

# PALOS

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## Palos Weekly Commentary

Issue No. 45 | NOVEMBER 7, 2019

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## Palos Funds

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### Out of Favor, But Far from Out

It does not take a genius to know that the energy sector is out of favor. Oil & gas producers and midstream companies are currently bearing the brunt of it. Midstream companies usually have long term take-or-pay contracts with customers and provide product marketing.

On November 05, 2019, Keyera Corp (TSX: KEY) reported its Q3 2019 financial results which should not be ignored. In Q3, they came out with an EBITDA of C\$269m, which was well ahead of consensus. The large beat came from the marketing business as strong iso-octane margins were better than expected. The feedstock for iso-octane is butane, which comes from natural gas. Canadian butane is trading at record lows, and I don't see there being any change in butane pricing in the coming months or years as natural gas and butane are abundant in Alberta. KEY has taken precautions by locking in its supply & price for butane. Lastly, US demand for high-octane blending seems to be relentless, especially in the Western US.

I continue to view KEY one of safest ways to invest in the energy complex. It's a real cash machine with growth projects on the horizon. It's just a matter of time before investors notice its strength and cash flow opportunities.

*Disclaimer: Palos Funds are shareholders of KEY.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.27	12.40%
Palos Equity Income Fund - RRSP	PAL101	\$5.59	10.09%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$6.90	-2.45%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$9.87	4.95%
S&P TSX Composite (Total Return with dividends reinvested)			19.93%
S&P 500 (Total Return with dividends reinvested)			24.78%
S&P TSX Venture (Total Return with dividends reinvested)			-3.11%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.83%
Canadian Government 10-Year			1.54%
Crude Oil Spot			US \$56.35
Gold Spot			US \$1,493.10
US Gov't10-Year/Moody BAA Corp. Spread			215 bps
USD/CAD Exchange Rate Spot			US \$0.7586

<sup>1</sup> Period ending November 6, 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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