Oh Canada, a land like no other

A coast-to-coast journey highlighting Canada's one-of-a-kind global franchises

December 2023

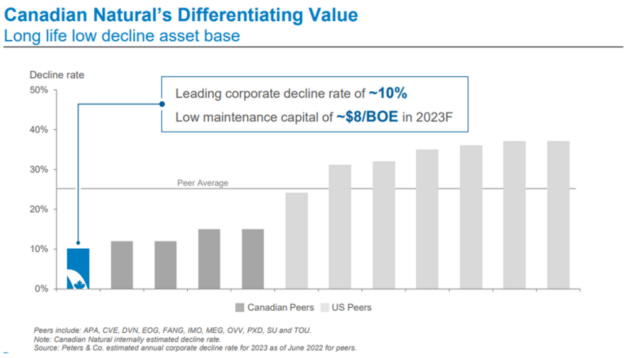
Donny Moss, CFA
Senior Director, Portfolio Manager, North American Equities

Canada is the world's second-largest country by area but, with 40 million citizens, is home to only 0.5% of the global population. Even so, its public companies represent more than 3% of global stock market capitalization. Despite being a small fish in a big pond, Canada boasts numerous corporate success stories that deserve special mention. Many Canadian public companies have not only left an indelible mark on the domestic economy but have also successfully expanded internationally. In this piece, we delve into the performances of some of the top Canadian companies in energy, financials, consumer products and industrials, exploring their strategies, achievements, and impact on the global stage.

Energy

With the world's third-largest crude oil reserves,[1] Canada is not surprisingly home to many high-quality energy franchises, from oil and gas producers to midstream companies responsible for the safe transport of these commodities. In the oil and gas subsector, we view Canadian Natural Resources (CNRL) as the most successful Canadian producer. CNRL has grown organically and by acquisition to become the largest oil and gas producer in Canada, with the third-largest proven reserves among public peers worldwide.[2] CNRL is known for its focus on cost and superior capital allocation, and its premium assets have the lowest decline rate among North American peers, meaning higher cash flows and lower capital requirements. Even though commodity prices are volatile, the company has a long history of dividend growth and is one of a select few energy companies that have substantially outperformed the TSX and the S&P 500 over 20- and 30-year periods.[3]

In the pipeline business, Enbridge stands out. Originally a regional oil pipeline operator, it has become the largest midstream company in North America. Through organic growth and acquisition, it has built large positions in oil and gas pipelines spanning the United States and Canada. In recent years, Enbridge has also expanded its utility business in Ontario to the United States, becoming the largest natural gas distributor in North America with more than seven million customers.[4] Given its high-quality pipeline asset base that cannot be replicated, we view Enbridge as a "toll road" for energy delivery and we think it can continue to be the energy infrastructure leader, increasing cash flow and dividends over time.

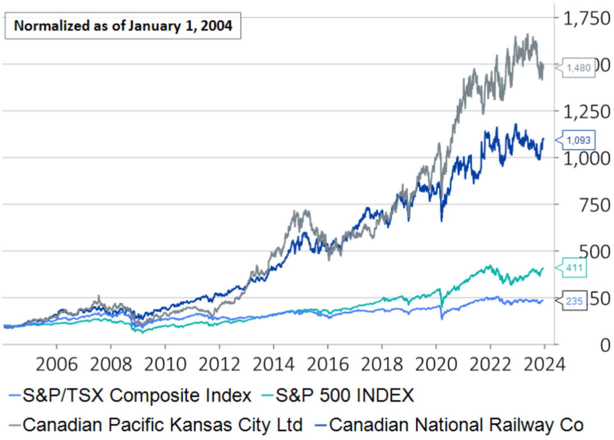


[1] Reuters article, 11/2/2023.
[2] CNRL investor presentation, November 2023.
[3] Bloomberg.
[4] Enbridge investor presentation, September 2023.

Industrials

Canada is also a leader in the railway industry with two strong franchises: Canadian National Railway (CN) and Canadian Pacific Railway (CP) – respectively the number two and number three public railways in North America by market capitalization. Both firms have expansive networks with port access throughout Canada and the United States. CP, with its recent acquisition of Kansas City Southern, has extended its network all the way through Mexico. Both are recognized as the most efficient and successful railways in North America and have adopted precision scheduled railroading (PSR), an operational strategy pioneered at Canadian National by its then chief executive officer, E. Hunter Harrison, who propelled the company to outperform its rail peers on efficiency and profitability metrics before moving to CP to enact the same strategy. With a combination of strong management teams and irreplaceable rail assets that have allowed continued volume and pricing growth, CN and CP are both positioned to retain their ranking as two of the best long-term investments on the North American equity market.

CP and CN versus the S&P 500 and the S&P/TSX – 20 years



Source: iAGAM, Macrobond

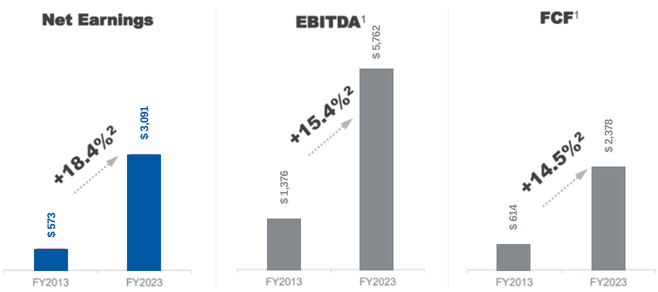
Consumer products

Among Canadian consumer product companies with global success, we can cite Dollarama, Lululemon and Magna. But we think the best homegrown example of a globally dominant consumer company is Alimentation Couche-Tard. From its Quebec roots, the company has grown into one of the largest publicly traded gas station and convenience store operators in the world, with more than 14,400 stores, of which only 2,200 are in Canada.[5] Moreover, it has achieved this growth in an industry that has arguably reached maturity. Despite being a company with a strong appetite for mergers and acquisitions, Couche-Tard is laser-focused on cost optimization and thus retains its appeal.

A sizeable number of gas stations worldwide are still owned by oil and gas producers, which have been steadily divesting such assets over the past decade to simplify their business structure and to reduce their debt load. Several of Couche-Tard's larger acquisitions have come from these sellers. In addition, 60% of gas station locations are still single-store operations; in other words, there is still a huge opportunity to consolidate the industry further, because such operators find it hard to stay profitable. In contrast to its competitors, Couche-Tard has built an economic advantage by becoming a superior site operator. With inflation and wage growth, a number of smaller operators are now barely profitable, and Couche-Tard benefits on volume as smaller and less profitable sites shut down operations.

Scale benefits have also accrued to Couche-Tard, which leverages its size to secure preferential rates on gasoline and in-store merchandise, which helps it remain competitive in its target markets. In addition, the company's private-label merchandise business within the attached convenience stores has grown tremendously, delivering higher margins and building brand loyalty. Even though we expect growth in the gas station and convenience store market to continue to be sluggish, we think the company has the ability to grow and gain market share thanks to its superior operating structure and focus on costs.

Alimentation Couche-Tard – Impressive 10-year earnings growth



Source: Alimentation Couche-Tard's Analyst and Investor Conference, October 2023.

[5] Company presentation, October 2023.

Financials

This discussion of leading Canadian franchises would not be complete without a review of the bank ecosystem. Our "Big Six" banks have developed a reputation as some of the most resilient banks in the world. With a 90% domestic market share of deposits, the banks are in practice an oligopoly in relation to the diversified industry in other geographies. Canada's banking regulator, the Office of the Superintendent of Financial Institutions (OSFI), closely supervises our banks and sets stringent capital requirements to guard against credit losses in economic downturns. Two stellar examples of our banking system's stability were the 2008-2009 downturn, when Canada saw no bank failures and did not need any bailouts, and the March 2023 run on Silicon Valley Bank, which tested and proved the stability of our banks' deposit base. With this enviable setup of market concentration and strong regulatory oversight, Canadian banks have outperformed most of their worldwide peers and have done so with lower stock price volatility.

The Royal Bank of Canada (RBC) is worth highlighting as the leader of the group. It is the largest and most diversified bank in Canada with an extensive franchise spanning personal and commercial banking, wealth management, insurance, and capital markets. Like its Canadian peers, RBC has expanded internationally, with a notable and growing banking and capital markets presence in the United States. Although we expect weaker economic conditions in Canada in 2024 with mounting pressure on the average consumer, RBC's earnings are projected to surpass its 2023 results, and we expect them to grow about 30% from pre-covid levels, which speaks to the durability of its business model.

RBC – Impressive long-term performance

Total shareholder return as at July 31, 2023

	3-Year	5-Year	10-Year	20-Year
RBC	17%	9%	12%	12%
Peer average	19%	6%	9%	9%
S&P 500 (CAD)	13%	12%	15%	10%
S&P TSX	12%	8%	8%	8%

Source: Bloomberg, Performance as at July 31, 2023. RBC 2022 annual report, global peers include other large Canadian banks, Wells Fargo, JP Morgan and Westpac.

Summary

Canada is a relatively small economy but punches way above its weight when it comes to incubating successful public companies. Moreover, iA Global Asset Management recognizes that fact in its investment and stock-selection process. Within the fundamental team, we spend considerable time analyzing and monitoring franchises held by many of our portfolios. Specifically, in our dividend mandates, which have both a Canadian and a global focus, higher weightings are given to those Canadian winners versus their global peers. Indeed, all the companies profiled in detail here have been core holdings in our Canadian Dividend growth mandates for several years. We intend to continue to cheer from the sidelines as we watch these companies extend their winning streaks at home and away!

About iA Global Asset Management (iAGAM)

A magnet for top investment talent, iAGAM is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigour and a disciplined, process-driven approach to asset allocation and security selection.

Rooted in history. Innovating for the future.

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