

**Canadian Equity Research**  
22 January 2019

**Anthony Petrucci** | Analyst | Canaccord Genuity Corp. (Canada) | apetrucci@cgf.com | 1.403.691.7807  
**Meagan Adamson, P. Geo, MBA** | Associate | Canaccord Genuity Corp. (Canada) | madamson@cgf.com | 1.403.691.7811

**SPECULATIVE BUY**

*unchanged*

**PRICE TARGET** C\$3.25

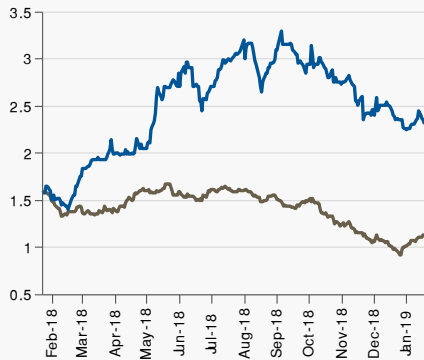
*unchanged*

Price (21-Jan) C\$2.35

Ticker RZE-TSXV

|                          |             |
|--------------------------|-------------|
| 52-Week Range (C\$):     | 1.25 - 3.30 |
| Avg Daily Vol (M) :      | 0.01        |
| Market Cap (C\$M):       | 36.8        |
| Dividend /Shr (C\$):     | 0.04        |
| Dividend Yield (%) :     | 6.4         |
| Shares Out., Basic (M) : | 15.6        |
| Net Debt (Cash) (C\$M):  | 60          |
| NAV /Shr (C\$):          | 3.21        |

| FYE Dec          | 2017A   | 2018E   | 2019E   |
|------------------|---------|---------|---------|
| Total Production | 3,813.0 | 4,851.6 | 4,907.6 |
| EV/BOEPD (C\$)   | 23,702  | 19,986  | 19,758  |
| CFPS (C\$)       | 0.52    | 0.96    | 0.92    |
| EV/DACF          | 6.8     | 5.1     | 4.7     |



Source: FactSet

Priced as of close of business 21 January 2019

Razor Energy Corp. is a ~5,000 boe/d light oil producer focused on legacy light oil pools in Alberta, Canada.

Pricing assumptions (WTI & AECO):

2018: US\$65.22/bbl & C\$1.69/mcf

LT: US\$65.00/bbl & C\$2.00/mcf

**Company Update**

**2019 guidance announced; modest budget in light of commodity price volatility**

Razor announced 2019 guidance this morning, which included a modest \$13.5 million budget, and expectations of maintaining production through 2019. The company benefits from an extremely low decline rate of 10%, which enables it to spend minimal amounts and still keep production largely flat.

On our estimates, its 2019 budget and dividend can be funded within cashflow at prevailing pricing. Razor energy was the top-performing Canadian E&P stock in 2018, up over 40% through the year. With thinner margins, the company benefited from the rising oil price through most of the year, and managed to maintain most of those gains as pricing fell in Q4/18. Razor energy has amongst the highest leverage to oil prices, and as such we see it as a good way to get exposure to increasing commodity prices and tightening differentials.

RZE is SPEC BUY rated with a \$3.25 target price, which is NAV-based and maps to a 2019E EV/DACF of 5.4x. RZE currently trades at 4.7x 2019E EV/DACF, which is a modest discount to peers at 5.3x (Figure 4).

**Highlights from the release:**

- **2019 capital program.** RZE announced a 2019 budget of ~\$13.5M compared to consensus of \$15M (and our estimate of \$12M). This is down ~50% from 2018 levels. On our estimates the company can fund its capital program within cashflow at US\$50 WTI. The company noted it expects to exit 2019 with ~\$51M in net debt.
- **Production.** RZE is forecasting average production in the range of 4,900 boe/d, which is in line with our prior estimate, and relatively flat to 2018 levels. RZE benefits from a low decline rate (~10%), which enables the company to prop up production with a minimal capital spend. See Figure 1 for adjustments to our estimates.
- **Maintaining flexibility.** The company will review capital in the context of ongoing volatility in commodity prices, and may elect to adjust the amount and timing of capital spending.
- **Sensitivity analysis.** With higher operating costs (and thereby thinner margins), RZE's cashflows are highly levered to movements in the oil price. In Figure 3 we provide a summary of expected cashflows at various oil prices. As shown, at US\$55 WTI we anticipate cashflow of ~\$22M, which is enough to fund the company's capital program and dividend, with ~\$6M left over to pay down debt.
- **2019 drilling program.** The company plans to spend \$4.6M on reactivations, recompletions, optimization activities and waterflood management in the Swan Hills and Kaybob areas. In addition, the company plans spend \$5.2M of the budget on facilities and pipelines, with plans to develop a blending facility in Kaybob and a condensate stabilization facility in Swan Hills.
- **Focus on operating costs.** Operating cost reductions continue to be a focus for the company, and are regularly addressed through added field efficiencies and capital investment.

## Model changes and production growth

Figure 1: Changes to estimates

In Figure 1 (right), we show changes to our RZE estimates.

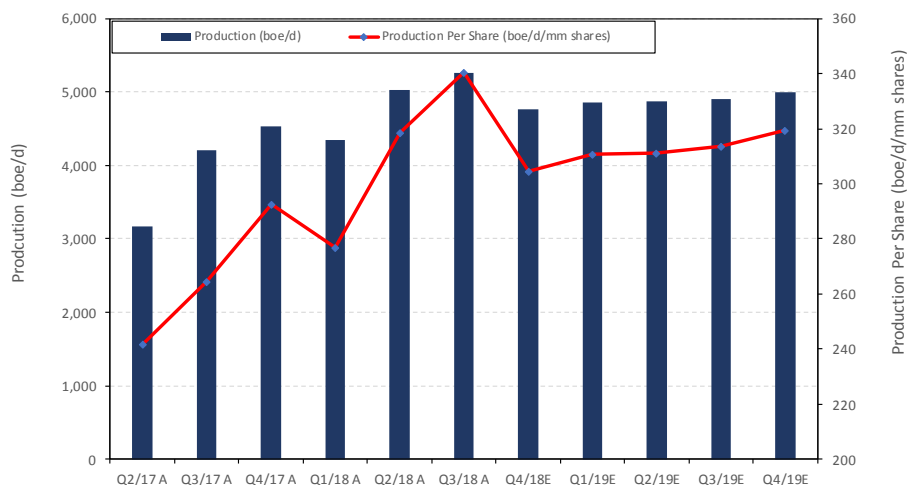
| Metric                         | 2018 Estimates |                |              | 2019 Estimates |                |              |
|--------------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
|                                | Current        | Previous       | Variance (%) | Current        | Previous       | Variance (%) |
| <b>Production</b>              |                |                |              |                |                |              |
| Liquids [bbls/d]               | 4,198          | 4,198          | 0%           | 4,241          | 4,188          | 1%           |
| Gas [mmcf/d]                   | 4              | 4              | 0%           | 4              | 4              | 1%           |
| <b>Total [boe/d]</b>           | <b>4,852</b>   | <b>4,852</b>   | <b>0%</b>    | <b>4,908</b>   | <b>4,845</b>   | <b>1%</b>    |
| <b>Realized Pricing</b>        |                |                |              |                |                |              |
| Oil [\$ /bbl]                  | \$67.95        | \$67.95        | 0%           | \$53.05        | \$53.05        | 0%           |
| Gas [\$ /mcf]                  | \$1.68         | \$1.68         | 0%           | \$1.42         | \$1.42         | 0%           |
| Hedging gain [\$ /boe]         | -\$1.84        | -\$1.84        | 0%           | \$2.64         | \$2.67         | -1%          |
| <b>Netback</b>                 |                |                |              |                |                |              |
| Blended Price [\$ /boe]        | \$57.08        | \$57.08        | 0%           | \$51.58        | \$51.65        | 0%           |
| Royalties [\$ /boe]            | \$10.66        | \$10.66        | 0%           | \$7.80         | \$7.80         | 0%           |
| Opex & Transport [\$ /boe]     | \$32.66        | \$32.66        | 0%           | \$28.95        | \$28.95        | 0%           |
| <b>Field Netback [\$ /boe]</b> | <b>\$13.77</b> | <b>\$13.77</b> | <b>0%</b>    | <b>\$14.82</b> | <b>\$14.90</b> | <b>-1%</b>   |
| G&A [\$ /boe]                  | \$3.25         | \$3.25         | 0%           | \$3.00         | \$3.00         | 0%           |
| Interest & Other [\$ /boe]     | \$2.68         | \$2.68         | 0%           | \$3.77         | \$3.77         | 0%           |
| <b>Cash Netback [\$ /boe]</b>  | <b>\$7.83</b>  | <b>\$7.83</b>  | <b>0%</b>    | <b>\$8.05</b>  | <b>\$8.12</b>  | <b>-1%</b>   |
| <b>Financial</b>               |                |                |              |                |                |              |
| Cash Flow [\$000]              | \$15,066       | \$15,066       | 0%           | \$14,421       | \$14,365       | 0%           |
| CFPS (f.d.) [\$ /shr]          | \$0.96         | \$0.96         | 0%           | \$0.92         | \$0.92         | 0%           |
| CapEx [\$000]                  | -\$33,582      | -\$33,582      | 0%           | -\$13,500      | -\$12,000      | 13%          |
| Net Debt [\$000]               | \$58,176       | \$58,176       | 0%           | \$62,501       | \$61,057       | 2%           |

Other includes Taxes and Interest

Source: Company Reports, Canaccord Genuity estimates

Figure 2: Production growth since 2010

In Figure 2 (right), we highlight absolute production and production per share growth since Q1/17.



Source: Company Reports, Canaccord Genuity estimates

## Commodity sensitivity and comps

Figure 3: Commodity sensitivity

| Cashflow Calculation |                               |           |          |          |
|----------------------|-------------------------------|-----------|----------|----------|
| Prices <sup>1</sup>  | WTI (US\$/bbl)                | \$45.00   | \$55.00  | \$65.00  |
|                      | AECO (C\$/mcf)                | 1.25      | 1.25     | 1.25     |
|                      | Production (boe/d)            | 4,908     | 4,908    | 4,908    |
|                      | Corporate Netback (\$/boe)    | 7.55      | 12.31    | 20.14    |
|                      | Cashflow (\$000)              | \$13,531  | \$22,057 | \$36,084 |
| Capital Commitment   |                               |           |          |          |
|                      | Capex (\$000)                 | \$13,500  | \$13,500 | \$13,500 |
| Capex vs Cashflow    |                               |           |          |          |
|                      | Capex to cashflow             | 100%      | 61%      | 37%      |
| Dividend Overview    |                               |           |          |          |
|                      | Dividend/Share (\$/sh)        | \$0.15    | \$0.15   | \$0.15   |
|                      | Yield                         | 2.2%      | 2.2%     | 2.2%     |
|                      | Total Dividend Amount (\$000) | \$2,346   | \$2,346  | \$2,346  |
| Payout Ratios        |                               |           |          |          |
|                      | Simple Payout                 | 17%       | 11%      | 7%       |
|                      | All-in Payout                 | 117%      | 72%      | 44%      |
| 2019 Growth          |                               |           |          |          |
|                      | Free cash flow (\$000)        | (\$2,315) | \$6,211  | \$20,238 |
|                      | YoY Production/share (%)      | 1%        | 1%       | 1%       |
|                      | Q4/Q4 Production/share (%)    | 5%        | 5%       | 5%       |
| Balance Sheet        |                               |           |          |          |
|                      | D/CF (Trailing)               | 4.7x      | 2.5x     | 1.1x     |
|                      | Facility Utilization          | 0%        | 0%       | 0%       |
| Valuation            |                               |           |          |          |
|                      | EV/DACF                       | 6.5x      | 6.5x     | 6.5x     |

<sup>1</sup> Assumed FX (\$US/\$CAD) of 0.74, Ed Par diff of US\$7.00

Source: Company Reports, Canaccord Genuity estimates

In Figure 3 (right), we show RZE's sensitivity to WTI and AECO prices.

At US\$55 WTI and \$1.25 AECO, our estimates suggest RZE will generate ~\$22M in cashflow, which would be enough to fund its capex projections (~\$13.5M) and meet its dividend obligations (~\$2.3M) and still pay down ~\$6M in debt.

In Figure 4 (below), we show RZE's trading multiples relative to its peer group. RZE trades at 4.7x 2019E EV/DACF, below its peers at 5.3x.

Figure 4: Comps

| January 22, 2019           |        |         |                  | Market     |           | Base           |            | EV/DACF    |            | 2018                 |                 | D/CF       |            |            |
|----------------------------|--------|---------|------------------|------------|-----------|----------------|------------|------------|------------|----------------------|-----------------|------------|------------|------------|
| Company                    | Ticker | Analyst | Price (\$/share) | cap (\$MM) | EV (\$MM) | NAV (\$/share) | P/CNAV (x) | 2018E (x)  | 2019E (x)  | Ev/boe prod (\$/boe) | % Gas (%)       | 2018E (x)  | 2019E (x)  |            |
| Chinook Energy Inc.        | CKE    | AP      | \$0.14           | \$30       | \$33      | \$0.15         | 0.6        | 7.7        | 5.6        | \$9,279              | 86%             | 0.6        | 0.7        |            |
| Gear Energy Ltd.           | GXE    | BF      | 0.67             | 147        | 233       | 0.81           | 0.7        | 6.4        | 7.8        | 34,432               | 14%             | 2.5        | 3.7        |            |
| InPlay Oil Corp.           | IPO    | AP      | 1.00             | 68         | 125       | 1.78           | 0.5        | 4.1        | 4.6        | 26,185               | 33%             | n.a.       | 2.4        |            |
| Leucrotta Exploration Inc. | LXE    | AP      | 1.19             | 239        | 243       | 0.51           | 0.9        | 17.0       | n.a.       | 66,539               | 71%             | 0.2        | 0.6        |            |
| PetroShale Inc.            | PSH    | DF      | 1.15             | 219        | 419       | 0.21           | 0.5        | 5.4        | 3.5        | 67,616               | 23%             | 3.2        | 2.0        |            |
| Razor Energy Corp.         | RZE    | AP      | 2.35             | 37         | 97        | 6.59           | 0.7        | 5.1        | 4.7        | 19,567               | 11%             | 3.9        | 4.3        |            |
| <b>Small Cap Average</b>   |        |         |                  |            |           |                |            | <b>0.7</b> | <b>7.6</b> | <b>5.3</b>           | <b>37,269.8</b> | <b>0.4</b> | <b>2.1</b> | <b>2.3</b> |
| Razor Energy Corp.         | RZE    | AP      | 2.35             | 37         | 97        | 6.59           | 0.7        | 5.1        | 4.7        | 19,567               | 11%             | 3.9        | 4.3        |            |

Source: Company Reports, Canaccord Genuity estimates



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### Investment Recommendation

Date and time of first dissemination: January 22, 2019, 08:48 ET

Date and time of production: January 22, 2019, 10:29 ET

### Target Price / Valuation Methodology:

Razor Energy Corp. - RZE

Our target price of C\$3.50 is a 0.4x multiple to our CNAV and reflects a 2019E EV/DACF multiple of 3.3x.

### Risks to achieving Target Price / Valuation:

Razor Energy Corp. - RZE

Key risks to achieving our target price include, but are not limited to, commodity prices, foreign exchange rates, project execution, geological uncertainty, inaccurate reserves evaluations, operational, environmental, regulatory, fiscal policy, key personnel, and the ability to obtain financing.

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#### Global Stock Ratings (as of 01/22/19)

| Rating          | Coverage Universe |        | IB Clients |
|-----------------|-------------------|--------|------------|
|                 | #                 | %      | %          |
| Buy             | 558               | 62.49% | 47.13%     |
| Hold            | 202               | 22.62% | 29.21%     |
| Sell            | 12                | 1.34%  | 25.00%     |
| Speculative Buy | 121               | 13.55% | 68.60%     |
|                 | 893*              | 100.0% |            |

\*Total includes stocks that are Under Review

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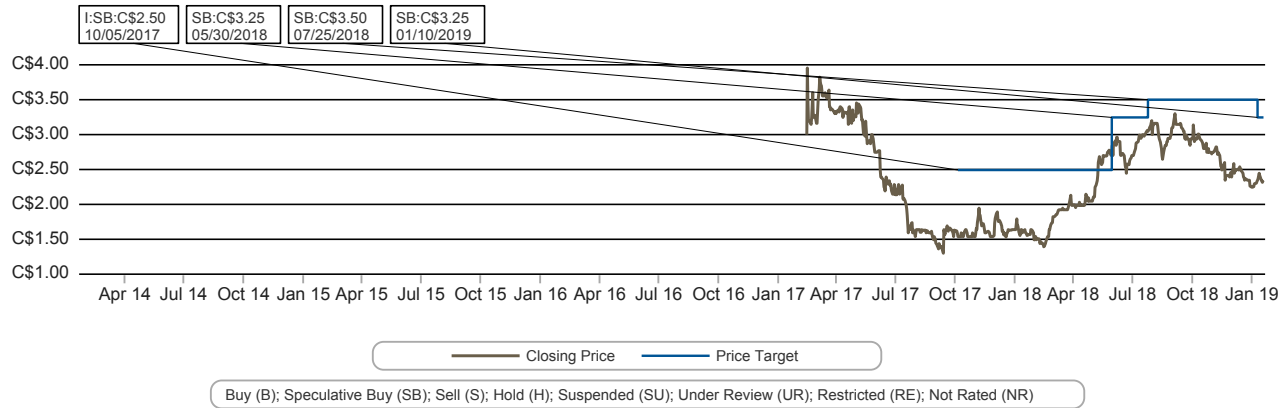
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