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June 1, 2021

Global Energy Best Ideas

In May, the RBC Global Energy Best Ideas List was up 4.8% compared to the iShares S&P Global Energy Sector ETF (IXC) up 5.8%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 37.3% compared to the S&P Global Energy Sector ETF down 12.4%.

June List Additions: AQN, CRC, CVE
June List Removals: CNP, EFX, PXT, SU

Total Return	May	YTD	Since 2/1/13
iShares S&P Global Energy (IXC)	5.8%	28.8%	-12.4%
RBC Global Energy Best Ideas	4.8%	39.1%	37.3%

RBC GLOBAL ENERGY BEST IDEAS LIST								
Analyst	Integrated Oils	Ticker	Rating[1]	Mkt Cap (mn)	Date Added	Px	Current Px	Px Tgt
Borkhataria	Royal Dutch Shell	RDSB-LON	OP	€ 99,909	7/1/20	1,224p	1,284p	2,200p
	Canadian Oil & Gas							
Pardy	Canadian Natural Resources	CNQ-CA	OP	C$49,586	9/1/15	C$29.65	C$42.36	C$45.00
Pardy	Cenovus Energy	CVE-CA	OP	C$19,792	6/1/21	C$10.09	C$10.09	C$12.00
Harvey	ARC Resources	ARX-CA	OP	C$6,726	5/1/21	C$7.73	C$9.29	C$12.00
Harvey	Tourmaline Oil	TOU-CA	OP	C$8,741	1/1/20	C$15.08	C$29.45	C$36.00
Davis	Freehold Royalties	FRU-CA	OP	C$1,187	7/1/20	C$3.52	C$9.03	C$11.00
	US E&P							
Hanold	ConocoPhillips	COP-US	OP	$75,217	12/1/20	$39.56	$55.74	$67.00
Hanold	California Resources Corporation	CRC-US	OP	$2,417	6/1/21	$29.01	$29.01	$40.00
Hanold	EQT Corporation	EQT-US	OP	$5,828	12/1/20	$14.88	$20.88	$25.00
	Midstream							
Scotto	Cheniere Energy Inc	LNG-US	OP	$21,525	5/1/20	$46.69	$84.90	$92.00
Scotto	Enviva Partners LP	EVA-US	OP	$1,957	8/1/20	$38.21	$48.90	$60.00
Kwan	Pembina Pipeline Corp.	PPL-CA	OP	C$21,477	1/8/21	C$34.22	C$38.89	C$42.00
Schultz	Enterprise Products Partners L.P.	EPD-US	OP	$51,592	1/8/21	$21.31	$23.61	$29.00
	International E&P							
Stanton	Aker BP	AKRBP-OSL	OP	NOK 88,696	5/1/20	NOK 170	NOK 244	NOK 275
	Global Oil Services							
McCulloch	Aker Solutions	AKSO-NO	OP	NOK 7,492	4/1/21	NOK 15	NOK 15	NOK 20
Mackey	Shawcor Ltd.	SCL-CA	OP	C$420	10/1/20	C$2.09	C$6.00	C$8.50
	Utilities and Infrastructure							
Ng	Algonquin Power & Utilities	AQN-US	OP	$9,349	6/1/21	$15.28	$15.28	$18.00
Tucker	NextEra Energy	NEE-US	OP	$143,617	5/1/21	$77.51	$73.22	$97.00
Musk	Drax Group plc	DRX-LON	OP	$1,734	5/1/21	409p	436p	600p
	Australian E&P							
Ramsay	Santos Limited	STO-AU	OP	A$14,287	6/1/19	A$6.74	A$6.77	A$8.00

This report is priced as of market close ET on May 31, 2021. Indicated May returns are priced as of this date.

1-OP = Outperform, R = Restricted. 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested.

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

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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 18

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

Exhibit 1 - This Month's Additions

Algonquin Power & Utilities (AQN) Nelson Ng, Analyst (604) 257-7617 nelson.ng@rbccm.com	• **Strong growth profile.** Algonquin has a $9.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 8-10% EPS growth profile. 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. • **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 their energy consumption, and have partnered with Chevron to jointly develop some renewable projects. • **A good balance of regulated utility and renewable energy operations.** Algonquin operates a diversified regulated utility business providing electric/gas/water services to over 1 million customers primarily in the U.S. In addition, Algonquin has a renewable energy division with ~2.3 GW of generation capacity in North America with ~80% of the electricity generated contracted over an average term of 13 years. The regulated utility division contributed about two-thirds of the company's EBITDA in 2020.
California Resources Corp. (CRC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are adding CRC to the RBC Global Energy Best Ideas list after our recent initiation (see note here). • CRC provides a unique value opportunity trading at a deep discount when considering PDP value, other hard assets, and its ability to economically participate in energy transition. • Its conventional low-risk, low-decline assets drive peer leading FCF over the next few years. This provides an attractive platform to reduce debt to 0x by mid-2022 and/or grow shareholder returns at a faster pace than SMid cap peers.

Cenovus Energy (CVE) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	•	We are adding Cenovus Energy to the Global Energy Best Ideas List, as we believe potential non-core asset dispositions could act as a near-term catalyst for shares—and accelerate the pace at which Cenovus achieves its $10 billion net debt target. The end result is increased flexibility to pursue shareholder returns, including share buybacks (and potentially COP-owned shares). The company also stands to benefit from an improving crude oil market, with a US$5 change in WTI prices impacting Cenovus' 2021 cash flow by about 17% ($1.3 billion), which is considerable.
	•	**Integration On-track.** The company's recent merger with Husky Energy was strategically sound in our eyes fusing Husky's diverse upstream/mid-stream/downstream operations with Cenovus' bitumen-weighted upstream portfolio. Under one roof, Cenovus-Husky becomes a more balanced integrated oil company with increased cash flow diversification. Cenovus remains on-track to reach run rate synergies of $1.2 billion by year-end 2021, and is already capitalizing on second-level synergies and reevaluating processes in Husky's legacy operations.
	•	**Net Debt Target Will Create Additional Flexibility.** Cenovus will allocate 100% of free cash flow toward its balance sheet until its net debt reaches $10 billion (vs. $13.3 billion as of March 31, 2021)—a target the company has a line of sight to by year-end (excluding potential non-core asset dispositions). Thereafter, the company possesses the flexibility to pursue incremental shareholder returns as it works to its ultimate net debt target of $8 billion. Not to be overlooked is Conoco's recent signal that it would sell its circa 10.3% stake (208 million shares) in the open market from the second-quarter through to year-end 2022. The implementation of a buyback by Cenovus (at the right time) could lend physical and psychological support to its market performance.

Exhibit 2 - This Month's Removals

Parex Resources (PXT) Al Stanton, Analyst (+44) 207 029 0853 al.stanton@rbccm.com	•	We are removing Parex Resources from the Energy Best Ideas List, having downgraded the stock to Sector Perform on 12th May. Cash-rich Parex represented a safer haven for investors seeking to retain some oil sector exposure. Higher oil prices are a boon for the business, but a keenly anticipated inorganic growth spurt now looks more expensive, and management change in Q1/21 and unrest in Colombia in Q2/21 seem to have kept potential investors on the sideline. Like them, we have taken a 'show-me' approach to the stock.
CenterPoint Energy (CNP) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	•	We are removing CNP from the Energy Best Ideas List. The stock has had a ~20% run-up since January 8 and is now much closer to our price target of $28. We continue to see strong momentum coming from an above-average rate base growth, favorable valuations from the recent sale of Arkansas and Oklahoma gas assets, and a management team that is delivering on promises. However, with ~12% implied upside, we believe other stocks in our coverage universe may offer more attractive opportunities.
Eneflex Ltd. (TSX: EFX) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	•	We are removing Enerflex from the RBC Global Energy Best Ideas list as we see limited catalysts to drive the stock higher over the next month. We maintain our Outperform rating and generally favourable view of the stock given its improved revenue stability and margin profile remains disconnected from its valuation, balance sheet remains strong, and believe there is continued potential for improved Engineered Systems bookings in the second half of 2021.

Suncor Energy (SU) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• We are removing Suncor Energy from the RBC Global Energy Best Ideas list as we see superior near-term catalysts elsewhere in our coverage group. We maintain our Outperform rating and constructive stance towards Suncor.

Investment Highlights

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

Aker BP (AKERBP) Al Stanton, Analyst (+44) 131-222-3638 al.stanton@rbccm.com	• **Momentum:** Interest in the sector is picking up, and we expect investors to look further afield for new opportunities, and Norway-focused Aker BP is a well-managed business with a lower profile than most, and therefore an attractive valuation. The 200,000boe/d producer is oil-weighted and is benefiting from development incentives in Norway that should help keep the taxman at bay and help shore up post tax cash flows – our key valuation measure for midcap oils. • **Momentum:** Management is unlocking a sizeable portfolio of development opportunities in 2021-22, while Norway maintains its tax breaks, and it is also an active explorer; moreover, with financial headroom of \$3.5bn we also see the potential for the company to exploit inorganic opportunities too. • **Future:** Looking ahead, Aker BP is a low-cost, low-emission (4kg CO2/boe on an equity basis in past six months) producer that maximises the potential of existing developments, and as a result we expect the business to withstand increasing ESG-linked pressures.
Aker Solutions (AKSO) Victoria McCulloch, Analyst +44 (0) 207 429 8530 victoria.mcculloch@rbccm.com	• Aker Solutions is an energy services company focused on engineering and construction. Following a re-merger with Kvaerner in 4Q20, the company has a strengthened balance sheet, enlarged backlog, and greater capabilities to meet customer demands. • The company is materially leveraged to Norwegian fiscal stimulus for oil and gas companies, which we expect to begin to deliver in 2H21, and is growing its energy transition leverage with the target of having 20% of revenue from renewables projects and 25% from low-carbon projects by 2030. Within energy transition, Aker Solutions supplies foundations for offshore wind developments, as well as providing EPC services in hydrogen and CCUS.
Algonquin Power & Utilities (AQN) Nelson Ng, Analyst (604) 257-7617 nelson.ng@rbccm.com	• **Strong growth profile.** Algonquin has a \$9.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 8-10% EPS growth profile. 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. • **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. • **A good balance of regulated utility and renewable energy operations.** Algonquin operates a diversified regulated utility business providing electric/gas/water services to over 1 million customers primarily in the U.S. In addition, Algonquin has a renewable energy division with ~2.3 GW of generation capacity in North America with ~80% of the electricity generated contracted over an average term of 13 years. The regulated utility division contributed about two-thirds of the company's EBITDA in 2020.

ARC Resources (ARX)
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- **Attachie – the largest undeveloped Montney play in Western Canada.** ARC adds critical mass and now holds many of the key lowest cost Montney plays in Western Canada with ~$2.2 Bn in FCF in 2021E and 2022E, and the future $600-700 million Attachie investment is now easily digestible by the bigger entity. We anticipate the late-2021 sanctioning of a larger project, with 2022/2023 build, commissioning in late 2023, and a full ramp in early 2024 to 42,000 boe/d. At our deck, we see the Attachie project paying out in less than two years (post commissioning). See our notes here and here.
- **Western Canada's largest Montney player.** ARC's all-stock merger with Seven Generations creates an $8B EV player with a production base of circa 340,000 boe/d, building 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 CNRL and Tourmaline. 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 CNRL 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. A simplified analysis implies that a Topaz-like entity could be valued at around $1.5 billion with a 9% FCF yield, driving meaningful accretion and/or utilized as a funding vehicle for future projects. See note.
- **Improved scale and history of consistently delivering on quarterly numbers.** Comparative metrics of the 'new' ARX relative to other Montney players (especially Tourmaline) shifts into sharper focus. We argue that ARC's liquids, FCF outlook and strategic position/scale makes it comparable to US peers. Throughout the time we have covered ARC, the company's ability to meet or exceed guidance figures is amongst the most favorable in the group. Over the past 3 years, quarterly volume estimates have exceeded Street 83% of the time. This is all backstopped by the company's high-quality acreage and a conservative mindset - ingredients we see continuing amid the combined entity.

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 peer leading 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 robust FCF of $1.5-1.6 billion through 2025. FCF priorities include returning large portions of cash to shareholders, maintaining its already strong balance sheet and looking for accretive, opportunistic additional reinvestment back into the business or A&D. The company initiated a $150 million share repurchase program at 1Q21 earnings and we expect CRC to release a more comprehensive plan for shareholder returns later in 2021 that we think likely includes a base/variable dividend.
- **Active participant in energy transition.** CRC owns the surface rights for the majority of its acreage positions as well as benefits from having premium reservoir geology that is advantaged for carbon capture. Management has expressed strong interest in pursuing these renewable opportunities and is currently evaluating its ESG strategy to include more renewables integration and progressing on its pilot carbon capture project. Results of its initial carbon capture field study are expected in 3Q21 at which point if not sooner we think CRC likely announces its updated ESG strategy that includes front/back of the meter solar projects and other initiatives. We think this ESG opportunity is unique to CRC and could over time garner a premium multiple to other E&P peers with renewable projects providing value through carbon credits, lowering operating costs and generating cash flow uplift.
- **Strong balance sheet provides optionality.** Current leverage is a touch over 1x, below the peer average, and based on our estimates trends toward 0x net debt-to-EBITDA by mid-2022. The strong balance sheet is due in part to restructuring which CRC emerged from in October 2020, however strong FCF generation is also further assisting going forward.
- **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 moderate sustaining capital—affords the company with superior free cash flow generative power. • **Mining Segment—Powerful FCF Generator**. CNQ's oil sands mining segment—which encompasses both its Horizon (100% wi) and AOSP (70% wi) operations—is a driving force behind its cash flow and free cash flow generation. In our eyes, it is also one of the reasons that makes CNQ comparable to the global majors. Anchored by an extensive 2P RLI of just over 45 years, CNQ's oil sands mining operations yield premier upgraded products—with no decline—and about $1 billion of annual sustaining capital. • **Strong Alignment.** Collectively, management owns about 2.3% of CNQ, which drives strong alignment with shareholder interests. • **ESG—Lots Of Progress**. CNQ has set a long-term aspirational target of net zero oil sands emissions over time. In the interim, the company continues to make strides with its corporate GHG emissions intensity falling 2% year/year in 2020, marking an 18% reduction from 2016. Having successfully achieved three of its four environmental objectives, CNQ plans to release updated targets in the second-quarter of 2021.
Cenovus Energy (CVE) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Integration On-track.** The company's recent merger with Husky Energy was strategically sound in our eyes fusing Husky's diverse upstream/mid-stream/downstream operations with Cenovus' bitumen-weighted upstream portfolio. Under one roof, Cenovus-Husky becomes a more balanced integrated oil company with increased cash flow diversification. Cenovus remains on-track to reach run rate synergies of $1.2 billion by year-end 2021, and is already capitalizing on second-level synergies and reevaluating processes in Husky's legacy operations. • **Review Underway.** Cenovus has confirmed an in-depth review of its portfolio is underway. The company will remain quiet as it relates to properties that might move onto the block, and was quick to emphasize that high quality assets might not necessarily be construed as core. The recent thawing of the energy A&D market has opened the door for producers to transact—which could be fortuitous for Cenovus. • **Net Debt Target Will Create Additional Flexibility.** Cenovus will allocate 100% of free cash flow toward its balance sheet until its net debt reaches $10 billion (vs. $13.3 billion as of March 31, 2021)—a target the company has a line of sight to by year-end (excluding potential non-core asset dispositions). Thereafter, the company possesses the flexibility to pursue incremental shareholder returns as it works to its ultimate net debt target of $8 billion. Not to be overlooked is Conoco's recent signal that it would sell its circa 10.3% stake (208 million shares) in the open market from the second-quarter through to year-end 2022. The implementation of a buyback by Cenovus (at the right time) could lend physical and psychological support to its market performance.

Cheniere Inc (LNG) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Highly contracted cash flow with strong counterparties.** Cheniere has long-term take-or-pay contracts on 85% of its nine-train portfolio capacity (seven trains now operational), and intends to contract 90%. All of Cheniere's Sale and Purchase Agreement customers are investment grade rated or have investment grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity. • **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still pay fixed liquefaction fees. In our 2023 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%. • **Long term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. Cheniere also stands to benefit from LNG demand growth given its asset footprint. Finally, we believe Cheniere is poised to return significant cash to shareholders via dividends and share buybacks, which we do not believe is fully reflected in Cheniere's stock price.
ConocoPhillips (COP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Compelling value proposition.** COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions. The company's low break-even point provides a competitive advantage and allows it to fund its production maintenance capital and dividends at below $40/bbl (WTI) for around $5 billion of capital spend. Clear priorities provide a defined investment proposition and demonstrate the commitment to returning capital back to shareholders. COP's priorities are: (1) sustain production and pay its dividend, (2) annual dividend growth, (3) A-rated balance sheet, (4) 30+% CFO total shareholder payout, and (5) disciplined investment for CFO expansion. • **Deep depth of inventory.** The company has a deep inventory of highly economic projects that span short through long cycle opportunities globally. In total there is an estimated 23 Bboe of resource potential that has an average break-even below $30/bbl. We think this is one of the preeminent portfolios and provides several decades of inventory at the current production pace. This reduces the need for ongoing exploration spend and consolidation although both can occur if it is accretive to COP's value proposition. • **Substantial FCF yield.** Our detailed model through 2025 shows a strong cash generation profile with an appealing FCF yield that includes a dividend and potential buybacks. Our model has COP organically growing oil production 2-3%/ year while maintaining leverage below 1.0x with a $4+ billion cash balance. • **CXO acquisition offering tangible synergies and scale.** The transaction adds scale to its Permian position that enhances its outlook with greater FCF generation and greater asset diversity. Over the next couple of years (into 2022), the company should be able to capture at least $0.5 billion in annual savings. This includes both cash cost and capital spending improvements. There is more upside through margin improvement with marketing arrangements, supply chain scale, and shared learnings.

Drax Group plc (DRX) John Musk, Analyst +44 (0) 207 029 0856 john.musk@rbccm.com	• **Following the recent Pinnacle transaction, we rate Drax Outperform with a 600p/sh Price Target.** We see Drax as firmly positioned in the 'ESG camp', which should lead to broader shareholder appeal over time and further evidenced by Drax's recent inclusion in the S&P Global Clean Energy Index, and EU Taxonomy classification of sustainable biomass as an environmentally sustainable activity. • **Pinnacle is a good deal for Drax.** The Pinnacle acquisition provides Drax with a step change on its ambitions to reach 5m tonnes of self-supply of pellets (vs. ~2m trajectory for 2022) and accelerates the ability of Drax to hit the targeted $100/t & £50/MWh pellet cost by 2027 vs. a 2020 cost in Drax of $154/t (and proforma ~$141/t). We assume Drax is able to deliver on this strategy resulting in EBITDA in Pellet Production growing more than 3x over 2020-27 to in excess of £300m. • **BECCS likely to be part of future UK generation mix:** We see BECCS as a valuable part of the future generation mix in the UK allowing Drax to continue delivering dispatchable low carbon biomass generation with the potential for negative emissions. We assume Drax develops 2 BECCS units in the late 2020s and forecast the company achieving high-single-digit project IRR. We expect clarity on these BECCs projects to slowly emerge, starting with a preliminary paper due from the government this summer on 'Biomass for net zero' as well as a decision in October on £1bn of government funding to be allocated to four CCUS projects across Track 1 & Track 2 zero carbon clusters. • **Numbers and balance sheet:** When factoring in the recent Pinnacle transaction our forecasts show £376m EBITDA in 2021E, and in 2022E we see strong EBITDA growth to £485m. We now sit ahead of consensus by ~6% in 2021E and ~11% ahead in 2022E. In the near term, we see a temporary rise in net debt/EBITDA to 3x following the Pinnacle acquisition, but see this metric coming back to the target 2x by the end of 2022. Finally, we continue to Drax as able to deliver a growing and sustainable dividend, which we forecast will increase by 7.5% per annum over the medium term.
Enterprise Products Partners (EPD) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• **FCF ramp with diverse assets.** EPD guided lower growth capex levels in 2021/2022 (to $1.6B/$800mm). This should increase FCF growth and open up opportunities for EPD to support its units through buybacks, de-leveraging, or distribution increases. EPD currently has a $2B buyback plan in place, and we expect units to be repurchased opportunistically. EPD also has a diverse and expansive asset footprint. This asset footprint with higher liquids exposure is well-positioned to benefit amidst a 2021 oil and gas demand recovery. • **Growth capital focus on petchem.** EPD has ~$4B of growth projects under construction, of which ~$2.5B is allocated to petchem projects. We highlight the PDH2 facility and ethylene system expansion, which should both help meet increasing petchem product demand. We also like petchem exposure as the space has growing export demand, fewer environmental risks, and integrates well with EPD's NGLs business. Longer term, we believe more growth capital will be allocated towards repurposing and integrating downstream assets as those projects provide quality returns for lower amounts of capital. • **Attractive financial position.** Given EPD's current cash flow profile and asset base, we think EPD provides both offensive and defensive characteristics for investors. We believe EPD can provide 1-2% distribution growth while also opportunistically buying back units. We also estimate EPD will maintain leverage at ~3.5x. With leverage below 4.0x, a distribution coverage of >1.5x, and a current yield of 8-9%, we believe EPD is an attractive investment and should be a core MLP holding.

Enviva Partners, L.P. (EVA) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Highly visible cash flow growth:** EVA targets 7-10% organic growth from: (1) price escalators; (2) productivity improvements; (3) cost cuts/purchasing efficiencies. Based on total contracted revenue backlog of ~$19BN (including its sponsor), EVA plans to more than double its 2019 EBITDA in the next couple of years. • **In for a pellet, in for a pound:** Coal-fired power plants can replace 5-10% of their raw-feed with pellets with only investments in storage to keep wood pellets dry, which costs a few dollars per KW, by EVA's estimates. For reference, the EIA estimates capital costs to build a coal plant with SO2 and NOx controls to be $3,500-$3,800/KW. For full scale wood pellet conversion, EVA estimates a cost of $500/KW. • **Sustainability at the forefront:** With respect to its supply, EVA's Responsible Sourcing Policy requires that landowners replant following any harvest in which EVA sources fiber. In February 2021, EVA and its sponsor announced goals of achieving net zero GHG emissions by 2030 (reduce Scope 1 emissions by 100% in 2030 and source 100% of its electricity from renewable energy by 2030). EVA joined the Sea Cargo Charter for Responsible Shipping and has partnered with Mitsui O.S.K. Lines to evaluate the development of an environmentally friendly bulk carrier.
EQT Corporation (EQT) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Right place right time.** EQT's natural gas focused portfolio is well positioned to benefit from a bullish macro backdrop with LNG demand moving above 10-11 Bcf/d and weak oil fundamentals capping the associated gas growth outlook. We think the company has some of the most economic natural gas assets in North America and benefits from low royalty rates, low operating costs, and premium geology. • **Robust FCF Outlook.** The FCF outlook improves from continued efforts to reduce debt, improve D&C costs, and manage expenses. The company maintains a robust hedge position that provides visibility for FCF generation which we estimate up over 100% in 2021 on our $2.85/Mcf outlook. Opportunities exist to improve this further by leveraging an existing FT portfolio to increase realizations and improve operating expenses. • **Debt reduction remains the priority.** Significant progress is being made to improve leverage toward its target of less than 2x. Based on our $2.85/Mcf outlook for 2021 we see a path for leverage reduction to 2.0x by year-end 2021 but think this can be improved with a sale of an equity stake in ETRN, or select divestiture opportunities. • **Recent acquisition highly accretive.** EQT has been a vocal supporter of consolidation for scale that drives operational and financial synergies but also to maintain a more stable commodity market. A recent acquisition of acreage adjacent to the existing portfolio provides operational and financial synergies, and immediately improves operating costs/unit, FCF per share, and relative leverage. Multiple opportunities exist to unlock incremental value including integrating undeveloped core acreage, higher WI, leveraging the existing FT, and optimizing acquired midstream assets. The company also continues to work to divest non-core acreage positions which should help improve the leverage profile.

Freehold Royalties (FRU) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Defensive model, well positioned for a recovery**. In our minds, Freehold's defensive royalty model is well positioned in times of uncertainty, while also providing upside leverage to a recovery. We expect Canadian volumes to trend in-line with the broader basin, with activity likely ramping up through the second half of 2021. In our view, the company's recent US acquisitions provide additional diversification as well as a strong reinvestment platform for potential growth. • **Unhedged model provides direct commodity exposure**. Freehold does not hedge its royalty volumes and therefore retains full upside exposure to improved commodity prices. The company also benefits from increased E&P activity with no incremental capital outlay. • **Dividends supported by favourable cost structure.** Freehold's low cost model supports continued dividend payment. The company raised its dividend for the third consecutive quarter to $0.48 annually, placing the new yield in the range of 5.0%. We forecast a dividend bump to $0.60/share in Q1/22, though management evaluates this quarterly. This maps to payout ratios of 33%/48% in 2021/22 respectively, well below the company's target range of 60-80%. • **Strong balance sheet, capable of generating FCF at low prices.** Based on our current estimates, we forecast the company shifting to a net cash balance in Q4/21 (though we do not currently model potential acquisitions). In addition, we see the company generating roughly $106/$87 million in post-dividend free cash flow in 2021/22 at our US$64/US$63 pricing outlook. • **Discounted valuation.** Freehold shares trade at a significant discount to the diversified royalty peer group.
NextEra Energy (NEE) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• **Recent share underperformance represents a unique buying opportunity.** We believe current levels represent a buying opportunity for investors looking to gain exposure to the high-growth renewable space. While NEE still trades at a premium, its recent underperformance has narrowed the premium. • **Renewable tailwinds.** As one of the world's largest renewable developers, NEE should benefit from significant tailwinds in the renewable space. We expect the overall industry will see accelerated growth, and that NEE will maintain or further its standing as a renewable mega player. The potential for a clean electricity standard should spur further renewable implementation, while improved battery technology would be another potential growth catalyst. • **Top-tier utility operator.** While much attention has been paid to NEE's renewable status, NEE is also a best-in-class utility operator. Florida Power & Light has one of the strongest cost management and productivity profiles in our space. Additionally, NEE's recent acquisition of Gulf Power has provided an opportunity for significant investment, productivity improvements, and cost cutting.

Pembina Pipeline Corp. (PPL) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **Attractive risk-reward profile with a big focus on risk mitigation.** Although other WCSB-focused midstream peers may have greater upside potential in a market recovery, we believe that the market is also very focused on risk mitigation/downside protection. On that front, we think that Pembina gets a lot of credit for being well ahead of its peers with respect to taking swift and decisive action to protect the balance sheet and dividend. Specifically, Pembina decided to materially cut its growth capex (i.e., the "nice to do" projects) and make it clear to the market that it is willing to make hard decisions in order to protect the dividend. With the macro environment slowly improving, Pembina remains focused on the strategic projects with a conservative funding scenario. • **Fully-funded capex plan in 2021 based on cash flow (i.e., no new incremental debt).** Pembina noted that it is fully funded from cash flow after dividend payments for its 2021 capex program based on the low end of its EBITDA guidance range. As these projects come into service, the financing plan should result in improved credit metrics.
Royal Dutch Shell PLC (RDSB) Biraj Borkhataria, Analyst (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• Shell is unique in having three separate franchise businesses – all of which are #1 in their respective silos. • **1. Deepwater – Core cash generator and funding the ambitions of tomorrow.** Shell's deepwater portfolio is the largest across the Super-Majors, and accounts for 30% of upstream volumes. The valuation is highly levered to oil prices, but we estimate the portfolio has a $30-35/bbl breakeven. Assuming a $50/bbl case, we think the deepwater portfolio could be valued at ~$25bn. • **2. Integrated gas – Transition theme and free cash flow.** Shell accounts for one in every five LNG cargoes traded globally. This has led to a significant trading advantage, in our view, and although it feels almost impossible to forecast earnings, it has proved to be a resilient business. Assuming a conservative 8x P/E multiple, we see a ~$50bn valuation. • **3. Marketing – "Brand value" and adding stability to the downstream.** Shell has the largest marketing business among all of the majors, with a global footprint and 45,000 stations. The company also has the highest "brand value" according to third-party analysis, almost 2x more than BP. Marketing is Shell's highest return business, with a >20% ROACE, while it also adds much needed stability to downstream earnings. We think a 15x P/E multiple is appropriate, which would suggest a $71bn valuation. This would be at the low end of retail peers, and lower than directly comparable peers such as Couche-Tard. • **Bump in the road ahead of 2021E deleveraging:** We see the company well-placed to deleveraging meaningfully and, over the period 2022-26E, we expect Shell to return 50% of its market cap back to shareholders via dividends and buybacks, all funded by organic cash flow generation. • **Undemanding valuation:** On our estimates, Shell generates a ~14% FCF yield on average over 2021-25E, significantly ahead of sector average for a discounted valuation. At the same time, Shell trades at around a two-turn discount on EV/DACF to the sector.

Santos Limited (STO) Gordon Ramsay, Analyst +61 3 8688 6578 ordon.ramsay@rbccm.com	• **Broad based production growth pipeline.** Santos is our preferred Australian large cap E&P pick due to its diverse and largely brownfield production growth profile. Targeted production of 120 mmboe by 2025 (CAGR 8% pa) is driven by three major growth projects – the Dorado oil field development, Barossa gas field development for Darwin LNG backfill / expansion, and PNG LNG T3 expansion. While we are confident all these projects will go ahead, recent events imply increased potential for slippage. The Dorado FEED decision was delayed slightly from 2Q to 3Q 2020, but is still targeting FID in 2021 and first production by 2025. The ConocoPhillips Northern Australia and Timor-Leste assets acquisition has now been completed, but the Barossa project FID has been deferred until business conditions improve. Unfortunately, PNG LNG T-3 expansion FEED has been delayed since formal discussions between ExxonMobil and the PNG Government on the P'nyang Gas Agreement were suspended in January 2020. • **Strong free cash flow and flexibility on expenditure.** We view Santos as being somewhat defensive with approximately 70% of its 2020 forecast production volumes either: fixed price domestic gas sales contracts, or oil hedged at an average floor price of US$39/bbl. Cooper Basin cost out has been remarkable over the last five years and gas production from the area over 1Q 2020 was its highest in 9 years. Santos is targeting free cash flow breakeven oil price ~US$25/bbl in 2020. Since major projects are all pre-FID, Santos has the ability to optimize spending in response to current market conditions with forecast 2020 capital expenditure of A$550m down 38% from prior guidance. • **Potential Catalysts.** Key near-term catalysts include advancing the go-ahead decision process for Santos' three major growth projects, and progressing the approvals required for the Narrabri coal seam gas project in NSW.
Shawcor Ltd. (SCL) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **The pieces are coming together.** We believe Shawcor's recent cost reduction efforts, growing exposure beyond oil & gas, and improved financial flexibility set the stage for improved financial results over the coming quarters. Shawcor is encouraged that 2021 results will improve y/y from continued execution of high margin pipe coating project work, a full year contribution of SG&A reductions, and encouraging industry fundamentals. Shawcor's growing diversified industrial businesses continue to support revenues as an oil & gas recovery unfolds. • **Pipe Services profitability positioned to improve.** Shawcor has been in 'show me' mode with the market with respect to lowering its fixed cost footprint. We believe its recent decision to close several plants represents a tangible step to improving its pipe coating profitability under a wider set of economic circumstances, with additional actions in the works. While large contract awards are slow, Shawcor remains a key player in the international pipe coating market and we see the company as well-positioned to win its share of global project awards as the market improves. In the mean-time, its project backlog should support revenues. • **Improving financial flexibility**. We see the company's liquidity as sufficient through our forecast period. We forecast 2021 net debt/EBITDA well below its covenant levels, with strong financial liquidity buoyed by recent accretive asset sales.

Tourmaline Oil (TOU)
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- **Key beneficiary of an improved natural gas outlook.** Natural gas remains an abundant commodity amid WCSB with low supply costs, but the SD picture has brightened somewhat near-to-mid term, and we believe TOU as the largest natural gas producer in Canada stands to be the key beneficiary. See our deep dive report here.
- **High quality asset base, with Montney driving the growth.** The company's primary growth engine continues to be the liquids-rich Gundy. Tourmaline has a top-decile cost structure and industry-leading capital efficiencies. We now model Tourmaline's 2021 capital efficiencies at approximately $7,500/boe/d. The next few years are likely to drive a higher degree of focus, and value creation, as the North Montney region attracts more capital – see our recent notes here, here and here. Ownership of facilities remains a key ingredient to the story, and could represent an additional avenue to surface value in the future.
- **Potential upside via Topaz Energy.** With the IPO of Topaz now complete, Tourmaline maintains an equity position of 58 million shares. Tourmaline's participation in Topaz deals (generally for GORRs) improves the valuation of acquisitions, and allows TOU to participate in Topaz' equity upside.
- **Aligned and seasoned management team.** Tourmaline's leadership team is led by Mike Rose as President & CEO, who has been with the company since inception. Mr. Rose has 40+ years of experience in the oil and gas industry. Tourmaline management is amongst the most aligned within our coverage universe in terms of equity ownership (Directors & Officers ownership: ~8%).

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Companies mentioned

CenterPoint Energy, Inc. (NYSE: CNP US; $25.30; Outperform)
Enerflex Ltd. (TSX: EFX CN; C$8.06; Outperform)
Parex Resources Inc. (TSX: PXT CN; C$21.12; Sector Perform)
Suncor Energy Inc. (TSX: SU CN; C$28.06; Outperform)

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