# Ninepoint Energy Fund Market View

May 15, 2019

Investment Team

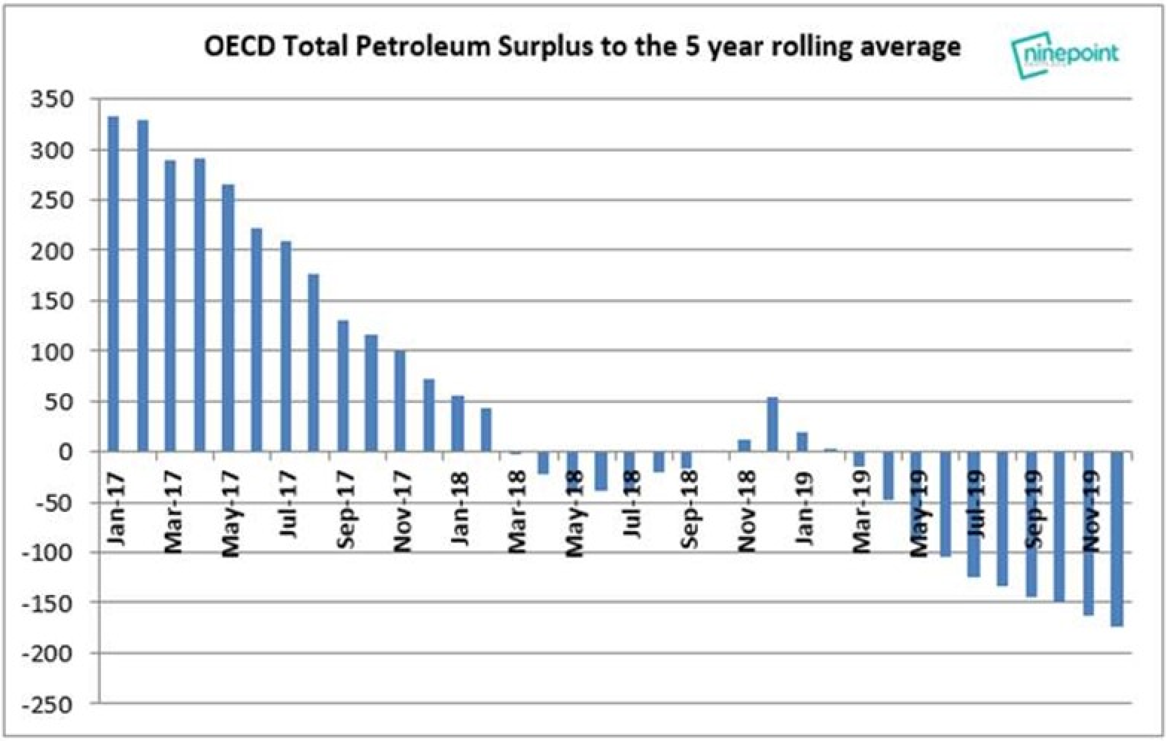
**Eric Nuttall, CIM**
Partner, Senior Portfolio Manager

Oil is down 1.2% on the rather dramatic headline "IEA slashes oil demand." Looking beyond the perennially negative headlines and IEA spin (they work for countries that do not want a high oil price) the data clearly shows that:

1. Inventories fell by 26MM bbls versus the 5 year average of -7MM bbls
2. Oil inventories when measured by days of consumption fell to their lowest level since July 2018
3. Oil inventories are back into deficit by 14MM bbls relative to the 5 year average
4. While the IEA "slashed" their demand forecast by 0.1MM Bbl/d to 1.3MM Bbl/d this is still higher than their 2018 demand growth estimate of 1.2MM Bbl/d

We continue to see the deficit growing this year to about 200MM Bbls by year-end. Why?

1. <u>Oil demand continues to grow:</u> despite the deterioration in US/China trade talks we have yet to see this translate into weaker oil demand globally. Chinese crude runs hit a record 12.7MM Bbl/d in April (that was out this morning) and implied demand growth is 0.66MM Bbl/d YOY.
2. <u>US oil production will be restrained:</u> E&P discipline was showcased in Q1 reporting and we believe that 2019 capex budgets will NOT increase meaning that the historical relationship between the oil price and US production growth has broken down due to investors demanding return of capital over production growth.
3. <u>Venezuela is in free fall:</u> production has fallen to 0.5-0.8MM Bbl/d in April, down from 1.3MM Bb/d in January. There appears to be a deadlock between Maduro and Guaido eliminating the possibility of a quick surge in production (we think it takes years to get back to 2MM Bbl/d if the situation ever normalizes)
4. <u>Iran sanctions:</u> tanker traffic confirms that exports are falling as US waivers expired. This means that Iranian exports will likely fall to ~ 0.6MM Bbl/d, down from 1.3MM Bbl/d in February
5. <u>Saudi Arabia wants $70+/bbl Brent:</u> often overlooked the root of the production curtailment by Saudi Arabia is the NEED for higher oil prices for budgetary reasons




Source: IEA, Ninepoint Partners

We should also note that a political risk premium is likely to creep into the oil price. US/Iranian tensions are escalating dramatically with Israeli intelligence suggesting an imminent attack on US assets in the region, Bolton allegedly asking the Pentagon for a 120,000 troop battle plan, sabotage off the coast of the UAE on Saudi Arabian oil tankers, yesterday explosive laden drone attacks on a pipeline that carries up to 5% of global oil supply across the middle of Saudi Arabia, and this morning the US ordered withdrawal of all non-essential staff from the US embassy in Iraq.

THE WALL STREET JOURNAL.

WORLD | MIDDLE EAST

## Mideast Insurgents Enter the Age of Drone Warfare

Houthi rebels in Yemen ramp up pilotless attacks; U.N. suspects input from Iran

*By Dion Nissenbaum and Warren P. Strobel*

Updated May 2, 2019 5:08 p.m. ET

WASHINGTON—Yemen's Houthi rebels have launched armed drone attacks with far more precision and reach than the U.S. and its Gulf allies have publicly acknowledged, people familiar with the matter said, showing how readily available technology is creating new dangers for America and its allies in the Middle East.

## 'Sabotage' attacks on Saudi oil tankers put Strait of Hormuz back in spotlight

Published: May 13, 2019 3:00 p.m. ET

Source: AP

## *Saudi Arabia Says Drones Hit Oil Pipeline, After Reports of Tanker Attacks*

By Vivian Yee

May 14, 2019

Source: New York Times

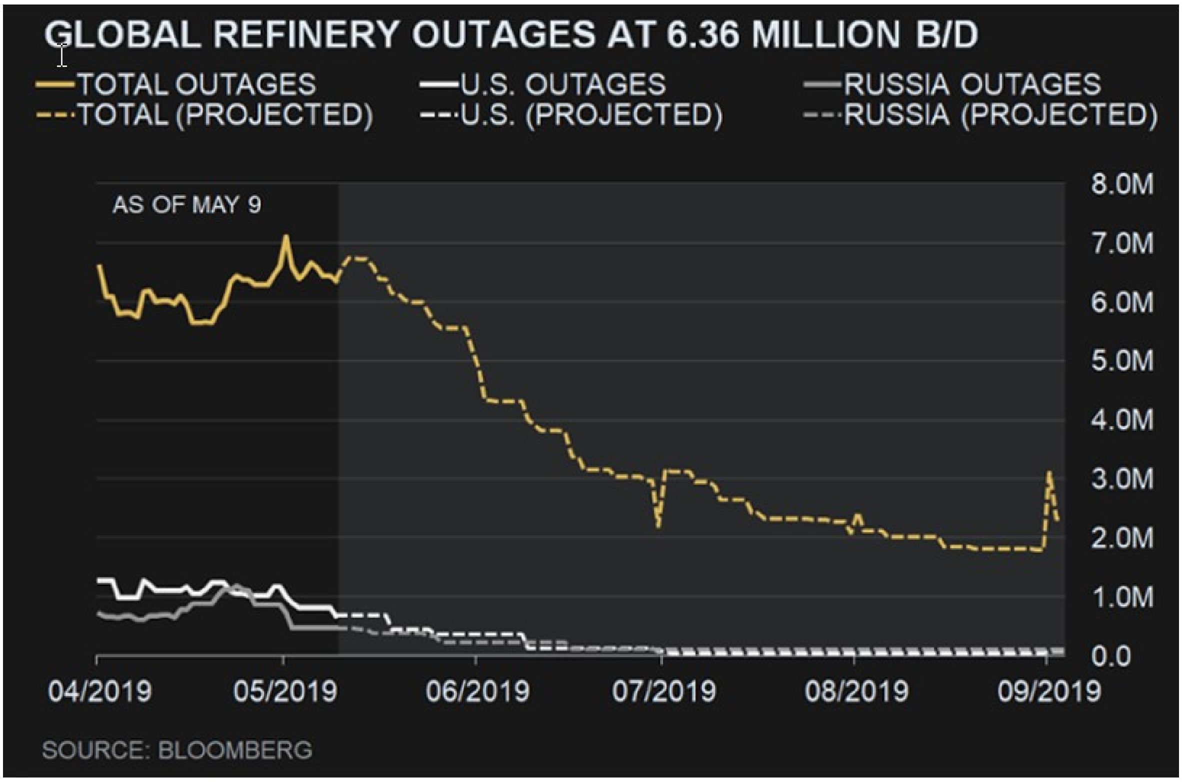
WORLD

# U.S. Embassy Staff to Leave Iraq as Iran Tensions Mount

The order comes after the U.S. Embassy in Baghdad on Sunday advised all U.S. citizens to remain vigilant

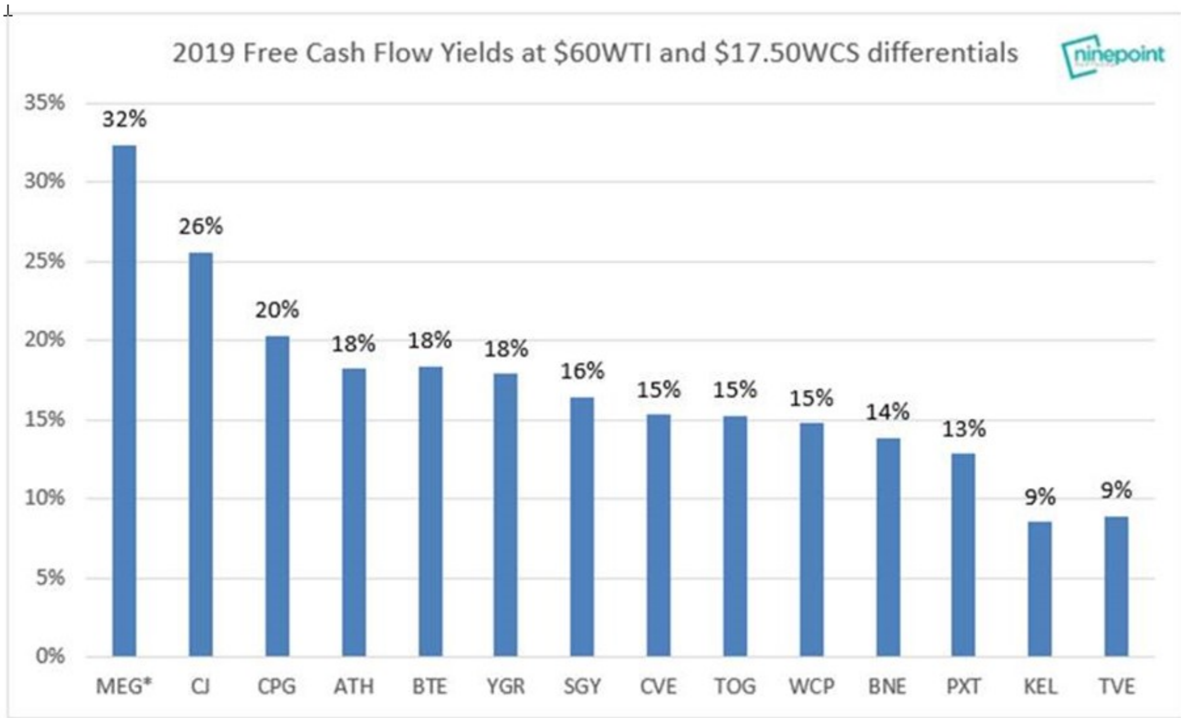
Source: Wall Street Journal

The macro backdrop for oil is incredibly positive. Time spreads corroborate an oil supply crunch underway and premium pricing for several grades (Mars heavy oil is trading at a $6.25/bbl premium to WTI) further supports our belief that the market is tight. Energy Aspects described the current oil market as “one of the tightest physical markets since at least 2011” yesterday and last week said “this is perhaps the widest divergence we have ever seen between the strength in the physical markets and the weakness in flat price [the current oil price]”. US inventory builds in recent weeks are distorting the global picture. As refiners in the US come back online (seasonal turnarounds as well as ~ 0.4MM Bbl/d of “unplanned” outages...ie fires) inventories both in the US and globally are set to draw at an accelerating pace. I believe that once US inventories begin to draw that this trend will become more obvious to the masses and lead to an inflection in sentiment.



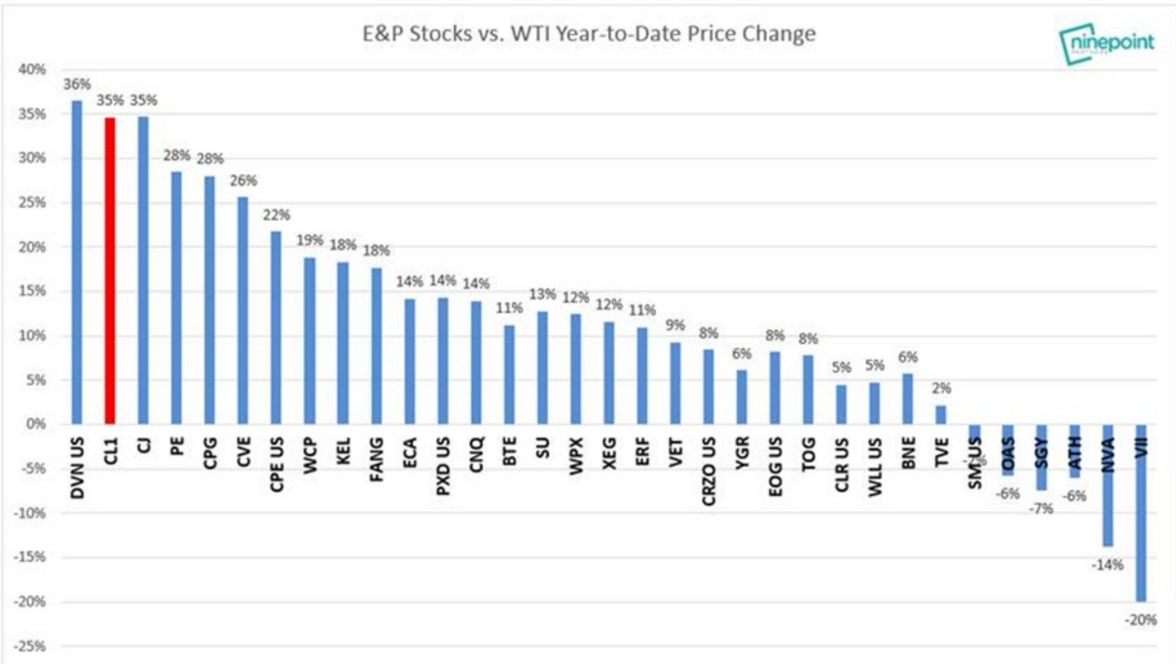

Given the likelihood of $60+/bbl WTI pricing we find valuations of oil companies extremely attractive. While investors continue to ignore the obvious companies are harvesting free cash flow at the fastest pace in recent history. A company like Crescent Point is making $1.6MM a day in free cash flow (would = 300,000 shares a day for a buyback) and progress is slowly being made at convincing producers of the need for using free cash flow to mount meaningful share buybacks.

We remain bullish.




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: Bloomberg, Ninepoint Partners




Source: Bloomberg

We remain bullish.

Eric

## 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 April 30, 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.

**The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; specific issuer risk; tax risk.**

remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540