Equities Research

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3 November 2020
Credit Suisse Global Product Marketing

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EQUITY STRATEGY

Investment Strategy | Strategy

02 November 2020

Global Equity Strategy
US election scenarios

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The stage seems set for a Joe Biden presidency: Based on recent polls, we calculate there would need to be an 'on the day' swing 7x larger than that which occurred in favour of Donald Trump in 2016 for the President to get the same share of the popular vote as he did in 2016. The poll aggregation and statistical analysis website FiveThirtyEight reports an 8.5 percentage point lead in the polls for Biden and an 89% probability that he wins the election.

How much short-term fiscal stimulus is key issue for markets: We think under a Democratic 'clean sweep'—winning the presidency and both houses of Congress—the stimulus could be c$1.5trn-$2.2trn, (7-10% of GDP), compared to perhaps as low as $500bn under a Biden presidency and a Republican Senate.

A Democrat sweep with a small Senate majority (which appears the most likely outcome): This would be the most positive outcome for markets, in our view (apart from the highly unlikely event of a Republican clean sweep). The good news (fiscal stimulus) would be front loaded, and much of the bad news (potential tax hikes) for the market might be delayed. Moreover, some of the problem areas such as non-statutory corporate tax hikes and raising the minimum wage to $15 per hour (which together take c10% off earnings, on our estimates) would likely be watered down very considerably. A large clean sweep (54+ in the Senate) would allow these policies to be implemented and also increase the chance that the filibuster rule is ended, allowing the Democrats to fully implement their legislative and regulatory programme. That could, in our view, potentially be the worst-case outcome for US equities longer term.

EPS impact: We estimate a large clean sweep would hit EPS by only c3% (the c15% hit from higher corporate taxes and $15/hour minimum wages would be largely offset by the additional fiscal boost). A small 'clean sweep' net would lead to a c3% EPS boost, on our estimates (a 5.4% hit to EPS from the rise in the statutory corporate tax rate offset by a much bigger fiscal boost than under a Republican-controlled Senate).

Non-US equities likely outperform (especially GEM) in a Democratic clean sweep scenario because non-US equities are more operationally leveraged, suffer less from higher US corporate taxes or US wage costs and would benefit from better trade relations.

The challenges of divided government: A Biden win combined with a continuation of a Republican-held Senate would perhaps limit short-term fiscal easing to as little as $500bn. We see minimal change in US EPS – the cancellation of the corporate tax hikes or rise in the minimum wage being offset by the loss of fiscal stimulus. Bond yields would likely drift lower, growth outperform and c.55% of the market (tech+ and healthcare) might have a relief rally. The US would likely outperform in this scenario.

Sector consequences: The cyclical universe has been positively correlated with Biden's prospects (banks, semis and insurance and materials). Healthcare & tech the potential losers.

Some discounted already: In recent months, tech has underperformed by 6% in Europe and pharma by 2%; banks have outperformed by 6% (despite lockdowns).

The uncertainties: The Senate results may take time, with 9 races considered a toss-up. It is also uncertain whether Biden would seek to end the filibuster or pack the Supreme Court.

Full Report

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ESTIMATES AND TARGET PRICE CHANGES

Diversified Metals & Mining | Pre Results Comment

02 November 2020

Hudbay Minerals Inc. [HBM.TO]
Expecting Sequential Improvement; Revising Model Ahead of Q3 Earnings

OUTPERFORM

Rating	OUTPERFORM [V]
Price (30-Oct-20, C$)	6.01
Target price (C$)	(from 6.50) 7.75
52-week price range (US$)	5.06 - 1.48
Market cap(C$ m)	1,570

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- **Raise TP to C$7.75:** After making several model revisions, we revise HBM's target price to C$7.75 (from C$6.50). We apply higher valuation multiples given copper price trajectory. Our C$7.75 target price is based on a 50/50 weighting of NAV and CFO (adj.) valuation. Our NAV valuation is C$8.60 based on a C$12.27 DCF using a 1.0x multiple, with net debt deducted at par. Our CFO (adj.) valuation is C$7.09 based on 2021 CFO of C$1.42 using a 5.0x multiple.
- **What to watch in Q3 print: (i)** At Manitoba, we expect to get more details on the potential for early gold production from New Britannia in 2021. We also expect to get confirmation that the skip hoist incident at 777 only resulted in damage to the headframe and bottom of the shaft in the skip compartment, and that a return to normal production is still expected in December with a repair cost below US$5.0M. HBM previously noted that it is implementing "production mitigation plans" to still achieve 2020 guidance for Manitoba. **(ii)** At Constancia, we understand there is one remaining land use agreement to finalize for Pampacancha, so we expect confirmation of the Pampacancha timeline (currently predevelopment work in Q1/21, and mining initial lower-grade ore in Q2/21).
- **Q3 estimates:** For Q3/20, we estimate a net loss of US$0.11, slightly above consensus of a net loss of US$0.12. We model Q3 CFPS of US$0.25, also slightly above US$0.24 consensus. We use an average realized copper price of US$2.95/lb for the quarter.
- **2020 net loss changes to US$0.50 from US$0.41** after MTM commodity prices and other model changes to better reflect operations. Commodity prices and operations are key risks.
- **HBM to report on Nov. 3 after market close, followed by a conference call on Nov. 4 at 8:30AM ET (1-800-319-4610).**

Full Report

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COMPANY UPDATE

Electric Utilities | Results

02 November 2020

Gibson Energy Inc. [GEI.TO]

At-a-Glance: Difficult Differentials and Vanishing Volumes Equals Minor Marketing

NEUTRAL

Rating	NEUTRAL
Price (02-Nov-20, C$)	19.79
Target price (C$)	24.00
52-week price range (C$)	28.15 - 12.70
Market cap(C$ m)	2,895
Enterprise value (C$ m)	4,213

Target price is for 12 months.

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- **Results Review: Gibson Energy (GEI)** reported Q3 2020 adjusted EBITDA of C$95.7m missed our C$109m view, a similar consensus (Reuters and GEI Survey) and at the bottom end of the C$97m-C$$116m range. Compared to numbers, both segments missed expectations, however, the Infrastructure unit was roughly in line with GEI's survey. In our view, the focal point will be the challenging marketing quarter that was among the lowest in recent time. Given a quarter with upstream production problems and other issues, we see slightly widening differentials and increased production coming down the pipeline (pun intended). As a result, GEI's marketing business looks better position into Q4 and beyond versus a very disruptive Q3. With the long-cycle nature of our coverage universe, we do not place undue emphasis on quarterly results.
- **Selected Details:** On a Q3 2020 versus Q3 2019 comparative, notables included: **(a)** Infrastructure segment profit of C$93.3m vs. C$81.5m (volumes of 97.7k bpd versus 117.3k bpd); **(b)** Marketing segment profit of C$23.4m vs. C$49.7m (volumes of 41.3k bpd vs. 40.4k bpd) with the decrease due to lower crude marketing earnings; **(c)** growth capital expenditures (including equity investments) of C$72.1m vs. C$82.2m related to the construction of new Hardisty and Edmonton tanks and C$35.6m for DRU construction; **(d)** progress continued at Hardisty Top of the Hill expansion that is expected to be fully placed into service before the end of 2020; (**e**) debt levels and the payout ratio remain below GEI's self-stated ranges giving headroom; and, **(f)** GEI has not purchased any shares under the NCIB as of September 30, 2020.
- **Conference Call:** GEI's results call on November 3rd at 9:00am (eastern) will be accessible via 1-844-358-6759 or 1-478-219-0003 (Conference ID#: 4345718).
- **Valuation:** We made several changes to our financial model, including: Q3 results and lowering Q4 infrastructure volumes, thus our 2020e EPS changed to C$0.95 from C$1.04. Our C$24 target price and Neutral Rating is based on several approaches, including: a 10.4x EV/EBITDA multiple on 2021e, and, a dividend yield of 5.67%. Risks to our target price and rating include: developments in the US business and interest rate movements.

Full Report

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Capital Power Corporation [CPX.TO]
At-a-glance: Powerful Portfolio Optimization

OUTPERFORM

Rating	OUTPERFORM
Price (30-Oct-20, C$)	29.36
Target price (C$)	32.00
52-week price range (C$)	38.77 - 20.40
Market cap(C$ m)	3,089
Enterprise value (C$ m)	6,446

Target price is for 12 months.

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- **Preliminary View: Capital Power Corporation's (CPX)** headline and normalized Q3 2020 EPS were C$0.89 and C$0.66, respectively. Normalized EPS beat our C$0.63 view but came in below the Street's C$0.69 view (range of C$0.55-C$0.82). Adjusted EBITDA was C$284m beat our C$262m view and the Street's C$270m. That EBITDA was in line with the C$284m in Q3 2019. Power price capture during the quarter was impressive as were portfolio optimization activities driven by "higher sales of natural gas" and greater "excess of realized power prices" over spot versus 2019. Guidance was confirmed – albeit with an upside bias ("AFFO near the midpoint and adjusted EBITDA above the midpoint") to past ranges. Compared to other IPPs, CPX has less overall Alberta exposure and more ex-Alberta. Given the long-cycle nature of our coverage universe, we do not place undue emphasis on quarterly results.
- **Selected Highlights:** Some notables: **(a)** re-affirmed 2020 EBITDA, FFO and dividend growth guidance (C$500m to C$550m on AFFO and C$935m to C$985m on EBITDA); **(b)** the renewable portfolio continues to grow with Strathmore Solar and Whitla Wind 3 coming online in early 2022 and late 2021, respectively; **(c)** the Q3 2020 Alberta average realized price of C$59/MWh versus Q3 2019's C$59/MWh and against Alberta's spot price of C$44/MWh; **(d)** Alberta's commercial fleet achieved 99% availability; and, **(e)** the contracted prices are high-C$50/MWh, low-C$50/MWh and low-C$50/MWh for 2021, 2022 and 2023, respectively, with 13%, 18% and 12% sold forward on those years.
- **Investment Thesis**: CPX provides core Alberta exposure with high operational capability that is underpinned by a growing base of contracted cash flows in multiple markets.
- **Conference Call:** CPX's results call on November 2nd at 11:00am (eastern) will be accessible via 1-855-327-6838.
- **Valuation**: Our C$32 target price and Outperform rating are based on several approaches including: a 6.6x EV/EBITDA multiple on 2021e and a targeted dividend yield of ~6.6%. Risks to our rating and target, include: power pricing; changes in carbon policy; regulation; interest rates; project execution; FX; and, plant operating levels.

Full Report

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Nutrien Ltd. [NTR.N]

Climbing the Wall of Worry on Potash, But Retail to Pick Up in 4Q and have a Brighter '21

NEUTRAL

Rating	NEUTRAL
Price (02-Nov-20, US$)	41.59
Target price (US$)	41.00
52-week price range (US$)	49.76 - 25.10
Market cap(US$ m)	23,671
Enterprise value (US$ m)	32,569

Target price is for 12 months.

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- **NTR Reports 3Q Beat Despite a Slow Start in US Retail:** NTR reported adj. 3Q EPS of $0.23, firmly above cons of $0.11 (adj. EPS # incl. a net tax benefit of $0.08/shr). NTR narrowed FY EPS guidance to $1.60-$1.85 (from $1.50-$1.90; up at the mdpt) and EBITDA to $3.5-$3.7bln (from $3.5-$3.8bln). We view the release as a relative neutral as NTR is executing well in a difficult environment, while 4Q Retail should benefit from further momentum in fall applications, though we retain a neutral-ish view on K mkts in the interim.
- **Expect Benefit from Modest Retail Shift into 4Q – Potash to Remain Sluggish:** Retail EBITDA declined in 3Q (YTD result strong, but tough 3Q comp), though mgmt. expects a wide window for fall application in NA and continued strong grower conditions in Brazil (we concur on both fronts). Potash posted strong volumes (+13% yr/yr), which were more than offset by lower ASPs (slightly below CSe). NTR maintained its shipment forecast of 65-67mmt for FY20 (NTR expects a "pick-up" in China in the 2H) and expects low NA channel inventories by year end. We maintain a bias to the low end of NTR's shipment forecast, but stress our view on SE Asia is improving by the day, which sets up well for '21.
- **Nitrogen Still Challenging on Industrial Tonnes / T&T Production:** In Nitrogen, adj. EBITDA decreased -21% as NTR experienced lower net ASPs and lower volumes (driven mostly by lower industrial NH3 demand, partially offset by higher ag sales). NTR expects domestic urea prices will need to increase significantly to reach import parity (makes mathematical sense), while seq. industrial improvement should modestly aid NH3 pricing. In our view, the ag portion will continue to perform well, while industrial will remain stagnant.
- **Aussie Results and On-line Sales New Areas of Focus for Retail:** We're impressed online sales are now >$1bln YTD, a data point investors are monitoring re: digital ag (expect more to come). Also, while not our primary area of focus, we're keen to inquire re: Aussie performance (rebounding mkt) and monitor RuralCo integration / synergy progress.
- **Questions for the Call:** (i.) view on potash S/D and cost curve dynamics?, (ii.) update on demand setup for '21?, (iii.) expectations for nitrogen ASPs into '21, (iv.) thoughts on dicamba re-registration, and (v.) update on capital allocation priorities / Retail pipeline?

Full Report

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INDUSTRY UPDATE

Electric Utilities | Sector Review

03 November 2020

Canadian Infrastructure
Infrastructure Action: Prolific Power Potential

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- **Key Thoughts**: We focus this Infrastructure Action note on various aspects of the power sector that starts with the desire to sign long-term power purchase agreements with "clean" energy. Firstly, two Brookfield entities: **(a)** X-ELIO Energy with a 10-year agreement with **Salesforce.com Inc. (CRM)** for the 200MW Blue Grass solar farm in Australia; and, **(b) Brookfield Renewable** will supply clean power to over 500 of **JPMorgan Chase's (JPM)** real estate operations in New York State (Press Release). Secondly, our Energy Team's BP **(BP.L)** report that focused, in part, on the well cited 50GW generation capacity objective by 2030. They stated "BP is unlikely to chase volumes if the returns become unacceptable…. …energy transition may also not progress as fast as BP's 2030 strategy; we view its volumetric guidance for 2030 as ambitions, not targets per se" (CS Note: *It is About Disciplined Delivery Now*). Finally, we focus on the C.D. Howe's Institute's view of electricity costs across Canada's provinces (The Price of Power: Comparative Electricity Costs Across Provinces).

Highlights

In our view, Credit Suisse Research Institute's 2020 Global Wealth Report has a number of relevant cascading conclusions for investment portfolios (CS Note: *Global Wealth Report*).

The recently announced **Cenovus Energy Inc. (CVE.TO)** and **Husky Energy Inc. (HSE.TO)** merger is a near term positive for Western Canada's energy infrastructure participants, in our view (CS Note: *Keeping it Canadian: A Continuing Canadian Consolidation with an Asian Angle*).

Full Report

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The Brookfield Group
Spread Seeker: A Divergence Dilemma

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- **Key Thoughts**: As per some past work, we continue to focus on the spread relationships between two of **The Brookfield Group's** publicly traded LPs and the corporate entities (Spread Seeker Series: *Stabilizing the Spread*; *After the Index Inclusion*; *Mind the Gap*; and, *Starting Slippage or Shrinkage*). The primary area of focus is the dollar and percentage spread relationships for both: **(a)** Brookfield Infrastructure Partners LP **(BIP)**-Brookfield Infrastructure Corporation **(BIPC)**; and, **(b)** Brookfield Renewable Partners LP **(BEP)**-Brookfield Renewable Corporation **(BEPC)**. Most recently, we noticed a narrowing of the BEPC-BEP spread that was in the 27%-28% range to about 22%. Interestingly, in our view, is the BIPC-BIP trading relationship continues to be wider than the renewable relative.
- **Serious Spreads**: A series of ongoing debates revolve around the "appropriate" spread between the Brookfield public LPs, with a particular focus on BIP and BEP, and the corporate related siblings. Part of the challenge with these spread relationships is "beauty is in the eye of the beholder" which really turns on the taxation reality for investors. Another factor related to the spread delta is that of capital pools – especially those of passive index and ETF investors and we note the MSCI impact in the future for BEPC. At this juncture, Canadian incorporated entities (British Columbia) with a US headquarters serve a specific market need that may translate into a LP yield enhancement strategy being employed by certain investors.

Full Report

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Canadian Banks
Early signs of recovery in consumer lending, but loan mix continues to trend unfavorably and is a near-term headwind on domestic NII

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Loan growth in Canada at the industry level during the month of September 2020 showed acceleration in residential mortgage balances, early signs of recovery in other consumer loans, and a further decline in business lending. As we look ahead to Q4-F20 earnings season for the Canadian banks, we remain concerned about the divergence between lower-spread mortgage loans and higher-spread other consumer and business loans, which we expect will be a headwind on net interest income in the Canadian lending business. Below we summarize our key takeaways from the September data:

- **Mortgage volumes accelerated in September:** Total outstanding residential mortgage credit in Canada surpassed the C$1.7 trillion mark during the month, with the Y/Y pace of growth increasing slightly to 5.7% (up from 5.2% in each of the past 3 months). The mortgage portfolio continues to be a bright spot for the Canadian lending business as consumers take advantage of record low mortgage rates. With activity in the resale housing market remaining robust, we expect a similar mid-single-digit growth rate to persist in the near term, although for the Canadian banks we have modeled gradual deceleration towards the 2% level by the end of F2021 on the assumption that mortgage rates stabilize, which would remove the recent tailwind of declining borrowing costs.
- **Other consumer loan volumes show some signs of life:** Higher-spread non-mortgage consumer loans in aggregate (credit cards, auto loans, home equity lines of credit, and other personal loans) were up 0.6% sequentially in September, marking the strongest pace of M/M growth since June 2019. However, balances were still down 2% relative to the prior year and have yet to recover back to pre-pandemic levels. While the recent improvement is very modest, we view it as a positive read-through for the Canadian banks as consumer spending continues to gradually recover. We have modeled very low growth in the low-single-digit range in this part of the loan book for the Canadian banks in F2021, although we see downside to our base case assumption as federal government emergency support measures are eventually unwound in the coming months.
- **Business loans still have not bottomed out:** Total business loans in Canada fell further sequentially in the month of September (down C$4 billion M/M or -0.4%). That was the fifth consecutive monthly decline as companies continue to pay back elevated drawdowns during March and April. For the large Canadian banks we currently model stabilization over the next couple of quarters with modest Y/Y growth in the 2% to 3% range in F2021, which we admit could be too optimistic and will ultimately depend on the pace of the economic recovery.
- **NII in Canada challenged, but not as much as non-domestic exposure:** A low interest rate environment is clearly a headwind for each of the Canadian banks, although we are more concerned about non-domestic exposure. We continue to see the most downside risk to net interest income through F2021 for BMO and TD in their respective U.S. business, and BNS in its International segment.

Full Report

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