Ninepoint Energy Fund Market View

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Investment Team

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While early in developing this call I am beginning to see the potential that later this year the market's focus will once again return to OPEC's dwindling spare capacity and with it calls for $100+/bbl oil. The White House's decision to cease issuing export waivers for Iranian exports in two weeks will theoretically reduce global supply by ~1.2MM Bbl/d (assuming 100% compliance). While Saudi Arabia this morning is reaffirming that they will make up for reduced Iranian exports (not preemptively like in 2018 that led to the oil price crashing) this would result in essentially the elimination of Saudi's safety cushion (using a peak sustainable production level of 10.7MM Bbl/d versus the 11.1MM Bbl/d which included sales from inventories).

We estimate that Saudi Arabia, the UAE, and Kuwait have spare capacity of around 1.3MM Bbl/d using what we believe to be sustainable production levels versus current constrained levels due to December's curtailment deal. At the same time, Venezuelan production continues to fall reaching multi-decade lows (the situation now appears to be a stalemate with no imminent regime change leading to a sudden spike in production) and Libya which is back to recent historic highs looks wobbly again due to Haftar's advance on Tripoli. With US production growth constrained by the prioritization of dividend raises, share buybacks, and debt paydown versus growth and Brazil facing technical issues in its offshore plays the world is once again, just like this time last year, facing the possibility of the exhaustion of spare capacity. Even if there is cheating by some Iranian oil importing countries OPEC spare capacity would still amount to around 1.5% of global demand…a historically low level.

Given our views of the continued drawdown of global oil inventories the macro backdrop for oil remains very positive. With leading indicators in China perking up (March industrial production +8.5%…its fastest pace in 4 years, excavator sales +15.7% YOY, retail sales +8.7%, and bank loans +13.8%) and the growing possibility of a US/China trade deal in May/June worries about demand growth seem to be fading.

Our oil call coming into 2019 when oil was at $45/bbl was that we would hit $60/bbl sometime by mid/late-2019. We now believe that there is a solid floor around $60WTI with the possibility that we see $70-$75/bbl by the Fall. If the US is more effective than we are estimating and Iranian exports do in fact "fall to zero" then calls for the necessity of demand destruction via high oil prices ($100+/bbl) will return.

Given the ongoing disconnect YTD between oil (+46% YTD) and energy stocks we remain extremely bullish. Using $65/bbl oil many names are trading at 20%+ free cash flow yields and <4X EV/CF multiples (versus 7x-8x historically). Our trading desk contacts tell us that the tone amongst generalist investors started to improve about 2 weeks ago and fund flows (ie. actual buying) began on Monday. This is critical. Stocks can remain cheap forever if no one cares and if corporates are not willing to use their free cash flow to meaningfully buy back their shares (this is changing too). The Fund remains positioned in companies whose cash flows are most benefitting from the rise in the oil price and we are consistently in recent days doubling to tripling our peers which tells us that they are largely still hiding in lower beta large caps, integrateds, and utilities/midstream companies. Our goal is to be positioned in names that will be the first recipients of sector inflows as new money looks to enter the sector or those who have been in large caps look to go down cap.

Reach out directly with any questions.

Eric Nuttall
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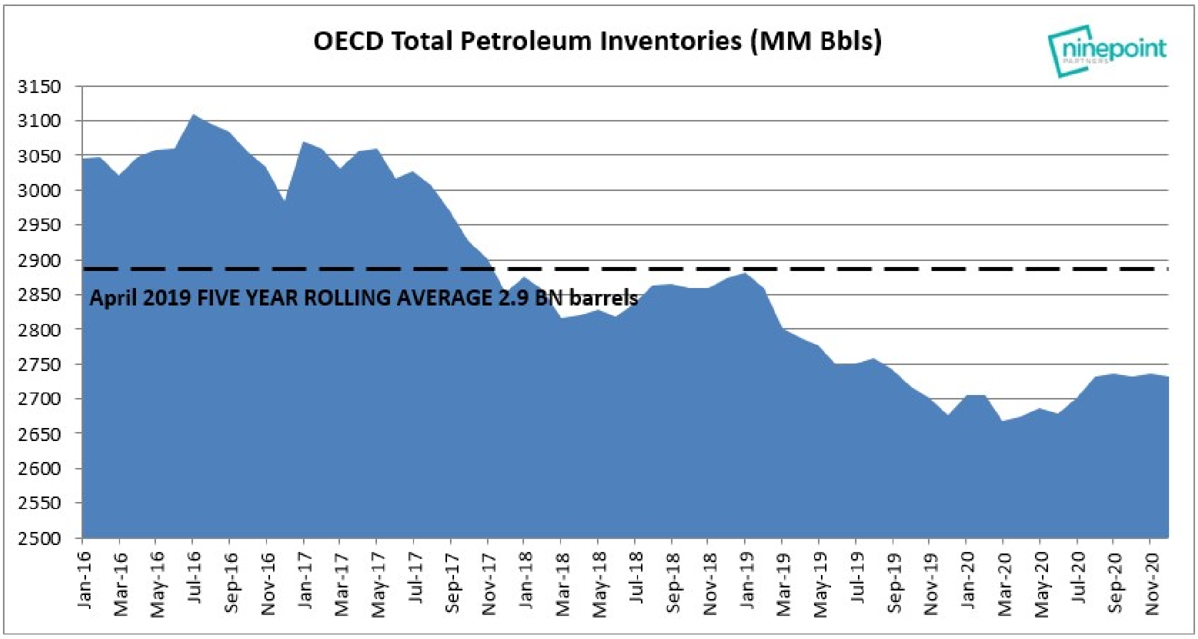
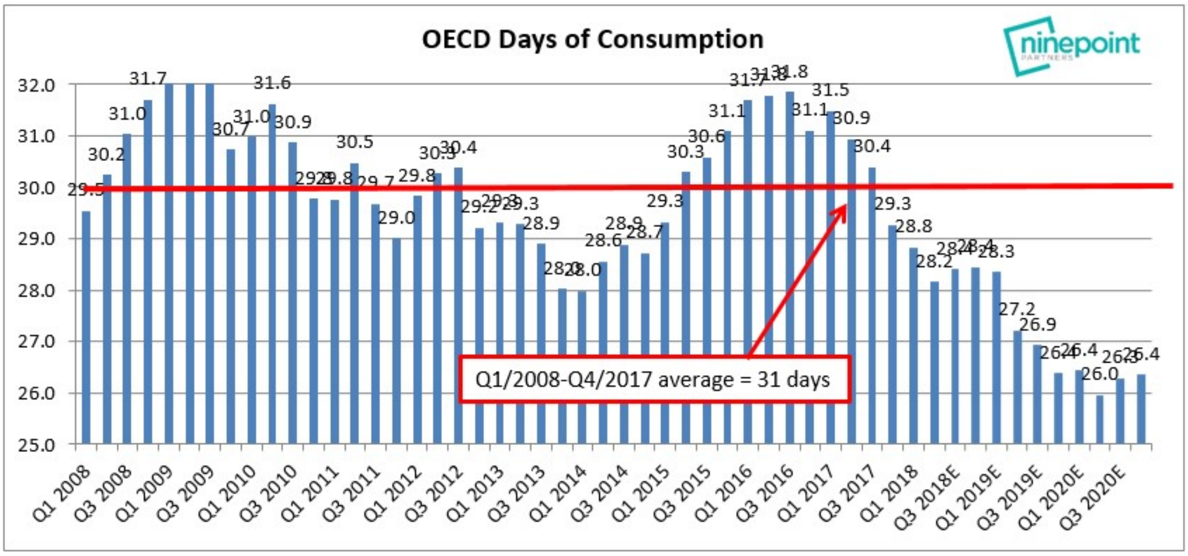


Source: Ninepoint Partners



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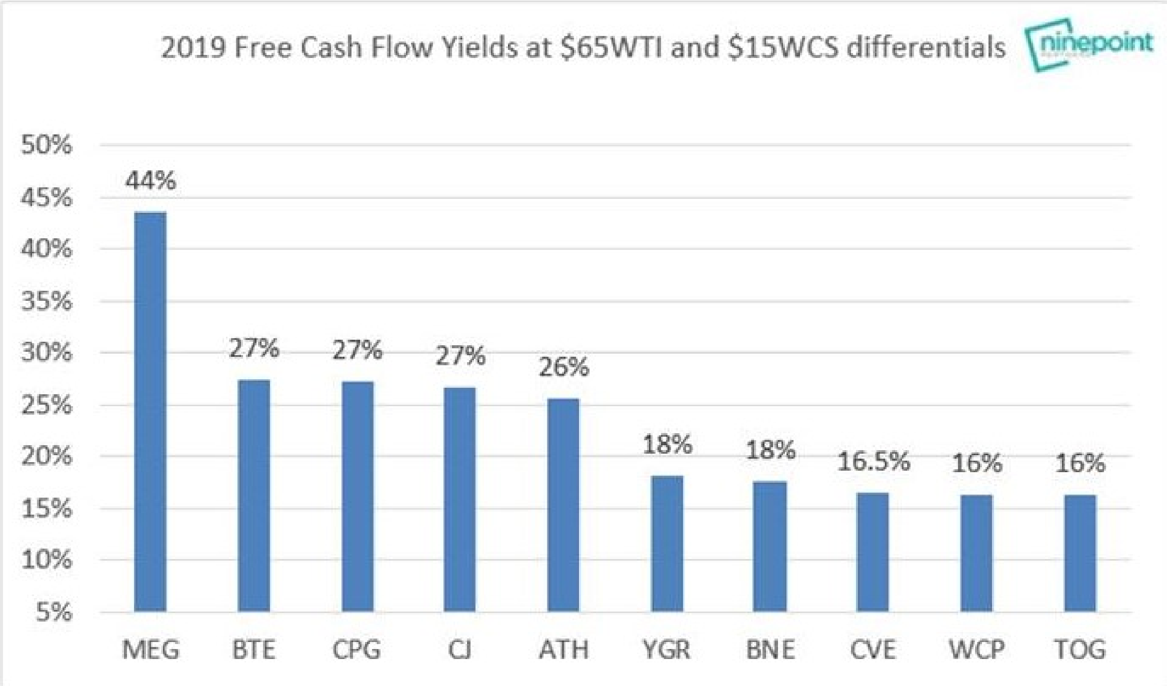
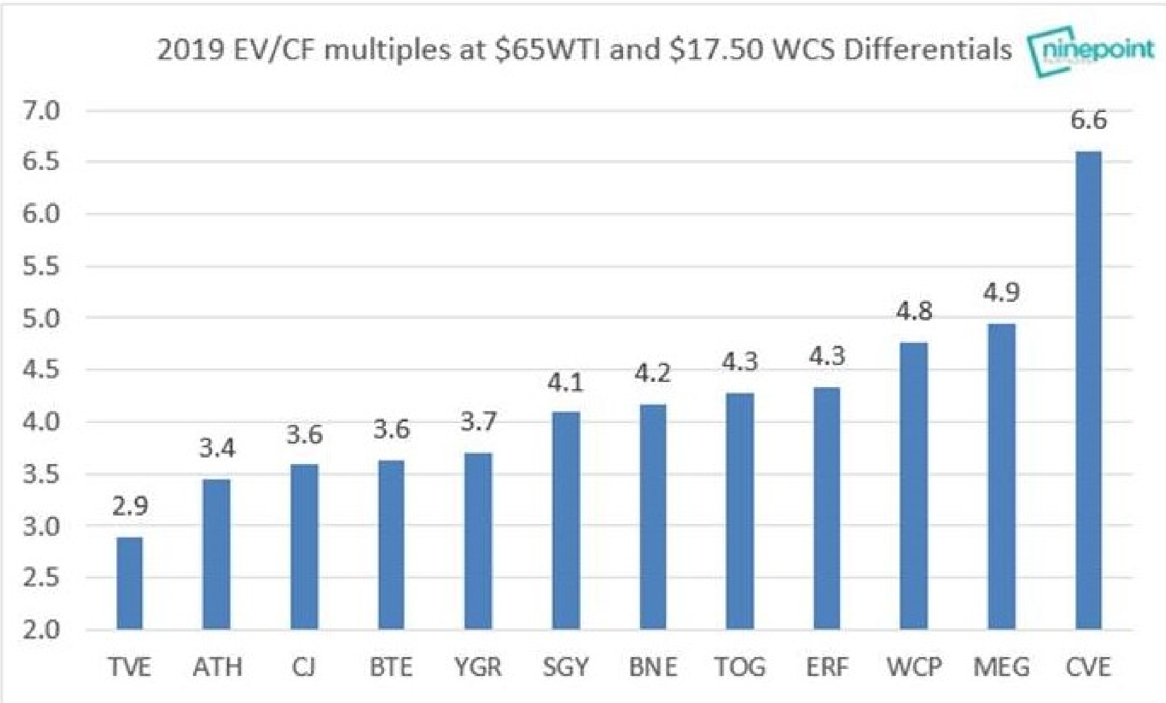


Free cash flow = operating cash flow (pre-hedging) minus capex required to keep production flat

*MEG FCF yield is for 2020 and assumes Christina Lake Phase2B expansion

Source: Ninepoint Partners



Enterprise Value = Market Capitalization + Net Debt

*MEG FCF yield is for 2020 and assumes Christina Lake Phase2B expansion

Source: Ninepoint Partners

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1]

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-20.6%	-20.6%	6.5%	-1.5%	-11.6%	-25.1%	-14.1%	-5.9%	-3.6%	-0.5%
Index	-11.1%	-11.1%	6.2%	-1.2%	-9.7%	-11.2%	-7.1%	-4.6%	-0.4%	1.0%

[1] All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at March 31, 2019; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Ninepoint Partners LP based on publicly available index information.

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