



June 1, 2023

Global Energy Best Ideas

Our view: In May, the RBC Global Energy Best Ideas List was down 6.3% compared to the iShares S&P Global Energy Sector ETF (IXC) down 9.7% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that fell 8.6% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 112.2% compared to the S&P Global Energy Sector ETF up 17.9%.

Total Return Comparison	May	YTD	Inception
iShares S&P Global Energy (IXC)	-9.7%	-9.0%	17.9%
Hybrid Benchmark (75% IXC, 25% JXI)	-8.6%	-7.2%	34.3%
RBC Global Energy Best Ideas	-6.3%	-10.7%	112.2%

May List Changes:

Additions: N/A
Removals: DRX-LON, ERF-US, LBRT-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	£150,844	7/1/20	1,224p	2,221p	2,900p
Suncor Energy	SU-CA	OP	Parady	C\$49,806	3/1/23	C\$45.86	C\$38.03	C\$51.00
Exploration & Production								
Topaz Energy	TPZ-CA	OP	Davis	C\$2,973	11/1/22	C\$23.04	C\$20.62	C\$26.00
California Resources Corporation	CRC-US	OP	Hanold	\$2,648	6/1/21	\$29.01	\$37.54	\$60.00
Diamondback Energy	FANG-US	OP	Hanold	\$23,021	12/7/22	\$138.21	\$127.12	\$175.00
Permian Resources Corporation	PR-US	OP	Hanold	\$5,445	12/7/22	\$8.99	\$9.33	\$14.00
Range Resources	RRC-US	OP	Hanold	\$6,604	7/6/21	\$16.76	\$27.37	\$35.00
ARC Resources	ARX-CA	OP	Harvey	C\$10,001	5/1/21	C\$7.73	C\$16.36	C\$22.00
Tourmaline Oil	TOU-CA	OP	Harvey	C\$19,182	1/1/20	C\$15.08	C\$56.75	C\$80.00
Canadian Natural Resources	CNQ-CA	OP	Parady	C\$80,636	4/1/22	C\$77.41	C\$73.13	C\$85.00
Santos Limited	STO-AU	OP	Ramsay	A\$23,841	6/1/19	A\$6.74	A\$7.29	A\$9.00
Oilfield Services								
SLB	SLB-US	OP	Mackey	\$61,047	1/4/22	\$29.95	\$42.83	\$67.00
Midstream								
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C\$22,619	9/1/22	C\$46.38	C\$41.10	C\$58.00
Targa Resources Corp.	TRGP-US	OP	Schultz	\$15,381	12/1/21	\$51.63	\$68.05	\$104.00
Cheniere Energy Inc	LNG-US	OP	Scotto	\$33,958	5/1/20	\$46.69	\$139.77	\$200.00
Energy Transfer LP	ET-US	OP	Scotto	\$38,400	2/1/22	\$9.57	\$12.40	\$17.00
Utilities, Refiners, Infrastructure & Renewables								
Superior Plus	SPB-CA	OP	Ng	\$1,938	12/7/22	\$9.82	\$9.61	\$15.00
Marathon Petroleum Corporation	MPC-US	OP	Schultz	\$44,512	12/7/22	\$109.29	\$104.91	\$148.00
PG&E Corporation	PCG-US	OP	Tucker	\$33,808	9/1/22	\$12.33	\$16.94	\$21.00

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

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

Source: RBC Capital Markets estimates, FactSet

**RBC Energy & Utilities
Equity Team**
Click here for contributing
analysts' contact information

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

RBC Europe Limited
Biraj Borkhataria (Associate
Director of European
Research)
Victoria McCulloch
(Analyst)
Alexander Wheeler
(Analyst)

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

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



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

Exhibit 1 - This Month's Removals

Drax Group plc (DRX)

Alexander Wheeler, Analyst
+44 (20) 7653 4481
alexander.wheeler@rbccm.com

- Drax Group has been removed from the Global Energy Best Ideas list following a decrease in share price year-to-date which surpassed our mandatory stop loss mechanism. However, we are reiterating our Outperform recommendation on Drax given its unique and positive role in the energy transition in the UK market, which we believe remains underappreciated by the market.

Enerplus Corporation (ERF)

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

- We are removing Enerplus from the Global Energy Best Ideas list due to the stock's relative underperformance, despite consistently solid operating performance. A lack of positive catalysts in the near-term—such as a potential substantial issuer bid—also factors into our decision to remove the company. Enerplus remains our favorite intermediate producer within our coverage group given its capable leadership team, solid execution, strong balance sheet and rising shareholder returns, which supports our Outperform recommendation.

Liberty Energy (LBRT)

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

- Liberty Energy has been removed from the Global Energy Best Ideas list following a decrease in share price year-to-date which surpassed our mandatory stop loss mechanism. However, we are reiterating our Outperform recommendation given the company's strong free cash flow generation, profitable growth through vertical integration and deep customer relationships.
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Investment Highlights

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

ARC Resources (ARX)

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

- **FCF generation - ample.** With a strong balance sheet and large M&A on hold (for now), the focus remains on Attachie development and RoC initiatives. ARC targets return of capital in the range of 50-100% of FCF via base dividend tied to earnings growth (now at \$0.60/share), and share buyback. Production growth is not a specific target but rather an outcome of the most efficient way to execute projects (Sunrise, Attachie) paired with the Basin's capacity to absorb new product and is unlikely to exceed 5%. See our recent quarterly note [here](#).
- **Western Canada's largest Montney player.** ARC's production base of circa 350,000 boe/d, makes it what we view as a Montney Champion with top decile supply costs and deep project inventory. This benchmarks ARC as the largest Montney producer, 3rd largest outright gas producer and 6th largest E&P by volume amid the WCSB producer landscape, with operated facilities network of ~1.5bcf/d - second only to CNQ and TOU. See our notes [here](#) and [here](#).
- **Sanctioning of Attachie.** ARC recently announced the formal sanctioning of the Attachie project, which is a \$740 million project expected to deliver roughly 40,000 boe/d (60% liquids) and on stream late in 2024. The \$740 million price tag includes the drilling of 39 initial wells, an electrified 90 mmcf/d gas plant, 25,000 bbl/d of liquids handling plus associated infrastructure. Roughly \$250-300 million of the total investment will be focused on 2023, with the balance in 2024. See our note [here](#).
- **Facility portfolio adds scale and optionality.** Following the absorption of 7G assets, ARC's owned and operated facility portfolio roughly doubles to about 1.5 bcf/d—now third in the basin behind CNQ and TOU. This larger strategic footprint allows for continued top-quartile operating metrics and optimized marketing, and it establishes critical mass, opening the door for other potential strategic options in the future. See our note [here](#).
- **LNG - The key to long term value creation.** ARC's existing 2P reserve book contains sufficient resource to sustain an entire 2-train LNG project (1.8 bcf/d) for 10+ years, and when adding future drilling could increase to 40-50 years. Accordingly, the company should be viewed as a key supplier, or alternatively as a strategic asset for operators looking for vertical integration. The owners of LNG Canada now collectively hold enough product to support Phase 1 of the development (~1.8 bcf/d), but any expansion (Phase 2, +1.8 bcf/d) would need to be augmented. ARX signed a Memorandum of Understanding with the proposed Cedar LNG Project for a 20-year LNG supply agreement to send 200 mmcf/d of natural gas, which is expected to start in 2028/2029. See our notes [here](#) and [here](#).



California Resources Corp. (CRC)

Scott Hanold, Analyst

(512) 708-6354

scott.hanold@rbccm.com

- **Attractive value proposition.** We expect CRC shares to outperform the peer group over the next 12 months. CRC has a combination of a high-quality, low- decline conventional asset base, an experienced management team, and a good balance sheet. Its assets are located entirely in California and CRC is the largest producer in the state. A majority of its operations are conventional developments that produce high-margin, low-decline production, translating to more stable cash flows.
 - **Midstream and power exposure.** CRC owns and operates integrated midstream assets, a 550 MW power plant which sells a portion of its generation to the grid, and more than 565 MMcf/d of gas-processing facilities. Further supporting our thesis, we note.
 - **Conventional asset base provides consistency.** The company operates essentially all of its investment capital and production and also owns a large portion of its mineral and surface rights, translating to high net revenue interest. The low base decline nature of its conventional asset development strategy makes CRC less capital-intensive relative to peers and provides a framework for more stable production/cash flow generation.
 - **ESG exposure in a U.S. E&P.** CRC's large surface rights ownership and premium geology position it to opportunistically pursue front/back of the meter solar and carbon-capture projects that could translate to improved operating costs and cash flow uplift. The company continues to advance on an industry-first, commercial-scale carbon-management business segment in addition to entering into multiple behind-the-meter solar projects. CRC receives premium commodity realizations relative to peers/NYMEX benchmark pricing.
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Canadian Natural Resources (CNQ)

Greg Parady, Head of Global Energy
Research

(416) 842-7848

greg.pardy@rbccm.com

- **Globally distinguished.** Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by low sustaining capital—affords the company with superior free cash flow generation throughout the cycle.
- **Impressive shareholder returns.** CNQ's shareholder returns policy revolves around a net debt floor of \$10 billion. The company is currently allocating 50% of its free cash flow (after dividends and base capital) towards share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Once CNQ's net debt falls to \$10 billion the company will allocate 100% of its free cash flow as incremental returns to shareholders. This could come in the form of further base dividend growth, accelerated share repurchases and/or special/variable dividends. Free cash flow will be defined as adjusted FFO less dividends and total capital expenditures in the year (excluding A&D). To the extent that the company's net debt rises above \$10 billion, it would revert to its prevailing 50/50 policy. Additionally, alongside fourth-quarter results, CNQ raised its common share dividend by 6% to an annualized rate of \$3.60 per share. We think it is important to point out that CNQ has never cut its common dividend, which has grown at a CAGR of circa 21% over the past 23 years.
- **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others.
- **ESG—lots of progress.** CNQ has established a GHG emissions reduction target of 40% of total corporate absolute Scope 1 and 2 GHG emissions by 2035 (vs. a 2020 baseline). Not to be overlooked, CNQ also continues to make progress towards its initiatives with respect to the Oil Sands Pathways to Net Zero Alliance. CNQ also continues to target a 50% reduction in North American E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016), and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline).

Cheniere Inc. (LNG)

Elvira Scotto, Analyst

(212) 905-5957

elvira.scotto@rbccm.com

- **Highly contracted cash flow with strong counterparties.** Cheniere has a weighted average contract duration of 17 years on its long-term take-or-pay contracts and is 90% contracted on its nine-train portfolio including mid-term and short-term SPA and IPM agreements. All of Cheniere's Sale and Purchase Agreement customers are investment grade rated or have investment grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity.
- **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still pay fixed liquefaction fees. In our 2024 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%.
- **Long-term FCF and capital return story with a growth option.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. After completing its 2021 capital allocation strategy ahead of schedule, Cheniere updated its capital allocation strategy, which now includes: (1) continued debt pay-down to hit a long-term run rate leverage target of ~4.0x Debt/EBITDA; (2) an incremental \$4BN of share repurchase over 3 years; (3) annual dividend growth of ~10% through the mid-2020's and target ~20% payout ratio once Corpus Christi Stage 3 hits run-rate cash flow. In addition, Cheniere continues to pursue potential growth opportunities with Corpus Christi Midscale Trains 8 and 9 as well as the Sabine Pass Liquefaction Expansion project in FERC pre-filing.



Diamondback Energy (FANG)

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

- We believe FANG shares should outperform its peer group over the next 12 months. Management has built a solid Permian Basin position with a deep inventory of liquids-rich development opportunities. The company is one of a few that have amassed a combination of quality assets, strong economic growth, minerals ownership, and a water business, which collectively help to provide a competitive advantage.
- **Defining low-cost operator.** We believe FANG has one of the lowest cost structures in the basin and a corporate cash flow break-even (including dividend) that is among the best in the industry.
- **Robust shareholder return proposition.** A shareholder-friendly return proposition that includes at least 75% of FCF in the form of a fixed dividend, variable dividend, and stock buybacks. Management plans to be opportunistic on buybacks when FANG shares trades at or below the implied mid-cycle valuation (\$60-65/bbl based).
- **Depth of tier-1 inventory.** The company has a runway of tier-1 inventory projects that extend more than a decade. FANG has a track record of achieving its growth targets while spending within cash. It has a willingness and demonstrated ability to adjust activity levels quickly in response to challenging market conditions.

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.

Marathon Petroleum Corp. (MPC)

TJ Schultz, Analyst
(512) 708-6385
tj.schultz@rbccm.com

- **Capital returns.** MPC has remained focused on returning capital to shareholders in the form of dividend payments and share repurchases. MPC maintained its quarterly dividend at \$0.75/share, which is ~\$337mm/quarter. MPC has repurchased a significant number of shares, which has resulted in multiple incremental increases of its share repurchase authorization, and has ~\$9.0B remaining as of 5/2/23. We expect MPC to continue being active on the remaining repurchase authorization to return capital to shareholders.
 - **Renewable fuels.** MPC has continued to progress on the Martinez renewable fuels conversion project, as the facility reached capacity of 260mm gal/yr of renewable fuels following completion of Phase I, and Phase II is expected to be completed by year end with 730mm gal/yr of capacity.
 - **Constructive refining margins.** Along with the rest of the refiner group, MPC has benefited from strong refining margins from higher cracks and wider spreads. We expect these positive margins to continue into 2023 above historical mid-cycle levels.
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Pembina Pipeline Corporation (PPL)

Robert Kwan, Analyst
(604) 257-7611
robert.kwan@rbccm.com

- **Positioned to benefit from higher WCSB production.** Whether it be uncontracted capacity or within its contract structures that blend minimum take-or-pay levels with fee-for-service upside as volumes grow, we expect Pembina to benefit from growing gas and liquids volumes in the Western Canada Sedimentary Basin (WCSB). Further, growing volumes could result in contract extensions and/or incremental new contracts that support Pembina's base business and/or underpin new expansion projects.
- **Free cash flow generation after all capex and dividend payments provides a range of capital allocation opportunities.** In 2022, the company prioritized share buybacks with the strategy going forward focused on creating balance sheet optionality by reducing leverage. Lower debt levels should position the company to pursue a wide-range of growth initiatives on an equity self-funded basis.
- **Solid base of business with a commodity kicker.** Pembina's guardrails target over 80% of EBITDA coming from fee-based revenues, primarily underpinned by take-or-pay or cost-of-service contracts, which underpin the dividend. As upside optionality, Pembina's Marketing division can benefit from leveraging its asset base to take advantage of various commodity spreads.

Permian Resources Corporation (PR)

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

- We believe PR shares should outperform the peer group over the next 12 months. The company has large, contiguous acreage positions in the core of the southern and northern Delaware Permian with a 10-15 year inventory.
- **Strong free cash flow.** We forecast that PR is capable of generating among peer-leading FCF yields that can support a robust shareholder-return strategy.
- **Balance sheet strength and shareholder returns.** Balance sheet leverage is at a sustainable sub-1.0x ratio. Management is prioritizing shareholder returns, particularly with dividends and plans a strong fixed dividend along with a minimum 50% variable payout of FCF. Dividends are more the focus, but buybacks will occur opportunistically, especially if private equity sponsor selling occurs. Asset optimization is a priority and should add to shareholder value.

PG&E Corporation (PCG)

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

- **Continued reduction of wildfire risk.** The company continues to execute on its wildfire mitigation plan. Mitigation actions include system hardening, undergrounding, vegetation management, enhanced powerline safety settings and public safety power shutoffs.
 - **Steep discount not warranted given CA wildfire protections limit financial risk.** We believe the Wildfire Fund provides meaningful protections against financial liabilities associated with wildfires. While it seems the market remains apprehensive around the mechanics of the fund, we believe the multi-turn discount is overly punitive when considering the financial risks associated with a catastrophic fire.
 - **PG&E slowly rebuilding trust.** While the name remains overly-sensitive to headlines, we have also seen a meaningful shift in tone from media and stakeholders. We believe it is a result of PG&E's continued efforts to engage stakeholders and communities and we are encouraged by positive signals from the CA legislature and regulator.
 - **Robust capex plan drives earnings growth.** PG&E expects above-average rate base growth at a 9% CAGR. Growth opportunities come from system hardening, undergrounding, electrification opportunities and other wildfire mitigation investments. Management targets 2% O&M reductions which should act to help offset customer bill increases.
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Range Resources (RRC)

Scott Hanold, Analyst

(512) 708-6354

scott.hanold@rbccm.com

- We expect RRC shares to outperform its peer group over the next 12 months. The company's large legacy asset in the core of Marcellus in the Appalachia Basin provides the ability to efficiently maintain its production base for more than a decade.
 - **Improved balance sheet.** Balance sheet leverage sat above peers and in recent years was an investor overhang; however, this has been rapidly improving recently with FCF generation used for debt reduction.
 - **Selling portfolio and export agreements.** RRC benefits from a robust selling portfolio and export agreements, which cover a large portion of its NGL/natural gas production and result in premium realizations relative to peers and local pricing.
 - **Deleveraging goal.** Debt reduction remains a top priority for RRC and we see a rapid path toward the \$1.0–1.5 billion of aggregate debt.
 - **Operational expertise.** The company has a top-class technical team, in our view, that continues to push lateral lengths longer after successfully drilling multiple 19k laterals in recent years. We believe RRC has some of the lowest D&C costs among peers.
 - **ESG track record.** RRC has a strong ESG track record of being an industry leader on environmental best practices and safety. The company is targeting a 15% GHG intensity reduction by 2025 relative to 2019 levels and additionally is targeting net zero emissions by 2025 through continued emission reduction efforts and carbon offsets.
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Santos Limited (STO)

Gordon Ramsay, Analyst

+61 3 8688 6578

gordon.ramsay@rbccm.com

- **Santos has a diversified production base** (56% LNG, 29% domestic gas, and 15% crude oil and liquids) and improved growth profile (Pikka Alaska oil, Papua LNG, Dorado oil and gas) after merging with Oil Search last year. Santos is targeting ~25% of its LNG portfolio to be JKM-linked once Barossa comes online.
 - **Capital management** based on at least a 40% payout of FCF from operations (excludes major growth) per annum and the company will consider additional returns from asset divestments. Once Barossa and Pikka Phase 1 commence production, Santos Board intends to consider increasing returns to at least 50% of FCF. In December 2022, Santos increased its on market buy back by US\$350m, and it is still ongoing. We see future capital management initiatives driven by asset sales, particularly the sale of 5% of PNG LNG to Kumul Petroleum (STO US\$1.1bn net) and other potential asset equity sell-downs (e.g. Dorado).
 - **Largest acreage holder and producer of hydrocarbons in PNG.** Santos has 42.5% equity exposure to the long life Exxon Mobil operated PNG LNG project and we expect the sale to Kumul to settle in 2H 2023, subject to Kumul financing (Kumul's exclusivity was recently extended for a second time to 31 August). Santos has 22.8% equity (pre back-in) in the proposed TotalEnergies operated Papua LNG project. The four mini eLNG train Papua downstream development offers operating efficiencies and capex savings in comparison to the prior two train conventional train design.
 - **One of Australia's largest LNG suppliers to Asia.** Santos LNG portfolio (PNG LNG, DLNG, GLNG, and proposed Papua LNG) provides attractive long-term cash flows, with a balance of oil linked contracts and Asian spot JKM LNG pricing. The Barossa project provides new backfill gas that materially extends the life of the Darwin LNG plant, with first production expected in 2025 despite an environmental challenge that has suspended drilling activities. The Papua LNG joint venture has committed to project FEED, expected to be FID ready by the end of 2023 / early 2024, and targeting start-up by the end of 2027 / early 2028.
 - **Two major oil developments in progress.** The Pikka Alaska oil project (STO 51% and operator) reached FID in August 2022, with project drilling planned to commence in 2Q 2023 and modular facility construction in 1H 2023. Santos is targeting first Pikka oil in 2026 at an expected production rate of 80,000 bopd gross. The Dorado integrated oil and gas development (STO 70% and operator) offshore Western Australia has achieved regulatory approval and is targeting to be FID ready in 2023/24. Santos has forecast initial Dorado oil production of ~100,000 bopd (gross).
 - **A leading global CCS developer.** Santos policy is that new offshore greenfield projects committed from 2025 will have abatement, or an offset of reservoir CO2 emissions before achieving FID. Santos is completing Moomba CCS Phase 1 as a low-cost 1.7 mmtpa CO2 storage project in the Cooper Basin. Moomba capex is ~US\$165m gross, with a full life cycle cost <A\$30/t CO2, and first gas injection in 2024. Bayu-Undan CCS FEED is nearing completion to capture Barossa CO2 and third party CO2 and has MOUs with four potential customers for up to 10 MtCO2pa.
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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.
- **Substantial free cash flow.** On our bullish commodity price deck, Shell's advantaged portfolio generates significant amounts of cash, supported by the company's oil leverage and #1 LNG presence. This leaves it well positioned to deleverage meaningfully over the coming years with cash to spare for higher shareholder returns.
- **Closing the gap.** On our estimates, Shell generates an FCF yield ahead of the sector on average over 2023-25E but trades at a discount to peers on a DACF multiple basis. We think increasing shareholder returns should help drive a re-rating versus peers, while continued de-leveraging sets up Shell to become a more stable business through the cycle.

SLB (SLB)

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

- **Leading size, scale, geographic reach.** SLB's size, scale, geographic diversification, and exposure to new energy sources leave it favorably positioned under prevailing industry trends, in our view. We believe SLB is well-positioned to benefit from the next leg of growth in International markets. International short and longer cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins.
 - **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics.
 - **International upcycle: less nascent.** SLB is well-positioned to benefit from the next leg of growth in International markets. In 4Q22 SLB's y/y North American revenue increased 27%, while International grew 26%, led by Middle East, and offshore. The company noted the Middle East is set to lead growth with this cycle characterized by the region's plans to add oil and gas productive capacity.
 - **Potential for long-term valuation accretion.** We believe SLB's exposure to a large addressable New Energy market should drive accretion to its valuation multiples over time. Key target markets include: carbon capture, hydrogen, geothermal, critical minerals, and energy storage.
 - See our latest SLB note [here](#).
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Suncor Energy Inc. (SU)

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

- **New leadership in place.** On February 21, Suncor announced Rich Kruger as its new President & CEO. The new leadership change became effective as of April 3, 2023. We know Rich well from his days at Imperial Oil and we are pleased that Kris Smith will remain in a leadership role with Suncor as he plans to take the reins as CFO—laying a clear CEO succession path in our minds. We are also pleased that current CFO, Alister Cowan will remain on until the end of 2023 to ensure a smooth transition.
 - **Nothing Ventured, Nothing Gained.** Suncor Energy's indication that it would assess its stance vis-à-vis its announced \$5.5 billion TotalEnergies deal is logical given ConocoPhillips's notification on May 26 that it would exercise its preemptive right (ROFR) to acquire the remaining 50% interest in Surmont from TotalEnergies. This assessment includes Suncor's right to terminate the agreement—or walk away. We still believe that Suncor is interested in acquiring the 31.23% interest in Fort Hills owned by TotalEnergies at the right price. Thus, while Suncor may decide to terminate its \$5.5 billion transaction with TotalEnergies, it may consummate a separate Fort Hills deal.
 - **Accelerated shareholder returns.** The main consolation prize from ConocoPhillips' decision is that Suncor can now achieve its intermediate \$12-\$15 billion net debt (including lease liabilities) target range sooner than before. The company is currently allocating 50% of excess funds flow to share repurchases, with the balance earmarked for ongoing debt reduction. Upon reaching \$12 billion of net debt, Suncor will then boost its share repurchases to 75% of excess funds. Suncor's net debt (company definition) sat at \$15.7 billion (including lease liabilities of \$3.3 billion) as of March 31. Under futures pricing—excluding the Fort Hills deal—Suncor could achieve its \$12 billion target by the end of 2023. Under futures pricing—inclusive of the \$1.5 billion Fort Hills deal—Suncor could achieve its \$12 billion target in 2024.
 - **Strong free cash flow profile.** We peg Suncor's free cash flow (before dividends, working capital changes, excluding A&D and capitalized interest) at \$9.6 billion in 2023 under our base outlook (US\$84 WTI, US\$29 NYH 3-2-1). Our outlook factors in a refining & marketing (pre-tax) FFO of \$4.7 billion in 2023.
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Superior Plus (SPB)

Nelson Ng, Analyst

(604) 257-7617

nelson.ng@rbccm.com

- **Adding value through sector consolidation.** Management continues to see attractive propane acquisition opportunities, and we expect the company to continue to execute on acquisitions. In general, management targets to deploy \$200-300 million in capital per year and has been able to realize synergies that improve the EBITDA of acquired assets by ~25%+. However, we expect this to be much lower in 2023 as the company allocates more capital towards growing Certarus' MSU fleet (targeting ~\$110 million of capex in 2023).
 - **Strategic acquisition expands business into CNG/RNG/H2.** The \$1.05 billion Certarus acquisition (closed at the end of May 2023) ticks many of the boxes with respect to having a strategic and complementary fit (reduces seasonality and provides opportunities to cross sell propane), is double-digit accretive to distributable cash flow per share and has a strong organic growth profile, while also reducing the company's leverage. The business exceeded management expectations in Q1/23, leading to an increase in 2023 guidance. Please [click here](#) for our note covering the transaction.
 - **Limited downside from a recession.** Weather is a much larger driver for the financial results compared to economic activity. The company's U.S. propane operations (contributes ~45% of total EBITDA, including Certarus) mostly serves residential customers, where propane consumption is driven by heating needs. We also note that the company tends to earn higher margins from residential customers, so the company could benefit from a declining propane price (lag in pass-through) and a higher U.S. dollar. The company has also completed a number of acquisitions and we expect realized synergies to be a tailwind in 2023.
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Targa Resources Corp. (TRGP)

TJ Schultz, Analyst

(512) 708-6385

tj.schultz@rbccm.com

- **Best way to play Permian and commodity upside.** Among midstream, we think TRGP will correlate best to a constructive commodity tape in 2023. We like TRGP's top-tier platform in the Permian, coupled with integration to the docks on the Gulf Coast.
 - **Growth projects.** TRGP has announced numerous organic growth projects that it expects to supplement and grow its cash flow. These projects include multiple processing plants in the Permian, Train 9 fractionator in Mont Belvieu under construction and the greenlight of Train 10, and the Daytona NGL pipeline (twinning of the west leg of Grand Prix) to support NGL volume growth from the Permian G&P assets and new plants under construction.
 - **Financial flexibility.** Maintaining its healthy investment grade balance sheet is a key focus point for TRGP when making decisions. Flexibility has improved as leverage is trending lower and the structure simplification (DevCo repurchase and redemption of outstanding Series A Preferreds) has allowed for more impactful progress. This flexibility allows for TRGP to continue investing in organic growth projects, while returning meaningful capital to shareholders.
 - **M&A.** TRGP has contributed to some midstream consolidation with multiple acquisitions. In July 2022, TRGP completed its acquisition of Lucid Energy's Permian Delaware Basin G&P assets for \$3.55B (TRGP estimates a 2023E EBITDA multiple of 7.5x), which include 1,050 miles of natural gas pipelines and 1.4 Bcf/d of processing capacity in New Mexico. TRGP also acquired South TX assets from Southcross which have performed as expected and were an ideal acquisition given the stickier volumes provided from gathering to the wellhead. M&A will remain a part of TRGP's strategy with location and potential for immediate synergies being the key, but is not needed for the company to experience growth.
 - **FCF and capital allocation.** Outlook for FCF is solid at our price deck, as we expect that TRGP can generate meaningful FCF in 2024 even with ~\$50mm/quarter of estimated stock buybacks through 2024 and another step-up in the dividend to \$2.40/share, which should allow for debt leverage (post Lucid) to be back below 3x. In addition to debt reduction, TRGP will have many options for usage of the FCF including (i) additional dividend growth, (ii) additional common stock buybacks, and (iii) higher capex.
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Topaz Energy (TPZ)

Luke Davis, Analyst

(403) 299-5042

luke.davis@rbccm.com

- **Diversified royalty model with a natural gas tilt.** Topaz's 2023E/24E production profile remains 70%/69% gas-weighted. Topaz is supported by some of the top operators in the WCSB. Notably, Tourmaline Oil has outlined a 5-year plan in NEBC Montney that could increase Topaz's regional volumes from 6,800 boe/d in 2022 to over 10,000 boe/d by 2028 (13% 8-year CAGR). Topaz's latest acquisition, Deltastream (note [here](#)), has positioned the company as a top Clearwater royalty producer, now holding 52% of pro-forma OOIP at Marten Hills and Nipisi. The team now anticipates averaging 2,850 bbl/d of total Clearwater production in 2023, exceeding 3,000 bbl/d by 2024E. The royalty business model is insulated from industry cost inflation, providing margin stability.
- **Resilient infrastructure model.** Topaz holds working interests in five facilities backed by long-term take-or-pay commitments, a contracted interest in a portion of Tourmaline's third-party revenues, and a 49.5% interest in two water handling facilities. The company currently expects its infrastructure portfolio to generate 2023E revenues of \$65 million and FCF of \$55 million, covering 38% of the 2023E dividend. Growth in the Infrastructure portfolio remains an area of focus as management continues to target a long-term 50-50 EBITDA split between the infrastructure and royalty business. As a result, we expect management to continue to evaluate infrastructure M&A opportunities to expand the portfolio.
- **FCF allocation balanced between RoC and debt reduction.** Topaz increased its annual dividend to \$1.20/sh (~6% dividend yield) with the Deltastream acquisition; we estimate a 60%/49% effective payout ratio in 2023E/24E. The company is able to balance its RoC program with continued deleveraging efforts, with our model pointing towards roughly \$30 million in quarterly post-dividend FCF, on average, through 2023.

Tourmaline Oil (TOU)

Michael Harvey, Analyst

(403) 299-6998

michael.harvey@rbccm.com

- **Natural gas weakness provides buying opportunity.** We believe weaker natural gas prices provide a buying opportunity for the [Western Canada Sedimentary Basin \(WCSB\) natural gas](#) producer that is returning meaningful capital to shareholders plus still growing modestly (+7%/year CAGR in the current plan), while being mindful that basin growth much beyond this figure could start to drive egress constraints.
- **Cheniere export agreement - a well-timed deal.** We estimate US\$1 increase in JKM pricing to result in roughly C\$50-55 mm of incremental after-tax cash flow in 2023. TOU has hedged approximately 10% of the JKM volumes at an average price of ~US\$23/mmbtu, and we would expect the company to take advantage of the current strength by layering on additional hedges at even more attractive prices. See our note [here](#).
- **Return of capital, with the vast majority of FCF to be returned.** TOU announced special dividends for Q1/23, with \$2.00/sh payable on Feb 1. Our outlook now calls for one base dividend increase in 2023 (to \$1.01/share annualized) on top of \$4.75/sh specials annualized in 2023. As of May 31 on strip pricing, TOU is expected to generate \$2.0-\$2.1bn in FCF on current strip in 2023 (or about \$2.5bn at the RBC Deck). See our note [here](#).
- **High quality asset base, with North Montney driving the growth.** TOU's 5-year plan now includes development of its [Northern Montney](#) asset - [Conroy](#), pushing corporate volumes to 700,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in 2 tranches, with on-stream dates of 2026 and 2028 (set to coincide with the startup of LNG Canada). The plan incorporates capex spend of roughly half of forecast cash flows, leaving meaningful capacity for RoC programs. TOU remains well situated as it relates to LNG exposure in NE BC, a topic we explored in recent reports here ([1,2,3,4](#)).



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- We will include only stocks on which we have research coverage.
- We do not make provisions for taxes and/or trading commissions when adding or removing stocks from the portfolio.

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Contributing Authors

RBC Dominion Securities Inc.

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

RBC Europe Limited

Biraj Borkhataria (Associate Director of European Research)	+44 20 7029 7556	biraj.borkhataria@rbccm.com
Victoria McCulloch (Analyst)	44 20 7429 8530	victoria.mcculloch@rbccm.com
Alexander Wheeler (Analyst)	+44 20 7653 4481	alexander.wheeler@rbccm.com

RBC Capital Markets, LLC

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

Royal Bank of Canada, Sydney Branch

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

Drax Group PLC (LSE: DRX LN; GBp553.40; Outperform)
Enerplus Corporation (NYSE: ERF US; \$13.82; Outperform)
Liberty Energy Inc. (NYSE: LBRT US; \$11.74; Outperform)

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