



Energy Fund Market View

October 25 2018

Given the extreme weakness in energy stocks over the past week I thought it worthwhile to send out a brief note.

To begin let me state the obvious:

1. Energy stocks have gone “no bid” both in Canada and the US. Permian names are falling as much as CDN light oil or WCS exposed stocks
2. Energy stocks are being used as a proxy for potential global growth weakness versus spot WTI moves. Oil was up \$0.60 earlier today and many oil names were down 4%-5% after having already fallen by 10%-20% month to date
3. Value buyers are emerging but are being overwhelmed by “machine selling” (ETF’s, hedge fund gross downs)
4. Several energy traders today saying they are seeing “panic selling” and big vanilla Canadian accounts just throwing in the towel
5. While valuations do not matter today they will someday. We own businesses trading at 3x cashflow and 20%+ free cash flow yields

The energy market to me feels like December 2015 when names were gapping down 4%-5% a day. The difference now versus then though is the profound dislocation between the commodity and the stocks with oil generally being strong versus it collapsing from \$40-\$35/bbl in December 2015 (ah, the good old days) . Oil is up 23% since January 1, 2017 and the XEG during the same time frame is down 25%. That is a whopping 48% divergence. As a result energy stocks are trading at the cheapest forward valuations using strip (\$66.46/bbl) in memory.

How did sentiment go from “oil is heading to \$100/bbl in 2019” a few months ago to now forced liquidation in energy stocks?

1. Refinery turnaround season this year is the highest in 6 years and has been exacerbating inventory builds in the US (the most visible oil inventories in the world). Last year refinery turnarounds in PADD2 were 700,000Bbl/d and this year they are 1,100,000Bbl/d. That extra 400,000Bbl/d makes a big difference when US exports have been reduced due to climbing charter rates for marine tankers due to increased demand from OPEC’s production increase. This negative pressure on builds/prices will end in a few weeks’ time.
2. Saudi, Russia, and friends have increased production by 700,000Bbl/d in anticipation of Iranian exports being reduced. The official sanctions come into effect in 2 weeks. At that point we think the full impact will become more obvious and especially the desire of the US “to reduce Iranian exports to zero” after the midterm elections (US gasoline prices won’t be top of mind at that point) but in the mean time it has led to OECD inventory builds versus last year
3. Canadian heavy oil differentials blew out to \$50/bbl (~\$46/bbl right now) and BNN ran with this storyline every 30 seconds. This is temporary. The largest refinery (consumes 10% of Canadian heavy oil) is coming back online next week. As well, crude by rail shipments are surging and are

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higher than consensus. As WCS differentials narrow sentiment will improve

4. The Dow has sold off on worries of interest rate hikes and trade wars/skirmishes impacting 2019 global growth. In the past few days energy stocks have moved more with the DJIA rather than the oil price. Oil was -\$0.16 today yet BTE was down 7.6%...that is unexplainable until you see the DJIA -600 points.

So what does all of this mean? There is panic, fear, and total frustration resulting in investor capitulation in energy stocks. Names like CPG are making ALL TIME LOWS (\$5.75...down from \$40.00 four years ago). Quality names like a Baytex have fallen by 55% in 5 months while oil is down 8% over the same time frame. Even SU and CNQ have been destroyed. Many stocks using \$70 oil in 2019 (we think it goes higher) are trading at the cheapest levels in 10+ years. So what? If investors do not care I believe corporates will. This will be expressed in the form of increased buybacks and takeovers (both hostile and friendly). MEG is a great example where investors viewed weak Canadian heavy oil pricing as permanent versus a 1-2 year problem trading the stock down from \$11 to \$8 and allowed Husky to make a hostile offer at a price that we believe is 60% below fair value.

I will avoid using too many clichés but here is one incontrovertible truth: the hardest time to buy is when it feels the most painful and least obvious. We have been topping up our main positions despite them falling by 5%-7% a day with the belief that we are going to double or triple our current purchases with the passage of time. Will this be like 2016 when our Fund rallied by 143% by year end after experiencing a horrible December 2015? Only time will tell. In our view not much has changed on the oil macro. With Iranian exports about to imminently collapse, refineries emerging from turnaround season, and China posting record demand growth in the past month we still believe that fundamentals for oil are positive and that we are in a multi-year bull market for oil. I would challenge you to find another sector in the world that is so out of favour, trades so inexpensively (3x CF...15%-20% FCF yields), and yet has such positive medium and long term fundamentals.

Please reach out with any questions you have.

Eric Nuttall

Partner, Senior Portfolio Manager

Ninepoint Energy Fund / Ninepoint Energy Opportunities Trust

BTE down from \$6 to \$2.55 in 5 months...



Source: Bloomberg

CPG making new all-time lows at \$5.75..down from \$40 (we would not advocate buying it...prefer others)



Source: Bloomberg

Trican down from \$5 to \$1.66...now trading below the liquidation value of the company's assets...



Source: Bloomberg

A sampling of some horrific 1 month performance

Ticker	%1D	Last Price	Net	Volume	Bid \$	Bid	Ask	Ask \$	Chg WTD	%1M
ATH CN	--	1.31y	--	3,364,038	403	1.29	1.29	193	-13.8%	-15.5%
BTE CN	--	2.55y	--	17,060,618	450	2.66	2.66	465	-14.7%	-33.4%
FANG US	-5.2%	112.90y	-6.21	1,479,693	1	113.30	125.0	1	-11.2%	-16.1%
WPX US	-5.6%	16.22y	-.96	420	1	16.29	17.90	1	-10.5%	-16.3%
PE US	-7.2%	24.39y	-1.88	3,887	2	24.83	26.03	2	-13.2%	-16.9%
ERF CN	--	12.41y	--	3,769,673	30	12.90	12.90	39	-11.9%	-22.6%
TCW CN	--	1.66y	--	7,907,161	155	1.65	1.65	110	-13.1%	-25.2%
NVA CN	--	5.81y	--	2,735,108	8	6.40	6.40	27	-13.3%	-23.4%
CLR US	-4.3%	53.29y	-2.38	2,259,324	1	53.48	54.80	20	-9.9%	-20.5%
CDEV US	-5.8%	18.47y	-1.13	2,022,644	5	18.60	18.80	6	-9.5%	-14.5%
KEL CN	--	6.10y	--	4,975,224	2	6.60	6.60	56	-10.7%	-26.3%
TOG CN	--	5.18y	--	2,799,496	14	5.30	5.30	17	-13.2%	-21.0%
CPE US	-8.5%	9.92y	-.92	7,276,700	1	9.95	10.91	10	-15.0%	-18.0%
MEG CN	--	10.19y	--	3,503,506	30	10.20	10.20	6	-6.7%	+30.6%
VII CN	--	13.62y	--	1,914,973	2	13.53	14.50	4	-5.7%	-11.4%
RIG US	-5.1%	10.84y	-.58	5,982	11	11.10	11.18	230	-11.1%	-22.4%
BRY US	-4.8%	14.96y	-.76	465,114	1	.01	18.01	11	-8.3%	-11.9%
OAS US	-8.7%	10.39y	-.99	7,086	1	10.45	10.90	5	-15.0%	-25.4%
WLL US	-6.2%	36.02y	-2.38	102	15	36.30	37.25	3	-12.3%	-30.9%
MRO US	-5.8%	18.35y	-1.13	11,688	43	18.75	18.82	1	-11.2%	-18.4%
WRD US	-4.7%	19.05y	-.93	1,213,181	1	17.10	21.00	1	-13.4%	-17.8%
DVN US	-4.7%	32.13y	-1.60	4,850	3	32.30	32.80	2	-8.0%	-22.4%
CXO US	-5.1%	134.61y	-7.17	1,737,109	1	.01	144.8	4	-8.8%	-10.8%
HAL US	-3.8%	34.23y	-1.37	618	2	34.55	34.85	1	-8.8%	-17.2%
CFW CN	--	3.72y	--	723,348	22	4.05	4.05	28	-7.5%	-12.5%
STEP CN	--	3.58y	--	445,247	14	3.60	3.60	20	-17.1%	-38.9%
PD CN	--	3.38y	--	3,874,560	35	3.38	3.38	23	-10.1%	-27.3%

PTEN US	-6.4%	13.94y	-0.96	4,953,900	5	14.05	16.99	3	-13.8%	-21.3%
PXT CN	--	19.01y	--	890,830	12	18.60	18.60	9	-7.9%	-11.4%
CRC US	-7.6%	30.76y	-2.54	650	10	31.21	32.00	3	-12.4%	-33.8%
MGY US	-4.6%	12.88y	-.62	711,854	1	11.55	14.20	1	-7.8%	-10.9%
VNOM US	-3.6%	34.72y	-1.29	125	8	35.00	36.50	5	-6.7%	-18.3%
VLO US	-5.4%	86.69y	-4.97	2,230	2	88.70	89.98	3	-6.5%	-25.8%
MPC US	-5.6%	68.06y	-4.03	884	6	68.75	69.99	1	-7.9%	-20.0%
CVRR US	-6.4%	17.92y	-1.23	15	2	18.77	20.24	10	-4.0%	-11.1%
PBF US	-5.1%	40.94y	-2.18	2,875,478	1	40.94	43.95	1	-5.3%	-18.7%
HFC US	-5.3%	61.01y	-3.40	2,124,283	2	61.11	62.99	2	-3.4%	-13.8%
WCP CN	--	6.33y	--	3,520,556	75	6.25	6.25	75	-7.5%	-22.3%
TOG CN	--	5.18y	--	2,799,496	14	5.30	5.30	17	-13.2%	-21.0%
CPG CN	--	5.76y	--	12,188,427	319	6.00	6.00	330	-16.8%	-29.5%
TVE CN	--	3.62y	--	1,710,306	1	3.78	3.78	11	-11.1%	-28.3%
ERF CN	--	12.41y	--	3,769,673	30	12.90	12.90	39	-11.9%	-22.6%
VET CN	--	36.75y	--	1,856,660	20	37.43	37.43	22	-3.3%	-15.0%
CJ CN	--	3.91y	--	3,304,481	88	3.98	3.98	102	-10.3%	-23.8%
SGY CN	--	2.04y	--	1,682,701	12	2.05	2.05	100	-9.3%	-23.9%
YGR CN	--	3.83y	--	406,444	53	3.82	3.82	15	-10.3%	-26.1%
BNE CN	--	14.81y	--	303,867	133	14.75	14.75	15	-10.8%	-19.6%
VII CN	--	13.62y	--	1,914,973	2	13.53	14.50	4	-5.7%	-11.4%
NVA CN	--	5.81y	--	2,735,108	8	6.40	6.40	27	-13.3%	-23.4%
PGF CN	--	.92y	--	1,038,612	6	.93	.93	10	-2.1%	-11.5%
OBE CN	--	1.01y	--	667,449	39	1.01	1.01	30	-6.5%	-22.3%
GTE CN	--	3.94y	--	2,504,368	43	3.80	3.80	30	-9.2%	-18.3%
PSK CN	--	20.94y	--	1,248,714	5	20.88	20.94	2	-4.9%	-11.3%
PONY CN	--	2.03y	--	1,908,500	20	2.03	2.03	12	-10.6%	-30.0%

Source: Bloomberg

26 energy names making 52 week lows in Canada today

	Security	Last	52 Low
1)	OBE CN	1.01	0.99
2)	CNQ CN	36.06	36.00
3)	TCW CN	1.66	1.65
4)	AKT/A CN	4.52	4.52
5)	CPG CN	5.76	5.69
6)	GXO CN	1.59	1.56
7)	POLL CN	10.37	10.22

7)	10.57	10.22
8) BTE CN	2.55	2.55
9) SHLE CN	2.76	2.65
10) PSK CN	20.94	20.89
11) WCP CN	6.33	6.32
12) TOG CN	5.18	5.13
13) NVA CN	5.81	5.63
14) STEP CN	3.58	3.52
15) FRU CN	9.94	9.90
16) CR CN	1.29	1.28
17) CJ CN	3.91	3.87
18) DEE CN	0.59	0.57
19) CNE CN	3.64	3.63
20) KEL CN	6.10	5.94
21) SCL CN	23.37	23.10
22) ESN CN	0.405	0.40
23) AKT/B CN	4.45	4.45

Source: Bloomberg

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS¹ AS OF OCTOBER 31, 2023
(SERIES F NPP008) | INCEPTION DATE: APRIL 15, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCE
Fund	-0.2%	13.6%	11.5%	16.4%	3.0%	95.9%	28.0%	8.3%	8.7%	7.9%
S&P/TSX Capped Energy	-1.1%	13.3%	9.1%	13.7%	6.1%	66.7%	14.1%	3.2%	3.6%	5.3%

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 September 30, 2018; 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.

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