Recommended List

ARC

Recommended List
Top Picks + Avoids
Mid-December 2022

	First Pick	Second Pick	Avoid
Communications	Quebecor Inc	Meta Platforms Inc	BCE Inc
Consumer Discretionary	Dollar Tree Inc	Restaurant Brands International	Dollarama Inc
Consumer Staples	Walmart Inc	Alimentation Couche-Tard	Metro Inc
Energy	Suncor Energy	Enbridge Inc	Imperial Oil Ltd
Financials	Manulife Financial	Intact Financial	Brookfield Asset Management Ltd
Healthcare	CVS Health Corp	Jamieson Wellness	
Industrials	Emerson Electric	WSP Global Inc	Canadian National Railway
Materials	Wheaton Precious Metals	CCL Industries	Labrador Iron Ore Royalty
Real Estate	Canadian Apartment Properties REIT	American Tower	
Technology	Microsoft Corp	CGI Inc	Blackberry Ltd
Utilities	Northland Power	Fortis Inc	Hydro One Ltd

■ Addition to List

Top Picks

	Ticker	Target	Yield	Beta	Mkt Cap	P/E Curr	P/E Next	P/Rev	P/CF	P/BV	D/E
Communications											
Quebecor Inc	QBR.B	$35.00	4.2%	0.70	6,712	10.6	9.8	1.5	4.9	4.8	4.97
Meta Platforms Inc	META	$125.00	0.0%	1.13	318,833	10.7	10.7	2.7	7.1	2.6	0.12
Consumer Discretionary											
Dollar Tree Inc	DLTR	$163.00	0.0%	1.05	32,404	20.2	18.6	1.1	14.1	3.9	1.29
Restaurant Brands	QSR	$90.00	3.2%	0.61	41,079	21.3	22.0	6.3	18.4	8.9	3.78
Consumer Staples											
Walmart Inc	WMT	$159.00	1.5%	0.80	395,540	24.3	22.2	0.7	13.6	5.5	0.62
Alimentation Couche-Tard	ATD	$68.00	0.9%	0.83	63,175	15.9	16.2	0.9	10.6	3.7	0.76
Energy											
Suncor Energy	SU	$56.00	4.9%	1.23	56,920	5.0	6.5	0.9	3.2	1.5	0.50
Enbridge Inc	ENB	$64.00	6.6%	0.93	108,996	18.9	17.4	2.0	9.6	1.9	1.20
Financials											
Manulife Financial	MFC	$27.00	5.5%	0.97	45,546	7.9	7.3	1.5	-	0.9	0.55
Intact Financial	IFC	$225.00	2.0%	0.63	34,550	14.8	15.4	1.6	-	2.5	0.31
Healthcare											
CVS Health Corp	CVS	$115.00	2.2%	0.75	132,290	11.7	11.4	0.4	10.5	1.9	1.01
Jamieson Wellness	JWEL	$44.00	2.0%	0.63	1,452	22.6	19.1	2.6	35.0	3.5	0.51
Industrials											
Emerson Electric Co	EMR	$105.00	2.1%	0.97	56,903	23.8	20.8	3.7	19.3	5.6	0.67
WSP Global Inc	WSP	$178.00	0.9%	0.93	20,556	30.2	25.9	2.3	19.3	3.5	0.60
Materials											
Wheaton Precious Metals	WPM	$69.00	1.5%	1.03	24,288	33.6	32.9	22.4	23.5	2.7	0.00
CCL Industries Inc	CCL.B	$77.00	1.6%	0.68	10,500	16.6	15.6	1.6	11.1	2.5	0.49
Real Estate											
Canadian Apartment REIT	CAR.U	$56.00	3.3%	0.86	7,525	-	18.1	7.5	-	0.8	0.63
American Tower Corp	AMT	$275.00	2.8%	0.93	102,363	34.7	47.1	9.6	21.9	16.3	5.73
Technology											
Microsoft Corp	MSFT	$306.00	1.1%	1.11	1,917,440	26.8	23.0	9.0	21.2	11.1	0.47
CGI Inc	GIB.A	$133.00	0.0%	0.69	28,196	17.7	16.3	2.1	14.0	3.9	0.55
Utilities											
Northland Power	NPI	$45.00	3.1%	0.87	9,548	15.5	24.6	3.9	7.1	2.5	2.57
Fortis Inc	FTS	$60.00	4.1%	0.51	26,796	20.2	18.8	2.6	8.4	1.4	1.24
Median (All Sectors)			2.0%	0.86	41,079	19.5	18.6	2.3	13.8	2.7	0.62

Source: ARC; Bloomberg

Commentary (see full reports for more details)

Communication Services

We recommend **Quebecor Inc** based on its growing wireless business and attractive valuation versus peers. Shaw and Rogers have entered a definitive agreement to sell Freedom Mobile to Quebecor for $2.85 billion, subject to the approval of the Competition Bureau/Tribunal and ISED Canada. The deal encompasses all Freedom-branded wireless and internet customers, and Freedom's infrastructure, spectrum and retail locations. The transaction does not include the divestiture of Shaw Mobile-branded wireless subscribers. The agreement also includes long-term agreements by Shaw and Rogers to provide Quebecor transport services (including backhaul and backbone), roaming services and other services. Quebecor has the financial strength, experience and willingness to become a substitute for Shaw in owning Freedom and keeping alive the government's desire for a fourth national wireless provider. The deal is currently before the Competition Tribunal with a decision expected within weeks, and we expect the process to ultimately result in approval of the transactions. ISED has publicly indicated its requirements to approve the deal, including holding the transferred spectrum for 10 years and offering wireless subscriber rates in Ontario and Western Canada comparable to pricing in Quebec. Quebecor has agreed to these requirements. Management again noted impatience during its latest quarterly call that the incumbent carriers have been dragging their feet in terms of agreeing on pricing and other terms for MVNO access. The company noted that it will rely on the CRTC arbitration process to eventually force settlement if necessary. We highlight **Meta Platforms Inc** for its position as a global leader in targeted online advertising with 2.9 billion daily active people on its platforms, which include Facebook, WhatsApp and Instagram. Meta generates significant cash flows that it uses to return capital to investors through share buybacks, and also to invest heavily in future growth. After its Q3 results and unchanged free cash flow strategy severely disappointed the market, management has relented to shorter-term sentiment and announced plans to cut 13% of its workforce, freeze hiring into 1Q23, shrink the real estate footprint, reduce budgets, cut discretionary spending, and explore other ways to cut costs in the months ahead. Meta will continue to invest in its immersive virtual reality capabilities, just at a reduced level, which could offer tremendous future growth. While the company faces ongoing regulatory risks, including privacy concerns, criticism of its monitoring programs, and anti-trust investigations, these risks are well-known and largely embedded into current valuation. Current overhangs on the shares include a decline in advertising spending heading into a recession, ongoing metaverse build-out costs, the impact of Apple's iOS changes on ad targeting, and concerns over competition, especially TikTok. We expect these issues to dampen outlook into 2023.

We recommend avoiding **BCE Inc** based on valuation and due to the continued campaign by the board to approve increases to the dividend that are well beyond its own guardrails. The dividend is supposed to be contained to 65%-75% of adjusted free cash flow. That payout ratio was 105% for 2021, and is forecast to be 105% again in 2022. For the payout ratio to return to the midpoint of the guided range in 2023 (excluding the accelerated capex and higher-than-expected amounts paid for 3500 MHz spectrum), operating cash flow would need to compound at 15% this year and next, which is beyond reasonable expectations for growth in the company's main wireless and wireline businesses. We believe that the board continues to keep the company on an aggressive path, and that management and the board's definition of free cash flow and its payout ratio "target" are not credible, and neither are the reasons provided for continually missing the mark (e.g., accelerated capex in 2021/22, which is disproved by BCE's own figures). We believe investors should consider other names in the sector first.

Consumer Discretionary

We recommend **Dollar Tree Inc** based on its recession-resistant characteristics and its ability to manage through an inflationary environment. While we expect some ongoing near-term headwinds from inflation, higher wage costs, and a shift in product mix away from discretionary, there are numerous long-run initiatives that should drive multi-year performance. At the Dollar Tree banner, the multi-price point roll-out will drive gross margin expansion for several years. At Family Dollar, changes in management and strategic direction to invest in wages, warehouse & distribution centre efficiency, and store experience, have been showing signs of progress. The business has achieved price parity with key competitors and widened the price gap with grocery and drug stores. We highlight

Restaurant Brands International based on expectations regarding longer-term system-wide sales growth across its banners, led by unit growth, loyalty and digital sales, and technology investments both in North America and internationally. We continue to anticipate strong unit growth for all four banners, driving towards the company's next-step overall target of 40,000 restaurants globally. RBI is pursuing several key initiatives to drive long term sales growth, including expansion into many new international markets through MFJV agreements across banners, continued growth within new markets with expansive runways, expansion of PLK and FHS locations in the US, infill of BK and TH locations in their home markets, the expansion of the loyalty programs for all four banners, restaurant remodeling, the pursuit of omni-channel growth through technology improvements in drive-thru, kiosk, in-store, mobile-order-and-pickup, and delivery via multiple 3P apps. This growth potential is somewhat overshadowed by various issues that will impact short-term results, including labour shortages in-store and at distribution and logistics, cost inflation, and the ongoing attempts to rehabilitate the BK US franchise in order to regain market share versus competitors. At BK US, the company continues to close the gap with peers through its turnaround strategy. The Reclaim the Flame plan aims to accelerate growth by engaging existing and new guests, with investments in marketing, operations, digital, and remodels.

We recommend avoiding **Dollarama Inc** based on its high valuation versus peers and against its own multiple historically. While Dollarama has proven resilient with signs of growth despite a challenging economic environment, we believe the current rich valuation is unlikely to yield satisfactory returns in the face of current inflation trends and slowing longer-term revenue growth (despite new price points up to $5). Dollarama's long-term store count target of 2,000 locations by 2031 implies static new openings on a larger store base, and therefore overall slowing growth. The shares are increasingly likely to decline as a result of sector rotation by investors in 2023.

Consumer Staples

We recommend **Walmart Inc** based on sustained long-term growth as the company continues to invest in technology, logistics, and e-commerce capabilities to transform into an omnichannel retailer. We expect the current pressure on profitability to be transitory. The sales environment should continue with strong growth in entry level priced food and consumable merchandise, partially offset by weakness in sales of highly elastic merchandise. We remain attentive to potential impacts from energy prices, supply chain constraints, and forex headwinds as they could impact the timing of the expected recovery. Although earnings growth will be less predictable over the short-term, we believe that Walmart can still achieve its goal of 4%+ annual EBIT growth over the long run due to its cost leadership, and as headwinds recede. We highlight **Alimentation Couche-Tard** for the value added through its ongoing growth via acquisitions, store refurbishments, new store growth, data analytics, additional fresh food offerings, cost optimization, merchandise rationalization, and Circle K fuel branding efforts. The Fresh Food, Fast initiative continues to expand more locations in North America and Europe, which has been driving 20%+ growth in same store sales at converted locations. Couche-Tard continues to deploy technological advancements, including smart checkouts in-store and pay-by-licence-plate fuel transactions in Europe. The company is also expanding its use of data analytics to customize pricing and promotions on a store-by-store basis. With 89% of corporate stores selling fuel, the advancement of electric, hybrid and other alternative vehicles presents a longer-term strategy issue for ATD. The investment in charging stations will be significant over the next two decades, but so will strategic opportunities, which should be financially manageable as the rollout of changes impacts different countries and states with varying degrees of urgency.

We recommend avoiding **Metro Inc** based on valuation relative to its peer group and fewer potential growth catalysts. While the company's strategies to mitigate labour costs, and distribution centre investments should help to maintain margins and drive longer-term growth, we prefer other names in the sector.

Energy

We highlight **Suncor Energy** based on its attractive valuation, integrated business model, and ability to generate significant cash flows, despite a history of worker safety issues. Elevated commodity prices continue to boost Suncor's performance. Strong free cash flow generation is expected to lower net debt to $12 billion by the end of

1Q23. In turn, this should increase the allocation to share repurchases from 50% to 75% of FCF. Suncor has completed the sale of its Norway E&P assets and announced the sale of its wind and solar assets. The company expects to complete the sale of the UK E&P asset by the end of 2023. Suncor has also agreed to acquire an additional 21.3% working interest in Fort Hills. With expected close in 1Q23, the transaction will increase the company's stake in the project to 75.4%. Suncor also recently outlined its plans to improve safety and reliability at its upstream operations, however, it will take time for the market to see the benefit of these changes, in our view. The company has decided against the sale of its retail network and announced an accelerated optimization plan to deliver 7% compound annual growth in retail EBITDA during 2022-2027. We recommend **Enbridge Inc** based on its growing cash flow profile underpinned by its secured project pipeline, including system optimizations. Projects placed into service over the past two years set the stage for 8% compound EBITDA growth during 2021-2023. Enbridge expects distributable cash flow per share to increase at a CAGR of 5%-7% through 2024. Backed by a robust increase in cash flows, the company is forecasting ~$4 billion in investable cash flows (calculated as DCF net of dividends) in 2023. ENB targets a dividend payout ratio of 60%-70% of DCF, which implies dividend growth on top of an already attractive yield.

We recommend avoiding **Imperial Oil** based on valuation relative to its integrated peers. We recognize that the company boasts strong free cash flows in an attractive commodity price environment, and that Imperial has been using its excess cash flows to reward shareholders through increased dividends and share repurchases. Nevertheless, given the premium valuation versus peers, we prefer other names in the sector first.

Financials

We recommend **Manulife Financial** based on its attractive valuation relative to peers. The company holds a strong position in several key areas, including core earnings growth, capital position, and its focus on growing in Asia and in wealth management. Manulife trades at a steep discount to insurance peers that we believe is too high given its improving risk profile. The market has reacted negatively to the company's results year-to-date due to lockdowns lockdowns/outbreaks in China, the effect of declines in equity markets, and the impact of changes in accounting rules for insurance companies coming in 2023 (IFRS17). Manulife continues to make progress towards its longer-term goals, including improving capital efficiency, driving expense savings, and becoming a more digital consumer-centric company. MFC has set a target of generating two-thirds of core earnings in 2022 (and 75% by 2025) from its highest potential businesses. We highlight **Intact Financial** for its dominant market share in the Canadian P&C insurance sector, its expansion into new territories and business, and its ability to consistently outperform its peers on ROE. The acquisition of RSA has contributed 15% accretion to NOIPS in the 16 months since closing, higher than the company's initial target, while working towards ~20% accretion within 36 months. The company is also on track for at least $350 million of pre-tax annual run-rate synergies within 36 months of closing, having delivered $235 million as of quarter end. We expect favourable market conditions to continue in most business lines over the next twelve months. Expectations for an increase in personal auto claims frequency and cost inflation over the medium term is already embedded in our estimates and consensus expectations.

We recommended avoiding **Brookfield Asset Management** based on valuation concerns, accounting issues and corporate governance matters. We have identified several areas of concern with the company over the years, including: potential pressure to prematurely or inefficiently deploy funds that Brookfield has raised so that it may collect management fees, incentive fees and incentive distributions; concerns surrounding the company's corporate governance; and implications with the subjective revaluation of key asset classes in its financial statements. Brookfield revalues its real estate holdings using management estimates and "generally does not measure or record its properties based on valuations prepared by external valuation professionals." This same problem exists with assets held in other Brookfield subsidiaries. Management has significant discretion over the assumptions and inputs used in determining the assets' reported fair values. We are concerned by the general lack of independent checks or corroboration on valuations prepared by management, particularly in the case of certain real estate assets and infrastructure assets. These values flow through to sell-side estimates for Net Asset Value, and create conflicts of interest for Brookfield management as they collect fees based on trading prices supported by their own internal accounting estimates

Healthcare

We recommend **CVS Health Corp** based on its vertically integrated business model that is coupled with presence across the US and a dominant position in the prescription drug market, which enables the company to benefit from growing demand for healthcare. CVS is acquiring Signify Health for ~$8 billion, which is expected to close in 1H23. While the acquisition is at a significant premium, in our view, the deal marks the company's entry into the health risk assessment business, and is expected to be accretive to earnings during the first year of operations, which could generate high single-digit return on invested capital as synergies are realized. CVS' largest health insurance plan for Medicare recipients received a lower government star rating for 2023, which is likely to affect quality bonus payments. Additionally, the company lost Centene's PBM contract to Cigna for 2024. These two events are expected to impact 2024 performance by ~$2 billion. The company is taking steps to mitigate 50% of the impact through operational efficiencies and contract diversification, and the remaining half through acquisitions and/or share repurchases. We highlight **Jamieson Wellness** based on the growth prospects for its brands both in Canada and internationally. JWEL reported solid results for the most recent quarter and raised its outlook for margins in the youtheory business. Jamieson is a top global brand, and the most accessible and widely available VMS product line in Canada. The brand's long history, product ubiquity and quality, and constant marketing create a substantial competitive advantage, which the company aims to grow through product adjacencies, higher penetration, and new geographic markets. Growth in Jamieson domestically is expected to continue from a fairly even balance of market expansion and product innovation. Jamieson is focussed on several international markets that are emerging in nature with aging populations and rising disposable income, which offer yoy growth potential far higher than domestic gains. JWEL expects organic revenue to grow by 6-8% in 2022 (~16% overall including the recent US acquisition), including growth of 10-15% internationally driven by expansion across key regions in Asia and the Middle East, as well as continued growth in China as the company increases local capabilities and brand investments in the market. JWEL recently announced a strategic acquisition of tangible and intangible assets from its distribution partner in China, allowing it to directly operate its sales, marketing and distribution activities in the country effective April 1, 2023. The deal will allow JWEL to take a more direct and holistic approach to delivering its brand experience to consumers in a key international market.

Industrials

We recommend **Emerson Electric Co** based on its attractive valuation and resilient business model. Through recent acquisitions and divestures, EMR is now a more focussed, faster growing, higher margin, industrial automation company better positioned to capitalize on the growing use of software, analytics, and control systems to enhance industrial client productivity. Along with 55%-owned AspenTech, Emerson now consists of a portfolio of advanced automation technology and software products and services that serve a diversified set of global end markets. The business will be segmented into two parts: software & control systems and intelligent devices. Business in China recovered in the fiscal fourth quarter and the outlook for EMR's energy-related businesses in China improved materially. Other promising growth opportunities include LNG, refining, metals for EV batteries, the reshoring of drug and vaccine manufacturing, the development of new drug therapies and personalized medicine, decarbonization, and industrial automation. We highlight **WSP Global Inc** based on its track record for solid organic growth and its measured and accretive approach to acquisitions. WSP continues to execute on its strategy of acquiring companies in its three core sectors, with a focus on environmental consulting companies. WSP closed the previously announced acquisitions of John Wood Group, Capita, and GL Hearn, and the company is well on track to achieve its 2024 financial target of more than $10 billion in net revenue. WSP's strong organic backlog and solid balance sheet give us confidence that it will not only weather the current macro environment, but also take advantage of M&A opportunities presented by the downturn.

We recommend avoiding **Canadian National Railway** based on valuation as we believe that much of the positive outlook on improving operating ratios is already priced into the stock, and the company will face increasingly tougher comps moving through 2023. The company is forecasting solid volume growth, including strength in key areas including grain. While we agree that some commodities are more recession resistant, we remain cautious given the current economic environment, and believe that the company's positive strategic changes and outlook are reflected in the shares.

Materials

We recommend **Wheaton Precious Metals** given its portfolio of diversified, high-quality, low-cost and long-life assets, exploration potential and production upside. We expect robust organic production growth over the next several years, underpinned by rising production and several recent streaming deals. We believe Wheaton remains well positioned over the near and medium-term to execute on more M&A opportunities supported by its strong balance sheet and cash flow generation. We view **CCL Industries Inc** favourably given its attractive valuation, global manufacturing footprint, proven management team, product breadth, strong track record of product innovation, and robust cash flow generation. While operating challenges persist, including inflationary pressures and lockdowns/outbreaks in China, demand remains robust. The short-term outlook in the core CCL segment is stable, though less certain, with ongoing strength in some businesses offset by slower conditions in others. Demand in the core CCL segment remains solid, while in CCL Design, improving automotive demand is expected to be offset by slower conditions in the technology space. At Avery, distributor destocking in the core business could potentially offset continued strength in direct-to-consumer. At Checkpoint, weakness in the apparel supply chain and the softer MAS picture in broader retail will continue to overshadow strong RFID growth.

We recommend avoiding **Labrador Iron Ore Royalty Corp** based on valuation. High inflation, the war in Ukraine, global economic uncertainty, issues surrounding gas supply in Europe, and concerns about the Chinese property construction sector have negatively impacted steel demand, resulting in compressed margins for steel producers and ultimately weaker demand for iron ore. Some strength returned on changes in China's zero-COVID policies, but a resurgence of cases could once again affect seaborne iron ore demand.

Real Estate

We recommend **Canadian Apartment Properties REIT** for its successful growth through a combination of rent increases on renewals and turnovers, property improvements and expansions, and accretive portfolio acquisitions. The company's focus is on large urban centres that are experiencing strong population growth and rising demand for quality rental properties (most notably in and around Toronto, Vancouver and Montreal). Factors that help to drive this demand include natural population growth and immigration trends that largely favour cities, in addition to young people and seniors looking for more affordable and desirable accommodations. In addition, CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors as well as through geographic diversification. We expect management to remain active with share buybacks given the discounted value of the share price versus private market apartment REIT transactions. CAPREIT will aim to use funds from premium priced property dispositions to repurchase shares, while reserving its balance sheet room to fund accretive acquisitions. We highlight **American Tower Corp** as it is poised to benefit from the growing demand for wireless communications globally, including transitions to 4G and 5G. With fixed costs relatively stable, additional tenants on the same tower translate to higher revenues, gross margin, and return on investment for AMT. The company enjoys high visibility for revenue, which is underpinned by long-term contracts of 5-10 years that also have embedded annual escalation clauses, which protect against inflation. American Tower's recent accretive acquisitions of data centres solidify its position and diversify its business into an additional class of telecom real estate, providing opportunities to benefit from growing demand for cloud services. The data centre business is complemented by AMT's core tower business and enables the company to fortify its presence in mobile edge and metro edge. The company is forecasting 2022 revenue and adjusted EBITDA growth of ~13% and ~11%, respectively, driven primarily by the International segment and new Data Centers segment.

Technology

We favour **Microsoft Corp** for its strong performance aided by sustained cloud growth as more companies transition to online subscriptions. The company's cloud-based delivery model, diversified product suite, and strong market foothold in a favourable demand environment support its long-term growth prospects. Furthermore, Microsoft's steady cash generation is expected to lead to continued dividend growth and share buybacks. While the company expects double-digit revenue and operating income growth for FY2023 on a constant currency basis, deterioration in PC market conditions and increased forex headwinds have somewhat dampened the outlook. Nevertheless, the company's cloud strengths, diversified product suite, and market clout rank highly during volatile market conditions. We highlight **CGI Inc** based on its favourable positioning for organic revenue growth, further margin improvement and strong operating cash flows and earnings growth, particularly against the backdrop of a strong demand environment. With a robust balance sheet, strong liquidity, expectations for continued consolidation in the industry and a favourable M&A environment, CGI remains generally on track to deploy ~$1 billion on M&A activities in 2022, although timing might shift slightly. Further, the company remains optimistic on M&A moving into 2023. CGI's M&A pipeline is growing in quality and quantity and at a fast pace. Valuation and market activity are creating more favourable buying conditions for mergers of both metro market services firms and for transformational mergers. CGI continues to expand its M&A pipeline to include more intellectual property-based services and solutions firms.

We recommend avoiding **Blackberry Inc** based on its valuation relative to peers. The company's results continue to be impacted by ongoing decline in Cybersecurity ARR, flat IoT revenue, and the overhang of the long-delayed patent portfolio sale. Longer-term, we expect value to continue building on the back of design wins for QNX, a return of growth in Cyber ARR, and growing interest in POC trials for IVY, leading to installations starting for model year 2024/5. We are cautious on when BB can attain positive EBITDA and EPS levels capable of supporting valuation, especially given the costs needed to ramp up its salesforce. Until that time, we value BlackBerry based on its most stable and predictable financial metric, EV/Revenue, relative to Canadian and Global enterprise software peers, with recognition that BB lacks a critical and more mature sales structure, offset in part by its cash holdings.

Utilities

We highlight recommend **Northland Power** for its ability to benefit from decarbonization efforts and the transition to renewable energy by governments and private entities. NPI's robust development pipeline is likely to double its installed capacity by 2027 and result in adjusted EBITDA growth of 7%-10% during 2022-2027. The company continues to gain traction in international markets through acquisitions and joint ventures. Of late, the state of European power markets is leading to elevated pricing and increasing prospects for longer-term development opportunities at attractive economics, offset by the impact of rate capping and windfall taxes. There have also been some relatively minor short-term delays in advancing current projects, which should not be of significant concern. We note that the company's robust project pipeline and rapid inorganic expansion amplify execution and regulatory risks. We highlight **Fortis Inc** for its $22.3 billion 5-year capital plan (2023-2027) to deliver rate base growth of over 6% during the period. The company also extended its dividend growth guidance at 4%-6% through 2027. The updated capital plan includes $5.9 billion for cleaner energy projects. We note that FERC recently dismissed a complaint regarding equity thickness at ITC Midwest, which is positive for Fortis. While fundamentals remain solid, rising interest rates warrant some caution across the utility sector. Nevertheless, we regard Fortis as highly-diversified, highly-regulated and lower-risk versus market comparables. Furthermore, the company's presence in the US market, which has a more attractive regulatory environment, provides it with an edge over peers with greater exposure to Canadian assets.

We recommend avoiding **Hydro One Ltd** based on valuation and limited geographical exposure. We note that the company's Joint Rate Application was approved by the OEB setting the stage for growth over the medium-term (6% CAGR in the rate base during 2023-2027). Further, Hydro One continues to be a consolidator and sees ongoing M&A opportunities in Ontario. However, the intervention by the provincial government into the company's operations and executive pay (leading to recent turnover and ongoing turnover risk) warrants caution, especially relative to other names in the sector.

About the Recommended List

The Recommended List aims to provide a consolidated, high-level view into our research recommendations and in-depth company reports, by focussing on some top names in each sector, and identifying names that we believe investors should avoid. We highly recommend that investors also consult our model portfolios for a diversified, longer-term outlook based on the ratings and valuations derived from our investment process. The model portfolios provide recommended weightings for individual holdings and consider overall portfolio diversification. The Recommended List should not be used as a substitute for the model portfolios.

Performance

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