Capital Markets

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November 1, 2022

Global Energy Best Ideas

Our view: In October, the RBC Global Energy Best Ideas List was up 15.8% compared to the iShares S&P Global Energy Sector ETF (IXC) up 20.2% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) up 15.9%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 146.6% compared to the S&P Global Energy Sector ETF up 26.4%.

Total Return Comparison	October	YTD	Inception
iShares S&P Global Energy (IXC)	20.2%	48.4%	26.4%
Hybrid Benchmark (75% IXC, 25% JXI)	15.9%	33.4%	38.5%
RBC Global Energy Best Ideas	15.8%	46.9%	146.6%

October List Changes:
Additions: TPZ-CA
Removals: ALA-CA, FRU-CA

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
Shell	SHEL-LON	OP	Borkhataria	£171,075	7/1/20	1,224p	2,404p	3,200p
BP	BP-LON	OP	Borkhataria	£88,216	3/1/22	364p	480p	550p
Suncor Energy	SU-CA	OP	Pardy	C$63,949	7/6/22	C$43.34	C$46.86	C$55.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	$160,517	12/1/20	$39.56	$126.09	$135.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$94,321	4/1/22	C$77.41	C$81.71	C$88.00
Enerplus Corporation	ERF-US	OP	Pardy	$4,025	6/1/22	$14.84	$17.31	$19.00
Santos Limited	STO-AU	OP	Ramsay	A$25,629	6/1/19	A$6.74	A$7.70	A$9.50
Tourmaline Oil	TOU-CA	OP	Harvey	C$25,795	1/1/20	C$15.08	C$76.76	C$89.00
ARC Resources	ARX-CA	OP	Harvey	C$12,561	5/1/21	C$7.73	C$19.18	C$26.00
Range Resources	RRC-US	OP	Hanold	$6,882	7/6/21	$16.76	$28.48	$44.00
California Resources Corporation	CRC-US	OP	Hanold	$3,400	6/1/21	$29.01	$45.11	$68.00
Tamarack Valley Energy	TVE-CA	OP	Davis	C$2,947	7/6/21	C$2.57	C$5.25	C$7.00
Topaz Energy	TPZ-CA	OP	Davis	C$3,313	11/1/22	C$23.04	C$23.04	C$29.00
Ranger Oil Corporation	ROCC-US	OP	Hanold	$1,788	6/1/22	$42.81	$40.90	$52.00
Oilfield Services								
SLB	SLB-US	OP	Mackey	$73,778	1/4/22	$29.95	$52.03	$59.00
Liberty Energy	LBRT-US	OP	Mackey	$3,080	8/3/22	$14.20	$16.91	$25.00
Midstream								
Cheniere Energy Inc	LNG-US	OP	Scotto	$44,059	5/1/20	$46.69	$176.39	$205.00
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$24,963	9/1/22	C$46.38	C$44.98	C$58.00
Energy Transfer LP	ET-US	OP	Scotto	$39,402	2/1/22	$9.57	$12.77	$16.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$15,490	12/1/21	$51.63	$68.37	$104.00
Utilities, Refiners, Infrastructure & Renewables								
PG&E Corporation	PCG-US	OP	Tucker	$36,809	9/1/22	$12.33	$14.93	$19.00
Algonquin Power & Utilities	AQN-US	OP	Ng	$7,494	6/1/21	$15.28	$11.06	$17.00
Drax Group plc	DRX-LON	OP	Musk	£2,089	5/1/21	409p	521p	1,175p
HF Sinclair Corporation	DINO-US	OP	Schultz	$13,264	6/1/22	$49.10	$61.17	$71.00

1-OP = Outperform, 2-Indicates Speculative Risk. 3-Opening price given is the closing price of the trading day prior to which the stock was added. 4-Return assumes all dividends and distributions are reinvested.
Note: 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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Priced as of prior trading day's market close, EST (unless otherwise noted). All values in USD unless otherwise noted
Disseminated: Nov 1, 2022 00:19EDT; Produced: Nov 1, 2022 00:19EDT
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This Month's Additions and Removals from Energy Best Ideas List

Exhibit 1 - This Month's Additions

Topaz Energy (TPZ) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• We are adding Topaz Energy to the RBC Energy Best Ideas list following our latest commodity price deck update with 2024 estimates providing a more attractive risk-reward profile, in our view. The company's royalty portfolio remains weighted to high quality plays and counterparties with the majority of its natural gas exposure via Tourmaline Oil. The company has also increased exposure to the premier Clearwater oil play through recent M&A, including the recent Deltastream (Tamarack Valley) GORR acquisition. We believe Topaz provides investors a defensive position, with diversification on commodity and royalty/infrastructure assets, an active M&A strategy to support a long-term 50-50 balance between the royalty and infrastructure, and a natural hedge against industry-wide cost inflation.

Exhibit 2 - This Month's Removals

AltaGas Ltd. (ALA) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com	• We believe the market will take a more cautious approach in the coming quarters given the lack of visible positive near-term catalysts coupled with a degree of caution given the Q3/22 results, and specifically the company demonstrating an ability in future quarters to mitigate the commodity and logistics headwinds in its Global Exports business.
Freehold Royalties (FRU) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• Freehold continues to execute on its US M&A strategy and has performed well in recent months, closing the valuation gap to its Canadian royalty peers. Though Q2/22 results came in slightly below expectations, we remain positive on the stock considering US integration efforts combined with the benefits of the royalty model in light of industry-wide cost inflation.

AltaGas Ltd. (TSX: ALA) has agreed to sell its Alaskan Utilities to TriSummit Utilities Inc. announced on May 26, 2022. RBC Capital Markets served as financial advisor to AltaGas. The transaction is anticipated to close no later than the first quarter of 2023 and will be subject to customary closing conditions, including State regulatory approvals. This research report and the information herein is not intended to provide voting advice, serve as an endorsement of the transaction or result in procurement, withholding or revocation of a proxy or any other action by a security holder.

Investment Highlights

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

Algonquin Power & Utilities (AQN)
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- **Strong growth profile.** Algonquin has a $12.4 billion 5-year capital investment program focused on growing its regulated utility rate base and renewable energy generation capacity, supporting management's forecast 7-9% EPS growth profile and our expectation of 6% annual dividend growth. The company has been successful in growing its regulated utility business organically and through M&A, and the company also has a large renewable energy development pipeline. Management has a good track record of adding renewable energy capacity inside (greening the grid) and outside (on a contracted basis) of its regulated utility footprint. We believe the pending acquisition of Kentucky Power provides significant opportunities to green the grid. The $2.65 billion (recently reduced 7%) acquisition is fully funded and set to close in January 2023.
- **Very supportive greening initiatives in the U.S. can drive upside.** Algonquin has a large regulated utility and renewable energy footprint in the U.S. that should benefit from the Biden Administration's Inflation Reduction Act (tax credit extensions). The company has signed power purchase agreements with corporations to green their energy consumption, and has partnered with Chevron to jointly develop some renewable projects. The company also recently announced the results of its inaugural asset recycling program, reducing the company's equity needs to fund growth.
- **Insulated from inflationary pressures and a potential recession.** Algonquin operates a diversified regulated utility business providing electric/gas/water services to over 1 million customers (primarily in the U.S.) and a renewable energy division with ~2.3 GW of generation capacity. Roughly two-thirds of the company's EBITDA is generated by regulated assets, where inflation/higher rates is a pass-through to ratepayers, while the other one-third of EBTIDA is contracted through long-term PPA agreements (13 year average). We believe the stability of the two business segments provides a good level of protection against inflationary cost pressures and a potential recession.

RBC Dominion Securities Inc. is acting as agent to Algonquin Power & Utilities Corp., in connection with their At-The-Market Equity Program, as announced on August 15, 2022.

ARC Resources (ARX) Michael Harvey, Analyst (403) 299-6998 michael.harvey@rbccm.com	• **FCF generation - ample.** ARC is set to generate ~$2.4 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 50-80% of FCF via base dividend tied to earnings growth (now at $0.48/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.
BP PLC (BP) Biraj Borkhataria, Analyst (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• **Sector leading shareholder returns.** BP intends to return at least 60% of its surplus free cash flow to shareholders via buybacks over time, in addition to its dividend, and we expect to see surplus cash generation improve through the year. We see BP returning ~15% to shareholders in 2022 via dividends and buybacks, the highest in the sector. Over the next five years, we see potential for investors to receive a significant portion of BP's market cap back via dividends and buybacks, again the highest in the sector. • **Refining leverage to come through in 2022.** BP is more geared to refining than some of its European peers, with 1.8mb/d of refining capacity, a large proportion of which is in the US (~40%). We expect this to be supportive for BP's earnings momentum in 2022, and our >$10bn refining & trading EBITDA estimate is over 5 times what BP generated in 2021, and nearly 3x pre-Covid 19 levels.

California Resources Corp. (CRC)
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- **Attractive value proposition.** We believe CRC shares provide an attractive entry valuation point, strong balance sheet and robust FCF outlook. The company's low break-even point, which we estimate at $38-39/bbl (WTI), and 50% reinvestment framework positions the company to generate over $1.3 billion of FCF from 2022-2025. CRC has an active buyback program and a fixed dividend which we expect grows over time. CRC plans to return 50+% of FCF back to shareholders providing upside to returns longer term.
- **ESG exposure in a U.S. E&P.** The company's large surface rights ownership, premium reservoir geology in close proximity to emitting parties, and being located in 'green energy' friendly California provide CRC the unique opportunity to economically participate in energy transition opportunities. 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.
- **Brookfield JV brings third-party validation and enhances CRC's returns.** CRC has entered into a JV with Brookfield Renewables that we think significantly de-risks capital needs for its CCS projects, adds expertise and connections, and importantly provides a third-party valuation of the CCS upside potential for CRC (deep-dive note). The JV consists of a $500 initial investment, with the option to invest an additional $1 billion into future projects. Brookfield will contribute $10/mt of permitted pore space CRC contributes into the JV, with CRC/Brookfield taking 51%/49% interest stakes in the CCS projects. We think the total value of the initial 200 MMt of CTV projects are worth $17/share net to CRC if all projects are added into the JV, this assigns no value to the remaining 800 MMt storage capacity CRC has in its portfolio.
- **Progressing on the carbon management projects.** This past spring we took a field tour of CRC's oil & gas operations, saw the future site of CTV I, and spoke with a local regulator (note). CRC now has four class VI well permits filed (120 MMT total storage) with the EPA and plans to have permits filed for another 80 MMT of storage by year-end. Targeted FID on CRC's first project Carbon TerraVault I (CTV I) remains mid/late-2023 with first injection planned for late 2025. Near term catalysts to watch for are approval of the Kern County EIR needed for CTV I to proceed which we think could come this month, CRC signing up its first third party emitter which should come around year-end, and EPA class VI permit approval which we think could come in mid-2023. CRC targets injecting 5 MMT/annually starting in 2027.
- **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)
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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 recently signaled that once its net debt falls to its $8.0 billion floor, it is committed to incremental shareholder returns. CNQ's share buyback remains ring-fenced from acquisitions and strategic growth capital under a formulaic approach. More specifically, when net debt levels are below $15 billion, the company will allocate 50% of its free cash flow after dividends and sustaining capital to share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. We peg CNQ's share repurchases at approximately $6.3 billion in 2022.
- **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 continues to work through details with respect to the Oil Sands Pathways to Net Zero initiative to advance key milestones to be achieved over the next decade as they accelerate related projects, targeting net zero emissions in its oil sands operations by 2050. CNQ 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). From 2017 to 2021, the company's corporate GHG emissions intensity fell 13%.

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.** We believe long-term take-or-pay contracts with high credit quality counterparties provide cash flow visibility. The four pillars of Cheniere's capital allocation strategy include (1) annual debt pay down of $1 billion through 2024 to achieve investment grade ratings; (2) dividend declaration of $0.33/share ($1.32/share annualized) with mid-single-digit annual growth; (3) $1 billion share repurchase program; and (4) invest in accretive growth with a potential FID of Corpus Christi Stage 3 in 2022.

ConocoPhillips (COP)
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- **COP offers a returns-focused value proposition, a strong balance sheet, and peer-leading distributions.** The company is well positioned to maintain competitive FCF generation through various commodity price cycles with a sub-$30/bbl (WTI) average cost of supply.
- **RDS Permian acquisition enhanced the returns proposition.** The $9.5 billion cash acquisition which closed late 2021 lowered the corporate cost of supply, increased the resource base, and improves go forward FCF generation.
- **A well-defined and attractive investment proposition**. COP was an early leader in committing and demonstrating high returns of capital back to shareholders. The priorities are: (1) sustain production and pay its fixed dividend; (2) annual dividend growth; (3) maintain an A-rated balance sheet; (4) 30+% CFO total shareholder payout; and (5) disciplined investment for CFO expansion. Management has demonstrated its commitment to industry-leading returns of capital to shareholders that includes a minimum cash flow payout of 30%. We think this could translate to returning 80+% of the current market cap back to shareholders over the next decade through fixed dividends, variable dividends, and stock buybacks. We think the total returns payout trends toward 50+% of CFO in 2022/2023.
- **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 among the top five largest natural gas marketers in the U.S.** This creates opportunities to enhance transportation and sales mechanisms for margin improvement, along with providing optionality to market LNG offtake agreements.
- **Energy transition opportunities.** We think there is a growing effort to evaluate energy transition options. COP has a low carbon team that is focused on emission reduction initiatives and opportunities relevant to its core business and competencies. This could include CCS/CCUS and blue/green hydrogen.

Drax Group plc (DRX)
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- **Power price visibility to improve in coming weeks.** Drax has over 25TWh of power hedged over 2022-24 at average prices of just under £100/MWh but it is unclear how open volumes will be sold given likely political intervention on price caps and/or windfall taxes. This has created uncertainty over future revenues/profitability. Our view is that we should get visibility on interventions in the coming weeks and the net impact of interventions and mark to market on power prices, that are £300-400/MWh for the next couple of years, will be positive to consensus earnings.
- **Delivering on three-pronged growth strategy.** In pellets, Drax has added 0.4Mt of production capacity, and will look to take FID on a further 0.5Mt in H2 2022. Planning has been submitted for BECCS, and a consultation has been launched on potential remuneration mechanisms. Drax is also progressing on new build international BECCS as it screens US locations and evaluates options for offtake agreements for power and negative emissions. Finally, the planning application for the 600MW Cruachan II pumped storage facility has also been submitted and a connection agreement secured.
- **Cash flows to fund growth.** We see Drax's generation segment earning significant cash flows from elevated commodities, even if these are somehow restrained by government intervention. We have never given Drax credit for a mark-to-market on power prices and forecast Drax achieving ~£75-120/MWh on its market based biomass output over the period to 2027. We don't see any major downside risk to these assumptions from government intervention and hence see FCF yields averaging ~20% and providing funding for the £3bn growth ambitions which remain aligned with UK security of supply and net zero ambitions.

Energy Transfer (ET) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **Energy Transfer is a publicly traded partnership that owns and operates a portfolio of assets across the natural gas, natural gas liquids, and crude oil value chain.** We believe ET is well positioned to generate meaningful cash flow growth as large-scale growth projects come online and as we expect growth capex to slow. With a stronger balance sheet, ET should be in position to return more cash to unit-holders via distribution increases and/or unit repurchase. • **Significant synergy potential from recent Enable Midstream acquisition:** (1) Enable brings additional demand pull transportation and storage assets in the Mid-Con and ArkLaTex regions. (2) Enable's Gathering and Processing assets in the Mid-Con complements ET's Gulf Coast fractionation and export assets. (3) Enable's Haynesville Gathering and Processing assets and its Gulf Run pipeline increase exposure to the global liquefied natural gas markets. (4) In the Bakken, Enable provides crude gathering that connects into DAPL. ET expects the Enable acquisition to generate $100MM of cost and efficiency synergies, which we view as achievable given the complementary asset bases. • **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, with an accent on share repurchases. Commensurate with second-quarter results, the company raised its minimum 2022 return of capital commitment by $75 million (21%) to $425 million, and increased its return of capital commitment to at least 60% (up from 50%) of free cash flow commencing in the second half of 2022 through 2023. Enerplus also raised its common share dividend 16% to an annualized rate of $0.20 per share. The company's net debt (debt less cash) stood at $546 million as of June 30. On its second-quarter conference call, Enerplus signaled that it would consider a substantial issuer bid (SIB) in 2023 to ensure completion of its shareholder return commitment. We peg Enerplus' free cash flow (before dividends and including A&D) at approximately $828 million in 2022 in the context of a $440 million capital program under our base outlook ($95 WTI, $6.63 Henry Hub). • **Bakken positioning.** Enerplus' April 12 Update on the Bakken explored its long runway of quality drilling locations in an advantaged basin following its two acquisitions last year and affirmed a solid corporate strategy. The company pointed towards 670 drilling locations in its core/extended core areas of the Bakken – or over a decade of inventory at the 1.5-2.0 rig development pace factored into its five-year (2022-26) plan.

HF Sinclair Corporation (DINO) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• **Refining margins**. Refiners across the board have seen strong margins from the elevated cracks during the year, and we expect DINO to continue to benefit and generate significant cash as product cracks remain elevated despite moderating rationally. Management previously stated that the primary risk to operations is a recession, with some natural gas price and RINs headwinds. • **Sinclair acquisition**. DINO closed the acquisition of Sinclair in 1Q, and the integration of the business has gone as management expected. Following close of the acquisition, DINO reinstated the dividend at $0.40/share (above our $0.35/share estimate). • **Capital allocation**. DINO previously stated a commitment to return $1B of capital over the next year in the form of dividends and share repurchases given the robust cash flow the refining group is benefiting from. DINO returned ~$200mm of total capital in 2Q as the dividend was reinstated at $0.40/share (~$90mm/quarter), and repurchased ~$110mm of shares. • **Renewable diesel**. DINO continues to ramp its production of renewable diesel with the completion and startup of its Artesia, New Mexico facility in 2Q, which followed the commencement of production at the Cheyenne facility in 1Q.
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 YTD in 2022. We expect strong results to continue into 2023 given strong demand for the company's pumping, sand, and logistics businesses. • **Profitability remains above mid-cycle levels on tight equipment balance.** Liberty has been able to capitalize on a tight pressure pumping market and added 6 fleets in 3Q22. 3Q22 total EBITDA per fleet of about $27MM includes the company's sand, wireline, and logistics businesses. We estimate the US horsepower market to remain relatively tight at approximately 14MM demand vs 15MM supply in 2023. Our 2023 assumptions map to overall EBITDA per fleet of approximately $26MM. • **Valuation below historical levels.** Liberty is trading at a discount to its historical range and our frac services coverage peer set. We think the company should trade at a premium to frac peers given larger scale, increasing vertical integration, and strong balance sheet. • See our latest Liberty Energy note here.
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, evidenced by the re-activation of the Phase VIII expansion and recently secured contracts. • **Solid base of business with a commodity kicker.** Although the hedge book was prudent risk management for 2021, it has resulted in a substantial reduction from margins based on spot commodity prices. However, hedge disclosures lead us to believe that hedging losses booked in 2021 should largely reverse in 2022 assuming constant commodity prices/spreads.

PG&E Corporation (PCG) Shelby G. Tucker, Analyst (212) 428-6462 shelby.tucker@rbccm.com	• **Continued reduction of wildfire risk.** The company continues to execute on its wildfire mitigation plan. Mitigation actions include system hardening, undergrounding, vegetation management, enhanced powerline safety settings and public safety power shutoffs. • **Steep discount not-warranted given CA wildfire protections limit financial risk**. We believe the Wildfire Fund provides meaningful protections against financial liabilities associated with wildfires. While it seems the market remains apprehensive around the mechanics of the fund, we believe the multi-turn discount is overly punitive when considering the financial risks associated with a catastrophic fire. • **PG&E slowly rebuilding trust.** While the name remains overly-sensitive to headlines, we have also seen a meaningful shift in tone from media and stakeholders. We believe it is a result of PG&E's continued efforts to engage stakeholders and communities and we are encouraged by positive signals from the CA legislature and regulator. • **Robust capex plan drives earnings growth.** PG&E expects above-average rate base growth at a 9% CAGR. Growth opportunities come from system hardening, undergrounding, electrification opportunities and other wildfire mitigation investments. Management targets 2% O&M reductions which should act to help offset customer bill increases.
Ranger Oil Corporation (ROCC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **Attractive value opportunity.** We believe ROCC shares provide an attractive entry valuation point, strong balance sheet, and robust FCF outlook. The company trades at a discount to peers and well below historical norms. We estimate ROCC has over two decades of core activity remaining based on its current activity pace, this provides an attractive set up for consistent cash flow generation. Over time we think ROCC's deep quality inventory, strong balance sheet, and peer leading margins could warrant a premium valuation to peers. • **Among the highest cash margins in US onshore.** ROCC's assets have amongst the highest oil cuts of US onshore, which along with being a pure-play Eagleford producer in close proximity to premium Gulf Coast pricing markets, helps drive stronger realizations relative to peers. We calculate a gross margin of $59/boe for 2023, this is one of the best within our coverage. • **Getting started on shareholder returns.** We forecast ROCC generating $0.9 billion of FCF through 2025 representing 50% of the current market cap. A strong balance sheet today allows more FCF to go toward increasing shareholder returns while some peers are still focused on paying down debt. The company is active with its buyback program, and pays a $0.25/share annualized fixed dividend. • **Natural consolidator in the Eagleford shale.** Management continues to run the business to be a natural consolidator in the Eagleford shale, and year-to-date has completed 8 bolt-on transactions complementary to its existing core acreage. The Lonestar (LONE) acquisition added quality inventory depth and helped add scale to the enterprise. This allows ROCC to be more selective going forward in potential M&A opportunities.

Range Resources (RRC) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com	• **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 to 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 though heightened current commodity prices provide a path toward reaching leverage/debt targets in conjunction with shareholder returns. Leverage currently sits at 1x, and we expect RRC to reach its $1.0-1.5 billion aggregate debt target in early 2023. • **Shareholder returns focused on buybacks.** RRC remains active with its share buyback program repurchasing an additional $170 million worth of stock during 3Q22. The buyback authorization was increased by $1 billion at 3Q22 earnings ($1.2 billion now remaining). Buybacks should remain core to the shareholder return strategy that along with its $0.32/share annualized fixed dividend, we think RRC can generate an average total return of 7-10% now through 2025. • **Defining low cost operator.** RRC has one of the largest tier-1 inventories remaining in the Appalachian Basin which coupled with its strong technical expertise and low base decline supports a highly efficient maintenance capital program that can be sustained for years to come. This provides a durable and resilient FCF outlook over the next several years and we estimate RRC generating $5 billion of cumulative FCF from 2022-2025 (using RBC $6.63-3.75/Mcf HH price forecast).
Shell PLC (SHEL) Biraj Borkhataria, Analyst (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• **Advantaged portfolio.** In our minds, Shell has three franchise businesses within the group, all of which are #1 in their respective areas. Global deepwater, integrated gas and marketing form Shell's key competitive advantages, in our view. Shell's marketing business in particular generates >20% ROACEs consistently and is the highest return business within the group. 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 2022-25E 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.

Santos Limited (STO)
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- **Santos is a leading Australian E&P company.** It is the largest acreage holder and producer of hydrocarbons in PNG. Santos has the largest equity exposure (42.5% reducing to 37.5%) in the world class and long life PNG LNG project, is operator of all of PNG's oil production assets, and is also a participant in the proposed Papua LNG project. Santos is also operator of the Pikka, Alaska onshore oil assets that has delivered a substantial oil resource with further upside that diversifies Santos geographic and commodity production exposure. The addition of Papua LNG and Pikka oil (Santos operator) provide new longer term growth projects that build on the Santos Dorado / Pavo Western Australia oil production growth profile. Dorado (Santos 80% and operator) is being evaluated as an integrated oil and gas development, with the goal to develop the Dorado / Pavo oil for export and gas for domestic WA gas sales through backfill at Varanus Island. Santos is also a leading Western Australian domestic gas producer.
- **Santos has multi-project LNG exposure.** It is a participant in Darwin LNG (Santos operator), GLNG (Santos operator), PNG LNG (ExxonMobil operator), plus the proposed Papua LNG project (TotalEnergie upstream operator, ExxonMobil downstream operator). Santos LNG portfolio provides attractive long term cash flows with a balance of oil linked contracts and Asian spot JKM LNG pricing. Santos's LNG projects shipped 59 cargoes in 3Q 2022, of which five of the total were spot cargoes (DLNG 4 and PNG LNG 1) sold at attractive JKM spot prices. The Barossa project is designed to extend the life of Darwin LNG, and is now 46% complete with first production target 1H 2025. The Papua LNG FEED decision is expected in late 2022 and we think the possible downstream project scope change to four mini LNG trains has potential to deliver a material savings on the prior project design, partly offset by rising material costs.
- **Santos goal is to maximize its free cash flow (FCF).** Strong FCF generation in 1H 2022 (excluding major growth capex) of >US$1bn has reduced gearing to 20.8% (target range 15-25%). Santos's dividend policy is based on 10-30% of FCF (excluding major growth investment) at US$65/bbl, with additional shareholder returns of at least 40% of its incremental FCF at oil pricing above US$65/bbl through dividends / buybacks. At its 1H 2022 result, Santos increased its on-market buyback to US$350m. We view Santos sale of 5% equity in PNG LNG to Kumul Petroleum (PNG State) for net proceeds of US$1.1bn as a portfolio play and we expect the company to review its capital management options for the proceeds from this sale (dividend / buy back) after the sale process is concluded by the end of 2022.
- **Santos is Australia's leading carbon capture and storage (CCS) developer.** Santos has a goal to become a global leader in CCS technology, while also delivering strong returns and benefits to shareholders and stakeholders. The $220m First Phase 1.7Mtpa Moomba CCS Project achieved FID in late 2021 has first injection scheduled for 2024. Moomba CCS is expected to be a global leading CCS project based on a forecast full lifecycle project cost at US$24/t (includes cash costs in operation of US$6-8/t). Santos also plans to repurpose the Bayu-Undan facilities for CCS after gas production ceases by mid-2023. Santos has entered FEED for Bayu-Undan CCS with capability to store up to 10 million tonnes of CO_2 per year, including 2.3 million tonnes of CO_2 per year from its Barossa project.
- **Santos has a target to achieve net-zero Scope 1 and Scope 2 emissions by 2040.** This is to be achieved through a phased approach that decarbonizes Santos' existing and future production assets. This is based on capturing carbon at the source through CCS into depleted gas fields, plus electrification of its Cooper Basin operations, as well as power optimization at Devil Creek. Any new offshore greenfield project it commits to from 2025 will be required to have abatement, or an offset of reservoir CO_2 emissions before achieving FID.

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. Latin America and Europe/ CIS/Africa have led SLB's International growth, with revenue up 30% and 38% y/y. The company noted the Middle East is set to lead growth in 4Q22 with this cycle characterized by the region's plans to add oil and gas productive capacity.
- See our latest SLB note here.

Suncor Energy Inc. (SU)
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- **A new journey starts now.** Suncor's second quarter results and guidance update were far from smooth, but we believe the company's direction of travel is positive amid new leadership in place and an intensified focus on accountability. We are optimistic that the path of Suncor's operating performance will improve over the coming months, and with it the stock's relative market performance.
- **Driving enhanced reliability & safety.** Suncor's interim CEO, Kris Smith, emphasized in no uncertain terms on its second-quarter conference call that the company's safety record has been completely unacceptable in recent years, and that substantial enhancements aimed at safety and reliability are already in motion. Execution of improved upstream operating safety and reliability has now moved into sharp focus. At the same time, the company remains committed to decarbonizing its operations, reducing debt and boosting shareholder returns.
- **Balance sheet deleveraging & higher potential shareholder returns.** Suncor's net debt (including lease obligations of $2.9 billion) stood at $15.7 billion as of June 30. This debt level will continue to drive a 50/50 split of excess funds to share repurchases and its balance sheet. Once the company reaches $12 billion of net debt, common share repurchases increase to 75% of excess funds. Upon reaching its net debt floor of $9.0 billion, 100% of excess funds will likely be directed towards shareholder returns (including potential special/variable dividends).
- **Free cash flow – abundant.** We peg Suncor's 2022 free cash flow (before dividends of $2.5 billion and including A&D) at approximately $14.0 billion under our base outlook of (US$95 WTI, US$18.53 WTI-WCS, US$43 NYH 3-2-1). Our 2022 outlook factors in a Refining & Marketing (pre-tax) cash flow contribution of $7.6 billion, net debt reduction of $5.2 billion and share repurchases of $5.7 billion under its 10% NCIB.

RBC Capital Markets is acting as financial advisors 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.

Tamarack Valley Energy (TVE)
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- **Leader in the Clearwater with capacity to grow.** Tamarack's acquisition of Deltastream Energy (note here) has repositioned the company with a heavy tilt towards Clearwater volumes. Management guides for 2023E volumes of 23,000 boe/d from acquired assets compared to the first three weeks of October volumes averaging roughly 20,400 boe/d (note here); Deltastream assets account for 55-60% of the 2023E $275 million Clearwater capital program. Pro-forma Clearwater volumes map to roughly 32,000 bbl/d or roughly one-third of total play volumes (note here). Management highlighted over 500 locations acquired in the transaction, providing roughly 9 years of inventory at a cadence of 60-65 wells per year (excluding waterflood upside). With an already dominant position in the South Clearwater, Tamarack now holds 752 net sections across the fairway and serves as the largest public producer in the play.
- **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 $900-$1,100 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$40/bbl range, led by the portfolio's shift towards the Clearwater and Charlie Lake, among the lowest breakeven plays in North America (note here). Additionally, we estimate Tamarack's maintenance capital sits at roughly $335 million using the midpoints of 2023 guidance, with waterflood success improving corporate sustainability; a 1% reduction in Tamarack's decline rate maps to a $10 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 $1,348/$803 million in net debt at year-end 2022E/23E, representing a 2022E/2023E D/CF ratio of 1.8x/0.7x compared to oil-weighted peers at 0.4x and the broader coverage group reaching net cash by 2023E. We currently model full NCIB utilization resuming in Q3/23 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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- **Volumes and EBITDA**. We believe TRGP remains the best way to play commodity upside and Permian growth prospects among large cap midstream, and TRGP updated its FY22 EBITDA guidance which wraps in Lucid, with a midpoint of $2.9B above prior Street expectations which signals a strong 2H22.
- **Structure simplification.** TRGP has taken multiple steps to simplify its corporate structure, including DevCo repurchases in 1Q22 and the redemption of all outstanding 919,000 outstanding shares of Series A Preferreds. TRGP will benefit from the increased EBITDA the DevCos provide.
- **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 2023 even with ~$50mm of estimated stock buybacks through 2023 and another step-up in the dividend to $2/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.
- **Potential transition to S&P 500.** A potential transition from the S&P 400 to the S&P 500 would be expected to increase buying pressure; however, we have no real insight into the decision process or likelihood of a move.

Topaz Energy (TPZ)
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- **Diversified royalty model with a natural gas tilt.** Topaz's 2022E/2023E production profile remains 75%/70% gas-weighted. Roughly 80% of H1/22 volumes were tied to Tourmaline Oil, with significant capital spend expected through the coming decade to support production growth in NEBC and the mid-decade LNG Canada project. Topaz's latest Deltastream acquisition (note here) has placed it as a leader in the Clearwater, now holding 52% of pro-forma OOIP at Marten Hills and Nipisi. The team now anticipates reaching 3,000 bbl/d of total Clearwater production by 2024. 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 a water handling facility. We currently expect the company's infrastructure portfolio to generate 2022E revenues of $63.5 million and FCF $55.0 million. This covers 35% of the 2022E 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 evaluate and potentially transact on infrastructure M&A opportunities to expand the portfolio.
- **FCF allocation balanced to RoC efforts and debt reductions.** Topaz increased its annual dividend to $1.20/sh (~5% dividend yield) with the latest Deltastream acquisition, where we estimate a 47%/44% effective payout ratio in 2022E/2023E. The company is able to balance its RoC program with continued deleveraging efforts, seen with roughly $55 million in quarterly post-dividend FCF, on average, through the balance of 2022E and into 2023E.

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 (+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.** Our RBC base estimates incorporate '23 JKM pricing of ~US$32/mmbtu (updated quarterly; strip as of mid-July), which equates to annual cash flow (marketing revenue) of ~$1.6 bn from the contract. At strip, we peg total cash flow generated by contract to be ~$2.4 bn (or 35% of TOU's 2023E cash flow) - meaningful considering the contract represents only 6% of TOU's 2023E nat gas volumes. 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 Q3/22, with $2.00/sh payable on Aug 12. Our outlook now calls for an additional base increase this year (to $1.04/share annualized) and two more in 2023 (to $1.20/share annualized).
- **High quality asset base, with North Montney driving the growth.** Guidance + 5-year plan updated. TOU's 2022 capex program increased by $375 million (+31%) to account for growth capital (+$250 million) and inflation (+$125 million, expecting ~20% YoY inflation). Additionally, TOU updated its 5-year plan, which 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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- The RBC Global Energy Best Ideas has a mandatory stop loss mechanism as follows: a stock will be removed from the list if it is down 20% in the current year or down 20% since being added to the list.
- 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.
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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

AltaGas Ltd. (TSX: ALA CN; C$24.57; Outperform)
Freehold Royalties Ltd. (TSX: FRU CN; C$16.95; Outperform)

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			Investment Banking Serv./Past 12 Mos.	
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SELL [Underperform]	**52**	**3.52**	**5**	**9.62**

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