Ninepoint Energy Fund Market View

March 18, 2020

Weathering the storm to make it through to the other side

Investment Team

Eric Nuttall, CIM
Partner, Senior Portfolio Manager

To describe recent weeks as historic doesn't seem to do it justice. The price of oil has fallen by over 60% due to the biggest demand shock in history (down 8-10MM Bbl/d) combined with a non-sensical price war between the 2nd and 3rd largest oil producers in the world (Russia and Saudi Arabia). It is not overly-dramatic to use synonyms like excruciating, soul-sucking, exhausting, humbling, and frightening when looking at energy stocks across the board down 70-%-90% year-to-date (and it is only March 18th) as oil collapses to levels previously thought unimaginable. At current spot ($23) there is not a single public oil and gas company (or sovereign nation that relies on oil revenue…like Saudi Arabia at ~90% and Russia at ~40%…) that is a going concern. With many crack spreads negative even "safe harbour" names like Suncor will eventually go bankrupt at current prices. Could we be close to finding a bottom? Could sentiment be approaching the point of maximum pessimism?

It is clear that for the oil price to recover we need two things to happen. First, the global spread of COVID-19 needs to moderate and eventually stabilize allowing "social distancing" to ease and life to eventually return to normal. Secondly, we need for Saudi Arabia and Russia to come to their senses and at a minimum remove the incremental supplies they have added to an already massively oversupplied market in recent weeks (~2.5MM Bbl/d). Forecasting the timing of either is highly challenging and thus both the energy market and broader market have taken a "shoot first, second, third, fourth, and then…maybe ask questions later" approach. The downfall of having so much money in passive investment strategies is being laid to bare as are the inefficiencies of the energy market given so few remaining participants in that there is no differentiation amongst the carnage…the best companies as defined by asset quality, balance sheet strength, hedging positions, and management are falling just as much as the worst.

For an active manager, this offers the ability to high grade one's portfolio as an attempt to immunize oneself as best as possible from the current storm and that is what we have done. As a means of updating our clients with as "real time" information as possible we are updating you with our top 10 positions as a way of demonstrating the staying power of our holdings. To be clear, should sub $25WTI prices remain with us for a year or more the entire industry is in deep trouble. For this reason, we do not think it will last as meaningful announced spending cuts will ultimately balance the market. Resolution from the coronavirus outbreak will likely lead to an oil price rally into the $40's and an easing of the price war between Saudi Arabia and Russia could see WTI recover back into the $50's. The coming epic inventory build will take some time to work off (and may lead to even lower prices for prompt month oil prices in April) likely keeping a cap on oil pricing for a time yet the inevitable outcome of the current apocalyptic price crash is a supply crisis in the coming years due to ongoing lack of sufficient investment.

Our goal in recent weeks has been to position the Fund in names that we believe can weather the storm and make it to the other side while not overly sacrificing upside potential. When things inevitably turn, and they will (COVID-19 will eventually pass), our expectation is that many of our holdings can go up by 400%+ from current levels (the math finally works in one's favour when names have fallen by as much as 92% YTD…). We have scrubbed hedge books, debt structures and maturities, asset breakevens, etc to ensure that all of our holdings can remain solvent while not meaningfully deteriorating their balance sheet strength over the coming months/quarters. Why do we think things will ultimately improve? The demand shock from COVID-19 while historic is temporary. It is reasonable to expect the global economy will take some time to fully recover (China is already slowly rebounding) yet we will all eventually once again take our families on vacation, travel for work, and drive our cars. US shale growth rates were already declining and now be in a permanent state of decline. Global offshore production was already set to plateau. Russia and Saudi are burning through billions of currency reserves per month while achieving little. This too shall pass.

As of March 17th, 2020 our top ten holdings in order of weightings are:

- Cenovus
- Enerplus
- Tamarack Valley
- Crescent Point
- MEG Energy
- Parex
- Nuvista
- Kelt Exploration
- Whitecap Resources
- Baytex Energy

So what gives us confidence that our holdings can weather the storm? Here are two examples to demonstrate why indiscriminate selling by the market has meant that the strong have been punished just as much as the weak.

Nuvista is a liquids rich Montney Producer with a market cap now of $60MM. The stock is down 92% YTD. In August 2018 the company bought a much sought after acreage position from Cenovus for $625MM (10x their current market cap) and at the time raised $419MM at $8.10 (the stock is now at $0.26!). While having had to moderately outspend cashflow the past 2 years due to the need to satisfy pipeline commitments that necessity is finally coming to an end. With $150MM of undrawn credit lines (yes we expect this to fall along with everyone else) and a mix of swap and 3-way hedges the company has the ability to survive these brutal times exiting 2020 with a D/CF of under 4x. Could this stock trade back to $1.50 once the COVID-19 uncertainty fades? We believe so…that would be ~5x from the current price.

		Q1	Q2	Q3	Q4							
Swap		6,100	6,100	6,100	6,100							
Price	CAD	$76.28	$76.28	$76.28	$76.28			forex	1.4			
% of volumes		39.1%	35.1%	35.1%	35.1%							
3 way		4,000	4,000	4,000	4,000							
prem to spo	CAD	$11.00	$11.00	$11.00	$11.00							
% of volumes		25.6%	23.0%	23.0%	23.0%							
spot		5,500	7,300	7,300	7,300							
% of volumes		35.3%	42.0%	42.0%	42.0%							
WTI							CF	CX	FCF	YE bank debt	% drawn	D/2020 CF
$30.00		$41.59	$40.39	$40.39	$40.39	$40.69	$156	$225	-$69	$389	71%	3.8
$32.50		$43.11	$42.01	$42.01	$42.01	$42.29	$167	$225	-$58	$378	69%	3.5
$35.00		$44.63	$43.64	$43.64	$43.64	$43.89	$178	$225	-$48	$368	67%	3.2
$40.00		$47.68	$46.88	$46.88	$46.88	$47.08	$199	$225	-$26	$346	63%	2.8
$45.00		$50.72	$50.13	$50.13	$50.13	$50.28	$221	$225	-$4	$324	59%	2.4

Source: Ninepoint Partners, For Illustrative Purposes Only

Crescent Point is another company that has been left for dead. The stock now trades at $0.86… down 86% YTD. They have $2BN of non-covenant based undrawn capacity and a hedge book that allows them to protect their balance sheet while allowing for only moderate production declines. Even at $25WTI we estimate their D/CF would exit the year at 3.7x trailing cash flow and have them draw down their $2BN line by only $96MM.

		Q1	Q2	Q3	Q4						
Swap		16,500	16,500	13,500	18,500						
Price	CAD	$53.91	$53.91	$54.19	$54.61		forex to convert to		1.4		
% of volumes		14.7%	15.7%	13.3%	19.0%						
3 way		44,000	43,000	40,000	32,000						
prem to spo	CAD	$9.29	$9.29	$9.29	$9.29		forex to convert to		1.4		
% of volumes		39.2%	40.8%	39.4%	32.8%						
spot		51,820	45,800	47,900	47,000						
% of volumes		46.1%	43.5%	47.2%	48.2%						
WTI						FY	CF	CX	FCF	YE Debt	D/'20 CF
$25.00		$32.89	$32.22	$33.20	$33.51	$32.95	$655	$750	-$95.5	$2,396	3.7
$30.00		$37.15	$37.54	$36.88	$37.72	$37.32	$811	$750	$60.5	$2,240	2.8
$32.50		$39.28	$39.65	$39.05	$39.74	$39.43	$885.8	$750	$135.8	$2,164	2.4
$35.00		$41.42	$41.76	$41.22	$41.77	$41.54	$961.1	$750	$211.1	$2,089	2.2
$40.00		$45.68	$45.97	$45.55	$45.82	$45.76	$1,111.8	$750	$361.8	$1,938	1.7
$45.00		$49.95	$50.19	$49.89	$49.87	$49.97	$1,262.1	$750	$512.1	$1,788	1.4

Source: Ninepoint Partners, For illustrative purposes only

The Ninepoint Energy Fund is composed of companies that we believe can weather current horrific oil prices as best as anyone while offering meaningful upside potential when the COVID-19 situation begins to improve and/or Saudi Arabia and Russia find an amicable resolution to their current price war. We have been extremely fortunate to have had positive inflows nearly every day allowing us to take advantage of the carnage and continue to top up our existing positions. The Fund also has in excess of $115MM tax losses which provides a highly tax efficient vehicle for those who believe that the worst may be nearly behind us (in the coming months) and that the upside potential offsets any remaining near-term volatility. We will get through this and we will come out the other side together.

Eric Nutall
Partner, Senior Portfolio Manager

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1]
AS OF FEBRUARY 29, 2020 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-12.9%	-30.9%	-16.6%	-3.9%	-23.5%	-27.1%	-17.5%	-7.8%	-5.2%	-1.4%
Index	-11.2%	-21.0%	-11.6%	-6.6%	-24.2%	-13.9%	-9.7%	-5.9%	-1.9%	0.2%

[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 February 29, 2020; 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 February 29, 2020 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: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540