EQUITY RESEARCH

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Global Energy Best Ideas

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Our view: In August the RBC Global Energy Best Ideas List was down 2.4% compared to the iShares S&P Global Energy Sector ETF (IXC) which was down 0.5% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that was up 0.9% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 182.9% compared to the S&P Global Energy Sector ETF up 39.2%. We are making one addition to the RBC Global Energy Best Ideas list, adding California Resources, with no removals this month.

Total Return Comparison	August	YTD	Inception
iShares S&P Global Energy (IXC)	-0.5%	9.6%	39.2%
Hybrid Benchmark (75% IXC, 25% JXI)	0.9%	11.3%	56.9%
RBC Global Energy Best Ideas	-2.4%	9.9%	182.9%

August List Changes:
Additions: CRC-US
Removals: N/A

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	£167,829	7/3/24	2,834p	2,681p	3,400p
Suncor Energy	SU-CA	OP	Pardy	C$69,420	3/1/23	C$45.86	C$54.66	C$67.00
Exploration & Production								
California Resources	CRC-US	OP	Hanold	$4,700	9/2/24	$52.47	$52.47	$65.00
Chord Energy Corporation	CHRD-US	OP	Hanold	$9,185	5/1/24	$176.98	$148.43	$200.00
ConocoPhillips	COP-US	OP	Hanold	$132,139	5/1/24	$125.62	$113.79	$140.00
ARC Resources	ARX-CA	OP	Harvey	C$14,901	5/1/21	C$7.73	C$24.94	C$28.00
Topaz Energy	TPZ-CA	OP	Harvey	C$3,869	11/1/22	C$23.04	C$26.70	C$28.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$21,647	1/1/20	C$15.08	C$61.42	C$80.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$103,540	4/1/22	C$38.71	C$48.78	C$62.00
MEG Energy	MEG-CA	OP	Pardy	C$7,226	12/7/23	C$23.66	C$26.84	C$39.00
Obsidian Energy	OBE-CA	OP	Pardy	C$704	10/2/23	C$11.18	C$9.26	C$15.00
Woodside Energy	WDS-AU	OP	Ramsay	A$51,627	7/3/24	A$28.21	A$27.19	A$35.50
Oilfield Services								
Enerflex Ltd.	EFXT-US	OP	Mackey	$729	2/1/24	$5.16	$5.85	$9.00
Pason Systems Inc.	PSI-CA	OP	Mackey	C$1,139	12/7/23	C$14.87	C$14.31	C$19.00
SLB	SLB-US	OP	Mackey	$62,459	1/4/22	$29.95	$43.99	$69.00
Subsea 7	SUBC-NO	OP	McCulloch	NOK 57,174	5/1/24	NOK 180	NOK 189	NOK 255
Midstream								
AltaGas Ltd.	ALA-CA	OP	Kwan	C$10,267	8/1/23	C$26.03	C$34.52	C$37.00
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$31,500	9/1/22	C$46.38	C$54.29	C$60.00
Archrock Inc.	AROC-US	OP	Scotto	$3,418	12/7/23	$14.24	$20.23	$22.00
Energy Transfer LP	ET-US	OP	Scotto	$55,098	2/1/22	$9.57	$16.10	$19.00
Utilities, Refiners, Infrastructure & Renewables								
Northland Power	NPI-CA	OP	Ng	C$5,315	12/7/23	C$22.82	C$20.63	C$28.00
Superior Plus	SPB-CA	OP	Ng	C$1,922	12/7/22	C$9.82	C$7.73	C$11.00
PG&E Corporation	PCG-US	OP	Tucker	$42,108	9/1/22	$12.33	$19.70	$24.00

Priced as of market close, August 30, 2024, ET.
1-OP = Outperform.
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

California Resources (CRC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com **Rating:** Outperform **Price Target:** USD 65.00	• We are adding CRC to the RBC Energy Global Best Ideas List given its relatively attractive valuation and upside optionality potential related to its Carbon Management Business (CMB). The company is more catalyst-opportunity rich compared to peers and a number of near-term events could unlock future CMB potential.

Investment Highlights

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

AltaGas Ltd. (ALA)
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Rating: Outperform

Price target: CAD 37.00

- **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 following 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.** AltaGas continues to consider its 10% stake in the Mountain Valley Pipeline (MVP) to be non-core and will look to evaluate the sale of its stake now that the pipeline has been placed into service (MVP was placed into service in Q2/24). In March 2024, management stated that if the company closed an MVP sale in 2024, it sees the potential for debt/EBITDA to improve to 4.5-4.6x based on the mid-point of its EBITDA guidance range. Longer term, we are encouraged by statements made at its December 2023 Investor Day to build "dry powder," to take advantage of future opportunities as they arise and we believe that a debt/EBITDA target of 4.0-4.25x would position AltaGas favorably relative to its peer group, while providing structural optionality.

ARC Resources (ARX)
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Rating: Outperform

Price target: CAD 28.00

- **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 $0.68/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.
- **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, third largest outright gas producer and sixth largest E&P by volume amid the WCSB producer landscape, with an operated facilities network of ~1.5bcf/d – second only to CNQ and TOU. See our notes here, here, here, here and here.
- **Sanctioning of Attachie.** Over this past year, ARX 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 be 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. See our notes here and here.
- **LNG.** The key to long-term value creation. ARC's existing 2P reserve book contains sufficient resources 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.** At current levels, ARX trades at 6.3x/4.2x 2024E/25E EV/DACF, above its North American Large Cap E&P peers at 5.8x/5.0x. We argue that ARX should trade at a premium given what we view as the highest quality Montney portfolio and inventory depth, in our coverage, combined with robust FCF generation ($0.4/$1.2 billion in 2024/25E on current strip) and commitment to return capital to shareholders.

Archrock Inc. (AROC)
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Rating: Outperform
Price target: USD 22.00

- **Tight compression market.** We continue to view the natural gas compression market as very tight, with no signs of abatement, as demand for incremental horsepower and 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 tough 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.
- **Bookings extending well into 2025.** Customers have been locking in future compression needs, which has resulted in fully booked 2024 new build spend with bookings extending well into 2025. Engine manufacturers appear to be taking a more disciplined approach to supplying the market with incremental horsepower, which has prevented immediate relief for the market and in turn, any clear overbuild.
- **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 focused on shareholder returns.** AROC has meaningfully paid down debt in the past few years and is within its 3.0x-3.5x target. With leverage at its target, management's capital allocation priorities are (1) return capital to shareholders through a well-covered dividend and share buybacks when it makes sense and (2) prudently grow AROC's business with its customers.

California Resources (CRC)
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Rating: Outperform
Price Target: USD 65.00

- **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 it 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 the end of October. 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 the uncertainty of valuing CCS projects. We defined our view of the potential in a recent note here.

Canadian Natural Resources (CNQ)
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Rating: Outperform
Price target: CAD 62.00

- **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.
- **100% payout is here**. CNQ achieved its $10 billion net debt target at year-end 2023—opening the door to 100% payout of free cash flow to shareholder returns. 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). 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 24 years. The company's common share dividend sits at an annualized rate of $2.10 per share, following a 5% increase announced alongside CNQ's fourth-quarter 2023 results.
- **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). 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).

Chord Energy Corporation (CHRD) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com **Rating**: Outperform **Price target:** USD 200.00	• 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 140.00	• 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. (EFX) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com **Rating**: Outperform **Price target:** USD 9.00	• **Improving FCF outlook.** We see FY24 FCF of $128MM (CFO-capex) as merger integration costs decrease, working capital normalizes, a disciplined capex program of US$90-110MM is maintained, and the conversion of its $1.3bn Engineered Systems backlog to revenue and cash. Our FY24E FCF maps to a 19% FCF yield (coverage group avg. of 11%). • **Exterran acquisition expanded the company's offering; Synergy execution and business optimization is top of mind.** The Exterran acquisition has on-boarded two distinct product lines that expand Enerflex's market reach in Water Solutions and Cryogenic Gas Processing. Enerflex has realized US$50MM of its US$60MM stated synergies target, and we expect integration costs to drop to about US$22MM in FY24. Enerflex is consolidating its manufacturing footprint from five facilities to three with the closure of its Singapore and Sharjah (UAE) facilities. • **Discounted valuation.** Enerflex is trading at 2024E/25E EV/EBITDA multiples of 3.9x and 3.5x, significantly below its long-term average of 5.0x. We believe the keys to re-rating for Enerflex's shares remain: 1) Execution on merger integration; 2) Conversion of Engineered Systems bookings; and 3) Achievement of leverage and debt reduction targets. • See our latest EFX note here.

Energy Transfer LP (ET)

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Rating: Outperform

Price target: USD 19.00

- **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 ~3.4Bcf/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. 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 is currently trading at a free cash flow yield of ~12% based on our 2025 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 currently trades at an 8% 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.

MEG Energy (MEG)
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Rating: Outperform
Price target: CAD 39.00

- **Solid All Around.** MEG is our favorite intermediate producer given its capable leadership team, solid operating performance, balance sheet deleveraging via absolute debt reduction, and rising shareholder returns.
- **Ongoing Debt Reduction.** MEG has made significant progress when it comes to deleveraging its balance sheet, with direct implications on shareholder returns. The company has set its net debt floor at US$600 million, opening the door to increasing shareholder returns.
- **Accelerating Shareholder Returns.** At its current debt levels, MEG is allocating 50% of free cash flow towards shareholder returns, with the balance earmarked for ongoing debt reduction. Achieving its US$600 million net debt floor would unlock the next wave of shareholder returns, which would see 100% of free cash flow returned.
- **Multi-Year Growth Strategy.** MEG's near-term operating plan includes the installation of a third processing train at its central processing facilities to increase its Christina Lake facility's productive capacity from 110,000 bbl/d currently to 125,000 bbl/d. The company will allocate C$100 million each year over the 2024-26 time frame towards this initiative, with the incremental production benefit expected toward the end of 2026.
- **WCS Beneficiary.** As a pure-play oil sands investment, MEG is poised to benefit from the structurally tighter WCS geographical spreads that TMX will afford. Over 80% of the company's blend sales will have tidewater access once TMX is in service, given the company's capacity to ship 100,000 bbl/d to the US Gulf Coast (on a pre-apportionment basis) via its committed capacity on the Flanagan South and Seaway pipeline systems and an additional 20,000 bbl/d of contracted capacity on TMX.

Northland Power (NPI)
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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 ~$600 million of EBITDA and ~$200 million of FCF (CAFD) on completion (2025-27), which is equivalent to roughly 50% and 60% of the management's 2024 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 it will increase 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.
- **Ongoing CEO and CFO change could weigh on sentiment.** We believe investors may have less confidence in the company's ability to deliver the three projects under construction (two offshore wind and one battery storage) on time and on budget due to the recent senior executive changes.

Obsidian Energy (OBE)
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Rating: Outperform
Price target: CAD 15.00

- **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 8,500 boe/d in 2024 to 24,000 boe/d by 2026. Obsidian holds roughly 680 net sections with Clearwater and/or Bluesky heavy oil rights. 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 generally come with 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 should improve capital efficiencies.
- **Peace River Acquisition.** Obsidian recently announced a $76 million acquisition to acquire approximately 1,700 bbl/d of Clearwater production and 148 net sections of land in the Peace River area. All acquired production is from less than 7% of the acquired land base, providing considerable un-booked development opportunities. The transaction adds proved (1P) reserves of 6.3 million barrels and proved + probable (2P) reserves of 12.3 million barrels to the company's portfolio.
- **Updated Guidance.** Alongside its Peace River acquisition announcement, Obsidian revised its 2024 guidance pointing towards mid-point production volumes of 36,400 boe/d (vs. 36,000 boe/d previously) amid mid-point capital spending of $335 million (vs. $350 million previously). The company's annual production guidance includes approximately 800 bbl/d from the Peace River acquisition, partially offset by a reduction of 200 boe/d for the blockaded production at Harmon Valley South and a decrease of 200 boe/d due to lower capital expenditures.

Pason Systems Inc. (PSI)
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Rating: Outperform
Price target: CAD 19.00

- **Diversified footprint drives revenue growth above US rig count.** We expect Pason's revenue and EBITDA to outpace the US rig activity in the longer term. The company's strong market share across various North American and International operators leaves it relatively less exposed to supply chain challenges, labour shortages, and regional softness, in our view.
- **Longer-term growth opportunity in well completion space.** Pason's recent acquisition of Intelligent Wellhead Systems (IWS) provides an opportunity for Pason to apply its competencies in land drilling to well completions. We believe the completion market (fracking) offers a long-term growth opportunity that could rival that of its drilling operations. To put it into context, PSI's NAM drilling business generates about $300MM revenue annually. At a 30-35% EBITDA margin, IWS could add about $100MM of EBITDA, or $6-7/share based on current trading multiples. Recent growth trends have been encouraging as IWS's FY23 revenue of $45MM has grown $22MM y/ y, a pace we expect to continue through 2025.
- **Net cash balance sheet reduces downside risk and provides optionality.** At 1Q24, the company had $71 cash and short-term investments on its balance sheet, with no funded debt, which we believe provides flexibility for strategic uses and/or increased shareholder returns. In 2024, our FCF estimate maps to a 13% margin of revenue and a 4% FCF yield.
- **Favourable relative valuation.** Pason historically has traded at a 3.4x EV/EBITDA premium to land drilling peers (2.5x-3.6x current). We continue to see value in Pason shares as the company demonstrates strong margins, free cash flow, and financial returns.

Pembina Pipeline Corporation (PPL)
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Rating: Outperform
Price target: CAD 60.00

- **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 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 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 could 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 it 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 should act to help offset customer bill increases.
Shell (SHEL) Biraj Borkhataria, Global Head of Energy Transition Research (+44) 20-7029-7556 biraj.borkhataria@rbccm.com **Rating**: Outperform **Price target:** GBp 3,400	• **Cash flow machine.** On our numbers, Shell generates significant amounts of cash, supported by its oil leverage and #1 presence in LNG. The updated plans laid out by management have focussed more on operational reliability and momentum, and this should further support cash generation over the coming years. • **Re-rating warranted?** Shell generates a superior FCF yield on average relative to the sector over 2024E-25E but trades at a discount on a DACF multiple basis. We think strong shareholder returns should help drive a re-rating, while continued de-leveraging sets Shell up to become a more stable business through the cycle. • **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 at 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
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Rating: Outperform
Price target: USD 69.00

- **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. 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 2Q24 SLB's y/y North American revenue decreased 6%, while International grew 18%, 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.

Subsea 7 (SUBC.OL)
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Rating: Outperform
Price target: NOK255

- **The outlook for subsea awards remains buoyant** and Subsea 7 is well-positioned to benefit from continued contract awards. In 2H, we continue to look to Brazil where we see potential for the award of more subsea packages from Petrobras and Equinor, plus smaller awards in North America and Europe. Subsea 7 has reflected the magnitude of contract opportunities this year by adding a new category of contract size on its subsea prospects map for "super-major" contracts valued at over $1.25bn to the company, and secured two of these sized awards already.
- **Expansion through vessel chartering:** Subsea 7's current fleet comprises 28 owned assets and 12 charter vessels, which is up from eight charter vessels 1Q23. As well as being one of the strongest fleets in the subsea sector, in terms of ownership, this charter expansion is allowing the company to focus its high-specification vessels, which it refers to as its "Global Enablers". These vessels can be focused on more complex, larger and higher-margin work by outsourcing the more commoditised work to the chartered fleet. The company says it continues to see opportunities for additional charters, and may make strategic acquisitions.
- **Material shareholder return plans, with upside:** We forecast FCF yield of 17% in 2024 and 19% in 2025, and upside to the current payout plan. Subsea 7 announced a cash dividend of NOK6/share, equating to ~$170m, payable in two equal instalments in May and November 2024, plus a share repurchase of ~$80m, resulting in shareholder returns of ~$250m. In addition, the company announced is intention to continue this with a total planned payout of $1bn in dividends and buybacks for 2024-27.

Suncor Energy Inc. (SU)
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Rating: Outperform

Price target: CAD 67.00

- **New Leadership Making an Impact.** Under its new CEO, Rich Kruger, and energized leadership team, Suncor has executed a lightning quick turnaround which should fuel relative share price appreciation. We anticipate that Rich will remain in his role for the next several years and are pleased to hear that the company has already begun its longer-term CEO succession planning process. Ongoing performance and driving results are in sharp focus at Suncor in what can be described as a CEO horse race in the coming years.
- **Business Update.** Suncor's recent 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 time frame. 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.
- **Shareholder Returns Refreshed.** Alongside its Business Update, Suncor redefined its net debt targets and boosted its share buyback allocation to 75% (vs. 50% previously) of free funds flow, effective in the second quarter. The company's long-term net debt target of $8 billion (vs. $5 billion previously) now excludes capitalized leases and remains governed by a 1.0x net debt-to-AFFO ratio at US$50 WTI. Upon achieving at or near $8 billion of net debt, the company will allocate at or near 100% of free funds flow towards share repurchases. Suncor also remains committed to a reliable and rising dividend which is targeted to grow at a 3%-5% CAGR.
- **2024 Budget.** Suncor's 2024 budget points towards mid-point production of 790,000 bbl/d in the context of mid-point capital spending of $6.4 billion (excluding capitalized interest of approximately $350 million). The company's capital program reflects both sustaining and economic capital, including capital towards mining fleet upgrades at Fort Hills and Base Mine, the replacement of Upgrader 1 coke drums at Base Plant, the completion of the Base Plant co-generation project, and the continued development of the West White Rose and Syncrude Mildred Lake West Mine Extension projects.

Superior Plus (SPB)
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Rating: Outperform
Price target: CAD 11.00

- **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 grew EBITDA by 50% in 2023, and management expects 15-20% growth in 2024 as the market is still in its early stages of growth. However, we note that Certarus recently underwent a CEO change, and there could be some headwinds with lower oil field activity, resulting in lower margins in the near term.
- **Focused on organic growth.** Management reiterated that organic growth opportunities at Certarus are the priority, and M&A is secondary. We estimate that the company can deploy capital into Certarus at 20% ROI. In 2024, management expects to deploy US$230 million (48% of EBITDA) into capex and leases to grow Certarus and sustain its legacy propane business. We also view potential share buybacks as an additional attractive avenue for deploying capital because it could be more accretive than M&A and could 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 US$185k/MSU of EBITDA. We estimate that the cost of an MSU, plus the supporting infrastructure (e.g., compressors and de-compressors), totals ~US$750k, equating to a ~3-4x EBITDA investment multiple (~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.

Topaz Energy (TPZ)
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Rating: Outperform
Price target: CAD 28.00

- **Diversified royalty model with a natural gas tilt.** Topaz closed Q2 on a positive note, with CFPS beating expectations by 9%. Looking forward, their 2024E/25E production profile remains 69%/68% gas-weighted and they remain 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 7,400 boe/d in 2023 to over 10,000 boe/d by 2028 (4.4% 7-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 averaged roughly 2,850 bbl/d of total Clearwater production in 2023, with expectations to exceed 3,000 bbl/d 2024. The royalty business model is insulated from industry cost inflation, providing margin stability.
- **Resilient infrastructure model.** Topaz holds working interests in eight 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). In 2024, TPZ closed an acquisition of a non-op interest in WCP's Musreau plant which features a 10-year, fixed take-or-pay contract which requires the facility to be 60% utilized (currently: 70%) followed by 7 years of pro-rata fill through the facility where we expect a 100% operating margin (see more here). We expect Topaz's infrastructure portfolio to generate ~$78/87 million in 2024/25 revenue, covering roughly 45% 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 to $1.32/sh (5% dividend yield) in 2024; we now estimate a 65%/60% effective payout ratio in 2024/25. The company balances its RoC program with continued deleveraging efforts, with our forecasts suggesting roughly $140 million in post-dividend FCF in 2025.

Tourmaline Oil (TOU)
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Rating: Outperform
Price target: CAD 80.00

- **Canada's top gas producer.** Tourmaline is Canada's #1 natural gas producer, positioned to return meaningful capital to shareholders while also delivering a 7% production volume growth CAGR conceptualized within the current plan. Additionally, the company's top-quartile cost base position it as a low-cost producer amid the current E&P landscape. See our most recent quarterly 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 720,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in two tranches, with volume additions set to roughly coincide with the startup of LNG Canada Phase 1 (see more on the Montney here). The plan incorporates capex spend of roughly half of forecasted cash flows, leaving meaningful capacity for RoC programs. This year, TOU added to its NE BC Montney portfolio by acquiring Crew Energy providing ~30+ mboe/d and 700 Tier 1 locations.
- **Well-timed Cheniere export deal & other LNG agreements.** Our RBC base estimates incorporate '24 JKM pricing of ~US$11.45/mcf, which equates to annual cash flow (marketing revenue) of ~$375 million from the contract – meaningful considering the contract represents only 5% of TOU's 2024E natural gas volumes. We estimate a US$1 increase in JKM pricing to result in roughly C$65-75 million of incremental after-tax cash flow in 2024. The company also entered a TTF physical netback agreement to AECO (50,000 mmbtu/d) commencing in March 2024 until December 2026. See our notes here and here.
- **Return of capital with the vast majority of FCF to be returned.** Our outlook calls for a $1.28/sh annualized base dividend in 2024 plus an additional $2.00/sh in special dividends. On current strip pricing, we expect TOU to generate $0.9/1.4 billion of FCF in 2024/25 (or about $1.1/1.7 billion at the RBC Deck). TOU trades at 6.1x/5.2x 2024E/25E EV/DACF, a premium versus its North American Large Cap E&P peers at 6.0x/5.5x. We believe TOU is becoming a core holding among energy investors and should trade at a premium given what we view as a high class diversified portfolio and inventory depth.

Woodside Energy (WDS)
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Rating: Outperform
Price target: AUD 35.50

- **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 in 2024 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 averaged 155,000 b/d (gross) production in the June 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 has started production strongly.** The Sangomar (WDS 82%) Phase 1 development delivered first oil in June 2024 and achieved project nameplate capacity of 100,000 bopd (gross) in July. We view this as a very good start to the project. Phase 1 is developing high quality base S500 sands and we expect it to recover ~250 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 was classified as the world's largest oil field discovery in 2014 by IHS CERA.
- **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 are 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 US$5.80/mmbtu cost of supply for LNG delivered to Asia from Scarborough.
- **Driftwood LNG** phase 1 has potential to deliver 12%+ project returns from Woodside value add through a combination of project debottlenecking, strong LNG plant operating capability, global LNG marketing portfolio, long shipping position, and lower cost balance sheet finance. This project return is consistent with our initial view. Woodside intends to proceed with Driftwood Phase 1 at a reduced level of equity, presumably at 51% in comparison to its current 100% ownership.
- **Strong balance sheet and credit metrics.** We think concerns over Woodside's ability to fund its high dividend payout ratio after agreeing to purchase Tellurian and OCI are overblown. We see Woodside continuing to pay out a base dividend at 80% of underlying NPAT, and we forecast a dividend yield of ~7% over 2024 and 2025.

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