TD Wealth

Quarterly Market Commentary

September 2018

Today's geopolitical tensions have been testing many investors' patience. The U.S. administration's global trade rhetoric and tariffs have kept many global investors on edge. With the economic expansion well into its tenth year and an extended bull run stretching on, every event is analyzed for its potentially negative effects on the markets. Recent attention has focused on Italy's debt issues, complicated by political changes, as well as Turkey's currency and debt crisis.

Some investors are better than others at keeping expectations on an even keel. Successful investing takes time, discipline and patience. How do successful investors stay disciplined?

Step back from the headlines – Stay focused on your end goals, not the news reports of the day. Continue to save and invest steadily for the future and try to leave the worry over day-to-day developments to us, those who oversee your investments.

Keep realistic expectations – During bull market times, it may be easy to get caught up in the market's advances. But the path to success is often best navigated not by making the largest short-term returns, as they tend to be one-off hits that come and go. Wise investing involves consistency – seeking to earn solid returns over longer periods of time.

Trust your plan – Your portfolio has been created with your personal objectives in mind, to help meet your needs over the longer term. Each element has been selected to serve a purpose, to help lead you through both up and down markets. In rising markets this can mean avoiding the temptation to chase higher returns by abandoning your investment objectives or risk tolerance levels. In difficult times, this can involve having confidence that your plan is working for you.

Keep in mind that one of the greatest roles we play is helping you maintain the discipline to achieve investing success. Discipline and patience can be two of an investor's best allies.

Now let's review the quarter.

We are pleased with how our portfolios performed in Q3, despite the volatility in September. We remained active with our trim functions as we continued to take advantage of the market volatility. Since July 1st, we trimmed up Premium Brands, Canadian National Railway, Transcontinental Inc., Royal Bank, and National Bank.

In addition, we shared some good news with you during the month of August. Brookfield had agreed to acquire all the issued and outstanding common shares of Enercare for $29 per share. We were very pleased with this announcement as we first acquired Enercare on April 13th, 2016 for $15.63 per share. We locked in profits for Enercare at $28.81 per share on August 16th.

During the third quarter, we had some additional dividend increases. CIBC raised their dividend by 2.3%, Emera by 4%, Algonquin Power by 10%, and Alimentation Couche-Tard by 10%. As we have said before, stocks with dividends pay investors to be patient while they wait for capital appreciation.

Some of the names that we continue to hold and favour include:

ENBRIDGE INC.
We added Enbridge to the portfolio in August when we realized profits from Enercare. Enbridge reported solid Q2/2018 operational results across all business segments. Notably, Energy Services had its strongest quarter in three years as it benefited from widening crude oil location and quality differentials providing more opportunities. Management sees Enbridge on track to be in the upper half of the 2018 Discounted Cash Flow/share guidance range of $4.15 to $4.45 per share.*

CANADIAN NATIONAL RAILWAY
On September 27th, TD hosted CN for a series of investor meetings in Toronto. CN is our top pick among the Big Five Public Class I rail stocks. We expect the company to enter 2019 with renewed momentum and the capacity necessary to cost-effectively leverage what we see as the most highly-visible and well-diversified revenue growth pipeline in the group.*

BCE INC.
BCE provides an arguably attractive yield of 5.6%, and management is signaling another year of normal dividend growth in 2019, which would be 5%. This type of income combined with stability makes BCE a probable safe bet at the current levels. With the stock down 14% from its high in late 2017, we find it hard to see a lot more downside risk unless one expects interest rates to be well above 3% reasonably soon. Solid execution by management, combined with continued healthy overall wireless growth in Canada, could allow consolidated EBITDA growth to rise to 3% over the next few quarters (versus 2% achieved in Q2/18). Looking out three to five years, we believe that BCE has the potential to be a leading 5G service provider in Canada, both for consumers as well as enterprise IoT applications.*

NFI GROUP INC.

NFI is generating strong free cash flow currently, and we expect this to continue in the near term, given a strong industry outlook, record backlog, and additional margin enhancement initiatives. Furthermore, management has a demonstrated track record of executing disciplined and accretive mergers and acquisitions, which we expect will continue in the future.*

CANADIAN IMPERIAL BANK OF COMMERCE

Our positive outlook on the stock reflects relative valuation in the context of the bank's improving top line growth, efficiency and more diversified growth platform. We believe that the market has more than priced in concerns surrounding CIBC's mortgage growth. While mortgage growth continues to slow, stronger margins and expense discipline continue to support good earnings-per-share growth.*

TELUS CORPORATION

For TELUS Wireline as a whole, we forecast 4% / 5% revenue growth and 6% / 9% EBITDA growth in 2019/2020. These growth rates are well above our expectations for other wireline telecom or cable operations in Canada. At first glance, they might even appear overly optimistic. However, as we can more confidently isolate the faster-growing Healthcare and TI segments now, we believe that it is clear that our forecasts are reasonable. We like the mix of both wireless assets and higher-growth wireline assets at TELUS. We believe that the company is well positioned to deliver better growth than its incumbent peers over the next three years.*

ALGONQUIN POWER & UTILITIES CORP.

We believe that Algonquin offers a compelling valuation in the context of an extensive growth pipeline that includes development activity, potential acquisitions, utility rate base investments, and potential international investments via Atlantica Yield and the AAGES JV. As the company has diverse investment opportunities, a conservative payout ratio and manageable leverage, management's 10% annual dividend growth target is realistic, in our view.*

TRANSCONTINENTAL INC.

We believe that Transcontinental shares are attractive over the long term due to its resilient legacy business (which emphasizes retailer-related print and plant consolidation), its significant entry into flexible packaging (which adds a platform for future growth) and the company's strong free cash flow generation (which should allow for steady deleveraging over time).*

ALTAGAS LTD.

On July 6th, AltaGas announced the completion of its acquisition of WGL Holdings, Inc. for $9 billion Cdn. As a combined entity, AltaGas is expecting approximately $6 billion Cdn in growth opportunities through 2021, including both secured growth and advanced opportunities. Management stated that future investments will primarily be focused on the Gas segment followed by U.S. Utilities. AltaGas is expecting normalized EBITDA to increase by approximately 25% to 30% and normalized funds from operation to increase by 15% to 20% as a combined entity.*

CANADIAN TIRE

Canadian Tire reported weak Q2/2018 results. This was a complex quarter, which was nowhere near as poor as the headline numbers suggest, in our view. First, April was abysmal for sales across all banners, and to be fair, Canadian Tire is not an outlier on this front. The weather is what it is, but this one-time event does not impact our fundamental outlook for Canadian Tire. Second, the introduction of the Triangle Rewards program is being met with tremendous success inclusive of Financial Services (FS) and should lead to a host of benefits driving future growth across the banners. As the complexity of the quarter is digested and Canadian Tire achieves improved financial results at Retail, we believe that this should act as a catalyst to the share price.*

PREMIUM BRANDS

In its 2014 Message to Shareholders, management set an ambitious five-year $600-million sandwich revenue target, for what was then an ~$250mm business. In June 2016, we said that we expect the sandwich platform to generate $1 billion in revenues within the next three to five years. Two years later, Premium Brands is close to reaching this milestone. We do not think it is a stretch to believe that the company could achieve similar success in its other segments, given attractive industry/consumer trends, well-established food platforms, and a unique acquisition model. Against this backdrop, we believe that Premium Brands shares will reward long-term investors handsomely over time.*

ALIMENTATION COUCHE-TARD INC.

Successful acquisition integration and rapid synergy extraction have combined with renewed organic growth momentum to propel Alimentation shares higher since early-July and should lead to valuation expanding beyond the current 14.4x forward price/earnings, into our 16x-17x target valuation range. This would better position it between the 17xplus of its c-store peers and the 14x-15x of the more challenged Canadian grocers. Additional acquisitions are also quite possible within the next year.*

SUNCOR ENERGY INC.

We continue to believe that Suncor retains one of the best fundamental outlooks within our coverage, especially in light of the ongoing differential uncertainty. Although it is trading at a premium, a premium is warranted, given superior growth prospects and returns.*

TRANSCANADA CORP. (TRP)

Our investment thesis is informed by the following views:

Coastal GasLink: Recent comments by the CEO of LNG Canada and media reports have indicated that a potential final investment decision (FID) for the project could occur as soon as October 2018. TRP has been contracted to construct the ~$5 billion natural gas pipeline, running from near Dawson Creek, BC, to the LNG Canada Facility in Kitimat, BC. TRP has some leeway to begin construction as management noted that the estimated timeline to build is four years in contrast with five years for the LNG terminal. Management has noted that they could seek a joint venture partner to reduce the capital needs of the project. As a reminder, Coastal GasLink is outside of TRP's near-term capital program.*

Keystone XL Progress: Following the Nebraska Public Service Commission's approval of the KXL pipeline Mainline Alternative route, an appeal was filed by landowners. TRP expects a decision in late 2018 or early 2019. We view this as the key gating factor for a FID on KXL. The company has estimated that construction could begin in 2019, with a two-year projected construction timeline. In terms of financing, the bulk of the remaining capital spend would occur in 2019–2020, when the company expects to have significant cash from operations. Although management did not rule out a discrete equity issuance to fund the project, it expects the project to be financed through its typical funding plan, including operating cash flows, a dividend reinvestment plan (DRP), preferred shares and hybrid issuances, and the At-The-Market (ATM) program. We believe that a positive FID on KXL would be a catalyst for the stock.

Strong Credit Rating, Committed to Dividend Target: In May 2018, S&P downgraded TRP to BBB+ with a Stable outlook from A- with a Negative outlook. Management has reiterated its commitment to the 8–10% dividend CAGR. TRP's 83-credit metrics are a key factor in management's approach to funding the $28-billion near-term growth portfolio. TRP sees no need to issue discrete common equity to finance its secured portfolio.

Further Growth Identified: Over the medium and long term, TRP continues to see significant organic growth potential, and it has identified over $20 billion in potential growth capital projects. In addition to Keystone XL (~US$8 billion) and Coastal GasLink, the company also expects to invest $5.3 billion (TRP's portion) in Bruce Power after 2020 as part of their life extension agreement.

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