EQUITY RESEARCH

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Global Energy Best Ideas

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Our view: In March, the RBC Global Energy Best Ideas List was up 7.2% compared to the iShares S&P Global Energy Sector ETF (IXC) which was up 8.9% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that was up 8.1% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 186.5% compared to the S&P Global Energy Sector ETF up 39.5%.

Total Return Comparison	March	YTD	Inception
iShares S&P Global Energy (IXC)	8.9%	9.8%	39.5%
Hybrid Benchmark (75% IXC, 25% JXI)	8.1%	7.6%	51.8%
RBC Global Energy Best Ideas	7.2%	11.3%	186.5%

March List Changes:

Additions: N/A
Removals: NESTE-FI, REP-ES

RBC GLOBAL ENERGY BEST IDEAS LIST

	Ticker	Rating[1]	Analyst	Mkt Cap (mn)	Date Added	Add Price	Current Price	Price Target
Integrated Energy								
BP	BP-LON	OP	Borkhataria	£86,357	12-7-23	466p	512p	600p
Suncor Energy	SU-CA	OP	Pardy	C$67,067	3-1-23	C$45.86	C$52.11	C$52.00
Exploration & Production								
Obsidian Energy	OBE-CA	OP	Davis	C$894	10-2-23	C$11.18	C$11.57	C$14.00
Topaz Energy	TPZ-CA	OP	Davis	C$3,266	11-1-22	C$23.04	C$22.60	C$25.00
Diamondback Energy	FANG-US	OP	Hanold	$36,242	12-7-23	$146.48	$203.22	$195.00
Permian Resources Corporation	PR-US	OP	Hanold	$9,634	12-7-22	$8.99	$17.81	$17.00
ARC Resources	ARX-CA	OP	Harvey	C$14,890	5-1-21	C$7.73	C$24.91	C$26.00
Tourmaline Oil	TOU-CA	OP	Harvey	C$22,399	1-1-20	C$15.08	C$63.73	C$80.00
Canadian Natural Resources	CNQ-CA	OP	Pardy	C$115,041	4-1-22	C$77.41	C$107.43	C$100.00
MEG Energy	MEG-CA	OP	Pardy	C$8,813	12-7-23	C$23.66	C$32.39	C$32.00
Santos Limited	STO-AU	OP	Ramsay	A$25,430	6-1-19	A$6.74	A$7.83	A$8.25
Oilfield Services								
Enerflex Ltd.	EFX-CA	OP	Mackey	C$1,030	2-1-24	C$6.93	C$8.31	C$12.00
Pason Systems Inc.	PSI-CA	OP	Mackey	C$1,359	12-7-23	C$14.87	C$17.08	C$19.00
SLB	SLB-US	OP	Mackey	$78,600	1-4-22	$29.95	$54.86	$69.00
Midstream								
AltaGas Ltd.	ALA-CA	OP	Kwan	C$8,238	8-1-23	C$26.03	C$29.23	C$32.00
Pembina Pipeline Corporation	PPL-CA	OP	Kwan	C$26,446	9-1-22	C$46.38	C$48.13	C$58.00
Archrock Inc.	AROC-US	OP	Scotto	$3,248	12-7-23	$14.24	$20.78	$21.00
Energy Transfer LP	ET-US	OP	Scotto	$53,884	2-1-22	$9.57	$16.00	$19.00
Utilities, Refiners, Infrastructure & Renewables								
Northland Power	NPI-CA	OP	Ng	C$5,809	12-7-23	C$22.82	C$22.89	C$28.00
Superior Plus	SPB-CA	OP	Ng	C$2,426	12-7-22	C$9.82	C$9.76	C$15.00
PG&E Corporation	PCG-US	OP	Tucker	$35,653	9-1-22	$12.33	$16.71	$21.00

1-OP = Outperform.
Performance returns do not take into account relevant costs, including commissions and interest charges or other applicable expenses that may be associated with transactions in this Equity Best Ideas list. Past performance is not, and should not be viewed as, an indicator of future performance.
Source: RBC Capital Markets estimates, FactSet

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

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For Required Non-U.S. Analyst and Conflicts Disclosures, see page 20

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

Exhibit 1 - This Month's Removals

Neste Oyj (NESTE FI) Erwan Kerouredan, Analyst +44 20 7029 0855 erwan.kerouredan@rbccm.com	• We are removing Neste from the Energy Best Ideas list due to a combination of operational issues (strikes and maintenance schedules in Finland, repairs in Martinez, California, still under 50% utilization) which we believe could continue affecting share performance over the next few weeks. We remain constructive on a one-year view, with SAF sales driving margin accretion in the second half of 2024. The ramp up of SAF (which we see at ~2x RD on a margin basis) could be reflected in an upgraded margin guidance commentary on 2Q results end July* which could be the next catalyst for the name (*Neste's 2Q pre-silent call end June could provide early indications).
Repsol (REP) Biraj Borkhataria, Global Head of Energy Transition Research (+44) 20-7029-7556 biraj.borkhataria@rbccm.com	• We are removing Repsol from the Energy Best Ideas list following the strong run YTD. The recent CMD was well received by investors, including the substantial dividend increase and greater focus on returning more capital to shareholders over time. We expect Repsol to provide a constructive trading update and continue to see refining margin strength through 2024, however we believe this is now more reflected in investor sentiment, which lowers our conviction.

Investment Highlights

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

AltaGas Ltd. (ALA)
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Rating: Outperform

Price target: CAD 32.00

- **Positive messaging underpinned by Vern Yu's previous experience and vision for the future.** We believe Vern Yu's first quarterly conference call as the new CEO laid the groundwork for future value creation with statements that support: (1) a focus on strengthening the base cash flows (i.e., increased contracting); (2) the pursuit of contracted and/or regulated growth on an equity self-financed basis; and (3) reducing leverage to 4.5x debt/EBITDA and possibly even lower.
- **De-risking its cash flows should improve the valuation.** AltaGas is committed to increasing the contribution from regulated and take-or-pay contracted assets (e.g., increased tolling contracts for the LPG export business), locking in costs to enhance certainty (e.g., rail contract; VLGC time charters), and hedging residual commodity exposure as part of a disciplined risk management strategy. We believe reducing commodity exposure will improve the valuation that investors will apply to the overall business, and specifically the midstream assets.
- **Numerous opportunities to grow EBITDA, earnings and cash flow.** AltaGas possesses a combination of medium-sized growth opportunities (e.g., REEF joint venture, expansion of the Pipestone plant following the close of its acquisition), low capital intensity expansions and optimizations at the existing assets, and opportunities to increase returns at the regulated utilities, all of which should help support an attractive growth profile.
- **Increasingly visible path to reaching its 4.5x debt/EBITDA target with the potential to go lower.** AltaGas continues to consider its 10% stake in the Mountain Valley Pipeline (MVP) to be non-core and will look to begin a process to sell the stake after the pipeline is in service (currently expected to be placed into service in Q2/24). On the Q4/23 conference call, management stated that if the company closed an MVP sale in 2024, it sees the potential for debt/EBITDA to improve to 4.5-4.6x based on the mid-point of its EBITDA guidance range. Longer term, we are encouraged by statements made at its December 2023 Investor Day to build "dry powder", to take advantage of future opportunities as they arise and we believe that a debt/EBITDA target of 4.0-4.25x would position AltaGas favorably relative to its peer group, while providing structural optionality.

ARC Resources (ARX)
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Rating: Outperform

Price target: CAD 26.00

- **FCF generation - ample.** 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 of 100% of its FCF via base dividend tied to earnings growth (now at $0.68/share) and share buybacks. 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, third largest outright gas producer and sixth 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, here and here.
- **Development of Attachie.** Phase 1 of the Attachie project in NE BC is expected to come onstream in late 2024, and Phase 2 to commence in 2028. Current development is proceeding on schedule with the company anticipating it will deliver 40,000 boe/d by early 2025 which includes the drilling of 3 initiation wells, an electrified 90 mmcf/d gas plant, 25,000 bbl/d of liquids handling plus associated infrastructure. See our note here and 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. ARX signed a Memorandum of Understanding with the proposed Cedar LNG Project for a 20-year LNG supply agreement to send 200 mmcf/d of natural gas, which is expected to start in 2028/2029. ARX announced a 15-year LNG supply agreement with Cheniere Energy in the US Gulf Coast supplying 140,000 mmbtu/d of natural gas based on Dutch Title Transfer Facility (TTF) pricing starting in 2029. See our notes here, here and here.
- **Attractive valuation.** At current levels, ARX trades below our North American Senior E&P peers. We argue that ARX should trade at a premium given what we view as the highest quality Montney portfolio and inventory depth, combined with robust FCF generation ($0.8/$1.5 billion in 2024/25E) and commitment to return capital to shareholders.

Archrock Inc. (AROC)

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Rating: Outperform

Price target: USD 21.00

- **Tight compression market.** We continue to view the natural gas compression market as very tight, with no signs of abatement. Demand for incremental horsepower continues to outpace new unit availability with lead-times for new builds remaining at more than one year. While historically a cyclical business with ebbs and flows in utilization and contract rates, the backlog of underserved demand and continued rising rates locked into contracts could prolong the current cycle. We believe only a major macro downturn would derail the current trends.
- **Bookings extending into 2025**. With the long lead times for new units, customers have been locking in future compression needs, which has resulted in fully booked 2024 new build spend with bookings extending into 2025. Engine manufacturers appear to be taking a more disciplined approach to supplying the market with incremental horsepower, which has prevented immediate relief for the market and in turn, any clear overbuild.
- **Not directly impacted by commodity price fluctuations**. Compression needs are driven by natural gas production volumes which are relatively stable and impacted less by commodity price fluctuations when compared to drilling activity. In addition, much of the operating focus area and assets are related to associated gas plays, which further dampens any sensitivity to natural gas prices.
- **Horsepower will be needed to support Gulf Coast LNG export capacity**. In addition to the existing production that needs compression horsepower, we expect demand will be buoyed by future natural gas production needed to support the growing liquefied natural gas export capacity on the Gulf Coast.
- **Capital allocation focused on shareholder returns.** AROC has meaningfully paid down debt in the past few years and exited 2023 with leverage of 3.5x, essentially at its 3.0x-3.5x target. With leverage at its target, management's capital allocation priorities are (1) return capital to shareholders through a well-covered dividend and share buybacks when it makes sense and (2) prudently grow AROC's business with its customers.

BP p.l.c (BP)

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Rating: Outperform

Price target: GBp 600

- **Strategic reset to allow for higher returns.** BP's strategy update in early 2023 outlined plans to hold the core business more stable, while renewable generation growth was de-emphasised on the low carbon front, in favour of areas with greater competitive advantage (hydrogen, biofuels, CCS). On the surface, the investment case appears closer to US peers, and should continue to help narrow the valuation discount versus US peers.
- **Buyback visibility.** BP's decision to increase its quarterly buyback run rate to $1.75bn alongside 4Q results was a positive surprise, but more crucially, firm guidance for 1H24 as well as intentions to maintain this level through the end of 2025 was taken well by the market. As we have noted on multiple occasions in the past, the framework of returning 'surplus' cash flow leaves too much guesswork for investors, and while BP maintained that framework, with an increased payout rate, the commitments through 2025 should provide comfort to investors, bringing the guidance framework closer to the US majors.
- **Trading remains a differentiator.** Our recent analysis showcased that while the earnings are more opaque in nature, looking at the trend over the last several quarters, we note that there appears to be a rateable portion of trading earnings each quarter, which may be underappreciated by the market. With commodity volatility likely to continue into 2024, we think trading adds another leg to the upside optionality for the company.
- **Attractive relative valuation.** BP trades on EV/DACF multiple discount relative to both European and global majors in 2024-25E, for a higher FCF yield, with an attractive risk-reward set-up, in our view.

Canadian Natural Resources (CNQ)
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Rating: Outperform
Price target: CAD 100.00

- **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.
- **100% payout is here**. CNQ achieved its $10 billion net debt target at year-end 2023—opening the door to 100% payout of free cash flow to shareholder returns. This could come in the form of further base dividend growth, accelerated share repurchases and/or special/variable dividends. Free cash flow will be defined as adjusted FFO less dividends and total capital expenditures in the year (excluding A&D). We think it is important to point out that CNQ has never cut its common dividend, which has grown at a CAGR of circa 21% over the past 24 years. The company's common share dividend sits at an annualized rate of $4.20 per share, following a 5% increase announced alongside CNQ's fourth-quarter 2023 results.
- **Strong alignment.** CNQ has no CEO. Instead, the company is stewarded by a management committee. This group meets weekly, and oversees all matters ranging from marketing, finance, ESG, operations and technology amongst others.
- **ESG—lots of progress**. CNQ has established a GHG emissions reduction target of 40% of total corporate absolute Scope 1 and 2 GHG emissions by 2035 (vs. a 2020 baseline). Not to be overlooked, CNQ also continues to make progress towards its initiatives with respect to the Oil Sands Pathways to Net Zero Alliance. CNQ also continues to target a 50% reduction in North American E&P (including thermal in-situ) methane emissions by 2030 (vs. 2016), and a 40% reduction in both thermal in-situ fresh water usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline).

Diamondback Energy (FANG)
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Rating: Outperform
Price target: USD 195.00

- **Management has built a solid Permian Basin position with a deep inventory of liquids-rich development opportunities.** The company is one of a few that have amassed a combination of quality assets, strong economic growth, minerals ownership, and infrastructure, which collectively help to provide a competitive advantage. We estimate a 4-5 year inventory at current capital efficiency and well productivity, but there is an overall inventory that exceeds 15 years.
- We believe FANG has one of the lowest cost structures in the basin and a corporate cash flow break-even (including dividend) that is among the best in the industry at near $40/bbl (WTI). This also produces top-tier cash margins.
- **Flexible shareholder returns pivots between variable dividends and stock buybacks to optimize shareholder value.** The return strategy comes in the form of fixed dividends, variable dividends, and stock buybacks. The weighting between dividends and buybacks is largely predicated on where FANG stock trades. Management's opportunistic strategy is geared to utilize buybacks when FANG shares are below its mid-cycle valuation ($60-65/bbl WTI), which we think is $150-160/share.

Enerflex Ltd. (EFX)
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Rating: Outperform
Price target: CAD 12.00

- **Improving FCF outlook.** We see FY24E FCF of $173MM (CFO-capex) as merger integration costs decrease, working capital normalizes, disciplined capex program of US$90-110MM, and the conversion of its $1.6bn Engineered Systems backlog to revenue and cash. Our FY24E FCF maps to a 18% FCF yield (coverage group avg. of 13%).
- **Exterran acquisition expanded the company's offering; Synergy execution and business optimization is top of mind.** The Exterran acquisition has on-boarded two distinct product lines that expand Enerflex's market reach in Water Solutions and Cryogenic Gas Processing. Enerflex has realized US$50MM of its US$60MM stated synergies target, and expects integration costs to drop to about US$25MM in FY24. Enerflex is consolidating its manufacturing footprint from five facilities to three with the closure of its Singapore and Sharjah (UAE) facilities.
- **Discounted valuation.** Enerflex is trading at 2024/25E EV/EBITDA multiples significantly below its long-term average of 5.0x. We believe the keys to re-rating for Enerflex's shares remain: 1) Execution on merger integration; 2) Conversion of Engineered Systems bookings; and 3) Achievement of leverage and debt reduction targets.
- See our latest EFX note here.

Energy Transfer (ET)
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Rating: Outperform
Price target: USD 19.00

- **Expansive and integrated asset footprint**. ET's expansive asset footprint can benefit from crude oil, natural gas and natural gas liquids production growth across various basins, including the Permian Basin. Importantly, ET's asset base can provide integrated wellhead to water services and can allow ET to benefit from commodity price dislocations across the value chain. ET continues to focus on high-return growth projects that expand its asset base as well as acquisitions that enhance and further integrate its assets.
- **Exposure to Permian Basin**. ET has one of the largest asset footprints in the Permian Basin with ~3Bcf/d of processing capacity that has significant acreage dedication and over 1MMBpd of Permian NGL takeaway capacity to Mont Beliveau that is expandable. ET also provides crude oil takeaway from the Permian Basin and its Texas intrastate natural gas pipeline system provides optionality. ET is evaluating other Permian Basin natural gas takeaway solutions. Importantly, ET's integrated system can provide producers with solutions across the value chain (processing, fractionation, transportation and exports).
- **Strong free cash flow generation and solid balance sheet.** ET is currently trading at a free cash flow yield of ~12% based on our 2025 estimates. ET has used its excess cash mostly to reduce its leverage and is currently in the lower range of its 4.0x-4.5x target. ET plans to continue to invest in high-return projects, which more recently have been shorter cycle, although longer-cycle accretive projects such as additional export and downstream opportunities remain on the table. In addition, we expect ET to continue to evaluate accretive, leverage neutral (or better) acquisitions.
- **Attractive yield and returning more cash to unitholders**. Given its strong free cash flow generation, balance sheet and distribution coverage, ET intends to return more cash to unitholders primarily through distribution increases. ET currently trades at a 9% distribution yield and targets annual distribution growth of 3-5%, which we believe provides an attractive return proposition. In addition, ET noted that once leverage dropped below 4x Debt/EBITDA, management would consider unit repurchase as another option to return more cash to unitholders.

MEG Energy (MEG)
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Rating: Outperform
Price target: CAD 32.00

- **Solid All Around.** MEG is our favorite intermediate producer given its capable leadership team, solid operating performance, balance sheet deleveraging via absolute debt reduction, and rising shareholder returns.
- **Ongoing Debt Reduction.** MEG has made significant progress when it comes to deleveraging its balance sheet, with direct implications on shareholder returns. The company has set its net debt floor at US$600 million, opening the door to increasing shareholder returns.
- **Accelerating Shareholder Returns.** At its current debt levels, MEG is allocating 50% of free cash flow towards shareholder returns, with the balance earmarked for ongoing debt reduction. Achieving its US$600 million net debt floor should unlock the next wave of shareholder returns, which would see 100% of free cash flow returned.
- **Multi-Year Growth Strategy.** MEG's near-term operating plan includes the installation of a third processing train at its central processing facilities to increase its Christina Lake facility's productive capacity from 110,000 bbl/d currently to 125,000 bbl/d. The company plans to allocate C$100 million each year over the 2024-26 time frame towards this initiative, with the incremental production benefit expected toward the end of 2026.
- **WCS Beneficiary.** As a pure-play oil sands investment, MEG is poised to benefit from the structurally tighter WCS geographical spreads that TMX should afford, which should take place as the pipeline expansion moves into service in 2024. Over 80% of the company's blend sales will have tidewater access once TMX is in service, given the company's capacity to ship 100,000 bbl/d to the US Gulf Coast (on a pre-apportionment basis) via its committed capacity on the Flanagan South and Seaway pipeline systems and an additional 20,000 bbl/d of contracted capacity on TMX.

Northland Power (NPI)
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Rating: Outperform
Price target: CAD 28.00

- **Growth locked in through 2027.** We believe the company is in an advantaged position relative to peers with three fully funded projects that should generate ~$600 million of EBITDA and ~$200 million of FCF (CAFD) on completion (2025-27), which is equivalent to roughly 50% and 60% of 2023 EBITDA and FCF, respectively. With financial close achieved on all three projects, the developments are fully funded, significantly de-risked, with fixed interest rates, hedged currency exposure, and the vast majority of construction costs are fixed. Pursuing incremental growth opportunities would be entirely discretionary.
- **Contracted or regulated portfolio provides good cash flow visibility.** The company has an attractive portfolio of contracted or regulated renewable and gas-fired power generation facilities, and a regulated utility in Colombia. We estimate that in 2024, offshore wind will contribute ~50% of Northland Power's EBITDA, and increasing as the projects under construction (Poland and Taiwan) are completed (2026/27).
- **More value will be recognized as construction milestones are achieved.** We believe that the market is giving very little value to the company's investment in the three projects under construction (two offshore wind and one battery storage). We expect the market to gradually recognize more value for the projects as the company achieves construction milestones.
- **Ongoing CEO and CFO change could weigh on sentiment.** We believe investors may have less confidence in the company's ability to deliver the three projects under construction (two offshore wind and one battery storage) on time and on budget due to the recent senior executive changes.

Obsidian Energy (OBE)
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Rating: Outperform
Price target: CAD 14.00

- **Peace River growth plan offers differentiated SMID-cap model.** Obsidian has plans to ramp production to 50,000 boe/d, with Peace River volumes driving growth from 6,600 boe/d currently to 24,000 boe/d by 2026. Obsidian holds roughly 525 sections in the fairway and plans to drill 33/13/10 Bluesky/Clearwater/appraisal wells in 2024, continuing delineation efforts through the region. Obsidian expects its Light Oil portfolio's FCF generation to support Peace River development through 2024-25, though the team expects its Peace River assets will be self-funding by 2026.
- **Focused on operational sustainability, cash cost improvements.** Obsidian has worked to mitigate controllable cash costs (i.e. excluding royalties/taxes) in recent years through refinancing outstanding debt, renegotiating leases, and streamlining operations to improve corporate sustainability. Obsidian's operations are mostly mature and generally come with higher operating costs, above oil-weighted peers on average. We note that the company is taking steps to address this going forward and believe that future multilateral development drilling should improve capital efficiencies.
- **Healthy balance sheet and RoC with significant tax pool balance.** We forecast Obsidian will carry $264/$256 million in net debt at year-end 2024E/25E, while maintaining flexibility to return capital to shareholders in the context of management's Peace River growth plan. Additionally, we forecast $30/$61 million in share buybacks in 2024E/25E. Obsidian holds roughly $2.4 billion in tax pools as at Q4/23, with $1.8 billion being immediately deductible and offering roughly 10 years of tax coverage at US$75/bbl WTI.

Pason Systems Inc. (PSI)
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Rating: Outperform
Price target: CAD 19.00

- **Diversified footprint drives revenue growth above US rig count.** We expect Pason's revenue and EBITDA to outpace the US rig activity in the longer-term. The company's strong market share across various North American and International operators leaves it relatively less exposed to supply chain challenges, labour shortages, and regional softness, in our view.
- **Longer-term growth opportunity in well completion space.** Pason's recent acquisition of Intelligent Wellhead Systems (IWS) provides an opportunity for Pason to apply its competencies in land drilling to well completions. We believe the completion market (fracking) offers a long-term growth opportunity that could rival that of its drilling operations. To put it into context, PSI's NAM drilling business generates about $300MM revenue annually. At a 30-35% EBITDA margin, IWS could add about $100MM of EBITDA, or $6-7/share based on current trading multiples. Recent growth trends have been encouraging as IWS's FY23 revenue of $45MM has grown $22MM y/ y, a pace we expect to continue through 2025.
- **Net cash balance sheet reduces downside risk and provides optionality.** At 4Q23, the company had $172MM ($69MM on a proforma basis) cash and short-term investments on its balance sheet, with no funded debt, which we believe provides flexibility for strategic uses and/or increased shareholder returns. In 2024, our FCF estimate maps to a 15% margin of revenue and an 5% FCF yield.
- **Favourable relative valuation.** Pason historically has traded at a 3.4x EV/EBITDA premium to land drilling peers. We continue to see value in Pason shares as the company demonstrates strong margins, free cash flow, and financial returns.

Pembina Pipeline Corporation (PPL) Robert Kwan, Analyst (604) 257-7611 robert.kwan@rbccm.com **Rating**: Outperform **Price target:** CAD 58.00	• **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 contract extensions and/or incremental new contracts that support Pembina's base business and/or underpin new expansion projects. • **Free cash flow generation after all capex and dividend payments provides a range of capital allocation opportunities.** In 2022 and 2023, the company generated excess cash flow after dividends (including delivering annual dividend growth) and all capex. In 2022, the company prioritized share buybacks and in 2023, Pembina focused on increasing balance sheet flexibility by reducing leverage. As we look into 2024, we project an ability to further deliver dividend growth, while fully financing the base capital plan. Should larger projects materialize (e.g., Cedar), we believe Pembina has enough balance sheet flexibility to fund the project within its financial guardrails. • **Solid base of business with a commodity kicker.** Pembina's guardrails target over 80% of EBITDA coming from fee-based revenues, primarily underpinned by take-or-pay or cost-of-service contracts, which underpin the dividend. As upside optionality, Pembina's Marketing division can benefit from leveraging its asset base to take advantage of various commodity spreads.
Permian Resources (PR) Scott Hanold, Analyst (512) 708-6354 scott.hanold@rbccm.com **Rating**: Outperform **Price target:** USD 17.00	• We believe PR shares should outperform the peer group over the next 12 months. The company has large, contiguous acreage positions in the core of the northern and southern Delaware Permian with a 10-15 year inventory. • **Strong free cash flow.** We forecast that PR is capable of generating peer leading FCF that can support a robust shareholder-return strategy. • **Balance sheet strength and shareholder returns**. Balance sheet leverage is at a sustainable sub-1.0x ratio. Management is prioritizing shareholder returns, particularly with dividends, and plans a strong fixed dividend along with a minimum 50% variable payout of FCF. Dividends are more the focus, but buybacks will occur opportunistically, especially if private equity sponsor selling occurs. Asset optimization is a priority and should add to shareholder value.

PG&E Corporation (PCG)
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Rating: Outperform
Price target: USD 21.00

- **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 which should act to help offset customer bill increases.

Santos Limited (STO)
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Rating: Outperform
Price target: AUD 8.25

- **Santos LNG portfolio provides attractive long-term cash flows, with a balance of oil linked contracts and Asian spot JKM LNG pricing.**
- **PNG LNG** (STO 39.9% post Kumul sale). Santos has executed a binding sales agreement for the sale of 2.6% of PNG LNG to Kumul Petroleum Holdings Ltd for US$576m cash and assumption of US$169m in project debt that would reduce its project stake to 39.9%. Santos has further granted Kumul an option to acquire the remaining 2.4% for US$524m (includes proportionate project debt) on or before 30 June 2024. If Kumul does not take up the option, we see potential for an alternate buyer to emerge and we favor a Japanese buyer.
- **A leading global CCS developer.** Moomba CCS Phase 1 (STO 67% and operator) is a 1.7 mmtpa CO2 storage project in the Cooper Basin targeting a ~US$24/tonne, lifecycle breakeven cost that is now 75% complete and targeting first injection by mid-2024. The proposed Bayu-Undan CCS project (initially for Barossa CO2) has gained Australian House of Representatives support.
- **Capital management** is based on at least a 40% payout of FCF from operations (excludes major growth) per annum and additional returns from asset divestments. Over the June 2023 quarter, Santos completed its US$700m on-market buyback program and has confirmed buy backs will be assessed on a 12-monthly basis. We see the sale of PNG LNG equity helping to drive future capital management (enhanced final dividend / buyback). In addition, once Barossa and Pikka Phase 1 commence production, Santos Board intends to consider increasing returns to at least 50% of FCF.

SLB (SLB)
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Rating: Outperform
Price target: USD 69.00

- **Leading size, scale, geographic reach.** SLB's size, scale, geographic diversification, and exposure to new energy sources leave it favorably positioned under prevailing industry trends, in our view. We believe SLB is well-positioned to benefit from the next leg of growth in International markets. International short and longer cycle investment is increasing, led by Latin America, the Middle East, and key offshore basins.
- **Digital evolution to drive financial results.** Growing contribution from the Digital and Integration business line should drive margin accretion over time. Integrated digital platform adoption also improves revenue stability and provides competitive advantage as the E&P industry increasingly embraces efficiencies. Over time, we believe the reduced capital intensity should drive improvement in the company's financial metrics.
- **International upcycle: less nascent.** SLB is well-positioned to benefit from the next leg of growth in International markets. In 4Q23 SLB's y/y North American revenue was flat, while International grew 18%, led by Middle East, and offshore. The company noted the Middle East is set to lead growth with this cycle characterized by the region's plans to add oil and gas productive capacity.
- **Potential for long-term valuation accretion.** We believe SLB's exposure to a large addressable New Energy market should drive accretion to its valuation multiples over time. Key target markets include: carbon capture, hydrogen, geothermal, critical minerals, and energy storage.
- See our latest SLB note here.

Suncor Energy Inc. (SU)
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Rating: Outperform
Price target: CAD 52.00

- **New Leadership Making an Impact.** Suncor closed the books on 2023 in what can be referred to as a year of favorable inflection amid new CEO leadership in Rich Kruger. We know Rich well from his days at Imperial Oil and we are pleased that Kris Smith remains in a leadership role with Suncor as CFO—laying a clear CEO succession path in our minds. The company's leadership is laser-focused on delivering consistent superior results.
- **Fort Hills Acquisition.** Suncor Energy's acquisition of the remaining 31.23% working interest in Fort Hills for $1.468 billion provides the company with additional long-life, physically integrated bitumen supply to maximize the utilization of its U1/U2 upgraders at Base Plant following the end of the Base Mine life, expected in the early- to mid-2030's. The transaction adds 61,000 bbl/d of bitumen production capacity and 675 million barrels of proved + probable (2P) reserves to its existing oil sands portfolio, with Suncor realizing a large (one-time) tax benefit of $880 million in the fourth-quarter of 2023 related to the acquisition.
- **Shareholder Returns.** The company is currently allocating 50% of excess funds flow to share repurchases, with the balance earmarked for ongoing debt reduction. Upon reaching $12 billion of net debt, Suncor will then boost its share repurchases to 75% of excess funds. Suncor's net debt (company definition) sat at $13.68 billion (including lease liabilities of $3.83 billion) as of December 31.
- **2024 Budget.** Suncor's 2024 budget pointed towards mid-point production of 790,000 bbl/d in the context of mid-point capital spending of $6.4 billion (excluding capitalized interest of approximately $350 million). The company's capital program reflects both sustaining and economic capital, including capital towards mining fleet upgrades at Fort Hills and Base Mine, the replacement of Upgrader 1 coke drums at Base Plant, the completion of the Base Plant co-generation project, and the continued development of the West White Rose and Syncrude Mildred Lake West Mine Extension projects.

Superior Plus (SPB)
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Rating: Outperform
Price target: CAD 15.00

- **Strategic acquisition expands business into CNG/RNG/H2.** The $1.05 billion Certarus acquisition (closed at the end of May 2023) ticks many of the boxes with respect to having a strategic and complementary fit (reduces seasonality and provides opportunities to cross sell propane), is double-digit accretive to distributable cash flow per share and has a strong organic growth profile, while also reducing the company's leverage. The business grew EBITDA by 50% in 2023, and management expects 15-20% growth in 2024 as the market is still in its early stages of growth.
- **Focused on organic growth.** Management reiterated that organic growth opportunities at Certarus is the priority, and M&A is secondary. We estimate that the company can deploy capital into Certarus at ~4x EBITDA, compared to capital deployed into propane M&A at ~6.0-7.5x (post synergies). In 2024, management expects to deploy $310 million (45% of EBITDA) into capex and leases to grow Certarus and sustain its legacy propane business. We also view potential share buybacks as an additional attractive avenue for deploying capital because it could be more accretive than M&A and can be implemented at a faster pace.
- **Attractive capital return economics.** Due to the strong demand for mobile storage units (MSUs), Certarus has pricing power and targets $250k/MSU of EBITDA annually, but due to the favourable environment and the company's ability to effectively utilize assets, management expects EBITDA to exceed $250k/MSU in 2024. We estimate that the cost of an MSU, plus the supporting infrastructure (e.g., compressors and de-compressors), totals ~$1 million, equating to a ~3-4x EBITDA investment multiple (~4-year payback period). In comparison, we estimate that Superior Plus' propane acquisitions are at a post synergies EBITDA multiple of ~6.0-7.5x.

Topaz Energy (TPZ)
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Rating: Outperform
Price target: CAD 25.00

- **Diversified royalty model with a natural gas tilt.** Topaz closed 2023 on a positive note, with production/CFPS beating expectations by 4%/9%. Looking forward, their 2024E/25E production profile remains 69%/68% gas-weighted and they remain supported by some of the top operators in the WCSB. Notably, Tourmaline Oil has outlined a 5-year plan in NEBC Montney that Topaz estimates will increase its regional volumes from 7,400 boe/d in 2023 to over 10,000 boe/d by 2028 (4.4% 7-year CAGR). Topaz's Deltastream acquisition (note here), has positioned the company as the top Clearwater exposed royalty company by volumes, now holding 52% of pro-forma OOIP at Marten Hills and Nipisi. The team averaged roughly 2,850 bbl/d of total Clearwater production in 2023, with expectations to exceed 3,000 bbl/d 2024. The royalty business model is insulated from industry cost inflation, providing margin stability.
- **Resilient infrastructure model.** Topaz holds working interests in six facilities backed by long-term take-or-pay commitments, a contracted interest in a portion of Tourmaline's third-party revenues, and a 50% interest in three water/oil facilities. In 2023, Topaz closed an acquisition of a non-op interest in Tamarack's Wembley gas plant and oil battery, on a 15-year, fixed take-or-pay contract and recently announced the acquisition of a 7% West Nipisi GORR on 20,000 acres alongside a planned natural gas gathering system (expected completion in late 2024). Topaz's infrastructure portfolio is expected to generate $70 million in 2024E revenue (84% FCF margin), covering roughly 40% of the dividend. Infrastructure portfolio growth remains an area of focus with management targeting a long-term 50-50 EBITDA split between the infrastructure and royalty business.
- **FCF allocation balanced between RoC and debt reduction.** Topaz increased its annual dividend by 3%, to $1.24/sh, in 2023 and is guiding towards a further increase to $1.28/sh (~6% dividend yield) in 2024; we now estimate a 63%/54% effective payout ratio in 2024E/25E. The company balances its RoC program with continued deleveraging efforts, with our forecasts suggesting roughly $90 million in post-dividend FCF in 2024E.

Tourmaline Oil (TOU)
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Rating: Outperform
Price target: CAD 80.00

- **Canada's top gas producer.** Tourmaline is Canada's #1 natural gas producer, positioned to return meaningful capital to shareholders while also delivering a 7% production volume growth CAGR conceptualized within the current plan. Additionally, the company's top-quartile cost base positions it as a low-cost producer amid the current E&P landscape. See our most recent quarterly note here.
- **High quality asset base, with North Montney driving the growth.** TOU's 5-year plan now includes development of its Northern Montney asset – Conroy – pushing corporate volumes to 720,000 boe/d by 2028. TOU expects Conroy to grow to ~100,000 boe/d in two tranches, with volume additions set to roughly coincide with the startup of LNG Canada Phase 1 (see more on the Montney here). The plan incorporates capex spend of roughly half of forecasted cash flows, leaving meaningful capacity for RoC programs. This year, TOU added to its Deep Basin portfolio by acquiring Bonavista Energy providing ~60+ mboe/d of inorganic growth that will only require maintenance capital.
- **Well timed Cheniere export deal.** Our RBC base estimates incorporate '24 JKM pricing of ~US$9.00/mcf, which equates to annual cash flow (marketing revenue) of ~$194 million from the contract – meaningful considering the contract represents only 6% of TOU's 2024E nat gas volumes. We estimate a US$1 increase in JKM pricing to result in roughly C$50-55 million of incremental after-tax cash flow in 2024. See our note here.
- **Return of capital with the vast majority of FCF to be returned.** Our outlook calls for a $1.20/sh annualized base dividend in 2024 plus an additional $3.00/sh in special dividends. On current strip pricing, we expect TOU to generate $1.4-1.8 billion of FCF in 2024 (or about $1.8 billion at the RBC Deck).

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Companies mentioned

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