PALOS

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Weekly Commentary

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By Charles Marleau, CIM

GFL Environmental IPO

GFL Environmental (TSX: GFL, NYSE: GFL) completed their Initial Public Offering (IPO) and began trading this past Tuesday on both the Toronto and New York stock exchanges. Reflective of the extreme volatility we're seeing in markets, its safe to say that first day of trading did not play out as hoped. The IPO, which saw strong demand and was well oversubscribed, moved lower during the day. The deal was priced at $19 USD and at one point traded below $17.

Demand for the initial offering was strong with the result being many investors were allocated only a fraction of what was requested. With unfulfilled demand, one would expect the stock perform well on its first day of trade. Despite the expectation that the strong demand would follow through to the secondary market, GFL fell 11% at one point on its first day. Without question, the poor performance out of the gate was surely tied to Corona virus fear causing selling pressure and extreme volatility in the markets. Certainly, a case of unfortunate timing!

On Wednesday the federal reserve announced an emergency rate cut of 50bbs. This rallied markets well off Tuesday's lows and in tandem, GFL moved higher. On Thursday, GFL has remained strong despite weakness in the markets. I had the chance to meet Patrick Dovigi, President & CEO of the company. Having the chance to speak with Mr. Dovigi, I came away impressed with his entrepreneurial acumen and its no wonder that both BC partners and the Ontario Teachers' Pension Plan are invested in GFL.

The company has a track record of making acquisitions and in fact, since 2007 the company has made over 100. Their strategy is focused on consolidating an industry that is fragmented throughout North America. Meanwhile the company is generating a tremendous amount of cash flow. The only perceived negative would be its balance sheet, but we must take into consideration the proceeds from the IPO. A portion of the proceeds will be used to retire 2022,2023 and 2026 notes. This will reduce outstanding debt from approximately $6.8 billion to $4.0 Billion, still high but closer to its larger peers.

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I would be surprised to see an absence of growth or no further acquisitions in 2020. My 2019 exit EBITDA is very conservative. If investors where excited at $19 USD, I don't see how they wouldn't be excited at $17, especially when trading inline with its peers but with more growth potential.

Disclaimer: Palos Funds are shareholders of GFL.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$7.68	-9.63%
Palos Equity Income Fund - RRSP	PAL101	$5.28	-7.70%
Palos Merchant Fund L.P. (Dec 31, 2019) [2]	PAL500	$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	$6.67	-12.85%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) [3]	PAL300	$9.08	-12.46%
S&P TSX Composite (Total Return with dividends reinvested)			-4.73%
S&P 500 (Total Return with dividends reinvested)			-7.68%
S&P TSX Venture (Total Return with dividends reinvested)			-12.25%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			0.76%
Canadian Government 10-Year			0.73%
Crude Oil Spot			US $41.28
Gold Spot			US $1,672.40
US Gov't10-Year/Moody BAA Corp. Spread			253 bps
USD/CAD Exchange Rate Spot			US $0.7453

[1] *Period ending March 06, 2020. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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