

# PALOS

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## Palos Weekly Commentary

Issue No. 46 | NOVEMBER 14, 2019

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## Palos Funds

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### Superior Surprises to the Upside

The 3rd quarter (3Q) has historically been a weak quarter, as a majority of the company's business activity is seasonal in nature. However, Superior Plus (TSX:SPB) managed to report a strong Q3 with adjusted EBITDA of \$48 million, well above the street's consensus estimate of \$35 million.

Third quarter strength came from the wholesale side, operational synergies and via tuck in acquisitions. In addition, the specialty chemical business did better than expected. Forward EBITDA guidance was maintained. The only negative is that SPB did not provide a timeline with regards to a potential sale of its chemical business. Investors had been expecting an update on the process before the end of Q3. It's important to note that these processes take time. I remain confident that SPB will be able to sell the asset at a reasonable multiple.

Hypothetically, if SPB can dispose of the chemicals business for a 6.5 multiple (I'm being conservative here) the resulting debt reduction would reduce net debt and provide enhanced liquidity for future acquisitions (e.g. buy more US propane assets at multiples between 5.0x and 5.5x). This would be very accretive to EBITDA. If successful, SPB could be worth \$15.50 if valued similar pure play distribution companies.

*Disclaimer: Palos Funds are shareholders of SPB.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.39	14.11%
Palos Equity Income Fund - RRSP	PAL101	\$5.67	11.73%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$6.93	-1.98%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$9.87	4.94%
S&P TSX Composite (Total Return with dividends reinvested)			21.46%
S&P 500 (Total Return with dividends reinvested)			25.57%
S&P TSX Venture (Total Return with dividends reinvested)			-4.55%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.89%
Canadian Government 10-Year			1.55%
Crude Oil Spot			US \$57.12
Gold Spot			US \$1,463.30
US Gov't10-Year/Moody BAA Corp. Spread			209 bps
USD/CAD Exchange Rate Spot			US \$0.7546

<sup>1</sup> Period ending November 13, 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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