Invest like a pro, with the pros.

See the new *Capital Ideas Digest* for **which financials will fare the best** during and after the COVID-19 pandemic.

And is this virus causing a **growth scare, a credit event or a crisis?** Hamilton ETFs does the research and has answers.

And part three of *Market Insight* at the bottom of this morning note in which Capital Ideas Contributor ***John O'Connell*** gives **16 takes** on the market impact of COVID-19.

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Morning Need to Know

Getting you ready for your investing day

April 1, 2020

Written & compiled by Mark Bunting, Publisher, Capital Ideas Media

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CANADIAN ANALYSTS' CALLS

Village Farms (TSX:VFF;NASDAQ:VF).
Beacon Securities lowers the target to $28 (Canadian) from $40 and maintains a "buy" rating after the company reported 2019 revenue of $83 million, EBITDA of $53 million, and an EBITDA margin of 64%. Beacon, which has conducted investment banking business with VFF within the last 12 months, calls the cannabis producer *"best-in-breed"*.

Barrick Gold (TSX:ABX;NYSE:GOLD) TD Securities analysts have been busy. The following calls have all been made by TD analysts. ABX upped to “action list buy” and the target is boosted to $28 (U.S.) from $22.

Centerra Gold (TSX:CG) to “buy” with a $14 (Canadian) target, up from $12.50.

Finning International (TSX:FTT) to “action list buy” with a $24 target, down from $27.

Pizza Pizza Royalty (TSX:PZA) to “buy” with a $9 target, sliding from $10.50.

Sleep Country Canada (TSX:ZZZ) to “buy” with a $5 target, down from $6.

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Alacer Gold (TSX:ASR). BMO Nesbitt Burns raised to “outperform”.

TC Energy (TSX:TRP).
Scotia Capital raises the target to $72 from $69 on the company's announcement that it will go ahead with construction of the $8 billion Keystone XL pipeline. **Industrial Alliance Securities** lifts the target to $70 from $65.

Park Lawn (TSX:PLC). Canaccord Genuity lowers the target to $24 from $33.50, maintains a"buy" and says the the company's business appears to have *"bottomed out"* after PLC grew revenue and earnings but missed estimates.

Canada Goose (TSX:GOOS;NYSE:GOOS).

RBC Dominion Securities lowers the target to $35 from $50, reduces its revenue and EPS estimates and maintains an "outperform" rating.

U.S. ANALYSTS' CALLS

Dollar Tree (NASDAQ:DLTR). Citi upgrades to "buy" with a target of $103 (U.S.), calling it a *"force"* in the U.S. discount retail space. DLTR stores have stayed open because it sells groceries.

Netflix (NASDAQ:NFLX). Bernstein boosts the target to $487 from $423, saying the streaming service is becoming more ingrained in the U.S. culture as people stay home during the pandemic.

STOCKS THAT MAY MOVE

Diversified Royalty (TSX:DIV) has cut the dividend from $0.01958 per share per month to $0.01667 per share per month. DIV also announced the temporary suspension of the dividend reinvestment plan *"until further notice."*

A&W Revenue Royalties Income Fund (TSX:AW.UN) This company is temporarily suspending distributions on its units to preserve capital amid the COVID-19 crisis with about 200 of its 996 A&W restaurants temporarily closed.

Dollarama (TSX:DOL) has suspended its financial guidance amid the COVID-19 outbreak.

Teck Resources (TSX;TECK.B;NYSE:TECK) has suspended its 2020 financial forecasts and said steelmaking coal production will fall as much as 85% for the two week period starting March 25.

Blackberry (TSX:BB;NASDAQ:BBRY) is down 14% pre-market following its earnings results.

Xerox (NYSE:XRX) has dropped its $35 billion (U.S.) bid for **Hewlett-Packard (NYSE:HPQ)**.

3M (NYSE:MMM) plans to ramp up production of N95 respirator masks in June, produce about 2 billion of them globally within the next year, and is talking with a number of sterilization companies to examine ways for hospitals to be able to clean, reuse and extend the life of the respirators.

Becton Dickinson (NYSE:BDX) has developed a diagnostic test that can detect current or past exposure to the coronavirus within minutes and can be administered in a doctor's office.

British American Tobacco (NYSE:BTI) said its U.S. biotech unit is working on a potential COVID-19 vaccine using proteins extracted from tobacco leaves.

BP (NYSE:BP) will cut spending by about 25% this year as the company's CEO called the environment for the oil and gas business *"the most brutal in decades"*.

Honeywell (NYSE:HON) has arranged a $6 billion loan with several large U.S. banks.

MARKETS

S&P/TSX and U.S. equity indices have started the second quarter to the downside as U.S. President Trump warned of two *"very, very painful"* weeks ahead with the U.S. coronavirus task force projecting U.S. deaths over the long-term in a range of 100,000 to 240,000 even with social distancing.

CURRENCIES

The Canadian dollar is down 1.2% to 0.7023 (U.S.).

COMMODITIES

West Texas Intermediate is flat at $20.49 a barrel.

The Trump administration plans to lease out space to energy companies to store oil in the country's Strategic Petroleum Reserve.

Global oilfield equipment and services spending this year will fall 21% to $211 billion, the lowest since 2005, according to a consultancy group.

Gold is inching up to $1,598.20 an ounce.

Market Insight

by ***John O'Connell***, Capital Ideas Media Contributor
Chairman & CEO, Davis Rea Investment Counsel

Signup for the free newsletter:
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Today, part three of an internal letter written by John O'Connell to Davis Rea's Investment Committee.

The thoughts expressed, insights provided and questions asked shed light on what this manager of hundreds of millions of dollars of client money is thinking about during this truly unprecedented time.

The Easter Bunny Rally and April Fools Day, Part Three

Thoughts for an Investment Committee Meeting

16 Takes

This is my take on this 'issue' and to some extent it is formed by the below quoted concepts but also mostly my own opinion and experience and also gleaned from conversations with you, clients and prospects the last few days.

1. Returns to investors are spectacular from market bottoms. Picking bottoms is hard and can be dangerous to your health and so the argument goes don't pick your bottom. Aside from the funny innuendo, this is also hard for individuals to stomach and have confidence in doing.

Missing a handful of the up days from the bottom impacts long term returns but that's what most do. Should we expect to be different?

Thankfully we are not all cash and we seem to be tracking market returns with substantially less risk. So I don't think we need to put our fingers at risk.

2. High valuations existed before this crisis started. Anchoring bias and thinking that we are down XX% from the top is meaningless. **Great results start most easily from depressed expectations**. Do we really think 16X last years EPS is a state of depression?

3. **Credit markets are the epicenter of this mess** and we need to watch carefully the developments here. The central banks and government are way faster off the mark than previous experience and more is likely to come.

Ian (colleague Ian Fung) tells me that while things are looking promising they sure shut down fast. There is still very limited liquidity in the biggest markets in the world. Could we shut again? Credit leads equities and credit still seems dysfunctional.

4. While Canadian Bank preferred are an illiquid market, they are trading about 400 BPS above the common. Capital structure arbitrage?

5. This is a global health crisis and thus by extension a financial crisis. The root worry is not death but dislocation because of death, panic, fear, but most importantly, supply and demand side destruction. This may be way worse than 08-09. We just don't know.

6. Markets are still in the dark on this Virus issue and

digesting the statistics one sick curve after another.

7. ***On a positive note!*** *If we assume this is a HIGHLY VIRAL germ and we assume the Chinese completely lied about its infection rate, can we assume that a shit load of people are already infected? Is it possible that 50-70% already have it? If so, this is over now. It's just not that deadly.*

8. This has to be considered a possibility. But if so, why the panic at WHO and CDC? Why the rush to shut shit down? Why would Trump, the most self centred person, listen to a bunch of doctors?

Why would congress not plan on convening until after the Easter Bunny leaves? It can't be to grab more money from the bill for them, because (to be fair, I haven't read the fine print) they are all excluded from its benefit. EVEN DEAR LEADER!!! (Donald Trump). Perhaps that is why there is another bill set for May?

9. Everyone has a Covid curve and I'm sure the CBOE will soon start offering a Vix contract on it. My GUESS is that the EASTER BUNNY RALLY (I want credit for this BTW) is fueled by those capital market participants who have fast twitch fingers, a select number of index huggers who have not yet seen big redemptions and, unconstrained mandates who likely sold the dip and are now buying it back as it rallies.

They are all likely flat to market and as we shoot higher, get less inclined to play. As the "Tech" analyst says, 'lots of people have sold and they may be done selling'. Lots of people may have bought the dip but not likely. And, I am equally as skeptical that there is a lot more buying power as we move higher given the uncertainty and its likely duration.

10. In speaking to a few people who watch these things, big money has been selling into strength, wondering if we have seen the bounce and worrying about liquidity needs as yet unknown messages from their investor bosses lurk and what the future brings, not just in the economy, but also from their clients remains a known unknown weighing on their enthusiasm or lack thereof. We should not discount the sheer number of people who follow the trend but are not the masters of that trend.

11. **A lot of people are betting on a big rebalance** from pension funds going at quarter end. What do we collectively do on April Fools day when 'they' do that? What's the next "trade"? I suspect the higher the bunny jumps the more he runs the risk of attracting attention.

12. **China is three months into this** and they are just getting started to grow and now everywhere else is getting sick. Still, China is the big global leader and they supposedly stomped on this thing and they are having trouble getting going now. They shoot people there for not doing what they are told. Here we carry guns and do belly button shots.

13. **If I told you to go to a restaurant tomorrow would you go?** Would you hop on a plane and fly to Vancouver or Hong Kong to visit a client? I bet not. Will you send your kids to camp this summer? It doesn't matter because the camp owners just shut it down before it even started because they can't take the risk to hire the staff and order the inventory and the myriad of other considerations.

Its not just markets that dislike uncertainty. Small business owners much less our Titan of industry can’t afford it. PERIOD. They are probably out of business already. Irrespective of government bailout. To be clear the vast majority of jobs are from family business not the S&P 500.

14. **What is priced in now?** We have pulled out the big monetary guns. We’ve been told it’s unlimited. The Europeans said that four years ago and it still sucks there. Ok, we’re not Europeans. We're Americans! We will just cull the heard. This is a bullish argument so I will just stop there.

15. We have had a Republican who has trumped Obama in spending by a factor that’s BIG and as yet unknowable. I’m going to guess 4X when we are said and done. So next time we call a Republican a conservative let's all just laugh and order another drink and toast Milton Freidman.

Let's remember that **Republican governments tend to be bad market regimes**. It’s a cyclical thing. It’s not their fault they should switch teams. That’s what Liberals do and it works! Pragmatism in politics is better than ideologues.

16. We can’t rely on the Super Bowl indicator this year so we will just have to read the horror scopes. Probably just as well because the best indicator; Tom Brady, has really tossed up the salad. I hate that guy. I am so jealous. There is an indicator here for sure. Lets ask Dennis Gartman?

Disclosure: Bunting Media has provided marketing services to Davis Rea.

Please email questions, comments or concerns to:

customercare@capitalideasresearch.com

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Mark Bunting
Publisher,
Capital Ideas Media

www.capitalideasmedia.com

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