

Desautels Capital Management

Enerplus Stock Pitch

October 24, 2018



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Refresh Oil Outlook

Enerplus Overview

Clean balance sheet

Optionality of plays

Transportation

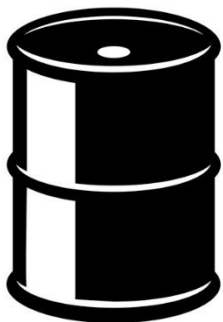
No relief in sight for Texas bottlenecks

Market mispricing as Canadian

Sum of Parts Valuation

Price Target: \$15.63 with an implied upside of 18.63%

No reason for a decline – upside more likely



Oil

- Global crude demand continues to grow
- Fear of supply shocks still reflected in oil pricing
- Saudi Aramco IPO still in the cards – keeping prices high
- Add to Venezuelan and Iranian tensions the threat of SA to restrict exports in response to Western sanctions
- “If the price of oil reaching \$80 angered President Trump, no one should rule out the price jumping to \$100, or \$200, or even double that figure.” – Turki Aldarkhill, Al Arabiya News, GM



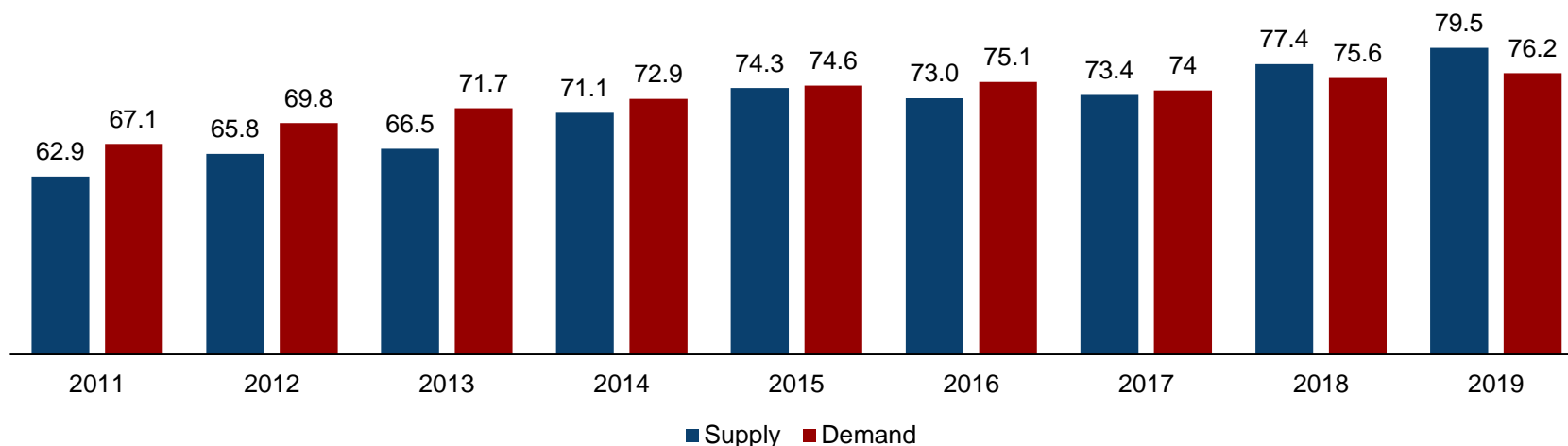
Natural Gas

- Natural Gas pricing has been rallying from its historic lows since early 2016 – mirroring oil
- Our forecast and other analysts’ see this as a continuing trend
- Increased use of NG features in nearly every global low-emissions blueprint
- Shorter approval timelines for NG and LNG projects in environmentally sensitive jurisdictions are one result

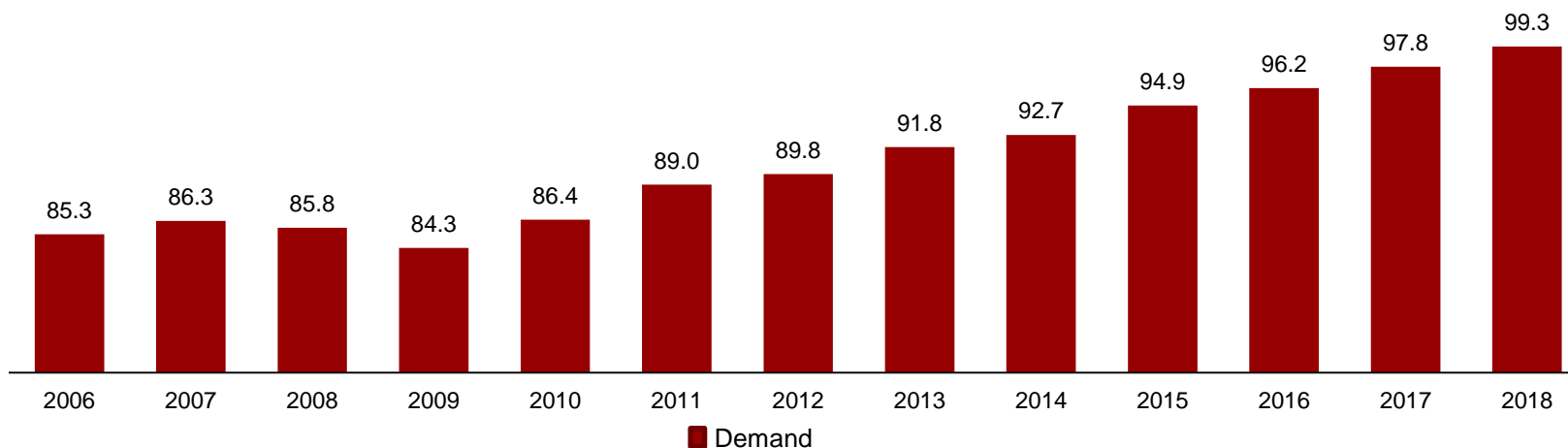
Various NGLS track with the price of crude and depending on demand in different regions for associated products

No reason for a decline – upside more likely

Natural Gas Supply and Demand (BCF/day) 2011 – 2019E



Oil Demand (Mbarrels / day)



Source: EIA

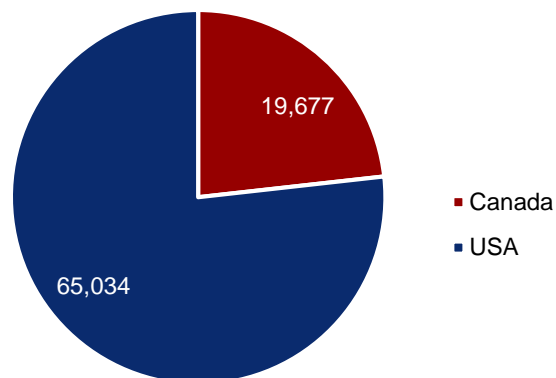
Natural Gas Player

Where Are The Rigs?

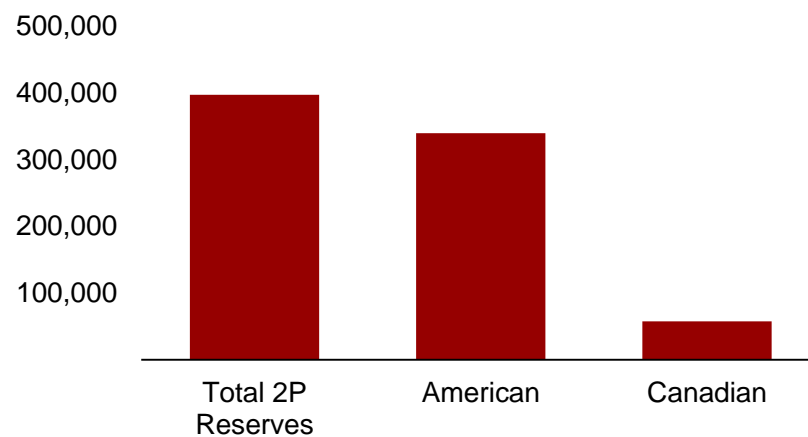
- Williston Basin - Bakken - 445 producing wells
- Marcellus Play - 796 producing wells – NG
- Waterfloods - Canada - 1356 producing wells*
- DJ Basin - negligible



Production by Country – BOE/day



Enerplus Reserves By Country

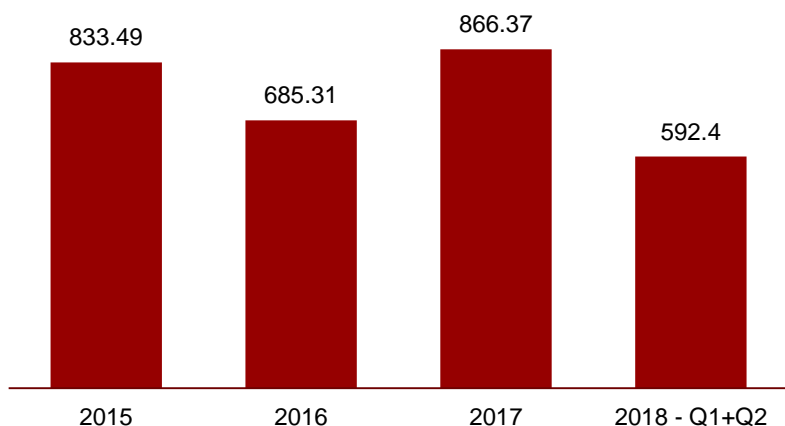


Enerplus is a *Canadian* Upstream player positioned in many of the most prolific plays in the USA

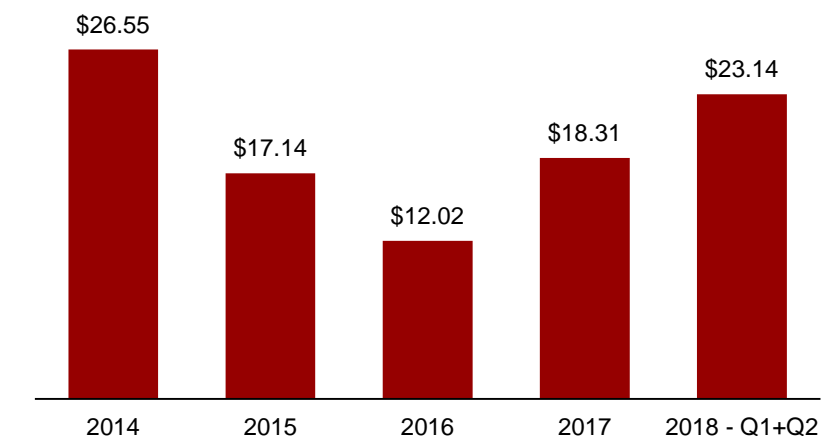
*Canadian numbers not affected by divestiture of 7700 BOE/day worth of production

Source: Company Filings

Historical Revenue Performance (C\$mm)



Historical Consolidated Netback – After Hedging/BOE

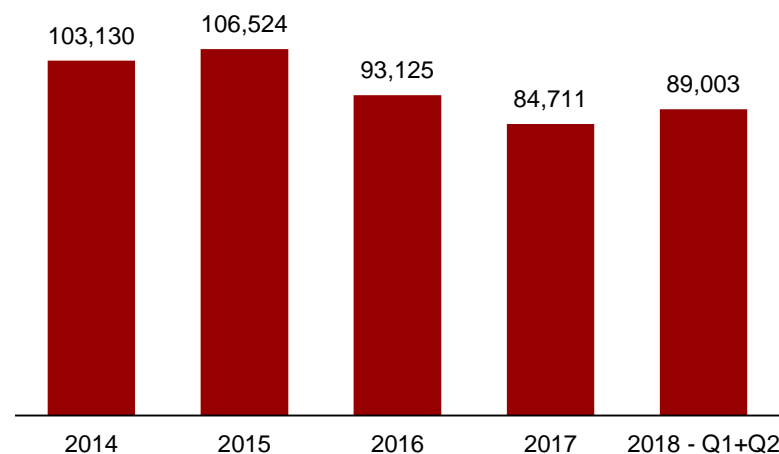


Source: Company Filings

Financial Summary

Enerplus Corporation		In CAD\$ millions
Share Price		\$13.19
FD S/O		244.66
Market Capitalization		\$3.227Bn
- Cash & equivalents		\$360.42
+ Total Debt		\$1249.97
+ Minority Interest		-
Enterprise Value		\$4.116Bn

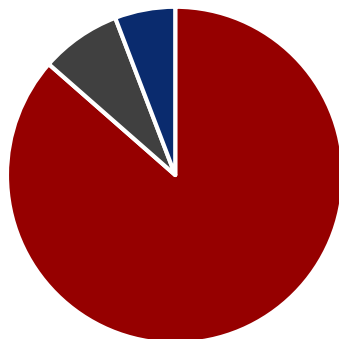
Historical Production – BOE/day



A Canadian Player Moves South

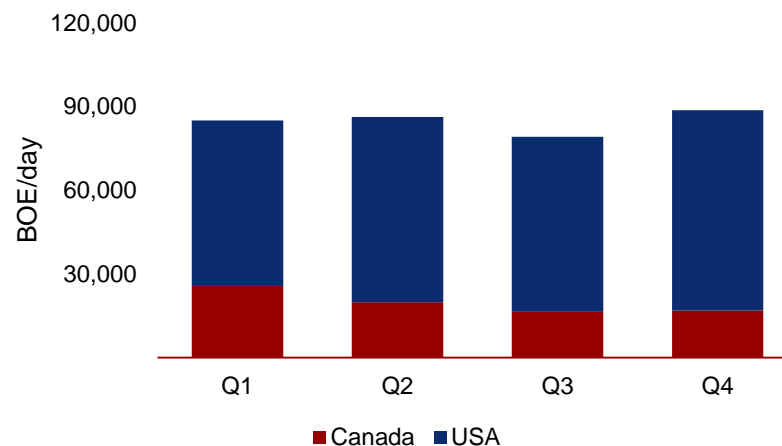


Undeveloped Reserves a Small Minority



- Proven Developed Producing
- Proved Undeveloped
- Probable Undeveloped

Daily Production By Country 2017A



Enerplus is increasingly active in price-favourable American plays

Source: Company Filings

Bakken Bound

Move into the Bakken

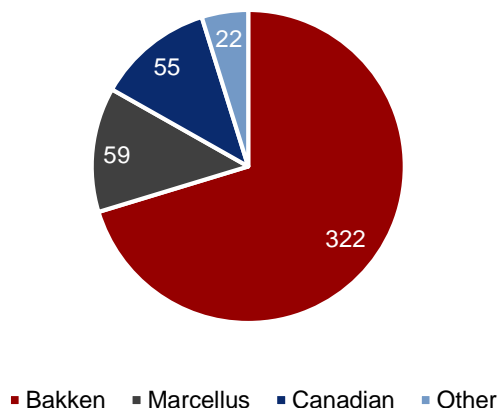
- Production from Canadian assets saw a 39.13% decrease from divestitures over 2017
- Heavy push into the Bakken with Q2 2018 alone seeing 33% production growth in the play
- 11 wells brought on-stream, 13 drilled in Q2 this year
- Capital expenditures of \$458 million in 2017 - \$322m in the Bakken



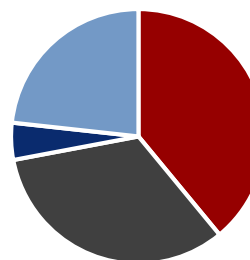
Ian Dundas, Enerplus CEO

"For the last while, it's been pretty easy to put money into the U.S. and **it's been harder to put money into Canada**"

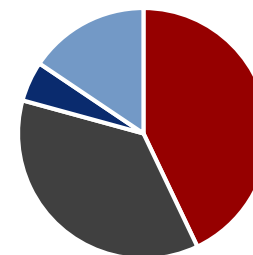
Capex Spending 2017 - \$458m Total



Production by Play – Canadian Divestment



■ Marcellus ■ Bakken
■ Montana ■ Canada



■ Marcellus ■ Bakken
■ Montana ■ Canada

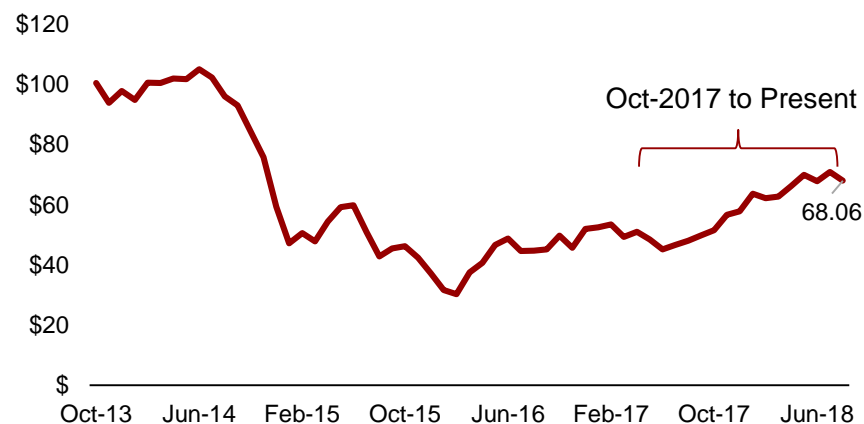
\$535-\$585m projected 2018 capex – 90% in Bakken

Source: Company Filings, Calgary Herald

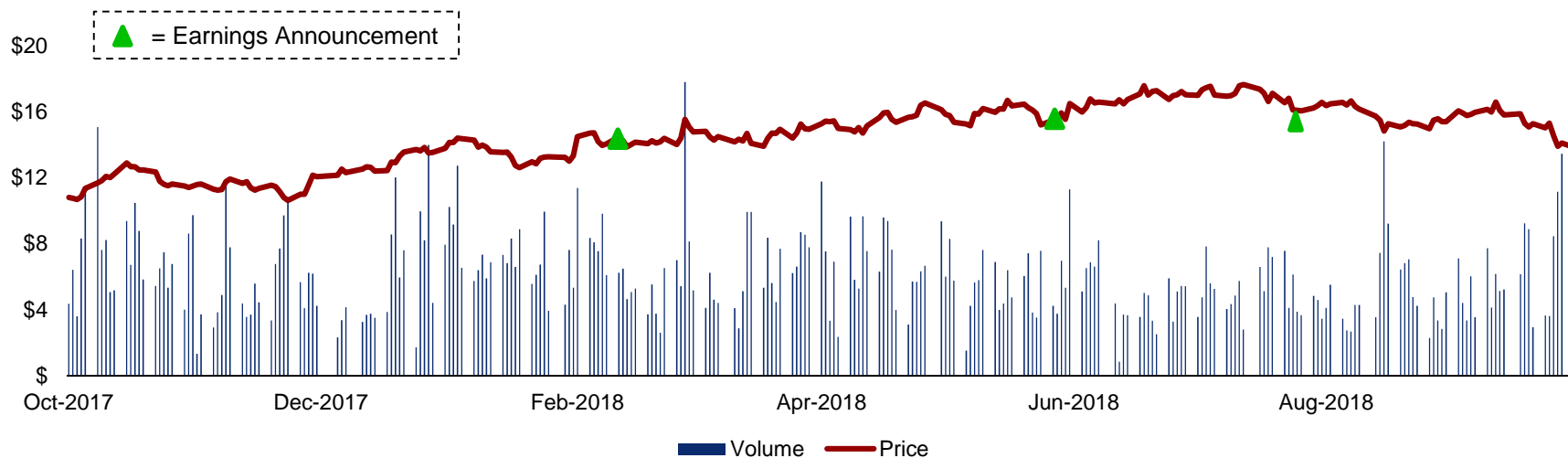
Company News

- Enerplus has seen a focus on liquid-weighted American production that led it to beat earnings at the end of 2017
- Cash dividends maintained throughout 2018
- Realized increase in the price of Bakken produced oil of 11% tracked over Q1 2018 with a 13% WTI rise

WTI 2013-Present



Price History



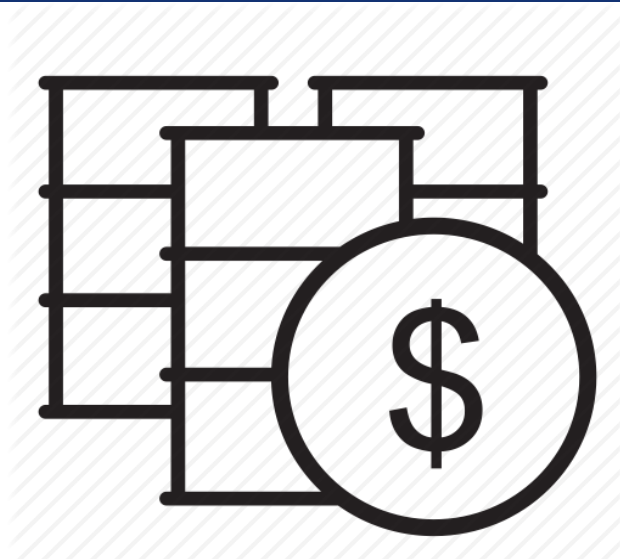
Enerplus is a *Canadian* Upstream player positioned in many of the most prolific plays in the USA

Source: Company Filings, Calgary Herald

Natural Gas Player

Realized Price Advantage

- Enerplus realized a weighted average price of **\$58.69/barrel** for crude oil, **\$30.01/barrel** for natural gas liquids and **\$3.21/Mcf** for natural gas
- This compared to the WTI 2017 average of **\$50.88/barrel** and the WCS 2017 average of **\$41.42/barrel** for crude and **\$2.96/Mcf** for NG at the Henry Hub price in 2017



Netback (CAD)

Product:	L&M Crude	Heavy Oil	Tight Oil	NGL	NG	Shale Gas
Enerplus US	-	-	30.16	17.02	-	1.57
Enerplus CA	23.69	24.11	-	28.9	1.32	1.04

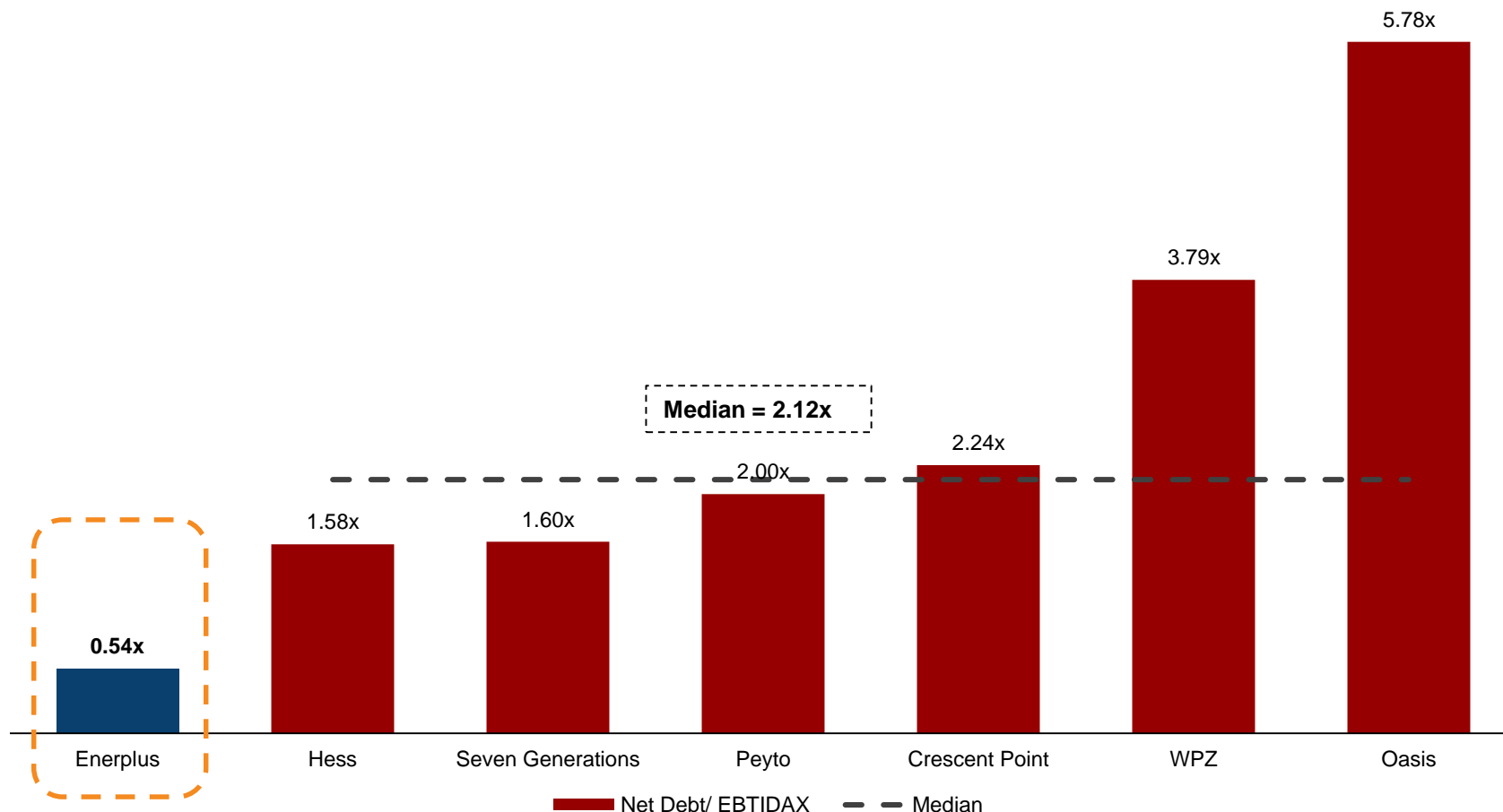
Peer Company (American)	Production Netback \$/BOE
Oasis Petroleum	29.57
Whiting Petroleum	22.99

Enerplus is realizing greater netbacks in the USA in its prominent shale operations as a pure play NG producer

Source: Company Filings

Clean Balance Sheet Compared to Peers in Both Bakken and Canada

Enerplus is significantly less levered than peers on a Net Debt/EBITDAX basis



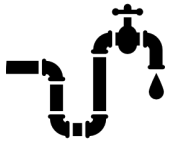
Source: Company Filings



Bakken Pipeline Access

Bakken Reserves have ample access to DAPL, transporting oil to refineries on the coast

Dakota Access Pipeline



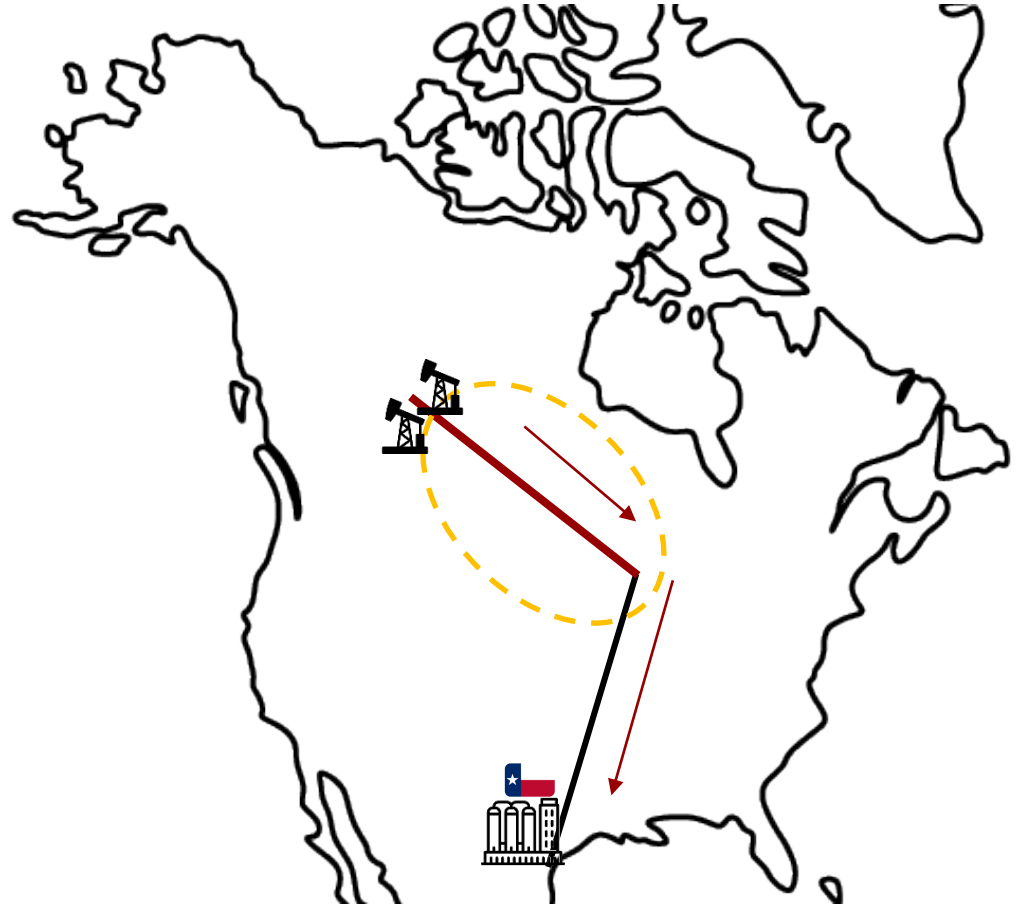
Excess Capacity

- 360,000 bbl/d of excess capacity



No Regulatory Hurdles

- Connects with the Energy transfer crude oil pipeline in Illinois, before going to Texas for refining
- Pipeline was approved on June 1, 2017 and is fully operational



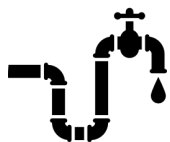
Enerplus is not exposed to the same pipeline constraints that many other upstream producers are facing

Source: Company Filings, EIA

Marcellus Pipeline Access

Marcellus Reserves have ample access to various pipelines up the east coast, transporting NG to various refineries

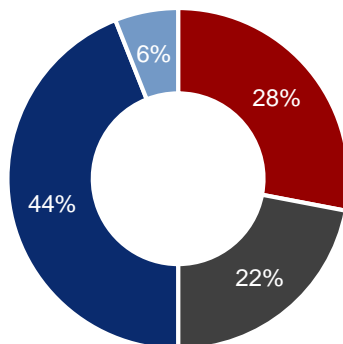
Natural Gas Pipeline Options



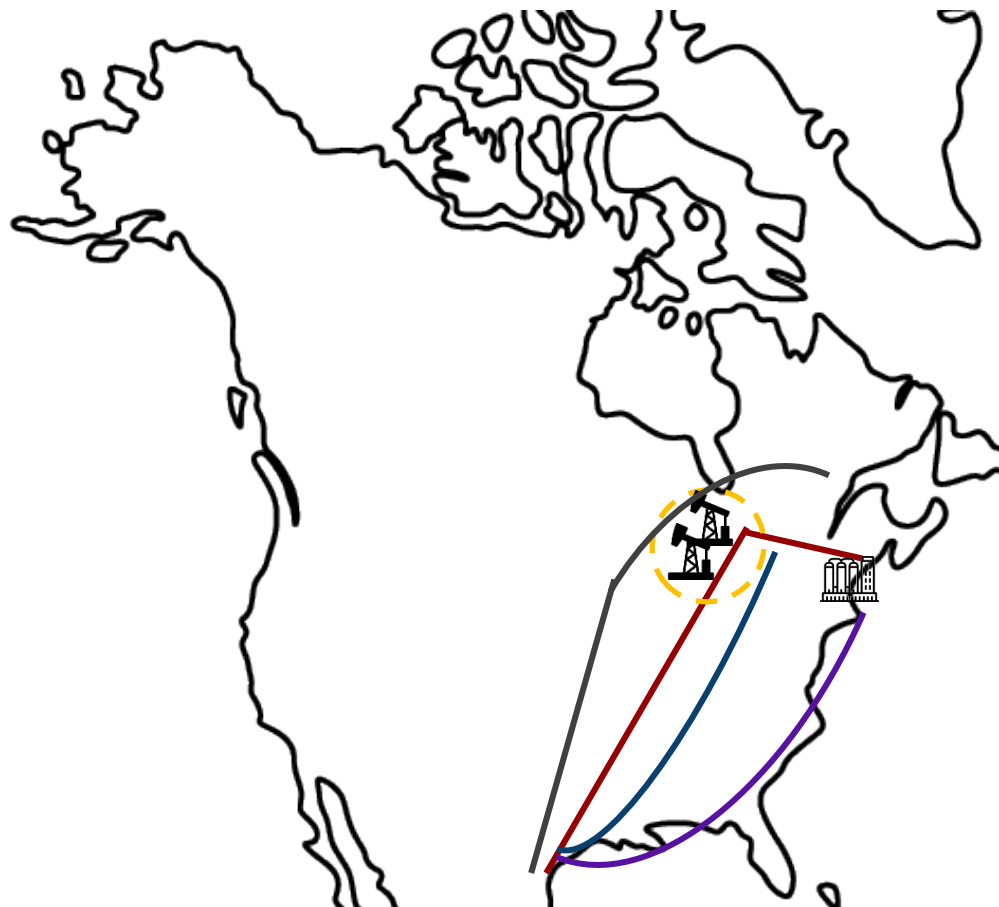
Excess Capacity

- 10 bcf/d of excess capacity from the various pipelines that the Marcellus accesses

Optionality



■ Dominion South ■ Transco Leidy Spot ■ TGP ■ Transco NNY

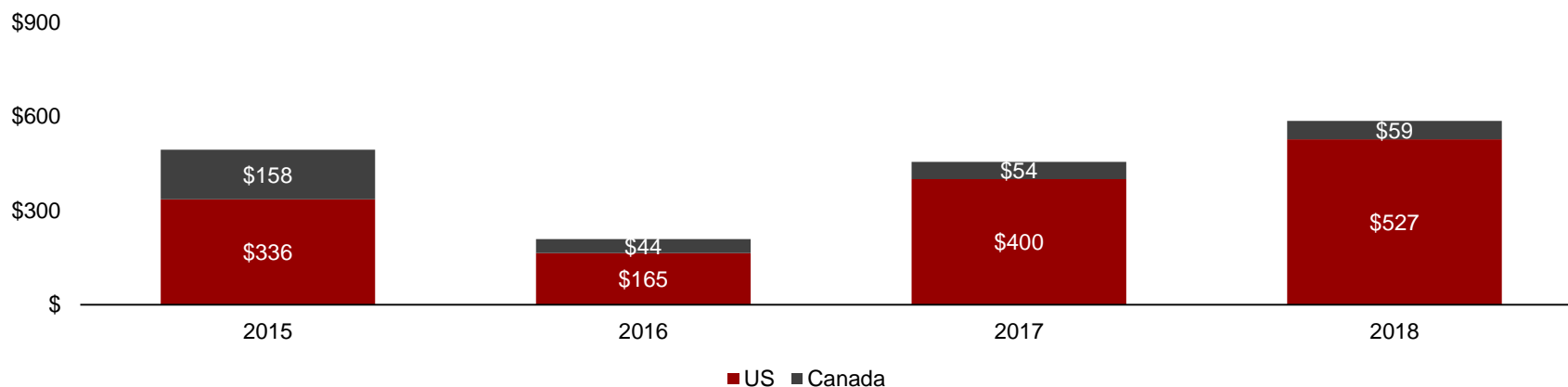


Enerplus is not exposed to the same pipeline constraints that many other upstream producers are facing

Source: Company Filings, EIA

Enerplus Has Recently Shifted Investment Away From Canada

Historical Capital Expenditure By Region (C\$MM)



Management Recent Commentary

“As we divest Canadian assets, we might consider a **shift of our main headquarters to Denver.....**” – Ian Dundas, CEO

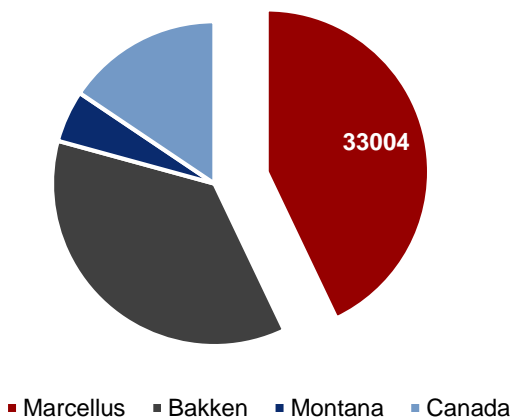


“For the last while, it’s been pretty easy to put money into the U.S. and **it’s been harder to put money into Canada**” – Ian Dundas, CEO

Enerplus CEO clearly preferring to deploy capital in the US, as they continue Canadian Divestment potential change of headquarters to Denver, CO

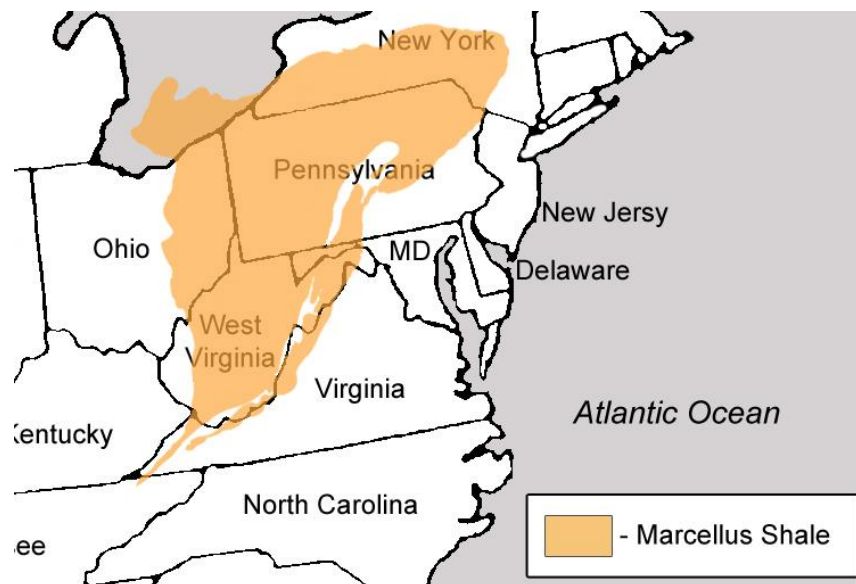
Source: Company Filings, Bloomberg

Enerplus Production – Marcellus Concentration



Natural Gas Play

- 2017 production in Pennsylvania's Marcellus play totaled 198,026 Mcf/day from Enerplus
- Assets are entirely concentrated in shale gas extraction
- Contributes an equivalent of 33,004 bbl/day to Enerplus total
- 796 producing natural gas wells
- Long term agreements for processing and transportation ensure long-term price certainty in sale to nearby American markets



**“Marcellus Shale - Appalachian Basin Natural Gas Play
A resource that moved from "marginal" to
"spectacular" as a result of new drilling technology”**

-Title of a paper by Hobart M. King, PhD, GIA, RPG

Key Takeaways



Strong Fundamentals

- Strong financial position, low leverage
- Very low Net Debt/EBITDA compared to peers
- \$260m net debt for a \$2.64B company stands out for a capital intensive E&P firm



Play Optionality

- Plays in American and Canadian jurisdictions and across multiple state and provincial lines provides geographic hedging and strategic optionality with realized prices



Transportation Optionality

- Despite transport headwinds affecting Canadian plays, Enerplus has easy access to US oil and gas transportation links by rail, truck, and pipeline

Enerplus is better positioned financially and physically than the Canadian peers to which it is compared

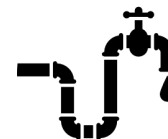
Source: Company Filings

Investment Theses



1.

Permian bottlenecks to persist, potential driver of A&D and a change in investor sentiment to secondary basins



2.

Market valuing Enerplus as a Canadian Upstream producer, despite ~90% of production & reserves based in high netback US basins



3.

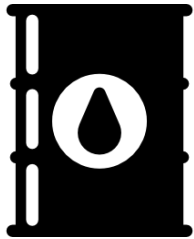
Attractive valuation - Enerplus undervalued compared to peers with similar geographic and commodity exposure





Thesis I: Why The Permian?

The Permian is a basin primarily in Texas that produces both natural gas and crude



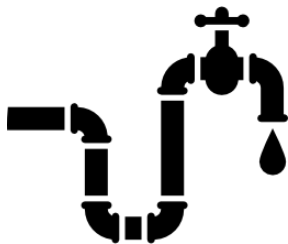
Reserves

- Largest number of proved reserves in the lower 48, with potential to be one of the largest in the world
- With Hydraulic Fracturing, the deep shale plays in this old basin are now accessible



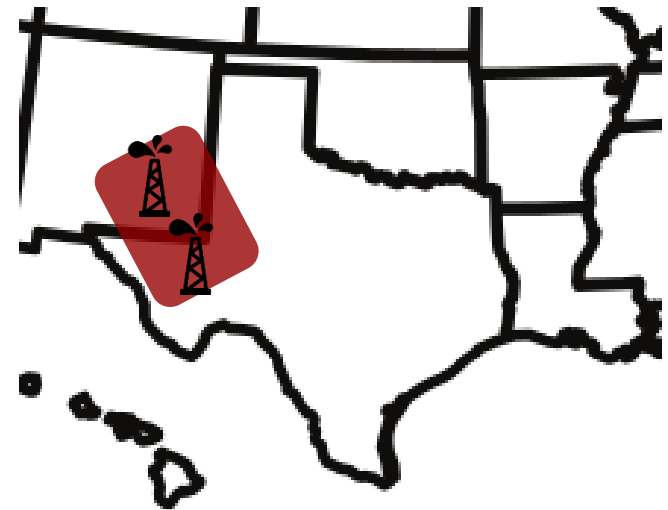
Netback

- Favourable geological conditions
- Low break even creates high netbacks



Transportation¹

- Historically, the Permian has benefited from the multitude of pipeline within the region
- Proximity to the gulf is a catalyst



The Permian boasts strong fundamentals that have attracted international attention

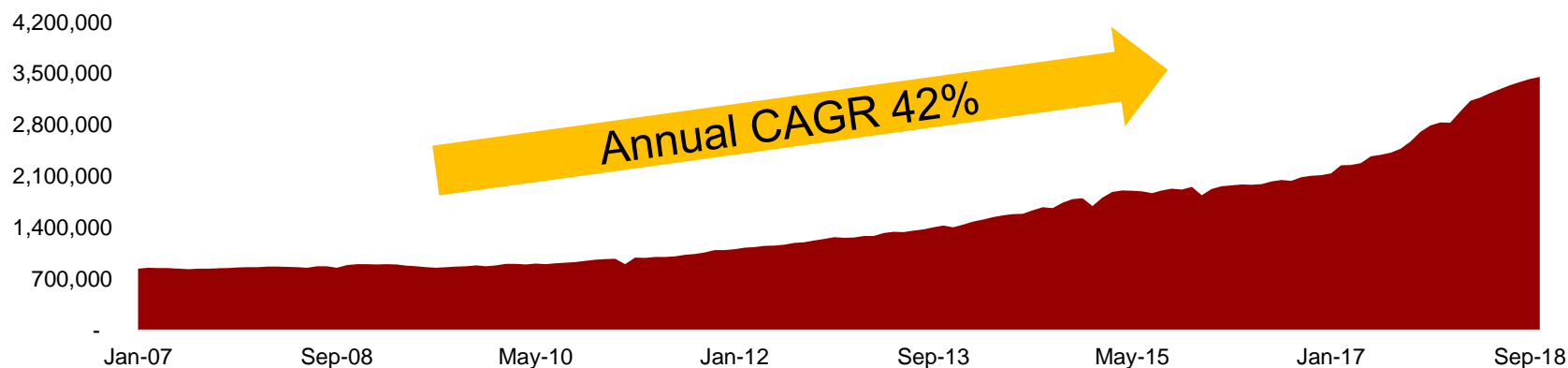
Source: CNBC, Street Research

1) Currently, the Permian is facing bottleneck issues

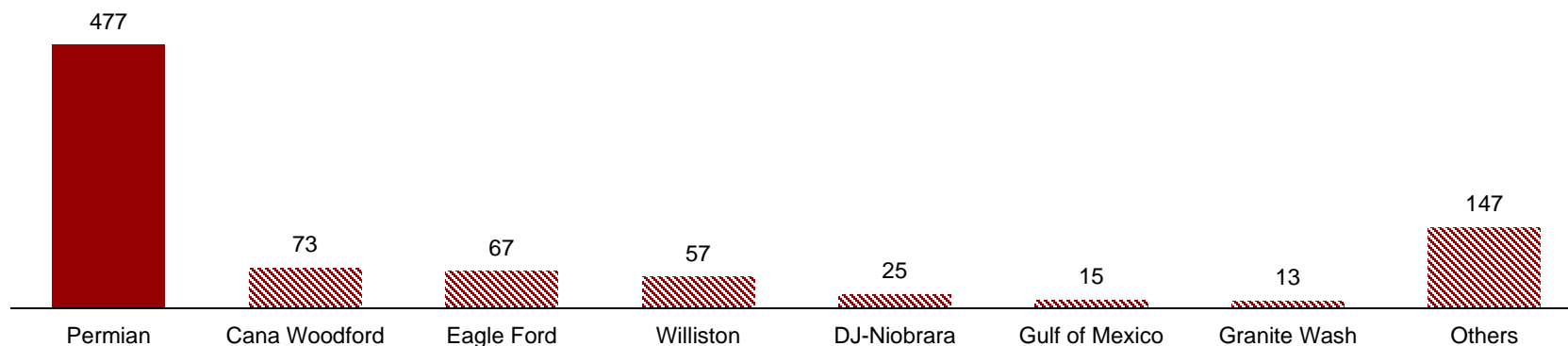
Permian Basin Historical Production



Production in BOE/d



Permian Rig Count



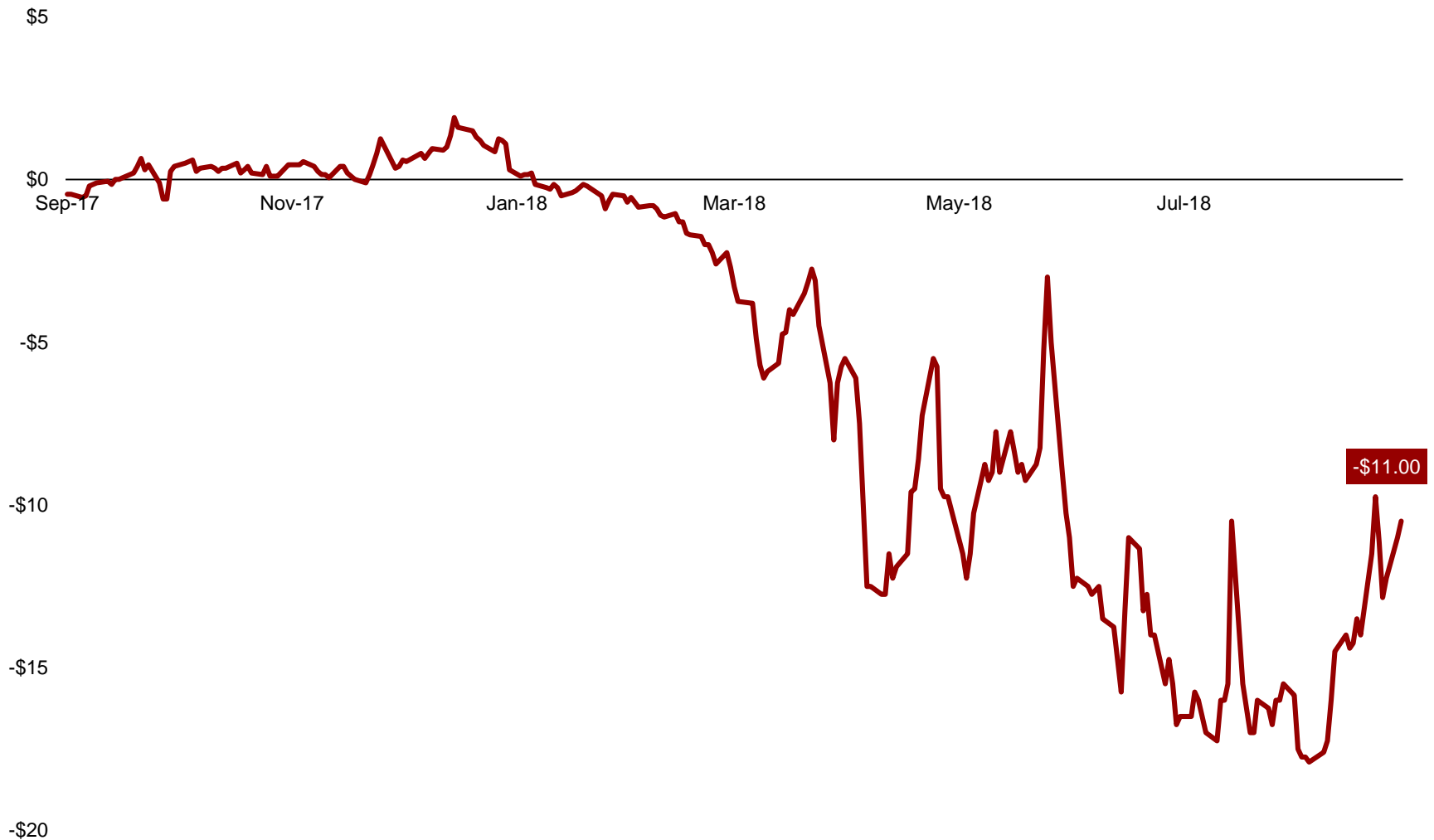
The Permian accounts for over 30% of US crude production (3 mbbbl/d) and produces 11 bcf of Natural gas per day

Source: US Energy Information Administration



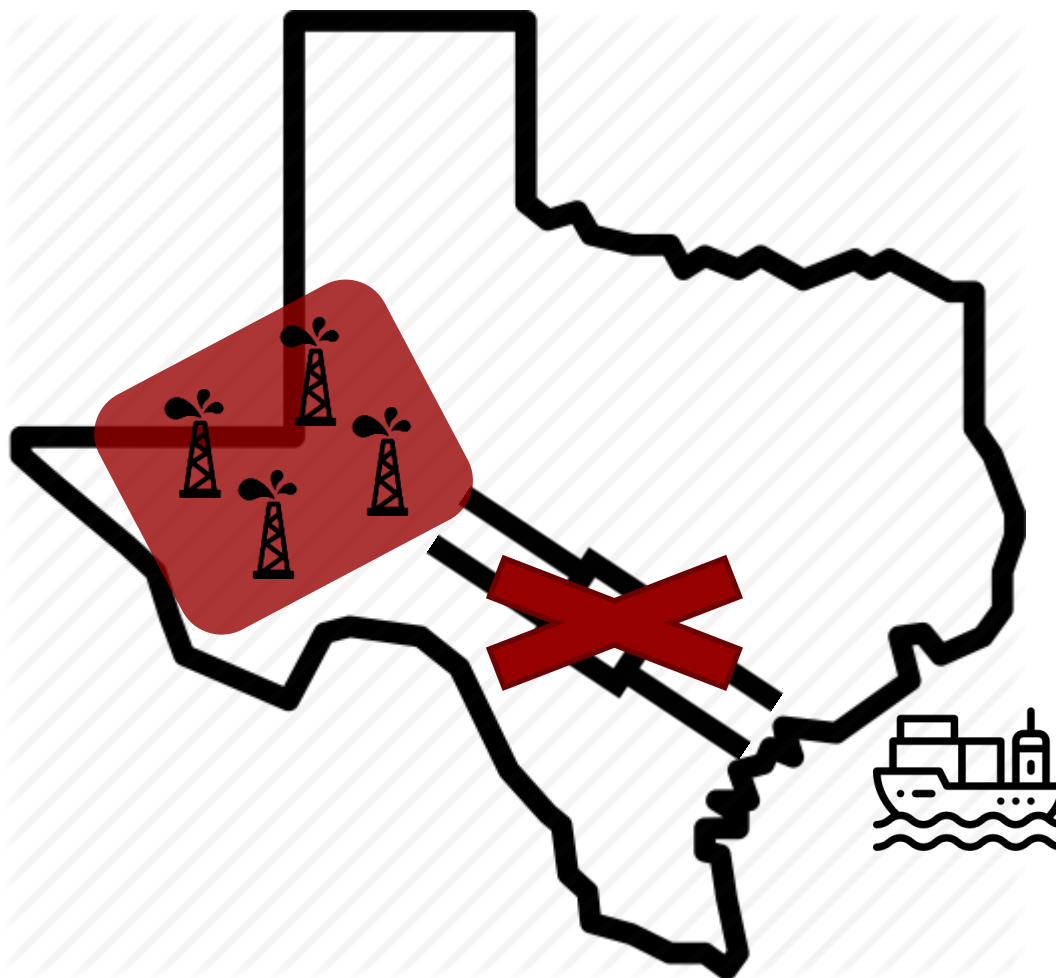
Price Differential Between WTI Cushing and Midland

WTI Midland vs Cushing measures the average differential being realized from the Permian Basin (Midland area)



Pipeline bottlenecks have created over a \$10 price differential to WTI Cushing

Source: Bloomberg



"The Permian Basin has been so prolific that it's **overwhelmed pipelines**.... US producers have become victims of their own success" – Michael Tran



RBC Capital Markets

"Some companies will **have to shut off production**, some companies will **move rigs away**,....." – Scott Sheffield, CEO

PIONEER
NATURAL RESOURCES

Overproduction











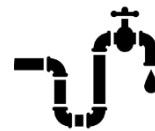













Limited Pipeline Infrastructure

Pipeline bottlenecks have created over a \$10 price differential to WTI

Will the Bottleneck last?

Takeaway capacity will continue to be a concern for Permian producers

	Rig Count	Total Production	Takeaway Capacity	Capacity/(Bottleneck)
	 477 online	 ~3.4 MMBOE/D	 ~3.0 MMBOE/D	 ~(0.4) MMBOE/D
	 47 offline			
<hr/>				
	 477 online	 ~4.4* MMBOE/D 	 ~5.0 MMBOE/D 	 ~0.6 MMBOE/D
	 47 offline			
<hr/>				
	 524 online 	 ~5.0 MMBOE/D 	 ~5.0 MMBOE/D	 ~(0.0) MMBOE/D
	 0 offline			

Addition of EPIC, Gray Oak, Cactus II, Bridgetex, and Permian Express 3 in 2020 will not add enough capacity to satisfy maximum production potential

Source: EIA, DrillingInfo

Note: Pipeline takeaway capacity assumes 100% completion by 2020

*Analysts expect Permian production to increase by 600,000 bbl/d per year, driven by efficiency

Potential Movements By Permian Players



Acquisitions & Divestitures

- Companies are buying assets across the globe
- Focus on acquisitions in “secondary” basins
- High equity value allows firms to pursue more acquisitions



Alternative Transportation

- Like the certain Canadian Basins, Permian players have begun to experiment with transporting oil/LNG through rail or road
- Remains clear that pipeline infrastructure is required



Fighting for Arrangements with Midstream Companies

- Upstream companies in the West Texas region are fighting for supplier relationships, creating a gap between “Have and have-nots”
- Larger super majors have guaranteed volume to the pipeline companies in exchange for continued usage of their pipelines

"The vast majority of the oilfield rail infrastructure **is designed for sand**,.....would cost over \$15 / bbl" - Triepeke

ExxonMobil

"Pipeline agreements have created a **Have and Have-nots** among Permian producers....." – Al Walker, CEO

Anadarko
Petroleum Corporation

DCM View on Future Actions on Permian Players



Acquisitions & Divestitures

- Companies are buying assets across the globe
- Focus on acquisitions in “secondary” basins
- Market has yet to place emphasis on this potential trend



Alternative Transportation

- Like the certain Canadian Basins, Permian players have begun to experiment with transporting oil/LNG through rail or road
- Remains clear that pipeline infrastructure is required



Fighting for Arrangements with Midstream Companies

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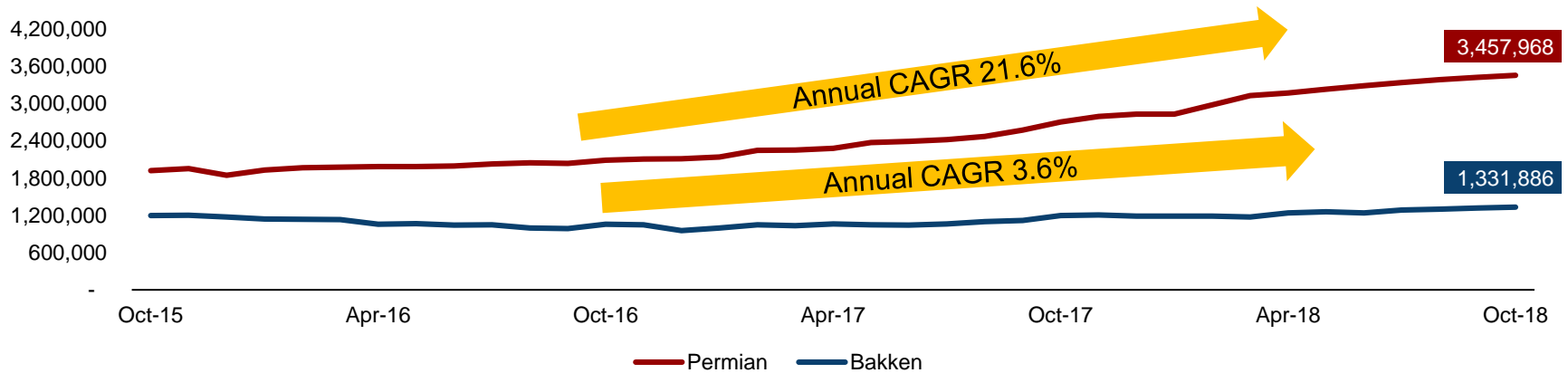
We think that the most effective way for firms to maintain production + earnings is acquire assets in high quality basins

Source: DCM

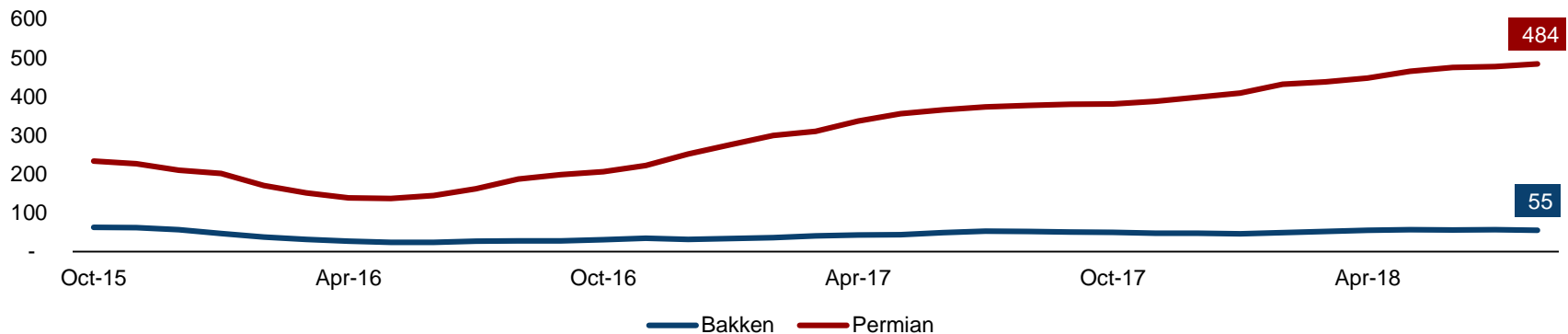
Permian Production Increase vs. Bakken Production



Production in bbpd Permian vs. Bakken



Comparative Rig Count



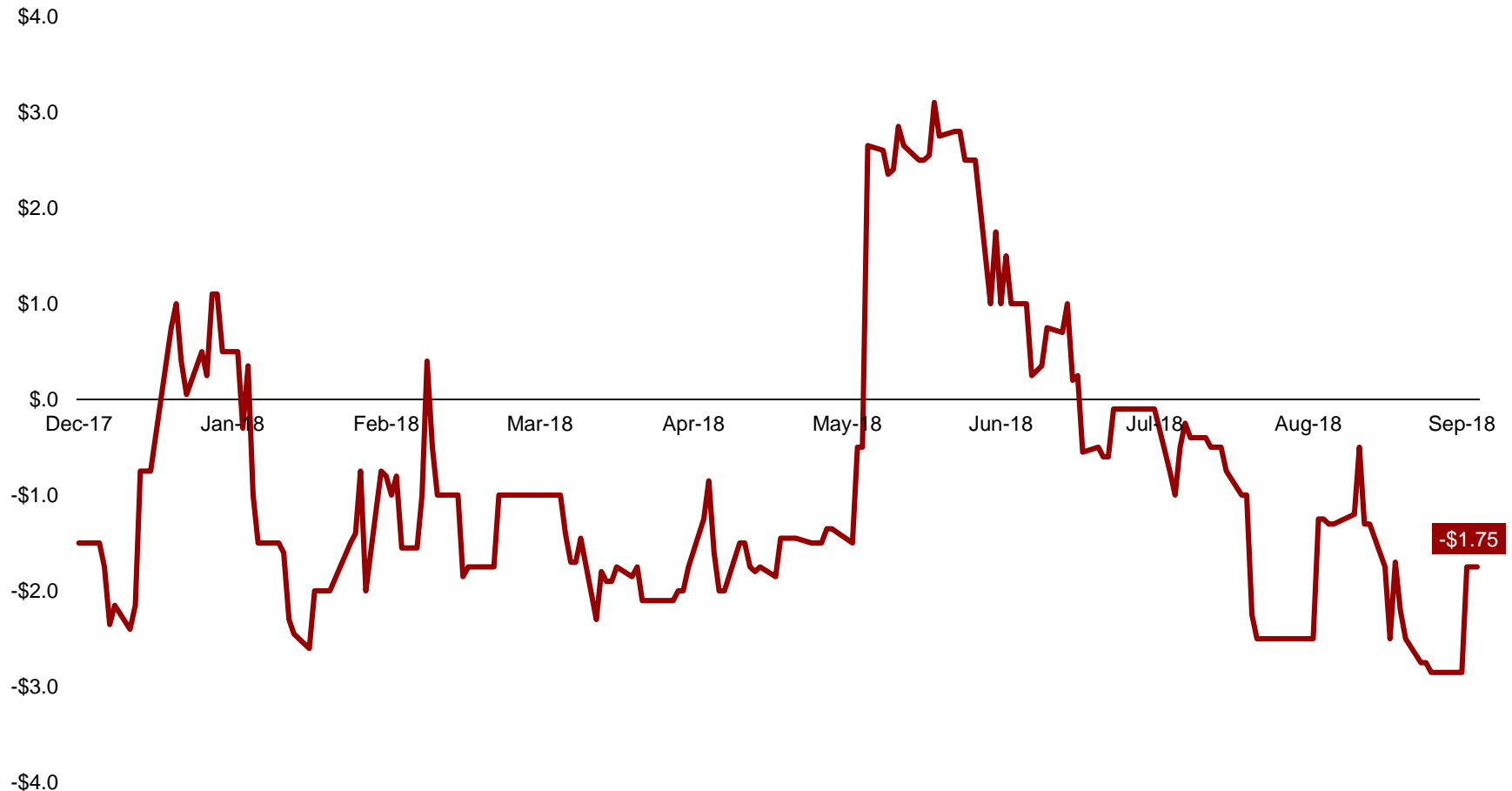
Secondary basins have lacked the investment that the Permian has seen – leaves large opportunity for future growth

Source: CapIQ

1) Appreciation also likely linked to WTI price appreciation

Bakken Differentials to WTI

WTI-Clearbrook demonstrates the price realized for Bakken producers



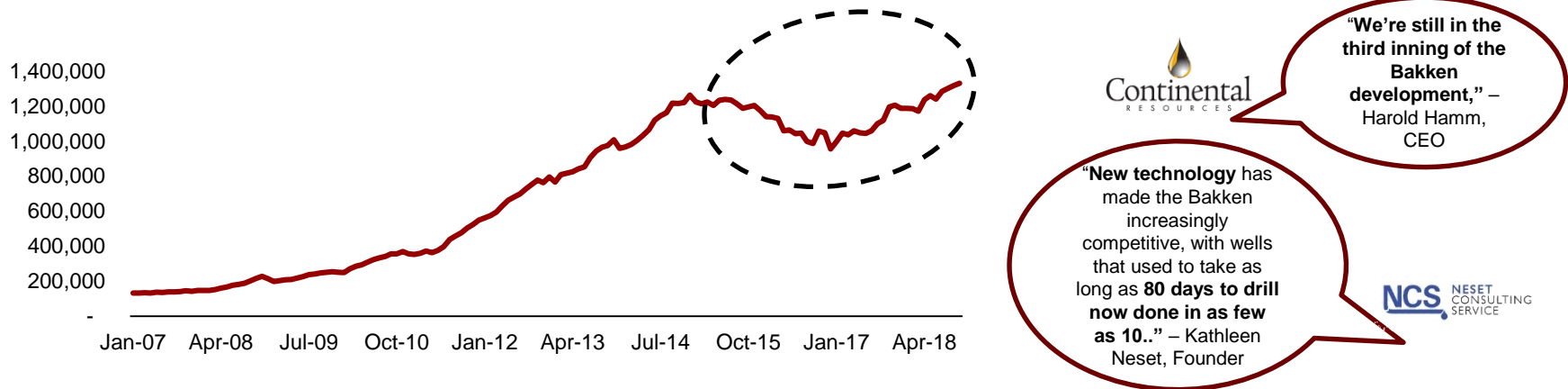
WT-Clearbrook trades a ~\$2 differential to WTI, which is a significant difference compared to the WTI-Midland pricing

Source: Bloomberg

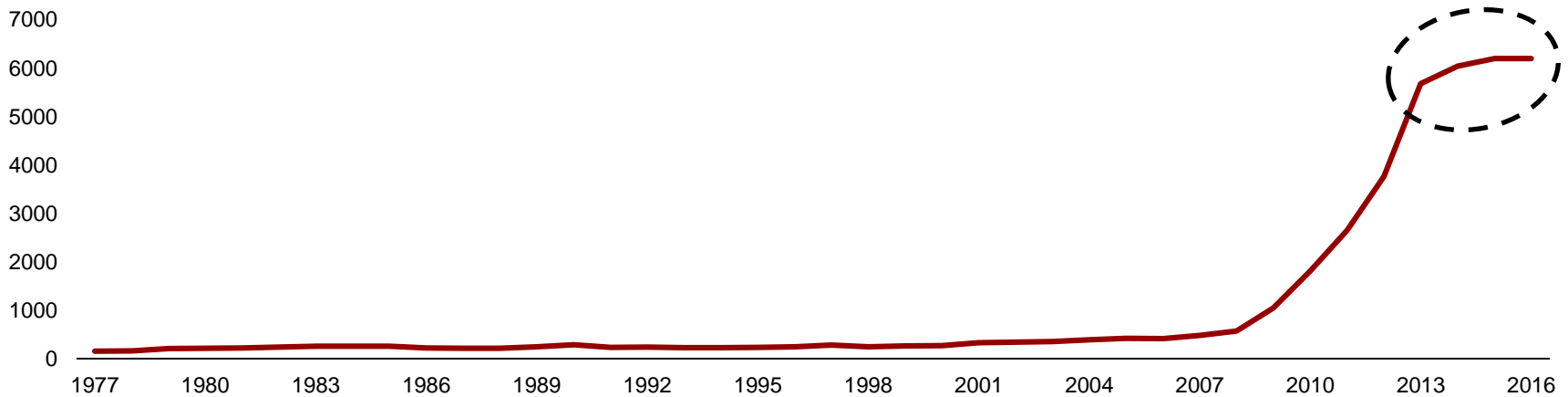
We Like The Bakken As It Adds Another Layer Of Complexity

People have continuously underestimate the amount of oil in the Bakken Formation

Bakken Production Debate



Historical Proved Reserves in Bakken (MMBOE)



A future refreshed reserve estimate can be a catalyst for all Bakken producers

Source: Eia

A&D Case Study

ConocoPhillips recognized benefit of diversifying holdings & potential value in the Bakken basin

Transaction Overview

- In April, 2018 Conoco Phillips announced plans to sell acreage in the Permian and expand to alternate basins
- They acquired acreage in the Montney, and Austin Chalk areas
- With acreage in the Permian selling for over \$60,000 per acre it was accretive to sell expensive land then acquire assets in low cost liquid rich basins
- Conoco viewed these “secondary” basins as a unique opportunity to buy cheap land given the inflated asset prices in the Permian

Investor Sentiment

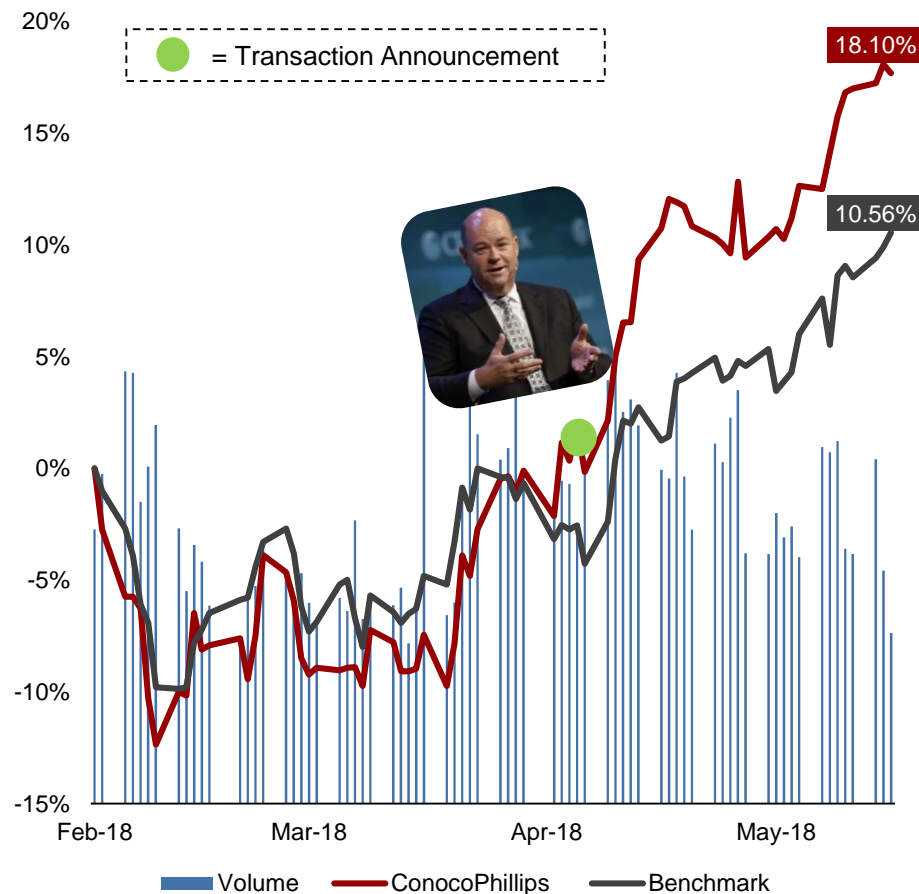
- Following the announcement of acreage in the Permian basin and focusing on optionality of plays, Conoco stock price appreciated over **10%** in the following month

“...We think these are both early-cycle opportunities to watch over the coming years.”



RBC Capital Markets

Public Market Performance



Despite flat reserve estimates, majors have found a rationale to diversify holdings and move away from the Permian

Source: DCM, Street Research, Company Filings

Summary of Why We Like the Bakken For a Potential Investment

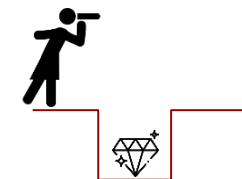
1.

Persistent Annoyance of Permian Bottlenecks will drive investment to secondary basins such as the Bakken



2.

Market may have overlooked basin due to recent flat reserve estimates, future refreshed estimates are a potential catalyst for Bakken producers



3.

ND and Montana are consistently in support of fracing – this is in contrast to Colorado



4.

Improving technology is increasing netbacks and allowing access to new reserves



Thesis II: Market Mispricing Enerplus as a Canadian Upstream Company

Market Mispricing Enerplus as a Canadian Peer

“Enerplus is trading at a debt-adjusted cash flow multiple of 5.8x in 2018E **vs. our Canadian peer group** average of 6.2x”

- Greg Pardy



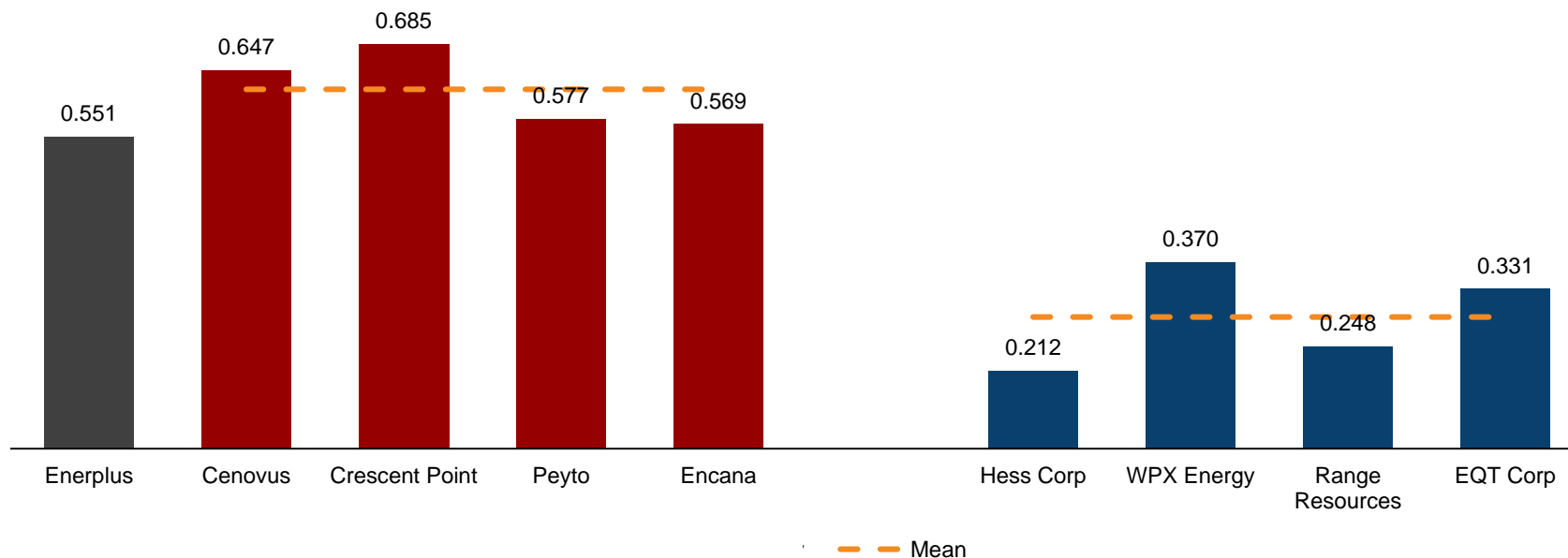
RBC Capital Markets

“Our equity research analysts need to change their comps.....” – Anon. Calgary MD



RBC Capital Markets

1 Year Correlation (R^2) to Canadian Energy ETF (ZEO CN Equity)



Source: Bloomberg

TD Securities Inc.

Action Note

Equity Research



September 24, 2018

Valuation

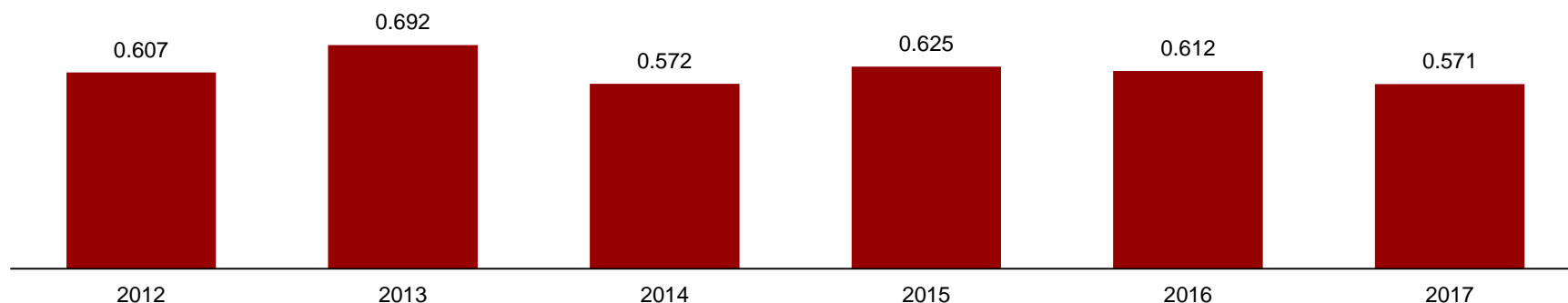
Exhibit 5. Peer Group Comparison

	2018E Yield	D/CF	% Drawn	Corporate P/O 2018E		BOE/d			EV/DACF	
		2018E	2018E	Ex.	Inc.	2019E	Gas	Gwth*	2018E	2019E
				DRIP	DRIP					
Canadian Peers										
FRU	6%	0.3x	26%	54%	54%	12,128	42%	0%	9.3x	9.1x
TOG	4%	1.2x	67%	76%	71%	28,744	12%	9%	5.4x	4.8x
WCP	4%	1.6x	51%	78%	78%	79,646	15%	7%	5.7x	5.0x
ERF	1%	0.4x	0%	83%	83%	99,797	42%	8%	5.2x	4.4x
CPG	4%	2.2x	53%	111%	111%	178,506	10%	1%	4.2x	3.9x
ARX	4%	0.9x	0%	107%	107%	146,940	72%	10%	6.3x	6.6x
PSK	3%	-0.1x	0%	76%	76%	23,030	45%	1%	22.3x	20.8x
VET	7%	1.7x	71%	97%	92%	100,941	43%	7%	8.3x	6.4x
Median	4%	1.0x	39%	80%	80%	89,721	42%	7%	6.0x	5.7x

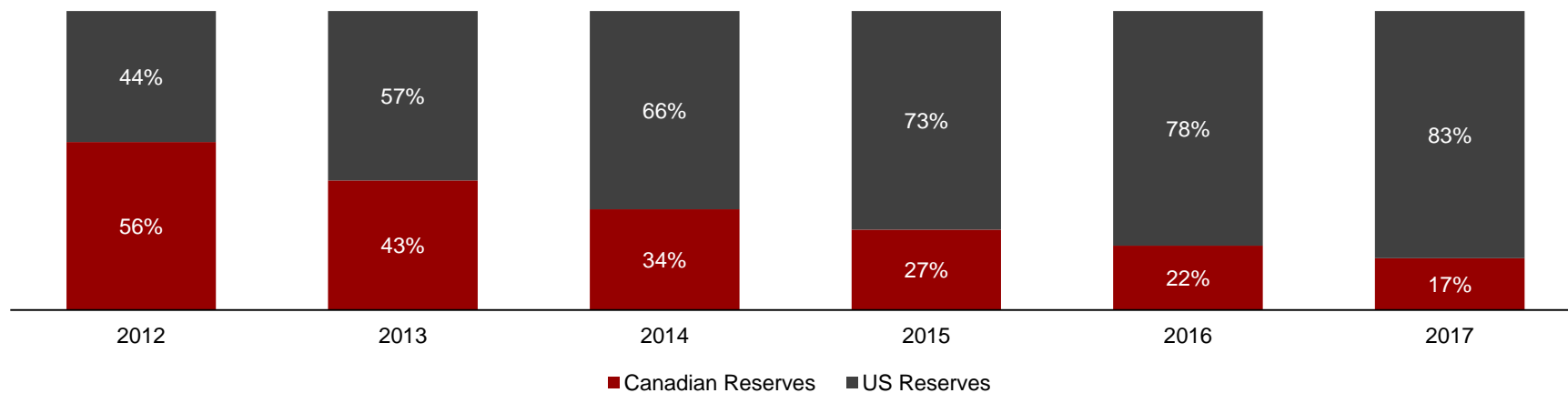
Market Potentially Slow To React To Enerplus American Expansion

Enerplus is NOT a Canadian Upstream Company

Historical Correlation of Enerplus and Canadian Energy ETF (ZEO CN Equity)



Historical 2P (Proved + Probable) Reserves (MMBOE)



Market is potentially slow to react to Enerplus's Asset Diversification – Waiting Game, Same as Aritizia

Source: Company AIF, Bloomberg

Why Enerplus should not be grouped as a Canadian Upstream Company



US Exposure

- Enerplus has shifted production to focus primarily on the US (~90%)
- Price exposure to WTI & Henry Hub vs. WCS & AECO



Tax Cuts & Jobs Act

- Given Enerplus's subsidiary, Enerplus USA, they have benefited from the US tax reform
- Canadian "comps" cannot realize benefits such as lower statutory rate and capital spending immediate expensing



Strategic Plan

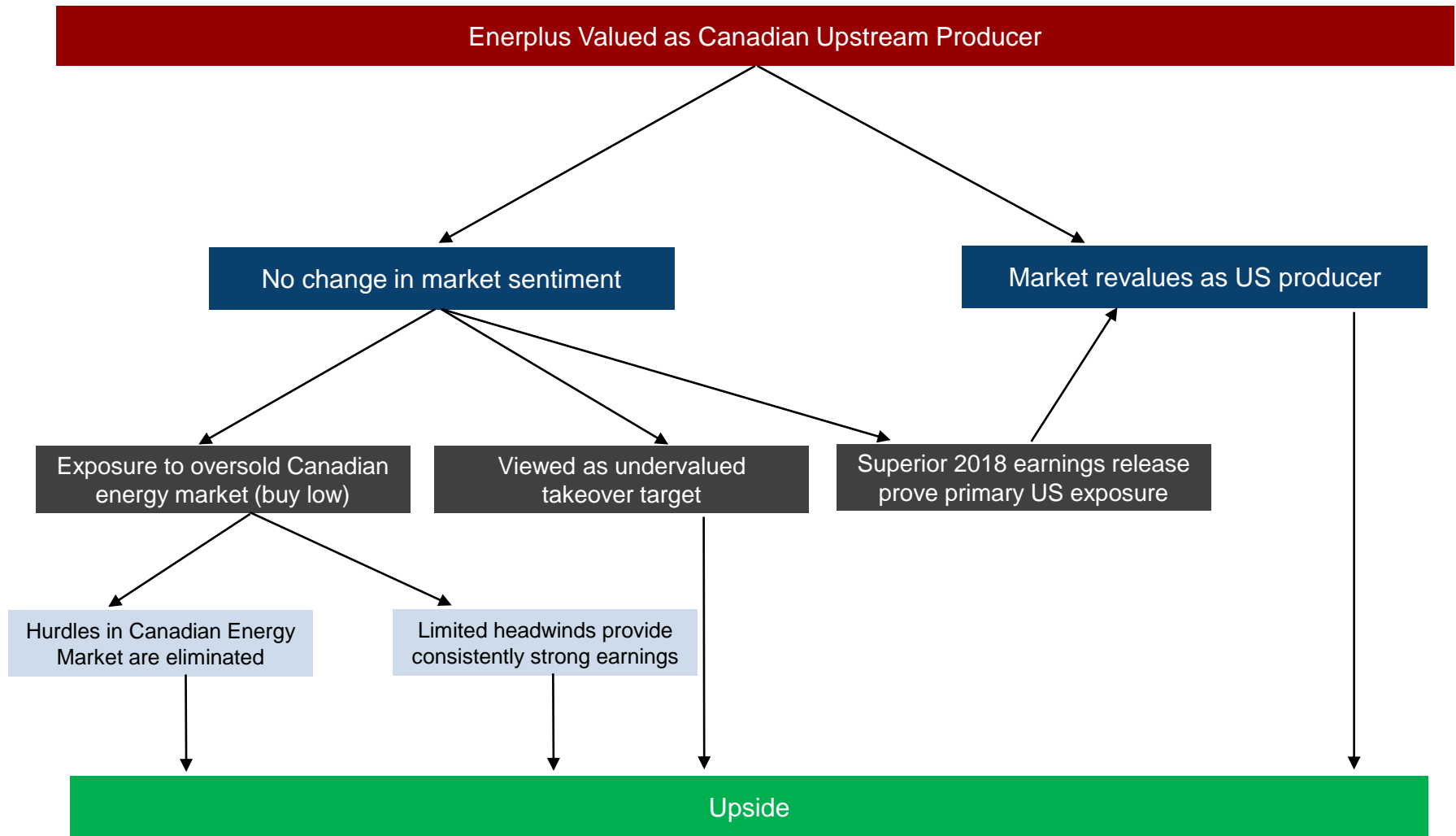
- CEO, Ian Dundas, has repeatedly said that they plan to invest 90% of money saved from US tax cut to invest into the US
- "The US is a much more attractive market for a variety of reasons.... Canada is currently not very attractive for our line of work"

Given Enerplus's US exposure, policy tailwinds with the US tax reform and heavy investment in US, it is perplexing that they would be compared to Canadian companies

Source: Company filings

Bonus: Catalyst Path

Multiple Catalysts Leading to Upside



Reminder: Potential Rationale for Valuation Discount



Production Split

- All competitors have a different focus on either Natural Gas or Crude Oil
- Currently Oil trades a premium to NG, so liquids focused players have received a valuation bump



Canadian Discount

- Potential market mispricing due to Canadian headquarters and historical production mix
- Canadian company, but has only ~10% production in Canada



Competitor Alternative Basins

- Competitor secondary assets may be viewed to be in more premium basins
- Market placing more value on pure-play Bakken players

Before a full pitch, Energy aims to dive deeper into the company and understand if discount is warranted

Source: capIQ, Thomsonone, DCM

Valuation: Sum of Parts

Found comps for separate plays to isolate pure-play multiple

Marcellus Pure-Play Natural Gas Comps

Company	EV (C\$Bn)	EBITDAX (C\$Bn)	Prod Mix Oil %	Prod Mix NatGas	EV / EBITDAX
EQT Corp	24.59	2.53	0.67%	87.22%	9.73x
Cabot Oil & Gas	11	1.03	3.89%	95.66%	10.68x
Range Resources	8.37	1.25	3.92%	66.86%	6.72x
Antero	11.53	1.45	1.79%	71.90%	7.95x
Mean	13.87	1.56	2.57%	80.41%	8.77x
25th Percentile	10.34	1.19	1.51%	70.64%	7.64x
Median	11.27	1.35	2.84%	79.56%	8.84x

Bakken Pure-Play Comps

Company	EV (C\$Bn)	EBITDAX (C\$Bn)	Oil Mix %	Prod Mix NatGas %	EV/EBITDAX
Oasis Petroleum	8.54	1.06	78.00%	22.00%	8.09X
Continental	35.14	3.61	57.00%	43.00%	9.74X
Whiting Petroleum	8.14	1.24	68.00%	32.00%	6.55X
Hess Corp	31.06	2.95	58.00%	42.00%	10.53X
25th Percentile	8.44	1.20	57.75%	29.50%	7.71X
Mean	20.72	2.21	65.25%	34.75%	8.73X
Median	19.8	2.10	63.00%	37.00%	8.92X

We isolated individual basins with pure play companies to isolate the market multiple for that basin

Source: Bloomberg, Company Filings




Cont'd Valuation: Sum of Parts

Canadian Waterfloods Comps

Company	EV(C\$Bn)	EBITDA (C\$Bn)	Prod Mix Oil %	Prod Mix Nat Gas %	EV/EBITDA
Crescent Point	7.68	1.72	79.54%	10.08%	4.47x
WhiteCap Resources	4.07	0.80	75.87%	18.18%	5.07x
Baytex Energy	3.25	0.54	66.40%	20.49%	6.02x
Mean	5.00	1.02	73.94%	16.25%	5.19x
Median	4.07	0.80	75.87%	18.18%	5.07x

Sum of the Parts Valuation

Isolated Individual Plays to find pure play market multiple

	LTM EBITDAX (C\$M)		Implied EV (C\$M)		PF Implied EV (C\$M)
 Bakken	\$267.92	×	\$2,389.81		
		8.92x		+	
 Marcellus	\$261.80	×	\$2,000.25	=	\$4,868.92
		7.64x		+	
 Waterfloods	\$94.45	×	\$478.85		
		5.07x			

Sum of Parts Valuation gives a Pro-Forma Implied Enterprise Value of ~C\$4.9bn, currently valued at ~\$4.2bn

Source: Bloomberg

Sum of Parts Output

Bridge to Equity Value

Current Valuation

Enterprise Value = \$4,116.96



Total Debt = \$1,249.97



Cash & equivalents = \$360.42



Market Capitalization = \$3,227.77



Share Price = \$13.19

Sum of Part Valuation

Enterprise Value = \$4,868.92



Total Debt = \$1,249.97



Cash & equivalents = \$360.42



Market Capitalization = \$3,978.95









Share Price = \$16.26

Sum of Parts Valuation implies a ~23% upside to the current share price

Source: Bloomberg, Company Filings

Share Price Sensitivity

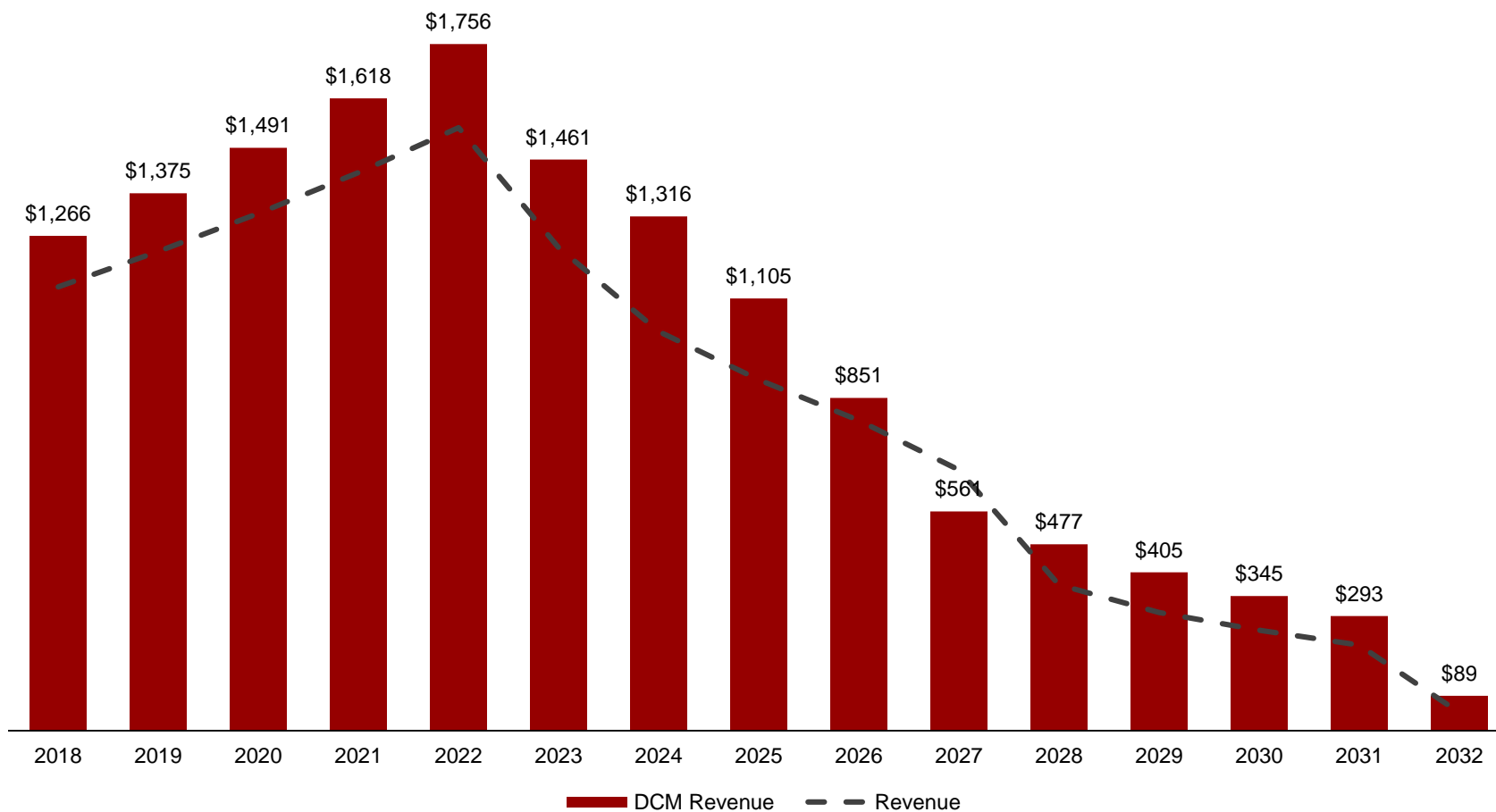
		Bakken EV / LTM EBITDAX Multiples		
		 8.00x	 8.50x	 9.00x
Marcellus EV / LTM EBITDAX Multiples	 7.00x	\$14.57	\$15.11	\$15.66
	 7.50x	\$15.10	\$15.63 (~18.7%)	\$16.20
	 8.00x	\$15.64	\$16.18	\$16.73

Sensitivity of Bakken and Marcellus Multiples still yield upside

Source: DCM

NAV Model Output

DCM Revenue Outlook



DCM took view on Enerplus's strategic plan to expand into the Bakken which created small bump in revenue

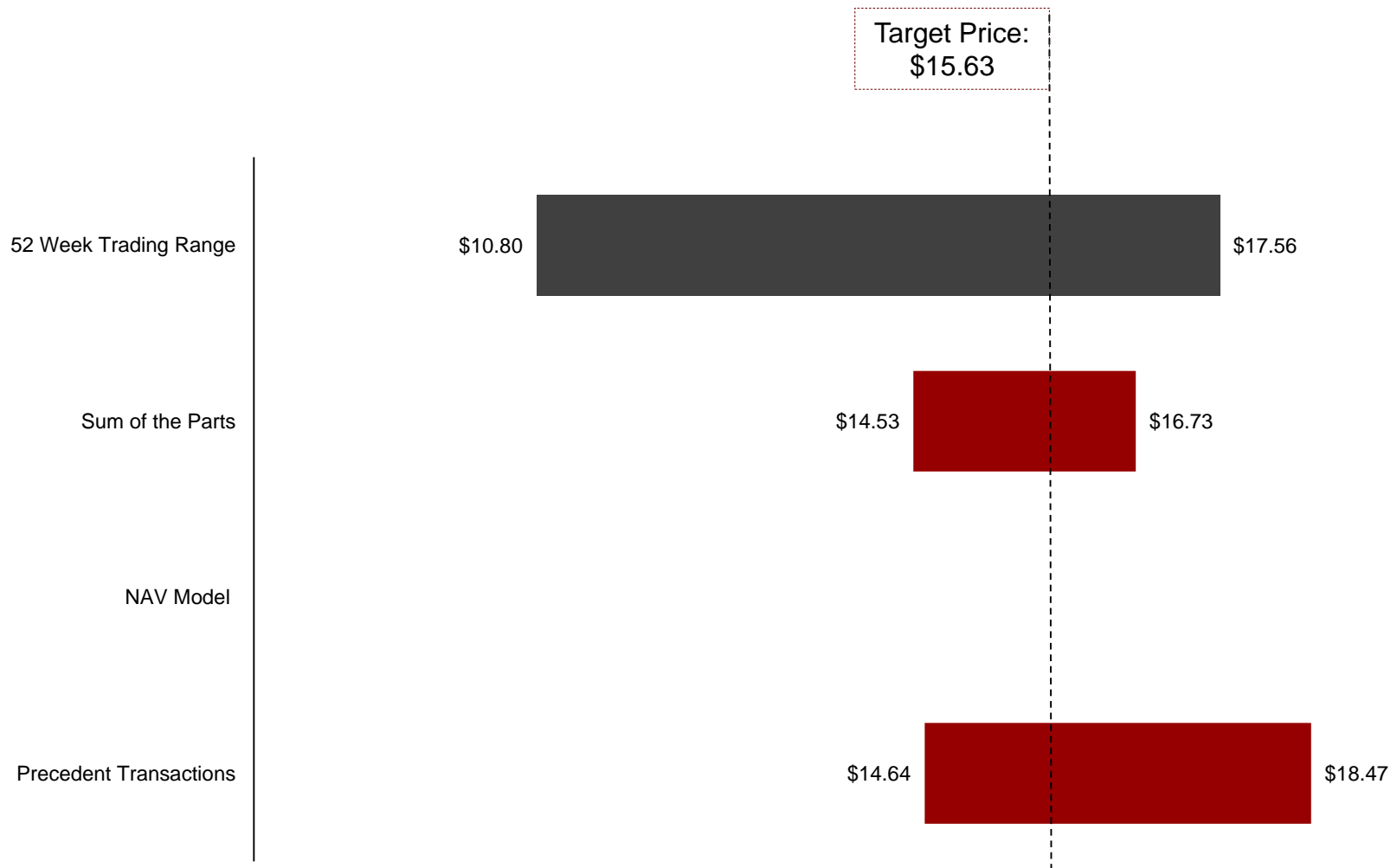
Production % Per Basin

DCM Key Assumptions in NAV Model

2019 Reserve Estimates vs. Historical

Key Assumptions

Football Field



Sum of Parts Valuation gives us a target price of \$15.63, with an implied premium of 18.67%

Source: DCM

Risks and Catalysts

Risks

Downturn in WTI

No analyst re-rating

Dakota pipeline explosion

Catalysts

Acquisition

Bakken Refreshed reserves
estimate

Change of headquarters to Denver

Divestment of Canadian companies

2018 earnings release

Appendix



Appendix: Rough Precedents

Target Name	Acquirer Name	Date	Deal Value (US\$MM)	TV/EBITDA
Rowan Cos Plc	Ensco PLC	Oct-18	3561.93	8.88x
CVR Refining LP	CVR Energy Inc	May-18	561.9	10.40x
Energen Corp	Diamondback Energy Inc	Aug-18	9162.6	11.27x
RSP Permian Inc	Concho Resources Inc	Mar-18	9204.45	17.46x
Rex Energy Corp	PennEnergy Resources LLC	Aug-18	1535.66	24.11x
Mean			4805.308	14.42x
Median			3561.93	11.27x