

Canadian Focus List

Quarterly report



Wealth Management
Dominion Securities

December 2, 2024

Portfolio Advisory Group – Equities

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Canadian equities have had a very strong year

We believe solid earnings growth expectations and a reasonable valuation should support Canadian equities in 2025

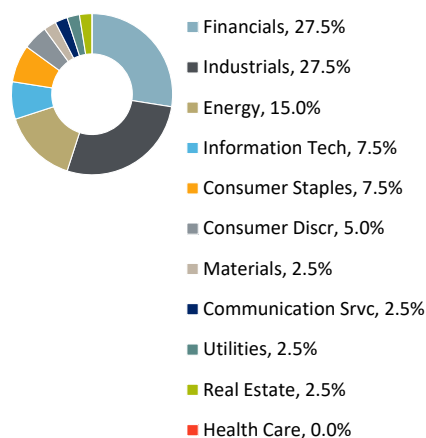
Canada has experienced a dramatic slowdown in productivity growth relative to the U.S. over the past couple of decades, which has constrained its relative growth. In our view, the Canadian economy should be more sluggish than the U.S. economy in 2025 if the country's productivity issues do not improve. Furthermore, the recently announced reduced immigration targets, while potentially helpful in rebalancing the housing and labour markets, could subtract nearly one percentage point from GDP forecasts over the

next three years, according to RBC Economics. Finally, we are mindful of possible headwinds to the Canadian economy (e.g., blanket tariffs, renegotiation of trade agreements, and increased U.S. domestic oil production) from Donald Trump's return to the White House.

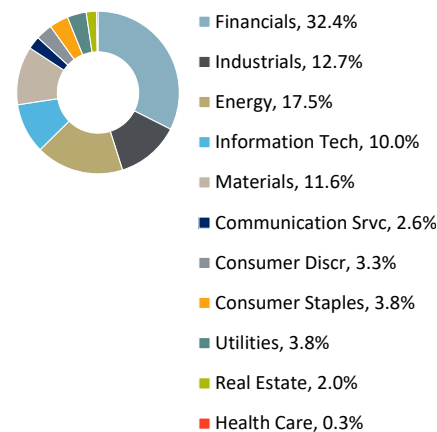
After the Bank of Canada began its interest rate cutting cycle in June 2024, investor concerns around consumer credit gradually eased, leading to a rebound in Canadian bank stocks. Heading into 2025,

Sector weightings: Canadian Focus List vs. the S&P/TSX Composite

Canadian Focus List



S&P/TSX Composite



For an overview of the Portfolio, please [click here](#).

All values in Canadian dollars and priced as of Nov. 30, 2024, market close, unless otherwise noted.

For important disclosures and authors' contact information, see [page 8](#).

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Source - RBC Wealth Management, FactSet; data as of market close 11/25/24; percentages may not total 100% due to rounding

we believe that diversification across the bank group is prudent to position for a range of outcomes. A pivot to a more cautious equity market backdrop could see high-quality banks that are currently performing well continue to outperform relative to peers. Whereas, if the possibility of a recession lessens, with the ensuing relief on credit that would likely result, we think we could see improved relative performance by banks whose share prices have lagged in 2024.

Commodity prices should again influence Energy sector performance in the coming year. We see oil prices as potentially rangebound with geopolitical risks providing a floor, and excess capacity providing a ceiling to prices. That said, the US\$65–US\$75 per barrel range provides a good setup for sufficient cash generation, in our view. Additionally, Energy investors should have the ability to reap meaningful cash returns via share buybacks and dividends, as we think companies are better equipped to navigate a challenging macro backdrop via fortified balance sheets and reasonable capital expenditure needs.

On balance, we believe the Canadian equity market will be supported in 2025 by strong earnings growth expectations and a valuation that is not terribly extended, particularly compared to the U.S. equity market.

The Focus List posted a strong quarterly return, but underperformed the benchmark

Technology and Financials sectors led the rally in the TSX

The S&P/TSX Composite ended the quarter up 10.66%, with 10 of the 11 sectors posting a positive return. The Technology and Financials sectors contributed most of the gains, partly offset by continued weakness in the Communication Services sector as competitive intensity remains elevated. The Canadian Focus List ended the quarter up 9.29%, an underperformance of 137 basis points (bps) relative to the benchmark.

The relative underperformance was largely driven by an Overweight allocation to the Industrials sector and stock selection within the Information Technology and Energy sectors. Within Industrials, we had Overweight positions in **Canadian Pacific Kansas City Ltd. (CP)** and **Toromont Industries Ltd. (TIH)**, which were particularly poor performers. CP struggled post the U.S. election as investors focused on the potential impact on cross-border volumes from blanket tariffs proposed by Trump. This could end up being a net negative for the Canadian rails overall, but particularly for CP, given its exposure to Mexico and Canadian Pacific's expected revenue synergies from its Mexico-USA-Canada integrated network. While acknowledging the potential for continued headline risk, we are retaining CP on our expectation that intermittent trade disruptions will not derail the long-term potential for value creation presented by the company's unparalleled

Total return for the fall quarter (9/1/24–11/30/24)

	Total return
Canadian Focus List	9.29%
S&P/TSX Composite Index	10.66%
Relative	-137 bps

Note: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Source - FactSet

network. TIH missed third-quarter 2024 consensus expectations on weaker margins as increasing equipment supply continues to drive normalization in pricing. Mining-related equipment sales remain strong; however, construction remains weak. Nevertheless, we believe the outlook for the construction segment should be supported by sizable infrastructure programs and further interest rate cuts.

Shopify Inc. (SHOP) had an excellent share price performance in the quarter as the company reported a very strong Q3 result and increased its Q4 guidance. SHOP benefited from impressive revenue growth and margin expansion during the quarter, and guided to an operating margin that was ahead of consensus expectations and well above levels just a few quarters ago. While the Focus List has exposure to SHOP at a 2.5% weight, as the Investment Committee believes the SHOP story continues to improve, it is below the benchmark weight, driving the relative underperformance in Information Technology during the quarter.

Energy infrastructure stocks performed well, while the oil producers were more mixed as oil prices struggled on the back of excess supply concerns. **TC Energy Corporation (TRP)** and **Pembina Pipeline Corporation (PPL)** both outperformed the index and significantly added to the Focus List's performance. In our view, natural gas demand will continue to be in focus on the back of bigger-picture themes such as datacentres, and onshoring/re-shoring. TRP and PPL benefit from increased natural gas volumes.

Brookfield Asset Management (BAM) was amongst the best-performing constituents during the quarter. BAM's fundraising momentum has remained exceptionally strong, driven by growth in its credit strategies and opportunities in its renewable power and transition business. Total assets under management is approximately \$1 trillion, with \$106 billion of uncalled fund commitments, which when deployed, should be a tailwind to BAM's distributable earnings, in our opinion. Although BAM shares had a strong quarter, we think continued solid visibility into fee-related earnings growth warrant ownership of the shares.

Focus List changes

High-grading our bank positioning

We are making two changes to the Focus List. The 2.5% position in **Toronto-Dominion Bank (TD)** is being removed, and **National Bank of Canada (NA)** is being increased to a 5.0% weight from 2.5%. TD shareholders have paid a steep price for management's failure of its anti-money laundering responsibilities, with TD by far the worst-performing bank stock of all banks in 2024. In our view, there is a risk TD shares will continue to underperform in light of slower loan growth due to regulatory restrictions coupled with the burden of higher regulatory and compliance spending. These conditions (which have no specified timeline of resolution) put the onus on the approximate 70% of TD's business that is not U.S. retail to generate the earnings growth needed to deliver on management's 7%–10% medium-term target. NA, on the other hand, continues to be a high-quality bank with strong credit quality, capital, cost control, and what we view as attractive returns on equity. While the stock carries a significant valuation premium to the bank group, we believe it is justified. Furthermore, with the potential for further credit improvement, improving loan growth, and stronger capital markets activity, we think the bank group is positioned well heading into 2025. We believe a rising tide will lift all boats and, therefore, leave the Focus List's bank weight unchanged.

Portfolio positions

Symbol	Company name	Weight	Price 11/25/24	52-wk range	EPS (calendar year)			P/E		Div. yield	Market cap (B)
					2023A	2024E	2025E	2024E	2025E		
Communication Services											
T	TELUS Corporation	2.5%	\$21.64	26 - 20	\$0.95	\$1.01	\$1.04	21.4x	20.8x	7.0%	\$32.46
Consumer Discretionary											
DOL	Dollarama	5.0%	\$142.95	153 - 90	\$3.49	\$4.04	\$4.51	35.4x	31.7x	0.3%	\$40.10
Consumer Staples											
ATD	Alimentation Couche-Tard	5.0%	\$77.82	87 - 71	\$3.94	\$4.09	\$4.56	19.0x	17.1x	0.9%	\$73.77
L	Loblaw	2.5%	\$178.68	189 - 117	\$7.75	\$8.58	\$9.47	20.8x	18.9x	1.1%	\$54.11
Energy											
CNQ	Canadian Natural Resources	5.0%	\$47.59	56 - 40	\$3.87	\$3.47	\$3.71	13.7x	12.8x	4.4%	\$100.41
PPL	Pembina Pipeline	2.5%	\$58.17	61 - 44	\$2.99	\$2.97	\$3.15	19.6x	18.5x	4.7%	\$33.77
SU	Suncor Energy	5.0%	\$56.93	58 - 40	\$5.10	\$5.19	\$4.57	11.0x	12.5x	4.0%	\$71.57
TRP	TC Energy	2.5%	\$68.60	70 - 44	\$4.12	\$4.13	\$3.79	16.6x	18.1x	4.8%	\$71.20
Financials											
BMO	Bank of Montreal	2.5%	\$133.64	134 - 107	\$11.46	\$10.30	\$11.21	13.0x	11.9x	4.6%	\$97.48
BAM	Brookfield Asset Management	2.5%	\$78.42	81 - 45	\$1.85	\$2.00	\$2.37	39.2x	33.1x	2.3%	\$32.91
BN	Brookfield Corporation	2.5%	\$83.46	84 - 46	\$4.08	\$4.73	\$5.19	17.7x	16.1x	0.5%	\$125.89
CM	Canadian Imperial Bank	5.0%	\$91.42	92 - 52	\$6.81	\$7.32	\$7.63	12.5x	12.0x	3.9%	\$85.68
IFC	Intact Financial	5.0%	\$267.00	275 - 198	\$11.70	\$13.58	\$16.42	19.7x	16.3x	1.8%	\$47.62
NA	National Bank of Canada	5.0%	\$137.39	139 - 88	\$9.72	\$10.44	\$10.88	13.2x	12.6x	3.2%	\$46.79
RY	Royal Bank of Canada	5.0%	\$173.77	176 - 116	\$11.49	NA	NA	NA	NA	3.3%	\$245.40
Industrials											
BBD.B	Bombardier Class B	2.5%	\$106.41	114 - 44	\$5.31	\$5.98	\$9.39	17.8x	11.3x	0.0%	\$9.32
CP	Canadian Pacific Kansas City	5.0%	\$107.78	123 - 94	\$3.84	\$4.24	\$5.00	25.4x	21.5x	0.7%	\$100.60
EFN	Element Fleet Management	2.5%	\$30.20	30 - 21	\$1.29	\$1.58	\$1.73	19.1x	17.4x	1.7%	\$12.23
GFL	GFL Environmental	2.5%	\$65.39	66 - 37	\$0.97	\$0.82	\$1.48	NM	44.3x	0.1%	\$24.95
TRI	Thomson Reuters	2.5%	\$224.36	243 - 186	\$4.73	\$5.14	\$5.56	43.7x	40.3x	1.3%	\$100.94
TIH	Toromont Industries	5.0%	\$116.61	136 - 110	\$6.38	\$5.95	\$6.25	19.6x	18.7x	1.6%	\$9.55
WCN	Waste Connections	2.5%	\$269.43	270 - 180	\$5.68	\$6.77	\$7.57	39.8x	35.6x	0.7%	\$69.53
WSP	WSP Global	5.0%	\$247.39	259 - 181	\$6.90	\$7.95	\$9.44	31.1x	26.2x	0.6%	\$32.25
Information Technology											
CSU	Constellation Software	5.0%	\$4,608.28	4670 - 3149	\$79.81	\$99.00	\$125.31	46.5x	36.8x	0.1%	\$97.66
SHOP	Shopify Class A	2.5%	\$155.26	162 - 72	\$0.99	\$1.75	\$2.09	NM	NM	0.0%	\$188.30
Materials											
CCL.B	CCL Industries Class B	2.5%	\$77.26	85 - 55	\$3.76	\$4.36	\$4.55	17.7x	17.0x	1.5%	\$12.81
Real Estate											
FCR.U	First Capital REIT^^	2.5%	\$18.04	19 - 14	\$0.95	\$1.12	\$1.10	16.1x	16.3x	4.8%	\$3.83
Utilities											
BIP.U	Brookfield Infra. Partners^	2.5%	\$49.32	50 - 34	\$2.95	\$3.08	\$3.40	16.0x	14.5x	4.4%	\$22.77

RBC Capital Markets provided fairness opinion in respect of the reorganisation of Brookfield Infrastructure Corporation (TSX, NYSE: BIPC) and Brookfield Infrastructure Partners L.P. (NYSE: BIP; TSX: BIP.UN) as press released on October 10th, 2024.

RBC Capital Markets provided fairness opinion in respect of the reorganisation of Brookfield Renewable Corporation (TSX, NYSE: BEPC) and Brookfield Renewable Partners L.P. (NYSE: BEP; TSX: BEP.UN) as press released on October 10th, 2024.

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Source - FactSet

^ Funds from operations (FFO) instead of earnings per share (EPS).

^^ Adjusted funds from operations (AFFO) instead of earnings per share (EPS).

National Bank of Canada

(TSX: NA; \$137.39)

We are increasing our position in National Bank of Canada to 5% (from 2.5%)

- Strong banking franchise:** We have long recognized the strength of NA's banking franchise and, furthermore, view it as well-positioned for the current environment. It is a dominant player in its home market of Quebec and should notably increase its exposure outside of Quebec if the proposed acquisition of Canadian Western Bank closes. NA has a well-earned reputation for prudent credit adjudication and risk management. Relative to peers, NA has lower consumer credit exposure and, importantly, lower exposure in the country's most expensive housing markets (Toronto and Vancouver).
- Maintaining bank allocation:** With the potential for further credit-improvement, improving loan growth, and stronger capital markets activity, we think the bank group is positioned well heading into 2025. We believe a rising tide will lift all boats and increasing our position in NA leaves our overall bank weight in the Focus List unchanged following the TD removal.

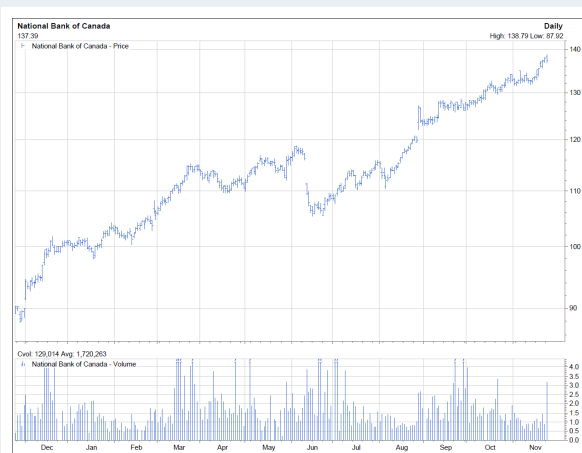
Risks

Risks include, but are not limited to, deterioration of the of the overall economy; the Canadian housing market via price declines and mortgage defaults; regulatory and political risk; weakening retail credit quality; and loss of market share.

Company description

National Bank is a Montreal-based, fully integrated financial services company that is the smallest of the Big Six Canadian banks.

1-year pricing chart



Source - FactSet; data through 11/25/24

The Toronto-Dominion Bank

(TSX: TD; \$77.81)

We are removing the 2.5% position in Toronto-Dominion Bank from the Focus List

- AML resolution could limit loan growth in the U.S.:** As part of TD’s settlement of the anti-money laundering (AML) investigation, an indefinite asset cap was imposed on TD’s U.S. Retail business. We think this should constrain loan growth in the U.S. for years to come. In addition, the burden of higher regulatory and compliance spending should also hamper earnings growth and visibility for the foreseeable future.
- Limited dividend growth:** The Canadian banks generally maintain a payout ratio (dividends relative to earnings) in the 40%–50% range. We’d expect TD to remain in this range as well. However, if earnings growth is expected to be limited for TD relative to peers, in order to maintain that payout range, dividend growth should be relatively limited as well.
- More bad news?** The AML settlement could mean the worst is behind TD. However, numerous ongoing investigations remain that could drive further headline risk for the bank, in our view.

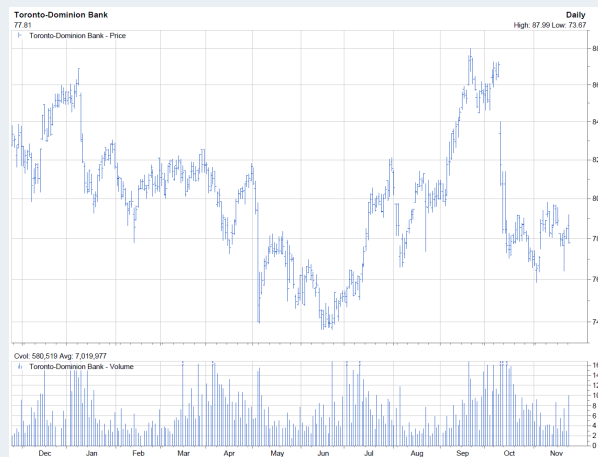
Risks

Risks include, but are not limited to, deterioration of the overall economy; the Canadian and U.S. housing markets via price declines and mortgage defaults; regulatory and political risk; weakening retail credit quality; and loss of market share.

Company description

Toronto-Dominion Bank is Canada’s second-largest bank by market capitalization. The bank has a large footprint in both Canada and the United States.

1-year pricing chart



Source - FactSet; data through 11/25/24

Methodology

The Canadian Focus List is produced by RBC Capital Markets and RBC Wealth Management's Portfolio Advisory Group. The List was launched in the mid-1980s and has a long-term track record of strong performance versus the S&P/TSX. The Canadian Focus List serves as a core Canadian equity portfolio and may be suitable for investors with a moderate risk tolerance in relation to an equity market investment.

Investment Process

The Portfolio is diversified across a minimum of 20 stocks with representation from most of the major sectors of the Canadian market.

On a quarterly basis, a top-down analysis incorporating RBC Capital Markets' outlook for the economy, the markets, and various economic sectors is brought to bear on the sector composition of a diversified portfolio of securities.

A "three-discipline" (3D) approach combining fundamental analysis of the firm's equity analysts with RBC Capital Markets' proprietary technical and quantitative disciplines screens stocks for inclusion on the List.

On a quarterly basis, all stocks that prescreen well under the 3D process are considered for inclusion. Furthermore, the Investment Committee considers each stock in relation to: strength of management, the robustness of its business model, and its potential to pay and grow dividends.

The foundation of our process is to try to find good businesses trading at reasonable valuations. Within the context of this, we focus on businesses with high returns on invested capital (in other words, every dollar the company puts into the business generates a significant return for the business), strong balance sheets, high cash generation, non-nebulous accounting, credible management teams that have demonstrated track records of success, and the willingness to return some capital to shareholders through share buybacks and dividends. Further, when possible, we try to find businesses that are at a positive inflection point in their evolution, which would be marked by things such as a gradual expansion of margins, a transition to positive free cash flow, or the roll-off of a significant capex cycle.

Against this, we overlay the 3D process, which helps us to filter out much of the noise generated by the day-to-day fluctuations of the market. We believe that an approach such as this will be rewarded over time. However, from time to time, the market will choose to focus its attention and goodwill on those businesses that lack many of the attributes that we look for and thus we expect to experience quarters in which we significantly underperform. Rather than view this as an opportunity to chase what is working, we view this as an opportunity to look for the types of businesses outlined above and, perhaps, capitalize on opportunities that the market has chosen to ignore in favour of short-term performance.

NOTE: Past performance is no guarantee of future results and should not be viewed as an indicator of future results.

Disclosures and disclaimers

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Rating	Count	Percent	Investment Banking Services Provided During Past 12 Months	
			Count	Percent
Buy [Outperform]	858	57.39	290	33.80
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Sell [Underperform]	38	2.54	3	7.89

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Alimentation Couche-Tard Inc. (ATD; Outperform; \$77.82)

Bank of Montreal (BMO; Sector Perform; \$133.64)

Bombardier Inc. (BBD.B; Outperform; \$106.41)

Brookfield Asset Management (BAM; Outperform; \$78.42)

Brookfield Corp. (BN; Outperform; \$83.46)
Brookfield Infrastructure Partners L.P. (BIP.U; Outperform; \$49.32)
Canadian Imperial Bank of Commerce (CM; Sector Perform; \$91.42)
Canadian Natural Resources Ltd. (CNQ; Outperform; \$47.59)
Canadian Pacific Kansas City Ltd. (CP; Outperform; \$107.78)
CCL Industries Inc. (CCL.B; Outperform; \$77.26)
Constellation Software Inc. (CSU; Outperform; \$4,608.28)
Dollarama Inc. (DOL; Outperform; \$142.95)
First Capital Real Estate Investment Trust (FCR.U; Outperform; \$18.04)
GFL Environmental Inc. (GFL; Outperform; \$65.39)
Loblaw Companies Ltd. (L; Outperform; \$178.68)
National Bank of Canada (NA; Sector Perform; \$137.39)
Pembina Pipeline Corp. (PPL; Outperform; \$58.17)
Shopify Inc. (SHOP; Outperform; \$155.26)
Suncor Energy Inc. (SU; Outperform; \$56.93)
TC Energy Corp. (TRP; Outperform; \$68.60)
TELUS Corp. (T; Outperform; \$21.64)
Thomson Reuters Corporation (TRI; Sector Perform; \$224.36)
Toromont Industries Ltd. (TIH; Outperform; \$116.61)
Toronto-Dominion Bank (TD; Sector Perform; \$77.81)
Waste Connections Inc. (WCN; Outperform; \$269.43)
WSP Global Inc. (WSP; Outperform; \$247.39)

Our third-party research providers have fundamental research of:

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Intact Financial Corp. (IFC; Reduce; \$267.00)

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