News Highlights

Owners. Operators. And Insightful Investors.

Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. November 13, 2017

Owner Operated Companies

Linamar Corporation (LNR) reported third quarter results which, at headline level, were weaker than expected. The company nonetheless maintained its guidance for the full year and for 2018. Linamar grew revenues by 6.5% in Q3 of 2017, to C$1.55 billion, despite a 7.7% market pull-back in its key North-American region. Adjusted net earnings were up by 9.2% in the quarter. Going forward, the company sees the slide in North American units sold moderating, to about -2.6% for the last quarter compared to Q3's -7.7% and broadly flat for 2018. Flat to moderate vehicle sales growth is expected across the board for 2018. Content per vehicle, a key industry metric, continued to improve in the quarter, up 6.9% for North America to C$158, 6.4% for Europe to C$72, and 23.2% for Asia Pacific to C$10.4. Non-automotive sales were up 13.6% in the quarter, driven by the company's aerial platforms business, Skyjack Inc. LNR revealed its book of new business continues to grow robustly, with about 20% of the new business represented by components for electrified vehicles (i.e. hybrid, plug-in hybrid and full electric), compared to a market share for such vehicles of only about 4%. The new business is steadily shifting the company's focus away from North America with 54% of new wins year to date outside of the region (which only represents 20% of the world's automotive industry). All in, LNR is guiding for revenues growth of mid to high single digits for 2017 and high single digits for 2018, despite flat markets. Also, the company is guiding for high single digit to double digit earnings growth for 2017 and double digit earnings growth for 2018 and net margin in the range of 8.0% to 8.5% for both years.

On the call, LNR downplayed the potential impact of NAFTA negotiations, detailing a number of possible scenarios. Insofar as rules of origin are concerned, LNR sources 93% of its content from North America, mostly the U.S., which means that, assuming the current rules move tighter towards the proposed 85% threshold, it could actually benefit the company. Should NAFTA negotiations fail, a return to the status-quo prior to NAFTA means 2% to 2.5% duties as per World Trade Organization (WTO) most-favoured-nation rules, which LNR sees a manageable, given that it currently passes 1% to 2% per annum of cost reduction to its existing customers. The cumulative effect of imposing additional duties would, however impact the competitiveness of North American OEMs (original equipment manufacturers), which could lead to reduced sales volumes, but also go squarely against the intent of the current negotiations to start with (i.e. protect and support the recovery of the U.S. manufacturing base).

Energy Sector

U.S. land rig count increased by 9 rigs week/week to 888 rigs following 5 consecutive weeks of declines (from 916 rigs 9/29 to 879 rigs last week) but is still 46 units off the early August peak of 934. The rig count was driven by increases in Horizontal Oil (+11), Directional Oil (+1) and Horizontal Gas (+1), slightly offset by declines in Vertical Oil (-3) and Vertical Gas (-1) while Directional Gas held flat week/week. Total horizontal land rig count is down 4% since the peak in August 2017. The Permian currently makes up 53% of all oil rigs.

U.S. horizontal oil land rigs increased by 11 rigs week/week to 637, as increases in the Permian (+6), Woodford (+7) and Eagle Ford (+1) were partially offset by declines in "Other" (-3) as DJ-Niobrara, Granite Wash, Williston, Mississippian and Utica remaining flat week/week.

Canadian rig count increased by 10 rigs week/week, and is up 16% from the level this time last year.

U.S. Gulf of Mexico offshore rig count held flat week/week at 18 rigs and is down 67% since June 2014.

Cardinal Energy Ltd. reported third quarter results that were broadly in line with the expectations and announced the closing of its first royalty deal (valued at $14.5 million for 2.5% of the company's interest at Wainwright) since the acquisition of the Apache Corporation assets. Cardinal expects to close three more royalty deals, likely before the end of 2017, which it intends to use to pay back for debt incurred in connection to the Apache assets acquisition. Adjusted funds flow increased to C$23.2 million for the third quarter of 2017 an increase of 47% from C$15.8 million for the second quarter of 2017. Average production was 21,463 boed for the third quarter of 2017, reflecting the first quarter that included the volumes from the light oil acquisition which closed on June 30, 2017. Production increased by 43% from the third quarter of 2016 and Cardinal's light oil weighting increased to 40% of production from 18%. Netbacks increased 19% in the quarter to C$16.80/boe from C$14.07/boe in the third quarter of 2016, while operating costs per boe of C$20.38 were down 1% from C$20.57 per boe in the second quarter of 2017. The company's focus for 2018 will shift from a maintenance mode to one of more aggressively exploiting its properties while continuing to maintain the cost discipline developed through the downturn. Cardinal managed to acquire several long life legacy assets at what it believes was the bottom of the commodity cycle.

Royal Dutch Shell PLC has entered into an underwriting agreement with two investment banks, for the sale of 71.6 million shares in Woodside Petroleum Limited, representing 64.0% of its interest in

Woodside and 8.5% of the issued capital in Woodside, at a price of AUD 31.10 per share. The sale is set to result in total pre-tax proceeds of approximately $1.7 billion (AUD 2.2 billion). The sale is expected to complete on November 14, 2017. Upon completion, Shell will own 4.8% of Woodside with a 90-day lock-up period on the remaining shares. We see this as a positive step to reducing debt and it's estimated it will lead, to a 0.5pp reduction in gearing compared to the 25.4% reported at the end of Q3. This is still above Shell's desired 20% but, with continued strong organic cash flow and further divestment proceeds from here should give management the required line of sight to eventually remove the scrip and buy back shares.

Total SA has signed an agreement with Engie to acquire its portfolio of upstream liquefied natural gas (LNG) assets for an overall enterprise value of $1.49 billion. This portfolio includes participating interests in liquefaction plants, notably the interest in the Cameron LNG project in the U.S., long term LNG sales and purchase agreements, an LNG tanker fleet as well as access to regasification capacities in Europe. Additional payments of up to $550 million could be payable by Total in case of an improvement in the oil markets in the coming years. "The acquisition of Engie's upstream LNG business enables Total to accelerate the implementation of its strategy to integrate along the full gas value chain, in an LNG market growing strongly at 5% to 6% per year. The combination of these two complementary portfolios will allow the Group to manage an overall volume of around 40 million tonnes of LNG per year by 2020, making Total the second largest global player among the majors with a worldwide market share of 10%", commented Patrick Pouyanné, Chairman & Chief Executive Officer of Total. "With the equity stake in the Cameron LNG project, Total will also become an integrated player in the US LNG market, where the Group is already a gas producer". The transaction is expected to close by mid-2018 and will have an effective date of 1st January, 2018. In addition, in parallel with this transaction, Total and Engie agreed to cooperate to promote the use of biogas and renewable hydrogen, with Engie becoming Total's priority supplier in this field.

Financial Sector

Brookfield Property Partners L.P. (BPY): Bidding U$23/share for the 66% of GGP Inc. It Does Not Own for a Transaction Value of U$14.8 Billion: BPY has made a U$14.8 billion offer to acquire the 66% of GGP that it currently does not own, equating to ~U$23/share which implies a 3.6% premium to Friday's close and a 20% premium to GGP close on November 3 (U$19.10), the date before speculation of a potential bid from Brookfield emerged – the bid is reported to be 50% cash and 50% equity (i.e. U$23.00 or 0.9656 BPY units) -- the article reports the offer was submitted to the GGP Board on Saturday -- recall, Brookfield designates 3 members to GGP's 9-person Board, including Chairperson, Mr. Bruce Flatt (CEO of Brookfield) – a majority of the GGP Minority (non-Brookfield investors) would be required to approve any potential transaction. U.S. regional mall retail as a % of BPY's asset value would increase to ~55%-60% from 33% today if it was the sole acquirer of GGP, a level that some may view as relatively high for a global diversified real estate play (that figure would increase if BPY sold office assets to fund the bid, for example). A U$23.00 offer price equates to a 21.5% discount to consensus GGP NAV of U$29.25 and a 23% discount to BPY IFRS NAVPU for GGP -- at present, BPY is trading at a 22% discount to its IFRS NAV (i.e. BPY trading discount to NAV matches the GGP discount at U$23).

Standard Chartered PLC said last Thursday it had agreed to a further extension of its U.S. Deferred Prosecution Agreements (DPA) until July 28, 2018. The company had entered into DPAs with the U.S. Department of Justice and the New York County District Attorney's Office in December 2012, which was extended for a further three years in 2014. A deferred prosecution agreement is when a prosecutor agrees to grant amnesty in exchange for the defendant agreeing to fulfill certain requirements. The bank is being investigated over whether it continued to violate Iran-related sanctions after 2007, in violation of deferred prosecution agreements between the bank and U.S. state and federal prosecutors.

Activist Influenced Companies

Hertz Global Holdings, Inc. reported a better-than-expect net profit as higher revenues and revenue management offset cancelled reservations in hurricane-impacted parts of the U.S., but the car rental company warned it was entering a period of weak demand amid high investment. Revenue for the quarter rose 1% versus the same period in 2016, but rental car revenue in the U.S. fell 1% despite higher pricing. Hertz said it had made progress in its turnaround plan, including reducing the size of its rental fleet. "We are entering a seasonally low period of demand at the same time that we are continuing to invest in the long-term growth of the company," Chief Executive Officer Kathryn Marinello said in a statement. "Expense always precede benefit." "Higher spending levels throughout 2018 are necessary to ensure predictable, sustainable earnings performance, beginning in 2019," she added. Estero, Florida-based Hertz reported third-quarter net income of $93 million, or $1.12 per share, up from $42 million, or $0.52 per share, a year earlier. Excluding one-time items, reported earnings of $1.42 per share.

Dividend Payers

Pattern Energy Group Inc. reported adjusted EBITDA of $54.7 million for the third quarter of 2017 compared to $62.3 million for the same period last year. Adjusted EBITDA was $244.8 million for year-to-date 2017 compared to $219.0 million for the same period last year. The $7.6 million change in the quarterly period was primarily due to increases of $7.3 million in transmission costs and $2.7 million in project expense, and a decrease of $0.7 million in the proportionate share of Adjusted EBITDA from unconsolidated investments. These changes were partially offset by a $2.6 million increase in revenues (excluding unrealized loss on energy derivative and amortization of PPAs) and a $0.5 million decrease in operating expense. Pattern Energy sold 1,513,997 megawatt hours ("MWh") of electricity on a proportional basis in the third quarter of 2017 compared to 1,472,300 MWh sold in the same period last year. Production was affected during the quarter by the shut-down of Santa Isabel 100MW wind farm in Puerto Rico, as a result of the hurricane damage on the island. The company noted that there was very limited damage done to the turbines, but the grid has yet to come back online, which is expected to be done sooner rather than later. Pattern Energy narrowed its targeted annual cash available for distribution for 2017 to a range of $145 million to $160 million. The new range maintains the midpoint of the original range and that midpoint represents an increase of 15% compared to cash available for distribution in 2016. The range assumes long-term average proportionate production of the fleet for the remainder of 2017 and takes into account a potential adverse impact of any extended electric grid outage in Puerto Rico during the fourth quarter of 2017. Pattern Energy declared a 0.5% increase in its dividend for the fourth quarter 2017. During the third quarter, Pattern Energy acquired a 91 MW owned interest in the 179 MW Meikle project, with PSP Investments acquiring the remaining 88 MW interest. The Meikle project, located in the Peace River Regional District of British Columbia, commenced commercial operations in the first quarter of 2017 and operates under a 25-year power purchase agreement with BC Hydro and Power Authority, which has a AAA/Aaa2 credit rating. Pattern Energy has agreed to acquire a 51% interest in the 143 MW Mont Sainte-Marguerite project, located in the Chaudière-Appalaches region south of Québec City. The project is currently in the final stages of construction and commissioning and is expected to commence commercial operations in late 2017. The project will operate under a 25-year power purchase agreement with Hydro-Québec, which has a AA-/Aa2 credit rating.

Economic Conditions

Nothing significant to report.

Financial Conditions

The U.S. 2 year/10 year treasury spread is now .72% and the U.K.'s 2 year/10 year treasury spread is .83% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.90% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.2 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 11.39 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund
- Portland 15 of 15 Fund

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Private Income Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund
- Portland Global Aristocrats Plus Fund

Individual Discretionary Managed Account Models - SMA

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at http://www.portlandic.com/prices/default.aspx

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

PIC17-082-E(11/17)