EQUITY RESEARCH

Capital Markets

RBC Dominion Securities Inc.
Greg Pardy, CFA (Head of Global Energy Research)
(416) 842-7848, greg.pardy@rbccm.com
Robert Kwan, CFA (Head of Global Power, Utilities & Infrastructure Research)
(604) 257-7611, robert.kwan@rbccm.com
Michael Harvey, P.Eng. (Analyst)
(403) 299-6998, michael.harvey@rbccm.com
Nelson Ng, CFA (Analyst)
(604) 257-7617, nelson.ng@rbccm.com
Keith Mackey, CFA (Analyst)
(403) 299-6958, keith.mackey@rbccm.com
Maurice Choy, CFA, CA, CPA (Analyst)
(604) 257-7632, maurice.choy@rbccm.com

RBC Europe Limited
Biraj Borkhataria, CFA (Head of Global Energy Transition Research)
+44 20 7029 7556, biraj.borkhataria@rbccm.com
Victoria McCulloch, CA (Analyst)
+44 20 7429 8530, victoria.mcculloch@rbccm.com
Fernando Garcia (Analyst)
+44 20 7029 0267, fernando.garcia@rbccm.com

RBC Capital Markets, LLC
Scott Hanold (Analyst)
(512) 708-6354, scott.hanold@rbccm.com
Elvira Scotto, CFA (Analyst)
(212) 905-5957, elvira.scotto@rbccm.com
Shelby Tucker, CFA (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

December 5, 2024

Global Energy Best Ideas

Our view: In November, the RBC Global Energy Best Ideas List was up 6.4% compared to the iShares S&P Global Energy Sector ETF (IXC) which was up 4.4% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that was up 3.9% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 190.2% compared to the S&P Global Energy Sector ETF up 39.9%.

This month, we are adding PrairieSky Royalty, while removing Grenergy, MEG Energy, and Tourmaline Oil from the RBC Global Energy Best Ideas list.

Total Return Comparison	November	YTD	Inception
iShares S&P Global Energy (IXC)	4.4%	10.3%	39.9%
Hybrid Benchmark (75% IXC, 25% JXI)	3.9%	13.2%	59.4%
RBC Global Energy Best Ideas	6.4%	12.7%	190.2%

November List Changes:

Additions: PSK-CA

Removals: GRE-ES, MEG-CA, TOU-CA

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Shell	SHEL-LON	OP	Borkhataria	£155,598	7-3-24	2,834p	2,531p	3,500p
Suncor Energy	SU-CA	OP	Pardy	C$68,035	3-1-23	C$45.86	C$54.12	C$66.00
Exploration & Production								
California Resources	CRC-US	OP	Hanold	$5,046	9-2-24	$52.47	$55.02	$70.00
Chord Energy Corporation	CHRD-US	OP	Hanold	$7,477	5-1-24	$176.98	$122.32	$180.00
ConocoPhillips	COP-US	OP	Hanold	$133,897	5-1-24	$125.62	$103.51	$135.00
ARC Resources	ARX-CA	OP	Harvey	C$14,746	5-1-21	C$7.73	C$24.90	C$30.00
PrairieSky Royalty	PSK-CA	OP	Harvey	C$7,063	12-5-24	C$29.56	C$29.56	C$35.00
Topaz Energy[2]	TPZ-CA	R	Harvey	R	11-1-22	R	R	R
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$98,277	4-1-22	C$38.71	C$46.58	C$63.00
Woodside Energy	WDS-AU	OP	Ramsay	A$47,203	7-3-24	A$28.21	A$24.86	A$34.00
Oilfield Services								
Enerflex Ltd.	EFXT-US	OP	Mackey	$1,146	2-1-24	$5.16	$9.23	$12.00
SLB	SLB-US	OP	Mackey	$60,355	1-4-22	$29.95	$42.74	C$61.00
Subsea 7	SUBC-NO	OP	McCulloch	NOK 54,061	5-1-24	NOK 180	NOK 179	NOK 255
Midstream								
AltaGas Ltd.	ALA-CA	OP	Choy	C$10,372	8-1-23	C$26.03	C$34.83	C$40.00
Pembina Pipeline Corporation	PPL-CA	OP	Choy	C$32,765	9-1-22	C$46.38	C$56.44	C$65.00
Archrock Inc.	AROC-US	OP	Scotto	$4,522	12-7-23	$14.24	$25.82	$27.00
Energy Transfer LP	ET-US	OP	Scotto	$64,986	2-1-22	$9.57	$18.98	$20.00
Utilities, Refiners, Infrastructure & Renewables								
Northland Power	NPI-CA	OP	Ng	C$5,103	12-7-23	C$22.82	C$19.67	C$28.00
Superior Plus	SPB-CA	OP	Ng	C$1,740	12-7-22	C$9.82	C$7.00	C$11.00
PG&E Corporation	PCG-US	OP	Tucker	$43,862	9-1-22	$12.33	$20.52	$24.00

Priced as of market close, December 4, 2024, ET.
1-OP = Outperform, R = Restricted. 2-This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion on the Global Energy Best Ideas List has not been reviewed or confirmed as of the date hereof.
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

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

Exhibit 1 - This Month's Additions

PrairieSky Royalty (PSK) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com **Rating**: Outperform **Price target:** CAD 35.00	• We are adding PrairieSky Royalty to our Global Energy Best Ideas list reflective of our view that the company holds some of the highest quality oil-weighted assets amid the western Canadian sedimentary basin, supporting operational outperformance. Additionally, we believe the company is well positioned for a significant multi-lateral tailwind given a substantial inventory within the Mannville stack and Clearwater development plays. For additional details relating to this thesis, please see our recent upgrade note here.

Exhibit 2 - This Month's Removals

Grenergy (GRE) Fernando Garcia, Analyst (+44) 20-7029-0267 fernando.garcia@rbccm.com **Rating**: Outperform **Price target:** EUR 70.00	• We are removing Grenergy from the Global Energy Best Ideas list due to the stocks' underperformance in recent months. Our constructive stance towards the company's fundamentals remains unchanged, however European renewables have been under pressure following the US election results.
MEG Energy (MEG) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com **Rating**: Outperform **Price target:** CAD 33.00	• We are removing MEG Energy from the Global Energy Best Ideas list. We have a constructive stance towards MEG, as highlighted in our recap of the company's recent Business Update. This change reflects our 2025 Outlook for Canada's energy sector, which is less compelling than last year for a variety of reasons, including softer oil prices and government policy uncertainty.
Tourmaline Oil (TOU) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com **Rating**: Outperform **Price target:** CAD 78.00	• We are removing Tourmaline Oil Corp from the Global Energy Best Ideas list reflective of strong YTD returns. The stock's premium valuation is warranted in our view but leaves less room for multiple expansion vs peers. We maintain a constructive stance towards TOU, as highlighted within our latest quarterly note here. TOU has delivered a strong total shareholder return YTD at 11% with a robust shareholder return strategy and accretive acquisition strategy.

Investment Highlights

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

AltaGas Ltd. (ALA)
Maurice Choy, Analyst
(604) 257-7632
maurice.choy@rbccm.com

Rating: Outperform
Price target: CAD 40.00

- **Stronger price valuation should emerge as AltaGas progresses through its derisking initiatives…** These initiatives reflect: (1) a focus by the company to strengthen the base cash flows (i.e., increased contracting); (2) its pursuit of contracted and/or regulated growth on an equity self-financed basis; and (3) a plan to reduce leverage to 4.0x debt/EBITDA (or 4.65x when including 50% of hybrid and preferred capital) and possibly even lower. In the near-term, we are confident in AltaGas' ability to deliver new long-term tolling arrangements for its global exports platform, which not only should provide the market with better stability in the company's cash flows, but also underpin new projects, including REEF Phase 1.
- **… and growth projects.** AltaGas possesses a combination of medium-sized growth opportunities (e.g., REEF joint venture, expansion of the Pipestone plant), low capital intensity expansions and optimizations at the existing assets, and opportunities to increase returns at the regulated utilities, all of which should help support an attractive growth profile.
- **Increasingly visible path to reaching its 4.0x debt/EBITDA target with the potential to go lower.** AltaGas continues to consider its 10% stake in the Mountain Valley Pipeline (MVP) to be non-core, with price discovery currently underway in an asset monetization process. Pending the valuation of any transaction, this asset monetization offers the company the quickest way towards meeting the company's 4.0x debt/EBITDA target (versus 4.3x in Q3/24). Longer term, we believe the market will positively receive steps the company may take to meaningfully lower debt/EBITDA below 4.0x and build balance sheet room, including to take advantage of future opportunities as they arise.

ARC Resources (ARX)
Michael Harvey, Analyst
(403) 299-6998
michael.harvey@rbccm.com

Rating: Outperform

Price target: CAD 30.00

- **FCF generation - ample.** 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 of 100% of its FCF via base dividend tied to earnings growth (now at $0.76/share) and share buybacks. 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%. See our recent quarterly note here.
- **Key Mover in the Montney.** ARC's production base of circa 350,000 boe/d makes it what we view as a Montney Champion with top decile supply costs and deep project inventory. This benchmarks ARC as one of the largest Montney producers, third largest outright gas producer and sixth largest E&P by volume amid the WCSB producer landscape, with operated facilities network of ~1.5bcf/d – second only to CNQ and TOU. See our notes here, here, here, here and here.
- **Attachie Project – Onstream (~20 mboe/d).** ARC's Attachie Phase 1 project is currently coming onstream with 20,000 mboe/d of current production online, the $740 million project is expected to deliver nearly 40,000 boe/d (60% liquids) which will ramp up thru Q1/25. The $740 million price tag includes the drilling of 39 initial wells, an electrified 90 mmcf/d gas plant, 25,000 bbl/d of liquids handling plus associated infrastructure. The next phase of development for Attachie is Phase 2 (+40,000 boe/d), which we expect to be sanctioned in H1/25 at a potential price tag of $800 million (50/50 split on infra and drilling). See our notes here, here and here.
- **LNG - The key to long-term value creation.** ARC's existing 2P reserve book contains sufficient resource to sustain an entire 2-train LNG project (1.8 bcf/d) for 10+ years, and when adding future drilling could increase to 40-50 years. Accordingly, the company should be viewed as a key supplier, or alternatively as a strategic asset for operators looking for vertical integration. The owners of LNG Canada now collectively hold enough product to support Phase 1 of the development (~1.8 bcf/d), but any expansion (Phase 2, +1.8 bcf/d) would need to be augmented. ARX signed a non-binding Heads of Agreement (for associated LNG offtake) with the proposed Cedar LNG Project for a 20-year LNG supply agreement to send 200 mmcf/d of natural gas, which is expected to start in H2/2028. ARX announced a 15-year LNG supply agreement with Cheniere Energy in the US Gulf Coast supplying 140,000 mmbtu/d of natural gas based on Dutch Title Transfer Facility (TTF) pricing starting in 2029. See our notes here, here, here and here.
- **Attractive valuation.** On current strip, ARX trades above its North American Large Cap E&P peers on 2024/25E EV/DACF. We argue that ARX should trade at a premium given what we view as the highest quality Montney portfolio and inventory depth, combined with robust FCF generation ($1.3/$1.3 billion in 2025/26E on current strip) and commitment to return capital to shareholders.

Archrock Inc. (AROC)
Elvira Scotto, Analyst
(212) 905-5957
elvira.scotto@rbccm.com

Rating: Outperform
Price target: USD 27.00

- **Tight compression market.** We continue to view the natural gas compression market as very tight, with no signs of abatement, given the demand for incremental horsepower and as the top players have maintained capital discipline that is preventing overinvestment. While still cyclical with ebbs and flows in utilization and contract rates, the compression industry is relatively steady vs other energy sub-sectors. The trough utilization has trended higher with each cycle due to changes in the underlying business including larger average size HP that carry longer-term contracts and higher rates. We believe only a major macro downturn would derail the current trends.
- **Not directly impacted by commodity price fluctuations**. Compression needs are driven by natural gas production volumes which are relatively stable and impacted less by commodity price fluctuations when compared to drilling activity. In addition, much of the operating focus area and assets are related to associated gas plays, which further dampens any sensitivity to natural gas prices.
- **Meaningful growth in demand drivers anticipated.** In addition to the existing production that needs compression horsepower, we expect higher natural gas demand from LNG export capacity expansion and higher datacenter-driven power needs will drive incremental demand for compression horsepower.
- **Capital allocation priorities.** AROC prioritizes maintaining a healthy balance sheet (3.0x-3.5x leverage target) which provides financial flexibility to execute growth plans. With a strong balance sheet, AROC can invest back into the business for incremental growth with new build IRRs in the mid-to-high teens and 5-6 year paybacks. We expect the flexibility and attractive growth will enhance capital returns over time through dividend increases and share buybacks.

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

Rating: Outperform
Price Target: USD 70.00

- **We expect CRC shares to outperform the peer group over the next 12 months.** CRC has a combination of a high-quality, low-decline conventional asset base, an evolving carbon management business (CMB), and an experienced management team. Its assets are located entirely in California and is the largest producer in the state.
- **Combination with Aera Energy.** CRC announced the closing of its $2.1 billion merger with Aera Energy (private) on July 1, 2024. The deal significantly expanded CF/share and FCF/share accretion as well as scaling both its oil & gas and CMB businesses.
- **Upcoming Catalysts.** CRC's biggest catalyst, California's first Class-VI CCS permit, is nearing and could occur by YE24. This should kick off several initiatives, most importantly FID on CRC's first CCS project that would deliver first CO2 injection by YE25. It could also progress discussions and potential agreements related to CRC's carbon-free data center opportunity. We think this initiative could hold significant value for CRC shareholders in addition to potentially broadening its investor base.
- **Focus shift to CCS value via data center demand.** The company has a leg in two worlds (1) a legacy oil & gas business and (2) a carbon management business with a path to provide a carbon free and behind the meter power solution for California data centers. Currently, there is a valuation disconnect driven by concerns over being an oil & gas producer in California, receiving needed Class VI permits for CCS, and uncertainty of valuing CCS projects. We defined our view of the potential in a recent note here.

Canadian Natural Resources (CNQ)
Greg Pardy, Head of Global Energy Research
(416) 842-7848
greg.pardy@rbccm.com

Rating: Outperform
Price target: CAD 63.00

- **Globally distinguished**. Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by low sustaining capital—affords the company with free cash flow generation throughout the cycle.
- **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others.
- **Chevron Deal**. Canadian Natural Resources' announced US$6.5 billion (circa $8.8 billion) cash acquisition of Chevron's assets in western Canada—including a 20% wi in the Athabasca Oil Sands Project (AOSP) and 70% operated interest in the Duvernay Shale—is a strategically sound and accretive deal in our books. It also fits CNQ's now familiar playbook of consolidating attractive energy assets in Canada as the majors and others seek to exit. Please see Chevron Deal—Threading the Needle for more.
- **Updated Shareholder Returns.** Commensurate with the announcement of the Chevron acquisition, CNQ updated its shareholder returns policy. This included raising its common share dividend 7% to an annualized rate of $2.25 per share. The company also revised its net debt target to $12 billion, up from $10 billion, given the increase in its free cash flow generative power post the deal. CNQ's updated shareholder returns framework (effective upon closing of the transaction) is as follows: 60% of free cash flow (adjusted funds flow less all capital and dividends) allocated to shareholder returns and 40% to the balance sheet until net debt reaches $15 billion; 75% of free cash flow allocated to shareholder returns and 25% to the balance sheet when net debt is between $12 billion and $15 billion; and 100% of free cash flow allocated to shareholder returns when net debt is at or below $12 billion. Importantly, CNQ was largely able to preserve shareholder returns on an absolute basis post-deal, despite the temporarily lower free cash flow payout.

Chord Energy Corporation (CHRD)
Scott Hanold, Analyst
(512) 708-6354
scott.hanold@rbccm.com

Rating: Outperform
Price target: USD 180.00

- We believe CHRD shares should outperform the peer group over the next 12 months.
- We forecast a peer-leading 10+% FCF yield that has sustainability given its 10+ years of economic inventory. The announced ERF merger provides better visibility for that runway. With minimal debt, CHRD has a robust shareholder return that currently supports its minimum 75% return.
- CHRD's focus on longer-lateral development across its entire acreage has the potential to deliver additional upside economics and value.

ConocoPhillips (COP)
Scott Hanold, Analyst
(512) 708-6354
scott.hanold@rbccm.com

Rating: Outperform
Price target: USD 135.00

- We believe COP shares should outperform the peer group over the next 12 months.
- The depth, quality, and diversity of the company's global inventory is unmatched to its E&P peers.
- The company's strong balance sheet provides a strategic advantage to increase shareholder value through commodity price cycles.
- COP has a low break-even point where it can fund its production maintenance capital and dividend at below $40/bbl WTI prices. This defensive posture positions the company favorably should commodity prices take a downturn.

Enerflex Ltd. (EFXT)
Keith Mackey, Analyst
(403) 299-6958
keith.mackey@rbccm.com

Rating: Outperform
Price target: USD 12.00

- **Keys to valuation re-rating on track.** We believe the stock is positioned for valuation accretion, and the pathway includes: 1) Strong execution on its Engineered systems backlog and continued bookings; 2) Increased cash generation through growth and margin optimization of its Energy Infrastructure business; 3) Continued execution on its financial leverage targets, facilitating further increases to shareholder returns.
- **Improving free cash flow metrics.** Enerflex has shown positive FCF inflection this year driven by strong execution and capital discipline. In FY25, we expect the company to continue its strong momentum and generate $136MM of FCF, with capex of $130MM (official guidance expected in January). Our FCF estimate maps to a 12% FCF yield, despite strong 2024 share price momentum.
- **Lower leverage and increased shareholder returns.** Now that Enerflex is operating within its financial leverage target range of 1.5x-2.0x (1.9x currently), and has improved its FCF profile, the company is positioned to further broaden its capital allocation. Enerflex recently increased its dividend by 50%, and we expect share buybacks could eventually be a part of its capital allocation strategy.
- **Discounted valuation still provides return opportunity.** EFX trades below its long-term average on 2024E and 2025E EV/EBITDA. In time, we think Enerflex should receive credit for the increasingly infrastructure-based nature of its business.
- See our latest EFX note here.

Energy Transfer LP (ET)
Elvira Scotto, Analyst
(212) 905-5957
elvira.scotto@rbccm.com

Rating: Outperform
Price target: USD 20.00

- **Expansive and integrated asset footprint.** ET's expansive asset footprint can benefit from crude oil, natural gas and natural gas liquids production growth across various basins, including the Permian Basin. Importantly, ET's asset base can provide integrated wellhead to water services and can allow ET to benefit from commodity price dislocations across the value chain. ET continues to focus on high-return growth projects that expand its asset base as well as acquisitions that enhance and further integrate its assets.
- **Exposure to Permian Basin.** ET has one of the largest asset footprints in the Permian Basin with more than 3 Bcf/d of processing capacity that has significant acreage dedication and over 1MMBpd of Permian NGL takeaway capacity to Mont Beliveau that is expandable. ET also provides crude oil takeaway from the Permian Basin and its Texas intrastate natural gas pipeline system provides optionality. ET is evaluating other Permian Basin natural gas takeaway solutions as well as natural gas pipeline expansions to address growing power demand. Importantly, ET's integrated system can provide producers with solutions across the value chain (processing, fractionation, transportation and exports).
- **Strong free cash flow generation and solid balance sheet.** ET trades at a free cash flow yield of ~10% based on our 2026 estimates. ET has used its excess cash mostly to reduce its leverage and is currently in the lower range of its 4.0x-4.5x target. ET plans to continue to invest in high-return projects, which more recently have been shorter cycle, although longer-cycle accretive projects such as additional export and downstream opportunities remain on the table. In addition, we expect ET to continue to evaluate accretive, leverage neutral (or better) acquisitions.
- **Attractive yield and returning more cash to unitholders.** Given its strong free cash flow generation, balance sheet and distribution coverage, ET intends to return more cash to unitholders primarily through distribution increases. ET trades at a 7% distribution yield and targets annual distribution growth of 3-5%, which we believe provides an attractive return proposition. In addition, ET noted that once leverage dropped below 4x Debt/EBITDA, management would consider unit repurchase as another option to return more cash to unitholders.

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

Rating: Outperform
Price target: CAD 28.00

- **Growth locked in through 2027.** We believe the company is in an advantaged position relative to peers with three fully funded projects that should generate ~C$600 million of EBITDA and ~C$200 million of FCF (CAFD) on completion (2025-27), which is equivalent to roughly 50% and 60% of management's 2023 EBITDA and FCF guidance, respectively. With financial close achieved on all three projects, the developments are fully funded, significantly de-risked, with fixed interest rates, hedged currency exposure, and the vast majority of construction costs are fixed. Pursuing incremental growth opportunities would be entirely discretionary.
- **Contracted or regulated portfolio provides good cash flow visibility.** The company has an attractive portfolio of contracted or regulated renewable and gas-fired power generation facilities, and a regulated utility in Colombia. We estimate that in 2024, offshore wind will contribute ~50% of Northland Power's EBITDA, and increasing as the projects under construction (Poland and Taiwan) are completed (2026/27).
- **More value will be recognized as construction milestones are achieved.** We believe that the market is giving very little value to the company's investment in the three projects under construction (two offshore wind and one battery storage). We expect the market to gradually recognize more value for the projects as the company achieves construction milestones.
- **Sentiment could eventually improve with a permanent CEO and hiring of CFO.** We believe that appointing Christine Healy as the new President and CEO could eventually improve sentiment around the shares as it provides some visibility for the company, as we expect the CEO to play a key role in the selection of a permanent CFO and drive the company's long-term strategy.

Pembina Pipeline Corporation (PPL)
Maurice Choy, Analyst
(604) 257-7632
maurice.choy@rbccm.com

Rating: Outperform
Price target: CAD 65.00

- **Positioned to benefit from higher WCSB production.** Whether it be uncontracted capacity or within its contract structures that blend minimum take-or-pay levels with fee-for-service upside as volumes grow, we expect Pembina to benefit from growing gas and liquids volumes in the Western Canadian Sedimentary Basin (WCSB). Further, growing volumes could result in contract extensions and/or incremental new contracts that support Pembina's base business and/or underpin new expansion projects.
- **Free cash flow generation after all capex and dividend payments provides a range of capital allocation opportunities.** In 2022 and 2023, the company generated excess cash flow after dividends (including delivering annual dividend growth) and all capex. In 2022, the company prioritized share buybacks and in 2023, Pembina focused on increasing balance sheet flexibility by reducing leverage. As we look into 2025, we project an ability to further deliver dividend growth following the increase in 2024, while at a minimum covering the equity component of capex with internally generated cash flow, and maintain enough balance sheet flexibility to fund larger projects (e.g., Cedar) within its financial guardrails.
- **Solid base of business with a commodity kicker.** Pembina's guardrails target over 80% of EBITDA coming from fee-based revenues, primarily underpinned by take-or-pay or cost-of-service contracts, which underpin the dividend. As upside optionality, Pembina's Marketing division can benefit from leveraging its asset base to take advantage of various commodity spreads.

PG&E Corporation (PCG)
Shelby G. Tucker, Analyst
(212) 428-6462
shelby.tucker@rbccm.com

Rating: Outperform

Price target: USD 24.00

- **Continued reduction of wildfire risk.** The company continues to execute on its wildfire mitigation plan. Mitigation actions include system hardening, undergrounding, vegetation management, enhanced powerline safety settings and public safety power shutoffs.
- **Steep discount not warranted given CA wildfire protections limit financial risk**. We believe the Wildfire Fund provides meaningful protections against financial liabilities associated with wildfires. While it seems the market remains apprehensive around the mechanics of the fund, we believe the multi-turn discount is overly punitive when considering the financial risks associated with a catastrophic fire.
- **PG&E slowly rebuilding trust.** While the name remains overly sensitive to headlines, we have also seen a meaningful shift in tone from media and stakeholders. We believe this is a result of PG&E's continued efforts to engage stakeholders and communities and we are encouraged by positive signs from the CA legislature and regulator.
- **Robust capex plan drives earnings growth.** PG&E expects above-average rate base growth at a 9% CAGR. Growth opportunities come from system hardening, undergrounding, electrification opportunities and other wildfire mitigation investments. Management targets 2% O&M reductions which should act to help offset customer bill increases.

PrairieSky Royalty (PSK)

Michael Harvey, Analyst
(403) 299-6998
michael.harvey@rbccm.com

Rating: Outperform

Price target: CAD 35.00

- **Largest royalty owner in WCSB - Diversified.** PrairieSky's production profile is 63% liquids-weighted with royalty revenue driven by liquids at 90%/86% in 2025E/26E. PrairieSky is the largest royalty landowner in the WCSB (18.3 million acres; 9.7/8.6 million acres Fee/GORR lands) and is supported by some of the top operators. The company has significant lands in all key plays throughout the WCSB. We expect 2025/26E corporate production to increase by 5%/6% with the Mannville Heavy, Clearwater, Viking and Duvernay plays leading the pack in activity. The royalty business model is also insulated from industry cost inflation, providing margin stability.
- **Multi-lateral tailwind – Ample inventory for growth.** PrairieSky has the largest Clearwater royalty acreage position with over 1.3 million acres, namely with its key operating partner, Spur Petroleum. PSK's current Clearwater royalty volumes map towards ~2,100 bbl/d with the play growing over 20% in the last year (see more here) and our outlook includes ~15% YoY growth. PSK has also seen the implementation of modern drilling techniques into established fields, most notably in the Mannville Heavy Oil stack, which accounts for 13% of the company's FPV (future potential value) and 1,220 future locations. The company owns over 1.1 million acres of royalty land within the play, namely with its key counterparties (Canadian Natural Resources Ltd., Caltex Trilogy, and others) where total royalty volumes are in the range of 3,000 bbl/d. Activity levels in the stack and low supply costs suggest to us that PSK is well positioned to benefit, where we forecast 15-20% YoY growth within the play assuming crude prices remain at current levels (see more here and here). Multi-lateral prospects now constitute roughly one-third of drilling activity and 15–20% of corporate royalty volumes, suggesting that overall share of volumes will increase.
- **FCF allocation - On track for a net cash balance in H2/25 and sustainable base dividend.** We forecast PrairieSky to achieve a net cash balance by H2/25, and the company has an NCIB in place which we model to be used opportunistically from Q4/25 onwards in tandem with its annual base dividend of $1.00/sh. We estimate a 59%/57% effective payout ratio in 2025E/26E where our forecasts suggest roughly $370 million in post-dividend FCF from Q4/24 through Q4/26E.

Shell (SHEL)

Biraj Borkhataria, Global Head of Energy Transition Research
(+44) 20-7029-7556
biraj.borkhataria@rbccm.com

Rating: Outperform

Price target: GBp 3,500

- **Operational turnaround.** 3Q24 marked five quarters in a row of earnings coming in above market expectations with the drive from the new management on improving operational performance appearing to be coming through across a number of divisions. We think this should support cash generation over the coming years, supported by its oil leverage and #1 presence in a growing LNG market.
- **Resilient distributions.** We think Shell's balance sheet (current <5% gearing) should allow for buybacks to continue at the current pace, even in a lower price scenario through 2025. Sustained buybacks in the face of falling share prices mean share count reductions could be more rapid than anticipated, which in turn could drive higher DPS growth over time.
- **More ratable earnings.** One of the aspects of the investment case that we've been highlighting has been around volatility, and our calculations suggest that earnings and cash flow volatility is lower than US peers despite the trading business seemingly adding to it. This seems to be underappreciated by the market with a difference between perception and financials.

SLB (SLB)

Keith Mackey, Analyst
(403) 299-6958
keith.mackey@rbccm.com

Rating: Outperform

Price target: USD 61.00

- **Leading size, scale, geographic reach.** SLB's size, scale, geographic diversification, and exposure to new energy sources leave it favorably positioned under prevailing industry trends, in our view. We believe SLB is well-positioned to benefit from the next leg of growth in International markets. International short and longer cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins.
- **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time, and SLB has defined growth targets as outlined here. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics. The recent sale of its Canadian APS project should provide more visibility on the digital growth, within the D&I segment.
- **Inorganic growth adds future upside.** We see the $8.2bn acquisition of CHX as a strategic fit with SLB's portfolio by adding more production chemicals capabilities, which enhances its exposure to future growth markets and strengthens its position as a leader in the production space.
- **Potential for long-term valuation accretion.** We believe SLB's exposure to a large addressable New Energy market should drive accretion to its valuation multiples over time. Key target markets include: carbon capture, hydrogen, geothermal, critical minerals, and energy storage.
- See our latest SLB note here.

Subsea 7 (SUBC.OL)

Victoria McCulloch, Analyst
(+44) 207 429 8530
victoria.mcculloch@rbccm.com

Rating: Outperform

Price target: NOK255

- **Leading offshore fleet and record backlog.** Subsea 7 has an $11.3bn backlog, with $5.3 billion for execution in 2025, underpinning ~75% of our revenue expectation. This will be completed by the company's fleet of 41 vessels, the youngest fleet in a very tight offshore installation market.
- **Potential for guidance increase.** Subsea 7's FY25 guidance has been in place for ~18months, despite high offshore oil and gas industry activity and group book-to-bill in this period of >1.2x. The Renewables division adjusted EBITDA margin guidance has been increased to 14-16% in 2025, from ~10%; however, Subsea and Conventional guidance is unchanged. We think there is potential for FY25 guidance increases, particularly after the lower-utilisation 1Q period (due to Northern Hemisphere weather).
- **Sector leading shareholder returns.** Subsea 7 has commitment to return at least $1bn to shareholders in 2024-2027, or ~$840m excluding FY24E payments. This represents 17.5% of the company's current market cap. Not only is this the largest returns commitment across our companies, but with FY25e equity FCF of ~$685m (inc lease payments), we think there is upside to these returns.

Suncor Energy Inc. (SU)
Greg Pardy, Head of Global Energy Research
(416) 842-7848
greg.pardy@rbccm.com

Rating: Outperform

Price target: CAD 66.00

- **New Leadership Making an Impact.** President & CEO Rich Kruger wasted no time making his presence felt within the company and market following his appointment in April 2023. What's clear to us is that the emphasis on high-performance and accountability has been well-received throughout the organization. A continual focus on the identification and elimination of constraints or limiting factors company-wide that can be modified or changed to increase capacity and/or improve utilization rates appears at the root of Suncor's strong operating performance in 2024.
- **Shareholder Returns.** Suncor announced the early achievement of its $8.0 billion net debt target alongside its third-quarter results, which unlocked the allocation of at/near 100% of excess funds flow towards share repurchases on an annual basis, up from 75% previously. Additionally, the company boosted its annualized base dividend by 5% to $2.28 per share.
- **Business Update.** Suncor's 2024 Business Update (2024-26) emphasized the power of its integrated model and big opportunity to capture low hanging fruit across its portfolio. The company pointed towards an incremental 100,000+ bbl/d of production and a US$10 reduction in Suncor's WTI corporate breakeven (to cover operating costs, base dividends and sustaining capital) to about US$43 over the 2023-26 timeframe. Suncor also highlighted an incremental $3.3 billion of free funds flow (in a stable US$75 WTI world) by 2026 relative to a normalized 2023 and updated its shareholder returns framework.
- **Long-Term Bitumen Supply Options.** Suncor possesses an abundance of bitumen supply opportunities to address Base Mine depletion sometime in the next decade, including integration initiatives, as outlined in our Update with Peter Zebedee. The rate at which Millennium/North Steepbank mines run will be optimized well into the next decade as other barrels are added to the mix.

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

Rating: Outperform
Price target: CAD 11.00

- **Strategic acquisition expands business into CNG/RNG/H2.** The C$1.05 billion Certarus acquisition (closed at the end of May 2023) ticks many of the boxes with respect to having a strategic and complementary fit (reduces seasonality and provides opportunities to cross sell propane), is double-digit accretive to distributable cash flow per share and has a strong organic growth profile, while also reducing the company's leverage. However, after realizing very strong margins in 2023 (20-25% ROI), the margins have reduced to normal levels in 2024 (15-20% ROI) and have stabilized. Management is now focused on growing Certarus at a more measured pace with respect to purchase of mobile storage units, and plans to open new hubs outside the oil and gas sector to diversify into new markets (e.g., offsetting the industrial use of diesel, pipeline maintenance, micro-market power generation).
- **At least $50 million of EBITDA upside in propane.** Management has identified many areas of value creation within its propane business to deliver at least US$50 million of incremental EBITDA in 2027 by implementing initiatives over the next 24 months. Some initiatives include optimizing pricing strategies, enhancing customer retention, and driving operating efficiencies. We expect the initiatives will result in fewer propane hubs and trucks, and pricing changes to inactive and unprofitable customers.
- **Active on buybacks.** Management believed that although a 75% dividend cut would be painful for shareholders, it would free up significant capital for reinvestment. Management plans to allocate virtually all the savings from the reduced dividend to share buybacks (~C$135 million), and believes the capital allocation to buybacks will not compromise their target of reducing their leverage to 3x Debt/EBITDA within three years (from 4x).
- **Share price implies little to no value for Certarus.** We believe that SPB's share price is implying little to no value for Certarus. Superior Plus acquired Certarus in May 2023 for C$1.05 billion, and invested ~C$200 million since then. We believe the current share price is an opportunity to acquire SPB shares at a deep discount.

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

Rating: Outperform
Price target: AUD 34.00

- **Leading global LNG producer exposed to high growth Asian markets.** Woodside Energy is an offshore producer that has a conventional asset base weighted to LNG. Australian LNG projects (mainly WDS operated) provide ~60% of Woodside's production revenue based mainly on long term oil indexed LNG supply contracts to high growth Asian markets in Japan, Korea, China and others. Woodside also offers exposure to LNG spot pricing upside through gas hubs (JKM, TTF and UK NBP indices). Woodside expects 26-33% of its produced LNG to be linked to gas hub indices. Woodside is also an active trader of LNG sales volumes.
- **Top 10 Gulf of Mexico oil producer.** Woodside is a participant in some of the largest GOM ultra deep water oil fields ever discovered, namely Atlantis (WDS: 39%), Shenzi (WDS: 65%) and Mad Dog (WDS: 21%). Woodside's near-term GOM oil production growth is driven by new high margin Mad Dog 2 production and expansion opportunities at Mad Dog and Atlantis. Mad Dog achieved 130,000 b/d (gross) production in the March 2024 quarter. Woodside is also developing the Trion (WDS 60% and operator) Mexican GOM project as a phased development with first oil in 2028, and a target production rate of 120,000 b/d (gross). Trion has upside from an increased field oil recovery factor, development of the unevaluated northern part of the field, and potential tie backs of other nearby oil discoveries made by Woodside's joint venture partner Pemex. GlobalData rates Mad Dog 2 and Trion as 3 and 5 out of the 10 largest upcoming GOM oil and gas fields by reserves.
- **Material West African oil project recently started production with strong upside.** The Sangomar (WDS 82%) oil field is located offshore Senegal, West Africa and was classified as the world's largest oil field discovery in 2014 by IHS CERA. The Sangomar Phase 1 development has recently started production and is forecast to build up production to ~100,000 bopd (gross) by early 2025. Phase 1 is developing high quality base S500 sands and is expected to recover less than 300 mmbbls of oil. We see material reserves and production upside from developing further phases (up to 5 are proposed), subject to success in recovering oil from the more technically challenging Upper Sand units (S400 sands). Field development drilling results have been outstanding and have confirmed better than expected reservoir quality in the S400 sands. We estimate Sangomar has an in-place resource of ~4 billion barrels. Sangomar is Senegal's first major offshore oil field development.
- **Scarborough project grows Australian LNG production.** Scarborough (WDS 75% and operator) provides long term cash flows from the development of the Scarborough gas field that expands Pluto LNG (new T-2 development) and helps extend life of the Pluto LNG and North West Shelf LNG projects. Scarborough's first LNG sales will likely be in 2026. The sale of 25% equity in Scarborough has been transacted at a solid price of US$2.32bn (sales price and sunk cost recovery) with LNG offtake to JERA (Japan's largest utility) and LNG Japan. Woodside is targeting a USD$5.80/mmbtu cost of supply for LNG delivered to Asia from Scarborough.
- **Strong balance sheet and credit metrics**. We forecast Woodside's net operating cash flow to average >US$7bn over 2024 and 2025. We therefore see Woodside continuing to pay out a base dividend at 80% of underlying NPAT, and we forecast a dividend yield of ~6% over 2024 and 2025. Importantly, Woodside's capital expenditure forecast declines from US$6bn in 2023 to ~US$4bn by 2025, highlighting potential for enhanced future capital returns. We forecast gearing of ~7% for 2024 and 2025 (WDS target range 10-20%). Woodside's credit rating is S&P BBB+ and Moody's Baa1.

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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.
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Contributing Authors

RBC Dominion Securities Inc.

Greg Pardy (Head of Global Energy Research)	(416) 842-7848	greg.pardy@rbccm.com
Robert Kwan (Head of Global Power, Utilities & Infrastructure Research)	(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
Keith Mackey (Analyst)	(403) 299-6958	keith.mackey@rbccm.com
Maurice Choy (Analyst)	(604) 257-7632	maurice.choy@rbccm.com

RBC Europe Limited

Biraj Borkhataria (Head of Global Energy Transition Research)	+44 20 7029 7556	biraj.borkhataria@rbccm.com
Victoria McCulloch (Analyst)	+44 20 7429 8530	victoria.mcculloch@rbccm.com
Fernando Garcia (Analyst)	+44 20 7029 0267	fernando.garcia@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
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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