

## PORTFOLIO PURCHASE

**WHITECAP ENERGY  
WCP-TSX; SPGYF-PINK**

**PORTFOLIO SALES  
TAMARACK VALLEY  
SELECT SANDS**

**I bought 27,000 shares of the Whitecap Energy financing at \$8.80.** That's \$236,000--a big number for the OGIB portfolio--and to help pay for it I sold my **Tamarack Valley** (a mini-Whitecap) and was stopped out on **Select Sands**. Those trades are at the very bottom of this email.

Here's why I bought the stock:

1. oil weighting for Whitecap goes up
2. accretive on all per share metrics
3. overall decline rate goes down to under 20%
4. this new acquisition is Free Cash Flow machine
5. if the oil tape improves, this company's fundamentals + the very high regard that the Street has for CEO Grant Fagerheim = big inflows from institutions as they increase energy weightings

*In fact, I think this deal means that Whitecap will be the best performing energy stock in North America in the next 10 weeks or so.*

Whitecap is buying **Cenovus' (CVE-NYSE/TSX)** interest in the **Weyburn Unit** in southern Saskatchewan--right near the US border--for \$940 million. This is a big deal for Whitecap which has a \$3.5 billion enterprise value going into the deal.

The Weyburn unit is a 14,800 bopd (100% liquids) producing asset with really low--like 3%!!--decline rates. It fits perfectly into Whitecap's asset

portfolio and strengthens the company's business model.

The purchase is also immediately accretive on all important metrics.

*This deal reminds me of when **Birchcliff (BIR-TSX)** bought Gordondale from Encana in June 2016—and Birchcliff stock went from \$5-\$9 in two months.*

In both cases we have very motivated sellers and a limited number of natural acquirers.

Whitecap is raising \$425 million through a bought deal finance to help cover the \$940 million price tag.

Here are the pro-forma stats for 2018 on Whitecap with this purchase and equity raise factored in assuming \$54 WTI next year:

## **QUICK FACTS (from Nov 2017)**

Trading Symbols:	WCP-TSXV
Share Price:	\$9.01
2018 Production:	74,000 boe/d (86% liquids)
2018 Funds Flow:	\$703 million
2018 Capex:	\$440 million
2018 Dividends:	\$129 million
2018 Excess Cash Flow:	\$134 million
2018 Payout Ratio:	81%
Current Yield:	3.3%
Debt to Cash Flow:	1.7 times
EV/EBITDA:	5.7 times

## **POSITIVES**

- Business model built around a strong balance sheet
- A CEO that is experienced and proven to be successful
- High netback oil focused assets
- The dividend can be sustained even at \$50 oil
- Will be an opportunistic acquirer (as we just saw)

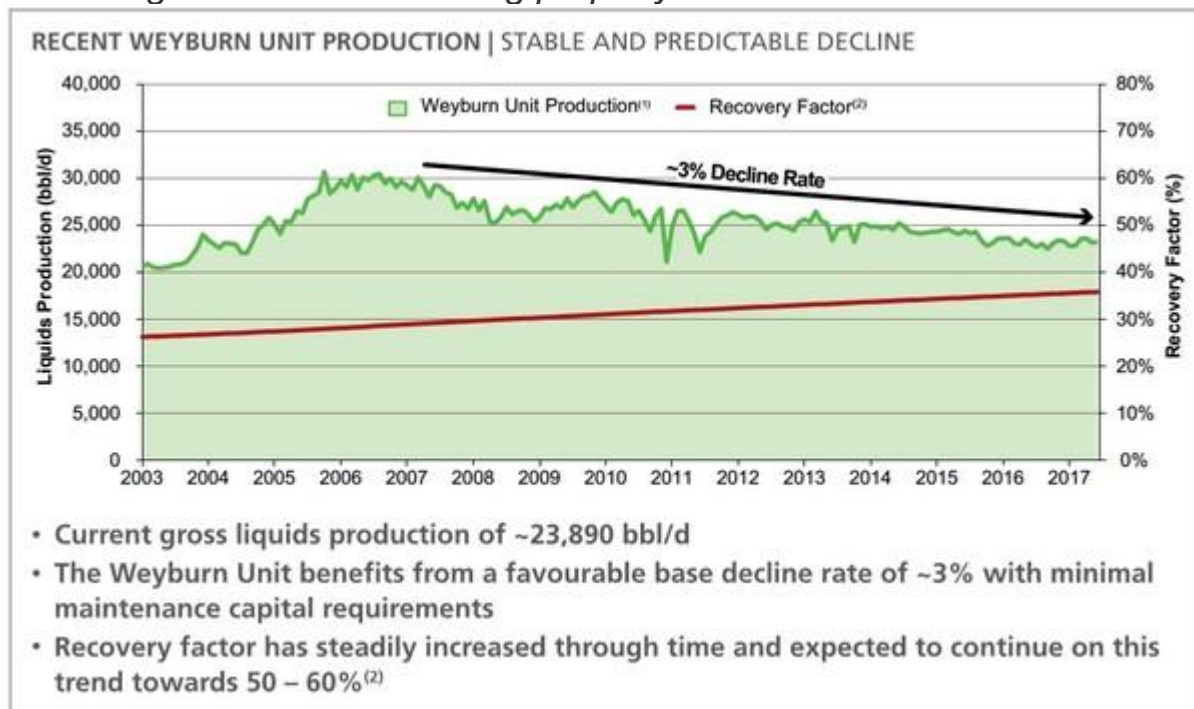
## NEGATIVES

- Valuation of stock is never cheap (company uses that to its advantage)
- No clear timing on an exit strategy laid forth by CEO
- Limited growth potential

<http://www.wcap.ca/>

As I mentioned the 14,800 barrels acquired in the Weyburn Unit are 100% weighted to liquids. The asset is under a CO<sub>2</sub>-flood and has an extremely low decline rate of less than 3 percent.

*This is a great free-cash-flowing property.*



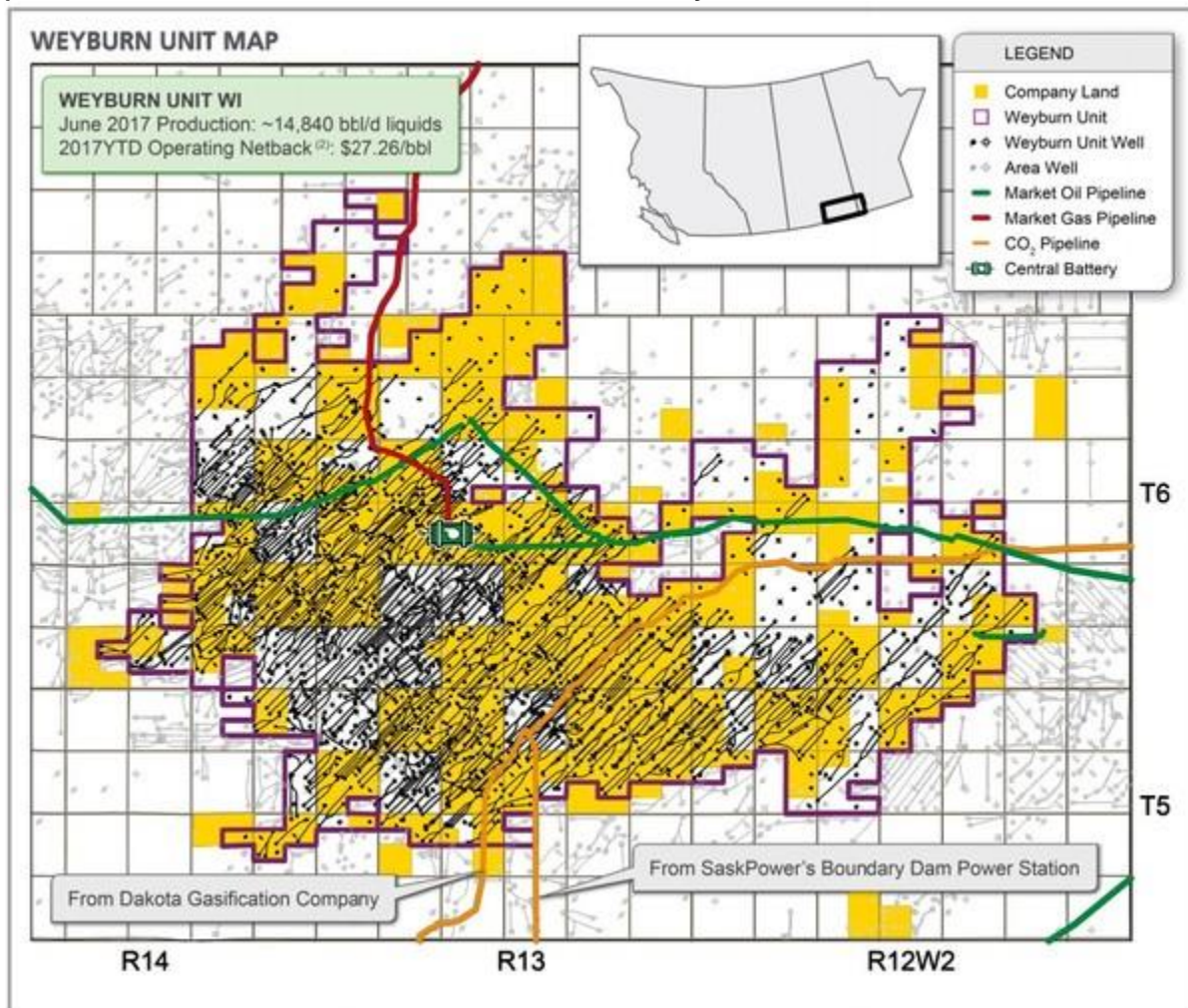
The Weyburn Unit is actually one of the largest carbon capture, utilization and storage projects in the world. It is recognized globally as one of the most successful developments of its kind from a technical, economic and environmental perspective.

Over 100 technical papers have been written on its development and

progress.

Cenovus has been the operator of the Unit since its inception in 1963 and has conducted over 250 site tours to interested parties from around the world.

There has been minimal development of this asset over the last few years with only 12 infill wells drilled in 2015 and one CO<sub>2</sub> expansion phase added in 2014. Due to low commodity prices, capital spending has been limited to production maintenance over the last few years.



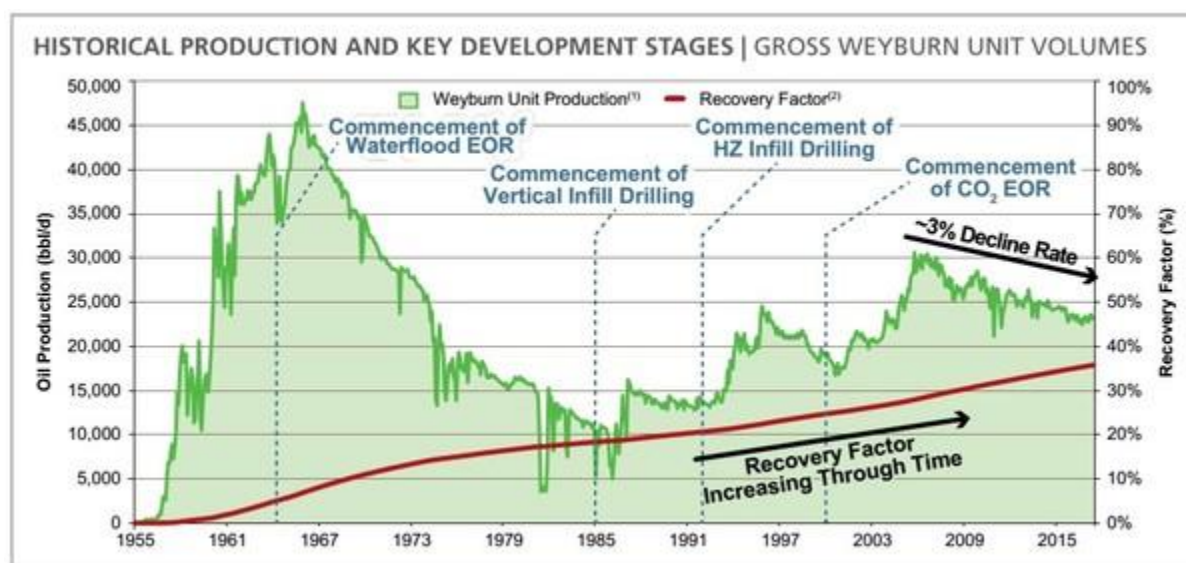
Since its initial discovery in 1954 development of the Weyburn Unit has gone through four key stages.

**Primary Production** – Initially exploited using conventional vertical drilling with 80 acre spacing

**Waterflood EOR Development** – Commenced in 1964, field production was converted to a pattern waterflood using an inverted 9-spot pattern design

**Infill Development From 1985 to 1999** – Vertical infill drilling started in 1985, horizontal infill drilling started in 1992

**CO<sub>2</sub> Enhanced Recovery Development** – Commenced in 2000, 83 unique patterns completed to date with 30 million plus tonnes of CO<sub>2</sub> having been injected.



Like any purchase what makes or breaks it is—price. In this case it looks very reasonable at \$63,500 per barrel and 5.5 times 2018 expected funds flow. Remember this production is barely declining, so these are good numbers.

Because of the reasonable purchase price the deal becomes accretive on a per share basis for Whitecap:

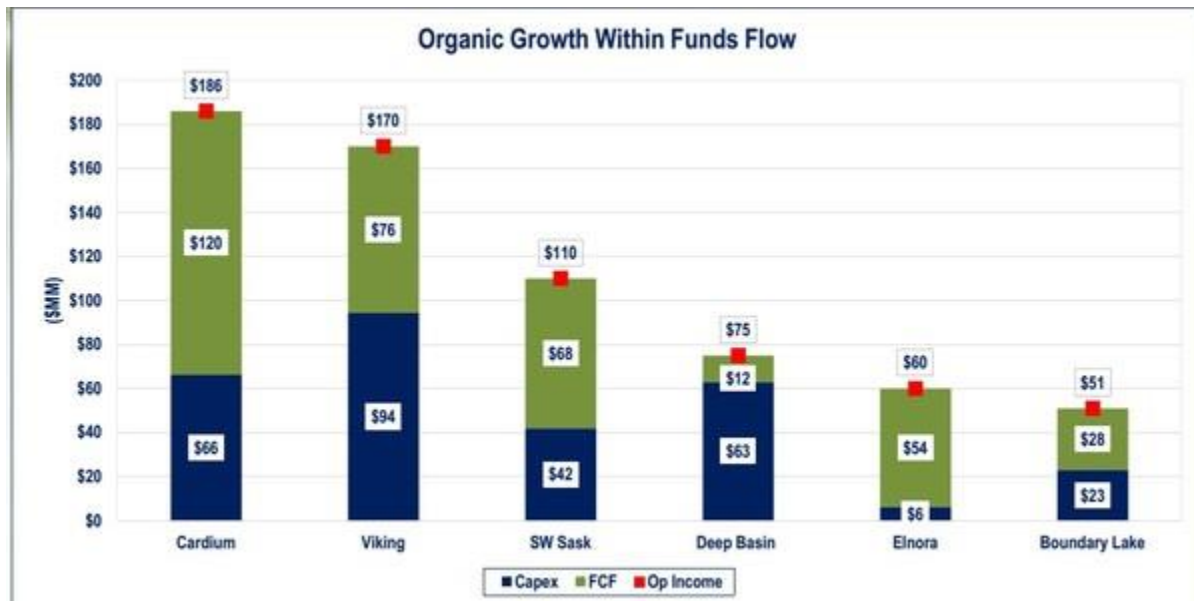
- Funds flow/share up 12%
- Production/share up 11%
- Proved developed producing reserves/share up 30%
- Proved plus probable reserves per share up 19%
- NAV/share up 7%

In 2018 Whitecap believes that it will require only 35% of the cash flow from the Weyburn to maintain production flat. That gives WCP \$112 million of free cash flow to use elsewhere – this alone almost covers Whitecap’s entire 2018 dividend.

Whitecap had been planning a 5% increase to the monthly dividend to \$0.0245 per share from \$0.0233 per share effective with the December 2017 dividend. With this acquisition and the bump to free cash flow the company has decided on an additional 5% increase to the monthly dividend to \$0.0257 per share (**\$0.3084 per share annualized**) effective for the January 2018 dividend.

Over the next five years Whitecap thinks that it can grow production from the Weyburn asset to 17,700 boe/d while also generating cumulative free cash flow of \$459 million.

This is in addition to Whitecap’s other main operating areas all of which also generate free cash flow in excess of capital spending requirements.



Adding the Weyburn asset should lower Whitecap’s total corporate decline rate from 23 - 19%.

## STOCK CHART



## CONCLUSION

I don't know where the oil price is going. I think it's flat to higher. I'm positioning my portfolio so I own companies with

1. very high oil weightings
2. fastest paybacks on wells I can find
3. Free Cash Flowing machines
4. and I'm gravitating towards larger companies; size now matters more than ever unless there are exceptional economics

And when you look at the big positions in the portfolio--**Parex, Spartan,**

**Raging River, and Whitecap**--that's what I have. **Cardinal** with its heavier oil weighting and larger opex costs and **Ring Energy** with its small production base are next. **Yangarra** is a really small position, and they're only 55% liquids, but even their gas wells are paying out remarkably quickly due to high propane levels.

I'm actually pretty happy with my oil holdings right now. Maybe my trading days are done!

STOP LOSS = \$8.35--which would be a new year low.

## **PORTFOLIO SALES**

I bought both Tamarack Valley and Select Sands going into their quarterly as I suspected they may have good enough news to surprise the Market...and in an improving oil tape, maybe have a run.

I was wrong.

Now, as I've said before, both these companies have great assets and are very well managed. But they are smaller and the institutional money flow necessary to make stocks go up won't be flowing here first.

Whitecap is 86% liquids; Tamarack is about 55% and (as I've said many times lately) I think Canadian natgas prices will be horrible in 2018, giving the stock downside.

Select Sands is just small, and will need to raise some funds at some point to grow the way it wants. There is a great chance I participate in that.

All 20,000 Tamarack sold at \$2.68 for about a 22 cent loss and all Select Sands at 48 cents for a 6 cent loss.

-Keith