# Quarterly Market Commentary

## March 2021

Equity markets closed out Q1 to the upside with most indices posting positive March returns. The S&P/TSX Composite Index climbed 3.5% last month and 7.3% for Q1. Gains last month were led by the big Canadian banks which were four of the top six biggest contributors to overall returns. Canadian small cap stocks (although down 0.5% in March) also performed well in Q1, gaining 9.2%. In the U.S., the S&P 500 Index and Dow Jones Industrial Average posted gains of 4.2% and 6.6%, respectively, last month. The NASDAQ Composite, although up 0.4% last month, underperformed as growth stocks continue to come under pressure on rising interest rates. This rotation was evident through much of Q1 as growth stocks fell out of favour relative to cyclical value. At the sector level in Canada, the more defensive Consumer Staples sector (+9.1%) was the top performer last month. The Energy sector (+6.6%) was also strong last month supported by higher WTI oil prices, which closed out their fourth consecutive quarterly gain on global demand and vaccine optimism. Information Technology (-9.4%) and Health Care (-2.6%) underperformed last month. Copper (-3.3%) and copper equities (-11.6%) also fell last month on rising global inventories. Gold stocks posted their worst Q1 since 2013, as an expected recovery in the global economy, a stronger U.S. dollar and rising bond yields, reduced the safe haven appeal of gold.

Our Privately Managed Platform is off to a great start in 2021 with takeovers and dividend increases. Brookfield Property Partners and Inter Pipeline received takeover offers and we will discuss further below. We are pleased to report a significant number of dividend increases with our platform this quarter. During the first quarter of 2021, we saw these holdings increase their dividend this past quarter: Enbridge **+3%**, Aecon Group **+10%**, BCE **+5.1%**, TC Energy **+7.4%**, Restaurant Brands **+1.9%**, Cogeco **+14.7%**, Maple Leaf Foods **+10.3%**, and Canadian Tire **+3.3%**. Obviously, these dividend increases indicate that these companies seem to be doing very well and are able to reward their shareholders.

### Apple

We recently added a half position with Apple and we hope to increase it to a full position. They transitioned from 5 years ago from selling purely products (phones and computers) to now selling products as well as recurring, high margin services. Services account for 20% of Apple revenues and a third of gross profits. Margins on their services are almost double their phones and laptops. They continue to grow their services business. They have a solid base of 1 billion iPhones around the world, which sets them up nicely for the 5G upgrade cycle. Also, they have Apple TV, Apple News and Apple Music. Their wearable business continues to grow and they could be entering the automobile market.

Some of the names that we continue to hold and favour include:

**Algonquin Power & Utilities Corp**

We believe that Algonquin Power offers 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.

**Aecon Group Inc.**

Aecon reported fourth quarter results that were ahead of expectations and they increased the dividend by 10%. Looking ahead, we characterize Aecon's outlook commentary as favourable. With COVID-19 headwinds seen as subsiding, we expect Aecon's underlying 2021 results to see healthy improvement year over year. Demand for Aecon's services appear to remain strong and the company continues to track a significant pipeline of opportunities, which, in our view, positions it well for future growth.

**BCE Inc.**

BCE increased the dividend by 5.1% in the first quarter. We continue to believe that it is the leading name in the sector for investors seeking yield and stability. Dividend growth is being maintained in 2021 despite elevated capex, and as Fibre To The Home (FTTH) construction gets completed in the coming years, we expect both an improved payout ratio on fiscal cash flow and meaningful opex and strategic benefits. As with peers, we expect fibre/spectrum/tower network infrastructure, in a 5G world, to sustain strong fiscal cash flow for decades, so that telcos provide good value for investors

relative to other infrastructure assets. We also expect reopening benefits (notably roaming, immigration, and B2B spending) from late-2021 through 2022. And for BCE specifically, we view a dividend yield of over 6% as being very attractive even if government bond yields were to get back to 2.0-2.5% over the next couple of years.

**Brookfield Business Partners**

According to a Bloomberg News article published on February 10th, Brookfield Business Partners is preparing to take Clarios public later this year at a value of $20 billion. If this is true, our carrying value for Brookfield Business Partners' 28% stake in the business would increase by ~$12.95 per unit, or to $18.45 per unit from $5.50 unit.

Brookfield Business Partners and its partners acquired Clarios from Johnson Controls in April 2019 for $13.2 billion, including $2.9 billion of equity and $10.3 billion of debt. Brookfield Business Partners committed $820 million for 28% of the equity.

Assuming Clarios is worth $20 billion, Brookfield Business Partners' 28% equity stake would be worth over $2.7 billion or $18.45 per unit. We currently carry Brookfield Business Partners' stake in Clarios at its cost of $820 million or $5.50 per unit. So, the implied upside to our carrying value is more than $1.9 billion or approximately $13.00 per unit (to $18.45 from $5.50).

**Brookfield Property Partners**

On January 4th, Brookfield Asset Management offered to buy Brookfield Property Partners and they have offered $16.50 US per share. That represented a roughly 15% premium over the price at the end of 2020. On April 1st, the offer was raised to $18.17 US per share, which represented a 26% premium over the price at the end of 2020. The deal is expected to close in the third quarter and Brookfield Asset Management already owns 60% of Brookfield Property Partners. As you know, we actively acquired more shares during the pandemic and our efforts are vindicated.

**Canadian Tire Corporation, Ltd.**

Canadian Tire increased the dividend by 3.3% in the first quarter. While some investors voice concern of the impact of the economy reopening on Canadian Tire, we believe that the Retail business model

has never been stronger and remains positioned to grow on a measured basis. Combine this with our view of an improved outlook for the Financial Services segment, a strong balance sheet that is likely to heighten capital returns to shareholders, and a valuation that remains compelling and we maintain our buy recommendation.

**Canadian Imperial Bank of Commerce**

CIBC reported a strong Q1/21 with adjusted cash earnings per share of $3.58 versus our estimate of $2.89 and consensus of $2.81. Provisions for Credit Losses and Pre-Tax Pre-Provision earnings were materially better than our forecast. We attribute the better-than-expected result to higher trading revenue and emerging momentum in fee income. We raised our 2021E and 2022E earnings per share by 13% and 6%, respectively and Pre-Tax Pre-Provision by 7% and 3%. The increases in our estimates reflect lower Provisions for Credit Losses and higher trading and fee revenue (benefits of reopening), partially offset by higher expenses.

**Enbridge**

Enbridge increased their dividend by 3% in the first quarter. Enbridge's resilient business model and long-life assets warrant a premium valuation, in our view. Over the long term, we expect Enbridge to continue to have a strong competitive incumbency due to its geographic footprint, scale, and diversification, and we believe that this positions it to play a role in North America's contracted and regulated energy infrastructure transitions.

**First Capital REIT**

Nearly a year into the pandemic, First Capital REIT finished 2020 with occupancy down by only 70 basis points from the year-ago record-high, and net leverage up by only 50 basis points year over year. Additionally, rent collections have recovered to above 90%, and leasing activity is not dissimilar from pre-pandemic levels.

We expect continued relatively strong resiliency for First Capital REIT as it navigates the second year of the pandemic. Although no specific 2021 guidance was provided, management does foresee occupancy holding fairly steady (besides some normal Q1 seasonal softness) and no erosion in lease renewal spreads (versus FY2020). At ~1-million sf, the current pipeline of active leasing discussions remains similar to pre-pandemic levels, and includes ~300,000sf of new leasing with tenants across many of FCR's key existing retail categories. Management believes that tenants who have had challenges and "hung on" thus far are likely to endure.

**InterPipeline**

On February 11th, InterPipeline shares jumped as much as 34% as they received a proposed takeover by its largest shareholder, Brookfield Infrastructure Partners. Brookfield was offering $16.50 per share, but InterPipeline continues to trade much higher. The board of directors at InterPipeline has unanimously rejected the offer. The board called the bid highly opportunistic and says it does not reflect the company's full and fair value. They have engaged a strategic review, but Brookfield could sweeten the offer. Stay tuned.

**Maple Leaf Foods Inc.**

$45.00 is what we believe Maple Leaf Foods 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 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 6x Next Twelve Months EBITDA for Meat Protein at current prices, far below Hormel (17.8x) and even below the average of commodity-weighted processors (7.6x). There is little doubt in our minds that a sale/breakup (unlikely near-term) could fetch at least our $45.00 target price. It also worth noting that Maple Leaf Foods increased their dividend by 10.3% in the first quarter.

**National Bank of Canada**

National's solid 2020 and Q1/21 results reflect strong execution as well as an advantageous business mix relative to the group. While National Bank (and the other capital markets-heavy bank, RY) has underperformed over the last six months, the stock continues to trade at 1.9x Book Value/share (consistent with Royal Bank), reflecting the industry's highest Return On Equity. Looking out to 2021, we expect normalizing conditions in capital markets, cards, service fees, and other non-Capital Market Related Revenue fees to favour several of National Bank's larger peers.

**Parkland Corp.**

Parkland shares are trading at 8.1x our 2021 estimate EBITDA, below the ~8.6x five-year average. With volumes expected to recover in H2/21, $50mm-$70mm of the 2020 cost savings initiatives being sustainable, strong execution, and new business wins, we see valuation recovering to 8.5x and Parkland shares reaching our $50.00 target price. Add to this the potential to apply its $1.3 billion of available liquidity for accretive acquisitions, particularly in the U.S., and we remain comfortable with our buy rating.

**Restaurant Brands**

The company reported results that were just short of expectations but increased their dividend by 1.9%. We expect strong comparable sales results in 2021 as the firm laps COVID-19 disruptions. While we had expected the firm to return to unit growth in the fourth quarter, 4% of global restaurant units were permanently closed, accounting for 2% of its global system. We believe these closures were strategic and will better position Restaurant Brands for sustainable growth heading into 2021, where we expect unit growth to pick back up at a low-single-digit rate. Our longer-term expectations are unchanged at 39,400 systemwide units by 2030, implying 4% annual net new unit growth.

Regarding innovation, Restaurant Brand's drive-thru modernization plans announced in the third quarter seem to be bearing fruit. Drive-thru sales rose at a double-digit rate across all three brands year over year in the fourth quarter. Locations with new digital menu boards have already seen improvements in speed of service, and locations with new predictive selling technology have delivered higher ticket sizes.

**Royal Bank of Canada**

Over the past 5-10 years, Royal has traded at approximately 5% premium to the group. In our view, the bank's structural advantages and track-record continue to support a healthy premium. Specifically, we believe that Royal Bank's three large domestic businesses (banking, wealth, and capital markets) will continue to provide balanced earnings growth. Additionally, the bank's ongoing cost management initiatives (not treated as items of note), as well as strong capital levels, point to better medium- and long-term performance from Royal Bank, in our view.

**Suncor Energy Inc.**

2021 guidance is unchanged. Suncor remains our top integrated pick with strong signs of operational stabilization and two key catalysts on the horizon ($300mm in Syncrude synergies through transfer of operatorship and $1 billion of incremental free funds flow in 2023). We also continue to see strong potential for a catch-up trade versus its peers, although near-term operational consistency remains key to restoring market confidence.

**TC Energy Corp.**

TC Energy increased the dividend by 7.4% in the first quarter. Q4/20 results benefited from lower-than-expected interest and tax expenses. Operationally, the Power and Storage segment benefited from a stronger contribution from Bruce Power and Alberta power generation. U.S. Natural Gas Pipelines had lower operating costs in Q4/20 and the Canadian Natural Gas Pipelines' earnings were bolstered by a number of factors.

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 relatively well to face an uncertain period in the oil and gas industry in the near term and during energy transition in the long term.

### Toronto Dominion Bank

TD reported decent fiscal first quarter earnings as they soundly beat consensus. This represented year-over-year earnings per share growth of 10% primarily driven by fee income growth of 8% and lower provisioning. Provisioning was back to its lowest level in years. These results align with our view that the Canadian banks will be fine and that better results should be returning in 2021.

Stay safe.

Sources:
TD Securities, Action List – April 2021
https://tdsresearch.cibg.tdbank.ca/equities/equity/welcome.home.action
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