MAY 2021

VISION

Monthly Economic & Financial Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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Highlights

Economy

› More than a year after the WHO declared a state of worldwide pandemic, the SARS-CoV-2 virus continues to devastate. The number of new cases reported daily around the world rose to a record in late April and remains very high. Outbreaks are now concentrated in the emerging economies, where vaccine rollout is much slower than in the rich countries, with India and Brazil in especially dire straits. The surge of cases is certain to slow economic growth in the regions most affected. However, this slowdown is likely to be amply offset by strong expansion in the developed economies. The U.S. will be a recovery leader in 2021 but will hardly be alone in benefiting from a reopening of its economy. As the pandemic loses its grip in the Eurozone (partly because of accelerated vaccine rollouts), many countries there should soon be able to ease their physical distancing rules. The second half of the year promises a rebound so solid in advanced economies that we think some producers will have to struggle to meet demand, something that could lead to price increases more vigorous than those we were used to before the pandemic. Our forecast of global growth in 2021 is unchanged at 6.0%, with an upward revision for the U.S. offset by a slightly slower growth outlook for the emerging economies. Also unchanged is our forecast of 4.4% for 2022.

› The U.S. economy sustained a brisk pace of recovery in the first quarter of the year despite maintenance of some physical distancing rules. Real GDP expanded at an annual rate of 6.7%. Coming after annual rates of +4.3% in Q4 and +33.4% in Q3, this growth left GDP only 0.9% short of its pre-pandemic high. We expect further acceleration of growth in Q2, to an annual rate in the neighbourhood of 10%. Our optimism is based on the progress of the U.S. vaccine rollout. At this writing, 46% of Americans had received at least one dose, a proportion topped only by the U.K. among the major economies. The success of U.S. vaccination efforts can be expected to allow a more complete reopening of the economy, which will in turn allow consumers to make good use of funds put aside during the pandemic. With the second quarter looking stronger than we foresaw last month, we have raised our forecast of 2021 growth to 6.9% from 6.6%. Real GDP should then expand 3.9% in 2022, one tick more than what we had envisaged last month. We recognize that the Biden administration's proposals for $2.3 trillion in infrastructure funding and $1.8 trillion in aid to families could push up that number if approved. Our updated GDP projection anticipates a return of U.S. output to potential in the third quarter of this year.

› Though Canadians remain under public-health restrictions and the economy will probably finish the second quarter flat, there are grounds for optimism about subsequent months. Vaccination rollout, after a slow start, has picked up speed since early April. Impressive growth can be expected as physical-proximity services reopen in a context of extremely stimulative fiscal and monetary policy. Consumption is thus likely to firm up, all the more so in that households have accumulated astronomical excess savings (8% of GDP in 2020). This month we are revising our forecast of 2021 growth up to 6.0% (previously 5.6%). The first-quarter surge was even more spectacular than previously expected. The federal recovery plan, more generous than expected in the short term, is another factor in our upward revisions. Our forecast for nominal growth is now 10.4%, not seen in 40 years. It's that the widespread rise in raw-material prices has caused a spectacular improvement of terms of trade over the last year.

Interest rates and currency

› If it was not already obvious, momentum in the US economic recovery is continuing to build. GDP is nearly fully recovered, and inflation is rising, now officially above 2%. Concerns of an overheated economy are growing on Wall Street and on Main Street. The Fed, for its part, looks unconcerned. This increase in inflation will be 'transitory' as many Fed speakers, most notably Powell, often reiterate. Instead, we should be focussing on labour markets where weakness remains. Indeed, at first glance, April's jobs report left much to be desired with net hiring missing the consensus forecast by more than 700 thousand jobs. For many on the FOMC, the disappointing April jobs report likely left them feeling vindicated in their ultra-dovish approach. We, however, take a different view of April's report.

› The bigger question to be answered in the April policy meeting was that of forward guidance. With the economic outlook vastly improved from the BoC's earlier thinking, the statement explicitly acknowledged expected output gap closure in the second half of 2022 (previously 'into 2023'). We'd speculated that the Bank may want to push back on 2022 rate hike expectations given a still-dovish policy stance stateside and across the pond. That clearly wasn't the case and the Bank appears okay with the market's anticipation of 2022 lift-off. In response, we've brought forward the first BoC hike in our rates forecast to October 2022 (previously January 2023).

› In the meantime, it seems the ECB will err on the side of caution. Recall that, in its latest forecasts, the central bank saw inflation reaching just 1.4% in 2023. The unemployment rate, for its part, was expected to come to down to 7.6%, still half a percentage point higher than the low reached in March 2020 (7.1%). For these reasons, and barring some major upside surprises, we do not see the ECB moving faster than the Fed in coming months, especially if the euro keeps appreciating, something that could exert further downward pressure on inflation.

› To limit the effect of tighter policy on the whole economy, Chinese officials are likely to maintain a sector-specific approach. Benchmark rates, meanwhile, could remain anchored at their current level for the rest of the year. But make no mistake, the focus has changed in China from ensuring a strong recovery to preventing overheating in some sectors.

› The Canadian currency continues to do well, finishing April at its strongest in more than three years against the greenback. On April 21, Canada's central bank was forced to acknowledge the progress of the economic recovery and the current backdrop of strong global economic momentum. It revised its outlook materially higher, foreseeing an earlier closure of the output gap, and announced it would reduce Its weekly QE purchases to $3 billion from $4 billion. With the Bank looking to move a bit ahead of the Fed and the BoC taper progressing, we see our rate of C$1.20 to the USD arriving one quarter earlier than scheduled, i.e. in Q3 2021.

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Highlights

Recommended asset mix and stock market

- Despite concern about new Covid variants in some emerging countries, global equity markets rose to a new record in early May. The uptrend in equity markets remains supported by strong earnings growth. At this writing, trailing EPS for the MSCI ACWI is up 3% from a year earlier, the first positive reading since the onset of the pandemic.
- Of the 2642 companies of the MSCI ACWI that have revised their earnings for the coming year, more than 60% have revised them upward. That's one of the best diffusions on record, well above the historical average of 43%.
- High levels of consumer confidence coupled with substantial excess savings accumulated in the advanced economies since the beginning of the pandemic – estimated at just over 6% of GDP globally – have the potential to fuel much faster global economic growth in the months ahead.
- The S&P/TSX is having another good quarter. The Canadian benchmark is up a robust 4.1% so far in Q2 (11.7% year to date). A resilient domestic economy, coupled with strong growth in the rest of the world that is driving up commodity prices, have resulted in significant upward earnings revisions for S&P/TSX companies.
- Our asset mix is unchanged this month: Overweight in equities and underweight in fixed income with a geographic allocation favouring Canada and Emerging Markets. We stand ready to prune our exposure to Canada as we get closer to our forecast of 1.19 CAD per USD. Our sector allocation is unchanged this month, leaning toward value over growth stocks.

NBF Sector Rotation

S&P/TSX Sectors	Weight*	Recommendation	Change
Energy	12.9	Market Weight	
Materials	13.1	Overweight	
Industrials	11.9	Market Weight	
Consumer Discretionary	4.1	Market Weight	
Consumer Staples	3.6	Market Weight	
Healthcare	1.3	Market Weight	
Financials	31.4	Overweight	
Information Technology	9.1	Underweight	
Telecommunication Services	4.9	Market Weight	
Utilities	4.6	Underweight	
Real Estate	3.2	Underweight	
Total	100.0		

* As of May 07, 2021

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The Economy

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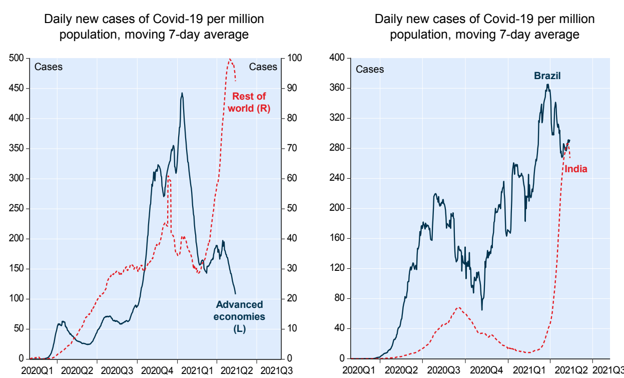
World: Fast-track recovery in rich countries

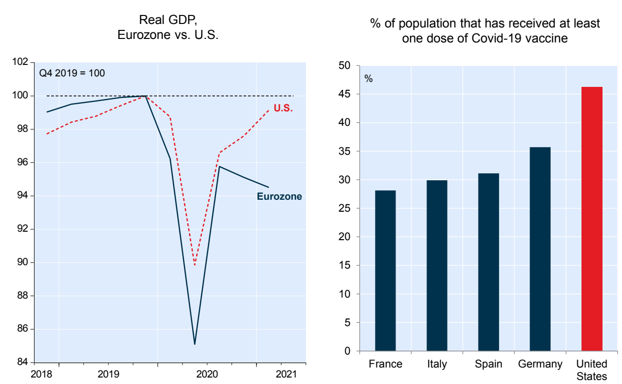
More than a year after the WHO declared a state of worldwide pandemic, the SARS-CoV-2 virus continues to devastate. The number of new cases reported daily around the world rose to a record in late April and remains very high. Outbreaks are now concentrated in the emerging economies, where vaccine rollout is much slower than in the rich countries, with India and Brazil in especially dire straits.

World: Covid flare-up limited to a few countries



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

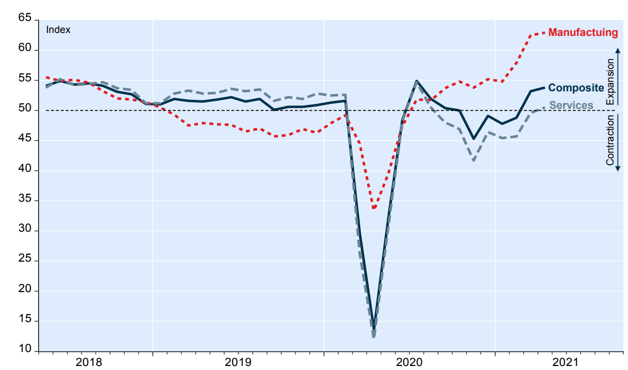
Eurozone: Lagging vaccine rollout, slower recovery …



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

After officially entering into a double-dip recession in the first quarter of the year, the Eurozone economy is likely to expand again in Q2. That at least is what the most recent economic indicators suggest. The Markit Composite PMI shows a second straight improvement of private-sector operating conditions in April. Its manufacturing sub-index reached an all-time high of 62.9 during the month, with output and new orders growing at record rates. Though services output remained hobbled by physical distancing measures, it showed a slight expansion nonetheless: the services PMI topped 50 for the first time in eight months. Eurozone private-sector businesses reported themselves highly optimistic, their output expectations the highest since the data series began in the summer of 2012.

… but prospects are improving
Markit flash PMI, last observation April 2021



NBF Economics and Strategy (source: Markit, via Refinitiv)

The business sentiment indicator of the European Commission was also up markedly in April, rising from 100.9 to a 32-month high of 110.3, well above both the consensus 102.2 and the pre-recession peak of 104.0 (February 2020). Confidence was up in all five of the sectors tracked: manufacturing, services, consumption, retail trade and construction.

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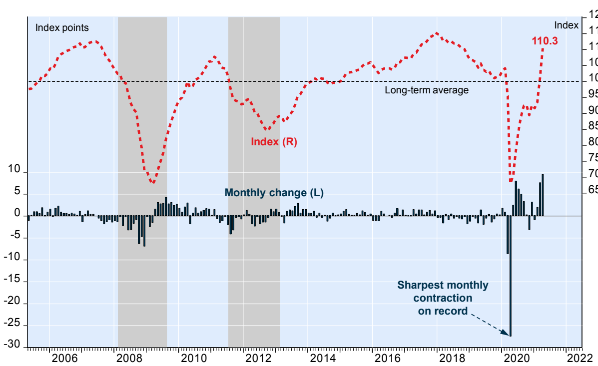
[1] The Bank's new baseline scenario is slighly more optimistic than that presented by the finance department for 2021-22.

[2] See our Special Report for details of the controversy created by the central bank on the subject of measures of core inflation and our reservations about its position (*link*)

The Economy

Eurozone: April confidence topped pre-pandemic level
European Commision economic sentiment indicator, last observation April 2021



NBF Economics and Strategy (source: European Commission, via Refinitiv)

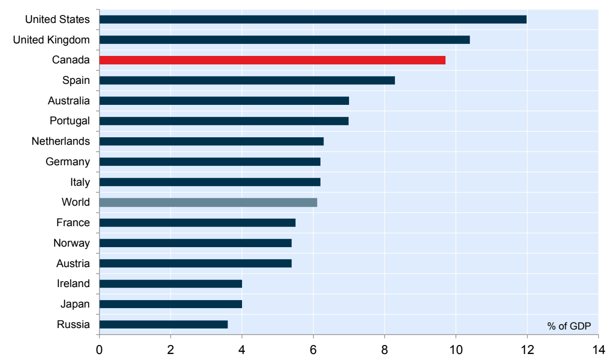
To judge by Conference Board data, the return of confidence was not limited to the Eurozone. On the contrary: its overall indicator of consumer confidence climbed to an all-time high in the first quarter of the year. The official report attributed the rise to the progress of vaccine rollout and to support from governments and central banks.

World: Strong Q1 rebound in consumer confidence
Global Conference Board Consumer Confidence Survey

NBF Economics and Strategy (data from Conference Board, Financial Times)

Fiscal support from most of the world's governments has gone way beyond the effort made in response to the 2008 crisis. Income-replacement programs in the developed economies (cheques to households, wage subsidies, etc.) have not only supported consumption *during* the crisis but are also likely to stimulate consumer spending once the pandemic is under control, since government generosity has enabled households to accumulate excess savings estimated by Moody's at about 6% of global GDP. We see part of these savings being put to use in the global economic recovery. Consumption of services, which suffered heavily from physical distancing measures, is likely to be the principal beneficiary.

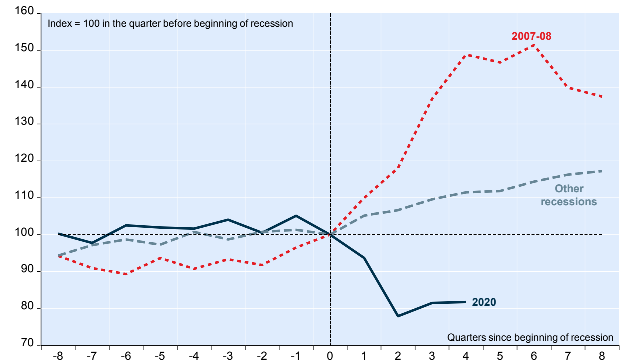
World: Consumers positioned to take advantage of recovery
Cumulative excess savings since beginning of the pandemic, % of GDP



NBF Economics and Strategy (data from Moody's)

Private business has also benefited from fiscal aid. Through subsidies and help with access to credit, governments and central banks have managed to limit business bankruptcies. Judging by data recently released by the IMF, bankruptcies have even declined since the beginning of the pandemic, a phenomenon unusual in the wake of a recession as severe as last year's. Fewer business bankruptcies means less destruction of capacity and fewer permanent job losses, two other factors likely to support a rapid recovery.

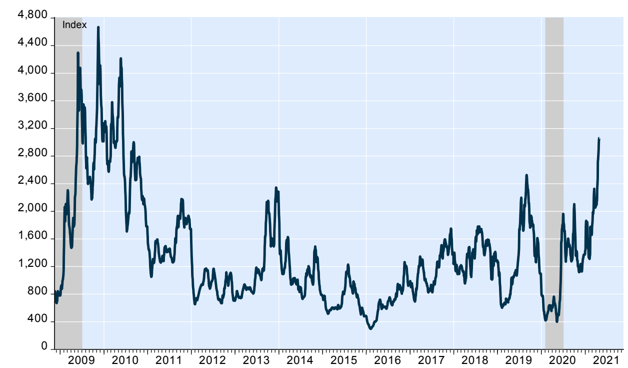
World: Aid programs have curbed business bankruptcies
Index of business bankruptcies in 13 developed economies



NBF Economics and Strategy (data from IMF)

The second half of the year promises a recovery so solid that we think some producers will have to struggle to meet demand. Already in April, factories around the globe were stressed –delivery times were the longest in 17 years according to the Markit/JPMorgan survey. Transportation costs have also risen sharply in recent weeks.

World: Pressure on capacity
Baltic Dry Index of ocean transport costs



NBF Economics and Strategy (data from Bloomberg)

This situation is hardly likely to improve when consumers in developed economies are able to spend more freely. The jump in demand could entail price increases more vigorous than those we were

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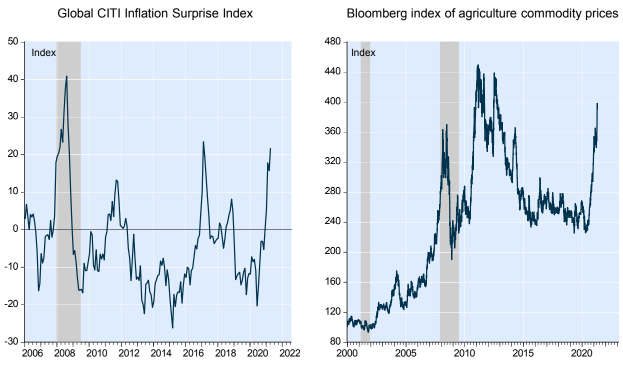
used to before the pandemic. Global inflation is already surprising on the upside and we see this trend continuing in the months ahead. More specifically, we note the rapid increase in food prices, a major component of the consumption basket, especially in the emerging economies.

World: Price rises foreseeable as public-health restrictions ease



NBF Economics and Strategy (data from Bloomberg)

Our forecast of global growth in 2021 is unchanged at 6.0%, with an upward revision for the U.S. offset by a slightly slower growth outlook for the emerging economies. Also unchanged is our forecast of 4.4% for 2022.

World Economic Outlook

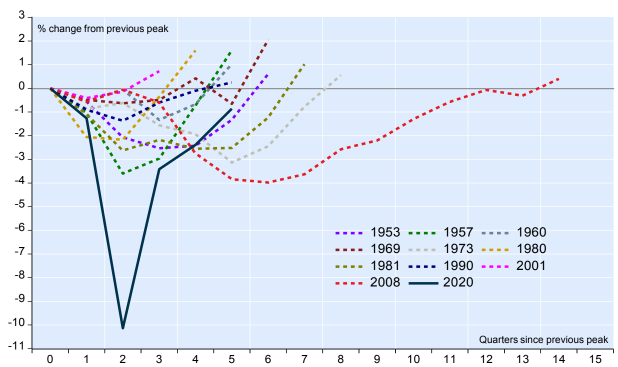
	2020	2021	2022
Advanced Economies	-4.7	5.3	3.8
United States	-3.5	6.9	3.9
Eurozone	-6.6	4.3	4.0
Japan	-4.9	3.0	2.3
UK	-10.0	5.5	4.9
Canada	-5.4	6.0	4.0
Australia	-2.4	4.5	3.0
Korea	-1.0	3.5	3.0
Emerging Economies	-2.3	6.5	4.8
China	2.3	8.7	5.5
India	-8.6	9.0	6.0
Mexico	-8.2	4.7	2.7
Brazil	-4.1	3.5	2.6
Russia	-3.1	3.5	3.0
World	-3.3	6.0	4.4

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

U.S.: Entering a post-Covid boom

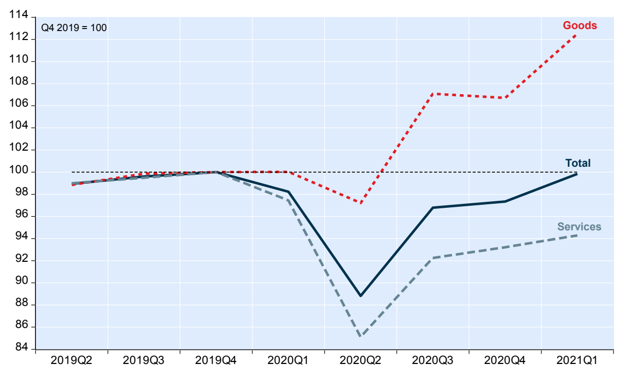
The U.S. economy sustained a brisk pace of recovery in the first quarter of the year despite maintenance of some physical distancing rules. Real GDP expanded at an annual rate of 6.7%. Coming after annual rates of +4.3% in Q4 and +33.4% in Q3, this growth left GDP only 0.9% short of its pre-pandemic high.

U.S.: GDP back to within 0.9% of pre-Covid peak
Real GDP, % change from previous peak



NBF Economics and Strategy (data from Refinitiv)

U.S.: Service sector slower to pick up
Personal consumption expenditures

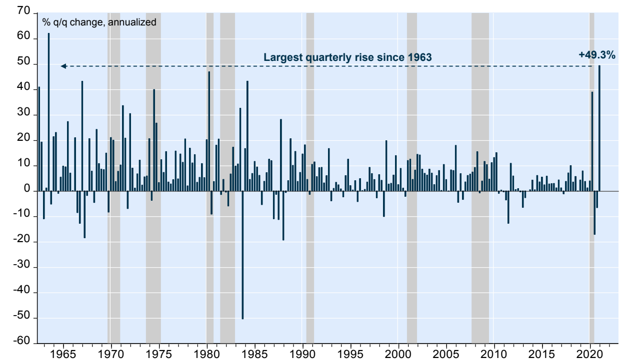


NBF Economics and Strategy (data from Refinitiv)

Domestic demand remained strong during the quarter. Non-residential investment grew at 9.9% annualized, residential investment at 10.8% and consumption at 10.7%. Consumption of services rebounded less vigorously (+4.6% annualized) than consumption of goods (23.6%) because of measures to limit spread of the virus. That left household spending on services 5.7% below its pre-recession level while spending on goods topped its pre-pandemic level by 12.5%.

Also contributing to expansion during the quarter was public spending, which grew at 6.3% annualized (fastest since 2002) as payout of assistance to stimulate recovery continued and health-care spending remained high. Non-defence government spending increased the most since 1963 (49.3% annualized).

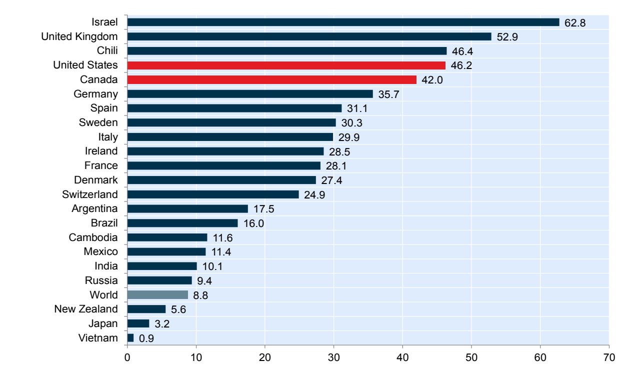
U.S.: A jmp in government spending to fund Covid aid programs
Nonmilitary public expenditure



NBF Economics and Strategy (data from Refinitiv)

We expect further acceleration of growth in Q2, to an annual rate in the neighbourhood of 10%. Our optimism is based on the progress of the U.S. vaccine rollout. At this writing, 46% of Americans had received at least one dose, a proportion topped only by the U.K. among the major economies.

United States: Vaccination campaign progressing at swift pace
Share of population having received at least one dose of COVID-19 vaccine



NBF Economics and Strategy (data via https://ourworldindata.org/covid-vaccinations, https://covid19tracker.ca/vaccinationtracker.html for Canada)

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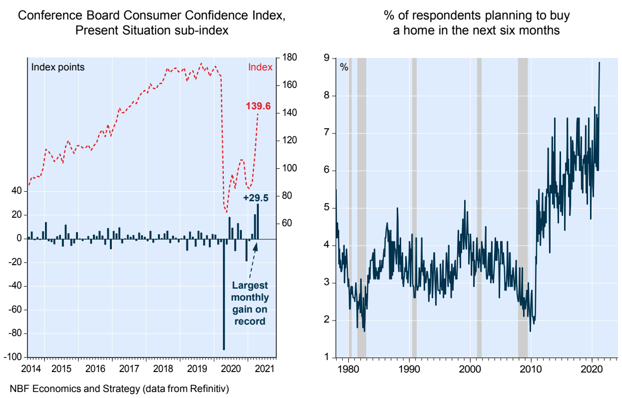
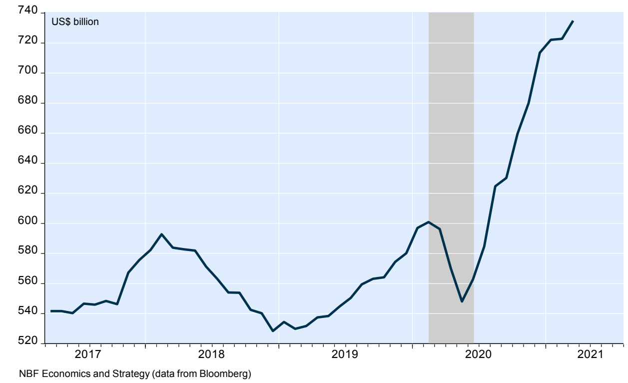
The success of U.S. vaccination efforts can be expected to allow a more complete reopening of the economy, which will in turn allow consumers to make good use of funds put aside during the pandemic. Nominal personal income jumped 21.1% in March thanks to the assistance cheques that went out to households in the $1.9-trillion package adopted under the Biden administration. Disposable income, meanwhile, rose 23.6%, the largest monthly gain on record. Since spending rose less than that, the savings rate jumped to 27.6%, adding close to $370 billion during the month to an already-large reserve of excess savings. By our calculation, surplus savings since the beginning of the pandemic now amount to $2.2 trillion, or 10% of 2019 GDP.

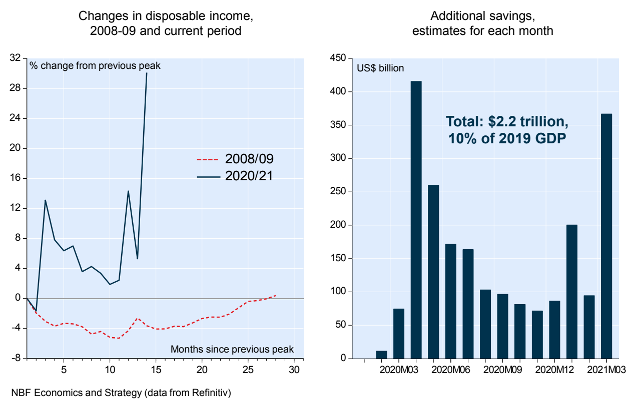
U.S.: Enthusiastic consumers are planning major purchases



U.S.: A boom in residential construction

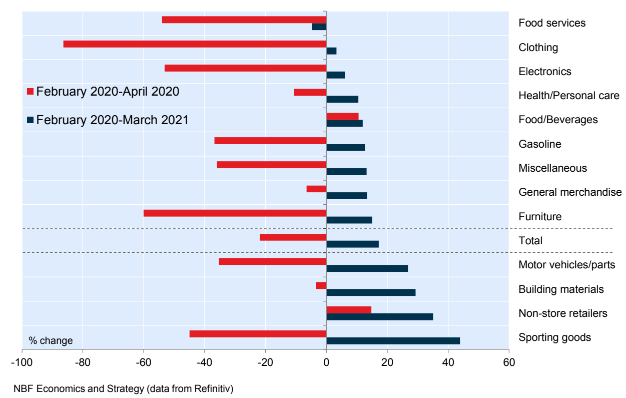


U.S.: Aid cheques to households have boosted disposable incomes



So the question is no longer whether the U.S. will have a post-pandemic boom. The answer to that is quite visible in the data. Retail sales are running well above their pre-pandemic level, the housing market is booming and machinery and equipment investment shows surprising vigour.

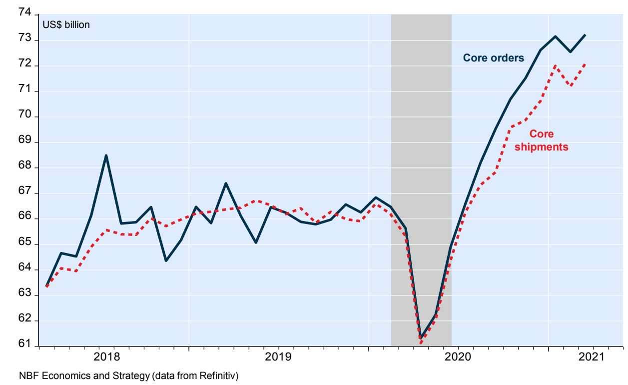
Retail sales up from before Covid in 12 out of 13 sectors



So it is not surprising that consumer confidence is up sharply. The Conference Board index rose strongly in April, with survey respondents' views of the "present situation" up more than in any month since the index was created in the late 1960s. With outlooks optimistic, consumers were contemplating major purchases, with a record proportion planning to buy a home within the next six months.

Business investment up smartly from the Covid bottom

Orders and shipments of non-defense capital goods other than aircraft, last observation March 2021



The only cloud in the sky is the labour market. Nonfarm payroll employment increased only 266,000 in April, much less than the 1,000,000-plus expected by analysts with reopening under way. There were gains in the sectors hurt most by distancing measures, notably recreation and accommodation (+331,000), but employment elsewhere was down. To all appearances, the weakness in hiring cannot be attributed to lack of demand: the most recent JOLTS survey showed job openings at an all-time high. Employers seem rather to have trouble attracting candidates. A recent NFIB survey reported a record 44% of small-business respondents declaring an inability to fill one or more vacancies.

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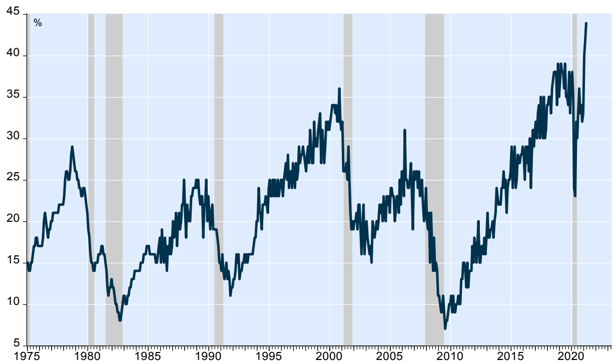
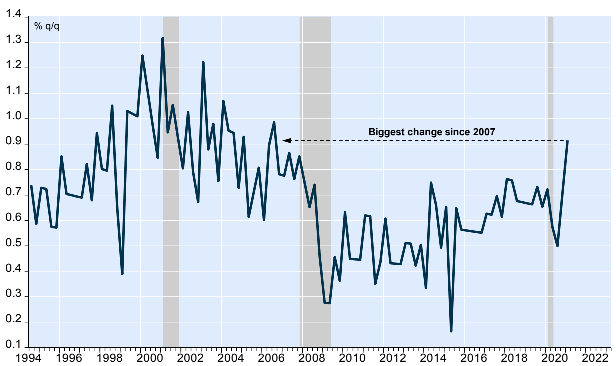
U.S.: Slow hiring is not due to lack of demand
% of businesses unable to fill one or more vacancies



NBF Economics and Strategy (data from Refinitiv)

U.S.: Strong Q1 rebound in cost of labour
Quarterly change in index of labour-related costs

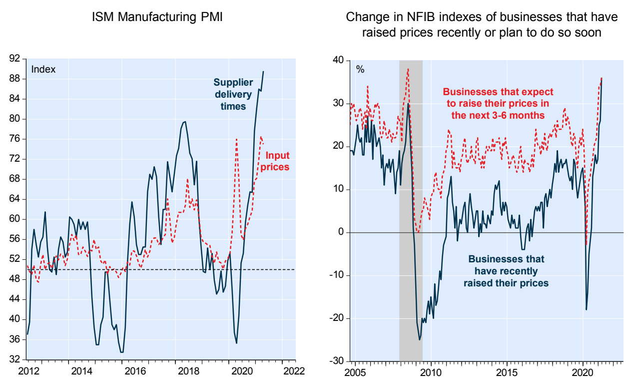


NBF Economics and Strategy (data from Refinitiv)

That may seem surprising at a time when U.S. employment is still about 8 million below its pre-pandemic level. There are a number of reasons for this. First, non-transferability of skills. For the most part, people who are not yet back to work after losing their job during the pandemic had been working in the jobs most severely affected by physical distancing measures. Their skills might not match those required by the industries back in full operation, where demand for labour is currently highest. Also, in industries where wages are relatively low, Washington's generous unemployment allowances could be having a dissuasive effect on return to work. Such "artificial" labour shortages could persist until supplemental UI benefits are phased out (i.e. In September). In the meantime, employers may need to raise wages to bring workers back to the labour market. In Q1, labour costs increased the most since 2007. This trend could continue.

In our view, the increase in labour costs, combined with surging input prices and major supply problems, could force producers to raise their prices in coming months. This hypothesis underlies our forecast of inflation in the neighbourhood of 3.7% by year end.

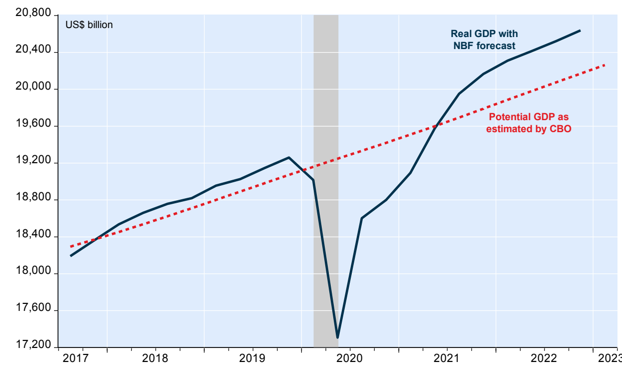
U.S.: Price rises in store?



NBF Economics and Strategy (data from Bloomberg and Refinitiv)

With the second quarter looking stronger than we foresaw last month, we have raised our forecast of 2021 growth to 6.9% from 6.6%. Real GDP should then expand 3.9% in 2022, one tick more than what we had envisaged last month. We recognize that the Biden administration's proposals for $2.3 trillion in infrastructure funding and $1.8 trillion in aid to families could push up that number if approved. Our updated GDP projection anticipates a return of U.S. output to potential in the third quarter of this year.

U.S.: GDP on track to return to potential in Q3
Real GDP with NBF forecast and potential GDP as estimated by CBO

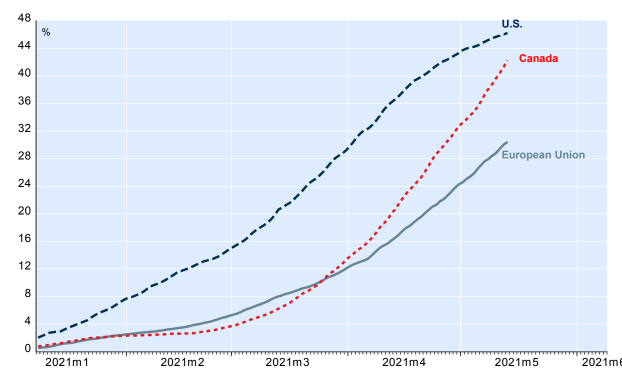


NBF Economics and Strategy (CBO data)

Canada: Ready for up, up and away

Though Canadians remain under public-health restrictions and the economy will probably finish the second quarter barely up, there are grounds for optimism about subsequent months. Vaccination rollout, after a slow start, has picked up speed since early April. At the beginning of March, the percentage of Canadians injected was 10 points behind the percentage of Americans, but the gap has steadily narrowed and is now no more than 4 points, comparing favourably to the European percentage. Canada could even pass the U.S. in the next few weeks – the latest Léger & Léger poll shows substantially more desire among Canadians to get vaccinated (82% vs. 67%).

Canada: Vaccination rollout is going well
% of population that has received at least one dose of Covid-19 vaccine (last observation May 9)

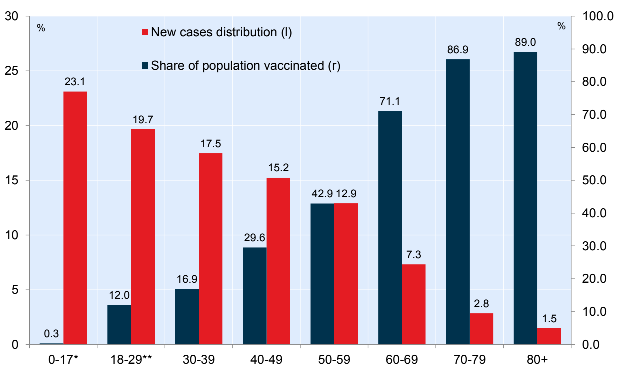


NBF Economics and Strategy (data from Our World in Data)

The Economy

The effect of vaccination, even after just one dose, is already showing in the pandemic. People age 60 and older, 25% of the population, are 80% vaccinated and now account for no more than about 10% of cases. Inoculation of the most vulnerable explains why total deaths remain low compared to the second wave despite a similar case count.

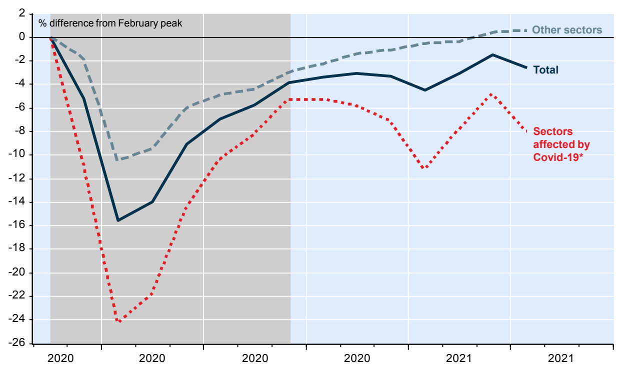
Canada: Distribution of weekly cases vs. % of population vaccinated
% of weekly new cases by age group and % of age group having received at least one dose (as of May 1)



* 0-17 for vaccination, 0-19 for cases **18-29 for vaccination, 20-29 for cases
NBF Economics and Strategy (data from Public Health Agency of Canada, Statistics Canada)

A significant increase in hospitalization, however, has obliged several provincial governments to reintroduce public-health shutdowns, causing a sharp contraction of employment in April (–207,000). It is reassuring to see that the losses are limited to sectors directly affected by shutdowns. It should be noted that heavy losses in education (–36,000) can be laid to a move by some schools to remote teaching and to Ontario's spring break taking place in April (making seasonal adjustment inappropriate). Employment in other sectors was still rising in April, to a new record, showing that contagion was avoided once more. Major restrictions are still in place in May, but we see progressive easing in the coming weeks as vaccination continues. The employment drop is likely to prove temporary as economic vigour supports hiring.

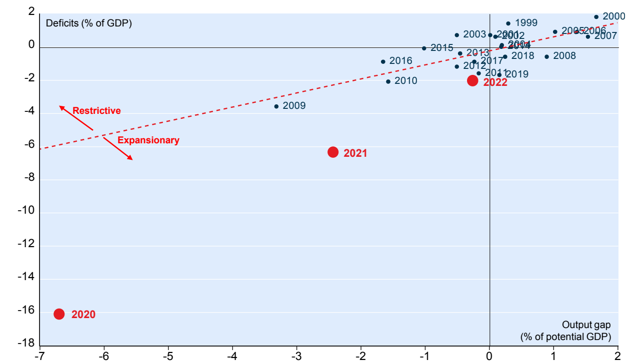
Job losses limited to sectors affected by public-health measures
Employment



* Commerce, accommodation and food services, news/entertainment/recreation, other services, education
NBF Economics and Strategy (data from Statistics Canada)

Adoption of the April 19 budget means the federal government intends to continue supporting households and businesses very generously until the pandemic is under control. In last fall's economic update, the government suggested, without specifying details, a stimulus of \$70 to \$100 billion over three years. It is leaning to the higher end of that range. Emergency wage and rent subsidies are extended to September 30. The Canadian Emergency Recovery Benefit has been extended 12 weeks, though reduced to \$300 from \$500 for the last eight weeks ending in September. Establishment of a pan-Canadian learning and care program for young children is a key initiative of the 2021 budget. The objective is to reduce the cost of daycare for children in the program to an average \$10 a day between now and 2025-26. For 2021-22 a deficit of 6.4% of GDP is budgeted, almost twice as much as in the financial crisis of 2008-09. Fiscal policy will remain highly expansionary next year. For the following fiscal year the deficit is projected at 2.3% of GDP, which is assumed to be running only 0.3% below potential. The relationship between output gap and budget balance over the period from 1999 to 2019 suggests a budget essentially balanced under such conditions.

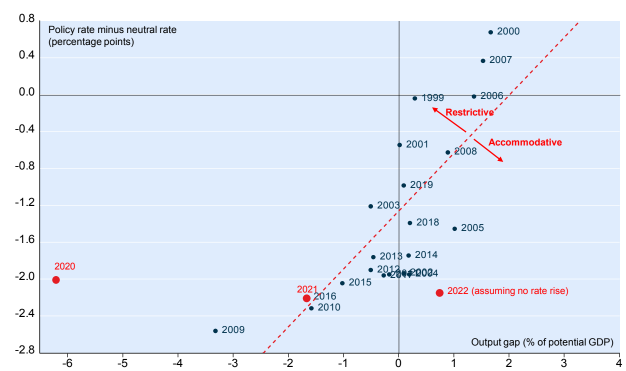
Canada: Highly expansionary fiscal policy
Output gap (average of two BoC estimates and assumptions of Budget 2021) and deficits, 1999-2022ù



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

What about monetary policy? Two days after the budget was tabled, the Bank of Canada substantially raised its outlooks for growth[1] and inflation in support of its decision to cut asset purchases under its quantitative easing program by another billion dollars weekly. As for its policy rate, the central bank telegraphed a normalization that could begin in 2022 rather than in 2023. That will probably be none too soon. Given the output gap anticipated by the central bank in 2022 (average of two estimates), a policy rate remaining on the floor next year would be the most accommodative in two decades.

Canada: Perspective on monetary policy
Output gap (average of two BoC estimates) and policy rate minus neutral rate

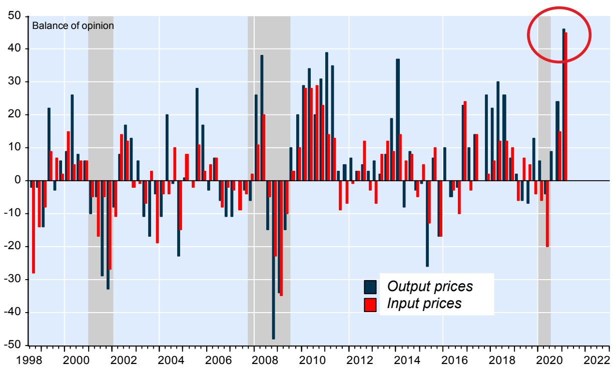


NBF Economics and Strategy (data from Bank of Canada)

The Economy

In sum, extremely stimulative monetary and fiscal conditions through the end of 2022 will contribute to maintain inflation in the upper band of the central bank target range in 2021 and 2022. Trend-inflation measures already show very strong momentum. CPI-Median rose at an annual rate of 2.7% in the three months ending March and CPI-Trim at 3.0%.[2] Judging by the most recent Business Outlook Survey, inflationary pressures are not ready to fade. An unprecedented share of Survey respondents reported that they foresee an acceleration of their selling prices.

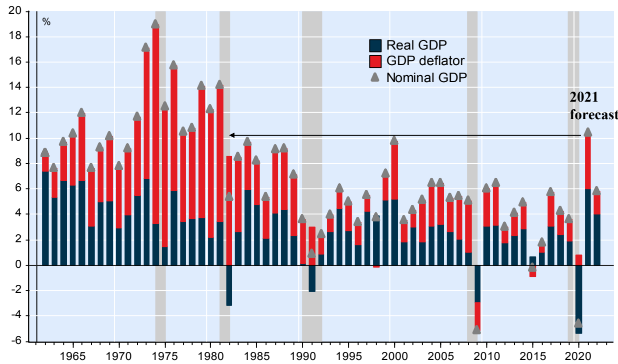
Canada: Many businesses see acceleration of prices
% expecting an acceleration of price rises in the next year minus those expecting the opposite



NBF Economics and Strategy (data from Bank of Canada Business Outlook survey, Spring 2021)

This month we are revising our forecast of 2021 growth up to 6.0% (previously 5.6%). The first-quarter surge was even more spectacular than previously expected. After a temporary pause in the recovery due to public-health measures in Q2, impressive growth can be expected as physical-proximity services reopen. Consumption is thus likely to firm up, all the more so in that households have accumulated astronomical excess savings (8% of GDP in 2020). The federal recovery plan, more generous than expected in the short term, is another factor in our upward revisions. Our forecast for nominal growth is now 10.4%, not seen in 40 years. It's that the widespread rise in raw-material prices has caused a spectacular improvement of terms of trade over the last year.

Canada: Strongest nominal GDP growth in four decades
Nominal GDP breakdown



NBF Economics and Strategy (data from Statistics Canada)

The Economy

United States
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	3.0	2.2	(3.5)	6.9	3.9	(2.4)	7.3	2.3
Consumption	2.7	2.4	(3.9)	8.4	4.5	(2.7)	9.0	2.5
Residential construction	(0.6)	(1.7)	6.1	15.0	(0.5)	14.3	6.6	(3.8)
Business investment	6.9	2.9	(4.0)	7.8	2.1	(1.4)	6.6	0.3
Government expenditures	1.8	2.3	1.1	1.9	1.5	(0.5)	3.2	2.0
Exports	3.0	(0.1)	(12.9)	5.5	6.4	(10.9)	5.5	5.5
Imports	4.1	1.1	(9.3)	11.7	2.7	(0.6)	5.2	1.0
Change in inventories (bil. $)	53.4	48.5	(77.4)	(48.5)	(26.6)	62.1	(7.7)	2.5
Domestic demand	3.0	2.3	(2.7)	7.5	3.4	(1.5)	7.6	1.8
Real disposable income	3.6	2.2	5.8	4.2	(0.1)	3.1	5.1	1.5
Payroll employment	1.6	1.3	(5.7)	3.7	3.0	-6.0	4.9	2.4
Unemployment rate	3.9	3.7	8.1	5.3	4.0	6.8	4.5	3.8
Inflation	2.4	1.8	1.3	3.3	2.8	1.2	3.7	2.7
Before-tax profits	6.1	0.3	(5.8)	18.7	7.0	-0.7	13.5	5.0
Current account (bil. $)	(449.7)	(480.2)	(647.2)	(720.2)	(701.4)	...	...	...

** or as noted*

Financial Forecast**

	Current 5/13/21	Q2 2021	Q3 2021	Q4 2021	Q1 2022	2020	2021	2022
Fed Fund Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month Treasury bills	0.02	0.05	0.05	0.05	0.10	0.09	0.05	0.15
Treasury yield curve								
2-Year	0.16	0.20	0.25	0.30	0.40	0.13	0.30	0.95
5-Year	0.84	0.90	1.10	1.20	1.35	0.36	1.20	1.65
10-Year	1.66	1.70	1.85	2.00	2.05	0.93	2.00	2.25
30-Year	2.39	2.40	2.45	2.55	2.65	1.65	2.55	2.80
Exchange rates								
U.S.$/Euro	1.21	1.20	1.23	1.23	1.22	1.22	1.23	1.21
YEN/U.S.$	110	111	110	109	107	103	109	104

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(5.0)	(31.4)	33.4	4.3	6.4	10.5	7.9	4.4
CPI (y/y % chg.)	2.1	0.4	1.3	1.2	1.9	4.1	3.6	3.7
CPI ex. food and energy (y/y % chg.)	2.2	1.3	1.7	1.6	1.4	3.0	2.6	2.9
Unemployment rate (%)	3.8	13.1	8.8	6.8	6.2	5.5	4.9	4.5

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2018	2019	2020	2021	2022	Q4/Q4 2020	Q4/Q4 2021	Q4/Q4 2022
Gross domestic product (2012 $)	2.4	1.9	(5.4)	6.0	4.0	(3.2)	5.0	3.2
Consumption	2.5	1.6	(6.1)	4.2	6.2	(4.8)	4.8	5.1
Residential construction	(1.7)	(0.2)	3.9	14.9	(3.4)	14.4	0.1	(2.0)
Business investment	3.1	1.1	(13.1)	3.5	6.1	(13.1)	8.0	5.4
Government expenditures	3.2	1.7	(0.3)	4.2	2.4	1.3	2.7	2.5
Exports	3.7	1.3	(9.8)	6.3	5.1	(7.1)	5.5	5.0
Imports	3.4	0.4	(11.3)	7.9	5.3	(6.0)	4.9	5.1
Change in inventories (millions $)	15,486	18,766	(15,533)	16,000	12,202	1,721	19,000	9,695
Domestic demand	2.5	1.4	(4.5)	5.0	4.2	(2.5)	4.0	3.7
Real disposable income	1.5	2.2	9.0	(2.0)	0.4	6.8	(1.4)	1.1
Employment	1.6	2.2	(5.1)	4.5	2.9	(2.9)	3.4	2.0
Unemployment rate	5.9	5.7	9.6	7.6	6.3	8.8	6.6	6.1
Inflation	2.3	1.9	0.7	2.5	2.4	0.8	2.6	2.4
Before-tax profits	3.8	0.6	(6.1)	15.5	5.4	4.3	5.7	6.0
Current account (bil. $)	(52.2)	(47.4)	(42.7)	(21.0)	(34.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 5/13/21	Q2 2021	Q3 2021	Q4 2021	Q1 2022	2020	2021	2022
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
3 month T-Bills	0.10	0.10	0.15	0.15	0.20	0.07	0.15	0.60
Treasury yield curve								
2-Year	0.33	0.35	0.45	0.55	0.70	0.20	0.55	1.15
5-Year	0.95	1.05	1.20	1.30	1.40	0.39	1.30	1.85
10-Year	1.57	1.65	1.85	2.00	2.10	0.68	2.00	2.40
30-Year	2.19	2.20	2.25	2.35	2.45	1.21	2.35	2.65
CAD per USD	1.21	1.22	1.19	1.20	1.21	1.27	1.20	1.23
Oil price (WTI), U.S.$	64	62	64	65	65	48	65	60

*** end of period*

Quarterly pattern

	Q1 2020 actual	Q2 2020 actual	Q3 2020 actual	Q4 2020 forecast	Q1 2021 forecast	Q2 2021 forecast	Q3 2021 forecast	Q4 2021 forecast
Real GDP growth (q/q % chg. saar)	(7.5)	(38.5)	40.6	9.6	6.7	1.0	7.4	5.1
CPI (y/y % chg.)	1.8	0.0	0.3	0.8	1.4	2.9	2.8	2.6
CPI ex. food and energy (y/y % chg.)	1.8	1.0	0.6	1.1	1.0	1.5	1.9	1.8
Unemployment rate (%)	6.4	13.1	10.1	8.8	8.4	8.1	7.4	6.6

National Bank Financial

The Economy

Provincial economic forecast

	Real GDP (% growth) 2018	2019	2020f	2021f	2022f	Nominal GDP (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	-3.5	4.0	-5.3	3.9	2.6	0.8	4.1	-8.3	12.8	4.4
Prince Edward Island	2.5	5.1	-3.0	4.5	4.0	3.6	7.0	-0.8	6.1	6.9
Nova Scotia	1.9	2.4	-3.2	5.0	3.3	3.6	3.8	-1.9	6.9	5.0
New Brunswick	0.5	1.2	-3.7	4.4	3.0	3.6	3.0	-1.9	8.6	5.2
Quebec	2.9	2.7	-5.3	6.2	4.2	5.4	4.3	-4.0	9.2	6.1
Ontario	2.8	2.1	-5.8	6.2	4.2	4.1	3.8	-4.8	9.0	6.0
Manitoba	1.5	0.6	-4.8	5.1	3.5	2.5	1.0	-4.0	9.9	5.2
Saskatchewan	1.2	-0.7	-5.2	5.4	3.5	3.2	0.1	-9.2	13.3	5.1
Alberta	1.9	0.1	-8.2	6.4	4.0	3.4	2.7	-10.3	16.0	5.3
British Columbia	2.7	2.7	-3.8	6.1	4.2	4.9	4.4	-2.3	10.4	5.5
Canada	2.4	1.9	-5.4	6.0	4.0	4.2	3.6	-4.6	10.4	5.8

	Employment (% growth) 2018	2019	2020f	2021f	2022f	Unemployment rate (%) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	0.5	1.3	-5.9	3.5	0.4	14.1	12.3	14.2	13.5	12.9
Prince Edward Island	4.2	3.4	-3.2	4.0	2.2	9.4	8.6	10.6	8.2	7.9
Nova Scotia	1.9	2.3	-4.7	5.5	1.6	7.7	7.3	9.8	7.5	7.1
New Brunswick	0.6	0.7	-2.6	3.0	1.2	8.0	8.2	10.1	8.7	8.5
Quebec	1.5	2.0	-4.8	4.4	3.0	5.5	5.2	8.9	6.5	5.6
Ontario	1.7	2.8	-4.7	4.4	3.0	5.7	5.6	9.6	7.9	6.3
Manitoba	1.1	1.0	-3.7	3.2	2.0	6.0	5.4	8.0	7.1	5.8
Saskatchewan	0.6	1.7	-4.6	3.0	2.3	6.2	5.5	8.4	7.4	6.2
Alberta	1.9	0.6	-6.5	4.6	3.3	6.7	7.0	11.5	9.3	7.8
British Columbia	1.4	2.9	-6.5	5.8	2.9	4.8	4.7	9.0	6.5	5.2
Canada	1.6	2.2	-5.1	4.5	2.9	5.9	5.7	9.6	7.6	6.3

	Housing starts (000) 2018	2019	2020f	2021f	2022f	Consumer Price Index (% growth) 2018	2019	2020f	2021f	2022f
Newfoundland & Labrador	1.1	0.9	0.8	1.0	0.8	1.7	1.0	0.2	2.7	2.6
Prince Edward Island	1.1	1.5	1.2	1.3	1.2	2.3	1.2	0.0	2.2	2.4
Nova Scotia	4.8	4.7	4.9	5.0	4.2	2.2	1.6	0.3	2.4	2.4
New Brunswick	2.3	2.9	3.5	3.6	2.9	2.2	1.7	0.2	2.2	2.3
Quebec	46.9	48.0	54.1	68.0	54.0	1.7	2.1	0.8	2.6	2.4
Ontario	78.7	69.0	81.3	87.0	80.0	2.4	1.9	0.6	2.6	2.4
Manitoba	7.4	6.9	7.3	7.3	6.3	2.5	2.3	0.5	2.3	2.5
Saskatchewan	3.6	2.4	3.1	4.0	3.6	2.3	1.7	0.6	2.3	2.3
Alberta	26.1	27.3	24.0	28.0	27.0	2.5	1.7	1.1	2.3	2.3
British Columbia	40.9	44.9	37.7	40.0	36.6	2.7	2.3	0.8	2.5	2.5
Canada	212.8	208.7	217.8	245.2	216.6	2.3	1.9	0.7	2.5	2.4

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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Consolidation not capitulation

If you're still long duration, disdainful of a perceived inflation threat and thus viewing ultra-extraordinary monetary policy accommodation as less a fad and more likely a quasi-permanent element of financial markets, you likely felt a little smug Friday. Judging from related commentary, those of the more dovish persuasion (be they legit non-believers in the recovery or simply those arguing for patience, patience, patience) clearly felt vindicated by a disappointing set of jobs data for the month of April—exceedingly lukewarm hiring in the U.S. and a fresh round of layoffs for Canada.

For a strategy group such as ours—one that has consistently viewed the economy as poised for a robust rebound, identifies little in the way of excess slack, considers the threat of inflation to be very real and not merely a phantom menace, feels marginal fiscal supports may in some cases be overdoing it, and believes that monetary policy accommodation can and should be removed in reasonable timely fashion—a loss of traction in labour markets would jeopardize the prevailing narrative. Assuming that labour market weakness was sustained of course.

Future jobs releases will tell the tale, but to us, the recent soft patch in jobs markets is likely to prove transient. In key regions and industries, job losses are the by-product of fresh government restrictions that aim to buy time for an aggressive and clearly advancing vaccination effort. In other cases, seemingly sub-par employment results may reflect policy-induced labour shortages as opposed to anemic demand. Those same labour shortages could well spark material wage growth as the year progresses. Beyond the latest monthly jobs headlines, an array of other indicators point to still-sturdy economic activity and hint at building price pressure. Housing markets are ablaze, business confidence is generally firm, as evidenced by positive hiring and investment intentions. Perhaps most critically, a consumer class sitting on a massive, government-funded savings glut appears eager to re-engage when it is safe to do so. That day could arrive sooner rather than later, in light of progress on immunizations.

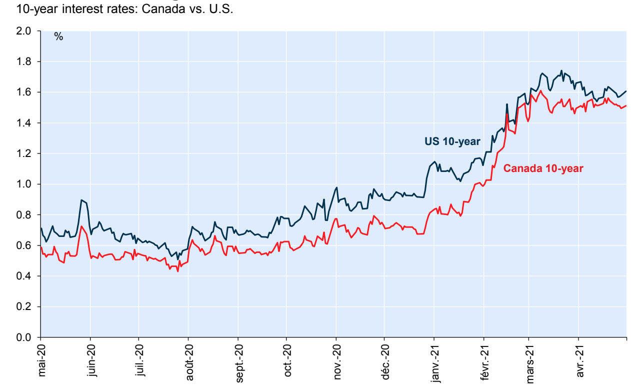
No question, a full/complete recovery remains a ways off, a point certain fiscal and monetary policy makers aren't shy in making. To us, however, near- and medium-term growth prospects remain solid, our GDP forecast surviving the April jobs data. We'd refer you to our fresh Monthly Economic Monitor.

We're still a bit reluctant to dub this a self-sustaining expansion, owing to the considerable fiscal impulse running through the economic system. But with the leverage of government balance sheets accelerating closure of output gaps, it's not inappropriate for central bankers to be contemplating exit strategies, lest they get too far behind the inflation curve.

After all, we don't need a full-on, perfectly choreographed and ultra-consistent economic renaissance to justify the removal of some of today's extreme policy accommodation. If we did, policy rates would never get off the ground. Isn't it enough to erase the vast majority of excess slack in the economy, to have clearly ignited interest-sensitive demand and to have sown the seeds of steamier wages and consumer prices? We believe so. More to the point, we feel more and more policy makers will be gradually coming around to this point of view—future economic releases helping them to get there.

Doves may be basking in the latest jobs tallies, but we're treating the recent stall in a global rates reflation trade as a temporary period of consolidation as opposed to capitulation. Come summertime, consistent if gradual policy normalization will likely be the focus for central bankers and market participants alike.

The sell-off has stagnated… for now
10-year interest rates: Canada vs. U.S.



NBF Economics and Strategy (data via Bloomberg)

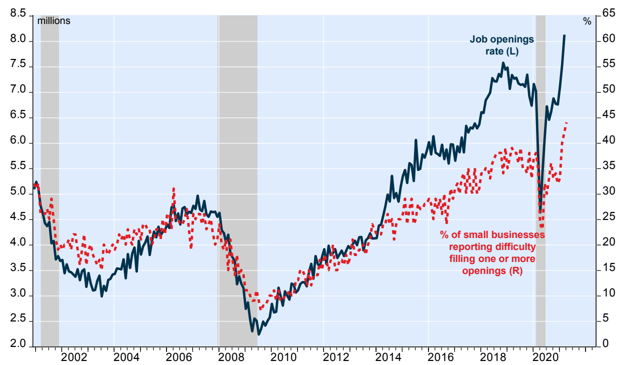
Interest Rates and Bond Markets

Fed: What is substantial further progress?

If it was not already obvious, momentum in the US economic recovery is continuing to build. GDP is nearly fully recovered, and inflation is rising, now officially above 2%. Concerns of an overheating are growing on Wall Street and on Main Street. The Fed, for its part, looks unconcerned. This increase in inflation will be ‘transitory’ as many Fed speakers, most notably Powell, often reiterate. Instead, we should be focussing on labour markets where weakness remains. Indeed, at first glance, April’s jobs report left much to be desired with net hiring missing the consensus forecast by more than 700 thousand jobs. For many on the FOMC, the disappointing April jobs report likely left them feeling vindicated in their ultra-dovish approach (see Minneapolis Fed President Neel Kashkari’s appearance on Bloomberg TV on Friday). We, however, take a different view of April’s report.

To us, the weak reading indicates that supply-side factors, which many Fed presidents have fully acknowledged (e.g. generous unemployment benefits, skill mismatches, geographical factors, virus fears and school closures keeping parents at home), are more prominent than previously thought. How else could soft hiring data alongside record job openings and widespread reported labour shortages be explained? Given that this is a supply shortage, stoking *demand* via QE and ultra-low policy rates only exacerbates the supply-demand mismatch. In the Fed’s defence, some of these factors are undoubtedly transitory. Enhanced unemployment benefits are due to expire later this year. Moreover, as nationwide inoculation continues and infections trend lower, more Americans will feel comfortable re-engaging in the labour market. At that point, labour supply should start to catch up to labour demand. But in the meantime, the 8+ million job deficit relative to February 2020 is simply not an accurate indicator of the amount of slack in the economy.

U.S.: A cheering outlook for the labour market
Job openings as % of total employment vs. % of small businesses with difficulty filling one or more openings



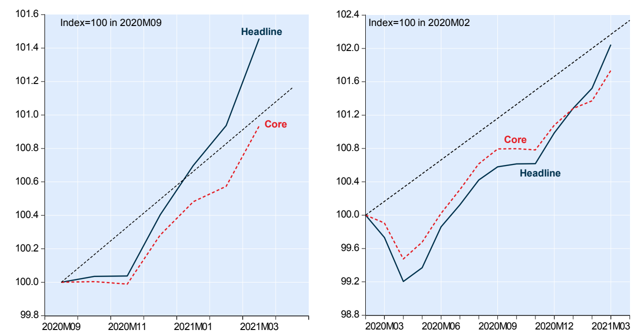
NBF Economics and Strategy (data from Refinitiv)

Nonetheless, the Fed has made it clear they’ll need to see “substantial further progress” towards its policy goals before considering an adjustment to its bond-buying. And that needs to come via *actual* economic data, not forecasts. In other words, they’re happy to wait out these temporary labour shortages to ensure that once we move through them, Americans currently on the sidelines will be reintegrated into the labour market. This is after all a no-person-left-behind policy framework.

To be clear, we do expect the pace of job creation to pick up in the coming months, even with disincentivizing unemployment benefits remaining in place. However, that pace may be slower than previously thought. It follows then that talk of a QE taper is unlikely to come at the June meeting. Rather, it might not be until the end of summer—perhaps at the annual Jackson Hole symposium in August—when Powell indicates that markets need to be bracing themselves for an *eventual* QE taper.

In the meantime, improved clarity on some of the Fed’s policies would be greatly appreciated by market participants. Firstly, what does ‘substantial further progress’ entail? And just as importantly, how should markets interpret the Fed’s flexible average inflation targeting framework as above-target inflation now takes hold. Ambiguity here was fine when inflation was running below 2%. However, we’re now overshooting and, depending on how far backwards we’re looking to make up for past misses, we’re soon to be above 2% over a more medium-term time horizon. Powell has made clear that they’ll be viewing the next few months of above-target inflation readings as transitory, but if, as we expect, ongoing inflationary pressures are not just transitory, when will the Fed be willing to accept/concede that? At this stage, there remain more questions than answers, but one thing seems certain: pressure on the Fed will only intensify as months of strong inflation prints begin to stack up. We’ll see how Powell and co. respond when their feet are really to the fire. We’d tend to agree with Treasury Secretary Yellen who recently mused (perhaps out of turn with a view to her old job and not her current role), that interest rates may need to edge somewhat higher to prevent overheating in the U.S. economy.

FAIT: Fed will soon need to clarify the parameters of its new mandate
PCE deflator, deviation from 2% trend since Sep-2020 (left) and Feb-2020 (right)



NBF Economics and Strategy (data via Bloomberg)

The GoC term-out continues unabated

The GoC’s long-awaited budget delivered largely what had been expected: deficits as far as the eye can see and a flurry of pro-cyclical stimulus. What was less expected was how it would be funded. Indeed, despite significantly higher interest rates and a steeper curve relative to last year’s *Fall Economic Statement*, ***Budget 2021’s Debt Management Strategy*** signalled a continued term-out of the government’s issuance. While overall borrowing needs have declined by nearly $100 billion, long-term issuance will increase 14% (we offered up a ***deep dive into the new DMS*** last month). It will lead to the weighted average term of

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issuance moving from just under 5 and 7 in 2019-20 and 2020-21, respectively to just under nine years this fiscal year. Talk about a rapid transformation.

Table: Gross issuance to fall, but remain elevated
Gross issuance by fiscal year and 2021-22 change versus past two years

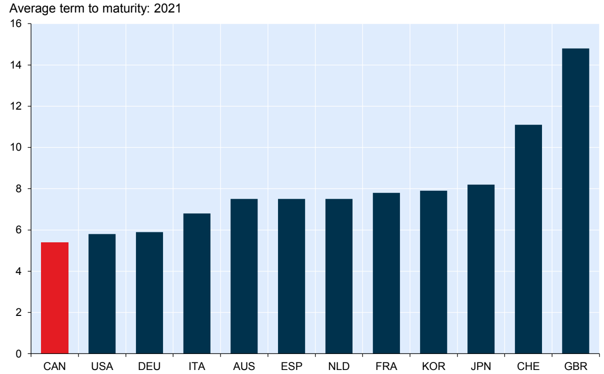
	Gross issuance			2021-22 % change versus:	
Tenor	2019-20	2020-21	2021-22	2019-20	2020-21
2-year	53.0	129.0	76.0	+43%	-41%
3-year	19.2	56.5	36.0	+88%	-36%
5-year	33.0	81.5	48.0	+45%	-41%
10-year	13.0	73.5	84.0	+546%	+14%
30-year	4.2	32.0	32.0	+662%	0%
RRB	1.8	1.4	1.4	-22%	0%
Ultra-long	-	-	4.0	-	-
Green	-	-	5.0	-	-
Total	124.2	373.9	286.4	+131%	-23%
WAT	4.8	6.8	8.8	+4.1 yrs	+2.0 yrs
2Y/3Y/5Y %	86%	72%	57%	-29%-pts	-15%-pts
10Y/30Y/UL%	14%	28%	43%	+29%-pts	+15%-pts

Source: NBF, BoC, GoC Budget 2021. Note: WAT and issuance mix excludes RRBs and greens. WAT calculation uses generic term of tenor. E.g. A bond issued in 2-year sector assumed to have term of exactly 2 years. UL refers to ultra-long.

Historically, Canada has had one of the shortest-term debt stocks among sovereign borrowers. That is due to very quickly change as the long-term bond taps continue to flow. In the aftermath of the DMS, this led to a significant repricing of Canadian rates. The Canada-US 30-year differential, which had been holding steady in/around -40 bps, is now trading at -20 bps. 10s have held up decently well on the curve but its this sector that will be seeing the largest increase versus last year and should trade heavily throughout the year. All told, the ongoing changes in debt management strategy have had, and will continue to have, an impact on Canada's sovereign bond market dynamics. It has led us to make structural adjustments to our longer-term rates forecast—namely, a structurally steeper curve on a longer-term basis and less of a long bond premium compared to the US Treasury market.

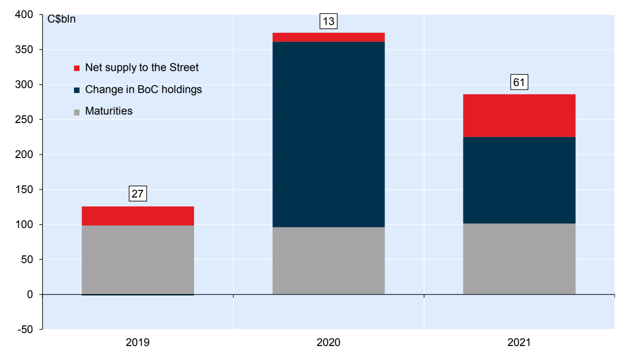
Overall, while the $286 billion issuance program is down from last year, it remains elevated relative to the pre-COIVD pace. Luckily, supply shouldn't weigh too heavily on markets as the all-important BoC continues to absorb most of the net new supply brought to the market. Even with the taper well underway, an expected $125 billion of fiscal year bond-buying should limit net supply to the market to ~$60 billion. That's up from the $13 billion last year (thanks to extremely elevated QE pace) but only modestly above the $27 billion in the pre-COVID 2019-20 fiscal year.

Canada: Starting from a relatively short-term bond stock
Average term to maturity: 2021



NBF Economics and Strategy (data via IMF) | Note: For most economies, the average-term-to-maturity data refer to central government securities

Canada: Gross issuance will fall… but net issuance will not
Breakdown of issuance by debt refinancing, BoC buying and non-BoC buying



NBF Economics and Strategy (data via BoC, GoC) | Note: Note: Total bar = gross issuance

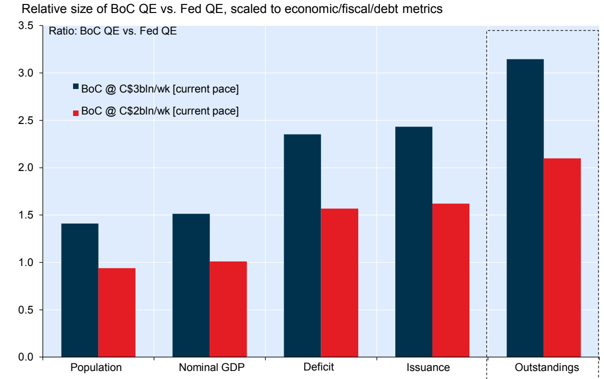
Overall, the BoC's extraordinary policies to date may have helped avoid any supply indigestion.
Next year, while the bond program will remain lofty (north of $200 billion), the majority will be refinancing maturities. Net supply could wind up looking similar to or less than 2021-22. While we don't doubt that the intention of QE was to support the economic recovery, we concede it certainly did help the GoC issue a ton of bonds that otherwise may have required a back-up in rates to clear the market. Thanks, BoC.

BoC: Who let the hawks out?

We knew April's BoC meeting was going to be a big one with a number of questions that needed to be resolved. Firstly, would they taper the QE program? Secondly, and arguably more importantly, how would they tweak forward guidance?

On the first issue, the Bank slowed the pace of its weekly QE purchases to $3 billion per week from at least $4 billion per week. This came as expected. What came as more of a surprise was the decision to not term out its remaining purchases, leaving the weighted average term of its bond buying unchanged from the status quo. It was a curious decision given that (a) doing so would've pushed back against the rapid sell-off and curve steepening we've seen over recent months and; (b) the government signalled an intention to continue terming out its bond stock. The result, ***as we wrote in a note in the aftermath***, is a misalignment between QE and issuance. We suspect concerns of central bank independence may have contributed to the decision as parliamentarians are increasingly hounding the Bank on its "debt monetization" —***a topic we also wrote about in recent weeks.***

Canada: BoC still leads Fed on QE
Relative size of BoC QE vs. Fed QE, scaled to economic/fiscal/debt metrics



NBF Economics and Strategy (data via Bloomberg, BoC, Fed, StatCan, US Treasury, US Census Bureau, GoC, CBO) | Notes: Based on existing QE program size: BoC = C$3bln/week & Fed = US$80bln/month; Population as at 1-Jul; nominal GDP as at 2020:Q4,; federal deficit for 2021 fiscal years as per latest GOC/CBO estimate; issuance as per latest quarterly funding announcements and GoC DMS; month-end outstandings as at March 31, 2021

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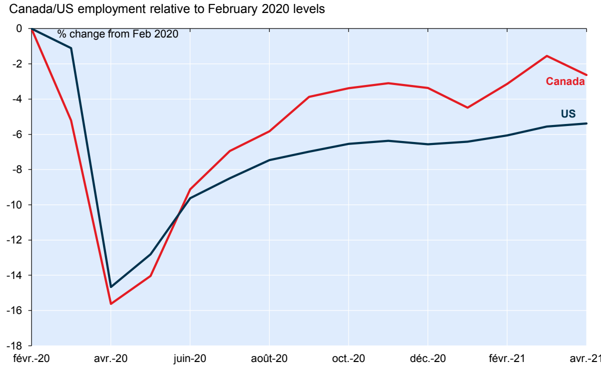
With April's taper pretty well telegraphed, the question now becomes, when is the next step lower? We didn't really get any clearer guidance on future QE reductions, but we've assumed the established pace of $1 billion reductions every six months will continue. Whether that materializes as continued moves in $1 billion increments or moves to more fine-tuned $500 million cuts every quarter remains to be seen. In any case, we expect the QE program to reach $1 billion per week at next year's April meeting. At this point, QE will be 'net neutral' on the BoC balance (i.e. bond holdings will neither increase nor decrease) and we likely remain in a holding pattern here for some time as rate hikes come into focus.

As noted above, the bigger question to be answered in the April policy meeting was that of forward guidance. With the economic outlook vastly improved from the Bank's earlier thinking, the statement explicitly acknowledged expected output gap closure in the second half of 2022 (previously 'into 2023'). We'd speculated that the Bank may want to push back on 2022 rate hike expectations given a still dovish policy stance stateside and across the pond. That clearly wasn't the case and the Bank appears okay with the market's anticipation of 2022 lift-off. In response, we've brought forward the first BoC hike in our rates forecast to October 2022 (previously January 2023).

While the Bank's current guidance would allow for hikes as early as July of next year, we still believe there's merit to the idea that the Bank doesn't want to move too far in front of the Fed (we have the first Fed hike in Q1 2023). Moreover, Tiff Macklem stressed that the forward guidance is not a pledge to hike rates in the H2:2022. Rather, it's simply a pledge that it won't raise rates before H2:2022. It's a subtle but important distinction that implies that waiting until 2023 is still technically on the table. However, it bears stressing that the Bank is at the mercy of a relatively less flexible policy mandate (As a reminder, this is up for renewal later this year though we don't expect a change in policy framework). If our view ends up materializing that inflation is not as transitory as many central bankers are suggesting, the BoC simply might not have enough leash to allow the overnight target to remain at the ELB into 2023. The Bank has noted that they'll be looking at broader measures of slack, including in labour markets, but even here we're only 2.5% off pre-COVID levels with a still largely-shuttered economy. If anything, we'd now view a July 2022 rate hike as more likely than them waiting until 2023.

Even with stricter COVID measures, less labour market slack in Canada
Canada/US employment relative to February 2020 levels



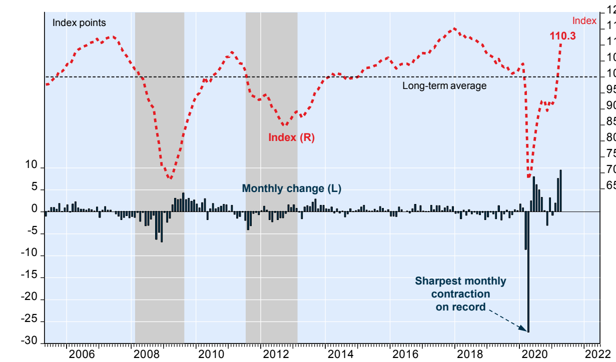
NBF Economics and Strategy (data via StatCan, BLS)

ECB: Hawkish head fake

The most recent wave of COVID-19 infections certainly left its mark on the eurozone's economy: real GDP shrank 2.5% in annualized terms in the first quarter of the year. Coming in the wake of another negative print in Q4 (-2.7% annualized), this result marked the entry of the single currency area into a double-dip recession. But things are looking up. With the vaccination campaign now well underway, we expect sanitary measures to be relaxed in Q2, something that should allow economic growth to resume. Advance indicators are already showing signs of strength. Eurostat's Economic Sentiment Index, which tracks confidence level in five sectors (manufacturing, services, consumers, construction and retail), improved markedly in April, reaching a 32-month high of 110.3.

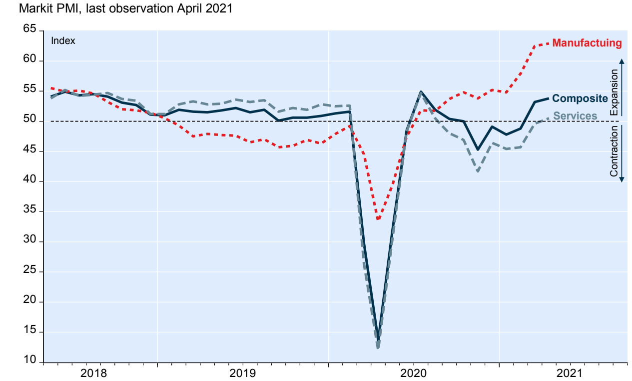
Markit's PMI report for the same month was also pretty upbeat. The composite index signaled a second consecutive improvement in operating conditions, as factories expanded at the fastest pace on record. Services-producing businesses continued to suffer from social distancing measures, but nonetheless reported modest growth. Looking ahead, businesses operating in the eurozone's private sector showed a high degree of optimism. Indeed, expectations for future output in April were at their highest since comparable data were first available in mid-2012.

Eurozone: April confidence topped pre-pandemic level
European Commission business sentiment indicator, last observation April 2021



NBF Economics and Strategy (source: European Commission, via Refinitiv)

Eurozone: Private sector expands for second month in a row
Markit PMI, last observation April 2021



NBF Economics and Strategy (source: Markit, via Refinitiv)

It is in this more favourable context that some hawkish members of the ECB expressed their discomfort with the degree of accommodation being provided by the central bank at the moment. Early in April, Jens Weidmann, the head of Germany's central bank and a member of the ECB Governing Council, told journalists that the emergency monetary policy put in place to limit the effect of the pandemic—most notably the Pandemic Emergency Purchase Programme (PEPP)—"must not be permitted to persist indefinitely". "They

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need to remain closely linked to the crisis and come to an end once the pandemic is over" he added. A few days later, Klaas Knot, head of the Netherlands central bank, said that, if inflation and growth rebounded as planned in the second half of the year, the PEPP could begin to be phased out "from the third quarter onwards."

Would the ECB really start moving before the Fed on that front, some wondered. If some analysts briefly believed in this proposal, Christine Lagarde was quick to put paid to the idea. Following the central bank's monetary policy meeting on April 22, the ECB President said it would be "premature" at this point to discuss phasing out the ECB's bond buying. "We still have a long way to go for the economy to become sustainable… we have to cross the bridge of the pandemic and be able to walk on solid ground," she said. The PEPP was left untouched, with the central bank confirming that purchases made under the program would continue to run at an elevated pace in Q2.

This week, Olli Rehn, governor of the Bank of Finland went even further, saying that the ECB should follow the lead of the Fed and let inflation overshoot the central bank's target to make up for past misses and ensure a strong recovery of employment. "The economy can cope with lower levels of unemployment… without rapid inflation", he told journalists. "That is why, in addition to price stability, a focus on full or maximum employment makes sense in the current context of a lower natural rate of interest." As of now, full employment is not part of the ECB`s official mandate, but it could become so this fall, when the central bank presents the results of its first policy review in 18 years.

In the meantime, it seems the central bank will err on the side of caution. Recall that, in its latest forecasts, the ECB saw inflation reaching just 1.4% in 2023. The unemployment rate, for its part, was expected to come to down to 7.6%, still half a percentage point higher than the low reached in March 2020 (7.1%). For these reasons, and barring some major upside surprises, we do not see the ECB moving faster than the Fed in coming months, especially if the euro keeps appreciating, something that could exert further downward pressure on inflation.

Eurozone: Stronger euro calls for maintenance of dovish stance
EUR/USD

NBF Economics and Strategy (data via Refinitiv)

China: Crypto-tightening?

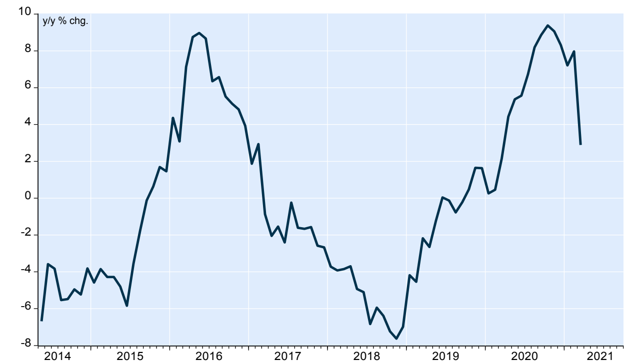
Being well positioned to benefit from strong international demand for goods, the Chinese economy recovered strongly from the initial COVID-19 shock. In fact, China was the only major economy to expand in 2020. Another strong growth figure is expected for this year.

As confidence in a lasting rebound grows, accommodation is slowly being withdrawn, albeit not in the traditional way. Despite the central bank keeping benchmark rates unchanged for a twelfth month in a row in April, there is no doubt authorities are now turning the screws on credit. State banks have been told to limit their lending activity, especially in the property sector. Credit impulse slowed down as a result.

The tone has also changed. In March, Guo Shuqing, a top official responsible for bank regulations, warned of a potential bubble in the real estate market. The People's Bank of China has also raised concerns about loose liquidity and its impact on asset prices.

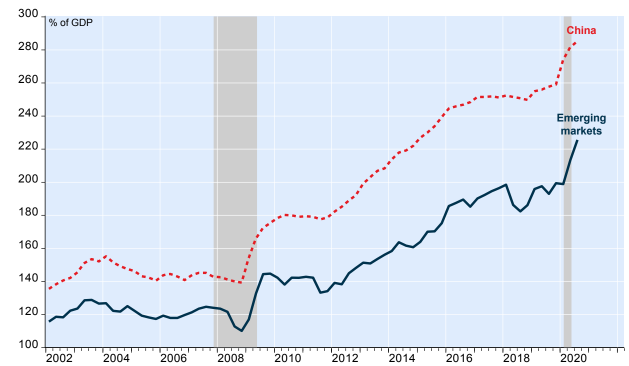
Debt levels in China are indeed elevated. The BIS estimates total credit to the non-financial sector at approximately 285% of GDP, a lot more than the average for emerging markets. Still, many were surprised to see the Chinese authorities switch back to a more hawkish stance so soon in the recovery process.

China: Authorities' focus reverts back to credit (part 1)
Bloomberg China Credit Impulse



NBF Economics and Strategy (data via Bloomberg)

China: Authorities' focus reverts back to credit (part 2)
Credit to non financial sector, percentage of GDP



NBF Economics and Strategy (data via BIS)

To limit the effect of tighter policy on the whole economy, officials are likely to maintain a sector-specific approach. Benchmark rates, meanwhile, could remain anchored at their current level for the rest of the year. But make no mistakes, the focus has changed in China from ensuring a strong recovery to preventing overheating in some sectors.

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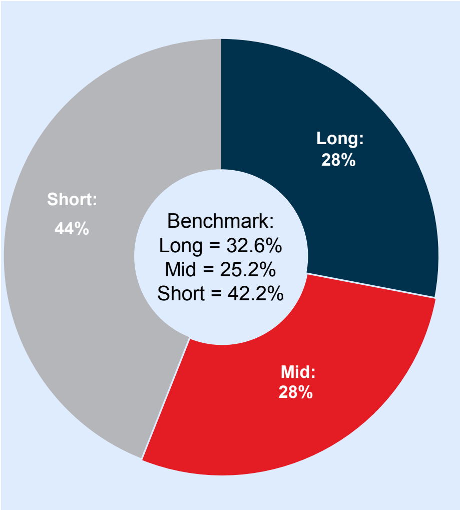
Canadian Bond Market: Interest rates, spreads and currencies

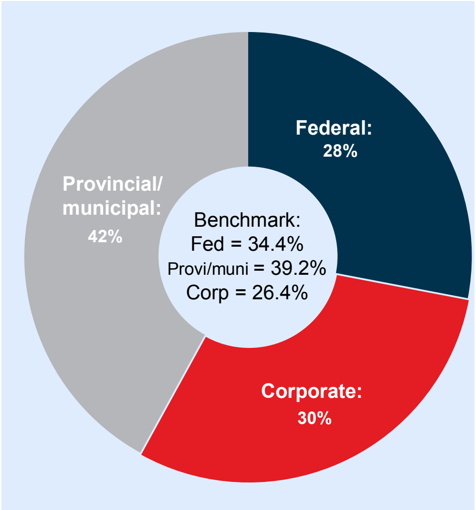
Close on:	10-May-21	8-Feb-21	9-Nov-20	10-Aug-20	11-May-20
Interest Rates					
3 months	0.11	0.073	0.093	0.161	0.255
2 years	0.294	0.199	0.28	0.27	0.283
5 years	0.886	0.499	0.476	0.331	0.388
10 years	1.516	1.012	0.749	0.494	0.59
30 years	2.123	1.588	1.32	0.978	1.192
Spreads					
3 months - 2 years	18.4	12.6	18.7	10.9	2.8
2 - 5 years	59.2	30	19.6	6.1	10.5
5 - 10 years	63	51.3	27.3	16.3	20.2
10 - 30 years	60.7	57.6	57.1	48.4	60.2
Currencies					
CAD/USD	1.2102	1.2739	1.3007	1.3351	1.4007
EUR/CAD	0.6811	0.6514	0.6508	0.6382	0.6605

NBF Economics and Strategy (data via Bloomberg)

NBF recommended bond allocations

We are short duration and long credit in light of our interest rate forecast





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

Stock Market and Portfolio Strategy

Stock Market and Portfolio Strategy

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World: Earnings are surging

Despite concern about new Covid variants in some emerging countries, global equity markets rose to a new record in early May. The MSCI ACWI is already up 4.2% so far in Q2 and 10.2% for the year to date, led by especially strong gains in North America and Europe (table).

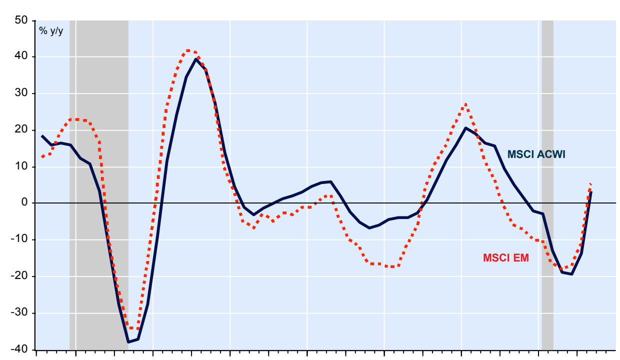
MSCI composite indexes: Price performance

	Month to date	Quarter to date	Year to date
MSCI ACWI	0.9	4.5	10.2
MSCI World	1.1	5.0	11.1
MSCI USA	0.8	6.2	11.6
MSCI Canada	1.9	4.0	11.8
MSCI Europe	1.7	3.7	10.9
MSCI Pacific ex Jp	0.9	4.1	9.1
MSCI Japan	1.7	-1.0	6.8
MSCI EM	-0.4	1.1	4.8
MSCI EM EMEA	1.5	2.5	11.3
MSCI EM Latin America	2.8	3.1	2.8
MSCI EM Asia	-0.9	0.7	4.0

5/7/2021
NBF Economics and Strategy (data via Refinitiv)

The uptrend in equity markets remains supported by strong earnings growth. At this writing, trailing EPS for the MSCI ACWI is up 3% from a year earlier, the first positive reading since the onset of the pandemic. Interestingly, emerging markets show a slightly stronger increase of 5% (chart).

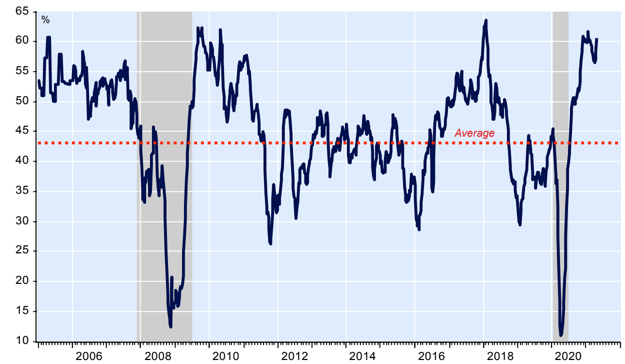
World: Profits are growing again
Four-quarter change in trailing quarterly earnings, MSCI ACWI and MSCI EM



NBF Economics and Strategy (data via Refinitiv)

The return to earnings growth has come much sooner than anticipated. Of the 2642 companies of the MSCI ACWI that have revised their earnings for the coming year, more than 60% have revised them upward. That's one of the best diffusions on record, well above the historical average of 43% (chart).

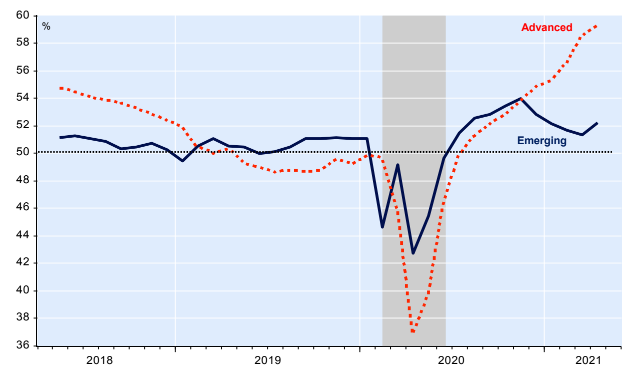
World: Widespread upward earnings revisions
Share of MSCI ACWI companies with upward earnings revisions



NBF Economics and Strategy (data via Refinitiv)

Looking ahead, the outlook for profits remains upbeat. Among its supports is the latest reading on global manufacturing output, showing activity expanding in both advanced and emerging economies (chart).

World: Widespread expansion
Markit PMIs for emerging and advanced economies



NBF Economics and Strategy (data via Refinitiv)

Another is that developed countries, where Covid vaccination has been advancing, show a considerable decline in both new cases and deaths (chart).

[1] See our group's budget writeup *here*.

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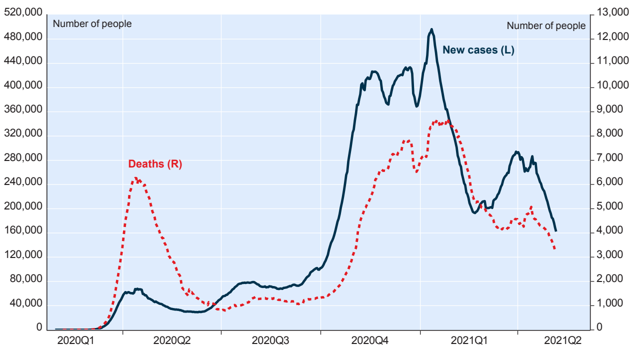
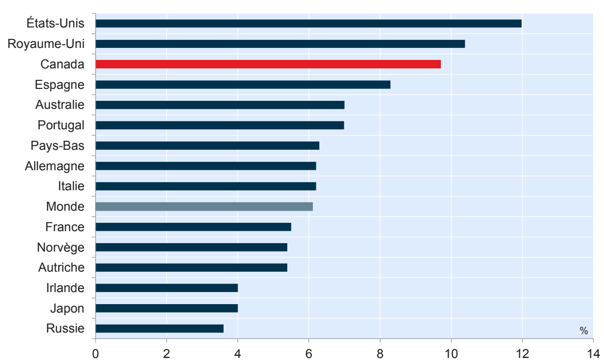
Developed countries: COVID-19 new cases and deaths
New cases and new deaths in Europe and North America, moving 7-day average (up to May 6, 2021)



NBF Economics and Strategy (data via Johns Hopkins CSSE)

This development has led to a significant increase in global consumer confidence. The Conference Board confidence index, which tallies information from more than 32,000 consumers in developed and emerging economies, recently hit a new record. As argued by our colleagues in our May *Economic Monitor* high levels of consumer confidence coupled with substantial excess savings accumulated in the advanced economies since the beginning of the pandemic – estimated at just over 6% of GDP globally (chart) – have the potential to fuel much faster global economic growth in the months ahead.

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



NBF Economics and Strategy (data from Moody's)

So even though EPS for the MSCI ACWI is already expected to grow 24.8% over the next 12 months (table), that outlook could be revised up yet again. Much will of course depend on the course of the pandemic and on consumers' propensity to tap into their savings.

MSCI composite indexes: EPS performance

	2020	2021	2022	2023	12 months forward
MSCI ACWI	-12.1	34.8	12.0	10.1	24.8
MSCI World	-13.5	33.4	11.6	9.9	23.8
MSCI USA	-8.8	31.4	11.5	10.5	22.5
MSCI Canada	-25.5	46.9	8.8	7.2	28.8
MSCI Europe	-26.3	38.4	12.3	9.2	27.5
MSCI Pacific ex Jp	-26.5	40.4	7.0	4.3	19.5
MSCI Japan	-28.5	11.8	25.4	13.4	23.1
MSCI EM	-4.4	42.0	14.1	11.4	30.0
MSCI EM EMEA	-25.2	58.5	12.4	6.7	34.6
MSCI EM Latin America	-35.3	130.4	1.8	3.7	61.5
MSCI EM Asia	5.1	32.0	16.1	13.4	25.8

5/7/2021

NBF Economics and Strategy (data via Refinitiv)

Though stronger growth would be good for profits, there can come a point where too much good news undermines equity markets, especially if it means higher interest rates at a time when valuations are not cheap. Forward P/Es are well above their average of their past decade, especially in the U.S. and Europe – table.

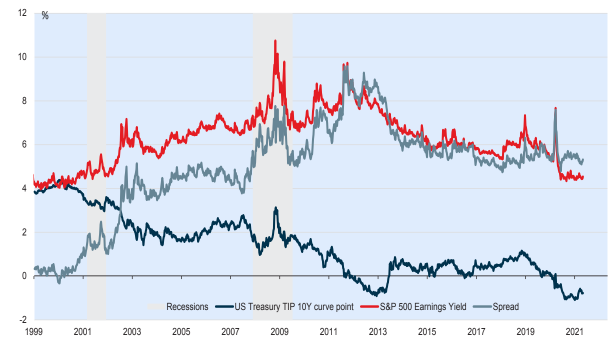
MSCI composite indexes: Valuations (P/E)

	5/7/2021	A year ago	10 year ave.	5 year average
MSCI ACWI	19.4	17.2	14.7	16.2
MSCI World	20.4	18.1	15.3	16.8
MSCI USA	22.6	20.3	16.5	18.3
MSCI Canada	16.1	15.8	14.5	15.1
MSCI Europe	17.1	15.4	13.7	14.8
MSCI Pacific ex Jp	18.0	15.6	14.7	15.7
MSCI Japan	16.8	13.6	13.8	14.2
MSCI EM	14.6	12.2	11.5	12.5
MSCI EM EMEA	10.9	9.6	9.3	10.0
MSCI EM Latin America	11.9	12.1	12.5	13.0
MSCI EM Asia	15.9	12.8	11.9	13.0

NBF Economics and Strategy (data via Refinitiv)

We note that at this writing the equity risk premium for the S&P 500 (the difference between its earnings yield and real interest rates) remains relatively attractive. Given the timid April increase in payroll jobs, our colleagues write in their latest ***Fixed Income Monitor*** that they remain comfortable with their forecast that the nominal 10-year Treasury yield will not exceed 2% this year. At this juncture, the FOMC has no interest in signalling any kind of QE taper anytime soon. That means negative real rates for the foreseeable future.

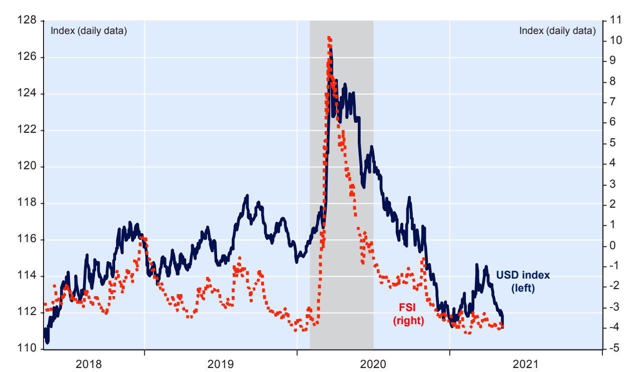
U.S. : Perspective on valuation
S&P 500 earnings yield and 10 years U.S. treasury yield TIP



NBF Economics and Strategy (data via Refinitiv)

And as mentioned in this publication last month, negative real rates are more likely to foster an environment of low financial stress and a weaker USD. This tendency should guard against a debacle in the critically important emerging economies (60% of global GDP), help support commodity prices, and help justify P/E ratios exceeding their historical average.

World: Financial stress and USD are at pandemic lows
Global OFR Financial Stress Index vs. trade-weighted USD index (26 currencies)



NBF Economics and Strategy (data via Refinitiv and https://www.financialresearch.gov/financial-stress-index/)

Stock Market and Portfolio Strategy

S&P/TSX: Huge earnings revisions

The S&P/TSX is having another good quarter. The Canadian benchmark is up a robust 4.1% so far in Q2 (11.7% year to date), led by very strong performances from Materials (+14.5%), Energy (+7.3%), Real Estate (+6.3%) and Consumer Discretionary (+6.1%) (table).

S&P/TSX Composite Index: Price performance

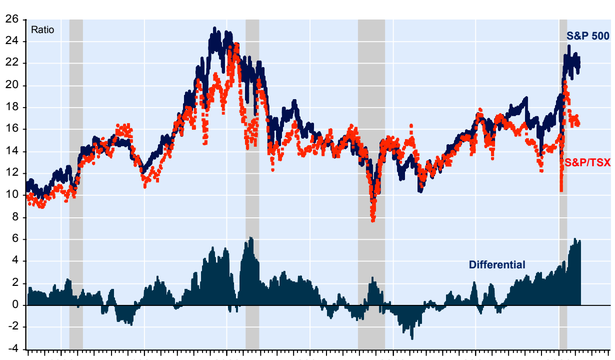
	Month to date	Quarter to date	Year to date
S&P TSX	1.9	4.1	11.7
MATERIALS	8.5	14.5	6.2
ENERGY	4.8	7.3	27.5
INDUSTRIALS	2.1	0.2	6.5
REAL ESTATE	2.0	6.3	15.8
BANKS	2.0	4.3	18.3
TELECOM	2.0	5.0	11.1
FINANCIALS	1.4	3.9	17.1
CONS. STAP.	1.3	1.3	3.5
CONS. DISC.	0.9	6.1	18.7
UTILITIES	-1.4	-2.0	0.3
IT	-5.0	-1.4	-2.4
HEALTH CARE	-9.3	-17.7	13.4

5/7/2021

NBF Economics and Strategy (data via Refinitiv)

Even with the latest increase, the S&P/TSX is trading at only 16.6 times forward earnings, roughly the same ratio as before the pandemic and, as noted last month, a significant discount to the S&P 500. Looking ahead, we remain upbeat on Canadian earnings and continue to expect a narrowing of the P/E gap with the S&P 500.

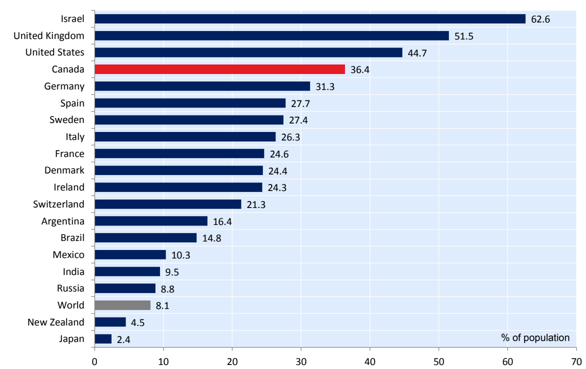
S&P/TSX: Cheap relative to U.S. equities
12-month-forward P/Es of S&P 500 and S&P/TSX, and the differential



NBF Economics and Strategy (data via Refinitiv)

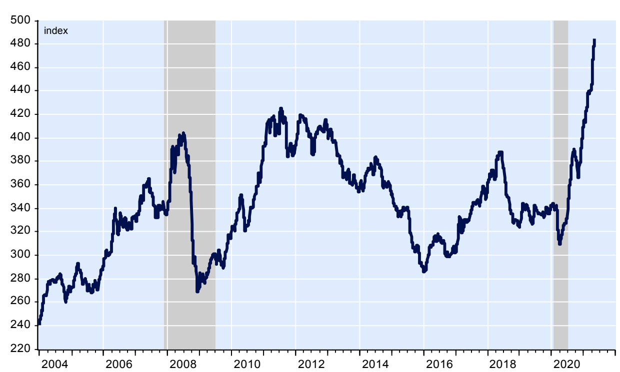
Though the Canadian vaccination rollout trails that of the U.S. and has forced large provinces to restrict activity in a number of sectors through May, it is important to keep in mind that the country is making rapid strides in improving Covid inoculations (chart). What's more, a stimulative federal budget unveiled a suite of new measures pushing the three-year fiscal response north of $100 billion.[1] Fiscal stimulus just for 2021 is estimated at about 4.5% of GDP. This support can be expected to keep the domestic economy strong through the end of the year.

World: Comparative vaccine rollouts
% of population having received at least one dose of COVID-19 vaccine as of May 6, 2021



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

Canada: Record prices for non-energy commodities
Prices of non-energy commodities produced in Canada*

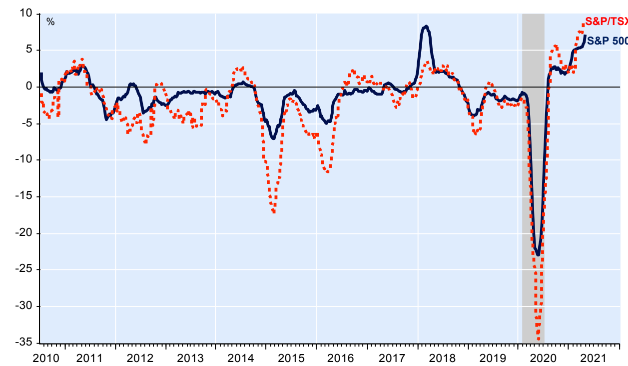


* Non-energy commodities account for 57% of all commodities produced in Canada
NBF Economics and Strategy (data via Refinitiv)

This resilience of the domestic economy, coupled with strong growth in the rest of the world that is driving up commodity prices (chart), have resulted in significant upward earnings revisions for S&P/TSX companies.

Over the past three months, year-ahead estimates for S&P/ TSX earnings per share (EPS) have been revised up almost 9%, the most in more than a decade (chart).

Canada: Best earnings revisions in more than a decade
3-month change in 12-month forward EPS estimates



NBF Economics and Strategy (data via Refinitiv)

These developments leave us optimistic about the S&P/ TSX, especially its more cyclical sectors. Indeed, we find the analyst consensus very conservative in its expectation of price drops for key commodities in the next six months, ranging from 2% for natural gas to 18% for copper (table).

Commodity price expectations

Analyst Assumptions

	Copper	Gold	Crude Oil	Natural Gas
Current Price	10417	1841	65	2.95
Analyst assumptions				
Q+2	8550	1768	62	2.90
Q+4	8500	1700	62	2.77
Growth (Q_t/Q_0)				
Q+2	-17.9%	-4.0%	-4.5%	-1.6%
Q+4	-18.4%	-7.7%	-4.5%	-6.0%

Current Forward Prices

	Copper	Gold	Crude Oil	Natural Gas
Current Price	10417	1841	65	2.95
Forward prices				
Q+2	10388	1841	63	3.19
Q+4	10306	1843	61	2.59
Growth (Q_t/Q_0)				
Q+2	-0.3%	0.0%	-2.3%	8.3%
Q+4	-1.1%	0.1%	-6.4%	-12.1%

5/10/2021

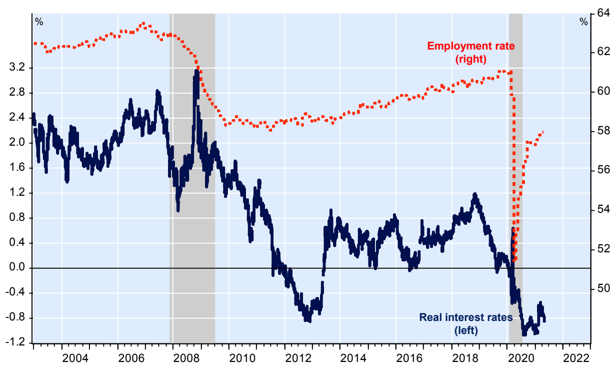
NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

Asset allocation

Our asset mix is unchanged this month: overweight in equities and underweight in fixed income, with a geographic allocation favouring Canada and Emerging Markets to reflect our views on foreign exchange. There is a need for considerable further healing of labour markets before the Federal Reserve allows real interest rates to turn positive again. We stand ready to prune our exposure to Canada as we get closer to our forecast of 1.19 CAD per USD (as per our latest *Forex*).

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



NBF Economics and Strategy (data via Refinitiv and Fred)

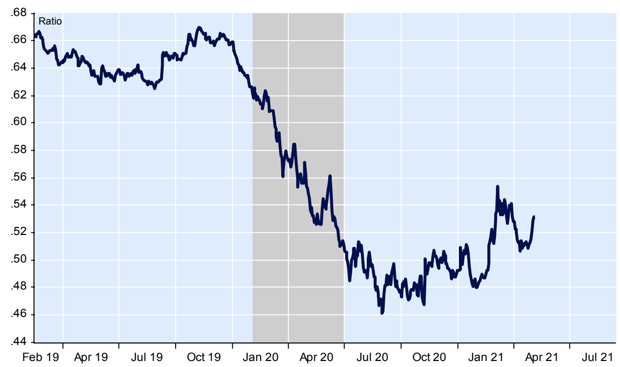
NBF Asset Allocation	Benchmark (%)	NBF Recommendation (%)	Change (pp)
Equities			
Canadian Equities	20	23	
U.S. Equities	20	18	
Foreign Equities (EAFE)	5	4	
Emerging markets	5	9	
Fixed Income	45	42	
Cash	5	4	
Total	100	100	

NBF Economics and Strategy

Sector rotation

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

U.S.: Value is outperforming growth
S&P 500 value stock index / S&P 500 growth stock index



NBF Economics and Strategy (data via Refinitiv)

Stock Market and Portfolio Strategy

NBF Fundamental Sector Rotation - May 2021

Name (Sector/Industry)	Recommendation	S&P/TSX weight
Energy	**Market Weight**	**12.9%**
Energy Equipment & Services	Market Weight	0.0%
Oil, Gas & Consumable Fuels	Market Weight	12.9%
Materials	**Overweight**	**13.1%**
Chemicals	Market Weight	1.6%
Containers & Packaging	Overweight	0.5%
Metals & Mining *	Overweight	2.8%
Gold	Overweight	7.5%
Paper & Forest Products	Market Weight	0.6%
Industrials	**Market Weight**	**11.9%**
Capital Goods	Overweight	2.1%
Commercial & Professional Services	Underweight	3.2%
Transportation	Market Weight	6.6%
Consumer Discretionary	**Market Weight**	**4.1%**
Automobiles & Components	Underweight	1.3%
Consumer Durables & Apparel	Overweight	0.6%
Consumer Services	Market Weight	1.0%
Retailing	Market Weight	1.1%
Consumer Staples	**Market Weight**	**3.6%**
Food & Staples Retailing	Market Weight	2.8%
Food, Beverage & Tobacco	Market Weight	0.8%
Health Care	**Market Weight**	**1.3%**
Health Care Equipment & Services	Market Weight	0.1%
Pharmaceuticals, Biotechnology & Life Sciences	Market Weight	1.2%
Financials	**Overweight**	**31.4%**
Banks	Overweight	21.4%
Diversified Financials	Market Weight	4.0%
Insurance	Overweight	6.0%
Information Technology	**Underweight**	**9.1%**
Telecommunication Services	**Market Weight**	**4.9%**
Utilities	**Underweight**	**4.6%**
Real Estate	**Underweight**	**3.2%**

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

Back to Research Analysts page

Stock Market and Portfolio Strategy

NBF Market Forecast *Canada*			
		Actual	***Q42021 (Est.)***
Index Level		**May-07-21**	***Target***
S&P/TSX		19,473	20,000
Assumptions			Q42021 (Est.)
Level:	Earnings *	837	1120
	Dividend	267	357
PE Trailing (implied)		23.3	17.9
			Q42021 (Est.)
10-year Bond Yield		1.50	2.00

** Before extraordinary items, source Thomson*

NBF Economics and Strategy

NBF Market Forecast *United States*			
		Actual	***Q42021 (Est.)***
Index Level		**May-07-21**	***Target***
S&P 500		4,233	4,200
Assumptions			Q42021 (Est.)
Level:	Earnings *	153	180
	Dividend	114	134
PE Trailing (implied)		27.6	23.3
			Q42021 (Est.)
10-year Bond Yield		1.58	2.00

** S&P operating earnings, bottom up.*

Global Stock Market Performance Summary

	Local Currency (MSCI Indices are in US$)					*Canadian Dollar*			*Correlation **
	Close on		***Returns***				***Returns***		***with S&P 500***
	05-7-2021	***M-T-D***	***Y-T-D***	***1-Yr***	***3-Yr***	***Y-T-D***	***1-Yr***	***3-Yr***	
North America - MSCI Index	***4286***	***0.9%***	***11.9%***	***48.6%***	***58.8%***	***6.7%***	***28.7%***	***50.0%***	***1.00***
United States - S&P 500	*4233*	*1.2%*	*12.7%*	*46.9%*	*58.4%*	*7.5%*	*27.3%*	*49.7%*	*1.00*
Canada - S&P TSX	*19473*	*1.9%*	*11.7%*	*31.3%*	*23.2%*	*11.7%*	*31.3%*	*23.2%*	*0.86*
Europe - MSCI Index	***2036***	***2.6%***	***10.6%***	***46.9%***	***14.2%***	***5.5%***	***27.3%***	***7.9%***	***0.77***
United Kingdom - FTSE 100	*7130*	*2.3%*	*10.4%*	*20.1%*	*-5.8%*	*7.7%*	*18.4%*	*-8.3%*	*-0.26*
Germany - DAX 30	*15400*	*1.7%*	*12.3%*	*43.1%*	*18.9%*	*6.3%*	*39.7%*	*14.5%*	*0.89*
France - CAC 40	*6386*	*1.9%*	*15.0%*	*41.9%*	*15.4%*	*8.9%*	*38.5%*	*11.2%*	*0.57*
Switzerland - SMI	*11174*	*1.4%*	*4.4%*	*16.2%*	*24.5%*	*-2.5%*	*9.0%*	*30.7%*	*0.86*
Italy - Milan Comit 30	*259*	*0.0%*	*0.0%*	*0.0%*	*-3.2%*	*-5.3%*	*-2.4%*	*-6.7%*	*0.67*
Netherlands - Amsterdam Exchanges	*718*	*1.5%*	*15.0%*	*39.2%*	*28.8%*	*8.9%*	*35.9%*	*24.0%*	*0.89*
Pacific - MSCI Index	***3233***	***2.2%***	***4.3%***	***38.4%***	***13.6%***	***-0.5%***	***20.0%***	***7.4%***	***0.83***
Japan - Nikkei 225	*29358*	*1.9%*	*7.0%*	*49.2%*	*30.7%*	*-3.0%*	*26.9%*	*24.3%*	*0.92*
Australia - All ordinaries	*7325*	*0.5%*	*6.9%*	*34.4%*	*18.6%*	*3.7%*	*41.6%*	*16.9%*	*0.69*
Hong Kong - Hang Seng	*28611*	*-0.4%*	*5.1%*	*19.3%*	*-4.6%*	*0.1%*	*3.2%*	*-8.9%*	*0.12*
World - MSCI Index	***2979***	***1.4%***	***10.8%***	***47.1%***	***42.1%***	***5.7%***	***27.4%***	***34.3%***	***0.99***
World Ex. U.S.A. - MSCI Index	***2335***	***2.5%***	***9.1%***	***44.3%***	***15.3%***	***4.0%***	***25.1%***	***8.9%***	***0.80***
EAFE - MSCI Index	***2324***	***2.5%***	***8.2%***	***43.7%***	***14.1%***	***3.3%***	***24.5%***	***7.8%***	***0.80***
Emerging markets (free) - MSCI Index	***1,349***	***0.1%***	***4.4%***	***50.4%***	***18.3%***	***-0.4%***	***30.3%***	***11.8%***	***0.88***

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

Stock Market and Portfolio Strategy

S&P 500 Sectoral Earnings- Consensus*
2021-05-07

	Weight S&P 500 %	Index Level	Variation 3-m Δ	Variation 12-m Δ	EPS Growth 2021	EPS Growth 2022	EPS Growth 12-m forward	P/E 2021	P/E 2022	P/E 12-m forward	5 year Growth Forecast	PEG Ratio	Revision Index**
S&P 500	100	265	12.06	30.42	33.40	12.64	23.94	23.05	20.47	21.98	17.36	0.92	7.03
Energy	2.88	405	26.02	43.25	0.00	33.20	353.09	21.01	15.77	18.92	8.35	0.05	41.44
Materials	2.82	552	19.37	70.99	52.16	3.49	31.15	19.82	19.15	19.52	12.39	0.63	16.67
Industrials	8.91	890	18.40	71.18	76.90	37.47	57.90	28.63	20.82	25.38	13.11	0.44	3.08
Consumer Discretionary	12.37	1419	2.39	51.53	55.85	36.64	47.22	39.86	29.17	35.57	35.97	0.75	1.80
Consumer Staples	5.98	725	7.26	24.48	6.38	8.20	7.15	21.33	19.71	20.53	8.64	2.87	0.44
Healthcare	12.91	1445	7.19	25.48	15.18	6.57	11.86	17.02	15.97	16.68	10.08	1.41	1.24
Financials	11.79	627	22.35	73.44	43.47	0.53	25.49	14.03	13.95	14.00	13.90	0.55	13.71
Information Technology	26.23	2440	2.54	48.58	26.76	11.26	16.15	27.87	25.04	26.28	16.57	1.63	6.60
Telecom Services	11.05	258	9.98	50.31	20.13	15.03	19.07	23.71	20.61	22.41	22.11	1.18	10.40
Utilities	2.58	335	3.73	19.93	4.58	6.53	5.25	19.72	18.51	19.30	5.72	3.68	-0.37
Real Estate	2.48	265	12.06	30.42	-5.77	13.80	0.50	57.14	50.21	54.63	31.85	109.25	6.31

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

Technical Analysis

Dennis Mark, CFA
Analyst
416-869-7427

Chart Highlights

The current market is highlighted by rotation, contracting volume and selective strength. Stock selection is more important than ever as not many opportunities are left unexploited. Stocks with upside momentum are extended and vulnerable to a sharp correction while laggard stocks have no momentum and offer limited upside. The following stock ideas have emerging bull trends that offer favourable risk/reward profiles.

Technical Analysis

CAE Inc. (CAE)

The CAE chart broke out of a 15-year base in 2015 at $15.50 and started a major long-term bull market. A test of the breakout point in 2020 proved successful. Another important upside breakout at $28.00 confirmed the ongoing bull trend. Two months of consolidation established short-term resistance around $39.00 within its rising trend. Expect an upside breakout and a renewal of the rising to challenge its highs near $42.00 and target $45.00. Good support in the mid-$30s suggests a favourable risk/reward profile for the bulls.

Source: Refinitiv

Technical Analysis

Medical Facilities Corp. (DR)

A turnaround is taking shape on the DR chart after its bear market since late 2016 took the stock down from a peak near $23.00 to under $3.00. The upside breakout from a one-year base at $5.00 turned the trend up as it began trading above both moving averages. Important chart resistance at $7.55 and $8.00 is being challenged with any breakout completing a two-year base. Breaking out across $8.00 will further confirm a bull trend and set up a target of $12.00 to $13.00. Thin overhead supply above $8.00 indicates a high probability of achieving our target. Well-established support at $6.50 offers a good risk/reward profile.

Source: Refinitiv

Technical Analysis

Manulife Financial Corp. (MFC)

The MFC chart in the United States is most instructive as it highlights the long base that MFC has worked on over the past 12 years. An upside breakout across US$20.60 takes the chart out of a multi-year base and sets the stage for another challenge and potential break of its last meaningful resistance at US$22.20. Surmounting this last hurdle will be significant as the chart has only some resistance near US$25.00 and then nothing until around US$30.00. The stock is challenging this important level with good volume and momentum increasing the probabilities of an upside breakout.

Source: Refinitiv

Technical Analysis

Mullen Group Ltd. (MTL)

A six-year bear market in MTL has come to an end and a recovery phase is underway. The stock is down almost 90% from its 2006 high of $37.75 suggesting a big runway for recovery. An upside breakout at $10.30 completed a 20-month base and turned the trend positive. Increasing volume over the past few months indicates that investors are recognizing the start of a new bull trend. Next target is $17.00.

Source: Refinitiv

Technical Analysis

SNC-Lavalin Group Inc. (SNC)

The SNC chart spent the past two years in the penalty box after a major chart breakdown. Initial technical positives are starting to show up suggesting that an extended recovery may be on the way. A late 2020 test of the lows was successful as the chart gapped up and reversed back to the upside. A breakout at $25.60 in February completed a one-year base adding a further positive technical development to the picture. Volume has contracted over the past two years as a big triangle formation is carved out. An upside breakout at $30.00 accompanied by expanding volume completes this base and turns the major trend up. First target is $40.00 and potentially higher if the gap is filled.

Source: Refinitiv

Technical Analysis

Tricon Residential Inc. (TCN)

TCN broke out of a six-year base at $12.00 to start the next leg up. The important resistance at $12.00 was tested on numerous occasions over the past six years with the latest attempt in January being successful. Good volume coming off the retest is technically positive. New highs on the stock indicate there is no resistance ahead. Target is $16.00 to $17.00.

Source: Refinitiv

Sector Analysis

In this section, commentaries and stock closing prices are based on the information available up to **April 29, 2021.**

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

Sector Analysis

NBF Selection List

	Company	Ticker	Price	Target Price	Div. Yield	Est. TR	Industry
Energy							
	Cenovus Energy Inc.	CVE	$9.75	$14.50	0.73%	49.44%	Oil, Gas & Consumable Fuels
	Enerflex Ltd.	EFX	$8.18	$10.50	0.98%	29.34%	Energy Equipment & Services
	Parex Resources Inc.	PXT	$23.38	$34.00	0.00%	45.42%	Oil, Gas & Consumable Fuels
	Secure Energy Services Inc.	SES	$4.16	$5.50	0.72%	32.93%	Energy Equipment & Services
	Tourmaline Oil Corp.	TOU	$26.67	$37.50	2.41%	43.01%	Oil, Gas & Consumable Fuels
Materials							
	Capstone Mining Corp.	CS	$5.53	$6.25	0.00%	13.02%	Metals & Mining
	Dundee Precious Metals Inc.	DPM	$9.03	$12.50	1.70%	40.09%	Gold
	Endeavour Mining Corp.	EDV	$26.11	$53.00	0.00%	102.99%	Gold
	First Quantum Minerals Ltd.	FM	$29.48	$35.00	0.05%	18.78%	Metals & Mining
	Kinross Gold Corp.	K	$8.72	$14.00	1.73%	62.27%	Gold
	Newmont Corp.	NGT	$76.47	$101.00	3.53%	35.62%	Gold
	Sandstorm Gold Ltd.	SSL	$9.28	$12.00	0.00%	29.31%	Gold
	SSR Mining Inc.	SSRM	$19.62	$34.00	1.29%	74.57%	Gold
Industrials							
	Ag Growth International Inc.	AGT	$42.98	$54.00	1.39%	27.04%	Capital Goods
	CAE Inc.	CAE	$38.82	$43.00	0.00%	10.77%	Capital Goods
	Finning International Inc.	FTT	$32.62	$43.00	2.56%	34.33%	Capital Goods
	Hardwoods Distribution Inc.	HDI	$35.52	$42.00	1.13%	19.37%	Capital Goods
	NFI Group Inc.	NFI	$27.79	$34.00	3.08%	25.40%	Capital Goods
	Stantec Inc.	STN	$57.87	$60.00	1.15%	4.82%	Commercial & Professional Services
	TFI International Inc.	TFII	$106.93	$115.00	1.07%	8.63%	Transportation
	Toromont Industries Ltd.	TIH	$99.10	$107.00	1.27%	9.22%	Capital Goods
Consumer Discretionary							
	Gildan Activewear Inc.	GIL	$42.97	$45.00	0.00%	4.72%	Consumer Durables & Apparel
	Park Lawn Corp.	PLC	$34.48	$43.00	1.34%	26.03%	Consumer Services
	Spin Master Corp.	TOY	$41.40	$49.00	0.00%	18.36%	Consumer Durables & Apparel
Consumer Staples							
	Jamieson Wellness Inc.	JWEL	$38.43	$42.75	1.30%	12.54%	Household & Personal Products
Health Care							
	Knight Therapeutics Inc.	GUD	$5.39	$7.75	0.00%	43.78%	Pharmaceuticals, Biotechnology & Life Sciences
	Sienna Senior Living Inc.	SIA	$14.67	$16.00	6.39%	15.45%	Health Care Providers & Services
Financials							
	Alaris Equity Partners Income Trust	AD.un	$16.88	$21.00	7.29%	31.75%	Diversified Financials
	Bank of Montreal	BMO	$117.25	$121.00	3.65%	6.81%	Banks
	Element Fleet Management Corp.	EFN	$14.99	$19.00	1.73%	28.49%	Diversified Financials
	iA Financial Corporation Inc.	IAG	$69.91	$76.00	2.80%	11.49%	Insurance
	Royal Bank of Canada	RY	$118.11	$123.00	3.68%	7.80%	Banks
	Trisura Group Ltd.	TSU	$130.25	$177.00	0.00%	35.89%	Insurance
Information Technology							
	Farmers Edge Inc.	FDGE	$18.00	$25.00	0.00%	38.89%	Software & Services
	Kinaxis Inc.	KXS	$158.71	$225.00	0.00%	41.77%	Software & Services
	Real Matters Inc.	REAL	$17.01	$35.00	0.00%	105.76%	Software & Services
Communication Services							
	Corus Entertainment Inc.	CJR.b	$5.90	$8.00	4.08%	39.66%	Media & Entertainment
	Shaw Communications Inc.	SJR.b	$35.61	$40.50	3.33%	17.06%	Media & Entertainment
Utilities							
	AltaGas Ltd.	ALA	$22.38	$25.00	4.35%	16.17%	Utilities
	Boralex Inc.	BLX	$40.71	$50.00	1.68%	24.44%	Utilities
	Capital Power Corp.	CPX	$38.91	$44.00	5.23%	18.35%	Utilities
	Innergex Renewable Energy Inc.	INE	$21.79	$28.00	3.43%	31.80%	Utilities
	Northland Power Inc.	NPI	$42.60	$52.00	2.83%	24.88%	Utilities
Real Estate							
	Boardwalk REIT	BEI.un	$36.99	$44.00	2.73%	21.66%	Real Estate
	BSR REIT	HOM.un	$11.10	$13.00	4.57%	21.63%	Real Estate
	European Residential REIT	ERE.un	$4.29	$5.25	3.83%	26.22%	Real Estate
	Flagship Communities REIT	MHC.un	US$16.20	US$19.00	3.13%	20.43%	Real Estate
	StorageVault Canada Inc.	SVI	$4.43	$5.25	0.25%	18.76%	Real Estate

The NBF Selection List highlights our Analyst's best investment ideas each Month. A maximum of three names per Analysts are selected based on best Total Estimated Return.
Prices as of April 29, 2021
Source: NBF Research, Refinitiv

Analysts' Tables Glossary

GENERAL TERMS

Stock Sym. = Stock ticker

Stock Rating = Analyst's recommendation

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

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

Price target = 12-month price target

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

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

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

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

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

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

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

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

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

SECTOR-SPECIFIC TERMS

› *OIL AND GAS*

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

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

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

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

› *PIPELINES, UTILITIES AND ENERGY INFRASTRUCTURE*

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

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

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

Free-EBITDA = EBITDA less maintenance capital expenditures.

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

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

› *FINANCIALS (DIVERSIFIED) & FINANCIAL SERVICES*

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

P/BV = Price per book value.

› *REAL ESTATE*

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

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

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

FD FFO = Fully diluted Funds from Operations.

P/FFO = Price per Funds from Operations.

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

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

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

› *SPECIAL SITUATIONS*

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

› *SUSTAINABILITY AND CLEAN TECH*

Sales per share = revenue/fully diluted shares outstanding.

P/S = Price/sales

› *TRANSPORTATION AND INDUSTRIAL PRODUCTS*

FDFCFPS = Fully diluted free cash flow per share.

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

Banking & Insurance

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Selections

- › *iA Financial Corporation*
- › *Royal Bank of Canada*
- › *Bank of Montreal*

Canadian Banks & Lifecos

Canadian Banks – Q1/2021 Earnings Recap: It's the end of the world as we know it (and I feel fine).

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

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

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

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	Δ
Banking																				
Bank of Montreal	BMO	OP		75,564	647	117.10	10/2020	7.71	10.31	10.55	11.4	11.1	77.76	80.60	85.30	1.5	1.4	3.6%	121.00	
Bank of Nova Scotia	BNS	SP		94,822	1,211	78.33	10/2020	5.36	7.08	7.31	11.1	10.7	52.30	55.09	59.17	1.4	1.3	4.6%	77.00	
CIBC	CM	OP		56,629	445	127.32	10/2020	9.69	12.12	12.45	10.5	10.2	85.24	89.28	95.73	1.4	1.3	4.6%	130.00	
National Bank	NA	NR		29,913	337	89.15	10/2020	6.06	7.65	7.93	11.7	11.2	41.48	44.93	50.14	2.0	1.8	3.2%	NR	
Royal Bank of Canada	RY	OP		166,808	1,424	117.74	10/2020	7.97	10.15	10.41	11.6	11.3	58.24	62.41	68.44	1.9	1.7	3.7%	123.00	
Toronto-Dominion Bank	TD	SP		153,824	1,818	84.69	10/2020	5.35	7.01	7.18	12.1	11.8	49.44	52.55	56.86	1.6	1.5	3.7%	82.00	
Canadian Western Bank	CWB	SP		2,943	87	33.64	10/2020	2.93	3.11	3.49	10.8	9.6	32.24	33.21	35.12	1.0	1.0	3.4%	35.00	
Laurentian Bank	LB	SP	↑	1,857	43	42.84	10/2020	2.92	3.62	3.59	11.8	11.9	54.45	55.57	57.06	0.8	0.8	3.7%	40.00	↑
Insurance																				
Great-West Lifeco	GWO	SP		32,974	928	35.66	12/2020	2.67	3.11	3.42	11.5	10.4	22.97	23.96	25.73	1.5	1.4	4.9%	33.00	
iA Financial	IAG	OP		7,555	107	69.51	12/2020	4.87	7.79	8.45	8.9	8.2	55.52	59.75	65.59	1.2	1.1	2.8%	76.00	
Manulife Financial	MFC	SP		52,103	1,942	26.77	12/2020	2.22	3.03	3.33	8.8	8.0	25.00	24.27	26.27	1.1	1.0	4.2%	27.00	
Sun Life Financial	SLF	OP		38,797	585	66.27	12/2020	4.14	6.09	6.58	10.9	10.1	37.96	41.12	45.27	1.6	1.5	3.3%	69.00	

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

Source: Refinitiv, Company financials, NBF analysis

Diversified Financials

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Selections

- *Trisura Group*
- *Element Fleet Management*

Budget 2021 and Mortgage Companies Preview

Budget 2021 Highlights

- **goeasy (TSX: GSY)** – As part of Budget 2021, the Government of Canada announced its intention to launch a consultation on lowering the maximum rate of interest in the Criminal Code of Canada. While difficult to assess the timing and magnitude of any potential outcomes, we believe the shift in tone could temporarily weigh on GSY shares – especially following a stellar run year to date (and over the past year). That said, we believe a more muted reaction is warranted given that i) past attempts to review the maximum rate of interest have failed to gain traction, and ii) goeasy has a strong track record of helping Canadians improve their financial wellbeing. Moreover, the government specifically identifies payday lenders in the proposal. We apply a ~14x multiple on our 2022 adjusted EPS estimates to arrive at our $156 price target.
- **Morneau Shepell (TSX: MSI)** – The government is allocating over $257 million towards supporting mental health initiatives. Overall, we see the potential for MSI to win contracts, particularly given successful launches of iCBT with Manitoba and Ontario. Our $38 price target implies a target valuation multiple of ~13.5x EV/EBITDA (both unchanged).

Mortgage Companies: We like the setup into Q1-21 results

Share prices of mortgage companies are up between 5% and 29% YTD (vs. TSX up 10%) but have stagnated since reporting Q4-20 results. In our view, the combination of rising interest rates, potential regulatory intervention and some investor fatigue following a doubling in share prices over the past year likely weighed on the sector in recent weeks. We're not fussed at all. In fact, we think investors are presented with an attractive opportunity to add to their positions. We like the current setup heading into Q1-21 results with interest rates seemingly hitting a plateau (5-Year benchmark Canada bonds stable at ~1.0% and a policy rate hike still far in H2 2022), regulatory intervention off the table for the time being (Federal budget offered no material new policies; OSFI intervention was modest; and Big Six Bank CEOs advocating for a wait and see approach), and the strong reaction of shares post results. We maintain our favourable view of the sector (record national home sales, low interest rates, job losses confined to COVID-hit sectors, consumer and business insolvencies below year-ago levels, etc.) and increase our estimates on higher mortgage origination forecasts and PCL releases.

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Sector Analysis

Diversified Financials

	Stock Sym.	Stock Rating	Δ	Mkt Cap (Bln)	Shares O/S (Mln)	Stock Price 4/29	Last Year Reported	FDEPS Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	Book Value per Share Last Quarter	Book Value per Share est. FY1	Book Value per Share est. FY2	P/BV FY1	P/BV FY2	Div. %	12-Mth Price Target	
Mortgage Finance																				
Equitable Group	EQB	OP		2.20	16.9	130.12	12/2020	12.61	14.65	15.55	8.9	8.4	93.35	107.16	121.10	1.2	1.1	1.1%	165.00	↑
First National Financial	FN	SP		3.05	60.0	50.90	12/2020	3.95	4.11	4.27	12.4	11.9	8.51	10.08	11.88	5.0	4.3	55.4%	55.00	↑
Home Capital Group	HCG	OP		1.69	51.8	32.61	12/2020	3.55	4.47	5.36	7.3	6.1	32.42	36.66	41.42	0.9	0.8		44.00	↑
Timbercreek Financial	TF	SP		0.74	80.9	9.12	12/2020	0.67	0.70	0.69	13.1	13.2	8.47	8.48	8.48	1.1	1.1	7.6%	9.00	
Specialty Finance																				
ECN Capital	ECN	OP		1.97	242.3	8.15	12/2020	0.13	0.39	0.48	17.1	13.7	2.79	2.93	3.08	2.3	2.2	1.5%	10.50	
Element Fleet Management	EFN	OP		6.60	440.2	14.99	12/2020	0.77	0.84	0.97	17.9	15.4	7.43	7.64	8.23	2.0	1.8	1.7%	19.00	
goeasy	GSY	OP		2.15	14.8	145.09	12/2020	7.57	9.03	11.15	16.1	13.0	29.97	47.84	56.55	3.0	2.6	1.8%	156.00	↑
Brookfield Business Partners	BBU	OP		6.54	148.7	44.00	12/2020	NA	NA	NA	NA	NA	23.48	30.89	39.01	1.4	1.1	0.6%	50.00	
Power Corporation of Canada	POW	SP		24.19	677.2	35.72	12/2020	3.00	3.51	3.87	10.2	9.2	31.38	33.01	35.02	1.1	1.0	5.0%	38.00	
HR Companies																				
Morneau Shepell	MSI	OP		2.2	70.0	31.08	12/2020	0.80	0.72	0.98	43.2	31.7	9.39	9.46	9.79	3.3	3.2	2.5%	38.00	
Securities Exchange																				
TMX Group	X	SP		7.70	56.2	136.98	12/2020	5.88	6.50	6.82	21.1	20.1	64.22	67.19	70.26	2.0	1.9	2.0%	146.00	↑
Insurance																				
Intact Financial Corp.	IFC	OP		23.42	143.0	163.77	12/2020	9.92	10.1	10.89	16.1	15.0	58.79	79.04	84.71	2.1	1.9	2.0%	200.00	
Trisura Group Ltd.	TSU	OP		1.34	10.3	130.25	12/2020	3.68	4.74	5.65	27.5	23.0	28.23	32.68	38.05	4.0	3.4		177.00	
Fairfax Financial Holdings	FFH	OP		14.75	26.0	566.39	12/2020	6.29	59.75	53.79	7.7	8.6	497.23	529.39	575.74	0.9	0.8	2.3%	700.00	↑
Asset Managers																				
Fiera Capital Corp.	FSZ	SP		1.12	103.7	10.79	12/2020	1.38	1.34	1.46	8.1	7.4	4.54	4.50	4.57	2.4	2.4	7.8%	12.00	
IGM Financial Inc.	IGM	OP		10.25	238.3	43.00	12/2020	3.20	3.83	4.21	11.2	10.2	21.16	22.75	24.73	1.9	1.7	5.2%	51.00	

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

Source: Refinitiv, Company reports, NBF

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

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Sector Analysis

Diversified Industrials

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Selections

› *Enerflex Ltd.*
› *Ag Growth International*

Mullen Group Ltd.

Mullen first quarter results meet expectations; on the lookout for tuck-ins following a busy start to 2021 on the M&A front.

Mullen reported first quarter OIBDA of $47.1 mln, just above the consensus EBITDA estimate of $46.0 mln. Q1 revenue of $290.5 mln was modestly below the Street and NBF at ~$298 mln owing largely to a softer than expected contribution from the Specialized & Industrial Services segment (with Q1 revenue for the segment decreasing by ~29% y/y as activity levels in the WCSB were hampered by COVID-19 related disruptions and reduced spending as producers remain focused on living within cash flows). Following two sizable acquisition announcements over the last month (with APPS Transport Group and Bandstra Group expected to add roughly $30 mln in combined annual EBITDA), management characterized the logistics and freight industry as ripe for further consolidation and noted several additional acquisitions are currently under evaluation, highlighting the potential for tuck-ins to add value while building off Mullen's existing platform. While a purchase price for the APPS Transport Group acquisition has yet to be disclosed, we estimate a $30-$40 mln draw on the credit facility upon closing (expected mid-2021), implying over $100 mln in remaining dry powder on the $150 mln credit facility (with our forecasts pointing to a still-solid ~2.0x net debt/TTM EBITDA exiting 2021 and ~1.5x exiting 2022). **We maintain our $15.25 target, still driven by 7.6x 2022e EV/EBITDA, in line with the broader peer group average and modestly below MTL's post-2014 forward year average EV/EBITDA. With a stable balance sheet footing and expectations for further M&A we reiterate our Outperform rating.**

Pason Systems Corp.

Despite what we view as a lowered rig count activity ceiling in the post-pandemic world, we expect Pason to continue to generate significant free cash flow.

Pason's financial performance remains closely tied to North American rig counts, and while our longer-term expectations for rig activity levels remain well below previous mid-cycle norms, relative to our 2022 forecasts, we see EBITDA upside of roughly 20% for PSI at the midpoint of what we view as a reasonable longer-term rig count range (~$75 mln vs. our current 2022e EBITDA of ~$64 mln). While this represents materially lower annual EBITDA relative to the ~$125 mln averaged in 2017-2019, we would expect Pason to generate free cash flow approximating $50 mln in such an environment (after maintenance capital expenditures), implying sufficient coverage for the current dividend (~$17 mln annually) and significant excess cash flow available to fund growth opportunities or other objectives (NCIB, dividend increase, etc.). Given expectations for a lowered North American rig count activity ceiling moving forward in the post-pandemic world (as industry participants remain focused on limiting capex levels to the confines of cash flow generation), we expect PSI to trade at a discount to the loftier EV/EBITDA multiples experienced following previous downturns. But even in the context of a 30% discount to the historical forward year EV/EBITDA multiple associated with such a level of expected EBITDA, we see per share value in excess of our $11 target price, which coupled with PSI's still-pristine balance sheet (with zero funded debt and roughly $150 mln in cash exiting 2020) we view as supportive of our positive outlook. **We subsequently maintain our Outperform rating and $11.00 target driven by an unchanged 11.9x 2022e EV/EBITDA multiple.**

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	EBITDA (mlm) 2020	EBITDA (mlm) 2021e	EBITDA (mlm) 2022e	EV/EBITDA 2020	EV/EBITDA 2021e	EV/EBITDA 2022e	Net Debt/ EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Ag Growth International Inc.	AFN	OP		804.20	18.7	42.98	149.3	166.8	191.3	10.7	9.5	7.7	4.6	54.00	27%	
Enerflex Ltd.	EFX	OP		733.57	89.7	8.18	191.3	142.0	191.0	5.7	7.4	5.3	2.2	10.50	29%	
Mullen Group Ltd.	MTL	OP		1302.66	96.9	13.45	191.5	222.2	245.0	8.7	8.0	6.9	2.1	15.25	17%	↑
Pason Systems Corp.	PSI	OP		782.70	83.1	9.42	39.3	43.7	63.9	16.1	14.7	9.9	-3.2	11.00	19%	
Shawcor Ltd.	SCL	OP		419.72	70.4	5.96	43.8	100.2	127.2	16.2	7.1	5.4	2.9	8.75	47%	

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

US = US Dollars

Source: Company Reports, Refinitiv, NBF

ESG & Sustainability

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Overview

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

ESG Updates – Regulatory Updates

President Joe Biden hosted the virtual *Leaders Summit on Climate* (LSC) on April 22nd and 23rd, where representatives from 40 countries came together to enhance action towards limiting global warming below 1.5 degrees. The LSC conference stemmed from the United States missing the *Climate Action Summit* back on December 12th, which marked the fifth anniversary of the Paris Agreement and represented a significant milestone on the *Road to Glasgow* (i.e., the United Nations Climate Conference in November 2021). As we had predicted in our *"What to expect at President Biden's Leaders Summit on Climate"* flash (**here**), several developed countries increased their climate reduction ambitions, including the United States, Canada, the United Kingdom and Japan, while the key emerging market countries like China, India and Russia maintained their current reduction plans.

United States

The United States kicked off the conference with a 50-52% emissions reduction target by 2030, alongside President Biden providing a new vision of a prosperous, clean-energy United States, supported by cutting-edge batteries and electric vehicles. The announcement follows Biden's recommitment to the Paris Agreement on the first day he stepped into office, promising to reach net-zero by 2050. Recall, the Trump administration had pulled out of the Paris Agreement and cancelled the 26-28% emissions reduction target by 2025 implemented by the previous Obama administration. The new U.S. emissions reduction target of 50-52% stems from a baseline of ~7,400 Mt CO_2e in 2005, with the goal of getting to ~3,600 Mt CO_2e by 2030, representing a -6.2% CAGR. Considering how the United States will reach its new target, President Biden provided only high-level initiatives such as capping oil sands wells and cleaning up abandoned coal mines, increasing carbon capture and green hydrogen plants, decarbonizing the steel and cement industry, while investing in carbon innovation in the agriculture sector.

Canada

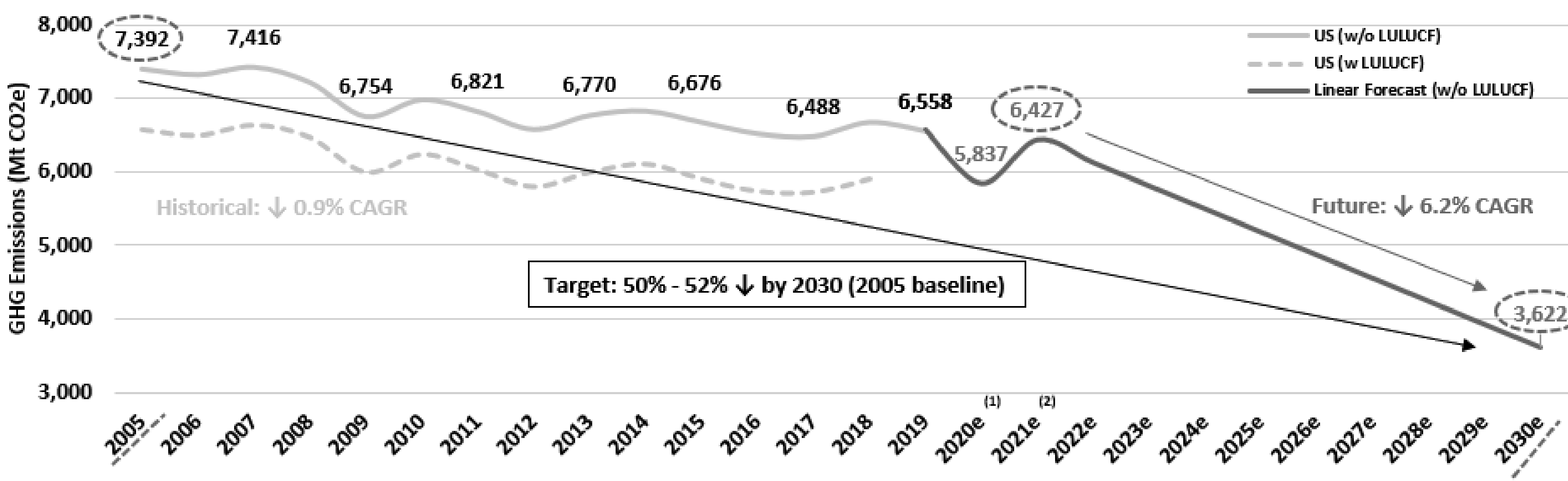
Prime Minister Justin Trudeau increased Canada's emission reduction target to 40-45% below 2005 levels, coming in above the December 2020 pledge of 32-40% (middle 36%). Historically, Canada has largely held its GHG emissions flat since 2005, ranging from 694 to 752 Mt CO_2e, and holding a 15-year average of 722 Mt CO_2e. Looking ahead, for Canada to achieve 425 Mt CO_2e by 2030, equivalent to the middle range of the 40-45% emissions reduction target below 2005 levels, Canada would need to achieve a -5.5% CAGR over the remaining period from 2021 to 2030. With that said, Trudeau did not outline a concrete plan as to how Canada would achieve this target; however, the Prime Minister did trumpet that Canada has already implemented an escalating price on pollution (i.e., $170/t by 2030), which should help reduce Canada's emissions. Trudeau also purposefully highlighted at the LSC conference that Canada would invest in clean energy, with the Prime Minister stating that Canada's electricity grid would move from 80% emissions-free electricity currently to 100% emissions-free by 2030, which is above the previous target of 90%.

Countries not increasing emission reduction pledges

As we had predicted, neither Russia, China nor India increased their reduction targets at the United States

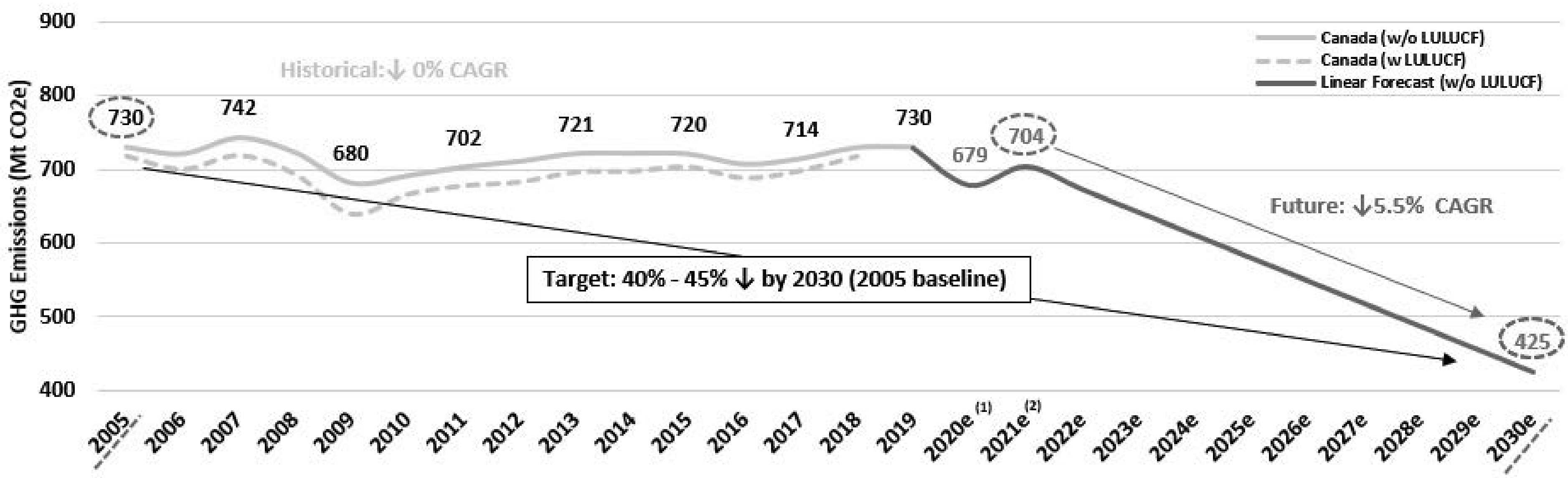
Leaders Summit on Climate conference, which likely was seen as a disappointment by the global community given that these countries are three out of the four largest emitters in the world. We note that Prime Minister Vladimir Putin did not increase Russia's current 30% by 2030 target (1990 baseline); however, he did commit to building more legislation surrounding climate change, in addition to pledging that Russia would implement a carbon trading system this year. Meanwhile, President Xi Jinping reiterated China's commitment to becoming carbon neutral by 2060, with GHG emissions peaking before 2030. Overall, the country expects to control its coal-fired generation use in the near term, limiting the increase in coal-fired generation in the 14th five-year plan (2021-2025) and then phasing down coal-fired generation in the 15th five-year plan (2026-2030). Lastly, India highlighted it previously increased its renewable energy target to 450 GW by 2030 (was 350 MW) in December 2020. Additionally, the Prime Minister announced the new U.S.-India Climate and Clean Energy Agenda 2030 Partnership at the Leaders Summit Climate, which will be a core pillar to achieving India's ambitious 450 GW renewable power target. Overall, although these three countries did not increase their targets, we do highlight that all three leaders pledged on Thursday to work towards international cooperation on climate mitigation and adaptation. Although time will tell if cooperation occurs, we do highlight that most countries have now recognized climate change as an existential threat, therefore, we could see more movement towards multilateralism and international law.

Exhibit 1: United States' GHG Emissions Reduction Target



Source: United States Government, United States Environmental Protection Agency, UNFCCC, Global Carbon Project, ClimateWatch, CAIT, NBF
Note: GHG emissions linear forecast to reach reduction target is assumed to be from emissions without LULUCF.
(1) Assumes an 11% decrease in GHG emissions for 2020 as a result of the COVID pandemic, in line with the Global Carbon Project's U.S. forecast.
(2) Assumes a 2% decrease in GHG emissions from 2019 levels for 2021 due to the reopening of the economy.

Exhibit 2: Canada's GHG Emissions Reduction Target



Source: Government of Canada, UNFCCC, Global Carbon Project, ClimateWatch, Climate Action tracker, CAIT, NBF
Note: GHG emissions linear forecast to reach reduction target is assumed to be from emissions without LULUCF.
(1) Assumes a 7% decrease in GHG emissions for 2020 as a result of the COVID pandemic, in line with the Global Carbon Project's world forecast.
(2) Assumes average GHG emissions from 2019 and 2020 levels for 2021 due to the reopening of the economy.

Sector Analysis

Healthcare, Biotech & Special Situations

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Selections

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

Highlights as of April 2021

In addition to a positive company update provided by Knight Therapeutics (GUD: TSX), we also highlight the initiation of coverage on Dialogue Health Technologies (CARE: TSX) following a recent IPO in March 2021.

Knight Therapeutics

GUD announced that it will acquire exclusive rights to manufacture and commercialize Exelon (rivastigmine patch, capsules and solution), in Canada & LatAm, from Novartis (NYSE: NVS, Not Rated). Following anti-trust clearance in Brazil (45 - 90 days), GUD will pay US$168 million at closing and up to US$12 million on milestones. Exelon had 2020 sales of US$47 million in the regions acquired implying a P/S multiple of 3.8x and P/EBITDA (est.) of ~8.7x.

We view the acquisition positively as 1) rivastigmine is one of the most commonly prescribed drugs for the treatment of dementia in Alzheimer's disease; 2) acquisition is accretive (we estimate ~35% increase to 2022e EPS) with an elevated EBITDA margin of ~40%-50%+.; 3) no or very limited expected competition risk from new drugs; 4) a new therapeutic area (central nervous system) for GUD; and 5) leverages GUD's entire Can/LatAm infrastructure. Potential generics activity in Brazil (for the patch form) could be a mid-term headwind, although the impact of a branded generic on a patented pharmaceutical can be relatively limited and the latter can maintain market share. Our target increased to $7.75 (was $6.75) on a higher 2022e EPS and a P/E multiple of 15x (was 12x). Maintain Outperform.

Dialogue Health Technologies

We initiated coverage on Dialogue with an Outperform rating and $20.50 price target, which implies 9.0x 2023e EV/Sales. Overall, we like the positive industry drivers and attributes of Dialogue including 1) increasing use and prevalence of virtual healthcare; 2) mental health is a growing concern that can be addressed virtually; 3) low EAP utilization can be mitigated by a virtual approach; 4) significant TAM; 5) integrated platform ensures ease of use; and 6) B2B subscription model and recurring revenues ensure top-line visibility and cost predictability. While the stock trades largely above relevant peers (EV/S basis), in our view, the premium implied by our target is justified due to CARE's 1) added visibility through recurring and reoccurring revenues; 2) significant market position in the Canadian virtual primary health and mental care; and 3) its potential to disrupt the in-person primary / mental healthcare and EAP delivery. Reinforcing our view that a premium valuation is warranted is a reasonable expectation that CARE will likely be acquisitive (not included in forecasts) as 1) we estimate that only a portion (~$35 - $40 million of ~$91 million) of the IPO proceeds is necessary to fund operations; and 2) the company has a history of acquisitions (two revenue-contributing transactions in 2020).

Healthcare, Biotech & Special Situations

	Stock Sym.	Stock Rating	Δ	Market Capitalization (Mln)	Shares O/S (Mln)	Stock Price 4/29	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		217.55	70.2	3.10u	4/2020	0.0%	0.01u	0.11u	0.12u	27.1	26.6	53.7u	68.5u	79.5u	9.8	8.9	345.6u	4.3	3.25u	
Andlauer Healthcare Group	AND	SP		1,402.85	38.4	36.57	4/2020	0.5%	0.81	1.08	1.29	34.0	28.3	78.9	96.1	105.5	16.6	14.9	208.6	2.0	38.00	
Dialogue Health Technologies	CARE	OP		1,023.78	64.9	15.78	4/2020	0.0%	0.42	(0.26)	(0.07)	nmf	nmf	(16.9)	(15.0)	(2.5)	nmf	nmf	-	-	20.50	
IMV Inc.	IMV	SP		230.13	67.1	3.43	4/2020	0.0%	(0.48)	(0.47)	(0.67)	nmf	nmf	(32.8)	(35.9)	(51.5)	nmf	nmf	-	-	5.25	
Jamieson Wellness	JWEL	OP		1,532.32	39.9	38.43	4/2020	1.3%	1.17	1.27	1.31	30.2	29.3	88.0	100.0	105.4	17.0	16.0	147.9	1.4	42.75	
Knight Therapeutics	GUD	OP		700.91	130.0	5.39	4/2020	0.0%	0.09	0.20	0.33	27.4	16.3	16.8	34.5	56.2	16.5	10.1	-	-	7.75	↑
Medical Facilities Corp.	DR	OP		228.32	31.1	7.34	4/2020	3.8%	0.96u	0.93u	0.97u	6.6	6.3	57.3u	55.7u	57.9u	5.8	5.6	95.8u	2.1	7.75	
Theratechnologies	TH	SP		401.64	93.8	4.28	4/f2020	0.0%	(0.15)u	0.06u	0.09u	54.9	36.6	(7.1)u	10.4u	13.0u	29.3	23.5	-	-	3.75	
Special Situations																						
K-Bro Linen	KBL	SP		487.83	10.7	45.69	4/f2020	2.6%	2.49	2.28	2.61	20.1	17.5	43.8	43.8	50.3	13.1	11.4	84.2	1.7	42.00	
Rogers Sugar	RSI	SP		573.59	103.5	5.54	1/f2021	6.5%	0.37	0.42	0.43	13.1	12.9	92.3	100.4	104.7	9.3	9.2	361.5	3.5	5.00	
Chemtrade Logistics Income Fund	CHE.UN	SP		780.51	103.0	7.58	4/f2020	7.9%	0.52	0.70	1.04	10.8	7.3	265.3	307.6	339.2	7.0	6.1	1,304.5	3.8	7.00	

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

u = US Dollars

Source: Company Reports, Refinitiv, NBF

Industrial Products

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Selections

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

Industrial Products: Q1/21E preview and themes - all about multiple expansion on the back of infra stimulus discussions

Further multiple expansion on the horizon (assuming U.S. infra plan becomes a reality)

Risk-on remains the positioning "du jour" as the U.S. 10-year yield scare is receding into last month's memory. Now, it's all about stimulus and how quickly we can grow (against easy 2020 comps). Getting off the train too early can be painful as trends play out over a longer than quarters worth horizon. Generally speaking, our coverage universe is trading at higher than 2007 absolute valuation levels, but the infra spending backdrop now is arguably better while interest rates remain low. When looking at consulting and equipment distribution peers relative to the S&P 500, they tend to trade at a premium when revenue visibility improves; before 2008, E&Cs were trading as much as 7.0x P/E multiple points premium, compared to only 3.0x now. To us, this suggests further upside in our coverage group (assuming the U.S. mooted $2.3 trillion infrastructure plan materializes).

Estimates update, target prices changes + upgrading Stelco to Outperform

We increased valuation multiples by 1.0x on EV/EBITDA for WSP, STN, SNC (EDPM only), IBG and SJ, while bumping P/E multiples by 2.0x for TIH and RBA and 3.0x for FTT (mathematic equivalent outcomes of 1.0x EV/EBITDA), which resulted in higher target prices. For RBA, we modestly increased revenue and EBITDA margin forecasts for 2022E. In addition, we are upgrading Stelco to Outperform (new $36.00 PT) given strong pricing, while trimming ABCT target to $10.00 (from $11.50 prior) due to the chip shortage and escalating resin costs. We also highlight NOA and SJ were active on NCIB (former 1.1 mln shares and latter 760k shares); note NOA also announced a significant NCIB program. Our top ideas for 2021 – STN and FTT in large caps and ARE, IBI and ATA in small caps are well-positioned for the quarter and the remainder of 2021.

	Stock Symbol	Stock Rating	Δ	12-mth Price Target	Δ	Stock price 4/29	Market Cap ($mln)	Last Year Reported	EPS (A) Last FY	EPS est. FY1E	EPS est. FY2E	P/E FY1	P/E FY2	EBITDA (mln) (A) Last FY	EBITDA (mln) est. FY1	EBITDA (mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Div. Yield	Net debt/ FY1 EBITDA
Aecon Group	ARE	OP		**$21.00**		$18.69	$847	12 - 2020	$1.16	$0.71	$1.17	15.8x	13.5x	$255	$218	$264	6.3x	6.0x	3.7%	1.1x
Bird Construction Inc.	BDT	OP		**$10.50**		$9.19	$487	12 - 2020	$0.71	$0.58	$0.82	15.8x	11.2x	$69	$77	$94	4.5x	3.7x	3.7%	-1.8x
Finning International Inc.	FTT	OP		**$43.00**	↑	$32.62	$5,294	12 - 2020	$1.14	$1.66	$2.05	19.6x	15.9x	$636	$753	$865	8.2x	7.1x	2.5%	1.1x
IBI Group Inc.	IBG	OP		**$14.00**	↑	$10.18	$318	12 - 2020	$0.48	$0.74	$0.79	13.7x	12.9x	$47	$51	$53	8.7x	8.3x	0.0%	1.1x
North American Construction Group Ltd.	NOA	OP		**$23.00**	↑	$16.30	$462	12 - 2020	$1.74	$1.87	$2.08	8.7x	7.9x	$175	$193	$210	4.5x	4.1x	1.0%	2.1x
Ritchie Bros. Auctioneers	RBA	OP		**U$66.00**	↑	U$64.64	U$7,029	12 - 2020	U$1.59	U$1.91	U$2.06	33.8x	31.3x	U$352	U$373	U$393	20.1x	19.1x	1.4%	1.0x
SNC-Lavalin	SNC	OP		**$36.00**	↑	$28.02	$4,919	12 - 2020	-$0.67	$1.71	$2.41	11.8x	8.5x	$93	$610	$782	7.5x	6.0x	0.3%	1.7x
Stantec Inc.	STN	OP		**$60.00**	↑	$57.87	$6,460	12 - 2020	$2.13	$2.39	$2.50	24.2x	23.2x	$435	$472	$505	14.6x	13.6x	1.1%	0.8x
Toromont Industries Ltd.	TIH	OP		**$107.00**	↑	$99.10	$8,136	12 - 2020	$3.09	$3.81	$4.46	26.0x	22.2x	$539	$605	$674	13.6x	12.2x	1.3%	0.1x
WSP Global	WSP	OP		**$143.00**	↑	$128.41	$15,045	12 - 2020	$3.34	$4.06	$5.34	31.6x	24.0x	$801	$952	$1,167	17.1x	13.9x	1.2%	1.2x
AutoCanada	ACQ	SP		**$40.00**	↑	$50.02	$1,367	12 - 2020	$0.44	$2.97	$2.69	16.8x	18.6x	$83	$167	$158	9.0x	9.5x	0.0%	0.7x
Stelco	STLC	OP	↑	**$36.00**	↑	$31.39	$2,785	12 - 2020	-$0.60	$7.68	$2.30	4.1x	13.7x	$63	$801	$316	3.6x	9.0x	1.3%	0.0x
ATS Automation	ATA	OP		**$33.00**	↑	$30.04	$2,776	12 - 2020	$0.99	$1.40	$1.58	21.5x	19.0x	$173	$238	$262	13.1x	11.9x	0.0%	1.5x
ABC Technologies	ABCT	SP		**$10.00**	↓	$9.86	$518	12 - 2020	NM	U$0.58	U$0.80	13.6x	9.7x	U$89	U$147	U$157	4.3x	4.1x	1.5%	1.6x
Stella-Jones	SJ	SP		**$57.00**	↑	$52.21	$3,506	12 - 2020	$3.12	$3.23	$3.27	16.2x	16.0x	$343	$350	$359	11.7x	11.5x	1.4%	1.7x
Median												**16.2x**	**15.9x**				**8.7x**	**9.0x**	**1.3%**	

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

Source: Company Reports, Refinitiv, NBF

Merchandising & Consumer Products

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Selection

› *Gildan*

Metro Inc. (MRU: TSX)

Q2 F2021 Results: Solid execution, as usual

Q2/F21 adj. EPS was $0.78 vs. NBF/cons. at $0.75/$0.76; last year was $0.72

We consider the results to be good given outperformance across key metrics, led by stronger than expected same store sales growth, both in food and pharmacy. MRU reported food sssg of 5.5% vs. NBF at 3.3%; last year was 9.7%. Pharmacy (PJC) sssg was -0.8% vs. NBF at -1.9%; F/E sssg was -0.5% vs. NBF at -6.1%; Rx sssg was 4.2% vs. NBF at 0.9%. Total sales were $4,193 mln vs. NBF at $4,068 mln; last year was $3,989 mln. Total EBITDA was $396 mln vs. NBF at $379 mln and cons. at $390 mln; last year was $374 mln (COVID-19 costs were ~$29 mln).

Outlook commentary aligns with our expectations

Management provided outlook commentary that was largely in line with our expectations. Management expects the pharmacy business to perform well given higher F/E sales (favourable y/y comparisons; we also anticipate ancillary benefits from COVID-19 vaccinations) and continued growth in Rx.

Management expects the food business to decline y/y in the short term (lapping COVID-19 impacts). However, in absolute terms, food sales are expected to remain strong versus pre-pandemic levels. We made slight revisions to our estimates to reflect Q2/F21 results and management's near-term outlook.

Maintain Sector Perform rating; price target is $65

We value MRU at 11.0x our F22/F23 EBITDA. The price target increase largely reflects advancement of our valuation period.

Merchandising & Consumer Products

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 04/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA (A) Last FY	EBITDA est. FY1	EBITDA est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	Debt/ Total Capital	12-Mth Price Target	Δ
General Merchandise																					
Canadian Tire	CTC.a	OP		12,035	61.4	196.15	12/2020	12.95	13.83	16.04	14.2	12.2	2,181	2,236	2,419	6.7	6.2	73.32	0.40	199.00	
Dollarama	DOL	OP		18,007	312.3	57.66	02/2021	1.81	2.24	2.56	25.7	22.5	1,131	1,331	1,461	15.8	14.4	1.07	0.90	63.00	
Specialty Stores																					
Couche Tard	ATD.b	OP		46,372	1,109.9	41.78	04/2020	1.97	2.22	2.01	15.3	16.9	4,363	4,685	4,314	9.2	10.0	10.95	0.36	47.00	
Parkland Fuel Corporation	PKI	OP		6,105	153.5	39.77	12/2020	0.54	1.58	1.84	25.2	21.6	967	1,231	1,326	7.9	7.4	14.76	0.62	44.00	
Apparel																					
Gildan	GIL	OP		8,525	198.4	42.97	12/2020	(0.18)	1.55	1.91	22.6	18.3	165	515	594	14.4	12.5	7.86	0.27	45.00	↑
Roots Corporation	ROOT	SP		140	42.4	3.30	02/2021	0.35	0.52	0.64	6.4	5.1	64	72	79	4.2	3.8	3.87	0.50	5.00	↑
Grocers																					
Empire Company	EMP.a	OP		10,446	269.1	38.82	05/2020	2.15	2.52	2.73	15.4	14.2	1,892	2,122	2,216	7.9	7.5	15.91	0.59	44.00	
Loblaw	L	OP		24,042	352.7	68.16	12/2020	4.19	4.69	5.63	14.5	12.1	5,006	5,141	5,429	7.5	7.1	31.52	0.57	76.00	↑
Metro	MRU	SP		14,015	250.9	55.86	09/2020	3.27	3.48	3.73	16.1	15.0	1,091	1,077	1,052	15.2	15.5	24.77	0.27	64.00	↑
Food Manufacturer																					
Saputo	SAP	SP		16,260	412.1	39.46	03/2020	1.62	1.64	1.93	24.0	20.4	1,468	1,514	1,684	13.2	11.9	15.7	0.37	39.00	
Lassonde	LAS.a	OP		1,322	6.9	190.70	12/2020	14.11	13.39	14.12	14.2	13.5	217	208	212	7.3	7.2	114.8	0.21	186.00	
Premium Brands Holdings	PBH	OP		4,950	41.4	119.56	12/2020	3.04	5.07	5.34	23.6	22.4	313	442	488	13.4	12.1	38.6	0.38	130.00	↑
Mattress Retailing																					
Sleep Country Canada	ZZZ	SP		1,303	37.0	35.19	12/2020	1.95	2.03	2.26	17.4	15.6	171	176	185	9.3	8.9	9.68	0.49	37.00	↑
Beauty and Personal Care																					
MAV Beauty Brands	MAV	SP		231	42.4	5.45	12/2020	0.34	0.47	0.57	11.5	9.5	28	34	38	10.8	9.6	5.55	0.37	6.00	
Restaurants																					
MTY Food Group	MTY	SP		1,295	24.7	52.40	11/2020	3.34	(1.41)	3.03	-37.1	17.3	152	149	166	11.7	10.5	22.93	0.44	58.00	↑
Online Grocery																					
Goodfood Market	FOOD	OP		549	66.8	8.23	08/2020	(0.07)	(0.08)	(0.01)	NA	NA	5	9	16	NA	NA	0.90	(3.26)	13.00	↓

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

u=US dollars

Source: Refinitiv, Company reports, NBF

Note: Lassonde and Goodfood covered by Ryan Li.

Sector Analysis

Metals & Mining: Base Metals

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Selections

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

Price Volatility to Persist in 2021

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

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

Top picks:

- **First Quantum Minerals Ltd. (FM: TSX)**
The company's high-quality asset base, organic growth profile and long-term exposure to copper prices maintain its status as a 'go-to' copper producer. FM has the most potential to deliver meaningful news flow over the next 12 months with potential non-core asset sales, which may include a minority interest in its Zambian operations as well as Ravensthorpe. These strategic divestitures would be supportive of deleveraging the balance sheet and reduce the company's overall exposure to future cost increases in Zambia. Any further clarity regarding the long-term tax/royalty structure in Panama and Zambia would further improve the outlook for the company.
- **Capstone Mining Corp. (CS: TSX)**
Capstone is set to deliver several catalysts that will define an improved near-term growth outlook including initiatives to achieve a sustained 57,000 tpd mill throughput by mid-year at Pinto Valley and mine life extension at Cozamin via incorporating an additional paste/backfill. Pinto Valley/Cozamin are expected to deliver ~30% production growth and ~10% reduction in costs by 2023. In addition, with the Cozamin silver stream sale and Santo Domingo gold stream sale, the company has eliminated net debt and continues to advance partnership/ financing agreements to deliver transformational growth from Santo Domingo.
- **Copper Mountain Mining Corp. (CMMC: TSX)**
Copper Mountain has a strong near-term production outlook at the Copper Mountain Mine, entering a high-grade sequence for 2021-2022 and the completion of the mill expansion to 45,000 tpd by Q3/21 (from 40,000 tpd), and recently improved balance sheet with the US$260 million note issuance freeing up cash flow to direct to future growth opportunities. Next to Copper Mountain Mine, CMMC has the Eva development project on the horizon with a development decision expected by year-end 2021.

Metals & Mining: Base Metals

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	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	12-Month Price Target	12-Month Δ	Analyst	EPS FY0	EPS FY1	EPS FY2	P/E FY1	P/E FY2	CFPS FY0	CFPS FY1	CFPS FY2	P/CF FY1	P/CF FY2	Net Asset Value	P/NAV
Producers																					
Capstone Mining	CS	OP		2,267	410.0	5.53	6.25	↑	Nagle	0.07u	0.57u	0.61u	7.2x	9.0x	0.34u	0.88u	0.80u	4.7x	5.2x	5.72	1.0x
Copper Mountain Mining	CMMC	OP		887	208.8	4.25	4.75	↑	Nagle	0.11u	0.66u	0.61u	6.5x	7.0x	0.61u	1.39u	1.13u	3.1x	3.8x	4.78	0.9x
Ero Copper	ERO	SP		2,178	87.9	24.78	26.00	↑	Nagle	0.97u	1.34u	2.29u	13.9x	10.8x	1.54u	2.02u	3.09u	9.2x	6.0x	31.14	0.8x
First Quantum Minerals	FM	OP		20,353	690.4	29.48	35.00	↑	Nagle	(0.07)u	1.79u	3.06u	12.4x	9.6x	2.64u	4.70u	5.87u	4.7x	3.8x	25.00	1.2x
Hudbay Minerals	HBM	SP		2,412	261.3	9.23	12.50	↑	Nagle	(0.44)u	0.22u	0.73u	31.3x	12.6x	0.93u	2.01u	2.66u	3.5x	2.6x	8.88	1.0x
Lundin Mining	LUN	SP		11,236	738.3	15.22	16.25	↑	Nagle	0.31u	1.16u	1.45u	9.9x	10.5x	1.00u	2.17u	2.31u	5.3x	4.9x	12.36	1.2x
Nexa Resources	NEXA	SP		1,702	132.4	12.85	15.50	↑	Nagle	(0.82)u	0.95u	1.21u	10.2x	10.6x	1.44u	3.38u	4.01u	2.9x	2.4x	28.58	0.4x
Sherritt International	S	SP		250	397.3	0.63	0.65	↑	DeMarco	(0.34)c	(0.23)c	0.02c	n/a	26.9x	0.03c	0.03c	0.11c	21.7x	5.7x	0.60	1.0x
Taseko Mines	TKO	SP		711	282.1	2.52	3.00	↑	Nagle	(0.11)c	0.13c	0.16c	19.3x	15.6x	0.44c	0.66c	0.71c	3.8x	3.5x	4.18	0.6x
Teck Resources	TECKb	OP		14,525	539.4	26.93	32.50	↑	Nagle	1.05c	2.74c	3.37c	9.8x	8.0x	3.38c	6.26c	6.71c	4.3x	4.0x	26.44	1.0x
Trevali Mining	TV	SP		198	989.1	0.20	0.25	-	Nagle	(0.03)c	0.05c	0.06c	2.8x	3.3x	0.01c	0.11c	0.11c	1.3x	1.3x	0.45	0.4x
Developers																					
Adventus Mining	ADZN	OP		151	131.1	1.15	1.65	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.10	0.5x
Filo Mining	FIL	OP		370	110.8	3.34	4.50	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.99	0.5x
Nevada Copper	NCU	SP		387	1,798.0	0.22	0.20	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.37	0.6x
Josemaria Resources	JOSE	SP		273	378.7	0.72	1.30	-	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.75	-
Trilogy Metals	TMQ	OP		404	144.2	2.80	4.25	↑	Nagle	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.97	0.6x

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

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Metals & Mining: Precious Metals

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Selections

Gold/Silver Producers:

› ***Dundee Precious Metals Inc.*** *(DPM: TSX; C$12.50 target)*
› ***Endeavour Mining Corp.*** *(EDV: TSX; C$53.00 target)*
› ***Kinross Gold Corp.*** *(K: TSX; C$14.00 target)*
› ***Newmont Corp.*** *(NGT: TSX; C$101.00 target)*
› ***SSR Mining Inc.*** *(SSRM: TSX; C$34.00 target)*

Royalties:

› ***Sandstorm Gold Ltd.*** *(SSL: TSX; C$12.00 target)*

Inflation Could Spark Gold Rally

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

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

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

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

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Sector Analysis

Metals & Mining: Precious Metals

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	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		18,962	242.88	78.07	97.00	↓	Parkin	0.96u	1.86u	2.48u	34.2x	25.7x	3.64u	4.99u	4.99u	12.7x	12.7x	48.99	1.6x
Barrick Gold	ABX	OP		46,566	1,778.00	26.19	36.00	↓	Parkin	0.51u	1.15u	1.19u	18.6x	17.9x	1.81u	3.22u	3.22u	6.6x	6.6x	22.30	1.2x
Kinross Gold Corp	K	OP		11,142	1,277.70	8.72	14.00	↓	Parkin	0.31u	0.73u	0.46u	9.7x	15.5x	0.80u	1.37u	1.37u	5.2x	5.2x	12.99	0.7x
Kirkland Lake Gold Corp	KL	SP		12,177	264.02	46.12	52.00	↓	Parkin	2.74u	3.37u	2.86u	11.2x	13.2x	4.46u	4.75u	4.75u	7.9x	7.9x	30.41	1.5x
Newmont	NGT	OP		60,405	789.91	76.47	101.00	↓	Parkin	1.32u	2.66u	3.05u	23.5x	20.4x	4.31u	5.69u	5.69u	10.9x	10.9x	59.07	1.3x
Royalty Companies																					
Franco-Nevada Corp	FNV	SP		32,902	191.0	172.30	190.00	↓	Nagle	1.82u	2.72u	2.86u	47.6x	60.2x	3.36u	4.22u	4.30u	30.7x	30.1x	77.32	2.2x
Maverix Metals Inc	MMX	SP		1,035	140.2	7.38	7.75	↓	Nagle	0.08u	0.12u	0.03u	n/a	246.0x	0.27u	0.29u	0.24u	25.8x	31.4x	5.15	1.4x
Osisko Gold Royalties Ltd	OR	OP		2,483	166.6	14.90	20.00	↓	Nagle	0.26u	0.37u	0.50u	n/a	30.0x	0.65u	0.95u	1.12u	15.7x	13.3x	17.17	0.9x
Royal Gold Inc	RGLD	SP		7,436	65.2	113.99u	145.00u	↓	Nagle	2.91u	3.18u	3.30u	35.8x	34.5x	6.28u	5.94u	6.10u	14.4x	14.1x	74.77	1.5x
Sandstorm Gold Ltd	SSL	OP		1,805	194.5	9.28	12.00	↓	Nagle	0.11u	0.16u	0.22u	43.6x	42.2x	0.36u	0.38u	0.44u	18.4x	15.9x	8.80	1.1x
Wheaton Precious Metals Corp	WPM	OP		23,170	449.5	51.55	72.50	↓	Nagle	0.56u	1.10u	1.31u	35.2x	39.4x	1.14u	1.71u	1.84u	22.7x	21.1x	27.69	1.9x
Intermediate Producers (>250 Koz production)																					
Alamos Gold Inc	AGI	OP		3,982	392.70	10.14	13.25	↓	Parkin	0.21u	0.42u	0.96u	19.8x	8.6x	0.75u	0.97u	0.97u	8.5x	8.5x	11.33	0.9x
B2Gold	BTO	OP		5,698	1,030.4	5.53	9.50	↓	DeMarco	0.25u	0.48u	0.45u	11.6x	12.3x	0.51u	0.82u	0.77u	6.7x	7.2x	5.34	1.0x
Centerra Gold Inc	CG	OP		3,358	295.83	11.35	18.50	↓	Parkin	1.65u	2.50u	1.81u	3.7x	5.1x	1.36u	2.87u	2.56u	3.2x	3.6x	20.05	0.6x
Dundee Precious Metals	DPM	OP		1,358	181.3	7.49	12.50	↓	DeMarco	0.26u	0.99u	1.00u	7.6x	7.5x	0.62u	1.39u	1.82u	5.4x	4.1x	10.84	0.7x
Eldorado Gold Corp	ELD	OP		2,395	181.06	13.23	18.00	↓	Parkin	(0.02)u	0.97u	0.33u	13.6x	40.6x	0.93u	2.23u	2.23u	4.8x	4.8x	21.31	0.6x
Endeavour Mining	EDV	OP		3,845	163.1	23.58	53.00	↓	DeMarco	0.68u	2.14u	2.79u	11.0x	8.5x	2.68u	5.04u	5.76u	4.7x	4.1x	40.30	0.6x
Equinox Gold Corp	EQX	OP	↑	3,502	350.9	9.98	15.25	↓	Parkin	0.33u	0.37u	0.37u	26.9x	26.9x	0.68u	1.06u	0.95u	9.4x	10.5x	18.09	0.6x
IAMGOLD Corp	IMG	OP		1,858	475.30	3.91	5.50	↓	Parkin	(0.03)u	0.14u	0.21u	22.5x	15.3x	0.75u	0.77u	0.77u	4.1x	4.1x	7.78	0.5x
Lundin Gold Inc.	LUG	OP		2,744	230.6	11.90	13.75		Egilo	0.47u	0.56u	0.47u	21.3x	25.2x	0.61u	1.25u	0.97u	9.6x	12.3x	10.96	1.1x
New Gold Inc	NGD	OP		1,401	680.20	2.06	3.00	↓	Parkin	(0.08)u	0.03u	0.14u	72.6x	15.1x	0.39u	0.41u	0.41u	4.1x	4.1x	3.21	0.6x
OceanaGold Corp	OGC	OP		1,485	703.99	2.11	3.00	↓	Parkin	0.06u	(0.11)u	0.07u	n/a	30.7x	0.33u	0.33u	0.33u	5.2x	5.2x	3.31	0.6x
Pretium Resources	PVG	SP		2,307	188.0	12.27	16.00	↓	DeMarco	0.54u	0.97u	1.05u	12.6x	11.6x	1.13u	1.76u	1.76u	7.0x	7.0x	15.29	0.8x
SSR Mining Inc	SSRM	OP		4,112	209.61	19.62	34.00	↓	Parkin	0.74u	1.43u	1.78u	11.2x	9.0x	1.59u	1.65u	1.65u	9.7x	9.7x	31.15	0.6x
Yamana Gold Inc	YRI	SP		5,593	986.47	5.67	7.25	↓	Parkin	0.10u	0.32u	0.22u	14.6x	20.8x	0.51u	0.66u	0.66u	7.0x	7.0x	4.77	1.2x
Silver Producers																					
Aya Gold and Silver	AYA	OP		539	92.2	5.85	9.00	↑	DeMarco	(0.05)u	0.01u	0.07u	-	-	1.18u	0.00u	0.09u	-	66.0x	4.16	1.4x
First Majestic Silver Corp	FR	SP		4,575	214.9	21.29	20.00	↓	DeMarco	0.03u	0.23u	0.36u	93.5x	59.6x	0.53u	0.54u	0.77u	39.5x	27.6x	6.86	3.1x
Fortuna Silver Mines Inc	FVI	SP		1,667	184.0	9.06	10.50	↓	DeMarco	0.18u	0.16u	0.83u	58.4x	10.9x	0.45u	0.43u	1.46u	21.1x	6.2x	7.01	1.3x
Pan American Silver	PAAS	SP		8,509	210.1	40.50	50.00	↓	DeMarco	0.60u	0.93u	2.06u	43.6x	19.7x	1.60u	1.76u	3.29u	23.0x	12.3x	24.63	1.6x
Junior Producers (<250 Koz production)																					
Argonaut Gold Inc.	AR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Golden Star Resources	GSC	OP		422	109.6	3.85	6.50	↓	DeMarco	0.21u	0.34u	0.63u	11.3x	6.1x	0.40u	0.81u	0.82u	4.8x	4.7x	7.08	0.5x
K92 Mining Inc.	KNT	OP		1,754	219.2	8.00	11.25	↓	Egilo	0.16u	0.20u	0.24u	40.8x	33.7x	0.24u	0.34u	0.33u	23.4x	24.1x	9.40	0.9x
Minera Alamos Inc.	MAI	OP		298	438.2	0.68	1.15		Egilo	0.01u	0.01u	0.05u	57.6x	12.6x	0.01u	0.01u	0.07u	54.6x	10.4x	0.94	0.7x
Wesdome Corp.	WDO	OP		1,113	138.4	8.04	12.50	↓	DeMarco	0.32u	0.44u	0.69u	18.5x	11.7x	0.56u	0.71u	1.13u	11.4x	7.1x	10.03	0.8x
Developers																					
Artemis Gold Inc.	ARTG	OP		681	122.7	5.55	9.75	↓	DeMarco	0.00u	(0.07)u	(0.04)u	-	-	0.00u	(0.15)u	(0.07)u	-	-	8.48	8.48
Barsele Minerals Corp.	BME	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Bluestone Resources Inc.	BSR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Falco Resources Ltd.	FPC	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Integra Resources Corp.	ITR	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Liberty Gold Corp	LGD	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
MAG Silver Corp	MAG	OP		2,119	91.2	23.24	27.00	↓	DeMarco	(0.06)u	(0.18)u	0.60u	-	38.8x	(0.04)u	(0.04)u	0.81u	-	28.7x	19.72	1.2x
Marathon Gold Corp.	MOZ	OP		633	252.1	2.51	3.50		DeMarco	0.00u	(0.00)u	(0.01)u	-	-	(0.02)u	0.53u	(0.01)u	4.8x	-	3.41	0.7x
O3 Mining Inc.	OIII	OP		150	60.2	2.50	4.00	↓	DeMarco	(0.09)u	(0.20)u	(0.16)u	-	-	(0.09)u	(0.20)u	(0.16)u	-	-	6.13	0.4x
Osisko Development	ODV	OP		925	128.3	7.21	10.00	↓	DeMarco	0.00u	-	0.25u	-	-	(0.02)u	-	0.25u	-	28.9x	9.89	0.7x
Osisko Mining	OSK	OP		923	340.7	2.71	5.00	↓	DeMarco	(0.16)u	(0.03)u	(0.03)u	-	-	(0.00)u	(0.02)u	(0.02)u	-	-	4.99	0.5x
Pure Gold Mining Inc.	PGM	UR		-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Sabina Gold and Silver Corp.	SBB	OP		585	326.6	1.79	3.75	↓	Egilo	(0.03)u	(0.01)u	(0.01)u	n/a	n/a	(0.01)u	(0.01)u	(0.01)u	n/a	n/a	3.65	0.5x
SilverCrest Metals	SIL	OP		1,303	128.5	10.14	14.50	↓	DeMarco	(0.22)u	(0.22)u	(0.03)u	-	-	(0.19)u	(0.21)u	(0.00)u	-	-	9.92	1.0x

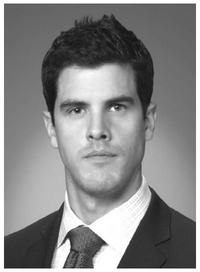
Rating System: OP = Outperform; SP = Sector Perform; UP = Underperform; R = Restricted; T = Tender; UR = Under Review

u = US dollars; c = Canadian dollars

Source: Company Reports, NBF Estimates, Refinitiv

Oil & Gas

Intermediate Oil & Gas and Oilfield Services



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Selections

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

Crude Oil Outlook

Crude has started off the first quarter on a positive note as WTI averaged US$57.80/bbl, representing a 36% increase from Q4/20's average of US$42.57/bbl. In April, crude prices were slightly weaker than prior month averaging ~ US$61.00/bbl (from ~US$62.00/bbl in March), but prices remain constructive with strong demand anticipated in H2/21. Differentials have started to widen in April for WCS-WTI trading at ~$US13/bbl currently from an average of US$10.8/bbl in March. Differentials are widening likely as a result of risks underlying the continuing operations of the Dakota Access Pipeline (DAPL) shutdown, Enbridge L5 in Minnesota and possible decrease in demand in the U.S Gulf Coast (USGC) from weaker Maya pricing.

OECD inventories are quickly nearing the 5-year average level (2015-2019; 2.9 bn) from 3.2 bn barrel glut caused by the pandemic. With the given trajectory, we could see these inventories fall below this threshold as summer driving season quickly approaches. Despite the improving fundamentals driving the crude markets, there are headwinds that could negatively impact supply and demand fundamentals.

On the demand front, COVID-19 variants pose a threat to short-term demand as many of the world's economies grapple with the virus and subsequent lockdowns, even as vaccination deployment in developed countries accelerate. In April, the situation in India has deteriorated and has impacted short-term demand as India locks down for a week. India consumes crude at a rate of ~5 mmbbl/d of and based on the last time India locked down (April-2020), it impacted demand by ~2.5 mmbbl/d. A major state-run refiner has already started cutting refining runs, which could increase should the situation continue to deteriorate.

On the supply front, Iranian barrels could be added back to the market given the constructive talks between the U.S and Iran with reinstating the former Nuclear Deal. Based on preliminary estimates, this could see an eventual incremental 1.8 mmbbl/d return to the market after the deal is agreed to. The exact timing is uncertain given the Iranian election coming up in June. Despite the potential negative impact on demand in India, the April 28th OPEC meeting demonstrated the cartels commitment to its original plan set in early April to gradually restore production at a pace of 350 mbbl/d in both May and June, followed by an additional 440 mbbl/d in July. The deal also outlined the phasing out of Saudi Arabia's voluntary 1.0 mmbbl/d supply cut, which will see supply return at a pace of 250 mbbl/d in May, 350 mbbl/d in June and 400 mbbl/d in July. Recall in April 2020, OPEC+ reduced output by a record 9.7 mmbbl/d, which today is estimated at about 8.0 mmbbl/d. With global oil pricing seemingly rangebound in the US$55-62/bbl range (in line with our view), we expect OPEC+ will remain committed to maintaining balance in the market.

First quarter earnings season has started for our E&P coverage and we're largely expecting the continued theme of capital discipline and leverage reduction to dominate company's earnings announcements for the quarter. Our 2021 forecast for WTI continues to call for US$59.50/bbl, in line with the forward strip at US$59.76/bbl.

Natural Gas Outlook

Natural Gas prices have remained relatively strong across major North American benchmarks throughout the month with spot prices averaging US$2.62/MMBtu and C$2.59/GJ for NYMEX and AECO, relatively consistent with prior month. With the lack of any meaningful rig activity in response to the current pricing environment, U.S production has decreased slightly from 91.4 Bcf/d to ~91 Bcf/d between March and April. LNG and Mexico exports still remain strong around 11.6 Bcf/d and ~6.1 Bcf/d, respectively. Overall demand remains elevated in the U.S and Alberta setting/ matching season records of ~70 Bcf/d and 5.4 Bcf/d, respectively, which has supported prices.

With the injection season is underway in April, U.S Natural Gas inventory's are currently just over the 5-year average and Canadian Natural Gas inventory's are below the 5-year average, mainly driven by storage levels well below the 5-year average in Western Canada due to volatile weather. Due to warmer weather in April south of the border, the U.S has experienced surges in demand related to power usage in Mexico (exports) and the Southern U.S. With production levels relatively muted, this incremental demand helps tighten the supply/demand balance, which will help alleviate upward pressure on storage during the injection season this month.

Overall, we remain constructive on the natural gas complex. Reflecting the current market conditions, we have recently revised our commodity price deck for natural gas pricing assumptions: We have decreased our forecast for NYMEX to US$2.75/mcf (from US$3.00/mcf) for 2021 and increasing 2022 to US$2.75/mcf (from US$2.70/mcf). Additionally, our AECO forecast for 2021 decreases to C$2.70/mcf (from C$3.10/mcf) and holding 2022 constant at $2.50/mcf. We continue to monitor gas fundamentals and forecasts for validation around our optimistic thesis that a more resilient price landscape is emerging in the medium term.

Top Picks

Cenovus Energy Inc. (CVE: TSX/NYSE)

Underpinned by its strong base business and integrated capacity, the company can weather this commodity cycle and provide torque to the upside as global oil prices return. Cenovus has a top-quality asset base – in Foster Creek and Christina Lake – and has sustaining and breakeven costs that are amongst the lowest in the sector. Cenovus recently closed on its deal to acquire Husky and capture $1.2 billion in annual cost savings. We view this deal as necessary and strategic given the company's high confidence in achieving the $1.2 billion in annual cost savings. Additionally, the added downstream integration and increased egress capacity will help reduce the company's exposure to the WCS differential, which supports our recommendation for Cenovus as a top pick.

Tourmaline Oil Corp. (TOU: TSX)

As one of Canada's largest gas producers, TOU remains one of our top picks for its exposure to the natural gas trade, the result of well-capitalized and strong organic operations with fundamental tailwinds (cost, capital efficiencies and netback) to support a solid value proposition. Additional strength is seen in the balance sheet, deep inventory and top-tier cost structure as the company continues to generate extensive FCF. In the current macro environment, TOU is one of the most investable names, where it holds positive and well-supported liquidity, exposure to several value-additive themes (gas and Topaz), which in sum, support what is already an attractive valuation.

Parex Resources Inc. (PXT: TSX)

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

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Sector Analysis
Oil & Gas

	Stock Sym.	Stock Rating	Δ	Analyst	Share O/S (Mln)	Share Price 4/29	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	1183.9	$37.73	$44,667	5%	5.7x	8.9x	4.8x	4.0x	1.2x	$8.60	$4.40	$9.73	6.2x	3.9x	$49.00	35%	↓
Cenovus Energy	CVE	OP		Wood	2017.4	$9.75	$19,670	0%	5.0x	36.0x	4.3x	46.4x	1.5x	$3.01	$0.12	$3.06	83.7x	3.2x	$14.50	49%	↑
Ovintiv Inc (US$)	OVV	OP		Wood	259.8	$24.95	$6,483	2%	6.4x	4.4x	3.8x	3.9x	1.9x	$11.22	$7.42	$10.76	1.3x	2.3x	$32.00	30%	↑
Imperial Oil	IMO	SP		Wood	734.1	$33.88	$24,871	3%	8.3x	29.6x	5.8x	4.3x	0.3x	$4.59	$1.20	$6.07	26.9x	5.6x	$33.00	0%	↓
Suncor Energy	SU	SP		Wood	1501.0	$26.66	$40,016	3%	6.8x	10.1x	4.7x	3.7x	1.1x	$6.93	$2.66	$6.55	8.9x	4.0x	$29.00	12%	↓
Large/Mid Cap																					
Advantage Oil & Gas	AAV	OP		Payne	193.4	$3.40	$657	0%	4.1x	5.1x	4.1x	2.4x	0.9x	$0.83	$0.56	$1.03	3.5x	3.3x	$4.25	25%	↑
ARC Resources Ltd.	ARX	OP		Wood	722.7	$7.84	$5,666	3%	4.9x	3.9x	4.2x	1.1x	1.0x	$1.97	$1.89	$2.73	3.0x	3.3x	$12.50	63%	↓
Baytex Energy	BTE	SP		Payne	567.3	$1.50	$851	0%	3.0x	5.4x	3.8x	5.9x	2.9x	$1.62	$0.56	$0.95	1.3x	1.6x	$2.00	17%	↑
Birchcliff Energy	BIR	OP		Payne	265.9	$3.11	$827	1%	4.1x	6.0x	3.6x	4.1x	1.6x	$1.26	$0.69	$1.46	2.2x	2.1x	$4.50	45%	↓
Crescent Point Energy Corp.	CPG	OP		Wood	580.0	$4.95	$2,871	0%	2.7x	3.9x	3.4x	2.6x	1.6x	$3.35	$1.65	$2.45	1.7x	2.1x	$7.00	42%	↓
Enerplus Corporation	ERF	OP		Wood	255.6	$6.79	$1,736	2%	3.6x	3.5x	3.3x	1.5x	1.3x	$3.04	$1.61	$3.13	2.3x	2.2x	$10.50	56%	↑
Freehold Royalties	FRU	OP		Wood	131.6	$7.95	$1,046	4%	9.7x	7.8x	7.6x	0.9x	-0.1x	$1.00	$0.61	$1.04	7.2x	7.7x	$9.00	18%	
Headwater Exploration	HWX	OP		Payne	215.3	$4.41	$949	0%	-0.3x	92.6x	10.3x	-9.2x	-0.9x	$0.09	$0.06	$0.40	66.4x	11.1x	$4.50	2%	
Kelt Exploration	KEL	OP		Payne	188.6	$2.72	$513	0%	5.6x	4.9x	5.0x	-0.4x	-0.1x	$0.99	$0.31	$0.54	6.3x	5.0x	$4.00	47%	
MEG Energy	MEG	SP		Wood	302.7	$7.07	$2,140	0%	4.6x	7.7x	5.4x	10.0x	3.9x	$2.41	$0.92	$2.00	4.3x	3.5x	$11.00	56%	↑
NuVista Energy	NVA	SP	↓	Payne	225.7	$2.31	$521	0%	4.3x	4.2x	4.4x	3.8x	2.6x	$1.18	$0.70	$0.92	1.6x	2.5x	$3.00	30%	
Paramount Resources	POU	SP		Payne	121.5	$11.07	$1,345	0%	4.9x	6.1x	4.3x	5.7x	1.5x	$2.29	$1.12	$3.19	2.7x	3.5x	$13.50	22%	
Parex Resources	PXT	OP		Wood	117.8	$23.38	$2,754	0%	3.9x	6.6x	2.7x	-1.1x	-0.8x	$5.02	$2.96	$6.20	7.9x	3.8x	$34.00	45%	↓
Peyto Exploration & Development	PEY	OP		Wood	164.9	$5.40	$890	1%	5.2x	5.9x	3.9x	5.5x	2.4x	$1.95	$1.29	$2.75	2.0x	2.0x	$8.00	49%	
PrairieSky Royalty	PSK	SP		Wood	223.3	$13.23	$2,955	2%	18.4x	15.4x	14.3x	0.3x	-0.3x	$0.94	$0.64	$0.91	15.3x	14.6x	$15.00	15%	
Spartan Delta	SDE	OP		Payne	127.1	$4.43	$563	0%	-92.2x	6.9x	3.4x	0.3x	-0.6x	-$0.89	$0.67	$1.25	0.0x	0.0x	$6.75	52%	
Storm Resources	SRX	SP		Payne	121.9	$3.12	$380	0%	5.3x	5.2x	3.8x	2.3x	0.8x	$0.49	$0.47	$0.98	0.0x	0.0x	$4.00	28%	
Tamarack Valley Energy	TVE	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Topaz Energy	TPZ	OP		Payne	113.0	$14.48	$1,636	6%	-1.7x	14.7x	12.0x	-2.7x	-0.9x	$11.16	$0.98	$1.13	14.0x	12.8x	$18.00	30%	
Tourmaline Oil	TOU	OP		Payne	287.0	$26.67	$7,653	2%	4.9x	4.9x	4.1x	1.5x	0.5x	$4.43	$4.36	$6.96	3.3x	3.8x	$37.50	43%	
Vermilion Energy Inc.	VET	SP		Wood	159.3	$9.28	$1,479	0%	6.2x	5.6x	4.4x	4.0x	2.6x	$5.82	$3.18	$4.08	2.5x	2.3x	$10.00	8%	↑
Whitecap Resources	WCP	OP		Wood	633.9	$5.52	$3,499	3%	4.2x	4.8x	4.6x	2.5x	1.2x	$1.64	$1.07	$1.60	2.9x	3.6x	$8.50	57%	↑
Small Cap																					
Crew Energy	CR	SP		Payne	159.8	$1.03	$165	0%	4.1x	6.5x	3.6x	8.7x	2.9x	$0.53	$0.27	$0.83	1.4x	1.2x	$1.50	46%	
Pipestone Energy	PIPE	SP		Payne	278.7	$1.67	$465	0%	32.4x	6.8x	3.8x	4.2x	1.1x	$0.01	$0.15	$0.57	4.9x	2.9x	$2.50	50%	
Surge Energy	SGY	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Yangarra Resources	YGR	SP		Payne	87.7	$1.09	$96	0%	3.2x	4.5x	2.7x	4.3x	1.9x	$1.08	$0.53	$1.04	1.2x	1.1x	$1.50	38%	

* 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 4/29	EBITDA (mm) 2019	EBITDA (mm) 2020e	EBITDA (mm) 2021e	EV/EBITDA 2019	EV/EBITDA 2020e	EV/EBITDA 2021e	Net Debt / EBITDA 2019	Net Debt / EBITDA 2020e	Net Debt / EBITDA 2021e	12-Mth Price Target	12-Mth Price Return	Δ
Oilfield Services																			
CES Energy Solutions Corp.	CES	SP		Payne	$ 433.24	262.6	$1.65	$ 83.3	$ 114.9	$ 126.1	5.9x	6.4x	4.4x	4.6x	2.3x	1.8x	$2.30	39%	
National Energy Services Reunited	NESR	OP		Payne	$ 1,139.63	89.9	$12.68	$ 213.2	$ 254.4	$ 305.8	6.9x	5.7x	4.3x	1.5x	1.1x	0.5x	$14.00	10%	
Precision Drilling Corp.	PD	OP	↑	Payne	$ 438.03	13.3	$32.90	$ 285.2	$ 242.3	$ 301.6	5.9x	6.4x	4.4x	4.7x	4.3x	2.9x	$40.00	22%	↑
Trican Well Services	TCW	SP		Payne	$ 556.62	258.9	$2.15	$ 30.6	$ 60.6	$ 60.2	16.0x	7.9x	7.1x	1.3x	-0.2x	-0.6x	$2.25	5%	

Pipelines, Utilities & Energy Infrastructure

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Selections

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

Overview

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

Commodities Update

With increasing concerns surrounding near-term demand as COVID cases rise internationally, commodity prices pulled back modestly, with WTI averaging ~US$61.50/bbl, ~2% lower than March levels of ~US$62.50/bbl, but still ~50% above the 2020 average price of ~US$40/bbl. However, we note prices have started to inch higher, with WTI currently holding at ~US$64/bbl. On the gas front, AECO prices remained relatively unchanged, averaging $2.78/mcf, in line with the March average of $2.74/mcf. Looking at Marketing prospects, the WCS heavy differential continued to remain tight with minimal volatility, averaging ~US$11/bbl, in line with the prior two months, suggesting continued pressure on near-term crude oil marketing results.

Pipelines Update

Construction on the U.S. portion of the Line 3 Replacement project remains on track for the planned Q4/21 in-service date with pipe installation 49% completed (pumping stations 41% done). That said, pipe installation began a pause starting late March for Spring thaw until June, which is accounted for within its project timeline guidance. We note the June construction resumption happens to coincide with timing of the Minnesota Appeals Court decision on challenges against the L3R regulatory approval. Recall, alongside its Q4/20 results, the company provided a revised cost estimate of ~US$2.9 billion for the U.S. portion of the Line 3 Replacement project, reflecting an incremental US$1.1 billion, doubling up on our previous ~20% cost overrun estimate. Overall, with construction tracking in line with expectations, we maintain our Jan. 1, 2022 in-service date assumption, based on a six-to-nine-month construction window, pending further unimpeded construction progress. Meanwhile, to our surprise, the U.S. Army Corps of Engineers, under the Biden administration, elected not to announce a shutdown of DAPL, effectively leaving the decision in the hands of the federal judge, who has yet to make a decision. We continue to highlight the likely shutdown of DAPL while the USACE conducts its 13+ month EIS, representing ~2% of EBITDA and ~$2/sh (net of mitigation plans) within our target. On the Line 5 front, a federal judge recently appointed a mediator to attempt to advance discussions between the State of Michigan and Enbridge, which began on April 16th, to resolve the dispute outside of the courts. Meanwhile, on a positive note, a multi-party Canadian House of Commons Special Committee released a report affirming the economic importance of Line 5 to both Canada and the U.S., while recommending urgent, bi-national executive action to resolve the dispute between the State of Michigan and Enbridge. Recall, Line 5 represents ~$500 mln of annual EBITDA (~5% of AFFO), which we value at ~$3/sh within our target.

Meanwhile, in the Midstream space, Inter Pipeline (IPL) provided its first look into capacity contracting for its $4.0 bln Heartland Petrochemical Project, successfully securing ~60% of HPC capacity under take-or-pay contracts (nine-year weighted average) versus its 70-85% target, with seven Canadian and multinational energy producers and North American polypropylene consumers. Meanwhile, the company provided 2023e EBITDA guidance for HPC of ~$400-$450 mln, ~70% underpinned by long-term take-or-pay agreements. However, excluding the ~$136 mln of fixed annual proceeds for three years post commissioning from the $408 mln APIP grant, we note merchant plus "not rated" portion of take-or-pay agreements represents ~60% of 2023e EBITDA. Overall, given the steep ramp up in EBITDA over the first few years of operations, combined with the majority of cash flows being underpinned by merchant and/or "not rated" counterparties, we remain cautious on Brookfield's willingness to increase its offer from the current $16.50/sh (expiring June 7th) beyond its previously proposed range of $17.00-$18.25/sh. That said, we await the conclusion of the Board's strategic review process, including the search for a partner for HPC. Elsewhere, AltaGas (ALA) unexpectedly announced the sale and closing of its U.S Transportation and Storage business for $344 mln (US$275 mln), comprised of non-physical assets including natural gas transportation capacity contracts

Pipelines, Utilities & Energy Infrastructure

and leased gas storage (~31 Bcf). Based on ~US$16 mln of average normalized EBITDA over the trailing five-year period (2016-2020), the transaction reflects an EV/EBITDA multiple of >20x (incl. ~$100 mln of working capital).

Power & Utilities Update

Recently, TC Energy (TRP) announced the issuance of a Request for Information (RFI), to identify potential contract and/or investment opportunities in wind energy developments that could generate up to 620 MW of zero-carbon energy to meet a portion of its pipeline electricity needs. The RFI is open through May 10th and was issued to 100 renewable developers seeking suitable wind projects across the Southwest Power Pool (SPP), Midwest Independent System Operator (MISO) and the Electric Reliability Council of Texas (ERCOT) regions, supporting the accelerated electrification of a portion of its U.S. Liquids Pipelines' pump stations, which are already powered by electric motors. Elsewhere, Capital Power (CPX) recently announced a virtual PPA with Budweiser Canada for 51% of generation at its originally merchant sanctioned 75 MW Enchant Solar project, validating Capital Power's strategy of collaborating across industries to support economic decarbonization. On the Utility front, we note ITC, a Fortis (FTS) subsidiary, signed an agreement with the Canadian Infrastructure Bank in principle to invest $1.7 bln in the Lake Erie Connector project, with the CIB committing up to $655 mln (~40% of total costs). Recall, the Lake Erie Connector will be a 117 km underwater transmission line connecting Ontario with the PJM Interconnection, the largest electricity market in North America, allowing Ontario to export its clean, non-emitting power to the PJM market.

ESG Update

Gibson (GEI) recently announced it has fully transitioned its principal C$750 mln syndicated revolver into a five-year sustainability-linked revolving credit facility, including terms that alter the costs of borrowing as its sustainability and ESG targets are achieved or missed. We note, GEI is the first North American public energy company to realign its principal credit facility, a trend we could continue to see as sustainability-linked loans have become the preferred choice of sustainable financing product among issuers.

Top Picks

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

	Stock	Stock		Units	Unit	Market	Distributions per Share			Cash Yield		Distr. CF per Share - FD			P/Distr. CF		Net	12-Mth Price			Combined
	Sym.	Rating	Δ	O/S (Mln)	Price 04-29	Cap. (Mln)	est. 2020e	est. 2021e	est. 2022e	2021e	2022e	est. 2020e	est. 2021e	est. 2022e	2021e	2022e	Debt/ 22e EBITDA	Target	Return	Δ	Return
Pipeline & Midstream																					
AltaGas	ALA	OP		279.7	$23.99	$6,709	$0.96	$1.00	$1.04	4.2%	4.3%	$2.08	$2.69	$2.93	8.9x	8.2x	5.2x	25.00	4.2%	↑	8.4%
Enbridge Inc.	ENB	OP		2020.5	$48.09	$97,166	$3.24	$3.34	$3.51	6.9%	7.3%	$4.67	$4.87	$5.33	9.9x	9.0x	4.6x	51.00	6.1%		13.0%
Gibson Energy	GEI	SP		149.2	$23.15	$3,455	$1.36	$1.40	$1.40	6.1%	6.1%	$2.01	$1.91	$2.16	12.1x	10.7x	3.1x	23.00	-0.6%		5.4%
Inter Pipeline	IPL	SP		429.2	$17.94	$7,700	$0.48	$0.48	$0.48	2.7%	2.7%	$1.75	$1.70	$2.00	10.6x	9.0x	5.0x	18.00	0.3%		3.0%
Keyera	KEY	OP		221.0	$28.89	$6,385	$1.92	$1.92	$1.92	6.6%	6.6%	$3.26	$2.76	$2.70	10.5x	10.7x	4.0x	28.00	-3.1%		3.6%
Pembina Pipelines	PPL	SP		550.0	$38.06	$20,933	$2.52	$2.52	$2.52	6.6%	6.6%	$3.91	$3.84	$4.03	9.9x	9.4x	4.3x	39.00	2.5%		9.1%
Secure Energy	SES	OP		178.6	$4.47	$798	$0.03	$0.03	$0.03	0.7%	0.7%	$0.53	$0.54	$0.81	8.3x	5.5x	2.3x	5.50	23.0%		23.7%
Superior Plus	SPB	SP		176.0	$15.43	$2,716	$0.72	$0.72	$0.72	4.7%	4.7%	$1.37	$1.04	$1.38	14.8x	11.2x	3.5x	14.00	-9.3%		-4.6%
Tidewater Midstream	TWM	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R		R
TC Energy Corp.	TRP	OP		979.0	$61.94	$60,639	$3.24	$3.48	$3.69	5.6%	6.0%	$6.13	$5.57	$5.94	11.1x	10.4x	5.1x	67.00	8.2%		13.8%
Tervita	TEV	OP		115.7	$5.63	$651	$0.00	$0.00	$0.00	0.0%	0.0%	$0.51	$0.55	$0.80	10.2x	7.1x	2.7x	7.00	24.3%		24.3%
Power Producers & Utilities																					
ATCO Ltd.	ACO	SP		114.7	$42.47	$4,869	$1.74	$1.79	$1.81	4.2%	4.3%	$2.08	$2.42	$2.32	17.5x	18.3x	4.5x	44.00	3.6%		7.8%
Canadian Utilities	CU	SP		273.1	$34.94	$9,541	$1.74	$1.76	$1.78	5.0%	5.1%	$2.69	$2.87	$2.94	12.2x	11.9x	5.3x	35.00	0.2%		5.2%
Capital Power	CPX	OP		106.9	$39.82	$4,256	$1.99	$2.12	$2.25	5.3%	5.6%	$4.96	$5.30	$4.72	7.5x	8.4x	4.5x	45.00	13.0%		18.3%
Emera Inc.	EMA	SP		255.1	$56.12	$14,317	$2.48	$2.58	$2.68	4.6%	4.8%	$1.99	$3.81	$4.37	14.7x	12.9x	6.2x	59.00	5.1%		9.7%
Fortis Inc.	FTS	SP		472.6	$54.97	$25,977	$1.94	$2.05	$2.17	3.7%	4.0%	$3.92	$3.94	$4.62	14.0x	11.9x	6.1x	60.00	9.2%		12.9%
Hydro One Ltd.	H	SP		596.9	$29.81	$17,794	$1.01	$1.07	$1.12	3.6%	3.8%	$1.76	$1.72	$1.94	17.4x	15.4x	5.4x	31.00	4.0%		7.6%
TransAlta	TA	SP		269.8	$11.82	$3,189	$0.17	$0.18	$0.18	1.5%	1.5%	$1.30	$1.61	$1.61	7.3x	7.3x	3.6x	12.00	1.5%	↓	3.0%

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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Selections

- *ERE*
- *MHC*
- *HOM*
- *BEI*
- *CAR*
- *SVI*
- *KMP*
- *HR*
- *SIA*
- *GRT*

Revisions reflect improved post-pandemic prospects heading into Q1 reporting

Our Top 10 list started the year highly skewed to residential, and still does, but to a lesser degree, with some commercial, industrial and seniors housing names too. While government support has kept tenants in business throughout the pandemic, successive lockdowns in regions like Ontario and Quebec are impeding activity; consequently, we remain concerned there is a brittleness to tenants' financials and operations that could have an impact on tenant viability as subsidy programs wind down. We remind investors that facts are changing quickly, so we see ourselves as having below average earnings visibility through H1/21 and are favoring defensive residential asset classes over commercial ones for now. Here are our views by asset class:

- **Multi-family:** We expect near-term lockdowns will weigh on operations in H1/21, but a lack of affordable housing supply and resumption in demand drivers will start to ramp later in the summer and continue through to 2022, driving outsized rent growth.
- **Senior Housing/Healthcare:** While outbreak risks persist and impede occupancy recovery in retirement, we believe the long-term earnings power of these business is intact given the outlook for demand over the next decade and beyond. With the decline in outbreaks in LTC and retirement following vaccination campaigns, we may see some pandemic expense pressures ease. We still see this as a residential asset class with a bit earlier cycle torque coming from the vaccine rollout.
- **Industrial:** Tailwinds exacerbated by a dearth of supply, particularly in urban markets, will continue to drive wider mark-to-market spreads. Meanwhile a stalling in the upward trajectory of bond yields combined with compressing financing spreads are supportive of premium valuations.
- **Retail:** We expect earnings volatility will remain for now while collections remain in the low/mid-90% range due to the earnings provisions required. We do not expect that collections have been helped much by lockdowns. Slow vaccination progress and continued lockdowns also make it tougher to build consistent operating momentum, but we think we are starting to see some light at the end of the tunnel and grocery-anchored retail, which accounts for a lot of the retail space among the publicly traded retailers, has remained a favoured asset class with institutions through the pandemic. We believe that visibility into tenant health will not improve until midyear, and as a result, continue to favour the retailer-controlled REITs that have lower debt and higher collection rates.
- **Special Situations:** Our outlook varies by stock, but we still like the residential / quasi-residential names in this group: SVI (self-storage), TCN (single-family rentals) and MHC.u (manufactured housing).

Real Estate

Matt Kornack, Tal Woolley	REIT Sym.	Stock Rating	Δ	Market Cap (Mln)	Analyst	Unit Price 4-29	Distributions per Unit (A) 2020	Distributions per Unit est. 2021	Distributions per Unit est. 2022	Cash Yield 2020A	Cash Yield 2021E	Cash Yield 2022E	Cash Yield Current Annualized	FD FFO (A) 2020	FD FFO est. 2021	FD FFO est. 2022	P/FFO 2020A	P/FFO 2021E	P/FFO 2022E	Net Asset Value	12-Mth Price Target	12-Mth Total Return [1]	Δ
Retail																							
RioCan REIT	REI.un	OP	↔	$6,008	Woolley	$20.90	$1.44	$1.44	$1.44	6.9%	6.9%	6.9%	6.9%	$1.60	$1.52	$1.58	13.1x	13.7x	13.2x	$24.60	$22.00	12.2%	↑
Choice Properties REIT	CHP.un	SP	↔	$9,486	Woolley	$14.15	$0.74	$0.74	$0.74	3.5%	3.5%	3.5%	5.2%	$0.92	$0.99	$1.00	15.3x	14.3x	14.1x	$12.90	$14.50	6.0%	↑
First Capital REIT	FCR	SP	↔	$3,613	Woolley	$17.57	$0.86	$0.86	$0.86	4.1%	4.1%	4.1%	4.9%	$1.01	$1.10	$1.12	17.5x	15.9x	15.7x	$20.90	$18.50	9.4%	↑
SmartCentres REIT	SRU.un	SP	↔	$4,568	Woolley	$28.58	$1.81	$1.85	$1.85	8.7%	8.9%	8.9%	6.5%	$2.20	$2.14	$2.12	13.0x	13.4x	13.4x	$31.70	$29.00	10.3%	↑
CT REIT	CRT.un	OP	↔	$3,610	Woolley	$16.55	$0.76	$0.79	$0.79	3.6%	3.8%	3.8%	4.8%	$1.18	$1.23	$1.28	14.1x	13.4x	12.9x	$16.40	$18.00	12.5%	↔
Crombie REIT	CRR.un	OP	↔	$2,400	Woolley	$16.43	$0.89	$0.89	$0.89	4.3%	4.3%	4.3%	5.4%	$1.05	$1.15	$1.23	15.6x	14.3x	13.4x	$16.60	$17.00	7.7%	↑
Automotive Properties REIT	APR.un	OP	↔	$455	Woolley	$11.92	$0.80	$0.80	$0.80	3.8%	3.8%	3.8%	6.7%	$0.90	$0.94	$0.96	13.2x	12.7x	12.5x	$10.80	$12.50	8.7%	↑
Office & Diversified																							
Allied Properties REIT	AP.un	OP	↔	$5,194	Kornack	$42.61	$1.70	$1.73	$1.73	8.1%	8.3%	8.3%	4.1%	$2.29	$2.39	$2.60	18.6x	17.8x	16.4x	$47.25	$44.50	12.7%	↔
DREAM Office REIT	D.un	OP	↔	$1,182	Kornack	$21.18	$1.00	$1.00	$1.00	4.8%	4.8%	4.8%	4.7%	$1.52	$1.59	$1.65	13.9x	13.3x	12.8x	$24.60	$22.00	8.7%	↔
Slate Office REIT	SOT.un	SP	↔	$321	Kornack	$4.50	$0.40	$0.40	$0.40	1.9%	1.9%	1.9%	8.9%	$0.68	$0.62	$0.64	6.6x	7.2x	7.0x	$5.70	$4.25	-3.6%	↔
True North Commerical REIT	TNT.un	SP	↔	$627	Kornack	$7.20	$0.59	$0.59	$0.59	2.8%	2.8%	2.8%	8.3%	$0.59	$0.60	$0.61	12.1x	12.1x	11.8x	$7.00	$7.00	0.1%	↔
NorthWest H.P. REIT	NWH.un	SP	↔	$2,294	Woolley	$13.15	$0.80	$0.80	$0.80	3.8%	3.8%	3.8%	6.1%	$0.83	$0.89	$0.92	15.8x	14.8x	14.3x	$12.40	$13.50	6.5%	↔
H&R REIT	HR.un	OP	↔	$4,303	Kornack	$14.84	$0.69	$0.69	$0.69	3.3%	3.3%	3.3%	4.6%	$1.67	$1.57	$1.67	8.9x	9.4x	8.9x	$19.75	$16.75	16.2%	↔
Cominar REIT	CUF.un	RES		$1,702	Kornack	$9.70	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	RES	Res	RES	RES	
Artis REIT	AX.un	SP	↔	$1,466	Kornack	$10.78	$0.54	$0.56	$0.56	2.6%	2.7%	2.7%	5.2%	$1.40	$1.34	$1.39	7.7x	8.0x	7.8x	$13.85	$11.50	9.3%	↔
BTB REIT	BTB.un	SP	↔	$266	Kornack	$4.07	$0.36	$0.30	$0.30	1.7%	1.4%	1.4%	7.4%	$1.00	$1.01	$1.03	4.1x	4.0x	4.0x	$4.30	$4.25	5.9%	↔
Industrial																							
Granite REIT	GRT.un	OP	↔	$4,714	Kornack	$79.65	$3.00	$3.00	$3.00	14.4%	14.4%	14.4%	3.8%	$4.04	$4.21	$4.37	19.7x	18.9x	18.2x	$76.05	$88.50	25.5%	↔
DREAM Industrial REIT	DIR.un	OP	↔	$2,570	Kornack	$13.73	$0.70	$0.70	$0.70	3.3%	3.3%	3.3%	5.1%	$0.71	$0.78	$0.84	19.4x	17.5x	16.4x	$14.00	$15.00	12.6%	↑
WPT Industrial REIT	WIR'U-T	OP	↔	$673u	Kornack	$16.65u	$0.76u	$0.76u	$0.76u	3.6%	3.6%	3.6%	4.6%	$0.94u	$1.03u	$1.08u	17.7x	16.2x	15.5x	$16.70u	$18.50u	14.7%	↑
Summit Industrial	SMU.un	OP	↔	$2,391	Kornack	$15.76	$0.55	$0.57	$0.57	2.6%	2.7%	2.7%	3.6%	$0.65	$0.68	$0.72	24.2x	23.3x	21.9x	$14.90	$17.00	10.6%	↑
Hotels																							
American Hotel Income Properties	HOT.un	SP	↔	$320	Woolley	$4.08	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	(0.12)u	(0.03)u	$0.46u	-33.5x	-119.6x	8.9x	$4.70	$4.25	4.2%	↔
Multi-Res																							
CAP REIT	CAR.un	OP	↔	$9,245	Kornack	$54.96	$1.38	$1.43	$1.43	6.6%	6.8%	6.8%	2.6%	$2.27	$2.38	$2.49	24.2x	23.1x	22.1x	$56.60	$65.00	25.1%	↑
Boardwalk REIT	BEI.un	OP	↔	$1,853	Kornack	$37.40	$1.00	$1.00	$1.00	4.8%	4.8%	4.8%	2.7%	$2.81	$2.79	$2.89	13.3x	13.4x	13.0x	$46.00	$44.00	22.4%	↔
Killam Apartment REIT	KMP.un	OP	↔	$1,979	Kornack	$19.19	$0.68	$0.70	$0.70	3.2%	3.3%	3.3%	3.6%	$0.98	$1.00	$1.01	19.6x	19.2x	18.9x	$20.40	$22.00	18.0%	↑
InterRent REIT	IIP.un	OP	↔	$2,104	Kornack	$15.28	$0.32	$0.32	$0.32	1.5%	1.5%	1.5%	2.1%	$0.47	$0.53	$0.60	32.5x	28.6x	25.3x	$14.75	$17.00	12.8%	↑
Minto Apartment REIT	MI.un	SP	↔	$697	Kornack	$21.80	$0.41	$0.41	$0.41	2.0%	2.0%	2.0%	1.9%	$0.85	$0.88	$0.96	25.8x	24.7x	22.7x	$21.75	$23.00	7.5%	↑
BSR REIT	HOM.un	OP	↔	$421u	Kornack	$13.73u	$0.50u	$0.50u	$0.50u	2.4%	2.4%	2.4%	3.6%	$0.64u	$0.60u	$0.69u	21.5x	22.9x	20.0x	$12.50u	$13.00u	-2.9%	↔
ERES REIT	ERE.un	OP	↔	$1,003	Kornack	$4.28	$0.17	$0.17	$0.17	0.8%	0.8%	0.8%	3.9%	$0.20	$0.21	$0.22	21.2x	20.0x	19.2x	$4.94	$5.25	23.5%	↓
International																							
Inovalis REIT	INO.un	SP	↔	$320	Kornack	$10.20	$0.83	$0.83	$0.83	3.9%	3.9%	3.9%	8.1%	$0.65	$0.67	$0.74	15.6x	15.2x	13.8x	$10.85	$10.00	2.0%	↔
Seniors Housing																							
Chartwell Retirement Residences	CSH.un	OP	↔	$2,556	Woolley	$12.33	0.60	0.60	0.60	2.9%	2.9%	2.9%	4.9%	0.76	0.80	0.90	16.2x	15.5x	13.7x	$11.80	$13.50	12.4%	↔
Sienna Senior Living	SIA	OP	↔	$960	Woolley	$14.75	0.92	0.94	0.94	4.4%	4.5%	4.5%	6.3%	1.03	1.04	1.26	14.3x	14.2x	11.7x	$15.30	$16.00	13.0%	↑
Extendicare	EXE	SP	↔	$689	Woolley	$7.75	0.48	0.48	0.48	2.3%	2.3%	2.3%	6.2%	0.79	0.34	0.58	9.9x	23.1x	13.4x	$8.50	$8.00	5.5%	↑
Invesque	IVQu	SP	↔	$159u	Woolley	$3.14u	$0.00u	$0.00u	$0.00u	0.0%	0.0%	0.0%	0.0%	$0.73u	$0.60u	$0.60u	4.3x	5.3x	5.2x	$2.40u	$3.00u	-4.5%	↑
Self Storage																							
StorageVault Canada	SVI.V	OP	↔	$1,701	Woolley	$4.43	$0.01	$0.01	$0.01	0.1%	0.1%	0.1%	0.2%	$0.10	$0.13	$0.15	45.4x	35.4x	30.3x	$4.10	$5.25	18.6%	↔
MHC																							
Flagship Communities REIT	MHCu	OP	↔	$192u	Woolley	$16.00u	n/a	$0.51u	$0.51u	n/a	2.4%	2.4%	3.2%	n/a	$0.93u	$1.01u	n/a	17.2x	15.9x	$19.10u	$19.00u	21.2%	↔
Asset Management																							
Tricon Capital Group	TCN	OP	↔	$2,933u	Woolley	$13.10	$0.28	$0.28	$0.28	1.3%	1.3%	1.3%	2.1%	$0.61u	$0.54u	$0.61u	21.4x	24.1x	21.4x	$14.00	$14.00	8.2%	↔

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

u = US Dollars

Source: Company Reports, NBF, Refinitiv

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

Special Situations

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Selections

- *AD*
- *HDI*
- *PLC*

Organic tailwinds to be complemented by M&A activity (TSX: HDI)

With 2020 in the rear-view mirror, we dive into HDI's post-pandemic prospects. In our view, the company remains extremely well positioned to grow both organically and via M&A with a focus on the residential shortfall in the U.S. market.

Hardwood lumber and panel pricing inflation returns

Following over two years of retrenching prices, hardwood price indexes are participating in the general inflationary trend and exhibiting a robust rebound, particularly hardwood lumber which increased 27.3% y/y in March, in line with prior management commentary indicating a ~30% lift. As hardwood lumber represents over 25% of HDI's revenues and hardwood plywood accounts for another ~33%, the healthy increases in pricing should lead to enhanced organic growth and improved operating leverage in 2021e.

Housing starts expected to remain a driver of strength

Although U.S. household formations declined in 2020 for the first time on record due to the pandemic, the ratio of housing inventory to households remains tight at 1.10x, the tightest since 1980, backing our thesis of a cumulative 1.6 million housing start shortfall in U.S. new residential construction over the last decade. Given a ~1.4 million annual starts as a baseline replacement level, we estimate that this pent-up demand can support up to 3.5 years of elevated building activity at the 1.7 million annual housing start level. Additionally, we believe household formation is likely to rebound strongly as we exit the COVID-19 pandemic, and that 2019 is a better indicator of the true scarcity of housing. Pre-pandemic figures indicate ~3 million new housing units will be required to return to the long run average of 1.11x, supporting ~6.5 years of building at an annual rate of 1.7 million starts. Our estimate roughly agrees with a recent report from the National Association of Realtors which indicates that the inventory of single-family homes for sale is at its lowest since 1982 and is an estimated ~2.4 million homes short of a balanced market.

M&A still on the menu for 2021

With Q4/20 results, management reiterated M&A as the company's top capital allocation priority, and the pipeline of opportunities remains well stocked. These targets can be pursued from a position of strength as the company retains ~$90 million in dry powder, and strong FCF generation of $79.1 million in 2020 saw Net Debt/EBITDA drop to 1.9x (1.3x excluding lease obligations and rental payments). We believe that multiples have started to move up for larger acquisition targets, but small to midsize players' multiples remain largely unchanged.

Outperform rating, $42.00 target

Our $42.00 target is based on 17x 2022e EPS (16x base multiple, 1x M&A growth premium). We rate HDI Outperform as we see solid ground for organic growth in 2021 and 2022, as well as a potential for accelerating M&A given the company's ~$90 million in dry powder and supportive environment.

Special Situations

	Stock Symbol	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	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		657.1	38.9	16.88	12/2020	0.51	1.56	1.78	10.9	9.5	85.6	117.0	127.8	8.2	7.5	7.3%	2.3	21.00	
Boyd Group Services Inc.	BYD	OP		4,880.8	21.5	227.31	12/2020	2.57	4.09	6.89	55.6	33.0	293.6	355.3	472.9	15.9	11.9	0.2%	1.4	265.00	
CanWel Building Materials	CWX	R		R	R	R	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	R	
Cascades	CAS	OP		1,473.7	101.0	14.59	12/2020	1.95	1.33	1.98	10.9	7.4	675.0	637.3	725.4	5.2	4.4	2.2%	2.3	20.50	↓
Dexterra Group Inc.	DXT	OP		391.8	64.9	6.04	12/2020	1.24	0.33	0.50	18.3	12.1	36.9	66.5	80.5	6.8	5.0	5.0%	0.7	8.50	
GDI Integrated Facility Services	GDI	OP		1,298.5	22.8	57.00	12/2020	2.11	2.03	1.99	28.1	28.6	104.9	126.5	123.5	11.4	11.1	0.0%	1.3	59.00	
Hardwoods Distribution	HDI	OP		760.5	21.4	35.52	12/2020	2.03	2.31	2.46	15.4	14.4	97.5	108.5	112.1	8.6	8.1	1.1%	1.7	42.00	↑
Intertape Polymer Group Inc.	ITP	OP		1,776.2	59.7	29.73	12/2020	1.51	1.60	1.81	18.6	16.4	210.1	225.6	243.1	8.3	7.5	2.6%	1.9	34.00	
KP Tissue	KPT	SP		98.1	9.7	10.09	12/2020	0.53	0.17	0.81	57.7	12.5	197.8	173.5	221.4	7.2	7.3	7.1%	3.4	10.50	↓
New Look Vision Group	BCI	R		R	R	R	12/2020	R	R	R	R	R	R	R	R	R	R	R	R	R	
Park Lawn Corporation	PLC	OP		1,034.4	30.0	34.48	12/2020	1.16	1.31	1.54	26.2	22.5	79.9	90.6	99.2	14.0	11.7	1.3%	2.1	43.00	
Richelieu Hardware	RCH	SP		2,421.5	56.3	43.01	11/2020	1.50	1.76	1.94	24.4	22.2	154.5	173.5	186.8	13.2	11.9	0.7%	0.1	43.50	↑
Savaria Corporation	SIS	SP		970.5	51.2	18.96	12/2020	0.52	0.78	1.02	24.2	18.6	59.8	102.7	126.7	13.4	11.9	2.5%	0.4	20.00	
Uni-Sélect	UNS	OP	↑	582.4	42.4	13.74	12/2020	(0.18)	0.51	0.82	27.0	16.8	88.8	116.5	132.2	8.2	7.0	0.0%	2.8	14.00	↑

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

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

Source: Company reports, NBF, Refinitiv

Sustainability & Clean Tech

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Selections

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

Company Highlights

Our renewable energy infrastructure coverage has performed relatively well over the past decade benefiting from accretive growth, supportive government policy, a low interest rate environment, and of late, a scarcity of green investments. It will be hard to replicate the performance of the past five years, but there are plenty of growth opportunities for companies in the sector. The recent rise in bond yields and rebalancing of the S&P Global Clean Energy Index resulted in headwinds to some of our coverage names, but we believe funds should continue to flow into the sector. Our top picks are INE, NPI and BLX.

Innergex Renewable Energy Inc.
(INE: TSX; Outperform; $28.00 target)

INE is one of Canada's largest renewables focused IPPs with an operating capacity of 2,742 MW (net), of which more than 30% are wind assets located in Québec and France. 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 in Ohio that should begin production soon and be substantially completed by end of May. Moreover, INE's 226 MW Griffin Trail wind project in Texas is expected to reach COD by mid-July and given it is not hedged, it reduces INE's exposure to Texas hedge contracts. On the development front, INE is progressing with four solar plus battery storage projects in Hawaii that should move to construction soon. While Q4 results were positive across most of the fleet, the anomalistic weather conditions in Texas are expected to have a new impact of ~$80 million this year, ~2% of INE's market cap. While Texas might stretch the payout ratio, INE has visibility on near-term growth, and combined with the growth from its recent M&A, the company has guided to ~12% growth on normalized EBITDA for 2021. Our target is based on a long-term DCF with a cost of equity of 5.25% on operating assets and includes $3/sh for growth. We believe the stock should recover after recent headwinds.

Northland Power Inc.
(NPI: TSX; Outperform; $52.00 target)

Northland Power is a global leader in the development of offshore wind and owns 2,266 MW (net) of operational capacity in renewable and thermal power generation, but that number could soon change as the company recently raised $990 million in equity (22.5 million shares at $44/sh) to, in part, fund growth, but most importantly, to fund the acquisition of a 540 MW (net) portfolio of onshore wind and solar assets in Spain (acquisition expected to close in 3Q'21). NPI's focus remains on offshore wind and we believe it is the most attractive market today, with large projects and high return potential.
NPI intends to utilize $470 million from the proceeds towards development opportunities of 4 GW to 5 GW, primarily in offshore wind projects, notably in Taiwan, Japan, South Korea, Poland and Germany. That said, we believe NPI could have the best visibility on growth within its peer group. With its offshore wind platform, NPI is attracting large partners, like PKN Orlen in Poland and Tokyo Gas in Japan, which could help to boost returns. The first of its growth projects to be constructed should be the 1,044 MW Hai Long project in Taiwan (FID 2022E), possibly followed by the 1,200 MW Baltic project in Poland (FID 2023E). For 2021, NPI expects adj EBITDA of $1.1 billion to $1.2 billion (and FCF in the range of $1.30 to $1.50 /sh). Our target is based on a long-term DCF with a cost of equity of 4.5% on operating cash flows and $10/sh of growth.

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

BLX is a renewable energy producer with wind, solar and hydro assets in the USA, France and Canada. It has ~2,455 MW of generating capacity, mostly under long-term contracts with an average contract life of ~13 years. BLX targets $200 million to $210 million in AFFO by 2023E while maintaining a payout ratio of 40 - 60%. BLX has good visibility on growing its capacity by 544 MW in 2023E and optimizing its cost structure. In February 2021, BLX acquired controlling interests in seven solar plants in the United States for a purchase price of $277 million (US$215.6 million, weighted average PPA duration of 21.5 years). Additionally, BLX recently announced that its 200 MW Apuiat project in Québec is moving forward. It should see an increase in RFP activities in both Québec and N.Y. State. We believe these developments could serve as a platform for future organic growth and provide BLX with room to realize operating synergies. Moreover, President Biden's recent infrastructure plan that proposed extensions to both the ITC and PTC could drive additional financial support for renewables. With an established foothold in France and now with a beachhead in the United States, we believe that BLX needs to grow by over 200 MW per year to make a difference in growth, and it appears to be on track to do this. Our target is based on a long-term DCF with a cost of equity of 4.5% on operating cash flows and $7/sh of growth.

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 04/29	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		336.5	82	4.08	12/2020	0.06u	0.18u	0.19u	27.5	26.2	2.14u	2.67u	2.96u	1.9	1.7	1.33u	0.22	5.75	
Algonquin Power	AQN	OP		9702.4u	602	16.12u	12/2020	0.65u	0.73u	0.76u	27.3	26.1	2.98u	3.34u	3.36u	5.9	5.9	9.41u	0.44	17.00u	
Altius Renewable Royalties Corp	ARR	SP		301.3	28	10.60	12/2020	(0.49)u	(0.23)u	(0.08)u	nmf	nmf	0.08u	0.02u	0.01u	nmf	nmf	5.19u	0.00	12.00	
Atlantic Power	AT	T		353.7u	118	3.01u	12/2020	(0.35)u	0.43u	0.43u	8.7	8.5	2.58u	2.44u	2.63u	1.5	1.4	1.02u	0.71	3.03u	
Ballard Power Systems	BLDP	OP		6638.4u	300	22.13u	12/2020	(0.20)u	(0.17)u	(0.07)u	nmf	nmf	0.37u	0.39u	0.61u	69.7	44.5	3.19u	0.02	35.00u	
Boralex	BLX	OP		4214.6	104	40.71	12/2020	0.56	0.87	0.89	57.7	56.2	6.44	7.28	7.30	6.9	6.9	9.57	0.68	50.00	
Brookfield Infrastructure	BIP	OP		25212.3u	465	54.22u	12/2020	1.34u	1.41u	1.42u	47.4	47.0	8.81u	10.30u	10.66u	6.5	6.3	44.40u	0.69	60.00u	
Brookfield Renewable	BEP	SP		25974.3u	645	40.24u	12/2020	0.00u	0.00u	0.00u	na	na	3.36u	3.93u	4.02u	12.6	12.3	24.27u	0.35	42.00u	
DIRTT Environmental Solutions	DRT	OP		276.1u	85	3.26u	12/2020	(0.13)u	(0.13)u	0.01u	nmf	nmf	2.03u	1.96u	2.45u	2.0	1.6	1.38u	0.00	3.00u	
GFL Environmental Inc.	GFL	OP		15682.1	384	40.82	12/2020	(2.72)	(0.51)	(0.44)	nmf	nmf	11.46	13.34	14.80	3.8	3.4	17.40	0.52	44.00	
Innergex	INE	OP		3818.4	175	21.79	12/2020	(0.22)	0.43	0.53	62.8	50.3	3.51	3.76	3.80	7.1	7.0	6.11	0.82	28.00	
Lithium Americas	LAC	OP		1332.0u	91	14.58u	12/2020	0.60u	(0.38)u	(0.21)u	nmf	nmf	0.05u	0.00u	0.00u	na	na	1.09u	0.53	23.00u	
Loop Energy Inc	LPEN	OP		397.9	36	10.95	12/2020	-0.50	-0.61	-0.65	nmf	nmf	0.03	0.06	0.39	nmf	35.0	2.76	0.04	20.00	
NanoXplore	GRA	OP		129.7	140	3.91	06/2020	(0.10)	(0.07)	(0.02)	nmf	nmf	0.55	0.46	0.43	10.4	11.3	0.50	0.38	5.00	
Northland Power	NPI	OP		8512.2	200	42.60	12/2020	1.79	1.37	1.17	38.1	44.9	10.31	10.41	10.09	5.0	5.2	9.91	0.80	52.00	
Sigma Lithium	SGMA	OP		400.5	77	5.19	12/2019	(0.07)	(0.02)	(0.06)	nmf	nmf	0.00	0.00	0.00	na	na	0.30	0.16	6.25	
TransAlta Renewables	RNW	SP		5216.3	266	19.61	12/2020	0.35	0.63	0.64	38.2	37.8	1.64	1.77	1.82	13.7	13.3	8.28	0.19	20.00	
Xebec Adsorption	XBC	SP		653.6	152	4.29	12/2020	(0.33)	(0.05)	0.05	nmf	nmf	0.59	0.83	1.16	6.3	4.6	2.26	0.14	6.00	

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

u = US dollar

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

Source: Company Reports, Refinitiv, NBF Estimates & Analysis

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Selections

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

Pick Your Spots

Year to date, the S&P Technology Index is up 9.36% versus the 11.80% increase in the S&P 500. In Canada, the story has been similar, if not more extreme, with the TSX Technology Index down 0.42% versus the 10.55% increase in the TSX. As you may know, up until the past few weeks, the trade this year had shifted to value reopening cyclicals. But in recent weeks, tech has come back into favour, albeit it's been largely led by seasoned, more established growth (and legacy) names. Going into Q1 reporting season, we're not expecting any big thematic surprises for our coverage universe. That said, our analysis around interest rates suggests the short-term risk profile is currently higher than average for the group. Refer to our quarterly preview *Pick Your Spots* for our detailed analysis.

To be clear, we remain bullish on the sector looking ahead, despite the short-term gyrations. In our view, innovation continues to offer the broad group outsized growth potential. We continue to believe secular trends brought on or accelerated by the pandemic will have some permanency and many of our Outperform-rated names are well-positioned within those trends. With many of those names off all-time highs, we think investors should opportunistically look for entry points. At the same time, we continue to believe legacy names like Open Text and CGI are fundamentally undervalued and those strong underlying fundamentals like considerable free cash flow are what's had those names outperforming the broad group so far this year. From a stock selection standpoint, we'd continue to opportunistically add positions in growth names like Docebo, Lightspeed, Kinaxis, Nuvei, Farmers Edge, Shopify and Real Matters while balancing those names with legacy incumbents like CGI and Open Text with select special situations in names like Altus. The following provides an update on some of our Outperform-rated names:

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

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

Kinaxis should be a meaningful beneficiary from the secular changes from supply chain solutions. While it may (or may not) be obvious, supply chain management has been a critical technology / process in the current environment and from what we've heard, the pipeline of opportunity is up considerably, which should be of no surprise given the challenges across supply chains, particularly across larger enterprises. The complexity of the Company's technology caused some delays in conversions of its pipeline; yet, that pipeline has only increased. We think those delays are being misread by the market, in our view, that represents an opportunity.

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

Technology

	Stock Sym.	Stock Rating	Δ	Market Cap (Mln)	Shares O/S (Mln)	Stock Price 4/29	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		913	52.1	17.53	2020	0.24u	0.22u	0.24u	NMF	NMF	27.4u	28.7u	29.4u	21.6	21.0	(0.8u)	0%	18.00	
Altus Group Limited	AIF	OP		2,475	40.6	60.98	2020	1.46	1.82	1.91	33.5	31.9	88.1	98.7	101.9	25.7	24.9	9.5u	28%	70.00	
Blackline Safety Corp.*	BLN	OP		424	52.2	8.13	2020	(0.14)	(0.19)	(0.10)	NMF	NMF	5.5	5.3	10.2	70.5	36.4	0.0u	0%	12.00	
CGI Inc.	GIB.A	OP		27,653	261.8	105.63	2020	4.68	5.40	5.80	19.6	18.2	2426.3	2732.7	2883.4	10.8	10.2	27.7	33%	120.00	
Constellation Software Inc.	CSU	SP		38,018	21.2	1,794.00	2020	27.84u	36.08u	44.00u	40.4	33.1	933.0u	1,194.7u	1,303.4u	25.9	23.8	42.6u	43%	1900.00	↑
Docebo Inc.	DCBO	OP		1,740	32.2	54.04	2019	(0.35u)	(0.06u)	0.02u	NMF	NMF	(5.7u)	(2.5u)	(0.8u)	NMF	NMF	1.4u	0%	70.00u	
EXFO Inc.	EXFO	SP		241u	54.6	4.41u	2020	0.01u	0.28u	0.38u	16.0	11.5	18.2u	29.8u	30.9u	8.2	7.9	3.2u	10%	4.50u	↑
Farmers Edge Inc.	FDGE	OP		746u	41.8	17.85u	2020	(2.02u)	(0.50u)	0.36u	NMF	49.2	(45.9u)	(9.2u)	26.9u	NMF	22.8	(7.0u)	0%	25.00u	
Kinaxis Inc.	KXS	OP		4,394	28.1	156.16	2019	1.11u	0.59u	1.41u	NMF	NMF	53.7u	32.2u	62.0u	104.2	54.2	9.9u	0%	225.00	
Lightspeed POS	LSPD	OP		7,721u	119.9	64.40u	2020	(0.48u)	(0.51u)	(0.52u)	NMF	NMF	(21.7u)	(29.9u)	(48.7u)	NMF	NMF	5.4u	4%	90.00u	
Maxar Technologies Ltd.	MAXR	SP		2,416u	63.4	38.11u	2020	(3.02u)	3.59u	(1.71u)	10.6	NMF	416.0u	437.0u	451.7u	10.9	10.6	15.7u	71%	52.00u	
mdf commerce inc.	MDF	SP		261	22.7	11.48	2020	(0.03)	(0.20)	(0.09)	NMF	NMF	8.5	6.3	6.9	35.4	32.4	4.7u	11%	13.50	
Nuvei Corporation	NVEI	OP		10,266	131.5	78.09	2019	(0.32u)	(0.04u)	0.89u	NMF	NMF	87.2u	157.8u	172.1u	52.9	48.5	8.8u	9%	100.00	
Open Text Corporation	OTEX	OP		13,179u	272.8	48.30u	2020	2.89u	3.29u	3.41u	14.7	14.2	1,148.2u	1,231.8u	1,335.6u	12.6	11.6	14.9u	51%	60.00u	
Pivotree Inc.*	PVT	OP		211	26.6	7.95	2019	(0.03)	(0.02)	0.07	NMF	NMF	5.4	5.6	7.1	39.6	31.4	0.5	58%	13.00	
Real Matters Inc.	REAL	OP		1,282	88.5	14.49	2020	0.56u	0.81u	1.05u	14.5	11.2	72.2u	90.5u	116.9u	10.1	7.8	2.4u	0%	35.00	↓
Shopify Inc.	SHOP	OP		144,320u	124.9	1,155.41u	2020	0.30u	3.48u	4.68u	NMF	NMF	71.3u	364.2u	578.0u	NMF	NMF	49.5u	11%	1,650.00u	
Sierra Wireless Inc.	SWIR	UP		557u	36.4	15.30u	2020	(0.01u)	(1.16u)	(0.44u)	NMF	NMF	21.0u	(25.8u)	4.8u	NMF	107.2	9.4u	7%	15.00u	
Tecsys Inc*	TCS	OP		670	14.9	45.10	2020	0.18	0.46	0.58	NMF	NMF	10.3	16.0	17.2	41.8	38.8	4.45	4%	55.00	

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

u = US dollar

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

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Selections

- *Shaw*
- *Corus*
- *Spin Master*

Spin Master

Recovery year ahead with top-line growth and margin expansion:

We rate TOY as Outperform with a target of Cdn$49 based on our 2021E DCF, with implied EV/EBITDA of 12.5x 2021E and 11.1x 2022E. The stock currently trades at 10.5x and 9.4x with larger U.S. peers, Hasbro and Mattel, at 14.5x and 12.9x and 11.7x and 9.9x, respectively. Report Linker forecasts global toy industry growth this year of 4.4% and expects a 6.7% CAGR to 2025. Guidance from TOY for 2021 calls for Gross Product Sales growth to be low-to-mid single digits (NBF +4.0%), Total Revenues gains to be mid-to-high single digits (NBF +9.8% as we reflect growth in Other Revenues consisting of Entertainment & Licensing and Digital Games), and an Adj. EBITDA margin in the mid-to-high teens (NBF at 17.0% versus 11.5% in 2020, 13.8% in 2019, and 18.6% in 2018 or 19.3% adjusted for IFRS 16). Margins compressed materially in the prior two years in the face of logistics issues, since resolved last summer, that were brought about by a poorly timed consolidation of distribution centres from 18 to five which needed to be reworked and took longer than expected, thus affecting 2H19 through 1H20. TOY will report its 1Q after markets on May 5 with a conference call on May 6. Please see our preview dated April 13 where we highlighted anticipated improvements in year-over-year results and estimates above consensus. Mattel reported a big 1Q beat on April 22 given market share gains which complemented growth in the toy industry that is off to a good start this year. Resin and freight costs together accounted for 35% of Mattel's COGS, are rising more than 35%, and will affect Gross Margins by -300 bps in 2021 with 50% of this offset by savings, mix and possible product price increases. Mattel does much of its own manufacturing in contrast to Hasbro and TOY which outsource it. Hasbro reported its 1Q on April 27, with revenues light due to timing issues in its entertainment business that has been impacted by COVID, but EBITDA beating on easy comps and timing. The company has proactively mitigated rising resin and metal prices with its vendors so far in 2021. To further deal with the recent acceleration in input costs, price increases for Hasbro products have been communicated to retailers. Hasbro still expects double-digit revenues growth in 2021 with flat adjusted operating margins.

	Stock Sym.	Stock Rating	Δ	Market Cap. (Mln)	Shares O/S (Mln)	Stock Price 4/29	Last Year Reported	FDEPS (A) Last FY	FDEPS est. FY1	FDEPS est. FY2	P/E FY1	P/E FY2	EBITDA ($mln) (A) Last FY	EBITDA ($mln) est. FY1	EBITDA ($mln) est. FY2	EV/EBITDA FY1	EV/EBITDA FY2	Book Value	ND/ Total Capital	12-Mth Price Target	Δ
Broadcasting & Entertainment																					
Cineplex Inc.	CGX	OP		825	63.3	13.02	12/2020	(9.85)	(2.14)	0.04	NM	NM	-182.8	51.0	185.3	30.9	7.8	4.05	0.97	17.00	
Corus Entertainment Inc.	CJR.b	OP		1,229	208.4	5.90	08/2020	0.75	0.92	0.87	6.4	6.8	505.8	530.6	523.6	5.4	5.1	4.80	0.60	8.00	
WildBrain Ltd.	WILD	SP		474	169.3	2.80	06/2020	(0.64)	0.01	0.07	NM	NM	81.8	82.9	90.7	11.3	9.8	0.46	0.82	3.00	
Spin Master	TOY	OP		4,223	102.0	41.40	12/2020	0.51	1.41	1.63	23.9	20.7	180.6	292.7	312.4	10.5	9.4	8.26	-0.61	49.00	↑
Stingray Digital	RAY.a	OP		523	73.0	7.16	03/2020	0.74	0.93	0.95	7.7	7.5	118.1	120.5	125.7	7.2	6.5	3.92	0.59	9.00	
TVA Group Inc.	TVA.b	SP		117	43.2	2.70	12/2020	0.86	0.55	0.64	4.9	4.2	85.3	66.0	68.8	2.0	1.6	6.46	0.11	2.50	
Printing & Publishing																					
Thomson Reuters	TRI	OP		56,887	498.0	114.23	12/2020	1.85	1.96	2.68	47.5	34.8	1975.0	1905.4	2238.1	25.4	21.4	20.04	0.18	122.00	
Transcontinental Inc.	TCL.a	OP		2,043	87.0	23.48	10/2020	2.61	2.30	2.33	10.2	10.1	499.4	448.1	442.9	6.2	5.9	19.67	0.34	26.00	
Advertising & Marketing																					
Yellow Pages	Y	SP		350	28.0	12.50	12/2020	2.28	2.19	2.20	5.7	5.7	129.4	116.0	105.0	2.4	2.1	NM	-0.05	13.00	
Telecommunications																					
BCE Inc.	BCE	OP		52,458	904.6	57.99	12/2020	3.02	3.16	3.45	18.3	16.8	9607.0	9991.5	10417.2	8.2	7.8	19.92	0.40	64.00	
Cogeco Communications Inc.	CCA	OP		5,547	47.6	116.50	08/2020	7.41	8.63	9.32	13.5	12.5	1148.7	1225.5	1276.7	6.6	6.1	57.18	0.52	130.00	↑
Quebecor Inc.	QBR.b	OP		8,240	249.1	33.08	12/2020	2.33	2.48	2.63	13.4	12.6	1952.6	1996.0	2055.0	6.7	6.3	4.47	0.84	40.00	
Rogers Communications Inc.	RCI.b	OP		30,765	504.9	60.93	12/2020	3.40	3.87	4.64	15.7	13.1	5857.0	6135.4	9078.1	7.7	7.3	19.94	0.48	75.00	↑
Shaw Communications	SJR.b	OP		17,983	505.0	35.61	08/2020	1.31	1.41	1.55	25.2	23.0	2391.0	2469.0	2528.9	9.6	9.0	11.95	0.48	40.50	
Telus Corp.	T	OP		33,037	1291.0	25.59	12/2020	0.95	1.00	1.04	25.7	24.6	5494.0	5960.5	6398.6	8.7	8.2	9.76	0.62	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

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- *Héroux-Devtek*

CAE's transformational Defence acquisition and accelerating Civil rebound prompt upgrade

CAE Inc. (CAE: TSX/NYSE; Outperform, $43.00 target). Although a full recovery in CAE's Civil segment will take some time paced by the recovery in the airline sector, we are increasingly confident that CAE's market position and profitability in Civil will be stronger in a post-pandemic world driving a multi-year period of earnings growth. Although CAE's share price already reflects some degree of optimism around a Civil recovery, we nevertheless see the stock benefiting in the coming quarters from positive sentiment around a rebounding airline sector.

L3Harris acquisition is transformational. Also driving our upgrade is our increasingly positive view of the pending acquisition of L3Harris Military Training, which we view as transformational for CAE. The key benefits the L3Harris Military Training acquisition brings to CAE include complementary capabilities, greater scale (especially with the U.S. DoD) and enhanced margins. The combined CAE-L3Harris business will generate ~US$1.0 billion in revenue directly with the U.S. Department of Defense, giving it the critical mass to bid on larger programs as prime contractor. The acquisition will also open more bidding opportunities for CAE on Classified programs, which are becoming an increasingly larger proportion of the Department of Defense (DoD) budget. CAE will become the largest platform-agnostic provider of simulation and training to the DoD with the capability to provide multi-platform and multidomain training that fits with the U.S. National Defense Strategy. Finally, with the L3Harris business focused in the United States and CAE's strong existing presence internationally, we see more opportunities for cross-selling products and services.

Civil recovery set to gain some steam. Business jet activity is already nearing pre-pandemic levels while airline scheduled capacity, commercial flights and aircraft in storage are all showing improvement. As the vaccine roll-out accelerates globally, we see airlines steadily bringing back capacity, which will boost utilization at CAE's pilot training centres. We note that CAE's restructuring will remove ~$65-70 million in annual costs without lowering total training capacity, so CAE's Civil segment will be structurally more profitable post-pandemic.

Target increased to $43.00 from $41.00. We made modest upward adjustments to our F2023 forecast for CAE, which results in our target moving to $43.00 from $41.00 previously.

	Stock Sym.	Stock Rating	Δ	Shares O/S (Mln)	Stock Price 4-29	Market Cap (Mln)	Last Year Reported	Cash EPS (A) Last FY	Cash EPS est. FY1	Cash EPS est. FY2	P/E FY1	P/E FY2	FDFCFPS (A) Last FY	FDFCFPS est. FY1	FDFCFPS est. FY2	P/CFPS FY1	P/CFPS FY2	Net Debt / Cap	12-Mth Price Target	Δ
Air Canada	AC	SP	↓	335	24.83	8,318	12/2020	-16.47	-9.75	-0.92	NA	NA	(7.51)	(3.94)	4.85	NA	5.1x	na	29.00	↑
Bombardier Inc.	BBD.b	SP		2420	0.92	2,226	12/2020	-u0.47	-u0.15	-u0.01	NA	NA	-u1.32	-u0.21	u0.11	NA	6.5x	na	0.70	
BRP Inc.	DOO	OP		90	114.87	10,282	01/2021	5.35	7.29	8.23	15.8x	14.0x	6.77	3.56	5.76	32.3x	20.0x	158%	123.00	
CAE Inc.	CAE	OP	↑	295	36.71	10,811	03/2020	1.34	0.44	0.98	82.9x	37.5x	(80.30)	(80.00)	(90.00)	NA	NA	39%	43.00	↑
Canadian National Rail	CNR	SP		713	132.77	94,638	12/2020	5.31	5.96	6.83	22.3x	19.4x	8.47	8.85	9.86	15.0x	13.5x	39%	143.00	↓
Canadian Pacific Rail	CP	OP		134	459.44	61,519	12/2020	17.67	19.97	22.24	23.0x	20.7x	23.47	26.05	29.41	17.6x	15.6x	54%	511.00	↓
Cargojet Inc.	CJT	OP		17	181.20	3,137	12/2020	-5.63	5.33	6.31	34.0x	28.7x	9.41	7.27	5.84	24.9x	31.0x	25%	231.00	
Chorus Aviation Inc.	CHR	SP		162	4.28	693	12/2020	0.40	0.29	0.44	15.0x	9.7x	1.62	1.53	1.74	2.8x	2.5x	75%	4.85	
Exchange Income Corporation	EIF	OP		36	38.33	1,379	12/2020	1.31	1.34	2.29	28.5x	16.7x	5.66	5.66	6.72	6.8x	5.7x	63%	43.00	↓
Héroux-Devtek Inc.	HRX	OP		37	16.46	601	03/2020	1.00	0.74	0.74	22.2x	22.2x	2.26	1.78	2.00	9.2x	8.2x	33%	18.50	
NFI Group Inc.	NFI	OP		71	27.79	1,972	12/2020	-u0.75	u0.66	u1.50	34.3x	15.1x	u0.69	u1.12	u1.90	20.2x	11.9x	68%	34.00	
Transat A.T. Inc.	TRZ	UP		38	4.80	181	10/2020	-9.41	-11.41	-5.26	NA	NA	(4.20)	(7.61)	(1.24)	NA	NA	NA	3.50	
TFI International Inc.	TFII	OP		93	106.93	9,985	12/2020	u3.30	u3.86	u5.56	22.5x	15.6x	u5.16	u4.51	u7.14	19.3x	12.2x	40%	115.00	↑

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

u = US dollars

Source: Company Reports, Refinitiv, NBF

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