Top picks for ESG investors

Socially Responsible Investing

In today’s capital markets environment, more and more investors are looking beyond a compelling growth profile or investment thesis. They are demanding that companies also have a demonstrated commitment to Environmental, Social and Governance (ESG) mandates. Our research indicates that more than two-thirds of asset managers now employ one form of ESG investing over a portion of their investment mandates. With Canadian ESG assets under management growing over 20% in the last two years, we believe momentum continues to build within the ESG investment landscape.

How Is ESG Defined?

While there is no formal definition of what makes a particular investment suitable for an ESG portfolio, we looked at a number of elements that we believe can provide a framework for ESG investing. These include: promotion of environmental sustainability and reducing a company’s carbon footprint; promoting social justice and responding to concerns of local communities; having an independent Board of Directors and a diverse management team; and consistently allocating capital effectively to the benefit of shareholders and stakeholders.

We believe companies that are leaders in ESG can provide compelling investment opportunities. Within our Canadian research coverage universe, our top picks for ESG investors are as follows:

Consumer and Retail: We believe Maple Leaf has established itself as a leader in sustainable protein production.

Financials: With a corporate citizen platform in place called “The Ready Commitment”, TD Bank is our ESG idea in the Financials space.

Industrials: Air Canada was named Eco-Airline of the Year in 2018. Meanwhile, Stantec is an industry leader in climate change mitigation and sustainability.

Pipelines: Keyera has demonstrated a track record of strong environmental awareness.

Real Estate: Through its commitment to renewable energy and engagement with local communities, Brookfield Asset Management is our top Real Estate ESG pick.

TMT: Telus is our top Telecom ESG pick, while CGI Group offers clients green IT and sustainability solutions, investing in educating youth through STEM programs.

Energy: While many Energy companies have increased their commitments to improving energy efficiency and reducing their emissions, we highlight Gen III Oil, Secure Energy, Tervita, Suncor, and Vermilion as leaders in the space.

Metals and Mining: B2Gold, Teck Resources, and TMAC Resources are our top Mining and Metals ESG picks, having demonstrated favourable community relations and commitments to reducing their environmental impacts.

Priced as of 19 July 2019 unless otherwise stated.
Maple Leaf Foods Inc.
Consumer Products

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Maple Leaf a leader in ESG initiatives

Investment recommendation
We believe Maple Leaf Foods represents a compelling ESG investment due to its focus on plant-based protein, promotion of diversity and independence amongst its board of directors and senior management, and commitment to sustainability.

A growing exposure to plant-based protein
Within the past two years, Maple Leaf has acquired plant-based protein producers Lightlife Foods and the Field Roast Grain Meat Company, providing Maple Leaf with market-leading brands in a growing food segment. Notably, the acquisitions align well with Maple Leaf’s vision to become the leading sustainable protein company, as producing one kilogram of plant-based protein uses considerably less water, land, and aquatic pollutants, as well as producing fewer greenhouse gas emissions than an equivalent kilogram of conventional ground beef. As consumer tastes evolve to shift towards sustainable proteins, Maple Leaf remains well positioned to serve this growing segment and achieve sustainability goals in the process.

Independence and diversity in senior management and the board
We also note that Maple Leaf has differentiated itself as a company that supports diversity and independence within senior management and the company’s board of directors. Suzanne Hathaway took on the role of General Counsel and Corporate Secretary in 2018, while Debbie Simpson has been the company’s Chief Financial Officer since 2014. Additionally, Maple Leaf has remained progressive in its composition of the board of directors, with eight of the ten directors considered independent.

Commitment to environmental sustainability, animal care, and the community
It is Maple Leaf’s vision to become the world’s most sustainable protein company. To that end, the company has undertaken several initiatives, such as converting its leading Maple Leaf Prime brand to being “Raised Without Antibiotics”. Furthermore, the company has also established a goal to reduce its greenhouse gas emissions, water usage, and waste by 50% by 2025, with Maple Leaf already having achieved a 20% reduction as of the end of 2017. The company has also transitioned approximately two thirds of its cows to an open housing concept and anticipates completing the transition by the end of 2021. Lastly, Maple Leaf established the Maple Leaf Centre for Action on Food Security as a registered charity in 2018; it invested C$4.5 million into the centre as it focuses on addressing food insecurity, with over four million Canadians dealing with hunger issues on a regular basis.

Valuation
We are reiterating our BUY rating and our target price of $36.00. Our target price represents 12.1x our 2019 EBITDA estimate of $399 million. In our view, Maple Leaf continues to offer investors an attractive growth profile at an inexpensive valuation, given the company’s leading market share, healthy balance sheet, and strong FCF generation.
**Canadian Equity Research**

**SPECULATIVE BUY**

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<tr>
<td>Ticker</td>
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52-Week Range (C$): 0.16 - 0.63
Avg Daily Vol (000s) : 57.0
Market Cap (C$M) : 34.2
Shares Out., Basic (M) : 71.4
Shares Out., Basic + Dil. (M) : 87.6
Net Debt (Cash) (C$M): (4)
Enterprise Value (C$M): 30.1

**FYE Dec**

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1Financing of $115 M through project-level equity and debt assumed, resulting in an effective interest of 59% in project. EV multiples calculated based on “economic” output (i.e. 59% of project economics) vs consolidated financials.

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**Gen III Oil Corporation** (GIII:TSX-V) is a clean-tech company currently developing a proprietary technology to recycle used motor oil (UMO) into feedstock for synthetic-grade motor oils. In doing so, GIII hopes to capitalize on the growing trend toward Group III synthetic motor oils. The company expects to generate a significant return on its $120M re-refining project with a payback of <24 months and annual EBITDA of $85M. We believe Gen III is a suitable stock for ESG-focused investors and note that the company meets five of the UN’s 17 sustainable development goals. We maintain a SPEC BUY rating and C$1.00 target.

**ESG Highlights**

- **Clean technology.** Gen III’s proprietary ReGen technology is expected to divert chemical waste that would otherwise be burned or disposed of illegally. Furthermore, it is anticipated that the process will be able to accept a wider range of feedstocks than conventional re-refining, meaning more waste oil can be recycled.

- **Bowden Facility.** Gen III plans to decommission an idle oil refinery in Bowden, AB, and replace certain components to accommodate its re-refining technology. We believe this decreases the company’s environmental footprint as compared to the construction of a new re-refinery.

- **Emissions reduction.** According to the British Columbia Used Oil Management Association, recycling used oil saves CO2 emissions at 2.47 kg per liter compared to burning and disposal. The Bowden plant capacity is 2,800 bpd which leads to an estimated CO2 emission reduction of more than 360,000 tonnes per year. Furthermore, Group III base oil results in higher quality motor oil which is proven to reduce carbon emissions.

- **Innovation.** Gen III has been awarded 10 patents in the US, Canada, India and Singapore, with an additional seven pending in Mexico, Asia, USA and Europe.

The company has also submitted a request with the Alberta Climate Change Office to develop a protocol titled ‘Used Motor Oil Re-Refining and Use’.

- **Membership with NORA.** The National Oil Recyclers Association (NORA) is a trade association that represents over 325 leading companies in the liquid recycling industry. As a member of NORA, companies must be committed to the management of a sound environmental policy as well as the continued improvement of health, safety and environmental principles and procedures.

**Valuation**

Using a DCF model (including a 15.4% WACC), we arrive at an unrisked value of $1.26/sh. We apply a 75% chance of financing to arrive at our C$1.00/sh target price, which corresponds to a 2022E EV/EBITDA multiple of 2.0x, versus the current trading multiple of 0.5x. On a steady-state basis (starting in 2022E), we estimate “economic” EBITDA of $42 million (i.e., at 59% of project economics). We note that the company recently received a non-binding term sheet from a private debt group for up to 83% of the project cost; if finalized, we see compelling upside to the stock. Notwithstanding, financing and operating performance remain the key risks to our target and are the basis for our SPECULATIVE rating.

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Canaccord Genuity is the global capital markets group of Canaccord Genuity Group Inc. (CF : TSX)

The recommendations and opinions expressed in this research report accurately reflect the research analyst's personal, independent and objective views about any and all the companies and securities that are the subject of this report discussed herein.
Secure Energy Services Inc.
Oilfield Services

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Canadian Equity Research

BUY
PRICE TARGET C$10.00
Price (19-Jul) C$7.01
Ticker SES-TSX

52-Week Range (C$): 6.25 - 9.44
Avg Daily Vol (M): 0.4
Market Cap (C$M): 1,111
Dividend /Share (C$: 0.27
Dividend Yield (%): 3.9
Shares Outstanding, Basic (M): 161.4
Net Debt (Cash) (C$M): 410
Enterprise Value (C$M): 1,520
Tangible Book Value (C$): 5.14

FYE Dec 2018A 2019E 2020E
Sales (C$M) 698.2 669.5 753.6
EBITDA (C$M) 189.8 202.9 243.0
EV/EBITDA (x) 7.7 7.5 6.0
EPS Adj&Dil (C$) 0.12 0.10 0.28
P/E (x) 56.2 68.3 24.6

Highlights

• Secure has developed a Corporate Health and Safety Management system that helps management assess risk across all corporate divisions in a consistent manner. Through 2018, this system resulted in the company making 67 proactive initiatives per employee, which include specialized training and hazard identification. Secure has also formalized new guidelines that helped reduce the company’s total recordable injury frequency (TRIF) from 1.07 per 100 employees in 2017 to 1.02 in 2018. Secure has adopted eight Life Saving Rules and Potential Serious Injury Fatality measurement systems. The company also makes use of a formal whistle blowing policy and a zero-tolerance policy for unsafe work practices.

• Through adoption of various practices, Secure has reduced the emissions intensity of its crude oil recovery process to 0.063 tonnes of CO2e/barrel, which the company reports is 13% below the Canadian average. In 2018, Secure also safely handled more than 14 million cubic metres of oilfield fluids, processed 1.7 tonnes of oilfield solids and recycled 13.2 million kilograms of steel. Last year, Secure also reclaimed ~2.5 million square metres of land.

• Secure actively engages with the communities in which it operates. The company employs an Aboriginal and Stakeholder Relations program and maintains a business process to identify Aboriginal vendors and track spending within these businesses.

• In 2018, Secure raised and donated more than $1 million to charitable organizations such as KidSport and Alberta’s Children’s Hospital Foundation. The company also has a close relationship with United Way and a partnership with the University of British Columbia’s Okanagan Campus to study the water life cycle for hydraulic fracturing operations.

Valuation and Recommendation

We rate Secure a BUY with a $10.00 target price based on an 8.0x EV/EBITDA multiple applied to our 2020 estimates.

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House of the rising sun

Investment Recommendation

Suncor is a Calgary-based integrated oil and gas company with investments in the oil sands, East Coast Canada and North Sea. The company also has four refineries in North America, processing up to ~460,000 Bbl/d of light and heavy crude oil and producing a slate of refined products. While Suncor is our Top Pick in the large cap space under ESG criteria, we highlight that all of the large cap oil sands companies including CNQ, CVE, HSE and IMO have been making strides in improving energy efficiency (and water use) metrics from their operations.

Highlights

• Technological focus on improving energy intensity. Suncor has set a target to reduce its CO$_2$e intensity per Bbl by 30% by 2030. We believe this target is achievable and could be supported by the investment of ~$635 million in technology development and deployment in 2018 (which we expect to continue). We view the lowering of CO$_2$e emission intensity, a proxy for the energy consumption to produce a barrel of oil, as being aligned with Suncor’s financial goals.

• Co-generation could help retire coal-fired power generation. One project the company is evaluating is the installation of an 800 MW co-generation unit at its Base Mine, which could feed up to ~75% of the power it generates into the grid, offsetting higher carbon-intensive coal-fired power generation. We believe the decision to sanction this project will be based on AB’s regulatory structure and carbon pricing.

• Investments in renewables. Suncor plans to offset 1.5 megatonnes of CO$_2$e per year by 2030 through the build-out of 800 MW of renewable power generation (with a focus on the Western Canadian market). The company currently has 111 MW of gross generating capacity at its wind power facilities in AB, SK and ON.

• Water recycling. In mining and extraction, ~88% of the water used in 2018 was recycled tailings water; from the in-situ operations, ~96% of the water used is recycled.

• PASS reclamation technology. The Permanent Aquatic Storage Structure (PASS) technology is a new treated fluid tailings project that was commercialized in 2018 and could be used to reduce (and potentially eliminate) the use of tailings ponds.

• Aboriginal relations. Suncor has actively focused on improving relationships and forming partnerships with aboriginal communities in the regions where it operates. The company has a track record of early stage and co-investment with aboriginal businesses including the sale of a 49% interest in the East Tank Farm to the Fort McKay and Mikisew Cree First Nations. In 2018, Suncor spent ~$703 million on direct purchases from indigenous businesses.

Valuation and Recommendation

Suncor trades at 60% of our CNAV, a 2019E EV/DACF of 5.8x and a 2019E FCF yield of 11%, vs. the large-cap group average of 72%, 5.4x and 12%, respectively. Our price target for Suncor of C$63.00 is based on a ~0.9x multiple to our contingent net asset value (CNAV) estimate of $68.30 per share.
As the slogan goes, “Earth Matters”

Tervita is a Calgary-based company that processes, recycles and safely disposes of solid and liquid oilfield waste streams for its clients via its network of more than 85 facilities, primarily in Western Canada. The company also provides ancillary services that include crude oil terminaling and marketing as well as industrial metal recycling. Tervita views itself more as an environmental company operating in the oil and gas sector than as an oilfield services company, with an emphasis on community involvement and the provision of environmentally friendly solutions. Tervita’s board is highly independent while the company takes a strongly proactive approach to employee safety. We rate Tervita a BUY with a $9.50 target price.

Highlights

• Through its various operations, Tervita provides a portfolio of services that allow its clients to mitigate the environmental impact of their operations. Generally speaking, these operations are subject to ongoing regulatory oversight by numerous bodies at various levels of government. In 2018 the company’s TRD facilities, injection caverns and disposal wells processed ~9.0 million cubic metres of solid and liquid waste related to oil and natural gas drilling and production in Western Canada. In addition, the company’s landfills processed and disposed of an additional ~3.2 million tonnes of solid waste related to oil and gas drilling and production, and environmental remediation last year. Tervita also engages in metals recycling, with the company recently recycling ~850 metric tonnes of metal in a major decommissioning project.

• In 2018 Tervita achieved a record total recordable injury frequency (TRIF) of 0.52 per 100 employees, which represented a decline from 0.66 and 1.34 in the previous two years. Tervita was able to achieve these results through use of formal policies on safety, whistleblowing and a zero tolerance for unsafe working practices. Furthermore, the company operates an “Integrity Line” where stakeholders can report any unsafe or potentially unsafe working conditions 24/7.

• Tervita is active in the communities in which it operates. The company has a 30-year workplace giving partnership with the United Way of Calgary through which it has helped raise over $1 million. Tervita also played a vital role in the High River flood recovery in 2013, removing more than 60,000 cubic meters of flood debris and inspecting more than 50km of storm sewers.

• Tervita has a 12-member board, with nine of these directors independent. The company also makes use of a compliance program that includes regular third-party and internal reviews of its facilities and audits to ensure compliance with regulatory standards.

Valuation and Recommendation

We rate Tervita a BUY with a $9.50 target price based on a 7.5x EV/EBITDA multiple applied to our 2020 estimates.
Sustainable growth and income model

Investment Recommendation

Vermilion is a Calgary-based oil and gas E&P which has a portfolio of assets with global commodity price exposure. The company focuses primarily on conventional and semi-conventional assets with a bias to natural gas production in Europe and light oil in Canada, but has operations in Canada, the US, Ireland, France, Germany, Netherlands, Central Eastern Europe and Australia. Vermilion’s focus on natural gas in Europe helps drive an energy switch from higher carbon intensity coal-based power generation. From a third-party reporting basis the company has received an “A” (second consecutive year) with MSCI on ESG and an “A-” from the CDP in 2018.

Highlights

- **Improved emission intensity.** From 2014 to 2017, the company has reduced its CO$_2$e emission intensity by 44%.

- **Reduced flaring and venting in SE Sask.** Following its 2014 purchase of light-oil assets in SE Sask, Vermilion had targeted to reduce flaring from this operation by 50% by 2020. Through the construction of new infrastructure and a capital commitment to a partner in a gas plant, Vermilion has reduced its emissions by 75%.

- **Parentis sustainability partnership.** In France, Vermilion was recognized for a project which supplied geothermal heat from oil operations to local greenhouses. The energy recycle project produces 6,000 tonnes of tomatoes per year and avoids 10,000 tonnes of CO$_2$e emissions (and produced 150 direct jobs in the region).

- **Energy usage in Europe.** Natural gas pricing in Europe is governed between the cost of importing natural gas via LNG (primarily from North America) and the price of switching from natural gas back to coal (based on the local carbon pricing). As nations within Europe institute more stringent carbon-focused taxes and move towards less carbon-intensive forms of energy, we believe natural gas will be a key to ease the transition to renewable resources.

- **Community involvement.** Vermilion and its staff are committed to giving back to the communities in which it operates. Together with its staff the company has invested over $5 million and 44,000 hours of volunteer time in its flagship programs around homelessness and poverty reduction, health and safety promotion and environmental stewardship over the past five years.

Valuation and Recommendation

Vermilion trades at 59% of our CNAV, a 2019E EV/DACF of 5.6x and a 2019E FCF yield of 12%, vs. the large-cap group average of 50%, 3.8x and 12%, respectively. Our price target for Vermilion of C$45.00 is based on a ~1.0x multiple to our contingent net asset value (CNAV) estimate of $43.86 per share.
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TD leads the way on ESG stewardship

Investment Recommendation

TD is our ESG pick in our Canadian Financials coverage universe. Alongside significant strides in sustainability, TD is attractive because of its favourable US earnings exposure (including TD Ameritrade), solid NA P&C franchise, strong credit quality and capital position. As of Q2/F19, the bank had a peer-leading CET1 ratio of 12.0%.

ESG Highlights

TD is a pioneer in the ESG landscape and has received several sustainability-related accolades. Through its corporate citizenship platform, “The Ready Commitment”, the firm is focused on four facets: Financial Security, Vibrant Planet, Connected Communities and Better Health. These align with 9/17 of the UN Sustainable Development Goals. The company published its first standalone ESG report in May 2019.

- **Environment.** TD aims to invest $100B in the NA low-carbon economy by 2030 ($30.3B contributed since 2017). TD Auto Insurance provided Green Car discounts to more than 25K customers. The firm issued $1.7B in green bonds, participated in underwriting $15B and its treasury group has invested $940M to date. Morningstar issued a high/above average sustainability rating to more than one-third of the funds managed by TD Asset Management. Worldwide, TD was the only financial institution to participate in all three Task Force on Climate-related Financial Disclosures (TCFD) pilots on lending, investment and insurance, conducted by the UN Environment Programme Finance Initiative (UNEP FI). The firm invested $1M in development of the TD Sustainable Future Lab (the first cleantech accelerator in Ontario).

- **Social.** In the inaugural year of the “TD Ready Challenge”, the bank awarded $1M grants to 10 organizations (from among 228 NA applicants) to champion innovative and scalable solutions, such as STEM training for underrepresented groups and skill development programs. TD employees logged 173K volunteer hours. The bank invested $91.7M in employee training & development and educated 3K small business owners in the first year of its $3M, 3-year partnership with the National Foundation for Credit Counseling (NFCC). The firm was listed on the Dow Jones Sustainability World Index for the fifth sequential year. The OCC rated TD as Outstanding in its Community Reinvestment Act performance evaluation (April 2018). Money magazine recognized TD as the Best Bank for US Senior customers.

- **Governance.** The bank tied for the #1 rank in Global Finance World’s 50 Safest Commercial Banks (2018). It is a founding corporate member of the Canadian Institute for Cybersecurity (CIC) at the University of New Brunswick. TD has been included in the Bloomberg Gender-Equality Index for three years in a row (women comprise 36% of its board).

Valuation

Our C$83.00 target price is based on an 11.3x P/E multiple applied to our NTM EPS estimate of $7.29. Our target multiple represents an 8% premium to the target multiple average of 10.5x that Canaccord Genuity applies in valuing large Canadian banks.
Air Canada

Airlines

An ESG-award-winning airline

Investment recommendation

Air Canada is BUY-rated with a C$50.00 target. The company operates Canada’s largest passenger airline, servicing 220+ destinations around the world. Our positive thesis on Air Canada is based on several ongoing and potential catalysts, including: 1) loyalty plan integration and benefits; 2) improved margins and cash flow as overhead is better absorbed and growth capex returns to normal levels; and 3) potential revenue and cost synergies from the proposed Transat acquisition. While airlines are not traditionally thought of as eco-friendly, we believe Air Canada scores well on ESG metrics, including its commitment to lowering its carbon footprint. The company has received multiple awards, which we believe demonstrates its dedication to these principles. We illustrate several examples below but highlight Air Canada’s commitment to joining the UN’s Global Compact (“UNGC”), which is an initiative to align its strategies and operations with 10 principles in the areas of anti-corruption, labour, environmental and human rights.

Investment highlights

• Environmental: While airlines are not traditionally seen as environmentally friendly businesses, we highlight Air Canada’s efforts to reduce its greenhouse gas emissions and waste production through several ongoing initiatives. In 2018, Air Canada was named Eco-Airline of the Year at the Air Transport World Industry Achievement Awards. The company recently reported a 44.5% improvement in fuel efficiency (from 1990 to 2018) and noted that mechanized ground support equipment is now 15% electricity-based and 12% low-emission propane. It’s not completely benevolent; airlines typically pass fuel costs on to customers and any advantage on this material cost input produces higher margins / market share.

• Social: Air Canada employs 30,000 people and sees its most valuable resource as its employees. The company prides itself on diversity and inclusivity. From 2014 to 2018, its representation of women and visible minorities increased to 42.3% from 40.0% and to 25.0% from 20.5%, respectively. Last week, Air Canada was recognized for its social efforts, receiving the inaugural award for Diversity in Leadership at the 2019 Airline Strategy Award. Air Canada is a 4x winner of Canada’s Best Diversity Employer award.

• Governance: Air Canada continues to place governance at the core of its operations, as illustrated by its 1) community involvement with 150+ community partnerships; 2) substantial employment and post-employment benefits (incl. a defined benefit pension plan); and 3) well-established safety and risk identification process. The company’s care for its employees has been previously recognized by its status as a Top 100 Employer in Canada. Its governance is guided by a thorough set of corporate conduct guidelines and a diverse group of independent directors (91% independent).

Valuation

Air Canada trades at 4.5x EV/NTM consensus EBITDA and 11.4x P/NTM EPS. Our C$50.00 target is based on 4.3x EV/EBITDA applied to our NTM estimates, one-year out. US network carriers trade at 6.0x NTM EBITDAR (rent is still a cost for US operators).
Designing a sustainable future

Investment recommendation

We have chosen to highlight Stantec for ESG investors seeking exposure to the E&C industry. "Design with community in mind" is Stantec's brand promise and in terms of ESG criteria, Stantec checks the box on all three, in our view. The company is in the business of designing a sustainable future, working on projects in sectors such as sustainable buildings, environmental services and water, while internally its culture emphasizes ethics and diversity. From a shareholder's perspective, we view management as well aligned with shareholders, and point out the company has a long-term history of capital appreciation, having achieved a 20-year total return of 2,675%.

ESG highlights

Environment: An industry leader in climate change mitigation and sustainability, Stantec was recognized in 2018 by the UN Global Compact with an SDG Leadership Award and by CDP (Carbon Disclosure Project) with an "A-" score for climate change (the only company in the top ten of ENR's Top 500 Design Firms to achieve an A-level score). Emission reduction is a primary focus for the company, with direct and indirect emissions per employee having been decreased 18% in 2018 and a total of 36% since 2013. The company seeks to reduce emissions by consolidating offices into energy-efficient spaces, reducing travel, greening its vehicle fleet and enhancing print management.

Social: Community is a focus for Stantec. The company has donated more than $20 million to charity since 2007, and in 2018, held its fifth annual company-wide volunteer event, an event where 6,000 Stantec employees volunteered. The company supports the success of indigenous communities through its Indigenous Business Partnerships. Further to this cause, Stantec is a member of the Canadian Council for Aboriginal Business (CCAB), an organization which promotes indigenous relationships and an economy based on shared prosperity.

Governance: Ethics, safety and diversity are driving considerations for Stantec. The company strives to work to the highest professional and ethical standards, and its code of business conduct outlines the company's practices and standards regarding a number of ethical issues including conflicts of interest, anti-bribery and anti-competitive practices, harassment and discrimination, whistle-blowing, insider trading and human rights. The company requires all employees to undergo Ethics and Business Conduct training annually and maintains a third-party integrity hotline where anonymity of the reporter is a priority. In terms of safety, Stantec believes the first priority is that everyone returns home safe; and to this end, Stantec has decreased its total recordable incident rate by 47% since 2013. Finally, with respect to diversity, the company actively strives to foster an inclusive environment, and maintains a number of internal programs promoting such values. As of 2018, 34% of the company's employees are female, above the US-industry standard of 28%, while over 40% of its board of directors are female.

Valuation

We rate Stantec a BUY with a C$38.00 one-year target price. Stantec currently trades at 14.6x 2019E EPS versus its global engineering peers at 17.5x. Our target is based on 17x 2020E EPS.
B2Gold Corp.
Precious Metals - Producer

Raising the bar

Investment Recommendation
B2Gold has a strong production profile anchored by the Fekola mine in Mali. Since starting production at Fekola in late 2017, the mine has exceeded expectations, starting initially at 4 Mtpa and now targeting an expansion to 7.5 Mtpa. As a result, we expect production to exceed 1 Moz by 2020 from ~630koz in 2017, driving significant FCF growth. In our view, BTO is committed to ESG principles and has published an annual Responsible Mining Report outlining the company's economic, environmental, and social performance since 2016. Our BUY rating is based on the company's proven management team, strong production profile, and low-cost operations relative to its peers.

ESG Highlights

- **Solar investments provide economic & environmental benefits**: In May 2018, BTO opened the Otjikoto Solar Plant, a 7 MW facility offsetting energy demand from the existing 24 MW heavy fuel oil (HFO) generator facility used to power the Otjikoto mine in Namibia. In 2018 the solar plant provided ~13% of electricity consumed on site, saving 2.36 million litres of fuel. BTO estimates the plant will provide investment returns of US$8.8 million and reduce GHG emissions by 86 kt of CO₂ over the life of mine. Following the success at Otjikoto, management is looking to increase solar capacity at other sites. BTO has completed a positive feasibility study to construct a 30MW solar power facility with battery storage at Fekola. Combined with the existing 60 MW HFO power plant, this would be the world’s largest hybrid solar-HFO plant. Capex is estimated at ~$35 million. Management estimates the solar plant could drop power costs from 15c/kWh to 13c/kwh (including capital).

- **Focusing on local employment**: 97% of BTO’s total workforce were local employees in 2018, and where the company operates abroad 71% of Senior Management has been hired locally. Management is targeting a decrease in expatriates working in Senior Management positions in 2019 as the Fekola mine continues to ramp up and its operational departments are developed. In Mali and the Philippines, preference is given to neighbouring communities; in Nicaragua, local employment levels exceed those required by law; and in Namibia, recruitment focuses on individuals from historically disadvantaged groups, as set out by the country’s Affirmative Action (Employment) Act.

- **Safety first, last, and always**: 2018 marked the third consecutive year with no fatalities, and globally the company reduced its Lost-Time Injury Frequency Rate by over 50%. During 2018, BTO revamped its risk management and assessment processes to better align with international best practices and implemented a fatigue monitoring and alert system in its haul trucks at Otjikoto. Initial testing indicates an 88.8% reduction in reportable fatigue and distraction-related events.

Valuation: We maintain our C$6.50 target price, which is predicated on a 50/50 blend of a 1.20x multiple applied to our forward curve-derived operating NAV less net debt and other corporate adjustments and a 6.5x multiple applied to 2020E EBITDA. We reiterate our BUY rating.
Teck Resources Limited
Diversifieds

Canadian Equity Research

BUY

PRICE TARGET C$38.00
Price (19-Jul) C$28.99
Ticker TECK.B-TSX; TECK.US-NYSE

52-Week Range (C$): 23.90 - 34.49
Avg Daily Vol (000s): 1,537.2
Avg Daily Vol (M): 2.8
Market Cap (C$M): 21,074
Shares Out. (M): 566.9
Shares Out., Basic (M): 577.7
Net Debt/Capitalization (%): 17
Net Debt (Cash) (C$M): 5,539
Debt/Capitalization (%): 17
Enterprise Value (C$M): 21,074
Net Debt/EBITDA: 0.51
NAV /Shr (C$): 52.48
P/NAV (x) (C$): 0.54

Priced as of close of business 19 July 2019

Investment Recommendation: We like TECK for its size, liquidity, commodity diversification, asset quality, cash flow generation, sound balance sheet and strong management team. We maintain a BUY rating on the company along with a C$38.00/sh 12-month target price. Our target price is based on an equal weighting of 4.5x ntm EBITDA and 0.70x NAV, both as of July 1, 2020.

Sustainability Strategy – excerpt from TECK's 2018 Sustainability Report: “Our sustainability strategy sets short-term goals to 2020 and long-term goals to 2030 in six focus areas representing the most significant sustainability risks and opportunities facing our company: Community, Water, Our People, Biodiversity, Energy and Climate Change, and Air. Our strategy is integrated into decision-making by embedding it into management standards, into remuneration and into corporate, site and employee annual plans and objectives.”

Select ESG Highlights:

- Environmental: TECK is currently designing and constructing several Active Water Treatment Facilities (AWTF) to address selenium levels in treated water discharge. Last year, TECK completed the West Line Creek Facility and started constructing a second facility at Fording River South. Additionally, TECK is working on developing a new method called Saturated Rock Fill to remove nitrate and selenium from mine impacted water. In total, we expect TECK to spend $1.4 billion through 2032 on AWTF.

- Social: TECK currently has agreements in place at all mining operations within or adjacent to Indigenous Peoples' territories, and works with local communities to ensure mutually beneficial outcomes on social, economic and environmental priorities. For example, TECK’s work with the Indigenous population, represented by the NANA, at the Red Dog mine in Alaska has been exemplary. In 2018, 46% of the operation’s spending was with Indigenous suppliers. In addition, TECK’s longer-term plans for the Aktigiruq ore body will include some form of profit sharing with NANA, even though the deposit does not sit on NANA land.

- Governance: Despite the historical debate around the dual-class share structure (the tightly held Class A shares have 100x the voting rights of the Class B shares), we view TECK’s Board as among the best-in-class based on diversity, level of experience, relationships with key markets, and strategic, technical and financial expertise. In addition, the Class A shares are controlled by the founding Keevil family and Sumitomo, both entities with long-term investment horizons that ensure the company is not managed on a short-term basis. We consider 10 of the 14 Board members truly independent, i.e. not affiliated with either the company or the Class A shareholders. Finally, new Chair Dominic Barton (Oct 2018) is the first Chairperson in the company’s history from outside the Keevil family.

Valuation: Based on CG estimates, TECK currently trades at a 2019 EV/EBITDA of 3.9x, and a P/NAV of 0.55x vs. its larger Canadian base metal peers at 6.1x and 0.77x respectively.

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23 July 2019
Responsibly optimizing one of Canada’s emerging gold camps

We have a SPECULATIVE BUY rating and **C$8.50** on TMAC Resources, which owns the Hope Bay gold mine, in Nunavut. TMAC responsibly explores its world-class property package while also operating its Doris underground mine responsibly with the help of local Inuit. TMAC remains committed to ESG principles, as demonstrated through its relationship with local communities, pro-active environmental monitoring, and excellent health and safety practices since 2015.

**Social:** TMAC is located on Inuit land with the nearest settlements of Umingmaktok located 75km to the west and Kingaun 100km southwest. The land package is large at 1,101km² and the company has seven Inuit exploration agreements, which were combined into one Mineral Exploration Agreement. In 2015, TMAC entered into the MEA, granting the company access to the Inuit-owned subsurface mineral rights, which are administered by the Nunavut Tunngavik Inc.

The company has an Inuit Impact Benefits Agreement administered by the Kitikmeot Inuit Association (KIA) for surface access rights on Inuit-owned land. As part of the IBA, TMAC provides employment, training and education opportunities to the Inuit and business and contracting opportunities to certain qualified businesses. The KIA retained a 1% net smelter royalty on mineral production from Hope Bay claims and an area of interest around Hope Bay, which has had a positive financial impact on the region.

**Environmental:** TMAC’s development, exploration and operating activities are subject to various levels of Federal, Territorial and local laws and regulations relating to the protection of the environment. It has operated in compliance with its environmental approvals and successfully administered a rigorous environmental monitoring and reporting program.

TMAC operates in the Tundra and recognizes the importance of a Zero Harm culture and believes all environmental incidents are preventable. Its tailings impoundments are engineered within the permafrost, greatly increasing tailings security and reducing the risk of a tailings breach. The company tracks and reports wildlife sightings to government agencies for better on habitat preservation. TMAC also has a strict waste management program to protect the environment and minimize contact with wildlife. It ships selected materials offsite for disposal or recycling.

**Governance:** Health and safety at the company begins with training and protective equipment but extends to a system of employee safety monitoring and accountability. The company has an excellent health and safety record, with an Injury Frequency Rate at one-third of mining peers. TMAC also has the support of two strategic shareholders, Newmont and RCF with whom they work closely as they continue to optimize operations. TMAC trades at a discount to peers at 0.51x P/NAV vs. 0.75x. Mill optimization remains at the forefront of the TMAC story and we expect the company will continue to trade at a discount until the mill shows sustained improvement and is running closer to designed 2,000 tpd rates with 90% recoveries.

**Valuation:** Our $8.50 target price is predicated on 0.8x our operating NAVPS of $11.25 plus corporate adjustments ($0.44).
Keyera leading in ESG initiatives

**Investment recommendation**: Keyera Corp. remains our top pick in the Canadian midstream sector. We expect the shares to continue to outperform peers over the next several months. Keyera’s marketing segment is expected to outperform by ~$100 million in EBITDA this year. In comparison, consolidated 2018A EBITDA (adjusted) was $807.6 million. Additionally, the company’s capital program extends secured growth out to 2024. As these assets enter service they should lower the proportion of earnings that are exposed to commodity prices over time.

Regarding ESG initiatives, the company provides good disclosure relating to its ESG performance. Below is a summary of a few key ESG highlights for the company. Please see Keyera’s [ESG Performance Summary](#) for further details.

**Environmental awareness**: Environmental protection is an integral part of Keyera’s business and throughout the lifecycle of each of its assets. Continuous improvement and investments in infrastructure to increase energy and natural resource efficiency, reduce emissions, and enhance environmental performance illustrate the company’s commitment. For example, some of the company’s emission reduction projects include acid gas injection (a form of carbon sequestration) at several plants, modifications to heaters and boilers to reduce nitrogen oxide emissions, and the installation of a waste heat recovery system at the Rimbey Gas Plant.

**Appropriate governance**: Keyera’s Board of Directors (BOD) has taken steps to foster board independence. The roles of CEO and Chairman of the Board have been separated and the Board consists of 80% independent directors. Additionally, 30% of the board members, ~20% of senior management and ~24% of the total workforce at Keyera are women. Please see the following link for further information related to Keyera’s governance roles and responsibilities: “Governance Roles and Responsibilities (Keyera)”

**Appropriate capital allocators**: Keyera has the most conservative balance sheet among the Canadian midstream peers. The company has invested in projects that have generated a high return on invested capital (ROIC), earning an average 15% ROIC over the last ten years. The company also continues to invest in favourable projects. Recall, Keyera recently announced its intended investment for the KAPS project, which is expected the generate a 10%-15% ROIC once the project is up and fully running in 2024.

**Valuation**: Our base asset valuation for Keyera is C$36.00, reflecting 12.3x our 2020E EBITDA. In addition to our base valuation, we add a $3.00 option value for the recently announced KAPS project, suggesting a $39.00 total price target for Keyera.

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Keyera Corporation is a midstream energy company based in Calgary, Alberta, providing services and products to oil and gas producers in Western Canada, including NGL gathering and processing, fractionation, storage, transportation, logistics and marketing services. The company also provides diluent logistics services for oil sands producers. In addition, Keyera owns and operates one of the largest natural gas midstream businesses in Canada.
Canadian Equity Research

BUY

**PRICE TARGET** | US$53.50
---|---
Price (19-Jul) | US$46.31; C$62.79
Ticker | BAM-NYSE; BAM.A-TSX

52-Week Range (US$): 36.58 - 48.43
Avg Daily Vol (000s): 1,355.4
Market Cap (US$M): 44,194
Shares Out. (M): 1,056.4
Dividend /Shr (US$): 0.64
Dividend Yield (%): 1.4
Implied Return to Target (%): 15.3
NAV /Shr (US$): 49.52
Prem (Disc)/NAV (%): (5.2)

**FYE Dec** | 2017A | 2018A | 2019E | 2020E
---|---|---|---|---
FFO (US$): | 2.03 | 2.80 | 3.19 | 3.34
P/FFO (x): | 23.2 | 16.8 | 14.7 | 14.0

**Quarterly FFO**
- **Q1**: 0.38, 0.49, 0.46, 0.69
- **Q2**: 0.67, 0.64, 0.66, 0.83
- **Q3**: 0.81A, 0.78, 0.79, 0.82
- **Q4**: 0.81, 0.83, 0.84, 0.86

High quality assets with increased focus on ESG

Brookfield Asset Management owns an extremely high-quality portfolio of property, infrastructure and renewable energy assets, as well as a growing stream of recurring management fees. We believe BAM’s portfolio should produce stable cash flows through economic cycles and it has capacity to complete additional acquisitions. From an ESG perspective, the company scans well; we detail some of those aspects below. We rate BAM shares a Buy.

**Environmental Highlights**
- **Large investor in renewable energy.** BAM has a US$6.8 billion investment in Brookfield Renewable Partners L.P. (BEP), one of the largest pure-play renewable companies in the world. More than 75% of BEP’s asset base is composed of hydroelectric assets, and it also owns a large wind and solar portfolio.
- **Strong commitment to high environmental standards.** BAM has committed to high environmental standards for 100% of its real estate developments, meeting Leadership in Energy and Environmental Design’s (LEED) Gold standards.
- **Raised US$1.2 billion through green bond offerings.** To date, Brookfield has completed four green bond offerings, of which three received the highest evaluation rating (E1) from S&P.

**Social Highlights**
- **Engagement with local communities.** BAM is committed to positively impacting the communities in which it operates by engaging with groups that might be affected by its business activities. Between 2011 and 2016, BAM invested more than R$5 million in communities surrounding its Barra do Braúna hydroelectric plant in Brazil.
- **Diversity and inclusion.** Through Brookfield Women’s Network, BAM focuses on attracting, developing and motivating a community of women across its business groups. These efforts have contributed to BAM’s above-average representation of women throughout its organization, including 45% of total employees, 40% of independent board directors and 26% of senior executives.

**Governance Highlights**
- **Insider alignment and board independence.** BAM’s management is well-aligned with shareholders, with insiders owning more than 5% of the company’s shares, which are worth more than US$2.5 billion. On average, approximately 82% of senior management compensation is in the form of long-term incentive awards based on the performance of the shares. Additionally, more than half of BAM’s Board of Directors is composed of independent directors, of whom 40% are female.
- **Robust governance framework.** BAM requires all its portfolio companies to adopt its governance framework, which includes following BAM’s Code of Business Conduct and Ethics, adopting a zero-tolerance approach to bribery and having a whistle-blower hotline in operation within six months of acquisition.

**Valuation.** We calculate an IFRS-adjusted NAV based on BAM’s disclosed IFRS values. Our estimate of BAM’s IFRS adjusted NAV is US$49.52 per share and our target price is US$53.50, which equates to an 8.0% premium to our NAV estimate.

Brookfield Asset Management is a global asset manager and operator, specializing in property, renewable power, and infrastructure assets.

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23 July 2019
Canadian Equity Research

BUY
PRICE TARGET C$106.00
Price (19-Jul) C$102.90
Ticker GIB.A-TSX; GIB-NYSE

CGI Group is a global provider of systems integration, technology outsourcing and business process outsourcing services.

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Consulting for the future

Investment recommendation

Headquartered in Montreal, CGI is a global, end-to-end IT and business consulting services leader. An innovative company built on the strength of its human capital, CGI is deeply committed to the well-being of its employees. In addition, the company has demonstrated corporate social responsibility through nationwide education programs, specialized sustainability offerings for clients, and volunteer programs.

From an investment perspective, CGI has been disciplined in its pursuit of a “Build and Buy” strategy that combines profitable organic growth with accretive acquisitions. We expect CGI to benefit disproportionately from digital transition as large organizations move from smaller targeted IT projects towards enterprise-wide digital transformation mandates which are best suited for end-to-end IT Services vendors, like CGI, with a global footprint. We like the defensive nature of CGI and its scarcity value, and believe shares will continue to climb with the potential for higher revenue growth with continued margin expansion in 2019 and beyond.

ESG Highlights

• **Environmental** – CGI does not generate any negative externalities; the company assists its clients in managing sustainability challenges and opportunities. Key capabilities include end-to-end regulatory services and green IT and sustainability solutions. Examples of services provided by CGI include: green data centers and cloud computing that reduce clients’ carbon footprints; document management services that reduce paper consumption; best waste management practices; and the creation and utilization of sustainable facilities.

• **Social** – At CGI, employees are called members, inferring a sense of ownership and accountability. This is supported by an ESPP and commitment to employee health and wellness. The company is committed to educating young people to become technically literate through STEM (Science, Technology, Engineering and Math) programs across the nation. As well, the company highlights its commitment to veterans, gender equality, and inclusiveness through various firm initiatives.

• **Governance** – As noted above, the company encourages its employees, or members, to act as owners through a philosophy of intrapreneurship. The company has split the roles of the Chairman and CEO to foster independence in decision-making while maintaining an independent Lead Director position. We balance this positive view by highlighting the company’s dual-class share structure, which grants a disproportionately amount of voting rights to select shareholders.

Valuation

CGI Group currently trades at 12.4x EV/EBITDA and 19.8x P/E, based on our calendar 2020 estimates. This is a premium to the IT Service Provider average of 10.2x and 15.5x, respectively, but a discount to Accenture (ACN-N | Not Rated), which trades at 16.3x and 24.3x, respectively. We believe large-cap Canadian tech scarcity value and a historically active NCIB limit downside.
**TELUS Corporation**

**Telecommunications**

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**Canadian Equity Research**

22 July 2019

**TELUS: Charity and community in focus**

TELUS continuously demonstrates its commitment to the environment, the communities it serves, and its shareholders. The company has shown its understanding of the symbiotic relationship between profitability and sustainability. Through initiatives such as *Connect for Good* and the *TELUS Friendly Future Foundation*, the company has donated over $1.2 billion to a variety of causes since 2000. Employees of the company are also encouraged to participate via the company’s *TELUS Days of Giving* program. We currently rate TELUS a HOLD with a $50 target.

In 2018, TELUS initiated a unique charity with the largest donation by a public company in Canada. Last year, the company launched the *TELUS Friendly Future Foundation*, which focuses on addressing the social and economic challenges facing Canada’s vulnerable youth. The foundation will provide financial aid to small grassroots charities across Canada to better serve youth in their communities. The groundwork of the foundation was laid through a $120 million donation from TELUS, which is the largest single donation by a public Canadian company in history.

*Connect for Good* provides telecommunication services for the betterment of communities. TELUS’ *Connect for Good* program features four key segments. *Health for Good* helps bring healthcare services to marginalized Canadians through Mobile Health Clinics. *Mobility for Good* enables youth aging out of foster care to remain connected with a completely subsidized smartphone and data plan. *Internet for Good* provides low-income households access to low-cost, high-speed internet and a computer. Lastly, *Assistive Tech for Good* offers people with disabilities customized technological solutions to allow for more independent living.

**TELUS empowers team members to give.** Along with the above initiatives, TELUS encourages employees to donate time and money to charities. One such example is the TELUS Days of Giving, which gives opportunities for TELUS staff to participate in over 1,800 activities in the communities they serve. Across the firm, TELUS saw 36,000 participants in 2018. In total, TELUS members donated over one million hours to charity throughout 2018. Another example is the TELUS Match program, which matches employee donations up to $2,500.

**Diversity and independence a key focus on the TELUS board.** TELUS’ desire to support diversity and strong governance is highly reflected in its board of directors. As of 2019, 42% of TELUS’ independent directors are women. In addition, 50% of independent directors represent diversity. TELUS is one of the companies committed to the Catalyst Accord 2022, which pledges to increase the average percentage of women on boards and in executive positions to 30%+ by 2022.

**We rate TELUS HOLD with a $50 target.** We value TELUS’ wireless business at 8.25x EV/F20 EBITDA with a wireline multiple of 6.75x. Our blended valuation is 7.7x.
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Investment Recommendation
Date and time of first dissemination: July 23, 2019, 01:00 ET
Date and time of production: July 23, 2019, 00:39 ET

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Distribution of Ratings:

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*Total includes stocks that are Under Review

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