EQUITY RESEARCH

Capital Markets

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June 1, 2022

Global Energy Best Ideas

Our view: In May, the RBC Global Energy Best Ideas List was up 9.0% compared to the iShares S&P Global Energy Sector ETF (IXC) up 14.0% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) up 11.3%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 137.1% compared to the S&P Global Energy Sector ETF up 25.4%.

Total Return Comparison	May	YTD	Inception
iShares S&P Global Energy (IXC)	14.0%	47.0%	25.4%
Hybrid Benchmark (75% IXC, 25% JXI)	11.3%	35.4%	42.5%
RBC Global Energy Best Ideas	9.0%	41.2%	137.1%

May List Changes:
Additions: ERF-US, DINO-US, MNRL-US, ROCC-US
Removals: RTLR-US

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Shell	SHEL-LON	OP	Borkhataria	£176,774	7/1/20	1,224p	2,377p	3,000p
BP	BP-LON	OP	Borkhataria	£83,937	3/1/22	364p	434p	450p
Cenovus Energy	CVE-CA	OP	Pardy	C$57,818	6/1/21	C$10.09	C$29.32	C$28.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	$145,332	12/1/20	$39.56	$112.36	$127.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$96,712	4/1/22	C$77.41	C$83.71	C$85.00
Enerplus Corporation	ERF-US	OP	Pardy	$3,589	6/1/22	$14.84	$14.84	$18.00
Santos Limited	STO-AU	OP	Ramsay	A$27,773	6/1/19	A$6.74	A$8.20	A$9.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$26,146	1/1/20	C$15.08	C$78.08	C$75.00
ARC Resources	ARX-CA	OP	Harvey	C$12,978	5/1/21	C$7.73	C$19.05	C$23.00
Range Resources	RRC-US	OP	Hanold	$9,160	7/6/21	$16.76	$33.95	$42.00
California Resources Corporation	CRC-US	OP	Hanold	$3,390	6/1/21	$29.01	$43.67	$70.00
Tamarack Valley Energy	TVE-CA	OP	Davis	C$2,291	7/6/21	C$2.57	C$5.28	C$7.50
Ranger Oil Corporation	ROCC-US	OP	Hanold	$1,871	6/1/22	$42.81	$42.81	$50.00
Brigham Minerals, Inc.	MNRL-US	OP	Schultz	$1,586	6/1/22	$30.31	$30.31	$43.00
Oilfield Services								
Schlumberger Ltd.	SLB-US	OP	Mackey	$64,963	1/4/22	$29.95	$45.96	$52.00
Secure Energy Services	SES-CA	OP	Mackey	C$2,286	8/4/21	C$4.22	C$7.38	C$9.00
Midstream								
Cheniere Energy Inc	LNG-US	OP	Scotto	$34,759	5/1/20	$46.69	$136.77	$178.00
AltaGas Ltd.	ALA-CA	OP	Kwan	C$8,571	7/6/21	C$26.02	C$30.54	C$34.00
Energy Transfer LP	ET-US	OP	Scotto	$35,977	2/1/22	$9.57	$11.66	$15.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$16,420	12/1/21	$51.63	$72.02	$90.00
Utilities, Refiners, Infrastructure & Renewables								
The AES Corp.	AES-US	OP	Tucker	$14,720	12/1/21	$23.38	$22.04	$30.00
Algonquin Power & Utilities	AQN-US	OP	Ng	$9,827	6/1/21	$15.28	$14.56	$17.00
Drax Group plc	DRX-LON	OP	Musk	£2,698	5/1/21	409p	674p	1,150p
HF Sinclair Corporation	DINO-US	OP	Schultz	$10,961	6/1/22	$49.10	$49.10	$60.00

1-OP = Outperform, R = Restricted. 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested. 5-This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the Global Energy Best Ideas list has not been reviewed or confirmed as of the date hereof.
Note: Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.
Source: RBC Capital Markets estimates, FactSet

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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 20

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

Exhibit 1 - This Month's Additions

Enerplus Corporation (ERF) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• We are adding Enerplus Corp. to the RBC Global Energy Best Ideas List. Enerplus remains our favorite intermediate producer given its capable leadership team, solid execution, balance sheet strength and rising shareholder returns.
Ranger Oil Corporation (ROCC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• We are adding Ranger Oil Corp. to the RBC Global Energy Best Ideas List. Investor interest continues to build in SMid cap US E&Ps as valuations remain too cheap, and investors get more comfortable with sustainably higher oil prices. ROCC has one of the highest-margin barrels in US onshore creating an attractive investment opportunity to partake in higher oil prices.
Brigham Minerals, Inc. (MNRL) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are adding Brigham Minerals, Inc. to the RBC Global Energy Best Ideas List. We like MNRL's diversified exposure to core basins amid the strong commodity price backrop, attractive yield, and disciplined acquisition strategy underpinned by a top-tier technical team in our view. Strong DUC conversions have driven organic production growth, and we see a path to >$2.00/share dividends in 2022. MNRL does not currently have oil hedges, which provides exposure to oil price upside.
HF Sinclair Corporation (DINO) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are adding HF Sinclair Corp. to the RBC Global Energy Best Ideas List. The close and initial integration of the Sinclair business in 1Q has gone as DINO expected. Following the close, DINO reinstated the dividend at $0.40/share (above our $0.35/share estimate), and noted a commitment to return total capital of $1Bn to shareholders over the next twelve months in the form of dividends (~$350mm expected) and share repurchases (~$650mm expected) to make up the difference. We like the combination of exposure to high refining margins and clear capital return framework.

Exhibit 2 - This Month's Removals

Rattler Midstream LP (RTLR) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• We are removing Rattler Midstream LP from the RBC Global Energy Best Ideas List. It was recently announced that FANG will acquire all outstanding shares of RTLR that is does not already own in an all-stock agreement (0.113 shares of FANG for each RTLR unit). The deal is expected to close in 3Q22.

Investment Highlights

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

The AES Corp. (AES)
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- **Transformational profile could lead to ESG premium.** AES has become one of the largest solar developers in the world, with a current backlog of 9.2 GW and 38 GW pipeline. It has been reducing its coal-fired generation exposure from 45% at the end of 2019 to 20% in July 2021. By 2025, its coal exposure should be less than 10%. Its investments in ways to integrate energy technologies should enhance the stock value. As an example, the recent IPO of Fluence Energy (FLNC, Outperform) values AES' ownership at ~$2 billion, though the company invested less than $150 million into the business.
- **Stable core business.** AES' earnings and cash flows are very predictable, as 85% of pre-tax earnings contribution is highly contracted or regulated. The vast majority of new generation projects are contracted through long-term purchased power agreements (PPAs). The average life of PPAs are 13 years. AES also generates a large amount of cash flows, with 2020 parent free cash flow being at $777 million. We expect free cash flow to grow at 7%-9%, in line with earnings per share. This provides management growing funds to redeploy in its pipeline of projects. It will also allow the company to grow its dividend at least 5% a year.
- **Valuation attractive.** As of May 28, AES trades at a discount to the utilities and to the market. On 2023 estimates, its P/E multiple is 12.5x versus the utility peer group at 20.5x with NEE and 19.8x without; the S&P 500 2023 P/E stands at 17x. The same applies on an EV/EBITDA basis, as AES trades at an 8.3x 2023E multiple versus the utility comp group at 13.1x. We believe that the stock will benefit from a re-rating as the profile shifts increasingly toward renewables. Our $30 price target assumes a 17x 2023E P/E multiple and 9.7x 2023E EV/EBITDA multiple, though it is based on a sum-of-the-parts methodology.

Algonquin Power & Utilities (AQN)
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- **Strong growth profile.** Algonquin has a $12.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 7-9% EPS growth profile. The company has been successful in growing its regulated utility business organically and through M&A, and the company also has a large renewable energy development pipeline. Management has a good track record of adding renewable energy capacity inside (greening the grid) and outside (on a contracted basis) of its regulated utility footprint. We believe the pending acquisition (fully funded) of Kentucky Power provides significant opportunities to green the grid.
- **Very supportive greening initiatives in the U.S. can drive upside.** Algonquin has a large regulated utility and renewable energy footprint in the U.S. that should benefit from the Biden Administration's decarbonization objectives. Biden has a 2050 carbon net zero target, and a very ambitious target of a carbon-free electricity grid by 2035. The company has signed power purchase agreements with corporations to green its energy consumption, and has partnered with Chevron to jointly develop some renewable projects.
- **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. We estimate that the regulated utility division will contribute about two-thirds of the company's EBITDA in 2022.

AltaGas Ltd. (ALA)
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- **Is AltaGas a utility or a midstreamer?** The market seems to be saying "neither." AltaGas's guidance is for 55% of 2022E EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and the remainder from midstream assets (net of corporate costs). With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that WCSB-focused midstream investors have historically looked to pure-play stocks levered to industry trends.
- **Additional asset monetizations could continue to drive material upside in the stock.** With the market's positive response to the sale of the Alaskan utilities, we see continued upside if the company looks to monetize additional assets. While MVP was an obvious asset sale candidate given it was a non-operated minority interest that also benefitted from an ability to greatly reduce debt/EBITDA (given AltaGas would only book equity earnings), we still believe that the company has options to monetize an asset, or assets, that could reduce leverage and eliminate various risks for MVP (e.g., whether it happens at all, timing of a sale and/or asset sale valuations changing).
- **AltaGas Ltd. (TSX: ALA) has agreed to sell its Alaskan Utilities to TriSummit Utilities Inc. announced on May 26, 2022. RBC Capital Markets served as financial advisor to AltaGas. The transaction is anticipated to close no later than the first quarter of 2023 and will be subject to customary closing conditions, including State regulatory approvals. This research report and the information herein is not intended to provide voting advice, serve as an endorsement of the transaction or result in procurement, withholding or revocation of a proxy or any other action by a security holder.**

ARC Resources (ARX)
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- **FCF generation - ample.** ARC is set to generate ~$2bn FCF in 2022 on our numbers. With a strong balance sheet and large M&A on hold (for now), the focus remains on Attachie development and RoC initiatives. ARC targets return of capital in the range of 50-80% of FCF via base dividend tied to earnings growth (now at $0.48/share), and share buyback (could easily buy back 10% of float annually). Production growth is not a specific target but rather an outcome of the most efficient way to execute projects (Sunrise, Attachie) paired with the Basin's capacity to absorb new product, and is unlikely to exceed 5%.
- **Western Canada's largest Montney player.** ARC's production base of circa 340,000 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.
- **Improved scale and history of consistently delivering on quarterly numbers.** Comparative metrics of ARX relative to other Montney players (especially Tourmaline) and US peers remain in 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 – see our recent note here. This is all backstopped by the company's high quality acreage and a conservative mindset - ingredients we see continuing amid the combined entity.

BP PLC (BP)
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- **Sector leading shareholder returns.** BP intends to return at least 60% of its surplus free cash flow to shareholders via buybacks over time, in addition to its dividend, and we expect to see surplus cash generation improve through the year. We see BP returning ~15% to shareholders in 2022 via dividends and buybacks, the highest in the sector. Over the next five years, we see potential for investors to receive a significant portion of BP's market cap back via dividends and buybacks, again the highest in the sector.
- **Buybacks to support stock over the coming months.** On our assumed buyback of $10bn in 2022, BP could be purchasing >18% of its ADV through the year on average, providing an extra layer of support to the shares in addition to the current strong commodity price environment.
- **Refining leverage to come through in 2022.** BP is more geared to refining than some of its European peers, with 1.8mb/d of refining capacity, a large proportion of which is in the US (~40%). We expect this to be supportive for BP's earnings momentum in 2022, and our >$7bn refining & trading EBITDA estimate is almost four times what BP generated in 2021, and 2x pre-Covid 19 levels.

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

California Resources Corp. (CRC)
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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 positions the company to generate $1.4 billion of FCF from 2022-2025. FCF priorities include returning large portions of cash to shareholders, maintaining its already strong balance sheet and starting to fund its developing carbon management business. The company has an active buyback program and instituted a fixed dividend at 3Q21 earnings which we expect grows over time. CRC plans to return 50% of FCF back to shareholders providing upside to returns longer term.
- **ESG exposure in a U.S. E&P.** The company's large surface rights ownership, premium reservoir geology in close proximity to emitting parties, and being located in 'green energy' friendly California provide CRC the unique opportunity to economically participate in energy transition opportunities. We think signing up its first LCFS eligible third-party emitter is a catalyst to derisking value from its carbon management projects and should come in the back half of 2022. The State of California has established attractive credit programs to incentivize green energy development in order to meet the state's ambitious climate targets. Accordingly, these credits enhance project economics for CRC as it expands into renewable/carbon management projects being able to take advantage of both in-state and federal credit programs. We think the value of these projects could eclipse the value of the upstream business over time.
- **Progressing on the carbon management business.** We recently had the opportunity to take a field tour of CRC's oil & gas operations, see the future site of CTV I, and speak with a local regulator (note). CRC now has four class VI well permits filed (120 MMT total storage) with the EPA and plans to have permits filed for another 80 MMT of storage by year-end. CRC is beginning to spend capital to build a backlog of prepared injection sites that can become operational once permits are approved. Targeted FID on CRC's first project Carbon TerraVault I (CTV I) remains mid/late-2023 with first injection planned for late 2025. Near term catalysts to watch for are approval of the Kern County EIR needed for CTV I to proceed which we think could come by October, CRC signing up its first third party emitter which should come by year-end, and EPA class VI permit approval which we think could come in mid-2023. CRC targets injecting 5 MMT/annually starting in 2027. We think these initially identified CCS projects represent $30-40/share of value that's largely not reflected in the stock price today.
- **Conventional asset base provides consistency.** The company's conventional asset base has a low capital intensity with base decline rates at ~15%, far lower than shale E&P peers at 35-40%. Its conventional low-risk, low-decline asset development strategy drives more stable production and cash flow generation which help underpin our FCF outlook. We estimate CRC has over a decade of remaining core drilling opportunities in its core fields which should position the company for repeatable, robust FCF generation for years to come.

Canadian Natural Resources (CNQ)
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- **Globally distinguished**. Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by low sustaining capital—affords the company with superior free cash flow generation throughout the cycle.
- **FCF & buybacks**. We peg CNQ's free cash flow (before dividends of $3.2 billion) at $15.7 billion in 2022 under our base outlook (US$100 WTI). The company plans to allocate one-half of its free cash flow (post dividends and sustaining capital) to share repurchases, with the balance (less strategic growth capital/acquisitions) allocated to net debt reduction. Our 2022 outlook incorporates share repurchases of approximately $5.9 billion with net debt reduction of $5.0 billion. In conjunction with 4Q21 results, CNQ raised its common share dividend by 28% to an annualized rate of $3.00 (3.6% yield) per share. We think it is important to point out that CNQ has never cut its dividend—which has grown at a CAGR of 22% over the past 22 years.
- **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others.
- **ESG—lots of progress**. CNQ continues to work through details with respect to the Oil Sands Pathways to Net Zero initiative to advance key milestones to be achieved over the next decade as they accelerate related projects, targeting net zero emissions in its oil sands operations by 2050. CNQ continues to target a 50% reduction in North American E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016), and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline). From 2016 to 2020, the company's corporate GHG emissions intensity fell 18%.

Cenovus Energy (CVE) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Integration on track.** The company's 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 has become a more balanced integrated oil company with increased cash flow diversification. Our bullish stance towards Cenovus reflects its strong leadership and favourable rate of operational/financial improvement which is already underway—and set to continue. • **Balance Sheet Deleveraging and Shareholder Returns.** In conjunction with Cenovus' first-quarter results, the company affirmed its commitment to growing shareholder returns commensurate with increasing balance sheet strength. The company's net debt dropped to $8.4 billion as of March 31, and Cenovus announced a new ultimate net debt target of $4 billion (1.0x net debt/cash flow at $45 WTI). Cenovus tripled its common share dividend to an annualized rate of $0.42 per share (1.4% yield) effective in the second quarter, and further refined its shareholder returns policy. The company plans to allocate 50% of quarterly excess free cash flow when its reported net debt is under $9 billion via share buybacks and/or variable dividends and will target to return 100% of that quarter's excess free cash flow to shareholders via buybacks and/or variable dividends when its reported net debt is at its $4 billion floor. Cenovus continues to execute its NCIB (10% of public float, or 146.5 million shares) which expires November 8, 2022. As of April 26, Cenovus had repurchased about 58 million shares. Our outlook factors in 100% execution of the issuer bid by the end of 2022. • **Downstream portfolio reshaping an opportunity.** Cenovus will continue to seek fruitful opportunities to reshape its US Manufacturing operations over time, where only two of its five refineries align with its preference for an operated 100% interest. From where we sit, one potential path for the company to pursue would be to acquire BP's 50% operated interest in its 160,000 bbl/d (gross) Toledo, Ohio refinery along with BP's 50% non-operated interest in the Sunrise oil sands project which Cenovus operates. The company would then be in a position to pipeline connect Lima-Toledo, enabling feedstock/refined product movements aimed at optimization between the two facilities. For our recent update on Cenovus, please see Update with Jon McKenzie.
Cheniere Inc. (LNG) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Highly contracted cash flow with strong counterparties.** Cheniere has a weighted average contract duration of 17 years on its long-term take-or-pay contracts and is 90% contracted on its nine-train portfolio including mid-term and short-term SPA and IPM agreements. All of Cheniere's Sale and Purchase Agreement customers are investment grade rated or have investment grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity. • **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still pay fixed liquefaction fees. In our 2024 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%. • **Long-term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. The four pillars of Cheniere's capital allocation strategy include (1) annual debt pay down of $1 billion through 2024 to achieve investment grade ratings; (2) dividend declaration of $0.33/share ($1.32/share annualized) with mid-single-digit annual growth; (3) $1 billion share repurchase program; and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.

ConocoPhillips (COP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** The company is well positioned to maintain competitive FCF generation through various commodity price cycles with a sub-$30/bbl (WTI) average cost of supply. • **RDS Permian acquisition enhanced the returns proposition.** The $9.5 billion cash acquisition which closed late 2021 lowered the corporate cost of supply, increased the resource base, and improves go forward FCF generation. • **A well-defined and attractive investment proposition**. COP was an early leader in committing and demonstrating high returns of capital back to shareholders. The priorities are: (1) sustain production and pay its fixed dividend; (2) annual dividend growth; (3) maintain an A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion. Management has demonstrated its commitment to industry-leading returns of capital to shareholders that includes a minimum cash flow payout of 30%. We think this could translate to returning 80+% of the current market cap back to shareholders over the next decade through fixed dividends, variable dividends, and stock buybacks. We think the total returns payout trends toward 40% of CFO in 2022 at current commodity prices. • **A global and diverse footprint across the commodity spectrum mitigates unsystematic risk.** This also allows capital to shift toward projects that can deliver high returns through commodity price and economic cycles. • **COP is the fifth-largest natural gas marketer in the U.S.** This creates opportunities to enhance transportation and sales mechanisms for margin improvement. • **Energy transition opportunities.** We think there is a growing effort to evaluate energy transition options. COP has a low carbon team that is focused on emission reduction initiatives and opportunities relevant to its core business and competencies. This could include CCS/CCUS and blue/green hydrogen.
Drax Group plc (DRX) John Musk, Analyst +44 (0) 207 029 0856 john.musk@rbccm.com	• **Conservative adoption of forward curves drives meaningful upside.** UK power prices have moved up sharply this year and we have conservatively included power price assumptions that sit at 20-30% discounts to forward curves over 2023-27. Cumulatively, our estimates show EBITDA over 2022-27E of £5.8bn vs £4.5bn previously. We also calculate that consensus EBITDA for Drax is using power prices that are on a significant discount for forward curves. • **Balance sheet strength offers optionality.** We estimate FCF, pre dividends and capex, of £4.7bn from £5.8bn of EBITDA over 2022-27. Thus, Drax can easily fund £2.5bn of capex we expect over this period from the overall £3bn 2030 capex plan. With dividends increasing 10% p.a. this utilises £0.6bn, meaning £1.6bn of 'spare' net cashflows. Therefore, we see Drax as cash positive from 2024 with potential for enhanced shareholder returns and/or growth capex. • **Growth ambitions progressing well.** We see Drax increasingly well-placed longer-term with its £3bn growth ambitions aligned with UK security of supply and net zero ambitions. We expect further clarity on the £2bn BECCS project following the government's bioenergy strategy review anticipated in 2H22. We also give Drax credit for a 600MW extension at the existing 440MW Cruachan pumped storage facility, and for ambitions to expand pellet production from 5mtpa to 8mtpa.

Energy Transfer (ET) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Energy Transfer is a publicly traded partnership that owns and operates a portfolio of assets across the natural gas, natural gas liquids, and crude oil value chain.** We believe ET is well positioned to generate meaningful cash flow growth as large-scale growth projects come online and as we expect growth capex to slow. With a stronger balance sheet, ET should be in position to return more cash to unit-holders via distribution increases and/or unit repurchase. • **Significant synergy potential from recent Enable Midstream acquisition:** (1) Enable brings additional demand pull transportation and storage assets in the Mid-Con and ArkLaTex regions. (2) Enable's Gathering and Processing assets in the Mid-Con complements ET's Gulf Coast fractionation and export assets. (3) Enable's Haynesville Gathering and Processing assets and its Gulf Run pipeline increase exposure to the global liquefied natural gas markets. (4) In the Bakken, Enable provides crude gathering that connects into DAPL. ET expects the Enable acquisition to generate $100MM of cost and efficiency synergies, which we view as achievable given the complementary asset bases. • **Strong balance sheet FCF generation potential positions the company for capital return.** ET lowered its outstanding debt by ~$6BN in 2021, and exited 2021 with leverage of 3.9x (credit facility calculation) while targeting leverage of 4.0-4.5x. We forecast ET exits 2022/2023 with Net Debt/TTM Adjusted EBITDA of 3.7x/3.6x while paying $6.6BN in distributions.
Enerplus Corporation (ERF) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Solid All-Around.** Enerplus is our favourite intermediate producer given its capable leadership team, consistently solid execution, strong balance sheet and rising shareholder returns. As a seasoned intermediate producer, the company is anchored by its extensive footprint in the Bakken, with its Marcellus and Canadian water flood production playing supporting roles. • **Attractive Valuation.** Enerplus is trading at a 2022 debt-adjusted cash flow multiple of 2.9x (vs. our North American intermediate peer group average of 3.5x) and an elevated free cash flow yield of 25% (vs. our peer group average of 17%). We believe the company should trade at an average/above average multiple given its consistent operating performance, capable leadership team and strong balance sheet, partly off-set by portfolio concentration. • **FCF & Shareholder Returns.** Enerplus is committed to returning the greater of $350 million (minimum) or 50% of free cash flow through dividends and share repurchases in 2022. The company plans to repurchase the remaining 8.0 million share authorization under its 10% NCIB by the end of July and renew its issuer bid in August. All said, Enerplus anticipates returning about $40 million to shareholders in 2022 via dividends, with the remaining $310 million or greater returned to shareholders via buybacks. Our outlook factors in share repurchases of $337 million in 2022 and $350 million in 2023. Although the company has not formulaically defined its shareholder returns policy beyond 2022, it remains committed to shareholder returns of various forms (including variable/special dividends). We peg Enerplus' free cash flow at approximately $821 million in 2022 in the context of a $420 million capital program under our base outlook ($100 WTI, $5.00 Henry Hub). • **Bakken Positioning.** Enerplus' April 12 Update on the Bakken explored its long runway of quality drilling locations in an advantaged basin following its two acquisitions last year and affirmed a solid corporate strategy. The company pointed towards 670 drilling locations in its core/extended core areas of the Bakken – or about 13 years of drilling inventory at 50 wells per annum.

HF Sinclair Corporation (DINO) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• **Refining Margins.** Refiners across the board are seeing strong margins from the elevated cracks that materialized late in 1Q. We expect DINO to continue to benefit from the elevated product cracks in 2Q+ as capture and cash flow should improve. Management see the primary risk to operations being a recession, with some natural gas price and RINs headwinds. • **Sinclair Acquisition.** DINO closed the acquisition of Sinclair in 1Q, and the integration of the business has gone as management expected. Following close of the acquisition, DINO reinstated the dividend at $0.40/share (above our $0.35/share estimate). • **Capital Allocation.** DINO has committed to return a total of $1Bn of capital to shareholders over the next twelve months. These distributions will come in the form of dividends (~$350mm expected) with a material amount of share repurchases (~$650mm expected) to make up the difference. • **Renewable Diesel.** DINO continues to ramp its production of renewable diesel, as Cheyenne production commenced in 1Q22, and Artesia first production is expected in 2Q22.
Ranger Oil Corporation (ROCC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Attractive value opportunity.** ROCC shares offer an attractive entry valuation point, strong balance sheet, and robust FCF outlook. The company currently trades at a 1.1x 2023 EBITDA multiple, nearly a 1.0x discount to peers and well below historical norms. We estimate ROCC has over two decades of core activity remaining based on its current activity pace, this provides an attractive set up for consistent cash flow generation. Over time we think ROCC's deep quality inventory, strong balance sheet, and peer leading margins could warrant a premium valuation to peers. • **Among the highest cash margins in US onshore.** ROCC's assets have amongst the highest oil cuts of US onshore, which along with being a pure-play Eagleford producer in close proximity to premium Gulf Coast pricing markets, helps drive stronger realizations relative to peers. We calculate a gross margin of $57/boe for 2023, this is the best within our coverage. • **Getting started on shareholder returns.** We forecast ROCC generating nearly $1 billion of FCF through 2025 representing over 50% of the current market cap. A strong balance sheet today allows more FCF to go toward increasing shareholder returns while some peers are still focused on paying down debt. We expect the company is active with its buyback program, and a $0.25/share annualized fixed dividend starts being payable in 3Q22. • **Natural consolidator in the Eagleford shale.** Management continues to run the business to be a natural consolidator in the Eagleford shale, most recently acquiring three bolt-on properties to some of its core acreage. The Lonestar (LONE) acquisition added quality inventory depth and helped build scale of the enterprise. This allows ROCC to be more selective going forward in potential M&A opportunities.

Range Resources (RRC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Strong upside to historically tight NGL/natural gas markets.** RRC is our preferred equity to express bullishness in NGL and natural gas prices with NGLs representing ~30% of total production volumes. The company exports a large portion of its NGL production which translates to premium realizations above peers and allows RRC take advantage of both strong international and domestic demand trends. • **Rapid organic deleveraging.** The near-term focus remains on running the business for FCF to use for debt reduction though heightened current commodity prices provide a path toward reaching leverage/debt targets in conjunction with shareholder returns. Leverage currently sits at 1.6x, we forecast leverage further improving to sub-1.0x by year-end and management expects to reach its $1.0-1.5 billion aggregate debt target in early 2023. • **Shareholder returns getting underway.** RRC started its shareholder return strategy buying back $16 million worth of shares in March, we expect the buyback paces picks up in the coming quarters and we think RRC could exhaust the remaining $484 million of authorization by YE22 if strip prices hold. The company will start paying a $0.32/share (annualized) dividend in 2H22 further improving the shareholder return proposition. We think RRC can generate an average a total return of 5+% over the next four years. • **Defining low cost operator.** RRC has one of the largest tier-1 inventories remaining in the Appalachian Basin which coupled with its strong technical expertise and low base decline supports a highly efficient maintenance capital program that can be sustained for years to come. This provides a durable and resilient FCF outlook over the next several years which we estimate RRC generating $4.0-4.5 billion of cumulative FCF from 2022-2025 (using RBC $5.00-3.50/Mcf HH price forecast), nearly 50% of its current market cap.
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"). A look at Shell's SOTPs would suggest a valuation closer to $250 billion (>3,000p share price). • **Free cash flow giant.** On our bullish commodity price deck, Shell's advantaged portfolio generates significant amounts of cash, supported by the company's oil leverage and #1 LNG presence. This leaves it well positioned to deleverage meaningfully over the coming years with cash to spare for higher shareholder returns. • **Closing the gap.** On our estimates, Shell generates an FCF yield ahead of the sector on average over 2022-25E but trades at a discount to peers on a 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.

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.

Schlumberger Ltd. (SLB) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Leading size, scale, geographic reach.** Schlumberger's size, scale, geographic diversification, and exposure to new energy sources leave it favorably positioned under prevailing industry trends, in our view. We see the company's strong International footprint as an advantage as the global commodity supply/demand dynamic becomes increasingly intertwined. Recent awards in the Middle East increase visibility to a multi-year upcycle, in our view. • **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics. • **Free cash flow profile improving; dispositions may accelerate de-leveraging.** We believe strong free cash flow generation in 2022 (>$2bn) should allow the company to reduce its net debt/EBITDA leverage below its 2.0x target, paving the way for larger shareholder distributions, such as the company's recent 40% dividend increase. Dispositions could also accelerate de-leveraging. • **Energy transition leader.** Schlumberger New Energy is on the leading edge of CCUS, hydrogen, and other potential growth avenues. Schlumberger estimates its total addressable market at $50-75 billion by 2030. Its approach to creating partnerships with oil & gas customers as well as adjacent industries reduces implementation risk and capital requirements as the revenue opportunity becomes clearer, in our minds. • See our latest Schlumberger note here.
Secure Energy Services (SES) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Consolidated footprint unlocks asset and valuation re-rating potential.** We believe Secure remains primed for revaluation due to: 1) Favorable free cash flow margin profile; 2) Improving balance sheet which should enable higher shareholder returns; and 3) Eventual removal of Competition Tribunal overhang. • **Targeting debt reduction in the near term.** Secure is targeting leverage of sub-2.5x within the next 1.5-2 years of closing its mid-2021 acquisition of Tervita. We see this as achievable based on our FCF estimates. FCF generation should be buoyed by increasing activity levels in the Western Canadian Sedimentary Basin, cost efficiencies, and a largely maintenance capital spending profile as the company re-assesses its expanded opportunity set. • **Merger cost-reduction initiatives on track.** Secure has achieved approximately 71% of its targeted $75 million annual cost savings. The company remains on track to hit its overall target by YE22. • See our latest Secure note here.

Tamarack Valley Energy (TVE)
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- **Clearwater development provides drilling catalysts.** Tamarack increased capital guidance by 12% with Q1/22 results to $280-$300 million, with 35% allocated to Clearwater development (excluding waterfloods). Management now anticipates Clearwater volumes to average 13,500 bbl/d in 2022 and exit the year at 16,000 bbl/d following the Rolling Hills acquisition (note here). Initial wells are performing in-line or better than type curve expectations, noting IP30 rates of 250-300 bbl/d in West Nipisi and top wells in the Southern Clearwater showcasing IP30 rates pushing 200 bbl/d. Tamarack holds 593.2 net sections in the Clearwater fairway, including 70.5 net sections at Peavine, an emerging region with some of the top wells in the Clearwater (note here).
- **Return of capital framework well defined.** Tamarack increased its monthly dividend by 20% to $0.01/share following its recent Rolling Hills Energy acquisition. Management has lifted its long-term leverage target to $350-$400 million, with management now planning to implement an enhanced return to shareholders in Q3/22, with details to come following Q2/22 results. Tamarack remains committed to returning 50% of free funds flow to shareholders (trailing quarterly basis) upon reaching this net debt target (RBCe: Q3/22) through buybacks (note here) and/or special dividends.
- **Five-year plan underscores robust FCF profile.** Tamarack has mapped out $1.1-$1.2B in FCF generation over the next 5 years at US$55/bbl WTI and C$2.50/GJ AECO on annual capital spend of $260-$290 million. Management now expects Clearwater assets to support 21,000-22,000 boe/d long-term, excluding Nipisi waterfloods and potential Peavine success. Recent M&A activity has shifted the corporate break-even to roughly US$35/bbl range (inclusive of the base dividend), providing flexibility and material FCF generation potential to enhance total shareholder returns. See our note here**.**
- **Strong balance sheet able to support further M&A.** Based on our updated estimates, we forecast Tamarack to carry approximately $257/$62 million in net debt at year-end 2022E/23E, representing a 2022E D/CF ratio of 0.3x compared to oil-weighted peers at 0.5x with the broader coverage group reaching net cash by 2023E. We currently model full NCIB utilization beginning in Q4/22 and a 25% dividend increase in Q1/23 along with $30 million in quarterly special dividends through 2023. We do not model incremental M&A, though we view this as likely given material FCF generation.
- **RBC Capital Markets is acting as financial advisor to Tamarack Valley Energy Ltd. with respect to the transaction with Rolling Hills Energy Ltd. as press released April 21, 2022.**

Targa Resources Corp. (TRGP) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• **Volumes and EBITDA.** We believe TRGP remains the best way to play a bullish commodity backdrop among large cap midstream, and TRGP expects to be above the higher end of its earlier EBITDA guidance for 2022 given the strong commodity prices. With the bulk of upward commodity price momentum taking place late in 1Q, we see additional room for performance improvement in the coming quarters. • **Structure simplification.** TRGP has taken multiple steps to simplify its corporate structure, including DevCo repurchases in 1Q22 and the redemption of all outstanding 919,000 outstanding shares of Series A Preferreds. TRGP will benefit from the increased EBITDA the DevCos provide. • **M&A.** TRGP recently acquired South TX assets from Southcross which have performed as expected and was an ideal acquisition given the stickier volumes provided from gathering to the wellhead. M&A will remain a part of TRGP's strategy with location and potential for immediate synergies being the key, but is not needed for the company to experience growth. • **FCF and capital allocation.** Outlook for FCF is solid, as we estimate TRGP to generate \$800mm in 2023 even with \$50mm/qtr of stock buybacks and a \$2/share dividend. TRGP will have many options for usage of the FCF including (i) additional dividend growth, (ii) additional common stock buybacks, and (iii) higher capex. • **Potential transition to S&P 500.** A potential transition from the S&P 400 to the S&P 500 would be expected to increase buying pressure; however, no real insight into the decision process or likelihood of a move.
Tourmaline Oil (TOU) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• **Key beneficiary of an improved natural gas outlook.** Strong commodity prices provide the firepower for Western Canada Sedimentary Basin (WCSB) natural gas producers to return meaningful capital to shareholders plus still grow modestly (+3-5%), while being mindful that basin growth much beyond this figure could start to drive egress constraints. See our deep dive report here and recent gas price sensitivities here. • **Return of capital accelerates, with the vast majority of FCF to be returned.** TOU announced special dividends for Q2/22, with \$1.50/sh payable on May 19. Our outlook now calls for two additional base increases this year (to \$1.04/share annualized) and special dividends of \$1.50/sh for each of the remaining 2 quarters. Incrementally, our outlook incorporates buybacks totaling ~\$600 million. • **High quality asset base, with North Montney driving the growth.** With Gundy P2 on stream, we would anticipate future development dollars targeted at Conroy - both as it relates to bolt-ons and organic development. We've explored Tourmaline's North Montney area in our recent work here, here and here. Tourmaline has a top-decile cost structure and industry-leading capital efficiencies. We now model Tourmaline's 2022 capital efficiencies at approximately \$7,500/boe/d. Ownership of facilities remains a key ingredient to the story, and could represent an additional avenue to surface value in the future.

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The RBC Capital Markets Global Energy Best Ideas List highlights our Research Analysts' highest conviction names across the global energy sector at the time of their addition into the list. Our objective is to highlight individual stocks that are expected to outperform the iShares Global Energy ETF (IXC) and a hybrid benchmark with a weighting towards the iShares Global Utilities ETF (JXI).

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- We will provide a monthly update on the constituent names of the list as well as past performance on or around the start of each month.
- We will include only stocks on which we have research coverage.
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Note: Total return data for the list as well as relevant indices are from Bloomberg and FactSet.

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