



Ninepoint Energy Fund Market View

March 06, 2020

OPEC+ fails to quell coronavirus demand worries...biggest daily oil plunge since the Financial Crisis

This morning OPEC+ failed to arrive at an agreement to cut an incremental 1.5MM Bbl/d from the market in what was an attempt at offsetting a currently unknown amount of demand destruction resulting from the coronavirus. This outcome was highly unexpected. Russia's economy is ~80% oil dependent and a small incremental cut which would have resulted in a disproportionately higher oil price (ie. higher cashflows) seemed very logical and is why some consultants are saying politics were at play in the decision. For now, fear is taking over as the market remembers the 2014 oil sell off that resulted from the OPEC scorched earth policy.

Today is very different than then. In 2014/2015 US shale was just starting to take off and OPEC wrongly assumed that a brief oil sell off would kill shale. Today, I would say that US shale is already dying. Access to external capital ended 2 years ago and technical issues with well productivity has led to eroding capital efficiencies and increasing supply costs. At today's oil price (\$41WTI) US shale is dead man walking. We know that growth rates were already imploding at \$50+ (1.8MM Bbl/d YOY growth rate in August 2018 down to 0.8MM Bbl/d YOY growth rate in December 2019) and one consultant has written that the Permian Basin will be at a negative year-over-year growth rate by July/August unless activity levels materially pickup (not possible sub \$50/bbl).

So where do things stand? Clearly oil demand is being impacted as people fly less (Southwest Airlines CEO said that he was seeing a 9/11 type hit in the short-term), commute less to work, and China slowly emerges from its self-imposed economic shut down. Unless one believes in the coronavirus resulting in a global culling of the population it is impossible to view recent demand weakness as anything but temporary. The challenge is that no one (literally) can quantify it and the market hates uncertainty. Unless OPEC (minus the +) acts soon to restore confidence in their traditional role it is likely that ongoing coronavirus worries will soften the oil price further.

Herein lies the challenge. Stocks had already decoupled from the oil price having fallen ~43% from January 1, 2019 to this morning. Is the worst being priced in as many energy stocks are hitting all-time lows? We were at \$64/bbl before the coronavirus outbreak...why is it not reasonable to believe that we could get back to that level once people stop hoarding toilet paper and the market is able to quantify the demand hit in Q1/Q2? If I am even directionally right, many Fund holdings are trading below 2x EV/CF at \$60WTI and 25%+ free cash flow yields...never before seen valuation levels. Further, of 10 Fund holdings eight of them have on average 48% of their 2020 oil volumes hedged at an average price of \$59WTI.

If you have 43 minutes to spare below is a clip from BNN today where I go through my thesis on why the coronavirus demand hit is short-term noise in the context of a very positive medium and long-term outlook for oil. Given that appearances are booked months in advance the universe has a

Investment Team



Eric Nuttall, CIM
Partner, Senior Portfolio
Manager

sense of humour for me to be on when Brent has its single largest daily plunge (10.3%) since the Financial Crisis in December 2008. I also speak to company valuations to try to give a sense of just how brutalized energy stocks have been. This has been the most exhausting and frustrating trade in history. Yet again, a macro event that was unforeseen has pushed out our bullish call for oil by another few quarters. Even if 2020 is a write-off (which we don't yet believe) the combination of normalized demand growth of 1MM+ Bbl/d, crashing US oil shale production rates (<400k bbl/d in 2021), plateauing/declining global offshore production, and limited OPEC spare capacity all promise better days ahead.

<https://www.bnnbloomberg.ca/market-call/full-episode-market-call-for-friday-march-6-2020>

As always, reach out directly with any questions on macro, fund strategy, etc.

Eric Nuttall

Ninepoint Partners

Ninepoint Energy Fund - Compounded Returns¹

	1MTH	YTD	3MTH	6MTH	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%	-1.48%
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