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Markets



# Top 30 Global Ideas for 2021

## Third-Quarter Update

EQUITY RESEARCH | July 2, 2021

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 38.

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*This report is priced as of market close on June 30, 2021 unless otherwise noted.*



## Introduction

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In this note, we present our *Top 30 Global Ideas* list for Q3 2021. The list remains one of high-conviction long-term ideas, with quarterly updates that highlight performance metrics and enable dynamic responses when stocks have performed well or an analyst has changed a rating. The changes made to our *Top 30* this quarter reflect a rotation out of companies that have seen strong performance and offer less perceived upside, into names that have more attractive upside potential, with increases in our Energy, Materials and Communication Services sector exposure. These changes are listed at top right and on page 5.

The COVID-19 recovery, reopening and inflation remain in focus. In our latest quarterly [RBC US equity analyst survey](#), conducted in June, our analysts leaned most positive overall on the Financials, Energy, Information Technology, Utilities and Health Care sectors on a 6-12 month view, and our US Equity Strategy team maintains overweight positioning views on Financials, Materials and Energy (Cyclicals), as discussed [here](#). Relative to our benchmark (the MSCI World Index) our *Top 30* list remains notably overweight Energy, reflecting positive fundamental outlook, and Materials, driven by company-specific attributes and commodity exposure, and a constructive economic growth backdrop through 2022.

Within **Information Technology**, we replace **GDS Holdings** with **Zoom Video Communications**, which we believe will remain well positioned in a post-pandemic world, with differentiated technology, room to expand into a broader enterprise communication & collaboration platform, and an attractive long-term financial profile. We remove **Thomson Reuters** following recent strong share price performance. Within **Communication Services** we add **TELUS**, with our positive thesis supported by multiple, multi-year catalysts including regulatory risks easing, a stronger competitive position from an acceleration of broadband investment, and robust longer-term FCF outlook. We add **Zillow Group** as we believe its dominant

user engagement around US real estate and a still somewhat misunderstood down-funnel thesis should drive higher utility for its partners over time and expand monetization opportunities, which are not well appreciated in the stock price.

Within **Energy**, we add **ConocoPhillips**, which we believe offers a consistent and compelling value proposition, with an attractive FCF yield and 30%+ cash flow payout strategy. We remove **Utilities** name **CenterPoint Energy** following recent share price appreciation, while maintaining our positive thesis. In **Materials**, we add **Louisiana-Pacific**, where we see a strong growth runway, benefitting from current record pricing in Oriented Strand Board.

In the **Consumer** space, we remove **Dollar Tree** amid inflationary pressures and **Nike** following strong recent performance. We add **H&M**, where we expect a sharper recovery in profitability than the market from H2, driven by a sales recovery in major markets, USD sourcing gains, lower markdowns, and tight cost control. In **Health Care**, we remove **Vertex** following a recent setback in a key pipeline program, while maintaining our constructive long-term view.

We include further details on our investment thesis for each stock in the *Top 30* as well as a link to our latest company-specific research beginning on p. 7 of this report. We encourage you to reach out to our team to continue the dialogue regarding their investment ideas. As always, at RBC Capital Markets we strive to put clients first. We see our fundamental work being increasingly augmented by our four flagship research products: **RBC Elements™**, **RBC Imagine™**, **RBC Fusion™**, and **RBC ESG Stratify™**. In conjunction with our internal data science team, RBC Elements™, we believe integrating proprietary data insights into our traditional analytical work leads to a more holistic investment view for our clients. For investors interested in our longer-term vision of the investment landscape and perspective on multi-year secular winners, we recommend our RBC Imagine™ reports. Investors looking for our highest-conviction, most-differentiated calls need look no further than RBC Fusion™, which provides some of our most rigorous and critically peer-reviewed, unique reports. Finally, RBC ESG Stratify™ reflects our intense focus on creating investor value, demonstrating how on ESG matters we are separating the signal from the noise with precise, analytical research that is quantitative, qualified, and strongly linked to strategic insights and perspectives.

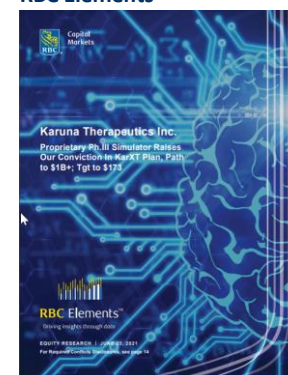
### Top 30 Global Ideas for 2021 — Changes this Quarter

**Additions:** ConocoPhillips (COP), H & M Hennes & Mauritz (HM.B), Louisiana-Pacific (LPX), TELUS (T), Zillow Group (ZG) and Zoom Video Communications (ZM)

**Deletions:** CenterPoint Energy (CNP), Dollar Tree (DLTR), GDS Holdings (GDS), Nike (NKE), Thomson Reuters (TRI), and Vertex Pharmaceuticals (VRTX)

### RBC Flagship Research Products

#### RBC Elements™



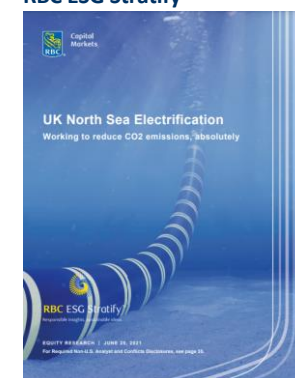
#### RBC Fusion™



#### RBC Imagine™



#### RBC ESG Stratify™



## Top 30 Global Ideas for 2021 — Pricing Data

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (06/30/2021)	Market Cap (MM)	Price Target	Dividend Yield (%)	Implied All-in Return (%)
Alimentation Couche-Tard Inc.	ATD/B CN	Irene Nattel	Outperform	CAD	45.55	49,176	57.00	0.8	25.9
Americold Realty Trust	COLD US	Michael Carroll	Outperform	USD	37.85	9,686	44.00	2.3	18.6
Arch Capital Group Ltd.	ACGL US	Mark Dwelle	Outperform	USD	38.94	15,934	47.00	0.0	20.7
ASOS plc	ASC LN	Sherri Malek	Outperform	GBP	4,960.00	4,952	7,500.00	0.0	51.2
Banco Bilbao Vizcaya Argentaria SA	BBVA SM	Benjamin Toms	Outperform	EUR	5.23	34,860	6.10	11.8	28.5
British American Tobacco p.l.c.	BATS LN	James Edwardes Jones	Outperform	GBP	2,800.00	64,249	3,200.00	4.6	18.9
Brookfield Asset Management Inc.	BAM US	Geoffrey Kwan	Outperform	USD	50.98	76,980	55.00	1.0	8.9
Canadian Natural Resources Limited	CNQ CN	Greg Parady	Outperform	CAD	45.00	53,356	53.00	4.2	22.0
Canadian Pacific Railway Limited*	CP CN	Walter Spracklin	Restricted	CAD	95.32	12,849	Restricted	4.0	Restricted
ConocoPhillips	COP US	Scott Hanold	Outperform	USD	60.90	82,180	75.00	2.8	26.0
CrowdStrike Holdings, Inc.	CRWD US	Matthew Hedberg	Outperform	USD	251.31	56,419	259.00	0.0	3.1
DuPont de Nemours, Inc.	DD US	Arun Viswanathan	Outperform	USD	77.41	39,944	94.00	1.6	23.0
Element Fleet Management Corp.	EFN CN	Geoffrey Kwan	Outperform	CAD	14.46	6,279	19.00	1.8	33.2
Enterprise Products Partners L.P.	EPD US	TJ Schultz	Outperform	USD	24.13	53,166	29.00	7.5	27.6
General Electric Company	GE US	Deane Dray	Outperform	USD	13.46	122,450	16.00	0.3	19.2
Genmab A/S	GMAB US	Kennen MacKay	Outperform	USD	40.83	2,662	46.00	0.0	12.7
Gilead Sciences, Inc.	GILD US	Brian Abrahams	Outperform	USD	68.86	86,901	82.00	4.1	23.2
H & M Hennes & Mauritz AB	HMB SS	Richard Chamberlain	Outperform	SEK	203.00	335,985	250.00	1.7	24.8
Humana, Inc.	HUM US	Frank Morgan	Outperform	USD	442.72	58,882	479.00	0.5	8.7
Louisiana-Pacific Corporation	LPX US	Paul Quinn	Outperform	USD	60.29	6,276	100.00	1.1	66.9
Royal Dutch Shell PLC	RDSB LN	Biraj Borkhataria	Outperform	GBP	1,399.00	111,209	2,200.00	3.4	60.7
SSE PLC	SSE LN	John Musk	Outperform	GBP	1,500.50	15,652	1,800.00	5.6	25.6
Teladoc Health, Inc.	TDOD US	Sean Dodge	Outperform	USD	166.29	25,808	260.00	0.0	56.4
TELUS Corporation	T CN	Drew McReynolds	Outperform	CAD	27.80	37,502	30.00	4.5	12.4
The Home Depot, Inc.	HD US	Scot Ciccarelli	Outperform	USD	318.89	342,807	386.00	1.9	23.0
The Mosaic Company	MOS US	Andrew Wong	Outperform	USD	31.91	12,215	43.00	0.6	35.4
Twilio Inc.	TWLO US	Rishi Jaluria	Outperform	USD	394.16	71,185	415.00	0.0	5.3
Visa Inc.	V US	Daniel R. Perlin	Outperform	USD	233.82	512,767	297.00	0.4	27.5
Zillow Group, Inc.	ZG US	Brad Erickson	Outperform	USD	122.53	31,778	155.00	0.0	26.5
Zoom Video Communications, Inc.	ZM US	Rishi Jaluria	Outperform	USD	387.03	118,199	450.00	0.0	16.3

### Notes:

Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

\* This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the Top 30 Global Ideas for 2021 has not been reviewed or confirmed as of the date hereof.

Source: Bloomberg and RBC Capital Markets

## Top 30 Global Ideas for 2021 — Changes This Quarter

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (06/30/2021)	Market Cap (MM)	Price Target	Dividend Yield (%)	Implied All-in Return (%)
<b>Additions this quarter:</b>									
ConocoPhillips	COP US	Scott Hanold	Outperform	USD	60.90	82,180	75.00	2.8	26.0
H & M Hennes & Mauritz AB	HMB SS	Richard Chamberlain	Outperform	SEK	203.00	335,985	250.00	1.7	24.8
Louisiana-Pacific Corporation	LPX US	Paul Quinn	Outperform	USD	60.29	6,276	100.00	1.1	66.9
TELUS Corporation	T CN	Drew McReynolds	Outperform	CAD	27.80	37,502	30.00	4.5	12.4
Zillow Group, Inc.	ZG US	Brad Erickson	Outperform	USD	122.53	31,778	155.00	0.0	26.5
Zoom Video Communications, Inc.	ZM US	Rishi Jaluria	Outperform	USD	387.03	118,199	450.00	0.0	16.3

### Deletions this quarter:

CenterPoint Energy, Inc.	CNP US	Shelby Tucker	Outperform	USD	24.52	12,383	28.00	2.6	16.8
Dollar Tree, Inc.	DLTR US	Scot Ciccarelli	Outperform	USD	99.50	23,323	117.00	0.0	17.6
GDS Holdings Limited	GDS US	Jonathan Atkin	Outperform	USD	78.49	14,183	122.00	0.0	55.4
NIKE, Inc.	NKE US	Beth Reed	Outperform	USD	154.49	249,486	183.00	0.7	19.2
Thomson Reuters Corporation	TRI US	Drew McReynolds	Outperform	USD	99.32	49,253	104.00	1.6	6.3
Vertex Pharmaceuticals Incorporated	VRTX US	Brian Abrahams	Outperform	USD	201.63	52,810	242.00	0.0	20.0

### Notes:

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Source: Bloomberg and RBC Capital Markets

## Top 30 Global Ideas — Performance Summary

Although the *Top 30* is not intended to be a relative product, having been created to capture RBC Capital Markets' best ideas on an absolute basis, we compare the performance of the *Top 30* to the MSCI Developed World Index and regional indices to provide context for its returns. See the performance tables below for Q2 2021 (April 1–June 30, 2021) and since inception (December 2019).

Ticker	Company	Total Return Q2/2021 (in local currency)	Total Return Q2/2021 (in USD)
CRWD US	CrowdStrike Holdings, Inc.	37.7%	37.7%
GMAB US	Genmab A/S	24.4%	24.4%
BBVA SM	Banco Bilbao Vizcaya Argentaria SA	19.7%	20.7%
CNQ CN	Canadian Natural Resources Limited	17.1%	18.6%
NKE US	NIKE, Inc.	16.5%	16.5%
BAM US	Brookfield Asset Management Inc.	15.7%	15.7%
TWLO US	Twilio Inc.	15.7%	15.7%
TRI US	Thomson Reuters Corporation	13.9%	13.9%
ATD/B CN	Alimentation Couche-Tard Inc.	12.4%	13.9%
EPD US	Enterprise Products Partners L.P.	11.7%	11.7%
V US	Visa Inc.	10.6%	10.6%
CNP US	CenterPoint Energy, Inc.	9.0%	9.0%
GILD US	Gilead Sciences, Inc.	7.7%	7.7%
HUM US	Humana, Inc.	5.8%	5.8%
RDSB LN	Royal Dutch Shell PLC	5.8%	5.8%
EFN CN	Element Fleet Management Corp.	5.6%	7.0%
HD US	The Home Depot, Inc.	5.0%	5.0%
SSE LN	SSE PLC	3.1%	3.1%
GE US	General Electric Company	2.6%	2.6%
ACGL US	Arch Capital Group Ltd.	1.5%	1.5%
MOS US	The Mosaic Company	1.2%	1.2%
BATS LN	British American Tobacco plc	0.9%	0.9%
DD US	DuPont de Nemours, Inc.	0.5%	0.5%
CP CN	Canadian Pacific Railway Limited*	-0.5%	0.8%
COLD US	Americold Realty Trust	-1.1%	-1.1%
GDS US	GDS Holdings Limited	-3.2%	-3.2%
VRTX US	Vertex Pharmaceuticals Inc.	-6.2%	-6.2%
TDOC US	Teladoc Health, Inc.	-8.5%	-8.5%
ASC LN	ASOS plc	-10.4%	-10.4%
DLTR US	Dollar Tree, Inc.	-13.1%	-13.1%
Average total return for RBC CM Top 30 Global Ideas in Q2 2021		6.7%	6.9%

Indices		Total Return Q2/2021 (in local currency)	Since Inception (Not annualized)
SPTSX Index	S&P/TSX Composite Index	8.6%	23.9%
SPX Index	S&P 500 Index	8.5%	36.4%
AS51 Index	S&P/ASX 200 Index	8.5%	16.1%
NDDUWI Index	MSCI World Net Total Return US	7.7%	31.0%
SXXP Index	STOXX Europe 600 Index	6.8%	14.1%
	RBC CM Top 30 Global Ideas	6.7%	45.2%

Indices		Total Return Q2/2021 (in USD)	Since Inception (Not annualized)
SPTSX Index	S&P/TSX Composite Index	10.0%	29.6%
SPX Index	S&P 500 Index	8.5%	36.4%
NDDUWI Index	MSCI World Net Total Return US	7.7%	31.0%
SXXP Index	STOXX Europe 600 Index	7.7%	20.4%
RBC CM Top 30 Global Ideas		6.9%	47.5%
AS51 Index	S&P/ASX 200 Index	5.9%	22.9%

**Notes:** Past performance is not necessarily indicative of future performance. Price performance does not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in these shares.

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Source: Bloomberg



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## Investment Thesis

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## Alimentation Couche-Tard Inc. (TSX: ATD.B)

RBC Dominion Securities Inc.

Irene Nattel (Analyst) (514) 878-7262, [irene.nattel@rbccm.com](mailto:irene.nattel@rbccm.com)

Rating: Outperform

Price Target: CAD 57.00

Closing Price: CAD 45.55

Implied All-in Return (%): 25.9

### Investment summary

**Multiple avenues for growth**, underpinned by i) acquisition synergies both direct and reverse; ii) top-line momentum from a more focused, data-driven approach to merchandising/promotional strategies; iii) sharing of best practices among geographies to drive sales and optimize margin/productivity, an element that has proven extremely useful since the pandemic hit Europe earlier than North America; iv) focus on opex/scale benefits; v) increased activity on new store openings, and of course, opportunistic acquisitions.

**Solid underlying operating performance** aided by global rebranding to Circle K, with Food at Scale and other fresh food and coffee initiatives generating traffic and basket growth.

**Industry performance in North America since the declaration of the pandemic reinforces defensive sector attributes.** High gas margins/low fuel prices should enable ATD to offset gallon weakness related to current dislocation.

**Attractive geographic diversification** with >85% of GP\$ generated outside Canada. Small, strategic acquisition in Asia is not yet meaningful to financial forecasts but establishes a platform for accelerating growth from new geography.

**Real-world EV R&D lab in Norway:** Looking ahead, sales of electric vehicles are likely to accelerate, and ATD is the only North American c-store player with a strong footprint in Norway, the global leader in EV sales. With the operation of charging stations on their sites in addition to chargers in homes and offices, ATD is gaining

valuable insight into consumer behaviour/revenue opportunities associated with top-up charging.

**Strong B/S + FCF profile** with forecasted FCF in the range of \$2B to fund dividend growth, debt repayment, and acquisitions. Adjusted net debt/EBITDAR is now <1.5x, well below the post-SFR peak of 3.6x, with normalized estimated balance sheet capacity in excess of US\$10B.

### Valuation

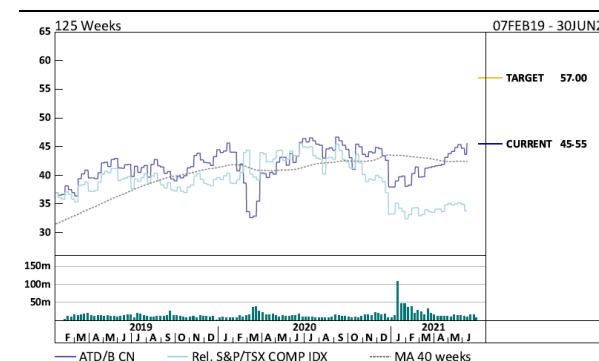
Taking the midpoint of 20x Q1/F24E (Jul C23E) TTM EPS and 11x Q1/F24E TTM EBITDA drives our price target of \$57, which supports our Outperform rating. The EBITDA multiple is consistent with the average of the five-year range, reflecting overall sector valuation trends, and supported by ongoing strong normalized underlying performance, relatively recession-resistant business model and benefits from prior-period M&A. We believe the multiples are also appropriate relative to our c-store coverage universe based on relative investment attributes.

### Risks to rating and price target

Normalization of gas margins without an improvement in volumes would result in earnings and likely share price that are below expectations. As well substantial dislocation in normal daily consumption/traffic patterns could cause sharply lower inside store traffic. Although c-stores typically are relatively recession-resistant, ~50% of US c-store customers have incomes of \$50,000 or less, a group that could be hard-hit by a post-COVID recession if income support is lessened. With ATD's diversified geographic footprint, the risk profile of forecasts includes multiple geographies and currencies and

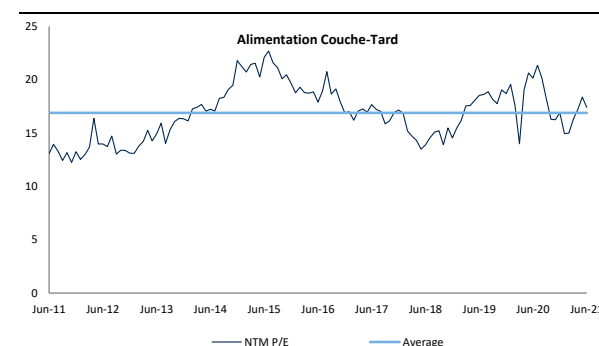
economic and operating environments, each of which is being impacted at differing levels by COVID-19 and low oil prices.

### Exhibit 1 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 2 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)



## Americold Realty Trust (NYSE: COLD)

RBC Capital Markets, LLC

Michael Carroll, CFA (Analyst) (440) 715-2649, [michael.carroll@rbccm.com](mailto:michael.carroll@rbccm.com)
**Rating: Outperform**
**Price Target: USD 44.00**
**Closing Price: USD 37.85**
**Implied All-in Return (%): 18.6**

### Investment summary

Americold Realty Trust (NYSE: COLD) is an industrial REIT solely focused on owning and operating temperature-controlled warehouses. COLD is the largest public player in this niche space, and we believe management will utilize its platform to drive solid earnings growth and create value for shareholders. As of 1Q21, the in-place portfolio derived ~79% of NOI from the US and ~21% from abroad, but over time, we expect the biggest growth opportunities to be international.

### Potential catalysts

**SS portfolio should generate above-average growth.** COLD has driven solid growth in part due to management's ability to replace legacy customer agreements with the new commercial business rules.

**Developments should drive strong external growth.** COLD has been able to source new development projects to generate solid risk adjusted returns. We believe that the pipeline will remain strong in the future.

**Potential acquisitions would be additive.** COLD will likely remain aggressive pursuing acquisitions particularly more accretive tuck-in deals.

### Valuation

**Price target justification:** Our 12-month price target of \$44/share is based on a targeted 2023 EV/EBITDA multiple of 21.0x. This target is in-line with where high-quality private portfolios have traded. Our target also reflects a ~15% premium to our 4Q22 NAV estimate of \$37.85/share. We believe a large premium is warranted in part due to the strong development platform and

other potential transactions and growth opportunities. Our price target supports our Outperform rating.

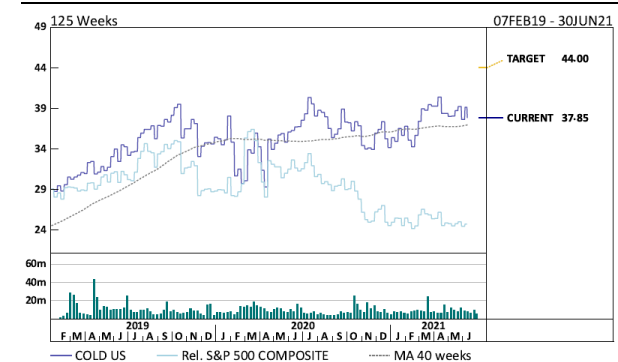
**Net asset value:** We currently estimate COLD's in-place NAV at \$30.02/share assuming a 6.50% cap rate. Going forward, we expect the in-place portfolio to generate solid organic growth trends and management to create significant value through acquisitions, developments, and expansions, pushing our YE22 (looking at 2023) NAV estimate to \$37.85/share from our YE21 (looking at 2022) estimate of \$34.60/share.

### Risks to rating and price target

The greatest risks to our estimates, recommendation, and price target center on operational issues popping up within the company's platform. The temperature-controlled warehouse business model is more operationally intensive than the typical REIT, and given the lower operating margins, a small revenue shortfall or higher expenses could have a meaningful impact on NOI. Other macro concerns could become an issue including changing consumer preferences, which could slightly shift the food logistics network and impact COLD's in-place portfolio. Increased competition and ongoing technological advances could also impact the company's business. The space is going through a technological revolution including the roll out of more advanced automation within the facilities. These changes could drive increased efficiency throughout the system, making certain warehouses less competitive or even obsolete. Additionally, if the COVID-19 pandemic were to meaningfully impact the workforce, either directly or indirectly, it could slow down activity and negatively impact results. Finally, other risks including political risks (domestically and internationally), interest

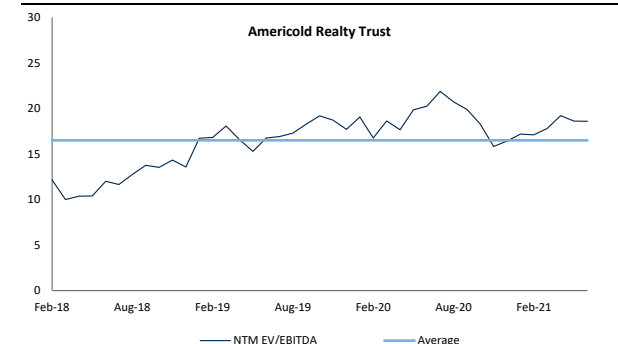
rate concerns, environmental or zoning issues, tenant downsizing or bankruptcies, along with key personnel changes, could also become a concern. A full list of risk factors can be found in the company's filings with the Securities and Exchange Commission.

### Exhibit 3 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 4 - Forward consensus EV/EBITDA history



Source: Factset

**Most recent company note:** [link](#)

## Arch Capital Group Ltd. (NASDAQ: AGL)

RBC Capital Markets, LLC

Mark A. Dwelle, CFA (Analyst) (804) 782-4008, [mark.dwelle@rbccm.com](mailto:mark.dwelle@rbccm.com)

Rating: Outperform

Price Target: USD 47.00

Closing Price: USD 38.94

Implied All-in Return (%): 20.7

### Investment summary

Arch is delivering solid core underwriting results and has enjoyed good momentum in recent quarters. The company has always been opportunistic in spotting profitable opportunities in both specialty insurance and reinsurance, which we believe will remain a key differentiator. Arch's Mortgage unit is rebounding from 2020's challenging market conditions and continues to see a declining default inventory and improving loss ratios. We see the current valuation as very attractive for a top-caliber underwriting franchise with a history of strong reserves and prudent capital management. Accordingly, we maintain our Outperform rating on AGL shares. Our investment thesis is driven by the following:

**Diversified platform for capital deployment.** We believe Arch's diversified business platform and strong presence in both the insurance and reinsurance arenas leave it well positioned to opportunistically deploy capital in areas with the best likelihood of producing attractive returns.

**A proven manager of capital.** The company has a strong track record as a disciplined underwriter and has shown a willingness to grow when good opportunities arise. The company is also a diligent manager of capital, returning excess capital when available.

**Impressive underwriting results.** The company's underwriting approach is consistent and conservative. The company's reserving track record is among the best in the sector, in our view.

### Potential upsides and downsides to our thesis

**Mortgage Insurance.** The company entered the mortgage Insurance segment several years ago and Arch now has the largest MI market share in the sector. Mortgage Insurance is subject to a different set of risk factors, including macro and housing conditions as well as default rates and interest rates.

**Reinsurance pricing.** The reinsurance pricing environment is more volatile than primary pricing and can result in periods of rapid growth and similarly rapid contraction as pricing evolves.

**COVID-19 disruption:** There is the possibility that COVID-19 impacts may linger, weighing on the economy and the company's financial results.

### Valuation

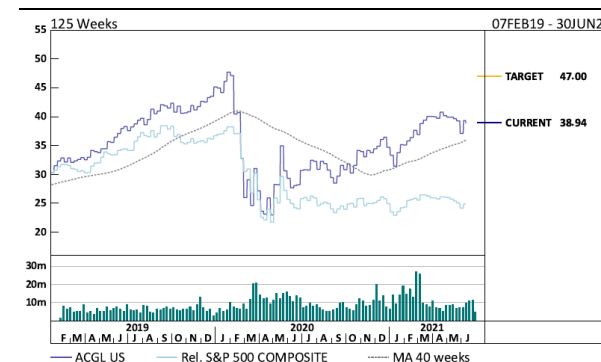
Our \$47 price target is based on 1.4x our estimated ending 2021 book value per share. Our valuation is consistent with our Outperform rating and reflects the company's consistently good underwriting results, solid reserves, a strong capital base and reduced exposure to property catastrophe losses. Our price target also assumes manageable MI losses from the current downturn in the coming quarters. Our multiple is consistent with expected near-term economic conditions and could prove conservative if market conditions improve significantly.

### Risks to rating and price target

We believe the most significant risks to our price target and rating include: unusually large catastrophe losses; unfavorable prior-year reserve development; unexpectedly large changes in claims inflation, frequency, and severity; unusual movements in interest

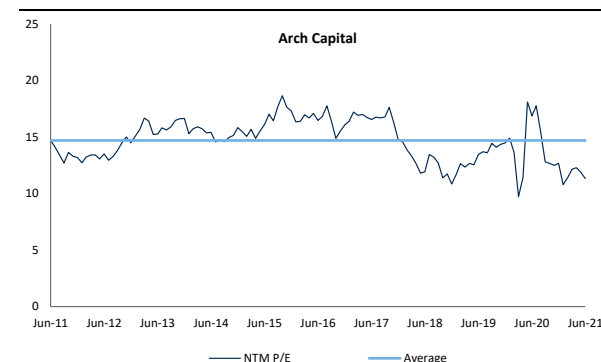
rates; unexpected losses in the company's investment portfolio; and COVID-19-driven macroeconomic disruption.

### Exhibit 5 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 6 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## ASOS plc (LSE: ASC)

RBC Europe Limited

Sherri Malek (Analyst) +44 20 7653 4510, [sherri.malek@rbccm.com](mailto:sherri.malek@rbccm.com)

Rating: Outperform

Closing Price: GBp 4,960.00

Price Target: GBp 7,500.00

Implied All-in Return (%): 51.2

### Investment summary

ASOS is a rare case of a structural growth story that is underearning and trading attractively on valuation, both relative to history and peers. We believe that ASOS can recover and sustain outperformance in revenue growth while also delivering an improvement in EBIT margin towards 7% long term, allowing ample room for re-investment. The key margin drivers we see are accretion from its acquisition of Topshop and efficiencies and leverage on warehouse, payroll and other operating costs, as we assume all incremental benefits from, e.g., more direct sourcing in the US and economies of scale are re-invested. Accordingly, we project ASOS can generate £3bn of FCF over the next 10 years, after more than doubling its warehouse capacity and investment in technology – fuel for innovation.

ASOS has an impressive track record in the UK, and if it can achieve even a third of its UK success in the US and Europe (in terms of customer penetration), we believe Group sales can triple in 10 years, as our regional revenue analysis implies. We believe the strength of ASOS's proposition can get it there, which currently looks more compelling than peers.

We believe ASOS is well positioned to take greater share in the US market – a key growth engine for the Group. Our proprietary survey highlights that ASOS offers what the majority of young online consumers are looking for: a multi-brand platform offering value and free, convenient shipping. We estimate that the US will drive c.40% of Group revenue growth in the next 10 years.

### Valuation

We use a DCF analysis to arrive at our price target of 7,500p, which supports our Outperform rating. We apply a WACC of 8.5% and terminal growth rate of 3% to reflect the global growth opportunities and as ASOS continues to improve its proposition around the world. We forecast a 10-year CAGR (FY20-30) in sales of 14% and in EBIT of 19%, resulting in a terminal EBIT margin of 6.8%. We incorporate a 10% M&A premium in our valuation to reflect M&A risk.

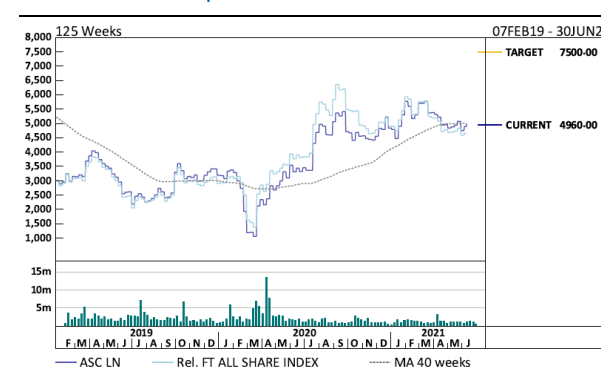
### Risks to rating and price target

The key downside risks are if we see a slowdown in sales growth due to suppressed demand for occasion wear as a result of COVID-19 social distancing measures. A more intense promotional environment and weaker consumer backdrop have the potential to pressure revenue growth and margin.

Given that c.60% of ASOS's revenues are derived outside of the UK, the company is significantly exposed to movements in FX. More local buying should help protect against currency moves, although this will take some time to build in scale.

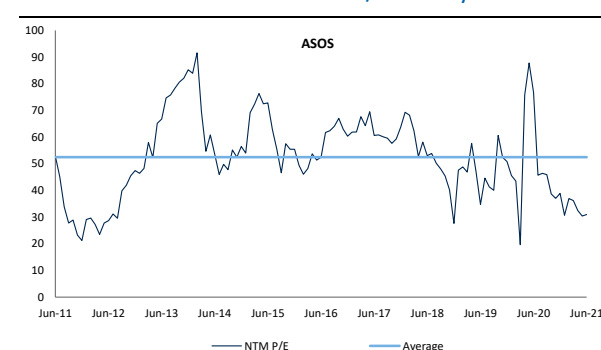
Any disruption to ASOS's warehousing would negatively impact the shares. As ASOS ramps up capacity, any operational issues would result in higher opex, thus pressuring margins.

### Exhibit 7 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 8 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Banco Bilbao Vizcaya Argentaria, SA (SIBE: BBVA)

RBC Europe Limited

Benjamin Toms, ACA (Analyst) +44 20 7002 2258, [benjamin.toms@rbccm.com](mailto:benjamin.toms@rbccm.com)

Rating: Outperform

Price Target: EUR 6.10

Closing Price: EUR 5.23

Implied All-in Return (%): 28.5

### Investment summary

We like BBVA for the following reasons:

**Consistency:** Since 1999 BBVA has had the 9th most consistent earnings out of 54 European banks.

**Plenty of capital:** Post the US bank sale BBVA has plenty of excess capital relative to its regulatory target which gives the bank optionality.

**Best in class costs:** BBVA continues to outperform peers in improving cost efficiency.

**Digital banking:** The importance of a bank's digital banking franchise will be increasingly important post C-19. BBVA's digital banking franchise compares very favourably to peers in our view.

**Demographics:** We are ahead of consensus in Mexico & Turkey because of our belief that the demographics of these two countries will lead to growth outperformance. The populations of Mexico and Turkey are young (median age 29yrs/32yrs respectively). Younger populations are likely to have more of society in work, delivering higher GDP and loan growth. The weighted average age of the populations of BBVA is 36yrs; this compares to a European average of 42.

**Short term:** We expect consensus upgrades through Q3'21 from lower COR (BBVA is overprovisioned vs current macro outlook) and higher Mexican NII (better loan growth, higher NIM). We also expect a lifting of the dividend ban for European banks which could act as a catalyst. This means that BBVA could start its buyback program as early as Nov.

### Valuation

We value BBVA using an SOTP model based on our 2023 estimates discounted back two years to 2021E at a cost of equity of 14.5%, using a return on allocated capital for each division. We include EUR4.6bn (60 cents ps) of excess capital in our valuation. Our EUR6.1 price target supports our Outperform rating.

### Risks to rating and price target

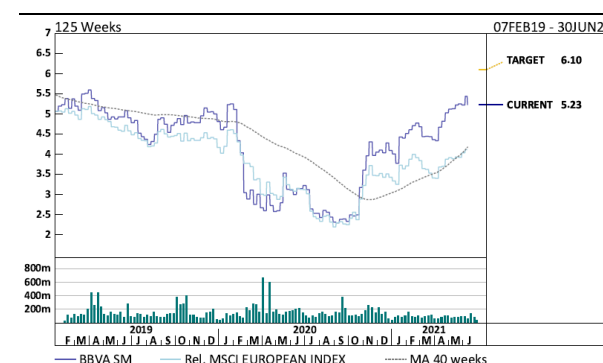
We see the following as the main risks to our rating and price target:

**Mexican Fees:** Legislative proposal to prohibit banks from charging fees on certain banking products could act as a headwind to revenue growth.

**Turkish Politics:** Historically, political decision-making has led to TRY depreciation against the USD, making it harder for retail and corporate customers to pay back USD-denominated loans; this in turn could lead to a higher COR.

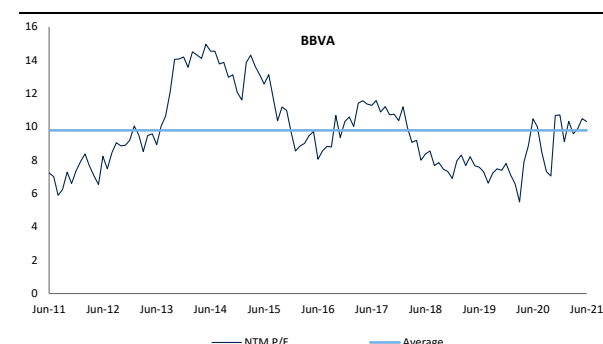
**Dividend ban:** The ECB extending their dividend ban into H2'21.

### Exhibit 9 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 10 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)



## British American Tobacco plc (LSE: BATS)

RBC Europe Limited

James Edwardes Jones (Analyst) +44 20 7002 2101, [james.edwardesjones@rbc.com](mailto:james.edwardesjones@rbc.com)

Rating: Outperform

Price Target: GBp 3,200.00

Closing Price: GBp 2,800.00

Implied All-in Return (%): 18.9

### Investment summary

We expect growth in next-generation products (NGPs) to erode the tobacco industry's historically insurmountable barriers to entry and, by extension, extremely high competitive concentration and profitability. We forecast sales growth to accelerate, but this to be more than offset by a margin decline of 800 basis points by 2030.

BAT is taking credible steps to develop its portfolio of new category products (Vapour, THP, or tobacco heating products, and Modern Oral). In 2019 these new categories accounted for less than 5% of BAT's sales. In our view, BAT's prospects remain predominantly a function of the cigarette industry.

Despite this the shares trade well below our price target reflecting, we believe, the reluctance of ESG-sensitive investors to buy them. In our view, this would be compensated for if the company prioritised share buybacks over dividends and M&A.

### Valuation

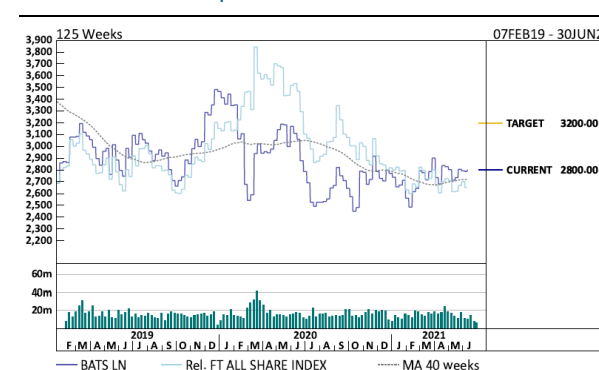
We believe that consumer staples stocks lend themselves to a DCF valuation methodology owing to the relative strength and predictability of their cash flow together with—in some instances—a significant mismatch between capital expenditure and depreciation charged through the profit and loss account, meaning that P&L-based valuation metrics (P/E ratio, EV/EBITDA ratio) can be misleading. We use a derivative of a traditional DCF calculation called adjusted present value, whereby the business's operating cash flows are discounted at its cost of equity (9.0% versus 7.0% for the majority of branded consumer

companies reflecting our relative uncertainty) and tax shield at the cost of debt (2.6%). We use explicit forecasts out to 2022, then assume revenue growth of 3.7% from 2021 to 2024 and then 2% until 2030. We assume EBIT margin decreases by 100bps per annum from 2023 until 2030. We assume a terminal growth rate of -1.0% per annum from 2030. This yields an adjusted present value of £31. Discounting this forward by one year at the cost of equity yields a 12-month price target of £32 net of our forecast dividend payment. Our price target supports our Outperform rating.

### Risks to rating and price target

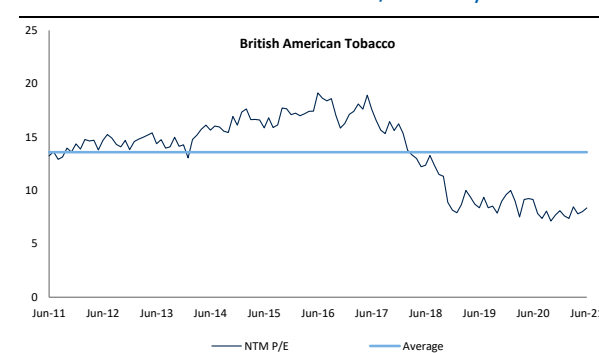
The sector's business model is dependent on strong pricing power to offset progressive volume declines. Any deterioration in that pricing power or decline in the trajectory of volumes could be expected to have an adverse effect on the share price. Changes in regulation of tobacco, for example, in the form of banning menthol cigarettes, plain-packaging requirements, advertising restrictions and smoking bans will be a significant determinant of share price performance as will decisions on the timing and extent of excise duty increases. The growth, regulation and taxation of next-generation products (NGPs) will be significant.

### Exhibit 11 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 12 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Brookfield Asset Management Inc. (NYSE: BAM; TSX: BAM.A)

RBC Dominion Securities Inc.

Geoffrey Kwan, CFA (Analyst) (604) 257-7195, [geoffrey.kwan@rbccm.com](mailto:geoffrey.kwan@rbccm.com)

### Investment summary

**Why we rate Brookfield Asset Management shares as Outperform:** We think the combination of (1) BAM's strong long-term investment track record, (2) significant liquidity available (\$80B) to fund acquisitions and investments at potentially attractive prices in the current market environment and drive future NAV growth, and (3) a differentiated and diversified product shelf with demonstrated ability to fund-raise and drive scale benefits could result in double-digit NAV growth over time. Coupled with the shares trading at an -11% discount to NAV, we believe the current share price is an attractive entry point for a stock we view as a core holding.

**Potential catalysts:** (1) material value-surfacing monetizations or transactions; (2) strong fundraising activity positively impacting future Fee Related Earnings and carried interest growth; and (3) active acquisition/investment activity to drive future NAV growth.

### Valuation

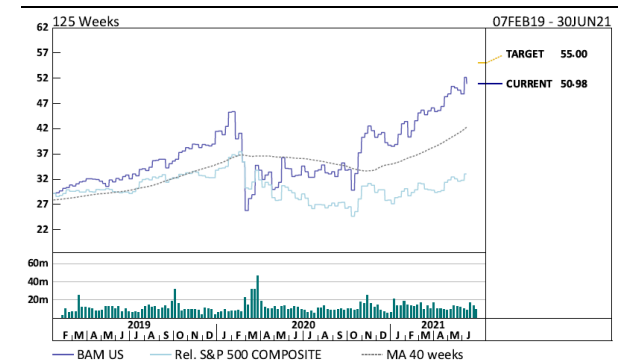
Our 12-month price target is US\$55/share. We value BAM using an NAV methodology, which we think is appropriate given the diverse nature of BAM's assets. To arrive at our price target, we separately value: (1) BAM's asset management business using a 20x multiple applied to our blended 2022E/2023E FRE forecast; and (2) we assume 20% growth in BAM's hard NAV (publicly traded subsidiaries, private investments, etc.). We believe our forecast of BAM's hard NAV growth over the next 12 months is supported by the company's long-term investing track record. We also include a 0% premium to NAV. We believe our price target and implied return support our Outperform rating.

### Risks to rating and price target

Risks to our price target and rating include: (1) economic downturn, particularly in real estate; (2) a sudden and/or significant increase in interest rates; and (3) sustained capital markets volatility.

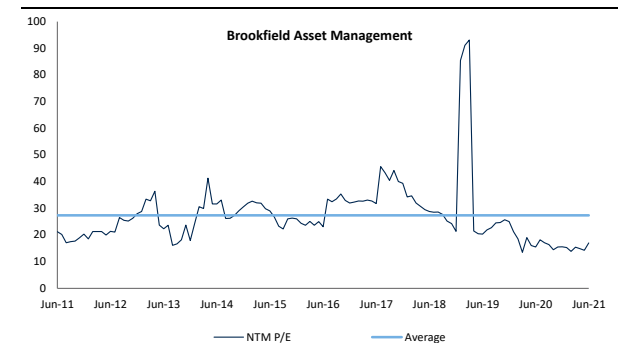
**Rating: Outperform**
**Price Target: USD 55.00**
**Closing Price: USD 50.98**
**Implied All-in Return (%): 8.9**

Exhibit 13 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 14 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## Canadian Natural Resources Limited (TSX: CNQ; NYSE: CNQ)

RBC Dominion Securities Inc.

Greg Pardy, CFA (Head of Global Energy Research) (416) 842-7848, [greg.pardy@rbccm.com](mailto:greg.pardy@rbccm.com)

### Investment summary

We rate the common shares of Canadian Natural Resources Outperform for the following reasons:

**Globally Distinguished.** We believe Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital of about \$3 billion—affords the company with superior free cash flow generative power.

**Management Committee Structure.** CNQ has no CEO. Instead, the company is stewarded by a management committee comprised of 18 people. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others. Murray Edwards, Executive Chairman, Tim McKay, President, and Mark Stainthorpe, CFO are all key members of the committee.

**ESG—Lots of Progress.** The company continues to make strides on the ESG front with its corporate GHG emissions intensity falling 2% year/year in 2020, marking an 18% reduction from 2016. Methane emissions in its North American E&P segment have fallen by 28% from 2016-20. Having successfully achieved three of its four environmental objectives, CNQ plans to release updated targets in due course. The company is also a part of the recently announced Oil Sands Pathways to Net Zero

initiative. The initiative, between five of the largest oil sands producers, seeks to achieve net zero greenhouse gas emissions from oil sands operations by 2050 and is anchored by a major Carbon Capture, Utilization and Storage (CCUS) trunk-line connected to a carbon sequestration hub.

### Valuation

Our price target of \$53 per share reflects an equal weighting toward a multiple of 1.0x our NAV and an implied 2022E debt-adjusted cash flow multiple of 7.5x at mid-cycle commodity prices. The multiples we have chosen reflect CNQ's superior execution capability, long-life, low-decline asset base, and free cash flow generation potential. Our price target and implied return support our Outperform rating.

### Risks to rating and price target

The most significant risk to our price target and rating is unexpected changes in crude oil and natural gas prices. Specifically, to the extent that the COVID-19 pandemic and associated social distancing measures continue to negatively impact global oil demand, it may result in CNQ realizing lower-than-anticipated sales prices for its production volumes. Other risks include the impact of foreign exchange and government legislation as it relates to royalties, income taxes and environmental policy.

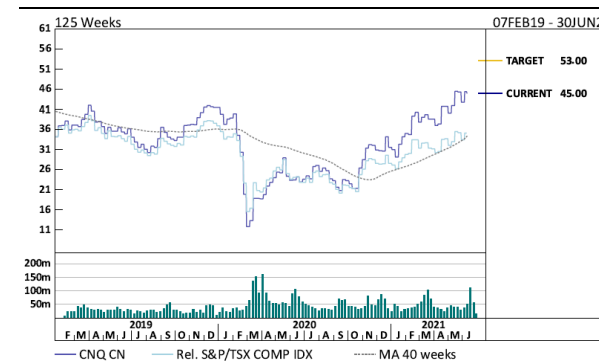
Rating: Outperform

Price Target: CAD 53.00

Closing Price: CAD 45.00

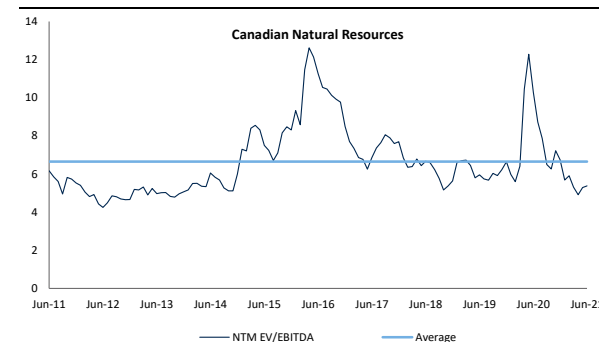
Implied All-in Return (%): 22.0

Exhibit 15 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

Exhibit 16 - Forward consensus EV/EBITDA history



Source: Factset

Most recent industry note: [link](#)

## Canadian Pacific Railway Limited (TSX: CP; NYSE: CP)

RBC Dominion Securities Inc.

Walter Spracklin, CFA (Analyst) (416) 842-7877, [walter.spracklin@rbccm.com](mailto:walter.spracklin@rbccm.com)

### Investment summary

We are currently restricted from providing an investment opinion on Canadian Pacific Railway Limited.

**Note:** This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the Top 30 Global Ideas for 2021 has not been reviewed or confirmed as of the date hereof.

Rating: Restricted

Closing Price: CAD 95.32

Price Target: Restricted

Implied All-in Return: Restricted



## ConocoPhillips (NYSE: COP)

RBC Capital Markets, LLC

Scott Hanold (Analyst) (512) 708-6354, [scott.hanold@rbccm.com](mailto:scott.hanold@rbccm.com)

**Rating: Outperform**

**Price Target: USD 75.00**

**Closing Price: USD 60.90**

**Implied All-in Return (%): 26.0**

### Investment summary

**COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** We believe the company is well positioned to maintain competitive FCF generation through various commodity price cycles with 20+ Bboe of resource potential at a sub-\$30/bbl (WTI) average cost of supply.

### A well-defined and attractive investment proposition.

COP was an early leader in committing and demonstrating high returns of capital back to shareholders. The priorities are: (1) sustain production and pay its fixed dividend; (2) annual dividend growth; (3) A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion. Management has demonstrated its commitment to industry-leading returns of capital to shareholders that includes a minimum cash flow payout of 30%. We think this could translate to returning 80+% of the current market cap back to shareholders over the next decade through fixed dividends, stock buybacks, and potentially a variable dividend.

**COP has a low break-even point where it can fund production maintenance and dividends at sub- \$40/bbl (WTI).** We estimate sustaining capital at just ~\$5 billion.

**A global and diverse footprint across the commodity spectrum mitigates unsystematic risk.** This also allows capital to shift toward projects that can deliver high returns through commodity price and economic cycles.

### COP is the fifth-largest natural gas marketer in the US.

This creates opportunities to enhance transportation and sales mechanisms for margin improvement.

**ESG is a high focus.** COP adopted a Paris-aligned climate risk framework for net-zero operational (Scopes 1 and 2) emissions by 2050. There is also a target to reduce GHG emissions 35–45% by 2030.

### Valuation

Our \$75/share price target is derived from a combination of evaluating forward EBITDA multiples, relative FCF levels and our Net Asset Value (NAV), and supports our Outperform rating. Our target reflects a 6x multiple on our 2021 EBITDA estimate, consistent with the large cap peers; a sustainable 8+% FCF yield; and a small premium to our \$66/share NAV.

### Risks to rating and price target

The returns-focused strategy and value proposition depend on strong margins, cost control, and execution. Industry inflation or unforeseen cost overruns could limit the ability to deliver significant shareholders returns and negatively impact the share price.

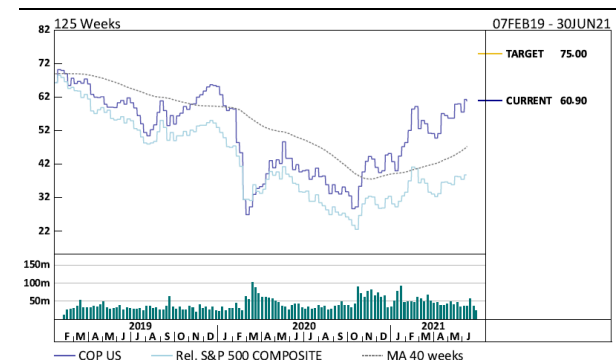
A slowdown or contraction of the global economy could reduce the demand for energy, which might lower the sales prices for crude oil and natural gas, potentially reducing the company's profitability.

Regulatory changes including limits on federal land could adversely impact the company's development opportunities and economics. COP has federal acreage on certain core assets in both the Permian Basin and Alaska that could be impacted by regulatory changes.

Energy producers battle unprecedented global oil market conditions amid the COVID-19 pandemic that has caused a historical drop in oil & natural gas demand. The industry has responded with production and capital

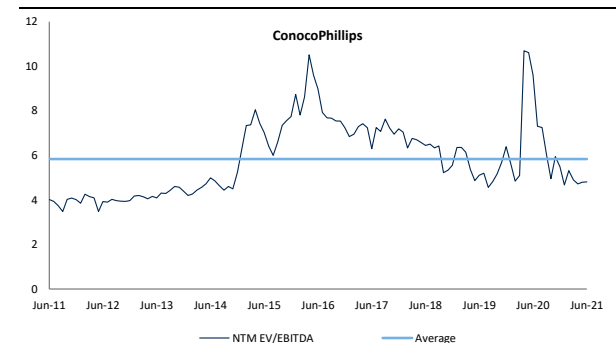
reduction, operating cost savings, and in some cases, suspending dividends. However, the commodity markets remain out of balance. If these demand-related concerns persist, commodity prices and cash flows could be impacted, thus challenging our share price outlook.

### Exhibit 17 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 18 - Forward consensus EV/EBITDA history



Source: Factset

**Most recent industry note:** [link](#)

## CrowdStrike Holdings, Inc. (NASDAQ: CRWD)

RBC Capital Markets, LLC

Matthew Hedberg (Analyst) (612) 313-1293, [matthew.hedberg@rbccm.com](mailto:matthew.hedberg@rbccm.com)

Rating: Outperform

Price Target: USD 259.00

Closing Price: USD 251.31

Implied All-in Return (%): 3.1

### Investment summary

#### High-level thesis of CrowdStrike

CrowdStrike was founded in 2011 with a mission of reinventing security for the cloud era. Co-founder George Kurtz previously worked at a gen-1 AV endpoint vendor and was motivated to build CrowdStrike after realizing that legacy security technology was incapable of protecting customers against modern attacks within a hybrid-cloud architecture.

The company developed a differentiated cloud-native security platform that leverages its lightweight intelligent agent and Threat Graph database across a multi-module portfolio of solutions. The company and its customers benefit from the network effect, as each additional endpoint added to the platform expands the crowd-sourced database, which in turn improves the quality of the algorithms.

We view CrowdStrike as a prime land-and-expand model benefiting from the SaaS delivery and ability to rapidly add more modules with no extra configuration or consulting needed. The long-term power of the install base should continue to lead to strong net expansion rates as the company cross-sells additional seats (endpoints) and modules.

#### Potential catalysts include:

1) Ability to maintain net expansion rates by selling additional products into its growing customer base and maintaining low churn rates; 2) new product introduction and/or traction from recently introduced modules; specifically Cloud Workload protection; 3) accelerated customer additions leveraging its multi-pronged, go-to-market approach; 4) accelerated share-shift from legacy vendors; and, 5) faster-than-expected progression toward profitability driven by top-line success.

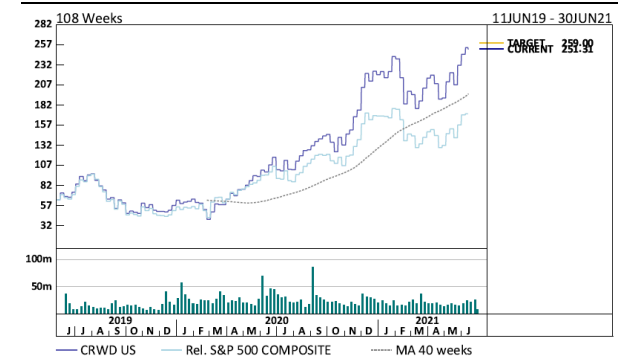
#### Valuation

To derive our \$259 price target, we apply a 34x EV/S multiple to CY/22E revenue of \$1,816M, which is roughly in line with leading growth security peers, in our view reasonable given that our growth outlook is likely biased higher. Our price target supports an Outperform rating.

#### Risks to rating and price target

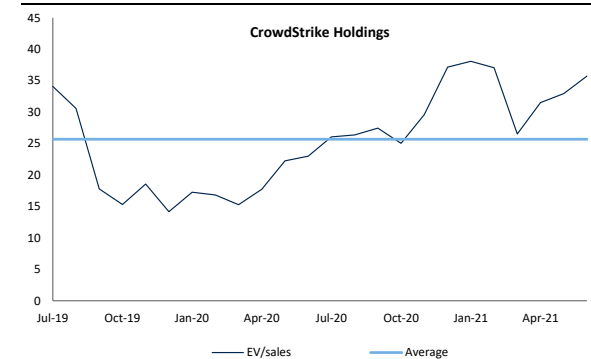
Risks to our rating and price target include: 1) CrowdStrike operates in a market with competition from larger legacy competitors, like Symantec, as well as newer entrants; 2) potential pricing pressure given the crowded nature of the market; 3) CrowdStrike operates a land-and-expand model; failure to retain existing customers could be a detriment; 4) CrowdStrike has experienced rapid growth; failure to manage growth/expectations could cause operational challenges; and 5) COVID-19 could impact company operations or customer demand.

#### Exhibit 19 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

#### Exhibit 20 - Forward consensus EV/sales history



Source: Factset

Most recent company note: [link](#)

## DuPont de Nemours, Inc. (NYSE: DD)

RBC Capital Markets, LLC

Arun Viswanathan, CFA (Analyst) (212) 301-1611, [arun.viswanathan@rbccm.com](mailto:arun.viswanathan@rbccm.com)
**Rating: Outperform**
**Price Target: USD 94.00**
**Closing Price: USD 77.41**
**Implied All-in Return (%): 23.0**

### Investment summary

**Factors that support our Outperform rating.** Early cycle recovery in China will likely help DD achieve a faster recovery than peers, along with cost action plans to help incremental margins. Additionally, we believe the N&B sale to IFF was a major first step in DD's portfolio transformation plan and DD still has further portfolio transformation plans in place. Lastly, the PFOA case brought by CC has now been dismissed, and we believe a settlement will help DD move past the PFOA uncertainty overhang.

**Multiple expansion opportunity as a multi-industrial company.** Given that DuPont's valuation multiples could increase 2–3x, should DuPont successfully market itself as a multi-industrial company, we believe valuation multiples could move higher. DuPont notes that when comparing against other multi-industrial companies (MMM, HON and ITW), DuPont provides similar-in-class benchmarks.

**Further divestment plans post COVID-19.** Considering Chairman Ed Breen's successful divestment cases at Tyco when he was CEO of that company, we believe DuPont will continue assessing its portfolio to divest unaligned businesses in order to deliver shareholder value.

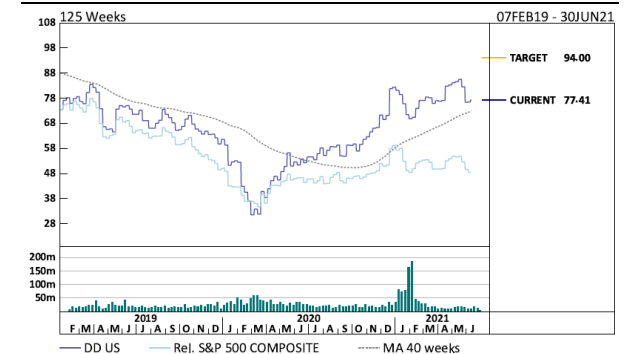
### Valuation

We value DuPont on a forward EV/EBITDA basis using 2021E. We apply a 15x multiple to our 2021E EBITDA of \$4B to arrive at a price target of \$94/share. We apply 15x (high end of the historical 11-15x range), given DD's leverage to high growth markets in China as well as 5G and interconnect end-markets. Our price target supports our Outperform rating.

### Risks to rating and price target

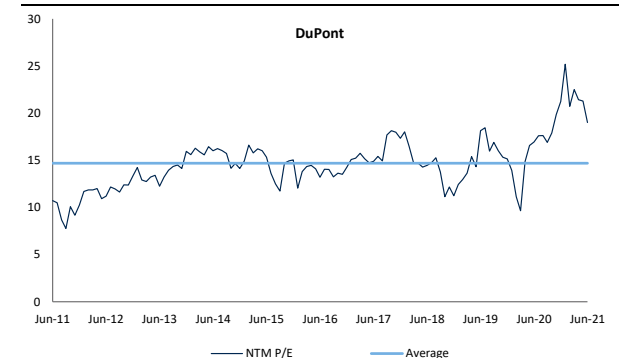
Risk to our rating and price target include: 1) slower than expected cycle recovery in China and North America; 2) synergy/integration challenges; 3) further delays or failure to optimize spin strategy; and 4) further demand deterioration from COVID-19 impact.

### Exhibit 21 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 22 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## Element Fleet Management Corp. (TSX: EFN)

RBC Dominion Securities Inc.

Geoffrey Kwan, CFA (Analyst) (604) 257-7195, [geoffrey.kwan@rbccm.com](mailto:geoffrey.kwan@rbccm.com)

**Rating: Outperform**

**Price Target: CAD 19.00**

**Closing Price: CAD 14.46**

**Implied All-in Return (%): 33.2**

### Investment summary

**Why we rate EFN shares Outperform:** There are four key themes that drive our positive view of EFN: **(1) attractive growth.** We forecast EFN's EPS could grow at a mid-teens CAGR over the next 5 years driven by new client wins, organic growth within existing customers and significant returns of capital; **(2) multiple potential catalysts** (see below); **(3) strong defensive attributes.** EFN faces minimal credit/residual risks and tends to have long-term contracts (3-5 years) with high retention rates (~98%); and **(4) attractive valuation**, as we see high EPS growth as a key driver of valuation and potential valuation multiple expansion.

**Why we like the fleet management industry:** We think the fleet management industry has several attractive attributes, which we think, given EFN is the largest player in North America, should provide outsized benefits to the company. Specifically: (1) the fleet management industry has high barriers to entry, which we think is partly attributable to high switching costs for customers, but also significant scale benefits; (2) the industry has a favorable competitive landscape, which we think has generally resulted in rational pricing behavior; (3) as mentioned above, the industry benefits from long-term contracts and very low client turnover/churn; and (4) the industry has strong free cash flow generation potential.

**Potential catalysts:** (1) accelerated wins of government/self-managed and/or mega-fleet customers; (2) increased returns of capital (e.g., further dividend increases, share buybacks, etc.); and (3) continued progress successfully re-opening economies, which would benefit new order activity and fleet services.

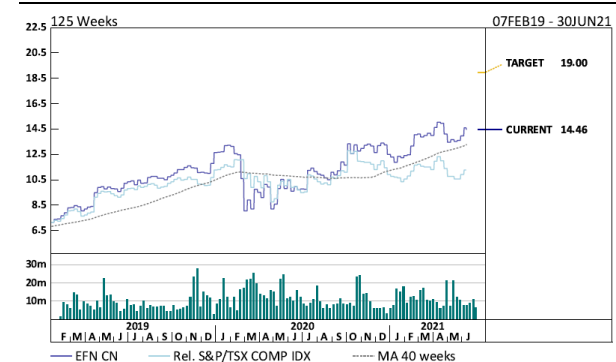
### Valuation

**Our 12-month price target is \$19/share.** Our 12-month price target is based on 17x our blended 2022/2023 fully diluted operating EPS forecast, which is slightly higher than its current multiple and a premium to the global fleet manager peer average. We believe a premium to global fleet management peers is warranted given factors including higher expected growth, stronger fundamentals, greater scale and very little exposure to credit risk. We believe our 12-month price target and the implied total return support our Outperform rating.

### Risks to rating and price target

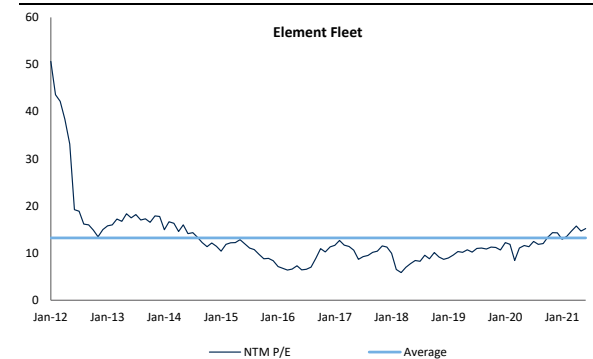
Potential risks include: (1) a severe and prolonged economic recession due to COVID-19; (2) increasing credit losses or customer bankruptcies; (3) key personnel departures; or (4) key customer losses.

### Exhibit 23 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 24 - Forward consensus P/E history



Source: Factset

**Most recent company note:** [link](#)



## Enterprise Products Partners L.P. (NYSE: EPD)

RBC Capital Markets, LLC

TJ Schultz, CFA (Analyst) (512) 708-6385, [tj.schultz@rbccm.com](mailto:tj.schultz@rbccm.com)

Rating: Outperform

Price Target: USD 29.00

Closing Price: USD 24.13

Implied All-in Return (%): 27.6

### Investment summary

We rate EPD Outperform and view the stock as a core MLP holding with both offensive and defensive characteristics. EPD offers investors broad exposure to a full spectrum of the midstream value chains for NGLs and, increasingly, crude and petrochemical products. Furthermore, the partnership's multi-year organic growth backlog helps provide visibility on long-term distribution growth. EPD has grown and should continue to grow its fee-based cash flows as announced projects enter service and ramp. The large market capitalization relative to the rest of the midstream MLP space should mean easier access to and lower cost of capital and better trading liquidity. We believe the diverse asset base adds stability to the cash flows and is defensive in a softer equity market or energy tape specifically. EPD continues to have a solid slate of identified organic growth projects.

**Potential catalysts for the stock:** 1) larger-than-expected benefits from contango; 2) quicker-than-expected return of refinery utilization, which would improve downstream demand; and 3) higher commodity prices

### Valuation

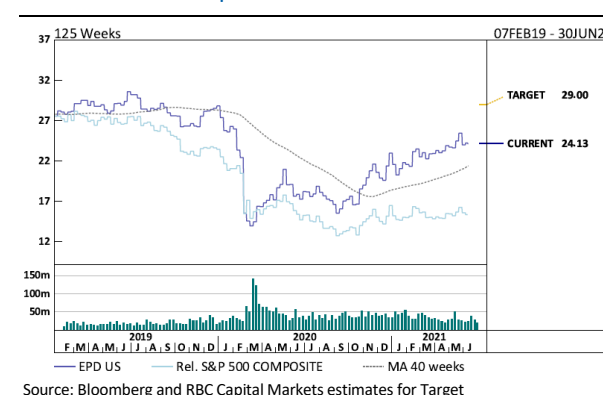
We value EPD based on a sum-of-the-parts analysis where we apply target EV/EBITDA multiples to our 2022 EBITDA estimates for each business segment. Particularly, we apply an 8.0x EBITDA multiple to G&P, 12x to crude and gas TT&S and refined products and 11x to petrochemical businesses. Our target multiples are reflective of our view on EPD's growth outlook and long-term cost-of-capital. After subtracting net debt and the capex that drives 2022E EBITDA, we ultimately arrive at

an implied \$29/unit price target. Our SOTP valuation implies an overall EV/EBITDA of ~11.0x. Our \$29 price target supports our Outperform rating.

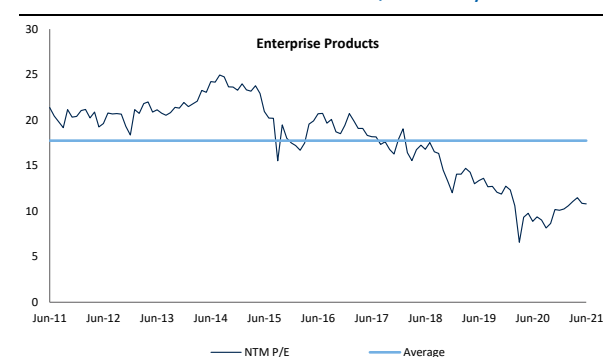
### Risks to rating and price target

Among the key issues that could impede our price target and rating are: a sustained weak demand or pricing environment for NGLs and other commodities; weaker NGL, crude, or natural gas prices and lower drilling activity, which could reduce demand across EPD systems; lower crude basis differentials could reduce EPD marketing margins; lower liquids prices and/or deteriorating processing margins can reduce EPD margins from equity volumes and utilization across its downstream systems; lower demand for crude oil or crude oil transportation and logistics solutions; overbuild of NGL pipeline capacity to Mont Belvieu reducing prices; failure to obtain sufficient contractual support for announced projects; project execution risk (both in terms of cost and timing); lower natural gas prices and the impact on dry gas gathering systems in South Texas and Haynesville.

### Exhibit 25 - Share performance and RBC valuation



### Exhibit 26 - Forward consensus P/E history



Most recent company note: [link](#)

## General Electric Company (NYSE: GE)

RBC Capital Markets, LLC

Deane Dray, CFA (Analyst) (212) 428-6465, [deane.dray@rbccm.com](mailto:deane.dray@rbccm.com)

Rating: Outperform

Price Target: USD 16.00

Closing Price: USD 13.46

Implied All-in Return (%): 19.2

### Investment summary

**Turnaround story likely gains momentum in 2021 with vaccine news boosting commercial aero; Improving free cash flow is the key metric.** We expect the high-profile turnaround led by CEO Larry Culp and team to gain significant momentum in 2021, especially as the vaccine news accelerates the recovery in commercial aero. We believe the bear thesis is fading and enthusiasm for GE's improving free cash flow is building, likely drawing in more believers. Our SOP model implies attractive upside and our analysis shows that GE shares are still significantly underowned.

**Bear case fading.** With the urgency of battlefield triage, we believe CEO Larry Culp and his handpicked team have surgically de-fanged the bear case that had been raging two years ago. Notably, GE Capital has been largely dismantled/de-risked, the balance sheet deleveraging is well underway, long-term health insurance has successfully gone through two regulator audits; the pension plan is now pre-funded through 2023, and the legacy SEC accounting investigations dating back two CEOs ago have been settled.

**Improving FCF is the single most important metric.** In his first conference call just five weeks into his role as CEO, Larry Culp declared that he was not managing GE to hit a specific EPS target. Instead, FCF was the primary operating metric and EPS would simply be an outcome. Despite the ongoing COVID challenges, the company has achieved steadily improving FCF in 2020, with 2021 likely to see further progress in working capital, and a steadier quarterly conversion vs. the legacy hockey stick 4Q.

### Valuation

We are basing our GE valuation on a sum-of-the-parts model using the company's publicly traded comps across its various business platforms, which supports a weighted-average 2022E EV/EBITDA multiple of 16.0x. We then make deductions for GE's net debt, pension deficit, operating leases, long-term care insurance liability, corporate expense, and various cash outflows/inflows from pending portfolio moves. Combined with our 2022 EBITDA estimate, this underpins our \$16 price target, supporting our Outperform rating.

### Risks to rating and price target

**Coronavirus:** The COVID-19 pandemic has wreaked havoc on the aviation industry and triggered a broader global economic recession.

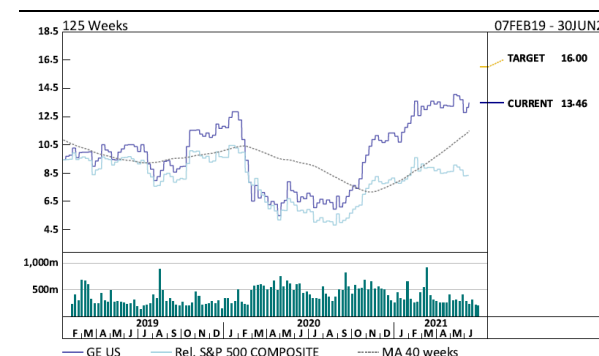
**Economic conditions:** A slower-than-expected economic recovery or protracted recession would negatively impact GE's financial results. GE's results could also be impacted by a change in inflation or deflation, commodity prices, credit availability, currency, product costs, and price realization.

**End-market pressures:** GE could see a slowdown in power markets due to secular disruptions from renewable energy sources. Conversely, more resilient demand in this market could cause GE's stock price to exceed our price target.

**Profitability:** GE targets a significant reduction in SG&A over the next several years. A shortfall vs. these targets could make our estimates prove to be too optimistic.

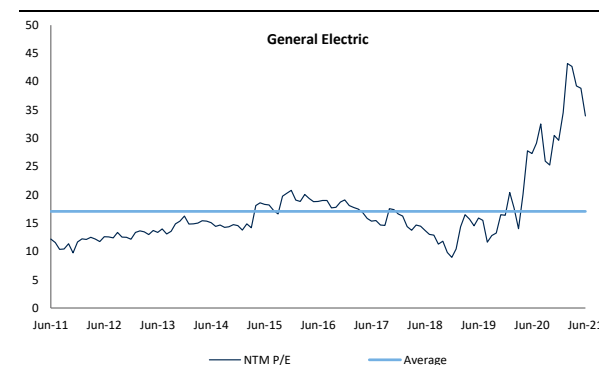
**Emerging market exposure:** GE generates substantial sales from emerging markets including China, Brazil, Russia, India, and the Middle East.

### Exhibit 27 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 28 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Genmab A/S (NASDAQ: GMAB)

RBC Capital Markets, LLC

Kennen MacKay, Ph.D. (Analyst) (212) 905-5980, [kennen.mackay@rbccm.com](mailto:kennen.mackay@rbccm.com)

Rating: Outperform

Price Target: USD 46.00

Closing Price: USD 40.83

Implied All-in Return (%): 12.7

### Investment summary

We see GMAB as a highly validated antibody/biologics engineering company with demonstrated potential to develop best-in-class blockbuster products. We are most impressed by GMAB's proprietary antibody technology, where its history of success differentiates it from competition and provides platform scarcity value. GMAB has a robust pipeline consisting of mAbs and BsAbs, which we see as compelling given the company's platform successes. GMAB is also pioneering novel antibody technology such as "Next-Generation" HexaBody, DuoHexaBody, and HexElect antibody technologies.

We see a high probability that Darzalex's move into 1L Multiple Myeloma (MM) across standards of care will dominate the market for years to come. With Dara setting to seek more penetration in the larger market of frontline (especially with label expansion to transplant-eligible patients) and recently approved subcu formula with a broad label, we see limited risks associated with the drug in MM market and royalties from this adding non-dilutive revenue to offset pipeline development spending.

Epcoritamab (DuoBody-CD3xCD20) is a major pipeline focus with new partnership collaborations with ABBV. GMAB gained a surprisingly large \$750M USD upfront milestone (total milestones of \$3.15B USD) in exchange for partnering partial rights to pipeline standout epcoritamab (DuoBody-CD3xCD20), and two deeper pipeline assets that have previously seen little investor attention: GMAB's DuoHexaBody-CD37 and DuoBody-CD3x5T4. Importantly, the epcoritamab deal is structured as a global co-development and co-commercialization program.

Tisotumab Vedotin (TV) could see a rapid path to market in cervical cancer with positive data from innovaTV204 trial.

**Key upcoming potential catalysts** (i) early pipeline updates with focus on GEN1046 (DuoBody-PD-L1x4-1BB) expansion cohort data in solid tumors in 2021; (ii) anticipated tisotumab vedotin (TV) FDA decision with anticipated launch in 2L+ cervical cancer in 2H:21; and (iii) Epcoritamab development expansion with potential updated data in 2021.

### Valuation

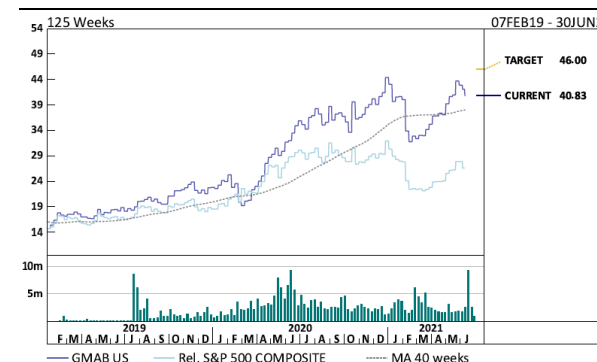
Our DKK 2,943/sh (ADS US\$46/sh) price target is derived from the NPV of cash flow generated from PoS-adjusted commercial product, pipeline, and royalty/milestones forecast through 2030. Our base case includes: 1) Darzalex 25-30% peak penetration in NDMM and 45-55% peak penetration in RRMM; 2) Darzalex 90% PoS (US/EU) in AL Amyloidosis; 3) Ofatumumab 95-100% PoS in RMS; 4) Tisotumab Vedotin 50-60%/70-75% (1L/2L+) PoS in cervical cancer and 30% PoS in ovarian cancer; 5) Epcoritamab 65% PoS in r/r NHL and 15% PoS in 1L NHL; and 6) Tepezza 100% PoS in US and 90% PoS in EU. Our price target supports our Outperform rating.

### Risks to rating and price target

We expected limited impacts due to COVID-19 circumstances on GMAB's business operations, as the company's current commercial products target severe oncology or other disease patients who need active treatments. However, we see risks in clinical program development of some of the company's early-stage assets, such as Epcoritamab or GEN1046, as patient recruitment for these trials could be temporarily

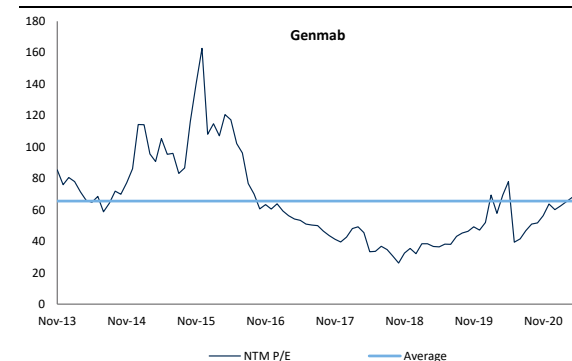
delayed or halted if COVID-19 cases increase. Additional risks to our price target and rating include pricing and commercial update risk for Darzalex in MM and Ofatumumab in RMS, and clinical development and regulatory risk for Tisotumab Vedotin.

### Exhibit 29 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 30 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Gilead Sciences, Inc. (NASDAQ: GILD)

RBC Capital Markets, LLC

Brian Abrahams, M.D. (Analyst) (212) 858-7066, [brian.abrahams@rbccm.com](mailto:brian.abrahams@rbccm.com)

Rating: Outperform

Price Target: USD 82.00

Closing Price: USD 68.86

Implied All-in Return (%): 23.2

### Investment summary

We believe Biktarvy's strong profile and robust launch, along with favorable demographic and pricing dynamics, will underpin good HIV franchise sustainability through at least 2025, with nearer-term competitive threats overblown; we expect this to maintain a strong foundation for GILD's valuation. Though we expect continued HCV declines, share and pricing stability should provide more predictability, and sustainable patient volumes should still contribute a meaningful ~\$17B in cash flows over the next decade. We also see Trodelvy, magrolimab, and anti-TIGIT as potential blockbusters in the pipeline, and see strong BD optionality. Overall, we expect sentiment to remain more positive, with continued strong commercial execution and additional BD and pipeline diversification helping to drive share appreciation.

**Key positives:** (1) favorable leadership position, pricing power, demographics in HIV; (2) more predictable HCV share and pricing, and sustainable volumes that should enable meaningful cash flows; (3) blockbuster potential for oncology assets; and (4) further recent pipeline expansion through GLPG, FTSV and IMMU deals, with additional BD/ pipeline optionality.

**Potential catalysts:** (1) ZUMA-7 earlier-line Yescarta NHL data (1H21); (2) initial data from RCUS partnered anti-TIGIT antibody (1H21); (3) Magrolimab data readouts in MDS and DLBCL (2H21); (4) Trodelvy ph.III data in HR+/HER2- BC (end-'21);

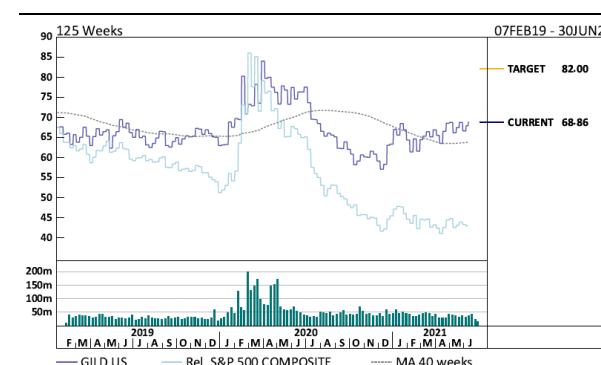
### Valuation

Our \$82 price target is derived via a DCF analysis, with an 8.9% discount rate and a 3% terminal growth rate off 2030E (post-TAF generic). Our price target supports our Outperform rating.

### Risks to rating and price target

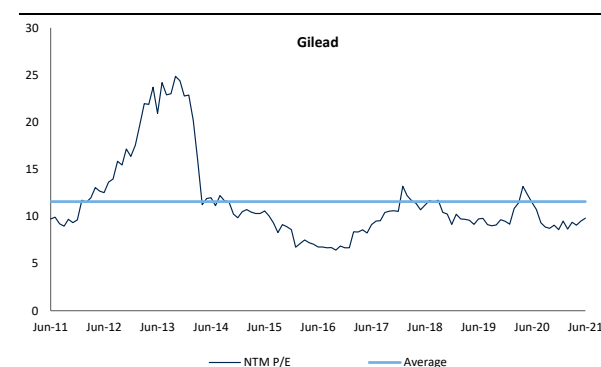
Risks inherent to Gilead's business include generic HIV entrants, competition in HCV, pricing pressure, commercial and scientific complexities of cellular CAR-T therapies, and efficacy and safety risk for pipeline products such as magrolimab. More systemically, GILD could also be negatively affected by the macro effects of an economic downturn, or impacts on the company's workforce, related to COVID-19.

### Exhibit 31 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 32 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)



## H & M Hennes & Mauritz AB (STO: HM B)

RBC Europe Limited

Richard Chamberlain (Analyst) +44 20 7429 8092, [richard.chamberlain@rbccm.com](mailto:richard.chamberlain@rbccm.com)

Rating: Outperform

Price Target: SEK 250.00

Closing Price: SEK 203.00

Implied All-in Return (%): 24.8

### Investment summary

We have an Outperform rating on H&M as we think it has been gradually improving its offer, which has led to an improved underlying (ex COVID-19) performance, which should in time be accompanied by an improved free cashflow trend. We see strong margin recovery potential due to a weaker USD versus the EUR, lower markdowns and tight cost control. Valuation looks fairly full on a P/E basis, but earnings should recover strongly, and valuation looks much less demanding using EV metrics.

### Potential catalysts

Potential catalysts should include further evidence of sales recovery in major markets, eg Germany, the US and China, and results statements from H&M and other apparel retailers indicating margins and cashflow are stronger than the market expects. We maintain our positive view as we expect a sharper recovery in profitability than the market from H2, and given strong cashflow we expect H&M to resume making dividend payments later this year.

### Valuation

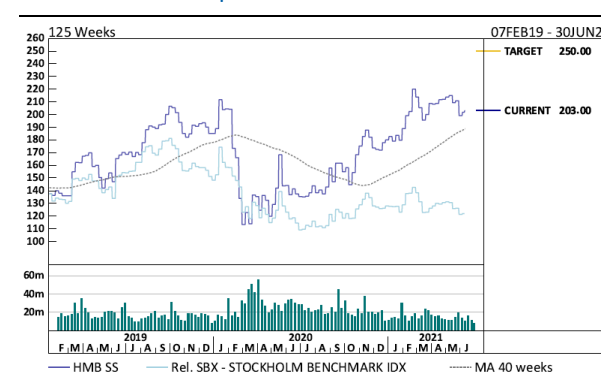
We use a DCF analysis to arrive at our price target for H&M of SEK250, which supports our Outperform rating on the shares. From 2019 as a base, our model assumes a long-term CAGR in sales of c.3%, an EBIT CAGR of c.8%, and a c.5% CAGR in cashflow. We use a terminal growth rate of 2.0% owing to the relative maturity of the H&M brand in Europe, and a WACC of 7.8%, to account for H&M's strong global footprint, but fairly strong balance sheet.

At our price target, H&M would trade at c.10x cal. 2022E lease-adj.EV/EBITDAR, in the middle of its historical range. This reflects short-term impacts from COVID-19, the challenges in becoming a successful global omni-channel operator but also longer-term potential to improve its currently depressed margins.

### Risks to rating and price target

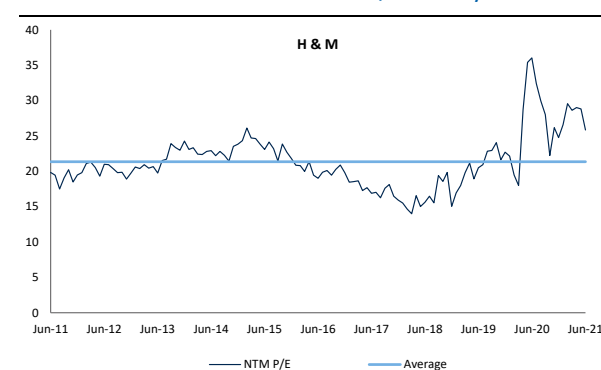
H&M faces risk to sales if more stores are restricted or closed again due to COVID-19, or footfall takes longer to recover. H&M could see short-term price competition in its major markets from distressed apparel retailers. Also, H&M could see weaker sales in China or due to it easing off investing so much in its offer, or higher-than-expected discounting due to inventory build and pressures on store profitability. Finally, H&M may see higher-than-expected sales pressure in China, due to a political backlash against its ethical stance on sourcing.

### Exhibit 33 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 34 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## Humana, Inc. (NYSE: HUM)

RBC Capital Markets, LLC

Frank G. Morgan, CFA (Analyst) (615) 372-1331, [frank.morgan@rbccm.com](mailto:frank.morgan@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 442.72**
**Price Target: USD 479.00**
**Implied All-in Return (%): 8.7**

### Investment summary

We believe shares of Humana should outpace the peer group.

The company's history of performance in Medicare Advantage is a key competitive differentiator that, combined with ongoing investments in benefits and plan design using savings delivered through its clinical programs, positions it well to continue posting above-average membership growth in Individual MA.

In addition, Humana continues to build out its primary care and other healthcare services platforms, providing an integrated clinical platform to deliver care and improve the health of its plan members.

Recent results have benefited from strong Individual MA growth and operational efficiency initiatives that enable solid operating leverage on top-line growth.

Additionally, with the permanent HIF repeal providing an additional tailwind, the company is positioned to exceed its typical long-term EPS growth target of 11–15% in FY21.

**Potential catalysts include:** 1) quarterly earnings results; 2) industry M&A activity; 3) membership growth in employer groups, Medicare, Medicaid, and public exchange markets; 4) changes in economic and employment conditions; and 5) inflection points in utilization.

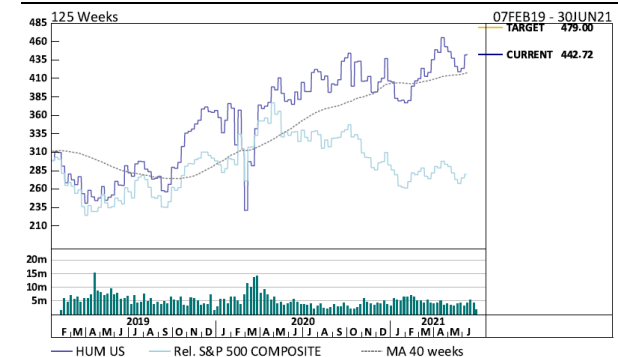
### Valuation

Our price target of \$479 is based on ~22x our FY21 adjusted EPS estimate. HUM is well positioned to exceed its typical annual earnings growth in FY21 through strong Medicare membership expansion and cost controls along with the HIF repeal benefit. We also believe that given its higher exposure to government programs vs. commercial, the company should be relatively immune to general economic slowdown and higher unemployment. As such, we believe that with higher growth and visibility, a premium multiple to the peer group is justified. Our price target supports our Outperform rating.

### Risks to rating and price target

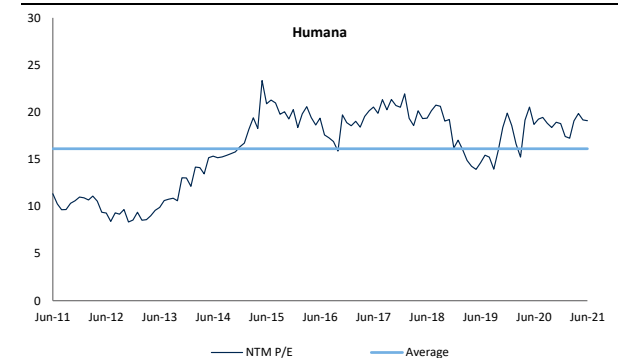
Risks to our rating and price target include: 1) execution risk in predicting and managing medical cost trends; 2) execution risk in network contracting; 3) regulatory risk; 4) reimbursement risk in the government business; and 5) protracted economic downturn as a result of the COVID-19 outbreak could impact the earnings growth trajectory.

### Exhibit 35 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 36 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## Louisiana-Pacific Corporation (NYSE: LPX)

RBC Dominion Securities Inc.

Paul C. Quinn (Analyst) (604) 257-7048, [paul.c.quinn@rbccm.com](mailto:paul.c.quinn@rbccm.com)

**Rating: Outperform**

**Price Target: USD 100.00**

**Closing Price: USD 60.29**

**Implied All-in Return (%): 66.9**

### Investment summary

We rate Louisiana-Pacific shares Outperform, as we believe the company provides well-diversified exposure to a rebound in the US housing market. We expect the US housing market to gradually recover, resulting in improved demand for the company's core products.

LP has strengthened its balance sheet, cut costs, and improved operations since suffering very poor results through the housing downturn. In addition, LP has greatly strengthened its presence in the North American siding business with its SmartSide product line and the company is also making inroads on growth initiatives in value-add and specialty markets.

The company continues to decrease the margin gap with its largest competitor over the last few years, as it focuses on cutting overhead costs and running fewer assets more efficiently.

### Valuation

Our \$100 price target supports our Outperform rating and is based on a blended 12.0x EV/EBITDA multiple of our trend EBITDA estimate of \$700 million (85%) and our 2022 EBITDA estimate of \$1,452 million (15%). We believe Louisiana-Pacific should trade above the high end of the typical US Paper & Forest Products trading range (6.0x to 8.0x), reflecting the premium valuation of the Siding business, in addition to the company's strong balance sheet and accelerating return of cash to shareholders.

### Risks to rating and price target

Downward changes in the level of North American new home construction and repair activity could adversely affect results.

Weaker economic conditions could have a negative impact on demand for Louisiana-Pacific's products.

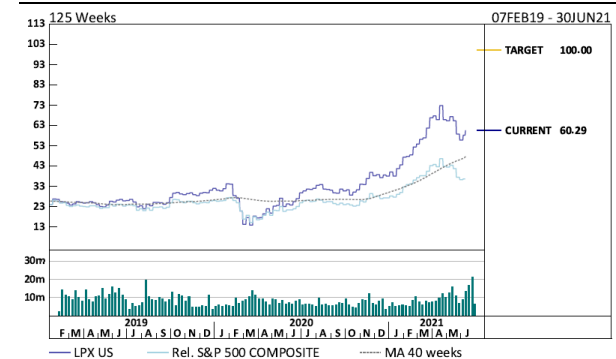
Economic cyclicalities, changes in consumer preferences, or imbalances in supply and demand could negatively affect realized pricing.

The shortage or increase in pricing of wood fiber or resin would increase the cost of goods sold by LP, negatively impacting results.

Given that the company offers product warranties, realized claims could be above management expectations, resulting in additional charges.

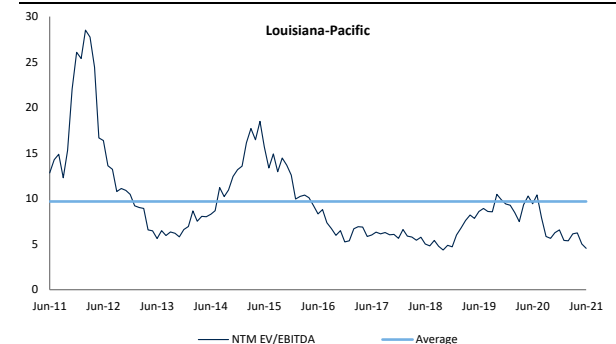
It remains difficult to assess the full severity of COVID-19's impact on the business. LP's end-markets can be cyclical, and a deterioration in economic conditions would likely have a negative impact on pricing and shipments.

### Exhibit 37 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 38 - Forward consensus EV/EBITDA history



Source: Factset

**Most recent company note: [link](#)**

## Royal Dutch Shell PLC (LSE: RDSB; NYSE: RDS.B)

RBC Europe Limited

Biraj Borkhataria, CFA (Analyst) +44 20 7029 7556, [biraj.borkhataria@rbccm.com](mailto:biraj.borkhataria@rbccm.com)
**Rating: Outperform**
**Closing Price: GBP 1,399.00**
**Price Target: GBP 2,200.00**
**Implied All-in Return (%): 60.7**

### Investment summary

We rate Royal Dutch Shell at Outperform. See our note "[Would you own me if I didn't pay a dividend?](#)" for our overall thesis.

### Key reasons for our stance:

**FCF breakeven point is below peers:** Following the dividend cut, Shell's free cash flow breakeven is below the peer group average at \$35-40/bbl in 2021E, which leaves room for DPS growth over time, as well as debt paydown and potentially buybacks even assuming a moderate recovery in commodity prices.

**Multiple franchise businesses should leave Shell generating higher returns:** In our minds, Shell has three franchise businesses within the group, all of which are #1 in their respective areas. Global deepwater, integrated gas and marketing form Shell's key competitive advantages, in our view. Shell's marketing business in particular generates >20% ROACEs consistently and is the highest return business within the group.

**Free cash flow vs shareholder claim.** Shell's free cash flow generation relative to EV screens at the top of the peer group; however, its dividend yield remains much lower than most European peers. We think the return to a buyback from mid-2021 should help drive a re-rating versus peers, while continued de-leveraging sets up Shell to become a more stable business through the cycle.

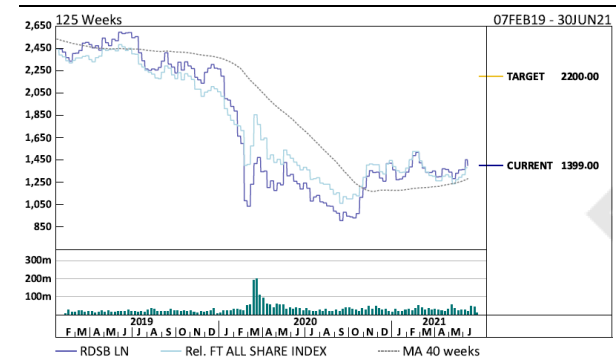
### Valuation

Our one-year price target for Shell of 2,200p is based on a 6x 2022E EV/DACF multiple, slightly below Shell's long-term average at 7.0x, given uncertainty on capital allocation. Our price target for the A shares of 2,200p is calculated on the same basis. On this basis, we see greater risk-adjusted upside potential versus peers, and rate the shares Outperform.

### Risks to rating and price target

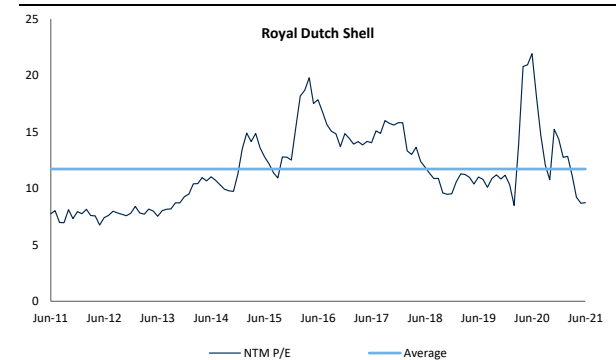
Risks to our price target and rating include: overcapacity in LNG as Shell is involved in multiple growth projects whilst also being the largest supplier of LNG globally; sustained weakness in US gas prices constraining profitability of gas drilling in the US; security risk in key areas in the Middle East and North Africa where Shell is highly exposed; and fiscal risk and uncertainty surrounding regulation in the oil & gas industry. In general, all international integrated oil companies are exposed to resource price fluctuations, political/security risk, execution risk, and environmental/permitting risks.

### Exhibit 39 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 40 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## SSE plc (LSE: SSE)

RBC Europe Limited

John Musk (Analyst) +44 20 7029 0856, [john.musk@rbccm.com](mailto:john.musk@rbccm.com)
**Rating: Outperform**
**Closing Price: GBp 1,500.50**
**Price Target: GBp 1,800.00**
**Implied All-in Return (%): 25.6**

### Investment summary

We see SSE a 'dual threat' with an attractive mix of assets with ~95% of EV and EBITDA in regulated networks and renewable activities.

For **Renewables** we continue to believe SSE has a premier position in the UK, but reserve judgment on potential international expansion. SSE targets 9.5GW of renewable capacity in 2030 vs ~4GW today, and we give credit for 9.2GW of this. We value SSE Renewables at ~£17bn (~50% of EV), at an implied ~18x EV/EBITDA multiple. This is a premium to closest peers reflecting the superior 5yr EBITDA CAGR of ~12.5%, and visible pipeline based on the already secured 5.5GW of seabed rights in the UK and Ireland.

In **Networks** SSE is also positively exposed to the energy transition and inflation. We see upside risk to returns from a potential appeal to the CMA, and outturn totex (particularly in electricity transmission) could be significantly above baseline allowances on an accelerated energy transition.

We see the balance sheet as largely improved, and forecast Net Debt within SSE's 4.5-5.0x for FY22E at ~4.65x. Following successful disposals of ~£1.5bn, and a sale of the SGN stake likely to occur in the summer, we see little concern for the balance sheet, giving us confidence in the deliverability of growth capex and the continuation of the RPI linked dividend (~5.5% yield).

### Valuation

Our base case valuation of 1800p/sh and Outperform rating are based upon a sum-of-the-parts model.

Within the SOP, for regulated assets we use the FY22E RAV and apply a premium (blended ~30%) to capture regulatory outperformance, growth and inflation.

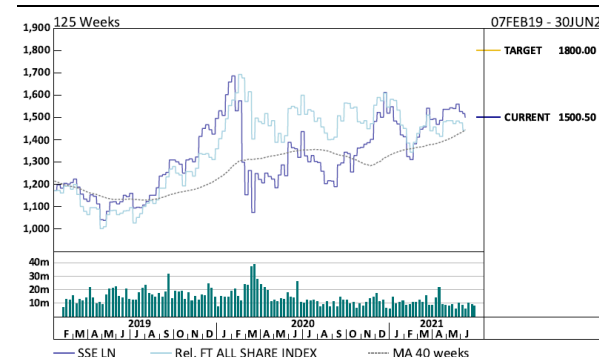
On generation, we use a DCF per generation type which implies ~£100/kW for thermal, ~£2,300/kW for hydro, ~£2,500/kW for onshore wind, and ~£10,800/kW for offshore wind (will reduce as assets come online). For renewables we use a WACC of 4.75%.

For customer operations we use DCFs with ~7-8% WACCs, no terminal growth, and long-term EBIT margins of ~3.0%.

### Risks to rating and price target

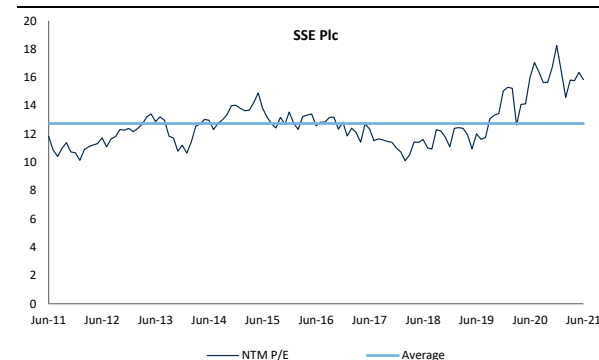
Risks to our rating and price target include the following: Power and commodity prices remained volatile and elevated into 2021 and could give up recent gains should commodity prices return rapidly to historical levels. Furthermore, large capital growth projects in offshore wind are not without risk and there is competition that could threaten returns on future projects. Finally, in networks the CMA appeal could lead to extended uncertainty on returns and threaten regulatory relationships with Ofgem ahead of the RIIO-ED2 process.

### Exhibit 41 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 42 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**



## Teladoc Health, Inc. (NYSE: TDOC)

RBC Capital Markets, LLC

Sean Dodge, CFA (Analyst) (615) 372-1322, [sean.dodge@rbccm.com](mailto:sean.dodge@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 166.29**
**Price Target: USD 260.00**
**Implied All-in Return (%): 56.4**

### Investment summary

The pandemic helped accelerate telehealth to its tipping point. We believe awareness and comfort with the technology is increasing dramatically as the number of individuals climbing over the first-time user hump continues to grow. On the payer side, we are also seeing more evidence that virtual-first plan design and virtual primary care offerings are beginning to proliferate. We believe TDOC is in the best position to capitalize on both of these trends via its superior consumer engagement platform, breadth of offerings/clinical capabilities, and global reach. Now with the inclusion of Livongo, we believe the combination of new member adds, cross-selling, and ramping utilization should drive 30-40% organic revenue growth for the next 3+ years. TDOC remains our favorite idea and is the best way, we believe, to play the exciting convergence of technology and healthcare.

### Potential catalysts

**Big client wins/new member adds.** The most impactful driver of our financial model continues to be the addition of new members. COVID-19 is pushing TDOC's paid member base to record levels, up 41% YoY in 2020. Opportunities this large are few and far between, but we think a significant greenfield and burgeoning replacement market remain.

**Ramping utilization.** TDOC's Surround Sound consumer engagement platform has enabled it to drive utilization well beyond that of its peers. This is an important contributor to the value proposition that TDOC provides its clients—payers only save money if their members use the service. Continued success here, and a potential acceleration driven by the proliferation of the Virtual First benefit design, would take the stock higher in our view.

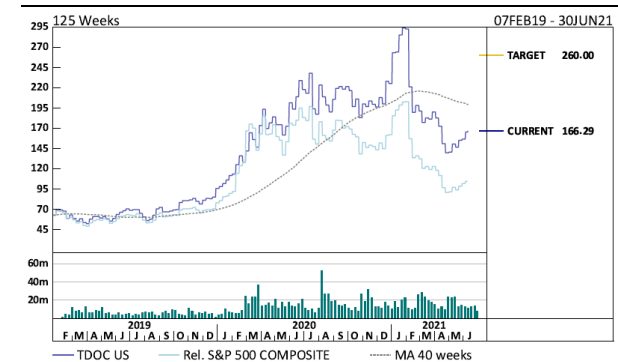
### Valuation

We believe the COVID-19 pandemic has pushed virtual health to its tipping point. Coupled with both the Livongo and InTouch acquisitions, this strengthens our confidence in TDOC's ability to accelerate its organic revenue trajectory into the 30-40% range, better balances its strategy (provider vs. payer/consumer), and further distances it from peers as the virtual health leader. Our \$260 price target is 21x our pro-forma combined 2021E revenue, which is in line with the SaaS/tech peer average, but a premium to the 7x average of other HCIT companies. Our price target supports our Outperform rating.

### Risks to rating and price target

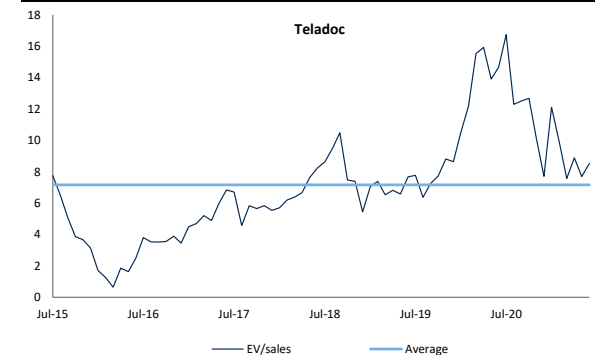
Risks include multiple ongoing M&A integrations, growing international exposure, uncertain and dynamic regulatory environment, exposure to potential medical malpractice, data breaches, and elevated expectations concerning future organic revenue growth.

### Exhibit 43 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 44 - Forward consensus EV/sales history



Source: Factset

**Most recent company note: [link](#)**

## TELUS Corporation (TSX: T; NYSE: TU)

RBC Dominion Securities Inc.

Drew McReynolds , CFA, CA, CPA (Analyst) (416) 842-3805, [drew.mcreeynolds@rbccm.com](mailto:drew.mcreeynolds@rbccm.com)

Rating: Outperform

Price Target: CAD 30.00

Closing Price: CAD 27.80

Implied All-in Return (%): 12.4

### Investment summary

The rationale for the \$1.5B broadband investment program in 2021 and 2022 at this juncture is to capitalize on a likely lengthy approval and integration timeframe for the Rogers-Shaw transaction. In our view, the key strategic benefit of accelerating this investment is an even stronger competitive positive, specifically: (i) broader FTTH coverage, increasing from ~80% of the long-standing targeted FTTN footprint currently to ~90% by the end of 2022E; (ii) a “substantial” portion of the wireline customer base on FTTH by the end of 2022E (up from ~50% currently), with positive implications for churn reduction; and (iii) enhanced capex flexibility beginning in 2023E given substantial completion of the FTTH build, which should enable TELUS to capitalize on new 5G growth opportunities without meaningful capital constraints, opportunity costs, or FCF impairment.

**Potential catalysts for the stock:** 1) greater-than-expected wireline subscriber traction driven by FTTH expansion; 2) better-than-expected efficiencies and operating leverage resulting in higher wireline margins; 3) an easing of Alberta headwinds resulting in improved business market performance; 4) stronger-than-expected improvement in wireless ARPU growth; and 5) greater-than-expected step-down in consolidated capex intensity over the medium-term.

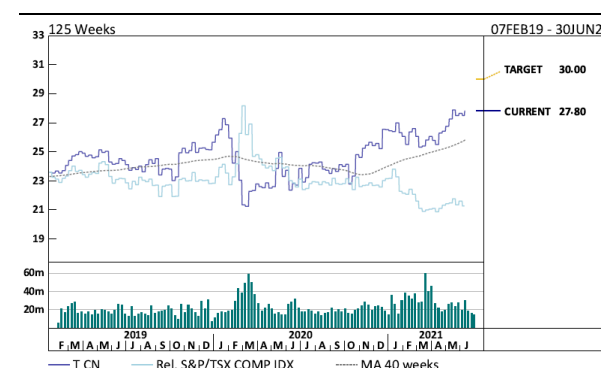
### Valuation

The implied total return to our \$30 price target supports our Outperform rating. To derive our target, we take the average of three approaches: (i) applying a 20.0x multiple to our blended two-year forward adjusted EPS estimates; (ii) applying a target EV/EBITDA multiple of 8.5x to our blended two-year forward EBITDA estimates for TELUS Technology Solutions and factoring in our one-year target for TELUS International; and (iii) discounted FCF through 2025E factoring in a WACC of 8.0% and a terminal growth rate of 1.75%. We believe our target multiples are consistent with the company’s growth and risk profile relative to Canadian peers, and a low interest rate environment.

### Risks to rating and price target

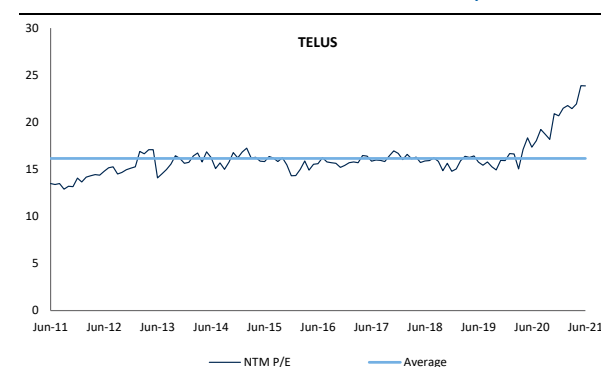
Risks to the shares reaching our one-year price target and Outperform rating are: (i) unforeseen direct and indirect COVID-19 impacts; (ii) a sustained increase in wireless competition and/or unexpected change in regulation resulting in higher churn and/or accelerated declines in postpaid ARPU; (iii) inability to realize additional cost savings to improve wireline margins; (iv) higher than forecast spectrum outlays; (v) emergence of irrational pricing in residential telephony, television, and/or Internet; and/or (vi) higher interest rates and/or a reversal in fund flows out of the sector.

### Exhibit 45 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 46 - Forward consensus P/E history



Source: Factset

Most recent company note: [link](#)

## The Home Depot, Inc. (NYSE: HD)

RBC Capital Markets, LLC

Scot Ciccarelli (Analyst) (212) 428-6402, [scot.ciccarelli@rbccm.com](mailto:scot.ciccarelli@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 318.89**
**Price Target: USD 386.00**
**Implied All-in Return (%): 23.0**

### Investment summary

We believe Home Depot's business should continue to benefit from a combination of fundamental operational improvements, market share gains, a generally solid US housing market, the consumer's more home-centric focus and a reallocation of dollars away from major discretionary categories (like travel, restaurant spending, etc.) that have been decimated by the pandemic. Further, housing macro data (e.g., PFRI) indicate that spending within the home improvement sector continues to improve.

We expect the company to enhance its profitability and grow earnings over the medium-to-longer term through a combination of better customer service, improved merchandising, additional supply-chain enhancements and strong returns to shareholders through dividends and stock buybacks. While many investors are already fretting over challenging comparisons in 2021, we believe that investing in one's home will be one of the best/easiest ways to improve a consumer's "standard of living" and fully expect very strong stacked comp results as we shift into next year. We remain buyers of HD.

### Valuation

Our price target of \$386 is based on applying a 28x P/E multiple to a blend of our 2021/2022 EPS estimates of \$13.65/\$14.20. We view this multiple as reasonable given that it implies a 27% premium to the 2021E market multiple vs. its historical 17% premium to the FTM multiple, given our expectation that trends will be stronger for longer. Our price target supports our Outperform rating.

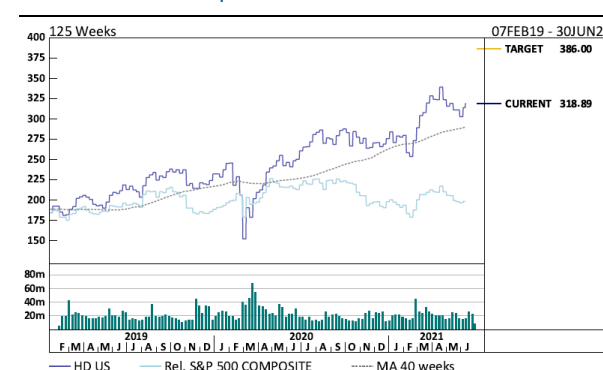
### Risks to rating and price target

**Housing market deterioration** – Various housing market metrics, including home prices, existing home sales, and new home construction, could potentially decline from current levels. A material decline in these metrics could have an impact on home improvement retailers leveraged to the overall health of the housing market.

**Margin deterioration/price war** – While the company's operating costs de-leveraged during the housing downturn due to the negative comp environment, gross margins remained relatively stable. We believe that investors have largely banked on stable gross margins, and if Home Depot (or one of its competitors) attempts to gain market share and stimulate sales through major discounts, we think it could adversely impact Home Depot's shares.

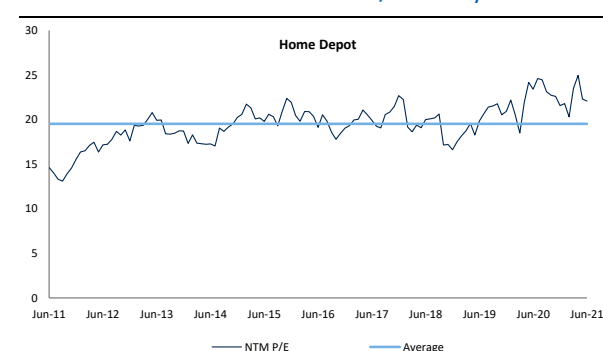
**Mortgage market disruption** – If credit conditions tighten and more inventory comes on the market, then inventory levels could rise, pushing home prices and, ultimately, home investment levels down.

### Exhibit 47 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 48 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## The Mosaic Company (NYSE: MOS)

RBC Dominion Securities Inc.

Andrew D. Wong (Analyst) (416) 842-7830, [andrew.d.wong@rbccm.com](mailto:andrew.d.wong@rbccm.com)

**Rating: Outperform**

**Price Target: USD 43.00**

**Closing Price: USD 31.91**

**Implied All-in Return (%): 35.4**

### Investment summary

Mosaic is a leading producer of potash and phosphate fertilizers and also has a production and distribution business in Brazil. The company has embarked on several transformation initiatives in the past several years that have resulted in improved operational efficiency, lower costs, and rising cash flow.

### Potential catalysts

The company expects to realize significant cost savings through 2023 with several company initiatives including the ramp-up of Esterhazy K3 mine, introduction of new advanced mining technologies (remote mining, automation), transformation initiatives at the Brazil Fertilizantes business, and growing value-add premium products.

Mosaic acquired Vale's Brazil-based phosphate and potash assets in 2018 and realized run-rate synergies of >\$300M by end-2019. The company is targeting an additional \$200M EBITDA benefit from ongoing business transformation efforts by end-2022.

Mosaic is currently working on constructing the Esterhazy K3 potash project. The project should alleviate production risk around brine inflow issues at K1 and K2 and reduce costs. We expect the project to ramp through 2021 and brine inflow costs to be completely mitigated by end-2021.

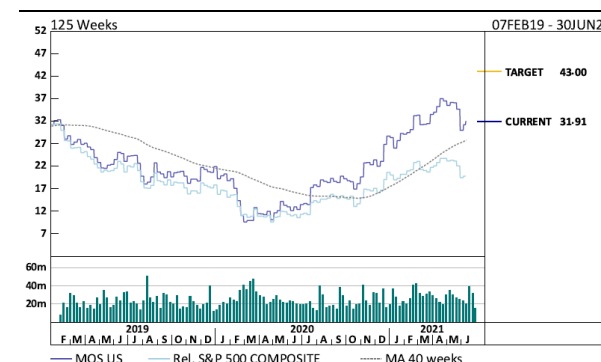
### Valuation

We arrive at our \$43 price target by attributing an equal weighting to our SOTP EV/EBITDA and DCF valuation. Our SOTP EV/EBITDA analysis applies an 8.5x multiple to 2022 EBITDA estimates for the Potash, Phosphate, and Fertilizantes segments. These multiples are in line with the multiples used to value Mosaic's peers. Our DCF analysis uses a 9% real discount rate. The implied return to our price target supports our Outperform rating.

### Risks to rating and price target

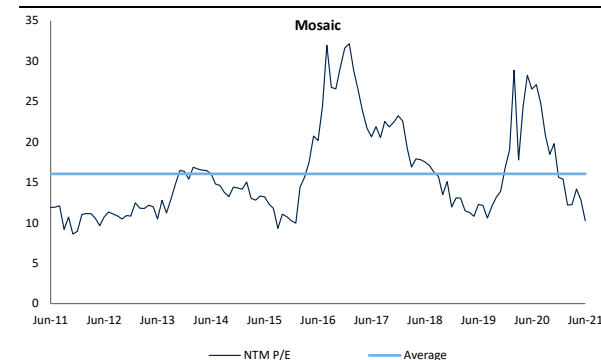
Risks to our price target and rating include: 1) unpredictable weather events in North America or international markets can have an adverse impact on demand for agricultural inputs; 2) Mosaic has operations in the US, Canada, and other foreign countries, so currency fluctuations can have an impact on earnings; 3) nutrient prices can be volatile and can have a significant impact on Mosaic's profitability; and 4) Mosaic uses natural gas, sulphur, and other inputs in producing its fertilizer products, so changes in the prices of these inputs can have an impact on its earnings.

### Exhibit 49 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 50 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## Twilio Inc. (NYSE: TWLO)

RBC Capital Markets, LLC  
Rishi Jaluria (Analyst) (415) 633-8798, [rishi.jaluria@rbccm.com](mailto:rishi.jaluria@rbccm.com)

**Rating: Outperform**

**Price Target: USD 415.00**

**Closing Price: USD 394.16**

**Implied All-in Return (%): 5.3**

### Investment summary

Twilio is a leading provider of CPaaS (communications platform as a service) solutions, including text, voice, video, and email. We like Twilio for four primary reasons:

**Communications are at the center of digital experiences.** With the pandemic accelerating digital transformation, every company is increasingly realizing technology is tablestakes, serving as a strong tailwind to Twilio. We believe Twilio plays a crucial role in allowing companies to communicate with customers across all channels.

**Unique developer focus.** We continue to subscribe to the adage that “software is eating the world”, but increasingly, APIs are eating software. Twilio’s developer focus has enabled it to grow rather efficiently and created multiple growth vectors. Our due diligence suggests Twilio’s solutions are not only viewed positively by developers, but also are increasingly ubiquitous at technology-forward companies.

**Attractive expansion opportunities, particularly “up the stack.”** Much as AWS has grown into a massive software company by expanding beyond core storage and compute and moving “up the stack” into areas like database and data warehousing, Twilio continues to expand beyond core text and voice, including video, CCaaS, and marketing. We are also rather positive on Twilio’s recent acquisition of Segment, supported by our due diligence, as it meaningfully expands Twilio’s market opportunity while building on the core developer adoption that has served Twilio since its founding.

**Rapid growth at scale.** Twilio remains one of the fastest-growing companies in software, with ~50% organic growth, driven by best-in-class net expansion rates, cross-sell, and new use cases. Perhaps more impressively, this growth is happening at impressive scale with Twilio growing ~50% at ~\$2.4B in ARR.

### Valuation

Our \$415 price target is based on a 21x multiple on our CY22 EV/revenue estimate, a small premium to the peer group; we believe this is justified by the company's better-than-average growth profile. Our price target supports an Outperform rating.

### Risks to rating and price target

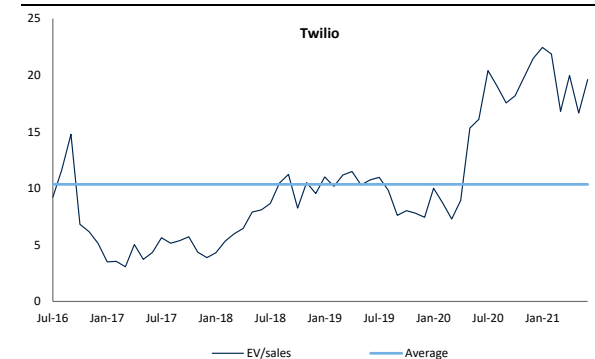
**Investment risks include:** 1) Twilio operates in a competitive environment, with pricing pressure; 2) a dual class share structure, with Class B shares controlling a majority of voting power; 3) Twilio has become increasingly acquisitive, which could distract from the core business; 4) Twilio is dependent on local carriers; 5) customer concentration, with the top ten customers accounting for 12% of revenue; and 6) international risk, with non-US representing ~30% of total revenue.

### Exhibit 51 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 52 - Forward consensus EV/sales history



Source: Factset

**Most recent company note:** [link](#)



## Visa Inc. (NYSE: V)

RBC Capital Markets, LLC

Daniel R. Perlin, CFA (Analyst) (410) 625-6130, [daniel.perlin@rbccm.com](mailto:daniel.perlin@rbccm.com)
**Rating: Outperform**
**Closing Price: USD 233.82**
**Price Target: USD 297.00**
**Implied All-in Return (%): 27.5**

### Investment summary

Visa's business model is such that, while we expect near-term results to be impacted by the macro environment, we believe it should be among the first companies to benefit from a reacceleration in retail spending. Social distancing and a broad reduction in travel have presented unique challenges to Visa's business, but we believe this does not detract from it being a long-term, secular-driven stock that should provide solid compounding organic growth with opportunities for additional strategic M&A or change Visa's long-term fundamentals of high-single- to low-double-digit organic revenue growth, 60%+ GAAP operating margins, potential for close to mid-teens+ EPS growth, and significant free cash flow generation.

In addition to being one of the best ideas in our space, we believe that Visa's fundamentals and significant free cash flow generation rank it among a select group of companies with strong fundamentals.

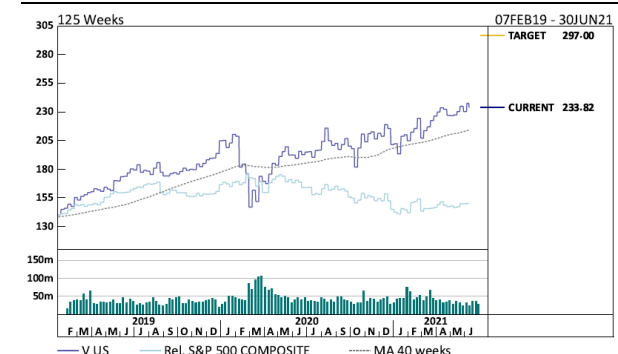
### Valuation

Our price target of \$297 is based on 38x our CY22 EPS estimate of \$7.81, generally in line with Visa's fundamental peers. Underlying our EPS estimates are expectations for constant-currency revenue growth in the high-single digits and 60%+ GAAP operating margins, once near-term macro factors abate. Our price target supports our Outperform rating.

### Risks to rating and price target

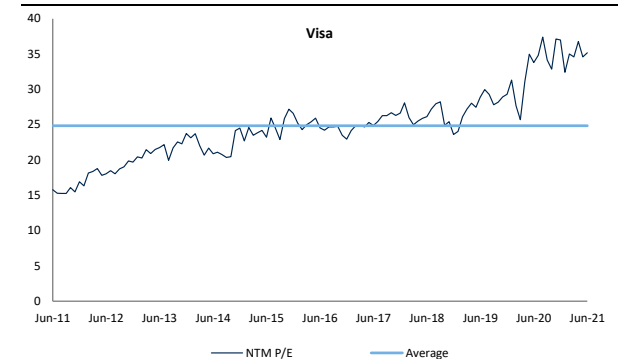
A persistent slowdown in payment volumes and cross-border travel as result of macro conditions, or pushback from large financial institutions on pricing could impede our price target objective and/or rating. Increased regulatory scrutiny, inability to maintain pricing structure, and a prolonged global recession could cause the stock to perform below our expectations and impede achievement of our price target objective and/or rating.

### Exhibit 53 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 54 - Forward consensus P/E history



Source: Factset

**Most recent company note: [link](#)**

## Zillow Group, Inc. (NASDAQ: ZG)

RBC Capital Markets, LLC

Brad Erickson (Analyst) (503) 830-9488, [brad.erickson@rbccm.com](mailto:brad.erickson@rbccm.com)

Rating: Outperform

Closing Price: USD 122.53

Price Target: USD 155.00

Implied All-in Return (%): 26.5

### Investment summary

ZG is the dominant digital player in the real estate vertical that's historically been a tough nut for internet companies to crack. In particular, we like the company's category dominance, exposure to underappreciated secular tailwinds, a down-funnel strategy that's easily misunderstood and platform improvements that could elevate the company's presence in the sector even more than investors currently realize. Recent channel checks are the foundation of our views where a rising 10 year & inflation concerns have given investors another look at ZG, in our view. We rate Zillow Outperform with a \$155 price target.

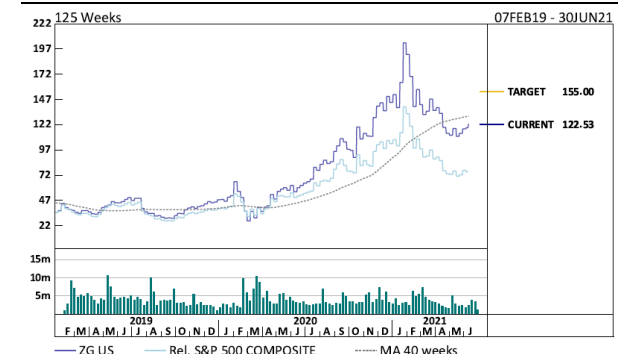
### Valuation

**We believe valuation is only rich to the untrained eye at 27x EV/'22E IMT EBITDA + Homes/Mortgage.** Our price target is based on 38x EV/our '22 EBITDA estimate plus ~\$13/share for Homes & Mortgage, which we think is a warranted premium for a category leader with minimal mega-tech risk and a roadmap to unlock value in the future. Primary downside risks are PA hits another utility ceiling (like end of '18) and/or housing transactions meaningfully decelerate or decline. Our \$155 price target supports our Outperform rating.

### Risks to rating and price target

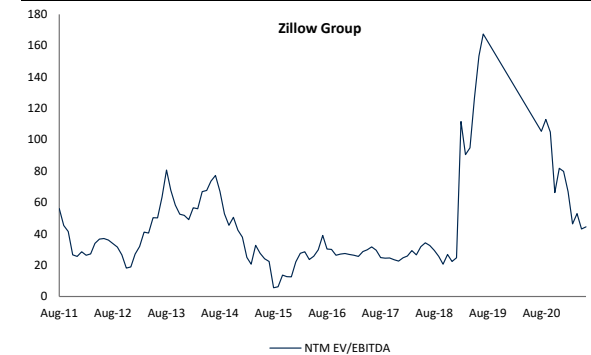
Rising interest rates or inflation drive slower growth or declining transaction volumes that lead to realtors lowering their ad budgets. Home prices meaningfully fluctuate driving lower profitability and cash burn. Flex does not show evidence of contributing to growth in 2021 or 2022. The company announces incremental seismic investments which meaningfully lower near and medium-term EBITDA estimates.

### Exhibit 55 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 56 - Forward consensus EV/EBITDA history



Source: Factset

Most recent company note: [link](#)

## Zoom Video Communications, Inc. (NASDAQ: ZM)

RBC Capital Markets, LLC

Rishi Jaluria (Analyst) (415) 633-8798, [rishi.jaluria@rbccm.com](mailto:rishi.jaluria@rbccm.com)

Rating: Outperform

Closing Price: USD 387.03

Price Target: USD 450.00

Implied All-in Return (%): 16.3

### Investment summary

**Zoom will remain important and relevant in a post-pandemic world.** We expect that the future of work will likely be hybrid and believe Zoom will be a critical component to enabling that hybrid future. In fact, we would argue that hybrid and distributed work is a tougher problem to solve than all employees working remote, as meetings will happen across devices (e.g. laptops, mobile phones, hardware meeting rooms). While we buy the argument that Zoom's "prosumer" business (10 or fewer employees) will likely remain flat or even shrink this year with reopenings, the "enterprise" segment should continue seeing rapid growth, especially given how underpenetrated Zoom is in the Global 2000 today, and a potential replacement cycle from office reopenings.

**Differentiated technology.** While we hesitate to be dismissive of competition, especially from giants like Microsoft and Google, we believe that Zoom's video conferencing is meaningfully differentiated. Having used all major solutions extensively (and supported by our due diligence), Zoom is differentiated on its reliability, scalability, and ease-of-use. We believe this differentiation and the critical nature of video conferencing will be enough to hold off "good enough" competition, particularly from Microsoft Teams.

**The coming platform expansion.** Zoom has already shown its ability to expand beyond video conferencing, with strong traction for Zoom Phone (the company's UCaaS offering). We expect Zoom to grow into a broader enterprise communication and collaboration platform, with potential expansions into real-time messaging and email, as well as expanding out the platform and

marketplace functionality, allowing other software companies to leverage Zoom's best-in-class video technology for their own applications.

**Attractive long-term financial profile.** Putting aside Zoom's otherworldly FY21 numbers, we see a long runway of 20%+ growth and potential for sustainable 40%+ FCF margins (a feat very few SaaS companies have achieved), given the strong sales efficiencies and high gross margins.

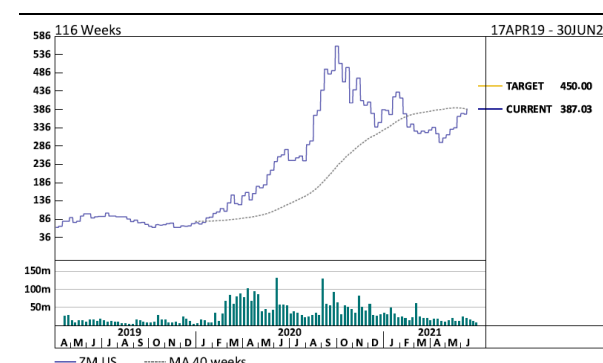
### Valuation

Our \$450 price target is based on the stock trading at 27x CY22E EV/Revenue. This is a premium to the peer group, which we believe is warranted based on Zoom's financial profile and market opportunity. Our price target supports our Outperform rating.

### Risks to rating and price target

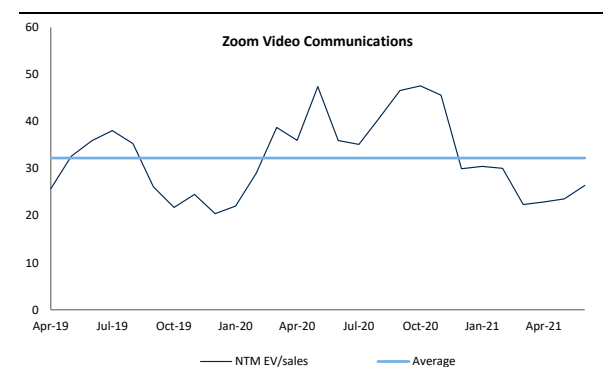
**Investment risks include:** 1) competition, especially from Microsoft, Google, and Cisco; 2) COVID-19 tailwinds may not be sustainable and could be temporary; 3) dual-class share structure, with publicly traded Class A shares only holding ~29% voting power; 4) international risk, with non-Americas revenue representing 31% of total revenue in FY21; and 5) a significant portion of Zoom's R&D is in China, which may expose Zoom to political risk.

### Exhibit 57 - Share performance and RBC valuation



Source: Bloomberg and RBC Capital Markets estimates for Target

### Exhibit 58 - Forward consensus EV/sales history



Source: Factset

Most recent company note: [link](#)

## Required disclosures

### Non-U.S. analyst disclosure

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The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Sean Dodge did not in previous quarters provide timely certification (s) specified in Rule 502 (a) of Regulation AC in connection with public appearances. The author has, as of the date of this report, affirmatively made the foregoing attestations for such calendar quarter(s).

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<b>Distribution of Ratings</b> <b>RBC Capital Markets, Equity Research</b> <b>As of 03-31-2021</b>				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[O]	762	55.46	299	39.24
HOLD[SP]	559	40.68	179	32.02
SELL[U]	53	3.86	4	7.55

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