Rock • 2121 160th Street, Surrey, BC, V3Z 9N6 • 604-541-4925
Windsor • 1 Riverside Drive West,Suite 600, Windsor, ON, N9A 5K3 • 519-258-5810
Winnipeg • 1000-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5 • 204-925-2250
Yorkton • 89 Broadway Street West, Yorkton, SK, S3N 0L9 • 306-782-6450

International

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

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

National Bank of Canada Financial Inc.

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

Member of

- Montreal Exchange
- Toronto Stock Exchange
- Winnipeg Commodities Exchange
- Securities Industry Association
- CNQ
- Investment Dealers Association of Canada
- Canadian Investor Protection Fund
- Securities Investor Protection Corporation

Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
(Toll-Free)

1-800-678-7155

NATIONAL BANK OF CANADA
FINANCIAL MARKETS