# ANALYST CURRENT FAVORITES®

**DECEMBER 7, 2022 | 6:33 AM EST**

## OVERVIEW

This publication contains current favorite stock ideas from the analysts in Equity Research. Analysts may only have one "buy" idea (from their stocks under coverage rated Strong Buy or Outperform) on the list at any given time. This list is updated only as changes to the list occur, and, thus, might not reflect the most current stock ratings or analyst selections in the event of interim changes.

| CHANGE | COMPANY | TICKER | CLOSE | RATING | TARGET | INDUSTRY |
|---|---|---|---|---|---|---|
| | Canfor Corp. | CFP-TSX | C$23.15 | SB1 | C$35.00 | Building Materials |
| | Enerflex Ltd. | EFX-TSX | C$8.28 | SB1 | C$15.00 | Blended Production/Midstream/Wellsite |
| | Exchange Income Corporation | EIF-TSX | C$48.15 | SB1 | C$62.00 | Diversified Income Corps. |
| | Innergex Renewable Energy Inc. | INE-TSX | C$16.77 | SB1 | C$24.00 | Sustainability: Clean Generation |
| ✔ | InterRent Real Estate Investment Trust | IIP.UN-TSX | C$12.11 | SB1 | C$15.75 | Residential |
| | Profound Medical Corp. | PROF-NASDAQ | $5.25 | SB1 | $15.00 | Biotechnology |
| X | Tricon Residential Inc. | TCN-NYSE | $8.20 | SB1 | $13.00 | Residential |

CLOSE DATE AS OF 12-06-2022 | ✔=Addition X=Deletion | SB1 - Strong Buy, MO2 - Outperform
Companies on the Raymond James Ltd. (Canadian) Research Restricted List will not appear on the Analyst Current Favorites®.

### ADDITIONS

## InterRent Real Estate Investment Trust

We are adding InterRent REIT to the *Analyst Current Favorites* list for the following reasons: 1) strong and improving Canadian multifamily rental (MFR) fundamentals that can support InterRent's above-average near-term organic growth prospects ; 2) InterRent's historical track record of generating above-average SP-NOI and AFFO/unit growth YoY; 3) its attractive relative valuation discount to its NAV estimate and to its historical average P/AFFO multiple; and 4) the potential for InterRent to be a privatization / M&A candidate given the high-quality nature and intensification / development opportunity inherent within its Canadian MFR real estate portfolio.

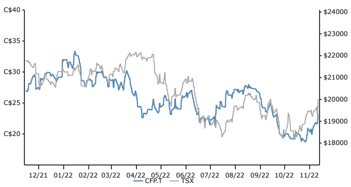
### DELETIONS

## Tricon Residential Inc.

We are deleting Tricon Residential Inc. (Tricon) from our *Analyst Current Favorites* (ACF) list, to reflect: 1) we believe the timing of Tricon's key near-term positive catalyst including the re-acceleration of its SFR acquisition program has become somewhat more uncertain (although we believe it could still be a 2023E event); 2) Tricon's FD FFO/share growth YoY that is driven by higher third-party management fee income could be somewhat constrained in the short-term until its SFR acquisition program re-accelerates back to its previously targeted levels of ~8k SFR homes per year (100% ownership interest); 3) despite a deeply discounted valuation, Tricon has some potential to continue to under perform if interest rates rise beyond current market expectations, partly due to Tricon's greater exposure to floating interest rate debt and 4) a possible US economic and housing recession could lead to slower near-term organic growth YoY for SFR home operators, which could create a further investment headwind for SFR home stocks.

**CURRENT LIST**

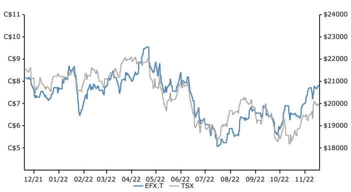
## Canfor Corp.



CFP-TSX | C$23.15 close
SB1 | C$35.00 target
Market Cap (mln) C$2450
Dividend Yield C$0.00/0.0%
Forest Products | Building Materials
Daryl Swetlishoff, CFA

With shares continuing to discount absurdly low lumber prices, Canfor is in deep value territory trading at a ~35% discount to the peer group. We highlight the company boasts the largest relative net cash position in our coverage universe increasing the likelihood of accretive non-BC M&A, in our view, with expected permanent mill closures further contributing to a reduction in the company's "BC discount". With a more active pace on the NCIB, we expect to see additional share price support and highlight potential for a special dividend. With cash lumber prices holding below BC variable costs and seasonality tailwinds, we remain bullish on the near-term outlook and believe there remains substantial upside with CFP shares offering an attractive risk/reward profile.

## Enerflex Ltd.



EFX-TSX | C$8.28 close
SB1 | C$15.00 target
Market Cap (mln) C$969
Dividend Yield C$0.10/1.3%
Oil & Gas Energy Services | Blended Production/Midstream/Wellsite
Andrew Bradford, CFA

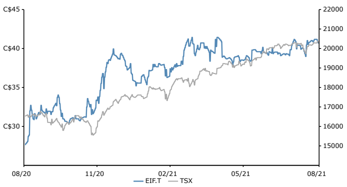
Enerflex is set-up to display all the characteristics that the market has rewarded in energy equities so far this cycle: free cash flow generation, rapid balance sheet deleveraging, and direct shareholder returns.

The steady cash flow of Enerflex + Exterran's Energy Infrastructure assets and continued recovery in Engineered Systems will combine to generate meaningful Free Cash Flow in 2023 that will be applied directly to the balance sheet.

Once the balance sheet reaches targeted debt levels, EFX will shift toward shareholder returns. We are now including a $0.50/sh dividend by the end of 2023 as a placeholder in our forecasts (up from $0.10/share and a 20% payout of 2024E discretionary cash flow).

Debt reduction plus increased direct shareholder returns have been common themes across the energy complex, and have benefited equity holders. We expect the same for Enerflex in 2023. In our view, this is creating a catalyst-rich environment for Enerflex's equity. The first goal post will be to show meaningful free cash flow combined with payments on EFX's credit facility. After reaching its debt targets, the next catalyst will be an increase in shareholder returns. This fact pattern should support the equity moving higher in 2023.

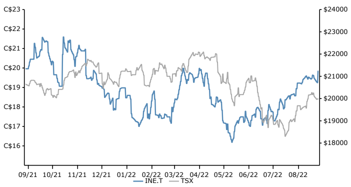
## Exchange Income Corporation




EIF-TSX | C$48.15 close
SB1 | C$62.00 target
Market Cap (mln) C$2006
Dividend Yield C$2.52/5.2%
Diversified Income Corps.
Steve Hansen, CFA, CPA, CMA

We are adding Exchange Income Corp. (EIF) to the *Analyst Current Favorite* List due to our increasingly upbeat view of the company's 2H21/2022 growth prospects associated with the reopening of the North American economy. In the company's core Specialty Aviation platform, in particular, we foresee multiple new tailwinds emerging for its various subsidiaries, including: 1) Northern Airlines—a multi-year backlog of deferred medical visits across the Canadian north that require urgent attention/transport into major centers (i.e. Winnipeg); 2) Regional One—a robust uptick in demand for regional jet parts/ services and leasing demand; 3) PAL—strong embedded organic growth associated with new long-term contract wins & strategic initiatives (i.e. Canada DFO, Netherlands Coast Guard, Force Multiplier); and 4) the company's recent acquisition of Carson Air. In Specialty Manufacturing, we also expect to see demand benefits accrue from an accelerating North American economy and improved operational capacity at its various manufacturing facilities as COVID-related restrictions ease. Finally, while not baked into our numbers, we still see the benefit of incremental M&A given the company's solid balance sheet and ample liquidity. Finally, we see solid total return upside from current levels. Reiterate SB1.

## Innergex Renewable Energy Inc.




INE-TSX | C$16.77 close
SB1 | C$24.00 target
Market Cap (mln) C$3046
Dividend Yield C$0.72/4.8%
Sustainability: Clean Generation
David Quezada, CFA

We are adding Innergex to our *Analyst Current Favorites* list on a combination of expected valuation catch up vs. peers, better than expected project returns on several key projects, upside to persistently elevated merchant power prices in key markets, strong growth outlook, and potential benefit from the US Inflation Reduction Act.

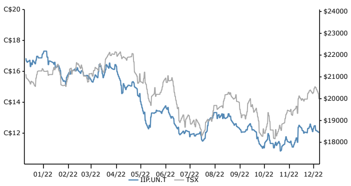
**Pricing power supporting strong US project returns.** As noted on the 2Q22 INE earnings conference call, the 330 MW Boswell Springs wind project is expected to earn a "mid-teens" IRR—well above our expectations for a large scale wind project with lengthy 30 year PPA and high quality off-taker. We expect this is a function of improved pricing power in the US where demand for renewables is robust and new projects have been limited by supply chain challenges and interconnection delays. We believe this dynamic also bodes well for the 200 MW Palomino Solar project and the company's three solar + storage projects in Hawaii, which total 50 MW. Equally important, INE appears poised to avoid the bulk of the impact from project cost inflation for these projects, having re-negotiated the PPA for Boswell, and likely on pace to renegotiate the Palomino and Hawaiian PPAs, in our view. We believe this perceived exposure to inflation is a key reason for INE's lagging share price performance, and its removal should support a catch up vs. peers.

**Upside to merchant power prices.** While perhaps not to the same extent as some peers, we believe INE retains upside to elevated power prices on potentially up to 50 MW of wind in France, as well as a positive impact to the company's footprint in Chile including its Wind (332 MW, 30-40% merchant) and Hydro (170 MW, mostly merchant with some partial, short term PPAs) assets in the region.

**Growth outlook is strong.** With the above noted progress on PPA negotiations, pricing power that is supporting project returns, and incentives under the Inflation Reduction Act, we believe the outlook for renewable power is favorable in the US; where 520 MW of INE's 908 MW of advanced stage and construction projects are located. We also see a potential announcement regarding what could be a large scale project in Quebec as representing a meaningful catalyst. We believe this places the company well on pace for growth targets for EBITDA/sh of 7% and FCF/sh of 15% over 5 years (2020-2025) – a level we believe is comparable to peers.

**Valuation catch up imminent.** Innergex has faced several meaningful challenges over the past 18 months, causing the stock to lag peers like Boralex and Northland Power by a significant margin. However, we see potential for the stock's valuation, which went from a 2-3x EV/EBITDA premium to peers historically to a 1.5x 2023 EV/EBITDA discount today, to catch up going forward. We see the above noted high return growth projects, reduced payout ratio, reduced perception of exposure to inflation, and advancement of INE's development pipeline, as representing important catalysts. We also like INE's ~34% of EBITDA (as at FY2021) coming from long-life hydro facilities. In light of these factors, we believe INE should trade at least in-line with pure-play renewable peers.

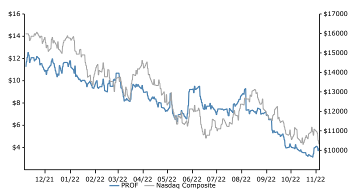
## InterRent Real Estate Investment Trust



IIP.UN-TSX | C$12.11 close
SB1 | C$15.75 target
Market Cap (mln) C$1754
Dividend Yield C$0.36/3.0%
Real Estate | Residential
Brad Sturges, CFA

We are adding InterRent REIT to the *Analyst Current Favorites* list for the following reasons: 1) strong and improving Canadian multifamily rental (MFR) fundamentals that can support InterRent's above-average near-term organic growth prospects ; 2) InterRent's historical track record of generating above-average SP-NOI and AFFO/unit growth YoY; 3) its attractive relative valuation discount to its NAV estimate and to its historical average P/AFFO multiple; and 4) the potential for InterRent to be a privatization / M&A candidate given the high-quality nature and intensification / development opportunity inherent within its Canadian MFR real estate portfolio.

## Profound Medical Corp.



PROF-NASDAQ | $5.25 close
SB1 | $15.00 target
Market Cap (mln) $82
Dividend Yield $0.00/0.0%
Biotechnology
Rahul Sarugaser, PhD, MASc

PROF has been revealing **some very promising glimmers of traction and broadening clinical applicability** across its installed base: 30 devices at the end of 3Q22; 35e by Jan '23. Multiple sites are reporting **4-6 month, fully-scheduled wait lists** for the TULSA procedure. One teaching hospital reports that **25% of all prostate cancer removals are being performed using the TULSA** (75% surgery). Another teaching hospital now uses TULSA for BPH, and yet another for **palliative prostate cancer treatments** (beyond TULSA's core application in intermediate prostate cancer). These data points—along with management's confidence in its pipeline and in winning a permanent CPT-1 reimbursement code this year—give us strong confidence in the conservative install rates we suggest in our scenario analysis, and in the strong returns we anticipate this stock should yield during 2023 and 2024.

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|---|---|---|---|---|---|---|---|---|
| | **RJA** | | **RJL** | | **RJA** | | **RJL** | |
| **Strong Buy and Outperform (Buy)** | 556 | 60% | 195 | 75% | 88 | 16% | 41 | 21% |
| **Market Perform (Hold)** | 354 | 38% | 61 | 24% | 27 | 8% | 5 | 8% |
| **Underperform (Sell)** | 24 | 3% | 3 | 1% | 1 | 4% | 1 | 33% |
| **Total Number of Companies** | 934 | 100% | 259 | 100% | 116 | | 47 | |

** Columns may not add to 100% due to rounding.*

** Total does not include companies with a suspended rating.*

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