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FINANCIAL MARKETS

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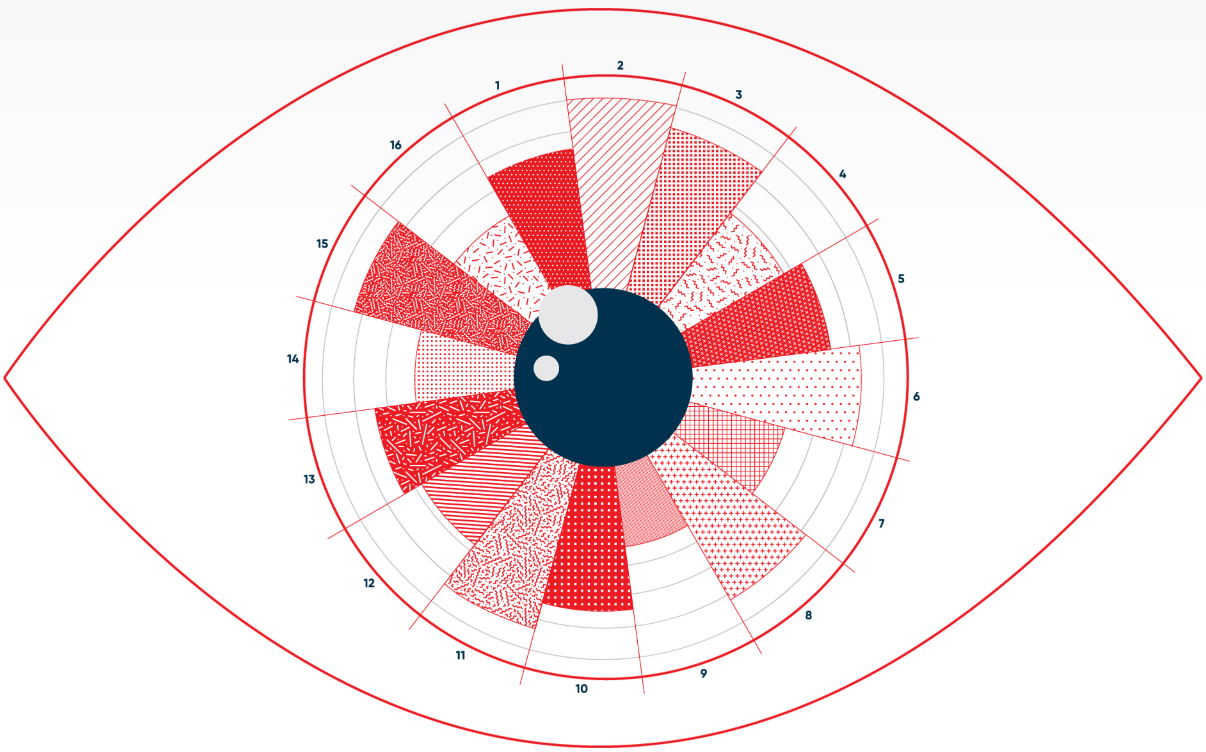

Monthly Economic and Financial Monitor

February 2021

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Highlights

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Economy

- The daily numbers of new Covid cases, after marked increases in late 2020 and early 2021, seems to be abating in several regions of the world. If this trend continues, a number of countries should be in a position to relax some social distancing measures in the coming weeks, moves that would foster a fuller revival of economies in the second quarter. In the short term, however, there is no return to normal in the cards. Many countries are now grappling with more-contagious virus variants. Public authorities must take care accordingly to avoid another jump in cases. Large-scale vaccine deployment could make a difference, but immunization efforts are currently treading water almost everywhere. The delays will obviously weigh on growth in the short term, but less so than in the past. The global economy is likely to firm up in the second half of the year after an up-and-down first half, provided, of course, that vaccination proceeds without too many hitches. Given bonifications to fiscal aid in both the U.S. and in Japan, we have raised our growth forecast for the world economy in 2021 (from 5.4% to 5.5%) and in 2022 (from 4.2% to 4.4 %).
- Despite the recent slowing of new Covid-19 cases in the U.S., the country is still beset by a severe public-health problem. It must be acknowledged, however, that the economic effects of the pandemic have been proportionately smaller than elsewhere in the world. In the last quarter of the year, despite the surge of infections, U.S. GDP grew at an annual rate of 4.0%. That gain left output 2.5% below the pre-pandemic level, a shortfall that compares well with those of other developed economies. The main factor in the good performance of the U.S. economy has been Washington's fiscal response, one of the most imposing of all the G7 countries, according to the IMF. And it could soon be further beefed up. Just a few weeks after President Trump signed a $900-billion stimulus plan, his successor promised another $1.9 trillion. Pending details of the new fiscal stimulus plan, we have increased our growth forecast for 2021 from 3.8% to 5.2%. Our estimate for 2022 has also been raised, from 3.5% to 4.3%.
- Recent public-health measures have borne fruit, daily new cases of Covid-19 trending down again. However, the health successes have come at a cost to the economy. The labour market registered a loss of 266,000 jobs in Canada in the last two months, erasing all of the gains made since August. That said, employment outside the industries directly affected by shutdowns was up in January. Also on the upside, full-time employment remained resilient, extending its run of consecutive monthly gains to nine months. Thus, we are not unduly worried by the temporary soft patch due to public-health measures, whose repercussions seem to have been limited to the industries directly concerned. The decline in daily number of new cases in the country heralds a coming easing of restrictions. We are raising our growth scenario for 2021 to 4.2% (previously 3.7%), as the contraction in the first quarter may have been less pronounced than expected based on the resilience of hours worked in January. Growth prospects for the remainder of the year also look brighter as Canada is expected to benefit indirectly from the US government's largesse through exports.

Interest rates and currency

- Ultimately, we continue to expect a near-term paring of the BoC's QE pace to $3 billion per week. A weak first quarter characterized by job losses amidst a second round of government-imposed lockdowns may mean the March meeting isn't the right time to pare, even if its from an already too-high pace. That said, by April, we feel the worst of 2021's weakness will be behind us, provinces will have sufficiently reopened so that job gains will resume and the BoC will have the data it needs to confidently step down QE without too much backlash or confusion from onlookers.
- However, while some modest further alleviation may be in order, the BoC is unlikely to make changes large enough to fully "cure" the front-end issues. Indeed, sub-target short-term interest rates are simply an accepted by-product of the Bank's unconventional policy response. Until QE is significantly reduced or eliminated, these front-end dislocations are likely to remain in some form.
- In Powell's current view, we will get a rise to 2% inflation in a few months time thanks to base effects from the depths of the pandemic but that will be transitory. And any pent-up demand-based inflation upon a more full-fledged economic reopening is likely to be temporary as well. However, this is where we, and increasingly the broader market, disagree.
- Taking into account President Lagarde's cautious rhetoric, and considering a more promising growth outlook in the U.S., we expect the ECB will lag significantly behind the Fed when it comes to the normalization of monetary policy. Until then, the ECB will make sure to keep all its options open to ensure a strong recovery in the single currency area.
- The performance of the Canadian dollar over the past few weeks has accorded with our script. We still see the CAD weakening modestly through March before rallying in Q2 on the back of QE tapering by the Bank of Canada and stronger commodity prices. Our target for year-end 2021 remains C$1.20 to the USD.

Highlights

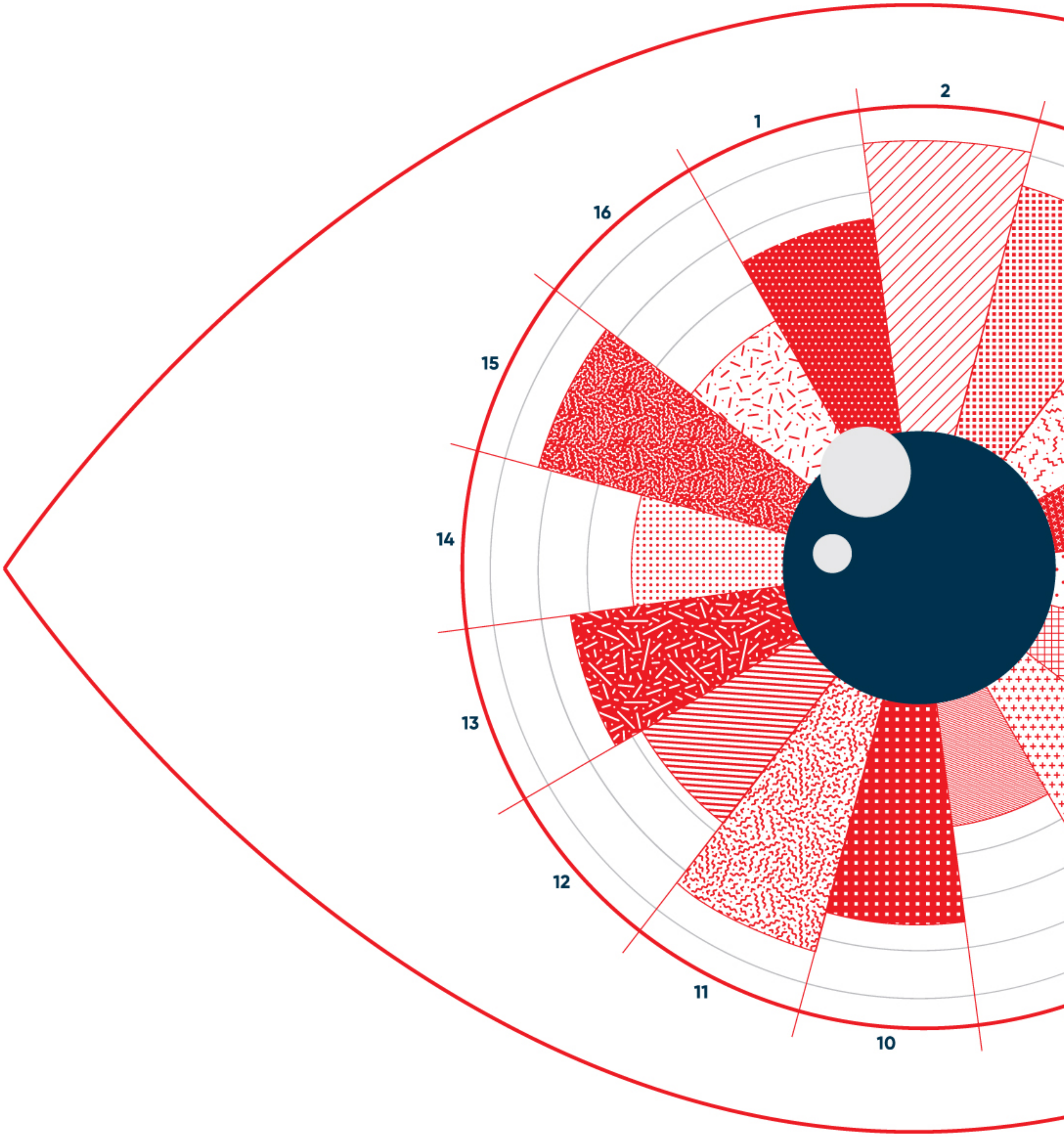
Recommended asset mix and stock market

- After jumping out of the gates in early January, the MSCI ACWI stumbled in the latter part of the month. A showdown between retail investors and some hedge funds revealed large speculative positions, deemed unsustainable, in the stock of certain companies (among which Gamestop). Financial conditions have since normalized, collateral damage has been limited.
- Among the main regions of the equity world, we note the outperformance of emerging markets, led by a whopping 10.2% year-to-date gain in EM Asia. The fiscal and monetary stimuli of the OECD countries, skewed to support of household spending, been a boon to the EM economies, where the bulk of manufactured goods are produced. The EM economies have entered the expansion phase of the economic cycle while the OECD economies remain in the recovery phase.
- The new U.S. President wants to deploy a $1.9-trillion stimulus package in the coming months. If the Federal Reserve can maintain its current pace of easing, real interest rates will be negative for the foreseeable future, supporting economic recovery and P/E ratios above the historical norm if earnings continue to be revised upward as is now the case. But the size of the Biden stimulus may complicate things if inflation expectations don't soon stabilize and push the 10-year Treasury yield well above the S&P 500 dividend yield of 1.5%.
- The S&P/TSX continues to do well early in 2021, reaching a new record on February 5. Despite the recent rise of Canadian equities, the 12-month forward P/E of the S&P/TSX remains well below that of the S&P 500, at 17 versus 23. We expect that this valuation gap – the largest on record – will narrow in the coming months.
- We are tweaking our asset mix this month in anticipation of a much larger fiscal stimulus than we had expected in the U.S. and a tangible reduction in new Covid cases. We are raising our exposure to equity markets by reducing our cash position from overweight to underweight. The redeployment goes to Emerging Markets, whose growth prospects and valuations remain attractive in our view.
- This month we shift our recommended S&P/TSX allocations as follows: packaging and golds from market weight to overweight, forest products from underweight to market weight and utilities from market weight to underweight.

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	11.7	Market Weight	
Materials	13.1	Overweight	↑
Industrials	12.2	Market Weight	
Consumer Discretionary	3.9	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.7	Market Weight	
Financials	29.8	Overweight	
Information Technology	11.0	Underweight	
Telecommunication Services	4.9	Market Weight	
Utilities	5.1	Market Weight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of February 05, 2021

The Economy



The Economy

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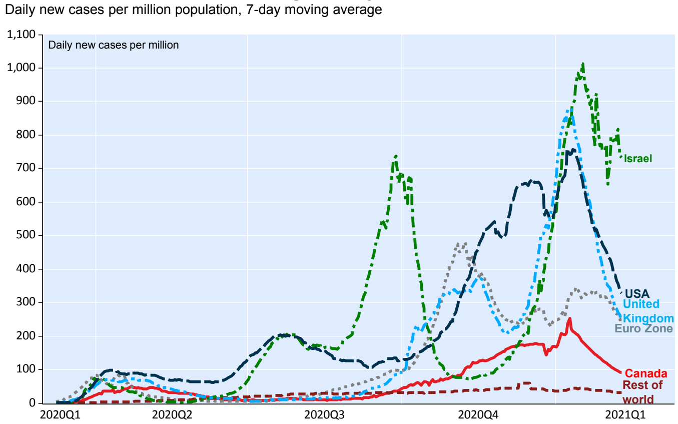
World: Revival à la carte

In keeping with our current practice, we begin this issue of our *Economic Monitor* with an update of the world epidemiological picture. The daily numbers of new Covid cases, after marked increases in late 2020 and early 2021, seems to be abating in several regions of the world. If this trend continues, a number of countries should be in a position to relax some social distancing measures in the coming weeks, moves that would foster a fuller revival of economies in the second quarter.

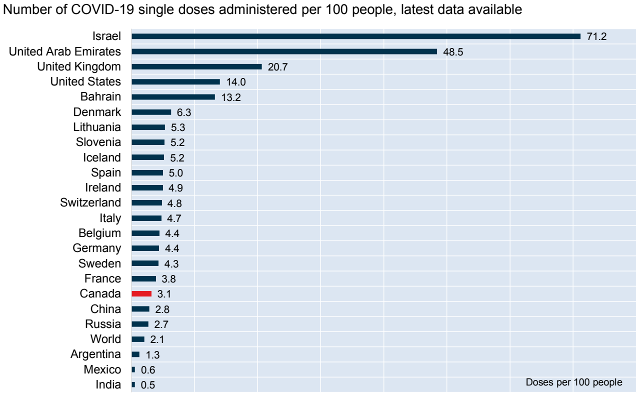
World: The second/third wave gradually subsides
Daily new cases per million population, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

In the short term, however, there is no return to normal in the cards. Many countries are now grappling with more-contagious virus variants. Public authorities must take care accordingly to avoid another jump in cases. Large-scale vaccine deployment could make a difference, but immunization efforts are currently treading water almost everywhere.

World: A bogged-down vaccination campaign
Number of COVID-19 single doses administered per 100 people, latest data available

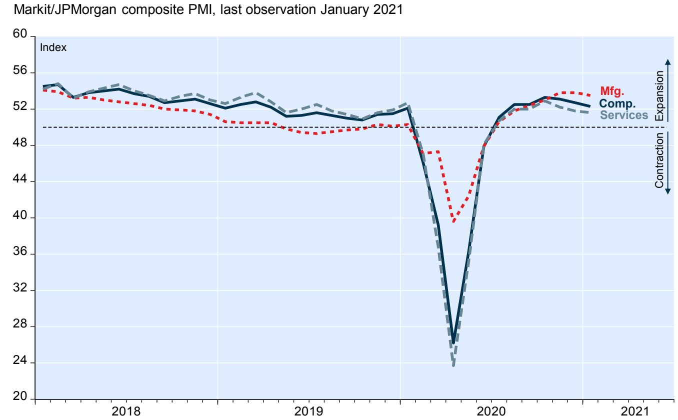


NBF Economics and Strategy (data via https://ourworldindata.org/covid-vaccinations)

Some countries are doing well, notably Israel, the U.K. and, to a lesser extent, the U.S., but even in these countries the number of vaccinations is far from the threshold for stopping virus spread in its tracks. Elsewhere, vaccination has scarcely begun and faces many obstacles. Pfizer-BioNtech and Astra Zeneca have announced cuts in deliveries following delays in their production chains. These hitches suggest that many developed countries will have to wait until the second half of the year before benefiting from herd immunity. In emerging countries, less well-positioned in their procurement, the wait will be even longer.

Since these delays will likely force the maintenance of some sanitary measures growth may suffer in the short term, but less so than in the past. Many industries are now able to maintain a high rate of production while complying with strict distancing rules. That is what kept the global composite PMI compiled by Markit/JPMorgan comfortably in expansion territory in January despite deterioration of public health in many regions. The slowing of growth in services output has been more pronounced, but nothing comparable to the slump of last spring.

World: Private sector continues to expand despite Covid-19
Markit/JPMorgan composite PMI, last observation January 2021

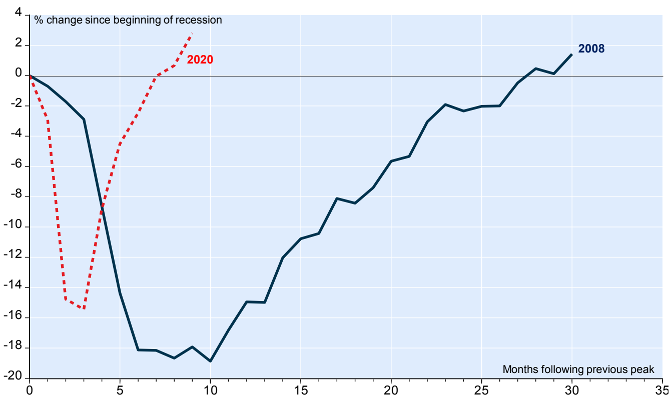


NBF Economics and Strategy (data via Refinitiv)

Global economic revival is accordingly likely to continue in the first half of 2021, but its vigour will vary considerably from country to country with the rate of Covid spread, the treatment capacity of hospital systems and the effectiveness of fiscal and monetary support. At one end of the spectrum there is China, likely to continue outperforming thanks to strong demand for its exports.

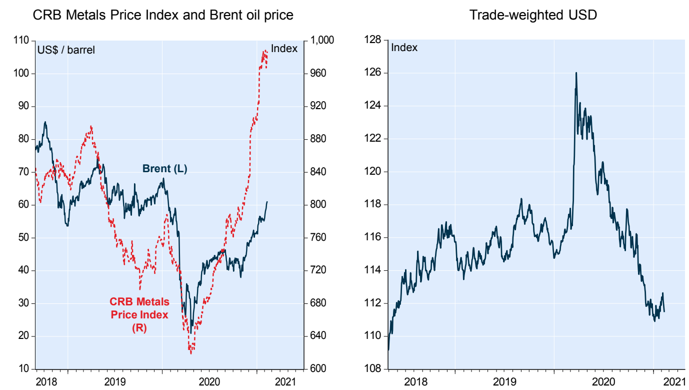
The Economy

World: China benefiting from a strong rebound of international trade
Change in trade volume since beginning of last two recessions. Last observation for 2020: November



NBF Economics and Strategy (CPB data)

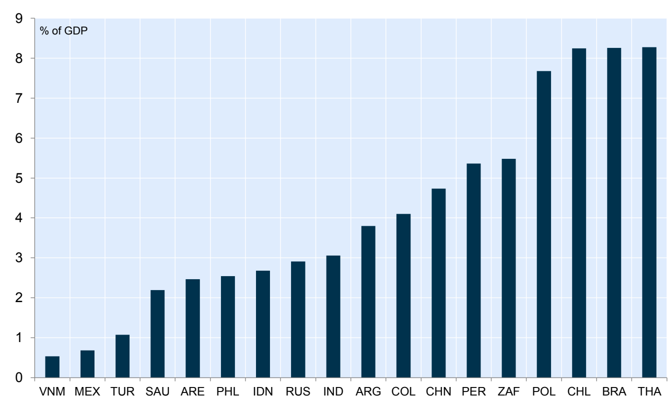
World: Revival in some emerging countries in 2021?



NBF Economics and Strategy (data via Bloomberg)

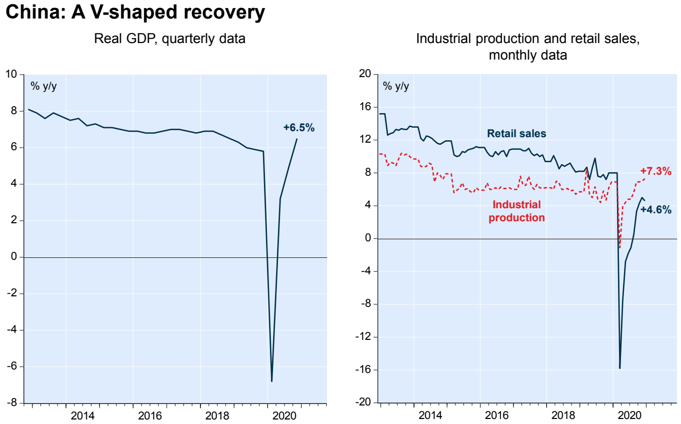
Already in Q4, the Chinese economy seemed almost fully recovered from the Covid-19 shock. Real GDP was up 6.5% from a year earlier, a growth rate higher than before the pandemic. GDP for 2020 as a whole was up 2.3% from 2019, making China the only major economy to expand in 2020. Assuming the pandemic remains under control on its territory and foreign demand remains strong, China is likely to be the driver of global growth once again in 2021. We expect an expansion of 8.3% for the year as a whole.

World: Pressure on public finances from the pandemic
Combined effect of government additional spending and lost revenue, selected emerging countries



NBF Economics and Strategy (IMF data)

China: A V-shaped recovery



NBF Economics and Strategy (data via Bloomberg)

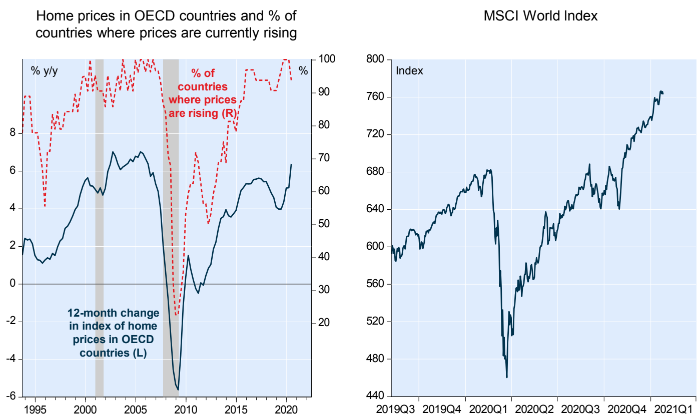
In other emerging countries the recovery could be slower, and more uneven. Those highly exposed to tourism may continue to suffer, while those dependent on resources are likely to benefit from the recent rise of raw-material prices. Almost everywhere, greenback depreciation will provide a modicum of breathing room by reducing the cost of servicing USD-denominated debt. Recall that, in the emerging countries, as in the rest of the world, public finances have been taking a severe hit.

The Eurozone, meanwhile, is likely to lag, slowed by high Covid prevalence and a fiscal response less impressive than in North America. After a GDP contraction of 0.7% q/q in Q4, a double-dip recession seems almost inevitable in the zone.

The global economy is likely to firm up in the second half of the year after an up-and-down first half, provided, of course, that vaccination proceeds without too many hitches. Better control of the pandemic will enable households in developed economies to deploy substantial savings they accumulated during shutdowns. A large group of consumers will also enjoy a substantial wealth effect, since the ultra-accommodative policies of central banks have increased the value of many assets including housing and equities.

The Economy

World: A substantial wealth effect in the developed economies



NBF Economics and Strategy (data via Bloomberg)

Given bonifications to fiscal aid in both the U.S. (see below) and in Japan, we have raised our growth forecast for the world economy in 2021 (from 5.4% to 5.5%) and in 2022 (from 4.2% to 4.4 %).

World Economic Outlook

	2020	2021	2022
Advanced Economies	**-4.8**	**4.4**	**3.8**
United States	-3.5	5.2	4.3
Eurozone	-6.8	4.3	3.8
Japan	-4.9	2.7	2.3
UK	-10.0	4.4	5.2
Canada	-5.4	4.2	4.3
Australia	-4.0	3.2	2.9
Korea	-1.0	3.0	3.0
Emerging Economies	**-2.4**	**6.3**	**4.9**
China	2.3	8.3	5.4
India	-8.0	11.0	6.7
Mexico	-8.5	4.0	2.6
Brazil	-4.5	3.5	2.6
Russia	-3.1	2.9	3.3
World	**-3.4**	**5.5**	**4.4**

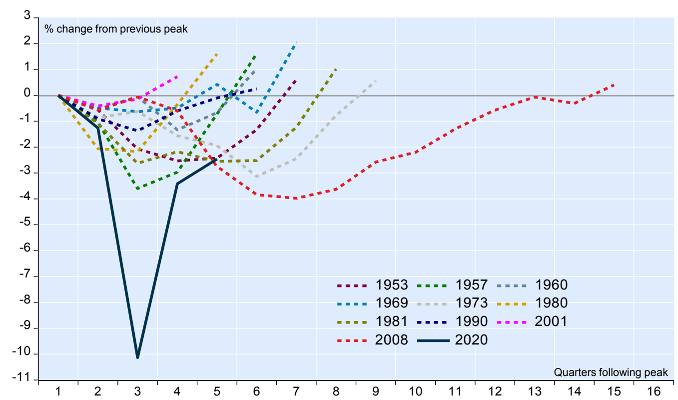
NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: Once more into the breach

Despite the recent slowing of new Covid-19 cases in the U.S., the country is still beset by a severe public-health problem. It must be acknowledged, however, that the economic effects of the pandemic have been proportionately smaller than elsewhere in the world. In the last quarter of the year, despite the surge of infections, U.S. GDP grew at an annual rate of 4.0%. That gain left output 2.5% below the pre-pandemic level, a shortfall that compares well with those of other developed economies.

U.S.: GDP rebound continued in Q4

Real GDP, % change from previous peak



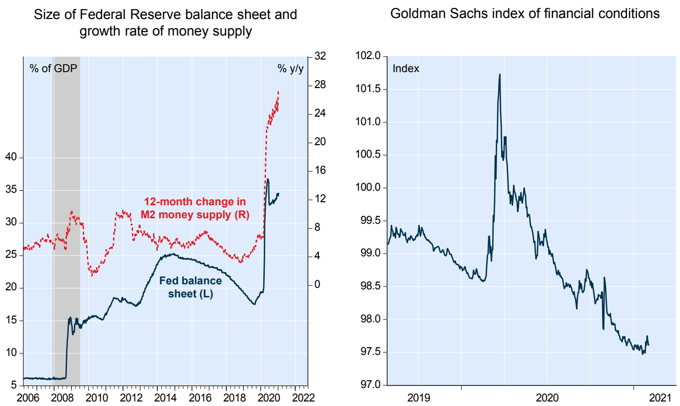
NBF Economics and Strategy (data via Refinitiv)

So how has the U.S. economy held up so well against one of the world's worst pandemic records? First, there was the rather permissive attitude of U.S. authorities. Except in a few regions, restrictive measures remained rather summary even at the worst of the crisis. This approach enabled more business to continue in operation. It also resulted in a much higher death rate. The advent of Joe Biden's presidency could mean stricter public-health measures, but they are likely to be temporary and relatively benign given the vaccination campaign now under way.

The Federal Reserve has also put its shoulder to the wheel, cutting policy rates to the floor and launching a sweeping program of quantitative easing. The resulting massive influx of cash has supported a rapid improvement of financial conditions.

The Economy

U.S.: The Fed puts its shoulder to the wheel



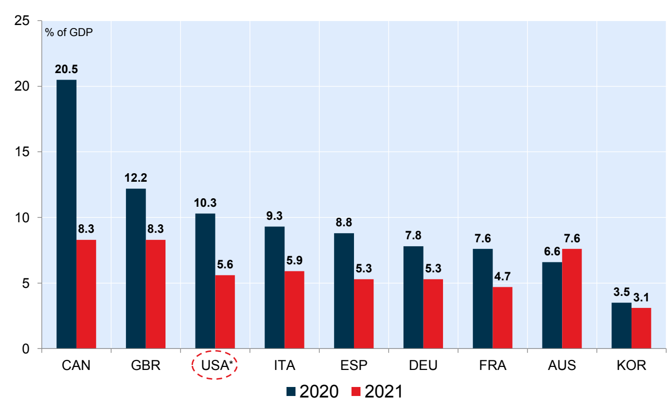
NBF Economics and Strategy (data via Bloomberg and FRED St. Louis)

The nature of the crisis has multiplied the effect of the Fed's measures. Recall that the last recession was accompanied by a credit crisis. Much of the money injected by the Fed at that time went to stabilizing bank balance sheets and never made it to businesses and households. When the coronavirus arrived in the U.S., the country's financial institutions were in much better shape, allowing them to act as a transmission belt from the Fed to the real economy.

The final factor in the good performance of the U.S. economy has been Washington's budgetary response. Already in January, the fiscal assistance put forward by the public administrations was one of the most impressive according to the IMF. And it could soon be further beefed up.

U.S.: Washington to the rescue

Variation in general governments deficits compared to 2019 (% of GDP)



*Excluding additional measures currently discussed in Washington

NBF Economics and Strategy (data via IMF)

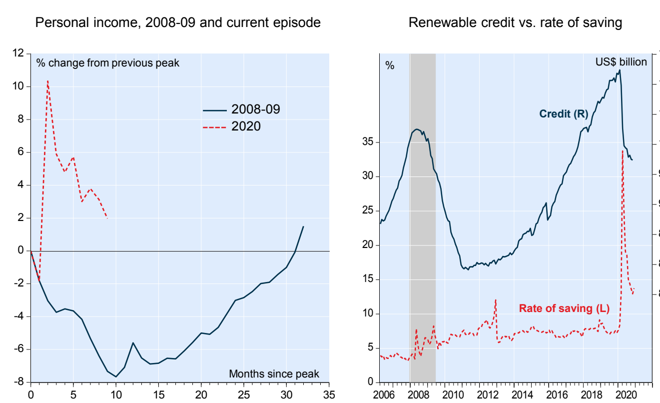
Just a few weeks after President Trump signed a $900-billion stimulus plan, his successor promised another $1.9 trillion. That would bring Washington's total fiscal effort since the onset of the crisis to more than $5 trillion. By way of comparison, the stimulus response to the crisis of 2008-09 amounted to about $750 billion.

The details of the Biden plan, however, are still subject to deliberation in Congress. Though Republican support is not absolutely necessary – a number of the proposed measures need only a simple majority – we think the Democrats will seek the support of at least some of their colleagues on the other side of the aisle. To get it, the Biden people will have no choice but to restrain their proposals. A $1- to $1.5-billion program seems possible in these conditions.

From a purely arithmetical point of view, it goes without saying that a new fiscal stimulus would strengthen what already looks like a solid second half of the year. But beyond the desire of the authorities to repair the effects of the crisis as soon as possible, there are questions as to how the fiscal aid is being deployed. Far be it from us to suggest that the U.S. economy can do without support from Washington. After all, 10 million Americans are still looking for work after losing their livelihoods in the crisis. Under these conditions, extensions or improvements to unemployment insurance are a priority. Funding for health and vaccinations is also welcome because it will help the country get to herd immunity faster.

On the other hand, the usefulness of a new round of cheques to households (the Biden plan proposes an additional $1,400) seems to us more questionable. True, transfers of this kind, by increasing personal incomes, have supported household spending in recent months. This type of government aid has also enabled many Americans to pay down debt, to judge by the substantial rise in the rate of saving and the marked decline of renewable credit (mostly credit-card debt) since the beginning of the crisis. (A similar decline of credit balances occurred during the Great Recession but the decline at that point was due to a drastic tightening of credit conditions.)

U.S.: Rise of personal incomes, decline of credit balances



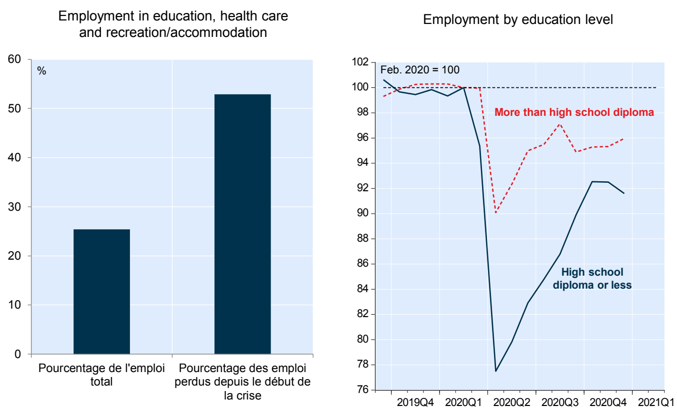
NBF Economics and Strategy (data via Refinitiv)

The question is whether these desirable consequences are worth the candle. Sending cheques to households is very costly and does not provide government with a good return on investment, since many recipients will prefer to save the money rather than spend it. True, some of the excess saving could be put to use later, but it is not clear that the economy will need additional help later this year or in 2022.

The Economy

To maximize its impact (or, in economist language, its multiplier effect), the government should focus its efforts on the groups most severely affected by the crisis, i.e. people working in jobs where physical contact is essential and people with lower incomes and less education.

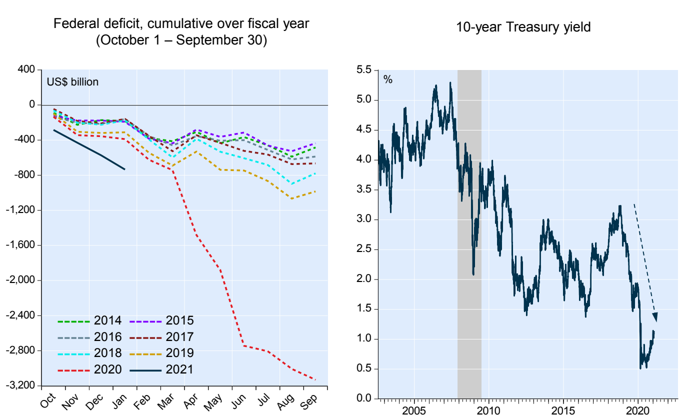
U.S.: Some groups of workers hit harder than others



NBF Economics and Strategy (data via Refinitiv

Weak points in its program notwithstanding, Washington is doing well to keep its budget faucets wide open. One day it will need to strategize deficit reduction, but that day is not yet here. In the short term, the decline of interest rates will amply compensate the increase in government debt. As the IMF has been urging since the beginning of the crisis, the risks of an inadequate fiscal response are more worrisome right now than the risks of an overheating of the economy.

U.S.: Rise of federal deficit offset by decline of interest rates



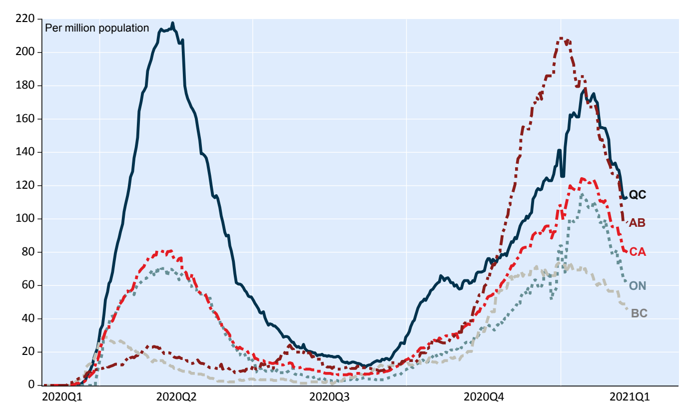
NBF Economics and Strategy (data via Bloomberg and Refinitiv)

Pending details of the new fiscal stimulus plan, we have increased our growth forecast for 2021 from 3.8% to 5.2%. Our estimate for 2022 has also been raised, from 3.5% to 4.3%.

Canada: Second wave under control

Recent public-health measures have borne fruit. Daily new cases of Covid-19 are trending down again, relieving pressure on hospitals. Restrictions in place in many regions of southern Ontario – notably a shutdown of non-essential retailing – were extended to the rest of the province. Quebec shut down non-essential retailing and decreed a curfew that shortened business opening hours. In other words, the health successes have come at a cost to the economy.

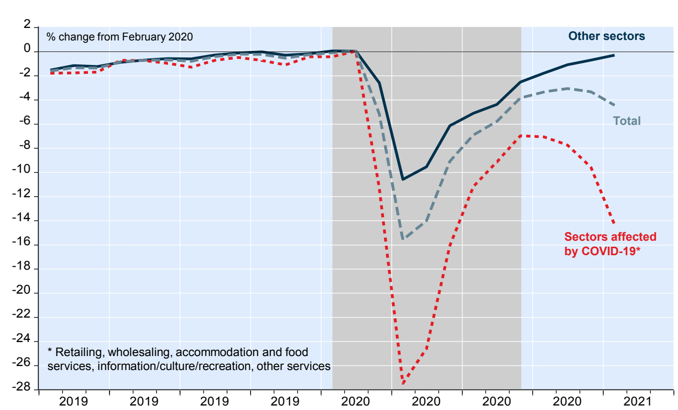
Canada: Current hospitalization for Covid-19
Patients per million population



NBF Economics and Strategy (data from INSPQ, Radio Canada https://ici.radio-canada.ca/info/2020/coronavirus-covid-19-pandemie-cas-carte-maladie-symptomes-propagation/)

That cost included a loss of 266,000 jobs in Canada in the last two months, erasing all of the gains made since August. In January the loss was 154,000 in Ontario, 98,000 in Quebec. That said, all the other provinces except Newfoundland and Labrador added jobs during the month. Countrywide, employ¬ment outside the industries directly affected by shutdowns was up in January. Also on the upside, full-time employment remained resilient, extending its run of consecutive monthly gains to nine months.

Canada: Job losses have been limited to sectors affected by shutdowns
Employment

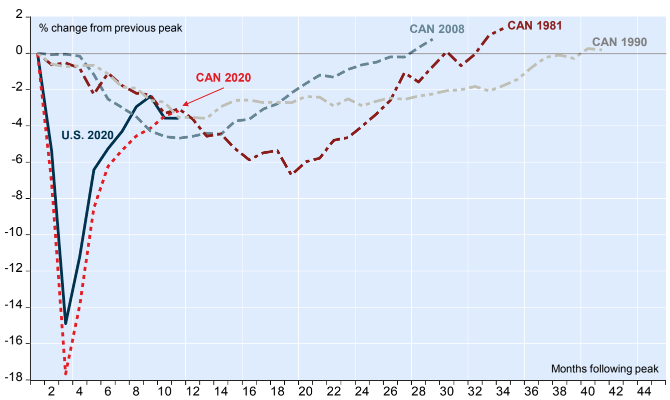


NBF Economics and Strategy (data from Statistics Canada)

The Economy

We are not unduly worried by the temporary soft patch due to public-health measures, whose repercussions seem to have been limited to the industries directly concerned. The decline in daily number of new cases in the country heralds a coming easing of restrictions. Quebec has already announced the reopening of non-essential retailing and Ontario is about to follow suit. The advent late last year of vaccines effective against the coronavirus boosted business confidence, which suggests a solid rebound of employment and the economy when the pandemic comes under control. The economy, after all, had gained enviable momentum in the months before December. Real GDP continued to expand in November, gaining 0.7% monthly, with a preliminary estimate of 0.3% for December. These results corroborate our view that growth could reach an annual rate of about 7% in the fourth quarter. That would be by far the best showing of the G7 countries.

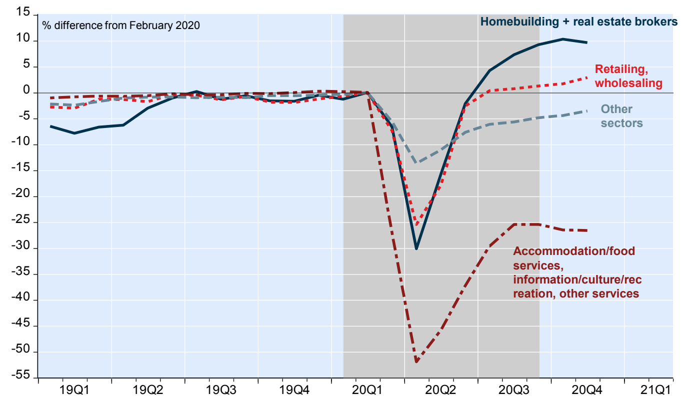
Canada: Ahead of the U.S. in December
% difference of GDP from previous peak, preliminary data



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

However solid this performance, the Canadian economic recovery remains highly uneven. For example, output of the accommodation and food services industries last November was still down 33.1% from its pre-pandemic level and that of arts, entertainment and recreation industries was down 48% from last February. Meanwhile, other parts of the economy have been doing okay, thank you. Governments have stepped into the employment breach with very generous income-support programs to help retailers and wholesalers. But the most spectacular performers at this time are without question housing-related businesses, whose activity is 9.6% above that of February.

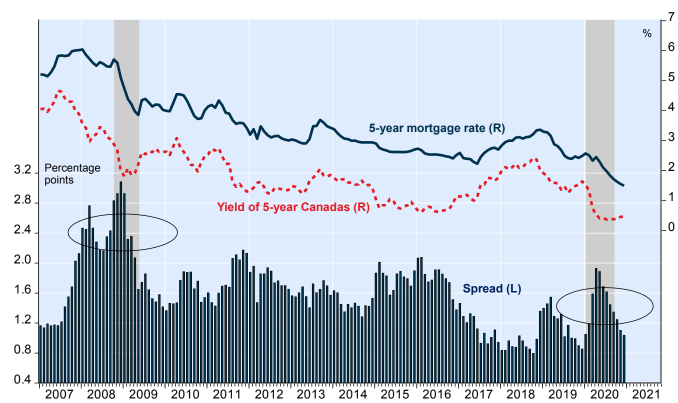
Canada: Uneven recoveries
GDP, 2019 and 2020



NBF Economics and Strategy (data from Statistics Canada)

This sector so sensitive to interest rates has been stimulated by the ultra-accommodative policies of central banks. In contrast to what happened in the financial crisis of 2008-09, government and central-bank actions have relieved stress on financial markets, reflected in a rapid narrowing of the spread between the 5-year rates of mortgages and government bonds. Policy transmission was speedy, taking mortgage rates to record lows.

Canada: Transmission of monetary policy is going well
5-year mortgage rate, yield of 5-year federal bonds, and spread

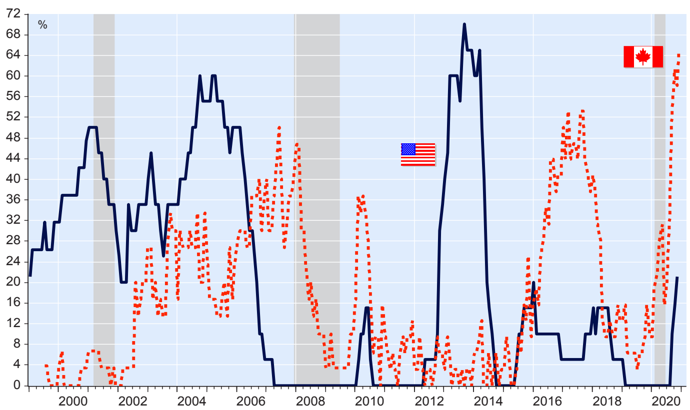


NBF Economics and Strategy (NBF and Refinitiv data)

The result was record numbers of home sales across Canada in 2020 despite the job losses and slower immigration. True, there has been a profound shift in home-buying preferences, leading to very high turnover in the housing market, but the decline of financing costs, which by our calculations increased the purchasing power of Canadians by about 12%, has been a determining factor. In 2020, an unprecedented two-thirds of the 32 urban markets monitored by the Teranet–National Bank House Price Index showed home-price increases of more than 10%. There is no doubt in our mind that this was more than the political decision-makers were bargaining for and that this development is beginning to raise eyebrows.

The Economy

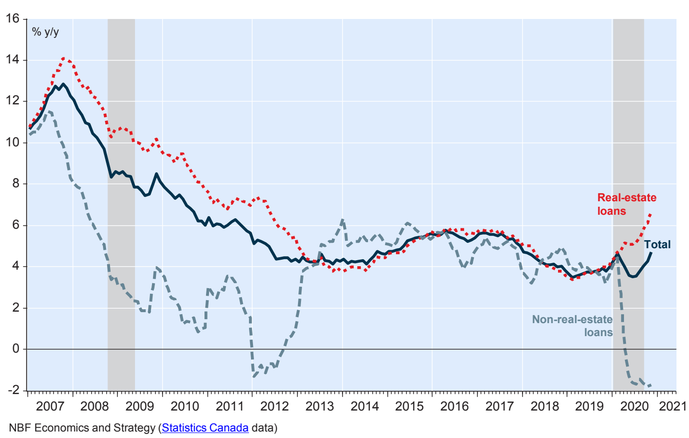
Canada: Home-price surge is the most pervasive ever
Share of regional markets (32 in Canada, 20 in U.S.) with prices rises of 10% or more in the last 12 months



NBF Economics and Strategy (Source: Teranet-National Bank & S&P Case-Shiller Home Price Index)

While household debt is evolving at a pace similar to that of recent years, the overall picture masks distinct differences among segments. Non-real-estate credit has contracted in the last 12 months in tandem with the sharp rise of the rate of saving (traceable to income support programs coupled with limitation of spending), reflecting repayment of rotating credit. Conversely, the growth of real-estate credit has accelerated to a pace unmatched since 2012.

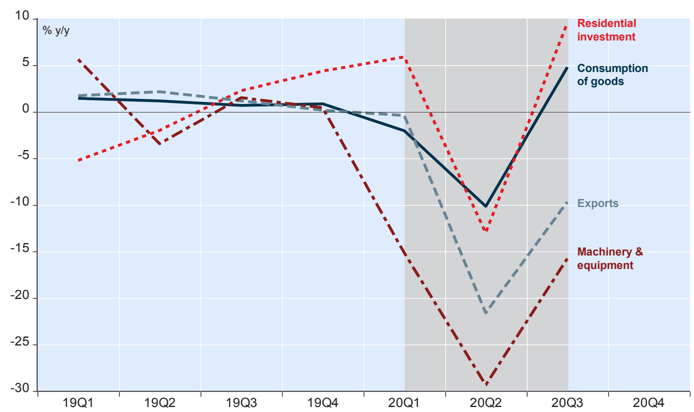
Canada: Growth of real-estate lending at a 9-year high
12-month changes in real-estate and non-real-estate lending



NBF Economics and Strategy (Statistics Canada data)

In the last episode in which more than half the country's urban markets showing home-price rises exceeding 10% (2016-2017), Ottawa introduced a "stress test" requiring qualifying rates higher than market rates. These financial stability measures were intended to calm housing-market frenzy and limit household indebtedness without raising interest rates, which could have hurt business competitiveness through effects such as currency appreciation. At that time, the government's objective was to rebalance the Canadian economy toward investment and exports and away from consumption and real estate, which had fuelled the growth of preceding years. The weakness of exports and investment in the current recovery means that a withdrawal of monetary stimulus is not desirable at this point, but the evolution of the housing market suggests the contrary. Once again, the solution to this dilemma may be introduction of new financial stability measures in the coming months.

Canada: Rebalancing of the economy back on the agenda?
GDP components by spending, year-over-year growth



NBF Economics and Strategy (data via Statistics Canada)

We are raising our growth scenario for 2021 to 4.2% (previously 3.7%), as the contraction in the first quarter may have been less pronounced than expected based on the resilience of hours worked in January. Growth prospects for the remainder of the year also look brighter as Canada is expected to benefit indirectly from the US government's largesse through exports.

The Economy

United States
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	3.0	2.2	(3.5)	5.2	4.3	(2.5)	6.0	2.0
Consumption	2.7	2.4	(3.9)	5.5	5.4	(2.6)	6.4	2.9
Residential construction	(0.6)	(1.7)	5.9	12.2	0.8	13.7	4.7	(1.3)
Business investment	6.9	2.9	(4.0)	6.0	1.4	(1.3)	4.3	0.1
Government expenditures	1.8	2.3	1.1	1.0	0.7	(0.6)	2.2	(0.3)
Exports	3.0	(0.1)	(13.0)	9.2	7.6	(11.0)	10.5	5.2
Imports	4.1	1.1	(9.3)	11.8	3.6	(0.6)	5.1	2.5
Change in inventories (bil. $)	53.4	48.5	(81.8)	43.1	36.3	44.6	24.2	36.9
Domestic demand	3.0	2.3	(2.7)	5.0	3.9	(1.5)	5.4	1.8
Real disposable income	3.6	2.2	6.0	0.8	(1.0)	3.7	2.0	-0.1
Payroll employment	1.6	1.3	(5.7)	2.4	3.0	-6.0	3.9	1.8
Unemployment rate	3.9	3.7	8.1	5.8	4.6	6.8	4.9	4.5
Inflation	2.4	1.8	1.3	2.4	2.4	1.2	2.5	2.5
Before-tax profits	6.1	0.3	(6.0)	9.6	5.0	-1.5	3.7	5.0
Current account (bil. $)	(449.7)	(480.2)	(626.4)	(666.3)	(647.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 2/11/21	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.05	0.05	0.10	0.10	0.15	0.09	0.15	0.20
Treasury yield curve								
2-Year	0.11	0.10	0.10	0.15	0.25	0.13	0.25	0.75
5-Year	0.46	0.50	0.60	0.70	0.80	0.36	0.80	1.20
10-Year	1.16	1.20	1.30	1.40	1.45	0.93	1.45	1.70
30-Year	1.94	2.00	2.05	2.10	2.15	1.65	2.15	2.25
Exchange rates								
U.S.$/Euro	1.21	1.20	1.24	1.25	1.23	1.22	1.23	1.19
YEN/U.S.$	105	103	104	105	106	103	106	100

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.4	4.0	2.9	5.2	9.2	6.7
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.7	3.0	2.5	2.5
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	2.3	1.8	2.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.7	6.1	5.3	4.9

National Bank Financial

The Economy

Canada
Economic Forecast

*(Annual % change)**	*2018*	*2019*	*2020*	*2021*	*2022*	*Q4/Q4 2020*	*2021*	*2022*
Gross domestic product (2012 $)	2.4	1.9	(5.4)	4.2	4.3	(3.6)	3.8	3.2
Consumption	2.5	1.6	(6.2)	4.7	4.5	(3.7)	3.7	3.1
Residential construction	(1.7)	(0.2)	2.9	4.7	0.3	8.9	(3.3)	1.0
Business investment	3.1	1.1	(12.3)	0.4	7.1	(12.0)	4.1	7.2
Government expenditures	3.2	1.7	(0.1)	2.6	2.0	0.6	2.0	2.0
Exports	3.7	1.3	(9.9)	5.3	5.6	(7.6)	5.6	4.9
Imports	3.4	0.4	(11.8)	7.0	4.3	(6.8)	3.9	4.5
Change in inventories (millions $)	15,486	18,766	(17,886)	7,250	13,000	(5,000)	10,000	13,000
Domestic demand	2.5	1.4	(4.5)	3.7	3.6	(2.5)	2.7	3.0
Real disposable income	1.5	2.2	8.2	(4.3)	0.2	4.4	(2.4)	1.1
Employment	1.6	2.2	(5.1)	4.0	2.5	(2.9)	2.4	2.1
Unemployment rate	5.9	5.7	9.6	8.3	7.3	8.8	7.6	7.1
Inflation	2.3	1.9	0.7	2.3	2.2	0.8	2.5	2.0
Before-tax profits	3.8	0.6	(8.3)	14.4	5.4	0.9	5.7	6.0
Current account (bil. $)	(52.2)	(47.4)	(43.4)	(49.0)	(44.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 2/11/21	*Q1 2021*	*Q2 2021*	*Q3 2021*	*Q4 2021*	*2020*	*2021*	*2022*
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month T-Bills	0.08	0.10	0.15	0.15	0.20	0.07	0.20	0.30
Treasury yield curve								
2-Year	0.20	0.20	0.20	0.25	0.35	0.20	0.35	0.60
5-Year	0.49	0.55	0.60	0.65	0.70	0.39	0.70	0.95
10-Year	1.00	1.05	1.10	1.20	1.30	0.68	1.30	1.50
30-Year	1.60	1.65	1.70	1.75	1.80	1.21	1.80	1.90
CAD per USD	1.27	1.29	1.26	1.25	1.20	1.27	1.20	1.22
Oil price (WTI), U.S.$	58	56	58	59	64	48	64	60

*** end of period*

Quarterly pattern

	Q1 2020 actual	*Q2 2020 actual*	*Q3 2020 actual*	*Q4 2020 forecast*	*Q1 2021 forecast*	*Q2 2021 forecast*	*Q3 2021 forecast*	*Q4 2021 forecast*
Real GDP growth (q/q % chg. saar)	(7.3)	(38.1)	40.5	7.2	(2.2)	5.8	6.3	5.5
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	2.8	2.7	2.5
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.1	1.8	2.0	2.0
Unemployment rate (%)	6.4	13.1	10.1	8.8	9.1	8.5	7.9	7.6

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-6.0	3.5	3.0	0.8	4.1	-9.0	12.8	6.1
Prince Edward Island	2.5	5.1	-3.5	4.0	4.0	3.6	7.0	-1.3	5.1	6.4
Nova Scotia	1.9	2.4	-4.0	4.0	3.3	3.6	3.8	-2.7	5.8	5.0
New Brunswick	0.5	1.2	-3.5	4.2	3.3	3.6	3.0	-1.7	7.4	5.3
Quebec	2.9	2.7	-5.2	3.9	4.5	5.4	4.3	-3.5	7.1	6.2
Ontario	2.8	2.1	-5.5	4.1	4.6	4.1	3.8	-3.8	6.8	6.4
Manitoba	1.5	0.6	-3.9	4.1	3.5	2.5	1.0	-3.1	6.9	5.2
Saskatchewan	1.2	-0.7	-4.8	4.5	3.5	3.2	0.1	-8.9	11.3	4.7
Alberta	1.9	0.1	-7.0	4.1	4.1	3.4	2.7	-10.0	13.6	6.4
British Columbia	2.7	2.7	-4.7	4.0	4.2	4.9	4.4	-3.2	6.8	5.4
Canada	2.4	1.9	-5.4	4.2	4.3	4.2	3.6	-4.7	8.1	6.0

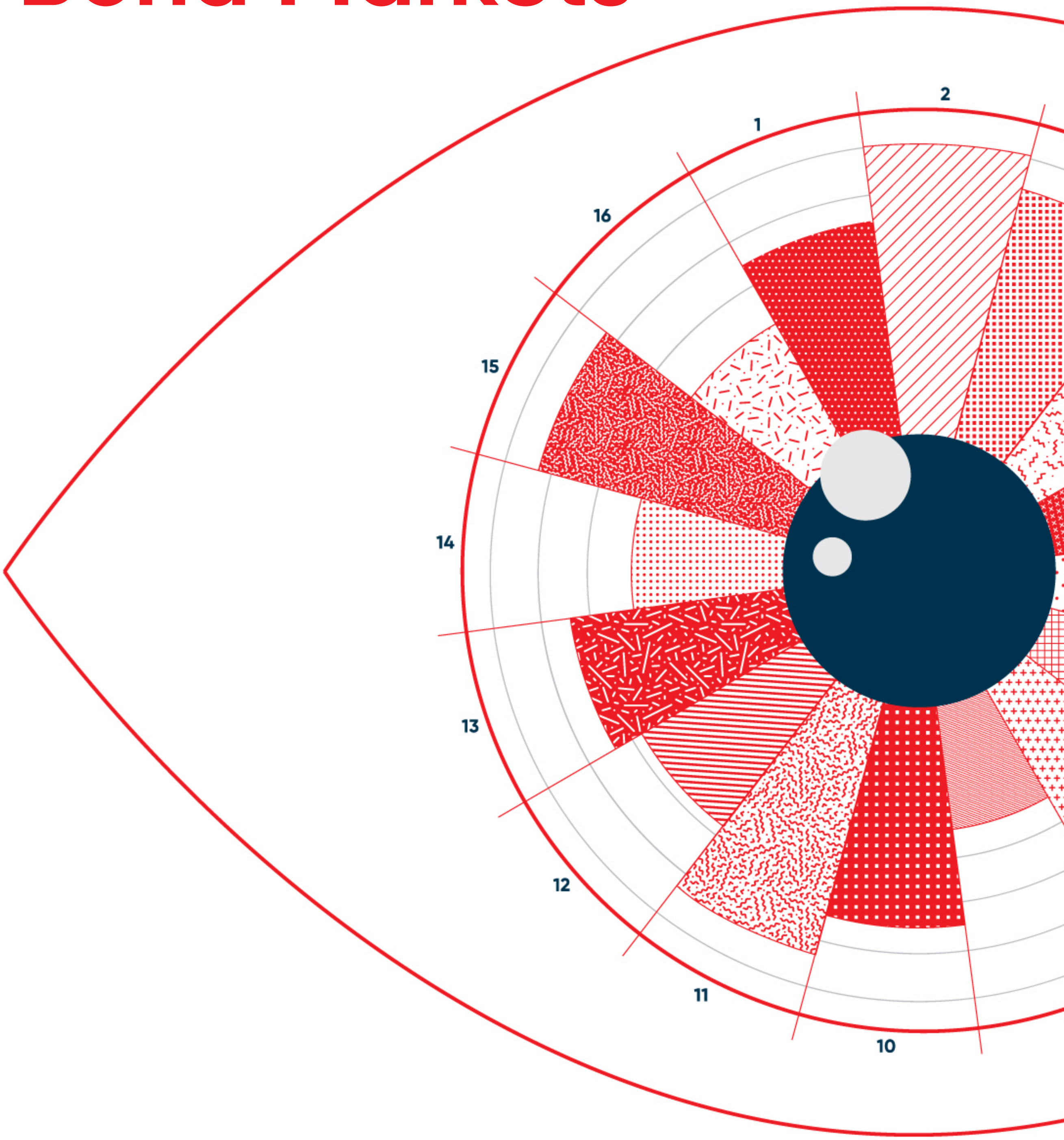
	Employment (% growth)					Unemployment rate (%)				
	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	4.1	0.2	14.1	12.3	14.2	12.2	11.8
Prince Edward Island	4.2	3.4	-3.2	3.0	2.2	9.4	8.6	10.6	10.4	9.7
Nova Scotia	1.9	2.3	-4.7	4.5	1.6	7.7	7.3	9.8	9.7	8.9
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	9.2	8.4
Quebec	1.5	2.0	-4.8	3.8	2.5	5.5	5.2	8.9	7.5	6.7
Ontario	1.7	2.8	-4.7	3.9	2.7	5.7	5.6	9.6	8.6	7.2
Manitoba	1.1	1.0	-3.7	3.0	2.0	6.0	5.4	8.0	7.6	7.1
Saskatchewan	0.6	1.7	-4.6	3.8	2.1	6.2	5.5	8.4	8.1	7.6
Alberta	1.9	0.6	-6.5	4.6	3.1	6.7	7.0	11.5	10.3	8.9
British Columbia	1.4	2.9	-6.5	4.2	2.4	4.8	4.7	9.0	6.4	5.9
Canada	1.6	2.2	-5.1	4.0	2.5	5.9	5.7	9.5	8.3	7.3

	Housing starts (000)					Consumer Price Index (% growth)				
	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	0.7	0.6	1.7	1.0	0.2	1.7	2.2
Prince Edward Island	1.1	1.5	1.2	1.1	1.2	2.3	1.2	0.0	2.5	2.1
Nova Scotia	4.8	4.7	4.9	4.2	4.2	2.2	1.6	0.3	2.4	2.0
New Brunswick	2.3	2.9	3.5	3.0	2.6	2.2	1.7	0.2	1.8	1.9
Quebec	46.9	48.0	54.1	50.0	47.5	1.7	2.1	0.8	2.0	2.2
Ontario	78.7	69.0	81.3	77.5	75.8	2.4	1.9	0.6	2.1	2.1
Manitoba	7.4	6.9	7.3	6.1	5.9	2.5	2.3	0.5	2.0	2.3
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	1.9	2.0
Alberta	26.1	27.3	24.0	23.6	25.0	2.5	1.7	1.1	2.1	2.1
British Columbia	40.9	44.9	37.7	34.8	34.0	2.7	2.3	0.8	2.0	2.3
Canada	212.8	208.7	217.8	204.0	200.0	2.3	1.9	0.7	2.3	2.2

e: estimate f: forecast

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

Interest Rates and Bond Markets



Interest Rates and Bond Markets

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Can't see the ocean for the waves

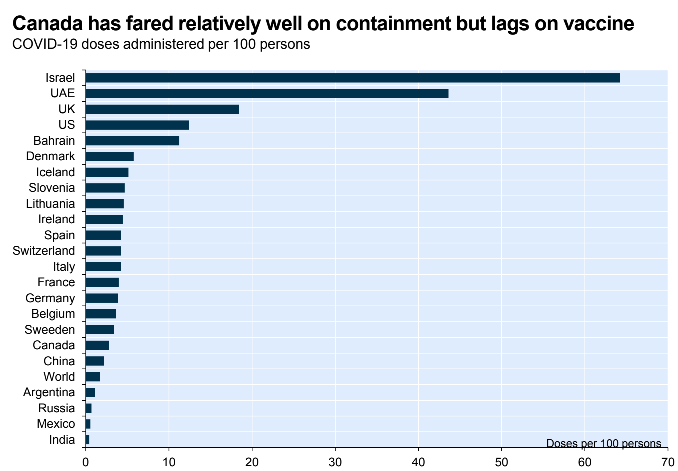
Seemingly many nautical miles from land, the good ship Economy has been labouring in heavy seas. For some, it's surely felt like a perfect storm. Most obviously, there have been tall waves of virus case counts and deaths, the sheer force of which have threatened to capsize countless households and businesses.

Captains/leaders have given the order to batten down the hatches, forcing activity below decks and leaving plenty of scary data to break over the sides. Canada, for one, was just hit by a particularly heavy swell of shutdown-related losses, as over 200,000 most private paid jobs were washed away in January.

Having taken on plenty of water, policy makers have been bailing frantically… working tirelessly for the better part of a year now. Exhausted and/or wishing to keep some energy in reserve should it be needed later, monetary policy makers (notably those in North America) are surely keen to let their fiscal counterparts take a larger role in the economic life saving mission. In the U.S., a fresh set of hands looks to rising to the challenge, preparing to throw the Treasury's considerable reserves of energy into the task at hand.

Ask a navigator and they'll tell you it can be hard to keep your barring when you're in the trough of such dangerous waves. But with much concerted efforted and with firm/steady hands on the wheel, our admittedly leaky economic vessels have retained a critical degree of buoyancy and have managed to stay more or less on course. Battered sure, but impressively resilient given what has been a once-in-a-lifetime tempest.

As vaccines flow and strong winds subside, as they surely will, we'll be sailing over smoother water into safe harbour. Some, like the U.S. could well reach their destination soon, while the likes of Canada (owing to a more tortured vaccine rollout) may well need a little more time to get there. But even in Canada, if you're willing to look past the waves to the less turbulent seas ahead, there will soon be much less of a need for an outsized quantitative easing effort that clearly helped us from going under. Nor is credit easing needed (or necessarily advisable) as the gale subsides.

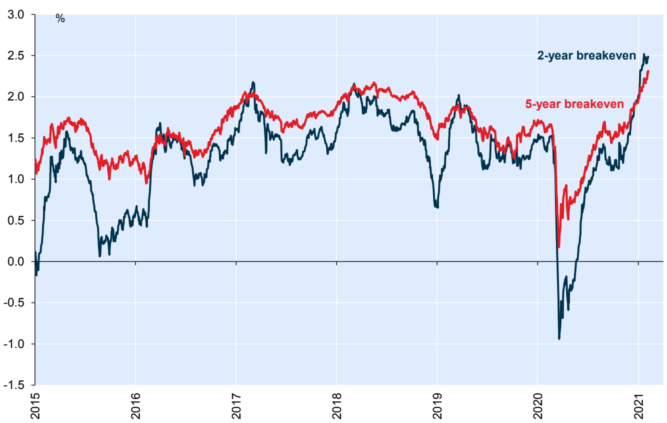


NBF Economics and Strategy (data via https://ourworldindata.org/covid-vaccinations)

Once ashore, weary travelers can expect to be greeted by abundant job creation and impressive GDP growth. They may well find their way of life altered, and some will carry scars from this journey … wounds governments may rightly feel compelled to heal. Many will likewise find the temperature steadily rising, as clouds part and inflation beats down. That's a sensation we've almost forgot. While some like the Fed may have a tolerance for such heat, those with tighter-fitting policy garments could eventually find it uncomfortably warm.

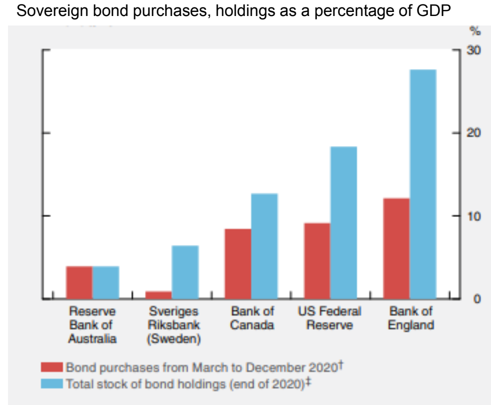
Interest Rates and Bond Markets

Market-based inflation expectations continue to heat up
Treasury breakeven rates



NBF Economics and Strategy (data via Bloomberg)

BoC's QE less than or equal to the Fed's?
Sovereign bond purchases, holdings as a percentage of GDP

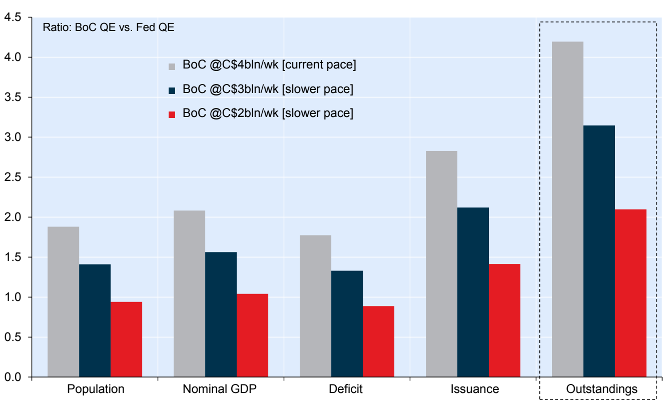


Bank of Canada (chart clipped from January MPR)

QE is in the eye of the beholder?

As we've highlighted throughout the prior issues of our Fixed Income Monitor, the monetary policy response for both Canada and the U.S. is now all about QE. With policy rates at effective lower bounds, it's here where marginal tweaking will come first. And forgive us if you've heard us say this before, but relatively speaking, the BoC's QE program is punching well above its weight vis-à-vis the Fed. As a share of population, GDP, national deficits, issuance or outstanding debt, the $4 billion weekly pace at the BoC is more aggressive than the $80 billion in U.S. treasury purchases at the Fed.

BoC vs. Fed on QE… it's no contest
Relative size of BoC QE vs. Fed QE, scaled to economic/fiscal/debt metrics



NBF Economics and Strategy (data via Bloomberg, BoC, Fed, StatCan, GoC, US Treasury, US Census Bureau, PBO, CBO | Notes: Based on existing QE program size: BoC=C$4bln/week & Fed = US$80bln/month (or ~US$18.5bln/week); population as at 1-Jul; nominal GDP as at 2020:Q4; federal deficit for 2020 FY as per latest PBO/GoC projections/guidance; issuance as per latest quarterly funding schedules; month-end outstandings as at 31-Jan.)

However, if you dig into the BoC's January Monetary Policy Report you'd see the central bank take a different stance. In their view, the degree of stimulus they've provided is in line, or perhaps slightly less than, that of the Fed. To make the argument, they show BoC and Fed bond purchases during the entire pandemic response as a percentage of GDP.

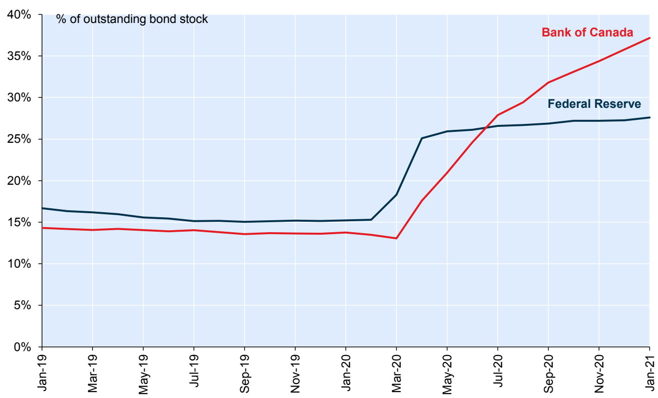
However, doing so ignores a couple of important factors. Firstly, the Bank of Canada, in addition to its QE program, buys 13% of all (nominal) GoC bonds auctioned. They had been doing this for decades before COVID-19 (for balance sheet management purposes) so its not necessarily pertinent to the discussion of stimulus. However, it is important when looking at the ownership share of the GoC market. And here, we see that the Bank currently owns just under 40% of all GoC and well on pace to hit 50% by year end, barring a slowing in the purchase pace. The Fed, meanwhile? They own just 28% of the massive $16 trillion Treasury market (bonds, notes, TIPS, FRNs). Moreover, the pace of increase is much slower stateside. We've heard BoC governor Tiff Macklem cite research suggesting a 50% ownership could be problematic for a domestic bond market. While the Fed runs little risk of crossing this threshold, the BoC's current glide path would have us there in relatively short order.

In terms of stimulus, it's true that in a vacuum the BoC/Fed response has been similar in the COVID-19 era (i.e. since the beginning of March). But the key distinction here is timing. 68% of the Fed's treasury purchases occurred in March and April, while just 11% of the BoC's purchases took place during this time. Indeed, with the total stock of bonds removed is an important consideration, what's arguably more influential at this time is the ongoing flow. And it's here where the BoC's QE policy looks so outsized.

Ultimately, we continue to expect a near-term paring of the BoC's QE pace to $3 billion per week. A weak first quarter characterized by job losses amidst a second round of government-imposed lockdowns may mean the March meeting isn't the right time to pare, even if its from an already too-high pace. That said, by April, we feel the worst of 2021's weakness will be behind us, provinces will have sufficiently reopened so that job gains will resume and the BoC will have the data it needs to confidently step down QE without too much backlash or confusion from onlookers. And as we saw in October, a gross QE reduction needn't mean that the amount of stimulus fall by a commensurate amount. Indeed, we could see bond buying shifted further out the curve, increasing the weighted average term of purchases (i.e. the per-dollar amount of stimulus).

Interest Rates and Bond Markets

BoC ownership share significantly outpacing the Fed's
Central bank ownership of government bonds



NBF Economics and Strategy (data via Bloomberg, BoC, Federal Reserve, SIFMA) | Note: Includes inflation linked bonds and FRNs.

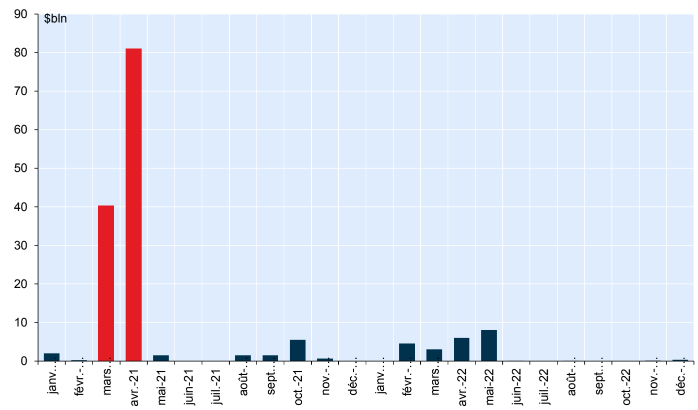
For the Fed, QE will likely rage on through the end of the year. But to us that shouldn't mean an underperformance of Canadian rates. Rather, the still-elevated pace and expected reduction in gross borrowing requirements at the federal level should limit net new supply and any significant excess backup in yields. Meanwhile, with a potential $1.9 trillion stimulus/relief package in the pipeline in the U.S. and perhaps an additional infrastructure bill later in the year, Treasury issuance should remain elevated going forward. Finally, a much-faster vaccine rollout paired with less restrictive virus-containment measures means that the U.S. economy should outperform Canada's over the coming months.

A tidal wave in the vast sea of liquidity

Recall back to March. The world was in disarray as the COVID-19 upended our daily lives, forcing policy makers on both the fiscal and monetary side into immediate action. For the Bank of Canada, there was no QE program established that could be relied on. So what did the Bank do to insure markets were well liquified? Ramp up its term repo operations. Over the course of March and April, the BoC took dealer product in exchange for $190 billion in term funding. As other programs were launched, reliance on term repo operations waned. Now, fast forward nearly a year later, these term repos are back in focus. Over the coming two months, more than three quarters of all the repos the Bank took on its balance sheet in 2020 will be coming due. Does this then constitute a major liquidity event? Will markets require another liquidity injection to combat these maturities? Not in our view.

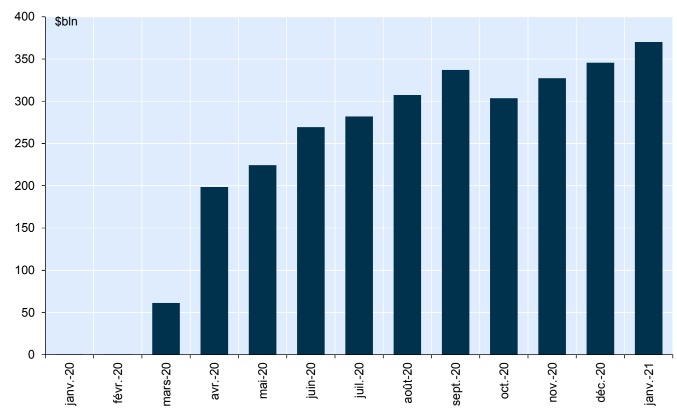
Following the outsized reliance on term repos, additional programs and purchase facilities (namely, QE) were launched, allowing cash to continue to steadily drip into markets. One indication of the amount of cash in the system, LVTS settlement balances at the Bank of Canada, now sits above $350 billion. That's almost twice as high as where we were at the end of April and 1,000 times pre-COVID levels. That is to say, while these impending repos will certainly drain cash from the market, the buffer we've built up over the past year means that this will only constitute a small dent. Moreover, with the PBPP continuing on at least into May and QE in place much longer than that, cash will continue to be injected and LVTS settlement balances will resume an upward trend after the March-April blip.

The impending term repo maturity wave
Term repos held on the Bank of Canada's balance sheet by month of maturity



NBF Economics and Strategy (data via Bank of Canada)

Liquidity in Canada has never been as abundant
LVTS settlement balance (end of month)



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

At the same time, there has been a cost to the ultra-liquid market the Bank of Canada has ensured. That has come in the form of widespread collateral shortages and resulted in dislocated short-term rates. Now, thanks largely to the BoC's QE program, the swath of cash in the market is chasing a product base that hasn't risen commensurately. It has meant that repo rates have traded well below target. Thus, CORRA—our risk-free benchmark rate which, by design, should closely track the target for overnight—set as low as 13 basis points earlier in the year. Meanwhile, the entire bill curve is trading well below target. Even 2-year bonds have remained below 0.25% for the last two months.

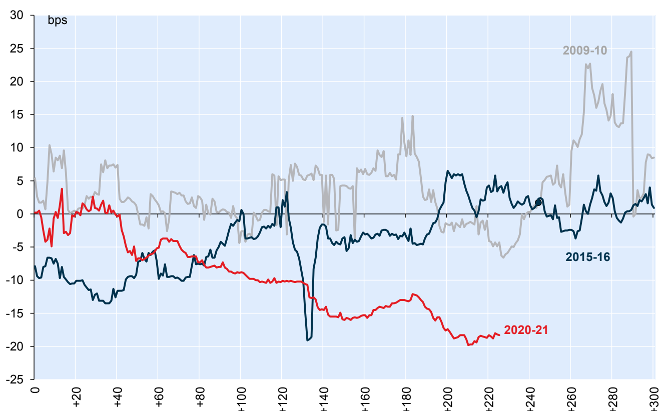
The Bank has taken some actions to address the issues here—namely by lending out a small subset of its balance sheet to dealers at baseline rate of 15 basis points. It's helped move the floor on CORRA to above 15 bps, but the $11 billion ceiling on the amount of its sheet it will lend out represents just 3% of total GoC bond and bill holdings. That is, it's pretty small potatoes.

Interest Rates and Bond Markets

We think there's more the Bank can do here to return more normalcy to short-term interest rates and expect additional tweaks to its balance sheet lending over the coming months. However, while some modest alleviation may be in order, the BoC is unlikely to make changes large enough to fully "cure" the front-end issues. Indeed, sub-target short-term interest rates are simply an accepted by-product of the Bank's unconventional policy response. Until QE is significantly reduced or eliminated, these dislocations are likely to remain in some form.

*For more on this, see our recent **Market View** which took a much deeper dive into this issue.*

Bills are historically rich versus overnight target
3-month bill – overnight target rate spread



NBF Economics and Strategy (data via Bloomberg)

Fed: Patience, patience, patience

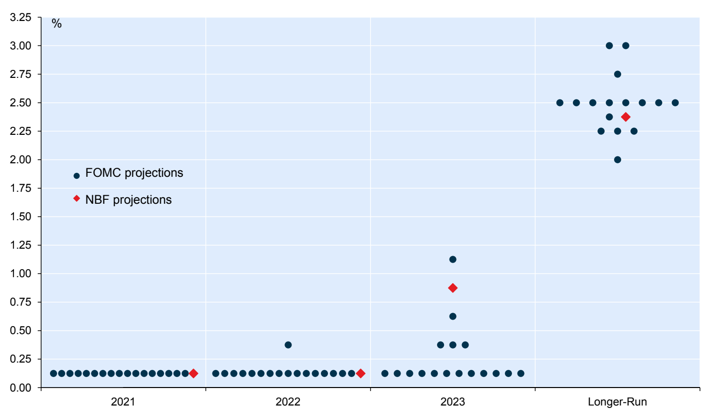
If there's one thing Powell's made clear over recent weeks, it's that any talk of tightening (through the policy rate or via a QE paring) is entirely premature. They're going to need to see inflation not only hit 2% and above (to make up for prior misses) but they'll also need to see it sustainably remain above 2%. In his current view, we will get a rise to 2% in a few months time thanks to base effects from the depths of the pandemic but that will be transitory. And any pent-up demand-based inflation upon a more full-fledged economic reopening is likely to be temporary as well. However, this is where we, and increasingly the broader market, disagree.

There are some key differences between this crisis and the disinflationary pressures we saw coming out of the global financial crisis. Firstly, the crisis a decade ago resulted in a relatively modest $787 billion fiscal package. Today, we're counting stimulus in the trillions. In addition to the $2 trillion CARES Act and the second round $900 billion package Trump signed in December, we've got another (potential) $1.9 trillion package in the works. Moreover, there's talk of another large-scale infrastructure package that may be in the pipeline for later in the year. Consider that Biden's initial proposed package alone is three times larger than the CBO's estimate of the output gap. Moreover, the prior crisis resulted in scarring in the banking sector and led to more caution from lenders coming out of it. This is not a characteristic of today's recession. Consumers are flush with cash and savings while banks are more willing and able to lend.

Input costs are on the rise too. Some of these are related to pandemic-driven shortages or bottlenecks but some are driven by increasing commodity prices and shipping costs, which we expect to persist. Last crisis, the US dollar was at multi-decade lows. Today, we're at much stronger levels meaning an ongoing depreciation from here could lead to imported inflation. And of course, interest rates are at record lows and financial conditions have arguably never been easier. Like consumers, businesses are flush with cash and easily able to access financial markets.

These factors are leading the forecasting community and the market more generally to price in above-2% inflation. Expectations are important too as they themselves can influence consumer/business behaviour and thus inflation. Take treasury breakeven rates for example. These have risen well above 2% to multi-year high. It wasn't until mid-2011 coming out of the last crisis where these rates hit comparable levels. All told, we see above 2% inflation throughout our forecast horizon, leading to the Fed removing some of its interest rate accommodation in early 2023—long before many on the FOMC have recently communicated. Indeed, just five (of seventeen) Fed officials have the target for the fed funds rate above the ELB by the end of 2023 (and three of them foresee just one hike). As we progress towards a post-virus world, the risks are clearly tilted towards Fed officials implying a relatively more hawkish outlook for the policy rate.

Fed officials remain extremely patient
FOMC's 'Dot Plot' with NBF projections overlaid



NBF Economics and Strategy (data via Federal Reserve) | Note: Dot Plot from December Summary of Economic Projections.

Reflation across the Atlantic

Inflation data has received a lot of attention lately in the eurozone, and for good reasons. The annual headline inflation rate went from -0.3% in December to +0.9% in January, marking the steepest increase for this indicator since 1997. Gains were not limited to the more volatile categories; core prices sprang 1.4% y/y after posting just a 0.2% rise the prior month.

Although the surge in inflation took many economists by surprise, we see little chance for a change of tone by the

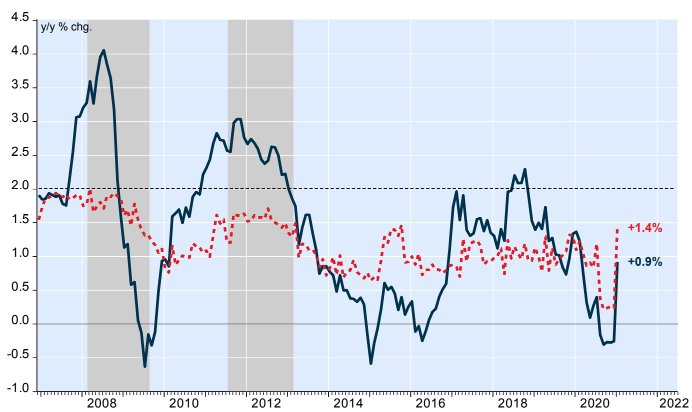
Interest Rates and Bond Markets

European Central Bank. Even after the January rebound, inflation remains comfortably below the central bank's target (close but below 2%). What's more, part of the recent increase in prices was due to one-off factors unrelated to underlying demand, such as the introduction of a CO2 tax on fuels in Germany and the expiry of a temporary reduction in VAT rates. A modification in component weights also played a role. Specifically, Eurostat reduced the weight of package holidays to better reflect current consumption patterns. This change had a positive effect on headline inflation, as prices in this category experienced significant deflation over the past year. Alternatively, more weight was given to products for which demand has increased since the beginning of the crisis, such as food. While it is difficult to predict precisely when this will happen, this composition effect should be reversed as the economy returns to a more normal course.

In an interview with Le Journal du Dimanche, ECB President Christine Lagarde paid little heed to the inflation surprise, focusing instead on lingering uncertainties. In her eyes, slow vaccination rollouts and delayed fiscal stimulus called for the ECB to maintain an accommodative stance "for as long as the pandemic is causing a crisis situation in the euro area." A more "flexible" approach could be adopted once the pandemic is under control but, even at this point, Lagarde said the central bank would be careful not to "clos[e] all the taps at once".

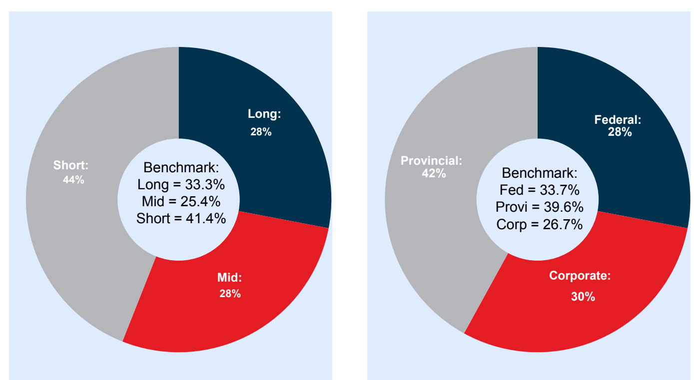
Taking into account President Lagarde's cautious rhetoric, and considering a more promising growth outlook in the U.S., we expect the ECB will lag significantly behind the Fed when it comes to the normalization of monetary policy. Until then, the ECB will make sure to keep all its options open to ensure a strong recovery in the single currency area.

Eurozone: Surge in inflation catch economists by surprise
Eurostat harmonized index of consumer prices



NBF Economics and Strategy (data via Bloomberg)

NBF recommended bond allocations
We are short duration and long credit in light of our interest rate forecast



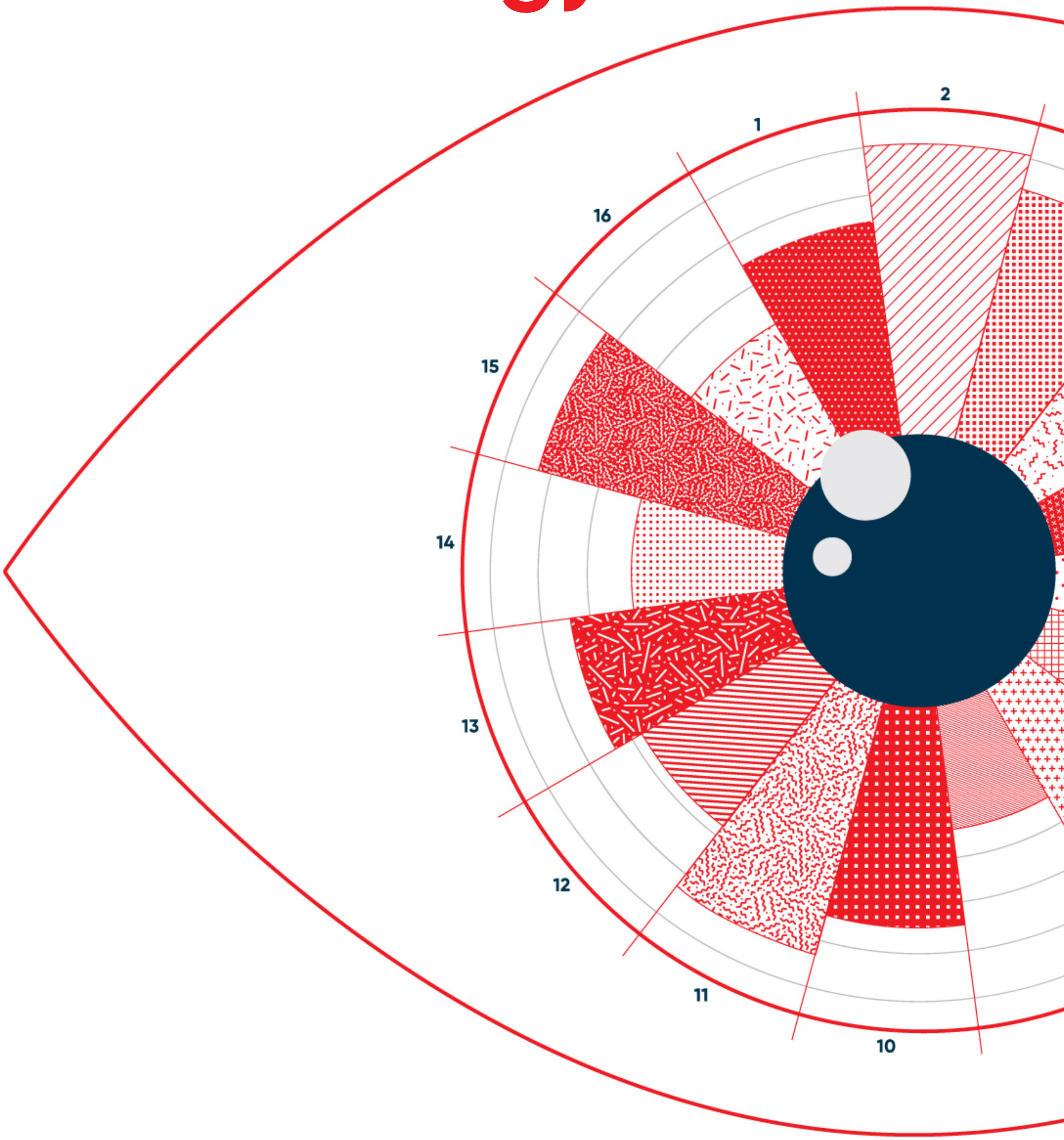
NBF Economics and Strategy (data via PC Bond) | Note: Based on FTSE Canada Universe Bond Index

Canadian Bond Market: Interest rates, spreads and currencies

Close on:	10-Feb-21	11-Nov-20	12-Aug-20	13-May-20	12-Feb-20
Interest Rates					
3 months	0.074	0.097	0.162	0.27	1.644
2 years	0.192	0.273	0.299	0.285	1.513
5 years	0.489	0.489	0.413	0.374	1.399
10 years	0.989	0.776	0.609	0.548	1.397
30 years	1.574	1.331	1.1	1.113	1.514
Spreads					
3 months - 2 years	11.8	17.6	13.7	1.5	-13.1
2 - 5 years	29.7	21.6	11.4	8.9	-11.4
5 - 10 years	50	28.7	19.6	17.4	-0.2
10 - 30 years	58.5	55.5	49.1	56.5	11.7
Currencies					
CAD/USD	1.2701	1.3063	1.3247	1.4101	1.325
EUR/CAD	0.6497	0.65	0.6405	0.6555	0.6941

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy



Stock Market and Portfolio Strategy

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World: EMs in expansion territory

After jumping out of the gates in early January, the MSCI ACWI stumbled in the latter part of the month. A showdown between retail investors and some hedge funds revealed large speculative positions, deemed unsustainable, in the stock of certain companies (among which Gamestop). Financial conditions have since normalized, collateral damage has been limited, and the MSCI ACWI is back in the black for the year with a 4.2% gain. Among the main regions of the equity world, we note the outperformance of emerging markets, led by a whopping 10.2% year-to-date gain in EM Asia (table).

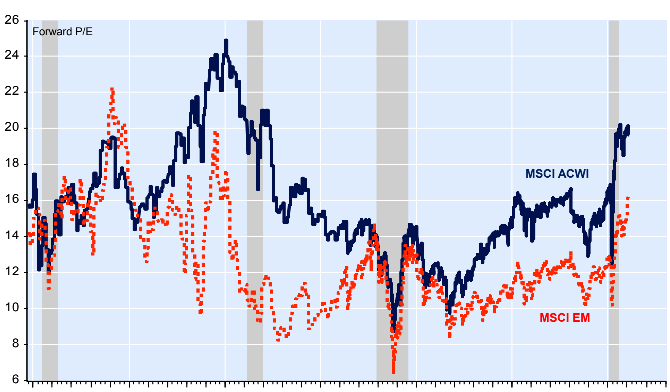
MSCI Composite Index: Price performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	4.5	4.2	4.2
MSCI World	4.4	3.6	3.6
MSCI USA	4.9	3.8	3.8
MSCI Canada	4.6	3.5	3.5
MSCI Europe	3.2	2.1	2.1
MSCI Pacific ex Jp	3.0	4.1	4.1
MSCI Japan	4.4	4.8	4.8
MSCI EM	4.8	8.7	8.7
MSCI EM EMEA	1.8	3.9	3.9
MSCI EM Latin America	4.1	0.8	0.8
MSCI EM Asia	5.4	10.2	10.2

2/5/2021
NBF Economics and Strategy (data via Refinitiv)

The staggering performance of the MSCI EM is driven mostly by P/E expansion, but even now its forward P/E of 16 presents a significant discount to the 20 of the global benchmark. In our view, this discount will probably continue to narrow.

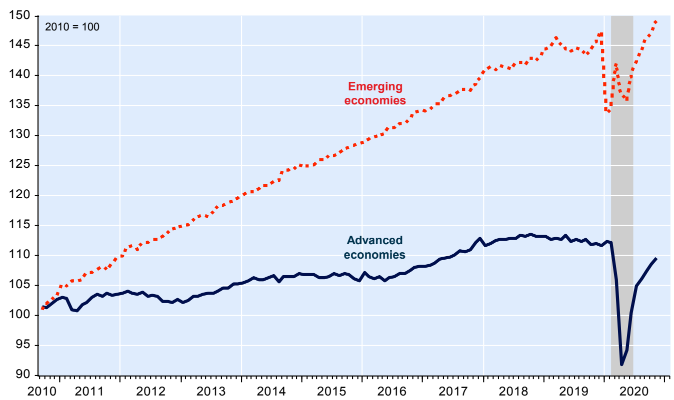
World: Emerging Markets are closing the valuation discount
12-month-forward P/E for the MSCI ACWI and the MSCI EM



NBF Economics and Strategy (data via Refinitiv)

We say this because of encouraging growth prospects and improved earnings visibility for those markets. The fiscal and monetary stimuli of the OECD countries, skewed to support of household spending, been a boon to the EM economies, where the bulk of manufactured goods are produced. Their industrial production recently hit a new record (chart). The EM economies have entered the expansion phase of the economic cycle while the OECD economies remain in the recovery phase.

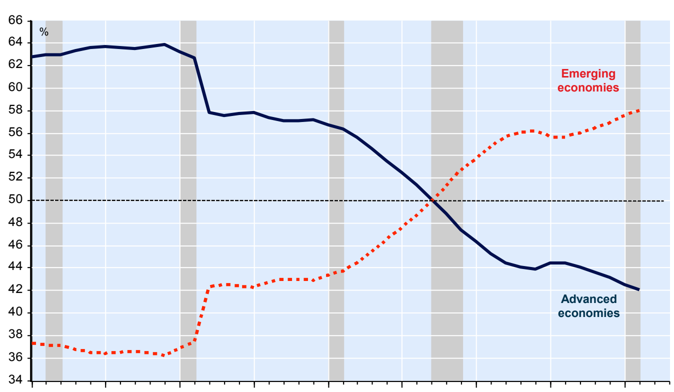
World: Emerging economies are expanding
Industrial production (volume)



NBF Economics and Strategy (data via CPB)

Since emerging economies account for almost 60% of global GDP, this is very significant for the global economy. It counters the hit to world GDP from the pandemic effect on the OECD economies (chart).

World: Do not underestimate the role of emerging economies
Shares of emerging and advanced economies in global GDP



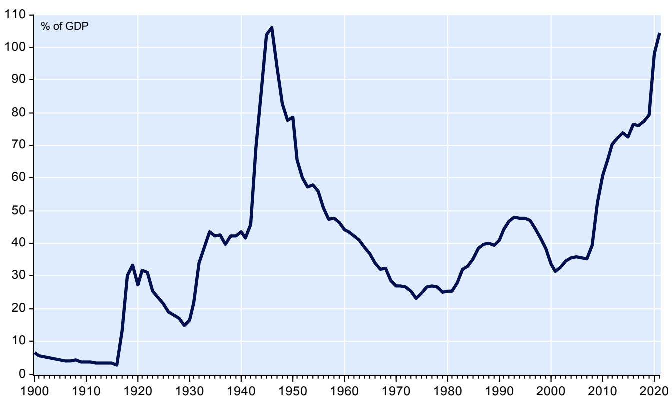
NBF Economics and Strategy (data via IMF)

Stock Market and Portfolio Strategy

The Biden stimulus: Up 'n' at 'em

We expect strong growth in EM economies to continue if Joe Biden has his way with his $1.9-trillion stimulus package. This relief plan (equivalent to 10% of GDP) will start at a time when the federal debt-to-GDP ratio already tops 105%, the highest since the end of the Second World War (chart).

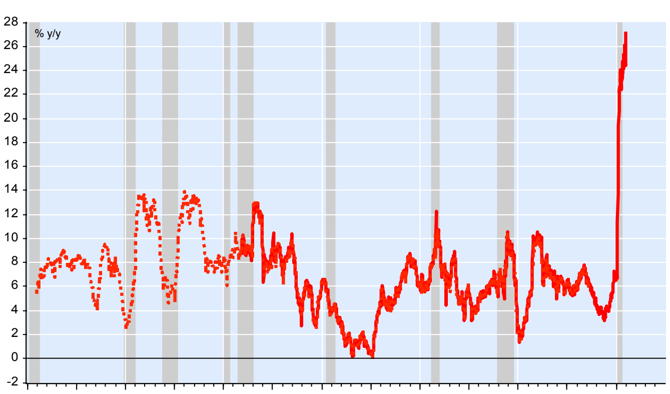
Biden stimulus: Up 'n' at 'em
Debt held by the public



NBF Economics and Strategy (data via OMB and CBO)

By way of comparison, the Biden proposal amounts to twice the share of the economy budgeted to the Marshall Plan that the U.S. Congress approved in 1948 for the reconstruction of Western Europe after the war. Fiscal stimulus of this magnitude would obviously require the Federal Reserve to maintain its quantitative easing for the foreseeable future. This at a time when the market is already flush with liquidity and the money supply is growing at its fastest pace ever (chart).

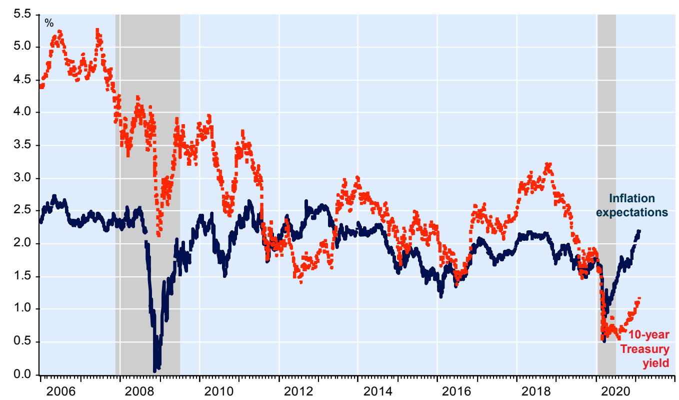
U.S.: Money supply is surging
12-month change in M2



FBN Économie et Stratégie (données de Fred)

Unsurprisingly, inflation expectations have moved up in recent weeks, to a seven-year high of 2.2%. Fortunately for risk assets, the yield of 10-year Treasuries remains well below that at 1.16% (chart).

U.S.: Will interest rates stay below inflation expectations?
10-year breakeven inflation rate vs. 10-year Treasury yield



NBF Economics and Strategy (data via FRED)

If the Federal Reserve can maintain its current pace of easing, real interest rates will be negative for the foreseeable future, supporting economic recovery and P/E ratios above the historical norm if earnings continue to be revised upward as is now the case (table). But the size of the Biden stimulus may complicate things if inflation expectations don't soon stabilize and push the 10-year Treasury yield well above the S&P 500 dividend yield of 1.5%.

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

	3-month change (%)		1-month change (%)		1-month diffusion (% up)	
	3-month change	10 year historical average	1-month change	10 year historical average	1 month diffusion	10 year historical average
S&P 500	4.7	-1.4	2.9	-0.4	68%	47%
ENERGY	34.7	-7.1	23.5	-2.8	75%	40%
MATERIALS	4.2	-3.2	1.7	-1.1	82%	40%
INDUSTRIALS	-3.2	-2.3	-4.2	-0.8	69%	46%
CONS. DISC.	5.0	-1.6	1.1	-0.5	80%	47%
CONS. STAP.	1.7	-1.0	0.7	-0.3	69%	46%
HEALTH CARE	1.6	0.0	1.4	0.0	55%	52%
FINANCIALS	11.4	-1.3	8.1	-0.4	84%	48%
IT	5.7	-0.2	3.7	-0.1	61%	50%
TELECOM	2.9	-1.0	1.3	-0.3	68%	39%
UTILITIES	0.5	-0.2	0.3	-0.1	48%	48%
REAL ESTATE	0.5	NA	2.5	NA	41%	NA

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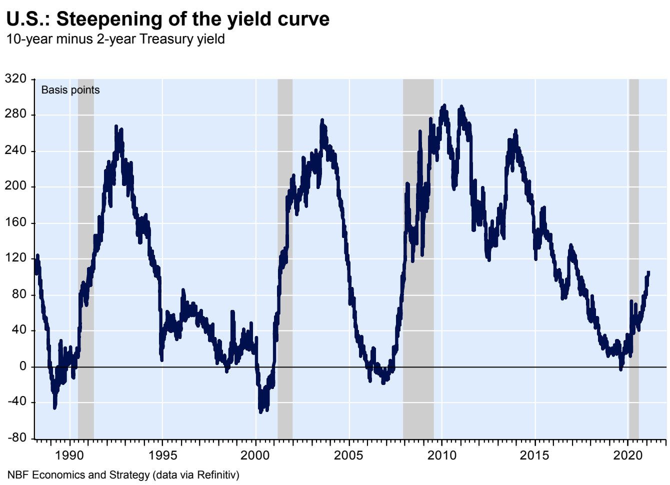
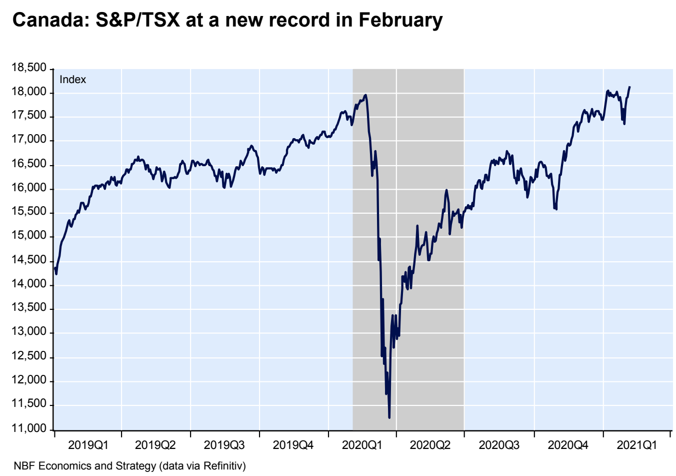
NBF Economics and Strategy (data via Refinitiv)

In any event, market confidence in economic recovery has strengthened in the past month, pushing the U.S. yield curve to its steepest in more than three years (chart).

Stock Market and Portfolio Strategy





As we argued in last month's *Equity Monitor*, a steeper yield curve tends to favour cyclicals over more defensive stocks in the early stage of an economic recovery (table).

S&P 500 Composite Index: Price performance

	Month to date	Quarter to date	Year to date
S&P 500	4.6	3.5	3.5
ENERGY	8.3	12.2	12.2
TELECOM	7.3	5.6	5.6
FINANCIALS	6.6	4.5	4.5
CONS. DISC.	6.0	6.4	6.4
INDUSTRIALS	4.9	0.3	0.3
IT	4.9	3.9	3.9
MATERIALS	3.9	1.4	1.4
REAL ESTATE	3.2	3.7	3.7
CONS. STAP.	2.5	-2.9	-2.9
UTILITIES	2.3	1.3	1.3
HEALTH CARE	0.5	1.8	1.8

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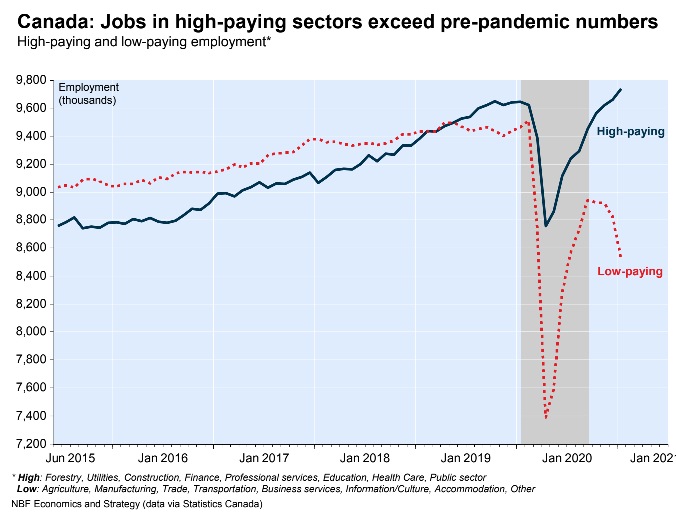
NBF Economics and Strategy (data via Refinitiv)

S&P/TSX: A new all-time high

The S&P/TSX continues to do well early in 2021, reaching a new record on February 5. Four of the 11 main sectors registered new highs: IT, Utilities, Industrials and Consumer Discretionary. Despite the recent rise of Canadian equities, the 12-month forward P/E of the S&P/TSX remains well below that of the S&P 500, at 17 versus 23. We expect that this valuation gap – the largest on record – will narrow in the coming months if we are right in our outlook that economic growth will rebound in the second half of this year.

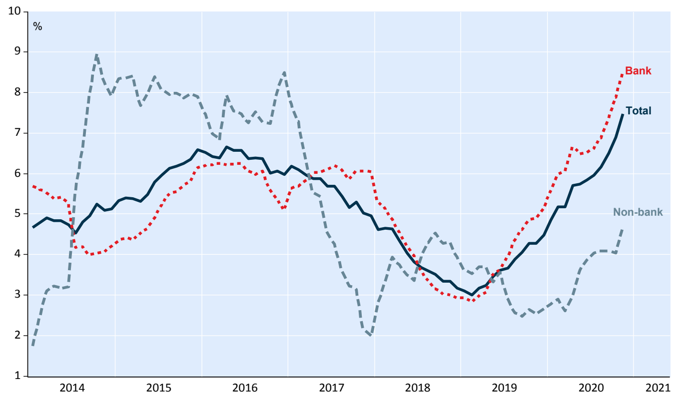
Vaccine deployment has bogged down on this side of the border in recent weeks, forcing authorities to shut down some sectors of the economy. Though these actions have hurt employment, it is important to keep in mind that the losses have all been in lower-paying jobs. Fortunately, and in contrast to the U.S., these sectors continue to benefit from generous government help. Employment in industries where hourly pay exceeds the national average increased to a new record in January (chart). This development helps support domestic spending and, since the homeownership rate is higher for this class of workers, demand for residential assets.



Canadian banks have been the main beneficiaries of rising demand for residential mortgages. New data from the Bank of Canada show total mortgage debt up 7.5% countrywide at the end of last year. Interestingly, the bulk of the increase came from mortgage loans by banks (chart).

Stock Market and Portfolio Strategy

Canada: Residential mortgages – bank & non-bank lenders
% 12-month change, seasonally adjusted data

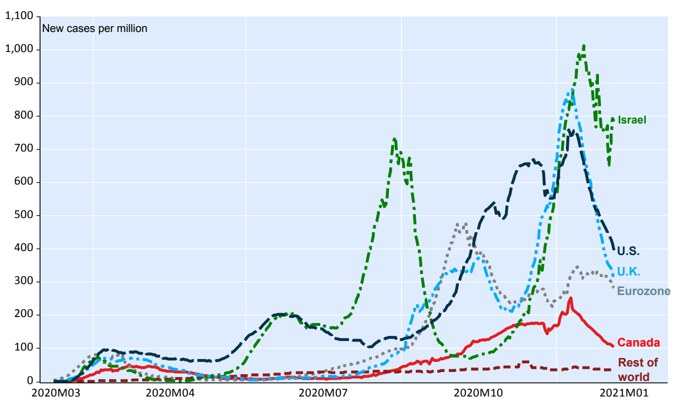


NBF Economics and Strategy (data via Statistics Canada)

Asset allocation

We are tweaking our asset mix this month in anticipation of a much larger fiscal stimulus than we had expected in the U.S. and a tangible reduction in new Covid cases. We are raising our exposure to equity markets by reducing our cash position from overweight to underweight. The redeployment goes to Emerging Markets, whose growth prospects and valuations remain attractive in our view.

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



NBF Economics and Strategy (data via Johns Hopkins CSSE)

NBF Asset Allocation			
	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	23	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	4	
Emerging markets	5	9	+2
Fixed Income	45	42	
Cash	5	4	-2
Total	100	100	

NBF Economics and Strategy

Sector rotation

This month we shift our recommended S&P/TSX allocations as follows: packaging and golds from market weight to overweight, forest products from underweight to market weight and utilities from market weight to underweight.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - February 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**11.7%**
Energy Equipment & Services	Market Weight	0.0%
Oil, Gas & Consumable Fuels	Market Weight	11.7%
Materials	**Overweight**	**13.1%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.4%
Gold	Overweight	8.0%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**12.2%**
Capital Goods	Overweight	2.2%
Commercial & Professional Services	Underweight	3.1%
Transportation	Market Weight	7.0%
Consumer Discretionary	**Market Weight**	**3.9%**
Automobiles & Components	Underweight	1.2%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	1.0%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.6%**
Food & Staples Retailing	Market Weight	2.8%
Food, Beverage & Tobacco	Market Weight	0.7%
Health Care	**Market Weight**	**1.7%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.5%
Financials	**Overweight**	**29.8%**
Banks	Overweight	20.2%
Diversified Financials	Market Weight	3.9%
Insurance	Overweight	5.8%
Information Technology	**Underweight**	**11.0%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Underweight**	**5.1%**
Real Estate	**Underweight**	**3.1%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	Q42021 (Est.)
Index Level		Feb-05-21	Target
S&P/TSX		18,136	19,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	708	1060
	Dividend	530	793
PE Trailing (implied)		25.6	17.9
			Q42021 (Est.)
10-year Bond Yield		0.72	1.35

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	Q42021 (Est.)
Index Level		Feb-05-21	Target
S&P 500		3,887	4,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	140	170
	Dividend	58	70
PE Trailing (implied)		27.8	23.5
			Q42021 (Est.)
10-year Bond Yield		1.17	1.60

** 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
	02-5-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	**3975**	**4.8%**	**3.8%**	**18.9%**	**48.6%**	**4.0%**	**14.2%**	**52.3%**	**1.00**
United States - S&P 500	3887	4.7%	3.5%	16.6%	46.7%	3.8%	12.0%	50.3%	1.00
Canada - S&P TSX	18136	4.6%	4.0%	2.7%	18.3%	4.0%	2.7%	18.3%	0.75
Europe - MSCI Index	**1855**	**2.3%**	**0.8%**	**4.3%**	**1.8%**	**1.1%**	**0.2%**	**4.3%**	**0.48**
United Kingdom - FTSE 100	6489	1.3%	0.5%	-13.3%	-11.5%	1.1%	-11.9%	-11.3%	-0.36
Germany - DAX 30	14057	4.6%	2.5%	4.3%	10.8%	1.0%	9.5%	9.9%	0.75
France - CAC 40	5659	4.8%	1.9%	-5.5%	7.1%	0.5%	-0.7%	6.2%	0.34
Switzerland - SMI	10755	1.6%	0.5%	-2.2%	18.2%	-1.1%	1.6%	26.0%	0.84
Italy - Milan Comit 30	259	0.0%	0.0%	0.0%	4.8%	-1.5%	5.0%	3.9%	0.59
Netherlands - Amsterdam Exchanges	653	2.5%	4.6%	6.5%	20.4%	3.1%	11.8%	19.4%	0.80
Pacific - MSCI Index	**3191**	**3.4%**	**2.9%**	**14.3%**	**9.1%**	**3.2%**	**9.8%**	**11.8%**	**0.63**
Japan - Nikkei 225	28779	4.0%	4.9%	23.4%	26.9%	2.9%	23.4%	35.7%	0.85
Australia - All ordinaries	7113	3.5%	3.8%	0.5%	16.1%	3.3%	9.6%	14.7%	0.63
Hong Kong - Hang Seng	29289	3.6%	7.6%	9.3%	-9.2%	7.9%	5.2%	-6.1%	-0.14
World - MSCI Index	**2773**	**4.2%**	**3.1%**	**15.3%**	**31.8%**	**3.4%**	**10.8%**	**35.0%**	**0.97**
World Ex. U.S.A. - MSCI Index	**2178**	**2.9%**	**1.8%**	**7.7%**	**5.2%**	**2.0%**	**3.4%**	**7.7%**	**0.55**
EAFE - MSCI Index	**2182**	**2.7%**	**1.6%**	**7.9%**	**4.5%**	**1.9%**	**3.7%**	**7.1%**	**0.54**
Emerging markets (free) - MSCI Index	**1,395**	**4.9%**	**8.1%**	**28.1%**	**15.4%**	**8.3%**	**23.1%**	**18.2%**	**0.68**

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

S&P 500 Sectoral Earnings- Consensus*

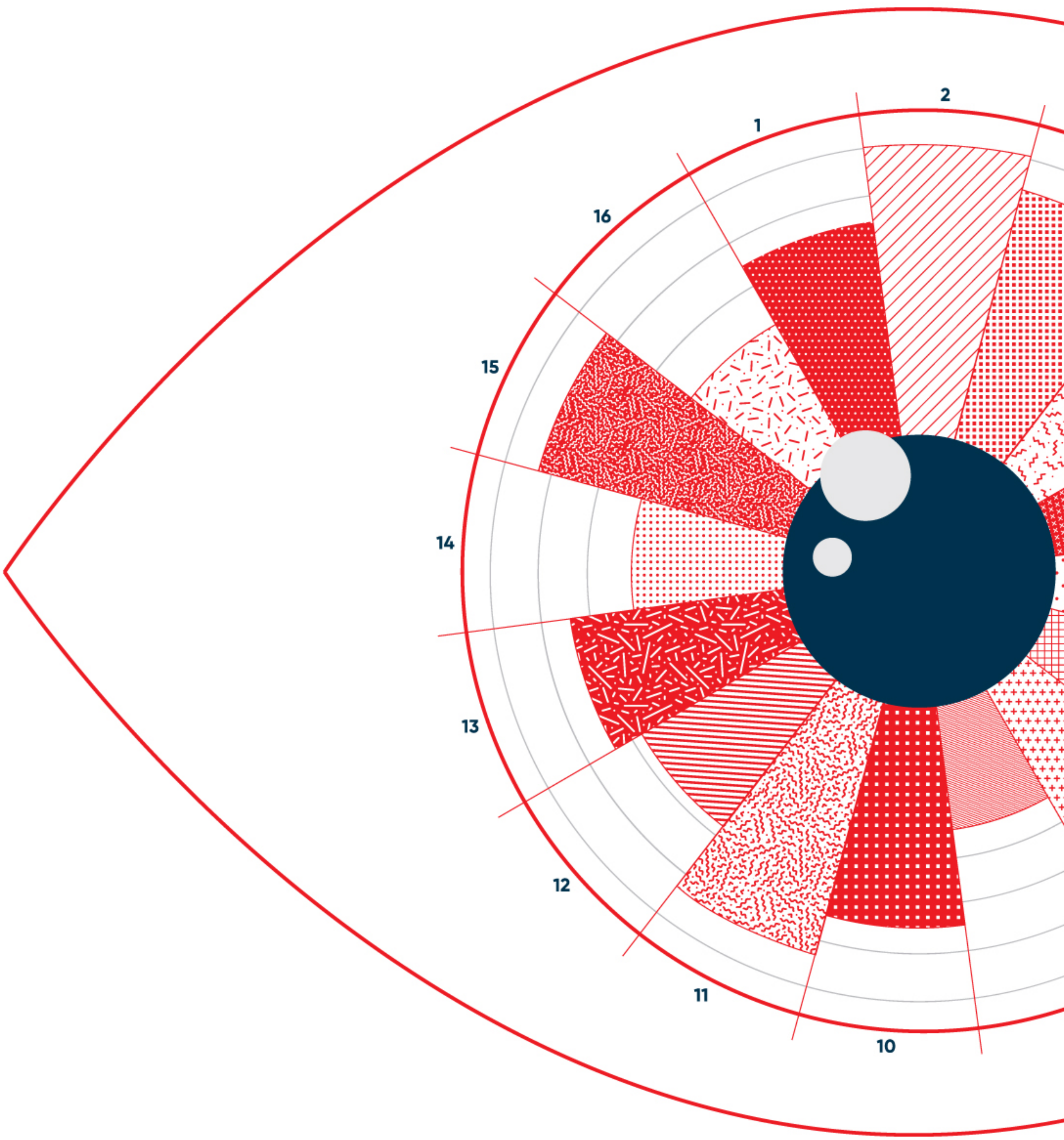
2021-02-05

	Weight S&P 500 %	Index Level	Variation 3-m Δ	12-m Δ	EPS Growth 2021	2022	12-m forward	P/E 2021	2022	12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	236	6.56	-4.24	-13.92	24.36	22.77	27.71	22.27	21.84	23.45	0.96	4.67
Energy	2.50	321	43.76	-22.81	-110.41	0.00	0.00	0.00	26.22	24.83	4.18	neg.	34.65
Materials	2.58	462	8.36	20.59	-8.83	29.60	27.60	26.37	20.34	20.07	10.62	0.73	4.23
Industrials	8.13	752	9.59	6.22	-55.43	74.71	70.48	42.60	24.38	23.62	21.19	0.34	-3.16
Consumer Discretionary	13.02	1386	9.82	35.80	-30.28	58.28	54.29	57.76	36.49	35.71	90.21	0.66	5.03
Consumer Staples	6.10	676	1.49	2.93	3.58	6.27	6.55	21.58	20.30	19.94	7.18	3.05	1.71
Healthcare	13.23	1348	5.28	11.59	8.71	12.80	11.75	18.26	16.19	16.13	10.42	1.37	1.57
Financials	10.53	513	22.82	-0.49	-19.15	22.43	21.43	16.42	13.40	13.26	5.80	0.62	11.38
Information Technology	27.82	2380	11.66	35.95	6.08	19.23	15.59	32.81	27.52	26.66	14.63	1.71	5.65
Telecom Services	10.98	234	10.75	25.66	-2.74	11.02	13.05	25.68	23.13	22.55	19.28	1.73	2.89
Utilities	2.70	323	-1.03	-7.43	1.53	5.03	5.10	19.39	18.46	18.37	4.13	3.60	0.51
Real Estate	2.42	236	6.56	-4.24	-30.16	-6.15	-4.25	50.34	53.64	52.85	19.47	neg.	0.45

* Source I/B/E/S

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

Technical Analysis



Technical Analysis

Dennis Mark, CFA
Analyst
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Chart Highlights

In the February Vision, we highlight the U.S. dollar and yields as the two charts turn up. Technical action in these two charts has implications for the commodity sector which is heavily weighted on the S&P/TSX. We focus on the energy sector that is in the process of bottoming out after an extensive bear market. Technical indications point to a sector has the best risk/reward potential of any other sector.

U.S. dollar index (DXY)

Source: Refinitiv

Technical action on the U.S. dollar index is an important indicator for a commodity-heavy index such as the S&P/TSX. While the U.S. dollar is important, there are many instances where a stronger dollar is accompanied by stronger commodities and vice versa. Despite the bearish sentiment surrounding the DXY, it is holding support at 89.00 and firming up. The DXY chart is starting to break out across minor resistance at 91.00. This action is setting up a move to 93-94. Strength in the DXY will most likely have a negative impact on gold and a lesser negative impact on energy.

Technical Analysis

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Analyst
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U.S. 10-year yield (TNX)

Source: Refinitiv

The U.S. 10-year yield chart broke out of a 10-month base as it broke out across 0.97% recently. Thin overhead resistance increases the prospects for higher yields. A measured move points to a target of 1.5%. Higher yields imply higher growth and therefore improving energy prices. This action is all part of the long-term bottoming process in the energy market.

Technical Analysis

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Analyst
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S&P/TSX Energy

Source: Refinitiv

A crushing bear market over the past number of years is in the process of bottoming and turning around. The S&P/TSX Energy Index based out for the past 10 months as it established support at 60.00 and built a base. Momentum is turning up as the index trades above its moving averages. Key resistance around 97.00 is being challenged where a declining trend line and chart resistance comes into play. Further strength in this chart across its declining trend line is another technical victory for the energy sector.

Technical Analysis

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

Source: Refinitiv

The energy sector underperformed the S&P/TSX for many years during its bear market as the accompanying chart indicates. Relative performance is beginning to stabilize as the chart S&P/TSX Energy/S&P/TSX chart carves out a bottom. An upside breakout from this chart will be a strong endorsement of an impending bull market.

Technical Analysis

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Kelt Exploration Ltd. (KEL)

Source: Refinitiv

A tight 10-month base on the KEL chart is winding the chart up for the next move up. Chart resistance at $2.10 is being challenged again as the chart attempts to break out of this formation. Increasing volume recently reflects the growing interest in the stock. Overhead resistance is thin indicating that once the stock breaks out and gets going, there will not be a lot of supply to chew through. First target is $3.00 on a breakout across $2.10. More importantly, the trend turns bullish and opens the upside.

Technical Analysis

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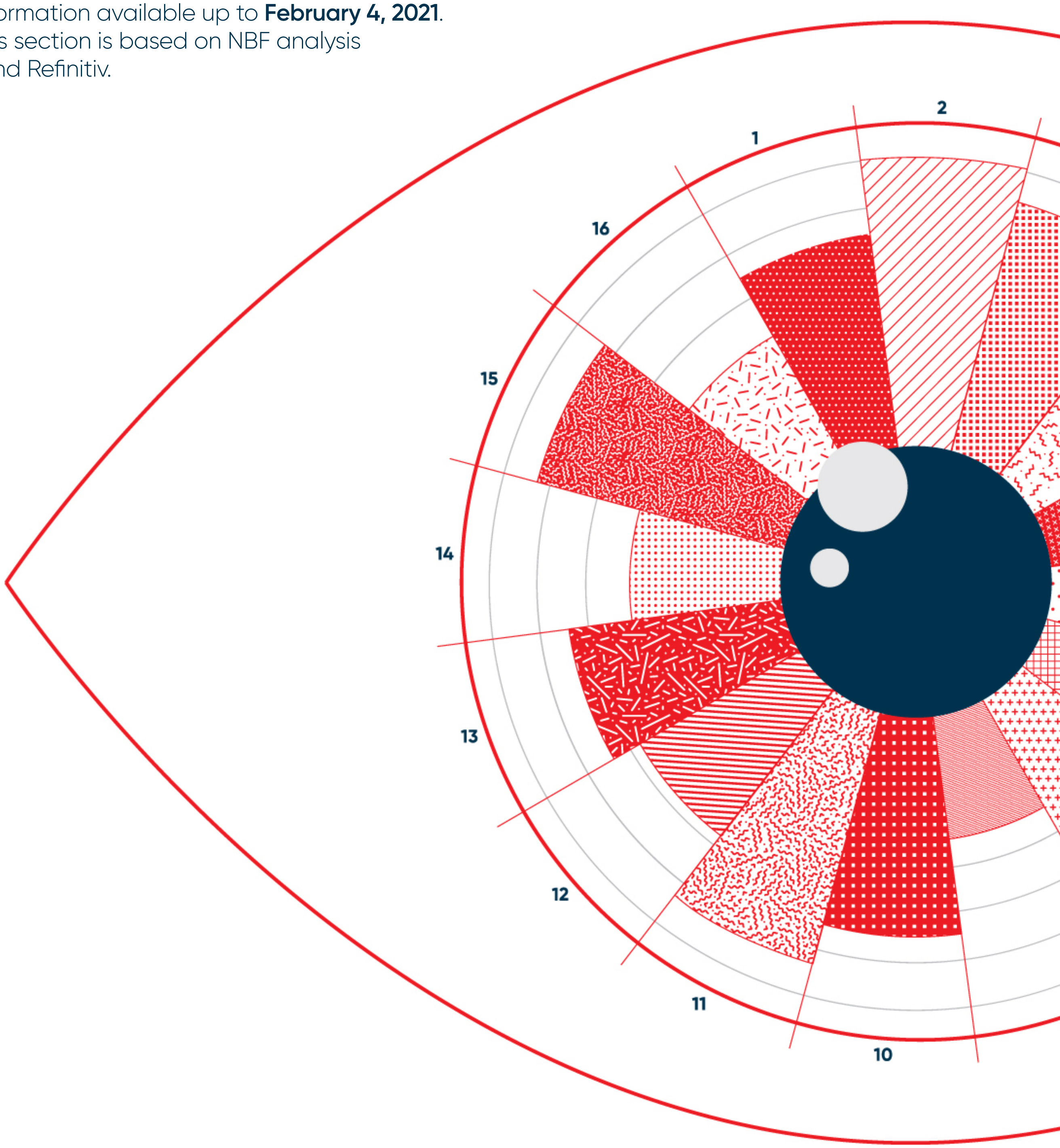
MEG Energy Corp. (MEG)

Source: Refinitiv

The MEG chart broke out of a 10-month chart at $4.25 late last year to complete a base and turn the trend up. After several weeks of consolidation, the chart appears ready to turn up again. Minor resistance at $5.18 is being challenged as buying picks up with the increased volume. Next target is $7.00 to $8.00 as the ongoing recovery in the energy sector and MEG continues.

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **February 4, 2021**. Information in this section is based on NBF analysis and estimates and Refinitiv.



NBF Selection List
Sector Analysis

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$8.08	$13.00	0.89%	61.76%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$7.34	$10.00	1.08%	37.33%	Energy Equipment & Services
	Parex Resources Inc.	PXT	$21.56	$30.00	0.00%	39.15%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$2.97	$4.00	1.00%	35.69%	Energy Equipment & Services
	TC Energy Corp.	TRP	$55.23	$67.00	5.97%	27.18%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$20.67	$30.00	2.47%	47.85%	Oil, Gas & Consumable Fuels
Materials							
	Cascades Inc.	CAS	$15.89	$22.50	1.95%	43.61%	Containers & Packaging
	Dundee Precious Metals Inc.	DPM	$8.41	$14.00	1.80%	68.29%	Gold
	Endeavour Mining Corp.	EDV	$28.04	$58.00	0.00%	106.85%	Gold
	First Quantum Minerals Ltd.	FM	$22.75	$28.50	0.04%	25.32%	Metals & Mining
	Sandstorm Gold Ltd.	SSL	$8.05	$14.25	0.00%	77.02%	Gold
	SSR Mining Inc.	SSRM	$21.79	$39.00	0.00%	78.98%	Gold
	Teck Resouces Ltd.	TECK.b	$23.29	$28.50	0.83%	23.23%	Metals & Mining
Industrials							
	Dexterra Group Inc.	DXT	$6.45	$8.50	4.72%	36.43%	Commercial & Professional Services
	Exchange Income Corp.	EIF	$37.58	$42.00	6.06%	17.83%	Transportation
	Finning International Inc.	FTT	$28.53	$35.00	2.78%	25.55%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$30.54	$36.50	1.34%	20.83%	Capital Goods
	Heroux-Devtek Inc.	HRX	$14.17	$17.50	0.00%	23.50%	Capital Goods
	Mullen Group Ltd.	MTL	$10.91	$13.75	4.30%	30.43%	Transportation
	Stantec Inc.	STN	$49.40	$50.50	1.25%	3.48%	Commercial & Professional Services
	TFI International Inc.	TFII	$92.32	$103.00	1.16%	12.82%	Transportation
	Thomson Reuters Corp.	TRI	$107.60	$115.00	1.82%	8.67%	Commercial & Professional Services
	Toromont Industries Ltd.	TIH	$90.01	$98.00	1.36%	10.25%	Capital Goods
	Transcontinental Inc.	TCL.a	$21.29	$26.00	4.11%	26.35%	Commercial & Professional Services
Consumer Discretionary							
Consumer Staples							
	Empire Company Ltd.	EMP.a	$36.94	$43.00	1.40%	17.81%	Food & Staples Retailing
	Jamieson Wellness Inc.	JWEL	$35.28	$42.75	1.43%	22.59%	Household & Personal Products
Health Care							
	Chartwell Retirement Residences	CSH.un	$10.75	$13.50	5.78%	31.27%	Health Care Providers & Services
	Medical Facilities Corp.	DR	$6.71	$7.75	4.05%	19.67%	Health Care Providers & Services
	Sienna Senior Living Inc.	SIA	$13.27	$15.00	7.15%	20.09%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$112.60	$124.00	5.16%	15.31%	Banks
	Element Fleet Management Corp.	EFN	$12.53	$18.00	2.10%	45.73%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$59.02	$66.00	3.17%	15.11%	Insurance
	Royal Bank of Canada	RY	$106.30	$117.00	4.03%	14.13%	Banks
	Trisura Group Ltd.	TSU	$93.61	$161.00	0.00%	71.99%	Insurance
Information Technology							
	Kinaxis Inc.	KXS	$185.71	$250.00	0.00%	34.62%	Software & Services
	Nuvei Corp.	NVEI	$71.70	$85.00	0.00%	18.55%	Software & Services
	Real Matters Inc.	REAL	$17.53	$40.00	0.00%	128.18%	Software & Services
Communication Services							
	TELUS Corp.	T	$26.76	$28.00	4.57%	9.29%	Telecommunication Services
Utilities							
	AltaGas Ltd.	ALA	$19.63	$24.00	5.07%	27.35%	Utilities
	Brookfield Infrastructure Partners L.P.	BIP.un	US$54.12	US$60.00	3.84%	14.63%	Utilities
	Innergex Renewable Energy Inc.	INE	$29.01	$32.00	2.47%	12.79%	Utilities
	Northland Power Inc.	NPI	$48.92	$52.00	2.42%	8.75%	Utilities
Real Estate							
	Canadian Apartment Properties REIT	CAR.un	$51.18	$60.00	2.69%	19.93%	Real Estate
	Flagship Communities REIT	MHC.un	$15.00	$18.00	3.29%	23.40%	Real Estate
	H&R REIT	HR.un	$13.22	$15.50	5.26%	22.47%	Real Estate
	Killam Apartment REIT	KMP.un	$17.66	$21.00	3.86%	22.76%	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 February 4, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

Sector Analysis

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

Risk Rating = Analyst's recommendation

BA = Below Average
A = Average
AA = Above Average
S = Speculative

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

Sector Analysis

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Canadian Banks & Lifecos

Canadian Banks – 2021 Outlook: Transition year.

On the heels of a crazy and historically significant year, the banks enter 2021 facing a more mundane set of challenges that revolve mostly around the growth outlook. That said, there are some offsetting considerations that we believe should appeal to investors, namely: (1) we believe street loan loss forecasts are conservative enough to make positive EPS revisions a high probability outcome; (2) we have already begun to see "green shoots" of loan growth rebounding, particularly in consumer categories; (3) banks are committed to keeping expense growth levels low, though achieving performance similar to 2020's will be more difficult; (4) capital levels are at their highest levels ever, and M&A at this stage of the cycle offers more upside; and (5) the sector's 11.4x forward P/E multiple isn't excessive, especially considering the potential for positive EPS revisions. Our top picks are RY (strong capital position, leverage to consumer lending recovery, etc.) and CM (re-rating potential, strong capital position).

Canadian Insurance – 2021 Outlook & Q4/20 Preview. Upgraded SLF to Outperform.

Lifecos enter 2021 with a more favourable macro backdrop that has contributed to renewed investor interest. There are several positive attributes to the sector, including strong capital levels and valuations that are (almost) as attractive as they've ever been. The primary risk to the sector, though, is a potential return of a trend that followed the Financial Crisis: years of material reserve charges. We believe these risks are considerable, tied to low rates, consumer behaviour and possibly higher mortality rates on a secular basis. Our top pick in the space is IAG, which has been a relatively steady growth story over its history, and which could re-rate higher as some key investor concerns diminish (largely capital-related). We also upgraded SLF to Outperform. We've always appreciated SLF's strong balance sheet and attractive business mix. What's changed is that we see a rare instance of valuation that excessively discounts risks (P/B re-rating upside of 7%) and is wide versus banks (16% current P/E discount vs. in-line 10-year average).

Selections

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

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/4	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		62,912	643	97.93	10/2020	7.71	8.37	9.26	11.7	10.6	77.40	76.70	77.58	1.3	1.3	4.3%	102.00	↑
Bank of Nova Scotia	BNS	SP		84,791	1,211	69.88	10/2020	5.36	6.13	6.74	11.4	10.4	51.87	52.30	54.42	1.3	1.3	5.1%	70.00	↑
CIBC	CM	OP		50,276	445	112.60	10/2020	9.69	10.63	11.83	10.6	9.5	84.05	84.05	89.35	1.3	1.3	5.2%	124.00	↑
National Bank	NA	NR		24,553	337	72.96	10/2020	6.05	6.37	6.91	11.5	10.6	39.97	39.97	43.60	1.8	1.7	3.9%	NR	
Royal Bank of Canada	RY	OP		151,762	1,423	106.30	10/2020	7.97	9.35	9.68	11.4	11.0	56.75	56.75	61.70	1.9	1.7	4.0%	117.00	↑
Toronto-Dominion Bank	TD	SP		134,565	1,804	74.67	10/2020	5.35	6.17	6.52	12.1	11.5	49.49	49.49	52.53	1.5	1.4	4.2%	75.00	↑
Canadian Western Bank	CWB	SP		2,572	87	29.11	10/2020	2.93	3.00	3.24	9.7	9.0	31.76	31.76	33.28	0.9	0.9	3.9%	32.00	↑
Laurentian Bank	LB	UP		1,389	43	31.61	10/2020	2.92	2.88	3.20	11.0	9.9	53.58	53.58	53.60	0.6	0.6	5.0%	29.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		27,826	928	29.96	12/2019	2.67	3.02	3.28	9.9	9.1	22.57	23.01	23.90	1.3	1.3	5.8%	32.00	↑
iA Financial	IAG	OP		6,390	107	59.02	12/2019	4.87	6.65	7.19	8.9	8.2	54.50	55.64	59.96	1.1	1.0	3.3%	66.00	↑
Manulife Financial	MFC	SP		46,784	1,940	24.03	12/2019	2.22	2.92	3.25	8.2	7.4	25.49	25.46	25.30	0.9	0.9	4.6%	25.00	↑
Sun Life Financial	SLF	OP	↑	35,636	585	61.10	12/2019	4.14	5.73	6.25	10.7	9.8	38.17	39.14	42.90	1.6	1.4	3.6%	67.00	↑

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

Sector Analysis

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2021 Top Picks

Trisura Group Ltd. (TSU: TSX)

TSU is a rapid revenue/EPS growth and significant ROE expansion story. A booming U.S. fronting platform that boasts several catalysts (e.g., entry to admitted markets, expansion into primary insurance markets, greater retention of fronting premiums) and thriving Canadian operations (consistent premiums growth, sub-90% combined ratio and high-teens ROE) underpin our view. Trading at less than half the multiple of its peer group on both a P/B and P/E basis, we see a massive re-rate opportunity as TSU executes against expectations.

Previously, we valued TSU solely on a BV multiple basis (consistent with our methodology for other P&C Insurers like IFC and FFH). However, we no longer view BV as the most appropriate approach given TSU's rapidly growing, capital-light and fee-based U.S. fronting model, which we forecast will generate more than half of TSU's net income before tax in 2021 and beyond. Our new $161 Price Target is now based on a sum-of-the-parts valuation. Reiterate Outperform.

Element Fleet Management Corp. (EFN: TSX)

EFN is a cash flow king. Over the next five years, we forecast consistent double-digit FCF per share growth and a cash ROE expanding to the high teens. This will allow for an aggressive return of capital strategy to play out. Amazingly, the shares still trade at an FCF Yield of ~9% on 2021 estimates, nearly double the yield of Canadian Financials with similar fundamentals (e.g., defensiveness, strong organic revenue growth, expanding profitability, solid FCF generation, low credit risk and barriers to entry). As EFN executes in 2021, we expect significant yield compression. Reiterate Outperform.

Selections

- *Trisura Group*
- *Element Fleet Management*

				Mkt	Shares	Stock	Last	FDEPS			P/E		Book Value per Share			P/BV		Div.	12-Mth	
	Stock	Stock		Cap	O/S	Price	Year	Last	est.	est.			Last	est.	est.				Price	
	Sym.	Rating	Δ	(Bln)	(Mln)	2/4	Reported	FY	FY1	FY2	FY1	FY2	Quarter	FY1	FY2	FY1	FY2	%	Target	
Mortgage Finance																				
Equitable Group	EQB	OP		1.79	16.8	106.65	12/2019	12.29	12.16	14.89	8.8	7.2	89.25	92.47	106.06	1.2	1.0	1.4%	138.00	↑
First National Financial	FN	SP		2.72	60.0	45.44	12/2019	3.02	3.90	3.75	11.7	12.1	7.74	7.80	9.45	5.8	4.8	4.6%	46.00	↑
Sagen MI Canada	MIC	T		3.77	86.4	43.60	12/2019	5.35	5.33	4.81	8.2	9.1	44.85	44.85	47.51	1.0	0.9	5.0%	43.50	
Home Capital Group	HCG	OP		1.61	51.8	31.02	12/2019	2.50	3.43	4.50	9.1	6.9	31.28	32.24	36.48	1.0	0.9	0.0%	42.00	↑
Timbercreek Financial	TF	SP		0.71	81.1	8.79	12/2019	0.66	0.65	0.73	13.6	12.1	8.66	8.67	8.71	1.0	1.0	7.8%	9.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.74	242.5	7.19	12/2019	0.16	0.11	0.38	52.1	14.8	2.91	2.84	2.99	2.0	1.9	1.4%	9.00	↑
Element Fleet Management	EFN	OP		5.50	438.8	12.53	12/2019	0.36	0.76	0.86	16.6	14.6	7.34	7.41	7.78	1.7	1.6	2.1%	18.00	
goeasy	GSY	OP		1.52	14.9	102.47	12/2019	5.16	7.26	8.23	14.1	12.5	27.57	30.21	36.70	3.4	2.8	1.8%	122.00	↑
Brookfield Business Partners	BBU	OP		7.18	149.6	48.02	12/2020	NA	NA	NA	NA	NA	20.63	22.46	29.98	1.7	1.2	0.7%	47.00	
HR Companies																				
Morneau Shepell	MSI	OP		2.2	70.0	31.88	12/2019	0.29	0.74	0.55	43.0	57.5	9.58	9.52	9.39	3.3	3.4	2.4%	36.00	
People Corporation	PEO	T		1.1	71.9	15.12	08/2020	0.21	0.26	0.25	59.0	59.7	2.99	3.18	3.37	4.8	4.5	0.0%	15.22	
Securities Exchange																				
TMX Group	X	SP		7.08	56.6	125.01	12/2019	5.31	5.84	6.15	21.4	20.3	63.76	64.28	66.90	1.9	1.9	2.2%	141.00	
Insurance																				
Intact Financial Corp.	IFC	OP		20.78	143.0	145.29	12/2019	6.05	9.2	9.29	15.8	15.6	56.22	58.85	78.27	2.5	1.9	2.3%	192.00	
Trisura Group Ltd.	TSU	OP		0.96	10.3	93.61	12/2019	0.58	3.10	4.20	30.2	22.3	26.86	27.74	32.02	3.4	2.9	0.0%	161.00	↑
Fairfax Financial Holdings	FFH	OP		11.99	26.2	457.11	12/2019	69.78	-22.29	40.94	nmf	8.7	442.17	447.95	481.48	0.8	0.7	2.8%	525.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.16	103.8	11.22	12/2019	1.33	1.35	1.39	8.3	8.1	4.91	5.01	5.01	2.2	2.2	7.5%	11.50	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

Sector Analysis

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Pason Systems Corp.

While quarters on the near-term horizon promise to remain challenging for Pason, looking past 2021 we see a significant improvement in financial performance driven by a gradual expected increase in North American rig counts and Pason's high degree of operating leverage.

Assuming the continuance of a gradual recovery in industry activity levels through 2021 and into 2022, we see considerable upside potential in Pason owing to the high degree of operating leverage inherent in the business model and underutilized capacity. Recall Pason's cost structure is characterized by a significant amount of fixed costs, and we suspect that Pason is currently structured for a 500-600 U.S. rig count environment (50+% above the current active rig count in the United States at the high end of that range). Assuming our modeled recovery in rig counts through 2022 is in the ballpark (resulting in a 2022 average active U.S. rig count in the mid-500s), we believe Pason would resultantly benefit from strong incremental EBITDA margins (with Pason President & CEO Jon Faber highlighting his belief that Pason could absorb $50 million to $100 million of additional revenue with incremental adjusted EBITDA margins north of 75% on the Q3/2020 results conference call). While our preliminary 2022 EBITDA forecast of $61 million reflects our expectations for strong incremental EBITDA margins (implying a 100+% y/y increase in EBITDA vs. our 2021 forecasts), relative to Pason's historical EBITDA generation our forecast remains well below the levels reached in 2017-2019 (somewhat reassuring as we aim to bake in a level of conservatism given the severity of the current downturn and the additional uncertainty represented by the potential impact of rising COVID-19 cases on commodity prices).

We believe Pason is well-positioned to face the challenges represented by the current macroeconomic environment and see considerable upside (looking past the pandemic) beyond the recent share price performance strength, prompting our recent upgrade to Outperform and the increase in our target price to $10.50 (driven by 12.0x 2022e EV/EBITDA).

Ag Growth International Inc.

The expected remediation cost of bin failure incident increased by $30 million, but our longer-term thesis (and positive bias) remain intact.

Last month Ag Growth provided an update on the commercial grain storage bin failure at a customer's export terminal in North Vancouver last September, increasing the expected cost of the remediation related to the incident by $30 million. Recall that concurrent with the release of Q3 2020 results, Ag Growth announced a $40 million accrual taken in the third quarter representing AFN's probability-weighted estimate of the direct costs involved including cleanup and remediation at the two facilities where this product line is located. The update highlighted Ag Growth's intentions to replace the entire hopper base of the grain storage bins in question (versus replacing components of the existing structure), increasing the scope of the remediation and requiring additional steel, decommissioning and construction resulting in a $30 million increase relative to the previous cost estimate. Despite an admittedly increasing level of heartburn surrounding the escalating remediation costs, we remain willing to take a longer-term view (comfortable with that vantage point given AFN's exposure to the secular uptrend in grain production volumes and a strong macroeconomic outlook), still perceiving the bin failure as a negative but stand-alone incident that does not fracture our thesis or positive bias. **With a strong macro backdrop entering 2021 including record backlogs across the business, we maintain our Outperform rating and $46.00 target driven by an unchanged 9.1x 2022e EV/EBITDA, a ~2.0x discount to the current peer group average.**

Selections

› *Enerflex Ltd.*
› *Mullen Group*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/04	EBITDA (mlm) 2019	EBITDA (mlm) 2020e	EBITDA (mlm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt/ EBITDA 2020e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		711.02	18.7	38.00	144.3	144.3	165.2	10.1	10.6	9.0	5.7	46.00	31%	↑
Enerflex Ltd.	EFX	OP		658.24	89.7	7.34	345.7	171.7	138.9	3.1	6.1	7.1	2.3	10.00	53%	↑
Mullen Group Ltd.	MTL	OP		1057.30	96.9	10.91	202.3	195.4	209.3	7.6	7.3	6.9	1.9	13.75	38%	↑
Pason Systems Corp.	PSI	OP	↑	752.37	83.7	8.99	129.6	32.1	28.8	4.6	18.7	21.4	-4.7	10.50	26%	↑
Shawcor Ltd.	SCL	OP		315.46	70.4	4.48	136.4	29.1	100.8	5.3	20.8	6.1	9.9	6.00	49%	↑

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

Healthcare, Biotech & Special Situations

Sector Analysis

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Highlights as of January 2021

We highlight Rogers Sugar Inc. (TSX: RSI) that announced unsatisfactory Q1/f21 results, and an update on K-Bro Linen Inc.'s (TSX: KBL) outlook and downgrade to Sector Perform due to a slow hospitality industry recovery.

Rogers Sugar:

RSI reported Q1/f21 results with overall Adj. EBITDA / EPS below expectations (-13% / -16%) and consensus. The miss was attributed to the Sugar segment, which was negatively impacted by postponed industrial vols, COVID-19 (C-19) related expenses and higher distribution costs (+58% y/y) – the latter due to west coast operations servicing east coast customers (1x in nature). Vols were up +1% y/y due to increases in export, consumers and liquid, although industrial vols were impacted by lower demand in the foodservice industry - lost industrial vols. have been recouped in Q2/f21 while inventory levels have normalized. Maple, however, reported strong Revs / Adj. EBITDA and increased vols. (+16% y/y) driven by C-19 related demand. Due to better contract pricing and efficiencies, EBITDA margin of 7.6% was ahead of our estimate (6.5%) for the second quarter in a row following several quarterly declines.

Management's updates for its f2021 outlook included an increase in sugar vols. guidance (+1%), expectations of a modest y/y increase for sugar EBITDA, and margins improvement in Maple (pricing/efficiencies), albeit, with slow vol growth. We maintain a Sector Perform and $5.00 target, implying an ~8.5x FY+1 EV/EBITDA.

K-Bro Linen:

Several travel/hospitality organizations (IATA, STR) forecast that travel and various hospitality indicators will not recover until 2023/2024 suggesting sluggish hospitality results for KBL in the interim. Meanwhile, C-19 vaccinations have been moving slowly not only due to logistical/regulatory challenges but also vaccination reluctance. The latter can delay widespread vaccinations beyond mid-2021, also delaying achievement of herd immunity.

Following C-19 vaccine results, approvals and initial rollouts, KBL's valuation expanded significantly – on Jan. 17, the stock was up 20%+ since November 2020 and Street forward EBITDA was up 2%. While we agree with the sentiment that hospitality will likely improve, the level of recovery will depend on, still uncertain, travel and speedy vaccine rollouts. Hence, KBL's 2022e hospitality business will likely remain below 2019's and is, alongside expected healthcare strength included in our forecast, fully reflected in its valuation. While our forecasts do not include upside from a win of AB rural healthcare vols or hospitality M&A, the former likely comes with price concessions and the latter depends on the industry's recovery. Thus, after 1) introducing 2022e estimates (largely flat vs. 2019); 2) lowering 2021e estimates (-13% EBITDA); and 3) increasing our target EV/EBITDA multiple to ~11.0x (was 9.5x), we arrived at a $40.00 (was $35.00) price target. Given the uncertain outlook, we moved KBL to Sector Perform (was Outperform).

Selections

› *Jamieson Wellness*
› *Medical Facilities*

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 2/4	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		221.06	70.2	3.15u	3/2020	0.0%	0.26u	0.10u	0.11u	30.5	27.6	75.4u	80.2u	86.8u	8.6	8.9	511.4u	5.9	3.25u	
Andlauer Healthcare Group	AND	UP		1,319.38	37.6	35.09	3/2020	0.6%	0.79	0.82	1.02	43.0	34.3	70.6	78.2	85.9	18.0	16.3	88.6	1.0	36.25	
CRH Medical	CRH	OP		202.95	71.5	2.84	3/2020	0.0%	0.41u	0.32u	0.46u	6.3	4.4	36.6u	26.8u	43.3u	8.1	5.0	70.1u	1.6	4.25	
IMV Inc.	IMV	SP		374.38	67.1	5.58	3/2020	0.0%	(0.48)	(0.46)	(1.09)	nmf	nmf	(24.7)	(34.9)	(83.9)	nmf	nmf	0.0	nmf	7.00	
Jamieson Wellness	JWEL	OP		1,405.84	39.8	35.28	3/2020	1.4%	0.96	1.15	1.24	30.8	28.4	75.9	88.0	100.0	18.0	15.8	157.0	1.6	42.75	
Knight Therapeutics	GUD	OP		702.76	130.9	5.37	3/2020	0.0%	0.16	0.15	0.25	29.1	17.5	(1.2)	20.2	38.1	17.5	9.3	-	-	6.75	
Medical Facilities Corp.	DR	OP		208.72	31.1	6.71	3/2020	4.2%	0.66u	1.00u	0.86u	5.0	6.0	54.9u	57.9u	54.2u	5.6	6.0	106.2u	2.4	7.75	
Theratechnologies	TH	SP		325.28	93.7	3.47	3/f2020	0.0%	(0.15)u	(0.12)u	0.11u	nmf	24.2	0.3u	(3.8)u	13.1u	nmf	18.1	-	-	3.75	↓
Special Situations																						
K-Bro Linen	KBL	SP	↓	382.58	10.6	36.22	3/f2020	3.3%	2.04	2.23	2.51	16.2	14.4	39.5	42.7	47.8	11.4	10.1	102.3	2.1	40.00	↑
Just Energy Group	JE	R		-	-	9.63	2/f2021	-	-	R	R	R	R	-	R	R	R	R	-	R	R	
Rogers Sugar	RSI	SP		557.03	103.5	5.38	1/f2021	6.7%	0.37	0.42	0.43	12.8	12.5	92.3	100.4	104.7	9.1	9.0	361.5	3.5	5.00	
Chemtrade Logistics Income Fund	CHE.UN	SP		622.43	92.8	6.71	3/f2020	8.9%	1.27	0.80	1.01	8.4	6.6	335.6	279.8	335.1	7.4	6.0	1,402.5	4.2	5.50	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Back to Research Analysts page

Industrial Products

Sector Analysis

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Industrial Products: 2021 themes - multiple expansions "explain" the 2020 returns; rinse and repeat?

2021 top investment ideas:

Large-cap top picks are STN (valuation gap vs. ESG-levered peers) and FTT (normalizing execution can point to next cyclical EPS peak); while TIH remains a must-own name in the industrial sphere. For small caps, we like ATA, ARE and IBG. We also upgraded RBA shares to Sector Perform from Underperform as the recent -11% pullback from the intermittent peak scrapes our P/E-driven valuation methodology.

Making sense of this year's (largely) positive share returns – "blame" multiple expansions:

Our coverage universe returns have predominantly been driven by multiple expansion (we "normalize" the discussion by focusing on 2021E earnings) – hence the congregation of "market beaters" (and S&P 500) where multiples expanded DESPITE earnings downdraft. RBA's 62% gain, however, was driven almost entirely by earnings re-rating (on already elevated P/E). For stocks that are enjoying valuation premia, we ask whether earnings expectations can at some point "grow into" expanded multiples… our forecasts are anticipating all but two companies to print higher EPS in 2021E vs. 2019 (median growth at 18%; vs. a median P/E of 16.6x). Using PEG ratios as a reference, valuation largely appears "reasonable" as most companies' metrics are actually below S&P 500 at 2.1x (which is more tech-heavy vs. past). That said, RBA sporting a PEG ratio of 12.0x is an outlier but clearly the market is paying for its tech-dominated platform (and 30.0x P/E appears "less expensive" in comparison to recent high-profile IPO).

Macro themes for 2021:

First the negatives… rates are low (which in part drove multiple expansions) but sentiment could shift swiftly. Commodity momentum sustainability is in question once supply constraints fade. State & local funding prospects in the United States remain unclear given a polarized government. That said, we view Pete Buttigieg's appointment as transportation czar as a positive for infra-exposed names. Geopolitical risks remain as the United States and China continue to grapple with a deteriorating bilateral relationship (the latter's growth is an attributable factor for the commodity strength). Then the positives… healthy balance sheets afford M&A and NCIB optionality; strong backlogs underpin near-term revenue generation. Engineers have the ability to right-size office space for additional efficiencies while enjoying the ESG tailwinds.

Selections

› *Stantec*
› *Finning International*
› *Toromont Industries*

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 2/4	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**		$16.93	$847	12 - 2019	$1.13	$0.93	$0.74	12.5x	14.2x	$220	$223	$218	5.3x	6.3x	3.8%	1.3x
Bird Construction Inc.	BDT	OP		**$11.00**		$8.31	$450	12 - 2019	$0.22	$0.74	$0.91	11.2x	9.1x	$32	$89	$101	5.4x	4.7x	3.8%	0.3x
Finning International Inc.	FTT	OP		**$35.00**		$28.53	$4,625	12 - 2019	$1.64	$1.07	$1.53	26.7x	18.7x	$803	$626	$727	9.1x	7.9x	2.8%	1.4x
IBI Group Inc.	IBG	OP		**$12.00**		$9.42	$356	12 - 2019	$0.63	$0.71	$0.77	13.2x	12.2x	$43	$49	$52	8.4x	8.1x	0.0%	1.2x
North American Construction Group Ltd.	NOA	OP		**$18.00**		$11.66	$321	12 - 2019	$1.74	$1.73	$1.85	6.8x	6.3x	$174	$180	$192	4.1x	3.9x	1.4%	2.3x
Ritchie Bros. Auctioneers	RBA	SP		**U$68.50**		U$58.52	U$6,380	12 - 2019	U$1.36	U$2.22	U$2.28	26.3x	25.7x	U$289	U$413	U$424	16.0x	15.6x	1.5%	0.4x
SNC-Lavalin	SNC	OP		**$34.50**		$22.56	$3,960	12 - 2019	-$0.93	$1.88	$2.44	7.1x	5.0x	$377	$664	$766	5.4x	4.5x	0.4%	1.7x
Stantec Inc.	STN	OP		**$50.50**		$49.40	$5,528	12 - 2019	$1.97	$2.29	$2.50	21.6x	19.8x	$432	$476	$503	12.6x	11.9x	1.3%	0.9x
Toromont Industries Ltd.	TIH	OP		**$98.00**		$87.53	$7,195	12 - 2019	$3.49	$3.81	$4.46	23.0x	19.6x	$578	$604	$672	12.3x	11.0x	1.4%	0.3x
WSP Global	WSP	OP		**$133.00**	↑	$117.55	$13,759	12 - 2019	$3.52	$4.25	$5.51	27.7x	21.3x	$814	$954	$1,167	15.6x	12.7x	1.3%	1.1x
AutoCanada	ACQ	SP		**$27.00**		$28.89	$787	12 - 2019	$0.21	$0.31	$1.41	92.1x	20.5x	$56	$83	$56	11.2x	9.0x	0.0%	1.0x
Stelco	STLC	SP		**$26.50**		$22.70	$2,014	12 - 2019	$0.25	$4.47	$1.75	5.1x	13.0x	$121	$517	$267	3.9x	7.5x	0.0%	Net cash
ATS Automation	ATA	OP		**$30.00**	↑	$25.88	$2,392	12 - 2019	$1.06	$1.39	$1.56	18.6x	16.6x	$176	$173	$230	15.8x	11.9x	0.0%	1.8x
Stella-Jones	SJ	SP		**$47.50**		$47.45	$3,201	12 - 2019	$2.30	$3.02	$2.96	15.7x	16.0x	$244	$336	$324	11.1x	11.5x	1.3%	1.6x
Median												**17.1x**	**16.3x**				**10.1x**	**8.5x**	**1.3%**	

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

Source: Company Reports, Refinitiv, NBF

Merchandising & Consumer Products

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Merchandising and Consumer Products

Fuel retailing gross profit expected to deliver continued growth, despite concerns.

Waning retail fuel demand remains a concern for investors…

Fuel retailing is a topical discussion point for many investors given concern that several trends, including working-from-home/less miles driven, more efficient fuel consumption, and the ongoing emergence of electric vehicles, could reduce demand for automotive fuels and undermine profitability for companies like Alimentation Couche-Tard and Parkland.

Fuel represents ~70% of Couche-Tard's total revenue and ~45% of total gross profit (U.S. fuel represents ~45% of total revenue and ~30% of total gross profit). Similarly, retail fuel represents ~40% of Parkland's total revenue and ~25% of total gross profit.

However, we believe that rising fuel margins and other business model adjustments will support growth over the medium term:

We believe that the fuel category can continue to drive profit growth for both Couche-Tard and Parkland for the foreseeable future, largely supported by margin expansion.

Though fuel volume growth in the United States has been slight over the last seven years (up to 2019), with a CAGR of ~1.2%, industry fuel gross profits have grown at a CAGR of ~5.5% (NBF estimates), reflecting higher fuel margins associated with pricing.

This is not just a U.S. phenomenon. Over the last seven years, in Norway, where electric vehicles have the largest penetration (in 2019, it was 13% of the vehicle stock/fleet), industry gasoline volumes have declined at a CAGR of 4.2%, while aggregate gross profits have grown at a CAGR of 3.0%.

Other ways to grow:

In addition, we believe that fuel retailers will seek to deliver growth through several other vectors, including further developing the merchandising offer, implementing electric vehicle charging infrastructure, and participating in acquisitions/industry consolidation.

Selection

› *Empire Company*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 02/04	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		10,652	61.2	174.09	12/2019	13.07	11.04	13.43	15.8	13.0	2,146	2,019	2,227	7.1	6.4	67.42	0.47	189.00	↑
Dollarama	DOL	OP		16,011	312.8	51.18	02/2020	1.78	1.84	2.24	27.9	22.8	1,111	1,147	1,332	16.6	14.3	0.84	0.92	61.00	
Specialty Stores																					
Couche Tard	ATD.b	OP		45,646	1,114.4	40.96	04/2020	1.97	2.24	2.21	14.3	14.5	4,365	4,676	4,492	8.6	8.9	10.70	0.32	49.00	↓
Parkland Fuel Corporation	PKI	OP		6,039	151.1	39.96	12/2019	2.56	0.73	1.91	54.8	21.0	1,266	1,049	1,269	9.0	7.4	14.86	0.60	46.00	
Apparel																					
Gildan	GIL	OP		6,721	198.3	33.89	12/2019	1.66	(0.44)	1.50	-60.6	17.7	548	109	499	54.2	11.9	7.44	0.37	39.00	↑
Roots Corporation	ROOT	SP		92	42.2	2.18	02/2020	(0.06)	0.38	0.34	5.7	6.4	52	66	62	4.4	4.6	3.60	0.56	3.00	
Grocers																					
Empire Company	EMP.a	OP		9,977	270.1	36.94	05/2020	2.19	2.44	2.64	15.1	14.0	1,892	2,074	2,116	7.7	7.6	15.54	0.59	43.00	
Loblaw	L	SP		22,286	358.0	62.25	12/2019	4.12	4.26	5.07	14.6	12.3	4,912	4,998	5,220	7.4	7.1	31.27	0.57	76.00	↓
Metro	MRU	SP		13,864	251.8	55.06	09/2020	3.27	3.36	3.61	16.4	15.3	1,091	1,077	1,069	14.9	15.0	24.45	0.26	61.00	↓
Food Manufacturer																					
Saputo	SAP	SP		14,490	410.9	35.26	03/2020	1.80	1.77	2.06	19.9	17.1	1,468	1,489	1,680	12.1	10.7	15.8	0.35	39.00	
Lassonde	LAS.a	OP		1,233	6.9	177.80	12/2019	8.32	13.54	13.05	13.1	13.6	159	210	207	7.1	7.2	116.4	0.25	183.00	
Premium Brands Holdings	PBH	OP		4,213	39.4	106.92	12/2019	3.30	2.94	4.29	36.4	24.9	308	305	401	17.6	13.4	33.9	0.46	117.00	
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,026	37.0	27.72	12/2019	1.59	1.72	1.91	16.1	14.5	156	163	171	8.5	8.1	9.12	0.52	29.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	OP		291	42.4	6.86	12/2019	0.31	0.47	0.56	14.5	12.2	29	35	38	12.3	11.4	5.53	0.37	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,358	24.7	54.98	11/2020	3.34	(1.27)	3.17	-43.2	17.3	152	154	171	11.8	10.6	22.93	0.44	56.00	↑
Online Grocery																					
Goodfood Market	FOOD	R		R	R	R	08/2020	R	R	R	R	R	R	R	R	R	R	R	R	R	

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

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

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Equities Have Further to Run in Current Price Environment

After a wave of shutdowns earlier in 2020 as a result of COVID-19, much of global copper supply has returned to full production capacity while end-use markets have lagged and are likely to depend on stimulus measures, to varying degrees, until vaccines are extensively administered. There remains some uncertainty as to the extent all countries are able to contain new waves of infection in the near term, which may influence macroeconomic outcomes and so we expect prices to remain volatile in the near term.

Copper prices reached seven-year highs in December 2020 as strengthening Chinese economic activity, encouraging vaccine developments, a weaker U.S. dollar and expectations of a green/copper intensive period of economic recovery has attracted significant investor interest. In our view, fundamentals support a similar trajectory to the previous super-cycle driven by increased Chinese demand throughout the early-2000s as long-term demand is well-positioned to outstrip supply given a lack of advanced-stage projects in the pipeline.

Top picks:

- **First Quantum Minerals. (FM: TSX)** – The company's high-quality asset base, organic growth profile and long-term exposure to copper prices maintain its status as a 'go-to' copper producer. FM has the most potential to deliver meaningful news flow over the next 12 months with potential non-core asset sales, which may include a minority interest in its Zambian operations as well as Ravensthorpe. These strategic divestitures would be supportive of deleveraging the balance sheet and reduce the company's overall exposure to future cost increases in Zambia. Any further clarity regarding the long-term tax/royalty structure in Panama and Zambia would further improve the outlook for the company.
- **Capstone Mining. (CS: TSX)** – Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including initiatives to achieve a sustained 57,000 tpd mill throughput by H1/21 at Pinto Valley and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~40% production growth and ~20% reduction in costs by 2023. In addition, with the Cozamin silver stream sale expected to close in Q1/21, the company has eliminated net debt and continues to advance partnership/financing agreements to deliver transformational growth from Santo Domingo
- **Teck Resources. (TECK.B: TSX)** – Near term, Teck will be driven by the optimization of the company's coal division following completion of Neptune Terminals in H1/21 and continued delivery of ~20% coal sales into China at a significant premium to seaborne coking coal prices. Advancement of QB2 towards completion in 2023 will nearly double the company's copper production increasing the company's long-term exposure to copper, while current market conditions are favourable to potentially monetize several early-stage/non-core copper projects within the portfolio that are ascribed little to no value.

Selections

› First Quantum › Capstone Mining › Teck Resources

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/4	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		1,147	402.5	2.85	3.35	↑	Nagle	(0.02)u	0.02u	0.36u	96.7x	7.8x	0.21u	0.17u	0.65u	12.3x	3.3x	3.73	0.8x
Copper Mountain Mining	CMMC	SP		454	191.5	2.19	3.00	↑	DeMarco	0.02c	0.26c	0.46c	8.4x	4.8x	0.20c	0.43c	0.80c	5.1x	2.7x	3.03	0.7x
Ero Copper	ERO	SP		1,684	86.8	19.41	24.00	-	Nagle	0.97u	1.37u	2.01u	10.7x	9.6x	1.54u	2.19u	2.79u	6.7x	5.2x	27.70	0.7x
First Quantum Minerals	FM	OP		15,684	689.4	22.75	28.50	-	Nagle	0.36u	(0.04)u	1.34u	n/a	16.9x	1.95u	2.64u	4.01u	6.5x	4.3x	22.48	1.0x
Hudbay Minerals	HBM	SP		2,007	261.3	7.68	11.00	-	Nagle	(0.19)u	(0.50)u	0.20u	n/a	39.3x	1.19u	0.97u	1.92u	6.0x	3.0x	7.68	1.0x
Lundin Mining	LUN	SP		8,658	733.7	11.80	13.50	-	Nagle	0.25u	0.27u	0.95u	32.4x	12.4x	0.79u	0.98u	1.96u	9.0x	4.5x	11.07	1.1x
Nexa Resources	NEXA	SP		1,683	132.4	12.71	15.00	-	Nagle	0.19u	(0.70)u	0.58u	n/a	22.1x	2.35u	1.64u	3.49u	5.8x	2.7x	28.14	0.5x
Sherritt International	S	SP		226	397.3	0.57	0.60	↑	DeMarco	(0.34)c	(0.23)c	0.02c	n/a	24.3x	0.03c	0.03c	0.11c	19.7x	5.1x	0.60	0.9x
Taseko Mines	TKO	SP		452	246.1	1.62	2.00	-	DeMarco	(0.28)c	(0.12)c	0.03c	n/a	48.3x	0.21c	0.39c	0.37c	4.2x	4.4x	2.45	0.7x
Teck Resources	TECKb	OP		12,367	531.0	23.29	28.50	-	Nagle	2.77c	0.80c	1.95c	29.0x	12.0x	6.51c	3.17c	5.41c	7.3x	4.3x	24.77	0.9x
Trevali Mining	TV	SP		156	802.6	0.20	0.25	-	Nagle	(0.03)c	(0.03)c	0.06c	n/a	3.2x	0.08c	0.01c	0.13c	13.1x	1.2x	0.58	R
Developers																					
Adventus Mining	ADZN	OP		127	131.1	0.97	1.65	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.04	0.5x
Filo Mining	FIL	OP		198	110.8	1.79	3.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.35	0.3x
Nevada Copper	NCU	SP		231	1,488.3	0.16	0.20	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.43	0.4x
Josemaria Resources	JOSE	SP		204	300.6	0.68	1.30	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.79	0.4x
Trilogy Metals	TMQ	OP		370	143.0	2.59	4.00	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.66	0.6x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Metals & Mining: Precious Metals

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Current Macroeconomic Environment Supportive of Gold Outperformance

Global events over the past year have created a supportive backdrop for gold.

The economic impact of COVID-19 forced banks across the globe to perform drastic measures. Interest rates have been slashed and unprecedented support packages have been approved. U.S. Treasury yields remain in an environment of very low real rates, an environment that gold historically has outperformed in. Although the global vaccine rollout has begun, the U.S. Fed continues to voice support for keeping interest rates low and continuing with the QE program, focusing on job creating by any means necessary while accepting climbing inflation.

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 with those that have a history of achieving guidance and showing potential for delivering positive catalysts; we believe these names offer good investment opportunities.

Selections

Gold/Silver Producers:

- *Dundee Precious Metals Inc.*
  (DPM: TSX; C$14.00 target)
- *Endeavour Mining Corp.*
  (EDV: TSX; C$58.00 target)
- *SSR Mining Inc.*
  (SSRM: TSX; C$39.00 target)

Royalties:

- *Sandstorm Gold Ltd.*
  (SSL: TSX; C$14.25 target)

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	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/4	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	OP		22,287	242.35	91.96	109.00	↓	Parkin	0.96u	1.85u	3.61u	39.3x	20.0x	3.64u	5.07u	5.07u	14.3x	14.3x	60.21	1.5x
Barrick Gold	ABX	OP	↑	50,677	1,778.13	28.50	40.00	↓	Parkin	0.51u	1.10u	1.14u	20.4x	19.7x	1.81u	3.07u	3.07u	7.3x	7.3x	23.02	1.2x
Kinross Gold Corp	K	OP		11,921	1,277.67	9.33	16.00	↓	Parkin	0.31u	0.70u	0.88u	10.5x	8.4x	0.80u	1.29u	1.29u	5.7x	5.7x	14.15	0.7x
Kirkland Lake Gold Corp	KL	OP		13,252	267.01	49.63	65.00	↓	Parkin	2.74u	3.40u	3.68u	11.5x	10.6x	4.46u	4.92u	4.92u	8.0x	8.0x	34.85	1.4x
Newmont	NGT	OP		60,749	795.56	76.36	109.00	↓	Parkin	1.32u	2.50u	3.50u	24.1x	17.2x	4.31u	6.00u	6.00u	10.0x	10.0x	56.60	1.3x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		29,274	190.8	153.40	210.00	-	Nagle	1.82u	2.48u	2.75u	46.5x	55.8x	3.36u	4.00u	4.48u	28.8x	25.7x	74.33	2.1x
Maverix Metals Inc	MMX	SP		971	140.2	6.92	8.00	↑	Nagle	0.08u	0.08u	0.05u	n/a	133.1x	0.27u	0.26u	0.25u	26.8x	27.9x	5.16	1.3x
Osisko Gold Royalties Ltd	OR	OP		2,295	166.3	13.80	23.50	↑	Nagle	0.27u	0.31u	0.69u	n/a	20.1x	0.64u	0.72u	1.17u	19.1x	11.8x	18.10	0.8x
Royal Gold Inc	RGLD	SP		6,793	65.2	104.13u	150.00u	↓	Nagle	2.60u	2.91u	3.35u	35.8x	31.1x	4.56u	6.28u	6.10u	12.5x	12.8x	75.87	1.4x
Sandstorm Gold Ltd	SSL	OP		1,538	191.1	8.05	14.25	↓	Nagle	0.06u	0.12u	0.22u	50.4x	36.6x	0.34u	0.35u	0.44u	17.3x	13.8x	10.26	0.8x
Wheaton Precious Metals Corp	WPM	OP		22,904	449.3	50.98	85.00	↓	Nagle	0.56u	1.10u	1.47u	34.8x	34.7x	1.14u	1.70u	2.01u	22.5x	19.1x	28.12	1.8x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		4,029	391.55	10.29	14.50	↓	Parkin	0.21u	0.40u	0.54u	20.5x	15.1x	0.75u	0.95u	0.95u	8.5x	8.5x	11.45	0.9x
B2Gold	BTO	OP		6,564	1,030.4	6.37	10.25	↓	DeMarco	0.25u	0.48u	0.45u	13.4x	14.2x	0.51u	0.82u	0.77u	7.8x	8.3x	5.34	1.2x
Centerra Gold Inc	CG	OP		4,162	295.78	14.07	21.50	↑	Parkin	2.48u	2.48u	0.71u	4.5x	15.7x	1.36u	2.78u	3.58u	4.0x	3.1x	18.36	0.8x
Dundee Precious Metals	DPM	OP		1,525	181.3	8.41	14.00	↓	DeMarco	0.26u	0.99u	1.00u	8.5x	8.4x	0.62u	1.39u	1.82u	6.1x	4.6x	10.84	0.8x
Eldorado Gold Corp	ELD	OP		3,047	180.91	16.84	20.50	↓	Parkin	(0.02)u	0.99u	0.81u	17.0x	20.9x	0.93u	2.41u	2.41u	5.5x	5.5x	21.23	0.8x
Endeavour Mining	EDV	OP		4,572	163.1	28.04	58.00	↓	DeMarco	0.68u	2.14u	3.01u	13.1x	9.3x	2.68u	5.04u	5.56u	5.6x	5.0x	40.73	0.7x
Equinox Gold Corp	EQX	SP		3,798	296.0	12.83	16.00	↓	Parkin	(0.13)u	0.64u	0.98u	19.9x	13.1x	0.68u	1.23u	1.82u	10.4x	7.1x	16.12	0.8x
IAMGOLD Corp	IMG	OP		2,151	473.80	4.54	6.50	↓	Parkin	(0.03)u	0.25u	0.50u	14.2x	7.1x	0.75u	0.82u	0.82u	4.4x	4.4x	8.14	0.6x
Lundin Gold Inc.	LUG	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
New Gold Inc	NGD	OP		1,575	676.05	2.33	4.25	↑	Parkin	(0.08)u	0.01u	0.20u	307.8x	11.7x	0.39u	0.39u	0.39u	4.7x	4.7x	4.10	0.6x
OceanaGold Corp	OGC	OP		1,577	703.99	2.24	3.50	↓	Parkin	0.06u	(0.10)u	0.16u	n/a	14.4x	0.33u	0.32u	0.32u	5.6x	5.6x	3.28	0.7x
Pretium Resources	PVG	SP		2,641	188.0	14.05	17.00	↓	DeMarco	0.54u	0.97u	1.05u	14.5x	13.3x	1.13u	1.76u	1.76u	8.0x	8.0x	15.29	0.9x
SSR Mining Inc	SSRM	OP		4,797	219.36	21.87	39.00	↓	Parkin	0.74u	1.53u	2.31u	11.2x	7.5x	1.59u	2.30u	2.30u	7.5x	7.5x	35.27	0.6x
Teranga Gold Corp	TGZ	T		2,208	167.5	13.18	27.25	↓	DeMarco	0.01u	0.72u	1.56u	18.2x	8.5x	0.50u	1.65u	3.03u	8.0x	4.3x	16.04	0.8x
Yamana Gold Inc	YRI	SP		6,155	986.45	6.24	7.50	↓	Parkin	0.10u	0.30u	0.30u	16.6x	16.4x	0.51u	0.69u	0.69u	7.1x	7.1x	4.98	1.3x
Silver Producers																					
First Majestic Silver Corp	FR	SP		4,451	214.9	20.71	21.50	↑	DeMarco	0.03u	0.23u	0.36u	90.9x	58.0x	0.53u	0.54u	0.77u	38.5x	26.8x	6.86	3.0x
Fortuna Silver Mines Inc	FVI	SP		1,739	184.0	9.45	13.50	↑	DeMarco	0.18u	0.16u	0.83u	60.9x	11.4x	0.45u	0.43u	1.46u	22.0x	6.5x	7.01	1.3x
Pan American Silver	PAAS	SP		8,520	210.1	40.55	55.00	↓	DeMarco	0.60u	0.93u	2.06u	43.7x	19.7x	1.60u	1.76u	3.29u	23.0x	12.3x	24.63	1.6x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		525	109.6	4.79	8.00	↓	DeMarco	0.21u	0.34u	0.63u	14.1x	7.6x	0.40u	0.81u	0.82u	5.9x	5.8x	7.08	0.7x
K92 Mining Inc.	KNT	OP		1,955	218.9	8.93	12.25		Egilo	0.15u	0.20u	0.31u	44.4x	28.6x	0.24u	0.34u	0.40u	26.2x	22.2x	9.51	0.9x
Wesdome Corp.	WDO	OP		1,270	138.4	9.18	15.00	↓	DeMarco	0.32u	0.44u	0.69u	21.1x	13.3x	0.56u	0.71u	1.13u	13.0x	8.1x	10.03	0.9x
Developers																					
Artemis Gold Inc.	ARTG	OP		723	122.7	5.89	10.00	↑	DeMarco	0.00u	(0.07)u	(0.04)u	-	-	0.00u	(0.15)u	(0.07)u	-	-	8.48	8.48
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Integra Resources Corp.	ITR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Liberty Gold Corp	LGD	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
MAG Silver Corp	MAG	OP		2,103	91.2	23.06	35.00	↑	DeMarco	(0.06)u	(0.18)u	0.60u	-	38.5x	(0.04)u	(0.04)u	0.81u	-	28.4x	19.72	1.2x
Marathon Gold Corp.	MOZ	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Minera Alamos	MAI	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
O3 Mining Inc.	OIII	R		R	R	R	R		R	R	R	R	R	R	R	R	R	R	R	R	R
Osisko Development	ODV	OP		1,033	125.6	8.22	10.75		DeMarco	n/a	n/a	(0.03)u	n/a	n/a	n/a	n/a	0.04u	n/a	198.9x	14.01	0.6x
Osisko Mining	OSK	R		R	R	R	R		DeMarco	R	R	R	R	R	R	R	R	R	R	R	R
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
SilverCrest Metals	SIL	OP		1,639	128.5	12.76	17.25	↑	DeMarco	(0.22)u	(0.22)u	(0.03)u	-	-	(0.19)u	(0.21)u	(0.00)u	-	-	9.92	1.3x

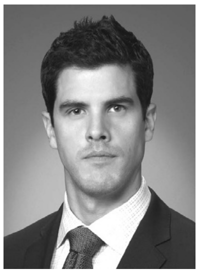
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas
Sector Analysis

Intermediate Oil & Gas and Oilfield Services



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Outlook

Crude Oil:

After oil prices took a positive turn following the headlines on successful vaccine trials in early November, the momentum in crude continued throughout January, albeit at a slower pace. WTI entered the year at US$49/bbl and continued to gain ~6% throughout the month to end at US$52/bbl. In early January, Saudi Arabia made the surprise announcement to voluntarily cut 1 mmbbl/d through February and March, in a bid to keep prices stable in the face of increasing lockdown measures and the threat of the mutated COVID strain. This was partially offset by Russia and Kazakhstan adding 75 mbbl/d back into the system. For now, oil markets appear to be following along a similar trajectory as reemerging general economic activity. Inventory levels remain elevated, although on a path towards normal historical levels with global supply continuing to be at a deficit to demand, aided by production restraint from OPEC+ and limited capital investments from other producers. Most estimates have pegged storage returning to historical averages near mid-2021. However, the road to balancing supply and demand fundamentals remains volatile. The vaccine rollout is progressing slower than expected and the new COVID strain has reinforced lockdown measures in parts of the world limiting oil demand. We remain cautiously optimistic on the global oil complex and look towards H2/21 as a potential turning point in which crude is fully recovered to mid-cycle pricing levels. Our 2021 forecast for WTI continues to call for US$50/bbl, generally in line with the forward strip at US$53.00/bbl.

Natural Gas :

With winter being warmer than usual, natural gas prices have broken from the previous highs set in late October and sentiment remains muted. However, winter may finally be showing its head with temperatures across North America recently turning colder; gas prices have seen a recent uptick near three-month highs. NYMEX and AECO spot are both currently priced at US$2.85/mcf and C$3.00/mcf, respectively. Overall, we remain constructive on the natural gas complex. Limited drilling activity in the United States has resulted in supply coming off ~2-3 bcf/d, while consumption remains strong, led by LNG exports near ~10 bcf/d.

As such, U.S. gas is set to remain under-supplied by 2-3 bcf/d through 2021. Inventory remains in a ~5-10% surplus from historical averages, but most forecasters are anticipating storage levels to reach a ~5-10% deficit by the end of the year. In Western Canada, the egress system has improved substantially over the past several years and the AECO-NYMEX differential is now pricing in -US$0.70/mcf on strip, ~30% below historical averages and below the marginal transport cost to other North American hubs. As a result, we believe AECO should be more resilient and in a structurally stronger position than in previous years. Our 2021 price deck for NYMEX and AECO assumes US$2.60/mcf and C$2.40/mcf, slightly below the current forward strip at US2.90/mcf and C$2.70/mcf, respectively.

We do not expect to see any significant changes in the business strategies of Canadian E&P companies as we head into 2021. The era of large organic growth is now firmly behind, hindered by low commodity prices, egress constraints and shareholder pressure for returns. As such, we believe the best path forward is to prudently harvest as much value as possible from the remaining assets and return it to shareholders.

Top picks:

- **Cenovus Energy Inc. (CVE: TSX/NYSE)** – Underpinned by its strong base business and integrated capacity, the company can weather this commodity cycle and provide torque to the upside as global oil prices return. Cenovus has a top-quality asset base – in Foster Creek and Christina Lake – and has sustaining and breakeven costs that are amongst the lowest in the sector. Cenovus recently closed on its deal to acquire Husky and capture $1.2 billion in annual cost savings. We view this deal as necessary and strategic given the company's high confidence in achieving the $1.2 billion in annual cost savings. Additionally, the added downstream integration and increased egress capacity will help reduce the company's exposure to the WCS differential, which supports our recommendation for Cenovus as a top pick.
- **Tourmaline Oil Corp. (TOU: TSX)** – As one of Canada's largest gas producers, TOU remains one of our top picks for its exposure to the natural gas trade, the result of well-capitalized and strong organic operations with fundamental tailwinds (cost, capital efficiencies and netback) to support a solid value

Oil & Gas

Sector Analysis

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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.

- **Parex Resources Inc. (PXT: TSX)** – Backstopped by a low decline, highly productive conventional asset base, Parex is set to deliver another year of fully-funded growth, return capital to shareholders through meaningful buybacks, while also investing in future optionality with an exploration program that has predictably grown reserves over the last decade. Through our forecast period, we expect Parex can generate FCF above sustaining and growth capital and return a large portion to shareholders through its NCIB (10% buyback anticipated).

Selections

- *Cenovus*
- *Tourmaline*
- *Parex*

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 2/4	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2019A	EV/DACF est. 2020E	EV/DACF est. 2021E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2019A	CFPS - FD est. 2020E	CFPS - FD est. 2021E	P/CFPS est. 2020E	P/CFPS est. 2021E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1181.1	$31.67	$37,404	5%	5.0x	9.7x	5.8x	4.0x	1.9x	$8.60	$4.45	$7.46	7.1x	4.2x	$41.00	35%	↓
Cenovus Energy	CVE	OP		Wood	2017.3	$8.08	$16,300	0%	5.0x	29.0x	5.2x	34.7x	2.3x	$3.01	$0.16	$2.26	50.2x	3.6x	$13.00	61%	↓
Ovintiv Inc (US$)	OVV	OP		Wood	259.8	$18.32	$4,760	2%	6.4x	5.6x	4.3x	4.1x	3.0x	$11.22	$7.13	$9.05	2.6x	2.0x	$20.00	11%	↑
Imperial Oil	IMO	SP		Wood	736.3	$25.93	$19,092	3%	8.3x	26.0x	5.3x	4.7x	0.5x	$4.59	$1.13	$5.27	23.0x	4.9x	$31.00	23%	↑
Suncor Energy	SU	SP		Wood	1556.1	$21.97	$34,187	4%	6.8x	10.1x	5.2x	3.9x	1.5x	$6.93	$2.54	$5.21	8.8x	4.2x	$28.00	31%	
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.4	$2.32	$449	0%	4.1x	5.8x	4.0x	2.4x	1.5x	$0.83	$0.56	$0.85	4.2x	2.7x	$3.00	29%	
ARC Resources Ltd.	ARX	OP		Wood	353.4	$6.79	$2,399	4%	4.3x	4.7x	4.5x	1.2x	1.0x	$1.97	$1.79	$1.84	3.8x	3.7x	$7.00	7%	
Baytex Energy	BTE	SP		Payne	566.5	$0.90	$510	0%	3.0x	5.7x	4.2x	6.1x	4.0x	$1.62	$0.55	$0.75	1.6x	1.2x	$1.00	11%	
Birchcliff Energy	BIR	OP		Payne	265.9	$2.42	$644	1%	4.1x	7.1x	3.8x	4.1x	2.0x	$1.26	$0.69	$1.24	3.5x	1.9x	$3.50	45%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	530.0	$4.03	$2,136	0%	2.7x	4.5x	4.5x	2.6x	2.3x	$3.35	$1.62	$1.52	2.5x	2.6x	$3.75	-7%	↑
Enerplus Corporation	ERF	OP		Wood	255.6	$4.71	$1,204	3%	2.0x	4.1x	3.2x	1.5x	1.4x	$3.04	$1.60	$2.33	2.9x	2.0x	$7.50	62%	↑
Freehold Royalties	FRU	OP		Wood	130.7	$5.86	$766	4%	6.1x	10.4x	6.8x	0.1x	0.0x	$1.00	$0.60	$0.85	10.7x	6.9x	$7.50	32%	
Headwater Exploration	HWX	OP		Payne	199.1	$3.14	$625	0%	-0.3x	100.9x	9.4x	-12.4x	-0.9x	$0.09	$0.05	$0.31	67.2x	10.2x	$4.00	27%	↑
Kelt Exploration	KEL	OP		Payne	188.5	$2.24	$422	0%	5.6x	5.5x	6.0x	-0.6x	-0.2x	$0.99	$0.31	$0.36	7.2x	6.2x	$2.50	12%	
MEG Energy	MEG	SP		Wood	302.7	$5.43	$1,644	0%	4.6x	8.6x	8.1x	10.2x	9.0x	$2.41	$0.90	$0.99	6.1x	5.5x	$5.50	1%	
NuVista Energy	NVA	SP		Payne	225.7	$1.34	$302	0%	4.3x	4.6x	4.6x	3.9x	3.8x	$1.18	$0.68	$0.72	2.0x	1.8x	$1.25	-7%	
Paramount Resources	POU	SP		Payne	133.8	$8.20	$1,097	0%	4.9x	10.0x	4.9x	5.7x	2.2x	$2.29	$1.10	$2.49	7.5x	3.3x	$7.00	-15%	
Parex Resources	PXT	OP		Wood	117.9	$21.56	$2,542	0%	3.6x	5.9x	3.1x	-1.2x	-1.0x	$5.02	$2.86	$4.99	7.5x	4.3x	$30.00	39%	
Peyto Exploration & Development	PEY	OP		Wood	164.9	$4.45	$734	1%	5.2x	7.1x	4.6x	5.5x	3.3x	$1.95	$1.29	$2.14	3.5x	2.1x	$3.50	-20%	
PrairieSky Royalty	PSK	SP		Wood	223.3	$11.39	$2,544	2%	18.4x	18.0x	15.2x	0.3x	-0.4x	$0.94	$0.62	$0.73	17.8x	15.6x	$11.50	3%	
Seven Generations	VII	OP		Wood	333.3	$7.06	$2,353	0%	3.4x	4.5x	3.9x	2.4x	1.9x	$3.98	$2.50	$2.79	2.8x	2.5x	$9.50	35%	↑
Spartan Delta	SDE	OP		Payne	69.8	$3.88	$271	0%	-92.2x	7.4x	3.0x	0.3x	-0.3x	-$0.89	$0.53	$1.19	0.0x	0.0x	$6.00	55%	
Storm Resources	SRX	SP		Payne	121.6	$2.48	$301	0%	5.3x	7.4x	4.7x	2.6x	1.6x	$0.49	$0.43	$0.71	0.0x	0.0x	$3.00	21%	
Tamarack Valley Energy	TVE	OP		Payne	262.2	$1.62	$425	0%	3.0x	5.1x	3.9x	1.9x	1.3x	$0.97	$0.53	$0.56	3.1x	2.9x	$2.25	39%	
Torc Oil & Gas	TOG	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Topaz	TPZ	OP		Payne	112.9	$14.67	$1,656	5%	-1.7x	15.8x	12.5x	-2.7x	-1.1x	$11.16	$0.99	$1.08	14.9x	13.5x	$17.00	21%	
Tourmaline Oil	TOU	OP		Payne	296.5	$20.67	$6,129	3%	4.9x	6.6x	4.1x	1.6x	0.8x	$4.43	$4.29	$6.04	4.8x	3.4x	$30.00	48%	
Vermilion Energy Inc.	VET	SP		Wood	158.3	$6.29	$996	0%	6.2x	5.5x	4.6x	4.3x	3.3x	$5.82	$3.01	$3.42	2.1x	1.8x	$7.00	11%	
Whitecap Resources	WCP	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Small Cap																					
Crew Energy	CR	SP		Payne	160.3	$0.81	$130	0%	4.1x	7.7x	4.1x	8.8x	3.8x	$0.53	$0.27	$0.67	3.0x	1.2x	$0.90	11%	↑
PetroShale	PSH	SP		Payne	187.3	$0.18	$34	0%	6.1x	6.5x	3.8x	7.3x	3.9x	$0.39	$0.25	$0.42	0.7x	0.4x	$0.20	11%	
Pipestone Energy	PIPE	SP		Payne	189.9	$0.91	$173	0%	32.4x	7.5x	2.8x	4.0x	1.3x	$0.01	$0.22	$0.73	4.1x	1.2x	$0.85	-7%	
Surge Energy	SGY	SP		Payne	362.7	$0.35	$127	0%	4.0x	5.5x	4.2x	5.5x	3.4x	$0.55	$0.20	$0.28	1.8x	1.2x	$0.50	43%	
Yangarra Resources	YGR	SP		Payne	85.4	$0.88	$75	0%	3.2x	4.6x	3.1x	4.1x	2.5x	$1.08	$0.53	$0.85	1.6x	1.0x	$1.00	14%	

* 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 2/4	EBITDA (mm) 2019	EBITDA (mm) 2020e	EBITDA (mm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt / EBITDA 2019	Net Debt / EBITDA 2020e	Net Debt / EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
CES Energy Solutions Corp.	CES	SP		Payne	$ 391.22	262.6	$1.49	$ 167.1	$ 76.4	$ 90.4	25.2x	5.8x	6.4x	2.3x	3.5x	2.6x	$1.80	21%	
National Energy Services Reunited (US$)	NESR	OP		Payne	$ 1,065.93	89.9	$11.86	$ 185.9	$ 209.6	$245.3	7.2x	6.6x	5.3x	1.7x	1.2x	0.5x	$12.00	1%	
Precision Drilling Corp.	PD	SP		Payne	$ 409.14	13.7	$29.81	$ 411.4	$ 276.8	$230.9	25.2x	5.8x	6.4x	3.3x	3.7x	3.9x	$30.00	1%	
Trican Well Services	TCW	SP		Payne	$ 473.78	258.9	$1.83	$ 30.6	$ 19.3	$ 29.6	11.6x	21.7x	13.5x	1.3x	-0.1x	-0.6x	$2.00	9%	

Pipelines, Utilities & Energy Infrastructure

Sector Analysis

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Overview

We recently released our 2021 Outlook, highlighting the market's insatiable appetite for decarbonization, presenting one of the strongest macro tailwinds in years, with the sector's eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 to plow into environmentally-friendly investments, re-aligning long-term business plans with sustainable energy policies - while driving per share growth and valuation expansion. We note that the S&P TSX was down ~0.5% in January, while energy-linked names continued to rally on stronger commodity prices, with our Midstream benchmark up ~5.0%, while our Utilities benchmark edged higher by ~3.0%.

Commodities Update:

Despite relatively consistent COVID-19 case counts through January and the initial dissemination of vaccines facing certain logistical constraints, commodity prices continued to rally through the new year, averaging ~US$52/bbl, ~10% higher than December levels of ~US$47/bbl and ~30% above the 2020 average price of ~US$40/bbl. We do note prices have continued to strengthen in February, with WTI currently holding at ~US$55/bbl, the highest prices since January 2020. On the gas front, with winter conditions starting to materialize, AECO edged higher, averaging $2.77/mcf, up ~7% from the December average of $2.58/mcf. With North American winter conditions now more muted than originally expected, we revised our forecasted AECO price through 2021 and into 2022 towards $2.40/mcf, in line with strip pricing and ~5% above 2019 levels. Looking at Marketing prospects, the WCS heavy differential average remained flat through January at ~US$13.50/bbl (December: ~US$13.50/bbl) versus January 2020 differentials of ~US$35/bbl, suggesting continued pressure on near-term crude oil marketing results. On the natural gas liquids front, surging C3+ pricing through January (up ~35% q/q), combined with a resilient forward curve for 2021e drives our NGL frac spread forecast up to US$23/bbl, ~50% above 2020 levels of ~US$15/bbl.

Pipelines Update:

With President Biden revoking the KXL Presidential Permit on his first day in office, despite TRP's best efforts to partner with First Nations alliances, sign project labour agreements with U.S. unions and recently pledge project-level net neutrality via electrification of KXL, we anticipate the decade-long project gets left in the rear-view as the company sets forth on its clean energy transition. However, we anticipate KXL's loss to be ENB's gain, with shippers being more inclined to lock in long-term Mainline commitments. Including Line 3R and TMX, while excluding KXL, we forecast close to ~0.5 mmbpd of excess pipeline capacity available for producers to grow production with market access assurance in 2023.

With construction of the U.S. portion of the Line 3 Replacement project (+270 mbpd including Southern Access Expansion) well underway following the issuance of all outstanding state and federal permits in late 2020, combined with the Minnesota Court of Appeals recently denying opponents' motion for a stay on the Minnesota Public Utilities Commission's (MPUC) issuance of the Authorization to Construct, we note ENB is on track to achieve its planned Q4/21 in-service date. We anticipate the company providing a revised cost estimate (currently: US$3.4 billion including Southern Access Expansion) with the release of its 2020 annual results in February. We conservatively modelled in a ~20% cost increase with the release of our 2021 Outlook, but maintain our Jan. 1, 2022 in-service date assumption, based on a six-to-nine-month construction window, pending further unimpeded construction progress. Elsewhere, we note the recent U.S. Court of Appeals decision to allow DAPL to remain operating while the Army Corps of Engineers conducts its +13-month Environmental Impact Statement (EIS) is positive, but we remain cognizant that the case could set a new legal precedent against other operating pipelines where environment reviews fell short of today's more stringent standards. On the Line 5 front, ENB received the initial permits for the $500 million Line 5 Tunnel Project from the Michigan Department of Environment, Great Lakes and Energy (EGLE) on Jan. 29th, which address wetlands and submerged land impacts, along with pollutant and water discharge. The next step includes the issuance of permits from the U.S. Army Corps of Engineers and the Michigan Public Services Commission. Meanwhile, the State of Michigan's lawsuit seeking an injunction to halt operations of Line 5 has been moved to the federal court at ENB's request.

Power & Utilities Update:

We continue to highlight Fortis in pole position to benefit from decarbonization in the United States as President Biden seeks to turn his clean energy infrastructure plan into legislation. Recall, with its recently unveiled ~$19.6 billion five-year capital plan (2021-2025), the company is targeting a firm-wide Scope 1 GHG emissions reduction target of 75% by 2035 compared to 2019 levels. The plan is largely supported by its 2020 Integrated Resource Plan (IRP) at TEP, which seeks to fully eliminate coal generation by 2032 and add an incremental ~2,400 MW of new wind and solar power systems and 1,400 MW of new energy storage systems, reflecting $4-$6 billion of opportunities, of which only ~1/5th is incorporated into the 2021-2025 capital plan. Looking at Emera, the company unveiled its new $7.4 billion three-year capital plan for 2021-2023, plus $1.2 billion of potential incremental opportunities (was $200-$500 million), extending the company's ~8% rate base CAGR through 2023. Of note, ~70% of the secured capital program is allocated to Tampa Electric and Nova Scotia Power, with ~60% of the total capital spend being allocated towards reliability improvements and delivery of cleaner energy. Within, the $1.2 billion of additional opportunities include the large-scale Atlantic Loop project, which envisions a clean

Pipelines, Utilities & Energy Infrastructure

Sector Analysis

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energy loop for Atlantic Canada, supporting Nova Scotia's transition off coal earlier than the proposed 2040 timeline. Elsewhere, we continue to highlight Capital Power's clean energy transition, committing to move off coal by the end of 2023, alongside repowering Genesee 1 & 2 into combined cycle units at a cost of ~$1.0 billion. The repowered units are expected to be 30% hydrogen ready (95% with modest <$10 million incremental capital), while securing its low-cost position in the merit order based on an industry-leading heat rate of ~6.7x and emissions intensity of 0.35 tCO2e/MWh. Overall, the project is expected to produce an unlevered IRR of ~14% (levered: >20%). Meanwhile, its carbon capture and usage technology (C2CNT: carbon-to-carbon-nanotubes) will reach commercial operations in 2021, producing ~2,500 tonnes of carbon nanotubes to be sold into the cement/concrete industry - reducing carbon emissions at both Genesee and along the construction value chain.

Top Picks:

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

Selections

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

	Stock Sym.	Stock Rating	Units O/S (Mln)	Unit Price 02-04	Market Cap. (Mln)	Distributions per Share est. 2020e	est. 2021e	est. 2022e	Cash Yield 2021e	2022e	Distr. CF per Share - FD est. 2020e	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	279.4	$19.63	$5,486	$0.96	$1.00	$1.04	5.1%	5.3%	$2.07	$2.56	$2.87	7.7x	6.8x	5.5x	24.00	22.3%	↑	27.4%
Enbridge Inc.	ENB	OP	2019.0	$45.28	$91,420	$3.24	$3.34	$3.51	7.4%	7.7%	$4.68	$4.89	$5.26	9.3x	8.6x	4.7x	52.00	14.8%	↓	22.2%
Gibson Energy	GEI	SP	149.0	$20.97	$3,124	$1.36	$1.40	$1.40	6.7%	6.7%	$2.02	$2.06	$2.16	10.2x	9.7x	3.0x	23.00	9.7%	↓	16.4%
Inter Pipeline	IPL	SP	429.2	$13.20	$5,665	$0.48	$0.48	$0.48	3.6%	3.6%	$1.71	$1.48	$1.87	8.9x	7.1x	5.1x	15.00	13.6%	↑	17.3%
Keyera	KEY	OP	221.0	$25.75	$5,691	$1.92	$1.92	$1.92	7.5%	7.5%	$3.27	$2.83	$2.78	9.1x	9.3x	3.8x	29.00	12.6%	↑	20.1%
Pembina Pipelines	PPL	SP	550.0	$34.89	$19,190	$2.52	$2.52	$2.52	7.2%	7.2%	$3.80	$3.84	$3.91	9.1x	8.9x	4.4x	38.00	8.9%	↑	16.1%
Secure Energy	SES	OP	158.6	$2.97	$471	$0.03	$0.03	$0.03	1.0%	1.0%	$0.44	$0.59	$0.69	5.0x	4.3x	1.9x	4.00	34.7%	↑	35.7%
Superior Plus	SPB	SP	176.0	$12.50	$2,200	$0.72	$0.72	$0.72	5.8%	5.8%	$1.31	$1.19	$1.37	10.5x	9.1x	3.3x	14.00	12.0%		17.8%
Tidewater Midstream	TWM	OP	338.5	$0.90	$305	$0.04	$0.04	$0.04	4.4%	4.4%	$0.14	$0.24	$0.23	3.8x	3.9x	3.4x	1.25	38.9%	↑	43.3%
TC Energy Corp.	TRP	OP	978.0	$55.23	$54,012	$3.24	$3.50	$3.71	6.3%	6.7%	$5.72	$5.35	$5.92	10.3x	9.3x	5.2x	67.00	21.3%	↓	27.6%
Tervita	TEV	SP	113.4	$3.18	$361	$0.00	$0.00	$0.00	0.0%	0.0%	$0.45	$0.55	$0.71	5.8x	4.5x	3.2x	3.50	10.1%	↑	10.1%
Power Producers & Utilities																				
ATCO Ltd.	ACO	SP	114.7	$37.75	$4,328	$1.74	$1.79	$1.81	4.8%	4.8%	$2.12	$2.22	$2.14	17.0x	17.7x	4.5x	43.00	13.9%	↓	18.7%
Canadian Utilities	CU	SP	273.1	$31.68	$8,651	$1.74	$1.76	$1.78	5.6%	5.6%	$2.67	$2.85	$2.90	11.1x	10.9x	5.2x	35.00	10.5%	↓	16.0%
Capital Power	CPX	OP	107.9	$36.92	$3,982	$1.99	$2.12	$2.25	5.7%	6.1%	$4.94	$5.03	$4.74	7.3x	7.8x	4.4x	44.00	19.2%	↑	24.9%
Emera Inc.	EMA	SP	249.6	$52.31	$13,055	$2.48	$2.58	$2.68	4.9%	5.1%	$2.51	$3.83	$4.41	13.6x	11.9x	6.4x	59.00	12.8%	↓	17.7%
Fortis Inc.	FTS	SP	468.7	$51.92	$24,335	$1.92	$2.05	$2.17	3.9%	4.2%	$3.81	$4.16	$4.65	12.5x	11.2x	6.4x	60.00	15.6%	↓	19.5%
Hydro One Ltd.	H	SP	596.9	$29.88	$17,836	$1.01	$1.07	$1.12	3.6%	3.7%	$1.66	$1.60	$1.70	18.7x	17.6x	5.7x	32.00	7.1%	↑	10.7%
TransAlta	TA	SP	274.2	$11.40	$3,126	$0.17	$0.18	$0.18	1.6%	1.6%	$1.38	$1.63	$1.75	7.0x	6.5x	3.7x	13.00	14.0%	↑	15.6%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate

Sector Analysis

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Real Estate: Tilting toward Residential Real Estate to start 2021

With the economic outlook and earnings visibility still muddled through H1 2021, our top ideas have tended to favour residential over commercial ones. Lockdown measures across the country continue to impede activity and increase tenant fragility in the short run, but we are also in the early stages of a promising vaccine rollout. Facts are changing quickly on the ground, so we see low earnings visibility through H1 2021 and are favouring defensive residential asset classes (e.g., Multi-family, Seniors Housing) over commercial ones (e.g., Retail, Office) for now.

Here are brief synopses of our universe by asset class:

- **Multi-family:** We expect near-term lockdowns will weigh on operations in the first half of 2021, but a lack of affordable housing supply and a view that demand drivers will start to ramp back up in H2 give us confidence in a quick turnaround.
- **Seniors Housing/Healthcare:** While outbreak risks persist and impede occupancy, we believe the long-term earnings power of these businesses remains intact. The severity of the outbreak risk is proportionate to the vaccination rate, and residents and staff of LTC and retirement homes are priority recipients. This is a residential asset class with a bit more early cycle torque coming from the vaccine rollout.
- **Industrial:** Tailwinds from higher penetration of e-commerce and global supply chain changes persist. The proximity to customers in urban areas, coupled with limited land availability, is driving full occupancy and rent growth pressures, which is supportive of FFO/u growth.
- **Office:** We believe in an eventual "return to the office" but concede that there are short-run challenges (e.g., rising sub-let vacancy) that will likely weigh on stocks in 2021.
- **Retail:** Expect volatility in the near term as bearish retail headlines battle with vaccination progress over the course of the year. Lockdown activity will likely result in some slippage of collection rates. We believe that visibility into tenant health will not improve until midyear, and as a result, continue to favour the retailer-controlled REITs that have lower debt and higher collection rates.
- **Special Situations:** Our outlook varies by stock, but we still like the residential and quasi-residential names that are in this group: SVI (self-storage), TCN (single-family rentals) and MHC.u (manufactured housing).

Selections

- *Flagship REIT*
- *Chartwell*
- *H&R REIT*
- *ERES REIT*
- *CAP REIT*
- *Tricon*
- *Granite REIT*
- *Killam REIT*
- *Sienna*

Real Estate

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Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 2-4	Distributions per Unit (A) 2019	Distributions per Unit est. 2020	Distributions per Unit est. 2021	Cash Yield 2019A	Cash Yield 2020E	Cash Yield 2021E	Cash Yield Current Annualized	FD FFO (A) 2019	FD FFO est. 2020	FD FFO est. 2021	P/FFO 2019A	P/FFO 2020E	P/FFO 2021E	Net Asset Value	12-Mth Price Target	12-Mth Total Return (1)	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$5,171	Woolley	$17.73	$1.44	$1.44	$1.44	8.1%	8.1%	8.1%	5.4%	$1.87	$1.62	$1.50	9.5x	11.0x	11.8x	$22.40	$20.00	28.0%	↔
Choice Properties REIT	CHP.un	SP	↔	$9,101	Woolley	$13.04	$0.74	$0.74	$0.74	5.7%	5.7%	5.7%	5.7%	$0.99	$0.93	$1.01	13.2x	14.0x	13.0x	$12.20	$13.50	9.5%	↔
First Capital REIT	FCR	SP	↔	$2,969	Woolley	$14.64	$0.86	$0.86	$0.86	5.9%	5.9%	5.9%	3.0%	$1.23	$0.96	$0.99	11.9x	15.2x	14.8x	$17.10	$15.00	17.0%	↔
SmartCentres REIT	SRU.un	SP	↔	$3,926	Woolley	$23.79	$1.76	$1.81	$1.85	7.4%	7.6%	7.8%	7.8%	$2.27	$2.21	$2.03	10.5x	10.8x	11.7x	$28.60	$25.00	20.5%	↓
CT REIT	CRT.un	OP	↔	$3,459	Woolley	$15.53	$0.73	$0.76	$0.79	4.7%	4.9%	5.1%	5.2%	$1.17	$1.18	$1.24	13.2x	13.1x	12.5x	$15.50	$18.00	13.3%	↔
Crombie REIT	CRR.un	OP	↔	$2,177	Woolley	$14.43	$0.89	$0.89	$0.89	6.2%	6.2%	6.2%	6.2%	$1.16	$1.05	$1.13	12.4x	13.7x	12.8x	$14.40	$16.50	21.2%	↔
Automotive Properties REIT	APR.un	OP	↔	$426	Woolley	$10.97	$0.80	$0.80	$0.80	7.3%	7.3%	7.3%	7.3%	$1.00	$0.90	$0.94	11.0x	12.1x	11.7x	$10.00	$12.00	15.8%	↑
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$4,814	Kornack	$37.91	$1.65	$1.70	$1.73	4.4%	4.5%	4.6%	4.5%	$2.30	$2.29	$2.38	16.5x	16.6x	16.0x	$47.25	$44.50	31.2%	↓
DREAM Office REIT	D.un	OP	↔	$1,118	Kornack	$19.44	$1.00	$1.00	$1.00	5.1%	5.1%	5.1%	5.1%	$1.68	$1.51	$1.62	11.5x	12.9x	12.0x	$24.55	$22.00	16.2%	↔
Slate Office REIT	SOT.un	SP	↔	$302	Kornack	$4.19	$0.40	$0.40	$0.40	9.5%	9.5%	9.5%	9.5%	$0.76	$0.71	$0.69	5.5x	5.9x	6.1x	$4.25	$4.25	6.3%	↑
NorthWest H.P. REIT	NWH.un	SP	↔	$2,236	Woolley	$13.19	$0.80	$0.80	$0.80	6.1%	6.1%	6.1%	6.1%	$0.73	$0.83	$0.89	18.0x	15.8x	14.8x	$11.00	$13.50	8.4%	↑
H&R REIT	HR.un	OP	↔	$4,010	Kornack	$13.22	$0.92	$0.69	$0.69	7.0%	5.2%	5.2%	5.2%	$1.73	$1.66	$1.63	7.6x	8.0x	8.1x	$19.60	$15.50	23.6%	↔
Cominar REIT	CUF.un	RES		$1,480	Kornack	$8.43	$0.72	RES	RES	8.5%	RES	RES	RES	$1.13	RES	RES	7.5x	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,444	Kornack	$10.81	$0.54	$0.54	$0.56	5.0%	5.0%	5.1%	5.1%	$1.41	$1.41	$1.34	7.7x	7.7x	8.1x	$12.25	$11.50	-1.1%	↑
BTB REIT	BTB.un	SP	↔	$223	Kornack	$3.69	$0.42	$0.36	$0.30	11.4%	9.8%	8.1%	8.1%	$0.41	$0.38	$0.41	8.9x	9.6x	9.0x	$3.90	$3.75	9.3%	↑
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,045	Kornack	$76.27	$2.92	$3.00	$3.00	3.8%	3.9%	3.9%	3.9%	$4.06	$4.32	$4.47	18.8x	17.6x	17.1x	$75.15	$88.50	39.4%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$2,252	Kornack	$12.90	$0.70	$0.70	$0.70	5.4%	5.4%	5.4%	5.4%	$0.78	$0.71	$0.80	16.5x	18.2x	16.2x	$12.95	$13.75	8.0%	↑
WPT Industrial REIT	WIR'U-T	OP	↔	$644u	Kornack	$15.51u	$0.76u	$0.76u	$0.76u	4.9%	4.9%	4.9%	4.9%	$0.88u	$0.95u	$1.07u	17.7x	16.3x	14.6x	$15.30u	$17.50u	12.5%	↑
Summit Industrial	SMU.un	OP	↔	$2,284	Kornack	$13.57	$0.54	$0.55	$0.57	4.0%	4.1%	4.2%	4.0%	$0.58	$0.66	$0.68	23.3x	20.5x	20.1x	$12.85	$15.25	15.7%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$244	Woolley	$3.21	$0.65u	$0.65u	$0.65u	26.6%	26.6%	26.6%	26.6%	$0.73u	(0.08)u	$0.11u	3.4x	-31.4x	22.8x	$2.90	$3.50	23.6%	↑
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$8,581	Kornack	$51.18	$1.37	$1.38	$1.43	2.7%	2.7%	2.8%	2.7%	$2.13	$2.24	$2.34	24.0x	22.8x	21.9x	$54.64	$60.00	22.8%	↔
Boardwalk REIT	BEI.un	OP	↔	$1,721	Kornack	$34.81	$1.00	$1.00	$1.00	2.9%	2.9%	2.9%	2.9%	$2.61	$2.77	$2.73	13.3x	12.6x	12.7x	$43.60	$42.00	27.4%	↔
Killam Apartment REIT	KMP.un	OP	↔	$1,830	Kornack	$17.66	$0.65	$0.68	$0.70	3.7%	3.8%	3.9%	3.9%	$0.98	$1.02	$1.06	18.0x	17.4x	16.6x	$20.75	$21.00	26.7%	↔
InterRent REIT	IIP.un	OP	↔	$1,948	Kornack	$14.07	$0.31	$0.32	$0.32	2.2%	2.2%	2.3%	2.3%	$0.49	$0.48	$0.52	28.9x	29.6x	26.9x	$14.40	$15.50	11.8%	↑
Minto Apartment REIT	MI.un	SP	↔	$739	Kornack	$19.88	$0.41	$0.41	$0.41	2.1%	2.1%	2.1%	2.3%	$0.78	$0.86	$0.92	25.6x	23.1x	21.6x	$19.00	$21.00	7.7%	↔
BSR REIT	HOM.un	RES		$447u	Kornack	$10.85u	$0.50u	RES	RES	4.6%	RES	RES	RES	$0.73u	RES	RES	14.8x	RES	RES	RES	RES	RES	
ERES REIT	ERE.un	OP	↔	$962	Kornack	$4.51	$0.17	$0.17	$0.17	3.7%	3.7%	3.7%	3.7%	$0.19	$0.20	$0.22	24.3x	22.6x	20.4x	$5.21	$5.20	28.7%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$300	Kornack	$9.28	$0.83	$0.83	$0.83	8.9%	8.9%	8.9%	8.9%	$0.85	$0.66	$0.66	10.9x	14.1x	14.1x	$10.85	$10.00	15.6%	↑
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,137	Woolley	$9.79	0.59	0.60	0.60	6.0%	6.1%	6.1%	6.1%	0.92	0.73	0.77	10.6x	13.4x	12.7x	$11.20	$13.50	44.0%	↔
Sienna Senior Living	SIA	OP	↔	$948	Woolley	$13.27	0.90	0.92	0.94	6.8%	7.0%	7.1%	7.1%	1.38	1.01	1.05	9.6x	13.1x	12.7x	$15.40	$15.00	12.6%	↔
Extendicare	EXE	SP	↔	$595	Woolley	$6.13	0.48	0.48	0.48	7.8%	7.8%	7.8%	7.8%	0.52	0.80	0.33	11.8x	7.6x	18.8x	$7.30	$6.50	12.7%	↓
Invesque	IVQu	SP	↔	$102u	Woolley	$2.21u	$0.74u	$0.74u	$0.74u	33.3%	33.3%	33.3%	0.0%	$0.75u	$0.70u	$0.58u	3.0x	3.2x	3.8x	$2.50u	$2.00u	63.2%	↓
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,478	Woolley	$3.92	$0.01	$0.01	$0.01	0.3%	0.3%	0.3%	0.3%	$0.09	$0.12	$0.12	44.2x	33.5x	31.5x	$3.45	$4.50	11.7%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$184u	Woolley	$15.00u	n/a	n/a	$0.51u	n/a	n/a	3.4%	3.4%	n/a	n/a	$0.87u	n/a	n/a	17.3x	$16.90u	$18.00u	27.0%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$2,607u	Woolley	$12.52	$0.28	$0.28	$0.28	2.2%	2.2%	2.2%	2.2%	$0.42u	$0.42u	$0.44u	19.9x	19.9x	19.0x	$13.89	$14.00	24.9%	↔

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

Sector Analysis

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Containerboard Price Hike Attempt in Progress (TSX: CAS)

Following peer Packaging Corp of America's (PKG: NYSE, Not Rated) announcement of a US$70/ton containerboard price increase, representing a 9.1% hike, effective March 1, 2021, Cascades, Greif Inc. (GEF: NYSE; Not Rated) and International Paper Company (IP: NYSE, Not Rated) have followed suit, announcing new pricing terms also effective in March. Cascades and Greif's increases are for US$60/ton in linerboard and US$70/ton in corrugating medium, whereas IP's hike calls for US$60/ton in both grades. Though we note the latest announcements are not for the full US$70/ton in linerboard announced by PKG, a price increase has now been announced by producers accounting for just over 50% of North American capacity, making the price hike more likely to stick.

Input cost inflation supports announced price hikes:

Following a rollercoaster first half of 2020, OCC prices generally stabilized in the fall before ticking up in December and January. Similarly, pulp prices ticked higher at year end before staggering US$110-130/tonne NBSK February hike announcements from multiple parties, which if passed in full, would represent a 15% y/y increase. We also note upward pressure in SOP and freight costs. Both recycled and virgin containerboard producers can therefore point to increases in production costs to help justify the price hike.

Significant positive short term, uncertain balance long term:

The containerboard price hike is meaningfully beneficial to Cascades in the short term given an estimated $46 million annual EBITDA sensitivity per US$25/ton change in benchmark linerboard prices, all else equal. However, we believe the increase virtually guarantees additional capacity announcements from both existing producers and new entrants, further straining an already borderline projected supply/demand balance. Although 2020 delivered 3.4% y/y demand growth, easily absorbing an estimated 0.6% increase to supply (net of closures), we do not believe this level of box shipment growth is sustainable and foresee a notable uptick in additional capacity.

Valuation discount to peers remains wider than historical averages:

Cascades currently trades at 4.6x 2021e EV/EBITDA, whereas containerboard peers are trading at 7.4x EV/EBITDA (2.8x premium vs. historical 1-1.5x gap). We note that the valuation discrepancy is also apparent vs. the Tissue peer group trading at 11.0x EV/EBITDA (6.4x premium to CAS vs. historical 3-4x gap). We see no reason why Cascades shouldn't also participate in the macro tailwinds in both industries, which should make it an attractive long position in a potential pair trade.

Our $22.50 target is based on a sum-of-parts valuation ascribing 2022e EBITDA multiples of 5x for Containerboard, 5.5x for Boxboard Europe, 7x Specialty Products and 7.5x Tissue. We rate Cascades Outperform.

Selections

› *Alaris*
› *Dexterra*
› *Hardwoods Distribution*

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/4	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		648.6	38.9	16.66	12/2019	0.98	0.11	1.47	156.9	11.3	101.0	84.1	102.1	10.5	8.6	7.4%	2.3	21.00	↑
Boyd Group Services Inc.	BYD	SP		4,974.9	21.5	231.69	12/2019	4.99	2.47	4.91	94.0	47.2	319.9	293.0	376.8	19.3	15.3	0.2%	1.8	230.00	
CanWel Building Materials	CWX	OP		624.9	77.9	8.02	12/2019	0.22	0.70	0.54	11.5	14.8	86.2	133.7	118.3	6.8	7.8	6.0%	2.0	8.50	↑
Cascades	CAS	OP		1,644.9	103.5	15.89	12/2019	1.02	1.82	1.98	8.7	8.0	604.0	661.2	747.8	5.2	4.6	2.0%	2.7	22.50	↑
Dexterra Group Inc.	DXT	OP		418.4	64.9	6.45	12/2019	0.07	0.35	0.33	18.3	19.3	16.5	37.2	66.6	13.9	7.1	4.7%	1.7	8.50	
GDI Integrated Facility Services	GDI	OP		968.5	22.4	43.27	12/2019	0.31	1.85	1.57	23.4	27.5	77.5	101.5	109.2	11.1	10.4	0.0%	1.7	52.00	
Hardwoods Distribution	HDI	OP		653.8	21.4	30.54	12/2019	1.48	1.99	2.08	15.3	14.7	78.9	95.5	101.3	9.2	8.6	1.3%	1.7	36.50	↑
Intertape Polymer Group Inc.	ITP	SP		1,409.4	59.7	23.59	12/2019	0.99	1.41	1.42	13.4	13.2	172.1	201.0	211.4	8.1	7.5	3.3%	2.4	27.00	
KP Tissue	KPT	OP		101.2	9.7	10.41	12/2019	0.04	1.21	0.50	8.6	20.8	145.0	204.2	189.9	5.7	6.6	6.9%	3.6	15.00	
New Look Vision Group	BCI	OP		532.4	15.7	34.00	12/2019	1.67	1.09	1.50	31.1	22.7	56.4	78.8	95.7	11.4	9.1	0.0%	3.0	45.50	
Park Lawn Corporation	PLC	OP		945.6	29.9	31.58	12/2019	0.80	1.05	1.05	30.2	29.9	53.3	74.7	81.6	15.6	14.1	1.4%	2.3	33.50	
Richelieu Hardware	RCH	SP		2,152.9	56.3	38.24	11/2020	1.50	1.66	1.81	23.1	21.1	154.5	166.4	178.5	12.1	10.9	0.7%	0.1	36.50	↑
Savaria Corporation	SIS	R		R	R	R	12/2019	R	R	R	R	R	R	R	R	R	R	R	R	R	
Uni-Sélect	UNS	SP		305.6	42.4	7.21	12/2019	0.73	(0.29)	0.45	-24.7	16.0	129.9	82.3	121.3	9.5	6.1	0.0%	3.3	8.50	

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

Note: Intertape and Uni-Select data is in USD except stock prices and target prices. KP Tissue: Financial data reflects Kruger Products L.P. (in which KP Tissue has a 14.7% interest).

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

Sector Analysis

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Company Highlights

Our renewable energy infrastructure coverage has performed spectacularly for investors over the past five years benefiting from accretive growth, supportive government policy, a low interest rate environment and of late a scarcity of green investments. While we believe there is plenty of growth to be had and our coverage should continue to grow, we believe it will be hard to replicate the performance of the past five years. Further, with the prospect of rising rates, we favour stocks with business models where incremental growth is more favourable to equity holders and cash flows that are relatively more front-end loaded. Our top picks based on our assessment of risk and return profiles are INE, NPI and BIP.

Innergex Renewable Energy Inc.

(INE: TSX; Outperform; $32.00 target):

INE is one of Canada's largest renewables focused IPPs with an operating capacity of 2,742 MW (net). INE's production capacity is diversified across different renewable platforms (~29% hydro, ~57% wind and ~14% solar) and across geographies (~53% Canada, ~33% U.S., ~8% France and ~6% Chile). We believe INE's near-term construction activities could bear fruit soon with the 200 MW Hillcrest solar project on track for commissioning during late Q4'20E, the 8 MW Innavik run-of-river hydro project in northern Quebec and 7 MW Yonne II wind project expected to reach COD in 2021E and the Griffin Trail wind project recently coming into commission. On the development front, both the Barbers Point and Kahana solar and battery storage projects, in Hawaii, have signed PPAs while the selection process for the EP&C agreement is underway for both Paeahu and Hale Kuawehi solar and battery storage projects. In France, a battery provider has been selected for the Tonnerre stand-alone battery storage project and negotiations are underway. INE is looking to balance organic growth (typically low initial cash yields) with acquisition of assets with higher near-term cash yields. Our target is based on a long-term DCF with a cost of equity of 4.5% on operating assets and includes $3/sh for growth.

Northland Power Inc.

(NPI: TSX; Outperform; $52.00 target):

Northland Power owns 2,266 MW (net) of operational capacity in natural gas-fired and renewable power generation. It has an active growth pipeline, including a 130 MW solar project in construction in Mexico and a 626 MW (net) offshore wind farm in advance development in Taiwan. The acquisition of EBSA, an electrical distribution utility in Colombia, has added duration to NPI with perpetual cash flows and rate base inflation indexation while also providing the potential for rate base investment growth in the future (with 3.5% GDP growth and rapid population growth). NPI is targeting Japan and Korea for growth – markets with low exogenous risk factors and attractive offshore wind potential. It has an MOU with Shizen Energy in Japan for a 50/50 JV and has acquired Dado Ocean in Korea to pursue the development of offshore wind. Offshore wind is attracting partnerships and M&A, with recent deals valuing pre-construction assets in the range of US$500k/MW to US$850k/MW. The impact from COVID-19 is minimal, and with a solid three quarters in the bag, we expect NPI to meet its targeted guidance range of $1.1 billion to $1.2 billion in adj EBITDA and $1.70 to $2.05 in FCF/sh in 2020E. Our target is based on a long-term DCF with a cost of equity of 4.25% on operating cash flows and $9/sh of growth.

Brookfield Infrastructure Partners L.P.

(BIP: NYSE; Outperform; US$60.00 target):

BIP is one of the largest owners and operators of infrastructure networks in the world, operating US$51 billion of assets under four segments, namely Utilities, Transport, Energy and Data Infrastructure. About 95% of its cash flows are regulated or contracted, with ~75% indexed to inflation and ~65% carrying no volume risk. BIP is targeting over $2 billion of growth investments per year over the next three to five years, mostly into Data and Energy infrastructure, with a primary focus on developed markets and funded largely through capital recycling. BIP possesses an investment-grade balance sheet (rated BBB+), a corporate interest rate coverage ratio of >20x and an average debt maturity profile of eight years, with ~90% of the debt fixed and ~85% of the debt non-recourse. BIP's long-term goal is to generate a return of 12 -15% on equity and provide sustainable distributions for unitholders with an annual distribution growth of 5-9%. Our target is based on a long-term DCF with a cost of equity of 5.5% and includes $7.00/sh for growth.

Selections

› *Innergex Renewable Energy Inc.*
› *Northland Power Inc.*
› *Brookfield Infrastructure Partners L.P.*

Sustainability & Clean Tech

Sector Analysis

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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 02/04	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Sales per share (A) Last FY	Sales per share est. FY1	Sales per share est. FY2	P/S FY1	P/S FY2	Book Value	Debt/ Capital	12-Mth Price Target	Δ
Energy Technology																					
5N Plus	VNP	OP		329.8	82	4.02	12/2019	0.05u	0.08u	0.17u	61.7	30.1	2.33u	2.07u	2.28u	2.5	2.3	1.35u	0.24	4.00	↑
Algonquin Power	AQN	OP		10414.5u	601	17.34u	12/2019	0.63u	0.63u	0.65u	35.8	34.8	3.25u	2.99u	3.21u	7.5	7.0	8.67u	0.43	19.00u	↑
Atlantic Power	AT	T		350.2u	118	2.98u	12/2019	(0.35)u	0.43u	0.43u	9.1	8.9	2.58u	2.44u	2.63u	1.6	1.5	1.02u	0.71	3.03u	↑
Ballard Power Systems	BLDP	R		9294.6u	244	38.15u	12/2019														
Boralex	BLX	SP	↓	5101.3	103	49.41	12/2019	(0.43)	0.65	0.93	nmf	69.2	6.19	6.34	7.30	10.1	8.8	9.39	0.68	54.00	↑
Brookfield Infrastructure	BIP	OP		25165.8u	465	54.12u	12/2019	1.34u	1.41u	1.42u	50.0	49.5	8.81u	10.30u	10.66u	6.8	6.6	44.40u	0.69	60.00u	↑
Brookfield Renewable	BEP	R		29871.5u	645	46.28u	12/2019														
DIRTT Environmental Solutions	DRT	OP		191.4u	85	2.26u	12/2019	(0.05)u	(0.08)u	(0.03)u	nmf	nmf	2.87u	2.03u	2.16u	1.4	1.4	1.38u	0.00	3.00u	↑
GFL Environmental Inc.	GFL	OP		14248.9	360	39.54	12/2019	(2.46)	(1.61)	(0.34)	nmf	nmf	18.24	11.39	13.32	4.5	3.9	17.85	0.46	40.00	↑
Innergex	INE	OP		5062.0	174	29.01	12/2019	(0.25)	(0.14)	0.59	nmf	63.7	4.10	3.51	3.90	10.7	9.7	6.40	0.82	32.00	
Lithium Americas	LAC	OP		1839.0u	91	20.13u	12/2019	0.60u	(0.38)u	(0.21)u	nmf	nmf	0.05u	0.00u	0.00u	na	na	1.09	0.53	23.00u	↑
NanoXplore	GRA	R		129.7	140	3.91	06/2019														
Northland Power	NPI	OP		9860.6	202	48.92	12/2019	1.71	2.07	1.87	30.7	34.1	8.84	10.42	10.75	6.1	5.9	9.74	0.80	52.00	↑
Pinnacle Renewable	PL	OP		331.5	33	9.90	12/2019	(0.33)	0.06	0.38	nmf	34.3	11.37	14.96	17.28	0.9	0.7	4.59	0.71	12.50	
Sigma Lithium	SGMA	OP		347.2	77	4.50	12/2019	(0.07)	(0.02)	(0.06)	nmf	nmf	0.00	0.00	0.00	na	na	0.30	0.16	6.25	↑
TransAlta Renewables	RNW	SP		5777.5	266	21.72	12/2019	0.68	0.36	0.57	nmf	49.4	1.69	1.63	1.70	17.3	16.6	8.30	0.23	21.00	
Xebec Adsorption	XBC	OP		1100.5	108	10.22	12/2019	0.03	(0.04)	0.06	nmf	nmf	0.72	0.68	1.06	19.5	12.5	0.80	0.14	9.00	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Technology

Sector Analysis

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Proceed with Caution

Year to date the S&P Technology Index is up 1.52% versus a 0.58% increase for the S&P 500. Closer to home, the TSX Technology Index is up 4.05% versus a 1.73% increase in the TSX. As covered in our recent earnings preview, ***Hold Off into Reporting Season***, we're not expecting any major surprises from our broad coverage group going into earnings season. If we look at where expectations are across the Technology sector, they are well above even pre-pandemic levels, suggesting high expectations and the potential for upside "beats" less so. In light of that, we'd tread lightly into the quarter, but opportunistically wade in off the actual reported results. Looking further out, the obvious question now is what to expect as we move through 2021? To say our names will replicate their prior-year performance in 2021 seems a reach, but the reality is that many of the tech investing themes that surfaced or were accelerated in 2020 will continue. At the same time, we continue to believe legacy names like OpenText and CGI continue to look fundamentally undervalued. From a stock selection standpoint, we continue to opportunistically add positions in our favourite growth names like Docebo, Lightspeed, Kinaxis, Nuvei, Shopify and Real Matters while balancing those names with legacy incumbents like CGI and Open Text.

Docebo

Docebo is in the early innings of what we believe is a developing growth story with a multi-year growth runway. We continue to like this name for its differentiated product offering led by technology and a highly efficient sales and marketing model which we believe is putting Docebo in a position to make meaningful market share gains. Docebo's edge comes from a modern architecture that allows the Company to build out more progressive applications as well as make select acquisitions to enhance its existing product offerings. In our view, DCBO is an under the radar tech name that has the chops to play with the other Canadian tech stars.

Lightspeed

Lightspeed continues to capture share using a strategy of organic and acquisition measures. That's elevating its ability to fortify a growing leadership position within its targeted segments. Equally impressive has been the Company's resilience and ability to pivot existing and prospective customers to relevant products under the current health backdrop. Looking ahead, while there remains uncertainty short term with rotating global lockdowns, it's our view that if the Company can operate under the conditions of the past year, we think a normalized environment would amplify that ability to execute that much more – which is the main reason why we still think there is plenty of upside ahead.

Kinaxis

Kinaxis remains one of our favourite names. We see the name holding both defensive and growth attributes. We think the current pandemic will be a boon for Kinaxis longer term, even though in the near term we acknowledge the health backdrop has impacted the company. While it may (or may not) be obvious, supply chain management has been a critical technology / process in the current environment and from what we've heard, the pipeline of opportunity is up considerably, which should be of no surprise given the challenges across supply chains, particularly across larger enterprises. With new products like Demand Sense, RapidValue and the recent acquisition of Rubikloud adding AI/ML, we think that will further stretch Kinaxis's edge, not to mention adding a product cycle that is typically positive for enterprise software companies.

Shopify

Shopify remains the leading technology platform for e-Commerce in our opinion. The Company reported a blockbuster Black Friday and Cyber Monday suggesting the Company was on course for a record Q4. For investors, we see many avenues of growth - namely: 1) International, 2) increased take rate with new services; 3) fulfillment; and, 4) larger enterprise not to mention what we believe to be an overall accelerating industry shift to e-Commerce. It's those drivers that offer the potential for a material lift in revenue going forward and given the execution thus far, we believe it's reasonable to price in those potential drivers given the history of execution.

Selections

- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Nuvei*
- *Real Matters*
- *Shopify*

Technology

Sector Analysis

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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 2/4	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Absolute Software Corp.	ABST	SP		964	52.1	18.50	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	22.2	21.6	(0.8u)	0%	18.00	
Altus Group Limited	AIF	SP		2,011	40.6	49.56	2019	1.46	1.82	1.91	27.3	25.9	88.1	98.7	101.9	21.0	20.3	9.5u	28%	52.00	
CGI Inc.	GIB.A	OP		26,310	261.8	100.50	2020	4.68	5.40	5.80	18.6	17.3	2426.3	2732.7	2883.4	10.3	9.8	27.7	33%	120.00	↑
Constellation Software Inc.	CSU	SP		33,771	21.2	1,593.60	2019	27.84u	36.08u	44.00u	34.8	28.5	933.0u	1,194.7u	1,303.4u	22.4	20.5	42.6u	43%	1600.00	
Docebo Inc.	DCBO	OP		2,255	32.2	70.04	2019	(0.35u)	(0.06u)	0.02u	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.4u	0%	70.00u	
EXFO Inc.	EXFO	SP		212u	54.6	3.89u	2020	0.01u	0.28u	0.38u	14.1	10.2	18.2u	29.8u	30.9u	7.2	7.0	3.2u	10%	3.50u	
Kinaxis Inc.	KXS	OP		4,988	27.8	179.63	2019	1.36u	1.16u	1.90u	NMF	NMF	57.7u	56.8u	81.0u	65.5	45.9	9.9u	0%	250.00	
Lightspeed POS	LSPD	OP		8,699u	119.9	72.56u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	80.00u	
Maxar Technologies Ltd.	MAXR	SP		3,261u	63.4	51.43u	2019	(3.02u)	3.59u	(1.71u)	14.3	NMF	416.0u	437.0u	451.7u	12.9	12.4	15.7u	71%	56.00u	↑
mdf commerce inc.	MDF	SP		350	22.7	15.40	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	49.4	45.3	4.7u	11%	16.50	↑
Nuvei Corporation	NVEI	OP		9,829	131.5	74.77	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	49.1	45.1	8.8u	9%	85.00	↑
Open Text Corporation	OTEX	OP		13,404u	272.8	49.13u	2020	2.89u	3.29u	3.41u	14.9	14.4	1,148.2u	1,231.8u	1,335.6u	12.8	11.8	14.9u	51%	60.00u	↑
Pivotree Inc.	PVT	OP		295	26.6	11.10	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	54.6	43.2	0.5	58%	14.00	
Real Matters Inc.	REAL	OP		1,613	88.5	18.23	2020	0.56u	0.81u	1.05u	17.7	13.6	72.2u	90.5u	116.9u	12.6	9.8	2.4u	0%	40.00	
Shopify Inc.	SHOP	OP		180,991u	124.9	1,448.99u	2019	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,400.00u	
Sierra Wireless Inc.	SWIR	UP		693u	36.4	19.03u	2019	(0.01u)	(1.16u)	(0.44u)	NMF	NMF	21.0u	(25.8u)	4.8u	NMF	135.5	9.4u	7%	15.00u	↑

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

Sector Analysis

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Thomson Reuters

Thomson Reuters – Refinitiv closes and we look ahead to next chapter of story:

Despite the pandemic and a change in CEO and CFO driven by succession planning, TRI's 2020 guidance called for revenue growth of 1%-2% (organic gains 0%-1%), Adj. EBITDA margin of 32% and FCF around US$1.1 bln, with the Big 3 expected to deliver total and organic growth of 3%-4% and Adj. EBITDA margin of 37%-38%. As we await the reporting of year-end results on Feb. 23, 2021 along with the 2021 outlook and a likely dividend hike, we note that the Refinitiv sale (owned 55/45 by Blackstone/TRI) to the London Stock Exchange Group (LSEG) closed on Jan. 29, 2021. TRI now owns ~15% of LSEG, will receive dividends, and be subject to a lock-up through Jan. 29, 2023 after which Blackstone/TRI can sell one-third of their stake starting on Jan. 30. 2023 and Jan. 30, 2024 (lock-up arrangement ends Jan. 29, 2025). About US$700 million in tax became payable upon the deal's closing (future share sales subject to 25% tax) which TRI has said that it may address through non-core asset sale; however, LSEG shares could also be sold. Meanwhile, TRI is building on its foundational strengths, shifting its focus to a smaller number of higher growth product categories, and aiming to significantly enhance the customer experience while being even more agile with its product development. Management has been confident in recent years about returning to a sustainable value creation model where revenue growth is targeted at 4%-7%, based on organic gains of 3%-5% (long-term aspiration of 4%-6%) being complemented by M&A contributions adding 1%-2% to growth, margin expansion and FCF growth of 6%-10%. We look for TRI's Investor Day on March 16, 2021 to outline the company's plans for improving organic growth and its path toward an Adj. EBITDA margin of at least 35% perhaps by 2023. Transformational M&A is not being pursued (acquisitions will occur), as management believes that it's well-positioned in its verticals. TRI produces solid FCF which it uses for annual dividend increases, share repurchases (current NCIB for up to five million shares to help keep share count around 500 million, last one bought 6.9 million shares for US$500 million), deleveraging as required, and M&A. Leverage last stood at 1.6x with a target of 2.5x. The dividend yield sits just below 2% with the FCF payout at just over 66% 2020E amid a target range of 50%-60%. We upgraded TRI on Jan. 14, 2021 and raised our target which is based on our 2022E NAV.

Selections

› *Telus*
› *Transcontinental*
› *Thomson Reuters*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 2/4	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	↑	693	63.3	10.94	12/2019	0.58	(7.64)	(2.19)	-1.4	-5.0	230.5	-160.1	50.6	NM	26.1	4.05	0.72	14.00	↑
Corus Entertainment Inc.	CJR.b	OP		1,034	208.4	4.96	08/2020	0.75	0.90	0.80	5.5	6.2	505.8	535.6	504.3	4.9	4.8	4.66	0.62	6.50	↑
WildBrain Ltd.	WILD	SP		495	170.8	2.90	06/2020	(0.64)	(0.00)	0.05	NM	NM	81.8	82.3	90.4	11.8	10.3	0.46	0.84	1.80	
Spin Master	TOY	OP		2,844	102.0	27.88	12/2019	0.90	0.61	1.26	35.8	17.3	219.0	170.9	252.1	12.7	8.3	7.96	-0.34	36.50	
Stingray Digital	RAY.a	OP		544	73.0	7.46	03/2020	0.74	0.93	0.95	8.0	7.9	118.1	120.5	125.7	7.4	6.7	3.92	0.59	9.00	↑
TVA Group Inc.	TVA.b	SP		91	43.2	2.11	12/2019	0.49	0.54	0.53	3.9	4.0	72.4	68.2	64.9	1.8	1.6	6.46	0.14	2.00	
Printing & Publishing																					
Thomson Reuters	TRI	OP	↑	53,488	497.1	107.60	12/2019	1.29	1.80	2.02	46.7	41.5	1493.0	1950.4	2057.2	22.9	21.4	19.23	0.24	115.00	↑
Transcontinental Inc.	TCL.a	OP		1,853	87.0	21.29	10/2020	2.61	2.32	2.34	9.2	9.1	499.4	451.3	445.6	5.8	5.4	19.67	0.35	26.00	
Advertising & Marketing																					
Yellow Pages	Y	SP		346	28.0	12.35	12/2019	3.44	2.23	2.25	5.5	5.5	161.3	130.0	118.0	2.5	2.3	NM	-0.05	13.00	
Telecommunications																					
BCE Inc.	BCE	OP		50,692	904.4	56.05	12/2020	3.02	3.15	3.48	17.8	16.1	9607.0	9956.5	10401.8	8.0	7.6	18.78	0.38	64.00	
Cogeco Communications Inc.	CCA	OP		5,281	47.9	110.23	08/2020	7.41	8.91	9.75	12.4	11.3	1148.7	1226.3	1278.0	6.3	5.8	56.55	0.50	126.00	↑
Quebecor Inc.	QBR.b	OP		7,816	250.5	31.20	12/2019	2.24	2.32	2.54	13.5	12.3	1879.5	1929.9	2003.2	6.9	6.5	4.34	0.83	39.00	
Rogers Communications Inc.	RCI.b	OP		29,952	504.9	59.32	12/2020	3.40	3.40	3.72	17.4	15.9	5857.0	6064.8	6365.0	7.5	7.0	18.96	0.46	70.00	
Shaw Communications	SJR.b	OP		11,563	513.0	22.54	08/2020	1.31	1.34	1.47	16.9	15.3	2391.0	2431.6	2493.0	7.0	6.6	12.02	0.47	28.00	
Telus Corp.	T	OP		34,360	1284.0	26.76	12/2019	1.45	0.96	1.10	27.9	24.3	5554.1	5514.3	5987.5	9.8	8.9	9.73	0.60	28.00	

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

TRI & TOY estimates are in US$, rest is CAD$.

Source: Bloomberg, Refinitiv and NBF estimates

Transportation & Industrial Products

Sector Analysis

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Aerospace market update

We review the current market conditions for the Aerospace sector and the implications for our coverage aerospace stocks: **CAE (CAE: TSX; Sector Perform, $34.00 target), Héroux-Devtek (HRX: TSX; Outperform, $17.50 target) and Bombardier (BBD.B: TSX; Sector Perform, $0.80 target). We also include Chorus Aviation (CHR: TSX; Sector Perform, $3.60 target)** due to its exposure to the aircraft leasing market.

- **Air travel recovery has stalled.** A resurgence of the virus and much stricter international travel restrictions have been a clear setback to a recovery in air travel demand. According to OAG, global scheduled flights in the latest week are down 49.0% from last year, exceeding the decrease in each of the previous weeks. A recovery in airline capacity and aircraft utilization is the key driver for airline pilot training demand for CAE so the stalled rebound for airlines will likely push a further increase in airline pilot training demand to the right. Regional aircraft utilization also remains highly depressed (down 50-80% depending on aircraft type) so we would not expect a rapid rebound in Chorus Aviation's regional aircraft leasing business.
- **Business aviation recovery tracking well.** WBusiness jet flying activity was down 14-15% in December, far outpacing the rebound in the airline sector. The positive trends in business jet flying activity are good news for CAE, which generates ~50% of its Civil training revenue from business aviation. We believe CAE's business aviation pilot training demand could be back to pre-pandemic levels by late 2021. Business jet flying activity is also a leading indicator for new business jet demand. We currently forecast only a slight uptick in business jet deliveries for Bombardier in 2021, but if positive industry indicators continue, we see upside to our forecast.
- **Commercial aircraft production rates have found a bottom.** New aircraft production rates are key drivers for commercial landing gear demand for HRX and new simulator demand for CAE. Based on the announced rates by model, combined Airbus and Boeing deliveries in 2021 will fall ~43% from the 2018 peak. However, we believe production rates are stabilizing with a slow recovery likely to begin in 2022 as Airbus notably plans higher narrow-body rates later this year. We note that HRX generates 66% of its revenue from defence programs so it is relatively insulated from the commercial aerospace downturn with upside as new contracts ramp in the next several years.

Selections

- *TFI International*
- *Exchange Income*
- *Héroux-Devtek*

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 2-4	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	OP		297	21.78	6,469	12/2019	-13.12	-9.96	-0.38	na	na	18.92	(5.41)	(3.77)	nmf	nmf	nmf	26.00	↓
Bombardier Inc.	BBD.b	SP		2411	0.64	1,543	12/2019	-u0.60	-u0.18	-u0.03	na	na	-u0.51	-u1.25	-u0.01	nmf	nmf	nmf	0.80	↑
BRP Inc.	DOO	OP		90	89.39	8,010	01/2020	3.83	5.16	5.46	17.3x	16.4x	1.59	4.01	2.78	22.3x	32.2x	145%	88.00	
CAE Inc.	CAE	SP		267	31.60	8,451	03/2020	1.34	0.41	0.96	77.0x	32.9x	(80.30)	(80.00)	(90.00)	nmf	nmf	41%	34.00	
Canadian National Rail	CNR	SP		713	133.83	95,448	12/2020	5.31	5.98	6.87	22.4x	19.5x	8.97	8.47	8.99	15.8x	14.9x	39%	137.00	↓
Canadian Pacific Rail	CP	SP		135	449.83	60,637	12/2020	17.67	20.04	22.29	22.4x	20.2x	21.65	23.47	27.45	19.2x	16.4x	57%	445.00	
Cargojet Inc.	CJT	OP		17	216.06	3,725	12/2019	0.85	-2.47	5.54	na	39.0x	(4.79)	4.76	7.35	45.4x	29.4x	73%	254.00	↓
Chorus Aviation Inc.	CHR	SP		162	3.41	552	12/2019	0.44	0.34	0.51	10.0x	6.7x	(3.37)	(1.77)	1.26	nmf	2.7x	76%	3.60	↓
Exchange Income Corporation	EIF	OP		36	37.58	1,357	12/2019	2.97	0.80	1.45	47.0x	25.9x	7.58	5.08	5.90	7.4x	6.4x	62%	42.00	↑
Héroux-Devtek Inc.	HRX	OP		36	14.17	515	03/2020	1.00	0.60	0.66	23.7x	21.5x	2.26	1.67	1.92	8.5x	7.4x	37%	17.50	
NFI Group Inc.	NFI	R		63	29.39	1,837	12/2019	R	R	R	R	R	R	R	R	R	R	R	R	
Transat A.T. Inc.*	TRZ	R		38	4.76	180	10/2019	R	R	R	R	R	R	R	R	R	R	R	R	
TFI International Inc.	TFII	OP		91	92.32	8,397	12/2019	4.09	4.81	6.16	19.2x	15.0x	3.53	6.23	5.81	14.8x	15.9x	41%	103.00	↑

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

u = US dollars

*based on EBITDAR (includes leases)

Source: Company Reports, Refinitiv, NBF

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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 • 436, boulevard Sir-Wilfrid-Laurier, Suite 100, Mont Saint-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
Oak Bay • #220 - 2186 Oak Bay Avenue, Victoria, BC, V8R 1G3 • 250-953-8400
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
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Rouyn-Noranda • 104, 8e rue, Rouyn-Noranda, QC, J9X 2A6 • 819-762-4347
Saint John • 69 King Street, 2nd floor, St-John, NB, E2L 1G5 • 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
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Saskatoon - 8th St. • 1220 8th Street East, Saskatoon, SK, S7H 0S6 • 306-657-3465
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Victoria - Fort • 1480 Fort Street, Victoria, BC, V8S 1Z5 • 250-475-3698
Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
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