

OGIB Interim Bulletin # 274
December 16, 2013

MANAGEMENT UPDATES

**GREAT CHRISTMAS CHARTS, BUT...
I HAVE TO WORRY ABOUT SOMETHING**

In one sense, today was a GREAT day for the OGIB portfolio.

My top two picks—Canadian Energy Services and Secure Energy—hit new all time highs today. My producer stocks are also moving up or breaking out—Bellatrix, Bankers Petroleum, and Rock Energy. Refinery stocks look great on the charts—I'm up on Northern Tier, Alon, and PBF. Ethanol stocks are looking...ok.

But I don't know where this energy market is going.

The refinery trade is, despite great charts, not a gimme in my books. I think the Brent-WTI spread will stay wide (I'm guessing Brent down \$8-\$10/barrel in 2014 and WTI down \$15-\$18 barrel) which is great for refineries, BUT...gasoline is well supplied in the US. And that is pressuring profitability despite very wide crude oil spreads.

It's just distillates (refined products like home heating fuel, diesel, jet fuel etc) that have low supplies. Crack spreads for gasoline in both the Gulf Coast and the mid-continent area are near zero, and it's only diesel cracks that are at \$20/barrel.

LLS prices have come way down to Brent, and there is a \$30-wide Brent-Bakken, and crack spreads are horrible. Crack spreads ARE seasonally low (the lowest actually) this time of year, but last year at this time we had similar spreads—if not smaller—and crack spreads were A LOT higher.

I think the seasonal aspect of the trade is keeping these stocks moving. But if the spreads don't seasonally widen into...the charts say early March at the latest—these stocks will get hit.

With gasoline demand stagnant (some weeks it's up, some it's down YoY), it's tough to see how the large mid-con gasoline supplies will allow prices—and therefore crack spreads—to rise. We have a \$30 Brent-Bakken spread, and big Canadian oil discounts, and yet a very low mid-con crack spread—crack spreads should never be better than they are now! But there's a big supply of gasoline. Despite the charts, that's not exactly bullish.

So while I am sipping Mai-Tais in Hawaii after Christmas, that's what I'll be worrying about.

I asked Donald Dony of The Technical Speculator to comment on a few OGIB charts, and his comments are below:



BXE is still in a one year uptrend, however, since July the trend has weakened. BXE has been consolidating above the \$6.75 support line for the past six months. Buying volume has been dropping since the high in July (lower portion of the chart). Relative strength (RSI) is positive and rising. The outlook over the next 30-60 days is for a movement up to \$8.00-\$8.50. The late Q1 target is \$8.90. BXE has neutral rating. Continue to hold.



BNK is in a six month up trend. BNK has just broken through a new resistance level (\$4.20) and is continuing to trend higher. Buying volume is positive. Buying momentum (RSI) is overbought. This combination suggests that BNK has a greater probability of pulling back by year-end to the support level of \$4.20-\$4.25. The outlook over the next 30-60 days is for a rise up to the 1st target of \$5.50. Add to positions on any dips. Continue to hold.



RE is in a six month uptrend. The stock has recently broken out of a two month consolidation in it continuation of that trend. Buying volume is positive as is buying momentum (RSI). Price support is at \$3.00. The outlook over the next 30-60 days is for a movement up to the target of \$3.75, the mid-October peak. Add to positions at the current level. Continue to hold.



ALJ has broken out of a nine month down trend in December after breaking through the \$13-\$14 resistance band and the 200 day m/a. Buying volume is positive. Buying momentum (RSI) is near overbought levels. The breakout suggests that the new up trend will continue into Q1. The outlook over the next 60 days is to advance to \$16.50-\$17.00. The 2014 target is \$18.00. Add to positions at the current level. Continue to hold.

OGIB MANAGEMENT UPDATES

I spoke with several management teams today.

I asked **Ray Smith at Bellatrix** and **Malcolm Todd at Donnycreek** what their thoughts were on hedging natural gas now that prices have moved up so sharply. Smith said he was happy to layer in 25-30% hedges for 2014 in the \$3.60-\$3.75 range, and if prices got over \$4 he may do another smaller layer.

Todd said they can't do much hedging because their production isn't big enough and they don't have enough well history to accurately gauge what production curves will be like.

Craig Nieboer at Canadian Energy Services told me that in just eight months, their hydrogen sulfide neutralizer has become their best selling product with 16 producers as customers. This product is used in rail cars that transport oil around North America. *This is a 400 product, \$600 million company, and this product—which comes from JACAM—is now their #1 seller in just eight months after bringing it to market.* It was North Dakota Bakken oil that had H₂S in it that was responsible for the deadly fireball that killed 47 people in Lac Megantic rail accident in Quebec this summer.

Nick Wieler at Secure Energy says they are still fine-tuning their waste disposal products for the US market, and learning the cultural differences between Canada and the US in Human Resources before expanding heavily down south. And Canada still has a lot of growth left in it; especially in B.C... they are doing their first FSR—Full Service Rail, instead of Full Service Terminal (FST)...somewhere in Canada at an undisclosed location. He said they have a 3 year fairway to deploy capital steadily.

Neil Koehler of Pacific Ethanol said in a brief chat today that they were able to buy another 6% of their plants back this week because it was year-end and somebody wanted to sell. With ethanol and distillers grains' margins really high right now, nobody should be selling he said. As I suspected, they also issued some stock—at \$4/share—to pay down their debt to get under a covenant that allows their interest rate to not increase. There is now 16 million shares out, and I think (ok I hope) that will be the last debt for equity we see. The next goal is to get the \$100 million in debt down to a lower interest rate. Koehler is VERY cautious in speaking with investors now. He's got a lot of new shareholders (3 newsletters, including us, have picked up the story in the last 2 months) and a stock chart starting to look good and he doesn't want to disappoint. Imagine being in an industry where recent margins have been SO volatile...and you can only hedge three months out. Ever. Giving any guidance can make you look dumb in a hurry. So he is speaking very....non-promotional...let's say. The quarterly numbers will do the talking.

I caught convivial **George Liszicasz, CEO of NXT Technology**, on his cell phone getting off a plane in Toronto (you cannot hide from me...). They have now done two contracts with private company Kerogen of Houston Texas. They flew their proprietary Stress Field Detection technology over some land in Florida (I will show my ignorance and admit I had no idea there was oil in

Florida) and had quality data back so fast to Kerogen they expanded the first contract, and now have signed up for a second one. George said they will have flown the full \$2.25 million contract within a week from now. I expect the company to do \$7 million this year. George is very, very optimistic on Q1 2014. He is always optimistic, but more clients are coming now from many different locations. The business is definitely building, even though revenue will be down this year from \$12 million.

HOUSEKEEPING

The 2014 Toronto Subscriber Summit has been set for Saturday March 1!!!

This year it is being held at the Hilton Hotel downtown, which I believe is on University Ave just 3-4 blocks from the Royal York where it has been held before. BOOK NOW because the largest mining show in the world, the PDAC, is on at the Toronto Convention Centre starting the next day, the Sunday.

I really hope the Market is quiet and this is the last communication of the calendar year—but I'll be watching. I'm taking the family to a much warmer place over the holidays, and I'm back at my post on Tuesday Jan 7th. Love what I do. Grateful for your support. Hope you made money this year and enjoyed my style.

God Bless and Happy Holidays.

- Keith