EQUITY RESEARCH

Capital Markets

RBC Energy & Utilities Equity Team
Click here for contributing analysts' contact information

December 1, 2021

Global Energy Best Ideas

Our view: In November, the RBC Global Energy Best Ideas List was down 5.3% compared to the iShares S&P Global Energy Sector ETF (IXC) down 6.4% and a hybrid benchmark (75% IXC, 25% JXI - iShares Global Utilities ETF) down 5.3%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 63.5% compared to the S&P Global Energy Sector ETF down 8.7%.

Total Return Comparison	November	YTD	Inception
iShares S&P Global Energy (IXC)	-6.4%	36.0%	-8.7%
Hybrid Benchmark (75% IXC, 25% JXI)	-5.3%	26.5%	13.5%
RBC Global Energy Best Ideas	-5.3%	65.7%	63.5%

November List Changes:
Additions: AES-US, RTLR-US, TRGP-US
Removals: EPD-US, NEE-US

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Royal Dutch Shell	RDSB-LON	OP	Borkhataria	£121,756	7/1/20	1,224p	1,577p	2,350p
Cenovus Energy	CVE-CA	OP	Pardy	C$30,588	6/1/21	C$10.09	C$15.16	C$20.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	$92,498	12/1/20	$39.56	$70.13	$98.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$61,477	9/1/15	C$29.65	C$52.24	C$60.00
Santos Limited	STO-AU	OP	Ramsay	A$13,290	6/1/19	A$6.74	A$6.38	A$8.50
Tourmaline Oil	TOU-CA	OP	Harvey	C$14,033	1/1/20	C$15.08	C$42.51	C$54.00
ARC Resources	ARX-CA	OP	Harvey	C$7,989	5/1/21	C$7.73	C$11.21	C$17.00
Range Resources	RRC-US	OP	Hanold	$5,082	7/6/21	$16.76	$19.56	$31.00
California Resources Corporation	CRC-US	OP	Hanold	$3,141	6/1/21	$29.01	$39.07	$65.00
Tamarack Valley Energy	TVE-CA	OP	Davis	C$1,394	7/6/21	C$2.57	C$3.43	C$5.00
Oilfield Services								
Secure Energy Services	SES-CA	OP	Mackey	C$1,605	8/4/21	C$4.22	C$5.21	C$8.50
Midstream								
Cheniere Energy Inc	LNG-US	OP	Scotto	$26,579	5/1/20	$46.69	$104.81	$116.00
AltaGas Ltd.	ALA-CA	OP	Kwan	C$6,808	7/6/21	C$26.02	C$24.30	C$31.00
Rattler Midstream LP	RTLR-US	OP	Schultz	$425	12/1/21	$10.65	$10.65	$15.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$11,822	12/1/21	$51.63	$51.63	$69.00
Utilities & Infrastructure								
The AES Corp.	AES-US	OP	Tucker	$15,588	12/1/21	$23.38	$23.38	$31.00
Azure Power Global	AZRE-US	OP	Scotto	$993	7/6/21	$26.92	$20.60	$42.00
Algonquin Power & Utilities	AQN-US	OP	Ng	$9,056	6/1/21	$15.28	$13.53	$18.00
Drax Group plc	DRX-LON	OP	Musk	$2,196	5/1/21	409p	550p	750p

1-OP = Outperform, R = Restricted. 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested.
Note: Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.
Source: RBC Capital Markets estimates, FactSet

RBC Dominion Securities Inc.
Greg Pardy (Head of Global Energy Research)
Robert Kwan (Analyst)
Michael Harvey (Analyst)
Nelson Ng (Analyst)
Luke Davis (Analyst)
Keith Mackey (Analyst)

RBC Europe Limited
Biraj Borkhataria (Associate Director of European Research)
Al Stanton (Analyst)
John Musk (Analyst)
Erwan Kerouredan (Analyst)

RBC Capital Markets, LLC
Scott Hanold (Analyst)
Elvira Scotto (Analyst)
TJ Schultz (Analyst)
Shelby Tucker (Analyst)

Royal Bank of Canada - Sydney Branch
Gordon Ramsay (Analyst)

Priced as of prior trading day's market close, EST (unless otherwise noted). All values in USD unless otherwise noted
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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 17

This Month's Additions and Removals from Energy Best Ideas List

Exhibit 1 - This Month's Additions

The AES Corp. (AES) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• We are adding AES to the Energy Best Ideas List. AES underperformed the S&P 500 and SPDRs Utility EFT (XLU) in the second half of 2021 by 1,551 and 1,418 basis points, respectively. We believe that the stock will be positioned to experience multiple expansion as AES's carbon profile shifts away from coal into solar, while growing earnings and free cash flows 7–9%. About 85% of pre-tax earnings contributions are either contracted or regulated. We see the greatest amount of growth from solar development, as the company has a 9.2 GW backlog and a 38 GW pipeline of projects. Our price target is $31.
Rattler Midstream LP (RTLR) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are adding Rattler to our Energy Best Ideas List. RTLR has recently completed multiple strategic transactions that increase asset mix to the Northern Midland Basin and further deepen line of site to FANG production. RTLR also increased financial flexibility by divesting non-core assets. Additionally, the BOD increased its share repurchase authorization up to $150 million.
Targa Resources Corp. (TRGP) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are adding Targa to our Energy Best Ideas List. We like Targa based on the Permian G&P footprint backed by top-tier operators, commodity exposure, FCF driving balance sheet improvements, and plans to simplify its corporate structure.

Exhibit 2 - This Month's Removals

Enterprise Products Partners (EPD) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are removing EPD as we shift more weighting to higher direct commodity exposure within midstream given a bullish commodity price outlook. We maintain a positive view on EPD given its leading asset footprint (which should lead to more organic growth options vs peers), the consistent distribution, and solid FCF profile.
NextEra Energy (NEE) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• We are removing NextEra Energy due to a strong share price performance. The stock is up 17.5% in the second half of 2021 versus the S&P 500 up 6.9% and the SPDRs Utility ETF (XLU) up 5.6%. We believe the company should continue to benefit from the transition to renewables, as it is the largest developer, owner, and operator of wind and solar in North America. It remains one of our top stocks, one that would benefit from the passage of the Build Back Better bill, if it were to happen. We maintain our Outperform rating and $97 price target.

Investment Highlights

Below, we provide a summary of our analysts' views on each *Best Idea*.

The AES Corp. (AES)

Shelby G. Tucker, Analyst
(212) 428-6462
shelby.tucker@rbccm.com

- **Transformational profile could lead to ESG premium.** AES has become one of the largest solar developers in the world, with a current backlog of 9.2 GW and 38 GW pipeline. It has been reducing its coal-fired generation exposure from 45% at the end of 2019 to 20% in July 2021. By 2025, its coal exposure should be less than 10%. Its investments in ways to integrate energy technologies should enhance the stock value. As an example, the recent IPO of Fluence Energy (FLNC) values AES's ownership at ~$2 billion, though the company invested less than $150 million into the business.
- **Stable core business.** AES' earnings and cash flows are very predictable, as 85% of pre-tax earnings contribution is highly contracted or regulated. A vast majority of new generation projects are contracted through long-term purchased power agreements (PPAs). The average life of PPAs is 13 years. AES also generates a large amount of cash flows, with 2020 parent free cash flow being at $777 million. We expect free cash flow to grow at 7–9%, in line with earnings per share. This provides management growing funds to redeploy in its pipeline of projects. It will also allow the company to grow its dividend at least 5% per year.
- **Valuation attractive.** AES trades at a discount to the utilities and to the market. On 2022 estimates, its P/E multiple is 14.2x versus the utility peer group at 20.4x with NEE and 18.1x without; the S&P 500 2022E P/E stands at 23x. The same applies on an EV/EBITDA basis, as AES trades at a 9.5x 2022E multiple versus the utility comp group at 12.9x. We believe that the stock will benefit from a re-rating as the profile shifts increasingly toward renewables. Our $31 price target assumes an 18.5x 2022E P/E multiple and a 10.7x 2022E EV/EBITDA multiple, though it is based on a sum-of-the-parts methodology.

Algonquin Power & Utilities (AQN)

Nelson Ng, Analyst
(604) 257-7617
nelson.ng@rbccm.com

- **Strong growth profile.** Algonquin has a $9.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 8–10% EPS growth profile. The company has been successful in growing its regulated utility business organically and through M&A, and it also has a large renewable energy development pipeline. Management has a good track record of adding renewable energy capacity inside (greening the grid) and outside (on a contracted basis) of its regulated utility footprint. We believe the pending acquisition of Kentucky Power provides signfiicant opportunities to green the grid.
- **Very supportive greening initiatives in the U.S. can drive upside.** Algonquin has a large regulated utility and renewable energy footprint in the U.S. that should benefit from the Biden administration's decarbonization objectives. Biden has a 2050 carbon net zero target, and a very ambitious target of a carbon-free electricity grid by 2035. The company has signed power purchase agreements with corporations to green its energy consumption, and it has partnered with Chevron to jointly develop some renewable projects.
- **A good balance of regulated utility and renewable energy operations.** Algonquin operates a diversified regulated utility business providing electric/gas/water services to more than one million customers primarily in the U.S. In addition, Algonquin has a renewable energy division with ~2.3 GW of generation capacity in North America with ~80% of the electricity generated contracted over an average term of 13 years. We estimate that the regulated utility division will contribute about two-thirds of the company's EBITDA in 2022.

AltaGas Ltd. (ALA) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **Is AltaGas a utility or a midstreamer? The market seems to be saying "neither".** Roughly speaking, we expect 52% of 2021E EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and 48% from midstream assets. With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that WCSB-focused midstream investors have historically looked to pure-play stocks levered to industry trends. • **Asset sales: we see valuation upside if AltaGas ramps up its asset monetization strategy.** AltaGas has historically successfully monetized numerous assets to reduce leverage including Northwest Hydro, AltaGas Canada, the U.S. Transmission and Storage business, various smaller power assets, and midstream assets in the Marcellus. The company has messaged asset monetizations as a way to help fund the Petrogas acquisition and we would favourably view additional asset sales as a way to reduce balance sheet leverage. Specifically, we believe a potential sale of its interest in the Mountain Valley Pipeline project (could be in-service in 2022) with the path to greater valuation upside and lower leverage coming from the sale of the midstream business and/or the utilities in Alaska and Michigan would be options.
ARC Resources (ARX) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• **Ample FCF generation.** ARC is set to generate $1.8bn in 2022 on our numbers. With a strong balance sheet and large M&A on hold (for now), the focus remains on Attachie development and RoC initiatives. ARC targets return of capital in the range of 50–80% of FCF via base dividend tied to earnings growth (now at $0.40/share or 3.3%), and share buyback (could easily buy back 10% of float annually). Production growth is not a specific target but rather an outcome of the most efficient way to execute projects (Sunrise, Attachie) paired with the Basin's capacity to absorb new product, and is unlikely to exceed 5%. • **Western Canada's largest Montney player.** ARC's all-stock merger with Seven Generations creates a player with a production base of ~340,000 boe/d, building what we view as a Montney Champion with top-decile supply costs and deep project inventory. This benchmarks ARC as the largest Montney producer, the third-largest outright gas producer, and the sixth-largest E&P by volume amid the WCSB producer landscape, with operated facilities network of ~1.5bcf/d—second only to CNRL and Tourmaline. See our notes here and here. • **Facility portfolio adds scale and optionality.** Following the absorption of 7G assets, ARC's owned and operated facility portfolio roughly doubles to about 1.5 bcf/d—now third in the basin behind CNRL and TOU. This larger strategic footprint allows for continued top-quartile operating metrics and optimized marketing, and it establishes critical mass, opening the door for other potential strategic options in the future. A simplified analysis implies that a Topaz-like entity could be valued at around $1.5 billion with a 9% FCF yield, driving meaningful accretion and/or utilized as a funding vehicle for future projects. See note. • **Improved scale and history of consistently delivering on quarterly numbers.** Comparative metrics of the "new" ARX relative to other Montney players (especially Tourmaline) shifts into sharper focus. We argue that ARC's liquids, FCF outlook, and strategic position/scale make it comparable to US peers. Throughout the time that we have covered ARC, the company's ability to meet or exceed guidance figures has been among the most favorable in the group; see our recent note here. This is all backstopped by the company's high quality acreage and a conservative mindset—ingredients we see continuing amid the combined entity.

Azure Power Global (AZRE)
Elvira Scotto, Analyst
(212) 905-5957
elvira.scotto@rbccm.com

- **AZRE is a leading developer of mostly utility scale solar power in India that we expect to benefit from India's growing economy and electricity demand.** Importantly, the government of India aims to increase its non-hydro renewable power generation over the next several years, which should benefit AZRE given its scale and strong record of execution. In the near term, AZRE has highly visible cash flow growth potential through its recent power auction wins. Importantly, AZRE generates a majority of its revenues from investment-grade, primarily government of India entities.
- **Power consumption in India is set to grow; government is highly supportive of solar.** Population growth, urbanization, and economic growth should drive power demand growth in India. The IEA estimates that India power generation will grow ~145% through 2040. Given this increase and the desire for greater energy independence and cleaner air, India targets 450 GW of non-hydro renewable electricity capacity by 2030, including 300 GW of solar (implies ~25–30GW of solar capacity additions through 2030), which we believe provides significant growth opportunity for AZRE.
- **First-mover advantages and vertically integrated model provide competitive advantages:** AZRE developed India's first utility scale solar project in 2009. As a first mover, AZRE has gained scale (provides supply chain advantages), expertise, and a strong reputation. In addition, AZRE has a vertically integrated business model that provides control over its projects and can also lower overall costs. Specifically, given the challenges in securing land in India, we believe AZRE's experience and capabilities in land acquisition provide a significant competitive advantage.

California Resources Corp. (CRC)
Scott Hanold, Analyst
(512) 708-6354
scott.hanold@rbccm.com

- **Attractive value proposition.** CRC shares offer an attractive entry valuation point, strong balance sheet, and peer-leading FCF outlook. The company's low break-even point, which we estimate at $38–39/bbl (WTI), and 50% reinvestment framework position it to generate robust FCF of $2+ billion from 2022 through 2025. FCF priorities include returning large portions of cash to shareholders, maintaining its already strong balance sheet, and looking for accretive, opportunistic additional reinvestment back into the business or A&D. The company instituted a fixed dividend at 3Q21 earnings, building upon the $250 million share repurchase program. The plan is to remain flexible, but there is a desire to have a growing dividend. CRC plans to return 50% of FCF to shareholders, providing upside to returns longer-term.
- **ESG exposure in a US E&P.** The company's large surface rights ownership, premium reservoir geology in close proximity to emitting parties, and being located in "green energy"-friendly California provide CRC the unique opportunity to economically participate in energy transition opportunities. Management is rapidly moving on its initially identified CCS/solar project set. We think signing up its first LCFS eligible third-party emitter is a catalyst to derisking value from its carbon management projects and should come by early 2022. The state of California has established attractive credit programs to incentivize green energy development in order to meet the state's ambitious climate targets. Accordingly, these credits enhance project economics for CRC as it expands into renewable/carbon management projects being able to take advantage of both in-state and federal credit programs. We think the value of these projects could eclipse the value of the upstream business over time.
- **Getting started on energy transition opportunities.** CRC filed for its first two CCS permits comprising its Carbon TerraVault I project. Additionally, the company is advancing discussions for its first set of behind-the-meter solar projects with SunPower, which are expected online by 2023. We think solar projects will materialize sooner, however; the larger value opportunity is in the company's identified CCS/CCUS project pipeline. The company plans to have permitted 200 MMT of storage capacity by 2025 and targets injecting 5 MMT/annually by 2027. We think these initially identified CCS projects can translate to $30–40/share of value that is largely not being reflected in the stock at present. Its first CCS project, Carbon TerraVault I, is targeted for FID by mid/late 2023 and first injection by mid 2025. See our note following CRC's Carbon Management event in early October, which provided high-level project economics consistent with our prior value assessment, though importantly our valuation assumed a higher capital cost, implying more upside to our analysis.
- **Conventional asset base provides consistency.** The company's conventional asset base has a low capital intensity with base decline rates of ~15%, far lower than shale E&P peers at 35–40%. Its conventional low-risk, low-decline asset development strategy drives more stable production and cash flow generation, which help to underpin our FCF outlook. We estimate that CRC has more than a decade of remaining core drilling opportunities in its core fields, which should position the company for repeatable, robust FCF generation for years to come.

Canadian Natural Resources (CNQ) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Globally distinguished.** Canadian Natural Resources' management committee structure and shareholder alignment are unique factors that distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital—affords the company superior free cash flow generative power. • **FCF and buybacks.** We peg CNQ's free cash flow (before dividends of $2.2 billion) at $10.2 billion in 2021 under our base outlook (US$68 WTI). Once an absolute debt level of $15 billion is reached, which CNQ currently expects in the fourth quarter of this year, half of its free cash flow (post dividends) will be allocated to share repurchases, with the other half allocated to net debt reduction. In conjunction with 3Q results, CNQ raised its common share dividend by 25% to an annualized rate of $2.35 per share. We think it is important to point out that CNQ has never cut its dividend, which has grown at a CAGR of 20% over the last 22 years. • **Strong alignment.** Collectively, management owns about 2.3% of CNQ, which drives strong alignment with shareholder interests. • **ESG – lots of progress.** CNQ continues to target a 50% reduction in North America E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016) and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline). CNQ also continues to work through the details of the Oil Sands Pathways to Net Zero initiative.
Cenovus Energy (CVE) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Integration on track.** The company's merger with Husky Energy was strategically sound in our view, fusing Husky's diverse upstream/mid-stream/downstream operations with Cenovus's bitumen-weighted upstream portfolio. Under one roof, Cenovus-Husky has become a more balanced integrated oil company with increased cash flow diversification. Our bullish stance toward Cenovus reflects its strong leadership and favorable rate of operational/financial improvement, which is already under way. • **Net debt in focus.** Cenovus remains laser focused on reducing its net debt to its interim target of $10 billion, which it anticipates reaching sometime in the fourth quarter this year, and its ultimate goal of under $8 billion. Achievement of Cenovus's interim debt target opens the door to incremental flexibility and shareholder returns. To this end, Cenovus recently announced a doubling of its common share dividend to an annualized rate of $0.14 per share attributable to the fourth quarter of 2021. The company also received approval to file a normal course issuer bid of up to 10% (146.5 million shares) of its public float outstanding. The NCIB is expected to be fully executed in 2022 and should help to absorb Conoco's open market selling of its interest in Cenovus. • **Non-core dispositions – potential tailwind.** Non-core asset dispositions could also accelerate the pace at which Cenovus's balance sheet deleverages and were explored in our recent "The Coming Yard Sale" report. The company affirmed that it has several non-core disposition processes under way. YTD, non-core disposition proceeds totaled $440 million.

Cheniere Inc (LNG) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Highly contracted cash flow with strong counterparties.** Cheniere has long-term take-or-pay contracts on 73% of its nine-train portfolio capacity (eight trains now operational) and 90% including medium-term and short-term SPA and IPM agreements. All of Cheniere's Sale and Purchase Agreement customers are investment-grade rated or have investment-grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity. • **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but still must pay fixed liquefaction fees. In our 2023 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%. • **Long-term FCF and capital-return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. The four pillars of Cheniere's capital allocation strategy are: (1) annual debt paydown of $1BN through 2024 to achieve investment grade ratings; (2) dividend declaration of $0.33/share ($1.32/share annualized, ~1.5% yield) starting in 3Q21 with mid-single-digit annual growth; (3) share repurchase program restarted in 3Q21, reset to 3-year, $1BN program starting in 4Q21; and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.
ConocoPhillips (COP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** The company is well positioned to maintain competitive FCF generation through various commodity price cycles with 20+ Bboe of resource potential at a sub-$30/bbl (WTI) average cost of supply. • **RDS Permian acquisition enhances returns proposition.** The $9.5 billion cash acquisition announced in mid-September lowers the corporate cost of supply, increases the resource base, and improves FCF generation. We estimate this adds over $2.0 billion of FCF in 2022 at $80/bbl. Leverage remains ultra-low at sub-1x. • **A well-defined and attractive investment proposition**. COP was an early leader in committing and demonstrating high returns of capital to shareholders. The priorities are: (1) sustain production and pay its fixed dividend; (2) annual dividend growth; (3) A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion. Management has demonstrated its commitment to industry-leading returns of capital to shareholders that include a minimum cash flow payout of 30%. We think this could translate to returning 80+% of the current market cap to shareholders over the next decade through fixed dividends, stock buybacks, and potentially a variable dividend. • **A global and diverse footprint across the commodity spectrum mitigates unsystematic risk.** This also allows capital to shift toward projects that can deliver high returns through commodity price and economic cycles. • **COP is the fifth-largest natural gas marketer in the U.S.** This creates opportunities to enhance transportation and sales mechanisms for margin improvement. • **ESG is a high focus.** COP adopted a Paris-aligned climate risk framework for net-zero operational (Scopes 1 and 2) emissions by 2050. There is also a target to reduce GHG emissions 40–50% by 2030.

Drax Group plc (DRX)
John Musk, Analyst
+44 (0) 207 029 0856
john.musk@rbccm.com

- **Higher power prices and clarity on BECCS drive our Outperform rating and 750p/sh price target.** Drax is a preferred name within European Utilities with a cemented strategy in the biomass value chain, and strong prospects to create the UK's first BECCS units at Drax Power Station. Annualized power prices for 2022 and 2023 are up substantially YTD, driving higher EBITDA in the coming years. We also see Drax's dividend as attractive and robust, having increased 10% for 2021, with the underlying business set to benefit from higher cash flow generation over the medium term.
- **Power price strength a near-term tailwind.** We see positive exposure from power prices on ~2TWh in 2022, ~6TWh in 2023, and ~9-10TWh in 2024 of open volumes across the ROC biomass and hydro portfolio. We do not believe the market has fully appreciated the high power price environment on open volumes, and with continued volatility in energy markets into the new year, we see Drax positioned well to take advantage of higher commodity costs.
- **Biomass strategy is working short- and longer-term.** Drax is set up well to deliver on its ambitions to reach 5m tonnes of self-supply of pellets (vs. ~2m trajectory for 2022) and to hit the targeted $100/t & £50/MWh pellet cost by 2027 vs. a 2020 cost in Drax of $154/t (and proforma ~$141/t). We assume that Drax is able to deliver on this strategy, resulting in EBITDA in Pellet Production growing more than 3x over 2020–27 to in excess of £300m.
- **UK Cluster Decision promising for BECCS at Drax.** The East Coast Clusters inclusion in the UK Track 1 CCS cluster has a positive outcome for Drax and its ambitions to develop BECCS at Drax Power Station. The preliminary Biomass Strategy paper from the UK government released in November gives us increased confidence in Drax eventually delivering BECCS through a commercial framework within the UK, with BECCS a core part of the UK's ambitions to reach net zero. We also see an opportunity for Drax to become a global leader in BECCS, providing thought leadership and build expertise to projects globally, bolstered by the partnership with Bechtel to explore options and locations to construct BECCS plants globally.

Range Resources (RRC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com		• **Strong upside to historically tight NGL/natural gas markets.** RRC is our preferred equity to express bullishness in NGL and natural gas prices, with NGLs representing ~30% of total production volumes. The company exports a large portion of its NGL production, which translates to premium realizations above peers and allows RRC take advantage of both strong international and domestic demand trends. • **Rapid organic deleveraging.** The near-term focus remains on running the business for FCF to use for debt reduction, with continued strength in commodity prices accelerating efforts. RRC exited 2020 with leverage at 5.3x net debt-to-EBITDA; however, after strong 3Q21 results, we model leverage exiting 2021/2022 at 2.0x/0.8x based on our commodity price outlook. • **Shareholder returns just around the corner.** We think conversations on a shareholder return strategy could start early-to-mid 2022 given the current line of sight on achieving leverage targets. We think a competitive fixed dividend is a likely first step, with variable dividends or buybacks to supplement returns during higher price cycles. At strip commodity prices, a 10% all-in (fixed dividend, variable dividends and buybacks) return strategy could start in late 2022/early 2023, which could be sustained while still keeping leverage sub-1.0x. • **Defining low-cost operator.** RRC has one of the largest tier-1 inventories remaining in the Appalachian basin, which coupled with its strong technical expertise and low base decline supports a highly efficient maintenance capital program that can be sustained for years to come. This provides a resilient FCF outlook over the next several years; we estimate RRC generating more than $3.5 billion of cumulative FCF from 2022 through 2025, roughly 60% of its current market cap.
Rattler Midstream LP (RTLR) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com		• **Acquisitions/divestiture.** RTLR has completed multiple strategic transactions that increase its asset mix to the Northern Midland Basin and further deepen the line of sight to FANG production. Acquisitions consisted of a G&P JV with 925 mmcf/d processing capacity and a PSA with FANG in a drop-down transaction for water midstream assets. Additionally, RTLR increased financial flexibility with a divestiture of non-core assets in Pecos County. • **Unmatched line of sight.** The relationship with FANG provides an unmatched line of site to RTLR operations. It allows for easier planning of operations going forward and less risky capital investments. RTLR further deepened this relationship via its acquisitions in 4Q21. We believe this relationship validates the assumed EBITDA multiples in our valuation that are higher than current trading levels. • **Capital allocation.** RTLR has continually repurchased common units under its repurchase authorization. The BOD increased the repurchase authorization to $150mm with an indefinite term, which leaves a significant amount remaining available under the program.

Royal Dutch Shell PLC (RDSB)
Biraj Borkhataria, Analyst
(+44) 20-7029-7556
biraj.borkhataria@rbccm.com

- Shell is unique in having three separate franchise businesses, all of which are No. 1 in their respective silos.
    1. **Deepwater – Core cash generator and funding the ambitions of tomorrow.** Shell's deepwater portfolio is the largest across the Super-Majors and accounts for ~30% of upstream volumes. The valuation is highly levered to oil prices, but we estimate that the portfolio has a $30–35/bbl breakeven. Assuming a $50/bbl case, we think the deepwater portfolio could be valued at ~$25bn.
    2. **Integrated gas – Transition theme and free cash flow.** Shell accounts for one of every five LNG cargoes traded globally. This has led to a significant trading advantage, in our view, and although it seems almost impossible to forecast earnings, it has proved to be a resilient business. Assuming an 8x P/E multiple, we see an $80bn valuation.
    3. **Marketing – Brand value + stability in the downstream.** Shell has the largest marketing business among all of the majors, with a global footprint and 46,000 stations (at year-end 2020). The company also has the highest brand value per third-party analysis, almost 2x more than BP. Marketing is Shell's highest-return business, with a >20% ROACE, while it also adds much needed stability to downstream earnings. We think a 15x P/E multiple is appropriate, which would imply a $75bn valuation. This would be at the low end of retail peers and lower than directly comparable peers such as Couche-Tard.
- **Plenty of cash.** We see the company as well positioned to deleverage meaningfully and we believe Shell can return its market cap to shareholders via dividends and buybacks over the next decade.
- **Valuation discount.** On our estimates, Shell generates a ~12% FCF yield on average over 2021-25E—ahead of the sector average—but trades at a discount to peers on a DACF multiple basis.

Santos Limited (STO)
Gordon Ramsay, Analyst
+61 3 8688 6578
gordon.ramsay@rbccm.com

- **Santos merger with Oil Search** creates a top 20 global energy company with 2P reserves of 1.378 billion boe and 2021 production of ~116 mmboe. The combined company will have a more diversified production base (47% LNG, 35% gas, and 18% liquids) and a stronger and longer growth profile (Dorado, Papua LNG, Pikka Alaska oil). This will create one of the largest Asian LNG suppliers and aligns partners in PNG LNG and Papua LNG. The larger combined balance sheet provides increased flexibility from >US$5.5bn of liquidity and an investment-grade credit rating that enables self-funding of development projects. Initial pre-tax synergies of US$90–115m pa (excluding integration and other one-off costs) appear conservative, with potential to unlock additional value.
- **Barossa final investment decision** achieved in March 2021, with a first production target of 2025. Santos Barossa project rates as the most attractive Australian brownfield LNG development as back fill for Darwin LNG based on a cash cost of production of ~US$2.00/mmBtu and breakeven cost of LNG supply at ~US$5.50/mmbtu.
- **Dorado** consists of a relatively simple, shallow-water Western Australian oil field development. Santos forecasts initial production of ~100,000 bopd (gross) and operating costs of <US$5/bbl. Dorado Phase 1 oil project FEED entry has been achieved, with project FID targeted in 1H 2022 after drilling the nearby Apus and Pavo exploration prospects that offer low cost and production-extending tie-back potential.
- **Papua LNG** has obtained fiscal stability and the revised project pre-FEED work was being finalized in 2Q 2021. Oil Search expects to ramp up Papua LNG project activity materially in 2H 2021, with its goal to enter project FEED in 2022 for potential production startup in 2027.
- **Alaska Pikka Oil** achieved FEED entry in 2021 and plans to commence production from Phase 1 at 80,000 bopd (gross) of oil from 2025. Further phases of this Oil Search project have potential to deliver two additional 40,000 bopd (gross) projects. The Alaskan gross 2C oil resource is 936 mmbbls.
- **Moomba CCCS Phase 1** is a low-cost 1.7 mmtpa CO_2 storage project in the Cooper Basin with capex estimated at ~US$165m gross and a full life cycle cost <A$30/t CO_2. This Santos-operated project is expected to FID before year-end for start-up in 2024, following receipt of an approved methodology for Australian CCS projects to generate Australian Carbon Credit Units.
- A Merger Implementation Deed has formally been agreed between Santos and Oil Search. Subject to a successful Oil Search shareholder vote and the receipt of all other regulatory and PNG National Court approvals, Santos will acquire all Oil Search shares by exchanging 0.6275 new Santos shares for each Oil Search share. Santos shareholders will own 61.5% and Oil Search shareholders 38.5% of the merged entity. The target merger implementation date is December 2021.

Secure Energy Services (SES) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Consolidated footprint unlocks asset potential.** Secure is poised to unlock value from its expanded waste processing network through enhanced operating scale, FCF generation capability, and ultimately investor attention, while the larger footprint also expands its level of tuck-in and tie-in opportunities. • **Targeting debt reduction in the near term, but strong FCF provides optionality.** Secure targets leverage of sub-2.5x within the next 1.5–2 years of closing. We see this as achievable based on our FCF estimate of $291MM over the next 15 months. FCF generation should be buoyed by increasing activity levels in the WCSB, cost efficiencies, and a largely maintenance capital spending profile as the company re-assesses its expanded opportunity set. We believe the company also has FCF optionality to implement share repurchases or issuer bids, but debt reduction is the top priority. • **Merger cost-reduction initiatives on track.** Secure has achieved approximately 40% of its targeted $75MM annual cost savings. The company remains on track to hit its overall target by YE22. Focus areas to-date have included operational optimizations, reduced public company costs, and headcount. Total reductions are split 60%/40% between operational optimizations/corporate initiatives.
Tamarack Valley Energy (TVE) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Regional development likely provides drilling catalysts.** Tamarack's 2021 capital program of $165–180 million is weighted to Clearwater development with regional production surpassing 5,500 bbl/d in Q3. Initial wells are performing in line with or better than type curve expectations and 8 (7 net) additional wells are expected to be drilled through year-end. The company completed the Nipisi gas-gathering project alongside conserving 2 mmcf/d of natural gas and plans to initiate a waterflood project in Q1/22 at West Nipisi. • **Return-of-capital framework well defined.** Tamarack will initiate a base dividend of $0.0996/sh annually (paid monthly) beginning February 15, 2022. The initial payout is set at 25% of free funds flow at US$55/bbl and will be evaluated annually. Management has also set a net debt target of $250–300 million, which we expect will be reached by mid-2022. At this point, the company plans to return 50% of free funds flow to shareholders (trailing quarterly basis) through buybacks and/or special dividends. • **Five-year plan underscores robust FCF profile.** The company mapped out $1B in FCF generation over the next five years at US$55/bbl WTI and C$2.50/GJ AECO, with annual capital spend of $200–250 million supporting volumes of 41–43 kboe/d plus the potential for 2–3% organic growth. Additionally, recent M&A activity has shifted the corporate break-even to the mid-US$30/bbl range, providing flexibility and material FCF generation potential to enhance total shareholder returns. See our note here. • **Strong balance sheet able to support further M&A.** Based on our updated estimates, we forecast Tamarack to carry approximately $180/$72 million in net debt at year-end 2022E/23E, representing a D/CF ratio of 0.3x/0.1x, compared to peers at 0.4x/0.4x. We currently model full NCIB utilization and a 25% dividend increase in 2023. We do not currently model special dividends or incremental M&A, though we view both as likely given material FCF generation.

Targa Resources Corp. (TRGP) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• **Volumes and FCF.** We recently increased our 2022+ cash flow estimates largely on a more constructive view on volume outlook within TRGP's Permian footprint and our commodity outlook. Our estimates assume ~12% Permian inlet growth in 2021 and 2022, and our 2022 FCF outlook after growth capex and dividends is >$1Bn. FCF generation is being utilized to drive balance sheet improvements, by utilizing capital to start buying back preferred equity outstanding. • **Structure simplification.** TRGP plans to simplify its corporate structure through devco buy-ins in 2022. Although leverage will move up at the time of buy-in, TRGP will benefit from the increased EBITDA provided by the devcos, followed by reducing leverage thereafter. • **Dividend.** TRGP rebased its dividend higher to $1.40/share annually beginning with the 4Q21 distribution, which implies a ~2.5% yield. The distribution accounts for ~30% of 2021 FCF and allows for modest annual increases post 2022. We now model a $2/share dividend in 2023, which would imply a 2.9% yield at our price target.
Tourmaline Oil (TOU) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• **Key beneficiary of an improved natural gas outlook.** Strong commodity prices provide the firepower for Western Canada Sedimentary Basin (WCSB) natural gas producers to return meaningful capital to shareholders plus still grow modestly (+3–5%), while being mindful that basin growth much beyond this figure could start to drive egress constraints. See our deep-dive report here and recent gas price sensitivities here. • **High-quality asset base, with North Montney driving the growth.** With Gundy P2 nearly on stream, we would anticipate future development dollars targeted at Conroy as it relates to both bolt-ons and organic development. We've explored Tourmaline's North Montney area in our recent work here, here, and here. Tourmaline has a top-decile cost structure and industry-leading capital efficiencies. We now model Tourmaline's 2021 capital efficiencies at approximately $7,500/boe/d. Ownership of facilities remains a key ingredient to the story and could represent an additional avenue to surface value in the future. • **Sizeable consolidation complete, focus on amalgamation and margin improvement.** TOU has been active on the M&A front over the last year, highlighted by transactions involving Modern, Jupiter, Saguaro, and Black Swan. We expect that large-scale M&A is complete for now; that said, we do not factor out the possibility of bolt-ons in core focus areas where it makes sense. Focus shifts to amalgamation and initiatives that maximize cost savings and minimize environmental impact. The company estimates each $1/boe of margin improvement to yield roughly $180 million of annual cash flow in 2022 (staff reductions are not part of this initiative). See our recent note here. • **Return of capital accelerates, with a vast majority of FCF to be returned.** Our 2021 and 2022 outlook and forecast for FCF distribution continues to call for two additional dividend increases through 2022 (to $0.96 annualized by year end) plus roughly $3.00/share in additional special dividends. Incrementally, our outlook calls for the buybacks totaling ~$660 million. See our recent notes here and here.

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- We will provide a monthly update on the constituent names of the list as well as past performance on or around the start of each month.
- We will include only stocks on which we have research coverage.
- We do not make provisions for taxes and/or trading commissions when adding or removing stocks from the portfolio.

Note: Total return data for the list as well as relevant indices are from Bloomberg and FactSet.

Contributing Authors

RBC Dominion Securities Inc.

Greg Pardy (Head of Global Energy Research)	(416) 842-7848	greg.pardy@rbccm.com
Robert Kwan (Analyst)	(604) 257-7611	robert.kwan@rbccm.com
Michael Harvey (Analyst)	(403) 299-6998	michael.harvey@rbccm.com
Nelson Ng (Analyst)	(604) 257-7617	nelson.ng@rbccm.com
Luke Davis (Analyst)	(403) 299-5042	luke.davis@rbccm.com
Keith Mackey (Analyst)	(403) 299-6958	keith.mackey@rbccm.com

RBC Europe Limited

Biraj Borkhataria (Associate Director of European Research)	+44 7713 388 825	biraj.borkhataria@rbccm.com
Al Stanton (Analyst)	+44 207 029 0853	al.stanton@rbccm.com
John Musk (Analyst)	+44 20 7029 0856	john.musk@rbccm.com
Erwan Kerouredan (Analyst)	+44 20 7029 0855	erwan.kerouredan@rbccm.com

RBC Capital Markets, LLC

Scott Hanold (Analyst)	(512) 708-6354	scott.hanold@rbccm.com
Elvira Scotto (Analyst)	(212) 905-5957	elvira.scotto@rbccm.com
TJ Schultz (Analyst)	(512) 708-6385	tj.schultz@rbccm.com
Shelby Tucker (Analyst)	(212) 428-6462	shelby.tucker@rbccm.com

Royal Bank of Canada - Sydney Branch

Gordon Ramsay (Analyst)	+61 3 8688 6578	gordon.ramsay@rbccm.com

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