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November 1, 2021

Global Energy Best Ideas

Our view: In October, the RBC Global Energy Best Ideas List was up 7.2% compared to the iShares S&P Global Energy Sector ETF (IXC) up 8.2% and a hybrid benchmark (75% IXC, 25% JXI - iShares Global Utilities ETF) up 7.4%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 72.7% compared to the S&P Global Energy Sector ETF down 4.2%.

Total Return Comparison	October	YTD	Inception
iShares S&P Global Energy (IXC)	8.2%	45.1%	-4.2%
Hybrid Benchmark (75% IXC, 25% JXI)	7.4%	33.6%	17.7%
RBC Global Energy Best Ideas	7.2%	75.0%	72.7%

October List Changes:
Additions: N/A
Removals: AKRBP-OSL, NESTE-HEL

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Royal Dutch Shell	RDSB-LON	OP	Borkhataria	£130,157	7/1/20	1,224p	1,685p	2,350p
Cenovus Energy	CVE-CA	OP	Pardy	C$29,861	6/1/21	C$10.09	C$14.80	C$20.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	$99,748	12/1/20	$39.56	$74.49	$98.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$62,362	9/1/15	C$29.65	C$52.60	C$60.00
Santos Limited	STO-AU	OP	Ramsay	A$14,540	6/1/19	A$6.74	A$6.98	A$8.50
Tourmaline Oil	TOU-CA	OP	Harvey	C$14,588	1/1/20	C$15.08	C$44.73	C$54.00
ARC Resources	ARX-CA	OP	Harvey	C$8,594	5/1/21	C$7.73	C$11.87	C$16.00
Range Resources	RRC-US	OP	Hanold	$6,058	7/6/21	$16.76	$23.32	$31.00
California Resources Corporation	CRC-US	OP	Hanold	$3,777	6/1/21	$29.01	$46.13	$65.00
Tamarack Valley Energy	TVE-CA	OP	Davis	C$1,462	7/6/21	C$2.57	C$3.60	C$5.00
Oilfield Services								
Secure Energy Services	SES-CA	OP	Mackey	C$1,765	8/4/21	C$4.22	C$5.73	C$8.50
Midstream								
Enterprise Products Partners L.P.	EPD-US	OP	Schultz	$49,564	1/8/21	$21.31	$22.68	$31.00
Cheniere Energy Inc	LNG-US	OP	Scotto	$26,223	5/1/20	$46.69	$103.40	$112.00
AltaGas Ltd.	ALA-CA	OP	Kwan	C$7,178	7/6/21	C$26.02	C$25.62	C$31.00
Azure Power Global	AZRE-US	OP	Scotto	$1,147	7/6/21	$26.92	$23.79	$42.00
Utilities & Infrastructure								
NextEra Energy	NEE-US	OP	Tucker	$167,429	5/1/21	$77.51	$85.33	$97.00
Algonquin Power & Utilities	AQN-US	R	Ng					
Drax Group plc	DRX-LON	OP	Musk	$2,116	5/1/21	409p	531p	750p

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. 5-R = Restricted: *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 Removals

Aker BP (AKERBP) Al Stanton, Analyst (+44) 207 029 0853 al.stanton@rbccm.com	• We are removing Aker BP after a strong share price performance, driven by surging oil and European natural gas prices and the anticipation of a dividend hike, which was delivered by Q3/21 results in late October. Aker BP remains our go-to-name in International E&P; however, in this *trading call*, we envisage a pause for breath as investors digest Norway-wide increased cash taxes in H1/22 (reflecting delayed payments from calendar H1/21), and the dovetailing of Norway's proposed tax changes and Aker BP's 2022-27 capex profile, especially as the company starts to fold-in the largescale NOAKA development. We maintain our NOK340 price target.
Neste (NESTE FH) Erwan Kerouredan, Analyst (+44) 207 029 0855 erwan.kerouredan@rbccm.com	• While we remain constructive on Neste, we see stronger performance potential in the firm's broader peer group in the near term. We maintain our Outperform rating and favourable view of the stock given the company's leadership position in renewable feedstock supply chains, coupled with sector-leading ESG credentials.

Investment Highlights

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

Algonquin Power & Utilities (AQN) Nelson Ng, Analyst (604) 257-7617 nelson.ng@rbccm.com	• Restricted.
AltaGas Ltd. (ALA) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• **Is AltaGas a utility or a midstreamer? The market seems to be saying "neither".** Roughly speaking, we expect 52% of 2021E EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and 48% from midstream assets. 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. • **Asset sales: we see valuation upside if AltaGas ramps up its asset monetization strategy.** AltaGas has historically successfully monetized numerous assets to reduce leverage including Northwest Hydro, AltaGas Canada, the U.S. Transmission and Storage business, various smaller power assets, and midstream assets in the Marcellus. The company has messaged asset monetizations as a way to help fund the Petrogas acquisition and we would favourably view additional asset sales as a way to reduce balance sheet leverage. Specifically, we believe a potential sale of its interest in the Mountain Valley Pipeline project (could be in-service in 2022) with the path to greater valuation upside and lower leverage coming from the sale of the midstream business and/or the utilities in Alaska and Michigan would be options.

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 ~$2.4 Bn in FCF in 2021E and 2022E, 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 our note.
- **Western Canada's largest Montney player.** ARC's all-stock merger with Seven Generations creates a 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 – 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.

Azure Power Global (AZRE)
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- **AZRE is a leading developer of mostly utility scale solar power in India that we expect to benefit from India's growing economy and electricity demand:** Importantly, the government of India aims to increase its non-hydro renewable power generation over the next several years, which should benefit AZRE given its scale and strong record of execution. In the near-term, AZRE has highly visible cash flow growth potential through its recent power auction wins. Importantly, AZRE generates the majority of its revenues from investment grade, primarily government of India entities.
- **Power consumption in India is set to grow; government is highly supportive of solar:** Population growth, urbanization and economic growth should drive power demand growth in India. The IEA estimates India power generation will grow ~145% through 2040. Given this increase, desire for greater energy independence and cleaner air, India targets 450 GW of non-hydro renewable electricity capacity by 2030, including 300 GW of solar (implies ~25-30GW of solar capacity additions through 2030), which we believe provides significant growth opportunity for AZRE.
- **First mover advantages and vertically integrated model provide competitive advantages:** AZRE developed India's first utility scale solar project in 2009. As a first mover, AZRE has gained scale (provides supply chain advantages), expertise and a strong reputation. In addition, AZRE has a vertically integrated business model, which provides AZRE control over its projects and can also lower overall costs. Specifically, given the challenges in securing land in India, we believe AZRE's experience and capabilities in land acquisition provide it with a significant competitive advantage.

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 it to generate robust FCF of $2.4-2.5 billion through 2025. FCF priorities include returning large portions of cash to shareholders, maintaining its already strong balance sheet and looking for accretive, opportunistic additional reinvestment back into the business or A&D. The company increased its share repurchase program to $250 million following 2Q21 earnings and we expect CRC to release a more comprehensive plan for shareholder returns in late 2021/early 2022 that we think likely includes a base/variable dividend.
- **ESG exposure in a US 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 think this could come by early 2022, if not sooner. 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.
- **Getting started on energy transition opportunities.** CRC filed for its first CCS permit in early August and will soon have its second permit filed. Additionally, the company is advancing discussions for its first behind-the-meter solar project with SunPower that's expected online by 2023. We think solar projects will materialize sooner, however the larger value opportunity is in the company's identified CCS/CCUS project pipeline. The company plans to have permitted 200 MMT of storage capacity by 2025 and targets injecting 5 MMT/annually by 2027. We think these initially identified CCS projects can translate to $30-40/share of value that's largely not being reflected in the stock today. Its first CCS project, Carbon TerraVault I, is targeted for FID by mid/late 2023 and first injection by mid-2025. See our recent note post CRC's Carbon Management event in early October which provided high-level project economics consistent with our prior value assessment, but importantly our valuation assumed a higher capital cost implying more upside to our analysis (note).
- **Conventional asset base provides consistency.** The company's conventional asset base has a low capital intensity with base decline rates at ~15%, far lower than shale E&P peers at 35-40%. Its conventional low-risk, low-decline asset development strategy drives more stable production and cash flow generation which help underpin our FCF outlook. We estimate CRC has over a decade of remaining core drilling opportunities in its core fields which should position the company for repeatable, robust FCF generation for years to come.

Canadian Natural Resources (CNQ) 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. • **FCF & Buybacks**. We peg CNQ's free cash flow (before dividends of $2.2 billion) at $10.2 billion in 2021 under our base outlook (US$68 WTI). Given this outlook, the company will repurchase 1% of its shares outstanding (circa 11 million shares) per quarter going forward. Once an absolute debt level of $15 billion is reached — which CNQ currently expects in the fourth-quarter of this year — half of its free cash flow (post dividends) will be allocated to share repurchases, with the other half allocated to net debt reduction. CNQ has no interest in variable or special dividends, and favours a stable and growing dividend over time. Factored into our 2022 outlook is another 10% dividend increase to $2.07 per share (which follows a 10.6% increase in 2021 and 13.5% increase in 2020). • **Strong Alignment.** Collectively, management owns about 2.3% of CNQ, which drives strong alignment with shareholder interests. • **ESG—Lots Of Progress**. CNQ announced refreshed goalposts having achieved its prior targets relating to GHG emissions intensity reductions, methane emissions reductions and reduced fresh water usage. The company is now targeting a 50% reduction in North America 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). CNQ also continues to work through the details of the Oil Sands Pathways to Net Zero initiative announced during the quarter with other members of the alliance.
Cenovus Energy (CVE) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **Integration On-track.** The company's merger with Husky Energy was strategically sound in our eyes fusing Husky's diverse upstream/mid-stream/downstream operations with Cenovus' bitumen-weighted upstream portfolio. Under one roof, Cenovus-Husky has become a more balanced integrated oil company with increased cash flow diversification. Our bullish stance towards Cenovus reflects its strong leadership and favorable rate of operational/financial improvement which is already underway. • **Net Debt in Focus.** Cenovus remains laser focused on reducing its net debt to its interim target of $10 billion – which it anticipates sometime in the fourth-quarter – and ultimate goal of under $8 billion. Achievement of Cenovus' interim debt target opens the door to incremental flexibility and shareholder returns. This could include a normal course issuer bid that would address Conoco's initiatives to reduce its stake via open market selling—and occur alongside release of the company's third-quarter results in November. • **Non-Core Dispositions – Potential Tailwind.** Non-core asset dispositions could also accelerate the pace at which Cenovus' balance sheet deleverages and were explored in our recent The Coming Yard Sale report. The company affirmed that it has several non-core disposition processes underway which are expected to yield hundreds of millions of proceeds in 2021.

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 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 $1BN 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, $1BN program starting in 4Q21, and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.
ConocoPhillips (COP) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** The company is well positioned to maintain competitive FCF generation through various commodity price cycles with 20+ Bboe of resource potential at a sub-$30/bbl (WTI) average cost of supply. • **RDS Permian acquisition enhances returns proposition.** The $9.5 billion cash acquisition announced in mid-September lowers the corporate cost of supply, increases the resource base, and improves FCF generation. We estimate this adds over $2.0 billion of FCF in 2022 at $80/bbl. Leverage remains ultra-low at sub-1x. • **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) 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, stock buybacks, and potentially a variable dividend. • **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. • **ESG is a high focus.** COP adopted a Paris-aligned climate risk framework for net-zero operational (Scopes 1 and 2) emissions by 2050. There is also a target to reduce GHG emissions 40–50% by 2030.

Drax Group plc (DRX)
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- **Higher power prices, and clarity on BECCS drive our Outperform rating and 750p/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. Annualised power prices for 2022 and 2023 are up substantially YTD, driving higher EBITDA in the coming years. We also see Drax's dividend as attractive and robust having increased 10% for 2021, with the underlying business set to benefit from higher cash flow generation over the medium term.
- **Power price strength a near-term tailwind**. We see positive exposure from power prices on ~2TWh in 2022, ~6TWh in 2023, and ~9-10TWh in 2024 of open volumes across the ROC biomass and hydro portfolio. Since June 2021, power prices have moved up ~100%, ~50% and ~33% on a forward basis over 2022-24, and we do not believe consensus, nor the share price, has reflected the cashflow gained from commodity tailwinds. Over 2022-2024, our RBCe for EBITDA are ~20% higher, and ~40% at the EPS level in comparison to consensus which has yet to fully reflect the higher cash flow opportunity. In short, we think consensus is under-appreciating the near-term opportunity, and on a full mark-to-market since June at current power prices, our estimates may even be conservative.
- **Biomass strategy is working short and longer term.** We see Drax in a good position to deliver on its ambitions to reach 5m tonnes of self-supply of pellets (vs. ~2m trajectory for 2022) and 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.
- **UK Cluster Decision is promising for BECCS at Drax:** The East Coast Clusters inclusion in the UK Track 1 CCS cluster has a positive outcome for Drax and its ambitions to develop BECCS at Drax Power Station. A preliminary Biomass Strategy paper from the UK government is expected in the coming weeks and we now have increased confidence in Drax eventually delivering BECCS with a commercial framework within the UK. We also see an opportunity for Drax to become a global leader in BECCS, providing thought leadership and build expertise to projects globally, bolstered by the partnership with Bechtel to explore options and locations to construct BECCS plants globally.

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.
NextEra Energy (NEE) Shelby Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• **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.

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 2020 with leverage at 5.3x net debt-to-EBITDA, however after strong 3Q21 results, we model leverage exiting 2021/2022 at 2.0x/0.8x based on our commodity price outlook.
- **Shareholder returns just around the corner.** We think conversations on a shareholder return strategy could start early-to-mid 2022 given the current line of sight on achieving leverage targets. We think a competitive fixed dividend is a likely first step, with variable dividends or buybacks to supplement returns during higher price cycles. At strip commodity prices a 10% all-in (fixed dividend, variable dividends and buybacks) return strategy could start in late 2022/early 2023 that can be sustained while still keeping leverage sub-1.0x.
- **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 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.

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 46,000 stations (at year-end 2020). 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.

- **Undemanding valuation:** On our estimates, Shell generates a ~12% FCF yield on average over 2021-25E, significantly ahead of sector average for a discounted valuation. At the same time, Shell trades at around a two-turn discount on EV/DACF to the sector.

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$5.5bn of liquidity and an investment grade credit rating that enables self-funding of development projects. Initial pre-tax synergies of US$90-115m 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 and the revised project pre-FEED work was being finalized in 2Q 2021. Oil Search is expecting to ramp up Papua LNG project activity materially in 2H 2021 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 CCCS Phase 1** is a low cost 1.7 mmtpa CO_2 storage project in the Cooper Basin with capex estimated at ~US$165m gross and a full life cycle cost <A$30/t CO_2. This Santos operated project is expected to FID before year end for start-up in 2024, following receipt of an approved methodology for Australian CCS projects to generate Australian Carbon Credit Units.
- A Merger Implementation Deed has formally been agreed between Santos and Oil Search. Subject to a successful Oil Search shareholder vote and the receipt of all other regulatory and PNG National Court approvals, Santos will acquire all Oil Search shares by exchanging 0.6275 new Santos shares for each Oil Search share. Santos shareholders will own 61.5% and Oil Search shareholders 38.5% of the merged entity. The target merger implementation date is December 2021.

Secure Energy Services (SES) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Consolidated footprint unlocks asset potential.** Secure is poised to unlock value from its expanded waste processing network through enhanced operating scale, FCF generation capability, and ultimately investor attention, while the larger footprint also expands Secure's level of tuck-in and tie-in opportunities. • **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 estimate of $291MM over the next 15 months. FCF generation should be buoyed by increasing activity levels in the WCSB, 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 $75MM 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.
Tamarack Valley Energy (TVE) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Regional development likely provides drilling catalysts.** Tamarack's 2021 capital program of $165-180 million is weighted to Clearwater development with regional production surpassing 5,500 bbl/d in Q3. Initial wells are performing in-line with or better than type curve expectations with 8 (7 net) additional wells expected to be drilled through year-end. The company completed the Nipisi gas-gathering project alongside, conserving 2 mmcf/d of natural gas and 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 net debt target of $250-300 million, which we expect will be reached by mid-2022. At this point, the company plans to return 50% of free funds flow to shareholders (trailing quarterly basis) through buybacks and/or special dividends. • **Five-year plan underscores robust FCF profile.** The company mapped out $1B in FCF generation over the next 5 years at US$55/bbl WTI and C$2.50/GJ AECO, with annual capital spend of $200-$250 million supporting volumes of 41-43 kboe/d plus the potential for 2-3% organic growth. Additionally, recent M&A activity has shifted the corporate break-even to the mid US$30/bbl range, 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 $127/$24 million in net debt at year-end 2022E/23E, representing a D/CF ratio of 0.2x/0.1x, compared to peers at 0.4x/0.6x. We currently model full NCIB utilization and a 25% dividend increase in 2023. We do not currently model special dividends or incremental M&A, though we view both as likely given material FCF generation.

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.
- **High quality asset base, with North Montney driving the growth.** With Gundy P2 nearly 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 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.
- **Sizeable consolidation complete, focus on amalgamation and margin improvement.** TOU has been active on the M&A front over the last year, highlighted by transactions involving Modern, Jupiter, Saguaro, and Black Swan. We expect that large-scale M&A is complete for now; that said, we do not factor out the possibility of bolt-ons in core focus areas where it makes sense. Focus shifts to amalgamation and initiatives that maximize cost savings and minimize environmental impact. The Company estimates each $1/boe of margin improvement to yield roughly $180 million of annual cash flow in 2022 (staff reductions are not part of this initiative). See our recent note here.
- **Return of capital accelerates, with the vast majority of FCF to be returned.** Our 2021 and 2022 outlook and forecast for FCF distribution continues to call for two additional dividend increases through 2022 (to $0.96 annualized by year end) plus roughly $3.00/share in additional special dividends. Incrementally, our outlook calls for the buybacks totaling ~$660 million. See our recent notes here and here.

Portfolio tracking

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

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- We will use the most recent closing price prior to the list being published, unless noted otherwise, as the price used for performance calculations. Therefore, any additions to or deletions from the list are recorded as have being made at their most recent closing price.
- Dividends will be added to returns from stock price movements on the day that stocks go ex. dividend.
- 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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