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VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

Economy

› In the developed economies, the daily number of new Covid-19 infections has declined markedly in recent weeks. The result? An acceleration of the global economic recovery. Apart from the improvement in the health situation, this revival can also be explained by the sizeable fiscal aid provided by the world's governments. This support has gone way beyond the efforts made following the crisis of 2008 and its positive effects are already felt in a number of sectors. On the monetary policy front, having managed the initial shock with brio, central bankers must now focus on accompanying the recovery. Aware of high indebtedness, and criticized for having tightened monetary policy too soon in the last economic cycle, they are likely to err on the side of caution this time around. This is likely to be reflected in an environment of very low real rates, which will help governments and businesses deal with higher debt. Continuing monetary accommodation in an environment of expected robust growth is likely to firm up inflation. Heartened by recent developments, we are revising up our forecast of global growth in 2021 from 5.5% to 6.0%. This revision reflects our confidence that the U.S. economy will recover very strongly. China is likely to be another major engine of growth this year, while the Eurozone is likely to lag.

› On January 20, 2020, medical authorities confirmed the first case of Covid-19 infection on U.S. territory. Within weeks, the virus forced a complete shutdown of many parts of the economy and plunged the country into the unknown. A year later, where have we got? It must be acknowledged that the U.S. economy has been recovering from the pandemic shock much faster than expected. In the fourth quarter, real GDP was only 2.5% below the pre-crisis level. And judging by the latest data, the remaining shortfall is likely to be closed faster than we forecast last month. With business investment, household consumption and the housing market all doing better than anticipated, we have substantially revised up our forecast for first-quarter GDP growth. In further good news, there is reason to believe that massive fiscal stimulus from Washington will support continuation of this impressive rebound throughout the year. We now expect an expansion of 6.6% this year (from 5.2%) and 3.8% next year. In keeping with this outlook for growth, our inflation forecast remains higher than those of the consensus and the Fed. The private sector, already struggling to meet demand, faces a substantial rise in input costs. We think these pressures will sooner or later reach consumers. That said, we expect that inflation will remain in a range acceptable to the Fed at least through 2022.

› We are raising our outlook for 2021 GDP growth in Canada to 5.4% (from 4.2%). This significant revision is attributable to the higher-than-expected handoff from fourth-quarter growth. But what surprises us even more is Statistic Canada's preliminary estimate of 0.5% monthly growth in January despite the shutdown of nonessential businesses in Ontario and Quebec for a good part of the month. This puts paid to expectations of contraction in the first quarter. We are also more optimistic about the subsequent months. Ottawa has further extended its extraordinary income-support program, which could mean that it will be in place until the pandemic is under control. Consumption in services remains depressed due to public-health measures currently in place but things can change fast when the pandemic comes under control The Canadian economy will also benefit indirectly from the huge U.S. fiscal stimulus program and from our Southern neighbour's progress in vaccination. The surge of raw material prices, meanwhile, augurs notable improvement in Canada's terms of trade in first quarter 2021, which could mean record corporate profits. This bodes well for hiring and investment.

Interest rates and currency

› Our March *Monthly Economic Monitor* unveils hefty upward revisions to our baseline thinking on North American growth. A jumbo fiscal package means 2021 growth will be downright supercharged in the U.S., holding clearly above potential through 2022 (if not longer). Meanwhile, Canada appears to have skated through early-year government-induced lockdowns in key regions surprisingly well. It all means more rapid closure of output gaps and earlier onset of above-target inflation, all else being equal. So notwithstanding ongoing uncertainty), the stage is increasingly set for the removal of monetary accommodation. We see a rather straightforward sequencing: a 12-18 month tapering of QE purchases during 2021-22 giving way to the first hikes in policy rates starting in 2023.

› If you go in for monikers, you could well dub the last couple of months Taper Tantrum 2.0 or Moderation Meltdown. True, the scaling back of central bank bond purchases (likely starting in April for the BoC and perhaps kicking off this fall for the Fed) and eventual policy rate hikes will tighten financial conditions. We've had a bit of a warm-up act of late. But the managed removal of unprecedented monetary stimulus looks to be mitigated by extreme (or at least significant) fiscal supports. In the end, we don't see Jay or Tiff unduly jeopardizing the North American growth story, undercutting stocks, snuffing out a commodities rally, seriously clipping the loonie's wings or destabilizing credit… not this year at least.

› A couple of weeks into March, it's clear the sell-off has persisted. And as per our fresh interest rate forecast table, we expect this to continue. However, the rapid pace of increase, should moderate as fiscal stimulus and inflationary fears are increasingly being priced in. While the ten-year rate is highly likely to be above where it settled at the end of February in a couple months time, we don't expect it to be another 50 basis points higher as we move into the spring.

› On balance, we argue for the maintenance of the current inflation targeting mandate by the BoC. This does not mean that the central bank should not consider the employment situation when making policy decisions. We simply believe that employment statistics should be used not as a goal in itself, but as one of many tools used by the Bank to help determine the trajectory of inflation.

› The Canadian dollar has been the best-performing currency against the USD in recent weeks. Loonie strength has been supported by surging GDP growth due to a sharp improvement in Canada's terms of trade and rising expectations that the Bank of Canada will taper its QE. Our target for year-end 2021 remains C$1.20 to the USD.

Recommended asset mix and stock market

› Despite a recent setback, the MSCI ACWI remains in the black for the year to date with a gain of

Highlights

2.6%, led by a robust showing from Canada (+5.4%) and emerging markets (+5.1%). Why are equity markets becoming more hesitant in the face of good news? The answer is rising Treasury yields.

- How long can the Federal Reserve keep interest rates below inflation with global vaccination against Covid ramping up and the U.S. job market improving? For a while longer, in our view. At 57%, the employment rate currently remains below the bottom it reached in the wake of the 2008-09 recession. Getting employment back to its pre-pandemic rate of 61% requires the addition of more than 9 million jobs.
- The S&P/TSX continues to do very well in 2021. At this writing it hovers near a new record. We wrote last month that it was only a matter of time before the record valuation gap between the S&P 500 and the S&P/TSX began to narrow if we were right in our outlook of rebounding economic growth. The Canadian benchmark proved us right and is already up significantly year to date led by Energy and Banks.
- Canadian banks baffled analysts at the end of February by reporting quality earnings well above expectations. Equity analysts reacted by upgrading their consensus on 12-month-forward earnings by a whopping 10%, the biggest upward revision on record. Even after this massive revision, earnings expectations for Canadian Banks remain below their pre-pandemic level
- Our asset mix is unchanged this month: Overweight in equities and underweight in fixed income with a geographic allocation favouring Canada and Emerging Markets. The recent rise of bond yields reflects improvement of prospects for the global economy rather than loss of faith in governments and de-anchoring of inflation expectations. There is still a need for considerable healing of labour markets before central banks allow real interest rates to turn positive again.

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	12.8	Market Weight	
Materials	12.1	Overweight	
Industrials	12.3	Market Weight	
Consumer Discretionary	4.0	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.5	Market Weight	
Financials	31.6	Overweight	
Information Technology	9.5	Underweight	
Telecommunication Services	4.8	Market Weight	
Utilities	4.7	Underweight	
Real Estate	3.2	Underweight	
Total	100.0		

* As of March 10, 2021

The Economy

The Economy

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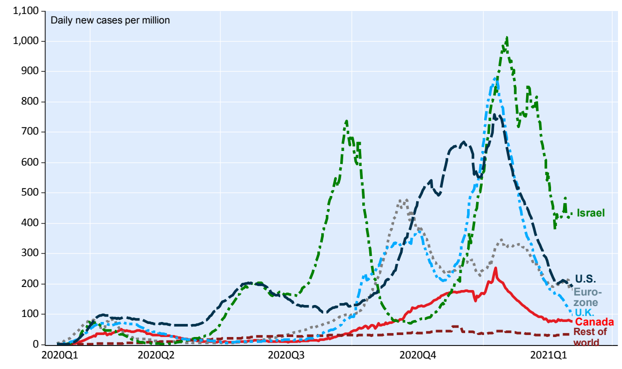
World: A new day dawning

In the developed economies, the daily number of new Covid-19 infections has declined markedly in recent weeks.

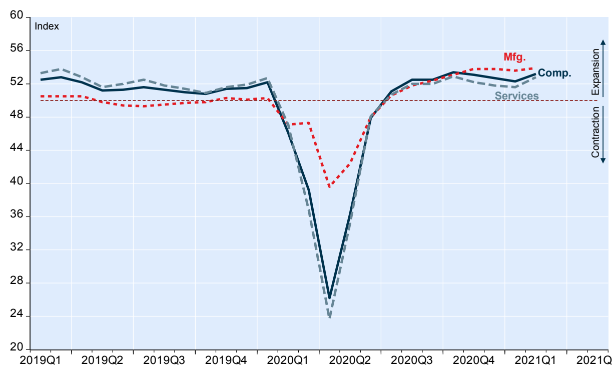
World: Abatement of the pandemic …
Daily new cases per million population, by region, 7-day moving average



NBF Economics and Strategy (data from https://coronavirus.jhu.edu/map.html)

The result? An acceleration of the global economic recovery. For the private sector in February, Markit reports the strongest expansion in almost three years. We note that the rise of the composite PMI reflected a marked improvement in the services sector, whose vitality correlates more directly with the public-health picture. The manufacturing PMI, meanwhile, indicated the strongest expansion since February 2018.

… has resulted in sustained improvement of private-sector conditions
JPMorgan Global Composite PMI, last observation February 2021



NBF Economics and Strategy (source: Markit via Refinitiv)

This manufacturing outperformance, together with gradual reopening of economies in several countries, has been good news for producers of raw materials. The producing countries seem to be having trouble meeting the jump in demand, and prices have risen accordingly.

World: Increased demand for raw materials
Bloomberg index of commodity prices

NBF Economics and Strategy (data from Bloomberg)

The price of copper – a metal with a broad range of industrial applications – is an especially encouraging sign. Relative to the price of gold – a safe-haven commodity that tends to do well in times of uncertainty – the price of copper has not been as high since mid-2018, a sign that on global markets, fear of potential virus effects has given way to an outlook of strong growth in 2021.

World: Confidence resurgent
Spot copper/gold ratio

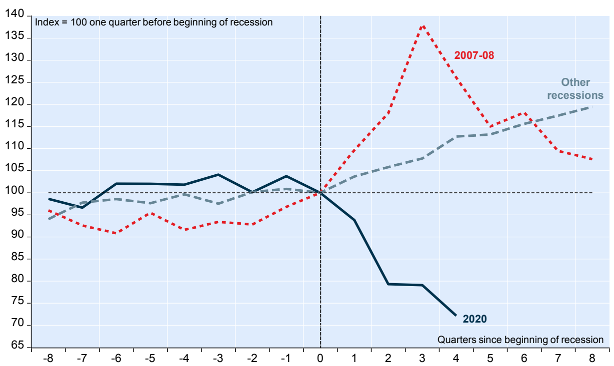
NBF Economics and Strategy (data from Refinitiv)

The Economy

This revival of confidence seems attributable to multiple factors, among them fiscal support from most of the world's governments. This support has gone way beyond the efforts made following the crisis of 2008 and its positive effects are already felt in a number of sectors. For example, personal consumption has been surprisingly resilient worldwide despite massive job losses resulting from the public health crisis and associated shutdowns. This is due in large part to the income-replacement programs deployed in the developed economies (cheques to households, wage subsidies, etc.). This assistance has cushioned the pandemic hit to consumption and will allow beneficiary households to make it through to the other side of the crisis.

Private enterprise has also benefited from fiscal support. Through subsidies or facilitation of access to credit, govern-ments have managed to limit business bankruptcies. Judging by recent IMF data, the number of such bankruptcies has even declined since the beginning of the pandemic, an unusual turn of events in a recession.

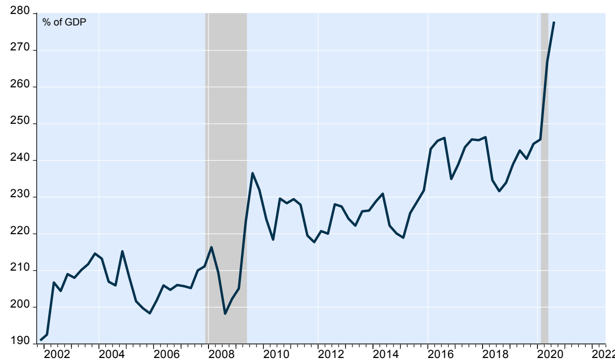
World: Not the anticipated catastrophe for businesses
Index tracking the number of bankruptcies in 13 developed economies



NBF Economics and Strategy (data from IMF)

Government generosity will of course have long-term effects. The rapid increase of public debt will sooner or later force hard choices on political decision-makers. The surge of corporate debt also bears watching for its potential to limit profitability going forward.

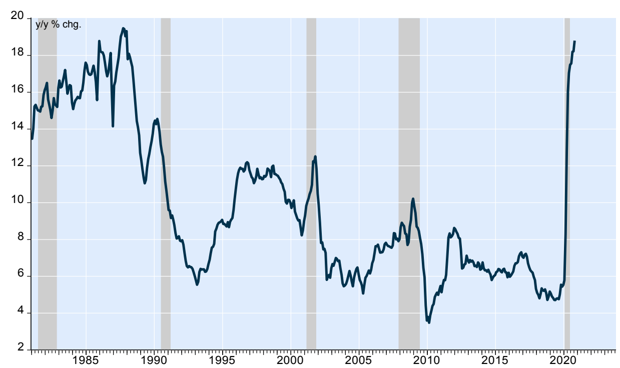
World: The pandemic will leave marks
Total nonfinancial credit as % of GDP, Last observation 2020 Q3



NBF Economics and Strategy (data from Bank for International Settlements)

This where the central banks come in. To avoid debt service becoming too large a burden on government and business, central banks have to keep monetary policy accommodative as long as possible. From the beginning of the pandemic they have been highly pro-active, cutting their policy rates to the floor and (in many cases) launching massive asset-purchase programs. These moves have injected enormous volumes of liquidity into the financial system…

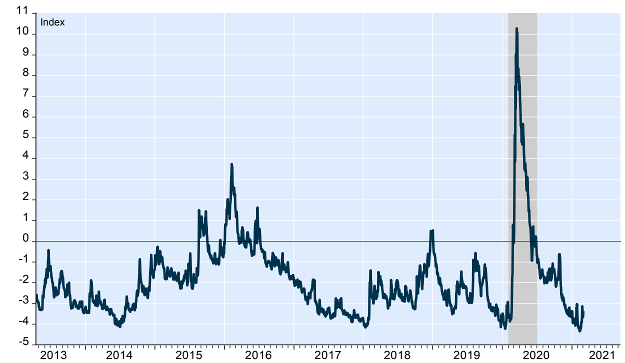
World: Serious support from central banks
Change in M3 money supply in OECD countries



NBF Economics and Strategy (data from OECD)

… and greatly reduced market stress.

World: Market stress back to pre-pandemic level
OFR Financial Stress Index

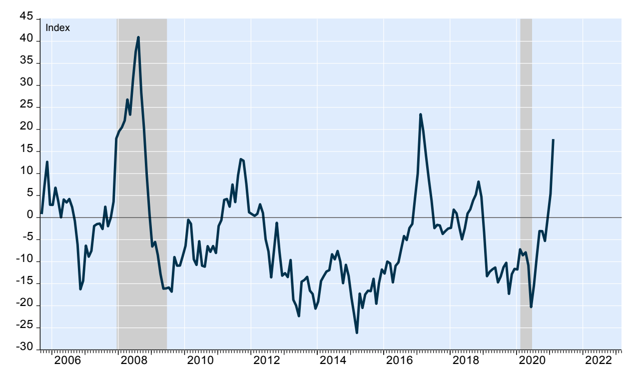


NBF Economics and Strategy (source: Office of Financial Research via Bloomberg)

Having managed the initial shock with brio, central bankers must now focus on accompanying the recovery. Aware of high indebtedness, and criticized for having tightened monetary policy too soon in the last economic cycle, they are likely to err on the side of caution this time around. This is likely to be reflected in an environment of very low real rates, which will help governments and businesses deal with higher debt.

Continuing monetary accommodation in an environment of expected robust growth is likely to firm up inflation. Price rises are already exceeding expectations in many regions of the world and this trend is likely to continue.

World: Healthy growth and loose monetary policy mean more inflation
Global CITI Inflation Surprise Index

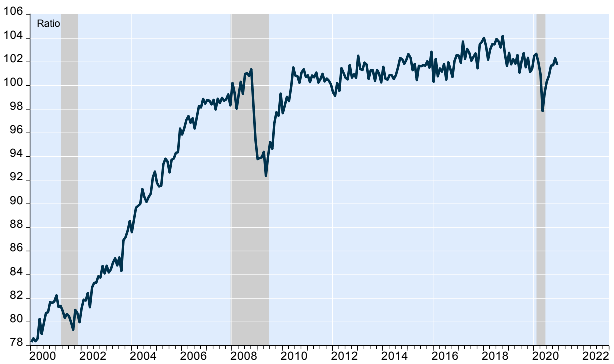


NBF Economics and Strategy (data from Bloomberg)

The Economy

Contributing to this likelihood is the prospect that some of the factors that limited inflation in recent years will have less effect going forward. One such factor is globalization. After China joined the World Trade Organization in 2001, production of many goods moved to countries with lower costs. Most of the gains from this process are now behind us. Moreover, political conditions today seem to favour a reversal of this trend. Protectionism is gaining more and more adherents as the Covid-19 crisis encourages a repatriation (or at least a diversification) of supply chains.

World: Are globalization gains behind us?
Ratio of world trade index to global industrial production index



NBF Economics and Strategy (data from CPB)

Heartened by recent developments, we are revising up our forecast of global growth in 2021 from 5.5% to 6.0%. This revision reflects our confidence that the U.S. economy will recover very strongly (see below). China is likely to be another major engine of growth this year, while the Eurozone is likely to lag.

"These moves have injected enormous volumes of liquidity into the financial system…

… and greatly reduced market stress."

World Economic Outlook

	2020	2021	2022
Advanced Economies	**-4.7**	**5.1**	**3.7**
United States	-3.5	6.6	3.8
Eurozone	-6.6	4.3	4.0
Japan	-4.9	2.7	2.3
UK	-10.0	5.5	4.9
Canada	-5.4	5.4	4.0
Australia	-2.4	3.9	3.3
Korea	-1.0	3.5	3.0
Emerging Economies	**-2.3**	**6.6**	**5.0**
China	2.3	8.4	5.5
India	-7.5	11.0	6.2
Mexico	-8.2	4.3	2.6
Brazil	-4.1	3.5	2.6
Russia	-3.1	3.5	3.0
World	**-3.3**	**6.0**	**4.4**

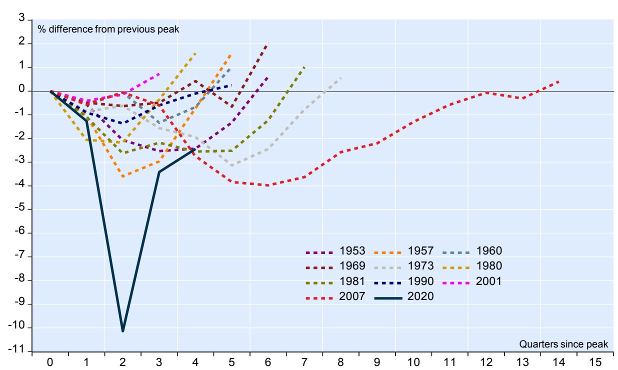
NBF Economics and Strategy (data via NBF and Conensus Economics)

U.S.: The stars align

On January 20, 2020, U.S. medical authorities confirmed the first case of Covid-19 infection on U.S. territory. Within weeks, the virus forced a complete shutdown of many parts of the economy and plunged the country into the unknown.

A year later, where have we got? It must be acknowledged that the U.S. economy has been recovering from the pandemic shock much faster than expected. In the fourth quarter, real GDP was only 2.5% below the pre-crisis level.

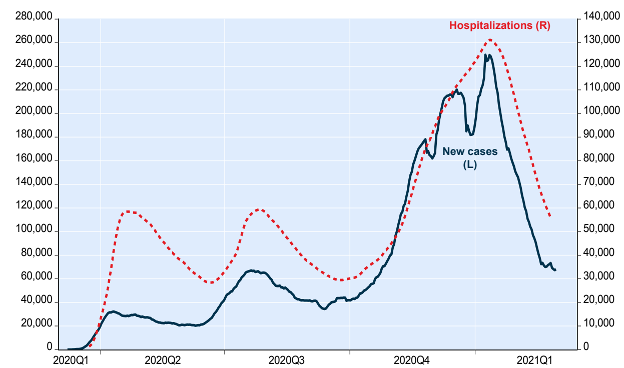
U.S.: Unprecedented fall, rapid rebound
Quarterly real GDP, % difference from previous peak



NBF Economics and Strategy (data from Refinitiv)

And judging by the latest data, the remaining shortfall is likely to be closed faster than we forecast last month. First, both the daily number of new Covid-19 cases and the number of people in hospitals with the virus are down sharply.

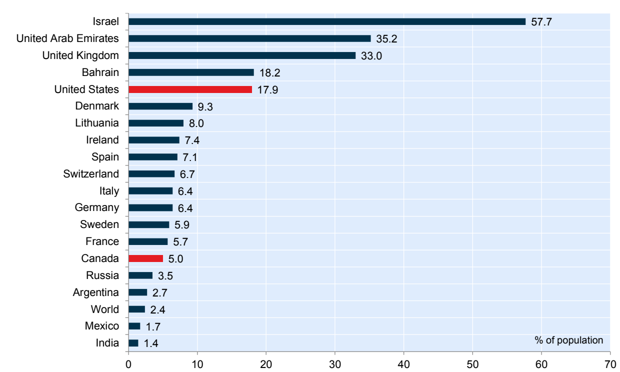
U.S.: Rapid improvement in the pandemic picture
Daily new cases of Covid-19 and number of Covid patients in hospitals, 7-day moving averages



NBF Economics and Strategy (data from Johns Hopkins CSSE)

In other encouraging news, vaccination is moving right along. Almost 20% of the U.S. population has now received at least one dose and President Biden has announced that all adults who want it can be inoculated by the end of May.

U.S.: Vaccination going faster than expected
% of population that has received at least one dose of vaccine against Covid-19



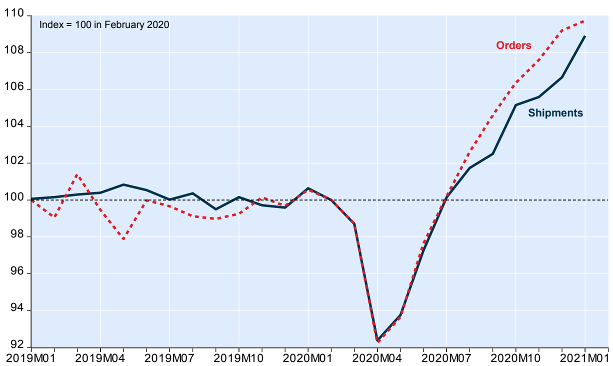
NBF Economics and Strategy (data from https://ourworldindata.org/covid-vaccinations)

The improvement of the epidemiological picture will of course allow a fuller reopening of the economy. Not that

The Economy

output seems to have suffered greatly from the third wave of infection. Business investment in machinery and equipment remains solid in early 2021, judging by the latest report of durable goods orders showing a 2.1% increase in shipments of nonmilitary goods other than aircraft in January, well above the expected +0.6%. This strong gain leaves core shipments at an all-time high, 8.9% above their pre-recession peak. January core orders, an indicator of future capital spending, also added to their rise from the pre-crisis peak.

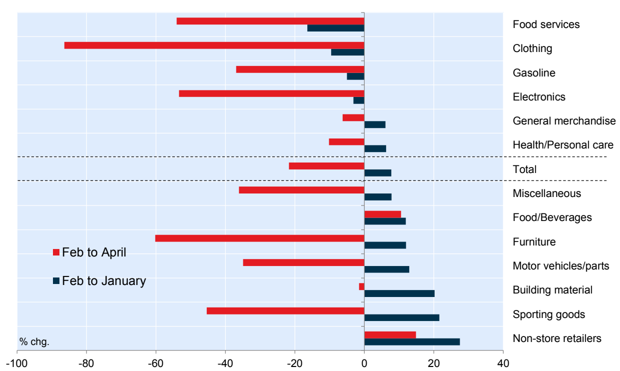
U.S.: Business investment very strong early in Q1
Orders and shipments of nonmilitary equipment other than aircraft



NBF Economics and Strategy (data from Refinitiv)

Also surprising on the upside was household consumption. January retail sales were up 5.3% from the previous month, far exceeding the consensus estimate of +1.1%. The January expansion was the second-largest on record apart from the months directly following pandemic-related lockdowns. All 13 categories of retail sales were up on the month, a showing that has occurred only five times since this data series began in 1992. Nine of these categories are now fully recovered from the pandemic shock. Of the other four, three are the ones most affected by physical distancing requirements – restaurants and bars (down 16.4% from the pre-pandemic peak), clothing (−9.6%) and gasoline stations (−5.0%). These are likely to recover quickly once the positive effects of vaccination campaigns are felt.

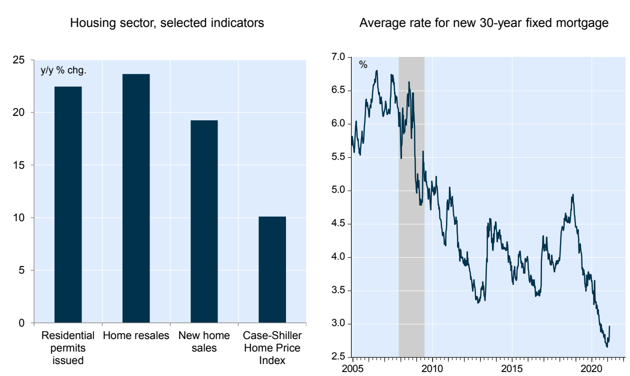
United States: Spending up from pre-COVID levels in 9 of 13 categories
Retail sales by category



NBF Economics and Strategy (data via Refinitiv)

Housing is another segment of the economy that has seemingly refused to slow in Q1. Residential construction permits reached a 15-year high in January and existing-home sales are close to their 15-year high of last October. New-home sales, meanwhile, are running well above the pre-crisis rate. The recent rise of mortgage rates could slow the momentum somewhat, but borrowing costs remain so low by historical standards that they are unlikely to present a major obstacle anytime soon.

U.S.: An effervescent housing sector

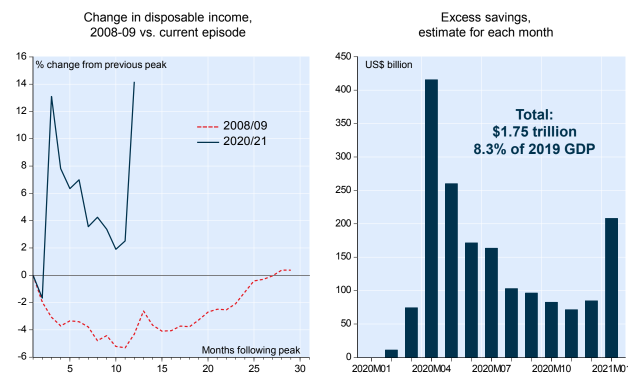


NBF Economics and Strategy (data from Refinitiv and Freddie Mac)

With business investment, household consumption and the housing market all doing better than expected, we have substantially revised up our forecast for first-quarter GDP growth (to 8.6% annualized).

In further good news, there is reason to believe that massive fiscal stimulus from Washington will support continuation of this impressive rebound throughout the year. Disposable income jumped 11.4% in the first month of the year (the second-largest rise since record-keeping began in the late 1950s), as assistance cheques reached U.S. households under the $900-billion stimulus package adopted late in Donald Trump's presidency. Households saved much of that aid, with the result that by our calculation, the excess savings accumulated since the beginning of the crisis now total $1.75 trillion – 8.3% of 2019 GDP.

U.S.: Aid cheques to households send disposable income soaring

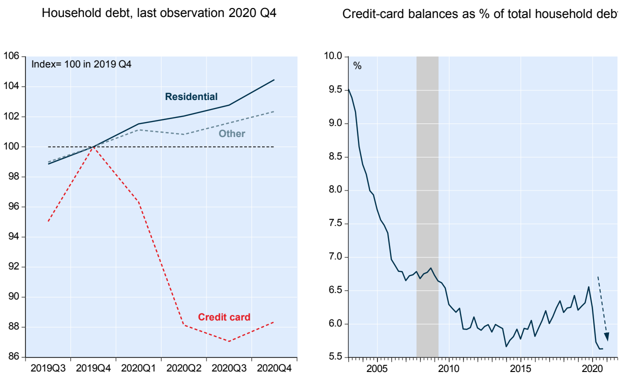


NBF Economics and Strategy (data from Refinitiv)

These funds alone would have sufficed to sustain consumer spending in the second half of 2021 and the beginning of 2022. But now the U.S. Congress is about to adopt a still more imposing $1.9-trillion stimulus package that extends improved unemployment insurance to September and provides a new round of cheques to households. It is accordingly difficult to imagine a slowing of consumption in the rest of 2021, the more so since household net assets are in better shape than a year ago. Credit-card balances have declined no less than 11.7% (−$108 billion) in the last 12 months. They now account for no more than 5.6% of total household debt – the lowest share on record.

The Economy

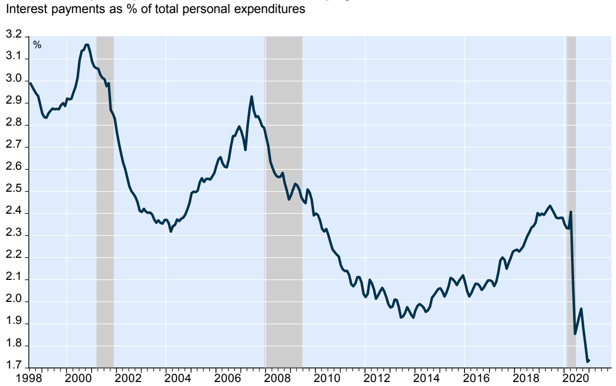
U.S.: Households use fiscal stimulus to improve their balance sheets



NBF Economics and Strategy (data from Federal Reserve)

True, this reduction has been more than offset by a 4.5% rise (+$445 billion) in residential property debt (mortgage debt plus lines of credit), but mortgage interest rates are well below those paid on credit-card balances. This reallocation of debt, combined with an overall decline of interest rates, has led to a marked decrease in the share of personal spending going to interest payments, another factor adding to the option room of U.S. consumers.

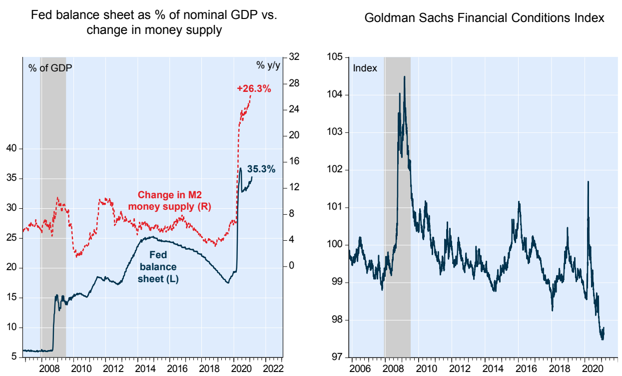
U.S.: Sharp drop in household interest payments
Interest payments as % of total personal expenditures



NBF Economics and Strategy (data from Refinitiv)

They are of course not immune to a sudden rise of interest rates that would reverse this trend, but we take comfort from the current message of the Federal Reserve. The U.S. central bank seems inclined to maintain its accommodative tone for a good while longer; we expect the first rise of policy rates no sooner than early 2023. Until then, financial conditions are likely to remain relaxed, helping consumers, businesses and financial markets alike.

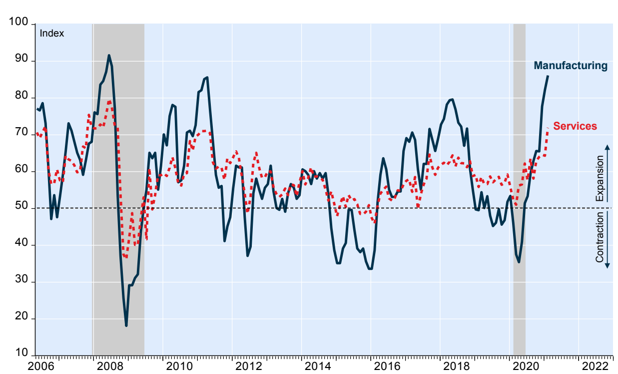
U.S.: The Fed in accommodative mode for a good while yet



NBF Economics and Strategy (data from Refinitiv, FRED St. Louis and Bloomberg)

So fiscal and monetary policy seem aligned to support a very vigorous recovery of the U.S. economy in 2021 and 2022. We now expect an expansion of 6.6% this year (from 5.2%) and 3.8% next year. In keeping with this outlook for growth, our inflation forecast remains higher than those of the consensus and the Fed. The private sector, already struggling to meet demand, faces a substantial rise in input costs. We think these pressures will sooner or later reach consumers. That said, we expect that inflation will remain in a range acceptable to the Fed at least through 2022.

U.S.: Will cost increases be passed on to consumers?
ISM PMI, prices paid

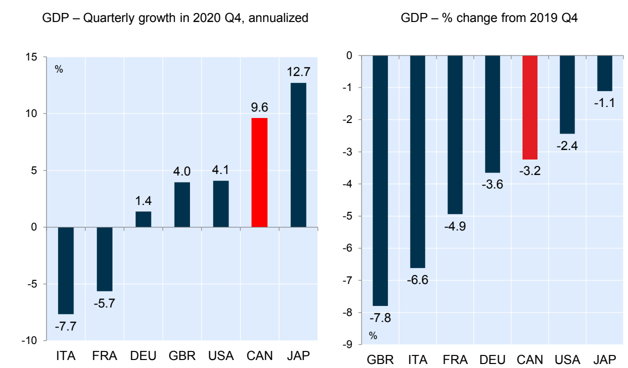


NBF Economics and Strategy (data from Refintiv)

Canada: A strong year end

With the release of national accounts for the last quarter of 2020, we have an overall picture of Canadian GDP for the year. Its contraction of 5.4% far exceeds the previous record of 3.2% in 1982. More important, we now have a much better view of the pace of recovery in the fourth quarter, and the numbers are impressive in the circumstances – growth at an annual rate of 9.6%, the second strongest among G7 countries, bringing the Canadian economy within 3.2% of its output in the fourth quarter of 2019. An enviable position in relative terms.

Canada: An enviable recovery



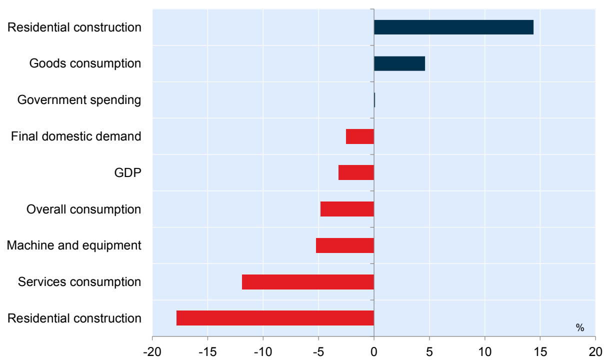
NBF Economics and Strategy (data via Refinitiv)

The Q4 growth came in large part from inventories, which bounced back after substantial declines in previous quarters. Domestic demand, meanwhile, continued to expand despite the continuing hit to consumption of services from physical distancing rules and the depressed state of nonresidential real estate resulting from low demand for office space and shopping centres.

> *"More important, we now have a much better view of the pace of recovery in the fourth quarter, and the numbers are impressive in the circumstances."*

The Economy

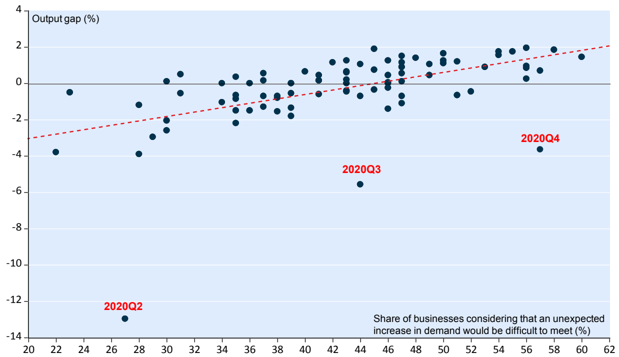
Canada: GDP components show a very wide variation of recovery
Gross domestic product in 2020 Q4 – change from 2019 Q4



NBF Economics and Strategy (data via Statistics Canada)

One thing is certain: for the Bank of Canada, as for most fore-casters, the fourth-quarter expansion came as a surprise. In its January Monetary Policy Report the Bank had expected growth to come in at 4.8% annualized. By our calculations, the output gap (the percentage difference between actual GDP and potential GDP estimated by two methods), which the Bank had estimated at −4.6%, shrank to −3.6%. That is still a sub-stantial gap, comparable to that prevailing at the trough of the recession of 2008-09. But this disinflationary picture assumes that the Bank's estimate of potential GDP is on the mark. What is the potential output of an economy whose governments decree shutdown of some sectors and promote remote working? What is it when part of the population is persistently afraid to move around freely? We have no problem with the Bank of Canada's estimate for purposes of a long-term (post-pandemic) outlook. But the short term is another matter. Indeed, some indicators other than the output gap suggest much greater pressure on production capacity and prices in Canada. In Q4, 57% of businesses thought they would have a hard time meeting an increase in demand, a percentage that would in normal circumstances be consistent with an economy operating above its potential (i.e. positive output gap).

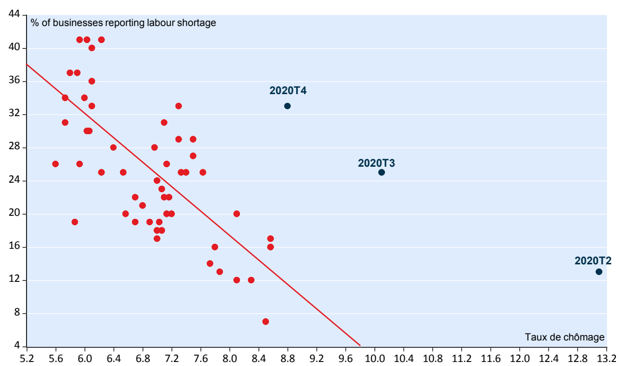
Canada: Is the BoC estimate of output gap misleading for inflation?
Average of the two BoC output gap measures and capacity pressures felt by corporations



NBF Economics and Strategy (data via Bank of Canada)

But how come businesses are feeling capacity pressure when so many workers are on the sidelines? In the fourth quarter, one-third of employers reported labour shortages, a portion that in the previous cycle went with an unemployment rate of 6%. But in Q4 the unemployment rate was 8.8%.

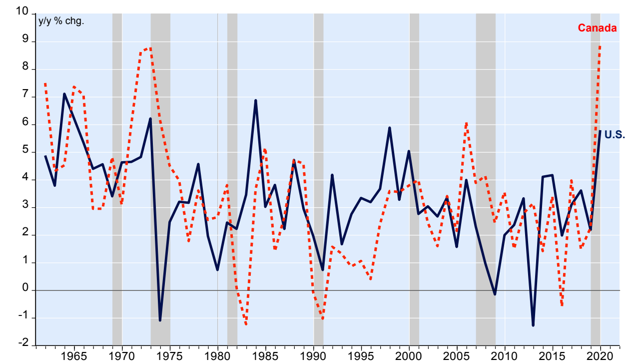
Canada: Labour shortages despite high unemployment
% of businesses reporting labour shortage vs. unemployment rate (2007-2021)



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

It could be that some people turfed out of the labour market by the crisis do not meet the needs of businesses currently in operation. But it's not only that. Some workers have not been in a hurry to return to work. Those who lost their jobs in the pan-demic continue to receive generous support from the federal government, as attested by income data. Real household disposable income in the fourth quarter was up 6.8% from the same quarter a year earlier. For the year as a whole, real disposable income was up 9.0%, the most since the beginning of record-keeping. That rise not only supported consumption during the year but could buoy it in coming quarters as well. Over the four quarters of 2020, a higher rate of saving resulted in an increase of household savings equivalent to no less than 8.0% of GDP.

Canada: Unprecedented rise of real disposable income



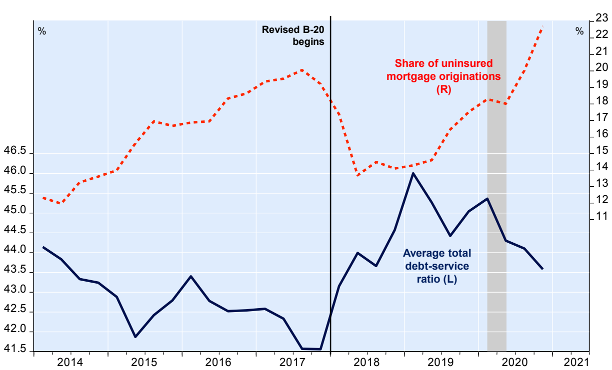
NBF Economics and Strategy (data from Statistics Canada)

Despite this environment propitious to a rise of the inflation rate, and although two of the Bank of Canada's three meas-ures of core inflation are already at its target, its governor Tiff Macklem in his most recent speech shows no discomfort with the fiscal and monetary accommodation currently in place. Even about real estate the governor seems not too worried for the moment. He noted early signs of excess exuberance but maintained that the market was a long way from the 2016-17 boom. Yet prices in no fewer than 69% of the country's 32 large housing markets – a record percentage – are rising at a double-digit annual rate, compared to 55% in 2016-17. The Bank of Canada's Financial System Review of June 2016 noted that the loan-to-income ratio is a useful measure because, unlike the debt-service ratio, it contributes to a through-the-cycle assessment of the vulnerability of indebted households. In the 2016-17 episode, the central bank was closely tracking borrowers with loan-to-income ratios of more than 450% because of they risk they presented to the financial system. In data from two months of Q4 2020, the proportion of highly indebted

The Economy

uninsured mortgage borrowers reported by the OSFI was a record 23%, surpassing the peak reached in the 2016-17 boom. True, the average debt-service ratio for those borrowers is trending down because of record-low mortgage rates, but a through-the-cycle outlook requires caution. In 2016-17, these concerns were addressed by a tightening of macroprudential measures and this could happen again. Such a move would buy the central bank time before hiking its policy rate, which we do not see coming before early 2023. That said, we continue to think the Bank could slow the pace of purchases under its quantitative easing program (see our *Monthly Fixed Income Monitor*).

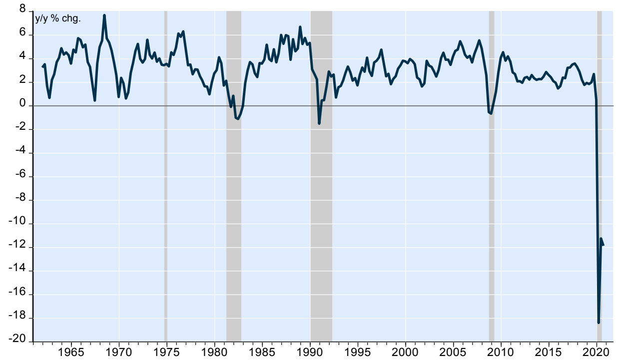
Canada: Share of vulnerable borrowers tops 2017 peak
Share of originations with loan-to-income ratio (LTI) greater than 450%, vs. average debt-service ratio



NBF Economics and Strategy (data via OSFI)

We are raising our outlook for 2021 GDP growth to 5.4% (from 4.2%). This significant revision is attributable to the higher-than-expected handoff from fourth-quarter growth. But what surprises us even more is Statistic Canada's preliminary estimate of 0.5% monthly growth in January despite the shutdown of nonessential businesses in Ontario and Quebec for a good part of the month. This puts paid to expectations of contraction in the first quarter. We are also more optimistic about the subsequent months. Ottawa has further extended its extraordinary income-support program, which could mean that it will be in place until the pandemic is under control. Consumptions in services remains depressed due to public-health measures currently in place but things can change fast over the coming year. Since consumption of services accounts for 30% of GDP, a return to the old normal would be enough by itself to close the output gap estimated by the central bank.

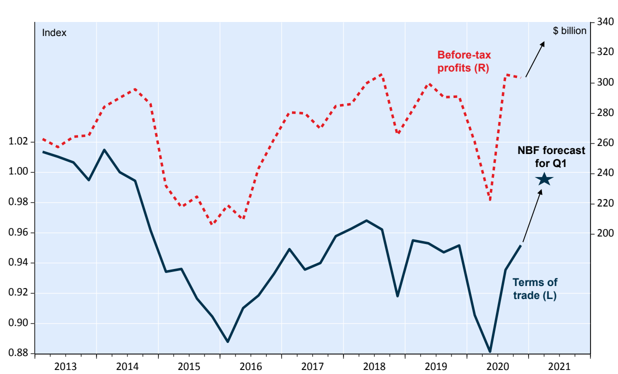
Canada: Unprecedented contraction in consumption of services
Services consumption



NBF Economics and Strategy (data from Statistics Canada)

Moreover, the Canadian economy will benefit indirectly from the huge U.S. fiscal stimulus program and from U.S. progress in vaccination (assuming excess vaccines South of the border will be shipped to Canada starting in June). The surge of raw material prices, meanwhile, augurs notable improvement in Canada's terms of trade in first quarter 2021, which could mean record corporate profits. This bodes well for hiring and investment.

Canada: Best terms of trade since 2014?
Before-tax profits and terms of trade



NBF Economics and Strategy (data from Statistics Canada)

We are raising our outlook for 2021 GDP growth to 5.4% (from 4.2%). This significant revision is attributable

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)	6.6	3.8	(2.4)	6.6	2.7
Consumption	2.7	2.4	(3.9)	7.1	4.3	(2.6)	7.1	3.0
Residential construction	(0.6)	(1.7)	6.0	14.9	(2.2)	14.1	6.1	(5.0)
Business investment	6.9	2.9	(4.0)	7.8	2.2	(1.2)	6.2	0.6
Government expenditures	1.8	2.3	1.1	1.5	2.1	(0.6)	3.0	2.5
Exports	3.0	(0.1)	(13.0)	8.9	6.9	(11.0)	9.5	5.5
Imports	4.1	1.1	(9.3)	12.7	2.4	(0.6)	5.7	1.0
Change in inventories (bil. $)	53.4	48.5	(80.9)	42.1	35.4	48.0	30.4	6.2
Domestic demand	3.0	2.3	(2.7)	6.5	3.3	(1.5)	6.2	2.2
Real disposable income	3.6	2.2	5.8	0.5	(1.0)	3.2	2.0	-0.1
Payroll employment	1.6	1.3	(5.7)	2.3	3.0	-6.0	3.6	2.0
Unemployment rate	3.9	3.7	8.1	5.3	4.2	6.8	4.6	4.2
Inflation	2.4	1.8	1.3	2.7	2.4	1.2	2.7	2.5
Before-tax profits	6.1	0.3	(5.7)	13.4	6.2	-0.4	7.0	6.0
Current account (bil. $)	(449.7)	(480.2)	(626.4)	(666.3)	(647.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 3/10/21	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	0.04	0.05	0.10	0.10	0.10	0.09	0.10	0.15
Treasury yield curve								
2-Year	0.16	0.15	0.20	0.25	0.30	0.13	0.30	0.85
5-Year	0.80	0.85	0.95	1.05	1.15	0.36	1.15	1.55
10-Year	1.53	1.60	1.70	1.80	1.90	0.93	1.90	2.25
30-Year	2.24	2.30	2.35	2.45	2.50	1.65	2.50	2.70
Exchange rates								
U.S.$/Euro	1.19	1.19	1.22	1.23	1.22	1.22	1.22	1.19
YEN/U.S.$	109	108	106	105	105	103	105	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	4.1	8.6	7.7	5.8	4.4
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.8	3.3	2.8	2.7
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	2.2	1.7	1.9
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.5	4.9	4.6

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.4)	5.4	4.0	(3.2)	4.3	3.1
Consumption	2.5	1.6	(6.1)	4.5	4.8	(4.8)	4.8	3.5
Residential construction	(1.7)	(0.2)	3.9	10.2	(1.5)	14.4	(3.3)	0.0
Business investment	3.1	1.1	(13.1)	0.9	6.8	(13.1)	4.9	7.1
Government expenditures	3.2	1.7	(0.3)	3.3	2.2	1.3	1.9	2.1
Exports	3.7	1.3	(9.8)	6.4	4.7	(7.1)	5.3	4.8
Imports	3.4	0.4	(11.3)	7.0	4.4	(6.0)	3.7	4.5
Change in inventories (millions $)	15,486	18,766	(15,533)	11,075	15,525	1,721	15,300	14,300
Domestic demand	2.5	1.4	(4.5)	4.4	3.7	(2.5)	3.3	3.0
Real disposable income	1.5	2.2	9.0	(2.9)	0.2	6.8	(2.4)	1.1
Employment	1.6	2.2	(5.1)	4.0	2.7	(2.9)	2.7	2.0
Unemployment rate	5.9	5.7	9.6	8.2	7.0	8.8	7.3	6.8
Inflation	2.3	1.9	0.7	2.5	2.3	0.8	2.6	2.3
Before-tax profits	3.8	0.6	(6.1)	15.5	5.4	4.3	5.7	6.0
Current account (bil. $)	(52.2)	(47.4)	(42.7)	(25.0)	(35.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 3/10/21	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	0.11	0.10	0.15	0.15	0.20	0.07	0.20	0.30
Treasury yield curve								
2-Year	0.25	0.25	0.30	0.40	0.50	0.20	0.50	0.95
5-Year	0.92	0.95	1.00	1.10	1.15	0.39	1.15	1.55
10-Year	1.41	1.50	1.55	1.65	1.75	0.68	1.75	2.15
30-Year	1.84	1.85	1.90	1.95	2.00	1.21	2.00	2.20
CAD per USD	1.26	1.28	1.25	1.23	1.20	1.27	1.20	1.22
Oil price (WTI), U.S.$	64	61	62	64	65	48	65	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)	(7.5)	(38.5)	40.6	9.6	3.6	3.4	5.1	5.3
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.6	3.0	2.9	2.6
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.3	2.1	2.3	2.2
Unemployment rate (%)	6.4	13.1	10.1	8.8	9.0	8.6	7.9	7.3

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2018	2019	2020f	2021f	2022f	Nominal GDP (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-6.0	3.5	2.8	0.8	4.1	-9.0	12.2	4.6
Prince Edward Island	2.5	5.1	-3.5	4.5	4.0	3.6	7.0	-1.3	6.2	6.8
Nova Scotia	1.9	2.4	-4.0	5.0	3.3	3.6	3.8	-2.7	6.9	5.0
New Brunswick	0.5	1.2	-3.5	4.2	3.3	3.6	3.0	-1.7	8.3	5.4
Quebec	2.9	2.7	-5.2	5.2	4.2	5.4	4.3	-3.5	8.1	6.1
Ontario	2.8	2.1	-5.6	5.4	4.1	4.1	3.8	-3.8	8.0	6.0
Manitoba	1.5	0.6	-3.9	4.5	3.5	2.5	1.0	-3.1	9.3	5.2
Saskatchewan	1.2	-0.7	-4.8	4.7	3.5	3.2	0.1	-8.9	12.7	4.5
Alberta	1.9	0.1	-7.5	6.0	3.7	3.4	2.7	-9.7	15.8	5.0
British Columbia	2.7	2.7	-4.7	5.5	4.2	4.9	4.4	-3.2	9.8	5.4
Canada	2.4	1.9	-5.4	5.4	4.0	4.2	3.6	-4.6	9.6	5.6

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 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	2.7	5.5	5.2	8.9	7.5	6.4
Ontario	1.7	2.8	-4.7	3.9	2.8	5.7	5.6	9.6	8.5	7.0
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	2.3	6.2	5.5	8.4	8.1	7.4
Alberta	1.9	0.6	-6.5	4.6	3.2	6.7	7.0	11.5	10.3	8.8
British Columbia	1.4	2.9	-6.5	4.2	2.6	4.8	4.7	9.0	6.3	5.5
Canada	1.6	2.2	-5.1	4.0	2.7	5.9	5.7	9.6	8.2	7.0

	Housing starts (000) 2018	2019	2020f	2021f	2022f	Consumer Price Index (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	0.7	0.6	1.7	1.0	0.2	2.7	2.5
Prince Edward Island	1.1	1.5	1.2	1.3	1.2	2.3	1.2	0.0	2.2	2.3
Nova Scotia	4.8	4.7	4.9	4.5	4.2	2.2	1.6	0.3	2.4	2.3
New Brunswick	2.3	2.9	3.5	3.4	2.9	2.2	1.7	0.2	2.2	2.2
Quebec	46.9	48.0	54.1	51.0	48.3	1.7	2.1	0.8	2.6	2.3
Ontario	78.7	69.0	81.3	77.8	76.0	2.4	1.9	0.6	2.6	2.3
Manitoba	7.4	6.9	7.3	6.3	6.1	2.5	2.3	0.5	2.3	2.4
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	2.3	2.2
Alberta	26.1	27.3	24.0	25.5	27.0	2.5	1.7	1.1	2.3	2.2
British Columbia	40.9	44.9	37.7	36.5	35.5	2.7	2.3	0.8	2.5	2.4
Canada	212.8	208.7	217.8	210.0	205.0	2.3	1.9	0.7	2.5	2.3

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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Moderation Meltdown?

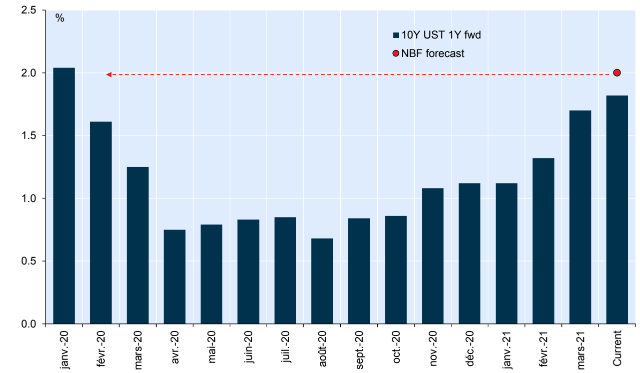
When 2021 dawned little more than two months ago, the U.S. 10-year Treasury note was yielding around 90 basis points, placing the corresponding real yield at -1.1%—about the most accommodative level for real rates on record. But after being mauled for two-plus months, nominal 10-year yields have breached 1.5% stateside and aren't too far removed from that threshold in Canada. Real yields remain in negative and clearly accommodative territory on both sides of the border, but are considerably less so of late, which speaks to growing confidence in the economic recovery.

As if to illustrate, our March Monthly Economic Monitor unveils hefty upward revisions to our baseline thinking on North American growth. A jumbo fiscal package means 2021 growth will be downright supercharged in the U.S., holding clearly above potential through 2022 (if not longer). Meanwhile, Canada appears to have skated through early-year government-induced lockdowns in key regions surprisingly well. More of Canada's fiscal impulse was skewed to 2020, but even without a Biden-style push, Canada's growth prospects—in terms of real production, nominal output and wealth creation—are reasonably bright.

It all means more rapid closure of output gaps and earlier onset of above-target inflation, all else being equal. So notwithstanding ongoing uncertainty (and in Canada's case a relatively delayed vaccine rollout), the stage is increasingly set for the removal of monetary accommodation. We see a rather straightforward sequencing: a 12-18 month tapering of QE purchases during 2021-22 giving way to the first hikes in policy rates starting in 2023.

In light of our more upbeat assessment of U.S. and Canadian growth, and in acknowledgement of a severe January-February re-pricing, we're making a somewhat radical (by NBF standards) adjustment to our interest rate forecast. We've set out a notional path towards higher rates and steeper curves—U.S. 10s hitting 2% in a years' time, with Canadian rates not far behind.

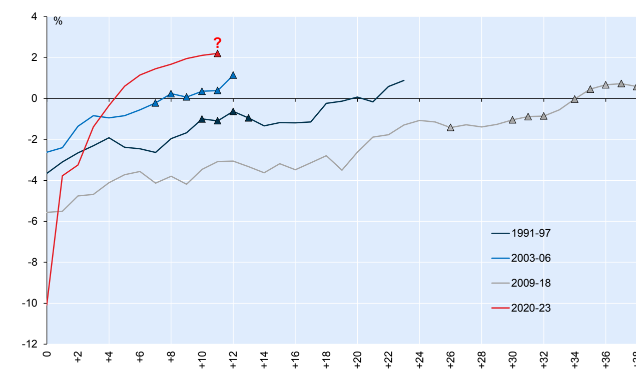
The rapidly evolving 10-year interest rate outlook
1-year forward expectation for 10-year US Treasury



NBF Economics and Strategy (data via Bloomberg) | Note: Current related to 1-year forward 10-year rate as of March 9

We would, however, acknowledge the following: (a) financial/bond market volatility is likely to remain elevated, meaning the journey to 2% U.S. 10-year yields likely won't be as smooth a process as we've indicated; (b) the U.S. will still be benefitting from negative 10-year real interest rates even as the output gap is fully closed, an unprecedented situation designed to ensure ongoing and broad-based/inclusive labour market healing; (c) the first Fed and BoC first hikes may arrive in 2023:Q1, but relative to perceived neutral policy rates of 2-2½%, we're still talking about accommodative policy settings through 2024 (if not longer).

Rate hikes have historically come before the output gap is closed
Output gap trajectory from trough, overlaid w/ Fed hikes above level at t=0



NBF Economics and Strategy (data via CBO, Bloomberg) | Note: Does not include Fed cuts which occurred in the 1990s experience or subsequent hikes to levels below t=0 fed funds target

Interest Rates and Bond Markets

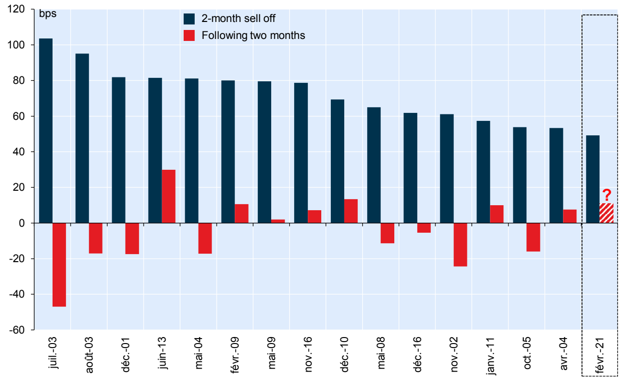
If you go in for monikers, you could well dub the last couple of months Taper Tantrum 2.0 or Moderation Meltdown. True, the scaling back of central bank bond purchases (likely starting in April for the BoC and perhaps kicking off this fall for the Fed) and eventual policy rate hikes will tighten financial conditions. We've had a bit of a warm-up act of late. But the managed removal of unprecedented monetary stimulus looks to be mitigated by extreme (or at least significant) fiscal supports. In the end, we don't see Jay or Tiff unduly jeopardizing the North American growth story, undercutting stocks, snuffing out a commodities rally, seriously clipping the loonie's wings or destabilizing credit… not this year at least.

Slowing the sell-off

At the start of the year, arguably the world's most important interest rate, the 10-year treasury yield, was stuck below 1%. In the two plus months since, the key benchmark rate has been on a one-way street higher. Over the course of January and February, we saw a nearly 50 basis point move (with an additional ~10 bps since the start of March). Rate moves of this nature, while increasingly rare, aren't entirely unprecedented. Indeed, we identified a sample of 15 episodes in which the 10-year yield rose by 50+ basis points in two months over the past two decades. And just what does the historical record teach us? Importantly, it's that sell-offs of this magnitude rarely persist, at least at the same pace. Over the 15 prior periods we identified, 50+ basis point moves were followed by an average rate decrease of 5 bps. The fastest subsequent rate rise? Well that came, appropriately, during the taper tantrum of 2013. But even here, 80 bps of cheapening was followed by a much more tame 30 basis point rate rise in the following two months.

This time around, a couple of weeks into March, it's clear the sell-off has persisted. And as per our fresh interest rate forecast table, we expect this to continue. However, the rapid pace of increase, should moderate as fiscal stimulus and inflationary fears are increasingly being priced in. While the ten-year rate is highly likely to be above where it settled at the end of February in a couple months time, we don't expect it to be another 50 basis points higher as we move into the spring.

Outsized rate moves rarely persist
Change in 10Y UST during outsized sell-off (50+ bps) & chg. over next 2 months

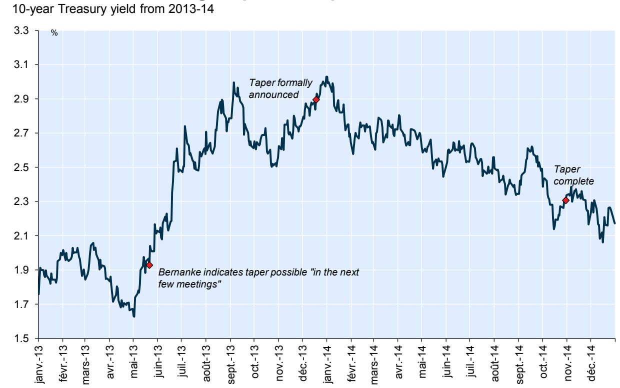


NBF Economics and Strategy (data via Bloomberg)

Tabling our tapering timeline

Despite the worst of the COVID crisis looking to be well behind us, central banks have been reluctant to signal a withdrawal of the extraordinary stimulus provided over the past year. While we concede there's no need to signal any action on the policy rate, the rapidly-improving economic outlook gives us comfort that QE programs can begin to moderate. And critically, its our view that QE buying should be fully wound down before policy rates are lifted. With 2023:Q1 policy rate tightening timelines in mind, a reduction in the pace of bond-buying needs to come relatively soon to achieve an orderly unwind. How might this taper look?

The rate reaction during the prior QE taper
10-year Treasury yield from 2013-14



NBF Economics and Strategy (data via Bloomberg)

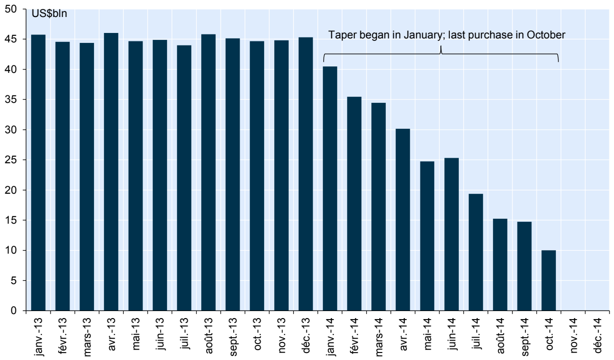
For the Fed, we have some precedent that can guide our view of what a taper will entail. Back in 2013-14, the Fed signalled an end to its third round of QE coming out of the global financial crisis. This era is perhaps better known for the tantrum that resulted from the taper talk—something the Fed would surely like to avoid this time around. Despite the hiccups resulting from the QE winddown a decade ago, FOMC members have acknowledged that this crisis' experience might look and feel pretty similar.

> *"The tapering playbook will be similar to last recovery"*
>
> *– Philadelphia Fed President Patrick Harker*

Looking back at our most recent experience, the entire period, from announcement to final purchase took a total of just under eleven months (more like seventeen months from the start of the taper tantrum). The process was informally kicked off in May 2013 when the Ben Bernanke conceded in a Congressional testimony that a tapering was possible "in the next few meetings". Cue the taper tantrum. While the bond market panicked and prepared for September tapering announcement, the Fed ultimately held off from a formal announcement, as the unemployment rate remained stubbornly high. Instead, a slowing of purchases was first officially signaled in the December 2013 meeting, with buying set to moderate in January 2014. Purchases were eased from the earlier US$45 billion/month run rate by an average of ~US$4 billion per month until its final purchase was made at the end of October 2014.

Interest Rates and Bond Markets

The Fed's taper playbook
Monthly Treasury purchases from 2013 to 2014

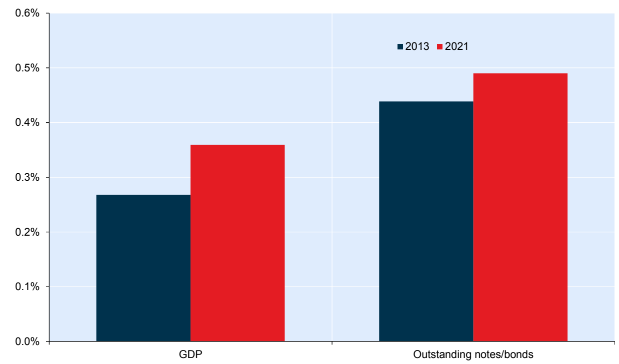


NBF Economics and Strategy (data via New York Fed) | Note: Does not include MBS purchases

How will this translate to today's environment? Firstly, Powell has opted for exceptional caution but over the next few months, as vaccinations are extended to the general population, the economy continues to reopen and jobs are regained, even he should feel comfortable signalling an eventual slowdown in the pace of QE. He's also assured us numerous times that he'll let the world know "well in advance" of any asset purchase tapering. It's not immediately clear how much advanced warning "well in advance" implies but we think a fair and realistic timeline would be three months. A taper announcement surely won't come at the March meeting but by the summer (June, July or September's meeting), the FOMC might deem such action appropriate. That would set up a step down sometime in the third or fourth quarter of 2020.

As for pacing, the time it took to ween the market off QE in 2014 might be a little bit too tight a timeline given that the current pace of US$80 billion/month in treasury purchases (plus an additional US$40 billion in MBS purchases) is nearly 80% larger than last crisis. While as a share of GDP or outstanding bonds, the difference in size isn't as large, it still does argue for a slightly longer wind down period at the margin. Twelve to fifteen months seems like a realistic expectation for pacing which would have bond buying wrapped in and around the fourth quarter of 2022—just in time for a policy rate adjustment in the following quarter.

A bigger QE hole to climb out of in 2021
Monthly Treasury purchases: 2013 vs. 2021 as a share of notes/bonds, GDP

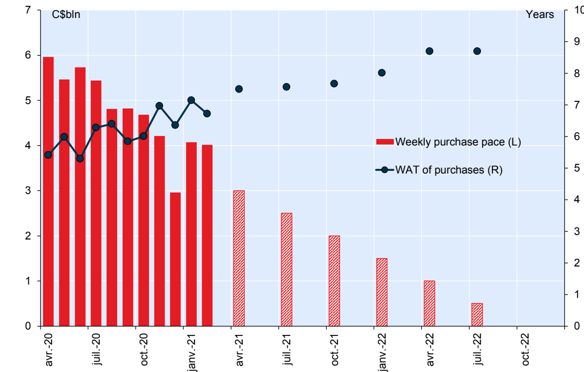


NBF Economics and Strategy (data via New York Fed, Bloomberg, SIFMA, CBO) | Note: GDP and outstanding figures are for 2013. Outstandings relate to all non-bill marketable treasury securities. Purchase pace in 2021 is US$80 bln. Purchase pace in 2013 was US$45 bln

As for the Bank of Canada, technically the taper already began in October as the BoC stepped its communicated buying pledge down from at least C$5 billion per week to at least C$4 billion per week. With this March meeting out of the way without another step down, the April meeting looks to be where the BoC makes its next move lower. That would bring us to C$3 billion per week—a more reasonable but still relatively outsized level vis-à-vis the Fed. Beyond April, we'd favour slowing the weekly clip by the equivalent of C$500 million/quarter. That would get you to C$2 billion/week (i.e., half the current rate) by the fall, which to us is closer to the break-even purchase pace vs. the Fed's current QE clip, just when we'd see the Fed stepping down its own buying. Thus, further reductions in BoC bond purchases from October onwards would be more-or-less overlapping with what Jay and Co. could be doing.

In our recommended scenario, continuing to reduce the pace by C$500 million per quarter, the BoC wraps up QE by the fall of 2022, setting the stage for the first BoC rate hike in 2023:Q1. Our first BoC rate hike coincides with when we see the Fed's first move coming. Market pricing is increasingly aggressive, but we don't see an overly compelling argument for front-running the Fed, given what will be slower absorption of economic slack in Canada. Yes, we understand that the BoC's mandate is currently less flexible than the Fed, implying a shorter fuse or a somewhat less-delayed reaction function than what we could get Stateside. But C$ appreciation and perhaps macro-prudential measures to cool housing influence our thinking on the timing of BoC rate hikes. (Mere weeks ago, the market narrative centred around a micro-cut, but we digress.)

BoC: Slow the pace, extend the term
Average weekly BoC QE purchase pace & weighted average term



NBF Economics and Strategy (data via BoC) Note: NBF recommendation starting Apr-21

Is the BoC moving to a dual mandate?

As our educated readers might know, the Bank of Canada is currently hard at work on its 2021 policy renewal. As it does every 5 years, the central bank is going through a thorough review to determine which monetary policy framework would be most appropriate in the current context. The last detailed update that the Bank gave us on the subject dates back to last August, when a workshop was held to debate the strengths and weaknesses of the current framework as well as five alternative frameworks:

1) Average inflation targeting (AIT)
2) Price-level targeting (PLT)
3) Employment-inflation dual mandate
4) Nominal GDP growth targeting
5) Nominal GDP level targeting

Back then, the BoC's staff concluded that, while no framework strictly dominated all others across all models, inflation targeting, average inflation targeting, and the dual mandate frameworks tended to perform better in simulations. Based on these findings, we judged that the BoC was likely to maintain its inflation targeting framework unchanged. We acknowledged that average inflation targeting and a dual mandate could provide

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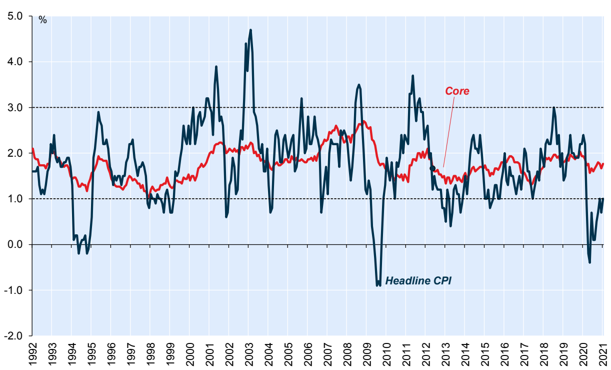
some advantages in specific circumstances but, to us, it appeared that the costs associated with switching frameworks (both in terms of credibility and public understanding) would outweigh these benefits. In our reflections, we also took into account the proven efficiency of the current model. Keep in mind that, since adopting its inflation targeting framework in 1991, the Bank of Canada has maintained headline inflation between 1% and 3% no less than 74% of the time. In the last 10 years, the BoC's hit rate has climbed to 78%. And when it comes to the BoC's measures of core inflation, it's never deviated from the 1-3% target band back to 1992. It is worth nothing also that, outside of severe recessionary episodes, inflation almost never deviated from target by more than a percentage point. Why would the Bank change a winning formula, we thus asked ourselves?

Inflation targeting has been largely successful
Headline CPI and Core inflation since 1992



NBF Economics and Strategy (data via StatCan) | Note: Core refers to average of BoC's three core measures

Fast forward to February 23, when BoC Governor Tiff Macklem delivered a speech titled "Canada's labour market: rebound, recuperation and restructuring". As the name suggests, the speech was focused on Canada's job market in the wake of the COVID crisis. Apart from stressing that we were still a long way off from a "healthy labour market", Macklem also tied employment in with the Bank's inflation mandate. "Indeed, at its heart, inflation targeting is about achieving low inflation together with full employment", he said, "because to sustainably achieve either, we need both. Without full employment, inflation will not stay close to its 2% target because the shortfall in jobs and incomes will pull inflation down." He also cited that a tight labour market pre-COVID didn't lead to inflation "threatening to take off" and that this was something policymakers would keep in mind going forward.

These words, pronounced by the most influential representative of the BoC just a few months before the publication of the policy review, certainly raised questions about the direction the central bank intended to take. Is the BoC contemplating introducing an inflation-employment dal mandate similar to the one currently used by the Fed? And if so, what would be the policy implications. Let's begin with the latter question. It is generally accepted that, by making more room for employment in its policy decisions, the Bank of Canada would offer itself more leeway to maintain accommodating monetary policy for as long as possible. For various reasons inherent in the current crisis, it is very likely that inflation will return to target well before Canada gets back to full employment. A single inflation mandate could thus force the BoC to raise rates earlier than would otherwise be the case. We'd like to point out, though, that the current BoC mandate already allows a certain degree of flexibility, the inflation target being defined as a range (1%-3%) and not a fixed point. Still, some market participants wonder if that flexibility will be enough to prevent the BoC from raising rates before the Fed does. On this topic, we would like to remind our readership that, considering the speed at which vaccines are being rolled out in the United States, our southern neighbor's economy should recover faster from the shock of COVID than ours, allowing GDP to reach its potential a bit faster than in Canada. This lag should allow the BoC to stay on the sidelines at least as long as the Fed, even if it chooses to maintain its current policy framework.

The latter is still the most likely scenario according to us, but we recognize that the introduction of a dual mandate is a higher probability event than we'd previously thought. Beyond the communication problems associated with the introduction of a new framework, we have other reservations about the possible inclusion of employment in the official mandate of the central bank that we would like to list here:

1) What is full employment? Although inflation isn't a perfect gauge of the output gap or of the economic wellbeing of Canadians, it has the advantage of being easy to measure. The notion of full employment, on the other hand, is subject to much debate within the economic community. By relying on such a blurry concept, the BoC would likely expose itself to criticisms.

2) Would focusing on unemployment blind the BoC to growing financial imbalances?

3) What if employment and inflation send different signals? Communication-wise, a dual mandate is easy to manage as long as employment and inflation are sending the same signal. When inflation is too low and employment is too high, the central bank must keep policy accommodative, and vice versa. But the current crisis is particular in that still-high unemployment might not necessarily translate into an inflation shortfall. There are two reasons to explain this. The first is that inflation will soon benefit from a strongly positive base effect (temporary), from rising commodity prices (likely temporary), and from supply constraints occasioned by capacity destruction/adaptation of production to the COVID context (likely to stay with us longer). The second is that, by introducing massive income replacement schemes, governments in North America have more or less broken the transmission belt between unemployment and the output gap. In normal times, job losses mean lower household income and thus lower spending. But since the beginning of the current crisis, household income has gone up substantially in Canada and consumption has remained resilient. With fiscal aid likely to be extended for quite some time, it is possible to imagine a scenario where unemployment would remain relatively high while inflation would hover above 2%. What would the BoC do then? And how would it explain its decision to the public?

To us, these questions, argue for the maintenance of the current inflation targeting mandate by the BoC. This does not mean that the central bank should not consider the employment situation when making policy decisions. We simply believe that employment statistics should be used not as a goal in itself, but as one of many tools used by the bank to help determine the trajectory of inflation.

Yield curve control back in the spotlight

With rates surging, it has prompted many to resume speculation of North American central bank's adopting some form of yield curve targeting. This policy tool was all the rage last year with the Reserve Bank of Australia joining the Bank of Japan as the most prominent practitioners. Ultimately, the Fed pooh-poohed the idea last year. But, that was with rates at much lower levels. Do recent rate moves change the Fed or Bank of Canada's thinking? Probably not.

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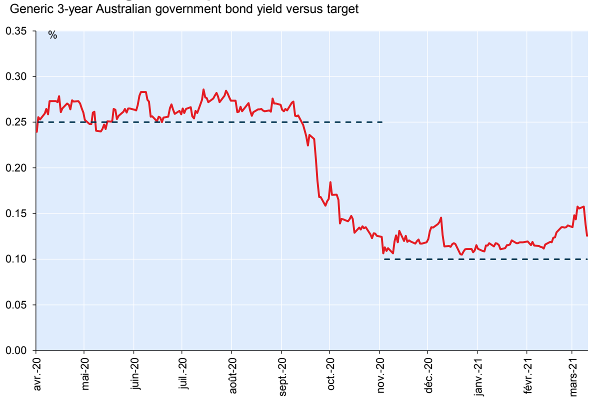
For the BoC, instead of enacting yield curve control per se, the Bank opted in October to lengthen the duration of its purchase to help keep rates out the term structure in check. We think a further relative terming out could be in the cards when the Bank looks to step down in April. At the Fed, some on the FOMC entertained the tool as an option but discussions from previous Fed minutes would indicate that there wasn't (and likely still isn't) tremendous support. Moreover, targeting interest rates could be seen as breaching Fed independence and allowing the government to finance its outsized fiscal endeavours at attractive rates, particularly given that we may be in the midst of a post-war record expansion (i.e. is pro-cyclical YCC really necessary?). And finally, the policy tool forces central banks to buy as many bonds as necessary to hit the target (or risk losing credibility), creating tremendous uncertainty.

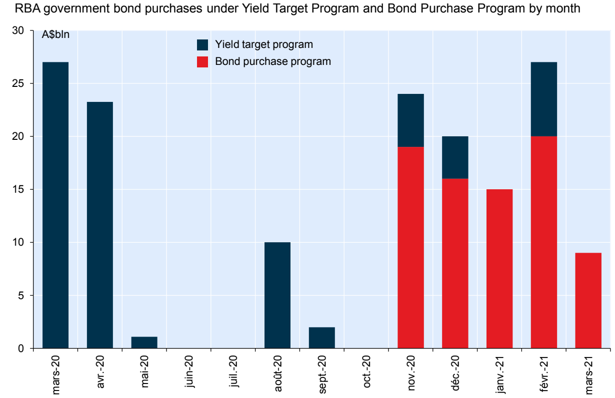
RBA: Yield target under pressure?
Generic 3-year Australian government bond yield versus target



NBF Economics and Strategy (data via Bloomberg, RBA)

Indeed, the RBA is a case study in the challenges of enforcing your yield curve targets. Back in March 2020, the central bank set a 3-year bond target of 25 basis points. For the following months, the targeted bond traded within a few basis points of the target without much central bank buying required. In November, the target for the 3-year and the cash rate was moved to 10 basis points. It remained close to target until mid-February when the global rates sell-off sent the yield higher. It prompted the RBA to step in and make an unscheduled A$3 billion purchase to push the short-term yield lower. At the same time, it doubled the pace of its longer-term bond purchases to quell the sell-off out the curve and send a message that it's willing keep borrowing costs low. This move was in contrast with North American central bank heads who were more tolerant of the rate rises. Now, the 3-year bond continues to trade above the RBA's 10 basis point target, if only by a handful of basis points. But relative to the RBA's forward guidance out to 2024, we're still in the early days. With plenty of bond market volatility surely left to play out, market participants will be closely watching how the central bank opts to manage its yield curve target and thus, its bond purchases going forward. The RBA already owns over 60% of the targeted April 2024 bond. Will it have to deplete the entire outstanding? Yield curve control advocates will surely be watching with a keen eye.

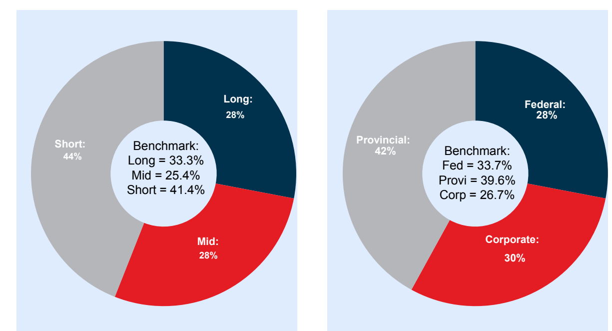
RBA: Record bond buying in February
RBA government bond purchases under Yield Target Program and Bond Purchase Program by month



NBF Economics and Strategy (data via Bloomberg, RBA)

"Do recent rate moves change the Fed or Bank of Canada's thinking? Probably not."

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-Mar-21	9-Dec-20	9-Sep-20	10-Jun-20	11-Mar-20
Interest Rates					
3 months	0.111	0.129	0.148	0.182	0.676
2 years	0.247	0.275	0.27	0.282	0.511
5 years	0.915	0.475	0.378	0.389	0.558
10 years	1.405	0.752	0.596	0.568	0.657
30 years	1.827	1.299	1.108	1.125	1.032
Spreads					
3 months - 2 years	13.6	14.6	12.2	10	-16.5
2 - 5 years	66.8	20	10.8	10.7	4.7
5 - 10 years	49	27.7	21.8	17.9	9.9
10 - 30 years	42.2	54.7	51.2	55.7	37.5
Currencies					
CAD/USD	1.2639	1.2816	1.3146	1.3412	1.3779
EUR/CAD	0.6641	0.6457	0.6445	0.6555	0.644

NBF Economics and Strategy (data via Bloomberg)

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Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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World: Bonds sting equities

Global equities hit a new record in mid-February and then pulled back (chart).

World: Equity market pauses
MSCI ACWI

NBF Economics and Strategy (data via Refinitiv)

Despite this setback, the MSCI ACWI remains in the black for the year to date with a gain of 2.6%, led by a robust showing from Canada (+5.4%) and emerging markets (+5.1%) – table.

MSCI composite index: Price Performance

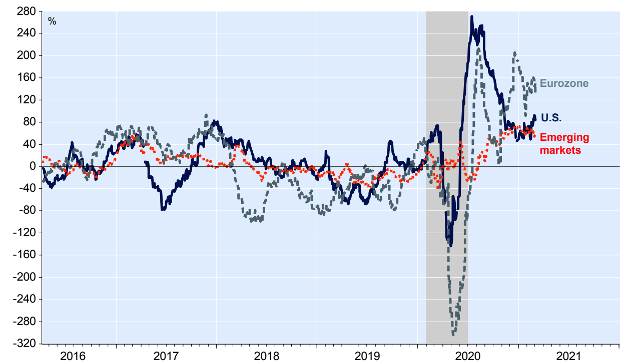
	Month to date	Quarter to date	Year to date
MSCI ACWI	0.5	2.6	2.6
MSCI World	0.6	2.3	2.3
MSCI USA	0.3	1.7	1.7
MSCI Canada	1.9	5.4	5.4
MSCI Europe	1.0	2.2	2.2
MSCI Pacific ex Jp	0.7	3.9	3.9
MSCI Japan	1.3	5.0	5.0
MSCI EM	0.3	5.1	5.1
MSCI EM EMEA	2.1	6.1	6.1
MSCI EM Latin America	3.6	-0.9	-0.9
MSCI EM Asia	-0.2	5.5	5.5

3/5/2021

NBF Economics and Strategy (data via Refinitiv)

Encouraging news that pandemic vaccination is moving right along brings a very constructive backdrop for the global economy and earnings growth. Now that the U.S. Congress has adopted an imposing $1.9-trillion stimulus package that extends improved unemployment insurance to September and provides a new round of cheques to households, it is difficult to imagine a slowing of consumption in the rest of 2021. Global consumption will also benefit from household net assets in better shape than a year ago in most OECD economies. This month we have raised our forecast of 2021 global GDP growth from 5.5% to 6% to reflect the recent wave of upside economic surprises (chart).[1]

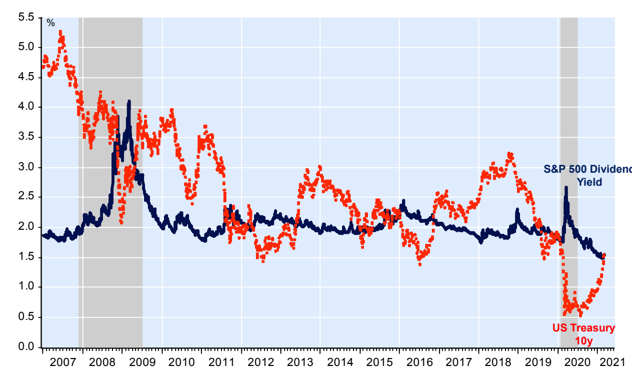
World: Widespread positive economic surprises
CITI Economic Surprise Index: U.S., emerging markets and Eurozone



NBF Economics and Strategy (data via Bloomberg)

Why are equity markets becoming more hesitant in the face of this wall of good news? The answer is rising Treasury yields. We wrote last month that if inflation expectations don't soon stabilize, the size of the Biden stimulus could complicate things by pushing the 10-year Treasury yield well above the S&P 500 dividend yield of 1.5%. It has now done so (chart).

U.S.: Convergence between markets and rates
S&P 500 Dividend Yield and US Government Benchmark 10y



NBF Economics and Strategy (data via Refinitiv)

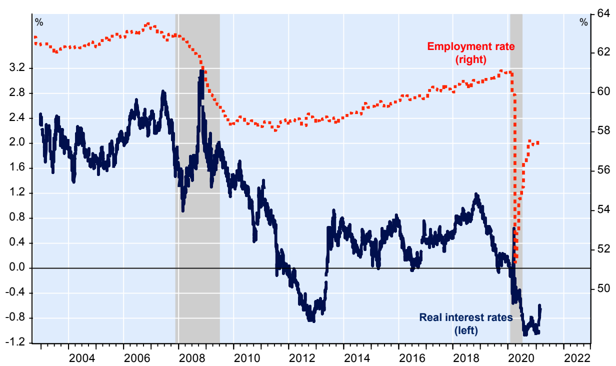
[1] See our *Monthly Economic Monitor* for more details.

[2] Growth and value are two investment styles based on fundamental analysis. According to Standard and Poor's, a growth company typically has promising earnings potential and tends to put more money into future growth and less into dividend payouts, while a value company tends to be more established, with stable growth and dividend distributions.

Stock Market and Portfolio Strategy

How long can the Federal Reserve keep interest rates below inflation with global vaccination against Covid ramping up and the U.S. job market improving? For a while longer, in our view. Federal Reserve chairman Jerome Powell has repeatedly stated that the Fed will be more patient about tightening monetary policy than it has been in the past. He has indicated that the Fed won't raise rates until inflation is sustainably at or above its 2% target and various indicators confirm that the labour market is at maximum strength. One such indicator is the employment rate, which at 57% remains below the bottom it reached in the wake of the 2008-09 recession (chart). Getting employment back to its pre-pandemic rate of 61% requires the addition of more than 9 million jobs.

U.S.: Real interest rates should stay negative
Yield on 10-year TIPS vs. employment

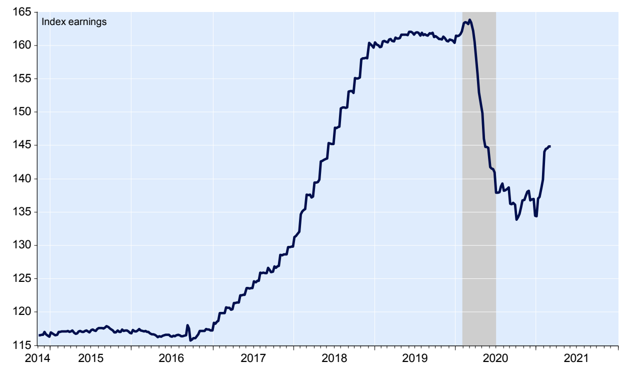


NBF Economics and Strategy (data via Refinitiv and Fred)

In these circumstances, we think U.S. monetary policy is set to remain highly accommodative for many quarters yet in order to boost corporate profits and promote job creation. S&P 500 index earnings have just started to turn the corner (chart).

"Getting employment back to its pre-pandemic rate of 61% requires the addition of more than 9 million jobs."

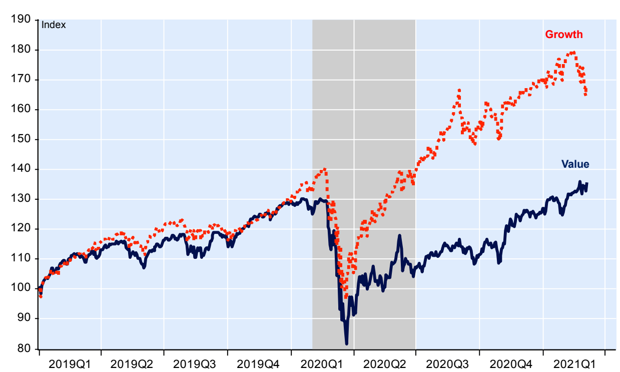
U.S.: Corporate profits are still far from peak
Earnings of S&P 500 constituent companies



NBF Economics and Strategy (data via Refinitiv)

In our view, U.S. labour-market conditions continue to argue for quantitative easing and negative real rates for the fore-seeable future. Our latest Fixed Income Monitor sees a nominal 10-year Treasury yield in the 1.6-1.9% range between now and year end. This limited increase might restrain P/E expansion in equity markets, but it is certainly not lethal if the earnings recovery gains steam. Rising interest rates, however, challenge some investment styles more than others. For example, the recent S&P 500 pullback was concentrated in growth stocks, which are more interest-sensitive. Value stocks remain on an uptrend (chart).[2]

U.S.: The weakness is not widespread
Performance of value vs. growth stocks in the United States



NBF Economics and Strategy (data via Refinitiv)

"Canadian banks baffled analysts at the end of February by reporting quality earnings well above expectations."

S&P/TSX: Value stocks surge

The S&P/TSX continues to do very well in 2021. At this writing it hovers near a new record. We wrote last month that it was only a matter of time before the record valuation gap between the S&P 500 and the S&P/TSX began to narrow if we were right in our outlook of rebounding economic growth. The Canadian benchmark proved us right and is already up 5.4% year to date on the strength of formidable contributions from Energy (+19.7%) and Banks (+10.8%).

S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.8	5.4	5.4
ENERGY	7.5	19.7	19.7
TELECOM	4.9	4.4	4.4
CONS. STAP.	4.3	-2.3	-2.3
BANKS	3.8	10.8	10.8
FINANCIALS	3.5	9.6	9.6
CONS. DISC.	2.5	8.4	8.4
REAL ESTATE	1.6	3.5	3.5
INDUSTRIALS	1.5	7.4	7.4
MATERIALS	1.3	-6.6	-6.6
UTILITIES	-0.8	-4.0	-4.0
HEALTH CARE	-4.0	35.9	35.9
IT	-9.1	-0.8	-0.8

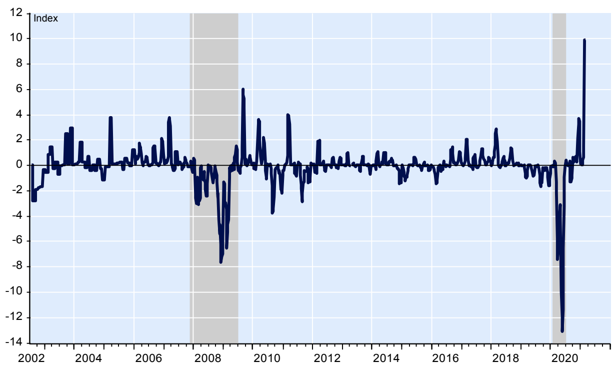
3/5/2021

NBF Economics and Strategy (data via Refinitiv)

Canadian banks baffled analysts at the end of February by reporting quality earnings well above expectations. Equity analysts reacted by upgrading their consensus on 12-month-forward earnings by a whopping 10%, the biggest upward revision on record (chart).

Stock Market and Portfolio Strategy

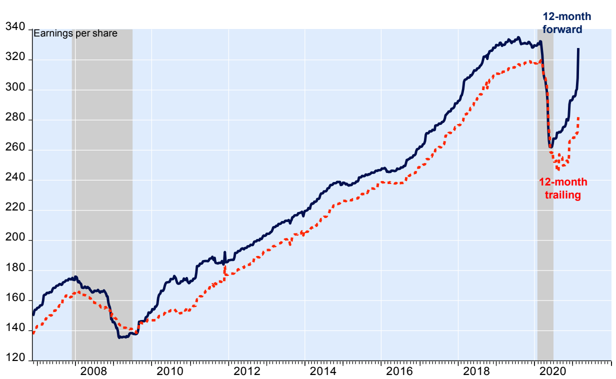
Canada: Biggest upward revision in two decades
One-month change in 12-month forward EPS for S&P/TSX Banks



NBF Economics and Strategy (data via Refinitiv)

It is important to note that even after this massive revision, earnings expectations for Canadian Banks remain below their pre-pandemic level (chart). We find there is still potential for upward surprises.

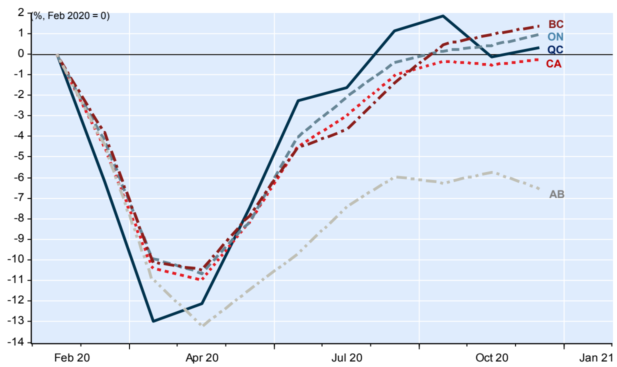
S&P TSX: Historical perspective on banks earnings
12-month forward and trailing earnings for Canadian banks



NBF Economics and Strategy (data via Refinitiv)

For one thing, the labour market continues to heal. Wages and salaries are already above their pre-pandemic level in three of the four most populous provinces (chart).

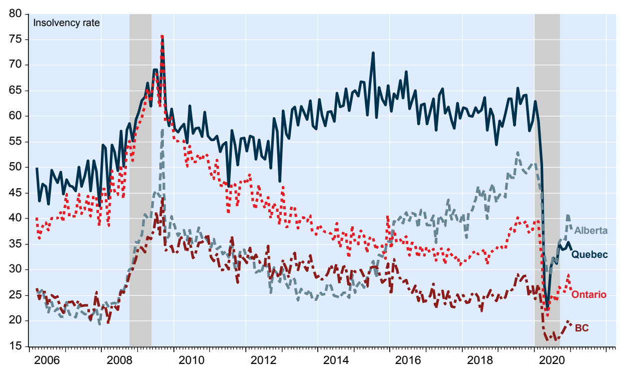
Canada: Wages & salaries in big-four provinces
Wages & salaries paid in Canada and the four largest provinces, (as of December 2020)



NBF Economics and Strategy (data via Statistic Canada)

This development is likely to support demand for residential mortgages and forestall a surge of household insolvencies, which are already quite low by historical standards (chart).

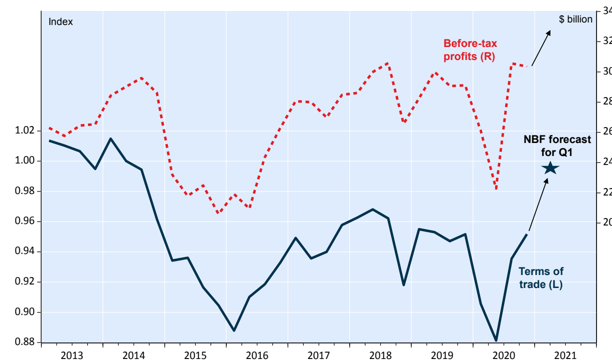
Canada: Insolvency rate is quite low
Number of insolvency files per 10,000 inhabitants aged 15y. and more, seasonally adjusted



NBF Economics and Strategy (data Office of the Superintendent of Bankruptcy)

Another likely support for bank earnings is that the Canadian economy will gain lift indirectly from the huge U.S. fiscal stimulus program and the recent surge of raw material prices. The latter augurs notable improvement in Canada's terms of trade in 2021 (chart). These factors could result in record corporate profits and a resilient credit cycle. We remain constructive on Canadian banks and the S&P/TSX.

Canada: Best terms of trade since 2014?
Before-tax profits and terms of trade



NBF Economics and Strategy (data from Statistics Canada)

Asset allocation

Our asset mix is unchanged this month: Overweight in equities and underweight in fixed income with a geographic allocation favouring Canada and Emerging Markets. The recent rise of bond yields reflects improvement of prospects for the global economy rather than loss of faith in governments and de-anchoring of inflation expectations. There is still a need for considerable healing of labour markets before central banks allow real interest rates to turn positive again.

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	
Fixed Income	45	42	
Cash	5	4	
Total	100	100	

NBF Economics and Strategy

Sector rotation

Our sector allocation is unchanged this month, remaining tweaked toward value over growth stocks.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - March 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**12.8%**
Energy Equipment & Services	Market Weight	0.0%
Oil, Gas & Consumable Fuels	Market Weight	12.8%
Materials	**Overweight**	**12.1%**
Chemicals	Market Weight	1.7%
Containers & Packaging	Overweight	0.6%
Metals & Mining *	Overweight	2.5%
Gold	Overweight	6.9%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**12.3%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	7.1%
Consumer Discretionary	**Market Weight**	**4.0%**
Automobiles & Components	Underweight	1.3%
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**	**1.5%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.4%
Financials	**Overweight**	**31.6%**
Banks	Overweight	21.6%
Diversified Financials	Market Weight	3.9%
Insurance	Overweight	6.1%
Information Technology	**Underweight**	**9.5%**
Telecommunication Services	**Market Weight**	**4.8%**
Utilities	**Underweight**	**4.7%**
Real Estate	**Underweight**	**3.2%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	*Q42021 (Est.)*
Index Level		**Mar-10-21**	***Target***
S&P/TSX		18,690	19,500
Assumptions			Q42021 (Est.)
Level:	Earnings *	783	1080
	Dividend	536	740
PE Trailing (implied)		23.9	18.1
			Q42021 (Est.)
10-year Bond Yield		1.41	1.75

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	*Q42021 (Est.)*
Index Level		**Mar-10-21**	***Target***
S&P 500		3,899	4,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	148	170
	Dividend	59	68
PE Trailing (implied)		26.4	23.5
			Q42021 (Est.)
10-year Bond Yield		1.52	1.90

** 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*
	03-10-2021	*M-T-D*	*Y-T-D*	*1-Yr*	*3-Yr*	*Y-T-D*	*1-Yr*	*3-Yr*	
North America - MSCI Index	***3963***	***1.9%***	***3.4%***	***37.7%***	***41.3%***	***2.7%***	***26.4%***	***39.2%***	***1.00***
United States - S&P 500	*3899*	*2.3%*	*3.8%*	*35.3%*	*39.9%*	*3.0%*	*24.2%*	*37.8%*	*1.00*
Canada - S&P TSX	*18690*	*3.5%*	*7.2%*	*25.0%*	*20.0%*	*7.2%*	*25.0%*	*20.0%*	*0.80*
Europe - MSCI Index	***1896***	***2.2%***	***3.0%***	***30.6%***	***6.1%***	***2.2%***	***19.9%***	***4.5%***	***0.59***
United Kingdom - FTSE 100	*6726*	*3.7%*	*4.1%*	*12.8%*	*-6.9%*	*5.1%*	*11.3%*	*-8.1%*	*-0.37*
Germany - DAX 30	*14540*	*5.5%*	*6.0%*	*38.8%*	*17.8%*	*2.3%*	*33.6%*	*12.0%*	*0.79*
France - CAC 40	*5991*	*5.0%*	*7.9%*	*29.2%*	*13.6%*	*4.1%*	*24.4%*	*8.0%*	*0.43*
Switzerland - SMI	*10910*	*3.7%*	*1.9%*	*18.6%*	*22.1%*	*-4.0%*	*9.1%*	*22.7%*	*0.87*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*4.7%*	*-3.5%*	*-3.7%*	*-0.4%*	*0.64*
Netherlands - Amsterdam Exchanges	*678*	*4.1%*	*8.6%*	*39.9%*	*26.2%*	*4.7%*	*34.7%*	*20.1%*	*0.84*
Pacific - MSCI Index	***3158***	***0.5%***	***1.8%***	***28.9%***	***11.0%***	***1.1%***	***18.4%***	***9.4%***	***0.71***
Japan - Nikkei 225	*29037*	*0.2%*	*5.8%*	*46.2%*	*35.3%*	*-0.2%*	*28.2%*	*31.2%*	*0.87*
Australia - All ordinaries	*6947*	*0.1%*	*1.4%*	*15.9%*	*14.5%*	*0.6%*	*26.7%*	*11.0%*	*0.65*
Hong Kong - Hang Seng	*28908*	*-0.3%*	*6.2%*	*13.8%*	*-6.7%*	*5.2%*	*4.6%*	*-7.3%*	*-0.07*
World - MSCI Index	***2775***	***1.8%***	***3.2%***	***35.3%***	***29.1%***	***2.4%***	***24.2%***	***27.2%***	***0.98***
World Ex. U.S.A. - MSCI Index	***2206***	***1.8%***	***3.1%***	***30.6%***	***8.9%***	***2.3%***	***19.9%***	***7.2%***	***0.65***
EAFE - MSCI Index	***2203***	***1.6%***	***2.6%***	***30.0%***	***7.9%***	***1.8%***	***19.4%***	***6.3%***	***0.64***
Emerging markets (free) - MSCI Index	***1,325***	***-1.1%***	***2.6%***	***37.4%***	***9.7%***	***1.8%***	***26.1%***	***8.1%***	***0.76***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-03-10

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2021	EPS Growth 2022	EPS Growth 12-m forward	P/E 2021	P/E 2022	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	235	4.87	1.10	24.94	15.24	21.25	22.28	19.34	21.33	16.46	1.00	5.11
Energy	3.08	400	28.99	49.53	NA	49.33	687.51	27.14	18.18	24.16	8.25	0.04	49.05
Materials	2.72	489	9.47	54.71	33.77	9.18	26.09	20.26	18.56	19.74	10.21	0.76	8.78
Industrials	8.70	805	7.84	38.46	71.39	35.20	58.01	26.10	19.31	23.92	24.94	0.41	-1.73
Consumer Discretionary	12.26	1308	3.55	45.70	47.08	33.68	42.62	35.34	26.44	32.68	32.89	0.77	1.87
Consumer Staples	6.04	672	-2.41	8.04	6.04	8.17	6.61	19.72	18.23	19.11	8.12	2.89	1.09
Healthcare	12.93	1322	1.41	19.39	14.49	6.60	11.98	15.74	14.77	15.51	10.22	1.29	2.26
Financials	11.72	572	20.07	43.17	22.80	11.85	19.60	15.25	13.63	14.81	6.63	0.76	9.73
Information Technology	26.47	2273	3.90	48.03	21.29	11.41	15.14	26.49	23.78	25.21	15.07	1.67	6.25
Telecom Services	11.08	237	8.54	43.34	11.49	17.82	14.04	23.47	19.92	22.30	20.91	1.59	4.48
Utilities	2.59	312	-0.63	-3.46	5.04	6.12	5.32	17.52	16.51	17.26	5.47	3.25	0.36
Real Estate	2.40	235	4.87	1.10	-11.92	16.88	-5.38	52.21	44.67	50.09	19.82	neg.	1.81

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

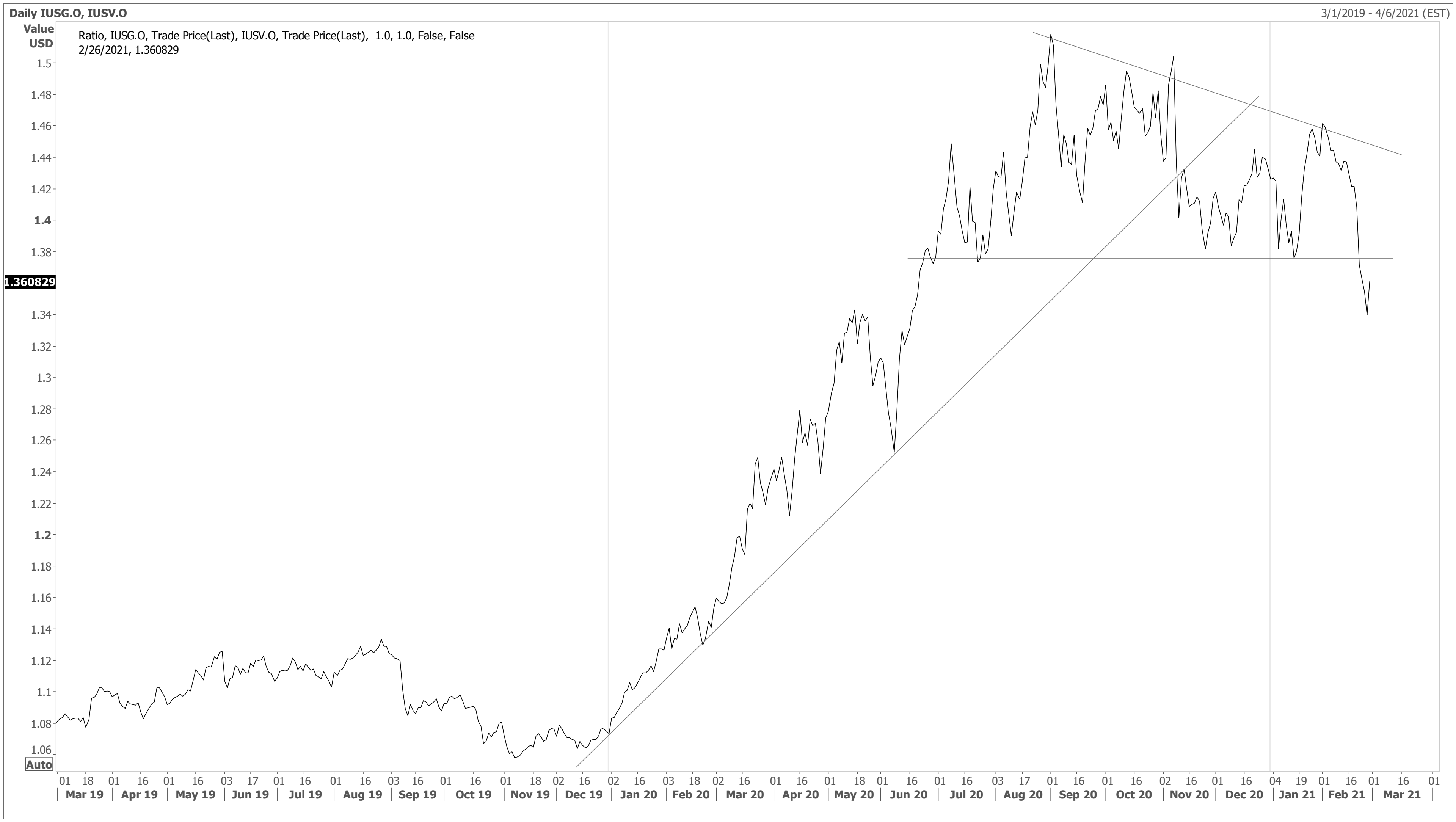
Chart Highlights

Markets are approaching their one-year anniversary low from the Corona virus selloff and big bull market recovery. Technology and growth stocks led the recovery with huge advances and lately cyclicals and value sectors are gaining momentum. In the March Vision, we highlight charts related to the growth sectors of the market. It is important to monitor current market trends in the leading sectors of this market given the recent weakness against a background of extreme bullish sentiment and speculation.

Technical Analysis

iShares Core S&P US Growth ETF (IUSG)/ iShares Core S&P US Value ETF

The ratio chart of S&P growth ETF to the S&P value ETF indicates that growth stocks have way outperformed value on a relative basis over the course of the last year. Recently, the growth ETF/value ETF chart broke a rising trend line and a top, as support since July broke. Breaking support here is evidence of a trend change where growth and technology stocks will show relatively weaker performance than value stocks. This appears to be an intermediate trend change where growth and technology sectors underperform. So far, it has been a combination of value stocks performing better and growth and technology sectors pulling back or consolidating.



Source: Refinitiv

Back to Research Analysts page

Technical Analysis

NASDAQ Composite Index (IXIC)

The NASD is the undisputed leader over the last year as tech and growth sectors were favored on the rebound rally. From a chart perspective, the trend remains up as a series of higher highs and higher lows remain intact. The first sign of trend deterioration comes on a break below short-term support at 12,980. Noteworthy, however, is the dramatic increase in volume since the beginning of 2021, with little net gain on the index. This churning action is symtomatic of a top, suggesting that negative technical signals should be respected.

Source: Refinitiv

Technical Analysis

Renaissance IPO ETF (IPO)

Strong bull markets are accompanied by a healthy new issue and IPO market. The rising trend in the IPO ETF reflects the strong bullish sentiment in the market over the past year. Technical cracks in this chart could be a red flag for the bull trend. Key support to watch here is US$63.00. Failing to US$63.00 breaks support as well as a rising trend line over the last year. The chart broke below its 50-day recently and appears to have failed in its attempt to regain ground above its 50-day. Worth watching.

Source: Refinitiv

Technical Analysis

IPOX SPAC Index (SPAC)

The SPAC frenzy is the leading edge of speculation in markets and is worth watching for any signs of weakness that could spread to other parts of the market. These so-called blank check investment companies are growing by leaps and bounds as they attract money to invest in mostly unproven companies. Although the SPAC index chart has a short history, it indicates that a rising trend over the past few months remains intact. The SPAC chart has pulled back to test its 50-day and rising trend line. Any negative technical action would be a red flag, especially for the speculative growth sectors of the market.

Source: Refinitiv

Technical Analysis

Innovator IBD 50 ETF (FFTY)

The IBD 50 ETF represents a growth ETF based on the list of IBD 50 growth stocks. This list of stocks typically has a beta of 2.5 to the S&P 500. Over the last year, the focus on growth took the FFTY chart from approximately US$25.00 to US$50.00. A rising trend remains intact as recent weakness only took the chart back to its 50-day as it remained well above its rising trend line. The trend is your friend until proven otherwise.

Source: Refinitiv

Technical Analysis

iShares MSCI USA Momentum Factor ETF (MTUM)

Growth and momentum are the two main themes driving markets over the past year. Strong upside momentum supported a major rally in markets last year as the accompanying MTUM chart indicates. MTUM is a momentum factor ETF that reflects the action of high momentum stocks. The rising trend in this chart indicates that momentum stocks generally remain in an uptrend. Recent weakness has taken this chart below its 50-day as it tests its rising trend line and chart support near 160.00. Failure to hold support at 160.00 would indicate faltering momentum and increased risk in the high growth momentum sectors of the market.

Source: Refinitiv

Back to Research Analysts page

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **March 1st, 2021.**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$9.41	$13.50	0.67%	44.21%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$9.05	$10.50	0.84%	16.91%	Energy Equipment & Services
	Parex Resources Inc.	PXT	$20.80	$35.00	0.00%	68.27%	Oil, Gas & Consumable Fuels
	TC Energy Corp.	TRP	$53.82	$67.00	6.11%	30.96%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$23.17	$37.50	2.47%	64.26%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$3.63	$4.50	0.00%	23.97%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$7.49	$14.00	1.96%	88.95%	Gold
	Endeavour Mining Corp.	EDV	$23.58	$58.00	0.00%	145.97%	Gold
	Kinross Gold Corp.	K	$7.82	$16.00	1.82%	106.54%	Gold
	Sandstorm Gold Ltd.	SSL	$7.63	$13.50	0.00%	76.93%	Gold
	SSR Mining Inc.	SSRM	$17.64	$39.00	1.35%	122.52%	Gold
	Teck Resouces Ltd.	TECK.b	$26.63	$30.00	0.74%	13.41%	Metals & Mining
Industrials							
	Dexterra Group Inc.	DXT	$6.04	$8.50	4.93%	45.70%	Commercial & Professional Services
	Finning International Inc.	FTT	$34.31	$37.00	2.49%	10.23%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$28.20	$39.00	1.45%	39.72%	Capital Goods
	Heroux-Devtek Inc.	HRX	$15.99	$18.50	0.00%	15.70%	Capital Goods
	Mullen Group Ltd.	MTL	$10.61	$13.75	4.40%	34.12%	Transportation
	Savaria Corp.	SIS	$18.25	$18.50	2.73%	4.00%	Capital Goods
	Stantec Inc.	STN	$51.40	$56.00	1.28%	10.23%	Commercial & Professional Services
	TFI International Inc.	TFII	$91.79	$110.00	1.28%	21.10%	Transportation
	Toromont Industries Ltd.	TIH	$93.05	$98.00	1.37%	6.65%	Capital Goods
Consumer Discretionary							
	BRP Inc.	DOO	$95.70	$102.00	0.47%	7.04%	Consumer Durables & Apparel
	Gildan Activewear Inc.	GIL	$40.14	$43.00	0.00%	7.13%	Consumer Durables & Apparel
Consumer Staples							
	Jamieson Wellness Inc.	JWEL	$34.43	$42.75	1.44%	25.62%	Household & Personal Products
Health Care							
	Chartwell Retirement Residences	CSH.un	$10.98	$13.50	5.44%	28.52%	Health Care Providers & Services
	Medical Facilities Corp.	DR	$7.01	$7.75	3.87%	14.55%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$118.66	$130.00	4.77%	14.48%	Banks
	Element Fleet Management Corp.	EFN	$12.50	$18.00	1.98%	46.08%	Diversified Financials
	Royal Bank of Canada	RY	$109.74	$123.00	3.84%	16.02%	Banks
	Sun Life Financial	SLF	$61.63	$69.00	3.49%	15.53%	Insurance
	Trisura Group Ltd.	TSU	$123.68	$177.00	0.00%	43.11%	Insurance
Information Technology							
	Kinaxis Inc.	KXS	$175.30	$250.00	0.00%	42.61%	Software & Services
	Real Matters Inc.	REAL	$16.38	$40.00	0.00%	144.20%	Software & Services
	Shopify Inc.	SHOP	US$1309.94	US$1650.00	0.00%	25.96%	Software & Services
Communication Services							
	BCE Inc.	BCE	$54.99	$64.00	6.15%	22.75%	Telecommunication Services
	Cineplex Inc.	CGX	$14.46	$14.00	0.00%	-3.18%	Media & Entertainment
	Corus Entertainment Inc.	CJR.b	$5.58	$6.50	4.28%	20.79%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$19.46	$24.00	5.05%	28.47%	Utilities
	Brookfield Infrastructure Partners L.P.	BIP.un	US$51.37	US$60.00	3.95%	20.77%	Utilities
	Capital Power Corp.	CPX	$34.51	$44.00	6.08%	33.44%	Utilities
	Innergex Renewable Energy Inc.	INE	$24.24	$28.00	3.31%	18.48%	Utilities
	Northland Power Inc.	NPI	$42.45	$52.00	2.86%	25.32%	Utilities
Real Estate							
	European Residential REIT	ERE.un	$4.35	$5.35	3.77%	26.69%	Real Estate
	Flagship Communities REIT	MHC.un	$15.02	$18.00	3.31%	23.24%	Real Estate
	Granite REIT	GRT.un	$73.24	$88.50	4.06%	24.93%	Real Estate
	H&R REIT	HR.un	$13.89	$16.75	4.84%	25.56%	Real Estate
	Tricon Residential Inc.	TCN	$12.50	$14.00	2.29%	14.24%	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 March 1, 2021
Source: NBF Research, Refinitiv

Sector Analysis

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

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

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Sector Analysis

Banking & Insurance

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Selections

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

Canadian Banks & Lifecos

Canadian Banks – Q1/2021 Earnings Recap: It's the end of the world as we know it (and I feel fine). Q1/21 results were very similar to the previous quarter's, with better than expected credit performance, robust Capital Markets results and capital levels setting new highs. In fact, all of these trends appear sustainable, at least into Q2/21. The longer-term outlook, in our view, is going to be driven by a resumption of household consumption and a commensurate rebound in consumer (excl. mortgages) credit demand. Although these balances are no longer shrinking, their revenue generation is far from pre-COVID levels. Assuming a rebound in the second half, we could see upside potential to our 3% (and consensus 5%) average 2022E EPS growth forecasts. We view next year as more representative of bank earnings/ROE potential. Although the upside scenario is speculative at this point, we do not believe there is much downside risk to bank stocks, with undemanding valuations, strong capital levels and near-term earnings momentum (albeit from credit and Capital Markets).

Sun Life Financial (TSX: SLF) – EPS beat despite weaker investment performance. Although we are generally averse to corporate buzzwords, SLF's Q4/20 was emblematic of the company's "resilient business mix". That is, despite weaker than normal investment performance (that reduced earnings by ~$70 mln or ~8%) the company delivered a solid earnings beat, culminating a year during which underlying earnings rose 5%. Leading the way were SLF's Asset Management businesses, highlighted by double-digit growth (and positive inflows) at MFS. The company's relatively strong growth outlook is supplemented by unrivaled balance sheet flexibility in the group that put the company in a good position to resume dividend increases if/when OSFI removes capital distribution restrictions in place since March 2020.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	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		66,860	643	106.10	10/2020	7.71	10.31	10.55	10.3	10.1	77.76	80.60	85.30	1.3	1.2	4.1%	113.00	↑
Bank of Nova Scotia	BNS	SP		90,134	1,211	75.55	10/2020	5.36	7.08	7.31	10.7	10.3	52.30	55.09	59.17	1.4	1.3	4.8%	77.00	↑
CIBC	CM	OP		52,230	445	118.66	10/2020	9.69	12.12	12.45	9.8	9.5	85.24	89.28	95.73	1.3	1.2	5.0%	130.00	↑
National Bank	NA	NR		26,996	337	80.36	10/2020	6.06	7.65	7.93	10.5	10.1	41.48	44.93	50.14	1.8	1.6	3.5%	NR	
Royal Bank of Canada	RY	OP		154,152	1,423	109.74	10/2020	7.97	10.15	10.41	10.8	10.5	58.24	62.42	68.45	1.8	1.6	4.0%	123.00	↑
Toronto-Dominion Bank	TD	SP		139,146	1,804	77.77	10/2020	5.35	7.01	7.18	11.1	10.8	49.44	53.81	58.12	1.4	1.3	4.1%	82.00	↑
Canadian Western Bank	CWB	SP		2,913	87	32.79	10/2020	2.93	3.11	3.49	10.5	9.4	32.24	33.21	35.12	1.0	0.9	3.5%	35.00	↑
Laurentian Bank	LB	UP		1,507	43	35.95	10/2020	2.92	2.88	3.20	12.5	11.2	53.58	53.60	55.39	0.7	0.6	4.6%	29.00	
Insurance																				
Great-West Lifeco	GWO	SP		30,225	928	33.28	12/2019	2.67	3.10	3.42	10.7	9.7	22.97	24.13	25.90	1.4	1.3	5.4%	33.00	↑
iA Financial	IAG	OP		7,001	107	66.19	12/2019	4.87	7.77	8.45	8.5	7.8	55.52	59.84	65.65	1.1	1.0	3.0%	70.00	↑
Manulife Financial	MFC	SP		49,229	1,940	26.01	12/2019	2.22	3.02	3.33	8.6	7.8	25.00	25.09	26.51	1.0	1.0	4.4%	27.00	↑
Sun Life Financial	SLF	OP		35,833	585	61.63	12/2019	4.14	6.06	6.58	10.2	9.4	37.96	41.67	46.75	1.5	1.3	3.6%	69.00	↑

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

- *Trisura Group*
- *Element Fleet Management*

Q4 2020 Earnings Recap

Trisura Group Ltd. (TSU: TSX) – Q4 Results & U.S. Marketing

TSU reported Q4 adjusted diluted EPS of $0.96, up 68% y/y, beating the street at $0.74 (NBF $0.86). Rapid premiums and revenue growth drove the 30% EPS beat as both Canada and U.S. operations posted solid growth. We also presented Trisura's management to U.S. investors. The event reinforced TSU's rapid growth story and 2021 strategic imperitives: i) expansion into admitted lines in the U.S. fronting business; ii) roll-out of U.S. Surety; and iii) targeting a more sophisticated capital structure. Our price target increases to $177 (was $161) with significant valuation upside as the company continues to prove out the U.S. fronting platform. Reiterate Outperform.

ECN Capital Corp. (ECN: TSX) - Executing on Growth with Visible Upside

ECN reported adjusted EPS of $0.08, roughly in line with consensus and NBF at ~$0.085. We view the quarter very favourably as underlying operating units Service Finance and Triad both outperformed our revenue and income expectations by 10%+, partially offset by modestly softer Kessler results and higher corporate losses. Underlying fundamentals in all three operating units remain strong, with clear upside to Service Finance coming from the upgraded "All-in-One" platform and the soon-to-be announced Big Box Retailer relationship. Our confidence in the reiterated guidance of US$0.46-$0.51 in 2021 (+56% y/y) continues to increase. We increased our target multiple and target price to reflect this view. Currently trading at ~13x NTM consensus EPS, we continue to believe ECN shares represent good relative value to the recent historical range and its closest peers. Maintain Outperform.

Equitable Group. (EQB: TSX) - EPS Beat and Strong Outlook Drive PT Bump

EQB reported Q4-20 Core EPS of $3.98, up 23% y/y, and 8% above street at $3.70 (NBF $3.53). Non-interest income drove the beat, helped by lower than expected PCLs and offset by higher non-interest expenses. BVPS increased 5% q/q to $93.35, ahead of the street $92.58 (NBF $92.47). Adj. ROE was 17.5%. Looking ahead, management reiterated robust medium-term objectives (double-digit adjusted EPS growth and 20-25% annual dividend increases) and profitability targets (adjusted ROE of 15-17%). In addition, EQB also provided insight into the growth potential of the Wealth Decumulation, EQB Bank and Specialized Finance business lines. On the back of solid results and the strong outlook, we increased our price target to $160 (was $138). Reiterate Outperform.

Home Capital Group. (HCG: TSX) - Q4 results beat; outlook remains favourable

HCG reported adjusted EPS of $1.11, up 9% y/y (consensus $1.02 & NBF $0.99). Reserve releases in the single-family mortgage portfolio and stronger net interest income on the core non-securitized portfolio drove the beat, partially offset by higher than expected non-interest expenses. We believe the current trading multiple of 1.0x vs our 1.2x multiple reflects an attractive entry point, especially as HCG's massive excess capital reserve positions it well to benefit in a less restrictive OSFI world. Our price target remains unchanged at $42.

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 3/1	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	
Mortgage Finance																				
Equitable Group	EQB	OP		2.34	16.9	138.52	12/2020	12.61	14.71	15.80	9.4	8.8	93.35	106.71	120.66	nmf	1.1	1.1%	160.00	↑
First National Financial	FN	SP		2.74	60.0	45.71	12/2019	3.02	3.90	3.75	11.7	12.2	7.74	7.80	9.45	5.9	4.8	4.6%	46.00	
Sagen MI Canada	MIC	T		3.74	86.4	43.29	12/2020	5.33	4.81	5.28	9.0	8.2	44.85	47.51	50.63	0.9	0.9	5.0%	43.50	
Home Capital Group	HCG	OP		1.64	51.8	31.61	12/2020	3.55	4.38	5.24	7.2	6.0	32.42	36.57	41.20	0.9	0.8	0.0%	42.00	
Timbercreek Financial	TF	SP		0.72	81.1	8.93	12/2019	0.66	0.65	0.73	13.8	12.3	8.66	8.67	8.71	1.0	1.0	7.7%	9.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.99	242.3	8.20	12/2020	0.13	0.39	0.48	16.7	13.4	2.79	2.93	3.08	2.2	2.1	1.5%	10.50	↑
Element Fleet Management	EFN	OP		5.49	438.8	12.50	12/2019	0.36	0.76	0.86	16.5	14.5	7.34	7.41	7.78	1.7	1.6	2.1%	18.00	
goeasy	GSY	OP		1.94	14.8	131.02	12/2020	7.57	8.67	10.02	15.1	13.1	29.97	36.41	44.10	3.6	3.0	2.0%	141.00	↑
Brookfield Business Partners	BBU	OP		8.01	148.7	53.82	12/2020	NA	NA	NA	NA	NA	23.48	30.89	39.01	1.4	1.1	0.6%	50.00	↑
HR Companies																				
Morneau Shepell	MSI	OP		2.3	70.0	32.84	12/2019	0.29	0.74	0.55	44.3	59.2	9.58	9.52	9.39	3.5	3.5	2.4%	36.00	
Securities Exchange																				
TMX Group	X	SP		6.85	56.2	121.88	12/2020	5.88	6.30	6.82	19.3	17.9	64.22	66.99	70.06	1.8	1.7	2.3%	142.00	↑
Insurance																				
Intact Financial Corp.	IFC	OP		20.66	143.0	144.43	12/2020	9.92	10.1	10.89	14.2	13.3	58.79	79.04	84.71	1.8	1.7	2.3%	200.00	↑
Trisura Group Ltd.	TSU	OP		1.27	10.3	123.68	12/2020	3.68	4.74	5.65	26.1	21.9	28.23	32.68	38.05	3.8	3.3	0.0%	177.00	↑
Fairfax Financial Holdings	FFH	OP		13.79	26.2	525.72	12/2020	4.97	43.04	40.87	9.6	10.2	442.17	484.81	517.06	0.9	0.8	2.4%	600.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.10	103.8	10.63	12/2019	1.33	1.35	1.39	7.9	7.6	4.91	5.01	5.01	2.1	2.1	7.9%	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.

Back to Research Analysts page

Diversified Industrials

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Selections

- › *Enerflex Ltd.*
- › *Mullen Group*

Enerflex Ltd.

Enerflex reports Q4 EBITDA ahead of expectations, even after adjusting for beneficial lift from accounting treatment of finance leases during the period.

While headline adj. EBITDA of $52.8 mln handily topped the consensus estimate of $35.4 mln, during the quarter EFX finalized extensions of two BOOM contracts for an additional 10 years, with equipment ownership transferring to the customer at contract expiry. The contracts were resultantly recorded as finance leases within Q4 results, requiring the recognition of ~$64 mln in revenue in the period. While associated EBITDA margins for the contracts were not disclosed, we estimate margins in the mid to high teens, adjusting for which would imply Q4 adjusted adj. EBITDA ~$40 mln, still well above consensus of $35.4 mln and our $33.2 mln (CEWS-less) estimate. Q4 Engineered Systems (ES) bookings of $52.7 mln increased by 128% sequentially but remain well below the historical quarterly average of ~ $250 mln as the focus on capital discipline persists within the oil and gas industry owing to pandemic-driven uncertainty. EFX expects ES revenue in N.A. will remain subdued through H1 2021, with the recent strength in commodity prices and increased drilling activity potentially translating to a more meaningful pickup in bookings in H2 2021. The ES backlog fell to $143 mln exiting the quarter, down 23% q/q. **We maintain our Outperform with our $10.50 target driven by 6.4x 2022e EV/EBITDA, in line with EFX's historical forward year EV/EBITDA average.**

Pason Systems Corp.

Pason Systems posts solid fourth quarter beat with the cost savings impact of 2020's restructuring efforts on full display.

Pason reported Q4/2020 adjusted EBITDA of $8.2 mln (excluding a $2.2 lift from the CEWS) coming in well above the $3.7 mln consensus forecast and crushing our $1.0 mln (CEWS-less) estimate. While fourth quarter revenue increased 42% sequentially, SG&A and opex (combined) increased by only ~2% q/q resulting in near-100% incremental EBITDA margins. Management had previously highlighted the ability to absorb $50 mln to $100 mln of additional revenue with incremental adj. EBITDA margins north of 75%, and with Pason currently structured for a 500-600 U.S. rig count environment, we continue to see considerable headroom within the existing cost structure vs. the current ~400 rigs active in the United States. We continue to model a gradual improvement in North American rig counts throughout 2021 and into next year, setting the stage for a more constructive macro backdrop on a full-year basis in 2022 (expecting an average 2022 U.S. rig count in the mid-500s). **Our $11.00 target is driven by 12.7x 2022e EV/EBITDA, a premium to PSI's historical forward year EV/EBITDA average of 10.0x but still well below the levels experienced between 2015-2019 corresponding with forward year consensus EBITDA below $70 mln. With a pristine balance sheet including zero funded debt and a net cash position of ~$149 mln exiting 2020, we maintain our Outperform rating.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	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		778.19	18.7	41.59	144.3	144.3	165.2	10.6	11.0	9.4	5.7	46.00	12%	
Enerflex Ltd.	EFX	OP		811.59	89.7	9.05	345.7	191.3	142.0	3.5	6.1	7.9	1.9	10.50	17%	↑
Mullen Group Ltd.	MTL	OP		1027.60	96.9	10.61	202.3	191.5	210.0	7.5	7.3	6.7	1.9	13.75	34%	
Pason Systems Corp.	PSI	OP		813.44	83.1	9.79	129.5	39.3	34.1	5.1	16.9	19.9	-3.8	11.00	14%	↑
Shawcor Ltd.	SCL	OP		360.52	70.4	5.12	136.4	29.1	100.8	5.6	22.3	6.5	9.9	6.00	17%	

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

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Selections

- *Jamieson Wellness*
- *Medical Facilities*

Highlights as of February 2021

We published our semi-annual update for the Dividend All-Stars thematic which contains 17 of NBF's favourite yield ideas for 2021, the group spanning a variety of industries, sizes and liquidity, but sharing three investment criteria:

1. Dividend/distribution yield of approximately 4% or greater;
2. Low risk of the current payout proving unsustainable/ dividends ideally growing; and
3. Generally positive bias regarding the prospects of the company and/or share price.

The average yield of our 2021 All-Stars portfolio is elevated at 5.6% that is easily funded for each as the average payout for the portfolio is 63% while the average payout measure yield (AFFO, FCF, EPS, etc.) of 10.2% indicates ample room for dividend/distribution increases over time. While the Dividend All-Stars portfolio for 2021 is diversified across several sectors, we note that there is a higher concentration amongst real estate and pipelines/utilities companies that collectively account for 11/17 (65%) of the names in this year's portfolio. For investors seeking stable, predictable, elevated income, the following portfolio reflects NBF's favourite ideas for 2021:

AltaGas (TSX: ALA), BCE (TSX: BCE), BSR REIT (TSX: HOM.U), Capital Power (TSX: CPX), Choice Properties REIT (TSX: CHP.UN), Crombie REIT (TSX: CRR.UN), CT REIT (TSX: CRT.UN), Enbridge (TSX: ENB), Exchange Income Corp. (TSX: EIF), Keyera Corp. (TSX: KEY), KP Tissue (TSX: KPT), Mullen Group (TSX: MTL), Royal Bank of Canada (TSX: RY), Summit Industrial Income REIT (TSX: SMU.UN), TC Energy (TSX: TRP), Transcontinental (TSX: TCL.A), and WPT Industrial (TSX: WIR.U).

The NBF 2020 Dividend All-Stars Portfolio, initially published in February 2020, realized a total period return of -9.3% (4.1% income and -13.4% price), which was below that of the S&P/TSX Composite total period return of 7.6% (3.0% income and 4.6% price). The latter's performance was due, primarily, to the outperformance of technology and materials equities, particularly in H1/2020, of which few pay dividends and are typically not featured in the dividend-oriented portfolio. Nevertheless, since its 2012 inception, the Dividend All-Stars Portfolio has overall, on average, outperformed the S&P/TSX Composite by ~140 bps.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 3/1	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		260.36	70.2	3.71u	3/2020	0.0%	0.26u	0.10u	0.14u	35.9	27.4	75.4u	80.2u	86.8u	8.9	8.2	472.4u	5.4	3.25u	
Andlauer Healthcare Group	AND	SP	↑	1,530.59	38.4	39.90	4/2020	0.5%	0.81	1.08	1.29	37.1	30.9	78.9	96.1	105.5	17.9	16.1	208.6	2.0	38.00	↑
CRH Medical	CRH	T		350.88	71.5	4.91	3/2020	0.0%	0.41u	0.32u	0.46u	10.9	7.7	36.6u	26.8u	43.3u	12.1	7.5	70.1u	1.6	5.10	↑
IMV Inc.	IMV	SP		299.91	67.1	4.47	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		1,372.82	39.9	34.43	4/2020	1.5%	1.17	1.24	1.31	27.8	26.4	88.0	100.0	105.4	15.4	14.5	147.9	1.4	42.75	
Knight Therapeutics	GUD	OP		680.51	130.9	5.20	3/2020	0.0%	0.16	0.15	0.25	28.0	16.8	(1.2)	20.2	38.1	16.4	8.7	-	-	6.75	
Medical Facilities Corp.	DR	OP		218.05	31.1	7.01	3/2020	4.0%	0.66u	1.00u	0.86u	5.2	6.2	54.9u	57.9u	54.2u	5.8	6.1	106.2u	2.4	7.75	
Theratechnologies	TH	SP		414.34	93.7	4.42	4/f2020	0.0%	(0.15)u	0.06u	0.09u	55.7	37.8	(7.1)u	10.4u	13.0u	29.7	23.7	-	-	3.75	
Special Situations																						
K-Bro Linen	KBL	SP		406.66	10.6	38.50	3/f2020	3.1%	2.04	2.23	2.51	17.2	15.3	39.5	42.7	47.8	11.9	10.6	102.3	2.1	40.00	
Just Energy Group	JE	UP		241.38	48.0	5.03	3/f2021	0.0%	-2.04	2.25	1.35	2.2	3.7	185.8	160.1	166.2	4.3	4.2	452.1	2.7	1.75	
Rogers Sugar	RSI	SP		559.10	103.5	5.40	1/f2021	6.7%	0.37	0.42	0.43	12.8	12.6	92.3	100.4	104.7	9.1	9.0	361.5	3.5	5.00	
Chemtrade Logistics Income Fund	CHE.UN	SP		658.71	93.2	7.07	4/f2020	8.5%	0.52	0.78	1.06	9.1	6.7	265.3	309.5	333.4	6.8	6.1	1,371.8	4.1	6.50	↑

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

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Selections

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

Ritchie Bros. Auctioneers Incorporated: We could be early, but shares appear washed out; Upgrade

Negatives are impounded in expectations

Upgrading RBA to Outperform

Dipping our toes into an oversold / high-quality business; we see five reasons why buying now makes sense: 1) Expectation reset has happened (RBA down -24% YTD vs. OEMs/dealers +17%; Orlando GTVs were negative; Q4/20 was a miss; everyone knows about H2/21E tough comps); 2) While this likely warrants a deeper piece and methodological rethink, is RBA a tech company or an industrial company? At 29x P/E (not revenue) and dominant market position, this is not expensive and in line with long-term median valuation; 3) The company has a recently renewed and unused $100 mln share buyback program; 4) Using 2019 as an EPS anchor, RBA is expected to show more growth vs. OEMs / dealers (+16% vs. +8%, respectively); 5) Shares are oversold when looking at any technical indicator, priming for a potential bounce.

Bottom line – not a bad set-up for patient investors

We are not exactly sure when the stock will start to "work" as the overused "catalysts" moniker is relatively meagre at the moment. That being said, we feel that the shares are washed out as a lot of negatives are already impounded in expectations (lower numbers, downgrades, large share price discrepancy vs. OEMs/dealers YTD: +17% vs. -24%). Importantly, we believe that service revenue growth will outperform GTVs over the forecast horizon, something that investors are paying much greater attention to. The latter dynamic is also translating into stronger projected EPS CAGR growth vs. OEMs/dealers when using 2019 as the anchor point (while we don't believe the market is pricing in Evergreen targets). We would not be surprised to see the company stepping up on the NCIB accelerator. Finally, as we said many times before, this is a great business. And we are buying it now at reasonable (to RBA) multiples. While we are not pivoting away from more cyclically-positioned names under our coverage, long-term investors should do well with RBA. We are upgrading the shares to Outperform (from Sector Perform), US$57.00 price target is unchanged (we also cleaned up our forward estimates to account for tough comp in Q3/21E) while slightly bumping valuation multiple to 29.0x P/E (from 28.0x) on 2022E estimates.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 3/1	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**		$19.25	$847	12 - 2020	$1.16	$0.70	$1.13	16.7x	14.5x	$255	$218	$263	6.3x	5.9x	3.6%	0.9x
Bird Construction Inc.	BDT	OP		**$11.00**		$8.92	$483	12 - 2020	$0.62	$0.74	$0.91	12.0x	9.8x	$62	$89	$101	5.7x	5.0x	3.6%	0.3x
Finning International Inc.	FTT	OP		**$37.00**	↑	$34.31	$5,568	12 - 2020	$1.14	$1.66	$2.05	20.7x	16.7x	$636	$753	$865	8.5x	7.4x	2.3%	1.1x
IBI Group Inc.	IBG	OP		**$12.00**		$9.29	$351	12 - 2020	$0.63	$0.71	$0.77	13.0x	12.1x	$46	$49	$52	8.3x	8.0x	0.0%	1.2x
North American Construction Group Ltd.	NOA	OP		**$21.00**	↑	$15.29	$427	12 - 2020	$1.74	$1.66	$1.80	9.2x	8.5x	$175	$181	$194	4.5x	4.2x	1.0%	2.1x
Ritchie Bros. Auctioneers	RBA	OP	↑	**U$57.00**	↓	U$54.37	U$5,912	12 - 2020	U$1.59	U$1.85	U$1.95	29.5x	27.8x	U$352	U$363	U$380	17.5x	16.7x	1.6%	1.0x
SNC-Lavalin	SNC	OP		**$34.50**		$26.71	$4,689	12 - 2020	-$0.18	$1.88	$2.44	10.3x	7.3x	$332	$664	$766	6.8x	5.7x	0.3%	1.7x
Stantec Inc.	STN	OP		**$56.00**	↑	$51.40	$5,738	12 - 2020	$2.13	$2.39	$2.50	21.5x	20.6x	$435	$472	$505	13.1x	12.2x	1.2%	0.8x
Toromont Industries Ltd.	TIH	OP		**$98.00**		$87.53	$7,195	12 - 2020	$3.09	$3.81	$4.46	24.4x	20.9x	$539	$605	$674	12.8x	11.5x	1.3%	0.1x
WSP Global	WSP	OP		**$133.00**		$119.20	$13,969	12 - 2020	$3.34	$4.24	$5.51	28.1x	21.6x	$801	$952	$1,167	15.9x	13.0x	1.3%	1.2x
AutoCanada	ACQ	SP		**$27.00**		$30.18	$822	12 - 2020	$0.31	$1.41	$1.73	21.4x	17.5x	$83	$103	$116	9.4x	8.3x	0.0%	1.0x
Stelco	STLC	SP		**$26.50**		$26.12	$2,317	12 - 2020	-$0.60	$5.42	$1.76	4.8x	14.8x	$63	$601	$268	4.0x	8.9x	1.5%	0.1x
ATS Automation	ATA	OP		**$30.00**		$28.00	$2,588	03 - 2021	$0.99	$1.39	$1.56	20.1x	17.9x	$173	$230	$251	12.8x	11.7x	0.0%	1.5x
Stella-Jones	SJ	SP		**$47.50**		$46.60	$3,144	12 - 2020	$3.02	$2.96	$3.08	15.8x	15.1x	$336	$324	$339	11.3x	10.8x	1.3%	1.6x
Median												**18.4x**	**15.9x**				**9.0x**	**8.6x**	**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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Selection

› *Gildan*

Gildan Activewear Inc.

Q4 2020 Results: Strong beat; well-positioned for recovery

Q4/20 adj. EPS was $0.34 vs. NBF/consensus at $0.21/$0.22; LY was $0.41

We view quarterly results to be positive given the strong beat vs. NBF/consensus on key metrics. Additionally, we consider longer-term outlook commentary to be constructive. Total sales were $690 million vs. NBF at $609 million and consensus at $612 million; last year was $659 million. On a segmented basis, Activewear sales were $538 million vs. NBF at $426 million and last year at $484 million; Hosiery & Underwear sales were $152 million vs. NBF at $184 million and last year at $175 million. Adj. EBITDA was $145 million vs. NBF at $91 million; last year was $128 million.

Well-positioned for recovery

Q1/21 imprintables POS trends are tracking down 10%-15% in U.S./ international markets, slightly weaker than Q4 (down <10% y/y), due to renewed lockdowns in many regions as well as weather impacts (U.S.). Management indicated that production is ramping up, exceeding POS trends; production capacity is sufficient to satisfy re-stocking as economies reopen.

Gildan will increase apparel pricing to offset commodity pressure moving into 2022, if needed. Coming out of the pandemic, our view is that GIL is well-positioned to benefit from improving demand for large-gathering events, Wholesaler re-stocking, and margin expansion (led by the Back to Basics strategy).

Long-term targets reiterated; suggests continued upside

GIL reiterated its long-term strategic targets (30% gross margin rate, <12% SG&A rate). As Gildan executes against objectives, there remains meaningful share appreciation potential, particularly if revenues continue to recover. For reference, using our 2022 sales estimate of $2.77 billion (down by 2% relative to 2019), this would imply EPS >$2.00 vs. our current estimate of $1.89.

Maintain Outperform rating; Price Target is Cdn$43

We value GIL at 18.0x our 2022 EPS (adj. for FX).

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 03/01	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		10,312	61.4	168.06	12/2020	12.95	13.83	16.04	12.2	10.5	2,181	2,236	2,419	5.9	5.5	73.32	0.40	199.00	↑
Dollarama	DOL	OP		15,323	312.8	48.98	02/2020	1.78	1.84	2.24	26.7	21.8	1,111	1,147	1,332	16.0	13.8	0.84	0.92	61.00	
Specialty Stores																					
Couche Tard	ATD.b	OP		42,916	1,114.4	38.51	04/2020	1.97	2.24	2.21	13.6	13.8	4,365	4,676	4,492	8.2	8.5	10.70	0.32	49.00	
Parkland Fuel Corporation	PKI	OP		5,933	151.1	39.26	12/2019	2.56	0.58	1.82	67.6	21.5	1,266	1,019	1,252	9.2	7.5	14.86	0.60	44.00	↓
Apparel																					
Gildan	GIL	OP		7,964	198.4	40.14	12/2020	(0.18)	1.53	1.89	20.7	16.8	165	512	590	13.2	11.5	7.86	0.27	43.00	↑
Roots Corporation	ROOT	SP		116	42.2	2.76	02/2020	(0.06)	0.38	0.34	7.3	8.1	52	66	62	4.7	5.0	3.60	0.56	3.00	
Grocers																					
Empire Company	EMP.a	OP		9,624	270.1	35.63	05/2020	2.19	2.44	2.64	14.6	13.5	1,892	2,074	2,116	7.5	7.4	15.54	0.59	43.00	
Loblaw	L	SP		21,777	352.7	61.74	12/2020	4.26	5.07	5.81	12.2	10.6	4,998	5,220	5,466	7.0	6.7	31.69	0.57	75.00	↓
Metro	MRU	SP		13,303	251.8	52.83	09/2020	3.27	3.36	3.61	15.7	14.6	1,091	1,077	1,069	14.4	14.5	24.45	0.26	61.00	
Food Manufacturer																					
Saputo	SAP	SP		14,950	410.9	36.38	03/2020	1.80	1.77	2.06	20.5	17.6	1,468	1,489	1,680	12.4	11.0	15.8	0.35	39.00	
Lassonde	LAS.a	OP		1,124	6.9	162.08	12/2019	8.32	13.54	13.05	12.0	12.4	159	210	207	6.6	6.7	116.4	0.25	183.00	
Premium Brands Holdings	PBH	OP		4,059	39.4	103.02	12/2019	3.30	2.93	4.15	35.1	24.8	308	305	393	17.1	13.2	33.9	0.46	116.00	↓
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,018	37.0	27.49	12/2019	1.59	1.78	1.94	15.4	14.2	156	166	173	8.3	8.0	9.12	0.52	30.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	OP		250	42.4	5.88	12/2019	0.31	0.47	0.56	12.4	10.5	29	35	38	11.1	10.3	5.53	0.37	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,325	24.7	53.64	11/2020	3.34	(1.41)	3.03	-37.9	17.7	152	149	166	11.9	10.7	22.93	0.44	57.00	↑
Online Grocery																					
Goodfood Market	FOOD	OP		182	60.3	3.02	08/2020	(0.07)	(0.07)	0.01	NA	NA	5	11	21	NA	NA	0.95	(3.75)	14.25	↓

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

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Sector Analysis

Metals & Mining: Base Metals

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Selections

- *First Quantum*
- *Capstone Mining*
- *Teck Resources*

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 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 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 Ltd. (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 Corp. (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 closing 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 Limited (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.

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP		1,484	408.9	3.63	4.50	↑	Nagle	0.07u	0.39u	0.45u	6.9x	8.1x	0.34u	0.64u	0.63u	4.3x	4.3x	4.02	0.9x
Copper Mountain Mining	CMMC	OP	↑	637	207.7	3.07	3.25	↑	Nagle	0.11u	0.58u	0.52u	5.3x	6.0x	0.61u	1.03u	0.89u	3.0x	3.5x	4.15	0.7x
Ero Copper	ERO	SP		1,881	86.8	21.68	24.00	-	Nagle	0.97u	1.37u	2.01u	11.9x	10.8x	1.54u	2.19u	2.79u	7.4x	5.8x	27.70	0.8x
First Quantum Minerals	FM	OP		19,287	690.3	27.94	29.00	↑	Nagle	(0.07)u	1.35u	2.09u	15.5x	13.4x	2.64u	4.32u	4.99u	4.9x	4.2x	23.23	1.2x
Hudbay Minerals	HBM	SP		2,351	261.3	9.00	11.50	↑	Nagle	(0.44)u	0.18u	0.63u	36.8x	14.4x	0.93u	1.99u	2.62u	3.4x	2.6x	8.05	1.1x
Lundin Mining	LUN	SP		10,724	736.0	14.57	15.50	↑	Nagle	0.31u	0.96u	1.25u	11.4x	11.7x	1.00u	1.92u	2.06u	5.7x	5.3x	11.56	1.3x
Nexa Resources	NEXA	SP		1,544	132.4	11.66	15.00	-	Nagle	(0.82)u	0.90u	1.15u	9.7x	10.1x	1.44u	3.37u	3.96u	2.6x	2.2x	29.61	0.4x
Sherritt International	S	SP		250	397.3	0.63	0.60		DeMarco	(0.34)c	(0.23)c	0.02c	n/a	26.9x	0.03c	0.03c	0.11c	21.7x	5.7x	0.60	1.0x
Taseko Mines	TKO	SP		607	282.1	2.15	2.65	↑	Nagle	(0.11)c	0.05c	0.05c	39.7x	42.2x	0.44c	0.54c	0.54c	4.0x	4.0x	3.94	0.5x
Teck Resources	TECKb	OP		14,129	530.6	26.63	30.00	↑	Nagle	1.05c	3.36c	3.27c	7.9x	8.1x	3.38c	6.69c	6.52c	4.0x	4.1x	27.74	1.0x
Trevali Mining	TV	SP		193	989.1	0.20	0.25	-	Nagle	(0.03)c	0.06c	0.06c	2.5x	3.1x	0.01c	0.12c	0.11c	1.2x	1.3x	0.44	0.4x
Developers																					
Adventus Mining	ADZN	OP		118	131.1	0.90	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	0.4x
Filo Mining	FIL	OP		254	110.8	2.29	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	0.4x
Nevada Copper	NCU	SP		275	1,488.3	0.19	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		225	300.6	0.75	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		405	143.0	2.83	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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Selections

Gold/Silver Producers:

› ***Dundee Precious Metals Inc.*** *(DPM: TSX; C$14.00 target)*
› ***Endeavour Mining Corp.*** *(EDV: TSX; C$58.00 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$16.00 target)*
› ***New Gold Inc.*** *(NGD: TSX; C$4.00 target)*
› ***SSR Mining Inc.*** *(SSRM: TSX; C$39.00 target)*

Royalties:

› ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$13.50 target)*

Inflation Could Spark Gold Rally

Expectations are for rising U.S. Inflation, which could push the real rate lower and drive gold prices higher.

The economic impact of COVID-19 has forced governments to approve large stimulus programs to protect the economy. In addition to these stimulus measures, interest rates have been slashed and unprecedented support packages have been approved. However, the U.S. 10-year rate has rallied recently, which is improving the trend for the U.S. real rate, which in turn is negatively impacting the spot gold price YTD. 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 creation by any means necessary while accepting climbing inflation beyond the Fed target rate for a period of time. We believe a rising U.S. inflation rate could potentially more than offset the rise in the U.S. 10-year and drive the real rate more negative, which should be good for the spot gold price and gold equities.

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

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

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	12-Month Price Target	Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP		17,711	242.35	73.08	109.00		Parkin	0.96u	1.85u	3.61u	31.4x	16.0x	3.64u	5.07u	5.07u	11.4x	11.4x	60.21	1.2x
Barrick Gold	ABX	OP		45,129	1,778.13	25.38	40.00		Parkin	0.51u	1.10u	1.14u	18.2x	17.7x	1.81u	3.07u	3.07u	6.6x	6.6x	23.02	1.1x
Kinross Gold Corp	K	OP		10,720	1,277.67	8.39	16.00		Parkin	0.31u	0.70u	0.88u	9.5x	7.6x	0.80u	1.29u	1.29u	5.1x	5.1x	14.15	0.6x
Kirkland Lake Gold Corp	KL	OP		11,628	267.01	43.55	65.00		Parkin	2.74u	3.40u	3.68u	10.2x	9.4x	4.46u	4.92u	4.92u	7.0x	7.0x	34.85	1.2x
Newmont	NGT	OP		58,545	795.56	73.59	109.00		Parkin	1.32u	2.50u	3.50u	23.4x	16.7x	4.31u	6.00u	6.00u	9.7x	9.7x	56.60	1.3x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		25,659	190.8	134.46	210.00	-	Nagle	1.82u	2.48u	2.75u	40.8x	48.9x	3.36u	4.00u	4.48u	25.3x	22.6x	74.33	1.8x
Maverix Metals Inc	MMX	SP		860	140.2	6.13	8.00	-	Nagle	0.08u	0.08u	0.05u	n/a	117.9x	0.27u	0.26u	0.25u	23.8x	24.7x	5.16	1.2x
Osisko Gold Royalties Ltd	OR	OP		2,083	166.6	12.50	23.00	↓	Nagle	0.26u	0.48u	0.65u	n/a	19.3x	0.65u	1.04u	1.23u	12.1x	10.2x	18.54	0.7x
Royal Gold Inc	RGLD	SP		6,765	65.2	103.70u	150.00u	-	Nagle	2.91u	3.35u	3.85u	31.0x	26.9x	6.28u	6.10u	6.86u	12.8x	11.4x	75.87	1.4x
Sandstorm Gold Ltd	SSL	OP		1,490	195.3	7.63	13.50	↓	Nagle	0.11u	0.20u	0.30u	28.7x	25.4x	0.36u	0.39u	0.50u	14.7x	11.5x	10.32	0.7x
Wheaton Precious Metals Corp	WPM	OP		20,267	449.3	45.11	85.00	-	Nagle	0.56u	1.10u	1.47u	30.8x	30.7x	1.14u	1.70u	2.01u	20.0x	16.9x	28.12	1.6x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		3,880	391.55	9.91	14.50		Parkin	0.21u	0.40u	0.54u	19.9x	14.6x	0.75u	0.95u	0.95u	8.3x	8.3x	11.45	0.9x
B2Gold	BTO	OP		5,698	1,030.4	5.53	10.25		DeMarco	0.25u	0.48u	0.45u	11.6x	12.3x	0.51u	0.82u	0.77u	6.7x	7.2x	5.34	1.0x
Centerra Gold Inc	CG	OP		3,683	295.83	12.45	20.00	↓	Parkin	1.60u	2.64u	1.97u	3.7x	5.0x	1.36u	2.87u	2.72u	3.4x	3.6x	21.04	0.6x
Dundee Precious Metals	DPM	OP		1,358	181.3	7.49	14.00		DeMarco	0.26u	0.99u	1.00u	7.6x	7.5x	0.62u	1.39u	1.82u	5.4x	4.1x	10.84	0.7x
Eldorado Gold Corp	ELD	OP		2,565	180.91	14.18	20.50		Parkin	(0.02)u	0.99u	0.81u	14.3x	17.6x	0.93u	2.41u	2.41u	4.7x	4.7x	21.23	0.7x
Endeavour Mining	EDV	OP		3,845	163.1	23.58	58.00		DeMarco	0.68u	2.14u	2.79u	11.0x	8.5x	2.68u	5.04u	5.76u	4.7x	4.1x	40.30	0.6x
Equinox Gold Corp	EQX	SP		3,058	296.0	10.33	16.00		Parkin	(0.13)u	0.64u	0.98u	16.0x	10.5x	0.68u	1.23u	1.82u	8.4x	5.7x	16.12	0.6x
IAMGOLD Corp	IMG	OP		1,872	473.80	3.95	6.50		Parkin	(0.03)u	0.25u	0.50u	12.4x	6.2x	0.75u	0.82u	0.82u	3.8x	3.8x	8.14	0.5x
Lundin Gold Inc.	LUG	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
New Gold Inc	NGD	OP		1,426	676.05	2.11	4.00	↓	Parkin	(0.08)u	0.01u	0.27u	278.8x	7.9x	0.39u	0.39u	0.39u	4.2x	4.2x	3.92	0.5x
OceanaGold Corp	OGC	OP		1,338	703.99	1.90	3.50		Parkin	0.06u	(0.10)u	0.16u	n/a	12.2x	0.33u	0.32u	0.32u	4.8x	4.8x	3.28	0.6x
Pretium Resources	PVG	SP		2,307	188.0	12.27	17.00		DeMarco	0.54u	0.97u	1.05u	12.6x	11.6x	1.13u	1.76u	1.76u	7.0x	7.0x	15.29	0.8x
SSR Mining Inc	SSRM	OP		4,074	219.36	18.57	39.00		Parkin	0.74u	1.53u	2.31u	9.6x	6.4x	1.59u	2.30u	2.30u	6.4x	6.4x	35.27	0.5x
Yamana Gold Inc	YRI	SP		5,485	986.45	5.56	7.50		Parkin	0.10u	0.30u	0.30u	14.9x	14.7x	0.51u	0.69u	0.69u	6.4x	6.4x	4.98	1.1x
Silver Producers																					
First Majestic Silver Corp	FR	SP		4,575	214.9	21.29	21.50		DeMarco	0.03u	0.23u	0.36u	93.5x	59.6x	0.53u	0.54u	0.77u	39.5x	27.6x	6.86	3.1x
Fortuna Silver Mines Inc	FVI	SP		1,667	184.0	9.06	13.50		DeMarco	0.18u	0.16u	0.83u	58.4x	10.9x	0.45u	0.43u	1.46u	21.1x	6.2x	7.01	1.3x
Pan American Silver	PAAS	SP		8,509	210.1	40.50	55.00		DeMarco	0.60u	0.93u	2.06u	43.6x	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		422	109.6	3.85	8.00		DeMarco	0.21u	0.34u	0.63u	11.3x	6.1x	0.40u	0.81u	0.82u	4.8x	4.7x	7.08	0.5x
K92 Mining Inc.	KNT	OP		1,325	218.9	6.05	12.25		Egilo	0.15u	0.20u	0.31u	30.1x	19.4x	0.24u	0.34u	0.40u	17.8x	15.1x	9.51	0.6x
Wesdome Corp.	WDO	OP		1,113	138.4	8.04	15.00		DeMarco	0.32u	0.44u	0.69u	18.5x	11.7x	0.56u	0.71u	1.13u	11.4x	7.1x	10.03	0.8x
Developers																					
Artemis Gold Inc.	ARTG	OP		681	122.7	5.55	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		2,119	91.2	23.24	35.00		DeMarco	(0.06)u	(0.18)u	0.60u	-	38.8x	(0.04)u	(0.04)u	0.81u	-	28.7x	19.72	1.2x
Marathon Gold Corp.	MOZ	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Minera Alamos	MAI	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
O3 Mining Inc.	OIII	OP		150	60.2	2.50	4.75		DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	6.13	0.4x
Osisko Development	ODV	R		R	R	R	R		DeMarco	R	R	R	R	R	R	R	R	R	R	R	R
Osisko Mining	OSK	OP		923	340.7	2.71	6.25		DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	4.99	0.5x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		672	326.1	2.06	4.00		Egilo	(0.02)u	(0.01)u	(0.01)u	n/a	n/a	(0.01)u	(0.01)u	(0.01)u	n/a	n/a	3.99	0.5x
SilverCrest Metals	SIL	OP		1,303	128.5	10.14	17.25		DeMarco	(0.22)u	(0.22)u	(0.03)u	-	-	(0.19)u	(0.21)u	(0.00)u	-	-	9.92	1.0x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Sector Analysis

Oil & Gas

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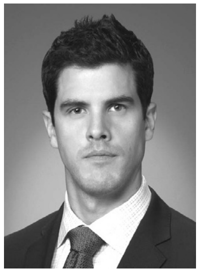
Intermediate Oil & Gas and Oilfield Services



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Selections

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

Crude Oil Outlook

Optimistically, momentum in crude oil pricing has followed year-to-date on the back of continued positive headlines of successful vaccine trials, which were initially reported in early November. WTI entered the year at US$49/bbl and currently sits +25% YTD at ~US$60/bbl, above what we see as the psychological and economical inflection point for producers at US$50/bbl. The uplift in pricing for the commodity can largely be attributed to OPEC+ and its restraint to balance the market towards undersupply coupled with hopes of an economic recovery spurred through an efficacious delivery and application of vaccinations. Recall, in early January, Saudi Arabia made the surprise announcement to unilaterally 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, albeit this was partially offset by Russia and Kazakhstan adding 75 mbbl/d back into the system. With OPEC+ now set to meet on March 4th (for April easement), expectations are for volumes to return at a moderated pace, with market prognosticators calling for an easement of 500 mbbl/d (in addition, Saudi will confirm whether the 1 mmbbl/d they've recently taken offline will return as scheduled), where currently, approximately 8.2 mmbbl/d remain curtailed by the cartel through March (principally supported by Saudi). For now, this seems to be priced into the oil market, with pricing having been significantly restored well-above economic levels across the strip; however, producers and service companies alike continue to indicate towards disciplined & moderated spending (i.e., below pre-pandemic levels), which is reflected through muted North American rig activity levels (-50% Y/Y & flat vs. last cyclic trough), that should keep volumes impaired. Looking domestically, we see the outlook skewing relatively positively with the demand & differential outlook trending favourably towards the heavy slate (i.e., declining heavy Mexican & Venezuelan barrels at the Gulf Coast; complex refinery demand). The domestic market has generally overcome the volatility of the price & pipeline narrative, with volumes having largely been restored to pre-pandemic levels with strong demand for the heavy slate in the Lower 48 (as noted above). With that global and domestic backdrop, we remain cautiously optimistic on the global oil complex and look towards H2/21 as a potential turning point in which crude recovers to mid-cycle pricing levels. Our 2021 forecast for WTI continues to call for US$59.25/bbl, generally in line with the forward strip at US$59.76/bbl.

Natural Gas Outlook

Winter finally made an appearance, albeit muted in length, which saw the Polar Vortex blanket much of Canada & the Lower 48 with freezing temperatures that set new highs for pricing at certain regional hubs. In association, the winter cold blast was certainly a support to the market, albeit fleeting, while long-term gas price momentum remains what we would call a "show-me" story with regards to the forecast undersupply (NYMEX HH +10% YTD, off its highs experienced prior in late Q4/20 & early Q1/21). As such, limited drilling activity in the United States has resulted in supply coming off ~2-3 bcf/d (volumes still off 6-7 bcf/d from Q4/19 peak), while consumption remains strong, led by LNG exports near ~10-11 bcf/d. With that, the EIA's outlook is better validated, with the administration largely maintaining an outlook for imbalance through its expanded 2022e forecast (-1-1.5 Bcf/d). The market appears to be relatively well-supported in the near & medium term, and the structure of the market appears to be meaningfully changed, which under Energy Information Administration's (EIA) outlook, storage is expected to reverse course and trend lower to exit winter in a ~15% deficit to the five-year average, and similarly exit next winter in a 15% deficit. However, and as always, weather will be the greatest determinant to the outcome of this outlook; so far, seasonally underwhelming and probably too little too late. Looking domestically, the CER (Canada Energy Regulator; NEB) denied the extension of the temporary service protocol (TSP) on the Nova gas transmission system, which had been a large part of the recent normalization of AECO basis pricing (allowing gas to be injected into storage), and could cause minor long-term risk to basis pricing, although the CER has required a new submission to accommodate storage (again, the main item); for context, basis hasn't moved much off of extremely solid levels (i.e., 2021 strip sitting at -US$0.55/mcf). We continue to believe AECO should be more resilient and in a structurally stronger position than in previous years, in association with a preferential orientation towards Western markets (driven by supply & demand dynamics). Our 2021 price deck for NYMEX and AECO assumes US$3.00/mcf and C$3.10/mcf, slightly above the current forward strip at US$2.90/mcf and C$2.95/mcf, respectively.

We do not expect to see any significant changes in the business strategies of Canadian E&P companies as they progress into 2021. The era of large organic growth is now firmly behind, hindered by low commodity prices, egress constraints, balance sheet repair and continued shareholder pressure for returns. We continue to believe opportunistic value will remain selective, and focused on businesses that hold repeatable strategies for margin expansion (consolidation, synergies, efficiencies, ancillaries) or low capital efficiency growth, which can outpace long-term valuation headwinds to support value under a static to contracting multiple.

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 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).

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 3/1	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	$36.09	$42,624	5%	5.7x	10.6x	4.4x	4.0x	1.1x	$8.60	$4.45	$10.32	8.1x	3.5x	$50.00	43%	↑
Cenovus Energy	CVE	OP		Wood	2017.4	$9.41	$18,984	0%	5.0x	34.6x	4.4x	46.4x	1.6x	$3.01	$0.12	$2.94	78.7x	3.2x	$13.50	43%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	259.8	$24.52	$6,371	2%	6.4x	6.1x	4.0x	3.9x	2.2x	$11.22	$7.42	$10.91	3.3x	2.2x	$27.00	12%	↑
Imperial Oil	IMO	SP		Wood	734.1	$27.94	$20,510	3%	8.3x	26.2x	3.2x	4.3x	-0.1x	$4.59	$1.20	$8.39	23.3x	3.3x	$38.00	39%	↑
Suncor Energy	SU	SP		Wood	1501.0	$25.59	$38,410	3%	6.8x	10.8x	4.0x	3.7x	0.9x	$6.93	$2.66	$7.35	9.8x	3.4x	$33.00	32%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.4	$2.57	$497	0%	4.1x	6.1x	2.9x	2.4x	0.8x	$0.83	$0.56	$1.16	4.6x	2.2x	$4.00	56%	↑
ARC Resources Ltd.	ARX	OP		Wood	722.7	$7.49	$5,413	3%	4.9x	4.8x	4.4x	1.1x	1.2x	$1.97	$1.89	$2.66	4.0x	3.4x	$13.00	77%	↑
Baytex Energy	BTE	SP		Payne	567.3	$1.28	$726	0%	3.0x	6.1x	3.5x	5.9x	2.9x	$1.62	$0.56	$0.96	2.3x	1.3x	$1.75	37%	↑
Birchcliff Energy	BIR	OP		Payne	265.9	$2.94	$782	1%	4.1x	7.7x	2.8x	4.1x	1.1x	$1.26	$0.69	$1.75	4.2x	1.7x	$4.75	62%	↑
Crescent Point Energy Corp.	CPG	OP		Wood	580.0	$4.71	$2,732	0%	2.7x	4.9x	3.4x	2.6x	1.6x	$3.35	$1.65	$2.39	2.9x	2.0x	$7.50	59%	↑
Enerplus Corporation	ERF	OP		Wood	255.6	$6.04	$1,544	2%	3.6x	4.8x	3.0x	1.5x	1.0x	$3.04	$1.61	$2.74	3.8x	2.2x	$9.50	59%	↑
Freehold Royalties	FRU	OP		Wood	130.7	$6.90	$902	3%	9.7x	12.2x	6.4x	0.1x	-0.2x	$1.00	$0.60	$1.04	12.5x	6.6x	$9.00	34%	↑
Headwater Exploration	HWX	OP		Payne	199.1	$3.77	$751	0%	-0.3x	124.2x	8.2x	-12.4x	-0.9x	$0.09	$0.05	$0.42	80.7x	9.0x	$4.50	19%	↑
Kelt Exploration	KEL	OP		Payne	188.5	$2.52	$475	0%	5.6x	6.4x	4.3x	-0.5x	-0.4x	$0.99	$0.30	$0.54	8.3x	4.7x	$3.25	29%	↑
MEG Energy	MEG	SP		Wood	302.7	$6.43	$1,946	0%	4.6x	9.2x	6.9x	10.2x	6.1x	$2.41	$0.90	$1.37	7.2x	4.7x	$8.00	24%	↑
NuVista Energy	NVA	OP	↑	Payne	225.7	$1.98	$447	0%	4.3x	5.4x	2.8x	3.9x	1.5x	$1.18	$0.68	$1.22	2.9x	1.6x	$3.00	52%	↑
Paramount Resources	POU	SP		Payne	117.0	$10.77	$1,260	0%	4.9x	10.6x	3.2x	5.5x	1.0x	$2.29	$1.13	$3.86	9.5x	2.8x	$13.50	25%	↑
Parex Resources	PXT	OP		Wood	117.9	$20.80	$2,452	0%	3.4x	5.6x	2.1x	-1.2x	-1.0x	$5.02	$2.86	$6.27	7.3x	3.3x	$35.00	68%	↑
Peyto Exploration & Development	PEY	OP		Wood	164.9	$5.88	$969	1%	5.2x	7.9x	3.8x	5.5x	2.2x	$1.95	$1.30	$2.94	4.5x	2.0x	$8.00	37%	↑
PrairieSky Royalty	PSK	SP		Wood	223.3	$12.89	$2,879	2%	18.4x	19.7x	13.5x	0.3x	-0.5x	$0.94	$0.64	$0.92	19.6x	14.0x	$15.00	18%	↑
Seven Generations	VII	T		Wood	333.4	$8.16	$2,721	0%	3.4x	4.7x	3.2x	2.2x	1.2x	$3.98	$2.56	$3.48	3.2x	2.3x	$14.00	72%	↑
Spartan Delta	SDE	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Storm Resources	SRX	SP		Payne	121.6	$2.83	$344	0%	5.3x	8.1x	3.5x	2.6x	0.8x	$0.49	$0.43	$1.00	0.0x	0.0x	$4.00	41%	↑
Tamarack Valley Energy	TVE	OP		Payne	262.0	$2.26	$592	0%	3.0x	6.1x	3.7x	1.8x	0.8x	$0.97	$0.55	$0.71	4.1x	3.2x	$3.00	33%	↑
Topaz Energy	TPZ	OP		Payne	112.9	$14.50	$1,637	6%	-1.7x	15.6x	10.8x	-2.7x	-1.1x	$11.16	$0.99	$1.23	14.7x	11.8x	$18.00	30%	↑
Tourmaline Oil	TOU	OP		Payne	286.3	$23.17	$6,635	2%	4.9x	7.0x	3.0x	1.6x	0.3x	$4.43	$4.29	$8.17	5.4x	2.8x	$37.50	64%	↑
Vermilion Energy Inc.	VET	SP		Wood	158.3	$7.91	$1,252	0%	6.2x	6.0x	3.9x	4.3x	2.4x	$5.82	$3.01	$4.31	2.6x	1.8x	$9.50	20%	↑
Whitecap Resources	WCP	OP		Wood	598.8	$5.73	$3,431	3%	4.2x	7.0x	4.9x	2.5x	1.2x	$1.64	$1.07	$1.46	5.3x	4.1x	$8.00	43%	
Small Cap																					
Crew Energy	CR	SP		Payne	160.3	$0.99	$159	0%	4.1x	8.1x	3.2x	8.7x	2.5x	$0.53	$0.27	$0.92	3.7x	1.1x	$1.50	52%	↑
PetroShale	PSH	SP		Payne	187.3	$0.26	$48	0%	6.1x	6.8x	3.9x	7.3x	4.2x	$0.39	$0.25	$0.40	1.0x	0.6x	$0.40	57%	↑
Pipestone Energy	PIPE	SP		Payne	193.3	$1.69	$327	0%	32.4x	10.1x	2.8x	4.0x	0.8x	$0.01	$0.22	$0.93	7.7x	1.8x	$2.50	48%	↑
Surge Energy	SGY	SP		Payne	362.7	$0.52	$189	0%	4.0x	6.2x	3.2x	5.5x	2.1x	$0.55	$0.20	$0.40	2.6x	1.3x	$0.75	44%	↑
Yangarra Resources	YGR	SP		Payne	83.0	$1.05	$87	0%	3.2x	4.8x	2.3x	4.1x	1.7x	$1.08	$0.53	$1.12	2.0x	0.9x	$1.50	43%	↑

* 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 3/1	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	$1.60	$ 78.2	$ 94.9	$116.7	5.7x	5.4x	4.0x	4.9x	2.8x	2.0x	$2.00	25%	↑
National Energy Services Reunited	NESR	OP		Payne	$ 1,065.93	89.9	$13.63	$ 211.7	$ 247.8	$292.0	6.7x	5.4x	4.2x	1.5x	1.0x	0.4x	$14.00	3%	↑
Precision Drilling Corp.	PD	SP		Payne	$ 409.14	13.4	$29.25	$ 285.2	$ 262.8	$318.8	5.7x	5.4x	4.0x	4.7x	3.8x	2.6x	$32.50	11%	↑
Trican Well Services	TCW	SP		Payne	$ 473.78	258.9	$1.92	$ 30.6	$ 56.5	$ 60.2	15.5x	7.8x	6.5x	1.3x	-0.4x	-0.8x	$2.25	17%	↑

Pipelines, Utilities & Energy Infrastructure

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Selections

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

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 up ~4.0% in February, while energy-linked names continued to rally on stronger commodity prices, with our Midstream benchmark up ~10.0%, while our Utilities benchmark pulled back by ~4.0%.

Commodities Update

With growing optimism on the economic recovery in 2021, commodity prices continued to rally, averaging ~US$59/bbl, ~13% higher than January levels of ~US$52/bbl and ~48% above the 2020 average price of ~US$40/bbl. We do note prices have continued to strengthen in March, with WTI currently holding at ~US$62/bbl, the highest prices since January 2020. On the gas front, polar vortex winter conditions pulled AECO prices higher, averaging $3.77/mcf, up ~36% from the January average of $2.77/mcf. Recall, we recently revised our forecasted AECO price through 2021 and into 2022 towards $2.40/mcf, in line with strip pricing and ~5% above 2020 levels. Looking at Marketing prospects, the WCS heavy differential average modestly compressed through February to ~US$11.25/bbl (January: ~US$13.50/bbl) versus February 2020 differentials of ~US$17/bbl, suggesting continued pressure on near-term crude oil marketing results. On the natural gas liquids front, continued strength in C3+ pricing through February (up ~5% 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. Alongside its Q4/20 results, the company provided a revised cost estimate of ~US$2.9 billion for the U.S. portion of the Line 3 Replacement project, reflecting an incremental US$1.1 billion, doubling up on our previous ~20% cost overrun estimate. Overall, with construction tracking in line with expectations, we maintain our Jan. 1, 2022 in-service date assumption, based on a six-to-nine-month construction window, pending further unimpeded construction progress. Elsewhere, the Army Corps of Engineers, now under the Biden administration, recently requested a two-month delay until April 9th to decide whether to shut in DAPL during its 13+ month environmental review process, representing ~2% downside risk to our annual EBITDA for ENB. 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. In other pipeline cost overrun news, Keyera unexpectedly announced a ~23% increase to its Montney-based Key Access Pipelines System (KAPS), bringing its 50% share of the capital investment up to ~$800 million (was $650 mln), while TRP noted it anticipates a significant cost

Pipelines, Utilities & Energy Infrastructure

increase and in-service delay for its $6.6 billion Coastal GasLink project.

Meanwhile, in the Midstream space, Brookfield Infrastructure Partners (NYSE: BIP, Analyst: Merer, Outperform, US$60 target), along with its institutional partners, announced its intent to pursue a privatization transaction of Inter Pipeline, in which BIP will look to acquire all of the outstanding common shares of IPL not already owned, at an offer price of $16.50/sh (~23% premium to Feb. 10th closing price of $13.40/sh). IPL's board initiated a Strategic Review to evaluate all options to maximize shareholder value, with its shareholder recommendation expected within 15 days of the formal offer being filed (Feb. 22nd).

Power & Utilities Update

We continue to highlight Fortis in a 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 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.

ESG Update

Elsewhere, we note our revised ESG scorecard for Emera, up to 78 (was 74/100), reflecting clear emission reduction targets, including its recent pledge to achieve net-zero carbon emissions by 2050, combined with a goal of 55% emissions reductions by 2025 and 80% by 2040 (versus 2005 levels). Furthermore, with improved disclosure and independent board representation, including landing retired Fortis CEO, Barry Perry, we have increased our ESG Scorecard for Capital Power to 86 (was 84/100), now tied for our top ESG ranking with FTS.

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.

Pipelines, Utilities & Energy Infrastructure

	Stock Sym.	Stock Rating	Units O/S (Mln)	Unit Price 03-01	Market Cap. (Mln)	Distributions per Share est. 2020e	Distributions per Share est. 2021e	Distributions per Share est. 2022e	Cash Yield 2021e	Cash Yield 2022e	Distr. CF per Share - FD est. 2020e	Distr. CF per Share - FD est. 2021e	Distr. CF per Share - FD est. 2022e	P/Distr. CF 2021e	P/Distr. CF 2022e	Net Debt/ 22e EBITDA	12-Mth Price Target	12-Mth Price Return	Δ	Combined Return
Pipeline & Midstream																				
AltaGas	ALA	OP	279.4	$19.46	$5,438	$0.96	$1.00	$1.04	5.1%	5.3%	$2.08	$2.55	$2.88	7.6x	6.8x	5.6x	24.00	23.3%		28.5%
Enbridge Inc.	ENB	OP	2019.0	$43.96	$88,755	$3.24	$3.34	$3.51	7.6%	8.0%	$4.67	$4.90	$5.27	9.0x	8.3x	4.6x	51.00	16.0%	↓	23.6%
Gibson Energy	GEI	SP	148.9	$21.60	$3,216	$1.36	$1.40	$1.40	6.5%	6.5%	$2.01	$1.85	$2.12	11.7x	10.2x	3.0x	22.00	1.9%	↓	8.3%
Inter Pipeline	IPL	SP	429.2	$17.77	$7,627	$0.48	$0.48	$0.48	2.7%	2.7%	$1.74	$1.47	$1.86	12.1x	9.6x	5.2x	18.00	1.3%	↑	4.0%
Keyera	KEY	OP	221.0	$25.13	$5,554	$1.92	$1.92	$1.92	7.6%	7.6%	$3.26	$2.75	$2.70	9.1x	9.3x	4.0x	28.00	11.4%	↓	19.1%
Pembina Pipelines	PPL	SP	550.0	$32.97	$18,134	$2.52	$2.52	$2.52	7.6%	7.6%	$3.80	$3.84	$3.91	8.6x	8.4x	4.4x	38.00	15.3%		22.9%
Secure Energy	SES	OP	158.6	$3.24	$514	$0.03	$0.03	$0.03	0.9%	0.9%	$0.44	$0.59	$0.69	5.5x	4.7x	1.9x	4.00	23.5%		24.4%
Superior Plus	SPB	SP	176.0	$13.37	$2,353	$0.72	$0.72	$0.72	5.4%	5.4%	$1.37	$1.05	$1.31	12.7x	10.2x	3.5x	14.00	4.7%		10.1%
Tidewater Midstream	TWM	OP	338.5	$0.98	$332	$0.04	$0.04	$0.04	4.1%	4.1%	$0.14	$0.24	$0.23	4.1x	4.3x	3.4x	1.25	27.6%		31.6%
TC Energy Corp.	TRP	OP	978.0	$53.82	$52,633	$3.24	$3.48	$3.69	6.5%	6.9%	$6.13	$5.12	$5.86	10.5x	9.2x	5.1x	67.00	24.5%		31.0%
Tervita	TEV	SP	113.4	$3.65	$414	$0.00	$0.00	$0.00	0.0%	0.0%	$0.45	$0.55	$0.71	6.7x	5.2x	3.2x	3.50	-4.1%		-4.1%
Power Producers & Utilities																				
ATCO Ltd.	ACO	SP	114.7	$37.59	$4,310	$1.74	$1.79	$1.81	4.8%	4.8%	$2.12	$2.22	$2.14	16.9x	17.6x	4.5x	44.00	17.1%	↑	21.8%
Canadian Utilities	CU	SP	273.1	$30.11	$8,222	$1.74	$1.76	$1.78	5.8%	5.9%	$2.67	$2.85	$2.90	10.6x	10.4x	5.2x	35.00	16.2%		22.1%
Capital Power	CPX	OP	107.4	$34.51	$3,707	$1.99	$2.12	$2.25	6.1%	6.5%	$4.96	$5.03	$4.74	6.9x	7.3x	4.5x	44.00	27.5%		33.6%
Emera Inc.	EMA	SP	255.1	$50.97	$13,003	$2.48	$2.58	$2.68	5.1%	5.3%	$1.99	$3.66	$4.36	13.9x	11.7x	6.2x	59.00	15.8%		20.8%
Fortis Inc.	FTS	SP	468.6	$49.69	$23,283	$1.94	$2.05	$2.17	4.1%	4.4%	$3.92	$4.17	$4.66	11.9x	10.7x	6.2x	60.00	20.7%		24.9%
Hydro One Ltd.	H	SP	596.9	$27.25	$16,266	$1.01	$1.07	$1.12	3.9%	4.1%	$1.76	$1.56	$1.72	17.5x	15.8x	5.7x	31.00	13.8%	↓	17.7%
TransAlta	TA	SP	274.2	$11.15	$3,058	$0.17	$0.18	$0.18	1.6%	1.6%	$1.34	$1.63	$1.75	6.8x	6.4x	3.7x	13.00	16.6%		18.2%

Source: Company Reports, NBF Estimates, Refinitiv

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

Sector Analysis

Real Estate

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Selections

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

Real Estate: 2022 Estimates for Multi-Family, Office, Industrial and Diversified

2022 is shaping up to be our first full post-pandemic year. We recently rolled out 2022 estimates for the office, industrial, diversified and multi-family names in our coverage universe – estimates have already been published on retail, seniors housing and special situations names.

Generally speaking we expect growth to resume on a more even basis in 2022. We expect years of mixed performance in 2020 (early strength followed by pandemic weakness) and 2021 (early weakness followed by normalization as vaccines are administered, which is our base case assumption).

On average we are forecasting 7% FFO/unit growth in 2022 led by multi-family (+8%) and diversified (+7%) names. The latter recovering from weaker 2020 and 2021 results while the former is based on an acceleration off of more stable performance. Confidence in estimates varies by asset class with industrial and multi-family leading the pack. While we have endeavored to provide a degree of transparency in terms of our estimates for all names in our coverage universe and asset classes there is still a high degree of uncertainty.

Uncertainty is highest in the office and retail (owned within diversified names and to a lesser extent street fronts of office properties) segments. Here there are questions around the longer-term social implications of the pandemic on work-from-home and e-commerce that won't be fully understood for quite some time but have impacted direct and sub-let vacancy already. That said, lease maturity profiles, particularly for office landlords where tenants aren't under as much solvency risk, will limit the immediate impact of this uncertainty on 2021/2022 earnings.

Apartment performance will be more difficult to predict near-term. Given shutdowns and government stimulus / regulations although we are reasonably confident that this space will rebound and likely with more velocity than office or retail, especially in the affordable segment. Industrial is the standalone segment where we have more confidence as it was strong pre-Covid and has in some cases seen increased demand during the crisis.

Rent and occupancy outlooks remain mixed. For the most part we are still assuming rent increases on maturity of leases outside of the retail segment for diversified names. Office will benefit from strong tailwinds leading up to the pandemic in Canada's large urban areas as will apartments (although rent control, eviction moratoriums, rent freezes and select incentive usage will moderate this in H1 2021). Industrial is the segment we see the highest likelihood of accelerating market rental rates particularly in undersupplied gateway markets. With regards to occupancy we expect the latter to remain at nearly full levels with multi-family names seeing an uptick in vacancy over the winter months of 2021 but accelerated leasing during the summer. The office segment again remains uncertain but our base case assumption is that occupancy will grind lower on the back of pandemic related job losses, WFH resilience and new supply concerns.

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 3-1	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	↔	$5,953	Woolley	$19.28	$1.44	$1.44	$1.44	7.5%	7.5%	7.5%	5.0%	$1.87	$1.60	$1.52	10.3x	12.1x	12.6x	$22.40	$21.00	16.4%	↑
Choice Properties REIT	CHP.un	SP	↔	$8,976	Woolley	$12.83	$0.74	$0.74	$0.74	5.8%	5.8%	5.8%	5.8%	$0.99	$0.92	$0.99	13.0x	13.9x	13.0x	$12.20	$13.50	11.0%	↔
First Capital REIT	FCR	SP	↔	$3,503	Woolley	$15.99	$0.86	$0.86	$0.86	5.4%	5.4%	5.4%	2.7%	$1.23	$1.01	$1.10	13.0x	15.9x	14.5x	$17.10	$16.50	8.6%	↑
SmartCentres REIT	SRU.un	SP	↔	$4,508	Woolley	$26.50	$1.76	$1.81	$1.85	6.7%	6.8%	7.0%	7.0%	$2.27	$2.20	$2.14	11.7x	12.1x	12.4x	$28.60	$27.00	8.7%	↑
CT REIT	CRT.un	OP	↔	$3,440	Woolley	$15.58	$0.73	$0.76	$0.79	4.7%	4.9%	5.1%	5.2%	$1.17	$1.18	$1.23	13.3x	13.2x	12.6x	$15.50	$18.00	20.4%	↔
Crombie REIT	CRR.un	OP	↔	$2,261	Woolley	$14.91	$0.89	$0.89	$0.89	6.0%	6.0%	6.0%	6.0%	$1.16	$1.05	$1.13	12.9x	14.2x	13.2x	$14.40	$16.50	16.6%	↔
Automotive Properties REIT	APR.un	OP	↔	$424	Woolley	$10.67	$0.80	$0.80	$0.80	7.5%	7.5%	7.5%	7.5%	$1.00	$0.90	$0.94	10.7x	11.8x	11.4x	$10.00	$12.00	20.9%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,014	Kornack	$39.23	$1.65	$1.70	$1.73	4.2%	4.3%	4.4%	4.3%	$2.30	$2.29	$2.38	17.1x	17.1x	16.5x	$47.25	$44.50	17.8%	↔
DREAM Office REIT	D.un	OP	↔	$1,138	Kornack	$20.37	$1.00	$1.00	$1.00	4.9%	4.9%	4.9%	4.9%	$1.68	$1.52	$1.60	12.1x	13.4x	12.7x	$24.60	$22.00	12.9%	↔
Slate Office REIT	SOT.un	SP	↔	$311	Kornack	$4.26	$0.40	$0.40	$0.40	9.4%	9.4%	9.4%	9.4%	$0.76	$0.68	$0.63	5.6x	6.3x	6.8x	$5.70	$4.25	9.2%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,239	Woolley	$12.62	$0.80	$0.80	$0.80	6.3%	6.3%	6.3%	6.3%	$0.73	$0.83	$0.89	17.2x	15.1x	14.2x	$11.00	$13.50	13.3%	↔
H&R REIT	HR.un	OP	↔	$4,191	Kornack	$13.89	$0.92	$0.69	$0.69	6.6%	5.0%	5.0%	5.0%	$1.73	$1.67	$1.60	8.0x	8.3x	8.7x	$19.75	$16.75	25.6%	↑
Cominar REIT	CUF.un	RES		$1,642	Kornack	$9.00	$0.72	RES	RES	8.0%	RES	RES	RES	$1.13	RES	RES	8.0x	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,542	Kornack	$11.40	$0.54	$0.54	$0.56	4.7%	4.7%	4.9%	4.9%	$1.41	$1.41	$1.34	8.1x	8.1x	8.5x	$12.25	$11.50	5.6%	↔
BTB REIT	BTB.un	SP	↔	$250	Kornack	$3.96	$0.42	$0.36	$0.30	10.6%	9.1%	7.6%	7.6%	$0.41	$0.38	$0.41	9.6x	10.3x	9.6x	$3.90	$3.75	3.8%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,518	Kornack	$73.24	$2.92	$3.00	$3.00	4.0%	4.1%	4.1%	4.1%	$4.06	$4.32	$4.47	18.1x	16.9x	16.4x	$75.15	$88.50	24.9%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$2,520	Kornack	$13.16	$0.70	$0.70	$0.70	5.3%	5.3%	5.3%	5.3%	$0.78	$0.71	$0.81	16.8x	18.6x	16.3x	$14.00	$14.75	17.4%	↑
WPT Industrial REIT	WIR'U-T	OP	↔	$671u	Kornack	$15.07u	$0.76u	$0.76u	$0.76u	5.0%	5.0%	5.0%	5.0%	$0.88u	$0.95u	$1.07u	17.2x	15.9x	14.1x	$15.30u	$17.50u	21.2%	↔
Summit Industrial	SMU.un	OP	↔	$2,292	Kornack	$13.67	$0.54	$0.55	$0.57	4.0%	4.0%	4.2%	4.0%	$0.58	$0.65	$0.68	23.5x	21.0x	20.2x	$13.90	$16.00	21.1%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$303	Woolley	$3.88	$0.65u	$0.65u	$0.65u	22.0%	22.0%	22.0%	22.0%	$0.73u	(0.08)u	$0.11u	4.1x	-38.0x	27.6x	$2.90	$3.50	12.3%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,037	Kornack	$52.65	$1.37	$1.38	$1.43	2.6%	2.6%	2.7%	2.6%	$2.13	$2.24	$2.34	24.7x	23.5x	22.5x	$54.64	$62.00	20.5%	↑
Boardwalk REIT	BEI.un	OP	↔	$1,908	Kornack	$37.40	$1.00	$1.00	$1.00	2.7%	2.7%	2.7%	2.7%	$2.61	$2.81	$2.79	14.3x	13.3x	13.4x	$45.10	$44.00	20.3%	↑
Killam Apartment REIT	KMP.un	OP	↔	$1,979	Kornack	$18.44	$0.65	$0.68	$0.70	3.6%	3.7%	3.8%	3.7%	$0.98	$1.00	$1.02	18.8x	18.4x	18.1x	$20.40	$21.00	17.5%	↔
InterRent REIT	IIP.un	OP	↔	$1,990	Kornack	$13.99	$0.31	$0.32	$0.32	2.2%	2.3%	2.3%	2.3%	$0.49	$0.48	$0.52	28.7x	29.4x	26.7x	$14.40	$15.50	13.1%	↔
Minto Apartment REIT	MI.un	SP	↔	$697	Kornack	$19.21	$0.41	$0.41	$0.41	2.1%	2.1%	2.1%	2.4%	$0.78	$0.86	$0.92	24.8x	22.3x	20.9x	$19.00	$21.00	11.5%	↔
BSR REIT	HOM.un	OP	↔	$421u	Kornack	$10.60u	$0.50u	$0.50u	$0.50u	4.7%	4.7%	4.7%	4.7%	$0.73u	$0.61u	$0.63u	14.4x	17.3x	16.8x	$11.95u	$13.00u	27.4%	↔
ERES REIT	ERE.un	OP	↔	$1,003	Kornack	$4.35	$0.17	$0.17	$0.17	3.9%	3.9%	3.9%	3.9%	$0.19	$0.20	$0.21	23.5x	21.8x	20.6x	$5.21	$5.35	26.9%	↑
International																							
Inovalis REIT	INO.un	SP	↔	$324	Kornack	$9.66	$0.83	$0.83	$0.83	8.5%	8.5%	8.5%	8.5%	$0.85	$0.66	$0.66	11.4x	14.7x	14.7x	$10.85	$10.00	12.1%	↑
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	↔	$950	Woolley	$14.17	0.90	0.92	0.94	6.4%	6.5%	6.6%	6.6%	1.38	1.03	1.04	10.2x	13.8x	13.7x	$15.30	$15.00	12.4%	↔
Extendicare	EXE	SP	↔	$623	Woolley	$6.96	0.48	0.48	0.48	6.9%	6.9%	6.9%	6.9%	0.52	0.80	0.33	13.4x	8.7x	21.3x	$7.30	$7.00	7.5%	↑
Invesque	IVQu	SP	↔	$136u	Woolley	$2.43u	$0.74u	$0.74u	$0.74u	30.3%	30.3%	30.3%	0.0%	$0.75u	$0.70u	$0.58u	3.3x	3.5x	4.2x	$2.50u	$2.00u	12.6%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,463	Woolley	$4.00	$0.01	$0.01	$0.01	0.3%	0.3%	0.3%	0.3%	$0.09	$0.12	$0.12	45.1x	34.2x	32.2x	$3.45	$4.50	12.8%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$190u	Woolley	$15.02u	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	23.2%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$2,851u	Woolley	$12.50	$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	14.2%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- › *Savaria*
- › *Dexterra*
- › *Hardwoods Distribution*

The Big One: Transformative Acquisition of Handicare (TSX: SIS)

On Jan. 27, Savaria announced a cash offer of SEK50.00 per share of Handicare (HANDI: STO, Not Rated) representing a total enterprise value of $521 million. HANDI generated revenues of ~$317 million and adj. EBITDA of ~$36.9 million in 2020. Including Handicare's Lift Up savings (+$6 million on 2020 EBITDA), the acquisition represents a 12.1x multiple, falling to 9.5x post-synergies, which include indirect cost and COGS savings as well as cross-selling revenue synergies. Assuming a successful bid, the acquisition is expected to close before the end of April.

Highly complementary business segments and geographies

Handicare is strikingly similar to Savaria, made up of the same three business segments providing similar services. From this startling level of similarity, however, the two companies diverge on geographic segmentation and specialization, a divergence which results in an attractively complementary combination. Geographically, HANDI's sales are predominantly European at 70%, with 29% in North America and 1% elsewhere. The combined entity will therefore be much larger in Europe than Savaria was previously with a pro forma 40% European exposure, and while the 3-5% expected market growth profile in the New World is slightly more attractive than Europe's 2-4%, Handicare's market leading position in Europe and the UK is a welcome addition. We also highlight the complementary areas of expertise as HANDI's premier stairlifts will join Savaria's flagship elevator offering in Accessibility, while in Patient Handling, Savaria's focus on pressure management products in LTC channels, will be expanded by Handicare's patient lift offering, focus on acute care customers and substantial North American sales and installation platform.

Bolstered credit facility & successful private placement

To accommodate the acquisition's lofty price tag, Savaria announced a $100 million bought deal private placement of subscription receipts and a separate $60 million private placement of sub receipts to CDPQ. Both offerings were subsequently upsized to ~$122 million and $69 million, respectively, for aggregate gross proceeds of ~$191 million at $15/receipt resulting in 12.7 million new shares (+24.9%). SIS also secured a new $600 million credit facility, which includes a $200 million equity bridge for the private placement proceeds. Following the acquisition, we calculate pro forma Net Debt to EBITDA of 3.7x, falling to 3.1x at the end of 2022.

Outperform rating and $18.50 target (12x 2022e EV/EBITDA)

We remain confident in management's ability to integrate Handicare and believe the addition of HANDI's stairlift product lines to Accessibility and the Patient Handling platform in North America are truly complementary to Savaria. Supported by experience gained through the integration of Garaventa and Span, we expect Savaria will successfully realize cross-selling synergies resulting in attractive FCF/share accretion.

Special Situations

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	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	R		R	R	R	12/2019	R	R	R	R	R	R	R	R	R	R	R	R	R	
Boyd Group Services Inc.	BYD	OP	↑	4,708.2	21.5	219.27	12/2019	4.99	2.43	4.06	90.4	54.1	319.9	292.4	358.4	18.5	15.5	0.3%	1.9	260.00	↑
CanWel Building Materials	CWX	OP		621.8	77.9	7.98	12/2019	0.22	0.70	0.57	11.4	14.1	86.2	133.7	121.3	6.8	7.6	6.0%	1.9	10.00	↑
Cascades	CAS	OP		1,775.8	101.0	17.58	12/2020	1.95	2.06	2.10	8.6	8.4	675.0	745.2	749.4	4.8	4.5	1.8%	2.2	22.50	
Dexterra Group Inc.	DXT	OP		391.8	64.9	6.04	12/2019	0.07	0.35	0.33	17.1	18.0	16.5	37.2	66.6	13.2	6.7	5.0%	1.7	8.50	
GDI Integrated Facility Services	GDI	OP		999.4	22.4	44.65	12/2019	0.31	1.85	1.57	24.2	28.3	77.5	101.5	109.2	11.4	10.7	0.0%	1.7	52.00	
Hardwoods Distribution	HDI	OP		603.8	21.4	28.20	12/2019	1.48	1.99	2.12	14.1	13.3	78.9	95.5	102.5	8.7	8.1	1.4%	1.7	39.00	↑
Intertape Polymer Group Inc.	ITP	SP		1,467.9	59.7	24.57	12/2019	0.99	1.41	1.42	13.9	13.8	172.1	201.0	211.4	8.3	7.7	3.2%	2.4	27.00	
KP Tissue	KPT	OP		106.8	9.7	10.99	12/2019	0.04	1.21	0.50	9.1	21.9	145.0	204.2	189.9	5.9	6.8	6.6%	3.6	15.00	
New Look Vision Group	BCI	OP		569.7	15.7	36.38	12/2019	1.67	1.09	1.50	33.3	24.3	56.4	78.8	95.7	11.0	8.8	0.0%	3.0	45.50	
Park Lawn Corporation	PLC	OP		910.5	29.9	30.41	12/2019	0.80	1.05	1.05	29.1	28.8	53.3	74.7	81.6	15.2	13.6	1.5%	2.3	33.50	
Richelieu Hardware	RCH	SP		2,122.0	56.3	37.69	11/2020	1.50	1.59	1.79	23.7	21.1	154.5	159.8	174.9	12.4	11.0	0.7%	0.1	37.50	↑
Savaria Corporation	SIS	OP		932.1	51.1	18.25	12/2019	0.53	0.53	0.77	34.7	23.8	55.6	59.4	97.5	16.0	13.8	2.6%	0.5	18.50	↑
Uni-Sélect	UNS	SP		416.7	42.4	9.83	12/2020	(0.18)	0.54	0.84	18.2	11.7	88.8	119.7	134.7	6.8	5.8	0.0%	2.7	10.00	↑

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

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Selections

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

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; $28.00 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. While Q4 results were positive across most of the fleet, the anomalistic weather conditions in Texas are now expected to impact results in Q1 by ~$80 million on a consolidated basis, which is equivalent to more than six months of cash flow, but only ~2% of INE's market cap. While Texas might stretch the payout ratio, INE has visibility on near-term growth, and with that has guided to ~12% growth on normalized EBITDA for 2021. Our target is based on a long-term DCF with a cost of equity of 5.25% 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 a Memorandum of Understanding (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. With Q4 results, NPI indicated that it is exploring 1.8 GW of wind developments in Taiwan that could be bid into RFPs (request for proposals) next year. While it would be a few years before COD and would likely be in partnership, we believe this further demonstrates NPI's ability to source large growth projects. NPI could have the best visibility on high-return growth within its peer group, after previously highlighting opportunities of 4 GW to 5 GW for the next decade. For 2021, NPI expects adj EBITDA of $1.1 billion to $1.2 billion and FCF in the range of $1.30 to $1.50 /sh. Our target is based on a long-term DCF with a cost of equity of 4.5% on operating cash flows and $10/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

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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%. At the end of the last quarter, BIP reported US$3.7 billion of liquidity, including the liquidity held at its operating entities. In addition, BIP is expected to receive US$415 million towards its stake in NGPL and US$950 million from the sale of Enwave. BIP has enough liquidity to support the Inter Pipeline transaction, which currently includes US$1.2 billion of equity from the shares and an additional US$600 million in cash. We believe BIP is close on some investments and could invest >$2 billion this year across its data, energy and transport segments. Our target is based on a long-term DCF with a cost of equity of 5.5% and includes $7.00/sh for growth.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 03/01	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		373.1	82	4.57	12/2020	0.06u	0.18u	0.19u	33.6	31.3	2.14u	2.35u	2.38u	2.5	2.5	1.33u	0.22	5.25	↑
Algonquin Power	AQN	OP		9453.5u	601	15.74u	12/2019	0.63u	0.63u	0.65u	32.5	31.6	3.25u	2.99u	3.21u	6.8	6.4	8.67u	0.43	19.00u	
Atlantic Power	AT	T		338.5u	118	2.88u	12/2019	(0.35)u	0.43u	0.43u	8.8	8.6	2.58u	2.44u	2.63u	1.5	1.4	1.02u	0.71	3.03u	
Ballard Power Systems	BLDP	OP	↑	7257.8u	244	29.79u	12/2019	(0.16)u	(0.19)u	(0.12)u	nmf	nmf	0.46u	0.39u	0.39u	nmf	nmf	1.91u	0.03	38.00u	
Boralex	BLX	OP	↑	4550.1	104	43.95	12/2020	0.56	0.87	0.89	65.8	64.1	6.44	7.28	7.30	7.9	7.8	9.57	0.68	50.00	↓
Brookfield Infrastructure	BIP	OP		23887.1u	465	51.37u	12/2019	1.34u	1.41u	1.42u	47.5	47.0	8.81u	10.30u	10.66u	6.5	6.3	44.40u	0.69	60.00u	
Brookfield Renewable	BEP	SP		27567.2u	645	42.71u	12/2019	0.00u	0.00u	0.00u	na	na	3.46u	3.49u	4.10u	15.9	13.5	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	OP		209.2u	85	2.47u	12/2020	(0.13)u	(0.13)u	0.01u	nmf	nmf	2.03u	1.96u	2.45u	1.6	1.3	1.38u	0.00	3.00u	
GFL Environmental Inc.	GFL	OP		15432.4	384	40.17	12/2020	(1.61)	(0.34)	(0.25)	nmf	nmf	11.39	13.32	13.96	3.9	3.7	19.60	0.49	40.00	
Innergex	INE	OP		4247.7	175	24.24	12/2020	(0.22)	0.43	0.53	nmf	59.1	3.51	3.76	3.80	8.4	8.3	6.11	0.82	28.00	↓
Lithium Americas	LAC	OP		1734.9u	91	18.99u	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	OP		129.7	140	3.72	06/2019	(0.10)	(0.07)	(0.02)	nmf	nmf	0.55	0.46	0.43	10.4	11.4	0.50	0.38	5.00	↑
Northland Power	NPI	OP		8482.2	200	42.45	12/2020	1.79	1.37	1.17	40.2	47.3	10.31	10.41	10.09	5.3	5.5	9.91	0.80	52.00	
Pinnacle Renewable	PL	OP		367.4	33	10.97	12/2020	(0.15)	0.29	0.87	49.5	16.4	14.70	16.46	19.97	0.9	0.7	4.39	0.72	12.50	
Sigma Lithium	SGMA	OP		388.9	77	5.04	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		5439.7	266	20.45	12/2019	0.68	0.36	0.57	nmf	46.5	1.69	1.63	1.70	16.3	15.7	8.30	0.23	21.00	
Xebec Adsorption	XBC	OP		847.4	108	7.87	12/2019	0.03	(0.04)	0.06	nmf	nmf	0.72	0.68	1.06	15.0	9.7	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

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Sector Analysis

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Selections

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

Rocky Start to 2021

While technology had a spectacular run in 2020, year to date – the sector has lagged the broad market. The S&P Technology Index is up 0.09% versus a 1.72% increase in the S&P 500. In Canada though, the story has been somewhat different with the TSX Technology Index up 9.11% versus the 4.03% increase in the TSX. As we progress through earnings season, our view remains consistent with our preview, *Hold Off into Reporting Season*. In our view, expectations were high across the sector going into earnings season. In fact, by our estimate, they were well above even pre-pandemic levels making the upside "beats" less so. And with many tech names in the United States and Canada having already reported results that were above expectations, they haven't been enough to offset the recent shift in momentum to value names that comes care of the growing consensus for higher rates. All that hasn't changed our long-term prospects; we continue to believe investors should opportunistically wade into our quality growth names on broad pullbacks. 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'd continue to opportunistically add positions in growth names like Docebo, Lightspeed, Kinaxis, Nuvei, Shopify and Real Matters while balancing those names with legacy incumbents like CGI and Open Text. The following provides an update on some of our Outperform-rated names:

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 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, as we move out of the 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 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 remains the leading technology platform for e-Commerce in our opinion. The Company reported a record Q4 GMV with growth of 100% Y/Y. 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.

Sector Analysis

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 3/1	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		1,025	52.1	19.68	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	24.1	23.4	(0.8u)	0%	18.00	
Altus Group Limited	AIF	OP	↑	2,313	40.6	57.00	2020	1.46	1.82	1.91	31.3	29.8	88.1	98.7	101.9	24.1	23.3	9.5u	28%	60.00	↑
CGI Inc.	GIB.A	OP		25,446	261.8	97.20	2020	4.68	5.40	5.80	18.0	16.8	2426.3	2732.7	2883.4	10.0	9.5	27.7	33%	120.00	
Constellation Software Inc.	CSU	SP		36,053	21.2	1,701.28	2020	27.84u	36.08u	44.00u	37.4	30.6	933.0u	1,194.7u	1,303.4u	24.0	22.0	42.6u	43%	1600.00	
Docebo Inc.	DCBO	OP		1,915	32.2	59.49	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		232u	54.6	4.25u	2020	0.01u	0.28u	0.38u	15.4	11.1	18.2u	29.8u	30.9u	7.9	7.6	3.2u	10%	3.50u	
Kinaxis Inc.	KXS	OP		4,867	27.8	175.30	2019	1.36u	1.16u	1.90u	NMF	NMF	57.7u	56.8u	81.0u	64.3	45.0	9.9u	0%	250.00	
Lightspeed POS	LSPD	OP		8,651u	119.9	72.16u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	90.00u	↑
Maxar Technologies Ltd.	MAXR	SP		3,304u	63.4	52.12u	2020	(3.02u)	3.59u	(1.71u)	14.5	NMF	416.0u	437.0u	451.7u	13.0	12.5	15.7u	71%	52.00u	↓
mdf commerce inc.	MDF	R		326	22.7	14.35	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	45.6	41.8	4.7u	11%	R	
Nuvei Corporation	NVEI	OP		8,901	131.5	67.71	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	44.8	41.1	8.8u	9%	85.00	
Open Text Corporation	OTEX	OP		12,491u	272.8	45.78u	2020	2.89u	3.29u	3.41u	13.9	13.4	1,148.2u	1,231.8u	1,335.6u	12.0	11.1	14.9u	51%	60.00u	
Pivotree Inc.	PVT	OP		284	26.6	10.66	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	52.5	41.6	0.5	58%	14.00	
Real Matters Inc.	REAL	OP		1,449	88.5	16.38	2020	0.56u	0.81u	1.05u	16.0	12.3	72.2u	90.5u	116.9u	11.3	8.7	2.4u	0%	40.00	
Shopify Inc.	SHOP	OP		163,622u	124.9	1,309.94u	2020	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,650.00u	↑
Sierra Wireless Inc.	SWIR	UP		638u	36.4	17.53u	2020	(0.01u)	(1.16u)	(0.44u)	NMF	NMF	21.0u	(25.8u)	4.8u	NMF	124.1	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

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Selections

- › *Cineplex*
- › *Corus*
- › *BCE*

Cineplex

Cineplex – exhibitor poised to benefit from recovery theme as theatres begin to reopen (again)

At the start of this year, we updated our forecast given anticipated film postponements in 2021 and the prospect of how structural dynamics in exhibition might impact 2022. We'll remain vigilant about a possible contraction in moviegoing frequency amid more streaming options, premium-video-on-demand (PVOD) opportunities, and a reduction in the duration of the exclusive theatrical window, but it may come to pass that our forecast turned too conservative for next year when a return to a new normal is expected. CGX reported its 2020 results on Feb. 11 and we're hosting management for a marketing event on March 4. A focus on cutting costs and exploring monetization opportunities continues. CGX reduced its headcount by 130 last summer for savings of $12 million, terminated its Topgolf deal, reduced capex to a level of $50 million, and sold restrictive lease rights for $21 million. It reorganized its SCENE loyalty program and related partnership for proceeds of $60 million in December and finalized the sale-leaseback of its headquarters in January 2021 for $57 million. It expects 2020 operating losses to initially trigger a tax refund of $66 million based on the use of loss carrybacks. A third credit facility amendment was achieved on Feb. 8. A further six-month suspension of covenant testing was granted until Q4/21 (3.75x covenant based on quarter's EBITDAaL annualized which contracts steadily by 25 bps to 3.00x in Q3/22), with the relief predicated on the completion of a financing of second lien secured notes ($250 million was recently issued at 7.50% in a deal that closed on Feb 28). Having strengthened its liquidity position toward a pro forma level of approximately $392 million, while also still benefiting from government wage subsidies and rent abatement efforts, management now turns its attention to the full reopening of its theatre circuit over coming weeks, amid ongoing capacity restrictions, and the launch of new films by studios, as bigger blockbusters are scheduled to begin in May with a more robust release slate building through H2/21 and into a very busy 2022. After Cineworld aborted its takeout of CGX in June, a legal fight ensued with the parties having a court date in September, with any potential resolution representing a call option for investors. Our target is based on our 2022E NAV with an implied EV/EBITDA multiple of 9x.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 3/1	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		916	63.3	14.46	12/2020	(9.85)	(2.07)	(0.04)	NM	NM	-182.8	50.5	172.5	33.8	9.2	4.05	0.97	14.00	
Corus Entertainment Inc.	CJR.b	OP		1,163	208.4	5.58	08/2020	0.75	0.90	0.80	6.2	7.0	505.8	535.6	504.3	5.2	5.1	4.66	0.62	6.50	
WildBrain Ltd.	WILD	SP		549	169.3	3.24	06/2020	(0.64)	0.01	0.07	NM	NM	81.8	82.9	90.7	12.3	10.7	0.46	0.82	3.00	↑
Spin Master	TOY	OP		2,964	102.0	29.06	12/2019	0.90	0.61	1.26	37.8	18.3	219.0	170.9	252.1	13.4	8.8	7.96	-0.34	36.50	
Stingray Digital	RAY.a	OP		509	73.0	6.97	03/2020	0.74	0.93	0.95	7.5	7.3	118.1	120.5	125.7	7.1	6.4	3.92	0.59	9.00	
TVA Group Inc.	TVA.b	SP		94	43.2	2.18	12/2020	0.86	0.55	0.64	4.0	3.4	85.3	66.0	68.8	1.7	1.3	6.46	0.11	2.50	↑
Printing & Publishing																					
Thomson Reuters	TRI	OP		55,457	498.0	111.36	12/2020	1.85	2.03	2.68	43.4	32.9	1975.0	1904.9	2238.0	24.0	20.2	20.04	0.18	122.00	↑
Transcontinental Inc.	TCL.a	OP		1,880	87.0	21.60	10/2020	2.61	2.33	2.34	9.3	9.2	499.4	451.3	443.4	5.8	5.5	19.67	0.34	26.00	
Advertising & Marketing																					
Yellow Pages	Y	SP		337	28.0	12.05	12/2020	2.28	2.19	2.20	5.5	5.5	129.4	116.0	105.0	2.2	2.0	NM	-0.05	13.00	
Telecommunications																					
BCE Inc.	BCE	OP		49,733	904.4	54.99	12/2020	3.02	3.15	3.48	17.5	15.8	9607.0	9956.5	10402.0	7.9	7.5	18.78	0.38	64.00	
Cogeco Communications Inc.	CCA	OP		5,559	47.9	116.03	08/2020	7.41	8.91	9.75	13.0	11.9	1148.7	1226.3	1278.0	6.5	6.0	56.55	0.50	126.00	
Quebecor Inc.	QBR.b	OP		8,243	249.1	33.09	12/2020	2.33	2.46	2.61	13.5	12.7	1952.6	1997.4	2058.1	6.7	6.3	4.47	0.84	40.00	↑
Rogers Communications Inc.	RCI.b	OP		27,998	504.9	55.45	12/2020	3.40	3.72	4.14	14.9	13.4	5857.0	6064.8	6365.0	7.2	6.7	18.96	0.46	70.00	
Shaw Communications	SJR.b	OP		11,476	513.0	22.37	08/2020	1.31	1.34	1.47	16.8	15.2	2391.0	2431.6	2493.0	7.0	6.6	12.02	0.47	28.00	
Telus Corp.	T	OP		33,540	1291.0	25.98	12/2020	0.95	1.00	1.06	26.0	24.5	5494.3	5955.5	5955.5	8.8	8.2	9.76	0.62	29.00	↑

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

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Selections

- › *TFI International*
- › *BRP Inc.*
- › *Héroux-Devtek*

BRP Inc: Expecting momentum to continue

BRP (DOO: TSX; Outperform, $102.00 target). BRP shares have continued to strengthen so far in 2021 and while valuation multiples have expanded, we still see incremental upside for the stock supported by what we expect will be strong Q4 results and a solid outlook for growth for F2022 and beyond.

Restocking demand to drive revenue growth through at least F2022. At the end of BRP's fiscal Q3, its dealer inventory was down 53% y/y (total dealer plus BRP yard inventory down $1.3 billion from a year ago) due to exceptionally strong retail demand since the beginning of the pandemic. For context, the $1.3 billion in inventory restocking would equate to more than 20% of BRP's annual revenue. We therefore expect inventory restocking to meaningfully boost BRP's wholesale revenue through at least F2022, even if there is a softening of retail demand.

Market share gains to continue as new models are rolled out. BRP's North American retail sales were up 16% y/y in Q3 versus the industry up low-teens. Excluding PWC, where retail sales were down 50%+ due to a lack of inventory to sell, BRP's retail was up 29% versus the industry up mid-teens, implying the company continues to make market share gains. BRP will maintain an aggressive new product rollout plan that we expect will drive further market share gains regardless of the economic backdrop. Indeed, BRP recently announced a completely redesigned version of its Commander Recreational-Utility side-by-side. This is a sub-segment of the SSV market in which BRP has not recently invested and as a result lags its overall SSV market share. Recall that BRP is expanding its SSV production capacity by ~50% with the new plant expected to be online later this calendar year. BRP has also announced it will introduce its European-focused Lynx snowmobile brand to the North American market that should enhance the company's already market leading position in the snowmobile market.

More new participants in powersports has expanded the overall market. BRP notes that ~34% of its customers in Q3 were new entrants to powersports (typically ~20%). Furthermore, fully 72% of those customers surveyed in Q3 were new to the BRP brand. We believe it is likely that at least some percentage of the new powersports consumers will remain active in the post-pandemic world, so the overall end market size for BRP has expanded.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 3-1	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	26.30	7,811	12/2020	-16.47	-10.23	-0.30	na	na	(5.47)	(4.07)	5.87	na	4.5x	na	26.00	
Bombardier Inc.	BBD.b	SP		2420	0.59	1,428	12/2020	-u0.47	-u0.15	-u0.01	na	na	-u1.32	-u0.21	u0.11	na	5.1x	na	0.70	↓
BRP Inc.	DOO	OP		90	95.70	8,575	01/2020	3.83	5.16	5.67	18.6x	16.9x	1.59	4.01	3.40	23.9x	28.2x	145%	102.00	↑
CAE Inc.	CAE	SP		273	37.98	10,367	03/2020	1.34	0.44	0.99	87.2x	38.3x	(80.30)	(80.00)	(90.00)	na	na	39%	41.00	↑
Canadian National Rail	CNR	SP		713	141.60	100,989	12/2020	5.31	5.98	6.87	23.7x	20.6x	8.47	8.99	10.01	15.8x	14.1x	39%	137.00	
Canadian Pacific Rail	CP	SP		135	467.08	62,962	12/2020	17.67	20.04	22.29	23.3x	21.0x	23.47	27.45	29.84	17.0x	15.7x	57%	445.00	
Cargojet Inc.	CJT	OP		16	175.45	2,736	12/2020	-5.63	5.33	6.31	32.9x	27.8x	9.41	7.27	5.84	24.1x	30.1x	76%	231.00	↓
Chorus Aviation Inc.	CHR	SP		162	4.41	714	12/2020	0.40	0.31	0.47	14.1x	9.3x	(1.50)	0.92	1.61	4.8x	2.7x	76%	4.75	↑
Exchange Income Corporation	EIF	OP		36	41.44	1,491	12/2020	1.31	1.42	2.44	29.1x	17.0x	5.66	5.94	7.17	7.0x	5.8x	62%	44.00	↑
Héroux-Devtek Inc.	HRX	OP		37	15.99	584	03/2020	1.00	0.74	0.74	21.6x	21.6x	2.26	1.78	2.00	9.0x	8.0x	33%	18.50	↑
NFI Group Inc.	NFI	OP		63	28.97	1,811	12/2019	u1.64	-u0.72	u0.63	na	36.4x	u0.99	-u0.01	u1.21	na	23.9x	68%	32.00	↓
Transat A.T. Inc.*	TRZ	R		38	5.17	195	10/2020	R	R	R	R	R	R	R	R	R	R	R	R	
TFI International Inc.	TFII	OP		93	91.79	8,571	12/2020	u3.30	u3.92	u5.12	18.5x	14.2x	u5.16	u5.15	u6.45	14.1x	11.2x	41%	110.00	↑

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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