

# PALOS

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## Palos Weekly Commentary

Issue No. 20 | MAY 16 2019

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## Palos Funds

*By Charles Marleau, CIM  
& Joany Pagé, CFA*

### Keyera Is Looking Forward

On May 15, 2019 Keyera Corp (TSX:KEY) announced it's Q1 2019 results. The results by themselves were not spectacular because of their marketing business. The company encountered an unplanned 17-day outage at Alberta EnviroFuels, which resulted in lower ISO-octane contribution.

However, all other segments of the business performed very well. Having the unplanned outage behind us, KEY remains confident that their marketing business will be lucrative in the next 9 months. The company is allocating marketing expenditures of \$280-\$320 mln for 2019. I believe this strong guidance, stems from record low butane prices.

In addition to positive guidance, KEY sanctioned the \$1.3 bln (\$650 mln net to KEY) Key Access Pipeline System (KAPS), which will transport NGL's and condensate into Fort Saskatchewan. KEY's partner on this project is SemCAMS Midstream ULC, who are in fact backed by KKR.

This project will bring a significant positive return for KEY. The project is underpinned by long-term agreements with 75% take-or-pay contracts, and Key is expecting a 15% return on capital starting in 2024. Additionally, the KAPS project will provide new growth opportunities for infrastructure projects in the Montney and Duvernay areas.

*Disclaimer: Palos Funds are shareholders of KEY.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.69	12.69%
Palos Equity Income Fund - RRSP	PAL101	\$5.80	10.39%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.88	11.44%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.44	4.38%
S&P TSX Composite (Total Return with dividends reinvested)			15.18 %
S&P 500 (Total Return with dividends reinvested)			14.59%
S&P TSX Venture (Total Return with dividends reinvested)			9.14%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.37%
Canadian Government 10-Year			1.67%
Crude Oil Spot			US \$62.02
Gold Spot			US \$1,297.80
US Gov't10-Year/Moody BAA Corp. Spread			225 bps
USD/CAD Exchange Rate Spot			US \$0.7442

<sup>1</sup> Period ending May 15, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 276-0110

[www.palos.ca](http://www.palos.ca)