EQUITY RESEARCH

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May 3, 2021

Global Energy Best Ideas

In April, the RBC Global Energy Best Ideas List was up 2.7% compared to the iShares S&P Global Energy Sector ETF (IXC) up 0.3%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 31.0% compared to the S&P Global Energy Sector ETF down 15.9%.

May List Additions: ARX, DRX, NEE
May List Removals: SM

Total Return	April	YTD	Since 2/1/13
iShares S&P Global Energy (IXC)	0.3%	21.7%	-15.9%
RBC Global Energy Best Ideas	2.7%	32.7%	31.0%

RBC GLOBAL ENERGY BEST IDEAS LIST

Analyst	Integrated Oils	Ticker	Rating[1]	Mkt Cap (mn)	Date Added	Px	Current Px	Px Tgt
Borkhataria	Royal Dutch Shell	RDSB-LON	OP	€ 101,123	7/1/20	1,224p	1,299p	2,200p
	Canadian Oil & Gas							
Pardy	Canadian Natural Resources	CNQ-CA	OP	C$44,732	9/1/15	C$29.65	C$37.31	C$44.00
Pardy	Suncor Energy	SU-CA	OP	C$40,660	1/8/19	C$39.52	C$26.29	C$31.00
Harvey	ARC Resources	ARX-CA	OP	C$2,771	5/1/21	C$7.73	C$7.73	C$12.00
Harvey	Tourmaline Oil	TOU-CA	OP	C$7,917	1/1/20	C$15.08	C$26.52	C$33.00
Davis	Freehold Royalties	FRU-CA	OP	C$1,045	7/1/20	C$3.52	C$8.05	C$10.00
	US E&P							
Hanold	ConocoPhillips	COP-US	OP	$71,840	12/1/20	$39.56	$51.14	$63.00
Hanold	EQT Corporation	EQT-US	OP	$5,390	12/1/20	$14.88	$19.10	$25.00
	Midstream							
Scotto	Cheniere Energy Inc	LNG-US	OP	$19,520	5/1/20	$46.69	$77.52	$88.00
Scotto	Enviva Partners LP	EVA-US	OP	$2,002	8/1/20	$38.21	$49.25	$60.00
Kwan	Pembina Pipeline Corp.	PPL-CA	OP	C$20,926	1/8/21	C$34.22	C$37.94	C$40.00
Schultz	Enterprise Products Partners L.P.	EPD-US	OP	$51,101	1/8/21	$21.31	$23.01	$28.00
	International E&P							
Stanton	Aker BP	AKRBP-OSL	OP	NOK 88,516	5/1/20	NOK 170	NOK 239	NOK 275
Stanton	Parex Resources	PXT-CA	OP	$3,026	2/1/20	C$20.95	C$23.15	C$26.00
	Global Oil Services							
McCulloch	Aker Solutions	AKSO-NO	OP	NOK 7,256	4/1/21	NOK 15	NOK 15	NOK 20
Mackey	Enerflex Ltd.	EFX-CA	OP	$734	10/1/20	C$4.62	C$8.20	C$12.00
Mackey	Shawcor Ltd.	SCL-CA	OP	$420	10/1/20	C$2.09	C$5.83	C$8.50
	Utilities and Infrastructure							
Tucker	CenterPoint Energy[5]	CNP-US	Restricted	Restricted	Restricted		Restricted	
Tucker	NextEra Energy	NEE-US	OP	$151,463	5/1/21	$77.51	$77.51	$97.00
Musk	Drax Group plc	DRX-LON	OP	$1,604	5/1/21	409p	409p	600p
	Australian E&P							
Ramsay	Santos Limited	STO-AU	OP	A$14,640	6/1/19	A$6.74	A$6.98	A$8.00

This report is priced as of market close ET on April 30, 2021. Indicated March returns are priced as of this date.

1-OP = Outperform, R = Restricted. 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested. 5-This security is restricted pursuant to RBC Capital Markets policy and, as a result, its continued inclusion in the 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

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 16

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

Exhibit 1 - This Month's Additions

ARC Resources (ARX) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• We are adding ARX to the RBC Global Energy Best Ideas list post the all-stock merger with Seven Generations. • ARC adds critical mass and now holds many of the key lowest cost Montney plays in Western Canada, with $1.1 Bn in FCF in 2022E. The company's future $700 million Attachie investment is also now much more digestible by the bigger entity. • ARX trades amongst the most attractive multiples in the group - currently 3.4x EV/DACF (2021E) vs peers at 3.8x EV/DACF at the RBC price deck. We anticipate multiple expansion as investors buy into management's new vision, and the company continues to execute through 2021.
Drax Group plc (DRX) John Musk, Analyst +44 (0) 207 029 0856 john.musk@rbccm.com	• We are adding Drax to the RBC Global Energy Best Ideas list post the Pinnacle acquisition. • We see the Pinnacle acquistion as a good deal for Drax providing a step change on ambitions to increase production and reduce costs. We also see BECCS as increasingly likely to be part of future UK generation mix and this now accounts for ~10% of our 600p/sh Price Target. • Drax's further investment in the sustainable production of pellets, increased visibility on carbon capture through BECCS & potential negative carbon emissions and the exit from gas generation in late-2020 all position Drax firmly in the 'ESG camp'. Drax's burgeoning ESG appeal is evidenced by Drax's recent inclusion in the S&P Global Clean Energy Index and we expect this broader appeal will feed through into a higher rating as Drax widens its shareholder base.
NextEra Energy (NEE) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• We are adding NextEra Energy to the RBC Global Energy Best Ideas list following recent stock price underperformance. We believe current levels represent a buying opportunity for investors looking to gain exposure to the high-growth renewable space. • We expect interest in NEE will pick up in the second half of the year, prompting us to move the stock at the top of the list in anticipation. • NextEra is one of the world's largest renewable developers. We expect NEE to maintain or further its standing as a renewable mega player, as significant tailwinds provide opportunities for accelerated growth. Additionally, we think NEE's status as a best-in-class utility operator should not go unnoticed.

Exhibit 2 - This Month's Removals

SM Energy (SM) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• Since its addition in February, SM has traded up 79%. We are removing the company from the best ideas list based on its more limited relative upside to other names on the list.

Investment Highlights

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

Aker BP (AKERBP) Al Stanton, Analyst (+44) 131-222-3638 al.stanton@rbccm.com	• **Momentum:** Interest in the sector is picking up, and we expect investors to look further afield for new opportunities, and Norway-focused Aker BP is a well-managed business with a lower profile than most, and therefore an attractive valuation. The 200,000boe/d producer is oil-weighted and is benefiting from development incentives in Norway that should help keep the taxman at bay and help shore up post tax cash flows – our key valuation measure for midcap oils. • **Momentum:** Management is unlocking a sizeable portfolio of development opportunities in 2021-22, while Norway maintains its tax breaks, and it is also an active explorer; moreover, with financial headroom of \$3.5bn we also see the potential for the company to exploit inorganic opportunities too. • **Future:** Looking ahead, Aker BP is a low-cost, low-emission (4kg CO_2/boe on an equity basis in past six months) producer that maximises the potential of existing developments, and as a result we expect the business to withstand increasing ESG-linked pressures.
Aker Solutions (AKSO) Victoria McCulloch, Analyst +44 (0) 207 429 8530 victoria.mcculloch@rbccm.com	• Aker Solutions is an energy services company focused on engineering and construction. Following a re-merger with Kvaerner in 4Q20, the company has a strengthened balance sheet, enlarged backlog, and greater capabilities to meet customer demands. • The company is materially leveraged to Norwegian fiscal stimulus for oil and gas companies, which we expect to beging to deliver in 2H21, and is growing its energy transition leverage with the target of having 20% of revenue from renewables projects and 25% from low-carbon projects by 2030. Within energy transition, Aker Solutions supplies foundations for offshore wind developments, as well as providing EPC services in hydrogen and CCUS.

ARC Resources (ARX)
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- **Attachie – the largest undeveloped Montney play in Western Canada.** ARC adds critical mass and now holds many of the key lowest cost Montney plays in Western Canada, with ~$2.2 Bn in FCF in 2021E and 2022E, and the future $700 million Attachie investment is now easily digestible by the bigger entity. We anticipate the late-2021 sanctioning of a larger project, with 2022/2023 build, commissioning in late 2023, and a full ramp in early 2024 to 42,000 boe/d. At our deck, we see the Attachie project paying out in less than two years (post commissioning). See note.
- **Western Canada's largest Montney player.** ARC's all-stock merger with Seven Generations creates an $8B EV player with a production base of circa 340,000 boe/d, building what we view as a Montney Champion with top decile supply costs and deep project inventory. This benchmarks ARC as the largest Montney producer, 3rd largest outright gas producer and 6th largest E&P by volume amid the WCSB producer landscape, with operated facilities network of ~1.5bcf/d - second only to CNRL and Tourmaline. See our notes here and here.
- **Facility portfolio adds scale and optionality.** Following the absorption of 7G assets, ARC's owned and operated facility portfolio roughly doubles to about 1.5 bcf/d—now third in the basin behind CNRL and TOU. This larger strategic footprint allows for continued top-quartile operating metrics and optimized marketing, and it establishes critical mass, opening the door for other potential strategic options in the future. A simplified analysis implies that a Topaz-like entity could be valued at around $1.5 billion with a 9% FCF yield, driving meaningful accretion and/or utilized as a funding vehicle for future projects. See note.
- **Improved scale and history of consistently delivering on quarterly numbers.** Comparative metrics of the 'new' ARX relative to other Montney players (especially Tourmaline) shifts into sharper focus. We argue that ARC's liquids, FCF outlook and strategic position/scale makes it comparable to US peers. Throughout the time we have covered ARC, the company's ability to meet or exceed guidance figures is amongst the most favorable in the group. Over the past 3 years, quarterly volume estimates have exceeded Street 83% of the time. This is all backstopped by the company's high-quality acreage and a conservative mindset - ingredients we see continuing amid the combined entity.

Canadian Natural Resources (CNQ) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Globally Distinguished**. Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by moderate sustaining capital—affords the company with superior free cash flow generative power. • **Mining Segment—Powerful FCF Generator**. CNQ's oil sands mining segment—which encompasses both its Horizon (100% wi) and AOSP (70% wi) operations—is a driving force behind its cash flow and free cash flow generation. In our eyes, it is also one of the reasons that makes CNQ comparable to the global majors. Anchored by an extensive 2P RLI of just over 45 years, CNQ's oil sands mining operations yield premier upgraded products—with no decline—and about $1 billion of annual sustaining capital. • **Strong Alignment.** Collectively, management owns about 2.3% of CNQ, which drives strong alignment with shareholder interests. • **ESG—Lots Of Progress**. CNQ has set a long-term aspirational target of net zero oil sands emissions over time. In the interim, the company continues to make strides with its corporate GHG emissions intensity falling 2% year/year in 2020, marking an 18% reduction from 2016. Having successfully achieved three of its four environmental objectives, CNQ plans to release updated targets in the second-quarter of 2021.
CenterPoint Energy (CNP) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• Restricted
Cheniere Inc (LNG) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Highly contracted cash flow with strong counterparties.** Cheniere has long-term take-or-pay contracts on 85% of its nine-train portfolio capacity (seven trains now operational), and intends to contract 90%. All of Cheniere's Sale and Purchase Agreement customers are investment grade rated or have investment grade credit metrics. Importantly, utilities or state-owned utilities/oil and gas companies represent 68% of Cheniere's contracted capacity. • **Liquefaction fees represent most of Cheniere's EBITDA.** Cheniere's customers have the contractual right to cancel cargoes but must still pay fixed liquefaction fees. In our 2023 run-rate scenario, on a consolidated basis, liquefaction fees represent ~90% of Cheniere's total EBITDA while lift represents ~5% and marketing ~5%. • **Long term FCF and capital return story.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. Cheniere also stands to benefit from LNG demand growth given its asset footprint. Finally, we believe Cheniere is poised to return significant cash to shareholders via dividends and share buybacks, which we do not believe is fully reflected in Cheniere's stock price.

ConocoPhillips (COP)
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- **Compelling value proposition.** COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions. The company's low break-even point provides a competitive advantage and allows it to fund its production maintenance capital and dividends at below $40/bbl (WTI) for around $5 billion of capital spend. Clear priorities provide a defined investment proposition and demonstrate the commitment to returning capital back to shareholders. COP's priorities are: (1) sustain production and pay its dividend, (2) annual dividend growth, (3) A-rated balance sheet, (4) 30+% CFO total shareholder payout, and (5) disciplined investment for CFO expansion.
- **Deep depth of inventory.** The company has a deep inventory of highly economic projects that span short through long cycle opportunities globally. In total there is an estimated 23 Bboe of resource potential that has an average break-even below $30/bbl. We think this is one of the preeminent portfolios and provides several decades of inventory at the current production pace. This reduces the need for ongoing exploration spend and consolidation although both can occur if it is accretive to COP's value proposition.
- **Substantial FCF yield.** Our detailed model through 2025 shows a strong cash generation profile with an appealing FCF yield that includes a dividend and potential buybacks. Our model has COP organically growing oil production 2-3%/ year while maintaining leverage below 1.0x with a $4+ billion cash balance.
- **CXO acquisition offering tangible synergies and scale.** The transaction adds scale to its Permian position that enhances its outlook with greater FCF generation and greater asset diversity. Over the next couple of years (into 2022), the company should be able to capture at least $0.5 billion in annually savings. This includes both cash cost and capital spending improvements. There is more upside through margin improvement with marketing arrangements, supply chain scale, and shared learnings.

Drax Group plc (DRX)
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- **We recently reinstated coverage of Drax post recent completion of the Pinnacle acquisition. Our rating is Outperform with a 600p/sh Price Target**. We now see Drax as firmly positioned in the 'ESG camp', which should lead to broader shareholder appeal
- **Pinnacle is a good deal for Drax.** The Pinnacle acquisition provides Drax with a step change on its ambitions to reach 5m tonnes of self-supply of pellets (vs. ~2m trajectory for 2022) and accelerates the ability of Drax to hit the targeted \$100/t & £50/MWh pellet cost by 2027 vs. a 2020 cost in Drax of \$154/t (and proforma ~\$141/t). We assume Drax is able to deliver on this strategy resulting in EBITDA in Pellet Production growing more than 3x over 2020-27 to in excess of £300m.
- **BECCS likely to be part of future UK generation mix:** We see BECCS as a valuable part of the future generation mix in the UK allowing Drax to continue delivering dispatchable low carbon biomass generation with the potential for negative emissions. We assume Drax develops 2 BECCS units in the late 2020's and forecast the company achieving high-single-digit project IRR. We expect clarity on these BECCs projects to slowly emerge, starting with a preliminary paper due from the government this summer on 'Biomass for net zero' as well as a decision in October on £1bn of government funding to be allocated to four CCUS projects across Track 1 & Track 2 zero carbon clusters.
- **Numbers and balance sheet:** When factoring in the recent Pinnacle transaction our forecasts show £376m EBITDA in 2021E, and in 2022E we see strong EBITDA growth to £485m. We now sit ahead of consensus by ~6% in 2021E and ~11% ahead in 2022E. In the near term, we see a temporary rise in net debt/EBITDA to 3x following the Pinnacle acquisition, but see this metric coming back to the target 2x by the end of 2022. Finally, we continue to Drax as able to deliver a growing and sustainable dividend, which we forecast will increase by 7.5% per annum over the medium term.

Enerflex Ltd. (EFX)
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- **Asset ownership improves EBITDA generation through the cycle.** We believe Enerflex is positioned to deliver stronger ROACE and free cash flow in low commodity prices relative to Canadian Oilfield Services peers. Over the last few years, the company has focused on asset ownership, namely Contract Compression and BOOM (Build, Own, Operate, Maintain) projects, which carry higher margins than its legacy Engineered Systems business. We expect its Contract Compression and After Market Services business lines to generate recurring EBITDA to support its Engineered Systems business through the cycle.
- **Strong liquidity and low financial leverage support the stock through the downturn.** We believe the company's financial flexibility combined with low near-term maintenance capital requirements provide financial flexibility as the cycle turns. We forecast 2021 and 2022 net debt/EBITDA of 1.6x and 1.1x (vs. its 3.0x covenant).
- **Changing revenue mix leads valuation expansion.** We believe Enerflex's current valuation does not reflect its improving cash flow durability driven by its growing Rentals and Service business lines, in our view. Enerflex continues to trade at a discount to compression peers based on next-year's EBITDA. Said another way, applying peer average multiples to Enerflex's recurring business lines, we believe the stock is discounting approximately nil value to its Engineered Systems business line.

Enterprise Products Partners (EPD) TJ Schultz, Analyst (512)-708-6385 tj.schultz@rbccm.com	• **FCF ramp with diverse assets.** EPD guided lower growth capex levels in 2021/2022 (to $1.6B/$800mm). This should increase FCF growth and open up opportunities for EPD to support its units through buybacks, de-leveraging, or distribution increases. EPD currently has a $2B buyback plan in place, and we expect units to be repurchased opportunistically. EPD also has a diverse and expansive asset footprint. This asset footprint with higher liquids exposure is well-positioned to benefit amidst a 2021 oil and gas demand recovery. • **Growth capital focus on petchem.** EPD has ~$4B of growth projects under construction, of which ~$2.5B is allocated to petchem projects. We highlight the PDH2 facility and ethylene system expansion, which should both help meet increasing petchem product demand. We also like petchem exposure as the space has growing export demand, fewer environmental risks, and integrates well with EPD's NGLs business. Longer term, we believe more growth capital will be allocated towards repurposing and integrating downstream assets as those projects provide quality returns for lower amounts of capital. • **Attractive financial position.** Given EPD's current cash flow profile and asset base, we think EPD provides both offensive and defensive characteristics for investors. We believe EPD can provide 1-2% distribution growth while also opportunistically buying back units. We also estimate EPD will maintain leverage at ~3.5x. With leverage below 4.0x, a distribution coverage of >1.5x, and a current yield of 8-9%, we believe EPD is an attractive investment and should be a core MLP holding.
Enviva Partners, L.P. (EVA) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Strong set-up into 2021:** We believe EVA can generate 29% Y/Y growth in 2021 before additional dropdowns, driven by ~$16MM from the Northampton/Southampton expansions, ~$15MM from organic growth, ~ $3MM incremental from Hamlet achieving run-rate capacity and ~$21MM incremental contributions from a full year of Greenwood and Georgia Biomass/Waycross acquisitions. Assuming a dropdown in mid-2021 (which is in our forecasts), we believe EVA's EBITDA can grow 38% Y/Y to $262MM. • **Highly visible cash flow growth:** EVA targets 7-10% organic growth from: (1) price escalators; (2) productivity improvements; (3) cost cuts/purchasing efficiencies. Based on total contracted revenue backlog of ~$19BN (including its sponsor), EVA plans to more than double its 2019 EBITDA in the next couple of years. • **In for a pellet, in for a pound:** Coal-fired power plants can replace 5-10% of their raw-feed with pellets with only investments in storage to keep wood pellets dry, which costs a few dollars per KW, by EVA's estimates. For reference, the EIA estimates capital costs to build a coal plant with SO_2 and NO_x controls to be $3,500-$3,800/KW. For full -cale wood pellet conversion, EVA estimates a cost of $500/KW.

EQT Corporation (EQT) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Right place right time.** EQT's natural gas focused portfolio is well positioned to benefit from a bullish macro backdrop with LNG demand moving above 10-11 Bcf/d and weak oil fundamentals capping the associated gas growth outlook. We think the company has some of the most economic natural gas assets in North America and benefits from low royalty rates, low operating costs, and premium geology. • **Robust FCF Outlook.** The FCF outlook improves from continued efforts to reduce debt, improve D&C costs, and manage expenses. The company maintains a robust hedge position that provides visibility for FCF generation which we estimate up over 100% in 2021 on our $2.85/Mcf outlook. Opportunities exist to improve this further by leveraging an existing FT portfolio to increase realizations and improve operating expenses. • **Debt reduction remains the priority.** Significant progress is being made to improve leverage toward its target of less than 2x. Based on our $2.85/Mcf outlook for 2021 we see a path for leverage reduction to 2.0x by year-end 2021 but think this can be improved with a sale of an equity stake in ETRN, or select divestiture opportunities. • **Recent acquisition highly accretive.** EQT has been a vocal supporter of consolidation for scale that drives operational and financial synergies but also to maintain a more stable commodity market. A recent acquisition of acreage adjacent to the existing portfolio provides operational and financial synergies, and immediately improves operating costs/unit, FCF per share, and relative leverage. Multiple opportunities exist to unlock incremental value including integrating undeveloped core acreage, higher WI, leveraging the existing FT, and optimizing acquired midstream assets. The company also continues to work to divest non-core acreage positions which should help improve the leverage profile.
Freehold Royalties (FRU) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Defensive model, well positioned for a recovery.** In our minds, Freehold's defensive royalty model is well positioned in times of uncertainty, while also providing upside leverage to a recovery. We expect Canadian volumes to trend in line with the broader basin, with activity likely ramping up through the second half of 2021. In our view, the company's recent US acquisitions provide additional diversification as well as a strong reinvestment platform for potential growth. • **Unhedged model provides direct commodity exposure.** Freehold does not hedge its royalty volumes and therefore retains full upside exposure to improved commodity prices. The company also benefits from increased E&P activity with no incremental capital outlay • **Dividends supported by favourable cost structure.** Freehold's low cost model supports continued dividend payment. The company raised its dividend alongside Q4/20 earnings to $0.36 annually, placing the new yield in the range of 5.0%. We forecast a dividend bump to $0.40 in Q3 and an increase to $0.48/share in Q1/22, though management evaluates this quarterly. This maps to payout ratios of 29%/38% in 2021/22 respectively, well below the company's target range of 60-80%. • **Strong balance sheet, capable of generating FCF at low prices.** Based on our current estimates, we forecast the company shifting to a net cash balance in Q4/21 (though we do not currently model potential acquisitions). In addition, we see the company generating roughly $112/$103 million in post-dividend free cash flow in 2021/22 at our US$64/US$63 pricing outlook. • **Discounted valuation.** Freehold shares trade at a significant discount to the diversified royalty peer group.

NextEra Energy (NEE)
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- **Recent share underperformance represents a unique buying opportunity.** We believe current levels represent a buying opportunity for investors looking to gain exposure to the high-growth renewable space. While NEE still trades at a premium, its recent underperformance has narrowed the premium.
- **Renewable tailwinds.** As one of the world's largest renewable developers, NEE should benefit from significant tailwinds in the renewable space. We expect the overall industry will see accelerated growth, and that NEE will maintain or further its standing as a renewable mega player. The potential for a clean electricity standard should spur further renewable implementation, while improved battery technology would be another potential growth catalyst.
- **Top-tier utility operator.** While much attention has been paid to NEE's renewable status, NEE is also a best-in-class utility operator. Florida Power & Light has one of the strongest cost management and productivity profiles in our space. Additionally, NEE's recent acquisition of Gulf Power has provided an opportunity for significant investment, productivity improvements, and cost cutting.

Parex Resources (PXT)
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- **Correlated:** Parex is a longstanding constituent in our Best Ideas list; the debt-free oil producer was included to provide cautious investors with lower risk oil price exposure and the stock has grinded higher, largely due to its strong oil price-linkage.
- **Organic:** While Parex's message in early 2021 was 'expect more of the same' – i.e., measured, cost effective growth as the company unlocks its possible reserves, we believed that management was keeping it powder dry, ahead of a potentially material pivot. In April the company announced a plan to accelerate organic, exploration and appraisal-led growth; although this might generate some uncertainty, we see potential for the stock to break away increasingly from the oil price and surge higher, while on quieter days management's ongoing buyback should help shore up the share price.
- **Newsflow:** This month we expect Parex to present solid Q1/21 numbers and insights into management's plans to grow the business – increased 2021 spending is intended to grow reserves and medium-term production.

Pembina Pipeline Corp. (PPL)
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- **Attractive risk-reward profile with a big focus on risk mitigation.** Although other WCSB-focused midstream peers may have greater upside potential in a market recovery, we believe that the market is also very focused on risk mitigation/downside protection. On that front, we think that Pembina gets a lot of credit for being well ahead of its peers with respect to taking swift and decisive action to protect the balance sheet and dividend. Specifically, Pembina decided to materially cut its growth capex (i.e., the "nice to do" projects) and make it clear to the market that it is willing to make hard decisions in order to protect the dividend. With the macro environment slowly improving, Pembina remains focused on the strategic projects with a conservative funding scenario.
- **Fully-funded capex plan in 2021 based on cash flow (i.e., no new incremental debt).** Pembina noted that it is fully funded from cash flow after dividend payments for its 2021 capex program based on the low end of its EBITDA guidance range. As these projects come into service, the financing plan should result in improved credit metrics.

Royal Dutch Shell PLC (RDSB)
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- Shell is unique in having three separate franchise businesses – all of which are #1 in their respective silos.
- **1. Deepwater – Core cash generator and funding the ambitions of tomorrow.** Shell's deepwater portfolio is the largest across the Super-Majors, and accounts for 30% of upstream volumes. The valuation is highly levered to oil prices, but we estimate the portfolio has a $30-35/bbl breakeven. Assuming a $50/bbl case, we think the deepwater portfolio could be valued at ~$25bn.
- **2. Integrated gas – Transition theme and free cash flow.** Shell accounts for one in every five LNG cargoes traded globally. This has led to a significant trading advantage, in our view, and although it feels almost impossible to forecast earnings, it has proved to be a resilient business. Assuming a conservative 8x P/E multiple, we see a ~$50bn valuation.
- **3. Marketing – "Brand value" and adding stability to the downstream.** Shell has the largest marketing business among all of the majors, with a global footprint and 45,000 stations. The company also has the highest "brand value" according to third-party analysis, almost 2x more than BP. Marketing is Shell's highest return business, with a >20% ROACE, while it also adds much needed stability to downstream earnings. We think a 15x P/E multiple is appropriate, which would suggest a $71bn valuation. This would be at the low end of retail peers, and lower than directly comparable peers such as Couche-Tard.
- **Bump in the road ahead of 2021E deleveraging:** We see the company well-placed to deleveraging meaningfully and, over the period 2022-26E, we expect Shell to return 50% of its market cap back to shareholders via dividends and buybacks, all funded by organic cash flow generation.
- **Undemanding valuation:** On our estimates, Shell generates a 14% FCF yield on average over 2021-25E, significantly ahead of sector average for a discounted valuation. At the same time, Shell trades on a 4.5x EV/DACF, a two-turn discount to the sector.

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

Suncor Energy (SU) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Poised for a Rebound.** Our bullish stance towards Suncor surrounds a mean-reversion story. From where we sit, Suncor has moved onto its front foot as it drives operational safety and reliability, and balances shareholder distributions with the necessity of a strong balance sheet. • **2021—Prioritizing Free Cash Flow**. As part of its 2021 game plan, Suncor anticipates debt repayment of $1.0-$1.5 billion, and is targeting share repurchases of $0.5-$1.0 billion. Suncor is emphatic that higher oil prices will not result in higher capital investment in 2021. Instead, incremental free cash flow would be allocated towards debt reduction (two-thirds) and additional share repurchases (one-third). • **Downstream Integration**. Suncor is upbeat that its downstream operations will continue to punch above their weight given its physical integration, and market intelligence. The company expects refinery utilization of 90%-96% in 2021-up about 6% year/year at the mid-point and is well positioned to benefit from a widening in crack spreads as refined product demand recovers. • **Balanced ESG Approach**. Suncor has no plans to leap into renewables on a grand scale. Rather, the company is likely to emerge as a niche player, targeting ESG investments that generate at least mid-teen returns. These are likely to include biofuels, hydrogen, $C0_2$ sequestration, and select wind projects. The company remains focused on achieving a 30% reduction in its GHG intensity by 2030 relative to 2014 levels.
Tourmaline Oil (TOU) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• **Key beneficiary of an improved natural gas outlook.** Natural gas remains an abundant commodity amid WCSB with low supply costs, but the SD picture has brightened somewhat for the next 1 - 2 years, and we believe TOU as the largest natural gas producer in Canada stands to be the key beneficiary. See our deep dive report here and February Nat Gas Stats here. • **High quality asset base, with Montney driving the growth.** The company's primary growth engine continues to be the liquids-rich Gundy. Tourmaline has a top-decile cost structure and industry-leading capital efficiencies. We now model Tourmaline's 2021 capital efficiencies at approximately $7,500/boe/d. Ownership of facilities remains a key ingredient to the story, and could represent an additional avenue to surface value in the future. • **Potential upside via Topaz Energy.** With the IPO of Topaz now complete, Tourmaline maintains an equity position of 58 million shares, or roughly 52% of the company. Tourmaline's participation in Topaz deals (generally for GORRs) improves the valuation of acquisitions, and allows TOU to participate in Topaz' equity upside. • **Aligned and seasoned management team.** Tourmaline's leadership team is led by Mike Rose as President & CEO, who has been with the company since inception. Mr. Rose has 40+ years of experience in the oil and gas industry. Tourmaline management is amongst the most aligned within our coverage universe in terms of equity ownership (Directors & Officers ownership: ~8%).

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

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Companies mentioned

SM Energy Company (NYSE: SM US; $15.80; Outperform)

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