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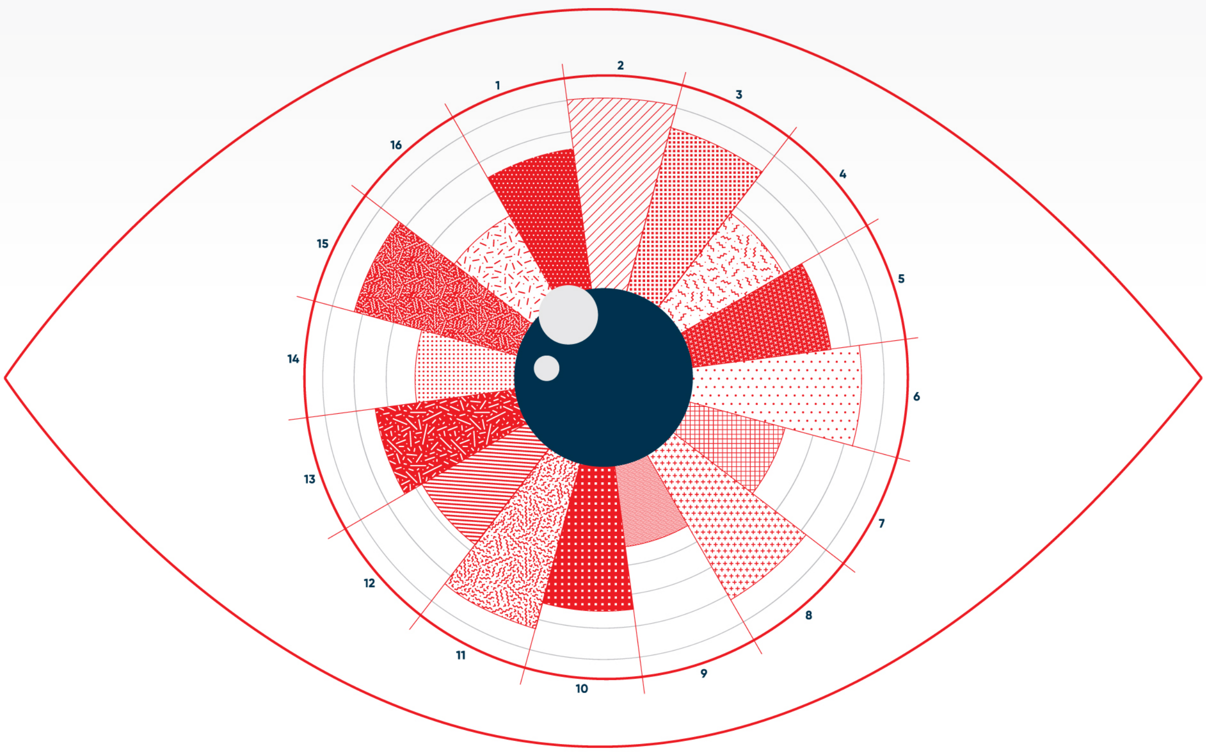
FINANCIAL MARKETS

Vision



Monthly Economic and Financial Monitor

January 2021

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Highlights

Stéfane Marion
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Economy

- The course of the global economy continues to depend on the evolution of the pandemic, and in recent days the news has been rather bad. Shortly before Christmas, British health authorities reported detection of a new variant of the SARS-CoV-2 virus. A few days later South Africa made a similar announcement. The scientific community warns that these mutant versions of the virus, while not seeming deadlier than their predecessors, are more contagious. The U.K. tightened its lockdown measures in response. Other European countries, notably France and Germany, followed suit. In the U.S., meanwhile, a steady rise in the daily count of new cases has put enormous pressure on the health-care system. It's hard to imagine how first-quarter global growth could not take a hit from these developments. We nevertheless continue to see a strong rebound of the global economy in 2021. Our forecast for the year as a whole is unchanged at +5.4%.
- The U.S. pandemic picture has deteriorated further since our last issue. As many specialists feared, the year-end holidays brought a resurgence of Covid-19 cases. Meanwhile, the vaccination campaign launched in December has made less headway than anticipated. The delays on this front mean that a more complete reopening of the economy will not come before the second quarter. The current context has prompted us to revise down our growth outlook for Q4 2020 and Q1 2021. In our view, this soft patch will be offset by stronger growth in the second half of the year, and we are leaving our growth forecast for 2021 unchanged at 3.8%. Despite the deterioration of the short-term outlook, recent developments leave hope for a solid rebound in the second half of the year. First, uncertainty about the next round of fiscal stimulus has finally dissipated with the announcement of a new $900-billion federal aid package. Democratic control of the Senate, with its potential for still more fiscal stimulus, only increases our confidence for the post-pandemic period.
- At this writing there is no sign that the holiday pause slowed the spread of Covid-19 in Ontario and Quebec. In Quebec, intensive-care hospitalization has topped its first-wave peak and this time around Ontario's rate is comparable to Quebec's. This evolution has taken their hospitals to the brink of overload and has led their provincial governments to apply still stricter measures to contain the spread of the virus. The new Quebec and Ontario measures make a first-quarter economic contraction very likely. However, the Q1 retreat we anticipate (−3.9% annualized) will be nothing like the dizzying fall of Q2 last year (−38.1%), when non-essential services were shut down across the board. The soft patch we see for Canada in Q1 should turn out to be transient, in our view not enough to derail the ongoing revival. The advent of effective vaccines against the Covid virus late last year has boosted the confidence of Canadian businesses. The Bank of Canada's Business Outlook Survey reported this month that hiring and investment intentions in December were up strongly from the previous quarter though the second wave was well under way at the time of the survey. This suggests a solid rebound when the pandemic in brought under control.

Interest rates and currency

- Certainly, there remains an uncomfortable amount of uncertainty attached to many key forecasts (for the real economy and by extension financial markets). But even if Q1 growth stumbles, as seems increasingly likely, we're not exactly talking about a replay of what we saw in 2020 and is more likely to be a Canadian story. Moreover, we'd be tempted to label this a temporary disruption (and mechanical pause) in an otherwise solid recovery trajectory.
- A paring of the BoC's QE pace to $3 billion/week is still very much needed as the Bank's ownership share of GoC bonds trudges higher towards the 50% mark. However, with COVID case counts soaring, the central bank isn't really in a position to withdraw stimulus at next week's meeting, if only to avoid "bad optics". Ultimately, a step lower on QE now looks to be a March (or at the latest April) story. And while the virus trajectory is no doubt concerning, we do not expect this to result in the "mini" rate cut that many have speculated.
- Do we think the Fed's forecasts are too pessimistic? Yes. But at this point, there's little to be gained by rapidly shifting its published forecasts. A cautious approach from the central bank makes sense here given the still-elevated level of uncertainty. We do think that, in time, they will grow more enthusiastic as our more optimistic economic outlook materializes. We ultimately see the rebound in inflation (and unemployment) culminating in the Fed's first rate hike coming early in 2023. Before that comes, however, it will need to begin winding down its other key policy tool—asset purchases.
- Markets now expect the Bank of England to take its policy rate into negative territory this year (from 0.1% currently), despite the post-pandemic outlook having improved with the signing of an EU trade agreement. The central bank is expected to publish its views on the topic after next month's policy meeting, but policymakers are already preparing the ground for such a move.
- The Canadian dollar closed 2020 near a three-year high versus the U.S. dollar. Though loonie appreciation has been driven mainly by widespread weakness of the USD, we expect the next leg of its appreciation to be fuelled by commodity prices. At this writing, our target for year-end 2021 is C$1.20 to the USD.

Highlights

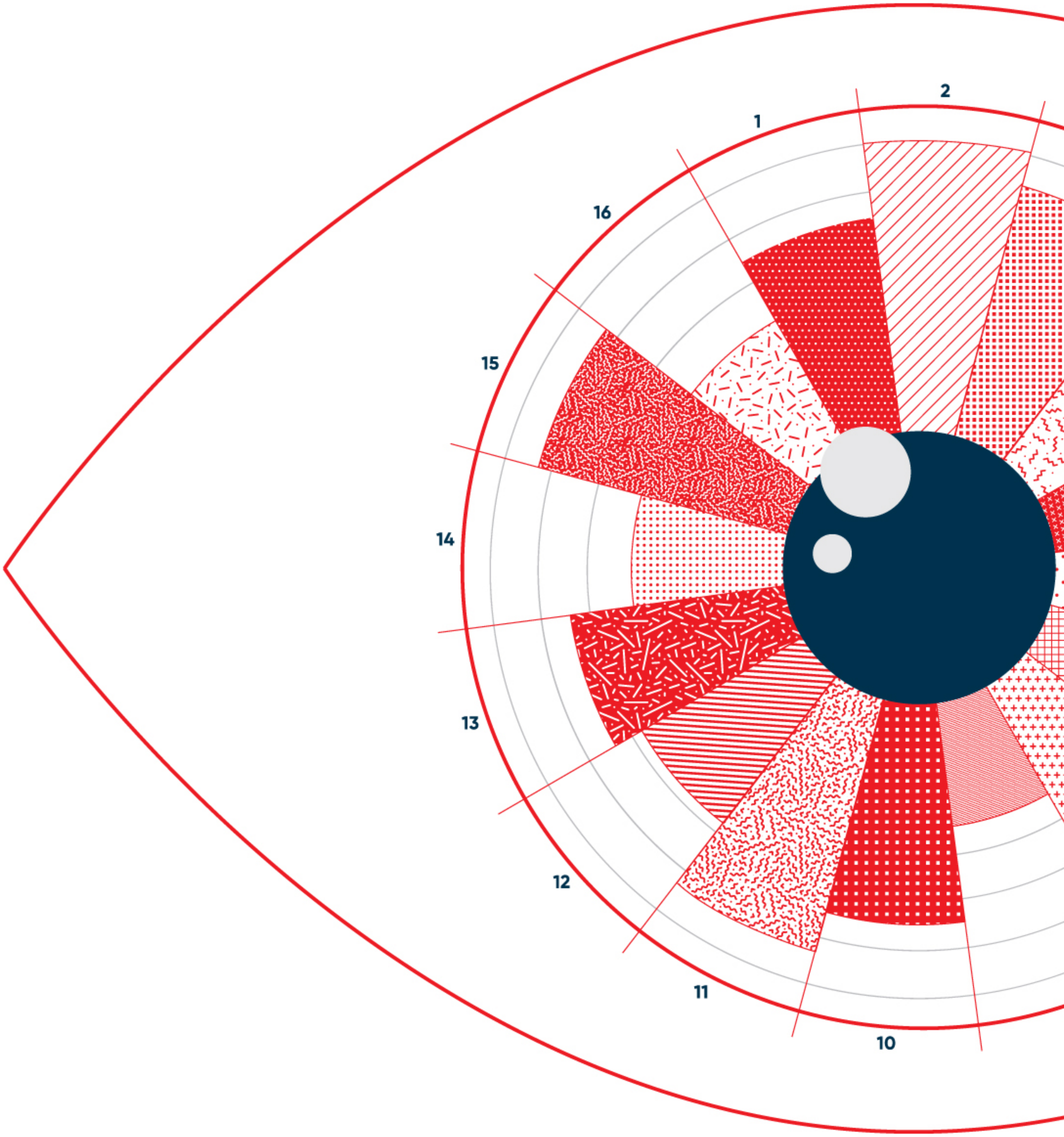
Recommended asset mix and stock market

- The world's bourses began 2021 jumping out of the gates. By January 8 the MSCI ACWI was up 2.8% to a new record on the strength of a whopping gain from emerging markets. This advance was again driven by expansion of P/E multiples.
- The latest bout of enthusiasm comes from the unexpected Democratic victory in the January 5 Georgia Senate elections. In our view, Democratic control of all the levers of executive and legislative power makes an additional stimulus package for states and households very likely. Market conviction about the economic recovery has taken the U.S. yield curve to its steepest in more than two years.
- In the early stage of an economic recovery, a steeper yield curve tends to favour cyclicals over more defensive stocks. That's exactly what is happening now. A reflation trade appears to be putting down roots.
- Unsurprisingly, the S&P/TSX does well in such an environment. After a lacklustre performance relative to other world bourses last year, the Canadian equity benchmark finally hit a new record in January 2021. Despite the recent rise, the 12-month forward P/E of the S&P/TSX remains well below that of the S&P 500 – 17 versus 23. It is worth noting that this six-point gap between the P/Es of the two indexes is the largest on record
- Our asset allocation is unchanged this month. Equities remain overweighted relative to our benchmark and fixed income underweighted. At this juncture, we are cautiously optimistic and expect that transitory weakness in the economy and earnings will be addressed by further fiscal and monetary stimulus.

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	11.6	Market Weight	
Materials	13.7	Market Weight	
Industrials	12.6	Market Weight	
Consumer Discretionary	3.9	Market Weight	
Consumer Staples	3.7	Market Weight	
Healthcare	1.3	Market Weight	
Financials	29.8	Overweight	
Information Technology	10.3	Underweight	
Telecommunication Services	4.9	Market Weight	
Utilities	5.1	Market Weight	
Real Estate	3.1	Underweight	
Total	100.0		

* As of January 08, 2021

The Economy



The Economy

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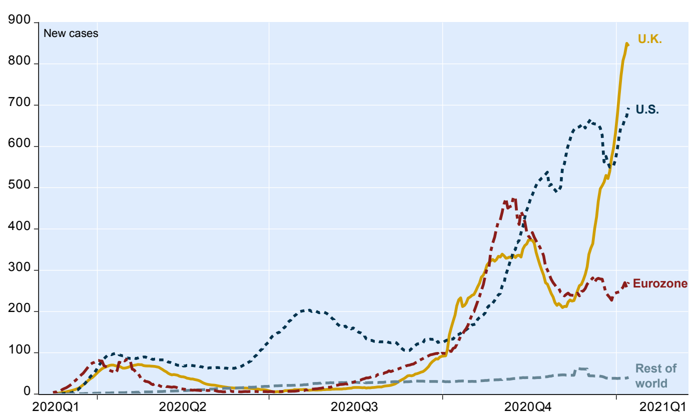
World: The race to vaccinate

The course of the global economy continues to depend on the evolution of the pandemic, and in recent days the news has been rather bad. Shortly before Christmas, British health authorities reported detection of a new variant of the SARS-CoV-2 virus. A few days later, South Africa made a similar announcement. The scientific community warns that these mutant versions of the virus, while not seeming deadlier than their predecessors, are more contagious.

The U.K. tightened its lockdown measures in response. Other European countries, notably France and Germany, followed suit. In the U.S., meanwhile, a steady rise in the daily count of new cases has put enormous pressure on the health-care system.

World: A pandemic rampant
Daily new cases of Covid-19 per million population, 7-day moving average

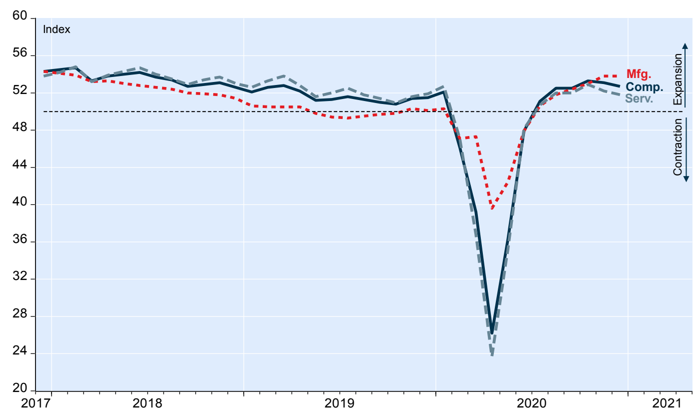


NBF Economy and Strategy (data Johns Hopkins CSSE)

It's hard to imagine how first-quarter global growth could not take a hit from these developments. Another contraction of U.K. and Eurozone GDP seems more and more likely. A U.S. slowdown is also in the cards (see next section).

We nevertheless continue to see a strong rebound of the global economy in 2021. Our forecast for the year as a whole is unchanged at +5.4%. Our optimism is based on a series of factors. First, despite the astronomical human costs of the pandemic, current measures to stem contagion around the world are affecting the economy less than those of the first wave. In December the Markit PMI continued to signal a quite solid expansion of the private sector.

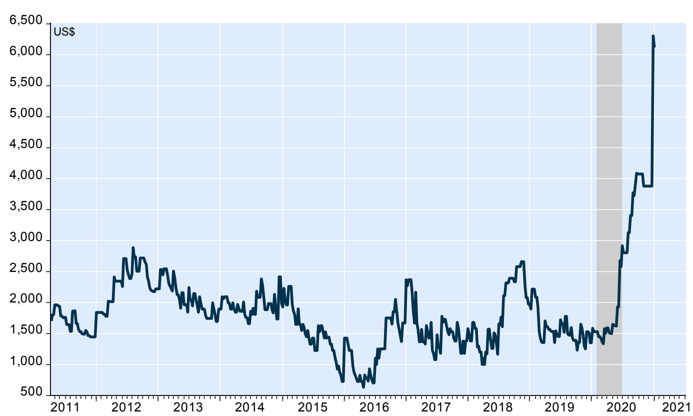
World: Expansion continues despite Covid-19 wave
JPMorgan global PMI, last observation December 2020



NBF Economy and Strategy (Markit data via Refinitiv)

Capacity pressure in manufacturing is already attested by soaring transport costs.

World: Demand rebound drives up transport costs
Benchmark rate to ship a 40-foot container from Hong Kong to Los Angeles



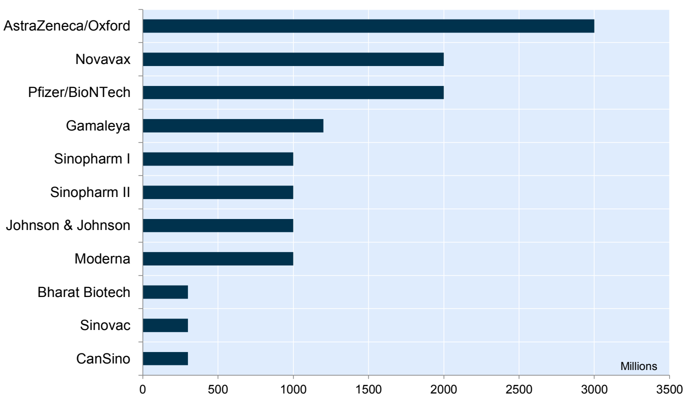
NBF Economy and Strategy (Drewry Shipping Consultants data via Bloomberg)

The service sector has been less impressive, but that comes as no surprise under current conditions. In the medium term, we think services output will benefit from deployment of effective vaccines, especially in the advanced economies, whose populations will likely be the first to be immunized. Will the producers of these vaccines be able to meet demand? Their announced production targets justify cautious optimism. Pfizer/BioNTech expects to produce 2.0 billion doses during 2021, Moderna between 600 million and 1 billion.

The Economy

Astra-Zeneca/Oxford has the largest production capacity; it hopes to supply up to 3 billion doses this year. Other vaccines currently await approval (Johnson & Johnson and Novavax, among others). If they go into production this year as projected, more than 12 billion doses will be made available during the year, enough to inoculate the great majority of the world's people.

World: All-out efforts to produce vaccines
Projected dose production in 2021



NBF Economics and Strategy (data from Financial Times)

Widespread vaccination should gradually bring economic life back to normal. As noted above, the advanced economies are likely to be the first to feel it, but developing countries – especially commodity-producing ones – will benefit from a revival of global demand.

If anything, the prospects for a strong rebound have probably been enlivened by the clearing of some clouds from the sky. Apprehensions of a hard Brexit dissipated December 24 with signature of a trade agreement between the U.K. and the European Union. No tariffs or quotas will be imposed on goods moving between the two entities. True, the rules for services are less generous. Imperfect as the agreement may be, it will avoid the chaos that would have followed a U.K. exit from the European free trade zone.

In other encouraging news, EU leaders after long deliberation have finally adopted a €1.8-trillion budget thanks to the abandonment by Hungary and Poland of their objections to a new provision tying payments to compliance with certain principles of law. The agreement also means the EU can move forward with legislation to create a €750-billion stimulus fund, whose disbursements should reach member states in the second half of the year. About €390 billion of the total will be in the form of subsidies funded by issuance of pan-European debt by the European Commission. The remainder will be made available as loans.

In short, the road ahead for the global economy is still long and strewn with potholes, but the light at the end of the tunnel seems a little brighter each day.

World Economic Outlook

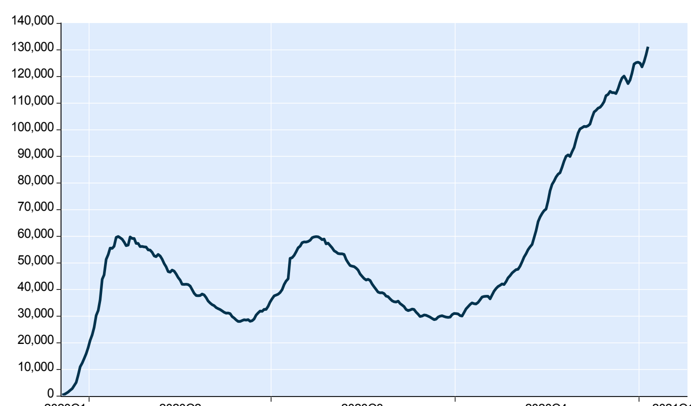
	2020	2021	2022
Advanced Economies	-5.6	4.3	3.4
United States	-3.5	3.8	3.5
Eurozone	-8.3	4.9	3.8
Japan	-5.7	4.3	2.0
UK	-11.5	5.5	5.0
Canada	-5.4	3.7	4.0
Australia	-3.4	3.2	3.0
Korea	-1.8	3.4	2.7
Emerging Economies	-3.0	6.2	4.9
China	2.1	8.2	5.8
India	-10.0	9.5	8.0
Mexico	-9.2	3.9	2.8
Brazil	-5.6	3.4	2.7
Russia	-4.2	3.0	2.5
World	-4.1	5.4	4.2

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

U.S.: Washington sends in more cavalry

The U.S. pandemic picture has deteriorated further since our last issue. As many specialists feared, the year-end holidays brought a resurgence of Covid-19 cases. Hospitalizations are now double what they were in the first two waves of infection.

U.S.: Coronavirus still on the rampage
Number of hospitalizations related to Covid-19

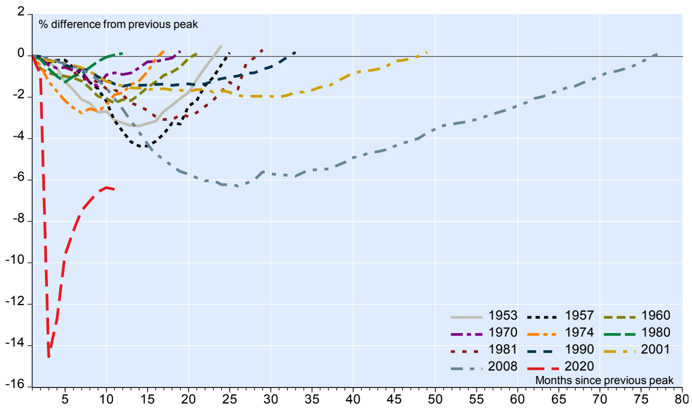


NBF Economy and Strategy (data via covidtracking.com)

Cooling of growth was already highly visible in the December jobs report. It showed nonfarm employment down 140,000 on the month, the first decline since April. Though losses were concentrated in the recreation and accommodation industries, the overall picture was quite dark. Total employment was still 6.5% (9.8 million) short of its pre-pandemic level, a shortfall similar to that at the worst point of the 2008-09 recession.

The Economy

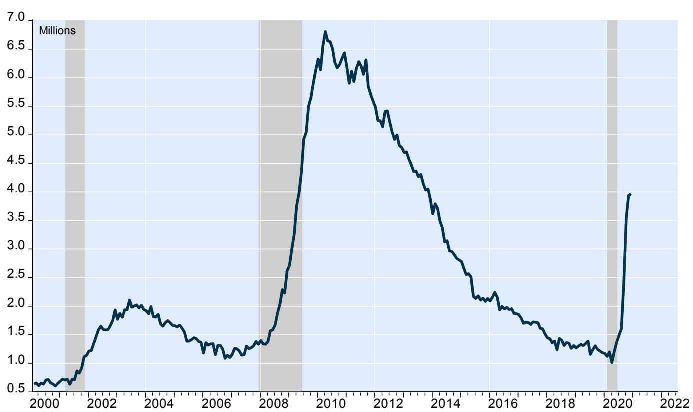
U.S.: Employment recovery braked by Covid-19
Nonfarm employees, change from previous peak



NBF Economy and Strategy (data via Refinitiv)

Also noteworthy is a rise in the number of Americans who have been seeking work for 27 weeks or more, to a seven-year high of 4.0 million. Since the consequences of unemployment increase with duration, the swelling of the ranks of the long-term unemployed is an indicator that will bear close watching in coming months.

U.S.: Covid will leave scars on the labour market
Number of long-term unemployed (more than 27 weeks)

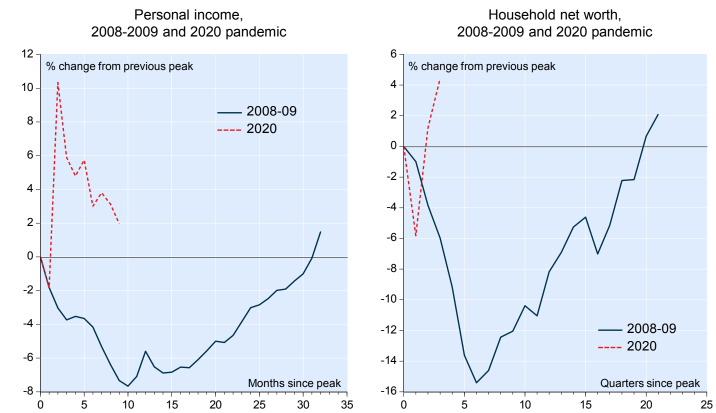


NBF Economy and Strategy (data from FRED St. Louis)

Despite the deterioration of the short-term outlook, recent developments leave hope for a solid rebound in the second half of the year. First, uncertainty about the next round of fiscal stimulus has finally dissipated with the announcement of a new $900-billion federal aid package. The agreement reached by Congress provides for most Americans to receive a cheque for $600; for an extension of the special Pandemic Unemployment Assistance and Pandemic Emergency Unem¬ployment Compensation programs; for a $300 supplement to regular unemployment insurance through to mid-March; and for an injection of $284 billion into the Paycheck Protection Program providing emergency loans to employers.

Adoption of this legislation can be expected to soften the hit to the economy between now and the attainment of herd immunity, and to support growth after that. It should be kept in mind that household incomes have increased substantially since the beginning of the pandemic as a result of generous federal aid programs. These gains have allowed consumers to amass about $1.4 trillion in excess savings (~6.5% of GDP), a reserve they can draw on throughout 2021. The rise in savings, combined with a run-up of financial and real-estate asset prices, has spurred a vigorous rebound of household net worth, an encouraging contrast with its sharp fall and slow recovery in the last recession.

U.S.: Households still in good shape financially



NBF Economy and Strategy (source: BEA and Federal Reserve via Bloomberg)

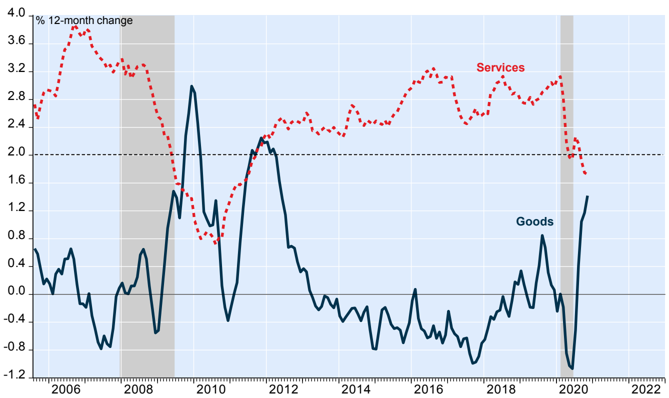
The current context has prompted us to revise down our growth outlook for Q4 2020 and Q1 2021. In our view, this soft patch will be more than offset by stronger growth in the second half of the year, and we are leaving our growth forecast for 2021 unchanged at 3.8%. Democratic control of the Senate, with its potential for still more fiscal stimulus, only increases our confidence for the post-pandemic period.

Inflation is also likely to firm up in the second half of the year. In the Federal Reserve's December projections, headline inflation will take until 2023 to reach 2%. We think that could happen earlier. Our reasons:

First, inflation will show a base-effect rebound in Q1 and Q2, since prices were in free fall 10 months ago as the pandemic began. And there's more. As we have often noted, the current recovery is led by the goods sector, a phenomenon currently reflected in the CPI: inflation of basic goods is at a 10-year high while inflation of basic services is at a decade low.

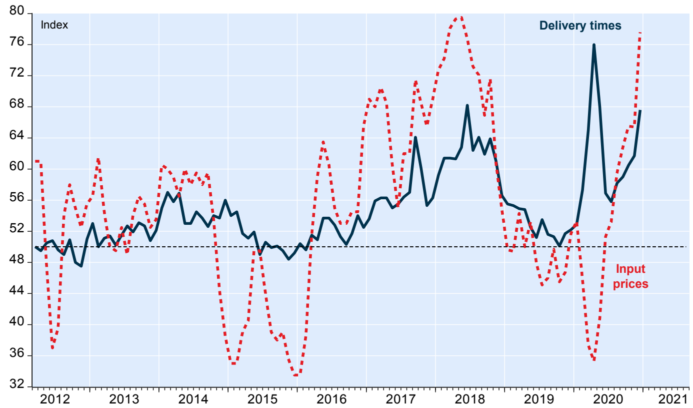
The Economy

U.S.: The consumer spending mix affects the CPI
Basic CPI inflation, last observation November 2020



NBF Economy and Strategy (data via Refintiv)

U.S.: Supply chains under pressure …
ISM Manufacturing index

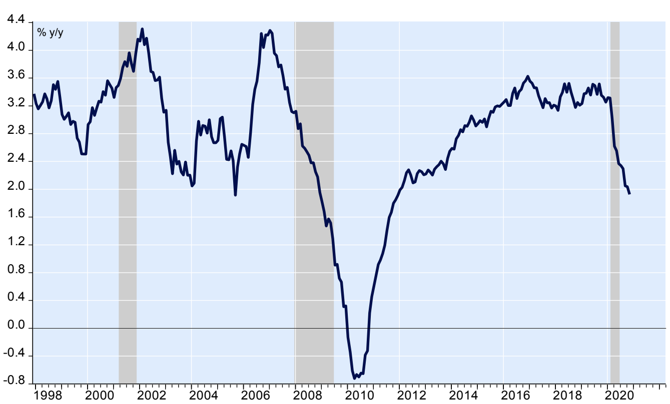


NBF Economy and Strategy (data via Refintiv)

What will happen when the economy reopens fully? Many people will likely want to return to activities they had to give up during the pandemic (restaurant dining, shows, travel, etc.). That is likely to prompt a rapid rebound of service prices, especially with some capacity no longer there.

A rebound can also be expected in the shelter component, which is almost one-third of the total CPI. Prices in that category have fallen over the past year but, in contrast to previous recessions, the fall is attributable not to weakness in the real estate sector but to federal emergency measures, notably tenant-eviction moratoria. Unpaid rent that landlords forebear to collect is counted as rent reduction for CPI purposes. Catch-up when the moratoria expire is very possible.

U.S.: Cost of housing is artificially low
Consumer Price Index, housing component

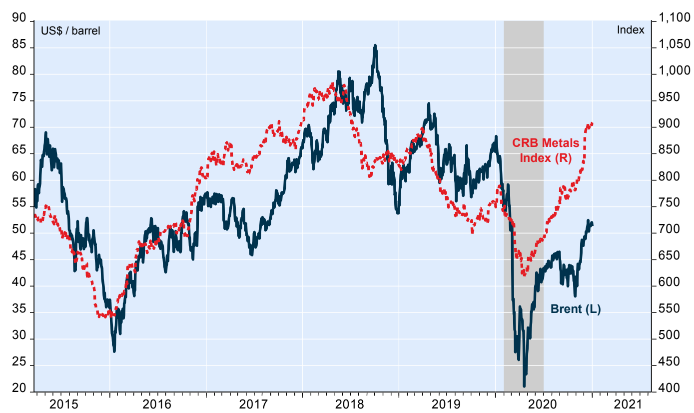


NBF Economy and Strategy (data via Refintiv)

Won't goods inflation subside when people return to spending on services? Maybe, but probably not enough to offset the rise of service prices. To judge by lengthening of delivery times and the rise of input prices, demand for manufactured goods currently exceeds supply.

This situation could persist, given rising raw-material prices and depreciation of the USD.

… as raw-material prices rise …
CRB Metals Index and Brent oil price



NBF Economy and Strategy (data via Refintiv and Bloomberg)

… and the USD depreciates steeply
Trade-weighted index of USD exchange value

NBF Economy and Strategy (data via Refintiv)

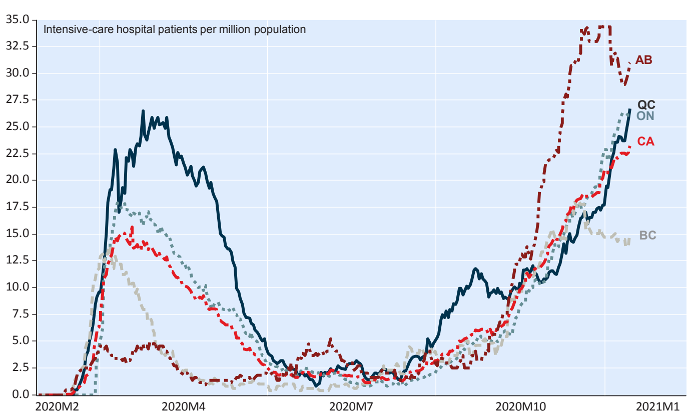
The Economy

In light of these factors, we expect headline inflation to reach 2% by the end of this year. Its subsequent path will depend on the response of the central bank. The Fed has stated that it would tolerate inflation "moderately above 2% for some time." The question is, for what time, and what is "moderately" above"? Since a return to full employment (an objective now part of the Fed's official mandate) will probably take time, we see the central bank broadly ignoring the rise of inflation until at least 2023.

Canada: A contraction of GDP in Q1?

At this writing there is no sign that the holiday pause slowed the spread of Covid-19 in Ontario and Quebec. In Quebec, intensive-care hospitalization has topped its first-wave peak and this time around Ontario's rate is comparable to Quebec's. This evolution has taken their hospitals to the brink of overload and has led their provincial governments to apply still stricter measures to contain the spread of the virus. They are striving to avoid bringing in priority protocols – who will get ICU care and who will not? – and intensifying offloading. The new Quebec and Ontario measures make a first-quarter economic contraction very likely. Non-essential businesses will continue to run slower and some industries must cut their operations to the bone. For now, the new measures are in place through the early February but they could be extended and ramped up, and could spread to other provinces. However, the Q1 retreat we anticipate (−3.9% annualized) will be nothing like the dizzying fall of Q2 last year (−38.1%), when non-essential services were shut down across the board.

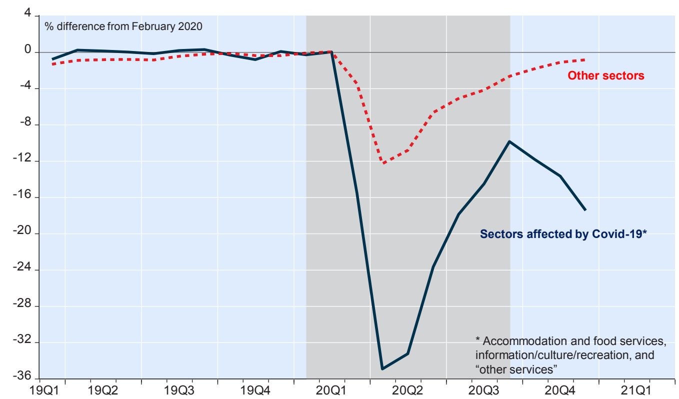
Canada: Number of Covid patients in intensive care
Per million population



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

At year end the economic recovery was already showing signs of losing steam. Employment shrank in December for the first time since April. Hours worked were down 0.3%, suggesting a December GDP contraction. The second wave of Covid-19 is directly responsible for this turn – Statcan reported a total loss of 106,000 jobs in the accommodation and food services industry, the information, culture and recreation industry, and the "other services" industry. We are reassured to see that other sectors have remained resilient.

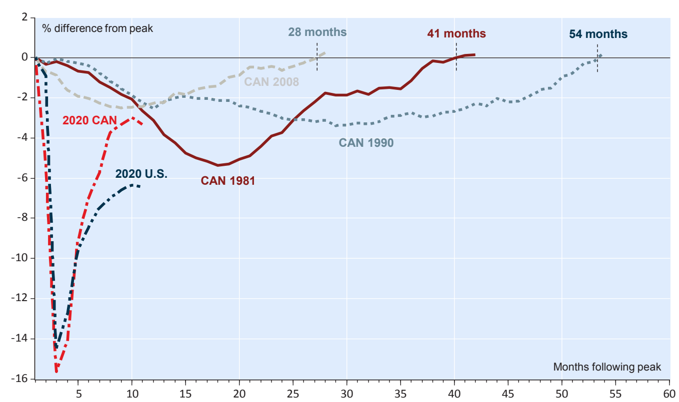
Job losses in 2nd wave are confined to sectors vulnerable to Covid-19



NBF Economics and Strategy (data from Statistics Canada)

Despite this retreat, the employment recovery in Canada is well ahead of that in the U.S. In Canada the shortfall versus last February was less than 3%. In the U.S. it was about double that.

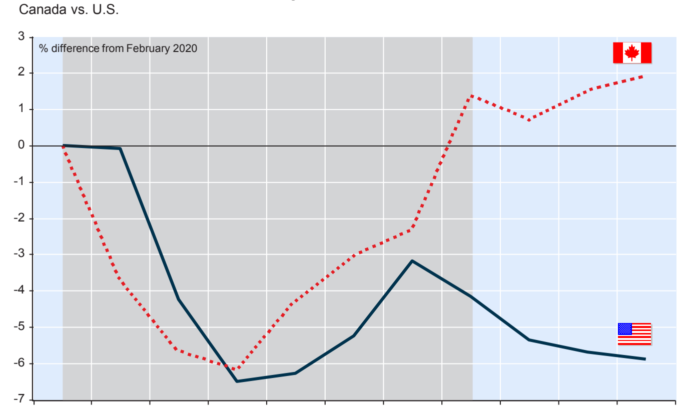
Canada: An employment recovery more vigorous than in U.S.
% change from previous peak



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

This divergence can be traced partly to the public sector. In Canada, government jobs were a new peak in December. In the U.S., they were 6% below last February. Most U.S. states and municipalities are obliged by law to balance their budgets. The softness of current revenues has forced some of them to cut their headcounts.

Canada: Public-sector employment at a record
Canada vs. U.S.

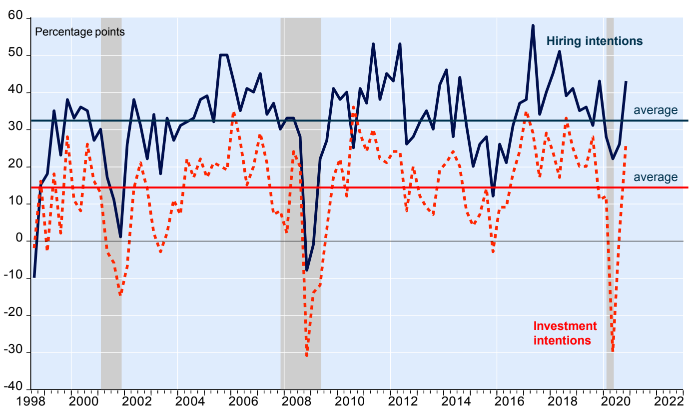


NBF Economics and Strategy (data via Refinitiv and Statistics Canada)

The Economy

The soft patch we see for Canada in Q1 should turn out to be transient, in our view not enough to derail the ongoing revival. The advent of effective vaccines against the Covid virus late last year has boosted the confidence of Canadian businesses. The Bank of Canada's Business Outlook Survey reported this month that hiring and investment intentions in December were up strongly from the previous quarter though the second wave was well under way at the time of the survey. This suggests a solid rebound when the pandemic in brought under control.

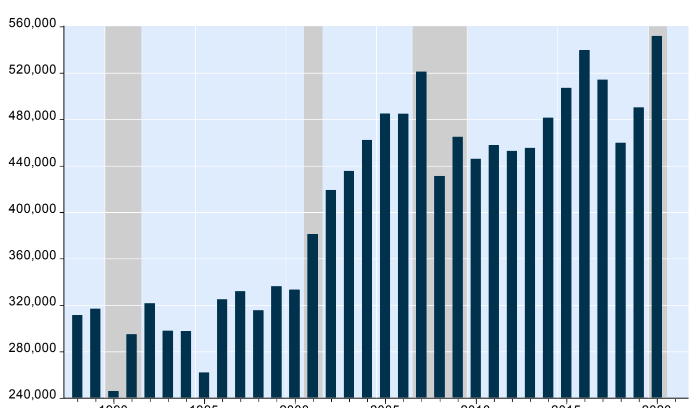
Canada: Vaccines have stimulated business confidence
Investment and hiring intentions (balance of opinion*)



* % of companies expecting to increase their capex / headcount minus % expecting to reduce them

The vigour of the housing market at the end of 2020 suggests that neither has household confidence been hurt unduly by the course of the pandemic. Canada's three largest housing markets showed record home sales for a month of December. In 2020 as whole, despite job losses and a drastic reduction of immigration, a record number of Canadian homes were sold.

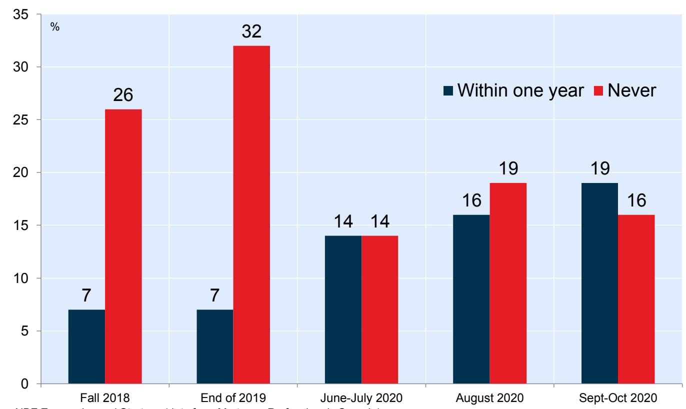
Canada: Record home sales in a pandemic
Home sales (annual)



NBF Economics and Strategy (data from CREA)

What's behind this surprising resilience? Government support of household incomes and payment deferral schemes offered by lending institutions have certainly played a role in mitigating the hit from job losses. Rock-bottom interest rates are also a factor. But there is more to it than that. Quarterly surveys by Mortgage Professionals Canada before and during the pandemic show a drastic shift in household homeownership preferences that may have kept the housing market strong during the year. The percentage of non-owners planning to buy a house within the following year has been steadily rising since the start of the pandemic, from 7% at the end of 2019 to 23% in November 2020, when only 10% of non-owners planned never to become owners compared to 32% pre-pandemic.

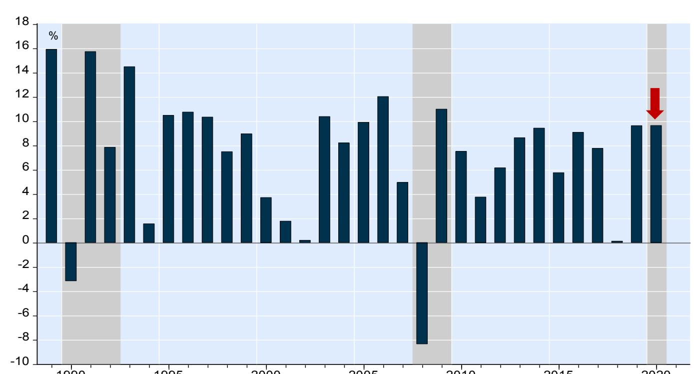
Canada: The pandemic has increased the desire to buy a home
% of non-homeowner survey respondents expecting to buy a home within a year vs. % expecting "never"



NBF Economics and Strategy (data from Mortgage Professionals Canada)

This surprising vigour of the housing market was reflected in an 8.6% rise of home prices over 2020. This gain, combined with a spectacular turnaround of financial markets since last March, brought households a significant wealth effect in 2020. By our calculation, the net worth of a representative household increased 9.6% in 2020. This phenomenon, unprecedented in the first year of a recession, is likely to support resilience of the economy in 2021.

Canada: A large wealth effect despite the pandemic
Annual return on assets of a representative household*



* Real estate 35%, financial assets 65% (breakdown according to NBF portfolio benchmark: bonds 29%, S&P TSX 13%, S&P 500 13%, MSCI EAFE 3%, MSCI Emerging 3%, cash 3%), monthly rebalancing
NBF Economics and Strategy (data via Refinitiv)

In our view, the surge of Covid-19 cases in recent weeks and stricter public-health measures in Quebec and Ontario mean that the Canadian economy will not escape a contraction in the first quarter. We have accordingly cut our 2021 growth outlook to 3.7% from 4.3%. However, we remain persuaded that the ingredients are there for a lasting revival thereafter. Vaccines give hope that a gradual return to normal will begin in the second quarter. The federal government anticipates that 20 million Canadians could be vaccinated by June. In the meantime, federal government programs will be there to support households and businesses in difficulty.

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)	3.8	3.5	(2.5)	3.2	3.3
Consumption	2.7	2.4	(3.8)	4.5	3.8	(2.3)	3.5	3.6
Residential construction	(0.6)	(1.7)	4.3	3.6	0.0	7.3	(0.8)	0.0
Business investment	6.9	2.9	(4.6)	3.0	2.6	(3.5)	2.9	2.1
Government expenditures	1.8	2.3	1.0	(0.6)	1.5	(0.8)	0.5	2.0
Exports	3.0	(0.1)	(13.3)	6.6	6.8	(12.5)	8.2	6.0
Imports	4.1	1.1	(10.2)	8.1	3.1	(4.2)	3.9	3.0
Change in inventories (bil. $)	53.4	48.5	(79.3)	53.7	45.7	54.6	40.2	33.3
Domestic demand	3.0	2.3	(2.8)	3.3	3.1	(1.8)	2.7	3.0
Real disposable income	3.6	2.2	6.3	(0.9)	1.9	4.9	0.5	2.0
Payroll employment	1.6	1.4	(5.7)	1.7	2.7	-6.1	2.5	2.5
Unemployment rate	3.9	3.7	8.1	6.3	5.3	6.8	5.8	5.0
Inflation	2.4	1.8	1.3	2.3	2.3	1.2	2.4	2.4
Before-tax profits	6.1	0.3	(6.0)	9.6	5.0	-1.5	3.7	5.0
Current account (bil. $)	(449.7)	(480.2)	(626.4)	(666.3)	(647.5)	...	...	...

** or as noted*

Financial Forecast**

	Current 1/08/21	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.08	0.10	0.10	0.10	0.15	0.09	0.15	0.40
Treasury yield curve								
2-Year	0.14	0.20	0.25	0.30	0.35	0.13	0.35	0.75
5-Year	0.49	0.55	0.65	0.75	0.85	0.36	0.85	1.25
10-Year	1.13	1.20	1.30	1.40	1.45	0.93	1.45	1.70
30-Year	1.87	1.90	1.95	2.00	2.00	1.65	2.00	2.15
Exchange rates								
U.S.$/Euro	1.23	1.20	1.24	1.25	1.23	1.22	1.23	1.19
YEN/U.S.$	104	100	103	105	106	103	106	100

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.4	3.9	1.7	3.6	3.9	3.6
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.6	3.0	2.3	2.4
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.6	2.5	1.9	2.0
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.8	6.4	6.1	5.8

National Bank Financial

The Economy

Canada
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.4)	3.7	4.0	(3.7)	3.2	3.1
Consumption	2.5	1.6	(6.2)	4.4	4.0	(3.7)	3.1	2.9
Residential construction	(1.7)	(0.2)	1.6	1.5	1.9	4.0	(2.0)	1.8
Business investment	3.1	1.1	(12.2)	1.5	7.1	(11.4)	5.0	6.8
Government expenditures	3.2	1.7	(0.0)	2.7	2.0	0.8	2.0	2.0
Exports	3.7	1.3	(9.9)	4.8	4.6	(7.4)	4.1	4.7
Imports	3.4	0.4	(11.8)	6.8	4.3	(7.0)	3.9	4.5
Change in inventories (millions $)	15,486	18,766	(17,886)	6,000	13,000	(5,000)	10,000	13,000
Domestic demand	2.5	1.4	(4.6)	3.4	3.5	(2.7)	2.5	2.9
Real disposable income	1.5	2.2	8.2	(4.3)	0.2	4.4	(2.4)	1.1
Employment	1.3	2.1	(5.2)	3.7	2.6	(2.9)	1.9	2.3
Unemployment rate	5.8	5.7	9.5	8.5	7.5	8.7	7.9	7.2
Inflation	2.3	1.9	0.7	2.3	2.2	0.9	2.3	2.1
Before-tax profits	3.8	0.6	(8.5)	11.8	5.4	(0.1)	4.0	6.0
Current account (bil. $)	(52.2)	(47.4)	(43.4)	(49.0)	(44.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 1/08/21	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2020	2021	2022
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month T-Bills	0.06	0.10	0.15	0.15	0.20	0.07	0.20	0.35
Treasury yield curve								
2-Year	0.20	0.20	0.25	0.35	0.45	0.20	0.45	0.65
5-Year	0.45	0.50	0.55	0.60	0.70	0.39	0.70	0.90
10-Year	0.82	0.85	0.95	1.05	1.10	0.68	1.10	1.30
30-Year	1.43	1.45	1.50	1.50	1.55	1.21	1.55	1.65
CAD per USD	1.27	1.29	1.26	1.25	1.20	1.27	1.20	1.25
Oil price (WTI), U.S.$	51	47	50	52	57	48	57	53

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(7.3)	(38.1)	40.5	6.6	(3.9)	7.5	5.6	4.0
CPI (y/y % chg.)	1.8	0.0	0.3	0.9	1.3	2.7	2.7	2.3
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	1.8	2.3	1.9
Unemployment rate (%)	6.3	13.0	10.0	8.7	9.2	8.7	8.2	7.9

National Bank Financial

The Economy

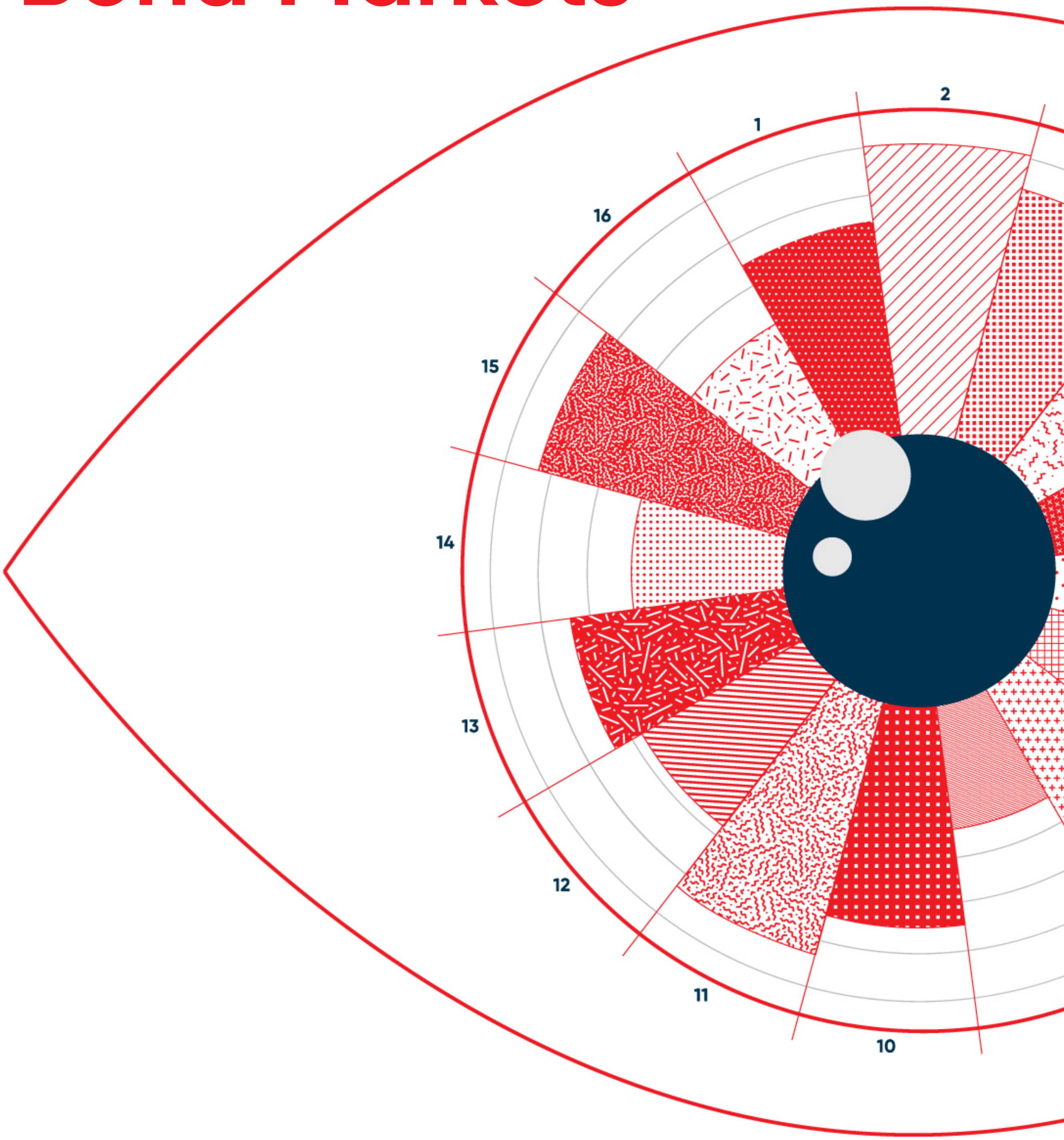
Provincial economic forecast

	2018	2019	2020f	2021f	2022f	2018	2019	2020f	2021f	2022f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	-3.5	4.0	-6.0	3.5	3.0	0.8	4.1	-9.1	9.8	6.2
Prince Edward Island	2.5	5.1	-3.5	4.0	4.0	3.6	7.0	-1.2	5.8	6.4
Nova Scotia	1.9	2.4	-4.0	4.0	3.3	3.6	3.8	-2.7	5.8	5.0
New Brunswick	0.5	1.2	-3.5	4.2	3.3	3.6	3.0	-1.7	6.3	5.4
Quebec	2.9	2.7	-5.6	3.2	4.4	5.4	4.3	-3.9	6.0	6.5
Ontario	2.8	2.1	-5.5	3.6	4.2	4.1	3.8	-3.7	5.8	6.1
Manitoba	1.5	0.6	-3.5	4.1	3.5	2.5	1.0	-2.6	6.0	5.3
Saskatchewan	1.2	-0.7	-4.8	4.5	3.5	3.2	0.1	-8.9	7.0	5.1
Alberta	1.9	0.1	-7.0	4.1	4.0	3.4	2.7	-8.5	12.4	7.2
British Columbia	2.7	2.7	-4.7	4.0	4.0	4.9	4.4	-3.2	5.3	5.5
Canada	2.4	1.9	-5.4	3.7	4.0	4.2	3.6	-4.7	7.0	5.8
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	0.4	0.7	-5.9	4.3	0.2	13.7	11.9	13.7	12.2	11.6
Prince Edward Island	3.0	2.7	-2.6	3.7	2.2	9.4	8.8	10.6	10.0	9.3
Nova Scotia	1.5	2.2	-4.6	4.7	1.6	7.6	7.2	9.6	8.8	7.9
New Brunswick	0.3	0.7	-2.5	2.7	1.2	8.0	8.0	9.8	9.1	8.3
Quebec	0.9	1.7	-4.6	3.3	2.8	5.5	5.1	8.8	7.1	6.0
Ontario	1.6	2.9	-4.9	3.6	2.6	5.6	5.6	9.5	9.0	7.7
Manitoba	0.6	0.9	-3.5	2.9	2.0	6.0	5.3	7.9	7.7	7.2
Saskatchewan	0.5	1.6	-4.9	3.7	2.1	6.1	5.4	8.3	7.5	7.0
Alberta	1.9	0.5	-7.2	4.5	2.6	6.7	6.9	11.3	10.9	10.4
British Columbia	1.1	2.6	-6.1	4.2	2.4	4.7	4.7	8.9	7.0	6.5
Canada	1.3	2.1	-5.2	3.7	2.6	5.8	5.7	9.5	8.5	7.5
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	1.1	0.9	0.8	0.7	0.6	1.7	1.0	0.2	1.9	2.3
Prince Edward Island	1.1	1.5	1.1	1.1	1.2	2.3	1.2	0.2	2.4	2.1
Nova Scotia	4.8	4.7	4.9	4.2	4.2	2.2	1.6	0.4	2.5	2.1
New Brunswick	2.3	2.9	3.2	3.0	2.6	2.2	1.7	0.2	1.9	1.9
Quebec	46.9	48.0	54.5	50.0	47.5	1.7	2.1	0.9	2.1	2.3
Ontario	78.7	69.0	82.5	77.5	75.8	2.4	1.9	0.6	2.2	2.2
Manitoba	7.4	6.9	7.2	6.1	5.9	2.5	2.3	0.7	2.1	2.3
Saskatchewan	3.6	2.4	3.1	3.0	3.2	2.3	1.7	0.6	2.0	2.0
Alberta	26.1	27.3	24.2	23.6	25.0	2.5	1.7	1.1	2.2	2.1
British Columbia	40.9	44.9	37.4	34.8	34.0	2.7	2.3	0.8	2.1	2.3
Canada	212.8	208.7	218.7	204.0	200.0	2.3	1.9	0.7	2.3	2.2

e: estimate f: forecast

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

Interest Rates and Bond Markets



Interest Rates and Bond Markets

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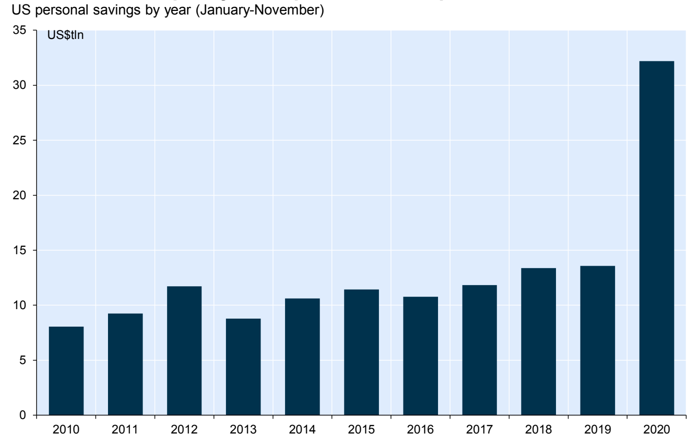
Back down the rabbit hole? Not exactly

Resurgent virus cases count; renewed restrictions on individuals and businesses; fresh economic fault lines. Such is our reality here in early 2021. On the face of it, the worrying trajectory for COVID-19 suggests we could be headed back down the proverbial rabbit hole early in 2021. But not so fast.

Certainly, there remains an uncomfortable amount of uncertainty attached to many key forecasts (for the real economy and by extension financial markets). But even if Q1 growth stumbles, as seems increasingly likely, we're not exactly talking about a replay of what we saw in 2020. As always, we'd refer you to fresh baseline projections for the global and North American economies, which came out alongside this publication. The Q1 growth wobble we alluded to above is more likely to be a Canadian story. Moreover, we'd be tempted to label this a temporary disruption (and mechanical pause) in an otherwise solid recovery trajectory.

Critically, the survivability of U.S. GDP growth assumptions looks much better now than a year ago. Without placing undue faith in fresh fiscal supports on the delayed Blue Wave, fiscal policy will be providing important marginal support in the U.S. Think of this as added fuel for a consumer class that already had significant financial firepower stored up. As American consumers throw off mandated or self-imposed virus-related shackles, we'll be looking for a decidedly forceful expansion in the second half of 2021, carrying over into 2022.

Americans have plenty of firepower stored up
US personal savings by year (January-November)



NBF Economics and Strategy (data via Bureau of Economic Analysis)

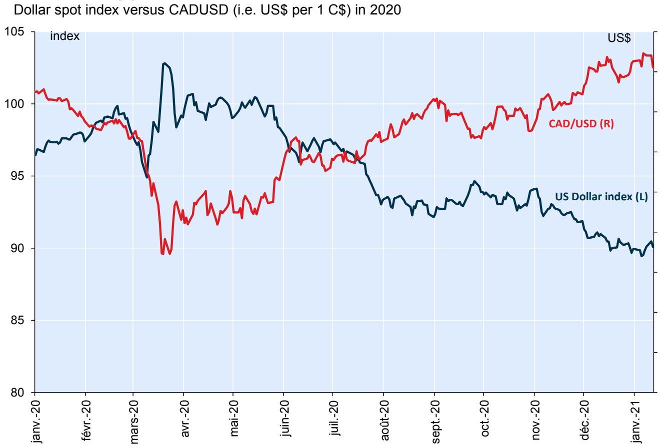
Factor in last year's capacity destruction and a still-worrying number of permanently unemployed (which implies a higher NAIRU than pre-virus days), and it's not hard to see the seeds of an inflation overshoot. This is a risk factor we've been highlighting for months now, and to us, the balance of risks on U.S. inflation remain asymmetric (i.e. biased higher). Market-based measures of inflation will likely continue to heat up; ditto for softer data, such as expected rates of inflation from purchasing managers. In our view of the world, the U.S. core PCE deflator will be back to 2% at least one year quicker than what FOMC participants anticipated back in December. So notwithstanding a decidedly flexible policy framework, we continue to make the case that the first Fed tightening arrives early in 2023. Two to three hikes in 2023, followed by additional moves in 2024 should be thought of as a removal of stimulus, as opposed to a legitimately restrictive policy stance.

Interest Rates and Bond Markets

Ditto for Fed bond purchases, which can be expected to moderate in advance of the first Fed rate hike. And while the level of purchases is far more likely to move lower rather than higher, we're not ruling out the possibility of a weighted average maturity extension should rates move beyond what the Fed sees as appropriately accommodative.

As for Canada, we continue to argue against a final "mini rate cut" that some have suggested could insulate against C$ strength. One should never lose sight of the impact a stronger Canadian dollar has on our small, open economy. But we see a bit more willingness to tolerate currency strength at the central bank, particularly if this year's gains are less about USD weakness and more a by-product of firmer commodity prices. (It's enough to put us in mind of the old 'type 1, type 2' currency appreciation the BoC used to talk about.) As our Economics and Strategy colleagues argued in this month's Forex Monitor, the loonie is fundamentally undervalued. If there's a less-than-compelling argument for further policy accommodation, there's similarly little reason to expect the BoC will eventually be tightening ahead of Fed—even if Canada's monetary policy framework remains less flexible and more singularly focused than at the Fed.

CADUSD appreciation consistent with broader US dollar weakness
Dollar spot index versus CADUSD (i.e. US$ per 1 C$) in 2020



NBF Economics and Strategy (data via Bloomberg)

Rate hikes for Canada? There's a case to be made that gradual economic healing, alongside the federal government's apparent willingness to provide stimulus longer term, will also give rise to rate hikes in 2023. A much nearer-term consideration will be the pace of QE, which needs to moderate in our opinion—and soon(ish). January's upcoming rate decision may be too early to adjust QE lower, but the Bank's footprint is simply growing too heavy in Canada's bond market. To us, 2021 will be about managing the step down and terming out of purchases, conditional on an economic recovery that we see resuming in earnest in Q2.

BoC: Review and preview

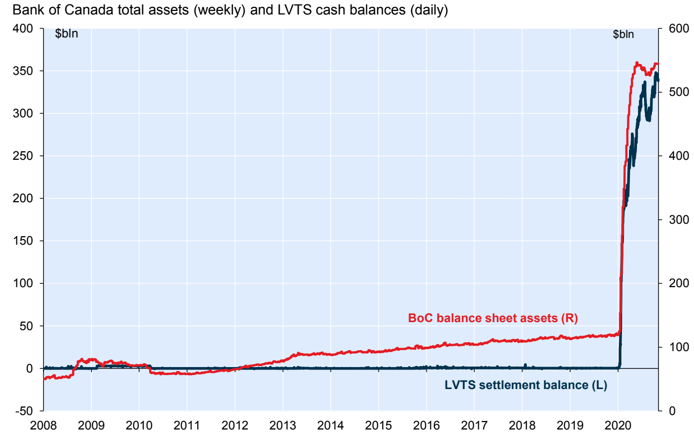
Safe to say, 2020 was an extraordinary year. There's not been a more behaviour-altering time in recent memory as individuals, businesses and governments alike were forced to radically change the way they operate. The Bank of Canada (and central banks more generally) was no different, having unleashed a slew of new programs, facilities and initiatives on the fly to combat the economic and financial market meltdown that initiated last March. (We also went through a leadership change in the midst of it all). Behold the exhaustive (and exhausting) list of programs and facilities that were launched and/or utilized last year:

Reviewing the alphabet soup of policy tools
Monetary policy programs announced/utilized during the COVID crisis

Program	Announced	Utilization $mln, since 1-Mar	Active?
Term Repos	NA	219,590	Yes
BA Purchase Facility	13-Mar-20	47,050	No
CMB purchase program	16-Mar-20	8,025	No
Insured Mortgage Purchase Program*	16-Mar-20	5,817	No
Provincial Money Market Purchase Program	24-Mar-20	12,357	No
Government Bond Purchase Program (QE)	27-Mar-20	198,248	Yes
Commercial Paper Purchase Program	27-Mar-20	NA	Yes
Provincial bond purchase program	15-Apr-20	13,995	Yes
Corporate Bond Purchase Program	15-Apr-20	182	Yes

*Source: NBF, Bank of Canada | Notes: *IMPP conducted via CMHC. Bank of Canada also conducts Securities Repo Operations and operates the Standing Liquidity Facility, Standing Term Liquidity Facility and Contingent Term Repo Facility. CPPP take up not published on an operational basis. Currently, there is no commercial paper on the BoC balance sheet.*

Balance sheet bloated, market flush with cash
Bank of Canada total assets (weekly) and LVTS cash balances (daily)



NBF Economics and Strategy (data via NBF, BoC, Bloomberg)

While the worst of the financial market/liquidity crisis has passed and many of the emergency-style programs have been discontinued, the BoC's footprint on the market is still

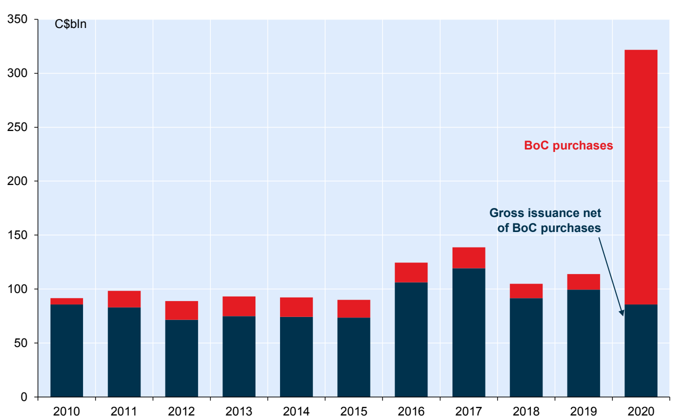
Interest Rates and Bond Markets

visible. Its balance sheet remains elevated and the broader financial system remains flush with cash, keeping interest rates and credit spreads well contained. For credit specifically, two targeted programs remain in operation (i.e. the PBPP and the CBPP) but are on track to significantly undershoot their initially stated maximum program size. We'd now argue that the effect of these programs is pretty limited, serving more of a symbolic role. Rather, there are really just two letters doing the heavy lifting at this juncture: QE.

In just over eight months, the Bank of Canada's second most important monetary policy tool after the policy rate (and the one subject to the greatest marginal tweaking) , has removed just under $200 billion in Government of Canada bonds from the market. Meanwhile, over the entire 2020 calendar year, issuance came in at $322 billion (with the BoC continuing to take 13% off the top as part of its regular balance sheet management). All told, supply to market net of BoC purchases came in at a paltry $86 billion in 2020. That's fewer bonds being placed in the market than in each of the four years before COVID. And once you consider maturities, net supply to the street was just barely positive in 2020—a trend that, depending on a number of factors (i.e. QE, additional stimulus) could well continue into 2021. Overall, it's clear that the BoC's outsized QE program has ensured that there is plenty of room for provincial, municipal and corporate borrowers to place bonds with investors. Add in the other ongoing and recently discontinued programs, as well as the increased household savings and there's more cash in the system to chase fewer bonds. In this environment, it's no wonder credit spreads are back to within pre-COVID indications and equities are surging to all-time highs.

Despite record gross issuance, BoC buying limiting bonds in market

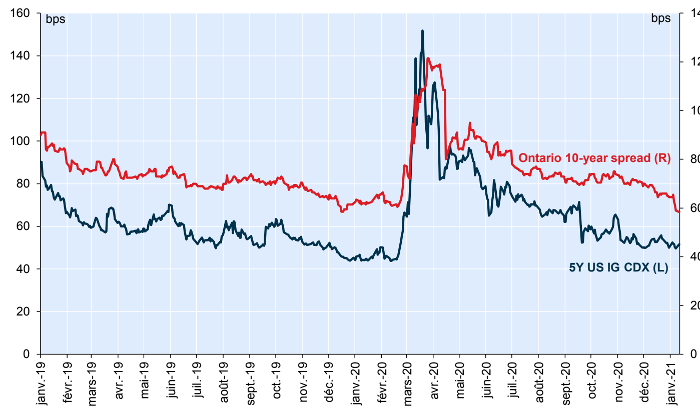
Gross issuance and Bank of Canada government bond purchases by calendar year



NBF Economics and Strategy (data via Bank of Canada)

Spreads back to (or through) pre-crisis levels

Ontario 10-year constant maturity spread, 5-year US IG CDX spread

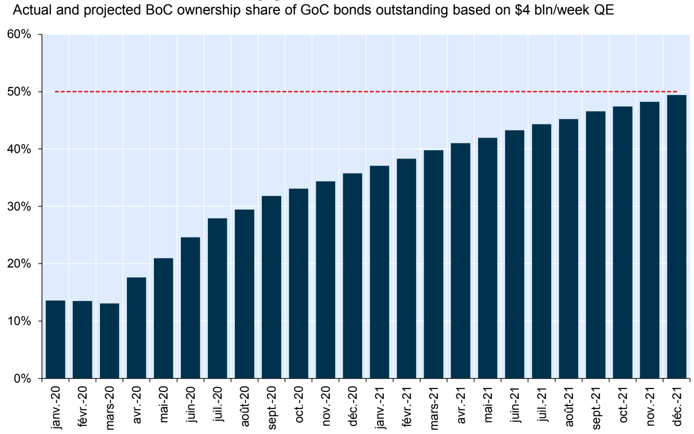


NBF Economics and Strategy (data via NBF, Bloomberg)

No matter how you slice it, the pace of QE at the Bank of Canada is considerably faster than asset purchases stateside (more than 4 times faster as a share of outstandings). Moreover, Tiff Macklem has pointed to a 50% central bank ownership share as a 'problematic' level. As we wrote about recently, at the current pace we should reach this level by the end of the year unless changes are made. No doubt, with COVID case counts soaring, the Bank of Canada isn't really in a position to withdraw stimulus at next week's meeting, if only to avoid "bad optics" (though, as we mentioned in the intro, the worsening virus trajectory shouldn't translate to the "mini" rate cut many have speculated). However, even a reduction to $3 billion/week, when not if it comes, would keep the Bank's ownership share moving higher. A March (or at the latest April) move on this front could be very much needed. If by this time, the virus outlook hasn't materially improved and a further paring seems to be removing too much accommodation too quickly, the Bank still has room to continue moving its purchases out the curve, with the increased duration removal making up for some (or all) of the decreased absolute amount of bond purchases.

BoC on track to hit 50% by year-end

Actual and projected BoC ownership share of GoC bonds outstanding based on $4 bln/week QE



NBF Economics and Strategy (data via NBF, BoC) | Note: Issuance assumed at a pace of $315 bln for the calendar year. Projections begin after December 2020

Interest Rates and Bond Markets

Importantly, our ownership share analysis assumes an issuance trajectory that's more or less in line with what we'll be getting this quarter (roughly $315 billion for the calendar year). If, as we've been seeing to date, supply continues to surprise to the downside, the trajectory toward the Bank owning half of the market only accelerates. And we'd be remiss if we didn't mention the wild card in the form of marginal stimulus for affected consumers and businesses. The government signalled $70-100 billion in new, yet-to-be-allocated stimulus over the next three years, but more restrictive COVID measures could introduce additional fiscal costs. We'll be getting more clarity here when a springtime budget and accompanying Debt Management Strategy drop in the coming months.

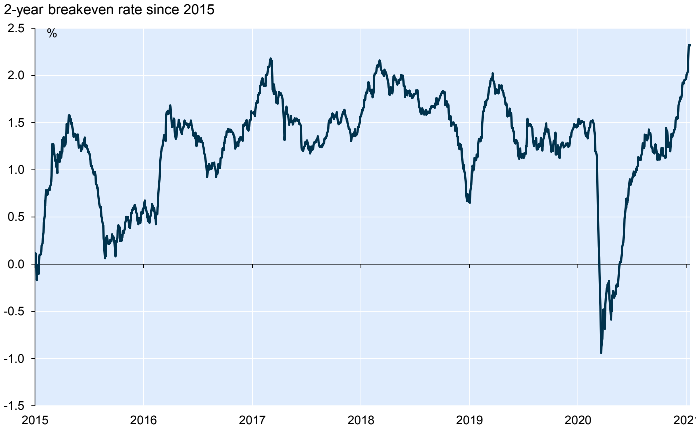
The Fed's transition to tightening

Despite surging COVID case counts stateside, economic optimism is winning the day on the back of the promised Blue Wave fiscal stimulus and encouraging vaccine developments. Data from the real economy and market-based measures are reflecting the more sanguine outlook, with inflation expectations (more than) fully recovering from the pandemic-inflicted blow.

The Fed, for its part, remains cautious in its forecasts. Based on its latest Summary of Economic Projections, core PCE inflation isn't expected to hit 2% until 2023. It follows then, that the majority of the FOMC has no policy tightening in their base case through 2023. Do we think the Fed's forecasts are too pessimistic? Yes. But at this point in the recovery, there's little to be gained by rapidly shifting its published forecasts and risk driving a further sell-off in rates. A cautious approach from the central bank makes sense here given the still-elevated level of uncertainty. We do think that, in time, they will grow more enthusiastic as our more optimistic economic outlook materializes. We ultimately see the rebound in inflation (and unemployment) culminating in the Fed's first rate hike coming early in 2023. Before that comes, however, it will need to begin winding down its other key policy tool—asset purchases.

Inflation expectations soaring to multi-year highs

2-year breakeven rate since 2015



NBF Economics and Strategy (data via Bureau of Economic Analysis)

With headline inflation likely hitting 2% by the end of the year, the Fed will need to start thinking about removing some of the extraordinary stimulus put in place last year to mitigate the effects of the crisis. We recognize that the central bank's new mandate, which aims not only to achieve 2% inflation over the long run (i.e. by making up for past misses), but also to return to full employment, will allow it to err on the side of prudence for longer than would have otherwise been the case. Still, we believe that, with the economy reopening fully in the second half of 2021, the conditions for a full-fledged barrage of stimulus measures will simply no longer exist. This has been and will continue to be a key focus for the market going forward, with reflections being made back to the 2013 taper tantrum.

Recall that, at the last Fed meeting (December 15-16), a "number of participants" believed that a gradual tapering of asset purchases would be warranted "once substantial further progress had been made toward the Committee's maximum employment and price stability goals". Policymakers remained deliberately vague as to what "substantial progress" would look like in practice, but we believe the necessary conditions for a tapering of QE will exist before year's end.

This belief seems to be shared by several members of the Fed. On January 7, Philadelphia Fed President Patrick Harker said bond purchases could indeed be pared before the end of the year, as the economy begins to look "much more normal". Similar comments were made by Dallas Fed President Robert Kaplan, Chicago Fed President Charles Evans and Atlanta Fed President Raphael Bostic. The latter reminded his audience that "a lot will depend on how the virus and the vaccine distribution goes. But if it goes well… I think there is some good upside potential." Other influential Fed members– notably Cleveland Fed President Loretta Mester and Fed Vice Chairman Richard Clarida– still have reserves about an early phase out, but we believe they will come around once post-pandemic economic numbers start to surface.

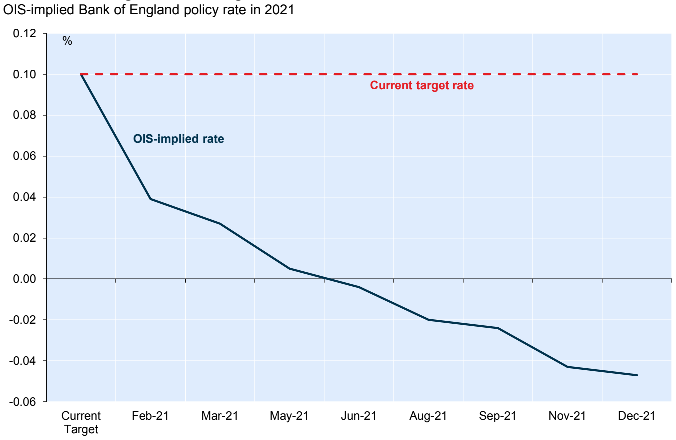
It remains to be seen whether the Fed will seek to emulate the Bank of Canada and try to combine the tapering of its QE program with a terming out of its purchases. The idea does not seem very popular at the moment—at the last meeting only two participants indicated that they were "open to weighting purchases of Treasury securities toward longer maturities." Still there seems to be a consensus that a terming out could be envisaged "if such adjustments were deemed appropriate to support the attainment of the Committee's objective." In our view, a significant steepening of the yield curve could push the Fed to move shift its purchases further out on the curve since it could put undue pressure on highly-indebted companies as well as the Federal Government companies, a development that would jeopardize the economic revival. We'd also argue that it's not necessarily about the level of interest rates that would prompt Fed action. Rather, it would be the speed at which a sell-off occurred and the underlying reason for it. A continued, gradual move higher in yield on the back of a reopening and healing economy is unlikely to instill much concern among FOMC participants.

Interest Rates and Bond Markets

A new addition to the negative rate club?

Across the pond, the COVID situation has deteriorated quickly. Shortly before Christmas, British health authorities announced they had identified a new, more easily transmitted variant of the SARS-CoV-2 virus. To prevent the health system from collapsing under a deluge of new cases, Downing Street decided to make what was already a strict lockdown even tighter. Economic growth in the first quarter will inevitably suffer from these measures.

Market placing bets on negative rates at the BoE
OIS-implied Bank of England policy rate in 2021



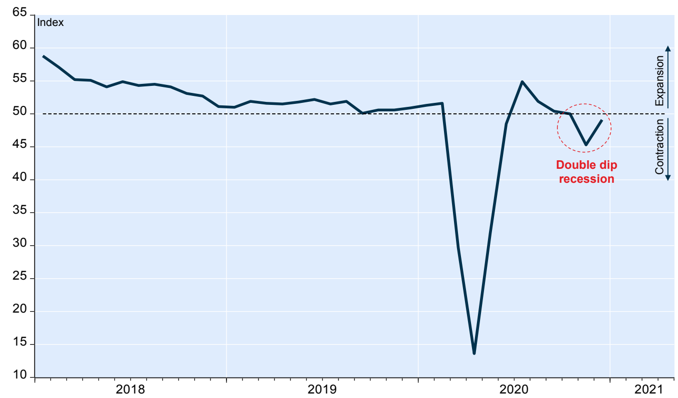
NBF Economics and Strategy (data via Bloomberg)

Adjusting to these developments, markets now expects the Bank of England to take its policy rate into negative territory this year (from 0.1% currently), despite the post-pandemic outlook having improved with the signing of a trade agreement with the European Union. The central bank is expected to publish its views on the topic after next month's policy meeting, but policymakers are already preparing the ground for such a move. The negative impact that this policy would have on banks' profitability remains an important obstacle.

The situation in the Eurozone is equally gloomy. Economic output likely shrank in the last quarter of 2020 and a further contraction is likely in Q1 considering the current epidemiological context. Adding to the bad news, delays in the vaccination campaign means the continent might have to wait longer before it can go back to normal.

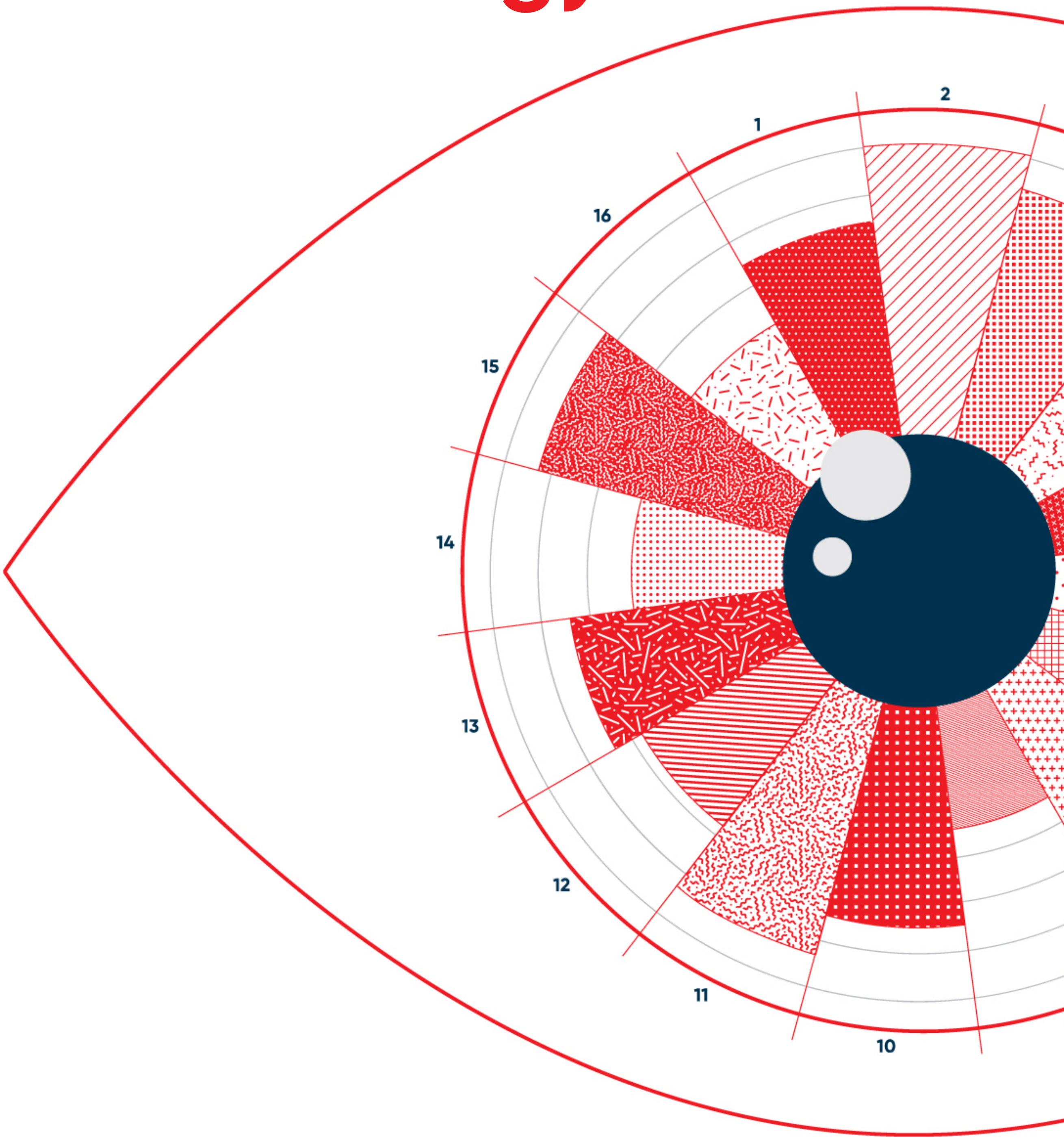
Having recently announced it would increase the size of its Pandemic Emergency Purchase Program (PEPP) by €500 billion to €1.85 trillion and extend it until at least March 2022 (the program was previously scheduled to run until at least next June), the ECB seems well-equipped to weather the current downturn. Keep in mind, net purchases by the central bank are currently outpacing net government bond issuance. Doing more on that front could thus prove disruptive for the functioning of the market. The only real option open to the ECB would be to announce an extension to its emergency QE program. We expect the central bank to use this option sooner rather than later.

Eurozone: Private sector hit by deteriorating health situation
Markit composite PMI. Last observation: December 2020.



NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy



Stock Market and Portfolio Strategy

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Surging off the blocks

Global stocks ended 2020 on a strong note, with the MSCI ACWI posting a total return of 14.8% for the year (table). Most of the gain was concentrated in the last quarter of the year in response to good news about Covid vaccines.

MSCI Composite Index: Total-return performance in 2020

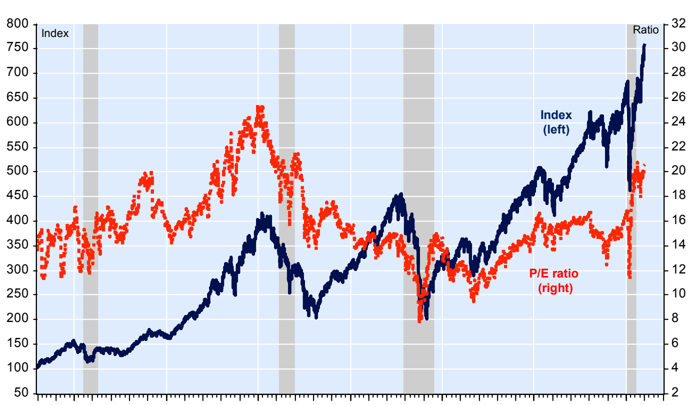
	Month to date	Quarter to date	Year to date
MSCI ACWI	3.9	12.9	14.8
MSCI World	3.5	12.5	14.1
MSCI USA	4.1	13.1	21.4
MSCI Canada	1.9	8.9	4.3
MSCI Europe	2.2	10.3	-1.7
MSCI Pacific ex Jp	2.2	14.3	0.4
MSCI Japan	3.1	12.8	9.2
MSCI EM	6.1	16.1	19.5
MSCI EM EMEA	3.9	10.4	-0.8
MSCI EM Latin America	8.5	24.0	2.6
MSCI EM Asia	6.2	16.2	25.9

As of December 31, 2020

NBF Economics and Strategy (data via Refinitiv)

And the world's bourses began 2021 jumping out of the gates. By January 8 the MSCI ACWI was up 2.8% to a new record on the strength of a whopping gain from emerging markets (+5.2% for the MSCI EM). This advance was again driven by expansion of P/E multiples. At this writing the 12-month-forward P/E of the MSCI ACWI is at a multi-year high of 21 (chart).

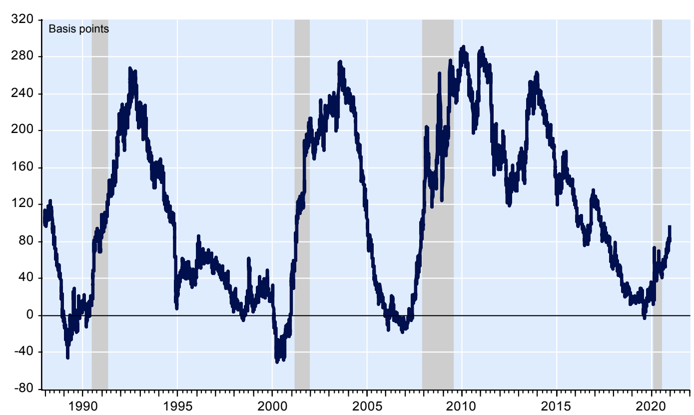
World: Equity market jump off the blocks
MSCI ACWI and its 12-month-forward P/E



NBF Economics and Strategy (data via Refinitiv)

The latest bout of enthusiasm comes from the unexpected Democratic victory in the January 5 Georgia Senate elections. In our view, Democratic control of all the levers of executive and legislative power makes an additional stimulus package of about $600 billion for states and households very likely. That would come on top of the $900-billion package voted by Congress at the end of last month. If we are right, the Federal Reserve will remain engaged in quantitative easing for the foreseeable future, setting the stage for more USD weakness, higher commodity prices and firmer economic growth. Market conviction about the economic recovery has taken the U.S. yield curve to its steepest in more than two years (chart).

U.S.: Steepening of the yield curve
10-year minus 2-year Treasury yield



NBF Economics and Strategy (data via Refinitiv)

In the early stage of an economic recovery, a steeper yield curve tends to favour cyclicals over more defensive stocks. That's exactly what is happening now. The advance of the S&P 500 since the beginning of the year has been driven primarily by robust gains in Energy (+9.3%), Materials (+5.7%) and Financials (+4.7%) (table). The more defensive sectors (Telcos, Utilities, Staples and Real Estate) are down from January 1.

Stock Market and Portfolio Strategy

S&P 500 Composite Index: Price performance

	Month to date	Quarter to date	Year to date
S&P 500	1.8	1.8	1.8
ENERGY	9.3	9.3	9.3
MATERIALS	5.7	5.7	5.7
FINANCIALS	4.7	4.7	4.7
CONS. DISC.	3.8	3.8	3.8
HEALTH CARE	3.4	3.4	3.4
INDUSTRIALS	1.1	1.1	1.1
IT	0.4	0.4	0.4
TELECOM	-0.3	-0.3	-0.3
UTILITIES	-0.7	-0.7	-0.7
CONS. STAP.	-1.0	-1.0	-1.0
REAL ESTATE	-2.6	-2.6	-2.6

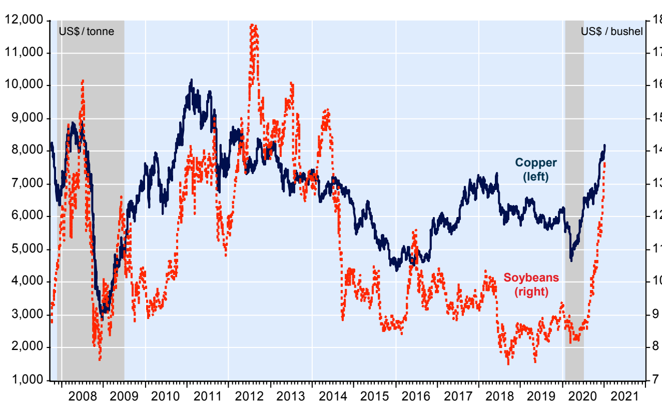
1/8/2021

NBF Economics and Strategy (data via Refinitiv)

The yield-curve signal of economic recovery is corroborated by the continued strength of commodity prices, currently at new multi-year highs (chart).

World: Commodity prices are surging

Prices of copper and soybeans

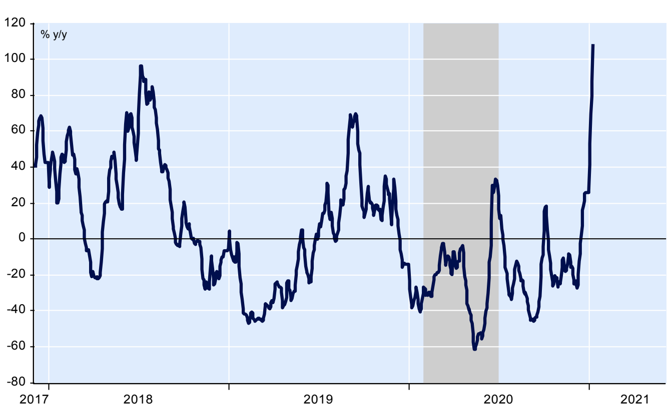


NBF Economics and Strategy (data via Refinitiv)

Also, global shipping rates have more than doubled in the past year (chart). A reflation trade appears to be putting down roots.

World: Shipping costs are surging

Baltic Dry Index



NBF Economics and Strategy (data via Refinitiv)

Unsurprisingly, the S&P/TSX does well in such an environment. After a lacklustre performance relative to other world bourses last year, the Canadian equity benchmark finally hit a new record in January 2021. All major sectors are up on the year, with Health Care, Energy, Industrials, Consumer Discretionary and IT leading the way (table).

Canada: The S&P/TSX reaches a new record

NBF Economics and Strategy (data via Refinitiv)

S&P/TSX Composite Index: Price performance

	Month to date	Quarter to date	Year to date
S&P TSX	3.5	3.5	3.5
HEALTH CARE	13.5	13.5	13.5
ENERGY	7.3	7.3	7.3
INDUSTRIALS	4.5	4.5	4.5
CONS. DISC.	4.5	4.5	4.5
IT	3.7	3.7	3.7
UTILITIES	3.5	3.5	3.5
MATERIALS	3.0	3.0	3.0
TELECOM	2.7	2.7	2.7
BANKS	2.5	2.5	2.5
REAL ESTATE	2.0	2.0	2.0
FINANCIALS	1.9	1.9	1.9
CONS. STAP.	0.9	0.9	0.9

1/8/2021

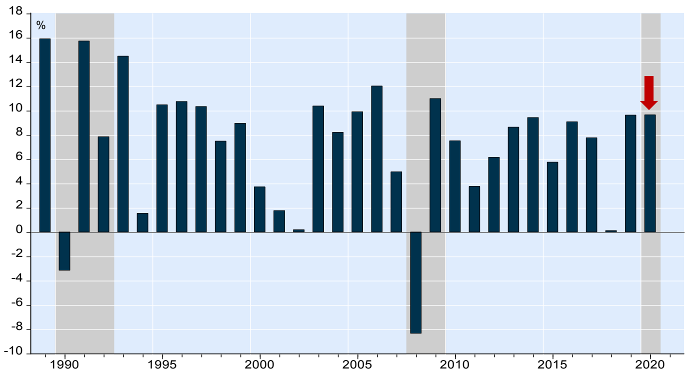
NBF Economics and Strategy (data via Refinitiv)

Despite the recent rise of Canadian equities, the 12-month forward P/E of the S&P/TSX remains well below that of the S&P 500 – 17 versus 23. It is worth noting that this six-point gap between the P/Es of the two indexes is the largest on record. In our opinion, an important factor in this valuation gap is an investor perception that Canada is more vulnerable than the U.S. to economic shocks. More specifically, Canada's high homeownership rate (70% vs. the U.S. 65%) is seen as a liability for the financial system because of a potential surge in the consumer insolvencies/defaults that have been typical of past recessions. Fortunately, this recession is anything but typical. Since most of the Canadian government's massive fiscal stimulus has gone directly to households, disposable income has surged the most on record despite a record drop in employment. This has made households tremendously resilient and averted a rise in bankruptcies. As the labour market continues to heal and housing demand stays vigorous, homeowners are enjoying a wealth effect. By our calculation, the balance sheet of a

Stock Market and Portfolio Strategy

representative household improved 9.6% in 2020 (chart). This phenomenon, unprecedented in the first year of a recession, should help keep the economy resilient in 2021. Instead of a liability, Canada's high homeownership rate is turning out to be an asset in this atypical recession.

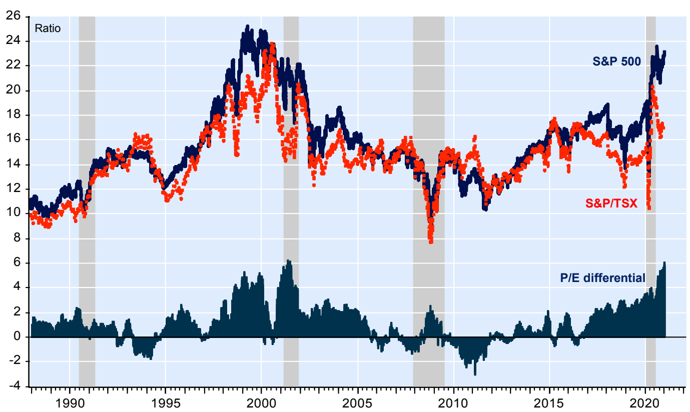
Canada: A large wealth effect despite the pandemic
Annual return on assets of a representative Canadian*



* Real estate 35%, financial assets 65% (breakdown according to NBF portfolio benchmark – bonds 29%, S&P TSX 13%, S&P 500 13%, MSCI EAFE 3%, MSCI Emerging 3%, cash 3%), monthly rebalancing
NBF Economics and Strategy (data from Refinitiv)

This development should buoy investor interest in Canadian equities and help narrow the large valuation gap between the S&P 500 and the S&P/TSX.

S&P/TSX: Cheapest ever relative to U.S. equities
12-month-forward P/Es of S&P 500 and S&P/TSX, and P/E differential

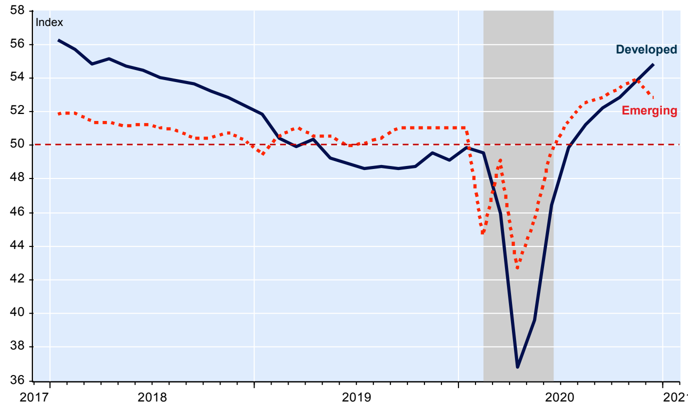


NBF Economics and Strategy (data via Refinitiv)

Asset allocation

Our asset allocation is unchanged this month. Equities remain overweighted relative to our benchmark and fixed income underweighted. We recognize that the next few weeks might be volatile for risk assets since the timing of further U.S. fiscal stimulus is uncertain. Meanwhile, economic downturns can be expected as Covid resurgence forces the authorities of many OECD members to shut down large portions of their economies until vaccines are more widely distributed.

World: Manufacturing rebound ebbs in emerging markets
Markit Manufacturing PMI: Developed vs. emerging economies



NBF Economics and Strategy (data via Refinitiv)

What's more, the vaccines will need to show their efficacy against the new strains of Covid that have recently appeared. We expect these conditions to put a floor under the USD and limit the upside for equity markets. Until we get more visibility on vaccine distribution and efficacy and on the timing of extra fiscal stimulus, we see a period of consolidation. As more people are vaccinated and the economy reopens, we expect equity markets to move up slightly. At this juncture, we are cautiously optimistic and expect that transitory weakness in the economy and earnings will be addressed by further fiscal and monetary stimulus.

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	7	
Fixed Income	45	42	
Cash	5	6	
Total	100	100	

NBF Economics and Strategy

Sector rotation

Our sector allocation is unchanged this month.

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - January 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**11.6%**
Energy Equipment & Services	Market Weight	0.0%
Oil, Gas & Consumable Fuels	Market Weight	11.6%
Materials	**Market Weight**	**13.7%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Market Weight	0.5%
Metals & Mining *	Overweight	2.5%
Gold	Market Weight	8.6%
Paper & Forest Products	Underweight	0.5%
Industrials	**Market Weight**	**12.6%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.1%
Transportation	Market Weight	7.4%
Consumer Discretionary	**Market Weight**	**3.9%**
Automobiles & Components	Underweight	1.2%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	1.1%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.7%**
Food & Staples Retailing	Market Weight	3.0%
Food, Beverage & Tobacco	Market Weight	0.7%
Health Care	**Market Weight**	**1.3%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.1%
Financials	**Overweight**	**29.8%**
Banks	Overweight	20.3%
Diversified Financials	Market Weight	3.8%
Insurance	Overweight	5.7%
Information Technology	**Underweight**	**10.3%**
Software & Services	Underweight	10.3%
Technology Hardware & Equipment	Underweight	0.0%
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Market Weight**	**5.1%**
Real Estate	**Underweight**	**3.1%**

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

Stock Market and Portfolio Strategy

NBF Market Forecast
Canada

		Actual	Q22021 (Est.)
Index Level		**Jan-08-21**	**Target**
S&P/TSX		18,042	18,300
Assumptions			Q22021 (Est.)
Level:	Earnings *	683	850
	Dividend	525	653
PE Trailing (implied)		26.4	21.5
			Q22021 (Est.)
10-year Bond Yield		0.72	0.95

* Before extraordinary items, source Thomson

NBF Economics and Strategy

NBF Market Forecast
United States

		Actual	Q22021 (Est.)
Index Level		**Jan-08-21**	**Target**
S&P 500		3,825	3,800
Assumptions			Q22021 (Est.)
Level:	Earnings *	134	152
	Dividend	57	65
PE Trailing (implied)		28.5	25.0
			Q22021 (Est.)
10-year Bond Yield		1.11	1.30

* S&P operating earnings, bottom up.

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					Canadian Dollar			Correlation *
	Close on 01-8-2021	Returns M-T-D	Y-T-D	1-Yr	3-Yr	Returns Y-T-D	1-Yr	3-Yr	with S&P 500
North America - MSCI Index	***3908***	***2.0%***	***2.0%***	***19.9%***	***40.7%***	***1.6%***	***16.7%***	***43.8%***	***1.00***
United States - S&P 500	*3825*	*1.8%*	*1.8%*	*17.6%*	*39.2%*	*1.4%*	*14.4%*	*42.2%*	*1.00*
Canada - S&P TSX	*18042*	*3.5%*	*3.5%*	*5.1%*	*10.6%*	*3.5%*	*5.1%*	*10.6%*	*0.73*
Europe - MSCI Index	***1901***	***3.3%***	***3.3%***	***6.8%***	***3.7%***	***2.9%***	***4.0%***	***5.9%***	***0.31***
United Kingdom - FTSE 100	*6873*	*6.4%*	*6.4%*	*-9.3%*	*-10.7%*	*5.4%*	*-8.4%*	*-8.7%*	*-0.40*
Germany - DAX 30	*14050*	*2.4%*	*2.4%*	*5.5%*	*5.1%*	*2.2%*	*13.2%*	*9.9%*	*0.68*
France - CAC 40	*5707*	*2.8%*	*2.8%*	*-5.4%*	*4.0%*	*2.6%*	*1.5%*	*8.7%*	*0.26*
Switzerland - SMI	*10798*	*0.9%*	*0.9%*	*1.4%*	*13.2%*	*0.6%*	*8.4%*	*27.8%*	*0.86*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*4.1%*	*-0.2%*	*7.3%*	*8.8%*	*0.61*
Netherlands - Amsterdam Exchanges	*646*	*3.4%*	*3.4%*	*5.8%*	*15.1%*	*3.1%*	*13.5%*	*20.4%*	*0.75*
Pacific - MSCI Index	***3190***	***2.9%***	***2.9%***	***13.2%***	***8.6%***	***2.5%***	***10.2%***	***11.0%***	***0.46***
Japan - Nikkei 225	*28139*	*2.5%*	*2.5%*	*21.3%*	*18.7%*	*1.6%*	*23.5%*	*32.0%*	*0.79*
Australia - All ordinaries	*7024*	*2.5%*	*2.5%*	*1.4%*	*12.6%*	*3.0%*	*12.0%*	*14.3%*	*0.56*
Hong Kong - Hang Seng	*27878*	*2.4%*	*2.4%*	*-0.8%*	*-9.8%*	*1.9%*	*-3.1%*	*-7.0%*	*-0.40*
World - MSCI Index	***2753***	***2.4%***	***2.4%***	***16.3%***	***27.6%***	***1.9%***	***13.2%***	***30.4%***	***0.97***
World Ex. U.S.A. - MSCI Index	***2210***	***3.2%***	***3.2%***	***8.9%***	***5.5%***	***2.8%***	***6.0%***	***7.8%***	***0.39***
EAFE - MSCI Index	***2215***	***3.1%***	***3.1%***	***9.2%***	***5.5%***	***2.7%***	***6.3%***	***7.8%***	***0.37***
Emerging markets (free) - MSCI Index	***1,354***	***4.8%***	***4.8%***	***21.8%***	***12.2%***	***4.4%***	***18.5%***	***14.6%***	***0.50***

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

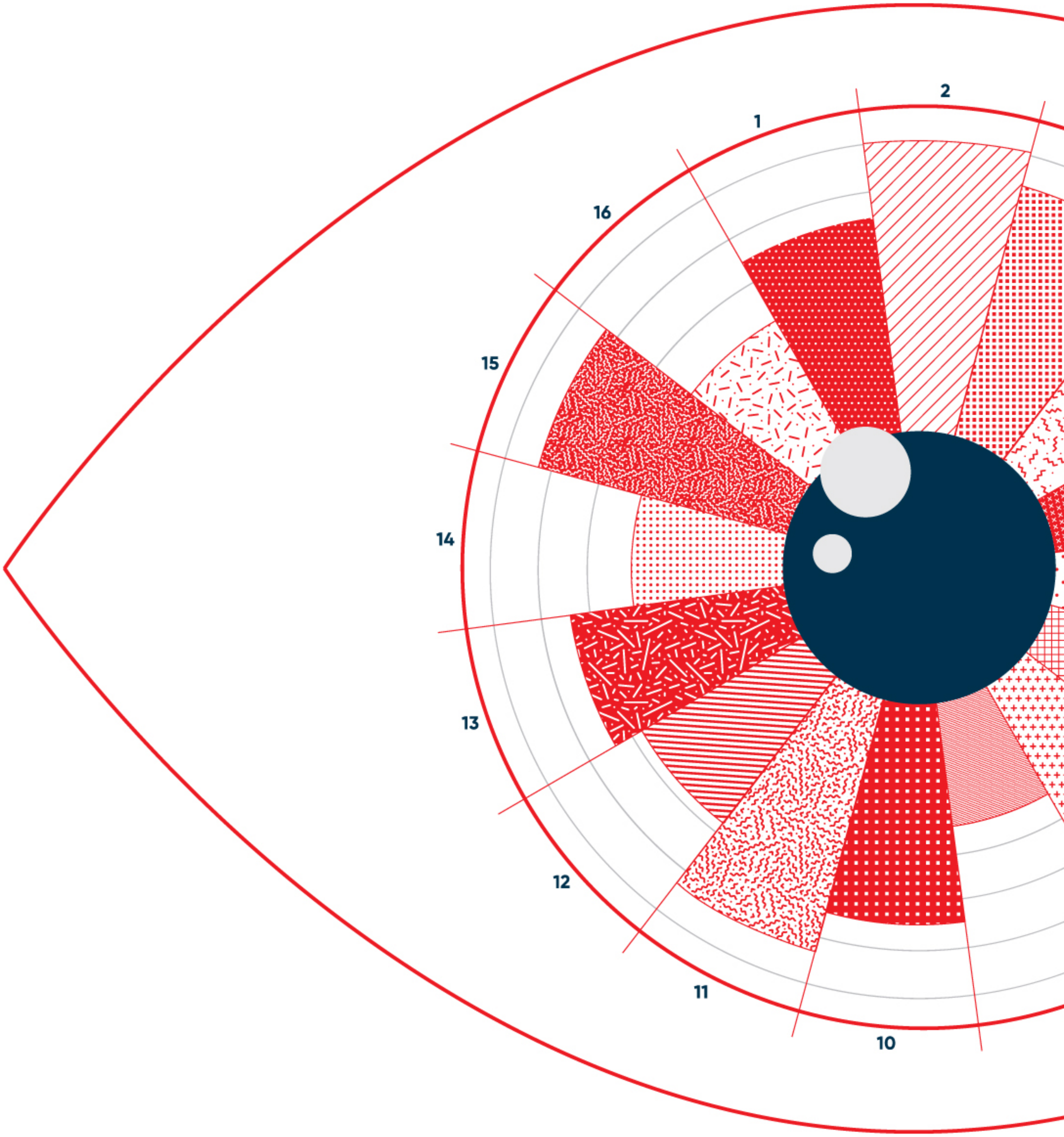
S&P 500 Sectoral Earnings- Consensus*
2021-01-08

	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	222	-3.29	-6.45	-15.34	22.81	22.56	28.03	22.81	22.65	19.53	1.00	2.30
Energy	2.46	313	31.72	-31.01	-107.92	0.00	0.00	0.00	30.69	30.69	0.54	neg.	0.94
Materials	2.73	482	16.04	28.68	-10.28	30.22	30.04	27.29	20.96	20.89	22.75	0.70	7.02
Industrials	8.33	758	11.54	8.29	-54.34	79.09	81.10	42.98	24.00	23.91	4.73	0.29	-1.80
Consumer Discretionary	12.92	1353	8.95	36.02	-30.68	57.37	55.28	56.82	36.10	36.34	74.82	0.66	6.15
Consumer Staples	6.33	689	2.77	7.69	3.12	6.06	6.58	22.36	21.08	20.83	7.07	3.16	1.71
Healthcare	13.66	1369	9.28	14.81	8.17	11.53	10.89	18.03	16.17	16.21	10.40	1.49	0.46
Financials	10.73	513	22.54	0.72	-24.94	21.36	21.36	17.77	14.62	14.62	3.08	0.68	5.57
Information Technology	27.30	2301	10.53	40.20	5.10	15.59	14.74	32.61	28.21	27.51	13.81	1.87	2.41
Telecom Services	10.54	221	12.31	18.70	-4.71	11.76	13.16	26.19	23.44	23.20	19.10	1.76	1.95
Utilities	2.69	317	-1.76	-2.26	1.47	4.77	4.77	19.41	18.52	18.52	3.95	3.88	0.32
Real Estate	2.32	222	-3.29	-6.45	-32.55	-6.16	-6.16	50.88	54.22	54.22	20.09	neg.	-6.08

* Source I/B/E/S

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

Technical Analysis



Technical Analysis

Dennis Mark, CFA
Analyst
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Energize your portfolio

A long bear market in commodities that started in 2007 is showing more and more technical evidence that it is slowly turning the corner. While recent moves off lows are impressive, especially from the perspective of percentage points gained, one really needs to take a bigger picture view. Many commodities and commodity-related stocks are down anywhere from 80% to over 90% from their peaks. So far, they have recovered a fraction of those losses. This results in a plentiful hunting ground for buying stocks. We highlight the energy sector as an area that has gone through a long bear market and is starting to shape up with chart bases developing.

S&P/TSX Energy ETF (XEG)

Source: Refinitiv

A major bear trend on the Canadian energy sector represented by XEG is attempting to base out and establish a bottom. The generally weak trend for more than 10 years in this sector saw a spike low with volume in early 2020. An initial rebound followed by downside tests is solidifying the bottom. Current prices are challenging resistance around $6.30 to $6.75 where a declining trend line comes into play. Breaking above resistance and its trend line will be a technical positive setting up a move to around $10.00.

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Dow Jones North American Junior Oil index (DJNAJO)

Source: Refinitiv

The secondary energy names represented by the DJ North American Junior Oil Index spent the past 10 months establishing a base structure. Improving technical action is becoming more evident as the chart trades above its moving averages that are also turning the corner. Key short-term resistance is 886. An upside breakout would be another positive step and set up a test of a declining trend line at approximately 1200.

Technical Analysis

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Analyst
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Cameco Corp. (CCJ: NYSE)

Source: Refinitiv

The Cameco chart has one of the best technical profiles among energy stock charts. Although it is not an oil or gas stock, it is considered an energy stock and is in the energy sector. The U.S. chart gives the best perspective on this stock. A five-year base was completed when the stock broke out around US$13.40 late last year. Strong upside momentum and volume accompanied the breakout giving it support and confirmation for higher prices. Target is US$18.00 to US$20.00. Again, as with numerous energy stocks, CCJ peaked at US$56.00 in 2007 and dropped approximately 90%. Risk/reward is in favour of the bulls.

Technical Analysis

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Analyst
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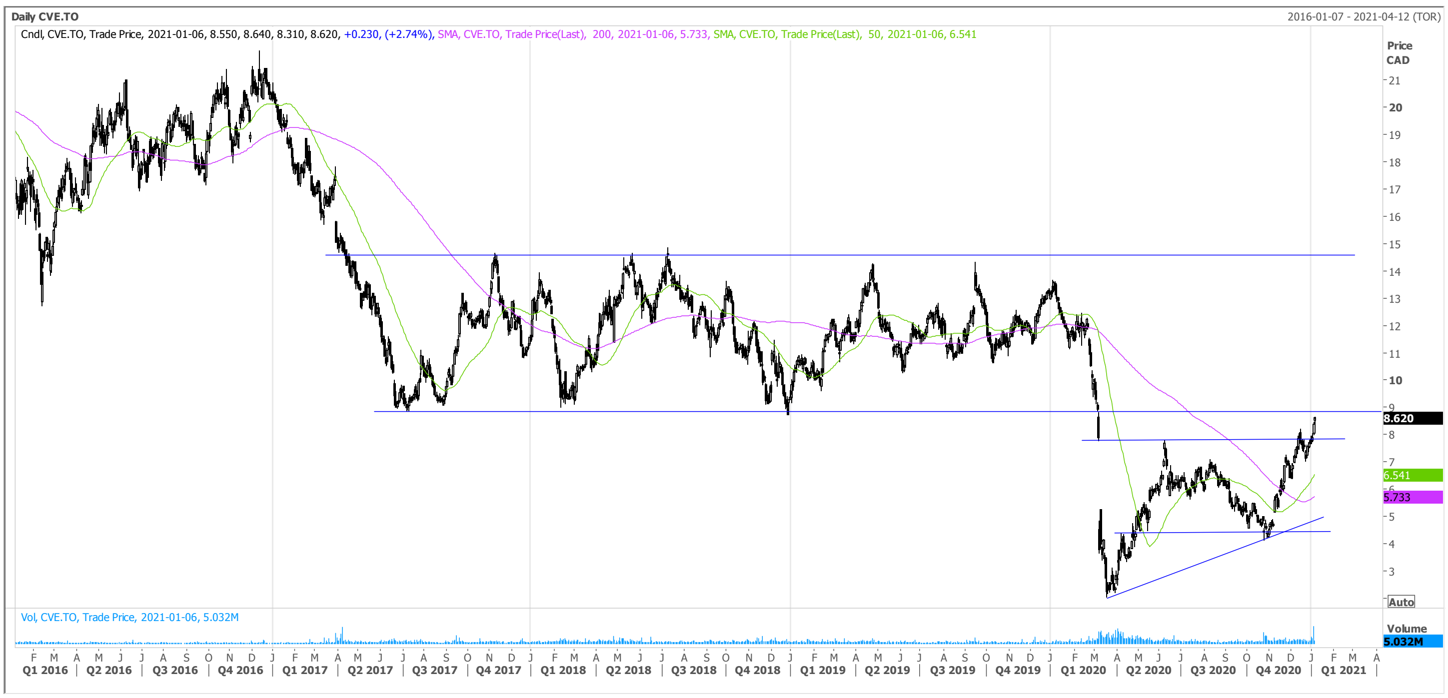
Cenovus Energy Inc. (CVE: TSX)



Source: Refinitiv

Cenovus is a favoured stock by many fundamental analysts and when combined with improving technical action, it makes for a high probability win. The initial rebound off the March lows was short-lived and the stock spent most of the rest of 2020 in a trading range. A recent breakout across resistance at $7.80 is a technical positive. The stock is approaching resistance at $8.80 to $9.00 with any rally above $9.00 seen as further improvement. Surmounting $9.00 opens the possibilities for a move into the mid-teens.

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Crescent Point Energy Corp. (CPG: TSX)

Source: Refinitiv

Crescent Point was a favourite among investors in years past and became an orphan as investors abandoned the stock, taking it down below a dollar. The washout phase and rebuilding over the past 10 months is turning the short-term trend positive. A recent upside breakout from its base at $2.80 has bullish implications as momentum turns up. An initial target of $4.50 to $5.00 can be projected. This action is likely the first of many steps in a long-term rebuilding process.

Technical Analysis

Dennis Mark, CFA
Analyst
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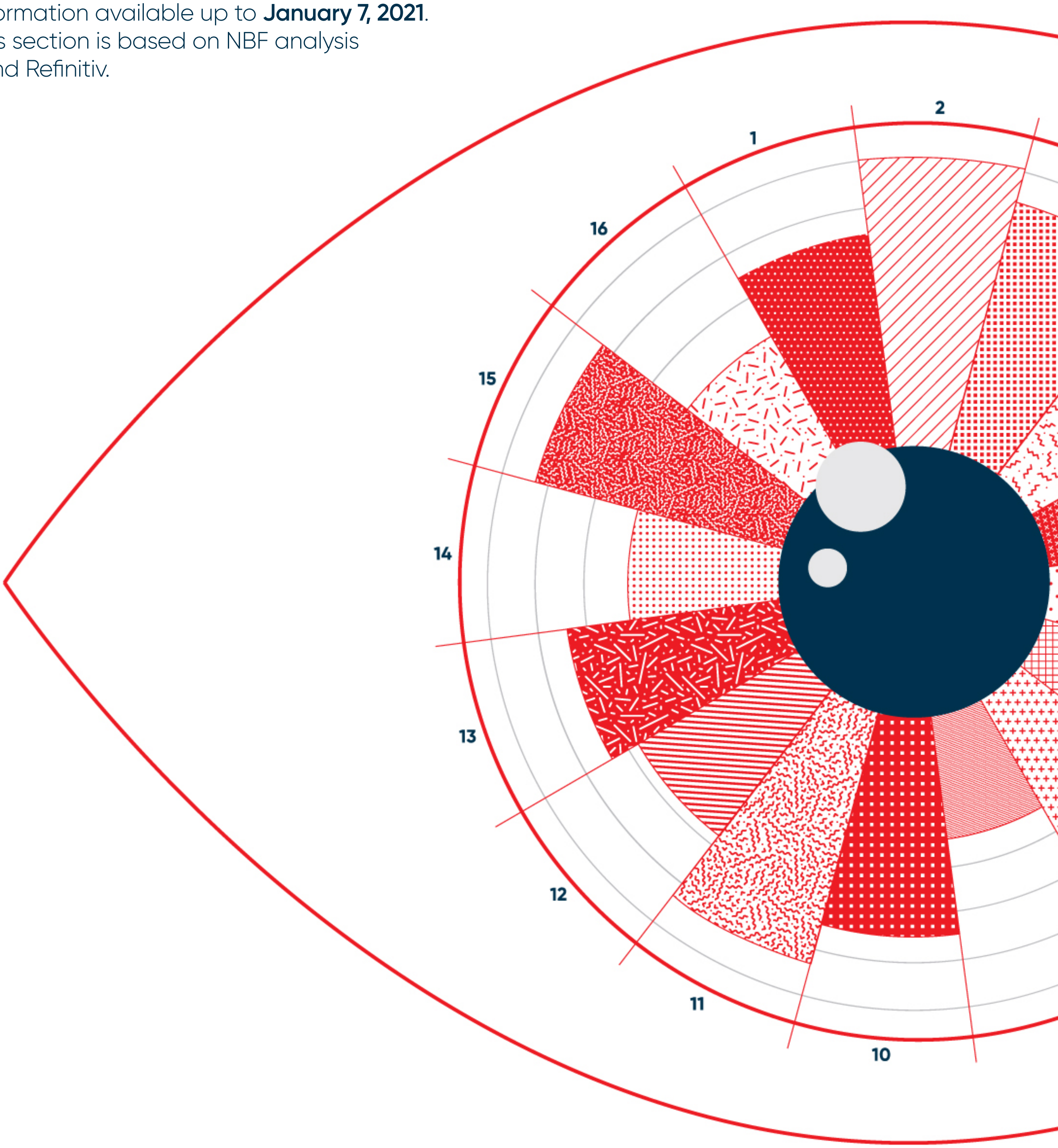
Enerplus Corp. (ERF: TSX)

Source: Refinitiv

A bear trend that started in 2006 took ERF from $66.00 to $2.00 has likely played itself out hopefully. The washout low near $2.00 was successfully tested in late 2020. Overhead resistance near $4.70 is being challenged with the potential to break out as interest grows in the oil patch. Further strength will break this chart out of its basing formation and trade it up to $7.00 as it continues its rebuilding process.

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **January 7, 2021**. Information in this section is based on NBF analysis and estimates and Refinitiv.



NBF Selection List

Sector Analysis

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$8.61	$13.50	0.00%	56.79%	Oil, Gas & Consumable Fuels
	Enbridge Inc.	ENB	$42.75	$54.00	7.86%	34.13%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$7.34	$8.00	1.13%	10.08%	Energy Equipment & Services
	Keyera Corp.	EFX	$24.17	$27.00	7.85%	19.65%	Oil, Gas & Consumable Fuels
	Parex Resources Inc.	PXT	$19.91	$30.00	0.00%	50.68%	Oil, Gas & Consumable Fuels
	TC Energy Corp.	TRP	$54.34	$70.00	6.01%	34.78%	Oil, Gas & Consumable Fuels
	Tourmaline Oil Corp.	TOU	$18.34	$30.00	3.02%	66.63%	Oil, Gas & Consumable Fuels
Materials							
	B2Gold Corp.	BTO	$7.30	$12.00	3.04%	67.18%	Gold
	Capstone Mining Corp.	CS	$2.94	$3.25	0.00%	10.54%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$9.60	$14.50	1.68%	52.64%	Gold
	Endeavour Mining Corp.	EDV	$32.59	$60.00	0.00%	84.11%	Gold
	Kinross Gold Corp.	K	$9.94	$18.00	0.83%	81.86%	Gold
	Marathon Gold Corp.	MOZ	$2.96	$3.50	0.00%	18.24%	Gold
	Sandstorm Gold Ltd.	SSL	$9.35	$15.50	0.00%	65.78%	Gold
	Teck Resouces Ltd.	TECK.b	$25.17	$28.50	0.82%	14.02%	Metals & Mining
Industrials							
	Air Canada	AC	$23.20	$30.00	0.00%	29.31%	Transportation
	Cargojet Inc.	CJT	$222.48	$264.00	0.44%	19.08%	Transportation
	Dexterra Group Inc.	DXT	$6.55	$8.50	4.46%	34.35%	Commercial & Professional Servi
	Finning International Inc.	FTT	$29.50	$35.00	2.78%	21.42%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$25.69	$35.00	1.56%	37.80%	Capital Goods
	Mullen Group Ltd.	MTL	$10.85	$12.00	3.16%	13.92%	Transportation
	Stantec Inc.	STN	$42.41	$50.50	1.40%	20.54%	Commercial & Professional Servi
	TFI International Inc.	TFII	$67.92	$77.00	1.64%	15.08%	Transportation
	Toromont Industries Ltd.	TIH	$87.53	$98.00	1.43%	13.38%	Capital Goods
Consumer Discretionary							
Consumer Staples							
	Empire Company Ltd.	EMP.a	$35.37	$43.00	1.46%	23.04%	Food & Staples Retailing
	Jamieson Wellness Inc.	JWEL	$38.18	$42.75	1.31%	13.28%	Household & Personal Products
Health Care							
	Medical Facilities Corp.	DR	$7.10	$7.75	4.00%	13.10%	Health Care Providers & Services
Financials							
	Alaris Equity Partners Income Trust	AD.un	$15.11	$19.00	7.66%	33.95%	Diversified Financials
	Canadian Imperial Bank of Commerce	CM	$111.74	$122.00	5.17%	14.41%	Banks
	Element Fleet Management Corp.	EFN	$13.25	$18.00	1.99%	37.81%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$56.86	$60.00	3.45%	8.93%	Insurance
	Royal Bank of Canada	RY	$108.07	$113.00	4.01%	8.56%	Banks
	Trisura Group Ltd.	TSU	$88.64	$114.00	0.00%	28.61%	Insurance
Information Technology							
	Kinaxis Inc.	KXS	$177.37	$250.00	0.00%	40.95%	Software & Services
	Real Matters Inc.	REAL	$20.34	$40.00	0.00%	96.66%	Software & Services
	Shopify Inc.	SHOP	US$1159.53	US$1250.00	0.00%	7.80%	Software & Services
Communication Services							
	Quebecor Inc.	QBR.b	$31.51	$39.00	2.49%	26.31%	Media & Entertainment
	Rogers Communications Inc.	RCI.b	$60.39	$70.00	3.28%	19.23%	Telecommunication Services
	TELUS Corp.	T	$26.31	$28.00	4.68%	11.15%	Telecommunication Services
Utilities							
	Brookfield Infrastructure Partners L.P.	BIP.un	US$49.11	US$55.00	3.83%	15.94%	Utilities
	Innergex Renewable Energy Inc.	BLX	$31.38	$32.00	2.33%	4.27%	Utilities
	Northland Power Inc.	NPI	$48.17	$50.00	2.44%	6.29%	Utilities
Real Estate							
	CT REIT	CRT.un	$15.73	$17.00	5.16%	13.18%	Real Estate
	European Residential REIT	ERE.un	$4.23	$5.20	3.83%	26.76%	Real Estate
	Killam Apartment REIT	KMP.un	$17.08	$21.00	3.96%	26.93%	Real Estate
	RioCan REIT	REI.un	$17.10	$20.00	8.41%	25.38%	Real Estate
	Tricon Residential Inc.	TCN	$11.36	$14.00	2.47%	25.70%	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 January 7, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

Sector Analysis

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

Risk Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

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

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

Sector Analysis

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—

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Canadian Banks & Lifecos

Canadian Banks: Q4/2020 Earnings Recap: Credit drives positive revisions.

After reducing our 2021E PCL forecasts by 15%, on average, we are now forecasting banks to generate EPS that are 6% shy of 2019 pre-COVID earnings levels. With a 2021E sector PCL ratio of 45 bps, which compares to 34 bps in 2019, we believe "low hanging fruit" EPS revisions are mostly harvested. Looking ahead, we believe the driver of relative stock performance will revolve around business growth metrics. As discussed in a recent report, we believe consumer lending will outpace commercial lending in the early stages of the recovery. We saw some of this divergence during the quarter. Our top pick is RY, which is well-positioned for a consumer lending rebound, while recently upgraded CM could benefit from a valuation re-rating as its relative growth metrics improve.

iA Financial Corp. (IAG: TSX). Good quarter. Reinsurance deals aimed at providing downside risk protection.

In a broader financials sector with dim growth prospects, IAG's Q3/20 EPS outperformance was a welcome surprise. While some elements are likely unsustainable (e.g., huge P&C profits), IAG's underlying earnings generation has demonstrated resilience during the current downturn. Almost as important, IAG's defensive characteristics also improved. Aside from a better than expected LICAT ratio that further diminishes a capital overhang that existed earlier in the year, the company entered into several reinsurance agreements post-quarter. These transactions will result in one-time gains that IAG plans to "re-invest" in strengthening of reserve assumptions that may be tested during the downturn (e.g., investment return assumptions, mortality, lapse, etc.). Although the macro backdrop is challenging, IAG remains our favourite of the "sub-book" valuation names, which we do not expect to be a classification that will apply to the stock much longer.

Selections

› *iA Financial Corporation*
› *Royal Bank of Canada*
› *Canadian Imperial Bank*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/7	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	SP		64,217	643	99.87	10/2020	7.71	8.37	9.26	11.9	10.8	77.40	76.70	77.58	1.3	1.3	4.2%	93.00	↑
Bank of Nova Scotia	BNS	SP		82,453	1,211	68.06	10/2020	5.36	6.13	6.74	11.1	10.1	51.87	52.30	54.42	1.3	1.3	5.3%	68.00	↑
CIBC	CM	OP	↑	50,249	445	112.88	10/2020	9.69	10.63	11.83	10.6	9.5	84.05	84.05	89.35	1.3	1.3	5.2%	122.00	↑
National Bank	NA	NR		24,549	336	73.06	10/2020	6.05	6.37	6.91	11.5	10.6	39.97	39.97	43.60	1.8	1.7	3.9%	NR	
Royal Bank of Canada	RY	OP		153,412	1,423	107.84	10/2020	7.97	9.35	9.68	11.5	11.1	56.75	56.75	61.70	1.9	1.7	4.0%	113.00	↑
Toronto-Dominion Bank	TD	SP	↓	133,843	1,804	74.20	10/2020	5.35	6.17	6.52	12.0	11.4	49.49	49.49	52.52	1.5	1.4	4.3%	73.00	↑
Canadian Western Bank	CWB	SP		2,629	87	30.18	10/2020	2.93	3.00	3.24	10.1	9.3	31.76	31.76	33.28	1.0	0.9	3.8%	30.00	
Laurentian Bank	LB	UP		1,411	43	32.64	10/2020	2.92	2.88	3.20	11.3	10.2	53.58	53.58	53.60	0.6	0.6	4.9%	28.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		28,555	928	30.78	12/2019	2.67	2.78	3.02	11.1	10.2	22.57	23.01	24.54	1.3	1.3	5.7%	30.00	
iA Financial	IAG	OP		6,020	107	56.23	12/2019	4.87	6.50	6.65	8.7	8.5	54.50	55.64	59.96	1.0	0.9	3.5%	60.00	
Manulife Financial	MFC	SP		46,478	1,940	23.96	12/2019	2.22	2.71	2.91	8.8	8.2	25.49	24.74	24.42	1.0	1.0	4.7%	22.00	
Sun Life Financial	SLF	SP		35,338	585	60.40	12/2019	4.14	5.35	5.73	11.3	10.5	38.17	39.14	42.90	1.5	1.4	3.6%	59.00	

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

Sector Analysis

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Company Updates

Home Capital Group (HCG: TSX)

OSFI inching closer to easing restrictions turns our attention to HCG's excess capital position:

We believe HCG shares are well positioned for upside when OSFI loosens return of capital restrictions. With a CET1 ratio of 19.3% as at Q3-20, we estimate HCG holds ~$4 per share (or 13% of BV) of excess capital above the company's 16-17% CET1 target. Moreover, we estimate HCG generates an additional ~$1 per share of excess capital every six months. For context, we estimate EQB holds excess capital of ~4% of Q3-20 BV, much lower due to a narrower buffer to its CET1 ratio target (14.3% vs. 13-14% target). Assuming HCG was allowed to immediately return this capital to shareholders via a special dividend, we estimate 2021 ROE would increase to ~14% from our current ~12% forecast. In turn, HCG's valuation multiple should also increase from the current ~0.99x P/B to ~1.5x based on a simple ROE-P/B regression. This would translate to a ~$47 share price (on Q3-20 BV). Our $34 price target implies a ~1.0x P/B multiple on our Q3-21 TBV estimate.

Intact Financial Corp. (IFC: TSX)

IFC Completes Equity Financing to Fund RSA Deal:

We come off restriction following the closing of a $1.25 bln bought deal private placement and previously closed $3.2 bln private placement to three cornerstone investors to finance the acquisition of RSA's Canada and UK & International (UK&I) operations, expected to close in Q2-21. Overall, we reaffirm our favorable view on the transaction given the massive earnings and book value accretion as well as the compelling strategic imperatives. We believe IFC will i) successfully integrate and operate RSA's Canada and UK&I operations with synergy upside; and ii) continue to generate roughly mid-teens OROE through 2022 and beyond. Reiterate Outperform.

Trisura Group (TSU: TSX)

Launch of U.S. Surety Further Cementing Confidence in Rapid Growth Outlook:

TSU signals the launch of the U.S. Surety business with the appointment of George R. James to head the operations effective January 4, 2021. Mr. James brings in 25 years of Surety expertise and relationships in the U.S. The announcement further cements our confidence in the rapid growth outlook for Trisura's U.S. operations as the company leverages 1) the success of the Canadian Surety business (currently the third-largest Surety provider in Canada) and provides an online portal and e-bonding platform where U.S. agents and brokers can access the Canadian operations; and 2) key relationships of senior executives, such as Mr. James, to win prominent contracts. At this time, our forecasts do not contemplate an entry into primary U.S. markets, further indicating the growth potential for Trisura. Our $114 price target implies a ~3.6x multiple on our BVPS (ex. AOCI) estimate in Q3-21 (plus ~1x AOCI), a premium to the current trading multiple of 3.3x. The premium reflects i) our view TSU will execute on our robust growth forecasts; ii) rising valuations in the peer group; and iii) premium valuations ascribed to U.S. Excess & Surplus lines specialists delivering consistent double-digit ROE and EPS growth. Moreover, we believe significant valuation upside remains as the company continues to prove out the U.S. fronting platform.

Selections

› *Element Fleet Management*
› *Trisura Group*

Diversified Financials

Sector Analysis

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	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 1/7	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		1.86	16.8	110.72	12/2019	12.29	11.89	13.60	9.3	8.1	89.25	92.17	104.31	1.2	1.1	1.3%	110.00	
First National Financial	FN	SP		2.56	60.0	42.63	12/2019	3.02	3.90	3.68	10.9	11.6	7.74	7.80	9.38	5.5	4.5	4.9%	39.00	
Sagen MI Canada	MIC	T		3.75	86.3	43.46	12/2019	5.35	5.09	4.68	8.5	9.3	43.57	44.22	46.76	1.0	0.9	5.0%	43.50	
Home Capital Group	HCG	OP		1.63	51.8	31.51	12/2019	2.50	3.39	4.07	9.3	7.7	31.28	32.19	36.09	1.0	0.9	0.0%	34.00	
Timbercreek Financial	TF	SP		0.71	81.1	8.75	12/2019	0.66	0.65	0.73	13.5	12.0	8.66	8.67	8.71	1.0	1.0	7.9%	9.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.67	242.5	6.89	12/2019	0.16	0.20	0.37	27.1	14.6	2.91	2.94	3.10	1.9	1.8	1.5%	7.50	
Element Fleet Management	EFN	OP		5.81	438.8	13.25	12/2019	0.36	0.76	0.86	17.5	15.4	7.34	7.41	7.78	1.8	1.7	2.0%	18.00	
goeasy	GSY	OP		1.48	14.9	99.71	12/2019	5.16	7.26	7.42	13.7	13.4	27.57	29.24	34.90	3.4	2.9	1.8%	93.00	
HR Companies																				
Morneau Shepell	MSI	OP		2.2	70.0	31.30	12/2019	0.29	0.74	0.55	42.2	56.4	9.58	9.52	9.39	3.3	3.3	2.5%	36.00	
People Corporation	PEO	T		1.1	71.9	14.92	08/2020	0.21	0.26	0.25	58.2	59.0	3.03	3.18	3.37	4.7	4.4	0.0%	15.22	↑
Securities Exchange																				
TMX Group	X	SP		7.19	56.6	127.00	12/2019	5.31	5.77	6.05	22.0	21.0	63.76	64.21	66.72	2.0	1.9	2.2%	141.00	
Insurance																				
Intact Financial Corp.	IFC	OP		20.72	143.0	144.85	12/2019	6.05	9.1	9.13	16.0	15.9	56.22	57.31	76.88	2.5	1.9	2.3%	192.00	
Trisura Group Ltd.	TSU	OP		0.91	10.3	88.64	12/2019	0.58	3.09	4.16	28.7	21.3	26.86	27.73	31.96	3.2	2.8	0.0%	114.00	
Fairfax Financial Holdings	FFH	OP		12.04	26.2	458.79	12/2019	69.78	-22.29	40.94	nmf	8.8	442.17	447.95	481.48	0.8	0.8	2.8%	525.00	
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.18	103.8	11.40	12/2019	1.33	1.34	1.35	8.5	8.5	4.91	5.00	4.96	2.3	2.3	7.4%	11.50	

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

Source: Refinitiv, Company reports, NBF

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

Diversified Industrials

Sector Analysis

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Shawcor Ltd.

Shawcor announces sale of Products Business for ~US$91.5 mln, helping alleviate our balance sheet concerns.

Over the holidays SCL announced the sale of its Pipeline Performance Products Business to Seal For Life Industries for ~$US91.5 mln, with the proceeds from the sale to be used to fund working capital growth and balance sheet improvement heading into 2021. In the associated material change report, SCL noted an approximate purchase price multiple of 13.0x adjusted (2019) EBITDA, with management highlighting revenue of US$85 mln in 2019 (meaningful, but less than 10% of total SCL 2019 revenue of ~$1.5 bln). We are most intrigued with the potential for balance sheet improvement, with leverage representing our chief concern with SCL prior to the announcement (with estimated net debt/ttm EBITDA north of 11.0x exiting Q3, albeit including trough quarterly EBITDA). With net debt of ~$390 mln exiting Q3, we believe the ~US$91.5 mln sale price could help take a meaningful chunk out of the credit facility depending on how much is devoted to funding working capital. **While we pare back our 2021e EBITDA by 6% to reflect the business sale, with our leverage concerns alleviated we increase our target multiple to 6.5x 2021e EV/EBITDA (still well below SCL's forward year historical average of 8.0x) which combined with the improved leverage outlook results in a target of $5.75, with the implied return warranting an upgrade to Outperform.**

Mullen Group Ltd.

2021 Business Plan reinforces both our positive stance and overall expectations for Mullen in the coming year.

In early December Mullen released the 2021 Business Plan, guiding to OIBDA ranging between $200 mln and $220 mln (encompassing the 2021 consensus EBITDA estimate of $213 mln) while concurrently announcing a 33% increase in the dividend from $0.36/sh to $0.48/sh (annualized). Mullen pointed to 2021e revenue ranging between $1.2 bln-$1.3 bln (excluding the impact of potential acquisitions in 2021), bookending both the consensus forecast of $1.23 bln and our $1.24 bln estimate. In addition to the dividend increase and financial guidance, Mullen also highlighted the intent to request approval to renew a share buyback program in April of 2021 (having reached the maximum permitted in 2020 after spending $53.4 mln repurchasing almost 8 mln shares (7.6% of shares outstanding entering 2020). Lastly, management also highlighted a cash balance in excess of $100 mln (roughly flat vs. the Q3 exit of ~$105 mln) that will be used to fund strategic acquisitions in the Less-Than-Truckload and Logistics & Warehousing segments in 2021. **We view the update positively as it reinforces our expectations for more of the same from Mullen in 2021: accretive tuck-in acquisitions, reliable free flow cash generation and the meaningful return of capital to shareholders. We reiterate our Outperform rating and $12.00 target driven by an unchanged 7.3x 2021e EV/EBITDA multiple, modestly below the post-2008 average forward year EV/EBITDA multiple of ~8.0x and the broader peer group average of ~7.5x.**

Selections

› *Enerflex Ltd.*
› *Mullen Group*

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/07	EBITDA (mlm) 2019	EBITDA (mlm) 2020e	EBITDA (mlm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt/ EBITDA 2020e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		586.40	18.7	31.34	144.3	144.5	165.5	9.3	9.7	8.0	5.7	41.00	33%	
Enerflex Ltd.	EFX	OP		658.24	89.7	7.34	345.7	172.1	141.6	3.1	6.1	7.1	2.3	8.00	10%	
Mullen Group Ltd.	MTL	OP		1051.48	96.9	10.85	202.3	195.4	209.3	7.6	7.3	6.8	2.0	12.00	15%	
Pason Systems Corp.	PSI	SP		712.20	83.7	8.51	129.6	31.7	27.5	4.3	17.7	21.1	-4.8	7.50	-10%	
Shawcor Ltd.	SCL	OP	↑	281.66	70.4	4	136.4	28.9	104.6	5.0	18.6	5.3	9.5	5.75	44%	↑

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

Source: Company Reports, Refinitiv, NBF

Healthcare, Biotech & Special Situations

Sector Analysis

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Highlights

Medical Facilities (DR: TSX)

Improving Outlook and Increasing Target as Peer Valuation Expands:

In November 2020, Medical Facilities reported strong Q3/20 results that, although at the facility level were mixed, for the most part, they were ahead of our forecasts and/or improved y/y even after adjusting for government support. While we have been on the sidelines for some time due to underperforming acquisitions and margin declines, the company appears to be at an inflection point with 1) nonperforming assets largely divested throughout 2020; and 2) an EBITDA margin that has improved for the most part of the year (+50 bps y/y in Q1/20 and +133 bps y/y in Q3/20 whereas Q2/20 was heavily impacted by the pandemic). Additionally, 1) DR's volumes continue to normalize in Q4/20 despite some of its hospitals operating in a highly impacted COVID-19 (C-19) state (South Dakota); 2) there is potential for incremental volumes over the next few quarters as DR, which does not treat C-19 patients, picks up surgical cases from other hospitals that do handle C-19 patients (the permanence of these volumes will depend on physicians joining DR's hospitals); and 3) the company will likely continue opening new ambulatory surgical centres (one opened in Q3/20) to increase its footprint.

In addition to the improving outlook, DR also has several positive financial attributes including 1) reasonable leverage of ~2.4x Net Debt to 2021e EBITDA (peers at ~4x); 2) dividend yield of ~4% (peers at 0.1%) that is sustainable at a 25% 2021e payout; and 3) inexpensive valuation that at 6.2x 2021e EV/EBITDA stands at a ~40% discount to peers. The latter saw their valuation increase by 0.6x (to FY+1 EV/EBITDA of 10.1x as at December 10, 2020) since our previous DR update, which implied a gap of 4.1x to our target versus 3.5x previously. The increased valuation differential prompted us to increase our target EV/EBITDA multiple for DR by a similar quantum to 6.5x (was 6.0x), suggesting a new target of $7.75 (was $6.75). The ~13% implied return continued to suggest an Outperform rating.

Selections

› *Jamieson Wellness*
› *Medical Facilities*

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 1/7	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		210.54	70.2	3.00u	3/2020	0.0%	0.26u	0.10u	0.11u	29.1	26.3	75.4u	80.2u	86.8u	8.5	8.8	472.4u	5.4	3.25u	
Andlauer Healthcare Group	AND	UP		1,403.23	37.6	37.32	3/2020	0.5%	0.79	0.82	1.02	45.7	36.5	70.6	78.2	85.9	19.1	17.3	88.6	1.0	36.25	
CRH Medical	CRH	OP		203.67	71.5	2.85	3/2020	0.0%	0.41u	0.32u	0.46u	6.4	4.5	36.6u	26.8u	43.3u	8.1	5.0	70.1u	1.6	4.25	
IMV Inc.	IMV	SP		293.87	67.1	4.38	3/2020	0.0%	(0.48)	(0.46)	(1.09)	nmf	nmf	(24.7)	(34.9)	(83.9)	nmf	nmf	0.0	nmf	7.00	
Jamieson Wellness	JWEL	OP		1,521.40	39.8	38.18	3/2020	1.3%	0.96	1.15	1.24	33.3	30.7	75.9	88.0	100.0	19.3	17.0	157.0	1.6	42.75	
Knight Therapeutics	GUD	OP		697.53	130.9	5.33	3/2020	0.0%	0.16	0.15	0.25	28.9	17.4	(1.2)	20.2	38.1	17.3	9.1	-	-	6.75	
Medical Facilities Corp.	DR	OP		220.85	31.1	7.10	3/2020	3.9%	0.66u	1.00u	0.86u	5.3	6.3	54.9u	57.9u	54.2u	5.8	6.2	106.2u	2.4	7.75	↑
Theratechnologies	TH	SP		278.02	77.0	3.61	3/f2020	0.0%	(0.15)u	(0.12)u	0.11u	nmf	24.2	0.3u	(3.8)u	13.1u	nmf	17.7	25.1u	1.9	4.00	
Special Situations																						
K-Bro Linen	KBL	OP		432.96	10.6	40.99	3/f2020	2.9%	2.65	2.14	2.74	19.1	14.9	47.6	41.0	49.0	13.1	10.9	102.3	2.1	35.00	
Just Energy Group	JE	R		-	-	6.28	2/f2021	-	-	R	R	R	R	-	R	R	R	R	-	R	R	
Rogers Sugar	RSI	SP		582.91	103.5	5.63	4/f2020	6.4%	0.37	0.42	0.43	13.6	13.2	92.3	98.9	103.2	9.4	9.2	340.7	3.3	5.00	
Chemtrade Logistics Income Fund	CHE.UN	SP		569.55	92.8	6.14	3/f2020	9.8%	1.27	0.80	1.01	7.7	6.1	335.6	279.8	335.1	7.2	5.9	1,402.5	4.2	5.50	

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

Industrial Products

Sector Analysis

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Toromont Industries Ltd.: Examining rental opportunity

Is TIH's rental business at an inflection point:

We believe so. Rental investment payback tends to take five to seven years to fully mature. We have reasons to believe over the next two to three years is when TIH's prior rental CAPEX materializes into greater profitability and market share. Timing is also beneficial as we are in the early innings of a cyclical rebound.

Read-through from an Australian peer – Coates Hire:

Coates Hire underwent a peak-trough-recovery cycle of its own (on the back of iron ore / LNG boom – bust transition). As commodity-driven end markets disrupted top-line growth in 2013-2016, negative operating leverage further compressed profitability. That said, management took steps to streamline operations and repurpose fleet towards a more robust eastern Australian infra market. Read-through for TIH? A sound end-market backdrop is critical for rentals due to underlying capital intensity. Further self-improvement is also likely, akin to the Coates Hire playbook.

Rental growth blueprint for TIH? Organic vs. M&A :

We provide scenario analysis of significant rental growth over the next five years through organic investments vs. M&A; we see upside in both strategies. The former could see the company's consolidated EPS generation reach $5.50 range by 2025E, while the latter brings more immediate EPS accretion and access to matured fleet / client relationships (while taking advantage of potentially compressed multiples for private players).

Overview of North American rental addressable market:

Recall TIH disclosed a 14% market share in a $2.2 billion rental TAM in 2018. Hence, we provide puts and takes around North American-based opportunities using rental peers' commentary. Directionally, it is fair to say that Toromont's market share opportunity is significant and growing.

Selections

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

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 1/7	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**	↑	$16.60	$847	12 - 2019	$1.13	$0.93	$0.74	12.2x	13.9x	$220	$223	$218	5.3x	6.3x	3.9%	1.3x
Bird Construction Inc.	BDT	OP		**$11.00**	↑	$8.09	$439	12 - 2019	$0.22	$0.74	$0.91	10.9x	8.9x	$32	$89	$101	5.2x	4.6x	3.9%	0.3x
Finning International Inc.	FTT	OP		**$35.00**	↑	$29.50	$4,782	12 - 2019	$1.64	$1.07	$1.53	27.6x	19.3x	$803	$626	$727	9.4x	8.1x	2.7%	1.4x
IBI Group Inc.	IBG	OP		**$12.00**	↑	$8.37	$316	12 - 2019	$0.63	$0.71	$0.77	11.7x	10.9x	$43	$49	$52	7.6x	7.3x	0.0%	1.2x
North American Construction Group Ltd.	NOA	OP		**$18.00**	↑	$12.85	$353	12 - 2019	$1.74	$1.73	$1.85	7.4x	6.9x	$174	$180	$192	4.3x	4.0x	1.2%	2.3x
Ritchie Bros. Auctioneers	RBA	SP	↑	**U$68.50**	↑	U$68.63	U$7,482	12 - 2019	U$1.36	U$2.22	U$2.28	30.9x	30.1x	U$294	U$413	U$424	18.7x	18.3x	1.3%	0.4x
SNC-Lavalin	SNC	OP		**$34.50**	↑	$21.95	$3,853	12 - 2019	-$0.93	$1.88	$2.44	6.7x	4.7x	$377	$664	$766	5.2x	4.3x	0.4%	1.7x
Stantec Inc.	STN	OP		**$50.50**	↑	$42.41	$4,746	12 - 2019	$1.97	$2.29	$2.50	18.5x	17.0x	$432	$476	$503	11.0x	10.4x	1.5%	0.9x
Toromont Industries Ltd.	TIH	OP		**$98.00**		$87.53	$7,195	12 - 2019	$3.49	$3.81	$4.46	23.0x	19.6x	$578	$604	$672	12.3x	11.0x	1.4%	0.3x
WSP Global	WSP	R		**R**		$122.45	$14,330	12 - 2019	R	R	R	R	R	R	R	R	R	R	R	R
AutoCanada	ACQ	SP		**$27.00**	↑	$28.89	$787	12 - 2019	$0.21	$0.31	$1.41	92.1x	20.5x	$56	$83	$56	11.2x	9.0x	0.0%	1.0x
Stelco	STLC	SP		**$26.50**	↑	$24.97	$2,215	12 - 2019	$0.25	$4.47	$1.75	5.6x	14.3x	$121	$517	$267	4.3x	8.3x	0.0%	net cash
ATS Automation	ATA	OP		**$28.00**	↑	$24.72	$2,284	12 - 2019	$1.06	$1.25	$1.42	19.8x	17.4x	$176	$165	$213	16.1x	12.5x	0.0%	1.8x
Stella-Jones	SJ	SP		**$47.50**	↑	$47.99	$3,238	12 - 2019	$2.30	$3.02	$2.96	15.9x	16.2x	$244	$336	$324	11.2x	11.6x	1.3%	1.6x
Median												**15.9x**	**16.2x**				**9.4x**	**8.3x**	**1.3%**	

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

Source: Company Reports, Refinitiv, NBF

Merchandising & Consumer Products

Sector Analysis

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Empire Company Ltd. (TSX – EMP.A)

Q2 F2021 Results: Good Food Retailing performance; an accelerating sales growth outlook

Q2/F21 EPS was $0.60 vs. NBF at $0.62 and consensus at $0.65; last year was $0.57:

Despite the headline EPS miss vs. NBF, Food Retailing (FR) performance was largely in line with our view; the EPS miss largely stemmed from lower-than-anticipated results in investments/other and higher D&A. Same store sales growth (sssg) excl. fuel was 8.7% vs. NBF at 9.0%; last year was 2.0%. FR sales were $6,975 million vs. NBF at $6,956 million; last year was $6,437 million. FR EBITDA was $506 million vs. NBF at $501 million; last year was $443 million. Management noted COVID-19 related costs of ~$14 million, largely in line with our view prior to the quarter.

A look ahead to Q3:

Perhaps more important than quarterly results are the early Q3 trends; five weeks into the quarter, management indicated an average FR sssg (excl. fuel) of 11% (ranging from 8%-13%), which suggests a step-up from Q2, likely reflecting more restrictive measures implemented across the country in response to the rising COVID-19 cases. Subsequent to the quarter, EMP introduced a temporary lockdown bonus for employees impacted by new restrictions in Manitoba/Ontario; the estimated costs could be up to $5 million per quarter. Management anticipates quarterly COVID-19 related costs (incl. the lockdown bonus, sanitization, safety) to approximate $15 million to $20 million.

Other thoughts and comments:

Despite EMP's solid results (>27% earnings growth in the FR segment) and positive near-term outlook, we suspect that the market will look past this strength in the immediate term, given expectations that the restaurant industry will gradually recover and grocery demand will revert to more normal levels. That said, we believe that Empire has significant growth potential over the medium term, supported by Project Horizon.

Outperform rating; Price target is $43:

Our price target is based on 8.0x our F22/F23 Food Retailing EBITDA, plus the value of Empire's investments (less a 10% discount).

Selection

› *Empire Company*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 01/07	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		10,654	61.2	174.13	12/2019	13.07	11.23	13.58	15.5	12.8	2,146	2,033	2,225	7.1	6.4	67.42	0.47	168.00	
Dollarama	DOL	OP		16,574	312.8	52.98	02/2020	1.78	1.84	2.24	28.8	23.6	1,111	1,147	1,332	17.1	14.7	0.84	0.92	61.00	↑
Specialty Stores																					
Couche Tard	ATD.b	OP		47,785	1,114.4	42.88	04/2020	1.97	2.23	2.18	15.2	15.5	4,365	4,666	4,454	9.0	9.4	10.70	0.32	55.00	
Parkland Fuel Corporation	PKI	OP		6,627	151.1	43.85	12/2019	2.56	0.73	1.91	60.1	23.0	1,266	1,049	1,269	9.6	7.9	14.86	0.60	46.00	
Apparel																					
Gildan	GIL	OP		7,240	198.3	36.51	12/2019	1.66	(0.44)	1.50	-65.8	19.2	548	109	499	58.5	12.8	7.44	0.37	33.00	
Roots Corporation	ROOT	SP		107	42.2	2.53	02/2020	(0.06)	0.38	0.34	6.7	7.4	52	66	62	4.6	4.9	3.60	0.56	3.00	↑
Grocers																					
Empire Company	EMP.a	OP		9,553	270.1	35.37	05/2020	2.19	2.44	2.64	14.5	13.4	1,892	2,074	2,116	7.5	7.4	15.54	0.59	43.00	
Loblaw	L	SP		23,030	358.0	64.33	12/2019	4.12	4.21	4.96	15.3	13.0	4,912	4,974	5,202	7.6	7.3	31.27	0.57	82.00	
Metro	MRU	SP		14,327	251.8	56.90	09/2020	3.27	3.53	3.75	16.1	15.2	1,091	1,071	1,079	15.4	15.3	24.45	0.26	65.00	
Food Manufacturer																					
Saputo	SAP	SP		14,929	410.9	36.33	03/2020	1.80	1.88	2.23	19.4	16.3	1,468	1,532	1,713	12.0	10.7	15.8	0.35	39.00	
Lassonde	LAS.a	OP		1,231	6.9	177.50	12/2019	8.32	13.54	13.05	13.1	13.6	159	210	207	7.1	7.2	116.4	0.25	183.00	
Premium Brands Holdings	PBH	OP		3,967	39.4	100.69	12/2019	3.30	2.94	4.29	34.3	23.5	308	305	401	16.8	12.7	33.9	0.46	117.00	
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,002	37.0	27.08	12/2019	1.59	1.72	1.91	15.7	14.2	156	163	171	8.3	8.0	9.12	0.52	29.00	
Beauty and Personal Care																					
MAV Beauty Brands	MAV	OP		213	42.4	5.01	12/2019	0.31	0.47	0.56	10.6	8.9	29	35	38	10.0	9.3	5.53	0.37	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,327	24.7	53.73	11/2020	3.34	(1.27)	3.17	-42.2	16.9	152	154	171	11.6	10.4	22.93	0.44	49.00	
Online Grocery																					
Goodfood Market	FOOD	OP		182	60.3	3.02	08/2020	(0.07)	(0.07)	0.01	NA	NA	5	11	21	NA	NA	0.95	(3.75)	12.75	↑

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Metals & Mining: Base Metals

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Equities Have Further to Run in Current Price Environment

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

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

Top picks:

- **First Quantum Minerals. (FM: TSX)** – The company's high-quality asset base, organic growth profile and long-term exposure to copper prices maintain its status as a 'go to' copper producer. FM has the most potential to deliver meaningful news flow over the next 12 months with potential non-core asset sales, which may include a minority interest in its Zambian operations as well as Ravensthorpe. These strategic divestitures would be supportive of deleveraging the balance sheet and reduce the company's overall exposure to future cost increases in Zambia. Any further clarity regarding the long-term tax/royalty structure in Panama and Zambia would further improve the outlook for the company.
- **Capstone Mining. (CS: TSX)** – Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including initiatives to achieve a sustained 57,000 tpd mill throughput by H1/21 at Pinto Valley and potential mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~40% production growth and ~20% reduction in costs by 2023. In addition, with the Cozamin silver stream sale announced in December 2020, the company has eliminated net debt and continues to advance partnership/financing agreements to deliver transformational growth from Santo Domingo.
- **Teck Resources. (TECK.B: TSX)** – Near-term, Teck will be driven by optimization of the company's coal division following completion of Neptune Terminals in Q1/21 and continued delivery of ~20% coal sales into China at a significant premium to seaborne coking coal prices. Advancement of QB2 towards completion in 2023 will nearly double the company's copper production increasing the company's long-term exposure to copper, while current market conditions are favorable to potentially monetize several early-stage/non-core copper projects within the portfolio that are ascribed little to no value.

Selections

› *First Quantum* › *Capstone Mining* › *Teck Resources*

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/7	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP		1,179	402.5	2.93	3.25	↑	Nagle	(0.02)u	0.07u	0.37u	30.0x	8.0x	0.21u	0.23u	0.63u	9.6x	3.5x	3.87	0.8x
Copper Mountain Mining	CMMC	SP		493	191.5	2.38	2.30	↑	DeMarco	0.14c	0.11c	0.50c	21.8x	4.8x	0.13c	0.30c	0.84c	7.9x	2.8x	2.10	1.1x
Ero Copper	ERO	SP		1,960	86.8	22.59	24.00	↓	Nagle	0.97u	1.44u	2.11u	11.8x	10.7x	1.54u	2.25u	2.88u	7.6x	5.9x	29.45	0.8x
First Quantum Minerals	FM	OP		18,035	689.4	26.16	28.50	↑	Nagle	0.36u	(0.01)u	1.32u	n/a	19.8x	1.95u	2.68u	4.04u	7.3x	4.9x	23.10	1.1x
Hudbay Minerals	HBM	SP		2,506	261.3	9.59	11.00	↑	Nagle	(0.19)u	(0.38)u	0.18u	n/a	53.5x	1.19u	1.09u	1.92u	6.6x	3.8x	7.82	1.2x
Lundin Mining	LUN	SP		9,061	733.7	12.35	13.50	↑	Nagle	0.25u	0.38u	0.96u	24.6x	12.9x	0.79u	1.09u	1.96u	8.5x	4.7x	11.22	1.1x
Nexa Resources	NEXA	SP		1,544	132.4	11.66	15.00	↑	Nagle	0.19u	(0.88)u	0.71u	n/a	16.4x	2.35u	1.73u	3.67u	5.1x	2.4x	28.46	0.4x
Sherritt International	S	SP		211	397.3	0.53	0.50	↑	DeMarco	(0.34)c	(0.22)c	0.10c	n/a	5.5x	0.03c	0.04c	0.23c	13.2x	2.3x	0.71	0.8x
Taseko Mines	TKO	SP		517	246.1	1.85	2.00	↑	DeMarco	(0.28)c	(0.10)c	0.04c	n/a	42.5x	0.21c	0.43c	0.41c	4.3x	4.5x	2.58	0.7x
Teck Resources	TECKb	OP		13,365	531.0	25.17	28.50	↑	Nagle	2.77c	1.21c	1.97c	20.7x	12.8x	6.51c	3.56c	5.58c	7.1x	4.5x	27.55	0.9x
Titan Mining	TI	SP		120	139.0	0.86	0.90	↑	Nagle	(0.09)c	(0.12)c	0.29c	n/a	3.0x	(0.05)c	0.04c	0.39c	17.1x	1.6x	1.62	0.5x
Trevali Mining	TV	SP		197	802.6	0.25	0.25	-	Nagle	(0.03)c	(0.02)c	0.06c	n/a	3.8x	0.08c	0.02c	0.12c	8.1x	1.5x	0.60	R
Developers																					
Adventus Mining	ADZN	OP		144	131.1	1.10	1.65	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.04	0.5x
Filo Mining	FIL	SP		238	110.8	2.15	3.50	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.35	0.4x
Nevada Copper	NCU	SP		305	1,488.3	0.21	0.20	↓	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		249	300.6	0.83	1.30	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.79	0.5x
Trilogy Metals	TMQ	OP		373	143.0	2.61	4.00	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.66	0.6x

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u = US dollars; c = Canadian dollars
Source: Company Reports, NBF Estimates, Refinitiv

Metals & Mining: Precious Metals

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Current Macroeconomic Environment Supportive of Gold Outperformance

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

The economic impact of COVID-19 has forced banks across the globe to perform drastic measures. Interest rates have been slashed and unprecedented support packages have been approved. The fall in U.S. Treasury yields has created an environment of low or negative real rates, an environment that gold historically has outperformed in. Inflationary pressures stemming from the U.S. Fed's QE program, coupled with investors drawn to physical assets during uncertain times, only help to solidify our view. The expected financial and monetary policies associated with the incoming US administration are also positive for the short term price of gold.

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

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

Selections

Gold/Silver Producers:

- *Kinross*
  (K: TSX; C$18.00)
- *B2Gold Corp.*
  (BTO: TSX; C$12.00 target)
- *Dundee Precious Metals Inc.*
  (DPM: TSX; C$14.50 target)
- *Endeavour Mining Corp.*
  (EDV: TSX; C$60.00 target)

Developers:

- *Marathon Gold Corp.*
  (MOZ: TSX; $3.50 target)

Royalties:

- *Sandstorm Gold Ltd.*
  (SSL: TSX; $15.50 target)

Metals & Mining: Precious Metals

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	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/7	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		23,430	242.35	96.68	124.00		Parkin	0.96u	2.08u	3.81u	36.7x	20.0x	3.64u	5.40u	5.40u	14.1x	14.1x	63.17	1.5x
Barrick Gold	ABX	SP		55,851	1,778.13	31.41	43.00		Parkin	0.51u	1.08u	1.09u	23.0x	22.8x	1.81u	3.06u	3.06u	8.1x	8.1x	23.57	1.3x
Kinross Gold Corp	K	OP		12,700	1,277.67	9.94	18.00		Parkin	0.31u	0.71u	0.96u	11.1x	8.2x	0.80u	1.31u	1.31u	6.0x	6.0x	14.23	0.7x
Kirkland Lake Gold Corp	KL	OP	↑	14,290	260.82	54.79	71.00	↓	Parkin	2.74u	3.36u	3.75u	12.9x	11.5x	4.46u	4.69u	4.69u	9.2x	9.2x	34.52	1.6x
Newmont	NGT	OP		66,438	803.36	82.70	122.00		Parkin	1.32u	2.34u	3.96u	27.9x	16.5x	4.31u	5.98u	5.98u	10.9x	10.9x	57.29	1.4x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		31,800	190.8	166.64	210.00	-	Nagle	1.82u	2.40u	2.81u	52.2x	59.3x	3.36u	3.88u	4.56u	32.3x	27.5x	74.64	2.2x
Maverix Metals Inc	MMX	SP		1,062	140.2	7.57	7.75	-	Nagle	0.08u	0.07u	0.04u	n/a	204.6x	0.27u	0.26u	0.26u	29.7x	29.1x	5.05	1.5x
Osisko Gold Royalties Ltd	OR	OP		2,796	166.3	16.81	23.00	-	Nagle	0.27u	0.31u	0.67u	n/a	25.1x	0.64u	0.72u	1.16u	23.4x	14.5x	18.78	0.9x
Royal Gold Inc	RGLD	SP		7,138	65.2	109.42u	170.00u	-	Nagle	2.60u	2.83u	3.45u	38.7x	31.7x	4.56u	6.09u	6.19u	13.5x	13.3x	73.20	1.5x
Sandstorm Gold Ltd	SSL	OP		1,787	191.1	9.35	15.50	-	Nagle	0.06u	0.12u	0.23u	58.6x	40.7x	0.34u	0.34u	0.44u	20.7x	16.0x	9.98	0.9x
Wheaton Precious Metals Corp	WPM	OP		25,856	449.3	57.55	90.00	-	Nagle	0.56u	1.15u	1.49u	37.6x	38.6x	1.14u	1.76u	2.05u	24.6x	21.1x	29.40	2.0x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		4,691	391.55	11.98	16.00		Parkin	0.21u	0.41u	0.53u	23.0x	17.7x	0.75u	0.99u	0.99u	9.5x	9.5x	11.63	1.0x
B2Gold	BTO	OP		7,522	1,030.4	7.30	12.00		DeMarco	0.25u	0.50u	0.54u	14.6x	13.6x	0.51u	0.85u	0.88u	8.6x	8.3x	5.56	1.3x
Centerra Gold Inc	CG	OP		4,561	295.78	15.42	20.50		Parkin	2.35u	2.06u	0.51u	5.9x	24.0x	1.36u	2.91u	3.45u	4.2x	3.5x	17.52	0.9x
Dundee Precious Metals	DPM	OP		1,740	181.3	9.60	14.50		DeMarco	0.26u	0.98u	1.04u	9.8x	9.2x	0.62u	1.37u	1.85u	7.0x	5.2x	11.38	0.8x
Eldorado Gold Corp	ELD	OP		3,155	174.78	18.05	21.00	↓	Parkin	(0.02)u	1.05u	0.93u	17.2x	19.4x	0.93u	2.47u	2.47u	5.8x	5.8x	20.66	0.9x
Endeavour Mining	EDV	OP		5,314	163.1	32.59	60.00		DeMarco	0.68u	2.40u	3.20u	13.6x	10.2x	2.68u	5.21u	6.39u	6.2x	5.1x	37.46	0.9x
Equinox Gold Corp	EQX	SP	↓	4,035	296.0	13.63	18.00	↓	Sclodnick	(0.13)u	0.57u	1.26u	23.9x	10.9x	0.68u	1.16u	2.15u	11.8x	6.3x	16.84	0.8x
IAMGOLD Corp	IMG	OP		2,232	473.80	4.71	7.50		Parkin	(0.03)u	0.29u	0.58u	13.0x	6.4x	0.75u	0.86u	0.86u	4.3x	4.3x	8.64	0.5x
Lundin Gold Inc.	LUG	OP		2,479	230.0	10.78	16.00	↓	Sclodnick	n/a	0.54u	1.14u	20.0x	9.5x	n/a	0.73u	1.46u	14.9x	7.4x	11.73	0.9x
New Gold Inc	NGD	OP		1,947	676.05	2.88	4.00		Parkin	(0.08)u	(0.00)u	0.15u	n/a	18.9x	0.39u	0.37u	0.37u	6.1x	6.1x	4.01	0.7x
OceanaGold Corp	OGC	OP		1,851	703.99	2.63	4.00		Parkin	0.06u	(0.08)u	0.20u	n/a	13.2x	0.33u	0.31u	0.31u	6.7x	6.7x	3.64	0.7x
Pretium Resources	PVG	SP		2,843	188.0	15.12	19.00		DeMarco	0.54u	0.97u	1.23u	15.6x	12.3x	1.13u	2.00u	2.00u	7.6x	7.6x	15.81	1.0x
SSR Mining Inc	SSRM	OP		5,677	219.36	25.88	45.00	↑	Parkin	0.74u	1.50u	2.65u	13.6x	7.7x	1.59u	2.25u	2.25u	9.1x	9.1x	34.33	0.8x
Teranga Gold Corp	TGZ	T		2,535	167.5	15.13	28.25		DeMarco	0.01u	0.75u	1.64u	20.1x	9.2x	0.50u	1.68u	3.14u	9.0x	4.8x	14.79	1.0x
Yamana Gold Inc	YRI	SP		7,369	986.45	7.47	9.00		Parkin	0.10u	0.30u	0.30u	19.5x	19.8x	0.51u	0.73u	0.73u	8.0x	8.0x	5.51	1.4x
Silver Producers																					
First Majestic Silver Corp	FR	SP		3,815	214.9	17.75	18.00		DeMarco	0.03u	0.21u	0.39u	86.2x	45.4x	0.53u	0.54u	1.01u	33.0x	17.6x	6.95	2.6x
Fortuna Silver Mines Inc	FVI	SP		2,183	184.0	11.86	11.00		DeMarco	0.18u	0.15u	0.94u	78.5x	12.6x	0.45u	0.47u	1.57u	25.1x	7.6x	7.07	1.7x
Pan American Silver	PAAS	SP		10,196	210.1	48.53	57.00		DeMarco	0.60u	1.03u	2.15u	46.9x	22.5x	1.60u	1.95u	3.49u	24.9x	13.9x	24.92	1.9x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	OP		819	293.7	2.79	4.25		Sclodnick	0.26u	0.23u	0.41u	12.2x	6.8x	0.40u	0.35u	0.76u	7.9x	3.7x	4.43	0.6x
Golden Star Resources	GSC	OP		535	109.6	4.88	8.25		DeMarco	0.21u	0.31u	0.66u	15.6x	7.4x	0.40u	0.74u	0.95u	6.6x	5.1x	7.04	0.7x
K92 Mining Inc.	KNT	OP		1,765	218.9	8.06	12.25		Egilo	0.15u	0.21u	0.39u	38.2x	20.9x	0.24u	0.35u	0.48u	22.9x	16.8x	9.51	0.8x
TMAC Resources	TMR	T		285	130.3	2.19	2.20	↑	DeMarco	0.04u	0.16u	0.41u	14.0x	5.4x	0.76u	0.66u	0.65u	3.3x	3.4x	1.98	1.1x
Wesdome Corp.	WDO	OP		1,497	138.4	10.82	17.50		DeMarco	0.32u	0.49u	0.80u	21.9x	13.5x	0.56u	0.79u	1.07u	13.7x	10.1x	11.55	0.9x
Developers																					
Artemis Gold Inc.	ARTG	OP		790	122.7	6.44	8.50		DeMarco	0.00u	(0.04)u	(0.02)u	-	-	0.00u	(0.08)u	(0.02)u	-	-	8.37	8.37
Barsele Minerals Corp.	BME	SP		72	124.3	0.58	0.75	↑	Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.72	0.8x
Bluestone Resources Inc.	BSR	OP		286	143.5	1.99	3.50		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.85	0.5x
Falco Resources Ltd.	FPC	SP		83	207.9	0.40	0.55		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.61	0.7x
Integra Resources Corp.	ITR	OP		262	54.6	4.80	7.25		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7.53	0.6x
Liberty Gold Corp	LGD	OP		408	247.1	1.65	2.90		Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.35	0.5x
MAG Silver Corp	MAG	OP		2,563	91.2	28.11	29.50		DeMarco	(0.06)u	(0.18)u	0.59u	-	47.9x	(0.04)u	(0.04)u	0.80u	-	35.2x	19.50	1.4x
Marathon Gold Corp.	MOZ	OP		616	211.1	2.92	3.50	↑	Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.40	0.9x
Minera Alamos	MAI	OP		307	438.2	0.70	1.10		Sclodnick	n/a	n/a	0.03u	n/a	27.1x	n/a	n/a	0.04u	n/a	18.6x	0.94	0.7x
O3 Mining Inc.	OIII	OP		188	60.2	3.12	4.75		DeMarco	(0.09)u	(0.20)u	(0.18)u	-	-	(0.09)u	(0.20)u	(0.18)u	-	-	6.52	6.52
Osisko Development	ODV	OP		1,033	125.6	8.22	10.75		Sclodnick	n/a	n/a	(0.03)u	n/a	n/a	n/a	n/a	0.04u	n/a	198.9x	14.01	0.6x
Osisko Mining	OSK	OP		1,251	340.7	3.67	6.25		DeMarco	(0.16)u	(0.05)u	(0.04)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	5.00	5.00
Pure Gold Mining Inc.	PGM	SP		889	393.3	2.26	2.50		Sclodnick	n/a	n/a	0.06u	n/a	38.6x	n/a	n/a	0.14u	n/a	15.7x	2.42	0.9x
Sabina Gold and Silver Corp.	SBB	OP		1,014	326.1	3.11	3.75	↑	Sclodnick	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.47	0.9x
SilverCrest Metals	SIL	OP		1,892	128.5	14.73	17.00		DeMarco	(0.22)u	(0.23)u	(0.04)u	-	-	(0.19)u	(0.20)u	(0.03)u	-	-	10.96	1.3x

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

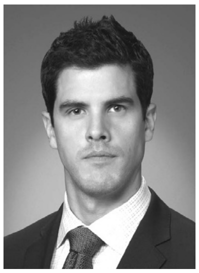
u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Sector Analysis

Intermediate Oil & Gas and Oilfield Services



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Outlook

Crude Oil:

After dealing with unprecedented headwinds and turbulence for most of the year, energy equities ended 2020 on a promising note. Specifically, oil-focused names have experienced a meaningful rally since the beginning of November (S&P/TSX Capped Energy Index +40%) on the back of an improved macro backdrop as vaccine doses continue to be distributed globally. Looking ahead to 2021, we could see some short-term demand headwinds as Libyan production continues to ramp, anticipated to reach 1.2 mmbbl/d in 2021 (from 1.1 mmbbl/d currently), and sanctions imposed on Iran could be eased under the Biden administration, potentially doubling production to 4.5 mmbbl/d in 2021. However, we remain cautiously optimistic towards the back half of the year, where the economic recovery should continue to progress and normalize the supply/demand complex, and hopefully put the pandemic in the rearview mirror. Furthermore, we expect OPEC+ to find the fragile balance needed to ensure global stocks continue drawing down, reaching historical average levels near mid-2021. Reflecting our renewed optimism, we increased our 2021 forecast for WTI to US$50/bbl (from US$42.25/bbl). For 2022+, we left our WTI forecast unchanged at US$50/bbl. Compared to our price forecast, Cal21 and Cal22 prices for WTI currently sit at US$49.74/bbl and US$47.15/bbl, respectively.

Natural Gas :

Contrary to crude oil, natural gas prices have broken from the previous highs set in late October, primarily as a result of a warmer winter weather outlook. Further exacerbating the issue is the recent move higher in oil prices, owing to the inverse correlation the commodity has with crude. The North American gas complex is still set to remain under-supplied by ~3 bcf/d through 2021. Additionally, capital investment remains restrained, therefore production is not expected to grow meaningfully. Demand should remain resilient through the year, supported by the price elasticity of demand from power generation and surging LNG exports (~11 bcf/d currently), albeit weighed down in the near term by the warmer winter weather outlook. We decreased our forecast for AECO to C$2.40/mcf (from C$2.85/mcf) and C$2.35/mcf (from C$2.95/mcf) for 2021 and 2022, respectively. Similarly, we also decreased our forecast for NYMEX to US$2.60/mcf (from US$2.90/mcf) and US$2.60/mcf (from US$3.00/mcf) for 2021 and 2022, respectively. Relative to our price forecast, Cal21 and Cal22 prices for AECO and NYMEX currently sit at $C2.64/mcf and $C2.38/mcf, and US$2.74/mcf and US$2.59/mcf, respectively.

We do not expect to see any significant changes in the business strategies of Canadian E&P companies as we head into 2021. The era of organic growth is now firmly behind us, hindered by low commodity prices, egress constraints and shareholder pressure for returns. As such, we believe the best path forward is to prudently harvest as much value as possible from the remaining assets and return it to shareholders. The winners, which are reflected in our top picks, should see themselves separate from the pack the longer this theme persists.

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

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Oil & Gas

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environment, TOU is one of the most investable names, where it holds positive and well-supported liquidity, exposure to several value-additive themes (gas and Topaz), which in sum, support what is already an attractive valuation.

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

Selections

› *Cenovus*
› *Tourmaline*
› *Parex*

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 1/7	Market Cap. (Mln)	Yield (%)	EV/DACF act. 2019A	EV/DACF est. 2020E	EV/DACF est. 2021E	Net Debt/ Cash Flow 2020E	Net Debt/ Cash Flow 2021E	CFPS - FD act. 2019A	CFPS - FD est. 2020E	CFPS - FD est. 2021E	P/CFPS est. 2020E	P/CFPS est. 2021E	12-Mth Price Target	12-Mth Price Return	Δ
Senior/Integrated																					
Canadian Natural Resources	CNQ	OP		Wood	1181.1	$33.81	$39,931	5%	5.2x	9.7x	5.9x	3.8x	1.9x	$8.60	$4.66	$7.52	7.2x	4.5x	$42.00	29%	↑
Cenovus Energy	CVE	OP		Wood	2017.3	$8.49	$17,127	0%	5.0x	28.2x	4.8x	29.5x	2.0x	$3.01	$0.19	$2.54	45.0x	3.3x	$13.50	59%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	259.8	$17.28	$4,490	2%	6.4x	5.4x	4.4x	4.1x	3.1x	$11.22	$7.27	$8.74	2.4x	2.0x	$18.50	9%	↑
Imperial Oil	IMO	SP		Wood	736.3	$27.42	$20,189	3%	8.3x	35.4x	5.7x	6.8x	0.6x	$4.59	$0.87	$5.26	31.6x	5.2x	$30.00	13%	↑
Suncor Energy	SU	SP		Wood	1558.1	$23.54	$36,679	4%	6.8x	9.7x	5.5x	3.7x	1.5x	$6.93	$2.52	$5.33	9.5x	4.4x	$28.00	23%	↑
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.4	$1.74	$336	0%	4.1x	4.5x	3.2x	2.2x	1.3x	$0.83	$0.60	$0.89	2.9x	2.0x	$3.00	72%	↓
ARC Resources Ltd.	ARX	OP		Wood	353.4	$6.37	$2,251	4%	4.3x	4.7x	4.3x	1.3x	1.0x	$1.97	$1.73	$1.84	3.7x	3.5x	$7.00	14%	↓
Baytex Energy	BTE	SP		Payne	566.5	$0.86	$487	0%	3.0x	5.6x	4.2x	6.0x	4.0x	$1.62	$0.56	$0.75	1.5x	1.1x	$1.00	16%	↑
Birchcliff Energy	BIR	OP		Payne	265.9	$1.90	$505	1%	4.1x	6.1x	3.8x	3.8x	2.2x	$1.26	$0.73	$1.13	2.6x	1.7x	$3.00	59%	
Crescent Point Energy Corp.	CPG	OP		Wood	530.0	$3.39	$1,797	0%	2.7x	4.2x	4.0x	2.6x	2.3x	$3.35	$1.60	$1.56	2.1x	2.2x	$3.50	4%	↑
Enerplus Corporation	ERF	OP		Wood	222.5	$4.46	$993	3%	2.1x	3.8x	3.5x	1.4x	1.1x	$3.04	$1.69	$1.79	2.6x	2.5x	$5.50	26%	↑
Freehold Royalties	FRU	OP	↑	Wood	130.7	$5.53	$723	4%	6.1x	9.7x	6.4x	0.1x	0.0x	$1.00	$0.60	$0.85	10.0x	6.5x	$7.50	40%	↑
Headwater Exploration	HWX	OP		Payne	199.1	$2.60	$518	0%	-0.3x	80.9x	7.6x	-12.4x	-0.9x	$0.09	$0.05	$0.31	55.7x	8.4x	$3.50	35%	↑
Kelt Exploration	KEL	OP		Payne	188.5	$2.05	$386	0%	5.6x	4.9x	5.5x	-0.6x	-0.2x	$0.99	$0.31	$0.36	6.5x	5.6x	$2.50	22%	↑
MEG Energy	MEG	SP	↓	Wood	302.7	$4.70	$1,423	0%	4.6x	8.0x	7.8x	10.0x	9.1x	$2.41	$0.92	$0.97	5.1x	4.9x	$5.50	17%	↑
NuVista Energy	NVA	SP		Payne	225.7	$1.00	$226	0%	4.3x	4.3x	4.2x	3.9x	3.8x	$1.18	$0.68	$0.72	1.5x	1.4x	$1.25	25%	↑
Paramount Resources	POU	SP		Payne	133.8	$5.50	$736	0%	4.9x	8.4x	3.9x	5.9x	2.2x	$2.29	$1.06	$2.50	5.2x	2.2x	$7.00	27%	↑
Parex Resources	PXT	OP		Wood	117.9	$19.14	$2,256	0%	3.1x	5.1x	2.6x	-1.2x	-1.0x	$5.02	$2.86	$4.99	6.7x	3.8x	$30.00	57%	↑
Peyto Exploration & Development	PEY	OP		Wood	164.9	$3.18	$524	1%	5.2x	6.3x	4.1x	5.5x	3.3x	$1.95	$1.29	$2.14	2.5x	1.5x	$3.50	11%	↓
PrairieSky Royalty	PSK	SP		Wood	223.3	$10.72	$2,394	2%	18.4x	17.0x	14.3x	0.3x	-0.4x	$0.94	$0.62	$0.73	16.8x	14.7x	$11.50	10%	↑
Seven Generations	VII	OP		Wood	333.3	$6.84	$2,280	0%	3.4x	4.5x	4.0x	2.4x	2.1x	$3.98	$2.49	$2.73	2.8x	2.5x	$8.50	24%	↑
Spartan Delta	SDE	OP		Payne	69.8	$3.60	$251	0%	-92.2x	6.3x	2.7x	0.2x	-0.4x	-$0.89	$0.58	$1.20	0.0x	0.0x	$6.00	67%	↑
Storm Resources	SRX	SP		Payne	121.6	$2.16	$263	0%	5.3x	6.2x	4.2x	2.3x	1.5x	$0.49	$0.47	$0.71	0.0x	0.0x	$3.00	39%	↑
Tamarack Valley Energy	TVE	OP		Payne	262.2	$1.40	$367	0%	3.0x	4.6x	3.3x	1.9x	1.1x	$0.97	$0.53	$0.58	2.7x	2.4x	$2.25	61%	↑
Torc Oil & Gas	TOG	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Topaz	TPZ	OP		Payne	112.9	$14.05	$1,586	6%	-1.7x	15.0x	12.1x	-2.7x	-1.2x	$11.16	$0.99	$1.07	14.2x	13.1x	$17.00	27%	↓
Tourmaline Oil	TOU	OP		Payne	296.5	$18.30	$5,426	3%	4.9x	6.0x	3.7x	1.6x	0.8x	$4.43	$4.28	$6.04	4.3x	3.0x	$30.00	67%	↓
Vermilion Energy Inc.	VET	SP		Wood	158.3	$6.42	$1,016	0%	6.2x	5.6x	4.7x	4.3x	3.5x	$5.82	$3.00	$3.45	2.1x	1.9x	$7.00	9%	↑
Whitecap Resources	WCP	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Small Cap																					
Crew Energy	CR	SP		Payne	160.3	$0.60	$96	0%	4.1x	6.9x	4.1x	8.4x	4.2x	$0.53	$0.28	$0.62	2.2x	1.0x	$0.75	25%	↑
PetroShale	PSH	SP		Payne	187.3	$0.15	$27	0%	6.1x	7.1x	5.9x	8.3x	6.6x	$0.39	$0.22	$0.27	0.6x	0.5x	$0.20	38%	↑
Pipestone Energy	PIPE	SP		Payne	189.9	$0.72	$137	0%	32.4x	6.8x	2.6x	4.0x	1.3x	$0.01	$0.22	$0.73	3.2x	1.0x	$0.85	18%	
Surge Energy	SGY	SP		Payne	362.7	$0.34	$122	0%	4.0x	5.3x	3.8x	5.3x	3.0x	$0.55	$0.21	$0.31	1.6x	1.1x	$0.50	49%	↑
Yangarra Resources	YGR	SP		Payne	85.4	$0.85	$73	0%	3.2x	4.2x	2.8x	3.7x	2.3x	$1.08	$0.57	$0.86	1.5x	1.0x	$1.00	18%	↑

* 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 1-7	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	$ 378.10	262.6	$1.44	$ 167.1	$ 76.4	$ 90.4	21.0x	5.5x	6.1x	2.3x	3.8x	2.9x	$1.80	25%	↑
National Energy Services Reunited	NESR	OP		Payne	$ 949.10	89.9	$10.56	$ 185.9	$ 209.6	$ 245.3	6.4x	5.9x	4.7x	1.7x	1.6x	1.0x	$12.00	14%	
Precision Drilling Corp.	PD	SP		Payne	$ 357.95	13.7	$26.08	$ 411.4	$ 276.8	$ 230.9	21.0x	5.5x	6.1x	3.3x	4.1x	4.5x	$30.00	15%	↑
Trican Well Services	TCW	SP		Payne	$ 429.77	258.9	$1.66	$ 30.6	$ 19.3	$ 29.6	11.6x	21.4x	13.3x	1.3x	-0.4x	-0.1x	$2.00	20%	↑

Pipelines, Utilities & Energy Infrastructure

Sector Analysis

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Overview

While the initial results of the 2020 Presidential Election appeared to put the "Blue Sweep" narrative to rest, the recent Georgia Senate run-off election resulted in the Democratic Party securing two additional Senate seats, now holding power in the White House, House of Representatives and the Senate. As such, we anticipate Biden will now better be able to push his clean energy transition agenda alongside larger fiscal stimulus packages. We note that the S&P TSX was up ~1.5% in December, while energy-linked names rallied on stronger commodity prices, with our Midstream benchmark up ~6.5% and Utilities benchmark holding relatively flat.

Commodities Update:

Although rising COVID cases from a second wave have led to much of Europe and regions in North America to re-enter and extend lockdown protocols, the initial dissemination of COVID vaccines across the developed world has helped support an extended rally in commodity prices on the hopes of a quicker recovery to pre-COVID economic conditions in 2021. As such, WTI extended its gains through December, averaging ~US$47/bbl, ~15% higher than the November average WTI price, resulting in a 2020 average price of ~US$40/bbl, down ~30% year-over-year. However, we do note strong pricing to start 2021, with WTI crossing the US$50/bbl mark for the first time since February 2020. On the gas front, with winter weather currently absent, AECO pulled back in December, averaging $2.58/mcf for the month, down 9% from the November average of $2.85/mcf. With North American winter conditions now more muted than originally expected, we anticipate a softer environment in AECO prices through 2021, below our previous $2.85/mcf forecast and in line with strip pricing. Looking at Marketing prospects, the WCS heavy differential average widened through December to ~US$13.50/bbl (November: ~US$10/bbl) on storage WCSB builds and returning production, presenting a modestly improved environment for crude oil Marketing. On the natural gas liquids front, lower gas prices and stronger liquids pricing helped the frac spread exit the year at 2020 highs of ~US$25/bbl, versus the 2020 average price of ~US$15/bbl.

Pipelines Update:

With Biden's victory and the expectation that he will follow through on his commitment to revoke the KXL Presidential Permit, we have removed the 50% risked value (~$3/sh) included in our target for KXL, while the company's ~700 mbpd Marketlink pipeline (Cushing-to-Gulf Coast; ~5% of EBITDA) could also experience decreased volumes related to lower oil production activity. However, we anticipate KXL's loss to be ENB's gain, with shippers being more inclined to lock in long-term Mainline commitments. Meanwhile, banning new oil & gas leases on federal land is estimated to keep ~1.1 mmbpd of U.S. production offline (~10%), supporting WTI pricing and narrow Cdn differentials, in turn accommodating oil sands production growth and demand for new Midstream tankage. Including Line 3R and TMX, while excluding KXL, we continue to forecast sustainable ENB Mainline utilization of >90%.

Meanwhile, with a multitude of positive regulatory decisions in November and December, ENB received all remaining state and federal permits for the U.S. portion of the Line 3 Replacement project, which cleared the way for the Minnesota Public Utilities Commission to issue Authorization to Construct (Nov. 24th). With regulatory hurdles cleared, Enbridge kickstarted construction in late November and maintained its Q4/21 in-service date at its December Investor Day. The company noted it will provide a revised cost estimate (currently: US$3.4 bln including Southern Access Expansion) in early 2021. COVID-related precautions and winter conditions are expected to increase construction costs. We maintain our Jan. 1, 2022 in-service date assumption, based on a six-to-nine month construction window, pending further unimpeded construction progress. Elsewhere, on October 16th, the opposing Tribes filed arguments against DAPL with the U.S. Court of Appeals, with Energy Transfer Partners and the U.S. Army Corps of Engineers response due by Nov. 20th. We expect the U.S. Appeal Court decision in early January with regard to whether the pipeline should be shut down during the approximate one-year process for the Army Corps to complete the Environmental Impact Statement.

Power & Utilities Update:

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

Pipelines, Utilities & Energy Infrastructure
Sector Analysis

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proposed 2040 timeline. Elsewhere, we note at its recent Investor Day, Capital Power confirmed plans to move off coal by the end of 2023 alongside repowering Genesee 1&2 into combined cycle units at a cost of ~$1.0 bln. The repowered units are expected to be 30% hydrogen ready (95% with modest <$10 mln incremental capital), while securing its low-cost position in the merit order based on an industry leading heat rate of ~6.7x and emissions intensity of 0.35 tCO_2e/MWh. Overall, the project is expected to produce an unlevered IRR of ~14% (levered: >20%).

ESG Update:

We recently updated our ESG Scorecards for Pembina, moving up 11 points to 72 (was 61/100) on enhanced disclosure on key ESG performance indicators, specifically pertaining to voluntary turnover and diversity rates. Looking at GHG emissions, PPL reported a ~1% increase in 2019 emissions y/y to ~3.087 MT CO_2e, however, we note a decrease in emissions relative to EBITDA consecutively over the past five years, reflecting its growth in operations. Overall, Pembina will look to establish a formal corporate GHG strategy in 2021 alongside emissions intensity targets.

Top Picks:

Overall, our 2021 estimates call for flat AFFO/sh growth 2020e, with dividends up ~2% on average. We continue to screen our top picks using a three-pronged approach for 1) double-digit free cash flow (AFFO) yield; 2) healthy balance sheet metrics; and 3) strong catalyst potential. Overall, our top picks for 2020 include Enbridge (ENB), Keyera (KEY), Capital Power (CPX) and TC Energy (TRP).

Selections

› *Enbridge*
› *Keyera*
› *Capital Power*
› *TC Energy*

	Stock Sym.	Stock Rating	Units O/S (Mln)	Unit Price 01-07	Market Cap. (Mln)	Distributions per Share est. 2019	est. 2020e	est. 2021e	Cash Yield 2020e	2021e	Distr. CF per Share - FD est. 2019	est. 2020e	est. 2021e	P/Distr. CF 2020e	2021e	Net Debt/ 20e EBITDA	12-Mth Price Target	Return	Δ	Combined Return
Pipeline & Midstream																				
AltaGas	ALA	OP	279.4	$18.72	$5,231	$0.96	$0.96	$1.00	5.1%	5.3%	$1.92	$2.06	$2.42	9.1x	7.7x	5.9x	22.00	17.5%	↑	22.9%
Enbridge Inc.	ENB	OP	2019.5	$40.71	$82,214	$2.95	$3.24	$3.34	8.0%	8.2%	$4.57	$4.70	$4.89	8.7x	8.3x	5.0x	54.00	32.6%	↓	40.8%
Gibson Energy	GEI	SP	149.0	$20.56	$3,063	$1.32	$1.36	$1.36	6.6%	6.6%	$2.04	$1.97	$2.04	10.4x	10.1x	3.2x	24.00	16.7%		23.3%
Inter Pipeline	IPL	SP	429.2	$11.87	$5,095	$1.71	$0.48	$0.48	4.0%	4.0%	$1.95	$1.68	$1.44	7.1x	8.2x	6.9x	14.00	17.9%		22.0%
Keyera	KEY	OP	221.0	$22.62	$5,000	$1.85	$1.92	$1.92	8.5%	8.5%	$2.77	$3.32	$2.58	6.8x	8.8x	4.0x	27.00	19.4%		27.9%
Pembina Pipelines	PPL	SP	548.0	$30.10	$16,495	$2.36	$2.52	$2.52	8.4%	8.4%	$4.22	$3.79	$3.75	7.9x	8.0x	4.9x	36.00	19.6%	↑	28.0%
Secure Energy	SES	OP	158.6	$2.46	$390	$0.27	$0.03	$0.03	1.2%	1.2%	$0.59	$0.41	$0.47	6.0x	5.2x	3.0x	2.50	1.6%		2.8%
Superior Plus	SPB	SP	176.0	$12.18	$2,144	$0.72	$0.72	$0.72	5.9%	5.9%	$1.58	$1.41	$1.30	8.6x	9.4x	3.5x	14.00	14.9%		20.9%
Tidewater Midstream	TWM	OP	338.5	$0.82	$278	$0.04	$0.04	$0.04	4.9%	4.9%	$0.17	$0.15	$0.25	5.4x	3.3x	3.8x	1.00	22.0%		26.8%
TC Energy Corp.	TRP	OP	940.0	$51.75	$48,645	$3.00	$3.24	$3.50	6.3%	6.8%	$5.42	$5.58	$5.50	9.3x	9.4x	5.1x	70.00	35.3%		42.0%
Tervita	TEV	SP	113.4	$2.90	$329	$0.00	$0.00	$0.00	0.0%	0.0%	$0.55	$0.32	$0.29	9.0x	10.1x	4.4x	2.50	-13.8%		-13.8%
Power Producers & Utilities																				
ATCO Ltd.	ACO	SP	114.7	$36.49	$4,184	$1.62	$1.74	$1.81	4.8%	5.0%	$3.34	$2.19	$2.08	16.7x	17.6x	4.4x	45.00	23.3%		28.3%
Canadian Utilities	CU	SP	273.1	$31.09	$8,490	$1.69	$1.74	$1.81	5.6%	5.8%	$4.23	$2.71	$2.92	11.5x	10.7x	5.1x	36.00	15.8%		21.6%
Capital Power	CPX	OP	105.5	$34.98	$3,690	$1.86	$1.99	$2.12	5.7%	6.1%	$5.31	$4.97	$5.05	7.0x	6.9x	4.3x	39.00	11.5%	↑	17.6%
Emera Inc.	EMA	SP	249.6	$54.10	$13,501	$2.39	$2.48	$2.58	4.6%	4.8%	$2.89	$2.75	$4.22	19.7x	12.8x	6.0x	62.00	14.6%		19.4%
Fortis Inc.	FTS	SP	465.1	$52.00	$24,186	$1.83	$1.92	$2.05	3.7%	3.9%	$3.52	$3.85	$4.39	13.5x	11.8x	6.3x	61.00	17.3%		21.3%
Hydro One Ltd.	H	SP	596.9	$28.65	$17,102	$0.95	$1.01	$1.07	3.5%	3.7%	$1.86	$1.65	$1.72	17.4x	16.7x	5.5x	31.00	8.2%		11.9%
TransAlta	TA	SP	274.2	$9.67	$2,652	$0.16	$0.17	$0.17	1.8%	1.8%	$1.37	$1.35	$1.67	7.1x	5.8x	3.8x	10.00	3.4%		5.2%

Source: Company Reports, NBF Estimates, Refinitiv

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

Real Estate
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Ontario releases more funding for LTC and details vaccination strategy ...

The ON provincial government recently announced it was providing an additional $398 million in funding for the LTC industry.

The funding will be utilized to help combat the spread of the virus, by helping homes adhere to enhanced testing staff and visitor testing, and to improve COVID-19 prevention and containment. The additional $398 million in funding brings the ON government's total LTC funding since the start of the pandemic to $1.4 billion.

The ON government also provided an update to its vaccination rollout in LTC homes.

To date, approximately 53,000 vaccinations have been administered (including both the Pfizer and Moderna vaccines). This includes ~26,000 administered to health care workers in LTC/retirement homes, 20,000 to health care workers and ~1,000 to residents. As part of its Phase One rollout, the ON government is aiming to have vaccinated all residents, health care workers and essential care givers at LTC homes in the Toronto, Peel, York and Windsor-Essex regions, by January 21, 2021. Ontario expects to receive ~2 mln vaccine doses through Phase One of its vaccine implementation plan.

LTC and retirement homes should benefit significantly from vaccination rollout.

As we have previously written about, in our eyes, the Seniors' Housing industry is poised to benefit the most directly from the rollout of COVID-19 vaccines. Operators have faced significant challenges during the pandemic (e.g. significant additional costs to contain or combat COVID-19, or self-imposed occupancy restrictions), and we believe that as the vaccination roll out continues, this should help contain outbreaks in the LTC network, reducing pandemic costs. Additionally, retirement homes will also benefit from the rollout of vaccines, as operators may begin to lift their self-imposed move-in restrictions if there is improved confidence around containing the spread of the virus.

Recommendation & valuation...

- **We rate CSH shares as Outperform with a $13.50 target price.** Our $13.50 target is based on 15.8x our 2021E AFFO/u estimate, translating to a +19% premium our NAV one-year out. This is reflective of the business risks, growth prospects and leverage employed in the normal course of business relative to its peers.
- **SIA shares are rated Outperform, with a $15.00 target.** Our $15 target price is based on a -3% discount to our NAV one year out, translating to 11.5x our F2021E AFFO/u, close to the peer average, based on SIA's asset mix, growth prospects and leverage.
- **We rate EXE shares as Sector Perform, with a $7.00 target.** Our $7.00 target is based on 11.8x our 2021E AFFO/sh, at the low end of peers given EXE's business mix, growth prospects and leverage. This translates to a -2% discount to our one year out pre-tax NAV/sh.

Selections

- *Boardwalk REIT*
- *Allied REIT*
- *RioCan REIT*
- *H&R REIT*
- *CAP REIT*
- *ERES REIT*
- *Tricon*
- *InterRent REIT*
- *CT REIT*
- *Killam REIT*

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Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 1-7	Distributions per Unit (A) 2019	Distributions per Unit est. 2020	Distributions per Unit est. 2021	Cash Yield 2019A	Cash Yield 2020E	Cash Yield 2021E	Cash Yield Current Annualized	FD FFO (A) 2019	FD FFO est. 2020	FD FFO est. 2021	P/FFO 2019A	P/FFO 2020E	P/FFO 2021E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [(1)]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$5,171	Woolley	$16.75	$1.44	$1.44	$1.44	8.6%	8.6%	8.6%	5.7%	$1.87	$1.62	$1.58	8.9x	10.4x	10.6x	$22.40	$20.00	28.0%	↔
Choice Properties REIT	CHP.un	SP	↔	$9,101	Woolley	$13.01	$0.74	$0.74	$0.74	5.7%	5.7%	5.7%	5.7%	$0.99	$0.93	$1.01	13.2x	14.0x	12.9x	$12.20	$13.50	9.5%	↔
First Capital REIT	FCR	SP	↔	$2,969	Woolley	$13.55	$0.86	$0.86	$0.86	6.3%	6.3%	6.3%	6.3%	$1.23	$0.99	$1.04	11.0x	13.7x	13.0x	$17.10	$15.00	17.0%	↔
SmartCentres REIT	SRU.un	SP	↔	$3,926	Woolley	$23.08	$1.76	$1.81	$1.85	7.6%	7.9%	8.0%	8.0%	$2.27	$2.17	$2.06	10.2x	10.6x	11.2x	$28.60	$26.00	20.5%	↔
CT REIT	CRT.un	OP	↔	$3,459	Woolley	$15.67	$0.73	$0.76	$0.79	4.7%	4.8%	5.0%	5.1%	$1.17	$1.18	$1.24	13.4x	13.3x	12.6x	$15.50	$17.00	13.3%	↔
Crombie REIT	CRR.un	OP	↔	$2,177	Woolley	$14.35	$0.89	$0.89	$0.89	6.2%	6.2%	6.2%	6.2%	$1.16	$1.05	$1.13	12.4x	13.6x	12.7x	$14.40	$16.50	21.2%	↔
Automotive Properties REIT	APR.un	OP	↔	$426	Woolley	$10.71	$0.80	$0.80	$0.80	7.5%	7.5%	7.5%	7.5%	$1.00	$0.90	$0.94	10.7x	11.9x	11.4x	$10.00	$11.50	15.8%	↔
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$4,814	Kornack	$37.83	$1.60	$1.65	$1.68	4.2%	4.4%	4.4%	4.4%	$2.30	$2.29	$2.30	16.5x	16.5x	16.4x	$47.95	$48.00	31.2%	↔
DREAM Office REIT	D.un	OP	↔	$1,118	Kornack	$19.80	$1.00	$1.00	$1.00	5.1%	5.1%	5.1%	5.1%	$1.68	$1.50	$1.56	11.8x	13.2x	12.7x	$24.70	$22.00	16.2%	↔
Slate Office REIT	SOT.un	SP	↔	$302	Kornack	$4.14	$0.49	$0.40	$0.40	11.8%	9.7%	9.7%	9.7%	$0.76	$0.71	$0.69	5.5x	5.8x	6.0x	$4.35	$4.00	6.3%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,236	Woolley	$12.60	$0.80	$0.80	$0.80	6.3%	6.3%	6.3%	6.3%	$0.73	$0.83	$0.89	17.2x	15.1x	14.1x	$11.00	$13.00	-2.4%	↔
H&R REIT	HR.un	OP	↔	$4,010	Kornack	$13.29	$1.38	$0.92	$0.69	10.4%	6.9%	5.2%	5.2%	$1.73	$1.66	$1.74	7.7x	8.0x	7.6x	$20.35	$15.50	23.6%	↔
Cominar REIT	CUF.un	RES		$1,480	Kornack	$8.11	$0.72	RES	RES	8.9%	RES	RES	RES	$1.13	RES	RES	7.2x	RES	RES	RES	RES	RES	
Artis REIT	AX.un	SP	↔	$1,444	Kornack	$10.66	$0.99	$0.54	$0.56	9.3%	5.1%	5.2%	5.2%	$1.41	$1.41	$1.34	7.6x	7.6x	8.0x	$11.55	$10.00	-1.1%	↔
BTB REIT	BTB.un	SP	↔	$223	Kornack	$3.53	$0.42	$0.36	$0.30	11.9%	10.2%	8.5%	8.5%	$0.41	$0.38	$0.38	8.5x	9.3x	9.2x	$3.90	$3.50	9.3%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,045	Kornack	$65.58	$3.10	$2.92	$3.00	4.7%	4.5%	4.6%	4.6%	$3.75	$4.05	$4.32	17.5x	16.2x	15.2x	$75.15	$88.50	39.4%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$2,252	Kornack	$13.15	$0.70	$0.70	$0.70	5.3%	5.3%	5.3%	5.3%	$0.78	$0.71	$0.80	16.8x	18.5x	16.4x	$12.30	$13.50	8.0%	↔
WPT Industrial REIT	WIR'U-T	OP	↔	$644u	Kornack	$14.45u	$0.76u	$0.76u	$0.76u	5.3%	5.3%	5.3%	5.3%	$0.88u	$0.95u	$1.06u	16.5x	15.2x	13.6x	$14.70u	$15.50u	12.5%	↔
Summit Industrial	SMU.un	OP	↔	$2,284	Kornack	$13.65	$0.60	$0.54	$0.55	4.4%	4.0%	4.0%	4.0%	$0.58	$0.66	$0.67	23.5x	20.7x	20.5x	$12.80	$15.25	15.7%	↔
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$244	Woolley	$3.12	$0.65u	$0.65u	$0.65u	27.4%	27.4%	27.4%	27.4%	$0.73u	(0.08)u	$0.11u	3.3x	-30.6x	22.2x	$2.90	$3.00	23.6%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$8,581	Kornack	$49.99	$1.37	$1.38	$1.40	2.7%	2.8%	2.8%	2.8%	$2.13	$2.26	$2.41	23.5x	22.1x	20.7x	$54.10	$60.00	22.8%	↔
Boardwalk REIT	BEI.un	OP	↔	$1,721	Kornack	$33.74	$1.00	$1.00	$1.00	3.0%	3.0%	3.0%	3.0%	$2.61	$2.77	$2.78	12.9x	12.2x	12.1x	$42.55	$42.00	27.4%	↔
Killam Apartment REIT	KMP.un	OP	↔	$1,830	Kornack	$17.11	$0.65	$0.68	$0.70	3.8%	3.9%	4.1%	4.0%	$0.98	$1.02	$1.06	17.5x	16.8x	16.1x	$20.70	$21.00	26.7%	↔
InterRent REIT	IIP.un	OP	↔	$1,948	Kornack	$13.69	$0.29	$0.31	$0.33	2.1%	2.3%	2.4%	2.4%	$0.49	$0.48	$0.52	28.1x	28.7x	26.2x	$14.35	$15.00	11.8%	↔
Minto Apartment REIT	MI.un	SP	↔	$739	Kornack	$20.37	$0.41	$0.41	$0.41	2.0%	2.0%	2.0%	2.2%	$0.78	$0.86	$0.93	26.2x	23.7x	22.0x	$19.00	$21.00	10.0%	↔
BSR REIT	HOM.un	OP	↔	$447	Kornack	$11.25u	$0.50u	$0.50u	$0.50u	4.4%	4.4%	4.4%	4.4%	$0.73u	$0.61u	$0.65u	15.3x	18.3x	17.3x	$11.95u	$12.50u	15.6%	↔
ERES REIT	ERE.un	OP	↔	$962	Kornack	$4.17	$0.17	$0.17	$0.17	4.0%	4.0%	4.0%	4.0%	$0.19	$0.20	$0.21	22.5x	21.0x	19.4x	$5.20	$5.20	28.7%	↔
International																							
Inovalis REIT	INO.un	SP	↔	$300	Kornack	$8.93	$0.83	$0.83	$0.83	9.2%	9.2%	9.2%	9.2%	$0.85	$0.66	$0.66	10.5x	13.6x	13.6x	$11.05	$9.50	15.6%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,137	Woolley	$9.79	0.59	0.60	0.60	6.0%	6.1%	6.1%	6.1%	0.92	0.73	0.77	10.6x	13.4x	12.7x	$11.20	$13.50	44.0%	↔
Sienna Senior Living	SIA	OP	↔	$948	Woolley	$14.14	0.90	0.92	0.94	6.4%	6.5%	6.6%	6.6%	1.38	1.01	1.05	10.2x	14.0x	13.5x	$15.40	$15.00	12.6%	↔
Extendicare	EXE	SP	↔	$595	Woolley	$6.64	0.48	0.48	0.48	7.2%	7.2%	7.2%	7.2%	0.52	0.80	0.33	12.8x	8.3x	20.3x	$7.30	$7.00	12.7%	↔
Invesque	IVQu	SP	↔	$102	Woolley	$1.83u	$0.74u	$0.74u	$0.74u	40.3%	40.3%	40.3%	0.0%	$0.75u	$0.70u	$0.58u	2.5x	2.6x	3.2x	$2.50u	$2.25u	63.2%	↔
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,478	Woolley	$4.04	$0.01	$0.01	$0.01	0.3%	0.3%	0.3%	0.3%	$0.09	$0.12	$0.12	45.6x	34.5x	32.5x	$3.45	$4.50	11.7%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$184	Woolley	$14.57	n/a	n/a	$0.51	n/a	n/a	3.5%	3.5%	n/a	n/a	$0.87	n/a	n/a	16.8x	$16.90	$18.00	27.0%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$2,607	Woolley	$11.43	$0.28	$0.28	$0.28	2.4%	2.4%	2.4%	2.4%	$0.42u	$0.42u	$0.44u	19.9x	19.9x	19.0x	$13.89	$14.00	24.9%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations
Sector Analysis

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Transitioning into 2021 with M&A (GDI: TSX, HDI: TSX, BCI: TSX)

With 2020 finally behind us, we take the opportunity to highlight the latest acquisitions completed by Hardwoods, New Look and GDI. We continue to believe the COVID-19 pandemic created opportunities by accelerating succession planning among older owners and expect continued heightened M&A activity within our coverage universe.

A third tuck-in for HDI in 2020: River City Millwork:

On December 14, Hardwoods Distribution announced the acquisition of River City Millwork Inc. for a purchase price of US$4.2 million. The Rockford, Illinois-based wholesale distributor of interior and exterior doors, custom millwork and other ancillary products is expected to generate an incremental US$14 million in sales annually under the Rugby brand. We highlight that HDI's three acquisitions of 2020 are expected to generate a combined ~US$73 million in annual sales and believe the company can easily add an incremental $20-40 million in EBITDA through M&A whilst remaining within management's comfort zone. Our $35 target is based on 16x 2022e EPS and we rate HDI Outperform.

BCI acquires one of the few remaining chains to close out 2020:

On December 21, New Look announced the acquisition of a majority stake in the 12-location Grimsby, Ontario-based The Vision Clinic (TVC) for $18.8 million. While neither the size of the majority stake nor the revenue of TVC were disclosed, we estimate a strong revenue contribution per store and very little integration work required to bring margins up to par with BCI's. We calculate New Look retains over $80 million in dry powder, allowing the company to take advantage of additional opportunities, potentially adding $8-15 million in incremental EBITDA through M&A at historical multiples. Our $45.50 target is based on 10x 2022e EV/EBITDA. Outperform.

GDI's Ainsworth expands in the U.S. with BP:

On January 6, GDI announced the acquisition of New York State technical services provider The BPAC Group, Inc. (BP) through its Ainsworth subsidiary. The target is one of the largest mechanical services providers in New York State, specializing in HVAC (design, installation, maintenance, repair, new construction) for a variety of industries and generating revenues of ~US$110 million. We estimate a takeout multiple of 6-8x EBITDA on margins only slightly below GDI's Technical Services normalized 5-6% range (outside the pandemic), likely resulting in a purchase price in the $40-55 million range. The acquisition of BP is Ainsworth's first large strategic acquisition in the U.S., establishing a platform into which future acquisitions can be integrated. We calculate 1.8x NTM leverage and believe GDI can add an incremental $25-35 million in EBITDA whilst remaining within management's comfort level. Our $52 target is based on 10.5x 2022e EV/EBITDA. Outperform.

Selections

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

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/7	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. yield	Net Debt/ FY2 EBITDA	12-Mth Price Target	Δ
Alaris Equity Partners Income Trust	AD	OP		537.7	35.6	15.11	12/2019	0.98	0.13	1.38	120.1	11.0	101.0	84.5	92.6	9.1	8.3	8.2%	2.5	19.00	↑
Boyd Group Services Inc.	BYD	SP		4,680.9	21.5	218.00	12/2019	4.99	2.47	4.91	88.4	44.4	319.9	293.0	376.8	18.3	14.5	0.3%	1.8	230.00	
CanWel Building Materials	CWX	OP		606.2	77.9	7.78	12/2019	0.22	0.61	0.47	12.7	16.5	86.2	124.5	109.7	7.0	7.8	6.2%	2.1	7.50	↓
Cascades	CAS	OP		1,529.0	103.5	14.77	12/2019	1.02	1.71	1.77	8.6	8.3	604.0	650.9	716.7	5.1	4.8	2.2%	2.8	21.00	↓
Dexterra Group Inc.	DXT	OP		424.9	64.9	6.55	12/2019	0.07	0.35	0.33	18.5	19.6	16.5	37.2	66.6	14.1	7.2	4.6%	1.7	8.50	↑
GDI Integrated Facility Services	GDI	OP		1,034.7	22.4	46.23	12/2019	0.31	1.85	1.57	25.0	29.4	77.5	101.5	109.2	11.8	11.0	0.0%	1.7	52.00	↑
Hardwoods Distribution	HDI	OP		550.0	21.4	25.69	12/2019	1.48	1.93	2.04	13.3	12.6	78.9	93.7	99.2	8.1	7.6	1.6%	1.7	35.00	
Intertape Polymer Group Inc.	ITP	SP	↓	1,481.1	59.7	24.79	12/2019	0.99	1.41	1.42	14.4	14.3	172.1	201.0	211.4	8.4	7.8	3.2%	2.4	27.00	↑
KP Tissue	KPT	OP		106.9	9.7	11.00	12/2019	0.04	1.21	0.50	9.1	21.9	145.0	204.2	189.9	5.9	6.8	6.5%	3.6	15.00	
New Look Vision Group	BCI	OP		598.8	15.7	38.24	12/2019	1.67	1.09	1.50	35.0	25.5	56.4	78.8	95.7	11.4	9.1	0.0%	3.0	45.50	↑
Park Lawn Corporation	PLC	OP		864.1	29.9	28.86	12/2019	0.80	1.05	1.05	27.6	27.4	53.3	74.7	81.6	14.5	13.1	1.6%	2.3	33.50	↓
Richelieu Hardware	RCH	SP	↑	1,874.5	55.6	33.70	11/2019	1.17	1.41	1.49	24.0	22.6	116.9	145.1	149.7	12.7	11.9	0.8%	0.0	32.50	↓
Savaria Corporation	SIS	OP		760.0	51.1	14.88	12/2019	0.53	0.53	0.65	28.2	23.1	55.6	58.1	62.6	13.4	12.4	3.2%	0.6	16.50	↓
Uni-Sélect	UNS	SP		329.8	42.4	7.78	12/2019	0.73	(0.29)	0.45	-21.5	13.9	129.9	82.3	121.3	9.7	6.2	0.0%	3.3	8.50	↑

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

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

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

Sector Analysis

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Company Highlights

Our renewable energy infrastructure coverage universe continues to find new highs, with help from accretive investments, government policy announcements, an historically low cost of capital and a scarcity of investment alternatives. Valuations are high, but we believe they remain rational relative to the market and favourable relative to other comparable sectors such as utilities. We favour stocks with higher relative return potential but also lower cash flow duration. Our top picks based on our assessment of risk and return profiles are INE, NPI and BIP.

Innergex Renewable Energy Inc.

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

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

Northland Power Inc.

(NPI: TSX; Outperform; $50.00 target):

Northland Power owns 2,266 MW (net) of operational capacity in natural gas-fired and renewable power generation. It has an active growth pipeline, including a 130 MW solar project in construction in Mexico and a 626 MW (net) offshore wind farm in advance development in Taiwan. The acquisition of EBSA, an electrical distribution utility in Colombia, has added duration to NPI with perpetual cash flows and rate base inflation indexation while also providing the potential for rate base investment growth in the future (with 3.5% GDP growth and rapid population growth). NPI is targeting Japan and Korea for growth – markets with low exogenous risk factors and attractive offshore wind potential. It has an MOU with Shizen Energy in Japan for a 50/50 JV and has acquired Dado Ocean in Korea to pursue the development of offshore wind. Offshore wind is attracting partnerships and M&A, with recent deals valuing pre-construction assets in the range of US$500k/MW to US$850k/MW. The impact from COVID-19 is minimal, and with a solid three quarters in the bag, we expect NPI to meet its targeted guidance range of $1.1 billion to $1.2 billion in adj EBITDA and $1.70 to $2.05 in FCF/sh in 2020E. Our target is based on a long-term DCF with a cost of equity of 4.25% on operating cash flows and $7/sh of growth.

Brookfield Infrastructure Partners L.P.

(BIP: NYSE; Outperform; US$55.00 target):

BIP is one of the largest owners and operators of infrastructure networks in the world, operating US$51 bln of assets under four segments, namely Utilities, Transport, Energy and Data Infrastructure. About 95% of its cash flows are regulated or contracted, with ~75% indexed to inflation and ~65% carrying no volume risk. Most of BIP's sensitivity to the broader macro picture is tied to cashflows generated within the Transport segment, the impact of which can be contained to 5% or less towards overall FFO. BIP is targeting over $2 bln of growth investments per year over the next three to five years, mostly into Data and Energy infrastructure, with a primary focus on developed markets and funded largely through capital recycling. BIP possesses an investment grade balance sheet (rated BBB+), a corporate interest rate coverage ratio of >20x and an average debt maturity profile of eight years, with ~90% of the debt fixed and ~85% of the debt non-recourse. BIP's long-term goal is to generate a return of 12 -15% on equity and provide sustainable distributions for unitholders with an annual distribution growth of 5-9%. Our target is based on a long-term DCF with a cost of equity of 6% and includes $7.00/sh for growth.

Selections

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

Sustainability & Clean Tech

Sector Analysis

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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 01/07	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		270.7	82	3.30	12/2019	0.05u	0.08u	0.17u	50.7	24.7	2.33u	2.07u	2.25u	2.1	1.9	1.35u	0.24	2.90	
Algonquin Power	AQN	OP		10006.1u	601	16.66u	12/2019	0.63u	0.63u	0.65u	34.4	33.4	3.25u	2.99u	3.21u	7.2	6.8	8.67u	0.43	16.50u	
Atlantic Power	AT	OP		258.5u	118	2.20u	12/2019	(0.35)u	0.43u	0.43u	6.7	6.6	2.58u	2.44u	2.63u	1.2	1.1	1.02u	0.71	2.60u	
Ballard Power Systems	BLDP	OP		6615.1u	244	27.15u	12/2019	(0.16)u	(0.19)u	(0.13)u	nmf	nmf	0.46u	0.39u	0.41u	nmf	nmf	1.38u	0.00	25.00u	
Boralex	BLX	OP		5303.6	103	51.37	12/2019	(0.45)	(0.43)	0.69	nmf	nmf	5.95	6.19	6.30	10.8	10.6	9.39	0.68	50.00	↑
Brookfield Business	BBU	OP		5727.4u	150	38.28u	12/2019	1.12u	1.14u	2.15u	43.7	23.1	88.26u	85.79u	75.15u	0.6	0.7	20.63u	0.71	38.00u	
Brookfield Infrastructure	BIP	OP		22598.8u	465	48.61u	12/2019	0.16u	(0.14)u	(0.01)u	nmf	nmf	8.58u	8.52u	9.32u	7.4	6.8	44.40u	0.69	55.00u	
Brookfield Renewable	BEP	SP		31882.1u	645	49.40u	12/2019	1.55u	1.77u	1.86u	36.4	34.5	3.46u	3.49u	4.10u	18.4	15.6	24.27u	0.35	42.00u	↑
DIRTT Environmental Solutions	DRT	R		210.0u	85	2.48u	12/2019				na	na				na	na				
GFL Environmental Inc.	GFL	OP		13531.8	360	37.55	12/2019	(2.46)	(1.69)	(0.70)	nmf	nmf	18.24	11.40	13.57	4.3	3.6	1.38	0.00	34.00	
Innergex	INE	OP		5475.6	174	31.38	12/2019	(0.25)	(0.14)	0.59	nmf	68.9	4.10	3.51	3.90	11.6	10.5	6.40	0.80	32.00	↑
Lithium Americas	LAC	OP		1686.0u	91	18.46u	12/2019	(0.11)u	(0.31)u	0.60u	nmf	40.3	0.05u	0.05u	0.05u	nmf	nmf	1.59	0.48	20.00u	↑
NanoXplore	GRA	OP		129.7	140	4.45	06/2019	(0.10)	(0.07)	(0.02)	nmf	nmf	0.55	0.46	0.46	12.5	12.5	0.50	0.32	3.50	↑
Northland Power	NPI	OP	↑	9697.3	202	48.11	12/2019	1.71	2.09	1.87	30.0	33.5	8.84	10.42	10.75	6.0	5.8	9.74	0.80	50.00	↑
Pinnacle Renewable	PL	OP		327.2	33	9.77	12/2019	(0.33)	0.06	0.38	nmf	33.8	11.37	14.96	17.28	0.8	0.7	4.59	0.71	12.50	
Sigma Lithium	SGMA	OP		246.9	69	3.60	12/2019	(0.02)	(0.23)	(0.07)	nmf	nmf	0.00	0.00	0.00	na	na	0.14	0.37	4.00	
TransAlta Renewables	RNW	SP		6378.7	266	23.98	12/2019	0.68	0.36	0.57	nmf	54.5	1.69	1.63	1.70	19.1	18.3	8.30	0.23	21.00	↑
Xebec Adsorption	XBC	OP		1071.4	108	9.95	12/2019	0.03	(0.04)	0.06	nmf	nmf	0.72	0.68	1.06	19.0	12.2	0.81	0.14	9.00	↑

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

Technology
Sector Analysis

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Turning the Page to 2021

Happy New Year! First of all, we wish you and your loved ones all the best for 2021. As you likely know, 2020 was another strong year for the Technology sector. In the U.S., the S&P Technology Index rose 42.2% versus an 18.4% increase for the S&P 500. Closer to home, the TSX Technology Index was up 80.7% versus a 5.6% increase in the TSX! A big part of that was due to some of our favourite names like Shopify (+185%), Lightspeed (+149%) and Kinaxis (+80%), which collectively accounted for ~70% of the 2020 return of the index. The obvious question now is what's next as we look ahead to 2021? To say those names will replicate their performance in 2021 seems a reach, but the reality is that many of the tech investing themes that surfaced or were accelerated in 2020 will continue. At the same time, we continue to believe legacy names like OpenText and CGI continue to look fundamentally undervalued. From a stock selection standpoint, we continue to opportunistically add positions in our favourite growth names like Docebo, Lightspeed, Kinaxis, Nuvei, Shopify and Real Matters while balancing those names with legacy incumbents like CGI and Open Text.

Docebo

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

Lightspeed

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

Kinaxis

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

Shopify

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

Selections

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

Technology
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	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 1/7	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (Mln) (A) Last FY	EBITDA (Mln) est. FY1	EBITDA (Mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
Absolute Software Corp.	ABST	SP		800	52.1	15.35	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	17.7	17.3	(0.8u)	0%	18.00	
Altus Group Limited	AIF	SP		1,968	40.6	48.50	2019	1.46	1.82	1.91	26.7	25.3	88.1	98.7	101.9	20.6	19.9	9.5u	28%	52.00	
CGI Inc.	GIB.A	OP		26,438	261.8	100.99	2020	4.68	5.40	5.80	18.7	17.4	2426.3	2732.7	2883.4	10.4	9.8	27.7	33%	115.00	
Constellation Software Inc.	CSU	SP		35,097	21.2	1,656.16	2019	27.84u	36.08u	44.00u	36.2	29.7	933.0u	1,194.7u	1,303.4u	23.3	21.3	42.6u	43%	1600.00	
Docebo Inc.	DCBO	OP		2,565	32.2	79.66	2019	(0.35u)	(0.06u)	0.02u	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.4u	0%	65.00u	↑
EXFO Inc.	EXFO	SP		184u	54.6	3.37u	2020	0.01u	0.21u	0.38u	16.2	8.8	18.2u	26.3u	30.9u	7.1	6.1	3.2u	18%	3.50u	
Kinaxis Inc.	KXS	OP		4,970	27.8	178.98	2019	1.36u	1.16u	1.90u	NMF	NMF	57.7u	56.8u	81.0u	65.4	45.8	9.9u	0%	250.00	
Lightspeed POS	LSPD	OP		7,971u	119.9	66.49u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	70.00u	↑
Maxar Technologies Ltd.	MAXR	SP		2,367u	63.4	37.33u	2019	(3.02u)	3.59u	(1.71u)	10.4	NMF	416.0u	437.0u	451.7u	10.8	10.5	15.7u	71%	28.00u	
mdf commerce inc.	MDF	SP		284	22.7	12.50	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	39.0	35.7	4.7u	11%	10.50	
Nuvei Corporation	NVEI	OP		9,123	131.5	69.40	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	45.7	41.9	8.8u	9%	70.00	
Open Text Corporation	OTEX	OP		12,469u	272.8	45.70u	2020	2.89u	3.29u	3.41u	13.9	13.4	1,148.2u	1,231.8u	1,335.6u	12.0	11.1	14.9u	51%	55.00u	
Pivotree Inc.*	PVT	OP		335	26.6	12.60	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	61.8	48.9	0.5	58%	14.00	
Real Matters Inc.	REAL	OP		1,751	88.5	19.80	2020	0.56u	0.81u	1.05u	19.3	14.8	72.2u	90.5u	116.9u	13.8	10.7	2.4u	0%	40.00	
Shopify Inc.	SHOP	OP		139,740u	124.9	1,118.74u	2019	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,250.00u	
Sierra Wireless Inc.	SWIR	SP		548u	36.4	15.06u	2019	(0.01u)	(1.16u)	(0.44u)	NMF	NMF	21.0u	(25.8u)	4.8u	NMF	105.4	9.4u	7%	13.00u	

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

u = US dollar

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

Telecom & Media

Sector Analysis

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Quebecor

Quebecor – solid execution continues with profits outperforming:

Despite added Bell competition given the latter's stepped-up fibre-to-the-premise (FTTP) deployment post-2018, the backdrop of the pandemic, and not fully clicking yet on all of its new product offerings, QBR has met (1Q19, 1Q20) or exceeded consensus EBITDA expectations over the past seven quarters. Its Wireless market share sits at 20% and certainly appears to have more room to run to and above 25%. Two-thirds of subscribers added each quarter are bring-your-own-device (BYOD) which helps margins. We think the BYOD base is over 45% of mobile subscribers now, so QBR has another two to three years to get to a BYOD base of 60% to 70%. As it gets closer to this new equilibrium, ABPU will see pressure ease, revert to growth, and add to revenue gains along with an inevitable handset upgrade cycle. After an estimated 30% Wireless EBITDA growth in 2020, we drop to an expected mid-teen gain in 2021 which could have upside. In Wireline, efficiencies will be further extracted to help segment margins. Digitization has been helpful in 2020 and will continue to drive efficiencies going forward. QBR will also be reducing its real estate footprint ($17M charge was taken in 3Q to end a number of leases). It's consolidating two CRM systems, which is still a work in progress, and we also expect inevitable labour savings. Telecom capex has reverted to a new lower range. It was once in a perennial range of $725M to $800M, but is to be near $600M in 2020E and perhaps $650M to $700M in 2021E excluding spectrum purchases. We think consensus sits at the top of this range, while we recently lowered our forecast into the range. FCF remains strong and the company's debt could possibly get upgraded to investment grade in 2021. QBR sees its stock as undervalued and persists with its buyback, while the dividend is getting raised to push into a targeted 30% to 50% FCF payout range (we'll see if one big 2021 hike moves the payout to the midpoint of the range or whether a more gradual approach will be taken). Our target is based on the average of our 2021E/2022E NAV metrics with implied EV/EBITDA of 7.9x 2020E, 7.4x 2021E & 7.0x 2022E. The company will report its 4Q in March. Our current 2022E NAV points to a value of $40.

Selections

› *Rogers*
› *Telus*
› *Quebecor*

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 1/7	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	SP		593	63.3	9.37	12/2019	0.58	(7.62)	(1.25)	NM	NM	230.5	-158.5	134.2	NM	9.1	4.05	0.72	8.00	
Corus Entertainment Inc.	CJR.b	OP		919	208.4	4.41	08/2020	0.75	0.86	0.80	5.1	5.5	505.8	532.2	504.1	4.7	4.5	4.30	0.64	5.00	
WildBrain Ltd.	WILD	SP		299	170.8	1.75	06/2020	(0.64)	(0.00)	0.05	NM	NM	81.8	82.3	90.4	9.2	7.9	0.46	0.84	1.80	
Spin Master	TOY	OP		2,874	102.0	28.18	12/2019	0.90	0.65	1.26	34.4	17.6	219.0	176.2	252.9	12.5	8.5	6.98	-0.34	36.50	
Stingray Digital	RAY.a	OP		501	73.5	6.82	03/2020	0.70	0.74	0.89	9.3	7.7	112.1	118.1	117.1	7.6	7.3	3.83	0.60	7.50	
TVA Group Inc.	TVA.b	SP		95	43.2	2.20	12/2019	0.49	0.54	0.53	4.1	4.2	72.4	68.2	64.9	1.9	1.6	6.46	0.14	2.00	
Printing & Publishing																					
Thomson Reuters	TRI	SP		50,833	497.1	102.26	12/2019	1.29	1.81	2.04	44.6	39.5	1493.0	1955.3	2067.0	22.0	20.5	19.23	0.24	111.00	
Transcontinental Inc.	TCL.a	OP		1,853	87.0	21.29	10/2020	2.61	2.32	2.34	9.2	9.1	499.4	451.3	445.6	5.8	5.4	19.67	0.35	26.00	↑
Advertising & Marketing																					
Yellow Pages	Y	SP		350	28.0	12.50	12/2019	3.44	2.23	2.25	5.6	5.6	161.3	130.0	118.0	2.5	2.4	NM	-0.05	13.00	
Telecommunications																					
BCE Inc.	BCE	OP		49,883	904.3	55.16	12/2019	3.50	2.97	3.34	18.6	16.5	10006.0	9624.2	10081.3	8.1	7.7	18.49	0.41	64.00	
Cogeco Communications Inc.	CCA	OP		4,696	47.9	98.00	08/2020	7.41	8.42	9.32	11.6	10.5	1148.7	1198.9	1247.7	6.0	5.5	54.79	0.52	120.00	
Quebecor Inc.	QBR.b	OP		7,893	250.5	31.51	12/2019	2.24	2.32	2.54	13.6	12.4	1879.5	1929.9	2003.2	7.0	6.5	4.34	0.83	39.00	
Rogers Communications Inc.	RCI.b	OP		30,492	504.9	60.39	12/2019	4.13	3.39	3.39	17.8	17.8	6212.0	5851.7	6232.3	8.1	7.4	19.87	0.44	70.00	↑
Shaw Communications	SJR.b	OP		11,613	515.0	22.55	08/2020	1.31	1.39	1.50	16.3	15.0	2391.0	2437.7	2504.3	6.9	6.5	12.10	0.46	28.00	
Telus Corp.	T	OP		33,782	1284.0	26.31	12/2019	1.45	0.96	1.10	27.5	23.9	5554.1	5514.3	5987.5	9.7	8.8	9.73	0.60	28.00	↑

Stock Rating: OP = Outperform; SP = Sector Perform; UP = Underperform; T=Tender; UR= Under Review; R=Restricted
TRI & TOY estimates are in US$, rest is CAD$.
Source: Bloomberg, Refinitiv and NBF estimates

Transportation & Industrial Products

Sector Analysis

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Air Canada a post-pandemic winner

Air Canada (AC: TSX; Outperform, $30.00 target).

With the vaccine roll-out now underway, we expect investors to position their portfolios to capitalize on a shift to a return to normalcy in a post-pandemic world. While severe near-term challenges remain for the airline industry as virus-related travel restrictions persist, we view Air Canada as one of the largest potential beneficiaries in our coverage universe of a shift in consumer spending back to services such as travel.

- **Air Canada has sufficient liquidity and its balance sheet will not be impaired post-pandemic.** At the end of Q3, AC's total liquidity stood at $8.7 billion so including the recent $850 million equity issue and the expected Q4 net cash burn (AC projects net cash burn of $14-$16 million per day in Q4/20), we estimate AC will end Q4 with ~$8.4 billion of liquidity. Assuming no improvement in cash burn and a minimum cash balance of $2.4 billion, AC would have enough cash to last more than 12 months. Furthermore, based on our forecast, AC's leverage ratio at the end of 2022 would be a manageable 3.0x (or ~2.5x assuming the conversion of convertible notes).
- **Relative competitive position remains strong.** We surmise that all of Air Canada's domestic and international competitors have suffered through the pandemic and will exit the crisis with higher leverage and less flexibility to significantly add more capacity into the market. In addition, if Air Canada is successful in concluding its proposed acquisition of Transat (Restricted), we see the potential for revenue and cost synergies as demand for leisure travel recovers.
- **Cost structure is improved.** Air Canada's unit costs will face some headwinds through 2022 as it ramps back capacity, but we believe the company can be structurally more profitable longer-term. For instance, with the permanent retirement of older 767 wide-bodies and the replacement of narrow-body capacity with new 737 MAXs and A220s, Air Canada will be a more fuel-efficient airline. We also view the roll-out of the new Aeroplan program as positive for margins as reward seats will effectively be priced based on market prices allowing for better network-wide revenue management.
- **Pent-up demand is significant.** With international travel and travel by businesses having been effectively reduced to near-zero levels since March, we believe there is meaningful pent-up demand from consumers looking to take a vacation as well as from business travelers. While a vaccine roll-out may not come in time to spur a major rebound in international travel in summer 2021, we could see this pent-up demand manifest itself in a significant rebound in sun-destination travel next fall and into the winter of 2021/22. As for business travel, we do believe some demand may be permanently displaced by virtual meetings, but almost all business-related conferences and tradeshows have been cancelled/postponed during the pandemic and we fully expect most of these events will resume in 2022.

Selections

- *TFI International*
- *Air Canada*
- *Cargojet*

				Shares	Stock	Market	Last	Cash EPS					FDFCFPS						12-Mth	
	Stock	Stock		O/S	Price	Cap	Year	(A)	est.	est.	P/E		(A)	est.	est.	P/CFPS		Net Debt /	Price	
	Sym.	Rating	Δ	(Mln)	1-7	(Mln)	Reported	Last FY	FY1	FY2	FY1	FY2	Last FY	FY1	FY2	FY1	FY2	Cap	Target	Δ
Air Canada	AC	OP	↑	297	23.20	6,890	12/2019	3.37	-13.34	-7.15	na	na	18.92	(5.53)	(0.81)	nmf	nmf	nmf	30.00	↑
Bombardier Inc.	BBD.b	SP		2411	0.50	1,205	12/2019	-u0.25	-u0.60	-u0.17	na	na	-u0.51	-u1.16	-u0.04	nmf	nmf	nmf	0.50	
BRP Inc.	DOO	OP		90	84.19	7,544	01/2020	3.83	5.16	5.46	16.3x	15.4x	1.59	4.01	2.78	21.0x	30.3x	145%	88.00	
CAE Inc.	CAE	SP		266	34.29	9,114	03/2020	1.34	0.42	0.96	80.7x	35.6x	(80.30)	(80.00)	(90.00)	nmf	nmf	50%	34.00	
Canadian National Rail	CNR	SP		713	144.05	102,679	12/2019	5.80	5.28	6.23	27.3x	23.1x	8.97	8.49	9.20	17.0x	15.7x	42%	141.00	
Canadian Pacific Rail	CP	SP		136	469.76	63,793	12/2019	16.44	17.62	20.02	26.7x	23.5x	21.65	23.29	26.87	20.2x	17.5x	56%	445.00	↑
Cargojet Inc.	CJT	OP		16	222.48	3,470	12/2019	0.85	-2.47	5.89	na	37.8x	(4.79)	4.76	7.81	46.8x	28.5x	73%	264.00	
Chorus Aviation Inc.	CHR	SP		162	3.91	633	12/2019	0.62	0.44	0.46	8.8x	8.4x	(3.37)	(1.79)	1.39	nmf	2.8x	75%	3.70	
Exchange Income Corporation	EIF	OP		36	37.23	1,345	12/2019	2.97	0.81	1.75	45.9x	21.3x	7.58	5.08	6.15	7.3x	6.1x	62%	40.00	
Héroux-Devtek Inc.	HRX	OP		36	15.15	551	03/2020	1.00	0.63	0.68	24.0x	22.2x	2.26	1.71	1.96	8.8x	7.7x	38%	17.50	
NFI Group Inc.	NFI	OP		63	25.85	1,616	12/2019	u1.64	-u0.79	u0.65	na	31.3x	u0.99	u0.02	u1.44	0.0x	14.2x	68%	24.00	↑
Transat A.T. Inc.*	TRZ	R		38	5.40	204	10/2019	R	R	R	R	R	R	R	R	R	R	R	R	
TFI International Inc.	TFII	OP		91	67.92	6,178	12/2019	3.94	4.09	4.50	16.6x	15.1x	3.53	6.23	6.02	10.9x	11.3x	38%	85.00	↑

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

u = US dollars

*based on EBITDAR (includes leases)

Source: Company Reports, Refinitiv, NBF

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
Collingwood • 108 Hurontario Street, Collingwood, ON, L9Y 2L8 • 705-446-0255
DIX30 • 9160, boulevard Leduc, Bureau 710, Brossard, QC, J4Y 0E3 • 450-462-2552
Drumheller • 356 Centre Street, PO Box 2176, Drumheller, AB, T0J 0Y0 • 403-823-6857
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
FredrictonNB • 551 King Street, Fredericton , NB, E3B 4Z9 • 506-450-1740
Gatineau • 920, St-Joseph, Bureau 100, Hull-Gatineau, QC, J8Z 1S9 • 819-770-5337
Granby • 150, rue St-Jacques, Bureau 202, Granby, QC, J2G 8V6 • 450-378-0442
Halifax • Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1601, Halifax, NS, B3J 3R7 • 902-496-7700
Halifax-Spring Garden • 400-5657 Spring Garden Road, Parklane Terraces, Halifax, NS, B3J 3R4 • 902-425-1283
Joliette • 40, rue Gauthier Sud, Bureau 3500, Joliette, QC, J6E 4J4 • 450-760-9595
Kelowna • 1631 Dickson Ave. Suite 1710, Landmark 6, Kelowna, BC, V1Y 0B5 • 250-717-5510
Lac-Mégantic • 3956, rue Laval, suite 100, QC, G6B 2W9 • 819-583-6035
Laval • 2500, boulevard Daniel Johnson, Bureau 610, Laval, QC, H7T 2P6 • 450-686-5700
Lethbridge • 404, 6th Street South, Lethbridge, AB, T1J 2C9 • 403-388-1900
Lévis • 1550, boulevard Alphonse-Desjardins, Bureau 110, Lévis, QC, G6V 0G8 • 418-838-0456
London Pall Mall • 256 Pall Mall Street, Suite 201, London, ON, N6A 5P6 • 519-439-6228
London-City Centre • 802-380 Wellington Street, London, ON, N6A 5B5 • 519-646-5711
Metcalfe • 1155, rue Metcalfe, Suite 1450, Montréal, QC, H3B 2V6 • 514-879-4825
Mississauga • 350, Burnhamthorpe road West, Suite 603, Mississauga, ON, L5B 3J1 • 905-272-2799
Moncton • 735 Main Street, Suite 300, Moncton, NB, E1C 1E5 • 506-857-9926
Mont Saint-Hilaire • 436, boulevard Sir-Wilfrid-Laurier, Suite 100, Mont Saint-Hilaire, QC, J3H 3N9 • 450-467-4770
Mont-Tremblant • 1104, rue de Saint-Jovite, 2e étage, Mont-Tremblant, QC, J8E 3J9 • 450-569-3440
Montréal International • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5576
Montréal L'Acadie • 9001, boulevard de l'Acadie, Bureau 802, Montréal, QC, H4N 3H5 • 514-389-5506
North Bay • 680 Cassells Street, Suite 101, North Bay, ON, P1B 4A2 • 705-476-6360
Oak Bay • #220 - 2186 Oak Bay Avenue, Victoria, BC, V8R 1G3 • 250-953-8400
Oakville • 305 Church Street, Oakville, ON, L6J 7T2 • 905-849-3558
Oshawa • 575 Thornton Road North, Oshawa, ON, L1J 8L5 • 905-433-0210
Ottawa • 50 O'Connor Street, Suite 1602, Ottawa, ON, K1P 6L2 • 613-236-0103
Outremont • 1160, boulevard Laurier Ouest, App. 1, Outremont, QC, H2V 2L5 • 514-276-3532
Owen Sound • 1717 2nd Ave. E., Suite 202, Owen Sound, ON, N4K 6V4. • 519-372-1277
Peterborough • 201 George Street North, suite 401, Peterborough, ON, K9J 3G7 • 705-740-1110
Plessisville • 1719, rue St-Calixte, Plessisville, QC, G6L 1R2 • 819-362-6000
Kirkland • 16,766 Route Transcanadienne, bureau 503, Kirkland, QC, H9H 4M7 • 514-426-2522
PVM Montréal • 1, Place Ville-Marie, Bureau 1700, Montréal, QC, H3B 2C1 • 514-879-5200
Québec • 500, Grande-Allée Est, Bureau 400, Québec, Qc, G1R 2J7 • 418-649-2525
Québec - Sainte-Foy • Place de la Cité, 2600, boulevard Laurier, Bureau 700, Québec, QC, G1V 4W2 • 418-654-2323
Red Deer • 4719 48th Avenue, Suite 200, Red Deer, AB, T4N 3T1 • 403-348-2600
Regina • 2075, Prince Of Wales Drive, Suite 305, Regina, SK, S4V 3A3 • 306-781-0500
Repentigny • 534, rue Notre-Dame, Bureau 201, Repentigny, QC, J6A 2T8 • 450-582-7001
Richmond • 135-8010 Saba Road, Richmond, BC, V6Y 4B2 • 604-658-8050
Richmond Hill • 9130 Leslie Street, Suite 200, Richmond Hill, ON, L4B 0B9 • 416-753-4016
Rimouski • 127, boulevard René-Lepage Est, Bureau 100, Rimouski, QC, G5L 1P1 • 418-721-6767
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
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