



Capital
Markets

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Tracking the tariff impact on Canadian publicly-traded consumer names

Sector remains relatively defensive

Our view: Based on our analysis, the probable impact of US and Canadian tariffs announced over the weekend on the overwhelmingly domestically-oriented names in our coverage universe relate to anticipated negative impacts on \$CAD, GDP growth and unemployment. Top picks Loblaw (TSX: L) and Dollarama (TSX: DOL) remain well-positioned with value-oriented offerings. While Global Top 30 Alimentation Couche-Tard (TSX: ATD) has an extensive footprint on both sides of the border, its store networks in each of Canada and the US remain domestically-focused and operated, as does Saputo (TSX: SAP). Although apparel retailers Aritzia (TSX: ATZ) and Groupe Dynamite (TSX: GRGD) both source from China and currently ship to US stores and customers from Canada, both are expanding US infrastructure, and have noted relatively modest anticipated impacts.

Recommend investors remain defensive: The cautious stance in our [2025 outlook](#) is now reinforced by the probable impact of tariffs on the Canadian economy which the Bank of Canada estimated that all else equal, GDP headwind could be as much as -2.5% in the first year, normalizing to 0 by year 3. Given the high level of uncertainty, and that all else is unlikely to be equal (duration of tariffs, government support, etc), we reiterate our top picks and outline high level considerations on key sectors.

Grocers: FX and broader economic impact: Expect consumer value-seeking behaviour to be reinforced. Food retailers typically generate 20+% of annual sales from produce. For most of the year, produce is sourced outside of Canada and typically priced in USD and sold in Canada at the \$C equivalent. The weaker CAD that could result from the imposition of tariffs will likely be inflationary just at a time when food price inflation has been normalizing from the peaks of 2022/23. Add the anticipated negative impact on employment/GDP, and already value-focused consumers are likely to continue to favour discount banners/channels and for trade-down and promotional penetration to intensify. **Loblaw** enjoys the highest exposure to discount/private label penetration, followed by Metro (TSX: MRU), with Empire (TSX: EMP) lagging.

Everyday household needs retailers (Dollarama, Canadian Tire (CTC.A-T): FX impact moderated NT by hedging, MT weaker CAD moderates purchasing power, eroding economic backdrop likely moderates demand: A weaker \$C erodes purchasing power, and DOL and CTC are among Canada's top 5 importers. Both, however, hedge FX exposure at time of offshore purchase. In the case of DOL, the majority of DOL SKU's tailored to DOL specifications by suppliers. Category buyers take actual exchange rates into account when negotiating with suppliers, and all products are sourced to deliver targeted gross margin levels. DOL typically refreshes 25%-30% of its offer on an annual basis, but that level can easily be raised in the event of substantial shifts in cost component. DOL's multiple price point offering provides another tool to manage potential inflation. **Given DOL's deep value positioning, we would expect the Company to continue to gain share of consumer wallet.**

Food processors: Saputo (TSX: SAP) generates an estimated 35-40% of consolidated EBITDA in the US; its US operations are domestically sourced, operated and focused, impact of weaker \$C would be favourable on translation. Re-opening of North American trade agreements, in our view, likely to lead to incremental opening of the Canadian dairy markets to imports from outside Canada, currently ~14%. To date there has been little political will in Canada to eliminate the supply management system. Maple Leaf Foods (TSX: MFI) generates 11% of revenues in the US, some of which are domestically manufactured. MFI is actively seeking non-US markets for the portion of revenues currently generated in the US.



Apparel retailers: Both ATZ and GRGD import extensively from China (~35% for ATZ, ~75% for GRGD), generate 50+% of revenues from their US operations, and fulfill to US stores in full (GRGD) or part (ATZ) from Canada although both are expanding infrastructure in the US. ATZ estimated on its most recent conference call that all else equal, and without mitigating initiatives, impact of a 10% increase in tariffs on product manufactured in China would be ~30 bps headwind to gross margins. Stronger USD would favour translation of USD earnings.

ATD: Generates ~65% of gross profit from its domestically-focused US operations. Impact of tariffs on low income consumers in US could result in more cautious consumer spending, but stronger USD is favourable on translation of USD reported earnings to \$C trading currency.

PET: Domestically focused but ~22% of cost of goods purchased in USD.

RBC Capital Markets has delivered a fairness opinion to the Special Committee and the Board of Directors of Maple Leaf Foods as press released on July 09, 2024.



Exhibit 1 - Companies under coverage generally conservatively capitalized with strong FCF/Conversion

COVERAGE UNIVERSE	Currency	Ticker	Rating	Market Cap	Price 31/01/2025	RBCCM Target	Dividend Dividend	Dividend Yield	Implied Return	P/E		EV/EBITDA		Net Debt / EBITDA	
										24E	25E	24E	25E	24E	25E
CONSUMER STAPLES															
FOOD PROCESSORS															
Maple Leaf Foods	(CAD)	MFI	O	\$2,639	\$21.36	\$29	\$0.96	4.5%	40%	33.9x	13.4x	8.2x	6.7x	2.9x	2.3x
Saputo	(CAD)	SAP	O	\$10,248	\$24.15	\$38	\$0.76	3.1%	60%	15.7x	11.4x	8.8x	7.3x	2.3x	1.9x
CONVENIENCE STORES & FUEL RETAILING															
Alimentation Couche-Tard	(CAD)	ATD	O	\$72,762	\$76.75	\$94	\$0.78	1.0%	23%	20.0x	18.9x	10.8x	10.3x	2.0x	2.0x
Casey's General Stores	(USD)	CASY	SP	\$15,655	\$421.77	\$430	\$2.00	0.5%	2%	28.7x	24.8x	14.8x	13.0x	2.1x	1.9x
Murphy USA	(USD)	MUSA	SP	\$10,183	\$502.91	\$550	\$1.92	0.4%	10%	20.7x	17.1x	12.4x	10.8x	2.3x	2.0x
FOOD & DRUG RETAILERS															
Loblaw Companies	(CAD)	L	O	\$55,257	\$181.98	\$217	\$2.05	1.1%	20%	21.2x	19.0x	10.6x	10.0x	2.6x	2.4x
Metro	(CAD)	MRU	SP	\$20,130	\$90.81	\$90	\$1.48	1.6%	1%	20.7x	18.7x	12.1x	11.3x	2.0x	2.0x
Empire Company	(CAD)	EMP	SP	\$10,127	\$42.74	\$50	\$0.80	1.9%	19%	14.7x	13.8x	7.4x	7.2x	3.0x	2.8x
George Weston Limited	(CAD)	WN	O	\$29,215	\$224.65	\$266	\$3.28	1.5%	20%						
CONSUMER DISCRETIONARY															
RETAILERS															
Canadian Tire Corporation	(CAD)	CTC	O	\$9,101	\$163.62	\$195	\$7.10	4.3%	24%	13.3x	12.6x	8.2x	8.0x		
Dollarama	(CAD)	DOL	O	\$38,582	\$137.53	\$159	\$0.37	0.3%	16%	38.1x	34.7x	17.8x	16.3x	2.3x	2.2x
Aritzia	(CAD)	ATZ	O	\$8,174	\$69.90	\$73	\$0.00	0.0%	4%	NMF	30.1x	19.1x	14.1x	1.5x	1.3x
Groupe Dynamite Inc.	(CAD)	GRGD	O	\$1,844	\$16.15	\$27	\$0.00	0.0%	67%	13.2x	12.0x	7.4x	6.7x	1.0x	0.6x
Pet Valu	(CAD)	PET	O	\$1,831	\$25.50	\$35	\$0.44	1.7%	39%	16.7x	15.5x	9.5x	8.7x	2.0x	2.1x

Multiples are presented on a calendarized basis.

Source: RBC Capital Markets estimates and S&P Capital IQ



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			Serv./Past 12 Mos.	
			Count	Percent
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HOLD [Sector Perform]	588	38.74	153	26.02
SELL [Underperform]	47	3.10	4	8.51

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