

## Canadian Strategy Snapshot

### Canadian Small Cap Primed for Catch-Up Trade

#### Bottom Line

As we reiterated last week, we believe Canada remains the predominant contrarian call in terms of developed equity markets in 2024. Granted, the TSX composite has recently eclipsed all-time price highs, but overall index performance pales in comparison to its neighbour to the south. From our lens, Canadian small cap stocks are an even deeper contrarian call within an *already contrarian context* with respect to overall Canadian equities – an asset class that we believe is primed for a catch-up trade that could even eclipse the large cap stocks. In fact, while the S&P/TSX small cap index has managed to keep pace with its large cap peers so far this year, the index remains well off its 2022 historical high. Furthermore, our work suggests the fundamental underpinnings are *improving faster* than its large cap peers, with earnings growth set to rebound to double digits over the next twelve months, well ahead of the single-digit growth expectations for the overall S&P/TSX composite. As such, we believe investors should be looking within the Canadian small cap universe for both value and growth opportunities with a tilt toward traditional cyclical areas of the market.

#### Overview:

- Canadian Small Cap Performance Trends Suggest Room to Run
- Canadian Small Cap Remains Ripe With Value and GARP Opportunities
- Broad GARP Opportunities With a Focus on Cyclical Areas
- Canadian Small Cap Portfolio: Key Statistics

#### Implementation Strategies:

[Canadian Small Cap portfolio](#)

#### Investment Strategy

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Legal Entity: BMO Capital Markets Corp.  
BMO Nesbitt Burns Inc.\*

#### CDN Strategy – S&P/TSX Targets

S&P/TSX Price Target	
2024 Calendar Year End	23,500

S&P/TSX EPS Target	
2024 Calendar Year End	\$1500

Source: BMO Capital Markets Investment Strategy.

#### CDN Strategy – Recommended S&P/TSX Sector Weightings

Sector	Opinion	Tgt. Wgt.
Communication Services	OW	4.5%
Consumer Discretionary	OW	4.5%
Consumer Staples	UW	3.5%
Energy	MW	18.0%
Financials	OW	31.5%
Health Care	UW	0.0%
Industrials	UW	12.0%
Information Technology	OW	9.0%
Materials	MW	11.0%
Real Estate	MW	2.0%
Utilities	MW	4.0%

Source: BMO Capital Markets Investment Strategy.

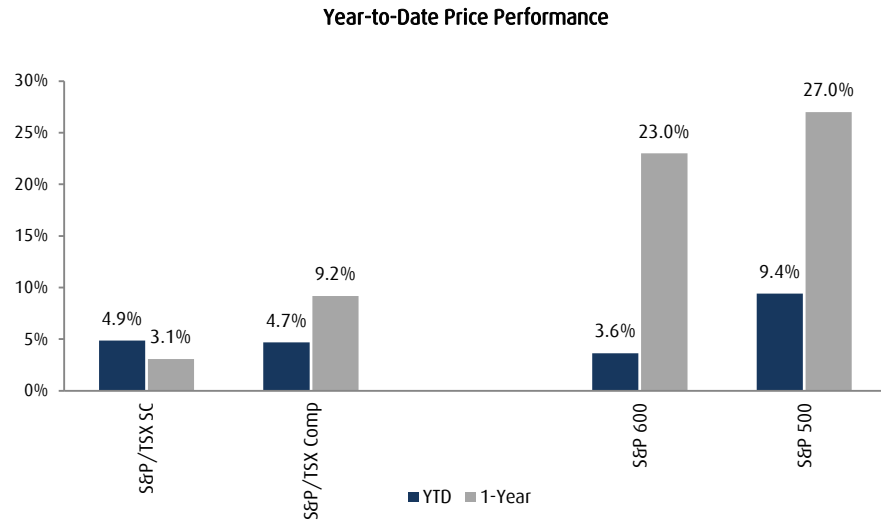
OW: Overweight

MW: Market Weight

UW: Underweight

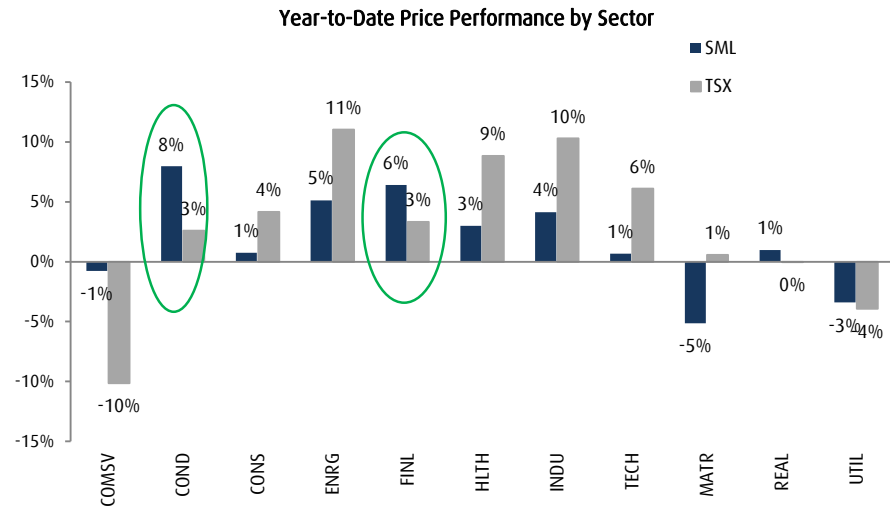
## Canadian Small Cap Performance Trends Suggest Room to Run

### Divergent Large Cap vs. Small Cap Trends in Canada and the US



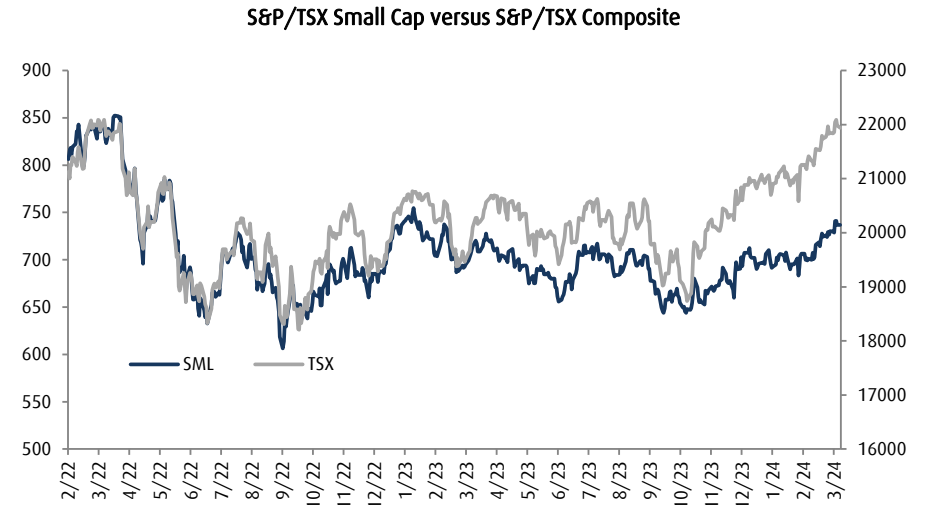
Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Only a Few Key Small Cap Sectors are Outperforming Their Large Cap Peers Year to Date



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Canadian Small Cap Still Well Below 2022 High



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

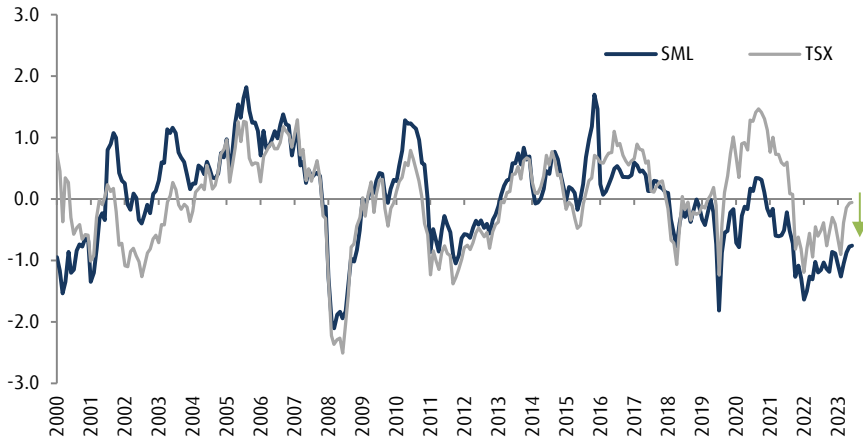
While Canadian small cap stocks have managed to keep pace with their large cap peers so far this year, the universe remains well below its 2022 all-time high. In fact, we believe Canadian small cap stocks are likely to see a much stronger catch-up trade than even the large cap area when Canadian market sentiment improves, and flows begin to return. Please see our recent [Canadian Snapshot: No Signs of 'Tigger' Yet](#) for our broad outlook on Canada. Overall, we continue to believe investors should be utilizing Canadian small cap equities for value and GARP equity positions with a tilt toward traditional cyclical areas of the market.

- Unlike the US where large cap performance has eclipsed small cap performance so far this year, Canadian small cap stocks have generally kept pace with Canadian large cap stocks. However, Canadian small cap has significantly lagged both the US small cap and Canadian large cap universes over the last year.
- Indeed, while these markets are all hitting new highs, the S&P/TSX Small Cap index remains over 10% below the 2022 all-time high.
- Interestingly, on a sector basis, only small cap Communication Services, Consumer Discretionary, Financials, and Utilities are outperforming their large cap peers.

## Canadian Small Cap Remains Ripe With Value and GARP Opportunities

### Canadian Small Cap = Value Within Value

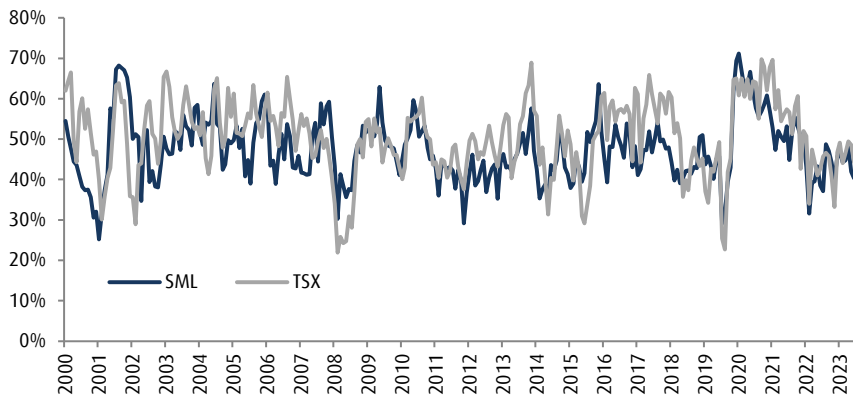
**Valuation Composite: Small Caps and Large Caps**  
average z-score of LTM P/E, NTM P/E, P/B/ and P/S



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Revision Trends Have Been Similarly Weak = Still Cautious Expectations

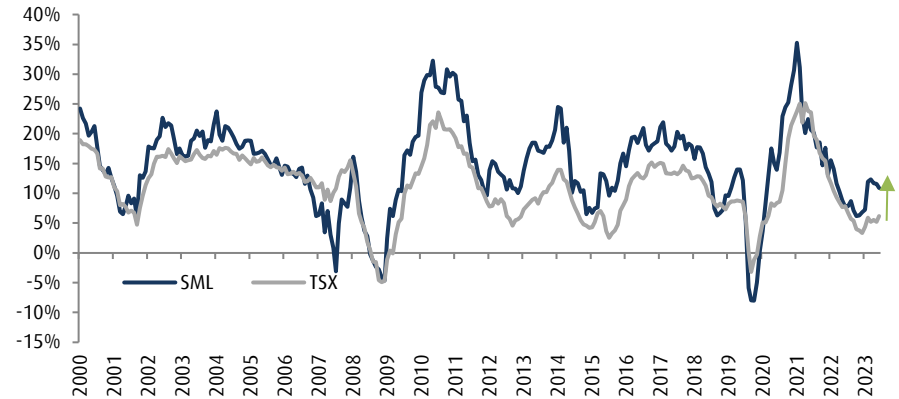
**Earnings Revision Composite: Small Caps vs Large Caps**  
% FY1 & FY2 Upward Revisions



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Canadian Small Cap Growth > Canadian Large Cap Growth

**Median Blended EPS Growth: Small Caps vs Large Caps**  
avg of LTM & NTM



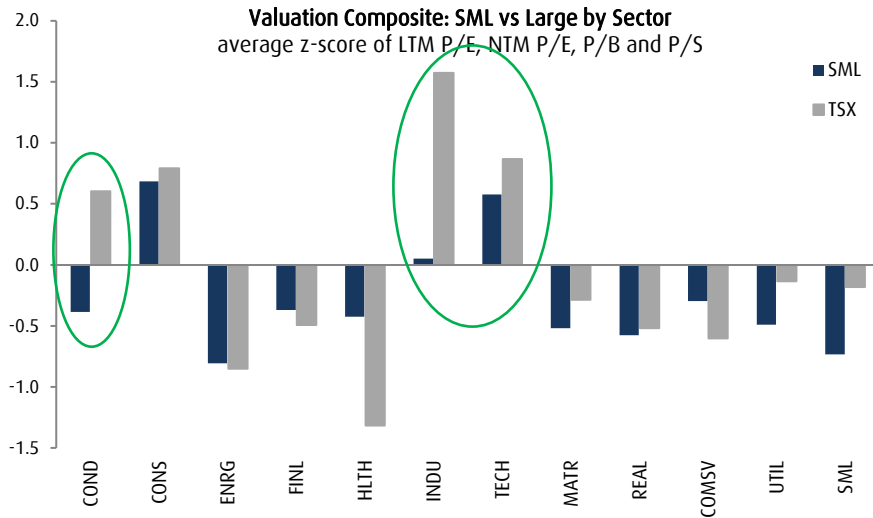
Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

Fundamentally, from our perspective Canadian small cap equities remain value within a value market, and continues to show modest but relatively strong earnings growth versus their large cap peers. As such, we would continue to look toward the Canadian small cap universe for both attractive value and GARP opportunities.

- **Value Within Value:** According to our models, Canadian small cap stocks offer value within a value market. Even when we exclude the deep value small cap resource sectors, our valuation composite for Canadian small cap equities remains below historical averages.
- **Double-Digit Earnings Growth:** Unlike its large cap peers, our blended earnings growth model for the S&P/TSX Small Cap index show double-digit growth, with a significant acceleration in earnings growth over the next twelve months. This improvement in growth outlook is even more prevalent when we exclude resource stocks.
- **Yet, Still Modest Expectations:** Although small cap is showing relative strong earnings growth, our work suggests these estimates are likely still modest given the relatively weak revision trends we have seen over the last few years. Indeed, the breadth of upward revision, while improving, remain below 50% suggesting caution persists.

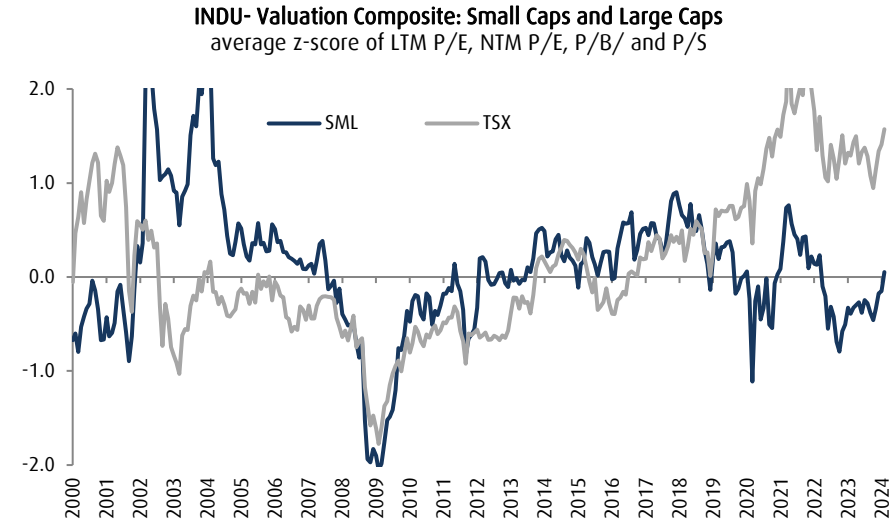
## Broad GARP Opportunities With a Focus on Cyclical Areas

### Broad Value, but Strongest Relative Value Is in More Cyclical Areas



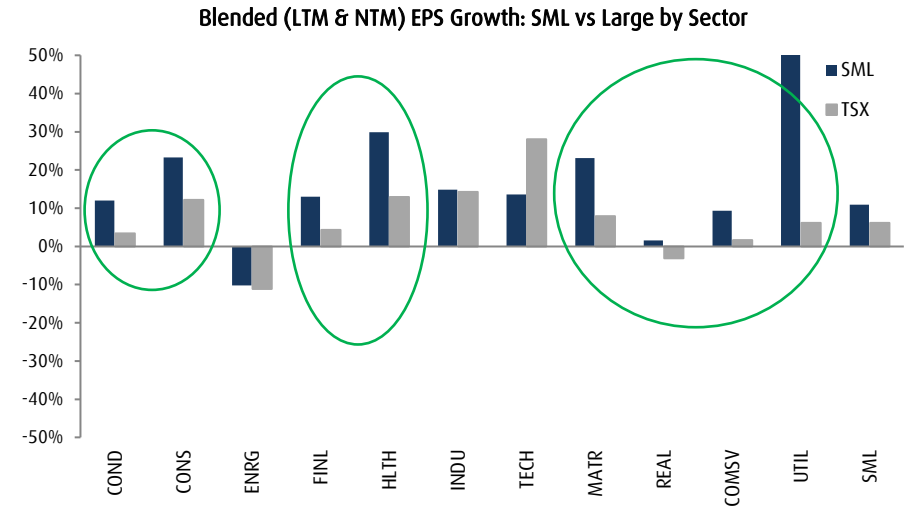
Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### There is Clear Relative Value in Canadian Small Cap Industrials



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Broad Growth Advantage = Breadth of GARP Opportunities



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

- Primary Relative Value Remains in Cyclical Areas:** Yes, Canadian small cap is value in a value market. In fact, most of our valuation composites for the GICS sectors in the S&P/TSX small cap index are below their historical average. However, our work shows the more cyclical areas of the small cap universe (Consumer Discretionary, Industrials, and Technology) are showing clear value advantage versus their large cap peers.
- GARP Opportunities Are Broad-Based:** In addition to the strong value position of Canadian small cap universe, the small cap earnings advantage is very broad-based with almost all sectors showing blended earnings growth above their large cap peers. As such, we believe there are many GARP opportunities in the Canadian small cap universe, including the less cyclical areas and resource areas of the market.
- Overweight Canadian Small Cap Industrials Over Large Cap:** Although we are slightly underweight the S&P/TSX Industrials sector in our large cap models, given the relatively elevated valuations of the sector, the same is not true for Canadian small cap industrials. In fact, according to our valuation composite the small cap industrials sectors is only at historical averages and rebounding from trough valuation levels. YES, there are likely many GARP opportunities with this sector.

## Canadian Small Cap Portfolio: Key Statistics

### Strong Long-Term Performance History: Total Return Profile\*

	BMO Small Cap Portfolio	S&P/TSX Small Cap Index	S&P/TSX Composite
YTD	3.6%	0.4%	2.4%
1-yr	11.4%	0.3%	9.2%
3-yr	6.7%	1.4%	9.0%
5-yr	15.2%	6.0%	9.3%
10-yr	11.5%	3.2%	7.4%
2023	14.9%	4.8%	11.8%
2022	-12.3%	-9.3%	-5.8%
2021	25.2%	20.3%	25.1%

Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

\*As of 29 Feb 2024

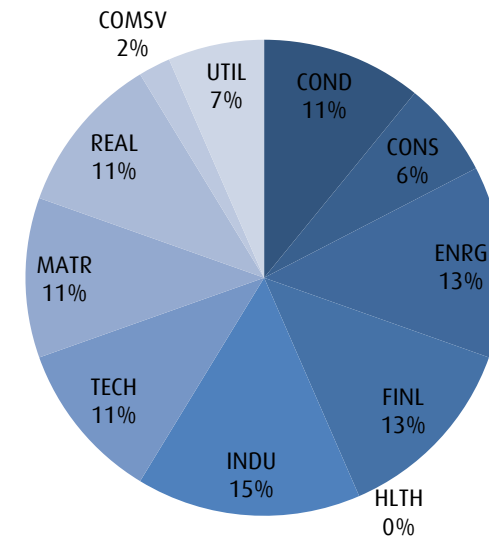
### Low Turnover, GARP Characteristics, Strong Information Ratio and Strong Upside and Downside Capture Ratios

#### Key Portfolio Statistics

Portfolio Turnover (LTM)	44%
Portfolio Turnover (10-year average)	33%
Median Market Cap (mm)	\$3,352
Dividend Yield	2.3%
NTM PE	15.7
NTM EPS Growth	13.3%
Monthly Standard Deviation (10-year)	5.1%
Information Ratio (10-year)	2.2
Upside Capture (10-Year)	98%
Downside Capture (10-Year)	54%

Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

### Current Sector Weights = Diversified Portfolio



Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES.

The Small Cap Canadian Equity Model Portfolio was initiated in December 1986 and comprises investment ideas in the Canadian small-cap space with a view to creating a balanced and well-diversified portfolio across the Canadian small cap universe.

The portfolio draws upon the deep Canadian equity research coverage at BMO, combined with our broad/in-depth investment strategy coverage of the Canadian small cap universe. This portfolio aims to include high-quality small cap equities with attractive potential returns, using both bottom-up and top-down analysis.

## BMO Research Small Cap Canadian Equity Portfolio

Canadian Small Cap Portfolio				
Ticker	Company	Price	Sector	BMO Rating
AC	Air Canada	19.47	Industrials	OP
AIF	Altus Group Limited	52.60	Real Estate	Mkt
ALA	AltaGas Ltd.	29.39	Utilities	OP
AQN	Algonquin Power & Utilities Corp.	6.02	Utilities	OP
ARE	Aecon Group Inc.	16.67	Industrials	OP
ATZ	Aritzia, Inc.	36.77	Consumer Discretionary	Mkt
BBU.UT	Brookfield Business Partners LP	29.16	Industrials	OP
BDI	Black Diamond Group Limited	8.75	Industrials	OP
BLX	Boralex Inc. Class A	28.00	Utilities	OP
BTO	B2Gold Corp.	3.41	Materials	OP
BYD	Boyd Group Services Inc	284.94	Industrials	OP
CFP	Canfor Corporation	17.22	Materials	OP
CIGI	Colliers International Group Inc.	163.30	Real Estate	OP
CLS	Celestica Inc.	62.98	Information Technology	OP
CPG	Crescent Point Energy Corp.	10.81	Energy	OP
CS	Capstone Copper Corp	8.20	Materials	OP
CWB	Canadian Western Bank	27.74	Financials	OP
DFY	Definity Financial Corp.	44.52	Financials	Mkt
DIR.UT	Dream Industrial Real Estate Investment Trust	12.75	Real Estate	OP
DND	Dye & Durham Ltd.	15.61	Information Technology	OP
DOO	BRP, Inc.	84.43	Consumer Discretionary	OP
EFN	Element Fleet Management Corporation	21.97	Industrials	OP
EQB	EQB Inc	82.41	Financials	OP
ET	Evertz Technologies Limited	15.00	Information Technology	OP
FSV	FirstService Corp	223.17	Real Estate	OP
GCG.A	Guardian Capital Group Limited Class A	48.00	Financials	OP
GIL	Gildan Activewear Inc.	36.66	Consumer Discretionary	OP
HBM	Hudbay Minerals Inc	9.18	Materials	OP
HWX	Headwater Exploration Inc.	7.74	Energy	OP
IFP	Interfor Corporation	21.43	Materials	OP
IIP.UT	InterRent Real Estate Investment Trust	13.58	Real Estate	OP
JWEL	Jamieson Wellness, Inc.	26.71	Consumer Staples	OP
KEL	Kelt Exploration Ltd.	5.97	Energy	NR
KXS	Kinaxis, Inc.	150.33	Information Technology	OP
LNR	Linamar Corporation	70.73	Consumer Discretionary	OP
LSPD	Lightspeed Commerce Inc	18.79	Information Technology	OP
MFI	Maple Leaf Foods Inc.	22.81	Consumer Staples	OP
NFI	NFI Group Inc.	12.81	Industrials	OP
NVEI	Nuvei Corp.	41.76	Financials	OP
PBH	Premium Brands Holdings Corp	87.52	Consumer Staples	OP
PSK	PrairieSky Royalty Ltd	25.71	Energy	OP
QBR.B	Quebecor Inc. Class B	30.30	Communication Services	OP
TPZ	Topaz Energy Corp	22.12	Energy	OP
TSU	Trisura Group Ltd.	42.59	Financials	OP
WCP	Whitecap Resources Inc.	10.19	Energy	OP
ZZZ	Sleep Country Canada Holdings Inc	30.02	Consumer Discretionary	OP

Source: BMO Capital Markets Investment Strategy. Prices as of 3/26/2024. Rating Key, according to BMO Capital Markets Equity Research: OP: Outperform, Mkt: Market Perform, Und: Underperform, NR: Not rated by BMO Capital Markets Equity Research. \*\* Covered by BMO Capital Markets, Corp.; all others are covered by BMO Nesbitt Burns, Inc.

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Date	Title
<b>Canadian Strategy Snapshots</b>	
3/21/2024	<a href="#">Canadian Strategy Snapshot: No Signs of 'Tigger' Yet</a>
3/12/2024	<a href="#">Canadian Strategy Snapshot: Unwinding Reliance of the Few to the Many</a>
2/27/2024	<a href="#">Canadian Strategy Snapshot: Contrarian Positives Amid Canadian Equity Apathy</a>
2/15/2024	<a href="#">Canadian Strategy Snapshot: Canadian YARP Opportunities</a>
2/7/2024	<a href="#">Canadian Strategy Snapshot: Our Overweight Canadian Consumer Discretionary</a>
1/17/2024	<a href="#">Canadian Strategy Snapshot: Our Underweight Canadian Industrials</a>
1/11/2024	<a href="#">Canadian Strategy Snapshot: Strong Fourth Quarter Provides Hints for 2024</a>
12/13/2023	<a href="#">Canadian Strategy Snapshot: Notes From the Road – Canadian Year Ahead Edition</a>
10/30/2023	<a href="#">Canadian Strategy Snapshot: Canada Well Positioned for Normalization</a>
10/18/2023	<a href="#">Canadian Strategy Snapshot: Canadian Small Cap Opportunities</a>
10/12/2023	<a href="#">Canadian Strategy Snapshot: As Yield Advantage Fades Focus on Dividend Growth</a>
9/21/2023	<a href="#">Canadian Strategy Snapshot: Divergent Growth Outlook Is Oversold</a>
9/12/2023	<a href="#">Canadian Strategy Snapshot: Post Summer Performance Observations</a>
8/16/2023	<a href="#">Canadian Strategy Snapshot: Four Observations From Q2 Earnings Season</a>
8/10/2023	<a href="#">Canadian Strategy Snapshot: Cash Generation Key Source of Strength &amp; Stability</a>
7/26/2023	<a href="#">Canadian Strategy Snapshot: The Canadian Value Proposition</a>
7/13/2023	<a href="#">Canadian Strategy Snapshot: Spotlight on Key Revision Trends in the TSX</a>
6/29/2023	<a href="#">Canadian Strategy Snapshot: 2023 Mid-Year Update for the TSX</a>
6/21/2023	<a href="#">Canadian Strategy Snapshot: Overweight Financials With Heightened Selectivity</a>
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6/5/2023	<a href="#">Canadian Strategy Snapshot: Upgrading Technology to Overweight</a>
5/17/2023	<a href="#">Canadian Strategy Snapshot: Factor Performance Observations of the TSX</a>
5/10/2023	<a href="#">Canadian Strategy Snapshot: Downgrading Consumer Staples to Underweight</a>
4/26/2023	<a href="#">Canadian Strategy Snapshot: Canadian GARP Opportunities</a>
<b>Monthly Reports</b>	
2/2/2024	<a href="#">Canadian Strategy: Canadian Chartbook – March 2024</a>
2/2/2024	<a href="#">Canadian Strategy - Canadian Factor Profiles – March 2024</a>
<b>Investment Strategy Snapshots and Special Reports</b>	
11/27/2023	<a href="#">2024 Market Outlook: The Year Ahead for the US and Canada</a>
<b>US Strategy</b>	
<i>Please call or e-mail us to be added to our standalone US Strategy research</i>	

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### Distribution of Ratings (March 26, 2024)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	49.2 %	18.9 %	45.7 %	55.3 %	57.2 %	57.7%
Hold	Market Perform	48.2 %	22.0 %	52.1 %	43.1 %	41.9 %	37.5%
Sell	Underperform	2.6 %	16.7 %	2.1 %	1.6 %	0.9 %	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

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(S) = Speculative investment;

Spd = Suspended - Coverage and rating suspended until coverage is reinstated;

NR = No Rated - No rating at this time; and

R = Restricted - Dissemination of research is currently restricted.

The total return potential, target price and the associated time horizon is 12 months unless otherwise stated in each report. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small Cap, Income, CDN Quant, and US Quant have replaced the Top Pick rating).

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[http://researchglobal.bmocapitalmarkets.com/documents/2013/rating\\_key\\_2013\\_to\\_2016.pdf](http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf)

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