

# PALOS

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## Weekly Commentary

Issue No. 18 | APRIL 20, 2020

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## Superior Plus Specialty Chemicals are as Hot as Gold

Superior Plus (TSX: SPB) is a diversified industrial company that operates two distinct businesses. One of the company's divisions is focused on energy distribution while the smaller division operates in the sometimes-forgotten specialty chemicals business.

For the distribution business I am expecting to see some weakness resulting from the warmer than usual winter weather throughout Canada and the U.S. However, some of that weakness should be offset by strong propane margins at the beginning of this year and management's commitment to implementing cost saving measures. Its important to remember that propane distribution is a seasonal business. With the second and third quarter being the low season for propane demand, the fallout from COVID-19 should only have an impact during the low demand season.

The specialty chemicals division is where it gets interesting. In 2019 the chemicals business represented approximately 27% of the company's EBITDA. I believe the specialty chemicals business will contribute a lot more this year. What's hotter than gold now? Consumer demand for products like toilet paper, hand sanitizers and cleaning products have surged during the crisis. Over the past few weeks, I am sure we have all visited a pharmacy or grocery store and come away empty handed when it came to purchasing these products. Even in a post-pandemic world, demand for these products should continue to be strong.

Superior's chemical division makes sodium chlorate, which is used in producing bleach and bleached pulp, which is used to manufacture tissues. My research points to sodium chlorate being in a state of short supply/growing demand around the world. The division also makes sodium chlorite & chlor-alkali. These chemicals are used to produce chlorine, which is used in various industries including the manufacturing of disinfectants. An additional tailwind is the weaker Canadian dollar, which provides a beneficial margin for the chemicals division.

SPB's business model and diversification will allow it to mitigate the effects of an economic slowdown as demand for its products should remain strong. In addition, its balance sheet has over \$250 million of liquidity, debt levels continue to fall, and its dividend is sustainable in the face of the COVID-19 impacting the economy.

*Disclaimer: Palos Funds are shareholders of SPB.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$6.32	-23.20%
Palos Equity Income Fund - RRSP	PAL101	\$4.57	-19.62%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$5.67	-25.99%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$7.05	-32.06%
S&P TSX Composite (Total Return with dividends reinvested)			-14.98%
S&P 500 (Total Return with dividends reinvested)			-10.50%
S&P TSX Venture (Total Return with dividends reinvested)			-22.89%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			0.64%
Canadian Government 10-Year			0.65%
Crude Oil Spot			US \$18.27
Gold Spot			US \$1,689.20
US Gov't 10-Year/Moody BAA Corp. Spread			326 bps
USD/CAD Exchange Rate Spot			US \$0.7143

<sup>1</sup> Period ending April 17, 2020. Data extracted from Bloomberg

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

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

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