Canadian Equity Research

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Best picks to play offense or defense

Offensive Picks

Aritzia	ATZ-TSX
CAE	CAE-TSX
Celestica	CLS-NYSE
Corus Entertainment	CJR.B-TSX
Ero Copper	ERO-TSX
Exchange Income	EIF-TSX
Finning International	FTT-TSX
First Capital REIT	FCR.UN-TSX
Harvest Health & Recreation	HARV-CSE
HLS Therapeutics	HLS-TSX
Keyera	KEY-TSX
Manulife Financial	MFC-TSX
MediPharm Labs	LABS-TSX
Osisko Mining	OSK-TSX
Suncor Energy	SU-TSX
Teranga Gold	TGZ-TSX
TORC Oil & Gas	TOG-TSX

Defensive Picks

Absolute Software	ABT-TSX
Alamos Gold	AGI-TSX
Gibson Energy	GIB-TSX
Goodfood	FOOD-TSX
Granite REIT	GRT.UN-TSX
Jamieson Wellness	JWEL-TSX
K92 Mining	KNT-TSX
Kinaxis	KXS-TSX
Newmont Mining	NEM-NYSE
Pembina Pipeline	PPL-TSX
Primo Water Corporation	PRMW-TSX
Royal Bank of Canada	RY-TSX
Shaw Communications	SJR.B-TSX
The Valens Company	VLNS-TSXV
Tourmaline Oil	TOU-TSX
Trulieve Cannabis	TRUL-CSE
WSP Global	WSP-TSX

Priced as of 13 April 2020 unless otherwise stated.

The year 2020 has thus far brought the unexpected, with the COVID-19 pandemic sparking economic shutdowns across many regions and countries. This has led to unprecedented volatility in the equity markets, with the S&P/TSX Composite index falling 38% from February 20 to March 23 and rebounding 26% in the three weeks following. Such a sharp market decline followed by an accelerated rally – and particularly in light of the current drivers – is essentially uncharted territory. Therefore, given the uncertainty surrounding the length of time and potential scale of economic disruption caused by COVID-19, it is difficult to ascribe a previous playbook to the current market environment.

While a material decline in corporate earnings in Q2/20 appears inevitable, the length and depth is unknown. What is clear is that governments around the world have expanded their balance sheets and demonstrated a willingness to provide a lifeline to struggling economies, at least over the near term.

Our best picks for an offensive or a defensive strategy

In this report, we are not attempting to make a call on the overall direction of the equity market; we'll leave that up to our outstanding Portfolio and Technical Strategist teams. Instead, our conversations with investors suggest a split between those who believe a bottoming process has been completed and we are now in recovery mode, and those who believe we will retest the March 23 low should economic data and corporate earnings disappoint over the coming months.

Our goal for this report is to provide investors, based on their own forward-looking view of the equity market, with a choice for each sector from our Canadian research coverage: our analysts highlight offensive names to consider in a market recovery scenario, and defensive names should the impact of the pandemic prove longer and deeper than expected.

We remind investors that the COVID-19 pandemic continues to evolve at a rapid pace and these selections have been made based on available information and forecasts as of the date of this publication.

Quantitative / Technical Commentary

Our quantitative/technical analyst, Javed Mirza, has provided a Quantitative/Technical overlay to the stocks highlighted in this report.

Technical Review – Intermediate-term (Weekly): The five charts with the most constructive technical profiles are: TGZ, AGI, KXS, FOOD, and ABT. The three charts with the weakest technical profiles are: SU, HARV, and TOG.

Quantitative Review – Offensive Stocks (see Appendix 1): Of the offensive stocks in this report that are modeled in our proprietary quantitative tool, Quest®, the five highest-ranked stocks are: TGZ, ERO, KEY, ATZ and FTT. CJR.B and TOG are tied for the highest Value factor score (27); ERO has the highest Quality factor score (30); and TGZ has the highest Momentum factor score (30).

Quantitative Review – Defensive Stocks (see Appendix 2): Of the defensive stocks in this report that are modeled in our proprietary quantitative tool, Quest®, the five highest-ranked stocks are: JWEL, KNT, TRUL, AGI and KXS. TOU has the highest Value factor score (30); KXS has the highest Quality factor score (30); and JWEL has the highest Momentum factor score (33).

For important information, please see the Important Disclosures beginning on page 21 of this document.

Canaccord Genuity Capital Markets

Industry Update

Cannabis

14 April 2020

Canaccord Genuity Corp. (Canada)

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Company	Rating	Price	Target
HARV-CSE	Spec Buy	C$1.05	C$4.50
TRUL-CSE	Spec Buy	C$12.99	C$35.00

Priced as of close of business 14 April 2020

Offensive pick: Harvest Health & Recreation (HARV-CSE)

Amidst the pullback in cannabis valuations over that past year (further deepened by the current COVID-19 overhang), we feel Harvest has had its fair share of missteps, including its inability to deliver on public messaging – particularly in executing on M&A, and capital sourcing/allocation. As a result, HARV has seen its share price decline by ~(66%) over the past two months, underperforming its peer group at (~43%). Although we believe management execution factored into the equation, the perception that Harvest was not fully funded to integrate its previously pending acquisition of Verano also weighed heavily on HARV's valuation, in our view.

However, since announcing the termination of this deal (link), we believe the company has hit the reset button while its core operations (most notably in Arizona) continue to track in the right direction. With ~US$85M of cash on hand, we believe the company no longer has a capital overhang, with Verano off the table. Should equity markets begin to recover, we believe HARV is situated to see a high degree of torque to the upside now that its story has simplified, with a balance sheet that we believe can support its current initiatives.

Valuation: We value HARV using a SOTP analysis, utilizing a DCF, with discount rates ranging from 8% to 15% and a TGR of 2%. Our analysis yields a PT of C$4.50, which supports our SPECULATIVE BUY rating. HARV currently trades at ~3.4x our FY2021 EV/EBITDA, compared to its MSO peers at ~5.0x.

Defensive pick: Trulieve Cannabis Corp (TRUL-CSE)

After recently posting a very encouraging Q4/19 (link), we believe Trulieve continues to demonstrate strong execution as one of the leading US operators by revenues and by far the most profitable cannabis company to date. We believe investor confidence in this name is also apparent in its price action, with its share price down a more modest (~9%) since the onset of the COVID-19 overhang, compared to its US peer group which has fallen (~43%) over this same time period.

With an adj. EBITDA run rate of US$180M to end-FY2019 and $92M of cash on hand, we believe Trulieve is the best-positioned cannabis company to weather the storm and navigate near-term COVID-19 related uncertainty. In addition, with a large majority of its operations still in Florida, we believe many of the inefficiencies and inherent risks of relying on a wide variety of regulators (approval of facilities, retail openings, etc.), are not as applicable to the company, as its leading position in Florida is more than sufficient to fund its operations.

Valuation: We value TRUL using a SOTP analysis, utilizing a DCF, with discount rates ranging from 8% to 15% and a TGR of 2%. Our analysis yields a PT of C$35.00, which supports our SPECULATIVE BUY rating. TRUL currently trades at ~5.9x our FY2021 EV/EBITDA, compared to its MSO peers at ~5.0x, a premium that we think is more than justified given the company's strong execution to date.

14 April 2020

Industry Update

Cannabis

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Company	Rating	Price	Target
LABS-TSX	Spec Buy	C$1.75	C$4.50
VLNS-TSXV	Spec Buy	C$2.54	C$7.25

Priced as of close of business 14 April 2020

Offensive pick: MediPharm Labs (LABS-TSX)

With a focus on international markets, we believe MediPharm is a name with significant torque to the upside in a recovery scenario. As global economies enter a more normalized state, MediPharm should benefit from improving international logistics, an uptick in international contracts and sales, accelerated timelines for EU-GMP certification, and the eventual entry of CPG companies into the Canadian cannabis space. The company has a strong balance sheet, with $38.6M in net cash and is well positioned, in our view, to weather the current downturn. Using a SOTP DCF model, which includes Canada, Europe and Australia, we arrive at a value of C$4.50/sh, which forms the basis of our updated target. Based on our estimates, LABS is trading at a 2021E EV/EBITDA multiple of 4.2x, versus our target multiple of 13.9x.

Defensive pick: The Valens Company (VLNS-TSXV)

On Tuesday, Valens released FQ1/20 results for the quarter ended February 29, 2020. The company reported another strong quarter with $32.0M in revenue and $6.5M in adj. operating income, which, at the time of the release, continued to make Valens the most profitable public cannabis company in Canada. While the company expects to see some disruptions due to COVID-19, we continue to forecast solid demand for finished products, isolate, and hydrocarbon extraction. We note that, according to Headset data, the market share for Cannabis 2.0 products has roughly doubled from FQ1 to FQ2, supporting our thesis that demand for white label products should remain high over the coming quarter.

In our view, Valens is well positioned for the downturn with ~$44.3M in cash and ST investments, no debt, profitable operations, and a leading 2.0 platform. While the company noted that several of its customers have experienced workforce reductions and temporary declines in cultivation output (reducing demand for extraction services), we view the weakness as short term due to our expected ramp up in white label sales in H2/20. We also see Valens as a potential net beneficiary of Health Canada licensing delays, which could have a positive impact on white label pricing and volumes. In our view, the stock trades at a discounted valuation, with an EV/EBITDA multiple of 2.4x versus our target multiple of 9.2x. We reiterate our SPEC BUY and highlight Valens as a Top Pick.

Canaccord Genuity
Capital Markets

Industry Update

Consumer and Retail

14 April 2020

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Company	Rating	Price	Target
ATZ-TSX	Buy	C$14.59	C$23.00
PRMW-NYSE	Buy	NA	$15.00

Priced as of close of business 14 April 2020

Offensive pick: Aritzia, Inc. (ATZ-TSX)

- Aritzia is our choice for those investors looking to play offense coming out of COVID-19-related lockdowns. The stock has fallen 28% year-to-date, largely due to the company closing its physical stores to align with social distancing measures and stay-at-home orders. We believe the decline in the share price offers a compelling buying opportunity for those investors willing to look past near-term earnings weakness related to the virus.
- We estimate sales through the company's website account for approximately 25% of overall revenue. While we acknowledge lost sales from store closures will not entirely be made up through e-commerce, it is worth noting Aritzia's robust e-commerce presence has left consumers the option of ordering online as store closures persist, providing a stream of revenue to the company that is not available to other retailers with a weaker presence online.
- Aritzia ended Q3/F20 with a net cash position of $29 million, leaving it considerably well capitalized, especially when compared to luxury fashion peers at 3.0x net debt/ NTM EBITDA and lifestyle brands peers at 2.0x. Furthermore, the company also has access to an undrawn $100 million credit facility. We believe that, even absent any rent relief from landlords (which we view as unlikely), Aritzia remains well positioned to handle an extended period of store closures.
- Aritzia trades at 9.2x our F2021 EBITDA estimate, vs. peers at 12.1x. Our target price represents 13.9x our F2021 EBITDA estimate of $183 million.

Defensive pick: Primo Water Corporation (PRMW-TSX/NYSE)

- For investors looking for a more defensive pick, we highlight Primo Water Corporation. Approximately 60% of its revenues come from residential customers, and with water and water delivery in particular being designated as an essential service, the company believes this revenue is particularly sticky. Additionally, COVID-19 has increased demand of late, rather than dampening it, with Primo seeing the YOY demand increase ranging from the low double digits to nearly 50% partway through March.
- Furthermore, management is well equipped to navigate the COVID-19-related uncertainty, in our view, given its previous experience managing the business through the financial crisis and flexibility in managing costs. Over the three-year period 2007-2009, revenue declined 10%. Having said that, it is worth noting that the company would have been disproportionately affected by the level of residential foreclosures within North America during that period, and does not expect the current situation to result in similar foreclosure levels. Primo can also scale its business to match demand relatively quickly, with the ability to reduce the number of routes serviced, support staff, and marketing spend, should sales volumes decline.
- Importantly, the company does expect to remain onside with its financial covenants. Adjusted EBITDA would have to drop to $225-$230 million on a trailing 12-month basis before potentially tripping a covenant. Given that management expected H1/20 EBITDA of $135-$140 million, we view a scenario wherein Primo generates $90-$95 million in H2/20 as highly unlikely. For reference, we are forecasting 2020 EBITDA of $347 million.
- Primo trades at 8.0x our 2020 EBITDA estimate, vs. peers at 12.1x. Our target price represents 11.0x our 2020 EBITDA estimate of $347 million.

Canaccord Genuity Capital Markets

Industry Update

Energy

14 April 2020

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Company	Rating	Price	Target
GEI-TSX	Buy	C$18.05	C$22.00
KEY-TSX	Buy	C$15.98	C$21.00

Priced as of close of business 14 April 2020

Offensive pick: Keyera (KEY-TSX)

While we view Keyera as one of the more commodity-exposed companies in our midstream coverage universe, we believe it nonetheless provides a compelling risk/reward profile for investors looking to take a more offensive posture amidst severe commodity price headwinds.

In our view, Keyera's Marketing (KMS) segment is the company's most commodity-exposed business (accounting for ~30% of EBITDA this year on our estimates). Despite the material impact we believe COVID-19 is having on consumer demand for gasoline (and ISO-Octane), Keyera recently reiterated its 2020 KMS segment margin guidance (of $270 - $310 million) at our fireside chat. Keyera is retaining this guidance due to its hedge positions and ability to take advantage of favourable butane pricing (bolstered, in our view, by the company's significant NGL storage capacity).

We also note that within its Gathering & Processing (G&P) segment Keyera is actively moving to consolidate volumes to reduce fixed costs and increase asset utilization. Keyera also reports that within its Liquids Infrastructure (LI) segment recent annual contract negotiations leave the company positioned to realize relatively stable fractionation and storage pricing and utilization at Fort Saskatchewan this year.

Keyera exited 2019 with net debt of $2.7 billion or 3.3x 2020E EBITDA and has minimal term debt maturities before 2025. The company held $9 million in cash at the end of 2019, with $90 million drawn on its $1.5 billion facility (maturing in December 2024). The company holds investment grade credit ratings with S&P (BBB/Stable) and DBRS (BBB Stable trend). Keyera is currently yielding ~11.5% on a payout ratio of 68% based on our 2020 estimates. We believe Keyera has the latitude to defend this dividend and may defer its KAPS project later this year (possibly in conjunction with suspension of its DRIP).

Valuation. We rate Keyera a BUY with a C$21.00 target, based on a DCF valuation that equates to a 9.5x EV/EBITDA multiple applied to our 2021 estimates plus a NAV of $1.50/sh for KAPS.

Defensive pick: Gibson Energy (GEI-TSX)

We believe Gibson's contract-backed cash flow visibility and solid counter-party profile make it one of the more defensive companies in our midstream coverage universe. In our view, Gibson's solid balance sheet and sustainable payout ratio leave it well positioned to defend its dividend despite a challenging fundamental backdrop.

In 2020, we expect Gibson to generate ~60% of its EBITDA from long-term take-or-pay contracts, with relatively stable fee-for-service offerings accounting for another ~20%. We note that ~85% of Gibson's long-term contract exposure is underpinned by investment grade counterparties with an average remaining contract term of just under ten years.

Gibson exited 2019 with net debt of $1.3 billion or 3.2x 2020E EBITDA and has minimal debt maturities before 2024. The company held $47 million in cash at the end of 2019, with only $60 million drawn on its $750 million revolver (maturing in February 2025). The company also holds investment grade credit ratings with S&P (BBB-) and DBRS (BBB low). Gibson is currently yielding ~7.6% on a payout ratio of 66% based on our 2020 estimates.

Valuation. We rate Gibson a BUY with a $22 target based on a DCF valuation that equates to a 10.5x EV/EBITDA multiple applied to our 2021 estimates plus $1.00/sh in NAV for the company's DRU.

Canaccord Genuity Capital Markets

Industry Update

Energy

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Company	Rating	Price	Target
PPL-TSX	Buy	C$28.03	C$31.00
SU-TSX	Buy	C$22.62	C$32.00

Priced as of close of business 14 April 2020

Offensive pick: Suncor Energy (SU-TSX)

We view Suncor as a balanced company with torque to improving oil prices, but a best-in-class risk-return proposition with its vertical integration, focus on shareholder return and clean balance sheet. We have a BUY rating and view it as our Top Pick.

We view Suncor's recently moderated 2020 guidance in response to COVID-19 as encapsulating a focus on value preservation and these two focal points:

1. The net-net impact of the lower production guidance drives a higher degree of integration (~70% of oil sands production is covered by refining exposure), insulating Suncor from a protracted low oil price.
2. Projects with a payback of 1-2 years on strip have remained on the budget as they drive near-term value. We view Suncor's financial flexibility as providing its ability to fund these projects.

We estimate that Suncor will generate ~$4.2 billion of cash flow in a US$30 WTI environment (and current strip differentials), which could cover the mid-point of current capital guidance, but that the dividend would be partially paid from the balance sheet.

The company has significant balance sheet strength with ~$6.7 billion in liquidity, having secured a further $2.3 billion from its banking syndicate and recently raising ~ $1.25 billion in term debt. The credit facilities have a financial covenant requiring the debt-to-book capitalization ratio to be below 65%.

Valuation. Suncor trades at 72% of our CNAV, a 2020E EV/DACF of 10.3x and a 2020E FCF yield of -2%, vs. the large-cap group average of 86%, 14.4x and -9%, respectively. Our price target for Suncor of C$32.00 is based on a ~1.0x multiple to our contingent net asset value (CNAV) estimate of $31.33 per share.

Defensive pick: Pembina Pipelines (PPL-TSX)

We view Pembina’s contract-backed cash flow as being low risk, given that it is underpinned by exposure to more than 200 counterparties, 58% of which are investment grade and 20% are split-rated. We estimate that ~85% of corporate EBITDA is fee-based (including ~64% take-or-pay/cost-of-service). The company manages its exposure to non-investment grade counterparties through LOCs, pre-payments and/or cash deposits, reducing the risk of non-payment.

We believe Pembina has improved its liquidity through the deferral of ~$4.5 billion of capital projects and has decreased 2020 capital spending guidance by ~44% to $1.2 to $1.4 billion (previously $2.3 billion). Despite the capex cuts and project deferrals, the company reiterated its EBITDA guidance of $3.25 to $3.55 billion but indicated that it would be towards the lower end of the range.

Pembina’s balance sheet is strong with $3.3 billion in revolving credit facility capacity and ~$2.3 billion in available cash and unutilized debt facilities. Further, over the next two years, Pembina's debt maturities are modest and include $73 million in 2020 and $800 million distributed across three instruments throughout 2021. We expect 2020E debt to EBITDA of 4.3x vs peer group at 4.6x.

Valuation. We estimate Pembina trades at a P/DCF of 94% and a 2021E EV/EBITDA of 8.8x, vs. the midstream group at 71% and 8.1x, respectively. Our $31.00 target price is based on a DCF valuation that assumes a WACC of 8.33% and 2020 as the base year, which maps to an EV/EBITDA multiple of 9.5x based on our 2021 estimates.

Canaccord Genuity Capital Markets

Industry Update

Oil and Gas, Exploration and Production

14 April 2020

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Company	Rating	Price	Target
TOG-TSX	Buy	C$0.84	C$2.00
TOU-TSX	Buy	C$10.90	C$14.50

Priced as of close of business 14 April 2020

Offensive pick: TORC Oil & Gas (TOG-TSX)

Our offensive stock to buy for those investors who are positioning their portfolios for a rebound out of the COVID-19 crisis is TORC Oil & Gas.

Like most of the E&P space in Canada, TOG's cash flow and NAV fluctuate considerably with the swings in oil price. As such, the company should benefit considerably as the world returns to a more 'normalized' environment, where oil demand (and pricing) begins to rise.

We highlight TOG for those looking for offense, as we believe it offers considerable leverage to increasing oil prices while also being among the best positioned to ride out the current downturn. The company benefits from a low decline asset base, competitive capital efficiencies, and top decile netbacks. We think a lack of hedges in place has hurt the share price, but with reasonable debt levels, our estimates suggest the company has ample financial liquidity to see it through this challenging period.

Valuation

TOG is currently trading at 4.7x 2021E EV/DACF, below the Junior & Intermediate peer group at 6.0x. Our $2.00 target price is NAV based and maps to a 2021E EV/DACF of 6.8x.

Defensive pick: Tourmaline Oil Corp. (TOU-TSX)

Our defensive name to buy for investors expecting the COVID-19 situation to continue for a prolonged period is Tourmaline Oil Corp.

In addition to having a strong balance sheet (with ample financial liquidity), TOU is approximately 80% weighted to natural gas, and as such the impact on its cash flows of a declining oil price is more muted. Of note, natural gas pricing (particularly for 2021) has increased significantly as the oil price has plummeted, with the expectation that supply of the commodity may drop as oil production is expected to fall, thereby reducing associated natural gas production. Tourmaline has also stated that part of its strategy is to pursue opportunistic acquisitions, and we believe the current environment could yield excellent opportunities for TOU, particularly given its favourable valuation.

Valuation

TOU is currently trading at 3.8x 2021E EV/DACF, below the mid-cap peer group at 5.4x. Our $14.50 target price is NAV based and maps to a 2021E EV/DACF of 4.6x.

Financials

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Company	Rating	Price	Target
RY-TSX	Hold	C$87.39	C$110.00
MFC-TSX	Buy	C$17.49	C$33.00

Priced as of close of business 14 April 2020

Offensive pick: Manulife Financial (MFC-TSX)

We believe MFC shares will be best positioned for a rebound out of COVID-19 due to (1) improvement in Lifeco investor sentiment; (2) Asia and Global WAM should incrementally benefit; (3) strong balance sheet with significant excess capital; and (4) trading near trough valuations.

- **Lifeco investor sentiment.** We believe the Canadian Lifeco sector will be best positioned from a rebound out of COVID-19. Current investor sentiment remains weak, reflected in relative YTD underperformance compared to other Financial sub-sectors. Of the Big 3, MFC stock has been hit the hardest YTD.
- **Asia and Global WAM.** We believe Manulife's two main areas of growth in Asia and Global WAM would react positively on eased COVID-19 concerns. The firm's Asia segment is the largest driver of overall Insurance earnings, with NBV contributing ~80% with demographics favoring insurance and wealth management trends. The Global WAM division is well diversified globally and positioned favourably for positive net flow traction (e.g., demand for retirement assets, solid relative fund performance).
- **Strong balance sheet.** At Q4/19, Manulife was in a solid capital position with a Q4/19 LICAT ratio of 140%, which we estimate is ~$22B above the minimum regulatory requirements. The pro forma leverage ratio of 24.5% is below its medium-term target of 25%. Although the company has reached its portfolio optimization target of $5B by 2019 (well before the targeted time frame of 2022), we expect further optimization initiatives to continue benefiting capital.

Trough valuation. Currently, MFC is trading at a P/B (NTM) of ~0.7x (slightly above trough levels reached during the GFC at ~0.5x) and a P/E (2021E) of 5.5x (based on consensus estimates).

Defensive pick: Royal Bank of Canada (RY-TSX)

We believe Royal Bank shares offer the most defensive characteristics should COVID-19 effects continue, based on (1) our view that Canadian banks are better positioned vs. Lifecos and Asset Managers; (2) best YTD relative performance, with shares significantly outpacing peers; (3) largest market cap among Big 6 and extremely diversified across clientele segments and geographies; and (4) peer-leading capital position.

- **Defensive attributes with high-quality franchise.** We believe RY shares offer the most defensive attributes. On a YTD basis, RY shares have significantly outperformed peers. Royal Bank has the largest market cap among the Big 6, and investors typically gravitate to RY stock in times of uncertainty. The firm has significant scale in each of its operating segments, which include P&C Banking, Asset/Wealth Management, Capital Markets, Insurance, and Investor and Treasury Services.
- **Peer-leading capital position.** At Q1/F20, RY's CET 1 ratio was peer-leading at 12.0%. OSFI has instructed the Canadian banks to hold off on dividend increases and share repurchases through their NCIBs, to further protect capital. Royal's strong balance sheet is mainly supported by (1) liquidity options, with 44% of its asset base invested in cash and reverse repos, and trading & investments securities (as of Q1/F20); and (2) solid credit ratings by agencies (DBRS, Fitch, Moody's, S&P) – among the highest globally.

Valuation. Currently, RY trades at a P/E (F2021) of 10.4.x (based on consensus EPS) and a P/B (NTM) of 1.5x, while offering higher prospective ROE metrics. While RY is HOLD rated, due to its above-average ROE characteristics, high-quality liquid balance sheet, and peer-leading capital position, we highlight the stock as a defensive name for investors who believe the COVID-19 situation will persist for the foreseeable future.

Canaccord Genuity Capital Markets

Industry Update

Healthcare

14 April 2020

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Company	Rating	Price	Target
HLS-TSX	Buy	C$17.63	C$30.00
JWEL-TSX	Hold	C$28.78	C$28.00

Priced as of close of business 14 April 2020

Offensive pick: HLS Therapeutics (HLS-TSX)

Vascepa launch sidetracked: In mid-March, HLS temporarily pulled the 30 recently onboarded salespeople devoted to Vascepa out of the field. Although the launch has continued using e-technologies, several of the targeted physicians are on the front lines of the pandemic with limited availability. Those that are available, such as general practitioners, are often finding themselves with empty waiting rooms as patients defer non-urgent appointments.

Stock decline appears overblown: We recently cut our 2020 Vascepa sales forecast from US$9.3M to US$6.1M. This included halving our Q2 and Q3 projections and cutting Q4 by 33%, which together equated to a decline of <$0.20/sh. With the stock off over $4.00/sh since the COVID-19 sell-off began, on our numbers it appears investors have written off Vascepa sales until 2023. Should things return to normal before year-end, the market will likely reverse a portion of these sales revisions. Since patients with cardiovascular disease are at higher risk of complications from COVID-19, Vascepa may even benefit if new data shows that it helps mitigate these risks. Additionally, HLS has been penalized undeservedly, in our view, by the negative patent ruling against Amarin Corp. (AMRN-NASDAQ | Not Rated). In Canada, there is no regulatory path available for generics to launch, and so HLS is in no way affected by the US ruling. As investors come to realize this, we expect the stock to correct back up.

Valuation: HLS trades at an EV of 14.7x our 2021 adj. EBITDA estimate of US$30.5M, a premium to North American specialty pharma peers at 7.5x. This is due to the buildout of Vascepa's sales team, ahead of winning widespread reimbursement. Instead, we value HLS using a five-year DCF discounted at 13%.

Defensive pick: Jamieson Wellness (JWEL-TSX)

Patients seek out natural modes of prevention: Last week, JWEL announced that revenue for Q1 is expected to be $83.0-84.5M, well above the $75.8M we and the Street were forecasting. Branded revenue, which made up 77% of 2019 sales, increased 23-25% Y/Y. By comparison, it grew only 3% and 9% Y/Y in 2018 and 2019, respectively. Domestically, consumers have been grasping for both immunity and general health supplements in an effort to ward off COVID-19.

Long-term impact on VMS consumption: The question is whether the jump in Q1 sales reflects an increase in consumption or stockpiling. We believe it is a mix of both. This unprecedented situation has very likely attracted individuals who would not have normally consumed a VMS product. With a vaccine not expected for at least 12-18 months, those who've not been infected by COVID-19 will remain at risk of contraction over the entirety of the time frame. In fact, our vulnerability will likely increase when shelter-in-place measures are eased over the coming months. We believe the longer new VMS customers continue to consume JWEL products, the more likely they will realize unintended health benefits. This could convert a subset of new consumers into long-term users.

Valuation: JWEL reiterated its 2020 guidance, and so we have not yet factored any potential long-term benefit into our numbers. The stock trades at 14.5x our 2021 adj. EBITDA forecast of $88.8M, relatively in line with global food and nutrition, VMS and CPG peers. We believe this valuation is warranted; our target is based on 15.0x our 2021 adjusted EBITDA estimate. Jamieson is HOLD rated as we believe the company's current guidance is efficiently priced into the market. Should shelter-in-place conditions extend into the summer, this could warrant in increase to guidance and thus, we highlight the stock as a defensive name.

Canaccord Genuity Capital Markets

Industry Update

Industrials

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Company	Rating	Price	Target
EIF-TSX	Buy	C$23.58	C$37.00
FOOD-TSX	Spec Buy	C$3.57	C$5.00

Priced as of close of business 14 April 2020

Offensive pick: Exchange Income (EIF-TSX)

Not a traditional aviation business: EIF generates ~45% of its consolidated EBITDA from its legacy airlines. These carriers service remote First Nations communities and represent the only way in and out of these regions for the bulk of the year. These airlines are paid either directly or indirectly by government, which helps insulate the carriers' performance from economic cycles. Further, Regional One (25% of EBITDA) leases and sells after-market parts for narrow body and older aircraft, which should be first to rebound given low oil prices and passenger load in the early recovery phase. We estimate 10% of EBITDA from surveillance services under stable government contracts. The Manufacturing division generates 20% of EBITDA and had a strong order backlog entering 2020. Hence, we believe it is well positioned to see a strong recovery as the macro outlook improves.

Well-capitalized to sustain short-term but acute slowdown in activity levels: EIF has C$800M of capital availability and ended 2019 with 2.0x senior debt to LTM EBITDA. The COVID-19-driven reduction in our 2020 forecast results in the leverage ratio increasing to 3.4x, below the 4.0x covenant, and the payout ratio increasing to 90% on dividends yielding 11%.

Valuation: We derive our C$37.00/sh TP using 6.3x EV/2021E EBITDA. EIF is currently trading at a 5.0x EV/EBITDA multiple on our normalized 2021 estimates versus the historical average of ~7.5x.

Defensive pick: Goodfood (FOOD-TSX)

Performing well even without COVID-19: Last week, the company released its Q2/F20 (Aug year-end) results, which were not impacted by COVID-19. Along with 61% Y/Y revenue growth, gross margins improved to 30% (from 21% in Q2/F19) and the EBITDA margin improved to -5% (from -15%). The margin improvement was driven by incentives continuing to decline as a percentage of overall revenues, automation initiatives and operational leverage. Further, excluding corporate expenses, the meal kit vertical was profitable across Canada. These data points improve visibility on the path to profitability. By comparison, HelloFresh saw its EV/S multiple increase to ~1.5x (from below 1.0x) once it became profitable.

Net beneficiary of COVID-19: The company has witnessed a surge in website traffic as well as higher order rates and value due to stay-at-home measures. It is well capitalized to execute with ~C$67M of cash on its balance sheet. Further, the current environment has shed a bright light on its new service offerings (private label grocery items, breakfast and ready-to-eat meal solutions). We believe traction with these services should not only accelerate FOOD's path to profitability but also help its valuation multiple transition from that awarded to meal kit delivery companies to that awarded to successful e-commerce food delivery companies.

Valuation: We derive our C$5.00/sh TP using 1.1x EV/2020E sales. FOOD is currently trading at a 0.8x EV/S multiple on our 2020 estimates versus HelloFresh at 1.7x and e-commerce food delivery companies at ~4.0x. Assuming a 1.0x and 2.0x multiple on our 2021 sales estimate (which we believe has upside potential) 12 months from now would imply intrinsic share prices of ~C$7 and C$14, respectively.

Canaccord Genuity
Capital Markets

14 April 2020

Industry Update

Engineering and Construction

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Company	Rating	Price	Target
FTT-TSX	Buy	C$15.00	C$21.00
WSP-TSX	Buy	C$87.53	C$95.00

Priced as of close of business 14 April 2020

Offensive pick: Finning International Inc. (FTT-TSX)

We believe Finning International provides a compelling reward-to-risk proposition for a post-COVID-19 economic recovery. Finning shares have been disproportionately hit not only by the negative impact of construction and mine site shutdowns to limit the spread of the virus, but also by the drop in oil and copper prices. The stock has fallen 39% year-to-date, underperforming the 18% decline in the S&P/TSX Composite Index as well as its two closest comparables, Toromont (TIH-TSX: $65.19 | BUY) and Caterpillar (CAT-NYSE | NR), which have declined by 7% and 22%, respectively, on the same basis. Given that Finning holds the exclusive Caterpillar dealership rights in its territories (Argentina, Bolivia, Chile, the UK and Ireland, and Western Canada), it should see an immediate increase in demand for parts and services concurrent with the resumption of activity on construction and mine sites. If the current situation persists, however, Finning has a relatively strong balance sheet (2.2x debt/TTM EBITDA) and counter-cyclical FCF profile that should kick off over $425 million of cash this year, backstopping financial flexibility.

Valuation: Finning is in deep value territory. It trades near a 20-year low P/BV ratio, which has historically been a good indicator of bottoms in the stock price. Furthermore, its dividend of 20.5 cents per quarter currently equates to an attractive 5.4% yield despite the payout equating to just 44% of our 2020 FCF estimate. On 2020E EPS, Finning trades at 14.3x versus Toromont at 20.9x and Caterpillar at 16.8x. Our C$21.00 one-year target price is based on 17.5x our 2021 EPS estimate.

Defensive pick: WSP Global Inc. (WSP-TSX)

BUY-rated WSP Global appears well positioned to continue to weather the impacts of COVID-19. While by no means is WSP immune to an economic slowdown, the professional services industry does lend itself well to working remotely due to its high degree of digitization. Furthermore, WSP has a 10-month backlog dominated by projects that are essential to the functioning of the physical economy and largely devoid of natural resources work. This should allow WSP to put up relatively good numbers compared to more cyclical companies, especially if the economy remains shut-in longer than expected. We also believe dealing with the COVID-19 pandemic could drive incremental disaster recovery work for WSP, such as the design of temporary hospitals. WSP sports a very strong balance sheet with a 1.5x net debt-to-EBITDA ratio. The stock's defensive traits have allowed it outperform year-to-date with just a 1% decline, versus the 18% decline in the S&P/TSX Composite Index.

Valuation: On our 2020 adjusted EPS estimate, WSP trades at 20.6x, versus Stantec (STN-TSX: $40.90 | HOLD) at 18.0x, a premium that has persisted for several years and is deserved, in our view. Our C$95.00 one-year target price is based on 22x our 2021 adjusted EPS estimate.

Metals and Mining

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Company	Rating	Price	Target
ERO-TSX	Buy	C$12.82	C$20.00
AGI-TSX	Buy	C$9.47	C$12.00

Priced as of close of business 14 April 2020

Offensive pick: Ero Copper Corp. (ERO-TSX)

For investors looking to position their portfolios for an improvement in the global economic situation, we prefer copper to gold. We believe copper will benefit significantly from an improvement in sentiment (risk-on), increases in physical demand as economies around the world ramp back up, and a weakening US$ (stimulus measures, inflation expectations, flight to risk).

Of the copper producers we cover, our top pick is **ERO**. We believe the market has not fully appreciated the impact of the 26% decline in the Brazilian real (BRL) on ERO's financials; with 97% of the company's operating costs denominated in the local currency, we believe margins have improved despite the decline in the copper price. ERO's NX Gold mine continues to generate substantial cash flow given expanded margins from the YTD gold price increase and BRL decline. Regional exploration upside is essentially priced out of the stock at the current price, and we look forward to the company's exploration updates as key catalysts. We note that neither of ERO's operations has experienced production curtailments related to a COVID-19 mandate. Finally, ERO is one of only three base metals producers we cover that does not demonstrate strained liquidity under any of our stress-testing scenarios (see note here).

Our C$20.00/sh target price is based on an equal weighting of 6.0x ntm EBITDA and 0.80x NAV, while our BUY rating is based on the 67% implied return to our target price. ERO currently trades at 5.9x 2020 EBITDA and 0.56x NAV, vs. the base metals producer peer group average of 5.0x and 0.58x respectively.

Defensive pick: Alamos Gold Inc. (AGI-TSX)

For investors looking to position their portfolios for an extended economic downturn, we prefer gold over copper. We believe gold prices will benefit significantly from increasingly negative real interest rates driven by ever-increasing monetary and fiscal stimulus.

Our preferred pick for gold exposure is **AGI.** We believe AGI is approaching an inflection point; the construction of the Lower Mine at Young-Davidson is scheduled to be tied in by the end of June, resulting in higher production, lower costs and the completion of the capital program. We forecast full-year gold production of 420koz, in line with the low end of the company's guidance despite COVID-19 related shutdowns at Island Gold and Mulatos. For 2021, the first full year of production from the YD Lower Mine, we forecast a 25% increase in production over 2020 to 526koz, with AISC declining to $808/oz, vs. $1,039/oz in 2020. Other upcoming catalysts include the Island Gold Phase III expansion study (Q2) and a potential re-instatement of the mining concessions at Kirazli. We note that AGI benefits significantly from the 8% YTD decline in the CAD and the 26% decline in the MXN since Feb 14; ~two-thirds of the company's revenue is generated in Canada and the rest in Mexico. Finally, we remind investors that AGI has ZERO debt and $633 million in total liquidity; we view this pristine balance sheet as a strategic asset in times of volatility.

Our C$12.00/sh target price is based on an equal weighting of 6.5x ntm EBITDA and 0.75x NAV, while our BUY rating is based on the 25% implied return to our target price. Despite the positive attributes listed above, AGI trades at just ~0.58x NAV, vs. the intermediate/junior precious metals producer peer group average of 0.62x.

Canaccord Genuity Capital Markets

Industry Update

Precious Metals and Minerals

14 April 2020

Canaccord Genuity Corp. (Canada)

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Company	Rating	Price	Target
OSK-TSX	Spec Buy	C$3.41	C$5.25
KNT-TSX	Buy	C$3.85	C$5.50

Priced as of close of business 14 April 2020

Offensive pick: Osisko Mining (OSK-TSX)

Osisko Mining is rapidly advancing its 100%-owned Windfall Lake project located in Quebec. We highlight Osisko as a premier gold explorer/developer within the industry, backed by a proven management team (sold Canadian Malartic Mine for $3.9B in 2014). Most recently, Osisko released an updated resource estimate for the Windfall Lake project, which highlighted a sizable global resource base of 5.2Moz grading 8.6g/t gold. Osisko is now conducting a final feasibility study on the project, the results of which are expected to be released in H1/21.

We highlight Osisko as an offensive pick within the context of further strengthening in gold and gold equities. While we would expect Osisko to re-rate in such an environment alongside its peers, its differentiating factor, in our view, is the scale and safe operating jurisdiction of the Windfall Lake asset. Given this, and the project's exploration upside, we continue to highlight Osisko as a company that is at the front of the industry's M&A pipeline. With over $100M in cash, we believe Osisko remains well positioned to rapidly advance the Windfall Lake project through development, while also remaining focused on exploration and discovery.

Our target price is predicated on an adjusted 1.0x NPV7% valuation of Osisko's Windfall Lake asset, plus other non-operating and balance sheet items.

Defensive pick: K92 Mining (KNT-TSX)

K92 is the owner and operator of the Kainantu Gold-Copper mine in Papua New Guinea. It purchased the asset from Barrick in 2017, produced ~76koz AuEq in 2019 and is projected to produce +100koz in 2020 at sub US$800/oz AISC. The company has no debt and is generating an 11% sustaining free cash flow yield at spot pricing. We are anticipating the release of an updated resource estimate for the Kainantu project, which could push the gold equivalent ounce total beyond 5Moz AuEq.

We highlight K92 as a defensive pick within the context of an extended COVID-19 environment as K92 has seen minimal interruption in production. Though K92 as a single asset operation offers a higher risk profile than some larger producers, its experienced management team and high margins make it stable relative to many of its small cap peers, many of which have experienced partial or full shutdowns. In addition, we believe its improving production profile and horizon of potentially impactful catalysts offer future upside.

Our target is predicated on a 50:50 weighted 0.75x P/NAV applied to our operating NAV of C$9.30 and a 6.0x EV/EBITDA multiple applied to our 12-month forward EBITDA. We add in corporate adjustments of $0.20 to reach a target NAVPS of $5.71, which we round to $5.50

Industry Update

Precious Metals - Producer

14 April 2020

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Company	Rating	Price	Target
NEM-NYSE	Buy	US$59.89	$64.00
TGZ-TSX	Buy	C$9.65	C$15.00

Priced as of close of business 14 April 2020

We believe that gold is well positioned in the current environment. We expect the monetary and fiscal stimulus being deployed to normalize inflation expectations amid the economic slowdown should propel gold higher. As we witnessed after the global financial crisis, gold and gold equities continued to set new highs long after the broader markets began to recover. We believe the setup for gold is similar today. In the event of a deepening crisis, we note that gold can sell off if deflation expectations arise, as we saw in March 2020. However, we believe that governments and central banks will continue to do whatever it takes to prevent a deflationary spiral from taking hold. As such, our offensive pick is geared towards a risk-on, reflationary environment and our defensive pick is geared towards a risk-off, deflationary environment like that we experienced in early March.

Offensive pick: Teranga Gold (TGZ-TSX)

- Teranga has transitioned to a West African-focused multi-asset producer, with strong production growth and decreasing costs (on the back of its second mine Wahgnion ramping up and the acquisition of the high-grade Massawa deposit from Barrick located 20-30km from Teranga's existing Sabodala mill).
- We expect Teranga to generate ~$100 million in FCF in 2020 (7% FCF yield) and over $200 million in 2021 (22% FCF yield) as the high-grade ore from Massawa (~3x higher than Sabodala) begins to feed the Sabodala plant.
- We forecast Teranga’s gold production approaching 500 koz by 2022 from 290 koz in 2019. In addition, we believe that the Golden Hill project has the potential to become the company's third mine with a PEA expected to be completed this year. We also note that the company’s mines continue to operate with no COVID-19-related reductions or suspensions to date.
- TGZ trades at 0.51x NAV on our estimates, a significant discount to its peers at 0.62x NAV.
- Our target is predicated on a 50/50 blend of a 0.80x multiple applied to our forward-curve derived operating NAV less net debt and other corporate adjustments, and a 4.50x multiple applied to 2021E EBITDA.

Defensive pick: Newmont Mining (NEM-NYSE)

- In our view, Newmont has performed well as a defensive stock and was the best-performing stock in our coverage universe during the late Feb/early March downturn for gold stocks, falling 10% but significantly outperforming the 27% drop in the S&P/TSX Gold Index (in USD) and the broader equity markets.
- Newmont is the world's largest gold producer and the only gold producer in the S&P500. Despite some modest COVID-19-related temporary shutdowns, we forecast Newmont generating >$2.5 billion in FCF in 2020 (FCF yield of 7%) at current metal prices. Newmont also has a strong balance sheet, in our view; we expect the company to be in a net cash position in 2020.
- The company trades at 1.13x NAV and 7.8x 2020E EBITDA, vs. its closest peer Barrick at 1.09x NAV and 8.4x 2020E EBITDA.
- Our target price is predicated on a weighted 50/50 split of a 1.2x multiple applied to our forward-curve derived operating NAV5% less net debt and other corporate adjustments, and a 9.5x multiple applied to our 2020E EBITDA.

Canaccord Genuity Capital Markets

14 April 2020

Industry Update

Real Estate

Canaccord Genuity Corp. (Canada)

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Company	Rating	Price	Target
FCR.UN-TSX	Buy	C$14.42	C$20.00
GRT.UN-TSX	Buy	C$63.04	C$67.25

Priced as of close of business 14 April 2020

Defensive pick: Granite REIT (GRT.UN-TSX)

Granite REIT owns a portfolio of 85 industrial and light manufacturing properties totalling 40 million sf and located in Canada (18% of revenue), the US (43%) and Europe (39%). In our view, Granite is one of the better-positioned REITs in our coverage given its conservative balance sheet (debt-to-EBITDA of 6.1x at the end of 2019), larger average tenant size (470,500 sf vs ~75,000 sf for other industrial REITs) and material exposure to larger distribution-type facilities as compared to smaller multi-tenant properties.

While a large portion of Granite's portfolio consists of special-purpose manufacturing and multi-purpose assets leased to Magna (42% of base rent), the REIT has steadily increased its exposure to modern distribution facilities that cater to e-commerce and logistics tenants. We believe many of these tenants will benefit from growth in e-commerce and demand for distribution facilities is likely to rise. Further, given Granite's exposure to strong credit companies – Magna in particular – we expect occupancy levels to remain high with minimal bad debt expense. Granite currently trades at an implied cap rate of 6.3%, or 18.1x 2021E AFFO per unit.

Offensive pick: First Capital REIT (FCR.UN-TSX)

First Capital REIT's portfolio is largely composed of well-located, grocery-anchored shopping centres in Canada's largest markets, and its largest exposure is to the Greater Toronto Area (47% of fair value) and the Greater Montreal Area (12%). FCR derives 48% of its revenue from grocery stores, pharmacies and other necessity-based tenants, the majority of which continue to operate.

While its portfolio is extremely well located, many of its tenants are currently closed we believe there is a risk that some will close permanently. In particular, restaurants comprise 14% of revenue. We therefore expect vacancy to rise, and it will likely take some time for this space to be backfilled.

FCR's units are currently trading at an implied cap rate of 6.3%, or a 31.2% discount to our recently lowered NAV estimate of $20.17. We believe that as the economy resumes functioning, FCR will regain occupancy through 2021, and cash flow will recover. Ultimately, the units should trade closer to NAV. Our target price is $20.00 and is just below our NAV estimate.

Canaccord Genuity Capital Markets

Industry Update

Telecommunications

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Company	Rating	Price	Target
CJR.B-TSX	Buy	C$2.91	C$6.00
SJR.B-TSX	Buy	C$22.71	C$25.00

Priced as of close of business 14 April 2020

Offensive pick: Corus Entertainment Inc. (CJR.B-TSX)

We opt for Corus Entertainment Inc. (CJR.B) as our offensive pick with the greatest upside potential to a rebound from COVID-19. We note that Corus' stock is down a steep 33% since the beginning of March as investors worry about a sharp downturn in TV advertising and resultant balance sheet pressure. We believe Corus can revalue very quickly, if there is a relatively rapid rebound from COVID-19, for the following reasons:

- **Investors likely to reward FCF generation**: Even on our bear case estimates, Corus can generate C$1/sh in FCF, which we believe will come into greater focus as COVID-19 concerns moderate. At current prices, this translates to a 44% FCF yield (F2021E), a valuation generally reserved for companies with dire and imminent balance sheet difficulties or precipitously falling revenue trends. As the market starts to get more comfortable with Street estimates, we expect these valuation metrics to be reviewed.
- **Balance sheet and dividend risk should dissipate as conditions stabilize**: While we do not believe that Corus' debt covenants are at serious risk of being breached, the market's valuation of the business suggests otherwise. Our highly conservative estimates indicate that while net debt/LTM EBITDA could get as high as 3.7-3.8x, it still stays clear of the 4x covenant. Also, note that the covenants are pre-IFRS16. As sentiment rebounds from COVID-19, we expect these balance sheet concerns to fade, in turn recasting the risk/return profile for the stock in a more positive light. Additionally, we expect that the bull case conditions will remove concerns around a dividend cut at Corus. We note that the dividend currently offers an attractive 8.3% yield.

Valuation: The stock trades at 4.5x EV/EBITDA 2020E while offering an FCF yield of 28% on F2020E and 44% on F2021E.

Defensive pick: Shaw Communications (SJR.B-TSX)

We opt for Shaw Communications (SJR.B) as our defensive pick. While the stock is down 12% YTD, we believe this is mostly due to the market potentially over-estimating the Alberta impact on its financial outlook. While it does have a 33% revenue exposure to Alberta, the more sensitive B2B exposure is significantly lower. In fact, the exposure of Shaw to the energy sector and the hospitality industry in Alberta is only 2.6% of revenues. We note the following items which serves to moderate the negative impact from COVID-19:

- **Minimal overage and roaming exposure**: We know that these are the first revenue streams that would have been hit from the current crisis, and while they are small, they are very high margin streams.
- **Self-install capabilities increase in importance**: Shaw's self-install rate at 50% is sharply above industry norms. This is of particular benefit during the current conditions where truck rolls are limited.
- **Lowest leverage in the industry**: Shaw's leverage sits at 2.5x net debt/EBITDA (including IFRS16) at the end of Q2/20. We believe Shaw's balance sheet gives the company good stability in the current environment. Importantly, in terms of liquidity, the company has a C$1.5B undrawn facility, which extends to December 2024.

Valuation: Shaw currently trades at 7.4x EV/EBITDA 2021E while offering a 6% FCF yield and 5.2% dividend yield.

Canaccord Genuity Capital Markets

Industry Update

Technology, Media and Telecom

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Company	Rating	Price	Target
ABT-TSX	Buy	C$9.65	C$10.50
CAE-TSX	Buy	C$19.97	C$23.00

Priced as of close of business 14 April 2020

Offensive pick: CAE Inc. (CAE-TSX)

As COVID-19 subsides, CAE's longer-term growth drivers should quickly re-emerge, with further potential upside as the airline industry restructures. As a result, we view the recent CAE sell-off (down 56% from peak) as an overreaction revealing an attractive entry point. We rate CAE BUY with a C$23.00 target (26.9% implied return).

- **Near-term revenue profile is better than airline customers.** Approximately two-thirds of CAE's civil flight training centres worldwide remain open and certification requirements ensure at least a base-line level of demand and pent-up demand where training is deferred. In addition, 90% of its defense business sites continue operating as an essential service.
- **Balance sheet is robust.** Combined with C$1B in liquidity and cash-saving efforts, we expect leverage to rise from 2.7x LTM EBITDA and peak at 3.9x in FQ4/21 before declining again, even with our projected contraction in EBITDA.
- **Primed for upside as industry restructures.** We believe that the secular long-term growth drivers will return once restrictions are lifted, including rising regulatory requirements and aging pilot demographics. In addition, we believe some airlines may outsource their training operations as they restructure to maintain balance sheet flexibility.

Valuation: Our C$23.00 target is based on ~11x EBITDA applied to our forward estimates, one year out, which only factors in a partial recovery. This compares to the company's historic 10-12x trading range.

Defensive pick: Absolute Software Corp. (ABT-TSX)

Should the COVID-19-related restrictions drag on, we continue to believe that Absolute Software is attractive given several very defensive attributes detailed below. The company also has some potentially positive gearing towards an extended work-from-home (WFH) scenario. Absolute Software is BUY-rated with a C$10.50 target, which represents a 12.1% one-year implied return (including a 3.3% dividend yield).

- **A defensive product, business, and customer base.** We believe Absolute's Persistence technology is as relevant as ever in securing endpoint devices, considering both the dramatically increased use of laptops and tablets in an extended WFH period and the wave of cyber-attacks looking to take advantage. Absolute's revenue is almost entirely subscription based and is highly visible with 80-90% of a typical year's billings through contract renewals and expansions. Absolute's customer base is 69% Enterprise and Government, which includes many regulated industries; Education is 31% of revenue and should also see a degree of stability during the pandemic.
- **Some potential upside related to the WFH scenarios.** Absolute noted in March that it would provide its Persistence feature for virtual private networks (VPNs) at no extra charge to subscription holders. This move highlights the expanding use cases of Absolute's Persistence platform; the company in recent years has developed the ability to persist and manage multiple third-party software tools on behalf of clients.

Valuation: Our current C$10.50 price target is based on ~12-13x EV/EBITDA applied to our forward estimates, one year out (12 months ended December 2021). This equates to a 12.1% implied return inclusive of the 3.3% dividend yield.

Canaccord Genuity Capital Markets

Industry Update

Technology, Media and Telecom

14 April 2020

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Company	Rating	Price	Target
CLS-NYSE	Hold	US$4.54	$4.00
KXS-TSX	Buy	C$121.35	C$125.00

Priced as of close of business 14 April 2020

Offensive pick: Celestica (CLS-NYSE, CLS-TSX)

Celestica is our offensive pick, with global operations currently impacted by COVID-19 and a depressed valuation at a decade low. Celestica suspended its guidance on March 18, given the uncertain environment. Tasked with managing manufacturing and supply chain across a global footprint, we expect the company was impacted early by China shutdowns. While the disruption to the supply chain in China should inevitably pose a shock to Q1, we expect China has seen manufacturing begin to recover. Still, we expect an impact on Q2 as the pandemic radiated out to Malaysia, South Korea and California, which have been impacted by limitations on commercial operations. As well, Celestica has its largest site by revenue (34% in 2019) in Thailand, which is at risk of further impact given proximity. We expect both supply and demand-side complications are delaying a recovery in the challenged semiconductor capital end market that was expected to fuel growth exiting 2020.

We believe a sooner-than-expected end to the pandemic and rebound in economic activity would see Celestica shares improve. With low SMB and consumer exposure, we believe the company is more insulated from consumer spending than some peers. Celestica's B2B-focused business implies a push-out in revenue, not cancellation. Celestica shares are down 47% YTD and currently well below a Tangible Book Value per Share of $7.06. At these levels, Celestica and a comparable group of Electronics Manufacturing Services (EMS) vendors are trading at 10+ year trough valuations. On our estimates, Celestica trades at 2.4x 2021E EV/EBITDA compared to most relevant peers at 4.3x Bloomberg consensus. Our target price of US$4.00 is based on 3.0x NTM EV/EBITDA. While Celestica is HOLD-rated, reflecting the potential for revenue interruptions from manufacturing operation shutdowns, we highlight the stock as an offensive name with an attractive valuation for investors who believe that an economic recovery is underway.

Defensive pick: Kinaxis (KXS-TSX)

Kinaxis is our top defensive pick due to supportive industry dynamics as well as cash flow and balance sheet strength. We view the current disruptions from COVID-19, the oil shock, Brexit and trade disputes as a tailwind for Kinaxis' sales efforts and profile. Supply chain is very relevant right now, and the profile of the supply chain manager is elevated as companies scramble to reorient themselves in a fast-moving environment. For example, tools like scenario planning help customers to be agile where they lack forecast visibility. The company recently reported a 2x surge in simulation scenarios performed, with over 10 billion planning assessment calculations in Q1, a high water mark. Should COVID-19 disruptions persist, there is an opportunity for Kinaxis to expand its offering across existing customers and add new customers who require a more sophisticated approach to global supply chain.

We believe Kinaxis' balance sheet is very well positioned to weather a prolonged economic impact. The net cash position is $203M, with negligible financial debt. We expect deals will be harder to close, and some customers may seek concessions, which pressures the backlog and top line; however, the company has much of its revenue protected from recurring subscription contracts with predictable margins. Despite the pandemic, Kinaxis stock remains near highs with its defensive attributes well understood by the investment community. We recommend adding on broad market weakness. With respect to valuation, Kinaxis shares trade at 8.0x 2021E EV/Revenues, compared to North American software peers at 6.8x. Our target price of C$125 is based on 10x NTM EV/Sales (implies 8.4x 2021E).

Appendix 1: Quantitative Review – Offensive Stocks

Figure 1: Momentum and Quest® triAngle Scores

M-Score Data Updated: April 14, 2020

Each columns' colour scale is independent of other columns

Reaccelerating - Quadrant 2 Buy Candidates		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
TGZ-CA	Teranga Gold Corporation	67	15	23	30

Pulling Back - Quadrant 3 Strong Charts Weakening		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
ATZ-CA	Aritzia, Inc.	59	20	19	20
OSK-CA	Osisko Mining Inc	56	13	16	27
EIF-CA	Exchange Income Corporation	55	21	19	15
HLS-CA	HLS Therapeutics, Inc.	53	10	17	25
CAE-CA	CAE Inc.	51	13	24	14
MFC-CA	Manulife Financial Corporation				

Counter-trend Bounce - Quadrant 1 Weak Charts Strengthening		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)

Deteriorating - Quadrant 4 Sell Candidates		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
KEY-CA	Keyera Corp.	59	23	22	14
FTT-CA	Finning International Inc.	56	21	17	18
CJR.B-CA	Corus Entertainment Inc. Class B	55	27	17	12
CLS-CA	Celestica Inc.	52	18	18	16
TOG-CA	TORC Oil & Gas Ltd.	49	27	16	7
SU-CA	Suncor Energy Inc.	45	20	12	13
FCR.UT-CA	First Capital Real Estate Investment Trust				

Source: Source: Canaccord Genuity Research, Canaccord Genuity Quest®

**Please note monthly momentum scores for Ero Copper Corp. (ERO) and MediPharm Labs Corp. (LABS) are unavailable.*

Quantitative (Quest® triAngle Scores) Review:
There are three factors measured in our proprietary quantitative model Quest®: Value, Quality, and Momentum. Each factor has a minimum score of 0 and a maximum score off 33.

Reaccelerating (Quadrant 2):
TGZ – The Value factor score (15) is below average. However, the Quality factor score (23) is strong and the Momentum factor score (30) is exceptional.

Pulling Back (Quadrant 3):
ATZ – Collectively, the Value factor score (20), the Quality factor score (19), and the Momentum factor score (20) are all above average.
OSK – The Value factor score (13) is below average and the Quality factor score (16) is average. The Momentum factor score (27) is very strong.
EIF – The Value factor score (21) is strong and the Quality factor score (19) is above average. However, the Momentum factor score (15) is below average.
HLS – The Value factor score (10) is weak. However, the Quality factor score (17) is above average and the Momentum factor score (25) is very strong.
CAE – The Value factor score (13) and the Momentum factor score (14) are both below average. However, the Quality factor score (24) is strong.
MFC – Quest® scores not available.

Deteriorating (Quadrant 4)
KEY – The Value factor score (23) and the Quality factor score (22) are both strong. However, the Momentum factor score (14) is below average.
FTT – The Value factor score (21) is strong. Meanwhile, both the Quality factor score (17) and the Momentum factor score (18) are both above average.
CJR.B – The Value factor score (27) is very strong and the Quality factor score (17) is above average. However, the Momentum factor score (12) is below average.
CLS – The Value factor sore (18) and the Quality factor score (18) are both above average. The Momentum factor score (16) is average.
TOG – The Value factor score (27) is very strong and the Quality factor score (16) is average. However, the Momentum factor score (7) is very weak.
SU – The Value factor score (20) is above average. However, both the Quality factor score (12) and the Momentum factor score (13) are both below average.
HARV – The Value factor score (23) is strong. However, the Quality factor score (13) is below average and the Momentum factor score (5) is very weak.
FCR.UN – Quest® scores not available.

Technical (Momentum) Review:
Reaccelerating (Quadrant 2): TGZ
BUY ideas for long only and fast money accounts.

Pulling Back (Quadrant 3): ATZ, OSK, EIF, HLS, CAE, MFC
BUY candidates for long only accounts and SELL names for fast money accounts.

Deteriorating (Quadrant 4): KEY, FTT, CJR.B, CLS, TOG, SU, HARV, FCR.UN
SELL candidates for long only and fast money accounts.

Appendix 2: Quantitative Review – Defensive Stocks

Figure 2: Momentum and Quest® triAngle Scores

M-Score Data Updated: April 14, 2020
Each columns' colour scale is independent of other columns

Reaccelerating - Quadrant 2 Buy Candidates		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
JWEL-CA	Jamieson Wellness, Inc.	73	17	24	33
AGI-CA	Alamos Gold Inc.	71	22	19	30
KXS-CA	Kinaxis, Inc.	68	7	30	31
FOOD-CA	Goodfood Market Corp.	67	15	21	31
WSP-CA	WSP Global Inc.	60	12	19	29
ABT-CA	Absolute Software Corporation	58	13	17	28

Pulling Back - Quadrant 3 Strong Charts Weakening		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
KNT-CA	K92 Mining, Inc.	72	15	27	29
RY-CA	Royal Bank of Canada	65	17	24	24
GEI-CA	Gibson Energy Inc.	51	17	15	19
GRT.UT-CA	Granite Real Estate Investment Trust Stapled Units - 1 Granite RE Inc + 1 TU Granite REIT				
VLNS-CA	The Valens Company				

Counter-trend Bounce - Quadrant 1 Weak Charts Strengthening		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
NEM-CA	New Era Minerals Inc				

Deteriorating - Quadrant 4 Sell Candidates		Quest® Quant Scores			
Ticker	Company Name	triAngle (/100)	Value (/33)	Quality (/33)	Momentum (/33)
TOU-CA	Tourmaline Oil Corp.	66	30	17	19
PPL-CA	Pembina Pipeline Corporation	59	19	22	18
SJR.B-CA	Shaw Communications Inc. Class B	53	15	13	25
PRMW-CA	Primo Water Corporation	49	15	15	19

Source: Source: Canaccord Genuity Research, Canaccord Genuity Quest®

**Please note the monthly momentum scores for Trulieve Cannabis Corp. (TRUL) is currently unavailable.*

Quantitative (Quest® triAngle Scores) Review:
There are three factors measured in our proprietary quantitative model Quest®: Value, Quality, and Momentum. Each factor has a minimum score of 0 and a maximum score off 33.

Reaccelerating (Quadrant 2):
JWEL – The Value factor score (17) is above average and the Quality factor score (24) is strong. In addition, the Momentum factor score (33) is exceptional.
AGI – The Value factor score (22) is strong and the Quality factor score (19) is above average. The Momentum factor score (30) is exceptional.
KXS – The Value factor score (7) is very weak. However, the Quality factor score (30) and the Momentum factor score (31) are both exceptional.
FOOD – The Value factor score (15) is below average. However, the Quality factor score (21) is strong and the Momentum factor score (31) is exceptional.
WSP – The Value factor score (12) is below average and the Quality factor score (19) is above average. In addition, the Momentum factor score (29) is very strong.
ABT – The Value factor score (13) is below average and the Quality factor score (17) is above average. In addition, the Momentum factor score (28) is very strong.

Pulling Back (Quadrant 3):
KNT – The Value factor score (15) is below average. However, the Quality factor score (27) and the Momentum factor score (29) are both very strong.
RY – The Value factor score (17) is above average. Meanwhile, both the Quality factor score (24) and the Momentum factor score (24) are strong.
GEI – The Value factor score (17) and the Momentum factor score (19) are both above average. The Quality factor score (15) is below average.
GRT.UN, VLNS – Quest® scores not available.

Counter-trend Bounce (Quadrant 1):
NEM – Quest® scores not available.

Deteriorating (Quadrant 4)
TOU – The Value factor score (30) is exceptional. Meanwhile, both the Quality factor score (17) and the Momentum factor score (19) are above average.
PPL – The Value factor score (19) and the Momentum factor score (18) are both above average. In addition, the Quality factor score (22) is strong.
SJR.B – The Value factor score (15) and the Quality factor score (13) are both below average. However, the Momentum factor score (25) is very strong.
PRMW – The Value factor score (15) and the Quality factor score (15) are both below average. The Momentum factor score (19) is above average.

Technical (Momentum) Review:
Reaccelerating (Quadrant 2): JWEL, AGI, KXS, FOOD, WSP, ABT
BUY ideas for long only and fast money accounts.

Pulling Back (Quadrant 3): KNT, RY, GEI, GRT.UN, VLNS
BUY candidates for long only accounts and SELL names for fast money accounts.

Counter-trend Bounce (Quadrant 1): NEM
SELL ideas for fast money accounts. Opportunity for long only accounts to dive into the fundamental story.

Deteriorating (Quadrant 4): TOU, PPL, SJR.B, PRMW
SELL candidates for long only and fast money accounts.

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Investment Recommendation

Date and time of first dissemination: April 15, 2020, 00:01 ET

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