Struthers Report V26 # 6.1 COVID19. Markets, Gold stock stops, Pembina PPL Mar. 18, 2020

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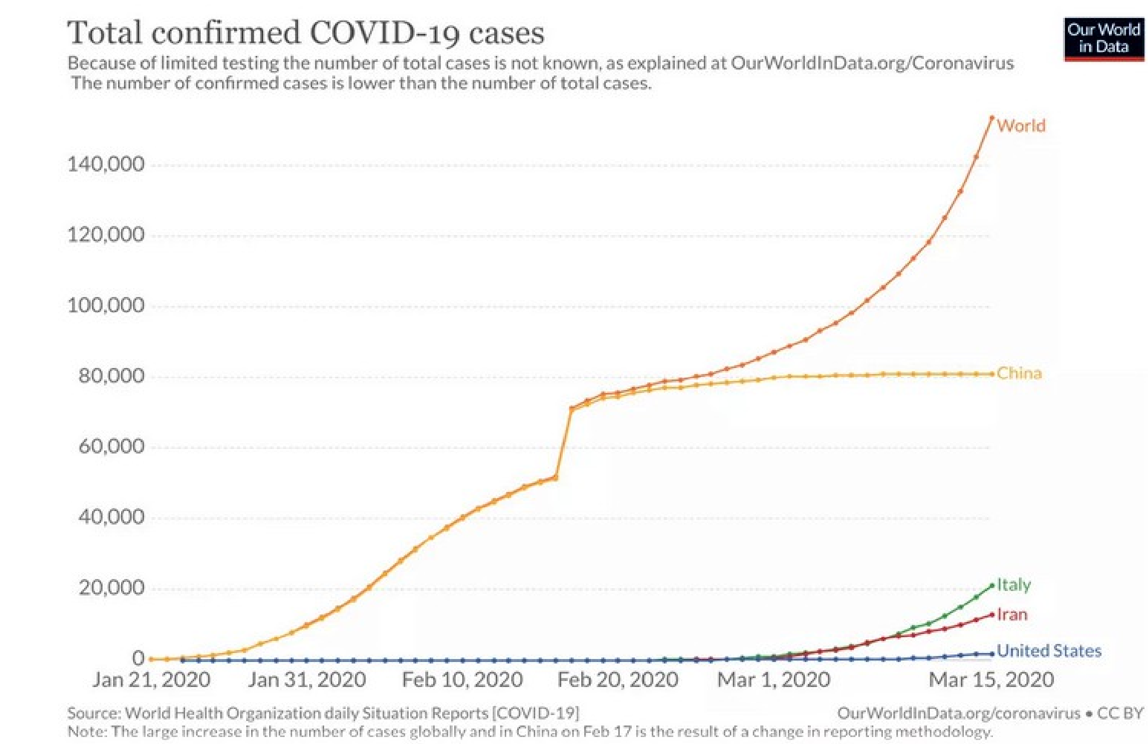
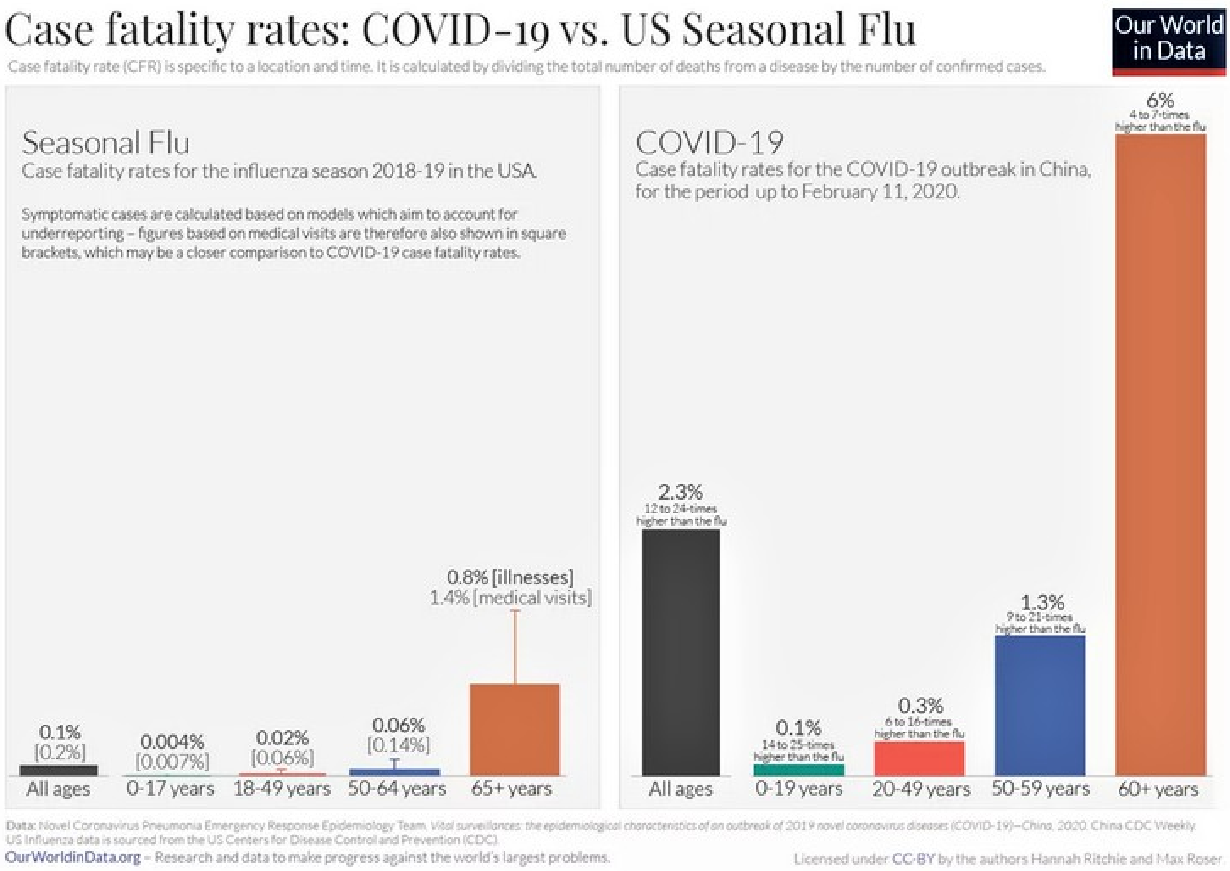
The virus in itself is not the real risk. This is just a flu, but a different strain that we have no natural immunity to. I have dug up reports and analysis from the best sources I know of and will give you a brief outline.

- **The biggest threat with the virus is the unknown and how authorities and people react.**
- Over 50% of populations will contract the virus, it is very communicable. Think 150 million Americans will get this.
- Of those impacted, 80% will be early-stage, 15% mid-stage and 5% critical-stage. Early-stage symptoms are like the common cold and mid-stage symptoms are like the flu. These are stay at home for 2 weeks and rest. 5% will be critical and highly-weighted toward the elderly. This 5% will need hospital care.
- Peak virus should be in 2 to 3 months and the only way to slow that sooner is complete lock down like China has done. Lock down will not stop the virus, it only slows progression so our health care system scan manage with less difficulty. This chart highlights how China slowed it to a more steady pace of contractions. If it is slowed it could last longer to fade away.

1) The virus is spreading rapidly



- I hear quite a few claims that when better warmer weather arrives the virus will subside. I see no evidence of this. Maps of Covid19 show high levels in the southern hemisphere, which is now their summer season. T**he maps really suggest the higher population the higher the cases.**
- The mortality rate, on average, is probably between 2% and 3%, heavily weighted toward the elderly and immunocompromised. In the US this could be meaning possibly up to 4.5 million people. The regular flu has about a 1% mortality rate so this is not much higher, double or triple at most. In the U.S. about 3 million/year die mostly due to old age and disease. There will be significant overlap, so this does not mean 3 or 4 million new deaths from this virus. It means elderly people dying sooner due to respiratory issues.



- I don't want to make this sound like numbers, you could end up with loved ones that could go into the critical stage, than numbers don't mean anything.
- Our best defence is healthy habits, good food, vitamins and cleanliness. The other is stay at home as much as possible to slow the spread. This is not a big inconvenience. **The best way, I heard it put '*our grandparents were asked to war, we are only asked to sit on the couch'***
- Goldman says there will be economic damage from the virus itself, but the real damage is driven mostly by market psychology. Viruses have been with us forever. Goldman believes stock markets should fully recover in the 2nd half of the year. **Of course investment banks are biased and will say markets will recover this year, but I highly doubt it**
- There will be a very deep recession, probably a depression. The 2008 crash affected mostly financial institutions and companies here and there with too much debt. They got bailed out. This time around, it is affected every industry. The government cannot bail out the world, so it will be selective, many companies will go under.

The biggest hardship Covid19 will cause is not only the current tough circumstances but the severe recession that has begun. **Everything will go down with the exception of gold and silver and a handful of obscure things. The risk is a deflationary depression, much more than a recession.**

It was 6 years for the markets to recover the level of 2007 from the 2008 crisis. This time it will be over 10 years or more unless we go into a runaway inflation scenario, but in that case things will be priced in worthless US$ and gold will be $50,000 or more.

Here is a good quote from yesterday

"*What's scaring the American people and corporate America now is the gradual rollout,*" Ackman told CNBC's Scott Wapner on "Halftime Report" on Wednesday. "*We need to shut it down now... This is the only answer."*

"America will end as we know it. I'm sorry to say so, unless we take this option," he said. Ackman added if Trump saves the country from the coronavirus, he will get reelected in November.

Ackman urged U.S. companies to stop their buyback programs because *"hell is coming.*" The biggest U.S. banks have already halted repurchasing stocks to put their capital to use helping consumers and businesses.

In the 2008 crisis aftermath the Fed blew up their balance sheet to about $4.5 trillion with QE. This time they started from about 3.8 trillion in September 2019 and are back up now to $4.3 trillion at March 11th and this is before recent massive QE announcements.

Last week they announced another $1.5 trillion and markets kept going down. Wednesday they announced $1 trillion per day and the market dropped again Thursday.

This will result in a massive bull market in gold, outdoing the 2008 to 2011 move. Gold stocks will have triple digit gains, especially from their current depressed prices and perhaps lower prices. I am going to review our list of gold stocks. Most we got stopped out of. I think it is too early to buy because there is a new risk. **Which gold mines and which companies will be shut down because one or more employees contracts the Covid18 virus.** Myself or nobody knows who and when that will be. The way it is growing in the U.S., perhaps the companies with mines in Nevada are most at risk. It is anyone's guess, but **when that is announced, the stock will plunge. That might be the timely buying opportunity.**

It won't matter much to junior explorers where nobody is paying attention, except maybe those with large exploration programs and a **larger exploration work force, like Great Bear.**

It is best at this time to just wait, hold the juniors because there is no bids and hopefully you have raised some cash and paid heed to the stop/loss levels.

Next page I list all the stocks we have been stopped out of. The ones we have not, were mostly bought some time ago and we are still sitting on some gains. Equinox was LeaGold and I made the adjustments for the take over which was 0.331 Equinox shares for every LeaGold share.

I adjusted the stop/loss on remaining holdings to reflect current charts and protect our profits.

A Stop/loss do not always work, especially in these markets as stocks can gap down on the open. You can use my normal criteria, if a stock closes below the stop/loss and does not rebound the next day then sell. You may want to set a stop/loss based on the price you paid for and the profits you want to take or loss you are willing to take. I cannot micro manage every stock, especially in these markets and I hope the update below helps. **Nobody knows where the markets will open and go to today.**

As always – Mind your stops

Stock		PRICE	Stopped out at	
Kinross	K	5.91	Not	set stop at 4.90
Newmont	NEM	US$41.57	Not	set stop at $38
B2Gold	BTO	4.04	4.00	
Alamos	AGI	7.29	Not	set stop at $5.80
Alacer	ASR	4.16	4.80	
Centerra	CG	8.11	8.74	
Equinox	EQX	8.01	Not	set stop at $7.50
McEwen	MUX	0.96	1.30	
Oceana	OGC	1.56	2.10	
NewGold	NGD	0.84	0.95	
Argonaut	AR	1.12	1.60	
Triumph	TIG	0.11	0.19	
Paramount	PZG	US$0.54	0.65	
Great Bear	GBR	4.87	6.90	

I normally do not have to set a stop/loss so soon after we buy a stock, but will now do so with **Sandstorm TSX:SSL.** If you bought the stock early in the day, you got a good price, else it climbed all morning. The stock opened at $6.35 and closed at $8.08 so I picked the average as the entry price $7.21

The stock closed yesterday at $6.90 and I would not want to see new lows **so set a stop loss at $5.40**. I know some of you took profits the same day, and that is a good idea in these markets when you get quick profits.

If you got in on the Call options early in the morning you could have sold for 70% to 80% profits same day. Tough markets though because they move so fast and it is often more a case of luck than anything if you get the right timing.

Now for a stock to buy Pembina Pipelines TSX:PPL closed yesterday at $16.56

Dividend $0.21/month Current Yield 15%

I am going to show two charts and their recent news release that is a good update. There is only 2 reasons why this stock sold off so far, either forced liquidation by funds and structured products blowing up or fear/panic selling. The stock is on the Millennium Index and will average down there.

They derive their income from moving oil&gas through pipelines, not directly tied to the oil price. The stock is priced as if everyone is going to stop driving cars and will no longer heat homes with oil&gas. Plain crazy

The stock may rebound today and I would still be a buyer.

Long term you can see the stock came down to support back in the 2006- 2008 period

On this short term chart, note RSI below 20. This is very rare, even in these type of markets.

In response to the Covid-19 pandemic and the recent significant decline in global energy prices, Pembina Pipeline Corp. is taking action to protect all of its stakeholders. Pembina's action plan is focused on protecting the health of its employees and communities and ensuring a decisive response for customers and investors including a $900-million to $1.1-billion overall reduction to the company's 2020 capital spending plans.

"In these challenging times, Pembina's priorities include protecting the health and safety of our staff and communities, ensuring critical infrastructure continues to operate safely and reliably, and maintaining our strong financial position. We are confident we are taking the necessary steps to allow us to successfully achieve these objectives," stated Mick Dilger, Pembina's president and chief executive officer.

Mr. Dilger added: "Over the past many years, Pembina has been making its business better, not just bigger, through focused diversification efforts. The acquisition of high-quality assets such as the Alliance and Cochin pipelines and the Edmonton Terminal storage assets, combined with the development of highly contracted assets such as the Peace pipeline system and the Duvernay complex, has diversified Pembina across commodities and credit-worthy counterparties, while also substantially growing our basin and currency diversification. These actions, combined with our self-funding model, strong balance sheet and high contract quality all result in a high-quality, resilient cash flow stream, which allows us to protect our dividend, as we have always done through past downturns.

"We have many levers at our disposal. We entered 2020 expecting a more tempered contribution from our commodity business relative to the past two years, as reflected in our guidance range. Based on the resilience of the business and the decisive actions we are announcing today, we remain within our projected guidance range, while still maintaining significant future upside given our suite of high-quality growth projects and strong financial position.

"I want to thank our amazing employees who have successfully transitioned to a work-from-home environment in such a short time. Despite recent events, we are executing well and are confident that we can meet the expectations of all of Pembina's stakeholders," concluded Mr. Dilger.

Doing the company's part to protect people and communities

Safety is the company's first priority and it continues to take steps to protect the health of its staff and the public in response to the Covid-19 pandemic.

Covid-19 is a global public health challenge and Pembina is doing its part in support of government and community efforts to slow down the spread of the virus. In line with recommendations from health authorities, the company has restricted business travel, cancelled large group meetings, and is requiring non-essential employees and contractors who can work from home to do so.

Doing the company's part for customers

Pembina has taken steps to determine the essential staff and critical infrastructure required to ensure uninterrupted service to its customers while maintaining the safety of assets, employees and other stakeholders. The company is focused on processing and transporting the maximum amount of product for its customers, thus supporting their cash flow.

Taking immediate and decisive action for investors

In light of the rapid and significant decline in global energy prices and uncertainty as to the duration of this downturn, Pembina has made the prudent decision to defer some of its previously announced expansion projects to reflect the current market reality. The following projects will be deferred:

- Peace pipeline phase VII, VIII and IX expansions, representing $1.55-billion of total capital;
- Empress co-generation facility, representing $120-million of capital;
- Prince Rupert terminal expansion, representing $175-million of capital;
- Pembina's investment in the integrated propane dehydrogenation plant and polypropylene upgrading facility, representing $2.7-billion of capital, net to Pembina.

In addition to deferring capital spending on these major projects, additional discretionary capital spending has been removed from Pembina's 2020 capital budget.

The impact of these measures results in a reduction of $900-million to $1.1-billion, or approximately 40 to 50 per cent, to the company's previously announced 2020 capital budget of $2.3-billion. Pembina now expects its revised 2020 capital budget to be $1.2-billion to $1.4-billion. These spending reductions will be directed toward reducing Pembina's leverage and enhancing its financial position. Importantly, these measures will have no impact on Pembina's existing base business or its ability to continue to operate safely and reliably.

Pembina will advance its focus on optimization activities, which it believes can create additional incremental pipeline capacity with minimal capital spending and support producers' near-term production growth. Additionally, the company intends to focus its remaining capital spending on key constrained segments of the pipelines to ensure maximum flexibility to meet customers' needs and fulfill existing producer volume commitments.

Planning, engineering and regulatory work done to date on the deferred projects will allow Pembina to quickly resume these projects to meet customers' needs when global energy prices and the broader economic environment support such action. Until then, the company will continue to work with its producing customers to evaluate their mid-stream service needs in light of the current commodity price environment.

Given their advanced stage of construction, Pembina still expects to place approximately $1.3-billion, net to Pembina, of new projects into service during 2020, including the Peace pipeline phase VI expansion, Duvernay III, Empress fractionation, Hythe developments and the initial phase of the Prince Rupert terminal, among others, to support Pembina's growth in 2020 and beyond.

The deferred projects were expected to come into service largely in 2021 through 2023 and therefore will not materially impact Pembina's 2020 adjusted EBITDA (earnings before interest, taxes, depreciation and amortization). At this time, Pembina believes it has taken action, which will enable the company to remain within the previously disclosed guidance range, albeit forecasted to be near the lower end thereof.

"Pembina's business is resilient and remains strong in the face of these current challenges. An unwavering commitment to our financial guardrails has been a guiding principle for many years and, as a result, Pembina is well positioned. These guardrails, in addition to actions recently taken, highlight our ability to preserve our already strong balance sheet while funding our ongoing business, including the reduced 2020 capital program," said Scott Burrows, Pembina's senior vice-president and chief financial officer.

The underlying business remains highly contracted, with approximately 85 per cent of 2019 adjusted EBITDA supported by long-term, fee-based contracts, including approximately 62 per cent coming from cost-of-service or take-or-pay contracts with no volume or price risk.

Direct commodity exposure in Pembina's business is limited to the marketing and new ventures division. The marketing and new ventures division represented approximately 15 per cent of Pembina's overall adjusted EBITDA in 2019 and approximately 45 per cent was generated by natural gas and natural gas liquids marketing activities and 55 per cent by crude oil and condensate marketing activities. In 2020, Pembina has hedged 50 per cent of its frac spread exposure, excluding Aux Sable, at average levels for the calendar year which are approximately 70 to 80 per cent above the forward strip implied levels as of March 17, 2020.

Approximately 80 per cent of the company's credit exposure is with investment grade and split-rated counterparties as well as counterparties secured by letters of credit. Further, non-investment grade and split-rated counterparty exposure is diversified across various industries.

The balance sheet is strong. Pembina is rated BBB with a stable outlook by Standard & Poor's and BBB with a stable trend by DBRS Ltd. During the last oil price shock in 2014 to 2016, Pembina's BBB rating remained intact and the company is fully committed to protecting its BBB rating once again. For the year ended Dec. 31, 2019, Pembina's ratio of adjusted funds from operations to adjusted debt, as defined by S&P's methodology, was 18.4 per cent, which is comfortably within the upper end of the agency's stipulated range for a BBB rating for Pembina of 15 to 20 per cent. After normalizing for the effect of the acquisition of Kinder Morgan Canada Ltd. and the U.S. portion of the Cochin pipeline, namely the Dec. 16, 2019, closing date, 16 days of contribution to the company's 2019 results and the debt financing incurred, that same ratio was approximately 23 per cent -- significantly above the BBB range.

Pembina has ample liquidity, with $1.5-billion of available cash and borrowing capacity on its credit facility as of March 17, 2020, plus an additional $750-million of capacity through an accordion feature (subject to the usual conditions, including consent of the lenders) and this facility does not mature until 2024. The overall weighted average life of Pembina's debt is 12.7 years, with only $73-million of medium-term notes maturing in 2020 and less than 15 per cent of Pembina's debt maturities occurring through 2022.

Pembina's common share dividend of 21 cents per share per month is more than covered by fee-based cash flows, meaning the company is not reliant on the direct commodity price exposed portion of the business to support the dividend. In 2019, Pembina's common share dividend represented only 73 per cent of fee-based distributable cash flow, or an all-in dividend payout ratio of 54 per cent. As well, following the one-cent-per-share increase to Pembina's monthly dividend that took effect in January, 2020, the company's board of directors does not intend to proceed with an additional dividend increase for the remainder of 2020.

Pembina is continuing to progress work started earlier this year to pursue non-core assets sales in the range of $200-million to $500-million.

Pembina's greatest assets are its people and the relationships it has with its customers, investors and the communities in which it has a presence. The company will continue to keep its stakeholders top of mind and supported as it navigates through these events. The company stands by prepared to adjust its response as needed and will continue to base its decisions on recommendations from public health experts, its continuing evaluation of global energy prices, and the impact on Pembina's and its customers' businesses.

About Pembina Pipeline Corp.

Calgary-based Pembina Pipeline is a leading transportation and mid-stream service provider that has been serving North America's energy industry for 65 years. Pembina owns an integrated system of pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in Western Canada. The company also owns gas gathering and processing facilities; an oil and natural gas liquids infrastructure and logistics business; is growing an export terminals business; and is currently developing a petrochemical facility to convert propane into polypropylene. Pembina's integrated assets and commercial operations along the majority of the hydrocarbon value chain allow it to offer a full spectrum of mid-stream and marketing services to the energy sector.