Czeschin's

Oil & Energy Investment Report

"He who controls the oil, controls the world." — Bob Czeschin

Published since 1997 December 19, 2016

The #1 oil company in the world's #1 oil-producing country

Bob Czeschin

His book, *Oil, War & Financial Upheaval,* traced oil's connection to wars, revolutions, and financial crises. It had 7 printings. Readers who followed its advice made fortunes.

Before the 1990 Iraq war, he said oil prices would nearly double. They did.

With oil still under $25, Czeschin said depletion would drive oil to the then undreamt-of level of $100 a barrel. Subscribers bagged up to 461% profits.

After oil hit $140, he told subscribers to bag profits and buy put options, which gain from falling prices. 9 of the 10 put options he recommended made money with profits of 76%, 119%, and 145%.

And with OPEC now cutting production, oil's back above $50, and energy stocks are on the threshold of an explosive rally.

Oil goes up $1, this company pockets an extra $1.4 billion profits a year

Rosneft (OTC-OJSCY) is the biggest oil company in Russia, presently the world's top oil-producer. Its proven reserves are 24.7 billion barrels — more oil in the ground than Mexico and Brazil *combined*.

Rosneft also produces more oil than Canada (some 4 million barrels daily). And because it pays expenses in depressed Russian rubles, its cost to produce a barrel of oil: just $6.40.

With oil above $50, you can see how wildly profitable business is ... or would be, if much of its oil wasn't kept off Western markets by Obama's economic sanctions against Russia.

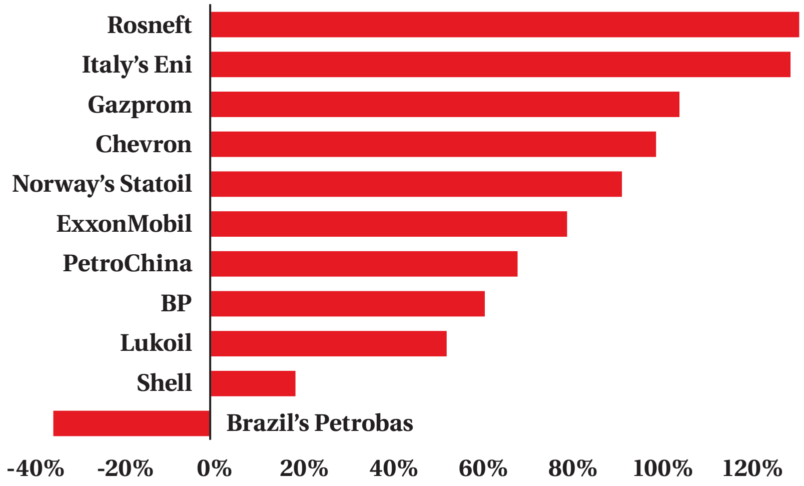
But with Trump in the White House, sanctions against Russia are almost certain to be scrapped. That plus rising oil prices are really going to light a fire under the stock.

Rosneft's proven reserves only counts already discovered oil that can be produced with current technology at breakeven or better.

Add in probable and possible reserves, its oil in the ground jumps to a whopping 79.5 billion barrels. That's more oil in the ground than

Mexico, Brazil, Nigeria, and Libya -- all put together!

How much annual production was replaced by new oil finds 2014-2015



Furthermore, despite harshly cold operating conditions in Russia and not having access to the latest seismic imaging and drilling technology, the company is no slouch when it comes to discovering more oil.

In 2014-2015, for example, Rosneft replaced 132% of the oil it pumped out of the ground with new discoveries.

Rosneft produces 4.01 million barrels of oil a day -- which is around 40% of Russia's total output.

And because it operates mostly in Russia and former Soviet Bloc countries, its expenses are mostly Russian ruble denominated. But the ruble got clobbered by the global financial crisis, falling from 4¢ to about 1.6¢ today.

As a result, its average cost to pump a barrel of oil is about US$6.40. That gives Rosneft a major cost advantage compared to US and European oilcos.

With current spot prices above $50, Rosneft clearly has the potential to make money hand-over-fist. But because of Obama-era economic sanctions, much of Rosneft's oil is locked out of international markets where it could sell for world prices.

This forced the company to find markets elsewhere. It sells a lot of oil to China, but here the prices are mostly set by long-term contract, not the free market. On top of that, the Chinese are famously hard bargainers, more than willing to exploit Obama's sanctions to extract hefty discounts from Russian sellers.

Beyond that, Russian government price controls limit what Rosneft can charge for oil products it sells domestically. Cheap motor fuel is often used by unpopular regimes to pacify an otherwise restive domestic population. But it obviously puts an artificial ceiling on oil company profits.

Trump is going to scrap sanctions against Russia, igniting a profit explosion for Rosneft

Putin looks on as **Exxon** VP Stephen Greenlee and **Rosneft** boss Igor Sechin sign their deal to extract oil from the Russian Arctic.

Sechin first came to Moscow with Putin to work in the Yeltsin government. Before going into the oil business, he spent 8 years as President Putin's deputy chief of staff.

Obama's sanctions forced Exxon to walk away from a $3.2 billion deal with Rosneft -- after they struck oil in the Russian Arctic (which may contain up to 35 billion barrels of recoverable oil).

And Rex Tillerson, Chairman and CEO of Exxon, is Trump's nominee for Secretary of State.

I think it would be hard to find anyone more motivated to get rid of US sanctions against Russia.

Trump has said many times that Obama's sanctions undermined the war on jihadist radicals that both America and Russia have vital interests in defeating.

Accordingly, Trump is likely to waste no time getting rid of the sanctions, and Putin knows it. That's why he was among the first major world leaders to congratulate Trump on his historic victory.

The world's #1 oil-producer is an obvious choice when oil prices are going up

Because Rosneft produces 4 million barrels a day, it collects another $4 million a day every time oil goes up a dollar -- almost all of which will drop right down to the bottom line as profit, once sanctions are lifted.

And now, OPEC's recent production cut -- also endorsed by Russia -- has sent oil prices breaking above the key $50 resistance level. Clearly, this signals the start of another leg up in world oil prices, because demand is also rising sharply in the 3 thirstiest oil-consumers: USA, China, and India.

Accordingly, I anticipate a 500,000 barrel per day supply deficit during the first half of 2017, as oil in storage is drawn down, rising to 1.3 million bpd by the end of the year.

This means much higher oil prices are likely next year.

Step-by-step privatization means the Kremlin also wants to see the stock go up

Rosneft started out as a 100% state-owned oil company, but in 2006 listed a minority stake on the London Stock Exchange where they trade as GDR shares (London's version of American Depository Receipts, or ADRs).

Six years later, it sold a 19% stake to BP, and earlier this year roughly another 19% stake to commodities trading giant Glencor and the Qatari sovereign wealth fund.

Aerial view of a World Point tank farm on a major waterway

This step by step privatization still leaves roughly half the shares in government hands -- more of which Moscow will seek to unload going forward. This gives the Kremlin an obvious interest in a rising stock price.

And in an industry as closely intertwined with politics as oil, there's no better champion to have on your side than a friendly government.

Rosneft GDR shares trade in US dollars on the London Stock Exchange under symbol ROSN. Recent price: US$6.30. They also trade over-the-counter in the United States under symbol: OJSCY.

I enthusiastically recommend Rosneft to Long-term Growth Portfolio investors. Use a 10% portfolio weighting. ■

Take home safe, solid 7% dividends from a little-known corner of the oil market: oil storage

A major logistical problem oil refiners have is how to store and efficiently handle the thousands of barrels of various flammable, occasionally explosive liquids they need to operate.

They need crude oil (possibly several varieties) for feedstock. Plus a place to store the gasoline, diesel fuel, heating oil, kerosene they produce. Along with lubricating oil, asphalt base, liquefied petroleum gas (LPG), etc.

This is such a big job that more refiners hold only minimum volumes of these liquids on site and outsource the rest ... to companies like World Point Terminals (NYSE-WPT).

The key business advantages of a storage company are big tank farms and easy access to transport -- by road, rail, pipeline, and water.

And operating from its St. Louis headquarters on the banks of America's mighty Mississippi River, World Point Terminals has it all. It owns 15.5 million barrels of storage in tank farms at 18 strategic locations in America's Midwest, and East and Gulf coasts.

World Point's revenues are the usage fees it charges -- which means earnings are not affected by wild swings in oil prices.

And besides refiners, its customers include fuel distribution companies that deliver heating oil to homes and factories, or gasoline and diesel to filling stations.

This is a very stable business. World Point's average customer has been with the company 10 years or longer. And most sign long-term contracts -- which makes future cash flows very predictable.

Of the company's 15.5 million barrels of capacity, fewer than 200,000 barrels are contracted for short-term on the spot market. I like World Point because it's profitable, debt-free, and operationally stable -- which is exactly what I look for in an Income Portfolio recommendation.

The Limited Partnership structure means the company is generally exempt from corporate income tax. And less money for the tax man means more available for distributions. World Point pays a US$0.30 quarterly dividend. At current prices, that works out to about a 7.1% dividend yield.

Accordingly, I recommend World Point Terminals to Income Portfolio investors. Shares trade on the New York Stock Exchange under symbol WPT. Recent price: $16.39. Please use a 10% portfolio weighting. ■

OPEC cracks under pressure from Trump's visionary energy policies

Making America #1 in energy is the centerpiece of President-elect Trump's "Make America Great Again" program. That's because it opens the door to almost everything he wants: His trillion-dollar infrastructure program, defeating the Islamic State, bringing jobs home to USA again.

And Trump can do it, because the United States already has more oil in the ground than all the OPEC nations combined.

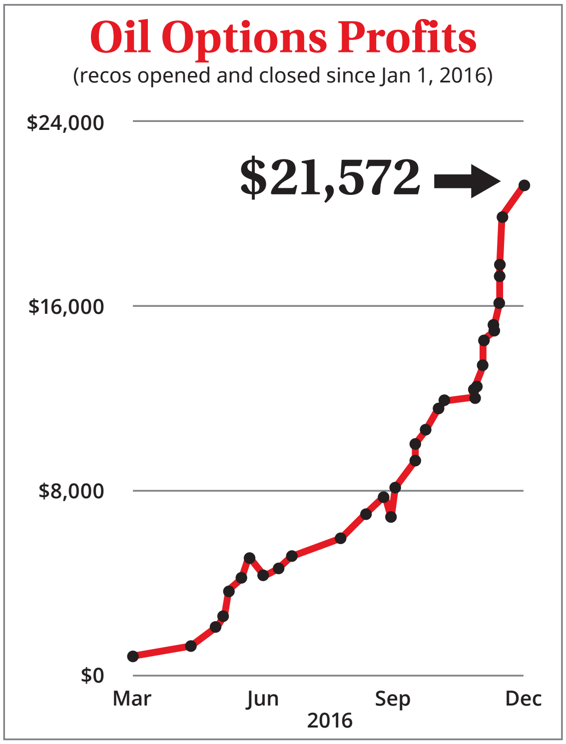
But under Obama, US oil production was stifled by hostile regulation and permitting. For example, a rich swathe of offshore oil territory 10 times the size of Texas was off-limits to exploration. OPEC knows Trump will make much of that territory available to drillers.

Look, you're going to make nice profits from good oil companies with Trump as President.

The secret of 25% profits or 177%

When you buy oil stock options, you get powerful leverage, which lets you turn modest moves in the stock into gigantic profits.

But the real beauty of buying options is that the leverage works only FOR you, never AGAINST you. There's no upper limit on how much money you make if the stock moves your way. But if it moves against you, you can never lose a penny more than what you paid for the option plus commissions.



That means you have complete, iron-clad protection against margin calls and forced liquidations.

- **25% profits or 177%?** You're up a healthy 25.5% on your Suncor shares. But later today my options subscribers are bagging up to 206% profits on Suncor options -- 10 times as much.

- **12% or 150% profits?** The Anadarko shares I urged you to buy are up 12% since October, and rising. But with the right options on Anadarko, the profits come a lot faster. My options subscribers recently grabbed up 150.6% profits in a trade that lasted just 79 days.

- **22% or 155%?** You're sitting on yet-to-be-taken profits of 22% and 12% on my two Apache stock recos. Nothing wrong with that. But back in September when Apache made its monster oil strike in Texas, my options subscribers took home as much as 155% profits in an Apache options trade that lasted just 40 days.

At the beginning of 2016, I wrote to you offering a 3-month Stick Your Toe in the Water subscription for just $10. You didn't take me up on it, and obviously, you left a lot of money on the table.

Now, you have another chance. With Trump determined to make America #1 in energy, I think the options profits ahead are almost certainly going to be bigger than last year.

Look, we both know the $10 is trivial. But it opens the door to non-trivial profits like last year's $21,572.

> Indeed, in the last two years, 487 investors like you took me up on this offer, and then ponied up another $1,500 to continue their subscriptions. Do you think they were making money or losing it?

Call Andrew, who for 18 years, lived by his wits in the options trading pits of London. If you have any questions about options, I think he'll have answers. His number is 1-888-781-1014 (toll-free in USA and Canada), and he'll get you on board Oil Options Hotline for the next three months for just $10.

After the first 3 months, if you're happy with the results and don't cancel, we will charge your credit card for the next 9 months for only $1,750 instead of the usual $2,250. You save $500.

Again, phone Andrew now, on my dime, at 1-888-781-1014. If for any reason you don't get right through, ring his assistant, Eva, at 1-888-508-7240 (also toll free).

Sincerely,

Bob Czeschin, Editor

Czeschin's Oil & Energy Investment Report is published worldwide by Oil & Energy Investment Report, Inc. One year (12 issues): US$144; 2 years (24 issues): US$288. Payment accepted in any convertible currency at current exchange rates. Global correspondence address: MCPO Box 3052 Makati City 1200 Philippines. tel: +1-843-388-2668; Email address: customerservice@oilandenergyreport.com.

Oil & Energy Model Portfolios

Income Portfolio

Fraction	Exchange/ Symbol	Purchase Date	Initial Price	Divs to Date	16-Dec-16 Price	Total Return
15% CrossAmer LP	NYSE-CAPL	28-Mar-16	$23.00	$1.808	$24.90	16.1%
20% Holly Energy	NYSE-HEP	02-Dec-16	$31.44	$0.000	$33.09	5.2%
65% Cash						

Current Yield on CAPL 9.3%; HEP: 7.4%

Long-term Growth Portfolio

Fraction	Exchange/ Symbol	Purchase Date	Initial Price	Divs to Date	16-Dec-16 Price	Total Return
15% Core Labs	NYSE-CLB	17-Feb-15	$114.00	$3.850	$120.29	8.9%
10% Valero Energy	NYSE-VLO	12-Jun-15	$58.85	$3.300	$68.00	21.2%
15% Suncor Energy	NYSE-SU	13-Jul-15	$27.03	$1.096	$32.82	25.5%
10% Apache Corp	NYSE-APA	20-Jul-16	$54.60	$0.250	$66.39	22.1%
10% Schlumberger	NYSE-SLB	20-Jul-16	$80.60	$1.000	$85.50	7.3%
10% Apache Corp	NYSE-APA	09-Sep-16	$59.40	$0.250	$66.39	12.2%
10% Anadarko Petr	NYSE-APC	18-Oct-16	$59.40	$0.000	$70.61	12.1%
10% Nabors Inds	NYSE-NBR	02-Dec-16	$17.05	$0.060	$15.74	-7.3%
10% Cash						

Sell-stop: Sell Core Labs on a close at $74.93 or below.
Sell-stop: Sell Valero Energy on a close at $46.26 or below.
Sell-stop: Sell Suncor on a close at $19.24 or below.
Sell-stop: Sell Cross America Partners LP on a close at $18.29 or below.
Sell-stop: Sell Apache Corp on a close at $41.00 or below.
Sell-stop: Sell Schlumberger on a close at $61.05 or below.
Sell-stop: Sell Anadarko Petroleum on a close at $51.27 or below.
Sell-stop: Sell Nabors Industries on a close at $10.31 or below.
Sell-stop: Sell Holly Energy Partners on a close at $25.96 or below.
Sell-stop: Sell Rosneft on a close at $4.99 or below.
Sell-stop: Sell World Point Terminals on a close at $12.91 or below.

Because the trading day begins in Asia and then moves west across Europe, it perforce comes to a close in the United States. Accordingly, Oil & Energy Investment Report customarily uses the New York close as the final price of the world trading day. "$" refers to US dollars unless otherwise noted. Likewise, all investment results are measured in US dollars. An asterisk (*) indicates prices adjusted for stock splits. NYSE: New York Stock Exchange; NDQ: Nasdaq; OTC: US "over-the-counter" market; TOR: Toronto Stock Exchange. The percentage allocations that appear above are the ones recommended in the previous issue, and may also reflect trading that may have taken place since then. New percentage allocations, if any, will appear in the next issue -- after you have had time to act on them. In the absence of instructions to the contrary, any recommendations not acted upon because a particular target price has not been reached shall be considered withdrawn upon arrival of the next issue. Unless otherwise specified, proceeds from any sale of securities should automatically go into a US$ money fund.