Ninepoint Energy Fund Market View

January 28, 2020

Coronavirus Panic

The coronavirus situation is dynamic and none of us know how it will end. However, a few things seem quite obvious to me:

Investment Team

Eric Nuttall, CIM
Partner, Senior Portfolio Manager

1. Oil tanking by $7/bbl on spot and 2021 and 2022 calendar strip falling below $50/bbl implies that the market is taking a VERY bearish stance and is now discounting a global pandemic that will have a medium term structural hit to oil demand. Further, sub $50/bbl '21/'22 inherently implies that supply at such low prices will not respond nor will OPEC+ further cut production to maintain better balances. This seems odd to me as US shale growth rates were already massively decelerating, US shale companies are effectively bankrupt at sub $50/bbl pricing, and OPEC too is functionally bankrupt at such pricing

2. Panic is rampant and growing by the day. Well over 50% of my drive in this morning listening to CNBC was about the outbreak. Twitter is now full of people speaking as if viral experts (and willing to sell you emergency preparation kits at the right price). I spotted 4 people wearing face masks in the underground (and Amazon.com is selling out of masks)

3. Oil stocks which were already discounting $50/bbl are now being priced as if world wide oil demand will end.

4. Fear is trumping actual fundamentals. In the past week we have lost ~1.3MM Bbl/d of production in Libya and Iraq…4x what the likely short-term impact will be from demand deceleration (total Chinese jet fuel demand is ~450,000Bbl/d).

History has shown that moments of uncertainty usually offer the greatest opportunities. My 2020 outlook is in the works but these realities suggest that the selloff in oil is overdone and that the likelihood of $60/bbl WTI in the second half of 2020 remains:

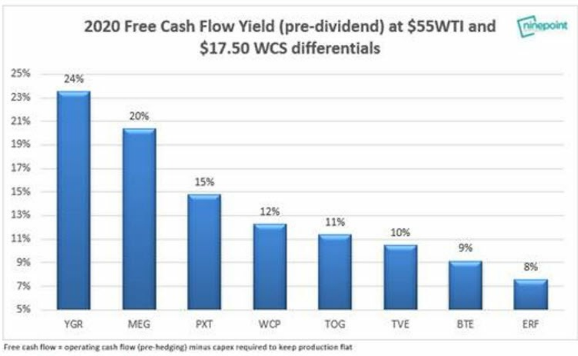
1. US production growth continues to massively decelerate (imagine at sub $50/bbl) and every data point shows that this trend will continue: service companies are warning of -10% capex reductions, US producers continue to guide for spending plans that budget $50/bbl and will allocate all excess free cash flow to share buybacks/deleveraging, and the rig count continues to remain very weak. 2020 will mark the first year in ~5 that US supply growth will not be sufficient to satisfy global oil demand growth and this is incredibly important as the US has been responsible for 123% of all non-OPEC production growth over the past 5 years.

2. Non-OPEC/US production should enter into a multi-year decline this year given lack of sufficient investment in long lead projects…spending today will not lead to production for 4+ years.

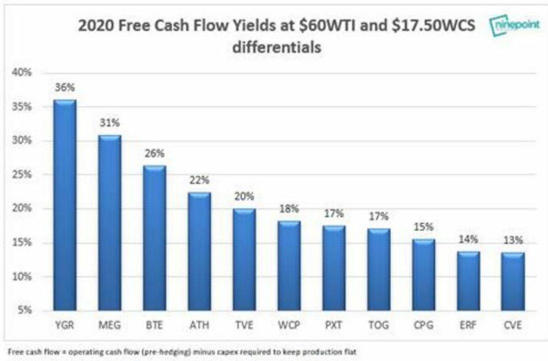
3. Accounting for countries like Venezuela and Iran with "stranded spare capacity" the only

country that has any meaningful spare capacity is Saudi Arabia and they still require a price well north of $75/bbl to remain a going concern. How likely will they be to add barrels to the market despite increasing tightness in the quarters ahead at $59/bbl Brent?

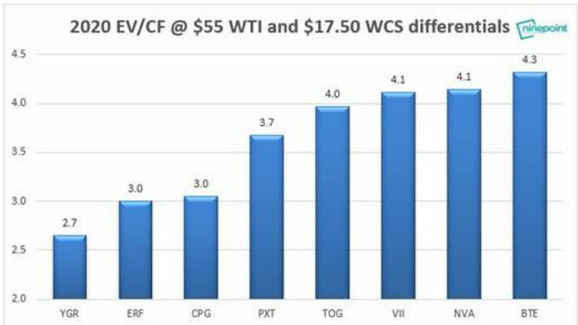
The January sell-off to me is a gift for those who missed the end of year '19 rally. No one can or should call a bottom and it is quite possible that WTI will continue to sell-off in the days ahead as the market continues to get whipped up by 24 hour news coverage of the Chinese coronavirus outbreak (plus we are now in the seasonally weakest period of the year for oil demand). If we use SARS as the closest analogy global oil demand growth was reduced by about 260,000Bbl/d (still grew!) and demand weakness lasted one quarter. So when to buy? Stocks today are trading at incredibly depressed levels (the average Fund holding trades at a 8% free cash flow yield at $55 and a 17% free cash flow yield at $60) and have sold off by 15%-25% YTD. I am fairly confident of significantly improving fundamentals in the months ahead. Timing of when to buy then should be dictated by a willingness (and client's ability) to stomach heightened volatility with the knowledge that deep value is available and one should be buying these stocks for the next 3 years…not the next 3 days. Perhaps it was from managing money through the 2008/2009 financial crisis but all of our training and experience is telling us that panic equals opportunity and that purchases today, while uncomfortable to make, will pay off in the months/quarters to come as the oil market tightens, the news of the day fades, and people realize what a gift a crisis could potentially have been.



Source: Bloomberg, Ninepoint Partners



Source: Bloomberg, Ninepoint Partners (for illustrative purposes)



Source: Bloomberg, Ninepoint Partners

Source: Bloomberg, Ninepoint Partners

For illustrative purposes only

Reach out with any questions.

Eric Nuttall
Partner, Senior Portfolio Manager

Ninepoint Partners

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1]
AS OF JANUARY 31, 2021 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	2.8%	2.8%	57.6%	61.4%	0.7%	-15.6%	-7.4%	-9.2%	-5.9%	-0.4%
Index	-0.9%	-0.9%	42.0%	22.6%	-27.1%	-18.4%	-7.9%	-9.7%	-6.0%	-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 December 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.

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: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540