Capital Markets

RBC Imagine™
Best Ideas for the Long Term

RBC Imagine™

Thinking further forward

EQUITY RESEARCH | NOVEMBER 18, 2021

For required Non-U.S. Analyst and Conflicts Disclosures, see page 93.

Disseminated: Nov 18, 2021 17:52EST; Produced: Nov 18, 2021 17:52EST

Table of contents

All values in USD unless otherwise noted. Priced as of market close, November 17, 2021 ET

RBC Imagine™ Best Ideas for the Long Term summary table

Company Name	Ticker	Analyst	Sub-sector	Rating		Currency	Price	Target	Mkt Cap (US$B)
Technology, Internet, Media & Telecom									
Alphabet Inc.	GOOGL US	Brad Erickson	Interactive Media & Services	Outperform		USD	2,960.94	3,400	1,971.8
Cloudflare, Inc.	NET US	Matthew Hedberg	Systems Software	Outperform		USD	211.80	220	68.1
CrowdStrike Holdings, Inc.	CRWD US	Matthew Hedberg	Systems Software	Outperform		USD	269.78	315	61.6
Delivery Hero SE	DHER GR	Sherri Malek	Internet & Direct Marketing Retail	Outperform		EUR	128.20	150	36.3
Flywire Corporation	FLYW US	Daniel R. Perlin	Data Processing & Outsourced Services	Outperform		USD	44.00	51	4.6
Meta Platforms, Inc.	FB US	Brad Erickson	Interactive Media & Services	Outperform		USD	340.77	415	947.9
PayPal Holdings, Inc.	PYPL US	Daniel R. Perlin	Data Processing & Outsourced Services	Outperform		USD	206.27	298	242.4
Pro Medicus Limited	PME AU	Garry Sherriff	Health Care Technology	Sector Perform		AUD	61.67	60	4.7
S&P Global Inc.	SPGI US	Ashish Sabadra	Financial Exchange & Data	Outperform		USD	465.50	495	112.2
Shopify Inc.	SHOP US	Paul Treiber	Internet Services & Infrastructure	Outperform		USD	1,637.81	1,800	205.7
TELUS Corporation	T CN	Drew McReynolds	Integrated Telecommunication Services	Outperform		CAD	28.89	32	29.4
Twilio Inc.	TWLO US	Rishi Jaluria	Internet Services & Infrastructure	Outperform		USD	302.78	450	54.0
Veeva Systems Inc.	VEEV US	Rishi Jaluria	Health Care Technology	Outperform		USD	315.15	400	48.3
Verizon Communications Inc.	VZ US	Kutgun Maral	Integrated Telecommunication Services	Sector Perform		USD	51.73	57	214.2
Zoom Video Communications, Inc.	ZM US	Rishi Jaluria	Application Software	Outperform		USD	263.71	450	78.4
Health Care									
Abcam PLC	ABC LN	Charles Weston	Biotechnology	Outperform		GBp	1,694.00	1,640	5.2
Genmab A/S	GMAB US	Kennen MacKay	Biotechnology	Outperform		USD	42.59	56	27.8
Intellia Therapeutics, Inc.	NTLA US	Luca Issi	Biotechnology	Outperform	*	USD	134.40	150	10.0
Lonza Group AG	LONN SW	Charles Weston	Life Sciences Tools & Services	Sector Perform		CHF	740.20	680	59.3
Oxford Nanopore Technologies PLC	ONT LN	Charles Weston	Life Sciences Tools & Services	Outperform		GBp	616.00	800	1.7
R1 RCM Inc.	RCM US	Sean Dodge	Health Care Services	Outperform		USD	25.59	35	7.1
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	Biotechnology	Outperform		USD	79.72	145	6.9
Teladoc Health, Inc.	TDOC US	Sean Dodge	Health Care Technology	Outperform		USD	134.85	215	21.6
Xencor, Inc.	XNCR US	Gregory Renza	Biotechnology	Outperform	*	USD	37.32	53	2.2

Company Name	Ticker	Analyst	Sub-sector	Rating	Currency	Price	Target	Mkt Cap (US$B)
Industrials								
Alfa Laval AB	ALFA SS	Sebastian Kuenne	Industrial Machinery	Outperform	SEK	387.40	400	18.3
Kratos Defense & Security Solutions, Inc.	KTOS US	Ken Herbert	Aerospace & Defense	Outperform	USD	21.25	28	2.6
Rentokil Initial plc	RTO LN	Andrew Brooke	Environmental & Facilities Services	Outperform	GBp	624.20	645	15.6
Schneider Electric SE	SU FP	Mark Fielding	Electrical Components & Equipment	Outperform	EUR	158.62	150	102.2
VAT Group AG	VACN SW	Sebastian Kuenne	Industrial Machinery	Outperform	CHF	478.00	440	15.4
WSP Global Inc.	WSP CN	Sabahat Khan	Construction & Engineering	Outperform	CAD	179.05	196	16.9
Xylem Inc.	XYL US	Deane Dray	Industrial Machinery	Outperform	USD	130.16	136	23.5
Consumer								
Alimentation Couche-Tard Inc.	ATD/B CN	Irene Nattel	Food Retail	Outperform	CAD	51.90	73	43.7
Amazon.com, Inc.	AMZN US	Brad Erickson	Internet & Direct Marketing Retail	Outperform	USD	3,549.00	4,000	1,799.9
Auto1 Group SE	AG1 GR	Sherri Malek	Automotive Retail	Outperform	EUR	33.60	70	8.0
Chipotle Mexican Grill, Inc.	CMG US	Christopher Carril	Restaurants	Outperform	USD	1,806.00	2,100	50.8
Coats Group PLC	COA LN	Mark Fielding	Textiles	Outperform	GBp	67.30	95	1.3
Coursera Inc	COUR US	Rishi Jaluria	Education Services	Outperform	USD	35.54	50	5.0
General Motors Company	GM US	Joseph Spak	Automobile Manufacturers	Outperform	USD	64.61	74	93.8
L'Oreal	OR FP	Emma Letheren	Personal Products	Sector Perform	EUR	429.80	267	271.3
Loblaw Companies Limited	L CN	Irene Nattel	Food Retail	Outperform	CAD	97.08	118	26.8
LVMH Moet Hennessy-Louis Vuitton SE	MC FP	Piral Dadhania	Apparel, Accessories & Luxury Goods	Outperform	EUR	726.10	785	414.8
Next PLC	NXT LN	Richard Chamberlain	Department Stores	Outperform	GBp	8,146.00	9,600	14.5
Ocado Group PLC	OCDO LN	Sherri Malek	Internet & Direct Marketing Retail	Sector Perform	GBp	1,790.00	2,100	18.1
Tesla, Inc.	TSLA US	Joseph Spak	Automobile Manufacturers	Sector Perform	USD	1,089.01	800	1,078.1
The Estée Lauder Companies Inc.	EL US	Nik Modi	Personal Products	Outperform	USD	354.46	365	127.6
The Procter & Gamble Company	PG US	Nik Modi	Household Products	Sector Perform	USD	147.10	139	356.0
Volkswagen AG	VOW3 GR	Tom Narayan	Automobile Manufacturers	Outperform	EUR	186.00	310	137.4
Financial								
Chubb Limited	CB US	Mark Dwelle	Property & Casualty Insurance	Outperform	USD	191.78	225	82.6
Element Fleet Management Corp.	EFN CN	Geoffrey Kwan	Specialized Finance	Outperform	CAD	13.10	16	4.5
Hercules Capital, Inc.	HTGC US	Kenneth Lee	Asset Management & Custody Banks	Outperform	USD	16.94	19	2.0
Marsh & McLennan Companies, Inc.	MMC US	Mark Dwelle	Insurance Brokers	Outperform	USD	167.79	183	84.7
New York Community Bancorp, Inc.	NYCB US	Steven Duong	Thrifts & Mortgage Finance	Outperform	USD	12.48	17	5.8
SVB Financial Group	SIVB US	Jon Arfstrom	Regional Banks	Outperform	USD	745.26	780	43.7
UBS Group AG	UBSG SW	Anke Reingen	Diversified Capital Markets	Outperform	CHF	16.94	20	67.5

Company Name	Ticker	Analyst	Sub-sector	Rating		Currency	Price	Target	Mkt Cap (US$B)
Energy & Utilities									
Baker Hughes Company	BKR US	Keith Mackey	Oil & Gas Equipment & Services	Outperform		USD	24.34	31	25.4
California Resources Corporation	CRC US	Scott Hanold	Oil & Gas Exploration & Production	Outperform		USD	42.93	65	3.5
Drax Group PLC	DRX LN	John Musk	Independent Power Producers & Energy Traders	Outperform		GBp	550.00	750	2.9
Enel SpA	ENEL IM	Alexander Wheeler	Electric Utilities	Outperform		EUR	7.07	9	81.3
NextEra Energy, Inc.	NEE US	Shelby Tucker	Electric Utilities	Outperform		USD	87.78	97	172.2
Sunnova Energy International Inc	NOVA US	Elvira Scotto	Renewable Electricity	Outperform		USD	40.27	61	4.5
TotalEnergies SE	TTE FP	Biraj Borkhataria	Integrated Oil & Gas	Outperform		EUR	43.54	54	130.1
Materials									
Albemarle Corporation	ALB US	Arun Viswanathan	Specialty Chemicals	Outperform		USD	273.39	315	32.0
Anglo American plc	AAL LN	Tyler Broda	Diversified Metals & Mining	Outperform		GBp	2,877.50	3,300	52.1
Cameco Corporation	CCO CN	Andrew Wong	Coal & Consumable Fuels	Sector Perform		CAD	33.03	29	10.5
Ivanhoe Mines Ltd.	IVN CN	Sam Crittenden	Diversified Metals & Mining	Outperform	*	CAD	10.07	12	10.0
Louisiana-Pacific Corporation	LPX US	Paul Quinn	Forest Products	Outperform		USD	66.94	100	5.9
Real Estate									
Alexandria Real Estate Equities, Inc.	ARE US	Michael Carroll	Office REIT's	Outperform		USD	207.27	235	31.6
American Tower Corporation	AMT US	Jonathan Atkin	Specialized REIT's	Outperform		USD	257.53	298	117.3
Chartwell Retirement Residences	CSH-U CN	Pammi Bir	Health Care Facilities	Outperform		CAD	12.13	14	2.2
Prologis, Inc.	PLD US	Michael Carroll	Industrial REIT's	Outperform		USD	150.38	164	111.2
Segro Public Limited Company	SGRO LN	Julian Livingston-Booth	Industrial REIT's	Sector Perform		GBp	1,333.50	1,100	21.5

*denotes Speculative Risk
Source: RBC Capital Markets, Bloomberg, Refinitiv

Introduction

Graeme Pearson – Global Head of Research

André-Philippe Hardy – Head of Canadian & APAC Research

Mark Odendahl – Head of US Research

Michael Hall – Head of European Research & Global Head of Research Product Management

We are pleased to present our Global Research *RBC Imagine™ Best Ideas for the Long Term*. RBC Imagine™ is a series of fundamental research reports focused on disruptive forces that will transform the world, intended to help investors and organizations plan for the new future.

We believe this best ideas list is differentiated in three material ways: (1) the ideas directly play into our five *RBC Imagine™ Preparing for Hyperdrive* themes; (2) we take a long-term view beyond traditional 12-month price targets and ratings, which leads to the inclusion of a number of Sector Perform-rated names on the list; and (3) ESG considerations are directly linked to our list.

In our accompanying report *RBC Imagine™ Preparing for Hyperdrive - Themes that will Define Our New Future*, we outline five key themes investors and executives alike across all industries must collectively understand to prepare for the years ahead – The Quest for Immortality, The Individual Revolution, Artificial Intelligence Activated, Hybrid Living, and The Great Balancing Act (described on p. 8). Taking these themes into account, we collaborated across our Global Research team to identify this list of 71 stocks that in our view are well positioned to benefit over the long term from advancements in health care and elongated lifespans (The Quest for Immortality); an increasing focus on individual needs, the availability and monetization of personal data, and the customization of goods and services (The Individual Revolution); an accelerated increase in the use of AI (Artificial Intelligence Activated); the continued blurring of physical and digital lines in the way we live and work (Hybrid Living); and the pursuit of economic, social and technological advancement in a climate-friendly manner, with greater resiliency amid instability and an accelerating rate of change on multiple fronts (The Great Balancing Act).

In this report, we provide details on our long-term and 12-month investment outlook for each stock on this list. For several names, our long-term positive thesis is balanced by a more cautious near-term outlook, with Sector Perform recommendations driven by relative valuation on a 12-month view, near to medium-term challenges/risks, and/or the longer-term nature of potential catalysts (Cameco, Lonza, L'Oreal, Ocado, Procter & Gamble, Pro Medicus, SEGRO, Tesla, Verizon). We highlight these names as, in our view, offering attractive opportunities for patient investors, consistent with the 5-10+ year horizon of RBC Imagine™ research. We also note the names for which the consensus rating is hold, while we maintain Outperform ratings (Abcam, Alfa Laval, VAT Group, Marsh & McLennan, Xylem), which we think offer investors exposure to upside potential that is underappreciated by the market today.

On p. 9, we provide an ESG profile of the *RBC Imagine™ Best Ideas* list, as we have conviction ESG considerations will continue to play an increasingly important role in determining future outcomes. Among the 40 names on this list that are in the S&P 500, S&P 350 or TSX 60 indices, 17 rank in the top decile of their regional benchmark in terms of popularity in actively or passively managed sustainable funds as of 2Q21, including NextEra Energy, Prologis, American Tower Corporation, Xylem, S&P Global, and Marsh & McLennan; these six names, as well as Schneider Electric and TotalEnergies, were featured in our August ESG Leaders report as RBC Outperform-rated names that have well-established ESG credentials. Another four names (Next plc, General Motors, Chubb, Alfa Laval) were featured on our September ESG Contenders list as RBC Outperform-rated names that have interesting/ improving ESG attributes, but aren't yet highly owned in sustainable funds.

We encourage you to read our ***RBC Imagine™ Preparing for Hyperdrive - Themes that will Define Our New Future*** report for insights into our vision of the future underpinning this list, and to reach out to our team to continue the dialogue.

RBC Imagine™ Best Ideas for the Long Term

TIMT: CRWD US, DHER GR, FB US, FLYW US, GOOGL US, NET US, PME AU, PYPL US, SHOP US, SPGI US, T CN, TWLO US, VEEV US, VZ US, ZM US

Consumer: AG1 GR, AMZN US, ATD.B CN, CMG US, COA LN, COUR US, EL US, GM US, L CN, MC FP, NXT LN, OCDO LN, OR FP, PG US, TSLA US, VOW3 GR

Health Care: ABC LN, GMAB US, LONN SW, NTLA US, ONT LN, RCM US, SRPT US, TDOC US, XNCR US

Materials: AAL LN, ALB US, CCO CN, IVN CN, LPX US

Energy & Utilities: BKR US, CRC US, DRX LN, ENEL IM, NEE US, NOVA US, TTE FP

Industrial: ALFA SS, KTOS US, RTO LN, SU FP, VACN SW, WSP CN, XYL US

Financial: CB US, EFN CN, HTGC US, MMC US, NYCB US, SIVB US, UBSG SW

Real Estate: AMT US, ARE US, CSH-U CN, PLD US, SGRO LN

Overview of our *RBC Imagine™ Preparing for Hyperdrive* themes

Please see our report ***RBC Imagine™ Preparing for Hyperdrive - Themes that will Define Our New Future***, published concurrently with this note, for more detail on these themes and implications across sectors.

The Quest for Immortality

Emerging from the COVID-19 pandemic we see the simultaneous combination of breakthroughs in medicines and therapeutics (mRNA vaccines), further advancements in healthcare availability (telemedicine), improving transparency in the food/health connection, living conditions and other scientific/technological improvements likely to extend lifespans at an accelerated rate over the coming decade. However, how these dynamics play out across the global population could create a clear divide among populations based on income, demographics and infrastructure.

The Individual Revolution

Social media, immense amounts of personal content and consumer-first applications are shifting the balance of power away from traditional institutions and into the hands of individuals. This will create a new world order in every aspect of the global economy and will likely be the single biggest disruptive force to existing centers of power. In addition, it could create new economies such as the monetization of personal data (and the associated parameters around that data ownership). Consequently, as power shifts away from institutions to individuals, global societies will deal with both the positives and negatives.

Artificial Intelligence Activated

While we are some time away from the general-purpose artificial intelligence that science fiction cautions us about, AI is becoming a critical component to all aspects of business. The battleground for AI is now migrating from understanding its potential and acquiring capabilities to putting the concept into action. And while AI brings plenty of benefits (solutions that learn and improve over time, more powerful software to automate mundane tasks, etc.), it also brings with it many risks, including security concerns and the potential for unprecedented job displacement/transition.

Hybrid Living

Our environment is increasingly becoming inclusive of our physical space as well as our digital world. As augmented and virtual reality continue to become more user friendly and easier to access, the lines between the physical and digital will continue to blur. This will have significant implications on how we interact as a society, the acceleration of workplace productivity, the creation of new opportunities to engage consumers and customers, and will become the catalyst for entirely new business models, including progress on diversity and inclusion across organizations.

The Great Balancing Act

An accelerating rate of change on multiple fronts has the potential to create unprecedented instability. Conflicts will arise between countries, among sub-populations and across regions on an increasing number of fronts, as well as behind the scenes. On top of a pickup in cyberterrorism activity, we believe new physical, cyber and trade conflicts will arise, particularly related to climate change, including the race for critical commodities to fuel the energy transition, agricultural nationalism and climate change targets and policies. Even basic systems like democracy and capitalism are set to undergo dramatic change. Within individual entities themselves, societies, corporations, institutions and even individuals, will face internal tension balancing speed and near-term costs as they strive to make progress in this increasingly complex global context.

The RBC Imagine™ Best Ideas list through an ESG lens

RBC Capital Markets, LLC
Sara Mahaffy (ESG Strategist) (212) 618-7507; sara.mahaffy@rbccm.com

Analyzing sustainable fund ownership trends for the RBC Imagine™ Best Ideas

We have analyzed the sustainable fund ownership profile for each name on the *RBC Imagine™ Best Ideas* list (please see page 6 of our latest **ESG Stat Pack** for more details on how we are defining a "sustainable fund"). **For names that fall in one of the S&P 500, S&P 350 or TSX 60 indices, we have included the following metrics for each name:** (1) decile ranking within its regional index in terms of popularity in actively managed sustainable funds and passively managed sustainable funds; (2) decile ranking within its regional index in terms of market cap; and (3) where sustainable funds are relatively overweight/underweight each name, relative to its market cap ranking. This analysis is based on holdings information as of 2Q21.

A number of names on this list have leading ESG credentials

Among the 40 names that fall in one of the three benchmark indices, 17 names rank in the top decile of their regional benchmark in terms of popularity in actively managed sustainable funds or passively managed sustainable funds as of 2Q21. Among those, **NextEra Energy, Prologis, American Tower Corporation, Xylem, S&P Global,** and **Marsh & McLennan** stand out in particular, as sustainable funds were relatively overweight the name (relative to their market cap ranking) in at least one of the peer groups. All six names, as well as **Schneider Electric** and **TotalEnergies**, were featured in our RBC August ESG Leaders report, where we highlighted RBC Outperform rated names that have well-established ESG credentials. Another four names on the *RBC Imagine™ Best Ideas* list (**Next plc, General Motors, Chubb,** and **Alfa Laval**) were featured on our September ESG Contenders list, where we highlighted RBC Outperform rated names that have interesting/improving ESG attributes, but aren't yet highly owned in sustainable funds. These are names that we think could see rising sustainable fund ownership in the future. Please see our **ESG Leaders** and **ESG Contenders** reports for more details.

				Actively Managed Sustainable Funds			Passively Managed Sustainable Funds		
				Decile Ranking Within Benchmark			Decile Ranking Within Benchmark		
Company Name	Ticker	Analyst	Mkt Cap (US$B)	Popularity In Actively Managed Sustainable Funds	Market Cap	Overweight / Underweight in Actively Managed Sustainable Funds	Popularity In Passively Managed Sustainable Funds	Market Cap	Overweight / Underweight in Passively Managed Sustainable Funds
Technology, Internet, Media & Telecom									
Alphabet	GOOGL US	Brad Erickson	$1,971.8	1	1	Neutral	1	1	Neutral
Cloudflare, Inc.	NET US	Matthew Hedberg	$68.1						
CrowdStrike Holdings, Inc.	CRWD US	Matthew Hedberg	$61.6						
Delivery Hero SE	DHER GR	Sherri Malek	$36.3	9	4	Underweight	6	4	Underweight
Flywire Corporation	FLYW US	Daniel Perlin	$4.6						
Meta Platforms	FB US	Brad Erickson	$947.9	2	1	Underweight	6	1	Underweight
Paypal Holdings	PYPL US	Daniel Perlin	$242.4	1	1	Neutral	4	1	Underweight
Pro Medicus	PME AU	Garry Sherriff	$4.7						
S&P Global Inc.	SPGI US	Ashish Sabadra	$112.2	2	2	Neutral	1	2	Overweight
Shopify Inc.	SHOP US	Paul Treiber	$205.7	1	1	Neutral	2	1	Underweight
TELUS	T CN	Drew McReynolds	$29.4	5	4	Underweight	3	4	Overweight
Twilio Inc.	TWLO US	Rishi Jaluria	$54.0						
Veeva Systems Inc.	VEEV US	Rishi Jaluria	$48.3						
Verizon Communications Inc.	VZ US	Kutgun Maral	$214.2	1	1	Neutral	1	1	Neutral
Zoom Video Communications, Inc.	ZM US	Rishi Jaluria	$78.4						

Company Name	Ticker	Analyst	Mkt Cap (US$B)	Actively Managed Sustainable Funds: Decile Ranking Within Benchmark: Popularity In Actively Managed Sustainable Funds	Actively Managed Sustainable Funds: Decile Ranking Within Benchmark: Market Cap	Actively Managed Sustainable Funds: Overweight / Underweight in Actively Managed Sustainable Funds	Passively Managed Sustainable Funds: Decile Ranking Within Benchmark: Popularity In Passively Managed Sustainable Funds	Passively Managed Sustainable Funds: Decile Ranking Within Benchmark: Market Cap	Passively Managed Sustainable Funds: Overweight / Underweight in Passively Managed Sustainable Funds
Health Care									
Abcam PLC	ABC LN	Charles Weston	$5.2						
Genmab A/S	GMAB US	Kennen MacKay	$27.8						
Intellia Therapeutics, Inc.	NTLA US	Luca Issi	$10.0						
Lonza Group AG	LONN SW	Charles Weston	$59.3	2	2	Neutral	6	2	Underweight
Oxford Nanopore	OXB LN	Charles Weston	$1.7						
R1 RCM Inc.	RCM US	Sean Dodge	$7.1						
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	$6.9						
Teladoc Health, Inc.	TDOC US	Sean Dodge	$21.6						
Xencor, Inc.	XNCR US	Gregory Renza	$2.2						
Industrials									
Alfa Laval AB	ALFA SS	Sebastian Kuenne	$18.3	5	7	Overweight	5	7	Overweight
Kratos Defense & Security Solutions, Inc.	KTOS US	Ken Herbert	$2.6						
Rentokil Initial plc	RTO LN	Andrew Brooke	$15.6	6	8	Overweight	5	8	Overweight
Schneider Electric SE	SU FP	Mark Fielding	$102.2	1	1	Neutral	1	1	Neutral
VAT Group AG	VACN SW	Sebastian Kuenne	$15.4						
WSP Global Inc.	WSP CN	Sabahat Khan	$16.9						
Xylem Inc.	XYL US	Deane Dray	$23.5	1	7	Overweight	1	7	Overweight
Consumer									
Alimentation Couche-Tard	ATD/B CN	Irene Nattel	$43.7	9	3	Underweight	7	3	Underweight
Amazon	AMZN US	Brad Erickson	$1,799.9	1	1	Neutral	3	1	Underweight
Auto1 Group SE	AG1 GR	Sherri Malek	$8.0						
Chipotle Mexican Grill, Inc.	CMG US	Christopher Carril	$50.8	4	4	Neutral	7	4	Underweight
Coats Group PLC	COA LN	Mark Fielding	$1.3						
Coursera Inc	COUR US	Rishi Jaluria	$5.0						
General Motors Company	GM US	Joseph Spak	$93.8	5	2	Underweight	7	2	Underweight
Loblaw Companies Ltd	L CN	Irene Nattel	$26.8	5	5	Neutral	3	5	Overweight
L'Oreal	OR FP	Emma Letheren	$271.3	1	1	Neutral	1	1	Neutral
LVMH Moet Hennessy-Louis Vuitton SE	MC FP	Piral Dadhania	$414.8	1	1	Neutral	6	1	Underweight
Next PLC	NXT LN	Richard Chamberlain	$14.5	6	8	Overweight	3	8	Overweight
Ocado Group PLC	OCDO LN	Sherri Malek	$18.1	7	6	Underweight	8	6	Underweight
Tesla, Inc.	TSLA US	Joseph Spak	$1,078.1	1	1	Neutral	2	1	Underweight
The Estée Lauder Companies Inc.	EL US	Nik Modi	$127.6	2	2	Neutral	3	2	Underweight
The Procter & Gamble Company	PG US	Nik Modi	$356.0	1	1	Neutral	1	1	Neutral
Volkswagen	VOW3 GY	Tom Narayan	$137.4	8	1	Underweight	9	1	Underweight

Company Name	Ticker	Analyst	Mkt Cap (US$B)	Actively Managed Sustainable Funds: Decile Ranking Within Benchmark: Popularity In Actively Managed Sustainable Funds	Actively Managed Sustainable Funds: Decile Ranking Within Benchmark: Market Cap	Actively Managed Sustainable Funds: Overweight / Underweight in Actively Managed Sustainable Funds	Passively Managed Sustainable Funds: Decile Ranking Within Benchmark: Popularity In Passively Managed Sustainable Funds	Passively Managed Sustainable Funds: Decile Ranking Within Benchmark: Market Cap	Passively Managed Sustainable Funds: Overweight / Underweight in Passively Managed Sustainable Funds
Financial									
Chubb Limited	CB US	Mark Dwelle	$82.6	4	3	Underweight	3	3	Neutral
Element Fleet Management Corp.	EFN CN	Geoffrey Kwan	$4.5						
Marsh & McLennan Companies, Inc.	MMC US	Mark Dwelle	$84.7	3	3	Neutral	1	3	Overweight
New York Community Bancorp	NYCB US	Steven Duong	$5.8						
SVB Financial Group	SIVB US	Jon Arfstrom	$43.7	3	6	Overweight	3	6	Overweight
UBS Group AG	UBSG SW	Anke Reingen	$67.5	5	2	Underweight	5	2	Underweight
Hercules Capital	HTGC US	Kenneth Lee	$2.0						
Energy & Utilities									
Baker Hughes Company	BKR US	Keith Mackey	$25.4	5	8	Overweight	6	8	Overweight
California Resources Corporation	CRC US	Scott Hanold	$3.5						
TotalEnergies SE	TTE FP	Biraj Borkhataria	$130.1	3	1	Underweight	7	1	Underweight
Drax Group PLC	DRX LN	John Musk	$2.9						
Enel SpA	ENEL IM	Alexander Wheeler	$81.3	1	1	Neutral	5	1	Underweight
NextEra Energy, Inc.	NEE US	Shelby Tucker	$172.2	1	2	Overweight	8	2	Underweight
Sunnova Energy International Inc	NOVA US	Elvira Scotto	$4.5						
Materials									
Albemarle Corporation	ALB US	Arun Viswanathan	$32.0	4	8	Overweight	8	8	Neutral
Anglo American plc	AAL LN	Tyler Broda	$52.1	8	3	Underweight	10	3	Underweight
Cameco Corporation	CCO CN	Andrew Wong	$10.5	10	10	Neutral	5	10	Overweight
Ivanhoe Mines Ltd.	IVN CN	Sam Crittenden	$10.0						
Louisiana-Pacific Corporation	LPX US	Paul Quinn	$5.9						
Real Estate									
Alexandria Real Estate Equities, Inc.	ARE US	Michael Carroll	$31.6	4	6	Overweight	7	6	Underweight
American Tower Corporation	AMT US	Jonathan Atkin	$117.3	1	2	Overweight	2	2	Neutral
Chartwell Retirement Residences	CSH-U CN	Pammi Bir	$2.2						
Prologis, Inc.	PLD US	Michael Carroll	$111.2	1	2	Overweight	1	2	Overweight
SEGRO	SGRO LN	Julian Livingston-Booth	$21.5						

Source: RBC US Equity Strategy, Morningstar, Refinitiv, pricing is as of 11/17/2021; ownership analysis is based on 2Q21 holdings and only included for names that fall in the S&P 500 index, S&P Europe 350 index or TSX 60 index

Technology, Internet, Media & Telecom

Alphabet Inc. (NASDAQ: GOOGL)

RBC Capital Markets, LLC
Brad Erickson (Analyst), (503) 830-9488, brad.erickson@rbccm.com

Rating: Outperform | **Closing Price: USD 2,960.94**
Target: USD 3,400.00

RBC Imagine™ long-term idea thesis

Using its unquestionable dominance at the top of the internet funnel, we believe Google should at worst, maintain its dominant share in search and broader digital advertising as a function of rising E-commerce penetration, if not grow its share.

With the U.S. still only a bit above 20% E-commerce penetration and ROW in the mid to high-teens, we see the next decade of rising penetration as an ongoing tailwind to GOOGL's core business which should translate to compounding earnings growth for years to come.

YouTube and Google Cloud represent incremental share gain opportunities with both likely to exhibit above-market growth for the next several years alongside margin expansion.

Finally, aside from user privacy regulatory oversight, we see GOOGL as relatively under-exposed to the potential regulatory scrutiny we reference from digital marketplaces. With content creators representing the bulk of the adverse exposure (YouTube primarily), we'd expect this to likely be persistently viewed by regulators as falling under the discretionary category and thus, not requiring any sort of governor's chip to the economics that GOOGL can likely wield from those channels.

Valuation

GOOGL trades at 13.6x EV/'23E EBITDA, which is toward the high end of its historical range (8–16x) and generally ahead of its most similarly situated, mega-cap peer group. Given the strong recovery in advertising post-COVID combined with especially strong narratives around insulation, important advertising signal loss, and YouTube share gains, we think the ongoing premium here makes sense. To that end, we apply a 15.6x EV/'23E EBITDA multiple to derive our $3,400 price target, which supports our Outperform rating.

Risks to rating and price target

Intensifying competition most notably from Apple or Amazon where each party has unique sources of leverage, which could change in the event that the others became more competitive in each other's core market. App store payment and/or fee changes are mandated. Google's core search algorithm is regulated to statically drive content discovery that doesn't favor Google's properties. E-commerce growth stalls, leading to slowing digital advertising spend. Any slowing to venture capital would likely disproportionately affect Google's core advertising business. A global macroeconomic downturn would cause companies to meaningfully slow advertising spend. Regulatory risk surround the potential breaking up of the business and or sanctions issued on how the different parts of Alphabet's business could communicate and partner in terms of technology interconnectivity as well as crossover personnel.

Investment summary

We like Google's ability to use its free cash flow generated from core search advertising to fund multiple other adjacencies for growth for many years to come. Due to its dominance at the top of the funnel, we think the company is in a unique position to accretively acquire data at the bottom of the funnel in order to maximize equity value creation while leveraging this capability across all existing and emerging customer access points. Longer-term, we are also intrigued by certain Other Bets addressing transportation and healthcare in particular given their size as well as their relative importance to solving some of humanity's greatest challenges.

Cloudflare Inc. (NYSE: NET)

RBC Capital Markets, LLC
Matthew Hedberg (Analyst), (612) 313-1293, matthew.hedberg@rbccm.com

Rating: Outperform **Closing Price: USD 211.80**
Price Target: USD 220.00

RBC Imagine™ long-term idea thesis

We think Cloudflare is well positioned to benefit from increased internet usage as its platform is built to accelerate and secure internet traffic through global PoPs, including China, that are significantly faster than peers. The company is rather unique with its serverless architecture which can globally scale out with GM of 78%. As such, it is able to service a free user base of over 3M as well as over 125,000 paying customers. Mgmt. estimates a TAM of ~$72B, which could grow to ~$100B by 2024 with Cloudflare One and bundling opportunities. 5G, IoT, Workers and the consumer, which are relatively nascent, could point to a larger TAM. Mgmt. indicated that global web traffic relying on its network is increasing by ~1% every quarter, and has set out an ambitious goal of covering up to ~25% of the Internet in three years. In the most recent quarter revenue growth accelerated to 53% and we think growth can remain durable for several years, with significant FCF margin expansion potential.

We are particularly bullish on two products: 1) Cloudflare Workers: Think of this as a PaaS for edge computing. Over 10% of Cloudflare traffic is Workers, which allows developers to deploy their own code on the Cloudflare edge for faster responses at lower costs. 2) Cloudflare for Teams: Provides enterprise grade security solutions including secure application access in a Zero Trust setting, a trend we think accelerates due to COVID as traditional network security breaks down.

Valuation

We calculate our price target of $220 by applying a 65x EV/S multiple on our CY/23 revenue estimate (previously used 41x EV/S multiple to our CY/22 estimate). This multiple is a premium to peers. We believe our price target and multiple are warranted due to an attractive growth opportunity, potential to scale margins and potential for upside to expectations balanced with an above-peer valuation. Our price target supports our Outperform rating.

Risks to rating and price target

- Operates in a market with competition from larger legacy competitors and new entrants.
- Activities of paying or free customers could subject the company to scrutiny or potential liability.
- A data, network or system outage could have an adverse impact on financials or reputation. On July 2, 2019, the company suffered an outage of approximately 30 minutes that decreased traffic by up to 82% but was quickly remedied.
- COVID-19 could impact company operations or customer demand.

Investment summary

Bullish on the opportunity: Cloudflare's mission is to "help to build a better Internet." To do so, the company offers a multi-tenant, cloud-based SaaS platform with an easy-to-use, scalable unified control plane for the delivery of security, performance and reliability solutions for business-critical applications and web properties. Solutions are delivered through an interconnected global network of commodity hardware/proprietary software points of presence. This network is optimized for Cloudflare's solutions, supports a significant cost-effective free-tier of service and enables third-party developers to build serverless applications that scale globally without needing to spend time and effort on infrastructure or operations. The secret sauce of the network is that every commodity server in every city runs the entire Cloudflare code stack. Because of this, they don't have to think about putting certain features in certain regions, but importantly push out all new code or features across their entire network, which provides a significant competitive advantage and also allows them to profitably scale as they grow. The network interconnects with over 8,000 enterprise, cloud services and ISP networks and the company estimates it operates within 100 milliseconds of the Internet-connected population for 99% of the developed world and 94% globally.

Potential growth catalysts:

- Extension of the serverless platform strategy such as the opportunity around Workers that leverages the platform to outside developers and could result in additional applications coming to market.
- Additional traction of Cloudflare Access, which supports "Zero Trust Security."
- 75% of enterprise customers have +4 products out of +20 products and the company is growing their $100K customers faster than overall customer growth. Additional product attach could provide upside to estimates.

CrowdStrike Holdings, Inc. (NASDAQ: CRWD)

RBC Capital Markets, LLC
Matthew Hedberg (Analyst), (612) 313-1293, matthew.hedberg@rbccm.com

Rating: Outperform **Closing Price: USD 269.78**
Price Target: USD 315.00

RBC Imagine™ long-term idea thesis

We believe CrowdStrike is well positioned to consolidate security spending with a cloud first and only model that is expanding beyond protecting laptops and desktops and beyond AV into other areas such as VM, observability as well as protecting cloud-based workload, something legacy AV vendors simply can't do.

At their recent analyst day, management illustrated a path to $3B or more in ARR by FY/25, or an organic +30% CAGR vs. $1B in FY/21. Beyond that, the company views $10B in ARR as the next goal, though it didn't discuss a timeframe. Driving this outlook is a $36B TAM today that could reach $106B by FY/25, supported by ~900M global PCs, ~6B mobile devices, ~70M physical servers, and ~10B IoT devices. Additionally management noted a FY/25 OM target of 20-22%, and FCF margins +30%.

We like CrowdStrike's opportunity to expand its customer base from 10K today to several hundred thousand as well as the ability to significantly increase the number of modules used from 4.3 per customer as of FY/21 out of a total of 21 modules offered by the company. As the company continues to introduce new modules, they can be cross-sold at virtually no cost, thus improving growth and profitably.

In their most recent quarter, ARR grew 70% to nearly $1.3 billion while also generating $74 million of FCF, and we see potential for durable growth at scale with expanding profitability. This results in a Rule of 40 score of 92 (ARR growth + FCF margin) at scale. We believe COIVD accelerated trends already in place including cloud workload migration as security transformations are often a precursor to digital transformations.

Valuation

To derive our $315 price target, we apply a 29.9x EV/S multiple to CY/23E revenue of $2,526M, which is roughly in line with leading growth security peers, in our view reasonable given that our growth outlook is likely biased higher. Our price target supports an Outperform rating.

Risks to rating and price target

CrowdStrike operates in a market with competition from larger legacy competitors, like Symantec, as well as newer entrants. Potential pricing pressure given the crowded nature of the market. CrowdStrike operates a land-and-expand model; failure to retain existing customers could be a detriment. CrowdStrike has experienced rapid growth; failure to manage growth/expectations could cause operational challenges. COVID-19 could impact company operations or customer demand.

Investment summary

CrowdStrike was founded in 2011 with a mission of reinventing security for the cloud era. Co-founder George Kurtz previously worked at a gen-1 AV endpoint vendor and was motivated to build CrowdStrike after realizing that legacy security technology was incapable of protecting customers against modern attacks within a hybrid-cloud architecture. The company developed a differentiated cloud-native security platform that leverages its lightweight intelligent agent and Threat Graph database across a multi-module portfolio of solutions. The company and its customers benefit from the network effect, as each additional endpoint added to the platform expands the crowd-sourced database, which in turn improves the quality of the algorithms.

We view CrowdStrike as a prime land-and-expand model benefiting from SaaS delivery and ability to rapidly add more modules with no extra configuration or consulting needed. The long-term power of the install base should lead to strong net expansion rates as the company cross-sells additional seats (endpoints) and modules.

Potential catalysts

Ability to maintain net expansion rates by selling additional products into its growing customer base and maintaining low churn rates. New product introduction and/or traction from recently introduced modules; specifically Cloud Workload protection. Accelerated customer additions leveraging its multi-pronged, go-to-market approach. Accelerated share-shift from legacy vendors. Faster-than-expected progression toward profitability driven by top-line success.

Delivery Hero (XETRA: DHER)

RBC Europe Limited
Sherri Malek (Analyst), +44 0 20 7653 4510, sherri.malek@rbccm.com

Rating: Outperform **Closing Price: EUR 128.20**
Price Target: EUR 150.00

RBC Imagine™ long-term idea thesis

We view Delivery Hero as a structural best idea in an attractive industry, benefiting from an acceleration in online food delivery demand and its large-scale investments to cement leadership in key markets. We believe the best-positioned companies in this space will be those that offer the best proposition to consumers through achieving industry leading unit economics. Scale, customer centricity & technology are key to this, which justifies the company's high level of spending in marketing and logistics, in our view. Delivery Hero continues to innovate in new verticals, including quick commerce, putting it on the front foot relative to its peers and is well positioned to meet customer needs as we spend more time living and working at home.

Valuation

We use a DCF analysis to derive our price target of €150. We model a 10-year CAGR (FY20-30E) in sales of 30% and terminal EBIT margin of 13%. We apply a WACC of 8.8% and terminal growth rate of 2.5%, after extending our DCF by 10 years, over which we apply 5% annual growth in FCF. The implied return to our price target supports our Outperform rating.

Risks to rating and price target

The key downside risk to our view is a more intense competitive landscape. Delivery Hero's customer acquisition may be lower than we project or the battle for market share, particularly in Asia, may be more costly than we anticipate. Earnings volatility is a risk due to the early stage of growth for Delivery Hero's markets and management's dynamic investment strategy. The sale of Yogiyo, as required by the regulators for the approval of the Woowa acquisition, may create new competitive pressures, impacting the growth and margin potential in Korea. Also, demand post the pandemic may be lower we anticipate or online penetration may develop more slowly than expected.

Investment summary

Our positive view on Delivery Hero is based on its large and attractive revenue opportunity and our confidence in the route to profitability. We view Delivery Hero as a structural winner in an attractive industry, benefiting from an acceleration in online food delivery demand and its large-scale investments to cement leadership in key markets. We believe revenue momentum can continue to surprise on the upside, at the expense of short-term profitability.

Our research has shown that Delivery Hero is succeeding in its battle for market share, including in Asia—its most competitive region, and largest opportunity. In Asia (now 50% of Group revenue), Delivery Hero's Foodpanda brand continues to expand and outperform its competitors in all markets, including Grab. The company has maintained its market leadership in MENA and in the Americas, DHER is outperforming Rappi and Uber Eats. Meanwhile, DHER's momentum in Europe remains strong.

We forecast a 10-year revenue CAGR of 30%—among the highest in our coverage—largely driven by order growth, which we derive from customer acquisition x order frequency. MENA, Asia and Americas are particularly attractive markets because of the remarkably high order frequency, which we estimate at 7x, 3x and 2x that of Europe (at 12x per year). Our revenue and profit estimates are then derived from our regional unit economic model.

We expect DHER's cash flow generation to turn positive in FY24 with the potential to generate >€1bn of FCF by FY26.

Flywire Corporation (NASDAQ: FLYW)

RBC Capital Markets, LLC
Daniel R. Perlin (Analyst), (410) 625-6130, daniel.perlin@rbccm.com

Rating: Outperform **Closing Price: USD 44.00**
Price Target: USD 51.00

RBC Imagine™ long-term idea thesis

Flywire targets high-value payments in specialized industries (e.g. education, healthcare, travel, and B2B), many of which are still limited by complex, inefficient legacy payment infrastructures. Its point of differentiation is Flywire Advantage, consisting of 3 inter-related core elements: (1) a next-gen payment platform, (2) a proprietary global payment network, and (3) vertical-specific software. Flywire's payment platform facilitates payments across multiple currencies, payment types, and options, and is deeply integrated into clients' apps and workflows. The company focuses on larger, complex payments and the majority of its payment volume is not card-related and settled over Flywire's own global proprietary payment network, which it has built over a decade and addresses the disparate nature of legacy payment infrastructure.

The company, furthermore, leverages deep industry expertise to develop a comprehensive view of its clients' complex business challenges and tailors its software to meet clients' unique payment and A/R needs. Key features of the software include: (1) vertical-specific workflow (automate A/R through to the ERP system), (2) real-time access (track payment flows and invoice status in real-time), and (3) predictive analytics (determine the appropriate pricing and payment plans in particular in healthcare). While most providers only offer one or two of Flywire's capabilities, we believe the company's approach better addresses the various pain points of more traditional models, such as (1) lack of visibility, (2) fees, (3) slow speed, (4) lack of liquidity, and (5) data loss.

Valuation

Our price target of $51 is based on an EV/revenue multiple of 25x our CY22 revenue estimate of $223M. This target is in line with the company's peers and reflective of the company's anticipated 30%+ long-term revenue growth CAGR and achieving consistent EBITDA profitability in FY23. The implied upside supports our Outperform rating.

Risks to rating and price target

We believe there are three broad risk categories: 1) macro-economic risks; 2) regulatory & compliance risks; and 3) competitive risks including pricing and technological changes.

In terms of specific risks, we note that since inception, Flywire has incurred net losses from operations and despite significant revenue growth in recent periods, it is uncertain whether the company will obtain high enough volumes to sustain / increase growth or achieve / maintain profitability in the future. The company's key verticals, furthermore, are highly competitive and regulated while evolving rapidly. Finally, a group of major shareholders control a significant portion of FLYW's voting and economic rights.

Investment summary

We believe Flywire is uniquely positioned to solve various payment friction points embedded in its key verticals, which include education, healthcare, and travel. Growth in the company's end markets, high retention rates, market share gains, new products and expansion into additional verticals should support 30%+ revenue CAGR over the next three years. While the company is currently investing in the business to support this revenue growth, we believe it will turn adjusted EBITDA positive in FY23 and long-term adjusted EBITDA margins could approach 25%+ with the revenue CAGR remaining ~30%. We believe FLYW's success will be underpinned by several attributes, which in our opinion include 1) its focus on large and unique addressable markets, 2) Flywire Advantage, its technology platform, setting itself apart from the peers resulting in high retention rates and new client wins, 3) the competitive moat provided by FLYW's proprietary global payment network (over a decade to build) and vertical-specific software, and 4) the potential call option the company has as it expands into B2B payments.

Meta Platforms, Inc. (NASDAQ: FB)

RBC Capital Markets, LLC
Brad Erickson (Analyst), (503) 830-9488, brad.erickson@rbccm.com

Rating: Outperform **Closing Price: USD 340.77**
Price Target: USD 415.00

RBC Imagine™ long-term idea thesis

We fully subscribe to the adage in social media that those with the most 1P data tend to win and this is never more true than in the case of FB, in our view. We expect the company to fully recover from Apple's recent adverse, privacy-related software changes to continue driving best-in-class ROI in social media due to a durable data advantage. Given this advantage and our views of the next decade of rising E-commerce penetration, we expect FB to at least maintain share of that incremental digital ad spend as more companies shift their businesses online.

Finally, we like the company's identifying of its core call option in the Metaverse. While there are likely many more use cases than what may initially be allowed given a bevy of likely concerns around privacy, online behavior and even potential criminal activity, end markets that could drive meaningful Metaverse revenue will need to possess two key characteristics: 1) the digital experience for that activity needs to at least somewhat approach real life and 2) there needs to be some type of commercial activity attached to the activity. That said, FB's LT thesis makes sense to us in that to the degree that any meaningful Metaverse use-cases do gain a foothold, an incremental walled garden would start to form and would likely drive incremental ad spend channel evaluation from advertisers.

Valuation

The stock currently trades at a discount to the broader internet group and is largely a function of views around core market maturity and laws of large numbers. While this discount is likely to persist given the undeniable size of the core business, we believe the gap should maintain or narrow over time depending on the company's ability to demonstrate progress down-funnel with initiatives like commerce, payments and potentially other bottom-of-funnel initiatives. Our $415 PT justifies our Outperform rating.

Risks to rating and price target

Regulation, user privacy mandates either implemented by governmental agencies or competing ecosystem providers, competition from existing social platforms or potentially other large technology players, public perception that could lead to a decline in usage and a macroeconomic downturn.

Investment summary

In possessing both the largest user base as well as the deepest amount of knowledge (data) of that user base, we believe FB can compound 15-20%+ earnings growth for many years ahead largely if not entirely on the back of the company's core advertising business, which should continue benefiting from the core offline to online shift happening in advertising. Incrementally, we see potential for incremental growth and multiple expansion if and as the company reaches down-funnel to deepen the connection between users, advertisers and itself through its Facebook Shops offering in particular.

PayPal Holdings Inc. (NASDAQ: PYPL)

RBC Capital Markets, LLC
Daniel R. Perlin (Analyst), (410) 625-6130, daniel.perlin@rbccm.com

Rating: Outperform **Closing Price: USD 206.27**
Price Target: USD 298.00

RBC Imagine™ long-term idea thesis

PayPal is one of only a few global at scale two-sided markets, whereby they have relationships with both merchants and consumers directly. This unique market position enables the company to create a cohesive and reinforcing flywheel for its products and services to effectively drive the velocity of money movement inside its ecosystem, thus creating multiple monetization opportunities. More specifically, PYPL is tethered to long-term secular themes such as Buy Now, Pay Later, commerce enablement (in both the ecommerce and physical world), the ability to buy, sell, hold, and transact in crypto currencies, and is creating a global partnership network which expands the company's reach into emerging economies.

As PYPL continues to become a more prolific deposit gatherer, we believe additional financial services, everyday use cases, and cash conversion onramps will develop, enabling PYPL to achieve its long-term ambition of democratizing finance, while creating a global commerce platform.

Valuation

Our price target of $298 is ~55x our CY22 adj. EPS estimate and supports our Outperform rating. As PYPL continues to expand its partnership structure with financial institutions and technology companies, which were once thought to be competitors, we believe the company's growth, visibility, and sustainability will support higher valuation multiples. In addition, we believe PYPL should trade more in line with its fundamental peers (more tech and internet related).

Risks to rating and price target

We believe there are four broad impediments to achieving our rating and price target: 1) accelerated decline in the company's take rate beyond what has been contemplated; 2) increasing competition in the global payments landscape pressuring PayPal's leadership position; 3) unexpected regulation, especially if it slows growth or precludes PYPL from certain operations; and 4) macroeconomic factors, including a protracted recovery related to COVID-19.

Investment summary

PayPal's unique assets enable the company to tap into the long-term global shift to digital commerce. By offering an open global payment platform that is both merchant- and consumer-centric, we believe PayPal's above peer growth rates should be sustainable and could accelerate with incremental capital deployment given its strong cash position (none of which appears to be contemplated in current estimates).

Our positive thesis is predicated on the following five points: (1) Compelling long-term market opportunity in digital commerce; (2) Leading global position in ecommerce payments; (3) Accelerating growth via growing shift to digital; (4) Margin expansion from funding mix and operating scale; and (5) The "secret sauce" of increased monetization with areas such as Venmo and its upcoming new app refresh.

Potential catalysts

We believe that there are three main near-term catalysts for the stock price: 1) capital deployment for M&A could accelerate top-line growth; 2) enhanced growth from an accelerated shift in mobile adoption; and 3) new partnerships with key industry incumbents.

Pro Medicus Limited (ASX: PME)

Royal Bank of Canada, Sydney Branch
Garry Sherriff (Analyst), +61 2 9033 3022, garry.sherriff@rbccm.com

Rating: Outperform **Closing Price: AUD 61.67**
Price Target: AUD60.00

RBC Imagine™ long-term idea thesis

Pro Medicus (PME) is one of the highest quality medical software providers globally, with unique proprietary technology enabling hospitals to stream medical images, regardless of size or type (2D or 3D images) between sites within a hospital network on demand, anywhere, anytime. PME's flagship Visage software is deployed across +20 major tier 1 and academic hospitals across the US, including the Mayo Clinic, Yale, NYU Langone, Duke, Northwestern, Partners etc. PME's software is FDA approved enabling clinicians to diagnose images remotely and currently has ~5% market share in the US with a large runway for growth. The software is used primarily in radiology departments however we believe PME is close to deploying into other hospital departments such as Cardiology, Ophthalmology, Pathology over time. The speed of PME's technology means radiologists are able to diagnose images faster than competing software, providing economic and efficiency benefits to hospitals (more images diagnosed, more procedures undertaken) and beneficial healthcare outcomes for patients. PME's software is also the only player globally deploying its software via the cloud at scale with no change to speed of image delivery. Pro Medicus has pushed the innovation envelope and has recently received FDA approval to use its AI algorithms for breast image diagnosis. PME has strong industry partnerships with key academic hospitals and are collaborating on future AI algorithms to bring to market. We believe the likely proliferation of photos and videos for the electronic medical record (mandated in the US), is likely to see PME's software become more ubiquitous over the short, medium and long term.

Valuation

Our A$60.00/share price target is derived from our DCF valuation (rounded), rolled by the cost of equity, less any forecast dividends over the coming 12 months. Our base-case assumptions include: Cash flow forecasts to FY29; 8.3% cost of equity; terminal value is a blended average of perpetuity growth method (4.0%) and EV/EBIT multiple (30.0x). Our price target supports our Sector Perform rating.

Risks to rating and price target

Lower-than-forecast contract wins; lower upside transaction revenue due to COVID non-essential imaging delays; implementation delays; contract losses; loss of key management; increased competition; technology risk; foreign exchange risk; and acquisition risk.

Investment summary

Overview. PME is a medical software company with sales split across North America (~70%), Australia (~20%) and Europe (~10%).

Product Leadership. PME's core product, Visage, is a medical-image streaming software for hospitals and radiology clinics. Medical images are streamed instantly on demand to workstations and mobile devices for diagnosis. Visage accounts for ~85% of group sales.

Long-term, Underwritten, Recurring Revenue. Contracts are typically 5-7-year duration with guaranteed minimum values paid on a quarterly basis. PME receives upside payments on top of minimums, if image volumes created are higher than the hospital budgets.

High-Quality Customer List. Growing customer list of well-known hospital networks in North America including Mayo Clinic, Partners Healthcare (including Massachusetts General Hospital), Yale Health, Sutter, Allegheny, Duke, Northwestern and Wellspan.

Potential catalysts

- New contract wins
- New products
- Acquisitions
- Capital management - buybacks, special divs
- Partial sell-down to assist with liquidity

S&P Global, Inc. (NYSE: SPGI)

RBC Capital Markets, LLC
Ashish Sabadra (Analyst), (415) 633-8659, ashish.sabadra@rbccm.com

Rating: Outperform **Closing Price: USD 465.50**
Price Target: USD 495.00

RBC Imagine™ long-term idea thesis

S&P Global is a market-leading mega-cap Information Service provider currently on the cusp of a transformative acquisition of IHS Markit (INFO). Cloud along with Artificial Intelligence/Machine Learning are accelerating the secular demand for data which should further propel SPGI growth given the complimentary S&P and INFO's Data Lake containing thousands of differentiated datasets spanning multiple industries, strong distribution platform (CapIQ Pro), and leading AI/ML capabilities (Kensho). SPGI's Sustainable1 is a broad ESG information offering which combines its product suite of sustainability benchmarking, analytics, evaluations, and indices and we expect ESG offerings could exceed $1bn in revenues over next 5+ years. SPGI's leading S&P Dow Jones indices should benefit from the secular trends towards passive flows as well as ESG. SPGI's market leadership in ratings should benefit from secular disintermediation of bank loans as well as demand for green bonds and sustainability-linked bonds. Separately, we expect the company to expand margins by ~1000bps over the next 5 years and buy back ~10% of the company in next 4-5 years as well.

Valuation

Our price target of $495, which supports our Outperform rating, is based on ~30x FY23E P/E, a premium to the 2-year average of 28x given the acceleration in revenue and earnings growth as well as improved strategic positioning from the INFO acquisition.

Risks to rating and price target

Risks to rating and price target include 1) a significant decline in credit issuance, 2) increased competition for market data, 3) slowdown in demand for Platts, 4) challenges in integrating acquisitions, and 5) decline in AUM linked to SPGI indices

Investment summary

Strategic INFO acquisition, expected to close in 1Q22, should accelerate normalized revenue growth profile and deliver double-digit earnings growth driven by upside to revenue and cost synergies as well as accelerated share repurchase post-close. Cloud and AI/ML should enable the generation of insights from disparate data assets and distribution at scale. The transformative acquisition should propel SPGI's ESG offerings and private company offerings. We see near-term catalysts of updated synergy guidance, the resumption of buybacks and deal updates, and potential divestiture of OPIS.

Capital Markets

Shopify Inc. (NYSE: SHOP)

RBC Dominion Securities Inc.
Paul Treiber (Analyst), (416) 842-7811, paul.treiber@rbccmcom

Rating: Outperform | **Closing Price: USD 1,637.81**
Price Target: USD 1,800.00

RBC Imagine™ long-term idea thesis

We believe that Shopify is a structural best idea. The company is the leading provider of a multi-channel commerce platform. While Shopify's growth has been accelerated by the shift to e-commerce from COVID-19 lockdowns, we believe Shopify's momentum is structural and sustainable. First, Shopify is aligned with emerging D2C (direct to consumer) brands, which are increasingly taking share from incumbents, both online and offline (i.e. bricks-and-mortar). Second, Shopify has a long-term opportunity to capture an increasingly larger portion of economics as it launches new value-added services such as fulfillment. Third, Shopify's model is scalable, given its multi-tenant cloud architecture, accelerating traction with partners (e.g. Facebook, Wal-Mart, etc.), new consumer-facing apps (e.g. SHOP Pay, SHOP app) and its large underpenetrated ~$800B TAM.

Valuation

Our $1,800 price target is based on a blend of 35x EV/Sales and 66x EV/GP on our 2022 estimates. We believe our target EV/GP and EV/S valuation multiples are justified above the peer group given Shopify's faster growth and stronger platform. Our target multiples reflect the expected benefit from the structural shift to Online Commerce from COVID. We believe that our estimates—48% 2-year revenue CAGR and 48% 2-year gross profit CAGR between 2020 and 2022—justify these multiples. Our price target supports our Outperform rating.

Risks to rating and price target

New competition: We note that there are many angles of competition including other pure-play commerce platforms, website builder/hosting companies, and potentially large internet assets that are in some cases partners to Shopify.

High churn rate across SMBs: Although Shopify has driven higher recurring revenue per merchant to offset churn, we believe that unit churn is high within the business due to the SMB nature of the customer base. As the base grows, merchant growth will be harder to sustain given the churn effect on the base.

Gross margin pressure: Payment revenue is likely to grow more quickly than subscriptions for the near future, resulting in pressure on gross margins due to mix.

Reopening risk: While the pandemic is benefiting Shopify from the acceleration to Online, the company may face material headwinds as it laps tougher comps and consumers resume some in-person shopping.

Investment summary

Shopify provides a leading multichannel operating system for SMB commerce, with product and vision driving differentiation in a crowded space. Shopify has a number of catalysts that we expect to help accelerate revenue growth and expand the company's long-term total addressable market, including the Shopify Fulfillment Network (SFN), Shopify Capital, next-generation Point-of-Sale (POS), and international expansion, among others.

Potential catalysts

Shopify is a key beneficiary of the transition to e-commerce: We estimate Shopify has reached 1.9M+ merchants on its platform, which is more than 5x the 325k merchants in 2016. The transition from physical retail to e-commerce, adoption by larger brands and international expansion are helping fuel rapid growth in the GMV on Shopify. Our outlook calls for Shopify's GMV to rise from $120B FY20 to $310B by FY23.

GMV take rate could increase with the addition of new merchant solutions: The launch of the Shopify Fulfillment Network (SFN), expansion of Shopify Capital, and other new merchant solutions are likely to help increase Shopify's take rate for merchant solutions revenue. Our outlook calls for Shopify's take rate to expand from 1.69% FY20 to 2.12% by FY23.

Operating leverage: Shopify has only started to realize operating leverage. We believe upside to revenue could drive a faster path to higher operating profits and increased FCF.

TELUS Corporation (TSE: T)

RBC Dominion Securities Inc.
Drew McReynolds (Analyst), (416) 842-7811, drew.mcreynolds@rbccm.com

Rating: Outperform **Closing Price: CAD 28.89**
Price Target: CAD 32.00

RBC Imagine™ long-term idea thesis

We believe TELUS is "well ahead of the curve " establishing by any global standard leadership positions among telecom peers in fiber-to-the-home coverage, wireless network quality, verticalization in key industries such as digital customer experience (TELUS International), healthcare (TELUS Healthcare) and agriculture (TELUS Agriculture), and ESG. As a result, we believe TELUS has the potential to be a key value chain partner in 5G-driven IoT and B2C and B2B data platforms that leverage AI, VR, AR and MR. Furthermore, given the company's unique asset mix and under certain operational and regulatory conditions, we see strong strategic and financial rationale for TELUS to explore a transformational re-organization that can fully unlock the value of the company's core infrastructure assets and core technology assets – which would be a first for a telecom operator in Canada.

Valuation

The implied total return to our $32 price target supports our Outperform rating. To derive our target, we take the average of three approaches: (i) applying a 22.0x multiple to our blended two-year forward adjusted EPS estimates; (ii) applying a target EV/EBITDA multiple of 8.5x to our blended two-year forward EBITDA estimates for TELUS Technology Solutions and factoring in our one-year target for TELUS International; and (iii) discounted FCF through 2025E factoring in a WACC of 8.0% and a terminal growth rate of 1.75%. We believe our target multiples are consistent with the company's growth and risk profile relative to Canadian peers, and a low interest rate environment.

Risks to rating and price target

Risks to the shares reaching our one-year price target and Outperform rating are: (i) unforeseen direct and indirect COVID-19 impacts; (ii) a sustained increase in wireless competition and/or unexpected change in regulation resulting in higher churn and/or accelerated declines in postpaid ARPU; (iii) inability to realize additional cost savings to improve wireline margins; (iv) higher than forecast spectrum outlays; (v) emergence of irrational pricing in residential telephony, television, and/or Internet; and/or (vi) higher interest rates and/or a reversal in fund flows out of the sector.

Investment summary

In our view, no other company in our coverage has as many potential sources of upside to our NAV as TELUS does. We believe the key strategic benefit of the $1.5B of accelerated investment in 2021 and 2022 is an even stronger competitive position: (i) broader FTTH coverage, increasing from ~80% of the long-standing targeted FTTN footprint currently to ~90% by the end of 2022; (ii) a substantial portion of the wireline customer base on FTTH by the end of 2022 with positive implications for product intensity and churn reduction; and (iii) enhanced capex flexibility beginning in 2023 given substantial completion of the FTTH build, which should enable TELUS to capitalize on new 5G growth opportunities without meaningful capital constraints, opportunity costs, or FCF impairment. Relative to our current forecast, we see multiple sources of potential NAV upside including: (i) incremental cost-savings associated with FTTH migration and copper de-commissioning; (ii) additional wireline margin expansion driven by Internet flow-through, cloud-migration, and/or improved B2B/TELUS Agriculture profitability; and (iii) the crystallization of TELUS Health and TELUS Agriculture. Longer-term, given the company's unique asset mix and under certain operational and regulatory conditions, we see strong strategic and financial rationale for TELUS to explore a transformational re-organization that can fully unlock the value of the company's core infrastructure assets and growing technology assets.

Potential catalysts for the stock

- Greater-than-expected wireline subscriber traction driven by FTTH expansion
- Better-than-expected efficiencies and operating leverage resulting in higher margins
- An easing of Alberta headwinds resulting in improved business market performance
- Stronger-than-expected improvement in wireless ARPU growth
- Greater-than-expected step-down in consolidated capex intensity over the medium term

Twilio Inc. (NYSE: TWLO)

RBC Capital Markets, LLC
Rishi Jaluria (Analyst), (415) 633-8798, rishi.jaluria@rbccm.com

Rating: Outperform | **Closing Price: USD 302.78**
Price Target: USD 450.00

RBC Imagine™ long-term idea thesis

Technology is becoming table stakes, as all brands must be digitally-enabled to survive (yet another trend accelerated by the pandemic) and we see communication as central to this digital transformation. We see Twilio as serving as the central layer, allowing businesses to communicate with their customers and drive better outcomes, and like Twilio's continued move up the stack into areas like marketing and contact center. Much like hyperscale cloud providers (AWS/Azure/GCP) serve as the infrastructure layer for modern companies, we see Twilio serving a similar role for the communications layer.

Valuation

Our $450 price target is based on 21x our CY22 EV/revenue estimate, a small premium to the peer group; we believe this is justified by the company's better-than-average growth profile. Our price target supports an Outperform rating.

Risks to rating and price target

Investment risks include: 1) Twilio operates in a competitive environment, with pricing pressure; 2) a dual class share structure, with Class B shares controlling a majority of voting power; 3) Twilio has become increasingly acquisitive, which could distract from the core business; 4) Twilio is dependent on local carriers; 5) customer concentration, with the top ten customers accounting for 12% of revenue; and 6) international risk, with non-US representing ~30% of total revenue.

Investment summary

Twilio is a leading provider of CPaaS (communications platform as a service) solutions, including text, voice, video, and email. We like Twilio for four primary reasons:

Communications are at the center of digital experiences. With the pandemic accelerating digital transformation, every company is increasingly realizing technology is tablestakes, serving as a strong tailwind to Twilio. We believe Twilio plays a crucial role in allowing companies to communicate with customers across all channels.

Unique developer focus. We continue to subscribe to the adage that "software is eating the world", but increasingly, APIs are eating software. Twilio's developer focus has enabled it to grow rather efficiently and created multiple growth vectors. Our due diligence suggests Twilio's solutions are not only viewed positively by developers, but also are increasingly ubiquitous at technology-forward companies.

Attractive expansion opportunities, particularly "up the stack." Much as AWS has grown into a massive software company by expanding beyond core storage and compute and moving "up the stack" into areas like database and data warehousing, Twilio continues to expand beyond core text and voice, including video, CCaaS, and marketing. We are also rather positive on Twilio's recent acquisition of Segment, supported by our due diligence, as it meaningfully expands Twilio's market opportunity while building on the core developer adoption that has served Twilio since its founding.

Rapid growth at scale. Twilio remains one of the fastest-growing companies in software, with ~50% organic growth, driven by best-in-class net expansion rates, cross-sell, and new use cases. Perhaps more impressively, this growth is happening at impressive scale with Twilio growing ~50% at ~$2.4B in ARR.

Veeva Systems Inc. (NYSE: VEEV)

RBC Capital Markets, LLC
Rishi Jaluria (Analyst), (415) 633-8798, rishi.jaluria@rbccm.com

Rating: Outperform **Closing Price: USD 315.15**
Price Target: USD 400.00

RBC Imagine™ long-term idea thesis

Veeva is the gold standard for vertical software companies, in our view, as it has continued to significantly grow its TAM, expanding from commercial into R&D, as well as grow meaningfully within its largest customers. We see a combination of near, medium, and long-term growth drivers for Veeva, ranging from capturing patient data during clinical trials to creating true digital trials to expanding its best-in-class regulated content management platform to other regulated industries outside of life sciences. We believe the need for digital transformation in life sciences has only been accelerated by the pandemic and Veeva helps pharmaceutical companies speed up the time drugs move from ideation to development to approval to selling.

Valuation

Our $400 price target is based on applying a 71x EV/FCF multiple to our CY22 FCF estimate, a premium to the peer group median which we feel is warranted considering Veeva's leading blend of growth and margins, runway for future growth, and competitive positioning. Our price target supports an Outperform rating on the stock.

Risks to rating and price target

Investment risks include: 1) Customer concentration, with the top 10 customers representing 36% of revenue; 2) international risk, with non-US revenue representing ~40% of total revenue; 3) CRM remains a significant part of the business at ~45% of total revenue (according to our estimates); 4) competition, including from vertical and horizontal software vendors; and 5) Veeva has a dual class share structure, with Class B shares holding ~52% voting power which limits the ability of investors to effect change at Veeva.

Investment summary

We like shares of Veeva for four primary reasons:

Veeva's domain expertise and deep customer relationships have created a market leadership position and a sustainable economic moat, limiting the threat of competition. As a result, Veeva has one of the highest average revenues per customer in software (~$1.6M last year).

We see multiple growth drivers for Veeva to maintain 20%+ subscription growth, including CDMS, Data Cloud, and Vault OLS (outside of life sciences). We believe Veeva has a large TAM that will continue to grow with new products and that Vault, Veeva's content management platform, is a continued engine for innovation.

Veeva's financial model is best-in-class, with a leading blend of growth and profitability. Veeva continues to show 20%+ organic subscription growth, while also seeing FCF margins approach 40% (which places Veeva in rare territory among SaaS companies), making Veeva a consistent "Rule of 40" company. This is the result of Veeva's product-led growth, fiscal discipline, and its unique GTM motion of the "Veeva Way", which involves slowly driving adoption through reference selling.

The life sciences market is attractive, as it is a defensive industry that is also rather profitable (pharmaceutical companies have software-like gross margins of 70%+) and technology-forward (with the pandemic accelerating digital transformation initiatives). One key feature of life sciences is the industry is more collaborative than others, which makes reference selling a key part of the GTM model. In addition, Veeva's blue chip customer base spans almost all the top pharmaceutical companies, including household names like Pfizer, Moderna, Johnson & Johnson, AstraZeneca, and Regeneron.

Verizon Communications Inc. (NYSE: VZ)

RBC Capital Markets, LLC
Kutgun Maral (Analyst), (212) 437-9151, kutgun.maral@rbccm.com

Rating: Sector Perform | **Closing Price: USD 51.73**

Price Target: USD 57.00

RBC Imagine™ long-term idea thesis

We believe Verizon is very well-positioned to amplify and accelerate its opportunity with 5G given its long track record of execution on network leadership as well as its competitive position in low- and mid-band spectrum and a leading level of millimeter wave holdings. We expect Verizon to play an integral role in enabling the countless use cases in the future with improved connectivity, and see it as being at the very early stages of executing against its five vectors of growth with 5G, including improving 5G adoption, network monetization, next-gen B2B applications, customer differentiation, and opening up new markets.

Consumer opportunities beyond wireless include scaling its fixed wireless product on a nationwide basis, with household coverage set to grow from 15mm by YE-2021 to 50mm exiting 2025. Further, more so than peers, Verizon has also been actively investing in a strong B2B position, with a focus on growing its leading share in wireless, expanding its 5G Business Internet offering, and playing a key role in the evolving Mobile Edge Compute market. Management sees Mobile Edge Compute as representing a +$30bn addressable opportunity by 2025, including ~$10bn in the U.S. edge compute market (public and private), ~$10bn in the global private networks market, and ~$12bn in the U.S. enterprise solutions market. While these opportunities are relatively nascent today, we believe they can help sustain, if not accelerate, Verizon's growth.

Valuation

Our $57 price target is based on a five-year DCF (7.0% WACC and 8x terminal-year EBITDA multiple). The implied returns vs. our price target supports our Sector Perform rating.

Risks to rating and price target

The main risks to our rating and price target include macroeconomic pressures, heightened competitive pressures from cable or wireless operators, higher-than-expected costs associated with new initiatives, inability to achieve targeted cost efficiencies, or technical selling pressure in the aftermath of the Vodafone transaction.

Investment summary

Our Sector Perform rating reflects Verizon's (still) premier network position and solid dividend yield, offset by potentially rising competitive intensity in its wireless business following the Sprint/T-Mobile merger. We believe that the company's underlying wireless subscriber momentum and service revenue trajectory are improving and should benefit further from differentiated promotions (e.g., Disney+). The potential for increased promotional activity as carriers and cable MVNOs vie for share in a saturated market and the concomitant impact on wireless margins keep us on the sidelines.

Zoom Video Communications Inc. (NASDAQ: ZM)

RBC Capital Markets, LLC

Rishi Jaluria (Analyst), (415) 633-8798, rishi.jaluria@rbccm.com

Rating: Outperform | **Closing Price: USD 263.71**

Price Target: USD 450.00

RBC Imagine™ long-term idea thesis

We view Zoom as a generational software company and one that holds the key for enabling the hybrid future of work. We believe work has been irreversibly changed during the pandemic and that true hybrid work cannot work without video conferencing technology that works; Zoom has the best video conferencing technology based on its reliability, scalability, and ease-of-use. We also expect Zoom to evolve into the central hub for enterprise collaboration and communication, starting with video, but extending to telephony, chat, and email, among other areas.

Valuation

Our $450 price target is based on the stock trading at 27x CY22E EV/Revenue. This is a premium to the peer group, which we believe is warranted based on Zoom's financial profile and market opportunity. Our price target supports our Outperform rating.

Risks to rating and price target

Investment risks include: 1) competition, especially from Microsoft, Google, and Cisco; 2) COVID-19 tailwinds may not be sustainable and could be temporary; 3) dual-class share structure, with publicly traded Class A shares only holding ~29% voting power; 4) international risk, with non-Americas revenue representing 31% of total revenue in FY21; and 5) a significant portion of Zoom's R&D is in China, which may expose Zoom to political risk.

Investment summary

Zoom will remain important and relevant in a post-pandemic world. We expect that the future of work will likely be hybrid and believe Zoom will be a critical component to enabling that hybrid future. In fact, we would argue that hybrid and distributed work is a tougher problem to solve than all employees working remote, as meetings will happen across devices (e.g. laptops, mobile phones, hardware meeting rooms). While we buy the argument that Zoom's "prosumer" business (10 or fewer employees) will likely remain flat or even shrink this year with reopenings, the "enterprise" segment should continue seeing rapid growth, especially given how underpenetrated Zoom is in the Global 2000 today, and a potential replacement cycle from office reopenings.

Differentiated technology. While we hesitate to be dismissive of competition, especially from giants like Microsoft and Google, the fact is Zoom's video conferencing is meaningfully differentiated, in our view. Having used all major solutions extensively (and supported by our due diligence), Zoom is differentiated on its reliability, scalability, and ease-of-use. We believe this differentiation and the critical nature of video conferencing will be enough to hold off "good enough" competition, particularly from Microsoft Teams.

The coming platform expansion. Zoom has already shown its ability to expand beyond video conferencing, with strong traction for Zoom Phone (the company's UCaaS offering). We expect Zoom to grow into a broader enterprise communication and collaboration platform, with potential expansions into real-time messaging and email, as well as expanding out the platform and marketplace functionality, allowing other software companies to leverage Zoom's best-in-class video technology for their own applications. In July 2021, Zoom announced that it is acquiring cloud-based contact center software provider Five9.

Attractive long-term financial profile. Putting aside Zoom's otherworldly FY21 numbers, we see a long runway of 20%+ growth and potential for sustainable 40%+ FCF margins (a feat very few SaaS companies have achieved), given the strong sales efficiencies and high gross margins.

Healthcare

Abcam PLC (LSE: ABC)

RBC Europe Limited
Charles Weston (Analyst), +44 20 7429 8425, charles.weston@rbccm.com

Rating: Outperform | **Closing Price: GBp 1,694.00**
Price Target: GBp 1,640.00

RBC Imagine™ long-term idea thesis

Abcam is a leader in the growing life science research market, with specific expertise in research antibody development. The life science market continues to grow with increased funding from governments and increasing investments from the pharma/biotech sector. Within this, proteomics (study of proteins) is emerging as an area of key focus, with our improving understanding of the human genome leading to ever more sophisticated understanding of biology (which will be increasingly important in improving human health quality and lifespan). Antibodies are the key tool for studying proteins. Abcam is the leader in this space, having taken share every year since it was founded, through digital innovations and superior technology IP. It is heavily reinvesting in leveraging its leadership position into other products sold to the same customer case, and driving growth into the midteens. Meanwhile we expect a new licensing arm to begin to drive further earnings growth over the next 5-15 years.

Valuation

Our weighted scenario analysis-based valuation looks at two outcomes: Revenue growing low-double digits pa, with a subsequent 32x P/E multiple on our FY2022 EPS estimate, and accelerating growth that attracts a 45x multiple. We weight these scenarios at 40%:60%, and add £3/share for Abcam Inside. This implies a £16.40/share price target. Our $22.6 ADR price target is based on a $1.38/£ exchange rate. Our price target supports our Outperform rating.

Risks to rating and price target

COVID-19: COVID-19 has had a dramatic effect on earnings due to labs closing and restricting activity. Our forecasts for FY2021 are uncertain, and assume a smooth trend of recovery through FY2021. There are upside and downside risks to these estimates.

Qualitative commentary: With financial results so volatile, attention turns to qualitative commentary on strategic execution – organic developments most importantly, including development/manufacturing productivity and early demand for new product categories.

Abcam Inside: New disclosures of the three contributors to the CP&L revenue line add upside and downside risk on their individual performance.

Investment summary

Abcam is the market leader in the sale of antibodies (identification tools) for scientists conducting protein research. It gains market share through its investments in marketing and R&D, its strong position in recombinant rabbit monoclonal antibodies (RabMAbs), its leading position in China, and its continued expansion into adjacent markets (such as immunoassays). The company also develops antibodies as a bespoke service for diagnostic and pharma companies, from which it can also derive milestone and royalty income. Management guides to accelerating revenue growth over a 5-year period with margins contracting in FY2020 but rebounding by FY2024.

Potential catalysts

Acquisitions: Abcam has acquired proteomics assets from Expedeon, which are growing faster than the group. It has acquisition firepower of £300m and has appointed a new SVP of Corporate Development, who is helping the company become more active. Further meaningful deals could move the shares, although M&A is generally expensive in life science research.

Delivery of revenue acceleration: With Abcam investing significant sums to meet its strategic objectives, we have seen forecast earnings growth decline. This has impacted investor sentiment, but if organic revenue growth continues to show the acceleration seen in H1 F2021, with subsequent gross margin enhancement, this should be taken well by the market.

Abcam Inside: Our analysis indicates that there is substantial longer-term upside from Abcam Inside. If this revenue line begins to accelerate, or management becomes more explicit in describing the potential returns, this value could be reflected to a greater extent in the shares.

Genmab A/S (NASDAQ: GMAB)

RBC Capital Markets, LLC
Kennen MacKay (Analyst), (212) 905-5980, kennen.mackay@rbccm.com

Rating: Outperform **Closing Price: USD 42.59**
Price Target: USD 56.00

RBC Imagine™ long-term idea thesis

We see GMAB as a highly validated antibody/biologics engineering company with demonstrated potential to develop best-in-class blockbuster products. We are most impressed by GMAB's proprietary antibody technology, where its history of success differentiates it from competition and provides platform scarcity value, in our view. GMAB has a robust pipeline consisting of mAbs and BsAbs, which we view as a de-risked platform with high ceiling for success, given the company's previous successes. GMAB is also pioneering novel antibody technology such as "Next-Generation" HexaBody, DuoHexaBody, and HexElect antibody technologies, which signal long-term upside potential as these programs continue to advance through clinical trials to regulatory approval.

Valuation

Our DKK 3,550/sh (ADS US$56/sh) price target is derived from the NPV of cash flow generated from PoS-adjusted commercial product, pipeline, and royalty/milestones forecast through 2030. Our base case includes: 1) Darzalex 25–30% peak penetration in NDMM and 45–55% peak penetration in RRMM; 2) Darzalex 90% PoS (US/EU) in AL Amyloidosis; 3) Ofatumumab 95–100% PoS in RMS; 4) Tisotumab Vedotin 60–70%/100% (1L/2L+) PoS in cervical cancer and 30% PoS in ovarian cancer; 5) Epcoritamab 65% PoS in r/r NHL and 15% PoS in 1L NHL; and 6) Tepezza 100% PoS in US and 90% PoS in EU. Our price target supports our Outperform rating.

Risks to rating and price target

We expected limited impacts due to COVID-19 circumstances on GMAB's business operations, as the company's current commercial products target severe oncology or other disease patients who need active treatments. However, we see risks in clinical program development of some of the company's early-stage assets, such as Epcoritamab or GEN1046, as patient recruitment for these trials could be temporarily delayed or halted as COVID-19 cases increase. Additional risks to our price target and rating include pricing and commercial update risk for Darzalex in MM and Ofatumumab in RMS, and clinical development and regulatory risk for Tisotumab Vedotin.

Investment summary

We see GMAB as a highly validated antibody/ biologics engineering company with demonstrated potential to develop best-in-class blockbuster products. We are most impressed by GMAB's proprietary antibody technology, where its history of success differentiates it from competition and provides platform scarcity value. GMAB has a robust pipeline consisting of mAbs and BsAbs, which we see as compelling given GMAB's platform successes. GMAB is also pioneering novel antibody technology such as "Next-Generation" HexaBody, DuoHexaBody, and HexElect antibody technologies.

We see a high probability that Darzalex's move into 1L Multiple Myeloma (MM) across standards of care will dominate the market for years to come. With Dara setting to seek more penetration in the larger market of frontline (especially with label expansion to transplant-eligible patients) and recently approved subcu formula with a broad label, we see limited risks associated with the drug in MM market and royalties from this adding non-dilutive revenue to offset pipeline development spending.

Epcoritamab (DuoBody-CD3xCD20) is a major pipeline focus with new partnership collaborations with ABBV. GMAB gained a surprisingly large $750M USD upfront milestone (total milestones of $3.15B USD) in exchange for partnering partial rights to pipeline standout epcoritamab (DuoBody-CD3xCD20), and two deeper pipeline assets that have previously seen little investor attention: GMAB's DuoHexaBody-CD37 and DuoBody-CD3x5T4. Importantly, the epcoritamab deal is structured as a global co-development and co-commercialization program.

Tisotumab Vedotin (TV) could see a rapid path to market in cervical cancer with positive data from innovaTV204 trial.

Key upcoming potential catalysts: (i) early pipeline updates with focus on GEN1046 (DuoBody-PD-L1x4-1BB) expansion cohort data in solid tumors in 2021; and (ii) Epcoritamab development expansion with potential updated data in 2021.

Capital Markets

Intellia Therapeutics (NASDAQ: NTLA)

RBC Capital Markets, LLC
Luca Issi (Analyst), (212) 266-4089, luca.issi@rbccm.com

Rating: Outperform; Spec Risk **Closing Price: USD 134.40**
Price Target: USD 150.00

RBC Imagine™ long-term idea thesis

NTLA is pioneering the *in vivo* gene editing space which we think is the way forward for the entire field. *In vivo* gene editing can be performed directly inside the human body, and avoids use of toxic preconditioning regimens which are necessary for *ex vivo* (performed outside of the body) gene editing therapeutics. With positive interim data released earlier this summer, NTLA has shown that *in vivo* gene editing is not only possible, but can potentially perform better than standard of care and with limited safety issues. Beyond *in vivo* editing in the liver, NTLA is also developing a selective delivery system which would enable *in vivo* editing directly in the bone marrow, opening the door to a wider range of indications. We believe NTLA's wide range of gene editing tools (gene knockouts, gene knock-ins, base editing, and CART), will propel NTLA forward to develop effective and differentiated treatments vs competitors and widen its lead as the current market leader in the gene editing space.

Valuation

Our $150 price target is based on a DCF analysis that assumes a 10% WACC (same for all stocks in our coverage), 0% terminal growth rate (with a 0-2% range applied to our coverage depending on the relative maturity of platforms), 55% PoS for TTR, 40% PoS for HAE, 20% PoS for AML, 25% PoS for SCD, and 40% PoS for the platform. This price target supports our Outperform, Speculative Risk rating. We assign a Speculative Risk qualifier given unpredictability of future revenues and expenses, non-product revenue generating status, and stock price volatility that could result in substantial upside/downside swings not anticipated in our valuation.

Risks to rating and price target

Risks include clinical program execution, regulatory uncertainties, intellectual property risk, failure to demonstrate sustained efficacy in trials, potential emergence of a safety signal, competition, and long-term pricing pressure in the space.

Investment summary

Front Runners of *In Vivo* Gene Editing, the Next Leap Forward — The field of gene editing has shown impressive results *ex vivo* (CRSP), but the next wave of innovation is the ability to edit genes *in vivo* (simpler logistics, no apheresis/toxic pre-conditioning) without a virus (lower risk of insertional mutagenesis, immunogenicity and Nabs exclusion). We think NTLA is trailblazing such a field, and we like that it started with a proven vehicle (LNPs), an easier organ to target (liver) and a large indication (up to 300k US patients) where we know silencing works (Onpattro). Clinical TTR data with longer follow-up and more dose cohorts/patients is expected at a medical meeting in 2H21.

We See TTR Data as a De-Risking Event for the Platform — We think the recent positive TTR data is de-risking for the *in vivo* platform and TTR is likely to demonstrate durability given: 1) HAE is also a liver target and LNPs have proven liver tropism (evidenced by Onpattro and now NTLA-2001); 2) long-term TTR reduction has been de-risked by RNAi; 3) NHP data demonstrated a durable response out to 52 weeks for both TTR and HAE; and 4) mouse hepatectomy data suggests edits should be maintained even in new cells. On safety, the debate on FDA's stance on irreversibly editing human hepatocytes with indels will continue, but see limited risk in the initial read-out given the short follow-up.

Exciting Pipeline and Poised to Close Valuation Gap to CRSP — The rest of the pipeline is admittedly early, but we are particularly excited about HAE given non-viral *in vivo* delivery, a de-risked target (kallikrein), impressive POC in NHP and a large market (Takhzyro is a $1b drug 2 years post launch). We are a bit more cautious on the *ex vivo* programs (SCD is crowded, and we see limited differentiation), but we are intrigued by WT1 for AML (over expressed in >90% of blasts). Overall, we think NTLA has the broadest/deepest gene-editing toolbox, and we like recent POC for base editing and the non-viral delivery to bone marrow. Despite recent uptick, we think NTLA is poised to close the valuation gap vs CRSP (currently ~2x), and we like the limited number of partnerships leaving the door open to potential M&A.

Lonza Group AG (SWX: LONN)

RBC Europe Limited
Charles Weston (Analyst), +44 20 7429 8425, charles.weston@rbccm.com

Rating: Sector Perform **Closing Price: CHF 740.20**
Price Target: CHF 680.00

RBC Imagine™ long-term idea thesis

The global leader in the manufacture of biologic Medicines and is well positioned to help enable a healthier world. The therapeutic antibody market will grow from $100bn to $300bn over the next 10 years (source: J Biomed Sci paper, 2020), and Lonza is the largest outsourced manufacturer. There is already a dearth of manufacturing supply (exacerbated by demand for COVID vaccine manufacturing), and Lonza is consistently investing hundreds of millions of Swiss francs into enlarging its infrastructure. With the recent sale of a non-pharma division, it now has considerably strengthened its balance sheet, and has already started to further augment its capabilities through M&A, complementing what we believe will be organic double-digit EBITDA growth over the next 15 years.

Valuation

We apply a sector-average 2.0x 'EEG' (i.e., EV/EBITDA divided by EBITDA growth) multiple, implying 24x 2023E EV/EBITDA, which leads to our 12-18-month price target of CHF680. This is roughly equivalent to our DCF calculation at a cost of equity of 6.0-6.5% and terminal growth of 3.0-3.5%. This price target supports our Sector Perform rating.

Risks to rating and price target

COVID tailwinds subside. Should COVID be largely eradicated, revenue growth could be impacted by a low-single-digit percentage, which for a high-multiple stock could have an outsized effect on the shares.

Overcapacity. Pharma, CDMO, CRO and VC organisations are investing heavily into biologic production, which could lead to price competition.

IT hack. Malicious actors have targeted the healthcare supply chain, including hacking Lonza's peer Siegfried. Lonza could also become a target, which would potentially result in the shutdown of manufacturing sites.

COVID vaccine revenues outperform. Lonza has doubled capacity at some of its plants for Moderna's COVID vaccine, but has currently only guided to CHF110m in vaccine revenues in 2021 – we see upside to this in 2022.

Additional large partnerships. Should Lonza sign new manufacturing agreements for large products, there could be upside to forecasts and to stock sentiment.

Investment summary

Market trends to remain robust. The pharma market is growing at 6-7% pa and ongoing trends towards manufacturing outsourcing and onshoring will drive the CDMO market growth into the high single digits, in our view, with COVID vaccines adding incremental growth in 2021/22.

Lonza is positioned at the premium end of the market. Lonza is the largest and one of the most profitable CDMOs globally, deriving almost half of its revenues from biologics, which we expect to grow faster than the overall market, and 10% from cell and gene therapy, which could grow at 20% pa, in our view.

Enhanced focus and transparency complemented by a strong balance sheet. Having divested its Water Care business in 2019 and its Specialty Ingredients division in 2021, Lonza is focused on pharma manufacturing, and the divestments have left the balance sheet with c. CHF1.7bn of net cash (end-21E), providing for ample strategic flexibility to invest. The company is transitioning to a new divisional reporting structure and has provided granular long-term guidance.

Financials. We forecast that Lonza will average 10% revenue growth pa, with 1-3ppts of additional growth in 2021 and 2022 from the Moderna COVID vaccine. We think an improvement in group margin of 50-80bps pa is achievable from divisional improvements, particularly in the CGT division, and we see operating cash conversion as remaining very strong (90%-plus) (before substantial capex investments at c.3x depreciation).

Oxford Nanopore Technologies PLC (LSE: ONT)

RBC Europe Limited
Charles Weston (Analyst), +44 20 7429 8425, charles.weston@rbccm.com

Rating: Outperform | **Closing Price: GBp 616.00**
Price Target: GBp 800.00

RBC Imagine™ long-term idea thesis

Being a key biological constant through life, and influencing every species' response to disease and changes in environment, our evolving understanding of DNA is critical to detecting and curing disease, improving food production, and managing ecosystems. In order to enable genomics to affect so many aspects of our lives, and to provide individuals direct access to their genomic data alongside meaningful insights, access to sequencing technology must be democratised through scalability. Oxford Nanopore has developed such a scalable technology, with AI approaches having driven multifold improvements in accuracy, and critical advantages over competitors such as scalability (size and cost), real-time data, and rich data production.

Valuation

We value Oxford Nanopore using peer analysis on EV/Sales and ESG (EV/Sales divided by EBITDA growth), based on 2021 and 2023 consensus estimates, which we apply to our 2022 and 2024 estimates for ONT for a one-year forward valuation. We see a fair value range in one year of £6.50-8.50, and we set our price target at £8.00, in the upper half on the basis that the company has demonstrated that guidance is cautious through two guidance upgrades since the IPO. This valuation implies EV/Sales of 35x 2023E and 26x 2024E. Our PT supports an Outperform rating.

Risks to rating and price target

Meeting 2023 targets: The 2023 target of £170-190m revenue will be a key focus for investors, so near-term sales trajectory may have a major impact on forecasts and sentiment.

Loss-making for several years: We project that ONT has funding to become cash flow positive in 2027/28, but further investments could result in additional funding being required.

Competitive landscape evolution: With Illumina dominating the market, Pacific Biosciences improving throughput, and substantial R&D by private and public companies, the landscape is likely to become more complex over time.

Share price volatility: With high multiples in the sector, sentiment to high-tech companies in general, and ONT specifically can have a big impact on share prices.

Investment summary

Disruptive product suite… Oxford Nanopore's technology platform enables it to deliver functionality that other systems cannot, such as reading ultralong DNA fragments, real-time data output and portability. It has also adopted a commercial model designed to democratise access to sequencing technology, avoiding the need to buy an expensive instrument. It is very competitive on cost/genome, and has a roadmap to deliver a further 30x reduction over time. The two most common criticisms of its technology relate to the rapid roll-out of innovations, which can lead to sub-optimal initial performance in-market, and single base raw-read accuracy, although error rates have improved 10x since launch, and a further 10-100x reduction was announced earlier in 2021. Beyond sequencing, the company expects to launch protein sensing products in the next 3-5 years.

…Within a growing market… According to DeciBio, the global DNA sequencing equipment market is worth $5.7bn and is growing in the low double digits, driven by increased research funding and adoption of the technology into clinical and industrial applications, all of which are taking advantage of continual reductions in sequencing cost. The potential total addressable market has been estimated at over $300bn (by Health Advances). Oxford Nanopore and Pacific Biosciences have proven that the market is willing to adopt new technologies when they are differentiated.

…Drives rapid revenue growth. Oxford Nanopore provides its instruments as part of consumable 'Starter packs', then generates ongoing revenue from consumable pull-through. The company has guided to 60-70% CER revenue growth for 2021, and targets £165-175m revenue in 2023, with a goal of >30% growth pa thereafter, and mid-term gross margin of >65%. Near-term growth forecasts are supported by the 100% increase to YTD web traffic (at end-September).

R1 RCM Inc. (NASDAQ: RCM)

RBC Capital Markets, LLC
Sean Dodge (Analyst), (615) 372-1322, sean.dodge@rbccm.com

Rating: Outperform **Closing Price: USD 25.59**
Price Target: USD 35.00

RBC Imagine™ long-term idea thesis

R1 is leading innovation in technology among outsourced revenue cycle management vendors, giving it what we believe to be a multi-year head start versus peers. The company has spent more than a decade building its operational expertise and demonstrating its ability to scale, generating a significant amount of data and standardized manual processes along the way that make it ripe for automation. R1 has and continues to invest heavily to develop and implement proprietary automation processes that do not simply improve profitability, but also help generate top-line growth in the form of high-margin incentive fees. Given customers receive the majority of the benefit when R1 improves collections, we believe this greatly enhances R1's value proposition and should help it capture market share over the long term as an increasing number of health systems look to consolidate vendors and outsource non-core functions.

Valuation

Compared to its HCIT and outsourced services peers, RCM: (1) features a more stable, defensive revenue and earnings stream; (2) should grow EBITDA/EPS at a rate nearly 2x the group average over the next 3 years; and (3) given the contracts/NPR it has recently signed, has better forward visibility on growth. For these reasons, we believe RCM should trade at a premium to the group average. Our $35 price target is based on RCM trading 30x our 2022 EBITDA (or 7x revenue) estimate. Our valuation work and price target support our Outperform rating.

Risks to rating and price target

Risks to our Outperform rating and price target include significant customer concentration, prolonged impact from the COVID-19 pandemic, competition, product concentration, and a lingering negative reputation from prior lawsuits.

Investment summary

R1 RCM, Inc. helps both acute-care and ambulatory providers better manage their revenue cycles—its offerings range from software modules that clients can install and run themselves to full outsourcing. RCM outsourcers, like R1, leverage their own operational expertise and shared resources to drive efficiencies and economies of scale. Healthcare providers benefit by offloading these increasingly expensive, non-core functions, freeing up time to focus on delivering higher-quality patient care. Increasingly complex regulations and rising costs are driving increased demand for these services. Notably, findings from our recent survey of hospital executives show 32% of respondents said they are planning to outsource more of their RCM processes over the next 3 years.

Currently, the majority of R1's revenue comes from its largest customer, Ascension. The company has spent the last few years onboarding Ascension's RCM operations, and in the process, has enhanced its product offering and operational expertise—both helping pave the way for future expansion. Over the course of FY19, R1 signed three new outsourcing contracts (representing over $4B of NPR) and added an additional $5B in FY20, demonstrating its ability to commercialize its offerings outside of its core client base.

Potential catalysts

More Contract/NPR Wins. As R1 continues to add new clients and contracts, it both helps further diversify its base and provides additional proof-points it is able to commercialize its offerings beyond its core customers. Management did recently announce it is expanding its annual new NPR deployment capacity to $5B, from $3B previously, signaling its increasing confidence in both the LT demand environment as well as its relative competitiveness.

Improving EBITDA Margin via Tech Investments. Management generated approximately $20M of EBITDA in 2020 from implementing 100 bots in its effort to use robotic process automation to automate redundant tasks. The company is adding another 100 bots and expects them to contribute another incremental $20M by 2022. Demonstrating these solutions are working and generating savings could provide a lift to both margins and share price.

Sarepta Therapeutics, Inc. (NASDAQ: SRPT)

RBC Capital Markets, LLC
Brian Abrahams (Analyst), (212) 858-7066, brian.abrahams@rbc.com

Rating: Outperform **Closing Price: USD 79.72**
Price Target: USD 145.00

RBC Imagine™ long-term idea thesis

We believe investment in a genetic medicines platform for neuromuscular disorders makes Sarepta a long-term structural best idea. As a leader in Duchenne muscular dystrophy (DMD) gene therapy development, SRPT has built up considerable experience with transgene and vector design, delivery, clinical trial conduct, and regulatory pathways that we believe can be leveraged in other neuromuscular indications over time as well, such as limb girdle muscular dystrophy (LGMD), and in emerging therapeutic modalities including gene editing where the company has an academic collaboration to investigate CRISPR-based approaches to treating DMD. SRPT has developed and characterized a unique AAV-based delivery vector (AAVrh74) for use in DMD and LGMD that has proven safe and effective, and is likely suitable for many other neuromuscular applications for gene delivery over the long run as well. The company's expertise in CMC and manufacturing will likely be critical for entrenching their long-term leadership position, as gene therapies come more into the forefront and commercial scale-up becomes increasingly important. Outside of gene therapy, SRPT is developing next-generation antisense approaches to exon skipping which circumvent limits associated with first-gen approaches, and we believe the program's learnings can be extended to other indications beyond DMD that are amenable to exon-skipping. Overall, while some of the company's programs still have risk, we believe SRPT is poised to potentially take advantage of multi-billion dollar opportunities being on the cutting edge of an emerging scientific field.

Valuation

Our $145 price target blends DCF (using a 10.5% discount rate and a 3.0% terminal growth rate) and probability-adjusted multiples (30x on 2025E adjusted EPS discounted at 10.5%) analyses. Our price target supports an Outperform rating.

Risks to rating and price target

Risks: (1) clinical, manufacturing, or regulatory setbacks in DMD or LGMD gene therapy programs; (2) slower-than-anticipated growth or other commercial setbacks for Exondys 51, Vyondys 53, and Amondys 45; (3) failure to successfully develop and gain regulatory approval for follow-on exon-skipping drugs, including PPMOs; (4) poor performance in confirmatory study leading to market removal or increased patient discontinuations.

Investment summary

We believe the key value driver for shares going forward will be progress toward the multibillion-dollar opportunity we see for Sarepta's two most advanced muscular dystrophy gene therapy programs. Based on the robust expression, biomarker and safety data for both programs to date—along with highly encouraging functional gains—we believe SRPT could have the best-in-class therapy for both Duchenne and limb girdle muscular dystrophy. Underpinning the significant promise of its gene therapy pipeline are approved drugs (Exondys 51, Vyondys 53, and Amondys 45) addressing a subgroup of DMD patients, and a strong balance sheet bolstered by what we view as a highly validating ex-U.S. microdystrophin DMD gene therapy commercialization deal with Roche. Given Exondys's strong launch, Vyondys's recent approval, positive initial PPMO data, and our increasing optimism around microdystrophin and limb girdle muscular dystrophy gene therapy programs, we believe shares are currently undervalued.

Key positives: (1) potentially transformative clinical-stage gene therapy programs represent a substantial opportunity; (2) strong U.S. Exondys 51 launch, with quick uptake and high visibility for growth; and (3) regulatory success with Vyondys 53 accelerated approval.

Key potential catalysts: (1) data from crossover cohort in Study 102 (1Q22); (2) initiate ph.III trial of '9001 in DMD in 3Q21; (3) initiate pivotal study with LGMD2E gene therapy SRP-9003 in 2022.

Teladoc Health, Inc. (NYSE: TDOC)

RBC Capital Markets, LLC
Sean Dodge (Analyst), (615) 372-1322, sean.dodge@rbccm.com

Rating: Outperform **Closing Price: USD 134.85**
Price Target: USD 215.00

RBC Imagine™ long-term idea thesis

Unlike many of its peers, Teladoc has continued to deliver growth on top of a strong 2020 that benefited from a pandemic-driven acceleration of telehealth adoption. Further, the company took the opportunity to invest heavily in 2020 with the acquisitions of InTouch and Livongo that significantly broadened TDOC's technological capabilities as well as its customer base. The company continues reinvest heavily into the integration of these assets to innovate next-generation care models that are currently being offered into the market. While the runway to add new members is considerable, perhaps the most under-appreciated aspect of the story is the opportunity for TDOC to further monetize its member base. We believe this can support 25%+ organic revenue growth for the next several years and strengthens our conviction in Teladoc as a long-term structural best idea.

Valuation

We believe the COVID-19 pandemic has pushed virtual health to its tipping point. Coupled with both the Livongo and InTouch acquisitions, this strengthens our confidence in TDOC's ability to sustain its organic 25%+ organic revenue trajectory, better balances its strategy (provider vs. payer/consumer), and further distances it from peers as the virtual health leader. Our $215 price target is 14x our 2022E revenue, which is below the SaaS/tech peer average but a premium to the 9x average of other HCIT companies. Our price target supports our Outperform rating.

Risks to rating and price target

Risks include multiple ongoing M&A integrations, growing international exposure, uncertain and dynamic regulatory environment, exposure to potential medical malpractice, data breaches, and elevated expectations concerning future organic revenue growth.

Investment summary

The pandemic helped accelerate telehealth to its tipping point. We believe awareness of and comfort with the technology is increasing dramatically as the number of individuals climbing over the first-time user hump continues to grow. On the payer side, we are also seeing more evidence that virtual-first plan design and virtual primary care offerings are beginning to proliferate. We believe TDOC is in the best position to capitalize on both of these trends via its superior consumer engagement platform, breadth of offerings/clinical capabilities, and global reach. Now with the inclusion of Livongo, we believe the combination of new member adds, cross-selling, and ramping utilization should drive 30%+ organic revenue growth for the next 3+ years. TDOC remains our favorite idea and is the best way, in our view, to play the exciting convergence of technology and healthcare.

Potential catalysts

Big client wins/new member adds. The most impactful near-term driver of our financial model continues to be the addition of new members. COVID-19 is pushing TDOC's paid member base to record levels, up 41% YoY in 2020. Opportunities this large are few and far between, but we think a significant greenfield and burgeoning replacement market remain.

Ramping utilization. TDOC's Surround Sound consumer engagement platform has enabled it to drive utilization well beyond that of its peers. This is an important contributor to the value proposition that TDOC provides its clients—payers only save money if their members use the service. Continued success here, and a potential acceleration driven by the proliferation of the Virtual First benefit design, would take the stock higher in our view.

Capital Markets

Xencor Inc. (NASDAQ: XNCR)

RBC Capital Markets, LLC
Gregory Renza (Analyst), (212) 858-7065, gregory.renza@rbccm.com

Rating: Outperform, Spec. Risk **Closing Price: USD 37.32**
Price Target: USD 53.00

RBC Imagine™ long-term idea thesis

We see long-term potential in XNCR's antibody and cytokine technology platform, which has been validated through a series of partnerships and clinical successes – the steady royalty stream and cash inflows generated from marketed partnered assets provide fuel for re-investment towards continued R&D and innovation, in our view. We believe XNCR's diverse pipeline of proprietary antibodies driven by a high-opportunity, fail-fast, plug-and-play methodology, coupled with the leverage from collaborations with pharma and academia for novel target and antibody discovery, has potential to generate ongoing differentiated immuno-oncology treatment assets, and we expect long-term upside potential as XNCR's strategy and pipeline continue to advance.

Valuation

Our base case is driven by a 20% probability of success for vudalimab with ~$800M out-year revenue potential in mCRPC, a 20% probability of success for plamotamab on ~$150M out-year royalty potential in B-cell malignancies, and a 15% probability of success for tidutamab with ~$400M out-year revenue potential in SCLC and MCL. Our $53 price target is based on a blend of DCF (using 12% discount rate and 2.5% terminal growth rate) and probability-adjusted multiples (25x on 2028E adjusted EPS with a 12% discount) analyses. Our valuation supports an Outperform rating. Given XNCR currently does not have any proprietary marketed products and emerging clinical data to date, which increases development risk, we believe a Speculative Risk qualifier is appropriate.

Risks to rating and price target

(1) Lead programs still lacking sizable and definitive efficacy and safety data; (2) further clinical development of plamotamab largely depend on current partnerships; (3) regulatory or clinical delays (potentially exacerbated by COVID-19).

Investment summary

Key assets, vibecotamab (XmAb14045) and plamotamab (XmAb13676) are being developed with potential as the best-in-class CD3 bispecific antibodies for the treatment of AML and B-cell malignancies, both are highly unmet needs. We believe XNCR maintains a unique edge in the crowded competitive landscape of CD3 bispecific antibodies. If approved, we see prospects of ~$600M WW peak sales in AML and ~$1B WW peak sales in B-cell cancers, at 15% and 18% POS respectively, given the clinical stages of the programs.

Two monoclonal antibodies, Obexelimab (XmAb5871) in IgG4-RD and RA, pending further partnership opportunities, and AIMab5971, licensed by AImmune (acquired by Nestle) for the treatment of food allergy, are also in development. We continue to monitor the development of potential partnerships for obexelimab. If approved, we see royalties starting as early as 2024, driving 6% of the valuation.

Existing partnerships validate the scientific rationale and design of XNCR's antibodies, as well as generate steady stream of cash inflow, though incremental. Besides the marketed Ultomiris and Monjuvi, XNCR currently has partnership agreements with six companies, underscoring the value in the technology and the platform.

Key positives: (1) Potential best-in-class status with favorable profiles of early lead assets XmAb14045 and plamotamab in AML and B-cell malignancies; (2) 'plug-and-play' mechanism provides opportunities for vast potential in combinability and targets; (3) existing partnership assets in different stages validated the Fc technology platform and generated constant revenue streams from royalties; (4) diverse management team with extensive expertise and investor base with proven track record.

Key potential catalysts: (1) Data update from ph.I tidutamab in NET expansion cohorts (2H'21); (2) data updates from ph.I plamotamab trial (2H'21); (3) initiate ph.II monotx and combo trials of plamotamab (late-'21/early-'22); (4) data from XmAb717 in prostate, renal cell, basket cohorts (2H'21); (5) IND submission and initial ph.I trial in RCC (early-'22).

Industrials

Alfa Laval AB (STO: ALFA)

RBC Europe Limited
Sebastian Kuenne (Analyst), +44 20 7429 8932, sebastian.kuenne@rbccm.com

Rating: Outperform | **Closing Price: SEK 387.40**
Price Target: SEK 400.00

RBC Imagine™ long-term idea thesis

Alfa Laval is the global No.1 player in heat exchanging technology and other processing equipment (valves, pumps, centrifuges). The technology is used by the food, pharma, chemical and marine industries to make processes safer (biotech processing, antiseptic process flow) and cleaner (oil filtration, exhaust gas treatment), while reducing energy consumption and CO2 emission (waste heat recovery). Historically, demand for Alfa's products was driven by economic and regulatory factors. More recently, we observe a third, powerful demand driver: As businesses embrace ever stricter environmental targets ("net-zero") it triggers a rethink of entire production processes and a desire for CO2-minimising process upgrades. Alfa Laval is at the centre of this industrial energy transition. We consider this to be a multi-decade effort and thus expect a further acceleration of organic demand growth for Alfa's products. An incremental story opens up with the rise of a hydrogen economy: Compared to fossil fuels, hydrogen requires 12x more heat exchanging technology in well-to-wheel process.

Valuation

Our DCF base-case indicates a fair value of SEK412 (WACC of 6.5%, terminal growth +2.5%, terminal EBITA margin 18.5%). This is supported by a multiples analysis (fair value SEK380) based on c.15-18x 2022E EV/EBITA and 23-25x 2022E P/E. In a blend we derive at a SEK400 price target, which prices the share at a 15% sector premium and still returns a 4.5% FCF yield (2020-2023E average). Our price target supports an Outperform rating.

Risks to rating and price target

Main risks to our rating and price target include a prolonged macro slowdown, a significant revaluation of the Swedish Kroner (there is some transaction exposure for Alfa Laval and thus margin impact), and a failure of the footprint optimisation program.

Investment summary

Alfa Laval is a market leader in process engineering components for the food, pharma, petrochemical and marine industry. The value proposition of its technologies is that they enable industry clients to produce safer (pharma, food), cleaner (oil filtration) and energy preserving (waste heat recovery). We thus consider Alfa Laval an enabler of a greener industry.

FY2020 was dominated by the COVID-19 disruption, but also by strong scrubber sales (exhaust gas cleaning for ships). Order momentum should rapidly improve as global ship contracting recovers at a record pace since early February 2021. Excluding the market cyclicality, Alfa's underlying business grows at a solid c.4-5% pa and the business delivers above-sector margins and cash flows, while also featuring a convincing "green" angle to the investment story, we now think a 25-30% sector premium is justified.

Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS)

RBC Capital Markets, LLC
Ken Herbert (Analyst), (415) 633-8583, ken.herbert@rbccm.com

Rating: Outperform	**Closing Price: USD 21.25**
Price Target: USD 28.00	

RBC Imagine™ long-term idea thesis

Kratos Defense & Security (KTOS) has a first-mover and cost advantage in its targeted drone markets, which we believe will see substantial growth in the next 3-5 years, positioning the company for longer-term upside. KTOS loyal wingman aircraft, for example, could eventually see demand in the 100s of aircraft/year as the hardware and software enable greater integration of AI-powered unmanned aircraft into a much greater number of defense missions and applications. KTOS is competing with larger, well-funded defense primes, but the company has a significant cost advantage that we believe is sustainable. Moreover, the company currently enjoys strong support from the U.S. Congress and its Department of Defense (DOD) customers as the company continues to invest and its aircraft continue to progress through development efforts.

Valuation

Our $28 price target is based on a 28x multiple applied to our 2023 EBITDA estimate. Over the past five years the stock has traded at an average 38x multiple on the NTM EBITDA basis. We believe the company is positioned to take advantage of increased demand for high-performance unmanned systems, and it has several potential contract awards in the next six to 12 months that could be potential catalysts. Our target price supports our Outperform rating.

Risks to rating and price target

Any of the following could impede the realization of our rating or price target:

- Incremental delays to tactical drone or other development programs
- The successful execution of test flight programs or other development milestones
- Incremental pressure on overall defense spending, or spending for specific programs of importance to KTOS
- An extended continuing resolution (CR) associated with the beginning of the U.S. Government fiscal year 2022
- A shift in defense spending priorities away from important growth areas for KTOS, including unmanned systems, space, and hypersonics
- Greater-than-expected investment spending to support organic growth opportunities
- Additional COVID-related delays associated with defense program travel or testing, such as a potentially reduced activity level at aircraft flight test ranges
- The ability to hire the necessary staff, or to procure the necessary security clearances, to deliver on the expected production levels
- Broader investor pessimism on the outlook for defense stocks

Investment summary

We believe KTOS is very well positioned to benefit from the increased focus on unmanned capabilities at the DoD. The company is active in several markets, but it is the Unmanned segment that is most important for investor sentiment, and we believe is the primary source of upside in 2022-2023E. We believe the company has a very strong organic growth outlook, with several opportunities for programs to become material to the potential upside.

The company is focused on capturing its share of the emerging budget for high-performance, low-cost, unmanned systems. The company is facing a growing competitive threat from larger defense primes, but we are confident the company's low-cost and time-to-market advantage will continue to see support from the DoD.

We do not expect M&A to be a focus for the company. Management has indicated that bolt-on transactions are possible in select markets, but the focus will remain on organic growth.

We believe the most important potential catalysts for the stock are contract awards and broader sentiment on the defense budget. KTOS faces investor concern on its 2022 growth outlook, but we expect strong 4Q21 bookings and the passage of the FY22 DoD budget to support confidence in the 2022 upside.

Rentokil (LSE: RTO)

RBC Europe Limited
Andrew Brooke (Analyst), +44 20 7002 2262, andrew.brooke@rbccm.com

Rating: Outperform **Closing Price: GBp 624.20**
Price Target: GBp 645.00

RBC Imagine™ long-term idea thesis

Rentokil is the global market leader in Pest control, where there are strong defensive structural growth drivers (focus on hygiene/environment, urbanisation, growing populations, climate change) and we see it as a clear structural best idea on a 10 year view. The market remains fragmented and there is strong scope to drive increased customer density and margins over time both organically and via low-risk bolt-on M&A. RTO has market-leading positions in emerging markets, where we see the strongest growth over the long term and this should be positive for mix. It has invested ahead of the curve in technology (digital for technicians and product wise) and R&D which further sets its products and services apart from the smaller competition. Its smaller Hygiene business also has strong structural growth potential as hygiene in the workplace now has far more focus from customers post COVID. RTO also has strong ESG credentials.

Valuation

We believe the cash flow is key. Our DCF of the current business gives a valuation of c.545p, with an extra 100p from future acquisition potential (assuming £250m spend pa at an average price of 12x EBITA and a funding cost of 2.5%). The DCF basis assumes: Medium-term forecasts remain intact; 3% terminal growth; No incremental cost savings; pension assumed at zero; Terminal EBITA margin at 16.5%; and WACC of 7.0%. This valuation and our 645p price target support our Outperform rating.

Risks to rating and price target

- COVID-19 – Uncertainties exist around the length of disruption.
- Economic outlook – Several businesses are GDP sensitive.
- Pricing – Pricing can be impacted by the economy and the actions of competitors. This is mitigated partly by Rentokil's strong market positions.
- Acquisition risk – The group has become more acquisitive in recent times. Although a potential driver, it brings associated risks.
- Management risk – Any change in management presents a strategic risk.

Investment summary

Focus on Pest Control – The group is allocating capital to the higher-return operations, especially Pest Control, and we see this as a major driver of value over the medium term. Pest Control is the key to long-term growth, cash flow generation and a re-rating at the group, in our view. Rentokil is a global market leader in a fragmented industry with some structural growth drivers.

COVID-19 – We believe RTO is well placed to weather the storm given it provides essential services and has strong liquidity. In addition, we see increased incremental growth opportunities in the Hygiene segment.

Significant Hygiene opportunity – In Hygiene, the growth opportunities look significant due to likely ongoing stronger demand for services not only inside the washroom, but also outside and in peripheral areas, e.g., air quality. Rentokil looks well placed given its brand, product range, digital capability and the potential for international expansion. We now expect stronger organic growth in Hygiene over the next 3 years.

M&A kicker – We see M&A continuing to be a major driver, building market share and increasing customer density.

Expect strong demand – We expect increased demand for hygiene and disinfection services as we emerge from the crisis with Pest Control also likely to see a strong catch-up as buildings become occupied again. We expect the crisis to lead to increased demand for hygiene standards over the long run.

Emerging markets – We believe the Asia Pacific and Latam operations have significant potential in terms of both growth and margins. Although relatively small at present, the weight of these operations in the portfolio should increase over the medium term and RTO has leading market positions versus large peers.

Schneider Electric SE (EURONEXT: SU)

RBC Europe Limited

Mark Fielding (Analyst), +44 20 7002 2128, mark.fielding@rbccm.com

Rating: Outperform **Closing Price: EUR 158.62**

Price Target: EUR 150.00

RBC Imagine™ long-term idea thesis

Schneider is a global leader in businesses focused on digitisation and electrification, as well as leader in ESG. Schneider has outperformed its global electrical peer group in terms of organic revenue growth over the last 4 years. The business was repositioned by acquisitions over 2006-2014 followed by ongoing organic investment and bolt-ons. Via this process Schneider has shifted from a product business to also having a digital and services offering that makes up around half the group. This positions Schneider at the forefront of enabling the ongoing shift to a greener world as its products and services help its customers reduced their environmental footprint. Schneider's track record of recognition in the ESG space helps cement this position. As an example of how this translates to the business, Schneider is now offering sustainability consulting – today it only has a few €100 millions of sustainability consulting business but it is a company that built a €2.4 billion market-leading industrial software business in the last decade and it is developing more sustainability services and customer demand looks set to grow significantly.

Valuation

We use a combination of PE and DCF (using a 7% WACC, perpetuity growth of 2.5% and 18.5% EBITA margin) valuations giving us a price target of €147. We use a forward PE multiple of 24x, which we apply to 2022E EPS of €6.5, returning €160. Meanwhile our DCF returns €140. Averaging the two results in a €150 price target, which supports an Outperform recommendation.

Risks to rating and price target

Risks to our price target and rating include Schneider's exposure to Chinese construction activity (we estimate 6-7% of sales are driven by this), a slowdown in the macro environment leading to a decline in demand in Schneider's end markets, and exposure to emerging market currencies (Schneider has not been able to shift its production into emerging markets as quickly as its sales mix has shifted).

Investment summary

Schneider has been delivering on the major components of our positive thesis: resilient growth outperforming peers, business improvement and increasingly shareholder-friendly capital allocation. With a relatively focused portfolio and exposure to some higher-growth end markets supplemented by some portfolio optimisation potential, we see it well placed to continue outperforming.

Global leader: Schneider Electric is a global leader in electrical distribution, automation, and energy management products. The company serves the markets for non-residential & residential buildings, industrial & machines, utilities & infrastructures, datacentres and networks. Schneider has top two positions globally in many of the markets it competes in, in particular in the low/medium voltage and UPS markets.

Increasingly resilient: The perception that Schneider is early-cycle is, in our view, unfounded. Our analysis shows that Schneider is the only electrical to have meaningfully increased its resilience since the financial crisis. In addition, it is developing a record of consistently outperforming peers across electrical and automation end markets.

Improving capital allocation: Schneider's capital allocation has improved, becoming more shareholder-friendly. Looking at the last ten years of spending, the trends are clear. Acquisitions have steadily declined from accounting for over 60% of operating cashflow in 2011 (three-year rolling basis) to 14% as at 2018. This includes a benefit from a step-up in disposals in recent years, but it appears likely to continue (with €1.5-2bn of sales earmarked for review).

VAT Group AG (SWX: VACN)

RBC Europe Limited
Sebastian Kuenne (Analyst), +44 20 7429 8932, sebastian.kuenne@rbccm.com

Rating: Outperform **Closing Price: CHF 478.00**
Price Target: CHF 440.00

RBC Imagine™ long-term idea thesis

VAT Group is a specialist manufacturer of vacuum valves used in modern microchip production. The company has over the past years started to dominate the valve market for leading-edge microchip applications (70% market share), delivering high growth (+10% organic sales CAGR 2010-2021e), impressive cash earnings (5-yr avg EBIT margin of 25% and FCF margin of 19%), while investing aggressively in R&D (8x more than No.2) to protect its lead. We identify several layers of growth for the business: (1) rising need for microchips (5G, AI, cloud computing, industrial automation); (2) rising manufacturing intensity per microchip (400 process steps per chip today, rising to 1,800 for next-generation 3nm chips); (3) rising vacuum technology need per manufacturing step (c50% of process steps done under vacuum today, but 65% for leading-edge microchips); and (4) further market share gains (from 70% today to 80% in 2025, based on existing spec wins with customers).

Valuation

Our CHF440 price target is based on DCF and supported by a FCF yield analysis. Our DCF model uses a +14% sales CAGR 2019-2030E, a terminal EBITA margin of 34% (2021e: 31.2%), a tax rate of 18.5% and a WACC of 6.5%. At CHF440, the shares would trade at 40x 2023E P/E, but would also still deliver a 2.1% FCF yield, roughly the average in the industrial sector, but offering far superior growth opportunities. We consider VAT a compounder in a protected market. Our price target supports our Outperform rating.

Risks to rating and price target

Downcycle in semi: The main risk to our Outperform rating is that semi prices drop sharply, leading to reduced capex activity. This could significantly impact VAT's financial performance in the next 12-24 months.

Currency: VAT has a very high currency risk. Its cost base is predominantly in Switzerland, while its sales are generally USD-based, leading to transactional exposure. This should lessen somewhat in the coming years as the Malaysian production facility ramps up, broadening the cost base.

Investment summary

The long-term prospects of VAT have improved further in the past months as chip shortages in automotive, high bitcoin prices and an ongoing shortage for DRAM support semi fab capex. We think incremental market share gains also look very likely, removing the risk of a "glass ceiling" at 70%. This opens the door for a market-dominating position without meaningful competition. We consider VAT a core investment in the WFE sector. The business is one of the highest ranking in terms of market position (>50% share), structural growth (c.15% CAGR 2019-2030), margins (5-year historical average net margin 19%) and cash conversion (c.100%).

End market on a recovery: Semi investments remain strong as we go into H2 2021, driven by megatrends (5G, AI, cloud computing). If the WFH trend continues, we think there is a chance for an extended boom in the segment. Coupled with ongoing market share gains, we believe VAT is in an excellent position to benefit from this.

Mid-term outlook strong: We remain confident in the mid- to long-term outlook for the group. VAT should keep outgrowing the wafer production market by 7pp annually 2020-2025E. This is due to: 1) rising manufacturing intensity per microchip; 2) higher vacuum technology content per machine; and 3) market share gains. We also think VAT will achieve an EBITDA margin at the high end of its 30-35% target.

Better quality and high yields: We expect VAT's EPS and FCF to outgrow that of every European industrial company in our coverage, including Rational AG (U/P, P/T EUR540). We believe a 60-80% sector premium is fully justified: with a 2.0-2.5% dividend yield, VAT is already now matching the yields of its slow-growth engineering peers. Yet, we believe VAT offers far better growth prospects and has a better earnings quality.

WSP Global Inc. (TSX: WSP)

RBC Dominion Securities Inc.
Sabahat Khan (Analyst), (416) 782-7880, sabahat.khan@rbccm.com

Rating: Outperform | **Closing Price: CAD 179.05**
Price Target: CAD 196.00

RBC Imagine™ long-term idea thesis

WSP has a 15+ year track record of consistent performance that sets it apart from Global E&C peers. The company has delivered organic growth every year since its 2006 IPO, excluding 2020 which was impacted by the pandemic, and has undertaken +150 acquisitions, a number of which have been transformative, to position itself for growth in new end-markets/geographies. WSP supports its public and private clients with energy transition, helps cities/ regions around the world prepare for growing populations and adapting to climate/technological change (its Future Ready platform is a gold standard on this front). Following the acquisition of Golder Associates (a leading pure-play Environmental firm), WSP now has the largest Environmental advisory practice among Global E&C firms. The company's conservative and well thought-out strategy has allowed it to gain exposure to growing verticals, while limiting exposure to cyclical sectors where the commodity/sector-specific volatility has resulted in significant challenges for many global peers.

Valuation

Our $196 price target is based on ~16.0x our 2023 EBITDA forecast of $1,519MM. We believe our target valuation multiple fairly reflects WSP's organic growth outlook, which we believe can accelerate going forward given the increased exposure to the Environmental Services space, our expectation for strong FCF growth, and the potential for continued M&A. We reflect modest premium in our multiple for potential M&A (our forecasts only reflect transactions announced to-date). In our view, WSP's track record and increased Environmental sector exposure warrants a premium valuation multiple relative to the rest of our E&C coverage. Our price target supports our Outperform rating.

Risks to rating and price target

Key risks to our Price Target include: **1)** Fixed-price contracts and cost overruns (for fixed-fee contracts, WSP assumes the risk associated with project cost overruns). **2)** Ability to secure new contract awards. **3)** Skilled labour shortages and upward pressure on wages. **4)** Sourcing, executing, and integrating acquisitions (increased competition for acquisitions could drive purchase price multiples higher, which may limit WSP's ability to create value through acquisitions). **5)** Weak economic environment. **6)** Foreign exchange (strength in the Canadian dollar, relative to local currencies in which the company operates, would negatively affect reported results).

Investment summary

A resilient and well-diversified platform – WSP is a global professional services company with ~90% of its Net Revenue generated in OECD countries. WSP's well-diversified business is the culmination of a patient and consistent strategy to establish a pure-play global professional services company. WSP has delivered an average annual organic growth rate in the mid-single-digit range, and has undertaken ~120 acquisitions since its 2006 IPO. WSP's exposure to both public and private clients (56% and 44% of 2019 Gross Revenue, respectively) should also provide stability throughout the economic cycle.

Track record of successfully delivering against guidance and Street expectations – In January 2019, WSP unveiled its 2019-2021 strategic plan, which included financial targets as well as plans to further diversify its revenue by end-market and service offering. This most recent plan targets Net Revenue of $8-$9B (from $6B in 2018 and represents a ~12.2% CAGR at the mid-point), an Adjusted EBITDA margin of 15.0%-16.0% (post-IFRS 16), and an employee count of 65,000 (~35% higher vs. ~48,000 in 2018). The top-line growth reflects a 3-year CAGR of ~12.2% at the mid-point, and reflects contributions from organic growth and future M&A. We believe the company is well positioned to deliver against these targets, but we would highlight the potential for further macro headwinds resulting from COVID-19 as the primary risk that could impact WSP's progress over the next 12-18 months.

M&A to remain a growth driver – Between 2006 and 2019, WSP generated a Net Revenue CAGR of ~36% and an Adjusted EBITDA CAGR of ~33%, which is attributable to a combination of consistent organic growth and a steady stream of acquisitions. Looking ahead, we expect M&A to remain a key driver of top-line growth. Management has highlighted the U.S. market, and the Environment and Water sectors as areas of interest.

Capital Markets

Xylem Inc. (NYSE: XYL)

RBC Capital Markets, LLC
Deane Dray (Analyst), (212) 428-6465, deane.dray@rbccm.com

Rating: Outperform | **Closing Price: USD 130.16**
Price Target: USD 136.00

RBC Imagine™ long-term idea thesis

We consider Xylem to be in a class of its own as the largest US water technology pure-play and leading provider of "smart water" systems, which we see as core to addressing the megatrends of water quality, water scarcity, and water security. We expect these smart/digital water systems to be the critical growth driver in the water sector as water utilities look for affordable ways to maximize the life of aging infrastructure assets, and remotely monitor for leaks or changes in water pressure that could signal a water main break is imminent. Xylem has a commanding lead in building a cohesive portfolio of smart/digital water systems and in our view is well positioned to be the long-term structural best idea in this space. Smart water investments can help drive down costs for utilities, extend the useful life of assets, and are margin accretive to Xylem while creating a stickier revenue profile.

Valuation

We expect the next leg of Xylem's multiple expansion to be driven by encouraging long-term trends in the water utility end market, capital allocation, and investments in new smart water solutions. We assume that the stock should trade to a 37.7x multiple on our 2023 EPS estimate. To derive our target multiple, we took our prior derivation of a 65% premium to our 24.0x target group multiple for 2022E and discounted that multiple one period forward at Xylem's WACC. This premium reflects our positive view of Xylem's defensive water utility exposures (50% of revenues), and its smart water offerings that should see above muni water market growth and help drive margin expansion. On our 2023 EPS estimate, this underpins our $136 price target, which supports our Outperform rating.

Risks to rating and price target

Coronavirus pandemic: If business disruptions from the pandemic worsen, Xylem's operating results could fall materially short of our expectations. **Economic conditions:** Macro trends such as inflation/deflation, credit availability, currency, commodity costs and availability, and supply chain could all cause Xylem's results to differ from our estimates. **Europe:** At 36% of revenues, Xylem carries the highest exposure to Europe in our sector. **FX:** Headwinds from the appreciation of the USD would have an outsized negative impact on sales. **Regulations:** Xylem's solutions are often a beneficiary of new regulations on water quality, efficiency, and usage. However, regulations can affect which technology wins in a competitive new market. **Acquisitions:** A failure to identify and integrate acquisitions successfully could prevent Xylem from reaching its full growth potential. **Competition:** The global water sector remains highly competitive. The rise of credible Chinese players in the global water market is a key risk factor.

Investment summary

Largest US water pure-play with "safe haven" appeal as investors look to inch up the quality curve. Amidst the global economic recession triggered by the COVID-19 pandemic, we expect investors to inch up the quality curve toward more defensive names that have "safe haven" appeal and leverage to sustainable long-term megatrends. Positives include the scarcity value in Xylem's sector-leading 90% water exposure, leverage to healthy water utility markets (50% of revenues), runway for margin expansion, and M&A optionality.

Potential catalysts

Advanced Infrastructure Analytics (AIA) is an incubator of new smart water solutions. AIA consists of Pure Technologies and Xylem's digital solutions platform. We would characterize AIA as an "incubator" of new water technologies within the Xylem portfolio, with a mandate to develop and pilot innovative software and data analytics.

COVID-19 pandemic may accelerate adoption of smart water offerings. Xylem expects the pandemic to accelerate trends such as remote asset and workforce management, automated operations, and remote monitoring. The increasing focus on the affordability of capex and productivity of opex by utilities customers should also spur conversions to its digital offerings. Xylem's disruptive smart water solutions are well positioned to capitalize on the long-term implications of COVID-19.

Consumer Staples & Discretionary

Alimentation Couche-Tard Inc. (TSE: ATD.B)

RBC Dominion Securities Inc.
Irene Nattel (Analyst), (514) 878-7262, irene.nattel@rbccm.com

Rating: Outperform **Closing Price: CAD 51.90**
Price Target: CAD 73.00

RBC Imagine™ long-term idea thesis

We believe that ATD is well-positioned for the long-term in the highly fragmented c-stores industry and will be a key part of customers' journeys as mobility trends evolve. ATD's retail leadership position in Norway, where >50% of car sales are EVs, is providing insights into the future of energy consumption pattern, while the Company's procurement and experiential retail capabilities are being enhanced by data/analytics/technology, the benefits from the scale and varied realities of its global store base, which taken together would be extremely difficult to replicate. There are many examples of ATD taking the long view, using financial resources to constantly innovate. In addition to >$1.2B in annual growth capex, ATD has ~$175-200MM earmarked for investments in "emerging business & innovation," which include: i) the establishment of "Circle K Ventures," a 5-year $100MM fund in partnership with Bain, a conduit for M&A into non-traditional businesses; ii) development of "pay by plate" technology which is set for a larger rollout; and iii) the creation of a retail innovation lab – a first in Canada. Relatively capital-light endeavours in aggregate for ATD are extremely capital-intensive for most other N.A. chains and are not an option for the Mom-and-Pop operators which still represent 60% of US locations. The gap between top quartile chains and the rest of the sector is likely to lead to further consolidation and/or reallocation of sales towards the strongest operators, including ATD.

Valuation

Taking the midpoint of 20x Q3/F24E (Jan C24E) TTM EPS and 11.5x Q3/F24E TTM EBITDA drives our price target of $73, which supports our Outperform rating. The EBITDA multiple is consistent with the average of the five-year range, reflecting overall sector valuation trends, and supported by ongoing strong normalized underlying performance, relatively recession-resistant business model and benefits from prior-period M&A. We believe the multiples are also appropriate relative to our c-store coverage universe based on relative investment attributes.

Risks to rating and price target

Normalization of gas margins without volume improvement would result in earnings below expectations. As well substantial dislocation in normal daily consumption/traffic patterns could cause sharply lower inside store traffic. Although c-stores typically are relatively recession-resistant, ~50% of US c-store customers have incomes ≤$50k and could be hard-hit by a post-COVID recession if income support is lessened. With ATD's diversified geographic footprint, the risk profile of forecasts includes multiple geographies and currencies and economic and operating environments, each of which is being impacted at differing levels by COVID-19 and low oil prices. Although not included in our forecasts, potential M&A could fail to surface anticipated value creation, which could negatively impact earnings/share price.

Investment summary

Multiple avenues for growth, underpinned by i) acquisition synergies; ii) top-line momentum from a more focused, data-driven approach to merchandising/promotional strategies; iii) sharing of best practices among geographies to drive sales and optimize margin/productivity; iv) focus on opex/scale benefits; v) increased activity on new store openings, and of course, opportunistic acquisitions. **Solid underlying operating performance** aided by global rebranding to Circle K, with Food at Scale and other fresh food and coffee initiatives generating traffic and basket growth. **Industry performance in North America since the declaration of the pandemic reinforces defensive sector attributes.** High gas margins/low fuel prices should enable ATD to offset gallon weakness related to current dislocation. **Attractive geographic diversification** with >85% of GP$ generated outside Canada. Small, strategic acquisition in Asia is not yet meaningful to financial forecasts but establishes a platform for accelerating growth from new geography. **Real-world EV R&D lab in Norway:** ATD is the only North American c-store player with a strong footprint in Norway, the global leader in EV sales. With the operation of charging stations on their sites in addition to home and office chargers, ATD is gaining valuable insight into consumer behaviour/revenue opportunities associated with top-up charging. **Strong B/S + FCF profile** with forecasted FCF in the range of $2B to fund dividend growth, debt repayment, and acquisitions.

Capital Markets

Amazon.com, Inc. (NASDAQ: AMZN)

RBC Capital Markets, LLC
Brad Erickson (Analyst), (503) 830-9488, brad.erickson@rbccm.com

Rating: Outperform	**Closing Price: USD 3,549.00**
Price Target: USD 4,000.00	

RBC Imagine™ long-term idea thesis

We believe the company's unmatchable scale gives it a long-term structural moat to gain share as E-commerce penetration moves consistently higher on a global basis. This, combined with two, fast-growing, margin accretive businesses in AWS and Advertising give AMZN a differentiated ability to invest in both content to drive Prime subscription adoption and a best-in-class supply chain, fulfilment and logistics network which we think can drive the compounding E-commerce share gains. Regulatory is a key overhang, and one that is unlikely to go away anytime soon, however, relative to our views on the delivery in the context of the bourgeoisie/proletariat analogy, we believe AMZN's scale should again provide it differentiated ability to appropriately compensate employees given the volume of demand gives it substantially better visibility into demand and thus, a superior ability to secure and retain labor vs. competitors.

Valuation

The stock trades at 15.2x EV/'23E EBITDA which is a discount to the group. Reasons for the discount are valid in some ways given the law of large numbers limiting growth rates and the multiple ascribed to the low-margin 1P retail business. That said, we believe an in-line multiple is fair given the E-commerce moat AMZN has developed combined with rising exposure to highly cash-generative segments like advertising and cloud. Our Outperform rating is justified by our $4,000 PT which is based on 18.8x EV/our '23 EBITDA estimate.

Risks to rating and price target

Challenging integration of ongoing capacity expansion (hiring over 125,000 employees upcoming). Less sticky E-commerce trends post pandemic. Less successful Prime membership adoption in international markets leading to slowing growth and less margin expansion than expected. Inability to secure rights to meaningful sports content, particularly in Europe. A lack of improvement to the advertising platform's targeting algorithms and conversion leading to slowing growth. Intensifying competition in cloud. Global macroeconomic slowdown.

Investment summary

AMZN is one of the internet's largest true alpha dogs, in our view. The company's unmatched scale and advantage in verticalized E-commerce combined with its industry-leading cloud business gives it many shots on goal for future growth opportunities in new verticals. Our channel checks indicate the burgeoning advertising business in particular has a substantial opportunity to drive accretive growth. Regulatory scrutiny is inevitable but carries relatively low risk to long-term equity value, in our view.

Auto1 Group SE (XETRA: AG1 GR)

RBC Europe Limited
Sherri Malek (Analyst), +44 0 20 7653 4510, sherri.malek@rbccm.com

Rating: Outperform **Closing Price: EUR 33.60**
Price Target: EUR 70.00

RBC Imagine™ long-term idea thesis

AUTO1 Group is the leading online platform for the European used car market. Uniquely, AUTO1 is able to trade end to end online – both sourcing from and selling to the consumer and dealer. AUTO1's large scale sourcing capability has been a core ingredient for its success to date and remains a key competitive advantage, in addition to its cost-efficient logistics network. As the market leader, AUTO1 owns the largest data set for the industry and so is best positioned to price any car – another vital element of its competitive edge. AUTO1 is re-investing to build the leading online used car retailer in Europe with Autohero, leveraging the backbone of its operations and ability to scale. The platform makes it easier for consumers to trade-up to more sustainable vehicles. AUTO1 is facilitating fleet transformation towards eco-friendly cars and is already one of the largest traders of hybrid and electric vehicles in Europe.

Valuation

We use a DCF analysis to value AUTO1. We build a separate 20-year DCF analysis for the Merchant and Autohero segments given their different stages of growth and risk profile. We apply a higher WACC of 9.0% for Autohero compared to 8.3% for the Merchant division. We value the Merchant business at €4.6bn and Autohero at €8.7bn. Our forecasts imply a 2020-30 revenue CAGR of 25.2% and a 2030 Group EBITDA margin of 7.2% (vs -1.7% in 2019), in line with management's long-term target of a mid- to high-single-digit level. This results in our price target of €70 per share and supports our Outperform rating.

Risks to rating and price target

We believe execution is one of the key risks to the business, in particular scaling up the components of the value chain in parallel in order to deliver against the anticipated growth for Autohero. An unfavourable economic backdrop, including extension of COVID-19-related restrictions, may also negatively impact used vehicle sales, especially for the Merchant segment. The attractive growth potential of the online auto market will likely attract new entrants and potentially increase price competition which could reduce Autohero's growth rates and/or gross profit margin potential. The Group is also exposed to financing and credit risks, particularly in the event of a macro downturn.

Investment Summary

AUTO1 is the leading online automotive platform in Europe, uniquely able to trade end to end online. The platform offers an efficient online solution for a highly complex, fragmented and localised market and as such, has become the largest player, with no direct competitors in Europe. We believe AUTO1 has a first-mover advantage and see barriers to entry being its large-scale sourcing capabilities, an efficient pan-European logistics infrastructure and its leading pricing database.

AUTO1 is aiming to build the leading online used car retailer in Europe with its brand Autohero, using its IPO proceeds to ramp up investments in marketing and last-mile delivery. The brand has a distinct advantage of being able to leverage the backbone of its AUTO1 operations and scale rapidly.

AUTO1 Group's addressable market is significant, representing c.€700bn in 2019. In addition, the auto market has the lowest online penetration among the major retail categories at 1%, which we believe is in part due to the absence of credible online solutions. The Group is addressing this by offering a best-in-class consumer proposition through Autohero. As consumers become more accustomed to shopping online, which has been accelerated by the pandemic, this should drive online penetration higher.

Chipotle Mexican Grill, Inc. (NYSE: CMG)

RBC Capital Markets, LLC
Christopher Carril (Analyst), (617) 725-2109, christopher.carril@rbccm.com

Rating: Outperform **Closing Price: USD 1,806.00**
Price Target: USD 2,100.00

RBC Imagine™ long-term idea thesis

We highlight Chipotle as a structural best idea among large restaurant brands, with several long-term top- and bottom-line drivers. Chipotle has built a brand with culinary roots in fresh ingredients, as well as a focus on sustainability, which we believe will be key to its long-term growth and positioning with consumers. Following food safety-related issues in 2015-2016, the company invested further in key functional areas of the business (e.g., technology, marketing, etc.), better positioning it for growth at scale. Average unit volume (AUV) has returned to prior peak levels of ~$2.5M, with further AUV growth driving incremental margin expansion. Also aiding margin expansion long term will be the rapid growth of Chipotle's digital business (from ~20% pre-pandemic, to a run-rate of ~50% today), as the business further leverages its higher-margin "second make" lines, as well as continuing to evolve its physical store base to accommodate digital ordering (e.g., Chipotlane growth). While lunch and dinner dayparts continue to represent opportunities for further growth, we see potential for Chipotle to expand to other dayparts over time (e.g., late night, breakfast, etc.). Finally, while the vast majority of Chipotle's business is based in the US—which still represents significant opportunity for growth—we see opportunities to drive further growth via accelerated international expansion over time.

Valuation

Our two-stage DCF-based price target of $2,100 assumes a WACC of 6.5% and terminal growth rate of 3.8%. Our PT equates to a ~65x P/E multiple on 2022E EPS of $32.32. We believe CMG deserves a premium multiple given its long-term growth opportunity. Our price target supports our Outperform rating.

Risks to rating and price target

Impact of COVID-19 may result in a longer-than-anticipated recovery for sales and margins.

Same-store sales—and as a result, AUV—could grow more slowly or quickly than anticipated for a number of reasons including macro/consumer headwinds/tailwinds, shifts in competitive dynamics, and changes in consumer demand for the brand.

Margins could underperform/outperform our estimates as a result of rate of digital adoption, higher (or lower) than expected labor costs, and commodity volatility.

Factors impacting unit development—a key top-line driver—include construction costs, supply/demand dynamics for real estate and overall changes to consumer demand for the brand and/or limited-service dining.

Investment Summary

We are modeling a +19.4% comp in 2021, driven by: 1) menu innovation (e.g., quesadillas, cauliflower rice); 2) share gain opportunities, relative to fast food peers given CMG's quality/value offering; and 3) opportunity to leverage 2020's digital growth, including 1:1 marketing with >20MM loyalty members. However, we see the greatest upside NT from reaccelerating unit growth, setting CMG further along its goal of 6,000+ restaurants, from ~2,800 today. Management's guidance points to ~200+ restaurant openings in 2021 (assuming limited COVID-related disruption), up from 50%, supporting recent growth guidance.

Potential catalysts

- Same-store sales exceeding current 2021 expectations.
- Improvement in restaurant-level margin beyond expected levels.
- Further acceleration in new restaurant development.

Capital Markets

Coats Group PLC (LSE: COA)

RBC Europe Limited
Mark Fielding (Analyst), +44 20 7002 2128, mark.fielding@rbccm.com

Rating: Outperform **Closing Price: GBp 67.30**
Price Target: GBp 95.00

RBC Imagine™ long-term idea thesis

Coats is a clear global leader in premium thread with a market share over 20% (and about twice the next player), having gained 400-500bps of share over the last decade. Growth has been consistent pre Covid (with no negative quarter of growth over the 2015-19 period for the continuing business). Structural market trends that should support continued market outperformance and accelerated growth from here include: continued growth in the active wear segment (where Coats is stronger); near-shoring: global customers focused on supply chain quality/ESG factors. All these factors play into Coats' hands relative to fragmented smaller players in the customer base. Coats' scale also allows it to significantly outinvest its peers and this has been evidenced by EcoVerde (100% recycled thread produce) – sales were $37m in 2020 and are set to grow to over $80m in 2021. They have additionally launched a fully plant-based thread in 2021. These products should allow Coats to lead its sector in the shift towards more sustainable fashion.

Valuation

Our price target for Coats is set at 95p, in line with our DCF valuation (2% perpetuity growth rate and 7.5% WACC), and supports our Outperform rating. Coats has a limited trading history in its current form and that was hampered by issues around the pension. However, looking at 2022E, the P/E, both absolute and relative to our industrial coverage, are near the lower end of its 3-year pre-COVID trading range and it remains on a medium-term view one of the more defensive names from a fundamental demand progression perspective in our coverage.

Risks to rating and price target

Any additional extended COVID lockdown that further has an impact on retail trends could be an increased negative for earnings. We expect the global market for thread used in apparel and footwear to grow in low-mid single digits over the medium term, but expect it to be higher in Asia so any weakening in emerging markets would be negative. Any changing trends in apparel and footwear could also be a risk. Other risks include input cost rises (oil is a key input), management change, currency moves (10% shift in £/$ is c2% on EBITA) and pension assumption changes.

Investment summary

On a medium-term view, we see Coats as one of the more defensive names in our industrial coverage. The consistency of the business is shown by the fact that its quarterly sales had not declined at any point in the last 5 years prior to the COVID impacts. While it has been negatively impacted in the short term by disruptions in the apparel and footwear supply chains, we do not see any structural change in the long-term growth profile. In the medium term its global leadership and sales mix positions it to benefit from share gains driven by factors such as near-shoring, quality, active-wear, and ESG focus in the supply chain.

Structural defensive growth: We see Coats delivering medium-term structural growth. Key growth drivers include: (1) premiumisation; (2) environmental impact concerns; (3) hi-tech engineered yarns; and (4) digital services. Notably Performance Materials has delivered a sales CAGR of 8% from 2014-2019.

Cost actions support margin enhancement: Despite near-term cyclical pressures, we forecast EBITA margins rising back into the 14-15% range in the medium term.

Underlying cash generation supports M&A: 2021 net debt/EBITDA at 0.6x on our forecasts on a covenant basis suggests no significant financial risks. Looking at more normal cash flows in 2022E-23E, a FCF yield of c6-7% (9% pre-pension payments) reinforces the cash support.

Potential catalysts: We see the main focus being on resilient delivery against an abnormal backdrop for what remains a growth defensive business mix in the medium term.

Coursera Inc. (NYSE: COUR)

RBC Capital Markets, LLC
Rishi Jaluria (Analyst), (415) 633-8798, rishi.jaluria@rbccm.com

Rating: Outperform **Closing Price: USD 35.54**
Price Target: USD 50.00

RBC Imagine™ long-term idea thesis

Education and training was another critical area irreversibly changed as a result of the pandemic. Whereas online learning was growing in popularity, after more than a year of virtual learning, online degrees have now become mainstream, especially in graduate education. We see Coursera as well-positioned to capitalize on this trend long term from its combination of three businesses with different secular growth drivers: Consumer (benefiting from the great resignation and reshuffling); Degrees (benefiting from the shift of education online); and Enterprise (benefiting from the growing "skills gap" at businesses).

Valuation

Our $50 price target is based on 13x EV/2023E revenue, a less significant discount to the high-growth peer group median, which we think balances Coursera's competitive positioning and growth profile with an uncertain timeline to profitability. Our price target supports our Outperform rating on the stock.

Risks to rating and price target

Investment risks include: 1) competition, including against 2U, Udemy, Udacity, edX, LinkedIn Learnings, and Pluralsight; 2) Coursera is unprofitable and we do not expect sustained profitability in the near term; 3) Coursera is a Public Benefit Corporation (PBC) and registered b-corp, which requires additional investor disclosures and attention from management; 4) pandemic-related tailwinds may not be sustainable and may cause growth to decelerate; and 5) international risk, with international representing more than half of the business and 80% of total learners.

Investment summary

We like shares of Coursera for four primary reasons:

We believe the multi-segmented approach (consumer, enterprise, higher ed) creates a powerful flywheel effect and a sustainable economic moat. The consumer business, for example, creates brand awareness that has helped drive enterprise traction, while also serving as a funnel for the degree program (and lowering CAC as a result).

Our due diligence on Coursera has been positive. We spoke to multiple Coursera customers as well as Coursera's industry and education partners with partners praising Coursera for its reach and openness to innovation over competitors and consumers praising Coursera for the breadth and depth of its content over competitors.

We believe the pandemic has created lasting tailwinds across all segments for Coursera, especially in higher education. We believe education has been irreversibly changed and see room for more degrees (graduate and undergraduate) to be fully online.

Rapid growth with room for margin expansion. Coursera has grown revenue rapidly, with a 45% CAGR from 2017-2020, while growth nearly doubled in 2020 as a result of the pandemic. Importantly, rapid growth seems sustainable, with growth accelerating again in 1Q21 and with the shift to digital learning still in early innings. We also see room for meaningful margin expansion and Coursera to reach 25%+ FCF margins at scale, driven primarily by revenue mix-shift.

General Motors Company (NYSE: GM)

RBC Capital Markets LLC
Joseph Spak (Analyst), (212) 428-2364, joseph.spak@rbccm.com

Rating: Outperform | **Closing Price: USD 64.61**
Price Target: USD 74.00

RBC Imagine™ long-term idea thesis

GM is investing for a world of zero crashes, zero emissions and zero congestion and delivering technologies that rethink how people and goods are moved. GM has more than 30 battery electric vehicles (BEVs) planned by 2025, and plans for 40-50% of auto sales to be BEVs by 2030. GM is also growing its software and services business off an install base of connected vehicles to offer products that can provide personalized experiences in vehicle as well as more customized services such as insurance. On autonomy, GM has developed the consumer/retail SuperCruise and UltraCruise hands-free, advanced driver assistance systems, and has the Cruise robo-taxi transportation network company offering Level 4 autonomy, which could begin revenue-generating rides in 2023 and earn ~$50bn in revenue by 2030. GM is transforming into a more sustainable, less cyclical and higher-margin business aiming to double revenues and expand margins (potentially tripling earnings) by the end of the decade. Given these initiatives as well as a plan to be carbon neutral by 2040, we believe GM can increasingly screen well as an ESG candidate.

Valuation

Our $74 price target is supported by our SOTP analysis, which values "Legacy" GM (automotive and GMF) and GM's "Auto-tech Ventures" separately and also considers cash, pension, GM Corporate, and a 15% conglomerate discount. The blended multiple comes to ~4.3x on our 2022 Auto EBITDAP estimate or ~10x our 2022 EPS estimate. We believe these multiples, which are supported by our sum-of-the-parts analysis, are warranted given the value that we believe GM has in some of its businesses, and they compare to current 2022 multiples of 2.6x EV/EBITDAP and 7.7x P/E. Our price target and implied return support our Outperform rating.

Risks to rating and price target

1) Potential slowdown in auto sales in GM's end markets; 2) consumer demand remains soft following the COVID-19 pandemic; 3) "GM Tech" profitability is very far out and has a wide range of potential outcomes. The auto industry is highly cyclical with sales volumes influenced by employment levels, interest rates, and consumer confidence, among other things. A weaker-than-expected macro environment could result in increased pricing pressure/more incentives and lower-than-expected financial results. There is low visibility of pace of declines/recoveries of auto demand amid COVID-19-induced downturn and can differ from our expectations. There is a secular shift toward smaller, more fuel-efficient vehicles, which could be a negative for GM, which historically has been more successful with higher-margin trucks. A good portion of our GM investment thesis depends on the company's leading position in BRIC/developing markets, where political risks are not insignificant. In a rising commodity price environment, GM may not be able to pass along higher input costs.

Investment summary

Greater confidence in downside protection. This recent downturn driven by COVID-19 gives us solid confidence that GM can hold up in a downturn, as recent actions that have focused on improving capacity utilization and producing fewer low-profit cars benefit performance. We believe uncertainty around downturn performance has been a contributing factor weighing on the multiple, but we think investors should begin to fade the overly pessimistic view. **Core is strong, allowing GM to invest in future and new addressable markets.** GM will spend $35bn through 2025 on EV and AV. This results in 30 new EVs by 2025 with >2/3 available in NA across all brands/price points/uses, and several key high-volume entries by 2023. More than 40% of total U.S. vehicle model launches in 2025 will be EVs. 12 programs have been accelerated, and the new design-to-market benchmark is 26 months, down from 50 (which could have implications for suppliers). GM expects to exceed 1mm BEVs across NA and China. It is also using EVs to expand its TAM into new areas such as BrightDrop for electric last-mile delivery/logistics. **Tech in the future.** We are highly encouraged by GM's Ultium EV platform strategy. It remains to be seen whether GM can win on the robo-taxi opportunity, but it has a seat at the table; Softbank, Honda, Microsoft bring strategic value. GM could look to monetize Cruise. **GM (carbon neutral by 2040) as an emerging ESG candidate** could help the multiple.

L'Oreal (EURONEXT: OR)

RBC Europe Limited
Emma Letheren (Analyst), +44 20 7002 2100, emma.letheren@rbccm.com

Rating: Sector Perform **Closing Price: EUR 429.80**
Price Target: EUR 267.00

RBC Imagine™ long-term idea thesis

The global beauty category is benefitting from several long-term, structural tailwinds: rising disposable incomes in emerging markets, health and wellness (driving consumers away from damaging cosmetics and into skin care), rising financial independence and increasing entry into the labour market among women and global digitalisation. L'Oréal is particularly well-placed to benefit from these trends. Importantly, it also has the strongest digital capabilities amongst our beauty coverage. As social media becomes more prevalent across the globe, it's experience and use of influencers keeps it at the forefront of consumers' minds. In addition, its acquisition of leading AI company ModiFace has enabled it to be at the forefront of AI capabilities within beauty – it has introduced virtual try-on capabilities within its adverts and brand sites as well as developed virtual skin analysis tools which help consumers select products. Lastly, it is a strong example of the 'virtuous circle' business model, continuously reinvesting operating leverage gained through revenue growth to secure future growth. We therefore think L'Oréal will remain a first mover in beauty tech and brand innovation.

Valuation

We believe that consumer staples stocks lend themselves to a DCF valuation methodology owing to the relative strength and predictability of their cash flow together with—in some instances—a significant mismatch between capital expenditure and depreciation charged through the profit and loss account meaning that P&L-based valuation metrics (PE ratio and EV/EBITDA ratio) can be misleading. We use a derivative of a traditional DCF calculation called adjusted present value (APV) whereby the business's operating cash flows are discounted at its cost of equity (7.0% for L'Oréal) and tax shield at the cost of debt (3%). Assuming a terminal growth rate of 2.5% after 2035, we derive a fair value for L'Oréal of €254 per share. Discounting the APV forward by a year at the cost of equity and deducting our forecast dividend payment, we obtain a 12-month price target of €267. Our price target supports our Sector Perform rating.

Risks to rating and price target

A longer-than-expected continuation of lockdown in response to the outbreak of COVID-19 poses a significant threat to demand for professional beauty products, makeup and sun care. Global travel restrictions will be detrimental to the L'Oréal Luxe division which has been a core contributor to organic revenue growth. A shorter lockdown and bounce-back in global travel and consumer confidence would be positive for the shares. There is upside risk to our price target if our expectations of increased supply chain investment in the long term do not come to fruition. Any economic recession and dip in consumer confidence as a result of COVID-19 would have a geared effect on L'Oréal given that beauty is at the relatively cyclical end of the consumer staples sector, particularly given recent strength in the premium end of the category. Asia Pacific has been a significant generator of top-line growth for L'Oréal and a change in its growth prospects would impact the shares. Any enhanced focus on cost-cutting would be positive for L'Oréal, as would share buybacks, potentially of Nestlé's 23.29% holding should the latter decide to sell the stake.

Investment summary

L'Oréal's recent outperformance vs the beauty market has been impressive. It is benefiting from strong growth trends in Asia Pacific, especially China, and potentially has more to go here (L'Oréal has 8.7% market share in this region). It continues to invest for future growth, spending more on R&D than any other beauty company and consistently increasing A&P/Sales. That said, L'Oréal's peer-leading growth is derived from a few key areas: Asia Pacific, Luxe and Active cosmetics. We are concerned that any reversal in trends in these areas would hit L'Oréal hard. In addition, COVID-19 brings several challenges to the beauty market. Some it has been through before, such as an economic recession and the closure of beauty stores, others it hasn't, namely a reduction in makeup occasions due to mask-wearing and increased working from home. L'Oréal's valuation looks demanding and is well above peers on a P/E and EV/EBITDA basis.

Capital Markets

Loblaw Companies Limited (TSE: L)

RBC Dominion Securities Inc.
Irene Nattel (Analyst), (514) 878-7262, irene.nattel@rbccm.com

Rating: Outperform	**Closing Price: CAD 97.08**
Price Target: CAD 112.00	

RBC Imagine™ long-term idea thesis

Loblaw's unique and virtually irreplaceable combination of assets should result in an unparalleled ability to become a core element of the manifestation of the drive to immortality. As part of evolving consumer preferences around health and nutrition, in our view, Loblaw is positioning itself to become a leading next-generation healthcare and wellness solutions provider at a time when an aging population and burden on government budgets could see a shift of services into the private sector. Notable internal levers include: i) the reach of its food and pharmacy assets; ii) proactive work on digitization of health care in Canada; iii) investments and initiatives in telemedicine and physician management software; and iv) extensive consumer health and food preference data via PC Optimum. Specifically, Shoppers Drug Mart is actively involved in the development of connected healthcare in Canada with deep cross-country coverage that includes Rx (health), nutrition (wellness), and health management/medical records (QHR). Over time, we envision a scenario whereby patients willing to self-disclose could benefit from a range of nutritionally appropriate menus to suit individual palates, preferences and medical requirements, with digitally pre-populated, ready-to-order baskets.

Valuation

Our $112 price target is based on a blended valuation methodology whereby we apply 9x EBITDA and 16x EPS multiples to Q4/C23 TTM estimates. Our EV/EBITDA multiple is largely consistent with the average long-term multiple for the consumer sector in Canada but a discount to the growth-oriented names in the space (i.e., DOL, ATD), consistent with Loblaw's current earnings growth outlook. Our price target supports our Outperform rating.

Risks to rating and price target

Ability of Loblaw to offset key input and opex cost increases, notably labour, and impact of healthcare reform could have a negative impact on the company's earnings growth rate and share price going forward. Should the COVID-19-driven retail dislocation and heightened operating costs last longer than anticipated, or should higher wages and safety and security measures in-store prove permanent rather than temporary, earnings and share price target could be lower than currently anticipated.

Investment summary

L offers defensiveness in the short-to-medium term, tonnage likely to stay elevated well into 2021: As a food & drug retailer, L is well positioned for current COVID-19 disruptions, although costs will remain elevated through this period. Looking ahead, notwithstanding macro backdrop, i.e., inflation/deflation, higher wage costs, headwind from drug reform, L's focus on surfacing operating leverage and the relative advantage of the L+SC size, focus and profitability should drive mid-SD EBITDA growth. As COVID-19 restrictions drag on, we now expect grocer tonnage to stay higher than pre-COVID through H2/21. As government support eases, tonnage should normalize to discount channels where Loblaw is market leader.

Shifting dynamics and foundational investments put Loblaw in pole position looking ahead to 2025. Accelerating penetration of e-grocery presents an opportunity for all incumbents to grab share of volume transitioning online. Against this backdrop, proactive investment in innovation capital was, and remains, of paramount importance to rising above the pack. Online penetration estimated in high-single digits during the pandemic, should continue to improve over the medium term as Loblaw continues proactive work on digitization of health care. As the company pulls away from the competitive set in terms of offering and how it goes to market, investors should increasingly differentiate between Loblaw and the rest of the field.

Proprietary survey supports re-rating argument. We have long argued that Loblaw's relative earnings, returns, and FCF conversion justify a narrowing of the valuation gap to peers. Findings and insights from our **2020 e-grocery survey** add critical points of differentiation, bolstering our argument that the current trading multiple fails to properly capture Loblaw's competitive positioning and structural advantages/capabilities. Findings underscore Loblaw's market leadership on key influencers of consumer behaviour across channels, notably loyalty programs and digital relationships. With seamless crossover across channels and banners, PC Optimum has emerged as the top consumer choice regardless of geography and demographics.

LVMH Moet Hennessy Louis Vuitton (NXT PA: MC)

RBC Europe Limited
Piral Dadhania (Analyst), +44 20 7429 8644, piral.dadhania@rbccm.com

Rating: Outperform **Closing Price: EUR 726.10**
Price Target: EUR 785.00

RBC Imagine™ long-term idea thesis

LVMH is the market leader in the luxury goods industry. It has a consistent track record in leveraging its scale advantage to strategically invest in forward-looking product and technological advancements. It has long established units including Asia Pacific Strategic Digital Group (specifically addressing the China and APAC digital ecosystem), Retail Lab (developing innovative solutions in the digital and retail space) and has recently announced it is setting up an R&D innovation centre in Saclay, France (2024-2025) with a clear objective to develop new materials, bio-technologies and digital and data solutions to facilitate greater sustainability across the wider LVMH platform. It has recently set up a cross-industry Blockchain technology, Aura, to help with traceability of products (in conjunction with Prada and Cartier). Finally, it has a strong presence in innovation start-ups, hosting annual LVMH Innovation Awards (5 years running) and La Maison des StartUps, which gives it access to new technologies and promising entrepreneurs. It also collaborates with tech leaders including its recently announced partnership with Google Cloud to develop its AI and cloud-based innovation.

Valuation

We use a DCF analysis to derive a 12-month price target of €785. The implied return to our price target supports our Outperform rating. At our price target, LVMH would trade at 34x FY21E.

We forecast +7.5% mid-term revenue growth, and limited outer-year (years 5-10) EBIT margin progression, with a stable capex/sales and moderating depreciation/sales ratio. The core assumptions behind our DCF valuation are a WACC of 7.0% (incorporating a beta of 1.0, risk-free rate of 2.0%, equity risk premium of 5.0%, and pre-tax cost of debt of 3.0%), medium-term cash flow growth of +7% per year (years 5–10), and 2.5% terminal growth rate.

Risks to rating and price target

We see the following company-specific risks: (1) store closures due to COVID-19 leading to prolonged recovery in traffic, (2) multi-year depressed air passenger traffic; (3) deterioration in organic sales trends, in particular for Louis Vuitton and Christian Dior Couture; (4) demand weakness for Hennessy cognac in the US and China; (5) Western European consumer downtrading in champagne; and (6) margin pressure if sales momentum weakens for its most-profitable brands.

Investment summary

We have an Outperform rating and €785 price target. LVMH remains a high-quality compounder with balanced risk/reward exposure to luxury and premium staples, in our view.

LVMH benefits from scale advantages (marketing, retail, sourcing, talent development), a strong digital platform, it owns brands and operates in categories that demonstrate strong distribution control, and generates consistent and meaningful free cashflow, supporting its acquisition strategy, which has demonstrated a strong track record supported by highly capable management.

We anticipate strong underlying brand momentum at core LV and Dior brands within Fashion & Leather, with margin levers to protect profitability in the near term.

We think LVMH has valuation upside potential relative to its global consumer peer group for a similar EBIT growth profile.

Key potential catalysts include: (1) strong demand from Chinese clientele fuelling faster sales growth for LV; (2) better-than-expected margin performance; (3) untapped growth opportunity for Wine & Spirits maisons and Sephora in emerging markets; and (4) weakening of the euro relative to the USD, CNY, HKD and JPY.

NEXT plc (LSE: NXT)

RBC Europe Limited
Richard Chamberlain (Analyst), +44 0 20 7429 8092, richard.chamberlain@rbccm.com

Rating: Outperform | **Closing Price: GBp 8,146.00**
Price Target: GBp 9,600.00

RBC Imagine™ long-term idea thesis

We view Next as a market leader in the omnichannel softlines space and we see it as relatively well placed to capitalise on digital transformation trends that we believe will persist over the medium-to-long term. Next has a digital/home shopping heritage and has a number of structural advantages: 1) strong omnichannel capability, with fast and highly automated logistics; 2) strong range advantage; 3) large customer database. Even before the pandemic, >50% of Next's sales and >60% of profit came from online related activities, with initiatives such as Platform Plus helping to support growth of its omnichannel offer. Next is now growing its Total Platform business, where it is effectively operating a full digital offer on behalf of third-party brands. We expect Next to remain on the front-foot in terms of digital innovation over the next 5-10 years, which should help to maintain its leading position in the sector. Finally, we think Next has been catching up with the rest of the sector on sustainability initiatives eg it has recently launched a standalone, responsibly sourced collection, called Mr Blue Sky. It also sells brands like Thought, which features pieces using natural, sustainable fabrics like hemp, Tencel and organic cotton.

Valuation

We use an average of a DCF and sum-of-the-parts analysis to arrive at our price target of 9,600p, which supports our Outperform rating on the shares. Our DCF models a 10-year CAGR (FY22-32E) in sales and EBIT of 4%. We use a WACC of 7.5%, reflecting Next's size and strong balance sheet, and a terminal growth rate of 1.5% to account for Next's relative maturity in the UK, but with further potential for online growth, brand and range development and growth internationally. Our FY23E SOTP values Next UK Online at 12x, versus 8x for N Brown, International at 18x and LABEL at 20x, versus 10x for ASOS and 40x for Zalando, and Next Retail at 10x EV/EBIT, below M&S and Dunelm at c.10x and 16x, respectively. We also value Next Finance at 0.75x receivables and Total Platform at 2.5x sales, given its strong growth potential.

Risks to rating and price target

Risks to our price target and rating include a potential de-rating if market perception as to the long-term growth potential of Next's online business falls. These include a high historical margin and recent heavy reliance on cash-based customers. Also, with c.90% UK exposure and an upper mid-market positioning, Next is exposed to any further restrictions on its stores, and any pressures on disposable incomes, particularly from sluggish wage growth or interest rate rises. Next could on the other hand see a stronger-than-expected gross margin performance due to better-than-expected buying gains, or may benefit more than we expect from ongoing capacity withdrawal, particularly in the heavily disrupted UK middle market and department store sector.

Investment summary

We think Next is relatively well positioned in the sector and has potential to recapture its status as a strong online and cash-returns story. Longer term, Next should benefit from a further shift of sales online and from growth in its Brands and International sales channels. It also has potential to develop its high-return Total Platform business for other brands, which leverages its strong systems and online warehousing and distribution. Next is currently trading slightly above its historical average, reflecting its higher online weighting and online/platform potential, which is likely to lead to a higher rate of sales growth (at least mid-single digit) than the 2% that NXT has achieved historically.

Potential catalysts: Next will report a Q4 IMS on Jan. 6, and has maintained guidance for Q4 sales to be up +10% vs 2 years ago, with FY post-IFRS 16 PBT expected to be c.£800mn. Next expects net debt at year-end to be £610mn, in line with previous guidance, suggesting potential for higher cash returns. We expect that Next will see continued good demand for formalwear and occasionwear in Q4. We think that stock availability has been improving, albeit there is some seasonal risk on product. We expect that Next is seeing labour cost inflation for staff in warehouses and delivery drivers but we expect currency benefits on COGS to still come through next year from the lagged effect of USD weakness vs GBP. We think Next will likely offset cost inflation with moderate price rises in H1 next year.

Ocado Group PLC (LSE: OCDO)

RBC Europe Limited
Sherri Malek (Analyst), +44 0 20 7653 4510, sherri.malek@rbccm.com

Rating: Sector Perform | **Closing Price: GBp 1,790.00**
Price Target: GBp 2,100.00

RBC Imagine™ long-term idea thesis

We believe Ocado's best-in-class proposition, built upon years of developed know-how and technological expertise, positions it well for further monetization overseas. Ocado is the only global provider of an end-to-end platform solution for online grocery retailing, which we view as the most robust and profitable fulfilment solution. The company continues to innovate and re-invest in further increasing the strength and efficiency of its solution (e.g., robotics and artificial intelligence) making it more valuable to existing and prospective retail customers. We expect significant future cash flows from its existing international partnerships as well as an additional number of deals being signed over time.

Valuation

Our DCF-derived SOTP valuation of 2,100p for the Group is derived from Ocado Retail (50% share of JV with M&S) and Solutions (UK and International), including the potential for future deals based on the market share Ocado can achieve through its partners. We value Ocado Retail at an EV of £4.0bn and Solutions at £13.6bn, which includes the potential for future deals at a valuation of £4.8bn. Our price target supports our Sector Perform rating.

Risks to rating and price target

Key upside risks to our thesis are if Ocado signs a larger number of international deals than we assume or the rollout of CFCs occurs at a faster rate than we expect.

A key downside risk is a slower pace of capacity expansion constraining Ocado's ability to deliver growth as expected for both Ocado Retail and its Solutions partners. The rollout of an increasing number of CFCs simultaneously across geographies also increases execution risk.

Investment summary

Ocado is the only global provider of an end-to-end platform solution for online grocery retailing, which we view as the most robust and profitable fulfilment solution. This has become increasingly recognised by retailers globally. As such, we expect significant future cash flows from its existing international partnerships as well as an additional number of deals being signed over time. However, its inability to scale rapidly means the Group is unable to fully capture the available market demand for both Ocado Retail and its partners, while the pace of CFC openings continue to be constrained by ~2-year lead times.

Tesla, Inc. (NASDAQ: TSLA)

RBC Capital Markets LLC
Joseph Spak (Analyst), (212) 428-2364, joseph.spak@rbccm.com

Rating: Sector Perform **Closing Price: USD 1,089.01**

Price Target: USD 800.00

RBC Imagine™ long-term idea thesis

Tesla has disrupted the automotive industry with electrification, connectivity, vehicle architecture, direct sales model and vertical integration. It is now on a path to meaningfully scale up manufacturing (via capacity expansion) and operations and build on their strong brand to capture share in the automotive industry. Tesla already has competency in batteries, e-motors, sensors, software and compute and continues to make investments in AI. As the company becomes more cash flow generative, R&D is likely to go higher and try to solve more and more complex problems. This includes autonomous driving, insurance, power producers/utilities and distributed energy, electrification of other transportation modes and even (potentially) a general purpose robotic humanoid.

Valuation

Our $800 price target takes a look at EV/sales- and EV/EBITDA-based multiple approaches and probability weights them (65% base, 17.5% each for upside/downside) on our 2025 estimates. For EV/sales, we use 8.0x for our base case (past year range is 9–18x NTM with an average of 12x) in our view warranted given we are looking out to 2025 and we believe the multiple will contract as TSLA grows into valuation. We use 4.0x for our downside case and 12.0x for our upside case. For EV/EBITDA, we use 30.0x for our base case, ~50% above the rate at which we expect EBITDA to grow over 2021E–25E. We believe this is appropriate considering the growth. In our downside case, we assume a 20.0x multiple while our upside multiple is 40.0x. Our price target supports a Sector Perform rating.

Risks to rating and price target

Tesla is a growth company and quarterly results may be lumpy owing to timing of new vehicles/deliveries and a variety of manufacturing issues, which could cause stock price volatility.

- Battery costs could decline at a faster/slower rate than we (and Tesla) expect.
- Adoption of electric vehicles could occur at a faster/slower-than-expected pace.
- Competition from both traditional OEMs and technology players.
- Regulatory risk.
- Supply chain inefficiencies.
- Tax and foreign currency risk.

Investment summary

Our Sector Perform rating is, among other factors, based on: (1) The push for EVs is growing, globally. Tesla is EV's poster child. (2) TSLA's inexpensive access to capital is a major advantage that helps it to fund growth and potentially acquisitions. This advantage could allow TSLA to remain ahead of competitors. In short, the higher stock price is somewhat self-fulfilling to TSLA's growth potential. (3) These positives are balanced by execution that will become increasingly important to maintaining Tesla's strong brand. Investment in service (and quality) has not been enough to keep pace with the fleet size, potentially damaging the brand. Service could be particularly important as Tesla continues to try to expand outside its core market. (4) Ultimately, our Sector Perform rating on TSLA is also valuation-based, as we believe the current valuation assumes high growth assumptions and strong execution.

Potential catalysts: (1) Delivery announcements; (2) product and feature introductions; (3) earnings and guidance; (4) commentary regarding vehicle production costs/demand; (5) solar tiles, Class 8 truck, and other product announcements/progress; and (6) regulatory rulings.

The Estée Lauder Companies Inc. (NYSE: EL)

RBC Capital Markets, LLC
Nik Modi (Analyst), (212) 905-5993, nik.modi@rbccm.com

Rating: Outperform | **Closing Price: USD 354.46**
Price Target: USD 365.00

RBC Imagine™ long-term idea thesis

We view EL as one of the best-positioned companies within the CPG landscape to benefit from the key consumer trends highlighted in *RBC Imagine™ Preparing for Hyperdrive* over the next decade. EL's 100% exposure to the global prestige beauty category positions the company to capitalize on the beauty premiumization trend, with the prestige beauty category growing in the +M-HSD% range globally, outpacing mass beauty's growth rate, and to benefit from a rising middle class and increased spending on beauty products in emerging markets (for example from 2015-2020, per-capita spending on prestige beauty increased by 185% in China, +52% in Brazil, and +39% in India). EL's portfolio plays within our "Quest for Immortality" theme with consumers increasingly focused on their health and physical appearances. In addition, we believe management has a strong track record of execution on digital innovation, data analytics, and leveraging technology to improve products and services. EL is leveraging data from its direct-to-consumer websites to offer more personalized products and consumer outreach, a trend we expect will become even more important, and at its Experience Center in Shanghai, consumers can personalize custom 3D-printed palettes. EL is also ahead of competition in e-commerce and digital advertising capabilities, with ~28% of its global sales via online channels and digital media representing ~75% of advertising spend. In summary, we believe external tailwinds and solid execution will result in EL consistently delivering towards the high end of its long-term financial targets of +6-8% sales and +DD% EPS in annual constant currency growth.

Valuation

Using a DCF valuation to arrive at our $365 price target, we assume a 7.6% top-line CAGR through 2031 with peak margins of 25% and a WACC of 5.7%. Our ~8% top-line algorithm gives Estée a 4% lift from expansion in the beauty category, a 3% lift from share gains, and a 1% lift from white space expansion. Historically, the prestige beauty category has grown 4–5% and our base case does not assume a long-term deviation from this historical trend. Our price target and implied return support our Outperform rating.

Risks to rating and price target

Slower growth in global prestige beauty than the anticipated 3–4% this year. Failure to execute on planned white space expansion opportunities, especially into India, which is expected to be the second-fastest-growing prestige beauty market going forward. Failure to successfully establish the company in lower-tier Chinese cities. Inability to continue improved share trends by losing share of prestige beauty to global players. A worse-than-anticipated holiday season, during which Estée generates roughly 30% of its annual sales.

Investment summary

We believe Estée Lauder is among the best-managed and strategically positioned companies in our coverage, poised to grow sales and EPS/FCF at consistent high-single-digit and double-digit rates, respectively, over the next decade. The company appears especially well positioned to benefit from both a rise in Chinese consumer spending and a channel shift to e-commerce globally. At current levels, we believe EL's valuation is attractive relative to high-growth CPG peers. We rate EL Outperform.

Potential catalysts

Acceleration in global GDP growth: Per capita spend on prestige beauty has had a 93% correlation with GDP per capita growth, making Estée levered to the global economic recovery. We believe an acceleration in global economic growth rates could lead the category and Estée's sales higher. **Expansion into lower-tier cities in China:** Estée is making an aggressive push into the tier-2 and tier-3 cities of China for white-space expansion opportunities. We believe white space can contribute up to 1pp of our long-term 6% local currency growth estimate, and better-than-anticipated performance in these markets could lead to Estée outperforming our estimates. **Rebound in China economic growth:** Estée sources more than 10% of its sales from China. An acceleration in the overall Chinese economic environment could provide positive momentum to the stock.

The Procter & Gamble Company. (NYSE: PG)

RBC Capital Markets, LLC
Nik Modi (Analyst), (212) 905-5993, nik.modi@rbccm.com

Rating: Sector Perform **Closing Price: USD 147.10**
Price Target: USD 139.00

RBC Imagine™ long-term idea thesis

We believe Procter & Gamble has implemented transformational changes under the leadership of outgoing CEO David Taylor and incoming CEO Jon Moeller, which have significantly improved the company's growth profile and ability to respond to consumer preference changes. PG's move from its matrix structure to a more localized approach allowed the company to remove bureaucracy, move decision-making closer to the consumer, and be faster and more nimble with innovation. We believe this new organizational structure will allow PG to navigate a challenging geo-political environment. PG has also reshaped its portfolio, moving from 170 brands to 65 brands and from 16 categories to 10 categories over the last ten years, focusing on product superiority and best-in-class innovation to win with consumers. These changes resulted in a significant improvement in the organic top-line growth profile to a solid +MSD% level from the historical +LSD%, and leading to PG's consistent global market share gains vs. historical share losses. We also believe PG's current portfolio and recent acquisitions in consumer health (e.g., Merck's consumer business) and personal care (e.g., Native) positions the company well to capitalize on an aging consumer population and with the growing self-care trend. PG has also made significant progress on the data analytics and technology front. PG's neighborhood analytics program enables the company to ensure that it is serving the right stores at the neighborhood level, down to the right shelf sets, placement, sampling, and marketing, resulting in a better shopper experience and driving the category growth. In China, PG created a platform called Golden Eye, which uses crowdsourcing and artificial intelligence methods to better analyze the company's stores. With the platform PG is capturing and analyzing more than 1 million images a month from 40,000 stores in real-time using image recognition technologies. This drives faster insights on consumer shopping behaviors and allows it to offer personalized recommendations and marketing messages. PG's data analytics and technology capabilities are also integral to the company's approach to new products, such as Olay Skin Advisor, which uses AI-enabled diagnostic capabilities to help women find products that best address their skin's needs.

Valuation

Our $139 DCF-derived valuation assumes that over the next 10 years sales growth compounds at +3.9% as P&G's market share position stabilizes. We also assume that EBIT compounds at a 5.5% CAGR behind cost-cutting and working-capital improvements. We assume a +1.4% terminal growth rate and a 6.5% cost of capital. Our price target supports our Sector Perform rating.

Risks to rating and price target

The ability to achieve business objectives, including another $10B cost-savings effort and annual guidance objectives. Associated with the company's cost-savings effort, it must manage ongoing organizational change. Economic and political instability in international markets, particularly in the euro zone, Middle East, Emerging Europe, Africa, and Argentina. These events may disrupt normalized consumption patterns, inflate input costs and provide currency headwinds. Costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, labor costs, energy costs, pension and health care costs, and foreign exchange and interest rates. We are particularly mindful of two key input costs: oil and resin. Heightened promotional activity from competitors, including consumer preference for non-branded private-label products. P&G must also be able to respond to technological advances made by competitors and intellectual property rights granted to competitors. Failure of new product launches.

Investment summary

P&G has come a long way over the past 10 years (more effective organizational design, supply-chain reconfiguration, improved innovation processes, enhanced culture of risk-taking, etc.). We believe the company today is now well positioned to lead peers across most categories and navigate the volatility of a post-COVID world (including potential recessionary pressures). With that said, our modeling work suggests PG shares are near fair value. We rate PG Sector Perform.

Capital Markets

Volkswagen AG (XETRA: VOW3)

RBC Europe Limited
Tom Narayan (Analyst), +44 20 7429 8594, tom.narayan@rbccm.com

Rating: Outperform **Closing Price: EUR 186.00**
Price Target: EUR 310.00

RBC Imagine™ long-term idea thesis

Through 2025, Volkswagen will spend €73B across 3 future-looking verticals: 1) €35B for full electric vehicles; 2) €27B for digitalization; and 3) €11B for hybridization of existing models. It plans on producing 2-2.5M BEVs globally by 2025, and 5-6M by 2030, potentially becoming the largest BEV maker in the world. At its watershed EV event in March 2021, the company announced it would reduce battery costs by 50%, incorporating iron phosphate battery chemistries for entry-level BEVs, high manganese for the volume segment, and high nickel for premium. Further, VW is building 240 GWh of captive battery capacity across 6 facilities. It is also developing its proprietary software stack which will increase its own share to 60% from 10%. In addition, a large share of the funds will be invested in artificial intelligence and autonomous driving. VW believes Mobility services for personal transport will have a €70B TAM by 2030 and the company wants to be a leader in this space. By 2025, it plans on piloting a shared transport autonomous shuttle in Germany using Argo (JV with Ford). It will also use Cariad, its propriety software arm, for private autonomous transport. Mobility services will be carried out on one application across 4 services: car rental, group share, private taxi, and delivery applications.

Valuation

Our €310 price target is derived by applying a 2.5x multiple (auto trough multiple blended with mid-cycle truck multiple) to our 2022E Industrial EBITDA. We then add Industrial Net Cash, Finco (@ 1x Book Value), Navistar Finco (@1x Book Value), and China JV (@ 8x peer P/E) and subtract Navistar net debt, Underfunded Pension Liabilities, and 10% of Traton not owned by VW to arrive at our Equity Value. Our price target supports our Outperform rating.

Risks to rating and price target

- China slows further
- Obstacles in restructuring
- US/EU trade dispute intensifies
- Corporate governance restricts action
- Weak consumer EV demand
- Battery prices do not fall and profitability is impaired
- Covid-19 headwinds persist beyond expectations

Investment summary

VW is well positioned in China and emerging markets. Despite being largely mass market, the VW brand has outperformed the overall market during the current China auto downturn. Furthermore, we expect VW to benefit from global motorization trends and not compromise on profitability, especially given strong China margins.

We believe VW has the most to gain from a potential special situations catalyst among the group. A further sell-down of its Traton stake or a number of other separation possibilities would likely unlock considerable value. That said, with labour representing 50% of the company's Supervisory Board and the need for the Porsche family to support restructuring, there are meaningful obstacles to something actually occurring.

VW is well positioned on EVs. Despite our contention that the mass-market players are not as well positioned on EVs vs. the premium players, we believe VW's aggressive campaign to fully electrify its portfolio is the correct approach. Moreover, on a blended basis with its premium offering, falling battery prices, and strong consumer demand, we don't see electrification as a significant challenge to profitability.

Potential catalysts

- China auto sales
- EV profitability
- Corporate restructuring
- US trade resolution

Financials

Chubb Limited (NYSE: CB)

RBC Capital Markets, LLC
Mark Dwelle (Analyst), (804) 782-4008, mark.dwelle@rbccm.com

Rating: Outperform | **Closing Price: USD 191.78**
Price Target: USD 225.00

RBC Imagine™ long-term idea thesis

Whether the challenge is climate, cyberterrorism or risk, customization solutions won't come easy and will require lots of data and experienced risk managers. As a global company Chubb has the size and scope to address emerging risks holistically and the experience and skill to design underwriting solutions that simultaneously solve business problems and allow for responsible risk sharing. The company has been a leader in Cyber coverage, has long experience with climate change and is likely the most advanced in the industry adopting machine learning tools and applying them to underwriting for purposes of creating customized solutions. Equally the company has sufficient global presence that they can have influence with regulators and politicians and actively steer the industry towards insurance coverage standards that are responsible and proactive. For these reasons we see Chubb as a long-term best idea in addressing the challenges of the years to come.

Valuation

Our $225 price target is based on an approximately 1.5x price-to-book multiple applied to our ending-2022 book value per share estimate. Our multiple reflects a strong balance sheet, best-in-class underwriting capability and ample capital to pursue growth opportunities produced by market dislocations. We see ROEs migrating towards the low double digits under normalized economic conditions, which could be augmented by additional capital management activities or incremental growth should pricing improvement accelerate. Our price target supports our Outperform rating.

Risks to rating and price target

The company outlines a variety of risks in its annual 10-K, the most impactful of which, in our view, are as follows: exposure to man-made and natural catastrophe losses, exposure to unforeseen litigation, regulatory impacts in a variety of jurisdictions, the risk of fluctuations in inflation and interest rates on long-term assets and liabilities.

Investment summary

The investment case for Chubb is really as simple as it can be – we believe the company is the best underwriter in the sector and one of the few that has been able to consistently deliver profitable long-term growth. The balance sheet remains solid with consistently redundant reserves and ample capital to pursue capital return, organic growth and targeted acquisitions. We believe current market conditions are conducive to both price-driven and organic growth both domestically and internationally, taking advantage of market dislocations. Our investment thesis and Outperform rating are driven by the following key characteristics:

A dominant global franchise. Chubb has a broad product offering and the ability to deliver it through a variety of distribution channels and is backed by strong capitalization and a superior financial strength rating. About half of Chubb's business comes from outside the U.S., and it pursues growth via both acquisition or start-up.

Strong underwriting capabilities. Chubb's ability to write as a primary provider and as an excess provider positions it to participate in a range of insurance structures. Only a handful of companies can match this capability; fewer still can do so on a global basis, in our view.

Not just a pricing story. The company competes in a variety of businesses such as crop insurance and accident & health insurance, which are not typically correlated with the P&C insurance pricing cycle.

Potential upsides and risks to our thesis

Low frequency, high severity risks: The global nature of the company's business also means that it is exposed to a variety of risks that are inherently difficult to foresee. Exposures such as credit insurance, political risk, or agriculture insurance are examples of product lines exposed to such severity risk.

COVID-19 exposure: The company will be exposed to losses in a number of business units including travel, workers' comp, property, trade credit, surety as well as others. The magnitude of losses continues to evolve and can be impacted by a variety of factors including regulatory, judicial and economic.

Element Fleet Management Corp. (TSX: EFN)

RBC Dominion Securities Inc.
Geoffrey Kwan (Analyst), (604) 257-7195, geoffrey.kwan@rbccm.com

Rating: Outperform | **Closing Price: CAD 13.10**
Price Target: CAD 16.00

RBC Imagine™ long-term idea thesis

As the largest global pure-play fleet management company, we think Element Fleet is well-positioned to be a structural best idea in part by virtue of its scale and ability to re-invest in the business (e.g., AI/machine learning) and negotiate more favorable pricing within its supply chain that combined can ultimately further help lower the costs of fleet ownership for EFN's clients. We believe the fleet management industry is characterized as having high barriers to entry, favorable competitive landscape (oligopolistic in its key North American market), defensive attributes (e.g., long-term contracts, very high retention rates, minimal credit losses as clients bear the residual credit risk) and strong FCF generation which allows for reinvestment in the business and return of capital to shareholders. In addition to current strong momentum winning market share from peers, we think EFN is well-positioned to benefit from multiple medium- to long-term growth opportunities, including: (1) increased Electric Vehicle adoption, which EFN believes is more profitable than non-EV vehicles; (2) governments may seek to outsource their vehicle fleet in part due to finding ways to address higher deficits/debt (without increasing taxes) due to COVID-19 fiscal spending given outsourcing their vehicle fleet could see potentially 20% cost savings vs. managing their own fleet; and (3) potential "mega fleet" customer wins (like their current client Amazon).

Valuation

Our 12-month price target is $16/share. Our 12-month price target is based on 16x our blended 2022/2023 fully diluted operating EPS forecast, which is in line with its current multiple and a premium to the global fleet manager peer average. We believe a premium to global fleet management peers is warranted given factors including higher expected growth, stronger fundamentals, greater scale, and very little exposure to credit risk. We believe our 12-month price target and the implied total return support our Outperform rating.

Risks to rating and price target

Potential risks include: (1) persisting OEM production delays; (2) a severe and prolonged economic recession; (3) increasing credit losses or customer bankruptcies; (4) key personnel departures; or (5) key customer losses.

Investment summary

Why we rate EFN shares Outperform: Four key themes drive our positive view of EFN: **(1) attractive growth –** We forecast that EFN's EPS could grow at a mid-teens CAGR over the next five years, driven by new client wins, organic growth within existing customers, and significant returns of capital; **(2) multiple potential catalysts**; **(3) strong defensive attributes** – EFN faces minimal credit/residual risks and tends to have long-term contracts (3–5 years) with high retention rates (~98%); and **(4) attractive valuation** – we see high EPS growth as a key driver of valuation and potential valuation multiple expansion.

Why we like the fleet management industry: In our view, the fleet management industry has several attractive attributes, which we think, given that EFN is the largest player in North America, should provide outsized benefits to the company. Specifically: (1) the fleet management industry has high barriers to entry, which we think is partly attributable to high switching costs for customers, but also significant scale benefits; (2) the industry has a favorable competitive landscape, which we think has generally resulted in rational pricing behavior; (3) as mentioned above, the industry benefits from long-term contracts and very low client turnover/churn; and (4) the industry has strong free cash flow generation potential.

Potential catalysts: (1) OEM production delays subside; (2) accelerated wins of government/self-managed and/or mega-fleet customers; (3) increased returns of capital (e.g., further dividend increases, share buybacks, etc.); and (4) continued progress successfully reopening economies, which would benefit new order activity and fleet services.

Hercules Capital, Inc. (NYSE: HTGC)

RBC Capital Markets, LLC
Kenneth S. Lee (Analyst), (212) 905-5995, Kenneth.s.lee@rbccm.com

Rating: Outperform **Closing Price: USD 16.94**
Price Target: USD 19.00

RBC Imagine™ long-term idea thesis

We favor Hercules Capital's specialized niche of direct lending to growth oriented, tech-related companies and above peer average ROE generation potential. Specifically, HTGC is focused on providing financing to companies within the technology and life sciences sectors. Notably, we think traditional lenders may find it challenging to evaluate the credit of growth-oriented, technology-related companies given they typically may be cash flow negative. We would point out that while the profile of Hercules's typical corporate borrower can be considered relatively risky, as the borrower is typically a growth-stage or expansion-stage company, and is often cash flow negative, we observe HTGC's net realized credit loss rates compare favorably against a select set of publicly-traded BDC comparables, as HTGC's credit losses are often mitigated by equity warrants it typically receives for structuring debt investments. Similar to other BDCs, HTGC has a yield-oriented business model and distributes most of its earnings in the form of dividends.

Valuation

Given HTGC's above-peer-average ROE generation potential, specialized niche of providing financing solutions to emerging growth companies, and ability to mitigate potential credit losses through warrant monetization, we would ascribe a target P/NAV multiple of 1.64x. Our $19 price target represents 1.64x our 2022 estimated NAV/sh of $11.56. Our price target supports our Outperform rating.

Risks to rating and price target

Economic recessions, market downturns, or any slowdown related to Covid-19 could impair HTGC's portfolio companies and negatively impact the company's operating results.

Downturn in technology industries could have material adverse impact on the company: Hercules's significant investment focus on technology-related businesses could lead to adverse impacts to the company during market fluctuations within the tech industry.

Use of leverage: Further, the HTGC's use of leverage, through borrowing money, could magnify the risk of investing in the company.

Increased competition for investment opportunities could delay deployment of capital and could reduce returns.

The company is exposed to risks associated with changes in interest rates and market conditions.

Investment summary

We have an Outperform rating on Hercules Capital.

We favor Hercules Capital's specialized niche of direct lending – providing debt financing – to growth-oriented, tech-related companies. Specifically, HTGC is focused on providing financing to companies within the technology and life sciences sectors. Notably, we think traditional lenders may find it challenging to evaluate the credit of growth-oriented, technology-related companies given they typically may be cash flow negative.

Hercules's potential credit losses can be mitigated by the warrants it holds within its portfolio. We would point out that while the profile of Hercules's typical corporate borrower can be considered relatively risky, as the borrower is typically a growth-stage or expansion-stage company, often cash flow negative, we observe HTGC's net realized credit loss rates compare favorably against a select set of publicly traded BDC comparables.

We expect HTGC to generate net investment income ROE above peer averages over the 2021/2022 time frame. Further, we expect HTGC to be able to generate its ROEs while maintaining leverage levels roughly comparable to peer BDCs within our coverage.

We believe HTGC's dividends are well-supported. Further, HTGC's spillover income should provide additional support for the common dividend.

Marsh & McLennan Companies Inc. (NYSE: MMC)

RBC Capital Markets, LLC
Mark Dwelle (Analyst), (804) 782-4008, mark.dwelle@rbccm.com

Rating: Outperform **Closing Price: USD 167.79**
Price Target: USD 183.00

RBC Imagine™ long-term idea thesis

Companies like Marsh & McLennan sit at the crossroads between emerging risks faced by companies and managements and risk bearers who can help manage those risks. The company's skill across consulting, insurance brokerage, technology implementation, reinsurance and risk management given them a unique perspective in both understanding risks ranging from climate to cyber-terrorism (and everything in between) and being positioned to help bring customers solutions to the related challenges. Indeed they are already doing it for many of the world's most challenging risks such as property catastrophe risk modeling and cyber liability coverage, among others. The company also has a global reach and critical high-level relationships with top companies around the world. For these reasons we see Marsh & McLennan as critical player in addressing the challenges of the years to come.

Valuation

Our $183 price target is based on 27x and 16x our 2022 EPS and EBITDA/share forecasts. MMC shares trade close to its peer group. We believe a slight premium valuation is warranted by the strength of the platform, growing international presence, much-improved balance sheet, and opportunities for outperformance from both a top- and bottom-line perspective. Our price target supports our Outperform recommendation.

Risks to rating and price target

Key risks to our price target and rating include the following: 1) Macroeconomic extended weakness weighing on both segments (particularly Consulting) including from COVID-19; 2) Integration risk from acquisitions; 3) Various risks inherent with operating outside of the U.S.; 4) Soft P&C insurance pricing; and 5) Dislocations in commissions rates or distribution channels.

Investment summary

We view the company as well positioned for a better macro environment. We expect organic growth trends to improve into 2022 as RIS benefits from strong P&C pricing/solid market position and solid new business generation. We expect MMC's Consulting unit (which is larger than peers) to see a revenue lift as discretionary spending picks up and business confidence improves. Overall margin comparisons are a bit difficult, but we are still anticipating margin expansion for full-year 2021 and 2022. We expect share buybacks, dividend increases, and M&A to be in the mix. Our Outperform rating is based on the following factors.

Key Investment considerations

Gaining traction internationally: The company continues to grow significantly in emerging market countries and other key foreign markets, successfully building out its presence in faster-growing regions where insurance penetration rates are low (but rising).

Strength in the P&C insurance unit: We see several reasons why momentum at Marsh & Guy Carpenter can stay intact including: (1) strong new business; (2) growth in key specialty and niche lines; (3) increased traction at Marsh Agency; and (4) firming P&C insurance pricing.

Margins: While margin comparisons are difficult, the company has a good track record of realizing bottom-line leverage and working hard to improve margins. In particular, the Consulting segment could see better margins due to easier comparisons and as sales trends turn around as discretionary spending rebounds.

Strong M&A track record: Marsh McLennan has a track record of making thoughtful, accretive acquisitions that extend its depth and breadth. The Marsh Agency buildout has been a success, but we expect the company to look at acquisitions in both segments and internationally and domestically.

New York Community Bancorp, Inc. (NYSE: NYCB)

RBC Capital Markets, LLC
Steven Duong (Analyst), (415) 633-8659, steven.duong@rbccm.com

Rating: Outperform **Closing Price: USD 12.48**
Price Target: USD 17.00

RBC Imagine™ long-term idea thesis

With its new CEO taking the helm in 2020, NYCB has taken some transformational initiatives, in our view. NYCB's pending acquisition of Flagstar Bancorp (FBC) in 2021 will position NYCB as the sixth-largest bank mortgage originator and fifth-largest mortgage servicer in the country. Equally transformational, in our view, is the company's announced partnership with Figure Technologies, Inc. (Figure), a fintech startup that developed the **Provenance** blockchain, a public blockchain focused on financial transactions that has demonstrated meaningful cost savings in the mortgage, payments, and securities trading businesses. Through its partnership with Figure, we expect NYCB will utilize the Provenance blockchain to accelerate the FBC mortgage business and will also act as an "omnibus" bank to facilitate the trading of securities. We believe NYCB's early adoption with blockchain technology in key business areas may lead to further transformational changes for the company.

Valuation

Our $17 price target is 183% of our estimated TBV/sh in one year. The 183% multiple is based on applying a market-implied cost of equity (MICOE) of ~8.7% with our FY22 ROATCE estimate of ~16%. The ~8.7% MICOE is the midpoint of the long-term MICOE of ~7.4% and the 1-yr MICOE of ~10.1%. Our 183% multiple is above the 2018 and 2019 averages of ~145–150% due to higher profitability. Our price target, implied return, and risk assessment support our Outperform rating.

Risks to rating and price target

Regulatory risk: The FBC closing was delayed into FY22 as NYCB and FBC await approval from regulators. If the deal is pushed out too far or cancelled, our price target/rating could be negatively impacted. **Execution risk:** NYCB lost the Astoria Financial deal in 2017 and though we believe the context surrounding the FBC deal is much different, there is always the risk of the deal falling through, which could negatively impact our outlook. **Technology risk:** NYCB is partnering with Figure Technologies using a new blockchain technology which could have risks. **Mortgage activity risk:** NYCB will be a major mortgage player with FBC and may be more impacted if mortgage activity declines more than expected. **Credit deterioration.** Our rating and price target may be negatively impacted if credit deteriorates beyond our expectation and/or loan deferrals do not decline as expected. **Unknown consequences from the new rent laws.** The full ramifications of the new rent laws in New York City remain largely unknown at this point. If loan growth stalls, our outlook and estimates would most likely be negatively impacted. **Loan growth.** Should the company reach organic loan growth exceeding 5%, we would expect risk to the upside. Should loan growth stall, we believe there could be further risk to the downside. Should **property valuations for NYC rent-regulated, multifamily apartments** fall by at least 30%, there may be headline risk that would pressure the bank's stock price down. **The Manhattan office market** remains under pressure due to COVID-19 and may potentially be permanently altered by work-from-home trends. If rental demand falls by more than 30%, then NYCB's borrowers may not be able to meet minimum debt-service coverage ratio requirements of 1.3x.

Investment summary

The FBC deal jump-starts NYCB's goal of transitioning away from its thrift roots by diversifying its revenue, loan, geography and funding mix by becoming less reliant on wholesale funding, which should support higher profitability and a more resilient NIM in a rising rate scenario. NYCB will be asset sensitive with Flagstar. We expect the Figure relationship and its Provenance blockchain will accelerate NYCB's mortgage business, grow core deposits, increase net interest income/fee income, and grow its market base. All full payment deferrals returned to payment status and NYCB expects the majority of principal deferrals to return to payment status in FY21. NYCB's conservatively underwritten, rent-regulated portfolio has endured recessions well, due to the rent-stabilized nature and geography of the asset class, and conservative underwriting. From 1993 to 2019, cumulative net charge-offs totalled 104bps. For this credit cycle, we believe credit losses will be ~2.0%. NYCB runs an efficient operation with annualized operating expenses at less than 100bps on assets, the lowest in our coverage.

SVB Financial Group (NASDAQ: SIVB)

RBC Capital Markets, LLC
Jon Arfstrom (Analyst), (612) 373-1785, jon.arfstrom@rbccm.com

Rating: Outperform	**Closing Price: USD 745.26**
Price Target: USD 780.00	

RBC Imagine™ long-term idea thesis

As a clear leader within the technology, innovation, and life sciences sectors, SVB is very well positioned with verticals that are highly aligned to the fastest-growing segments of the global economy. These verticals sit at the cross-roads of the change forces and themes we have identified in our broader RBC Imagine™ report. We believe SVB is poised to continue to maintain a dominant market share with respect to lending in these verticals, and has also added complementary business lines such as capital markets and private wealth management that will deepen its presence in these segments. Management has a successful track record of reinvesting into its business and talent, and we believe fee-based expansion initiatives will help the franchise mature into a bank that can meet the full spectrum of client needs regardless of size or position in the client's lifecycle. Over the long term, we believe SVB's ambition to expand globally outside of its core U.S. market will provide another significant avenue of growth. We believe SVB's long track record of high revenue growth, ROEs, and strong relative credit quality can be supportive of franchise investments that will continue to drive the company's leading market share within the innovation economy.

Valuation

Our price target of $780 is ~27x our 2022E EPS estimate. Our price target primarily reflects our profitability and risk assessment of the company relative to a peer group of similar companies. Our target multiple represents a premium to the sector, which in our view is appropriate for high-quality growth-oriented banks with strong franchise values, and our price target supports our Outperform rating.

Risks to rating and price target

Risks to our rating and price target include a significant downturn in the stock market that could lead to a prolonged period without meaningful IPO or M&A activity among PE or VC-backed innovation companies, outsized losses on warrant positions and/or VC fund investments. The COVID-19 pandemic could also drive a material increase in credit costs and losses over time, though this risk appears to be mending. Furthermore, pressure from a challenging rate environment, including lower short-term rates and a flatter/inverted yield curve, could pressure the company's asset-sensitive balance sheet.

Investment summary

As the dominant bank serving innovation companies in the technology and life sciences industries, SVB is uniquely positioned to deliver above-average growth for the foreseeable future. The Private Equity and Venture Capital lending businesses have also been tremendous growth drivers for the company and the market share gain potential is meaningful. The Leerink investment banking business has been additive for the company's healthcare and life sciences clients and should enable increased retention of customers throughout their lifecycle. SVB expects to further augment this business with the build-out of a technology-focused vertical. Additionally, the recently closed Boston Private Financial (BPFH) acquisition should help accelerate the growth trajectory of the company's private banking and wealth management businesses.

In the near term, while some uncertainty of the economic environment from COVID-19 lingers, we believe SVB has demonstrated that credit metrics should be very manageable this cycle. The company has somewhat de-risked the loan book over the last decade and the VC/PE capital call lines portfolio remains very high quality with minimal loss content and currently comprises approximately half of the portfolio.

While SVB's significantly asset-sensitive balance sheet will not benefit materially until the Fed starts raising short-term rates, we believe the company has more than sufficiently demonstrated that it has enough revenue and balance sheet growth levers to drive sustainable earnings growth over the longer term. We rate the shares Outperform based on our belief that investors should focus on strong lending franchises with growth and levers to drive higher earnings.

Given the continued strong growth outlook and operating leverage potential, we view the company's outlook favorably and SIVB's valuation as attractive compared to the group given its relative longer-term growth potential and franchise value.

UBS Group AG (VIRT-X: UBSG)

RBC Europe Limited
Anke Reingen (Analyst), +44 20 7029 0784, anke.reingen@rbccm.com

Rating: Outperform **Closing Price: CHF 16.94**
Price Target: CHF 20.00

RBC Imagine™ long-term idea thesis

UBS's high capital ratios and profitability provide it with the means to invest into change. Technology plays a key role and UBS has the business mix where technology can play a key role in improving the customer experience (e.g., AI in GWM to assess client interests, portfolio simulation, trading patterns in the IB) rather than just as a way to automate processes to save costs. UBS' market share in its main business areas should also allow for scale effects in its IT setup. UBS has the product factories and the client base to benefit from an increased focus on ESG while less focus on balance sheet lending should reduce the risk of stranded assets. The challenges from crypto assets for the banking sector could be converted into a business area in investment banking and asset/wealth management although this is not envisaged at the moment. Risks include an Asia slowdown, taxes including wealth tax, and internal operational risk like money laundering, risk management failure.

Valuation

We value UBS on a growth-based price to book model (3% growth) using our 2023 estimates with a cost of equity of 10.5% to derive our price target of CHF20. Our price target supports our Outperform rating.

Risks to rating and price target

Our price target and rating would not be reached in the event of a significant fall in equity markets given the high gearing to equity-sensitive revenues. In addition, an appreciation of the USD vs the Swiss Franc would negatively impact our estimates and valuation but would positively impact the translation of the price target (in CHF). A weaker euro impacts our estimates and valuation less. Higher litigation charges and changes to capital rules and requirements are a risk. We have factored in that UBS will be able to buy back USD2.6bn in 2021E (2022E: USD3bn, 2023E: USD3bn). UBS might not be able to execute on these buyback programmes and pay dividends because of economic uncertainty, litigation cases and/or regulatory changes. UBS has some potentially material litigation cases outstanding (French tax case, RMBS). Its CEO is being prosecuted by Dutch authorities which might impact his ability to lead UBS. UBS has reported losses related to the default of a US-based hedge but there could be other implications (e.g., regulatory add-on). While UBS has quantified its direct exposure to Evergrande as immaterial, it could have indirect exposure also via knock-on effects. Its GWM operation could be negatively impacted by the Chinese government's aim of common prosperity.

Investment summary

UBS' capital-light business model allows it to deliver high returns and provide attractive capital distribution.

UBS has market-leading positions in a number of its businesses allowing for scale effects. The complementarity of most of its operations provides revenue and cost synergy potential.

Its business mix offers opportunities for investments and it has the means to do so (e.g., IT investments).

We think UBS' share price rating is overly discounted vs its historical rating. We believe there are catalysts (with respect to litigation cases, strategic update, management) and UBS has levers to pull to drive a rerating.

ESG is an area where UBS can further expand its position in terms of either product market shares and ownership within ESG funds.

Energy & Utilities

Baker Hughes (NYSE: BKR)

RBC Dominion Securities Inc.
Keith Mackey (Analyst), (403) 299-6958, keith.mackey@rbccm.com

Rating: Outperform | **Closing Price: USD 24.34**
Price Target: USD 31.00

RBC Imagine™ long-term idea thesis

We believe Baker Hughes is well-positioned to benefit from long-term trends within the energy and industrial sectors, specifically: de-carbonization, asset optimization, and electrification. In our minds, all three of these trends will be aided by AI and other technology-driven advancements. Baker's growing portfolio of AI-enabled products and services provides it exposure to a large eventual customer base, while enabling efficiencies for legacy oil & gas customers.

Valuation

Our $31 price target is based on 9.5x our 2023E EBITDA of $3.7bn. We apply a premium multiple to the broader oilfield services coverage benchmark. The key factors in our target multiple include Baker Hughes' strong free cash flow margins, peer-leading balance sheet strength, strong international franchise, and growing diversification from the oil & gas cycle through its increasing industrial and midstream revenue base. Our price target supports an Outperform rating.

Risks to rating and price target

- Reduced industry activity could weigh on results.
- Capital invested in energy transition may not realize return on capital metrics.
- Increased regulation for oil and gas operators.
- Customer consolidation and capital discipline focus.
- Pressure on shares from GE sell-down.
- Foreign operations/government regulation.
- Fixed pricing, integrated, or turnkey contracts resulting in cost overruns.

Investment summary

Baker Hughes provides investors with diversified exposure across the oil & gas value chain and its core compression competency provides growing exposure to an eventual energy transition. We believe the company is positioned to generate improved levels of free cash flow through margin expansion in its oil & gas businesses while minimizing its capital expenditure profile.

Potential catalysts

- Higher than expected commodity prices, leading to improved E&P spending.
- Stronger than expected pricing for services.
- Consolidation resulting in improved competitive dynamics and pricing.
- Improved utilization leading to higher fixed cost absorption and better margins.

California Resources Corporation (NYSE: CRC)

RBC Capital Markets, LLC
Scott Hanold (Analyst), (512) 708-6354, scott.hanold@rbccm.com

Rating: Outperform **Closing Price: USD 42.93**
Price Target: USD 65.00

RBC Imagine™ long-term idea thesis

CRC is an oil company that can be an active participant in energy transition through its carbon capture & storage (CCS/CCUS) and renewables initiatives. This adds value that could more than equal the value of its upstream oil & gas assets, that should see a financial and environmental benefit for its stakeholders. CRC owns/controls surface rights for the majority of its acreage amenable for CCS and located in proximity to carbon sources. We think its location in California is ideal given the state's ambitions and incentives to reach Net Zero. CRC has also signed initial contracts with a solar company that is eligible for tax credits and reduces its cost structure. There is the opportunity to expand the solar effort to become more significant over time. We think this ESG opportunity is more unique to CRC and could over time garner a premium multiple to other E&P peers with renewable projects providing value through carbon credits, lowering operating costs and generating cash flow uplift that longer term could match the oil & gas business.

Valuation

Our $65/share target values upstream assets, carbon capture & renewables opportunities, and other assets/income: $42/share upstream value at PV15 under the RBCe commodity outlook of $55/bbl (WTI) and $3.00/Mcf (HH). The discount rate is more conservative compared to peers at PV10 given more regulatory risks as a California oil producer. $8/share value associated with other assets/income including power & commodity marketing, Elk Hills gas-fired power plant, and other value for real estate ownership/income. $14/share for carbon sequestration and renewables. We assume 65 MMt of carbon sequestration and 45 MW of solar projects using existing federal and state incentives. The 5.5x multiple of 2022E EBITDA is a premium to peers at 4.5x related to upside optionality of carbon sequestration and renewables projects. Our price target and NAV upside opportunity support our Outperform rating.

Risks to rating and price target

Operating solely in California poses additional operational/environmental scrutiny and regulatory risks compared to E&P peers located in more oil & gas friendly states. Although CRC maintains good relationships in Kern County and Long Beach (core operating areas), from time to time we expect the stock could lag due to regulatory uncertainty or negative headline news. Limited trading liquidity and lack of inclusion in energy benchmarks we think pose a challenge to attracting new investors into the name in the near term. The current shareholder base remains populated with debt holders post CRC's emergence from bankruptcy last October.

Investment summary

CRC has a combination of a high-quality, low-decline conventional asset base, experienced management team and good balance sheet. A value disconnect to peers has persisted, however, since restructuring in October 2020. Its assets are located entirely in California and CRC is the largest producer in the state. CRC owns and operates integrated midstream assets, a 550 MW power plant, which sells a portion of its generation to the grid, and over 565 MMcf/d of gas processing facilities. CRC has a peer-leading balance sheet with current net debt-to-EBITDA of 0.8x and declining to 0.0x by mid-2022 based on our estimates. Management targets maintaining leverage sub-1.5x long term. The company operates essentially all of its investment capital and production, as well as owns a large portion of its mineral and surface rights translating to high net revenue interest (NRI ~87%). The low base decline nature of its conventional asset development strategy makes CRC less capital intensive relative to peers and provides a framework for more stable production/cash flow generation. CRC's large surface rights and premium geology position it to opportunistically pursue front/back of the meter solar and carbon-capture projects that could translate to improved operating costs and cash flow uplift. At 2Q21 earnings, management addressed the potential it sees for CRC to economically participate in energy transition opportunities, and we expect this to become an active focus for the company moving forward. CRC receives premium commodity realizations relative to peers/NYMEX benchmark pricing.

Drax Group PLC (LSE: DRX)

RBC Europe Limited
John Musk (Analyst), +44 20 7029 0856, john.musk@rbccm.com

Rating: Outperform **Closing Price: GBp 550.00**
Price Target: GBp 750.00

RBC Imagine™ long-term idea thesis

In recent years Drax has transformed from a dirty coal generator to a flexible low carbon generator, with a combination of baseload biomass and run-of-river hydro as well as pumped storage facilities. Drax's flexible and dispatchable low carbon electricity generation ambitions fit within our *RBC Imagine™ Preparing for Hyperdrive* "The Great Balancing Act" theme as it relates to delivering the energy transition in a cost effective and secure way. Following the Pinnacle acquisition, Drax is the number two biomass pellet producer globally with plans to expand production in a growing global market. We also see merit in aspirations to create the world's first Bioenergy with Carbon Capture and Storage (BECCS) generation units at Drax Power Station in the late 2020's, allowing Drax to become the world's first negative emissions power station. There is also potential to roll out this technology globally. In terms of technology and balancing intermittency & demand, Drax also has growth options in pumped storage, as it looks to more than double capacity at its Cruachan pumped storage facility. In short Drax is critical to future generation in the UK and Net Zero goals, providing dispatchable & zero carbon power with the potential for negative emissions, yet is still valued as a short life asset by the market.

Valuation

Our 750p/sh PT supports our Outperform rating. We run a DCF for the segments within Drax with a 7% WACC. At the core asset, we assume Drax runs its four biomass units to 2027, and thereafter converts two units to BECCS by 2030. We have a long-term baseload power price of ~£53/MWh in 2030E. Biomass equates to ~30% of EV with BECCS at ~5%. Hydro generation makes up ~15%.

We include the pellet production business gained from the Pinnacle acquisition within our estimates alongside a view on further capacity expansion and cost reduction. Pellet production makes up ~40% of our estimated EV (pre overheads).

We give Drax credit for the option value on three new build OCGTs which are now underpinned by 15-year UK capacity contracts. Alongside Customers, this forms the remaining ~5% of EV.

Risks to rating and price target

Drax is sensitive to underlying commodity assumptions and FX assumptions which have proved volatile throughout Covid-19. Power prices have recovered from earlier lows but could be influenced by other factors, customer bad debts and increased working-capital requirements could impact the customer-facing element of the business on an economic slowdown. Furthermore, biomass generation is currently reliant on government subsidies in the form of ROCs and CfDs, which could be altered and there is not yet any certainty on BECCS deployment. Finally, the pellet production business is subject to strict sustainability requirements and could suffer reputational risk given constant scrutiny from environmental groups.

Investment summary

Drax has a unique and positive role in the energy transition in the UK which we believe remains underappreciated by the market. Drax has re-shaped its image from that of a carbon generator having ceased commercial coal operations, disposing its CCGT assets, and is now exploring longer-term low carbon flexible generation expansion via BECCS and Cruachan. Drax has also made substantial progress on its biomass vertical integration strategy, and post acquisition of Pinnacle has further integrated its sustainable vertical supply chain to support the long-term goal of 5mt of biomass self-supply.

We expect clarity on BECCS to slowly emerge over 2021/22 which would solidify Drax's role in the energy transition and future operations post 2027 (when current biomass subsidies end).

We maintain our Outperform rating and our PT of 750p/sh, and look to the late-November CMD for more visibility on longer-term low-carbon growth opportunities. In the near term, we see rich power prices significantly improving cash generation as Drax benefits from high power prices on open volumes.

Enel SpA (MTAA: ENEL)

RBC Europe Limited
Alexander Wheeler (Analyst), +44 20 7653 4481, alexander.wheeler@rbccm.com

Rating: Outperform **Closing Price: EUR 7.07**
Price Target: EUR 9.00

RBC Imagine™ long-term idea thesis

Enel's integrated model and innovative approach allows it to be at the forefront of a number of themes highlighted in this report. The renewables business is set to add ~70GW of installed capacity to 2030 across the US, Latin America and Europe, making Enel a key player in the global fight for net zero and the politics thereof. Digitalisation of the networks (2021E RAB €44bn) and the introduction of artificial intelligence will be important to ensure real-time balancing of the grid and the optimisation of energy usage. We think this theme offers significant future growth opportunity for Enel and complements the buildout of renewable capacity. Furthermore, Enel X will likely become a much larger part of the group going forward as the business promotes sustainable solutions based on the circular economy. The advent of electric vehicles and smart home technologies will likely see the rise of the prosumer, as customers gain additional autonomy in their energy decisions and the 'individual revolution' takes shape. It may also offer Enel interesting new opportunities to engage with the consumer through their retail business.

Valuation

Our price target of €9.00/share is based on a sum-of-the-parts approach that values each of Enel's businesses using a DCF through to 2050E, with WACCs between 5% and 12%. We value each geography within each specific business unit separately by a DCF. Liabilities are deducted at estimated book value. Our €9/sh price target supports our Outperform rating and implies a ~9x 2022E EV/EBITDA and ~18x 2022E P/E.

Risks to rating and price target

Enel is exposed to regulatory, power price and commodity price risk across its business. Enel's renewables business plan depends on being able to deliver new build projects at suitable IRRs, and in an increasingly competitive environment, this is not a foregone conclusion. Enel's financial targets as prescribed via its Strategic Plan may also not be achieved, leading to market estimate and sentiments being less optimistic. Enel also has a strong correlation to Italian bond yields, which not only affects its P&L through revenues and interest expense, but also the WACC used in DCFs to value the company, recognising that Enel's share price has a notable correlation to these bond yields. Therefore, any political and macro event that affects the Italian bond yields are potential risks. FX is also an important driver to consider since LatAm makes up a material share of group EBITDA. Other items include unfavourable changes in taxes, construction plan and management/governance. There is also exposure to political risk given government instability in some countries in which Enel operates.

Investment summary

Enel is a global utility company with investments along every part of the utility value chain. Enel has a diverse global footprint; however, the three focus geographies are Italy, Iberia and Latin America. To that end, the company is active in these countries mainly in legacy thermal generation, regulated networks, renewable energy and retail (particularly in Italy and Iberia). Enel is therefore positively exposed to the energy transition, both through the buildout of renewables capacity, with the company targeting 120GW of installed renewables capacity by 2030, and through the networks business with a 2022E-2027E RAB CAGR of ~4%. We believe our current price target and the resulting total implied return relative to Enel's peers is supportive of our Outperform rating.

NextEra Energy, Inc. (NYSE: NEE)

RBC Capital Markets, LLC
Shelby Tucker (Analyst), (212) 428-6462, shelby.tucker@rbccm.com

Rating: Outperform **Closing Price: USD 87.78**
Price Target: USD 97.00

RBC Imagine™ long-term idea thesis

NextEra is quite unique in the utility sector, in our opinion. It is both a leading utility, with best-in-class operations in Florida, and the largest owner and developer of renewables in North America. For the first segment, we believe that NextEra is a natural consolidator of utility assets. Its low operational cost playbook can be applied to other utilities, transforming them from mid-single-digit EPS growth utilities into high single- or low double-digit EPS growth. The second business line is where much of the excitement lies. NextEra's renewables business owns and operates ~22 GW. Due to continued cost reduction and favorable public policy, NextEra is aiming to add an additional ~22.7 to 30 GW of new renewable assets through 2024, and we would not be surprised to see them add an additional 25-40 GW during 2025-2030. This includes battery storage, a business that was non-existent just a few years. Other areas of growth opportunities include wind repowering and the production of green hydrogen.

Valuation

We value NextEra Energy at $97 using a sum-of-the-parts valuation. We apply a 23.2x P/E multiple to Florida Power & Light 2022E earnings. This reflects a 35% premium to our regulated group P/E of 17.2x, which we justify due to FPL's strong rate base growth, clean portfolio, constructive regulatory environment, and potential upside to the capital investment plan. For Gulf Power, we apply a 24.1x P/E multiple to 2022E earnings, a 40% premium to our regulated group. We justify a higher multiple due to the significant growth opportunities, increased investment, and potential improvements in regulatory mechanisms. At Energy Resources, we apply EV/EBITDA multiples to 2022E EBITDA of 25x to contracted wind/solar and 35x to new investment. We believe these multiples are justified given the increasing structural advantages that NEE enjoys as a market leader in renewables, as well as the overall shift in investor appetite for renewable assets. We apply EV/EBITDA multiples ranging from 10x and 13x for the other businesses. We add ~$6.20 per share for NEE's ownership interest in NEP and the associated IDRs. Our price target supports our Outperform rating.

Risks to rating and price target

Economic slowdown from coronavirus drives lower-than-expected load growth, reducing earnings at Gulf Power. Government support for renewable energy development decreases, or is slower than expected. Regulators discontinue reserve amortization in upcoming rate case, making utility earnings more vulnerable to changes in load. Potential dilution of premium multiple associated with renewable assets if NEE executes on a large, regulated transaction. Failure to execute on any of the potential growth projects at FPL. Impairment of NEP's ability to acquire contracted wind projects from NEER.

Investment summary

We consider NEE a core holding not just within a utility fund, but also within a broader portfolio. NEE deserves a premium multiple given its strong management team, exposure to the high growth renewable development space, and above-average earnings and dividend growth. We expect NEE to maintain or further its standing as a renewable mega player, as significant tailwinds provide opportunities for accelerated growth and NEP facilitates capital recycling. NEE's status as a best-in-class utility operator should not go unnoticed. We think 2021 could be the year that NEE executes on a large-scale regulated acquisition, as its premium valuation provides a strong currency for transacting and its excess balance sheet capacity furthers the competitive advantage. We could also see NEE use M&A to enter new businesses, as evidenced by their recent acquisition of eIQ Mobility and their failed attempt to buy a water muni in Pennsylvania.

Potential catalysts:

President Biden formalizes a 2035 clean energy goal for the electric sector, requiring U.S. utilities to accelerate investment in renewables. International mandates for clean energy increase the size of the overall market and allow NEE to capitalize on its status as a market incumbent. Improvements in battery storage make renewables more competitive. Execution on a large, regulated transaction increases earnings growth.

RBC Capital Markets

Sunnova Energy International, Inc. (NYSE: NOVA)

RBC Capital Markets, LLC
Elvira Scotto (Analyst), (212) 905-5957, elvira.scotto@rbccm.com

Rating: Outperform **Closing Price: USD 40.27**
Price Target: USD 61.00

RBC Imagine™ long-term idea thesis

NOVA is a leading provider of residential rooftop solar services in the United States. Residential rooftop solar penetration in the United States is ~4%, providing a significant opportunity for growth with declining costs and increased demand for resiliency as key growth drivers. We estimate NOVA has ~4-5% market share of the US residential rooftop solar market, but a higher share of the market's growth. As solar system battery storage penetration continues to increase, we expect NOVA to accelerate its grid services/microgrid programs, which should drive additional longer-term growth. NOVA continues to invest in additional service offerings and partnerships, including the partnership with ChargePoint, which should help drive longer-term growth and customer value. In the future, we see NOVA as a key beneficiary of the megatrend of home electrification as it invests in The Sunnova Adaptive Home™. The Sunnova Adaptive Home™ will allow homeowners to integrate and optimize solar production, storage, EV charging and energy management technologies, which should provide greater affordability and resiliency.

Valuation

We derive our price target of $61 for NOVA using a sum-of-the-parts analysis. We view NOVA's value having two components: (1) current net earning assets (which represents the value to equity holders already in NOVA's balance sheet); (2) equity value of future customers, which reflects what we believe is the value to equity holders from NOVA's future growth. We derive equity value of future customers using a discounted cash flow analysis, based on a 5% discount rate, 4% cost of debt, and 9% cost of equity. We forecast growth decelerates from 43% (in 2022) to 5% through 2035, and use a 4% terminal growth rate. Our $61 price target supports our Outperform rating.

Risks to rating and price target

While the federal government has extended the commercial investment tax credit, potential changes in state regulations could impact the growth of rooftop solar. Specifically, changes to net metering policies could affect the value proposition of rooftop solar relative to traditional utilities given the potential lengthening of a homeowner's payback period as net metering allows homeowners with rooftop solar to sell back power into the grid (thus lowering the homeowner's electricity bill).

Rising interest rates increase the cost of debt and consequently the cost of capital, which in turn could drive returns lower. That said, historically, utilities have passed on the cost of rising rates to consumers. If that holds true, then NOVA should be able to increase its rates while still maintaining a competitive rate vs utilities.

NOVA is dependent on debt and tax equity to finance its growth. If the cost of financing increases or financing is not available at optimal terms, then NOVA's returns could deteriorate. Specifically, NOVA has used low-cost tax equity structures to finance its business and inability to use these structures in the future could slow growth.

NOVA's growth potential could stall or returns could decline if its product suppliers were to encounter supply chain issues that either slowed production (shortage of solar modules or batteries) or increased costs. In addition, tariffs on solar modules and inverters have led to lower cost declines than in the past.

Investment summary

NOVA is a leading provider of residential rooftop solar services in the United States. We estimate NOVA has ~4-5% market share of the US residential rooftop solar market, but a higher share of the market's growth. NOVA operates under the dealer model, whereby its dealers originate leads and complete the installation of solar systems. NOVA offers customers leases, PPAs and loans, which NOVA retains on its balance sheet. Rooftop solar penetration in the United States is ~4% according to Wood Mackenzie, providing a significant growth opportunity. The recent extension of the investment tax credit for rooftop solar panels should help drive growth over the next several years.

TotalEnergies SE (NXT PA: TTE, NYSE: TOT)

RBC Europe Limited
Biraj Borkhataria (Associate Director of European Research), +44 7713 388 825,
biraj.borkhataria@rbccm.com

Rating: Outperform **Closing Price: EUR 43.54**
Price Target: EUR 54.00

RBC Imagine™ long-term idea thesis

TotalEnergies has been an early mover in its energy transition efforts, with investments across various value chains including solar, wind, batteries, retail and B2B electricity, as well as carbon capture and biofuels. We believe this scattered approach should help diversify risk over the coming years, while the company has intentions to grow its core business, primarily through a growing LNG portfolio. TotalEnergies was the only European integrated to maintain its dividend through the pandemic, and we believe significant amounts of excess free cash flow will be returned to shareholders over the coming years. We believe TotalEnergies is likely to be both a beneficiary of the energy transition and growing energy demand overall, as well as a beneficiary of a strong commodity cycle over the coming years.

Valuation

We value TotalEnergies based on a 2022E EV/DACF approach, with a target multiple at 6x. Our target multiple at 6x is at the higher end of the peer group average to reflect Total's more defensive earnings stream. This leads to a price target of €54 and supports our Outperform rating.

Risks to rating and price target

The principal risks to our price target and rating include: downside risk on the oil price, high exposure to Africa, which remains exposed to civil unrest, and project delivery risk with respect to major growth projects in Russia (Shtokman, Yamal LNG) due to the political environment.

Investment summary

Key reasons for our positive stance:

Acquisition spend. TTE has been one of the most acquisitive majors over the last few years, which in our view led to some underperformance during 2019. The ability to acquire assets at reasonable prices is a core part of the investment case, but also reflects a risk, in our view.

Emerging leaner: We think TotalEnergies was one of the more vocal majors about the “opportunity” that a low oil price presents; we believe this leaves it well placed to maintain upstream costs in the bottom quartile within the peer group.

Managing the dividend at $40/bbl. TTE has emphatically stated that it intends to maintain its dividend in a $40/bbl environment. With oil and gas prices rallying from the lows, we expect the dividend yield to continue to contract.

Risks:

M&A intentions: TotalEnergies has been particularly active in the last three years with inorganic activity. While management may express this as countercyclical, a significant portion of this has been funded by new equity, which structurally increases the dividend burden.

Materials

Albemarle Corporation (NYSE: ALB)

RBC Capital Markets, LLC
Arun Viswanathan (Analyst), (212) 301-1611, arun.viswanathan@rbccm.com

Rating: Outperform	**Closing Price: USD 273.39**
Price Target: USD 315.00	

RBC Imagine™ long-term idea thesis

ALB is the No. 1 global producer of lithium and provides meaningful exposure to potential structural growth in energy storage. ALB accounts for ~35% of global lithium output and we believe that high barriers to entry, the difficulty of adding supply, and robust demand growth expectations will help ALB maintain its leadership position as the leading global lithium supplier. In addition, as more automakers offer EV models, we believe EV demand is showing firmer signs of demand recovery, partially helped by the pent-up auto demand. ALB now estimates that 2025 global lithium demand could reach ~1,140kT LCE or a nearly 20% EV adoption rate (raised from earlier expectations of ~10-15% adoption rates), implying a significant ramp in EV adoption in 2023–25. As a result of these tight global supply-demand dynamics, we anticipate stronger lithium prices ahead and expect pricing upside and upward estimate revisions in 2022-24 (lithium prices currently trading at $14k/ton compared to its 2019 peak of $20k/ton).

Valuation

In our base case scenario, we apply a 33x EV/EBITDA multiple to our 2022E EBITDA of $1.18B to generate a price target of $315. Given the recent multiple expansion for the lithium business, supported by growing optimism on EV adoption growth, our multiple is the high end of the historical 7–30x range and assumes a 47x multiple on the lithium business. Our price target supports our Outperform rating.

Risks to rating and price target

- New supply announcements
- Delayed EV production
- Lower lithium prices
- Lower oil prices
- Government drops EV subsidies

Investment summary

ALB is the No. 1 global producer of lithium and provides meaningful exposure to potential structural growth in energy storage. ALB accounts for ~35% of global output and we believe that high barriers to entry, the difficulty of adding supply, and robust demand growth expectations will likely support balanced-to-tight markets, lithium prices, and ALB's ~35% Lithium EBITDA margins and earnings power.

Positives: ALB's market leadership, No. 1 resource position, and supply addition challenges. Only a few vertically integrated players currently control almost all of the battery-grade lithium market. To add brine or spodumene new supply requires resource development (mining expertise), concentration and conversion infrastructure (technology/know-how), and can take 10+ years. ALB is a low-cost producer of lithium given vertical integration (ability to reach more derivative markets than peers), asset location (strategically located conversion facilities near mines/brine pools to match demand), and scale.

Demand appears to be improving as more auto OEMs announce EV models. As more automakers offer EV models, we believe EV demand is showing firmer signs of demand recovery, partially helped by the pent-up auto demand. ALB now estimates that 2025 global lithium demand could reach ~1,140kT LCE at 19% EV adoption rate, implying a significant EV adoption ramp in 2023–25.

Anticipating catalysts business recovery in 2021.ALB's catalysts business is exposed to miles driven and so far that negative sentiment has continued into 2021. That said, with our view of travel activity returning in 2022, we believe ALB could benefit from this tailwind.

Anglo American plc (LSE: AAL)

RBC Europe Limited
Tyler Broda (Analyst), +44 20 7653 4866, tyler.broda@rbccm.com

Rating: Sector Perform **Closing Price: GBp 2,877.50**
Price Target: GBp 3,300.00

RBC Imagine™ long-term idea thesis

Anglo American finds itself set up with a diversified and largely future facing mining portfolio with solid growth options. While peers may need to work to reshape their businesses, Anglo American's prime starting point should let it continue to focus on further embedding technology and innovation through its quality asset base. With its head start from its P101 operating model and FutureSmart mining, as well as the acceleration of its decarbonisation plans, we believe it will be best placed to be an early adopter for Artificial Intelligence. A historical detraction of Anglo American has been its higher exposure to emerging market countries, but as we shift into the Great Balancing Act (as outlined in our *RBC Imagine™ Preparing for Hyperdrive* report published concurrently with this note), other mining companies are likely to move into more challenging jurisdictions, which should mitigate some of this historical discount.

Valuation

We generate our target price of 3,300p based on a blend of 1.0x NAV and 5.0x attributable EV/EBITDA on 2021/2022 estimates. Our valuation methodology is in line with global diversified peers and our price target supports our Outperform rating.

Risks to rating and price target

- **South Africa volatility:** Political volatility, uncertainty around the mining code and labour uncertainty could see the equity re-rating stall.
- **Economic growth:** Worse-than-expected growth (particularly from developing nations such as China and India) could negatively impact our thesis.
- **Fluctuations in prices/FX:** Volatility in commodity prices and FX (particularly a stronger ZAR or AUD) could have a negative impact on our thesis.
- **Opex inflation:** Anglo has operations in inflation environments (such as South America and South Africa). A return to higher inflation levels now that the sector has recovered provides a risk to our estimates.

Investment summary

Anglo American is a global diversified miner with assets in multiple commodities including copper (Chile), metallurgical coal (Australia), diamonds (Botswana and others), PGM (South Africa), iron ore (Brazil and South Africa) and thermal coal (South Africa and Colombia). Anglo American has the most growth of the diversified miners and trades on an inexpensive valuation with significant re-rating potential, in our view.

Potential catalysts for the stock

Improvement in struggling businesses: We believe diamonds and thermal coal profitability are tempering Anglo's share price. Implementation of the revised PGM strategy should improve contribution from Anglo Platinum, while a recovery in the diamond price should see improved earnings from De Beers.

PGM price improvement: Anglo American is the only major mining company in our coverage with exposure to PGMs. Higher prices would build a further cash flow buffer as the firm reaches peak capex spending in 2021E.

Economic growth: Stronger-than-expected growth (particularly from developing nations such as China and India) could positively impact our thesis.

Cameco Corporation (TSE: CCO)

RBC Dominion Securities Inc.
Andrew Wong (Analyst), (416) 842-7830, andrew.d.wong@rbccm.com

Rating: Sector Perform	**Closing Price: CAD 33.03**
Price Target: CAD29.00	

RBC Imagine™ long-term idea thesis

Cameco is a Tier 1 producer of uranium and fuel services which will be necessary to power the growing nuclear reactor fleet to meet rising energy demand while achieving a net zero carbon economy, critical to our *RBC Imagine™ Preparing for Hyperdrive* theme "The Great Balancing Act". While on a 12-month view we believe Cameco is fully valued and see potential for volatility in the share price, on a long-term basis we think the company is fundamentally well positioned to benefit from a tightening uranium market. Cameco has entered into several industry partnerships to collaborate on developing the future nuclear fuel chain required for the deployment of advanced nuclear reactors. Additionally, the company has significant involvement and a minority interest (with the option to purchase a majority) in the Silex Global Laser Enrichment project to develop next-generation enrichment technology that may be key to enabling the production of advanced reactor fuels.

Valuation

We value the company by applying a 1.75x P/NAV multiple to our NAV estimate. Our P/NAV multiple is above the average historical multiple, but in line with multiples during periods of strong investor interest and rising uranium prices. Our DCF uses an 8% discount rate. Our $29 price target supports our Sector Perform rating.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) a negative outcome in the ongoing CRA transfer pricing dispute; 2) contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; 5) currency volatility, primarily CAD/USD; and 6) a decline in uranium investor sentiment resulting in lower valuation multiples.

Investment summary

We believe the company is well positioned to benefit from an eventual long-term recovery in uranium prices, while strong operations support a very robust financial position in the near term. However, we expect a uranium price recovery to be gradual and view the shares as fully valued with downside risk and limited upside potential.

Potential catalysts

Cameco suspended production at McArthur River mine and Key Lake mill starting January 2018 and announced an indefinite extension of the curtailment in July 2018. The company expects to draw down inventories and make spot market purchases to meet sales commitments. Management has stated that McArthur River would come on-line when the company can sign contracts at prices that would provide acceptable returns—we view this price level as ~$40/lb.

Cameco currently has ~$300M in restricted cash set aside (along with lines of credit) for the CRA dispute to satisfy rules that require companies to remit or secure 50% of a tax reassessment. Given the positive ruling for Cameco, we think it is reasonably likely that the company would eventually be able to recover the restricted cash.

Cameco and Kazatomprom have restructured the Inkai JV to provide longer-term stability and potential production increases. Production at Inkai JV may increase according to the resource use contract, although the actual production plan is set annually.

Ivanhoe Mines Ltd. (TSE: IVN)

RBC Dominion Securities Inc.
Sam Crittenden(Analyst), (416) 842-7886, sam.crittenden@rbccm.com

Rating: Outperform, Spec. Risk | **Closing Price: CAD 10.07**
Price Target: CAD 12.00

RBC Imagine™ long-term idea thesis

In our view, Ivanhoe is a low cost, low emission/copper growth story at the right time. Ivanhoe's Kamoa-Kakula mine in the Democratic Republic of the Congo is ramping up to be a top 10 global producer over the next 5 years with costs in the lowest quartile, at a time when we expect a growing copper deficit and higher prices. This provides significant leverage to copper prices as our C$9.85 NAVPS estimate at $3.50 copper would be C$16.20 at spot metal prices ($4.40 copper). Because of the exceptional grades at close to 6% copper for the first 5 years (compared to the global average of 0.7%), Kamoa-Kakula and access to hydroelectric power sets up the mine for some of the lowest carbon emissions in the industry: Strong partners Zijin Mining and Citic Metals, both backed by the Chinese government, provide strategic advantages operating in Africa, and could ultimately result in a takeover.

Valuation

We value the company using a DCF-based net asset value approach. Our C$12.00 price target is based on 1.0x our NAVPS estimate of C$11.55. Our base case NAVPS is based on a $3.50/lb copper price in real terms and an 8% discount rate. The C$12.00 price target supports our Outperform, Speculative Risk rating. We assign a Speculative risk qualifier to Ivanhoe given geopolitical risk in the DRC and South Africa and its early stage of development.

Risks to rating and price target

Risks for our price target and rating include geo-political risk in the DRC and South Africa, financing risk, execution risk at the company's development projects given that they are early stage and long-dated, and risks associated with the development of infrastructure for the projects, including transportation in the DRC and power and water in South Africa.

Investment summary

Ivanhoe Mines has the potential to realize significant value as it advances its three main projects through development and into production over the next five years. The company intends to become a global, diversified mining and exploration company by advancing Kamoa-Kakula (Cu) and Platreef (PGM) from discovery to production, reopening the Kipushi (Zn) mine, and maintaining active exploration and acquisition programs. Kamoa-Kakula is one of the largest undeveloped high-grade copper deposits in the world, and Platreef could emerge as a low-cost PGM producer.

The near-term potential catalysts for Ivanhoe Mines include:

- Early-2022: Platreef DFS
- Q2/22: Start up of Kamoa-Kakula Phase 2
- 2022: Kamoa-Kakula Phase 3 and smelter studies
- Ongoing: Drill results

RETURN TO TOC

Louisiana-Pacific Corporation (NYSE: LPX)

RBC Dominion Securities Inc.
Paul C. Quinn (Analyst), (604) 257-7048, paul.c.quinn@rbccm.com

Rating: Outperform **Closing Price: USD 66.94**
Price Target: USD 100.00

RBC Imagine™ long-term idea thesis

We see a LP as a structural best idea in the North American siding market, taking market share from alternative substrates such as vinyl. In the medium-term, market share gains will be supported by product substitution as higher carbon alternatives lose market share. The company has a culture of consistent long-term reinvestment in their business, having invested in their existing OSB mill network to convert facilities to siding. We expect that the company will utilize artificial intelligence to improve operating performance and drive growth, especially at Entekra. LP has also invested in new product innovation, introducing new products such as pre-finished siding and smooth siding over the last few years; AI could help to identify key market trends and adjust production to match upcoming demand.

Valuation

Our $100 price target supports our Outperform rating and is based on a blended 11.0x EV/EBITDA multiple of our trend EBITDA estimate of $700 million (85%) and our 2022 EBITDA estimate of $1,241 million (15%). We believe Louisiana-Pacific should trade above the high end of the typical US Paper & Forest Products trading range (6.0x to 8.0x), reflecting the premium valuation of the Siding business, in addition to the company's strong balance sheet and accelerating return of cash to shareholders.

Risks to rating and price target

Downward changes in the level of North American new home construction and repair activity could adversely affect results.

Weaker economic conditions could have a negative impact on demand for Louisiana-Pacific's products.

Economic cyclicality, changes in consumer preferences, or imbalances in supply and demand could negatively affect realized pricing.

The shortage or increase in pricing of wood fiber or resin would increase the cost of goods sold by LP, negatively impacting results.

Given that the company offers product warranties, realized claims could be above management expectations, resulting in additional charges.

Increased competition in the North American siding market

Investment summary

Louisiana-Pacific Corporation ("Louisiana-Pacific" or "LP") is a leading provider of high-performance building solutions that meet the demands of builders, remodelers, and homeowners worldwide. The company operates leading Siding, Oriented Strand Board ("OSB"), and Engineered Wood Product ("EWP") businesses in North America, as well as a growing OSB business in South America. LP also owns a controlling interest in Entekra Holdings, LLC. We expect LP to benefit from its growing Siding and South American businesses as well as exposure to the growing US housing market through the OSB and EWP segments.

We expect LP to outperform based on the company's continued growth in the US Siding market by adding new capacity, the rollout of its pre-finishing strategy, and the eventual re-rating to a multiple more reflective of the growth and earnings power of the Siding business.

Over the next few years, we expect LP's OSB and EWP businesses to benefit from continued growth in the US housing market, providing incremental free cash flow that can be used to return capital to shareholders. The company's South America and Entekra business units provide additional growth opportunities.

Real Estate

Alexandria Real Estate Equities, Inc. (NYSE: ARE)

RBC Capital Markets, LLC
Michael Carroll (Analyst), (440) 715-2649, michael.carroll@rbccm.com

Rating: Outperform **Closing Price: USD 207.27**
Price Target: USD 235.00

RBC Imagine™ long-term idea thesis

Alexandria is a dominant player in the life science real estate sector. This property type is benefiting from strong structural tailwinds as technology advancements and a funding boost has accelerated the pace of drug development, and in turn, is driving stronger life science real estate demand. ARE has a first mover advantage that allowed the company to build significant scale in the right markets where tenants need to be. Management has aggressively acquired new sites that can support high quality development/redevelopments in the top and emerging cluster markets over the next several years. The company also maintains an industry leading platform not only in terms of real estate scale and quality, but also in the form of knowledge of scientific advancements. This helps the company better understand what the tenant base needs to execute their research and manufacture new complex drugs.

Valuation

Our $235/sh price target reflects a ~5% premium to our YE22 NAV estimate of $224.20/sh. We believe a premium is warranted given the strength of the life science sector, proven operating platform, solid tenant base, and strong balance sheet. Our target reflects ~30.0x our 2023 AFFO estimate (above the trailing 4-and 8-quarter averages of 29.0x and 28.0x) and a ~$1,040/SF valuation (below recent large private market transactions averaging ~$1,300/SF). Our price target supports our Outperform rating. **Net asset value:** Our in-place NAV estimate is $190.27/sh assuming a 4.25% cap rate. We expect ARE to create value over time and therefore our NAV estimate of $200.63/sh at YE21 (2022 est.) increases to $224.20/sh at YE22 (2023 est.).

Risks to rating and price target

The greatest risks to our estimates, recommendation, and price target relate to general economic trends including, but not limited to, job growth, health-care expenditures, new biotechnology office supply, and access to capital. ARE's tenants require significant funding for the research, development, and clinical testing of products. Tenant products are also subject to regulatory approvals. Higher raw material and labor costs related to development or redevelopment activities could also negatively impact investments. Additional risks, including the threat of terrorism, weather, and key personnel changes, are outlined in the company's filings with the SEC.

Other company-specific risks

Biotechnology sector could be binary. The tenant sector can have binary events. For example, ARIA expanded its space with ARE and later announced safety concerns around its blockbuster drug, sending the shares down as much as 80%. **Spread of COVID could slow investments.** Due to COVID-19, management lowered its investment expectations for the year in 1Q20. While expectations were increased in 2Q20, we note that a re-acceleration of COVID could impact the investment pace. **COVID could impair traditional office demand.** The long-term impact of COVID on demand for office space remains to be seen. ARE generates ~18% of ABR from tenants using more traditional office space.

Investment summary

Alexandria Real Estate Equities, Inc. is the largest public life sciences REIT and one of the larger public REITs. We believe ARE will drive healthy organic and external growth with positive leasing trends in its in-service and development portfolios.

Potential catalysts

Macro trends appear healthy for tenants. FDA drug approvals hit a lull in '16, but 48 novel drugs were approved in '19, 53 in '20, and 34 YTD. Tenants are more likely to make real estate decisions once they have an approved drug. **COVID-19 could increase demand for space.** COVID-19 has increased awareness around the need for life science products and R&D. Management noted that biotech venture funding, equity indexes, IPOs, and follow-ons hit all-time highs in 2020. This could lead to incremental demand. **Developments/redevelopments should drive growth.** ARE has made solid progress advancing the development pipeline and management has also identified more than 18.0 million SF of near-term, intermediate-term, and future development projects that should add significant value.

American Tower Corporation (NYSE: AMT)

RBC Capital Markets, LLC
Jonathan Atkin (Analyst), (415) 633-8589, jonathan.atkin@rbccm.com

Rating: Outperform **Closing Price: USD 257.53**
Price Target: USD 298.00

RBC Imagine™ long-term idea thesis

American Tower is the largest global tower operator with sites in 25 countries worldwide. The company benefits from varying stages of buildout in 5G infrastructure in the U.S. and Europe, while realizing incremental business from the expansion or further densification of 4G networks and the early stages of 5G infrastructure in emerging markets. We expect the company to leverage its global scale in the future to continue the buildout of passive infrastructure worldwide as the demand for mobile data continues to grow. The company operates as the dominant player in many of its geographies. Further, its selective expansion into adjacent infrastructure sectors such as small cells, fiber, and other assets should allow it expand its positioning in emerging markets that have historically struggled to provide reliable internet connections. Additionally, government policies across most of its operating areas provide a generally supportive (or improving) environment for capital spending by mobile network operators, which in turn supports healthy growth for AMT.

Valuation

Our price target of $298 is based on a blended ~28x forward P/AFFO multiple applying a ~30x multiple to US cash flows and ~25x multiple to international cash flows. We believe our valuation parameters are appropriate given datacenter REIT multiples well into the 20x+ range, and the tower model's significantly less capital intensity and greater operating leverage vs. datacenters. Additionally, tower operators have, on average, more stable cash flow and lower churn. In light of the implied upside vs. our price target, coupled with potential favorable acceleration catalysts around new spectrum deployment that could increase tenancies, we maintain our Outperform rating.

Risks to rating and price target

Wireless network consolidation or widespread use of network sharing, femtocells, or other factors leading to lower-than-expected demand for tower sites represent the most significant potential risks to our price target and rating. Elevated India carrier consolidation churn for a longer period of time is a potential risk. We also see potential margin pressure from changes to ground and tenant lease-renewal terms and tax adjustments, although such factors are already largely incorporated into our existing projection horizon.

Investment summary

Our Outperform rating on AMT is based on the following factors:

Highly predictable revenues due to long-term escalators and master-lease agreements, coupled with high revenue-to-cashflow conversion rates.

Continued expectation that US gross new business activity will accelerate through the year and into 2022. Upside to activity levels and revenues in 2Q, and 2021 more broadly, should be driven by Verizon C-band, with DISH and AT&T impacts to tower revenues more back-end weighted.

Minimal balance sheet risks with steady path toward de-levering toward the 3-5x range following the integration of recent and pending acquisitions.

An increasing dividend yield, following the full depreciation of older assets (e.g., acquired Alltel towers) and utilization of NOLs, could gradually broaden the company's base of potential investors.

Chartwell Retirement Residences (TSX: CSH.UN)

RBC Dominion Securities Inc.
Pammi Bir (Analyst), (416) 842-7805, pammi.bir@rbccm.com

Rating: Outperform	**Closing Price: CAD 12.13**
Price Target: CAD 14.00	

RBC Imagine™ long-term idea thesis

Chartwell is the largest seniors housing owner and operator in Canada, with a portfolio of generally high quality, mostly private-pay retirement homes. Given its size, scale, and the capabilities of its operating platform, we see it as well positioned to benefit from structural tailwinds in seniors housing, particularly with accelerating demographic-driven demand growth over the next 10 years (75+ aged population forecast to grow at 4.4% CAGR vs. 2.6% CAGR from 2010-2020). Importantly, the company also has a sizeable development pipeline, which we expect to provide an incremental source of FFO and NAV upside over the next 5-10 years. Notably, its internal management, operating platform, and development capabilities enable Chartwell to adapt its housing and service offerings to meet shifting seniors' preferences (e.g., larger suites, expanded service offerings to meet rising care needs, more social experiences). Pre-COVID, Chartwell's AFFO payout ratio averaged ~70%, with retained cash reinvested in acquisitions, development, and debt reduction. We expect this to resume post-COVID, as retained cash provides an efficient source of capital to fund its strategic growth initiatives.

Valuation

Our $14 price target is derived by applying a 5% premium to our $13.50 one-year forward NAVPU estimate, which implies an 18x target multiple to our 2023 AFFOPU estimate. We believe our target P/NAV ratio and P/AFFO multiple reasonably reflect our constructive mid- to longer-term view on seniors housing fundamentals, and the associated earnings and NAV upside potential in Chartwell's units. We also believe our target valuation fairly balances Chartwell's portfolio attributes, its mix of property, mezzanine loan interest and fee income, its financial leverage, and its overall "franchise value." Our price target supports our Outperform rating.

Risks to rating and price target

Risks to our rating and the achievement of our price objective include the risks associated with the ownership of real property. A prolonged COVID-19 pandemic could continue to negatively impact occupancy and financial results. Other potential factors include any that may have a negative impact on the long-term care sector, including government intervention, changes in the regulatory environment, and competition from other property owners, including those that operate on a not-for-profit basis.

Investment summary

Largest provider of seniors housing in Canada – Chartwell is the largest provider of seniors housing in Canada, with a portfolio worth ~$5 billion (by our valuation methodology) of generally high-quality, mostly private-pay properties. **Operationally focused on driving AFFOPU and NAVPU growth** – Rather than growing the size of its business, CSH is focused on maximizing the return from its existing portfolio via occupancy, rate increases, and cost control while building out its value-add development pipeline. **Occupancy upside** – Seniors housing is not entirely immune to the economic cycle, including overbuilding and economic weakness. Currently, CSH's retirement home same-property occupancy is ~77% and Management's objective is to achieve "stabilized" same-property occupancy of 95% by 2025. In the near term, we believe the COVID-19 pandemic will negatively impact occupancy in the retirement and LTC portfolios. However, we expect longer-term demographic tailwinds and the strength of CSH's operating platform to support a recovery over time. **Long-term demographic trends are in Chartwell's favour** – The 75+ age population is forecast to grow at a 4.4% CAGR over the next 10 years vs. the 2.6% CAGR from 2010 to 2020. We estimate the 75+ age group will comprise 11% of Canada's population by 2030 and 14% by 2040, up substantially from 8% in 2020. Notably, the capture rate of seniors housing increased to 9.2% in 2020 from 9.1% in 2019. Using our base-case scenario, we estimate demand for an additional 144K retirement suites by 2030, well above the 64K suites added over the last 10 years, and providing a tailwind for growth in the private-pay seniors housing segment. Even under our conservative scenario of declining capture rates, we estimate demand for a substantial 109K suites. **Distributions** – CSH has increased its distribution per unit annually for six straight years. Looking ahead, we believe increases may pause to maximize financial flexibility amid the ongoing pandemic and to fund ongoing growth initiatives.

Prologis, Inc. (NYSE: PLD)

RBC Capital Markets, LLC
Michael Carroll (Analyst), (440) 715-2649, michael.carroll@rbccm.com

Rating: Outperform **Closing Price: USD 150.38**
Price Target: USD 164.00

RBC Imagine™ long-term idea thesis

Prologis is well positioned to capitalize on the strong industrial real estate structural tailwinds and the pandemic has only accelerated these trends. Retailers are scrambling to build out their respective logistic networks in order to meet the spike in e-commerce sales and continue to improve customer service levels. Additionally, more companies are electing to move to a "just in case" from a "just in time" inventory model in an effort to avoid the impact from future supply chain shocks. These trends, combined with current consumption, should drive strong industrial real estate demand for the foreseeable future. PLD has a solid operating platform, key customer relationships, and capital partners to remain on the forefront of the above trends helping tenants find needed space in tight markets. We believe the company will be able to drive above average organic and incremental external growth for the foreseeable future.

Valuation

Our 12-month price target for PLD of $164/share reflects a ~10% premium to our YE22 NAV estimate of $149.27/share. We believe a premium is warranted given the strong secular tailwinds, development platform, and well-located core portfolio. Our target reflects a 37x 2023E AFFO multiple and $260/SF. The total return implied by our price target supports our Outperform rating. **Net asset value:** We estimate PLD's in-place NAV at $128.09/share assuming a 3.5% cap rate. We expect the in-place portfolio to generate solid organic growth trends and management to create significant value through the development pipeline, pushing our YE22 NAV estimate (looking at our 2023 estimates) to $149.27/share from our YE21 NAV estimate (looking at our 2022 estimates) of $136.27/share.

Risks to rating and price target

The greatest risks to our estimates, recommendation, and price target center around general economic trends including, but not limited to, global trade, business and consumer spending, inventory and absorption levels, global employment and GDP growth, space utilization constraints and supply chain reconfigurations, and investment pricing. Additional risks, including the threat of terrorism, disease or war, interest rate and foreign currency fluctuations, global political and tax legislation changes, transaction and promote activity within its various joint ventures and funds, new and renewal leasing activity, tenant bankruptcies, weather, and key personnel changes are outlined in the company's filings with the SEC.

Other company-specific risks: Rising industrial supply. An increase in supply could reduce demand for PLD's space, global absorption, and/or pricing power. This would limit PLD's ability to grow organically. **Foreign currency/policy risk.** Though hedged in the near- term, significant foreign currency fluctuations and/or policy changes could impact PLD's earnings/NAV. **The pandemic lasts longer than expected.** The effects on the portfolio of COVID-19 could escalate if the economy has to once again shut down or tenants are impacted negatively by the pandemic.

Investment summary

Prologis is the largest global Industrial REIT in the industry with a market cap of around $97 billion. The portfolio is mostly concentrated in the Americas (85% of NOI), but the company also has meaningful exposure to Europe (12% of NOI) and some exposure to Asia (3% of NOI). Our Outperform rating on PLD shares reflects our belief that PLD will generate healthy organic growth and solid external growth through acquisitions and developments.

Potential catalysts/drivers for PLD shares

Organic growth should remain healthy. Management expects the same store portfolio will generate 5.25%-5.75% cash NOI growth in 2021, but results could accelerate as secular tailwinds strengthen. **Developments should drive solid NAV creation.** We estimate that PLD will start $3.25 billion of new development projects in both 2022 and 2023, respectively. These should create significant value. **COVID could further strengthen secular tailwinds.** The full impact of COVID-19 remains to be seen, however, positive trends have emerged including increased adoption of e-commerce and a focus on supply chain resiliency.

SEGRO (LSE: SGRO)

RBC Capital Markets, LLC
Julian Livingston-Booth (Analyst), +44 20 7002 2790, julian.livingston-booth@rbccm.com

Rating: Sector Perform **Closing Price: GBp 1,333.50**
Price Target: GBp 1,100.00

RBC Imagine™ long-term idea thesis

SEGRO's portfolio and operating platform position it well to benefit from strong demand for warehouse type space. We expect the two thirds of its portfolio in urban warehouses to continue to benefit from demand from a wide range of users, with the structural growth in such demand and the very scarce supply of land available in urban locations more than offsetting any weakness in urban population growth. SEGRO has the skills and relationships to increase the lettable area of existing sites at the same time as creating space with higher value uses in areas of growing tenant demand. The third of its portfolio in big box warehouses allows it to capture increased demand from online retail and changes in supply chains. Its pan-European platform increases the opportunity for it to keep ahead of the market and to maximise the benefit of its skills and relationships. For instance, SEGRO has increased the number of Data Centres it owns on the Slough Trading estate from 0 in 2007 to 32, through the expansion of existing standard warehouses let on low rents.

Valuation

Our price target of 1,100p is based on an EVA analysis that uses 10 years of forecasts. We believe that such a valuation is appropriate for European REITs as it compares a landlord's long-term returns on capital with the risks it takes to generate such returns. For companies that deliver ungeared underlying returns ("ROCE") above their cost of capital ("WACC"), the EVA analysis generates a valuation at a premium to their current NAV and vice versa. For SEGRO, we forecast a significant improvement in its current 2.9% ROCE over the next 10 years, taking it above our estimate of its WACC of 3.9%. The implied return to our price target supports a Sector Perform rating.

Risks to rating and price target

We believe the key risks to our price target and Sector Perform rating are: (1) increases/decreases in the rate of development spend; (2) slower/faster progress in obtaining planning permissions necessary to build out its development pipeline; (3) slower/faster letting of speculative developments at lower/higher than expected rents; and (4) increases/decreases in the level of financial and operational gearing in the business.

Investment summary

Rationale for Sector Perform rating: We believe the very low 2.4% earnings yield that SEGRO's shares currently trade on based on our 2021 EPS forecasts can be largely justified by the good visibility over the strong EPS growth we forecast over a number of years. We forecast an 11% 2021-24 CAGR in EPS on the basis that SEGRO's business is well positioned to take advantage of the strong tenant demand for distribution warehouses. Its development pipeline is significant in this respect. Such growth is above the 9% pa achieved over the last three years, which was impacted by a reduction in gearing we don't expect to repeat. We forecast SEGRO's NAV/share growth slowing to 7% pa from end 2021 from 22% in 2021, resulting in an end 2024 NAV/share forecast in-line with SEGRO's current share price.

Potential catalysts

We believe that potential catalysts include news of: any increases/decreases in new supply of industrial space in SEGRO's key markets, any increases/decreases in the volume of developments undertaken by SEGRO, a larger/weaker increase in market rents than management anticipate and any significant increase/ decrease in SEGRO's financing costs.

Contributing Authors

RBC Capital Markets, LLC

Brian Abrahams (Analyst)	(212) 858-7066	brian.abrahams@rbc.com
Jon G. Arfstrom (Analyst)	(612) 373-1785	jon.arfstrom@rbccm.com
Jonathan Atkin (Analyst)	(415) 633-8589	jonathan.atkin@rbccm.com
Christopher Carril (Analyst)	(617) 725-2109	christopher.carril@rbccm.com
Michael Carroll (Analyst)	(440) 715-2649	michael.carroll@rbccm.com
Sean Dodge (Analyst)	(615) 372-1322	sean.dodge@rbccm.com
Deane Dray (Analyst)	(212) 428-6465	deane.dray@rbccm.com
Steven Duong (Analyst)	(207) 780-1554	steven.duong@rbccm.com
Mark A. Dwelle (Analyst)	(804) 782-4008	mark.dwelle@rbccm.com
Brad Erickson (Analyst)	(503) 830-9488	brad.erickson@rbccm.com
Scott Hanold (Analyst)	(512) 708-6354	scott.hanold@rbccm.com
Matthew Hedberg (Analyst)	(612) 313-1293	matthew.hedberg@rbccm.com
Ken Herbert (Analyst)	(415) 633-8583	ken.herbert@rbccm.com
Luca Issi (Analyst)	(212) 266-4089	luca.issi@rbccm.com
Rishi Jaluria (Analyst)	(415) 633-8798	rishi.jaluria@rbccm.com
Kenneth S. Lee	(212) 905-5995	kenneth.s.lee@rbccm.com
Kennen MacKay (Analyst)	(212) 905-5980	kennen.mackay@rbccm.com
Sara Mahaffy (ESG Strategist)	(212) 618-7507	sara.mahaffy@rbccm.com
Kutgun Maral (Analyst)	(212) 437-9151	kutgun.maral@rbccm.com
Nik Modi (Analyst)	(212) 905-5993	nik.modi@rbccm.com
Daniel R. Perlin (Analyst)	(410) 625-6130	daniel.perlin@rbccm.com
Gregory Renza (Analyst)	(212) 858-7065	gregory.renza@rbccm.com
Ashish Sabadra (Analyst)	(415) 633-8659	ashish.sabadra@rbccm.com
Elvira Scotto (Analyst)	(212) 905-5957	elvira.scotto@rbccm.com
Joseph Spak (Analyst)	(212) 428-2364	joseph.spak@rbccm.com
Shelby Tucker (Analyst)	(212) 428-6462	shelby.tucker@rbccm.com
Arun Viswanathan (Analyst)	(212) 301-1611	arun.viswanathan@rbccm.com

Capital Markets

RBC Dominion Securities Inc.

Pammi Bir (Analyst)	(416) 842-7805	pammi.bir@rbccm.com
Sam Crittenden (Analyst)	(416) 842-7886	sam.crittenden@rbccm.com
Sabahat Khan (Analyst)	(416) 842-7880	sabahat.khan@rbccm.com
Geoffrey Kwan (Analyst)	(604) 257-7195	geoffrey.kwan@rbccm.com
Keith Mackey (Analyst)	(403) 299-6958	keith.mckaey@rbccm.com
Drew McReynolds (Analyst)	(416) 842-3805	drew.mcreynolds@rbccm.com
Irene Nattel (Analyst)	(514) 878-7262	irene.nattel@rbccm.com
Paul C. Quinn (Analyst)	(604) 257-7048	paul.c.quinn@rbccm.com
Paul Treiber (Analyst)	(416) 842-7811	paul.treiber@rbccm.com
Andrew Wong (Analyst)	(416) 842-7830	andrew.d.wong@rbccm.com

RBC Europe Limited

Biraj Borkhataria (Associate Director of European Research)	+44 7713 388 825	biraj.borkhataria@rbccm.com
Andrew Brooke (Analyst)	+44 20 7002 2262	andrew.brooke@rbccm.com
Tyler Broda (Analyst)	+44 20 7653 4866	tyler.broda@rbccm.com
Richard Chamberlain (Analyst)	+44 20 7429 8092	richard.chamberlain@rbccm.com
Piral Dadhania (Analyst)	+44 20 7429 8644	piral.dadhania@rbccm.com
Mark Fielding (Analyst)	+44 20 7002 2128	mark.fielding@rbccm.com
Sebastian Kuenne (Analyst)	+44 20 7429 8932	sebastian.kuenne@rbccm.com
Emma Letheren (Analyst)	+44 20 7002 2100	emma.letheren@rbccm.com
Julian Livingston-Booth (Analyst)	+44 20 7002 2790	julian.livingston-booth@rbccm.com
Sherri Malek (Analyst)	+44 20 7653 4510	sherri.malek@rbccm.com
John Musk (Analyst)	+44 20 7029 0856	john.musk@rbccm.com
Tom Narayan(Analyst)	+44 20 7429 8594	tom.narayan@rbccm.com
Anke Reingen (Analyst)	+44 20 7029 0784	anke.reingen@rbccm.com
Charles Weston (Analyst)	+44 20 7429 8425	charles.weston@rbccm.com
Alexander Wheeler (Analyst)	+44 20 7653 4481	alexander.wheeler@rbccm.com

Royal Bank of Canada - Sydney Branch

Garry Sherriff (Analyst)	+61 2 9033 3022	garry.sherriff@rbccm.com

Required disclosures

Non-U.S. analyst disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access conflict of interest and other disclosures for the subject companies, clients should refer to https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1. These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to rbcinsight@rbccm.com.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Sep-2021

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Outperform]	800	56.58	341	42.62
HOLD [Sector Perform]	562	39.75	172	30.60
SELL [Underperform]	52	3.68	3	5.77

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to https://www.rbccm.com/global/file-414164.pdf or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

With regard to the MAR investment recommendation requirements in relation to relevant securities, a member company of Royal Bank of Canada, together with its affiliates, may have a net long or short financial interest in excess of 0.5% of the total issued share capital of the entities mentioned in the investment recommendation. Information relating to this is available upon request from your RBC investment advisor or institutional salesperson.

Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firm’s proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: https://rbcnew.bluematrix.com/sellside/MAR.action

The 12 month history of SPARCs can be viewed at https://www.rbcinsightresearch.com/.

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Third-party-disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

RBC Capital Markets disclaims all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any statements made to the media or via social media that are in turn quoted in this report, or otherwise reproduced graphically for informational purposes.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Europe) GmbH, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/ or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Capital Markets in each instance.

Additional information is available on request.

To U.S. Residents: This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents: This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents: This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To EEA Residents: This material is distributed in the EU by either RBCEL on an authorised cross-border basis, or by RBC Capital Markets (Europe) GmbH (RBC EG) which is authorised and regulated in Germany by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) (BaFin).

To Persons Receiving This Advice in Australia: This material has been distributed in Australia by Royal Bank of Canada, Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents: This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission (SFC) in Hong Kong, RBC Investment Services (Asia) Limited and RBC Global Asset Management (Asia) Limited, both entities are regulated by the SFC. This material is not for general distribution in Hong Kong to persons who are not professional investors (as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder.

To Singapore Residents: This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

To Japanese Residents: Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association ("JSDA") and the Financial Futures Association of Japan ("FFAJ").

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2021 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2021 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2021

Copyright © Royal Bank of Canada 2021

All rights reserved