Quarterly Market Commentary

July 2021

We were very pleased with our second quarter performance. Equity markets continue to gain support from monetary and fiscal stimulus, as well as the re-opening of global economies. During the past quarter, we were active with the portfolios. We trimmed down our weighting in Suncor at $30.77 per share and CIBC at $145.49. Based on current market prices, our discipline is validated. We also locked in profits from the privatization of Brookfield Property Partners and we have invested a full weighting with Brookfield Renewable Partners. This is an international renewable power producer with an estimated installed net capacity of almost 9,000 MW. They own interests in hydro, wind, solar, thermal and storage facilities spread across five continents, primarily based in North America, South America, and Europe.

AECON GROUP INC.

Aecon continues to see its overall outlook for 2021 as positive despite the ongoing COVID-19 pandemic. The company noted that backlog, recurring revenue programs, and the pipeline of bidding opportunities for new work remain at strong levels. Notwithstanding this overall positive outlook, Aecon indicated that the COVID-19 pandemic is expected to continue to have some impact in moderating overall revenue and profitability growth expectations in 2021.

ALGONQUIN POWER & UTILITIES CORP.

The company recently completed a $1 billion marketed offering of mandatory convertible equity units. Algonquin is planning to utilize the proceeds to fund, or refinance, investments in renewable energy generation products.

In our view, this capital raise fortifies the company's balance sheet following a period of accelerated growth for the company. We believe that Algonquin shares offer a compelling valuation in the context of an extensive growth pipeline that includes organic development activity, potential acquisitions, and utility rate-base investments. As the company has a diverse/transparent growth opportunity set, a manageable payout ratio, and comfortable leverage, we believe that above-sector average dividend growth is realistic.

BCE INC.

We think that BCE can generate consistent income for investors, as well as modest growth, as the global economy moves beyond the coronavirus. BCE faces intense competition in its core wireless and wireline markets, but is managing to generate revenue and cash flow growth by focusing on customer service and managing expenses. The current dividend, supported by healthy cash flow, yields about 5.8% - and management has raised the payout by at least 5% annually for 12 straight years. On valuation, BCE shares are trading toward the high end of historical valuation bands. We think the stock's consistent returns and dividend growth merit an above-industry-average valuation.

BROOKFIELD BUSINESS PARTNERS

Brookfield Business recently announced with institutional partners, announced an agreement to acquire Modulaire Group from TDR Capital for approximately $5.0 billion, including $1.6 billion of equity and $3.4 billion of debt.

Modulaire is a leading provider of modular leasing services in Europe and Asia-Pacific meeting the needs of a diversified customer base across the industrial, infrastructure and public sectors. With a global fleet of approximately 260,000 modular units across 25 countries, Modulaire services more than 48,000 customers through an established network of approximately 180 branches. Its modular units provide customers a wide range of attractive, cost effective and environmentally friendly solutions for temporary space requirements.

Brookfield Business Partners will invest $500 million (~$3.35 per unit) for a 31% equity interest in the company, subject to its right of syndication. Modulaire will become Brookfield's fourth largest holding: well-below its third largest holding, Sagen (formerly Genworth MI Canada), and slightly above BrandSafway and BRK Ambiental.

Brookfield also recently announced an agreement to acquire DexKo Global from KPS Capital Partners for $3.4 billion, including $1.1 billion of equity and $2.3 billion of debt.

DexKo is a global manufacturer of highly engineered components for trailer, recreational vehicle and towable equipment providers. The Company has a leading presence in its core products across North America, Europe and Australia with vertically integrated production and distribution capabilities and a commitment to sustainability. DexKo manufactures and distributes over 65,000 products including highly engineered, customized solutions for a diverse range of customers across its global footprint. Headquartered in Novi, Michigan, DexKo employs more than 6,000 associates with 50 production facilities and 50 distribution centers worldwide.

Brookfield will invest $400 million (~$2.70 per unit) in DexKo for a 36% equity interest in the business, subject to its right of syndication. Post-closing, DexKo will become Brookfield's eight largest holding.

CANADIAN TIRE CORPORATION, LTD.

Canadian Tire reported another blowout quarter for Q1. Despite the impact on the store base in the key markets of Ontario/Quebec for ~50% of Q1/21, Canadian Tire achieved impressive financial results from both segments relative to expectations. It appears that each retail banner (Canadian Tire in particular) continues to gain market share while driving cost efficiencies, while the Financial Services credit provisions put in place in H1/20 increasingly appear to be overly conservative. We believe the positive trends for both segments are poised to continue over the near-term. Despite the significant appreciation in the share price the past year, we believe the valuation continues to remain relatively compelling.

CANADIAN IMPERIAL BANK OF COMMERCE

The bank reported positive second quarter results. CIBC reported adjusted earnings per share of $3.59 (up 281% year over year) versus our estimate of $3.10 and consensus of $3.01. Pre-provision operating profit was up 12% year over year and 7% higher than our forecast reflecting higher underwriting / advisory revenue and higher securities gains. In addition, the bank reported lower-than expected provision for credit losses which added $0.37 to earnings per share.

COGECO INC.

Following strong Q2 results and the higher-than-expected contribution from the DERYtelecom acquisition, our estimates for Cogeco Cable for 2021/2022 have increased, which flows through into our valuation for Cogeco Inc. The Media business (aka Radio) at Cogeco Inc. remains challenged due to the pandemic, but revenue weakness is expected to be offset by opex savings which had already been incorporated into our estimates. As such, our Media estimates are largely unchanged, and, as a result, our target price for Cogeco Inc. remains unchanged at $140.00. We remind readers that ~90% of our Net Asset Value for Cogeco Inc. is derived from Cogeco Inc.'s investment in Cogeco Cable.

ENBRIDGE INC.

On June 14, 2021, the Minnesota Court of Appeals confirmed that the Minnesota Public Utilities Commission appropriately approved the L3R project's environmental impact statement (EIS), certificate of need, and route permit.

We would not be surprised if the decision gets appealed by the pipeline's opponents, although any decision by the Michigan Supreme Court whether to hear any appeal would likely come only after Enbridge has completed construction of the project. While we are not aware of any substantive elements of the decision that might warrant an appeal, in the unlikely event an appeal is heard this could add ballpark over a year to the legal process. We note that conclusion of a legal appeals process well after a pipeline project is operational is not without precedent.

FIRST CAPITAL REIT

We remain confident on the recovery in value of First Capital, and reiterate our view that First Capital offers investors one of the largest upsides among its peers on the economic reopening. First Capital has 75% of rents derived from necessity-based tenants — well ahead of its two closest peers, RioCan REIT (56%) and SmartCentres REIT (60%). They also has only minimal exposure to retail's most challenged areas (e.g. department stores, fashion, theatres).

First Capital's high-density locations continue to drive strong leasing activity, with 450,000sf of renewals signed in Q1 at an +8.4% average rental rate spread. Additionally, occupancy has remained resilient on a year-to-date basis, declining just 110bps since Q4/19. This highlights First Capital's ability to pro-actively lease vacant space during the pandemic with stronger, more stable tenants in many cases. Rent collections have consistently improved, ending Q1/21 at 94.8% compared to 75% initially during the pandemic.

We believe the impact of COVID-19 is still discounted in the current unit price, offering investors an attractive entry-point. We view First Capital as one of our most attractive plays on the reopening of the economy. First Capital's units delivered a 34% return over just three weeks as news of successful vaccine trials initially broke in early November 2020, giving some visibility in our view to the level of returns we may be able to expect once a larger portion of the population is vaccinated. We were quickly reminded of the risks associated with retail in December 2020, as First Capital units fell by ~15% on news of increased lockdown measures. However, First Capital units have returned 31% year-to-date as vaccinations have rapidly accelerated (now at ~78% with at least one dose and 36% fully-vaccinated, based on eligible Canadians aged 12+).

INTER PIPELINE

Brookfield Infrastructure Partners has updated its offer for Inter Pipeline to include an all-cash option. The 100% all-cash option is worth $19.50 a share, while the cash-and-stock offer is worth $19.99 at current prices. If Brookfield's court challenge to overturn the $350 million break-up fee to Pembina is successful, it will raise its offer to $20.40. Currently, Pembina's all-stock offer is worth $20.30 at current prices, which is about where Inter Pipeline stock is trading. We believe it is possible for yet another offer increase from either party at this stage.

MAPLE LEAF FOODS INC.

Maple Leaf remains our top pick even if the shares have had a rougher start to the year. Year-to-date, the shares are down 9%, underperforming the Staples index (which was up 8%) by a wide margin. Nevertheless, our stance on Maple Leaf is a longer-term fundamentals-driven call and we believe that the shares will materially outperform over the next 12-24 months, as Meat EBITDA margins make further progress toward the company's 14% 2022 year-end run-rate target and Plant Based Protein revenue growth reaccelerates. That said, earnings are expected to be challenged in Q2 by lower spreads and cost inflation that is only expected to have been passed through at quarter end.

Our target price of $45.00 is what we believe MFI is worth within 12 months, considering its Meat sector-leading revenue growth, expanding margins, and top three position in the highly valued Plant Based Protein market. Whether it trades to that level is dependent on investors' willingness to look at it on a sum-of-the-parts basis, something they currently seem hesitant to do given the volatility in quarterly earnings, temporarily negative fiscal cash flow (major high-return capital projects), and opex investments to build its Plant Based Protein business. Even valuing Plant Based Protein at 2x revenue (a heavy discount to peers) implies a very conservative 6.0x next 12 months EBITDA for Meat Protein at current prices, far below Hormel (17.2x) and even below the average of commodity-weighted processors (6.9x). There is little doubt in our minds that a sale/breakup (unlikely near term) could fetch at least our $45.00 target price.

NATIONAL BANK OF CANADA

The bank reported positive second quarter results. National reported adjusted earnings per share of $2.25 (up 124% year over year) versus our estimate of $2.07 and consensus of $2. Pre-provision operating profit was up 10% year over year and 4% higher than our forecast reflecting higher underwriting / advisory revenue and higher securities gains. In addition, the bank reported lower-than expected provision for credit losses which added $0.16 to earnings per share.

PARKLAND CORP.

Parkland continues to add international operations via acquisition. They acquired an integrated fuels marketing business in St. Maarten and a joint venture with Isla Dominicana de Petroleo in the Dominican Republic. Parkland is adding scale and filling in white spots in its International operations (which span 23 countries across the Caribbean and South America).

Parkland indicated that these two transactions, along with the previously disclosed Puerto Rico aviation acquisition, are expected to add $15million (~1%) pre-synergies to Parkland's annual adjusted run-rate EBITDA. We expect synergies will be consistent with Parkland's historical 20%-50% rate, and will come on the supply side, as well as some operational synergies as a consequence of a larger retail asset base.

Parkland's total cash outlay for the three transactions is expected to be in the $120-130 million range and will be funded with existing credit facilities (recall that Parkland has $1.3 billion of available liquidity) and should close in the third quarter.

RESTAURANT BRANDS

The company owns three major restaurant chains - Burger King, Tim Horton's, and Popeye's Louisiana Kitchen - and has more than 26,000 restaurants worldwide. We expect the company's emphasis on drive-through purchases to boost revenue going forward. We also look for continued strong growth in sales and unit volume at Popeye's, helped by its popular chicken sandwich. In addition, we have a positive view of Restaurant Brand's master franchise joint venture agreements at Burger King, in which franchises are sold to the most successful and financially solid franchisees, and of the upgraded Burger King restaurants.

ROYAL BANK OF CANADA

The bank reported positive second quarter results. Royal reported adjusted earnings per share of $2.79 (up 170% year over year) versus our estimate of $2.58 and consensus of $2.51. . Pre-provision operating profit was up 11% year over year and 4% higher than our forecast reflecting higher underwriting / advisory revenue. In addition, the bank reported lower-thank expected provision for credit losses which added $0.18 to earnings per share.

SUNCOR ENERGY INC.

Suncor recently hosted a strategy update that was very positive. Suncor introduced a net-zero carbon emission target by 2050. The company expects to initially increase shareholder returns through dividend hikes. Suncor is guiding a 25% compound annual growth rate for dividend increases through 2025, assuming its US$35/bbl WTI oil price breakeven is maintained. At US$44/bbl WTI, it expects to generate approximately $5 billion/annum of discretionary free funds flow that would be allocated to a combination of economic investment, share buybacks, and further debt reduction.

TC ENERGY CORP

We recently hosted TC Energy management for meetings with investors. TC Energy has a strong incumbency in the two most prolific natural-gas basins in North America (the Appalachian and Montney), combined with access to large markets, in our view. We believe that TC Energy's scale, energy infrastructure expertise, low-risk business model, and financial strength position the company well to face considerable changes in the oil, gas and power markets as well as societies' transition to using lower carbon energy sources over the long term.

The company is seeking more than $15 billion in damages from the U.S. government over the cancellation of its Keystone XL project. The company earlier this month officially canceled the $9-billion project after U.S. President Joe Biden revoked a key permit needed to build it on his first day in office in January. TC Energy said it had filed a notice of intent to begin a legacy North American Free Trade Agreement claim under the Canada-United States-Mexico agreement.

TORONTO-DOMINION BANK

Toronto-Dominion is one of the two largest banks in Canada by assets and one of six that collectively hold roughly 90% of the nation's banking deposits. The bank derives approximately 55% of its revenue from Canada and 35% from the United States, with the rest from other countries. Toronto-Dominion has done an admirable job of focusing on its Canadian retail operations and growing into number-one or -two market share for most key products in this segment. The bank also has number-two market share for business banking in Canada. With roughly CAD $360 billion in Canadian assets under management and top-three dealer status in Canada, and being the number-one card issuer in Canada, Toronto- Dominion should remain one of the dominant Canadian banks for years to come.

Toronto-Dominion has also established a significant presence in the U.S. by having the most branches in the U.S. among Canadian banks as well as a 13.5% ownership stake in Charles Schwab (after the TD Ameritrade acquisition). While we like the higher exposure to more growth in the U.S., the segment has lower returns on equity than the Canadian segment, partially because of goodwill but also partially because returns are naturally lower on average. As the U.S. segment grows, we expect returns on equity to be further pressured. We also like Toronto-Dominion's positioning as a major discount brokerage player because we believe this industry is ripe for growth as investors seek out lower-cost alternatives, and the bank could leverage its knowledge of the industry for future growth in Canada.

The bank has taken a number of charges (such as integration charges, restructuring charges, and more). Many of these have been related to acquired card portfolios. We expect that as these card relationships mature, the bank should be well positioned in what is a higher-return business, if managed well. We expect decent growth for TD Ameritrade, stable strength in domestic banking operations, good credit quality management, and continued expense control to drive consistent returns on equity and mid-single-digit earnings growth over the longer term.

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Sources:

TD Securities - https://tdsresearch.cibg.tdbank.ca/equities/equity/welcome.home.action

TD Institutional Desk

Argus Research - argusresearch.com