EQUITY RESEARCH

Capital Markets

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Global Energy Best Ideas

Our view: In September, the RBC Global Energy Best Ideas List was down 8.5% compared to the iShares S&P Global Energy Sector ETF (IXC) down 9.7% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) down 10.2%. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 113% compared to the S&P Global Energy Sector ETF up 9.8%.

Total Return Comparison	September	YTD	Inception
iShares S&P Global Energy (IXC)	-9.7%	23.9%	9.8%
Hybrid Benchmark (75% IXC, 25% JXI)	-10.2%	14.4%	25.1%
RBC Global Energy Best Ideas	-8.5%	26.8%	113.0%

September List Changes:
Additions:
Removals: MNRL-US

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	£164,661	7/1/20	1,224p	2,300p	3,200p
BP	BP-LON	OP	Borkhataria	£82,328	3/1/22	364p	443p	525p
Suncor Energy	SU-CA	OP	Pardy	C$56,989	7/6/22	C$43.34	C$41.76	C$56.00
Exploration & Production								
ConocoPhillips	COP-US	OP	Hanold	$139,995	12/1/20	$39.56	$109.97	$130.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$78,887	4/1/22	C$77.41	C$68.34	C$90.00
Enerplus Corporation	ERF-US	OP	Pardy	$3,478	6/1/22	$14.84	$15.01	$20.00
Santos Limited	STO-AU	OP	Ramsay	A$23,950	6/1/19	A$6.74	A$7.17	A$10.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$24,908	1/1/20	C$15.08	C$74.12	C$89.00
ARC Resources	ARX-CA	OP	Harvey	C$11,375	5/1/21	C$7.73	C$17.37	C$27.00
Range Resources	RRC-US	OP	Hanold	$6,924	7/6/21	$16.76	$26.34	$45.00
California Resources Corporation	CRC-US	OP	Hanold	$3,053	6/1/21	$29.01	$40.50	$70.00
Tamarack Valley Energy	TVE-CA	OP	Davis	C$1,756	7/6/21	C$2.57	C$4.00	C$7.50
Freehold Royalties	FRU-CA	OP	Davis	C$2,300	7/6/22	C$12.69	C$15.27	C$19.00
Ranger Oil Corporation	ROCC-US	OP	Hanold	$1,490	6/1/22	$42.81	$34.08	$52.00
Oilfield Services								
Schlumberger Ltd.	SLB-US	OP	Mackey	$54,171	1/4/22	$29.95	$38.30	$54.00
Liberty Energy	LBRT-US	OP	Mackey	$2,549	8/3/22	$14.20	$13.64	$25.00
Midstream								
Cheniere Energy Inc	LNG-US	OP	Scotto	$41,796	5/1/20	$46.69	$167.33	$199.00
AltaGas Ltd.	ALA-CA	OP	Kwan	C$7,504	7/6/21	C$26.02	C$26.74	C$34.00
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$24,369	9/1/22	C$46.38	C$43.91	C$58.00
Energy Transfer LP	ET-US	OP	Scotto	$34,990	2/1/22	$9.57	$11.34	$16.00
Targa Resources Corp.	TRGP-US	OP	Schultz	$14,269	12/1/21	$51.63	$62.98	$100.00
Utilities, Refiners, Infrastructure & Renewables								
PG&E Corporation	PCG-US	OP	Tucker	$26,058	9/1/22	$12.33	$13.11	$16.00
Algonquin Power & Utilities	AQN-US	OP	Ng	$7,733	6/1/21	$15.28	$11.44	$17.00
Drax Group plc	DRX-LON	OP	Musk	£2,415	5/1/21	409p	603p	1,175p
HF Sinclair Corporation	DINO-US	OP	Schultz	$12,067	6/1/22	$49.10	$55.65	$69.00

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

Exhibit 1 – This Month's Removals

Brigham Minerals, Inc. (MNRL) TJ Schultz, Analyst (512) 708-6385 tj.schultz@rbccm.com	• We are removing MNRL from the RBC Energy Best Ideas list following the announcement of an agreed merger with Sitio Royalties Corp. (NYSE: STR). In the all-stock transaction expected to close in 1Q23, MNRL shareholders will receive 1.133 STR shares for each MNRL share held.

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 (fully funded) of Kentucky Power provides significant opportunities to green the grid.
- **Very supportive greening initiatives in the U.S. could drive upside.** Algonquin has a large regulated utility and renewable energy footprint in the U.S. that should benefit from the Biden Administration's decarbonization objectives. Biden has a 2050 carbon net zero target, and a very ambitious target of a carbon-free electricity grid by 2035. The company has signed power purchase agreements with corporations to green its energy consumption, and has partnered with Chevron to jointly develop some renewable projects.
- **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.

AltaGas Ltd. (ALA)
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- **Is AltaGas a utility or a midstreamer?** The market seems to be saying "neither." AltaGas's guidance is for 55% of 2022E EBITDA to come from the U.S. regulated gas distribution utilities (Maryland, Virginia, Michigan, Alaska, and Washington, D.C.) and the remainder from midstream assets (net of corporate costs). With relative balance, we find that utility investors, particularly those looking to play defence, are not enamoured with the higher-risk midstream business, while we find that WCSB-focused midstream investors have historically looked to pure-play stocks levered to industry trends.
- **Additional asset monetizations could continue to drive material upside in the stock.** With the market's positive response to the sale of the Alaskan utilities, we see continued upside if the company looks to monetize additional assets. While MVP was an obvious asset sale candidate given it was a non-operated minority interest that also benefitted from an ability to greatly reduce debt/EBITDA (given AltaGas would only book equity earnings), we still believe that the company has options to monetize an asset, or assets, that could reduce leverage and eliminate various risks for MVP (e.g., whether it happens at all, timing of a sale and/or asset sale valuations changing).

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.

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. • **Buybacks to support stock over the coming months.** On our assumed buyback of ~$10bn in 2022, BP could be purchasing ~18% of its ADV through the year on average, providing an extra layer of support to the shares in addition to the current strong commodity price environment. • **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 offer 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 $1.8 billion of FCF from 2022-2025. The company has an active buyback program and instituted a fixed dividend at 3Q21 earnings which we expect grows over time. CRC plans to return 50% of FCF back to shareholders providing upside potential 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 million 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 by late October 2022, 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) 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 in our view. 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 $6.1 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) Elvira Scotto, Analyst (212) 905-5957 elvira.scotto@rbccm.com	• **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) 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 appears 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 45-50% 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 provide 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) John Musk, Analyst +44 (0) 207 029 0856 john.musk@rbccm.com	• **Forward hedges have advanced, and there could be upside on open volumes.** Drax has over 25TWh of power hedged over 2022-24 at average prices of just under £100/MWh. Drax has been selling incremental volumes in 2022 and 2023 at ~£250-300/ MWh and we believe consensus is only factoring in power prices at 50% of current forward curves on open volumes in 2023 & 2024. Drax still has ~2TWh of open volumes to sell in 2022 and ~5TWh in 2023. We believe we are still relatively conservative on the pricing we assume Drax may achieve for these volumes given forward curves sit significantly above our estimates. • **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, with a business model consultation from government expected "during the summer". Drax also talks positively about 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. We see progress here as reason to be excited. • **Growth ambitions progressing well.** We see Drax's generation segment earning significant cash flows from elevated commodities, offset by higher anticipated costs within the biomass pellets division. We see this pattern continuing across our 2023-24E where we estimate Drax captures higher power prices on open volumes, pushing our estimates to now sit ~15% ahead of consensus in 2023E and ~20% ahead in 2024E. We see Drax increasingly well-placed longer-term with its £3bn growth ambitions 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 and FCF generation potential position 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 $973 million in 2022 in the context of a $440 million capital program under our base outlook ($108 WTI, $5.63 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.

Freehold Royalties (FRU) Luke Davis, Analyst (403) 299-5042 luke.davis@rbccm.com	• **Positioned in top tier plays with M&A further enhancing the portfolio.** Freehold provides diversified North American basin exposure with pro-forma guidance of a 65%/35% split between Canada/US production. Freehold expects a low single digit organic growth rate for the Canadian portfolio primarily driven by the Clearwater and Spirit River gas, with the US to drive corporate growth led by the Permian with increased operator activity. Management remains primarily focused on US M&A given the vast opportunity set (80-90% fee title), higher relative capital investment and growth profile, and better productivity/realized pricing relative to Canada. With three Permian and Eagle Ford transactions announced earlier this year, (note here), Freehold anticipates adding a combined 1,100 boe/d in 2023E volumes and C$31 million in 2023E FFO. • **Well positioned in an inflationary environment.** The royalty business model remains largely insulated from industry cost inflation, with operating expenditures relatively fixed and no exposure to direct costs associated with oil & gas extraction. As a result, the company is able to capture activity and commodity price upside, with Freehold's fixed costs sitting at roughly $30 million per year (note here). While broader industry inflation could indirectly impact the business (slowdowns in drilling and growth), the relative margin stability in Freehold's royalty model should standout out in the coming quarters, in our view. • **Return of capital remains a key priority.** Freehold increased its dividend in with Q2/22 results (note here) to a monthly dividend of $0.09/sh, mapping to an annual dividend of $1.08/sh (~8% yield). The company re-evaluates its dividend quarterly with management targeting a 60% payout ratio longer-term (~70% at current strip) and coverage down to roughly US$40/bbl. We currently forecast an additional 11% increase to $1.20/sh in Q1/23. • **Unhedged royalty model provides direct commodity exposure, supporting FCF generation and debt reduction.** Freehold remains unhedged to provide direct commodity exposure for investors, though the team has noted the potential to layer in hedges associated with M&A activity in order to lock in returns. Based on our current estimates, we forecast Freehold generating roughly $203/$244 million in post-dividend FCF at RBC's US$107/US$114 pricing outlook for 2022/23. This maps to $79/($165) million in net debt (cash) for Freehold. We note that we do not currently model potential acquisitions, though we view this as likely.
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)
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- **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 through 2022 and into 2023 given strong demand for the company's pumping, sand, and logistics businesses. Net debt targets in sight.
- **Tight pressure pumping market drives opportunity for incremental equipment activation.** Liberty has been able to capitalize on a tight pressure pumping market and plans to add 5-6 fleets or 16% through the end of the year. We expect fleet additions to be accretive to its financials, given 6-month paybacks on start-up and maintenance capital. We estimate the US pressure pumping market is approximately 85% utilized 2022, modestly tightening in 2023.
- **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)
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- **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)
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- **Continued reduction of wildfire risk.** The company continues to execute on its wildfire mitigation plan. Mitigation actions include system hardening, undergrounding, vegetation management, enhanced powerline safety settings and public safety power shutoffs.
- **Steep discount not-warranted given CA wildfire protections limit financial risk**. We believe the Wildfire Fund provides meaningful protections against financial liabilities associated with wildfires. While it seems the market remains apprehensive around the mechanics of the fund, we believe the multi-turn discount is overly punitive when considering the financial risks associated with a catastrophic fire.
- **PG&E slowly rebuilding trust.** While the name remains overly-sensitive to headlines, we have also seen a meaningful shift in tone from media and stakeholders. We believe this is a result of PG&E's continued efforts to engage stakeholders and communities and we are encouraged by positive signals from the CA legislature and regulator.
- **Robust capex plan drives earnings growth.** PG&E expects above-average rate base growth at a 9% CAGR. Growth opportunities come from system hardening, undergrounding, electrification opportunities and other wildfire mitigation investments. Management targets 2% O&M reductions should act to help offset customer bill increases.

Ranger Oil Corporation (ROCC)
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- **Attractive value opportunity.** We believe ROCC shares offer an attractive entry valuation point, strong balance sheet, and robust FCF outlook. The company trades at a 1.5x 2023E EBITDA strip multiple, nearly a 1.5x 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, and we believe 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 over $1.3 billion of FCF through 2025 representing 90% 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 Resources (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)
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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 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 1.2x, we forecast leverage further improving to sub-1.0x the next few quarters and management expects 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 $130 million worth of stock during 2Q22. We expect the buyback pace remains robust in the coming quarters and think RRC could exhaust the remaining $350 million of authorization by YE22 if strip prices hold. The company will start paying a $0.32/share (annualized) dividend in 3Q22, further improving the shareholder return proposition. We think RRC can generate an average a total return of 6-8% over the next four years ($3.75-5.65/Mcf).
- **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 in our view supports a highly efficient maintenance capital program that can be sustained for years to come. This provides a durable and resilient FCF outlook over the next several years which we estimate RRC generating $5.5 billion of cumulative FCF from 2022-2025 (using RBC $5.65-3.75/Mcf HH price forecast), this represents 60% of its current market cap.

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"). • **Free cash flow giant.** On our bullish commodity price deck, Shell's advantaged portfolio generates significant amounts of cash, supported by the company's oil leverage and #1 LNG presence. This leaves it well positioned to deleverage meaningfully over the coming years with cash to spare for higher shareholder returns. • **Closing the gap.** On our estimates, Shell generates 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) Gordon Ramsay, Analyst +61 3 8688 6578 gordon.ramsay@rbccm.com	• **Santos merger with Oil Search** creates a top 20 global energy company with 2P reserves of 1.378 billion boe and 2021 production of ~116 mmboe. The combined company will have a more diversified production base (47% LNG, 35% gas and 18% liquids) and a stronger and longer growth profile (Dorado, Papua LNG, Pikka Alaska oil). This will create one of the largest Asian LNG suppliers and aligns partners in PNG LNG and Papua LNG. The larger combined balance sheet provides increased flexibility from >US$5.5 billion of liquidity and an investment grade credit rating that enables self-funding of development projects. Initial pre-tax synergies of US$90-115 million pa (excluding integration and other one-off costs) looks conservative with potential to unlock additional value. • **Barossa final investment decision** achieved in March 2021, with a first production target of 2025. Santos Barossa project rates as the most attractive Australian brownfield LNG development as back fill for Darwin LNG based on a cash cost of production of ~US$2.00/mmBtu and breakeven cost of LNG supply at ~US$5.50/ mmbtu. • **Dorado** consists of a relatively simple, shallow-water Western Australian oil field development. Santos is forecasting initial production of ~100,000 bopd (gross) and operating costs of <US$5/bbl. Dorado Phase 1 oil project FEED entry has been achieved, with project FID targeted in 1H 2022 after drilling the nearby Apus and Pavo exploration prospects that offer low cost and production extending tie-back potential. • **Papua LNG** has obtained fiscal stability with its goal to enter project FEED in 2022 for potential production startup in 2027. • **Alaska Pikka Oil** achieved FEED entry in 2021 with plans to commence production from Phase 1 at 80,000 bopd (gross) of oil from 2025. Further phases of this Oil Search project have potential to deliver two additional 40,000 bopd (gross) projects. The Alaskan gross 2C oil resource is 936 mmbbls. • **Moomba CCS Phase 1** is a low-cost 1.7 mmtpa CO_2 storage project in the Cooper Basin with capex estimated at ~US$165 million gross and a full life cycle cost <A$30/t CO_2. This Santos operated project is expected to start-up in 2024, following receipt of an approved methodology for Australian CCS projects to generate Australian Carbon Credit Units.

Schlumberger Ltd. (SLB) Keith Mackey, Analyst (403) 299-6958 keith.mackey@rbccm.com	• **Leading size, scale, geographic reach.** Schlumberger'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 cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins. The company also noted longer-cycle and exploration activity has improved. In 2Q22, Schlumberger's y/y North American revenue increased 42% versus peers at 34%. International revenue grew 15%, led by Latin America. • **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics. • **Free cash flow profile improving; dispositions aid hitting leverage targets.** Schlumberger reached its 2.0x net debt/EBITDA target, paving the way for larger shareholder distributions. Dispositions could also accelerate de-leveraging. We see SLB generating pre-dividend cash flow of $3.2Bn in 2023. • **Energy transition leader.** Schlumberger New Energy is on the leading edge of CCUS, hydrogen, and other potential growth avenues. Schlumberger estimates its total addressable market at $50-75 billion by 2030. • See our latest Schlumberger note here.
Suncor Energy Inc. (SU) Greg Pardy, Head of Global Energy Research (416) 842-7848 greg.pardy@rbccm.com	• **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 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 $16.5 billion under our base outlook of (US$108 WTI, US$13.60 WTI-WCS, US$41 NYH 3-2-1). Our 2022 outlook factors in a Refining & Marketing (pre-tax) cash flow contribution of $8.1 billion, net debt reduction of $6.1 billion and share repurchases of $6.6 billion under its 10% NCIB.

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, with this accounting 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 $1,155/$131 million in net debt at year-end 2022E/23E, representing a 2022E/2023E D/CF ratio of 1.3x/0.1x 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 considered once net debt falls below $900 million per the company's updated return of capital framework.

RBC Capital Markets is acting as financial advisor to Tamarack Valley Energy Ltd in respect of a definitive agreement to acquire Deltastream Energy Corporation, as announced in the press on September 12, 2022.

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 Energy, 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 919,000 outstanding shares of Series A Preferreds. TRGP should 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 should 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, there has been no real insight into the decision process or likelihood of a move.

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 additional base increases 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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- We will provide a monthly update on the constituent names of the list as well as past performance on or around the start of each month.
- We will include only stocks on which we have research coverage.
- We do not make provisions for taxes and/or trading commissions when adding or removing stocks from the portfolio.

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

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Companies mentioned

Brigham Minerals, Inc. (NYSE: MNRL US; $25.54; Outperform)

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