NOVEMBER 2021

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
Paul-André Pinsonnault Senior Economist	514-879-3795

Toronto Office

Warren Lovely Chief Rates and Public Sector Strategist	416-869-8598
Taylor Schleich Rates Strategist	416-869-6480
Alpa Atha Fixed Income Economist	416-542-3936

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson	416-507-8007

ESG & Sustainability

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

ETFs & Financial Products

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

Healthcare & Biotechnology

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

Industrial Products

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

Merchandising & Consumer Products

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

Metals & Mining

Don DeMarco	416-869-7572
Associate: Yi Liu	416-869-8524
Associate: Harmen Puri	416-869-8045
Shane Nagle	416-869-7936
Associate: Lola Aganga	416-869-6516
Associate: Ahmed Al-Saidi	416-869-7535
Michael Parkin	416-869-6766
Associate: Alessandro Cairo	416-869-8511
Associate: Rabi Nizami	416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

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

› *Large Cap Oil & Gas*

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

Pipelines, Utilities & Energy Infrastructure

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

Real Estate

Matt Kornack	416-507-8104
Associate: Hussam Maqbool	416-507-8108
Tal Woolley	416-507-8009
Associate: Ahmed Shethwala	416-507-8102

Special Situations

Zachary Evershed	514-412-0021
Associate: Thomas Bolland	514-871-5013
Endri Leno	416-869-8047
Assoc: Eduardo Garcia Hubner	416-869-7476
Associate: Stephen Kwai	416-869-7571

Sustainability & Clean Tech

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

Technology

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

Technical Analysis

Dennis Mark	416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

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

Economy

› The picture in the Eurozone hasn't change much in recent weeks. We continue to expect that the marked rise of energy prices will reduce consumer purchasing power during the winter and drive up producer input costs. To these risks we must now add those related to a deterioration of the public-health picture as the continent faces yet another resurgence of new Covid-19 infections. The news from China is also mixed. On the upside, we note a marked decline of coal prices following Beijing's authorization of an increase of local production and a decline in shipping costs. Unfortunately, it seems that the price retreat is due rather to slowing of Chinese production, easing pressure on seaports but potentially aggravating the already severe problems of global supply. As we noted in last month's Monitor, the spike in electric power prices obliged Beijing to impose temporary power shutdowns. That of course had repercussions on factory output. With energy supply now improving, it is Covid that is holding back production. Then there are the troubles of China's real estate industry, now in a painful process of debt reduction. All is not dark for China's economy. The continuing extreme strength of external demand is likely to continue stimulating exports. After revising down our global growth scenario last month to reflect supply-chain problems and the Delta variant effect, we are this month keeping our outlook unchanged. We see the world economy growing 5.5% this year and 4.0% next year. That said, we now consider risks to this scenario as being tilted to the downside.

› As in previous Covid waves, growth of consumption in the U.S. slowed abruptly in Q3. However, the slowdown was not due to services – generally the sector more sensitive to physical distancing measures – but to goods. Up to a point, the shift of demand toward services was predictable but the trend has been reinforced by increasingly severe problems of supply, with the auto sector being hit particularly hard. Though it is difficult to say when the bottlenecks will loosen up, it seems likely that some production constraints will persist at least into the second half of 2022. In the meantime, shortages could spread to other consumer goods, which would be especially hurtful on the eve of the holiday period. This risk notwithstanding, we remain confident that economic growth will accelerate in the last quarter of the year and remain robust in 2022. As we have often noted, U.S. households are currently in very good shape, having stashed away almost $2.5 trillion in excess savings since the start of the pandemic. Their net worth has also jumped higher, boosted by rising stock markets and the appreciation of home prices. The wealth effect of this accumulation is likely to continue stimulating consumption of services, assuming of course that the pandemic remains under control. We foresee growth of 4.1% annualized in the last quarter of the year and 5.5% for 2021 as a whole. For 2022 we anticipate solid growth of 3.4%.

› Relative to the global economy, with its signs of losing steam, the Canadian economy is doing well in this second half of the year. The labour market has recovered spectacularly over the last five months. The private sector added 618,000 jobs from May to October, the largest-ever gain excluding the period of reopening after last year's shutdown. More than two-thirds of the gains were in sectors hard-hit by the pandemic (chart). The unemployment rate, just one percentage point above its pre-pandemic level, and the participation rate, essentially back to normal, suggest that slack in capacity is diminishing rapidly. Our outlook for growth is essentially unchanged at 4.9% in 2021 and3.8% in 2022. The takeoff of resource prices will continue to buoy the Canadian economy, but supply-chain disturbances and the resulting inflation are risk factors under current conditions. That said, the recovery of the labour market and the resulting income gains suggest that households are ready to move under their own steam, without extraordinary government aid. The excess savings that households have squirrelled away amount to a substantial 11.4% of GDP and will cushion the effect of price rises on living standards.

Interest rates and currency

› Labour markets are firm and inflation is running rampant, with even more striking CPI headlines come our way. Surely the stage is set for a grand policy normalization exercise. Having notionally fallen behind the curve on inflation, more than a few advanced economy central banks will be seeking to wean markets off of excess monetary stimulus… some perhaps sooner than later.

› With latest inflation data coming out with a 6-handle (next stop 7%?) and with solid momentum in the labour market, we see it as a very distinct possibility that the asset purchase taper gets accelerated early next year. That could mean net buying is wrapped up by April, rather than June which is currently the target end date based on the pace put forth in November's statement. In any case, we now see the Fed lifting the policy rate in the third quarter next year. Exact timing is dependent on when asset purchases are fully wound down, with an earlier end date on the taper likely corresponding to a July hike, while a non-accelerated taper would be more consistent with a move in September.

› The Bank is now signalling that slack absorption is expected to come in the "middle quarters" of 2022 (previously the "second half"). To us, this is a very clear signal that a second quarter (April to be specific) rate hike is the most likely outcome. If the Bank still viewed the third quarter as the appropriate time for lift-off, we don't see why they would've shifted their guidance and brought about the surge in volatility that we saw materialize. However, we don't see the Bank giving into current inflationary pressures and affirming aggressive market-based expectations for Q1 lift off. While inflation is very clearly uncomfortable for Tiff Macklem and the Bank of Canada, there is good reason to believe they'll be able to wait it out until April. The reason? An asymmetric balance of risks evident in the Bank's latest projections.

› While the loonie has strengthened slightly against the USD since the start of the fourth quarter, the appreciation has been very muted given the string of strong economic reports and recent movements in Canadian short-term interest rates. Though our rate strategists have pulled forward the timing of the first BoC rate hike from July 2022 to April 2022, our assumed path is less forceful than markets are pricing. As such, we remain comfortable with our current forecast calling for a rate of C$1.20 for the U.S. dollar in 2022.

Recommended asset mix and stock market

› Global equities hit a new record high in early November, despite rising new COVID cases in Europe and China. At this point, the MSCI ACWI is already up 7% in Q4 and 21.3% in 2021 on a total return basis. The emerging market index continues to

Highlights

struggle with ongoing uncertainty related to Covid, inflation, and Beijing's regulatory framework amidst a challenging environment for some of China's major property developers.

- In the U.S., where 80 percent of S&P 500 companies reported earnings above analysts' expectations in the third quarter, pricing power is at its highest level in several years. The stock market is also supported by the persistence of negative real interest rates, which keep the equity risk premium essentially in line with its average of the past five years.
- The S&P/TSX hit a record high in November, led by new highs in Financials, Materials, Information Technology, Real Estate and Industrials. The Canadian benchmark is already up 8.7% in the fourth quarter and 27.7% in 2021 on a total return basis. Foreigners continue to play an important role in supporting the index. Should we fear an outflow? We don't think so given still attractive valuations and a strong economic recovery.
- Our asset allocation remains unchanged this month. We remain underweight fixed income and overweight equities, with a preference for value stocks over growth stocks, given our expectation of rising long-term interest rates and a relatively steep yield curve. Even if QE tapering accelerates in the coming months, we doubt the Fed will want to rush rate hikes given that its employment mandate is still far from being fulfilled. While it is true that GDP may weaken in the coming months, we still believe this is primarily due to supply constraints. If we are right, businesses should maintain their pricing power in an environment where long-term interest rates continue to drift higher.
- Our sector allocation is unchanged this month. We continue to favour cyclicals such as Energy, Materials and capital goods – sectors that have historically done well during an economic expansion when inflation is above trend and the slope of the yield curve is relatively steep.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	13.0	Overweight	
Materials	11.8	Overweight	
Industrials	11.6	Market Weight	
Consumer Discretionary	3.6	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.0	Market Weight	
Financials	31.6	Market Weight	
Information Technology	12.0	Underweight	
Telecommunication Services	4.6	Market Weight	
Utilities	4.3	Underweight	
Real Estate	3.0	Underweight	
Total	100.0		

* As of November 12, 2021

The Economy

The Economy

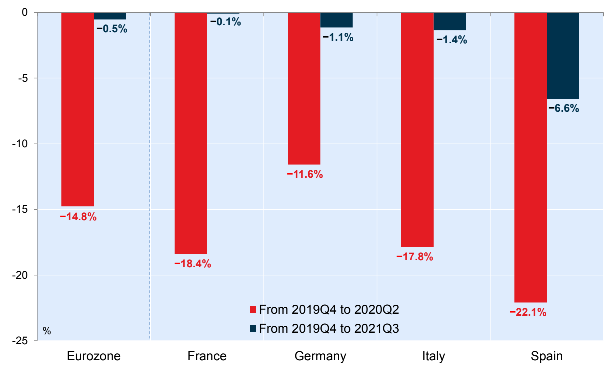
Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Jocelyn Paquet
Economist
514-412-3693

World: China losing steam

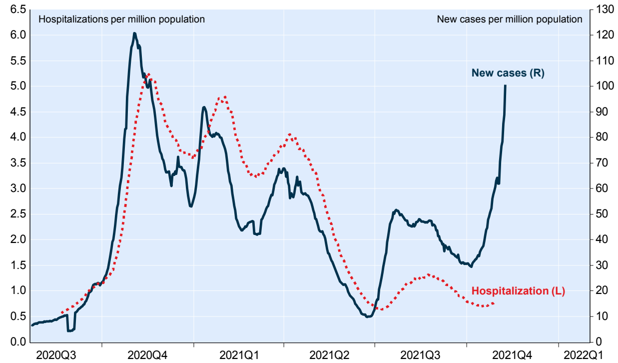
Our survey of the global economic picture begins this month with the Eurozone, where the picture has changed little in recent weeks. We continue to expect that the marked rise of energy prices will reduce consumer purchasing power during the winter and drive up producer input costs. To these risks we must now add those related to a deterioration of the public-health picture as the continent faces yet another resurgence of new Covid-19 infections. Though Eurozone vaccination rates are high and we do not expect the current wave to overwhelm hospitals, we must nevertheless take into account that consumers tend to move around less when risks of contamination rise, with or without the imposition of physical distancing.

Eurozone: Solid rebound … slowdown to come
% change in real GDP since Q4 2019



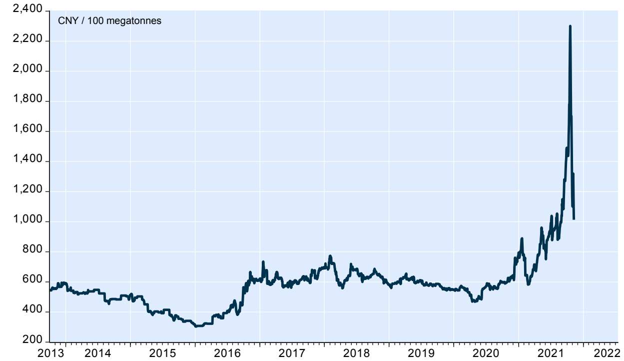
NBF Economics and Strategy (data from Refinitiv)

Europe: Covid crashes the party again
Daily new cases and daily hospitalizations per million population, 7-day moving average



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

China: Dramatic fall of coal prices
Price of first coal futures contract



NBF Economics and Strategy (Bloomberg data)

So after a solid post-lockdown rebound, Eurozone economic growth is likely to slow in Q4 and Q1.

The news from China is also mixed. On the upside, we note a marked decline of coal prices following Beijing's authorization of an increase of local production. Lower coal prices can be expected to bring a decline of the price of electricity, good news for households and businesses. (Between 50% and 60% of Chinese electric power generation is fuelled by coal.) Even after these declines, however, prices are higher than at the beginning of the year, so the margins of the most energy-intensive producers could remain under pressure.

The decline of transport costs is another factor that could at first be taken as a sign of improvement in the Chinese economy. Since a number of Chinese ports were overwhelmed by the strong rebound of demand for goods in developed countries, it would be normal to think the current moderation of prices was due to abatement of external demand, improvement in logistics or to an increase in transport capacity.

The Economy

World: Shipping costs down … for the wrong reasons
Baltic Dry Index of sea transport costs

NBF Economics and Strategy (Bloomberg data)

Unfortunately, it seems that the price retreat is due rather to slowing of Chinese production, easing pressure on seaports but potentially aggravating the already severe problems of global supply. As we noted in last month's Monitor, the spike in electric power prices obliged Beijing to impose temporary power shutdowns. That of course had repercussions on factory output. With energy supply now improving, it is Covid that is holding back production. The country is beset by a wave of outbreaks related to the Delta variant, and since China is one of the last jurisdictions in the world to cling to a zero-tolerance virus response (reinforced by the approach of Olympic Games), this has meant extremely strict distancing measures that have crimped industry.

Then there are the troubles of China's real estate industry, now in a painful process of debt reduction that has pushed a number of large promoters to the verge of bankruptcy. Though Evergrande has paid in extremis the interest due on its USD-denominated bonds, the situation remains very precarious, as attested by an explosion of rates in the market for high-yield debt. The weight of the housing sector and its suppliers in the country's GDP – about 1/5 – is hardly reassuring to investors.

China: Investors put off by problems of the real estate industry
Yield of USD-denominated Chinese high-yield corporate bonds

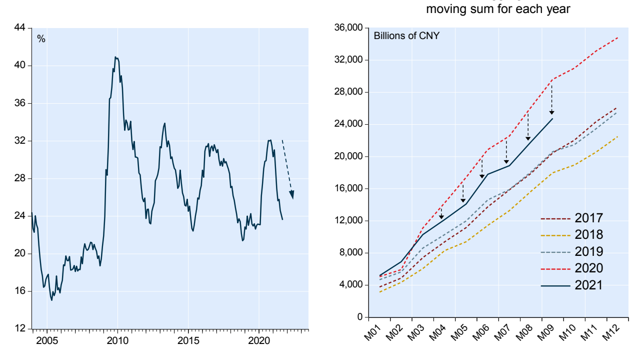
NBF Economics and Strategy (Bloomberg data)

Market participants may also have been caught somewhat short by Beijing's reaction. In the past, when the economy slowed as it is doing now, the government habitually opened the gates of credit. But this time Beijing seems more hesitant to implement that option. Credit impulse has yet to show signs of rebounding and loan aggregates remain far below last year's numbers. In these conditions, many observers are wondering whether the transition of the Chinese economy from growth based on construction and manufacturing to growth based on consumption – a rebalancing long desired by Beijing but repeatedly postponed – might finally be under way. Though such a shift would be desirable in the long term, it would inevitably entail major upsets in the immediate term, if only through a substantial cutback in residential construction.

China: Beijing hesitant to open the gates of credit

Credit impulse (new credit granted as % of GDP)

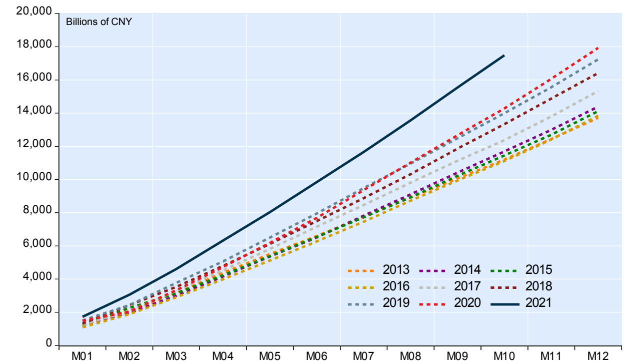
Credit aggregates, moving sum for each year



NBF Economics and Strategy (Bloomberg data)

All is not dark for China's economy. The continuing extreme strength of external demand is likely to continue stimulating exports.

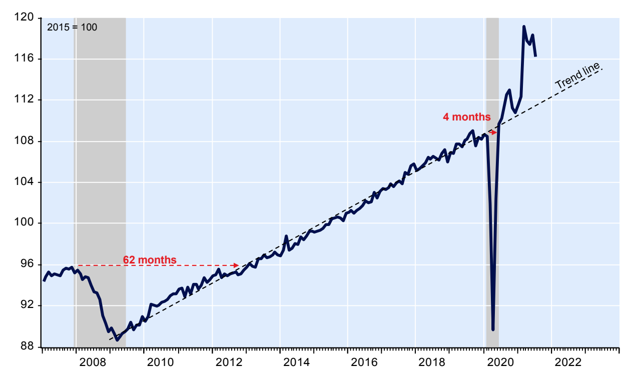
China: An economy sustained by external demand
Cumulative year-to-date total exports for each month



NBF Economics and Strategy (Bloomberg data)

To be sure, retail sales volume in the 38 member countries of the OECD remains well above the pre-pandemic trend, a sign of consumer strength in the developed economies. We note that after the recession of 2008-09 it took no less than 62 months for this indicator to recover fully. This time around it took four months.

OECD: Retail sales are running far above the pre-pandemic trend line
Volume retail sales



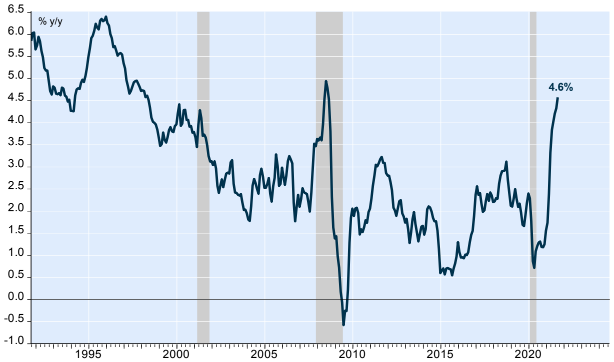
NBF Economics and Strategy (data from Refinitiv)

The effects of this bounce in consumption have not all been positive. On the contrary, excess demand has brought a rapid acceleration of inflation, which could

The Economy

oblige central banks to tighten monetary policy faster than they would have otherwise liked.

OECD: Inflation is forcing central banks to tighten monetary policy
Consumer Price Index



NBF Economics and Strategy (data from OECD)

This process is already well-advanced in some emerging economies and is now spreading to developed economies. With debt having increased markedly, the world's central bankers will need to manœuvre carefully in attempting to ease pressure on prices without undue slowing of economies.

After revising down our global growth scenario last month to reflect supply-chain problems and the Delta variant effect, we are this month keeping our outlook unchanged. We see the world economy growing 5.5% this year and 4.0% next year. That said, we now consider risks to this scenario as being tilted to the downside.

World Economic Outlook

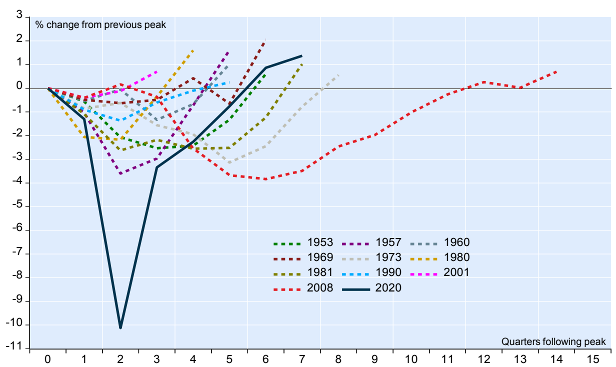
	2020	2021	2022
Advanced Economies	**-4.5**	**4.9**	**3.3**
United States	-3.4	5.5	3.4
Eurozone	-6.3	4.7	3.5
Japan	-4.6	2.4	2.2
UK	-9.8	6.6	4.0
Canada	-5.3	4.9	3.8
Australia	-2.5	3.7	3.1
Korea	-0.9	3.8	2.5
Emerging Economies	**-2.1**	**6.0**	**4.5**
China	2.3	7.8	5.0
India	-7.3	9.0	7.5
Mexico	-8.3	6.0	3.0
Brazil	-4.1	5.0	1.4
Russia	-3.0	4.5	2.7
World	**-3.1**	**5.5**	**4.0**

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

U.S.: Post-pandemic rebalancing in a time of scarcities

At first sight, the data released in late October by the Bureau of Economic Analysis suggest that the effects of the Delta variant on the U.S. economy in Q3 were bigger than economists had been anticipating. Real quarterly GDP growth came in at only 2.0% annualized versus the 2.6% median forecast. It was the weakest quarterly gain since the beginning of recovery. But it did raise GDP to 1.4% above the pre-pandemic peak. That meant output regained its losses twice as quickly as after the 2008 recession.

U.S.: Q3 GDP topped pre-crisis peak by 1.4%
Real GDP, % difference from previous peak

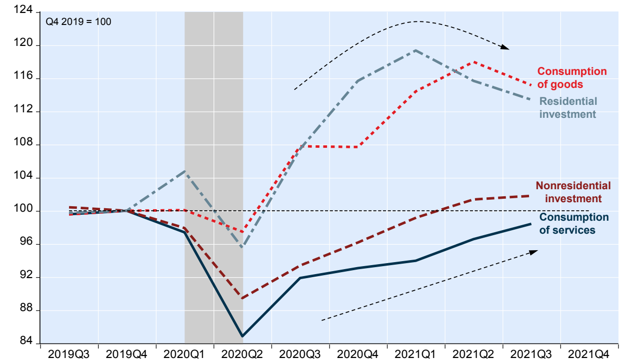


NBF Economics and Strategy (data from Refinitiv)

As in previous Covid waves, growth of consumption slowed abruptly, from 12.0% annualized in Q2 to only 1.6% in Q3. On the other hand, the slowdown was not due to services – generally the sector more sensitive to physical distancing measures. On the contrary, spending on services grew at 7.9% annualized, to a level only 1.6% short of its pre-pandemic peak. The slowdown of consumption was due rather to a marked drop in spending on goods – a contraction of 9.9% annualized from Q2, in contrast to the pattern of previous pandemic spikes.

Up to a point, the shift of demand toward services was predictable. Since the pandemic boosted some components of GDP (consumption of goods and residential investment) over others (consumption of services), a trend reversal was to be expected as the public health situation improved. In fact, the retreat of spending on services was accompanied by a cooling of residential investment after its spectacular boom in the first months of the recovery.

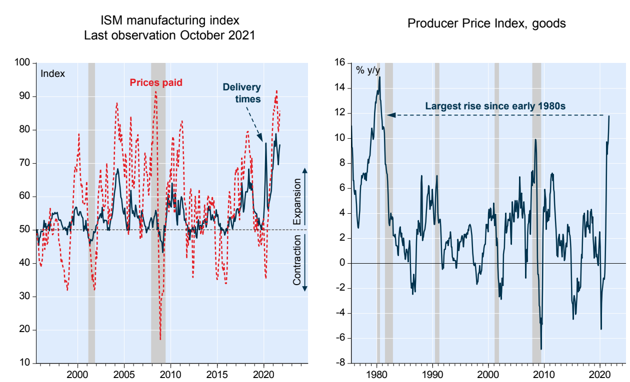
U.S.: Rebalancing of the economy under way?
Components of real GDP



NBF Economics and Strategy (data from Refinitiv)

However, this trend has been reinforced by increasingly severe problems of supply. Manufacturers' delivery times continued to lengthen at a near-record rate in October. Excess demand for goods resulted in a marked rise of input prices, such that producers trying to maintain their profit margins had no choice but to pass on the rises to their customers. The Producer Price Index for goods was up 11.8% from a year earlier, the most since the early 1980s.

U.S.: Factories struck by supply problems

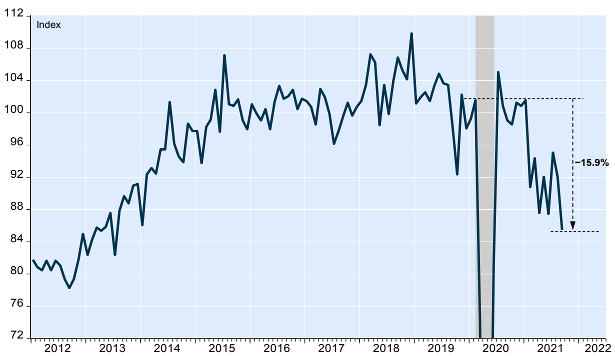


NBF Economics and Strategy (Bloomberg data)

The Economy

The hardest hit came in automaking, where a scarcity of computer chips caused output to decrease in 5 of the last 8 months. It remains down 15.9% from February 2020.

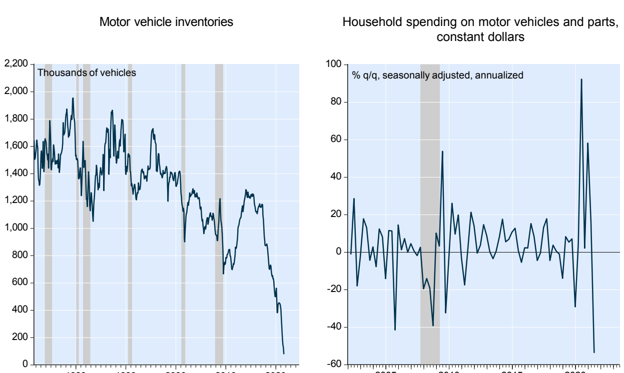
U.S.: The hit from scarcity of computer chips (1)
Production of motor vehicles and parts



NBF Economics and Strategy (Bloomberg data)

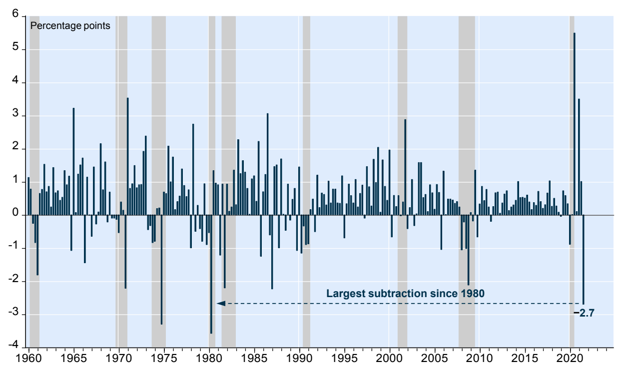
Factory slowdowns, combined with the jump in sales earlier this year, drew down dealerships' inventories. The upshot was that spending on motor vehicles tanked in the third quarter, falling at an annual rate of 53.9% from Q2, and spending on durable goods as a whole, including motor vehicles, subtracted no less than 2.7 percentage points from growth.

U.S.: The hit from scarcity of computer chips (2)



NBF Economics and Strategy (Bloomberg data)

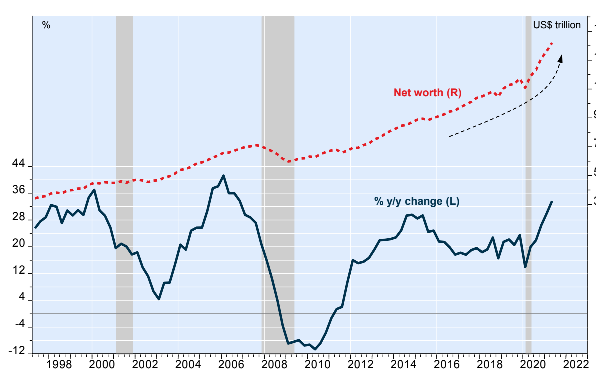
U.S.: The hit from scarcity of computer chips (3)
Contribution to real GDP growth of household consumption expenditure on durable goods



NBF Economics and Strategy (Bloomberg data)

Though it is difficult to say when the bottlenecks will loosen up, it seems likely that some production constraints will persist at least into the second half of 2022. In the meantime, the auto-making story could spread to other consumer goods, which would be especially hurtful on the eve of the holiday period. This risk notwithstanding, we remain confident that economic growth will accelerate in the last quarter of the year and remain robust in 2022. As we have often noted, U.S. households are currently in very good shape, having stashed away almost $2.5 trillion in excess savings since the start of the pandemic. Their net worth has also jumped higher, boosted by the performance of stock markets and the appreciation of home prices.

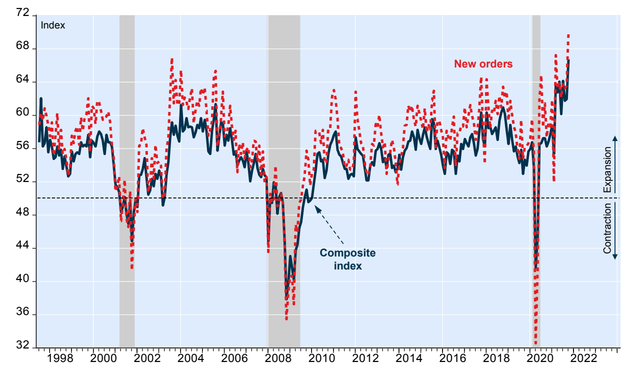
U.S..: Households in very good shape
Household net worth



NBF Economics and Strategy (Bloomberg data)

The wealth effect of this accumulation is likely to continue stimulating consumption of services, assuming of course that the pandemic remains under control. At the very least, recent economic indicators justify optimism. For example, the ISM non-manufacturing report for October showed the strongest expansion for service producers since the data series began in 1997. The new orders subindex was also at a historic peak, a sign that the service sector is likely to ride very high for at least a few months more.

U.S.: Covid slows, service sector picks up
ISM non-manufacturing index, last observation October 2021



NBF Economics and Strategy (Source: Markit via Refinitiv)

Employment numbers for October tell the same story. The Bureau of Labor Statistics reported a gain of 423,000 service-industry jobs during the month. Excluding the re-opening period just following last year's lockdown, it was the strongest gain ever for a month of October.

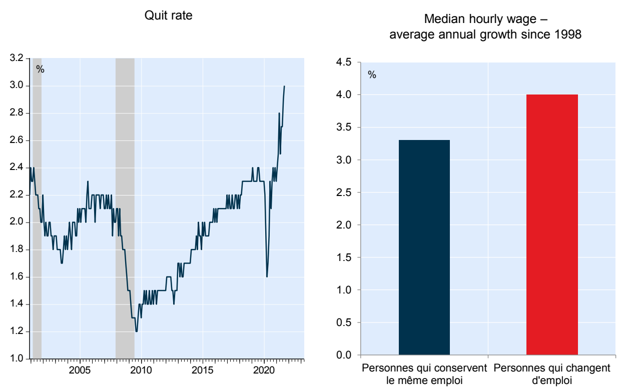
Given these encouraging signs, we foresee growth of 4.1% annualized in the last quarter of the year and 5.5% for 2021 as a whole. For 2022 we anticipate solid growth of 3.4%. However, the risks to this scenario are mainly downward. Apart from a resurgence of Covid-19, we see three potential hazards:

(1) The possibility that Covid has permanently altered the structure of the labour market in such a way that the current labour scarcity will not abate and will continue to curb the output capacity of the U.S. economy.

The Economy

(2) The risk that labour scarcity and higher-then-expected inflation will oblige U.S. employers to raise wages faster than in the previous business cycle, which could reinforce or prolong upward pressure on prices. Workers already seem to be taking advantage of the state of the labour market, quitting their jobs at a record rate. The historical data show that the wages tend to rise faster for those who change jobs than for those who don't.

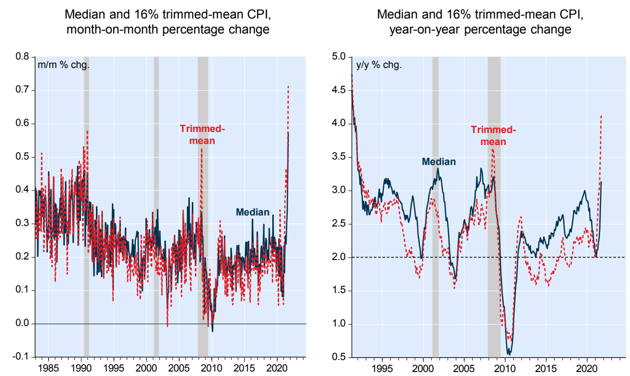
U.S.: Workers benefit from labour scarcity



NBF Economics and Strategy (data from Refinitiv and Atlanta Fed)

(3) The chance that factors (1) and (2) will force the Federal Reserve to tighten monetary policy faster than is now anticipated. The Fed is already under pressure from what appears to be an acceleration – and a broadening – of inflation. Indeed, the median CPI and the trimmed-mean CPI, two measures published by the Cleveland Fed that excludes the most volatile items each month, increased 0.6% and 0.7%, respectively, in October. In both cases, it was the largest increase registered since data began to be compiled in 1983. On a 12-month basis, median CPI stood at a 13-year high of 3.1%, while the trimmed mean registered 4.1%, the highest reading since 1991. The central bank's thesis that current inflation will prove "transitory" will be put to the test in coming months.

United States: Core inflation still gathering momentum

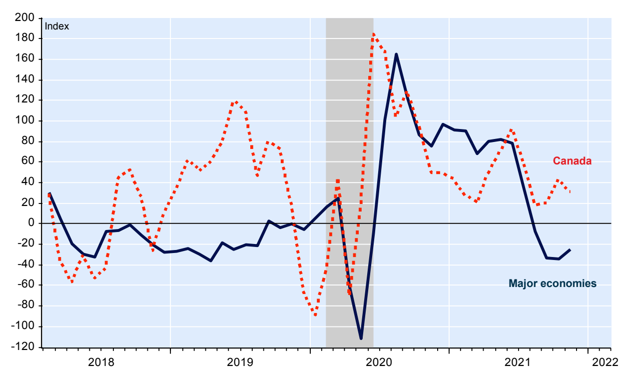


NBF Economics and Strategy (data via Cleveland Fed)

Canada: A glass almost full

Relative to the global economy, with its signs of losing steam, the Canadian economy is doing well in this second half of the year. In contrast to the leading economies, its Citigroup Economic Surprise Index is comfortably above zero, indicating results topping economist expectations. This Index has been in positive territory for 19 months, a first since the data series began in 2003. Hospitalizations related to Covid-19 remain manageable in most provinces, supporting continued easing of public-health restrictions.

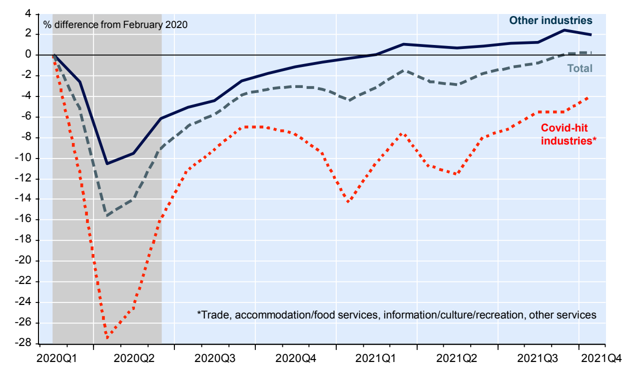
Canada: Economic surprises still positive
Citi Economic Surprise Index



NBF Economics and Strategy (data via Bloomberg)

The labour market has recovered spectacularly over the last five months. The private sector added 618,000 jobs from May to October, the largest-ever gain excluding the period of reopening after last year's shutdown. More than two-thirds of the gains were in sectors hard-hit by the pandemic (chart).

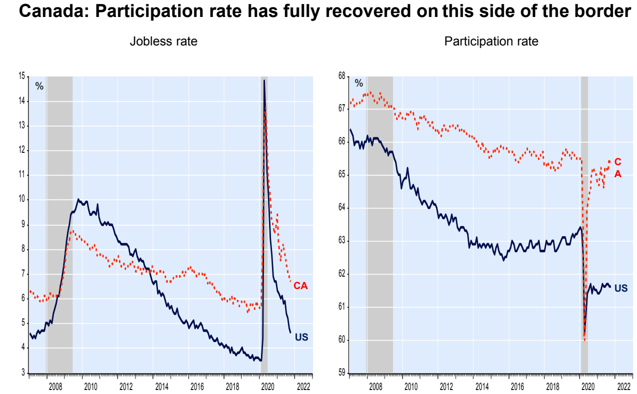
Canada: Covid-hit industries recover from the lockdowns
Employment



NBF Economics and Strategy (data via Statistics Canada)

In October the unemployment rate fell two-tenths of a point to 6.7%, just one percentage point above its pre-pandemic level. The unemployment rate can be misleading in a period of economic difficulty. It can on occasion mask the temporary exit of some workers from the active population and thus overrate an improvement. But not in Canada at this point, as attested by a participation rate that, in contrast to the U.S., is essentially back to its pre-pandemic level.

Canada: Participation rate has fully recovered on this side of the border



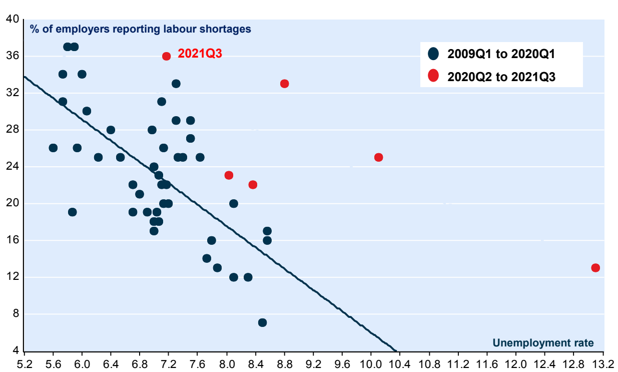
NBF Economics and Strategy (data via Refinitiv)

The Economy

While to us the employment glass looks almost full, the Bank of Canada seems to see it as half empty. While the Bank's October Monetary Policy Report does recognize the rapid improvement of recent months, it frets about divergence among indicators of labour-market recovery. A sign, in its view, that the labour market needs to improve more before it can be called fully recovered. In a survey of no fewer than 39 indicators in a new Expanded Labour Market Indicator presented in a staff discussion paper, the central bank identifies pockets of weakness. This paper holds that conventional measure of the labour market may "mask the presence of slack from weakness in hard-hit groups." It affirms that its proposed more exhaustive picture of the current situation "could help mitigate potential risks to inflation from extended low policy rates." In other words, the central bank assumes a slack beyond that indicated by more traditional indicators.

But various indicators of labour scarcity show the contrary, among them that published by the Bank of Canada in its Business Outlook Survey. In the third quarter, 36% of large-businesses respondents reported facing scarcities of labour. The last time that percentage was reached was in 2018 when the unemployment rate was less than 6%. There is reason to think the extraordinary income-support program contributed to this anomaly. But there is more to it than that. There may be some mismatch between types of jobs open and the profiles of workers still on the sidelines. It will perhaps take some time for matching to occur, leaving higher wage and inflationary pressures in the meantime.

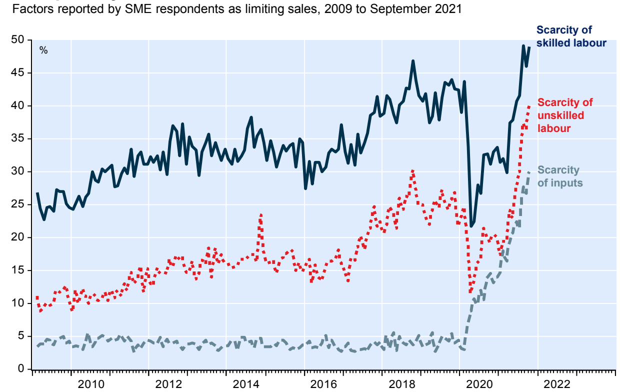
Canada: Labour shortages very acute given unemployment rate ...
Indicator of labour shortages vs. unemployment rate



NBF Economics and Strategy (data via Bank of Canada and Statistics Canada)

CFIB data indicate labour scarcities even more acute for small and medium-sized enterprises. In October, no fewer than 49% of SMEs reported that a shortage of skilled labour was a factor limiting production. For unskilled labour the percentage was 40%. These two indicators are each the highest since the series began in 2009.

... especially for small and medium-sized businesses
Factors reported by SME respondents as limiting sales, 2009 to September 2021

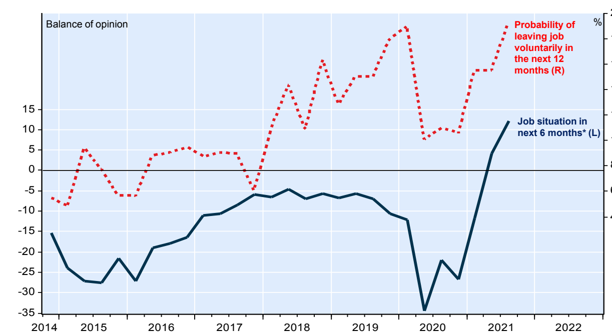


NBF Economics and Strategy (data from CFIB)

Workers seem well aware of strong demand for their services. One question in the Conference Board consumer confidence survey bears on expectations about the labour market. In Q3, optimism about next six months was the highest since the series began in 2002. Moreover, workers seem to have an urge to move around. The proportion of respondents thinking of quitting their jobs in the subsequent 12 months is at a peak. The struggle to attract and retain talent could mean sustained pressure on wages, the more so in that workers will probably want to be compensated for losses in purchasing power from the rising inflation of recent months.

Does that mean the Bank is about to normalize its monetary policy very quickly, as supposed by investors anticipating no fewer than six rate hikes until early 2023, beginning in January? First, as explained above, since the Bank does not share our view of the labour market, it has reason to be cautious about raising rates (we see 100 basis points of hikes until Q1 2023). Second, as this month's Fixed Income Monitor shows (link), it has set a high bar in its outlook for economic growth and inflation in the short term, which could mean it will not have to bring forward its first rate hikes as the market anticipates.

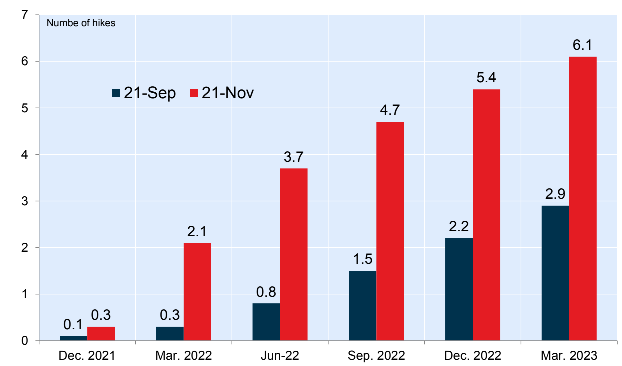
Canada: Workers well aware of labour-market strength
Job market expectation[1] and labour turnover



1. Difference between positive and negative response to the question "How do you feel the job situation and overall employment will be in this community six months from now?"

NBF Economics and Strategy (data via Conference Board and Bank of Canada)

Canada: Steep increases in policy rates expected
Number of rate hikes expected based to BA futures market



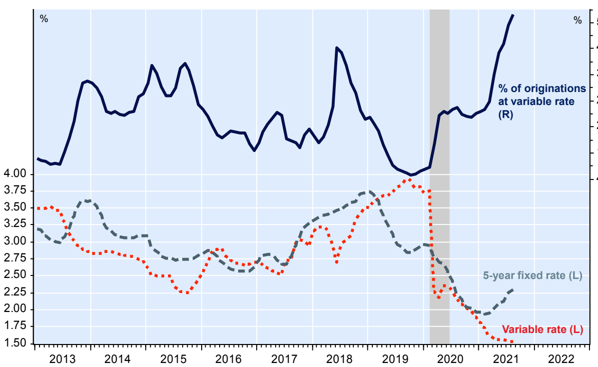
NBF Economics and Strategy (data via Bloomberg)

Finally, we think the central bank will avoid raising its policy rate too quickly out of fear of triggering an abrupt landing of the housing market. The decline of interest rates during the pandemic has played a dominant role in the takeoff of home prices, up 23% since the beginning of the pandemic. By our calculations, the decline of the 5-year mortgage rate from February 2020 to August 2021 brought a 9% increase in home-buyer purchasing power. For variable rate, the decrease represents an

The Economy

increase in buying power of 28%. We note that last August, a record 54% of new mortgage loans granted by banks (new purchases, renewals and refinancing) were at variable rates (vs. 11% in 2019), suggesting that under current conditions the housing market is especially sensitive to a rise of the policy rate.

Canada: A taste for variable-rate mortgages
5-year fixed rate and variable rate at mortgage origination, and % of originations at variable rate



NBF Economics and Strategy (data from Bank of Canada)

This month we are taking our outlook for 2021 GDP growth down a notch, to 4.9% from 5.0%, and expect Q3 growth to come in at 3.5% annualized rather than 4.0%. That is still well above the 1.9% indicated in the preliminary estimate for GDP at basic prices (calculated monthly). This latter indicator (by industry) uses a methodology different from that of the key quarterly indicator, based on expenditure. The two series are not always in phase with each other. GDP at basic prices (the monthly series) has overestimated quarterly growth based on expenditure for two quarters now. Our analysis of components of demand suggests a reversal this quarter. Moreover, the 6.8% jump in hours worked does not accord with growth of only 1.9%.

For 2022 our forecast remains 3.8%. The takeoff of resource prices will continue to buoy the Canadian economy, but supply-chain disturbances and the resulting inflation are risk factors under current conditions. The recovery of the labour market and the resulting income gains suggest that households are ready to move under their own steam, without extraordinary government aid. The excess savings that households have squirrelled away amount to a substantial 11.4% of GDP and will cushion the effect of price rises on living standards.

The Economy

United States Economic Forecast

(Annual % change)*	2019	2020	2021	2022	2023	Q4/Q4 2021	Q4/Q4 2022	Q4/Q4 2023
Gross domestic product (2012 $)	2.3	(3.4)	5.5	3.4	2.5	4.8	3.0	2.3
Consumption	2.2	(3.8)	8.0	3.5	2.4	7.4	2.6	2.2
Residential construction	(0.9)	6.8	9.3	(0.6)	1.0	(1.2)	1.0	1.0
Business investment	4.3	(5.3)	7.6	3.1	1.8	7.3	1.9	2.3
Government expenditures	2.2	2.5	0.8	1.6	2.4	1.3	2.0	2.5
Exports	(0.1)	(13.6)	3.6	3.1	3.2	0.7	4.5	2.2
Imports	1.2	(8.9)	13.4	2.5	1.4	6.8	0.6	2.0
Change in inventories (bil. $)	75.1	(42.3)	(102.4)	81.3	50.0	(75.0)	175.0	25.0
Domestic demand	2.4	(2.5)	6.7	3.0	2.3	5.9	2.3	2.2
Real disposable income	2.3	6.2	1.9	(2.6)	2.4	-0.1	1.5	2.9
Payroll employment	1.3	(5.7)	2.7	3.0	1.9	4.3	1.9	2.0
Unemployment rate	3.7	8.1	5.5	4.5	4.1	4.7	4.3	4.0
Inflation	1.8	1.3	4.6	4.5	2.7	6.5	2.9	3.1
Before-tax profits	2.7	(5.2)	19.6	4.4	2.6	11.2	5.5	1.4
Current account (bil. $)	(472.1)	(616.1)	(727.1)	(770.5)	(710.0)	...	...	...

* or as noted

Financial Forecast**

	Current 11/11/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.50	0.25	0.75	1.75
3 month Treasury bills	0.05	0.10	0.15	0.20	0.40	0.10	0.65	1.65
Treasury yield curve								
2-Year	0.51	0.80	1.00	1.15	1.40	0.80	1.70	2.15
5-Year	1.23	1.45	1.60	1.70	1.85	1.45	2.00	2.30
10-Year	1.56	1.70	1.85	2.00	2.10	1.70	2.20	2.40
30-Year	1.92	2.05	2.15	2.25	2.35	2.05	2.45	2.55
Exchange rates								
U.S.$/Euro	1.15	1.15	1.16	1.18	1.17	1.15	1.16	1.15
YEN/U.S.$	114	114	113	113	113	114	112	109

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 actual	Q4 2021 actual	Q1 2022 actual	Q2 2022 actual	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	6.3	6.7	2.0	4.1	3.7	2.7	2.9	2.8
CPI (y/y % chg.)	1.9	4.8	5.3	6.5	6.5	4.9	3.9	2.8
CPI ex. food and energy (y/y % chg.)	1.4	3.7	4.1	4.8	5.2	3.8	3.1	2.9
Unemployment rate (%)	6.2	5.9	5.1	4.7	4.7	4.5	4.4	4.3

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	(5.3)	4.9	3.8	2.2	3.2	3.6	1.7
Consumption	1.6	(6.0)	4.0	4.2	2.7	3.1	4.2	1.8
Residential construction	(0.2)	4.1	16.0	(5.9)	(4.0)	(0.6)	(3.5)	(4.0)
Business investment	1.1	(13.6)	(0.9)	5.4	3.4	2.8	5.5	2.4
Government expenditures	1.7	0.4	5.6	2.1	1.2	3.8	1.7	1.0
Exports	1.3	(10.0)	2.5	6.1	5.6	1.7	6.7	5.0
Imports	0.4	(11.2)	6.3	4.3	4.6	2.3	5.1	4.5
Change in inventories (millions $)	18,766	(15,937)	2,629	14,475	19,848	7,000	12,900	23,404
Domestic demand	1.4	(4.3)	5.0	2.7	1.6	2.9	2.8	1.0
Real disposable income	2.2	9.5	0.8	(1.1)	1.4	0.4	0.5	1.5
Employment	2.2	(5.1)	4.6	3.1	1.5	3.6	2.1	1.2
Unemployment rate	5.7	9.6	7.6	6.3	6.1	6.7	6.2	6.1
Inflation	1.9	0.7	3.3	3.4	2.3	4.5	2.4	2.4
Before-tax profits	0.6	(4.0)	42.2	8.4	0.8	31.9	3.4	0.3
Current account (bil. $)	(47.4)	(40.1)	11.0	(22.0)	(28.0)	....	....	....

* or as noted

Financial Forecast**

	Current 11/11/21	Q4 2021	Q1 2022	Q2 2022	Q3 2022	2021	2022	2023
Overnight rate	0.25	0.25	0.25	0.75	1.00	0.25	1.25	1.75
Prime rate	2.25	2.25	2.25	2.75	3.00	2.25	3.25	3.75
3 month T-Bills	0.13	0.20	0.30	0.75	0.95	0.20	1.15	1.70
Treasury yield curve								
2-Year	1.00	1.05	1.20	1.55	1.70	1.05	1.80	2.00
5-Year	1.48	1.50	1.60	1.85	1.95	1.50	2.00	2.15
10-Year	1.70	1.75	1.85	1.95	2.05	1.75	2.10	2.25
30-Year	2.01	2.00	2.15	2.25	2.35	2.00	2.40	2.40
CAD per USD	1.26	1.25	1.22	1.20	1.22	1.25	1.24	1.26
Oil price (WTI), U.S.$	82	82	85	80	75	82	75	70

** end of period

Quarterly pattern

	Q1 2021 actual	Q2 2021 actual	Q3 2021 forecast	Q4 2021 forecast	Q1 2022 forecast	Q2 2022 forecast	Q3 2022 forecast	Q4 2022 forecast
Real GDP growth (q/q % chg. saar)	5.5	(1.1)	3.5	5.2	4.9	4.1	2.6	2.8
CPI (y/y % chg.)	1.4	3.4	4.1	4.5	4.4	3.9	3.0	2.4
CPI ex. food and energy (y/y % chg.)	1.0	2.1	3.0	3.0	3.1	2.8	2.3	2.3
Unemployment rate (%)	8.4	8.0	7.2	6.7	6.5	6.4	6.3	6.2

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2019	2020	2021f	2022f	2023f	Nominal GDP (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	3.3	-5.4	3.2	2.6	1.5	2.3	-10.7	12.5	6.8	2.1
Prince Edward Island	4.7	-1.7	3.3	3.8	2.4	6.6	0.9	7.0	4.8	3.4
Nova Scotia	3.0	-2.5	3.6	3.3	1.8	3.7	0.7	6.1	4.5	3.1
New Brunswick	1.3	-3.2	3.4	3.0	1.6	2.4	-1.3	8.5	4.6	2.7
Quebec	2.8	-5.5	6.4	3.0	2.0	4.7	-2.4	11.2	4.3	3.2
Ontario	2.0	-5.1	4.3	4.2	2.3	3.7	-2.8	10.7	5.4	3.3
Manitoba	0.4	-4.6	4.2	3.4	2.1	0.7	-1.4	11.1	5.6	3.3
Saskatchewan	-1.1	-4.9	4.6	3.9	2.3	-0.4	-6.6	15.4	10.9	2.0
Alberta	-0.1	-7.9	5.3	4.3	2.5	1.5	-16.1	19.8	9.3	2.9
British Columbia	3.1	-3.4	5.2	4.0	2.4	4.6	-0.5	11.4	4.7	3.4
Canada	1.9	-5.3	4.9	3.8	2.2	3.6	-4.6	12.2	5.8	3.1

	Employment (% growth) 2019	2020	2021f	2022f	2023f	Unemployment rate (%) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	1.3	-5.9	2.4	1.3	0.5	12.3	14.2	13.3	12.9	12.5
Prince Edward Island	3.4	-3.2	3.1	2.2	2.0	8.6	10.6	9.6	9.4	8.9
Nova Scotia	2.3	-4.7	5.3	2.0	1.5	7.3	9.8	8.3	7.5	7.0
New Brunswick	0.7	-2.6	2.6	1.3	0.5	8.2	10.1	9.0	8.7	8.3
Quebec	2.0	-4.8	4.0	2.9	1.5	5.2	8.9	6.3	5.2	5.2
Ontario	2.8	-4.7	4.7	3.7	1.5	5.6	9.6	8.1	6.2	5.8
Manitoba	1.0	-3.7	3.4	2.0	1.0	5.4	8.0	6.4	5.7	5.7
Saskatchewan	1.7	-4.6	2.6	1.8	1.1	5.5	8.4	6.7	6.5	6.5
Alberta	0.6	-6.5	5.0	3.2	1.2	7.0	11.5	8.7	7.5	7.9
British Columbia	2.9	-6.5	6.5	3.1	1.8	4.7	9.0	6.5	5.1	4.8
Canada	2.2	-5.1	4.6	3.1	1.5	5.7	9.6	7.6	6.3	6.1

	Housing starts (000) 2019	2020	2021f	2022f	2023f	Consumer Price Index (% growth) 2019	2020	2021f	2022f	2023f
Newfoundland & Labrador	0.9	0.8	1.2	0.8	0.8	1.0	0.2	3.7	3.3	2.3
Prince Edward Island	1.5	1.2	1.2	1.0	1.0	1.2	0.0	4.6	3.6	2.3
Nova Scotia	4.7	4.9	4.7	4.2	4.1	1.6	0.3	3.9	3.5	2.2
New Brunswick	2.9	3.5	3.7	2.8	2.7	1.7	0.2	3.6	3.3	2.4
Quebec	48.0	54.1	71.5	56.0	55.0	2.1	0.8	3.7	3.4	2.3
Ontario	69.0	81.3	101.5	81.7	80.0	1.9	0.6	3.5	3.5	2.3
Manitoba	6.9	7.3	8.5	6.3	6.1	2.3	0.5	3.1	3.3	2.3
Saskatchewan	2.4	3.1	4.7	3.6	3.5	1.7	0.6	2.7	3.2	2.3
Alberta	27.3	24.0	30.0	27.0	26.5	1.7	1.1	2.9	3.3	2.3
British Columbia	44.9	37.7	48.0	36.6	35.8	2.3	0.8	3.0	3.2	2.3
Canada	208.7	217.8	275.0	220.0	215.5	1.9	0.7	3.3	3.4	2.3

e: estimate f: forecast

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

Back to Research Analysts page

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

Overdone?

Labour markets are firm and inflation is running rampant, with even more striking CPI headlines come our way. Surely the stage is set for a grand policy normalization exercise. Having notionally fallen behind the curve on inflation, more than a few advanced economy central banks will be seeking to wean markets off of excess monetary stimulus… some perhaps sooner than later.

Notwithstanding idiosyncratic peculiarities that inform the relative timing for liftoff, we clearly endorse the idea that extreme policy rates are no longer warranted. At this point, ongoing/excessive accommodation could be thought of as detrimental to long-term growth prospects.

We used a recent forecast update to bring forward timing for the first rate hike by both the BoC (now April) and the Fed (now September). We've retained that revised policy rate trajectory here. Saying that, the ultimate pace and extent of normalization may not prove as severe/aggressive as some fear and markets currently discount.

To us, economic and financial system leverage suggests a little could go a long way when it comes to rate hikes. That's certainly true in Canada, where a mortgage market that has feasted on cheap variable rate credit is apt to lose steam quickly. (Note: 'Losing steam' is not intended as an allusion to a housing price collapse.)

Beyond an initial dose of tightening—a defensible/needed amount of catch-up in response to evident economic tightness—we'd be looking for the normalization pace to moderate before the tightening cycle is all that old. Neutral policy rate settings look to approached relatively quickly in our view, the steady rate level being so low these days (in/around 2% in nominal terms).

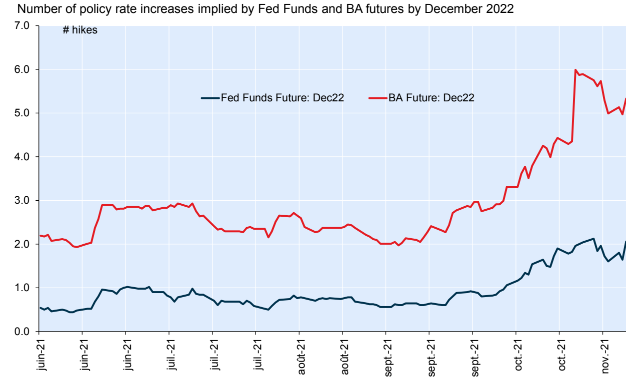
Shortages of labour and other vital inputs will continue to throw off above-trend inflation for some months yet, keeping policymakers' feet to the fire near term. But in both the U.S. and Canada, inflation looks to moderate by the second half of 2022. Perhaps the 'transitory inflation' school of thought need not be entirely discredited after all. If that's indeed the case, fears of sustained aggressive rate hiking may prove overdone.

It follows that we put less stock in the notion of a looming 'monetary policy error', with central banks likely to calibrate their stimulus removal (and prospective balance sheet unwind) in response to early evidence of moderating interest sensitive demand.

In the same way that we see risks of a policy error as overdone, we likewise possess a degree of confidence that North America will escape a legit/sustained stagflationary episode. The global growth outlook has wobbled and our economic colleagues have conceded that stagflation risks have risen. But don't mistake that concession with a fundamental shift in our base case scenario, whereby another year of above-trend growth in 2022 gives way to more-or-less on-potential growth in 2023. As always, we'd direct you to our detailed economic outlook in our latest Monthly Economic Monitor.

So if you're willing to fight today's stagflation paranoia, some re-pricing of yield curves would be in order, including potential for a temporary bout of resteepening if the policy rate path is rethought. Notwithstanding a needed recalibration of policy rate expectations, the broader path of least resistance will continue to be flatter as rates lift off. But there appears to be sufficient life left in this recovery to argue against an overly aggressive flattener, an economic stall/inverted curve perhaps a more legitimate risk for 2024 or beyond. Goldilocks? Hardly. But a true-blue stagflationary environment? Not in our view.

Here come the hikes?
Number of policy rate increases implied by Fed Funds and BA futures by December 2022



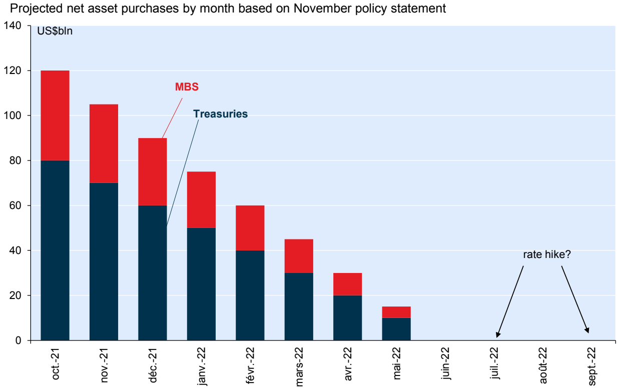
NBF Economics and Strategy (data via Bloomberg)

Interest Rates and Bond Markets

FOMC: Taper time… but what's next?

At long last, the taper has arrived at the Federal Reserve. This shouldn't come as a surprise to anyone as this decision had been very clearly telegraphed for months now. In line with an "illustrative path" laid out by the Fed staff in recent meetings, the Fed will reduce its $120 billion per month purchase pace by $15 billion in each of November and December, split proportionally between Treasuries and MBS. In future months, the Committee "judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by the changes in the economic outlook".

The Fed's baseline path for asset purchases
Projected net asset purchases by month based on November policy statement



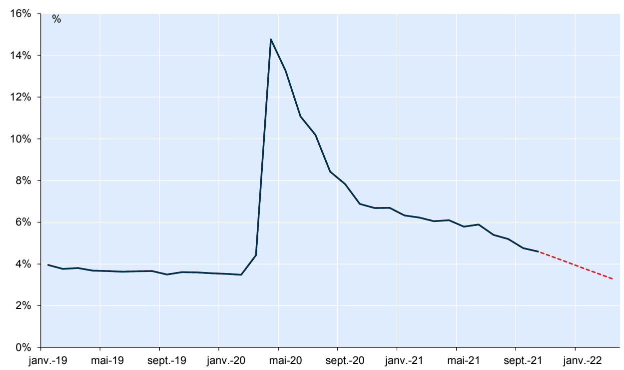
NBF Economics and Strategy (data via Federal Reserve) | Note: Month corresponds to start of month. Actual asset purchase schedule runs mid-month to mid-month

With latest inflation data coming out with a 6-handle (next stop 7%?) and with solid momentum in the labour market, we see it as a very distinct possibility that the asset purchase taper gets accelerated early next year. That could mean net buying is wrapped up by April, rather than June which is currently the target end date based on the pace put forth in November's statement. In any case, we now see the Fed lifting the policy rate in the third quarter next year. Exact timing is dependent on when asset purchases are fully wound down, with an earlier end date on the taper likely corresponding to a July hike, while a non-accelerated taper would be more consistent with a move in September in our view.

To be sure, Jerome Powell has been clear that the committee hasn't even begun discussing interest rate normalization yet. While its pretty clear the inflation side of the Fed's mandate has been met, it's the employment side that has been giving Powell and the Fed pause. Headline nonfarm employment remains more than 4 million jobs below where we stood pre-COVID, as labour force participation has remained stubbornly low. We've seen some Fed speakers start to allude to the possibility of more permanent structural changes to the labour market that may prevent us from quickly returning to pre-COVID levels, but this doesn't seem to be a widely-held view… at least yet. However, as per the St. Louis Fed's own research:

> *"…as of August 2021, there were slightly over 3 million excess retirements due to COVID-19, which is more than half of the 5.25 million people who left the labor force from the beginning of the pandemic to the second quarter of 2021."*
>
> —" The COVID Retirement Boom", Federal Reserve Bank of St. Louis (October 15, 2021)

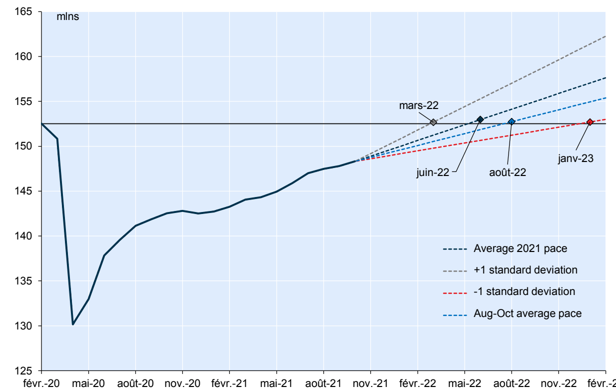
U.S.: If participation doesn't improve, we're close to 3.5% unemployment
Trajectory for unemployment rate assuming no change in participation, average 2021 job gains



NBF Economics and Strategy (data from BLS) | Note: Assumes job growth at average 2021 pace and that unemployed move to employed (i.e. no growth in size of labour force). Not meant to be a forecast.

Indeed, if you were to assume that the US labour market does not return to its pre-COVID participation rate, a relatively more modest 2 million jobs added in the months ahead would have us back near a 3.5% unemployment rate—right where we left off in February 2020. And even if the Fed were to push for a complete recovery of the remaining 4.2 million job shortfall, there's reason to believe that this isn't all that far off either. As we explored in a recent ***Hot Charts***, a continuation of 2021's average pace of job growth would have us back to pre-COVID employment midway through next year. In other words, while many FOMC participants continue to lean on the employment backdrop to justify their ultra-loose stance, it's not clear they'll be able to do so much longer. Once the taper is out of the way (which itself could be accelerated), we think rate hikes will be just around the corner.

U.S.: When can we expect a full labour market recovery?
Outlook for non-farm payroll employment based on various trajectories for net job gains



NBF Economics and Strategy (data via Bloomberg & BLS) | Note: +/- 1 standard deviation is based on all 2021 non-farm payroll reports

BoC: A hawkish pivot

Following what felt like a flood of hawkish global central bank communications in October, the previously patient Bank of Canada sent front-end markets into a tailspin when it released its fresh policy statement in late October. Output gap closure was brought forward, and the characterization of inflation being driven by "transitory" factors was wholly abandoned.

> *"These factors pushing up inflation are expected to be transitory, but their persistence and magnitude are uncertain and will be monitored closely."*
> – BoC rate statement (September 8, 2021)

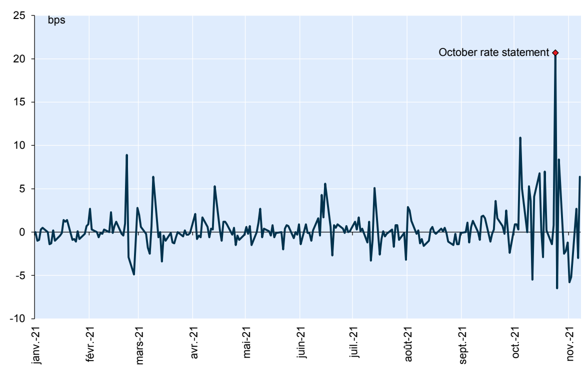
> *"The recent increase in CPI inflation was anticipated in July, but the main forces pushing up prices – higher energy prices and pandemic-related supply bottlenecks – now appear to be stronger and more persistent than expected."*
> – BoC rate statement (October 27, 2021)

Interest Rates and Bond Markets

In the subsequent press conference, Governor Tiff Macklem came across as far less tolerant of above-target inflation with his comments feeling like they were more directed at your everyday Canadian than to financial market participants. Countless times, he assured Canadians that while inflation is high and could still get worse before it gets better, the Bank of Canada will ensure that price pressures will be brought under control. He struck a similar tone in a recent television interview as well. Thus, despite a non-trivially weaker growth profile, the Bank very deliberately pulled forward its forward guidance to signal earlier rate hikes.

The Bank is now signalling that slack absorption is expected to come in the "middle quarters" of 2022 (previously the "second half"). To us, this is a very clear signal that a second quarter rate hike is the most likely outcome. If the Bank still viewed the third quarter as the appropriate time for lift-off, we don't see why they would've shifted their guidance and brought about the surge in volatility that we saw materialize.

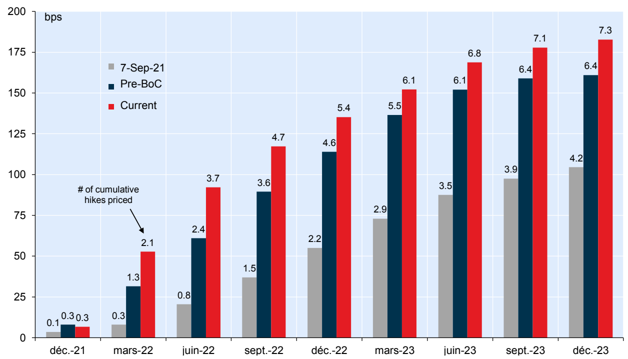
BoC: Markets grappling with the BoC policy outlook
Daily change in Government of Canada 2-year yield in 2021



NBF Economics and Strategy (data from Bloomberg)

Moreover, the hawkish pivot from the BoC added fuel to what had already been very aggressive market-implied interest rate expectations. In the immediate aftermath of the October statement, we'd priced more than 6 full hikes before the end of 2022. Additionally, BA futures were (and still are) signalling the potential for January and March rate increases, importantly before the BoC's forward guidance window opens.

Increasingly aggressive market expectations for BoC
Policy rate increases implied by BA futures: Today vs. pre-September & pre-October meeting



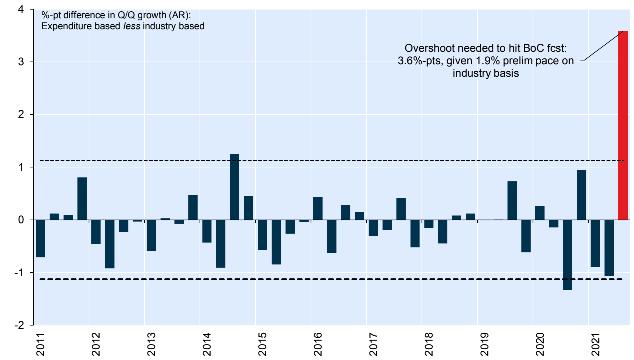
NBF Economics and Strategy (data via Bloomberg)

With the BoE dialing down its previously ultra-hawkish rhetoric by opting to not raise rates in November and the Fed holding the line in its recent meeting, we've priced out some of the ultra-aggressive expectations. We think this is appropriate. However, we think there is more room for the market to continue to take out interest rate expectations, particularly for rate hikes early next year. Although, inflation is very clearly uncomfortable for Tiff Macklem and the Bank of Canada, there is good reason to believe they'll be able to wait it out until April. The reason? An asymmetric risk profile laid out in its latest MPR.

The Bank's October Monetary Policy Report straps on what we'd consider to be overly aggressive expectations for both real GDP and headline inflation. This has set up an asymmetric risk profile, whereby undershoots look to be far more likely than overshoots. Take the Bank's 2022 CPI forecast as an example. Relative to consensus forecasts (laid out in early October, before the September CPI report), the Bank has the single highest inflation projection on the Street.

Nearer term, this risk asymmetry is also evident. As we discussed in a recent ***Market View***, the Bank of Canada's third quarter GDP growth forecast could end up missing the mark by 2-3 percentage points.

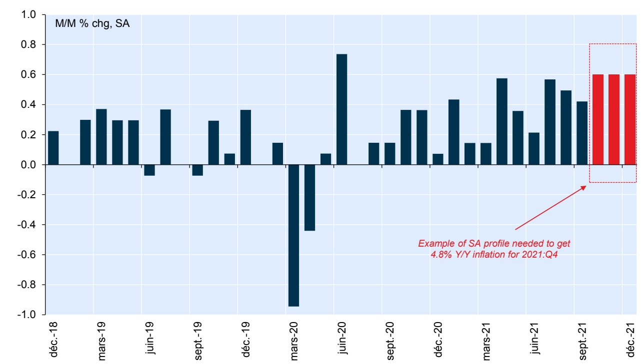
Apparent downside risk to BoC's Q3 GDP forecast
Difference in Cdn GDP growth: Expenditure based vs. industry based



NBF Economics and Strategy (data from StatCan) | Note: Dotted lines are +/- 2SDs since 2011

Its Q4 inflation forecast looks to be somewhat more realistic, but even this is above consensus and will require three months of very high (i.e. higher than the rest of 2021) monthly readings to come in line with what the Bank laid down last month.

SA inflation needs to average 0.6%/month in Q4
Actual/implied change in Cdn all-items seasonally adjusted CPI



NBF Economics and Strategy (data from StatCan) | Note: NBF illustration, applying seasonal factors to infer NSA index and related inflation rate

It follows that should growth and inflation come in weaker than is currently expected, the Bank will be able to cite downside misses as reason to not pull forward rate guidance once more. To be clear, we don't think downside misses will be enough to delay rate hikes beyond the second quarter, but it should relieve some of the pressure they're feeling to tighten policy as soon as possible.

Interest Rates and Bond Markets

Canadian Bond Market: Interest rates, spreads and currencies

	10-Nov-21	11-Aug-21	12-May-21	10-Feb-21	11-Nov-20
Interest Rates					
3 months	0.155	0.179	0.101	0.074	0.097
2 years	1.003	0.471	0.332	0.192	0.273
5 years	1.477	0.896	0.97	0.489	0.489
10 years	1.693	1.263	1.599	0.989	0.776
30 years	2.017	1.823	2.198	1.574	1.331
Spreads					
3 months - 2 years	84.8	29.2	23.1	11.8	17.6
2 - 5 years	47.4	42.5	63.8	29.7	21.6
5 - 10 years	21.6	36.7	62.9	50	28.7
10 - 30 years	32.4	56	59.9	58.5	55.5
Currencies					
CAD/USD	1.2493	1.2504	1.2134	1.2701	1.3063
EUR/CAD	0.6963	0.6812	0.6828	0.6497	0.65

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

World: Pricing power!

Global equities hit a new record high in early November, despite rising new COVID cases in Europe and China. At this point, the MSCI ACWI is already up 7% in Q4 and 21.3% in 2021 on a total return basis (table). The emerging market index continues to struggle with ongoing uncertainty related to Covid, inflation, and Beijing's regulatory framework amidst a challenging environment for some of China's major property developers. The MSCI EM Asia has a paltry 0.8% return so far in 2021.

MSCI composite index: Price Performance (Total return)

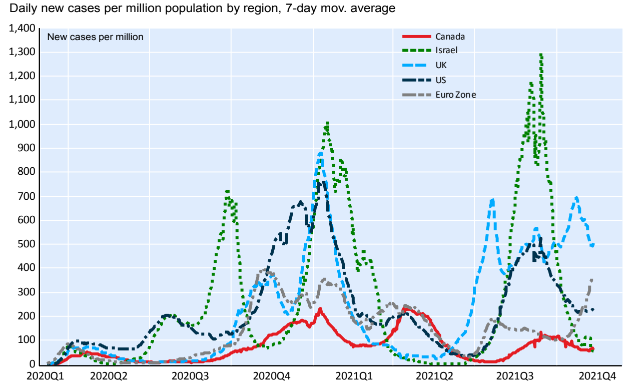
	Month to date	Quarter to date	Year to date
MSCI ACWI	1.9	7.0	21.3
MSCI World	2.0	7.6	24.0
MSCI USA	1.7	8.8	25.5
MSCI Canada	3.5	9.0	28.1
MSCI Europe	2.7	6.6	23.3
MSCI Pacific ex Jp	0.9	1.5	11.3
MSCI Japan	2.3	1.0	15.9
MSCI EM	1.7	2.6	3.6
MSCI EM EMEA	1.3	3.7	26.9
MSCI EM Latin America	1.9	-1.5	-2.4
MSCI EM Asia	1.8	2.8	0.8

11/12/2021

NBF Economics and Strategy (data via Refinitiv)

On the pandemic front, things are getting murky again. While the situation has improved in the United States in recent weeks, the European continent is facing an upsurge in new cases of Covid-19, which are nearing record levels (chart).

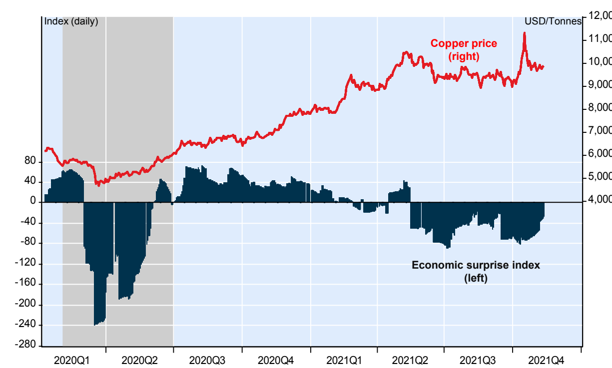
World: Evolution of the pandemic
Daily new cases per million population by region, 7-day mov. average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

In China, the country is also beset by a wave of outbreaks related to the Delta variant. The Middle Kingdom is one of the last jurisdictions in the world to cling to a zero-tolerance virus response, a policy that is being reinforced by the approach of the Beijing Olympics, which will be held from February 4 to 20, 2022. This means that extremely stringent distancing measures are bound to cripple economic activity and lengthen the transition period to a normalized global supply chain (recall that China accounts for about 30% of global manufacturing output

China: Negative economic surprises put a lid on commodity prices
China CITI economic surprise index and the price of copper

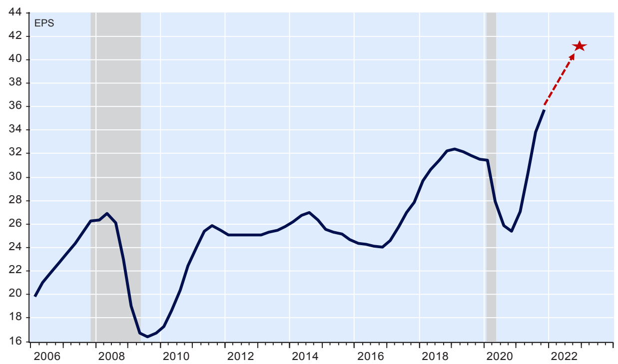


NBF Economics and Strategy (data via Bloomberg and Refinitiv)

So why are equity markets in developed economies still trending higher despite the renewed uncertainty over Covid, which will likely have a negative impact on growth? First of all, corporate earnings continue to exceed expectations and pricing power is impressive. For the MSCI ACWI, earnings per share (EPS) hit a record high in the third quarter, and the consensus of equity analysts expects 7% growth in 2022 (chart).

Stock Market and Portfolio Strategy

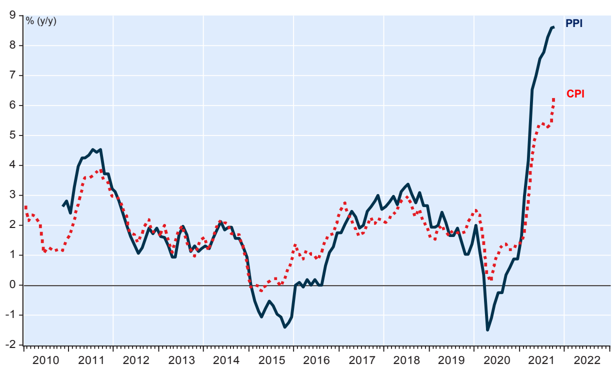
World: More growth is expected for corporate earnings
Trailing earnings for the MSCI ACWI and 12-month-forward expectations



NBF Economics and Strategy (data via Refinitiv)

In the U.S., where 80 percent of S&P 500 companies reported earnings above analysts' expectations in the third quarter, pricing power is at its highest level in several years. The Producer Price Index (PPI), which measures the selling price received by domestic producers of goods and services, rose 8.5% from its year-ago level in October. By comparison, growth in the consumer price index (CPI), a measure that includes several items unrelated to business profits (such as owners'-equivalent rent), was 6.25.

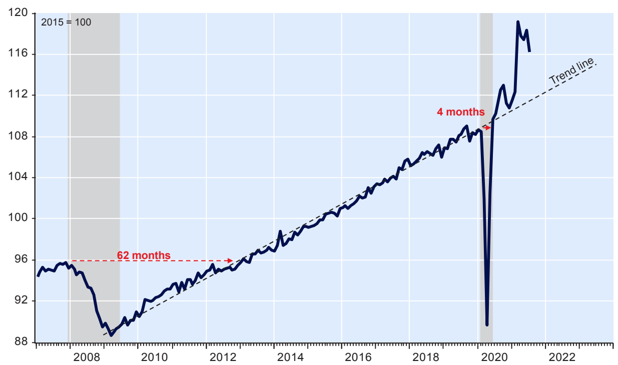
U.S.: Corporations have pricing power
PPI for final demand and headline CPI



NBF Economics and Strategy (data via Fred)

Businesses can raise prices thanks to strong demand. As our latest *Economic Monitor* shows, retail sales volumes in the 38 OECD member countries remain well above the pre-pandemic trend, a sign of consumer strength in the developed economies. We note that after the 2008-09 recession, it took no less than 62 months for this indicator to fully recover. This time, it took four months (chart). With labour markets improving in most developed economies, demand for manufactured goods, combined with the current disruptions in the global supply chain, should preserve producers' pricing power and profit margins longer than we had assumed.

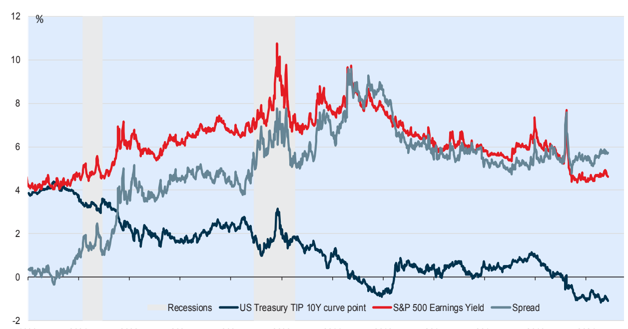
OECD: Excess demand persists for retail sales
Volume retail sales



NBF Economics and Strategy (data from Refinitiv)

As we mentioned last month, equity markets are also supported by the persistence of negative real interest rates, which keep the equity risk premium essentially in line with its average of the past five years (chart).

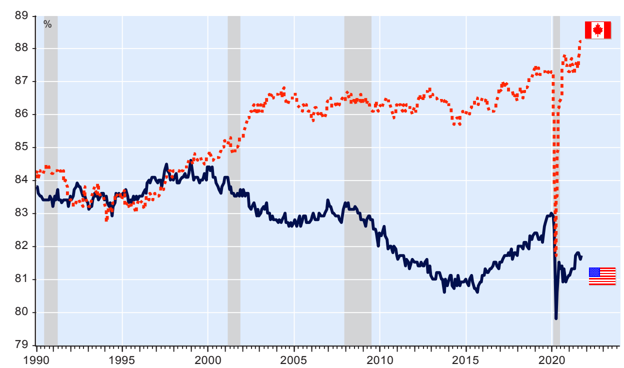
U.S. : Perspective on valuation
S&P 500 earnings yield and 10 years U.S. treasury yield TIP



NBF Economics and Strategy (data via Refinitiv)

So how long will this environment of negative real interest rates persist? With U.S. CPI inflation exceeding 6% and with improving momentum in the labour market, our fixed income strategists see a very distinct possibility that the QE taper that began in November gets accelerated early next year (***see here***). But when it comes to actual rate hikes, we do not expect a move before Q3 of 2022. Recall that headline nonfarm employment remains more than 4 million jobs below where we stood pre-pandemic, as labour force participation has remained stubbornly low – unlike Canada (chart).

U.S.: Participation rate remains a concern
Labour force participation rate of people aged 25-54 (as of October 2021): Canada and the U.S.

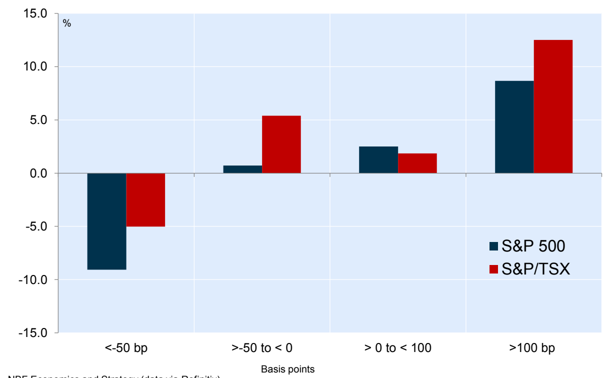


NBF Economics and Strategy (data from Statistics Canada, Bureau of Labour Statistics)

If the Fed remains as patient as we currently expect, negative real interest rates should prevail through 2022 with a yield curve slope (10-year Treasury yield minus 3-month Treasury bills) that remains relatively steep. As the chart below shows, a slope that exceeds 100 basis points in the mature phase has historically implied robust returns for the stock market.

Stock Market and Portfolio Strategy

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



NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: Record earnings!

The S&P/TSX hit a record high in November, led by new highs in Financials, Materials, Information Technology, Real Estate and Industrials. The Canadian benchmark is already up 8.7% in the fourth quarter and 27.7% in 2021 on a total return basis (table).

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

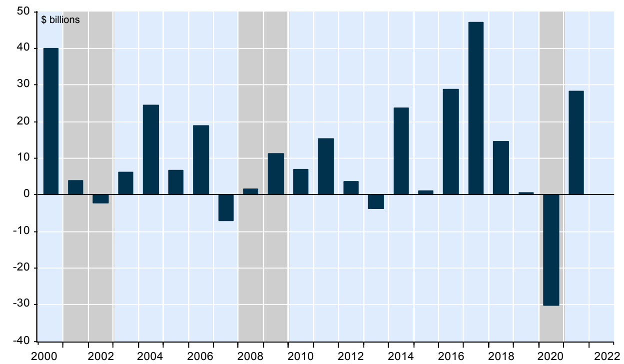
	Month to date	Quarter to date	Year to date
S&P TSX	3.5	8.7	27.7
HEALTH CARE	10.4	3.7	2.0
IT	8.8	13.3	36.1
MATERIALS	7.5	13.8	6.9
CONS. DISC.	7.2	7.1	17.7
CONS. STAP.	6.5	5.0	19.2
BANKS	3.2	9.1	36.3
FINANCIALS	2.9	8.2	35.0
TELECOM	1.8	1.7	21.1
INDUSTRIALS	1.3	10.2	22.3
REAL ESTATE	0.5	6.9	34.5
UTILITIES	0.3	0.8	6.9
ENERGY	-0.5	8.2	52.4

11/12/2021

NBF Economics and Strategy (data via Refinitiv)

Foreigners continue to play an important role in supporting the index. According to the latest available data, net foreign purchases of Canadian equities were already nearly $30 billion in the first eight months of 2021, the best such performance in four years (chart).

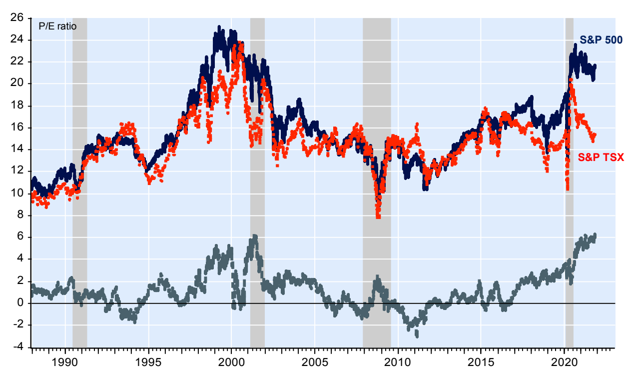
S&P/TSX: Foreigners are attracted to Canada
Net foreign purchases of Canadian equities through the first eight months of every year



NBF Economics and Strategy (data via Statistics Canada)

Should we fear an outflow? We don't think so. Despite being one of the best performing stock markets in 2021, the S&P/TSX still trades at a relatively low PE: 15.6 times forward earnings vs. more than 21.6 for the S&P 500 (chart).

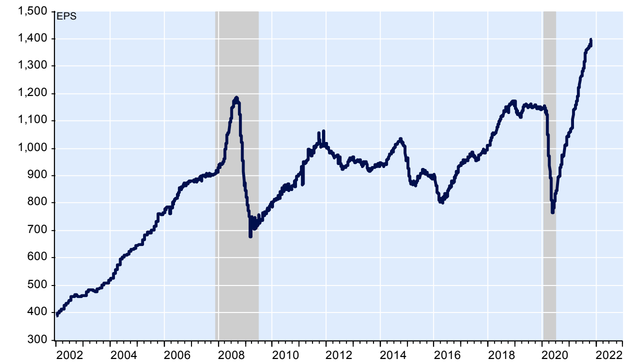
S&P TSX: Valuation remains attractive
12-month-forward P/Es for the S&P 500 and S&P TSX



NBF Economics and Strategy (data from Refinitiv)

It is important to note that TSX earnings forecasts continue to be revised upward as Canada benefits from a strong labour market (employment rose to a record high in October) and improving terms of trade due to surging commodity prices. This year marks the first time in over a decade that the S&P/TSX 12-month earnings per share forecast has exceeded its 2008 peak (chart).

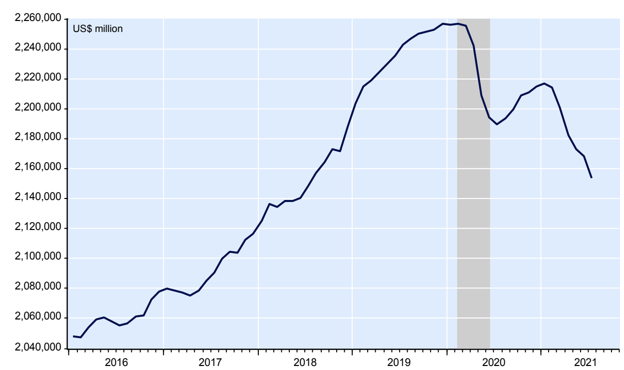
Canada: A bullish outlook
12-month forward EPS estimates for the S&P/TSX



NBF Economics and Strategy (data via Refinitiv)

Notwithstanding an expected slowdown in China in the coming weeks, which could temporarily weaken commodity prices, we maintain our view that a global inventory rebuilding cycle will support industrial production and commodity prices in 2022 (chart).

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



NBF Economics and Strategy (data via Fred)

Stock Market and Portfolio Strategy

Asset allocation

Our asset allocation remains unchanged this month. We remain underweight fixed income and overweight equities, with a preference for value stocks over growth stocks, given our expectation of rising long-term interest rates and a relatively steep yield curve. Even if QE tapering accelerates in the coming months, we doubt the Fed will want to rush rate hikes given that its employment mandate is still far from being fulfilled. While it is true that GDP may weaken in the coming months, we still believe this is primarily due to supply constraints. If we are right, businesses should maintain their pricing power in an environment where long-term interest rates continue to drift higher.

NBF Asset Allocation

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

NBF Economics and Strategy

Sector allocation

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

NBF Fundamental Sector Rotation - November 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**13.0%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	13.0%
Materials	**Overweight**	**11.8%**
Chemicals	Market Weight	1.7%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.5%
Gold	Overweight	6.5%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**11.6%**
Capital Goods	Overweight	2.3%
Commercial & Professional Services	Underweight	3.2%
Transportation	Market Weight	6.1%
Consumer Discretionary	**Market Weight**	**3.6%**
Automobiles & Components	Underweight	1.1%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	0.7%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.6%**
Food & Staples Retailing	Market Weight	2.9%
Food, Beverage & Tobacco	Market Weight	0.6%
Health Care	**Market Weight**	**1.0%**
Health Care Equipment & Services	Market Weight	0.2%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	0.8%
Financials	**Market Weight**	**31.6%**
Banks	Market Weight	21.2%
Diversified Financials	Market Weight	4.7%
Insurance	Market Weight	5.7%
Information Technology	**Underweight**	**12.0%**
Telecommunication Services	**Market Weight**	**4.6%**
Utilities	**Underweight**	**4.3%**
Real Estate	**Underweight**	**3.0%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q2 2022***
Index Level		**Nov-15-21**	***Target***
S&P/TSX		21,683	22,500
Assumptions			Q2 2022
Level:	Earnings *	1270	1375
	Dividend	531	575
PE Trailing (implied)		17.1	16.4
			Q2 2022
10-year Bond Yield		1.73	2.10

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q2 2022***
Index Level		**Nov-15-21**	***Target***
S&P 500		4,683	4,750
Assumptions			Q2 2022
Level:	Earnings *	197	212
	Dividend	60	64
PE Trailing (implied)		23.7	22.4
			Q2 2022
10-year Bond Yield		1.62	2.15

** 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
	11-12-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***4756***	***1.7%***	***24.2%***	***33.0%***	***74.2%***	***22.5%***	***27.5%***	***65.7%***	***1.00***
United States - S&P 500	*4683*	*1.7%*	*24.7%*	*32.4%*	*71.8%*	*23.1%*	*26.9%*	*63.4%*	*1.00*
Canada - S&P TSX	*21769*	*3.5%*	*24.9%*	*31.3%*	*43.6%*	*24.9%*	*31.3%*	*43.6%*	*0.94*
Europe - MSCI Index	***2099***	***1.2%***	***14.1%***	***22.2%***	***33.9%***	***12.6%***	***17.2%***	***27.3%***	***0.93***
United Kingdom - FTSE 100	*7348*	*1.5%*	*13.7%*	*15.9%*	*4.2%*	*10.0%*	*13.4%*	*3.2%*	*0.18*
Germany - DAX 30	*16094*	*2.6%*	*17.3%*	*23.3%*	*42.1%*	*8.3%*	*14.5%*	*37.5%*	*0.96*
France - CAC 40	*7091*	*3.8%*	*27.7%*	*32.2%*	*40.2%*	*17.9%*	*22.8%*	*35.6%*	*0.84*
Switzerland - SMI	*12516*	*3.4%*	*16.9%*	*19.2%*	*39.3%*	*10.7%*	*13.4%*	*45.1%*	*0.95*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*22.0%*	*-7.7%*	*-7.1%*	*18.0%*	*0.58*
Netherlands - Amsterdam Exchanges	*820*	*1.2%*	*31.3%*	*36.7%*	*55.9%*	*21.2%*	*27.0%*	*50.9%*	*0.97*
Pacific - MSCI Index	***3200***	***1.2%***	***3.2%***	***10.9%***	***23.3%***	***1.9%***	***6.3%***	***17.3%***	***0.93***
Japan - Nikkei 225	*29610*	*2.5%*	*7.9%*	*16.0%*	*33.0%*	*-3.5%*	*2.6%*	*26.3%*	*0.95*
Australia - All ordinaries	*7766*	*1.7%*	*13.4%*	*17.3%*	*28.8%*	*6.1%*	*13.4%*	*24.6%*	*0.85*
Hong Kong - Hang Seng	*25328*	*-0.2%*	*-7.0%*	*-3.2%*	*-1.2%*	*-8.7%*	*-7.7%*	*-5.5%*	*0.13*
World - MSCI Index	***3224***	***1.5%***	***19.8%***	***28.5%***	***58.9%***	***18.3%***	***23.2%***	***51.2%***	***1.00***
World Ex. U.S.A. - MSCI Index	***2390***	***1.3%***	***11.6%***	***19.9%***	***31.7%***	***10.2%***	***14.9%***	***25.2%***	***0.94***
EAFE - MSCI Index	***2364***	***1.2%***	***10.1%***	***18.1%***	***30.0%***	***8.7%***	***13.2%***	***23.6%***	***0.94***
Emerging markets (free) - MSCI Index	***1,285***	***1.6%***	***-0.4%***	***8.7%***	***33.0%***	***-1.7%***	***4.2%***	***26.5%***	***0.90***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-11-12

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2021	EPS Growth 2022	EPS Growth 12-m forward	P/E 2021	P/E 2022	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	301	3.80	32.64	49.07	7.97	10.00	23.17	21.47	21.46	21.67	2.15	1.63
Energy	2.80	435	15.59	77.24	0.00	30.26	40.35	15.20	11.67	11.90	55.68	0.29	22.90
Materials	2.59	565	4.31	32.63	84.90	2.07	5.84	17.05	16.70	16.69	19.22	2.86	5.40
Industrials	8.08	903	1.50	27.53	86.37	36.80	38.55	28.22	20.63	21.06	16.50	0.55	-2.31
Consumer Discretionary	12.81	1612	11.24	31.20	74.05	28.28	31.34	41.51	32.36	32.98	47.40	1.05	-3.25
Consumer Staples	5.62	757	1.82	10.81	10.02	6.30	6.33	22.05	20.74	20.67	9.26	3.27	0.45
Healthcare	12.79	1558	0.68	20.94	26.49	3.00	4.80	17.73	17.21	17.26	12.13	3.60	2.43
Financials	11.18	667	3.35	51.04	64.32	-9.21	-5.36	13.91	15.32	15.19	22.56	neg.	1.94
Information Technology	28.42	2936	8.52	39.09	36.73	9.61	9.64	29.88	27.26	26.84	17.08	2.79	1.11
Telecom Services	10.75	278	0.35	31.95	37.35	6.92	8.73	22.74	21.27	21.30	24.80	2.44	-0.70
Utilities	2.35	338	-2.41	1.74	2.36	6.48	6.14	20.45	19.21	19.30	6.40	3.14	0.71
Real Estate	2.60	301	3.80	32.64	21.24	-2.81	-1.13	51.00	49.84	52.35	36.58	neg.	6.42

* Source I/B/E/S

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Chart Highlights

An increasingly selective market becomes more challenging for investors to pick stocks that perform well. On the other hand, investors will find that there is increased risk and higher odds of buying stocks that are in weak or deteriorating trends. More focus should now be placed on protecting gains and capital. Stocks with weak or deteriorating technical formations should be avoided or sold to reduce portfolio risk. In the November issue of Vision, we highlight a number of technically weak or deteriorating chart formations that pose downside risk and should be avoided.

Technical Analysis

Air Canada (AC)

The AC chart has lagged the market for most of 2021. Weak relative performance is a major technical negative as investors look to other stocks for their investment dollars. A series of lower highs throughout most of this year reflects a loss of upside momentum. The chart has broken below both its moving averages as its 50-day has crossed below its 200-day. Chart support at $22.50 was tested several times during this year and is again being tested. Downside risk is down to $17.00 to $18.00 if support fails. More importantly, failing support turns the trend down and extends a period of weak performance.

Source: Refinitiv

Technical Analysis

Corus Entertainment Inc. (CJR.B)

The long-term trend on CJR.B is down after the stock topped out in 2013 at over $26.00. A rally that began last summer was a rally in a bear market that could possibly be part of a turnaround rebuilding process. This initial rally off of a bear market low appears to have played out and a bearish trend may be resuming. Deteriorating technical action is emerging with the stock breaking a rising trend line and below both moving averages. Chart support at $5.60 for the past several months is failing as the stock trades to multi-month lows. Increased volume recently as the stock traded lower reflects more aggressive selling pressure. Next stop appears to be $4.50 but more importantly, the short to medium-term trend is now down.

Source: Refinitiv

Technical Analysis

First Quantum Minerals Ltd. (FM)

Risk on the FM chart is growing as technical deterioration increases. A rising trend was severed in June as the stock broke $28.00. Recent strength took the stock back to chart resistance at $31.00 from support at $23.00. Technical action suggests that the rally is failing. At this point, risk/reward is unfavourable while sentiment remains bullish. Meanwhile, major mining stocks are showing technical weakness that does not support strength in the sector. Short-term risk in FM is back down to test support at $23.00.

Source: Refinitiv

Technical Analysis

Canada Goose Holdings Inc. (GOOS)

A rising trend line on the GOOS chart was severed in August accompanied by big volume and momentum at $50.00. Prices found support at $45.00 from which a series of rally attempts failed. The $45.00 support is again being tested against a background of weak relative strength. Failing support will complete a top and turn the trend down with a target of $35.00.

Source: Refinitiv

Technical Analysis

Maxar Technologies Inc. (MAXR)

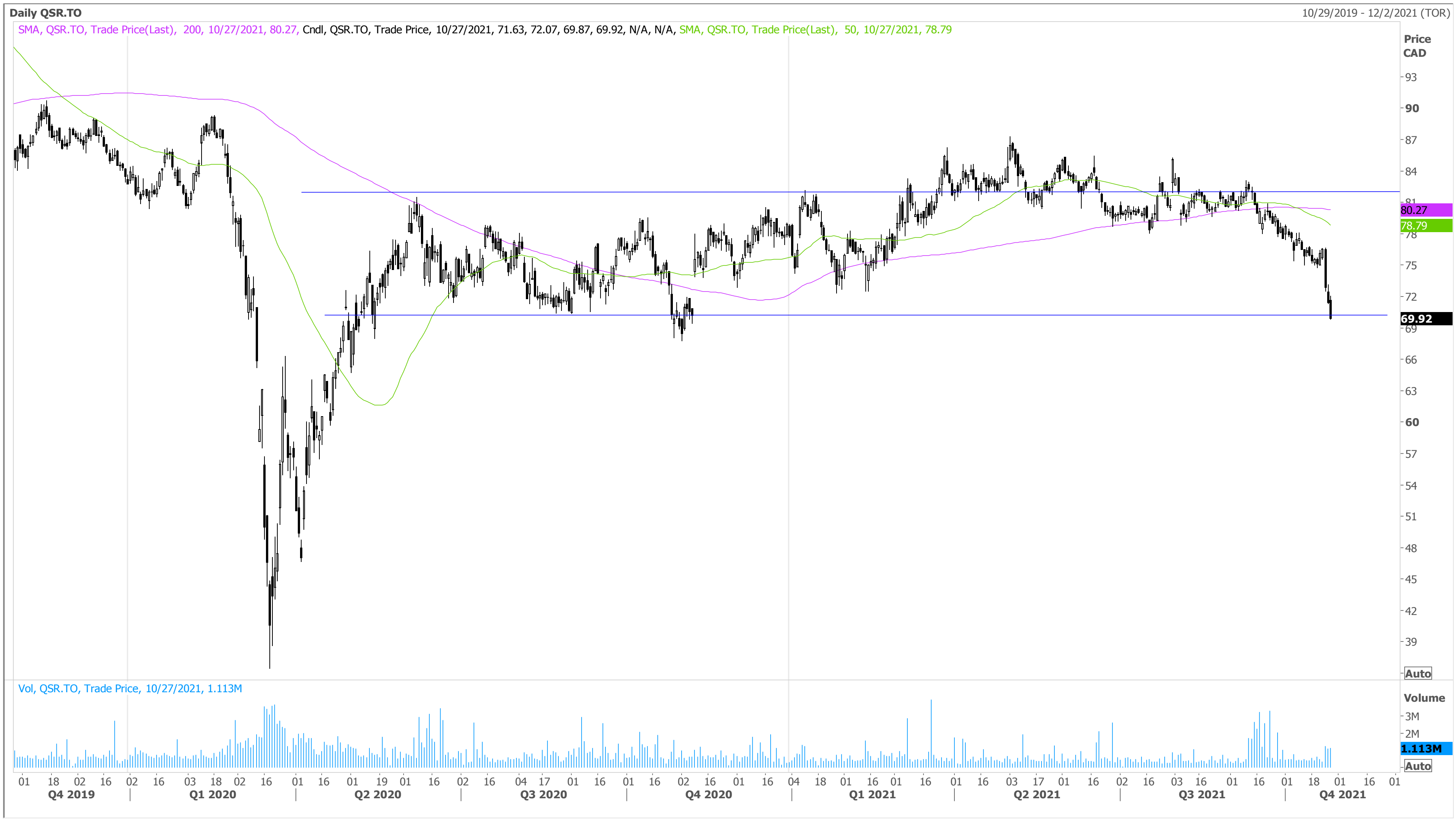
A strong rising trend on the MAXR chart changed course in April with a break of a rising trend line and its 200-day at $45.00. Support was established at $34.00 and continues to be challenged as rebounds are failing. Upside momentum continues to fade as downside momentum gains control. Increasing risk of a break of support points to a potential target of $20.00.

Source: Refinitiv

Technical Analysis

Restaurant Brands International Inc. (QSR)

The QSR chart had a weak recovery over the past 18 months as prices traded in an extended range over this period. Major overhead resistance was established since mid-2020 around the low $80s. Recent big volume selling turned the stock back down from the low $80s to test support around $70.00. Notably weak relative strength measures are hitting multi-year lows representing a negative overhang for the stock. A break of support will create a top that points to a target in the mid-$50s.



Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **October 28, 2021.**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$14.60	$22.00	0.90%	51.64%	Oil, Gas & Consumable Fuels
	Keyera Corp.	KEY	$31.91	$36.00	6.32%	18.83%	Oil, Gas & Consumable Fuels
	Shawcor Ltd.	SCL	$5.28	$8.75	0.00%	65.72%	Energy Equipment & Services
	Tidewater Midstream and Infrastructure Ltd.	TWM	$1.53	$1.75	2.86%	16.99%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$44.07	$57.50	1.47%	32.02%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$5.25	$7.50	0.00%	42.86%	Metals & Mining
	Copper Mountain Mining Corp.	CMMC	$3.75	$5.25	0.00%	40.00%	Metals & Mining
	Endeavour Mining plc	EDV	$31.96	$48.00	2.15%	52.41%	Gold
	Kinross Gold Corp.	K	$7.73	$12.00	1.95%	57.19%	Gold
	Newmont Corp.	NGT	$67.82	$95.00	3.88%	44.10%	Gold
	Pan American Silver Corp.	PAAS	$32.39	$49.00	1.55%	52.83%	Metals & Mining
	SSR Mining Inc.	SSRM	$20.23	$33.00	1.14%	64.35%	Gold
	Teck Resources Ltd.	TECK.b	$35.60	$48.50	0.59%	36.80%	Metals & Mining
	Transcontinental Inc.	TCL.a	$19.46	$28.00	4.53%	48.51%	Containers & Packaging
	Wesdome Gold Mines Ltd.	WDO	$11.29	$14.50	0.00%	28.43%	Gold
Industrials							
	CAE Inc.	CAE	$37.42	$46.00	0.00%	22.93%	Capital Goods
	Dexterra Group Inc.	DXT	$8.97	$12.50	3.73%	43.26%	Commercial & Professional Services
	Exchange Income Corp.	EIF	$42.89	$47.00	5.15%	14.90%	Transportation
	H2O Innovation Inc.	HEO	$2.40	$3.25	0.00%	35.42%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$41.54	$60.50	0.91%	46.61%	Capital Goods
	Mullen Group Ltd.	MTL	$12.94	$16.50	3.72%	31.22%	Transportation
	SNC-Lavalin Group Inc.	SNC	$35.54	$44.00	0.25%	24.03%	Capital Goods
	TFI International Inc.	TFII	$148.21	$158.00	0.80%	7.37%	Transportation
	Toromont Industries Ltd.	TIH	$110.61	$125.00	1.25%	14.28%	Capital Goods
	WSP Global Inc.	WSP	$170.90	$168.00	0.88%	-0.82%	Capital Goods
Consumer Discretionary							
Consumer Staples							
	Loblaw Companies Ltd.	L	$93.02	$92.00	1.53%	0.47%	Food & Staples Retailing
Health Care							
	Chartwell Retirement Residences	CSH.un	$11.92	$15.00	4.90%	30.97%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$6.20	$14.00	0.00%	125.81%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.19	$7.75	0.00%	49.33%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$14.16	$17.50	6.48%	30.20%	Health Care Providers & Services
Financials							
	Alaris Equity Partners Income Trust	AD.un	$18.47	$27.00	7.04%	53.33%	Diversified Financials
	Canadian Imperial Bank of Commerce	CM	$150.62	$168.00	3.92%	15.42%	Banks
	Element Fleet Management Corp.	EFN	$13.53	$19.00	1.87%	42.35%	Diversified Financials
	Home Capital Group Inc.	HCG	$40.22	$59.00	0.00%	46.69%	Banks
	iA Financial Corporation Inc.	IAG	$74.32	$86.00	2.61%	18.33%	Insurance
	Royal Bank of Canada	RY	$131.13	$144.00	3.27%	13.11%	Banks
	Trisura Group Ltd.	TSU	$42.00	$60.00	0.00%	42.86%	Insurance
Information Technology							
	Docebo Inc.	DCBO	US$74.85	US$100.00	0.00%	33.60%	Software & Services
	Shopify Inc.	SHOP	US$1457.00	US$2000.00	0.00%	37.27%	Software & Services
	Thinkific Labs Inc.	THNC	$11.56	$20.00	0.00%	73.01%	Software & Services
Communication Services							
	Cineplex Inc.	CGX	$13.46	$18.00	0.00%	33.73%	Media & Entertainment
	Shaw Communications Inc.	SJR.b	$35.91	$40.50	3.30%	16.08%	Media & Entertainment
Utilities							
	Boralex Inc.	BLX	$37.97	$50.00	1.72%	33.42%	Utilities
	Capital Power Corp.	CPX	$40.68	$46.00	5.34%	18.46%	Utilities
	Innergex Renewable Energy Inc.	INE	$20.58	$28.00	3.45%	39.55%	Utilities
	Northland Power Inc.	NPI	$40.06	$48.00	3.05%	22.82%	Utilities
Real Estate							
	Allied Properties REIT	AP.un	$43.11	$52.00	3.82%	24.57%	Real Estate
	European Residential REIT	ERE.un	$4.44	$5.40	3.56%	25.18%	Real Estate
	Flagship Communities REIT	MHC.un	US$19.85	US$21.00	2.58%	8.36%	Real Estate
	H&R REIT	HR.un	$17.10	$20.50	4.04%	23.92%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month. A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of October 28, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

Back to Research Analysts page

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

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

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442

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

Selections

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

Canadian Banks & Lifecos

Canadian Imperial Bank of Commerce (TSX: CM) – *Building back better.*

Q3/21 delivered credit and revenue outperformance while also avoiding any pitfalls that could have emanated on the expense line. On the latter point, CM's expenses rose primarily due to variable compensation while other costs rose in a much more modest fashion. We believe the bank can accelerate internal investment while also managing to a low single-digit expense growth rate in the foreseeable future. Separately, the Canadian P&C business continued to show improved volume growth that should appease investors that have historically been concerned about the bank's relative market position, and in turn, its future growth prospects. $168 price target. Outperform.

iA Financial Corporation Inc. (TSX: IAG) – *Impressive sales performance & capital generation.*

IAG delivered strong Q2/21 results. We were impressed by another quarter of heady sales performance, with most business lines generating double-digit growth on a Y/Y basis. The balance sheet and capital story were equally impressive, with 4% sequential book value growth and $100 million of internal capital generation during the quarter (which puts IAG on track to exceed its 2021 target). IAS had a strong quarter of U.S. auto warranty product sales, and the concern of a potential sharp drop during H2 may be overstated as the business can take advantage of rising used car sales and benefit from dealers actively looking to sell more warranty products as auto inventories are low. Finally, IAG expects EPS to be at the upper end of its guidance range over the next two quarters, in addition to possibly exceeding its full-year internal capital generation target. IAG is our top pick in the sector. $86 price target. Outperform.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		88,736	647	137.16	10/2020	7.71	12.74	12.99	10.8	10.6	80.00	81.65	88.80	1.7	1.5	3.1%	149.00	
Bank of Nova Scotia	BNS	SP		100,369	1,215	82.60	10/2020	5.36	7.75	8.28	10.7	10.0	53.26	54.43	59.38	1.5	1.4	4.4%	86.00	
CIBC	CM	OP		66,885	445	150.25	10/2020	9.69	14.75	15.28	10.2	9.8	90.06	92.23	101.59	1.6	1.5	3.9%	168.00	
National Bank	NA	NR		34,905	338	103.34	10/2020	6.06	8.92	9.14	11.6	11.3	46.00	47.43	53.31	2.2	1.9	2.7%	NR	
Royal Bank of Canada	RY	OP		186,673	1,425	130.99	10/2020	7.97	11.50	11.91	11.4	11.0	62.34	64.26	71.81	2.0	1.8	3.3%	144.00	
Toronto-Dominion Bank	TD	OP	↑	163,606	1,823	89.77	10/2020	5.35	7.92	7.75	11.3	11.6	51.21	52.67	57.42	1.7	1.6	3.5%	93.00	↑
Canadian Western Bank	CWB	SP		3,477	87	39.91	10/2020	2.93	3.66	4.06	10.9	9.8	32.88	33.40	36.06	1.2	1.1	2.9%	41.00	
Laurentian Bank	LB	SP		1,806	44	41.50	10/2020	2.92	4.73	4.24	8.8	9.8	56.88	57.67	59.77	0.7	0.7	3.9%	47.00	
Insurance																				
Great-West Lifeco	GWO	SP		34,269	930	36.86	12/2020	2.67	3.43	3.77	10.7	9.8	23.70	20.11	22.08	1.8	1.7	4.8%	38.00	
iA Financial	IAG	OP		8,006	108	74.38	12/2020	4.87	8.30	8.82	9.0	8.4	59.02	43.65	47.40	1.7	1.6	2.6%	86.00	↑
Manulife Financial	MFC	SP		47,835	1,942	24.63	12/2020	2.22	3.25	3.47	7.6	7.1	24.76	18.93	21.38	1.3	1.2	4.5%	27.00	
Sun Life Financial	SLF	OP		41,611	586	71.04	12/2020	4.14	5.99	6.48	11.9	11.0	38.37	32.86	35.84	2.2	2.0	3.1%	78.00	↑

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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

Selections

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

Mortgage Finance Preview

Haunted Houses? More Like Vaunted Houses

Overall, our favourable stance outlined early this year remains intact. While cooling housing sales consume headlines – as expected due to normalizing activity – sales remain strong. According to CREA, Q3 2021 sales were down 16% y/y but 16% above 2019 levels. That bodes well for continued strong growth. Keep in mind, Q3 origination forecasts reflect a strong summer due to the typical lag in home sales to mortgage financing: i) Q2 2021 homes sales were up 87% y/y; ii) dollar volume of sales in May/June/July was up 51% y/y and June/July/Aug was up 11% y/y.

Our thesis is further supported by i) immigration remaining below the target 400,000 new Canadians in each of 2021-2023 - a key borrower segment of the alternative lenders HCG/EQB; ii) the fastest employment recovery on record; and iii) a mass amount of Canadian household excess savings. Now, the bigger question is when OSFI will loosen capital deployment restrictions. We think this could come as early as November 4th at the Superintendent's update on OSFI's future priorities and policy agenda.

	Stock	Stock		Mkt Cap	Shares O/S	Stock Price	Last Year	FDEPS			P/E		Book Value per Share			P/BV		Div.	12-Mth Price	
	Sym.	Rating	Δ	(Bln)	(Mln)	10/28	Reported	Last FY	est. FY1	est. FY2	FY1	FY2	Last Quarter	est. FY1	est. FY2	FY1	FY2	%	Target	Δ
Mortgage Finance																				
Equitable Group	EQB	OP		2.66	33.9	78.53	12/2020	6.31	7.77	8.27	10.1	9.5	50.97	54.59	61.71	1.4	1.3	0.9%	93.00	↑
First National Financial	FN	SP		2.47	60.0	41.15	12/2020	3.17	3.75	4.29	11.0	9.6	9.11	9.27	10.84	4.4	3.8	5.7%	52.00	↓
Home Capital Group	HCG	OP		2.02	50.3	40.22	12/2020	3.55	4.94	5.34	8.1	7.5	35.32	37.60	42.43	1.1	0.9		59.00	↑
Timbercreek Financial	TF	SP		0.79	81.0	9.79	12/2020	0.67	0.71	0.73	13.9	13.3	8.48	8.52	8.56	1.1	1.1	7.0%	10.00	↑
Specialty Finance																				
ECN Capital	ECN	OP		2.62	243.5	10.77	12/2020	US 0.13	US 0.34	US 0.22	25.9	38.9	US 2.82	US 3.20	US 3.10	2.7	2.8	1.1%	12.50	
Element Fleet Management	EFN	OP		5.80	428.6	13.53	12/2020	0.77	0.75	0.89	18.0	15.3	7.20	7.19	7.67	1.9	1.8	1.9%	19.00	
goeasy	GSY	OP		3.25	16.5	196.96	12/2020	7.57	10.32	11.63	19.1	16.9	45.40	49.31	57.53	4.0	3.4	1.3%	196.00	
Brookfield Business Partners	BBU	OP		US 7.13	US 148.3	US 48.11	12/2020	-US 1.13	US 1.60	-US 1.75	30.0		US 28.48	US 31.93	US 40.33	1.5	1.2	0.5%	US 62.00	↑
Power Corporation of Canada	POW	SP		28.28	676.5	41.80	12/2020	3.00	4.49	4.08	9.3	10.2	33.48	34.40	36.64	1.2	1.1	4.3%	45.00	
HR Companies																				
LifeWorks Inc.	LWRK	OP		2.2	70.2	31.94	12/2020	0.80	-0.03	1.15	nmf	27.8	8.48	8.56	9.05	3.7	3.5	2.4%	41.00	
Securities Exchange																				
TMX Group	X	SP		7.57	56.1	134.84	12/2020	5.88	7.02	7.12	19.2	18.9	65.19	66.57	69.78	2.0	1.9	2.3%	154.00	↑
Insurance																				
Intact Financial Corp.	IFC	OP		29.68	176.1	168.57	12/2020	9.92	9.82	10.14	17.2	16.6	77.67	77.51	83.28	2.2	2.0	2.0%	209.00	↓
Trisura Group Ltd.	TSU	OP		1.73	41.1	42.00	12/2020	0.92	1.40	1.50	30.0	28.0	8.03	8.66	10.11	4.9	4.2		58.00	
Fairfax Financial Holdings	FFH	OP		13.09	25.9	504.82	12/2020	US 6.29	US 129.58	US 56.63	3.1	7.2	US 540.62	US 601.55	US 651.93	0.7	0.6	2.5%	775.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.10	103.7	10.60	12/2020	1.38	1.36	1.33	7.8	8.0	4.05	4.21	4.44	2.5	2.4	7.9%	12.00	
IGM Financial Inc.	IGM	OP		11.75	238.9	49.18	12/2020	3.20	3.93	4.33	12.5	11.4	25.62	26.60	28.70	1.8	1.7	4.6%	58.00	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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

Selections

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

Mullen kicks off Q3 reporting season with results largely as expected; Enerflex backlog building?

Maintaining positive stance on the back of Mullen's Q3 results.

Mullen reported Q3 EBITDA of $64.4 million (excluding a $0.1 million lift from the CEWS) meeting our $64.1 million estimate but coming in 4.5% below the street at $67.4 million. MTL posted record Q3 revenue of $432.5 million (with the 5 acquisitions completed earlier in 2021 fueling a quarterly high watermark), topping the NBF and consensus estimates by 8%. EBITDA margins of 14.9% missed our 16.1% forecast by 117 bps, largely owing to lower margin contributions from recent acquisitions and softer than expected performance from the Specialized & Industrial Services segment which continued to be hindered by COVID-19 restrictions and temporary delays in pipeline construction activity in B.C. In the Q3 outlook, Mullen highlighted inflationary pressures and labour constraints as near-term challenges to be countered with a rising cost of logistics services. We massage our estimates on the back of the quarter, modestly increasing our revenue expectations while moderating our margin forecasts, leaving our full-year EBITDA estimates largely unchanged. **We resultantly reiterate our previous $16.50 target driven by 7.8x 2022e EV/ EBITDA, still a full-turn below MTL's post-2014 forward year average of 8.7x. With our forecasts implying an attractive valuation and a stable balance sheet footing (2022e net debt/ttm EBITDA <2.0x), we maintain our positive stance and Outperform rating.**

If history repeats itself, a material pickup in Enerflex's manufacturing bookings and backlog could be in the cards in Q3/21.

We note since bottoming in Q3 of 2020 at ~$23 million, quarterly bookings have increased in three sequential quarters (to $155 million in Q2/21) driving a sequential increase in the backlog in the last two quarters (from a trough of ~$143 million exiting 2020 to $259 million exiting Q2/21). Looking at the previous downturn in 2016, we note EFX posted significant sequential bookings growth in Q3 of 2016 (increasing ~140% q/q) from a similar level of bookings in Q2/16 (~$154 million). Could history repeat itself? We note North American rig counts averaged ~600 active rigs in Q3/16, with ~700 active rigs in mid-October, both similar to levels seen in the respective period in 2021 (~646 averaged in Q3/21 and ~710 rigs in mid-October). Given our expectations for relatively more subdued levels of E&P capital spending exiting this downturn, we would be (pleasantly) surprised to see a similar ~140% q/q increase in bookings in the third quarter of 2021, but we believe the potential is there to help support a material y/y increase in EBITDA moving forward as we saw in 2017 (increasing from $190 million in 2016 to $210 million). While we highlight the Engineered Systems backlog was more supportive of the forward outlook for that segment at this point in the 2016 downturn (with the Q2/16 exit backlog of $345 million 33% above the $259 million exiting Q2/21), from an overall EBITDA generation standpoint we suspect the buildout in recent years of EFX's recurring revenue segments likely more than offsets the relatively lower backlog at this point, particularly as we note revenue from these segments is considerably higher margin than manufacturing revenue. We highlight quarterly recurring revenue in 2017 averaged ~$115 million, well below what we have seen in recent years given the associated buildout in EFX's rental equipment. **We reiterate our Outperform rating and $12.50 target driven by 7.0x 2022e EV/EBITDA, modestly higher than EFX's historical forward year EV/EBITDA average of 6.4x but below the 7.4x multiple averaged in Q3 and Q4 of 2016 (which ranged between 6.9x and 8.0x over that period, which we suspect expanded in anticipation of a higher future contribution from the Engineered Systems segment).**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	R		517.35	18.8	27.55	149.3	R	R	8.7	R	R	R	R	R	
CES Energy Solutions Corp.	CEU	OP		514.88	254.9	2.02	83.3	136.2	158.8	9.7	5.9	6.0	2.1	2.75	39%	
Enerflex Ltd.	EFX	OP		945.62	89.8	10.53	191.3	152.5	203.6	6.8	8.2	6.1	2.1	12.50	19%	↑
Green Impact Partners Inc.	GIP	OP		131.95	20.3	6.50		5.0	9.8		21.9	18.1	-4.3	11.25	73%	
Mullen Group Ltd.	MTL	OP		1233.63	95.3	12.94	191.5	218.7	265.0	8.5	8.3	6.5	2.7	16.50	31%	↑
Pason Systems Corp.	PSI	SP		764.01	82.8	9.23	39.5	64.1	86.2	15.6	9.7	7.0	-2.2	11.00	21%	
Shawcor Ltd.	SCL	OP		374.82	71.0	5.28	43.8	102.2	130.0	15.1	6.2	4.5	2.6	8.75	66%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

ESG & Sustainability

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

Overview

Although once considered a niche investment, ESG is now demanding investor attention, with total global ESG assets under management (AUM) reaching ~US$36 trillion at the beginning of 2020, representing one in every ~US$3 and effectively growing by an ~11.7% CAGR over the past four years. If the pace of ESG investment grows at even half this rate, we anticipate ESG AUM rising to ~US$47 trillion by 2025. We expect ESG integration and shareholder engagement/voting to be the leading ESG investment style, especially as ESG disclosure and transparency improve at the corporate level and as institutional investors become more educated in the ESG landscape. In our opinion, we view ESG integration, which involves factoring in non-financial metrics into fundamental analysis, as the best way for investors to implement ESG while generating adequate returns, as it allows an investor to understand, and hopefully, avoid specific ESG risks, while not placing hard restrictions on specific industries.

ESG Updates – Regulatory Updates

Carbon Markets

Carbon prices have continued to rise at considerable rates (~30-240% y/y), inclusive of all regions and systems. The rise in prices has largely been attributable to enhanced government ambition to reduce emissions due to global warming, which has led to more stringent regulations and legislation surrounding decarbonization. Not only are governments now legislating near-term reduction targets alongside net-zero by 2050 but are also tightening emissions caps under the numerous compliance cap-and-trade systems, thereby leading to higher carbon prices.

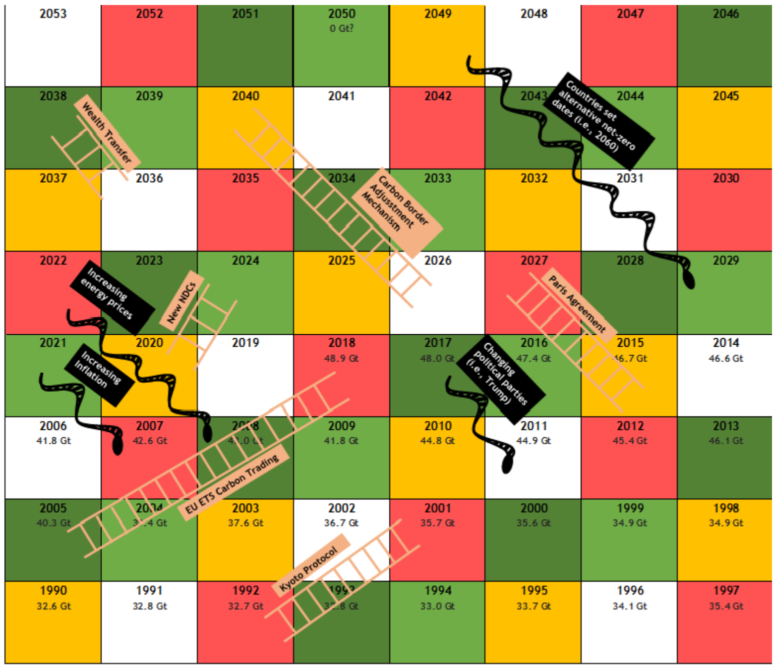
Starting with the most liquid carbon market, the European Emission Allowances (EUA) Dec21 contract closed the month of October at levels of €58.57 (US$68.42), following the last record high of €64.72 (US$75.06) on October 5th. Overall, the EUAs were down ~5.1% this past month and remain in contango, with October 29th, Dec22 contract closing at €58.72 (US$67.87) resulting in a spread of -€0.37. Considering prices on a y/y basis, EUAs have more than doubled in just one year. Elsewhere, the United Kingdom Emissions Allowances (UKEA) futures, which started trading at the end of May 2021, closed at £53.50 (US$73.78) at the end of October, representing a one month return of ~-27.3%.

Within North America, the Regional Greenhouse Gas Initiative (RGGI) Jul22 futures closed the month out at US$12.74 (September: US$11.20), representing a ~14% monthly increase and ~73% in a year. Lastly, the California Carbon Allowances (CCA) Jul22 and Dec21 prices surged ahead ~10% this past month to reach new record highs of US$31.19 and US$30.38, while remaining in contango. We note that y/y, CCA prices are also up ~65%. Finally, we highlight the voluntary Global Emission Offsets (GEO) futures, which fell ~2.9% during the month of October and closed at US$7.25, while the Nature-based Global Emissions Offset (NGEO) future increased ~8.9% in October to reach a record high US$9.87. We note that GEO started trading on March 1, 2021 at US$2.13, before bottoming at US$1.92 on April 15th and now has tripled in price.

COP26

The United Nations climate change conference (*COP26*) kicks off in Glasgow, Scotland from October 31st-November 12th, which is set to be one of the most important global discussions around climate change since the Paris Agreement. Recall, the Paris Agreement is a landmark multilateral commitment on climate change that was adopted by 196 Parties on December 12, 2015, with the goal of limiting global warming to 2oC (preferably 1.5oC) above pre-industrial levels. Given that the global surface temperature has increased to 1.07oC as of 2019 and is on track to reach >2.7oC by 2100, as outlined in the recent IPCC report (***summary report*** and our overview ***here***), COP26 has come at an integral time. Overall, the agenda of COP26 is to foster greater climate ambition through mitigation and adaptation, mobilize capital towards climate solutions and to finalize the Paris rulebook, which we recently outlined in our COP26 thematic (***here***).

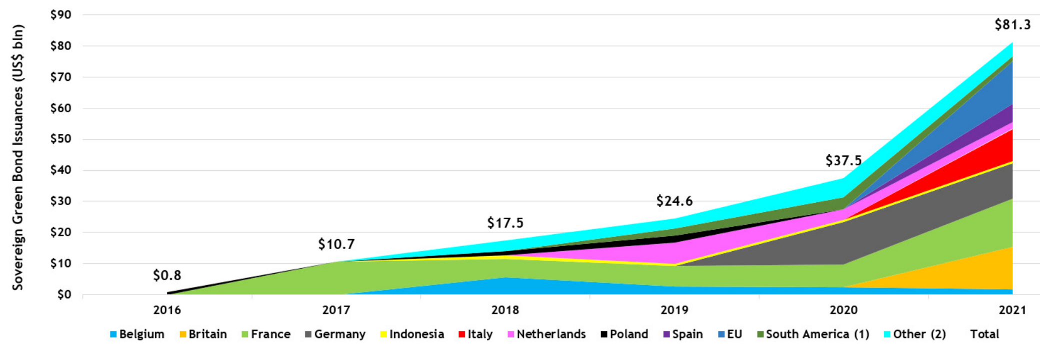
Exhibit 1: Net Zero... A Game of 'Snakes and Ladders'



Source: NBF

Upon adding the inaugural European €12 bln (~US$13.8 bln) green bond issuance and the two recent £10 bln (~US$13.7 bln) and £6 bln (~US$8.2 bln) United Kingdom's green bonds, sovereign green bond issuances year-to-date have now reached around ~US$81.3 bln (including the EU green bond), which surpassed the 2020 total of ~US$37.5 bln. Meanwhile, the appetite for green fixed income products continues to grow as illustrated by the increase in sovereign green bond issuances and the bid-to-cover ratios, with the European green bond and the latest UK green bond being ~11x and ~12x oversubscribed.

Exhibit 2: Sovereign Green Bonds Issued from 2016-2021



Source: OECD (2020), OECD Business and Finance outlook 2020, Climate Bonds Initiative, Bloomberg, Reuters, NBF
(1) South America includes Chile in 2019-2021 and Columbia in September 2021.
(2) Other includes Fiji in 2017-2018, Hong Kong (China) in 2019 and January 2021, Hungary in 2020-2021, Lithuania in 2018 and 2020, South Korea in 2021, Nigeria in 2017 and 2019, Sweden in 2020, Egypt in 2020, Indonesia in June 2021, Ireland in 2018-2020 and Serbia in 2021.

Healthcare, Biotech & Special Situations

Endri Leno
Analyst
416-869-8047

Associates:
Eduardo Garcia Hubner
416-869-7476

Stephen Kwai
416-869-7571

Selections

- › *Dialogue Health*
- › *H_2O Innovation*
- › *Knight Therapeutics*
- › *Medical Facilities*

Highlights as of October 2021

H_2O Innovation (TSX.V: HEO)

On Oct. 6, NBF hosted HEO's senior management team for well-received investor meetings. In addition to an overview of HEO's operational / financial performance and significant improvement over the last few years, discussions also included: 1) Opportunities in the growing desalination and water reuse market given HEO's current presence / experience in North America (for water reuse) and Middle East/ North Africa (for desal); 2) Potential impact from price increases / inefficiencies in the supply chain and tight labour markets for which HEO has some structural advantages; and 3) an update on the acquisition pipeline which remains robust while HEO is committed to executing at reasonable multiples - HEO would likely consider financing upcoming acquisitions with debt given its low leverage of 0.6x Net Debt to FY+1 EBITDA and management's post-acquisition comfort range of ~3x.

Our positive view of the company remains unchanged, and we reiterate an Outperform rating and $3.25 price target, implying a ~15x FY+1 EV/EBITDA. Our positive bias is based on 1) HEO to profitably grow as it focuses on recurring revenues and higher-margin work; 2) multiple expansion on improving results; and 3) various positive macro trends including aging U.S. water infrastructure, increasing water desalination/reuse needs, municipalities outsourcing ops and maintenance of water facilities, fragmented industry, etc. Short / mid-term catalysts include: 1) M&A activity; and 2) potential uplisting to the TSX.

Dialogue Health Technologies (TSX: CARE)

For CARE, we published a note on our expectations for Q3/21 reporting as well as a number of themes we will look for updates on, including: 1) member count (we estimate ~1,560k vs. 1,453k in Q2/21); 2) onboarding of Sun Life and Canada Life members, which we estimate only at ~20%-30%, thus suggesting significant member growth runway; 3) changes to the attach rate (1.10 and +0.02 q/q in Q2/21) and ARR ($70 mln as at Q2/21); 4) progress with the onboarding / integration of Optima, which faces a seasonally slower quarter; and 5) any changes to the competitive landscape, which may see more entrants given a significant increase in telehealth VC funding in H1/2021.

We also discussed Sun Life's (TSX: SLF) new business unit (Sun Life Health) aimed at improving the integration of health and digital solutions to be powered by CARE's platform (branded Lumino Health for SLF). We view the announcement positively and confirmation of our expectations of continued growth for CARE.

As valuations of relevant peers have compressed, we also moved CARE's target 2023e EV/S multiple to 6.0x (was 8.0x) resulting in a $14.00 (was $18.00) target. On expectations of continued growth and the attractiveness of CARE's integrated approach / platform / user experience, we maintain an Outperform rating.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 10/28	Last Quarter Reported	Current Yield	FDDCPS (A) Last FY	FDDCPS est. FY1	FDDCPS est. FY2	P/DCPS FY1	P/DCPS FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Net Debt (Mln)	Y1 Net Debt/ EBITDA	12-Mth Price Target	Δ
Healthcare and Biotechnology																						
Akumin	AKU.u	SP		156.47	87.9	1.78u	1/2021	0.0%	0.01u	0.18u	0.22u	9.9	8.1	53.7u	88.6u	197.1u	15.1	6.8	1,156.1u	5.9	3.50u	
Andlauer Healthcare Group	AND	SP		1,941.72	41.5	46.77	2/2021	0.4%	0.81	1.21	1.47	38.6	31.9	78.9	109.4	136.2	19.8	15.9	223.6	1.6	49.00	↑
Dialogue Health Technologies	CARE	OP		406.31	65.5	6.20	2/2021	0.0%	-	(0.32)	(0.14)	nmf	nmf	(16.9)	(18.2)	(5.5)	nmf	nmf	-	-	14.00	↓
IMV Inc.	IMV	SP		136.95	67.8	2.02	2/2021	0.0%	(0.49)	(0.38)	(0.55)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	4.25	
Jamieson Wellness	JWEL	OP		1,528.03	40.2	38.05	2/2021	1.6%	1.17	1.30	1.33	29.2	28.5	88.0	98.7	104.8	17.2	16.1	165.6	1.6	42.75	
Knight Therapeutics	GUD	OP		653.79	126.0	5.19	2/2021	0.0%	0.09	0.23	0.33	23.0	15.6	16.8	39.1	56.2	13.4	9.3	-	-	7.75	
Medical Facilities Corp.	DR	OP		288.04	31.1	9.26	2/2021	3.0%	0.96u	1.01u	1.00u	7.5	7.7	57.3u	60.7u	58.7u	5.9	6.2	85.8u	1.9	12.00	
Theratechnologies	TH	SP		412.78	95.1	4.34	3/f2021	0.0%	(0.15)u	(0.13)u	0.05u	nmf	72.4	(7.1)u	(8.3)u	8.8u	nmf	36.2	-	-	3.75	
Special Situations																						
H_2O Innovation	HEO	OP		204.33	85.1	2.40	4f2021	0.0%	0.08	0.09	0.12	28.1	20.7	14.6	16.3	18.5	13.2	11.7	11.5	0.6	3.25	
K-Bro Linen	KBL	SP		392.33	10.6	37.00	2/2021	3.2%	2.49	2.31	2.77	16.0	13.3	43.8	45.0	53.0	10.8	9.2	93.4	1.8	46.00	
Rogers Sugar	RSI	SP		582.72	103.7	5.62	3/f2021	6.4%	0.37	0.42	0.42	13.4	13.3	92.3	97.8	102.1	9.5	9.2	361.7	3.5	5.00	
Chemtrade Logistics Income Fund	CHE.UN	OP		829.72	103.6	8.01	2/2021	7.5%	0.52	0.58	0.96	13.9	8.4	265.3	253.2	313.7	8.8	6.5	1,207.9	3.9	9.50	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Sector Analysis

Industrial Products

Maxim Sytchev
Analyst
416-869-6517
—
Associates:
Alizeh Haider: 416-869-7937
Kazim Naqvi: 416-869-6754

Selections

- *WSP Global*
- *Toromont Industries Ltd.*
- *SNC Lavalin*

Industrial Products: Q3/21E preview & positioning

Wage inflation – how bad is it?

Our coverage universe (with exceptions to equipment dealers + adjacencies, STLC, ACQ, NOA and ABCT) is predominantly headcount-driven. We rely on the American Society of Civil Engineers (ASCE) Civil Engineering Salary Report as a proximity gauge for white-collar compensation trends. We have also spoken to our consulting / equipment coverage management teams to calibrate the aggregated data trends. According to ASCE, civil engineers' median pre-tax annual salaries have risen at a 5% CAGR from 2017 to 2020. Last week's 2021 survey results point to a 3.4% escalation vs. 2020 levels (note that when adjusting for seniority and support staff, one would lob off 150-200 bps from the above-presented figures). While the statistics (especially on a pre-pandemic basis) are above the inflation trends, we want to highlight to investors that from 2017 to 2020 EBITDA margins for our companies have actually increased – from 11.1% in 2017 to 11.7% in 2020. Layering on employee cost escalation that is less than the prior four years' momentum, we do not see headline compensation numbers de-railing the margin expansion story, especially amid inflecting top lines.

Positioning thoughts for the quarter

Roaring commodities will benefit STLC / NOA; don't expect major surprises for consulting / equipment distribution peers. We are positively positioned for commodity-levered STLC and NOA as strong results and positive outlook are likely to reverse the recently negative course for the former while continue pushing the latter to new decade-highs. We have also softened our pessimistic views on the upcoming RBA quarter as one-off auctions could provide an offsetting dynamic to roughly -5% y/y decline in GTVs (on tough y/y comps). We are not chasing the name at this level however as a tight OEM environment is benefiting dealers to a much greater extent (vs. RBA that's being impacted by gear tightness) given the used / rebuild / rentals holistic offering. Consulting companies (WSP, STN, IBG) are facing easy H2/20 comps and should all show nice progress (SNC should also be a relative non-event given the very recent Investor Day). SJ remains a controversial name and there is uncertainty when it comes to the cycling of expensive resi lumber inventory through COGS. With subdued sentiment, already reduced guidance, -10% YTD share price decline amid a roaring market, we are comfortable with our contrarian positioning. ACQ and ABCT are likely to see tougher narratives when it comes to chip shortages and its subsequent impact on new auto sales (hence us compressing the target price on ACQ to $60.00 from prior $64.00; M&A optionality and a strong used car market is keeping us on the buy side of the ledger, however). Top directional ideas in the large-cap space are WSP, TIH and SNC; mid-small caps are ATA, SJ, NOA and IBG.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 10/28	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$23.50**		$20.11	$1,213	12 - 2020	$1.16	$0.95	$1.43	15.0x	13.6x	$255	$245	$276	6.7x	6.6x	3.5%	1.5x
Bird Construction Inc.	BDT	OP		**$11.50**		$10.07	$539	12 - 2020	$0.71	$0.89	$0.94	11.3x	10.7x	$69	$98	$107	5.1x	4.7x	3.5%	net cash
Finning International Inc.	FTT	OP		**$44.00**		$36.58	$5,934	12 - 2020	$1.14	$1.81	$2.20	20.2x	16.6x	$636	$780	$900	8.9x	7.8x	2.5%	1.3x
IBI Group Inc.	IBG	OP		**$14.00**		$12.00	$376	12 - 2020	$0.48	$0.72	$0.83	15.3x	14.4x	$47	$53	$54	9.5x	9.4x	0.0%	0.8x
North American Construction Group Ltd.	NOA	OP		**$27.00**	↑	$21.53	$612	12 - 2020	$1.74	$2.07	$2.35	10.4x	9.2x	$175	$207	$231	4.9x	4.4x	0.7%	2.0x
Ritchie Bros. Auctioneers	RBA	SP		**US$65.00**		US$67.37	$7,432	12 - 2020	US$1.59	US$1.74	US$2.16	38.8x	31.1x	US$352	US$365	US$458	24.0x	19.1x	1.5%	3.5x
SNC-Lavalin	SNC	OP		**$44.00**		$34.74	$6,099	12 - 2020	-$0.67	$1.63	$2.58	13.4x	11.7x	$93	$584	$730	9.1x	8.2x	0.2%	1.9x
Stantec Inc.	STN	SP		**$72.00**	↑	$67.74	$7,536	12 - 2020	$2.13	$2.30	$2.84	29.5x	23.8x	$435	$432	$553	19.8x	15.5x	1.0%	2.3x
Toromont Industries Ltd.	TIH	OP		**$125.00**		$108.77	$8,983	12 - 2020	$3.09	$3.89	$4.60	28.0x	23.7x	$539	$624	$706	14.5x	12.8x	1.3%	0.0x
WSP Global	WSP	OP		**$168.00**		$168.96	$19,744	12 - 2020	$3.34	$4.74	$5.63	35.6x	30.0x	$801	$1,040	$1,222	20.3x	17.2x	0.9%	0.0x
AutoCanada	ACQ	OP		**$60.00**	↓	$43.01	$1,163	12 - 2020	$0.44	$3.75	$4.05	11.5x	10.6x	$83	$187	$212	6.9x	6.1x	0.0%	0.2x
Stelco	STLC	OP		**$60.00**	↓	$42.47	$3,284	12 - 2020	-$0.60	$20.25	$7.84	2.1x	5.4x	$63	$2,123	$936	1.5x	3.5x	1.9%	0.0x
ATS Automation	ATA	OP		**$48.50**		$40.92	$3,769	12 - 2020	$1.07	$1.74	$1.82	23.5x	22.5x	$181	$272	$285	15.1x	14.4x	0.0%	1.2x
ABC Technologies	ABCT	SP		**$9.00**	↓	$7.47	$392	12 - 2020	NM	-$0.22	-$0.09	-26.7x	-67.6x	$89	$133	$111	4.4x	5.3x	2.0%	2.5x
Stella-Jones	SJ	OP		**$52.00**		$44.96	$2,940	12 - 2020	$3.12	$3.59	$3.34	12.5x	13.5x	$343	$371	$348	9.8x	10.4x	1.6%	1.8x
Median												**15.0x**	**13.6x**				**9.1x**	**8.2x**	**1.3%**	

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
**Multiples adjusted for concession investments*

Merchandising & Consumer Products

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

Selection

› *Loblaw*

MTY Food Group Inc. (MTY: TSX)

Q3 F2021 Results

Solid recovery ahead, led by casual dining

(1) Management indicated that its focus is now shifting back to longer-term growth; sales are back to pre-pandemic levels for many of the brands and progressing in the right direction for others. (2) We are encouraged by solid recovery, particularly in casual dining, with revenues up by 45% y/y due to gradual lifting of restrictions; tapering momentum at Papa Murphy's served as a partial negative offset. By location, mall and office tower restaurants in Canada had significant improvement, with revenues up by 43% and 68% y/y, respectively, while mall restaurants in the U.S. saw a revenue increase of 49% y/y. (3) Looking forward, we anticipate solid recovery, particularly in casual dining, due to further easing of restrictions; tapering momentum at Papa Murphy's is expected to serve as a partial negative offset in the interim.

Labour and inflationary concerns

(1) Management noted labour challenges as well as supply chain disruptions. We anticipate these pressures will continue, although consider them to be manageable. To offset inflationary pressures, MTY implemented price increases (single-digit range). As a franchisor, we consider inflation to be favourable if it is accepted by consumers.
(2) Management suggested it will take a disciplined approach to M&A (likely mid-sized deals); it anticipates deal flow to accelerate in the future. Share repurchases are also possible. MTY's net debt to EBITDA is accommodative at 2.6x.

Maintain Outperform rating; Price target is $75

We value MTY at 11.0x our F22/F23 EBITDA.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 10/28	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,832	61.4	176.30	12/2020	12.95	16.87	16.93	10.4	10.4	2,181	2,529	2,476	5.2	5.3	76.80	0.33	225.00	↓
Dollarama	DOL	OP		17,116	306.2	55.89	02/2021	1.81	2.15	2.51	26.0	22.2	1,131	1,273	1,424	16.0	14.3	0.45	0.96	63.00	
Fuel and Other																					
Couche Tard	ATD.b	OP		50,529	1,074.4	47.03	04/2021	2.45	2.39	2.46	15.9	15.5	5,005	4,850	4,853	9.5	9.5	11.60	0.33	56.00	
Parkland Fuel Corporation	PKI	OP		5,516	150.9	36.55	12/2020	0.54	0.94	2.22	39.0	16.5	967	1,293	1,321	7.4	7.2	14.47	0.65	47.00	
Apparel																					
Gildan	GIL	OP		9,035	199.1	45.39	12/2020	(0.18)	2.26	2.40	16.3	15.3	165	650	677	11.7	11.3	9.06	0.17	57.00	↑
Roots Corporation	ROOT	SP		123	42.2	2.92	02/2021	0.35	0.59	0.72	4.9	4.1	64	71	79	4.2	3.7	3.76	0.52	6.00	
Grocers																					
Empire Company	EMP.a	OP		9,989	268.1	37.26	05/2021	2.61	2.64	2.90	14.1	12.8	2,144	2,266	2,384	7.5	7.1	17.11	0.60	45.00	
Loblaw	L	OP		31,897	342.9	93.02	12/2020	4.18	5.14	5.77	18.1	16.1	5,004	5,425	5,552	6.9	6.7	32.56	0.32	92.00	↑
Metro	MRU	SP		15,294	245.8	62.22	09/2020	3.27	3.41	3.48	18.2	17.9	1,091	1,106	1,063	17.6	18.3	25.91	0.26	65.00	
Food Manufacturer																					
Saputo	SAP	SP		12,595	415.1	30.34	03/2021	1.56	1.49	1.97	20.4	15.4	1,471	1,450	1,741	11.5	9.5	15.3	0.39	39.00	
Lassonde	LAS.a	OP		1,199	6.9	172.86	12/2020	14.11	12.96	13.70	13.3	12.6	217	202	208	7.0	6.8	117.2	0.21	195.00	
Premium Brands Holdings	PBH	OP		5,853	43.5	134.55	12/2020	3.04	4.57	5.66	29.5	23.8	313	432	500	17.5	15.1	36.1	0.52	148.00	↑
Specialty Retailing																					
Sleep Country Canada	ZZZ	SP		1,321	37.2	35.46	12/2020	1.95	2.26	2.43	15.7	14.6	171	190	197	9.1	8.8	10.03	0.52	40.00	↑
Pet Valu	PET	SP		2,033	71.4	28.49	12/2020	0.64	0.79	1.14	36.0	25.0	144	162	170	15.4	14.6	N/A	1.50	33.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		96	42.4	2.27	12/2020	0.34	0.30	0.46	7.5	5.0	28	26	32	8.5	6.9	5.70	0.34	4.50	
Restaurants																					
MTY Food Group	MTY	OP		1,509	24.7	61.04	11/2020	(1.51)	3.41	4.09	17.9	14.9	138	173	193	10.9	9.8	23.20	0.40	75.00	↑
Online Grocery																					
Goodfood Market	FOOD	OP		572	73.5	7.78	08/2020	(0.07)	(0.17)	(0.08)	NA	NA	5	4	11	NA	NA	1.60	(3.45)	12.00	

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Sector Analysis

Metals & Mining: Base Metals

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

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

Selections

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

Price Volatility to Persist in 2021

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

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

Top picks:

- *Teck Resources Ltd. (TECK.B: TSX)*

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

- *Capstone Mining Corp. (CS: TSX)*

  Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including a sustained 60,000 tpd mill throughput at Pinto Valley (achieved in September and sustained through October 2021) and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~30% production growth and ~10% reduction in costs by 2023. In addition, with the Cozamin silver stream sale and Santo Domingo gold stream sale, the company has no net debt and continues to advance partnership/financing agreements to deliver transformational growth from Santo Domingo.

- *Copper Mountain Mining Corp. (CMMC: TSX)*

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

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP	-	2,170	413.3	5.25	7.50	↑	Nagle	0.07u	0.61u	0.67u	6.5x	7.8x	0.34u	0.95u	0.92u	4.2x	4.3x	7.24	0.7x
Copper Mountain Mining	CMMC	OP	-	787	209.9	3.75	5.25	↑	Nagle	0.11u	0.64u	0.69u	5.9x	5.5x	0.61u	1.46u	1.24u	2.6x	3.0x	6.04	0.6x
Ero Copper	ERO	SP	-	2,047	88.4	23.16	30.00	-	Nagle	1.34u	2.39u	2.85u	7.3x	8.1x	2.02u	3.20u	3.41u	5.4x	5.1x	31.88	0.7x
First Quantum Minerals	FM	OP	-	19,308	691.0	27.94	37.00	↑	Nagle	(0.07)u	1.23u	3.39u	17.1x	8.3x	2.64u	4.18u	6.42u	5.0x	3.3x	28.14	1.0x
Hudbay Minerals	HBM	OP	-	2,282	261.5	8.73	12.50	-	Nagle	(0.44)u	(0.06)u	0.53u	n/a	16.4x	0.93u	1.84u	3.07u	3.6x	2.1x	9.54	0.9x
Lundin Mining	LUN	SP	-	7,693	735.5	10.46	13.00	↓	Nagle	0.31u	1.09u	1.54u	7.2x	6.8x	1.00u	2.03u	2.31u	3.9x	3.4x	11.56	0.9x
Sherritt International	S	SP	-	167	397.3	0.42	0.55		DeMarco	(0.34)c	(0.23)c	0.02c	n/a	21.0x	0.03c	0.03c	0.13c	14.4x	3.2x	0.95	0.4x
Taseko Mines	TKO	SP	-	755	283.9	2.66	3.25	↑	Nagle	(0.11)c	0.18c	0.32c	14.9x	8.2x	0.44c	0.73c	0.76c	3.6x	3.5x	4.19	0.6x
Teck Resources	TECKb	OP	-	19,252	540.8	35.60	48.50	↑	Nagle	1.05c	6.62c	7.45c	5.4x	4.8x	3.38c	10.50c	10.26c	3.4x	3.5x	32.02	1.1x
Trevali Mining	TV	SP	-	230	989.4	0.23	0.30	-	Nagle	(0.03)c	0.01c	0.01c	13.1x	25.3x	0.01c	0.10c	0.11c	1.7x	1.6x	0.24	1.0x
Developers																					
Adventus Mining	ADZN	OP	-	125	131.1	0.95	1.55	↓	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.11	0.5x
Filo Mining	FIL	OP	-	1,249	113.2	11.04	13.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19.49	0.6x
Josemaria Resources	JOSE	SP	-	489	379.3	1.29	1.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.01	-
Trilogy Metals	TMQ	OP	-	389	144.4	2.69	4.25	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.15	0.5x
Sigma Lithium	SGML	OP	-	919	87.4	10.52	13.00	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14.82	0.7x
Lithium Americas	LAC	OP	-	4,119	119.9	34.36	32.00u	-	Aganga	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	33.86	1.0x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Back to Research Analysts page

Metals & Mining: Precious Metals

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

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

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

Selections

Gold/Silver Producers:

- ***Endeavour Mining Corp.*** *(EDV: TSX; C$48.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$12.00 target)*
- ***Newmont Corp.*** *(NGT: TSX; C$95.00 target)*
- ***Pan American Silver Corp.*** *(PAAS: TSX; C$49.00 target)*
- ***SSR Mining Inc.*** *(SSRM: TSX; C$33.00 target)*
- ***Wesdome*** *(WDO: TSX; C$14.50 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$10.75 target)*

Inflation Could Spark Gold Rally

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

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to these stimulus measures, interest rates remain low. The U.S. 10-year yield started the year off on a strong note but recently has softened, and thus, real rates have shifted more negative, spurring gold to rally from sub-US$1,700/oz in late March. The U.S. Fed continues to voice support for keeping interest rates low, with no expected rate hike in 2021, but is planning on eventually tapering bond purchases while focusing on job creation by any means necessary while accepting elevated inflation beyond the Fed target rate for a period of time. We believe an elevated and/or sticky U.S. inflation rate and any potential deferral of the fed tapering (with respect to market expectations) could be a tailwind for spot gold prices and consequently gold equities. The rise of cases in the United States from the COVID-19 Delta Variant is a key risk factor to the U.S. economic recovery that the U.S. Fed is watching closely.

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

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

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	SP		16,655	243.70	68.34	83.00	↓	Parkin	0.96u	1.86u	2.93u	27.5x	17.4x	3.64u	4.99u	4.99u	10.3x	10.3x	48.48	1.41x
Barrick Gold	ABX	SP	↓	41,575	1,779.00	23.37	29.00	↓	Parkin	0.51u	1.15u	1.31u	15.3x	13.4x	1.81u	3.22u	3.22u	5.5x	5.5x	22.35	1.05x
Kinross Gold Corp	K	OP		9,308	1,204.09	7.73	12.00	↑	Parkin	0.31u	0.73u	0.19u	7.2x	28.2x	0.80u	1.37u	1.37u	3.8x	3.8x	12.42	0.62x
Kirkland Lake Gold Corp	KL	T		14,306	263.80	54.23	55.50	↑	Parkin	2.74u	3.37u	3.12u	12.3x	13.3x	4.46u	4.75u	4.75u	8.7x	8.7x	37.57	1.44x
Newmont	NGT	OP		45,604	788.73	57.82	95.00	↓	Parkin	1.32u	2.66u	3.48u	20.2x	15.4x	4.31u	5.69u	5.69u	9.4x	9.4x	59.81	0.97x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		34,216	191.1	179.04	205.00	↑	Nagle	2.72u	3.45u	3.60u	39.0x	49.7x	4.22u	5.05u	5.12u	26.7x	26.3x	66.06	2.71x
Maverix Metals Inc	MMX	SP		895	146.7	6.10	7.75	↑	Nagle	0.12u	0.09u	0.21u	n/a	28.5x	0.29u	0.26u	0.35u	23.8x	17.6x	4.76	1.28x
Osisko Gold Royalties Ltd	OR	OP		2,644	167.0	15.83	20.50	↓	Nagle	0.26u	0.51u	0.66u	n/a	23.9x	0.65u	1.12u	1.27u	14.1x	12.5x	14.60	1.08x
Royal Gold Inc	RGLD	SP		6,630	65.2	101.64u	155.00u	-	Nagle	2.91u	3.86u	3.97u	26.3x	25.6x	6.28u	6.48u	6.80u	11.8x	11.2x	62.38	1.63x
Sandstorm Gold Ltd	SSL	OP		1,553	194.9	7.97	10.75	↓	Nagle	0.11u	0.18u	0.23u	33.3x	34.7x	0.36u	0.39u	0.43u	15.4x	13.9x	8.13	0.98x
Triple Flag Precious Metals Corp	TFPM	SP		1,703	156.2	10.90	17.00	↓	Nagle	0.20u	0.39u	0.43u	21.0x	25.3x	0.78u	0.81u	0.87u	10.1x	9.4x	11.95	0.91x
Wheaton Precious Metals Corp	WPM	OP		22,815	450.3	50.67	65.00	↓	Nagle	1.10u	1.33u	1.28u	28.6x	39.6x	1.71u	1.89u	1.85u	20.2x	20.6x	22.48	2.25x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	SP	↓	3,772	392.94	9.60	11.50	↓	Parkin	0.21u	0.42u	0.45u	16.8x	15.5x	0.75u	0.97u	0.97u	7.2x	7.2x	11.29	0.85x
B2Gold	BTO	OP		5,502	1,030.4	5.34	8.50	↑	DeMarco	0.25u	0.49u	0.43u	10.8x	12.4x	0.51u	0.83u	0.67u	6.4x	8.0x	5.27	1.01x
Centerra Gold Inc	CG	OP		2,857	296.72	9.63	12.25	↑	Parkin	0.41u	1.15u	0.63u	5.8x	10.6x	1.36u	2.87u	1.28u	2.3x	5.2x	12.46	0.77x
Dundee Precious Metals	DPM	OP		1,526	181.3	8.42	11.50	↓	DeMarco	0.26u	1.02u	0.93u	8.3x	9.0x	0.62u	1.35u	1.59u	6.2x	5.3x	10.75	0.78x
Eldorado Gold Corp	ELD	OP		2,164	182.59	11.85	18.00	↑	Parkin	(0.02)u	0.97u	0.59u	9.8x	16.2x	0.93u	2.23u	2.23u	3.4x	3.4x	22.29	0.53x
Endeavour Mining	EDV	OP		5,211	163.1	31.96	48.00	↓	DeMarco	0.68u	2.24u	2.34u	14.3x	13.7x	2.68u	5.13u	4.87u	6.2x	6.6x	37.52	0.85x
Equinox Gold Corp	EQX	OP		3,185	332.8	9.57	13.75	↓	Parkin	0.33u	0.37u	0.23u	22.0x	35.8x	0.68u	1.06u	0.82u	7.7x	9.9x	18.53	0.52x
IAMGOLD Corp	IMG	OP		1,726	476.70	3.62	4.50	↑	Parkin	(0.03)u	0.14u	(0.01)u	15.6x	-192.5x	0.75u	0.77u	0.77u	2.9x	2.9x	6.10	0.59x
Lundin Gold Inc.	LUG	SP		2,622	232.6	11.27	13.75	↑	DeMarco	0.00u	0.46u	0.88u	24.3x	12.8x	0.00u	0.79u	1.53u	14.3x	7.4x	11.55	0.98x
New Gold Inc	NGD	SP		1,191	680.70	1.75	2.25	↑	Parkin	(0.08)u	0.03u	0.20u	46.5x	6.8x	0.39u	0.41u	0.41u	2.5x	2.5x	3.90	0.45x
OceanaGold Corp	OGC	OP		1,640	704.00	2.33	3.50	↑	Parkin	0.06u	(0.11)u	0.08u	n/a	26.4x	0.33u	0.33u	0.33u	4.8x	4.8x	3.17	0.74x
Pretium Resources	PVG	OP		2,829	188.0	15.05	16.50		DeMarco	0.54u	0.99u	0.60u	15.3x	25.2x	1.13u	1.46u	1.46u	10.3x	10.3x	14.95	1.01x
SSR Mining Inc	SSRM	OP		4,254	210.30	20.23	33.00	↑	Parkin	0.74u	1.43u	1.38u	10.0x	10.3x	1.59u	1.65u	1.65u	8.6x	8.6x	32.15	0.63x
Yamana Gold Inc	YRI	OP		4,952	943.28	5.25	7.00	↓	Parkin	0.10u	0.32u	0.30u	12.1x	13.0x	0.51u	0.66u	0.66u	5.8x	5.8x	5.09	1.03x
Torex Gold Resources Inc	TXG	SP		1,256	85.64	14.66	23.00		DeMarco	0.00u	1.47u	2.11u	10.0x	7.0x	0.00u	3.79u	4.26u	3.9x	3.4x	19.77	0.74x
Silver Producers																					
Aya Gold and Silver	AYA	OP		858	92.2	9.31	13.00	↓	DeMarco	(0.05)u	0.01u	0.09u	1273.7x	98.2x	1.18u	0.00u	0.12u	10925.2x	76.2x	7.39	1.26x
First Majestic Silver Corp	FR	SP		3,494	214.9	16.26	19.00		DeMarco	0.03u	0.24u	0.27u	67.8x	59.3x	0.53u	0.57u	0.54u	28.5x	30.0x	6.98	2.33x
Fortuna Silver Mines Inc	FVI	SP		1,169	184.0	6.35	7.00		DeMarco	0.18u	0.21u	0.52u	30.5x	12.1x	0.45u	0.43u	0.92u	14.7x	6.9x	6.22	1.02x
Pan American Silver	PAAS	OP		6,805	210.1	32.39	49.00	↓	DeMarco	0.60u	0.94u	1.21u	34.5x	26.7x	1.60u	1.73u	2.45u	18.7x	13.2x	19.31	1.68x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		414	109.6	3.78	5.00		DeMarco	0.21u	0.24u	0.24u	15.8x	15.5x	0.40u	0.74u	0.54u	5.1x	7.0x	6.79	0.56x
K92 Mining Inc.	KNT	OP		1,613	219.2	7.36	11.75		DeMarco	0.20u	0.23u	0.32u	31.8x	23.1x	0.34u	0.36u	0.40u	20.5x	18.6x	10.37	0.71x
Minera Alamos Inc.	MAI	OP		234	441.9	0.53	1.00		Nizami	0.01u	(0.01)u	0.06u	n/a	8.8x	0.00u	(0.00)u	0.07u	-	7.1x	0.98	0.54x
Wesdome Corp.	WDO	OP		1,562	138.4	11.29	14.50		DeMarco	0.32u	0.41u	0.58u	27.5x	19.5x	0.56u	0.64u	0.88u	17.7x	12.9x	11.58	0.98x
Developers																					
Artemis Gold Inc.	ARTG	OP		782	122.7	6.37	9.75		DeMarco	0.00u	(0.07)u	(0.05)u	-	-	0.00u	(0.15)u	(0.08)u	-	-	9.73	9.73x
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Gold Standard Ventures Corp.	GSV	OP		204	358.0	0.57	1.30	↓	Nizami	(0.04)u	(0.03)u	(0.03)u	n/a	n/a	(0.03)u	(0.02)u	(0.02)u	-	-	1.36	0.42x
Integra Resources Corp.	ITR	OP		178	61.9	2.88	6.50		Nizami	(0.54)u	(0.67)u	(0.45)u	n/a	n/a	(0.50)u	(0.64)u	(0.43)u	-	-	6.44	0.45x
Liberty Gold Corp	LGD	OP		271	265.5	1.02	1.80	↓	Nizami	0.03u	(0.07)u	(0.06)u	n/a	n/a	(0.05)u	(0.06)u	(0.06)u	-	-	1.78	0.57x
MAG Silver Corp	MAG	OP		2,225	91.2	24.40	32.00		DeMarco	(0.06)u	(0.18)u	(0.07)u	-	-	(0.04)u	(0.04)u	(0.06)u	-	-	21.01	1.16x
Marathon Gold Corp.	MOZ	OP		0	0.0	2.99	4.50		DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	5.7x	-	4.35	0.69x
O3 Mining Inc.	OIII	OP		121	60.2	2.01	4.25		DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	5.46	0.37x
Osisko Development	ODV	OP		686	128.3	5.35	9.50		DeMarco	-	-	0.27u	-	20.0x	(0.02)u	-	0.27u	-	19.7x	9.66	0.55x
Osisko Mining	OSK	OP		951	340.7	2.79	5.00		DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	5.15	0.54x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
SilverCrest Metals	SIL	OP		1,404	128.5	10.93	14.25		DeMarco	(0.22)u	(0.22)u	(0.35)u	-	-	(0.19)u	(0.21)u	(0.31)u	-	-	9.55	1.14x

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

u = US dollars; c = Canadian dollars

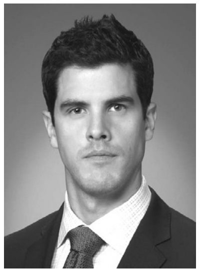
Source: Company Reports, NBF Estimates, Refinitiv

Back to Research Analysts page

Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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

Large Cap Oil & Gas

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

Selections

› *Cenovus*
› *Tourmaline*

Crude Oil Outlook

In October, crude continued its upward trajectory, establishing a new 52-week high of US$85.41/bbl, a level not seen since October 2014. The rally is largely the result of constructive supply data points (restrained upstream capital expenditure, disciplined OPEC supply profile, etc.) and improving demand, as mobilization patterns continue to increase and the natural gas/coal shortage in Europe/Asia further bolster demand through gas-to-oil fuel switching. Taking this all into account, U.S. petroleum inventories (crude, gasoline, and distillates) now sit below the five-year range as global oil demand (~99 mmbbl/d) approaches pre-pandemic levels. Looking ahead, the 22nd OPEC+ meeting scheduled for November 4th should provide clarity around how the group is viewing the current market conditions. We're expecting the group to remain disciplined in its approach to returning supply to market, despite the requests from various countries for additional supply to soften prices. The forward curve remains in backwardation, with CAL-22 WTI coming in at ~US$76/bbl (contrasted to September's exit point of ~US$69/bbl for CAL-22 WTI). Additionally, WCS differentials widened through October, despite L3R coming online during the month, as the WCS differential averaged ~US$13.50/bbl (from < US$12.00/bbl during September).

Natural Gas Outlook

NYMEX continued its strong upward price momentum through October averaging ~US$5.50/mmbtu, while AECO followed suit with prices averaging ~C$5.00/GJ. Natural gas supply/demand fundamentals continue to remain strong with storage remaining under its five-year average and demand expected to outpace supply over the coming winter months. From a drilling perspective, rig activity remains anemic due to disciplined capital spending from producers. For context, as of the week ending October 22nd, rig activity has increased m/m in North America, with a total of 22 (Oil: +22/ Gas: 0) rigs added in the U.S and a small increase in Canada with three rigs (Oil: -3/ Gas:+6). According to Bentek, total U.S production is estimated to have increased to ~90.6 Bcf/d in October from ~89.7 Bcf/d in September, while LNG exports have recovered modestly to average 10.5 Bcf/d for October. Overall demand in the U.S was an estimated ~71.1 Bcf/d in October (from 67.9 Bcf/d in September), according to Bentek, with expectations for cooler temperatures to increase demand as we exit shoulder season.

Top picks:

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

  Underpinned by its strong base business and integrated capacity, the company can weather the commodity cycle and provide torque to the upside as global oil prices return. Cenovus has a top-quality asset base – in Foster Creek and Christina Lake – and has sustaining and breakeven costs that are amongst the lowest in the sector. Cenovus closed on its deal to acquire Husky and capture $1.2 billion in annual cost savings. We view this deal as necessary and strategic given the company's high confidence in achieving the $1.2 billion in annual cost savings. Additionally, the added downstream integration and increased egress capacity will help reduce the company's exposure to the WCS differential, which supports our recommendation for Cenovus as a top pick.

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

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

Back to Research Analysts page

Sector Analysis

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 10-28	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1173.6	$52.94	$62,131	4%	8.9x	5.5x	4.6x	1.0x	0.4x	$4.40	$11.08	$11.85	4.7x	4.5x	$70.00	36%	
Cenovus Energy	CVE	OP		Wood	2017.6	$14.60	$29,457	0%	28.3x	4.8x	4.1x	1.1x	0.5x	$0.12	$3.65	$3.83	4.0x	3.8x	$22.00	51%	
Ovintiv Inc (US$)	OVV	OP		Wood	261.1	$38.27	$9,993	1%	4.4x	4.1x	4.1x	1.5x	1.2x	$7.42	$12.65	$11.90	3.0x	3.2x	$44.00	16%	
Imperial Oil	IMO	SP		Wood	698.6	$45.10	$31,507	2%	20.7x	6.9x	5.8x	0.5x	-0.1x	$1.20	$6.78	$7.46	6.5x	6.0x	$50.00	13%	↑
Suncor Energy	SU	SP		Wood	1484.8	$32.00	$47,513	3%	10.1x	5.8x	4.8x	1.2x	0.6x	$2.66	$6.31	$7.15	5.0x	4.5x	$39.00	25%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	195.7	$7.00	$1,370	0%	5.1x	6.5x	4.2x	0.8x	0.0x	$0.56	$1.16	$1.69	6.0x	4.1x	$9.00	29%	
ARC Resources Ltd.	ARX	OP		Wood	723.9	$11.81	$8,549	2%	3.9x	4.4x	3.2x	0.7x	0.1x	$1.89	$3.52	$3.74	3.8x	3.2x	$18.50	59%	
Baytex Energy	BTE	SP		Payne	573.2	$4.14	$2,373	0%	5.4x	4.6x	3.9x	2.0x	1.3x	$0.56	$1.27	$1.40	3.3x	3.0x	$4.50	9%	
Birchcliff Energy	BIR	OP		Payne	269.7	$6.56	$1,769	0%	6.0x	4.2x	3.1x	0.9x	0.2x	$0.69	$1.94	$2.27	3.4x	2.9x	$10.00	53%	
Crescent Point Energy Corp.	CPG	OP		Wood	583.0	$6.20	$3,615	2%	3.9x	3.7x	2.6x	1.4x	0.7x	$1.65	$2.51	$3.10	2.5x	2.0x	$12.50	104%	
Enerplus Corporation	ERF	OP		Wood	255.1	$11.75	$2,997	1%	3.5x	4.0x	3.0x	0.9x	0.3x	$1.61	$3.54	$4.15	3.3x	2.8x	$17.00	46%	
Freehold Royalties	FRU	OP		Wood	150.6	$12.17	$1,833	5%	7.8x	10.9x	8.0x	0.7x	0.0x	$0.61	$1.26	$1.49	10.4x	8.2x	$15.00	28%	
Headwater Exploration	HWX	OP		Payne	227.3	$4.85	$1,102	0%	25.1x	9.9x	5.4x	-0.6x	-0.9x	$0.06	$0.47	$0.77	10.3x	6.3x	$7.00	44%	
Kelt Exploration	KEL	OP		Payne	187.5	$4.94	$926	0%	4.9x	6.7x	4.3x	0.1x	-0.2x	$0.31	$0.75	$1.09	6.6x	4.5x	$7.00	42%	
MEG Energy	MEG	SP		Wood	313.9	$11.30	$3,547	0%	7.7x	6.3x	4.4x	3.3x	1.7x	$0.92	$2.39	$3.22	4.8x	3.6x	$14.00	24%	
NuVista Energy	NVA	SP		Payne	232.1	$6.05	$1,404	0%	4.2x	5.7x	3.2x	1.7x	0.6x	$0.70	$1.24	$2.18	4.9x	2.8x	$6.75	12%	
Paramount Resources	POU	OP		Payne	138.3	$20.39	$2,819	1%	6.1x	6.1x	3.7x	1.0x	0.1x	$1.12	$3.61	$5.70	5.7x	3.6x	$28.00	38%	
Parex Resources	PXT	OP		Wood	119.7	$24.29	$2,908	2%	6.9x	3.4x	2.4x	-0.7x	-1.1x	$2.96	$5.73	$6.92	4.2x	3.5x	$35.00	46%	
Peyto Exploration & Development	PEY	OP		Wood	165.8	$9.52	$1,578	0%	5.9x	5.3x	3.6x	2.5x	1.3x	$1.29	$2.63	$3.76	3.6x	2.5x	$15.50	63%	
PrairieSky Royalty	PSK	SP		Wood	221.8	$15.59	$3,457	2%	15.4x	14.8x	13.8x	0.6x	-0.1x	$0.64	$1.08	$1.12	14.4x	14.0x	$20.00	31%	
Spartan Delta	SDE	OP		Payne	166.8	$6.47	$1,079	0%	6.9x	6.6x	2.8x	2.2x	0.7x	$0.67	$1.79	$2.86	0.0x	0.0x	$10.00	55%	
Storm Resources	SRX	SP		Payne	126.5	$5.53	$700	0%	5.2x	5.2x	2.8x	0.7x	-0.2x	$0.47	$1.16	$1.86	0.0x	0.0x	$7.50	36%	
Tamarack Valley Energy	TVE	OP		Payne	412.3	$3.67	$1,513	3%	3.6x	6.0x	3.6x	1.5x	0.5x	$0.55	$0.85	$1.15	4.3x	3.2x	$5.00	39%	
Topaz Energy	TPZ	OP		Payne	139.7	$17.68	$2,471	5%	14.7x	15.4x	10.8x	1.4x	0.6x	$0.98	$1.41	$1.72	12.5x	10.3x	$24.00	41%	↑
Tourmaline Oil	TOU	OP		Payne	327.9	$44.07	$14,452	2%	4.9x	5.7x	4.2x	0.5x	-0.2x	$4.36	$8.86	$10.12	5.0x	4.4x	$57.50	32%	
Vermilion Energy Inc.	VET	SP		Wood	161.9	$13.51	$2,187	0%	5.6x	4.4x	3.3x	2.0x	1.2x	$3.18	$4.86	$5.86	2.8x	2.3x	$18.00	33%	
Whitecap Resources	WCP	OP		Wood	634.9	$7.50	$4,762	4%	4.8x	5.2x	3.6x	1.1x	0.3x	$1.07	$1.81	$2.22	4.3x	3.4x	$12.00	64%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	164.8	$2.93	$483	0%	6.5x	6.0x	3.2x	3.3x	1.3x	$0.27	$0.78	$1.34	3.8x	2.2x	$3.50	19%	
Pipestone Energy	PIPE	SP		Payne	280.9	$3.06	$860	0%	6.8x	5.6x	2.7x	1.0x	0.1x	$0.15	$0.61	$1.15	5.0x	2.7x	$4.00	31%	
Surge Energy	SGY	SP		Payne	85.8	$5.29	$454	0%	6.1x	5.4x	2.3x	2.3x	0.7x	$0.18	$2.10	$2.92	2.5x	1.8x	$9.00	70%	↑
Yangarra Resources	YGR	SP		Payne	88.7	$1.97	$175	0%	4.5x	3.3x	1.8x	1.9x	0.7x	$0.53	$1.11	$1.76	1.8x	1.1x	$2.50	27%	

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

Source: Company Reports, NBF, Refinitiv

	Stock Sym.	Stock Rating	Δ	Analyst	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	EBITDA (mm) 2020	EBITDA (mm) 2021e	EBITDA (mm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt / EBITDA 2020	Net Debt / EBITDA 2021e	Net Debt / EBITDA 2022e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
National Energy Services Reunited	NESR	OP		Payne	US$1,122.65	91.1	US$12.32	US$213.2	US$218.2	US$285.3	6.6x	6.5x	4.5x	1.5x	1.5x	0.7x	US$17.50	42%	
Precision Drilling Corp.	PD	OP		Payne	$ 683.03	13.3	$51.34	$ 285.2	$ 245.1	$ 290.6	7.1x	9.4x	5.9x	4.7x	4.4x	3.2x	$65.00	27%	↑
Trican Well Services	TCW	SP		Payne	$ 746.43	248.8	$3.00	$ 30.6	$ 102.4	$ 144.0	7.5x	8.4x	5.3x	1.3x	-0.3x	-0.5x	$4.00	33%	↑

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

Source: Company Reports, NBF, Refinitiv

Sector Analysis
Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451
—
Associates:
William Duforest: 403-441-0952
Zach Warnock: 403-355-6643

Selections

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

Overview

Well into the second half of 2021, little has changed with regard to the market's insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term, as our coverage seeks to deploy an eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies - while driving per share growth and valuation expansion.

Commodities Update

The favourable fundamental backdrop has remained through the economic recovery as commodity prices continued to rally through October, with WTI averaging ~US$81.00/bbl, ~13% higher than September levels of ~US$71.50/bbl and >100% above the 2020 average price of ~US$40/bbl. On the gas front, with the persistent lack of supply, NYMEX prices continued a resilient upward trend through October, averaging $5.53/mcf, over ~10% above the September average of $5.06/mcf, while AECO wasn't far behind, bouncing back to an average of $4.88/mcf. Looking at current Marketing prospects, while the WCS heavy differential showed some signs of slack early in the summer, it has continued to widen, averaging ~US$14.00/bbl over the past month.

Winter Propane Outlook

While most of the current energy crisis attention has centred around crude oil and natural gas prices, a perfect fundamental storm for propane is brewing ahead of the winter heating season, driven by factors such as demand resurgence, underinvestment in Lower 48 supplies and seasonal weather events leading to historically low inventory levels. We note that ahead of the winter season, the state of current inventory levels has already driven strong propane pricing with North American benchmark Conway, KS propane prices sitting comfortably at ~US$60/bbl (70% of WTI) versus 5-year average levels ~US$24/bbl (47% of WTI).

Pipelines & Midstream Update

On the Line 5 front, the Canadian Federal Government announced that it officially invoked Article 6 of the 1977 Transit Pipelines Treaty with the U.S. in an attempt to block the State of Michigan from interfering with the flow of oil on ENB's Line 5. The Canadian government's action comes after the State of Michigan expressed its unwillingness to continue the court-ordered mediation with Enbridge. We await an outcome from the dispute as Enbridge does not plan on halting any operations unless ordered to by a court. Recall, we value Line 5 at ~$3/sh within our target for ENB, with it representing ~$500 million of annual EBITDA (~5% of AFFO).

Energy Transition Update

Momentum in the Energy Transition has been building up in the recent weeks with three companies within our coverage releasing sustainability updates along with emissions reduction targets. Gibson Energy announced its pledge to net-zero by 2050, while also publishing its inaugural TCFD report, highlighting the company's progress on decreasing its emissions. Of note, GEI is considering different technologies to advance its energy transition strategy including renewable power generation, biofuels and CCS. Shortly after, Pembina released its 2021 sustainability update, while announcing a new 30% GHG emissions intensity reduction target by 2030. Overall, the company modestly decreased its GHG emissions in 2020, while it progresses on lowering its carbon footprint in a push towards decarbonization. Finally, TC Energy joined Pembina in the 30 by 30 club with its new emissions reduction targets, while going a step further by also targeting net-zero emissions operations by 2050.

Top Picks

Overall, our 2022 estimates call for AFFO/sh growth o f ~9% over 2021e, with dividends up ~2% 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 10-28	Market Cap. (Mln)	Distributions per Share est. 2020	est. 2021e	est. 2022e	Cash Yield 2021e	2022e	Distr. CF per Share - FD est. 2020	est. 2021e	est. 2022e	P/Distr. CF 2021e	2022e	Net Debt/ 22e EBITDA	12-Mth Price Target	Return	Δ	Combined Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$26.16	$7,316	$0.96	$1.00	$1.04	3.8%	4.0%	$2.08	$2.80	$3.02	9.3x	8.7x	5.4x	29.00	10.9%		14.7%
Enbridge Inc.	ENB	OP		2021.5	$52.18	$105,481	$3.24	$3.34	$3.51	6.4%	6.7%	$4.67	$4.78	$5.43	10.9x	9.6x	4.7x	51.00	-2.3%		4.1%
Gibson Energy	GEI	SP		149.3	$25.05	$3,740	$1.36	$1.40	$1.40	5.6%	5.6%	$2.01	$2.03	$2.16	12.3x	11.6x	3.3x	24.00	-4.2%		1.4%
Inter Pipeline	IPL	Tender		429.2	$19.21	$8,245	$0.48	$0.48	$0.48	2.5%	2.5%	$1.75	$1.73	$1.98	11.1x	9.7x	5.3x	20.00	4.1%		6.6%
Keyera	KEY	OP		221.0	$31.91	$7,053	$1.92	$1.92	$1.92	6.0%	6.0%	$3.26	$3.07	$3.05	10.4x	10.5x	3.3x	36.00	12.8%		18.8%
Pembina Pipelines	PPL	SP		550.0	$41.36	$22,748	$2.52	$2.52	$2.52	6.1%	6.1%	$3.91	$3.94	$4.14	10.5x	10.0x	4.1x	40.00	-3.3%		2.8%
Secure Energy	SES	OP		308.0	$5.88	$1,811	$0.03	$0.03	$0.03	0.5%	0.5%	$0.53	$0.77	$0.88	7.7x	6.7x	1.9x	5.50	-6.5%		-6.0%
Superior Plus	SPB	SP		176.0	$13.54	$2,383	$0.72	$0.72	$0.72	5.3%	5.3%	$1.37	$1.11	$1.52	12.2x	8.9x	4.1x	15.00	10.8%		16.1%
Tidewater Midstream	TWM	OP		339.3	$1.53	$519	$0.04	$0.04	$0.04	2.6%	2.6%	$0.14	$0.34	$0.24	4.6x	6.4x	3.7x	1.75	14.4%		17.0%
Tidewater Renewables	LCFS	SP		33.9	$15.15	$514	$0.00	$0.00	$0.00	0.0%	0.0%	$0.00	$0.09	$0.52	168.4x	29.1x	3.0x	16.50	8.9%		8.9%
TC Energy Corp.	TRP	OP		979.0	$67.45	$66,034	$3.24	$3.48	$3.69	5.2%	5.5%	$6.13	$5.71	$5.88	11.8x	11.5x	5.2x	66.00	-2.1%		3.0%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$40.91	$4,690	$1.74	$1.79	$1.81	4.4%	4.4%	$2.08	$2.39	$2.37	17.1x	17.2x	4.6x	45.00	10.0%		14.4%
Canadian Utilities	CU	SP		273.1	$35.30	$9,640	$1.74	$1.76	$1.78	5.0%	5.0%	$2.69	$2.88	$3.03	12.3x	11.7x	5.3x	36.00	2.0%		7.0%
Capital Power	CPX	OP		114.1	$40.68	$4,642	$1.99	$2.12	$2.24	5.2%	5.5%	$4.96	$5.46	$5.38	7.4x	7.6x	3.6x	46.00	13.1%		18.3%
Emera Inc.	EMA	SP		257.9	$58.20	$15,011	$2.48	$2.58	$2.68	4.4%	4.6%	$1.99	$2.73	$4.28	21.4x	13.6x	6.7x	58.00	-0.3%		4.1%
Fortis Inc.	FTS	SP		474.6	$54.91	$26,060	$1.94	$2.05	$2.17	3.7%	4.0%	$3.92	$3.85	$4.46	14.3x	12.3x	6.1x	59.00	7.4%		11.2%
Hydro One Ltd.	H	SP		596.9	$29.49	$17,603	$1.01	$1.07	$1.12	3.6%	3.8%	$1.76	$1.74	$1.96	17.0x	15.1x	5.4x	32.00	8.5%		12.1%
TransAlta	TA	SP		271.1	$13.96	$3,785	$0.17	$0.18	$0.20	1.3%	1.4%	$1.30	$1.83	$1.73	7.6x	8.1x	3.4x	13.00	-6.9%		-5.6%

Source: Company Reports, NBF Estimates, Refinitiv

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

Back to Research Analysts page

Sector Analysis
Real Estate

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

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

Selections

- *Chartwell*
- *Sienna*
- *ERES*
- *Allied*
- *H&R*
- *Cap REIT*
- *Killam*
- *Boardwalk*
- *Flagship*
- *BSR*

Real Estate Q3 2021 Preview: Still Leaning Residential, with an Opportunity in Seniors' Housing

Our top picks list remains skewed towards residential/quasi-residential names, but we are seeing some value in select office names. Allied and H&R are the only non-residential names to make it into our top ten. We believe the valuation gap versus other asset classes offsets some near-term operating risk, justifying a deeper look. The residential names should see occupancy improve as leasing normalizes, while supply/demand dynamics remain favourable. A brief synopsis of our views by asset class is as follows:

Multi-family:

We are expecting stronger leasing activity to translate into higher occupancy for our Canadian names. It is encouraging to see immigration statistics rebounding to pre-pandemic levels. Demand from international students will have a larger near-term impact as it likely returns en masse in the fall (or in two tranches around the semesters). We expect favourable supply-demand dynamics to drive fundamentals outside of Canada too for ERE and HOM.

Seniors Housing/Healthcare:

This group represents one of our best long-term ideas. With health risks greatly reduced due to the vaccination rollout, the operational risks faced by the sector have become more manageable. Coming out of the crisis, the priority for management teams will be on recovering occupancy with the long-term earnings power of these businesses remaining intact; we expect to see more private capital take advantage of the sector's current valuation levels. Furthermore, the sector's average return YTD has lagged that of other asset classes in our coverage and could see a "catch-up trade" as expectations normalize.

Industrial:

Occupancy is already high as these names are essentially full, but exceptional market fundamentals will support an acceleration in rent spreads. Development looks to be the best avenue for growth, with significant potential value accretion and higher yields on cost.

Office:

Leasing activity has stabilized and rents have held up within our coverage universe. Long-term demand is difficult to gauge, but Canada's strong demographics and relative undersupply of space pre-pandemic should alleviate some concerns. Given a widening valuation spread, we are warming to this sector and think the upside scenario could be lucrative.

Retail:

With major restrictions lifted earlier this summer, we have seen encouraging commentary from retailers and landlords about operations and from brokers about the investment markets. Traffic levels and leasing activity are ahead of 2020 levels, though still below 2019 levels. The introduction of "vaccine passports" could be viewed favourably as it could prevent the implementation of large-scale lockdowns. Operating metrics should see sequential improvement as restrictions are lifted; however, we continue to expect that reaching pre-pandemic levels could take another year. With the pandemic subsidy programs due to expire, there may be some more turbulence ahead on occupancy, but with it now much easier to visit properties, the net impact on occupancy would be muted.

Special Situations:

Our outlook varies by stock, but we continue to like the residential/quasi-residential names: SVI (storage), TCN (single-family rentals) and MHC.u (manufactured housing).

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 10-28	Distributions per Unit (A) 2020	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Cash Yield 2020A	Cash Yield 2021E	Cash Yield 2022E	Cash Yield Current Annualized	FD FFO (A) 2020	FD FFO est. 2021	FD FFO est. 2022	P/FFO 2020A	P/FFO 2021E	P/FFO 2022E	Net Asset Value	12-Mth Price Target	12-Mth Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,931	Woolley	$22.45	$1.44	$1.44	$1.44	6.4%	6.4%	6.4%	6.4%	$1.60	$1.53	$1.62	14.1x	14.7x	13.9x	$24.80	$25.00	17.8%	↔
Choice Properties REIT	CHP.un	SP	↔	$10,445	Woolley	$14.93	$0.74	$0.74	$0.74	5.0%	5.0%	5.0%	5.0%	$0.92	$0.96	$0.97	16.2x	15.6x	15.4x	$12.90	$15.00	5.4%	↔
First Capital REIT	FCR	SP	↔	$3,902	Woolley	$17.81	$0.86	$0.86	$0.86	4.8%	4.8%	4.8%	4.8%	$1.01	$1.13	$1.12	17.7x	15.8x	15.9x	$21.50	$20.00	17.1%	↔
SmartCentres REIT	SRU.un	SP	↔	$5,332	Woolley	$31.34	$1.76	$1.81	$1.85	5.6%	5.8%	5.9%	5.8%	$2.20	$2.13	$2.18	14.3x	14.7x	14.4x	$31.61	$32.00	7.9%	↔
CT REIT	CRT.un	OP	↔	$3,941	Woolley	$17.85	$0.73	$0.76	$0.79	4.1%	4.2%	4.4%	4.2%	$1.18	$1.25	$1.32	15.2x	14.3x	13.5x	$16.70	$19.00	10.7%	↔
Crombie REIT	CRR.un	OP	↔	$2,856	Woolley	$18.83	$0.89	$0.89	$0.89	4.7%	4.7%	4.7%	4.7%	$1.05	$1.14	$1.20	17.9x	16.5x	15.7x	$18.15	$19.50	8.3%	↔
Automotive Properties REIT	APR.un	OP	↔	$531	Woolley	$13.37	$0.80	$0.80	$0.80	6.0%	6.0%	6.0%	6.0%	$0.91	$0.97	$1.01	14.7x	13.8x	13.2x	$12.00	$14.00	12.0%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,522	Kornack	$43.11	$1.65	$1.70	$1.73	3.8%	3.9%	4.0%	3.9%	$2.29	$2.42	$2.66	18.8x	17.8x	16.2x	$46.75	$52.00	24.6%	↑
DREAM Office REIT	D.un	OP	↔	$1,371	Kornack	$23.63	$1.00	$1.00	$1.00	4.2%	4.2%	4.2%	4.2%	$1.52	$1.56	$1.64	15.5x	15.2x	14.4x	$25.80	$26.00	14.3%	↑
Slate Office REIT	SOT.un	SP	↔	$380	Kornack	$5.20	$0.40	$0.40	$0.40	7.7%	7.7%	7.7%	7.7%	$0.68	$0.57	$0.62	7.7x	9.1x	8.4x	$5.95	$5.50	13.5%	↔
True North Commerical REIT	TNT.un	SP	↔	$672	Kornack	$7.48	$0.59	$0.59	$0.59	7.9%	7.9%	7.9%	7.9%	$0.59	$0.60	$0.61	12.6x	12.5x	12.3x	$7.25	$7.50	8.2%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,379	Woolley	$13.41	$0.80	$0.80	$0.80	6.0%	6.0%	6.0%	6.0%	$0.83	$0.85	$0.88	16.1x	15.7x	15.2x	$13.18	$14.00	10.4%	↔
H&R REIT	HR.un	OP	↔	$5,160	Kornack	$17.10	$0.92	$0.69	$0.69	5.4%	4.0%	4.0%	4.0%	$1.67	$1.51	$1.53	10.3x	11.3x	11.2x	$21.75	$20.50	23.9%	↑
Cominar REIT	CUF.un	RES		$2,098	Kornack	$11.50	RES	RES	RES	6.3%	5.5%	3.1%	6.3%	$1.13	$0.94	$1.05	10.2x	12.2x	10.9x	$10.80	RES	RES	
Artis REIT	AX.un	SP	↔	$1,511	Kornack	$11.83	$0.54	$0.54	$0.60	4.6%	4.6%	5.1%	5.1%	$1.40	$1.34	$1.37	8.5x	8.8x	8.6x	$14.85	$12.25	8.1%	↔
BTB REIT	BTB.un	SP	↔	$310	Kornack	$4.20	$0.36	$0.30	$0.30	8.6%	7.1%	7.1%	7.1%	$0.38	$0.41	$0.42	10.9x	10.1x	9.9x	$4.70	$4.50	14.3%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$6,530	Kornack	$99.41	$2.92	$3.00	$3.00	2.9%	3.0%	3.0%	3.0%	$4.04	$3.99	$4.33	24.6x	24.9x	23.0x	$87.40	$110.00	13.7%	↑
DREAM Industrial REIT	DIR.un	OP	↔	$3,848	Kornack	$16.85	$0.70	$0.70	$0.70	4.2%	4.2%	4.2%	4.2%	$0.71	$0.80	$0.86	23.8x	21.0x	19.6x	$15.50	$19.00	16.9%	↑
Summit Industrial	SMU.un	OP	↔	$4,153	Kornack	$23.82	$0.54	$0.56	$0.58	2.3%	2.3%	2.4%	2.4%	$0.65	$0.70	$0.77	36.6x	33.9x	31.1x	$19.90	$26.50	13.6%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$330	Woolley	$4.23	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-26.3x	11.7x	6.3x	$5.70	$5.00	18.2%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$10,467	Kornack	$60.30	$1.37	$1.38	$1.47	2.3%	2.3%	2.4%	2.4%	$2.27	$2.38	$2.49	26.6x	25.4x	24.2x	$61.80	$70.50	19.2%	↑
Boardwalk REIT	BEI.un	OP	↔	$2,720	Kornack	$53.29	$1.00	$1.00	$1.00	1.9%	1.9%	1.9%	1.9%	$2.81	$2.87	$3.00	19.0x	18.5x	17.7x	$54.80	$60.00	14.5%	↑
Killam Apartment REIT	KMP.un	OP	↔	$2,064	Kornack	$22.60	$0.68	$0.69	$0.72	3.0%	3.1%	3.2%	3.1%	$1.00	$1.03	$1.09	22.6x	22.0x	20.6x	$22.05	$26.00	18.1%	↑
InterRent REIT	IIP.un	OP	↔	$2,575	Kornack	$17.97	$0.31	$0.32	$0.32	1.7%	1.8%	1.8%	1.8%	$0.47	$0.51	$0.59	38.2x	35.0x	30.5x	$16.80	$20.25	14.4%	↑
Minto Apartment REIT	MI.un	RES		$1,368	Kornack	$23.17	$0.44	RES	RES	1.9%	RES	RES	RES	$0.85	RES	RES	27.4x	RES	RES	RES	RES	RES	
BSR REIT	HOM.un	OP	↔	$447u	Kornack	$16.95u	$0.50u	$0.50u	$0.50u	3.0%	3.0%	3.0%	3.0%	$0.64u	$0.61u	$0.72u	26.6x	27.7x	23.6x	$15.35u	$18.75u	13.6%	↑
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.44	$0.16	$0.16	$0.17	3.5%	3.7%	3.7%	3.7%	$0.20	$0.22	$0.23	21.8x	20.2x	19.5x	$5.17	$5.40	25.3%	↑
International																							
Inovalis REIT	INO.un	SP	↔	$322	Kornack	$9.62	$0.83	$1.13	$0.83	8.6%	11.8%	8.6%	8.6%	$0.65	$0.53	$0.58	14.7x	18.0x	16.7x	$10.75	$10.00	15.7%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,602	Woolley	$11.92	0.59	0.60	0.60	4.9%	5.0%	5.0%	5.0%	0.76	0.68	0.82	15.7x	17.5x	14.5x	$12.10	$15.00	30.9%	↔
Sienna Senior Living	SIA	OP	↔	$949	Woolley	$14.16	0.90	0.92	0.94	6.4%	6.5%	6.6%	6.6%	1.03	1.19	1.32	13.8x	11.9x	10.7x	$15.80	$17.50	30.1%	↔
Extendicare	EXE	SP	↔	$645	Woolley	$7.20	0.48	0.48	0.48	6.7%	6.7%	6.7%	6.7%	0.79	0.47	0.52	9.2x	15.3x	13.8x	$9.30	$8.50	24.7%	↔
Invesque	IVQu	SP	↔	$106u	Woolley	$1.90u	$0.74u	$0.00u	$0.00u	38.8%	0.0%	0.0%	0.0%	$0.73u	$0.57u	$0.66u	2.6x	3.3x	2.9x	$3.90u	$2.00u	5.3%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$2,176	Woolley	$5.94	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.14	$0.16	60.9x	42.4x	37.1x	$5.40	$6.50	9.6%	↑
MHC																							
Flagship Communities REIT	MHCu.TO	OP	↔	$251u	Woolley	$19.85u	n/a	n/a	$0.51u	n/a	n/a	2.6%	2.6%	n/a	$1.00u	$1.00u	n/a	19.9x	19.9x	$19.50u	$21.00u	8.4%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$4,089u	Woolley	$17.93	$0.28	$0.28	$0.28	1.6%	1.6%	1.6%	1.6%	$0.49u	$0.51u	$0.54u	36.6x	35.2x	33.2x	$16.84	$18.00	2.0%	↔

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
—
Associate:
Thomas Bolland: 514-871-5013

Selections

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

Federal Resources redemption for $101.9 million: 19%+ IRR

On October 26, Alaris announced the redemption of Federal Resources following the sale of the partner to a third party. The redemption amounted to US$80.9 million, or $101.9 million; combined with distributions received, Alaris more than doubled its investment in just over six years with a 113% return, representing an unlevered IRR of over 19%.

Reloading for redeployment to new and existing partners

Pro forma the FED redemption, we calculate Alaris's available credit climbs to $142.8 million, while leverage drops to 2.1x (ex-converts), freeing up capital for redeployment to partners. We forecast a 65% payout ratio in 2022e, toward the lower end of management's expected run-rate ratio. While in the near term, the elimination of FED's US$11.3 million distribution reduces revenue and EBITDA, with a partial offset to EPS from lower finance costs, over the medium to long term, we expect Alaris will be able to redeploy the US$80.9 million received to new and existing partners at a 13-15% yield, recouping the lost revenue. Alaris may free up additional capital in the months ahead should the redemption of Kimco occur, potentially adding another ~US$60-70 million to AD's deployable capital at the cost of US$4.7 million in annual distributions (~1% impact on our 2022e payout ratio).

Exit premium CAGR of 3% highlights conservative forecasting

Upon redemption, Alaris received a 20.7% premium for the FED investment over the initial amount deployed, a 3.0% CAGR over the 6.4-year life of the partnership. This comfortably exceeds the 1.5% assumption used in our long-term DCF, highlighting our conservative modeling. If we were to increase our exit premium CAGR assumption to 3%, still below the 5.1% historical average recorded over 12 partner redemptions, our target would increase by ~$3.50/share.

Outperform rating and $27 target

With the FED redemption in line with expectations, we reiterate our Outperform rating and leave our $27 target unchanged, derived from a long-term DCF analysis using a 12.6% discount rate and four primary assumptions: 1) 1.5% distribution growth from partners (3.3% historical average); 2) $35 million in annual net deployments to partners ($68 million historical average); 3) 4% partner write-offs annually (2.2% historical average), and; 4) 1.5% exit premium CAGR (5.1% historical average). Our target implies 12.9x 2022e EV/EBITDA and 15.7x 2022e PE, comparing favourably to peers.

	Stock	Stock		Market Cap	Shares O/S	Stock Price	Last Year	FDEPS			P/E		EBITDA (mln)			EV/EBITDA		Div.	Net Debt/	12-Mth Price	
	Symbol	Rating	Δ	(Mln)	(Mln)	10/28	Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	yield	FY2 EBITDA	Target	Δ
Alaris Equity Partners Income Trust	AD	OP		830.5	45.0	18.47	12/2020	0.51	1.98	1.71	9.3	10.8	85.6	121.3	119.6	9.6	9.7	7.1%	3.7	27.00	
Boyd Group Services Inc.	BYD	SP		5,196.7	21.5	242.02	12/2020	1.97	2.39	5.84	83.7	34.3	220.0	246.8	382.0	20.4	13.0	0.2%	1.8	255.00	
Cascades	CAS	OP		1,503.8	103.3	14.56	12/2020	1.95	0.58	1.59	25.1	9.2	675.0	455.8	597.2	7.1	5.3	3.2%	2.9	19.00	
Dexterra Group Inc.	DXT	OP		583.8	65.1	8.97	12/2020	1.24	0.43	0.55	20.8	16.2	36.1	77.9	86.5	8.3	7.0	3.9%	0.9	12.50	
Doman Building Materials	DBM	OP		589.1	86.6	6.80	12/2020	0.78	1.17	0.83	5.8	8.2	143.1	209.8	191.6	5.8	6.4	7.5%	4.3	12.00	
GDI Integrated Facility Services	GDI	OP		1,197.2	22.9	52.19	12/2020	2.11	2.37	2.28	22.1	22.9	104.9	139.0	133.2	9.6	9.4	0.0%	1.2	67.00	
Hardwoods Distribution	HDI	OP		895.3	21.6	41.54	12/2020	1.52	3.53	3.11	9.8	11.1	72.7	153.2	158.9	8.3	7.7	1.0%	1.2	60.50	
Intertape Polymer Group Inc.	ITP	OP		1,701.8	60.5	28.12	12/2020	1.51	1.98	2.14	11.3	10.5	211.2	254.7	277.7	7.4	6.6	3.0%	2.0	40.00	
KP Tissue	KPT	SP		106.1	9.8	10.80	12/2020	0.53	0.24	0.62	45.6	17.5	197.8	165.2	226.8	7.9	7.5	6.7%	4.2	11.00	
Neighbourly Pharmacy Inc.	NBLY	SP		1,049.8	34.4	30.50	03/2021	(19.88)	(7.42)	0.48	nmf	64.2	35.1	51.6	75.8	22.1	16.4	0.6%	0.9	35.00	↑
Park Lawn Corporation	PLC	OP		1,107.9	30.2	36.65	12/2020	1.16	1.36	1.47	27.0	24.9	79.9	94.2	106.1	14.2	13.1	1.2%	2.1	44.50	
Richelieu Hardware	RCH	SP		2,457.2	56.5	43.46	11/2020	1.50	2.37	2.15	18.3	20.2	154.5	223.9	207.1	10.8	11.0	0.6%	0.1	48.00	↑
Savaria Corporation	SIS	OP		1,267.5	64.4	19.69	12/2020	0.56	0.73	1.05	27.1	18.8	59.8	106.2	132.8	15.3	12.0	2.4%	2.5	24.50	
Uni-Sélect	UNS	OP		741.4	42.4	17.49	12/2020	(0.18)	0.72	1.10	19.5	12.8	88.8	127.5	145.3	8.2	6.9	0.0%	2.4	22.00	

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

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

Source: Company reports, NBF, Refinitiv

Sector Analysis

Sustainability & Clean Tech

Rupert Merer, P. ENG, CFA
Analyst
416-869-8008

Associates:
Louka Nadeau: 416-869-7538
Viveck Panjabi: 416-869-6763

Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade benefiting from accretive growth, supportive government policy, a low interest rate environment and a scarcity of green investments. Some of these stocks could replicate this performance over the next five years, with plenty of growth opportunities for companies in the sector. While inflation concerns have had a direct impact on valuations and resulted in headwinds to some of the names under our coverage, we believe the renewable power sector should see increased interest going forward. With 44 nations (and the EU) representing 70% of global emissions now committed to a net zero-emission emissions pathway, we believe the United Nations COP26 conference in November 2021 could be a catalyst for growth across the sector. Our top picks are INE, BLX and NPI.

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

INE is one of Canada's largest renewables focused IPPs with a net installed capacity of 3,101 MW and has plans to add close to 1,800 MW in capacity by the end of 2025E. INE's operations are diversified across different renewable platforms (~30% hydro, ~51% wind and ~19% solar) and geographies (~47% Canada, ~38% U.S., ~8% Chile and ~7% France).

As highlighted at its investor day in September, INE's growth strategy represents ~$3.8 billion in new investments by 2025E, mostly to fund ~1.3 GW in mid or advanced stages of development. In recent months, INE closed on multiple acquisitions, namely the remaining 50% interest in its Chilean JV, Energía Llaima SpA; 18 MW Lican facility; and 50% interest in Curtis Palmer, 60 MW run-of-river hydroelectric portfolio in New York, in partnership with Hydro-Québec. With visibility on near-term growth combined with recent M&A, INE has guided to ~15% growth on normalized FCF/sh out to 2025E. Some of its advanced-stage development projects include the ~332 MW Boswell wind project in Wyoming, 200 MW Palomino solar project in Ohio, and 40 MW of wind projects in France that, although small, provide for attractive return opportunities. Moreover, INE is exploring investment opportunities into new markets, namely in battery storage and green hydrogen systems. Our target is based on a long-term DCF with a 4.75% discount rate on operating assets and includes $4/sh for growth.

Boralex Inc. (BLX: TSX; Outperform; $50 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the U.S., France and Canada. It owns ~2,469 MW of generating capacity, mostly under long-term contracts with an average life of ~13 years. In June, BLX unveiled its strategic plan to 2025E as well as a roadmap to 2030E. The new plan focuses on growth, diversification, customers and asset optimization while also further integrating its ESG strategy. BLX announced ambitious growth targets, aiming to invest an incremental ~$5.2 billion by 2025E to double its capacity to 4.4 GW (from 2.2 GW in 2020A), followed by further investments to reach 10-12 GW by 2030E. BLX targets a CAGR for its normalized EBITDA and discretionary cash flow of 10%-12% and 14%-16% by 2025E, respectively. In Q2'21A, BLX added 743 MW to its early-stage project pipeline, including 553 MW in wind and solar projects in the United States and France, and 190 MW in U.S. energy storage projects. BLX could see success from ~840 MW of bid-ready solar projects in New York State, bids into French RFPs and bids for renewable projects into Québec RFPs later this year. BLX offers an interesting entry point as it looks to build its next leg of growth. Our target is based on a long-term DCF with a 4.50% cost of equity on operating cash flows and $7/sh of growth.

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

NPI is a global leader in the development of offshore wind projects and owns 2,705 MW of net capacity in renewable and thermal power generation. NPI's capacity is highly contracted with ~95% of its revenues under long-term contracts with government institutions. With its offshore wind platform, NPI is attracting large partners like PKN Orlen in Poland and Tokyo Gas in Japan which could help to boost returns. On recent developments, NPI closed the acquisition of a 551 MW (net) portfolio of onshore wind and solar assets in Spain, partly funded by its $990 million equity offering in April. The remaining proceeds will be used towards its development pipeline of 4 to 5 GW focused on offshore wind projects. Additionally, NPI is progressing on its 1,044 MW Hai Long offshore wind project in Taiwan (FID 2022E), for which it recently received approval for the use of 14 MW turbines with longer blades and on the 1.2 GW Baltic project in Poland (FID 2023E; COD 2026E), for which it was recently awarded a 25-year contract. Furthermore, NPI achieved financial close for two of its New York onshore wind projects as well as on a 16 MW solar project in Colombia and is exploring 1.8 GW of wind developments in Taiwan that could be bid into RFPs next year. In September 2021, the German government auctioned the ~433 MW Nordsee Two offshore wind project (85% to NPI) and NPI could exercise its step-in rights. Our target is based on a long-term DCF with a cost of equity of 4.75% on operating cash flows and $10/sh of growth.

Sector Analysis
Sustainability & Clean Tech

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10-28	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	OP		253.3	82	3.10	12/2020	0.06u	0.11u	0.18u	23.8	14.1	2.14u	2.44u	3.08u	1.0	0.8	1.38u	0.20	5.25	
Anaergia Inc.	ANRG	SP		1499.2	59	25.25	12/2020	0.00	0.00	0.00	na	na	3.05	2.63	5.04	9.6	5.0	10.66	0.50	28.00	
Algonquin Power	AQN	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Altius Renewable Royalties Corp	ARR	OP	↑	278.1	26	10.77	12/2020	(0.15)u	(0.05)u	0.03u	nmf	nmf	0.01u	0.02u	0.12u	nmf	nmf	0.33u	0.00	12.50	↑
Ballard Power Systems	BLDP	OP		5270.6u	298	17.71u	12/2020	(0.20)u	(0.29)u	(0.25)u	nmf	nmf	0.42u	0.34u	0.56u	51.5	31.6	4.67u	0.01	26.00u	
Boralex	BLX	OP		3927.7	103	37.97	12/2020	0.56	0.37	0.65	nmf	58.1	6.44	6.75	7.11	5.6	5.3	12.00	0.65	50.00	
Brookfield Infrastructure	BIP	OP		27880.3u	465	59.95u	12/2020	1.34u	2.36u	1.92u	25.4	31.2	8.81u	10.93u	12.43u	5.5	4.8	46.13u	0.67	64.00u	
Brookfield Renewable	BEP	SP		26076.4u	646	40.39u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.84u	4.08u	10.5	9.9	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	SP		270.4u	85	3.19u	12/2020	(0.13)u	(0.45)u	(0.10)u	nmf	nmf	2.03u	1.83u	2.35u	1.7	1.4	1.15u	0.20	4.00u	
GFL Environmental Inc.	GFL	OP		18279.3	363	50.42	12/2020	(2.76)	(1.02)	(0.37)	nmf	nmf	11.64	14.69	16.47	3.4	3.1	1.15	0.20	50.00	
Innergex	INE	OP		3617.4	176	20.58	12/2020	(0.23)	(0.44)	0.74	nmf	27.8	3.60	4.07	4.06	5.1	5.1	4.84	0.86	28.00	
The Lion Electric Company	LEV	OP		2884.3u	202	14.31u	12/2020	(3.64)u	(0.45)u	(0.20)u	nmf	nmf	0.77u	0.42u	1.65u	34.0	8.7	1.00u	0.03	19.00u	
Loop Energy Inc	LPEN	OP		147.3	36	4.15	12/2020	(0.50)	(0.76)	(0.79)	nmf	nmf	0.03	0.07	0.40	62.7	10.4	2.49	0.00	12.00	
NanoXplore	GRA	OP		1199.4	158	7.60	06/2021	(0.07)	(0.07)	0.02	nmf	nmf	0.46	0.44	0.57	17.4	13.3	0.69	0.19	8.00	
Next Hydrogen Solutions Inc.	NXH	SP		124.7	23	5.45	12/2020	(0.77)	(1.26)	(0.99)	nmf	nmf	0.00	0.01	0.30	nmf	18.2	1.82	0.11	7.00	
Northland Power	NPI	OP		8820.5	220	40.06	12/2020	1.78	0.92	1.21	43.7	33.0	10.25	9.26	9.20	4.3	4.4	13.05	0.68	48.00	
TransAlta Renewables	RNW	SP		5131.7	267	19.22	12/2020	0.35	0.60	0.69	31.8	28.0	1.64	1.70	1.83	11.3	10.5	7.75	0.19	20.00	
Xebec Adsorption	XBC	SP		429.9	154	2.80	12/2020	(0.33)	(0.16)	0.00	nmf	nmf	0.59	0.80	1.13	3.5	2.5	2.08	0.16	4.50	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Back to Research Analysts page

Technology

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

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

Selections

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

Pricing in Big Expectations

With the market pricing in big (positive) results from the upcoming CQ3 reporting season, our line of thinking has turned to more cautious. In our view, those big expectations may have already been priced to a meaningful extent into the sector. Year to date, the S&P Technology Index is up 21.8% versus the 21.9% increase in the S&P. North of the border, the TSX Technology Index is up 24.5% YTD relative to the broad TSX Index which is up 21.8%. In our view, we'd look to names where valuations have not been fully baked in with names like CGI, Kinaxis, TELUS International, Tecsys and Thinkific. Yet, despite our cautious short-term tone, we remain bullish on the long term we believe the market is still in the early stages of digital transformation. In light of that, we'd be opportunistic (look for pullbacks) in names like Docebo, Lightspeed, Magnet Forensics, Nuvei and Shopify. The following provides an update on some of our Outperform-rated names:

› **Nuvei** remains a leading payment player with a differentiated focus on outsized growth markets. The Company accepts payments in 204 global markets while supporting 480 alternative payment methods (APMs) and nearly 150 currencies. We believe this breadth and focus on high-growth verticals such as online regulated gaming is helping drive outsized growth. Looking ahead, we believe the Company will continue on its outsized growth path that's further supported by structural changes in the industry and accretive acquisitions like the Company's pending Simplex acquisition that is expected to close in H2 this year which will further Nuvei's potential crypto opportunities.

› **Lightspeed** continues to capture share using a strategy of organic and acquisition measures. That's elevating its ability to fortify a growing leadership position within its targeted segments of complex retail and restaurant. Equally impressive has been the Company's resilience and ability to pivot during COVID. Looking ahead, as we (hopefully) exit the pandemic sometime in the future, it's our view that a normalized environment would amplify the Company's ability to execute that much more. In our view, recent acquisitions of Ecwid and NuOrder continue to add to the Company's disruptive platform; that expanded offering will further reinforce the ability to continue making considerable share gains.

› **Kinaxis** should be a meaningful beneficiary from the heightened 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 large enterprise in markets from auto (semiconductor shortages) to home building (lumber). The complexity of the Company's technology extended conversions of its pipeline in 2020; yet, that pipeline has only increased to record levels with record customer additions in recent quarters and it's our view that will continue to scale.

› **Shopify** remains the leading technology platform for e-Commerce in our opinion. For investors, we continue to see many avenues of growth - namely: 1) International, 2) increased take rate with new services; 3) fulfillment; and 4) larger enterprise not to mention what we believe to be an overall accelerating industry shift to e-Commerce. It's those drivers that offer the potential for a material lift in revenue going forward and given the execution thus far, we believe it's reasonable to price in those potential drivers given the history of execution.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 10/28	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		2,935	44.4	66.08	2020	1.66	1.79	2.31	37.0	28.6	98.9	110.7	149.1	26.5	19.7	9.2u	38%	70.00	
Blackline Safety Corp.*	BLN	OP		438	60.0	7.30	2020	(0.14)	(0.49)	(0.38)	NMF	NMF	5.5	(10.5)	(6.3)	NMF	NMF	0.8u	0%	10.00	
CGI Inc.	GIB.A	OP		28,527	249.5	114.32	2020	4.68	5.36	5.93	21.3	19.3	2426.3	2437.7	2598.7	12.5	11.8	26.5	33%	135.00	
Constellation Software Inc.	CSU	SP		47,598	21.2	2,246.08	2020	36.06u	46.77u	55.63u	38.8	32.6	1,237.0u	1,513.1u	1,561.8u	25.5	24.7	62.4u	44%	2100.00	
Docebo Inc.	DCBO	OP		3,335	32.8	101.65	2020	(0.13u)	(0.26u)	0.03u	NMF	NMF	(2.2u)	(5.8u)	1.9u	NMF	NMF	193.8u	0%	100.00u	↑
Farmers Edge Inc.	FDGE	SP		209u	41.9	5.00u	2020	(2.02u)	(1.11u)	(1.17u)	NMF	NMF	(45.9u)	(31.1u)	(38.1u)	NMF	NMF	3.4u	1%	6.00	↓
Kinaxis Inc.	KXS	OP		5,369	28.1	190.80	2020	1.11u	0.53u	1.46u	NMF	NMF	53.7u	34.6u	63.3u	118.7	64.9	10.6u	0%	225.00	
Lightspeed Commerce Inc.	LSPD	OP		13,605u	139.7	97.36u	2021	(0.38u)	(0.31u)	(0.13u)	NMF	NMF	(21.2u)	(35.3u)	(8.7u)	NMF	NMF	14.5u	1%	120.00u	
Magnet Forensics Inc.*	MAGT	OP		1,627u	40.0	40.65u	2020	0.32u	0.23u	0.22u	NMF	NMF	15.4u	13.7u	13.1u	88.2	92.4	2.1u	2%	45.00u	
mdf commerce inc.	MDF	SP		203	33.6	6.04	2021	(0.30)	(0.31)	(0.02)	NMF	NMF	5.1	(2.6)	8.8	NMF	27.4	6.6u	19%	8.00	↓
Nuvei Corporation	NVEI	OP		23,470	146.7	159.97	2020	0.14u	1.66u	2.02u	NMF	NMF	163.0u	301.1u	393.4u	61.5	47.1	10.4u	25%	160.00u	↑
Open Text Corporation	OTEX	OP		13,822u	274.0	50.45u	2020	3.39u	3.50u	3.52u	14.4	14.3	1,315.2u	1,292.6u	1,341.2u	12.2	11.8	15.0u	47%	60.00u	
Pivotree Inc.*	PVT	OP		124	26.6	4.65	2020	(0.09)	(0.31)	(0.24)	NMF	NMF	5.6	(4.6)	(3.4)	NMF	NMF	2.7	0%	9.00	
Real Matters Inc.	REAL	SP		804	85.0	9.46	2020	0.56u	0.46u	0.36u	16.5	21.3	72.2u	57.5u	43.1u	9.9	13.2	1.9u	0%	12.00	↓
Shopify Inc.	SHOP	OP		181,768u	127.5	1,425.16u	2020	4.01u	6.67u	6.47u	NMF	NMF	454.5u	755.5u	768.2u	NMF	NMF	80.4u	9%	2,000.00u	
Softchoice Corp*	SFTC	SP		1,870u	63.9	29.27	2020	0.65u	0.55u	0.96u	NMF	30.5	65.5u	66.4u	95.4u	29.1	20.3	0.8u	62%	35.00	↓
Tecsys Inc*	TCS	OP		793	14.5	54.54	2021	0.49	0.23	0.68	NMF	NMF	16.2	11.2	19.1	69.3	40.8	4.61	13%	65.00	
Telus International	TIXT	OP		10,444	268.0	38.97	2020	0.71	0.96	1.27	NMF	NMF	391.2	532.7	655.2	21.6	17.6	6.03	42%	50.00u	↑
Thinkific Labs Inc.	THNC	OP		734	76.7	11.85	2020	(0.01)	(0.27)	(0.32)	NMF	NMF	(0.4)	(20.0)	(24.3)	NMF	NMF	1.81	0%	20.00	

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

u = US dollar

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

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302
—
Associates:
Ahmed Abdullah: 514-879-2564
Luc Troiani, CFA: 416-869-6585

Selections

- › *Cineplex*
- › *Transcontinental*
- › *Shaw*

Shaw Communications Inc.

Despite the family feud and Board fighting at Rogers, all are committed to the Shaw deal:

Following the news on March 15, 2021 of the proposed takeout by Rogers for $40.50, Shaw reiterated its f2021 outlook with its subsequent reporting which didn't involve management conference calls. Such is the case again with 4Q reporting on Oct. 29, 2021, as we wait to see if f2022 guidance is provided. Meanwhile, the approval process for the transaction has moved onto the regulatory phase after Shaw shareholders voted in favour of the takeout on May 20, 2021 and approval was received from Alberta courts on May 25, 2021. The Competition Bureau disclosed on Aug. 5, 2021 that it got court orders (July 26, 2021 & Aug. 1, 2021) to advance its investigation into the transaction, with Bell, Quebecor, TELUS and Xplornet having up to 120 days to provide wireless information requested by the regulator. The CRTC deadline for submissions of interventions was Sept. 13, 2021 ahead of hearings starting on Nov. 22, 2021 that are focused on the broadcasting distribution & DTH undertakings (not wireless). Bell and TELUS said in their submissions that the deal should be denied given elevated BDU market share in English Canada. Cogeco also raised concerns and asked for several safeguards to be imposed if approved, with TELUS suggesting that the regulator mandate the sale of Shaw Direct, divestiture by the Shaw Family of its controlling stake in Corus, timely access to programming controlled by Rogers, and continued funding of local news. The CRTC has already put in place conditions of license and could extract more concessions from Rogers who will likely begin the hearings with some promises to the regulator. We didn't see anything in the interventions to suggest that the wireline side of the deal can't get done, while we continue to wonder how the Competition Bureau would allow the purchase of Shaw Wireless. The reasons for the purchase haven't changed nor will they if Board and management changes occur at Rogers, as we wait to see how the BC Supreme Court adjudicates the related fighting on Nov. 1, 2021. Strange behaviour isn't the same as impropriety, so regulators may be surprised by the recent headlines but not necessarily swayed by them. All parties at Rogers remain committed to the Shaw deal which they still expect to close during 1H22, with Edward Rogers noting in his affidavit submitted on Oct. 26, 2021 to the BC Supreme Court that the "transaction is critical to RCI's future".

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 10/28	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		853	63.3	13.46	12/2020	(9.85)	(3.15)	0.89	-4.3	15.0	-182.8	-62.9	210.1	NM	7.5	-2.66	1.30	18.00	
Corus Entertainment Inc.	CJR.b	OP		1,173	208.4	5.63	08/2021	0.88	0.86	0.90	6.5	6.3	524.6	524.9	523.1	4.9	4.6	5.06	0.58	8.00	
WildBrain Ltd.	WILD	OP		617	171.9	3.59	06/2021	(0.07)	0.11	0.18	32.9	20.3	83.1	91.0	104.8	11.6	9.7	0.40	0.85	4.00	
Spin Master Corp.	TOY	OP		4,433	102.3	43.33	12/2020	0.51	1.77	1.93	19.9	18.2	180.6	341.0	358.0	9.5	8.5	8.81	-0.53	58.00	
Stingray Group Inc.	RAY.a	OP		484	71.5	6.77	03/2021	0.85	0.80	0.95	8.5	7.1	114.3	109.0	120.1	7.5	6.4	3.83	0.61	8.50	↓
TVA Group Inc.	TVA.b	SP		123	43.2	2.84	12/2020	0.86	0.69	0.63	4.1	4.5	85.3	75.1	70.1	2.2	2.2	7.80	0.16	3.25	
Printing & Publishing																					
Thomson Reuters Corp.	TRI	SP		72,782	495.7	146.84	12/2020	1.85	2.07	2.73	57.5	43.6	1975.0	1979.7	2296.0	31.1	26.6	31.83	0.09	162.00	
Transcontinental Inc.	TCL.a	OP		1,694	87.0	19.46	10/2020	2.61	2.46	2.50	7.9	7.8	499.4	462.9	467.4	5.5	5.1	20.04	0.35	28.00	
Advertising & Marketing																					
VerticalScope Holdings Inc.	FORA	OP		561	21.6	26.00	12/2020	(0.01)	0.04	0.71	NM	36.9	26.6	30.2	30.2	13.3	9.9	3.67	-0.02	36.00	
Yellow Pages Ltd.	Y	SP		389	27.7	14.03	12/2020	2.28	1.79	1.80	7.8	7.8	129.4	96.4	85.8	3.4	3.5	NM	-0.32	14.00	
Telecommunications																					
BCE Inc.	BCE	OP		57,632	905.7	63.63	12/2020	3.02	3.25	3.49	19.6	18.2	9607.0	10009.0	10437.9	8.9	8.5	20.34	0.39	70.00	
Cogeco Communications Inc.	CCA	OP		5,109	47.2	108.16	08/2020	7.41	8.46	10.30	12.8	10.5	1148.7	1204.7	1379.0	6.3	6.4	56.91	0.51	141.00	
Quebecor Inc.	QBR.b	OP		7,718	245.0	31.50	12/2020	2.33	2.52	2.67	12.5	11.8	1952.6	2001.3	2062.8	6.9	6.5	4.94	1.10	40.00	
Rogers Communications Inc.	RCI.b	OP		29,281	504.9	57.99	12/2020	3.40	3.47	4.41	16.7	13.1	5857.0	5884.9	8941.4	8.4	7.6	20.84	0.45	69.00	
Shaw Communications	SJR.b	OP		18,002	501.3	35.91	08/2020	1.32	1.45	1.53	24.8	23.4	2391.0	2498.5	2527.5	9.5	9.1	11.86	0.50	40.50	
Telus Corp.	T	OP		38,496	1355.0	28.41	12/2020	0.95	0.97	1.04	29.2	27.4	5493.7	5930.5	6400.4	9.9	9.2	11.55	0.55	33.00	

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$, rest is CAD$.

Transportation & Industrial Products

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

Selections

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

Is the Canadian airline market poised to become much more competitive?

Prior to the pandemic, competition in the Canadian airline market was stable with the domestic market dominated by two large and financially healthy network carriers in Air Canada and WestJet. The airline industry has been upended by the pandemic, but with travel demand starting to recover we see the potential for a "land grab" for market share by existing and potential new players:

- **Significant new capacity additions planned by smaller airlines.** Perversely, even though travel demand remains depressed, conditions are arguably favourable for new competitors to make their mark as aircraft are widely available for expansion at depressed prices or low lease rates, there are pilots available for expansion, and airports are looking to attract new airlines. Several airlines in Canada have announced significant expansion plans, most notably Flair Airlines, which is planning to grow its fleet from three planes in early 2021 to 50 aircraft in five years, and Porter Airlines, which recently announced an order for up to 80 Embraer E195-E2 jets to expand beyond its existing short-haul network centred on the Toronto City Airport. Other potential new entrants into the Canadian market include Canada Jetlines and Enerjet.
- **New competitive capacity could be disruptive for larger incumbent airlines.** A market share "land grab" has already begun as evidenced by Flair's aggressive capacity growth in Canada and significant new route announcements to sun destinations. Based on our analysis, fleet expansions by Porter, Flair and Canada Jetlines would result in total industry seat capacity growing over 20,000 seats, or nearly 21%. The proposed capacity expansions would be a dramatic increase in competitive capacity that has the potential to lead to a prolonged period of lower airfares for all industry players.
- **Situation similar to the early 2000s, but incumbent airlines better positioned today.** The current environment for Canadian airlines and the announced expansions is reminiscent of the post-9/11 period when WestJet accelerated its growth and new airlines, notably Jetsgo and CanJet, entered the market. However, we believe the new competitors may be challenged to gain significant market share as both Air Canada and WestJet enjoy access to significant financial resources and are both able to compete more effectively on cost. Furthermore, many of the cost advantages new competitors may initially enjoy may be fleeting as the airline market normalizes.

We are keeping our Sector Perform rating for Air Canada and Underperform rating for Transat:

- **Air Canada (Sector Perform; $28.00 target).** We continue to value Air Canada shares by applying a 5.0x EV/EBITDA multiple to our 2023 EBITDA forecast (which we peg as the first more "normal" year for Air Canada).
- **Transat (Underperform; $3.50 target).** We continue to value the stock using a 5.5x EV/EBITDA multiple to our F2023 EBITDA forecast to which we add the book value of Transat's property in Mexico (which is likely to eventually be sold) as well as its interest in a Mexico hotel.

Back to Research Analysts page

Transportation & Industrial Products

								Cash EPS			P/E		FDFCFPS			P/CFPS			12-Mth	
	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 10-28	Market Cap (Mln)	Last Year Reported	(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2	Net Debt / Cap	Price Target	Δ
Air Canada	AC	SP		355	22.26	7,945	12/2020	-16.47	-11.31	-1.23	NA	NA	(10.84)	(8.59)	1.25	NA	17.9x	101%	28.00	↓
Bombardier Inc.	BBD.b	OP		2464	2.02	5,198	12/2020	-u0.47	-u0.21	-u0.05	NA	NA	-u1.32	-u0.38	u0.05	NA	31.7x	na	2.50	↑
BRP Inc.	DOO	OP		83	110.63	8,931	01/2021	5.35	9.39	10.06	11.4x	10.7x	6.77	3.70	9.00	29.0x	11.9x	129%	135.00	
CAE Inc.	CAE	OP		318	37.42	11,735	03/2021	0.47	0.94	1.43	39.1x	25.7x	0.81	0.54	1.27	68.5x	29.0x	34%	46.00	↑
Canadian National Rail	CNR	SP		710	164.14	116,655	12/2020	5.31	5.86	6.95	28.0x	23.6x	4.63	4.08	6.14	40.3x	26.7x	40%	153.00	↑
Canadian Pacific Rail	CP	SP		667	95.44	62,332	12/2020	3.53	3.87	4.19	24.1x	22.3x	1.66	3.78	3.25	24.7x	28.7x	54%	97.00	
Cargojet Inc.	CJT	SP	↓	17	197.02	3,361	12/2020	-5.63	5.68	6.79	34.2x	28.6x	9.41	(0.95)	5.99	NA	32.4x	31%	205.00	↓
Chorus Aviation Inc.	CHR	SP		178	3.58	647	12/2020	0.40	0.35	0.44	10.3x	8.2x	(1.50)	0.62	1.12	5.9x	3.3x	73%	4.85	
Exchange Income Corporation	EIF	OP		37	42.89	1,600	12/2020	1.31	1.78	2.79	24.1x	15.4x	3.42	0.20	2.15	NA	19.9x	59%	47.00	
Héroux-Devtek Inc.	HRX	OP		37	18.48	680	03/2021	0.80	0.81	0.99	22.7x	18.5x	0.88	1.86	1.37	9.9x	13.4x	27%	22.00	
NFI Group Inc.	NFI	SP		71	24.2	1,696	12/2020	-u0.75	u0.18	u0.93	na	20.1x	u0.69	u0.19	u1.64	NA	11.4x	58%	28.00	
Taiga Motors Corp.	TAIG	OP		31	6.67	214	12/2020	NA	-5.71	-1.19	NA	NA	NA	(2.23)	(3.11)	NA	NA	na	18.00	
Transat A.T. Inc.	TRZ	UP		38	4.41	169	10/2020	-9.41	-11.56	-5.39	NA	NA	(2.85)	(13.80)	1.05	NA	4.3x	NA	3.50	
TFI International Inc.	TFII	OP		93	148.21	13,299	12/2020	u3.30	u4.77	u6.20	24.2x	18.6x	u5.16	u6.18	u7.45	18.7x	15.5x	50%	158.00	

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

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
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
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 • 150, rue St-Jacques, Bureau 202, Granby, QC, J2G 8V6 • 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
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
Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
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

This Report was prepared by National Bank Financial Inc. (NBF), a Canadian investment dealer, a dealer member of IIROC and an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial Inc. and National Bank of Canada Financial Inc.

Research analysts: The Research Analyst(s) who prepared these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents: NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and, as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent, lender or underwriter or provides trading related services for certain issuers mentioned herein and may receive remuneration for its services. As well, NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

NBF is a member of the Canadian Investor Protection Fund.

UK Residents: This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorized and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE.

NBF is not authorized by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents: With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") is registered with the Securities Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and is a member of the Securities Investor Protection Corporation (SIPC). NBCFI operates pursuant to a 15 a-6 Agreement with its Canadian affiliates, NBF and National Bank of Canada.

This report has been prepared in whole or in part by research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held in a research analyst account.

All of the views expressed in this research report accurately reflects the research analyst's personal views regarding any and all of the subject securities or issuers. No part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication.

Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

HK Residents: With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc., is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

NATIONAL BANK OF CANADA
FINANCIAL MARKETS