Ninepoint Energy Fund Market View

February 27 2019

Investment Team

Eric Nuttall, CIM
Partner, Senior Portfolio Manager

On Monday morning oil sold off by 3% on account of a tweet by President Trump that reignited 2018 fears that OPEC+ is still subservient to Trump's wishes given his support following the murder of Khashoggi as well as his talking down of the NOPEC bill presently before Congress:

Donald J. Trump @realDonaldTrump · Feb 25
Oil prices getting too high. OPEC, please relax and take it easy. World cannot take a price hike - fragile!
7.4K 18K 85K

Source:Twitter

This morning during a major oil conference in London the Energy Minister of Saudi Arabia made some significant comments that should completely nullify such worries (and oil has now recovered nearly all of Monday's losses due to them):

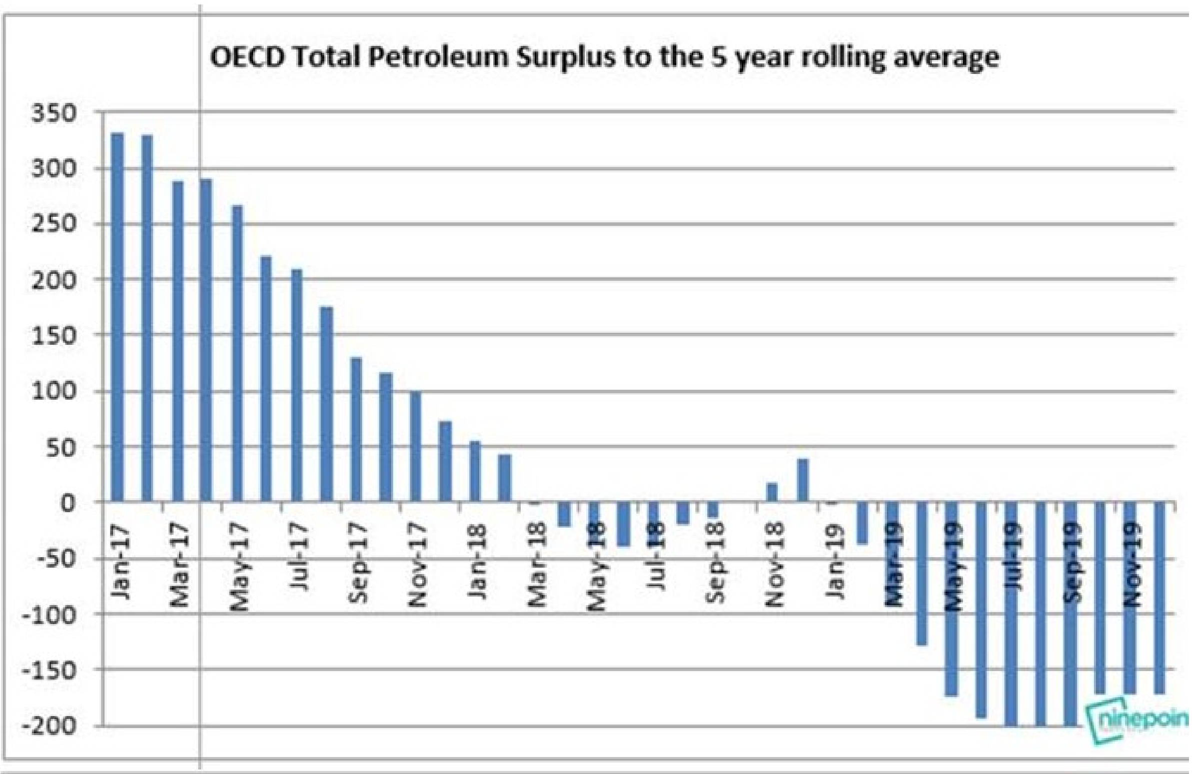
> Saudi Energy Minister Khalid al-Falih said OPEC is taking a measured approach to supply cuts, directly responding to comments from President Donald Trump earlier in the week telling the oil producing body to "relax."
>
> "We are taking it easy," he told CNBC's Dan Murphy while at an OPEC symposium in Riyadh, when asked about the U.S. president's tweet.
>
> "The 25 countries are taking a very slow and measured approach. Just as the second half last year proved, we are interested in market stability first and foremost."

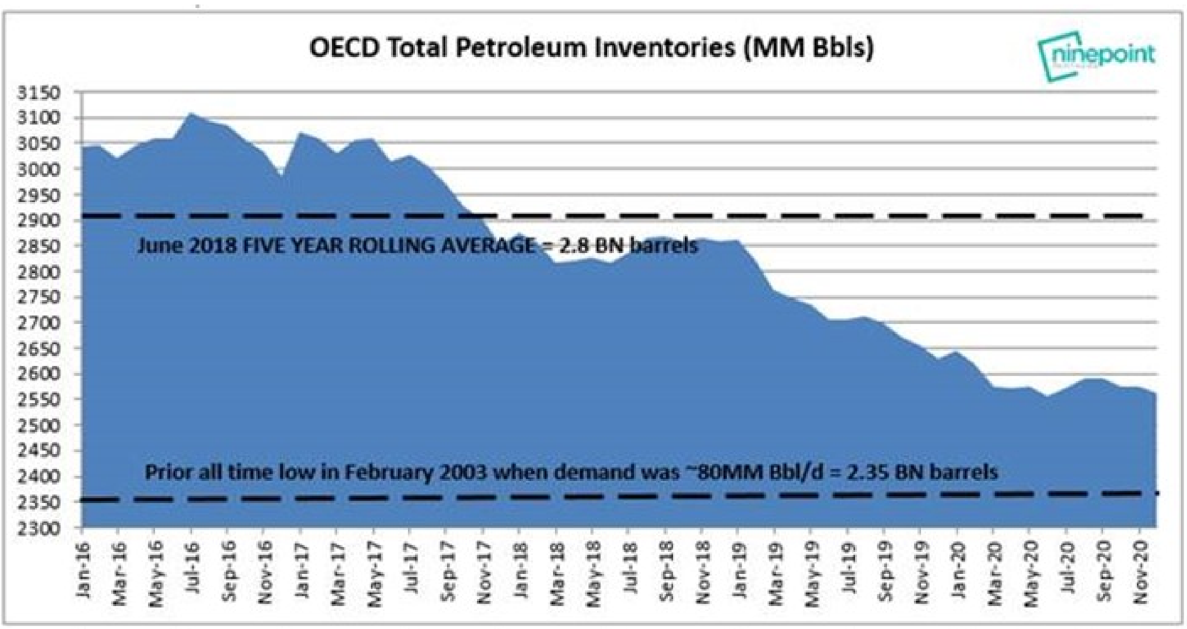
Worth the full read: https://www.cnbc.com/2019/02/27/saudi-oil-minister-to-trump-we-are-taking-it-easy.html

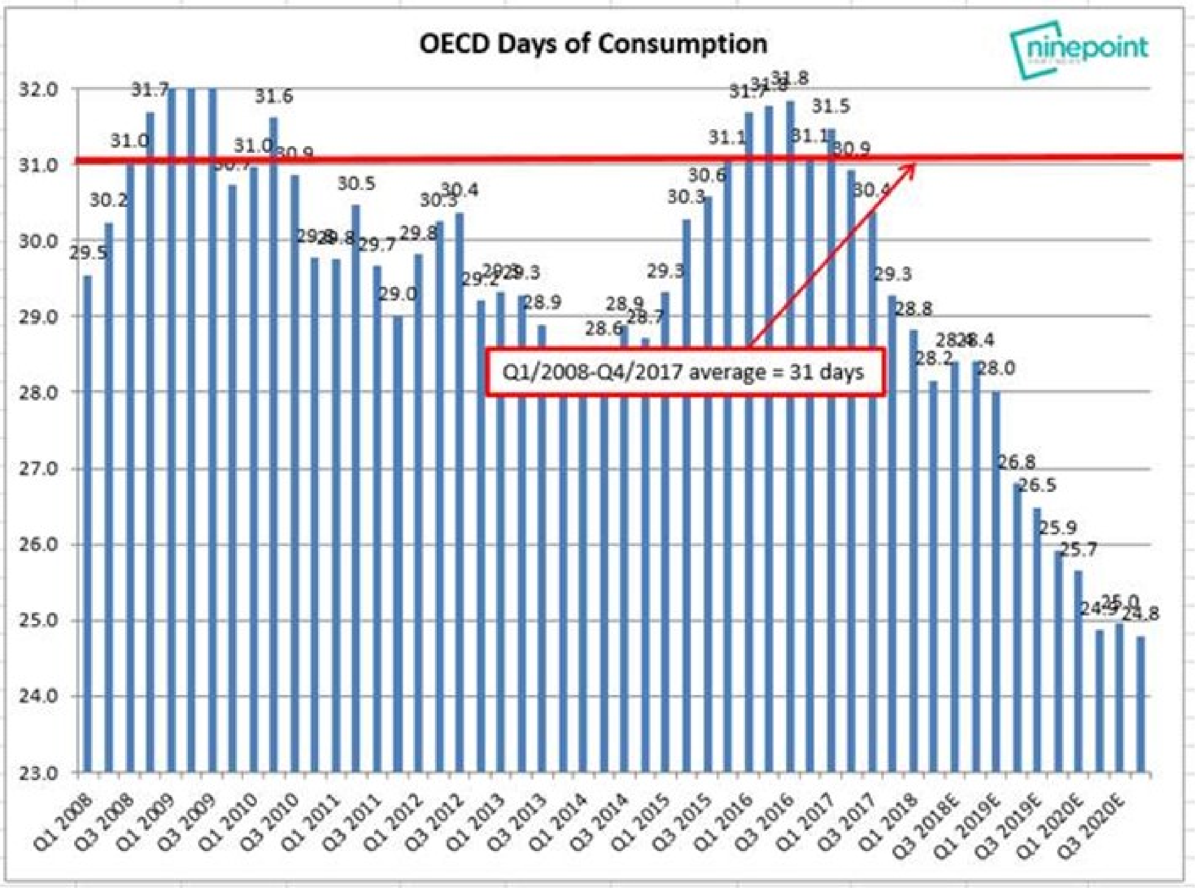
Source: CNBC

Source: Bloomberg

I think today could mark a significant turning point in sentiment towards Saudi Arabia's/OPEC's resolve towards higher oil prices (SA signaling that the OPEC cut is likely to be extended to the end of the year = 475MM Bbls removed from the market). By being so public in their views today the market should have greater confidence in the likelihood of accelerating inventory drawdowns once industry emerges out of refinery turnaround season (global refinery demand increases by ~6MM Bbl/d by May versus current). Year to date, as a result of resilient demand and OPEC over-delivering on their production cut global stocks have only built by 0.1MM Bbl/d. This is very bullish. What should be the weakest barrels of the year are currently trading at $56. We think WTI could rally to $60-$65 in the next few months once US/OECD inventories begin to meaningfully draw:


OECD Total Petroleum Surplus to the 5 year rolling average
350
300
250
200
150
100
50
0
-50
-100
-150
-200
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Jan-18
Mar-18
May-18
Jul-18
Sep-18
Nov-18
Jan-19
Mar-19
May-19
Jul-19
Sep-19
Nov-19
ninepoint


OECD Total Petroleum Inventories (MM Bbls)
ninepoint
June 2018 FIVE YEAR ROLLING AVERAGE = 2.8 BN barrels
Prior all time low in February 2003 when demand was ~80MM Bbl/d = 2.35 BN barrels
3150
3100
3050
3000
2950
2900
2850
2800
2750
2700
2650
2600
2550
2500
2450
2400
2350
2300
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Jan-18
Mar-18
May-18
Jul-18
Sep-18
Nov-18
Jan-19
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
Jul-20
Sep-20
Nov-20



Source: Ninepoint Partners

Sentiment towards the sector remains weak. We were all psychologically violated with the quant/algo driven sell off in oil/energy stocks in late 2018. It will take a bit of time for investors to be willing to step back in. However, once the market realizes that OPEC needs meaningfully higher oil prices and that US shale companies are underspending cash flow and prioritizing return of capital over growth (CDEV was -23% yesterday when they guided for a 2019 outspend) confidence in at least CURRENT oil prices should lead to a significant rerate in energy equities. How much money can be made when that turning point happens?

Valuations in the sector are hard to fathom. We own names that at close to current oil prices are trading at 20%-30%+ free cash flow yields. MEG as an example is trading at a 34% 2020 free cash flow yield at $60WTI and $17.50 WCS differentials (WTI 2019 strip is $58.20 and 2020 is $57.90). With 34 years of proved reserves beginning next year the company could theoretically keep production flat and buy back all of their outstanding stock 10 times over before exhausting their proved reserves. Or, they could keep production flat for 34 years while paying investors a 34% dividend. THIS IS NOT NORMAL!!!!!! Such opportunities should not exist but do because of the highest level of apathy towards the sector that I have ever seen. Another similar example is Baytex. At $60WTI in 2019 they are trading at a 22% FCF yield. With the oil strip ~ $60 in 2019 and 2020 a private equity firm TODAY could buy the company, hedge out the next 2 years of production with zero risk, and buy back nearly half of the shares outstanding and only consume 2 of their 10 years of proved reserves to do so. Again, THIS IS NOT NORMAL.

Baytex

Target Price using '19 EV/CF multiple ------->			5.0							
	$50	Upside	$55	Upside	$60	Upside	$65	Upside	$70	Upside
$10	$2.34	-4%	$3.68	51%	$5.02	106%	$6.35	160%	$7.70	215%
$15	$1.98	-19%	$3.31	36%	$4.65	91%	$5.99	145%	$7.33	200%
$17.5	$1.79	-27%	$3.12	28%	$4.47	83%	$5.81	138%	$7.14	193%
$20	$1.60	-34%	$2.94	21%	$4.28	75%	$5.62	130%	$6.96	185%
$25	$1.24	-49%	$2.58	6%	$3.91	60%	$5.26	115%	$6.59	170%

FCF Yield

2019	$50	$55	$60	$65	$70
$10	4.6%	15.5%	26.5%	37.5%	48.5%
$15	1.6%	12.5%	23.6%	34.5%	45.5%
$17.5	0.1%	11.0%	22.0%	33.0%	44.0%
$20	-1.5%	9.6%	20.5%	31.5%	42.4%
$25	-4.4%	6.6%	17.5%	28.5%	39.5%

Source: Ninepoint Partners

MEG

Target Price using EV/EBITDA multiple ------->			6.0							
	$50	Upside	$55	Upside	$60	Upside	$65	Upside	$70	Upside
$10	$7.52	43%	$12.19	131%	$16.77	218%	$20.78	294%	$24.37	363%
$15	$3.32	-37%	$8.13	54%	$12.85	144%	$17.52	232%	$21.55	309%
$17.5	$1.59	-70%	$6.31	20%	$10.94	108%	$15.51	194%	$19.68	273%
$20	-$1.02	n/a	$4.17	-21%	$9.27	76%	$14.31	172%	$19.09	262%
$25	-$5.60	n/a	-$5.61	-206%	-$0.44	-108%	$4.69	-11%	$9.75	85%

FCF Yield

2020	$50	$55	$60	$65	$70
$10	22.8%	37.6%	52.1%	64.8%	76.1%
$15	9.6%	24.8%	39.7%	54.5%	67.2%
$17.5	4.1%	19.0%	33.7%	48.1%	61.3%
$20	-4.2%	12.3%	28.4%	44.3%	59.5%
$25	-18.6%	-18.7%	-2.3%	13.9%	29.9%

Source: Ninepoint Partners

Eric Nuttall
Partner, Senior Portfolio Manager

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1]
AS OF APRIL 30, 2020 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	63.7%	-58.6%	-47.9%	-44.5%	-57.7%	-34.6%	-27.2%	-13.4%	-7.6%	-4.5%
Index	28.5%	-46.1%	-39.3%	-35.6%	-49.9%	-24.2%	-17.6%	-10.0%	-4.0%	-2.1%

[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 Jan 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.

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.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended January 31, 2019 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received 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: RBC Investor & Treasury Services: Tel: 416.955.5885; Toll Free: 1.877.874.0899