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Global Energy Best Ideas

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Our view: In November the RBC Global Energy Best Ideas List was up 1.4% compared to the iShares S&P Global Energy Sector ETF (IXC) up 3.3% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) up 4.6%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 150.1% compared to the S&P Global Energy Sector ETF up 29.6%.

Total Return Comparison	November	YTD	Inception
iShares S&P Global Energy (IXC)	3.3%	53.2%	29.6%
Hybrid Benchmark (75% IXC, 25% JXI)	4.6%	39.0%	43.9%
RBC Global Energy Best Ideas	1.4%	48.9%	150.1%

November List Changes:
Additions: FANG-US, MPC-US, PR-US, REP-SM, SPB-CA
Removals: AQN-CA, BP-LON, COP-US, ROCC-US, SU-CA

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Repsol	REP-ES	OP	Borkhataria	€20,000	12/7/22	€14.52	€14.52	€19.00
Shell	SHEL-LON	OP	Borkhataria	£166,325	7/1/20	1,224p	2,359p	3,200p
Exploration & Production								
Tamarack Valley Energy	TVE-CA	OP	Davis	C$2,610	7/6/21	C$2.57	C$4.69	C$7.00
Topaz Energy	TPZ-CA	OP	Davis	C$3,194	11/1/22	C$23.04	C$22.21	C$30.00
California Resources Corporation	CRC-US	OP	Hanold	$3,100	6/1/21	$29.01	$42.19	$68.00
Diamondback Energy	FANG-US	OP	Hanold	$24,325	12/7/22	$138.21	$138.21	$182.00
Permian Resources Corporation	PR-US	OP	Hanold	$5,015	12/7/22	$8.99	$8.99	$12.00
Range Resources	RRC-US	OP	Hanold	$6,164	7/6/21	$16.76	$25.51	$44.00
ARC Resources	ARX-CA	OP	Harvey	C$11,311	5/1/21	C$7.73	C$17.88	C$26.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$25,012	1/1/20	C$15.08	C$74.43	C$89.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$87,256	4/1/22	C$77.41	C$75.59	C$88.00
Enerplus Corporation	ERF-US	OP	Pardy	$3,893	6/1/22	$14.84	$16.76	$20.00
Santos Limited	STO-AU	OP	Ramsay	A$24,084	6/1/19	A$6.74	A$7.25	A$9.50
Oilfield Services								
Liberty Energy	LBRT-US	OP	Mackey	$2,723	8/3/22	$14.20	$14.95	$25.00
SLB	SLB-US	OP	Mackey	$72,148	1/4/22	$29.95	$50.88	$66.00
Midstream								
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$25,863	9/1/22	C$46.38	C$46.89	C$58.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$15,767	12/1/21	$51.63	$69.65	$104.00
Cheniere Energy Inc	LNG-US	OP	Scotto	$40,713	5/1/20	$46.69	$163.73	$205.00
Energy Transfer LP	ET-US	OP	Scotto	$36,876	2/1/22	$9.57	$11.94	$17.00
Utilities, Refiners, Infrastructure & Renewables								
Superior Plus	SPB-CA	OP	Ng	$1,981	12/7/22	$9.82	$9.82	$15.00
HF Sinclair Corporation	DINO-US	OP	Schultz	$10,295	6/1/22	$49.10	$51.29	$71.00
Marathon Petroleum Corporation	MPC-US	OP	Schultz	$51,220	12/7/22	$109.29	$109.29	$135.00
PG&E Corporation	PCG-US	OP	Tucker	$30,670	9/1/22	$12.33	$15.43	$19.00
Drax Group plc	DRX-LON	OP	Wheeler	£2,472	5/1/21	409p	617p	1,050p

1-OP = Outperform, 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.
Note: Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.
Source: RBC Capital Markets estimates, FactSet

Priced as of prior trading day's market close, EST (unless otherwise noted). All values in USD unless otherwise noted

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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 21

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

Exhibit 1 - This Month's Additions

Diamondback Energy (FANG) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are adding Diamondback Energy to the RBC Energy Best Ideas List. FANG is a defining low cost operator in the Permian Basin with one of the highest cash margins among peers. The two recently announced bolt-on acquisitions enhanced the FCF/returns outlook and we forecast shareholder returns increasing by 7-8% next year (to a 10% total yield), among the highest rate of changes in large cap E&Ps.
Marathon Petroleum Corp. (MPC) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• We are adding Marathon Petroleum to the RBC Energy Best Ideas List. MPC has benefited from strong refining margins on higher cracks and wider spreads, and we expect these positive margins to continue into 2023 above historical mid-cycle levels. MPC is also progressing its renewable fuels production capacity and is expected to ramp materially by the end of 2023. We expect MPC to be active on the next $5B of its buyback authorization near term, with a clear preference for buybacks as a means to return capital.
Permian Resources (PR) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are adding Permian Resources Corp. to the RBC Energy Best Ideas List. PR shares provide the unique combination of a deep inventory of high quality development opportunities, benefits of scale, and a shareholder return strategy that rivals large cap peers all while still being a SMid-cap US E&P.
Repsol SA (REP) Biraj Borkhataria, Analyst (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• We are adding Repsol to the RBC Energy Best Ideas list following our recent upgrade to Outperform. Middle distillate margins remain particularly strong, and with EU oil product sanctions just a few months away, we expect the market to remain tight. Repsol is the most geared to refining among the integrateds and we expect this tightness to be supportive for the company's earnings while its complex refining system should also allow some flexibility to source a variety of crudes which should help ahead of potentially significant crude volatility. Furthermore, management's firm commitment to share count reduction suggests to us the possibility of material share buybacks as we look into 2023-24, with our forecasted buybacks of €2bn in 2023 mapping to total shareholder returns of ~16%—well ahead of the pack.
Superior Plus (SPB) Nelson Ng, Analyst (604) 257-7617 nelson.ng@rbccm.com	• We are adding Superior Plus to the RBC Energy Best Ideas list as we believe that a combination of weak market sentiment, higher labour costs, and leverage have contributed to a weak share price (~8.0x our 2024 estimate, compared to historical range of 8-10x). We expect management to continue to add value through its acquisition roll-up strategy, where they aim to deploy $200-300 million in capital per year, realizing synergies of ~25%+. We also see limited downside risk from a recession, as weather is a much larger driver for financial results compared to economic activity, and we expect realized synergies from past acquisitions to be a tailwind in 2023. We also believe there is a possibility of a take private transaction (Brookfield Asset Management and Marquard & Bahls accumulated a ~30% stake in SPB in 2020/21 on a diluted basis).

Exhibit 2 - This Month's Removals

Algonquin Power & Utilities (AQN) Nelson Ng, Analyst (604) 257-7617 nelson.ng@rbccm.com	• Mainly due to the company's poorly managed exposure to floating interest rates, we believe the company will need to significantly reduce its capital program and its reliance on the capital markets to fund growth. We also think the company will need to accelerate its capital recycling program to improve liquidity. We believe the company will also need to cut its dividend (payout ratio will exceed 100% in 2022 and 2023) and the credit rating could be at risk for a downgrade if the company doesn't take steps to strengthen its balance sheet.

BP Plc (BP) Biraj Borkhataria, Analyst (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• Since we added BP to the RBC Energy Best Ideas list in March, the stock has outperformed the European energy sector by over 15%. We continue to hold a favorable outlook on the company given its refining leverage and strong shareholder returns potential but expect a more moderate trading result in 4Q which could weigh on near term momentum.
ConocoPhillips (COP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are removing ConocoPhillips from the RBC Global Energy Best Ideas List. COP shares have outperformed since our inclusion and while we still see strong upside potential, there is higher relative upside in other top energy ideas. COP continues to be the gold-standard for E&Ps, and we think can generate a 10% total investor return (dividends + buybacks) in 2023.
Ranger Oil Corporation (ROCC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are removing Ranger Oil Corp. from the RBC Global Energy Best Ideas List. We continue to see strong upside potential through share appreciation and shareholder returns, but there is higher relative performance and trading liquidity in other top energy SMid cap ideas. We forecast ROCC generating 17% entry-to-exit oil growth rate and a 16% FCF yield in 2023.
Suncor Energy Inc. (SU) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• We are removing Suncor from the RBC Global Energy Best Ideas list following its recent investor open house which provided a look at the upstream operating challenges it faces, including its multi-year improvement plan at Fort Hills. While new leadership in place leaves us encouraged at the margin, hard work lies ahead for Suncor in moving to a phase where its competitive edge broadens from physical integration to upstream operational excellence.

Investment Highlights

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

ARC Resources (ARX)
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- **FCF generation - ample.** ARC is set to generate ~$1.6 bn FCF in 2023 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 50-100% of FCF via base dividend tied to earnings growth (now at $0.60/share), and share buyback. Production growth is not a specific target but rather an outcome of the most efficient way to execute projects (Sunrise, Attachie) paired with the Basin's capacity to absorb new product, and is unlikely to exceed 5%. See our recent quarterly note here.
- **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.
- **LNG - The key to long term value creation.** ARC's existing 2P reserve book contains sufficient resource to sustain an entire 2-train LNG project (1.8 bcf/d) for 10+ years, and when adding future drilling could increase to 40-50 years. Accordingly, the company should be viewed as a key supplier, or alternatively as a strategic asset for operators looking for vertical integration. The owners of LNG Canada now collectively hold enough product to support Phase 1 of the development (~1.8 bcf/d), but any expansion (Phase 2, +1.8 bcf/d) would need to be augmented. See our note here.

California Resources Corp. (CRC)
Scott Hanold, Analyst
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- **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 position the company to generate ~$1.4 billion of FCF from 2022-2025. CRC has an active buyback program and a fixed dividend 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. 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.
- **Brookfield JV brings third-party validation and enhances CRC's returns.** CRC has entered into a JV with Brookfield Renewables that we think significantly de-risks capital needs for its CCS projects, adds expertise and connections, and importantly provides a third-party valuation of the CCS upside potential for CRC (deep-dive note). The JV consists of a $500 million initial investment, with the option to invest an additional $1 billion into future projects. Brookfield will contribute $10/mt of permitted pore space CRC contributes into the JV, with CRC/Brookfield taking 51%/49% interest stakes in the CCS projects. We think the total value of the initial 200 MMt of CTV projects is worth $17/share net to CRC if all projects are added into the JV; this assigns no value to the remaining 800 MMt storage capacity CRC has in its portfolio.
- **Progressing on the carbon management projects.** 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. 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 early 2023, CRC signing up its first third party emitter which should come around YE22, and EPA class VI permit approval which we think could come in mid-2023. CRC targets injecting 5 MMT/annually starting in 2027.
- **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 superior free cash flow generation throughout the cycle. • **Impressive shareholder returns**. CNQ is currently allocating 50% of free cash flow (after dividends and base capital) to share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Once CNQ's net debt falls to $8 billion (which we expect in the second-half of 2023), the company plans to allocate 80%-100% of its free cash flow as incremental returns to shareholders. CNQ has also raised its common dividend twice in 2022, representing a 45% increase this year to an annualized rate of $3.40 per share. We think it is important to point out that CNQ has never cut its common dividend, which has grown at a CAGR of circa 21% over the past 23 years. • **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others. • **ESG—lots of progress**. CNQ has established a GHG emissions reduction target of 40% of total corporate absolute Scope 1 and 2 GHG emissions by 2035 (vs. a 2020 baseline). Not to be overlooked, CNQ also continues to make progress towards its initiatives with respect to the Oil Sands Pathways to Net Zero Alliance. CNQ also continues to target a 50% reduction in North American E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016), and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline).
Cheniere Inc. (LNG) 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.

Diamondback Energy (FANG) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Defining low-cost operator.** We believe FANG has built a solid Permian Basin position with a deep inventory of liquids-rich development opportunities, and is one of few E&Ps that have amassed a combination of quality assets, strong economic growth, minerals ownership, and infrastructure which collectively help provide an advantage. We believe FANG has one of the lowest cost structures in the basin and a corporate cash flow break-even (including fixed dividend) that is among the best in the industry at below $45/bbl (WTI). FANG also produces a top-tier cash margin that is among peer best helping drive more sustainable FCF generation through commodity cycles. • **Robust shareholder return proposition.** The shareholder return commitment is to return at least 75% of FCF back to investors through a combination of dividends and buybacks. We think this translates to $15/share going back to investors in 2023, or a 10% total yield. This notably is a 7-8% YoY increase, which is among the highest for large caps. We think there should be a higher weighting on dividends in the return strategy, though this will somewhat depend on where FANG stock trades. Management's opportunistic strategy is geared to utilize buybacks when FANG shares are below its mid-cycle internal valuation ($60-65/bbl WTI), which we think is $140-150/share. • **Recent acquisitions bolster FCF outlook.** FANG recently announced two bolt-on Midland Basin acquisitions (FireBird and Lario) that together were 7-9% accretive to our 2023/2024 per share estimates while being fairly neutral to our overall Net-Asset Value. The FireBird deal recently closed, while Lario is expected to close in January 2023. Leverage upticks slightly from the deals but remains healthy at sub-1.0x and should improve further as FANG executes on its $500 million divestiture target.
Drax Group plc (DRX) Alexander Wheeler, Analyst +44 (20) 7653 4481 alexander.wheeler@rbccm.com	• **Financials remain above consensus post windfall taxes.** Clarity on windfall taxes provides greater visibility for Drax going forward, removing a key uncertainty from the investment case. We estimate that total windfall tax payments amount to £0.8bn until March 2028, which is less draconian than we think the market may have anticipated. We continue to take a conservative view on power prices, assuming a 20% discount to the forward curve and therefore see further upside on a mark to market basis. We view consensus as slow in incorporating both the windfall tax and higher power prices. • **Three-pronged growth strategy continues to take shape.** Drax retains a number of growth options going forward, which include BECCS, new pumped storage capacity at Cruachan and continued expansion of upstream pellet facilities. For BECCS, Drax may hear on Track 1 project selection as early as mid-December, though this may be more likely in early 2023. This could lead to heads of terms on the financial model by mid-2023 and FID in 2024. Additionally, new pumped storage capacity through the 600MW expansion of the Cruachan II pumped storage facility should be completed by the end of the decade. We see the £3bn capex growth plans as fully funded under the current balance sheet, with FCF yields averaging ~25% across the remainder of the decade. • **Sustainability paramount to Drax's strategy.** Biomass continues to be a key part of the UK government strategy to achieve net zero, whilst Drax is leading the way on BECCS which has growth potential both in the UK and internationally. We think criticism of Drax's sustainability credentials were inaccurate in the recent Panorama documentary, and we were reassured by a recent trip to see Drax's pellet operations first hand. Drax retains an active aim of ensuring any biomass sourced will have positive outcomes for climate, nature and the communities in which it operates.

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 a position to return more cash to unit-holders via distribution increases and/or unit repurchase. • **Significant synergy potential from 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 Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Solid all-around.** Enerplus remains our favourite intermediate producer given its capable leadership team, solid execution, strong balance sheet and rising shareholder returns. • **FCF & shareholder returns.** Enerplus has always maintained a strong balance sheet and is now bolstering its shareholder returns offering, with an accent on share repurchases. Commensurate with third-quarter results, the company reaffirmed its commitment to distribute a minimum of $425 million of shareholder returns this year and at least 60% of free cash flow in 2023, with an accent on share buybacks. Enerplus also raised its common share dividend 10% to an annualized rate of $0.22 per share. The company’s net debt (debt less cash) stood at $391 million as of September 30. Execution of a substantial issuer bid (SIB) also remains an option for Enerplus as market conditions dictate. We peg Enerplus’ free cash flow (before dividends and including A&D) at approximately $795 million in 2022 and $784 million in 2023. • **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 over a decade of inventory at the 1.5-2.0 rig development pace factored into its five-year (2022-26) plan.

HF Sinclair Corporation (DINO) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• **Refining margins**. Refiners across the board have seen strong margins from the elevated cracks during the year, and we expect DINO to continue to benefit and generate significant cash as product cracks remain elevated despite moderating rationally. Management previously stated that the primary risk to operations is 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). • **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.** Given the robust cash flow generation that the refining group has benefited from, DINO has returned more than \$1.1B to shareholders in the form of dividends and share repurchases since the close of the Sinclair acquisition on 3/14/22, which was ahead of the original plan of \$1B to shareholders by the end of 1Q23. • **Renewable diesel**. DINO continues to ramp its production of renewable diesel with the completion and startup of its Artesia, New Mexico facility in 2Q, which followed the commencement of production at the Cheyenne facility in 1Q.
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 into 2023 given strong demand for the company's pumping, sand, and logistics businesses. • **Profitability remains above mid-cycle levels on tight equipment balance.** Liberty has been able to capitalize on a tight pressure pumping market and added 6 fleets in 3Q22. 3Q22 total EBITDA per fleet of about \$27MM includes the company's sand, wireline, and logistics businesses. We estimate the US horsepower market to remain relatively tight at approximately 14MM demand vs 15MM supply in 2023. Our 2023 assumptions map to overall EBITDA per fleet of approximately \$26MM. • **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.

Marathon Petroleum Corp. (MPC) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• **Capital returns.** MPC has remained focused on returning capital to shareholders in the form of dividend payments and share repurchases. MPC increased its quarterly dividend by 29% to $0.75/share (from $0.58/share), which is ~$370mm/quarter. MPC has repurchased a significant number of shares, which completed the prior $15B authorization and now has an incremental authorization of $5B under its repurchase program. We expect MPC to be active on the next $5B of its buyback authorization near term, with a clear preference for buybacks as a means to return capital. • **Renewable fuels.** MPC has continued to progress on the Martinez renewable fuels conversion project, with the first phase expected to be complete by year-end 2022 and have initial RD production capacity of 260mm gal/yr, with capacity reaching 730mm gal/yr by the end of 2023. MPC is well into its pre-fill strategy, pre-filling since mid-summer. It is buying from 50 different suppliers and has logistics flexibility with 3 facilities in the Bay Area to bring feedstocks into. • **Constructive refining margins.** Along with the rest of the refiner group, MPC has benefited from improved refining margins from higher cracks and wider spreads. We expect these positive margins to continue into 2023 above historical mid-cycle levels.
Pembina Pipeline Corporation (PPL) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **Positioned to benefit from higher WCSB production.** Whether it be uncontracted capacity or within its contract structures that blend minimum take-or-pay levels with fee-for-service upside as volumes grow, we expect Pembina to benefit from growing gas and liquids volumes in the Western Canada Sedimentary Basin (WCSB). Further, growing volumes could result in contracted infrastructure opportunities, evidenced by the re-activation of the Phase VIII expansion and recently secured contracts. • **Solid base of business with a commodity kicker.** Although the hedge book was prudent risk management for 2021, it has resulted in a substantial reduction from margins based on spot commodity prices. However, hedge disclosures lead us to believe that hedging losses booked in 2021 should largely reverse in 2022, assuming constant commodity prices/spreads.
Permian Resources Corporation (PR) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Largest Delaware Basin pure play.** PR is the rebranded combination following the merger of Centennial Resource Development (CDEV) and Colgate Energy that closed in September 2022. The company is the largest pure-play producer in the Delaware Basin with large, continuous acreage positions in the core of the southern and northern basin trends with 2,500 identified locations. This provides a deep, quality inventory that can support peer-leading FCF yields and returns in our view. • **Shareholder returns framework to rival large-cap peers.** The 50+% excess FCF payout framework for shareholder returns will take effect in 2Q23, and was designed to provide a competitive return vs larger-cap peers/the broader market while still retaining flexibility to be nimble with FCF allocation. We expect PR to deliver shareholder returns of just under $1/share or an 8% yield next year, which we assume is mostly through dividends. • **Healthy balance sheet provides optionality.** Leverage modestly increased following the closing of the CDEV-Colgate merger and currently sits slightly above 1x. Near term FCF priority is reducing outstanding debt and we expect leverage quickly improves back toward 0.5x by YE23. A healthy balance sheet provides increased financial flexibility for future FCF that could go toward enhancing the shareholder return strategy. The company targets maintaining leverage of 0.5-1.0x longer term.

PG&E Corporation (PCG) Shelby G. Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• **Continued reduction of wildfire risk.** The company continues to execute on its wildfire mitigation plan. Mitigation actions include system hardening, undergrounding, vegetation management, enhanced powerline safety settings and public safety power shutoffs. • **Steep discount not-warranted given CA wildfire protections limit financial risk**. We believe the Wildfire Fund provides meaningful protections against financial liabilities associated with wildfires. While it seems the market remains apprehensive around the mechanics of the fund, we believe the multi-turn discount is overly punitive when considering the financial risks associated with a catastrophic fire. • **PG&E slowly rebuilding trust.** While the name remains overly-sensitive to headlines, we have also seen a meaningful shift in tone from media and stakeholders. We believe is a result of PG&E's continued efforts to engage stakeholders and communities and we are encouraged by positive signals from the CA legislature and regulator. • **Robust capex plan drives earnings growth.** PG&E expects above-average rate base growth at a 9% CAGR. Growth opportunities come from system hardening, undergrounding, electrification opportunities and other wildfire mitigation investments. Management targets 2% O&M reductions which should act to help offset customer bill increases.
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 to 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 1x, and we expect RRC 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 an additional $170 million worth of stock during 3Q22. The buyback authorization was increased by $1 billion at 3Q22 earnings ($1.2 billion now remaining). Buybacks should remain core to the shareholder return strategy and along with its $0.32/share annualized fixed dividend, we think RRC can generate an average total return of 10% now through 2025. • **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 and we estimate RRC can generate $5 billion of cumulative FCF from 2022-2025 (using RBC $6.63-3.75/Mcf HH price forecast).

Repsol SA (REP)
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- **Refining exposure.** Middle distillate margins remain particularly strong, and with EU oil product sanctions just a few months away, we expect the market to remain tight. Repsol is the most geared to refining among the integrateds and we expect this tightness to be supportive for the company's earnings. Repsol's complex refining system should also allow some flexibility to source a variety of crudes that should help ahead of potentially significant crude volatility. All of this could drive higher refining margins and potentially a larger margin premium. All things considered, it is possible that 2023 refining earnings could be materially ahead of 2022, which was already a strong year.
- **Commitment to shareholder returns.** Repsol's CEO struck a bullish tone on the 3Q call with intentions to reduce share count closer to 1,200m shares (vs. 1,452m at the end of 3Q22). This firm commitment suggests to us the possibility of material share buybacks as we look into 2023-24, which we expect to be well supported by strong organic free cash flow generation. As such, our forecasted buybacks for Repsol of €2bn in 2023 map to total shareholder returns of ~16%—well ahead of the pack. The company could potentially be repurchasing over 10% of its market capitalization next year and we see the buyback activity providing an additional layer of support to the stock throughout the year.
- **Recent track record on inorganic activity.** Our sum-of-the-parts valuation for Repsol, which includes some punitive discount rates on the upstream division, is closer to €22/sh. Along with this, the company's recent partial divestments of its low carbon portfolio and upstream divisions provide markers that suggest an undervalued share price and scope for a run-up from here.

Santos Limited (STO)
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- **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 mmboe. 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 mmtpa CO_2 storage project in the Cooper Basin with capex estimated at ~US$165 million gross and a full life cycle cost <A$30/t CO_2. 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.

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"). • **Substantial free cash flow.** 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 a FCF yield ahead of the sector on average over 2022-25E but trades at a discount to peers on a DACF 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.
SLB (SLB) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Leading size, scale, geographic reach.** SLB's size, scale, geographic diversification, and exposure to new energy sources leave it favorably positioned under prevailing industry trends, in our view. We believe SLB is well-positioned to benefit from the next leg of growth in International markets. International short and longer cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins. • **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics. • **International upcycle: less nascent.** SLB is well-positioned to benefit from the next leg of growth in International markets. Latin America and Europe / CIS/Africa have led SLB's International growth, with revenue up 30% and 38% y/y. The company noted the Middle East is set to lead growth in 4Q22 with this cycle characterized by the region's plans to add oil and gas productive capacity. • See our latest SLB note here.

Superior Plus (SPB)
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- **Current share price is attractive in our view.** We believe that a combination of weak market sentiment, higher labour costs, higher propane prices (largely passed through to customers), and leverage may have contributed to the weak share price. The shares currently trade at ~8.0x our 2024 EBITDA estimate, which is at the lower end of the valuation range of 8-10x forward EBITDA in the past several years.
- **Adding value through sector consolidation.** Management continues to see attractive propane acquisition opportunities, and we expect the company to continue to execute on acquisitions. In general, management targets to deploy $200-300 million in capital per year and has been able to realize synergies that improve the EBITDA of acquired assets by ~25%+.
- **Limited downside from a recession.** Weather is a much larger driver for the financial results compared to economic activity. The company's U.S. operation (contributes ~55% of EBITDA) mostly serves residential customers, where propane consumption is driven by heating needs. We also note that the company tends to earn higher margins from residential customers, so the company could benefit from a declining propane price (lag in pass-through) and a higher U.S. dollar. The company has also completed a number of acquisitions and we expect realized synergies to be a tailwind in 2023.
- **Potential take-private transaction.** Two investors accumulated a ~30% stake in SPB in 2020/21 on a diluted basis (Brookfield Asset Management and Marquard & Bahls). We believe that the combination of a weak share price, the planned retirement of the CEO (uncertainty as they search for new leadership), and a somewhat capital-constrained growth profile (debt to EBTIDA is modestly above the high-end of management’s 3.5-4.0x target) increases the chances of a take-private transaction.

Tamarack Valley Energy (TVE)
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- **Top Clearwater producer with capacity to grow.** Tamarack's acquisition of Deltastream Energy has repositioned the company as the leading Clearwater producer with 752 net sections across the fairway. Management guides for 2023E volumes of 23,000 boe/d from acquired assets and estimates Deltastream assets will account for 55-60% of the 2023E $275 million Clearwater capital program. Pro-forma Clearwater volumes map to roughly 34,000 bbl/d or roughly one-third of play volumes (note here). Management highlighted over 500 locations acquired in the transaction, providing roughly 9 years of inventory at a cadence of 60-65 wells per year (excluding waterflood upside).
- **Return of capital framework well defined.** Tamarack increased its monthly dividend by 20%/25% following its Rolling Hills Energy acquisition and latest Deltastream Energy acquisition. The team remains committed to providing shareholder returns with 25%/50%/75% of excess funds flow to be directed towards its NCIB (note here) and/or special dividends as management reaches net debt target ranges of $900-$1,100 billion, $500-$900 million, and $500 million, respectively. The $500 million debt floor maps to roughly 1.0x D/CF at US$45/bbl WTI.
- **Five-year plan underscores robust FCF profile.** Tamarack now sees $1.4-$1.8B in FFF generation over the next 5 years at US$55/bbl WTI and C$2.50/GJ AECO on annual capital spend of $350-$380 million. Recent M&A activity has shifted the corporate break-even to roughly US$40/bbl range, led by the portfolio's shift towards the Clearwater and Charlie Lake, among the lowest breakeven plays in North America (note here). Additionally, we estimate Tamarack's maintenance capital sits at roughly $335 million using the midpoints of 2023 guidance, with waterflood success improving corporate sustainability; a 1% reduction in Tamarack's decline rate maps to a $10 million reduction in maintenance capital.
- **Strong balance sheet able to support further M&A.** Based on our updated estimates, we forecast Tamarack to carry approximately $1,348/$803 million in net debt at year-end 2022E/23E, representing a 2022E/2023E D/CF ratio of 1.8x/0.7x compared to oil-weighted peers at 0.4x and the broader coverage group reaching net cash by 2023E. We currently model full NCIB utilization resuming in Q3/23 along with a 25% dividend increase in Q3/23. We do not model incremental M&A, though we believe this will be evaluated once net debt falls below $900 million per the company's updated return of capital framework.

Targa Resources Corp. (TRGP)
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- **Best way to play Permian and commodity upside.** Among midstream, we think TRGP will correlate best to constructive commodity tape into 2023. We like TRGP's top-tier platform in the Permian, coupled with integration to the docks on the Gulf Coast.
- **Growth projects.** TRGP has announced numerous organic growth projects that are expected to supplement and grow its cash flow. These projects include multiple processing plants in the Permian, Train 9 fractionator in Mont Belvieu under construction and Train 10 now permitted, and the Daytona NGL pipeline (twinning of the west leg of Grand Prix) that will support NGL volume growth from the Permian G&P assets and new plants under construction.
- **Financial flexibility.** Maintaining its healthy investment grade balance sheet is a key focus point for TRGP when making decisions. Flexibility has improved as leverage is trending lower and the structure simplification (DevCo repurchase and redemption of outstanding Series A Preferreds) has allowed for more impactful progress. This flexibility allows for TRGP to continue investing in organic growth projects, while returning meaningful capital to shareholders.
- **M&A.** TRGP contributed to some midstream consolidation during the year with multiple acquisitions. In July 2022, TRGP completed its acquisition of Lucid Energy's Permian Delaware Basin G&P assets for $3.55B (TRGP estimates a 2023E EBITDA multiple of 7.5x), which include 1,050 miles of natural gas pipelines and 1.4 Bcf/d of processing capacity in New Mexico. TRGP also 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 at our price deck, as we expect that TRGP can generate >$1B of FCF in 2024 even with ~$50mm of estimated stock buybacks through 2024 and another step-up in the dividend to $2/share, which should allow for debt leverage (post Lucid) to be back below 3x. In addition to debt reduction, TRGP will have many options for usage of the FCF including (i) additional dividend growth, (ii) additional common stock buybacks, and (iii) higher capex.

Topaz Energy (TPZ) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Diversified royalty model with a natural gas tilt.** Topaz's 2022E/2023E production profile remains 75%/70% gas-weighted. Roughly 80% of H1/22 volumes were tied to Tourmaline Oil, with significant capital spend expected through the coming decade to support production growth in NEBC and the mid-decade LNG Canada project. Topaz's latest Deltastream acquisition (note here) has placed it as a leader in the Clearwater, now holding 52% of pro-forma OOIP at Marten Hills and Nipisi. The team now anticipates reaching 3,000 bbl/d of total Clearwater production by 2024. The royalty business model remains insulated from E&P cost inflation, providing margin stability. • **Resilient infrastructure model.** Topaz holds working interests in five facilities backed by long-term take-or-pay commitments, a contracted interest in a portion of Tourmaline's third-party revenues, and a 49.5% interest in a water handling facility. The company's infrastructure portfolio is currently expected to generate 2022E revenues of $63.5 million and FCF $55.0 million. This covers 35% of the 2022E dividend and remains an area of focus as management continues to target a long-term 50-50 split in EBITDA with the royalty segment. As a result, we expect management to evaluate and potentially transact on infrastructure M&A opportunities to expand the portfolio. • **FCF allocation balanced to RoC efforts and debt reductions.** Topaz increased its annual dividend to $1.20/sh (~5% dividend yield) with the latest Deltastream acquisition, where we estimate a 47%/44% effective payout ratio in 2022E/2023E. The company is able to balance its RoC program with continued deleveraging efforts, seen with roughly $55 million in quarterly post-dividend FCF, on average, through the balance of 2022 and into 2023.
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. • **Cheniere export agreement – a well-timed deal.** We estimate US$1 increase in JKM pricing to result in roughly C$50-55 mm of incremental after tax cash flow in 2023. TOU has hedged approximately 10% of the JKM volumes at an average price of ~US$23/mmbtu, and we would expect the company to take advantage of the current strength by layering on additional hedges at even more attractive prices. See our note here. • **Return of capital accelerates, with the vast majority of FCF to be returned.** TOU announced special dividends for Q4/22, with $2.25/sh payable on Nov 18. Our outlook now calls for two base dividend increases in 2023 (to $1.16/share annualized) on top of $2/sh specials in each of the quarters in 2023. • **High quality asset base, with North Montney driving the growth.** TOU's 5-year plan now includes development of its Northern Montney asset - Conroy, pushing corporate volumes to 700,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in 2 tranches, with on-stream dates of 2026 and 2028 (set to coincide with the startup of LNG Canada). The plan incorporates capex spend of roughly half of forecasted cash flows, leaving meaningful capacity for RoC programs.

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