The Hilberry Weekend Reading for Friday, January 22nd, 2021

HILBERRY Group

Goodbye to all that

The Presidential inauguration went off without drama.

Predictions of US Civil War were proved wrong. Funny how 25,000 heavily armed National Guards can discourage misbehaviour. Wacko's are still out there but for now they've crawled back into their dark places.

One and Done. Bye, Bye Birdie

President Biden and Vice President Harris made several firsts this week. Madam Harris is the first woman and first person of colour inaugurated as Vice President. Mr. Biden is the oldest President to have been inaugurated. His initial flurry of executive orders made clear his political tone. No surprises, much of it a continuation of the Obama era approach. CNN commentators were visibly relieved. Let me clarify I viewed Mr. Trump as a mistake. He was great for CNN's ratings but hard on the country as a whole. What does the re-entry of Mr. Biden mean for Canada?

Excerpt from NBF's daily Before the Bell…

Will 2021 Be The Year Of The Electric Vehicle? In the most recent *Musings From The Oil Patch,* Allen Brooks takes a closer look at the EV market. There are more and more EV models being introduced to the market in 2021 and most forecasts are calling for an increase in EV sales this year vs. last. Mr. Brooks points out that Morgan Stanley expects global EV sales to jump 50% this year. This in contrast to their 2% growth for ICE. Despite the momentum for EV adoption, Mr. Brooks thinks EV projections will fall short. In particular, he thinks the reasons for this short fall will be due to consumer behavior and rate of technological change. In particular, Mr. Brooks points to the assumption of a continued decline in battery costs which have declined due to increased production volume but also falling lithium chemical prices. The following is an excerpt from the commentary:

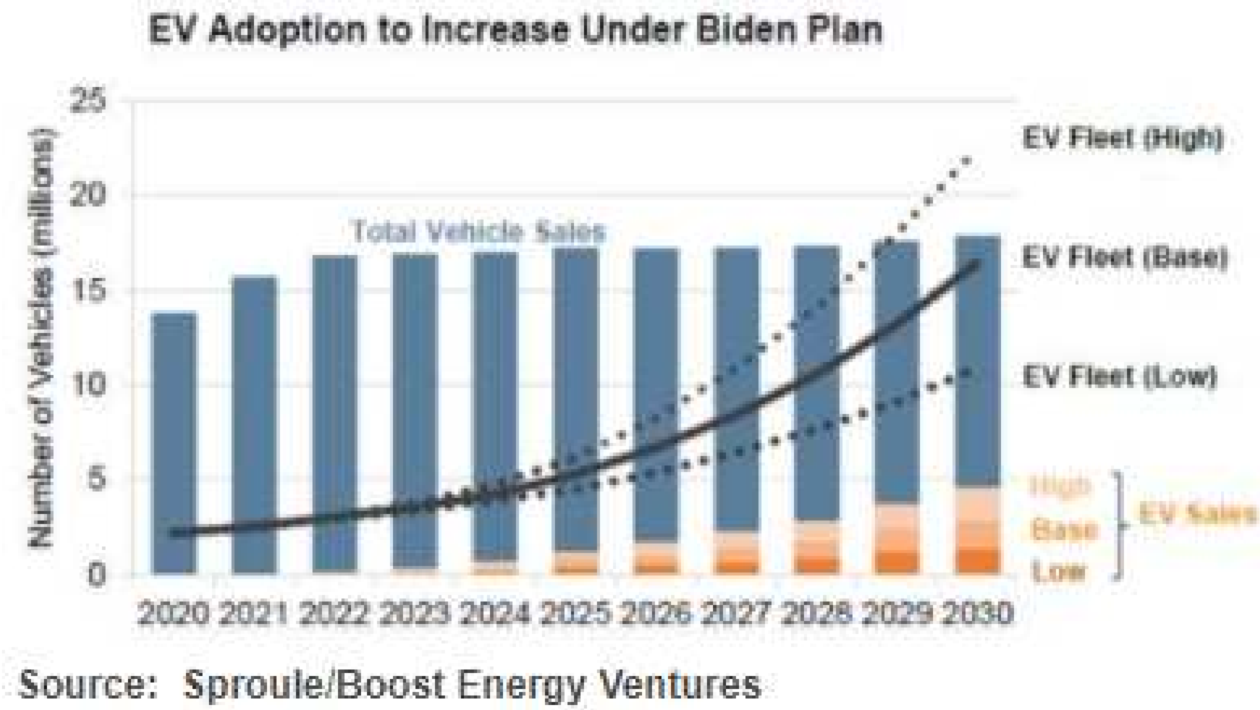
> *Benchmark Mineral Intelligence, who tracks the lithium chemicals market and EV battery technology, remarks that for the last six months of 2020, all the lithium chemicals prices it was collecting were flat-lining. On the other hand, China was showing upticks in prices. China is considered the bell-weather for lithium chemicals pricing. This pricing upturn is the first time in over two years that prices have increased. Is it possible that the projections for falling battery costs are derailed? The price rise may also push automakers to opt for newer battery technologies, assuming they can be perfected, which could lead to safer, more powerful and cheaper batteries. But that is not a given at the moment. Is China's lithium chemicals price trend a potential Black Swan for EVs?*

In summary, Mr. Brooks notes that the tailwinds for EVs including public policy will mean 2021 should be an interesting year for EV rollout, adoption and a possible example of what's to come in the years ahead.

Exhibit 8. 2021 Projected To Be Record EV Sales Year

Source: cleantechnica.com

Additional Sourcing: Musings From The Oil Patch



Additional Sourcing: Musings From The Oil Patch

For the full commentary: https://energy-musings.com/

WoodMac Sees Solar Costs Dropping. From Renewables Now: *"Solar is expected to become the cheapest source of new power in every US state and in Canada, China and 14 other nations by the end of the decade, according to a new report by Wood Mackenzie… The research and consultancy group notes that the cost of solar power has plunged 90% over the last two decades and is likely to drop further by 15%-25% in the decade to come."* Our renewables analyst Rupert Merer has noted that the wave of cheap solar is depressing power prices in places like Texas and Florida.

See '*WoodMac expects up to 25% drop in solar costs this decade'* for the full commentary:
https://renewablesnow.com/news/woodmac-expects-up-to-25-drop-in-solar-costs-this-decade-728679/

Our ESG analyst Amber Brown is out with her inaugural report which is also 2021 outlook. Last year continued to cast more of a spotlight on ESG, with funds supporting this thematic surging. We estimate ~US$36 trl of total ESG AUM, and see no signs of AUM growth slowing down. According to Bloomberg, ESG ETF net inflows tripled in 2020, representing ~US$89 bln. Meanwhile, the number of global ESG ETFs created in a year increased from 86 in 2019 to 198 created in 2020.

There is a lot more in the report which can be found here.

- Supporting further ESG adoption in 2021 and beyond include: Global exchanges backing ESG, requiring companies to either disclose key ESG issues or explain why not; and enhanced government support for ESG is being factored into both regulation and fiscal policy;
- Assessing the 2021 ESG waters:
  - Disclosure - With the consolidation of ESG reporting standards inevitable, we expect GRI, SASB, UN SDGs and TCFD to become the universally accepted standards;
  - Environmental - We believe Net Neutral by 2050 is no longer a novel or a "nice to have" strategy but is a "must-have" for companies stepping into 2021;

- Social - Diversity and inclusion will continue to take center stage, with more companies to set targets surrounding minority and female groups;
- Governance - With growing shareholder attention focused on executive compensation, we expect more companies to tie executive pay to ESG targets;

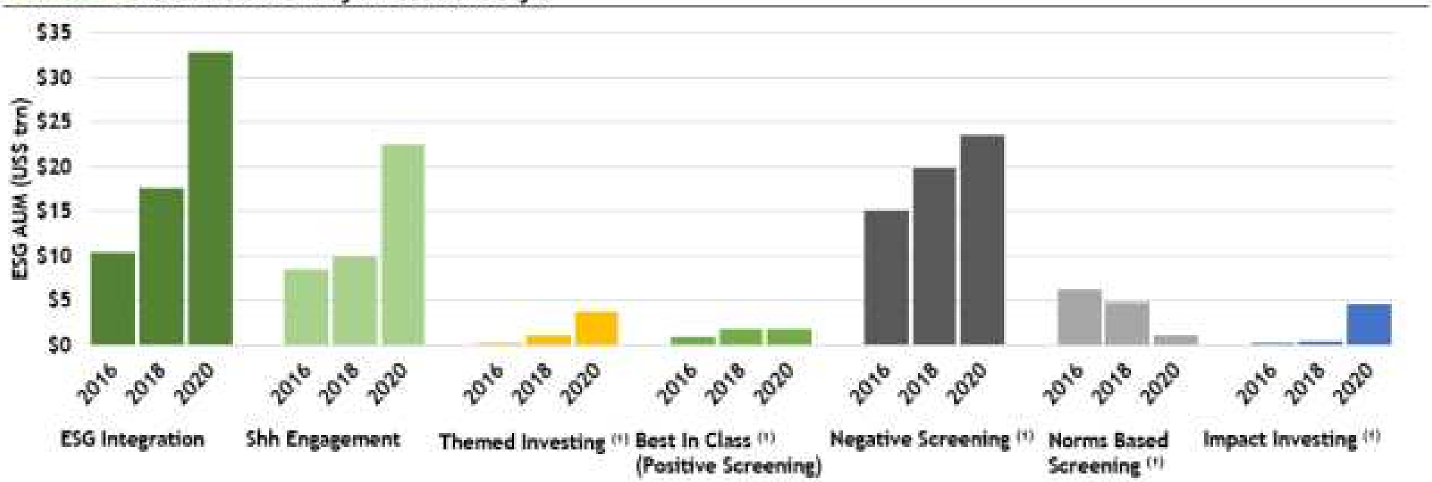
- Among the 2021 recommendations related to energy:
  - Electricity - Given the run-up in valuations for pure-play renewable companies over the past year, yet still capitalizing on the growing renewables trend, moving into 2021 we would shift our preference to the power names that have growing renewables platforms and a fossil fuel transition strategy in line with the Paris Agreement. *CPX would be our ESG investment choice*;
  - Energy - We would allocate ESG investment towards the energy infrastructure names, given that the long-term secured cash flow business model should provide the ability to fund higher capital intensive alternative energy projects such as hydrogen. Meanwhile, we expect more companies in this sector to release specific ESG targets in 2021. *ENB would be our ESG investment choice*.

Exhibit 3: The Seven Styles of Responsible Investing

	Inclusionary ESG Investing				Exlusionary ESG Investing		
	ESG Integration	Shareholder Engagement & Voting	Thematic Investment	Postive Screening (Best-in-Class)	Negative Screening	Norms Based Screening	Impact investing
Definition	Includes ESG risks and opportunities into financial analysis and investment decisions.	Uses shareholder power to influence corporate behaviour via voting and direct communication with management and boards.	Refers to investment themes or assets that are related to improving social or environmental sustainability.	Includes certain sectors, companies or projects for positive ESG or sustainability performance and/or includes top companies positioned against peers.	Involves systematic exclusion of certain sectors, companies, countries, or issuers based on activities that do not meet certain criteria.	Includes screening of investments that do not meet minimum standards of business practices, such as international norms and conventions.	Involves investments with the explicit intention of generating positive social and/or environmental impact alongside a financial return and a measurement.
Examples	All sectors have potential	All sectors have potential	Clean energy, green technology, sustainable agriculture	Renewable energy, sustainable land and agriculture, sustainable water, low carbon	Weapons, fossil fuels, nuclear	Alignment required with: UNGC, PRI, UNFCCC, UN SDGs	Green, Social and Sustainability Bonds

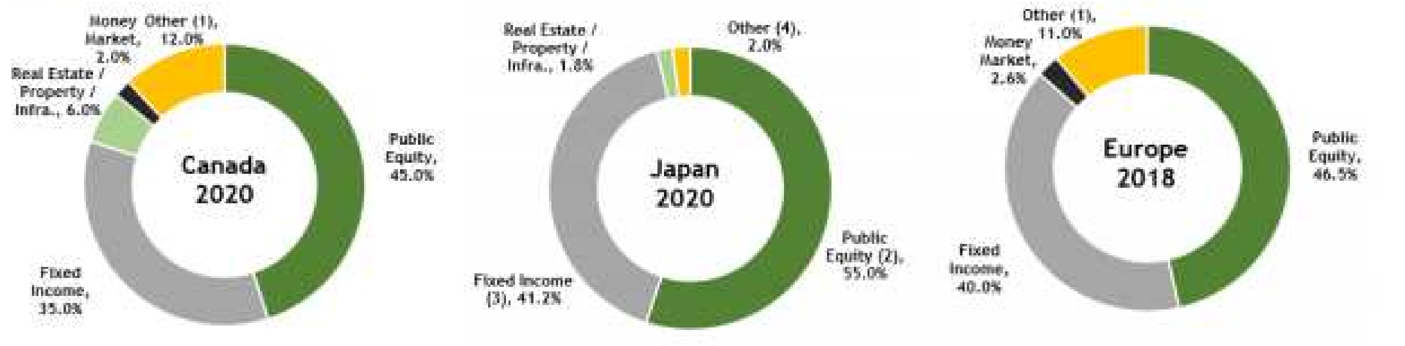
Source: GSIA, RIA Canada, Eurosif, US SIF, JSIF, RIAA, EFAMA, NBF

Exhibit 4: Global ESG AUM by Investment Style



(1) Given that the U.S. SIF summary only provided ESG AUM break down for ESG Integration and Shh Engagement, 2020 numbers were estimated based on 2018 percentage of ESG AUM multiplied by total 2020 ESG AUM.
Source: GSIA, RIA Canada, Eurosif, EFAMA, US SIF, JSIF, RIAA, NBF

Exhibit 5: Global ESG AUM by Asset Class



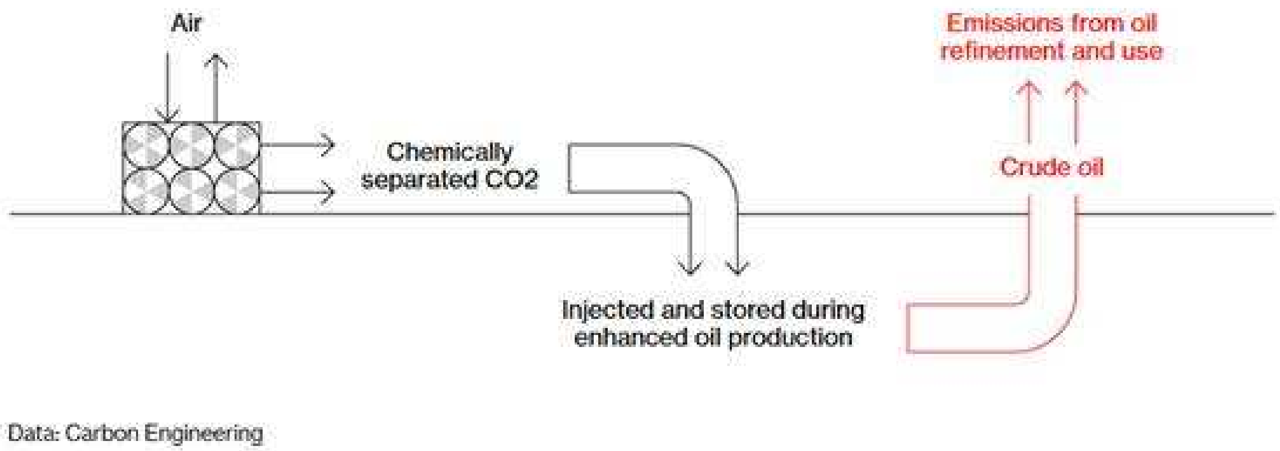
(1) Includes Private Equity / VS, Hedge Funds, Commodities, and Other.
(2) Public Equity includes Japanese Stocks and Non-Japanese Stocks.
(3) Fixed Income includes Bonds and Loans.
(4) Other includes Private Equity and Other.
Source: GSIA, RIA Canada, Eurosif, EFAMA, JSIF, NBF

See, **PDF Attachment:** **ESG 2020 Outlook: Surfing the 2021 ESG tidal wave… – NBF Thematic Research**

**Find this pdf 'attached' in this week's newsletter email or with the 'attachments' at the end of this newsletter.*

And speaking of ESG, we'll just wrap up an interesting article recently in Bloomberg article highlighting Occidental who is looking to build the world's first large scale direct air capture plant to remove carbon from the atmosphere. OXY is partnering with Squamish BC based Carbon Engineering on the project.

Source: Bloomberg



Source: Bloomberg

The Hilberry Weekend Reading featured Squamish BC Carbon Engineering in previous notes.

DISCLOSURE: We do not hold Occidental Petroleum or Carbon Engineering on the books.

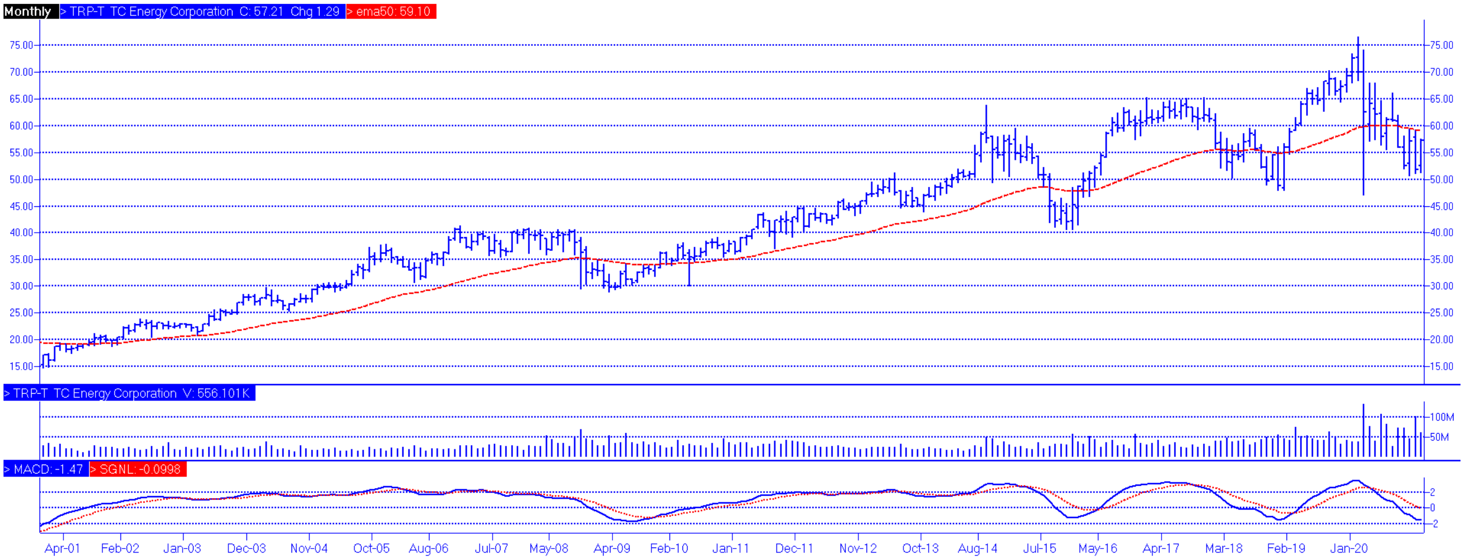
Staying with Biden and Climate policies/politics.

HEADLINE: *President elect Joe Biden commits to canceling the TransCanada Keystone XL line.*

Did this matter to the markets? Monday was a US trading holiday. Canadians drove down TransCanada shares. Tuesday the US markets were open. US investors drove the prices back up again. On Friday TC Energy caught a ratings change from Moody's who has moved TC to Stable from Negative (IE better) following the Biden's K-XL announcement. Moody's takes the Biden decision to mean TC Energy will not be borrowing to build KXL, so is less risky.

TC Energy Ltd (TRP-TSX $57.18 Jan 21 mid-morning) 15 min intervals – two weeks.

TC Energy Ltd monthly min intervals – 20 years.



From a longer-term view, TC Energy is at the low end of an upward trend and is showing an extreme oversold reading (blue line in the bottom panel is near bottom). At around 14X near term projected 12 mos. earnings, (7.1% earnings yield), TRP is valued 36% below the S&P500 forward P/E of22X. TRP is certainly not expensive. The 5.7% dividend is also attractive. Boooring and cheap. “It’s different this time”?

On the idea that curtailing pipelines reduces green house gas emissions….

‘Even without KXL US set record for Canadian oil Imports’ – Reuters – Jan 22, 2021

In previous notes I’ve argued that restricting pipelines has zero impact on GHG emissions. It’s a lonely stance on Vancouver Island. This does <u>NOT</u> mean I’m in love with pipelines, against prudent pollution regulations or a ‘climate denier’. If you’d like my full diatribe let me know.

See, PDF Attachment: Even without Keystone XL, US set for record Canadian oil Imports – Reuters

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Figure 4: US Imports – Top 3 Sources (Millions of bbls/d)

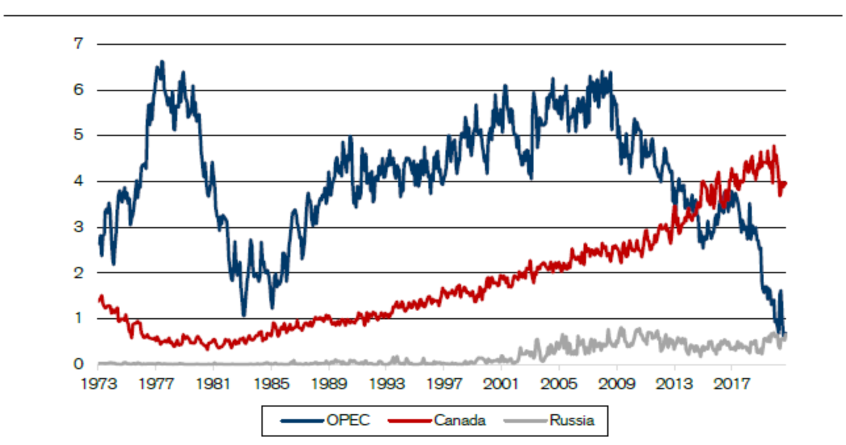
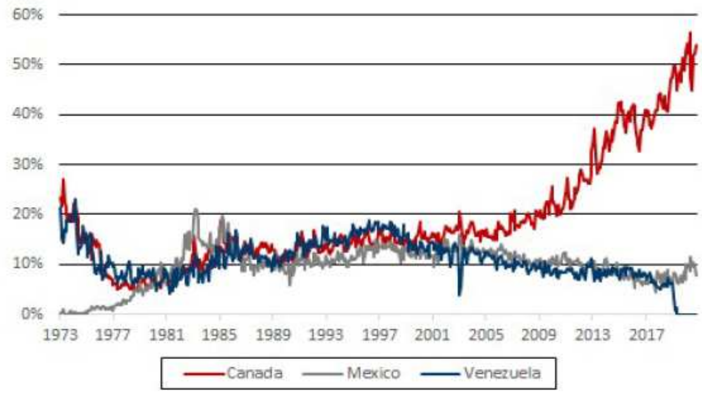


Figure 5: Imports From Canada, Mexico & Venezuela as % of Total Imports into the US



Source: EIA

Canadian crude exports into the US (figure 4) continue to climb since the 1970's. Restricting pipeline access, does not mean restricting supply. It means shipping by rail/tanker. As those methods are less efficient (with higher GHG emissions in the shipping process) they are more costly. US domestic crude oil producers compete against imports, Canada being the biggest target. US refiners can choose between imports and domestic supply meaning they refuse to pay the higher shipping costs attached to Canadian crude. The result is Canadian producers forced to accept a lower price. To make up for this lower cost, Canadian producers have become more efficient, shipping more crude to make the same revenue. The Biden administration is taking a page from the Obama playbook. Focusing on Canadian pipeline restriction permits virtue signalling, while quietly aiding US producers who are having a tough time of late. Recall Canada's crude represents 20% of US consumption and 50% of imports. A tiny restriction in Canadian supply equals big gains for US producers. Funny how that works.

As a reminder…

Barrak Obama Rose Garden Speech Apr 17, 2012 regards US internal pipeline capacity.

"In the past three years, "we've added enough new oil and gas pipeline to circle the Earth and then some."

https://obamawhitehouse.archives.gov/blog/2012/03/22/expanding-our-oil-and-gas-pipeline-infrastructure

TC Energy KXL Cull; Upgrade to Outperform (from Neutral) and Taking Target to C$70 (prior C$65) – Credit Suisse – Jan 21, 2021

Credit Suisse waded on Thursday, upping their TC Energy opinion to Out Perform (BUY).

See, PDF Attachment: TC Energy – KXL Cull – Credit Suisse-BUY

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DISCLOSURE: I own TC Energy personally, for family members and in accounts over which I have trading authority. We have traded in the security in the last 60 days. We eat our own cooking.

Hydrogen has been in the news. The inauguration of Biden/Harris will only add to the volume. Norwegian tech company, **Nel ASA,** said it expects its customers will be able to produce green hydrogen as cheaply as making it from fossil fuels as soon as 2025. Nel is accelerating production capacity of its electrolyzers to deliver larger projects in an aim to bring down costs. I'm on record that Hydrogen could be a game changer… someday.

Nel ASA is a new name for us. I decided to have a look at their price chart (Listed in Oslo priced in Norwegian Krone (NOK) currently $0.15 per $CDN.

Nel ASA (NEL-Oslo 32.40 NOK) daily 6 months.

The stock price is up 100% from the Oct/2020 lows. Has it been a good investment?

Nel ASA monthly Sept/2004 Jan/2021.

Nel ASA was founded in 1927. The Oslo exchange history goes back to Sept/2004 with what appears to be an IPO around 40 NOK. After an initial flurry to over 274 in Sept. 2005 (6.8X increase!!) the stock price plummeted, languishing under 3 NOK from 2012 to 2018 at one point touching 0.98 NOK. Mid-session on Thursday the price is 32 NOK. History says it has not been a great investment. Perhaps this will change. With no dividend and trading at **negative 328 P/E** it doesn't fit our value screens.

https://en.wikipedia.org/wiki/Nel_ASA

DISCLOSURE: No position in NEL ASA personally or for clients. We have not traded in the stock at any time.

Staying with renewables, NBF analyst Rupert Merer was out with a 2021 thematic on renewable infrastructure.

Excerpt from his update,

Renewable Power Infrastructure Outlook for 2021:

Saving the world should play out well for investors, but maybe not as well as the last year.

Recent performance has been spectacular, but may not be repeatable Stocks in our renewable power infrastructure coverage are up by >70% since last the start of 2020. The top performing stocks over that time (BLX up 117%, BEP up 92%, INE up 80%) are the "pureplay" renewable energy companies. With 2020 in the books, a 5-year performance review shows a total return CAGR of 20% to 40% across the sector. Stocks that have relied more on internally generated equity have outperformed, but all growth has been rewarded because of a falling cost of equity. Looking ahead, without the tailwind of falling yields, returns may not reach the levels we have seen over the last few years, though we believe there is still potential to drive double-digit value creation. The stocks with sponsor relationships (RNW, BEP) will have to work extra hard, with some value creation shared with sponsors.

See, PDF Attachment: Renewable Power Infrastructure – January 20, 2021 – NBF Thematic Research

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Industry speak translation:

- BEP: Brookfield Renewable Partners (BEP.UN-TSX-$61.68)
- BLX: Boralex Inc class A shares (BLX-TSX-$53.04)
- RNW: TransAlta Renewables Inc (RNW-TSX-$22.03)

BEP and RNW are entities partially controlled by 'sponsors' IE they are controlled via a voting control structure with a parent company that holds blocks of the publicly traded shares. In the past we've tended to avoid these structures. We made an exception with Brookfield Renewable Partners. Glad we did as it's been a rocket ship.

DISCLOSURE: No position in Boralex. We hold smaller positions in TransAlta Renewables. We have not been active in the stock. I own Brookfield Renewable Partners personally, hold it for family members and in client accounts over which I have trading authority. We have traded in the security within the last 60 days.

Moving on...

JPMorgan Chase & Co. (JPM-$138.68) Credit Suisse – Outperform

Setting the Pace and Raising the Bar; 2021 and 2022 estimates raised; TP now $150

"On Friday, JPMorgan reported fourth quarter earnings of $3.79 per share, well ahead of forecasts, with or without the benefit of loan loss reserve release. Results have set the pace for the banks, with quarterly ***ROTE**** *at 24% and full year ROTE of 14%.* (these are strong numbers for such a large institution). *This is what we call resilience worthy of a* ***multiple*****. *And it's more than resilience. Management's unwavering commitment to investment in the franchise ought to support more sustainable growth and above-average returns. Guidance for 2021 includes annual investment spend of ~$12.4bn--a $2.4bn increase on a spending base that was already well in excess of most banks' capacity--raising the bar in a competitive business. How does this factor into estimates… alongside a more manageable credit cost trajectory, with the broader benefits of economic recovery and profitable market share gains, we're raising our 2021 and 2022 estimates to $9.85 and $11.00 per share, respectively (prior: $9.00 and $10.35). Earnings upside drives our target price to $150 (prior: $142). Risks to achievability of our estimates and target price tie first and foremost to the macro backdrop, i.e., the level and shape of the yield curve, business and capital markets activity and credit quality migration."*

***ROTE: Return On Tangible Equity – SH**

**** 'multiple': refers to the ratio of share price to earnings IE a higher P/E than historical ratio – rationalizing a higher price target. JP Morgan projected P/E at today's price is 14.3:1. Historical P/E is 11:1. Investors are granting JPM a 30% premium to the long-range average. The stock is not cheap. But/and if interest rate spreads expand, this could increase earnings at a faster than historical pace. Adding in higher-than-average tangible assets (safety), leverage could be strong.**

See the full report,

PDF Attachment: JPMorgan Chase & Co. – Setting the Pace and Raising the Bar – Credit Suisse-BUY

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The Quality Margin of Safety – Intrinsic Investing – Jan 13, 2021

https://intrinsicinvesting.com/2021/01/13/the-quality-margin-of-safety/

Has food behaviour changed?

We've had clients wondering about consumer food behaviour post COVID-19. Packaged foods have benefited from consumer's being forced away from fast food chains. Home delivery has added to the trend. Packaged Food manufacturer share prices are up. Credit Suisse looks at the industry. They don't see material long-term changes, advising caution on the current stock prices in the sector.

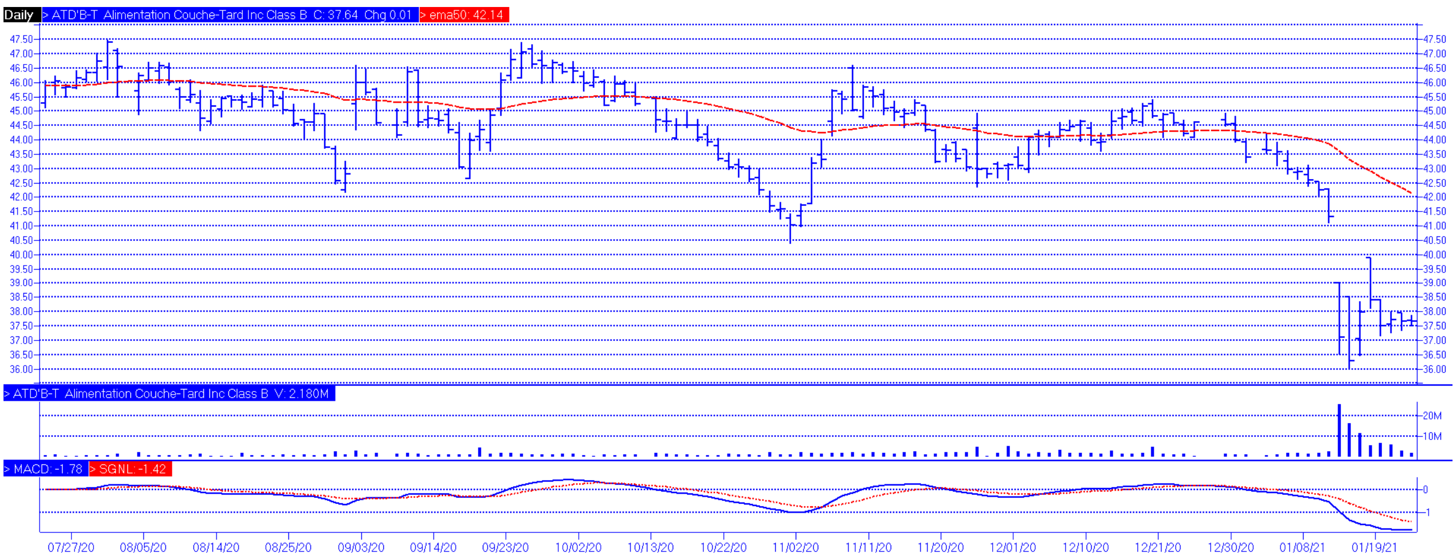
See, PDF Attachment: 2021 Packaged Foods Preview – Credit Suisse ***(80 pages!)***

** Please contact us if you would like us to send you this article.*

Alimentation Couche-Tard has dropped recently

Couche-Tard caused much hair pulling recently – mine included. Surprising investors with a big merger announcement with French grocer Carrefor, ATD's stock plummeted on the news. Over the following weekend the French Govt nixed the deal, bringing into question the vetting process. Analysts dropped their targets. History says Couche-Tard doesn't give investors many buying opportunities. After some initial irritation, we decided the current prices need a closer look.

Alimentation Couche-Tard (ATD.B-TSX-$37.65) daily – 6 months.



DISCLOSURE: I own Couche-Tard personally, hold it for family members and for client accounts over which I have trading authority. We have traded within the last 60 days.

It's mid-recession, mid-COVID and mid-winter. Spring is coming. Life gets better. Sometimes it's that simple.

Have a Great Weekend!

Steve & Anna Hilberry

For The Record Jan 22, 2021

Dow Industrials: **31,060**

S&P 500: **3845**

S&P/TSX Comp: **17,845**

WTI: **$52.23**

Loonie in $USD: **$0.7855 $US**

ATTACHMENTS – See the following pages for:

- **ESG 2020 Outlook: Surfing the 2021 ESG tidal wave… – NBF Thematic Research** *(28 pages)*
- **Even without Keystone XL, US set for record Canadian oil Imports – Reuters** *(3 pages)*
- **TC Energy – KXL Cull – Credit Suisse-BUY** *(11 pages)*
- **Renewable Power Infrastructure – January 20, 2021 – NBF Thematic Research** *(16 pages)*
- **JPMorgan Chase & Co. – Setting the Pace and Raising the Bar – Credit Suisse-BUY** *(13 pages)*
- **2021 Packaged Foods Preview – Credit Suisse** *(80 pages)*

**For better copies of the attachments, please refer to the PDFs attached in this week's newsletter email or contact our office.*

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