



Ninepoint Energy Fund Market View

August 14 2018

Explaining the Unexplainable

An uncomfortably high level of volatility has unfortunately become a part of investing in the energy sector in recent years. Energy more than other sectors seems to be subjected to worries/sell offs surrounding trade wars, emerging market wobbles (Turkey), and supply increases (OPEC, US). In bear markets the market ignores unalterable truths like pending Iranian export reductions, continued strong demand growth, 2019-2023+ production declines in a collective ~ 50% of oil producing countries, and a pending pipeline shortage out of the epicenter of US oil shale growth (the Permian Basin).

Today is a great example of the disconnect between oil fundamentals and oil equities. Oil fell \$0.28/bbl on the day due to I believe Turkish headlines over the weekend (we struggled to find anything else to account for the move that saw oil fall as much as \$1.67 at the 1pm lows). So oil was down 0.5% and multiple stocks (and holdings) fell 4%-5%. Stocks barely moved up with oil rallying 15% YTD in CAD\$ terms and yet fall by 4%-5% when oil falls 0.5%. August volumes are not helping as it literally feels like there are only a handful of energy market participants (including us!) active in looking for opportunities. The past month has been especially brutal with holdings like MEG Energy falling by 30% (largest investor quits the Board and people wrongly assume that he is going to be liquidating his position...actually turns out that he is going activist but who cares?), Wildhorse Development falling by 18% (they may need to truck small volumes that adds \$2/bbl to their expenses which worst case reduces NAV by 5%), and Athabasca Oil falling by 18% (no update on midstream monetization in their Q2 reporting...market too impatient to wait another 1 month). With negative momentum quant selling has not helped either.

The oil market right now is suffering from:

1. A mismatch in timing between OPEC+Russia production increase (up about 800,000Bbl/d over the past 3 months) versus the pending reduction in Iranian oil exports due to US sanctions (700,000-1,700,000Bbl/d potential range).
2. Worries about demand destruction due to trade wars (thanks Trump) and emerging market weakness (ie. Turkey) even though outside of weather related impacts there is zero evidence of this occurring

We believe that oil remains in a bull market. The most important aspect to this is continued declines in oil inventories and the exhaustion of OPEC spare capacity. As Kuwait, Qatar, Saudi Arabia, the UAE, and Russia have increased production levels over the past several months this has resulted in OPEC+Russia spare capacity falling from ~ 1.5MM Bbl/d to our estimated 0.4MM Bbl/d. This is the lowest level in modern history.

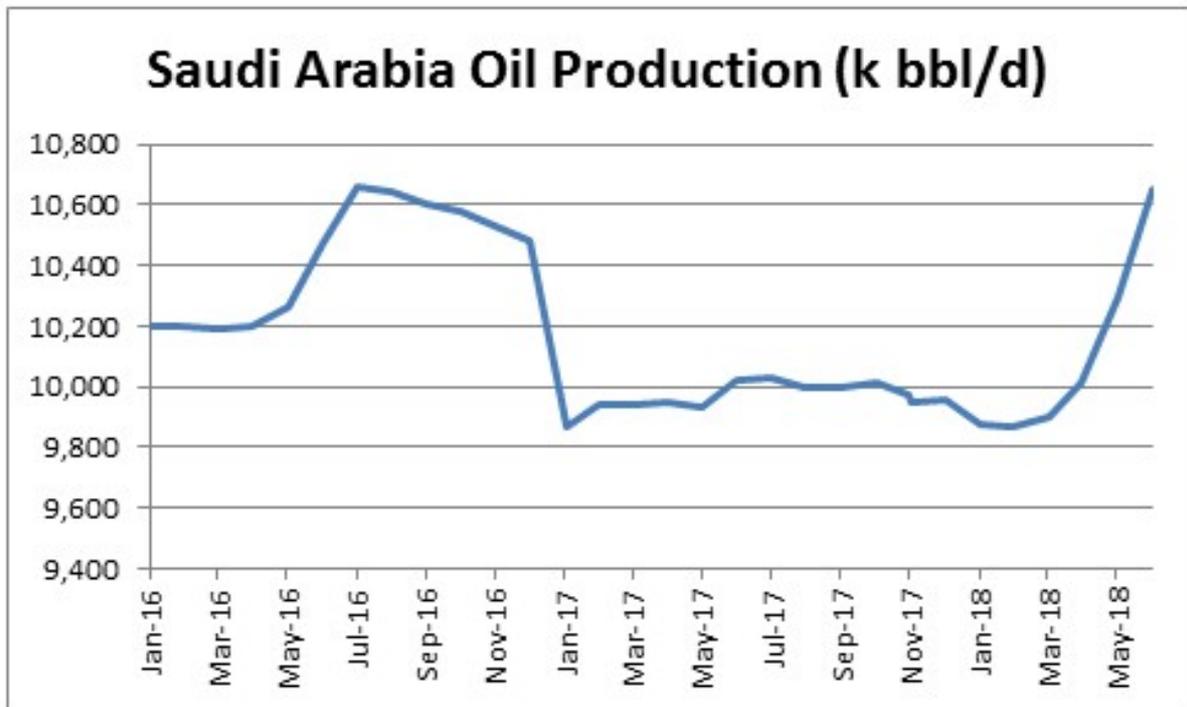
Investment Team



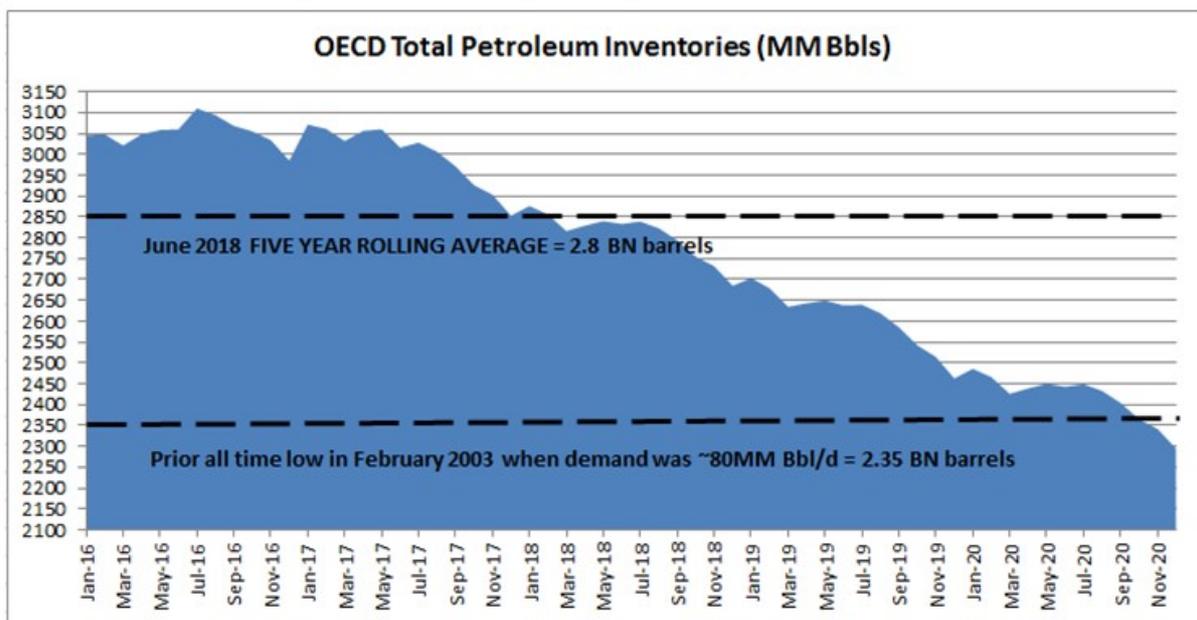
Eric Nuttall, CIM
Partner, Senior Portfolio
Manager

OPEC Production at Peak Level	35,144
Current Level	32,310
Difference	2,834
Less: Impaired Countries (Venezuela, Iran, etc)	2,289
Implied Max Theoretical Latent OPEC Productive Capacity	545
Add: Russia	208
Total Theoretical OPEC +Russia Latent Productive Capacity	753
Less: Announced "real" production increase August 2018	800
Implied Spare Capacity	(47)
Add: Neutral Zone	450
TOTAL SPARE CAPACITY	403

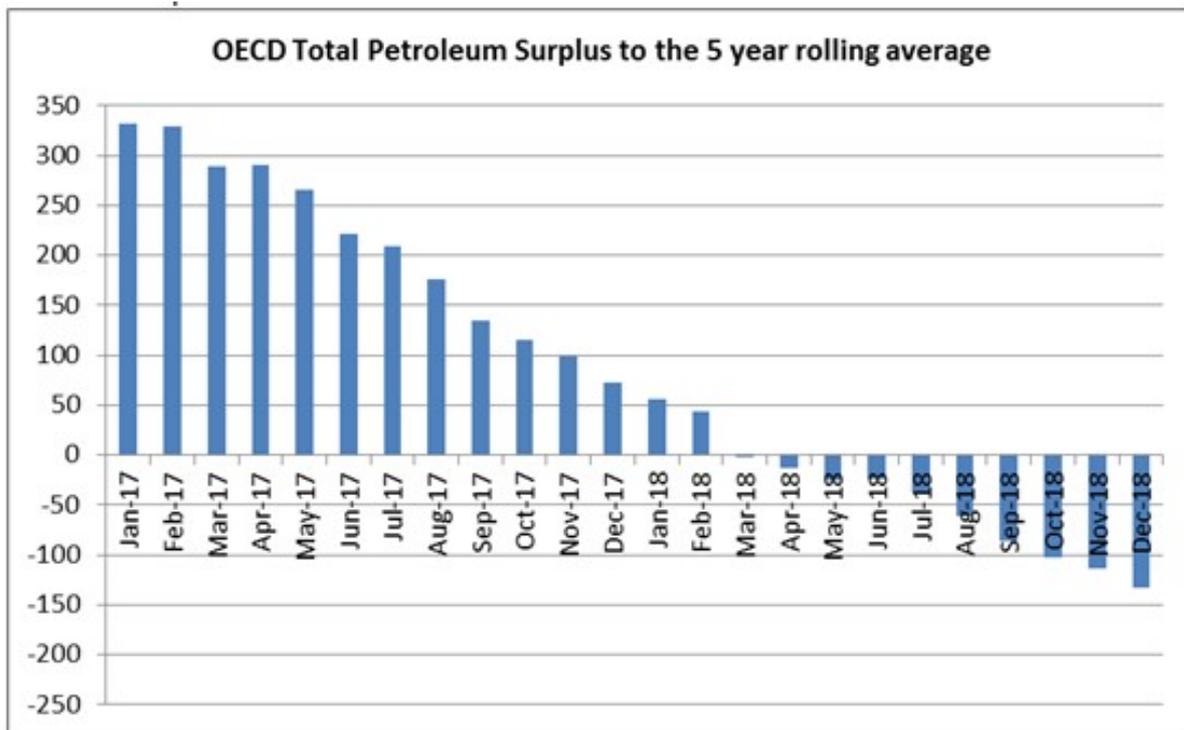
Source: Ninepoint Partners



Source: Ninepoint Partners



Source: Ninepoint Partners



Source: IEA, Ninepoint Partners

At the same time, Venezuela continues to implode (fell 70,000bbl/d last month, and 7 of the past 9 months), missiles fly from Yemen/Iran into Saudi Arabia on a continuous basis, and the US Permian Basin is about to hit the wall with respect to pipeline capacity (to be fixed ~ end of 2019). In short, as demand continues to grow and OPEC has exhausted its spare capacity and Iran is about to involuntarily take 0.7-1.7MM Bbl/d off the market and US production growth is constrained for the next year the oil market will soon become incredibly tight. We believe that this will support higher prices with oil likely to trade ~ \$100/bbl at some point in 2019.

Given that energy equities are trading at less than half of their historical multiples at current oil pricing (~3.6X EV/CF, >15% free cash flow yields) we continue to see highly attractive upside. As the equity market largely ignores this, at least we have seen both an increase in corporate buybacks (TCW buying back > 10% of their shares outstanding) as well as hostile takeovers and shareholder activism (ESI & TDG / MEG). With the largest disconnect in history between oil stocks and the price of oil, we calculate that our Fund has a comically high potential upside of 51%/97%/141%/183% at \$70/\$80/\$90/\$100 oil. Note that just for the stocks to trade at a still discount to historical multiples AT THE CURRENT OIL PRICE we see over 50% upside.

In our next full monthly report due out in early September we will be updating our inventory forecasts as well as going into detail about why the exhaustion of OPEC spare capacity is highly significant and will become the topic du jour in 2019. For now, we would reiterate that once we get through this timing mismatch (OPEC production increase relative to Iran sanctions biting) we see oil inventory trends continuing to support higher prices.

You are not alone in your frustration.
Reach out with any questions / concerns.

Eric Nuttall
Senior Portfolio Manager

Ninepoint Energy Fund / Ninepoint Energy Opportunities Trust

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS¹ AS OF JUNE 30, 2023 (SERIES F NPP008) | INCEPTION DATE: APRIL 15, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEP
Fund	1.1%	-9.9%	-6.6%	-9.9%	-1.5%	83.1%	15.3%	7.7%	-0.4%	6.8%
S&P/TSX Capped Energy TR	4.3%	-5.0%	-0.8%	-5.0%	3.0%	48.7%	5.7%	2.6%	-1.3%	4.5%

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 July 31, 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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