



## Daily Ledger: AC, TA, RNW, Energy, Fact-Finder: Athanasakos

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### WHAT YOU NEED TO KNOW TODAY

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**AIR CANADA | BUY | \$30.00 | Upside: 26%**

[On the Right Heading](#)

Following AC's investor day, we think that management is taking the appropriate steps to put the company on a path to recovery. We expect the re-introduction of capacity to drive significant traffic and revenue gains, while joint ventures and partnerships will expand the airline's international network and increase connectivity at low incremental cost. In addition, fleet renewal will enable superior operational capability and flexibility, as well as revenue and cost benefits. Finally, expanding its cargo contributions will further increase revenue diversification, reduce seasonality, and improve overall business resilience.

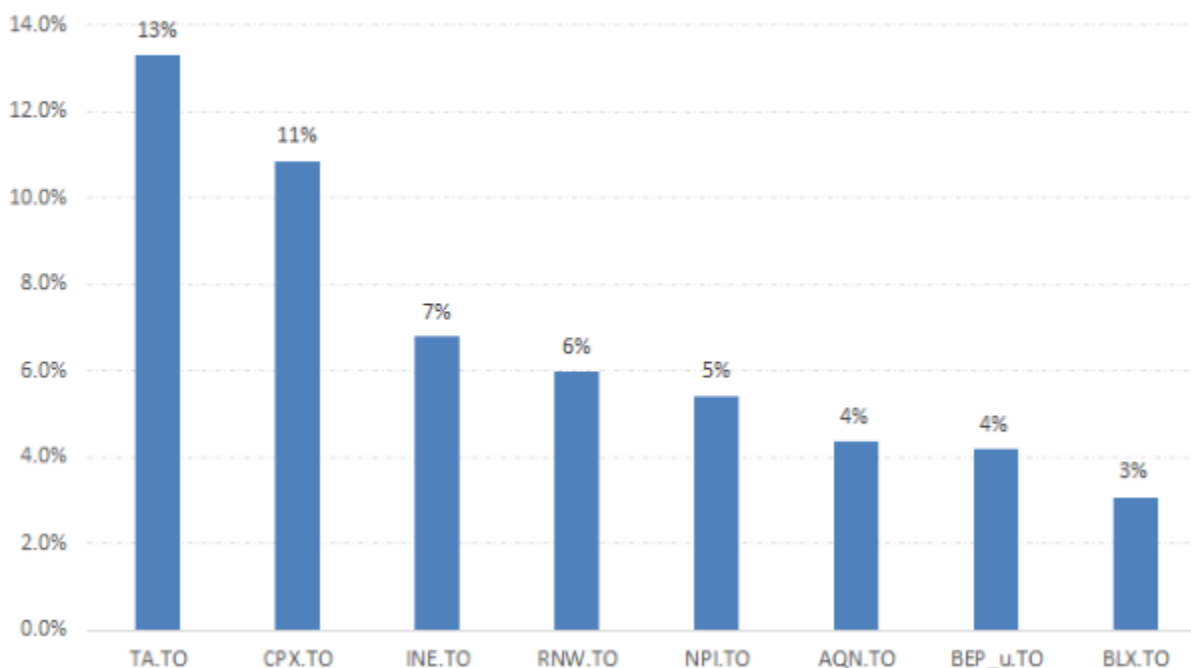
*If AC can achieve its longer-term margin, cash flow, and leverage targets, Dan estimates its shares could be valued at between \$26 and \$37 by 2024. He cautions, however, that the recovery is likely to be volatile. He maintained his valuation of \$30 and BUY.*

[Email Dan](#) to discuss.

**TRANSALTA | BUY | \$15.00 | Upside: 14% | Meta wind deal**

TA announced a long-term sales agreement with Meta, successor to Facebook, for 100% of the output from the 200 MW Horizon Hill Wind Power Project. The company's guidance on wind power development implies construction costs equal to ~11x EBITDA, which is almost 30% higher than the EV/EBITDA multiple currently afforded TA. Although dilutive to cash flow, fully-contracted, emission-free electricity trades at a significant premium. As evidence, we illustrate our estimate of implied levered (i.e., equity) returns, based on cash flow, at current prices for Canada's independent power producers:

## Expected average annual levered return (F22E - F25E)



Horizon is a fit for a potential drop-down to TA's 60%-owned public subsidiary, TransAlta Renewables (RNW is rated a Sell), which trades at an EV/EBITDA in excess of 11x. The margin for upside is slim, an indication of competitiveness in utility-scale wind and solar development. Our BUY on TA is premised upon organic growth within Alberta. As power prices rise alongside climate ambitions, TA's investment in RNW and other Alberta renewables value will grow. TA's effort to de-risk its value proposition -- in search of much lower required equity returns like its greener peers above -- could be accelerated by rising CO2 tax.

[Email Darryl](#) to discuss.

TA is on our [Veritas V-List](#).

## ENERGY | Canada's Climate Plan

We have taken the time to read through Canada's newly-detailed Climate Plan released last week. Key highlights include:

- More than 80% of the \$9.1 billion of planned investment aims to reduce demand, especially thermal energy demand;
- Direct subsidy to renewable power is modest, at \$850 million, but there is a proposal to introduce Federal power purchase contracts for non-emitting power, with price dictated by the value assigned to CO2 currently (i.e., \$170 per ton by 2030); and
- A new tax credit for carbon capture, utilization and storage (CCUS).

For investors, the key takeaway is that energy costs will track emission abatement ambition. Higher CO2 tax and subsidized demand disruption risks inflating domestic energy costs while losing reliability. We expect energy affordability and reliability to take on revitalized importance in near-term energy policy. In the longer-term, evidence of commercial application of CCUS, hydrogen, energy storage and/or modern nuclear will guide where the "heavy lifting" of transition should be concentrated.

[Email Darryl](#) to discuss the implications for Canada's energy sector.

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## TRENDING

*In Case You Missed Them - catch up with recently published reports and webinar replays*

### [Fact-Finding Video 89:](#)

#### [Risk Management: Contrasting Modern Portfolio Theory and Value Investing - With Dr. George Athanassakos](#)

Dr. George Athanassakos is a Professor of Finance and the Ben Graham Chair in Value Investing at Ivey Business School ([see his full bio](#)). He recently published the book [Value Investing: From Theory To Practice](#), which views stock picking from an academic and value investing perspective (he gave us a preview of this book in [Episode 48: A Firm believer in stock picking](#)). In this 68-minute episode, Dr. Athanassakos and Anthony covered:

- How to evaluate systematic and non-systematic risk and why value investors reject tenets of modern portfolio theory.
- Portfolio diversification: "Diversification fails you when you need it most."
- Measuring risk: "The problem is that risk in real life does not look like a game of roulette. The return distribution curve does not look like a bell curve. Our world is more like a poker game when whatever we observe around us affects the odds."
- Why so many investors underperform the market.

He then took questions from the audience on discount rates, returns during rising-rate markets, war, inflation, and more.

**Fact-Finding Video Conference Series**

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**Risk for value investors is not volatility. Volatility is good; risk is the possibility of permanent loss of capital.**”

**Dr. George Athanassakos**  
Professor of Finance and the Ben Graham Chair in Value Investing at Ivey Business School



For more on the yield curve, see also Friday's [Journal: Where are we on the worry curve? Pension relief.](#)

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## VERITAS QUALITY RATINGS

See our weekly summary of all our stock under coverage, along with our Veritas Quality Ratings for Accounting, Cash Flow, Balance Sheet, Business Operations and Corporate Governance for each company: [Sector Ratings April 1, 2022](#).

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Thank you for reading - [Scott Adams](#)

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*Our analysts rate stocks based on their view of how the stock will perform over the next 12 months relative to their sector of coverage.*

Rating	Description
Buy	Expected to generate a meaningful positive return or outperform analyst's sector coverage over the next 12 months
Reduce	Expected to underperform analyst's sector coverage over the next 12 months
Sell	Expected to generate a negative return over the next 12 months

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