By: Dan Steffens, President

Dan Steffens is the President of Energy Prospectus Group (EPG), a networking organization based in Houston, Texas. He is a 1976 graduate of Tulsa University with an undergraduate degree in Accounting and a Masters in Taxation.

Mr. Steffens began his career in public accounting, becoming licensed as a CPA in 1978. After four years in public accounting, he transitioned to the oil & gas industry with the bulk of his time (18 years) spent with Amerada Hess Corporation (HES). He served as the Hess United States E&P Division Controller from 1994 to 2001.

INSIDE THIS ISSUE

4 Sweet 16 Growth Portfolio
7 Small-Cap Growth Portfolio
9 High Yield Growth Portfolio

“Seek and ye shall find.”
At EPG we are seeking out the best energy stocks and we bring those companies to the attention of our members.

On June 4th I was the opening speaker at the Mick Law Energy & Global Alternatives Symposium in Plano, Texas. There were close to 200 attendees. Most of them were registered broker/dealers coming to hear from private upstream companies that were seeking funding for drilling programs. I was one of four speakers there to give attendees an overview of where things stand today in the oil & gas market.

I spoke at the same conference last year. Attendance this year was up more than 100% and the overall feeling in the room was more upbeat.

Last year I think everyone had to check their weapons at the door. Investors in the drilling programs that were funded in 2014 and 2015 had been hammered. Most of those of us that invest in the energy sector “feel their pain.”

All you have to do is compare first quarter commodity prices to those of a year ago to see why there is more optimism about investing in oil & gas projects. During the first three months of 2017, realized crude oil prices were up more than 38% for our Sweet 16 companies. Natural gas prices were up approximately...
36% and NGL prices were up a whopping 90%. First quarter earnings and cash flow from operations were solid for the majority of upstream and midstream companies.

The major points that I tried to get across to the audience in Plano were:

• Demand growth for energy and specifically oil is relentless and it is demand growth that will move oil prices higher
• OPEC is not the “Bad Guy”; we really need the cartel to fulfill their mission of stabilizing the global oil market
• Oil production will grow in the United States, but the U.S. shale plays cannot meet this world's oil demand on their own.
• Upstream companies can make money at today's oil, gas and NGL prices. All of our model portfolio companies reported solid first quarter results.

So, why is energy the worst preforming sector on Wall Street this year? The short answer is “FEAR”.

When OPEC announced on November 30, 2016 that they had reached an agreement to set production limits at 32.5 million barrels per day during the first half of 2017, investors were overjoyed. Oil prices moved quickly to more than $50/Bbl. Stock prices for the high quality upstream companies moved higher into year-end. Fund managers decided to “harvest” their gains, primarily to increase their annual fees, and they rotated out of energy. I think fund managers would have rotated back into energy, but let’s review what happened and why FEAR may soon transition to GREED.

Crude oil inventories moved higher for three reasons:
1. OPEC members over-produced in the 4th quarter and it took several months for that oil to work its way through the system.
2. There was a lot of oil in “floating storage” that came onshore when the price spiked.
3. Oil demand is seasonal and demand is lowest in the first quarter.

Wall Street analysts know this stuff, but the weekly storage builds were

---

**EPG Coming Events**

Our luncheons in Houston and Dallas give EPG members and their guests an opportunity to meet the top management of some of the most promising small and mid-cap energy companies that we track. **Members and guests need to register on our website home page.**

Our luncheons are free for EPG members and just $40 for non-members that register through our website or $50 at the door.

**Friday, June 23: Lonestar Resources (LONE)** is hosting a luncheon at The Hess Club in Houston, Texas. Lonestar is one of the Aggressive Growth companies in our Small-Cap Growth Portfolio. Frank Bracken, the CEO will be presenting details of their recent Eagle Ford acquisition and telling us how the company is going to ramp up production.

**Friday, June 30: Nemaska Lithium (TSX: NMX and OTCQX: NMKEF)** is hosting a luncheon at The Hess Club in Houston Texas. Nemaska is developing in Quebec one of the most important lithium hard rock deposit in the world, both in volume and grade. The company has made a lot of progress since they present to us in Dallas and Houston last year.
just too much of a headwind.

The FEAR that won’t go away is that oil production growth in the United States will offset the cuts being made by OPEC and cause the oil markets to remain over-supplied.

Yes, U.S. oil production is growing and it will keep growing. My guess is that U.S. production tops 10,000,000 barrels per day early in 2018. Last week the U.S. Energy Information Administration (“EIA”) reported that domestic production was 9,342,000 barrels per day; up 77,000 BOPD over the last five weeks. My prediction is that the rate of growth will slow once the drilled but uncompleted (“DUC”) inventory is back to a normal level.

Another concept that takes time to sink in is that the more dependent we become on the shale plays for supply, the more new wells we will need to drill each year. The U.S. annual depletion rate has gone from 6% to near 20% in just a few years. At some point, we will not be able to drill enough new wells to offset the declines in the Tier One areas. Take a look at the annual gas production from the Barnett Shale and you will understand. Don’t worry, we still have at least a decade of drilling inventory in the Tier One areas.

Our dependency on shale oil, gas and NGLs sets up a very bullish long-term outlook for the drilling companies, oilfield services firms and frac sand companies. It is going to take lots of new wells each year just to hold production steady. It is estimated that if all drilling was stopped, in twelve months U.S. oil production would decline by 2,200,000 barrels per day. First year decline rates on most horizontal wells in tight formations is over 50%.

OPEC is not the “Bad Guy”

I have worked in the oil & gas industry for over 38 years. During that time the OPEC cartel has been blamed for high oil prices, low oil prices and gasoline rationing. Most of these oil cycles are more the result of our own lack of an energy policy, but people like to blame their problems on someone else.

New Profiles

The following reports were posted to the website since our last newsletter:

- Updated Net Income and Cash Flow Forecasts for several of the Sweet 16 companies and those in our other model portfolios
- A table of our Fair Value estimates for each Sweet 16 company compared to First Call’s 12-month price targets

Company Profiles

- Antero Resources (AR)
- Callon Petroleum (CPE)
- Carrizo Oil & Gas (CRZO)
- Cimarex Energy (XEC)
- Concho Resources (CXO)
- Continental Resources (CLR)
- Devon Energy (DVN)
- Diamondback Energy (FANG)
- Earthstone Energy (ESTE)
- EnLink Midstream Partners (ENLK)
- EOG Resources (EOG)
- Gulfport Energy (GPOR)
- Matador Resources (MTDR)
- Newfield Exploration (NFX)
- Parsley Energy (PE)
- PDC Energy (PDCE)
- Pioneer Natural Resources (PXD)
- Range Resources (RRC)
- RSP Permian (RSPP)
- Sanchez Energy (SN)
- SRC Energy (SRCI)
The truth is that we need OPEC. The Organization of Petroleum Exporting Countries (“OPEC”) is a group consisting of 12 of the world’s major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid. OPEC is a cartel that aims to manage the supply of oil in an effort to set the price of oil on the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.

This world runs on oil. As nice as it sounds to have a goal of moving away from fossil fuels, the fact is that humans will soon be consuming over 100,000,000 barrels per day of hydrocarbon based liquid fuels and feedstock. Most of them are refined from black oil. Our high standard of living depends on a steady and relatively cheap supply of oil based products.

Global demand for oil, natural gas and coal will be at least 20% higher in 2040 than it is today. Renewables and nuclear energy will grow, but not even close enough to replace hydrocarbons based energy sources. We need someone to stabilize oil prices and it makes sense that OPEC does it since they are the ones with export capacity.

On November 30, 2016 OPEC announced that they were going to cut oil production by 1,200,000 barrels per day and eleven other countries agreed to join them and cut an additional 558,000 BOPD. Thanks to big cuts made by Saudi Arabia, OPEC quickly moved into compliance with the agreement. It has taken longer for the other group to comply, but they move closer each month.

The cartel met in Vienna on May 25th and announced a nine month extension of the agreement. Another eleven countries also agreed to extend their agreement. Immediately after the extensions were announced, oil moved higher but then sold off. My guess is that West Texas Intermediate (“WTI”) will be range bound in the $45 to $50 range until we get absolute proof that the OECD oil inventories will decline. We need to reduce global crude oil inventories by about 200 million barrels from today’s lever to get back to the 5-year average.

According to EIA reports, in the eight weeks that ended May 26, 2017 U.S. oil inventories have declined by 26,000,000 barrels. My forecast is that the combination of higher summer demand and better compliance with the agreements will more than offset rising U.S. oil production. If draws from storage average 5 MMBbls per week through September, there is a good chance that OECD inventories will be back to the 5-year average by Spring 2018. As long as there is steady progress being made, the price of oil should stabilize.
OPEC’s next meeting to adjust production quotas is set for November. Two thirds of the OPEC nations cannot survive another big drop in oil prices. In my opinion, cartel members are committed to make this work simply because they have no choice.

- Keep in mind that Saudi Arabia’s oil exports will decline about 500,000 BOPD during the summer months as they consume more of their oil for power generation.
- Outside of OPEC, the United States is the only country with meaningful production growth.

Natural Gas & NGL Prices

We are now at the peak of the natural gas “shoulder season.” From May through mid-June the 5-year average weekly increases in natural gas storage are 89 Bcf. So far, the first three weeks of this period the average increase has been 63 Bcf per week. Over the last eleven weeks, the delta to the 5-year average amount of gas in storage has declined by 195 Bcf. I now predict that natural gas in U.S. storage will drop below the 5-year average before the beginning of the next heating season. The last time natural gas storage levels fell below the 5-year average before the beginning of the winter heating season, the NYMEX strip moved over $4.00/MMBTU for the entire heating season.

“...” – Wells Fargo Equity Research May 16, 2017

Actually due to a spike in natural gas exports to Mexico and LNG, the market is under-supplied by an estimated 2 Bcf per day as of today. Increasing NGL prices are also bullish for natural gas because stripping more NGLs from the raw gas stream lowers the Btu content of the dry gas. Natural gas trades based on Btu content, not by volume.

Take a look at the NGL prices on the chart on page two. NGL prices have almost doubled in the last nine months and they should drift higher during the 2nd half of this year as several large petrochemical plants come on-line. With an abundant supply of liquid rich gas, the U.S. has become the leading petrochemical manufacturer in the world.

Click HERE for another opinion’

Sweet 16 Growth Portfolio

The Sweet 16 is our “Flagship Portfolio.” It is made up of upstream companies that have strong production and proven reserve growth locked in and the financial strength to fund aggressive growth. All of the companies in the Sweet 16 reported strong first quarter results. Realized oil, gas and NGL prices should be about the same for this group in the 2nd quarter and production will be higher for most of them. “Realized Prices” include actual physical sales plus cash settlements on their hedges. Regional price differences are also factored in.

As of the date of this newsletter, the Sweet 16 was trading at a 57% discount to First Call’s target prices for their stocks. I believe the global market for oil and the North American markets for natural gas and NGLs will tighten during the 2nd half of this year. I also have a hunch that Wall Street will take profits on some other sectors and rotate more money into an oversold energy sector heading into the 3rd quarter. I am not a market timer. My valuations for all of our model portfolios are based on my long-term outlook for commodity prices and each company’s production outlook.

We have updated all of the Sweet 16 profiles and forecast models. You can download them from the EPG website.

Antero Resources (AR) has one of the most aggressive hedging programs that I have ever seen. The company’s realized price for natural gas in the first quarter, including $44.8 million of cash settlements on their hedges, was $3.89 per Mcf. For the full year, I am forecasting a realized price of $3.95/Mcf for their gas, which is locked in locked in by their hedges. In 2016, AR received over $1 Billion in cash settlements on their hedges.
Antero is the 11th largest producer of natural gas in the United States with proven reserves of ~15.4 trillion cubic feet equivalent (Tcfe) and possible reserves (P3) over 46 Tcfe. As of the date of this report, the company has identified over 5,000 undrilled horizontal drilling locations in their core areas. Lost on this bearish market is the fact that Antero Resources owns 59% of publicly traded Antero Midstream (AM). As of the date of this newsletter, AR’s interest in AM has a market value of approximately $3.8 Billion or more than $12.00 per share.

Gulfport Energy (GPOR) and Range Resources (RRC) are the other two Sweet 16 companies that get most of their revenues from natural gas and NGL sales.

Continental Resources (CLR) and EOG Resources (EOG) have none of their oil hedged. Guess where they think oil prices are heading.

Carrizo Oil & Gas (CRZO) is forecasting 19% year-over-year production growth in 2017. With approximately 30% of this year’s crude oil and natural gas hedged at $52.46/Bbl and $3.30/Mcf, the company has some cushion against commodity price declines. Their production expenses, including production taxes and G&A, are only $11.70/Boe of production. First Call’s price target is $40.11/share.

Carrizo is primarily an Eagle Ford company, which is the only reason I see for its depressed share price. The Eagle Ford doesn’t get the “love” from Wall Street that is now going to the Permian Basin. EOG Resources (EOG) is the other company that has significant operations in the Eagle Ford.

PDC Energy (PDCE) is also oversold because most of its production is outside of the Permian Basin. The company’s primary area of operations is the Wattenberg Field within the DJ Basin in northeastern Colorado. PDC holds more than 95,000 net acres in the core of the Wattenberg Field where they currently have 305 MMBoe of proven reserves.

In December 2016, PDC acquired a substantial acreage position of approximately 57,000 net acres in the Delaware Basin – primarily in Reeves County with approximately 16,000 acres in Culberson County. At the time of acquisition, there were 25 horizontal wells producing approximately 7,000 Boe/d net and the acreage was approximately 30% held-by-production. The seller was running two drilling rigs as of closing that were expected to focus primarily on drilling single Wolfcamp wells to hold acreage. The seller was drilling its first two-well pad for the Wolfcamp A and B benches in its Central acreage block as well as completing its first horizontal wells that were spud in September and October of 2016.

PDC is now running a two rig program in the Delaware Basin (a sub-basin of the Permian) and may increase to a four rig program depending on oil prices and well results. They expect to complete at least 23 new horizontal wells this year; eleven of these wells are designed to have laterals of more than 10,000 horizontal feet with estimated 70 to 75 completion stages.

PDC Energy began the year producing approximately 71,000 Boe per day. They are now on-track to exit 2017 with production over 105,000 Boe per day (~44% crude oil, 21% NGLs and 35% natural gas). Strong well results in the Delaware

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Primary Product</th>
<th>Stock Symbol</th>
<th>Share Price</th>
<th>EPG Fair Value Estimate</th>
<th>Percent Undervalued</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANTERO RESOURCES</td>
<td>GAS</td>
<td>AR</td>
<td>$19.76</td>
<td>$52.00</td>
<td>163.16%</td>
</tr>
<tr>
<td>CALLON PETROLEUM</td>
<td>OIL</td>
<td>CPE</td>
<td>$11.39</td>
<td>$22.00</td>
<td>93.15%</td>
</tr>
<tr>
<td>CARRIZO OIL &amp; GAS</td>
<td>OIL</td>
<td>CRZO</td>
<td>$21.13</td>
<td>$55.00</td>
<td>160.29%</td>
</tr>
<tr>
<td>CIMAREX ENERGY</td>
<td>OIL</td>
<td>XEC</td>
<td>$102.71</td>
<td>$174.00</td>
<td>69.41%</td>
</tr>
<tr>
<td>CONCHO RESOURCES</td>
<td>OIL</td>
<td>CXO</td>
<td>$122.14</td>
<td>$180.00</td>
<td>47.37%</td>
</tr>
<tr>
<td>CONTINENTAL RESOURCES</td>
<td>OIL</td>
<td>CLR</td>
<td>$36.08</td>
<td>$77.00</td>
<td>113.41%</td>
</tr>
<tr>
<td>DEVON ENERGY</td>
<td>OIL</td>
<td>DVN</td>
<td>$33.05</td>
<td>$64.00</td>
<td>93.65%</td>
</tr>
<tr>
<td>EOG RESOURCES</td>
<td>OIL</td>
<td>EOG</td>
<td>$89.20</td>
<td>$117.00</td>
<td>31.17%</td>
</tr>
<tr>
<td>DIAMONDBACK ENERGY</td>
<td>OIL</td>
<td>FANG</td>
<td>$90.95</td>
<td>$137.00</td>
<td>50.63%</td>
</tr>
<tr>
<td>GULFPORT ENERGY CORP</td>
<td>GAS</td>
<td>GPOR</td>
<td>$13.24</td>
<td>$40.00</td>
<td>202.11%</td>
</tr>
<tr>
<td>NEWFIELD EXPLORATION</td>
<td>OIL</td>
<td>NFX</td>
<td>$30.49</td>
<td>$63.00</td>
<td>106.63%</td>
</tr>
<tr>
<td>PARSLEY ENERGY</td>
<td>OIL</td>
<td>PE</td>
<td>$29.48</td>
<td>$47.00</td>
<td>59.43%</td>
</tr>
<tr>
<td>PDC ENERGY</td>
<td>OIL</td>
<td>PDCE</td>
<td>$47.45</td>
<td>$110.00</td>
<td>131.82%</td>
</tr>
<tr>
<td>PIONEER NATURAL RESOURCES</td>
<td>OIL</td>
<td>PXD</td>
<td>$165.51</td>
<td>$230.00</td>
<td>38.96%</td>
</tr>
<tr>
<td>RANGE RESOURCES</td>
<td>GAS</td>
<td>RRC</td>
<td>$21.94</td>
<td>$53.00</td>
<td>141.57%</td>
</tr>
<tr>
<td>RSP PERMIAN</td>
<td>OIL</td>
<td>RSP</td>
<td>$35.57</td>
<td>$60.00</td>
<td>68.68%</td>
</tr>
</tbody>
</table>
Basin should draw a lot more of Wall Street's attention.

Disclosure: I have long positions in CPE, DNR, DVN, EOG, GPOR, HCLP, LONE, MPLX, PE, RRC, and SN. I do not intend on buying or selling any securities mentioned in this newsletter within 72 hours of the publication date on page one. I am not receiving compensation from any of the companies mentioned in this newsletter. See the DISCLAIMER on the last page of this newsletter for more details.

Small-Cap Portfolio

Small-caps have more risk than the larger companies in our Sweet 16, but they also have more potential. As Wall Street gains more confidence in oil & gas prices, these are the companies that will draw the next wave of attention.

The best way to play this sub-sector is to buy a basket of high quality small-caps. In the rebound phase of the last oil price cycle (2008 to 2010) several of our small-caps increased in price by more than 500%. I’ve done my best to find companies that are well positioned for production and proven reserve growth. Increasing production combined with increasing oil & gas prices is the recipe for exceptional gains.

Sanchez Energy (SN) and SRC Energy (SRCl). Earthstone and Sanchez have recently closed on “transformative” acquisitions which set them up for significant production growth over the next few quarters. It takes time for Wall Street to figure out the impact of deals of this size, especially on small-caps.

Sanchez Energy (SN) presented at our Houston luncheon on May 30th. The $2.1 Billion Eagle Ford acquisition from Anadarko Petroleum (APC), named “Comanche”, immediately adds over 30,000 Boepd of production net to Sanchez. The company is on-track to a 2017 exit rate over 90,000 Boepd. My forecast/valuation is based on the low end of the company’s recent guidance. 2nd quarter results (the first full quarter after the APC acquisition) should give us a much better view of how the rest of the year will play out. First Call’s price target of $12.85 should be moving up if the company hits their production guidance.

Small-Cap Growth Portfolio

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Primary Product</th>
<th>Stock Symbol</th>
<th>Share Price</th>
<th>EPG Fair Value Estimate</th>
<th>Percent Undervalued</th>
</tr>
</thead>
<tbody>
<tr>
<td>EARTHSTONE ENERGY</td>
<td>OIL</td>
<td>ESTE</td>
<td>$10.35</td>
<td>$18.00</td>
<td>73.91%</td>
</tr>
<tr>
<td>EVOLUTION PETROLEUM</td>
<td>OIL</td>
<td>EPM</td>
<td>$7.35</td>
<td>$11.50</td>
<td>56.46%</td>
</tr>
<tr>
<td>JONES ENERGY</td>
<td>OIL</td>
<td>JONE</td>
<td>$2.00</td>
<td>$9.30</td>
<td>365.00%</td>
</tr>
<tr>
<td>LAREDO PETROLEUM</td>
<td>OIL</td>
<td>LPI</td>
<td>$11.63</td>
<td>$19.50</td>
<td>67.67%</td>
</tr>
<tr>
<td>LONESTAR RESOURCES</td>
<td>OIL</td>
<td>LONE</td>
<td>$4.35</td>
<td>$15.00</td>
<td>244.83%</td>
</tr>
<tr>
<td>MATADOR RESOURCES</td>
<td>OIL</td>
<td>MTDR</td>
<td>$22.89</td>
<td>$33.00</td>
<td>44.17%</td>
</tr>
<tr>
<td>MITCHAM INDUSTRIES</td>
<td>SERVICES</td>
<td>MIND</td>
<td>$3.88</td>
<td>$9.50</td>
<td>144.85%</td>
</tr>
<tr>
<td>RING ENERGY</td>
<td>OIL</td>
<td>REI</td>
<td>$13.01</td>
<td>$18.75</td>
<td>44.12%</td>
</tr>
<tr>
<td>SANCHEZ ENERGY</td>
<td>OIL</td>
<td>SN</td>
<td>$6.10</td>
<td>$23.00</td>
<td>277.05%</td>
</tr>
<tr>
<td>SM ENERGY</td>
<td>OIL</td>
<td>SM</td>
<td>$17.88</td>
<td>$40.00</td>
<td>123.71%</td>
</tr>
<tr>
<td>SRC ENERGY</td>
<td>OIL</td>
<td>SRCI</td>
<td>$6.61</td>
<td>$12.50</td>
<td>89.11%</td>
</tr>
</tbody>
</table>
Some recent opinion pieces have come out saying this is 2nd Tier Eagle Ford leasehold. I disagree and point to the fact that Sanchez has been successful in significantly improving well results within the Catarina area where estimated ultimate recoveries per well have gone from under 500,000 BOE to over 1,100,000 BOE per well.

Sanchez holds over 1,400 net horizontal drilling locations within Catarina and they have approximately 1,000 net HZ drilling locations in Comanche. Comanche is covered by a 50/50 partnership agreement with Blackstone Energy Partners. In my opinion, the fact that Blackstone partnered with SN on this acquisition and will have an on-going relationship with SN is an extremely positive development for Sanchez Energy.

On June 6, SM Energy (SM) announced an increase in the company's production guidance by approximately 400,000 Boe, all of which is attributable to the second quarter of 2017, due to acceleration of completion activity at its core Eagle Ford program. The pace of completions in the Eagle Ford was accelerated during the quarter by 11 wells. The company has completed 31 wells in its Eagle Ford program year-to-date and the current full year plan is to complete 39 wells. Production guidance is revised to 10.7-11.1 MMBd for the second quarter and 43.2-46.2 MMBd for the full year 2017.

Sale of their non-operated Eagle Ford assets in the first quarter will cause a significant drop in SM's production from Q1 to Q2. Of course, the $750 million net proceeds from the sale certainly improved the balance sheet and lowers interest expense. From approximately 118,500 Boepd of production in the 2nd quarter, SM should ramp up production to more than 125,000 Boepd by year-end.

"I would also like to add that production from our highly anticipated Viper 14-9 1WA well in Howard County, Texas, with an approximate 10,400 foot lateral drilled in the Wolfcamp A, has just passed 1,000 Boe/d production at 92% oil during completion flowback with oil rates still increasing. It will be some time yet before we have a 30-day peak rate for this well, but this is clearly an encouraging early indication of productivity." – Jay Ottoson, SM Energy CEO June 6, 2017.

It is news from the Midland Basin (a sub-basin of the Permian) that will move SM's share price.

I have updated all of the forecast models for the small-caps. You can view them from our website or you can download them to Excel. We will be sending out an updated profile on SM Energy this week and all of the other profiles by the end of this month.

Check the EPG Forum next week for my comments on all of the companies in our Small-Cap Growth Portfolio.

High Yield Income Portfolio

The companies in this portfolio have the potential for capital appreciation, but my primary focus is on their ability to sustain their current dividend payout rates. Callon Petroleum (CPE) and Mitcham Industries (MIND) have strong balance sheets. The midstream MLPs are doing fine because they did not have much direct exposure to commodity prices and demand for their services holds up well as long as demand for refined products remains strong, which it has.

Callon’s Chairman and CEO, Fred L. Callon, passed away on May 24, 2017. I had the pleasure of meeting Fred two years ago at the EnerCom conference in Denver. Fred was a heck of an “oilman” and his family should be proud of the company that he built.

Joseph Gatto Jr. will be taking over as CEO and Richard Flury will fill in as non-executive Chairman of the Board. I have talked to Joe several times. Joe was the company’s President and CFO. He is a sharp guy and he has a great team. Callon Petroleum is in good hands and common stock has a lot of upside for us. Take time to read our recent profile on the company, which you can find under the Sweet 16 tab.
BlueKnight Energy Partners LP (BKEP) hosted our luncheon in Dallas on June 2. The MLP’s primary business is Asphalt Terminals that are strategically located in 26 states. This may not sound like a “sexy” business, but BlueKnight generates steady earnings and cash flows. Plus, it has almost no exposure to oil prices. Asphalt is sold primarily to local and state governments for road maintenance. The slides that Mark Hurley, the CEO, spoke from can be found on their website. HERE is the direct link.

For those of you investing for high yield, I recommend BlueKnight’s preferred units that are publicly traded under the symbol BKEPP. They have a higher annual yield (~9.1%) and the quarterly distributions are more secure since they are “guaranteed.” They must be paid up before any distributions can be made the common unit holders. You still get a form K-1, but the distributions are fully taxable because they are guaranteed. Preferred unit holders do have equity upside because they are convertible to common units on a 1-1 basis under certain conditions.

See form 10-Q for details.

We recently published an updated profile on EnLink Midstream Partners, LLC (ENLK). The same profile covers EnLink Midstream, LLC (ENLC). ENLC has elected to be taxed as a C-Corp., which means their distributions are considered ordinary dividends and reported on a Form 1099. As you can see in the table, ENLK cash distributions to unitholders are much higher. So, if you don’t mind messing with a partnership K-1 at year-end than it is recommended.

Based on my forecast, ENLC and ENLC should be able to increase their quarterly distributions next year.

Antero Midstream Partners LP (AM) is also an MLP. The annual yield is low now, but this one has a lot of upside because of the aggressive growth plans of Antero Resources (AR).

MPLX LP (MPLX) has increased its quarterly cash distribution to $0.54 per common unit for the first quarter of 2017. This represents an increase of $0.02 per unit, or 4 percent, over the fourth-quarter 2016 distribution, and an increase of $0.035 per unit, or 7 percent, over the first-quarter 2016 distribution. Since the partnership’s initial public offering in October 2012, the MPLX board has authorized distribution increases for 17 consecutive quarters, representing a compound annual growth rate of 19 percent over the minimum quarterly distribution established at the partnership’s formation.

ONEOK, Inc. (OKE) and Plains All American Pipeline (PAA) are both well positioned to take advantage of growing production in Oklahoma and Texas.

Final Thoughts

I must admit that the market’s reaction to the OPEC announcement to extend their agreement to limit production to 32.5 million barrels per day for another nine months seemed weird. Selloffs after any
announcement is not unexpected as we have all heard the saying “buy the rumor and sell the fact”, but the negativity seemed way overdone to me. Just a month before the announcement, my bet was that they would only expand it for six months. The nine month extension makes more sense and I considered it a bullish announcement.

Khalid al-Falih’s statement after the May 25th announcement that OPEC has already set a November, 2017 meeting date to discuss further extensions and/or adjustments to the agreement was also quite bullish. It tells me that OPEC has a long-term view on doing whatever it takes to get the oil market stabilized and raise prices to a more sustainable level. It is definitely in the best interest of the cartel members to do that.

I think Saudi Arabia knows that they screwed up by flooding the market with oil in late 2014. Their “hope” of driving out the U.S. shale companies was one of the biggest gambles in world history and they lost.

The U.S. oil & gas industry is here to stay. It literally cannot fail because this world will become a very bad place to live without a steady flow of oil, gas and NGLs from North America.

Now that the OPEC and Russian production limits are in place through March 31, 2018 we should get more details in the monthly IEA “Oil Market Report”. The next edition should be published next week.

EPG Cruise 2018: The 6th annual EPG Cruise is set to leave from San Juan on January 28, 2018. It will stop in St. Thomas, Antigua, St. Kitts, St. Lucia and Barbados. There are only a few cabins available, so contact us ASAP if you wish to go. 32 people are already signed up.

Our goal is not to tell you what to invest in, but to give you a lot of good choices. Not all of the stocks we discuss in this newsletter or on the website are going to go up, but the majority of them have since 2001 when I launched EPG. If you stay focused on owning companies that have strong fundamentals and growth locked in, I believe you will have an edge in the market.

Thank you for your support.

Keep an eye on the macro-environment, but look closely at the details before you invest in anything and good luck!

Dan Steffens, President
Energy Prospectus Group