



August 3, 2022

## Global Energy Best Ideas

**Our view:** In July, the RBC Global Energy Best Ideas List was up 9.4% compared to the iShares S&P Global Energy Sector ETF (IXC) up 7.0% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) up 6.5%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 123.7% compared to the S&P Global Energy Sector ETF up 17%.

| Total Return Comparison             | July | YTD   | Inception |
|-------------------------------------|------|-------|-----------|
| iShares S&P Global Energy (IXC)     | 7.0% | 34.5% | 17.0%     |
| Hybrid Benchmark (75% IXC, 25% JXI) | 6.5% | 25.6% | 35.4%     |
| RBC Global Energy Best Ideas        | 9.4% | 33.2% | 123.7%    |

### July List Changes:

Additions: LBRT-US  
Removals: SES-CA

| RBC GLOBAL ENERGY BEST IDEAS LIST                           |                     |         |              |            |           |               |              |
|---|---------------------|---------|--------------|------------|-----------|---------------|--------------|
| Ticker  | Rating <sup>1</sup> | Analyst | Mkt Cap (mn) | Date Added | Add Price | Current Price | Price Target |
| <b>Integrated Energy</b>                                    |                     |         |              |            |           |               |              |
| Shell   | SHEL-LON            | OP      | Borkhataria  | £158,877   | 7/1/20    | 1,224p        | 2,166p       |
| BP  | BP-LON              | OP      | Borkhataria  | £76,784    | 3/1/22    | 364p          | 403p         |
| Suncor Energy   | SU-CA               | OP      | Pardy        | C\$60,649  | 7/6/22    | C\$43.34      | C\$42.91     |
| <b>Exploration &amp; Production</b>                         |                     |         |              |            |           |               |              |
| ConocoPhillips  | COP-US              | OP      | Hanold       | \$122,503  | 12/1/20   | \$39.56       | \$94.71      |
| Canadian Natural Resources                                  | CNQ-CA              | OP      | Pardy        | C\$80,319  | 4/1/22    | C\$77.41      | C\$69.58     |
| Enerplus Corporation  | ERF-US              | OP      | Pardy        | \$3,284    | 6/1/22    | \$14.84       | \$13.65      |
| Santos Limited  | STO-AU              | OP      | Ramsay       | A\$24,293  | 6/1/19    | A\$6.74       | A\$7.24      |
| Tourmaline Oil  | TOU-CA              | OP      | Harvey       | C\$25,925  | 1/1/20    | C\$15.08      | C\$77.42     |
| ARC Resources   | ARX-CA              | OP      | Harvey       | C\$11,971  | 5/1/21    | C\$7.73       | C\$18.01     |
| Range Resources   | RRC-US              | OP      | Hanold       | \$8,328    | 7/6/21    | \$16.76       | \$31.68      |
| California Resources Corporation                            | CRC-US              | OP      | Hanold       | \$3,423    | 6/1/21    | \$29.01       | \$44.09      |
| Tamarack Valley Energy                                      | TVE-CA              | OP      | Davis        | C\$1,840   | 7/6/21    | C\$2.57       | C\$4.25      |
| Freehold Royalties  | FRU-CA              | OP      | Davis        | C\$2,160   | 7/6/22    | C\$12.69      | C\$14.34     |
| Ranger Oil Corporation                                      | ROCC-US             | OP      | Hanold       | \$1,645    | 6/1/22    | \$42.81       | \$37.64      |
| Brigham Minerals, Inc.                                      | MNRL-US             | OP      | Schultz      | \$1,379    | 6/1/22    | \$30.31       | \$26.36      |
| <b>Oilfield Services</b>                                    |                     |         |              |            |           |               |              |
| Schlumberger Ltd.   | SLB-US              | OP      | Mackey       | \$51,860   | 1/4/22    | \$29.95       | \$36.69      |
| Liberty Energy  | LBRT-US             | OP      | Mackey       | \$2,636    | 8/3/22    | \$14.20       | \$14.11      |
| <b>Midstream</b>  |                     |         |              |            |           |               |              |
| Cheniere Energy Inc   | LNG-US              | OP      | Scotto       | \$37,097   | 5/1/20    | \$46.69       | \$145.97     |
| AltaGas Ltd.  | ALA-CA              | OP      | Kwan         | C\$7,995   | 7/6/21    | C\$26.02      | C\$28.49     |
| Energy Transfer LP  | ET-US               | OP      | Scotto       | \$34,774   | 2/1/22    | \$9.57        | \$11.27      |
| Targa Resources Corp.                                       | TRGP-US             | OP      | Schultz      | \$15,494   | 12/1/21   | \$51.63       | \$67.96      |
| <b>Utilities, Refiners, Infrastructure &amp; Renewables</b> |                     |         |              |            |           |               |              |
| The AES Corp.   | AES-US              | OP      | Tucker       | \$14,847   | 12/1/21   | \$23.38       | \$22.23      |
| Algonquin Power & Utilities                                 | AQN-US              | OP      | Ng           | \$9,427    | 6/1/21    | \$15.28       | \$13.95      |
| Drax Group plc  | DRX-LON             | OP      | Musk         | £3,138     | 5/1/21    | 409p          | 783p         |
| HF Sinclair Corporation                                     | DINO-US             | OP      | Schultz      | \$10,874   | 6/1/22    | \$49.10       | \$48.71      |

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. 5-This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in 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

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

RBC Europe Limited  
Biraj Borkhataria (Associate  
Director of European  
Research)  
John Musk (Analyst)

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

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



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

### Exhibit 1 - This Month's Additions

---

**Liberty Energy (LBRT)**

Keith Mackey, Analyst

(403) 299-6958

keith.mackey@rbccm.com

- We are adding Liberty Energy to RBC's Energy Best Ideas list. YTD in 2021 Liberty has dramatically improved its operational execution following acquisition of Schlumberger's pressure pumping equipment in 2021, which required substantial integration. We believe enhanced operational execution, combined with a tight market for pressure pumping services in the US, should lead to materially stronger EBITDA and FCF generation through 2023. We ultimately believe increased FCF should provide optionality between share repurchases and contracted fleet additions. LBRT trades at a discount to pressure pumping peers in our coverage group, which we do not believe is justified given its substantial operating footprint and strong balance sheet.
- 

### Exhibit 2 - This Month's Removals

---

**Secure Energy Services (SES)**

Keith Mackey, Analyst

(403) 299-6958

keith.mackey@rbccm.com

- We remain constructive on Secure's improving fundamentals and potential revaluation of the stock through debt reduction from FCF generation, enhanced shareholder returns, and eventual removal of any Competition Tribunal overhang. Our decision to swap SES out of the Global Energy Best Ideas list in favour of Liberty Energy (NYSE: LBRT) is a relative call due to higher return potential to our 1-year target price in LBRT.
-



## Investment Highlights

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

### The AES Corp. (AES)

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

- **Transformational profile could lead to ESG premium.** AES has become one of the largest solar developers in the world, with a current backlog of 10.3 GW and 59 GW pipeline. It has been reducing its coal-fired generation exposure from 45% at the end of 2019 to 22% in March 2022. By 2025, AES plans to exit coal entirely. Its investments to integrate energy technologies should enhance the stock value. As an example, the recent IPO of Fluence Energy (FLNC, Outperform) values AES' ownership at ~\$1 billion, though the company invested less than \$150 million into the business.
- **Stable core business.** AES' earnings and cash flows are very predictable, as 85% of pre-tax earnings contribution is highly contracted or regulated. The vast majority of new generation projects are contracted through long-term purchased power agreements (PPAs). The average life of PPAs are 13 years. AES also generates a large amount of cash flows, with 2020 parent free cash flow being at \$777 million. We expect free cash flow to grow at 7%-9%, in line with earnings per share. This provides management growing funds to redeploy in its pipeline of projects. It will also allow the company to grow its dividend at least 5% a year.
- **Valuation attractive.** As of July 28, AES trades at a discount to the utilities and to the market. On 2023 estimates, its P/E multiple is 12.5x versus the utility peer group at 20.6x with NEE and 19.2x without; the S&P 500 2023 P/E stands at 19.2x. The same applies on an EV/EBITDA basis, as AES trades at an 8.5x 2023E multiple versus the utility comp group at 10.8x. We believe that the stock will benefit from a re-rating as the profile shifts increasingly toward renewables. Our \$30 price target assumes a 17x 2023E P/E multiple and 9.7x 2023E EV/EBITDA multiple, though it is based on a sum-of-the-parts methodology.



---

**Algonquin Power & Utilities (AQN)**

Nelson Ng, Analyst

(604) 257-7617

nelson.ng@rbccm.com

- **Strong growth profile.** Algonquin has a \$12.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 7-9% EPS growth profile and our expectation of 6% annual dividend growth. The company has been successful in growing its regulated utility business organically and through M&A, and the company also has a large renewable energy development pipeline. Management has a good track record of adding renewable energy capacity inside (greening the grid) and outside (on a contracted basis) of its regulated utility footprint. We believe the pending acquisition (fully funded) of Kentucky Power provides significant opportunities to green the grid.
- **Very supportive greening initiatives in the U.S. can drive upside.** Algonquin has a large regulated utility and renewable energy footprint in the U.S. that should benefit from the Biden Administration's decarbonization objectives. Biden has a 2050 carbon net zero target, and a very ambitious target of a carbon-free electricity grid by 2035. The company has signed power purchase agreements with corporations to green its energy consumption, and has partnered with Chevron to jointly develop some renewable projects.
- **Insulated from inflationary pressures and a potential recession.** Algonquin operates a diversified regulated utility business providing electric/gas/water services to over 1 million customers (primarily in the U.S.) and a renewable energy division with ~2.3 GW of generation capacity. Roughly two-thirds of the company's EBITDA is generated by regulated assets, where inflation/higher rates is a pass-through to ratepayers, while the other one-third of EBITDA is contracted through long-term PPA agreements (13 year average). We believe the stability of the two business segments provides a good level of protection against inflationary cost pressures and a potential recession.

---

**AltaGas Ltd. (ALA)**

Robert Kwan, Analyst

(604) 257-7611

robert.kwan@rbccm.com

- **Is AltaGas a utility or a midstreamer?** The market seems to be saying "neither." AltaGas's guidance is for 55% of 2022E EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and the remainder from midstream assets (net of corporate costs). With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that WCSB-focused midstream investors have historically looked to pure-play stocks levered to industry trends.
- **Additional asset monetizations could continue to drive material upside in the stock.** With the market's positive response to the sale of the Alaskan utilities, we see continued upside if the company looks to monetize additional assets. While MVP was an obvious asset sale candidate given it was a non-operated minority interest that also benefitted from an ability to greatly reduce debt/EBITDA (given AltaGas would only book equity earnings), we still believe that the company has options to monetize an asset, or assets, that could reduce leverage and eliminate various risks for MVP (e.g., whether it happens at all, timing of a sale and/or asset sale valuations changing).

*AltaGas Ltd. (TSX: ALA) has agreed to sell its Alaskan Utilities to TriSummit Utilities Inc. announced on May 26, 2022. RBC Capital Markets served as financial advisor to AltaGas. The transaction is anticipated to close no later than the first quarter of 2023 and will be subject to customary closing conditions, including State regulatory approvals. This research report and the information herein is not intended to provide voting advice, serve as an endorsement of the transaction or result in procurement, withholding or revocation of a proxy or any other action by a security holder.*

---

### ARC Resources (ARX)

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

- **FCF generation - ample.** ARC is set to generate **~\$2.2 bn FCF in 2022** on our numbers. With a strong balance sheet and large M&A on hold (for now), the focus remains on Attachie development and RoC initiatives. ARC targets return of capital in the range of 50-80% of FCF via base dividend tied to earnings growth (now at \$0.48/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%.
- **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](#).
- **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](#).

### BP PLC (BP)

Biraj Borkhataria, Analyst  
(+44) 20-7029-7556  
biraj.borkhataria@rbccm.com

- **Sector leading shareholder returns.** BP intends to return at least 60% of its surplus free cash flow to shareholders via buybacks over time, in addition to its dividend, and we expect to see surplus cash generation improve through the year. We see BP returning ~15% to shareholders in 2022 via dividends and buybacks, the highest in the sector. Over the next five years, we see potential for investors to receive a significant portion of BP's market cap back via dividends and buybacks, again the highest in the sector.
- **Buybacks to support stock over the coming months.** On our assumed buyback of ~\$10bn in 2022, BP could be purchasing >18% of its ADV through the year on average, providing an extra layer of support to the shares in addition to the current strong commodity price environment.
- **Refining leverage to come through in 2022.** BP is more geared to refining than some of its European peers, with 1.8mb/d of refining capacity, a large proportion of which is in the US (~40%). We expect this to be supportive for BP's earnings momentum in 2022, and our >\$11bn refining & trading EBITDA estimate is almost six times what BP generated in 2021, and 3x pre-Covid 19 levels.



---

**Brigham Minerals, Inc. (MNRL)**

TJ Schultz, Analyst

(512) 708-6385

tj.schultz@rbccm.com

- **Diversified exposure to core basins.** MNRL has diversified exposure to core basins, with assets located in the Permian, Mid-Con, DJ, and Williston basins, with a liquid weighted production mix of about 70% liquid / 30% gas.
  - **Top-tier technical team.** In our view, MNRL has a top-tier technical team that has successfully driven production growth organically as well as with a disciplined acquisition strategy.
  - **Production growth.** Strong DUC conversions have driven recent organic production growth, and increased drilling activity on its acreage has helped to backfill utilized DUC inventory. MNRL also continues to deploy acquisition capital, with the most recent acquisitions primarily focused on nearer-term volumes (PDPs, DUCs, and permitted acreage) in the Permian Basin.
  - **Attractive yield.** MNRL pays a quarterly dividend that consists of a base and variable component. The base component has been set at a level MNRL is confident it would be able to distribute in the event of a major downturn, and the variable component results in a payout of ~75% of distributable cash flow. We continue to see a path to >\$2.00/share dividends in 2022.
-



---

**California Resources Corp. (CRC)**

Scott Hanold, Analyst

(512) 708-6354

scott.hanold@rbccm.com

- **Attractive value proposition.** CRC shares offer an attractive entry valuation point, strong balance sheet and robust FCF outlook. The company's low break-even point, which we estimate at \$38-39/bbl (WTI), and 50% reinvestment framework positions the company to generate \$1.9 billion of FCF from 2022-2025. FCF priorities include returning large portions of cash to shareholders, maintaining its already strong balance sheet, and starting to fund its developing carbon management business. The company has an active buyback program and instituted a fixed dividend at 3Q21 earnings which we expect grows over time. CRC plans to return 50% of FCF back to shareholders providing upside to returns longer term.
  - **ESG exposure in a U.S. E&P.** The company's large surface rights ownership, premium reservoir geology in close proximity to emitting parties, and being located in 'green energy' friendly California provide CRC the unique opportunity to economically participate in energy transition opportunities. We think signing up its first LCFS eligible third-party emitter is a catalyst to de-risking value from its carbon management projects and should come in the back half of 2022. The State of California has established attractive credit programs to incentivize green energy development in order to meet the state's ambitious climate targets. Accordingly, these credits enhance project economics for CRC as it expands into renewable/carbon management projects being able to take advantage of both in-state and federal credit programs. We think the value of these projects could eclipse the value of the upstream business over time.
  - **Progressing on the carbon management business.** This past spring we took a field tour of CRC's oil & gas operations, saw the future site of CTV I, and spoke with a local regulator ([note](#)). CRC now has four class VI well permits filed (120 MMT total storage) with the EPA and plans to have permits filed for another 80 MMT of storage by year-end. CRC is beginning to spend capital to build a backlog of prepared injection sites that can become operational once permits are approved. Targeted FID on CRC's first project Carbon TerraVault I (CTV I) remains mid/late-2023 with first injection planned for late 2025. Near term catalysts to watch for are approval of the Kern County EIR needed for CTV I to proceed which we think could come by October 2022, CRC signing up its first third party emitter which should come by year-end, and EPA class VI permit approval which we think could come in mid-2023. CRC targets injecting 5 MMT/annually starting in 2027. We think these initially identified CCS projects represent \$30-40/share of value that's largely not reflected in the stock price today.
  - **Conventional asset base provides consistency.** The company's conventional asset base has a low capital intensity with base decline rates at ~15%, far lower than shale E&P peers at 35-40%. Its conventional low-risk, low-decline asset development strategy drives more stable production and cash flow generation which help underpin our FCF outlook. We estimate CRC has over a decade of remaining core drilling opportunities in its core fields, which should position the company for repeatable, robust FCF generation for years to come.
-



---

**Canadian Natural Resources (CNQ)**

Greg Pardy, Head of Global Energy  
Research

(416) 842-7848

greg.pardy@rbccm.com

- **Globally distinguished.** Canadian Natural Resources' management committee structure and shareholder alignment are unique factors 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.
- **FCF & buybacks.** We peg CNQ's free cash flow (before dividends of \$3.2 billion and acquisitions) at \$18.3 billion in 2022 under our base outlook (US\$108 WTI). The company plans to allocate one-half of its free cash flow (post dividends and sustaining capital) to share repurchases, with the balance (less strategic growth capital/acquisitions) allocated to net debt reduction. Our 2022 outlook incorporates share repurchases of approximately \$6.3 billion with net debt reduction of \$8.1 billion. In conjunction with 4Q21 results, CNQ raised its common share dividend by 28% to an annualized rate of \$3.00 (4.3% yield) per share. We think it is important to point out that CNQ has never cut its dividend—which has grown at a CAGR of 22% over the past 22 years.
- **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 continues to work through details with respect to the Oil Sands Pathways to Net Zero initiative to advance key milestones to be achieved over the next decade as they accelerate related projects, targeting net zero emissions in its oil sands operations by 2050. CNQ 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). From 2016 to 2020, the company's corporate GHG emissions intensity fell 18%.

---

**Cheniere Inc. (LNG)**

Elvira Scotto, Analyst

(212) 905-5957

elvira.scotto@rbccm.com

- **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 90% contracted on its nine-train portfolio including mid-term and short-term SPA and IPM agreements. All of Cheniere's Sale and Purchase Agreement customers are investment grade rated or have investment grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity.
  - **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still pay fixed liquefaction fees. In our 2024 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%.
  - **Long-term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. The four pillars of Cheniere's capital allocation strategy include (1) annual debt pay down of \$1 billion through 2024 to achieve investment grade ratings; (2) dividend declaration of \$0.33/share (\$1.32/share annualized) with mid-single-digit annual growth; (3) \$1 billion share repurchase program; and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.
-





---

**ConocoPhillips (COP)**

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

- **COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** The company is well positioned to maintain competitive FCF generation through various commodity price cycles with a sub-\$30/bbl (WTI) average cost of supply.
- **RDS Permian acquisition enhanced the returns proposition.** The \$9.5 billion cash acquisition which closed late 2021 lowered the corporate cost of supply, increased the resource base, and improves go forward FCF generation.
- **A well-defined and attractive investment proposition.** COP was an early leader in committing and demonstrating high returns of capital back to shareholders. The priorities are: (1) sustain production and pay its fixed dividend; (2) annual dividend growth; (3) maintain an A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion. Management has demonstrated its commitment to industry-leading returns of capital to shareholders that includes a minimum cash flow payout of 30%. We think this could translate to returning 80+% of the current market cap back to shareholders over the next decade through fixed dividends, variable dividends, and stock buybacks. We think the total returns payout trends toward 40+% of CFO in 2022 at current commodity prices.
- **A global and diverse footprint across the commodity spectrum mitigates unsystematic risk.** This also allows capital to shift toward projects that can deliver high returns through commodity price and economic cycles.
- **COP is the fifth-largest natural gas marketer in the U.S.** This creates opportunities to enhance transportation and sales mechanisms for margin improvement.
- **Energy transition opportunities.** We think there is a growing effort to evaluate energy transition options. COP has a low carbon team that is focused on emission reduction initiatives and opportunities relevant to its core business and competencies. This could include CCS/CCUS and blue/green hydrogen.

---

**Drax Group plc (DRX)**

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

- **Forward hedges have advanced, and there is upside on open volumes.** Drax has over 25TWh of power hedged over 2022-24 at average prices of just under £100/MWh. Drax has been selling incremental volumes in 2022 and 2023 at ~£250-300/ MWh and we believe consensus is only factoring in power prices at 50% of current forward curves on open volumes in 2023 & 2024. Drax still has ~2TWh of open volumes to sell in 2022 and ~5TWh in 2023. We believe we are still relatively conservative on the pricing we assume Drax may achieve for these volumes given forward curves sit significantly above our estimates.
- **Delivering on three-pronged growth strategy.** In pellets, Drax has added 0.4Mt of production capacity, and will look to take FID on a further 0.5Mt in H2 2022. Planning has been submitted for BECCS, with a business model consultation from government expected "during the summer". Drax also talks positively about new build international BECCS as it screens US locations and evaluates options for offtake agreements for power and negative emissions. Finally, the planning application for the 600MW Cruachan II pumped storage facility has also been submitted and a connection agreement secured. We see progress here as reason to be excited
- **Growth ambitions progressing well.** We see Drax's generation segment earning significant cash flows from elevated commodities, offset by higher anticipated costs within the biomass pellets division. We see this pattern continuing across our 2023-24E where we estimate Drax captures higher power prices on open volumes, pushing our estimates to now sit ~15% ahead of consensus in 2023E and ~20% ahead in 2024E. We see Drax increasingly well-placed longer-term with its £3bn growth ambitions aligned with UK security of supply and net zero ambitions.

### Energy Transfer (ET)

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

- **Energy Transfer is a publicly traded partnership that owns and operates a portfolio of assets across the natural gas, natural gas liquids, and crude oil value chain.** We believe ET is well positioned to generate meaningful cash flow growth as large-scale growth projects come online and as we expect growth capex to slow. With a stronger balance sheet, ET should be in position to return more cash to unit-holders via distribution increases and/or unit repurchase.
- **Significant synergy potential from recent Enable Midstream acquisition:** (1) Enable brings additional demand pull transportation and storage assets in the Mid-Con and ArkLaTex regions. (2) Enable's Gathering and Processing assets in the Mid-Con complements ET's Gulf Coast fractionation and export assets. (3) Enable's Haynesville Gathering and Processing assets and its Gulf Run pipeline increase exposure to the global liquefied natural gas markets. (4) In the Bakken, Enable provides crude gathering that connects into DAPL. ET expects the Enable acquisition to generate \$100MM of cost and efficiency synergies, which we view as achievable given the complementary asset bases.
- **Strong balance sheet FCF generation potential positions the company for capital return.** ET lowered its outstanding debt by ~\$6BN in 2021, and exited 2021 with leverage of 3.9x (credit facility calculation) while targeting leverage of 4.0-4.5x. We forecast ET exits 2022/2023 with Net Debt/TTM Adjusted EBITDA of 3.7x/3.6x while paying \$6.6BN in distributions.

### Enerplus Corporation (ERF)

Greg Parady, Head of Global Energy  
Research  
(416) 842-7848  
greg.parady@rbccm.com

- **Solid all-around.** Enerplus is our favourite intermediate producer given its capable leadership team, consistently solid execution, strong balance sheet and rising shareholder returns. As a seasoned intermediate producer, the company is anchored by its extensive footprint in the Bakken, with its Marcellus and Canadian water flood production playing supporting roles.
- **Attractive valuation.** Enerplus is trading at a 2022 debt-adjusted cash flow multiple of 2.6x (vs. our North American intermediate peer group average of 2.8x) and an elevated free cash flow yield of 29% (vs. our peer group average of 22%). We believe the company should trade at an average/above average multiple given its consistent operating performance, capable leadership team and strong balance sheet, partly off-set by portfolio concentration.
- **FCF & shareholder returns.** Enerplus is committed to returning the greater of \$350 million (minimum) or 50% of free cash flow through dividends and share repurchases in 2022. The company had planned to repurchase the remaining 8.0 million share authorization under its 10% NCIB by the end of July and renew its issuer bid in August. All said, Enerplus anticipates returning about \$40 million to shareholders in 2022 via dividends, with the remaining \$310 million or greater returned to shareholders via buybacks. Our outlook factors in share repurchases of \$355 million in 2022 and \$350 million in 2023. Although the company has not formulaically defined its shareholder returns policy beyond 2022, it remains committed to shareholder returns of various forms (including variable/special dividends). We peg Enerplus' free cash flow at approximately \$877 million in 2022 in the context of a \$420 million capital program under our base outlook (\$108 WTI, \$5.63 Henry Hub).
- **Bakken positioning.** Enerplus' [April 12 Update on the Bakken](#) explored its long runway of quality drilling locations in an advantaged basin following its two acquisitions last year and affirmed a solid corporate strategy. The company pointed towards 670 drilling locations in its core/extended core areas of the Bakken – or about 13 years of drilling inventory at 50 wells per annum.

### Freehold Royalties (FRU)

Luke Davis, Analyst

(403) 299-5042

luke.davis@rbccm.com

- **Positioned in top tier plays with M&A further enhancing the portfolio.** Freehold provides diversified North American basin exposure with pro-forma guidance of a 59%/41% split between Canada/US Q4/22E revenues. Freehold anticipates its Canadian portfolio is now capable of growing at 3-5% organically per year without incremental M&A, supported by 15-20% organic growth in the US with investment grade companies constituting 70% of US payors. Freehold remains focused on M&A, primarily in the US given a vast opportunity set (80-90% fee title), compared to Canada (20% fee title). Freehold evaluated roughly \$2 billion in transactions in Q1/22 (note [here](#)), while closing three Permian and Eagle Ford transactions for a combined C\$174 million subsequent to Q1/22 (note [here](#)).
- **Well positioned in an inflationary environment.** The royalty business model remains largely insulated from industry cost inflation, with operating expenditures relatively fixed and no exposure to direct costs associated with oil & gas extraction. As a result, the company is able to capture activity and commodity price upside, with Freehold's fixed costs sitting at roughly \$30 million per year (note [here](#)). While broader industry inflation could indirectly impact the business (slowdowns in drilling and growth), the relative margin stability in Freehold's royalty model should stand out in the coming quarters, in our view.
- **Return of capital remains a key priority.** Freehold increased its dividend in six consecutive quarters up to Q1/22, with the annual dividend now sitting at \$0.96/sh or a ~7% yield. The company re-evaluates its dividend quarterly with management targeting a 60% payout ratio longer-term (~44% at current strip) and coverage down to roughly US\$40/bbl. We currently forecast a 13% increase in Q3/22 to \$1.08/sh, followed by a further 11% increase to \$1.20/sh in Q1/23.
- **Unhedged royalty model provides direct commodity exposure, supporting FCF generation and debt reduction.** Freehold remains unhedged to provide direct commodity exposure for investors, though the team has noted the potential to layer in hedges associated with M&A activity in order to lock in returns. Based on our current estimates, we forecast Freehold generating roughly \$213/\$260 million in post-dividend FCF at RBC's US\$107/US\$114 pricing outlook for 2022/23. This maps to \$69/(\$191) million in net debt (cash) for Freehold. We note that we do not currently model potential acquisitions, though we view this as likely.

### HF Sinclair Corporation (DINO)

TJ Schultz, Analyst

(512) 708-6385

tj.schultz@rbccm.com

- **Refining margins.** Refiners across the board are seeing strong margins from the elevated cracks that materialized late in 1Q. We expect DINO to continue to benefit from the elevated product cracks in 2Q+ as capture and cash flow should improve. Management see the primary risk to operations being a recession, with some natural gas price and RINs headwinds.
- **Sinclair acquisition.** DINO closed the acquisition of Sinclair in 1Q, and the integration of the business has gone as management expected. Following close of the acquisition, DINO reinstated the dividend at \$0.40/share (above our \$0.35/share estimate).
- **Capital allocation.** DINO has committed to return a total of \$1Bn of capital to shareholders over the next twelve months. These distributions will come in the form of dividends (~\$350mm expected) with a material amount of share repurchases (~\$650mm expected) to make up the difference.
- **Renewable diesel.** DINO continues to ramp its production of renewable diesel, as Cheyenne production commenced in 1Q22, and Artesia first production is expected in 2Q22.



---

**Liberty Energy (LBRT)**

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

- **Improving operational execution.** Completion of integration efforts from the company's 2021 acquisitions alongside improved operational execution have enabled the company to materially outperform Street expectations YTD in 2022. We expect strong results to continue through 2022 and into 2023 given strong demand for the company's pumping, sand, and logistics businesses. Net debt targets in sight.
- **Tight pressure pumping market drives opportunity for incremental equipment activation.** Liberty has been able to capitalize on a tight pressure pumping market and plans to add 5-6 fleets or 16% through the end of the year. We expect fleet additions to be accretive to its financials, given 6-month paybacks on start-up and maintenance capital. We estimate the US pressure pumping market is approximately 85% utilized 2022, modestly tightening in 2023.
- **Valuation below historical levels.** Liberty is trading at a discount to its historical range and our frac services coverage peer set. We think the company should trade at a premium to frac peers given larger scale, increasing vertical integration, and strong balance sheet.
- See our latest Liberty Energy note [here](#).

---

**Range Resources (RRC)**

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

- **Strong upside to historically tight NGL/natural gas markets.** RRC is our preferred equity to express bullishness in NGL and natural gas prices with NGLs representing ~30% of total production volumes. The company exports a large portion of its NGL production which translates to premium realizations above peers and allows RRC take advantage of both strong international and domestic demand trends.
  - **Rapid organic deleveraging.** The near-term focus remains on running the business for FCF to use for debt reduction though heightened current commodity prices provide a path toward reaching leverage/debt targets in conjunction with shareholder returns. Leverage currently sits at 1.2x, we forecast leverage further improving to sub-1.0x the next few quarters and management expects to reach its \$1.0-1.5 billion aggregate debt target in early 2023.
  - **Shareholder returns focused on buybacks.** RRC remains active with its share buyback program repurchasing \$130 million worth of stock during 2Q22. We expect the buyback paces remains robust in the coming quarters and think RRC could exhaust the remaining \$350 million of authorization by YE22 if strip prices hold. The company will start paying a \$0.32/share (annualized) dividend in 3Q22 further improving the shareholder return proposition. We think RRC can generate an average a total return of 5-7% over the next four years.
  - **Defining low cost operator.** RRC has one of the largest tier-1 inventories remaining in the Appalachian Basin which coupled with its strong technical expertise and low base decline supports a highly efficient maintenance capital program that can be sustained for years to come. This provides a durable and resilient FCF outlook over the next several years which we estimate RRC generating \$5.5 billion of cumulative FCF from 2022-2025 (using RBC \$5.65-3.75/Mcf HH price forecast), this represents 60% of its current market cap.
-



---

**Ranger Oil Corporation (ROCC)**

Scott Hanold, Analyst

(512) 708-6354

scott.hanold@rbccm.com

- **Attractive value opportunity.** ROCC shares offer an attractive entry valuation point, strong balance sheet, and robust FCF outlook. The company currently trades at a 0.7x 2023 EBITDA multiple, nearly a 0.75x discount to peers and well below historical norms. We estimate ROCC has over two decades of core activity remaining based on its current activity pace, this provides an attractive set up for consistent cash flow generation. Over time we think ROCC's deep quality inventory, strong balance sheet, and peer leading margins could warrant a premium valuation to peers.
  - **Among the highest cash margins in US onshore.** ROCC's assets have amongst the highest oil cuts of US onshore, which along with being a pure-play Eagleford producer in close proximity to premium Gulf Coast pricing markets, helps drive stronger realizations relative to peers. We calculate a gross margin of \$58/boe for 2023, this is one of the best within our coverage.
  - **Getting started on shareholder returns.** We forecast ROCC generating over \$1.3 billion of FCF through 2025 representing roughly 85% of the current market cap. A strong balance sheet today allows more FCF to go toward increasing shareholder returns while some peers are still focused on paying down debt. The company is active with its buyback program, and a \$0.25/share annualized fixed dividend starts being payable in 3Q22.
  - **Natural consolidator in the Eagleford shale.** Management continues to run the business to be a natural consolidator in the Eagleford shale, most recently acquiring three bolt-on properties to some of its core acreage. The Lonestar (LONE) acquisition added quality inventory depth and helped add scale to the enterprise. This allows ROCC to be more selective going forward in potential M&A opportunities.
-

---

**Santos Limited (STO)**

Gordon Ramsay, Analyst

+61 3 8688 6578

[gordon.ramsay@rbccm.com](mailto:gordon.ramsay@rbccm.com)

- **Santos merger with Oil Search** creates a top 20 global energy company with 2P reserves of 1.378 billion boe and 2021 production of ~116 mmbob. The combined company will have a more diversified production base (47% LNG, 35% gas and 18% liquids) and a stronger and longer growth profile (Dorado, Papua LNG, Pikka Alaska oil). This will create one of the largest Asian LNG suppliers and aligns partners in PNG LNG and Papua LNG. The larger combined balance sheet provides increased flexibility from >US\$5.5 billion of liquidity and an investment grade credit rating that enables self-funding of development projects. Initial pre-tax synergies of US\$90-115 million pa (excluding integration and other one-off costs) looks conservative with potential to unlock additional value.
  - **Barossa final investment decision** achieved in March 2021, with a first production target of 2025. Santos Barossa project rates as the most attractive Australian brownfield LNG development as back fill for Darwin LNG based on a cash cost of production of ~US\$2.00/mmBtu and breakeven cost of LNG supply at ~US\$5.50/mmBtu.
  - **Dorado** consists of a relatively simple, shallow-water Western Australian oil field development. Santos is forecasting initial production of ~100,000 bopd (gross) and operating costs of <US\$5/bbl. Dorado Phase 1 oil project FEED entry has been achieved, with project FID targeted in 1H 2022 after drilling the nearby Apus and Pavo exploration prospects that offer low cost and production extending tie-back potential.
  - **Papua LNG** has obtained fiscal stability with its goal to enter project FEED in 2022 for potential production startup in 2027.
  - **Alaska Pikka Oil** achieved FEED entry in 2021 with plans to commence production from Phase 1 at 80,000 bopd (gross) of oil from 2025. Further phases of this Oil Search project have potential to deliver two additional 40,000 bopd (gross) projects. The Alaskan gross 2C oil resource is 936 mmbbls.
  - **Moomba CCS Phase 1** is a low-cost 1.7 mmta CO<sub>2</sub> storage project in the Cooper Basin with capex estimated at ~US\$165 million gross and a full life cycle cost <A\$30/t CO<sub>2</sub>. This Santos operated project is expected to start-up in 2024, following receipt of an approved methodology for Australian CCS projects to generate Australian Carbon Credit Units.
-



---

**Schlumberger Ltd. (SLB)**

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

- **Leading size, scale, geographic reach.** Schlumberger'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 cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins. The company also noted longer- cycle and exploration activity has improved. In 2Q22, Schlumberger's y/y North American revenue increased 42% versus peers at 34%. International revenue grew 15%, led by Latin America.
- **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.
- **Free cash flow profile improving; dispositions aid hitting leverage targets.** Schlumberger reached its 2.0x net debt/EBITDA target, paving the way for larger shareholder distributions, such as the company's recent 40% dividend increase. Dispositions could also accelerate de-leveraging. We see SLB generating pre-dividend cash flow of 3.2Bn in 2023.
- **Energy transition leader.** Schlumberger New Energy is on the leading edge of CCUS, hydrogen, and other potential growth avenues. Schlumberger estimates its total addressable market at \$50-75 billion by 2030.
- See our latest Schlumberger note [here](#).

---

**Shell PLC (SHEL)**

Biraj Borkhataria, Analyst  
(+44) 20-7029-7556  
biraj.borkhataria@rbccm.com

- **Advantaged portfolio.** In our minds, Shell has three franchise businesses within the group, all of which are #1 in their respective areas. Global deepwater, integrated gas and marketing form Shell's key competitive advantages, in our view. Shell's marketing business in particular generates >20% ROACEs consistently and is the highest return business within the group. While we understand the company values integration highly in its strategy, we believe there are some valuable parts of Shell's business that are not reflected in the share price today—something that has not escaped the eye of some in the market (see "[talk to me](#)").
  - **Free cash flow giant.** On our bullish commodity price deck, Shell's advantaged portfolio generates significant amounts of cash, supported by the company's oil leverage and #1 LNG presence. This leaves it well positioned to deleverage meaningfully over the coming years with cash to spare for higher shareholder returns.
  - **Closing the gap.** On our estimates, Shell generates an FCF yield ahead of the sector on average over 2022-25E but trades at a discount to peers on a DCF multiple basis. We think increasing shareholder returns should help drive a re-rating versus peers, while continued de-leveraging sets up Shell to become a more stable business through the cycle.
-





---

**Suncor Energy Inc. (SU)**

Greg Pardy, Head of Global Energy  
Research

(416) 842-7848

greg.pardy@rbccm.com

- **Re-gaining momentum.** We believe the company has reached a favorable inflection point as it relates to improving its operating reliability and safety, with a tighter grip on the steps required to regain its status as a best-in-class oil sands operator. Suncor is generating significant free cash flow, supported by its top tier downstream, amid a strong commodity price environment and remains committed to shareholder returns as its balance sheet continues to strengthen.
  - **Driving enhanced reliability & safety.** Following an independent review of its safety procedures in the first-quarter of 2021, Suncor has moved ahead with leadership changes and upgrades to its overall safety principles commensurate with heightened board of directors' oversight. The company has split direction of its upstream operations into two pieces, replaced a number of asset-specific managers and strengthened its central safety control/oversight as well as standardized its procedures and risk assessments across assets. Suncor's ongoing dialogue with Elliott Management remains constructive with the goal of creating long-term value for all of its shareholders.
  - **Balance sheet deleveraging & shareholder returns.** Suncor's net debt (including lease obligations of \$2.8 billion) stood at \$15.4 billion as of March 31. This debt level will continue to drive a 50/50 split of excess funds to share repurchases and the balance sheet. Once the company reaches \$12 billion of net debt – expected by year-end 2022 – common share repurchases increase to 75% of excess funds. Once the company reaches its net debt floor of \$9.0 billion, 100% of excess funds will be directed towards shareholder returns. Our 2022 outlook factors in net debt reduction of \$8.4 billion and share repurchases of \$5.4 billion under its 10% NCIB.
  - **Free cash flow – abundant.** We peg Suncor's 2022 free cash flow (before dividends of \$2.5 billion) at approximately \$16.2 billion under our base outlook (US\$108 WTI, US\$13.60 WTI-WCS, US\$40 NYH 3-2-1), including a Refining & Marketing (pre-tax) cash flow contribution of \$8.7 billion, in the context of a \$4.7 billion capital program. This would equate to an attractive free cash flow yield of 28%.
-





---

### Tamarack Valley Energy (TVE)

Luke Davis, Analyst

(403) 299-5042

luke.davis@rbccm.com

- **Clearwater development provides drilling catalysts.** Tamarack increased E&D capital guidance by \$50 million to \$340-\$360 million with Q2/22 results (note [here](#)), including \$40 million in Clearwater capital additions for Peavine/Seal appraisals and West Nipisi waterflood expansion, as well as \$20 million to cover inflation in H2/22. The Clearwater remains relatively insulated from broader inflationary pressures given no fracs and limited casing. Tamarack anticipates Clearwater volumes will average 13,000 bbl/d in 2022, exiting the year at 16,500 bbl/d following the Rolling Hills acquisition (note [here](#)). Tamarack's West Nipisi waterflood pilot showcased IP150 rates of 285 bbl/d, with management noting recovery factors likely increase from 5% to 12%. Tamarack's top South Clearwater wells display IP30s pushing 200 bbl/d. Tamarack holds 77.5 net sections at Peavine/Seal, with lands offsetting Baytex's Peavine development displaying top-tier well productivity in the broader play (note [here](#)).
  - **Return of capital framework well defined.** Tamarack increased its monthly dividend by 20% to \$0.01/share following its recent Rolling Hills Energy acquisition. Management adjusted its enhanced return framework with Q2/22 results, targeting to return 50% of trailing quarterly discretionary free funds flow to shareholders through dividends and buybacks when net debt ranges from \$200-\$400 million. When net debt falls to a floor of \$200 million, this will then increase to 75% of discretionary free funds flow through buybacks (note [here](#)) and/or special dividends.
  - **Five-year plan underscores robust FCF profile.** Tamarack forecasts \$1.1-\$1.2B in free funds flow generation over the next 5 years at US\$55/bbl WTI and C\$2.50/GJ AECO on annual capital spend of \$260-\$290 million. Management has noted longer-term Clearwater potential volumes to reach 30,000-40,000 boe/d alongside Charlie Lake volumes ultimately reaching 13,000-14,000 boe/d on 11-15 wells drilled per year (note [here](#)). Recent M&A activity has shifted the corporate free funds flow break-even to roughly US\$35/bbl (inclusive of the base dividend), providing flexibility and material FCF generation potential to enhance total shareholder returns.
  - **Strong balance sheet able to support further M&A.** Based on our updated estimates, we forecast Tamarack to carry approximately \$266/(\$70) million in net debt (cash) at year-end 2022E/23E, representing a 2022E D/CF ratio of 0.3x compared to oil-weighted peers at 0.4x with the broader coverage group reaching net cash by 2023E. We currently model full NCIB utilization beginning in Q4/22 and a 25% dividend increase in Q1/23 along with \$30 million in quarterly special dividends through 2023. We do not model incremental M&A, though we view this as likely given material FCF generation.
-



---

**Targa Resources Corp. (TRGP)**

TJ Schultz, Analyst

(512) 708-6385

tj.schultz@rbccm.com

- **Volumes and EBITDA.** We believe TRGP remains the best way to play a bullish commodity backdrop among large cap midstream, and TRGP expects to be above the higher end of its earlier EBITDA guidance for 2022 given the strong commodity prices. With the bulk of upward commodity price momentum taking place late in 1Q, we see additional room for performance improvement in the coming quarters.
- **Structure simplification.** TRGP has taken multiple steps to simplify its corporate structure, including DevCo repurchases in 1Q22 and the redemption of all outstanding 919,000 outstanding shares of Series A Preferreds. TRGP will benefit from the increased EBITDA the DevCos provide.
- **M&A.** TRGP recently acquired South TX assets from Southcross which have performed as expected and was an ideal acquisition given the stickier volumes provided from gathering to the wellhead. M&A will remain a part of TRGP's strategy with location and potential for immediate synergies being the key, but is not needed for the company to experience growth.
- **FCF and capital allocation.** Outlook for FCF is solid, as we estimate TRGP to generate \$800mm in 2023 even with \$50mm/qtr of stock buybacks and a \$2/share dividend. TRGP will have many options for usage of the FCF including (i) additional dividend growth, (ii) additional common stock buybacks, and (iii) higher capex.
- **Potential transition to S&P 500.** A potential transition from the S&P 400 to the S&P 500 would be expected to increase buying pressure; however, no real insight into the decision process or likelihood of a move.

---

**Tourmaline Oil (TOU)**

Michael Harvey, Analyst

(403) 299-6998

michael.harvey@rbccm.com

- **Key beneficiary of an improved natural gas outlook.** Strong commodity prices provide the firepower for [Western Canada Sedimentary Basin \(WCSB\) natural gas](#) producers to return meaningful capital to shareholders plus still grow modestly (+6%/year CAGR in the current plan), while being mindful that basin growth much beyond this figure could start to drive egress constraints.
  - **Return of capital accelerates, with the vast majority of FCF to be returned.** TOU announced special dividends for Q3/22, with \$2.00/sh payable on Aug 12. Our outlook now calls for an additional base increases this year (to \$1.04/share annualized) and two more in 2023 (to \$1.20/share annualized).
  - **High quality asset base, with North Montney driving the growth.** Guidance + 5-year plan updated. TOU's 2022 capex program increased by \$375 million (+31%) to account for growth capital (+\$250 million) and inflation (+\$125 million, expecting ~20% YoY inflation). Additionally, TOU updated its 5-year plan, which 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.
-



## Portfolio tracking

The RBC Capital Markets Global Energy Best Ideas List highlights our Research Analysts' highest conviction names across the global energy sector 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) and a hybrid benchmark with a weighting towards the iShares Global Utilities ETF (JXI).

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

- There is no limit to the number of names included in the RBC Capital Markets Global Energy Best Ideas List.
- Individual holdings are deemed to be weighted equally, with weights reset every month or any time that there is a change to the list.
- Names added to the list will remain on the list for at least one full month, i.e., there will be no mid-month additions/deletions. If we discontinue research coverage of a company included on the RBC Global Energy Best Ideas List, the stock will be removed from the list as of the next monthly publication.
- 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, unless noted otherwise, 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.



## Contributing Authors

### RBC Dominion Securities Inc.

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

### RBC Europe Limited

|   |                  |                             |
|---|------------------|-----------------------------|
| Biraj Borkhataria (Associate Director of European Research) | +44 20 7029 7556 | biraj.borkhataria@rbccm.com |
| John Musk (Analyst)   | +44 20 7029 0856 | john.musk@rbccm.com         |

### RBC Capital Markets, LLC

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

### Royal Bank of Canada, Sydney Branch

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



## Companies mentioned

Fluence Energy, Inc. (NASDAQ: FLNC US; \$13.84; Outperform; Speculative Risk)

Secure Energy Services Inc. (TSX: SES CN; C\$6.19; Outperform)

## Required disclosures

### Non-U.S. analyst disclosure

One or more research analysts involved in the preparation of this report (i) may not be registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Conflicts disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access conflict of interest and other disclosures for the subject companies, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1>. These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to [rbcinsight@rbccm.com](mailto:rbcinsight@rbccm.com).

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

With regard to the MAR investment recommendation requirements in relation to relevant securities, a member company of Royal Bank of Canada, together with its affiliates, may have a net long or short financial interest in excess of 0.5% of the total issued share capital of the entities mentioned in the investment recommendation. Information relating to this is available upon request from your RBC investment advisor or institutional salesperson.

## Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

### Ratings

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

**Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

**Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

### Risk Rating

The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

| Distribution of ratings              |       |         |                    |         |
|--------------------------------------|-------|---------|--------------------|---------|
| RBC Capital Markets, Equity Research |       |         |                    |         |
| As of 30-Jun-2022                    |       |         |                    |         |
| Rating                               | Count | Percent | Investment Banking |         |
|                                      |       |         | Serv./Past 12 Mos. |         |
|                                      |       |         | Count              | Percent |
| BUY [Outperform]                     | 851   | 58.41   | 290                | 34.08   |
| HOLD [Sector Perform]                | 560   | 38.44   | 169                | 30.18   |
| SELL [Underperform]                  | 46    | 3.16    | 6                  | 13.04   |

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to

<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research

RBC Capital Markets endeavors to make all reasonable efforts to provide research content simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets provides eligible clients with access to Research Reports on the Firm's proprietary INSIGHT website, via email and via third-party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: <https://rbcnw.bluematrix.com/sellside/MAR.action>

The 12 month history of SPARCs can be viewed at [RBC Insight](#).

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Third-party disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

RBC Capital Markets disclaims all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any statements made to the media or via social media that are in turn quoted in this report, or otherwise reproduced graphically for informational purposes.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Europe) GmbH, Royal Bank of Canada, Hong Kong Branch, Royal Bank of Canada, Singapore Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial



circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct, indirect or consequential loss arising from, or in connection with, any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior written consent of RBC Capital Markets in each instance.

Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To EEA Residents:**

This material is distributed in the EU by either RBCEL on an authorised cross-border basis, or by RBC Capital Markets (Europe) GmbH (RBC EG) which is authorised and regulated in Germany by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) (BaFin).

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada, Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission (SFC) in Hong Kong, RBC Investment Services (Asia) Limited and RBC Global Asset Management (Asia) Limited, both entities are regulated by the SFC. This material is not for general distribution in Hong Kong to persons who are not professional investors (as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association (JSDA) and the Financial Futures Association of Japan (FFAJ).

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2022 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2022 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2022

Copyright © Royal Bank of Canada 2022

All rights reserved