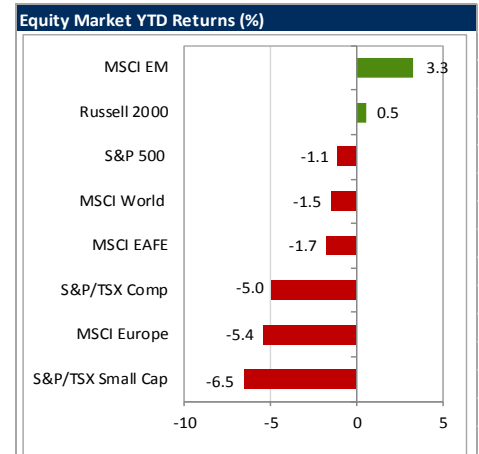


## Beaten Down, But Not Out

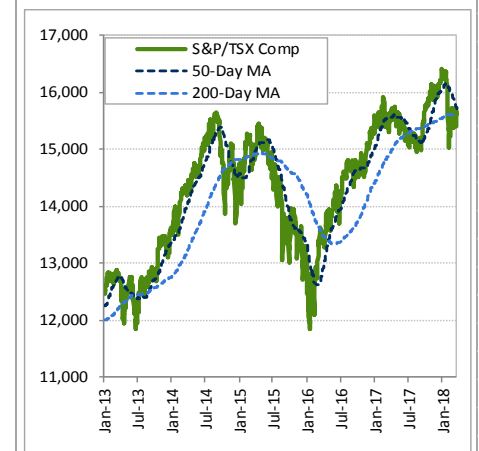
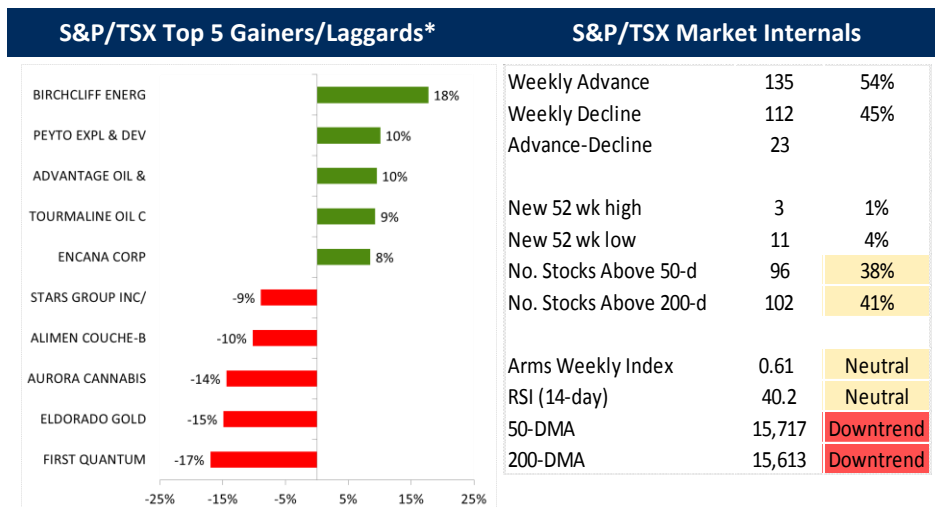
There is no sugar coating it, energy has been a difficult trade for well over 12 months. We upgraded the sector to Overweight in February 2017 as we believed the commodity would benefit from OPEC curtailing production, slowing US inventory growth and supportive global demand. The fundamental picture pointed to higher oil prices, which surely should have supported the energy complex that looked attractive from a valuation perspective.

- As a percentage of the overall indices, the Canadian and US energy sectors currently represent 18% and 5.5%, respectively. At their current weightings, the sectors represent a smaller percentage of the overall market today than when oil was trading at US\$26/bbl!
- We looked at the historical pattern between oil and the energy sector to determine if there was precedence for this type of decoupling. The best example we could find was the 2002 secular low in the commodity.
- Another way to look at this is by performing a simple regression analysis to show the relationship between the commodity and the S&P/TSX energy sector.
- While the energy sector has struggled, there are clearly stocks that are exhibiting leadership within the space based on relative sector performance, such as Enerplus (ERF-T) and Parkland Fuels (PKI-T). We tend to prefer leaders, but for those that want to do some bottom picking there are plenty of beaten down shares to choose from.



Canadian Sectors	Weight	Recommendation
Consumer Discretionary	5.4	Market weight
Consumer Staples	3.6	Underweight
Energy	18.3	Overweight
Financials	35.2	Market weight
Health Care	1.2	Market weight
Industrials	9.6	Overweight
Technology	3.9	Market weight
Materials	11.4	Overweight
Communications	4.6	Market weight
Utilities	3.7	Underweight
Real Estate	3.0	Market weight

Technical Considerations	Level	Target
S&P/TSX Composite	15,400	17,650



Source: Bloomberg, Raymond James Ltd.  
Sectors are based on Bloomberg classifications

Source: Bloomberg, Raymond James Ltd; \* 5-day price return

Please read domestic and foreign disclosure/risk information beginning on page 6

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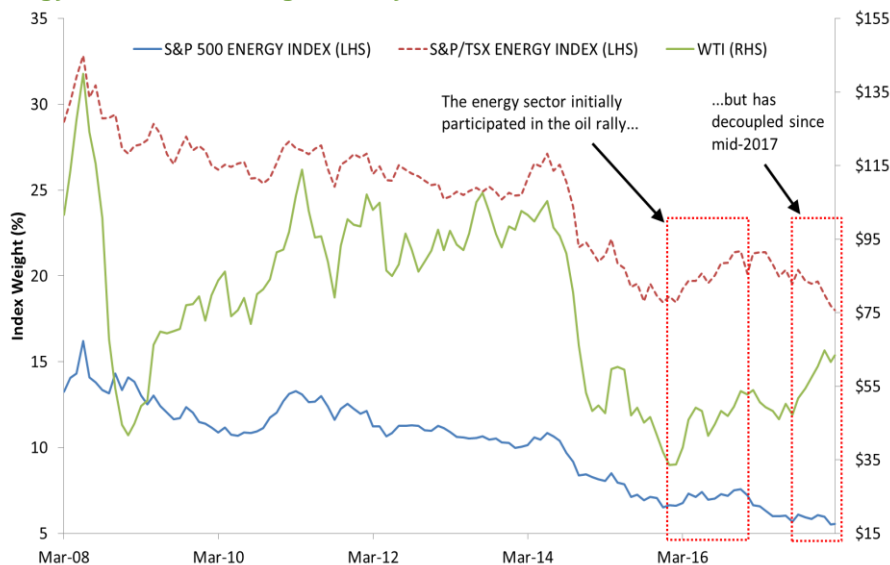
2200-925 West Georgia Street | Vancouver BC Canada V6C 3L2.

There is no sugar coating it, energy has been a difficult trade for well over 12 months. We upgraded the sector to Overweight in February 2017 as we believed the commodity would benefit from OPEC curtailing production, slowing US inventory growth and supportive global demand. The fundamental picture pointed to higher oil prices, which surely should have supported the energy complex that looked attractive from a valuation perspective. Initially, as the commodity moved from US\$26/bbl to US\$55/bbl, energy shares participated in the rally; however, more recently, energy has underperformed as the commodity moved from US\$42/bbl to US\$63/bbl. To put the entire move into perspective, WTI prices have gained 146% since bottoming in February 2016 while the S&P 500 and S&P/TSX energy sectors have gained just 24.6% and 18.3%, respectively.

There are a few reasons we can point out in order to help understand why Canadian energy has been held back, such as limited pipeline capacity/inability to build new pipelines and depressed Western Select Oil prices. But, US producers who did not face the same challenges have experienced a similar decoupling.

As a percentage of the overall indices, the Canadian and US energy sectors currently represent 18.3% and 5.5%, respectively. At their current weightings, the sectors represent a smaller percentage of the overall market today than when oil was trading at US\$26/bbl!

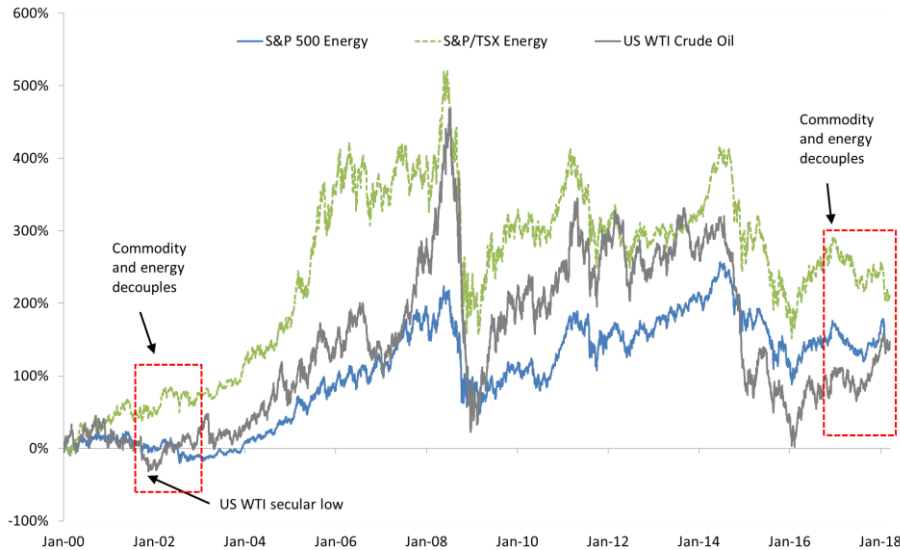
### Energy is a Smaller Weight Today than When Oil was at US\$26/bbl!



Source: Bloomberg, Raymond James Ltd.

We looked at the historical pattern between oil and the energy sector to determine if there was precedence for this type of decoupling. The best example we could find was the 2002 secular low in the commodity. Following a 50% selloff, oil prices bottomed in 2002 and gained over 700% over the next 6 years. In 2002, the S&P/TSX energy sector gained 12%, while oil prices gained 58%. However, this divergence did not last long as the energy sector gained 23% in 2003 (oil prices were relatively flat that year gaining only 4%). If we assume oil has entered a new secular bull market, history would suggest energy shares can finally play catch up to the commodity.

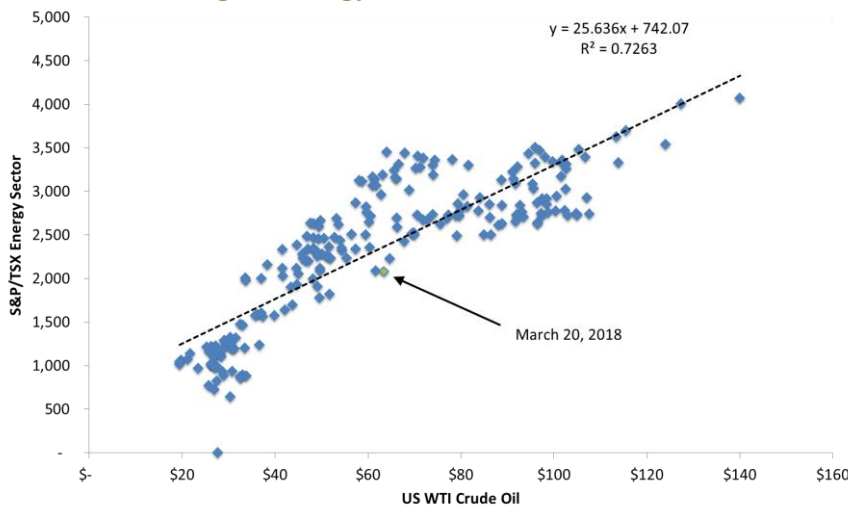
### Oil and Energy Decoupling – It’s Happened Before



Source: Bloomberg, Raymond James Ltd.

Another way to look at this is by performing a simple regression analysis to show the relationship between the commodity and the S&P/TSX energy sector. In the chart below we can see the sector and the commodity have a very strong relationship (R-squared = 0.73), which suggests higher oil prices should correspond with higher levels in the energy index. Based on the historical linear relationship, existing level of the commodity and index level, energy shares appear to be undervalued.

### Higher Oil Price = Higher Energy Shares



Source: Bloomberg, Raymond James Ltd.

### Beaten Down, But Not Out

In the following table we group members of the S&P/TSX energy sector by sub-industry, sorted by market cap and show each member’s absolute and sector relative performance. While the energy sector has struggled, there are clearly stocks that are exhibiting leadership within the space based on relative sector performance, such as Enerplus (ERF-T) and Parkland Fuels (PKI-T). We tend to prefer leaders, but for those

that want to do some bottom picking there are plenty of beaten down shares to choose from.

Company name	Ticker	Mkt Cap (\$mIn)	Last	Absolute Change			Relative to Sector		
				1-mth Chg (%)	3-mth Chg (%)	6-mth Chg (%)	1-mth Chg (%)	3-mth Chg (%)	6-mth Chg (%)
<b>Coal &amp; Consumable Fuels</b>									
CAMECO CORP	CCO	\$ 4,742	\$ 11.83	3.1	-1.2	-3.8	4.6	8.6	5.8
NEXGEN ENERGY LT	NXE	\$ 913	\$ 2.66	-1.8	-17.1	-6.7	-0.4	-7.4	3.0
<b>Integrated Oil &amp; Gas</b>									
SUNCOR ENERGY	SU	\$ 71,865	\$ 43.23	0.1	-3.3	2.7	1.6	6.5	12.4
IMPERIAL OIL	IMO	\$ 29,326	\$ 34.89	1.5	-9.2	-10.8	3.0	0.5	-1.1
HUSKY ENERGY INC	HSE	\$ 18,253	\$ 17.90	7.6	2.1	17.3	9.1	11.9	27.0
CENOVUS ENERGY	CVE	\$ 14,155	\$ 11.00	18.2	-1.5	-13.3	19.6	8.2	-3.7
<b>Oil &amp; Gas Drilling/Equipment &amp; Services</b>									
SHAWCOR LTD	SCL	\$ 1,763	\$ 24.44	-8.3	-9.9	-13.1	-6.8	-0.2	-3.4
CES ENERGY SOLUT	CEU	\$ 1,610	\$ 5.90	7.5	-7.5	-5.1	9.0	2.2	4.5
PASON SYSTEMS	PSI	\$ 1,597	\$ 18.01	5.0	3.1	-4.6	6.4	12.8	5.0
MULLEN GROUP LTD	MTL	\$ 1,530	\$ 14.56	-2.9	-5.8	-15.3	-1.4	4.0	-5.7
ENERFLEX LTD	EFX	\$ 1,451	\$ 16.22	4.6	6.4	-12.5	6.1	16.2	-2.9
SECURE ENERGY SE	SES	\$ 1,349	\$ 7.99	-2.4	-7.7	-6.4	-1.0	2.0	3.2
TRICAN WELL SERV	TCW	\$ 1,131	\$ 3.21	1.9	-18.9	-26.2	3.4	-9.2	-16.6
PRECISION DRILL	PD	\$ 1,114	\$ 3.78	-12.5	5.9	-0.5	-11.0	15.6	9.1
ENSIGN ENERGY SE	ESI	\$ 950	\$ 5.89	-14.1	-5.3	-15.6	-12.7	4.4	-6.0
<b>Oil &amp; Gas Exploration &amp; Production</b>									
CAN NATURAL RES	CNQ	\$ 49,620	\$ 39.60	-1.1	-10.4	-5.9	0.3	-0.7	3.7
ENCANA CORP	ECA	\$ 15,238	\$ 15.32	12.2	-4.5	10.3	13.6	5.3	19.9
PRAIRIESKY ROYAL	PSK	\$ 6,619	\$ 28.42	-3.1	-10.4	-12.3	-1.6	-0.6	-2.6
TOURMALINE OIL C	TOU	\$ 5,728	\$ 20.88	7.8	-6.9	-20.2	9.3	2.9	-10.6
SEVEN GENERATI-A	VII	\$ 5,729	\$ 15.95	0.5	-11.1	-14.9	2.0	-1.4	-5.3
CRESCENT POINT	CPG	\$ 5,218	\$ 9.36	1.8	2.2	-4.1	3.3	11.9	5.6
VERMILION ENERGY	VET	\$ 5,050	\$ 40.52	-4.7	-10.2	-11.4	-3.2	-0.4	-1.7
ARC RESOURCES LT	ARX	\$ 4,747	\$ 13.31	3.3	-8.5	-25.8	4.8	1.2	-16.1
ENERPLUS CORP	ERF	\$ 3,839	\$ 15.16	13.8	25.8	22.2	15.3	35.6	31.8
WHITECAP RESOURC	WCP	\$ 3,427	\$ 8.09	-1.2	-8.7	-16.2	0.3	1.1	-6.5
PAREX RESOURCES	PXT	\$ 2,887	\$ 18.46	-1.0	4.7	24.4	0.5	14.5	34.0
PARAMOUNT RES -A	POU	\$ 2,287	\$ 16.06	-8.9	-16.9	-35.1	-7.4	-7.1	-25.5
PEYTO EXPL & DEV	PEY	\$ 1,789	\$ 10.88	-3.9	-27.0	-50.9	-2.4	-17.2	-41.3
FREEHOLD ROYALTI	FRU	\$ 1,526	\$ 12.60	-1.9	-10.3	-14.9	-0.4	-0.5	-5.3
MEG ENERGY CORP	MEG	\$ 1,494	\$ 4.86	-11.0	-3.8	-13.1	-9.5	6.0	-3.4
RAGING RIVER EXP	RRX	\$ 1,501	\$ 6.23	-2.4	-19.8	-18.7	-0.9	-10.1	-9.0
GRAN TIERRA ENER	GTE	\$ 1,428	\$ 3.65	9.0	4.6	28.5	10.4	14.3	38.2
NUVISTA ENERGY	NVA	\$ 1,330	\$ 7.26	-10.0	-6.6	-5.7	-8.6	3.2	3.9
TORC OIL & GAS L	TOG	\$ 1,327	\$ 6.62	5.2	-10.7	7.1	6.7	-0.9	16.8
KELT EXPLORATION	KEL	\$ 1,247	\$ 6.84	-4.1	-3.3	0.3	-2.6	6.5	9.9
SPARTAN ENERGY C	SPE	\$ 1,081	\$ 5.90	1.0	-15.7	-8.8	2.5	-6.0	0.8
BIRCHCLIFF ENERG	BIR	\$ 983	\$ 3.72	8.1	-13.5	-38.2	9.6	-3.7	-28.6
BAYTEX ENERGY CO	BTE	\$ 899	\$ 3.78	15.2	6.8	5.3	16.7	16.5	14.9
ADVANTAGE OIL &	AAV	\$ 738	\$ 3.97	6.4	-24.5	-51.0	7.9	-14.8	-41.4

Continue on next page...

Company name	Ticker	Mkt Cap (\$mIn)	Last	Absolute Change			Relative to Sector		
				1-mth Chg (%)	3-mth Chg (%)	6-mth Chg (%)	1-mth Chg (%)	3-mth Chg (%)	6-mth Chg (%)
<b>Oil &amp; Gas Storage &amp; Transportation/Refining &amp; Marketing</b>									
ENBRIDGE INC	ENB	\$ 67,020	\$ 39.48	-7.3	-19.7	-22.1	-5.8	-9.9	-12.4
TRANSCANADA CORP	TRP	\$ 47,365	\$ 53.29	-7.4	-13.6	-13.0	-5.9	-3.9	-3.3
PEMBINA PIPELINE	PPL	\$ 20,764	\$ 40.60	-0.9	-10.0	-3.6	0.6	-0.3	6.0
INTER PIPELINE L	IPL	\$ 8,545	\$ 22.10	-2.3	-13.4	-8.8	-0.9	-3.6	0.8
KEYERA CORP	KEY	\$ 6,858	\$ 32.97	-1.1	-5.9	-15.4	0.4	3.8	-5.7
KINDER MORGAN CA	KML	\$ 6,533	\$ 18.80	-1.9	11.1	8.7	-0.4	20.9	18.4
ALTAGAS LTD	ALA	\$ 6,311	\$ 24.34	-8.3	-14.3	-14.2	-6.8	-4.6	-4.6
ENBRIDGE INCOME	ENF	\$ 5,026	\$ 28.35	2.6	-4.5	-10.1	4.1	5.2	-0.4
PARKLAND FUEL CO	PKI	\$ 3,995	\$ 29.35	1.5	9.8	14.2	3.0	19.5	23.9
GIBSON ENERGY	GEI	\$ 2,427	\$ 17.01	1.6	-6.0	-3.8	3.0	3.8	5.9
<b>S&amp;P/TSX ENERGY INDEX</b>				<b>-1.5</b>	<b>-9.7</b>	<b>-9.7</b>			

Source: Bloomberg, Raymond James Ltd.

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