

# PALOS

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## Palos Weekly Commentary

Issue No. 34 | AUGUST 22, 2019

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## Palos Funds

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### Pembina Makes the First Move

Canadian energy is ready for consolidation, as the first transaction was announced on August 21st, 2019. Palos is expecting many more consolidations in the coming months, as evaluations have hit all time lows. I'm of the opinion that the stronger energy companies, pension plans, activists, and private equities are all looking at this space.

Pembina pipeline Corp (TSX: PPL) is the first to jump on this opportunity. PPL is buying Kinder Morgan Canada Limited (TSX:KML) and the Cochin Pipeline System for \$4.35 billion. KML's assets include crude oil storage and terminal facilities. The acquisition is significantly accretive to PPL, as seen with the 5% dividend increase. The new acquired assets are expected to generate approximately \$350 Million EBITDA this year. Additionally, PPL is expecting an incremental \$50 Million EBITDA over the next 5 years, while maintaining minimal capex. They will also generate another \$50 Million, via expansion opportunities. When all is done, the assets could generate approximately \$450 million EBITDA.

PPL has an outstanding track record of integrating acquisitions. On that note, I support the acquisition, and am confident that PPL will execute on any given opportunity. PPL has proven that they take full advantage of being the stronger company. They have acquired assets that, in any other market conditions, would have not been for sale. The next coming months will be very interesting, as acquisition headlines should dominate those of industries.

*Disclaimer: Palos Funds are shareholders of PPL.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.11	7.63%
Palos Equity Income Fund - RRSP	PAL101	\$5.52	6.92%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.14	0.95%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$9.14	-2.76%
S&P TSX Composite (Total Return with dividends reinvested)			16.04%
S&P 500 (Total Return with dividends reinvested)			18.20%
S&P TSX Venture (Total Return with dividends reinvested)			3.52%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.59%
Canadian Government 10-Year			1.22%
Crude Oil Spot			US \$55.68
Gold Spot			US \$1,504.60
US Gov't10-Year/Moody BAA Corp. Spread			229 bps
USD/CAD Exchange Rate Spot			US \$0.7524

<sup>1</sup> Period ending August 21, 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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