Top News

Research Services

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Internal Use Only

April 21, 2023

U.S. EQUITY FUTURES	LAST	CHANGE	%CHG
Dow Jones MINI futures	33,933.00	24.00	0.07%
S&P500 MINI futures	4,151.00	-1.50	-0.04%
NASDAQ MINI futures	13,040.50	-33.75	-0.26%
CANADA EQUITY MARKET	**LAST**	**CHANGE**	**%CHG**
S&P/TSX 60 futures	1,246.40	-0.60	-0.05%
OVERSEAS MARKETS	**LAST**	**CHANGE**	**%CHG**
DJ EURO STOXX 50	4,380.84	-4.02	-0.09%
FTSE 100 INDEX	7,913.65	11.04	0.14%
DAX GERMANY	15,761.77	-34.20	-0.22%
CAC 40 Index	7,541.32	2.61	0.03%
NIKKEI 225 INDEX	28,564.37	-93.20	-0.33%
HANG SENG INDEX	20,075.73	-321.24	-1.57%
SHANGHAI COMPOSITE INDEX	3,301.26	-65.77	-1.95%

COMMODITIES/ FX		LAST	CHANGE
CRUDE OIL WTI		$77.82	$0.45
NATURAL GAS		$2.22	-$0.03
GOLD		$1,989.19	-$15.15
COPPER		$4.01	-$0.01
CAD / USD		$0.7392	-$0.0026
CAD / EUR		€ 0.6727	-€ 0.0035
USD / EUR		€ 0.9101	-€ 0.0014
USD / JPY		¥133.66	-¥0.57
GOVERNMENT BONDS	**2YR**	**5YR**	**10YR**
CANADA (YLD%)	3.74%	3.10%	2.94%
U.S. (YLD%)	4.12%	3.61%	3.53%

Source: Refinitiv

Morning News

U.S. futures wavered amid mixed corporate earnings and a fresh round of data that showed the economy in a rut. All the major averages are on pace to end the week in the red, with the Dow and the S&P 500 on track for their worst weekly performances since March. The latest batch of economic reports Thursday showed that jobless claims rose more than expected, while manufacturing activity in the Philadelphia region was even deeper in contraction than anticipated. Earnings season continued Friday, with Procter & Gamble beating expectations and liftings its sales forecast. Still, Federal Reserve Bank of Cleveland President Loretta Mester signaled support for another rate hike to quell inflation while flagging the need to watch recent bank stress that may crimp credit and damp the economy. Her Dallas counterpart Lorie Logan said inflation has been “much too high,” while outlining measures to watch. Futures for Canada's resource-heavy stock index fell on Friday, as investors took cues from lackluster gold and crude prices, while tepid performances in Wall Street amid a mixed bag of earnings reports also weighed. Oil prices were on track for a hefty weekly loss as economic and interest rate uncertainty weighed, though prices were stable on Friday as the euro zone recovery gathered pace unexpectedly.

European shares struggled for direction on Friday, set to close the week flat after a fourth weekly gain, as investors eyed more corporate earnings for cues on sector rebound, while the euro zone's economic recovery unexpectedly gathered pace this month. The euro zone economic recovery has unexpectedly gathered pace this month as the bloc's dominant services industry saw already-buoyant demand rise, more than offsetting a deepening downturn in manufacturing, surveys showed. HCOB's flash Composite Purchasing Managers' Index (PMI), compiled by S&P Global and seen as a good gauge of overall economic health, jumped to an 11-month high of 54.4 in April from March's 53.7, data showed on Friday. European Central Bank Vice President Luis de Guindos said Friday that underlying inflation in the euro area remains “very sticky.” The ECB is widely expected to increase its deposit rate at its next policy meeting on May 4, with the choice likely to be either a quarter- or half-point step.

China stocks slumped on Friday, logging the biggest daily decline since last November's rally driven by optimism over easing of COVID restrictions, as uneven Chinese economic recovery dented investor sentiment. Shares of artificial intelligence (AI) and tech companies led Friday's decline, after frenzy around Chinese equivalents of OpenAI's ChatGPT chatbot fuelled speculative bets and boosted shares in recent months. Meanwhile, broad sentiment remained subdued as market participants closely monitored the progress of China's economic recovery.

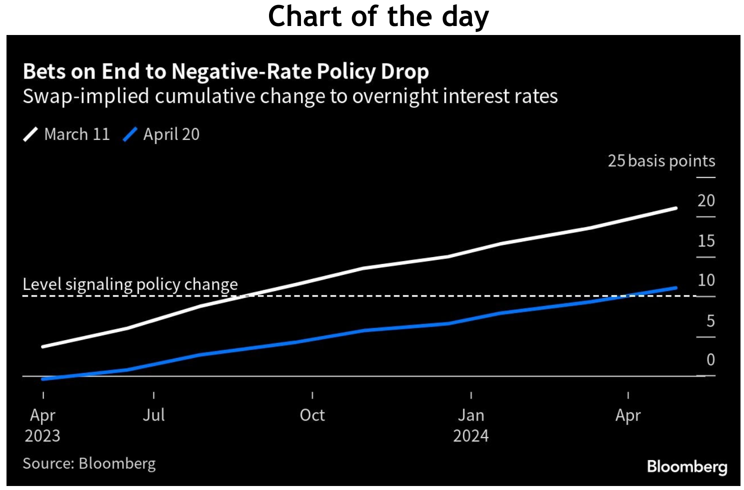
U.S Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
09:45	S&P Global Mfg PMI Flash	Apr	49.0			49.2	
09:45	S&P Global Svcs PMI Flash	Apr	51.5			52.6	
09:45	S&P Global Comp Flash PMI	Apr				52.3	

Canadian Economic Calendar

Time	Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised
08:30	Retail Sales MM	Feb	-0.6%	-0.2%	0.40%	1.4%	
08:30	Retail Sales Ex-Autos MM	Feb	-0.1%	-0.7%	-0.60%	0.9%	

Chart of the day



Top News
Canadian Stocks

Morning news

Brookfield Asset Management Ltd: The company has made a counter bid of 2.13 billion pounds to take over payments provider Network International, topping a joint proposal from CVC Capital and Francisco Partners. United Arab Emirates-based Network International said it was evaluating Brookfield's proposal, in what could be the start of a bidding war for the largest payment processing firm across the Middle East and Africa. Brookfield offered 400 pence per share versus 387 pence in the joint proposal from private equity firms CVC Capital and Francisco Partners which was disclosed on Monday.

Imperial Oil Ltd: The company's chief executive apologised to Canadian lawmakers on Thursday for toxic tailings leaks at its Kearl oil sands mine and conceded the company had been "negligent" in not sharing information with nearby First Nations communities. CEO Brad Corson, grilled for two hours by a parliamentary committee in Ottawa, said Imperial had notified Indigenous communities when discoloured water was spotted pooling near the Kearl site last May. However the company failed to speak directly with the chiefs or update communities when testing showed the water contained tailings, he said.

NBF Research

RATING AND TARGET PRICE CHANGES

Technology: Calendar Q1 2023 Preview - After a Big Run – Some Inertia
Primaris REIT - Shoplift these units: Stock Rating: Outperform; Target $17.50

DAILY BULLETIN HIGHLIGHTS

TECHNOLOGY: Calendar Q1 2023 Preview - After a Big Run – Some Inertia

Event: Calendar Q1 2023 Preview

Key Takeaways: If you follow our research, you'll recall in our 2023 Year Ahead, we made it a point of emphasizing that avoiding the Technology sector given the big pullback in 2022 was a potential detriment to missing outsized returns, at least in the short term. A big part of that was based on what we've seen historically, and as recently as the middle of 2022, when the idea of moderating rates pushed the group higher. After the big move this year, what do you do now? Given that early year run, we think inertia is setting in as valuations have crept back up again to their historical averages against growing risk for a softening economic backdrop. This note covers how we think investors can be best positioned going into Q1 earnings.

NORTHLAND POWER INC.: Q1 preview: A solid start to the year for results, but NPI is lagging peers

NPI (TSX)	**C$33.26**
Target:	**C$42.00**
	(Unchanged)
Stock Rating:	**Outperform**
	(Unchanged)
Est. Total Return:	**29.9%**

Event: We are providing an updated outlook for Q1'23E results.

Key Takeaways: NPI has lagged peers recently and could turn sentiment with a positive Q1 report. NPI's offshore segment appears to have been strong in Q1 (we model 102% of LTA), but with soft winds in Quebec and a delayed start to the La Lucha solar project, we lowered our generation forecast to 2,026 GWh (was 2,059 GWh). However, with strong FX tailwinds on NPI's European assets, our Q1E adj. EBITDA moves up to $393 mln (was $374 mln, cons. $381 mln) in Q1E. With liquidity and inflation concerns, updates on NPI's development projects and liquidity position could help. We don't believe the company should need to raise equity to fund growth as it has cash and relatively low leverage. We maintain our $42/sh target based on a long-term DCF with a cost of equity of 7% that includes $4/sh for growth. NPI reports Q1 results on May 9th after market close and will host a conference call on May 10th at 10:00 AM.

PRIMARIS REIT: Shoplift these units: initiating at Outperform, $17.50 target

PMZ.un (TSX)	**C$13.66**
Target:	**C$17.50**
	(initiating)

Event: We are Initiating Coverage of Primaris with an Outperform rating and $17.50 price target.

Key Takeaways: Strategy and balance sheet to mitigate perceived risks. We believe PMZ's strategy of owning the largest retail sites in its markets, combined with the post-COVID mall rebound and limited development should mitigate some

Stock Rating:	**Outperform** (initiating)
Est. Total Return:	**34.1%**

of the perceived operating risk of enclosed mall assets. PMZ units balance higher perceived operating risk with lower financial risk. PMZ's spin-out from H&R came with a standout benefit for these times — a top quality balance sheet, offering durability and strategic flexibility during a changing interest rate regime. At 5.1x EBITDA and 32% debt/assets, PMZ carries the lowest leverage in our coverage universe. One of the cheapest names in the space. Trading at just 8.6x 2023 consensus FFO/u, offering a 6% yield at a 52% payout ratio, PMZ units are heavily discounted vs retail peers. In a tough overall market for REITs, we believe PMZ is well-structured and well-priced to offer a pathway to healthy relative returns.

OTHER COMMENTS

Canadian Airlines - Demand and pricing look strong on trans-Atlantic routes this summer: Implications for Air Canada and…
Boralex Inc. - Q1 Preview: A softer quarter with weak wind, but stronger euro helps '23E
CCL Industries Inc. - 1Q On May 10, Solid Rev Growth Expected, Margins Slightly Down On Seasonality & Destocking
Green Impact Partners Inc. - More to Come
Northland Power Inc. - Q1 preview: A solid start to the year for results, but NPI is lagging peers
Parkland Corporation - Q1 2023 Preview: Market looks for continued signs of operational improvement

RESEARCH FLASHES

First Majestic Silver Corp. - Q1/23 Jerritt Canyon Soft as Expected
Foran Mining Corporation - New Lens at Tesla (39m at 4% CuEq) Best-Ever; Continued Success of Geophysics-Led Strategy
Royal Gold Inc. - Highlights from Royal Gold's Investor Day and 2023 Guidance

Credit Suisse Research

CANADIAN HIGHLIGHTS

Royal Gold Inc (RGLD.O, Neutral, TP: US$140.00)

Disappointing 2023 guide, but pointing to longer-term growth

- RGLD hosts virtual investor update: On April 20, Royal Gold hosted a virtual investor update to provide a strategic update. The discussion focused mainly on 1) 2023 guidance, 2) portfolio updates, and 3) deal pipeline (seeing $100-300mm opportunities).
- **2023 guidance:** In a separate press release, Royal Gold provided 2023 GEO guidance of 332.5koz (320-345koz), well below 419koz CSe using the company's price assumptions (only a single other estimate of 402koz). Therefore, 2023 production is expected to be flat y/y (2022 guidance was 315-340koz). 2023 gold production guidance is 242.5koz (235250koz), well below 350koz consensus (298-383koz range) and 312koz CSe. Royal Gold highlighted lower grades at Andacollo and Penasquito (lower grade and harder ore at Chile Colorado pit), as well as timing of shipments at Mt. Milligan and Pueblo Viejo.
- **Operational highlights:** Recall that on April 11, Royal Gold pre-released Q1-23 streaming segment sales of 60.8koz (GEO), comprising 42.1koz gold. The company expects a Record of Decision for Goldrush by the end of H1-23, as well as first production from Bellevue in H2-23.
- **Deal pipeline:** Recall on January 5, Royal Gold announced it acquired two portions of a gross smelter royalty (GSR) on Cortez from private holders (successors in interest to Idaho Mining Corporation) for $204mm. See our note **Cortez Consolidation**. At 2022-end, Royal Gold had total liquidity of $547mm and the company continues to prefer long duration assets but will also consider short-term, quality assets, as it has in the past (e.g., Wassa).
- **Valuation:** We update our model for 2023 guidance. Our revised $140.00 target price (from $146.00) is based on a 50/50 weighting of NAV and CFO (adj.) valuation. Our $130.74 NAV is based on a $55.63 DCF using a 2.3x multiple, with adjustments at par. Our $146.33 CFO (adj.) valuation is based on 2023 CFO of $5.85 using a 25.0x multiple.
- **Investment thesis:** We rate Royal Gold Neutral on valuation, flat production profile in 2023, and lower near-term liquidity to execute deals relative to peers. More positively, Royal Gold has been active in acquisitions and has built a high-quality portfolio by partnering with large, capable mining companies, and has maintained high margins.

Top News
Canadian Stocks

Canadian Infrastructure

Infrastructure Action: Considerable Carbon Context from CS's Carbon Negative Conference

- **Key Thoughts:** We attended the Credit Suisse/XPrize Carbon Removal Carbon Negative Conference in San Francisco with an extensive list of attendees across a rapidly growing ecosystem. Lots of takeaways, but in the near term, we focus on Canadian carbon price escalation along with Carbon Capture Storage (CCS) as per past work (Continuing the Carbon Capture Conversation). Beyond that big event, two bellwethers kicked off the results season with Blackstone (BX) and Kinder Morgan (KMI) both printing results.
- **Highlights**
- The World Bank provided a framework for energy transition efforts in developing countries as per Scaling up to Phase Down: Financing Energy Transitions in the Power Sector.
- Media reports cited the Canadian government will provide Volkswagen's planned Ontario battery C$13bn of subsidies (VW Press Release and Globe & Mail).
- C.D. Howe Institute provided perspective on Canadian climate strategy in Game On: The Implications of the US Inflation Reduction Act for Canadian Competitiveness.

Mining Nuggets

This Week's Top Metals & Mining News

- Included in this weekly publication are top news stories - including commodity and company commentary - in addition to a chart pack with industry and company metrics.
- **Gold price action:** Despite some intraweek moves (as investors assess the Fed's potential interest rate trajectory), gold prices ended the week roughly flat w/w. At the time of this writing, gold is trading ~$2,003/oz, unchanged from the end of last week. The current 10Y U.S. TIPS yield (i.e., real rate) is 1.32%, vs. a recent low of 1.06% (April 6, 2023) and a recent high of 1.66% (March 8, 2023).
- **Royal Gold announces 2023 guidance:** On April 20, Royal Gold announced 2023 GEO sales of 332.5koz (320-345koz), well below 419koz CSe using the company's price assumptions (only a single other estimate of 402koz). Therefore, 2023 production is expected to be flat y/y (2022 guidance was 315-340koz). 2023 gold production guidance is 242.5koz (235-250koz), well below 350koz consensus (298-383koz range) and 312koz CSe. Royal Gold highlighted lower grades at Andacollo and Penasquito (lower grade and harder ore at Chile Colorado pit), as well as timing of shipments at Mt. Milligan and Pueblo Viejo. See our note.
- **Lundin Mining's CEO talks M&A:** On April 17, Lundin Mining's CEO Peter Rockandel commented that the company's assets would presumably be attractive to prospective buyers as the sector enters a period of consolidation: "People are looking at every company — it's just natural…One of the key things we have is the majority of all of our assets, with the exception of one, are long life. And that's what people usually want when they do an acquisition."
- **Glencore open to sweetening bid for Teck:** On April 19, Glencore issued a press release stating it is willing to increase its bid for Teck, to win over shareholders and pressure Teck's board. Teck's shareholder vote to spin off its coal business is on April 26 and requires 2/3 approval from both Class A (Keevil family) and Class B shareholders. From Teck's most recent press release in response to Glencore: "Glencore's motivation is plain - they are seeking to opportunistically frustrate the vote and pre-empt a competitive future landscape, which is good for Glencore, and bad for Teck's shareholders." See our EMEA Metals & Mining team's note on the most recent Glencore offer.
- **Q1-23 base metals preview:** On April 20, we published our base metals preview, in which we revised our target prices for Lundin Mining and Hudbay based on a revised commodity price deck. Our target price for Lundin Mining is revised to C$11.50 (from C$10.00) and our target price for Hudbay is revised to C$9.00 (from C$8.50). We continue to rate Lundin Neutral and Hudbay Outperform

OTHER COMMENTS

Global Infrastructure Research: Infrastructure Insights: All About Across the Americas with Utilities and Transportation Talk

Click here for full comments (First Edition – Canadian Alert)

Top News
Canadian Stocks

Canadian stocks ratings and target changes across the street

AG Growth International Inc AFN.TO: Scotiabank raises target price to C$76 from C$75
Atco Ltd ACOx.TO: CIBC raises target price to C$52 from C$49
Boralex Inc BLX.TO: CIBC raises target price to C$48 from C$46
Canadian Utilities Ltd CU.TO: CIBC raises target price to C$39 from C$37
CGI Group Inc GIBa.TO: National Bank of Canada raises target price to C$160 from C$140
Chartwell Retirement Residences CSH_u.TO: Scotiabank raises to sector outperform from sector perform
Chartwell Retirement Residences CSH_u.TO: Scotiabank raises target price to C$11.50 from C$11
Constellation Software Inc CSU.TO: National Bank of Canada raises target price to C$3,000 from C$2,750
Emera Inc EMA.TO: CIBC raises target price to C$58 from C$56
Enbridge Inc ENB.TO: Raymond James cuts target price to C$56 from C$60
First Majestic Silver Corp AG.N: H.C. Wainwright raises target price to US$11 from US$10.50
Foran Mining Corp FOM.V BMO raises target price to C$4.75 from C$4.25
Fortis Inc FTS.TO: CIBC raises target price to C$59 from C$57
Gibson Energy Inc GEI.TO: Atb Capital Markets cuts target price to C$25 from C$26
Hexo Corp HEXO.TO: Jefferies cuts target price to C$1.70 from C$2.57
Hydro One Ltd H.TO: CIBC cuts to neutral from outperform; raises target price to C$41 from C$39
Innergex Renewable Energy Inc INE.TO: CIBC cuts target price to C$17.50 from C$19
Keyera Corp KEY.TO: Canaccord Genuity cuts to hold from buy
Lightspeed Commerce Inc LSPD.N: National Bank of Canada cuts target price to US$20 from US$30
Magna International MGA.N: JP Morgan cuts target price to US$60 from US$64
Northland Power Inc NPI.TO: Atb Capital Markets cuts target price to C$48 from C$50
Northland Power Inc NPI.TO: CIBC cuts target price to C$42 from C$43
Organigram Holdings Inc OGI.TO: Jefferies cuts target price to C$1.50 from C$1.80
Primaris REIT PMZ_u.TO: National Bank of Canada starts with outperform rating; C$17.50 target price
Q4 Inc QFOR.TO: National Bank of Canada raises target price to C$5 from C$3.50
Royal Gold Inc RGLD.O: Credit Suisse cuts target price to US$140 from US$146
Secure Energy Services SES.TO: Raymond James cuts target price to C$9.25 from C$10
Teck Resources Ltd TECKb.TO: TD Securities raises target price to C$80 from C$71
Tidewater Midstream and Infrastructure Ltd TWM.TO: CIBC cuts target price to C$1.5 from C$1.600
Tidewater Renewables Ltd LCFS.TO: CIBC raises target price to C$17 from C$16
Transalta Corp TA.TO: CIBC raises target price to C$16.5 from C$16

S&P/TSX Earnings Calendar

No major S&P/TSX companies are scheduled to report for the day.

Source: Refinitiv

Top News
U.S. Stocks

Morning news

Autoliv Inc: Sweden's Autoliv the world's largest maker of airbags and seatbelts, reported weaker than expected growth in first-quarter core earnings on Thursday even as the company maintained its full year outlook. Adjusted operating profit came to $131 million for the January-March quarter, up from $68 million a year ago but below the median forecast of $135 million in a Refinitiv poll of analyst. The company's first quarter adjusted operating profit margin stood at 5.3%, in line with the around 5% the company itself had previously guided for while the full-year forecast of 8.5% to 9% was maintained.

Clorox Co: The company on Thursday said it would cut about 200 positions, or 4% of its non-production workforce, as it looks to keep a lid on costs amid worries of an economic slowdown. The Pine-Sol manufacturer joins a list of companies - from tech firms to retailers such as Bed Bath & Beyond Inc and Wayfair Inc - that have reduced their workforce in the face of growing recessionary fears in the United States.

CSX Corp: The U.S. railroad operator posted better-than-expected quarterly profit and revenue on Thursday, as higher shipment rates had helped offset the impact of a 1% drop in volumes. CSX, which mainly operates in the eastern part of the United States, posted first-quarter net earnings of $0.48 per share, compared with $0.39 per share, a year earlier. Revenue rose roughly 9% to $3.71 billion in the quarter ended March 31. Analysts on average had forecast a profit of $0.48 per share, on revenue of $3.58 billion. CSX's operating ratio, a key profitability metric for railroads, improved nearly 2% to 60.5% from a year earlier.

PPG Industries Inc: The company on Thursday surpassed street estimates, as the industrial coatings supplier accelerated its margin recovery on the back of higher prices and sales volumes, and forecast better-than-expected full-year 2023 earnings. Quarterly net sales rose 2% to $4.38 billion from $4.31 billion a year earlier. Analysts had expected $4.39 billion. The company expects sales volumes to be close to pre-pandemic levels in the second quarter of this year and sees earnings between $2.05 per share and $2.15 per share, higher than street estimate of $1.96 per share. PPG's full-year 2023 earnings forecast between $6.95 per share and $7.25 per share was also higher than analysts' estimate of $6.90.

Procter & Gamble Co: The company raised its full-year sales forecast, signaling higher prices would offset the hit from consumers turning to cheaper, private-label alternatives for tissues and other household essentials. P&G also said its expects annual earnings per share towards the lower end of the fiscal year guidance range. The Pantene shampoo maker reported a 3% fall in overall volumes in the third quarter, with average prices across its product categories rising 10%. The company said it expects fiscal 2023 organic sales growth of about 6%, compared with its previous forecast for a 4% to 5% increase.

Regions Financial Corp: The company's first-quarter profit rose less than expected as the bank set aside more capital to withstand potential loan losses, which countered the gains from higher interest rates. Regional Financial set aside $135 million as provision for credit losses, compared to a benefit of $36 million in the previous year. That offset gains from a 40% growth in net interest income, the difference between how much banks earn from loans and pay out on deposits. Total deposits fell 3% from the end of last year to $129.04 billion, but remained stable from early March through the end of the quarter, Regions said. The bank posted a 12% jump in profit to $588 million, or 62 cents per share, for the three months ended March 31, missing analysts' estimates of 66 cents per share.

SAP SE: The business software maker reported first-quarter revenue above analysts' expectations, backed by growth in its cloud business but lowered its outlook for the year due to the divestment of its Qualtrics unit. While tougher economic conditions have riled big technology companies, SAP has still been able to grow its revenue by 10% in the first quarter to 7.44 billion euros, beating a company-provided consensus. For the year, SAP expects non-IFRS operating profit in the range of 8.6-8.9 billion euros, 200 million euros less than before. Cloud revenue forecast is seen down by 1.3 billion euros to between 14 and 14.4 billion euros.

SLB: The company beat Wall Street estimates for first-quarter profit on Friday, as elevated crude prices and tight supplies fueled demand for its oilfield services. "The international and offshore markets continue to experience a strong resurgence of activity driven by resilient long-cycle development and capacity expansion projects," SLB CEO Olivier Le Peuch said in a statement. However, he expects the North American land market could potentially result in an activity plateau in 2023 due to lower gas prices and capital restraint by private E&P operators. The company, formerly called Schlumberger, reported net income, excluding items, of 63 cents per share, for the three months ended March 31, compared with 60 cents expected by analysts.

Credit Suisse Research

RATING AND TARGET PRICE CHANGES

Seagate Technology, Inc. (STX.OQ, Neutral, TP: US$54.00)

F3Q23 Review; Further Reducing Production, Recovery Pushed Out, Dividend A Concern

- Seagate (STX, Neutral) reported weaker than expected F3Q23 results including revenue of $1.86B (3% and 6% below our and consensus estimates, respectively) and non-GAAP EPS of negative $0.28 (vs. our estimate of positive $0.21 and consensus of positive $0.25). The biggest concern we have now is liquidity as the company is looking at sale/leasebacks for manufacturing facilities in order to cover near term debt maturities (rather than draw on the $1.7B revolver). We also note Seagate has a ~$500M maturity due March 2024. If the market does not turn soon, we would expect the company to reduce/suspend the dividend until conditions improve. We note management stated they have several levers to pull for liquidity (including the asset sales) but we assume all would be negative for equity holders.
- **Earnings Under Pressure:** For F3Q23, revenue declined 34% y/y due to weak US cloud demand, China weakness and pricing pressure. Gross margin was 18.7% (384 bps below our estimate), reflecting: 1) lower revenue; 2) production cuts resulting in ~$75M of underutilization charges (expected to improve in F4Q23); and, 3) mix. Management pushed out expectations of a recovery and now expects the downcycle to last until the end of C2023 (our expectation of a rebound in EPS is essentially pushed out a year).
- **More Restructuring:** Seagate announced an additional restructuring program which is expected to realize annualized run rate savings of ~$200M starting in F1Q24. As part of the plan, Seagate is reassessing levels of production output (reduced production in beginning of F4Q23); reducing the number of drive configurations; and, prioritizing resources towards higher margin products.
- **Lowering Estimates:** We estimate F4Q23 revenue of $1.71B (down 18% from prior) and non-GAAP EPS of negative $0.24. We expect a return to y/y revenue growth in F2Q24 (up 2% y/y) and estimate F2024 revenue up 7% y/y to $8.01B and non-GAAP EPS of $1.46.
- **Reduce Our PT:** We reduce our target price to $54 from $69 based on 11x our new F2025 EPS estimate. Risks include liquidity, HAMR transition, strength of cloud demand and difficulties scaling HDD technology profitably.

Steel Dynamics, Inc. (STLD.OQ, Outperform, TP: US$115.00)

Fabrication Starting to Normalize but Sinton Ramp and Wider Sheet Spreads are Offsets

- The medium-term outlook for Steel Dynamics remains very strong as most parts of the business are operating well above mid-cycle margin levels. The flat rolled division for STLD should see substantial earnings improvement in 2Q and 3Q as volumes seasonally recover, metal spreads widen, high-cost pig iron inventory has cleared, and Sinton start-up costs pivot to profits (~$620mm total vs targeted EBITDA potential of ~$500mm). While Fabrication volumes appear more challenged in the near-term on project delays and some softness in the warehouse / distribution spending, backlogs still stretch into 4Q at price levels near 2022. Long product volumes were very strong in 1Q with record EBIT in structural beam.
- **Raising 2023 Estimates on Higher Metal Spread Views:** Hot rolled prices have exceed our forecasts YTD and we now see much better metal spreads versus prior model, partially offset by weaker long product spreads given upward pressure in scrap prices against more moderate gains in beam and bar. We now model 2023 EBITDA of $4.1bn (unchanged) which compares to Street view of $3.8bn. We trim 2024 EBITDA to $2.8bn (from $3.0bn) on Fab margins.
- **Fabrication a Mixed Bag:** Volumes were weaker than expected in the quarter, down 18% y/y to the lowest level since 2020 owing to project delays and supply chain issues. STLD noted that backlog extends into 4Q at price levels modestly below the 2022 avg. of ~$4960/st. We understand recent bidding activity has been in the $3000-3800/st zip code depending on the region and size of the project. The major driver of the market over the past two years for warehouse/distribution center spend is clearly slowing down (STLD has zero AMZN exposure) but manufacturing / infrastructure provides an offset. Backlog duration is back to more normal 6-month level (peak was 12 months) and bidding still solid.
- **Flat Rolled Looks Strong for 2023:** HRC metal spreads have widened out to ~$640/st vs the 2H-22 level of ~$360/st and 1Q-23 level of ~$440/st. Sinton volume leverage, lower energy costs, and removal of pig iron overhang further support margin trajectory. Long product prices remain firm despite some lumpiness in demand across the US.
- **Valuation & Risks:** STLD trades at 5.0x 2023 EV/EBITDA and 7.0x on 2024. STLD 10-year median multiple is 6.5x. Our new CS $115 (from $106) TP is based on blended 6.0x EV/EBITDA across 2023+24. Key risks include Fab pricing, sheet supply, and Sinton ramp execution.

Truist Financial Corp. (TFC.N, Neutral, TP: US$40.00)

Circling back… reducing estimates on reduced revenue growth forecast; reduced free capital expectations takes our TP to $40

- This morning Truist reported 1Q23 GAAP earnings of $1.05 per share/adjusted eps of $1.09 ex. merger/restructuring charges. At the bottom line, this compares to our $1.16 GAAP / $1.18 operating eps and the FactSet consensus at $1.14. Relative to our forecast, the shortfall was driven by higher credit costs (largely a function of more loan loss reserve build); PPNR was essentially in line (lower NII offset by higher fees; operating expenses marginally above forecast). All in, results translated to an ROTCE of 24.1% on quarter-end CET1 of 9.1%. Looking forward; reducing estimates to reflect a more conservative revenue outlook… this recalibration should not be all that surprising at this point, with funding costs increasing more quickly and our view that capital markets will recover, albeit more slowly than previously forecast; with less net interest revenue growth, we expect the realization of positive operating leverage will prove more challenging (vs management's prior guide/target of 200bps+ of positive operating leverage). Our estimate revisions… factoring in our revised NII forecast--the biggest driver of our downward earnings revision (less loan growth/higher funding costs taking their toll); modestly higher credit costs and expenses, and no share buybacks we're reducing our 2023 GAAP estimate to $4.45 per share (prior: $4.85); our 2024 estimate is revised lower to $4.80 per share (prior: $5.25). Factoring in both our estimate revisions and the assumption of less free capital generation going forward (reflective of heightened regulatory risk), we're reducing our target price to $40 (from $52). Risk (+/-) to the achievability of our estimates and target price ties most closely to the macro and market backdrop (i.e., the level of interest rates, business and capital markets activity and credit quality migration), regulatory dynamics (CCAR, the outcome of the Fed's holistic capital review) and the intensity of competition.
- **For 1Q snapshot:** TFC: 1Q first thoughts; a few cents light and lowering the guide
- **Our revised $40 target price** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $56, a 50% weight on our revised DCF-derived base case scenario of $51, and a 40% weight on our grey sky scenario of $23; this target price translates to 9.0x our 2023 eps estimate and 1.9x forecast 2023 tangible book value per share.

COMPANY UPDATES

AT&T (T.N, Neutral, TP: US$19.00)

1Q23 Wrap – Reasonable Start to Year, Trimming Estimates Slightly

- **Forecast Update:** Given modest 1Q shortfalls at Business Wireline, more clarity on the pace of fiber buildout (YE25 30m target for passings = ~28.75m served locations), and the new fiber preferred driving non-controlling interest back up in 2Q23 and beyond, we maintained 2023 EBITDA at $42.78B and trimmed EPS $0.04 to $2.40, while 2024 EBITDA is -$131M to $43.632B and EPS -$0.08 to $2.38. We maintained our $16B of 2023 Mgmt's Adj. FCF (or Cash FCF to s/h of ~$13B) – ~$3.5B from DirecTV and $12.5B from AT&T's operations.
- **Outlook:** Mgmt reaffirmed all 2023 guides and indicated confidence operational trends were fully on track, while FCF seasonality being heavily 2H weighted is as they had expected (and to some extent previewed a quarter ago). The slowing fiber buildout and wireless market help cash generation, while it is certainly interesting whether mgmt needs to raise wireless pricing again this year. Still, an inline-to-below 1Q result and effectively no 1Q FCF produced ex-DirecTV certainly puts pressure on execution the rest of the year. Business Wireline consistently disappoints, and we lowered 2023 EBITDA to -11% Y/Y. Wireless revenue & EBITDA growth should decelerate going forward due to the market slowdown and soon lapping last June's price increases – we see 4Q23 exiting the year at 3% service revenue/EBITDA growth in Mobility on the way to 1%/2% in 2024. Consumer Wireline seems promising, but legacy declines hold back revenue and 1Q23's 22bp of margin expansion and our 90bp full year estimate are uninspiring. Capital allocation remains locked in debt paydown mode given debt leverage still at 3.2x EBITDA and only ~$5B of FCF after dividends with which to pay down debt each year (and another $2B of spectrum payments due in 4Q). Perhaps cost cuts remain an opportunity (though they have not manifested to date), but we do not see upcoming catalysts to improve optimism for 2024 at this point, and there seems less 2023 upside potential post 1Q results.
- **Valuation:** We maintain our $19 DCF target price (WACC 6.6%; no terminal growth). We show AT&T trading at 10x 2023e/2024e Cash FCF (about $3B lower than Mgmt Adj. FCF due to including pfd dividends, capitalized interest, and noncontrolling interest). While AT&T is quite cheap, with a fifth of FCF from low-multiple DirecTV, elevated debt leverage, decelerating growth looking forward and the maturity of wireless, the valuation is not compelling enough to recommend shares at this point. Risks: macro; competition (particularly convergence and competitor capital spending), capital spending, and cost management.

Top News
U.S. Stocks

CSX Corporation (CSX.OQ, Outperform, TP: US$37.00)

Solid quarter defies broader macro concerns; cautious outlook on volume, but still see upside for CSX given reasonable valuation

- **Strong quarter aided by one-time gain sets tone for 2023:** CSX reported 1Q23 EPS of $0.48, up +23% y-y, above our $0.44 and the Street's $0.43 estimates. Results included a $46 million one-time insurance recovery, without which EPS would have been a still-strong $0.46. CSX beat our estimates (which were above Street) on both revenue and costs, with top line growing +8.6% y-y to $3.71 billion, $85 million above our estimate. Intermodal weakness (carloads down -9.4% and yields up +4.5%, both worse than our estimate), was offset by strength in its higher-yielding, higher-margin Merchandise business, driving a mix tailwind and minimizing the impact of volume declines. Operating expenses of $2.24 billion increased +4.2% y-y and were $30 million below our estimate (but above our target adjusting for the insurance benefit). Its 60.5% operating ratio was 220bps better than our estimate, setting a strong precedent for 2023 margins, though we expect normal seasonal margin improvement to be somewhat limited off this level through the remainder of 2023 given macro pressures, inflationary costs, and fuel headwinds.
- **Outlook cautious on weak Intermodal, but strong execution gives CSX room to run:** Last week in our Transports Preview, we called out CSX as our top pick going into 1Q earnings given its strong service improvement. The company did not disappoint, with carload trip plan compliance at 86%, its best level in history, and Intermodal trip plan compliance at 96%, matching its best-ever result. The company noted this service is aiding pricing and allowing it to grow volume as it builds trust with customers. Despite its strong 1Q performance, CSX walked back its 2023 volume outlook, citing Intermodal headwinds. While we continue to have concerns about the macro, CSX's valuation at just 14.3x our 2023e EPS appears reasonable relative to history, and given its strong execution it may be less vulnerable to downward revisions versus peers. We continue to see Street estimates for negative 2023 EPS growth as conservative given the multiple levers CSX can flex to drive performance, as demonstrated in 1Q23.
- **We reiterate our Outperform and hold our TP at $37**, keeping our 19x target P/E on our '23e EPS, which we leave unchanged at $1.95. We lower our '24e EPS a touch to $2.15 (from $2.20, with Street consensus at $2.02), to reflect macro uncertainties and cost pressures, but we see the stock as attractive through the cycle. Key risks include continued macro weakness, coal headwinds, and inflationary cost pressures.

Discover Financial Services (DFS.N, Outperform, TP: US$120.00)

1Q23 Miss On Provision; Better Growth, NCO Guidance; Buyback Auth Slightly Below CSe

- DFS reported 1Q EPS of $3.58, (including a $18 mil net equity investment loss $0.05 per share), below CSe of $4.01 and consensus of $3.92. The miss was due to higher-than-expected provision ($0.41 impact), all in reserve build (partly due to better growth) as losses were slightly lower-than-expected. Opex was also higher-than-expected ($0.08 impact). These were partly offset by higher revenue, including higher NII ($0.06 benefit) as a result of better loan growth (particularly personal loans due to strong demand), as NIM was in line. DFS raised loan growth guidance and slightly lowered charge-off guidance (DFS lowered its initial 2022 loss guidance several times), though new share repurchase (~10% of market cap) authorization implies modestly lower buyback than CSe.
- **Investment conclusion.** Post earnings, we adjust our 2023/2024 EPS estimate to $14.30/15.70 (old: $15.00/16.03), reflecting new guidance and trends. Our PT is $120, 8x our 2024 EPS estimate. Risks to our target price and estimates include slower-than-expected growth and higher-than-expected provision.
- **Positives.** 1) Revenue of $3.75 Bn came in better than CSe of $3.72 Bn, primarily due to higher NII and net discount revenue, as a result of stronger loan growth and sales volume (1 ppt above CSe), though sales have continued to decelerate on y/y basis. Personal loan growth was particularly strong due to strong demand. 2) Improved guidance for loan growth and charge-offs.
- **Negatives.** 1) Provision of $1.1 Bn was higher than CSe of $962 mil, due to higher reserve build (partly due to better growth), though losses were 1% below CSe. 2) Opex of $1.38 Bn came in higher than CSe of $1.35 Bn. 3) DFS' board approved a new $2.7 Bn share repurchase program, spanning five quarters through 2Q24 and replacing the prior program. This is lower than CSe as we had expected DFS to compensate for the buyback suspension last year. That said, 1Q buyback was $200 mil higher than CSe.

OTHER COMMENTS

American International Group: Demystifying the Path to 10%+ ROE
AmerisourceBergen: ABC Partners with TPG to Acquire OneOncology
Blackstone Inc.: Off The (1Q23) Call – A Soft Fundamental Update; FRE Multiple(s) Seem Out Of Sync

Top News
U.S. Stocks

PPG Industries: Strong 1H results; 2H slightly lower
Canadian Infrastructure: Infrastructure Action: Considerable Carbon Context from CS’s Carbon Negative Conference
Dan's Doc Debates: Opportunities in Tumor Profiling, Minimal Residual Disease (MRD) Testing [Call Invite]
Global Infrastructure Research: Infrastructure Insights: All About Across the Americas with Utilities and Transportation Talk
Industrials: What's Cookin' - Earning and Churning
Mining Nuggets: This Week’s Top Metals & Mining News

[Click here for full comments (First Edition - US Alert)]

S&P500 Earnings Calendar

Company	Symbol	Time	Consensus EPS Estimate
HCA Healthcare Inc	HCA.N	BMO	3.95
Procter & Gamble Co	PG.N	BMO	1.32
Regions Financial Corp	RF.N	BMO	0.66
Schlumberger NV	SLB.N	07:00	0.61

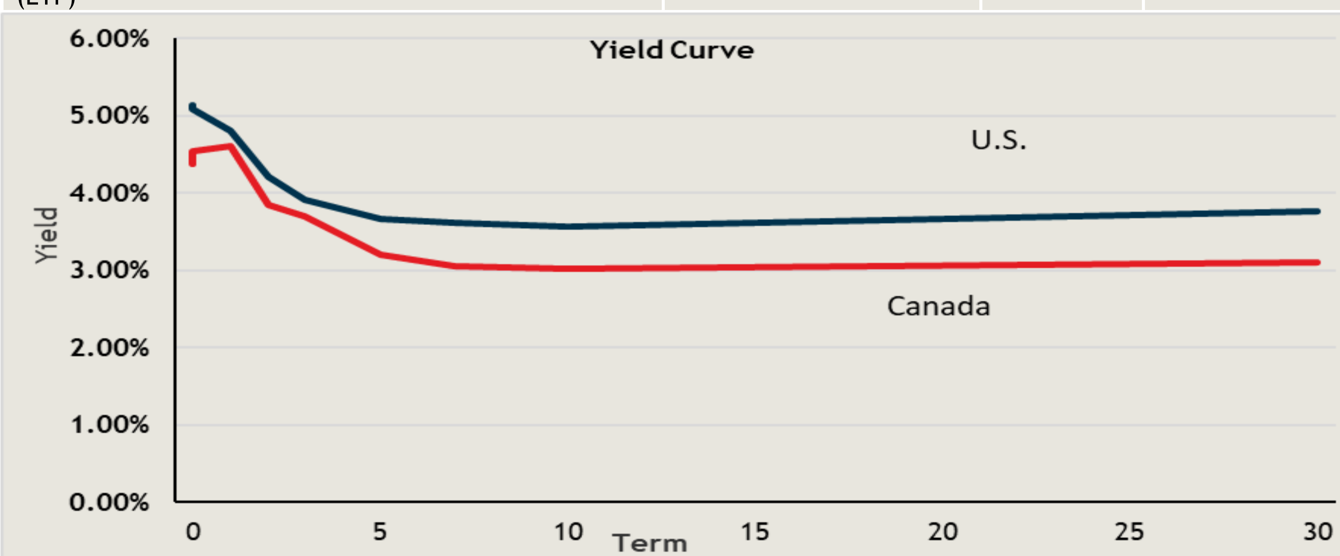
Source: Refinitiv

Top News

Fixed Income

Canadian Key Rate	Last	Change bps		Last	Change bps
CDA o/n	4.50%	0.00	CDA 5 year	3.12%	-3.7
CDA Prime	6.70%	0.00	CDA 10 year	2.95%	-2.5
CDA 3 month T-Bill	4.43%	0.0	CDA 20 year	3.15%	-1.4
CDA 6 month T-Bill	4.55%	0.0	CDA 30 year	3.06%	-1.4
CDA 1 Year	4.56%	-1.0	5YR Sovereign CDS	39.41	
CDA 2 year	3.77%	-3.7	10YR Sovereign CDS	40.05	
US Key Rate	**Last**	**Change bps**		**Last**	**Change bps**
US FED Funds	4.75-5.00%	0.25	US 5 year	3.61%	-3.3
US Prime	8.00%	0.25	US 10 year	3.53%	-1.5
US 3 month T-Bill	4.95%	-2.1	US 30 year	3.75%	-0.6
US 6 month T-Bill	5.05%	-1.2	5YR Sovereign CDS	50.17	
US 1 Year	4.75%	-1.2	10YR Sovereign CDS	44.58	
US 2 year	4.11%	-5.9			

Preferred Shares Indicators	Last	Daily %	YTD
S&P Preferred Share Index	549.66	-0.01%	0.97%
BMO Laddered Preferred Shares (ETF)	9.04	-0.11%	0.00%



Source: Refinitiv

Top News
Economy & Strategy

CREDIT SUISSE – U.S. Economics: The Week Ahead

Next Week's Highlights

Focus next week will be on 1Q GDP and on March PCE, March new home sales, and April Conference Board consumer confidence.

- We expect 1Q GDP to decelerate to 1.9% annualized, down from 2.6% in 4Q 2022. After a solid start to 2023, we expect growth to slow down close to zero for the remainder of the year.
- The PCE deflator is likely to confirm that gradual disinflation continued in March, but the run rate of core is set to remain higher than the Fed's target. Core PCE inflation likely maintained a pace of 0.3% MoM in March. YoY core inflation is likely to continue its journey lower to 4.5%. Monthly headline inflation should be weaker than core.
- We expect new home sales to decline moderately in March by 1.0%, to 634k, after three consecutive months of increases. We expect consumer confidence to drop slightly to 104.0, after rising in March.

Click here for full comments

CREDIT SUISSE – U.S. Equity Strategy: Earnings Brief – April 21, 2023

- 1Q expectations are for revenues and EPS growth of +1.9% and -5.9%. EPS is expected to grow 6.8% and 2.8% in Financials and Cyclicals, but decline -14.6% and -14.5% in TECH+ and Non-Cyclicals.
- 19.0% of the S&P 500's market cap has reported. Earnings are beating estimates by +5.6%, with 73% of companies topping projections. This is the best start to earnings season since 1Q22. EPS is on pace for -1.4%, assuming the current beat rate of +5.6% for the remainder of this season.
- Financials have dominated the results so far, with the big-5 Banks (JPM, BAC, C, GS and MS) surpassing expectations by 15.3% while the rest of the Financials companies have missed projections by -1.9%. Ex-Financials, earnings are beating by 4.1%.
- Value is delivering stronger revenue and EPS growth (3.0% and -2.2%) than Growth (0.1% and -8.0%). Value results are beating expectations by +6.9% vs. +2.9% for Growth.
- EAFE is delivering higher revenue and EPS growth (3.2% and 6.4%) than the U.S. (1.9% and -5.9%). EAFE results are topping consensus by 5.8% vs. 5.6% for the U.S.
- More globally-oriented S&P 500 companies are delivering faster EPS growth than their more domestically-oriented peers: -4.6% vs. -11.3%.
- Next week is the busiest week of 1Q earnings season with 175 companies representing 42.0% of S&P 500's market cap reporting results, including Microsoft, Alphabet, Amazon, Meta, Exxon Mobil, Visa, Chevron, AbbVie, Eli Lilly and Merck.

Click here for full comments

Top News
Conference Calls

First Edition Call

This Week on TEAMS:

MONDAY: Research Services – **8:30 am English call** / **9h00 appel français**

TUESDAY: Kyle Dahms, Economist – **8:30 am English call** / **9h00 appel français**

WEDNESDAY: Dennis Mark, Technical Analyst - **8:30 am English call** / **9h00 appel français**

THURSDAY: Research Services – **8:30 am English call** / **9h00 appel français**

FRIDAY: Rupert Merer – Sustainability and Clean Tech – **8:30 am English call** **/** **9h00 appel français**

Research Services Publications (Links)

Research Services Reports

- F SCORE – Q1 2023 Update
- NBF Vision Monthly
- Better than Bonds Canada - April 2023
- Better than Bonds U.S. – April 2023
- NBF Strategic List Quarterly Review - Q1/23

Preferred Shares

- Preferred Shares - April 2023
- Preferred Shares Printable Tables

Convertible Debentures

- Convertible Debentures - April 2023
- Convertible Debentures Printable Table

This report along with all the research from NBCFM Research Services can also be accessed on our ***SharePoint***

Research Services

Philippe Heymans
514-879-3637

Samantha Barrett, CFA, MBA
416-507-8829

Eric Beaudette
514-879-5556

Alex Kastanis, CFA
514-390-736

Disclosures

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this document constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this document. The document alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This document was prepared by National Bank Financial Inc. (NBF), a Canadian investment dealer, a dealer member of IIROC and an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

NBF is a member of the Canadian Investor Protection Fund.

For NBF Disclosures, please visit URL: http://www.nbin.ca/contactus/disclosures.html

Click on the following link to see National Bank Financial Markets Statement of Policies https://nbfm.ca/statement-of-policies