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November 1, 2023

Global Energy Best Ideas

Our view: In October, the RBC Global Energy Best Ideas List was up 0.1% compared to the iShares S&P Global Energy Sector ETF (IXC) down 4.2% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that was down 2.9% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 158.4% compared to the S&P Global Energy Sector ETF up 29.5%.

Total Return Comparison	October	YTD	Inception
iShares S&P Global Energy (IXC)	-4.2%	3.2%	29.5%
Hybrid Benchmark (75% IXC, 25% JXI)	-2.9%	0.5%	40.9%
RBC Global Energy Best Ideas	0.1%	8.7%	158.4%

October List Changes:
Additions: NESTE-FI
Removals: CPE-US, FANG-US

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Suncor Energy	SU-CA	OP	Pardy	C$58,402	3/1/23	C$45.86	C$44.91	C$51.00
Exploration & Production								
Obsidian Energy	OBE-CA	OP	Davis	C$947	10/2/23	C$11.18	C$11.79	C$15.00
Topaz Energy	TPZ-CA	OP	Davis	C$3,063	11/1/22	C$23.04	C$21.20	C$26.00
Permian Resources Corporation [2]	PR-US	R	Hanold	R	R	R	R	R
ARC Resources	ARX-CA	OP	Harvey	C$13,520	5/1/21	C$7.73	C$22.31	C$24.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$24,916	1/1/20	C$15.08	C$73.33	C$86.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$96,036	4/1/22	C$77.41	C$88.06	C$95.00
Santos Limited	STO-AU	OP	Ramsay	A$24,910	6/1/19	A$6.74	A$7.67	A$8.50
Oilfield Services								
SLB	SLB-US	OP	Mackey	$79,508	1/4/22	$29.95	$55.66	$66.00
Aker Solutions	AKSO-NO	OP	McCulloch	NOK 21,911	10/2/23	NOK 43.20	NOK 44.52	NOK 52.00
Midstream								
AltaGas Ltd.	ALA-CA	OP	Kwan	C$7,257	8/1/23	C$26.03	C$25.76	C$32.00
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$23,440	9/1/22	C$46.38	C$42.68	C$58.00
Targa Resources Corp.	TRGP-US	OP	Scotto	$18,705	12/1/21	$51.63	$83.61	$108.00
Cheniere Energy Inc	LNG-US	OP	Scotto	$40,045	5/1/20	$46.69	$166.42	$200.00
Energy Transfer LP	ET-US	OP	Scotto	$41,357	2/1/22	$9.57	$13.15	$18.00
Utilities, Refiners, Infrastructure & Renewables								
Neste Oyj	NESTE-FI	OP	Kerouredan	€ 24,392	11/1/23	€ 31.71	€ 31.71	€ 55.00
Superior Plus	SPB-CA	OP	Ng	C$2,323	12/7/22	C$9.82	C$9.32	C$15.00
PG&E Corporation	PCG-US	OP	Tucker	$34,776	9/1/22	$12.33	$16.30	$21.00

1-OP = Outperform. 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.
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

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 16

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

Exhibit 1 - This Month's Additions

Neste Oyj (NESTE FI) Erwan Kerouredan, Analyst +44 20 7029 0855 erwan.kerouredan@rbccm.com	• We are adding Neste Oyj to the Energy Best Ideas List following some material underperformance relative to the sector as well as our evolved growth expectations for the firm's renewable products division. Neste trades below 11x FY24E PE, towards the bottom end of its historical average, which looks undemanding to us given Neste's potential to generate significant premiums on an extremely favourable SAF offtake market over the next 18 months.

Exhibit 2 - This Month's Removals

Callon Petroleum Company (CPE) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are removing CPE from the Energy Best Ideas List, consistent with other US E&P companies on our list. Following strong sector performance over the past few months driven by higher oil prices and heightened geopolitical risks, we think there are better risk reward opportunities. We remain constructive on our sector over the next year but would look for a more opportunistic entry point.
Diamondback Energy (FANG) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are removing FANG from the Energy Best Ideas List, consistent with other US E&P companies on our list. Following strong sector performance over the past few months driven by higher oil prices and heightened geopolitical risks, we think there are better risk reward opportunities. We remain constructive on our sector over the next year but would look for a more opportunistic entry point.

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Investment Highlights

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

Aker Solutions (AKSO)

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- **Completing Subsea JV Deal.** Aker Solutions, SLB and Subsea 7 are expected to complete a Subsea Joint Venture deal which will combine SLB and Aker Solutions subsea production systems businesses in early 4Q23 – as detailed in our note. The companies have not provided additional guidance since the deal was announced in August 2022, and given the growth in the offshore market since this time, we think it is likely that the guidance could be increased on completion. Aker Solutions' Subsea business quarterly revenues have increased ~55% with its margin increasing 270bps since 3Q22. Similarly, SLB's Production Systems revenues have increased 8% since 3Q22 and contributed to strong margin growth. In a blue-sky valuation, based on $4bn of revenues and higher margins of ~17% from FY23, we estimate the JV value could be in excess of $6.5bn.
- **Solid remaining order book.** Aker Solutions has a remaining order book of ~$7.7bn which, although lower margin than its subsea work, provides strong cashflow and earnings visibility, and should be trading on higher than the implied <2x FY24 EBITDA in our view.
- **Capacity for special dividend.** On completion, Aker Solutions expects to receive $153m in cash and SLB shares worth $306.5m (which have a ~180-day lock-up period). While no commitment has been made on the use of these proceeds, we think the company has a strong track record for maintaining a prudent balance sheet, paying dividends to shareholders and continues to emphasise in recent presentations that it is committed to "returning excess cash to shareholders". We estimate that the payout could be $400m over the next two years in addition to regular dividends, while maintaining capacity for deals on its balance sheet.

AltaGas Ltd. (ALA)
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- **Positive messaging underpinned by Vern Yu's previous experience and vision for the future.** We believe Vern Yu's first quarterly conference call as the new CEO laid the groundwork for future value creation with statements that support: (1) a focus on strengthening the base cash flows (i.e., increased contracting); (2) the pursuit of contracted and/or regulated growth on an equity self-financed basis; and (3) reducing leverage to 4.5x debt/EBITDA and possibly even lower.
- **De-risking its cash flows should improve the valuation.** AltaGas is committed to increasing the contribution from regulated and take-or- pay contracted assets (e.g., increased tolling contracts for the LPG export business), locking in costs to enhance certainty (e.g., rail contract; VLGC time charters), and hedging residual commodity exposure as part of a disciplined risk management strategy. We believe reducing commodity exposure will improve the valuation that investors will apply to the overall business, and specifically the midstream assets.
- **Numerous opportunities to grow EBITDA, earnings and cash flow.** AltaGas possesses a combination of medium-sized growth opportunities (e.g., REEF joint venture, expansion of the Pipestone plant pending the close of its acquisition), 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 4.5x debt/EBITDA target with the potential to go lower.** With the improved line of sight to the completion of the Mountain Valley Pipeline (MVP) and management noting that it is a noncore asset sale candidate, we have a greater confidence in the company's ability to get to its 4.5x debt/EBITDA target in relatively short order. More importantly, we believe leverage needs to be closer to 4.0x debt/EBITDA and we are encouraged by statements made by the new CEO on the Q2/23 conference call, which opened the door to lower leverage.

Note: RBC Capital Markets is acting as financial advisor to AltaGas Ltd (TSX: ALA) in respect to the acquisition of certain Pipestone Natural Gas Plants and Facilities from Tidewater Midstream and Infrastructure Ltd. (TSX: TWM) as press released on August 31st, 2023.

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ARC Resources (ARX)

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- **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 $0.66/share) and share buyback. 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 and investor day note here.
- **Western Canada's largest Montney player.** 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 the largest Montney producer, 3rd largest outright gas producer and 6th 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 and here.
- **Sanctioning of Attachie.** ARC recently announced the formal sanctioning of the Attachie project, which is a $740 million project expected to deliver roughly 40,000 boe/d (60% liquids) and on stream late in 2024. 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. Roughly $250-300 million of the total investment will be focused on 2023, with the balance in 2024. See our note 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 CNQ 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. See our note 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 Memorandum of Understanding with the proposed Cedar LNG Project for a 20-year LNG supply agreement to send 200 mmcf/d of natural gas, which is expected start in 2028/2029. The company has also noted that it plans to sign an additional LNG agreement by YE23. See our notes here and here.

Canadian Natural Resources (CNQ)
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- **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 superior free cash flow generation throughout the cycle.
- **Impressive shareholder returns**. CNQ's shareholder returns policy revolves around a net debt floor of $10 billion. The company is currently allocating 50% of its free cash flow (after dividends and base capital) towards share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Once CNQ's net debt falls to $10 billion the company will allocate 100% of its free cash flow as incremental returns to shareholders. This could come in the form of further base dividend growth, accelerated share repurchases and/or special/variable dividends. Free cash flow will be defined as adjusted FFO less dividends and total capital expenditures in the year (excluding A&D). To the extent that the company's net debt rises above $10 billion, it would revert to its prevailing 50/50 policy. CNQ's net debt sat at $12.0 billion as of June 30. We think it is important to point out that CNQ has never cut its common dividend, which has grown at a CAGR of circa 21% over the past 23 years. The company's common share dividend sits at an annualized rate of $3.60 per share.
- **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.
- **ESG—lots of progress**. CNQ has established a GHG emissions reduction target of 40% of total corporate absolute Scope 1 and 2 GHG emissions by 2035 (vs. a 2020 baseline). Not to be overlooked, CNQ also continues to make progress towards its initiatives with respect to the Oil Sands Pathways to Net Zero Alliance. CNQ also continues to target a 50% reduction in North American 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).

Cheniere Inc. (LNG)
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- **Highly contracted cash flow with strong counterparties.** Cheniere has a weighted average contract duration of 17 years on its long-term take-or-pay contracts and is generally 90% contracted on its nine-train portfolio including mid-term and short-term SPA and IPM agreements. However, given the volatility in global LNG market last year Cheniere has contracted out ~99% of open capacity through 2024. 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 must still pay fixed liquefaction fees. In our 2025 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 with a growth option.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. After completing its 2021 capital allocation strategy ahead of schedule, Cheniere updated its capital allocation strategy, which now includes: (1) continued debt pay-down to hit a long-term run rate leverage target of ~4.0x Debt/EBITDA; (2) an incremental $4BN of share repurchase over 3 years; (3) annual dividend growth of ~10% through the mid-2020's and target ~20% payout ratio once Corpus Christi Stage 3 hits run-rate cash flow. In addition, Cheniere continues to pursue potential growth opportunities with Corpus Christi Midscale Trains 8 and 9 FID'ed and the Sabine Pass expansion in pre-filing.

Energy Transfer (ET)
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- **Attractive asset footprint across the natural gas, natural gas liquids, and crude oil value chain.** We view ET's asset footprint as one of the most attractive across the midstream universe. We believe ET's expansive asset footprint can benefit from commodity price dislocations (i.e., crude oil and natural gas basis spreads) as well as crude oil, natural gas and NGL production growth. Recent acquisitions (such as Lotus Midstream and potentially CEQP) should help enhance and optimize ET's asset base.
- **Strong balance sheet and FCF generation potential positions the company for capital return.** We believe ET is well positioned to generate meaningful cash flow growth as large-scale growth projects come online. ET has significantly lowered its debt over the past few years and continues to target leverage of 4.0-4.5x. With a stronger balance sheet, ET should be in position to return more cash to unitholders. ET now targets distribution growth of 3-5% annually, which should still allow ET to invest in accretive growth projects and maintain its leverage at the lower end of its targeted 4.0-4.5x leverage ratio. That said, ET would consider opportunistic repurchase and buybacks to potentially support the units, and seems to indicate increased M&A activity in the coming years.
- **Potential Up-C structure could attract new investors.** ET continues to evaluate an Up-C structure and still targets completion by year-end 2023. ET is currently structured as an MLP, which precludes some investors from investing in ET. An Up-C structure, which issues a 1099 instead of a K-1, could attract additional institutional and foreign investors.

Neste Oyj (NESTE FI) Erwan Kerouredan, Analyst +44 20 7029 0855 erwan.kerouredan@rbccm.com	• **Attractive valuation and superior positioning.** Neste trades below 11x FY24E PE, towards the bottom end of its historical average, which looks undemanding to us given Neste's potential to generate significant premiums on an extremely favourable SAF offtake market over the next 18 months. Neste's competitive advantage is supported by production capacity in place and a moat in the feedstock space, which should command a premium. • Looking ahead we see a few catalysts: **1) Dutch mandate (update expected by year end):** given the mandate increase proposal applies to 2024, hopes are for an update by year end, potentially alongside general elections next month. As a reminder, Neste sees +500kt of additional RD demand to the market if the proposal is adopted. **2) Dividend policy (update likely on 4Q23).** On the 3Q23 call Neste CFO provided additional details to his yet-to-be disclosed competitive dividend policy, including on the comp side. As has been the case in the past, dividend policy updates could be announced on 4Q results (8th Feb). **3) SAF ramp and margin accretion (update expected 4Q23 / 1Q24 pre-close);** if SAF is highly margin-accretive (which is our view), this should be clearly reflected in a stronger guidance for the quarter ahead. With SAF sales now ramping up end 1Q24 at the earliest, we now expect this to be reflected in 4Q results 8th Feb at the earliest, or pre-close 1Q24 call end March.
Obsidian Energy (OBE) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Peace River growth plan offers differentiated SMID-cap model.** Obsidian has plans to ramp production to 50,000 boe/d, with Peace River volumes driving growth from 6,600 boe/d currently to 24,000 boe/d by 2026. Obsidian holds 500 sections in the fairway and has identified 309/560 Bluesky/Clearwater locations, of which 129/70 locations will be drilled by 2026, reiterating the long-life nature of Obsidian's Peace River assets. Obsidian expects its Light Oil portfolio's FCF generation to support Peace River development through 2024-25, though the team expects its Peace River assets will be self-funding by 2026. • **Focused on operational sustainability, cash cost improvements.** Obsidian has worked to mitigate controllable cash costs (i.e. excluding royalties/taxes) in recent years through refinancing outstanding debt, renegotiated leases, and streamlining operations to improve corporate sustainability. Obsidian's operations are mostly mature and come with generally higher operating costs, above oil-weighted peers on average. We note that the company is taking steps to address this going forward and believe that future multilateral development drilling is expected to improve capital efficiencies. • **Healthy balance sheet and RoC with significant tax pool balance.** We forecast Obsidian will carry $287/$219/$170 million in net debt at year-end 2023E/24E/25E, while maintaining flexibility to return capital to shareholders in the context of management's Peace River growth plan. Additionally, we forecast $27/$76/$26 million in share buybacks in 2023E/24E/25E. Obsidian holds roughly $2.4 billion in tax pools as at Q2/23, with $1.9 billion being immediately deductible, providing roughly 10 years of tax coverage at US$75/bbl WTI.

Company	Investment highlights
Pembina Pipeline Corporation (PPL) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **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 Canada 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, the company prioritized share buybacks with the strategy going forward focused on creating balance sheet optionality by reducing leverage. Lower debt levels should position the company to pursue a wide-range of growth initiatives on an equity self-funded basis. • **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.
Permian Resources Corporation (PR) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Restricted**
PG&E Corporation (PCG) Shelby G. Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• **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 signals 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 help offset customer bill increases.

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Santos Limited (STO) Gordon Ramsay, Analyst +61 3 8688 6578 gordon.ramsay@rbccm.com	• **Santos LNG portfolio provides attractive long-term cash flows, with a balance of oil-linked contracts and Asian spot JKM LNG pricing.** • **PNG LNG** (STO 39.9% post Kumul sale). Santos has executed a binding sales agreement for the sale of 2.6% of PNG LNG to Kumul Petroleum Holdings Ltd for US$576m cash and assumption of US$169m in project debt that will reduce its project stake to 39.9%. Santos has further granted Kumul a call option to acquire the remaining 2.4% for US$524m (includes proportionate project debt) on or before 30 June 2024. If Kumul does not take up the option, we see potential for an alternate buyer to emerge and we favor a Japanese buyer. • **A leading global CCS developer.** Moomba CCS Phase 1 (STO 67% and operator) is a 1.7 mmtpa CO2 storage project in the Cooper Basin targeting a ~US$24/tonne, lifecycle breakeven cost that is now 75% complete and targeting first injection by mid-2024. The proposed Bayu-Undan CCS project (initially for Barossa CO2) has gained Australian House of Representatives support. • **Capital management** is based on at least a 40% payout of FCF from operations (excludes major growth) per annum and additional returns from asset divestments. Over the June 2023 quarter, Santos completed its US$700m on-market buyback program and has confirmed buybacks will be assessed on a 12-monthly basis. We see the sale of PNG LNG equity helping to drive future capital management (enhanced final dividend / buyback). In addition, once Barossa and Pikka Phase 1 commence production, Santos Board intends to consider increasing returns to at least 50% of FCF.
SLB (SLB) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **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. 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. • **International upcycle: less nascent.** SLB is well-positioned to benefit from the next leg of growth in International markets. In 3Q23, SLB's y/y North American revenue increased 6%, while International grew 12%, led by Middle East and offshore. The company noted the Middle East is set to lead growth with this cycle characterized by the region's plans to add oil and gas productive capacity. • **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.

Suncor Energy Inc. (SU)
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- **New leadership in place.** On February 21, Suncor announced Rich Kruger as its new President & CEO. The new leadership change became effective as of April 3, 2023. We know Rich well from his days at Imperial Oil and we are pleased that Kris Smith will remain in a leadership role with Suncor as he plans to take the reins as CFO—laying a clear CEO succession path in our minds. We are also pleased that former CFO, Alister Cowan, will remain with the company to provide advisory services until the end of 2023 to ensure a smooth transition.
- **Fort Hills Acquisition.** Suncor Energy's recent acquisition of the remaining 31.23% working interest in Fort Hills for $1.468 billion provides the company with additional long-life, physically integrated bitumen supply to maximize the utilization of its U1/U2 upgraders at Base Plant following the end of the Base Mine life, expected in the early- to mid-2030's. The deal equates to about $30,000/bbl/d on a flowing barrel basis (excluding tax pools), which is in-line with what Suncor paid for Teck Resources' stake in the project last October. Suncor could be picking up a maximum of $500 million of tax pools with the transaction, which adds 61,000 bbl/d of bitumen production capacity and 675 million barrels of proved + probable (2P) reserves to its existing oil sands portfolio.
- **Shareholder Returns.** The company is currently allocating 50% of excess funds flow to share repurchases, with the balance earmarked for ongoing debt reduction. Upon reaching $12 billion of net debt, Suncor will then boost its share repurchases to 75% of excess funds. Suncor's net debt (company definition) sat at $14.4 billion (including lease liabilities of $3.2 billion) as of June 30.
- **Strong free cash flow profile.** We peg Suncor's free cash flow (before dividends, working capital changes, excluding A&D and capitalized interest) at $6.2 billion in 2023 under our base outlook (US$80 WTI, US$33 NYH 3-2-1). Our outlook factors in a refining & marketing (pre-tax) FFO of $3.8 billion in 2023.

Superior Plus (SPB)
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- **Strategic acquisition expands business into CNG/RNG/H2.** The $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. The business exceeded management expectations in H1/23, leading to an increase in 2023 guidance. Please click here for our note covering the transaction.
- **Focused on organic growth.** Management reiterated that organic growth opportunities at Certarus is the priority, and M&A is secondary. We estimate that the company can deploy capital into Certarus at ~4x EBITDA, compared to capital deployed into M&A at ~6-7x (post synergies). Management expects to deploy $120 million into capex at Certarus in 2023. We view buybacks as an additional attractive avenue for deploying some capital because it could be more accretive than M&A and can be implemented at a faster pace.
- **Attractive capital return economics.** Due to the strong demand for mobile storage units (MSUs), Certarus has pricing power and targets $250k/MSU of EBITDA annually, and management expect tailwinds will drive EBITDA closer to $285k/MSU in 2023. We estimate that the cost of a MSU, plus the supporting infrastructure (e.g., compressors and de-compressors), totals ~$1 million, equating to a 3-4x EBITDA investment multiple (3-4 year payback period). In comparison, we estimate that Superior Plus' propane acquisitions are at a post synergies EBITDA multiple of 6.0-7.5x.

Targa Resources Corp. (TRGP)
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- **Best way to play Permian and commodity upside.** Among midstream, we think TRGP will correlate best to a constructive commodity tape. We like TRGP's top-tier platform in the Permian, coupled with integration to the docks on the Gulf Coast.
- **Growth projects.** TRGP has announced numerous organic growth projects that are expected to supplement and grow its cash flow. These projects include multiple processing plants in the Permian, Train 9 fractionator in Mont Belvieu under construction and the greenlight of Train 10, and the Daytona NGL pipeline (twinning of the west leg of Grand Prix) that will support NGL volume growth from the Permian G&P assets and new plants under construction.
- **Financial flexibility.** Maintaining its healthy investment grade balance sheet is a key focus point for TRGP when making decisions. Flexibility has improved as leverage continues to trend lower. This flexibility allows for TRGP to continue investing in organic growth projects, while returning meaningful capital to shareholders through its dividend and share buyback program.
- **FCF and capital allocation.** Outlook for FCF is solid at our price deck, as we expect that TRGP can generate meaningful FCF in 2024 even with ~$50mm/quarter of estimated stock buybacks through 2024 and another step-up in the dividend to $2.40/share, which should allow for debt leverage to be near 3x. We think FCF can ramp further into 2025 following multiple high growth, high return spend years. In addition to debt reduction, TRGP will have many options for usage of the FCF including (i) additional dividend growth, (ii) additional common stock buybacks, and (iii) higher capex.

Topaz Energy (TPZ)
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- **Diversified royalty model with a natural gas tilt.** Topaz's 2023E/24E/25E production profile remains 70%/69%/69% gas-weighted. Topaz is supported by some of the top operators in the WCSB. Notably, Tourmaline Oil has outlined a 5-year plan in NEBC Montney that is estimated to increase Topaz's regional volumes from 6,800 boe/d in 2022 to over 10,000 boe/d by 2028 (13% 8-year CAGR). Topaz's Deltastream acquisition (note here), has positioned the company as the top Clearwater exposed royalty co by volumes, now holding 52% of pro-forma OOIP at Marten Hills and Nipisi. The team anticipates averaging 2,850 bbl/d of total Clearwater production in 2023, exceeding 3,000 bbl/d by 2024E. The royalty business model is insulated from industry cost inflation, providing margin stability.
- **Resilient infrastructure model.** Topaz holds working interests in six facilities backed by long-term take-or-pay commitments, a contracted interest in a portion of Tourmaline's third-party revenues, and a 50% interest in three water/oil facilities. In 2023, Topaz closed an acquisition of a non-op interest in Tamarack's Wembley gas plant and oil battery, on a 15-year, fixed take-or-pay contract and recently announced the acquisition of a 7% West Nipisi GORR on 20,000 acres alongside a planned natural gas gathering system (expected completion in late 2024). Topaz's infrastructure portfolio is expected to generate $70 million in 2024E revenue (84% FCF margin), covering roughly 40% of the dividend. Infrastructure portfolio growth remains an area of focus with management targeting a long-term 50-50 EBITDA split between the infrastructure and royalty business.
- **FCF allocation balanced between RoC and debt reduction.** Topaz increased its annual dividend by 3% to $1.24/sh (~6% dividend yield) with Q2/23 results following its Wembley gas plant acquisition; we now estimate a 62%/53%/50% effective payout ratio in 2023E/24E/25E. The company balances its RoC program with continued deleveraging efforts, with our forecasts suggesting roughly $50 million in post-dividend FCF from Q4/23 through Q4/25E.

Tourmaline Oil (TOU)
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- **Natural gas weakness provides buying opportunity.** Weaker natural gas prices provide a buying opportunity for the Western Canada Sedimentary Basin (WCSB) natural gas producer that is returning meaningful capital to shareholders plus still growing modestly (+7%/year CAGR in the current plan), while being mindful that basin growth much beyond this figure could start to drive egress constraints.
- **Cheniere export agreement - a well-timed deal.** We estimate US$1 increase in JKM pricing to result in roughly C$50-55 mm of incremental after-tax cash flow in 2023. TOU has hedged approximately 10% of the JKM volumes at an average price of ~US$23/mmbtu, and we would expect the company to take advantage of the current strength by layering on additional hedges at even more attractive prices. See our note here.
- **Return of capital, with the vast majority of FCF to be returned.** Our outlook now calls for one base dividend increase for the remainder of 2023 (to $1.05/share annualized) on top of $5.50/sh specials annualized in 2023. On current strip pricing, TOU is expected to generate $2.2-2.4bn of FCF in 2023 (or about $2.3bn at the RBC Deck). See our note here and recent retail presentation note here.
- **High quality asset base, with North Montney driving the growth.** TOU's 5-year plan now includes development of its Northern Montney asset - Conroy, pushing corporate volumes to 700,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in 2 tranches, with on-stream dates of 2026 and 2028 (set to coincide with the startup of LNG Canada). The plan incorporates capex spend of roughly half of forecasted cash flows, leaving meaningful capacity for RoC programs. TOU remains well situated as it relates to LNG exposure in NE BC, a topic we explored in recent reports here (1,2,3,4). Tourmaline's bolt-on acquisition of Bonavista adds a complementary footprint to the company's Deep Basin portfolio. The transaction improves broader FCF metrics with 2024 FCF increasing to $2.8bn (see our note here).

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Companies mentioned

Callon Petroleum Company (NYSE: CPE US; $37.35; Outperform)
Diamondback Energy, Inc. (NASDAQ: FANG US; $160.32; Outperform)

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