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

February 1, 2021

# Global Energy Best Ideas

In January, the RBC Global Energy Best Ideas List was up 5.0% compared to the iShares S&P Global Energy Sector ETF (IXC) up 2.9%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 2.4% compared to the S&P Global Energy Sector ETF down 25.3%.

## February List Additions: SM
## February List Removals: BKR

| Total Return | January | YTD | Since 2/1/13 |
|---|---|---|---|
| iShares S&P Global Energy (IXC) | 2.9% | 2.9% | -25.3% |
| RBC Global Energy Best Ideas | 5.0% | 5.0% | 2.4% |

RBC GLOBAL ENERGY BEST IDEAS LIST

| Analyst | Integrated Oils | Ticker | Rating[1] | Mkt Cap (mn) | Date Added | Px | Current Px | Px Tgt |
|---|---|---|---|---|---|---|---|---|
| Borkhataria | Royal Dutch Shell | RDSB-LON | OP | € 101,108 | 7/1/20 | 1,224p | 1,272p | 2,000p |
| | Canadian Oil & Gas | | | | | | | |
| Pardy | Canadian Natural Resources | CNQ-CA | OP | C$34,959 | 9/1/15 | C$29.65 | C$28.89 | C$37.00 |
| Pardy | Suncor Energy | SU-CA | OP | C$33,523 | 1/8/19 | C$39.52 | C$21.39 | C$28.00 |
| Harvey | Tourmaline Oil | TOU-CA | OP | C$5,495 | 1/1/20 | C$15.08 | C$18.22 | C$25.00 |
| Davis | Freehold Royalties | FRU-CA | OP | C$667 | 7/1/20 | C$3.52 | C$5.48 | C$8.00 |
| | US E&P | | | | | | | |
| Hanold | ConocoPhillips | COP-US | OP | $55,688 | 12/1/20 | $39.56 | $40.03 | $58.00 |
| Hanold | EQT Corporation | EQT-US | OP | $4,531 | 12/1/20 | $14.88 | $16.31 | $22.00 |
| Hanold | SM Energy | SM-US | OP | $969 | 2/1/21 | $8.39 | $8.39 | $12.00 |
| | Midstream | | | | | | | |
| Scotto | Cheniere Energy Inc | LNG-US | OP | $15,926 | 5/1/20 | $46.69 | $63.37 | $76.00 |
| Scotto | Enviva Partners LP | EVA-US | OP | $1,954 | 8/1/20 | $38.21 | $49.82 | $51.00 |
| Schultz | Enterprise Products Partners L.P. | EPD-US | OP | $44,793 | 1/8/21 | $21.31 | $20.23 | $26.00 |
| Kwan | Pembina Pipeline Corp. | PPL-CA | OP | C$18,643 | 1/8/21 | C$34.22 | C$33.66 | C$40.00 |
| Schultz | Rattler Midstream LP | RTLR-US | OP | $437 | 12/1/20 | $8.29 | $9.56 | $12.00 |
| | International E&P | | | | | | | |
| Stanton | Aker BP | AKERBP-OSL | OP | NOK 76,992 | 5/1/20 | NOK 170 | NOK 214 | NOK 240 |
| Stanton | Parex Resources | PXT-CA | OP | $2,697 | 2/1/20 | C$20.95 | C$19.35 | C$26.00 |
| | Global Oil Services | | | | | | | |
| Mackey | Enerflex Ltd. | EFX-CA | OP | $621 | 10/1/20 | C$4.62 | C$6.58 | C$10.00 |
| Mackey | Shawcor Ltd. | SCL-CA | OP | $296 | 10/1/20 | C$2.09 | C$4.04 | C$6.00 |
| | Refiners | | | | | | | |
| Schultz | Valero Energy Corporation | VLO-US | OP | $23,786 | 4/1/20 | $45.36 | $56.43 | $67.00 |
| | Utilities and Infrastructure | | | | | | | |
| Tucker | CenterPoint Energy | CNP-US | OP | $11,757 | 1/8/21 | $20.88 | $21.09 | $26.00 |
| | Australian E&P | | | | | | | |
| Ramsay | Santos Limited | STO-AU | OP | A$13,964 | 6/1/19 | A$6.74 | A$6.51 | A$7.50 |

**This report is priced as of market close ET on January 29, 2021. Indicated January returns are priced as of this date.**

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.

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

Exhibit 1: This Month's Additions

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| **SM Energy (SM)**<br>Scott Hanold, Analyst<br>(512) 708-6354<br>scott.hanold@rbccm.com | • **Top tier returns in the core Permian development.** We think investor sentiment has made a positive pivot on the RockStar asset. Well productivity and costs across SM's Permian assets continue to exceed investor expectations. "RockStar" performance is among the highest in the basin and is 15+% above our 1.0 MMboe typecurve. Permian well costs are among industry lows and when coupled with solid well productivity, economic returns continue to be strong. We think there is a visible 5-10 years of inventory economic at $35-45/bbl.<br>• **Visibility toward an improving balance sheet.** Leverage is too high right now, in our view, but the development strategy should drive that down to a sub-2.0x ratio by early 2022. In 2021, FCF generation should occur at oil prices above $45/bbl and accelerate in 2022. SM benefits from working off a 30 well DUC backlog but also its higher margin assets. We estimate $550 million of FCF through 2022 that can manage repayment of its upcoming notes and bank debt, totaling $475 million.<br>• **South TX Austin Chalk provides a catalyst.** The Austin Chalk could be a game changer, albeit still early stages, and has a good amount of technical data and several successful wells to support economic development starting in 2021. Regional margins improve with the recent new condensate pricing marketing contract and transportation cost reductions in 2021 and 2023. We think the Austin Chalk could play out similar to SM's move into the Howard County Permian where investors were highly skeptical but management was able to more than prove out the value. |

Exhibit 2: This Month's Removals

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| **Baker Hughes Company (BKR)** | • We are removing Baker Hughes from the Energy Best Ideas List due to reallocation of analyst resources. |

# Investment Highlights

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

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| **Aker BP (AKERBP)**<br>Al Stanton, Analyst<br>(+44) 131-222-3638<br>al.stanton@rbccm.com | • **Robust:** Having refinanced in September - issuing $1.25bn of five to ten-year bonds to pay down more expensive 6%, 2022 bonds and its RCF, and as a cash tax rebate receiver, Aker BP has significant financial headroom, and its extensive portfolio of reserves and resources in Norway offers numerous opportunities to accelerate activities, especially as the oil price ticks higher.<br>• **Dividend:** The outlook for future cash flows has recovered significantly since management halted its dividend policy in early May, and Aker BP is increasing output, lowering costs and benefiting from June's tax -break. We expect management to announce a dividend increase at its 4th February Capital Markets Day.<br>• **Future:** Looking further ahead, Aker BP is a low-cost, low-emission, producer that maximises the potential of existing developments; therefore the business should withstand ESG-linked pressures. |
| **Canadian Natural Resources (CNQ)**<br>Greg Pardy, Head of Global Energy Research<br>(416) 842-7848<br>greg.pardy@rbccm.com | • **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 moderate sustaining capital— affords the company with superior free cash flow generative power.<br>• **Mining Segment—Powerful FCF Generator**. CNQ's oil sands mining segment—which encompasses both its Horizon (100% wi) and AOSP (70% wi) operations—is a driving force behind its cash flow and free cash flow generation. In our eyes, it is also one of the reasons that makes CNQ comparable to the global majors. Anchored by an extensive 2P RLI of just over 45 years, CNQ's oil sands mining operations yield premier upgraded products — with no decline — and about $1 billion of annual sustaining capital.<br>• **Strong Alignment.** Collectively, management owns about 2.3% of CNQ, which drives strong alignment with shareholder interests.<br>• **ESG—Lots Of Progress**. CNQ has set a long-term aspirational target of net zero oil sands emissions over time. During the interim, the company is targeting a 25% reduction in oil sands GHG emissions intensity by 2025. Thus far, strong progress has been made at Horizon where CNQ has reduced its emissions intensity by 37% since 2012. |

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| **CenterPoint Energy (CNP)**<br>Shelby Tucker, Analyst<br>(212) 428-6462<br>shelby.tucker@rbccm.com | • **Possible inflection point.** The announced sale of a pair of gas LDCs and a potential decision on ENBL, CNP's midstream investment, may mark a turning point for CNP after a year-long struggle involving management changes and a disappointing rate case outcomes in Texas. Execution is key. An attractive multiple for the sale of these assets may generate additional cash flow to accelerate utility investments.<br>• **Above-average utility growth.** CNP has laid out plans for 10% CAGR rate base growth over the next 5 years, amounting to total capex of $16B with additional ~$1B upside. We view these projects to have low risk as over third-quarters of the investments is expected to be recovered through rate mechanisms. We expect rate base growth to drive ~6-8% EPS CAGR and 5% dividend CAGR. Regulatory lag is a work in progress but we think improving cash flows will help tighten the gap.<br>• **Financial discipline.** CNP has laid out annual O&M reduction targets of 1-2% though execution remains to be seen. We believe balance sheet and financing has become clearer after the last round of private placement and management will focus on paying down excess debt with utility cash flows.<br>• **Improving regulated multiple.** The new management team has been crystal clear in optimizing CNP as a highly regulated utility. Over time, we believe CNP will shift towards 90% regulated through heavy rate base investments and potentially capture premium utility valuations. At 14.7x 2022 P/E relative to peer average of 18.0x, we think CNP offers an attractive entry point. |
| **Cheniere Inc (LNG)**<br>Elvira Scotto, Analyst<br>(212) 905-5957<br>elvira.scotto@rbccm.com | • **Highly contracted cash flow with strong counterparties.** Cheniere has long-term take-or-pay contracts on 85% of its nine-train portfolio capacity (seven trains now operational), and intends to contract 90%. 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.<br>• **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still 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%. In 2021E, liquefaction fees represent ~87%, which we believe provides an EBITDA floor.<br>• **Long term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. Cheniere also stands to benefit from LNG demand growth given its asset footprint. Finally, we believe Cheniere is poised to returns significant cash to shareholders via dividends and share buybacks, which we do not believe is fully reflected in Cheniere's stock price. |

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| **ConocoPhillips (COP)**<br>Scott Hanold, Analyst<br>(512) 708-6354<br>scott.hanold@rbccm.com | • **Compelling value proposition.** COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions. The company's low break-even point provides a competitive advantage and allows it to fund its production maintenance capital and dividends at below $40/bbl (WTI) for around $5 billion of capital spend. Clear priorities provide a defined investment proposition and demonstrate the commitment to returning capital back to shareholders. COP's priorities are: (1) sustain production and pay its dividend, (2) annual dividend growth, (3) A-rated balance sheet, (4) 30+% CFO total shareholder payout, and (5) disciplined investment for CFO expansion.<br>• **Deep depth of inventory.** The company has a deep inventory of highly economic projects that span both short through long cycles opportunities globally. In total there is an estimated 23 Bboe of resource potential that has an average below $30/ bbl. We think this is one of the preeminent portfolios and provides several decades of inventory at the current production pace. This reduces the need for ongoing exploration spend and consolidation although both can occur if it is accretive to COP's value proposition.<br>• **Substantial FCF yield.** Our detailed model through 2025 shows a strong cash generation profile with a FCF yield of 9%, this includes a dividend yield of 5-6% and a potential buyback amounting to a 3-4% return ($45-50/bbl-WTI forecast). Our model has COP organically growing oil production 2-3%/ year while maintaining leverage below 1.0x with a $4+ billion cash balance.<br>• **CXO acquisition offering tangible synergies and scale.** The transaction adds scale to its Permian position that enhances its outlook with greater FCF generation and greater asset diversity. Over the next couple of years (into 2022), the company should be able to capture at least $0.5 billion in annually savings. This includes both cash cost and capital spending improvements. There is more upside through margin improvement with marketing arrangements, supply chain scale, and shared learnings. |
| **Enerflex Ltd. (EFX)**<br>Keith Mackey, Analyst<br>(403) 299-6958<br>keith.mackey@rbccm.com | • **Asset ownership improves EBITDA generation through the cycle.** We believe Enerflex is positioned to deliver stronger ROACE and free cash flow in low commodity prices relative to Canadian Oilfield Services peers. Over the last few years, the company has focused on asset ownership, namely Contract Compression and BOOM (Build, Own, Operate, Maintain) projects, which carry higher margins than its legacy Engineered Systems business. We expect its Contract Compression and After Market Services business lines to generate recurring EBITDA to support its Engineered Systems business through the cycle.<br>• **Strong liquidity and low financial leverage support the stock through the downturn.** We believe the company's financial flexibility combined with low near-term maintenance capital requirements provide financial flexibility as the cycle turns. We forecast 2020 and 2021 net debt/EBITDA of 1.7x (vs. its 3.0x covenant). At 3Q20, Enerflex had strong cash and credit liquidity of approximately $667 million.<br>• **Changing revenue mix brings potential valuation expansion.** We believe Enerflex's current valuation does not reflect its improving cash flow stability driven by its growing Rentals and Service business lines, in our view. Enerflex continues to trade at a discount to compression peers based on next-year's EBITDA. Said another way, applying peer average multiples to Enerflex's recurring business lines, we believe the stock is discounting approximately nil value to its Engineered Systems business line. |

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| **Enterprise Products Partners (EPD)**<br>TJ Schultz, Analyst<br>(512)-708-6385<br>tj.schultz@rbccm.com | • **FCF ramp with diverse assets.** EPD guided lower growth capex levels in 2021/2022 (to $1.6B/$800mm). This should increase FCF growth and open up opportunities for EPD to support its units through buybacks, de-leveraging, or distribution increases. EPD currently has a $2B buyback plan in place, and we expect units to be repurchased opportunistically. EPD also has a diverse and expansive asset footprint. This asset footprint with higher liquids exposure is well-positioned to benefit amidst a 2021 oil and gas demand recovery.<br>• **Growth capital focus on petchem.** EPD has ~$4B of growth projects under construction of which ~$2.5B is allocated to petchem projects. We highlight the PDH2 facility and ethylene system expansion, which should both help meet increasing petchem product demand. We also like petchem exposure as the space has growing export demand, fewer environmental risks, and integrates well with EPD's NGLs business. Longer term, we believe more growth capital will be allocated towards repurposing and integrating downstream assets as those projects provide quality returns for lower amounts of capital.<br>• **Attractive financial position.** Given EPD's current cash flow profile and asset base, we think EPD provides both offensive and defensive characteristics for investors. We believe EPD can provide 1-2% distribution growth while also opportunistically buying back units. We also estimate EPD will maintain leverage at ~3.5x. With leverage below 4.0x, a distribution coverage of >1.5x, and a current yield of 8-9%, we believe EPD is an attractive investment and should be a core MLP holding. |
| **Enviva Partners, L.P. (EVA)**<br>Elvira Scotto, Analyst<br>(212) 905-5957<br>elvira.scotto@rbccm.com | • **Strong set-up into 2021:** We believe EVA can generate 29% Y/Y growth in 2021 ($261MM in total) before additional dropdowns, driven by ~$16MM from the Northampton/Southampton expansions, ~$15MM from organic growth, ~ $3MM incremental from Hamlet achieving run-rate capacity and ~$21MM incremental contributions from a full year of Greenwood and Georgia Biomass/Waycross acquisitions.<br>• **Highly visible cash flow growth:** EVA targets 7-10% organic growth from: (1) price escalators; (2) productivity improvements; (3) cost cuts/ purchasing efficiencies. EVA also expects two $200MM dropdowns in 2020, which EVA also believes to be a good pace beyond 2020. Based on total contracted revenue backlog of ~$19BN (including its sponsor), EVA plans to more than double its 2019 EBITDA in the next couple of years.<br>• **In for a pellet, in for a pound:** Coal-fired power plants can replace 5-10% of their raw-feed with pellets with only investments in storage to keep wood pellets dry, which costs a few dollars per KW, by EVA's estimates. For reference, the EIA estimates capital costs to build a coal plant with $SO_2$ and $NO_x$ controls to be $3,500-$3,800/KW. For full scale wood pellet conversion, EVA estimates a cost of $500/KW. |

**EQT Corporation (EQT)**
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- **Right place right time.** EQT's natural gas focused portfolio is well positioned to benefit from a bullish macro backdrop with LNG demand moving above Bcf/d and weak oil fundamentals capping the associated gas growth outlook. We think the company has some of the most economic natural gas assets in North America and benefits from low royalty rates, low operating costs, and premium geology.
- **Robust FCF Outlook.** The FCF outlook improves from continued efforts to reduce debt, improve D&C costs, and manage expenses. The company maintains a robust hedge position that provides visibility for FCF generation which we estimate up over 150% in 2021 on our $2.75/Mcf outlook. Opportunities exist to improve this further by leveraging an existing FT portfolio to increase realizations and improve operating expenses.
- **Debt reduction remains the priority.** Significant progress is being made to improve leverage toward its target of less than 2x. Based on our $2.75/Mcf outlook for 2021 we see a path for leverage reduction to 1.9x by year-end 2021 but think this can be improved with a sale of an equity stake in ETRN, select divestiture opportunities.
- **Recent acquisition highly accretive.** EQT has been a vocal supporter of consolidation for scale that drives operational and financial synergies but also to maintain a more stable commodity market. A recent acquisition of acreage adjacent to the existing portfolio provides operational and financial synergies, and immediately improves operating costs/unit, FCF per share, and relative leverage. Multiple opportunities exist to unlock incremental value including integrating undeveloped core acreage, higher WI, leveraging the existing FT, and optimizing acquired midstream assets. The company also continues to work to divest non-core acreage positions which should help improve the leverage profile.

**Freehold Royalties (FRU)**
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- **Defensive royalty model well positioned in times of uncertainty.** In our minds, Freehold's royalty model is well positioned in times of uncertainty given a clean cost structure with no exposure to operating costs, capital expenditures, or asset retirement obligations. While we do expect Canadian volumes to trend in-line with the broader basin, the company is well diversified from both a geographic and counterparty perspective with the company's recent US acquisition providing additional diversification as well as a strong reinvestment platform for potential growth.
- **Dividends supported by favourable cost structure.** Freehold's low cost model supports continued dividend payment. The company raised its dividend alongside Q3/20 earnings to $0.24 annually, placing the new yield in the range of 5%. We forecast the dividend to increase by 50% to $0.36/share annually in Q2/21 and 33% to $0.48/share in Q1/22 mapping to payout ratios of 40%/49% in 2021/22 respectively, still below the company's target range of 60-80%.
- **Strong balance sheet, capable of generating FCF at low prices.** Based on our current estimates, we forecast the company's D/CF to map to 0.2x in 2021 and shifting to a net cash balance in 2022 (we do not currently model potential acquisitions). In addition, we see the company generating roughly $66/$67 million in post-dividend free cash flow in 2021/22 at our US$52/US$57 pricing outlook.
- **Discounted valuation.** Freehold shares trade at a significant discount to the diversified royalty peer group.

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| **Parex Resources (PXT)**<br>Al Stanton, Analyst<br>(+44) 131-222-3638<br>al.stanton@rbccm.com | • **Stable:** SMID investors buoyed by the oil price recovery and those looking to limit downside risk while retaining some exposure to the oil sector should look at Parex, which has a debt-free (cash-in-hand of $350m at the end of Q3/20), low-cost, flexible, onshore portfolio in Colombia.<br>• **Considered:** Having been one of the first companies in the International E&P universe to guide to a more conservative approach - cutting spending and reining in lower margin production - management took its foot off the brake in June as oil prices recovered. Looking ahead to 2021, management is not putting its foot on the accelerator to generate absolute, rather attention has focused on the combination of incremental growth and a sustained buyback (of its undervalued paper) to generate profitable per share growth.<br>• **Steady:** With a strong balance sheet and steady organic growth, we expect newsflow and investor interest to continue to recover during Q1/21. |
| **Pembina Pipeline Corp. (PPL)**<br>Robert Kwan, Analyst<br>(604) 257-7611<br>robert.kwan@rbccm.com | • **Attractive risk-reward profile with a big focus on risk mitigation.** Although other WCSB-focused midstream peers may have greater upside potential in a market recovery, we believe that the market is also very focused on risk mitigation/downside protection. On that front, we think that Pembina gets a lot of credit for being well-ahead of its peers with respect to taking swift and decisive action to protect the balance sheet and dividend. Specifically, Pembina decided to materially cut its growth capex (i.e., the "nice to do" projects) and make it clear to the market that it is willing to make the hard decisions to protect the dividend. With the macro environment slowly improving, Pembina remains focused on the strategic projects with a conservative funding scenario.<br>• **Fully-funded capex plan in 2021 based on cash flow (i.e., no new incremental debt).** Pembina noted that it is fully-funded from cash flow after dividend payments for its 2021 capex program based on the low-end of its EBITDA guidance range. As these projects come into service, the financing plan should result in improved credit metrics. |
| **Rattler Midstream LP (RTLR)**<br>TJ Schultz, Analyst<br>(512)-708-6385<br>tj.schultz@rbccm.com | • **Operations Stabilized.** We think RTLR successfully navigated lower producer activity in 2020 through slowing capital spending, and we expect relative stable cash flow through 2021. We think RTLR shares will outperform midstream peers in a period of improving crude prices given exposure to FANG's Permian activity outlook.<br>• **Buyback Support.** RTLR recently cut its dividend by ~30% and plans to allocate more capital to buybacks. The $100mm buyback program represents about a third of the public float of RTLR and we think should provide support during any periods of crude-driven stock price weakness.<br>• **Balance Sheet in Good Shape.** RTLR comes out of trough activity quarters with debt leverage (including estimated JV debt) of ~3x. We expect debt leverage to stay in this range through our forecast period. |

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| **Royal Dutch Shell PLC (RDSB)**<br>Biraj Borkhataria, Analyst<br>(+44) 20-7029-7556<br>biraj.borkhataria@rbccm.com | • Shell is unique in having three separate franchise businesses – all of which are #1 in their respective silos.<br>• **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 the portfolio has a $30-35/bbl breakeven. Assuming a $50/bbl case, we think the deepwater portfolio could be valued at ~$25bn.<br>• **Integrated gas – Transition theme and free cash flow.** Shell accounts for one in every five LNG cargoes traded globally. This has led to a significant trading advantage, in our view, and although it feels almost impossible to forecast earnings, it has proved to be a resilient business. Assuming a conservative 8x P/E multiple, we see a ~$50bn valuation.<br>• **Marketing – "Brand value" and adding stability to the downstream.** Shell has the largest marketing business among all of the majors, with a global footprint and 45,000 stations. The company also has the highest "brand value" according to 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 suggest a $71bn valuation. This would be at the low end of retail peers, and lower than directly comparable peers such as Couche-Tard.<br>• After a few frustrating quarters, Shell has provided investors with greater clarity **on its financial framework and priorities**, which suggests a ~10% return to shareholders in a $45-50/bbl environment, and more if commodity prices recover. |
| **Santos Limited (STO)**<br>Gordon Ramsay, Analyst<br>+61 3 8688 6578<br>gordon.ramsay@rbccm.com | • **Broad based production growth pipeline.** Santos is our preferred Australian large cap E&P pick due to its diverse and largely brownfield production growth profile. Targeted production of 120 mmboe by 2025 (CAGR 8% pa) is driven by three major growth projects – the Dorado oil field development, Barossa gas field development for Darwin LNG backfill / expansion, and PNG LNG T3 expansion. While we are confident all these projects will go ahead, recent events imply increased potential for slippage. The Dorado FEED decision was delayed slightly from 2Q to 3Q 2020, but is still targeting FID in 2021 and first production by 2025. The ConocoPhillips Northern Australia and Timor-Leste assets acquisition has now been completed, but the Barossa project FID has been deferred until business conditions improve. Unfortunately, PNG LNG T-3 expansion FEED has been delayed since formal discussions between ExxonMobil and the PNG Government on the P'nyang Gas Agreement were suspended in January 2020.<br>• **Strong free cash flow and flexibility on expenditure.** We view Santos as being somewhat defensive with approximately 70% of its 2020 forecast production volumes either: fixed price domestic gas sales contracts, or oil hedged at an average floor price of US$39/bbl. Cooper Basin cost out has been remarkable over the last five years and gas production from the area over 1Q 2020 was its highest in 9 years. Santos is targeting free cash flow breakeven oil price ~US$25/bbl in 2020. Since major projects are all pre-FID, Santos has the ability to optimize spending in response to current market conditions with forecast 2020 capital expenditure of A$550m down 38% from prior guidance.<br>• **Catalysts.** Key near-term catalysts include advancing the go-ahead decision process for Santos' three major growth projects, and progressing the approvals required for the Narrabri coal seam gas project in NSW. |

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| **Shawcor Ltd. (SCL)**<br>Keith Mackey, Analyst<br>(403) 299-6958<br>keith.mackey@rbccm.com | • **The pieces are coming together.** We believe Shawcor's recent cost reduction efforts, growing exposure beyond oil & gas, and improved financial flexibility set the stage for improved financial results over the coming quarters. We take the company’s recent decision to provide strong numbered 4Q20 EBITDA guidance as a signal of confidence in its near-term outlook.<br>• **Pipe Services profitability positioned to improve.** Shawcor has been in ‘show me’ mode with the market with respect to lowering its fixed cost footprint. We believe its recent decision to close four plants in North America represent a tangible step to improving its pipe coating profitability under a wider set of economic circumstances, with additional actions in the works. While large contract awards are slow, Shawcor remains a key player in the international pipe coating market and we see the company as well-positioned to win its share of global project awards as the market improves. In the mean-time, its $540 million project backlog should support revenues.<br>• **Recent covenant relief improves financial flexibility.** We see the company's liquidity as sufficient through our forecast period. The recent accretive sale of a non-core business division also bolsters its financial flexibility. We forecast 2021 net debt/EBITDA 2.4x vs its covenant of 5.0x. At 3Q20, Shawcor had approximately $385 million of cash and credit facility liquidity. |
| **SM Energy (SM)**<br>Scott Hanold, Analyst<br>(512) 708-6354<br>scott.hanold@rbccm.com | • **Top tier returns in the core Permian development.** We think investor sentiment has made a positive pivot on the RockStar asset. Well productivity and costs across SM’s Permian assets continue to exceed investor expectations. “RockStar” performance is among the highest in the basin and is 15+% above our 1.0 MMboe typecurve. Permian well costs are among industry lows and when coupled with solid well productivity, economic returns continue to be strong. We think there is a visible 5-10 years of inventory economic at $35-45/bbl.<br>• **Visibility toward an improving balance sheet.** Leverage is too high right now, in our view, but the development strategy should drive that down to a sub-2.0x ratio by early 2022. In 2021, FCF generation should occur at oil prices above $45/bbl and accelerate in 2022. SM benefits from working off a 30 well DUC backlog but also its higher margin assets. We estimate $550 million of FCF through 2022 that can manage repayment of its upcoming notes and bank debt, totaling $475 million.<br>• **South TX Austin Chalk provides a catalyst.** The Austin Chalk could be a game changer, albeit still early stages, and has a good amount of technical data and several successful wells to support economic development starting in 2021. Regional margins improve with the recent new condensate pricing marketing contract and transportation cost reductions in 2021 and 2023. We think the Austin Chalk could play out similar to SM’s move into the Howard County Permian where investors were highly skeptical but management was able to more than prove out the value. |

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| **Tourmaline Oil (TOU)**<br>Michael Harvey, Analyst<br>(403) 299-6998<br>michael.harvey@rbccm.com | • **Key beneficiary of an improved natural gas outlook.** Natural gas remains an abundant commodity amid WCSB with low supply costs, but the SD picture has brightened somewhat for the next 1 - 2 years, and we believe TOU as the largest natural gas producer in Canada stands to be the key beneficiary. See our deep dive report here and January Nat Gas Stats here.<br>• **High quality asset base, with Montney driving the growth.** The company's primary growth engine continues to be the liquids-rich Gundy. 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.<br>• **Upside via Topaz Energy.** With the IPO of Topaz now complete, Tourmaline maintains an equity position of 58 million shares, or roughly 52% of the company. Tourmaline's participation in Topaz deals (generally for GORRs) improves the valuation of acquisitions, and allows TOU to participate in Topaz' equity upside.<br>• **Aligned and seasoned management team.** Tourmaline's leadership team is led by Mike Rose as President & CEO, who has been with the company since inception. Mr. Rose has 40+ years of experience in the oil and gas industry. Tourmaline management are amongst the most aligned within our coverage universe in terms of equity ownership (Directors & Officers ownership: ~8%). |
| **Valero Energy Corporation (VLO)**<br>TJ Schultz, Analyst<br>(512)-708-6385<br>tj.schultz@rbccm.com | • **Positioned to take advantage of global crude oversupply and a low position on the cost curve.** We like Valero Energy for its position at the bottom of the global refining cost curve and its significant leverage to the US Gulf Coast refining market. Additionally, we believe Valero has great optionality in its refinery portfolio given its high complexity allowing it to easily pick and choose the crude that it runs to arbitrage the global crude market.<br>• **No exposure to midstream or retail.** VLO has no exposure to midstream, which is likely to see a negative impact from slower US growth. Further, no retail likely insulates the company from a protracted COVID-19 demand impact.<br>• **Less risk of dividend cut.** While we believe all refiners pay some part of 2020 dividends off the balance sheet, we see the call on capital for Valero being quite low and manageable. |

# Portfolio tracking

The RBC Capital Markets Global Energy Best Ideas List highlights our Research Analysts' highest conviction names across the global energy sector with a market capitalization of at least $1 billion at the time of their addition into the list. Our objective is to highlight individual stocks that are expected to outperform the iShares Global Energy ETF (IXC).

A long-only portfolio, the RBC Capital Markets Global Energy Best Ideas List is set up as follows:

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- The RBC Global Energy Best Ideas has a mandatory stop loss mechanism as follows: a stock will be removed from the list if it is down 20% in the current year or down 20% since being added to the list.
- We will use the most recent closing price prior to the list being published as the price used for performance calculations. Therefore, any additions to or deletions from the list are recorded as have being made at their most recent closing price.
- Dividends will be added to returns from stock price movements on the day that stocks go ex. dividend.
- 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.

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# Companies mentioned

Baker Hughes Company (NYSE: BKR US; $20.09; Not Rated)

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