

PALOS

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Weekly Commentary

Issue No. 7 | FEBRUARY 15, 2021

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By *Charles Marleau CIM[®]* and *William Mitchell CIM[®]*

Mullen Group – Truckin’ Down the E-Commerce Highway

Mullen Group Ltd. (TSX: MTL) is a Canadian company located in Okotoks, Alberta. The company operates in three business segments. The **Less than Truckload (LTL)** segment operates the largest ‘last mile’ trucking network in Western Canada and is comprised of nine independently operated trucking companies stretching from Thunder Bay, ON to the Pacific. Operations are focused on the consumer goods sector which includes pharmaceuticals and temperature-controlled trucking solutions.

The **Logistics and Warehousing (L&W)** unit provides transportation and logistics services to customers throughout North America. L&W is structured around a network of ten operating units with terminals that cover an extensive geographic area from Greater Toronto to the lower B.C. mainland. Operational excellence and cutting-edge technological solutions are applied to customized inventory management systems, e-commerce transactions, and efficient supply chain management. Attention is being paid to the usefulness of data analytics and operational efficiency. The L&W unit will continue to be in focus as e-commerce trends have created a shift towards direct fulfillment between vendor and customer.

Specialized & Industrial Services (S&IS) is comprised of a roster of businesses that specialize in servicing the needs of Canada’s natural resources and infrastructure/construction sectors. Mullen is highly specialized in servicing the unique needs of customers operating in the oilfield services (e.g., drilling), forestry, mining, water management, land reclamation, and the transportation of oversized equipment (e.g., drilling rigs and pipe). The S&IS segment was hit hardest by the Covid-19 pandemic.

In this past **January’s Investor Update**, Mullen’s Board reiterated its intent to pursue strategic acquisitions in the transportation and logistics segments. As of December 9, Mullen’s balance sheet carried a cash balance exceeding \$100 million which is destined for acquisitions. On the same day, the annual dividend was raised to \$0.48 per year from the \$0.36 dividend that was reinstated in July. For context it should be noted that the \$0.60/year dividend was omitted in April as a COVID-19 related precautionary measure. A \$0.36 annualized payout was resumed last April.

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MTL released its Q4 and full 2020 results on February 10 after the close. The company reported a small miss on adjusted EBITDA (Earnings Before Interest, Taxes, and Amortization) but beat estimates on EPS (Earnings per Share) and cash flow. The market reacted negatively with MTL shares falling by 10.8% in Thursday's session followed by a 3.6% rebound on Friday. For the twelve-month period MTL shares are higher by 13.6% including reinvested dividends. Since trading at a 23 year low on March 26, 2020, MTL shares have climbed by an impressive 140%.

In our view, Mullen is an exceptionally well-managed company. On the earnings call with investors, CEO Murray Mullen commented that bottlenecked supply chains had created a challenging environment. However, on the plus side, strengthening commodity prices bode well for S&IS as we move into 2021. The surge in e-commerce activity enabled the L&W segment to offset weakness in resource related businesses. On the acquisition front there remains plenty of dry powder for future "tuck-ins" that are likely to be small in scale. The **Palos Income Fund LP** and the **Palos Equity Income Fund** have remained invested in MTL since our initial purchase of shares in October of last year.

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Important Reminder to Contribute to Your RRSP and TFSA

RRSP

Benefits:

- RRSP contributions are tax deductible.
- Savings grow tax free while held in a registered plan.
- When you retire, you can convert your RRSP to an RRIF receive regular income.
- A spousal RRSP can reduce your combined tax burden.
- You can borrow from your RRSP to buy your first home or pay for your education.

RRSP Contribution Details :

- The **deadline** for making your 2020 RRSP contribution is March 1, 2021.
- Your 2020 RRSP contribution limit is calculated as 18% of your earned up to a maximum of \$27,230. For 2021 the maximum is \$27,830.
- If you've already made your 2020 RRSP contribution, consider making your 2021 contribution now to benefit from the power of tax-deferred growth.
- Unused contributions can be carried forward from a previous year. You can find your RRSP contribution information on your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999.

TFSA

Benefits :

- Capital gains and income are exempt from paying taxes - true tax-free saving.
- You do not need earned income to contribute.
- You can make a withdrawal whenever you want, without penalty or paying tax.
- Withdrawals can be re-contributed the following year without penalty.

TFSA Contribution Details:

- The annual contribution limit for 2020 is \$6,000 and the same for 2021 (\$6,000).
- The TFSA contribution room is cumulative and has been offered to Canadians since 2009. Unused contribution room carries forward and is currently capped at \$75,500.
- Anyone 18 older who has a Social Insurance Number is eligible to open a TFSA.

The sooner you start contributing to an RRSP or TFSA, the more money you'll have when it's time to retire. There's nothing like the power of tax-free compounding returns.

If you would like to open, contribute, or have any questions about RRSP or TFSA accounts, please contact your Palos Advisor.

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Rappel important pour cotiser à votre REER et à votre CELI

REER Avantages:

- Les cotisations à un REER sont déductibles d'impôt.
- Vos épargnes augmentent à l'abri de l'impôt.
- Lorsque vous prenez votre retraite, vous pouvez convertir votre REER dans un (FERR) pour obtenir un revenu régulier.
- Un REER de conjoint peut réduire votre fardeau fiscal combiné.
- Vous pouvez emprunter de votre REER pour acheter votre première maison ou payer vos études.

Détails sur la cotisation au REER :

- La date limite pour verser votre cotisation REER 2020 est le 1er mars 2021.
- Votre plafond de cotisation REER 2020 est basé sur les droits de cotisation inutilisés reportés de 2020 et le montant de votre cotisation 2020 (18% du revenu gagné de votre exercice précédent, sous réserve d'un plafond de 27 830\$ en 2020).
- Si vous avez déjà effectué votre cotisation 2020, songez maintenant à cotiser à votre REER de 2020 pour bénéficier de la plus-value d'un REER avec impôt différé. La limite de cotisation maximale à un REER pour 2020 est de 27 830 \$.

CELI Avantages :

- Vous pouvez économiser en franchise d'impôt.
- Vous n'avez pas besoin de gagner un revenu pour cotiser.
- Vous pouvez retirer l'argent quand vous le souhaitez, sans payer d'impôt.
- Si vous retirez de l'argent, vous pouvez réinvestir ce montant l'année suivante.

Détails sur la cotisation CELI:

- La limite de contribution annuelle pour 2019 est de 6 000 \$.
- Les droits de cotisation CELI sont cumulatifs et s'accumulent depuis 2009. Les droits de cotisation inutilisés sont reportés, jusqu'à présent le maximum accumulé est de 75 500 \$.
- Toute personne âgée de 18 ans qui possède un numéro d'assurance sociale est admissible à ouvrir un CELI.
- Renseignements sur les cotisations REER sur votre plus récent **avis de cotisation** de l'ARC, ou en appelant le **Système électronique de renseignements par téléphone** (SERT) au 1-800-267-6999.

Plus tôt vous commencez à cotiser à un REER ou à un CELI, plus le montant au moment de prendre votre retraite sera important. Rien ne vaut le pouvoir (n'égal la puissance) des rendements composés libres d'impôt. Si vous souhaitez ouvrir, cotiser ou si vous avez des questions sur les REER ou CELI, veuillez communiquer avec votre conseiller Palos.

| Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹ | FundServ | NAVPS | YTD Returns |
|--|----------|---------|--------------|
| Palos Income Fund L.P. | PAL100 | \$9.29 | 6.24% |
| Palos Equity Income Fund - RRSP | PAL101 | \$6.78 | 6.16% |
| Palos Merchant Fund L.P. (Dec 31, 2019) ² | PAL500 | \$1.71 | 20.15% |
| Palos WP Growth Fund - RRSP | PAL210 | \$23.20 | 45.32% |
| Palos-Mitchell Alpha Fund ³ | PAL300 | \$13.45 | 12.98% |
| S&P TSX Composite (Total Return with dividends reinvested) | | | 6.23% |
| S&P 500 (Total Return with dividends reinvested) | | | 4.93% |
| S&P TSX Venture (Total Return with dividends reinvested) | | | 21.96% |
| Chart 2: Market Data ¹ | | | Value |
| US Government 10-Year | | | 1.21% |
| Canadian Government 10-Year | | | 1.03% |
| Crude Oil Spot | | | US \$59.47 |
| Gold Spot | | | US \$1821.60 |
| US Gov't10-Year/Moody BAA Corp. Spread | | | 218 bps |
| USD/CAD Exchange Rate Spot | | | US \$0.7880 |

¹ Period ending February 12, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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