Struthers Report V28 # 14.0   Gas, Europe Shell SHL, Gold, Markets, Cdn$, Millennium Index Oct. 21, 2022

Know when to hold-em!
Know when to fold-em!
Know where to set stops!
Know when to run!
Never count your portfolio
Until the sells are done..

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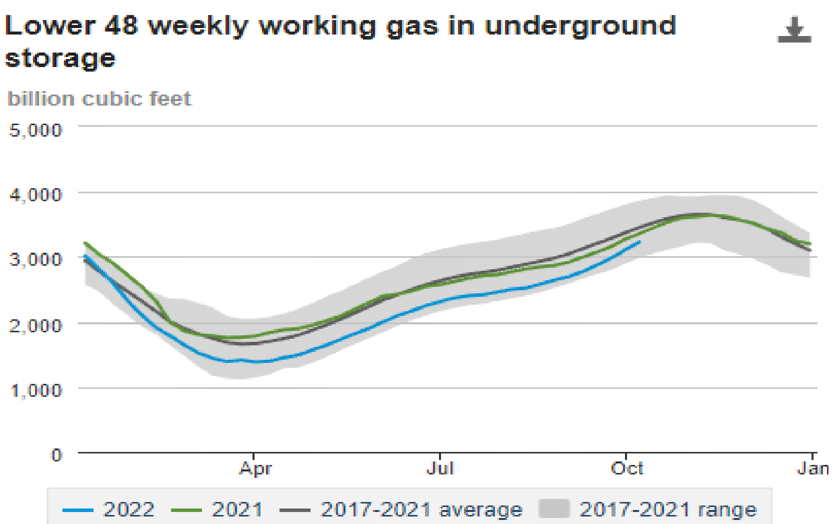
Do as I do, not what I say! We had a prime example of this on Wednesday from President Biden, as he told oil&gas companies that they should not buy back shares or pay dividends but instead spend the money on exploration. **But what did he do?** He cancelled the Keystone XL Pipeline in his first day of office and then he halted all leasing and permits for oil&gas exploration on federal lands. In May of this year he cancelled three off shore oil&gas leases and as of now they have not leased one acre of land to drill. Just this past July, Biden proposed a policy to end all tax incentives to oil&gas companies.

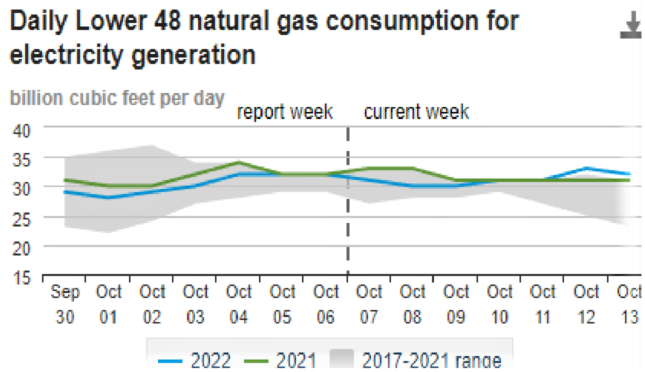
Would you think this gives **no confidence** for oil&gas companies to explore? Da, of course they have curtailed exploration and most are focused on shareholder returns and oil&gas production has declined and all the inventories of oil, gas, gasoline, diesel and heating fuel etc. are at multi year lows.

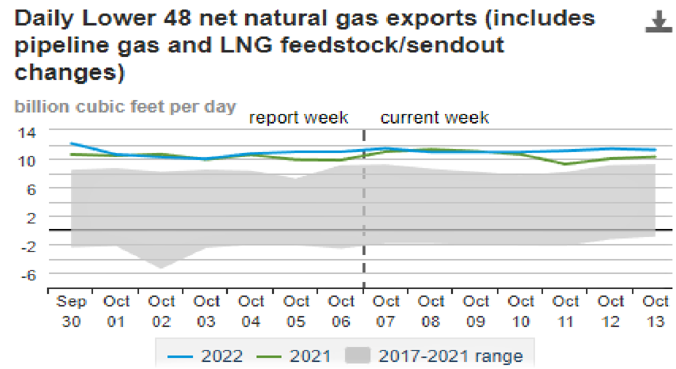
Electricity prices along the Atlantic coast of the United States are set to increase 50-60% year-on-year as gas supplies become squeezed to meet winter heating and generation needs. New England on-peak power prices have averaged slightly below $80/MWh in September, forward electricity prices for December 2022 have been trending well above $200/MWh recently. The operator of New England's power grid has already warned of potential blackouts in the winter in case of a severe cold spell.

Before Biden took office, the US was producing more oil that it was using and more than the Russians or the Middle East. Oil&gas companies are the favourite whipping boys of politicians anytime prices rise. Meanwhile, today we hear the Biden administration is granting $2.8 billion to companies to expand electric-vehicle battery production. This will do nothing to ease the current energy crisis.



Last week we saw the first decent increase in gas storage that lifted the level off the bottom of the 5 year average. This will not help curtail high prices this winter as the next 2 charts show rising demand.





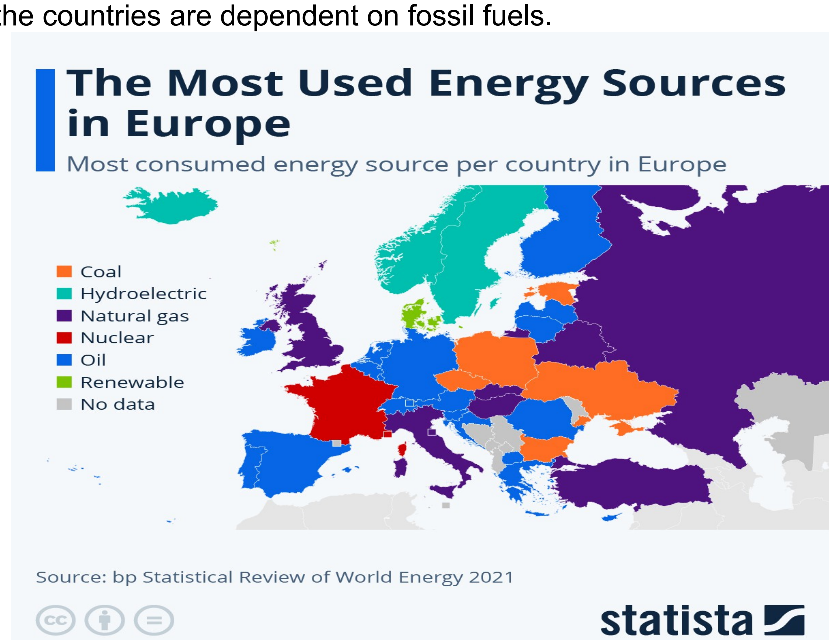
You can see from these charts that gas for electrical production is above the 5 year average and exports of LNG are at record levels, taking advantage of the higher European prices. More and more gas will be diverted to higher prices leading to higher prices and possible shortages in North America.

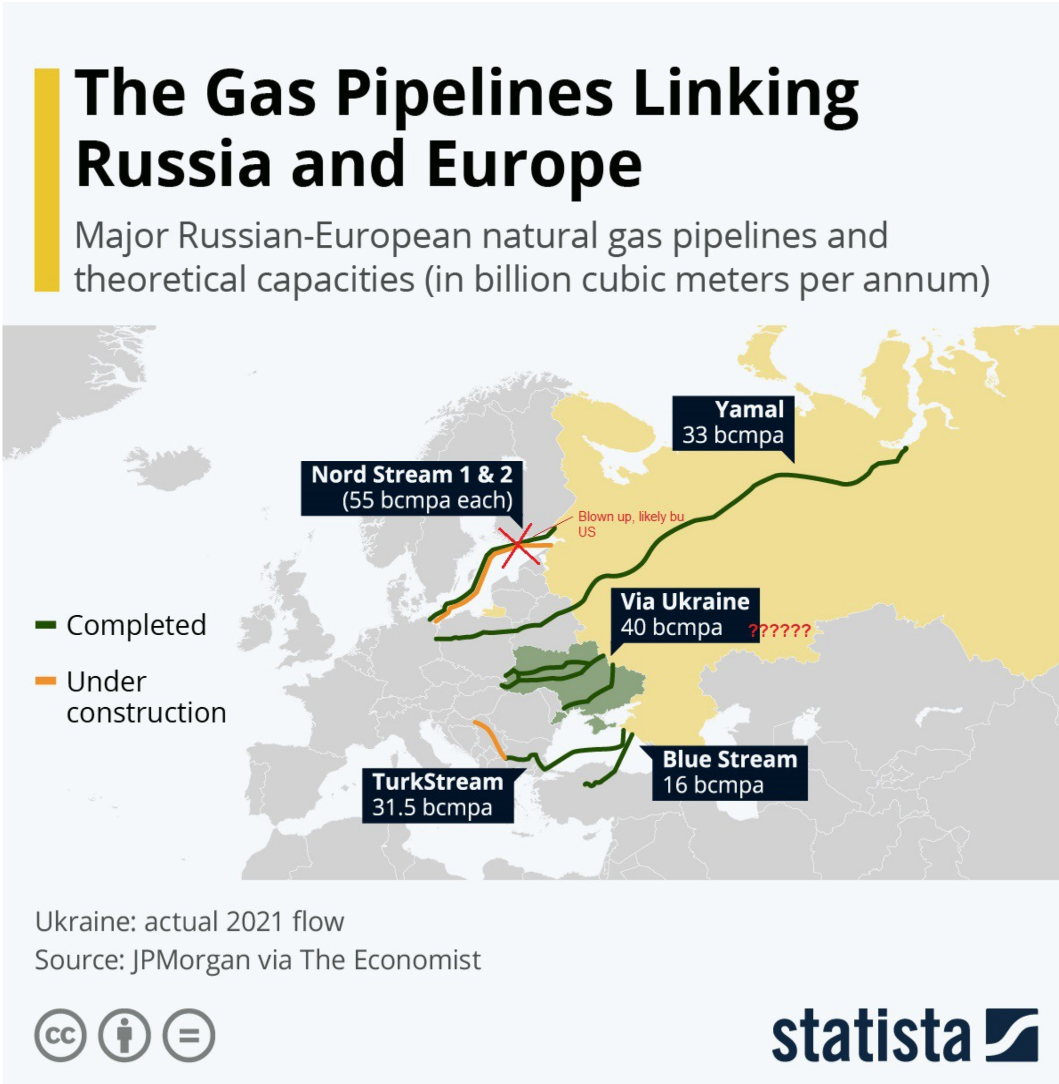
Getting data in Canada is very hard and what is there is out of date. Ontario provides quarterly reports but have not even published the Q4 2021 report yet. I do know Ontario is scrambling for more natural gas for electrical generation. Alberta recently had pipeline problems that should have increased storage. The only decent report is from Stats Canada but they are months behind. They have just reported July storage numbers and it is not looking good, well below 2020 and 2021 levels.

- July 2022 15,840,398 cubic metres
- July 2021 18,610,093
- July 2020 21,075,478
- July 2019 17,514,295

We have the most incompetent leadership in Canada, the US and Europe like never before. Turfing the PMs in the UK is becoming a habit as Truss resigned today. You can count on governments to make this energy crisis far worse. You often see in the news about Canada's potential or capacity to export LNG. **This is just nonsense or fake news, Canada has zero export capacity for LNG.** The first to come on line will be by TC Energy's pipeline as shown in my report on them and that will not be until 2025. Shell leads a consortium actually building the LNG plant processing TC Energy gas.

Statista has provided some excellent graphics that will help you understand the dire straits that Europe is in this winter. Almost all the countries are dependent on fossil fuels.





The Nord Stream 2 was completed since this 2021 graphic but does not matter anyway as it was blown up along with Nord Stream 1. What is coming from Ukraine is questionable as the Russian invasion has started to target energy infrastructure. I expect this is part of a plan before a Russian offensive this winter. **There is no solution for this winter,** Europe won't have enough energy. Germany will probably have to shut down industry and plunge into a deep recession and deep freeze, along with some other European countries.

The US has now become the largest exporter of LNG and is now importing about 15% of gas production as LNG, mostly to Europe. What is important is that approved LNG projects will ramp this up to over 50% of US production. The gas will go to the highest bidder so as time passes the US and Canada will compete with Europe for natural gas. Nobody knows how long this war will last and what damage to energy infrastructure will result. Remember that the most troops are killed in war either transporting energy or guarding it. This war will be no different other than there is a lot more gas and nuclear energy facilities compared to past wars. **And most likely politicians will screw things up with their plans of transition to green energy.**

In another desperate move ahead of the US mid term elections, Biden is releasing another 15 million barrels from the SPR. This will be the last because after the mid term elections there will be a grid lock government. The Republicans will win the House and maybe the Senate too, but even if they win both, Biden can veto any legislation and it goes back to the House and Senate, but must get 2/3 majority vote. That will not happen. However, markets love a government that can do nothing and maybe a reason that extends this bear rally, if and when one starts.

I believe it is a perfect time with the politically driven correction in oil&gas and the producers to buy one of the blue chip integrated oil companies that will benefit from tighter energy markets and more LNG exports.

Shell plc (Royal Dutch Shell) has been in my Millennium Index before. We sold it in 2014 for an 81% profit plus dividends because I believed oil was heading down significantly and indeed it dropped from the $100 area to $50 and lower. I think now is a good time to add Shell back on the Millennium Index.

Royal Dutch Shell – Shell ADR on NY: SHEL   Recent Price - $52   Yield 3.8%

Shell is probably the best known brand in the world serving 32 million customers per day and 84 million loyalty members. They have about 46,000 location (more than McDonalds) in 80 markets. Their goal by 2025 is 40 million customers and 55,000 locations. They currently have over 105,000 EV charge points and plan to grow this to over 500,000 in 2025. I expect the Shell brand will remain at the top for a long time.

Shell pays dividends in US$ and the last quarterly dividend was $0.25 per share and since each ADR represents 2 ordinary shares the quarterly dividend on the ADR was $0.50. Based on $2.00 dividend per year and the current ADR share price, that is a yield of 3.8%. [Before Covid-19 hit they were paying a $0.47 dividend] and it dropped to the $0.17 level in 2020 and early 2021. I expect Shell will get back to the $0.47 level in the next couple years.

Shell has a growing portfolio in LNG as well as renewable projects coming on stream from now to 2024.

MARKETING MAJOR PROJECTS

Project	Country	Shell share %	Products	Shell-operated
Under construction – Start-up 2022-2023				
Shell Galloway	USA	100	Renewable Fuels – RNG	✓
LanzaJet	USA	15.4	Renewable Fuels	
Varennes Carbon Recycling	Canada	40	Renewable Fuels	
Under construction – Start-up 2024+				
Biofuels Plant Rotterdam	The Netherlands	100	Renewable Fuels	✓
Shell Bovarius	USA	100	Renewable Fuels – RNG	✓
Shell Friesian	USA	100	Renewable Fuels – RNG	✓
Investancia Group	Paraguay	30	Renewable Feedstock	
Pre-FID options				
NL Enerkem	The Netherlands	100	Renewable Fuels	✓
Biofuels Plant Singapore	Singapore	100	Renewable Fuels	✓
Biofuels Plant Convent	USA	100	Renewable Fuels	✓
Shell Dexter	USA	100	Renewable Fuels – RNG	✓
Bukom Group II Base Oil	Singapore	100	Lubricants	✓
Multi-year investment programmes				
Mobility Organic Growth	Global	100	Varied	✓
Mobility Electric Charging	Global	100	Power	✓

They are bringing their **Jackdaw Field** into production in the North Sea that can produce more than 6% of the UK's gas production in the coming years. Shell is also going ahead with the **Crux Field** in Australia that will provide gas for their floating LNG facility.

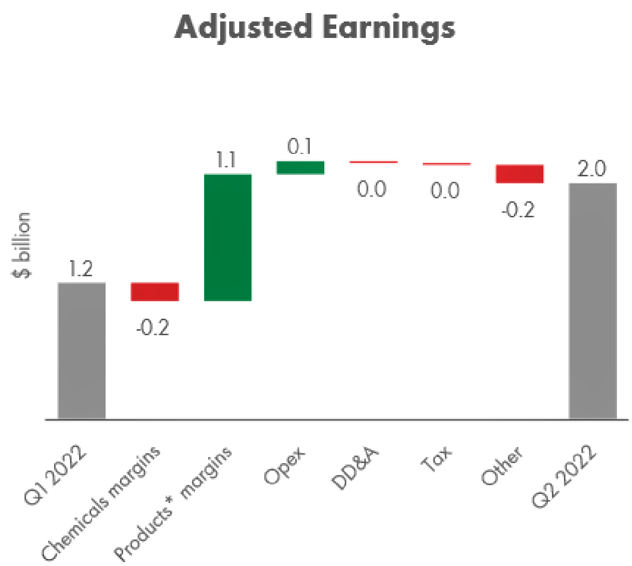
Pursuing LNG Canada, Shell has a 40% leading interest building out the facility in Kitimat BC. Kitimat was chosen as the ideal location for the facility due to the easy access to abundant, low-cost natural gas from Alberta/British Columbia’s vast resources. The location also benefits from a relatively short shipping distance to north Asia, one of the fastest growing gas markets in the world. The shipping route is approximately 50% shorter than from the US Gulf of Mexico and avoids the Panama Canal. The project has strong support from the local community, including indigenous First Nations, as well as from the local government. TC Energy will supply the gas.

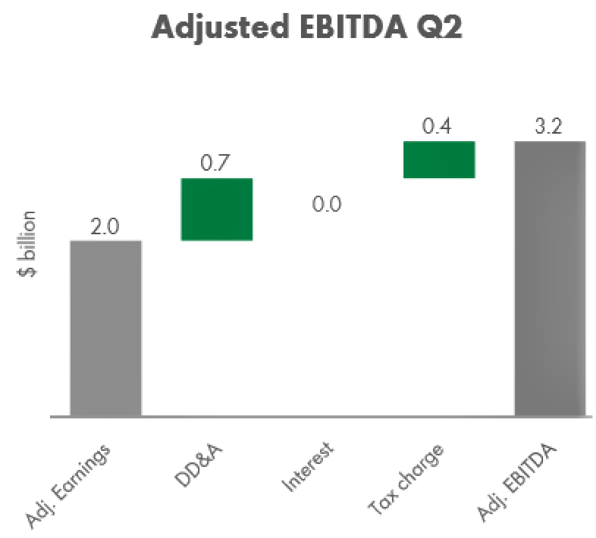
A large part of Shell's LNG is a traded portfolio using others assets. Their renewable segment is doing well with the input cost to electrical price spread quite large at this time. This looks to continue fo sometime na d we will probably see the spread widen with even higher electricity prices.

Shell's chemical division is significant, contributing almost 20% of the earnings in Q2. Chemicals are cyclical and their division has saw weaker performance. Shell says now at a bottom of the cycle based on the chemicals they are in. More important is their Pennsylvania plant starts production of polyethylene this year, currently a high margin plastic product so this will greatly improve their Chemical Division.

CHEMICALS & PRODUCTS

Key data	Q1 2022	Q2 2022	Q3 2022 outlook
Refining & Trading sales volumes (kb/d)	1,598	1,596	–
Chemicals sales volumes (kT)	3,330	3,054	3,100 - 3,600
Refinery utilisation** (%)	81	84	90 - 98
Chemicals manufacturing plant utilisation** (%)	85	78	82 - 90
Global indicative refining margin ($/bbl)	10	28	–
Global indicative chemical margin ($/t)	98	86	–





Shells oil&gas production has declined some in the last several years but the quality of their portfolio of assets has improved considerably that they are now a lot more profitable on a little less production. Comparing Q2 2022 to Q2 2013 in their presentation, when oil prices were about the same, Shell produced +65% adjusted earnings in Q2 2022 compared to Q2 2013 and 3 times the cash flow and doubled shareholder distributions.

H1 2022 OUTPERFORMING THE MACRO
FOCUSED TRANSFORMATION

Comparing H1 2022 to H1 2013 when Brent price was similar

	Brent $/bbl	Henry Hub $/MMBtu
H1 2013	107.5	3.7
H1 2022	108.1	6.0

Integrated value delivery via Powering Progress

BG acquisition driving transformation

Increased Discipline

- **39%** lower* — Shell Cash capex
- **11%** lower — operating expenditure, absorbing BG and inflation
- **> $80** billion — divestments completed in 10 years

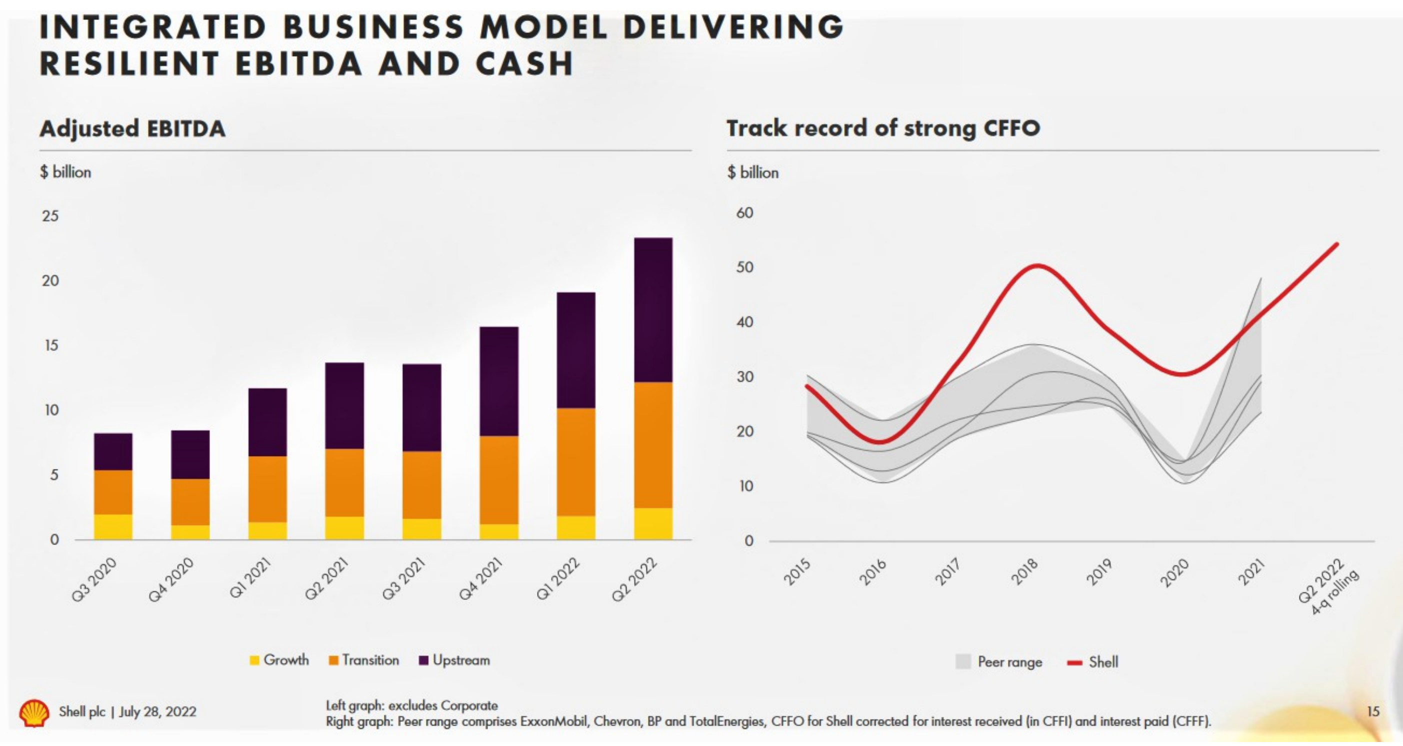
Better Results

- **65%** increase — in Adjusted Earnings
- **3x** more* — organic free cash flow
- **2x** increase — in H1 shareholder distributions from $6.4 to $12.8 billion

Greater Resilience

- **32%** reduction — in Scope 1 and 2 emissions
- **23%** lower — Injuries (TRCF) per million working hours
- **83%** decrease — in process safety incidents

Recent performance has been strong as shown below and they are delivering stronger Cash Flow From Operations than their peers. Shell should have a higher valuation, not a lower one



Shell has a $6 billion share buyback underway in Q3, something similar will continue in Q4. Basically Shell looks at the share valuation to determine the mix of dividends and stock buyback. The $7.2 billion payout in Q2 to investors was a record. The dividend is very stable and buybacks will help increase the dividend.

Conclusion

I like Shell at this time because of their superior and well known brand and at current prices the stock is valued lower than their peers like Exxon, Chevron and BP for example. Marketwatch reports their PE ratio without extraordinary items at 8.6 and the stock is trading right around book value. They have a $6 billion share buyback and are on a path of increasing cash flow and dividends.

	P/E w/o extraordinary	Book Value
Exxon	11.35	1.54
BP	12.1	1.16
Chevron	14.42	1.63
Shell	**8.6**	**0.98**

Shell is well positioned for a growing LNG market and they are continuing to high grade their portfolio by divesting in lower margin assets. While most of the major integrated oil&gas companies are trading at highs on the chart, you can buy Shell at a good price after a bit of a correction.

It looks like the stock could break to the upside out of wedge pattern. There is resistance between $54 and $56 so we need a clear break above $56 to confirm a new bullish move. Support is between $48 and $50. We can buy the stock now and get almost a 4% and growing dividend while we wait for capital appreciation.

Speculators could try the Call Options. I like the January 2023 $45 Call for around $8.30. It is $7 in the money so the premium is only $1.30. A $10 move in the stock would give you more than a double, but you won't get the dividends with the options.

Will we get a double bottom in gold?

Unfortunate, I think the answer is **No.** I can see no technical indicators on the chart that show short term over sold condition like the RSI and CCI I show above. **I expect gold is headed lower.** The S&P has tried to break above 3,700, but each time it then closes lower. This is not a convincing break above 3,700 to me. Today is Friday, markets will probably sell off. Many investors are too skittish lately to hold over a weekend.

This week, Statistics Canada reported the consumer price index increased 6.9 per cent in September from a year earlier, compared with 7 per cent the previous month. The year-over-year increases in the CPI have now dropped for three consecutive months. Lower gasoline prices explain most of the drop. After excluding food and energy, which can be volatile aspects of the CPI, prices rose 5.4 per cent over the past year, up from 5.3 per cent in August. Not a good sign that core inflation is still rising because the relief from energy is temporary with gasoline, heating oil and gas sure to rise this fall and winter.

Bank of Canada governor Mark Carney says Canada is heading toward a recession and that fiscal discipline will be "imperative" as policy makers enter a period of challenging trade-offs between promoting economic growth and taming inflation. Looking ahead, he said the world economy is entering an era that will be defined by higher interest rates, more persistent inflation and greater volatility in financial markets. **This is a very important warning and I am afraid big problems will erupt in Canada's financial market before long.**

I am sure most of you heard of the financial problems in the UK that eventually forced their new PM to resign. For a long time I have been wondering how long governments could get away with all this excessive spending, QE and such, well that time has come. **They have reached the limit**. UK financial markets, their bonds and currency collapsed because they revealed a budget that has been typical with more spending and this would only increase inflationary pressures. Sure you can increase spending on things, but it will have to be offset by spending cuts elsewhere. Raising taxes is not the answer either as this is also inflationary in most cases. The US will soon have a grid locked government and they have the highest interest rates in the developed world so they will be alright in the near term. And here in lies the problem for Canadians.

Canada has a PM that is simply a silver spoon fed school teacher and he has loaded his cabinet with yes men and women. The Liberals could reveal the next budget this winter or spring 2023 and it will be the typical tax and spend liberal budget. When this happens, most likely Canadian financial markets will get hammered, just like the UK. Perhaps Canada puts out a mini budget? Hopefully not and they learned a lesson from the UK.

A drop in the C$ below $0.69 would probably signal a run on the currency is about to begin. This is another strong reason that I have mostly been featuring US$ based stocks like Shell today and stocks in the Energy sector that will get their revenue from US$. Dividends is another key focus at this time. **With this current government, a collapse in the C$ is coming within the next year, only the exact timing is in question.**

I update the Millennium Index today and just used the prices where the stocks were at this morning. We have a very solid gain on the year of +18.3% with a 5.1% dividend yield **for a total return of 23.4%. This is astounding in a market where everything is down big time except energy stocks. I cannot stress enough about a core position of dividend stocks in your portfolio.**

Struthers Millennium Index

Prices Oct 21

Name, Symbol	Buy Date	Buy Price	Current Price	Divid Yield	Gain/ Loss	12/31/21 Price	Gain Loss	Action
Cameco CCO	May 00	3.25	32.38	3.7%	896%	27.58	17.4%	H
Russel Metals RUS	Jan 08	20.00	25.14	7.6%	26%	33.63	-25.2%	H
Gamco Gold GGN	Aug 11	16.50	3.35	2.2%	-80%	3.75	-10.7%	H
Newmont NEM	July 13	27.90	76.46	7.9%	174%	62.02	23.3%	Sold
LTC Properties LTC	Jan 14	35.24	41.00	6.5%	16%	34.14	20.1%	H
Atlas ATCO	Jan 17	7.33	14.73	6.8%	101%	14.18	3.9%	buyout
Cenovus CVE	Feb 18	23.53	25.39	0.6%	8%	15.51	63.7%	H
CVE.wt	Jan21	3.97	14.19	0.0%	257%	9.51	49.2%	Sold
Medical Facility DR	Oct 18	14.10	10.53	2.3%	-25%	9.35	12.6%	H
Energy Transfer ET	Jan 19	14.50	11.93	6.3%	-18%	8.23	45.0%	B
Vermillion VET	Aug 19	19.00	30.66	1.7%	61%	15.90	92.8%	H
Gilat Satellite GILT	Jan 22	8.16	5.20	12.3%	-36%	8.16	-36.3%	BW
Centamin CEE	Mar 22	1.72	1.36	11.6%	-21%	1.72	-21%	B
Devon DVN	Mar 22	53.1	73.25	6.3%	38%	53.1	38%	H
Birchcliff BIR	Jun 22	8.65	9.90	0.0%	14%	8.65	14%	B
TC Energy TRP	Oct 22	55.50	58.70	6.5%	6%	55.50	6%	B
Average				5.1%	89%		18.3%	