

PALOS

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Palos Weekly Commentary

Issue No. 4 | JANUARY 24 2019

Palos Funds

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Get Out of The Cold with Superior Plus

On January 22, 2019 Superior Plus (TSX: SPB) announced that they are guiding towards the high end on EBITDA and Operating Cash Flow. SPB confidence is being driven by stronger than expected performance from its energy distribution business, especially the US propane distribution. In addition to the stronger guidance, Palos is anticipating lower cash taxes. The early November cold brought the number of heating degree days up by 5% in the North East for the fourth quarter of 2018. SPB is scheduled to report on February 14, and it seems like the company will be giving out a lot of valentine goodies. The funds hold a position in the stock.

On the earnings report I will be focusing on the integration of the US acquisition and the synergies. I see SPB as a recession resistant company with big cash flow. The company is also diversified by region, and has a great acquisition track record, with many organic growth projects. Palos believe the current share price is implying 7.5x EV/ EBITDA evaluation. The stock has traded between 7.5x and 9.5x. SPB is inexpensive, with a lot of upside, and it pays 6.65% dividend.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.31	5.26%
Palos Equity Income Fund - RRSP	PAL101	\$5.59	4.51%
Palos Merchant Fund L.P. (Mar 31, 2018) ²	PAL500	\$1.83	7.25%
Palos WP Growth Fund - RRSP	PAL210	\$7.44	5.17%
S&P TSX Composite (Total Return with dividends reinvested)			6.35%
S&P 500 (Total Return with dividends reinvested)			5.36%
S&P TSX Venture (Total Return with dividends reinvested)			6.37%

Chart 2: Market Data ¹			Value
US Government 10-Year			2.74%
Canadian Government 10-Year			1.97%
Crude Oil Spot			US \$52.62
Gold Spot			US \$1,284.00
US Gov't10-Year/Moody BAA Corp. Spread			238 bps
USD/CAD Exchange Rate Spot			US \$0.7495

¹ Period ending Jan 23, 2019. Data extracted from Bloomberg

² Fund is priced annually

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