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*Our views on economic and other events and their expected impact on investments.* May 13, 2019



## Owner Operated Companies

**Brookfield Asset Management Inc.** reported first quarter results that included net income of $6.9 billion for the last twelve months and $1.3 billion for the quarter. Bruce Flatt, CEO of Brookfield, stated, “We have had a strong start to 2019. In addition to announcing our agreement to acquire 62% of Oaktree Capital Management, our other businesses were active in committing or closing on a number of new transactions and progressing those previously announced. With $36 billion of group liquidity, we continue to seek opportunities to deploy further capital throughout the rest of 2019.” Funds from operations (FFO) were $4.3 billion for the last twelve months and $1.1 billion for the quarter. FFO in the quarter, excluding performance fees and dispositions gains, increased 27% as a result of higher asset management earnings, including increases in both fee related earnings and realized carried interest, and increased FFO from Brookfield’s invested capital. Fundraising remains strong with the final close of Brookfield’s $15 billion flagship real estate fund and a further nine funds currently in the market.

**Liberty Latin America Ltd. (LLA)** announced its financial and operating results for the first quarter, which included rebased revenue and operating cash flow (OCF) growth of 4% and 9%, respectively, driven by the strong performance in Puerto Rico. LLA also generated $48 million of adjusted FCF in Q1, a significant improvement over the prior-year period. CEO Balan Nair commented, “Our first quarter performance reflects a good start to the year. We delivered record Q1 revenue generating units (RGU) additions of 73,000, with subscriber growth across all reporting segments. In particular, C&W added 32,000 RGUs, its best quarter since our 2016 acquisition, and we continued to add RGUs in Puerto Rico following the restoration of our network in 2018. We see relatively low penetration of high-speed connectivity across our markets and further potential for fixed subscriber growth as we deliver leading product propositions and expand our high-speed footprint. In Q1, we added or upgraded over 80,000 homes and are on-track to meet our full-year targets. In mobile, we added 11,000 subscribers, with gains in both C&W and Chile. In fact, our enhanced customer value propositions in Panama contributed to our best quarter in subscriber gains at C&W in two years. Besides Panama, we rolled out refreshed campaigns in the Bahamas in Q1, as well as Jamaica and other markets in April. We expect these launches to drive financial momentum in the coming quarters. High-speed penetration continued to grow in the quarter as we reached 40% of our subscriber base with LTE packages and invested in increasing our LTE coverage.”

## Energy Sector

**Bonterra Energy Corp.** – During the first quarter of 2019, Bonterra continued to focus on the development of its high-quality, light oil-weighted, Pembina Cardium assets in Alberta. Through the period, the company benefitted from higher realized oil prices due to a more favourable Canadian oil price differential environment supporting stronger funds flow compared to the previous quarter. Bonterra drilled 12 gross (10.8 net) Cardium wells, completed 10 gross (9.1 net) wells and tied-in and placed on production seven gross (6.1 net) wells, with the remaining five wells placed on production in April 2019. Production averaged 12,020 boed for Q1 2019, reflecting the impact of extreme cold weather conditions on operations in February. The full impact of Bonterra’s first quarter drilling program will be realized in the second quarter, as production volumes for the month of April averaged approximately 13,200 boed, 10% higher than the Q1 2019 average. Bonterra’s original 2019 capital budget of $57 to $77 million remains unchanged and is intended to maintain a balance between funds flow and capital spending with excess cash being directed to strengthen the balance sheet. Annual production volumes in 2019 are forecast to be in the range of 12,600 to 13,200 boed, of which approximately 62% would be sweet crude oil, with a forecast exit rate between 13,000 and 14,000 boed, positioning Bonterra well for a strong start to 2020.

**Cardinal Energy Ltd.** reported first quarter results that included adjusted funds flow increased by 16% and adjusted funds flow per share increased by 9% over the same period in 2018. As compared to the fourth quarter of 2018, adjusted funds flow increased by $24.1 million to $29.6 million. General and administration costs per boe decreased 14% over the same period in 2018 as the company reduced cash compensation costs in a volatile commodity price environment. Cardinal Energy continued with its debt reduction strategy by decreasing net debt by $11.8 million or 4% over debt levels as at December 31, 2018. The company bought back and cancelled the maximum allowable of 10% of outstanding debentures pursuant to the normal course issuer bid announced in December 2018. Total payout ratio decreased to 50% while the simple payout ratio decreased to 12% highlighting Cardinal’s focus on strengthening its balance sheet.

**Crescent Point Energy Corp.** reported results for the first quarter of its fiscal 2019, which included increased cash flow, lower costs, higher commodity prices and improved oil differentials. The company expects to generate approximately $600 million of excess cash flow in 2019 based on guidance at current strip prices. Crescent Point continued to focus on net debt reduction and the execution of a share repurchase program, with over $105 million of net debt reduction in the quarter and over 5.6 million shares repurchased year-to-date. Adjusted funds flow totalled $514.0 million during first quarter 2019, or $0.93 per share diluted, based on a strong operating netback of $33.95 per boe. The company's operating netback within its key focus areas of Viewfield, Shaunavon and Flat Lake was approximately 8% higher than the corporate average, highlighting the lower costs and premium oil pricing associated with these plays. For the quarter, Crescent Point's capital expenditures on drilling and development, facilities and seismic totalled $380.2 million, down approximately 50% compared to $722.0 million in first quarter 2018. Net debt equated to approximately $3.9 billion, or 2.1 times trailing adjusted funds flow. Cash and unutilized credit capacity was approximately $1.72 billion, with no material near-term senior note debt maturities. Crescent Point continued to actively hedge oil production during the recent improvement in commodity prices, including new hedges extending to late 2019 and 2020. Crescent Point had, on average, approximately 45% of its oil and liquids production, net of royalty interest, hedged through the remainder of 2019, approximately 35% in the first half of 2020 and 23% in the second half of 2020. Subsequent to first quarter, the Company declared a quarterly cash dividend of $0.01 per share payable on July 2, 2019. Crescent Point is on track with its 2019 budget, which remains unchanged, with expected annual average production of 170,000 to 174,000 boed and planned capital expenditures of $1.20 to $1.30 billion. The company initiated a process for asset dispositions during first quarter, which continues to progress.

**Northland Power Inc.** announced that the company has reached a final investment decision on its 130 megawatt (MW) La Lucha solar project in the State of Durango, Mexico. Northland owns 100% of the project which is expected to have a total capital cost of approx. $190 million. Recall, during the company's investor day in September 2018, the company had indicated that it would pursue opportunities in new markets including Mexico. Northland will advance to construction phase for the La Lucha project while the company's development team in Mexico continues to negotiate bilateral power contracts with a range of local commercial and industrial consumers in the market. The project is expected to reach completion in the second half of 2020. Northland intends to initially fund the project through a combination of cash and its corporate credit facility. Subsequently, Northland expects to utilize non-recourse project financing to finance La Lucha once it secures offtake agreements, closer to project completion.

## Financial Sector

**Brookfield Property Partners L.P.** (BPY) achieved strong operating performance in Q1 2019 and continues to have success in divesting mature assets at, or above, IFRS values. However, due to a number of other factors, the quarterly results were below expectations. Excluding gains on assets sold, BPY reported Q1 2019 funds from operations (FFO) per unit of $0.32, down 17% from $0.38 in the year-ago quarter. The decline was primarily due to the impact of higher interest rates ($0.03 per unit), the negative impact of foreign exchange ($0.01) and increased general and administrative expenses ($0.01) related to the expensing of leasing costs that can no longer be capitalized under the adoption of new leasing standards. With the units trading at a 27% discount to IFRS net asset value (NAV), buying back units is, in our view, an attractive use of BPY's capital. To that end, management has increased its focus on buying back units and, in March 2019, completed a Substantial Issuer Bid (SIB) for a total of 18.7 million units for US$389 million. Subsequently, BPY repurchased 597,826 units at an average price of $20.90 per unit under its Normal Course Issuer Bid (NCIB), for US$12.5 million. Management indicated that it will continue to repurchase units should they continue to trade at a significant discount to NAV. Considering the continued large spread between the unit price and NAV, an additional SIB would be positive. BPY's IFRS NAV per unit is now US$28.52, relatively unchanged since year-end 2018. Analysts' NAV per unit estimate remains relatively unchanged at US$25.20 against which BPY currently trades at a 17.2% discount to analysts' NAV estimate. Notwithstanding a large volume of asset sales, we expect cash flow to rise over the next year due to both strong operating performance and large acquisitions completed over the past few months, GGP Inc. and Forest City Realty Trust Inc. in particular. We note, however, that these acquisitions carry many assets which will be developed or redeveloped, and their full return will likely take years to achieve. BPY owns an extremely high-quality portfolio of properties, and we believe that it is well positioned to create meaningful value over the long term through the completion of its current active development and redevelopment projects. While retail sentiment remains negative, management appears to be taking some steps to improve the valuation through the recent substantial issuer bid and continued use of the NCIB.

**RioCan Real Estate Investment Trust** reported Q1 2019 Funds From Operations per diluted unit of $0.47, up slightly from the prior-year period, above consensus of $0.45. Healthy same-property Net Operating Income (NOI) growth and unit buybacks were largely offset by a large volume of asset sales. While there were several one-time costs and there were no gains from the sale of marketable securities in the quarter, this was mainly offset by gains from condo completions. Though these gains are not by nature recurring, RioCan has a large residential development program which should produce material, and growing, income over the next several years. Committed occupancy in RioCan's overall portfolio increased 30 basis points (bps) year/year to 96.9%. There was notable improvement in the office portfolio, which was up 150 bps year/year to 95.6% at the end of Q1 2019. At Q1 2019, RioCan's average net rent per occupied square foot was up 6.9% year/year, driven by a combination of new leasing and an 8.2% positive spread on renewals. Overall, RioCan's same-property NOI was up 1.4% as compared to Q1 2018. Organic growth was stronger in RioCan's core portfolio (Canada's six largest markets) with same-property NOI growth of 1.7%, as compared to a decline of 0.8% in secondary markets. This performance in our view clearly validates management's focus over the past few years on improving the portfolio. In total, since beginning its asset sale program in late 2017, RioCan has closed or entered into firm and conditional agreements or letters of intent to sell 75 properties totaling $1.5 billion at a weighted average cap rate of 6.69%. This is up from 72 properties sold (or agreed to be sold) as of February 11 and represents 75% of the disposition target. Management stated that the asset sales are materially in line with IFRS values. It appears that the pace of asset sales has slowed, although we expect management to remain focused on divesting properties in secondary markets.

## Activist Influenced Companies

**Nomad Foods Inc.** reported financial results for the first quarter, which included reported revenue increased by 15% to €618 million, organic revenue growth of 0.9%, reported profit of €22 million, adjusted EBITDA increased by 18% to €122 million and adjusted EPS increased by 14% to €0.40. Noam Gottesman, Nomad Foods' Co-Chairman and Founder, commented, "First quarter results reinforce the sustainability of the Nomad Foods business model, now in its third consecutive year of organic revenue growth and market share gains. The team continues to execute at a high level while successfully navigating a dynamic packaged food backdrop. We ended the quarter with a sizable cash position due to strong free cash generation and a successful equity offering completed in late March. The combination of solid operating momentum and a well-capitalized balance sheet puts us in a position of strength as we pursue our organic and acquisitive growth ambitions." The company is reiterating 2019 guidance of approximately €420 to €430 million adjusted EBITDA. Adjusted EPS is now expected to be in the range of €1.18 to €1.22 per share, reflecting a higher share count as a result of the March 2019 equity offering. Full year guidance continues to assume organic revenue growth at a low-single digit percentage range.

## Dividend Payers

**Barrick Gold Corporation** reported an adjusted EPS of $0.11, ahead of consensus of $0.09. Analysts' calculate Q1 2019 adjusted EBITDA of $878 million about 8% above their earlier estimates. The EBITDA beat was driven by a strong operation margin with cash costs coming in below expectations at most of Barrick's core assets, including Barrick Nevada (Cortez and Goldstrike), Pueblo Viejo, Lagunas Norte, Veladero, and Turquoise Ridge. Barrick had pre-announced attributable Q1 2019 gold production of 1,367 thousand ounces and sales of 1,365 thousand ounces. Cash costs of $631 per ounce beat the $656 per ounce estimate. Notably, Barrick's Nevada assets (to be named Nevada Gold Mines upon the completion of the Nevada JV) had a strong start to the year with costs at Cortez & Goldstrike coming in 16% below analysts' expectations and costs at Turquoise Ridge beating analysts' estimate by 12% (with costs declining 29% quarter/quarter on higher throughput and grades). Barrick's copper segment also had a strong quarter, production of 106 million pounds and sales of 103 million pounds had been pre-announced and cash costs of $1.66 per pound beat analysts' $1.93 per pound estimate. Barrick reiterated its 2019 gold production guidance of 5.1-5.6 million ounces at cash costs of $650 - $700 per ounce. After one quarter, Barrick is tracking well on both production and cost guidance in our view and the current gold and copper cash cost run-rate is below the low-end of the 2019 guided range. Notably, Barrick now expects its five-year production and cost outlook (including 2019) to be within the 2019 guided range, but notes cash costs could decline over time. Barrick ended Q1 with $2,153 million in cash, net debt of $3.65 billion, and $3.0 billion available on its undrawn credit facility.

**Bunzl PLC** has announced that after more than 13 years in the role of CFO and 25 years with the company, Brian May has decided to retire. He will be succeeded by Richard Howes, currently CFO of Inchcape PLC, the independent global multi-brand automotive distributor and retailer. Prior to joining Inchcape he was CFO of Coats Group PLC, the industrial thread and consumer textiles business. Brian is 56 years old, so not at retirement age. We understand he would like to step back from executive management and develop a range of non-executive and other roles. The shares have gone from 638 pence to 2200 pence since he was finance director. Richard Howes will join on September 1, 2019, initially as Chief Financial Officer designate before joining the Board and assuming the role of CFO on January 1, 2020. In order to allow for a successful handover, Brian May will step down from the Board on December 31, 2019 and leave the Group on February 28, 2020. From our perspective, Brian May's departure does not come as a shock but it is negative for Bunzl to lose him as he has done such a good job and an external appointment is probably a positive, as it shows the company has run a full process and chosen what it believes to be the best available candidate and the orderly transition is typical of how Bunzl operates.

**Pattern Energy Group Inc. (PEGI)** reported first quarter results which included proportional gigawatt hours (GWh) sold of 2,116 GWh, down 1%, a net loss of $46 million, while cash available for distribution (CAFD) was $53 million, up 23% and on track to meet full year guidance. Adjusted EBITDA was $98 million, down 6%, and revenue of $135 million, up 21%. PEGI declared a second quarter dividend of $0.4220 per Class A common share or $1.688 on an annualized basis, subsequent to the end of the period, unchanged from the previous quarter's dividend. The company increased Pattern Energy's total capital invested in Pattern Development to $190 million by fulfilling capital calls since January 1, 2019. It added 400 MW of new wind projects to the identified right of first offer (ROFO) list, consisting of three projects in New Mexico with contracted sales to purchasers in the California market. "We continue to demonstrate a strong ability to manage the business for the wind variability experienced. We are on track for our 2019 full year guidance target with our effective capital management and growth strategy, despite wind resource levels that were below the long-term average in the Eastern United States," said Mike Garland, CEO of Pattern Energy. "We are executing our strategy to grow our CAFD per share through 2020 without the requirement to issue new common equity. The actions we are taking are meant to ensure that we can maintain our dividend, drive down our payout

ratio and fund the acquisition of identified ROFO projects. We have expanded our identified ROFO list to 1.3 GW with new projects in New Mexico during the quarter. Our investment in Pattern Development remains on track to deliver meaningful growth beyond 2019."
Pattern Energy is re-confirming its targeted annual cash available for distribution for 2019 within a range of $160 million to $190 million. For the full year 2020, Pattern Energy expects annual cash available for distribution in a range of $185 million to $225 million.

## Economic Conditions

**Trade Wars** - After weeks of negotiations with Beijing and indications that a trade deal was in the making, President Trump suddenly decreed a tariff hike to 25% from 10% on $200 billion of Chinese imports, effective May 10. Why the breakdown? A couple of theories: Trump argued China had started to back off from commitments negotiated over the prior four months – this seems likely as Chinese state media have criticized the deal as "unbalanced" and the other theory is that this was an attempt by Trump to divert attention from his fight with the Fed to keep rates low (given the high funding costs of his deficits). Yet despite mounting uncertainty, the equity market pullback remains relatively modest in our view because trade negotiations are expected to continue. Mr. Trump, saying he thinks trade talks have dragged on for way too long, also ordered the U.S. negotiator to begin the process for imposing tariffs on all other imports from China, i.e. those not already subject to levies (value about $300 billion). China, which has yet to retaliate, invited the most senior U.S. trade representatives, Robert Lighthizer and Steven Mnuchin, to Beijing to pursue discussions. It should also be kept in mind that the tariff does not apply to Chinese-made products that were already on the way to the U.S. at the time of its imposition. That means we probably have until the end of May before the new import levies become binding and/or China imposes its own counter-measures on U.S. exports to the Middle Kingdom. Whatever the issues there seem to be 3 possible moves from here: they come to terms ahead of the June 28-29 G20 summit in Osaka – most likely outcome; talks drag on until worsening economic and market conditions force a deal; and the U.S. walks away from negotiations.

**Canada's employment** soared 107,000 in April according to the Labour Force Survey, well above 10,000 increase expected by consensus. The massive job gains allowed the unemployment rate to drop from 5.8% to 5.7%, and that despite an increase in the participation rate to 65.9%. Job gains were driven by the private sector (+84,000), although government (+23,000) also saw gains. Self-employment was flat in the month. Employment in the goods sector rose 40,000 as gains in construction (+29,000), manufacturing (+6,000), agriculture (+7,000) and utilities (+1,000) dwarfed declines in resources (-3,000). Services-producing industries increased employment by 67,000 as gains in several sectors including finance/insurance, health care, trade, and public admin more than offset declines in professional services and education. Full time employment soared 73,000 while part-timers saw their ranks increase 34,000. Hourly earnings rose to 2.5% year/year, the highest since August last year. Looking at the last 12 months, which gives a more reliable picture of the labour market, Canadian employment has increased an average of 36,000 per month. And most of those gains were registered in the private sector (+30,000 per month) and in full-time positions (+21,000). Ontario accounted for about half of those gains in the last 12 months. Employment in Ontario for the 15-24 age group is up 4% year/year, versus +2.8% for the province as a whole. The minimum wage hike in that province has arguably not hurt youth employment as advertised by critics. Canada's wage inflation is also on the rise, not really a surprise given the tilt of job creation towards full-time positions and the general tightness of the labour market.

**U.S.** the **consumer price index** gained three ticks on a monthly basis in April, one tick below consensus estimates. Energy prices advanced 2.9% on a 5.7% spike for gasoline. Food prices, meanwhile, edged down 0.1%. Excluding those two categories, the core CPI eked up 0.1% (less than consensus forecast calling for a +0.2% print) as a 0.3% gain for the ex-energy services segment was partially offset by a 0.3% dip for ex-energy goods. Prices for core services were positively impacted by a 0.4% rise in shelter costs. Alternatively, the core goods component suffered from a 1.3% plunge in the price of used cars and a 0.8% drop for apparel (following a 1.9% drop the prior month which was the biggest registered since 1945). Year/year headline prices progressed 2.0%, one tick more than in the prior month. The core index also gained a tick at 2.1%.

## Financial Conditions

**The Reserve Bank of Australia (RBA)** held its official cash rate (OCR) steady at 1.50%. Nonetheless, the concluding paragraph of today's accompanying statement was different from the one in April. Today, the central bank said, "The Board judged that it was appropriate to hold the stance of policy unchanged at this meeting. In doing so, it recognised that there was still spare capacity in the economy and that a further improvement in the labour market was likely to be needed for inflation to be consistent with the target. Given this assessment, the Board will be paying close attention to developments in the labour market at its upcoming meetings".

**China's central bank** said last week it would implement its cut in reserve requirement ratios (RRRs) for some small- and medium-sized banks in three phases, as part of wider efforts to help companies weather a slowdown in the economy. The cuts will be gradually implemented on three dates, including May 15, June 17 and July 15, the central bank said. "This is aimed at helping small- and medium-sized banks to better serve small and private enterprises, which will in turn support the overall economy," the People's Bank of China said in a statement on its website. The central bank said it would cut RRRs to release about 280 billion yuan ($41 billion) for some small- and medium-sized banks. (Source: Reuters)

**The Reserve Bank of New Zealand (RBNZ)** cut its OCR by 25bps to 1.50%. In last week's accompanying press release, the RBNZ concluded that "Given this employment and inflation outlook, a lower OCR now is most consistent with achieving our objectives and provides a more balanced outlook for interest rates." The OCR was last changed in November 2016. This is also the first decision made by an enlarged monetary policy committee, which includes three people from outside the RBNZ, though is chaired by RBNZ Governor Adrian Orr. The committee reached a "consensus" decision to cut the rates.

The U.S. 2 year/10 year treasury spread is now 0.21% and the U.K.'s 2 year/10 year treasury spread is 0.39% - 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. Also, the narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.10% (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 3.9 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 20.42 (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 bodes 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:

- Bay & Scollard Development Trust
- ITM AG Investment Trust
- Portland Advantage Plus - Everest Fund
- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Global Aristocrats Plus Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Global Sustainable Evergreen Fund
- Portland Global Sustainable Evergreen LP
- Portland Private Growth Fund
- Portland Private Income Fund
- Portland Special Opportunities Fund
- Portland Value Plus Fund

**Individual Discretionary Managed Account Models** - SMA

**Net Asset Value:**

The Net Asset Values (NAV) per unit of our investment funds are published on our Portland website at www.portlandic.com/prices

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.

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**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, 'GDP' gross domestic product, 'netback' is a measure of oil and gas sales revenues net of royalties, production and transportation expenses and is used to compare performance in the oil and gas industry, 'ROE' return on equity, 'ROTE' return on common equity, 'ROTCE' return on tangible common equity.



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PIC19-028-E(05/19)