

PALOS

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Palos Weekly Commentary

Issue No. 17 | APRIL 25 2019

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Palos Funds

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Horizon North Should Not be Ignored

Horizon North Logistics Inc (TSX:HNL) is no longer a one trick pony. Its industrial service business provides many services in camps and accommodation. However, their business is no longer at the mercy of oil sands development. The industrial services business has diversified into non-energy, liquid rich plays, and Westcoast LNG. HNL is now the largest open camp provider in the Montney/Duvernay area by market share. The North Montney will be key in supporting LNG feed stock. Palos is of the opinion that the majority of Canadian E&P's growth in the coming years will be coming from South & North Montney/Duvernay. HNL is well positioned to capitalize on this growth. The company is also well exposed to Canadian Northern developments related to precious mining. However, this opportunity could be expanded to iron or lithium exploitation projects. HNL would be the service provider of choice as they have an expertise and strong relationships with Aboriginal communities. They have 28 Aboriginal partners, and 17% of HNL's workforce are of Aboriginal decent. However, the elephant in the room is the Kitimat LNG opportunity. HNL has 8 different opportunities, from behind the gate hospitality to 27 Acres of residential development.

The second business is the modular solutions business. On March 12, 2019 they announced the acquisition of NRB Inc which will give HNL a comparative advantage to its competitors. The modular business allows HNL to build apartments, townhouses, and hotels much quicker and to be more cost effectively than traditional contractors. The opportunity is limitless as Canada is going through a home affordability crisis. This kind of building has been adapted in Europe for many years and North America is only getting started to adopt it. I'm of the opinion that HNL will be expanding into the US with an established partner. With the weaker Canadian dollar and its factory efficiency, management predicts they can build modules approximately 55% cheaper than their US competitors.

In conclusion, HNL is trading at 6x EV/EBITDA 2019E. I feel that this valuation is very reasonable considering the amount of growth opportunities the company has. The balance sheet is also strong with only \$40 million of net debt.

Disclaimer: Palos Funds are shareholders of HNL.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.85	14.74%
Palos Equity Income Fund - RRSP	PAL101	\$5.90	12.31%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$8.27	16.94%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.97	9.68%
S&P TSX Composite (Total Return with dividends reinvested)			16.89%
S&P 500 (Total Return with dividends reinvested)			17.49%
S&P TSX Venture (Total Return with dividends reinvested)			9.24%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.52%
Canadian Government 10-Year			1.68%
Crude Oil Spot			US \$65.89
Gold Spot			US \$1,275.50
US Gov't10-Year/Moody BAA Corp. Spread			215 bps
USD/CAD Exchange Rate Spot			US \$0.7409

¹ Period ending Apr 24, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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