DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

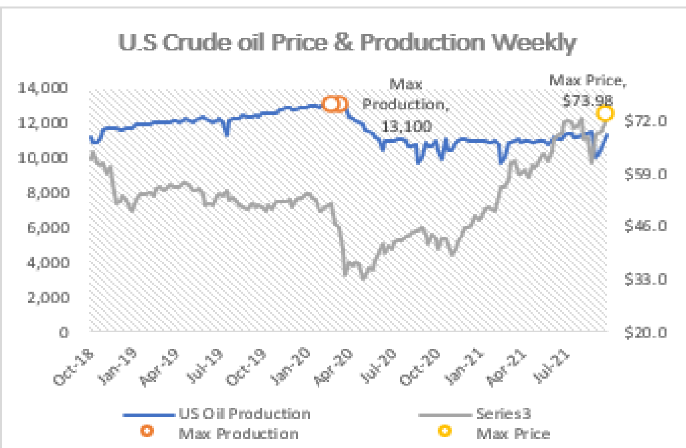
Energy Investor Monthly: September 2021

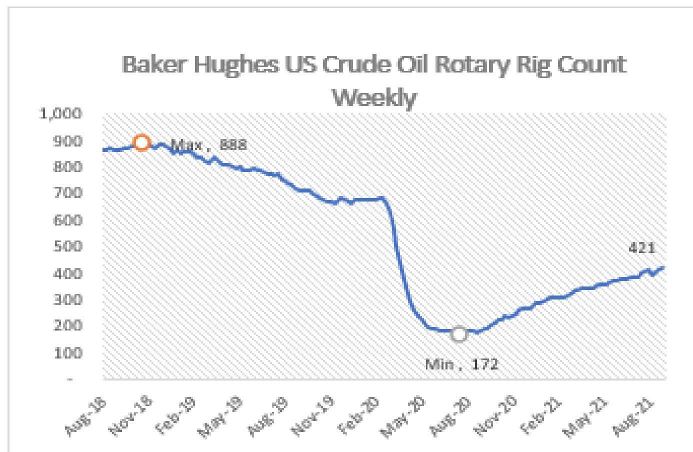
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

DAC produces the *Energy Investor Monthly* to be a one-stop information resource on domestic supply/demand factors and global trends in the energy market for your reference.

U.S. Total Crude Oil Production and U.S. Crude Rotary Rig Count:

1. The West Texas Intermediary (WTI) oil price was $73.98 per barrel for the week ended September 24, 2021, an 8% increase from August. It now trades 72% higher when compared to the same time a year ago. Oil prices continue to climb on supply disruptions following storms in the U.S. that damaged facilities on the Gulf coast.
2. Oil production increased by 500k bbl./d, averaging 11.1 million bbl./d as operators in the Gulf of Mexico restored production shut-in due to Hurricane Ida. Still, oil production was 400k bbl./d below its pre-storm level.
3. The U.S. oil rig count increased 11 from the previous month to 421, according to Baker Hughes. Oil rigs increased 238 from the same week a year ago.

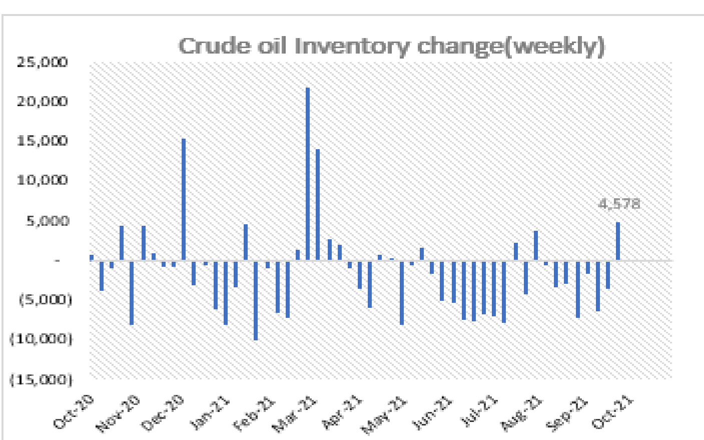


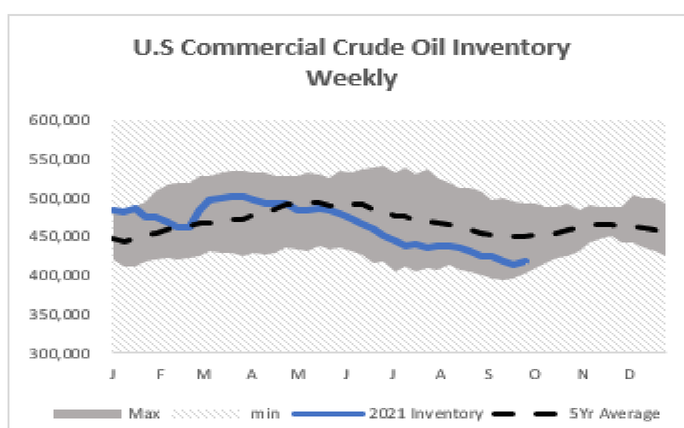


Source: Bloomberg, Dividend Assets Capital, LCL

The U.S. Commercial Crude Oil Inventories (excluding those in the Strategic Petroleum Reserve) and Inventory Changes:

1. U.S. commercial crude oil inventories were 418.5 million barrels at month-end, the lowest volume since 2018. This inventory level is also about 7% below the five-year average for this time of year. Over the past few weeks, we've seen 2.6m barrels of SPR inventory drawn and the storage is now at its lowest since September 2003.
2. U.S. commercial crude oil inventories rose 4.58 million for the first time in eight weeks amid higher production, imports, and stable refinery runs nationwide.

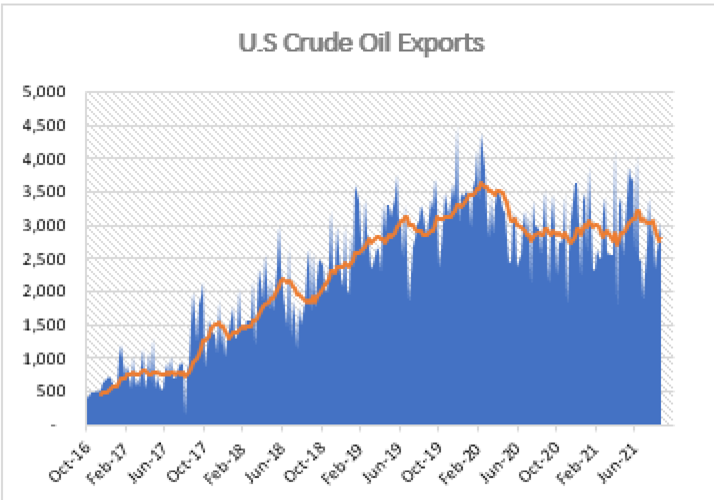


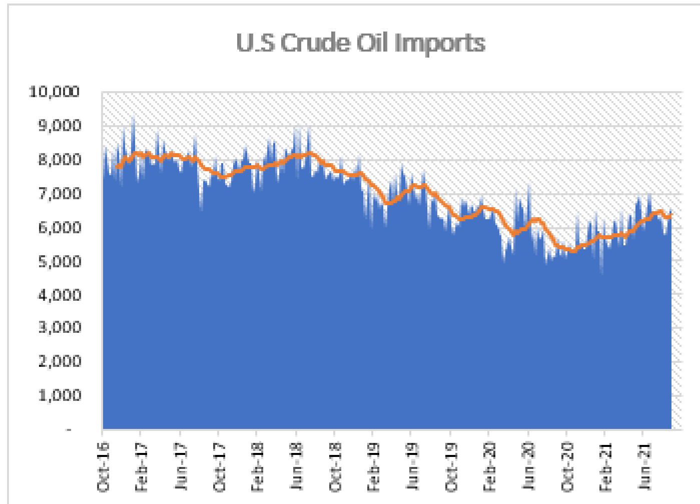


Source: Bloomberg, Dividend Assets Capital, LCL

U.S. Imports and Exports:

1. U.S. crude exports rose 7.5% as shipping recovers across the Gulf after recent storms. We are now back above 3 million bbl./d for the first time in four weeks. U.S. crude oil imports averaged 6.6 million bbl./d. over the past four-weeks and crude oil imports averaged about 6.1 million bbl./d, 18.7% above the same four-week period last year. Saudi crude imports rose above half a million bbl./d for the first time since June as waterways and ports are finally clearing barrels after storms disrupted shipping.
2. The U.S. was a net importer of oil for the seventh straight week in the period ending September 24.

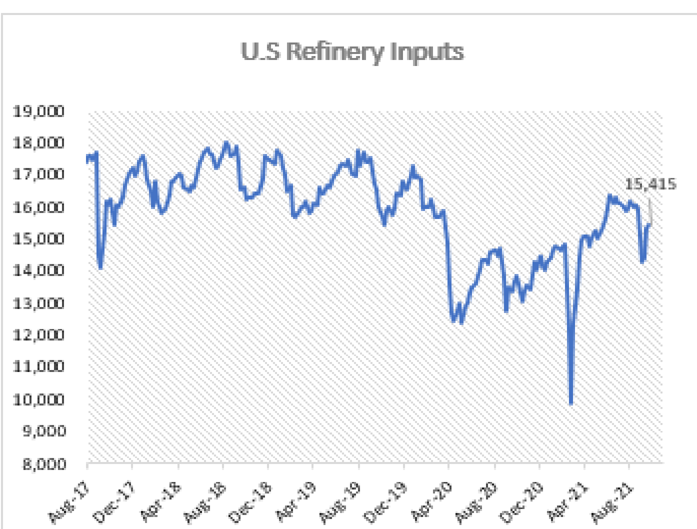


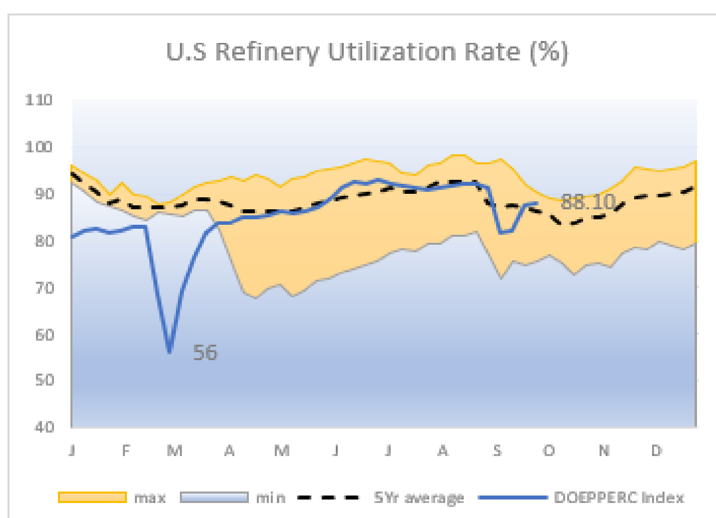


Source: Bloomberg, Dividend Assets Capital, LCL

U.S. Refinery Inputs and Utilization Rates:

1. U.S. crude oil refinery inputs averaged 15.4 million bbl/d for the week ending September 24, 2021. Four-week inputs averaged 14.9 million bbl/d and were 11.5% higher than the same time a year ago.
2. U.S refinery runs were little changed at 88.1% of capacity. Runs fell across all regions, except for the Gulf Coast, still on the mend following Ida.
3. Total refined products supplied over the last four-week period averaged 20.4 million bbl./d, up by 13.7% from the same period the previous year.
4. Refined products demand was mixed. Both gasoline and jet fuel demand declined with the end of the summer driving season. Distillate demand on a rolling four-week average basis is the highest since 2017 for this time of the year as the economy rebounds from the pandemic and Americans rely more on online shopping.





Source: Bloomberg, Dividend Assets Capital, LCL

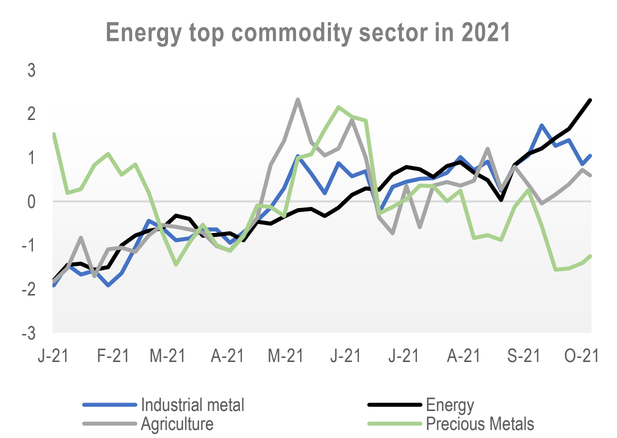
***Insights of the Month…* It's all about supply and demand!**

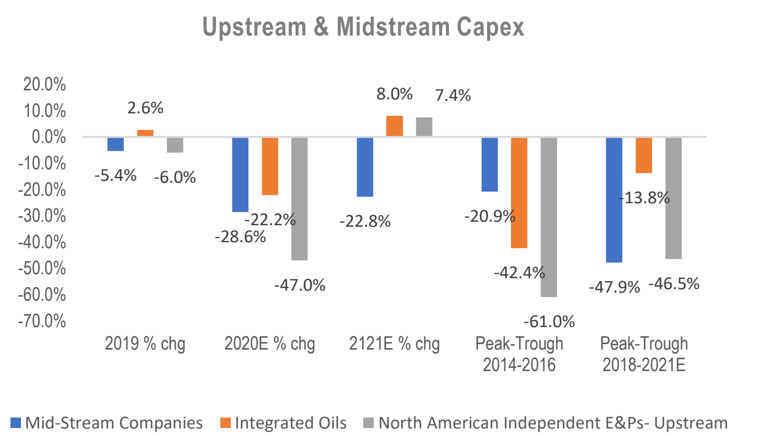
<u>$80 a barrel Brent oil price, $5.6MMBtu natural gas price, $260 per ton thermal coal!</u>

For the past two months, we provided insights on renewable energies like hydrogen and ammonia to demonstrate the energy- intensive nature of industrial-scale production of those alternative energies. The bottom line is that the transition to renewable energy takes enormous capital and advanced technologies over the long term. **Short-term energy demand is highly inelastic**. The global supply crunch for natural gas and bottlenecks for renewable energy illustrate the significant challenges faced when increasing reliance on renewables without proper planning and infrastructure support.

Unpredictable weather patterns require significant energy storage capacity for renewables. Due to 20-yr low wind velocity, idling turbines have devastated Europe, as renewable energy sources made up more than 1/3 of the gross electricity supply. Severe drought in 2021, affected more than half of hydropower production in Brazil. At the same time, the race to net-zero policies and drought conditions limited power generation from China's primary resources like coal and hydropower. The supply shortfall forced China, the world's largest energy consumer, to look for coal in the seaborne market and natural gas to fill the gap. The additional demand from China, the EU and other countries tightened global demand for fossil fuel like coal and natural gas, pushing prices higher. One thing is clear: fossil fuel is essential to serve as a baseload for renewables to counter intermittency, support green infrastructure build-out, and support economic growth. According to Goldman Sachs, a $2 trillion green investments deployment in the U.S over the next two years will likely increase the demand for oil by 200k bbl/d, a **substantial increase in demand**. Is a structural upward shift in demand for fossil fuel on the horizon?

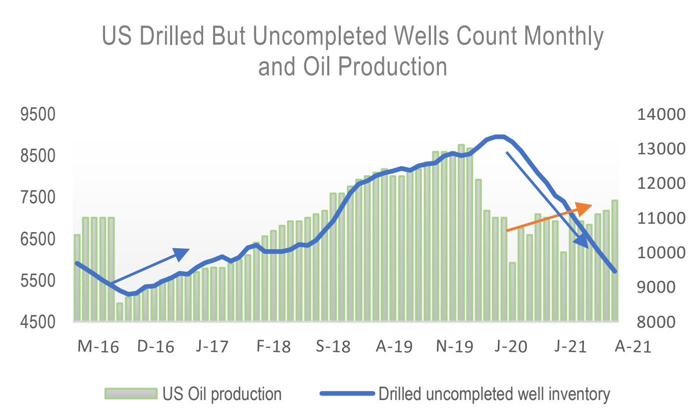
Commodity prices at record levels; Bloomberg commodity spot index tops 2011 peak to reach new high; Energy top commodity:

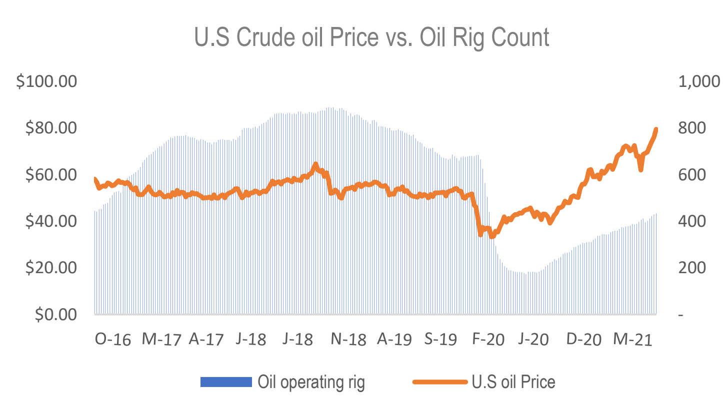




Source: Bloomberg, Dividend Assets Capital, LLC

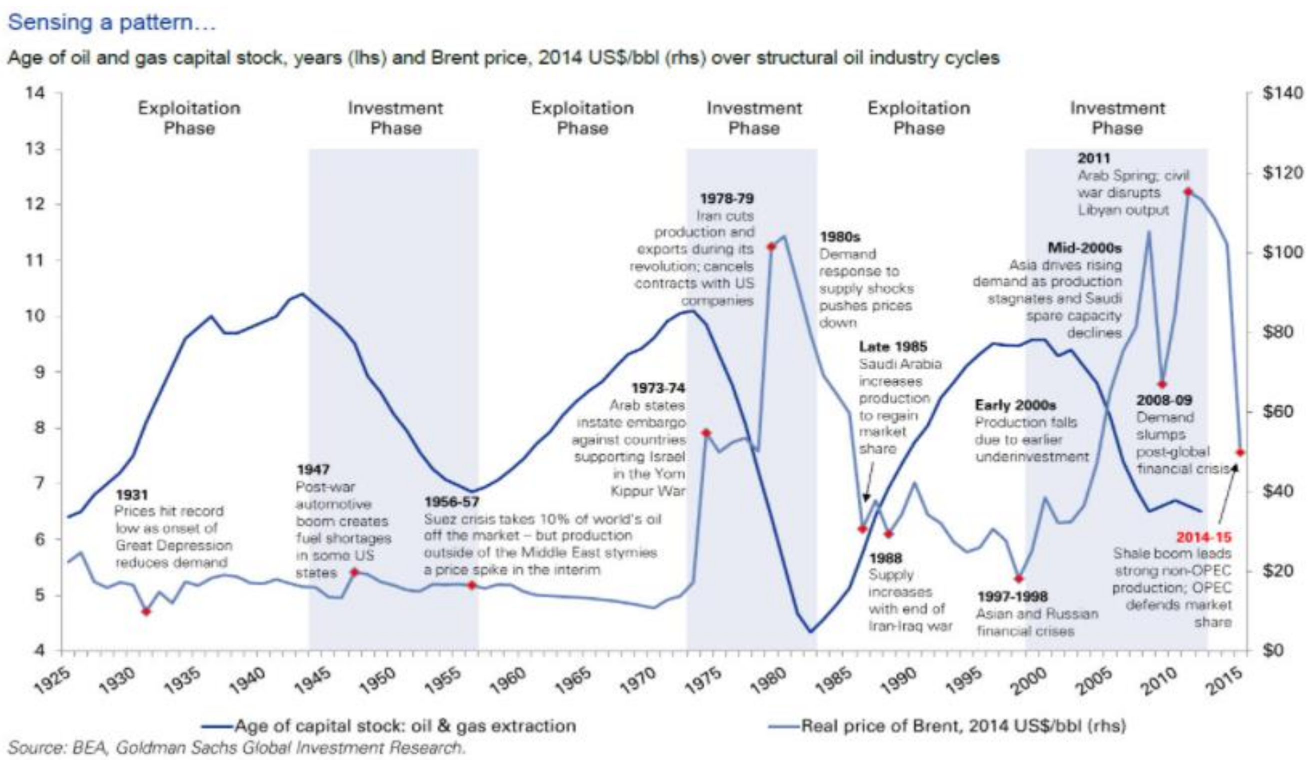
Historically, higher commodity prices stimulate drilling activities and upstream investments, thus, increasing production and easing price pressure. However, there are concerning signs: 1) Supermajors like Exxon, Royal Dutch Shell, Total and Chevron have seen their reserves fall faster than production, causing the reserve-to-production ratio to decline. This is a result of underinvestment for the past seven years and no sign of increased spending on the horizon. 2) Over the last 10 years, the only source of non-OPEC oil supply growth has been the shale fields. Except for the Permian basin, every shale field in the US is now in persistent decline. 3) Despite $80/bbl oil and $5.5 mm btu natural gas prices, U.S operating rig accounts are nowhere near historically implied levels. The entire production growth was driven by 36% reduction of previous Drilled but Uncompleted Wells.





Source: Bloomberg, Dividend Assets Capital, LLC

History does not repeat itself, but it often rhymes. The energy investment phase ended in 2014 as the U.S. Shale boom led to strong non-OPEC production forcing OPEC to defend its market share. Ever since, we saw massive capital reductions during 2014-2016 and 2018-2021 while oil traded between $40-$60/bbl. Without a new investment phase to secure production, energy prices will only extend the current rally delaying the low-carbon economy transition and limiting economic growth. Amin Nasser, CEO of Saudi Aramco, the world's largest oil producer, says it will take until 2027 to increase 1 million bbl/d capacity, not overnight. IEA puts it this way: "Shrinking global spare capacity underscores the need for increased investments."



Produced By Susie Wang, Chief Investment Officer and Director of Investment Strategies (October 14, 2021)

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Clarity: A transparent and understandable approach to portfolio management.	**Simplicity**: We believe dividends are the best indicator of the future price performance of a stock.	**Devotion**: We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.

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