Oil’s Fate Rests in Doha, and Tesla’s Lithium Conundrum

OPEC is a house divided against itself, and it cannot stand.

My attempt at paraphrasing Lincoln’s famous quote notwithstanding, the sentiment holds true today.

Unfortunately, to tell the story of OPEC’s downfall in its entirety would fill more pages than you might first think, so let’s stick with the most recent events...

Last week I explained how crucial the meeting in Doha, Qatar, on April 17\textsuperscript{th} will be for oil prices. And no matter how hard you try to predict the outcome, it’s nearly impossible considering the posturing that’s taking place in the media.

Here’s a brief rundown of what happened.

First, it was the stubbornness of the Saudis refusing to even come to the table to discuss curtailing output that prompted countries like Venezuela (a country who’s oil industry was in shambles before oil prices began their precipitous decline) to beg their fellow OPEC members to take action.

After refusing to hold an emergency OPEC meeting to review its output levels, Saudi Arabia finally agreed to meet in Doha, Qatar, on April 17\textsuperscript{th} with both OPEC and non-OPEC producers (Russia being the most important one) to finally address cutting output.

Sadly, it didn’t take long for the fiery rhetoric to begin flying on both sides.

As I told my readers earlier this week, these countries are playing a catastrophic game of chicken right now, and nobody wants to back off first.

The Saudis refuse to accept a cut or output freeze unless Iran is a part of it. Iran flat-out rejects the idea of participating in the agreement, and who can blame them? After all, the country is finally free of sanctions that were placed on its oil exports.

Then, on Tuesday, Kuwait joined the fray after one of its officials said that an output freeze would happen with or without Iran.
Like I said, it’s a game of chicken between Saudi Arabia and Iran, along with a case of “he said, she said” being played out in the media.

The implications, however, are drastic.

Without an outright cut in daily output by the world’s largest producers, it’ll give the market a reason to push oil prices lower.

Look, I’m not holding my breath for a cut, and neither should you.

Furthermore, the chance of the Saudis capitulating and agreeing to a freeze without Iran is highly unlikely. And, as I’ve pointed out time and again in interviews, freezing production right now would be doing so while many of these countries are extracting oil at record levels.

The result is a prolonged delay in the oil recovery that we’ve been waiting nearly two years for.

Don’t worry; there is some good news out there, which brings me to a brief lithium interlude.

**The Lithium Revolution Has Arrived**

I have absolutely no doubt that you’ve heard the news by now regarding Tesla’s Model 3 pre-orders topping 232,000 in the first 24 hours and totaling approximately 270,000 in less than 72 hours.

At $1,000 a pop, the company essentially pocketed roughly $276 million (according to the latest numbers as I write this), and pre-orders have blown far past the projected 55,000 that analysts were expecting.

Let’s put just a little bit more perspective on how lucrative this situation is...

The Tesla Model 3 got more orders in *one day* than the entire U.S. plug-in auto industry sold in 2015.

So much for underestimating Elon Musk.
Yet it’s not the $276 million Tesla banked on pre-orders, nor is it the more than $10 billion the company stands to make on the $35,000 Model 3 that has my attention.

It’s not even the fact that shares of Tesla have surged over 60% since February.

I want you to fully realize what most people are woefully unaware of: the position in which Musk has put Tesla.

Tesla expects to begin production on the Model 3 in 2017, eventually ramping production up to half a million vehicles per year.

We’re staring at proof that lithium demand will dramatically rise within the next few years. Some analysts, for example, have estimated that demand for lithium hydroxide will increase by as much as 30%, solely due to the Model 3’s success.

Building cheaper lithium-ion batteries will mean that Tesla’s Gigafactory will have to secure a serious supply of lithium. But we’re talking about more than just lithium. Musk will have to start aggressively going after supplies of other critical ingredients — things such as graphite or even cobalt.

And as I’ve been telling you since we first began covering the lithium revolution, the Gigafactory being built Nevada is simply the first of what will be many.

Moreover, I don’t think we’ve scratched the surface yet of how large of a role lithium will play for future technology.

With this in mind, I want to have one last word about the lucrative lithium gains we just banked.

**Trading Activity**

Even though we don’t have any trading action to make today, I want to take this opportunity to review our moves since your March issue.

This, of course, includes the 200% gain we locked in recently...
On March 8, 2016, we exited our position in Dajin Resources. Shares actually posted a fresh 52-week high that day, trading as much as $0.19 CAD on the TSX-V and $0.14 USD on the OTC-Market. The subsequent sell-off didn’t last, and shares were trading back over our established “Buy Limit” of $0.15 CAD on the TSX-V (and roughly $0.11 USD on the OTC-Market).

Simply put, lithium stocks are too good to ignore right now, and the news I mentioned above regarding reservations for Tesla’s Model-3 will undoubtedly push the entire sector higher.

What we don’t want to do, however, is go chasing these stocks.

Today, I want to reiterate our sell recommendation on Dajin from March 8th. And while we don’t want to chase the stock as it moves higher, I believe we’re going to see another opportunity to exit your position (if you haven’t done so already) around the same price.

Later on, I’ll give you a little more detail on a series of upcoming trades we’ll be making in April, so keep a close eye out for new trade alerts in the near future.

For now, let’s move on...
Monthly Spotlight: Matador Resources

Ticker Symbol:
- NYSE: MTDR

Market Capitalization: $1.8 Billion
Outstanding Shares: 93.3 Million
52-Week Range: $11.13–$29.90

Matador Resources is an independent energy company engaged in the exploration, development, production, and acquisition of oil and natural gas resources in the United States, with an emphasis on oil and natural gas shale and other unconventional plays.

The company’s current focus is developing its projects in the liquids-rich portion of the Wolfcamp and Bone Spring plays in the Delaware Basin in southeast New Mexico and West Texas, as well as its operations in the Eagle Ford shale play in South Texas and the Haynesville shale and Cotton Valley plays located in northwest Louisiana and East Texas.
As you know, the company’s assets consist of approximately 142,100 net acres located in South Texas, Southeast New Mexico and West Texas, and Northwest Louisiana and East Texas.

Here’s a better look at how these assets break down:
Now, despite the fact that Matador’s oil and gas revenues declined by 24% year-over-year, this was certainly to be expected during an ultra-low commodity price environment.

What we also saw, however, was Matador boosting production to record levels during 2015. Truth is, we’ve come to expect steady production increases from this company, which has successfully boosted its daily output each year since the company’s IPO.

More importantly, the company logged approximately 4,313 gross (1,804 net) drilling locations, nearly 80% of which can be found in the Permian Basin. Considering the fact that Matador increased its West Texas drilling inventory by 48% last year should give you a clear indication where its attention is focused.

Now, I want you to get an idea of what I mean when I say that West Texas will play a significant role in Matador’s future.

Below, you can see that the company’s proved reserves have been slowly shifting from the Eagle Ford to the Delaware Basin:

**Matador’s Proved Reserves and PV-10(1): 2013 – 2015**

![Diagram showing reserve shifts from 2013 to 2015](image-url)
Remember, while most unconventional plays in the lower-48 states let companies target one or two zones across a trend, Matador has access to more than a dozen such potential zones. So the company can essentially identify the best, most economical ones available to them.

Although plummeting crude prices have decimated revenues across the E&P sector, there’s a slight benefit that actually does come with cheap oil.

Since the summer of 2014, declining oil prices have also caused Matador to save roughly 51% on drilling costs. Management even believes that these savings will continue, reaching a projected 59% compared to drilling costs during the second half of 2014. Meanwhile, completion costs in the area are 48% lower compared to the second half of 2014.

Again, these cost savings will only get better for the company as we make our way through 2016.

*Matador Resources is rated a “Buy” at current prices and holds a “Buy Limit” for us of $30.*

**Rankings and Portfolio**

**April's Top 10 List**

1. Matador Resources
2. Cheniere Energy Partners LP
3. Cypress Energy Partners LP
4. Orocobre Resources
5. Approach Resources
6. Gastar Exploration
7. Oasis Petroleum
During the last few months, I’ve been mulling over our monthly Top 10 list, hoping to reshape it to better reflect the performance we expect from our positions over the short term. And even though many of the companies on the list have been among our Top 10 staples for a long time, I’ve added a few new faces to it.

Perhaps the biggest change from previous months has been the removal of Dajin Resources. We banked an incredible 200% gain from our initial position on March 8, 2016, which means it’s no longer eligible to sit atop our list. The stock is currently not rated a “Buy” in our portfolio.

Now, as you should be well aware by now, the next critical catalyst for many of our smaller companies in the E&P sector is the outcome from the April 27th meeting in Doha, Qatar, between major OPEC and non-OPEC producers.

Without significant action from these producers, we can fully expect any oil recovery to be delayed as the supply/demand imbalance continues to work itself out.

With that said, let’s take a look at what some of our players have been up to...

**Abraxas Petroleum (NASDAQ: AXAS)**

Look, it’s clear that we still have a long way to go, but we do know that this recovery will be... delicate.

The low price environment certainly isn’t making things easier for the E&P sector, either.

As Abraxas’ CEO, Bob Watson, put it, “Severely depressed commodity prices created a challenging environment for our industry and Abraxas. One of our main objectives for 2016 will be to enhance our financial flexibility.”
And to give you an idea of how much value has been lost while oil prices plummeted, consider this...

In 2014, the present value of the future net revenues, using a 10% discount (also known as the PV-10), from Abraxas’ proved oil and natural gas reserves was reported as approximately $637.4 million.

Naturally, tumbling crude prices have had a devastating effect on this value. When the company released its 10-K recently, it showed that Abraxas’ proved reserves held a PV-10 of just $197.2 million.

Some highlights from the report for FY2015 include:

- Production of 2.2 million boe, averaging approximately 5,975 boepd.

- Abraxas generated revenues of $76.9 million during the year, inclusive of realized hedge settlements.

- Adjusted EBITDA was approximately $43.7 million, inclusive of Raven Drilling.

- The company reported a net loss of $127.1 million, or $1.21 per share.

During the last quarter of 2015, Abraxas produced roughly 537,000 barrels of oil equivalent, or about 5,841 boepd. Moreover, the company’s revenues came in at $15.9 million (inclusive of realized hedging settlements) and posted a net loss of $67.4 million, or $0.64 per share.

Although we knew that Abraxas’ results would be painful, there were some interesting takeaways, too.

Take the company’s production, for example. Even though Abraxas slashed its capital spending by 64% last year compared to 2014, the company still managed to boost production volumes by 4%:
More importantly, the company still expects to increase production in 2016 despite cutting spending to between $17.5 million and $40 million.

Here’s a look at the company’s hedge book going forward, taken straight from its press release:

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So why are we still bullish on Abraxas over the long term?
To start, the company’s 2016 capital spending is expected to be within cash flow, something many small-cap drillers can’t boast right now.

Not only are we looking for these guys to provide steady production, even potentially increasing output slightly, but Abraxas plans to shut in marginal production in order to optimize its portfolio, effectively allowing the company to allocate its spending to the appropriate areas.

The bottom line here is that even though we may be through the worst, with oil prices having possibly bottomed already, the rest of 2016 isn’t going to be easy. In this incredibly volatile market, what we want to see is our positions weather this low price environment while protecting their balance sheets.

*a

Abraxas Petroleum is rated a “Buy” at current prices.

**Atwood Oceanics (NYSE: ATW)**

Atwood Oceanics is a drilling contractor for global offshore exploration and development operations.

Not surprisingly, the drastic swings in oil prices have brought similar fluctuations in Atwood’s stock price. And in reaction to the lack of a strong recovery, the company has adopted a conservative approach to its spending.

Now, as much as we don’t want to see one of our positions suspend its dividend, the key here is for companies like Atwood to survive this downturn.

And this certainly isn’t the end all, be all that some make it out to be.

If you’ll remember a few months ago, I mentioned that the company has some decent liquidity on its books. It expects to have around $930 million in liquidity through 2017.

Moreover, Atwood’s backlog stretches well into 2018, and while contracts will be fewer and further between because of the low commodity price environment, the company may continue signing contract extensions later this year.

One of those contracts was adjusted recently: the *Atwood Eagle* was suspended in a mu-
tual agreement with Woodside Energy, and its remaining time was transferred to the Atwood Osprey.

It’s the kind of shuffle that happens when both parties need to save all the cash they can.

Atwood will be focusing on bolstering its books in coming months, at least until oil shows some significant improvements.

*Atwood Oceanics is rated a “Buy” right now, and we are adjusting our “Buy Limit” price to $10 to better reflect market conditions.*

**Cenovus Energy (NYSE: CVE)**

Cenovus Energy is a Canadian developer, producer, and marketer of oil, natural gas, and NGL. The company’s U.S. business includes refining, transportation, and sales of its petroleum and chemical products.

Cenovus will be cutting its workforce again in the coming weeks. It’s a tough decision, but this is something that is inevitable while oil prices hover between $35 and $40 per barrel.

The company, however, is still optimistic for a higher price movement in oil, and both the Foster Creek and Christina Lake oil sands sites are expected to start producing in the third quarter of this year.

Naturally, this is mostly due to the fact that the company was able to invest in these projects early.

Moving forward, Cenovus spokesman Brett Harris recently stated that they were “taking a very conservative approach to ensure that we don’t compromise the balance sheet strength that we’ve worked so hard to build.”

As you might’ve guessed, Cenovus is settled in for the long haul. The company has, as of the end of 2015, $8 billion in liquidity, which includes about $4.1 billion in cash and equivalents. There are also no debt maturities coming up until the fourth quarter of 2019.
Cuts are becoming the norm now, but keep in mind that they’re a necessary evil in today’s market. We’ll keep a close eye on the company’s performance over the rest of 2016, but it’s good to know it’s maintaining sound financial discipline during this volatile market.

*Centovus Energy is rated a “Buy” under $17.*

**Centrica (OTC: CPYYY)**

Centrica is an integrated generator, trader, and optimizer of power from a number of sources, including gas-fired plants, wind farms, thermal plants, and nuclear power plants.

While some consider it a utility, its reach extends far beyond that of regular utility services. Centrica is continuing to focus on upgrading its utility services this month.

The company already offers services for smart meters in customers’ homes. However, Centrica has made the move to improve the usage of these devices.

Late in March, the company announced plans to create a “consolidated data lake,” which includes a platform that can handle two petabytes of data to start. The system is called “Hadoop” and is being created in partnership with Hortonworks.

This system will allow Centrica to monitor the average usage cycles of its customers with smart meters, which can be used to identify peak times and adjust prices accordingly.

Centrica’s subsidiary Direct Energy already offers similar hardware and advisory services to Whole Foods Market, Inc., and this business is getting an upgrade, too.

Recently, Whole Foods entered into a plan with SolarCity to install as many as 100 stores with new solar panel systems. These will be integrated into Direct Energy’s existing systems.

Playing the tech side of the energy market seems like a good move for Centrica. We expect to see some great numbers coming in as the year goes on.

*Centrica is a “Buy” for us under $17.*
Egdon Resources (LSE: EDR.L)

Egdon Resources explores assets and produces hydrocarbons in the UK and France.

It’s a harsh fact of the oil industry that not every well will be a winner.

Unfortunately, Egdon proved that true this month when it found that the Laughton-1 site didn’t turn out to be a gusher.

After drilling to a total depth of 1,700 meters, it was found that the well site was “poorly developed” and that the saturation of hydrocarbons in the area “are not sufficiently encouraging to warrant testing.”

I know this is a tough blow for the company, but it’s certainly not the end of the company’s exploration potential.

Remember, there are still a number of projects in development, including the Keddington-5 well, which was found to have elevated levels of hydrocarbon gas back in February.

Don’t let this single loss get you down; Egdon isn’t done expanding yet.

I hope to have more for you soon.

Egdon Resources is rated a “Buy” at current prices.

Enbridge Inc. (NYSE: ENB)

Enbridge Inc. is a North American energy transportation, generation, and distribution company with a reputation for high standards in safety, integrity, and respect.

You’ll be glad to hear that Enbridge surpassed its goal and sold a total of C$2.3 billion in shares this month. The money is going to be put towards lowering debt, after a bit of consideration towards its capital programs.

Of course, the company’s program includes $26 billion in capital through 2019, meaning Enbridge has no shortage of expansion capital.
Its existing business is doing pretty well, too.

In January of this year, its mainline liquids pipelines reached a record capacity of 2.6 million barrels per day. Enbridge is expecting an increase of about 800,000 barrels per day in oil sands supply by 2019.

As of its latest investor report, the company estimates that it has less than 3% of its current earnings at risk from oil price volatility, so we can expect this kind of performance — as well as earnings increases, like I mentioned last month — throughout the year.

And as another boost to investor confidence, the presentation restated that Enbridge made its 21st consecutive dividend increase at the end of last year:

![Dividend Per Share](image)

Having a dividend at all is fast becoming a rarity. *Increasing* dividends are just a dream come true.

*Enbridge Inc. is rated a “Buy” under $48.*
Encana Corp. (NYSE: ECA)

Encana Corp. develops, explores, produces, and markets oil, natural gas, and NGLs across North America. The company focuses on oil assets in the Permian, Eagle Ford, and Duvernay shale plays, as well as natural gas assets in the Montney shale play.

If you recall, in our last issue we noted that Encana is focusing in on its best assets in just four U.S. shale plays.

The company has reduced its budget for 2016, as well as its overall workforce. Again, both strategies have become commonplace in this market.

In March, the company announced it’s taking up another common strategy: divesting non-core assets.

Encana is in talks to sell as much as $1 billion worth of non-core assets, the funds from which will be used to reduce the company’s debt.

These sales could include Encana’s offshore natural gas assets in Nova Scotia, western Canada, northwest Colorado, and New Mexico as well as its Mississippi and Louisiana Tuscaloosa Marine Shale assets.

Encana is also still waiting on the closing of its Denver-Julesburg Basin assets, which will bring in another $900 million.

With the company now zeroing in on its best assets, it still expects a production increase of about 12% year-over-year. The fact that these areas have some of the lowest break-even prices in the country means that production can keep up while spending stays down.

Encana is playing the long game, and it’s playing it as smartly as it can.

Encana Corp. is a “Buy” for us under $20.

EnerSys (NYSE: ENS)

EnerSys is an industrial battery manufacturing, marketing, and distribution company
EnerSys has been doing well on the market since we last checked in.

The company reported $573.6 million in revenue for the third quarter of its fiscal year, which amounted to a net income of $0.86 per share.

Its last dividend was paid in late March: $0.175 per share.

Analysts are expecting EnerSys to continue outperforming its peers and have deemed its high operational returns sustainable.

EnerSys announced in February that it had been contracted to supply Southwest Airlines with NexSys battery packs to update and add new bag tractors and belt loaders in the airline’s network.

This comes after an 18-month trial period wherein EnerSys supplied more than 100 NexSys batteries to various locations in Southwest’s network.

It’s a great new customer for EnerSys to have, with 97 destinations in its network.

The battery business is still booming here!

*We rate EnerSys a “Buy” under $80.*

**Gastar Exploration (NYSE MKT: GST)**

Gastar Exploration is an independent oil, condensate, natural gas, and NGL exploration and development company. Its focus is on unconventional shale plays in the U.S.

Earlier in the year, we touted Gastar’s business savvy: the company purchased the other half of a joint venture and gained 15,700 net acres in Kingfisher and Garfield County, Oklahoma.

You might remember that I told you in January that Gastar released news on the first flowback report of the Deep River well, which is in Kingfisher County in the Meramec shale play.
As it turns out, we've got nothing but good news to add to the pot.

The Deep River 10-1H easily met original production estimates for its first 90 days — it actually reached 713 barrels of oil equivalent per day, slightly over an estimate of 705 boepd.

Since then, Gastar has completed another well in Kingfisher County called the Holiday Road 1-1H. The well was spudded in February and drilled to depth in 12 days.

While the cost has not yet been confirmed, early March estimates for the well claimed drilling and completely would only run Gastar $4.1 million, even lower than the company’s estimate of $5.5 million per well earlier in the year.

And in the spirit of emphasizing core assets, Gastar is selling all of its assets and much of its undeveloped acreage in the Appalachian Basin. The transaction is set to close on April 8th and will gain the company $80 million to help pay back its revolving credit facility borrowings.

Shares have surged more than 70% since hitting a fresh 52-week low on February 25, 2016. And if Gastar can keep this kind of stellar performance up throughout 2016, it will only get better when the oil recovery takes place at the end of the year.

_Gastar is rated a “Buy” at current prices, with a “Buy Limit” of $3._

**Magellan Petroleum Corp. (NASDAQ: MPET)**

Magellan Petroleum is an independent company that explores and produces oil and gas in the U.S., the UK, and Australia.

On the first of this month, Magellan announced that it had entered into a “strategic exchange transaction” wherein it would acquire all of the Series A convertible preferred stock held by One Stone Holdings in exchange for giving One Stone its 100% interest in Nautilus Poplar LLC.

Now, that does mean that Magellan loses its Poplar CO2-EOR assets in the Williston Basin... but it also loses a large amount of debt through preferred stock, as well as any further liabilities linked to Poplar.
There's a chance for the company to start increasing value for shareholders from here on out, and Magellan is starting right away.

The company is already looking into options to acquire another CO2-EOR site in Utah. The Farnham Dome site lies over a naturally occurring CO2 reservoir and very near a large number of other projects, as you can see here:

Not only would this give Magellan the chance to use what it learned in Poplar on a new project, but the low-cost supply of CO2 would mean Magellan could sell what it doesn’t use.

That’s two new business plans in one go!

This is, of course, in addition to the progress Magellan is making in the Weald Basin of
the UK.

We’re happy to take advantage of any bit of success this company experiences.

*Magellan is a “Buy” for us at current prices, and we’re maintaining our “Buy Limit” of $3.*

**ONEOK Partners (NYSE: OKS)**

ONEOK Partners gathers, processes, stores, and transports natural gas and NGLs through its U.S. midstream pipeline business, which extends 36,000 miles across 17 states.

A few weeks ago, the company announced that it had completed the first phase of construction on its Roadrunner Gas Transmission pipeline.

Right now, the pipeline is 200 miles long and stretches between ONEOK’s WesTex pipeline and the U.S.-Mexico border at San Elizario, Texas. It currently has a capacity of 170 MMcf/d of natural gas.

I’ll let President and CEO of ONEOK Partners, Terry Spencer, express our thoughts on the company’s long-term outlook:

> This project is a good example of our commitment to grow stable, long-term, fee-based earnings for the partnership.

Thing is, this is only the beginning...

You see, phase two of construction is underway now. It’s expected to be done in early 2017, and it will increase the pipeline’s capacity to 570 MMcf/d.

The final phase will be completed some time in 2019 and will bring Roadrunner to its final capacity of 640 MMcf/d.

The pipeline project’s costs are being split 50/50 by ONEOK and Mexican Fermaca. The current estimate is that the project will only cost the companies between $430 million and $480 million — approximately $20 million less than originally planned.
Fee-based transactions like those already contracted to move through the Roadrunner line will account for about 85% of ONEOK’s earnings this year.

This actually separates ONEOK from a good amount of the price volatility in the markets right now. As long as product is moving, ONEOK will have business.

*ONEOK Partners is rated a “Buy” for us under $35.*

**Orocobre Limited (TSX: ORL)**

Orocobre Limited is an explorer and developer of lithium, potash, and salar minerals from properties in Argentina.

Orocobre’s Olaroz lithium facility is ramping up production — and not a moment too soon!

Currently, the facility is running at more than half the nameplate production capacity after finally completing the de-bottlenecking process.

Below you can see the progress the plant has made in the past year:

![Progress Graph](image)

The plant is expected to be up to full capacity by September, but Orocobre is already selling to a number of chemical, industrial, and battery customers.
There’s no shortage of demand for lithium or any of the other rare earths the company is producing.

I can’t wait to see how high that demand takes this stock.

Orocobre is rated a “Buy” under $2.75.

**Pacific Drilling SA (NYSE: PACD)**

Pacific Drilling is an offshore oil and gas drilling company with a rig fleet focused on ultra-deepwater (it drills in water depths of 7,500 feet or deeper) operations in the “Golden Triangle” of offshore drilling between Brazil, Nigeria, and the Gulf of Mexico.

Although I haven’t seen any major news since its last earnings announcement, I fully expect to have a more detailed update for you on the company’s operations when it reports its next earnings during the week of May 6th.

So what should we expect to see? Analysts are expecting a loss of $0.07 per share on revenues of about $200.03 million. But we’ve seen some surprises already this year, so there’s a chance Pacific could bust through those expectations.

In the meantime, let’s take a quick look at the company’s fleet.

Currently, Pacific Drilling has seven operational rigs, four of which are contracted to Chevron and Total as far out as September 2019.

The other three are available for contracting now, and a recent resurgence in offshore drilling interest may be getting them some customers soon.

Pacific’s fleet is entirely ultra-deepwater oriented — the shallowest depth they even reach is 10,000 feet, and the deepest they can drill is 40,000.

Additionally, for the full year 2015, the fleet’s average operating revenue efficiency was 94.7%, meaning the company is still making money on just a handful of rigs.

We’ll keep you posted on any new updates. Until then, keep an eye on this one.
Pacific Drilling is rated a “Buy” and holds a current “Buy Limit” of $1.50.

Range Resources (NYSE: RRC)

Range Resources is an independent acquirer, explorer, and developer of assets for oil, natural gas, and NGLs.

Range reported some great numbers last month, and now it’s setting up to continue bringing in the profits this year.

The company expects to increase production between 8% and 10% this year, to somewhere between 1,390 and 1,420 million cubic feet equivalent. For the first quarter of this year, it expects production of about 1,350 million cfe.

That’s quite a bit more production for running on just three rigs.

Of course, Range is only focusing on prime land, too.

While its biggest growth will be from the increasingly productive Marcellus shale play — about 98% of its capital is allocated there — Range also has assets in the Upper Devonian, Utica, Mississippian, and Cline Oil shale plays.

The company still boasts some of the most capital-efficient spending programs in the industry. Its latest investor presentation illustrates this pretty clearly:
More production with less spending is exactly what needs to happen to survive in this market. And Range is set to more than survive — I think we’re ready to see this company’s performance turnaround.

*Range Resources is rated a “Buy” under $50.*

**Scorpio Tankers (NYSE: STNG)**

Scorpio Tankers is a global crude oil and petroleum product offshore transportation company. Its fleet is contracted through short-term voyage charters, fixed-period time charters, and large-scale commercial pools.

Last month we ended on a good note with Scorpio, pointing out how in-demand its fleet was, even though it had to sell a few tankers earlier in the year.

Almost immediately came proof that we were right: Early in March, the company announced a new charter-in contract for three 1A Handymax product tankers.

The contractor wasn’t specified, but the contract includes those three tankers at a dayrate of $15,600 for the next three years. Scorpio also has the option of extending the time for up to two more years, with an incremental increase of $1,000 to the dayrate for each year added.

There’s also a chance that up to four more 1A Handymax tankers could be added to the contract during that time.

People are taking notice, too. After a stellar FY2015 vessel revenue report (which more than doubled compared to FY2014), analysts at Deutsche Bank recently upgraded their rating on the company due to high earnings and returns.

The bottom line for us here is that Scorpio’s fleet will continue to find new customers, and we’ll continue to see those great returns on our investments.

*Scorpio Tankers is rated a “Buy” under $11.*
Seadrill Ltd. (NYSE: SDRL)

Seadrill Ltd. is a national and international offshore drill contractor doing business in the Gulf of Mexico, Brazil, West Africa, Middle East, North Atlantic, and Asia-Pacific.

Seadrill has got some mixed press recently, but it’s safe to say we’re sticking with the company anyway.

Now, the major point of interest in the past month has been Seadrill’s decision to amend the contract with Petrobras for the *West Tellus* tanker, which includes an extension of the contract through October 2019 in exchange for a dayrate reduction.

With the new length added to the lowered dayrate, it comes out to a net gain of $32 million in Seadrill’s backlog. Some say this isn’t enough to warrant good news.

Granted, it’s far better for the company to ink a long-term contract, which can be renegotiated once oil prices recover, rather than a short-term contract, which leaves our position with much less business further down the road.

The company’s order backlog as of February 26, 2016, stood at $5.1 billion, with an average contract duration of 18 months for its floaters and 13 months for its jack-up rigs.

Remember, the revenue backlog is one of the best things we can have in a play right now. As I’ve said before, we’re going long on some of these companies, as oil looks to stay low for a while...

Seadrill is covered for quite a while, and we expect to see some returns rolling back in when oil prices rally later this year.

*Seadrill is currently rated a “Hold.”*

**Triangle Petroleum Corp. (NYSE MKT: TPLM)**

Triangle Petroleum Corp. is an independent exploration and development company focused on shale oil assets in the Williston Basin of the U.S.
As of the company’s last investor presentation, Triangle has 135 gross wells producing on 78,000 core acres of the Williston Basin. 18 more are awaiting completion.

Those completed wells for the company’s fiscal year 2016 have been performing well above targets, too.

Here’s a better look at how Triangle’s wells are outperforming its original projections:

According to the company, its most recent completion design has been improving 60- and 90-day production rates by between 15% and 25%. 
For the rest of the fiscal year, Triangle is putting the majority of its capex towards its operated drilling program, about 88% of the total. Its non-operated drilling program has the chance to get around 3% of the total — or nothing at all.

This is one way to focus on the most valuable assets: only putting major development into what will bring the money directly back to you.

Triangle’s drilling plans include the completion of between 20 and 22 gross wells. 18 were awaiting completion as of October 2015, and the company claims those could be a source of incremental supply, or even a way to boost production if oil prices start heading up.

Either way, it’s pretty clear this company has a plan moving forward and the great past performance to make it work.

Triangle Petroleum is currently rated a “Buy,” and we’ll be looking to cash in on some short-term gains should the outcome from the meeting in Doha push crude prices higher.

**Trinidad Drilling (TSX: TDG.TO)**

Trinidad Drilling is an onshore drilling rig designer, builder, and operator; the company also refurbishes rigs and related equipment.

I’ve said it before, and I’ll say it again: one of the most important things right now is for our companies to adopt a defensive position and try to ride out the bottom of this oil market.

For Trinidad, it meant the suspension of its dividend in early March.

So why was this an important move? Well, in the case of Trinidad, suspending its dividend will allow the company to save approximately $9 million, which will help improve its balance sheet.

Thus far, the company has cut its fleet by 15 rigs, all of which were lower-spec rigs. Now, this actually increases the grading of the rest of the fleet, which will make it a stronger competitor in the future.

Trinidad CEO Lyle Whitmarsh said in the earnings release, “We will continue to be
financially prudent, while also maintaining a longer-term outlook and planning for Trinidad’s future success when better conditions return.”

Lots of companies are making that promise, but only those with a solid financial standing will be able to achieve it. And I think Trinidad will be one of those companies.

*Although Trinidad Drilling is rated a “Buy” at current prices, I would recommend looking for further weakness before adding to your position.*

**On the Radar...**

In your last issue, I mentioned that there were several new reports in the works that were headed your way.

You can expect to start seeing these new reports, which will also include several new buy recommendations, reach your email inbox next week.

Up first will be a way for members of the *Energy Investor* investment community to capitalize on the supply glut that is plaguing today’s market.

And here’s the catch...

Even if prices were to begin rallying tomorrow, the two plays I’ll highlight inside your report stand to make a killing, and their valuations make both screaming buys at current price levels.

Keep in mind that when you do receive these reports, I’ll be sending them out in the morning, typically before or at least around the time the market opens.

I’ll also have more for you on the other upcoming reports in next week’s mini-update.

Good investing,

Keith Kohl

*Energy Investor*