JUNE 2021

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA

FINANCIAL MARKETS

Research Analysts

Economics & Strategy

Montreal Office

Stéfane Marion Chief Economist and Strategist	514-879-3781
Matthieu Arseneau Deputy Chief Economist	514-879-2252
Kyle Dahms Economist	514-879-3195
Angelo Katsoras Geopolitical Analyst	514-879-6458
Daren King Economist	514-412-2967
Jocelyn Paquet Economist	514-412-3693
Paul-André Pinsonnault Senior Economist	514-879-3795

Toronto Office

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

Banking & Insurance

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

Diversified Financials

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

Diversified Industrials

Michael Storry-Robertson	416-507-8007

ESG & Sustainability

Amber Brown	403-290-5624

ETFs & Financial Products

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

Healthcare & Biotechnology

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

Industrial Products

Maxim Sytchev	416-869-6517
Associate: Alizeh Haider	416-869-7937
Associate: Troy Sun	416-869-6754

Merchandising & Consumer Products

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

Metals & Mining

Don DeMarco	416-869-7572
Associate: Yi Liu	416-869-8524
Associate: Harmen Puri	416-869-8045
Shane Nagle	416-869-7936
Associate: Lola Aganga	416-869-6516
Associate: Ahmed Al-Saidi	416-869-7535
Michael Parkin	416-869-6766
Associate: Alessandro Cairo	416-869-8511
Associate: Jonathan Egilo	416-507-8177
Associate: Rabi Nizami	416-869-7925

Oil & Gas

› *Intermediate Oil & Gas and Oilfield Services*

Dan Payne	403-290-5441
Associate: Anthony Linton	416-507-9054
Associate: Baltej Sidhu	403-290-5627

› *Large Cap Oil & Gas*

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

Pipelines, Utilities & Energy Infrastructure

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

Real Estate

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

Special Situations

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

Sustainability & Clean Tech

Rupert Merer	416-869-8008
Associate: James Burns	416-869-8808
Associate: Louka Nadeau	416-869-7538
Associate: Viveck Panjabi	416-869-6763

Technology

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

Technical Analysis

Dennis Mark	416-869-7427

Telecom & Media

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

Transportation & Industrial Products

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

Administration

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

Research Publications

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

Information

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

Table of Contents

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

Highlights

Economy

› The daily number of new cases of Covid-19 declared around the world has been declining markedly over the last month. In the developed economies, the drop can be attributed in large part to an acceleration of vaccine rollouts encouraging an outlook of fuller and more lasting reopening of economies. Elsewhere, improvement in public health is due rather to reinforcement of physical distancing rules, especially in India where in late April a flare-up of cases forced the reintroduction of strict lockdowns in some regions. Since access to vaccines is much more limited in emerging countries, herd immunity is unlikely before 2022. Developing countries will accordingly remain at greater risk of pandemic outbreaks in the coming months, a factor that could mean higher volatility of growth rates. We nevertheless continue to expect a solid rebound of the global economy in 2021 and are maintaining our forecast of 6.0% growth for the year. In fact, our confidence in a vigorous recovery has risen, since distribution of vaccines has greatly reduced economic uncertainty and downside risks for growth.

› The latest U.S. economic indicators confirm what has been our outlook for a few months now: a very strong revival stimulated by highly accommodative monetary and fiscal policies. Nonfarm payrolls grew 559,000 in May, less than the expected 675,000 but more than the month before, suggesting a slow but steady revival of the labour market in step with reopening of the economy. Also in May, headline 12-month CPI inflation was 5.0%, the highest in 13 years. For the CPI excluding food and energy the 12-month rise was 3.8%, the highest since June 1992. The three-month-annualized readings are still more impressive: headline inflation 8.4%, core inflation 8.3%. Up to now, the bulk of inflationary pressure has come in the goods-producing sector, but inflation could also take off in services if consumers decide, as we think they will, to spend more on activities unavailable in recent months (e.g. restaurant meals and travel). For the U.S. economy as a whole, we have left our forecast of 6.9% growth this year unchanged but have increased 2022 growth to 4.3% to reflect further government spending on infrastructure and social programs. In our projections, U.S. real GDP will be back to its potential by the third quarter of this year.

› Early in 2021, as the two largest provinces in Canada decreed shutdowns of non-essential businesses, public-health conditions seemed to augur little good for the Canadian economy in Q1. And all the other G7 countries except the U.S. did have GDP declines during the quarter. In Canada, however, not only did the contraction that many had apprehended not materialize, but the quarter ended with very solid real growth of 5.6% annualized, a showing that put the Canadian economy in a leading position. In real terms its output came within 1.7% of its peak pre-pandemic quarter (Q4 2019) – second-best in the G7. In nominal terms the Q1 growth was even more spectacular taking nominal GDP to a best-in-G7 3.0% above its pre-recession peak. This month we are keeping our forecast of real growth in 2021 at 6.0%. After a pause in the recovery in Q2 due to public-health measures and to production backlogs in the auto industry due to microchip shortages, impressive growth can be expected to continue as vaccination picked up speed allowing the reopening of services that entail physical proximity. Our forecast for 2021 growth in nominal terms is now 12.6%, unseen in 40 years.

Interest rates and currency

› To us, slack is set to be taken up relatively quickly, with well-heeled consumers itching to re-engage as restrictions lift, business confidence firms and trade opportunities bright. Meantime, upstream price pressures in assorted goods industries and potentially self-fulling expectations of faster inflation are harder and harder to ignore. Where does this leave us? With cyclical cylinders clearly firing and a self-sustaining expansion appearing closer at hand, the argument for ongoing and outsized policy support is harder to justify. It's as simple as that.

› The Fed's response up to now has been to dismiss gathering momentum as due to temporary factors related to the re-opening process. It might be right in thinking that some of the price hikes observed in recent months will be reversed later this year/ early in 2022. But temporary or not, inflationary pressures are simply getting too intense to ignore, and surely do not warrant the kind of pedal-to-the-metal policies still being maintained today. Thinking about it, the policy stance of the Fed has barely changed since the depth of the COVID-19 crisis and yet, U.S. GDP is now on track to exceed potential in Q3 this year. Earlier in the recovery process, the central bank's average inflation targeting framework provided it with some breathing space, with policymakers arguing that inflation still had to make up for past misses. But that is not the case anymore. The core PCE index, which it tracks closely, had already made up all the ground lost during the pandemic in April (i.e. before May's report which promises to be solid).

› Macklem's earlier comments ("…if the recovery evolves in line with or stronger than in our latest projection, then the economy won't need as much QE stimulus over time") left much to interpretation. How long is implied by "over time"? To date, the BoC taper playbook has been to remove $1 billion of weekly bond-buying every six months. That would've implied an October taper to $2 billion per week and certainly would be consistent with "over time". That's how we'd initially interpreted this guidance. But Lane's additional colour, measuring economic progress in weeks rather than months or quarters, suggests that the next taper is closer than we'd thought.

› It would be easy to attribute most of its recent gains to the drop of the trade-weighted U.S. dollar. Case closed, pack it up, end of the story, right? Not even close. There is a slew of factors at play in the CAD moves we have seen. The strength of the global economy and an upgrade to our oil price forecast – from $65 to $75 – implies a slightly stronger Canadian currency in Q3. We see a rate of $C1.17 to the USD this summer (compared to $1.19 previously).

Recommended asset mix and stock market

› Global equity markets rose to a new record in early June. The run-up of equity markets continues to be supported by upward earnings revisions rather than P/E expansion. The forward P/E ratio of the MSCI ACWI has shrunk about 9% from last September's cyclical high of 20.5

Highlights

- Over the past three months, year-ahead estimates of MSCI ACWI index earnings have been revised up 7.2%, the most since 1992. We do not see these expectations as too good to be true.
- At this writing, global economic momentum is firming. The J.P.Morgan global composite output index showed further improvement in May. This bodes well for the earnings outlook, since both volume sales and pricing power are firming
- The S&P/TSX is having an excellent year. The Canadian stock market is fuelled by surging economic output spurred by very favourable terms of trade and a resilient domestic economy. Real GDP rose a robust 5.6% annualized in Q1 and nominal GDP surged 18.4%. This was good news for corporate profits. The latter reached new records in the quarter as they rose to a whopping 29% above their 2019Q4 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 to reflect our views on foreign exchange.
- Our sector allocation is altered this month to reflect robust global economic momentum against a back-drop of improving public-health conditions, conducive to strong industrial production. We are therefore comfortable revising our 2021 WTI price forecast this month from $65 a barrel to $75 and upgrading our stance on Energy from market weight to overweight. We note that the Energy sector has the highest dividend yield (4.5%) among the main industries of the S&P/TSX (table). To make room for Energy, we are pruning our exposure to Financials.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	13.0	Overweight	↑
Materials	12.7	Overweight	
Industrials	11.6	Market Weight	
Consumer Discretionary	4.0	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.4	Market Weight	
Financials	31.7	Market Weight	↓
Information Technology	9.4	Underweight	
Telecommunication Services	4.9	Market Weight	
Utilities	4.5	Underweight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of June 04, 2021

The Economy

The Economy

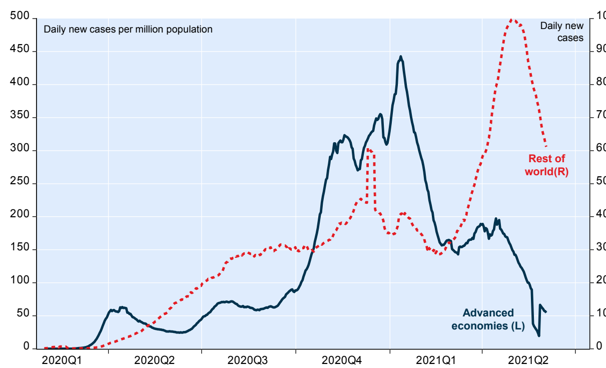
Matthieu Arseneau
Deputy Chief Economist
514-879-2252

Jocelyn Paquet
Economist
514-412-3693

World: Covid-19 down, economies up

The daily number of new cases of Covid-19 declared around the world has been declining markedly over the last month. In the developed economies, the drop can be attributed in large part to an acceleration of vaccine rollouts encouraging an outlook of fuller and more lasting reopening of economies. Elsewhere, improvement in public health is due rather to reinforcement of physical distancing rules, especially in India where in late April a flare-up of cases forced the reintroduction of strict lockdowns in some regions.

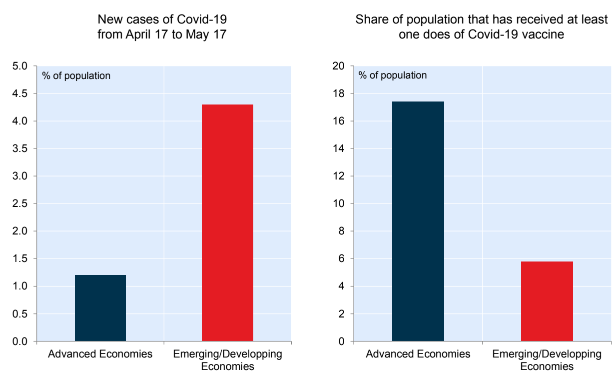
World: Pandemic in marked decline
Daily declared new cases of Covid-19 per million population, 7-day moving average



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

Since access to vaccines is much more limited in emerging countries, herd immunity is unlikely before 2022.

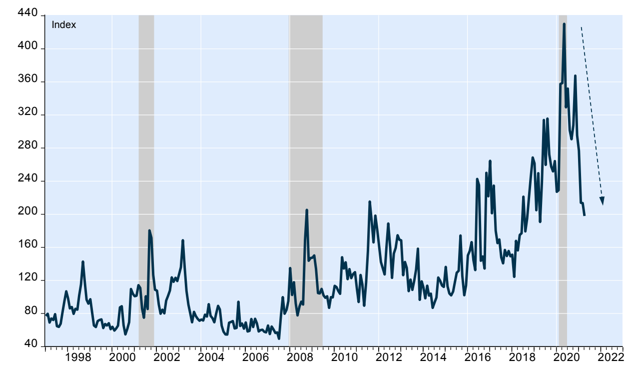
World: Vaccine less accessible in emerging countries



NBF Economics and Strategy (data from World Bank)

Developing countries will accordingly remain at greater risk of pandemic outbreaks in the coming months, a factor that could mean higher volatility of growth rates. We nevertheless continue to expect a solid rebound of the global economy in 2021 and are maintaining our forecast of 6.0% growth for the year. In fact, our confidence in a vigorous recovery has risen, since distribution of vaccines has greatly reduced economic uncertainty and downside risks for growth.

World: Vaccination reduces economic uncertainty
Global index of economic uncertainty



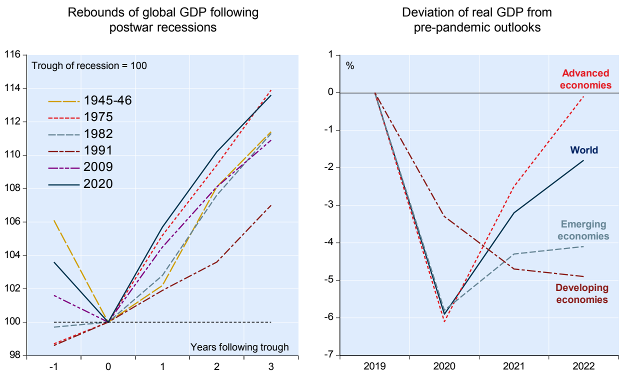
NBF Economics and Strategy (data from https://www.policyuncertainty.com/global_monthly.html)

Skies are likely to remain blue into 2022. The World Bank now thinks the rebound of GDP from the pandemic recession will be one of the strongest post-recession recoveries since the Second World War. Like the World Bank, we expect the rich countries to be the growth drivers in the short and medium term, likely to match their pre-pandemic output by 2022.

Household consumption is likely to continue setting the pace. After months of restrictions, consumers in advanced economies will be able to take advantage of the excess savings they accumulated during the recession. Services, more affected by physical distancing, are likely to benefit the most.

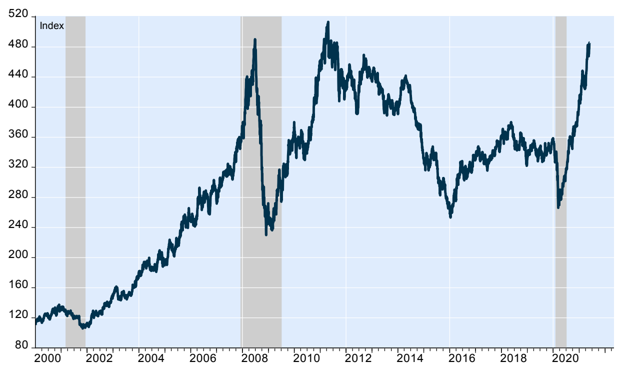
The Economy

World: Strong but uneven recovery



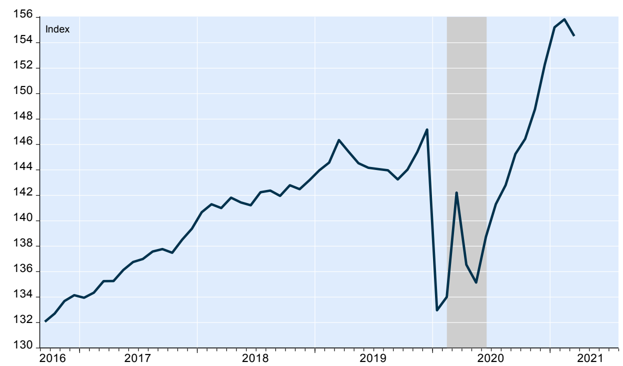
NBF Economics and Strategy (data from World Bank)

World: Commodity prices soar
Bloomberg index of commodity spot prices



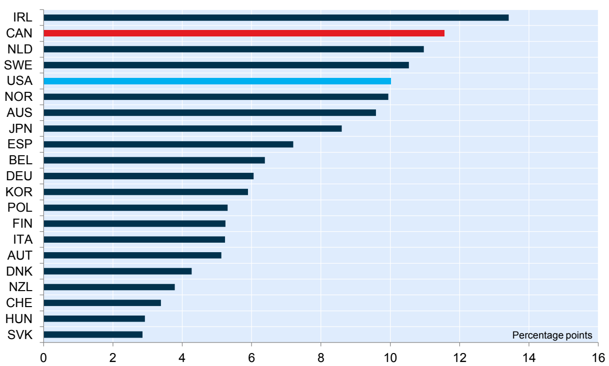
NBF Economics and Strategy (data from Bloomberg)

Emerging economies: A convincing rebound of industrial production
Seasonally adjusted data



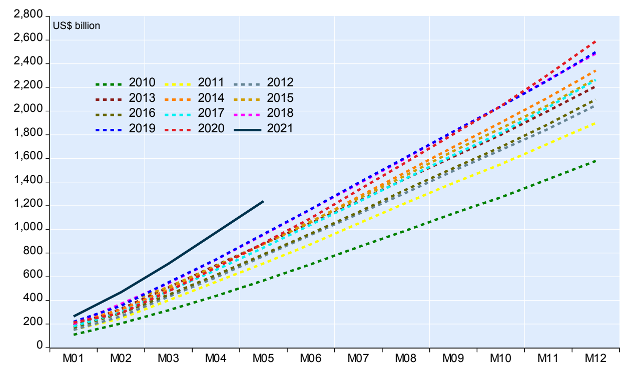
NBF Economics and Strategy (data from CPB)

World: Increased saving during the pandemic will stimulate demand
Increase of 2020 rate of household saving over 2000-2019 average



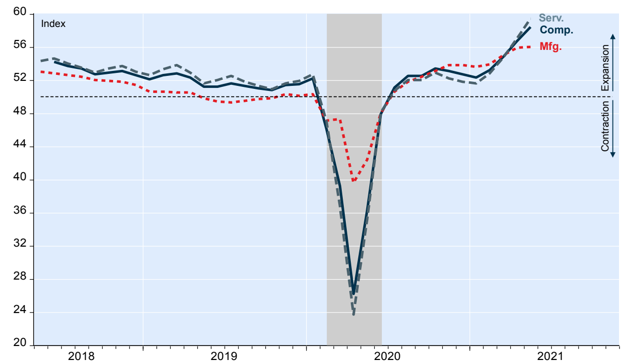
NBF Economics and Strategy (data from Refinitiv)

China: Growth stimulated by exports
Exports, cumulative from beginning of each year



NBF Economics and Strategy (data from Bloomberg)

World: Private-sector growth strongest in 15 years
J.P.Morgan/Markit global PMI, last observation May 2021



NBF Economics and Strategy (data from Markit via Refinitiv)

For emerging countries our forecasts are more upbeat than those of the World Bank. In our view, demand from the world's better-off households will continue to support high commodity prices, to the benefit of a number of exporting countries.

The benefits of revival of foreign demand will not be limited to commodity-producing countries. On the contrary, all the economies geared to foreign trade – notably China's – are likely to benefit.

The resilience of exports already explains much of the rapid rebound of industrial production in emerging economies.

Demand-driven growth in advanced economies combined with supply-driven expansion in the emerging world bodes well for the second half of the year. Already in May, the global Markit/JPMorgan PMI reported the strongest private-sector expansion in 15 years. Business conditions in manufacturing were sustaining their improvement. Services, meanwhile, hit harder by the pandemic, showed the strongest growth since April 2006.

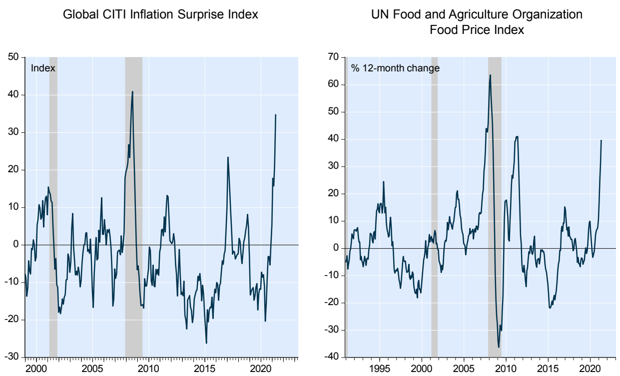
Resurgence of demand in step with phased reopening has brought headaches for many producers. Inability to meet the new demand has lengthened their production backlogs at the fastest pace in 17 years, resulting in longer delivery times and sharp rises of output prices. Microchip scarcity has only increased the pressure on supply chains.

At this writing, the inflationary pressures reported by surveys come more from the goods-producing sector. That said, as consumers in advanced economies become able to spend more freely, pressures are also likely to emerge in the services sector, driving price

The Economy

rises more vigorous than those we were used to before the pandemic. Global inflation is now surprising on the upside and we see this trend continuing in the months ahead. We note in particular a rapid increase in food prices – a big part of the consumption basket, especially in emerging countries.

World: Higher inflation likely as lockdowns ease



NBF Economics and Strategy (data from Bloomberg)

The stage is accordingly set for a second half of the year marked by strongly accelerating global growth and by inflation higher than the average of recent years.

Perspectives mondiales	2020	2021	2022
Économies avancées	**-4.9**	**5.4**	**4.1**
États-Unis	-3.5	6.9	4.3
Zone euro	-6.6	4.6	4.5
Japon	-4.7	2.8	2.5
Royaume-Uni	-11.1	6.0	5.4
Canada	-5.3	6.0	4.0
Australie	-3.2	4.4	3.1
Corée du Sud	-1.1	4.0	3.1
Économies émergentes	**-2.5**	**6.3**	**4.8**
Chine	2.3	8.7	5.6
Inde	-7.3	7.5	7.0
Mexique	-8.3	4.8	3.0
Brésil	-4.1	4.0	2.6
Russie	-3.0	3.5	3.0
Monde	**-3.5**	**6.0**	**4.5**

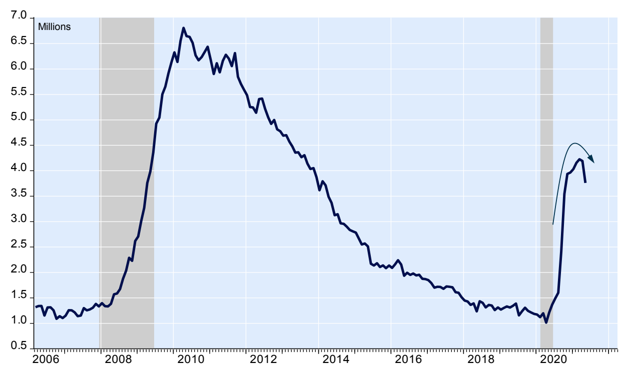
FBN Économie et Stratégie (données FBN et Consensus Economics)

U.S.: An odour of overheating?

The latest U.S. economic indicators confirm what has been our outlook for a few months now: a very strong revival stimulated by highly accommodative monetary and fiscal policies.

We begin our survey with the labour market. Nonfarm payrolls grew 559,000 in May, less than the expected 675,000 but more than the month before, suggesting a slow but steady revival of the labour market in step with reopening of the economy. The sectors most affected by rules of physical distancing – notably leisure/hospitality and education/ health – showed strong gains, as did the private sector as a whole. Long-term unemployment was down for a second straight month, suggesting that some who lost their jobs at the beginning of the pandemic have now rejoined the labour market.

U.S.: Long-term unemployed have begun to rejoin the labour market
Number of workers unemployed for more than 27 weeks

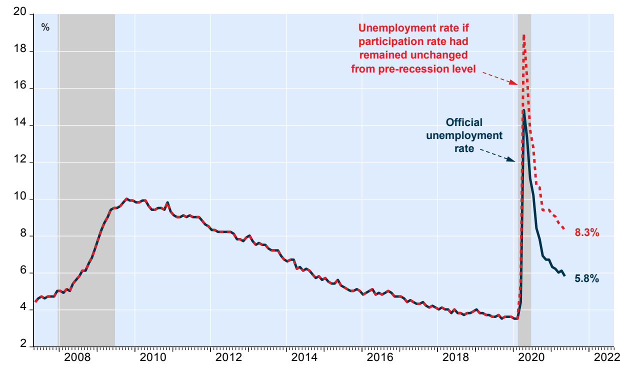


NBF Economics and Strategy (FRED data)

The unemployment rate continued to fall, but that decline needs to be interpreted cautiously because it is due in large part to a substantial drop of the participation rate in recent months. If the participation rate had been the same in May as before the pandemic, the unemployment rate would have been closer to 8.3%.

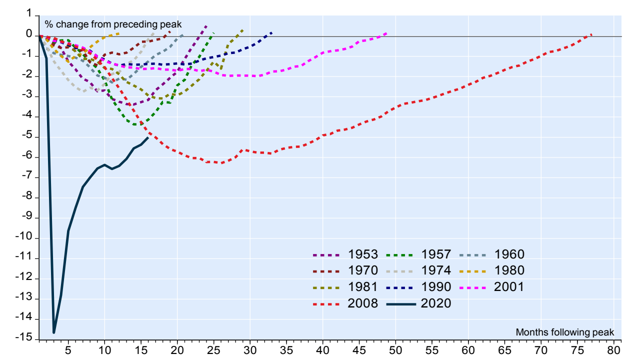
So the labour market has a long way to go yet. Employment is still 7.6 million (5.0%) below its pre-recession level. Of the jobs still to be recovered, about 6.8 million are in services, which should revive in step with the progress of mass vaccination.

U.S.: Unemployment rate makes the labour market look good
Official unemployment rate vs. unemployment rate with pre-recession participation rate



NBF Economics and Strategy (data from Refinitiv)

U.S.: Still a long way to go
Nonfarm payroll employment, variations from pre-recession peaks

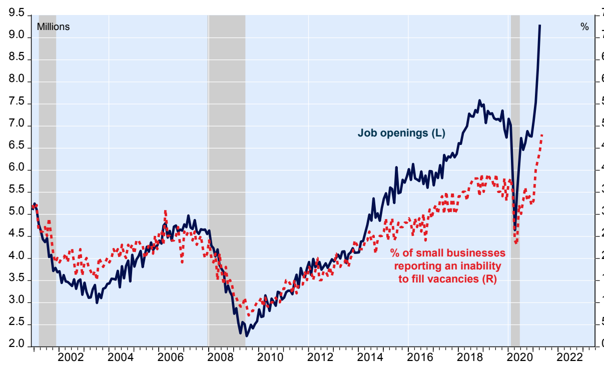


NBF Economics and Strategy (data from Refinitiv)

On an encouraging note, the relatively weak hiring of the last two months was not due to lack of demand. On the contrary, the JOLTS survey reports a record number of U.S. job openings in April. Potential employers seem to be having trouble finding candidates. No fewer than 48% of small businesses surveyed by the NFIB in May reported they had been unable to fill one or more openings.

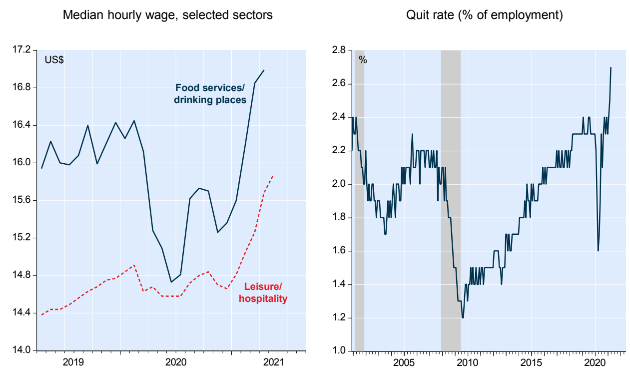
The Economy

U.S.: Weakness in hiring is not due to lack of demand for workers
Job openings vs. % of small businesses reporting difficulty in filling one or more vacancies



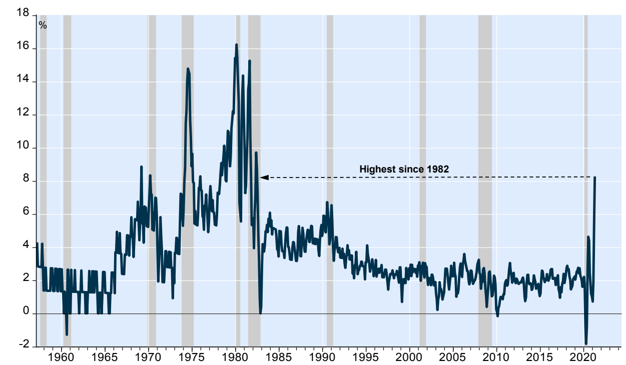
NBF Economics and Strategy (data from Refinitiv and Bloomberg)

U.S.: Wage increases at a time of labour scarcity



NBF Economics and Strategy (data from Refinitiv)

U.S.: Base effect doesn't explain everything (1)
Annualized 3-month change in core CPI



NBF Economics and Strategy (data from Refinitiv)

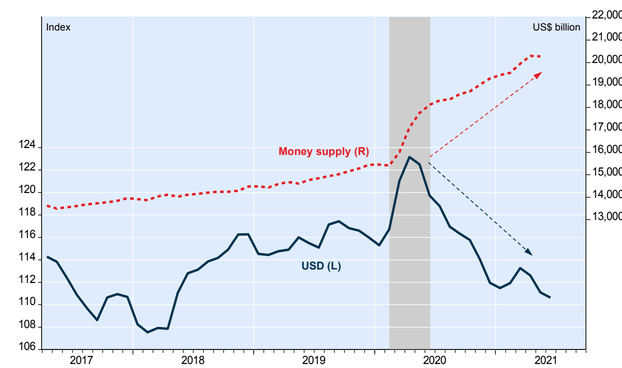
How is that possible when so many workers are still on the sidelines? Residual fear of the virus and school closings, of course, oblige some people to stay at home these days. Non-transferability of skills could also be a factor. For the most part, those who were not yet back to work after losing their job during the pandemic had been working in the sectors hit hardest by physical distancing rules. Their skills may not match those needed in industries fully recovered from the recession, where demand for labour is highest at the moment.

In our view, another factor limiting availability of labour is the generosity of benefits from Washington. In sectors where pay is low (and it is these sectors that are reopening at present), government unemployment allowances have a dissuasive effect on return to work, creating what are called "artificial" labour shortages. These could persist until the additional UI benefits are gradually eliminated. This process is already under way in some states and will continue into September in others. Meanwhile, employers could be constrained to raise wages in order to attract workers. This is already the case in some low-income sectors. The quit rate, currently at an all-time high, suggests that this phenomenon could spread.

This potential rise of wages brings us to the second factor attesting to the strength of the U.S. recovery: inflation. In May, headline 12-month CPI inflation was 5.0%, the highest in 13 years. For the CPI excluding food and energy the 12-month rise was 3.8%, the highest since June 1992. Part of the recent acceleration is due to a strongly positive base effect: the CPI of the previous May was depressed by the introduction of public-health restrictions to limit the spread of Covid-19. But the base effect does not explain all. For a better idea of the underlying price movements, we must look at recent momentum. The monthly rise of overall and core prices in May were stronger than expected after very solid rises the month before. The marked rise of motor vehicle prices was one factor in these sharp rises, though many other categories also showed strong advances. The three-month-annualized readings are still more impressive: headline inflation 8.4%, core inflation 8.3%.

Will inflation revert back to 2% soon? We doubt it. In our view, a number of factors will continue to drive up prices later this year and early next year. The unprecedented growth of the money supply comes to mind here, as does the weakening of the greenback and Washington's more-than-generous assistance spending.

U.S.: Base effect doesn't explain everything (2)
M2 money supply vs. trade-weighted USD

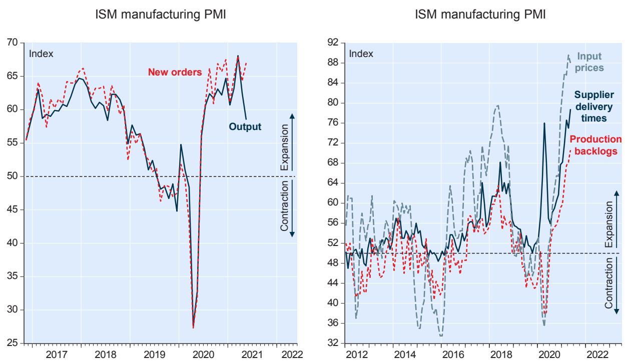


NBF Economics and Strategy (data from Refinitiv)

We doubt producers will be able to meet the extra demand arising from these government programs. Factories were already stretched in May by soaring prices for inputs and lengthening times for their delivery from suppliers. So there is growing pressure on capacity from major supply shortages. Though some of the bottlenecks related to reopening could dissipate fairly quickly, others could affect output over a longer period. Think of global scarcity of microchips now hobbling the auto industry (among others). Production in this sector is controlled by a handful of large players who cannot adapt quickly to higher demand.

The Economy

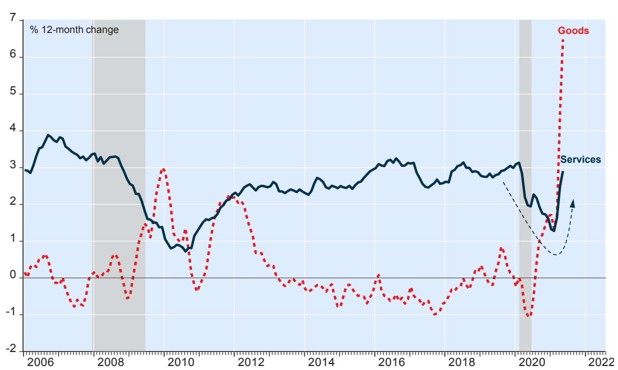
U.S.: Signs of overheating in manufacturing



NBF Economics and Strategy (data from Refinitiv)

Up to now, the bulk of inflationary pressure has come in the goods-producing sector, but inflation could also take off in services if consumers decide, as we think they will, to spend more on activities unavailable in recent months (e.g. restaurant meals and travel). CPI data suggest that such a turnaround is already under way.

U.S.: Will prices now be driven by the service sector?
12-month change in Consumer Price Index excluding food and energy

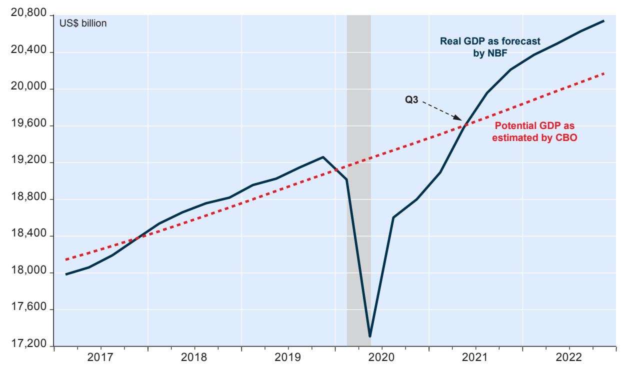


NBF Economics and Strategy (data from Refinitiv)

A larger contribution from services should maintain inflation above 4% for the remainder of the year and keep it above 2.5% in the foreseeable future.

For the U.S. economy as a whole, we left our forecast of 6.9% growth this year unchanged but have increased 2022 growth to 4.3% to reflect further government spending on infra-structure and social programs. In our projections, U.S. real GDP will be back to its potential by the third quarter of this year.

U.S.: GDP back to potential by Q3 2021
Real GDP with NBF forecast and potential GDP as estimated by CBO

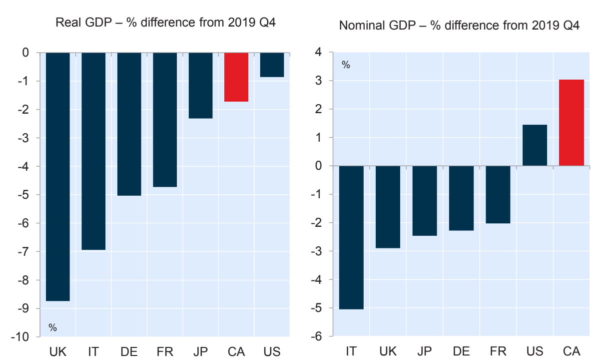


NBF Economics and Strategy (data from CBO)

Canada: Enviable revival

Early in 2021, as the two largest provinces decreed shutdowns of non-essential businesses, public-health conditions seemed to augur little good for the Canadian economy in Q1. And all the other G7 countries except the U.S. did have GDP declines during the quarter. In Canada, however, not only did the contraction that many had apprehended not materialize, but the quarter ended with very solid real growth of 5.6% annual-ized, a showing that put the Canadian economy in a leading position. In real terms its output came within 1.7% of its peak pre-pandemic quarter (Q4 2019) – second-best in the G7.

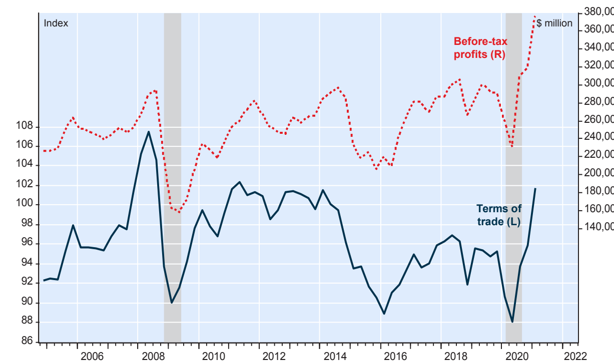
Canada: An enviable recovery
Real and nominal GDP, % difference from pre-pandemic output (2019 Q4)



NBF Economics and Strategy (data from Refinitiv)

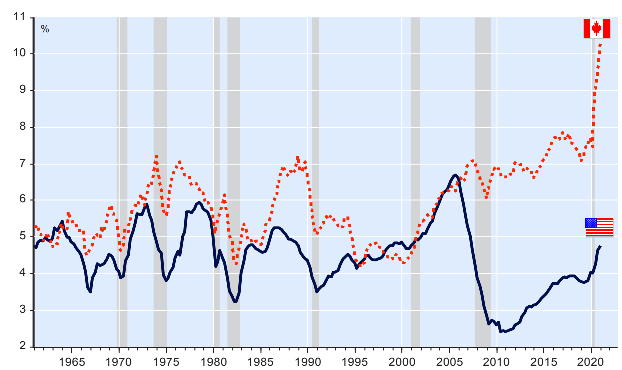
In nominal terms the Q1 growth was even more spectacular –18.4% annualized. This was because the GDP deflator rose the most since 1982. A jump in resource prices contributed to this shift, since terms of trade showed their second-best improve-ment on record (+6.1%), taking nominal GDP to a best-in-G7 3.0% above its pre-recession peak. Very good news for the financial health of Canadian businesses and governments.

Canada: Best terms of trade in a decade
Before-tax profits and terms of trade



NBF Economics and Strategy (data from Statistics Canada)

Canada: Homebuilding accounting for an unsustainable share of GDP
Residential construction Investment as % of GDP



NBF Economics and Strategy (data from Statistics Canada)

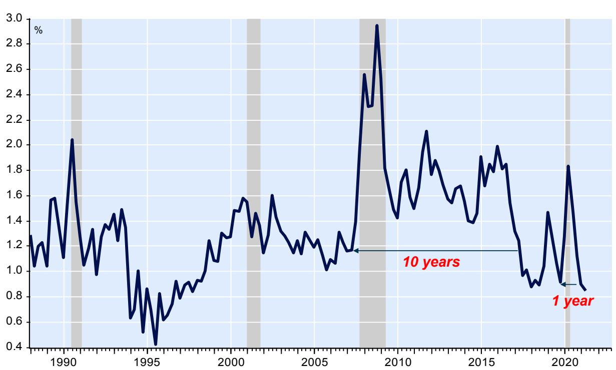
But the resource sector was not the only factor in the quarterly advance. Residential investment played a dominant part, contributing 64% of real growth and 33% of nominal growth as new construction,

The Economy

renovation and property-transfer costs all jumped strongly. So much so that the share of residential investment in GDP topped 10%, a record, twice the comparable U.S. share.

The overheating of the housing market came partly because the pool of potential buyers was spared job losses in the recession (employment in high-paying sectors was at a record) and the pandemic exacerbated a desire to own property. These conditions, combined with highly accommodative monetary policy, have driven home sales to a volume that has been raising eyebrows and prices (see note). For one thing, 5-year government bond rates remain much lower than before the recession (80 basis points lower than the average of Q4 2019), the central bank is pursuing its quantitative easing, and its prospective guidance indicates no policy-rate hike before the second half of 2022. But in addition, mortgage borrowers are enjoying highly advantageous credit spreads, reflecting a substantial abatement of stress among lenders (and among their creditors in turn). After the financial crisis of 2008-09, it took until 2017 for credit spreads to narrow to their pre-crisis level. This time around they have done so in one year and in the current quarter have shrunk to the narrowest in more than two decades.

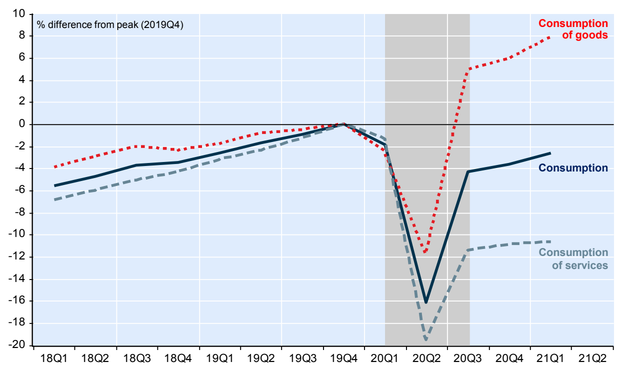
Canada: Mortgage credit spreads at a two-decade low
Mortgage credit spread (5-year mortgage rate - 5-year government bond rate)



NBF Economics and Strategy (data from Statistics Canada)

In other words, transmission of monetary policy is not an issue in this recovery and low mortgage rates are contributing to the overheating of the housing sector. But its Q1 pace seems unsustainable and a return to normal could cool economic growth in the coming quarters. Though its sale volume remains exceptional, it has been showing signs of moderation in the second quarter, with starts and home sales subsiding. The good news is that another part of the economy is ready to pick up the baton. Consumption of services, accounting for 30% of GDP, has remained abnormally low because of public-health measures, but that could change quickly.

Canada: Unusually low consumption of services
Real consumption

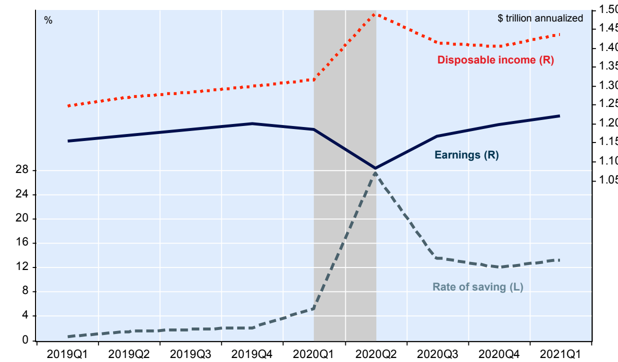


NBF Economics and Strategy (data from Statistics Canada)

The more so in that consumers are in good financial shape to spend strongly in coming quarters. Their disposable income rose in Q1 at an annual rate of 9.5% while consumption rose at only 4.4%. So their rate of saving rose again, topping 10% for the fourth quarter in a row. The rise in the rate of saving meant that in the last five quarters households accumulated excess savings amounting to no less than 9.5% of GDP.

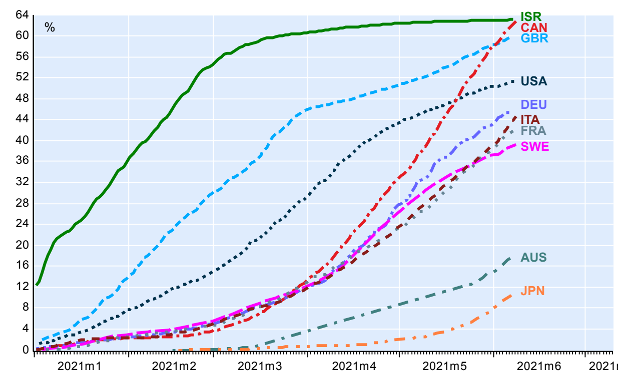
As the pandemic slows and public-health restrictions ease, the time is ripe for deployment of these savings. The rollout of vaccination began slowly but then picked up speed. At the beginning of April, Canada was more than 15 percentage points behind the U.S. in share of population vaccinated, but the gap closed quickly as Canadians showed much greater desire to get shots in their arms. The proportion of Canadians vaccinated at least once is now one of the highest in the world.

Canada: Extraordinary support of household incomes
Earnings, disposable income and rate of saving



NBF Economics and Strategy (data from Statistics Canada)

Canada: Up to the head of the pack
% of population vaccinated at least once against Covid-19

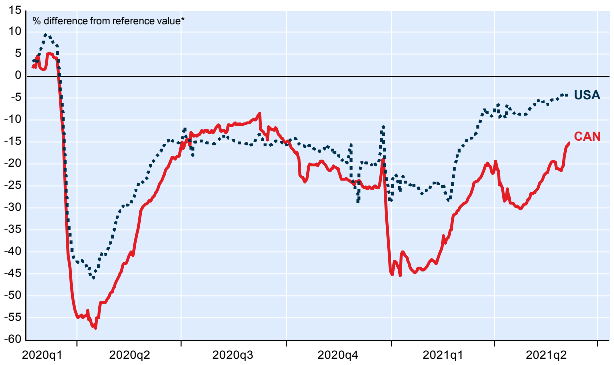


NBF Economics and Strategy (data from https://ourworldindata.org/covid-vaccinations)

This month we are keeping our forecast of real growth in 2021 at 6.0%. After a pause in the recovery due to public-health measures and to production backlogs in the auto industry due to microchip shortages, impressive growth can be expected to continue with the reopening of services that entail physical proximity. Canadian mobility index for shops and recreation have resumed its uptrend after a soft patch early in the current quarter and now stands at its highest level since Q3 2020. Our forecast for 2021 growth in nominal terms is now 12.6%, unseen in 40 years.

The Economy

Canada and U.S.: Return-to-normal index
Google mobility data for shops and recreation, 7-day moving average



* Reference value is the median value from January 3 to February 6 on the same day of the week as the current day
NBF Economics and Strategy (data via Google)

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)	6.9	4.3	(2.4)	7.5	2.6
Consumption	2.7	2.4	(3.9)	8.7	5.0	(2.7)	9.6	3.0
Residential construction	(0.6)	(1.7)	6.1	14.3	(0.9)	14.3	5.6	(3.8)
Business investment	6.9	2.9	(4.0)	8.3	2.7	(1.4)	7.2	1.2
Government expenditures	1.8	2.3	1.1	1.5	1.4	(0.5)	2.7	2.0
Exports	3.0	(0.1)	(12.9)	5.0	6.0	(10.9)	5.0	4.5
Imports	4.1	1.1	(9.3)	11.6	2.8	(0.6)	4.9	1.4
Change in inventories (bil. $)	53.4	48.5	(77.4)	(60.2)	(38.7)	62.1	(18.7)	4.5
Domestic demand	3.0	2.3	(2.7)	7.6	3.8	(1.5)	7.9	2.3
Real disposable income	3.6	2.2	6.0	3.9	(2.1)	3.9	1.7	2.0
Payroll employment	1.6	1.3	(5.7)	2.5	3.4	-6.0	3.9	2.5
Unemployment rate	3.9	3.7	8.1	5.6	4.2	6.8	4.8	3.9
Inflation	2.4	1.8	1.3	3.8	2.9	1.2	4.4	2.6
Before-tax profits	6.1	0.3	(5.8)	14.3	7.0	-0.7	9.4	5.0
Current account (bil. $)	(449.7)	(480.2)	(647.2)	(720.2)	(701.4)	...	...	...

** or as noted*

Financial Forecast**

	Current 6/11/21	*Q2 2021*	*Q3 2021*	*Q4 2021*	*Q1 2022*	*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	0.03	0.05	0.05	0.05	0.10	0.09	0.05	0.15
Treasury yield curve								
2-Year	0.16	0.15	0.20	0.25	0.35	0.13	0.25	0.90
5-Year	0.76	0.80	0.95	1.15	1.30	0.36	1.15	1.70
10-Year	1.47	1.50	1.65	1.85	1.95	0.93	1.85	2.20
30-Year	2.15	2.20	2.30	2.40	2.50	1.65	2.40	2.65
Exchange rates								
U.S.$/Euro	1.21	1.21	1.23	1.24	1.22	1.22	1.24	1.21
YEN/U.S.$	110	110	109	108	107	103	108	104

*** 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	4.3	6.4	10.6	8.0	5.2
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.6	4.3	4.4
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.5	3.3	3.5
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.4	4.8

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	(5.3)	6.0	4.0	(3.1)	5.2	2.9
Consumption	2.5	1.6	(6.0)	5.0	6.2	(4.4)	5.3	5.1
Residential construction	(1.7)	(0.2)	4.1	17.9	(5.1)	14.5	2.7	(4.3)
Business investment	3.1	1.1	(13.6)	0.1	5.7	(13.9)	4.8	4.8
Government expenditures	3.2	1.7	0.4	4.8	1.7	2.4	2.9	1.5
Exports	3.7	1.3	(10.0)	5.9	5.0	(7.4)	5.2	4.7
Imports	3.4	0.4	(11.2)	7.9	5.3	(5.9)	4.8	5.1
Change in inventories (millions $)	15,486	18,766	(15,937)	4,134	13,617	(287)	16,000	13,160
Domestic demand	2.5	1.4	(4.3)	5.6	3.7	(2.0)	4.3	3.1
Real disposable income	1.5	2.2	9.5	(0.0)	(0.6)	7.4	(0.5)	1.1
Employment	1.6	2.2	(5.1)	4.4	2.8	(2.9)	3.2	2.0
Unemployment rate	5.9	5.7	9.6	7.7	6.3	8.8	6.6	6.1
Inflation	2.3	1.9	0.7	2.7	2.5	0.8	3.1	2.3
Before-tax profits	3.8	0.6	(4.0)	33.4	2.2	9.4	16.8	4.0
Current account (bil. $)	(52.2)	(47.4)	(40.1)	5.0	(38.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 6/11/21	*Q2 2021*	*Q3 2021*	*Q4 2021*	*Q1 2022*	*2020*	*2021*	*2022*
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
3 month T-Bills	0.11	0.10	0.15	0.15	0.20	0.07	0.15	0.70
Treasury yield curve								
2-Year	0.32	0.30	0.35	0.45	0.65	0.20	0.45	1.20
5-Year	0.83	0.85	1.00	1.20	1.35	0.39	1.20	1.80
10-Year	1.37	1.40	1.55	1.75	1.90	0.68	1.75	2.20
30-Year	1.93	1.95	2.05	2.15	2.25	1.21	2.15	2.45
CAD per USD	1.21	1.19	1.17	1.20	1.21	1.27	1.20	1.23
Oil price (WTI), U.S.$	71	66	72	75	70	48	75	65

*** 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)	(7.9)	(38.0)	41.7	9.3	5.6	1.2	7.4	6.6
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	3.2	3.2	3.1
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	2.0	2.3	2.2
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.2	7.4	6.6

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	-5.3	3.9	2.6	0.8	4.1	-8.3	16.3	3.3
Prince Edward Island	2.5	5.1	-3.0	4.5	4.0	3.6	7.0	-1.0	8.1	5.0
Nova Scotia	1.9	2.4	-3.2	5.0	3.3	3.6	3.8	-1.9	8.0	4.6
New Brunswick	0.5	1.2	-3.7	4.6	3.0	3.6	3.0	-1.9	9.7	4.5
Quebec	2.9	2.7	-5.3	6.5	4.2	5.4	4.3	-4.0	11.9	5.2
Ontario	2.8	2.1	-5.8	6.1	4.2	4.1	3.8	-4.8	10.0	5.1
Manitoba	1.5	0.6	-4.8	5.1	3.5	2.5	1.0	-4.0	11.0	4.9
Saskatchewan	1.2	-0.7	-5.2	5.4	3.5	3.2	0.1	-9.2	17.3	3.7
Alberta	1.9	0.1	-8.2	6.4	4.0	3.4	2.7	-11.6	21.5	5.2
British Columbia	2.7	2.7	-3.8	6.1	4.2	4.9	4.4	-2.3	11.8	5.4
Canada	2.4	1.9	-5.3	6.0	4.0	4.2	3.6	-4.6	12.6	5.0

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	13.5	12.9
Prince Edward Island	4.2	3.4	-3.2	4.0	2.2	9.4	8.6	10.6	8.2	7.9
Nova Scotia	1.9	2.3	-4.7	5.4	1.6	7.7	7.3	9.8	7.9	7.4
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	8.7	8.5
Quebec	1.5	2.0	-4.8	4.4	3.0	5.5	5.2	8.9	6.5	5.6
Ontario	1.7	2.8	-4.7	4.3	3.0	5.7	5.6	9.6	8.0	6.4
Manitoba	1.1	1.0	-3.7	3.2	2.0	6.0	5.4	8.0	6.9	5.8
Saskatchewan	0.6	1.7	-4.6	3.0	2.3	6.2	5.5	8.4	6.6	6.2
Alberta	1.9	0.6	-6.5	4.6	3.3	6.7	7.0	11.5	9.3	7.7
British Columbia	1.4	2.9	-6.5	5.4	2.9	4.8	4.7	9.0	6.9	5.6
Canada	1.6	2.2	-5.1	4.4	2.8	5.9	5.7	9.6	7.7	6.3

	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	1.3	0.8	1.7	1.0	0.2	2.9	2.7
Prince Edward Island	1.1	1.5	1.2	1.1	1.0	2.3	1.2	0.0	2.4	2.5
Nova Scotia	4.8	4.7	4.9	5.0	4.2	2.2	1.6	0.3	2.6	2.5
New Brunswick	2.3	2.9	3.5	3.0	2.8	2.2	1.7	0.2	2.4	2.4
Quebec	46.9	48.0	54.1	70.0	56.0	1.7	2.1	0.8	2.8	2.5
Ontario	78.7	69.0	81.3	92.0	80.0	2.4	1.9	0.6	2.8	2.5
Manitoba	7.4	6.9	7.3	7.3	6.3	2.5	2.3	0.5	2.5	2.6
Saskatchewan	3.6	2.4	3.1	4.5	3.6	2.3	1.7	0.6	2.5	2.4
Alberta	26.1	27.3	24.0	28.0	27.0	2.5	1.7	1.1	2.5	2.4
British Columbia	40.9	44.9	37.7	40.0	36.6	2.7	2.3	0.8	2.7	2.6
Canada	212.8	208.7	217.8	252.2	218.3	2.3	1.9	0.7	2.7	2.5

e: estimate f: forecast

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

Back to Research Analysts page

Interest Rates and Bond Markets

Interest Rates and Bond Markets

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

Taylor Schleich
Rates Strategist
416-869-8025

Jocelyn Paquet
Economist
514-412-3693

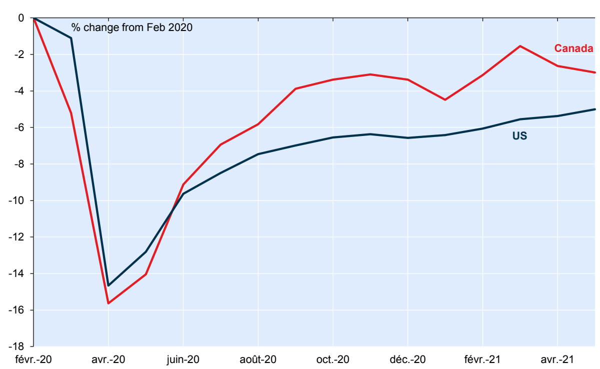
Pay it forward

Coming soon to a bond market near you, a begrudging acceptance that inflation may prove much less transitory than some (notably a certain central bank south of the 49th parallel) currently believe. To be clear, this school of thought—the more hawkish/less transient take on inflation—already has its devotees. Count us among them.

But central bankers have, in certain cases, preferred to play it cool on inflation. While acknowledging a pop in year-over-year figures due to a hyper-distorted base of comparison, Powell, Macklem and others have repeatedly pointed to evident slack in labour markets. This employment picture is a vital one, not only for the dual-mandated Fed but also in Canada, where the central bank has made a concerted effort to extend its assessment of slack beyond the clearly imperfect output gap.

We concede that available labour market capacity (where it exists) is a powerful force leaning against a more serious and sustained price surge. We likewise acknowledge the existence of slack in some regions/sectors. We know the score on jobs lost vs. potential. The gap to be made up in Canada is currently 767K in our estimation, closer to 9 million south of the border (after controlling for population growth). Nor can one deny the lack of inclusivity in today's jobs markets, women, youth and lower-paid workers having clearly suffered more.

Canada appears to have relatively less slack in its labour market
Employment relative to February 2020



NBF Economics and Strategy (data via BLS, StatCan)

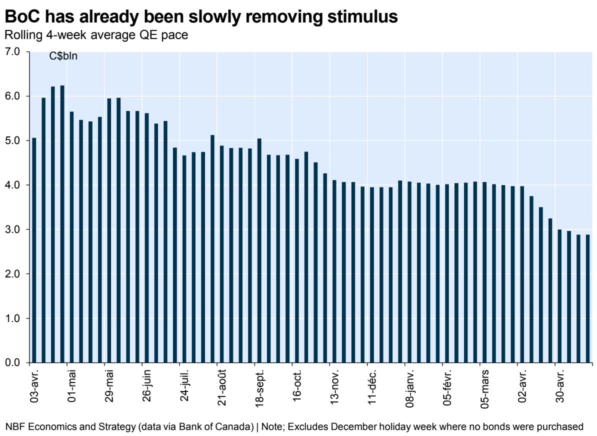
To us, however, slack is set to be taken up relatively quickly, with well-heeled consumers itching to re-engage as restrictions lift, business confidence firms and trade opportunities bright. Meantime, upstream price pressures in assorted goods industries and potentially self-fulling expectations of faster inflation are harder and harder to ignore. For a more complete assessment of the inflation outlook, we'd refer you to our fresh Monthly Economic Monitor. It's there where you'll find our latest point forecasts for U.S. and Canadian CPI. Benign they are not.

Where does this leave us? With cyclical cylinders clearly firing and a self-sustaining expansion appearing closer at hand, the argument for ongoing and outsized policy support is harder to justify. It's as simple as that. We understand the unprecedented nature of the fight we've been engaged in with COVID. Absent an established playbook, and with such enormous human and economic risks at stake, the proverbial policy bazooka was the right call… for a time.

To us, it would be appropriate to accelerate the removal of extreme accommodation. Fiscal authorities, more heavily and directly influenced by political considerations, are in no rush to pull back stimulus. Rather, one could argue we've recently layered in pro-cyclical fiscal stimulus. It's down to monetary authorities then, as it's always been, to prevent rapidly recovering economies from truly overheating.

To be fair, the Bank of Canada has been walking back its support for a time now, having discontinued a series of market functioning programs, having ceased its credit easing and having cut its sovereign bond buying program twice. We see an argument for another taper this summer, advancing the timeline for arrival at a net neutral QE pace. We could/should be at the reinvestment phase around the end of the year, getting there quicker than our prior forecast. That would allow for a period of time to pass before making the first upward adjustment in the policy rate in a little more than a year from now.

Interest Rates and Bond Markets



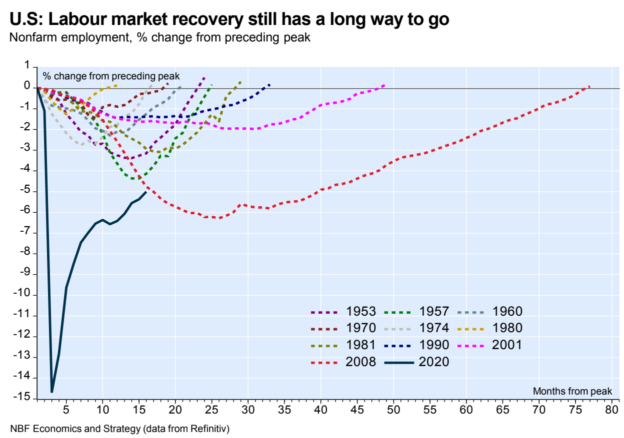
The Fed too has wound down some supports, ending extraordinary balance sheet relief and terminating corporate bond purchases. In our view of the world, where the U.S. output gap is all but closed and underlying inflation pressures are real and not simply a year-over-year echo effect, QE tapering should be an open and active discussion point (if not already underway).

A clear concession: After a sharp early-year selloff in North American rates markets, a recent bond market rally has left us further from key yield targets not closer. We thus acknowledge that there's some serious ground to cover to get to our 1.85% year-end target. To us, a fundamental/economic driver for this recent move lower in yields is lacking, and we'd see current levels in U.S. 10s as an attractive level to re-establish shorts. The catalysts required to reignite a selloff: accumulating evidence that inflation, while coming down from today's great heights, is tracking materially above embedded Fed/market expectations; ongoing and rapid take-up of jobs market slack; ongoing hefty bond supply which could require cheaper levels out the curve to clear; an unambiguous and near-term signal from the Fed that, despite a low r* and extreme sensitivity to higher rates, heavy net bond buying is no longer needed to support markets or the economy.

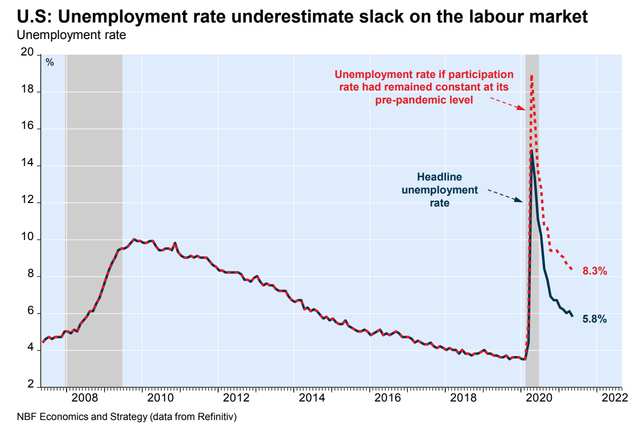
If the ultimate goal is in any way to extend the life of the recovery, at some point we'll need to pay it forward on monetary policy. We may well need another round or two of CPI reports to drive this message home and convince the inflation skeptics. But notwithstanding the recent market move, we know what side of the policy-inflation trade we're staying on.

Fed: A change of tone in the offing?

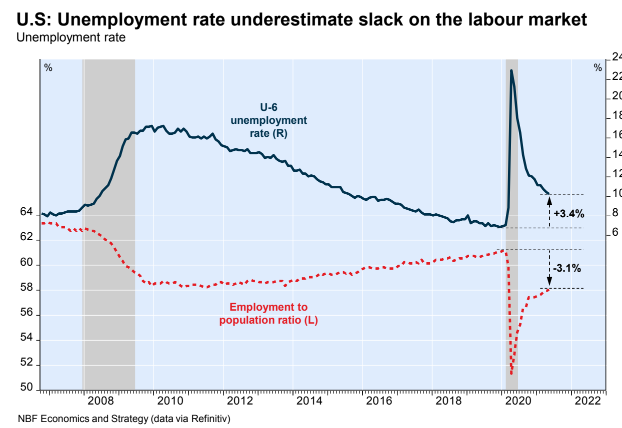
Full employment and low/stable inflation. These are the two elements on which the Federal Reserve sets its sights. To be fair, though, it seems the central bank has been far more concerned lately by the weakness of the former than by the strength of the latter. Is this asymmetric focus justified? To be sure, employment remains roughly 7.3 million (or 5.0%) below pre-crisis levels, a gap that bears monitoring by policymakers.



What's more, while the unemployment rate continued to trend down, its recent decline should be interpreted with caution. Indeed, the headline jobless gauge is embellishing the state of the labour market at the moment. Some of that is due to misclassifications but, for the most part, it has been caused by a sizeable drop in the participation rate. If participation levels had been the same in May as in the pre-crisis period, the unemployment rate would have been closer to 8.3%.



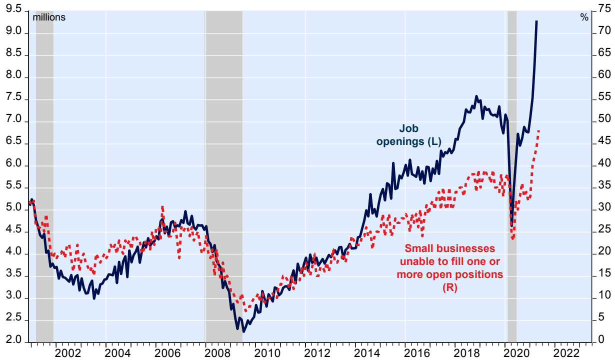
Other measures of labour market slack such as the U-6 unemployment rate or the employment-to-population ratio remain light years away from pre-pandemic levels.



These measures should be evidence enough of slack for the Fed to feel comfortable with its current policy stance, right? Well, not so fast. It is important to understand why labour markets are underperforming at the moment. The current employment shortfall is caused not by lack of demand on the part of would-be employers; job openings vaulted to a new all-time high in April. Employers seem rather to have trouble attracting candidates. As many as 48% of American small businesses polled by the NFIB in May said they were unable to fill one or more vacant positions.

Interest Rates and Bond Markets

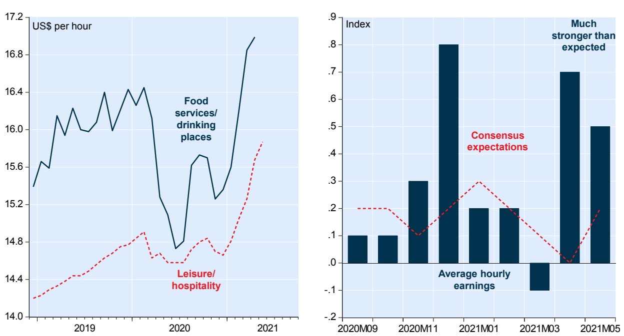
U.S.: Employment shortfall not due to lack of demand
Job openings vs % of small business with difficulty filling one or more open positions



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

So, supply issues really seem to be the problem here. But how could this be at a time when payrolls remain so depressed compared with pre-crisis levels? Residual fear of the virus and school closures might certainly be keeping some people at home. Skills mismatch could also be at work. Another important factor restraining supply of workers in our opinion is generous benefits from Washington. In sectors where wages are relatively low, the unemployment handouts provided by the state act as a disincentive to return to work and are creating what we call "artificial" labour shortages. These could persist until bonifications to unemployment insurance are gradually phased out. This process has already started in some states but will last until September in others. In the meantime, employers might be forced to raise wages in an effort to lure workers back onto the job market. This is already happening in some sectors.

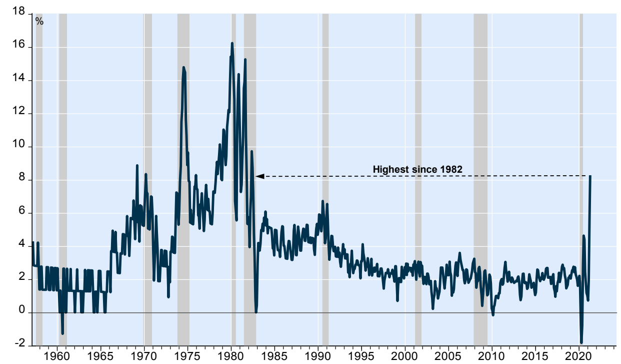
U.S.: Labour shortages to force employers to raise wages?
Average hourly earnings, production and non-supervisory workers (left), average hourly earnings (right)



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

This brings us to our second topic: inflation. In April, we were treated to one of the most stunning CPI reports ever. The core index leaped 0.9% m/m, the steepest gain registered since 1982. Instead of coming down to earth again, the price gauge then leaped another 0.7% in May. As a result, the 12-month rate went up from 1.6% in March to 3.8% in May. This was the highest level observed since June 1992. The recent momentum is even stronger. On a 3-month annualized basis, core prices are up 8.3%. Let that number sink in for a while.

U.S.: Higher inflation not only due to base effect
Consumer Price Index excluding food and energy, 3-month annualized change



NBF Economics and Strategy (data via Refinitiv)

While the Fed had been expecting a bump in inflation for some time, the latest data risks turning its forecast into derision. Let's face it, there is clearly more to the recent price hikes than just base-year effects. Surveys everywhere are filled with comments about material/labour shortages, rising input prices and transport delays. According to businesspeople involved, some of these bottlenecks will continue to wreak havoc on production until at least mid-2022 (think chip shortages).

U.S: Higher inflation not only due to base effect (Part 2)
Comments made by respondents to the latest ISM survey

"Supplier performance — deliveries, quality, it's all suffering. Demand is high, and we are struggling to find employees to help us keep up." [Computer & Electronic Products]

"Ongoing component shortages are driving dual sourcing and longer-term supply plans to be implemented." [Transportation Equipment]

"Difficulty finding workers at the factory and warehouse level is not only impacting our production, but suppliers' as well: Spot shortages and delays are common due to an inability to staff lines. Delays at the port continue to strain inventory levels." [Food, Beverage & Tobacco Products]

"[A] lack of qualified candidates to fill both open office and shop positions is having a negative impact on production throughput. Challenges mounting for meeting delivery dates to customers due to material and services shortages and protracted lead times. This situation does not look to improve until possibly the fourth quarter of 2021 or beyond." [Fabricated Metal Products]

"Labor shortages impacting internal and supplier production. Logistics performance is terrible." [Electrical Equipment, Appliances & Components]

"Business is good, but labor and raw materials are becoming very problematic, driving increases in costs." [Furniture & Related Products]

"The continued global supply chain tightness and raw material shortages from the Gulf (winter storms) make it less likely that any business can recover this year. Demand is strong, but what good is that if you cannot get the materials needed to produce your finished goods?" [Nonmetallic Mineral Products]

"Very busy, but still experiencing labor shortages." [Primary Metals]

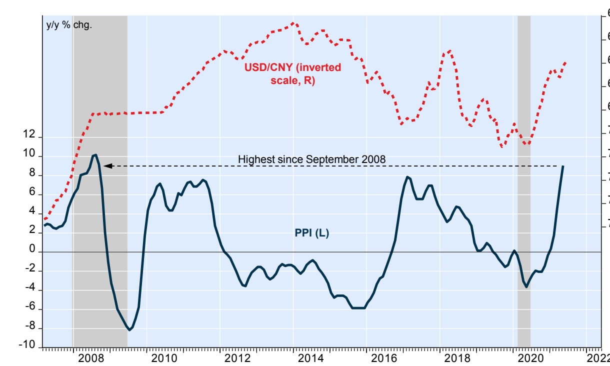
"Stimulus money, increased vaccinations, increased dining capacity and pent-up demand are driving a fast recovery for dine-in restaurants — and all consumer segments, it seems — resulting in labor shortages and supply chain gaps." [Accommodation & Food Services]

"Container delays are impacting our supply chain in a significant way. Delays at the Port of Montreal and West Coast ports have impacted our ability to provide products in growing season. Truck availability has generally been tighter than normal. We've seen a real impact in the southeastern market." [Agriculture, Forestry, Fishing & Hunting]

"We are still busy and adding employees. One of the biggest concerns now is shortages of crucial material and equipment.

Adding to this story, recent data coming in from China reveals increasing price pressure from overseas producers. To be sure, the Chinese producer price index climbed 9.0% in May from a year earlier, the most since 2008. This, combined with an appreciating yuan, could translate into dearer goods imports to the U.S.

U.S.: Supply chain pressures and weak USD to support inflation?
USD/CNY (inverted scale) vs. Chinese Producer Price Index



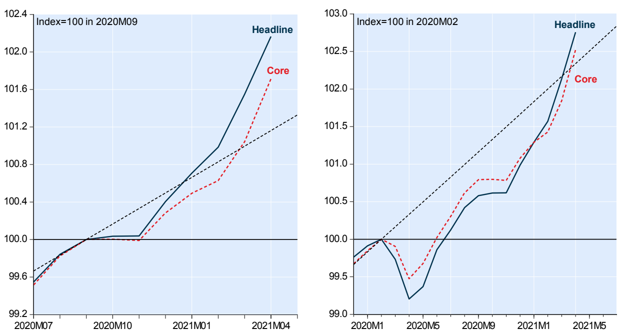
NBF Economics and Strategy (data via Bloomberg)

The Fed's response up to now has been to dismiss gathering momentum as due to temporary factors related to the re-opening process. It might be right in thinking that some of the price hikes observed in recent months will be reversed later this year/early in

Interest Rates and Bond Markets

2022. But temporary or not, inflationary pressures are simply getting too intense to ignore, and surely do not warrant the kind of pedal-to-the-metal policies still being maintained today. Thinking about it, the policy stance of the Fed has barely changed since the depth of the COVID-19 crisis and yet, U.S. GDP is now on track to exceed potential in Q3 this year. Earlier in the recovery process, the central bank's average inflation targeting framework provided it with some breathing space, with policymakers arguing that inflation still had to make up for past misses. But that is not the case anymore. The core PCE index, which it tracks closely, had already made up all the ground lost during the pandemic in April (i.e. before May's report which promises to be solid).

U.S: Average inflation framework no longer provide cover for the Fed
PCE deflator, deviation from 2% trend since September 2020 (left), since February 2020 (right)



NBF Economics and Strategy (data via Bloomberg)

For these reasons, we believe a change in tone at the Fed is now in the offing. The realignment might come at this week's meeting, with Jerome Powell possibly signaling that the time has come for policymakers to start talking about a reduction in asset purchases. This would not mean the central bank is now stepping on the brake, only that it is taking its foot off the accelerator to avoid falling too far behind the curve. The rather benign nature of this readjustment might not prevent significant gyrations on the bond market which has completely dismissed recent inflation prints and now seems to be buying into the QE-infinity idea.

US: Are yields and inflation are misaligned?
10-year treasury yield (Y-axis) versus year-on-year core CPI

NBF Economics and Strategy (data via Refinitiv)

The Fed might be weary of market reactions, but waiting any longer would risk making the reckoning even more painful down the road. The U.S. economy is not in grave danger anymore; it is time for the Fed to recognize it.

BoC takes a breather... but not for long

The June Bank of Canada meeting was a sleepy affair. No change in rates. No change in QE. No change in forward guidance. And no new set of projections to pour over. Even the Bank's assessment of the economy indicated that there was little deviation in the Bank's outlook relative to April's MPR. Moreover, even as inflation continues to beat expectations (including the Bank's own), the Governing Council is sticking to the central bank script: These inflation readings are due to base-year effects and other transitory factors. Once we move through the summer, excess slack will push inflation back down. While we respectfully disagree on the sustainability of above-target inflation, we won't know who's right until later in the year, giving central banks at least the next few months to remain in ultra-accommodative mode. While there's effectively no chance of a rate hike this year, a near-term QE taper does look to be on the horizon even amidst inflation uncertainty. In a speech following the BoC decision, Deputy Governor Tim Lane reiterated comments made by Tiff Macklem back in April:

> *"...if the recovery evolves in line with or stronger than in our latest projection, then the economy won't need as much QE stimulus over time."*

In addition, Lane added:

> *"Given the reopenings happening in many parts of Canada, we expect to learn more **over the coming weeks** to further inform that assessment."*

Macklem's earlier comments on their own left much to interpretation. How long is implied by "over time"? To date, the BoC taper playbook has been to remove $1 billion of weekly bond-buying every six months. That would've implied an October taper to $2 billion per week and certainly would be consistent with "over time". That's how we'd initially interpreted this guidance. But Lane's additional colour, measuring progress in weeks rather than months or quarters, suggests that the next taper is closer than we'd thought.

Of course, this is a data-dependent central bank and the evolution of economic data will ultimately dictate the degree to which it provides/removes accommodation. But should, as we expect, the recovery resume in June, it seems that the Governing Council will feel comfortable cutting its weekly bond purchases once again. Importantly, we won't have much data to inform us of how the economic recovery is progressing. Before the July 14th meeting, the only hard data point we'll get from June will be a new Labour Force Survey. Thus, it appears that the labour market will dictate whether or not stimulus is withdrawn. Assuming the labour market recovery restarts after a brief pause/setback in April and May, it now appears that a July taper is the appropriate base case.

Looking beyond July, the taper timeline looks to have accelerated from our earlier projections. We now see the Bank moving lower again on QE by December, bringing us to a "net neutral" pace of bond-buying (introduced earlier by Toni Gravelle as the "reinvestment phase" of QE) that would see the BoC's holdings remain steady. This period of balance sheet stability would give way to a rate hike in the third quarter of 2022. While the Fed may still be on hold until 2023, the BoC's relatively less flexible policy mandate combined with optimism on slack absorption suggests we'll be nudging the overnight rate higher in the early stages of its forward guidance window.

Interest Rates and Bond Markets

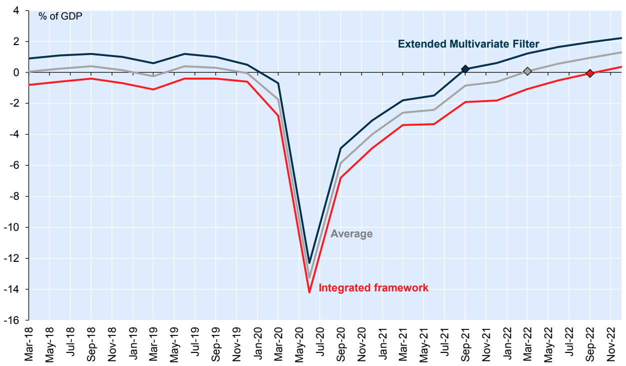
BoC: Upside for the output gap

The BoC's current forward guidance is predicated on slack absorption/output gap closure which, as of its April Monetary Policy Report, is projected to come in the second half of 2022. Importantly, the Bank is also focussed on broader measures of slack (namely, in labour markets) and will be providing more details on this in its July MPR. But on the more traditional measure, the output gap, it seems the Bank might be overstating the amount of slack in the economy

Firstly, it's important to understand how the Bank looks at the output gap. It uses two models to measure how much we've deviated from "potential" GDP. It calls these: the Integrated Framework (IF) and the Extended Multivariate Filter (EMF). The methodology of each of these models isn't necessarily important to this analysis but the takeaway is that they provide two different estimates of the deviation from potential. And these estimates can and do differ significantly. For example, as of the first quarter, the EMF yields an output gap estimate of 3.1% of GDP. The IF, meanwhile, shows slack of just under 5% of GDP. That represents a non-trivial difference of ~$40 billion. In its MPR, the Bank also provides full year growth estimates and its projected growth rate of potential GDP. These estimates help inform how it sees the output gap evolving over time.

Interestingly, applying the Bank's GDP growth projections and estimated potential growth rates to current output gap estimates, we find that the EMF model implies slack absorption much earlier than forward guidance suggests. While dependent on the quarterly profile, a reasonable outlook points to slack being absorbed in Q3 of 2021. Yes, that's next quarter. The IF, on the other hand, implies output gap closure by late Q3/early Q4 of 2022. The average of the two methods splits the difference at 2022:Q1.

BoC taking a conservative approach to output gap closure
Forecasted output gap based on BoC estimates under various models



NBF Economics and Strategy (data via StatCan, BoC) | Note: Assumes mid-point of range of potential output growth and uses BoC's 2021:Q2 and full year 2021 and 2022 growth forecasts

Clearly, the BoC has used the more conservative estimate of its output gap as the basis for its forward guidance. While conservatism is a prudent approach when slack assessment is highly uncertain/difficult (as it is now), it also implies that as the economy reopens and we get a less-distorted picture of underlying economic conditions, the risks are skewed heavily to the upside. Tim Lane's speech spoke to this point indirectly when he reminded markets that forward guidance is outcome-based and not set in stone. If the Bank's projections were to change and it expected earlier slack absorption, it would simply adjust the dating tied to its guidance. To be clear, we don't see forward guidance changing in July. The Bank opted for above-consensus growth forecasts in April and the Q1 data came out softer than had been projected, which would theoretically delay output gap closure, all else equal. (Note: Using our own forecasts, we still see output gap closure coming in 2022:Q2, ahead of current Bank guidance). Moreover, the Bank still has to wind down its QE program and remain in the reinvestment phase for some time. However, should growth rebound faster than expected in the second half of the year, there's a risk we could be talking about the Bank revising its guidance once more.

Lastly, we mustn't lose sight of employment. Given the Bank's broader assessment of slack, rate hikes needn't immediately follow output gap closure if slack still remains in labour markets. As Tiff Macklem has told us and ***as we discussed*** following the May LFS, we're going to need to recover more than 700 thousand jobs to bring us back to "where we should be". We're optimistic that we can recover lost jobs fairly quickly as the economy reopens on a (hopefully) permanent basis. But should we stumble in the reengagement of sidelined Canadians, the Bank might delay hiking relative to when the more traditional output gap approach might suggest it's appropriate.

Interest Rates and Bond Markets

Canadian Bond Market: Interest rates, spreads and currencies

Close on:	11-Jun-21	12-Mar-21	11-Dec-20	11-Sep-20	12-Jun-20
Interest Rates					
3 months	0.113	0.110	0.127	0.149	0.187
2 years	0.315	0.318	0.253	0.264	0.292
5 years	0.826	1.042	0.443	0.356	0.373
10 years	1.378	1.587	0.712	0.55	0.535
30 years	1.939	2.026	1.266	1.06	1.06
Spreads					
3 months - 2 years	20.2	20.8	12.6	11.5	10.5
2 - 5 years	51.1	72.4	19	9.2	8.1
5 - 10 years	55.2	54.5	26.9	19.4	16.2
10 - 30 years	56.1	43.9	55.4	51	52.5
Currencies					
CAD/USD	1.2169	1.2475	1.2769	1.3179	1.3589
EUR/CAD	0.6791	0.6706	0.6464	0.6406	0.6538

NBF Economics and Strategy (data via Bloomberg)

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

Stéfane Marion
Chief Economist and Strategist
514-879-3781

Matthieu Arseneau
Deputy Chief Economist
514-879-2252

World: Momentum is strong

Global equity markets rose to a new record in early June. The rise left the MSCI ACWI up a whopping 5.3% so far in Q2 and 11% over the year to date, with all the main regions showing inspired returns (table).

MSCI composite index: Price Performance

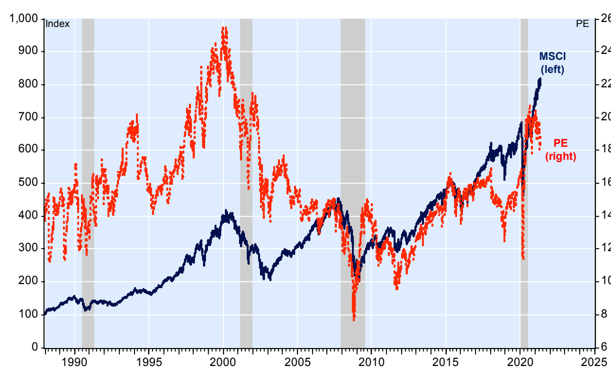
	Month to date	Quarter to date	Year to date
MSCI ACWI	0.7	5.3	11.0
MSCI World	0.8	5.6	11.7
MSCI USA	0.6	6.3	11.7
MSCI Canada	1.6	7.2	15.2
MSCI Europe	1.2	5.1	12.4
MSCI Pacific ex Jp	0.9	5.4	10.5
MSCI Japan	1.8	0.7	8.6
MSCI EM	0.3	3.0	6.7
MSCI EM EMEA	1.1	5.0	14.0
MSCI EM Latin America	1.7	7.3	7.0
MSCI EM Asia	0.0	2.2	5.6

6/4/2021

NBF Economics and Strategy (data via Refinitiv)

The run-up of equity markets continues to be supported by upward earnings revisions rather than P/E expansion. The forward P/E ratio of the MSCI ACWI has shrunk about 9% from last September's cyclical high of 20.5 (chart).

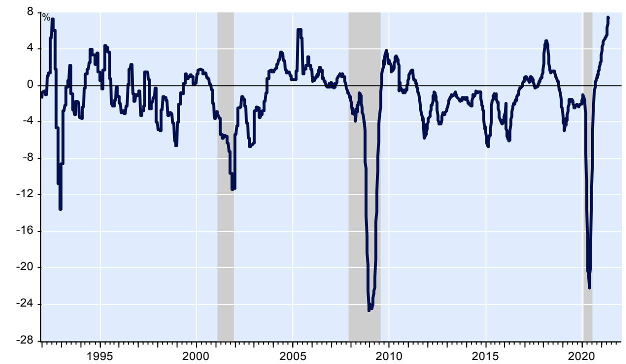
World: A new high in June as PEs shrink
MSCI ACWI and 12-month forward PE



NBF Economics and Strategy (data via Refinitiv)

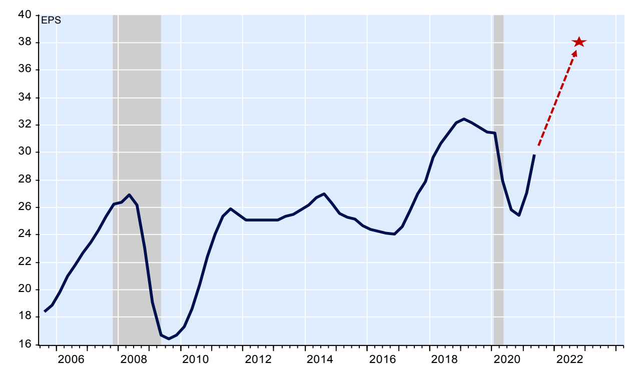
Over the past three months, year-ahead estimates of MSCI ACWI index earnings have been revised up 7.2%, the most since 1992 (chart). At this writing, index earnings are expected to reach 38 at this time next year, 18% above the pre-pandemic peak (chart).

World: Best earnings revisions since 1992
3-month change in 12-month forward EPS estimates for the MSCI ACWI



NBF Economics and Strategy (data via Refinitiv)

World: Too good to be true?
Trailing earnings and 12-month forward expectation

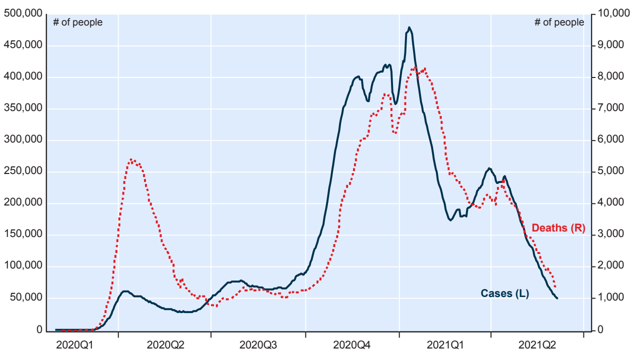


NBF Economics and Strategy (data via Refinitiv)

We do not see these expectations as too good to be true. For one thing, in the OECD economies the number of new Covid cases is plummeting (chart).

Stock Market and Portfolio Strategy

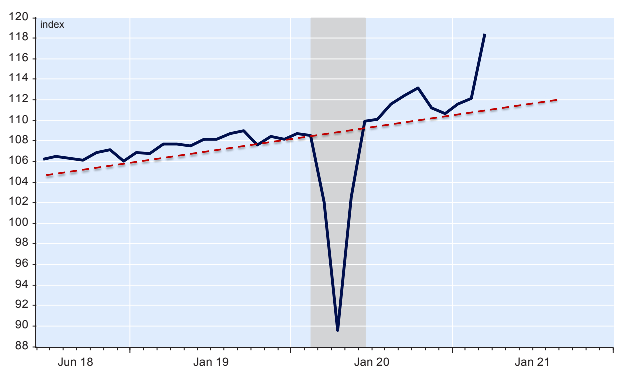
Developed countries: Perspective on COVID-19 cases and deaths
New cases and new deaths in Europe and North America, 7-day mov. Average (as of June 6, 2021)



NBF Economics and Strategy (data via Johns Hopkins CSSE)

This development is taking place at a time when retail sales have been growing much faster than before the pandemic. Volume sales in OECD economies surged to a new record this spring (chart).

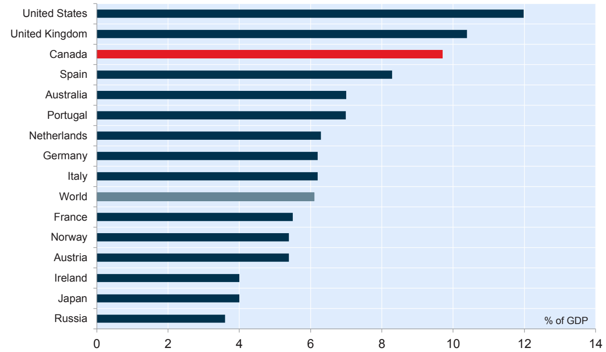
OECD: Above trend growth for retail sales
Volume retail sales



NBF Economics & Strategy (data via OECD)

As economies begin to reopen, consumers seem very eager to spend some of the excess savings accumulated since the beginning of the pandemic, estimated at just over 6% of GDP globally (chart).

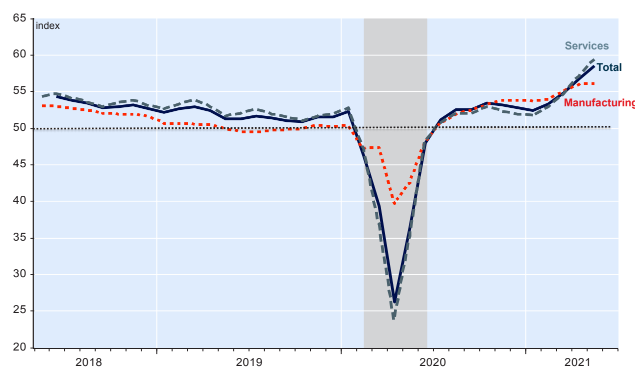
World: Consumers positioned to take advantage of recovery
Cumulative excess savings since beginning of the pandemic, % of GDP



NBF Economics and Strategy (data from Moody's)

At this writing, global economic momentum is firming. The J.P.Morgan global composite output index showed further improvement in May, rising 1.7 points to 58.4, the highest in 181 months, driven by a large gain in the service sector (chart). This bodes well for the earnings outlook, since both volume sales and pricing power are firming.

World: Economic momentum remains strong
JP Morgan diffusion index for the global economy



NBF Economics & Strategy (data via Refinitiv)

S&P/TSX: New record high

The S&P/TSX is having an excellent year. The Canadian benchmark hit a new record in June, up a robust 7.1% so far in Q2 and almost 15% year to date. Energy (+12.1%), Materials (+14.3%) and Banks (+9.2%) have been the best performers in Q2 (table).

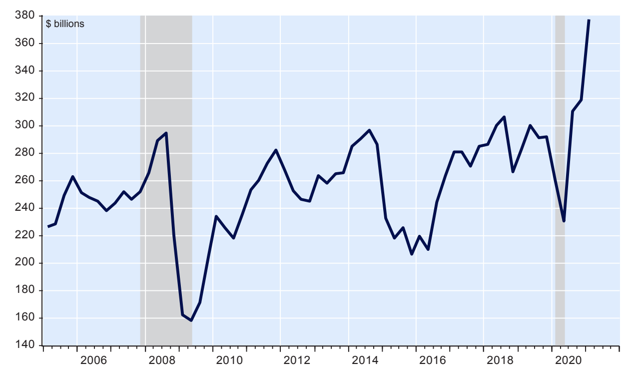
S&P/TSX composite index: Price Performance

	Month to date	Quarter to date	Year to date
S&P TSX	1.5	7.1	14.9
ENERGY	5.3	12.1	33.1
TELECOM	2.1	8.5	14.7
CONS. DISC.	2.0	6.2	18.9
UTILITIES	1.2	-0.4	2.1
BANKS	1.2	9.2	23.8
REAL ESTATE	1.1	6.9	16.4
FINANCIALS	1.1	8.0	21.8
CONS. STAP.	0.9	5.2	7.5
HEALTH CARE	0.9	-11.7	21.7
IT	0.7	4.8	3.7
INDUSTRIALS	0.5	0.3	6.6
MATERIALS	0.4	14.3	6.0

6/4/2021
NBF Economics and Strategy (data via Refinitiv)

The Canadian stock market is fuelled by surging economic output spurred by very favourable terms of trade and a resilient domestic economy. Real GDP rose a robust 5.6% annualized in Q1 and nominal GDP surged 18.4%. This was good news for public finances and corporate profits. The latter reached new records in the quarter as they rose to a whopping 29% above their 2019Q4 level (chart).

Canada: Profits surge
Corporate profits before tax (national accounts)

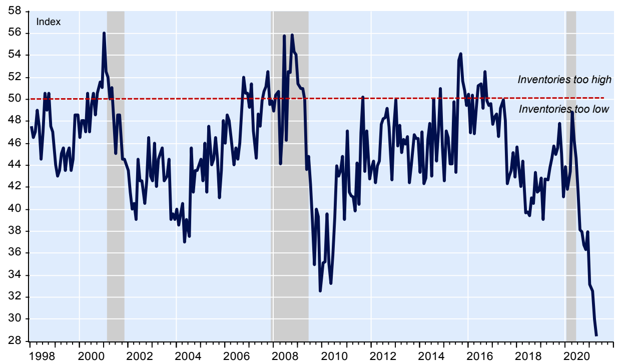


NBF Economics and Strategy (data via Statistics Canada)

Our outlook for profits in the coming quarters remains upbeat. On the international front, industrial output will continue to benefit from a combination of strong demand and the desire to replenish depressed inventories (chart). If we are right, Canadian commodity producers will continue to enjoy elevated resource prices.

Stock Market and Portfolio Strategy

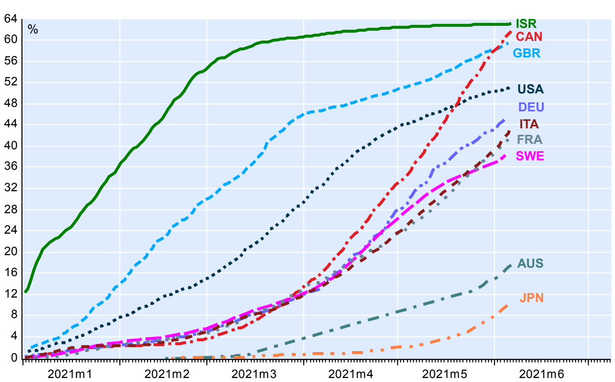
U.S.: A need to rebuild inventories
ISM diffusion index for inventories of customers of U.S. manufacturers



NBF Economics and Strategy (data via Refinitiv)

On the domestic front, meanwhile, household disposable income jumped 9.5% annualized in Q1 while consumption spending grew 4.4% annualized. As a result, the savings rate increased from 11.9% to 13.1%. Notwithstanding a lacklustre jobs report in May – a second consecutive month of Covid-related job losses – we think the Canadian economy is likely to do well in H2 2021. The country's vaccination misfortunes are clearly behind it: it has gone from back of the pack to among the leaders in share of population vaccinated at least once. We expect employment growth to rebound quite quickly (*see our upcoming Economic Monitor*).

Canada: From tail of the pack to leader
Share of population that received at least one dose of COVID-19 vaccine over time (as of June 6, 2021)



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

The S&P/TSX, even after its latest rise, is trading at only 16.3 times forward earnings, roughly the same ratio as before the pandemic (table). We have been arguing for quite some time that Canadian equities would benefit from the rebound of the global economy. We think that will still be the case in H2 2021.

S&P/TSX : Price to 12-month forward earnings

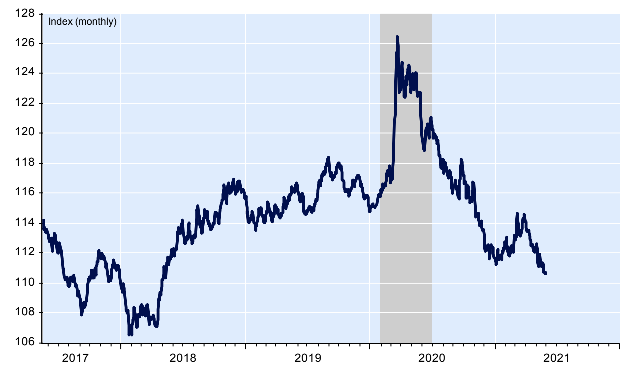
	6/4/2021	A year ago	10 year ave.	5 year average
S&P TSX	16.3	19.8	14.9	15.6
ENERGY	14.4	339.2	34.5	43.9
MATERIALS	15.3	22.3	18.1	19.5
INDUSTRIALS	29.9	27.9	17.3	19.8
CONS. DISC.	16.0	20.0	13.7	14.1
CONS. STAP.	17.7	18.3	16.4	17.0
HEALTH CARE	37.9	16.0	15.5	17.3
FINANCIALS	11.6	11.3	11.4	11.3
BANKS	11.6	10.9	10.8	10.9
IT	60.9	52.2	24.8	32.4
TELECOM	19.0	17.0	15.5	16.4
UTILITIES	24.7	23.8	19.8	20.6
REAL ESTATE	15.4	NA	NA	NA

6/4/2021
NBF Economics and Strategy (data via Refinitiv)

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 to reflect our views on foreign exchange. After two straight disappointing employ-ment reports, we think the Federal Reserve is comfortable keeping real interest rates negative for now. This sets the stage for continued USD softness, low financial stress and limited downside for commodity prices. We stand ready to prune our exposure to Canada as we get closer to our forecast of C$1.17 per USD (revised from 1.19 as per our latest *Forex*).

USD: A new pandemic low
Trade-weighted USD vs. broad basket of 26 currencies of advanced and emerging economies



NBF Economics and Strategy (Federal Reserve data via Refinitiv)

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	

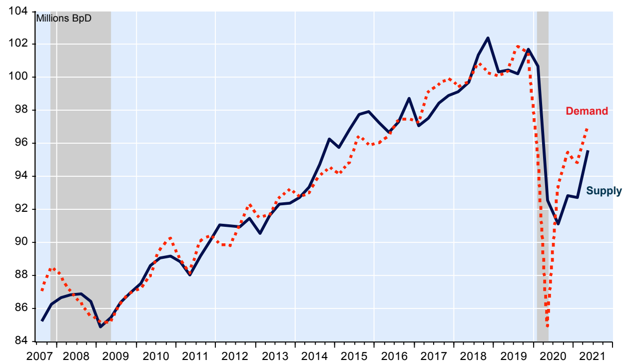
NBF Economics and Strategy

Sector rotation

Our sector allocation is altered this month to reflect robust global economic momentum against a back¬drop of improving public-health conditions, conducive to strong industrial production as retailers seek to replenish depressed inventories. This development, coupled with greater demand for domestic and international travel, is likely to keep oil con-sumption running ahead of supply through the balance of the year (chart).

Stock Market and Portfolio Strategy

World: Demand for crude oil outpaces supply
Global oil production and consumption (quarterly data)



NBF Economics and Strategy (data via EIA)

We are therefore comfortable revising our 2021 WTI price forecast this month from $65 a barrel to $75 and upgrading our stance on Energy from market weight to overweight. We note that the Energy sector has the highest dividend yield (4.5%) among the main industries of the S&P/TSX (table). To make room for Energy, we are pruning our exposure to Financials.

S&P/TSX composite index: Dividend yield

	6/4/2021	A year ago	10 year ave.	5 year average
S&P TSX	2.6	3.4	3.0	3.0
ENERGY	4.5	5.9	3.8	4.3
MATERIALS	1.3	1.4	1.6	1.4
INDUSTRIALS	1.2	1.6	1.7	1.5
CONS. DISC.	1.6	2.4	2.2	2.0
CONS. STAP.	1.4	1.5	1.5	1.4
HEALTH CARE	0.5	1.2	0.6	0.9
FINANCIALS	3.3	4.6	3.8	3.8
BANKS	3.6	5.1	4.0	4.1
IT	0.1	0.2	0.5	0.4
TELECOM	4.4	4.7	4.4	4.5
UTILITIES	3.7	4.2	4.5	4.3
REAL ESTATE	3.8	NA	NA	NA

6/4/2021

NBF Economics and Strategy (data via Refinitiv)

NBF Fundamental Sector Rotation - June 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Overweight**	**13.0%**
Energy Equipment & Services	Overweight	0.0%
Oil, Gas & Consumable Fuels	Overweight	13.0%
Materials	**Overweight**	**12.7%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.6%
Gold	Overweight	7.5%
Paper & Forest Products	Market Weight	0.5%
Industrials	**Market Weight**	**11.6%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.0%
Transportation	Market Weight	6.5%
Consumer Discretionary	**Market Weight**	**4.0%**
Automobiles & Components	Underweight	1.4%
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**	**1.4%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.2%
Financials	**Market Weight**	**31.7%**
Banks	Market Weight	21.8%
Diversified Financials	Market Weight	4.1%
Insurance	Market Weight	5.8%
Information Technology	**Underweight**	**9.4%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Underweight**	**4.5%**
Real Estate	**Underweight**	**3.1%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast Canada			
		Actual	***Q42021 (Est.)***
Index Level		**Jun-04-21**	***Target***
S&P/TSX		20,029	20,600
Assumptions			Q42021 (Est.)
Level:	Earnings *	899	1250
	Dividend	523	727
PE Trailing (implied)		22.3	16.5
			Q42021 (Est.)
10-year Bond Yield		1.46	2.00

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast United States			
		Actual	***Q42021 (Est.)***
Index Level		**Jun-04-21**	***Target***
S&P 500		4,230	4,300
Assumptions			Q42021 (Est.)
Level:	Earnings *	159	190
	Dividend	58	69
PE Trailing (implied)		26.5	22.6
			Q42021 (Est.)
10-year Bond Yield		1.56	2.00

** 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
	06-4-2021	M-T-D	Y-T-D	1-Yr	3-Yr	Y-T-D	1-Yr	3-Yr	
North America - MSCI Index	***4297***	***0.6%***	***12.2%***	***37.7%***	***55.0%***	***6.4%***	***23.4%***	***44.9%***	***1.00***
United States - S&P 500	*4230*	*0.6%*	*12.6%*	*35.9%*	*54.0%*	*6.9%*	*21.8%*	*44.0%*	*1.00*
Canada - S&P TSX	*20029*	*1.5%*	*14.9%*	*29.0%*	*24.8%*	*14.9%*	*29.0%*	*24.8%*	*0.87*
Europe - MSCI Index	***2074***	***0.8%***	***12.7%***	***31.8%***	***19.0%***	***6.9%***	***18.1%***	***11.3%***	***0.80***
United Kingdom - FTSE 100	*7069*	*0.7%*	*9.4%*	*11.5%*	*-8.7%*	*7.6%*	*12.3%*	*-9.2%*	*-0.20*
Germany - DAX 30	*15693*	*1.8%*	*14.4%*	*26.2%*	*22.9%*	*7.9%*	*21.3%*	*19.5%*	*0.91*
France - CAC 40	*6516*	*1.1%*	*17.4%*	*30.0%*	*19.1%*	*10.7%*	*25.0%*	*15.8%*	*0.63*
Switzerland - SMI	*11571*	*1.8%*	*8.1%*	*14.8%*	*34.0%*	*0.8%*	*9.5%*	*37.6%*	*0.89*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*6.4%*	*-5.7%*	*-3.9%*	*3.4%*	*0.66*
Netherlands - Amsterdam Exchanges	*720*	*1.5%*	*15.3%*	*28.8%*	*28.2%*	*8.8%*	*23.8%*	*24.7%*	*0.91*
Pacific - MSCI Index	***3255***	***1.4%***	***5.0%***	***25.8%***	***14.3%***	***-0.4%***	***12.8%***	***6.9%***	***0.86***
Japan - Nikkei 225	*28942*	*0.3%*	*5.5%*	*27.5%*	*28.8%*	*-5.7%*	*13.8%*	*20.6%*	*0.92*
Australia - All ordinaries	*7543*	*1.8%*	*10.1%*	*23.4%*	*22.9%*	*4.7%*	*22.6%*	*16.2%*	*0.74*
Hong Kong - Hang Seng	*28918*	*-0.8%*	*6.2%*	*18.7%*	*-6.7%*	*0.7%*	*6.3%*	*-11.8%*	*0.26*
World - MSCI Index	***2997***	***0.7%***	***11.4%***	***35.1%***	***41.3%***	***5.7%***	***21.1%***	***32.1%***	***0.99***
World Ex. U.S.A. - MSCI Index	***2373***	***1.1%***	***10.9%***	***30.8%***	***18.5%***	***5.2%***	***17.2%***	***10.8%***	***0.83***
EAFE - MSCI Index	***2358***	***1.0%***	***9.8%***	***29.5%***	***17.3%***	***4.2%***	***16.1%***	***9.7%***	***0.83***
Emerging markets (free) - MSCI Index	***1,382***	***0.4%***	***7.0%***	***39.7%***	***20.5%***	***1.5%***	***25.2%***	***12.7%***	***0.91***

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

Back to Research Analysts page

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-06-04

	Weight S&P 500 %	Index Level	Variation 3-m Δ	12-m Δ	EPS Growth 2021	2022	12-m forward	P/E 2021	2022	12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	278	22.82	25.62	36.83	11.78	23.20	22.54	20.16	21.35	18.50	0.92	7.65
Energy	2.95	416	8.93	32.79	0.00	29.15	223.71	19.71	15.26	17.57	12.53	0.08	37.69
Materials	2.82	551	19.47	50.49	59.92	3.48	29.89	19.61	18.95	19.24	14.61	0.64	16.95
Industrials	8.90	888	15.42	46.22	82.72	36.12	55.29	28.15	20.68	24.39	15.24	0.44	4.91
Consumer Discretionary	11.91	1366	9.41	32.91	68.12	33.18	49.50	35.64	26.76	31.32	38.74	0.63	8.31
Consumer Staples	6.05	733	13.15	20.43	7.45	7.92	7.92	21.83	20.23	20.89	8.94	2.64	1.30
Healthcare	12.75	1421	10.22	20.28	16.65	5.95	11.60	16.97	16.02	16.58	10.71	1.43	1.65
Financials	11.99	638	16.34	52.41	45.07	-0.15	22.00	14.47	14.49	14.48	14.31	0.66	13.01
Information Technology	26.38	2456	10.69	41.57	29.54	10.91	15.59	26.65	24.03	24.96	17.49	1.60	7.05
Telecom Services	11.10	259	11.45	42.09	23.72	13.16	19.29	23.37	20.65	22.01	23.40	1.14	8.84
Utilities	2.55	330	11.29	8.32	1.58	8.01	4.28	20.11	18.62	19.46	5.53	4.55	-2.37
Real Estate	2.61	278	22.82	25.62	3.18	6.09	4.41	53.21	50.16	51.89	31.09	11.76	8.98

* 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

Market indices continue to march relentlessly higher as bullish sentiment remains elevated and the VIX index drifts lower. While the S&P/TSX composite index sets new record highs, the overall internal trend of the market remains the same. Growth and high technology stocks continue to falter as non-growth/tech issues see relatively better buying interest. This market is a market of stocks not a stock market as it is characterized with pockets of strength and weakness. An increasingly selective market makes stock selection of utmost importance now. The following charts offer opportunity on both the buy and sell side.

Technical Analysis

Advantage Energy Ltd. (AAV)

The AAV chart broke out of a 30-month base at $2.90 in April to start a new bull phase. A long-term chart indicates that AAV topped out in 2006 in the mid $20s and found support around $2.50 to $3.00 during that period. At current levels, risk/reward is favorable as strong buying support comes into play just below. The bears tried to take this stock lower since late 2018 and failed. An upside across $2.90 indicates that the bulls have taken over and the stock should trend higher. The first target is $5.00.

Source: Refinitiv

Technical Analysis

ARC Resources Ltd. (ARX)

A major bear market in ARC Resources that saw the stock drop over 90% to multi-decade lows appears to be over. Breaking a declining trendline in 2020 was an initial signal that things were improving technically. The stock recently broke out of a two-year base at $8.40 to start a new bull trend. Volume has improved over the past several months indicating strong buying interest. Next resistance is minor around $10.50. Above $10.50 is fairly thin resistance suggesting favorable upside to a target in the mid teens.

Source: Refinitiv

Back to Research Analysts page

Technical Analysis

Bonterra Energy Corp. (BNE)

A rebuilding phase has begun on the BNE chart after a huge bear trend that took the stock from the mid $60s to below a dollar. Ten months of uneventful trading in 2020 established a base for the stock to stage a recovery. Prices are now challenging a key level of resistance at $4.70. An upside breakout from here takes the chart out of two years of basing action and points to a target of $8.00. A more meaningful recovery can take place if the stock moves above the $8.00 resistance where there is thin overhead supply.

Source: Refinitiv

Technical Analysis

Cineplex Inc. (CGX)

The CGX chart is showing signs of improving technical action as the stock challenges key resistance at $15.25. Volume has picked up as the stock breaks above resistance. The stock needs to clear next resistance at $16.90 to get the all-clear signal. A one-year base will be completed as the chart breaks resistance. Thin overhead supply indicates that the stock will little trouble moving higher after breaking out. Target is low $20s with potential for higher objectives as the stock trades through a thin resistance zone after it breaks out.

Source: Refinitiv

Technical Analysis

Methanex Corp. (MX)

The MX chart catches my eye as the stock is a laggard and has carved out a seven-month triangle. Unfortunately, the triangle appears to be resolving to the downside. At the same time, the chart is breaking down from the triangle formation it is also breaking below its 200-day with volume. The last line of support is around $41.00 with any break opening the door to a target of $30.00.

Source: Refinitiv

Back to Research Analysts page

Technical Analysis

Maxar Technologies Inc. (MAXR)

A spectacular run on the MAXR chart ended with the chart being hit by an increasing number of negative technical signals that turned the trend down. A downside momentum gap in March and a break of its 50-day were ominous signs. A trendline break and a break of support at US$33.00 completed a top. This action also broke its 200-day on volume. Strong downside momentum will take time to play out with lower prices. Risk is down to US$20.00.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **May 31, 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	$10.09	$14.50	0.62%	44.40%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$8.06	$10.50	0.93%	31.27%	Energy Equipment & Services
	Secure Energy Services Inc.	SES	$4.28	$5.50	0.60%	29.21%	Energy Equipment & Services
	TC Energy Corp.	TRP	$60.92	$67.00	5.48%	15.69%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$29.45	$37.50	2.09%	29.51%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$5.45	$7.75	0.00%	42.20%	Metals & Mining
	Copper Mountain Mining Corp.	CMMC	$4.33	$5.50	0.00%	27.02%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$8.61	$13.50	1.73%	58.50%	Gold
	Endeavour Mining Corp.	EDV	$29.16	$57.00	0.00%	95.47%	Gold
	First Quantum Minerals Ltd.	FM	$29.70	$40.00	0.04%	34.72%	Metals & Mining
	Kinross Gold Corp.	K	$9.73	$15.00	1.50%	55.65%	Gold
	Newmont Corp.	NGT	$88.25	$108.00	3.07%	25.38%	Gold
	SSR Mining Inc.	SSRM	$22.15	$36.00	1.12%	63.62%	Gold
	Wesdome Gold Mines Ltd.	WDO	$11.13	$14.00	0.00%	25.79%	Gold
Industrials							
	ATS Automation Tooling Systems Inc.	ATA	$29.76	$38.00	0.00%	27.69%	Capital Goods
	Boyd Group Services Inc.	BYD	$207.12	$260.00	0.27%	25.80%	Commercial & Professional Services
	CAE Inc.	CAE	$37.20	$43.00	0.00%	15.59%	Capital Goods
	Doman Building Materials Group Ltd.	DBM	$8.68	$12.50	5.54%	49.54%	Capital Goods
	Finning International Inc.	FTT	$30.86	$44.00	2.67%	45.24%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$32.44	$45.50	1.26%	41.49%	Capital Goods
	Mullen Group Ltd.	MTL	$12.86	$15.25	3.68%	22.32%	Transportation
	NFI Group Inc.	NFI	$26.03	$32.00	3.26%	26.20%	Capital Goods
	Stantec Inc.	STN	$53.86	$60.00	1.23%	12.63%	Commercial & Professional Services
	TFI International Inc.	TFII	$116.06	$129.00	1.01%	12.14%	Transportation
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$43.23	$50.00	1.69%	17.39%	Consumer Durables & Apparel
	Spin Master Corp.	TOY	$40.99	$53.00	0.00%	29.30%	Consumer Durables & Apparel
Consumer Staples							
Health Care							
	Chartwell Retirement Residences	CSH.un	$13.09	$14.50	4.69%	15.45%	Health Care Providers & Services
	Dialogue Health Technologies Inc.	CARE	$12.55	$20.50	0.00%	63.35%	Health Care Providers & Services
	Knight Therapeutics Inc.	GUD	$5.31	$7.75	0.00%	45.95%	Pharmaceuticals, Biotechnology & Life Sciences
	Medical Facilities Corporation	DR	$7.77	$9.75	3.75%	29.09%	Health Care Providers & Services
Financials							
	Canadian Imperial Bank of Commerce	CM	$140.71	$156.00	4.02%	15.02%	Banks
	Element Fleet Management Corp.	EFN	$13.70	$19.00	1.92%	40.58%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$69.22	$76.00	2.78%	12.60%	Insurance
	Royal Bank of Canada	RY	$124.21	$137.00	3.42%	13.78%	Banks
	Trisura Group Ltd.	TSU	$159.38	$218.00	0.00%	36.78%	Insurance
Information Technology							
	Farmers Edge Inc.	FDGE	$10.01	$20.00	0.00%	99.80%	Software & Services
	Kinaxis Inc.	KXS	$137.14	$225.00	0.00%	64.07%	Software & Services
	Real Matters Inc.	REAL	$16.44	$35.00	0.00%	112.90%	Software & Services
Communication Services							
	Quebecor Inc.	QBR.b	$32.75	$40.00	3.32%	25.50%	Telecommunication Services
	Shaw Communications Inc.	SJR.b	$35.81	$40.50	3.28%	16.41%	Telecommunication Services
Utilities							
	AltaGas Ltd.	ALA	$23.90	$26.00	4.07%	12.97%	Utilities
	Boralex Inc.	BLX	$37.13	$50.00	1.75%	36.44%	Utilities
	Innergex Renewable Energy Inc.	INE	$20.48	$26.00	3.50%	30.47%	Utilities
	Northland Power Inc.	NPI	$40.59	$50.00	2.95%	26.14%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$38.84	$46.50	2.54%	22.30%	Real Estate
	Canadian Apartment Properties REIT	CAR.un	$55.38	$65.50	2.46%	20.77%	Real Estate
	European Residential REIT	ERE.un	$4.24	$5.25	3.79%	27.63%	Real Estate
	Flagship Communities REIT	MHC.un	$17.51	$20.00	2.56%	17.13%	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 May 31, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› OIL AND GAS

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

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

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

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

› PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES

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

P/BV = Price per book value.

› REAL ESTATE

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

› METALS AND MINING: PRECIOUS METALS / BASE METALS

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

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

› SPECIAL SITUATIONS

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

› SUSTAINABILITY AND CLEAN TECH

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› TRANSPORTATION AND INDUSTRIAL PRODUCTS

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

Gabriel Dechaine
Analyst
416-869-7442

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

Selections

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

Canadian Banks & Lifecos

Canadian Imperial Bank of Commerce (TSX: CM) – Re-rating potential becoming more tangible.

CM's Q2/21 results included a well-balanced mix of revenue and credit outperformance. In our view, there was nothing "controversial" in its results, apart from expense guidance that implies an acceleration of spending in the second half. We believe the longer-term perspective focused on the benefits of internal investment rather than the short-term perspective emphasizing negative operating leverage (potentially) is more important. That is, CM has at times been perceived as a bank that has underinvested in its core franchises, and addressing that perception is an important component of its long-term valuation re-rating potential. Recent indicators, especially in the Canadian P&C segment, are indicative that progress on that front is being made.

iA Financial Corporation Inc. (TSX: IAG) – 10%+ growth & mid-teens ROE potential at a discount. What's not to like?

Although the virtual format was a new twist, the presentation content was consistent with previous events. Of note, IAG reiterated its 10%+ EPS growth target and added an ROE "sweetener" with the company targeting ROEs in the 13-15% range by 2023, up from its current 12.5-14% range. This higher ROE range reflects changes that have taken place in the business over the past few years that have made it more capital-light (e.g., Canadian product redesign, U.S. expansion). It also indicates no negative impact is anticipated from IFRS 17 accounting, which is scheduled to be adopted in 2023. Given the bullish outlook, we are increasing our target valuation multiples, resulting in a target price increase to $76 from $70.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		82,053	647	126.83	10/2020	7.71	11.64	11.87	10.9	10.7	76.72	79.24	85.23	1.6	1.5	3.3%	136.00	↑
Bank of Nova Scotia	BNS	SP		98,517	1,211	81.32	10/2020	5.36	7.11	7.74	11.4	10.5	52.30	55.11	59.63	1.5	1.4	4.4%	81.00	↑
CIBC	CM	OP		63,417	445	142.46	10/2020	9.69	13.49	14.23	10.6	10.0	86.70	90.02	98.26	1.6	1.4	4.1%	156.00	↑
National Bank	NA	NR		31,807	337	94.28	10/2020	6.06	8.33	8.65	11.3	10.9	43.59	45.87	51.23	2.1	1.8	3.0%	NR	
Royal Bank of Canada	RY	OP		179,021	1,425	125.62	10/2020	7.97	10.91	11.43	11.5	11.0	60.04	63.28	70.35	2.0	1.8	3.4%	137.00	↑
Toronto-Dominion Bank	TD	SP		158,334	1,818	87.07	10/2020	5.35	7.69	7.74	11.3	11.3	49.25	51.55	56.10	1.7	1.6	3.6%	89.00	↑
Canadian Western Bank	CWB	SP		3,188	87	36.60	10/2020	2.93	3.55	3.87	10.3	9.5	32.26	33.34	36.36	1.1	1.0	3.2%	39.00	↑
Laurentian Bank	LB	SP		1,891	43	43.63	10/2020	2.92	3.66	3.71	11.9	11.8	54.45	55.61	57.22	0.8	0.8	3.7%	41.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		34,482	928	37.41	12/2020	2.67	3.25	3.55	11.5	10.5	23.36	24.28	26.08	1.5	1.4	4.7%	36.00	↑
iA Financial	IAG	OP		7,462	107	69.22	12/2020	4.87	7.79	8.45	8.9	8.2	56.95	60.25	66.08	1.1	1.0	2.8%	76.00	
Manulife Financial	MFC	SP		49,016	1,942	25.27	12/2020	2.22	3.14	3.40	8.1	7.4	23.40	24.25	26.19	1.0	1.0	4.4%	27.00	
Sun Life Financial	SLF	OP		38,099	586	64.68	12/2020	4.14	5.85	6.33	11.1	10.2	37.61	40.74	45.64	1.6	1.4	3.4%	71.00	↑

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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

Selections

- › *Trisura Group*
- › *Element Fleet Management*

Initiating Coverage on IGM and POW

IGM Financial Inc. (TSX: IGM) - Is Gaining Momentum

IGM Financial Inc. is a leading wealth and asset management company in Canada. Through its operating brands IG Wealth, Mackenzie and Investment Planning Counsel, IGM boasts over $253 billion in assets under management and advisement and is the #2 player by AUM in Canada. Moreover, IGM holds ownership stakes in companies focused on rapidly growing areas of the investment world, which we believe will deliver both long-term earnings and valuation upside.

We are Outperform on IGM with a $55 price target. Our favourable bias reflects the combination of strong double-digit adjusted EPS growth (~19% in 2021 and ~10% in 2022) and meaningful valuation re-rate potential. Our price target implies a ~29% total return, including an attractive ~5% dividend yield.

Power Corporation of Canada (TSX: POW) – Initiating with a Sector Perform Rating, But Strategic Initiatives Could POWer Outperformance Long Term

Power Corporation of Canada is a holding company that focuses on financial services. The company owns leading insurance, retirement, wealth management and investment franchises in North America, Europe and Asia. Over 80% of POW's gross asset value is in publicly traded companies, including Great-West Lifeco Inc., IGM Financial Inc. and Groupe Bruxelles Lambert NV. The company also holds a portfolio of alternative asset investment platforms and interests in several standalone businesses that are managed to realize value over time.

We are Sector Perform on POW with a $41 price target, which translates to a ~9% return, including a healthy ~5% dividend yield. We rate the shares Sector Perform given stronger total returns elsewhere in our coverage universe.

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 5/31	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		2.38	17.0	140.17	12/2020	12.61	15.07	16.21	9.3	8.6	97.86	108.48	123.12	1.3	1.1	1.1%	174.00	↑
First National Financial	FN	SP		3.17	60.0	52.90	12/2020	3.95	4.11	4.27	12.9	12.4	8.51	10.08	11.88	5.2	4.5	4.4%	55.00	
Home Capital Group	HCG	OP		1.80	50.8	35.33	12/2020	3.55	4.72	5.36	7.5	6.6	33.85	37.31	42.38	0.9	0.8		46.00	↑
Timbercreek Financial	TF	SP		0.77	80.9	9.52	12/2020	0.67	0.70	0.70	13.6	13.6	8.48	8.49	8.50	1.1	1.1	7.2%	9.50	↑
Specialty Finance																				
ECN Capital	ECN	OP		2.07	244.5	8.46	12/2020	0.13	0.38	0.48	18.4	14.6	2.79	2.94	3.11	2.4	2.3	1.4%	10.50	
Element Fleet Management	EFN	OP		6.01	438.5	13.70	12/2020	0.77	0.79	0.91	17.3	15.0	7.32	7.38	7.87	1.9	1.7	1.9%	19.00	
goeasy	GSY	OP		2.21	14.9	148.18	12/2020	7.57	9.87	11.18	15.0	13.3	36.88	49.58	57.92	3.0	2.6	1.8%	167.00	↑
Brookfield Business Partners	BBU	OP		6.76	148.4	45.59	12/2020	-1.13	4.41	1.82	10.3	25.1	27.32	32.68	40.61	1.4	1.1	0.5%	56.00	↑
Power Corporation of Canada	POW	SP		26.63	676.7	39.35	12/2020	3.00	3.92	3.82	10.0	10.3	31.17	32.55	34.50	1.2	1.1	4.5%	41.00	↑
HR Companies																				
LifeWorks Inc.	LWRK	OP		2.3	70.1	33.50	12/2020	0.80	0.65	1.02	51.4	32.9	9.30	9.31	9.68	3.6	3.5	2.3%	39.00	↑
Securities Exchange																				
TMX Group	X	SP		7.45	56.2	132.68	12/2020	5.88	6.63	6.83	20.0	19.4	64.92	66.88	69.80	2.0	1.9	2.3%	147.00	↑
Insurance																				
Intact Financial Corp.	IFC	OP		23.35	143.0	163.24	12/2020	9.92	10.2	10.61	16.1	15.4	62.19	80.78	86.13	2.0	1.9	2.0%	205.00	↑
Trisura Group Ltd.	TSU	OP		1.64	10.3	159.38	12/2020	3.68	5.33	6.03	29.9	26.5	30.04	33.59	39.42	4.7	4.0		218.00	↑
Fairfax Financial Holdings	FFH	OP		14.69	26.0	563.84	12/2020	6.29	59.75	53.79	7.8	8.7	497.23	529.39	575.74	0.9	0.8	2.3%	700.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.09	103.7	10.48	12/2020	1.38	1.21	1.29	8.7	8.1	4.15	4.13	4.20	2.5	2.5	8.0%	12.00	
IGM Financial Inc.	IGM	OP		10.61	238.4	44.49	12/2020	3.20	3.80	4.20	11.7	10.6	25.11	26.40	28.37	1.7	1.6	5.1%	55.00	↑

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

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

Selections

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

Expectations for a more supportive backdrop exiting 2021

Cost reductions, balance sheet improvement, and increasing offshore visibility reinforce our positive stance on Shawcor. We note that while Q1 revenue for the Pipeline and Pipe Services segment decreased by ~$36 million y/y, the division generated Q1 adj. EBITDA (ex-CEWS) of ~$3.8 million, an improvement of ~$11.8 million relative to Q1/2020 (-$8.0 million). We believe this is illustrative of the cost-saving (and profitability improving) measures Shawcor has implemented over the past year in response to the industry downturn (transitioning the business away from lower-margin operations). SCL continues to right-size the business footprint, announcing concurrently with Q1 results plans to close the Leith, UK pipe coating facility following the completion of the Baltic Pipe project later this year. Management also provided updated SG&A guidance, decreasing the expected quarterly run rate to $55 million from $60 million. Subsequent to the quarter, SCL repaid $75 million of the credit facility vs. borrowings exiting Q1/21 of $438 million. Our forecasts continue to point to material delevering through our forecast period with SCL exiting 2022 below 2.0x net debt/ttm EBITDA (driven by both improved EBITDA generation and total debt reduction). Shawcor reported an order backlog of $521 million exiting the quarter (up 15% sequentially from $453 million exiting 2020) with conditional project awards decreasing to $110 million from $130 million q/q. Management's updated outlook now calls for a backlog reduction in Q2 and Q3 before an anticipated build in the fourth quarter and into 2022 as offshore projects are sanctioned (with recent headlines from offshore channel partners reinforcing that outlook). We maintain our $8.75 target (driven by 6.7x 2022e EV/EBITDA) and Outperform rating as Shawcor's right-sizing efforts continue to transition the business to a leaner footprint with improved profitability and a reduced leverage profile.

Enerflex's first-quarter results miss expectations but Q1 bookings strength drive 19% sequential increase in backlog. Enerflex reported first-quarter results that fell short of consensus expectations with Q1 adj. EBITDA of $29.6 million coming in 14% below the street at $34.4 million and missing our CEWS-less (and street-low estimate) of $32.4 million by 9%. Q1 revenue of $203.2 million was 9% below the street at $223.0 million (NBF: $216.6 million) with the top-line miss vs. our estimates driven predominantly by softer than expected results for the Engineered Systems (ES) segment and inclement weather hampering the service division. The Q1 release was not all bad news as the backlog for the ES segment exiting Q1 increased to $169.4 million, a 19% sequential improvement relative to the $142.9 million exiting 2020. Q1 ES bookings of $98.7 million almost doubled sequentially (Q4/20: $52.7 million), and while management cautioned against viewing the backlog improvement as a firm signal of an inflection point in the market as operators maintain a cautious approach to growth spending, we view the development positively as it decreases the likelihood of EFX burning through the entirety of the ES backlog in the coming quarters. We made little changes to our full-year forecasts on the back of the quarter as we suspect service revenue was negatively impacted by inclement weather during Q1 and Engineered Systems segment revenue can be made up in the coming quarters. We maintain our $10.50 target, still driven by 6.4x 2022e EV/EBITDA (in line with Enerflex's historical forward year EV/EBITDA average as well as the broader peer group). We reiterate our Outperform rating as we continue to anticipate a meaningful ramp in ES bookings in the back half of 2021 and into 2022, with EFX's share price closely tracking the backlog historically.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		765.98	18.8	40.84	149.3	166.1	192.1	10.4	9.5	7.5	4.9	54.00	34%	
Enerflex Ltd.	EFX	OP		723.48	89.8	8.06	191.3	141.7	189.5	5.6	7.3	5.2	2.2	10.50	31%	
Mullen Group Ltd.	MTL	OP		1245.48	96.8	12.86	191.5	222.2	245.0	8.4	7.7	6.7	2.1	15.25	22%	
Pason Systems Corp.	PSI	OP		735.34	83.1	8.85	39.5	52.8	71.0	14.8	11.1	8.1	-2.8	11.00	27%	
Shawcor Ltd.	SCL	OP		422.62	70.4	6.00	43.8	101.6	127.0	16.3	6.8	5.1	2.7	8.75	46%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

ESG & Sustainability

Amber Brown, MBA
Analyst
403-813-1646

Overview

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

ESG Updates – Regulatory Updates

With enormous weight now behind the energy transition, signaled by the United States Executive Order, Canada announcing its new Sustainable Finance Action Council, the G7 releasing its Ministers' Communiqué and the IEA's recent net-zero pathway report, governments have now recognized that policy desperately needs to catch up with climate risk. We view these directives as a large turning point in financial policy, with sustainability initiatives starting to merge with finance, thereby eventually leading to a world where sustainable finance is equivalent with finance.

Meanwhile, we see an evolution regarding binding net-zero by 2050 pledges and mandated climate disclosure, which could impact every single industry and ultimately lead to carbon emissions becoming a central part of the investment decision. With that in mind, we anticipate a normalized carbon emissions metric could become a necessity and become as important as key financial metrics such as cash flow growth, earnings per share (EPS) or debt/EBITDA. We also anticipate a carbon emissions valuation metric to unfold, such as an EV/emission or a P/emissions.

President Biden signs Executive Order on Climate-related Financial Risk

On Thursday, May 20th, President Biden signed an ***Executive Order on Climate-related Financial Risk*** as an action to address the threat of climate change. In general, Biden's directive looks to strengthen the U.S. financial system by establishing the rules to properly analyze and mitigate climate risk, while also helping the American people better understand how climate change can impact financial decisions. Although the Executive Order was general in tone, we highlight that there were a few noteworthy initiatives. As part of the first directive, the Director of the National Economic Council, Brian Deese, and the National Climate Adviser, Gina McCarthy, will develop a strategy within 120 days to identify and disclose the climate vulnerabilities faced by government programs, assets and liabilities, in addition to identifying the public and private financing required to reach net-zero by 2050. With that in mind, we highlight that the Global Financial Markets Association (GFMA) released its ***Climate Finance Markets and The Real Economy Report*** in December, where it outlined that an aggregate US$100-US$150 trillion (~US$3-5 trillion annually) would be needed globally to achieve a scenario of limiting temperature rise to 1.5 degrees Celsius.

Another aspect we wanted to flag was that the Executive Order encouraged Treasury Secretary, Janet Yellen, to contribute to the process of addressing climate-related financial risk and release a report within 180 days (ahead of COP26) that includes plans for member agencies (i.e., Federal Reserve and the Securities and Exchange Commissions) to improve climate-related disclosure. We view this as a strong signal towards the ***Task Force on Climate-Related Financial Disclosures*** (TCFD) being mandated in the United States, especially given that a number of leading countries have already legislated the use of TCFD reporting (i.e., New Zealand and the United Kingdom).

Canada launches Sustainable Finance Action Council

On May 12th, the Deputy Prime Minister and Minister of Finance, the Honourable Chrystia Freeland, and the Minister of Environment and Climate Change, the Honourable Jonathan Wilkinson, launched the ***Sustainable Finance Action Council*** (SFAC). The goal of the SFAC is to bring together public and private sector financial expertise to support the growth of a sustainable finance market and to mobilize capital to reach Canada's 40-45% emissions reduction target by 2030 and net-zero by 2050. The SFAC will be chaired by Kathy Bardswick and will include a diverse group of leading financial sector participants from Canadian banks, insurance companies and pension funds. The first meeting is expected to take place in June.

G7 Ministers' Communiqué

Ahead of the G7 ***Leaders' Cornwall Summit*** on June 4th in England, the Environment Ministers from the UK, the U.S., Canada, Japan, France, Italy and Germany held a two-day virtual meeting on May 20-21 to discuss climate change. Overall, the Group of Seven reaffirmed its commitment to international cooperation and multilateralism, while committing to work together towards climate change and towards limiting temperature rise to 1.5 degrees Celsius by 2100. Meanwhile, the G7 also committed to tackle climate change and biodiversity loss hand-in-hand and establish a predictable investment environment to incentivize the mobilization of public and private capital towards the energy transition. Following the virtual conference, the G7 Ministers responsible for Climate and Environment released the ***Ministers' Communiqué***, which highlighted the steps that the G7 would take to tackle climate change and biodiversity loss. We provide a recap of some of the noteworthy topics below:

- *Finance:* The G7 group committed to helping establish a predictable investment environment with clear public policies to facilitate the alignment of global and national financial flows towards tackling climate change. The G7 reaffirmed its commitment to mobilize US$100 billion annually through 2025 and also presented a call to the Multilateral Development Banks (MDBs), bilateral Development Finance Institutions (DFIs), multilateral funds, public banks and export credit agencies to ensure financial flows align with the Paris Agreement and the *Convention on Biological Diversity* (CBD). Additionally, the G7 Environment Ministers recognized the potential of carbon markets and carbon pricing to foster the reduction of emissions, while also helping mobilize capital towards innovation and technology.
- *Nature-based solutions:* The Group of Seven recognized that climate change and the health of the natural environment are intrinsically linked, therefore, the G7 environmental ministers stressed the need to combat both crises in parallel. As a result, the G7 announced a global biodiversity target of 30%, with the Group of Seven stating that it would conserve and protect at least 30% of government land and 30% of global oceans by 2030.
- *Energy*: Addressing the issue of energy, the G7 Environment Ministers affirmed that renewable energy sources alongside energy storage would play a fundamental role in the energy transition, in addition to driving economic growth and new clean-energy jobs. The G7 group highlighted the importance of maintaining energy security that is reliable and resilient, especially given the threat of cybersecurity attacks, and variable renewable energy storage. Meanwhile, the Group of Seven stated that it would accelerate the transition away from coal power generation, given that it has been the single largest cause of global temperature increases, with the G7 committing to phase out new direct government support for international coal power generation by the end of 2021. The G7 also stated that it would look to eliminate fossil fuel subsidies by 2025. Of note, according to the International Monetary Fund, it was forecasted that fossil fuel industries received US$5.2 trillion in government subsidies in 2017, representing ~6.5% of the global economy. Lastly, we highlight that the G7 viewed natural gas as a transition fuel, but only on a time-limited basis, while nuclear energy was recognized as a low carbon baseload energy source in some countries.

IEA releases Net-Zero by 2050 Roadmap

On May 18th, the IEA released its first comprehensive *Net Zero by 2050: A roadmap for the global energy system*, which outlined the IEA's forecasted global pathway to net-zero, spanning all sectors and based on feasible, cost-effective and socially acceptable technologies. The report was prepared at the request of the UK President of the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP 26) and provides a comprehensive and detailed pathway to achieving net-zero, highlighting over 400 milestones across all sectors and technologies. The report also assessed the cost of achieving carbon neutrality, including the impacts on employment and the economy, with the IEA forecasting the need for ~US$5 trillion in capital per year until 2030 and then US$4.5 trillion until 2050. Overall, the main objectives of the IEA's report included understanding the impact of net-zero emissions pledges on the energy sector, developing a new energy-sector pathway towards achieving net-zero by 2050 and lastly setting out key policy recommendations for governments to act on to achieve net-zero.

Healthcare, Biotech & Special Situations

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

Stephen Kwai
416-869-7571

Selections

- › *Dialogue Health Technologies*
- › *Jamieson Wellness*
- › *Knight Therapeutics*
- › *Medical Facilities*

Highlights as of May 2021

In May, NBF hosted Jamieson Wellness (JWEL: TSX)'s senior management team for well-received virtual investor meetings. Discussions included 1) the company's growth strategy and outlook; 2) digital / e-commerce strategy; 3) potential cost inflation; and 4) recent industry M&A readthroughs.

A Three-Pillar Growth Strategy: While Jamieson was growing at a good clip (~8%-9%) pre-2020, its trajectory saw a rapid and significant uptick at the onset of the pandemic (~17% growth in 2020) as many new consumers entered the Vitamin, Mineral and Supplement (VMS) space. The question for many investors has been whether JWEL would be able to continue to grow in 2021 given the strength of the prior year and the potential for the consumers to exit the VMS space. However, JWEL did deliver growth in Q1/21 (~16% y/y) and has guided to a similarly positive Q2/21 (~14% growth) as well as ~6% in 2021. Management remains confident that growth will continue at pre-pandemic rates in the longer term and aims to double the size of the company in the next 5-7 years via: 1) Growth in Canada as the market is fragmented and presents opportunities to continue expanding share via new products (several to be launched in 2021) and by focusing on channels with most growth such as e-commerce; 2) Growth in China with a focus on both cross-border e-commerce and domestic markets by aiming to expand its presence in physical stores across the country (leveraging partnership with Costco); and 3) M&A opportunities in the next 12-24 months to initiate / accelerate entry into new markets such as the U.S. or Western Europe (domestic market has strong organic growth potential).

Domestic Digital / E-Commerce Strategy: The company expanded its e-commerce capabilities primarily via amazon.ca / well.ca and DTC and has supported retail partners to set up / expand their e-commerce forays as JWEL aims to address users' VMS needs in the channel they choose.

Industry M&A Activity: JWEL's management believes that Nestlé's recent acquisition of The Bountiful Company 1) validates its expectations of a continued consumer focus on health and wellness products; 2) provides support for JWEL's current valuation; 3) highlights the strength in JWEL's operating model given its ~22%-23% EBITDA margin (vs. Bountiful's ~18%); and 4) should not lead to changes in the competitive landscape as Nestlé has already been active in VMS acquisitions without impacting Jamieson.

We reiterate an Outperform rating and $42.75 price target, which implies FY+1 EV/EBITDA of ~18x.

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 5/31	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		196.50	70.2	2.80u	1/2021	0.0%	0.01u	0.11u	0.12u	24.6	23.8	53.7u	68.5u	79.5u	9.4	8.6	345.2u	4.3	3.25u	
Andlauer Healthcare Group	AND	SP		1,346.03	38.5	35.00	1/2021	0.6%	0.81	1.09	1.30	32.0	26.9	78.9	98.4	106.5	15.8	14.3	224.7	2.1	38.00	
Dialogue Health Technologies	CARE	OP		816.51	65.1	12.55	1/2021	0.0%	0.42	(0.26)	(0.07)	nmf	nmf	(16.9)	(15.2)	(2.5)	nmf	nmf	-	-	20.50	
IMV Inc.	IMV	SP		195.01	67.7	2.88	1/2021	0.0%	(0.49)	(0.38)	(0.55)	nmf	nmf	(27.3)	(29.9)	(42.9)	nmf	nmf	-	-	4.25	↓
Jamieson Wellness	JWEL	OP		1,495.76	40.0	37.41	1/2021	1.3%	1.17	1.28	1.31	29.1	28.6	88.0	100.1	105.7	16.7	15.7	160.3	1.5	42.75	
Knight Therapeutics	GUD	OP		684.15	128.8	5.31	1/2021	0.0%	0.09	0.20	0.33	27.0	16.0	16.8	34.5	56.2	15.9	9.8	-	-	7.75	
Medical Facilities Corp.	DR	OP		241.70	31.1	7.77	1/2021	3.6%	0.96u	0.99u	0.98u	6.5	6.6	57.3u	57.2u	57.9u	5.5	5.5	79.8u	1.8	9.75	↑
Theratechnologies	TH	SP		401.64	93.8	4.28	1/f2021	0.0%	(0.15)u	0.06u	0.09u	37.2	24.8	(7.1)u	10.4u	13.0u	19.8	15.8	-	-	3.75	
Special Situations																						
K-Bro Linen	KBL	SP		455.69	10.6	43.00	1/2021	2.8%	2.49	2.31	2.81	18.6	15.3	43.8	44.4	54.0	12.1	9.9	81.1	1.5	46.00	↑
Rogers Sugar	RSI	SP		586.02	103.5	5.66	2/f2021	6.4%	0.37	0.43	0.44	13.0	12.9	92.3	101.9	106.1	9.2	8.9	370.3	3.5	5.25	↑
Chemtrade Logistics Income Fund	CHE.UN	OP	↑	783.57	103.2	7.59	1/2021	7.9%	0.52	0.70	1.04	10.8	7.3	265.3	307.6	339.2	7.1	6.4	1,393.3	4.1	10.50	↑

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

Maxim Sytchev
Analyst
416-869-6517

Associates:
Alizeh Haider: 416-869-7937
Troy Sun: 416-869-6754

Selections

- › *Stantec*
- › *Finning International*
- › *ATS Automation*

Finning International Inc.: Latam deep-dive; there are moving parts, but not all of them are negative

Meetings takeaways part 1 (Latam-focused data points)

1) The company is not seeing an impact on producer capex from political fluidity in Chile. Codelco represents one-third of production in the country and is government-affiliated. Teck (and other producers) also have agreements to keep royalty and taxes unchanged for a fixed number of years. 2) Chile is poised for growth driven by new equipment sales, greater market share, increased copper production and recovering construction activity. 3) New SAP platform has already generated efficiency gains, helping working capital and therefore cash conversion cycle. 4) Chile has the potential to evolve into a sustainable copper and lithium hub.

Meetings takeaways part 2 (mid-cycle earnings, Western Canada, capital allocation, etc.)

1) Mid-cycle SG&A of 17% (as % of revs) is well-telegraphed; 2019 revenue level of $7.3 billion is a reasonable goalpost for top line. Operating leverage can come from managing upcoming facility lease renewals. 2) Western Canadian recovery is taking shape, but likely H2/21-weighted. If oil prices hold, producers will be sitting on significant FCF by year-end (allowing fresh capex). 3) Major project deliveries (HS2/QB2) are progressing well; Q3/21E is looking like a very busy quarter. 4) On capital deployment, tuck-in M&A is top of mind, NCIB also looms large.

Valuation & recommendation – dreaming in $2.50+ EPS colour

We are likely to get a detailed blueprint around operating leverage during the upcoming investor day. With personnel-related adjustments having taken place during COVID, facility optimization is an offset to keep variable cost growth in check as revenue rebounds to mid-cycle levels. We model 18.8% SG&A as % of revenue in 2022 (hence, $2.10 in EPS; at 17% SG&A, we get to $2.68 EPS). While it's always easy to plug numbers into Excel, we do see Finning as a much more focused entity while cyclical drivers – copper and infrastructure, supported by close to 60% of top line coming from product support, makes this a compelling name for a value-focused investor. All in, with shares being oversold (to the same extent as pure miners exposed to Chile, while 33% of the company's top line comes from Latam), we view FTT shares as very attractively valued.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 5/31	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**		$18.34	$847	12 - 2020	$1.16	$0.71	$1.17	15.5x	13.3x	$255	$218	$264	6.3x	5.9x	3.8%	1.1x
Bird Construction Inc.	BDT	OP		**$11.00**	↑	$9.53	$505	12 - 2020	$0.71	$0.90	$0.99	10.6x	9.6x	$69	$97	$106	4.6x	4.2x	3.8%	0.0x
Finning International Inc.	FTT	OP		**$44.00**	↑	$31.25	$5,070	12 - 2020	$1.14	$1.71	$2.10	18.3x	14.9x	$636	$766	$873	7.9x	6.9x	2.6%	0.0x
IBI Group Inc.	IBG	OP		**$14.00**		$10.31	$322	12 - 2020	$0.48	$0.71	$0.83	13.3x	12.5x	$47	$52	$53	8.6x	8.4x	0.0%	1.0x
North American Construction Group Ltd.	NOA	R		**R**		$16.69	$473	12 - 2020	$1.74	R	R	R	R	$175	R	R	R	R	1.0%	R
Ritchie Bros. Auctioneers	RBA	SP	↓	**U$66.00**		U$71.89	U$7,906	12 - 2020	U$1.59	U$1.81	U$2.06	39.8x	34.9x	U$352	U$366	U$392	22.8x	21.3x	1.2%	0.0x
SNC-Lavalin	SNC	OP		**$44.00**	↑	$32.55	$5,714	12 - 2020	-$0.67	$1.88	$2.48	12.4x	11.1x	$93	$652	$779	7.2x	6.4x	0.2%	1.7x
Stantec Inc.	STN	OP		**$60.00**		$53.91	$5,999	12 - 2020	$2.13	$2.37	$2.59	22.8x	20.8x	$435	$454	$503	14.3x	12.9x	1.2%	1.0x
Toromont Industries Ltd.	TIH	OP		**$108.00**	↑	$104.04	$8,583	12 - 2020	$3.09	$3.87	$4.49	26.9x	23.1x	$539	$617	$688	14.1x	12.6x	1.3%	0.1x
WSP Global	WSP	OP		**$143.00**		$134.97	$15,829	12 - 2020	$3.34	$4.31	$5.34	31.3x	25.3x	$801	$974	$1,168	17.9x	14.9x	1.1%	0.0x
AutoCanada	ACQ	SP		**$45.00**	↑	$42.34	$1,153	12 - 2020	$0.44	$2.94	$3.16	14.4x	13.4x	$83	$152	$169	8.8x	7.9x	0.0%	0.7x
Stelco	STLC	OP		**$45.00**	↑	$33.96	$3,013	12 - 2020	-$0.60	$9.82	$2.37	3.5x	14.4x	$63	$989	$322	3.2x	9.7x	1.2%	0.0x
ATS Automation	ATA	OP		**$38.00**	↑	$30.16	$2,781	12 - 2020	$1.07	$1.51	$1.70	19.9x	17.8x	$181	$244	$266	13.3x	12.2x	0.0%	0.0x
ABC Technologies	ABCT	SP		**$9.50**	↓	$9.03	$474	12 - 2020	NM	-U$0.10	U$0.64	-69.6x	11.2x	U$89	U$126	U$153	5.0x	4.1x	1.7%	2.0x
Stella-Jones	SJ	SP		**$57.00**		$46.90	$3,082	12 - 2020	$3.12	$4.24	$3.68	11.1x	12.8x	$343	$440	$397	8.8x	9.8x	1.5%	1.8x
Median												**14.4x**	**13.4x**				**8.6x**	**8.4x**	**1.2%**	

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

Vishal Shreedhar
Analyst
416-869-7930

Associates:
Paul Hyung: 416-507-9009
Ryan Li: 416-869-6767

Selection

› *Gildan*

Loblaw Companies Limited (L: TSX)

Q1 2021 Results: Momentum building; earnings outlook is strong

Q1/21 adj. EPS was $1.13 vs. NBF at $0.92 and consensus at $0.87; last year was $0.97

We consider results to be supportive of our favourable view given strong performance and an improved outlook. Revenue was $11,872 mln vs. NBF at $11,787 mln; last year was $11,800 mln. Food Retail sales were $8,479 mln vs. NBF at $8,394 mln; last year was $8,332 mln. Food Retail sssg was 0.1% vs. NBF at 0.3% and last year at 9.6%. Drug Retail (SC) sales were $3,191 mln vs. NBF at $3,177 mln; last year was $3,252 mln. Total Drug Retail sssg was -1.7% vs. NBF at -2.5%; last year was 10.7%. Rx sssg was 3.5% vs. NBF at 0.3% and F/E sssg was -6.4% vs. NBF at -5.3%. Total adj. EBITDA was $1,218 mln vs. NBF at $1,134 mln and consensus at $1,100 mln; last year was $1,165 mln. Retail adj. EBITDA was $1,145 mln vs. NBF at $1,101 mln; last year was $1,157 mln.

Solid Q1 results and continued momentum

While 2021 guidance was not formally revised, L noted that strong Q1/21 performance and continued momentum (4 weeks into Q2/21) may enable EPS to exceed original guidance. L further noted early Q2/21 trends showing Food sssg declining slightly and SC sssg trending positively (Metro issued similar commentary). Amongst the large Canadian grocers, Loblaw has the highest exposure to non-grocery EBITDA mix (Shopper's and PC Financial). L's YTD share returns are ~10%; however, we calculate that if YTD share returns were weighted by L's business composition (across grocery, drug, financial services), the implied return should be in the ~14%-15% range.

Remaining constructive

Looking forward, we believe that L is well-positioned due to: (a) Expectations of improving discount banner trends (60% of L's grocery mix); (b) Pending momentum at SC, led by Beauty and vaccine benefits; (c) Lapping relatively lower grocery sssg/EPS growth vs. peers; (d) Better operating leverage as heightened operational and price investments are behind L for now; and (e) Low valuation vs. peers and history.

Maintain Outperform rating; price target is $77

We value L at 7.0x our 2022/23 Retail EBITDA and 9.5x our 2022/23 Financial EPS. L is our preferred staples selection.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 05/31	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		12,539	61.4	204.36	12/2020	12.95	13.83	16.04	14.8	12.7	2,181	2,236	2,419	6.9	6.4	73.32	0.40	219.00	↑
Dollarama	DOL	OP		16,395	312.3	52.50	02/2021	1.81	2.24	2.56	23.4	20.5	1,131	1,331	1,461	14.6	13.3	1.07	0.90	63.00	
Specialty Stores																					
Couche Tard	ATD.b	OP		48,358	1,109.9	43.57	04/2020	1.97	2.22	2.01	16.3	18.0	4,363	4,685	4,314	9.8	10.6	10.95	0.36	47.00	
Parkland Fuel Corporation	PKI	OP		6,119	153.5	39.87	12/2020	0.54	1.60	1.88	24.9	21.2	967	1,236	1,334	7.9	7.3	14.76	0.62	45.00	↑
Apparel																					
Gildan	GIL	OP		8,585	198.6	43.23	12/2020	(0.18)	1.97	2.15	18.2	16.6	165	605	645	12.5	11.7	8.38	0.25	50.00	↑
Roots Corporation	ROOT	SP		146	42.4	3.44	02/2021	0.35	0.52	0.64	6.6	5.4	64	72	79	4.3	3.9	3.87	0.50	5.00	
Grocers																					
Empire Company	EMP.a	OP		10,890	269.1	40.47	05/2020	2.15	2.52	2.73	16.0	14.8	1,892	2,122	2,216	8.1	7.7	15.91	0.59	44.00	
Loblaw	L	OP		25,687	348.2	73.77	12/2020	4.19	4.82	5.67	15.3	13.0	5,006	5,197	5,451	6.1	5.8	31.69	0.35	77.00	↑
Metro	MRU	SP		14,532	250.9	57.92	09/2020	3.27	3.48	3.71	16.6	15.6	1,091	1,104	1,072	15.3	15.7	24.77	0.27	65.00	↑
Food Manufacturer																					
Saputo	SAP	SP		16,997	412.1	41.25	03/2020	1.62	1.68	1.94	24.6	21.3	1,468	1,535	1,693	13.5	12.2	15.7	0.37	40.00	↑
Lassonde	LAS.a	OP		1,314	6.9	189.52	12/2020	14.11	13.39	14.12	14.2	13.4	217	208	212	7.3	7.2	114.8	0.21	202.00	↑
Premium Brands Holdings	PBH	OP		5,044	41.4	121.83	12/2020	3.04	4.59	5.29	26.5	23.0	313	431	487	13.9	12.3	38.6	0.38	134.00	↑
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,097	37.4	29.38	12/2020	1.95	2.08	2.32	14.1	12.7	171	179	189	8.3	7.9	9.71	0.52	38.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		238	42.4	5.60	12/2020	0.34	0.45	0.56	12.5	10.1	28	33	37	11.2	9.9	5.60	0.36	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,493	24.7	60.45	11/2020	(1.51)	2.79	3.56	21.7	17.0	138	154	178	12.3	10.6	23.51	0.41	58.00	
Online Grocery																					
Goodfood Market	FOOD	OP		522	66.8	7.82	08/2020	(0.07)	(0.08)	(0.01)	NA	NA	5	9	16	NA	NA	0.90	(3.26)	13.00	

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

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

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

Selections

- *First Quantum*
- *Capstone Mining*
- *Copper Mountain Mining*

Price Volatility to Persist in 2021

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

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

Top picks:

- **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. The company recently announced a 30% equity stake sale in its Ravensthorpe project with proceeds to be used to repay its RCF. 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 mid-year at Pinto Valley and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~30% production growth and ~10% reduction in costs by 2023. In addition, with the Cozamin silver stream sale and Santo Domingo gold stream sale, the company has eliminated net debt and continues to advance partnership/ financing agreements to deliver transformational growth from Santo Domingo.

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

Metals & Mining: Base Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP		2,124	410.0	5.18	7.75	↑	Nagle	0.07u	0.77u	0.79u	5.1x	6.5x	0.34u	1.08u	1.00u	3.6x	3.9x	7.03	0.7x
Copper Mountain Mining	CMMC	OP		850	208.8	4.07	5.50	↑	Nagle	0.11u	0.76u	0.78u	5.4x	5.2x	0.61u	1.55u	1.35u	2.6x	3.0x	5.45	0.7x
Ero Copper	ERO	SP		2,466	88.2	27.97	30.00	↑	Nagle	0.97u	1.34u	2.68u	15.7x	10.4x	1.54u	2.02u	3.45u	10.4x	6.1x	32.35	0.9x
First Quantum Minerals	FM	OP		19,836	690.4	28.73	40.00	↑	Nagle	(0.07)u	2.10u	4.25u	10.3x	6.8x	2.64u	5.05u	7.11u	4.3x	3.0x	29.03	1.0x
Hudbay Minerals	HBM	SP		2,221	261.3	8.50	13.00	↑	Nagle	(0.44)u	0.49u	1.25u	13.2x	6.8x	0.93u	2.19u	3.15u	2.9x	2.0x	9.23	0.9x
Lundin Mining	LUN	SP		9,505	738.3	12.88	17.00	↑	Nagle	0.31u	1.52u	1.81u	6.3x	7.1x	1.00u	2.61u	2.71u	3.7x	3.6x	12.65	1.0x
Nexa Resources	NEXA	SP		1,840	132.4	13.89	17.00	↑	Nagle	(0.82)u	1.73u	1.67u	6.0x	8.3x	1.44u	3.66u	4.53u	2.9x	2.3x	28.85	0.5x
Sherritt International	S	SP		215	397.3	0.54	0.60	↓	DeMarco	(0.34)c	(0.23)c	0.07c	-	7.3x	0.03c	0.03c	0.19c	18.6x	2.9x	0.87	0.6x
Taseko Mines	TKO	SP		818	283.1	2.89	3.50	↑	Nagle	(0.11)c	0.28c	0.32c	10.4x	9.0x	0.44c	0.81c	0.78c	3.6x	3.7x	4.52	0.6x
Teck Resources	TECKb	OP		15,248	539.4	28.27	36.00	↑	Nagle	1.05c	3.19c	3.64c	8.9x	7.8x	3.38c	6.72c	7.01c	4.2x	4.0x	27.37	1.0x
Trevali Mining	TV	SP		242	989.1	0.25	0.35	↑	Nagle	(0.03)c	0.04c	0.07c	4.9x	3.4x	0.01c	0.12c	0.13c	1.5x	1.5x	0.44	0.6x
Developers																					
Adventus Mining	ADZN	OP		147	131.1	1.12	1.70	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.19	0.5x
Filo Mining	FIL	OP		1,217	110.9	10.97	13.00	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.96	0.6x
Nevada Copper	NCU	SP		438	1,825.0	0.24	0.30	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.45	0.5x
Josemaria Resources	JOSE	SP		357	379.8	0.94	1.35	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.95	-
Trilogy Metals	TMQ	OP		495	144.2	3.43	4.75	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.48	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

Back to Research Analysts page

Sector Analysis

Metals & Mining: Precious Metals

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

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

Michael Parkin
Analyst
416-869-6766
—
Associates:
Alessandro Cairo : 416-869-8511
Jonathan Egilo: 416-507-8177
Rabi Nizami: 416-869-7925

Selections

Gold/Silver Producers:

- ***Dundee Precious Metals Inc.*** *(DPM: TSX; C$13.50 target)*
- ***Endeavour Mining Corp.*** *(EDV: TSX; C$57.00 target)*
- ***Kinross Gold Corp.*** *(K: TSX; C$15.00 target)*
- ***Newmont Corp.*** *(NGT: TSX; C$108.00 target)*
- ***SSR Mining Inc.*** *(SSRM: TSX; C$36.00 target)*
- ***Wesdome*** *(WDO: TSX; C$14.00 target)*

Royalties:

- ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$13.00 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 remain low 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 positive for the spot gold prices and consequently 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 5/31	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Senior Producers (>1 Moz production)																					
Agnico-Eagle Mines Ltd	AEM	OP		21,040	243.04	86.57	108.00	↑	Parkin	0.96u	1.86u	2.98u	38.5x	24.1x	3.64u	4.99u	4.99u	14.4x	14.4x	47.91	1.8x
Barrick Gold	ABX	OP		51,519	1,778.37	28.97	39.00	↑	Parkin	0.51u	1.15u	1.35u	20.9x	17.8x	1.81u	3.22u	3.22u	7.4x	7.4x	22.50	1.3x
Kinross Gold Corp	K	OP		12,333	1,261.07	9.78	15.00	↑	Parkin	0.31u	0.73u	0.50u	11.1x	16.3x	0.80u	1.37u	1.37u	5.9x	5.9x	12.66	0.8x
Kirkland Lake Gold Corp	KL	SP		13,873	265.06	52.34	57.00	↑	Parkin	2.74u	3.37u	3.01u	12.9x	14.4x	4.46u	4.75u	4.75u	9.1x	9.1x	28.23	1.9x
Newmont	NGT	OP		70,188	790.76	88.76	108.00	↑	Parkin	1.32u	2.66u	3.44u	27.7x	21.4x	4.31u	5.69u	5.69u	12.9x	12.9x	58.75	1.5x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		35,483	191.0	185.75	200.00	↑	Nagle	1.82u	2.72u	3.25u	51.3x	57.2x	3.36u	4.22u	4.72u	33.1x	29.6x	77.85	2.4x
Maverix Metals Inc	MMX	SP		1,033	141.2	7.32	8.00	↑	Nagle	0.08u	0.12u	0.07u	n/a	106.1x	0.27u	0.29u	0.26u	25.6x	28.4x	5.15	1.4x
Osisko Gold Royalties Ltd	OR	OP		3,024	167.1	18.10	21.50	↑	Nagle	0.26u	0.40u	0.53u	n/a	34.5x	0.65u	0.97u	1.15u	18.6x	15.7x	18.00	1.0x
Royal Gold Inc	RGLD	SP		8,053	65.2	123.44u	155.00u	↑	Nagle	2.91u	3.60u	3.86u	34.3x	32.0x	6.28u	6.41u	6.93u	14.5x	13.4x	76.88	1.6x
Sandstorm Gold Ltd	SSL	OP		2,163	194.5	11.12	13.00	↑	Nagle	0.11u	0.18u	0.25u	46.4x	44.5x	0.36u	0.41u	0.48u	20.4x	17.4x	8.72	1.3x
Wheaton Precious Metals Corp	WPM	OP		26,086	449.8	57.99	75.00	↑	Nagle	0.56u	1.10u	1.50u	39.6x	38.7x	1.14u	1.71u	2.09u	25.5x	20.9x	27.88	2.1x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		4,317	392.50	11.00	14.25	↑	Parkin	0.21u	0.42u	1.03u	21.8x	8.8x	0.75u	0.97u	0.97u	9.4x	9.4x	10.99	1.0x
B2Gold	BTO	OP		6,368	1,030.4	6.18	10.00	↑	DeMarco	0.25u	0.49u	0.46u	12.6x	13.4x	0.51u	0.83u	0.78u	7.4x	7.9x	5.57	1.1x
Centerra Gold Inc	CG	OP		2,867	296.51	9.67	11.25	↓	Parkin	0.76u	1.23u	0.59u	6.5x	13.6x	1.36u	2.87u	1.45u	2.8x	5.5x	12.10	0.8x
Dundee Precious Metals	DPM	OP		1,561	181.3	8.61	13.50	↑	DeMarco	0.26u	1.02u	0.91u	8.4x	9.5x	0.62u	1.35u	1.71u	6.4x	5.0x	10.94	0.8x
Eldorado Gold Corp	ELD	OP		2,612	182.31	14.33	20.00	↑	Parkin	(0.02)u	0.97u	0.48u	14.7x	29.7x	0.93u	2.23u	2.23u	5.3x	5.3x	22.30	0.6x
Endeavour Mining	EDV	OP		4,755	163.1	29.16	57.00	↑	DeMarco	0.68u	2.24u	2.27u	13.0x	12.9x	2.68u	5.13u	5.24u	5.7x	5.6x	36.61	0.8x
Equinox Gold Corp	EQX	OP		4,010	353.0	11.36	16.75	↑	Parkin	0.33u	0.37u	0.40u	30.6x	28.7x	0.68u	1.06u	1.04u	10.7x	10.9x	17.63	0.6x
IAMGOLD Corp	IMG	OP		2,068	476.50	4.34	6.25	↑	Parkin	(0.03)u	0.14u	0.21u	25.4x	17.1x	0.75u	0.77u	0.77u	4.7x	4.7x	8.58	0.5x
Lundin Gold Inc.	LUG	OP		2,784	231.8	12.01	14.75	↑	Egilo	0.47u	0.75u	0.62u	16.0x	19.5x	0.61u	1.15u	1.11u	10.4x	10.8x	11.15	1.1x
New Gold Inc	NGD	OP		1,736	680.70	2.55	4.00	↑	Parkin	(0.08)u	0.03u	0.20u	89.8x	13.1x	0.39u	0.41u	0.41u	5.1x	5.1x	3.90	0.7x
OceanaGold Corp	OGC	OP		1,795	703.99	2.55	3.50	↑	Parkin	0.06u	(0.11)u	0.15u	n/a	16.7x	0.33u	0.33u	0.33u	6.3x	6.3x	3.34	0.8x
Pretium Resources	PVG	SP		2,579	188.0	13.72	16.50	↑	DeMarco	0.54u	0.99u	0.58u	13.9x	23.7x	1.13u	1.43u	1.43u	9.6x	9.6x	14.08	1.0x
SSR Mining Inc	SSRM	OP		4,689	210.06	22.32	36.00	↑	Parkin	0.74u	1.43u	1.61u	13.0x	11.4x	1.59u	1.65u	1.65u	11.2x	11.2x	30.82	0.7x
Yamana Gold Inc	YRI	SP		6,102	965.55	6.32	8.00	↑	Parkin	0.10u	0.32u	0.29u	16.5x	17.9x	0.51u	0.66u	0.66u	7.9x	7.9x	4.78	1.3x
Silver Producers																					
Aya Gold and Silver	AYA	OP		678	92.2	7.35	9.50	↑	DeMarco	(0.05)u	0.01u	0.07u	-	-	1.18u	0.00u	0.10u	0.0x	76.0x	5.39	1.4x
First Majestic Silver Corp	FR	SP		4,651	214.9	21.64	21.00	↑	DeMarco	0.03u	0.24u	0.33u	90.2x	65.1x	0.53u	0.57u	0.71u	38.0x	30.4x	6.92	3.1x
Fortuna Silver Mines Inc	FVI	SP		1,550	184.0	8.42	12.00	↑	DeMarco	0.18u	0.21u	0.94u	40.4x	9.0x	0.45u	0.44u	1.46u	19.0x	5.8x	6.22	1.4x
Pan American Silver	PAAS	OP	↑	8,559	210.1	40.74	55.00	↑	DeMarco	0.60u	0.94u	1.38u	43.3x	29.5x	1.60u	1.73u	2.37u	23.5x	17.2x	21.81	1.9x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		446	109.6	4.07	6.50		DeMarco	0.21u	0.31u	0.49u	13.1x	8.4x	0.40u	0.74u	0.66u	5.5x	6.1x	7.55	0.5x
K92 Mining Inc.	KNT	OP		1,765	219.2	8.05	11.25		Egilo	0.20u	0.25u	0.34u	32.7x	23.6x	0.34u	0.34u	0.42u	24.0x	19.3x	9.38	0.9x
Minera Alamos Inc.	MAI	OP		302	438.2	0.69	1.15		Egilo	0.01u	0.01u	0.05u	58.4x	12.8x	0.01u	0.02u	0.07u	44.2x	9.9x	0.94	0.7x
Wesdome Corp.	WDO	OP		1,540	138.4	11.13	14.00	↑	DeMarco	0.32u	0.41u	0.58u	27.1x	19.3x	0.56u	0.64u	0.90u	17.4x	12.4x	11.19	1.0x
Developers																					
Artemis Gold Inc.	ARTG	OP		798	122.7	6.50	10.00	↑	DeMarco	0.00u	(0.07)u	(0.05)u	-	-	0.00u	(0.15)u	(0.08)u	-	-	9.87	9.87
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Integra Resources Corp.	ITR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Liberty Gold Corp	LGD	OP		468	262.9	1.78	2.50		Egilo	0.03u	(0.07)u	(0.06)u	-	-	(0.05)u	(0.06)u	(0.06)u	-	-	2.39	0.7x
MAG Silver Corp	MAG	OP		2,363	91.2	25.91	28.25	↑	DeMarco	(0.06)u	(0.18)u	(0.07)u	-	-	(0.04)u	(0.04)u	(0.06)u	-	-	18.76	1.4x
Marathon Gold Corp.	MOZ	OP		0	0.0	2.98	4.00	↑	DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	5.7x	-	3.87	0.8x
O3 Mining Inc.	OIII	OP		154	60.2	2.55	4.25	↑	DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	5.46	0.5x
Osisko Development	ODV	OP		921	128.3	7.18	10.25	↑	DeMarco	0.00u	#DIV/0!	0.27u	-	-	(0.02)u	#DIV/0!	0.28u	0.0x	26.0x	10.20	0.7x
Osisko Mining	OSK	OP		1,176	340.7	3.45	5.00	↑	DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	4.98	0.7x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		630	347.9	1.81	3.50	↓	Egilo	(0.01)u	(0.01)u	0.00u	-	-	(0.01)u	(0.01)u	0.00u	-	-	3.65	0.5x
SilverCrest Metals	SIL	OP		1,534	128.5	11.94	15.00	↑	DeMarco	(0.22)u	(0.22)u	(0.35)u	-	-	(0.19)u	(0.21)u	(0.31)u	-	-	9.99	1.2x

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

u = US dollars; c = Canadian dollars

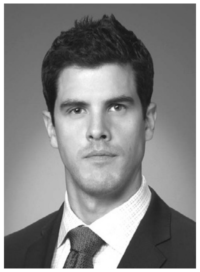
Source: Company Reports, NBF Estimates, Refinitiv

Back to Research Analysts page

Sector Analysis

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



Dan Payne
Analyst
403-290-5441
—
Associates:
Anthony Linton: 416-507-9054
Baltej Sidhu: 403-290-5627

Large Cap Oil & Gas

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

Selections

- *Cenovus*
- *Tourmaline*

Crude Oil Outlook

During May, crude continued its upward momentum as WTI prices finally broke through the stubborn resistance level of US$66.3/bbl and achieving the highest price level since October 2018. While we are seeing the prompt month exhibit strength, we are seeing the forward curve lag the strong performance in the prompt contracts with CAL-22 WTI coming in at ~US$61/bbl currently. In contrast to the prompt month performance, the 12-month calendar spread widened to ~US$(5) during May as opposed to maintaining the ~US$(4.5) level seen in the past several months. With the combination of the backwardation and continued strong demand response in the United States, with constructive drawdowns in U.S. crude and product inventories, the crude market continues to signal how tight supply and demand fundamentals currently are.

OPEC+ is set to meet June 1st and it is expected that the scheduled increase of 350 mbbl/d and 400 mbbl/d for June and July will progress as planned. OPEC continues to take a cautionary stance as the COVID-19 scenario continues to play out in India and it's seeming more likely that we should see a return of Iranian barrels to the market due to progress made in negotiations on the U.S and Iran Nuclear Deal. The exact timing and ramp-up of production are still uncertain, but we could eventually see an incremental 1.8 mbbl/d return to the market. After the expected July increase in production, OPEC will have ~6.8 mmbbl/d of idle production capacity at its disposal to satisfy the market as demand continues to recover. We will be looking for commentary from OPEC surrounding the Iranian barrels returning to the market and regarding any updates on future output increases past July.

WCS differentials continued to widen in May, averaging ~US$13.4/bbl compared to the ~US$11 average in April. Looking into June, apportionment levels on the mainline system have increased to 52% for heavy barrels (0% for light). This is mainly attributable to swelling inventory levels in Alberta and continuing weak Maya pricing. Genscape data revealed that Alberta's storage continues to fill April, rising ~2.9 million barrels to sit at ~ 37.86 million barrels (the previous high watermark was ~39.49 mmbbl last March), with upgrader turnarounds scheduled between Q2-Q3/21. In our opinion, we could see inventory levels continue to remain elevated due to potential delays in turnaround activity arising from COVID outbreaks (Fort MacMurray) delaying the ramp-up of throughput to draw down these inventory levels expeditiously (Suncor has already delayed its U2 turnaround until June due to surging cases in the region).

Natural Gas Outlook

Natural Gas prices have performed strongly across major North American benchmarks throughout the month with spot prices averaging US$2.96/MMBtu and C$2.92/GJ for NYMEX and AECO, up ~10% from the prior month. Rig activity has started to show some signs of life during the month in the United States, increasing 5% m/m, adding 19 total rigs (Oil:+17/ Gas:+2). In Canada, a total of 11 rigs (Oil:+8/ Gas:+3) were added during the month which is up 22% m/m coming out of spring breakup. U.S. production is estimated to have decreased slightly to 90.6 Bcf/d in May from ~91.0 Bcf/d in April. LNG exports have decreased slightly to 10.8 Bcf/d due to maintenance activities impacting volumes and Mexican exports were ~6.3 Bcf/d during May. Overall demand remains elevated in the United States and Alberta coming in at an estimated ~69 Bcf/d and ~5.2 Bcf/d, respectively, which has supported prices.

During May, U.S. Natural Gas inventory is trending below its five-year average with lower storage levels primarily in the Midwest, east and south-central regions driving total storage lower. Canadian Natural Gas inventory continues to remain below its five-year average with the inventory in western Canada leading storage lower. In the United States, production has been relatively muted and with expectations of above-normal temperatures in the coming summer months could continue to keep demand elevated.

Overall, we remain constructive on the natural gas complex. Reflecting the current market conditions, we recently revised our commodity price deck for natural gas pricing assumptions: We reiterate our forecast for NYMEX at US$2.75/mcf for both 2021 and 2022. Additionally, our AECO forecast for 2021 is C$2.70/mcf and 2022 at $2.50/mcf. We continue to monitor gas fundamentals and forecasts for validation around our optimistic thesis that a more resilient price landscape is emerging in the medium term.

Oil & Gas

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.

Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 5-31	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2020A	EV/DACF est. 2021E	EV/DACF est. 2022E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2020A	CFPS - FD est. 2021E	CFPS - FD est. 2022E	P/CFPS est. 2021E	P/CFPS est. 2022E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1185.7	$42.36	$50,226	4%	5.7x	8.9x	5.2x	4.0x	1.2x	$8.60	$4.40	$9.81	6.2x	4.3x	$49.00	20%	
Cenovus Energy	CVE	OP		Wood	2017.5	$10.09	$20,357	0%	5.0x	28.3x	4.4x	46.4x	1.5x	$3.01	$0.12	$3.06	55.9x	3.3x	$14.50	44%	
Ovintiv Inc (US$)	OVV	OP		Wood	261.0	$26.63	$6,951	1%	6.4x	4.4x	3.8x	3.9x	1.9x	$11.22	$7.42	$11.30	1.3x	2.3x	$33.00	25%	↑
Imperial Oil	IMO	SP		Wood	735.7	$40.61	$29,876	3%	8.3x	36.2x	6.8x	4.3x	0.3x	$4.59	$1.20	$6.13	33.9x	6.6x	$38.00	-4%	↑
Suncor Energy	SU	SP		Wood	1514.7	$28.06	$42,503	3%	6.8x	10.1x	5.1x	3.7x	1.1x	$6.93	$2.66	$6.24	8.9x	4.5x	$33.00	21%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.3	$4.03	$779	0%	4.1x	5.1x	4.7x	2.4x	0.9x	$0.83	$0.56	$1.03	3.5x	3.9x	$4.25	5%	
ARC Resources Ltd.	ARX	OP		Wood	722.7	$9.29	$6,714	3%	4.9x	3.9x	4.2x	1.1x	0.9x	$1.97	$1.89	$3.06	3.0x	3.5x	$15.00	64%	↑
Baytex Energy	BTE	SP		Payne	573.3	$2.00	$1,147	0%	3.0x	5.4x	4.0x	5.9x	2.7x	$1.62	$0.56	$1.02	1.3x	2.0x	$2.00	0%	
Birchcliff Energy	BIR	OP		Payne	266.0	$3.54	$942	1%	4.1x	6.0x	4.0x	4.1x	1.6x	$1.26	$0.69	$1.44	2.2x	2.5x	$4.50	28%	
Crescent Point Energy Corp.	CPG	OP		Wood	581.1	$5.06	$2,940	0%	2.7x	3.9x	3.5x	2.6x	1.6x	$3.35	$1.65	$2.36	1.7x	2.2x	$7.00	39%	
Enerplus Corporation	ERF	OP		Wood	256.8	$8.15	$2,093	2%	3.6x	3.5x	4.1x	1.5x	1.5x	$3.04	$1.61	$2.79	2.3x	2.9x	$9.50	18%	↓
Freehold Royalties	FRU	OP		Wood	131.5	$9.03	$1,188	5%	9.7x	7.8x	8.8x	0.9x	0.1x	$1.00	$0.61	$1.02	7.2x	8.9x	$10.00	15%	↑
Headwater Exploration	HWX	OP		Payne	222.4	$4.35	$968	0%	-0.3x	25.1x	10.7x	-9.2x	-0.7x	$0.09	$0.06	$0.39	22.9x	11.3x	$5.50	26%	↑
Kelt Exploration	KEL	OP		Payne	188.6	$3.25	$613	0%	5.6x	4.9x	5.6x	-0.4x	0.1x	$0.99	$0.31	$0.60	6.3x	5.4x	$4.50	38%	↑
MEG Energy	MEG	SP		Wood	304.5	$8.39	$2,555	0%	4.6x	7.7x	5.7x	10.0x	3.7x	$2.41	$0.92	$2.06	4.3x	4.1x	$11.00	31%	
NuVista Energy	NVA	SP		Payne	223.1	$3.06	$683	0%	4.3x	4.2x	4.8x	3.8x	2.5x	$1.18	$0.70	$0.94	1.6x	3.2x	$3.00	-2%	
Paramount Resources	POU	SP		Payne	136.8	$14.51	$1,985	0%	4.9x	6.1x	5.6x	5.7x	1.4x	$2.29	$1.12	$3.09	2.7x	4.7x	$14.00	-4%	↑
Parex Resources	PXT	OP		Wood	119.2	$21.12	$2,517	0%	3.5x	5.9x	3.1x	-1.1x	-0.7x	$5.02	$2.96	$5.36	7.1x	3.9x	$30.00	42%	↓
Peyto Exploration & Development	PEY	OP		Wood	165.0	$5.75	$949	1%	5.2x	5.9x	4.1x	5.5x	2.5x	$1.95	$1.29	$2.66	2.0x	2.2x	$8.00	40%	
PrairieSky Royalty	PSK	SP		Wood	223.3	$13.28	$2,966	2%	18.4x	15.4x	14.3x	0.3x	-0.3x	$0.94	$0.64	$0.91	15.3x	14.6x	$15.00	15%	
Spartan Delta	SDE	OP		Payne	126.7	$4.91	$622	0%	-92.2x	6.9x	3.4x	0.3x	-0.7x	-$0.89	$0.67	$1.36	0.0x	0.0x	$7.25	48%	↑
Storm Resources	SRX	SP		Payne	123.8	$3.69	$457	0%	5.3x	5.2x	4.0x	2.3x	0.7x	$0.49	$0.47	$1.04	0.0x	0.0x	$4.50	22%	↑
Tamarack Valley Energy	TVE	OP		Payne	411.1	$2.66	$1,094	0%	3.0x	3.6x	4.7x	1.8x	1.4x	$0.97	$0.55	$0.81	1.8x	3.3x	$4.00	50%	
Topaz Energy	TPZ	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Tourmaline Oil	TOU	OP		Payne	296.9	$29.45	$8,743	2%	4.9x	4.9x	4.6x	1.5x	0.6x	$4.43	$4.36	$7.16	3.3x	4.1x	$37.50	30%	
Vermilion Energy Inc.	VET	SP		Wood	159.3	$9.36	$1,492	0%	6.2x	5.6x	4.4x	4.0x	2.6x	$5.82	$3.18	$4.08	2.5x	2.3x	$10.00	7%	
Whitecap Resources	WCP	OP		Wood	633.9	$6.11	$3,873	3%	4.2x	4.8x	5.0x	2.5x	1.2x	$1.64	$1.07	$1.60	2.9x	4.0x	$8.50	42%	
Small Cap																					
Crew Energy	CR	SP		Payne	159.8	$1.17	$187	0%	4.1x	6.5x	4.2x	8.7x	3.4x	$0.53	$0.27	$0.74	1.4x	1.6x	$1.50	28%	
Pipestone Energy	PIPE	SP		Payne	279.6	$1.72	$481	0%	32.4x	6.8x	3.9x	4.2x	1.1x	$0.01	$0.15	$0.56	4.9x	3.1x	$2.50	45%	
Surge Energy	SGY	SP		Payne	400.4	$0.57	$228	0%	4.0x	6.1x	5.9x	6.4x	3.9x	$0.55	$0.18	$0.20	2.3x	2.9x	$0.90	58%	
Yangarra Resources	YGR	SP		Payne	87.7	$1.19	$104	0%	3.2x	4.5x	2.8x	4.3x	1.9x	$1.08	$0.53	$1.04	1.2x	1.1x	$1.50	26%	

* 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 5/31	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	$ 433.24	262.6	$1.65	$ 83.3	$ 114.9	$ 126.1	5.9x	6.4x	4.4x	4.6x	2.3x	1.8x	$2.30	39%	
National Energy Services Reunited	NESR	OP		Payne	$ 1,139.63	89.9	$12.68	$ 213.2	$ 254.4	$ 305.8	6.9x	5.7x	4.3x	1.5x	1.1x	0.5x	$14.00	10%	
Precision Drilling Corp.	PD	OP		Payne	$ 438.03	13.3	$32.90	$ 285.2	$ 242.3	$ 301.6	5.9x	6.4x	4.4x	4.7x	4.3x	2.9x	$40.00	22%	
Trican Well Services	TCW	SP		Payne	$ 556.62	258.9	$2.15	$ 30.6	$ 60.6	$ 60.2	16.0x	7.9x	7.1x	1.3x	-0.2x	-0.6x	$2.25	5%	

Sector Analysis

Pipelines, Utilities & Energy Infrastructure

Patrick Kenny, CFA
Analyst
403-290-5451

Associates:
William Duforest: 403-441-0952
Zach Warnock: 403-355-6643

Selections

- *AltaGas*
- *Keyera*
- *Secure Energy*
- *TC Energy*

Overview

Through 2021 little has changed with regard to the market's insatiable appetite for decarbonization, with a significant macro tailwind likely to remain in effect over the near term, as our coverage seeks to deploy an eye-popping ~$120 billion of free cash flow (net of dividends) through 2030 towards realigning long-term business plans with sustainable energy policies - while driving per share growth and valuation expansion. We note that the S&P TSX was up ~3.0% in May, while our Midstream benchmark was up ~4.0% and our NBF Utilities remained flat.

Commodities Update

With easing COVID-19 concerns and a favourable fundamental backdrop, commodity prices inched higher, with WTI averaging ~US$65/bbl, ~6% higher than April levels of ~US$61.50/bbl, and now over 60% above the 2020 average price of ~US$40/bbl. Meanwhile, we note prices continue to trend higher, with WTI currently holding at ~US$68/bbl. On the gas front, AECO prices also moved higher, averaging $3.08/mcf, up ~11% from the April average of $2.78/mcf. Looking at Marketing prospects, the WCS heavy differential has begun to show signs of weakness, averaging ~US$13.50/bbl, wider than the prior two months of ~US$11/bbl, albeit modest volatility still suggests challenged conditions for crude oil marketing results.

Pipelines Update

Construction on the U.S. portion of the Line 3 Replacement project remains on track for the planned Q4/21 in-service date with pipe installation 49% completed (pumping stations 41% done). That said, pipe installation began a pause starting late March for Spring thaw until June, which is accounted for within its project timeline guidance. We note the June construction resumption happens to coincide with the timing of the Minnesota Appeals Court decision on challenges against the L3R regulatory approval. Recall, 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. Meanwhile, the U.S. District Court ruled that DAPL could continue operating while the U.S. Army Corps of Engineers conducts its +13-month Environmental Impact Statement (EIS), representing ~2% of EBITDA and ~$2/sh (net of mitigation plans) within our target. On the Line 5 front, a federal judge recently appointed a mediator to attempt to advance discussions between the State of Michigan and Enbridge, which began on April 16th, to resolve the dispute outside of the courts. Meanwhile, on a positive note, a multi-party Canadian House of Commons Special Committee released a report affirming the economic importance of Line 5 to both Canada and the United States, while recommending urgent, bi-national executive action to resolve the dispute between the State of Michigan and Enbridge. Recall, Line 5 represents ~$500 million of annual EBITDA (~5% of AFFO), which we value at ~$3/sh within our target.

Meanwhile, in the Midstream space, Inter Pipeline (IPL) provided its first look into capacity contracting for its $4.0 billion Heartland Petrochemical Project, successfully securing ~60% of HPC capacity under take-or-pay contracts (nine-year weighted average) versus its 70-85% target, with seven Canadian and multinational energy producers and North American polypropylene consumers. Meanwhile, the company provided 2023e EBITDA guidance for HPC of ~$400-$450 million, ~70% underpinned by long-term take-or-pay agreements. However, excluding the ~$136 million of fixed annual proceeds for three years post commissioning from the $408 million APIP grant, we note merchant plus "not rated" portion of take-or-pay agreements represents ~60% of 2023e EBITDA. Overall, given the steep ramp-up in EBITDA over the first few years of operations, combined with the majority of cash flows being underpinned by merchant and/or "not rated" counterparties, we remain cautious about Brookfield's willingness to increase its offer from the current $16.50/sh (expiring June 7th) beyond its previously proposed range of $17.00-$18.25/sh. That said, we await the conclusion of the Board's strategic review process, including the search for a partner for HPC.

Pipelines, Utilities & Energy Infrastructure

Back to Research Analysts page

Power & Utilities Update

Subsequent to the first quarter, TC Energy (TRP) announced the issuance of a Request for Information (RFI) to identify potential contract and/or investment opportunities in wind energy developments that could generate up to 620 MW of zero-carbon energy to meet a portion of its pipeline electricity needs. The RFI is open through May 10th and was issued to 100 renewable developers seeking suitable wind projects across the Southwest Power Pool (SPP), Midwest Independent System Operator (MISO) and the Electric Reliability Council of Texas (ERCOT) regions, supporting the accelerated electrification of a portion of its U.S. Liquids Pipelines' pump stations, which are already powered by electric motors. Meanwhile, management noted it intends to also move forward with an additional RFI later in May for solar energy, seeking additional opportunities to leverage its existing load to reduce Scope 1 emissions and economically benefit from lower-cost clean energy. On the Utility front, we note ITC Investment Holdings, a Fortis (FTS) subsidiary, entered into an agreement with the Canadian Infrastructure Bank to fund up to ~40% (~$700 million) of the proposed $1.7 billion Lake Erie Connector project. Recall, the Lake Erie Connector will be a 117-km underwater transmission line connecting Ontario with the PJM Interconnection, the largest electricity market in North America, allowing Ontario to export its clean, non-emitting power to the PJM market.

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.

	Stock Sym.	Stock Rating	Δ	Units O/S (Mln)	Unit Price 05-31	Market Cap. (Mln)	Distributions per Share est. 2020e	est. 2021e	est. 2022e	Cash Yield 2021e	Cash Yield 2022e	Distr. CF per Share - FD est. 2020e	est. 2021e	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		279.7	$23.90	$6,684	$0.96	$1.00	$1.04	4.2%	4.3%	$2.08	$2.69	$2.93	8.9x	8.1x	5.2x	26.00	8.8%	↑	13.0%
Enbridge Inc.	ENB	OP		2020.5	$45.90	$92,741	$3.24	$3.34	$3.51	7.3%	7.6%	$4.67	$4.87	$5.33	9.4x	8.6x	4.6x	51.00	11.1%		18.4%
Gibson Energy	GEI	SP		149.2	$23.56	$3,516	$1.36	$1.40	$1.40	5.9%	5.9%	$2.01	$1.91	$2.16	12.3x	10.9x	3.1x	23.00	-2.4%		3.6%
Inter Pipeline	IPL	SP		429.2	$17.55	$7,532	$0.48	$0.48	$0.48	2.7%	2.7%	$1.75	$1.70	$2.00	10.3x	8.8x	5.0x	18.00	2.6%		5.3%
Keyera	KEY	OP		221.0	$30.22	$6,679	$1.92	$1.92	$1.92	6.4%	6.4%	$3.26	$3.12	$2.97	9.7x	10.2x	3.4x	31.00	2.6%	↑	8.9%
Pembina Pipelines	PPL	SP		550.0	$38.89	$21,390	$2.52	$2.52	$2.52	6.5%	6.5%	$3.91	$3.84	$4.03	10.1x	9.7x	4.3x	39.00	0.3%		6.8%
Secure Energy	SES	OP		178.6	$4.28	$764	$0.03	$0.03	$0.03	0.7%	0.7%	$0.53	$0.54	$0.81	8.0x	5.3x	2.3x	5.50	28.5%		29.2%
Superior Plus	SPB	SP		176.0	$15.24	$2,682	$0.72	$0.72	$0.72	4.7%	4.7%	$1.37	$1.12	$1.56	13.7x	9.8x	3.7x	15.00	-1.6%	↑	3.1%
Tidewater Midstream	TWM	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R
TC Energy Corp.	TRP	OP		979.0	$60.92	$59,641	$3.24	$3.48	$3.69	5.7%	6.1%	$6.13	$5.57	$5.94	10.9x	10.2x	5.1x	67.00	10.0%		15.7%
Tervita	TEV	OP		115.7	$5.50	$636	$0.00	$0.00	$0.00	0.0%	0.0%	$0.51	$0.55	$0.80	10.0x	6.9x	2.7x	7.00	27.3%		27.3%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$43.63	$5,002	$1.74	$1.79	$1.81	4.1%	4.2%	$2.08	$2.42	$2.32	18.0x	18.8x	4.5x	44.00	0.8%		5.0%
Canadian Utilities	CU	SP		273.1	$35.03	$9,566	$1.74	$1.76	$1.78	5.0%	5.1%	$2.69	$2.87	$2.94	12.2x	11.9x	5.3x	35.00	-0.1%		4.9%
Capital Power	CPX	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R
Emera Inc.	EMA	SP		255.1	$56.29	$14,360	$2.48	$2.58	$2.68	4.6%	4.8%	$1.99	$3.81	$4.37	14.8x	12.9x	6.2x	59.00	4.8%		9.4%
Fortis Inc.	FTS	SP		472.6	$54.82	$25,906	$1.94	$2.05	$2.17	3.7%	4.0%	$3.92	$3.94	$4.62	13.9x	11.9x	6.1x	60.00	9.4%		13.2%
Hydro One Ltd.	H	SP		596.9	$30.69	$18,320	$1.01	$1.07	$1.12	3.5%	3.6%	$1.76	$1.72	$1.94	17.9x	15.8x	5.4x	31.00	1.0%		4.5%
TransAlta	TA	SP		269.9	$10.93	$2,950	$0.17	$0.18	$0.18	1.6%	1.6%	$1.30	$1.48	$1.55	7.4x	7.1x	3.8x	12.00	9.8%		11.4%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate

Matt Kornack
Analyst
416-507-8104
—
Associates:
Hussam Maqbool: 416-507-8108
Ahmed Shethwala: 416-507-8102

Tal Woolley
Analyst
416-507-8009

Selections

- *ERE*
- *BEI*
- *CAR*
- *KMP*
- *DIR*
- *MHC*
- *HR*
- *HOM*
- *SMU*
- *CSH*

Media Leak Prompts Expedited Disclosure on Prospective European & U.S. Transaction Activity

Dream Industrial announced that it is in advanced discussions to acquire a portfolio of 31 properties in Europe. The confirmation came after media reports indicating that it had succeeded in a marketed offering of the assets by Clarion Partners Europe, which commenced in January. The portfolio consists of logistics properties across Europe (mainly Germany, the Netherlands and France) with physical attributes (clear height and property age) that screen better than the REIT's existing European holdings. Bids for the portfolio ranged from €850 million to €900 million, with DIR's bid coming in at €880 million (C$1.3 billion). Speed and certainty of close, ability to complete due diligence under COVID restrictions and Dream Unlimited's reputation and existing relationships were important in winning the portfolio. If all goes to plan, the transaction is expected to close in the next 60 days.

Acquisition is likely to be financed through a mix of debt, cash, asset sales and an eventual equity offering. DIR currently has ~$150 million of cash (another $350 million available on its line of credit) and noted that it is in similarly advanced discussions on a monetization plan / JV strategy, which could source $250 million primarily from its U.S. portfolio. The portfolio being acquired currently has $500 million of debt in place leaving a funding gap of ~$50 million. We believe the markets would be receptive to an unsecured debt offering that could easily bridge this difference, hence the certainty on close. That said, acquiring the portfolio (net of asset sales) entirely with debt would take leverage to the low 40% range, above target levels. Hence, we would expect an equity offering in the magnitude of $300 million but acknowledge that there is no rush on this front and DIR could be opportunistic on timing.

Europe Increasing in Prominence as the U.S. Takes a Back Seat. Q1 property values pro forma this transaction and monetization of $250 million of U.S. assets would be ~40% Europe, ~10% U.S. and 50% Canada. This is transformational in nature and distinguishes DIR's portfolio relative to Canadian peers, with Granite currently having the largest European exposure at ~30%. Management noted that this acquisition has essentially expedited their expansion plans on the continent by four years.

Disclosed Portfolio Attributes: The target portfolio consists of 31 properties with a GLA of 8.9 mln sq. ft. (35 ft. clear height) that are 100% occupied and have WALT of 5.3 years. The disclosed price of €880 million represents a per sq. ft. value of ~€100 (~C$150) vs. the existing European assets which are carried at ~€83 (C$123) per ft.; we generally view DIR's fair values as being conservative and the properties in question have more favourable physical attributes. Based on market rents for the existing portfolio, the cap rate would pencil out to the mid-5% range, although we note that European transactions tend to come with additional G&A, which would lower the yield (the existing European properties are carried on DIR's books at a 6.1% cap rate).

Back of the envelope math suggests the acquisition is likely to be accretive, regardless of funding sources. When looking at rough math, debt in Europe (or Canadian dollar debt swapped into euros) is currently sub-1% (we could see $800+ million of such debt being put in place to fund the transaction - $500 million existing plus a $300+ million bond offering). U.S. asset cap rates are in the 4-5% range ($250 million) and the REIT's AFFO yield is ~6% ($250 million). Using this composition, we could get to mid-single-digit accretion.

Key Takeaway. The timing of this announcement and scale of the portfolio transaction came as a surprise although both make sense in the context of the recent equity raise, which didn't come with much in the way of an additional acquisition pipeline or direct use of proceeds. We are generally bullish on European industrial from both an operations standpoint and in terms of ability to source properties in a competitive but not quite as feverish environment as seen in Canada and the United States. The shift also distinguishes DIR from its Canadian peer offering, something that will help attract investors wanting to play this theme. We also expect the deal will be accretive and see leverage levels tick higher but the payout ratio move in the direction of peers.

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 5-31	Distributions per Unit (A) 2020	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Cash Yield 2020A	Cash Yield 2021E	Cash Yield 2022E	Cash Yield Current Annualized	FD FFO (A) 2020	FD FFO est. 2021	FD FFO est. 2022	P/FFO 2020A	P/FFO 2021E	P/FFO 2022E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,555	Woolley	$21.23	$1.44	$1.44	$1.44	6.8%	6.8%	6.8%	6.8%	$1.60	$1.49	$1.59	13.3x	14.3x	13.4x	$24.60	$23.00	15.1%	↑
Choice Properties REIT	CHP.un	SP	↔	$10,207	Woolley	$14.59	$0.74	$0.74	$0.74	5.1%	5.1%	5.1%	5.1%	$0.92	$0.97	$0.98	15.8x	15.1x	14.9x	$12.80	$14.50	4.5%	↔
First Capital REIT	FCR	SP	↔	$3,913	Woolley	$17.86	$0.86	$0.86	$0.86	4.8%	4.8%	4.8%	4.8%	$1.01	$1.04	$1.08	17.7x	17.2x	16.5x	$20.60	$18.50	8.4%	↔
SmartCentres REIT	SRU.un	SP	↔	$4,984	Woolley	$29.30	$1.76	$1.81	$1.85	6.0%	6.2%	6.3%	6.2%	$2.20	$2.12	$2.12	13.3x	13.8x	13.8x	$31.20	$30.00	8.6%	↑
CT REIT	CRT.un	OP	↔	$3,634	Woolley	$16.46	$0.73	$0.76	$0.79	4.4%	4.6%	4.8%	4.6%	$1.18	$1.23	$1.28	14.0x	13.3x	12.8x	$16.40	$18.00	14.0%	↔
Crombie REIT	CRR.un	OP	↔	$2,571	Woolley	$16.95	$0.89	$0.89	$0.89	5.3%	5.3%	5.3%	5.3%	$1.05	$1.16	$1.21	16.1x	14.6x	14.0x	$17.06	$18.50	14.4%	↑
Automotive Properties REIT	APR.un	OP	↔	$504	Woolley	$12.68	$0.80	$0.80	$0.80	6.3%	6.3%	6.3%	6.3%	$0.91	$0.99	$1.02	13.9x	12.8x	12.4x	$11.80	$13.00	10.3%	↑
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,681	Kornack	$44.35	$1.65	$1.70	$1.73	3.7%	3.8%	3.9%	3.8%	$2.29	$2.39	$2.60	19.4x	18.5x	17.1x	$46.00	$44.50	4.2%	↔
DREAM Office REIT	D.un	OP	↔	$1,268	Kornack	$21.86	$1.00	$1.00	$1.00	4.6%	4.6%	4.6%	4.6%	$1.52	$1.52	$1.60	14.3x	14.4x	13.7x	$24.65	$23.00	9.8%	↑
Slate Office REIT	SOT.un	SP	↔	$348	Kornack	$4.76	$0.40	$0.40	$0.40	8.4%	8.4%	8.4%	8.4%	$0.68	$0.59	$0.63	7.0x	8.1x	7.5x	$5.85	$4.50	2.9%	↑
True North Commerical REIT	TNT.un	SP	↔	$644	Kornack	$7.48	$0.59	$0.59	$0.59	7.9%	7.9%	7.9%	7.9%	$0.59	$0.60	$0.61	12.6x	12.5x	12.2x	$7.00	$7.25	4.9%	↑
NorthWest H.P. REIT	NWH.un	SP	↔	$2,287	Woolley	$12.89	$0.80	$0.80	$0.80	6.2%	6.2%	6.2%	6.2%	$0.83	$0.85	$0.88	15.5x	15.1x	14.6x	$12.50	$13.50	10.9%	↔
H&R REIT	HR.un	OP	↔	$4,819	Kornack	$15.97	$0.92	$0.69	$0.69	5.8%	4.3%	4.3%	4.3%	$1.67	$1.59	$1.73	9.6x	10.1x	9.2x	$20.20	$18.00	17.0%	↑
Cominar REIT	CUF.un	RES		$1,844	Kornack	$10.11	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,465	Kornack	$11.13	$0.54	$0.54	$0.60	4.9%	4.9%	5.4%	5.4%	$1.40	$1.34	$1.36	8.0x	8.3x	8.2x	$13.60	$11.50	8.2%	↔
BTB REIT	BTB.un	SP	↔	$299	Kornack	$4.10	$0.36	$0.30	$0.30	8.8%	7.3%	7.3%	7.3%	$0.38	$0.41	$0.43	10.7x	9.9x	9.6x	$4.45	$4.35	13.4%	↑
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,707	Kornack	$81.37	$2.92	$3.00	$3.00	3.6%	3.7%	3.7%	3.7%	$4.04	$4.07	$4.28	20.1x	20.0x	19.0x	$74.50	$88.50	12.4%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$2,368	Kornack	$13.83	$0.70	$0.70	$0.70	5.1%	5.1%	5.1%	5.1%	$0.71	$0.78	$0.87	19.5x	17.8x	15.9x	$14.30	$15.50	17.1%	↑
WPT Industrial REIT	WIR'U-T	OP	↔	$1,535u	Kornack	$17.38u	$0.76u	$0.76u	$0.76u	4.4%	4.4%	4.4%	4.4%	$0.94u	$0.98u	$1.04u	18.5x	17.7x	16.8x	$17.25u	$19.00u	13.7%	↑
Summit Industrial	SMU.un	OP	↔	$2,698	Kornack	$16.06	$0.54	$0.56	$0.58	3.4%	3.5%	3.6%	3.5%	$0.65	$0.68	$0.72	24.7x	23.7x	22.2x	$15.75	$18.00	15.6%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$359	Woolley	$4.60	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	$0.27u	$0.51u	-28.6x	12.8x	6.8x	$4.90	$4.75	3.3%	↑
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,573	Kornack	$55.38	$1.37	$1.38	$1.43	2.5%	2.5%	2.6%	2.5%	$2.27	$2.34	$2.46	24.4x	23.6x	22.5x	$57.05	$65.50	20.8%	↑
Boardwalk REIT	BEI.un	OP	↔	$1,982	Kornack	$38.84	$1.00	$1.00	$1.00	2.6%	2.6%	2.6%	2.6%	$2.81	$2.79	$2.90	13.8x	13.9x	13.4x	$47.05	$46.50	22.3%	↔
Killam Apartment REIT	KMP.un	OP	↔	$2,064	Kornack	$19.09	$0.68	$0.70	$0.72	3.5%	3.6%	3.8%	3.6%	$1.00	$1.01	$1.08	19.1x	18.9x	17.7x	$20.45	$22.00	18.9%	↔
InterRent REIT	IIP.un	OP	↔	$2,225	Kornack	$15.57	$0.31	$0.32	$0.32	2.0%	2.0%	2.1%	2.0%	$0.47	$0.52	$0.60	33.1x	29.9x	26.1x	$15.85	$17.50	14.4%	↑
Minto Apartment REIT	MI.un	SP	↔	$1,280	Kornack	$21.68	$0.44	$0.45	$0.46	2.0%	2.1%	2.1%	2.0%	$0.85	$0.83	$0.94	25.6x	26.2x	23.1x	$21.70	$23.00	8.2%	↔
BSR REIT	HOM.un	OP	↔	$447u	Kornack	$12.53u	$0.50u	$0.50u	$0.50u	4.0%	4.0%	4.0%	4.0%	$0.64u	$0.60u	$0.70u	19.7x	21.0x	17.9x	$13.65u	$14.00u	15.7%	↑
ERES REIT	ERE.un	OP	↔	$992	Kornack	$4.24	$0.16	$0.16	$0.17	3.7%	3.8%	3.9%	3.9%	$0.20	$0.22	$0.22	20.9x	19.7x	18.9x	$4.87	$5.25	27.7%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$332	Kornack	$9.91	$0.83	$0.83	$0.83	8.3%	8.3%	8.3%	8.3%	$0.65	$0.61	$0.69	15.2x	16.2x	14.5x	$10.95	$10.00	9.2%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,858	Woolley	$13.09	0.59	0.60	0.60	4.5%	4.6%	4.6%	4.6%	0.76	0.73	0.86	17.2x	17.9x	15.3x	$12.10	$14.50	15.4%	↑
Sienna Senior Living	SIA	OP	↔	$1,086	Woolley	$16.20	0.90	0.92	0.94	5.6%	5.7%	5.8%	5.8%	1.03	1.19	1.32	15.8x	13.6x	12.3x	$15.80	$16.50	7.6%	↑
Extendicare	EXE	SP	↔	$726	Woolley	$8.11	0.48	0.48	0.48	5.9%	5.9%	5.9%	5.9%	0.79	0.41	0.60	10.3x	19.7x	13.4x	$9.30	$8.50	10.7%	↑
Invesque	IVQu	SP	↔	$158u	Woolley	$2.82u	$0.74u	$0.74u	$0.74u	26.1%	26.1%	26.1%	0.0%	$0.73u	$0.57u	$0.66u	3.9x	5.0x	4.3x	$3.90u	$3.00u	32.5%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,721	Woolley	$4.70	$0.01	$0.01	$0.01	0.2%	0.2%	0.2%	0.2%	$0.10	$0.12	$0.13	48.2x	39.4x	35.3x	$4.00	$5.25	11.9%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$222u	Woolley	$17.51u	n/a	n/a	$0.51u	n/a	n/a	2.9%	2.9%	n/a	$0.98u	$1.05u	n/a	17.8x	16.7x	$20.10u	$20.00u	17.1%	↑
Asset Management																							
Tricon Capital Group	TCN	RES		$2,933u	Woolley	$12.86	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	↔

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.

Zachary Evershed, CFA
Analyst
514-412-0021
—
Associate:
Thomas Bolland: 514-871-5013

Selections

- *Boyd Group Services*
- *Doman Building Materials*
- *Hardwoods Distribution*

Capitalizing on industry tailwinds, stacking cash (TSX: DBM)

Following CanWel's name change to Doman Building Materials Group Ltd. (DBM) on May 31, 2021, we highlight DBM's post-pandemic prospects and balance sheet improvement. In our view, the company remains well-positioned to grow organically, complemented by opportunistic M&A, as the industry continues to benefit from both short-term and long-term tailwinds.

Strong housing starts expected to remain a driver

Although U.S. household formations declined in 2020 for the first time on record due to the pandemic, the ratio of housing inventory to households remains tight at 1.10x, the lowest since 1980, backing our thesis of a cumulative 1.6 million housing start shortfall in U.S. new residential construction over the last decade. Given ~1.4 million annual starts as a baseline replacement level, we estimate that this pent-up demand can support up to 3.5 years of elevated building activity at the current ~1.7 million annual housing start level. Further, we believe that 2019 is a better indicator of the true scarcity of housing given the fall in household formation in 2020, and pre-pandemic figures indicate ~3 million new housing units will be required to return to the long-run average ratio. Our estimates align with a recent report from the National Association of Realtors which indicates that the inventory of single-family homes for sale is at its lowest since 1982 and is an estimated ~2.4 million homes short of a balanced market.

Lumber prices remain elevated, boosting organic growth

Lumber prices at 3-5x historical averages represent a stiff tailwind to DBM's sales as demonstrated by the company's strong Q1/21 results. With a view on a robust summer construction season in North America, we do not believe the strong demand environment is likely to subside in the short term, though prices should normalize in the coming years as supply catches up to demand.

Bought deal offering strengthens financial position

During Q2/21, DBM completed a $75 million bought deal equity offering at $10.00/share which, with the 15% overallotment, raised total gross proceeds of $86.25 million. Additionally, DBM completed a private placement offering of $325 million aggregate principal amount of 5.25% senior unsecured notes due 2026. Following the offering we calculate leverage of 2.2x. The impact of working capital is pronounced in 2021e given the pricing environment, and as it unwinds, we forecast Net Debt/EBITDA of 0.7x at year-end and 1.1x in 2022 following pricing normalization. We believe the enhanced balance sheet flexibility will be applied to M&A opportunities as they arise. Management highlights a well-stocked pipeline of potential acquisitions but emphasizes discipline on multiples in the current exuberant market.

Outperform rating, $12.50 target

Our $12.50 target is based on 16.5x 2022e EPS (14.5x base multiple, 2x growth premium), implying ~$90 million in incremental revenue added through M&A annually. Outperform.

Special Situations

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS			P/E		EBITDA (mln)			EV/EBITDA		Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
								(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2				
Alaris Equity Partners Income Trust	AD	OP		744.1	45.0	16.55	12/2020	0.51	1.74	1.72	9.5	9.6	85.6	117.7	123.1	8.7	8.3	7.5%	3.1	22.50	↑
Boyd Group Services Inc.	BYD	OP		4,447.3	21.5	207.12	12/2020	2.57	3.66	6.22	56.7	33.3	293.6	342.9	453.3	15.9	12.0	0.3%	1.5	260.00	↓
Doman Building Materials	CWX	OP		676.9	78.0	8.68	12/2020	0.78	1.77	0.77	4.9	11.3	143.1	266.9	157.4	2.8	4.7	5.5%	2.5	12.50	↑
Cascades	CAS	OP		1,422.3	103.4	13.75	12/2020	1.95	1.25	1.82	11.0	7.5	671.0	588.2	691.6	5.5	4.4	2.4%	2.4	18.50	↓
Dexterra Group Inc.	DXT	OP		415.4	64.9	6.40	12/2020	1.24	0.25	0.51	25.8	12.5	31.9	64.6	83.5	7.6	5.4	4.7%	0.0	8.50	
GDI Integrated Facility Services	GDI	OP		1,127.6	22.8	49.50	12/2020	2.11	2.19	2.15	22.6	23.0	104.9	133.6	129.2	9.5	9.3	0.0%	1.2	65.00	↑
Hardwoods Distribution	HDI	OP		696.2	21.5	32.44	12/2020	1.53	2.21	2.20	14.7	14.8	72.7	97.6	95.3	7.8	7.6	1.1%	1.6	45.50	↑
Intertape Polymer Group Inc.	ITP	OP		1,757.6	60.4	29.12	12/2020	1.51	1.80	2.04	16.1	14.3	210.6	239.3	257.4	7.8	6.9	2.7%	2.0	38.50	↑
KP Tissue	KPT	SP		98.4	9.6	10.28	12/2020	0.53	0.31	0.77	33.6	13.3	197.8	166.5	225.8	7.6	7.3	7.0%	4.1	11.00	↓
Park Lawn Corporation	PLC	OP		976.3	30.1	32.41	12/2020	1.16	1.35	1.55	24.1	20.9	79.9	91.7	96.6	12.6	10.9	1.4%	2.0	43.00	
Richelieu Hardware	RCH	SP		2,437.8	56.3	43.30	11/2020	1.50	1.76	1.94	24.5	22.3	154.5	173.5	186.8	13.3	12.0	0.6%	0.1	43.50	
Savaria Corporation	SIS	OP	↑	1,065.6	54.9	19.40	12/2020	0.52	0.74	1.03	26.1	18.8	59.8	106.4	133.1	13.4	11.5	2.5%	5.1	20.50	↑
Uni-Sélect	UNS	OP		648.9	42.4	15.31	12/2020	(0.18)	0.61	1.00	24.9	15.4	88.8	124.6	141.5	7.9	6.7	0.0%	2.7	17.00	↑

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

Back to Research Analysts page

Sector Analysis
Sustainability & Clean Tech

Rupert Merer, P. ENG, CFA
Analyst
416-869-8008
—
Associates:
James Burns: 416-869-8808
Louka Nadeau: 416-869-7538
Viveck Panjabi: 416-869-6763

Selections

› *Innergex Renewable Energy Inc.*
› *Northland Power Inc.*
› *Boralex*

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade benefiting from accretive growth, supportive government policy, a low interest rate environment, and of late, a scarcity of green investments. It will be hard to replicate the performance of the past five years, but there are plenty of growth opportunities for companies in the sector. As we have highlighted in our most recent thematic, the recent rise in bond yields and increasing inflation concerns have a direct impact on valuation and, therefore, have resulted in headwinds to some of the names under our coverage, but we believe funds should continue to flow into the sector and that falling bond yields toward the end of May should help the stocks. Our top picks are NPI, BLX and INE.

Northland Power Inc.
(NPI: TSX; Outperform; $50.00 target)

Northland Power is a global leader in the development of offshore wind and owns 2,266 MW (net) of operational capacity in renewable and thermal power generation, but that number could soon change as the company recently raised $990 million in equity (22.5 million shares at $44/sh), in part, to fund organic growth, but also to fund the acquisition of a 540 MW (net) portfolio of onshore wind and solar assets in Spain (acquisition expected to close in 3Q'21). NPI's focus remains the offshore wind market, which offers large projects and high return potential. NPI intends to utilize $470 million from the proceeds towards development opportunities of 4 GW to 5 GW over the next decade, primarily in offshore wind projects, notably in Taiwan (1.8 GW of wind developments that could be bid in RFPs next year), Japan, South Korea, Poland and Germany. With this, we believe NPI could have the best visibility on growth within its peer group. With its offshore wind platform, NPI is attracting large partners, like PKN Orlen in Poland and Tokyo Gas in Japan, which could help to boost returns. The first of its growth projects to be constructed should be the 1,044 MW Hai Long project in Taiwan (FID 2022E), possibly followed by the 1,200 MW Baltic project in Poland (FID 2023E). 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 4.75% on operating cash flows and $10/sh of growth.

Boralex Inc.
(BLX: TSX; Outperform; $50.00 target):

BLX is a renewable energy producer with wind, solar and hydro assets in the USA, France and Canada. It has ~2,455 MW of generating capacity, mostly under long-term contracts with an average contract life of ~13 years. BLX targets $200 million to $210 million in AFFO by 2023E while maintaining a payout ratio of 40 - 60%. BLX has good visibility on exceeding its target of 2,800 MW of capacity by 2023E, but it should release an updated plan at its investor day on June 17th. In February 2021, BLX acquired controlling interests in seven solar plants in the United States for a purchase price of $277 million (US$215.6 million, weighted average PPA duration of 21.5 years). Additionally, BLX recently signed a power purchase agreement for its 200 MW Apuiat wind farm in Québec. Also, we believe it should see an increase in RFP activities in both Québec and N.Y. State and we think these developments could serve as a platform for future organic growth and provide BLX with room to realize operating synergies. Moreover, President Biden's recent infrastructure plan that proposed extensions to both the ITC and PTC could drive additional financial support for renewables. With an established foothold in France and a beachhead in the United States, we believe that BLX could grow organically by over 200 MW/yr. Our target is based on a long-term DCF with a cost of equity of 4.5% on operating cash flows and $7/sh of growth.

Innergex Renewable Energy Inc.
(INE: TSX; Outperform; $26.00 target)

INE is one of Canada's largest renewables focused IPPs with an operating capacity of 2,747 MW (net). INE's production capacity is diversified across different renewable platforms (~29% hydro, ~58% wind and ~13% solar) and across geographies (~53% Canada, ~33% U.S., ~8% France and ~6% Chile). Some of INE's latest developments have started bearing fruit, including the 6.9 MW Yonne II wind farm in France that reached full commissioning in Q1 and the 200 MW Hillcrest solar project in Ohio that reached COD earlier in May. Moreover, INE's 226 MW Griffin Trail wind project in Texas is expected to reach COD by mid-July and its 7.5 MW Innavik run-of-river hydro project in Québec could reach COD by the end of 2022. On the development front, INE is progressing with four solar

Sustainability & Clean Tech

plus battery storage projects in Hawaii that should move to construction later this year. While softer Q1 results were impacted by the storms in Texas, INE has turned the page on the Texas events and the $81 million financial impact the hedge contracts occasioned. While Texas might stretch the payout ratio this year, INE has visibility on near-term growth, and combined with the growth from its recent M&A, the company has guided to ~12% growth on normalized EBITDA for 2021. Our target is based on a long-term DCF with a 5.25% discount rate on operating assets and includes $3/sh for growth. We believe the stock should recover after the recent sell-off.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 05/31	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		245.5	82	3.00	12/2020	0.06u	0.12u	0.17u	21.4	14.2	2.14u	2.58u	2.91u	1.0	0.9	1.34u	0.20	5.25	↓
Algonquin Power	AQN	OP		9363.7u	613	15.28u	12/2020	0.65u	0.73u	0.76u	21.0	20.1	2.98u	3.43u	3.53u	4.4	4.3	9.72u	0.52	17.00u	
Altius Renewable Royalties Corp	ARR	SP		270.0	28	9.50	12/2020	(0.49)u	(0.15)u	(0.07)u	nmf	nmf	0.08u	0.01u	0.01u	nmf	nmf	5.18u	0.00	12.00	
Ballard Power Systems	BLDP	OP		5152.3u	297	17.32u	12/2020	(0.20)u	(0.18)u	(0.08)u	nmf	nmf	0.42u	0.34u	0.55u	51.4	31.6	4.74u	0.01	29.00u	↓
Boralex	BLX	OP		3841.9	103	37.13	12/2020	0.56	0.63	0.75	59.3	49.3	6.44	7.08	7.26	5.2	5.1	12.47	0.65	50.00	
Brookfield Infrastructure	BIP	OP		25217.7u	465	54.22u	12/2020	1.34u	1.51u	1.20u	36.0	45.2	8.81u	10.41u	10.49u	5.2	5.2	47.20u	0.70	60.00u	
Brookfield Renewable	BEP	SP		25515.4u	642	39.77u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.99u	4.06u	10.0	9.8	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	SP	↓	288.8u	85	3.41u	12/2020	(0.13)u	(0.28)u	(0.07)u	nmf	nmf	2.03u	1.89u	2.38u	1.8	1.4	1.25u	0.18	3.50u	↑
GFL Environmental Inc.	GFL	OP		15668.1	401	39.05	12/2020	(2.76)	(0.97)	(0.40)	nmf	nmf	11.64	12.44	13.65	3.1	2.9	17.40	0.52	44.00	
Innergex	INE	OP		3604.9	176	20.48	12/2020	(0.23)	(0.79)	0.53	nmf	38.5	3.60	4.13	3.95	5.0	5.2	4.91	0.86	26.00	↓
The Lion Electric Company	LEV	OP		2128.3u	112	19.07u	12/2020	(3.64)u	(0.20)u	0.08u	nmf	nmf	0.77u	0.61u	2.47u	31.4	7.7	(1.01)u	0.53	20.00u	
Lithium Americas	LAC	OP		1397.8u	91	15.30u	12/2020	0.60u	(0.38)u	(0.21)u	nmf	nmf	0.05u	0.00u	0.00u	na	na	1.09u	0.53	23.00u	
Loop Energy Inc	LPEN	OP		265.0	36	7.30	12/2020	(0.50)	(0.67)	(0.64)	nmf	nmf	0.03	0.05	0.39	nmf	18.9	2.59	0.01	15.00	↓
NanoXplore	GRA	OP		129.7	158	3.37	06/2020	(0.10)	(0.07)	(0.07)	nmf	nmf	0.55	0.46	0.44	7.3	7.7	0.69	0.19	5.00	
Northland Power	NPI	OP		8874.1	219	40.59	12/2020	1.79	1.08	1.14	37.7	35.7	10.31	9.76	9.77	4.2	4.2	13.48	0.67	50.00	↓
Sigma Lithium	SGMA	OP		432.1	77	5.60	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		5161.1	267	19.33	12/2020	0.35	0.66	0.66	29.4	29.2	1.64	1.76	1.82	11.0	10.6	8.28	0.19	20.00	
Xebec Adsorption	XBC	SP		760.7	152	4.99	12/2020	(0.33)	0.04	0.06	nmf	nmf	0.59	0.72	1.15	6.9	4.4	2.13	0.14	5.00	↓

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

Sector Analysis

Technology

Richard Tse
Analyst
416-869-6690
—
Associates:
Mihir Raul : 416-869-8049
John Shao: 416-869-7938

Selections

- *Docebo*
- *Kinaxis*
- *Lightspeed*
- *Nuvei*
- *Real Matters*
- *Farmers Edge*
- *Shopify*
- *TELUS International*
- *Thinkific*

Tech Takes a Pause with Reopening

As you likely know, Tech has somewhat of a laggard group so far this year. Year to date, the S&P Technology Index is up 5.92% versus the 12.62% increase in the S&P 500. In Canada, the story has been similar if not more extreme with the TSX Technology Index up 3.91% versus the 15.14% increase in the TSX. As you may likely know, a large part of that shift has come due to a combination of concerns around potential rate hikes and a shift to reopening (economy) names. Candidly, that's not surprising given the meteoric rise for the (Tech) group over the past year and it's our view that we'll see that volatility continue to persist through 2021. That said, we remain bullish on the sector despite that volatility as we believe innovation will continue to offer the broad group outsized growth potential over the long term. In our view, the Q2 results (which will lap a full pandemic quarter in F20) will be more challenging for names that saw outsized benefits from the prior year's lockdowns. With many names off all-time highs, we think investors should opportunistically look for entry points. At the same time, we continue to believe legacy names like OpenText and CGI are fundamentally undervalued with strong underlying fundamentals like considerable free cash flow. From a stock selection standpoint, we'd continue to opportunistically add positions in growth names like Docebo, Farmers Edge, Kinaxis, Lightspeed, Nuvei, Real Matters, Shopify, TELUS International and Thinkific while balancing those names with legacy incumbents like CGI and OpenText with select special situations in names like Altus. The following provides an update on some of our Outperform-rated names:

Farmers Edge is an agriculture data and analytics platform provider. The Company's core platform, FarmCommand, offers scalable subscription services that range from soil monitoring to crop planning. The Company has over 3,000 customers and over 23 million subscribed acres. Farmers Edge makes money by charging subscription revenue for its services that range from $1.50 - $6.00 per acre where average contract terms range from three to five years. As we've seen other industries increasingly benefit from overlaying insight from data, we believe that's also a scaling opportunity in farming. The difference is that adoption rates based on our diligence are very early suggesting significant growth potential. We believe Farmers Edge is an early leader with one of the most comprehensive offerings in the market that's further differentiated by its independence.

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. That view has been supported by strength in leading reopening markets like Australia.

Kinaxis should be a meaningful beneficiary from the secular changes from supply chain solutions. 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. The complexity of the Company's technology caused some delays in conversions of its pipeline; yet, that pipeline has only increased. We think those delays are being misread by the market – in our view, that represents an opportunity.

Shopify remains the leading technology platform for e-Commerce in our opinion. 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.

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 5/31	Last Year Reported	FDEPS			P/E		EBITDA (Mln)			EV/EBITDA		Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
								(A) Last FY	est. FY1	est. FY2	FY1	FY2	(A) Last FY	est. FY1	est. FY2	FY1	FY2				
Absolute Software Corp.	ABST	SP		913	52.1	17.53	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	21.9	21.3	(0.8u)	0%	20.00	↑
Altus Group Limited	AIF	OP		2,475	40.6	60.98	2020	1.46	1.82	1.91	33.5	31.9	88.1	98.7	101.9	25.7	24.9	9.5u	28%	70.00	
Blackline Safety Corp.*	BLN	OP		424	52.2	8.13	2020	(0.14)	(0.19)	(0.10)	NMF	NMF	5.5	5.3	10.2	70.5	36.4	0.0u	0%	12.00	
CGI Inc.	GIB.A	OP		27,653	261.8	105.63	2020	4.68	5.40	5.80	19.6	18.2	2426.3	2732.7	2883.4	10.8	10.2	27.7	33%	120.00	
Constellation Software Inc.	CSU	SP		38,018	21.2	1,794.00	2020	27.84u	36.08u	44.00u	40.9	33.5	933.0u	1,194.7u	1,303.4u	26.3	24.1	42.6u	43%	1900.00	
Docebo Inc.	DCBO	OP		1,740	32.2	54.04	2019	(0.35u)	(0.06u)	0.02u	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.4u	0%	70.00u	
EXFO Inc.	EXFO	SP		241u	54.6	4.41u	2020	0.01u	0.28u	0.38u	16.0	11.5	18.2u	29.8u	30.9u	8.2	7.9	3.2u	10%	4.50u	
Farmers Edge Inc.	FDGE	OP		746u	41.8	17.85u	2020	(2.02u)	(0.50u)	0.36u	NMF	49.2	(45.9u)	(9.2u)	26.9u	NMF	22.8	(7.0u)	0%	25.00u	
Kinaxis Inc.	KXS	OP		4,394	28.1	156.16	2019	1.11u	0.59u	1.41u	NMF	NMF	53.7u	32.2u	62.0u	105.7	54.9	9.9u	0%	225.00	
Lightspeed POS	LSPD	OP		7,721u	119.9	64.40u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	90.00u	
mdf commerce inc.	MDF	SP		261	22.7	11.48	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	35.4	32.4	4.7u	11%	13.50	
Nuvei Corporation	NVEI	OP		10,266	131.5	78.09	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	53.6	49.1	8.8u	9%	120.00	↑
Open Text Corporation	OTEX	OP		13,179u	272.8	48.30u	2020	2.89u	3.29u	3.41u	14.7	14.2	1,148.2u	1,231.8u	1,335.6u	12.6	11.6	14.9u	51%	60.00u	
Pivotree Inc.*	PVT	OP		211	26.6	7.95	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	39.6	31.4	0.5	58%	13.00	
Real Matters Inc.	REAL	OP		1,282	88.5	14.49	2020	0.56u	0.81u	1.05u	14.7	11.3	72.2u	90.5u	116.9u	10.2	7.9	2.4u	0%	35.00	
Shopify Inc.	SHOP	OP		144,320u	124.9	1,155.41u	2020	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,650.00u	
Tecsys Inc	TCS	OP		618	14.9	41.61	2020	0.18	0.46	0.58	NMF	NMF	10.3	16.0	17.2	38.5	35.8	4.45	4%	55.00	
Telus International	TIXT	OP		7,990	259.0	30.85	2020	0.71	0.95	1.26	NMF	NMF	391.2	533.3	642.3	17.0	14.1	6.34	10%	40.00u	
Thinkific Labs Inc.	THNC	OP		1,229	83.4	17.90	2020	(0.01)	(0.20)	(0.28)	NMF	NMF	(0.4)	(16.0)	(23.2)	NMF	NMF	1.69	0%	20.00	

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

u = US dollar

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

Telecom & Media

Adam Shine, CFA
Analyst
514-879-2302

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

Selections

- *Shaw*
- *Quebecor*
- *Spin Master*

Telecom

Recent regulatory decisions resolved uncertainty and reduced risk of greater pressures:

On 5/27/21, the CRTC delivered its review and vary decision on wholesale Internet rates, something known as third-party Internet access or TPIA. The regulator's disclosures came as a big positive for incumbent telecom operators and a blow to smaller wholesalers. While the MVNO decision in mid-April was deemed a non-event as the regulator opted for a much anticipated compromise solution, the TPIA conclusion was more relevant, as it not only closed a multi-year chapter related to setting wholesale Internet access rates, but also seemingly set a new tone for regulatory oversight in Canada, one that looks a lot more benign. On 8/15/19, the CRTC delivered its TPIA decision and not only materially lowered final rates well below interim levels set in 2016, but also made the decision retroactive to 2016, which exposed incumbents, especially those in Ontario and Quebec, to big retroactive charges and future annual hits to EBITDA that varied from nearly nothing for Telus to 2% of EBITDA for Quebecor. Industry players were rightfully annoyed and pursued every avenue of appeal over the next 18 months. Recall that incumbent wireless operators were being repeatedly attacked by successive governments on pricing and the CRTC's wireless review was gearing up to start in early 2020. Investors weren't liking what they were seeing in terms of regulatory risk and uncertainty, as the CRTC was over-reaching. There's nothing like a pandemic to wake a government and regulator up to how important investment in facilities is and why facilities-based competition remains key to anchoring policy that had strayed toward broader competition and pricing. Remarkably, the CRTC in its review and vary fully acknowledged the errors of its August 2019 decision and opted to effectively nullify it and set TPIA rates back to the interim levels of 2016. Heading into its next reporting in the summer, Rogers was looking at a $225M charge which will now be a more innocuous $25M, while Bell's retroactive hit has likely been reduced to or below $40M from what otherwise was going to be around $165M. Quebecor had been facing a charge of $80M and annual EBITDA hit of $40M which now largely goes away. As we take the MVNO and TPIA decisions together, we see a dark regulatory cloud dissipating which could allow for a modest re-rating in the sector going forward.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 5/31	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		994	63.3	15.70	12/2020	(9.85)	(1.74)	0.82	NM	19.1	-182.8	8.0	185.3	NM	9.0	-1.03	1.10	17.00	
Corus Entertainment Inc.	CJR.b	OP		1,302	208.4	6.25	08/2020	0.75	0.92	0.87	6.8	7.2	505.8	530.6	523.6	5.5	5.2	4.80	0.60	8.00	
WildBrain Ltd.	WILD	SP		474	171.8	2.76	06/2020	(0.64)	(0.13)	0.08	NM	NM	81.8	81.4	90.3	11.5	10.0	0.35	0.87	3.00	
Spin Master	TOY	OP		4,193	102.3	40.99	12/2020	0.51	1.60	1.80	21.2	18.8	180.6	321.8	341.9	9.8	8.7	8.34	-0.44	53.00	↑
Stingray Digital	RAY.a	OP		507	73.0	6.94	03/2020	0.74	0.86	0.89	8.1	7.8	118.1	114.9	120.7	7.5	6.7	3.92	0.59	9.00	
TVA Group Inc.	TVA.b	SP		123	43.2	2.85	12/2020	0.86	0.49	0.64	5.8	4.4	85.3	62.2	69.4	2.4	1.8	7.61	0.10	3.25	↑
Printing & Publishing																					
Thomson Reuters	TRI	OP		57,911	495.9	116.78	12/2020	1.85	2.15	2.69	45.5	36.4	1975.0	2011.9	2281.9	24.7	21.6	29.88	0.09	128.00	↑
Transcontinental Inc.	TCL.a	OP		1,959	87.0	22.51	10/2020	2.61	2.32	2.33	9.7	9.7	499.4	449.5	441.9	6.0	5.8	19.67	0.34	26.00	
Advertising & Marketing																					
Yellow Pages	Y	SP		412	28.0	14.71	12/2020	2.28	2.23	2.24	6.6	6.6	129.4	113.1	102.3	3.0	3.0	NM	-0.18	13.50	↑
Telecommunications																					
BCE Inc.	BCE	OP		54,113	904.6	59.82	12/2020	3.02	3.16	3.45	18.9	17.4	9607.0	9991.5	10417.2	8.3	8.0	19.92	0.40	64.00	
Cogeco Communications Inc.	CCA	OP		5,524	47.6	116.02	08/2020	7.41	8.63	9.32	13.4	12.5	1148.7	1225.5	1276.7	6.6	6.1	57.18	0.52	130.00	
Quebecor Inc.	QBR.b	OP		8,079	246.7	32.75	12/2020	2.33	2.50	2.63	13.1	12.4	1952.6	1996.0	2057.4	6.7	6.2	4.88	0.92	40.00	
Rogers Communications Inc.	RCI.b	OP		31,204	504.9	61.80	12/2020	3.40	3.87	4.64	16.0	13.3	5857.0	6135.4	9078.1	7.8	7.3	19.94	0.48	75.00	
Shaw Communications	SJR.b	OP		18,084	505.0	35.81	08/2020	1.31	1.41	1.55	25.4	23.1	2391.0	2469.0	2528.9	9.6	9.1	11.95	0.48	40.50	
Telus Corp.	T	OP		36,558	1349.0	27.10	12/2020	0.95	0.98	1.04	27.8	26.1	5494.0	5944.9	6392.0	9.2	8.6	11.46	0.56	28.00	

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

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

Source: Bloomberg, Refinitiv and NBF estimates

Sector Analysis

Transportation & Industrial Products

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

Selections

- *TFI International*
- *NFI Group*
- *CAE*

Focusing on TFII's exciting new LTL opportunity

TFI International (TFII: TSX/NYSE; Outperform, $129.00 target). TFII's recently completed acquisition of UPS Freight is truly transformational for the company. Prior to the acquisition (now rebranded as TForce Freight), the Less-than-Truckload segment made up only ~15% of TFII's total revenue, but LTL will increase to 39% of total company revenue in 2022. We see multiple positive implications for TFII resulting from the acquisition:

- **LTL has very attractive industry dynamics.** What is especially attractive about the LTL segment in the U.S. is that it has been heavily consolidated. Indeed, the total LTL industry in the U.S. last year generated ~$42 billion in revenue and the top 25 players accounted for more than 90% of that total. By contrast, the Truckload segment is highly fragmented with the top 25 truckload players accounting for only ~8% of total industry revenue.
- **E-commerce a growth tailwind.** E-commerce is pushing more retailers to fulfill online orders from smaller local distribution centres and from physical retail outlets in urban areas. With the massive increase in the number of different products being fulfilled from these locations, it is becoming less practical to receive full truckload shipments of products. Instead, retailers are using more frequent but smaller shipments to keep their distribution centres or large retail stores stocked for online fulfillment, which is more practically served by LTL carriers.
- **Margin expansion in the UPS Freight business a significant potential earnings growth driver for TFII.** On an adjusted basis, UPS Freight was about breakeven in 2020, but as TFII improves, the freight mix in favour of heavier shipments, reprices money-losing contracts and reduces costs, we believe an EBIT margin of 10% is readily achievable. All else equal, if TFII improves the margin to 10% over the next two to three years, total company EBIT would increase 76% from TFII's baseline 2020 result.
- **Potential valuation lift.** The LTL peer group is currently trading at 27x current year P/E and 14x current year EV/EBITDA versus the Truckload group at 16x P/E and only 6x EV/EBITDA. With LTL now TFII's largest segment, we believe the stock may benefit from a valuation lift, especially if the company makes progress on improving the margins in the newly acquired business over the coming quarters.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 5-31	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	SP		335	27.36	9,166	12/2020	-16.47	-11.24	-0.89	NA	NA	(10.84)	(8.93)	2.39	NA	11.4x	93%	29.00	
Bombardier Inc.	BBD.b	SP		2424	0.98	2,375	12/2020	-u0.47	-u0.22	-u0.06	NA	NA	-u1.32	-u0.49	u0.06	NA	12.5x	na	1.00	↑
BRP Inc.	DOO	OP		89	101.06	8,946	01/2021	5.35	7.30	8.02	13.8x	12.6x	6.77	3.51	5.78	28.8x	17.5x	140%	125.00	↑
CAE Inc.	CAE	OP		293	37.20	10,913	03/2021	0.47	0.96	1.45	38.9x	25.7x	0.81	0.73	1.40	51.0x	26.6x	31%	43.00	
Canadian National Rail	CNR	SP		713	134.50	95,872	12/2020	5.31	5.96	6.83	22.6x	19.7x	4.63	4.53	5.61	29.7x	24.0x	39%	143.00	
Canadian Pacific Rail	CP	SP	↓	670	97.06	64,982	12/2020	3.53	3.99	4.45	24.3x	21.8x	1.66	2.94	3.41	33.0x	28.4x	54%	102.00	
Cargojet Inc.	CJT	OP		17	179.32	3,059	12/2020	-5.63	5.21	6.22	34.4x	28.8x	9.41	1.95	4.91	92.2x	36.5x	27%	226.00	↓
Chorus Aviation Inc.	CHR	SP		178	4.85	862	12/2020	0.40	0.31	0.44	15.6x	11.0x	(1.50)	0.63	1.41	7.8x	3.4x	77%	4.85	
Exchange Income Corporation	EIF	OP		39	39.41	1,530	12/2020	1.31	1.46	2.43	27.0x	16.2x	3.42	1.44	2.03	27.5x	19.4x	63%	44.00	↑
Héroux-Devtek Inc.	HRX	OP		37	17.61	643	03/2021	0.80	0.76	0.98	23.1x	17.9x	0.88	1.86	1.14	9.5x	15.5x	28%	22.00	↑
NFI Group Inc.	NFI	OP		71	26.03	1,847	12/2020	-u0.75	u0.47	u1.55	46.0x	14.0x	u0.69	u0.25	u2.06	85.0x	10.5x	58%	32.00	↓
Taiga Motors Corp.	TAIG	OP		31	8.89	274	12/2020	NA	-0.81	-1.08	NA	NA	NA	(2.33)	(2.22)	NA	NA	na	19.00	
Transat A.T. Inc.	TRZ	UP		38	5.22	197	10/2020	-9.41	-11.41	-5.26	NA	NA	(2.85)	(10.58)	(0.32)	NA	NA	NA	3.50	
TFI International Inc.	TFII	OP		93	116.06	10,838	12/2020	u3.30	u3.90	u5.56	24.6x	17.2x	u5.16	u4.85	u7.19	19.8x	13.3x	40%	129.00	↑

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

Back to Research Analysts page

Alphabetical Listing

Branches

Ancaster • 911, Golf Links Road, Suite 201, Ancaster, ON, L9K 1H9 • 905-648-3813
Baie-Comeau • 600, Boul. Laflèche, bureau 340-B, Baie-Comeau, QC, G5C 2X8 • 418-296-8838
Barrie • 126 Collier Street, Barrie, ON, L4M 1H4 • 705-719-1190
Beauce • 11333, 1ière Avenue, bureau 200, Saint-Georges, QC, G5Y 2C6 • 418-227-0121
Bellevue West Van • Suite #209, 1455 Bellevue Avenue, West Vancouver, BC, V7T 1C3 • 604-925-3734
Berthierville • 779, rue Notre-Dame, Berthierville, QC, J0K 1A0 • 450-836-2727
Bin-Scarth • 24 Binscarth Rd, Toronto, ON, M4W 1Y1 • 416-929-6432
Brampton • 10520 Torbram Road (at Sandalwood Parkway), Brampton, ON, L6R 2S3 • 905-456-1515
Brandon • 633-C, 18th Street, Brandon, MB, R7A 5B3 • 204-571-3200
Calgary • 239 8th Ave., SW, Suite 100, Calgary, AB, T2P 1B9 • 403-476-0398
Calgary - Southport • 10655 Southport Road SW, Suite 1100, Southland Tower, Calgary,AB, T2W 4Y1 • 403-301-4859
Chatham • 380 St. Clair, Street, Chatham, ON, N7L 3K2 • 519-351-7645
Chicoutimi • 1180, boulevard Talbot, Suite 201, Chicoutimi, QC, G7H 4B6 • 418-549-8888
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • (403) 823-6859
Drummondville • 595, boulevard Saint-Joseph, Bureau 200, Drummondville, QC, J2C 2B6 • 819-477-5024
Duncan • 2763 Beverly Street, Suite 206, Duncan, BC, V9L 6X2 • 250-715-3050
Edmonton • 10175 – 101 Street NW, Suite 1800, Edmonton, AB, T5J 0H3 • 780-412-6600
Edmonton-North • TD Tower, 10088 – 102 Avenue, Suite No. 1701, Edmonton, AB, T5J 2Z1 • 780-421-4455
FrederictonNB • 551 King Street, Fredericton , NB, E3B 4Z9 • 506-450-1740
Gatineau • 920, St-Joseph, Bureau 100, Hull-Gatineau, QC, J8Z 1S9 • 819-770-5337
Granby • 150, rue St-Jacques, Bureau 202, Granby, QC, J2G 8V6 • 450-378-0442
Halifax • Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1601, Halifax, NS, B3J 3R7 • 902-496-7700
Halifax-Spring Garden • 400-5657 Spring Garden Road, Parklane Terraces, Halifax, NS, B3J 3R4 • 902-425-1283
Joliette • 40, rue Gauthier Sud, Bureau 3500, Joliette, QC, J6E 4J4 • 450-760-9595
Kelowna • 1631 Dickson Ave. Suite 1710, Landmark 6, Kelowna, BC, V1Y 0B5 • 250-717-5510
Lac-Mégantic • 3956, rue Laval, suite 100, QC, G6B 2W9 • 819-583-6035
Laval • 2500, boulevard Daniel Johnson, Bureau 610, Laval, QC, H7T 2P6 • 450-686-5700
Lethbridge • 404, 6th Street South, Lethbridge, AB, T1J 2C9 • 403-388-1900
Lévis • 1550, boulevard Alphonse-Desjardins, Bureau 110, Lévis, QC, G6V 0G8 • 418-838-0456
London Pall Mall • 256 Pall Mall Street, Suite 201, London, ON, N6A 5P6 • 519-439-6228
London-City Centre • 802-380 Wellington Street, London, ON, N6A 5B5 • 519-646-5711
Metcalfe • 1155, rue Metcalfe, Suite 1450, Montréal, QC, H3B 2V6 • 514-879-4825
Mississauga • 350, Burnhamthorpe road West, Suite 603, Mississauga, ON, L5B 3J1 • 905-272-2799
Moncton • 735 Main Street, Suite 300, Moncton, NB, E1C 1E5 • 506-857-9926
Mont Saint-Hilaire • 450 boul. Sir-Wilfrid-Laurier local 208 , Mont-St-Hilaire, Qc. J3H 3N9 • 450-467-4770
Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
Montréal International • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5576
Montréal L'Acadie • 9001, boulevard de l'Acadie, Bureau 802, Montréal, QC, H4N 3H5 • 514-389-5506
North Bay • 680 Cassells Street, Suite 101, North Bay, ON, P1B 4A2 • 705-476-6360
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
Ottawa • 50 O'Connor Street, Suite 1602, Ottawa, ON, K1P 6L2 • 613-236-0103
Outremont • 1160, boulevard Laurier Ouest, App. 1, Outremont, QC, H2V 2L5 • 514-276-3532
Owen Sound • 1717 2nd Ave. E., Suite 202, Owen Sound, ON, N4K 6V4. • 519-372-1277
Peterborough • 201 George Street North, suite 401, Peterborough, ON, K9J 3G7 • 705-740-1110
Plessisville • 1719, rue St-Calixte, Plessisville, QC, G6L 1R2 • 819-362-6000
Kirkland • 16,766 Route Transcanadienne, bureau 503, Kirkland, QC, H9H 4M7 • 514-426-2522
PVM Montréal • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5200
Québec • 500, Grande-Allée Est, Bureau 400, Québec, Qc, G1R 2J7 • 418-649-2525
Québec - Sainte-Foy • Place de la Cité, 2600, boulevard Laurier, Bureau 700, Québec, QC, G1V 4W2 • 418-654-2323
Red Deer • 4719 48th Avenue, Suite 200, Red Deer, AB, T4N 3T1 • 403-348-2600
Regina • 2075, Prince Of Wales Drive, Suite 305, Regina, SK, S4V 3A3 • 306-781-0500
Repentigny • 534, rue Notre-Dame, Bureau 201, Repentigny, QC, J6A 2T8 • 450-582-7001
Richmond • 135-8010 Saba Road, Richmond, BC, V6Y 4B2 • 604-658-8050
Richmond Hill • 9130 Leslie Street, Suite 200, Richmond Hill, ON, L4B 0B9 • 416-753-4016
Rimouski • 127, boulevard René-Lepage Est, Bureau 100, Rimouski, QC, G5L 1P1 • 418-721-6767
Rivière-du-Loup • 10, rue Beaubien, Rivière-du-Loup, QC, G5R 1H7 • 418-867-7900
Rouyn-Noranda • 104, 8e rue, Rouyn-Noranda, QC, J9X 2A6 • 819-762-4347
Saint John • 69 King Street, 2nd floor, St-John, NB, E2L 1G5 • 506-642-1740
Sainte-Marie-de-Beauce • 249, Du Collège, Bureau 100, Ste-Marie, QC, G6E 3Y1 • 418-387-8155
Saint-Félicien • 1120, boulevard Sacré-Cœur, Saint-Félicien, QC, G8K 1P7 • 418-679-2684
Saint-Hyacinthe • 1355, rue Daniel-Johnson Ouest, bureau 4100, Saint-Hyacinthe, QC, J2S 8W7 • 450-774-5354
Saint-Jean-sur-Richelieu • 395, boul. du Séminaire Nord, Suite 201, Saint-Jean-sur-Richelieu, QC, J3B 8C5 • 450-349-7777
Saint-Jérôme • 265, rue St-George, Suite 100, Saint-Jérôme, QC, J7Z 5A1 • 450-569-8383
Saskatoon - 8th St. • 1220 8th Street East, Saskatoon, SK, S7H 0S6 • 306-657-3465
Sept-Îles • 805, boulevard Laure, Suite 200, Sept-Îles, QC, G4R 1Y6 • 418-962-9154
Shawinigan • 550 Avenue De la Station, bureau 200, Shawinigan, QC, G9N 1W2 • 819-538-8628
Sherbrooke • 1802, rue King Ouest, Suite 200, Sherbrooke, QC, J1J 0A2 • 819-566-7212
Sidney • 2537, Beacon Avenue, Suite 205, Sidney, BC, V8L 1Y3 • 250-657-2200
Sorel • 26, Pl. Charles-de-Montmagny, Suite 100, Sorel, QC, J3P 7E3 • 450-743-8474
St. Catharines • 40 King Street, St. Catharines, ON, L2R 3H4 • 905-641-1221
Sudbury • 10 Elm Street, Suite 501, Sudbury, ON, P3C 1S8 • 705-671-1160
Thedford Mines • 222, boulevard Frontenac Ouest, bureau 107, Thedford Mines, QC, G6G 6N7 • 418-338-6183
Thunder Bay • 979, Alloy Dr, Suite 104, Thunder Bay, ON, P7B 5Z8 • 807-683-1777
Toronto 1 • Exchange Tower, 130 King Street West, Suite 3200, Toronto, ON, M5X 1J9 • 416-869-3707
Toronto Midtown • 22 St. Clair Ave East, suite 1202, Toronto, ON, M4T 2S5 • 416-507-8870
Trois-Rivières • 7200, rue Marion, Trois-Rivières, QC, G9A 0A5 • 819-379-0000
Val d'Or • 840, 3e avenue, Val d'Or, QC, J9P 1T1 • 819-824-3687
Valleyfield • 1356, boulevard Monseigneur-Langlois, Valleyfield, QC, J6S 1E3 • 450-370-4656
Vancouver - PB1859 • 1076 Alberni Street, Suite 201, Vancouver, BC, V6A 1A3 • 778-783-6420
Vancouver 1 • 475 Howe Street, Suite 3000, Vancouver, BC, V6C 2B3 • 604-623-6777
Victoria • 700-737 Yates Street, Victoria, BC, V8W 1L6 • 250-953-8400
Victoria - Fort • 1480 Fort Street, Victoria, BC, V8S 1Z5 • 250-475-3698
Victoriaville • 650, boulevard Jutras Est, Bureau 150, Victoriaville, QC, G6S 1E1 • 819-758-3191
Waterloo • 180 King Street South, Suite 701, Waterloo, ON, N2J 1P8 • 519-742-9991
White Rock • 2121 160th Street, Surrey, BC, V3Z 9N6 • 604-541-4925
Windsor • 1 Riverside Drive West,Suite 600, Windsor, ON, N9A 5K3 • 519-258-5810
Winnipeg • 200 Waterfront Drive, Suite 400, Winnipeg, MB, R3B 3P1 • 204-925-2250
Yorkton • 89 Broadway Street West, Yorkton, SK, S3N 0L9 • 306-782-6450

International

NBF Securities UK

(Regulated by
The Financial Services Authority)
71 Fenchurch Street, 11th floor
London, England EC3M 4HD
Tel.: 44-207-680-9370
Tel.: 44-207-488-9379

New York

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

National Bank of Canada Financial Inc.

New York

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

Member of

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

Corporate Offices

Montreal
National Bank Financial

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

Toronto
National Bank Financial

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

Canada
(Toll-Free)

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

United States
(Toll-Free)

1-800-678-7155

NATIONAL BANK OF CANADA
FINANCIAL MARKETS