



March 1, 2022

Global Energy Best Ideas

Our view: In February, the RBC Global Energy Best Ideas List was up 6.8% compared to the iShares S&P Global Energy Sector ETF (IXC) up 4.9% and a hybrid benchmark (75% IXC, 25% JXI - iShares Global Utilities ETF) up 3.4%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 99.4% compared to the S&P Global Energy Sector ETF up 8.6%.

Total Return Comparison	February	YTD	Inception
iShares S&P Global Energy (IXC)	4.9%	22.1%	8.6%
Hybrid Benchmark (75% IXC, 25% JXI)	3.4%	15.6%	28.1%
RBC Global Energy Best Ideas	6.8%	18.7%	99.4%

February List Changes:
Additions: BP-LON
Removals: CNE-LON

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	£149,941	7/1/20	1,224p	1,972p	2,750p
BP	BP-LON	OP	Borkhataria	£70,832	3/1/22	364p	364p	450p
Cenovus Energy	CVE-CA	OP	Pardy	C\$39,766	6/1/21	C\$10.09	C\$19.93	C\$27.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	\$123,273	12/1/20	\$39.56	\$94.86	\$110.00
Santos Limited	STO-AU	OP	Ramsay	A\$24,589	6/1/19	A\$6.74	A\$7.26	A\$9.00
Tourmaline Oil	TOU-CA	OP	Harvey	C\$16,506	1/1/20	C\$15.08	C\$50.00	C\$60.00
ARC Resources	ARX-CA	OP	Harvey	C\$10,846	5/1/21	C\$7.73	C\$15.67	C\$20.00
Range Resources	RRC-US	OP	Hanold	\$6,016	7/6/21	\$16.76	\$22.95	\$33.00
California Resources Corporation	CRC-US	OP	Hanold	\$3,315	6/1/21	\$29.01	\$41.23	\$70.00
Tamarack Valley Energy	TVE-CA	OP	Davis	\$2,097	7/6/21	\$2.57	\$5.16	\$6.50
Oilfield Services								
Schlumberger Ltd.	SLB-US	OP	Mackey	\$55,451	1/4/22	\$29.95	\$39.24	\$45.00
Secure Energy Services	SES-CA	OP	Mackey	C\$1,889	8/4/21	C\$4.22	C\$6.13	C\$8.50
Midstream								
Cheniere Energy Inc	LNG-US	OP	Scotto	\$33,809	5/1/20	\$46.69	\$132.90	\$116.00
AltaGas Ltd.	ALA-CA	OP	Kwan	C\$7,822	7/6/21	C\$26.02	C\$27.92	C\$31.00
Energy Transfer LP	ET-US	OP	Scotto	\$31,260	2/1/22	\$9.57	\$10.14	\$14.00
Rattler Midstream LP	RTL-R-US	OP	Schultz	\$530	12/1/21	\$10.65	\$13.81	\$15.00
Targa Resources Corp.	TRGP-US	OP	Schultz	\$14,956	12/1/21	\$51.63	\$65.37	\$80.00
Utilities, Infrastructure & Renewables								
The AES Corp.	AES-US	OP	Tucker	\$14,154	12/1/21	\$23.38	\$21.23	\$30.00
Algonquin Power & Utilities	AQN-US	OP	Ng	\$9,715	6/1/21	\$15.28	\$14.48	\$17.00
Drax Group plc	DRX-LON	OP	Musk	\$2,819	5/1/21	409p	706p	925p

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

Exhibit 1 - This Month's Additions

BP PLC (BP)

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- Alongside our sector note on the integrateds, [Can you see me yet?](#), we upgraded BP from Sector Perform to Outperform. Our bullish commodity price deck suggests the company is likely to generate significant free cash flow in the coming years, and we believe investors could receive a significant portion of the company's market cap back over the next five years.
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Exhibit 2 - This Month's Removals

Capricorn Energy (CNE)

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- On February 24, Capricorn announced that it had received the long-awaited \$1.06bn (~170p/share) tax rebate from India that underpinned our short-term trading call. On February 28, we discontinued coverage of Capricorn Energy due to reallocation of analyst resources.
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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 power purchase agreements (PPAs). The average life of a PPA is 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 February 25, AES trades at a discount to the utilities and to the market. On 2023 estimates, its P/E multiple is 11.9x versus the utility peer group at 18.9x with NEE and 17.6x without; the S&P 500 2023 P/E stands at 18x. The same applies on an EV/EBITDA basis, as AES trades at an 8.5x 2023E multiple versus the utility comp group at 11.7x. 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 11.1x 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 56% 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.
- **Catalyst-rich into 2022.** We believe the next 12 months offer a number of potential positive catalysts including: (1) additional opportunities to delever and highlight value via asset monetizations; (2) increasing the percentage of tolling contracts for West Coast LPG exports as well as sustaining and increasing overall export volumes; (3) strong commodity prices, particularly frac spreads, driving growth into 2022, particularly as unfavourable hedges in 2021 roll off; (4) better visibility for the long-term economics of the Blythe power plant given the environment in California, particularly with respect to resource adequacy contracts; and (5) discussions about strategic transactions to unlock value, although this would likely be toward the end of 2022, if not into 2023.

ARC Resources (ARX)

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- **FCF generation - ample.** ARC is set to generate ~\$2.1bn 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 \$0.40/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 CNRL and Tourmaline. See our notes [here](#) and [here](#).
 - **Facility portfolio adds scale and optionality.** Following the absorption of 7G assets, ARC's owned and operated facility portfolio roughly doubles to about 1.5 bcf/d—now third in the basin behind CNRL and TOU. This larger strategic footprint allows for continued top-quartile operating metrics and optimized marketing, and it establishes critical mass, opening the door for other potential strategic options in the future. A simplified analysis implies that a Topaz-like entity could be valued at around \$1.5 billion with a 9% FCF yield, driving meaningful accretion and/or utilized as a funding vehicle for future projects. See our note [here](#).
 - **Improved scale and history of consistently delivering on quarterly numbers.** Comparative metrics of the 'new' ARX relative to other Montney players (especially Tourmaline) shifts into sharper focus. We argue that ARC's liquids, FCF outlook and strategic position/scale makes it comparable to US peers. Throughout the time we have covered ARC, the company's ability to meet or exceed guidance figures is amongst the most favorable in the group – 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.
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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 12.4% 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 \$8bn in 2022, BP could be purchasing ~12% of shares on a daily basis through the year on average, providing an extra layer of support to the shares in addition to the current strong commodity price environment.

California Resources Corp. (CRC)

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- **Attractive value proposition.** CRC shares offer an attractive entry valuation point, strong balance sheet and peer-leading FCF outlook. The company's low break-even point, which we estimate at \$38-39/bbl (WTI), and 50% reinvestment framework positions the company to generate FCF of nearly \$1.5 billion 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 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. Management is rapidly moving on its initially identified CCS/solar project set. 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 carbon management business.** CRC filed its first two CCS permits comprising its Carbon TerraVault I project in 2021 and plans to have filed by year-end the remaining permits to cover the initially identified 200 MMT of storage capacity. Signing up its first third-party emitter remains a key focus and should come sometime in 2H22. CRC is beginning to spend capital to build a backlog of prepared injection sites that can become operational once permits are approved. Targeted FID for CTV I remains mid/late-2023 with first injection planned for late 2025. CRC targets injecting 5 MMT/annually starting in 2027. We think these initially identified CCS projects represent \$30-40/share of value that's not reflected in the stock 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.



Cenovus Energy (CVE)

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- **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' [fourth-quarter results](#), the company affirmed its commitment to growing shareholder returns commensurate with increasing balance sheet strength. The company plans to allocate circa 50% of excess free funds flow in 2022, and will target net debt below \$8.0 billion—to a range of \$6.0-\$8.0 billion—which equates to a net debt/adjusted EBITDA ratio of 1.0-1.5x at US\$45 WTI. Once Cenovus' net debt is below \$8.0 billion, its free cash flow allocation will begin to emphasize incremental shareholder returns. The company affirmed that it has plenty of room to boost its common share dividend, and is exploring alternative structures for shareholder returns. As Cenovus refines its free cash flow allocation plans, it may build cash balances for the time being. In the meantime, the company is continuing to execute its NCIB (10% of public float, or 146.5 million shares) which expires November 8, 2022. As of February 7, Cenovus had repurchased about 26 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)

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- **Highly contracted cash flow with strong counterparties.** Cheniere has long-term take-or-pay contracts on 73% of its nine-train portfolio capacity (eight trains now operational), and 90% 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 2023 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%.
 - **Long-term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. 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, ~1.5% yield) starting in 3Q21 with mid-single-digit annual growth; (3) share repurchase program restarted in 3Q21, reset to 3-year, \$1 billion program starting in 4Q21; and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.
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ConocoPhillips (COP)

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- **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 enhances 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 dividend and stock buybacks. We think the total returns payout trends to 40-45% 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.
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Drax Group plc (DRX)

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- **Higher power prices, and clear three-pronged growth strategy (BECCS, Pellets, Hydro) drive our Outperform rating and 925p/sh price target.** Drax is a preferred name within European Utilities with a cemented strategy in the biomass value chain, and strong prospects to create the UK's first BECCS units at Drax Power Station. Annualized power prices for 2023 and 2024 are up substantially in recent months and this will gradually drive mid-term consensus higher. We also see Drax's dividend as attractive and robust having increased 10% for 2021, with similar growth forecast over the medium term.
- **Power price strength a near-term tailwind.** Drax has ~3TWh of ROC output to contract in 2023, and with forward annualized prices currently ~£170/MWh we would expect Drax's overall hedged position to improve from current levels of ~£70/MWh. In our £784m EBITDA forecast for 2023, which is already ~20% ahead of consensus, we assume these open volumes are sold at £115/MWh and this may prove conservative. Similarly, we note Drax has ~7TWh open in 2024, with the forward curve now ~£120/MWh versus the £75/MWh we assume in our estimates. If we do a full mark to market exercise we could see our £836m 2024E EBITDA comfortably exceeding £1bn, with consensus lagging at just over £700m.
- **Growth options.** Drax aims to become the world's first large scale carbon negative power station by investing £2bn into Bioenergy with Carbon Capture and Storage (BECCS) to create two BECCS units by 2030. On top of this it is looking to more than double the 600MW to the 440MW Cruachan pumped storage facility, and to expand its pellet production from 5mtpa to 8mtpa. All this growth capex (total £3bn) is self-funded and will result in EBITDA in excess of £700m in 2030E in our view. At these levels valuation looks compelling for what will be a negative carbon, highly contracted long life asset.

Energy Transfer (ET)

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- **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 the first three quarters of 2021, and exited 3Q21 with leverage of 3.15x (credit facility calculation) while targeting leverage of 4.0-4.5x. We forecast ET exits 2021/2022/2023 with Net Debt/TTM Adjusted EBITDA of 3.6x/4.1x/3.9x (note that 2021 includes the benefit from winter storm Uri) while buying back \$1.2BN in shares and paying \$3.7BN in distributions.
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Range Resources (RRC)

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- **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 with continued strength in commodity prices accelerating efforts. RRC exited 2021 with leverage at 2.1x net debt-to-EBITDA, a stark improvement from 5.3x a year prior, and we forecast leverage further improving to exit 2022 near 1.0x based on our commodity price outlook.
- **Shareholder returns just around the corner.** RRC brought a shareholder return plan at 4Q21 earnings that includes a \$500 million share repurchase program and plans to initiate a \$0.32/share dividend later in 2022. Rapid deleveraging over the last 12-18 months provided management a line of sight to reaching leverage targets around midyear, at which point the dividend should start and we expect RRC to accelerate the buyback pace. We think the authorization could be fully utilized short order given the robust FCF outlook and value disconnect between RRC's intrinsic value and current stock price. We think RRC can generate an average total return of 8% 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 over \$3.5 billion of cumulative FCF from 2022-2025, roughly 60% of its current market cap.

Rattler Midstream LP (RTLRL)

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- **Acquisitions/divestiture.** RTLRL has completed multiple strategic transactions that increase its asset mix to the Northern Midland Basin and further deepens line of sight to FANG production. Acquisitions consisted of a G&P JV with 925 mmcf/d processing capacity and a PSA with FANG in a drop-down transaction for water midstream assets. Additionally, RTLRL increased financial flexibility with a divestiture of non-core assets in Pecos County.
 - **Unmatched line of sight.** The relationship with FANG provides an unmatched line of site to RTLRL operations. This relationship allows for easier planning of operations going forward and less risky capital investments. RTLRL further deepened this relationship via its acquisitions in 4Q21. We believe this relationship validates our higher assumed EBITDA multiples in our valuation than current trading levels.
 - **Capital allocation.** RTLRL has continually repurchased common units under its repurchase authorization. The BOD increased the repurchase authorization to \$150 million with an indefinite term, which leaves a significant amount remaining available under the program.
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Shell PLC (SHEL)

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- **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 a 13% FCF yield on average over 2022-25E—ahead of the sector average—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.
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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 mmbbl. 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 mtpa CO₂ storage project in the Cooper Basin with capex estimated at ~US\$165 million gross and a full life cycle cost <A\$30/t CO₂. 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.
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Schlumberger Ltd. (SLB)

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- **Leading size, scale, geographic reach.** Schlumberger's size, scale, geographic diversification, and exposure to new energy sources leave it favourably positioned under prevailing industry trends, in our view. Recent dispositions have also reduced its leverage to fast-cycle U.S. shale activity, a benefit as producer capital discipline rules the day. We see the company's strong international footprint as an advantage as the global commodity supply/demand dynamic becomes increasingly intertwined.
- **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. 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.

Secure Energy Services (SES)

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- **Consolidated footprint unlocks asset and valuation re-rating potential.** Secure is in the early stages of unlocking value from its expanded waste processing network. The company's recent consolidation enhances operating scale, FCF generation capability, and ultimately investor attention. The larger asset footprint also broadens its potential for bite-sized tie-in opportunities. We believe Secure's strengthened fundamentals are not yet reflected in its valuation.
 - **Targeting debt reduction in the near term, but strong FCF provides optionality.** Secure is targeting leverage of sub-2.5x within the next 1.5-2 years of closing. 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. We believe the company also has FCF optionality to implement share repurchases or issuer bids, but debt reduction is the top priority.
 - **Merger cost-reduction initiatives on track.** Secure has achieved approximately 40% of its targeted \$75 million annual cost savings. The company remains on track to hit its overall target by YE22. Focus areas to date have included operational optimizations, reduced public company costs, and headcount. Total reductions are split 60%/40% operational optimizations/corporate initiatives.
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Tamarack Valley Energy (TVE)

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- **Regional development likely provides drilling catalysts.** Tamarack's 2022 capital program of \$250-\$270 million is weighted to Clearwater development (\$105-\$110 million) with Clearwater volumes expected to average 12,000 bbl/d in 2022 following Spur and Crestwynd acquisitions (see our note [here](#)). Initial wells are performing in-line with or better than type curve expectations with 92 (82.6 net) additional Clearwater wells expected to be drilled through 2022. The company also completed the Nipisi gas-gathering project which has dropped emissions intensities from 60 to 28 kgCO₂e/boe and have plans to initiate a waterflood project in Q1/22 at West Nipisi.
- **Return of capital framework well defined.** Tamarack will initiate a base dividend of \$0.0996/sh annually (paid monthly), beginning February 15, 2022. The initial payout is set at 25% of free funds flow at US\$55/bbl and will be evaluated annually. Management has also set a long-term leverage target of \$325-\$375 million, which we expect will be reached by Q3/22. At this point, the company plans to return 50% of free funds flow to shareholders (trailing quarterly basis) through buybacks (see our note on management's recent NCIB application [here](#)) and/or special dividends.
- **Five-year plan underscores robust FCF profile.** The company 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, with annual capital spend of \$220-\$270 million supporting volumes of 46-49 kboe/d, representing 2-3% annual growth. The plan shows Clearwater production rates reaching 18-19 kboe/d through 2025/26. Additionally, 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 \$154/\$23 million in net debt at year-end 2022E/23E, representing a 2022E D/CF ratio of 0.2x compared to oil-weighted peers at 0.4x with the broader coverage group reaching net cash by 2023E. We currently model full NCIB utilization beginning in Q4/22 and a 25% dividend increase in 2023 along with \$30 million in quarterly special dividends through 2023. We do not model incremental M&A, though we view this as likely given material FCF generation.

Targa Resources Corp. (TRGP)

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- **Volumes and FCF.** We recently increased our 2022+ cash flow estimates largely on a more constructive view on volume outlook within TRGP's Permian footprint and our commodity outlook. Our estimates assume ~12% Permian inlet growth in 2021 and 2022 and our 2022 FCF outlook after growth capex and dividends is >\$1 billion. FCF generation is being utilized to drive balance sheet improvements, by utilizing capital to start buying back preferred equity outstanding.
 - **Structure simplification.** TRGP plans to simplify its corporate structure through devco buy-ins in 2022. Although leverage will move up at the time of buy-in, TRGP will benefit from the increased EBITDA the devcos provide, followed by reducing leverage thereafter.
 - **Dividend.** TRGP re-based its dividend higher to \$1.40/share annually beginning with the 4Q21 distribution, which implies a ~2.5% yield. The distribution accounts for ~30% of 2021E FCF, and allows for modest annual increases post 2022. We now model a \$2/share dividend in 2023, which would imply a 2.9% yield at our price target.
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Tourmaline Oil (TOU)

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- **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.** Tourmaline recently increased its base dividend by 2 cents to \$0.20/quarter, an increase which comes several months earlier than we had modeled. Additionally, a \$1.25/share special dividend was declared (vs our \$1 estimate), payable on February 1st and ex-div January 25th. Our outlook now calls for two additional base increases this year (to \$1.04/share annualized) and special dividends of \$1/ share for each of the remaining 3 quarters. Collectively, the implied yield (base + specials) is roughly 12% based on our outlook for this year. Incrementally, our outlook incorporates buybacks totaling ~\$660 million. See our recent [From the Well to the Wallet](#) note.
 - **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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Portfolio tracking

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