

## Crude Reality

The cure for low oil prices is often low oil prices. Amid significant capex cuts across the North American energy patch and a sharp reduction in drilling activity, WTI crude has rallied 39% since mid-March. According to Baker Hughes, oil drillers have idled 31 rigs last week marking the 3<sup>rd</sup> consecutive sharp pullback. Further, U.S. drilling activity appears to be falling faster and to lower levels than anticipated by market participants, and while inventory levels remain very elevated – rising for a record 16<sup>th</sup> straight week – this week’s DOE inventory report was a bright spot as reduced drilling activity desired effect (smaller inventory builds). At this point in the game it’s all about the rate of change, not the absolute level, that drives the price of crude. Given the positive price action in WTI recently, we are cautiously optimistic crude has found a bottom. The real test, in our view, will be if prior resistance can become new support – WTI found resistance at ~US\$54.00/bbl, testing the level numerous times over the last few weeks before finally breaking through in mid-April.

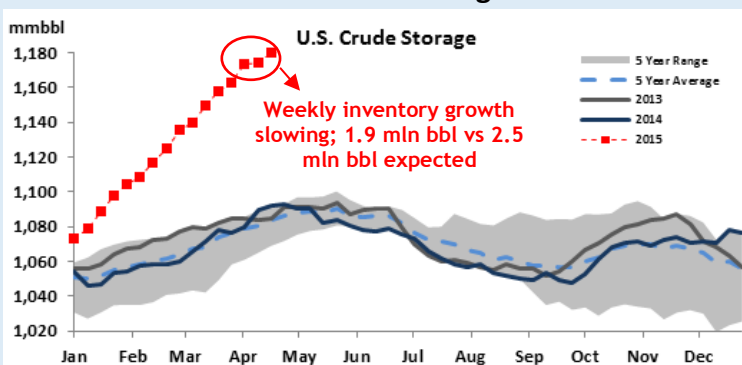
### The Glass Half Full View

- US economic activity has typically slowed in Q1 and reaccelerated in the second half of the year. Despite the US slowdown global oil demand growth remains healthy, sitting at its highest level since January 2011.
- Declining US rig counts and capex cuts has resulted in production growth flattening. Rig counts are down nearly 50% on average across all key basins.

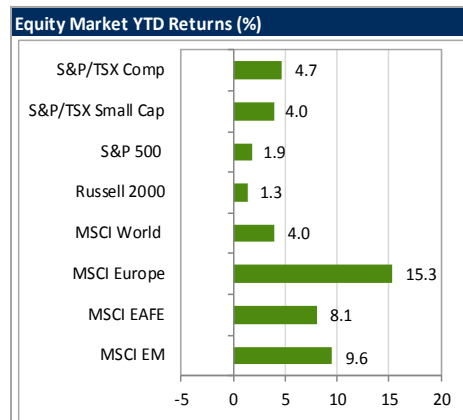
### The Glass Half Empty View

- Rising OPEC and international production
- US oil producers are taking advantage of the recent rally to lock in prices for next year in a bid to safeguard against falling prices, according to [Reuters](#)
- Contrarian indicator. Hedge funds and money managers are more bullish on oil than at any time since July 2014, holding 5x more long futures as short ones, according to Bloomberg data.

Chart of the Week – Positive Signs For WTI

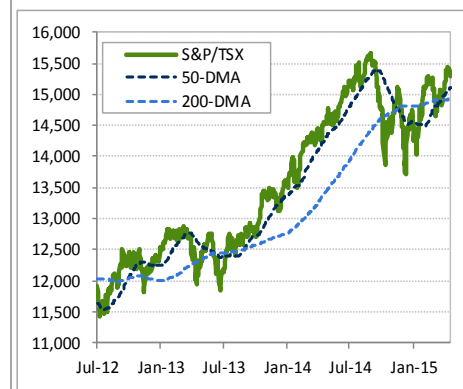


Source: Raymond James Ltd.



Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	6.2	Overweight
Consumer Staples	3.5	Market weight
Energy	22.1	Market weight
Financials	34.7	Market weight
Health Care	5.4	Underweight
Industrials	8.0	Overweight
Information Technology	2.4	Overweight
Materials	11.0	Underweight
Telecom	4.6	Market weight
Utilities	2.1	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	15,321.8	
50-DMA	15,119.6	Uptrend
200-DMA	14,931.5	Uptrend
RSI (14-day)	48.8	Neutral



Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 4

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While we recognize the 39% rally and more constructive view on energy, we prefer to take a wait and see approach. To be more constructive on energy we'd like to see the commodity test and hold the US\$54.00/bbl level. From a sector perspective, we recommend investors take a neutral stance towards the energy sector. However, depending on one's outlook, your investment vehicle may differ. We're currently in the "glass half empty" camp (as you can see by our guided portfolio stock selection), but recognize opinions are very split on this matter. As such, we provide investment vehicles for those that are more bullish as well as for those that are more cautious.

### Glass Half Full

The list below illustrates oil & gas E&P, drillers and oilfield servicers that have exhibited the highest correlation to WTI since June 2014. On average, this group carries higher debt to cash flow, which instinctively makes sense.

Company Name	Ticker	GICS Sub-Industry	Correlation	Net Debt/CF	P/CF	RJ Rating
Bonavista Energy Corp	BNP	Oil & Gas E&P	0.99	1.7x	2.8x	NA
Surge Energy Inc	SGY	Oil & Gas E&P	0.98	2.7x	4.0x	NA
Trican Well Service Ltd	TCW	Oil & Gas Equip. Services	0.98	15.1x	16.2x	underperform
Canadian Oil Sands Ltd	COS	Oil & Gas E&P	0.98	2.5x	8.3x	underperform
Pacific Rubiales Energy Corp	PRE	Oil & Gas E&P	0.98	2.1x	0.5x	NA
Penn West Petroleum Ltd	PWT	Oil & Gas E&P	0.98	2.4x	1.7x	NA
Trilogy Energy Corp	TET	Oil & Gas E&P	0.97	2.0x	3.3x	market perform
Calfrac Well Services Ltd	CFW	Oil & Gas Equip. Services	0.97	3.2x	4.5x	market perform
Baytex Energy Corp	BTE	Oil & Gas E&P	0.97	2.3x	4.0x	market perform
ShawCor Ltd	SCL	Oil & Gas Equip. Services	0.97	1.6x	13.8x	NA
Bellatrix Exploration Ltd	BXE	Oil & Gas E&P	0.97	1.9x	2.3x	NA
Ensign Energy Services Inc	ESI	Oil & Gas Drilling	0.97	1.4x	2.9x	underperform
<b>Average</b>			<b>0.98</b>	<b>3.3x</b>	<b>5.4x</b>	

Source: Bloomberg, Raymond James Ltd, As at April 30, 2015

### Glass Half Empty

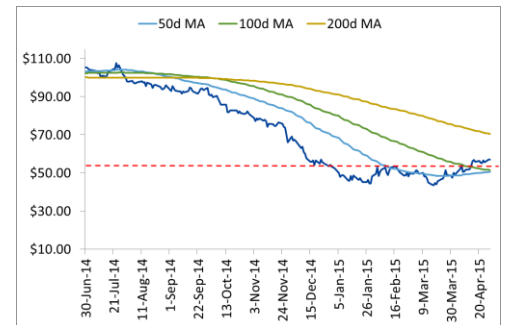
For those cautiously optimistic, the list below highlights those energy companies that exhibited a lower correlation to WTI since June 2014. Net debt to cash flow is lower for this group than those companies with higher correlation, but on a price to cash flow basis it appears the market is assigning a higher valuation. Again, one would instinctively expect these results.

Company Name	Ticker	GICS Sub-Industry	Correlation	Net Debt/CF	P/CF	RJ Rating
Advantage Oil & Gas Ltd	AAV	Oil & Gas E&P	-0.10	1.1x	6.9x	NA
Talisman Energy Inc	TLM	Oil & Gas E&P	0.29	2.6x	4.3x	market perform
Peyto Exploration Corp	PEY	Oil & Gas E&P	0.58	1.4x	8.3x	outperform
Raging River Exploration Inc	RRX	Oil & Gas E&P	0.62	0.2x	7.3x	NA
Whitecap Resources Inc	WCP	Oil & Gas E&P	0.75	1.6x	7.3x	NA
Husky Energy Inc	HSE	Integrated Oil & Gas	0.79	0.7x	4.9x	market perform
Imperial Oil Ltd	IMO	Integrated Oil & Gas	0.80	1.5x	10.3x	market perform
Suncor Energy Inc	SU	Integrated Oil & Gas	0.81	0.9x	6.5x	outperform
Canadian Natural Resources Ltd	CNQ	Oil & Gas E&P	0.85	1.7x	5.7x	market perform
TORC Oil & Gas Ltd	TOG	Oil & Gas E&P	0.86	0.9x	4.9x	NA
Enerflex Ltd	EFX	Oil & Gas Equip. Services	0.89	5.4x	19.4x	outperform
Vermilion Energy Inc	VET	Oil & Gas E&P	0.90	1.4x	7.7x	NA
<b>Average</b>			<b>0.67</b>	<b>1.6x</b>	<b>7.8x</b>	

Source: Bloomberg, Raymond James Ltd, As at April 30, 2015

We hold **Vermilion Energy**, **Whitecap Resources** and **Canadian Natural Resources** in our *Canadian Growth Guided Portfolio* and **Suncor Energy** in our *Canadian Dividend Plus+ Guided Portfolio*.

### WTI New Support @ US\$54/bbl?



Source: Bloomberg, Raymond James Ltd.

## Important Investor Disclosures

A member of the PCS team responsible for preparation of this document or a member of his/her household has a long position in the securities of Whitecap Resources Inc. (WCP-T) and Suncor Energy Inc. (SU-T).

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