

# PALOS

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## Palos Weekly Commentary

Issue No. 21 | MAY 23 2019

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## Palos Funds

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### The Handcuffs are Off

On May 17, 2019, the Canadian and US governments announced their decision to eliminate steel and aluminum tariffs. A company that I believe will significantly benefit from this phenomenon is Stelco (TSX: STLC). The elimination of tariffs should increase the company's annual EBITDA by approximately \$60 million. When the tariffs were initially introduced on May 31, 2018, STLC's EBITDA was impacted by approximately \$90 million.

Now that the handcuffs are off, with STLC's strong balance sheet, the stock should rerate and trade alongside its US competitors. STLC is currently trading at a 25% discount, despite their outperforming balance sheet. With the tariff overhang gone, management may now concentrate on acquisitions. I believe the company could easily make a \$500 million deal solemnly based on their balance sheet, without having to raise any equity.

I'm confident that STLC's management team can source, complete and integrate future accretive acquisitions. If successful in finding the right acquisition, the stock will quickly rerate higher. We could then expect more dividends, as they bring efficiency to their standard. I would not bet against this management team

*Disclaimer: Palos Funds are shareholders of STLC.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.70	12.83%
Palos Equity Income Fund - RRSP	PAL101	\$5.81	10.53%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.68	8.63%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.14	1.42%
S&P TSX Composite (Total Return with dividends reinvested)			15.27 %
S&P 500 (Total Return with dividends reinvested)			14.87%
S&P TSX Venture (Total Return with dividends reinvested)			9.68%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.38%
Canadian Government 10-Year			1.72%
Crude Oil Spot			US \$61.42
Gold Spot			US \$1,274.20
US Gov't10-Year/Moody BAA Corp. Spread			223 bps
USD/CAD Exchange Rate Spot			US \$0.7443

<sup>1</sup> Period ending May 22, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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