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March 1, 2023

Global Energy Best Ideas

Our view: In February, the RBC Global Energy Best Ideas List was down 2.6% compared to the iShares S&P Global Energy Sector ETF (IXC) down 4.9% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) down 4.9%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 133.5% compared to the S&P Global Energy Sector ETF up 24.6%.

Total Return Comparison	February	YTD	Inception
iShares S&P Global Energy (IXC)	-4.9%	-1.9%	24.6%
Hybrid Benchmark (75% IXC, 25% JXI)	-4.9%	-2.6%	38.4%
RBC Global Energy Best Ideas	-2.6%	-1.7%	133.5%

February List Changes:
Additions: SU-CA
Removals: DINO-US

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Repsol	REP-ES	OP	Borkhataria	€19,918	12/7/22	€14.52	€15.01	€20.00
Shell	SHEL-LON	OP	Borkhataria	£175,094	7/1/20	1,224p	2,527p	2,900p
Suncor Energy	SU-CA	OP	Pardy	C$61,866	3/1/23	C$45.86	C$45.86	C$55.00
Exploration & Production								
Tamarack Valley Energy	TVE-CA	OP	Davis	C$2,415	7/6/21	C$2.57	C$4.34	C$7.00
Topaz Energy	TPZ-CA	OP	Davis	C$2,787	11/1/22	C$23.04	C$19.34	C$28.00
California Resources Corporation	CRC-US	OP	Hanold	$3,100	6/1/21	$29.01	$42.20	$65.00
Diamondback Energy	FANG-US	OP	Hanold	$25,836	12/7/22	$138.21	$140.58	$182.00
Permian Resources Corporation	PR-US	OP	Hanold	$6,030	12/7/22	$8.99	$10.81	$13.00
Range Resources	RRC-US	OP	Hanold	$6,510	7/6/21	$16.76	$26.94	$40.00
ARC Resources	ARX-CA	OP	Harvey	C$9,218	5/1/21	C$7.73	C$14.86	C$26.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$20,213	1/1/20	C$15.08	C$59.80	C$89.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$85,363	4/1/22	C$77.41	C$77.11	C$89.00
Enerplus Corporation	ERF-US	OP	Pardy	$3,442	6/1/22	$14.84	$15.87	$21.00
Santos Limited	STO-AU	OP	Ramsay	A$23,193	6/1/19	A$6.74	A$7.00	A$10.00
Oilfield Services								
Liberty Energy	LBRT-US	OP	Mackey	$2,686	8/3/22	$14.20	$15.25	$26.00
SLB	SLB-US	OP	Mackey	$75,451	1/4/22	$29.95	$53.21	$66.00
Hunting plc	HTG-LON	OP	McCulloch	£545	2/1/23	331p	331p	400p
Midstream								
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$24,654	9/1/22	C$46.38	C$44.80	C$58.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$16,794	12/1/21	$51.63	$74.10	$110.00
Cheniere Energy Inc	LNG-US	OP	Scotto	$39,124	5/1/20	$46.69	$157.34	$205.00
Energy Transfer LP	ET-US	OP	Scotto	$39,178	2/1/22	$9.57	$12.66	$17.00
Utilities, Refiners, Infrastructure & Renewables								
Superior Plus	SPB-CA	OP	Ng	$2,243	12/7/22	$9.82	$11.12	$15.00
Marathon Petroleum Corporation	MPC-US	OP	Schultz	$57,926	12/7/22	$109.29	$123.60	$146.00
PG&E Corporation	PCG-US	OP	Tucker	$31,048	9/1/22	$12.33	$15.62	$20.00
Drax Group plc	DRX-LON	OP	Wheeler	£2,553	5/1/21	409p	637p	1,030p

1-OP = Outperform, 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested.
Note: Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.
Note 2: RBC Capital Markets is acting as financial advisor to Teck Resources Limited in respect of the sale of its Fort Hills Energy Limited Partnership interest and associated assets to Suncor Energy Inc., as announced in the press on October 26, 2022.
Source: RBC Capital Markets estimates, FactSet

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

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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 17

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

Exhibit 1 - This Month's Additions

Suncor Energy Inc. (SU) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• We have added Suncor Energy to the RBC Global Energy Best Ideas list. We believe that Suncor has thread the needle with its hiring of Rich Kruger as its new President & CEO while retaining interim-CEO Kris Smith as its new CFO. We anticipate that Suncor will demonstrate improving operational performance over the coming months which should support relative market outperformance.

Exhibit 2 - This Month's Removals

HF Sinclair Corporation (DINO) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• While we think DINO remains well positioned for above mid-cycle margins this year, we are removing HF Sinclair from the RBC Global Energy Best Ideas list given a less bullish view on WCS spreads and a slight bias shift to larger cap refiners in the current environment.

Investment Highlights

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

ARC Resources (ARX)
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- **FCF generation - ample.** ARC is set to generate ~$1.6 bn FCF in 2023 on our numbers. With a strong balance sheet and large M&A on hold (for now), the focus remains on Attachie development and RoC initiatives. ARC targets return of capital in the range of 50-100% of FCF via base dividend tied to earnings growth (now at $0.60/share), and share buyback. Production growth is not a specific target but rather an outcome of the most efficient way to execute projects (Sunrise, Attachie) paired with the Basin's capacity to absorb new product, and is unlikely to exceed 5%. See our recent quarterly note here.
- **Western Canada's largest Montney player.** ARC's production base of circa 350,000 boe/d, makes it what we view as a Montney Champion with top decile supply costs and deep project inventory. This benchmarks ARC as the largest Montney producer, 3rd largest outright gas producer and 6th largest E&P by volume amid the WCSB producer landscape, with operated facilities network of ~1.5bcf/d - second only to CNQ and TOU. See our notes here and here.
- **Facility portfolio adds scale and optionality.** Following the absorption of 7G assets, ARC's owned and operated facility portfolio roughly doubles to about 1.5 bcf/d—now third in the basin behind CNQ and TOU. This larger strategic footprint allows for continued top-quartile operating metrics and optimized marketing, and it establishes critical mass, opening the door for other potential strategic options in the future. See our note here.
- **LNG - The key to long term value creation.** ARC's existing 2P reserve book contains sufficient resource to sustain an entire 2-train LNG project (1.8 bcf/d) for 10+ years, and when adding future drilling could increase to 40-50 years. Accordingly, the company should be viewed as a key supplier, or alternatively as a strategic asset for operators looking for vertical integration. The owners of LNG Canada now collectively hold enough product to support Phase 1 of the development (~1.8 bcf/d), but any expansion (Phase 2, +1.8 bcf/d) would need to be augmented. See our note here.

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.
- **Impressive shareholder returns**. CNQ is currently allocating 50% of free cash flow (after dividends and base capital) to share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Once CNQ's net debt falls to $8 billion, the company plans to allocate 80%-100% of its free cash flow as incremental returns to shareholders. CNQ also raised its common dividend twice in 2022, representing a 45% increase to an annualized rate of $3.40 per share. We think it is important to point out that CNQ has never cut its common dividend, which has grown at a CAGR of circa 21% over the past 23 years.
- **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others.
- **ESG—lots of progress**. CNQ has established a GHG emissions reduction target of 40% of total corporate absolute Scope 1 and 2 GHG emissions by 2035 (vs. a 2020 baseline). Not to be overlooked, CNQ also continues to make progress towards its initiatives with respect to the Oil Sands Pathways to Net Zero Alliance. CNQ also continues to target a 50% reduction in North American E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016), and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline).

Cheniere Inc. (LNG)
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- **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.

Drax Group plc (DRX)
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- **Financials remain above consensus post EGL, biomass cost adjustment a big plus.** Clarity on the Electricity Generator Levy (EGL) provides greater visibility for Drax going forward, whilst the government's decision to allow for the changing cost of biomass within the EGL further removes uncertainty from the investment case. We think overall the EGL was significantly less draconian than the market anticipated and the allowance for changing biomass costs above a £65/MWh threshold is a key positive. We continue to take a conservative view on power prices, assuming a 20% discount to the forward curve and therefore see further upside on a mark to market basis.
- **Three-pronged growth strategy continues to take shape.** Drax retains a number of growth options going forward, which include BECCS, new pumped storage capacity at Cruachan and continued expansion of upstream pellet facilities. The development of BECCS continues to progress both domestically and internationally. In the UK successful track 1 BECCS projects will be shortlisted in Q1-23 and we should also get further clarity on the government's investment framework, which is likely to include a CfD mechanism for both power generation and negative emissions. Internationally, the regulatory framework in the US appears to be increasingly favourable for expansion of BECCS going forward. Additionally, new pumped storage capacity through the 600MW expansion of the Cruachan II pumped storage facility should be completed by the end of the decade. We see the £3bn capex growth plans as fully funded under the current balance sheet, with FCF yields averaging ~25% across the remainder of the decade.
- **Sustainability paramount to Drax's strategy.** Biomass continues to be a key part of the UK government strategy to achieve net zero, whilst Drax is leading the way on BECCS, which has growth potential both in the UK and internationally. We think criticism of Drax's sustainability credentials were inaccurate in the BBC Panorama documentary towards the end of last year, and we were reassured by a recent trip to see Drax's pellet operations first hand. Drax retains an active aim of ensuring any biomass sourced will have positive outcomes for climate, nature and the communities in which it operates.

Energy Transfer (ET)
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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 2021, and exited 2021 with leverage of 3.9x (credit facility calculation) while targeting leverage of 4.0-4.5x. We forecast ET exits 2022/2023 with Net Debt/TTM Adjusted EBITDA of 3.7x/3.6x while paying $6.6BN in distributions.

Enerplus Corporation (ERF) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Solid all-around.** Enerplus remains our favourite intermediate producer given its capable leadership team, solid execution, strong balance sheet and rising shareholder returns. • **FCF & shareholder returns.** Enerplus has always maintained a strong balance sheet and is now bolstering its shareholder returns offering. Commensurate with fourth-quarter results, the company reaffirmed its commitment to distribute at least 60% of free cash flow in 2023, with an accent on share buybacks. The company's net debt (debt less cash) stood at $221.5 million as of December 31. Execution of a substantial issuer bid (SIB) also remains an option for Enerplus as market conditions dictate. We peg Enerplus' free cash flow (before dividends and including A&D) at approximately $737 million in 2023. • **Bakken positioning.** Enerplus recently framed 655 drilling in its core/extended core areas of the Bakken—or greater than a decade of drilling inventory at the development pace factored into its five-year plan. • For our most recent update on Enerplus, please see Finishing Strong.
Hunting Plc (HTG) Victoria McCulloch, Analyst +44 207 429 8530 victoria.mcculloch@rbccm.com	• **US E&P activity Increase:** Tighter oil markets have driven commodity prices materially higher, and while we continue to believe that Energy companies will remain disciplined on spending, we expect US onshore and international activity to increase y/y and for tightening in the US OFS market to help drive prices higher in 2023. Hunting continues to demonstrate its leverage to increased activity with higher revenues and improved utilisation pushing up margins. • **Subsea activity increasing:** Hunting's order book has grown materially due to large subsea orders in the past six months. Worldwide manufacturing constraints and growth in energy security concerns is leading to more offshore awards globally. Hunting's recent subsea acquisitions are seeing the company secure more offshore awards in new geographies. We expect to continue to see sustained higher offshore spending in FY23 as companies execute projects sanctioned in FY22. Hunting is well positioned to win more awards in this area. • **Potential M&A:** We expect Hunting to continue to target small bolt-on strategic deals, building out its non-oil and gas revenues (targeting 25% by 2025), and rapidly growing subsea offering.
Liberty Energy (LBRT) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Improving operational execution.** Completion of integration efforts from the company's 2021 acquisitions alongside improved operational execution have enabled the company to materially outperform Street expectations in 2022. We expect strong results to continue into 2023 given strong demand for the company's pumping, sand, and logistics businesses. • **Tight frac market drives strong profitability.** Liberty has been able to capitalize on a tight pressure pumping market and expects to generate 40-50% y/y adj. EBITDA growth in 2023. We estimate the US horsepower market to remain relatively tight at approximately 14.5MM demand vs 15.8MM supply in 2023. Our 2023 assumptions map to overall EBITDA per fleet of approximately $30MM. • **Compelling valuation.** Liberty is trading at a discount to its historical range and our frac services coverage peer set. Liberty should trade at a premium to frac peers given larger scale, increasing vertical integration, strong balance sheet and broad exposure to key North American basins. • See our latest Liberty Energy note here.

Marathon Petroleum Corp. (MPC) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• **Capital returns.** MPC has remained focused on returning capital to shareholders in the form of dividend payments and share repurchases. MPC increased its quarterly dividend by 29% to $0.75/share (from $0.58/share) in 3Q22, which is ~$370mm/quarter. MPC has repurchased a significant number of shares, which has resulted in multiple incremental increases of its share repurchase authorization, and has ~$7.6B remaining as of 1/31/23. We continue to expect MPC to be active on the incremental buyback authorization near term, with a clear preference for buybacks as a means to return capital. • **Renewable fuels.** MPC has continued to progress on the Martinez renewable fuels conversion project, with MPC expecting the first phase to reach full capacity of 260mm gal/yr by the end of 1Q23 and capacity reaching 730mm gal/yr by the end of 2023. MPC is well into its pre-fill strategy, pre-filling since mid-summer. • **Constructive refining margins.** Along with the rest of the refiner group, MPC has benefited from improved refining margins from higher cracks and wider spreads. We expect these positive margins to continue into 2023 above historical mid-cycle levels.
Pembina Pipeline Corporation (PPL) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **Positioned to benefit from higher WCSB production.** Whether it be uncontracted capacity or within its contract structures that blend minimum take-or-pay levels with fee- for-service upside as volumes grow, we expect Pembina to benefit from growing gas and liquids volumes in the Western Canada Sedimentary Basin (WCSB). Further, growing volumes could result in contracted infrastructure opportunities including NGL fractionation expansion and/or pipeline 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.

PG&E Corporation (PCG)
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- **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 this 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 should act to help offset customer bill increases.

Repsol SA (REP)
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- **Refining exposure.** The advantages of Repsol's complex refining system were evident in 4Q, capping off a strong year with a refining margin premium higher than at any point in the last ten years. Commentary from management suggests that the current environment could allow for these premiums to extend further in the near term, and our updated estimates attempt to reflect this. All things considered, it is possible that 2023 refining earnings could be materially ahead of 2022, which was already a strong year.
- **Commitment to shareholder returns.** Repsol's CEO struck a bullish tone on the 3Q call with intentions to reduce share count closer to 1,200m shares (vs. 1,452m at the end of 3Q22). This firm commitment suggests to us the possibility of material share buybacks as we look into 2023-24, which we expect to be well supported by strong organic free cash flow generation. As such, our forecasted buybacks for Repsol of €2bn in 2023 map to total shareholder returns of ~15%—towards the top end of the pack, and we see the buyback activity providing an additional layer of support to the stock throughout the year.
- **Recent track record on inorganic activity.** Our sum-of-the-parts valuation for Repsol, which includes some punitive discount rates on the upstream division, is closer to €22/sh. Along with this, the company's recent partial divestments of its low carbon portfolio and upstream divisions provide markers that suggest an undervalued share price and scope for a run-up from here.

Santos Limited (STO)
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- **Santos merger with Oil Search** creates a top 20 global energy company with 2P reserves of 1.378 billion boe and 2021 production of ~116 mmboe. The combined company will have a more diversified production base (47% LNG, 35% gas and 18% liquids) and a stronger and longer growth profile (Dorado, Papua LNG, Pikka Alaska oil). This will create one of the largest Asian LNG suppliers and aligns partners in PNG LNG and Papua LNG. The larger combined balance sheet provides increased flexibility from >US$5.5 billion of liquidity and an investment grade credit rating that enables self-funding of development projects. Initial pre-tax synergies of US$90-115 million pa (excluding integration and other one-off costs) looks conservative with potential to unlock additional value.
- **Barossa final investment decision** achieved in March 2021, with a first production target of 2025. Santos Barossa project rates as the most attractive Australian brownfield LNG development as back fill for Darwin LNG based on a cash cost of production of ~US$2.00/mmBtu and breakeven cost of LNG supply at ~US$5.50/ mmbtu.
- **Dorado** consists of a relatively simple, shallow-water Western Australian oil field development. Santos is forecasting initial production of ~100,000 bopd (gross) and operating costs of <US$5/bbl. Dorado Phase 1 oil project FEED entry has been achieved, with project FID targeted in 1H 2022 after drilling the nearby Apus and Pavo exploration prospects that offer low cost and production extending tie-back potential.
- **Papua LNG** has obtained fiscal stability with its goal to enter project FEED in 2022 for potential production startup in 2027.
- **Alaska Pikka Oil** achieved FEED entry in 2021 with plans to commence production from Phase 1 at 80,000 bopd (gross) of oil from 2025. Further phases of this Oil Search project have potential to deliver two additional 40,000 bopd (gross) projects. The Alaskan gross 2C oil resource is 936 mmbbls.
- **Moomba CCS Phase 1** is a low-cost 1.7 mmtpa CO_2 storage project in the Cooper Basin with capex estimated at ~US$165 million gross and a full life cycle cost <A$30/t CO_2. This Santos operated project is expected to start-up in 2024, following receipt of an approved methodology for Australian CCS projects to generate Australian Carbon Credit Units.

Shell PLC (SHEL)
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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").
- **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)
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- **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.

Suncor Energy Inc. (SU)
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- **New leadership in place.** On February 21, Suncor announced Rich Kruger as its new President & CEO. The new leadership change will be 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.
- **Unlocking higher shareholder returns.** Suncor anticipates that it will achieve the lower end of its $12-$15 billion net debt target by the end of the first-quarter of 2023—opening the door to bigger shareholder returns. Indeed, the company's allocation of excess funds to buybacks should move from 50% currently to 75%, with the balance earmarked for ongoing debt reduction. As of December 31, Suncor's net debt (company definition) stood at $13.6 billion (including $2.7 billion of lease liabilities).
- **Strong free cash flow profile.** We peg Suncor's free cash flow (before dividends, working capital movements and including A&D and capitalized interest) at $13.6 billion in 2023 under our base outlook (US$92 WTI, US$32.50 NYH 3-2-1). Our outlook factors in a refining & marketing (pre-tax) FFO of $6.4 billion in 2023. Under upstream futures pricing in 2023 (US$75 WTI), we peg Suncor's free cash flow at $10.4 billion.

Superior Plus (SPB)
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- **Adding value through sector consolidation.** Management continues to see attractive propane acquisition opportunities, and we expect the company to continue to execute on acquisitions. In general, management targets to deploy $200-300 million in capital per year and has been able to realize synergies that improve the EBITDA of acquired assets by ~25%+.
- **Limited downside from a recession.** Weather is a much larger driver for the financial results compared to economic activity. The company's U.S. operations (contributes ~45% of EBITDA, including the pending acquisition of 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.
- **Strategic acquisition expands business into CNG/RNG/H2.** The pending $1.05 billion Certarus acquisition 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. Please click here for our note covering the transaction.
- **Potential take private transaction.** Two investors accumulated a ~30% stake in SPB in 2020/21 on a diluted basis (Brookfield Asset Management and Marquard & Bahls). We believe that the combination of a weak share price, the planned retirement of the CEO (uncertainty as they search for new leadership), and a somewhat capital constrained growth profile (keeping debt to EBTIDA within management's 3.5-4.0x target) increases the chances of a take private transaction.

Capital Markets

Tamarack Valley Energy (TVE)
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- **Top Clearwater producer with capacity to grow.** Tamarack's acquisition of Deltastream Energy has repositioned the company as the leading Clearwater producer with 752 net sections across the fairway. Management's updated 2023 Clearwater guidance points to 37,330 boe/d with $125-$140 million in E&D capital budgeted to drill 69 net wells. The company highlighted over 500 locations acquired in the Deltastream transaction and now estimates over 200 Tier 1 and 2 Clearwater locations within the broader portfolio.
- **Return of capital framework well defined.** Tamarack increased its monthly dividend by 20%/25% following its Rolling Hills Energy acquisition and latest Deltastream Energy acquisition. The team remains committed to providing shareholder returns with 25%/50%/75% of excess funds flow to be directed towards its NCIB (note here) and/or special dividends as management reaches net debt target ranges of $0.9-$1.1 billion, $500-$900 million, and $500 million, respectively. The $500 million debt floor maps to roughly 1.0x D/CF at US$45/bbl WTI.
- **Five-year plan underscores robust FCF profile.** Tamarack now sees $1.4-$1.8B in FFF generation over the next 5 years at US$55/bbl WTI and C$2.50/GJ AECO on annual capital spend of $350-$380 million. Recent M&A activity has shifted the corporate break-even to roughly US$37/bbl, with the Clearwater and Charlie Lake among the lowest breakeven plays in North America (note here). Management's preliminary 2023 guidance (note here) maintains 68,000-72,000 boe/d of production with a $425-$475 million capital program; Tamarack highlights that a 1% reduction in the decline rate maps to a $10-$15 million reduction in maintenance capital.
- **Strong balance sheet able to support further M&A.** Based on our updated estimates, we forecast Tamarack to carry approximately $913/$398 million in net debt at year-end 2023E/24E, representing a 2023E/2024E D/CF ratio of 0.8x/0.3x compared to most oil-weighted peers reaching a net cash position in 2023E. We currently model NCIB utilization resuming in Q4/23 along with a 25% dividend increase in Q3/23. We do not model incremental M&A, though we believe this will be evaluated once net debt falls below $900 million per the company's updated return of capital framework.

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

Topaz Energy (TPZ)
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- **Diversified royalty model with a natural gas tilt.** Topaz's 2023E/2024E 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 is estimated to increase Topaz's regional volumes from 6,800 boe/d in 2022 to over 10,000 boe/d by 2028. 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 remains insulated from E&P cost inflation, providing margin stability.
- **Resilient infrastructure model.** Topaz holds working interests in five facilities backed by long-term take-or-pay commitments, a contracted interest in a portion of Tourmaline's third-party revenues, and a 49.5% interest in two water handling facilities. The company's infrastructure portfolio is currently expected to generate 2023E revenues of $65 million and FCF $55.0 million. This covers 38% of the 2023E dividend and remains an area of focus as management continues to target a long-term 50-50 split in EBITDA with the royalty segment. As a result, we expect management to 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 latest Deltastream acquisition; we estimate a 49%/43% effective payout ratio in 2023E/2024E. The company is able to balance its RoC program with continued deleveraging efforts, with our model pointing towards roughly $45 million in quarterly post-dividend FCF, on average, through 2023.

Tourmaline Oil (TOU)
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- **Natural gas weakness provides buying opportunity.** 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 (+6%/year CAGR in the current plan), while being mindful that basin growth much beyond this figure could start to drive egress constraints.
- **Cheniere export agreement - a well-timed deal.** We estimate US$1 increase in JKM pricing to result in roughly C$50-55 mm of incremental after tax cash flow in 2023. TOU has hedged approximately 10% of the JKM volumes at an average price of ~US$23/mmbtu, and we would expect the company to take advantage of the current strength by layering on additional hedges at even more attractive prices. See our note here.
- **Return of capital accelerates, with the vast majority of FCF to be returned.** TOU announced special dividends for Q1/23, with $2.00/sh payable on Feb 1. Our outlook now calls for two base dividend increases in 2023 (to $1.16/share annualized) on top of $2/sh specials in each of the quarters in 2023.
- **High quality asset base, with North Montney driving the growth.** TOU's 5-year plan now includes development of its Northern Montney asset, Conroy, pushing corporate volumes to 700,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in 2 tranches, with on-stream dates of 2026 and 2028 (set to coincide with the startup of LNG Canada). The plan incorporates capex spend of roughly half of forecasted cash flows, leaving meaningful capacity for RoC programs.

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- 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.
- We do not make provisions for taxes and/or trading commissions when adding or removing stocks from the portfolio.

Note: Total return data for the list as well as relevant indices are from Bloomberg and FactSet.

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Companies mentioned

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