eResearch

Third Party Research July 17, 2018

2018 First Half Review and Outlook

***e*Research Corporation** is pleased to provide an article courtesy of **Investing Daily**.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: https://www.investingdaily.com/42732/first-half-report-card/

You can also visit the **Investing Daily** website at the link below:
https://www.investingdaily.com/

***e*Research** was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eresearch.ca.

Bob Weir, CFA: Director of Research

2018 First Half Review and Outlook

By Robert Rapier
July 17, 2018

With the year half over, now is a good time to assess the big picture in the energy sector. I will also take a look at the predictions I made at the beginning of the year and how they have fared. This half-year review will make it easier for you to discern the investment opportunities that lie ahead.

It has been a year of growing U.S. oil and natural gas production, but global demand has eroded spare oil production capacity. Geopolitical issues in Venezuela and Iran are also removing barrels of oil from the market.

Oil producers are enjoying a great year on the back of higher oil prices, but natural gas prices remain stagnant. Cash flow is up sharply from last year for nearly all of the major oil producers. Refiners have done well, but mid-stream companies continue to suffer from bearish sentiment.

Here is how I saw the year playing out in my January predictions, followed by a mid-year assessment of the prediction.

1. The U.S.A. will break its all-time oil production record

I predicted "a new all-time monthly production record, probably in the first half of the year." That had in fact happened even before I made my prediction, but the data had not yet been released.

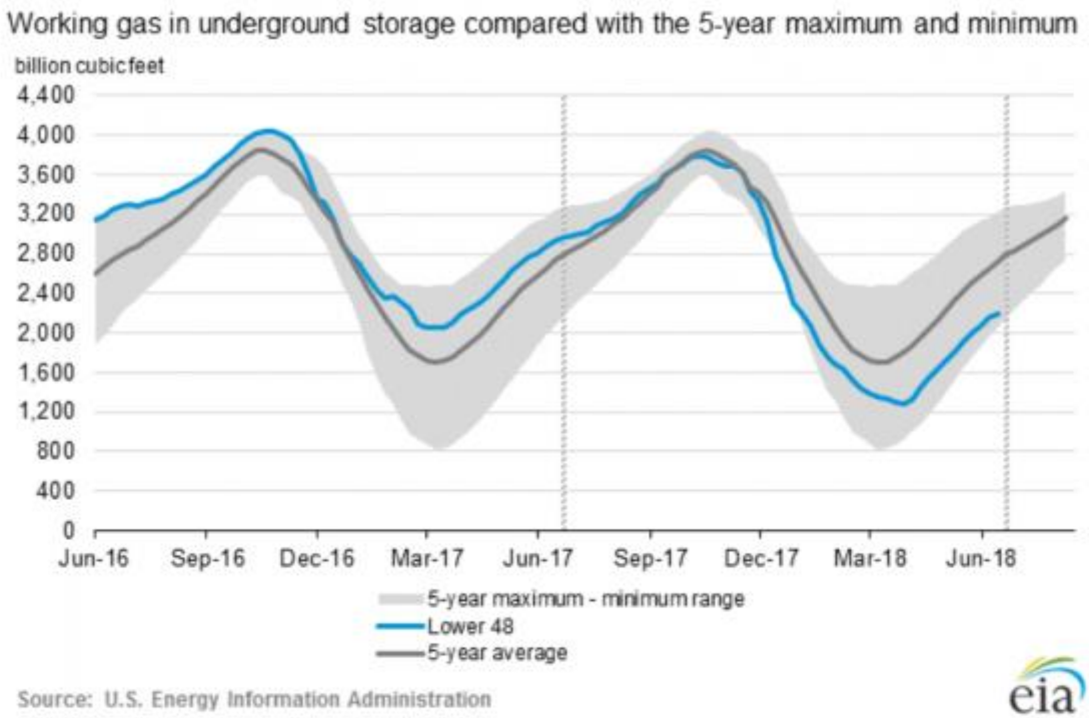
In October and November 1970, U.S. monthly crude oil production slightly exceeded 10 million barrels per day (BPD). Production has not been back to that level since then, but after I made my prediction the Energy Information Administration released data showing that November 2017 production reached 10.099 million BPD - a new record. Since then, production has continued to rise, reaching 10.9 million BPD in early July.

2. Oil prices to reach $70/bbl

Bear in mind that when I made this prediction, the price of West Texas Intermediate (WTI) had just reached $60 per barrel. It traded back down into the $50s since. There were still plenty of analysts predicting a return to the $40s when the year began. But, by May, the price had reached $70/bbl, and has traded as high as $77.41/bbl before recently pulling back.

3. For the first time since 2014, the average Henry Hub spot price for natural gas will be above $3.00/MMBtu

This was a prediction I almost did not make. I indicated, at the time, that my first instinct was "to predict that supply would likely keep up with demand this year and that prices would trade in a range from $2.50 to $3.00." But a cold snap in late December that pulled natural gas inventories down to the bottom of the average range led me to believe that this would lift natural gas prices.



As the graphic above indicates, natural gas inventories remain below normal for this time of year, and that could put upward pressure on prices as we head into heating season. But at least for now, after spiking to nearly $4 per one million British Thermal Units (MMBtu) in January, gas prices have in fact traded mostly in the $2.50-$3.00/MMBtu range.

4. U.S. gasoline demand will set a new record high

I made this prediction to emphasize a point. Despite the rapid growth of electric vehicles, the underlying growth in the population and the fact that SUV sales are on the rise will drive gasoline demand higher. The U.S. saw record gasoline demand last summer, and I felt this year was going to be more of the same - despite all the talk of peak oil demand.

Indeed, through the first week of July 2017, gasoline demand had averaged 9.14 million BPD. This year, through the same time period, gasoline demand has averaged 9.29 million BPD. During the second week in June, weekly gasoline demand nearly reached 10 million BPD for the first time ever. We are still on track to set a new record.

5. Shares of Tesla will close the year lower

What a wild ride this has been. EV producer Tesla opened the year at $312, and is presently trading within 1% of that value. However, the shares have traded as low as $245 and as high as $370. I indicated at the time that because Tesla is a cult stock that can swing wildly based on CEO Elon Musk's promises, this was somewhat of a risky call. When shares plummeted below $300 in March, I thought they would remain there. I still believe the company is grossly over-valued based on the fundamentals, but there is a compelling story about the future that is propping up the price.

<continued>

In conclusion, two predictions for the year have already been fulfilled on the back of a strong U.S. oil sector, one is on track to be fulfilled, one is tracking under my prediction, and one is a coin flip at this point.

The energy niches that have done well so far this year should continue to thrive as the rest of 2018 unfolds. The upward trajectory of oil prices enjoys sustainable momentum.

#####

Website: https://www.investingdaily.com/

See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR

It is hard to imagine anyone better suited to covering the energy-investment waterfront than Robert Rapier. Robert is no armchair analyst—he has two decades of in-the-trenches experience in a wide range of fossil fuel and biofuel technologies, including refining, natural gas production, gas-to-liquids, ethanol production and butanol production. During a six-year stretch at ConocoPhillips, Robert ran a team of engineers in Scotland working on oil and gas projects in the North Sea.

For two years, Robert was an efficiency expert in a Texas petrochemical plant. The process changes he implemented saved the facility $9 million a year. He later worked as the Engineering Director for a Dutch environmental-technology company and provided engineering support for a Chinese facility the company was constructing.

Robert was also a butanol engineer in Germany for the Celanese Corporation, where he designed a novel butanol unit that cut production costs by $5 million per year.

In all, Robert has spent more than a dozen years working on liquid fuels technologies. Along the way he has picked up five patents, including one for a breakthrough way to convert ethane into ethylene (U.S. Patent 7,074,977).

Now, in addition to guiding readers to timely energy plays in his twice-monthly *Energy Strategist*, Robert travels the world evaluating start-up energy companies for deep-pocketed investors. After grilling management and assessing the technology on-site, he makes a go/no-go investment decision. His wealthy private investors and hedge fund backers trust him to make the right choice for the same reason we do: his vast real-world experience in just about every facet of the energy industry. If Robert votes thumbs-up, millions of dollars flow into these cutting-edge outfits.

Robert earned his master of science in chemical engineering and a bachelor of science in chemistry and mathematics (double major) at Texas A&M University. He tells us he was "this close" to finishing his Ph.D. before he decided he was having a lot more fun making money in energy stocks.

A prolific writer, Robert's articles have appeared in *Forbes*, *The Wall Street Journal*, *The Washington Post* and the *Christian Science Monitor* — and he has been a featured expert on *60 Minutes* and *The History Channel*. His new book, *Power Plays: Energy Options in the Age of Peak Oil* (Apress, 2012), helps investors sort through doom and gloom, hype and misinformation to understand the true costs, benefits and trade-offs for each of our major energy options.

In what little spare time he has left, Robert consults for a number of energy projects, including biodiesel, ethanol, butanol, and biomass gasification facilities.