



# Why We Invest in Energy

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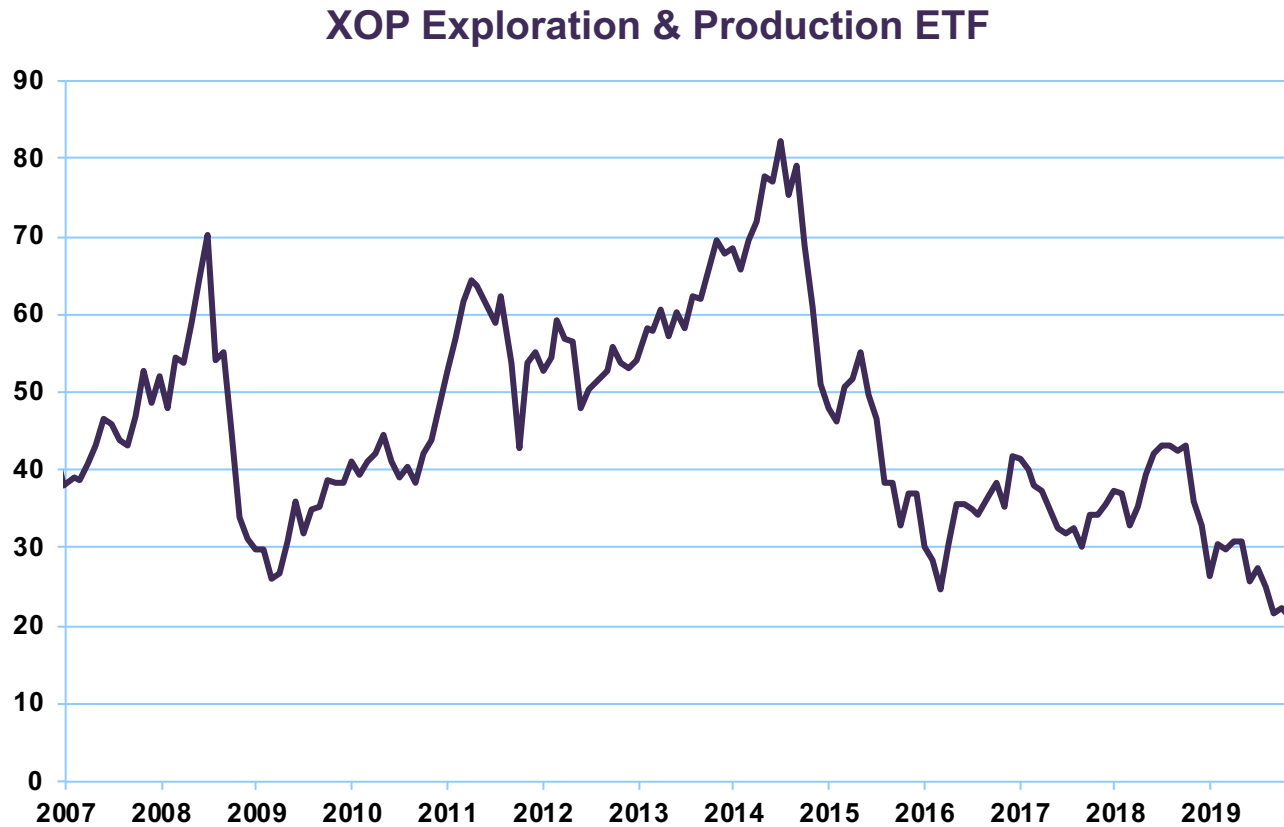
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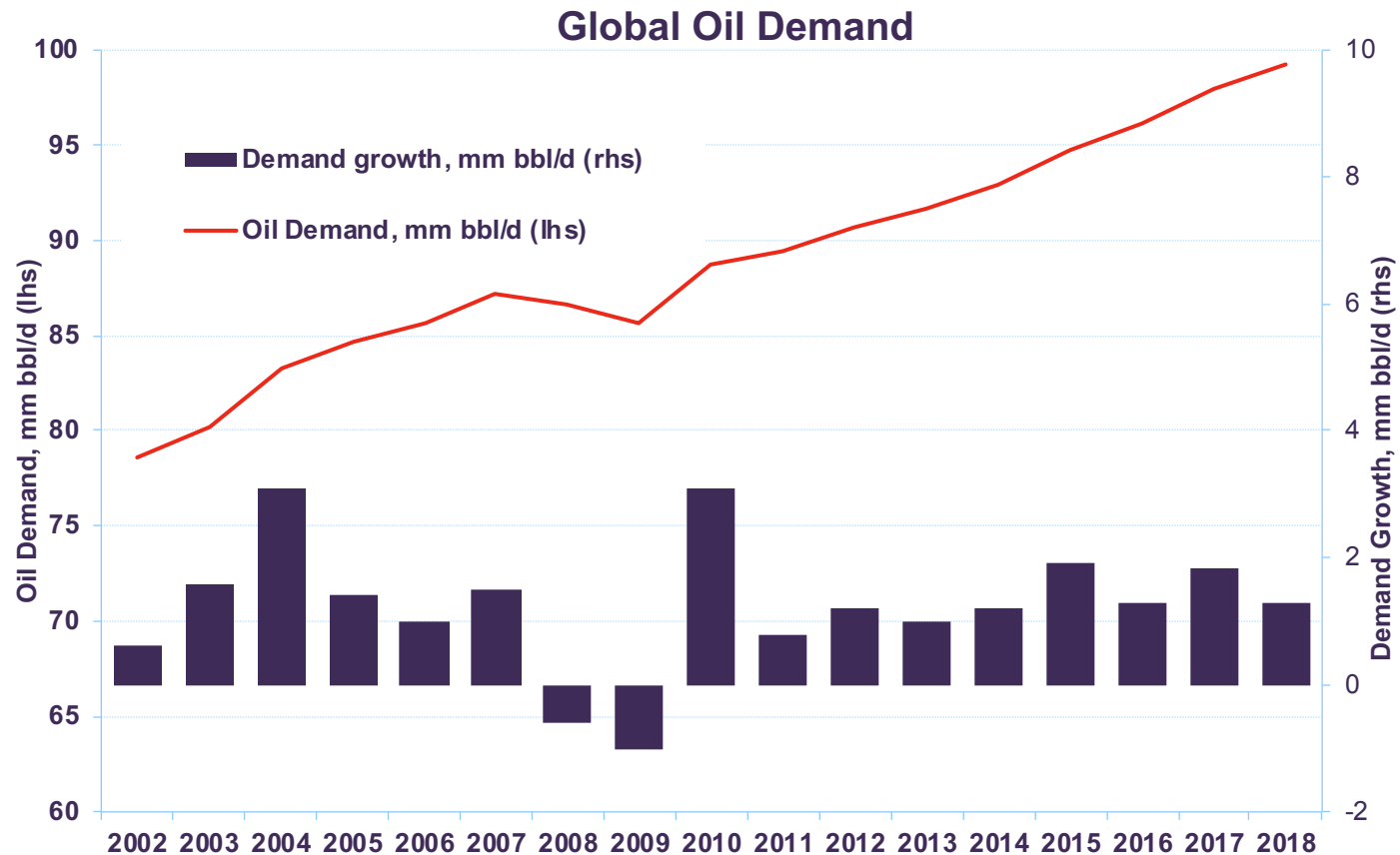
# Energy Investor Sentiment Has Deteriorated



Source: Bloomberg



# Despite Record Demand for Oil

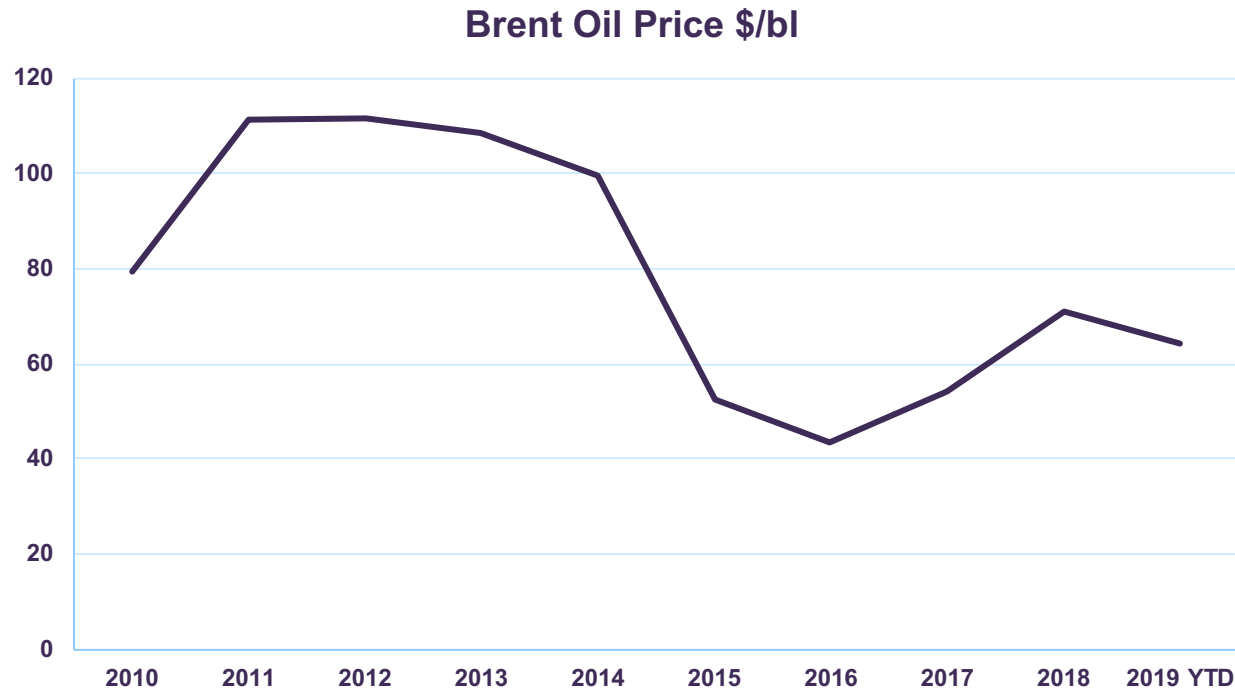


Source: IEA



# So, Why the Underperformance?

## 1. Prices are lower:



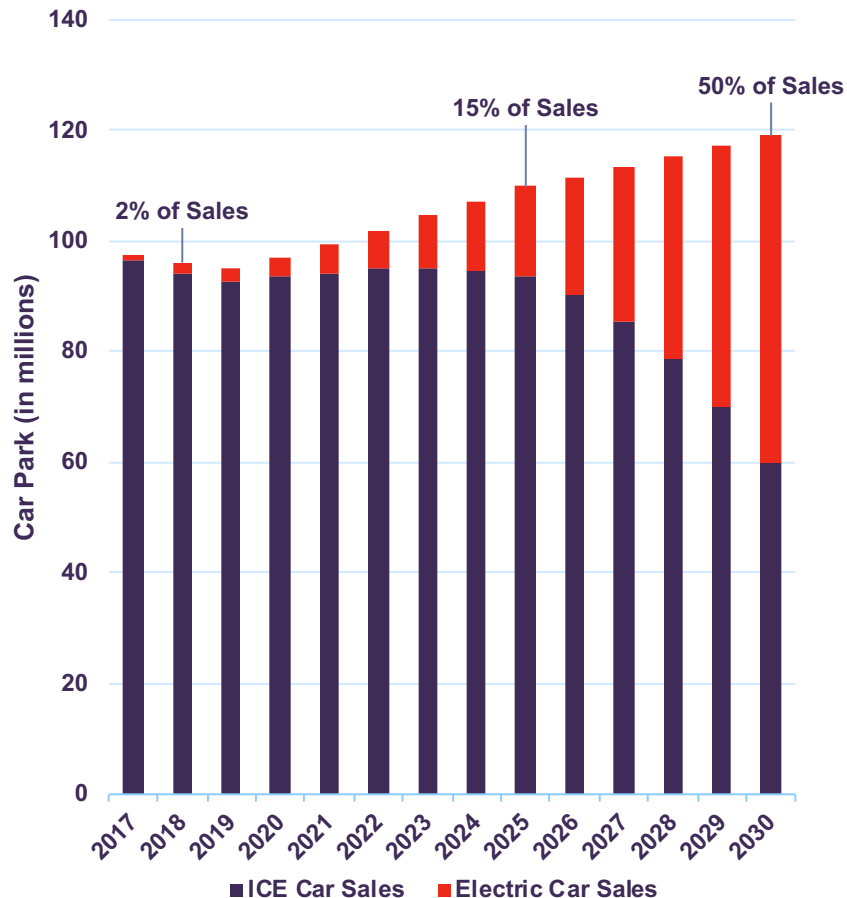
Source: Bloomberg

## 2. And uncertainty has increased...



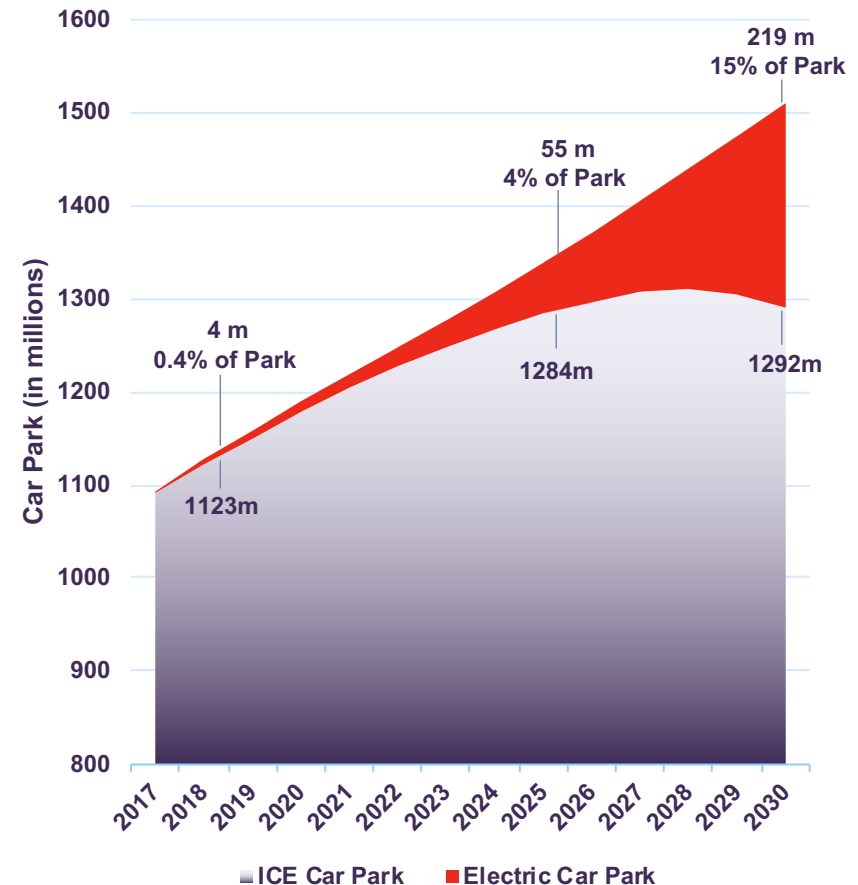
# Oil Demand Resilient to EV Uptake

**Passenger Vehicles Sales  
High EV Scenario**



Source: Letko Brosseau

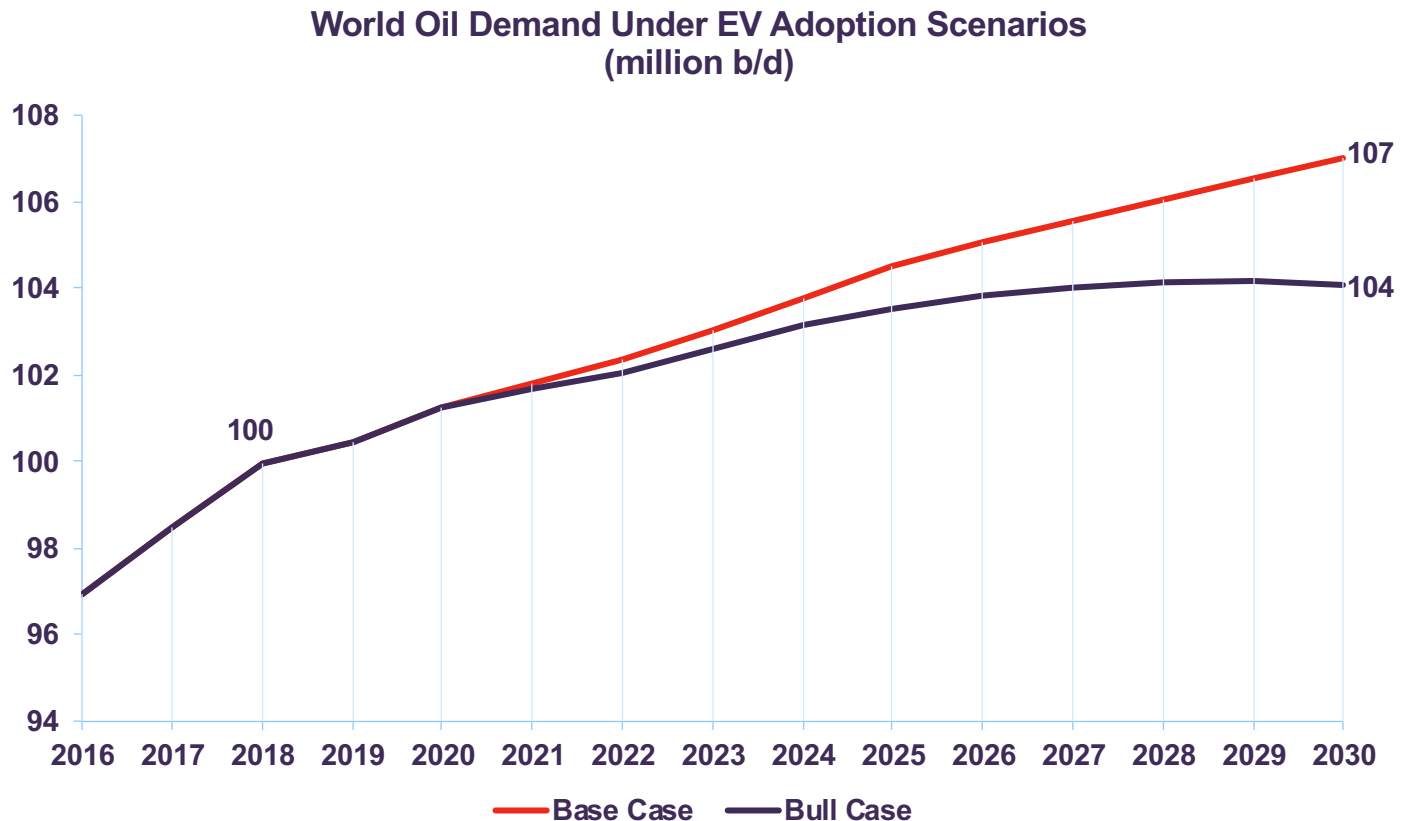
**Passenger Vehicles Park  
High EV Scenario**



Source: Letko Brosseau



# Oil Demand Resilient to EV Uptake



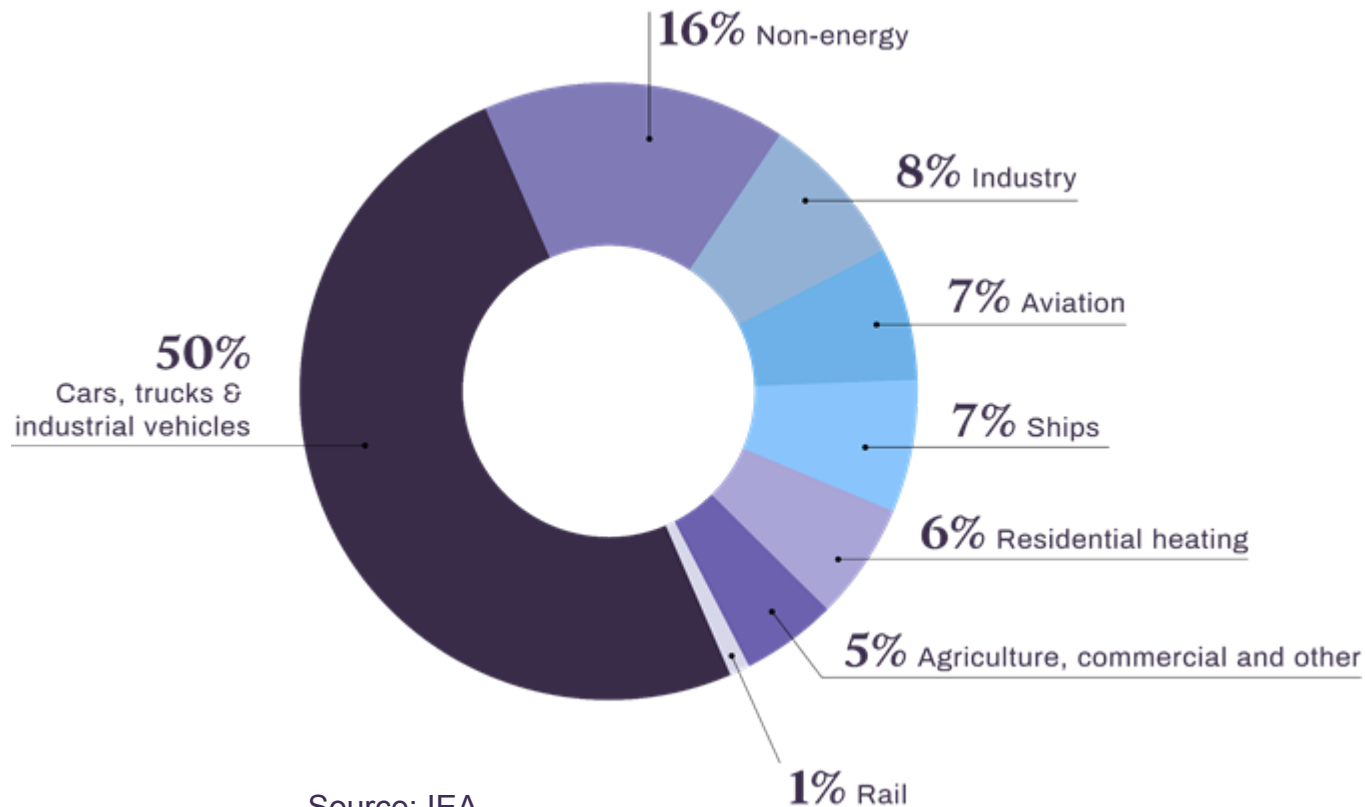
Source: Letko Brosseau

Base case assumes 20% electric sales by 2030.  
Bull case assumes 50% electric sales by 2030.



# Oil Demand Should Continue to Grow

Oil demand should continue to be driven higher by rising living standards in Emerging Markets.





# Industry Laser-focused on Shareholder Returns

- **Total**  
5-6% dividend growth p.a. over 2019-2025 (50% of current market cap)
- **Shell**  
\$125 billion potential shareholder distributions over 2021-2025  
(50% of current market cap)
- **ConocoPhillips**  
Shareholder payout target of >30% of CFO
- **Suncor**  
Sustainable dividend growth plus buybacks of \$1-3 billion p.a. @ \$50-80 oil



# Significant FCF at Range of Oil Prices

## LBA Energy Holdings - FCF as % of Market Cap

	4-year Cumulative FCF as % Market Cap		
	\$60 Oil	\$70 Oil	\$80 Oil
<b>Canada</b>			
Canadian Natural Resources	74%	96%	118%
Suncor	52%	67%	81%
Cenovus	71%	85%	96%
Husky	60%	91%	124%
Encana	97%	153%	212%
Birchcliff	112%	155%	197%
Peyto	186%	216%	249%
Tourmaline	89%	109%	127%
<b>United States</b>			
ConocoPhillips	53%	58%	63%
Devon	32%	41%	49%
Hess	-4%	7%	19%
<b>Global</b>			
Shell	42%	52%	62%
Total	53%	64%	75%
<b>Weighted Average</b>	<b>49%</b>	<b>61%</b>	<b>73%</b>

Source: Letko Brosseau



# Leaders in ESG and the Transition Economy

- Using Sustainalytics' *ESG Risk Ratings*, the energy holdings of our Equity Fund\* are ranked as follows:
  - In the top 15th percentile of the broader Oil & Gas Producers industry group for **overall ESG Risk Rating\*\***
  - In the top 25th percentile of the broader Oil & Gas Producers industry group for **Carbon-related Indicators\*\*\***

\*Includes all Oil & Gas Producers in the Letko Brosseau Equity Fund representing 98.3% of Energy-sector holdings in the portfolio.

\*\*Refers to Sustainalytics' ESG Risk Rating methodology, which measures the degree to which a company's economic value is at risk driven by ESG factors.

\*\*\*Refers to the *Carbon – Products and Services* MEI (Material ESG Issue), which is a component of overall ESG Risk Rating. *Carbon - Products and Services* refers to a company's management of the energy efficiency and/or GHG emissions of its services and products during the use phase.



# Leaders in ESG and the Transition Economy

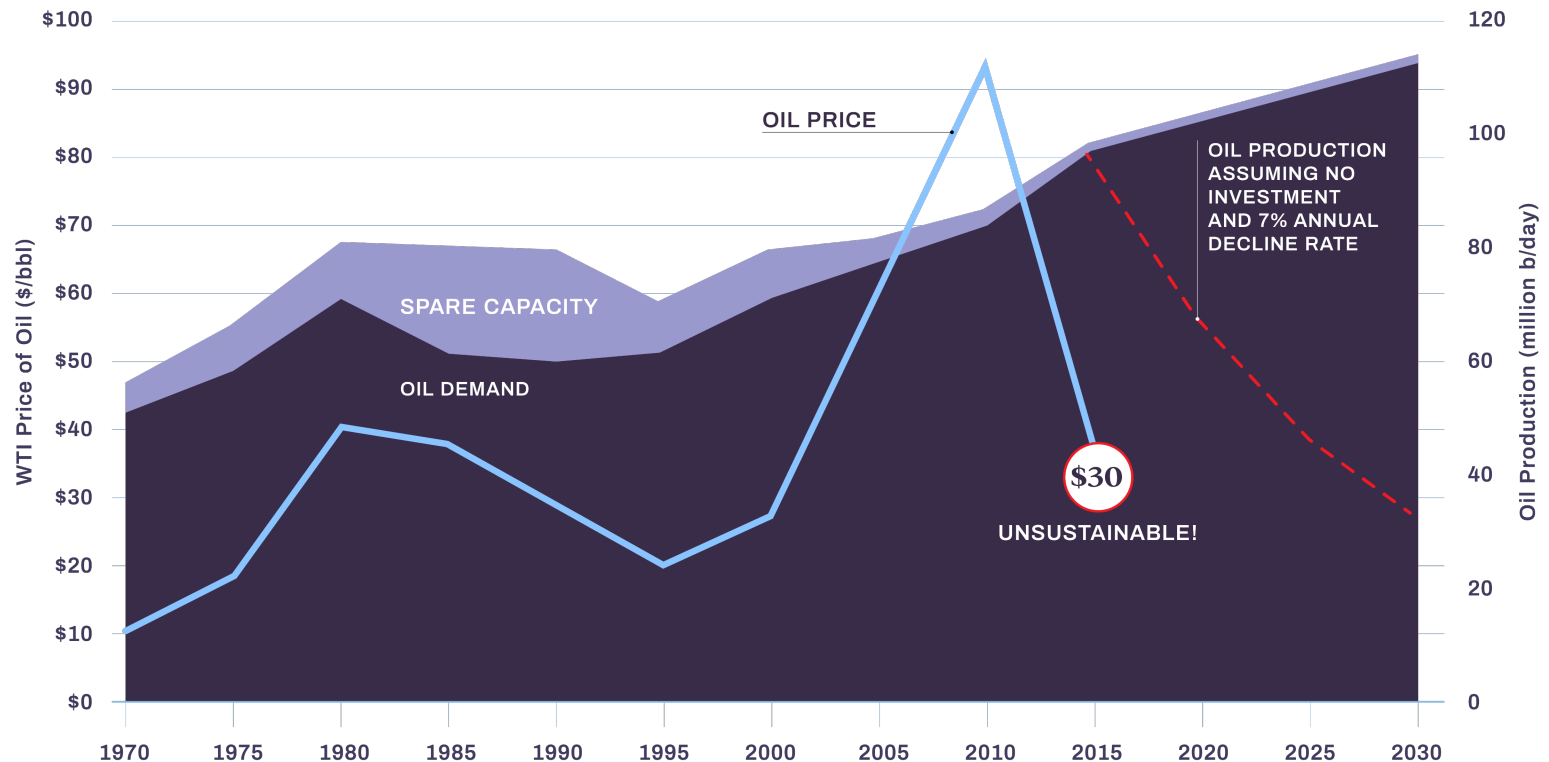
Our core Energy-sector holdings are among the more progressive industry players:

## Environmental Stewardship Highlights

<b>Canadian Natural Resources</b>	<ul style="list-style-type: none"> <li>• Leader in technology and innovation (\$3bn spent on R&amp;D over past decade)</li> <li>• 5<sup>th</sup> largest carbon capture storage (CCS) capacity owner in the world</li> <li>• 20% reduction in corporate GHG emissions in last five years</li> </ul>
<b>Cenovus</b>	<ul style="list-style-type: none"> <li>• Producer with lowest steam-to-oil ratio</li> <li>• 1/3 reduction in oil sands GHG per-barrel emissions since 2004</li> </ul>
<b>Suncor</b>	<ul style="list-style-type: none"> <li>• Comprehensive emissions reduction plan centered on energy efficiency, technology, investing in low-carbon power and moving to low-carbon fuels</li> <li>• 30% reduction in overall GHG emissions intensity since 1990</li> <li>• Targeting a further 30% reduction by 2030</li> </ul>
<b>Royal Dutch Shell</b>	<ul style="list-style-type: none"> <li>• Aim to cut net carbon footprint of energy products in half by 2050</li> <li>• Significant investments in multi-faceted energy transition plan, incl. clean energy, switching from coal to gas power, CCS, and low-carbon transportation</li> </ul>
<b>Total</b>	<ul style="list-style-type: none"> <li>• Widely viewed as global industry leader in terms of sustainability</li> <li>• One Total company project – multi-pronged plan to ensure sustainable growth</li> <li>• Reduction of 30% in direct GHG emissions since 2010, with further 15% reduction target by 2030</li> </ul>



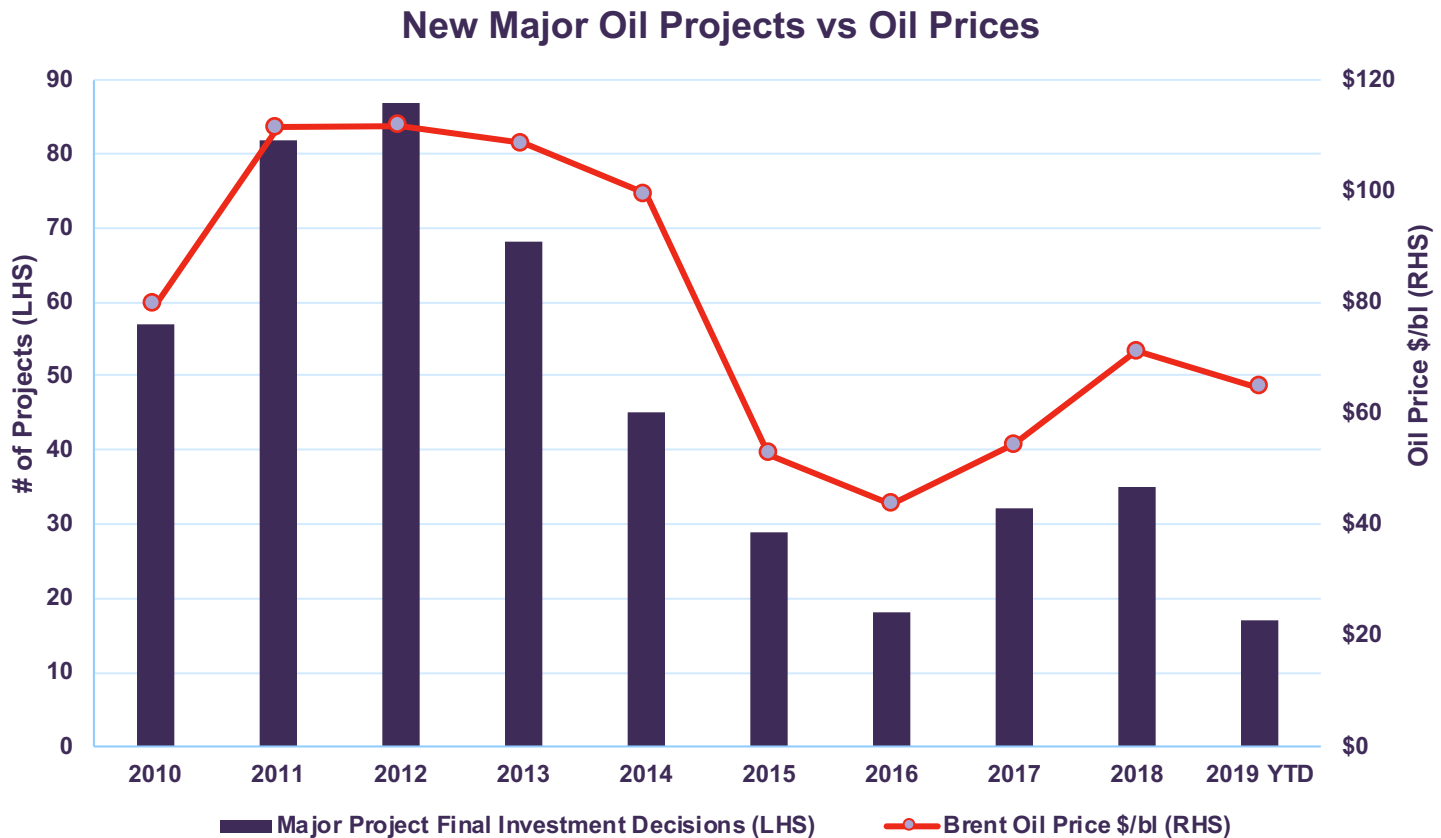
# Need to Replace 30 million b/d Every 5 Years



Source: Letko Brosseau, IEA, Bloomberg



# But Spending on Exploration and Development Has Collapsed

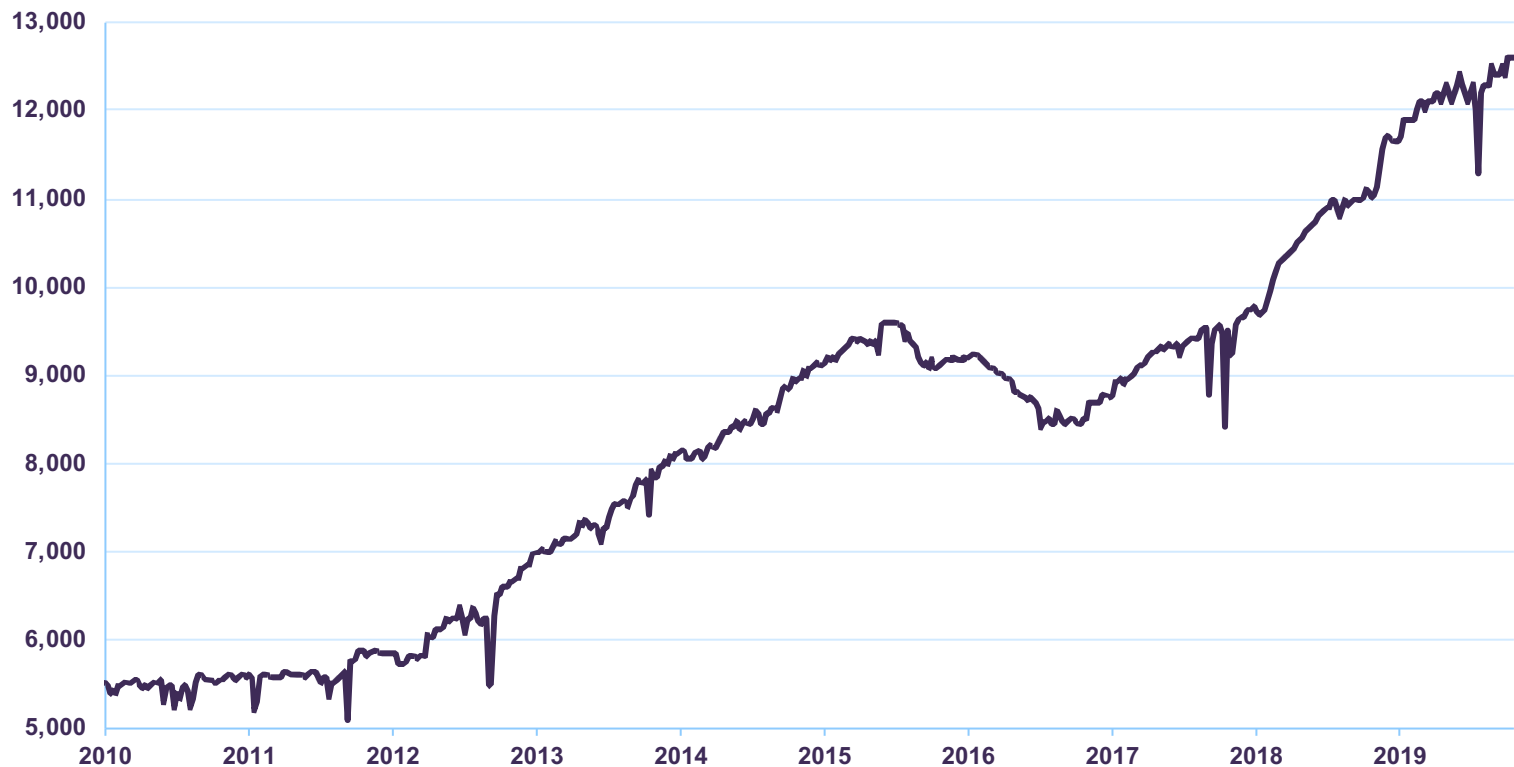


Source: Bernstein, Bloomberg



# Could the U.S. Continue to Fill the Supply Gap?

U.S. Oil Production (thousand b/d)

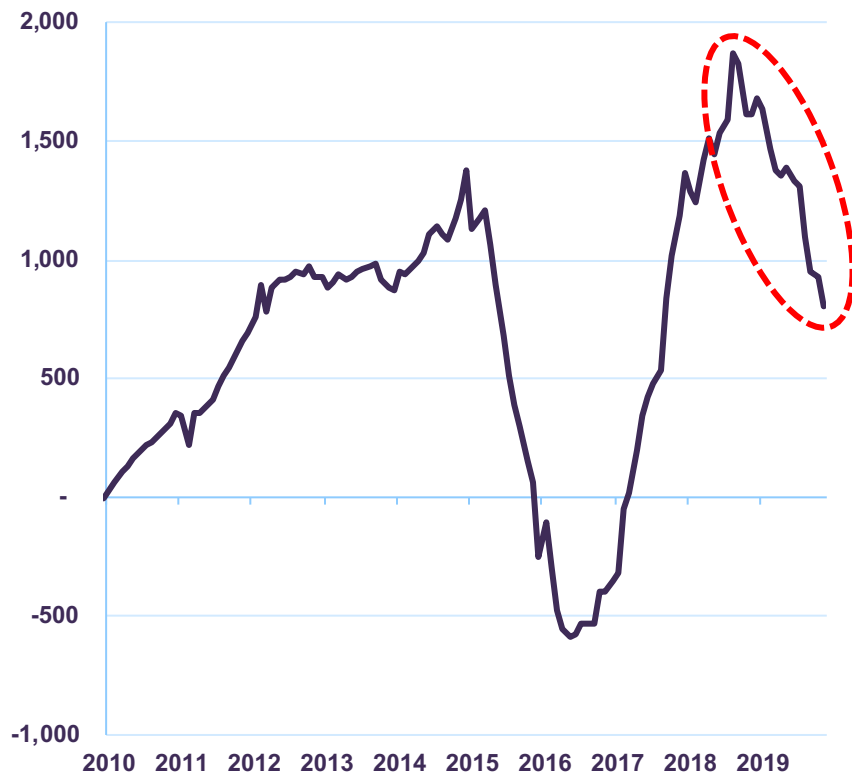


Source: EIA



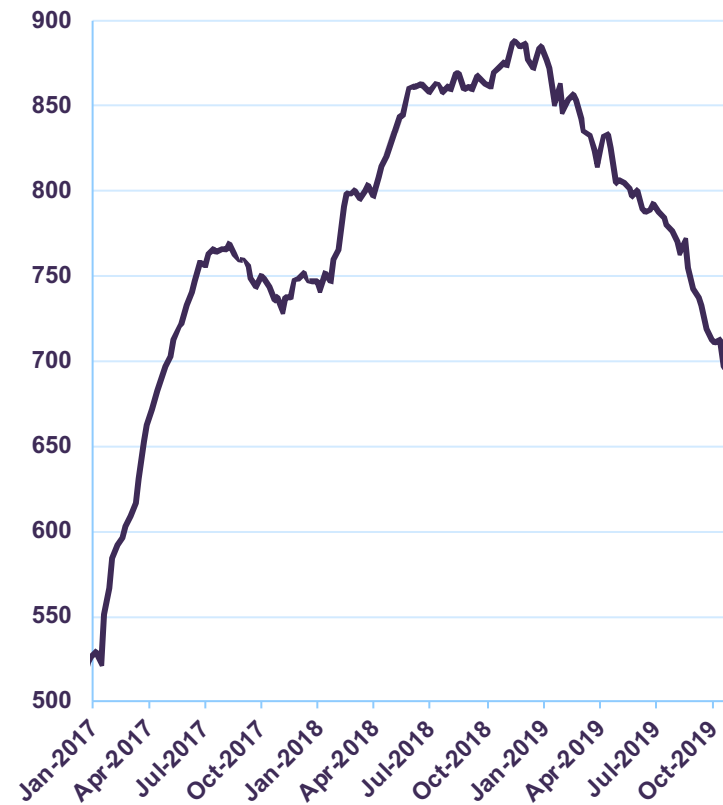
# We Doubt it: U.S. Growth Is Slowing Fast

U.S. Shale Oil Production Growth Y/Y  
(thousand b/d)



Source: EIA

U.S. Oil Rig Count



Source: EIA





# Meanwhile, OPEC Is Running Deficits

OPEC Projected 2020 Breakeven Oil Price



Source: IMF



# Why We Invest in Energy

- EV adoption will take years
- Oil demand will continue to grow
- The companies we own:
  - Are strong ESG performers
  - Generate significant FCF
  - Are aggressively focused on shareholder returns
- We think oil prices are too low

