Canadian Focus List

Quarterly report

Wealth Management
Dominion Securities

September 3, 2024 — Portfolio Advisory Group – Equities

What's inside:

For an overview of the Portfolio, please click here.

All values in Canadian dollars and priced as of August 31, 2024, market close, unless otherwise noted.

For important disclosures and authors' contact information, see page 14.

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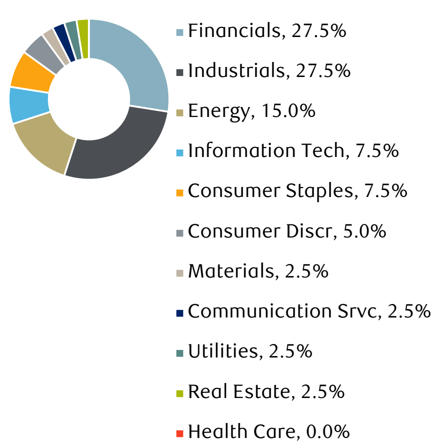
Bank of Canada shifts its focus to supporting the economy

Canadian inflation continues to slow as labour markets cool

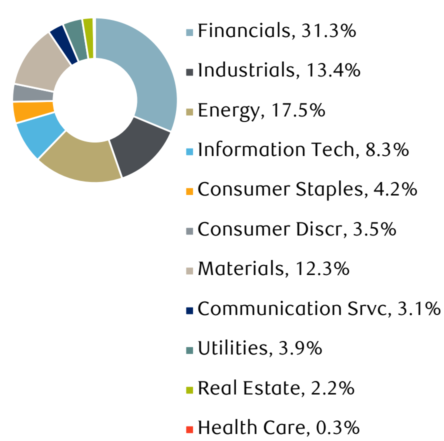
Recent commentary from the Bank of Canada (BoC) has suggested that its concerns are now shifting from reining in inflation to supporting economic growth. While Q2 gross domestic product (GDP) increased 2.1%, exceeding the Bank of Canada's expectation, it remains weak in the context of population growth. Consumer spending per person has declined for several quarters in a row as higher interest rates cut into household spending. Headline inflation numbers continued to ease, with the July figure of 2.5% year-over-year growth being the lowest since March 2021. Shelter costs remained a significant component of the CPI growth, with mortgage interest costs up more than 20% from a year ago. Excluding this, headline inflation has been trending around the 2% target since January. This should be good news for the central bank as it remains focused on managing a weak economic backdrop while at the same time guarding against the risk of disinflationary pressures taking hold. The BoC said that it believes the current interest rates are still at a level that is restrictive of economic

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

Canadian Focus List



S&P/TSX Composite



Source - RBC Wealth Management, FactSet; data as of market close 8/28/24; percentages may not total 100% due to rounding growth, and there remains room for further rate cuts as inflationary pressures abate.

Canadian labour market data also continued to cool in the quarter, with the unemployment rate up almost a whole percentage point from a year ago to 6.4%. A drop in labour force participation among younger workers, who may have stopped looking for work after being disproportionately impacted by the slowdown in hiring, slightly offset the growth in the labour force from immigration. While wage growth of 5.2% remains uncomfortably high in the context of reining in inflation, lower job openings and the higher unemployment rate should continue to put downward pressure on this metric, in our view. Against this backdrop, we remain satisfied with the quality bias of the Focus List's constituents and confident in their ability to withstand economic stress if a recession materializes.

The Focus List posted a positive return in the quarter, outperforming the benchmark

Technology and Financial sectors led the rally in the TSX

The S&P/TSX Composite ended the quarter up 5.65%, with 10 of the 11 sectors posting a positive return. The Technology and Financial sectors contributed most of the gains in the index, partly offset by lacklustre performance in the Energy sector as WTI oil prices remained rangebound and below levels experienced earlier this year. The Canadian Focus List ended the quarter up 8.25%, an outperformance of 260 basis points (bps) relative to the benchmark.

The Focus List's relative outperformance was largely driven by stock selection and its above-benchmark allocation to the Industrials sector. In particular, the portfolio's sizeable overweight in the waste sector, which includes positions in **GFL Environmental (GFL)** and **Waste Connections (WCN)**, benefitted from strong pricing growth and margin expansion at both companies. In addition, shares of GFL traded higher as it received acquisition interest in its Environmental Services (ES) business, which the company is currently evaluating. We think a potential sale of the ES business should help GFL bring down its leverage, and any excess proceeds from the sale can be used towards share buybacks or acquisitions in the company's core solid waste business. We believe reducing leverage and improving operational focus on the core waste management business, should help GFL narrow its valuation discount to WCN.

Technology was one of the best-performing sectors in the quarter, primarily driven by a rebound in shares of **Shopify Inc. (SHOP)**. The company delivered strong top and bottom-line growth in the quarter as new merchant additions continued to drive market share gains. SHOP also provided upbeat guidance for revenue and operating margin expansion as it continues to see strong results from its performance marketing initiatives.

Total return for the summer quarter (6/1/24–8/31/24)

	Total return
Canadian Focus List	8.25%
S&P/TSX Composite Index	5.65%
Relative	260 bps

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

Source - FactSet

We remain constructive on SHOP, given its long-term growth opportunities and potential for significant margin expansion as it gains scale. **Constellation Software (CSU)** also reported a strong quarter, with revenue up 21% year over year, as the company continues to deploy capital towards attractive acquisitions. The company disclosed that its merger and acquisition (M&A) database now consists of approximately 120,000 potential opportunities, providing a substantial foundation for long-term acquisition-driven growth.

The Real Estate sector registered a strong rebound this quarter as a decline in government bond yields buoyed investor sentiment towards long-term real assets. Our sole holding in this sector, **First Capital REIT (FCR.UN)**, delivered strong underlying results as both net operating income and occupancy rates ticked higher. FCR.UN also continues to execute well on its asset disposition program (i.e., selling non-core assets and using the proceeds to improve the strength of its balance sheet), and asset sales this quarter brought total dispositions to $710 million thus far (this compares to the company's target of $1 billion in total dispositions).

Focus List changes

Sticking with the winners

We made several changes to the Focus List this quarter. First, we are reducing our position in **Bank of Montreal (BMO)** to 2.5% (from 5.0%) and deploying the proceeds to increase our weight in **Canadian Imperial Bank of Commerce (CM)** to 5.0%. BMO reported higher-than-expected provisions for credit losses for two consecutive quarters, and management commentary suggests that losses in its commercial lending portfolio may remain elevated for several quarters. Notably, the spike in credit losses at BMO is substantially higher than those reported by its peers, raising questions about risk management and medium-term profitability at the bank. Upcoming central bank policy rate cuts in the U.S. and Canada could provide some relief on credit, but the lagged effect of these cuts means they are unlikely to provide much help in the near term, in our view. Outside the weak credit performance, underlying operating results remained stable as solid expense management helped drive positive operating leverage and pre-provision pre-tax earnings growth. In addition, BMO remains well capitalized, with a Common Equity Tier 1 (CET1) ratio of 13.0%, which should help it manage any additional stresses in its lending portfolio while retaining the flexibility to pursue opportunities to grow the franchise. As such, we are comfortable with a reduced weight in BMO in the Focus List. CM has delivered better-than-expected results for several quarters in a row, driven by lower-than-expected provisions for credit losses (PCL) and strong expense management. While we think it is too early to declare victory on PCLs given the ongoing economic uncertainty, CM has done a good job managing credit risks through reducing exposure in its U.S. commercial real estate (CRE) portfolio. The bank also trades at a discounted valuation compared to its peers, and as such we think it provides an attractive value in this environment.

We are removing our 2.5% position in **Nutrien (NTR)** and increasing the weight in **Suncor (SU)** to 5.0%. NTR has faced several headwinds in its fertilizer business as farmer economics have been negatively impacted by weak crop prices. We think a rebound in crop prices is required for underlying demand to increase. However, our visibility on when that could occur is limited. In addition, we will need to see signs of recovery in NTR's retail segment, see improving cash conversion rates, and gain confidence that the market can absorb upcoming potash supply from BHP's Jansen mine, to become more favourable on the company. Suncor, on the other hand, continues to execute well with an enhanced focus on improving underlying operations, including safety and reliability, which has yielded strong results over the past several quarters. The solid operating momentum should also help improve investor confidence in management's ability to deliver production growth and lower breakeven levels, which should, in turn, help narrow SU's valuation discount compared to its global peers. SU also remains on track to achieve its long-term net debt target of $8 billion over the next few quarters, which should in-turn translate to 100% allocation of excess free funds flow to shareholders, including a healthy dose of share buybacks (from 75% allocation at present).

We are reducing our position in **GFL Environmental Inc. (GFL)** to 2.5% (from 5.0%) and using the proceeds to increase our weight in **WSP Global (WSP)** to 5.0%. We had added to our weight in GFL last quarter as we felt there was a significant multiple re-rating opportunity driven by management's commitment to reduce leverage within the business. Since then, GFL has received private equity interest in its environmental services segment, and its valuation has moved higher in anticipation of this sale. Going forward, we think the risk-reward is much more balanced at current valuation, and hence, we decided to take some profits. WSP reported robust organic growth across all regions as it continues to benefit from secular tailwinds related to public and private sector infrastructure spending. The total backlog reached an all-time high of $14.7 billion, which provides good visibility for growth over the next year. The company also remained active in pursuing M&A-driven growth and announced a $1.8 billion transaction to acquire POWER Engineers, which effectively doubled their exposure to power and energy markets. Growing power demand related to energy transition, onshoring, EVs, and data centers for artificial intelligence (AI) is an investment theme that we remain constructive on, and WSP should benefit from this trend.

And finally, we are reducing our position in **Brookfield Corp. (BN)** to 2.5% (from 5.0%) and initiating a position in **Brookfield Asset Management (BAM)** at 2.5%. 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 are now approaching $1 trillion, with $107 billion of uncalled fund commitments, which when deployed, should be a tailwind to BAM's distributable earnings. We think the solid visibility into fee-related earnings growth and a discounted valuation compared to peers set up for a favourable risk-reward in BAM shares. Brookfield Corp's discount to its net asset value (NAV) has recently narrowed to a level more consistent with our assessment of fair value. Moreover, BN's exposure to commercial real estate may continue to see some headwinds as improvement in office occupancy remains challenging, and this may keep the discount to NAV from improving further. To be clear, we hold a favourable view of BN's long-term prospects, given its 73% ownership in BAM and diverse exposure to real estate, infrastructure, and insurance assets, and believe the company's strong investment track record, along with its significant liquidity position, should allow it to pursue attractive growth opportunities.

Portfolio positions

Symbol	Company name	Weight	Price 8/28/24	52-wk range	EPS (calendar year) 2023A	2024E	2025E	P/E 2024E	2025E	Div. yield	Market cap (B)
Communication Services											
T	TELUS Corporation	2.5%	$21.68	26 - 20	$0.95	$0.98	$1.08	22.0x	20.2x	6.9%	$32.35
Consumer Discretionary											
DOL	Dollarama	5.0%	$136.44	138 - 85	$3.49	$3.99	$4.49	34.2x	30.4x	0.3%	$38.45
Consumer Staples											
ATD	Alimentation Couche-Tard	5.0%	$78.97	87 - 69	$3.94	$4.01	$4.46	19.7x	17.7x	0.9%	$74.86
L	Loblaw	2.5%	$173.25	174 - 111	$7.75	$8.54	$9.44	20.3x	18.4x	1.2%	$52.86
Energy											
CNQ	Canadian Natural Resources	5.0%	$49.22	56 - 40	$3.87	$3.75	$4.43	13.1x	11.1x	4.3%	$104.47
PPL	Pembina Pipeline	2.5%	$53.78	55 - 39	$2.99	$3.16	$3.25	17.0x	16.5x	5.1%	$31.20
SU	Suncor Energy	5.0%	$54.75	57 - 40	$5.10	$5.32	$5.35	10.3x	10.2x	4.0%	$69.53
TRP	TC Energy	2.5%	$61.25	62 - 45	$4.52	$4.28	$4.34	14.3x	14.1x	6.3%	$63.55
Financials											
BMO	Bank of Montreal	2.5%	$110.37	134 - 103	$11.48	$10.38	$11.21	10.6x	9.8x	5.6%	$80.07
BAM	Brookfield Asset Management	2.5%	$55.40	61 - 39	$1.85	$1.93	$2.26	28.7x	24.6x	3.3%	$23.20
BN	Brookfield Corporation	2.5%	$66.70	68 - 40	$4.08	$4.65	$5.50	14.4x	12.1x	0.6%	$100.56
CM	Canadian Imperial Bank	5.0%	$73.50	75 - 47	$6.76	$7.03	$7.27	10.5x	10.1x	4.9%	$68.89
IFC	Intact Financial	5.0%	$251.24	264 - 188	$11.70	$14.33	$16.10	17.5x	15.6x	1.9%	$44.81
NA	National Bank of Canada	2.5%	$126.91	127 - 84	$9.71	$10.36	$10.79	12.2x	11.8x	3.5%	$43.20
RY	Royal Bank of Canada	5.0%	$159.98	162 - 108	$11.47	NA	NA	NA	NA	3.6%	$225.92
TD	Toronto-Dominion Bank	2.5%	$80.11	87 - 74	$7.98	$8.01	$8.35	10.0x	9.6x	5.1%	$140.02
Industrials											
BBD.B	Bombardier Class B	2.5%	$92.76	100 - 40	$5.31	$5.88	$8.97	15.8x	10.3x	0.0%	$8.02
CP	Canadian Pacific Kansas City	5.0%	$111.30	123 - 94	$3.84	$4.28	$5.08	26.0x	21.9x	0.7%	$103.86
EFN	Element Fleet Management	2.5%	$27.58	28 - 18	$1.29	$1.52	$1.69	18.2x	16.3x	1.7%	$11.13
GFL	GFL Environmental	2.5%	$57.39	59 - 37	$0.97	$0.89	$1.56	NM	36.7x	0.1%	$20.93
TRI	Thomson Reuters	2.5%	$229.63	243 - 163	$4.73	$5.20	$5.75	44.2x	39.9x	1.3%	$103.27
TIH	Toromont Industries	5.0%	$120.31	136 - 101	$6.38	$6.18	$6.55	19.5x	18.4x	1.6%	$9.86
WCN	Waste Connections	2.5%	$250.03	253 - 175	$5.68	$6.50	$7.35	38.5x	34.0x	0.6%	$64.52
WSP	WSP Global	5.0%	$223.49	231 - 174	$6.90	$7.98	$9.36	28.0x	23.9x	0.7%	$27.87
Information Technology											
CSU	Constellation Software	5.0%	$4,265.07	4476 - 2665	$79.81	$102.81	$128.39	41.5x	33.2x	0.1%	$90.38
SHOP	Shopify Class A	2.5%	$97.76	123 - 63	$0.99	$1.52	$1.87	NM	NM	0.0%	$118.40
Materials											
CCL.B	CCL Industries Class B	2.5%	$77.39	79 - 53	$3.76	$4.41	$4.53	17.5x	17.1x	1.5%	$12.93
Real Estate											
FCR.U	First Capital REIT^^	2.5%	$17.36	18 - 12	$0.95	$1.11	$1.12	15.7x	15.6x	5.0%	$3.68
Utilities											
BIP.U	Brookfield Infra. Partners^	2.5%	$43.88	45 - 29	$3.96	$4.36	$4.78	10.1x	9.2x	5.0%	$20.26

Source - FactSet

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

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

RBC Capital Markets acted as financial advisor to TC Energy (TSE: TRP) in respect to the spin-off of their liquids pipelines business as announced on July 27, 2023.

Bank of Montreal

(TSX: BMO; $110.37)

We are decreasing our position in Bank of Montreal to 2.5% (from 5%)

- **Credit losses elevated relative to peers:** BMO reported higher-than-expected provisions for credit losses for two consecutive quarters, and management commentary suggests that losses in the commercial lending portfolio may remain elevated for several more quarters. Notably, the spike in credit losses at BMO is substantially higher than those reported by its peers, raising questions about risk management and medium-term profitability at the bank. Expected central bank policy rate cuts in the U.S. and Canada could provide some relief on credit, but the lagged effect of these cuts means they are unlikely to provide much help in the near term.
- **Underlying operating results remain stable:** Outside the weak credit performance, BMO's business segments reported positive pre-provision pre-tax earnings growth, driven by lower-than-forecast expenses. Much of this expense outperformance was driven by Bank of the West expense synergies and restructuring charges announced last year, which drove positive operating leverage for the bank. However, top-line growth remains sluggish, driven by weak demand for commercial and real estate loans.
- **Strong capital position:** BMO remains very well capitalized, with a CET1 ratio of 13.0%, which, in our view, positions the bank well to address stresses in its lending portfolio while retaining the flexibility to pursue opportunities to grow the franchise. Positive internal capital generation over the next several quarters could also position the bank to deploy excess capital towards share buybacks; however, this is more likely a consideration for 2025 once management has better visibility on credit.

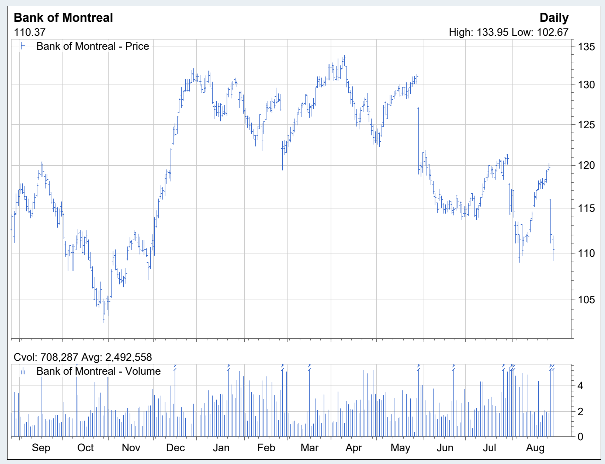
Risks

Risks include the health of the overall economy, sustained deterioration in the capital markets environment, the U.S. and Canadian housing markets, and greater-than-anticipated impact from off-balance sheet commitments.

Company description

Bank of Montreal is Canada's fourth-largest bank by market capitalization. companies include Chicago-based BMO Harris Bank, BMO Nesbitt Burns, and BMO Capital Markets.

1-year pricing chart



Source - FactSet; data through 8/28/24

Brookfield Asset Management Ltd.

(TSX: BAM; $55.40)

We are adding a 2.5% position in Brookfield Asset Management to the Focus List

- **A pure-play alternative asset manager with strong investment track record:** BAM is among the largest North American alternative asset managers with a strong long-term investment track record across multiple asset classes and geographies. Fee-bearing capital managed by BAM exceeds US$500 billion across infrastructure, renewables, real estate, insurance, private equity, and credit. Within these sub-asset classes, BAM is focused on assets and businesses that it believes form the backbone of the global economy. We believe BAM's solid historical investment performance, areas of focus, and deep relationships with significant sources of capital position the company well for future growth.
- **Fee-bearing capital and earnings poised to reaccelerate:** BAM believes it can grow the fee stream associated with its fee-bearing capital at a 17% cumulative annual growth rate (CAGR) for the five-year period ending in 2028. While we expect 2024's growth will fall short of this objective, we believe that growth is poised to reaccelerate in 2025 due to recently acquired insurance operations, deployment of capital in its global transition fund, and an improved monetization environment. RBC Capital Markets forecasts that BAM will grow fee-related earnings at a 16% CAGR through 2028, which we believe will be met by a similar growth rate in the dividends paid to shareholders.
- **Reasonable valuation relative to growth prospects:** BAM's valuation multiple of 22x RBC Capital Markets' 2025 estimate of fee-related earnings sits roughly in the middle of its range since the company's December 2022 spin-off from Brookfield Corporation. We believe this is a fair multiple for a high-quality, asset-light business with potential for multiple expansion should growth reaccelerate in line with our expectation.

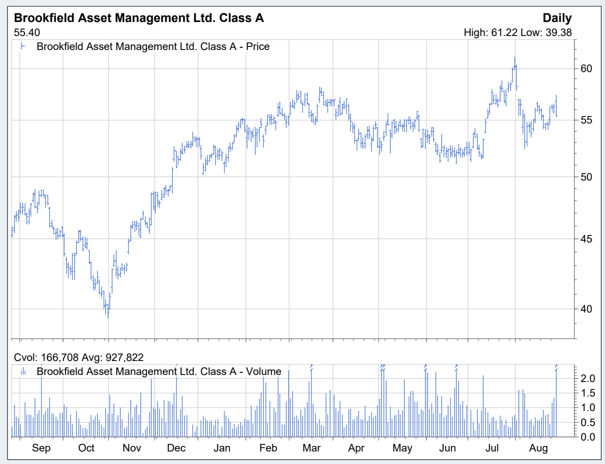
Risks

Risks include but are not limited to, an economic or capital markets downturn, deteriorating fund performance, failure to achieve fundraising targets, and a "higher for longer" interest rate environment.

Company description

Brookfield Asset Management is one of the world's largest alternative asset managers specializing in asset classes, including infrastructure, renewables, real estate, insurance, private equity, and credit. BAM has an over 100-year history of owning and operating real assets and businesses, with operations spanning over 30 countries.

1-year pricing chart



Source - FactSet; data through 8/28/24

Brookfield Corp.

(TSX: BN; $66.70)

We are decreasing our position in Brookfield to 2.5% (from 5%)

- **Valuation discount has narrowed:** BN's discount on its net asset value (NAV) has narrowed to a level more in line with the long-term average. We believe the shares are now fairly valued and will require cash flow growth to drive the next move higher
- **Exposure to commercial real estate:** BN's real estate holdings have high exposure to office and retail properties, which may continue to see substantial headwinds as office occupancy levels remain challenged. A recession or slowing economic environment may continue to pressure cash flows and valuations in this segment.
- **Solid business:** Despite the concerns above, we continue to maintain exposure to BN as it provides investors with diverse exposure to real estate, infrastructure, insurance, renewables, and private equity/debt, along with a 73% ownership interest in Brookfield Asset Management (BAM). The company has a strong investment track record and a significant liquidity position to fund future acquisitions and investments.

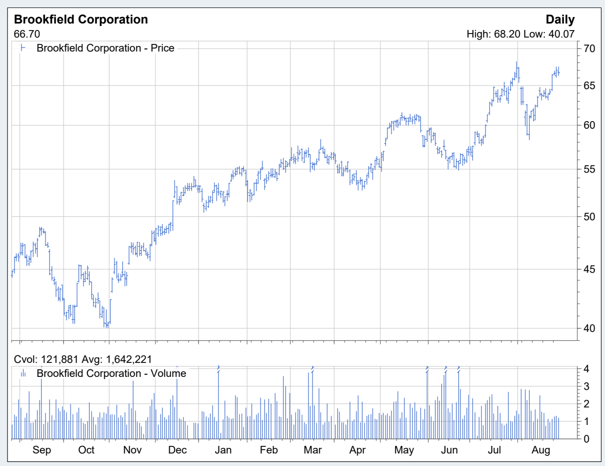
Risks

Risks include economic downturn, particularly in real estate; a sudden and/or significant increase in interest rates; and sustained capital markets volatility.

Company description

Brookfield Corporation has three core verticals: 1) asset management; 2) insurance; and 3) its operating businesses (e.g., real estate, infrastructure, renewables, private equity, etc.). BN's asset management business has more than US$800 billion of assets under management (AUM). BN's reinsurance business leverages its expertise in credit investing to generate spread income. In addition, BN's proprietary capital is invested in its various funds/strategies and aims to generate long-term growth.

1-year pricing chart



Source - FactSet; data through 8/28/24

Canadian Imperial Bank of Commerce

(TSX: CM; $73.50)

We are increasing our position in Canadian Imperial Bank of Commerce to 5% (from 2.5%)

- **Maintaining economic sensitivity in a falling rate environment:** Canadian Imperial Bank derives approximately 70% of its revenues from Canada, and therefore, is highly sensitive to the health of Canadian consumers and businesses. RBC Economics expects the overnight interest rate to decline by another 150 basis points from mid-2024 through the end of 2025. All else equal, lower rates should provide a tailwind for the economy and reduce the risk of growing delinquencies heading into next year. Additionally, we believe the bank has done a solid job in controlling expense growth, which in turn has allowed the bank to benefit from positive operating leverage.
- **Healthy capital position should allow growth:** We believe Canadian Imperial Bank remains well capitalized with a CET1 ratio of approximately 13.3%, and this should allow it to navigate economic headwinds, should they materialize. The bank also recently suspended the discount on its dividend reinvestment program, reinforcing the health of its capital position. The excess capital should also allow the bank to pursue growth if economic conditions improve.
- **Reasonable valuation:** While the stock has re-rated to approximately 10.4x forward price-to-earnings, we acknowledge that this is still at a discount to the peer group average of 10.7x. As a result, we believe we are receiving decent value in a favourable rate of change thesis.

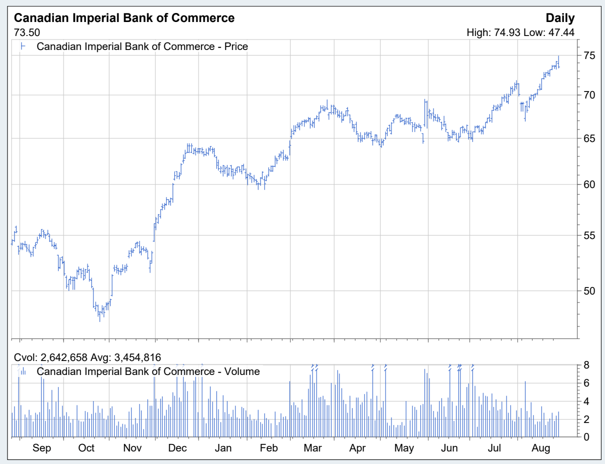
Risks

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

Company description

Canadian Imperial Bank of Commerce is Canada's fifth-largest bank as measured by loans, assets, and market capitalization. The bank offers a range of financial products and services across several business lines, including Personal and Business Banking, Commercial Banking and Wealth Management, and Capital Markets.

1-year pricing chart



Source - FactSet; data through 8/28/24

GFL Environmental Inc.

(NYSE: GFL; $57.39)

We are decreasing our position in GFL Environmental to 2.5% (from 5%)

- **Valuation has re-rated:** GFL received private-equity interest for its Environmental Services segment, and we believe the sale of this business makes strategic sense. A transaction at a reasonable multiple should allow GFL to bring down leverage, and help it focus on its core Solid Waste business. Valuation has moved higher in anticipation of a transaction, and while further multiple re-rating is possible, we believe the most obvious gains have already been realized.
- **Execution risks remain:** GFL's 2024 guidance calls for adjusted free cash flow of roughly $810 million and adjusted EBITDA margin of 28.4%. Much of this improvement is expected to come from pricing growth (+6.25% to +6.5%), while volume is expected to be down -1.25%. We remain confident in management's ability to achieve this guidance. However, any disappointment in executing towards this target may result in a downward pressure on the stock. Consequently, we think it is prudent to manage position size in this name.

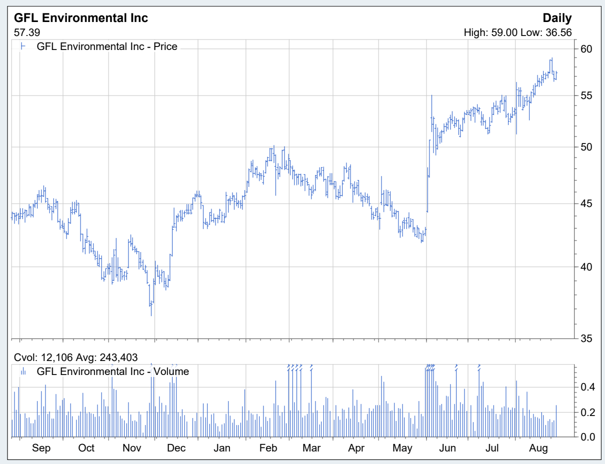
Risks

Risks include, but are not limited to, price competition, change in environmental regulations, inability to generate free cash flow sufficient to repay debt or execute on strategic growth objectives, dependence on third-party landfills, elevated leverage, and broader macro environment weakness.

Company description

GFL Environmental Inc. is the fourth-largest environmental services company in North America, serving more than four million households and 135,000 commercial customers in Canada and the United States. The company operates through two primary segments: Solid Waste Management and Environmental Services.

1-year pricing chart



Source - FactSet; data through 8/28/24

Nutrien Ltd.

(TSX: NTR; $64.43)

We are removing the 2.5% position in Nutrien Ltd. from the Focus List

- **Weak crop prices:** Farmer affordability has been negatively impacted by weakening crop prices. As a result, demand for fertilizers and other agricultural products has eased. A rebound in crop prices is needed for demand to pick up. However, our visibility on when that could occur is limited.
- **Limited catalysts to improve valuation:** While sentiment is poor and valuation is low, we are hard-pressed to find any catalysts over the next six to twelve months that could turn things around for Nutrien. We will need to see improved agriculture fundamentals, signs of a recovery in NTR's Retail segment, improving cash conversion rates, and increased confidence that the market can absorb upcoming potash supply additions to consider becoming more favourable on the company.
- **Downside limited, dividend safe:** Although we no longer view Nutrien as appropriate for total return mandates, we believe it still warrants inclusion in income-focused mandates. We believe a significant share price downside from current levels is unlikely. Furthermore, we believe Nutrien will continue to deliver sufficient free cash flow to support its dividend.

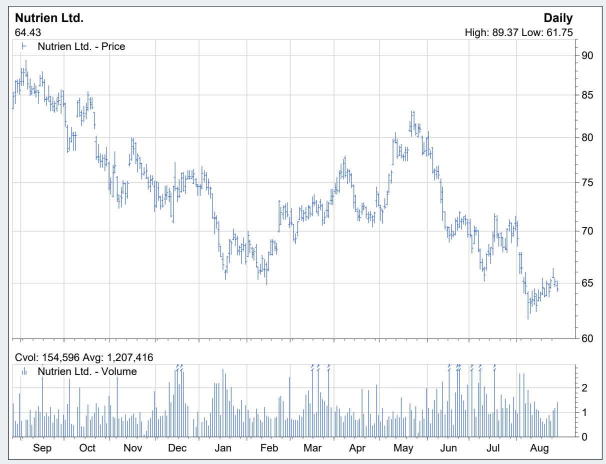
Risks

Risks include, but are not limited to, unpredictable weather events, currency fluctuations, fertilizer prices, and input price volatility.

Company description

Nutrien Ltd. is the world's largest fertilizer producer and ag input retailer, formed through the merger of Agrium and PotashCorp in January 2018. The company produces nitrogen, phosphate, and potash fertilizers primarily in North America for sale globally. The retail segment is the world's largest ag input retailer, with significant market share in Canada, the U.S., Australia, and Argentina.

1-year pricing chart



Source - FactSet; data through 8/28/24

Suncor Energy Inc.

(TSX: SU; $54.75)

We are increasing our position in Suncor to 5% (from 2.5%)

- **Strong execution and attractive valuation:** Suncor's enhanced focus on improving underlying operations, including safety and reliability, has yielded strong results over the past several quarters. The firm's robust production performance reflects sharp execution on planned maintenance (i.e., on budget and ahead of schedule), and this should help improve investor confidence in management's ability to deliver on production growth and lower breakeven levels. SU's valuation also trades at a wide discount to peers given past missteps (4.7x debt-adjusted cash flow versus global major peer group average of 6.0x), and improved execution should help narrow this valuation discount, in our view.
- **On track to achieve its net debt target:** Suncor remains committed to achieving its long-term net debt target of $8 billion (compared to current net debt of $9.05 billion), which should translate to 100% allocation of excess free funds flow to return of capital through dividends and share buybacks (from 75% allocation at present).
- **Organic growth opportunities should allay concerns around Base Mine depletion:** Suncor's Base Mine production (~250,000 bbl/d) is expected to start declining in early 2030, and the company sees three organic growth opportunities that can help offset this decline. Moreover, given its strong balance sheet position, we think SU remains well positioned to execute M&A-driven production growth to offset Base Mine depletion.

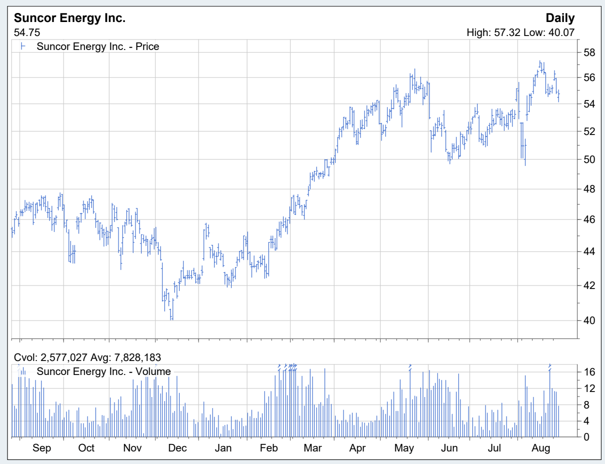
Risks

The most significant risk to Suncor is unexpected and material changes in crude oil prices. Other risks include the impact of foreign exchange and government legislation on royalties, income taxes, and environmental policy.

Company description

Suncor Energy Inc. is an integrated oil company with roughly 100% oil-weighted production. More than 80% of Suncor's production is anchored by oil sands and it is the second-largest refiner in Canada with 368,000 bb/d of processing capacity.

1-year pricing chart



Source - FactSet; data through 8/28/24

WSP Global Inc.

(TSX: WSP; $223.49)

We are increasing the position in WSP Global to 5% (from 2.5%)

- **A resilient and well-diversified platform:** WSP is a global professional services company that generates roughly 90% of its revenue in Organisation for Economic Co-operation and Development (OECD) countries. WSP has delivered a long-term average annual organic growth rate in the mid-single-digit range and has undertaken 130-plus acquisitions since its IPO, representing a key factor in its growth strategy. WSP's client mix should also provide stability throughout the economic cycle.
- **M&A continues:** WSP has become the largest player in the high-growth U.S. power and energy markets through its recent acquisition of POWER Engineers. In our view, this acquisition sets WSP up well for the growth in data centres and the broader electrification trends.
- **Infrastructure tailwinds:** WSP is well positioned to benefit from the numerous fiscal spending bills in the U.S. that promote infrastructure spending. We expect this to continue regardless of which political party is in power after the U.S. presidential election in November.
- **Valuation:** WSP trades at roughly 15x 2024E EV/EBITDA, a premium to its five-year average. That said, we believe this is warranted, given the company's strong track record and stability of the underlying business model.

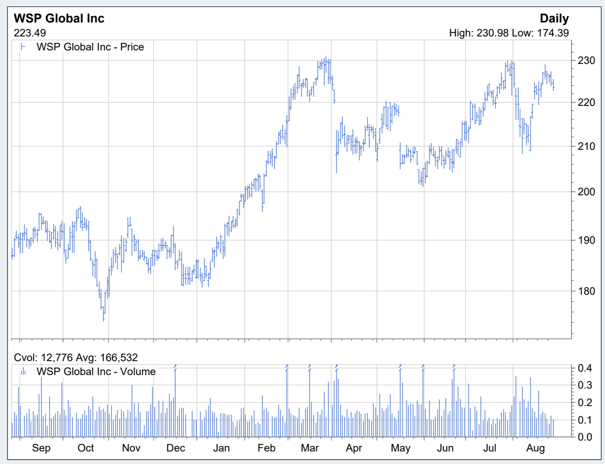
Risks

The key risks to this thesis include, but are not limited to, fixed-price contract cost overruns, ability to secure new contracts, wage pressures, and strategy execution.

Company description

Headquartered in Montreal, Quebec, WSP Global Inc. provides technical expertise and strategic advice to clients in the Property & Buildings, Transportation & Infrastructure, Earth & Environment, Power & Energy, Resources (including Mining and Oil & Gas), and Industry sectors.

1-year pricing chart



Source - FactSet; data through 8/28/24

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 each 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 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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			Investment Banking Services Provided During Past 12 Months	
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Canadian Pacific Kansas City Ltd. (CP; Outperform; $111.30)

CCL Industries Inc. (CCL.B; Outperform; $77.39)

Constellation Software Inc. (CSU; Outperform; $4,265.07)

Dollarama Inc. (DOL; Outperform; $136.44)

First Capital Real Estate Investment Trust (FCR.U; Outperform; $17.36)

GFL Environmental Inc. (GFL; Outperform; $57.39)

Loblaw Companies Ltd. (L; Outperform; $173.25)

National Bank of Canada (NA; Sector Perform; $126.91)

Nutrien Ltd. (NTR; Outperform; $64.43)

Pembina Pipeline Corp. (PPL; Outperform; $53.78)

Shopify Inc. (SHOP; Outperform; $97.76)

Suncor Energy Inc. (SU; Outperform; $54.75)

TC Energy Corp. (TRP; Outperform; $61.25)

TELUS Corp. (T; Outperform; $21.68)

Thomson Reuters Corporation (TRI; Sector Perform; $229.63)

Toromont Industries Ltd. (TIH; Outperform; $120.31)

Toronto-Dominion Bank (TD; Outperform; $80.11)

Waste Connections Inc. (WCN; Outperform; $250.03)

WSP Global Inc. (WSP; Outperform; $223.49)

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